

Gujral Book Notes

Chapter 1. Mastering Market Basics and Moving Averages

Market Basics

- **Two Market Types**
 - **Trending Markets:** Prices make successively higher highs/lows (uptrend) or lower highs/lows (downtrend). Temporary retracements occur but trend resumes as long as support/resistance holds .
 - **Ranging Markets:** Prices oscillate between horizontal boundaries, forming trading ranges until broken by conviction moves .
- **Participants & Phases**
 - **Reactive Players:** Trade around perceived “fair value,” keeping prices within a range.
 - **Active Players:** Strong conviction breaks ranges and drives trends (expansion phase); ranges form (contraction) when conviction fades .
- **Economic & Sector Cycle**
 - Interest-rate-driven expansions/contractions rotate leadership among sectors (e.g., housing → capital goods → commodities) in 3–5 year cycles .

Moving Averages (MAs)

- **Types:** Simple (SMA) vs. exponential (EMA), with EMA more sensitive to recent prices.
 - **Key Characteristics**
 - **Slope:** Upward/downward slope confirms trend direction.
 - **Support/Resistance:** MA lines act as dynamic support in uptrends and resistance in downtrends.
 - **Lag & Time-frame:** Longer MAs (e.g., 200-period) lag more, shorter (e.g., 20-period) react faster .
 - **Practical Usage**
 - **20MA, 50MA, 200MA:** 20MA for tight trend support, 50MA/200MA for deeper pullbacks.
 - **Alignment:** Best trends have $20 > 50 > 200$ (up) or $20 < 50 < 200$ (down) .
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Chapter 2. Understanding Candles

Anatomy of a Candle

- **Body:** Range between open/close; green (bullish) if close > open, red (bearish) if close < open.
- **Shadows (Tails):** High/low extremes within the period; long tails signal rejection of extremes .

Key Interpretation Factors

1. **Colour** (bull vs. bear)
2. **Body Size** (magnitude of control)
3. **Tail Length** (strength of rejection)
4. **Close Position** (near extremes implies acceptance)

Three Core Candle Types

1. **Under-sized (Lilliput/XXS):** Tiny bodies, signify indecision or pause; common in consolidation .
 2. **Super-sized (Giant/XXL):** Large bodies, reflect strong conviction; can start a trend, end a trend or produce sharp mid-trend corrections .
 3. **Reversal/Rejection:** Normal body but exceptionally long tail; signal rejection of extreme and often precede reversals .
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Chapter 3. Trading With Candles

How to Trade Lilliput Candles

- **Range Breakouts:** Enter on breakout of multi-day narrow ranges; tight stops minimize risk before expansion .
- **Trend Continuations:** Minor Lilliput pullbacks within a strong trend often precede fresh bursts; use as re-entry points .

What Giant Candles Reveal & How to Trade Them

- **Trend Initiation:** XXL candles after correction/base signal new trend; enter in direction of candle .
- **Trend Exhaustion:** A giant candle near key resistance/support may mark trend end; wait for follow-through reversal .
- **Sharp Corrections:** Opposite-colour giant mid-trend candles foreshadow deep pullbacks; trade resumption at support .

How to Trade Rejection Candles

- **End of Trend:** At end of move, long-tail candle + break of its low/high confirms reversal; enter opposite side .
 - **End of Correction:** In retracement within trend, long-tail candle at support/resistance indicates resumption; enter with confirmation .
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Chapter 6. Trading Trending Markets — Part I: Trade Entry Tactics & Stop Losses

Stock Selection via Multiple Time-frames

- **Daily Charts:** Identify bias, ripe setups (e.g. breakout above multi-day range) .
- **Intraday Charts (15 min, hourly):** Confirm alignment with daily trend for tighter stops and faster profits .

Trade Setup (Confluence of Three Tools)

1. **Pivots** (floor & central pivot range)
2. **Moving Averages** (20, 50, 200)
3. **Candlestick Patterns** (Lilliput, giant, rejection) .

Four Entry Tactics in a Trend

1. **After Correction to Support/Resistance**
2. **On Minor Pullback**
3. **On Consolidation Breakout**
4. **On Rejection Candle at Key Level** .

Initial Stop Loss Placement

- Place just beyond entry candle's extreme (low in long, high in short) or nearby swing point .

Trailing Stop-Loss Methods

- **Two Steps Forward, One Back:** Move SL to prior candle low/high after every two-candle advance.
 - **MA-Based Trailing:** Trail SL just below/above 8 MA or 20 MA for momentum chases .
 - **Volatility Buffer:** Add small buffer to SL to avoid noise.
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Chapter 7. Trend Trading Tactics — Part II: Managing Trades, Counter-Trend & Gaps

Trade Management & Targets

- **Targets:** Range boundaries in channels, 50%–100% of prior swing (strong trends often exceed 100%).
- **Exit:** Timely booking to avoid overstay; partial exits at successive target levels.

Counter-Trend Trading

- **Over-Extension Pullbacks:** After sharp multi-candle moves away from MAs, trade pullback to MA lines (20, 50, 200) .
- **Confirmation:** Reversal candle + break of its extreme before entry.

Trading Gaps

- **With Trend**
 1. Wait for pullback to support/resistance (pivot, MA, prior high/low), then enter on resumption.
 2. Or, on first-bar breakout above/below opening range (e.g. 5-minute high/low) .
- **Against Trend**
 1. Gaps can trap momentum; fade after confirmation of failure to follow through.

Pyramiding Positions

- **Add to Winners:** Scale in on trend-continuation with partial exits at multiple targets for amplified gains.