

Gravity: A Psychological Approach to Price Action and Volume

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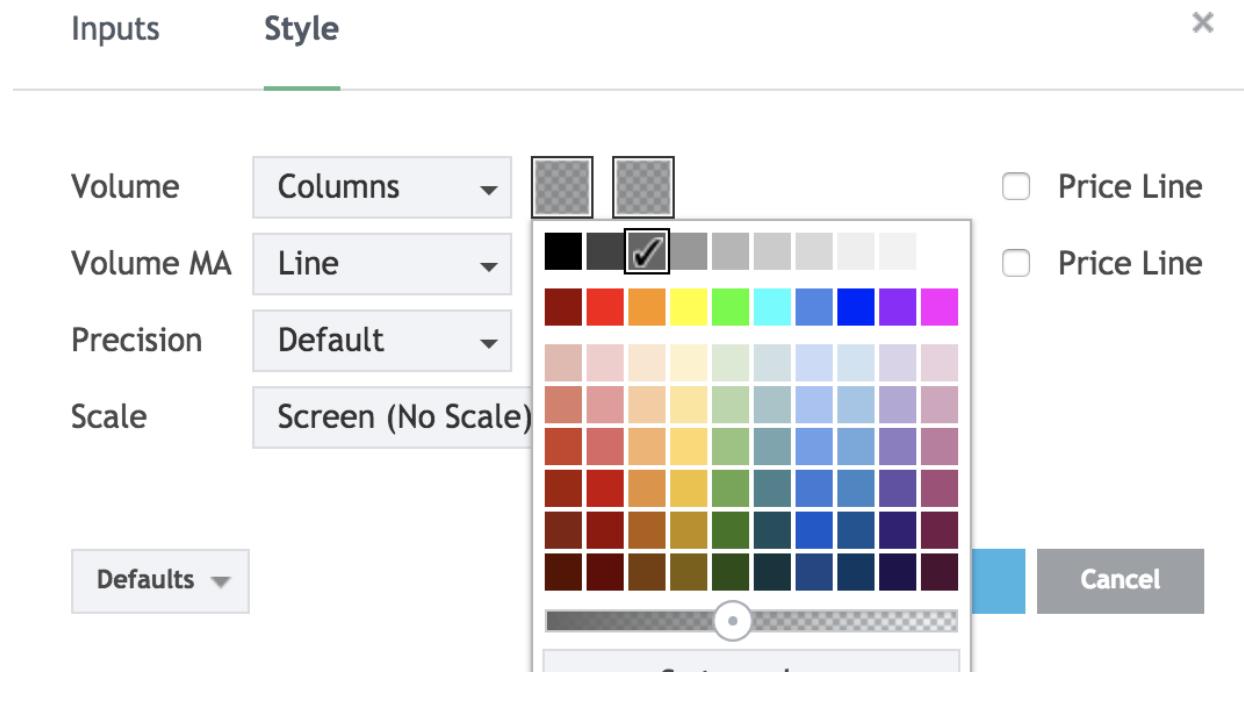
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Gravity:

The force that attracts two objects toward each other, wherein the more massive the object: the stronger its pull.

Trading Term List

Bull is one who expects the price to rise.

Bear is one who expects the price to fall.



Bullish Retracement is a bearish (downward) pullback against an uptrend- drawn from low to high of uptrend.

Bearish Retracement is a bullish (upward) pullback against a downtrend- drawn from high to low of a downtrend.

Strong Momentum in a trend is characterized by infrequent and weak retracements with trend continuations on high ease of movement. Think BTCUSD from mid November to early December 2017.

Average Momentum in a trend is characterized by regular and average retracements with trend continuations on average ease of movement. Think BTCUSD from early May to mid November 2017.

Weak Momentum in a trend is characterized by frequent and strong retracements with trend continuations on low ease of movement.

Long Position is one who bought to establish a market position that profits as the market rises.

Short Position is one who sold to establish a market position that profits as the market falls.

High Tail is a candlestick formation that forms when price closes drastically below its candlestick high. Typically a bearish signal.

Low Tail is a candlestick formation that forms when price closes drastically above its candlestick low. Typically a bullish signal.

Retail Trader is a trader who trades independently through a broker or an exchange; typically trades with low volume and has limited access to advanced market information. These traders typically lose money in the market.



Institutional Trader is a trader who either trades with direct access to a market (no intermediary broker/exchange), or sends trades to an exchange independently in order to ensure the best execution price possible; typically trades with high volume and has access to advanced market information. These traders typically make money in the market.

Stop Loss is a market order to buy or sell when the market reaches a specific point with the intention of limiting losses. A stop loss order to buy (used if a trader entered a short position) becomes a market order when price reaches the most available offer price at or above the stop price. A stop order to sell (used if a trader entered a long position) becomes a market order when price reaches the most available bid price at or below the stop price.

Market Stage refers to a market phase of consolidation, an uptrend or a downtrend.

Confluence occurs when multiple indicators overlap within a price area. When this occurs, that price area has a greater likelihood of becoming a support/resistance level.

Altcoin, or ‘Alternative Coin’, is a coin that is not listed as one of the major cryptocurrency coins by market cap, typically traded to BTC or to another coin.

Bid is a request to buy at a specified price.

Ask is an offer to sell at a specified price (also known as an ‘Offer’).

Liquidity refers to the amount of volume that can be transacted at a price, either from an asset being converted into cash (such as selling Bitcoin and receiving fiat), or from cash (such as buying Bitcoin and



selling fiat) being converted into an asset. Institutional traders need high liquidity so that their trading activity will not impact the market price.

High liquidity refers to large transactions that do not cause a substantial change in price. Large market cap coins tend to be highly liquid.

Low liquidity refers to large transactions that do cause a substantial change in price. Small market cap coins tend to be highly illiquid.

Support refers to a price level where price has historically had difficulty falling past.

Resistance refers to a price level where price has historically had difficulty rising past.

The Double-Auction:

Imagine the cryptocurrency that you are trading is an item that is being traded in the same manner as an auction – with auctioneers on one side of the room shouting out prices that they are willing to buy at and auctioneers on the other side of the room shouting out prices that they are willing to sell at. If a buyer and a seller both agree to the same price, a transaction occurs.

Decades before the advent of electronic trading, this is how almost all trades were made. To this day, all major cryptocurrency exchanges use this double auction system for their order books, but instead of transacting in person, it is now done over the internet.



During this time, and still today, the best trades were made when an auctioneer took advantage of decisions made by desperate buyers and desperate sellers.

Imagine that an intelligent trader walks into this double auction market system and is looking to buy an item that is being transacted and ultimately achieve a profit. After walking in, the price of the asset begins to drop and three sellers begin making competing offers to sell to our intelligent trader. Imagine that the price of this item was normally being transacted at a price around \$50 between all other traders in the double auction. Now, the first seller offers to sell the auctioned item at \$49, trying to entice our intelligent buy-side trader to buy the item at a reduced rate. Shortly after, the other sellers begin undercutting that offer, and the next seller offers \$48, which is countered quickly with \$47 from another seller. The desperation of the three sellers drives the price lower and lower. The intelligent trader holds stiff and allows the sellers to continue to undercut each other as the desperation of the sellers quickly turns to fear. The sellers are terrified and believe that the item will soon be worth nothing at all – they feel as if they have to sell the item.

Eventually, one of the sellers offers a rate at \$40 and the other two sellers stay silent and do not counter with an offer at a price any lower and our intelligent trader accepts the rate and ultimately buys the item at \$40. After our intelligent trader buys the item at \$40, the price quickly moves back upward to \$45 as the desperation of the sellers has evaporated. As the price continues to bounce upward, our intelligent trader walks around and finds an eager buyer who sees the price rising and happily buys at \$45, so our intelligent buyer is left with a \$5 profit after buying at \$40 and selling at \$45.

The desperation between the sellers was taken advantage of by the patient, intelligent trader. The seller who had sold the item at \$40 asks himself, why did I ever sell at that price?



The moral of this story is: **don't be a desperate buyer or seller.** The goal of this guide is to turn you into the type of trader who buys at \$40 in the example above by taking complete advantage of desperate traders on the other side of your trade.

Imagine the retail traders of the cryptocurrency market as an embodiment of the the desperate seller in the auctioneer example. It is these types of traders whose emotional decision-making we are looking to exploit to the maximum. For, it is these traders who trade mostly on herd-like feelings of fear and end up selling market bottoms and herd-like feelings of greed and end up buying market tops.

Our aim:

*To sell where the desperate buy –
And buy where the desperate sell.*

It is quite easy to fall into the trap of using the same technical indicators as most other retail traders, buying when everyone around you is bullish, selling when everyone around you is bearish, and just copying other trader's charting patterns. This is a recipe for disaster, and you will end up in the same situation as the desperate seller who sold at the bottom in our auction example, feeling fearful when others were fearful and feeling greedy when others were greedy.

Trading is a competitive game, a game where the large majority who play it in the traditional manner will lose. If you want a chance at joining the minority of traders that continually book consistent profits, then it is necessary to adopt an uncommon strategy, a strategy that acts contrary to not only how most retail traders in the market make decisions, but also contrary to how they think.

This guide features methods and strategies that you can use that will allow you to think and trade like a professional fund trader (also known



as an *institution*) by aiming to actively exploit feelings of fear and feelings of greed within the retail trading herd. By the end of this course guide, I believe that you will have the tools and mindset necessary to think and trade just like the patient and rational auctioneer who bought low and sold high.

These strategies include both short-term and long-term analysis of identifying stop loss hunts, genuine trends, price and volume shapes, and the novel concept of price action gravity.

The first two chapters may be a review for many of you – however, they were created to provide a basis for interpreting the other six chapters. This guide will explore how to exploit the psychology and inner dynamics of the market via the use of both written and visual examples.

To get the most out of this guide, I would recommend:

1. Completing each practice example without looking at the answer first.
2. Taking notes on the sections of each chapter that you find most directly applicable to your trading.
3. Watching videos associated with each topic.
4. Using bar replay on Tradingview/manual backtesting for each concept/strategy.
5. Participate in a forum to accelerate your learning
 - Join the exclusive Gravity Discord chat
 - Private message or email me
 - Join another community of traders online or in-person

I welcome you to join me in this thorough examination of the psychology behind this crazy market we call Crypto where we buy fear and sell greed.

Happy Trading!



1. The Basics of Price Action

A. Reading Price Charts

Price action refers to the characteristics of the movement of a coin's price. Interpreting price action is a trading technique that allows a trader to read the market and make trading decisions based on pattern recognition.

Just like a poker player will make reads on his opponent's patterns, a day trader will read the market and consequently look to enter high probability trades.

It may seem intimidating to look at a price chart for the first time but once you understand what each charting component represents, the rest is quite intuitive.



Above is a Bitcoin/Dollar (or "BTCUSD") candlestick price chart on the 5m with time on the horizontal axis and price on the vertical axis.



What does each arrow drawn on the chart represent?

1. The coin being presented on the chart:

If it says X/Y that means that the price on the chart represents how many Y need to be sold in order to buy 1 unit of X. In this example, the price reflected is how many dollars need to be sold in order to buy 1 Bitcoin as in = Bitcoin/Dollar. The candlestick represents the open, high, low and close of each time segment.

2. The timeframe being used:

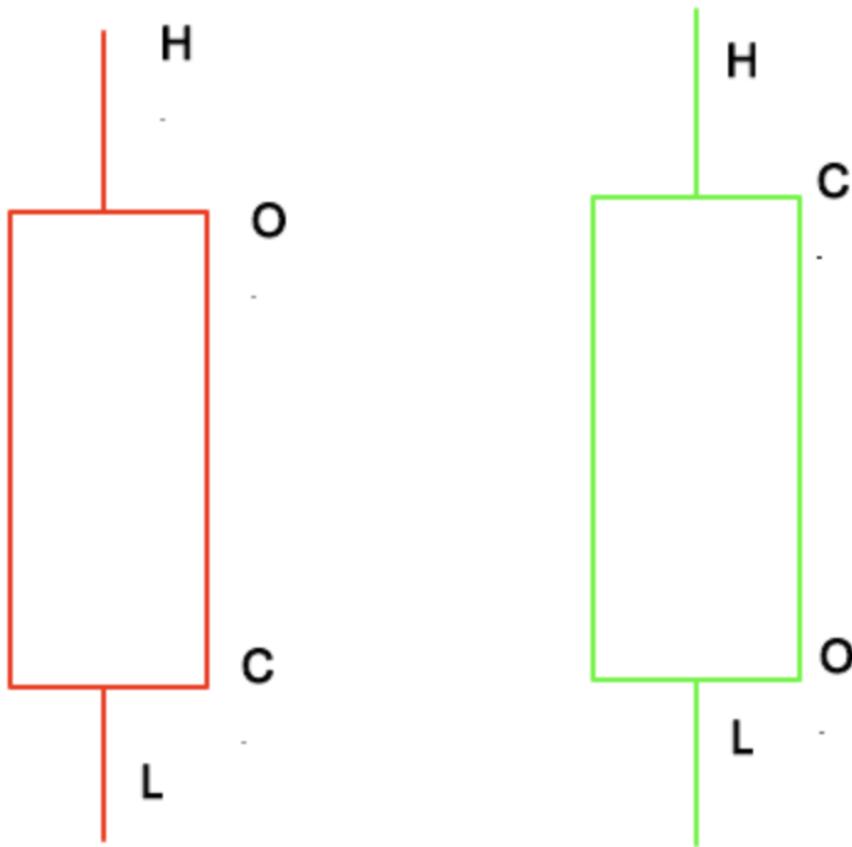
This represents the time of each individual candlestick (those individual red and green bars you see above). In the example above, we see that we are using a 5 minute which represents a 5 minute period of trading per candlestick.

3. The exchange from which the price data is coming from. In this example, we are looking at one of the biggest cryptocurrency exchanges internationally: *Bitfinex*.

B. Reading Candlesticks

Each candlestick is just a simple representation of 4 numerical values: the open, close, high, and low during the timeframe set (in our case, 5 minutes). Candlesticks are painted **red** when the close is lower than the open (market went down during that timeframe). They are painted **green** when the close is higher than the open (market went up during that timeframe).





1. The high (denoted as H above) represents the highest price that was transacted during that timeframe.
2. The low (denoted as L above) represents the lowest price that was transacted during that timeframe.
3. The open (denoted as O above) represents the price that the candlestick started trading at in the beginning of that timeframe.
4. The close (denoted as C above) represents the price that the candlestick last traded at in the end of that timeframe.



Candlestick price movement can also give a hint towards the market's future direction by signaling how strong the forces of supply and demand are for the coin.

Interpreting Supply and Demand from a Candlestick

The more demand there is for a coin, the higher a candle's close price will be relative to other candlesticks. The more supply there is for a coin, the lower the close price will be relative to other candlesticks. (A large gain in price in a short period of time = high demand. A large loss in price in a short period of time = high supply).

Example #1 Easy



Is price currently **bullish** (likely to move upward/high demand) or **bearish** (likely to move downward/high supply) from the picture above?



Example #1 Answer

Bullish. The coin is in high demand and price continues the uptrend. Note the strength of each bullish candle in the uptrend (the last 4 candlesticks in the first chart of this example). The majority of the candlesticks presented above show the bulls/buyers in control.

Now let's switch gears from looking at strong bullish and bearish candlesticks to a sign of weak bullish and bearish candlesticks: price tails. What does a long price tail typically indicate (price tail = a long tail that protrudes out of some candlesticks)? It indicates rejection. A long price tail shows that the market traveled down/up to those price levels that formed the tail, but price was not able to close at its high/low.

A high price tail indicates that buyers were unable to maintain price at an elevated level. This makes it more likely that price will move lower.

A low price tail indicates that sellers were unable to maintain price at a lower level. This makes it more likely that price will move higher.





Notice how far away the high is from the close price in the candlestick highlighted above. What does this show?

Bullish weakness due to a high tail. Bullish weakness tends to lead to a bearish reversal (meaning price is more likely to move lower than higher).

Trading Tails

The higher a price tail is and the farther away it is from the close price of a bullish candle (or the open price of a bearish candle), typically the more bearish the market will be (remember, bearish = market going down). This is especially true when the market is in an uptrend.

Vice versa - the lower a price tail is and the farther away it is from the open price of a bullish candle (or the close price of a bearish candle), typically the more bullish the market will be (remember, bullish = market going up). This is especially true when the market is in a downtrend.

Low tail(s):





When these massive tails form, it signals an imbalance of supply/demand. As in, a high tail that occurs during an uptrend shows that supply > demand (market likely going down). A low tail that occurs during a downtrend shows that demand > supply (market likely going up).

Example #2 Easy



Price is in an uptrend. However...what do you notice in the most recent price candlestick on the chart above? Is price more likely to be **Bullish** or **Bearish** after this candle?



Example #2 Answer



Bearish.

Due to the large price tail upward, we can see that price was rejected at 15000.

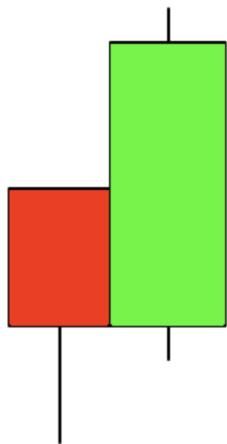
Strong bullish/bearish momentum can reveal the direction in which the market is likely to move toward and weak bullish/bearish momentum (with price tails) can reveal the direction in which the market is likely to move away from.

However, there are many different types of candlesticks that reveal various future likelihoods of the market. The pages below show the nine most important candlestick formations.



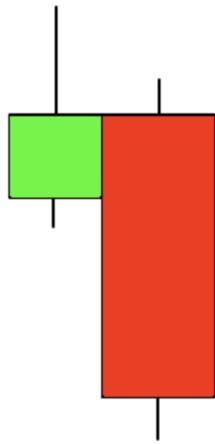
The nine most prevalent candlestick patterns:

Bullish Engulfing



Bullish Engulfing: Candlestick pattern that occurs when a strong bullish candle rises beyond the entire body of a bearish candle on considerable magnitude. Typically leads to bullish trend.

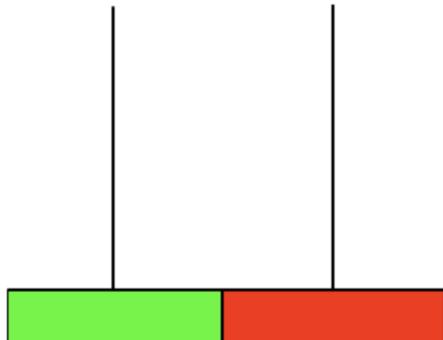
Bearish Engulfing



Bearish Engulfing: Candlestick pattern that occurs when a strong bearish candle drops below the entire body of a bullish candle on considerable magnitude. Typically leads to bearish trend.



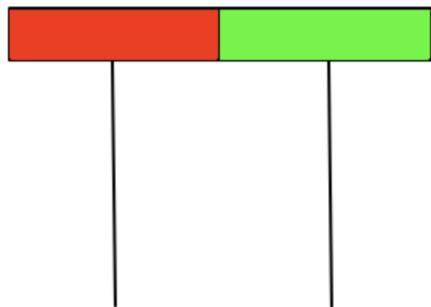
Tweezer Top



Tweezer Top: Double candlestick pattern

that occurs when two candles make the same high directly next to one another. Typically leads to bearish trend.

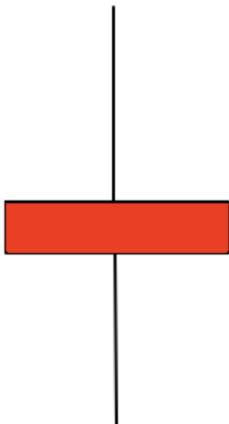
Tweezer Bottom



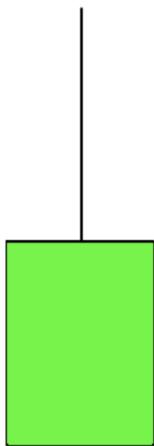
Tweezer Bottom: Double candlestick

pattern that occurs when two candles make the same low directly next to one another. Typically leads to bullish trend.



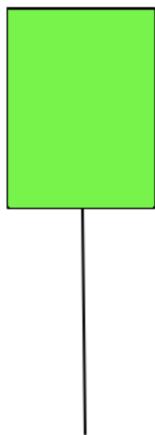
Doji

Doji: Candlestick pattern that occurs when price closes near the open of the candle, stronger signal if candle contains both an upper and lower tail. Typically leads to trend reversal or trend consolidation.

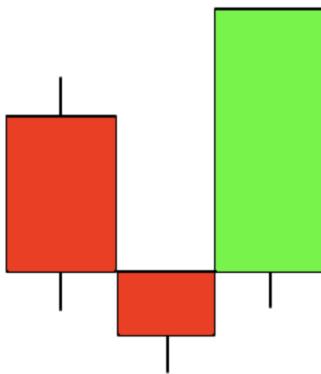
Shooting Star

Shooting Star: Candlestick pattern that occurs when the upper tail of a candlestick is greater in distance than the distance between the candlesticks' open and close price. There is typically no lower tail, or if any, a small lower tail. Candlestick can close bearish (red) or bullish (green). Typically leads to bearish trend.



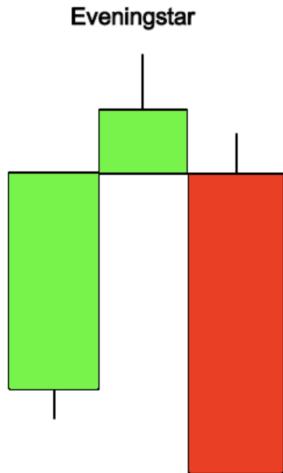
Hammer

Hammer: Candlestick pattern that occurs when the lower tail of a candlestick is greater in distance than the distance between the candlesticks' open and close price. There is typically no upper tail, or if any, a small upper tail. Candlestick can close bearish (red) or bullish (green). Typically leads to bullish trend.

Morningstar

Morningstar: Triple candlestick pattern that occurs in a downtrend as a bearish candle is printed, followed by a doji (indecision) candle, further followed by a strong bullish engulfing candle. Typically leads to bullish trend.





Eveningstar: Triple candlestick pattern that occurs in an uptrend as a bullish candle is printed, followed by a doji (indecision) candle, further followed by a strong bearish engulfing candle. Typically leads to bearish trend.

C. Market Stages

A market stage refers to what the current state of the market is during the timeframe that you have selected.

There are three main types of market stages:

1. Consolidation
 - a. Price is moving sideways.
 - b. Price cycles from support to resistance and back again.
2. Uptrend
 - a. Price is making higher highs and higher lows.
 - b. Previous resistance levels become future support.
3. Downtrend
 - a. Price is making lower highs and lower lows.
 - b. Previous support levels become future resistance.



Of course, it all depends on what timeframe you are looking at. For example, when you zoom out to the 1H (1-Hour) candlesticks you may notice price is in an uptrend but on the 5m (5-Minute) candlesticks you notice that price is consolidating. (*The Practice examples #3 and #4 both show markets in consolidation and example #2 shows the beginning of an uptrend whilst example #1 shows consolidation turning into a breakout, these examples can be found at the end of chapter 1.*)

It is important to note the short-term, medium-term, and long-term market stages that a cryptocurrency is currently in. There are ways to quantify a market stage via the use of technical indicators, but a qualitative visual approach can also be used to recognize the market state that the market is in.

D. Support/Resistance

There are price levels in the market in which there is a higher probability of a reversal as opposed to other levels. These levels are called support and resistance levels.

Buy at Support / Sell at Resistance

Resistance occurs when price moves upward, reverses at what we call a resistance level, and then price moves downward. If price approaches this level again, we would expect price to potentially reverse again. Support occurs when price moves downward, reverses at what we call a support level, and then moves upward. If price approaches this level again, we would expect price to potentially reverse again.

In a traditional sense, traders will be looking to buy at support and sell at resistance in order to maximize profit.



If you are new to support and resistance, you may wonder how does a trader know when a price level is likely to become resistance or support?

One answer is volume. We will explore what volume tells us in the next chapter.

Another answer is price's reaction to a price level. If price moves higher, reaches a certain price area and then rapidly move back down – then that price area is said to be of strong resistance. Take a look at price's reaction as indicated by each arrow below.

A resistance level.



Price moved up to the price level around 11850 multiple times and then quickly reversed back downward. This is a classic example of powerful resistance.

However, the more touches that a support or resistance level has: the more likely that the resistance/support level will break. Meaning that if price were to head up to 11850 for a fourth touch in the example above, price would likely continue moving higher.



Now let's take a look at a support level.



In the picture above, do you also notice the tails at support? Those tails indicated a possible support level as price was rejected at that price area.

Example #3 Easy



What price level shows the strongest level of **resistance**?

- A. 15400
- B. 14900
- C. 15200



Example #3 Answer



- A. 15400**
- B. 14900
- C. 15200

If you didn't get this one right, you may be wondering why the answer wasn't 15200, as the price range from 15200 to 15300 did show some resistance. Although that is a resistance level, it is certainly not as strong and well respected as the price level of 15400, as the level of 15200 was successfully broken multiple times.

Support/Resistance Strength

The strongest support/resistance levels are levels that the market has been unable to breach within the current market stage. Think of it like this: what price level has been shown the most respect (price has not bypassed that level yet)?



Example #4 Easy

What price level has shown the strongest level of **support**?

- A. 14100
- B. 13300
- C. 12800



Example #4 Answer



- A. 14100
- B. 13300
- C. 12800**

The market is unable to move any lower than 12800, making it a powerful level of support.

However, do not make the mistake of assuming that if price breaks a level of support that the broken level means that price will always continue moving in that direction downward. The later chapters in this guide will explore multiple scenarios in which a level of resistance is broken but then price moves much lower – with detailed analysis as to why this occurs in varying cases.

E. Momentum

How can a trader gauge trend strength and a trend's ability to continue or reverse based on price action alone?



Trend Momentum

Momentum provides a look into how weak/strong the buyers have been in an uptrend and how weak/strong the sellers have been in a downtrend. Momentum also reveals when a move out of consolidation may succeed or fail.

When a trend moves on *strong* momentum, it typically leads to further continuation of the trend. This occurs as demand for the underlying trend is high as traders rush to enter in the direction of the trend.

When a trend moves on *weak* momentum, it typically leads to a reversal of the trend. This occurs as demand for the underlying trend is weak as traders are either not interested in entering into the trend or traders who wanted to position themselves in that direction already have.

Take a look at this example:



Price has been moving on weak momentum upward from the low at 710 to the high at 768, then price moves on strong momentum to the downside after a brief period of consolidation.





This move instigates the downtrend, and price moves much lower.

Example #5 Easy



Does the momentum of the market favor the bulls or the bears? Is the market more likely to move to the upside or to the downside?



Example #5 Answer



Momentum favors the bulls with price moving on strong momentum upward after moving past the level of resistance at 9290. The market is more likely to move to the upside as demand looks strong throughout the uptrend.

Although strong bullish momentum tends to lead to a continued uptrend and strong bearish momentum tends to lead to a continued downtrend – an often overlooked aspect of momentum is inspecting where within a market stage the strong momentum exists.

For example, if the market is transitioning from a downtrend to an uptrend or from consolidation into an uptrend, then a high momentum move can instigate that change (as exemplified in the first example in this section). On the flipside, if an uptrend has been in effect for some time, a high momentum bullish move tends to actually lead to a reversal.

Let's go through a visual example.





Take a look at each of the numbered candlesticks. To the right of each number is the corresponding candle. All four numbered candlesticks feature varying degrees of strong momentum. However, one leads to a continued bullish uptrend whereas the other three lead to a reversal.

- Point 1: Price had already moved up for some time and many traders may have noticed that price was in an uptrend. After the moderately strong bullish momentum candle occurs, price moves slowly upward before making a retracing move.
- Point 2: Price had just completed a retracement and was now making a bull move above the recent high at the price of .018. After the strong momentum upmove, price continues upward.
- Point 3: Price had been moving upward for quite some time without making a major retracement. As a result, many buyers pour in and aggressively buy — and this strong momentum upward leads to a strong momentum move back down lower.
- Point 4: The strongest momentum move of the entire chart, deep into the uptrend, price makes a high momentum move that terminates the uptrend.



Exercise extreme caution when interpreting momentum. It is not uncommon for price to terminate a trend with a strong momentum move in the trend's direction. To discern between momentum that will lead to the continuation of a trend vs momentum that will end a trend, analyze the present market stage. *More info on this in the later section on market volatility.*



2. Volume

Interpreting Volume

Solely interpreting the historical prices of an asset only reveals half of the story. The other half of the story is the historical actions made by traders within the market. Volume reflects this quantity of trades made on an asset over time.



Each volume bar represents how many coins were transacted in the timeframe selected (above chart is the 5m). This means that if 10 Bitcoins are transacted during a five-minute window then volume will be reported as 10. The transaction occurs between two parties: both parties agree on a price as one party agrees to buy the asset while the other party agrees to sell the same asset.

Note the faint orange line running through volume. That is called the *volume moving average*. It is currently set to a period of 20 which means that the moving average uses the past 20 volume bars, calculates an average, and then graphs it into a line.



You can observe the actual volume moving average number by hovering your cursor over a candlestick and looking at the top left portion of the graph where it reads 'Vol'. The number in gray shows the amount of volume transacted during that time period and the number in orange shows the average volume transacted over the last 20 periods.

Every transaction occurs between a buyer and a seller with one side (either the buyer or seller) using a *market order* while the opposing party uses a *limit order*. Therefore, a market buy order will transact on a limit sell order and a market sell order will transact on a limit buy order.

A "market order" refers to the act of immediately buying at the lowest offer (*limit sell order*) or selling at the highest bid (*limit buy order*). This type of order typically carries higher fees than a limit order, but guarantees that you will be able to enter/exit a position. It is an aggressive method of entry/exit that has an immediate impact on the price of the asset transacted.

A "limit order" refers to buying or selling at a specific price that has been determined by the trader who placed the limit order. This type of order typically carries lower fees, but the trader runs the risk of the order not being filled. As a rule of thumb, when many buy limit orders appear in the order book, this tends to push price higher. When many sell limit orders appear in the order book, this tends to push price lower.

A variant of the market order is called the "stop order". This is a market order that will only fill if a certain price has been reached. Stop orders are commonly used as stop-loss orders, where one places a stop order that is set to protect the trader from large losses. If you were to enter a long position, you could place a stop order below the price that you had entered at, so that if price moves against you then you will cut your losses. If you were to enter a short position, you could place a stop order



above the price that you had entered at, so that if price moves against you then you will cut your losses as well.

Now, if more stop-market buy orders are placed at a price level than opposing offer orders, price in the short-term will rise. If more stop-market sell orders are placed at a price level than opposing bid orders, price in the short-term will fall.

However, if a cryptocurrency moves lower and reaches a series of prices that contain many stop sell market orders, but there are more limit buy orders: than price will quickly rebound back upward in a classic stop-loss hunt formation.

Or, if a cryptocurrency moves higher and reaches a series of prices that contain many stop buy market orders, but there are more limit sell orders: than price will quickly rebound back downward in a classic stop-loss hunt formation.

Volume can tell many stories that price cannot, as you can determine where many stop losses were likely triggered on a price chart – or when it is likely that many market orders have just been used via a detailed look into historical volume.

Volume also indicates the market interest that there is in a cryptocurrency which can reveal the strengths or weaknesses of that coin's price movements. After determining the amount of interest there is in the coin, you can forecast how price may trend in the future.

B. Volume = The Market Interest

Volume Trends showing Market Interest



A standard rule of thumb in volume analysis is that an *increase* in volume while price is trending shows that there is high interest for the current trend, raising the probability that the trend will continue.

Conversely, most traders interpret a *decrease* in volume while price is trending shows that there is a low amount of interest for the current trend, so take this as a sign that the trend is not likely to continue. This applies to both uptrends and downtrends, meaning that if volume is increasing as price is trending downward, expect price to continue moving downward. If volume is increasing as price is trending upward, expect price to continue moving upward.

Example #1 Medium



Do you think price will move down or continue moving upward based on the most recent continuation of the uptrend (denoted by the green arrow)? Take a look at the volume transacted during that indicated price move.



Example #1 Answer



Price moves down. We would expect strong increasing volume as the market continues to move upward in an uptrend because volume diverges from the trend, however, we actually see very low volume which indicates a weak uptrend that may soon reverse.

Going a step further, what volume trends would you expect in a trend that is making a retracement move?

We would expect volume to increase as price moves with the overall trend and volume to decrease as price moves against the overall trend, e.g. volume to fall as price retraces against the trend.

During consolidation, volume is typically falling as interest in the trend decreases as price moves sideways.





Notice the overall lack of volume when price is consolidating as volume during that period is typically hovering around the volume moving average. The consolidation area is denoted as in between the two vertical lines.

Volume Values Showing Market Interest

You typically will find higher volume readings when price is moving in the trend's direction and lower volume readings when price is retracing or consolidating. This occurs because naturally there should be more trading activity as price moves in the trend's direction (strong trading interest for the trend) and less trading activity when price does not (lower amount of interest when price moves against the trend).

When price is moving in the overall trend's direction, you should see increasing volume and higher volume values.

When price moves against the trend (a "retracement"), you should see falling volume and lower volume values.

When price moves sideways ("consolidation"), you should normally see falling volume and lower volume values.



So what is a “high” versus “low” volume value? Is 100 high? Is 3405 high? Volume is entirely relative – as values vary across different coins. What makes a value “high” or “low” always depends on the volume value relative to the volume moving average.

Therefore, a volume value that is equal to or below the volume moving average is said to be low volume. A volume value that is far above the volume moving average is said to be high volume. Additionally, you can use the volume moving average itself as a gauge for how high or low volume has been during a specific market stage. For example, you could compare the average volume in an uptrend to the average volume in a downtrend by comparing their relative volume moving averages.

C. Volume as a *Changing Agent*

Imagine that you are in a room with 100 other traders who are all trading the same asset. There is a trading desk that allows unlimited liquidity (meaning anyone can buy or sell the asset at its current market price). Now imagine that the asset’s price begins to fall as a few traders begin to sell and price breaks downward. Should we buy or sell?

Most likely: Sell.

Here it is not only acceptable to join the crowd but probably wise.

But what if all 100 traders had just sold all that they own of that asset. Should we buy or sell after everyone else just sold?

Buy.

We want to buy because if we knew for a fact that all traders in this example had already sold, the asset’s price cannot go any lower. If we chose to buy, we would become the first buyer into an uptrend which means that we would be buying at the absolute best price possible.



Not many beginning traders are aware of the simple fact that a trend usually ends when all available market participants rush to buy in an uptrend or rush to sell in a downtrend.

This may seem to conflict with the previous section on volume, where we learned that the more volume a trend has, the stronger the likelihood of that trend continuing. However, it is crucial to look at volume not only as a trend, but in isolation.

Remember that a slight increase in the average amount of transacted volume typically indicates that the trend is strong and will likely continue. Conversely, when a single volume bar spikes to abnormally high levels, this can lead to a change in trend.

Thus, we typically shouldn't expect a major change in price's direction unless we observe a major change in volume.

As stated in the previous chapter on reading price action, markets are constantly in a changing state – cycling from one stage to the next. Often, it is the volume spikes that instigate the change in the market.

Note: Of all the methods for reading and interpreting volume, the **volume spike** method is by far at the top of my list. It is not only easiest to identify on a chart, but also has a high accuracy rate due to volume's ability to capture the degree of extreme fear and greed that is in the market – and therefore you can note when this greed/fear mass market psychology is at an extreme.

Going back to the 100 traders in a room analogy, why do traders continually tend to buy after others had bought and sell after others had sold?



The reasoning behind this is the herd-like moves that occur as many traders tend to feel similar emotions (of fear and greed) when looking at the same price chart. They see price crashing and many sell (fear) or they see price skyrocketing and they buy because they don't want to miss out on a potential rise (greed).

Basically, a retail trader who is thinking about buying may go through a process like this: he is monitoring the price of a cryptocurrency, the price of that coin rapidly rises as buyers flood in, thus the retail trader tracking that market gets anxious and does not want to miss out so he chooses to buy in as well. To that trader's shock, just after he had bought – no one else buys and the price rapidly declines, leaving him in a losing position.

Because many traders act on their emotions at similar price points, we end up seeing that most retail traders – typically beginning traders – end up buying at market tops (resistance) and selling at market bottoms (support).

When the market is oversaturated with buyers in an uptrend, the market will struggle to continue higher and you will likely see price consolidate or reverse. This is due to the fact that traders who wanted to buy have likely already done so during the preceding moves of the uptrend.

The same situation occurs after a massive sell off in a downtrend when the market is oversaturated with sellers in a downtrend and the market struggles to move lower as there comes a point in time where sellers who wanted to sell have likely already done so.

When many buyers buy into an uptrend or many sellers sell in a downtrend in a short period of time, we call this volume pattern a volume spike. Typically the candle in which a volume spike occurs will have a price tail or will otherwise look like a highly volatile candlestick.



A minor volume spike typically has a value at least 3-4 times higher than the moving average value. A major volume spike will have four times or more volume than the moving average (these rules hold true on smaller timeframes such as the 5m or 15m). A major volume spike will likely lead to a reversal, whereas a minor volume spike will likely lead to a period of consolidation or a weak retracement.

There are two major types of volume spikes that occur:

1. **Overbought/Oversold volume spikes:** Overbought volume spikes occur at market tops and resistance levels. Oversold volume spikes occur at market bottoms and support levels. Price is called overbought when all interested buyers have already bought into an uptrend. Price is called oversold when all interested sellers have already sold into a downtrend.

Overbought: *When a volume spike occurs in an established uptrend = expect the market to struggle moving upward. This is a great spot for you to sell.*

Oversold: *When a volume spike occurs in an established downtrend = expect the market to struggle moving downward. This is a great spot for you to buy.*

2. **Breakout/Breakdown volume spikes:** Price breaks out on high volume and strong momentum.

Breakout: *When the market is breaking upward out of consolidation and a volume spike occurs at the point of the breakout expect the market to likely continue trending upward.*



Breakdown: When the market is breaking downward out of consolidation and a volume spike occurs at the point of the breakdown expect the market to continue trending downward.

If unsure if price is breaking out or simply overbought at resistance look at the candlestick's reaction after the initial volume spike. If the candlesticks after the first candlestick of a volume spike continue to carry price in that trend's direction, that indicates that the trend is likely a breakout and may be the instigating move of a trend.

Think Like a Market Maker

A 'market maker' is a company or individual trader who profits off of liquidity. These professional traders profit by providing liquidity to traders who are using market orders. They set limit orders that fill when retail traders are overreacting due to feelings of fear/greed, and then market makers are able to profit as the market reverts back to the mean. When the market is moving on high volume and many retail traders bank on the fact that price will just continue moving in that direction, it is the market makers who will happily provide liquidity to the retail traders.



In the chart above, each arrow points to a major volume that had occurred. If you were to have placed a limit order against each volume spike (placing a sell limit order when price is spiking upward), that would have allowed you a series of small profits.

Market makers can detect when volume is spiking and retail traders are frenzily buying/selling, and can continually profit as long as retail traders continue to make the same mistakes in the market. However, the market makers also have to be wary of price continuing to break out in the direction of the volume spike, as that could lead to a quick loss for them. Nevertheless, the market makers trade in their own manner because over time, their series of small profits outweigh their losses.

This is not to say to always trade like a market maker, but do note that when volume is spiking on a short-term candlestick such as the 1m or 5m, price is more likely than not to head in the opposite direction. Thus, setting limit orders to catch this retail liquidity as price moves on high volume can be an aggressive method for you to trade in the short-term.

D. The Order Book

Strategy

This is a guide focused on price action and volume, but we must not neglect the manner in which all trades are executed. The order book on virtually all major markets (including major cryptocurrency exchanges) is comprised of a *double auction system*, the system of which was introduced at the beginning of this guide.

A double auction is a system in which buyers compete to get their order filled at the lowest price attainable as fast as possible and sellers



compete to get their order filled at the highest price attainable as fast possible.

When attempting to get your limit buy (bid) or limit sell (offer) order filled, follow these basic guidelines:

1. Try to place your bids just above other large bids. Large uncancelled bids make it harder for price to go lower, thus placing our bids just above these natural levels of support is important.
2. Try to place your offers just below other large offers. Large uncancelled offers make it harder for price to go higher, thus placing our offers just below these natural levels of resistance is important.
3. When in a long trade, try to place your stop losses just below large bids. This means that your stop loss will only be triggered if price breaks through that large bid wall.
4. When in a short trade, try to place your stop losses just above large offers. This means that your stop loss will only be triggered if price breaks through a large offer wall.
5. Typically, when there are more bids than offers, the demand will cause price to rise. As a rule of thumb, avoid buying coins when there are not many bids near the top of the order book.
6. Typically, when there are more offers than bids the large supply will cause price to fall. Avoid selling coins when there are not many offers near the bottom of the order book.
7. Bids moving upward with price is a strong sign that price will continue its uptrend.
8. Offers moving downward with price is a strong sign that price will continue its downtrend.
9. Try to avoid using market orders in the entry of a coin. There are lower fees and usually better prices available when you use limit orders instead.



10. When taking profit on a position, try to use limit orders. If the market seems to be quickly reversing against your position, resort to taking profit via the market order.

Order books will vary across different exchanges and coins. On major cryptocurrencies traded to a fiat currency such as BTCUSD, ETHUSD, and BTCEUR, order books can be heavily manipulated so be wary of that fact. This means that the visible orders on the order book might not represent actual supply and demand. More on these order book dynamics appear in the *Coin Selection Chapter*.

However, when trading highly liquid altcoins on a major exchange, order book bidding strength (total amount of bids) and offering strength (total amount of offers) can be used to quantify the forces of supply and demand on a cryptocurrency.



3. Stop Loss Hunting

A. *Institutional vs Retail*

It is a known fact that the majority of traders within the market will lose money. If you were to apply similar methods to how most traders trade, you are destined to receive similar results.

The ‘majority of traders’ refers to retail traders, who are smaller volume traders who trade through an exchange. These traders typically act in a herd-like manner – buying where others buy and selling where others sell.

How can you escape the traps and fakeouts that burn these traders time and time again? The answer lies in having a superior understanding of how most retail traders think and the prices at which they tend to place their buy and sell orders.

However, there is always another party who takes the other side of the trade. Typically, it is institutions and HFT’s who tend to take the other side of retail trades. Therefore, when retail traders mass buy into the market: institutions are likely selling to them.

Given that retail traders typically lose money in their trades, and institutional traders typically profit on their trades, it is best to craft a strategy that allows you to trade in a similar manner to an institutional trader. A profitable price action trader will approach trading by looking for spots to trade against retail traders and thus, be on the strong side of institutional money.

Beyond institutional and retail traders – what is the basis behind price’s tendency to trigger stop losses before making a reversal?



Before a downtrend can reverse into an uptrend, all potential sellers have to sell first. **The final potential sellers of a downtrend are made up of both traders who went long and placed their stop loss just below a nearby price low and of traders who are thinking about going short but have yet to do so.** If price moves below a low, that forces the hand of these potential sellers to sell en masse — and consequently, price has run out of sellers for all who wanted to sell have likely just done so. When this occurs, an uptrend is likely to soon begin.

Likewise, before an uptrend can reverse into a downtrend, all potential buyers have to buy first. **The final potential buyers of an uptrend are made up of both traders who went short and placed their stop loss just above a nearby price high and of traders who are thinking about going long but have yet to do so.** If price moves above a high, that forces the hand of these potential buyers to buy en masse — and consequently, price has run out of buyers for all who wanted to buy have likely just done so. When this occurs, a downtrend is likely to soon begin.

You will find across many liquid cryptocurrencies on various timeframes that uptrends and downtrends tend to begin with a stop loss hunt or a series of stop loss hunts — as these moves force the hand of the final sellers in a downtrend and the final buyers in an uptrend.

B. *Liquidity Pools*

Institutions/large volume traders can not buy and sell their positions whenever and wherever they wish, if they attempted to do so they would likely incur large losses and in doing so, would also fail to enter/exit their entire position at a single price point.

This is because a massive market buy order from the high volume from a major player such as a financial institution would likely lead them to buying at increasingly higher prices. Or, if an institution tried to place a



large buy limit order, they might not have their limit order filled but instead have price move up without them.

Due to this fact, institutions must look for price spots to accomplish these two objectives:

1. Ability to buy or sell as much as their allotted position

If you enter/exit a trade, you would like to have the ability to get all of your orders filled. For example, let's say you would like to take profit off of a long position. If you place a limit order to sell (also known as an *Offer*), you would reasonably want the entire sell order to fill. If the order didn't entirely fill, you could potentially go into a loss as price moves in the other direction.

2. Ability to buy or sell without significantly moving the price

If you were to enter/exit a trade, you likely would not want to have a strong impact on the price. For example, let's say you wanted to enter a trade. If you place a buy limit order (also known as a *Bid*), but the market moves immediately upward - your order has not been filled and you are forced to either place a higher bid order and buy at a higher price or to not enter the trade altogether.

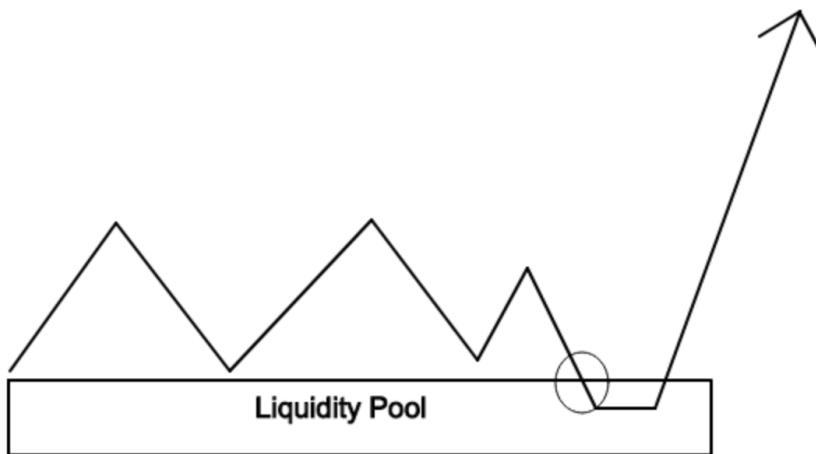
Additionally, instead let's say that we use a market order to enter/exit the market and not a limit order. If we use a market buy order that cuts upward through many offers, we are buying at progressively worse prices available. If instead we are able to market buy at a single offer and fill all of our liquidity, than we can buy at the best available price and buy at a better average price.



How can an institution fulfill both of these objectives in trading the cryptocurrency market?

An institution can look to trade in spots of high liquidity (*high liquidity exists when both above objectives are met*). These price areas of high liquidity are referred to as liquidity pools. Liquidity pools are located in price areas where many retail stop losses reside. These price areas not only contain many stop losses, but they also act as psychological traps for many retail traders.

Liquidity pools are usually located just above swing highs and just below swing lows. When price moves just above a swing high, many retail traders may (later regrettably) mass market buy as they believe that the market can only continue upward. When price moves just below a swing low, many retail traders may mass market sell as they believe that the market can only continue downward.



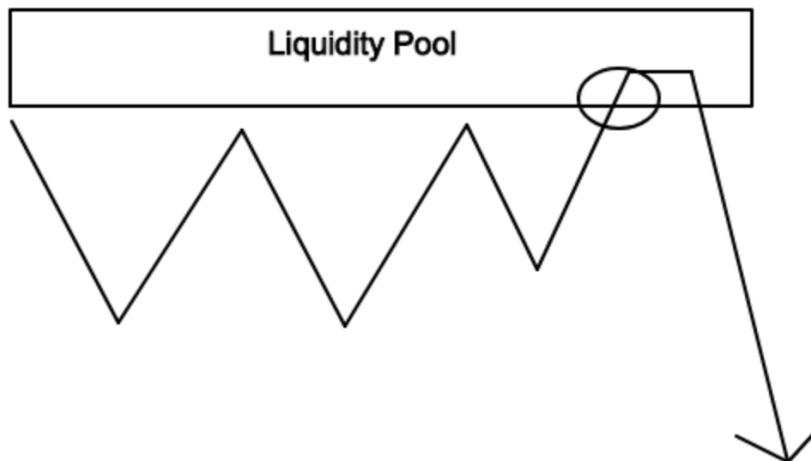
The above diagram is a liquidity pool located below support that contains many long's stop losses. The circled portion indicates the point of breaching the liquidity pool, and the point in time that heavy retail selling occurs, as their stop losses hit the market. **Three lows (important = even just one low can create a liquidity pool just below that low, but the more repeated lows at support = the more stop losses located within the**



liquidity pool) were made before price dipped slightly below the lows, moved on low volatility and then proceeded to propel upward.

When price reverses from a liquidity pool below support:

1. Retail long's stop losses triggered
2. Retail shorts enticed to enter
3. Institutional buy orders absorbing the retail liquidity (ie. This is why price moves flat/reverses back upward after hitting many stop losses = due to large player buy pressure.)



The above example is a liquidity pool located above resistance that contains many short's stop losses. The circled portion indicates the point of breaching the liquidity pool, and the point in time that heavy retail buying occurs. Three highs (**important = even just one high can create a liquidity pool just above that high, but the more repeated highs at resistance = the more stop losses located within the liquidity pool**) were made before price dipped slightly above the highs, moved on low volatility sideways and then proceeded to propel downward.

When price reverses from a liquidity pool above resistance:

1. Retail short's stop losses triggered



2. Retail longs enticed to enter
3. Institutional sell orders absorbing the retail liquidity (ie. This is why price moves flat/reverses back downward after hitting many stop losses = due to large player sell pressure.)



Liquidity pool located below a support area of many lows. Retail traders who are long likely placed their stops within the box area. When/if price reaches this zone, price's immediate reaction to the liquidity pool may determine which way the market will eventually move.





Price breaches the previously drawn liquidity pool. Arrow denotes location of price tail that triggered stop losses located within the liquidity pool. After triggering the stop losses and flushing out the final sellers, price begins an uptrend.

Label two major liquidity pools on the chart below. Label one that likely contains long stop losses and the other pool that contains short stop losses. Hint: identify the major high and low of the chart.





The bottom rectangle (long's stop losses) was drawn by identifying the low of the range (6375) and plotting a rectangle downward. The top rectangle (short's stop losses) was drawn by identifying the high of the range (6550) and plotting a rectangle upward.



Price first taps into the bottom rectangle and triggers long's stop losses. After the liquidity pool is tapped, price moves higher before a quick bounce above the top rectangle occurs.



Liquidity pools of many stop losses are triggered more and more frequently as a market becomes more efficient. As the cryptocurrency market gains more institutional players, larger amounts of liquidity will be necessary for a larger amount of transactions to occur. Take a look at the Forex market, a market that has been traded for hundreds of years as well as traded on a high frequency basis for decades. The Forex market has stop hunts/tapped liquidity pools incredibly often as retail traders routinely lose money and wonder why they always have their stop losses targeted on a consistent basis.

In order for the few to profit, the masses must be deceived to take the other side of the trade that the few profitable traders are making. Price's initial reaction to a liquidity pool typically can show whether institutional players are accumulating or distributing.

Another note on stop loss hunts

When price moves just beyond a high/low and then proceeds to move on prolonged sideways price action with low volatility: this can offer great opportunities to trade against the stop loss hunt (ie. *Buying after a long's stop loss hunt after price moves just below a low or selling after a short's stop loss hunt after price moves just above a high*).

In reality, a stop loss hunt can also sometimes act in a V-shaped reversal manner. This occurs when price bursts through a high and then rapidly moves back down, or when price bursts through a low and then rapidly moves back up, with volatility remaining high in both cases.





Each one of the circled price highs/lows in the chart above show when a V-shaped stop loss hunt reversal occurred. In two of these three cases, price moved rapidly in the other direction and it would not have been possible for you to establish a position within a low volatility consolidation range.

Taking advantage of these reversal points would require you to have placed a limit order directly within a liquidity pool. How to do so will be covered in a later section titled: *Market Playbook*.

C. Highs and Lows

As stated earlier, pools of liquidity are typically available to institutions just slightly beyond price highs and lows. But is every move beyond a high or low a stop loss hunt?

Absolutely not. Moreover, it is the nature of the creation of a high/low that dictates price's likelihood of a trend continuation or a trend reversal.

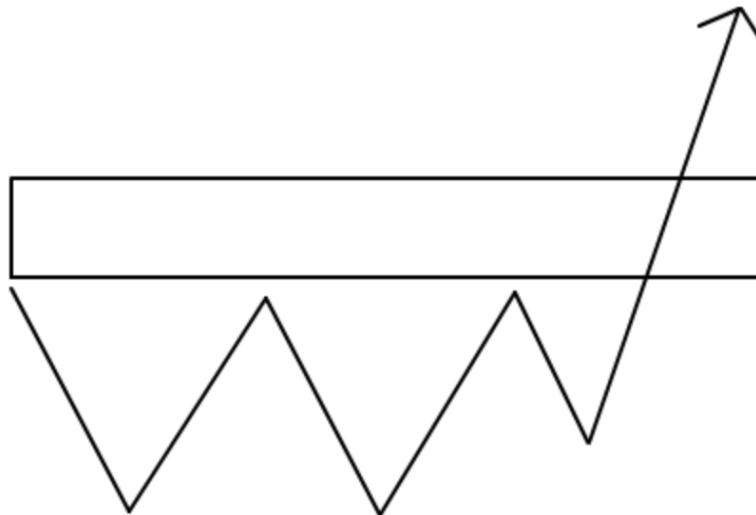
Price moves higher when demand is greater than supply, and price moves lower when supply is greater than demand. However, price can



fake strong demand by moving above a high wherein the move is actually a stop loss hunt of the shorts. Additionally, price can fake strong supply by moving below a low wherein the move is actually a stop loss hunt of the longs.

Discerning genuine strong demand vs genuine strong supply is not an easy task, but noting price's initial reaction when it breaks through major highs and lows can help you in your stop loss vs genuine trend analysis.

Here is a diagram that shows a pattern that can occur when price breaks through a resistance level:



Price bursts through the liquidity pool above resistance and continues upward.

When price makes strong higher highs, as in the chart above:

1. Longs have not all bought in yet, meaning that there are still potential buyers (as opening a long = buy).
2. Shorts have not been stopped out yet, meaning that there are still potential buyers (as closing a short = buy).



3. Institutions are not able to distribute just above highs as potential buyers continue to accelerate price higher and/or institutions are not interested in placing large volume sell orders.

Here are **signs A, B, and C** that indicate price is moving on strong demand upward and that a continuation of the uptrend is likely:

- A. *Price moves far above the resistance level.*
- B. *Lack of immediate strong price movement back downward after price breaks high.*
- C. *Any retracement downward must end at the previous price level of resistance. (Read the support <> resistance section within the Gravity chapter for more information on this.)*



Within the chart above, notice how price moves much higher than the previous resistance high at 3394.9. *This move follows the strong uptrend sign A mentioned above.*





Within the chart above, notice the lack of strong immediate pullback/retrace after the initial high momentum move that broke through resistance. There were price tails to the upside, but that was never followed by a bearish move to the downside. *This move follows the strong uptrend sign B mentioned above.*

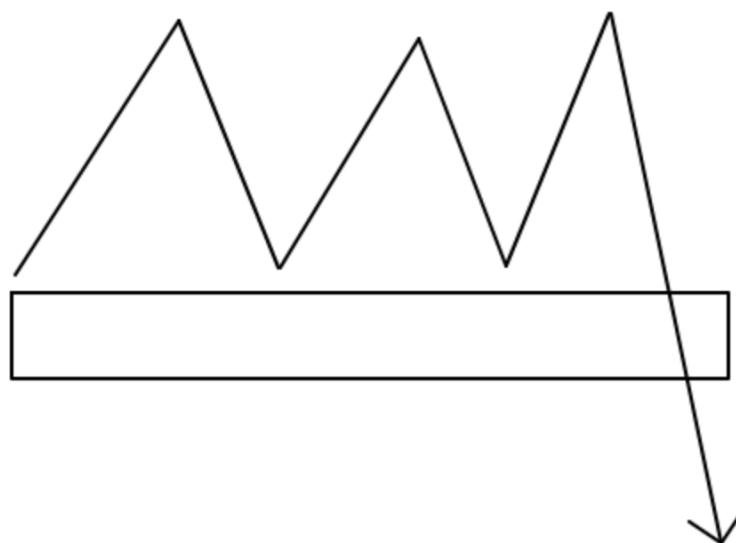


Within the chart above, notice within the rectangle how price establishes support at the previous resistance level of 3520 to 3560. Price was not



able to move any lower, indicating that the buyers were still in control.
This move follows the strong uptrend sign C mentioned above.

Here is a diagram that shows a pattern that can occur when price breaks through a support level:



Price bursts through the liquidity pool below support and continues downward.

When price makes strong lower lows, as in the chart above:

1. Retail shorts have not all sold yet, meaning that there are still potential sellers (as opening a short = sell).
2. Retail longs have not been stopped out yet, meaning that there are still potential sellers (as closing a long = sell).
3. Institutions are not able to accumulate just below lows as potential sellers continue to accelerate price lower and/or institutions are not interested in placing large volume buy orders.

Here are **signs A, B, and C** that indicate price is moving on strong supply downward and that a continuation of the downtrend is likely:



- A. Price moves far below the support level.
- B. Lack of immediate strong price movement back upward after price breaks low.
- C. Any retracement upward must end at the previous price level of support. (Read the support <> resistance section within the Gravity chapter for more information on this.)



Within the chart above, notice how price moves much lower than the previous support low at 6324. This move follows the strong downtrend sign A mentioned above.





Within the chart above, notice the lack of strong immediate pullback/retracement after the initial high momentum move that broke through support. There were retracing moves to the upside, but they failed to hold any significant highs. *This move follows the strong downtrend sign B mentioned above.*



Within the chart above, notice within the rectangle how price establishes resistance at the previous support level of 4200 to 4300. Price was not



able to move any higher, indicating that the sellers were still in control.
This move follows the strong downtrend sign C mentioned above.

Now, an example on LTCUSD.



Notice how LTCUSD moves above the previous highs of consolidation on strong momentum as well as a volume spike. This is typically indicative of an emerging breakout.





In the example above, price was able to move on high momentum above resistance - and then had bullish 'follow up' after it initially broke the high with very little price retracement.

Follow up occurs when price makes a sudden move beyond support/resistance and is then able to continue moving in that direction. Lack of price follow up can indicate a stop hunt, where price goes into a period of prolonged consolidation or immediately reverses.

Additionally, the price move above validates all three rules of a strong uptrend: as price moved far higher after breaking initial resistance (**Rule A**), price did not have a strong retracement (**Rule B**), and price never moved below any previous level of resistance throughout the trend (**Rule C**). Thus, the uptrend continued on strong demand.

On the flipside, let's take a look at a failed price move downward – wherein, price makes a stop loss hunt that is followed by a period of consolidation.





Notice that price dips below recent lows and then is unable to continue the strong downtrend. The reason this occurs is that the sellers who wanted to sell during the downmove have already done so and the prolonged consolidation represents the inability of finding sellers willing to sell. This move fails strong downtrend **Rule's A** and **B** and price moves higher on a bullish reversal.



D. Psychological Levels

Stop losses and excess liquidity can also be found just beyond round numbered price levels, as many traders view a breach of a round number as an acceleration of the present trend (ie: If price trends upward and breaches 7000, many retail traders may believe that price is set to move far higher after clearing that major level, thus price at times can slightly move above 7000 and then move lower to fool retail traders into buying at a higher price).

Another example would be if price is trending downward and eventually breaches the price level of 6000. The levels from 5940-5999 are likely to contain a significant amount of retail long's stop losses that will execute as market sell orders.

On higher timeframes such as the 1H, 4H, and 1D, Levels that are likely to contain a large amount of liquidity are typically going to be just 1% beyond a major psychological level.

Example: If price is approaching an upper round number psychological level such as 9000, then stop orders are likely located from 9001 to 9090.



Let's take a look at what had occurred as price went above 13000.



Price was in an uptrend from the 9200 level on the 17th, and price was able to clear other round numbered levels on high momentum (look at the reactions when price broke 11000 and 12000 during the uptrend). Then, price attempted to break through the 13000 level but was only able to reach a high of 13017 before beginning a major downtrend.

What are the psychological reasons why price moves just beyond a major round number such as 6000, 8000 or 16000 before reversing?

1. **Retail vs Institution.** As mentioned previously in this section, when price enters a zone of high liquidity: this allows large players to distribute/accumulate en masse due to elevated levels of volume.
2. **Sidelined buyers.** When price is trending upward and moves just above a round number, there are likely many buyers who are awaiting a cross of that major threshold. Once price breaks through that round number, many of these 'sidelined buyers' chose to buy. These sidelined buyers can make up the final buyers interested in buying into the coin during that uptrend - and once they chose to buy, there are no more buyers who are willing to push price higher.



3. **Sidelined sellers.** When price is trending downward and moves just below a round number, there are likely many sellers who are awaiting a cross of that major threshold. Once price breaks through that round number, many of these 'sidelined sellers' chose to sell. These sidelined sellers can make up the final sellers interested in selling the coin during that downtrend - and once they chose to sell, there are no more sellers who are willing to push price lower.

Major psychological levels are typically going to be round numbers that contain many zeros, such as 4000 etc. However, these levels are only important if price has not crossed that level for a long period of time. As in: the longer the amount of time that price has not breached that level, the more liquidity that is likely located just beyond that price.

Minor psychological levels are levels that contain one less zero. These are price levels such as 6800 or 14900. The same rule applies as above, albeit on a lesser scale. Levels that are likely to contain a large amount of liquidity are typically going to be just slightly below a psychological level as well as slightly above a psychological level. You can use a .5% range for these levels if you would like. This means that if you are looking for a good price to place buy limit orders for a downward breach of 6800, the range from 6766 to 6799 may be ideal.

Another example: If price is approaching a lower round number psychological level such as 3000, then stop orders are likely to be located from 2985 to 2999.

This is what a minor psychological level looks like:





Price goes just above 8500 to the price high of 8506. Then price moves downward to just below the price level of 8100.



After price goes just below 8100, price bounces back upward to just above 8300. After the breach of this price level, price tempts buyers with 4 crosses above the price level of 8300 before moving lower.

Always be on the lookout for signs of rejection of a major/minor psychological level. This will give an added confluence for when you decide to trade against one of these levels (ie. price crosses just below



8000 down to 7980 and you choose to buy after many retail stop losses are triggered).

These signs of rejection include price tails, volume spikes, high volatility followed by a prolonged period of low volatility after a price breach of a psychological level or a standard V-shaped reversal that can occur after price crosses a psychological round price level.

Example #1 Hard



What significant price level had price just gone below on the chart above? Is this likely to lead to a move back upward? For bonus points: what other fakeout had occurred just beyond a psychological price level?



Example #1 Answer



The arrow at the bottom center portion of the chart shows where price had moved just below the important round level of .00001 on a low tail before moving higher. This stop loss hunt just below .00001, where price traded from .0000093 to .00001 are the prices at which the final sellers of the downtrend relented and sold (long's stop losses triggered as well). Consequently, price moves higher on strong demand.

For the bonus question:

Take a look at the first arrow that denotes when price burst above .00002 before moving much lower. The crossing of the level .00002 represented optimism for LRCBTC and retail traders poured in. Unfortunately, for any buyers at .00002 and above, price soon fell by around 50% down to the .00001 level.



Example #2 Medium



Which psychological round price level on ZILBTC likely contains many stop losses of longs? Think if you were long where would you normally place your stop loss based on the numbered y-axis levels.



Example #2 Answer



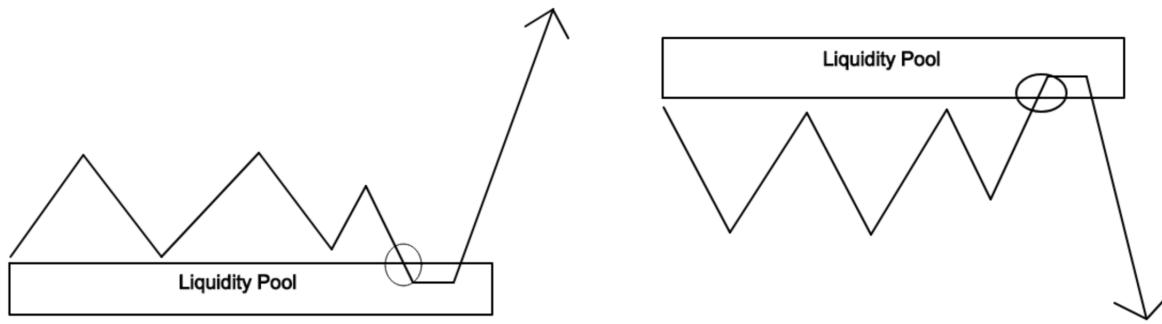
The level of .000006 is an important psychological support level. Many traders may have believed that a cross below this level would likely lead to a continued downmove in ZILBTC. Thus, many stop losses were likely placed within the .00000598 to the .00000599 price area, they were triggered and then price moved higher after flushing out the final sellers.

E. Aftermath

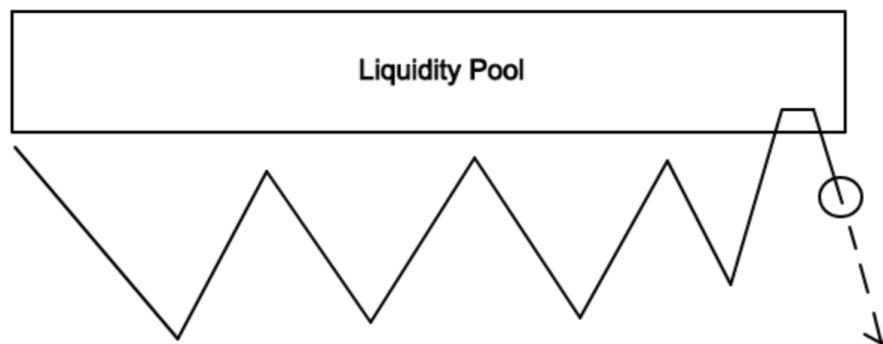
This section will cover what tends to occur during a stop loss hunt directly after a liquidity pool has been triggered and many retail traders have been baited to buy just above a recent high or sell just below a recent low.

Recall these two price shapes of stop loss hunts after a liquidity pool had been triggered from the previous section:



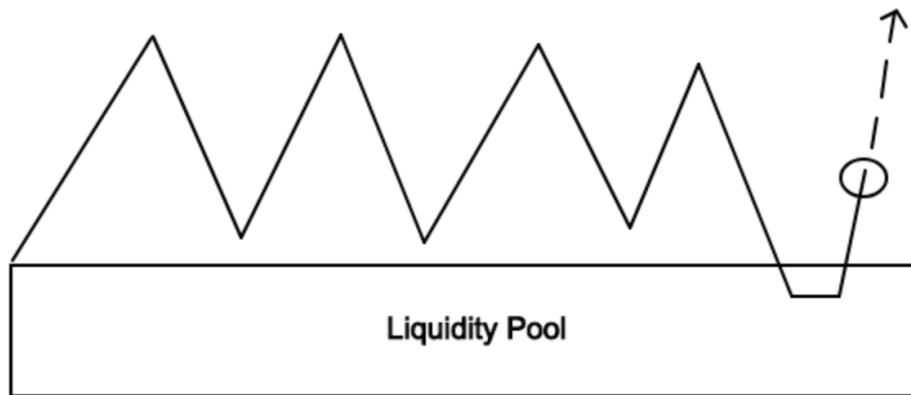


When price re-enters its previous consolidation range after a stop loss hunt, this can be a sign that liquidity has been triggered and that price may soon head in the opposite direction of the recent stop loss hunt. The circled portion(s) below are the final indication that the stop loss hunt has occurred and price is likely reversing.



The figure above showcases a short's stop loss hunt as the last of the retail longs are tempted to buy at the market top and shorts are being liquidated/stopped out of their positions. The circled portion shows the market reaction that occurs after price re-enters the consolidation range. This is typically a bearish sign – and it is more likely that price will continue to move in a downtrend than an uptrend.





The figure above showcases a long's stop loss hunt as the last of the retail shorts are tempted to short at the market bottom and longs are being liquidated/stopped out of their positions. The circled portion shows the market reaction that occurs after price re-enters the consolidation range. This is typically a bullish sign – and it is more likely that price will continue to move in an uptrend than in a downtrend.

These types of patterns allow a more conservative trader who is aware of stop loss hunts to enter into a higher probability setup (*in entering into the circled portion on the figures above*) than entering directly after the stop loss hunt into the low volatility sideways range (*the sideways move shown within the liquidity pool of the figures above*).





XLMUSD on the 4H. Notice how price goes just below the low created on the 24th at \$.177 to a new low at \$.172.



After price goes just below the low and trades down to \$.172, price moves 30% higher from its low to a high of about \$.221. After the circled high momentum candlestick printed in the first chart, this would have represented a great time to buy.





BTGUSD on the 1H. Notice how price makes a local high at \$88.5, consolidates from \$82 to \$88, moves above that high to slightly above \$90 and then moves back into the previous trading range.



After re-entering the previous flat trading range, price trades lower and moves down 25% from its local high to a low of \$67. The circled portion represented the optimal time to short or to exit one's long position.

At times, price will not always stop loss hunt just beyond a consolidation high/low, retrace back into the consolidation range, and then continue



moving in that direction. Instead, price might resume its period of consolidation or even continue to move in the direction of where the previous stop loss hunt had occurred.

Take a look at XRPBTC on the 1H below.



Here XRPBTC has a price tail that goes just above the recent consolidation high at .00009131 to a high of .00009152. This move may have triggered buy stop orders and the high volume suggests that it is likely that some traders may have opened long positions at that recent top.

Now, price moves back down into around the midpoint of the consolidation range at the current price on the chart at .00008881. With this current price formation, one would expect the sellers to push the price lower after the price move just above the recent consolidation high.

This is a price opportunity in which you can think about opening a short position.





After making this price move — price continues moving down until a stop loss hunt of the longs occurs with the swing low at .00008629, indicated by the second circle from the left. It would have been profitable if you were to have exited your short at this price swing low.

Shortly after, price makes another stop hunt just above the recent high at .00009152 to a high tail of .00009300. After price quickly moved down from .00009300 to 00008800 (indicated by arrow), price made a weak retracement upward. It was during this move upward that would have offered another opportunity to sell or to short. After the retracement upward fails to gain ground, price moves lower (indicated by second arrow) and moves just below the previously circled low in the chart.

After this stop loss hunt of the longs (indicated by circle on far right), price moves higher back to the prices around .00008800. After this final stop loss hunt, price continues much higher and initiated a strong uptrend.





From this example, remember that it is not always a single stop loss hunt that will occur. Multiple can occur, and each time either the longs or shorts get hunted, this gives you the opportunity to make a trade after the price moves back into the consolidation range.

Discerning between a successful stop loss hunt that leads to a new trend vs a consolidation fakeout can be aided by looking for other factors of price action/volume confluence such as looking at **candlestick patterns (looking for price tails, high momentum, low momentum)**, **stop loss hunts on a smaller timeframe than the one you are currently using**, **psychological round numbered levels**, and **volume spikes**.

F. Volatility

Price volatility is a measure of the price fluctuation over time. A coin that trades on high volatility refers to a cryptocurrency that has had larger than average price fluctuations than the majority of coins. A period of low volatility refers to a time period when a coin is trading on lower price fluctuations than its historical average.



There are multiple mathematical methods that you can use to calculate and compare various volatility values such as the *Average True Range*, *Historical Volatility*, *Bollinger Bands* and *Chaikin Volatility*. This section will cover how you can look at price action to gain a strong eye for periods of low and high volatility, as well as how to trade after detecting the current market volatility.

Periods of high volatility represent a highly emotional time for traders. The market is rapidly swinging and traders scramble to adjust, exit, or enter a position. Typically, retail traders tend to trade in the direction of high volatility. This means that if price rapidly falls on high volatility, retail traders may panic and sell. If price moves towards a stop loss cluster and then moves on high volatility (more on this and on liquidity pools in the stop loss hunting chapter), it is likely that a large portion of retail traders have gotten stopped out. Trading in the direction of high volatility carries a high risk of becoming a trapped retail trader.

On the flipside, periods of low volatility represent a time period in which many traders are disinterested in entering or exiting a position. This can be seen by the low volume that accompanies low volatility. In these periods, price typically moves sideways in a stage of consolidation. Prolonged periods of low volatility sometimes act as the base an uptrend or downtrend to emerge. Trading in periods of low volatility provides a trader the opportunity to trade before a trend begins.

Typically price moves from a period of high volatility to a period of low volatility and continues to cycle. Think of volatility as the coiling of a spring, the longer a spring is pulled back: the farther it tends to move. In the market, the longer the period of low volatility, the stronger the coming period of high volatility will be.

As a rule of thumb, a trade made against the majority of retail traders and on the side of institutional traders will be more successful in the long-run.



In other words, when many retail traders are trading in the direction of high volatility, it may be best to take the other side of the trade or to wait until the market enters a period of lower volatility.

A Volatility Strategy

When volatility is high, it is typically advised to avoid the temptation to immediately enter/exit a position in the direction of the volatility. Instead, if you would like to enter in the direction of the volatility, instead wait for the market to begin to move on lower volatility. The low volatility move can be a trend retracement or a period of consolidation.

When volatility is low, you have the time to make predictions on future price direction and begin to markup price points that you think contain high liquidity (more on this in the later chapters). Look for factors of confluence with the price action and volume such as volume spikes, volume trends, price momentum and candlestick formations. Then, look to enter/exit with a limit order at the current price and allow price to fill your order during the period of low volatility.

Alternatively, you can place price alerts at liquidity pools and then look to enter/exit after a stop loss hunt occurs during a period of low volatility.

Let's take a look at various charts and recognize the patterns of high and low volatility.





In the 1H timeframe price action below, identify price periods of high and low volatility.



HV = High Volatility, LV = Low Volatility. HV placed to the left of each period of high volatility. LV placed above each period of low volatility.





There are three elements to highlight within this indicated price range:

1. Typically, price moved on prolonged periods of low volatility before making a highly volatile price move.
2. Entering in the direction of the trend after each highly volatile move would have ended with buying/selling at non optimal prices. However, trading against the trend may have worked in some of these examples.
 - a. From the left of the chart, buying after the first HV period (5900) would have bought near the bottom.
 - b. Selling the third HV (6300) would have sold at a local market top.
 - c. Buying the fourth HV (5900) would have bought near the bottom.
 - d. Selling the sixth HV (6600) would have sold near a local top.
 - e. Selling the seventh HV (6700) would have sold near a local top.
 - f. Selling the eighth HV (6750) would have sold near a local top, as price began a strong downtrend after the final LV on the far right side of the indicated chart.



3. Most periods of low volatility had stop loss hunts occur.
 - a. From the left of the chart, the first LV (6100) had a long stop loss hunt. A long stop loss hunt occurs when price establishes an initial low, then goes slightly below that low to trigger stop losses of long positions, as well as entice shorts to enter before moving higher.
 - b. The third LV (6150) had a short stop loss hunt. A short stop loss hunt occurs when price establishes an initial high, then goes slightly above that high to trigger stop losses of short positions, as well as entice longs to enter before moving lower.
 - c. The fifth LV (6300) had a long stop loss hunt.
 - d. The sixth LV (6650) had a short stop loss hunt.
 - e. The seventh LV (6600) had a short stop loss hunt in which price moved lower before reversing on high volatility with strong bullish momentum.

A profitable, disciplined trader will wait for the market conditions to be favorable before executing a trade. This trader likely does not enter/exit trades while many other retail traders are doing so, and if he does, he is likely taking the position opposite the herd.

On the other hand, an undisciplined (and unprofitable) trader will not wait for market conditions to be favorable to trade. He will enter/exit in the direction of price volatility without a plan in place for a reasonable stop loss and profit target. His trading account is likely to dwindle.

Which trader would you like to be?



G. Practice

This practice section will test your ability to find liquidity pools, identifying stop loss hunts and in determining whether a price move is a stop loss hunt or the beginning of a trend.

Example #3 Medium



ADABTC on the 1H shows two stop loss hunts/shakeouts that occurred before price began to consolidate within the trading range.

Now, within the new consolidation range: Where is a local liquidity pool for longs and for shorts?

Hint: look for a price range just above a recent high and just below a recent low.



Example #3 Answer

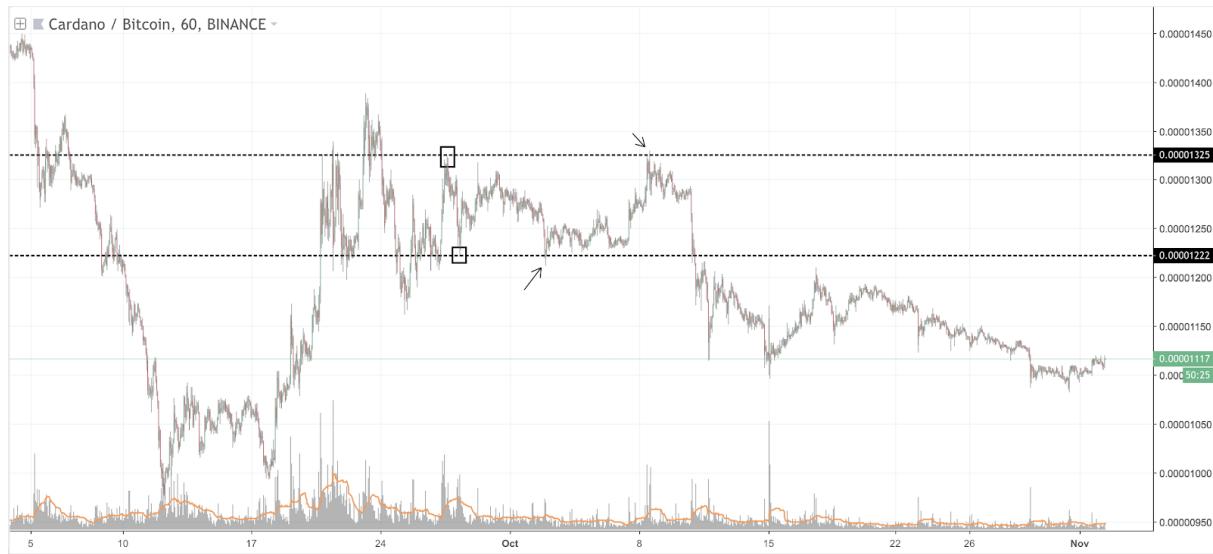


The correct answer for the short's liquidity pool is the horizontal line just above the recent range high at .00001325 that occurred on September 27th (as indicated by the square). Notice that there is a price tail that goes just above that high on the 8th of October, before price moves back down into the trading range.

The correct answer for the long's liquidity pool is the horizontal line just below the most recent low at .00001222 that occurred on September 28th (as indicated by the square). Notice that there is a price tail that goes just below that low on the 3rd of October, before price moves back down into the trading range.



Example #3 Outcome



Notice that the stop loss hunt first hunted the longs at where the first arrow points to and may have also tempted shorts to enter. Then, the second stop loss hunt hunts any shorts who may have entered and tempts longs to buy a breakout that never materialized. Consequently, after triggering the short's liquidity after the second arrow, price moves much lower.

Example #4 Easy



Where is the short's liquidity pool in the current trading range?

Hint: Look just above a major price high.



Example #4 Answer



Price goes just above the recent high at .00002840 and then after triggering that liquidity, immediately reverses back downward. This type of pattern likely saw a rapid period of retail market buying (as indicated by the rapid rise to just above the high) before larger market players began to aggressively sell.

Example #5 Easy



Is this an example of a long stop loss hunt on ETHUSD or is this a genuine downtrend?



Example #5 Answer



This was not a stop loss hunt. That is not to say that stop losses were not triggered – they most definitely were, rather price did not ‘hunt’ for their liquidity but instead ETHUSD had strong selling pressure that continued to push price lower. This is evidenced by the short periods of consolidation followed by high bearish momentum that can be seen on the first chart of this example.

Example #6 Medium



Is this recent price action a stop loss hunt of the shorts and a baiting of longs to enter as a liquidity pool has been triggered – or is this genuine bullish momentum that will likely lead to an uptrend?



Example #6 Answer



XRPUSD was in a stop loss hunt and price did not travel any higher but rather moved much lower in a strong downtrend. Why? Take a look at the price reaction once price broke through the previous high at .52. After price crossed the high, price consolidated with multiple tails upward after a period of high volume = showcasing bearish pressure. When price moves sideways after moving just above a recent high, that might be a period of distribution where large players are attempting to sell and take profit.



Example #7 Hard



What is happening in this price pattern? Is this simple consolidation before a continuation of the uptrend or something a bit more sinister?
Hint: check for the crossing of a certain round price level.



Example #7 Answer

Price crosses just above \$2 after a surge of buying. This is likely occurring due to the many stops near that area as well as from many traders who believed that ZRXUSD could only continue to move higher after breaching \$2. Also note that the candle that initially breached the \$2 level was also a 2x volume spike. This \$2 mark acted as a psychological price level that triggered a rapid period of buying followed by a strong prolonged period of selling.



4. Market Shapes

A. Price Shapes

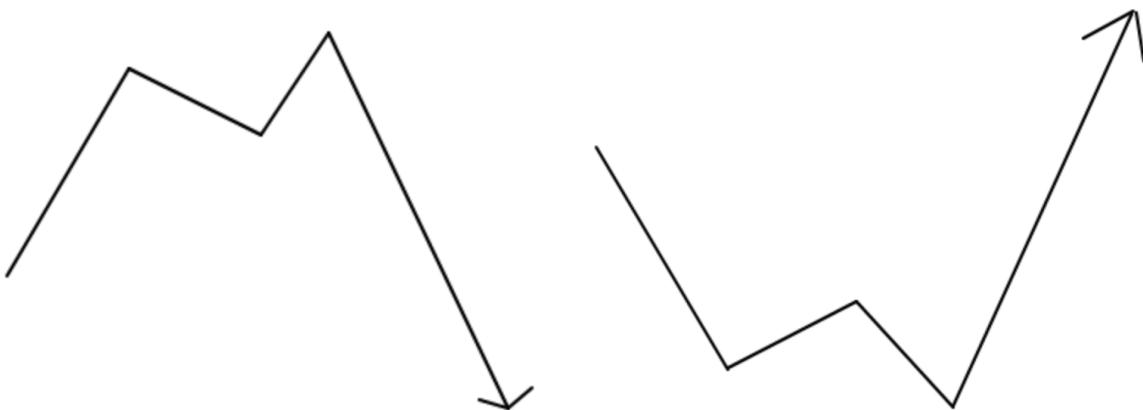
There are common market shapes that typically lead to reversals. Recognizing these price action patterns can help to predict when price is likely to retrace/reverse. These price action formations occur time and time again as retail trader herd repeat the same mistakes that burned them in the past.

Let's take a look at common price shapes that fool retail traders into buying market tops and selling market bottoms. Recognize these shapes and you will be trading in the opposite manner.

1. Stop loss hunt

- a. *Price goes slightly above high or slightly below low*
- b. **Tail*
- c. *Price unable to move significantly beyond tail*

The two patterns below show the general shape of the stop loss hunt, where price goes slightly beyond a high (picture on left) or when price goes slightly beyond a low (picture on right). *Tail had an * because not every stop loss hunt will feature a tail.*



Typically, when a stop hunt occurs: a long candlestick tail will appear. This is due to the cascading stop losses: where one stop loss sells down or buys up to the level of another stop loss and so on until price has hit all stops in the area.

Additionally, if a price tail does occur after a stop loss: it is best if price is unable to move beyond that price tail. This shows that the buyers or the sellers of the market are exhausted.



Notice that price moves slightly beyond the range high (previous range high at 6515) to slightly above 6525, before moving immediately downward. Awaiting 2-3 candlesticks after the initial stop hunt with the high tail may have been best before entering a short position/exiting a long position.

However, a stop loss hunt will not always contain a tail. Take a look at the ETHUSD chart below.





In this example, we see that price has moved slightly below its recent low before moving higher. What happened on the portion indicated by the arrow is that traders had likely bought ETHUSD at around 279 up to 280.5. Once price moved upward, they likely placed their stop losses just below the recent 279 low. Finally, price began to sell down to the 279 level as stop losses were triggered.

How to trade this price shape?

- When you notice the common stop loss price shape on a timeframe of your choice, always await the candle that broke through resistance/support to close first. After the candle closes, notice how price reacts in the subsequent candlesticks after the initial stop loss hunt.
- To identify where stop loss hunts may occur, place horizontal lines at recent lows and highs. You can also set alerts so that if price crosses that horizontal line, you can be alerted to a trading opportunity.



- If price looks to be losing momentum after the stop loss hunt, place a stop loss just beyond the initial stop loss hunt high/low and plan to take profit by looking for another price shape or a volume spike. This setup can give you a great risk/reward, but be wary of price making another stop hunt.

Here is an example of three horizontal lines set at recent important highs and lows. If price crosses any of these lines, a stop loss hunt may occur and price may rapidly reverse.





Each of the three times price crosses a horizontal line, we see a stop loss hunt occur and price moves back into its previous range.

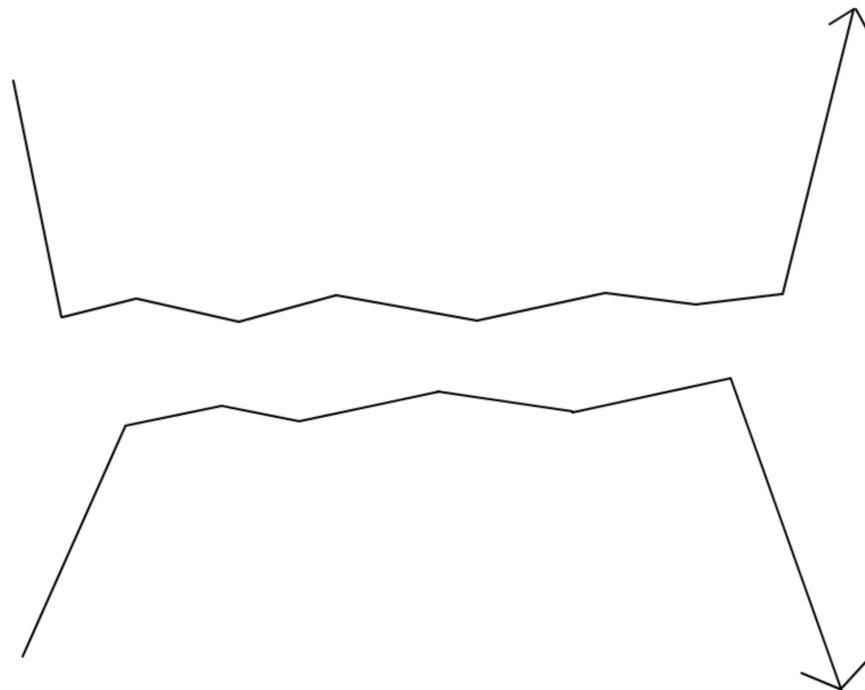
- At point 1, price moves slightly below its recent low before moving higher to point 2.
- At point 2, price moves slightly above its recent high of the range as traders rapidly market buy and shorts have their stop losses hit.
- At point 3, price moves far beyond the horizontal line as heavy selling presses price lower. However, sellers lose interest and buyers begin to push prices higher.

2. Long period of consolidation after a strong price move

- a. *Price makes rapid bullish/bearish move in a short period of time*
- b. *Long period of consolidation begins*
- c. *Price more likely to reverse than continue*



The two price action patterns below are what occur when price makes a sudden bullish/bearish move which is then followed by a long period of consolidation, following the prolonged period of consolidation = a price reversal occurs. However, do note that this period can break out in either price direction, it is just more likely to see a reversal than a continuation. *Additionally, "long period of consolidation" is using 'long' to refer to the length of time of the consolidation, and is not referring to 'long positions'.*



When price violently drops or rises in these patterns, this may occur due to:

1. A stop loss hunt
2. Massive market order
3. Extreme greed/fear
4. Institutional market manipulation
5. Heavily imbalanced order book



After price's initial period of high volatility stops, typically a period of low price volatility will follow, in which price moves mostly sideways. This sideways period occurs due to:

- After a rapid upward move, price moves in prolonged sideways period as buyers lose interest to buy at elevated prices. Sellers mostly may not be interested in selling, as they expect to be able to sell at even higher prices as price had just rapidly increased. Price will continue to move sideways until either the buyers or sellers regain interest.
- After a rapid downward move, price moves in prolonged sideways period as sellers lose interest to sell at depressed prices. Buyers mostly may not be interested in buying, as they expect to be able to buy at even lower prices as price rapidly decreased. Price will continue to move sideways until either the buyers or sellers regain interest.

Here is an example of a rapid price move followed by prolonged consolidation.



Price rises rapidly post consolidation.



What defines a period of prolonged consolidation? The distinction can be made by looking at the ratio of the time that price spent in its high volatility period against the time price had spent within the consolidation period as well.

Let's look at the previous example again, but with a measure of the time spent during the rapid price move as well as the time price had spent within the consolidation period as well.



It took 5 price bars (25 minutes) for price to make its full drop. This high volatility price period was followed by a 241 price bar consolidation (20 hours, 5 minutes).

Here is another example, this time with a rapid price move upward followed by a period of prolonged consolidation.



We see a time period of a highly bullish 2 bars and then a period of 164 bars of lower volatility.

During the flat period of consolidation, price fakes a move upward on high volume (as indicated by arrow) before rapidly falling. This is similar in theory to the stop loss hunt formation.





How to trade this price shape?

- When price moves on high volatility upward or downward, it may be best to wait for the high volatility period to end. After, when a period of low volatility consolidation occurs you may then look for other types of price/volume shapes that develop within that consolidation (such as stop loss hunts or volume spikes).
- If a favorable setup emerges within consolidation, then enter/exit your position. A stop loss should be placed outside of the consolidation range and one's take profit should be set greater than one's stop loss.
- A period of prolonged consolidation is typically seen as boring or meaningless by many short-term minded retail traders. This could not be farther from the truth – prolonged consolidation means that the forces of buyers and sellers are relatively equal. Once the buyers/sellers get stop hunted or a volume spike occurs, this can grant you profitable entry/exit possibilities. Just remember to have an alert set or a limit order placed.



Note of caution:

Price may occasionally trend downward and then enter a prolonged period of consolidation. Then, price may look as if it is leaving the period of consolidation for a reversal back upward whereas in reality it is just a stop loss hunt (example is for a downtrend but it is vice versa for an uptrend). To work toward mitigating this risk, it may be best to wait for a few candles for entry/exit if a highly volatile price move occurs.

3. Short period of consolidation after a strong price move
 - a. *Price makes rapid bullish/bearish move in a short period of time*
 - b. *Short period of consolidation begins*
 - c. *Price continues in its direction more often than reversal*

The two price action patterns below are what occur when price makes a sudden bullish/bearish move which is then followed by a short period of consolidation, following the period of consolidation = a price continuation occurs. However, this period can break out in both price directions, it is just more likely to see a continuation than a reversal. Additionally, a 'short period of consolidation' is using the word short to refer to the length of time of the consolidation, and is not referring to short positions.





After price's initial period of high volatility stops, typically a period of low price volatility will follow, in which price moves mostly sideways or price makes a slight retracement. This sideways/weak retracement period occurs due to:

1. After a rapid upward move, price moves in a short sideways period as the initial wave of buyers lose interest. Sellers mostly not interested in selling, as they expect to be able to sell at even higher prices as price had rapidly increased. Price will continue to move sideways until either the buyers or sellers regain interest.
2. After a rapid downward move, price moves in prolonged sideways period as the initial wave of sellers lose interest. Buyers mostly not interested in buying, as they expect to be able to buy at even lower prices as price had rapidly decreased. Price will continue to move sideways until either the buyers or sellers regain interest.



Here is an example of a rapid price move followed by a short period of consolidation as indicated by the two arrows:



Price continues its descent after the second short period of consolidation:



What defines a short period of consolidation? The distinction can be made by looking at the ratio of the time that price spent in its high volatility period against the time price spent in its low volatility period.





In both examples above, price makes a high volatility move for 1 bar and then has a period of sideways low volatility for 15 bars. This ratio represents a short period of consolidation.

Here is another example of a period of short consolidation:



We see a time period of high volatility for 2 bars and then a period of sideways low volatility for 31 bars.





How to trade this price shape?

- When price moves on high volatility upward or downward, it is important to always first wait for the high volatility period to end. After, when a period of low volatility consolidation occurs then look for other types of price/volume shapes that develop within that consolidation (stop loss hunts, volume spikes...).
- If a favorable setup emerges within consolidation, then take/exit your position. A stop loss should be placed outside of the consolidation period and one's take profit should be greater than one's stop loss.
- A short period of consolidation offers great opportunities to enter into the developing trend (if other factors of confluence support the trend).

Note of caution:

Price may occasionally trend upward and then enter a short period of consolidation. Then, price may look as if it is leaving the period of

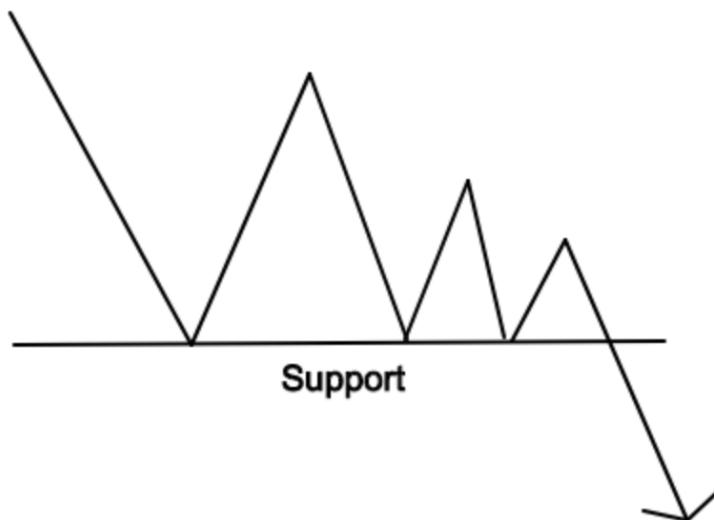


consolidation for a continuation of the uptrend whereas in reality it is just a stop loss hunt (example is for an uptrend but the vice versa holds true for a downtrend). To work towards mitigating this risk, it may be best to wait for a few candles for entry/exit after a highly volatile price move occurs.

4. Mounting selling pressure

- a. *Price frequently moves down to local support*
- b. *The shorter the duration between each move down to support, the more likely the breakdown*
- c. *Price eventually drops below support as the selling pressure clears the major support level*

This pattern is what the mounting selling pressure price shape typically looks like, however there is a large amount of variability in the pattern as price will likely not establish support on a perfectly horizontal line.



When price repeatedly bounces off of support with frequent touches of the support level, this typically leads to a price drop below support. A pattern similar to this one is the *descending triangle*. However, this price shape will not always look like a descending triangle. Sometimes, you may notice horizontal range bound action with simply more frequent touches of support than resistance.



This price shape happens more frequently in continuations of downtrends, where overall selling pressure is more active.

The reason that price tends to drop below support after repetitive touches is twofold:

1. The more touches a price level has over a short period of time, the weaker that order book level can become. A specific example would be if a bid (term for a limit buy order) at the price of \$100 of an asset had seen 4 direct price bounces within one hour. Each time price trades at this level: the bid value lowers in number, making the level more likely to fall altogether.
2. The weak bounces off of the support level showcase a weakening of demand. If demand truly was high, then price would not likely be able to make repeated touches off of support and allow other traders to buy at an optimal price. Rather, price would have moved above the trading range instead due to the high demand. In this price shape, supply is high as traders eagerly sell before price moves far lower than the support line.

Here is an example of price repeatedly bouncing off of support as indicated by the horizontal line at 619.3. Additionally, there are many touches at the higher support level at 622 that showcase the strong selling pressure present.





Price drops rapidly as the bids on BCHUSD falls to around the 619 level as sellers eagerly short and buyers exit their longs.

Here is another example:





Price makes three bounces off of support, with the recent two touches (at 16:50 and 19:20 on chart above) happening in a frequent succession. This heavy selling materializes into a continued downtrend as indicated in the chart below. There is also a short stop loss hunt (price moves slightly above recent high) at 20:00 that occurs just before the downtrend commences.



How to trade this price shape?

- When you notice mounting selling pressure when price is trading in a range - look at other factors of confluence such as volume and other price/volume shapes.
- If factors are favorable, look to short or to exit one's long position with a stop loss above the overall high of the trading range and take profit when a major volume spike occurs after the downmove or if other price/volume factors indicate that the sellers may be exhausted.

Note of caution:

Repeated touches of a support line can also act as a stop loss hunt.

Remember: It is more likely that price will drop below support and begin a downtrend if the support line is upward sloping. However, if the support line is downward sloping, that means that price is moving slightly below recent lows which may not be a sign of strong selling pressure, but rather of the market triggering stop losses of longs.



Notice in the chart above how price continues to make lows that are slightly lower than each previous low.





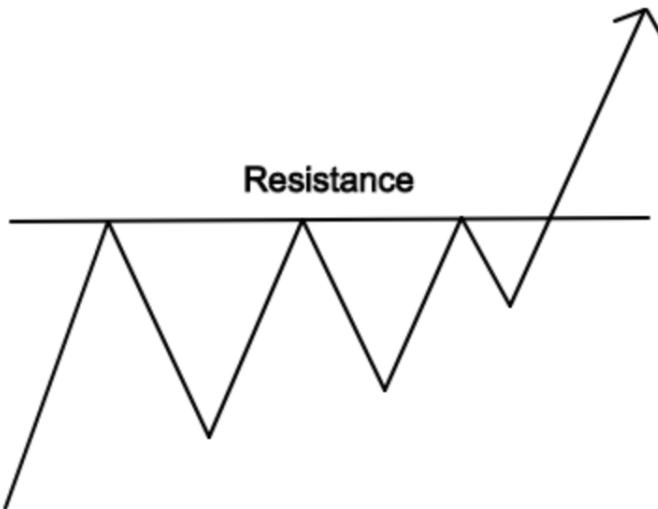
This was not a period of mounting sell pressure, but rather a stop loss hunt.

5. Mounting buying pressure

- a. Price frequently moves up to local resistance
- b. The shorter the duration between each move up to resistance, the more likely the breakout
- c. Price eventually rises above resistance as the buying pressure clears the major resistance level

This pattern is what the mounting buying pressure price shape typically looks like, however there is a large amount of variability in the pattern as price will likely not establish resistance on a perfectly horizontal line.





When price repeatedly bounces off of resistance with frequent touches of the resistance level, this typically leads to a price rise above resistance. A pattern similar to this one is the *ascending triangle*. However, this price shape will not always look like an ascending triangle. Sometimes, you may notice horizontal range bound action with simply more frequent touches of resistance than support.

This price shape happens more frequently in continuations of uptrends, where overall buying pressure is more active.

The reason that price tends to rise above resistance after repetitive touches is twofold:

1. The more touches a price level has over a short period of time, the weaker that order book level can become. A specific example would be if an offer (term for a limit sell order) at the price of \$200 of an asset had seen 4 direct price bounces within one hour. Each time price trades at this level: the offer value lowers in number, making the level more likely to fall altogether.
2. The weak bounces off of the resistance level showcase a weakening of supply. If supply truly was high, then price would not



likely be able to make repeated touches off of resistance to allow other traders to sell at an optimal price. Rather, price would have moved below the trading range instead. In this price shape, demand is high as traders eagerly buy before price moves far higher than the resistance line.

Here is an example of price repeatedly bouncing off of resistance as indicated by the horizontal line at 120.715. There are 5 bounces off of resistance during a short period of time, making it likely that the order book level has been significantly weakened.





Price quickly rises as price clears the resistance level. Mounting buying pressure can also be seen at the next trading range that price visits (The 122 to 124.5 price range), as price touches the 124.5 level 3 times before rising through that resistance as well. Notice that the highs are mostly downward sloping, with not many stop loss hunts within the trading range.

Here is another example:



Price has repeatedly tested the 6791.4 horizontal resistance level, with bounces off of the level gradually weakening. The next touch of this resistance level was the breakout.



How to trade this price shape?

- When you notice mounting buying pressure when price is trading in a range - look at other factors of confluence such as volume and other price/volume shapes.
- If factors are favorable, look to enter a long position or exit one's short position with a stop loss below the overall low of the trading range and take profit when a major volume spike occurs after the upmove or if other price/volume factors indicate that the buyers may be exhausted.

Note of caution:

Repeated touches of a resistance line can also act as a stop loss hunt. It is more likely that price will rise above resistance and begin an uptrend if the resistance line is downward sloping. However, if the resistance line is upward sloping, that means that price is moving slightly above recent



highs which may not be a sign of strong buying pressure, but rather of the market triggering stop losses of shorts.



Notice in the chart above how price continues to make highs that are slightly higher than each previous high.

Outcome:



This was not a period of mounting buy pressure, but rather a stop loss hunt.



B. Volume Shapes

1. Lower timeframe volume spike
 - a. 1m, 5m or 15m timeframe with 20 period volume moving average
 - b. Volume spikes to at least 5x larger than the volume moving average (volume moving average set at 20)
 - c. Price likely to move sideways or reverse in short-term

Example on 5m Timeframe:



Notice labeled points 1-5 that denote where volume spiked to at least five times the volume moving average.

- At point 1, we see heavy buying as price rapidly moves up to a high of 6550 on a high tail. Thereafter, price enters a period of heavy pullback.
- At point 2, a large market sell occurs as price makes a low tail before making a weak pullback upward.



- At point 3, we see another rapid sell off with a collection of low tails as volume spikes to the second highest point throughout the chart above.
- At point 4, we see the reverse of point 3 as the minor uptrend ends with a rush of buying, as evidenced by the volume spike + high tail.
- At point 5, another sell spike occurs in a similar price area as point 3. Additionally, price responds with a pullback similar to the reaction at point 3.

How to trade this volume shape?

- When a 5x volume spike occurs on the 5m chart, it may be profitable to take a position against the market after the initial volume spike occurs.
- One can set a stop loss slightly beyond the volume spike area for a large risk/reward. It may be best to wait for an additional candle after the volume spike occurs to ensure that the high volatility has ended (so that price does not trigger your stop loss).
- Trading against each volume spike (taking the position opposite the present trend when the volume spike occurs) would have yielded strong results for 4/5 points on the chart above.
- In an earlier chapter, we examined the two main types of volume spikes: **Overbought/Oversold** and **Breakout volume spikes**. However, note that volume spikes typically lead to a bounce back in the opposite direction of the volume spike, more often than having a volume spike lead to a breakout.

2. Higher timeframe volume spike



- a. 1H, 4H or *1D timeframe with 20 period volume moving average
- b. Volume spikes to at least 3x larger than the volume moving average *(Volume spikes to at least 2x larger than the volume moving average on the 1D timeframe)
- c. Price likely to move sideways or quickly reverse

Example on 1D Timeframe:



Notice labeled points 1-6 that denote where volume spiked to at least twice the volume moving average.

- At point 1, a collection of low tails occur with a large volume spike which then propels price higher.
- At point 2, a similar situation occurs, although there were two large volume spikes 1 day after the other. A reversal and then sideways movement occurs as the downtrend takes a break.
- At point 3, a series of volume spikes occur that includes the highest volume bar throughout the daily chart above. A bullish reversal occurs at this level and then subsequently ends at the price zone



where the large amount of volume was transacted for point 1 and point 2.

- At point 4, a slightly above average volume bar leads to a 6 day sideways price period, before price continues the uptrend.
- At point 5, a large amount of selling occurs which is followed by a 2 day period of flat price movement before a longer period of consolidation occurs slightly below.
- At point 6, volume reaches the 2x daily average threshold and consolidates in a flat price zone for the longest consolidation period throughout the daily chart above.

How to trade this volume shape?

- When a 2x volume spike occurs on the 1D chart, it may be profitable to take a position against the market 1 or 2 days after the initial volume spike occurs.
- One can set a stop loss just beyond the price range (below recent low/or above recent high) and then take profit once price retraces against the overall trend.

This method would have been successful in 5/6 points above (barring point 4).

- As an example in looking at point 1, you could have bought the day after the major volume spike and placed their stop loss below the low of that day. Furthermore, you could have taken profit once a volume spike occurs on the 1H timeframe after price retraced upward.



Example on 1H Timeframe:



Notice labeled points 1-8 that denote where volume spiked to at least three times the volume moving average.

- At point 1, a volume spike occurs on a strong bearish candle. Price then moves back upward as seller interest has been tapped and buyers trickle in.
- At point 2, a volume spike occurs yet again after an even stronger bearish candle. After this heavy selling, sellers have been fully extinguished and high demand is present that results in the uptrend from 7330 to 7780.
- At point 3, many buyers rush in and push the price upward as a volume spike occurs. Price then consolidates as traders who wanted to take/exit positions had likely already done so during the rapid run up.



- At point 4, the buyers are exhausted with the last push upward into the 7700-7800 price area. Additionally, notice the high price tails that occur as volume spikes to an elevated level.
- At point 5, the first heavy wave of selling ends as price moves mostly sideways in a weak upward direction after the volume spike of the bearish candle.
- At point 6, we see another bearish volume spike as sellers continue the push downward. As had happened in the previous volume spike, price moves mostly sideways as traders lose interest in the present trend, before one final push occurs down to 7370.
- At point 7, buyers rush in and we see a volume spike to around 4x the volume moving average. As a result, price slows its ascent and consolidates before eventually turning bearish.
- At point 8, significant bearish strength accompanied by large volume is followed by a brief range of consolidation. After the consolidation, price continues to create new lows.

How to trade this volume pattern?

- When a 3x volume spike (or higher) occurs on the 1H timeframe, this represents significant interest in the current price move. When this occurs, it may be best to wait for the candle to close (for the 1H candlestick that had a volume spike to finish).
- After which it may be profitable to take a position against the trend with a small stop loss and take profit on a lower timeframe volume spike.



- Of the 8 points above, each point saw immediate pullback after the initial spike in volume. However, points 1, 2 and, 4 saw heavy pullback (very profitable for taking a trade against the trend) whereas the other 5 points saw more minor pullback.

3. Inactive/Low volume

- Volume mostly around the volume moving average (volume is no higher than 2x the volume moving average) on the 5m and 15m timeframe(s)*
- Volume moving average likely to be sloping downward*
- Low price volatility*
- This volume shape means that traders have lost interest in current market prices, the longer the period of trader inactivity = the more rapid the next price move will likely be + higher likelihood of stop loss hunt.*

Example on 5m timeframe:



Notice the low volume and overall period of trader inactivity from 10:50 to 19:30. This volume shape preceded the energetic bullish move as traders in the volume range indicated above showed an overall severe disinterest in the prices at the time.



Example on 5m timeframe:



Similar to the other example, notice the overall low volume as price moves from 7360 to 7250 and then back up to around 7300. This lack of trader activity makes it more likely than usual that price will either spur a stop loss hunt or make a significant trending price move.



Price makes a stop loss hunt just below the previous low at 7250 before moving on strong bullish strength up to price levels in the 7400's.



How to trade this volume shape?

- When you notice a prolonged period of volume inactivity (AKA a period of low volume), this signals the disinterest in both the bulls and bears of the market at current price levels. The market will likely spur trader interest by either moving to trigger forced supply/demand (a stop loss hunt) or will make a significant bullish/bearish move that may begin a trend.
- When you notices this volume shape, it is best to set alerts and be on the lookout for a sudden price move. Doing so may allow you to trade stop loss patterns or allow you to enter a position during the period of low market activity ahead of a predicted price move.
- If you chose to enter a position, it may be best to set stop losses further away than usual to prevent getting caught in a price stop loss hunt. A take profit plan can be set in a similar fashion to the other volume patterns mentioned above.



C. Practice

Example #1 Easy



What type of market shape is this? Is price likely to move lower from the current price of 3790 or higher?



Example #1 Answer



This is a stop loss hunt of the longs. Price consequently moves higher.

Example #2 Medium

Referencing the chart above.

Was the recent high momentum and high volume bullish price move from 3795 to 3838 a stop loss hunt of the shorts or the beginning of a genuine uptrend?

Bonus question (hard): What is the pattern (this is not one of the 5 price shapes) called that is occurring with the low tails on the far right side of the chart around the price of 3810?



Example #2 Answer



Price moves on strong bullish momentum above the previous chart's recent high at 3807. Genuine uptrend as price breezes past the highs.

Answer to Bonus Question:

Previous resistance acting as support in an uptrend.

Example #3 Hard



What are the two market shapes in this highlighted price action portion?



Example #3 Answer



The two market shapes are a prolonged period of consolidation and a short's stop loss hunt.

Recall that a long period of consolidation represents a weakness in the current trend. This specific example represents a lack of demand from the buyers to push price higher. After this prolonged period of consolidation, price is more likely to move in the opposite direction, in this example, that would mean a price move lower can be expected.

The short's stop loss hunt occurs as price makes a tail almost up to the \$8000 price level before price reverts back to the recent consolidation range. This type of pattern also makes it more likely that price will head downward.



Example #4 Medium

What market shape is EOSBTC making? Does this pattern typically lead to a bullish continuation or a bearish reversal?



Example #4 Answer



EOSBTC is in a short period of consolidation. This led to a bullish continuation.

Example #5 Medium



What volume shape is being highlighted in both arrows? Is this typically bullish or bearish?



Example #5 Answer

These volume spikes are lower timeframe volume spikes. Recall that these volume spikes typically lead to consolidation and/or a reversal. The first volume spike leads to consolidation before prices moves higher. The second volume spike leads to a reversal as price moves down, then back up to previous resistance and then back down again. This pattern is typically bearish.

Example #6 Easy

What type of market shape is this? Is price likely to continue the downtrend or reverse higher?



Example #6 Answer



This is a market shape of mounting selling pressure. Price is more likely to move down as the lows are constantly re-tested in rapid succession. Also note the market fakeout that occurs within the rectangle as price creates a local market top around 120.5.

Example #7 Easy



What type of market shape is this? Is price likely to continue the downtrend or reverse higher?



Example #7 Answer

This is a market shape of mounting buying pressure. Price is more likely to move higher as the highs are constantly re-tested in rapid succession. Also note the low tail that likely stopped out many long positions just before the uptrend began.

Example #8 Medium

What type of volume shape is this? Is the current price bullish or bearish?



Example #8 Answer



This is a higher timeframe volume spike on the 4H. Price might continue to rise when moving on high momentum and high volume, but in this case the high tails showcased a weakening of demand and lack of strong buying interest. Price moves lower as a result.

Example #9 Hard



What type of volume shape is this? Is price more likely to continue the downmove or will price reverse upward?



Example #9 Answer



This is the inactive volume shape. Volume is low and hovers around its moving average as sellers are disinterested in pushing price any lower. Consequently, price moves upward.

Keep these price and volume shapes in reference – and remember that many of these shapes can overlap with one another, which can add an added confluence to your analysis.

As an example, you could notice mounting buy pressure + a stop loss hunt of the longs (when price moves slightly below a low before moving back upward), and this combination would likely lead to a price move upward in the cryptocurrency that you are analyzing.

Or, you could notice a prolonged period of consolidation occurring after a high momentum downmove followed by a lower timeframe volume spike price move downward combined with a low price tail, and this combination would likely lead to a move upward as well.



5. Gravity

A. Support <> Resistance

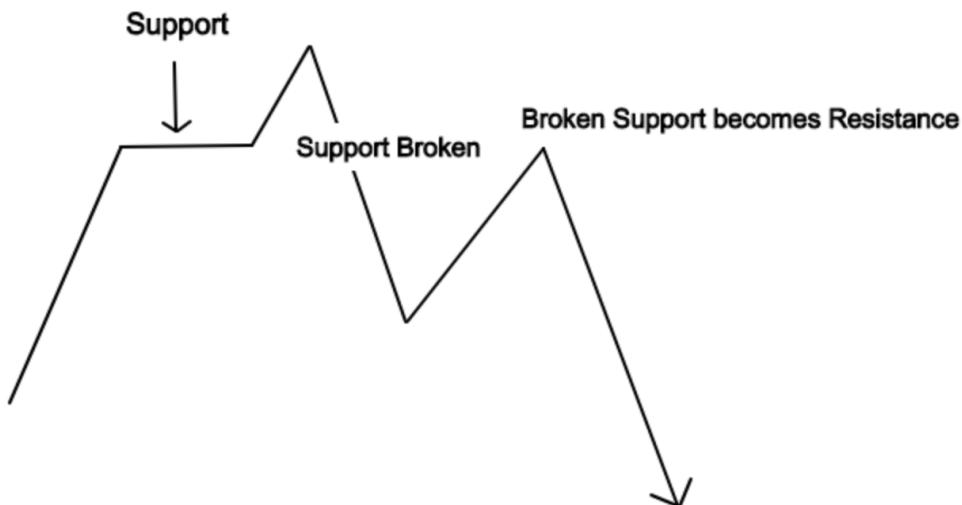
Recall the definition of Gravity from the beginning of the guide:

The force that attracts two objects toward each other, wherein the more massive the object: the stronger its pull.

Price will naturally gravitate toward liquidity – meaning that price will move toward price levels at which traders have placed their stop loss orders or their preset liquidation levels. On the flipside, price will naturally gravitate away from previous points of high volume and previous swing highs/lows, to ensure that as many retail traders are in unprofitable positions as possible.

In an uptrend, a previous resistance level tends to act as future support and in a downtrend, a previous support level tends to act as future resistance.

Support becomes Resistance



Support forms when sellers become exhausted and buyers begin to enter. Resistance forms when buyers become exhausted and sellers begin to enter.



When price moves below support, short-term buyers who initially bought at that level will be holding losing positions. Many of these traders may have the psychology that they want to exit a position in profit, or at least exit at breakeven to escape a loss.

In order for those traders to breakeven they might sell (exiting a long position = sell) at the price level of previous support. This typically creates a cluster of limit sell orders around that level and it is that which will form resistance at a level of previous support. Additionally, traders who are long might begin market selling once price moves slightly above their entry price so that they can escape at a slight profit. This combination of limit sell orders alongside market sell orders from exiting long positions will turn a previous support into resistance.

Besides longs selling, shorts covering (taking profit) also plays a role in turning previous support into future resistance.

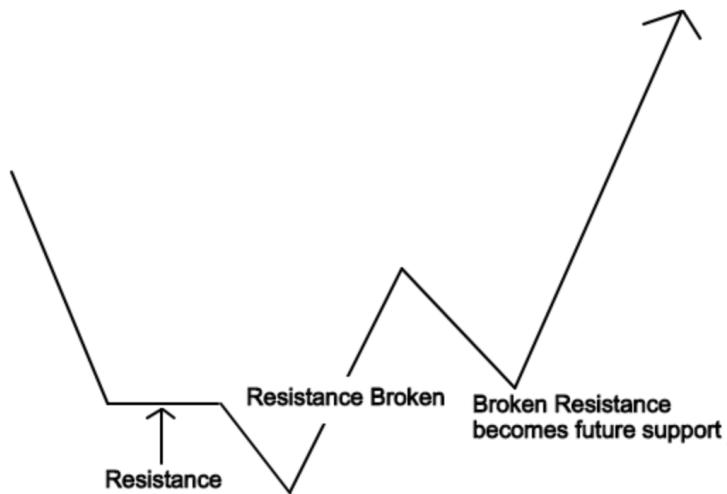


Any shorts who had short sold at the previous support will be in profit after price moves below that level of support. However, when price moves back upward, their positions will become less and less profitable as price climbs back up to their entry price. Shorts might rush to take any profit they can take via market buying and placing limit buy orders as soon as price moves upward and begins to erase their profits.

But there comes a point where short positions who have not exited will be holding positions that are at breakeven or at a slight unrealized loss. When this point in time comes, the shorts might be more hesitant to exit positions, as that would be doing so at a loss. It is this price point that buyers will stop buying (shorts stop exiting) and the underwater longs (underwater longs = longs holding positions not in profit) begin selling at a slight profit.

This influx of sell orders and lack of buy orders will force price lower. This is the breakeven principle.

Resistance becomes Support



When price moves above resistance, sellers who initially sold at that level will be holding losing positions. Many of these traders have the



psychology that they want to exit a position in profit, or at least exit at breakeven to escape a loss.

In order for these shorts to breakeven they might buy back at the price level of previous resistance. This typically creates a cluster of limit buy orders around that level that forms support at the previous resistance. Additionally, these traders might begin market buying once price moves slightly below their entry price so that they can escape at a slight profit. This combination of limit buy orders alongside market buy orders can turn a previous resistance into support.

Besides shorts buying, longs selling (taking profit) also plays a role in turning previous resistance into future support.

As any longs who had bought at the previous resistance will be in profit. However, when price moves back downward, their positions will become less and less profitable. Longs might rush to take any profit they can take via market selling and placing limit sell orders as the price moves downward and begins to erase their paper profits.

But there comes a point where long positions who have not exited will be holding positions that are at breakeven or at a slight unrealized loss. When this point in time comes, the longs might be more hesitant to exit positions, as that would be doing so at a loss. It is this price point that sellers will stop selling (longs stop exiting) and the underwater shorts begin buying at a slight profit.

Resistance becoming support and support becoming resistance is a common occurrence on altcoins, as retail traders flock to trade altcoins en masse. Although not many traders can short altcoins, the same dynamics may play out as traders who had sold an altcoin for a higher price might look to buy that altcoin at any price below the price they had exited their long position at.





Notice the horizontal trendlines above. The trendline marked 1 saw a previous high become minor support at the price of .001191. The trendline marked 2 saw a major low become future resistance after price broke below the low at the price of .001173. Finally, the trendline marked 3 saw a minor low become resistance at .00121.

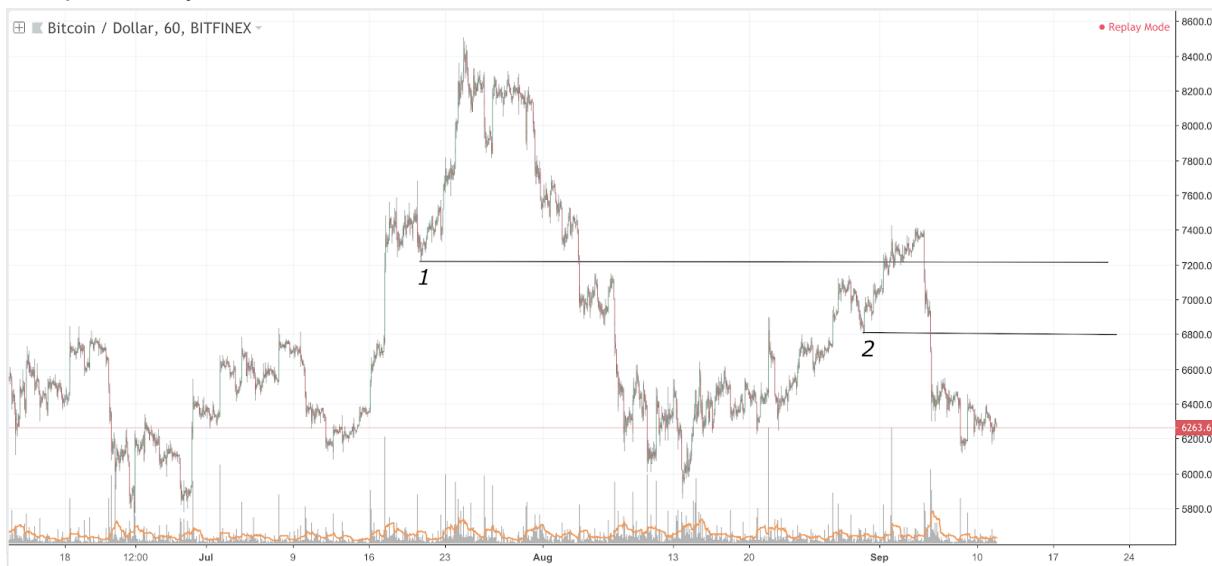
Previous support/resistance becoming resistance/support is only valid when price is able to initially move past the original level before retesting it again.

If support is broken and becomes resistance, and then price breaks upward past that resistance line = level is no longer valid.

If resistance is broken and becomes support, and then price breaks downward past that support line = level is no longer valid.

This is what that looks like:

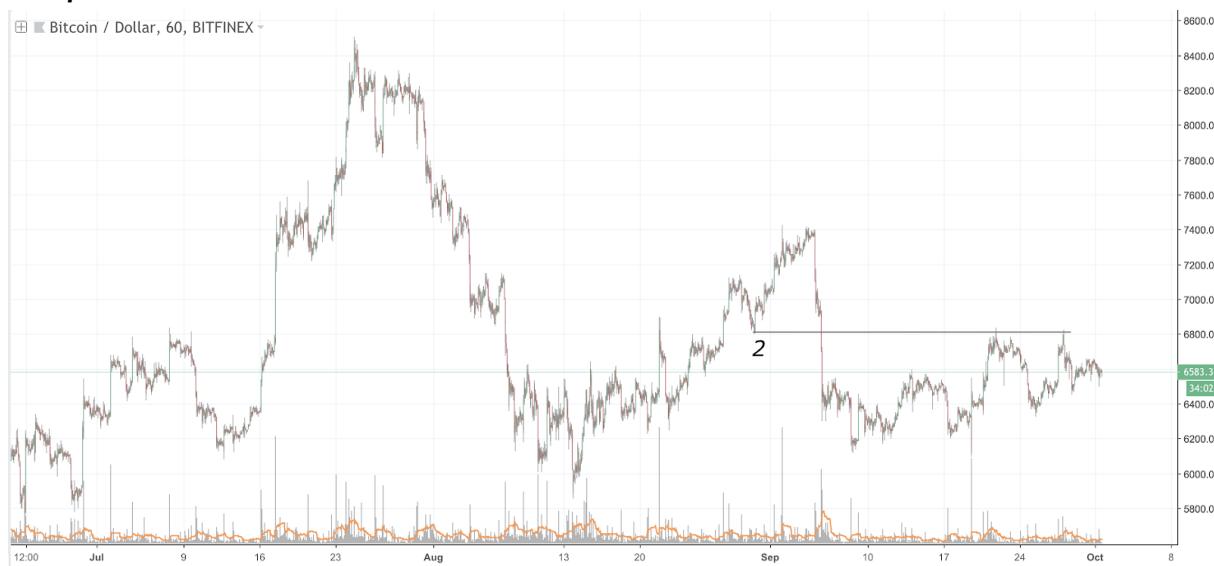


Example #1 Easy

Which one of these two points is likely to act as stronger resistance in the future?



Example #1 Answer



The second horizontal line is a valid previous support that becomes a future resistance price area.

The reason that the first horizontal line is not valid as active future resistance was due to the fact that price had already formed resistance at that point on September 1st. This means that any underwater longs who had bought at that previous support point at 7200 on July 21st would have already had the opportunity breakeven on their positions on September 1st.

That support turned resistance point might form resistance again in the future if there are still enough underwater longs who want to sell there, but that price point will likely not act as strong of a resistance level as the second indicated level would.

When analyzing a chart for previous points of support that may act as future resistance, always keep in mind the degree to which underwater longs may have entered at that level. Remember the three-step pattern for previous support to turn into resistance is:



1. Longs buy at support, which initially forms the level as support after price moves upward.
2. Price moves below that initial level of support, leaving any longs who had entered in unprofitable positions.
3. Price moves back up to this previous level of support, and that level acts as resistance in a downtrend.

When analyzing a chart for previous points of resistance that may act as future support, always keep in mind the degree to which underwater shorts may have entered at that level. Remember the three-step pattern for previous resistance to turn into support is:

1. Shorts sell at resistance, which initially forms the level as resistance after price moves down.
2. Price moves above that initial level of resistance, leaving any shorts who had entered in unprofitable positions.
3. Price moves back down to this previous level of resistance, and that level acts as support in an uptrend.

B. Price Gravitation

Price Action Gravity: Price's tendency to move toward liquidity and away from limit orders.

Traders hate taking losses and love taking profits. This fact is well known by any trader who has made at least a few trades, but not many traders actively know how to profit off of other trader's unwillingness to take a loss.



This section will cover how you can take advantage of many retail trader's tendency to exit positions at breakeven or at a slight profit, and their tendency to hold onto losing positions.

Covered previously in the support <> resistance section is the *breakeven principle*. We can use this principle to estimate the strength of a future price point acting as support or resistance. This principle can be applied to a multitude of price action scenarios beyond just broken support/resistance becoming future resistance/support.

This concept can be applied both on extremely short-term timeframes such as the 1-Minute as well as longer term timeframes such as the 4-Hour. However, I have found more success with this strategy on lower timeframes than on higher: thus this can be used as a scalping strategy.

Instead of looking at support/resistance like most normally would, try to look for price points in which many traders might be holding underwater positions. The levels that you find will likely act as strong support/resistance areas.

Ask yourself, if I had bought at that higher price point and held an underwater long position, would I have had an opportunity yet to exit my long position at least at a breakeven profit?

Or, if I had shorted/sold at that lower price point and held an underwater short position, would I have had an opportunity yet to exit my short position at least at a breakeven profit?

Strong price zone = Likely to act as a reversal/retracement point – as there are many likely trapped traders who had entered at these levels. These price zones create support/resistance. Great price area to place our limit orders at.



Weak price zone = Price is likely to move rapidly through this price area and then might reverse after stop losses have been triggered. Great price area to take profit in.

A strong price zone is a price range of:

- A. Previous consolidation
- B. At a previous market top
- C. At a previous market bottom
- D. A price zone where price reversed from

A weak price zone is a price range of:

- A. Previous strong momentum price movement
- B. Just above a previous market top
- C. Just below a previous market bottom

Example #1 Medium



Which numbered price level likely contains the most underwater longs (longs holding onto their positions at a loss)?



Example #1 Answer



Price point 3 acts as resistance, and it is also the point with the most underwater longs. Price will likely have a tough time moving above the 3716 to 3721 price range as any longs at that level who have just emerged into profitable positions might be inclined to sell, which happened as denoted by the arrow. This is a strong price point that acted as resistance.

Price point 2 likely does not have a large proportion of trapped longs, as price had stayed above that level of support for some time. Interestingly, that level may have held some trapped shorts/sellers as at time 17:45 on the chart above, price consolidated around that level before continuing down.

Price point 1 likely does contain some trapped buyers, but not as many as price point 3. Notice the large volume spike that occurs on the large green candle at the left of the candle below the candle labeled 1 on the chart. That candle likely had a large amount of buyers entering, but due to the fact that the candle had a high of 3711, many of those buyers might have taken profit when price went up to 3723.



Let's take a look at a chart of price action and note which price zones would likely act as strong and weak points.

Example #2 Medium



Which numbered price zone(s) are strong and which numbered price zone(s) are weak? Think of how many trapped buyers/sellers are at each levels.



Example #2 Answer



Price zones 1, 2, and 3 act as strong resistance and are said to be strong because they are price areas to which trapped traders might have entered. Price zone 1 was not reached by price. Price zone 2 saw two price bounces off of that important level. This occurred due to previously underwater longs exiting their positions at breakeven or in slight profit around the 3225-3230 levels. Price zone 3 also saw two price bounces as previously underwater longs exited around the 3216-3220 levels.

Price zone 4 represented a weak price zone as when price moved upward on high momentum from the price of 3140 to a high of 3250 at around the time of 16:00, price had spent little time at the price levels within zone 4. Due to the lack of consolidation/retracement at those levels, price rapidly moves back down due to the lack of buying interest within price zone 4.

Mentioned earlier, the more touches a support or resistance level has, the more likely it is to break. This is due to the fact that the more times that resistance/support has been tested in a short period of time, the higher the likelihood that underwater longs/shorts have exited their positions at breakeven or at a small profit.



Example #3 Easy



The dashed line denotes the previous low made on the downtrend. Price moves below that low on high momentum and then consolidates (as indicated by the arrow). Is this a stop loss hunt or a genuine downtrend?



Example #3 Answer



This is a stop loss hunt. Notice the previous price low that occurred on August 13th (far left side of the chart). The move below the dashed line low allowed shorts/sellers who sold the market bottom on August 13th to exit their positions at breakeven or at slight profit. This buying pushed price back up higher.

When analyzing a price chart and looking for strong and weak price zones, always keep in mind the prices at which underwater shorts and longs are likely to have entered from. Thus, if you see a stop loss hunt of the longs as price goes slightly below a low, then a previous price zone that might typically contain many underwater longs might not act as strong as resistance.

We can also look for strong and weak points in a price action chart to find if it is more likely that price will move upward or downward.

To profit off of these strong and weak price zones, look on a chart for strong price zones where price may gravitate away from and look for weak price zones where price may gravitate toward.



We can apply price gravitation theory on altcoins as well. As many may not have the ability to short altcoins, certain price points are more likely to feature more underwater longs than underwater shorts. Additionally, unlike Bitcoin, remember that altcoin price changes might be in large part due to the price fluctuations of Bitcoin. When trading altcoins, always be on the lookout for how Bitcoin has been trending.

Take a look at this OMGBTC on 1H below.



Applying a gravity analysis of the current price action:





I marked the strong price zone from .00052 to .000545 due to the fact that there are likely underwater longs at that point after we saw a period of consolidation before the large drop from the days of October 3rd to October 10th. This level then acted as resistance twice.

I marked the strong price zone from .00047 to .00049 as any sellers of OMGBTC at this previous low and additional period of consolidation may tempt longs who exited at those levels to re-enter and this price area will also act as a price area where longs currently in positions will likely stop selling as doing so would be selling at a loss had they entered at the previous level of support at .00047 to .00049. This level acted as support.



Example #4 Medium

In the chart above, put yourself in the mindset of an underwater retail long trader (meaning that you had previously bought at a higher level than what price is currently trading at). What strong price areas are likely to contain many underwater longs on WAVESBTC?



Example #4 Answer



There are three strong price areas that are likely to act as strong future resistance. The most relevant price area is the area from .00087 to .000885 (the bottom most rectangle with arrows pointing to the two times the level acted as resistance). This price area was first created on January 1st, when price rapidly rose before moving far lower. This rapid rise and then fall left many longs holding underwater positions.

The first time that price bounced off of this level (indicated by first arrow), price retraced heavily and moved back down to the previous prolonged zone of consolidation. Price was unable to move higher in this example due to the fact that there were underwater longs from January 1st who exited their positions after their positions went from underwater to profitable on January 23rd. Thus, price gravitated away from this point of resistance.

The second time that price bounced at this price area was on January 29th (indicated by second arrow). Notice the rapid rise and fall that occurred on January 23rd. This rapid swing high and then swing lower move is likely to leave additional underwater longs at this price level. Therefore, price attempts to move higher but is unable to as underwater longs exit their positions once again at breakeven at this price level.



When looking at any price chart, mark up price areas that you find to be weak or strong by estimating if many or few underwater longs/shorts are located within a given price range. Doing so will reveal likely points of reversal that are far more likely to act as future support/resistance price because this advanced type of analysis is not just using standard technical analysis, rather, it is using a fully psychological approach to charting.

Example on 1m timeframe:



The rectangles above represent strong price zones, where underwater traders had exited at breakeven. The horizontal lines represent weak price zones, where many stop losses are likely located and not many limit orders.

- Notice in points 1 and 3 how price was unable to move any higher as the resistance held. Underwater longs were able to exit their positions at breakeven in point 1 and 3.
- In points 4 and 6, support is established as shorts/sellers breakeven at the previous low. This influx in buying at both points forced price higher.



- Points 2 and 5 represent weak price zones, where price is able to move much lower. In point 2, the previous price action at the prices below the black line consisted of a rapid upward move (far left portion of the chart), this made it easier for price to move back down. In point 5, similar to point 2, price moves lower into the weak price zone as there are not many underwater shorts until the bottom support at point 4.
- Point 7 also represents a weak price zone, where price moves slightly higher to trigger stop losses. This move may have triggered the stop losses of some traders who were short, before price moved lower.

ADABTC on the 5m timeframe:



The rectangle marked 1 represents a strong price zone where underwater longs may have previously entered. Due to the rapid rise of ADA in a short period of time, many retail traders may have bought. Price is likely to have a tough time surpassing that price zone as the underwater longs sell at breakeven.



The rectangle marked 2 represents another strong price zone. This zone acts both as a previous resistance point, where past resistance may become future support, and also as a breakeven point for any traders who had previously sold ADABTC in that price area. Price may have a tougher time moving lower than this price zone.



Price first moves down to the second rectangle, and as a result: price consolidates there for a short while. After the consolidation, price is then bought up until it reaches the first rectangle that represents the price area where previous longs are able to exit their positions at breakeven, which acts as a strong price zone.



Example #5 Medium



Is price going to have an easier time moving higher or lower? Hint: think of whether longs or shorts are likely to be holding underwater positions.



Example #5 Answer



Price moves lower. Notice in the original chart that price had recently established resistance at a previous support level. This may have allowed some longs to exit their positions at breakeven. However, at the prices from 3440 to 3495, there are likely still many trapped longs.

What do the trapped longs do? They likely placed many limit sell orders at breakeven or at a slight profit. This large cluster of limit sell orders from the 3440 to 3495 price range meant that price would have an easier time moving lower than it would moving higher. Some of those trapped longs may have placed stop loss orders below the recent low in the original chart at 3407, which allowed price to cascade lower as it hit multiple stop losses.

Now, in using a gravitational approach to the markets: do not just think of this concept in regards to support/resistance areas. This type of analysis also gives you an indication of the likelihood of price moving higher or lower – as can be seen in the example above.



Example #6 Easy



Applying a market-gravitational approach, is there a higher probability that price moves lower or higher from the current price at .00001206? Notice the indicated price zone is a period of consolidation and also notice the high tail that occurs on October 25th.



Example #6 Answer



Price moves lower, leaving longs who had bought either the high volatility tail top or had bought within the consolidation period in underwater positions. Price easily gravitates lower, away from both price structures indicated in the chart as longs are left holding a rapidly declining altcoin.

When charting a cryptocurrency, first mark strong and weak price zones on the timeframe that you typically trade on. After doing this, compare the price structures that are above and below the current price on the chart.

On any chart always ask yourself: will price have an easier time moving higher or lower?

To answer this: look for price zones of consolidation, swing highs/lows, and price areas of high volume. Price will naturally gravitate away from these types of structures that will form support/resistance. If price does in fact approach these psychological levels of support/resistance, expect price to struggle to move past these levels due to the amount of underwater longs/shorts.



C. Gravitation toward Liquidations



Take a look at the price swings within this consolidation period in the chart above. Price swings upward and takes out short's stop losses and also liquidates many shorts. Each time this occurs, price consequently move back downward and takes out long's stop losses and liquidates many longs.

We always want to be the trader who is taking advantage of other traders getting chopped up in the market. This section will cover the way in which the market hunts retail trader's liquidity, specifically how the Bitcoin futures exchange Bitmex actively gravitates toward the liquidation prices of highly leveraged traders.

Trading with leveraged futures allows a trader to go long or short a futures contract on a cryptocurrency, with leverage. This allows a trader to make a bet on what the future price of a cryptocurrency will be. All that is necessary for a futures trade to take place is an equal buyer and a seller of that contract, an initial amount of margin staked, and a price agreed to transact at.



On the XBTUSD perpetual swap contract (Bitmex's largest contract by volume), for every trade made on leverage, there is a preset liquidation price. Although there are many other contracts available to trade on Bitmex, we will solely focus on XBTUSD.

If price reaches a trader's liquidation price, that position is forced closed and the trader will lose all margin they had originally placed in that trade.

Example:

1. A trader goes long \$10,000 contracts at 100x leverage with an entry price of \$1000 (*this means that the trader buys \$10,000 worth of Bitcoin which totals to 10 Bitcoin in the position*).
2. That trader places \$100 as their initial margin on the trade as \$100 at 100x leverage = \$10,000.
3. Their liquidation price is 951.
4. Price reaches 951 and the trader is 'liquidated', their position is forced to close.
5. The trader loses their initial \$100 placed on the trade.

Some emotional retail traders might be looking for a quick profit – and thus, may choose to use high leverage such as anywhere between 25x and 100x.

Each amount of leverage has a preset % change in price to liquidation. This is the % change in price (if price moves against them) that will force trigger their position to be liquidated.

100x Long = -.49%
50x Long = -1.47%
25x Long = -3.37%

100x Short = +.51%
50x Short = +1.53%
25x Short = +3.65%



This means if a trader opened a 100x short at a Bitcoin price of \$1000, their liquidation price would be \$1051. Time for a quiz.

Example #7 Medium

If a trader opened a 50x long position at a Bitcoin price of \$5000, what would their liquidation price be?



Example #7 Answer



50x Long at \$5000 * 1.47% = 73.5 -> \$5000 - \$73.5 = \$4926.5

The trader would be liquidated if price moved \$73.5 (-1.47%) below the price that he had bought at.

There are two trading methods for using liquidation data: *proactively* and *reactively*.

The *proactive* approach allows a trader to estimate the prices at which retail traders will likely be liquidated.

The *reactive* approach looks to enter into a position after many traders get liquidated.

On a market level, liquidations getting triggered operate similarly to a stop loss hunt. However, it is simpler to estimate where short-term traders may be placing their stop losses than it is to estimate the price at which a trader would be liquidated. This is due to the fact that Bitmex does not publicly release the amount of leverage a trader is using, as doing so would allow any trader to estimate with 100% certainty where many traders would be liquidated.



When calculating the liquidation prices of the masses of other futures traders, you can look at the 1m, 5m, or 15m timeframe – although the 1m timeframe will give you the greatest quality of detail.

The Proactive Approach

As traders and as analysts, we can use price action and volume to estimate the prices at which many over-leveraged retail traders are likely to be liquidated.

We can make these estimations by utilizing three principles:

1. **The underwater effect:** Over-leveraged traders are looking for a quick profit and might not have the discipline to hold a highly leveraged position in profit. Therefore, if price moves above the prices that we expected many retail longs to have bought at then we can expect that those longs might not get liquidated for they may have already taken profit. Likewise, if price moves below the prices that we expected many retail shorts to have sold at then we can expect that those shorts might not get liquidated for they may have already taken profit.
2. **Traders are excited by high momentum.** A highly volatile price swing can entice many retail traders to enter in the direction of the trend. This is especially true when we see a volume spike on a candlestick (a 1minute, 5minute or 15minute candlestick), indicating that many traders may have opened positions. As a result, we can estimate liquidation zones from these types of candlesticks.
3. **Market tops and bottoms.** Unsurprisingly, it is not uncommon for many retail traders to buy a market top and sell a market bottom. Consequently, we can estimate where a trend may reverse or retrace by taking the % that price has moved from a market top or bottom.



Example #8 Hard



From utilizing the concepts from the three principles above, at what price would any traders who went long be liquidated at within the more recent market top in the price chart above? Calculate the liquidation zone for both any traders who went 50x long and also for any traders who went 100x long.



Example #8 Answer (100x)



Any 100x traders who went long will get liquidated at the second bottom rectangle.

Here is how I calculated that liquidation zone:

1. The first rectangle (rectangle at the top middle of the chart) indicates a high volume market top range from 4027 to 4036 that may hold underwater longs. However, if price had moved above that first rectangle, then I would discount that area altogether for those underwater longs may exit their positions at a profit.
2. I then shift-clicked on Tradingview from the top price of the rectangle and drew down .49%, for that is the % change necessary to trigger a 100x liquidation of a trader who was long. That level .49% down made up the top portion of the liquidation zone (the rectangle on the bottom right on the chart above is what I am referring to).
3. I also shift-clicked from the bottom price of the original rectangle and drew down .49%. And it was this portion that made up the bottom portion of the liquidation zone.



Example #8 Outcome (100x)



Price liquidates the 100x traders and then price moves back upward to potentially liquidate any shorts who may have recently entered.



Example #8 Answer (50x)



Any 50x traders who went long will get liquidated at the second bottom rectangle.

Here is how I calculated that liquidation zone:

1. The first rectangle (rectangle at the top middle of the chart) indicates a high volume market top range from 4027 to 4036 that may hold underwater longs. However, if price had moved above that first rectangle, then I would discount that area altogether.
2. I then shift-clicked on Tradingview from the top price of the rectangle and drew down 1.47%, for that is the % change necessary to trigger a 50x liquidation of a trader who was long. That level 1.47% down made up the top portion of the liquidation zone (the rectangle on the bottom right on the chart above is what I am referring to).
3. I also shift-clicked from the bottom price of the original rectangle and drew down 1.47%. And it was this portion that made up the bottom portion of the liquidation zone.



Example #8 Outcome (50x)



Price liquidates the 50x longs by quickly moving down to the liquidation zone and then price bounces back upward.

After making estimations to where mass liquidation levels might be, you can then spread limit orders throughout the liquidation zone in order to initiate a position or to take profit from a previously held position within that range.



The example above shows how you could set limit sell orders within the calculated short's liquidation zone. When doing so, it is necessary to



place a stop loss well above that liquidation zone, to protect yourself against a massive price move upward.



Two out of the three limit sell orders would have been filled before price moved lower.

Now let's identify some price spots where it was likely that some Bitmex retail traders may have opened up highly leveraged positions.



Example #9 Medium



Where are the 100x leveraged longs likely to be liquidated? To solve this question, take a look at:

1. The price range of the two recent swing highs.
2. Where the largest amount of volume is concentrated.
3. The prices at which longs might be holding underwater positions.



Example #9 Answer (100x)



The rectangle labeled 1 shows where the two price highs are located, and where retail traders may have bought the top.

The arrow points toward the largest concentration of volume within the 1m price chart. The vertical rectangle labeled 2 shows the low to high of that candlestick where volume had spiked.

The shaded red rectangle labeled 3 shows the prices where longs would be underwater if they had bought within rectangle 1. If price moves any higher than the top of the shaded rectangle, then those highly leveraged longs would have a chance to exit their positions in a slight profit.

From these data points, we can estimate where 100x traders would have been liquidated.



Example #9 Outcome (100x)



I drew .49% down from the top of the rectangle marked 1, for a liquidation price of 3588.5. When price reaches this level, it liquidates some traders and then bounces back upward after the liquidations trigger.

I also drew .49% down from the bottom of the rectangle marked 2, for a liquidation price of 3580.5. When price reaches this level, it liquidates some traders, retraces upward, moves slightly below the recent low to stop hunt retail longs before rising on strong momentum to the upside.

Note that I used specific liquidation prices here instead of a liquidation zone. It is a matter of preference and precision: If you are confident that many retail shorts/longs may have opened highly leveraged positions at an exact price level, you may want to opt for estimating a certain liquidation price.

However, if you are not as confident as to where many retail shorts/longs may have opened highly leveraged positions at a certain price level, you may want to opt for estimating a liquidation range instead.

The Reactive Approach



For short-term trades and analysis, we also have the option to wait for liquidations to occur before making a trading decision. After a mass of liquidations occur, price tends to reverse in the opposite direction. To get historical liquidation data, you can use the Bitmex exchange itself, Twitter 'rekt' bots, or Tensorcharts.

There are two reasons why liquidations can lead to reversals:

1. **The last buyers of an uptrend:** The last buyers in an uptrend tend to be the traders who are forced to do so. 'Forced buying' occurs when the shorts of the market are liquidated from their positions by the exchange, and they have no say in the matter. After the market has efficiently triggered the liquidations of these over-leveraged shorts, more often than not, there tends to be a lack of buyers willing to buy at a higher price, and price heads down.
2. **The last sellers of an downtrend:** The last sellers in a downtrend tend to be the traders who are forced to do so. 'Forced selling' occurs when the longs of the market are liquidated from their positions by the exchange, and they have no say in the matter. After the market has efficiently triggered the liquidations of these over-leveraged longs, more often than not, there tends to be a lack of sellers willing to sell at a lower price, and price heads up.

The advantage of the reactive strategy over the proactive strategy is that there is a multitude of sites that show historical liquidations. Thus, you are able to act on available market information without making any estimations.

Once you note that a large amount of liquidations have recently taken place, you have two options:

1. If the market is highly volatile as many liquidations have occurred, you can place a limit order in the opposite direction of the market.



- a. This means that if many shorts are getting liquidated as price is moving on high volatility and high volume upward in the short-term, you can set a sell limit order just above the last traded price.
 - b. Additionally, this means that if many longs are getting liquidated as price is moving on high volatility and high volume downward in the short-term, you can set a buy limit order just below the last traded price.
2. If the market is less volatile, and you are trying to buy, set the limit buy order at the top of the bids in the order book. If trying to sell, set the limit sell order at the bottom of the offers in the order book.

Only trade liquidations as reversal points if your other analyses give you confluence that price will soon reverse.

XBTUSD Short's Liquidations



The arrow denotes the candle in which many liquidations of 100x shorts took place. After we see a volume spike, followed by a bearish candle – we can note that in the short-term, price will be more likely to move downward from its current price.





After liquidating the 100x shorts, price moves toward liquidity and heads back downward to begin liquidating longs.

XBT Long's Liquidations



The arrow denotes the candle in which many liquidations of 100x longs took place. After we see a volume spike, followed by a bullish candle – we can note that in the short-term, price will be more likely to move upward from its current price.





After liquidating the 100x longs, price moves toward liquidity and heads back upward to begin liquidating shorts. Notice that price makes a small retracement just before continuing the upmove.

Whether you use proactive or reactive liquidation analysis – you can add this into a system with stop loss hunting and price action for an effective method to trade like an institution.

Don't be the over-leveraged futures trader getting liquidated, instead be the trader who actively exploits over-leveraged retail traders and through this exploitation: is able to buy low and sell high.



6. Coin Selection

A. Coins by Market Capitalization

Not all coins should be traded equally. There are universal concepts that do apply to all cryptocurrencies (as well as other financial assets), however learning about the specifics of what makes your coin's chart different than another is vital to finding trading success.

The best way to segregate coins is to look at the market capitalization of each coin that you trade. Many websites show this data online such as: *CoinMarketCap*, *Coincap* and *LiveCoinWatch*. These websites rank each coin relative to the total cryptocurrency market cap from 1-100.

Additionally, if you cannot find the market cap of a specific coin than there is a manual way in which you can calculate a coin's relative market cap. A coin's relative market cap will be a percentage of the total market cap, relative market cap is also referred to as a coin's dominance.

Relative Market Cap Calculation:

$$\text{Coin Supply} * \text{Price of Coin (in USD)} = \text{Coin Market Cap}$$

$$(\text{Coin's Market Cap}/\text{Total Cryptocurrency Market Cap}) * 100 = \text{Relative Market Cap \%}$$

Example calculation:

$$\text{Coin supply of XYZ coin} = 100,000, \text{Price of Coin} = \$.01, \text{Total Cryptocurrency Market Cap} = \$1,000,000$$

$$100,000 * .01 = 1,000 \rightarrow 1,000/1,000,000 = .1\%$$

XYZ coin has a market cap that makes up .1% of the cryptocurrency market.



The method used in this guide for market caps is by rank.

The top 5 coins by market cap are categorized as large market cap coins (although some traders put BTC in a different category due to the fact that it currently makes up over 50% of the overall cryptocurrency market cap).

The coins ranked 5-50 are categorized as medium market cap coins. All coins ranked below 50 are categorized as small market cap coins.

B. Trading Large Cap Coins

The current 5 largest market capitalization coins (in USD) in order are: BTC, ETH, XRP, BCH, LTC. These coins have consistently high 24H volume readings, hyperactive order books and large liquidity potential. The combination of these factors contribute to the fact that these 5 coins have a large institutional presence.

This section will explore the **order book deception** that occurs on large market cap coins, **institutional presence on these coins and the historical price/volume of large market cap coins**.

Large cap coins have order books in which large market players attempt to deceive one another by spoofing as well as by using other types of advanced order placement methods. Currently, spoofing and other deceptive order book methods is illegal in regulated markets. However, cryptocurrency trading is unregulated, which allows any trader to actively deceive the order book (unless a specific exchange actively bars it).

Market spoofing is typically performed by a High Frequency Trading Algorithm (HFT). It is used for two purposes: to buy/sell at a better price and to be able to have the liquidity available to do so.



Spoofing occurs when a trader places an order that he wants filled on one side of the order book (typically a hidden order, meaning that no other traders can view his order on the order book) whilst also placing different visible orders on the other side of the order book (he does not want these orders filled).

An example: Imagine that a large trader places a hidden limit buy order at a price of 1000 that he would like to see filled. At the same time, he also places large limit sell orders at the prices of 1030, 1020 and 1010. Other traders see his large limit sell orders and begin to place limit sell orders just below his large order at 1010. After other traders attempt to limit sell, aggressive traders who witness the apparent large selling pressure on the order book chose to market sell. Finally, the large hidden buy order at 1000 gets filled as retail traders market sell down to that level.

This is not to say that spoofing does not occur at all on lower market cap coins. Rather, spoofing is a far more common practice among large market cap coins' order books due to the intense competition of both other HFT's and large traders.

Price/volume charts of large market cap coins typically show clear activity across all timeframes (1-minute up to 1 week). This gives you a large amount of historical data to work with – as well as plenty of timeframes to choose from.





C. Trading Medium Cap Coins

Coins that have middling relative market caps contain enough volume and liquidity for many traders to successfully trade, but not enough for large market players to take a sizeable position in. In this section we will cover **the charting of medium market cap coins, executing a trade on medium market cap coins and their liquidity pools.**

Medium cap coins differ from large cap coins in that most major trading institutions have less of a vested trading interest in coins that have less volume and liquidity. This factor can also be reflected by looking directly at the relative market caps themselves: if medium cap coins had a large amount of institutional interest, than they would be large market cap coins.

When charting and trading medium cap coins, you may notice that short-term charts may show occasional strange patterns that large cap coins would likely never have. This can especially be seen in coins that are traded to BTC, and also in lesser volume coins traded to USD.





Both charts feature BTG, with the top chart traded to USD and the bottom chart traded to BTC. You may also notice the strange price and volume patterns that seem to occur on the 1-minute chart. The chart looks the way it does due to a lack of volume during 1-minute intervals and large bid-offer spreads.

The lack of volume on these lower timeframe charts mean that if only 1 transaction had occurred during a 1-minute period, then the candlestick chart will only show a small horizontal bar that represents the open, high,



low and close of that candlestick. An example of this can be seen on the BTGUSD chart at the time of picture, at 23:02. An example can also be seen on the BTGBTC chart at 21:00.

That being said, it may be best to not pay close attention to extremely small timeframes such as the 1-minute. At a bare minimum, the 5-minute timeframe may show a clearer collection of price and volume data.



In actively trading medium market cap coins, there is typically enough liquidity for one's market buy order to transact on a single offer in the order book. However, you must check the order book before deciding to market buy or limit buy – as a lack of an offer that would provide enough liquidity near price may require you to use a limit buy order (or a series of limit orders) instead.

Stop loss placement should be made by looking at both the order book and the historical price/volume chart. Look for spots in the order book where there are strong bids and try to place a stop loss around those price levels. Additionally, try not to place a stop loss just below a



historical support level if it can be avoided – as you just might be contributing to a liquidity pool.

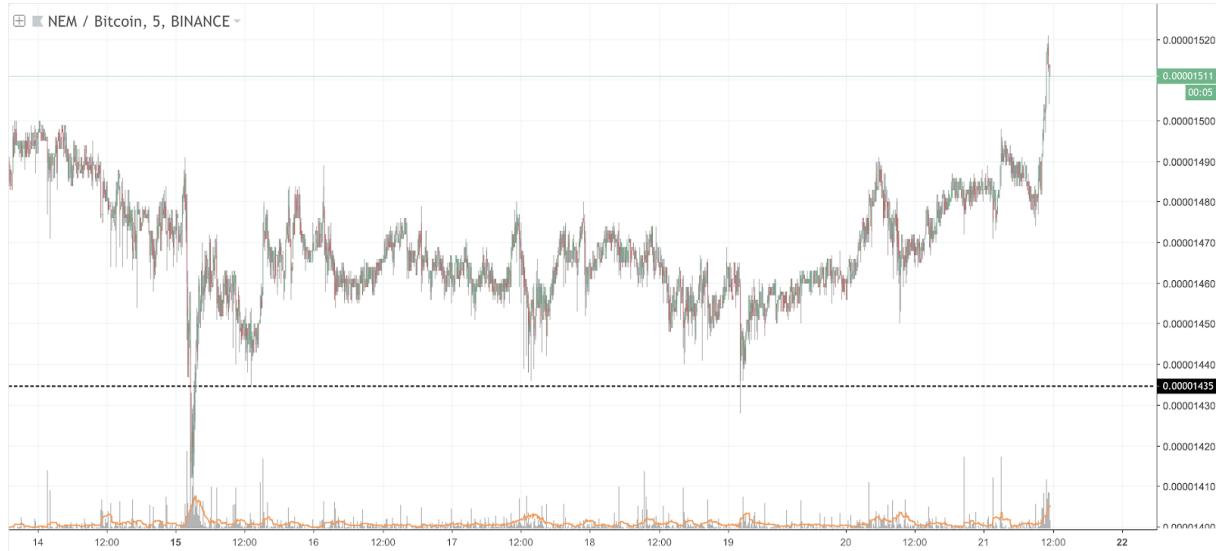
Although placing a stop loss just below historical support is typically the method that most retail traders use, these clusters of stops can provide reversal points as the supply of the market is tapped and many traders are forced out of long positions. These medium market cap liquidity pools can become potential entry points for an aggressive stop loss hunting trader.

Let's take a look at few charts of various stop loss hunts in which liquidity was tapped and the market reversed.



Notice in the 1H timeframe BTSBTC chart above that price had made two lows around the .00001500 level on the 11th of October. Then about a week had passed before that low was breached again, within this week many traders who were long had likely placed their stop losses just below the obvious low at .00001500. The market simply sold down to just below that level at .00001490, consolidated for a short while and then began the recent uptrend above.





The chart above is XEMBTC on the 5m timeframe. On this chart, you may notice the low indicated by the horizontal line at .00001435. Price had traded above that low for almost 4 days before a stop loss hunt triggered liquidity just below that local low. After price tailed down to .00001428, price began its uptrend. Additionally, notice the price shape created during the stop loss hunt: a V-shaped bullish reversal.

D. Trading Small Cap Coins

Coins that have very small market caps require many factors to be taken into consideration before any trade is made. In this section we will go into **risks that you should take account of, charting these coins, executing a trade on a small cap coin and liquidity pools.**

Coins with small market caps are at risk of being *pump-and-dump* coins. A pump-and-dump coin is a cryptocurrency that is being actively manipulated by a public/private group in order to rapidly increase the coin's value. Almost all of these groups are scams in which the organizers of the pump make large profits at the expense of 90% of the members.



The reason that these groups chose low market cap coins is that they can easily inflate a coin's price due to the lack of a strong order book on these small volume altcoins.

This is what a chart of a coin that has been pumped and dumped tends to look like:



The coin rose by 80% in under one minute, then rapidly fell back to around its previous value before the pump.

You must be incredibly wary of these low market cap coins that can be easily manipulated by these deceptive pump and dump groups. However, if you believe that a pump and dump is occurring and currently hold a position in that coin: **try to sell that coin as quickly as possible within the first minute of the pump.**

If you hold a coin throughout a pump-and-dump, they will likely lose a large amount of potential profit as the coin crashes after the initial rise.



In charting these coins, it is best to use medium to higher timeframes. Trying to use 1m or even 5m may not give great market information (*chart above that uses the 1m is only for showing the pump-and-dump*).

Instead, try to use the 1H and 4H timeframe if looking to trade into a small market cap coin.



The coin above is ARDBTC, and you may notice that even on the 1H timeframe, the coin looks to have erratic highs and lows. This can be seen on the 18th of September and the 12th of October. The reason for the choppiness of this coin is due to the large bid-offer spread – in which any decently large market order will significantly stretch the low/high beyond a normal range.

In actively trading these small cap altcoins, it is vital to always take an in-depth look at the order book before executing any transaction. If there is liquidity available on the offer side of the order book, then a market buy order is possible – but it almost always advisable to use buy limit orders instead. Place a few buy limit orders below the current market price (or aggressively lower at liquidity pools) and stay patient until they get filled.

For stop loss placement, look to place stop losses around the location of a large bid. It is important to do so because if your stop loss is triggered,



you will market sell onto a single large bid. If you try to place your stop loss in a location of the order book where there are no large bids, you run a high risk of your stop loss selling at progressively lower values leading to massive losses.

Liquidity pools operate a bit differently on small market cap coins as compared to large and medium market cap coins. The market still does hunt for stop losses (just as most efficient markets naturally will), but typically in a significantly higher volatility manner.



In the above chart we have LRCBTC on the 1H timeframe. You may notice the numerous price tails that range from 4% up to 9% on the chart. The second price tail highlighted (the 4.75% tail) goes just beyond a local market high at .00001850 to trigger buy stops before the market heads lower. Consequently, the local low at .00001515 is also breached as the market tails down to .00001505 to trigger sell stops.

It is not uncommon for these small market cap coins to feature numerous price tails in both directions, as can also be seen in GRSBTC below.





Some of the tails within the chart likely do trigger both buy and sell stops – however these tails might be more likely due to individual large market buys/sells rather than a collection of retail trader's stop losses being targeted.

In essence, it can be harder to pinpoint liquidity pools and stop loss hunts on small market cap coins due to the frequent pump-and-dumps, low order book liquidity and lack of strong market players.



7. The Active Trader

A. Charting

Before any trade is made, adequate charting is a necessity. There are plenty of free charting platforms that you can choose from, with Tradingview being the most popular.

Try to chart multiple coins across multiple timeframes. Here is an example step-by-step method for doing so:

What to chart

1. Chart BTCUSD on the 5m, 1H and 1D timeframes.
2. Chart other large market cap coins traded to the USD such as ETHUSD, LTCUSD... on the 5m, 1H and 1D timeframes.
3. Chart medium market cap altcoins that you are thinking about trading across the 5m, 1H and 1D timeframes.
4. *Chart small market cap altcoins on the 1H and 1D timeframes and only look to trade if proper liquidity in the order book is available + the risk of a pump-and-dump is small.

If you prefer to solely trade altcoins and hold BTC, then only do steps 1 and 3. Or, if you prefer to solely trade major USD (or any fiat) coins and BTCUSD than only adhere to steps 1 and 2. *If you would like to scalp Bitcoin, you may want to use the 1-Minute timeframe.*

How to chart

1. Identify the overall trend on the 1D and 1H.
 - a. Has price been trending sideways?
 - b. Has price been trading consistently upward?
 - c. Or, has price been trading consistently downward?



2. Identify the recent trend on the 5m and the 1H.
 - a. Has price been trending sideways?
 - b. Has price been trading consistently upward?
 - c. Or, has price been trading consistently downward?
3. Identify the present volatility on the 1H.
 - a. Has price been settling down and moving in a low volatility sideways range?
 - b. Or, has price been moving on high volatility upward whilst in an established uptrend or downtrend?
4. Note the volume across all timeframes that you use.
 - a. How has volume been changing throughout the trend?
 - b. Where are recent volume spikes in the chart and how did price react in the candlesticks after the volume spike?
5. Identify liquidity pools for both the longs and the shorts.
 - a. Look for psychological price levels to act as support/resistance if that level has not been touched in quite some time.
 - b. Look for major highs and lows on a chart on the 1H and 1D timeframe. Note the area just above the highs as a short liquidity pool and the area just below the lows as a long liquidity pool.
 - c. If a liquidity pool has recently been triggered, what was the market reaction? Did price continue to move on high volatility beyond the liquidity pool (likely not a stop loss hunt) or did price stall sideways after a stop loss hunt?

Example of BTCUSD on the 1H.





1. Overall Trend = Downtrend.
2. Recent Trend = Sideways market action.
3. Present Volatility = Low volatility relative to the volatility of the previous downtrend
4. Volume = Major volume spikes at each end of bearish price action:
 - a. On the 5th, price moves sideways after a volume spike around 6400.
 - b. On the 7th, price retraces upward after volume spike with price tail.
 - c. On the 8th, volume spike in a similar fashion to the volume spike of the 5th. Price consolidates and then moves upward on a volume spike.
 - d. On the 14th, volume spike after a single strong bearish candlestick at 6400 to which price retraces upward.
 - e. On the 16th, volume spike with price tail that moves just below the low created on the 14th.
 - f. On the 17th, volume spike at around 6250.
5. Liquidity Pools = Horizontal line highlights major low that likely contains numerous long's stop losses just below.





Price taps into the long's liquidity pool to trigger stop losses and entice shorts and then immediately moves upward much higher on strong demand. *This is an aggressive type of stop loss hunt that occurred in which price reacted bullishly immediately. Other times, price may move in the following pattern of high volatility stop loss hunt -> low volatility sideways move -> medium/high volatility in opposite direction.*

B. Setting Alerts

A strong trader may not have the time to stare at charts all day, hoping for the market to move one way or another. Rather, instead of forcing yourself to trade the current market available: instead, look to wait for the market to enter into a high probability reversal area.

You may do so by setting alerts on coins that you would like to trade. This could be done by setting one's alerts at liquidity pool areas, at major support/resistance or one can set volume based alerts to screen for major volume spikes.



How to set price alerts on Tradingview

1. Click on the horizontal line tool

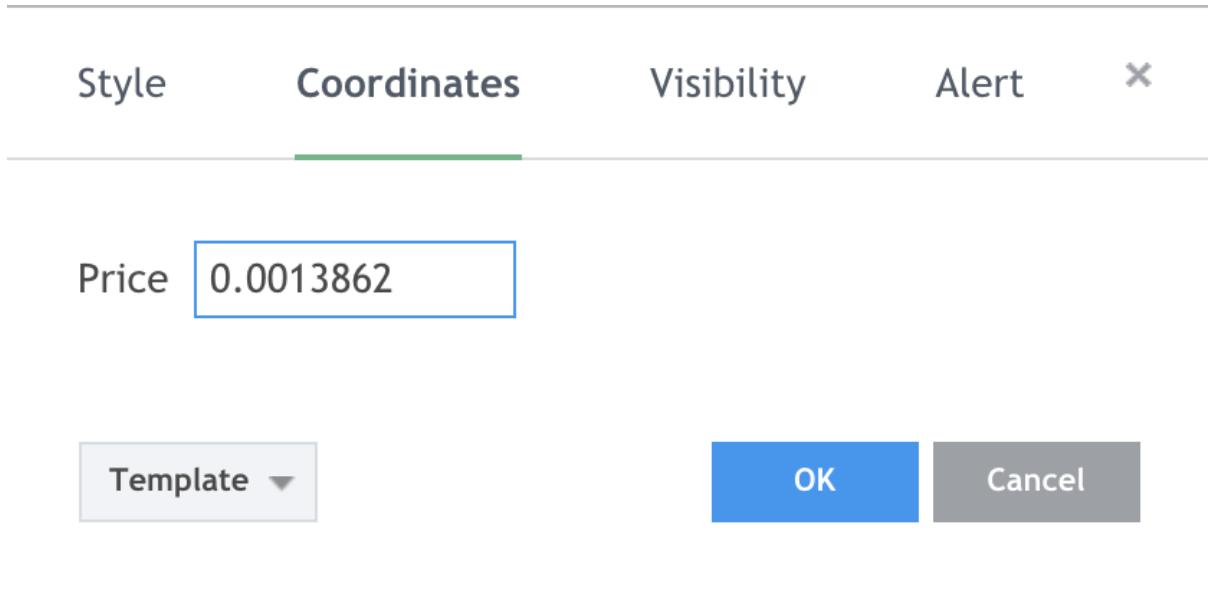


2. Place the horizontal line



3. Double click the horizontal line





Here, you can change the price at which you set the alert.

4. Click the alert tab

The screenshot shows a dialog box titled 'Create Alert on BNBBTC, 4h'. The 'Condition' section includes dropdowns for 'BNBBTC', 'Crossing', and 'Horizontal Line'. The 'Options' section has a grid of four buttons: 'Only Once' (highlighted in blue), 'Once Per Bar Close', 'Once Per Minute', and 'Once Per Minute'. The 'Expiration time' section shows a date of '2018-12-05' and a time of '12:41', with an 'Open-ended' checkbox. Under 'Alert Actions', there are two checked checkboxes: 'Show Popup' and 'Play Sound'. Below these are dropdowns for 'Alarm Clock' (set to 'Once') and a list of uncheckable options: 'Send Email', 'Send Email-to-SMS', 'Send SMS', and 'Notify on App'. At the bottom of the dialog is a message box containing 'BNBBTC, 240 Crossing Horizontal Line' and two buttons: 'Cancel' and 'Create'.

Here, you can change various parameters of the alert. Typically, I just leave the settings at default. If you do not want to sit at your computer all



day, you have the option of getting text message alerts, alerts from the app on your phone, or via an email.

5. Await for a triggering of the alert – decide whether to take the trade or not. The more alerts that you set, the more opportunities you can capitalize on.

Here are three coins that I have set alerts on as an example for possible liquidity pool reversal trades where each screenshot was taken at the same time on September 8th 2018 at 8AM. (*Each example is using custom scale to show the specifics of each liquidity pool, meaning portions of the chart are cut off*):

A.



EOSBTC on the 1H, with a horizontal line alert placed just below a recent low.



B.



C.



Let's fast forward to when all of these alerts were triggered. One of these stop loss hunts would have turned into a strong buy trade, one would



have turned into a decent buying opportunity and one would have been a terrible buying opportunity. Can you discern which is which?

A.



B.



C.



Scroll lower for answers.

A.



EOSBTC would have been a strong buy with the chart above after the initial stop loss hunt. Notice the lack of downward volatility after the initial stop loss hunt. One's stop loss would not have likely been



triggered if you had bought directly after the stop loss hunt and price moved from its low around .00007535 to its high at .00008500, which is around 13% upward.

Strong buy.

B.



LUNBTC had seen strong initial bearish momentum on the 5th of September and then entered a prolonged period of consolidation. After price fell below this consolidation low, price continued to move lower in a strong downtrend.

Terrible buy.

Remember that at times a coin can have a high momentum downmove that is then followed by a prolonged period of consolidation, and this can then lead to a bullish reversal. However, when price makes a high momentum downmove that moves clearly below the consolidation range, the sellers are still in control and price tends to just continue the downtrend.



C.



After triggering the first alert, BNBBTC moved upward to almost 4% at the top of the price tail on the 9th. After this retracement, price moved much lower and triggered the subsequent liquidity pool before reversing higher. Decent buy.

Another form of alert setting is not in looking for liquidity pools, but instead looking to trade whenever a volume spike on an altcoin occurs.

How to set volume alerts on Tradingview

1. Find out what the average amount of volume transacted has been within your timeframe. Do so by hovering over a recent volume bar and read the orange value that appears on the top left of the chart: this is the volume moving average.





2. Right-click on any volume bar at the bottom of your chart
3. Click on 'Add alert on Vol'



4. In setting the alert, you can choose to set the volume threshold as low/high as you would like. I like to set my volume alert to 3x the 1H volume moving average value, so $400 * 3 = 1200$.

Create Alert on BTCUSD, 1h X

Condition	<input type="button" value="Vol (20)"/>	<input type="button" value="Volume"/>						
	<input type="button" value="Crossing"/>							
	<input type="button" value="Value"/>	<input type="button" value="1.2K"/>						
Options	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"><input checked="" type="button" value="Only Once"/></td> <td style="width: 50%; text-align: center;"><input type="button" value="Once Per Bar"/></td> </tr> <tr> <td style="text-align: center;"><input type="button" value="Once Per Bar Close"/></td> <td style="text-align: center;"><input type="button" value="Once Per Minute"/></td> </tr> </table>				<input checked="" type="button" value="Only Once"/>	<input type="button" value="Once Per Bar"/>	<input type="button" value="Once Per Bar Close"/>	<input type="button" value="Once Per Minute"/>
<input checked="" type="button" value="Only Once"/>	<input type="button" value="Once Per Bar"/>							
<input type="button" value="Once Per Bar Close"/>	<input type="button" value="Once Per Minute"/>							
Expiration time	<input type="button" value="2018-12-05"/> <input type="button" value="15:31"/> <input checked="" type="checkbox"/> Open-ended							
Alert Actions	<input checked="" type="checkbox"/> Show Popup <input checked="" type="checkbox"/> Play Sound <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"><input type="button" value="Alarm Clock"/></td> <td style="width: 50%; text-align: center;"><input type="button" value="Once"/></td> </tr> </table> <input type="checkbox"/> Send Email <input type="checkbox"/> Send Email-to-SMS <input type="checkbox"/> Send SMS <input type="checkbox"/> Notify on App				<input type="button" value="Alarm Clock"/>	<input type="button" value="Once"/>		
<input type="button" value="Alarm Clock"/>	<input type="button" value="Once"/>							
<input type="button" value="Cancel"/> <input style="background-color: #0072BD; color: white; border-radius: 5px; border: none; padding: 2px 10px; font-weight: bold; margin-right: 10px;" type="button" value="Create"/>								

5. Await for a triggering of the volume alert, then decide whether to take the trade or not. You could be very aggressive in immediately buying after a volume spike on a large downmove or more conservative by waiting for low volatility and more confirmation first. Remember that large volume spikes on bearish candles are more likely to reverse the more prolonged the downtrend is (ie. The first bearish candle in a downtrend may have a volume spike).



Here are two coins on the 1H timeframe that show how you can set a volume-based alert and interpret them accordingly:

A.



We have ICXBTC set on a 3x volume spike alert on the 1H timeframe. The most recent bearish candle has this alert being triggered. This is alerting us to the possibility that a retracement upward or even a bullish reversal might be likely. *Note that volume on that candlestick reads as 1.262 Million whereas the average volume was 203.591 Thousand. This makes the volume spike around 6x.*



B.



We see AGIBTC on the 1H timeframe trigger a 3x volume spike on the most recent bearish candlestick during a prolonged downtrend. Note that volume on that candlestick reads as 1.735 Million whereas the average volume was 489.34 Thousand. This makes the volume spike around 3.5x.

C.



We have LENDBTC on the 1H timeframe trigger the 3x volume spike alert during a prolonged downtrend. Volume was 4.71 Million on the most recent candle whilst the average was 956.367 Thousand. This makes a volume spike of almost 5x.



Here are the outcomes of all three volume spikes.

Two of the volume spikes led to bullish movement, one did not. Which two charts above do you think led to bullish reversals and which chart did not?

A.



ICXBTC instantly reacts bullishly and begins an uptrend. This would have made for a strong trade.



B.



AGIBTC moves down slightly lower by 1% (from low indicated by arrow to low that occurs two candlesticks afterward) before also beginning a strong uptrend.

C.



LENDBTC did not react as bullishly after the bearish volume spike. Rather, price consolidated and then continued to move lower. Also note the other volume spike that occurs at the end of March 3rd with a high price tail, this may have also contributed to prices' moving lower.



C. Strategic Stop Loss Placement

Before deciding to initiate any trade, you must always have a stop loss and a take profit set. Many exchanges do not allow you to set both a stop loss and a take profit, making it more important that you have set a stop loss rather than a take profit.

The reasoning that a stop loss is more important to set than a take profit is that setting a stop loss and not setting a take profit theoretically caps one's potential loss and allows for unlimited profit.

Setting a take profit but not a stop loss caps one's profit but allows you to potentially lose everything if the coin moves against your position.

There are three main types of stop losses:

- A. Standard market stop loss
 - a. If this price is reached, a market order that will exit one's position will execute.
- B. Stop-limit
 - a. If the price set as the *stop* level is reached: a *limit* order to exit one's position will be set at a predetermined limit price.
 - b. An example of this would be buying a coin at \$10 and setting a stop-limit with the stop price at \$8 and the limit sell at \$9. This means that if price goes down to \$8, then a limit order to sell will be placed at \$9.
- C. Trailing stop loss
 - a. Standard market stop loss order but the stop loss price is set a certain percentage or value below the market price (or above the market price if one were in a short position).
 - b. For example, we buy a coin at \$10 and set a trailing stop loss of -\$2. This makes our current stop loss at \$8. The coin increases in value up to \$11, and thus our stop loss has now



moved to \$9. Price moves down to \$9 and our stop loss is triggered.

Most cryptocurrency exchanges will offer the standard stop loss feature as well as the stop-limit. The trailing stop is not as commonly offered across major exchanges.

As mentioned previously in the coin selection chapter about placing one's stop loss: look at both the order book and at a historical price and volume chart before setting your stop loss.

Using the Order Book for Stop-Loss placement

Here is an example of stop loss placement on TRXBTC:

Price(BTC)	Amount(TRX)	Total(BTC)
0.00000370 ↑ \$0.023871		
0.00000369	73,993	0.27303417
0.00000368	3,348,674	12.32312032
0.00000367	2,175,581	7.98438227
0.00000366	4,130,386	15.11721276
0.00000365	770,249	2.81140885
0.00000364	781,407	2.84432148
0.00000363	2,677,960	9.72099480
0.00000362	2,355,485	8.52685570
0.00000361	1,893,146	6.83425706
0.00000360	1,789,841	6.44342760
0.00000359	281,927	1.01211793
0.00000358	2,039,915	7.30289570
0.00000357	572,472	2.04372504
0.00000356	1,421,809	5.06164004
0.00000355	860,826	3.05593230
0.00000354	450,858	1.59603732
0.00000353	333,944	1.17882232
0.00000352	3,514,143	12.36978336

A large bid wall makes it harder for price to move lower than that bidden price. Thus, it is best to identify a large bid wall and then set one's stop



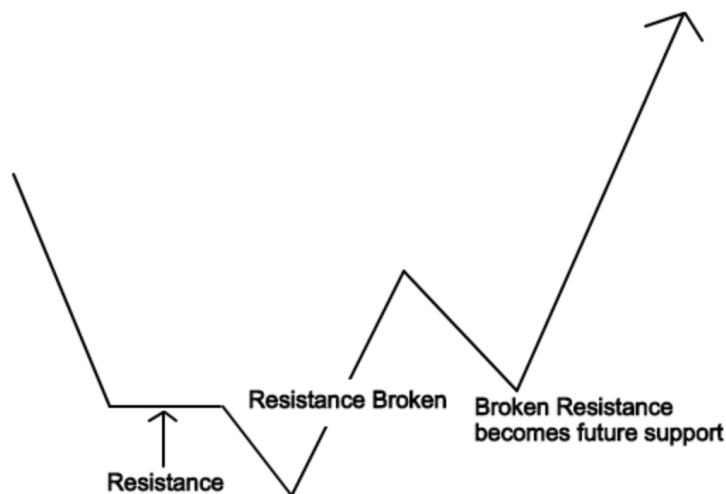
loss just slightly below that price. For a short-term trade, you could place your stop loss at .00000365, as that bid is slightly below a major bid wall of 15 BTC at .00000366. For a medium term trade, you could look to place your stop loss at .00000351 as that is just below the bid wall of 12 BTC at .00000352.

It is important to also periodically check the order book for any major movement of bids. If a major bid wall disappears and you placed your stop loss just below, you may want to alter the placement of that stop loss.

There are two common methods that you can use for stop loss placement by looking at a price and volume chart.

In a trend, using previous support/resistance levels.

In an uptrend, price moves beyond resistance and creates new highs. As mentioned earlier in this guide, it is not uncommon for price to retouch these areas of previous resistance and establish them as support and then continue the uptrend.



One can use these natural support levels of broken resistance for stop loss placement, by placing a stop loss just below this previous resistance level in an uptrend.

The dynamic reason behind this placement is that if an uptrend retraces beyond its previous resistance level = then there may not be enough potential buyers to push price higher on strong demand.

Here are two examples of potential stop loss placements using this method.



On XLM/BTC on the 5m timeframe, the black horizontal line shows where broken resistance was on XLM/BTC that may act as future support. The red horizontal line shows where you could place your stop loss. In this example, the stop loss line is .5% below the black previous resistance line.





Price moves higher on XLMBTC and price does establish the previous resistance level as support.



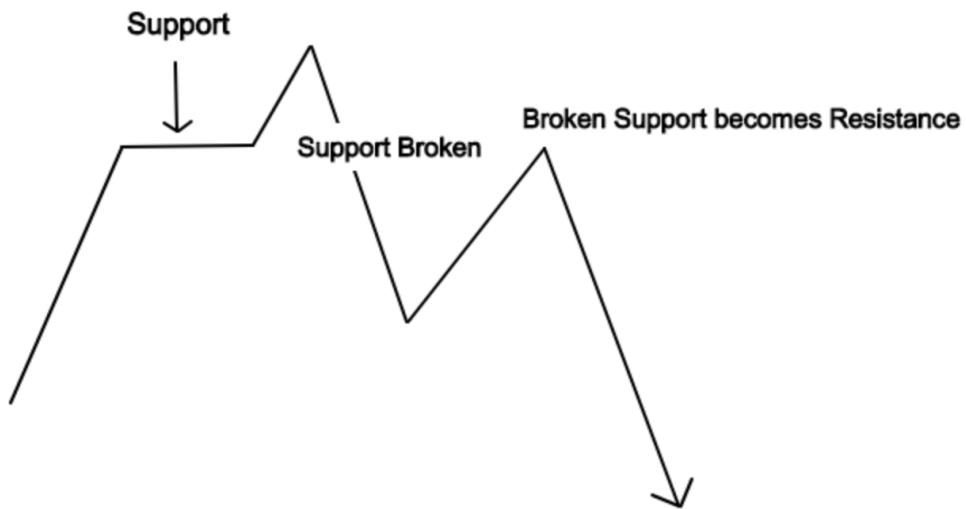
On XEMBTC on the 1H timeframe, price has moved upward on strong bullish momentum past resistance. The black horizontal line shows where broken resistance was on XEMBTC that may act as future support. The red horizontal line shows where you could place your stop loss. In this example, the stop loss line is 1.5% below the black previous resistance line.





Price moves back down to previous resistance but does not reach our stop loss that was placed just below this previous resistance point.

If you were to initiate a short position, all theory above applies in reverse (ie. Placing one's stop loss just above broken support that is acting as present resistance in a downtrend.)



D. Risk Management

Your main goal should always be survival in the market as it is a fact that most day traders will lose all of their capital. The reasons for this are mostly psychological. If you catch yourself making any of these mistakes, close out your trade and take some time away from trading.

Here are common ways that traders have and will continue to go broke:

1. **Adding onto losses.** You enter a trade, but you do not set a stop loss. Price goes against your position. You add more capital to that trade. Price continues to move against your position. You add the remainder of your remaining capital to that trade, attempting to exit the trade at breakeven. Price continues to move against you and the you either get liquidated or you just continue to hold onto the trade until you can exit the trade at a profit. Sometimes this means that you never exit the trade as price never moves back in your direction. Remember to only add more capital onto losses if you have a very strong reason for doing so.

Note: It is fine to trade with your full account size, as long as you are setting stop losses in place that prevent you from holding onto that trade beyond a maximum 2-3% loss.

2. **Over-leveraging.** You are looking for large profits, fast. You take on as much leverage as possible and commit your full capital to your current trade. Price moves against you and you are liquidated or you receive a margin call. Remember that leverage is a double edged sword. A good strategic approach to the market can make you consistent money if you trade with an appropriate amount of leverage that keeps your losses small.



3. Day trading without a plan. Before you make any type of trade, you must always have a plan in place for entry, stop loss, and take profit. If you don't have a plan for those three components of a trade, you should not be trading.

Risk Per Trade

If you are looking to day trade professionally, you must first ask yourself how much you are willing to lose per trade. The more you risk, the more you can gain: but too much risk can easily lead to you losing all of your capital.

Here are three setups you can use:

1. Aggressive:

- a. Trading with an account value of \$10,000
- b. Set at 2% risk per trade
 - i. Enter a trade with full account value (\$10,000) with a 2% maximum stop loss
 - ii. Enter a trade with half account value (\$5,000) with a 4% maximum stop loss
- c. Profit target per trade must be set higher than 1%

2. Neutral:

- a. Trading with an account value of \$10,000
- b. Set at 1% risk per trade
 - i. Enter a trade with half account value (\$5,000) with a 2% maximum stop loss
 - ii. Enter a trade with quarter account value (\$2500) with a 4% maximum stop loss
- c. Profit target per trade must be set higher than 1%

3. Conservative:

- a. Trading with an account value of \$10,000



- b. Set at .5% risk per trade
 - i. Enter a trade with quarter account value (\$2,500) with a 2% maximum stop loss
 - ii. Enter a trade with an eighth account value (\$1,250) with a 4% maximum stop loss

The \$10,000 as trading capital is not standard or necessary in any way. You can choose to trade with as much as you would like, be it \$100 or \$1,000,000, but trading with more capital may be tougher due to market illiquidity.

Handling Losses

Every trader who has been in the business of day trading likely has a story of experiencing a massive loss in a single trade or in a day. It can happen to anyone, both beginners and trading professionals alike.

The difference lies in how you chose to react to the loss. A beginning trader might react emotionally and attempt to instantly make up for the loss by trading with larger sizes. On the other hand, the professional trader might approach the loss as a learning opportunity. As a result, the beginning trader might end up losing their account after they turn a big loss into a total loss. Whereas, the professional trader turns the negative experience of losing money into a positive experience of learning from the market's movements and learning more about themselves.

If instead of a large single loss, you experience a string of losses, I would recommend taking an immediate break from trading. You may also want to re-evaluate your strategy and look at the reasoning behind why you took that string of losses.

Ask yourself these following questions after a pattern of losses:



Were my stop losses placed too close to my entry price?
Were my stop losses placed too far from my entry price?
Did I have a plan for every trade that entered?
What information did I use for my decision to enter/exit the market?
Did I take profit too soon?
Did I take profit too late?
Is this string of losses just due to the market's variance or should I change up my strategy?
How can I learn from my recent successful and failed trades to become a better trader in the future?

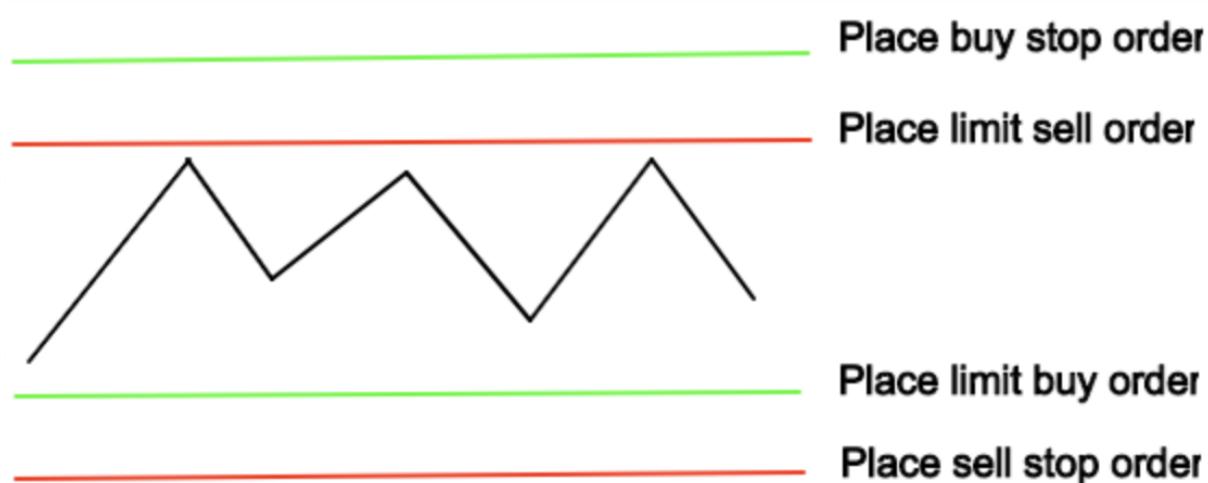
E. The Market Playbook

This section will cover short-term plays that you can make on Bitcoin (or any other large market cap coin). These 'plays' are meant for futures or margin traders who have the ability to go long and/or short on leverage. Most of these examples will be on lower timeframes, but his strategy can be applied to higher timeframes as well (such as 1H, 4H or 1D).

Play #1 - The Condor

This play can be made when you are neither bullish or bearish on the coin that you are trading and believe that the coin is likely to move toward liquidity pools to stop out longs and/or shorts. Basically, you are betting on the fact that the coin will remain in its current range.





As you can see from the diagram above, this strategy uses 4 orders: 2 limit orders and 2 stop loss orders.

One sets a limit sell order just above the recent high of price consolidation and you also place a stop buy order that goes above that limit sell order (*this is placed so that you are protected from a massive price rise*).

One also sets a limit buy order just below the recent low of price consolidation and you also place a stop sell order that goes below that limit buy order (*this is placed so that you are protected from a massive price drop*).

Once a limit order is filled, you can take profit in two ways:

- A. By waiting for the price to reach your other limit order, which would then offset and exit your position.
- B. By waiting to take profit once prices enter back into its previous trading range.

The advantage of using this play is its high **risk to reward** and on its betting against other retail traders' trading habits. Moreover, you must make sure when using this strategy that their profit target is always greater than their stop loss point.



Here is an example on the 1m.



We place our limit sell order just above the recent consolidation high, as that is a potential liquidity pool full of stop losses of shorts. We then place our buy stop loss a fair amount above our limit sell order. We place our limit buy order just below the recent consolidation low, as that is a potential liquidity pool full of stop losses of longs. We then place our sell stop loss a fair amount below our limit buy order.



Here is the outcome.



Price first triggers the limit sell order that was placed slightly above resistance and then moves back down to trigger the limit buy order slightly below support. This order exits us out of our position at a nice profit.

You can apply this strategy to higher timeframes, but do remember to use less capital than you would for a lower timeframe due to the wider stop losses and take profits you are using.

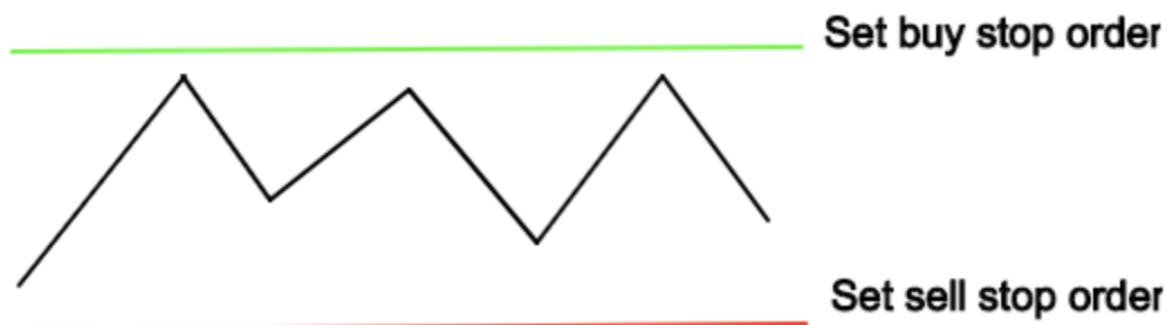


The highs and lows that you select are up to how aggressively short-term you would like to trade. In the above chart, each horizontal line represents a potential limit orders placement for a condor trade. The first inner set of limit orders (sell order at 3839 and buy order at 3764) can be used for a more short-term trade whilst the outer set of limit orders (sell order at 3904 and buy order 3715) could be used for a bit more of a medium term trade.

The chart above does not contain any lines for stop orders, but you would reasonably set a buy stop loss order somewhere between 3860-3870 for the inner set and set a sell stop loss order somewhere between 3740-3750. For the outer set, you could set a buy stop loss order anywhere between 3930-3940 and set a sell stop loss order between 3680-3690.

Play #2 - The Straddle

This play can also be made when you are neither bullish or bearish on the coin that you are trading but you believe that a coin is likely to begin a trend. Basically, this is a breakout trade strategy. Remember that this strategy uses stop market orders for entry and exit, which means higher fees.



As you can see from the diagram above, this strategy uses only 2 initial orders: 1 buy stop and 1 sell stop.



One sets a stop buy order just above the recent high of price consolidation and you also place a stop sell order that goes below the recent low of price consolidation.

Once a stop order is filled, you can take profit by:

- a. Riding the trend in its direction until a major volume spike occurs, a massive change in volatility occurs, price reaches a new liquidity pool, or price enters a strong price zone (where underwater traders are likely to exit their positions). Once any of these occur, you can think about exiting your position.

Once a stop market order is filled, you can place a stop loss in two ways:

- a. By keeping the other stop order set, so if you enter a position after one stop order is hit, you will exit your position at a loss when the other stop order is reached. **This can lead to a large loss.**
- b. After having one stop order triggered, place a stop loss around the midpoint of consolidation and cancel the other stop order. **This will lead to a smaller loss and a better risk to reward.**

The advantage of the straddle play is its ability to catch high momentum trends and establish a position at the early point of said trend. However, you must also make sure when using this strategy that their profit target is always greater than their stop loss point. You can aim to place your stop loss within the previous price consolidation zone.



Here is an example on the 1m.



Here is the outcome.



Price triggers the stop buy order that was placed slightly above resistance and then begins an uptrend. Also, notice that we moved our stop sell order from 4094 up to 4141. This gives us a better risk to reward. We may want to exit our long trade soon, as it looks like a liquidity pool had been tapped and price might be moving lower. You can apply this strategy to higher timeframes, but do remember to use less capital than you would for a lower timeframe due to the wider stop losses and take profits you are using. However, unlike the condor play,



you may find that straddles tend to work better on higher timeframes than condor's do.



Just by looking at Bitcoin on the 1H timeframe, you may notice the opportunities you may have had when using the straddle play. Shorting before or during the downtrend would have led to large profits.

When to use a straddle play during consolidation and when to choose to use a condor:

- A. If you identify a strong price zone just above resistance + a strong price zone just below support = use a condor.
- B. If you identify a weak price zone just above resistance + a weak price zone just below support = use a straddle.
- C. If price has recently had one or two massively volatile move(s) and then enters into a period of consolidation = use a condor.
- D. If volatility has been low for some time during a consolidation phase and you believe that the market will soon begin to trend = use a straddle.





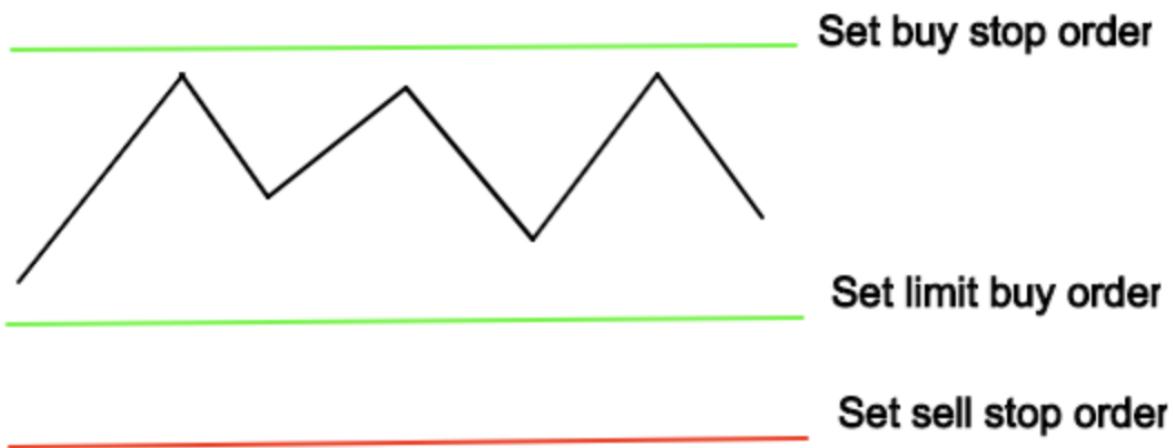
Here you can see that after the highly volatile downmove, it was better to use a condor as price entered a prolonged period of consolidation. However, after this consolidation continued for some time, it may have been better to use a straddle to catch the future strong momentum price move.

Be very careful when making this play. Across many international markets, the cryptocurrency market is notorious for hunting stop loss levels, which can be problematic for consistent use of this strategy. However, if you are very confident that the market will be moving on high volatility, than this could be the play to make.

Play #3 - The Long Combination

This play can also be made when you are bullish on the coin that you are trading but you are unsure if a stop loss hunt will happen before the coin turns bullish or if price will soar and begin a trend. This method allows you to take advantage of either occurring.





As you can see from the diagram above, this strategy uses 3 orders: 1 buy stop, 1 sell stop, and 1 limit buy.

You can set a stop buy order just above the recent high of price consolidation and you also place a limit buy order that goes below the recent low of price consolidation. Well below that limit buy is where you set a sell stop order, that acts as a stop loss for the position.

Once the buy stop order is filled, you can take profit by:

- Riding the trend in the upward direction until a major volume spike occurs, a massive change in volatility occurs, price reaches a new liquidity pool, or price enters a strong price zone (where underwater longs are likely to exit their positions). Once any of these occur, you can think about exiting your position.
- If the buy stop order is filled, cancel the buy limit order and place a stop loss at the midpoint of previous consolidation.

If the limit order is filled instead, you have a few different options:

- You can keep the buy stop order set as well as the sell stop order, and look to position oneself for a strong uptrend.



- b. One can keep the sell order as a stop loss and then cancel the buy stop order and instead look to take profit back within the consolidation range.
- c. Or, you can keep the sell order as a stop loss, cancel the buy stop order and look to position oneself for a strong uptrend or you can exit their long position after price goes back above the previous consolidation high (thus taking profit at the price where you originally had a buy stop order).

The advantage of the long combination play is its ability to catch both a high momentum bullish trend and establish a position at the early point of said trend as well as take advantage of any stop loss hunt that may occur just before. The downside of this play is if price turns bearish, and that is why you must make sure to have a good risk to reward ratio.

Here is an example on the 5m.



Here is the outcome.

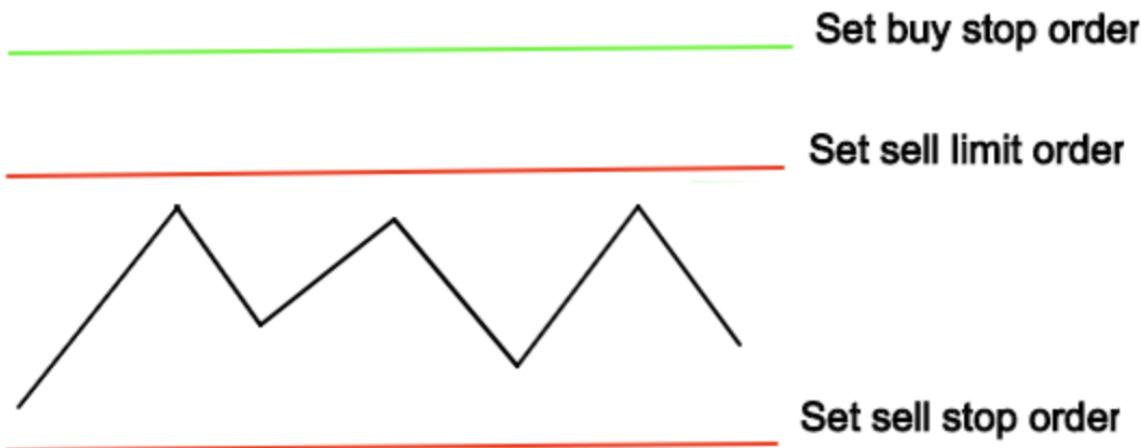


Price triggers the stop buy order that was placed slightly above resistance and then begins an uptrend. Also notice that we moved our stop sell order from 3793 up to 3973 (that's not a typo, read the two numbers again) and cancelled our limit buy order. Price rises substantially and you can take profit at multiple strong price zones available.

Play #4 - The Short Combination

This play can also be made when you are bearish on the coin that you are trading but you are unsure if a stop loss hunt will happen before the coin turns bearish or if price will drop and begin a trend. This method allows you to take advantage of either occurring.





As you can see from the diagram above, this strategy uses 3 orders: 1 sell stop, 1 buy stop, and 1 limit sell.

You can set a limit sell order just above the recent high of price consolidation and you also place a stop sell order that goes below the recent low of price consolidation. Well above that limit sell is where you set a buy stop order, that acts as a stop loss for the position.

Once the sell stop order is filled, you can take profit by:

- Riding the trend in the downward direction until a major volume spike occurs, a massive change in volatility occurs, price reaches a new liquidity pool, or price enters a strong price zone (where underwater shorts/sellers are likely to exit their positions).
- If the sell stop order is filled, cancel the limit order and place a stop loss at the midpoint of previous consolidation.

If the limit order is filled instead, you have a few different options:

- You can keep the sell stop order set as well as the buy stop order, and look to position oneself for a strong downtrend.
- You can keep the buy order as a stop loss and then cancel the sell stop order and instead look to take profit back within the consolidation range.



- c. Or, you can keep the buy order as a stop loss, cancel the sell stop order and look to position oneself for a strong downtrend or you can exit the short position after price goes back below the previous consolidation low (thus taking profit at the price where you originally had a sell stop order).

Just like the long combination play, the advantage of the short combination play is its ability to catch both a high momentum bearish trend by establishing a position at the early point of said trend or by taking advantage of any stop loss hunt that may occur just before. The downside of this play is if price turns bullish, and that is why you must make sure to have a good risk to reward ratio.

Here is an example on the 5m.



Here is the outcome.



Price triggers the stop sell order that was placed slightly below support and then begins a downtrend. Also notice that we moved our stop buy order from 7442 down to 7363 and cancelled our limit sell order. Price drops rapidly and you can choose to hold the short trade or take profit.



8. Practice

This section will cover material from all chapters to provide you with interactive practice for the best approach to an analysis of the market. Each chapter will feature 5 handpicked examples on varying timeframes.

Price Action Chapter

Example #1 Easy



Is this recent candlestick pattern bullish or bearish? What is the name of this candlestick pattern?



Example #1 Answer



This candlestick pattern is bearish. The candlestick pattern is a 'bearish engulfing candle', although if you had said that it resembles a 'shooting star' pattern — that would be correct as well.

Example #2 Easy



What market stages (uptrend, downtrend, consolidation) are represented in each of the numbers?



Example #2 Answer

- 1. Uptrend.**
- 2. Consolidation.**
- 3. Uptrend.**
- 4. Consolidation.**
- 5. Downtrend.**
- 6. Consolidation.**
- 7. Downtrend.**
- 8. Consolidation.**

Example #3 Medium

At which price level is there a significant support?



Example #3 Answer



Remember the more touches that a level of support or resistance has: the weaker that support/resistance level becomes. However the price zone of 4020 to 4050 acts as powerful support as that was an uncrossed price point as that level acted as support only once.

Example #4 Easy



As the market stage of a downtrend turns into consolidation, does the momentum within the current stage favor the bulls or the bears?



Example #4 Answer



Momentum favors the bulls and price rises by over 50%.

Example #5 Medium



As price makes new highs, does the momentum within this current market stage favor the bulls or the bears?



Example #5 Answer



Momentum favors the bulls and price rises far beyond the initial highs of the emerging uptrend.

Volume Chapter

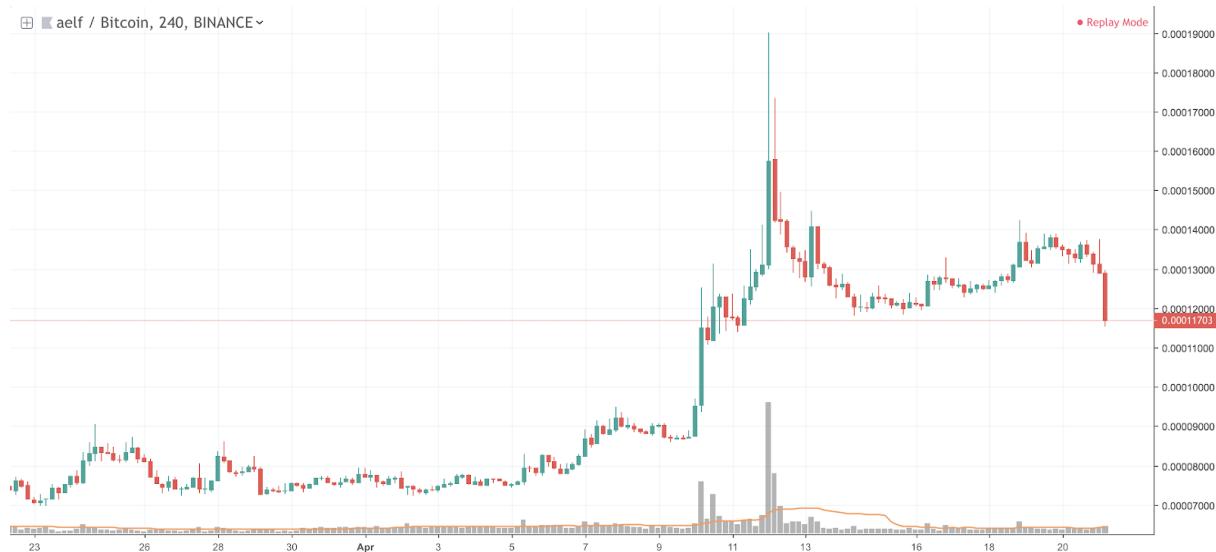
Example #6 Medium



Is this trend likely to continue higher due to the recent spike in bullish momentum?



Example #6 Answer



The high bullish momentum late in the uptrend leads to a bearish reversal. Additionally, the high price tail also adds to the probability that price will move down. The reversal occurred because the market stage of the uptrend had already been established and the massive amount of momentum represented the final buyers buying late into the uptrend.

If you got this answer wrong, re-read the section on momentum in chapter 1.



Example #7 Medium



Is the volume transacted in this 5-minute period a significant amount of volume? Additionally, what is the ratio of the volume transacted on the highlighted candle vs the average amount of volume at that point in time?



Example #7 Answer



This is a volume spike, with a significant amount of volume being transacted. The ratio of the volume transacted in that candle (\$19.227 million) to its corresponding volume moving average (\$1.829 million) is 10.5, meaning that volume is 10.5x larger than the average amount of volume transacted in the last 20 periods prior.

Example #8 Easy



Is the volume transacted within the rectangle a normal volume reaction to the current market stage of EOS?



Example #8 Answer

Yes. EOSBTC is in a state of consolidation and the lack of volume is quite normal. This period represents a span of inactivity and market indecision, and the market rapidly moves downward until a volume spike occurs. After the bearish volume spike occurs during the beginning of the 19th, price begins a strong momentum price move upward.

Example #9 Medium

Is this volume spike on the most recent candle likely to lead to a bearish reversal or a bullish continuation?



Example #9 Answer



Bearish Reversal. This occurs due to the combination of high bullish momentum in a later stage of an uptrend, a high price tail, and an above-average volume spike of about 7x the volume moving average.

On this 1H chart of XRPUSD, many volume spikes in the past led to near-instant reversals. Take a look at the smaller arrows that point to each time a volume spike led to a reversal.



Example #10 Hard

Take a look at the section on 'market makers' in the chapter on volume for this double question.



Would it be wise to place to trade like a market market on this most recent price candle by placing a bid (limit buy order) near the current last traded price? *Trading like a market maker = setting limit orders when many market orders push price lower/higher.*



Would it be wise to place to trade like a market market on this most recent price candle by placing an offer (limit sell order) near the current last traded price?



Example #10 Answer (First Chart)



In the first chart of the question it looked as if price could only move lower, however, price quickly moved back upward after a second major volume spike occurs. This would have been a great opportunity to have placed a bid order and trade like a market maker.

This is a hard question to answer as some readers may believe that all price action and volume signs had pointed to a continued downmove. This is just how deceptive the market can be, for if you told any other trader that you were buying on that candlestick, they would likely call you insane, as how could the market move any higher?

However, it is in times where everyone believes the market is bearish that fantastic buying opportunities sprout from and times where everyone believes that the market is bullish can give you fantastic selling opportunities.



Example #10 Answer (Second Chart)



In the second chart of the question, price spiked on multiple high volume tails upward. There was a series of trading opportunities in which you could have placed an offer order that would have sold at a great price and you would quickly be in profit.

Stop Loss Hunting Chapter

Example #11 Medium



Is this move likely to be a stop loss hunt of the longs?



Example #11 Answer

Yes. Price moves slightly below the recent low to trigger stop losses of any traders who had positioned themselves long on BNBBTC. Price naturally moves higher on high demand after the final sellers have sold.

Example #12 Medium

Below which price level is there likely to be a large amount of long's stop losses?



Example #12 Answer



The price area below the recent price low of .32 contains a significant amount of stop losses. This occurs as price has had several bounces from support without breaching the low of .32, which may have given traders confidence that a breach of .32 would likely lead to a downtrend and thus they placed their stop losses there. Instead, price triggered their stop losses and then moved about 75% higher.

Example #13 Hard



What pattern do you notice about the highlighted price level of 3600 on XBTUSD and the 4 times that the level was crossed?



Example #13 Answer

3/4 times price crossed the price level of 3600, price pulled back shortly after. The reason this occurs is due to the psychological round price level of 3600.

When price was below 3600, any trader who had gone short may have been inclined to place their stop loss just above 3600, or around 3601 to 3605. Therefore, the final buyers of the uptrend were located just above 3600 (final buyers of the uptrend = the traders who went short getting stopped out of their positions).

Likewise, when price was above 3600, any trader who had gone long may have been inclined to place their stop loss just below 3600, or around 3595 to 3599. Therefore, the final sellers of the downtrend were located just below 3600 (final sellers of the downtrend = the traders who went long getting stopped out of their positions).

- **In point #1, price moved above 3600 and triggered short's stop losses before pulling back.**
- **In point #2, price again went above 3600 and then moved far lower.**
- **In point #3, price was able to move beyond 3600 without any immediate pullback.**
- **In point #4, price went slightly below 3600 to trigger long's stop losses before bouncing higher.**



Example #14 Easy

Is this a new high in a continuation of an uptrend or is this a short's stop loss hunt/enticing of longs to enter?



Example #14 Answer



This is a continuation of the uptrend. The high momentum and high volume bar on the 5m chart is genuine demand, with price moving much higher.

Example #15



ETHUSD consolidates on low volatility sideways from the time of 22:00 on the chart above to 8:00 the day after. If you were bullish on ETHUSD during this period of low volatility, would this be an optimal time to buy or should you wait for a better price to enter a long at?



Example #15 Answer

ETHUSD moves below consolidation and stop loss hunts any longs who had bought within the previous consolidation period. It was during this stop loss hunt that would have given you a great time to buy.

Market Shapes Chapter**Example #16 Medium**

What type of market shape is this? Is this likely to lead to a reversal or a continuation of the uptrend?



Example #16 Answer



This is a 'long period of consolidation after a strong price move' market shape. It had only taken 3 candlesticks bars (15 minutes of time, as the above is a 5m chart) for the bullish move to change into a state of consolidation. This consolidation period lasted about 340 bars (1 day and 4 hours of time). This represented a weakness of the buyers to continue pressing price higher on strong demand, and this led to price reversing back downward.

Example #17 Medium



What market shape is this within the boxed region? Is this pattern generally bullish or bearish?



Example #17 Answer



This is the ‘mounting selling pressure’ market shape. Notice the lowered highs and the support that has 3 major touches as the sellers continue to test the price’s level of support. Eventually the pressure results in a strong downmove below \$45.

Example #18 Medium



What market shape is this within the boxed region? Is this pattern generally bullish or bearish?



Example #18 Answer

This is the ‘mounting buying pressure’ market shape. Notice the stop loss hunt of the longs in the circled price area as well as the resistance that has 3 major touches as the buyers continue to test the price’s level of resistance. Eventually the pressure results in a strong upmove above .0000038.

Example #19 Easy

What type of volume shape is this? Is this pattern generally bullish or bearish?



Example #19 Answer



This is the 'lower timeframe volume spike' volume shape. On the highest volume bar, volume spikes to 12x the 15-minute volume moving average. Price moves lower after the last of the late buyers pore in.

Recall that the threshold for a significant volume spike on the 1m, 5m, or 15m timeframe(s) is a volume spike that is at least 5x its corresponding volume moving average value.

Example #20 Easy



What type of volume shape is this? Is this pattern generally bullish or bearish?



Example #20 Answer



This is the higher timeframe volume spike' volume shape. On the candle highlighted, volume spikes to almost 4x the daily volume moving average. Price moves lower after the last of the late buyers pore in.

Recall that the threshold for a significant volume spike on the 1H, 4H, or 1D timeframe(s) is a volume spike that is at least 2x its corresponding volume moving average value.



Gravity Chapter

Example #21 Medium



What price gravitation phenomenon is occurring in the above chart? Is price more likely to move higher or lower in the short-term?

Example #21 Answer



Previous resistance acted as future support. Price continued to move upward. Recall from the Gravity chapter that resistance becomes support in an uptrend because it is that level in which many recent profitable longs will begin to become unprofitable. Meaning that if many



traders were to have bought the market top at where the dashed black line is, then after price rises and begins to fall back, they will go from holding a position in profit to holding a position that is not in profit. This lack of selling once price reaches this level prevents price from moving any lower, making price gravitate upward.

Example #22 Medium



What price gravitation phenomenon is occurring in the above chart? Is price more likely to move higher or lower in the short-term?



Example #22 Answer



Previous support acted as future resistance. Price moved back downward.

Example #23 Hard



At which prices in the chart above of ADABTC would be labeled as strong (meaning that price is likely to gravitate away from that price area)?



Example #23 Answer



The highlighted price area from .00001261 to .00001275 is likely to contain many short-term buyers who had recently bought the preceding high momentum upmove that occurred on the far left portion of the chart and made a high at .00001285. When price enters approaches this previous market level, any trapped buyers might be tempted to sell at breakeven or at a slight profit – and that prevents price from moving higher and allows price to gravitate towards lower prices, leaving any buyers who had not exited in worse positions.

Example #24 Easy



Will price naturally gravitate toward the price zone labeled 1 or 2?



Example #24 Answer



Price gravitates toward price zone 2.

This occurs because within price zone 1, any trader who had entered into a long position near the recent market top may be inclined to exit as the underwater longs may have placed limit sell orders that would exit them out at a slight profit or at breakeven. These limit sell orders are going to make it easier for price to move lower than higher.

Additionally, there likely aren't many traders located within price zone 2 as price had rapidly moved higher, which would likely have already stopped out or liquidated many short positions already. Furthermore, the second low at the time of 19:00 does not move below the low created at the time of 13:30 – thus leaving many trader's stop losses untouched, further fueling the downmove into the weak price zone.



Example #25 Hard

Is it likely that price recently liquidated shorts with the high volume high momentum upmove? Is price more likely to continue to move higher or lower after hunting this liquidity?



Example #25 Answer



Yes, this is a liquidating price move. It is likely that price liquidated many shorts as price rapidly rises above consolidation on high volume before immediately moving back downward.

The Active Trader Chapter

Example #26 Hard

Price(BTC)	Amount(TRX)	Total(BTC)
0.00000750 ↑ \$0.026612		
0.00000749	666,882	4.99494618
0.00000748	164,471	1.23024308
0.00000747	888,104	6.63413688
0.00000746	1,317,998	9.83226508
0.00000745	3,564,902	26.55851990
0.00000744	232,887	1.73267928
0.00000743	635,130	4.71901590
0.00000742	1,838,293	13.64013406
0.00000741	658,060	4.87622460
0.00000740	1,054,540	7.80359600
0.00000739	1,086,752	8.03109728
0.00000738	645,234	4.76182692
0.00000737	528,760	3.89696120
0.00000736	1,022,984	7.52916224
0.00000735	2,735,702	20.10740970

You have just gone long on TRXBTC at .0000075. What is the best price to place our stop loss at? If we set our stop loss at that point, how much are we risking in this trade?



Example #26 Answer

You can place your stop loss at .00000744, as that is just below the major bid wall on TRX of 26.5 BTC.

Placing your stop loss there would give you a risk of only -.95%.

Calculation: ((your entry price - your stop loss level)/your entry price):

$$(.0000075 - .00000744) / (.0000075) = -.8\%$$

Add in the fee for entry and the fee for exit, which on Binance amounts to a total fee of -.15%.

Therefore, your stop loss % + your total fee = -.95%.

Example #27 Medium



You just went long on LUNBTC with an entry price of .00061. and are looking for a price point to place your stop loss at. Utilizing the stop loss placement method detailed in the *Active Trader* chapter, which price point would be best to place a stop loss at?



Example #27 Answer



The black line shows where previous resistance acted as future support. The red line shows where one could have placed a stop loss. This is utilizing the theory that one can place stop losses just below a previous resistance level, as it is expected that previous resistance will naturally become support in an uptrend. If this stop loss was hit, it would be unlikely that price would trend back upward.

Example #28 Easy

Trading with an account value of \$10,000.

Buy XBTUSD on a 10x leveraged trade using full account value with a 1% stop loss.

Using a .5% take profit.

After leverage, position is sized at \$100,000.

*Set at 10% risk per trade: as a 1% stop loss * 10x leverage = a loss of -10% of your account if/when stop loss triggers.*

Is this good risk management? If not, how can you change this setup to still allow you to aggressively trade?



Example #28 Answer

No. This is a massive amount of risk being placed on one trade with a very limited upside. You are risking a loss of -10% of your account (-\$1000) for a gain of only +5% (\$+500). This is a terrible risk to reward ratio.

No trade should ever have a risk of loss of 10% or more of your account. This is because a loss of that magnitude may influence your trader psychology and you may immediately attempt to chase back your losses by taking on even more risk.

If you would still like to aggressively trade, you could change the setup to this:

Trading with an account value of \$10,000.

Buy XBTUSD on a 2x leveraged trade using full account value with a 1% stop loss.

Using a 2% take profit. With leverage, this profit would amount to +4% if/when the take profit executes.

After leverage, position is sized at \$20,000.

*Set at 2% risk per trade: as a 1% stop loss * 2x leverage = a loss of -2% of your account if/when stop loss triggers.*

Using this risk management setup, you will now either lose \$200 (-2%) or make \$400 (+4%) on the trade. This still is an aggressive setup, and if you cannot stomach losing 2% of your account on a single trade, then use a smaller portion of capital and perhaps aim for -1% account risk or smaller.



Example #29 Medium

In the section on the *Market Playbook*, which play could you make based off of this current consolidation range above? There is one correct answer.



Example #29 Answer



If you answered: *Condor Play*, that play would have worked out well. Setting a limit buy order just below the previous price low of the downtrend at 3450 would have allowed you to buy at one of the best prices possible, with your buy order set at 3442.5. You could have then taken profit at the other end of the condor (where the limit sell at 3578 rests) after price moved above the range high.

Recall that a *condor* is when one sets a limit buy order just below the recent price low and a limit sell just above the recent price high.



Example #30 Medium

Which play could you make based off of this current boxed price region?
There are two correct answers.



Example #30 Answer



If you answered: **Straddle Play**, that play would have worked out well. The other correct answer would have been a **Long Combination**. These two plays would have worked well as price moved easily higher after moving above the resistance level just below \$3000. Setting a buy stop order just above the recent price high of this previous range high would have allowed you to catch the trend for BTC.

If you have any further questions or would like to discuss any of the material, email me at Bennett@bitcointradingpractice.com.

Happy Trading!

