

# THE **ULTIMATE** **PRICE ACTION TRADING** **GUIDE**

Discover **EVERYTHING** You Need To  
Become An Incredibly Powerful  
**AND** Profitable Price Action Trader



By Mangi Madang

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## CHAPTER 1: INTRODUCTION

To really understand price action means you need to study what happened in the past. Then observe what is happening in the present and then predict where the market will go next.

**“Regardless of what you may think, all traders are forecasters, just like the weatherman.”**



The weatherman knows where the wind is blowing from, sees the high and low pressure systems forming over the land, knows the temperature variation, cold front, hot front...you know what I'm talking about, right? Then what does he do? He will say something like *"tomorrow, the weather in Edinburg will be mostly cloudy, slight chance of shower and possibly sunny in the afternoon."*

How does he know that?

Well, from studying the past data and seeing what the current weather situation is at the moment (and these days, their prediction is more reliable due advanced computer models and weather satellites in space).

So traders are like that...

If we get the direction wrong, we lose money, we get it right, we make money. Simple as that. *So everything you are going to read here is about trying to get that direction right before you place a trade.*

Before you get started, these are some words that you may encounter:

**Long**= buy

**Short**= sell

**Bulls**= buyers

**Bears**= sellers

**Bullish**=if the market is up, it is said to be bullish (uptrend).

**Bearish**=if the market is down, it's said to be bearish.

**Bearish Candlestick**=a candlestick that has opened higher and closed lower is said to be bearish.

**Bullish Candlestick**=a candlestick that has opened lower and closed higher is said to be a bullish candlestick.

**Risk : Reward Ratio**=if you risk \$50 in a trade to make \$150 then your risk: reward is 1:3 which simply means you made 3 times more than your risked. This is an example of risk: reward ratio.

## CHAPTER 2: WHAT IS PRICE ACTION?

This is the basic definition of price action trading:

*When traders make trading decisions based on repeated price patterns that once formed, they indicate to the trader what direction the market is most likely to move.*

Price action trading uses tools like *charts patterns, candlestick patterns, trendlines, price bands, market swing structure like upswings and downswings, support and resistance levels, consolidations, Fibonacci retracement levels, pivots etc.*

Generally, price action traders tend to ignore the fundamental analysis-the underlying factor that moves the markets. Why? Because they believe everything is already discounted for in the market price.

**But there's one thing I believe you should not ignore: *major economic news announcements like the Interest Rate decisions, Non-Farm Payroll, FOMC etc.***

From my own experience and from what I've seen, I say this *"the release of economic news can be both a friend and an enemy for your trades."*

Here's what I mean by that:

- If you did take a trade in line with the result of economic news release you stand to make a lot more money very quickly in a very short time because the release of the news often tends to move price very quickly either up or down due to increased volatility.
- But if your trade was against the news, you can walk away with all your profits wiped out or a loss and the loss can be huge because markets can move so fast during that period that there's also the chance that your stop loss cannot be triggered.

The chart below shows an example of what can happen when there is major forex fundamental news release:



This is one experience I will never forget. I traded a perfect price action setup, the trade went as I anticipated but a few minutes later, the market dropped down very quickly.

*My stop loss was never triggered at the price level where I set initially.*

I tried to close that trade as many times as I could but it was impossible to close because the price was way down below where my stop loss price was! Price jumped my stop loss.

I just stood there and watched helplessly. After what seemed like an eternity, the trade was closed by broker at the worst possible price ***way-way-way- down below!***

That single trade nearly wiped out my trading account. Instead of losing 2% of my trading account, I lost almost half of it. I did not understand and did not know what happened that night to make the market move like that. I could not sleep that night.

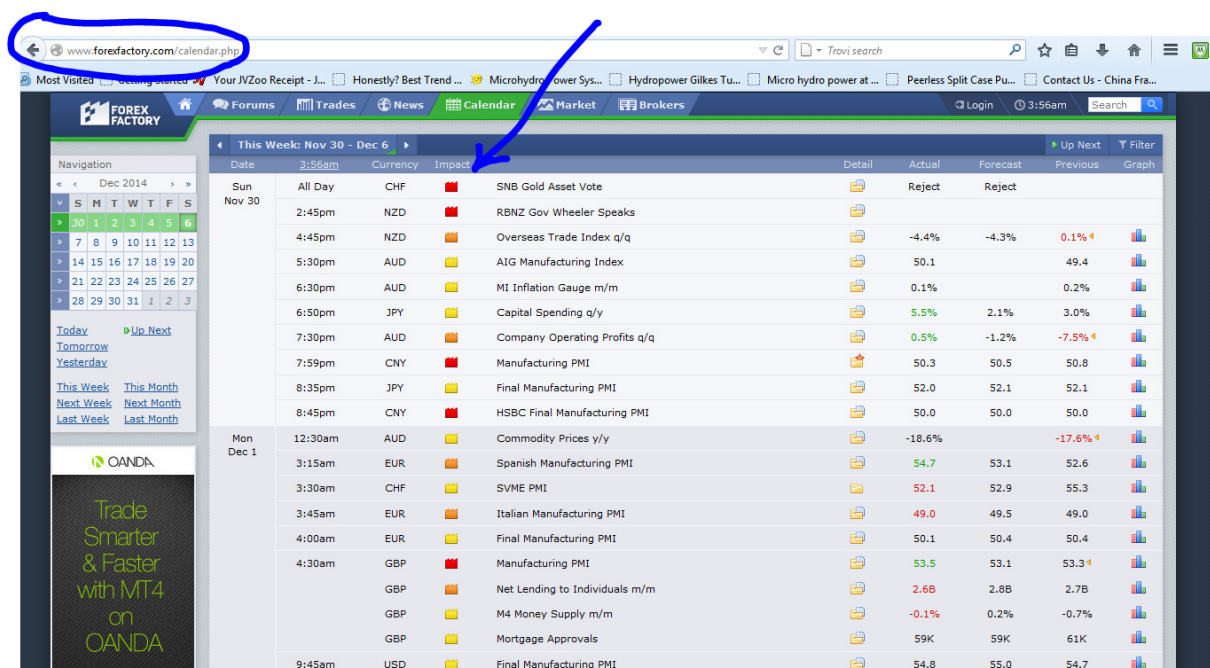
Later I found out that it was a major economic news release that moved the market like that.

Now before I place a trade, I head over to this website here to check the news calendar: <http://www.forexfactory.com/calendar.php>

If there's a valid trade setup but If I see that the time is close to a major news to be announced, I will not enter. There are exceptions where I will take a trade if I see that I can place my stop loss behind a major support or resistance level.

The high impact news are colour coded in Red. That's what you look for(see figure below):





Here's what you can do:

1. If a valid trade setup happening, check with [forexfactory.com](http://forexfactory.com) to make sure there are no major news announcements to be made soon that can impact your trade.
2. If there's news to be released you can do these 2 things: don't trade until after the news release and wait until markets starts trading normally again, or if you decide to trade, trade small contracts because the market is very volatile when the news is released. This can work for you or against you. You need to know what you are doing during these times.
3. If you already have a trade that has been running (prior to the news release time) for some time and in profit, think about moving stop loss tighter or taking some profits off that table in case the market goes against you once the news is released. In an ideal case, you would have taken this trade a while ago and that the current market price is far away from your trade entry price and you would have locked some profits already and if the market moves in the direction of your trade after the news release, you will make a lot of money.

### 3 Important Reasons Why You Should Be Trading Price Action

1. **Price action represents collective human behaviour.** Human behaviour in the market creates some specific patterns on the charts. So price action trading is really about understanding the psychology of the market using those patterns. *That's why you see price hits support levels and bounces back up.* That's why you see price hits resistance levels and heads down. Why? Because of collective human reaction!
2. **Price action gives structure to the forex market.** You can't predict with 100% accuracy where the market will go next. However with price action, you can, to an extent predict where the market can *potentially* go. This is because *price action brings structure.* So *if you know the structure,* you can reduce the uncertainty to some extent and predict with some degree of certainty where the market will go next.
3. **Price Action helps reduce noise and false signals.** If you are trading with stochastic or CCI indicators etc, they tend to give too false signals. This is also the case with many other indicators. Price action helps to reduce these kinds of false signals. *Price action is not immune to false signals* but it is a much better option than using other indicators...which are essentially derived from the raw price data anyway. Price action also helps to reduce "noise". What is noise? *Market noise is simply all the price data that distorts the picture of the underlying trend... this is mostly due to small price corrections as well as volatility.*

One of the *best ways to minimize market noise* is to *trade from larger timeframes* instead of trading from smaller timeframes. See the 2 charts below to see what I mean:



And now, compare market noise in the 4hr chart (notice the white box on the chart? That equates to the area of the 5min chart above!):



Smaller timeframes tend to have too much noise and many traders get lost trading in smaller timeframes because they do not understand that the *big trend in the larger timeframe is the one that actually drives what happens in the smaller timeframes.*

But having said that, I do trade in smaller timeframes by using trading setups that happen in larger timeframes. I do this to get in at a better price point and keep my stop loss tight.

This is called ***multi-timeframe trading*** and I will also cover this on **Chapter 16** to show you exactly how it's done.

### **Is Price Action Applicable To Any Other Market?**

The answer is yes. All the price action trading stuff described here are applicable to all markets.

In here, I will be mostly be talking in terms of using price action in the currency market but as I've mentioned, the concepts are universal and can be applied to any financial market.

### **Price Action Trading Allows You To Trade With An Edge**



Price Action Trading is about trading with an edge. What is a *trading edge*?

Well, put simply it means you need to trade when the odds are in your favour. Things like:

- Trading with the trend
- Trading With Price Action Using reliable chart patterns and candlestick patterns.
- Trading using Support and resistance levels.
- Making your winners larger than your losing trades
- Trading only in larger timeframes
- Waiting patiently for the right trade setups and not chasing trades.

All these kinds of things above helps you to trade with an edge. They may not be exiting and probably you've heard of these before but hey...this stuff is what separates winners from losers.

### What Price Action Trading Is Not



- Price action trading will not make you rich...but price action trading with proper risk management can make you a profitable trader. Some of you will go through this guide and learn and make much money but some of you will fail. That's just the way life is.
- Price action trading is not the holy grail but it sure does beat using other indicators (most of which often lag and are derived from price action anyway!).
- Price action trading will not make you an overnight success. You need to put in the hard yards, observe and

see how price reacts and see those repetitive patterns and then have the confidence to trade them then you will be rewarded for that.

If you are one of those that are going to learn from this course and apply it to your forex trading, my hats off to you and I say “go and succeed.”

## Chart time

**You need chart time to understand Price Action.** For some of you, it may take a while for you to understand, while some of you may be very quick to learn.

Observe the price action of the market. *Go back to the past and see how the market had behaved.* What caused it to behave that way? You cannot be a confident price action trader until you do this.

If you could simply read the charts well enough to be able to enter at the exact times when the move would take off and not come back, then you would have a huge advantage.

Trend lines, specific candlestick patterns, specific chart patterns, Fibonacci retracement levels & support and resistance levels...these are the tools I use to trade.

If you put the time and effort into learning them, it won't be long before you will begin to understand and see how all these things fit together.

Start learning to trade *naked* price action.



### CHAPTER 3: MASS PSYCHOLOGY IN TRADING



Here's one thing about price action: it represents a collective human behaviour or mass psychology.

Let me explain.

All human beings have evolved to respond to certain situations in certain ways.

And you can see this happen in the trading world as well:

*The way multitude of traders think and react form patterns... repetitive price patterns that one can see and then predict with a certain degree of accuracy where the market will most likely go once that particular pattern is formed.*

For example, if you see a major resistance level, price hits the level and forms a 'shooting star' a **bearish reversal candlestick pattern**. You can then say with a greater degree of confidence that Price is going to head down.

Why?

Because there are so many trader watching that resistance level and *they all know that price has been rejected from this level on a previous one or two occasions* and that tells them that it is a resistance level and that they can also see that bearish reversal candlestick formation... and guess what they will be waiting to do?

1. They will be waiting with their sell orders...not just one sell order but thousands of them, some small and some big orders.
2. But on the other side of the coin is that trader that have bought at a low price and now that the price is heading up to the resistance level, that's where most of their take profit levels are. So once they take their profits around resistance levels, that means there are now *less buyers now and more sellers*. The balance tips in the direction of the sellers and that's how the price is pushed back down from a resistance level.

***Because price action is a representation of mass psychology...the markets are moved by the activities of traders.***

So price action trading is about understanding the psychology of the market using those patterns and making a profit as a result.

There are 2 types of price action trading, the *100% Pure price action* trading and the *not-so-pure price Action trading*. Let me explain...

### **Pure Price Action Trading**

Pure price action trading *simply means 100% price action trading*. No indicators except price action alone.



## **Not-So-Pure Price Action Trading**

This is when price action trading is used with other indicators and these other indicators form part of the price action trading system. These indicators can be trend indicators like moving averages or oscillators like stochastic indicator and CCI. (Please don't go googling CCI and stochastic indicators!)

## **Origin of Price Action Trading**

Charles Dow is the guy credited to be the father of technical analysis. He came up with the DOW Theory.

The theory tries to explain market behaviour and focuses on market trends. One part of the theory is that the market price discounts everything. Therefore, technical analysts use price charts and chart patterns to study market and don't really care about the fundamental aspects of what move the markets.

I will cover this a little bit later when I talk about what are trends, how trends begin (or end) in Chapter 5.

## CHAPTER 4: PRICE AND CHARTS

Now, let's study price in a little bit more detail...this stuff is for the newbies...please skip this section if you think you know!

### What is price?



Price is value given to a particular instrument usually in monetary terms and its value is dependent on supply and demand.

- If the demand is more, price increases as more traders start buying and driving prices up.
- *Demand zones* on your price charts are *around support levels*, that's where buyers come and start buying and driving prices up!
- If there is an oversupply, price falls as there are more seller and less buyers.

- *Supply zones on your charts are on and around resistance levels* where sellers come in and drive the prices down due the fact that there are very few buyers.

Every time you open up your charts, all you are seeing are the forces of supply and demand at work!

If the market is going up, what does that tell you about the demand and supply then? *It means there's a lot of demand for that instrument.*

Or what if the marketing is going down then what does that tell you about the demand and supply then? *There's a less demand and lots of supply.*

But there's something else about price...it has a time component.

So the price of something today will not be the same tomorrow or in a month or in a year. *Supply and demand over time drives up and down the price.*

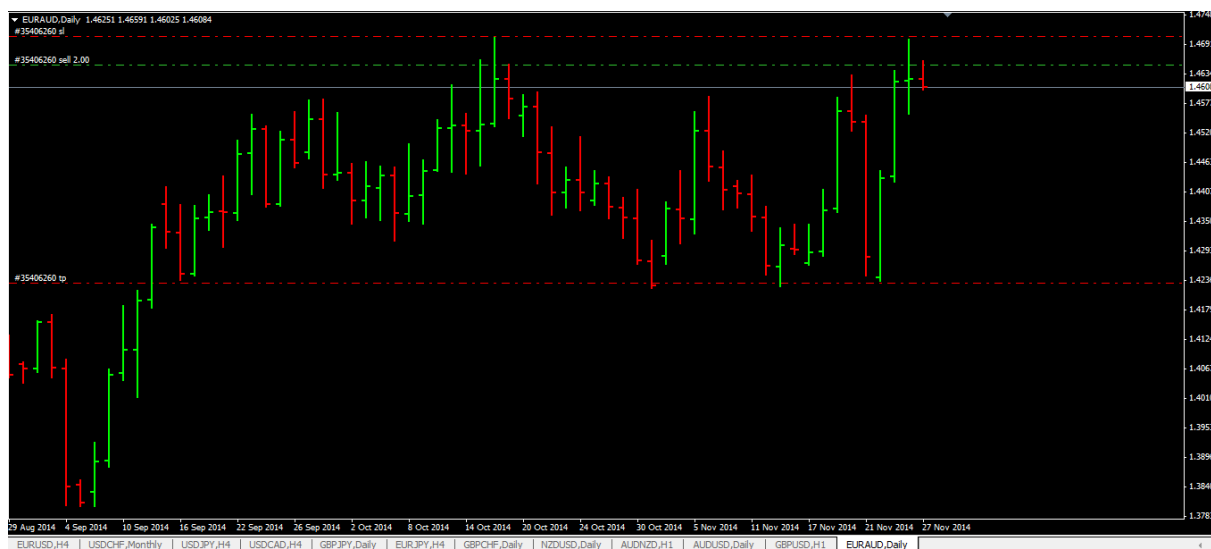
But how do you represent the value of price over time which in turn tells you of the supply and demand forces?

Answer: You need *price bars, candlestick and line charts*. These are graphical and visual representation of price over time, thus telling you a story about supply and demand forces over a certain time period which can be 1minute up to one month or year.

## **Bar, Candlestick and Line Charts**

Price over a period of time is graphically represented in 3 main ways:

1. The bar chart (as shown below).



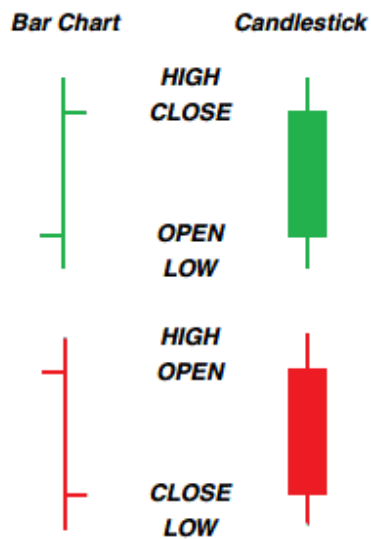
The bar chart simply looks like a “stick” or bar with 2 short knobs on both sides. The knob on the left is the opening price and the knob on the right is the closing price.

Then there’s the wick on the upper end and the lower end. The highest point or level of the wick on the upper end is the highest price that was reached during a certain timeframe or period and the lowest point of the lower wick is the lowest price that was reached also during the same time frame or period.

2. The candlestick chart shown below conveys the same information as in the bar chart above:



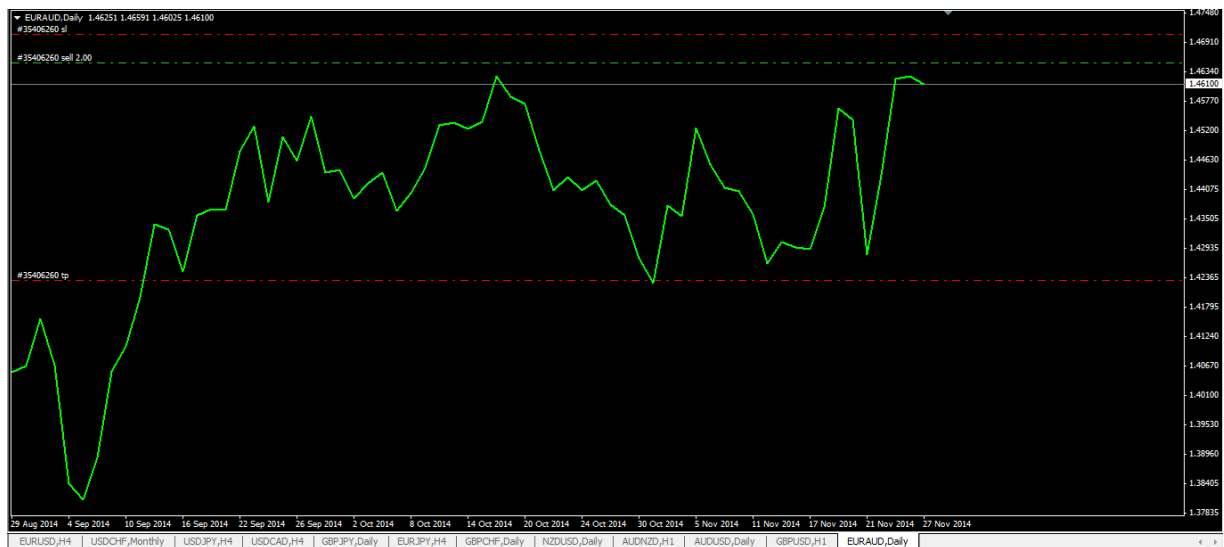
A candlestick chart...to put it in another way is like *putting a body over a skeleton* of the bar chart!



That's the only difference between the bar chart and the candlestick chart...is that the candlestick chart has a body and the bar chart does not.

The *red colour* is most often used to indicate a *bearish candlestick* which means the price opened up high and closed lower. A green candlestick represents a bullish candlestick and is the exact opposite.

3. The Line Chart (As shown below) conveys the same price information over time but does not reveal everything.



The line chart is one of the least favourite of charts for trading. A line chart is simply drawn by connecting either the closing, high or low price and that's how you get the line on a chart.

Line charts can be useful for looking at the “bigger picture” and finding long term trends but they simply cannot offer up the kind of information contained in a candlesticks chart.

Out of these 3, the *candlestick chart is the most popular* followed by the bar chart. So from here on, I will be only focused on candlestick chart only but I may end up using the word *bar* to refer to candlestick pattern as well so just be aware of that.

I will talk more about the candlestick (and candlestick charts) as this is the bread and butter for price action traders.

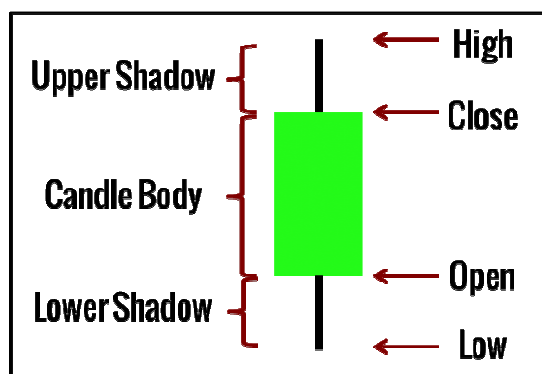
## The candlestick

- The candlestick chart had its origins in Japan and can also be referred to as the Japanese candlestick chart.
- The colour of the candlestick chart tells you if price was up or down in a particular timeframe which means that candlesticks are either **bullish** or **bearish** candlesticks.

Now most traders prefer to set green candlesticks as bullish and red candlesticks as bearish. And I like it to be that way for me personally.

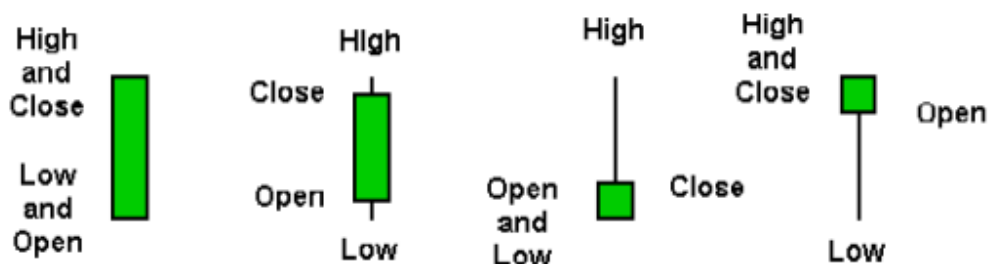
- Some broker's trading platforms have options where you can change the colours of the candlesticks to any colour you want. If you are a woman, you may change a bullish candlestick to pink! And bearish candlestick to Purple! (I have never seen a pink and purple candlestick yet).

This candlestick shown below is an example of bullish candlestick.



- A **Bullish candlestick** simply means the **price opened lower and closed up higher after a certain time period**, which can be 1minute, 5minute, 1hr or 1 day etc.
- The candle body represents the distance price has moved from the opening price to the closing price. The longer the body, means price has moved a great deal upward after opening. The shorter the candle body means the exact opposite.
- The high is the highest price that was reached during that time period.
- The low is the lowest price that was reached during that time period.

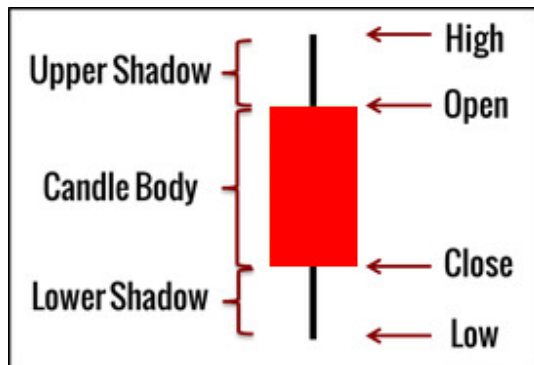
All these candlesticks shown below are bullish candlesticks which mean that their opening prices was lower than the closing prices and therefore reflect an overall uptrend in the timeframe each candlestick was formed.



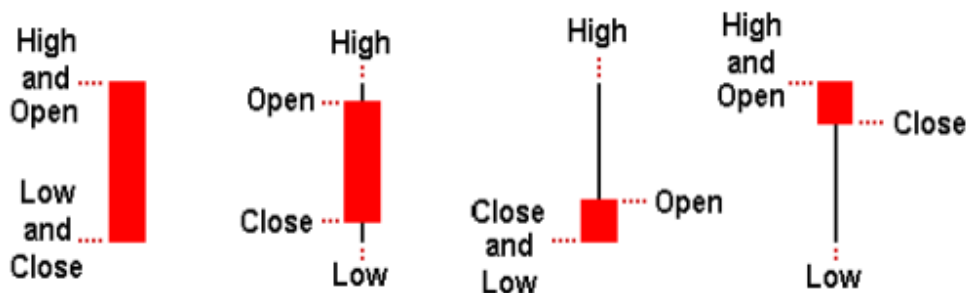
Now, the candlestick shown below is an example of a bearish candlestick.

A **bearish candlestick** simply means that the **candlestick opened up at a high price and closed lower after a certain time period**.





All these candlesticks shown below are bearish candlesticks meaning that the opening price was higher than the closing price, therefore reflecting a downtrend.

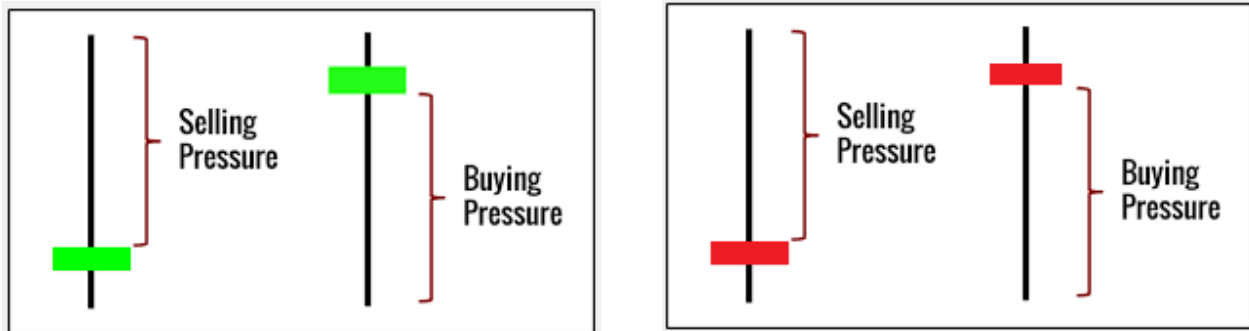


### Understanding Buying and Selling Pressure on Candlesticks

Did you know that there are bullish candlesticks that are considered bearish and bearish candlesticks that are considered bullish? To really understand this concept, you need to understand buying and selling pressure.

You see, every candlestick that is formed tells you a story about the battle between the bulls and the bears—who dominated the battle, who won at the end, who is weakening etc. All that is reflected in any candlestick you see. The length of the body of the candlestick as well as the shadow (or wick) tells you a story about the buying and selling pressure.

For example, look at the two charts below:



Look at the first green candlestick on the left chart, it's a bullish candlestick right? Yes. But you can see that it has a very short body and very long wick (tail).

It tells you the sellers (bears) were dominant. *If this candlestick was to form after hitting a resistance level, it will be considered a bearish signal even though it's a bullish candlestick.*

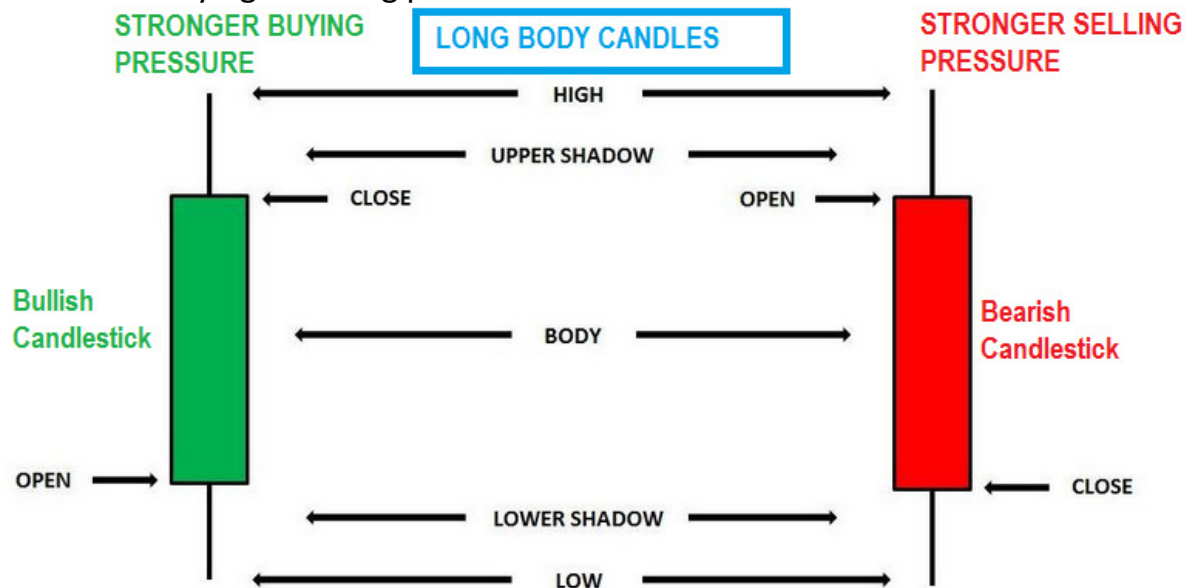
Now, you can apply the same sort of logic to all the other candlesticks above and read the story each one is telling you.

- If the upper wick is very long, it simple tells you that there's a lot of selling pressure. It means price opened and got pushed higher by the buyers but then at the highest price, sellers got in and drove it back down.
- If the lower wick is long, it tells you that there's a lot of buying pressure. Sellers drove the price down but buyers got in and drove the price back up.
- If the lower wick is short, it tells you there's very minimal buying pressure.
- If the upper wick is short, it tells you that there's very minimal selling pressure.

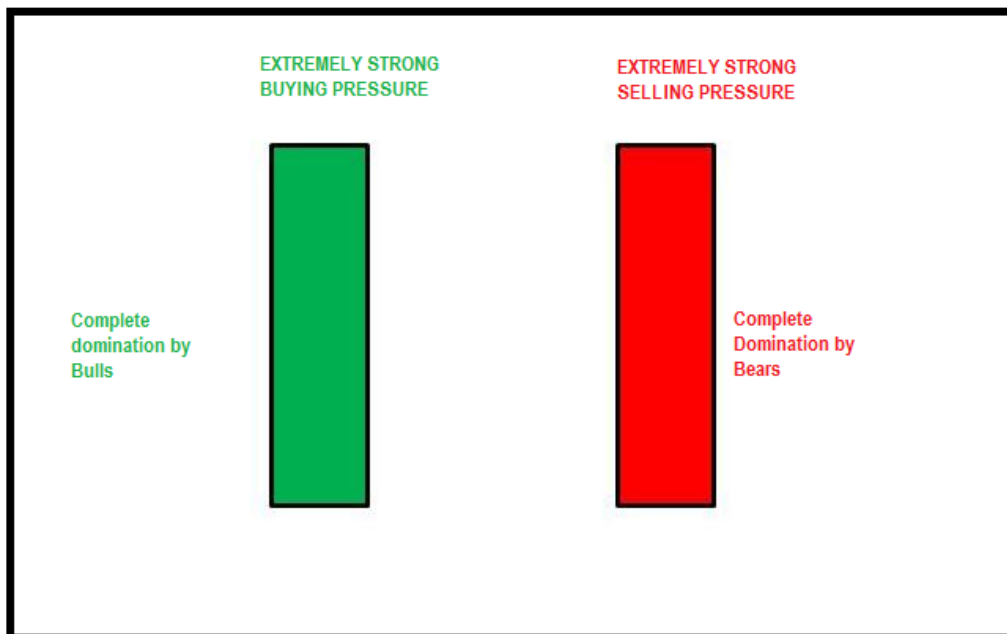
What about the length of the body of candlesticks?

- The longer the body of the candle indicates very strong buying or selling pressure.

- A short body of a candlestick indicates little price movement and therefore less buying or selling pressure.



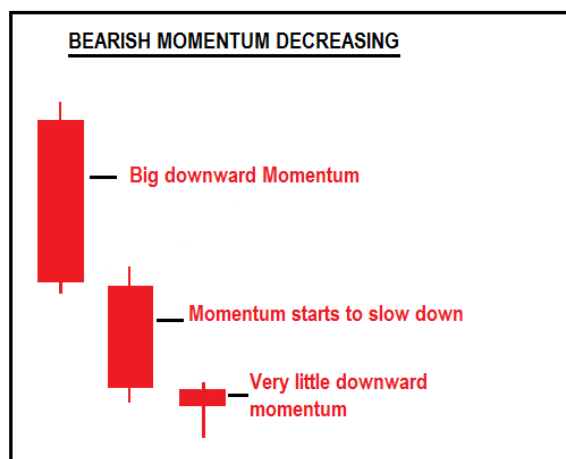
- Sometimes the candles will have no upper or lower shadows but with very long bodies. These are interpreted the same way as standard candlesticks but are an even stronger indication of bullish or negative market sentiment.
- In the case of bullish candle, prices never decline below the open. In the case of bearish candle, price never trade above the open. See below:



Now, so far we have looked at individual candlesticks...what if you combine more than one candlesticks? What does it show you?

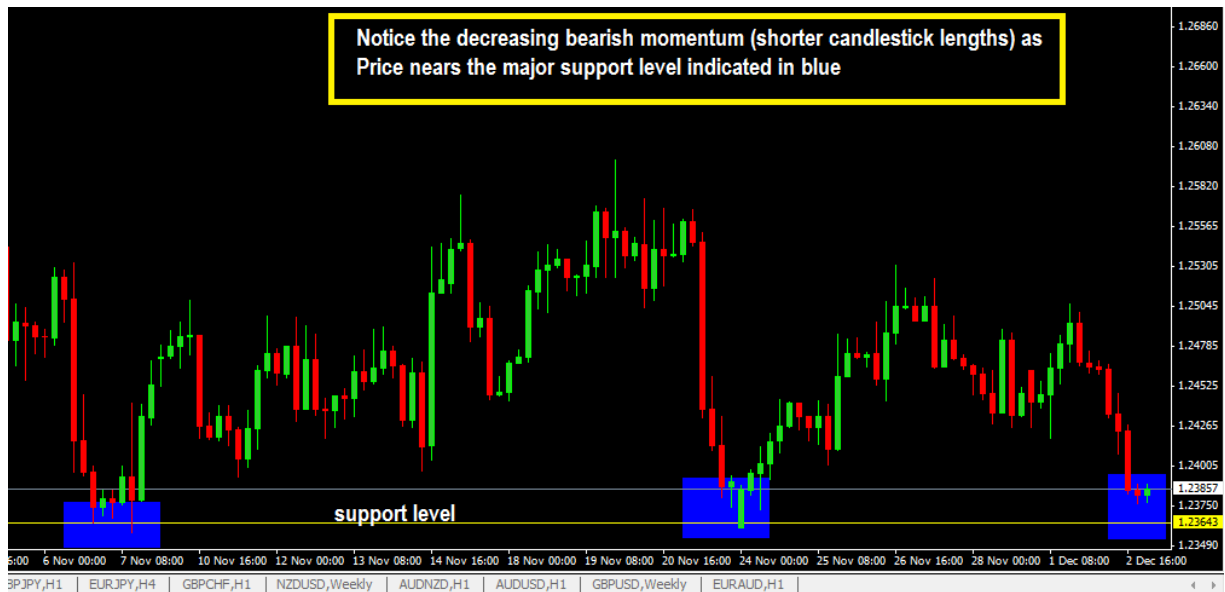
- Well, one important thing that group of candlestick can show you is how strong or weak a bullish or bearish move is.
- They can also tell you if the bullish or bearish move is weakening.
- The word used to describe such a situation is **momentum**.

The chart below shows 3 bearish candlesticks in a downtrend, each with decreasing length and body lengths.

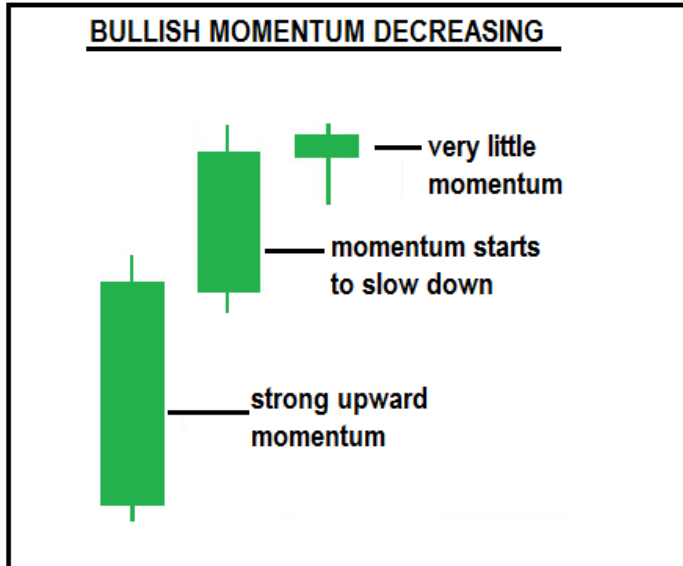


*In a downtrend situation, when you see such happening, it is one signal that the downward trend is weakening. And if this happens around support levels, you should sit up and take notice and also watch for bullish reversal candlesticks which will give you the confidence to buy!*

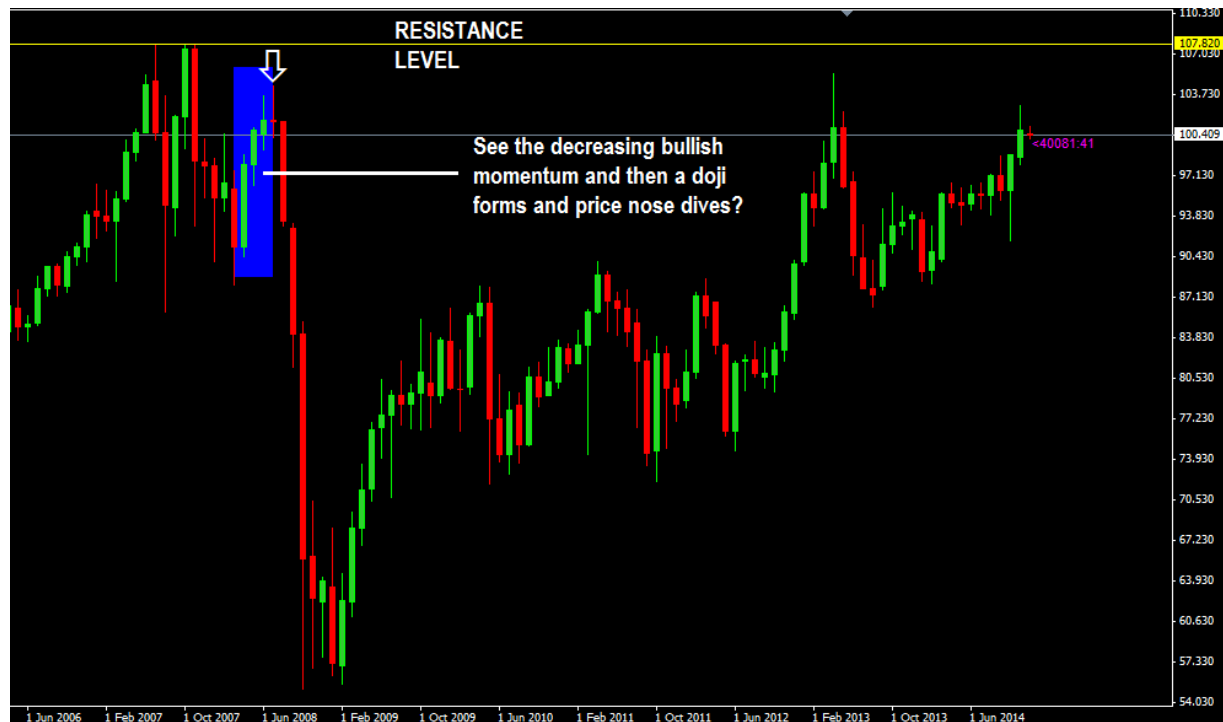
The following chart below shows you an example of decreasing downward momentum as price nears a support level. What you will see is that the prior candlesticks will tend to be longer and as price nears the support level, the candlesticks start to get shorter:



This next chart below shows 3 bullish candles in an uptrend each with decreasing lengths. *In an uptrend, when you see such happening around resistance levels, you should take notice. Also watch for bearish reversal candlestick patterns to form. This will give you the confidence to sell.*



Here is an example of a bullish momentum decreasing in an uptrend and then price tumbles right after that :



Notice (on the chart above) how the bullish candlesticks had increasing lengths and then gradually decreased as the price went up then followed by a big downward fall/move?

That's price momentum. Every time you look at your charts, you need to be aware of such. Very important!

### **Candlestick Wicks**

The wicks of candlesticks along with the body tell a story. A wick which can be called a shadow or tail of a candlestick is a line situated above and below the body of the candlestick.

How are candle wicks (tails/shadows) formed and what do they mean?

- Well, they are formed because of a change in market sentiment.
- For an upper wick, price is moving up and then market perception is changed by traders and then price is pushed down towards the open by sellers. That's how the upper shadow is formed.
- For the lower shadow, price is moving down but the market sentiment changes and price is pushed up towards the close by the bulls. That's how a lower wick or shadow is formed.

*Longer wicks indicate increase change in market sentiment.*

A long tail on the bottom part of a candlestick tells us that the market made a significant fall then quickly retreated from this price level. This is often seen as a bullish signal



A long tail on the top part of a candlestick tells us that the market made a significant rise then quickly retreated and fell from this price level. This is often seen as a bearish signal



### What is the Significance of Candlestick Wicks?

- Candlestick wicks with long upper shadows commonly occur when an uptrend is losing strength.
- Long lower shadows occur when the downtrend is losing steam.

## CHAPTER 5: TRENDS

When you have price moving across time due to supply and demand, *then this creates trends*. This section is a discussion about trends, how they form and how many types of trends and what kind of structure trends have.

It is important for you to understand the structure of trends so you will not depend on any indicator to tell you if the trend is up or down because understanding what a trend is, the structure of a trend, what signals to look to tell you that a new trend may be starting and previous one ending is one key knowledge you require as a price action trader.

And you only need to use price action to tell you if a trend is up, down or sideways.

As I've mentioned above, there are 3 types of trends. In simple terms, a trend is when price is either moving up, down or sideways.

- So when price is moving up, it's called an **uptrend**.
- When price is moving down, it's called **downtrend**.
- When price is moving sideways, it's called and **sideways trend**.

Now each of these 3 trend types have certain price structure about them that tells you whether the market is in an uptrend, downtrend or sideways trend.

These structures are derived from the Dow Theory. But I will explain it in here briefly.



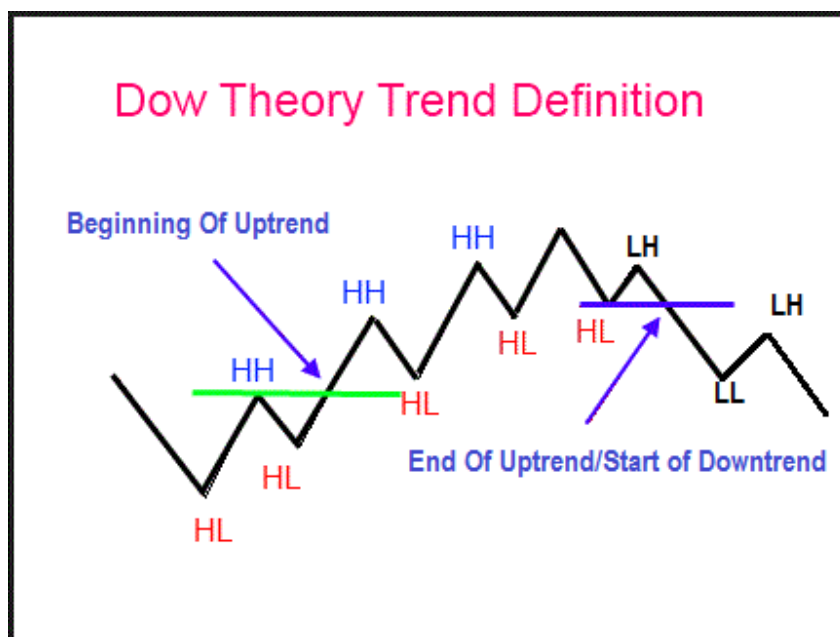
## The Dow Theory Of Trends Summarized

The theory in simple terms says that:

1. when price is in an uptrend, prices will be making **increasing higher highs and higher lows** until a higher low gets intercepted, then that signals the end of the uptrend and the beginning of a downtrend.
2. For downtrend, prices will be **making increasing lower highs and lower lows** until a lower low is intercepted and that signals an end of the downtrend and a beginning of an uptrend.

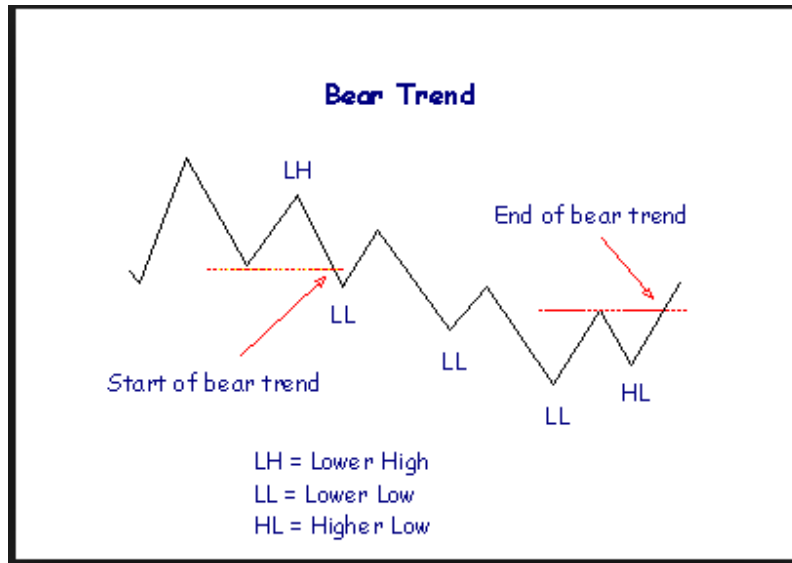
### Structure of An Uptrend (Bull) Market

With an uptrend market, prices will be making higher highs (HH) and Higher Lows (HL)

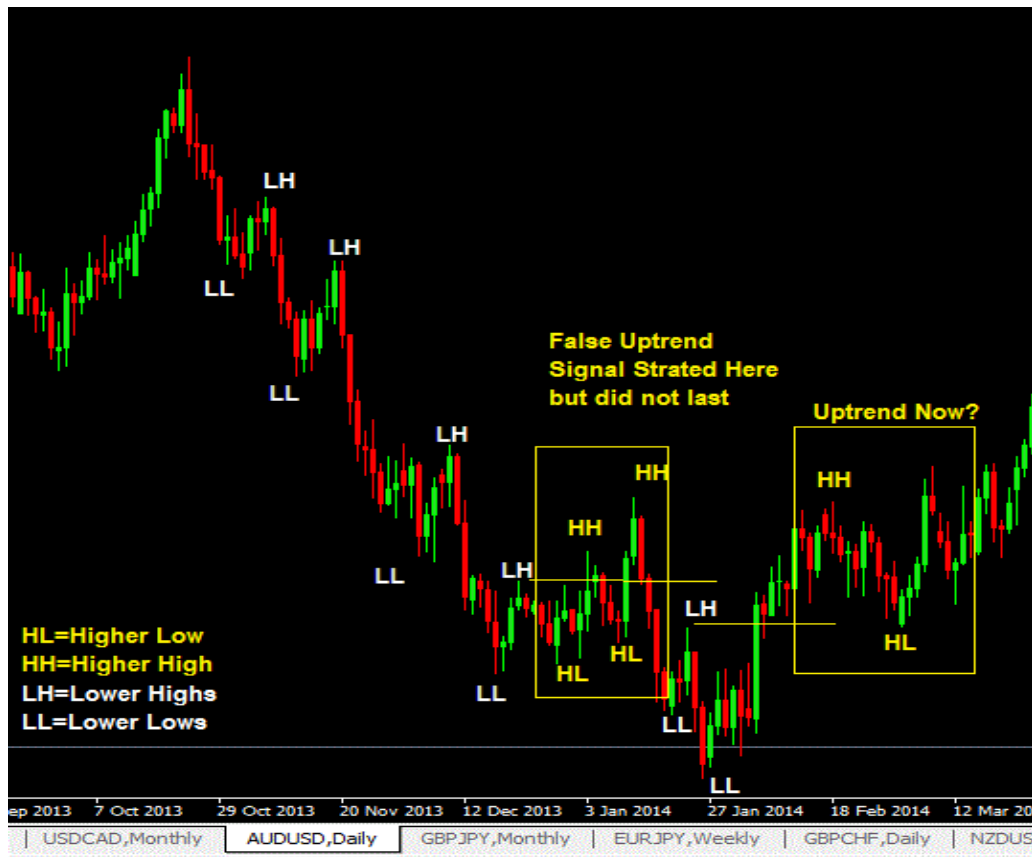


### Structure of A Downtrend (Bear) Market

Prices will be making Lower Highs (LH) and Lower Lows (LL). The chart shown below is a really ideal case.



But you know that in reality, the market is not like that, it's more like this chart shown below:



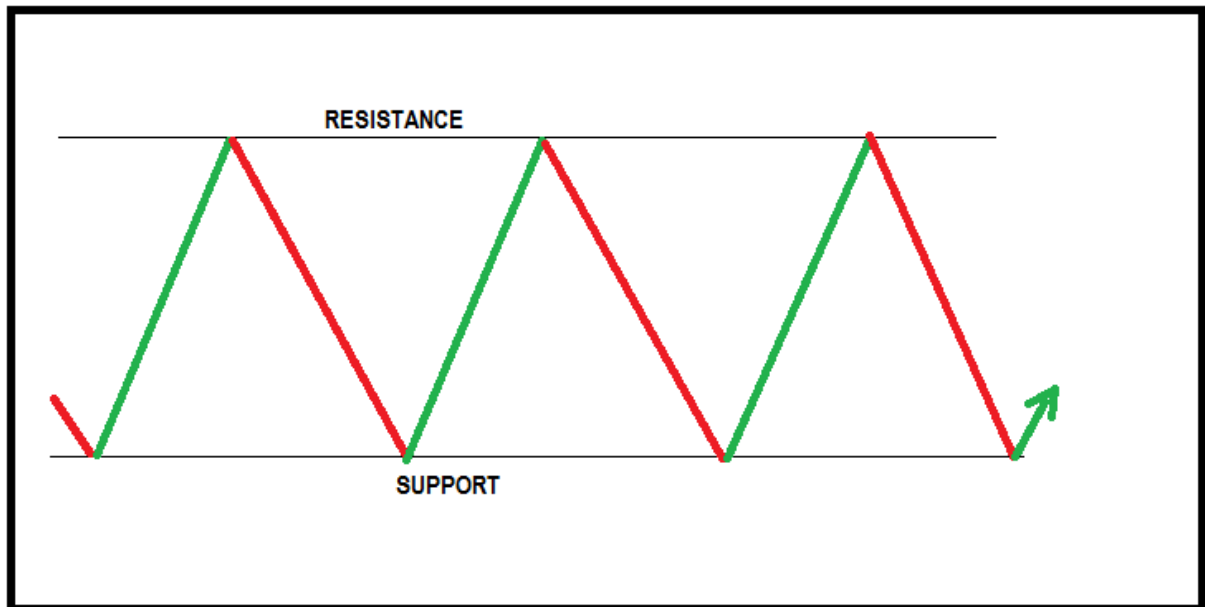
The chart above shows an initial downtrend and along the way there is a false uptrend which does not last and price moves down and then eventually another uptrend moves is happening because another lower high has been intersected(which signals end of downtrend).

This is how you use price action to identify trends. You should know this stuff.

Because the market is not perfect when these trends are happening, you should develop the skill to judge when a trend is still intact or when a trend is potentially reversing. And it's pretty much price intersecting highs or lows.

## Structure Of A Sideways/Ranging Market

For a ranging market, in an ideal scenario, you will see price moving in a range between a support and resistance level like shown below.



But what you see in the real world is not ideal as above, it's more like this!!!



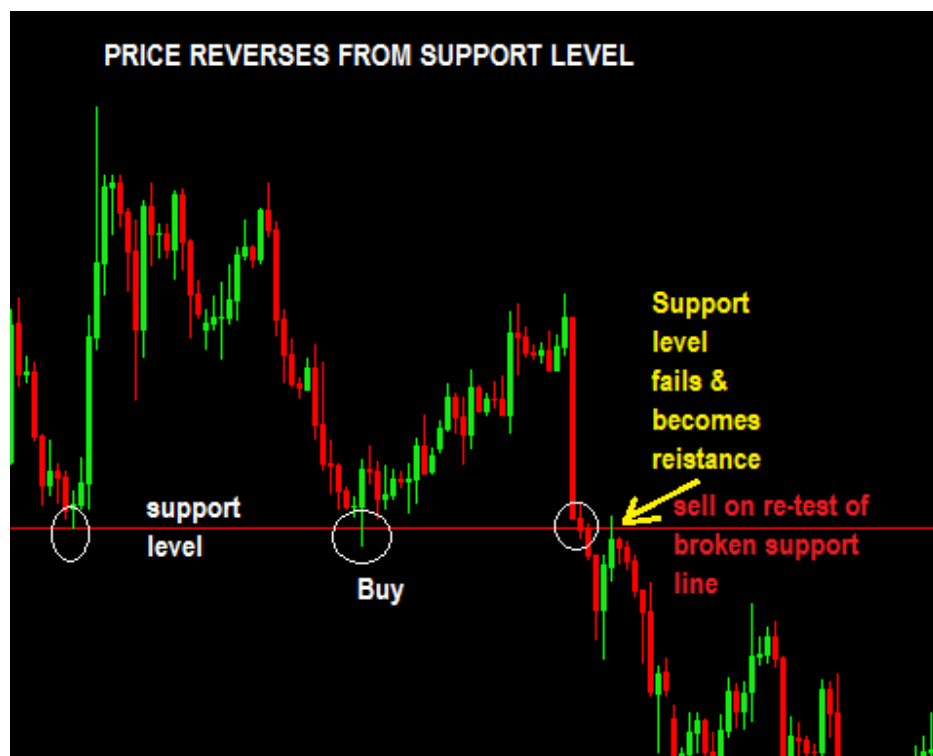
## CHAPTER 6: REVERSALS & CONTINUATION

A **reversal** is a term used to describe when a trend reverses direction. For example, the market has been in an uptrend and when price hits a major resistance level, it reversed and formed a downtrend. That's what reversal means.

Now where can reversals happen? The following are the major areas where price reversals do happen:

- Support levels
- Resistance levels
- Fibonacci levels

Here's an example of price reversing from a support level and went up and then later broke it and went down. Now that broken support level acts as resistance level when price came for a re-test of the level and sent the price tumbling down:



Now, what about **continuation** then? Well, in simple terms, continuation means that there is a main trend, for example an uptrend, that is happening... and you will notice that price *slows down* and maybe consolidates for a little while and may fall back down a little...it is like a minor downtrend in a major uptrend move called a downswing in an a major uptrend.

So when that ends and price resumes in the original uptrend direction then that is called a continuation. The chart below makes this concept a bit more clearer.



So the big question is: *how to spot trend continuity and execute trades at the right time?*

The secret is in identification of *specific chart patterns* as well as *very specific candlesticks patterns* and you will discover more on the Chart Patterns and Candlestick Patterns section of this course.

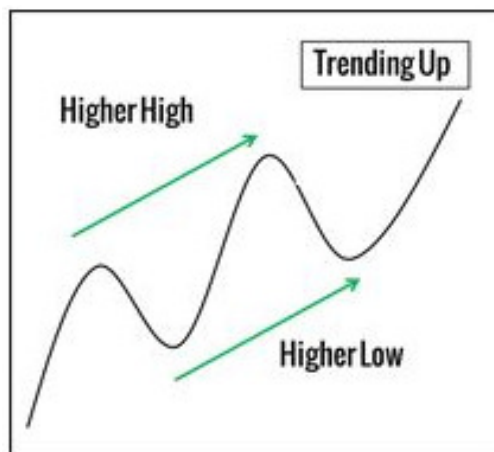
**Top 3 reasons why it is so important for you knowing reversal points/levels as well as understanding trend continuity patterns and signals:**

1. You don't want to be buying near or at a resistance level (which is a reversal point).
2. You don't want to be selling at near or at a support level (which is a reversal point).
3. You don't want be buying when the trend is down and you don't want to be selling when the trend is up that's why you need to know about continuation charts and candlestick patterns which will allow you to trade with the trend. (There are exceptions though when you can trade against the main trend like that like in trading channels...see Chapter 9: How To Trade Channels)

## CHAPTER 7: UNDERSTANDING MARKET SWINGS

Market Price moves in *swings*. A price swing is when markets moves like what a wave does.

So in an uptrend, price will be making *higher highs and higher lows* like the figure shown below:

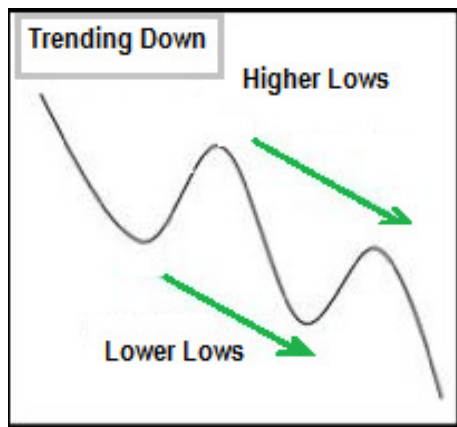


So in an uptrend, price moves in swings like this chart shown below:





And in a downtrend, price will be making lower highs and lower lows:



So in a downtrend, price moves in swings like the chart shown below:



## Why it's So Important For You To Understand Market Price Swing

If you want to be really good price action trader, you have to understand this concept of how price moves in swings. This is especially true if your style of trading is trend trading or swing trading.

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Because if you don't understand how price moves in swings, *this is what you are going to end up doing*:

1. You will execute trades at the very wrong spot! For example, in a downtrend, you will sell when the market is just doing an upswing! Not good!
2. Which means, you will get stopped out or you need to put in a large stop loss. Large stop loss does not necessarily mean large risk if you do position sizing based on the stop loss distance. But if you don't then that's a large risk you are taking.
3. If you have a large stop loss, then you've got to wait a while before the market makes downswing before you to start seeing profits on your trade.

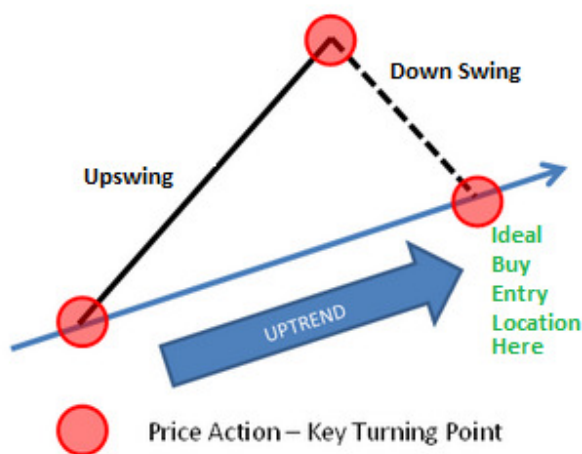
Here's an example of what I'm talking about:



It's really not a good situation to be in. Every traders wish is that "the moment a trade is placed, it goes to profit immediately." But we know the market is not like that, sometimes that happens, and sometimes it doesn't. That's the nature of the market.

*So in an uptrend, you should be looking to buy on the downswing. In a downtrend, you should be looking to sell on an upswing.*

And the best way for doing that is by using Price Action (reversal candlesticks):



## CHAPTER 8: HOW TO TRADE SUPPORT AND RESISTANCE LEVELS

Nothing is more noticeable on any chart than support and resistance levels. These levels stand out and are so easy for everyone to see! Why? Because *they are so obvious*.



As a matter of fact, support and resistance trading is the core of price action trading.

The key to successful price action trading lies in

finding effective support and resistance levels on your charts.

Now, in here, I talk about 3 types of support and resistance levels and they are:

1. The *normal horizontal support and resistance levels* that you are probably most familiar about.
2. Broken support levels become resistance levels and broken resistance levels become support levels.
3. Dynamic Support and Resistance Levels

Now, let's look at each in much more detail.

### Horizontal Support and Resistance Levels

These are fairly easy to spot on your charts. They look like peaks and troughs. The chart below is an example and shows you to trade them.



### How To Find Horizontal Support And Resistance Levels On Your Chart

- If price has been going down for some time and hits a price level and bounces up from there, that's called a support level.
- Price goes up, hits a price level or zone where it cannot continue upward any further and then reverses, that's a resistance level.

So when price heads back to that support or resistance level, you should expect that it will get rejected from that level again. The use of reversal candlestick trading on support and resistance levels becomes very handy in these cases.

### Significant Support & Resistance Levels

Not all support and resistance levels are created equal. If you really want to take trades that have high potential for success, you should focus on identifying significant support and resistance levels on your charts.

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**Significant support and resistance levels are those levels that are formed in the large timeframes like the monthly, weekly and daily charts.**

And when price reacts to these levels, they usually tend to move for a very long time.

Here's an example of NZDUSD that hit a resistance level on the monthly timeframe and made a 1,100 pips move down to the next significant support level and price can now be seen bouncing up from that support level:



Now, here's the technique I use to trade setups that happen in larger timeframes:

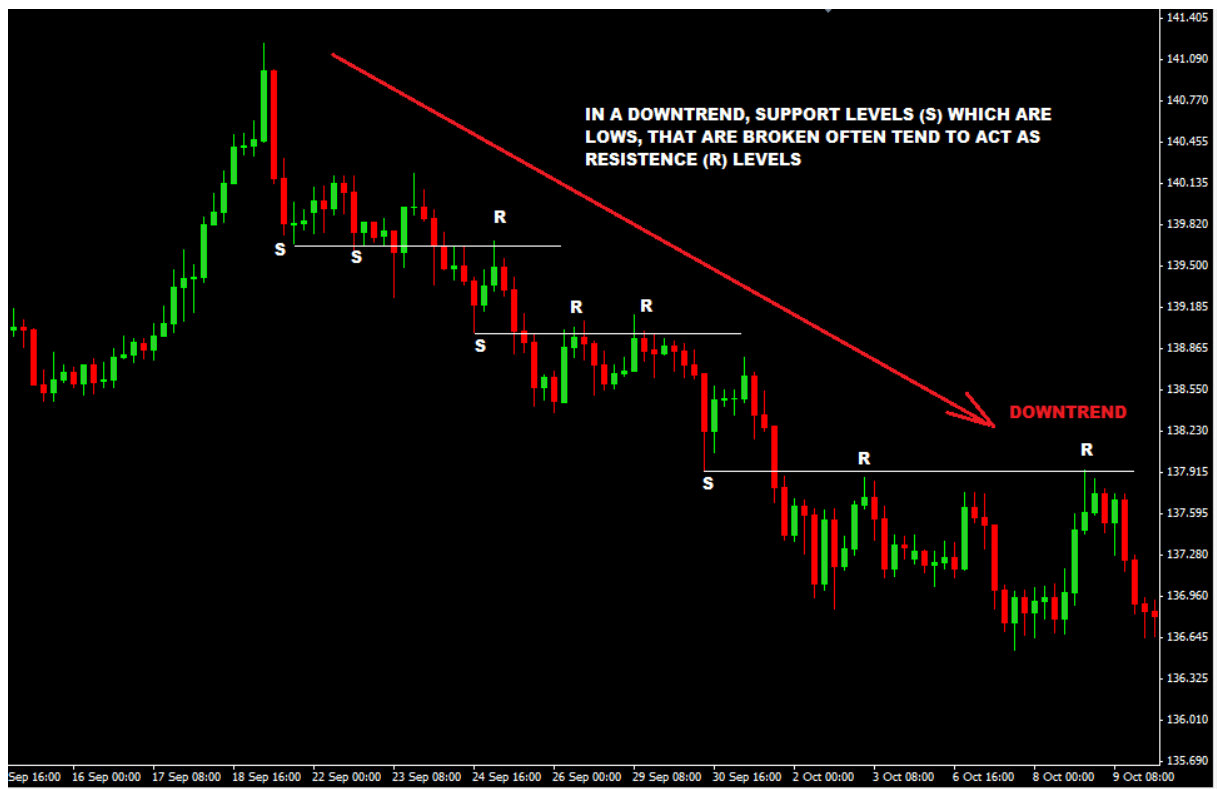
*I switch to smaller timeframes like the 4hr & the 1hr, 30min, 15min and even the 5min and wait for a reversal candlestick signal for my trade entries. This is so that I can get in at a much better price level as well as reducing my stop loss distance.*

That's what's multi-timeframe trading is all about.

## Support turned Resistance Level And Resistance Turned Support Level

Now, the next on is this thing called *Support turned Resistance Level And Resistance Turned Support Level*.

There are many traders that don't realize that usually, in a downtrend, when a support level has been broken to the downside, it often tends to act as a resistance level. Here is an example shown on the chart below:



So when you see such happening, you should be looking for bearish reversal candlestick to go short. As a matter of fact these "R's" are the upswings in a downtrend.

Similarly, in an uptrend you will also see such happening where Resistance levels get broken and when price heads back down to these, they now will act as support levels...Here's an example:



Look for bullish reversal candlestick around these type of resistance turned support levels as your signal to buy.

Can you see how the need for using other indicators is diminished once you understand how easy is to spot such trading setups like these?



## CHAPTER 9: HOW TO TRADE CHANNELS

What is a channel? And How Do You Trade A Channel? This section is about that.

*The path price follows and the area enclosed within it is called the price channel.*

The fundamental principle of how a channel form is based on support and resistance.

Why price does that, I don't know... but consider it as supply and demand at work.

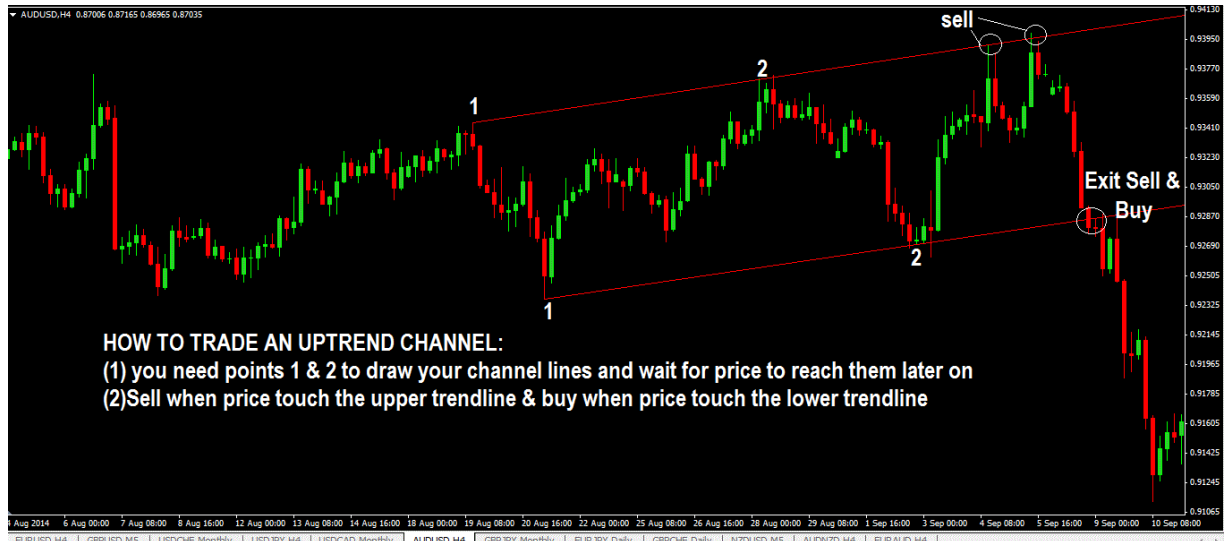
There are **3 major types of channels**:

1. the uptrend channel,
2. the downtrend channel and
3. the sideways/horizontal channel.

This is what a downtrend channel looks like and how to trade it:



This is what an uptrend channel looks like and shows how you can trade it:



This is what a sideways channel looks like and how you can trade it:



Sideways channels (or horizontal channels) are *little bit different from uptrend and downtrend channels* because with uptrend and downtrend channels, you would require 2 points to draw trendlines and wait for price to touch them later on before you take a trade because the trend lines are at an angle.

But with sideways/horizontal channels, you can actually start trading the setup at point #2 which can be both a resistance or support level based on the fact that a prior resistance or support level is already visible and *you should expect price to bounce from those levels*. Look for reversal candlesticks to buy or sell when you see such setups happening.

### **Here Are Some General Rules For Trading Channels**

1. If you buy or sell on the other side of the channel, you wait for price to reach the other end of the channel to take profit or exit the trade.
2. Place your stop loss on just outside the channel or just above the high of the candlestick (for a sell order) or just below the low of the candlestick (for a buy order) that touched the channel and shows signs of rejection. This candlestick can also be a reversal candlestick.
3. You may also decide to take half the profits off as price is in the middle of the channel for a profitable trade.

## CHAPTER 10: NINE (9) PROFITABLE CHART PATTERNS EVERY TRADER NEEDS TO KNOW

There's a difference between *chart patterns* and *candlestick patterns*. *Chart patterns are not candlestick patterns and candlestick patterns are not chart patterns:*

- Chart patterns are geometric shapes found in the price data that can help a trader understand the price action, as well make predictions about where the price is likely to go.
- Candlestick patterns on the other hand can involve only one single candlestick or a group of candlestick which have formed *one-after-the other* in regard to how they form in relation to one another in terms of their body length, opening and closing prices, wicks(or shadows) etc.

Not knowing what chart patterns are forming can be a costly mistake. If you are like that, this is your opportunity to get back on track.

Why costly mistake? Because you are completely unaware of what is forming on the charts and you end up taking a trade that is not in line with what the chart pattern is signalling or telling you!

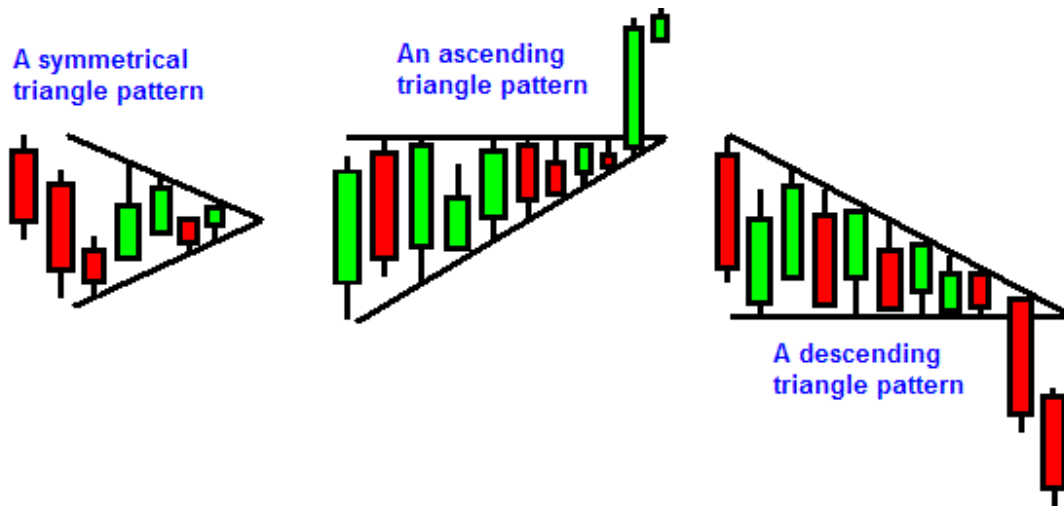
These are the 9 chart patterns you will learn about today:

1. Triangle chart patterns-symmetrical, ascending and descending (3 patterns)
2. Head and shoulders and Inverse Head and Shoulders (2 patterns)
3. Double Bottom and Double Top (2 patterns)
4. Tripple Bottom and Tripple Top (2 patterns)

But first up, I am going to talk about triangle chart patterns.

## 1. Symmetrical Triangle

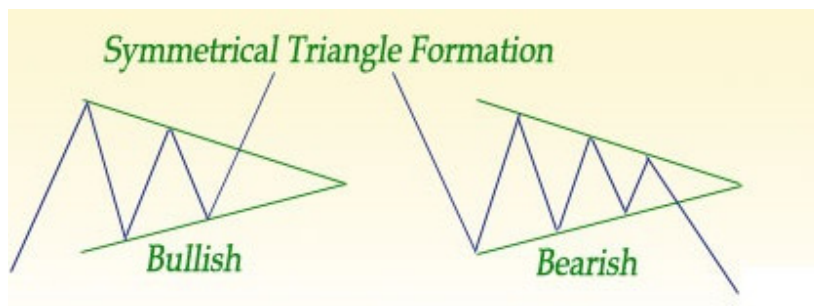
There are 3 types of triangle chart patterns and the chart below shows the differences between each very clearly:



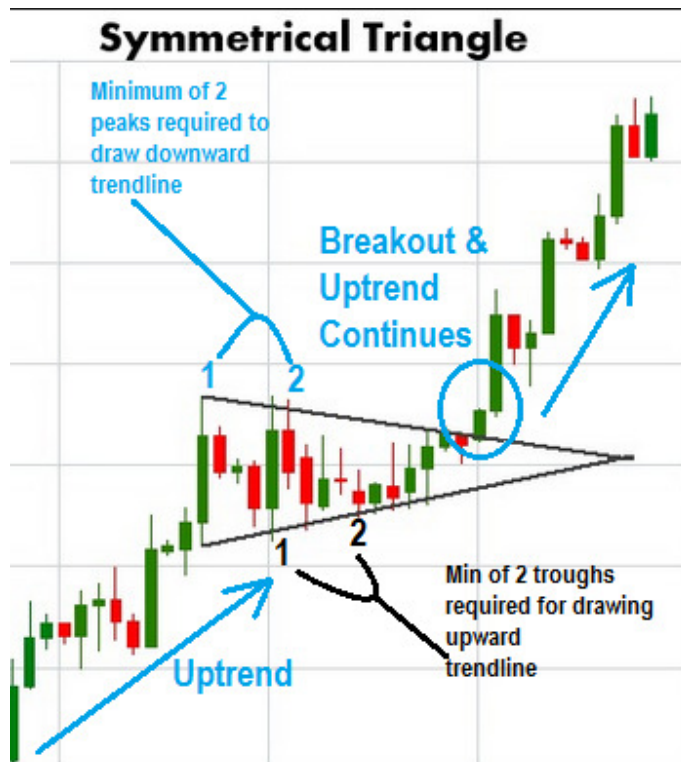
Now, let's start with the *symmetrical triangle pattern* first.

### Is A Symmetrical Triangle Bullish Or Bearish Chart Pattern?

The Symmetrical triangle chart pattern is a continuation pattern therefore it can be both a bullish or bearish pattern.



What does this mean then? Well, if you see this pattern in an uptrend, expect a breakout to the upside. See an example below:

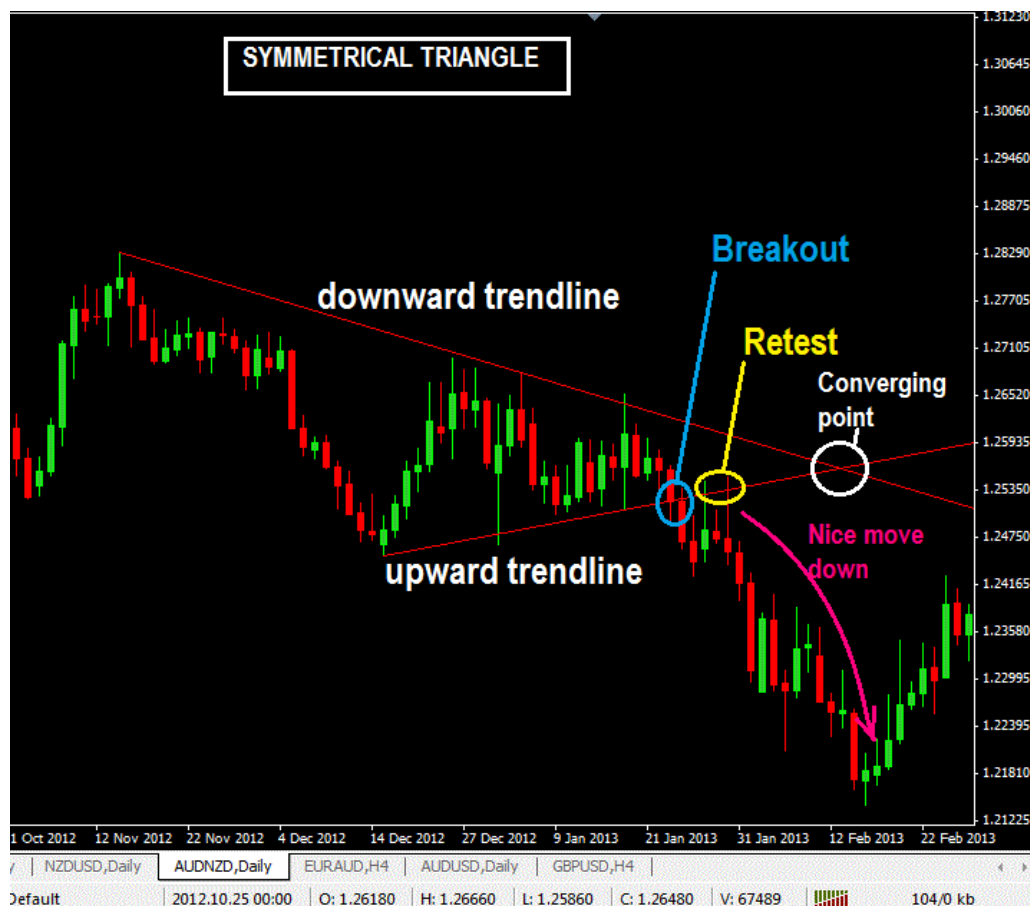


If you see a symmetrical triangle pattern form in a downtrend, then expect a breakout of this pattern to the downside like this one shown below:



## How To Draw A Symmetrical Triangle

- You will see price moving up and down but this up and down movement is converging to a single point.
- You need a minimum of 2 peaks and 2 troughs to draw the two trendlines on both sides.
- It will be only a matter of time before price breaks out of the pattern and either moves up or down.



## Two Simple Ways To Trade The Symmetrical Triangle

### #1: Trade the Initial Breakout

The best way is to confirm that the breakout actually happens with a candlestick before placing your order. What I do is for example, say I'm watching a symmetrical triangle form in the 4hr charts and I know that soon a breakout will happen. I then switch to the 1hr chart to wait for the breakout to happen. If a 1hr candlestick has broken the triangle and closed below/above it, that's my trade entry signal. So I will place a pending buy stop/sell stop order to catch the breakout from there.



*Often I want to make sure that the 1hr candlestick closes outside of the triangle before I enter a pending buy stop or sell stop order to capture the move that happens to avoid false breakouts while the candlestick has not closed yet.*

But here's the problem with trading triangle breakouts, see chart below:



I don't like trading breakouts like the one shown above and here's why:

- The stop loss distance is too large. I'd prefer to enter trades with breakout candlesticks that are close to the trend lines that have been broken.
- I often see that such breakout of extremely long candlesticks are not sustainable and price will often *tend to reverse after such candlesticks as can be seen by the chart above...* notice that after the breakout candlestick, there was one bearish green pin bar and then for the next 4 candlesticks afterward, the *price went down*. This is what tends to happen with such long breakout candlesticks. So if you entered a buy order using that long breakout candlestick above, *you would have to wait a while for your trade to turn profitable.*

## #2: Trade the retest of the trendline that is broken

- The second way to enter is to wait for a retest of the broken trendline in the triangle pattern then either buy or sell.
- This may also be handy if you had an extremely long breakout candlestick on the initial breakout, your best option is to wait for a retest of the breakout trendline then if that happens you enter.

## Stop loss Placement Options.

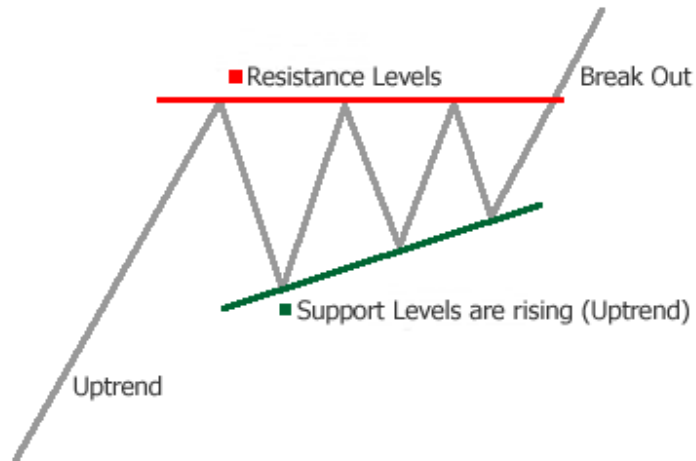
Here are 3 ways on how to place stop loss on triangle patterns, which include symmetrical, ascending and descending triangle patterns which you will learn next. *The stop loss placement techniques here are applicable to all triangle patterns so take note of that.*



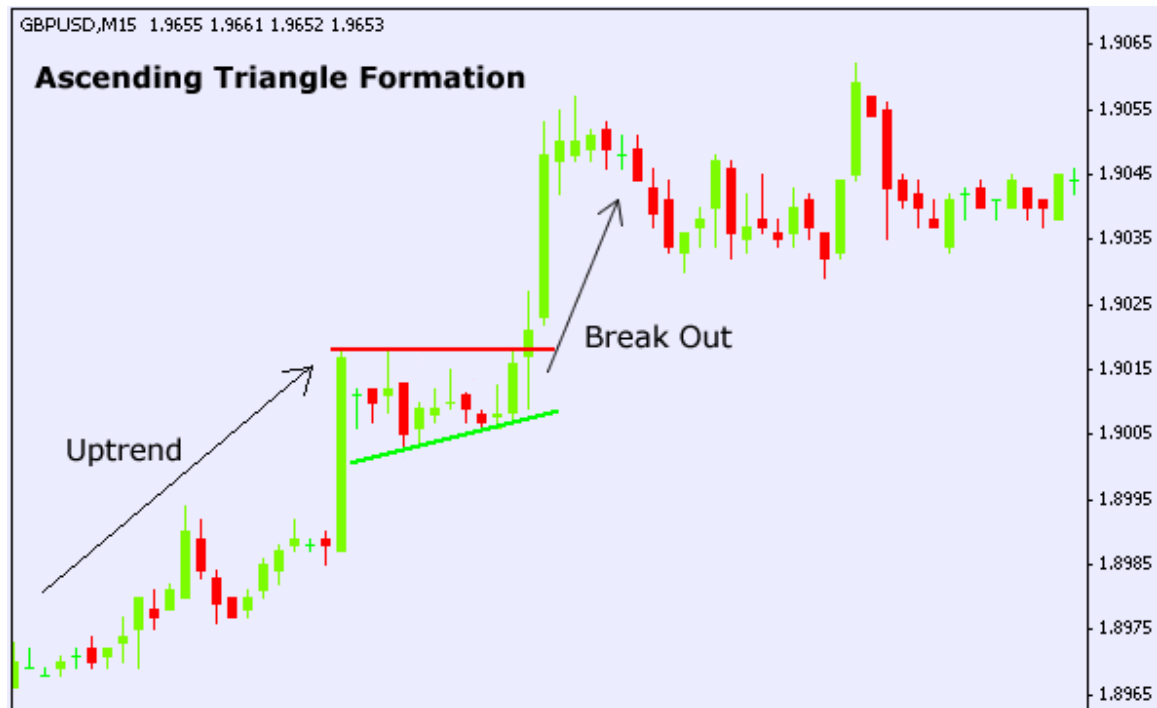
## 2. Ascending Triangle Chart Pattern

And ascending triangle pattern looks like this chart shown below:

Ascending Triangle Formation



And this is how a real chart looks like:



## Is Ascending Triangle Pattern Bullish Or Bearish?

It is considered a bullish continuation pattern in an existing uptrend. So when you see this forming in an uptrend, expect a breakout to the upside.

However, it can also be a strong reversal signal (bullish) when you see it form in a downtrend.

## Stop Loss Placement Options

You can use the strategies given in symmetrical triangle.

## Take Profit Options

I prefer to target previous resistance levels as my take profit target.

Or as shown on the chart below, you can use the "x" pips distance as your take profit target. Another way to do it would be say 3 times the "x" pips or 2 times the "x pips" distance. That should give you your profit target level(s).

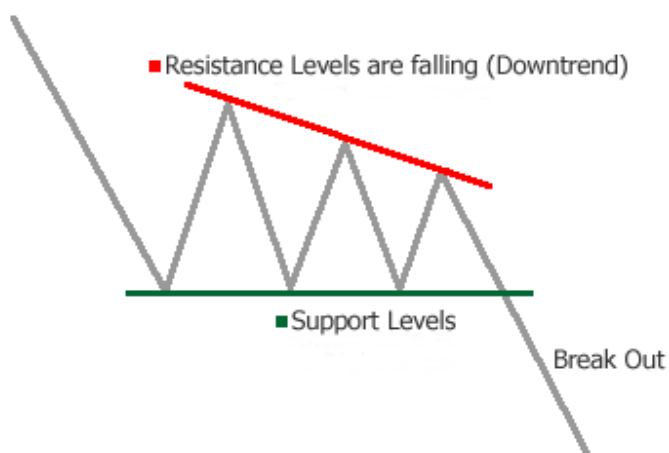


### 3. Descending Triangle Chart Pattern

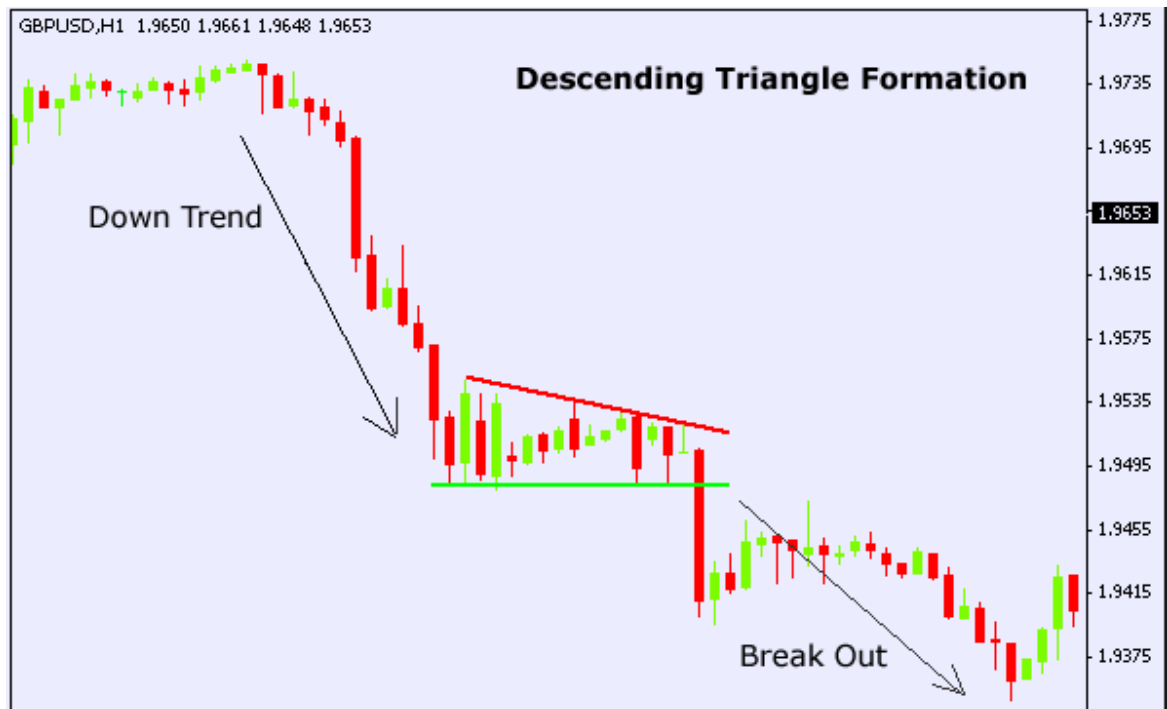
Important things to note about the descending triangle chart pattern:

The descending triangle chart pattern is characterised by a descending resistance levels and a fairly horizontal support levels converging to a point until a breakout happens to the downside as shown below:

Descending Triangle Formation



And this is how a descending triangle looks like on a chart shown below:



### Is Descending Triangle Pattern Bullish Or Bearish?

It is a bearish chart pattern that forms in a downtrend as a continuation pattern.

However, this pattern can also form as a bearish reversal pattern at the end of an uptrend.

Therefore regardless of where it forms, it's a bearish chart pattern.

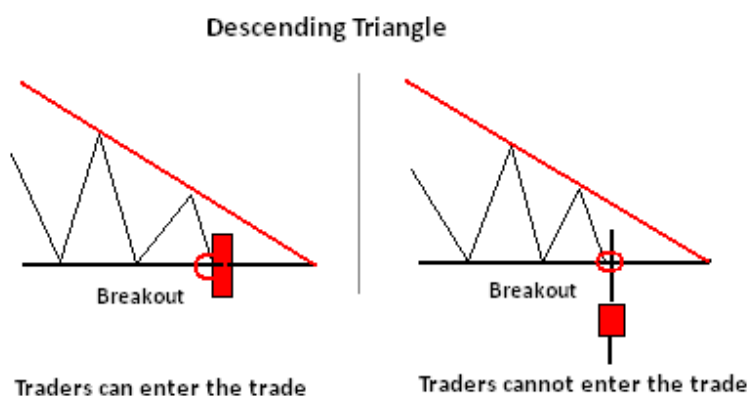
### How to Trade The Descending Triangle Formation

Similar to the other 2 triangle patterns, you can either trade the initial breakout or wait to see if price reverses back to test the broken support level and then sell.

Note: with a triangular pattern, I often prefer to wait for a candlestick to breakout and close outside of the pattern before I enter a trade. This helps to reduce false breakout signals.

But there will be times when I will just trade the breakout with a pending sell stop order just a few pips under the support level to catch the breakout when it happens but when I do that, I sit and watch the close of the 1hr candlestick to make sure that it does not close above the support line (if that happens, it may mean a false breakout).

And then there's the issues of extremely long breakout candlesticks again like this:



As mentioned previously:

- when you have such extremely long breakout candlesticks like that, better to sit and wait to see if price will reverse and get back up to the support level that was broken ( a retest) which will now be acting as a resistance level and then sell when that level is touched.

### **How To Take Profit**

I prefer to use previous support levels, lows or troughs and use those as my take profit target level.

Another method of take profit that is commonly used is to measure the height of the triangle and if the height is say 100 pips then that is your take profit target. The chart below should give you a clear idea of how it's done:



Note that on the chart, the descending triangle formed the end of an uptrend.

#### 4. Head & Shoulders Chart Pattern

The head and shoulder chart pattern is a bearish chart pattern. This is what a head and shoulder reversal pattern looks like:





Important things to note about the head and shoulder pattern:

- The head and shoulders pattern is a bearish reversal pattern and when found in an uptrend, it signals the end of the uptrend.

*Here's how this pattern forms:*

- Eventually, the market begins to slow down after going up for some time and the forces of supply and demand are generally considered in balance.
- Sellers come in at the highs (left shoulder) and the downside is probed (beginning neckline.)
- Buyers soon return to the market and ultimately push through to new highs (head.)
- However, the new highs are quickly turned back and the downside is tested again (continuing neckline.)
- Tentative buying re-emerges and the market rallies once more, but fails to take out the previous high. (This last top is considered the right shoulder.)

Buying dries up and the market tests the downside yet again. Your trendline for this pattern should be drawn from the beginning neckline to the continuing neckline.

Here's another example:

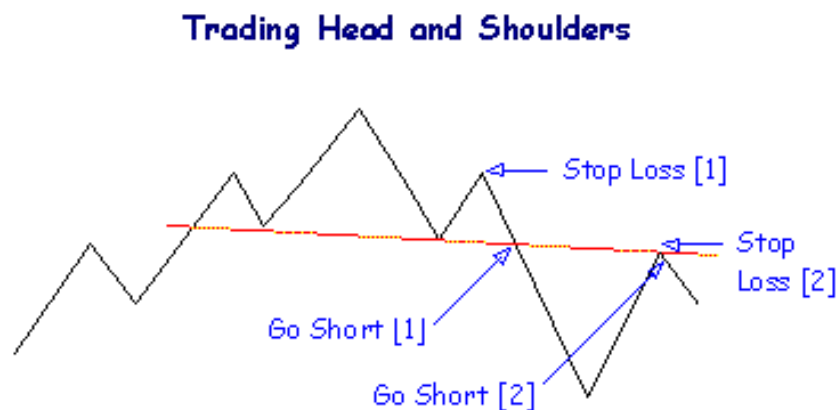


Here's another one:



## How To Trade The Head & Shoulder Chart Pattern.

The following chart below makes it much clearer.

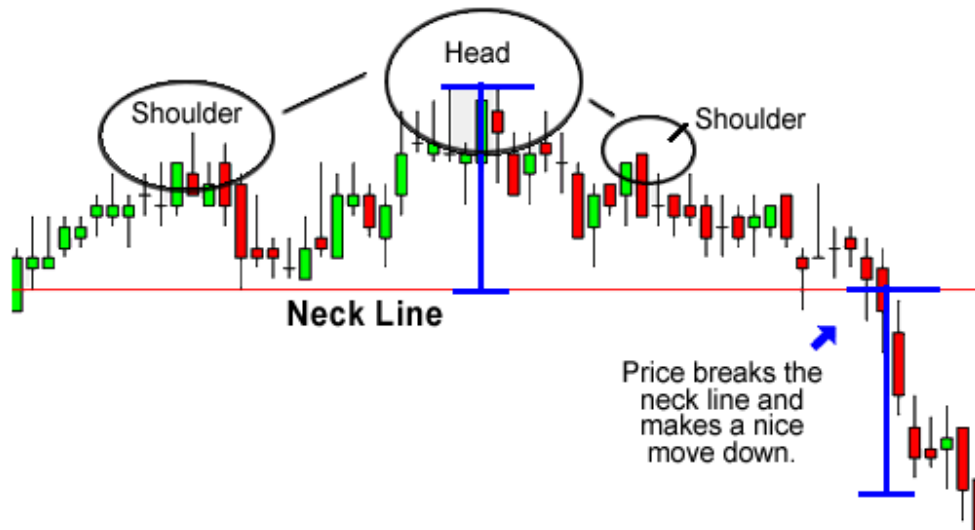


[1] Go short when price breaks below the neck line. Place a stop loss above the last peak. [2] If price rallies back to the neck line, go short on a reversal signal and place a stop loss above the resistance level.

## How To Calculate Profit Targets

- I use previous lows or troughs to set my take profit target.
- However, you can also use the distance in pips between the neckline and the head as your take profit target level. So if the distance is 100 pips, then if you trade the initial breakout, you set it at 100pips take profit target level like the chart shown below with the two blue lines:

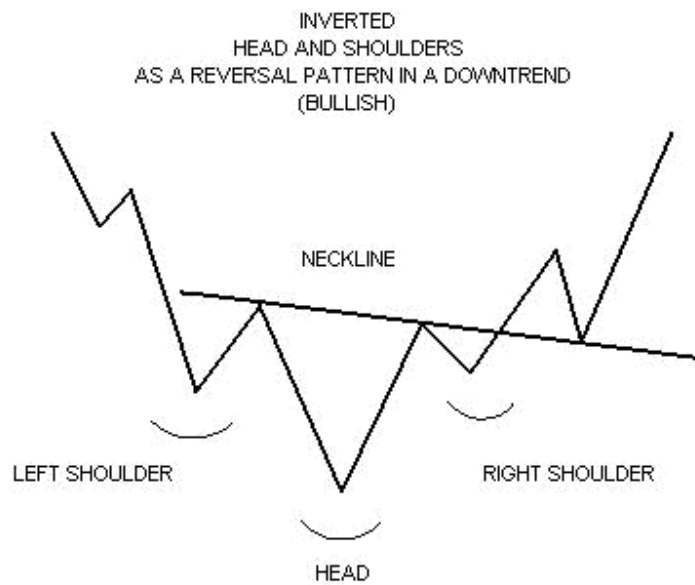
## Head and Shoulders



### 5. Inverse Head and Shoulder Pattern

You will also see this pattern, though not as popular, it's good to keep an eye out for it. The inverse head and shoulder pattern is bullish reversal candlestick pattern and just the opposite of head and shoulders pattern.

Here's what it look like on the chart shown below:

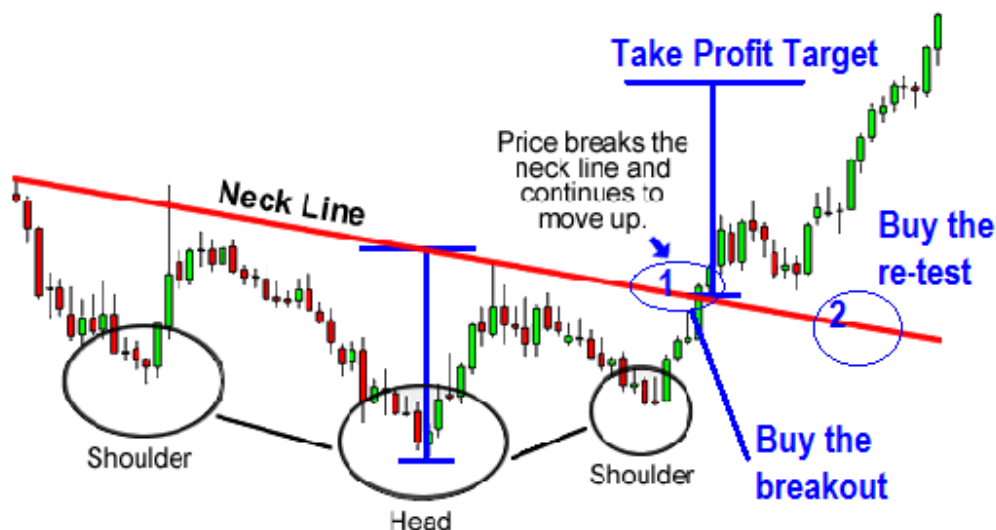


And this is what it looks like on a real chart:



## How to Trade the Inverse Head and Shoulder Pattern

You can buy the initial breakout of the neckline or wait for the re-test, that is wait for price to breakout and then come back down to test the broken neckline and then buy. Use bullish reversal candlesticks for trade entry confirmation if you are waiting to buy on re-test.



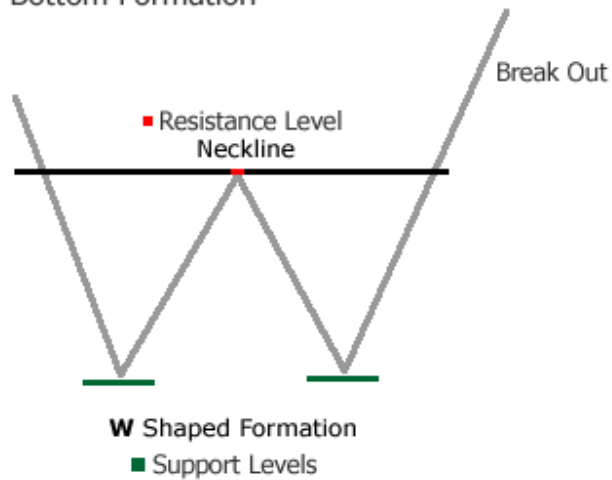
I often tend to place my profit target on previous highs. One method of calculating profit target is to measure from the head up to the trendline and what the distance in pips is your profit target. See the two blue vertical lines in the chart above.

### 6. Double Bottom Chart Pattern

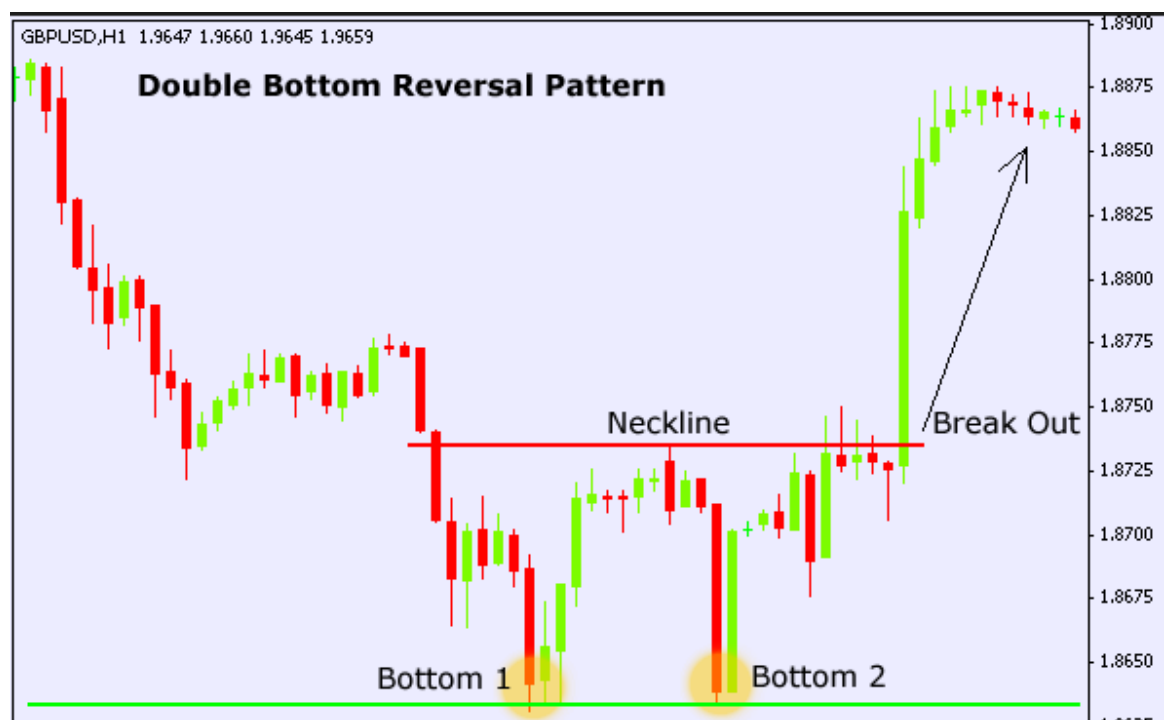
A double bottom chart pattern is bullish reversal chart pattern and when it forms in an existing downtrend, it signals a possible upward trend.

Here's what It look like:

## Double Bottom Formation



This is what a double bottom pattern looks like on a real forex chart:



### 3 Ways on How To Trade Double Bottoms

#### *#1: Trade the breakout of the neckline:*

Many traders once they see that the double pattern has formed and the neckline is being tested, that's when they get in as soon as a breakout happens.

#### *#2: Wait to enter on retest of Broken Neckline*

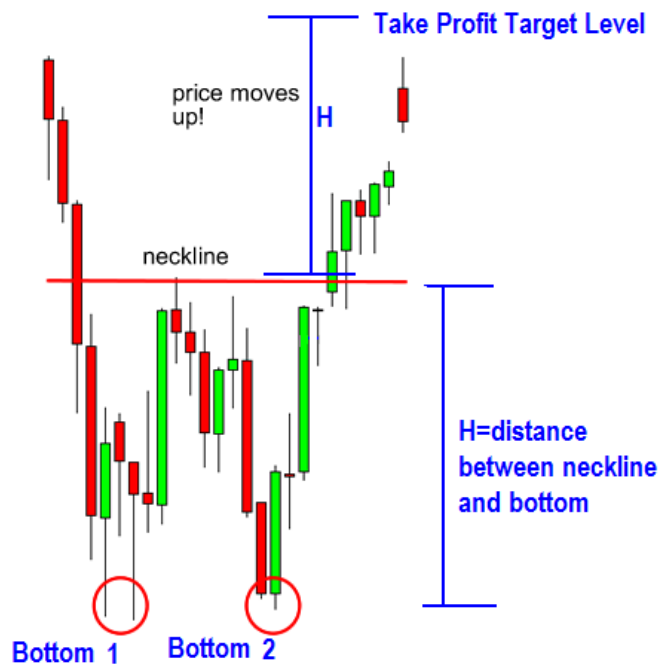
Then there are other groups of traders that like to enter when price reverses back down to touch the neckline, which now would act as a support level. Once it hits that neckline level they buy.

#3: Buy on bottom 2. In this way, you have the potential to ride the trade all the way up if the neckline is intercepted. You should consider buying on bottom 2 as buying on a support level...as a matter of fact, that it what is is! Look for bullish reversal candlestick patterns for trade entry signals.

For Take Profit Target levels:

- If you buy on bottom 2, you can use the neckline as your take profit level, or any previous highs above that as well.
- If you buy the breakout of the neckline, use the distance between the bottom and the neckline in pips to calculate your profit target. See chart below for example:





## 7. Double Top Chart Pattern

A double top chart pattern is a bearish reversal chart pattern and when found in an uptrend and once the neckline is broken, that confirms a downtrend. *The double tops are very powerful patterns and if you get into a trade at the right time, you stand to make a lot of profits when the breakout happens to the downside.*

Here's an example of a double top Chart Pattern shown below:



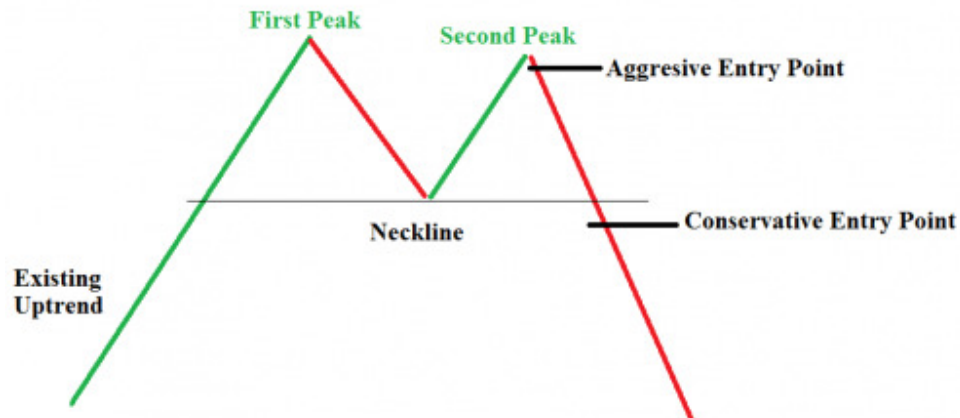
## How to Trade the Double Top Chart Pattern

There's 3 ways to trade the double top chart pattern:

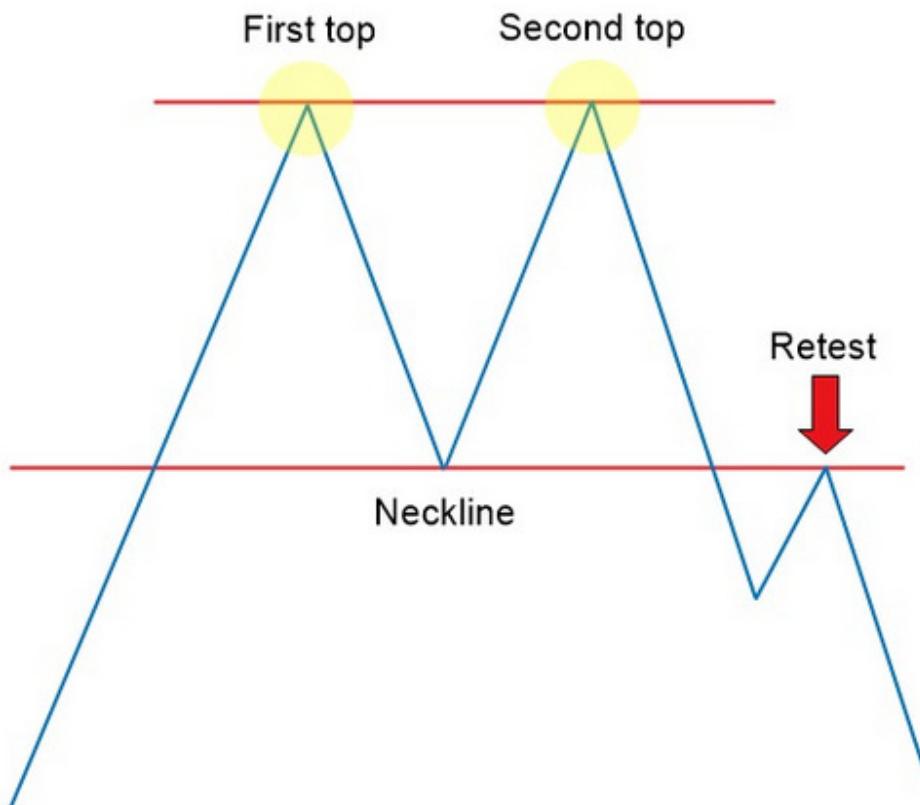
#1: Trade the initial breakout of the neckline.

#2: The technique I like most to take a sell trade on Peak 2 when I see a bearish reversal candlestick. And if price moves down and intersects the neckline and continues to do down further, your profits are dramatically increased.

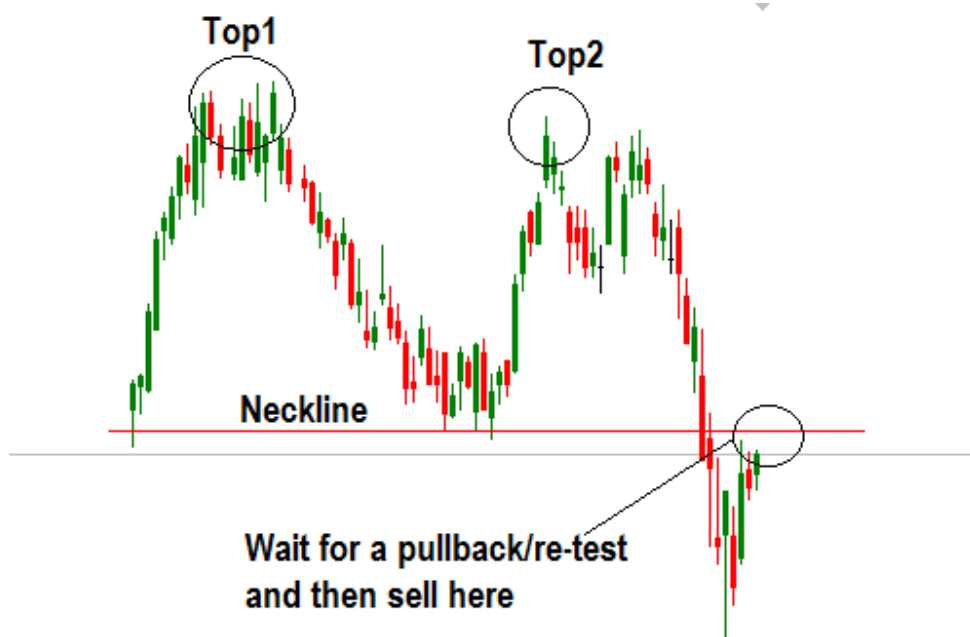
### Double Top Chart Pattern



#2: You can wait for price to go back up to test the broken neckline (which would now act as resistance level) and when you see a bearish reversal candlestick pattern, go short (sell) as this example below shows:



This is how it would look like in a real forex chart:

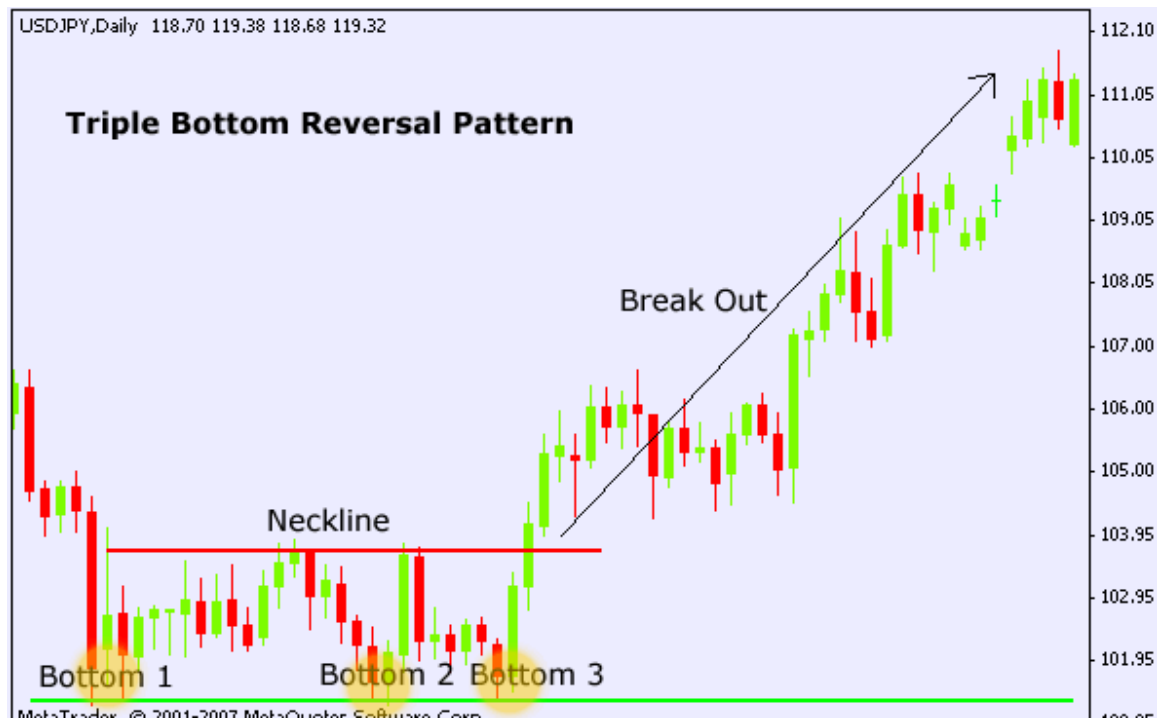


### **How to Take Profit On The Double Top Chart Pattern.**

Use previous low (support levels) to set take profit targets. Or another option would be to measure the distance between the neckline and the highest peak (the range) and use that difference in pips as take profit target if you are trading the breakout from the neckline.

### **8. Triple Bottom**

I do not see triple bottoms forming quite as often...Regardless of that, you should have an idea of what it looks like:



Triple bottoms are bullish reversal chart patterns, which means if found in a downtrend and this pattern starts to form and once the neckline is broken and price head up, this confirms that the trend is up.

Here's another example of a triple bottom shown below:



### How to Trade The Triple Bottoms

- Many traders wait until the neckline is broken and trade the initial breakout.
- Others will wait for a retest of the broken neckline to enter a buy order once they see a bullish reversal candlestick...
- I prefer to take trades on the 3rd bottom by watching the price action. If I see a bullish reversal candlestick pattern, I buy. Why do I do that? Well, if price goes up and breaks the neckline and goes upward, I would be in a lot more profit than if I bought the breakout of the neckline.

Profit taking methods would be similar to double bottom chart pattern mentioned previously...

## 9. The Triple Top Chart Pattern

Triple tops are the opposite of triple bottoms and they are bearish chart patterns. They rarely occur but its good to know what they look like.

Triple tops when found in an uptrend, it signals the end of the uptrend when the neckline is broken and price heads down.



### How To Trade The Triple Top Chart Pattern

- Some conservative traders wait for the neckline to be broken to trade that breakout.
- Some will most likely wait for retest of neckline and then sell.
- I prefer to take trades on Peak 3 and if the trade breaks the neckline and goes all the way down, I have a lot more profit to make. The key to taking a

good trade on peak 3 is by looking for bearish reversal candlesticks. These are your signals to go short.

- If you take a trade at peak 3, your profit target can be the neckline.
- Or if you take a trade on the breakout of the neckline, measure the distance in pips between the neckline and the highest of the 3 peaks and use that distance to calculate your profit target. Or you can use a previous low and use that as your take profit target level as well.



## CHAPTER 11: NINE (9) PROFITABLE CANDLESTICK PATTERNS EVERY TRADER NEEDS TO KNOW

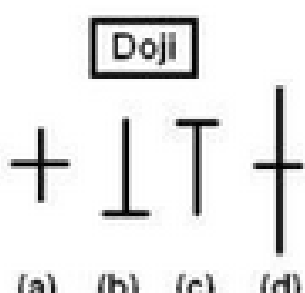
There are lots of candlesticks, but out of all of them only 9 that you really need to know.

Why? Because there are very popular are really powerful so why waste time with the rest?

When these candlesticks form at support and resistance levels or Fibonacci levels they are great trade entry signals.

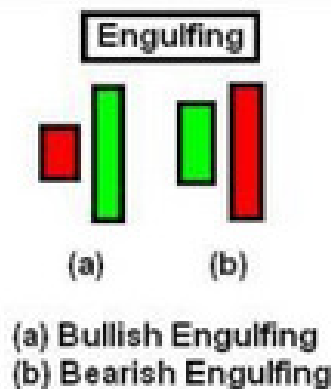
### #1: The Doji Candlestick Patterns.

The doji candlesticks are single (individual) candlestick patterns. There are 4 types of doji candlesticks as shown below:

- a) The doji cross can be both considered a bullish or bearish signal depending on where it forms.
- b) The gravestone doji is considered a bearish reversal candlestick when formed in an uptrend or in a resistance level.
- c) The dragonfly doji is considered a bullish candlestick pattern when formed in a downtrend or in a support level.
- d) The long-legged doji shows a period of indecision by bulls and bears and depending on where it forms (uptrend/resistance level=bearish signal, downtrend/support level=bullish signal) it can be considered a bearish or bullish signal.
- 
- The diagram illustrates four types of Doji candlestick patterns. At the top, a box labeled 'Doji' is shown. Below it, four patterns are depicted: (a) a standard Doji with equal upper and lower shadows; (b) a Gravestone Doji with a long upper shadow and a short lower shadow; (c) a Dragonfly Doji with a long lower shadow and a short upper shadow; and (d) a Long-legged Doji with very long upper and lower shadows. Each pattern is labeled with its corresponding letter in parentheses below it.
- (a) Doji  
(b) Gravestone Doji  
(c) Dragonfly Doji  
(d) Long-legged Doji

### #2: The Engulfing Candlestick Patterns

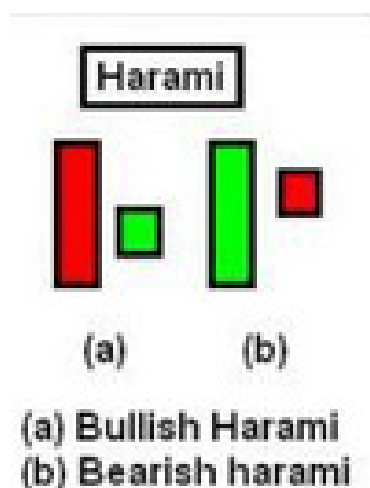
The engulfing patterns are 2 candlestick patterns. For a bullish engulfing pattern, you will see that the first candle is bearish followed by the second candle which is very bullish and this 2<sup>nd</sup> candle completely engulfs



- a) **Bullish Engulfing**-when formed in a support level or in a downtrend, this can signal that the downtrend is potentially ending.
- b) **Bearish Engulfing**-when formed in an uptrend or or in a resistance level, this is a signal that the uptrend may be ending.

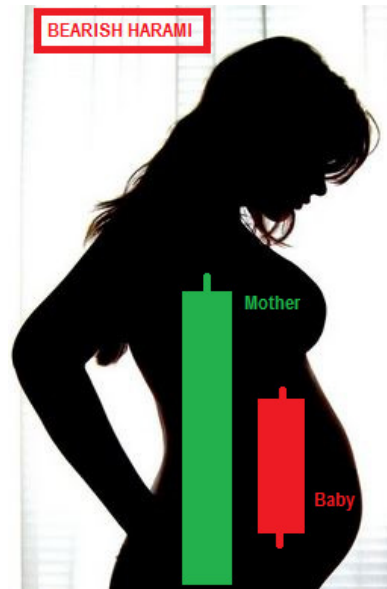
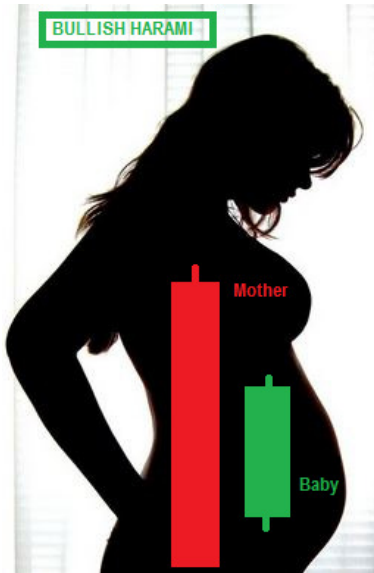
### #3: Harami Candlestick Patterns.

The harami is a 2 candlestick pattern and can be bullish or bearish.



- a) **Bullish Harami**-this is a 2 candlestick pattern. The first candlestick is a very bearish candlestick followed by a bullish candle, which is quite short and is completely covered by the shadow of first candle. When you see this in a downtrend or in an area of support, this will be your bullish(buy) signal.
- b) **Bearish Harami** is the exact opposite of bullish harami. When you see this pattern form in a resistance level or in an uptrend, this is a bearish reversal signal and may indicate that the uptrend is ending and you should go short (sell).

The easiest way to remember the harami patterns is to think about a pregnant woman and a baby inside her tummy:



#### #4: Dark Cloud Cover Candlestick Pattern

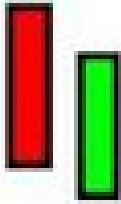


The dark cloud is another bearish reversal candlestick pattern formation consisting of 2 candlesticks. The first one is a bullish candlestick showing a strong upward momentum but when the second candle forms, it shows a completely different story...its bearish and it closes at about the midway point of the first candlestick.

When you see the dark cloud cover candlestick pattern in an uptrend or in level of resistance, it's a bearish reversal signal and you should be thinking to go short (sell).

## #5: Piercing Line Candlestick Pattern

### Piercing



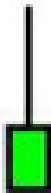
The piercing line is the opposite of dark cloud cover. You may see this in a downtrend or forming at a support level. The first candlestick is very bearish and when the 2<sup>nd</sup> candle forms, it tells a completely different story, it's bullish. This tells you that the bears are losing steam and that the bulls are gaining strength to potentially move the market price up.

The second bullish candlestick should close somewhere up the mid-point of the first candlestick.

So when you see the piercing line pattern forming at support levels or in a downtrend market, take note as this is a potential bullish reversal signal so you should be thinking of going long (buying).

## #6: Shooting Star Candlestick Pattern

### Shooting Star



This is one of the most reliable candlesticks and obviously one of the most popular due to the fact that they are so easy to spot on any chart.

The shooting star is single candlestick pattern and when it forms in an uptrend or in a resistance level, then it is considered as a bearish reversal pattern and so you should be looking to sell.

*Note: the shooting star is sometimes called the bearish hammer, inverse hammer, inverted hammer or bearish pin bar. They all mean the same and refer to the shooting star candlestick pattern.*

## #7: Hammer Candlestick Pattern

Hammer



The hammer candlestick is a single candlestick pattern and it is considered a bullish reversal candlestick pattern and it's the opposite of the shooting star candlestick pattern.

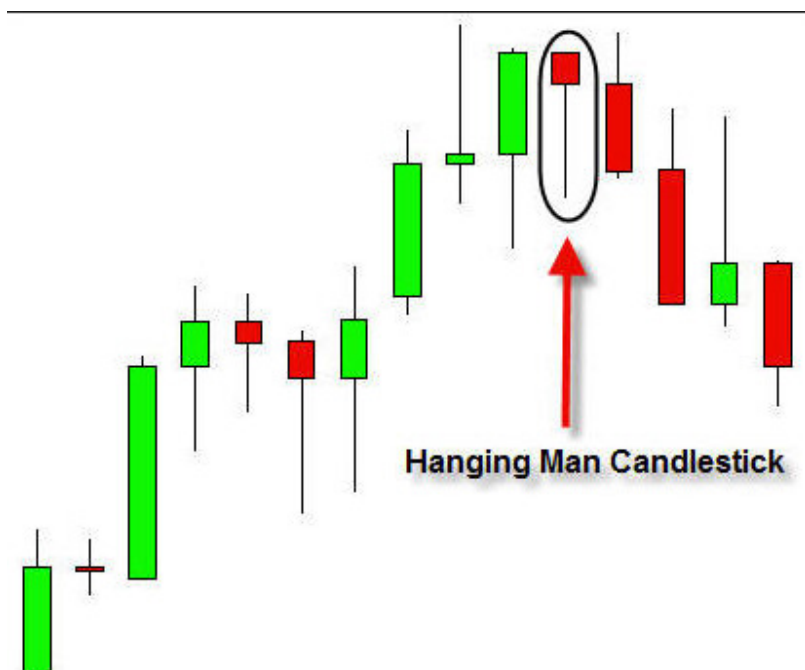
It has a very long tail and a short upper wick or none at all.

When it forms in a downtrend or at support levels, you should take note...this is a very high probability bullish reversal candlestick pattern and you should be looking to

go long (buy).

## #8: Hanging Man Candlestick Pattern

Now, what happens if you see in an uptrend a candlestick that looks like a hammer? Is it still a bullish signal? Well, in that case, this candlestick is a hanging man and its not a bullish signal. Here's how it looks:



*Now, the hanging man, is exactly like hammer but the only difference is that it must form in an uptrend.*

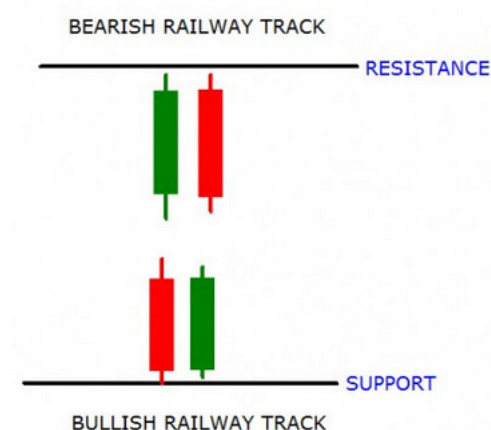


When it forms in an uptrend or in resistance levels, it tells you that there is a possibility that the uptrend is ending so you should be looking to go short (sell).

### **#9: Railway Track Candlestick Patterns**

The railway track pattern is a 2-candlestick pattern and there's a bearish and bullish railway track candlestick pattern. A notable feature of railway tracks is that

they look like paralld railway tracks...and both candlesticks should be of almost the same lengh and body and almost look like mirror image of each other.



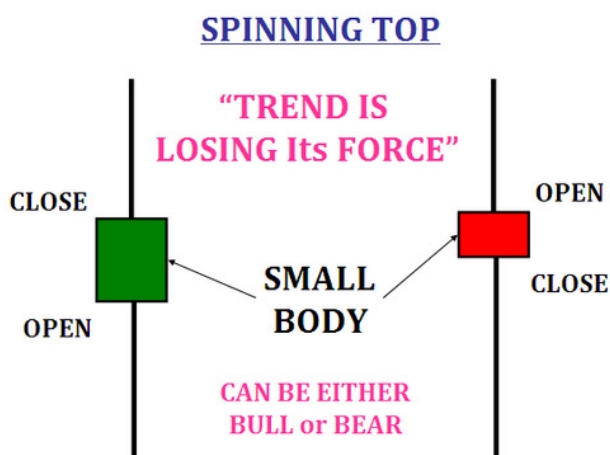
a) For a bearish railway track, the first candle is bullish followed by almost exactly the same length and body of the second candlestick which is bullish. This tells you that bulls are losing ground and bears have gained controlled.

So when you see the bearish railway track pattern in an uptrend, or in an area of resistance, this is a signal that the downtrend may be starting so you should be looking to sell.

b) Similarly but opposite is the bullish railway track pattern. When you see this in a downtred or in an area of support, take note because the market may be heading up and this is your signal to buy.

## #10: Spinning Top

Spinning tops can be continuation candlestick patterns or reversal candlestick



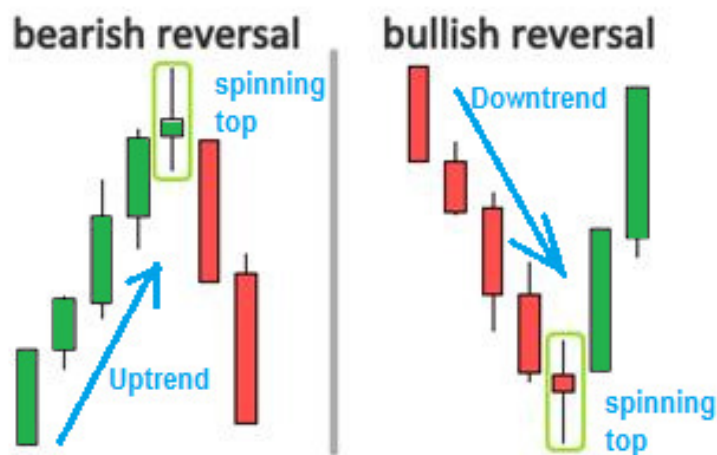
patterns. Spinning tops have small bodies with upper and lower shadows that exceed the length of the body. Spinning tops signal indecision. A spinning top is a single candlestick pattern and it can be both bullish or bearish.

Let me explain. *If you see are bearish spinning top in a support area or in a downtrend, this can be considered a*

*bullish reversal signal when the high of the bearish spinning top is broken to the upside.*

*Similarly, a bullish spinning stop in a resistance level or in an uptrend can be considered a bearish signal as soon as the low is broken to the downside.*

Example below shows what I mean:



Spinning tops are fairly short in length compared to other candlesticks and their body length is a few steps wider than that of doji candlesticks (which actually have none or very tiny bodies).

Another notable feature of spinning tops is that the *wicks on both sides should be almost the same length*.

When I see spinning tops form on support or resistance levels, all it tells me the bears and bulls do not really know where to push the market and so when a *breakout of the low or high of a spinning top by the next candle that forms* usually signals the move in that direction of breakout!

Here's an example:





### Blending Candlesticks

This is a technique where not many traders are aware about and I will just give you a simple example so you understand this concept better.

To give you a bit of context, if you are a forex trader and you are using the metatrader4 trading platform, it got only 9 timeframes where your charts can be viewed in which are the 1m, 5min, 15m, 30min, 1hr, 4hr, daily, weekly & monthly timeframes as shown on the chart below:

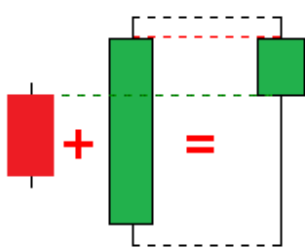


You may see a hammer in the 1hr timeframe but remember that that 1hr timeframe has two-30minute candles to make 1 hr, right? Yes.

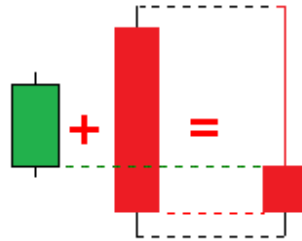
So what do you think the candlestick pattern would be in the two-30 minute candlesticks to give you a bullish hammer candlestick pattern in the 1hr timeframe? Or if you see a shooting star bearish candlestick in the 1hr timeframe, what do you think would be the candlestick pattern in the two-30minute candlesticks that gave that 1hr candlestick a shooting star?

Well, your answers are below:

## BLENDING CANDLES



**Bullish  
Engulfing = Hammer**



**Bearish = Shooting  
Engulfing = Star**

Hope you really understand this concept because here's why:

*In the metatrader4 trading platform, there's not partner timeframe for 1minute...you need a 2minute chart which does not exist. Similarly, there's no 10min chart which you can use to blend with the existing 5min timeframe. Similarly, there is no 2hr timeframe to go with 4hr timeframe and no 8hr timeframe to go with the existing 4hr timeframe.*

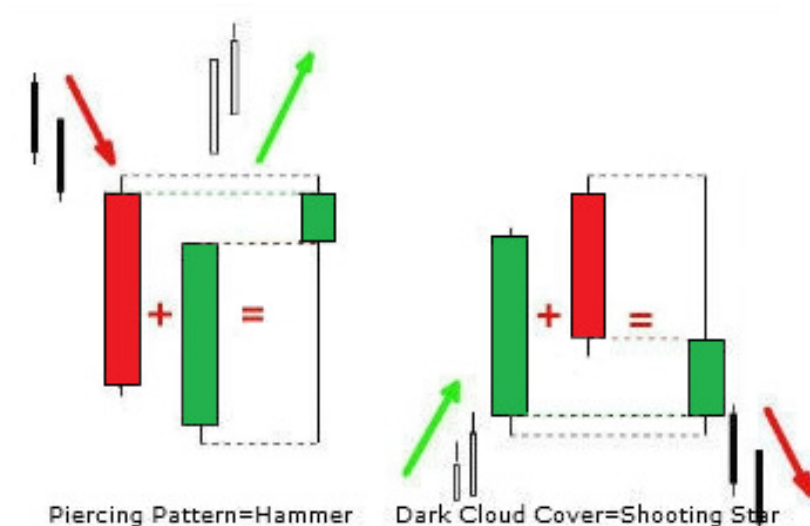
So let's say you are a trader that loves to trade only hammers and shooting stars and you are waiting buy at a major support line in the 1hr timeframe.

You've been waiting patiently for a bullish hammer candlestick pattern to form to give you the signal to buy .But unfortunately, no hammer forms in the 1hr timeframe and even though you see a bullish engulfing pattern formed, you did not enter a buy trade.

You just watched as price shoots up and you wished you could have bought at the bullish engulfing signal that was given but you are only interested in trading hammers.

Well, if there was a 2hr time frame in metrader4, you could have switched to it and seen a very bullish hammer and you could have taken the trade but because you did not understand the concept of blending candlesticks you missed a very good trade!!!

Here are few more examples:



Notice also that a piercing line pattern when blended forms a hammer.  
A Dark cloud cover when blended also forms a shooting star.

## CHAPTER 12: HOW TO TRADE FIBONACCI WITH PRICE ACTION

Now, I don't know about you but one thing I continue to see is that price action respects Fibonacci levels...not all the time but when it does, some of the market moves generated can make you money very easily. The trick is to use Fibonacci and combine it with price action by using reversal candlesticks.

But first, if you've never heard about Fibonacci retracement tool, then here's a brief introduction...

### What Is The Fibonacci Retracement Tool?

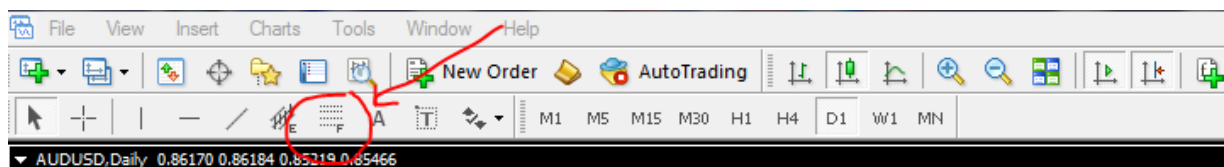
This tool is a series or sequence of numbers identified by a guy called Leonardo Fibonacci in the 13<sup>th</sup> Century. (He's long dead...) No, need to go into pointless details about how those numbers are derived.

So what actually is a Fibonacci Retracement?

In technical analysis *Fibonacci retracement is created by taking two extreme points (usually a major peak and trough) on your forex chart and dividing the vertical distance by the key Fibonacci ratios of 23.6%, 38.2%, 50%, 61.8% and 100%. Once these levels are identified, horizontal lines are drawn and used to identify possible support and resistance levels.*

The two fib levels I use the most are the 50% and the 61.8%. I really do not focus at all on the others.

If you are using metatrader4 Trading platform, the Fibonacci tool has an icon as shown on the chart below:



### **Top 3 Reasons Why You Need A Fibonacci Retracement Tool:**

1. In a downtrend, after price has been going down for some time, it will move back up (upswing...remember?). The Fibonacci retracement tool can help you estimate or predict potential price reversal areas or levels.
2. Similarly, in an uptrend, price will make minor downtrend moves (downswings) and the Fibonacci retracement tool will help you predict potential reversals areas or price levels.
3. If used in conjunction with support and resistance levels and combined with price action, they do really form a powerful combination and do give highly profitable trading signals. This describes something known as "*price confluence*". I will talk more on that later.

### **How to Use the Fibonacci Tool On Metatrader4**

It is actually a very simple 3 step process:

Step1: find a peak (upswing point/resistance level) and a trough (downswing point/support level)

Step2: Click on the Fibonacci tool icon on your chart.

For the next steps, it's all click and drag process...

Step 3a: In a downtrend market, you click first on the previous peak where you want to analyse from and drag down to the trough where price reversed from and release.

Step 3b: In an uptrend market, click and drag first on the trough up to the peak and release.

That's how simple it is to draw Fibonacci retracement levels on your charts.

On the chart below notice that price formed a peak and then moved down, found support and formed a trough, and price went back up.

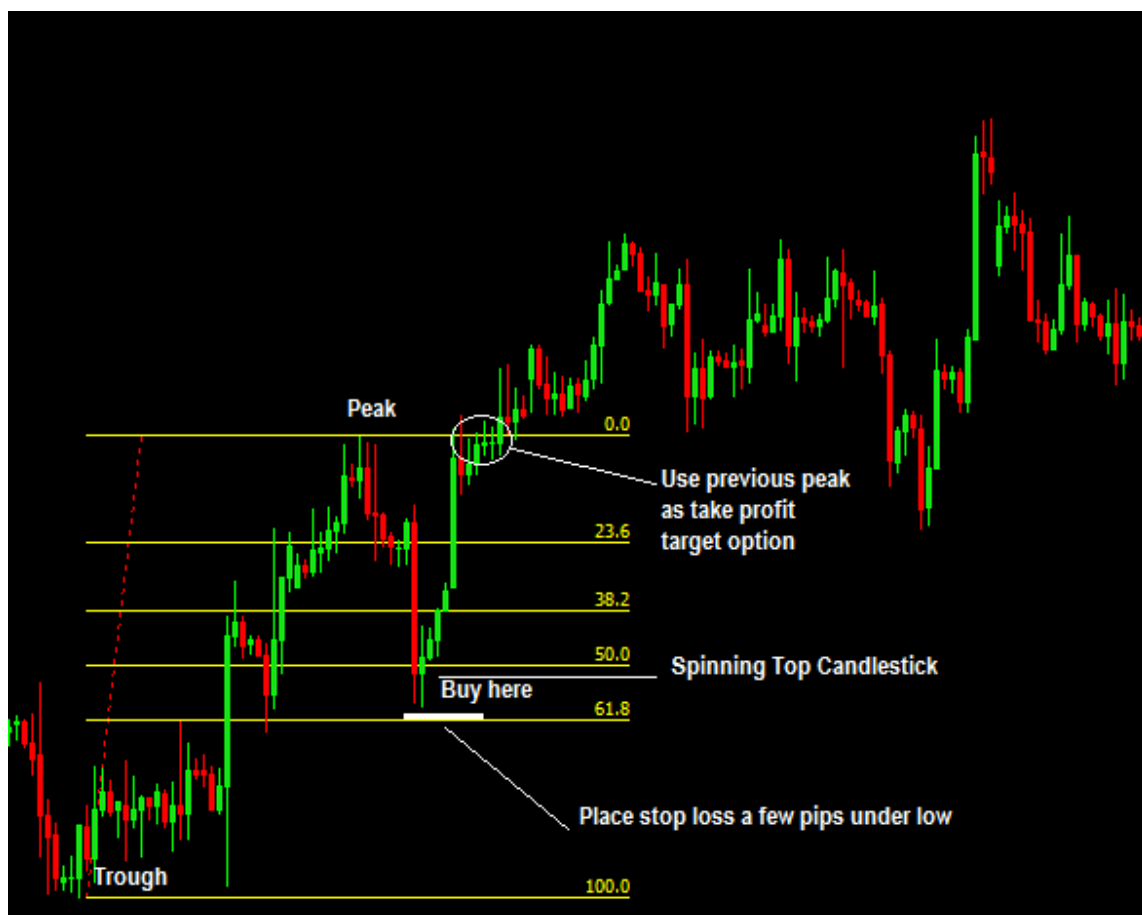


At around the 50% fib level, it starts to show signs of losing the upward steam. You can also see the bearish spinning top candlestick which could have been used as a signal to go short (sell).

*Can you buy or sell just based entirely on the fib numbers like 50% or 61.8% as soon as price reaches these levels without price action?*

Well, I think that there are traders out there that do that and you can do that. But personally, I do not like that approach. I'd rather combine Fibonacci with reversal candlesticks, trend lines, support & resistance levels etc for trade entries.

Let's study the past... here's an example of how to trade Fibonacci with price action in an uptrend. Notice the spinning top candlestick right at the 50% level which could have been used as a buy signal:





Here's another example of how to trade Fibonacci with price action in a downtrend:



You can see that this is not complicated, isn't it? Very simple trade setups. Your risks are small compared to the profits you potentially can make.

## CHAPTER 13: HOW TO TRADE TRENDLINES WITH PRICE ACTION

When the market is heading down, it forms down swings and up swings as it continually moves lower.

Similarly, when the market is in an uptrend, it will form upswings and downswings as it continues to move up.

The peaks that are formed by the up swings and the troughs that are formed by the down swings can be used to draw trendlines.

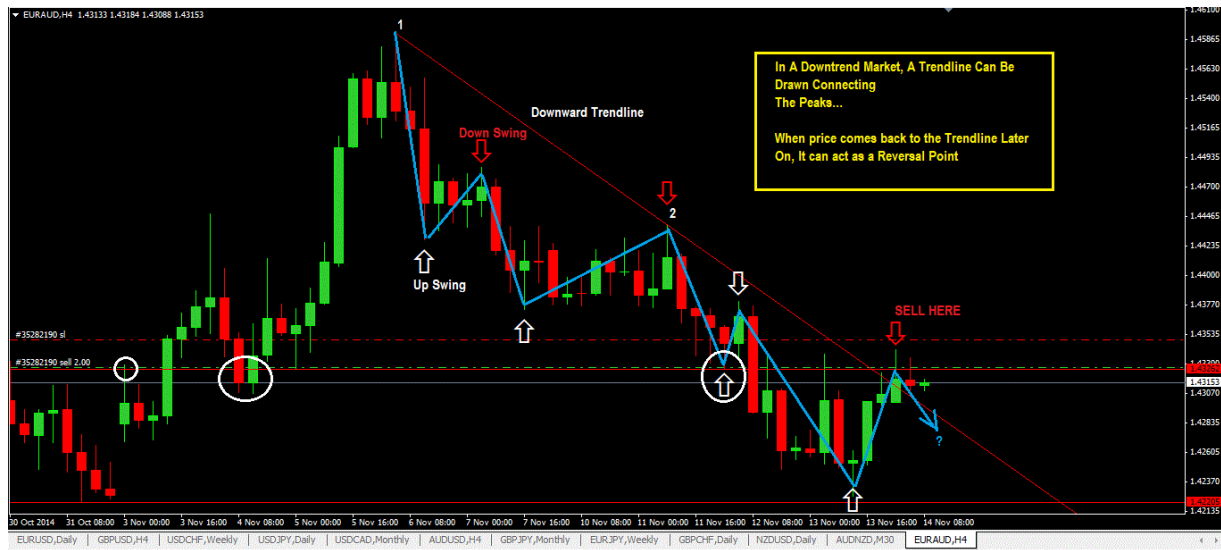
- And you need a minimum of 2 peaks to draw a downward trendline for a market that is in a downtrend
- and you need 2 troughs to draw an upward trendline for a market that is in an uptrend.

### **Downtrend Trendlines**

Now, for a market in a downtrend, you can connect the peaks with a line and that forms you downward trendline.

What you are waiting for is for price to come back up and touch that trendline and when it does, this could mean that a down swing will start and it may be the best time to enter a short trade.

*The use of bearish reversal candlesticks as trade confirmation is highly recommended with this trading method.*



## Upward Trendlines

When the the market is in an uptrend, connect 2 troughs and you have an upward trendline. When price comes to touch it later, you have a potential buy setup.

The chart bellows shows a live example of a long trade on AUDNZD pair that I took at the moment whilst I was writing this guide.



As you can see, I was anticipating a move up to the 1.1290 level and used that as my take profit target level. Obviously, this trade was taken based on the setup in the daily timeframe which means it may be a week or two before the profit target is hit if the market makes a nice move up *or the opposite can happen*, price breaks the trendline and I get stopped out or I can walk away with some profits when my trailing stop gets hit.

But the next day, price broke that upward trendline and I got stopped out with a loss. But here's the thing with a trade like that...*my stop loss is tight*, with a potential *reward of more than 3 times what I risked* for this trade. Here's the chart of what happened:



I strongly recommend that you use bullish reversal candlesticks as a signal for executing your buy/long trades.

**I'm not glamourizing price action trading here. You will have losses like what I've shown.**

*But think about this...*if the price had moved the way I analysed, I would have made a lot more profits than what I lost.

With Price action trading, you are risking less with the potential to make more and that's the beauty of price action trading.

### **What happens if the trendline gets intersected?**

There are a couple of things you need to be aware when a trendline gets intersected:

(1)The first is that it could mean the trend has now changed.

(2)The second is that it can be a false break only and price will soon head back in the original direction.

Now, there's another thing about trendlines, if one trendline gets broken, you need to be see if you can draw another trendline above (or below) the one that's broken. There can be 2 or more downward trendlines or 2 or more upward trendlines at any one time on any chart in any timeframe.

So if price breaks the first trendline, it still has yet to head to the 2<sup>nd</sup> and the third etc...

So if you take a sell trade on the first trendline but price intersects it and you are stopped out with a loss and now price is heading to the 2<sup>nd</sup> trendline above, you should also look to sell if you get bearish reversal candlestick signal.

Here's an example of a trade in a similar situation that I took on the AUDUSD pair. See chart below: (enlarge if you cannot see clearly).



You will notice that I took the first trade on the first downward trendline based on a bearish harami and also a spinning top pattern there but then price intersected that trendline and went up to the 2<sup>nd</sup> downward trendline.

I saw a shooting star so I took another short trade. Obviously, you can see how the price reacted to the trendline by forming a shooting star. That was enough signal for me to short this pair.

You need to be aware of these kinds of trendlines not only on the sell side but on the buy side as well.

I highly **recommend Trendline Trading Strategy Secrets Revealed Trading System**. This is much more advanced trendline trading system you can ever find on the internet. You can get it for \$37 on this site [www.forextrendlinetrading.com](http://www.forextrendlinetrading.com)

## CHAPTER 14: HOW TO TRADE MOVING AVERAGES WITH PRICE ACTION

Remember in the beginning I did briefly mentioned something about *Not-So-Pure Price Action Trading*?

Well, now we are at it!

When you use price action trading with one other indicator or a combination of indicators which are incorporated into your trading system then that's what I call *Not-So-Pure Price Action Trading*. (Call it whatever you like, if you think I'm wrong, I really don't care).

Many new traders that find it difficult to define the structure of a trending market, therefore they rely on moving averages for trend detection or identification.

The only thing I see useful in moving averages is for dynamic support and resistance levels. I will explain this concept shortly. As a matter of fact moving averages do a terrible job of predicting trends in that *they only do that after that trend has already started already and price has moved a great deal already*.

Here's an example:



In the chart on the left, notice that price has crossed the HL(higher low) already, indicating that the downtrend market has started (potentially). But notice that the moving averages have not crossed yet.

*So price action is telling you that you are now potentially in a downtrend but moving average is saying “not yet”.*

So you have two conflicting signals. And by the time moving average confirms



what the price action has indicated, price has already made a great deal of move downward already as shown by this chart on the left.

So which are you really going to pick? Depend on moving average to tell you that a trend has changed or depend on price action?

I really can't force, it's your choice.

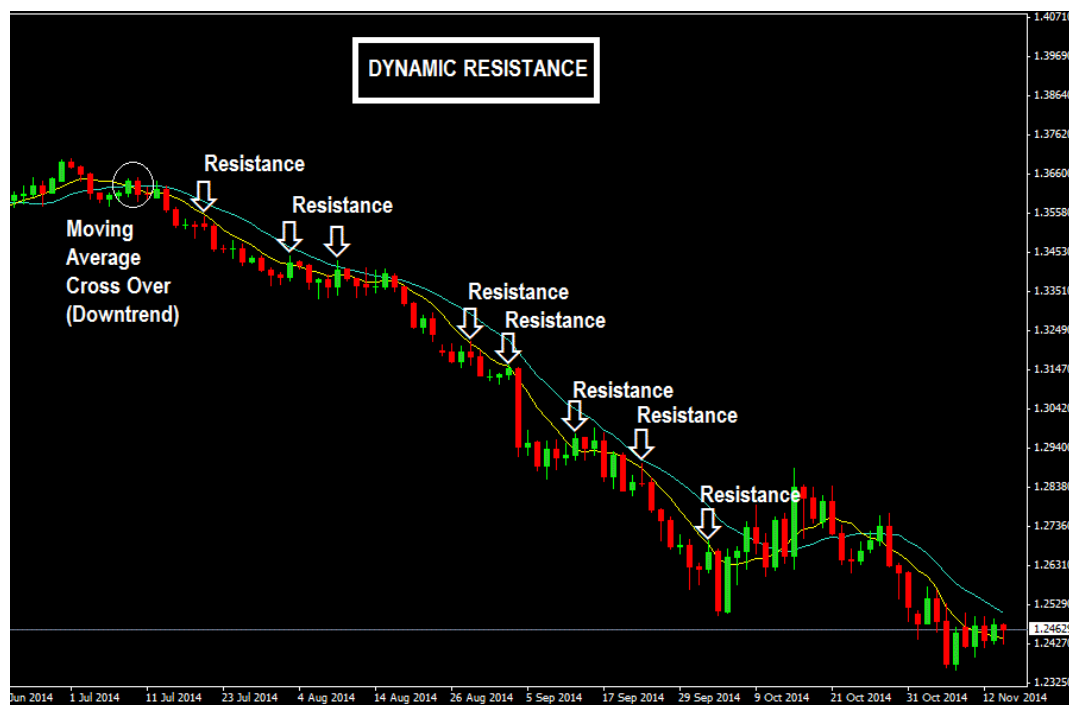
## Using Moving Averages For Dynamic Support And Resistance Levels

The concept of dynamic support and resistance can be fully understood with a few charts given below.

When the market is in a downtrend, you will notice that price moves up to the moving average lines (upswing) and then bounces back down from them (downswing). (That is if you put moving average lines on your charts).

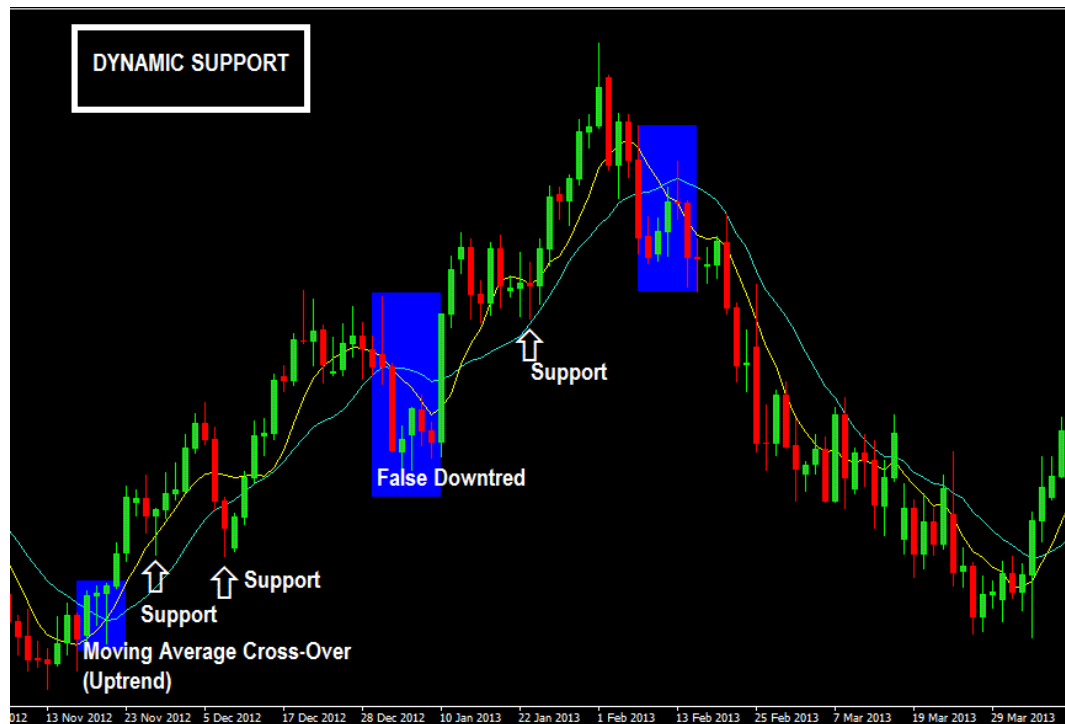


Here's an example:



The similar situation happens in an uptrend: prices move down to the moving average lines (downswing) and then bounces up from them (upswing).

Here's an example shown on the chart below:

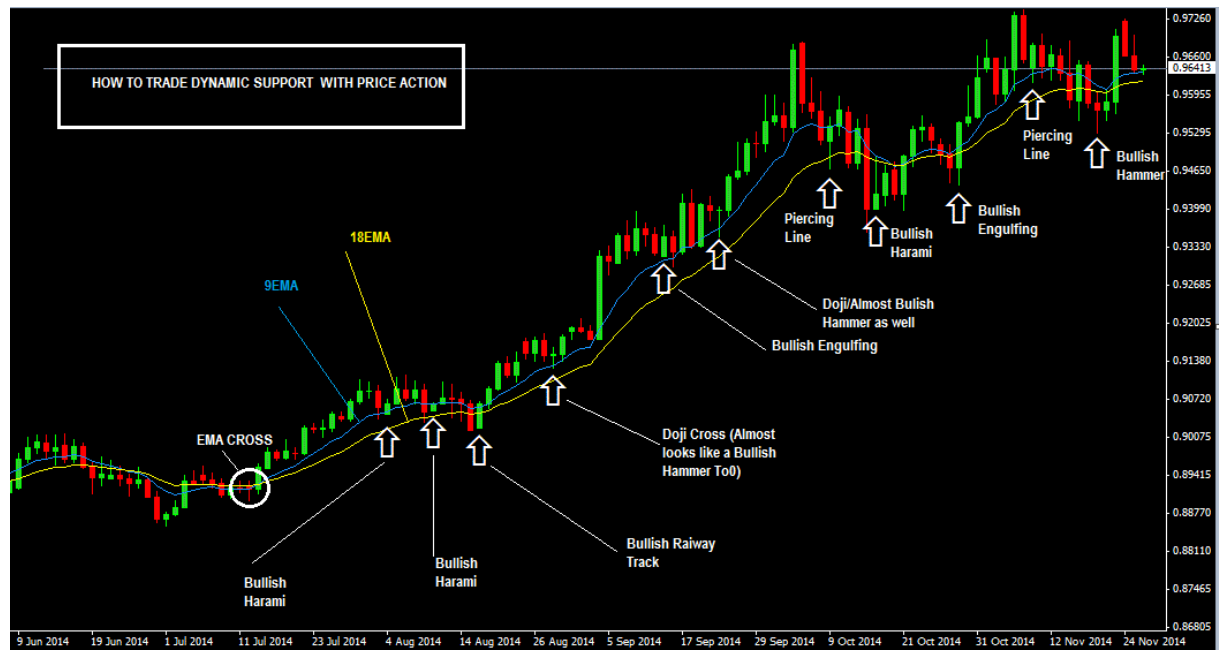


Now that you know this concept of dynamic support and resistance using moving averages, the next thing you need to know is that trend trading strategies can be created around them and in a very nice trending market, they are really effective.

For those that love moving averages, what you can do is to look reversal candlesticks as price starts to go back to touch the moving average lines and these are used as your confirmation signal to buy or sell.

- In a downtrend, you should be looking for bearish reversal candlesticks like the shooting star, bearish harami, spinning tops, dark cloud cover, hanging man etc to go short (sell).
- In an uptrend, you should be looking out for bullish reversal candlestick patterns like pin bars, dojis, piercing line, bullish harami etc...

Let's study the past again...on the chart below is an example of how to trade dynamic support with Price Action:

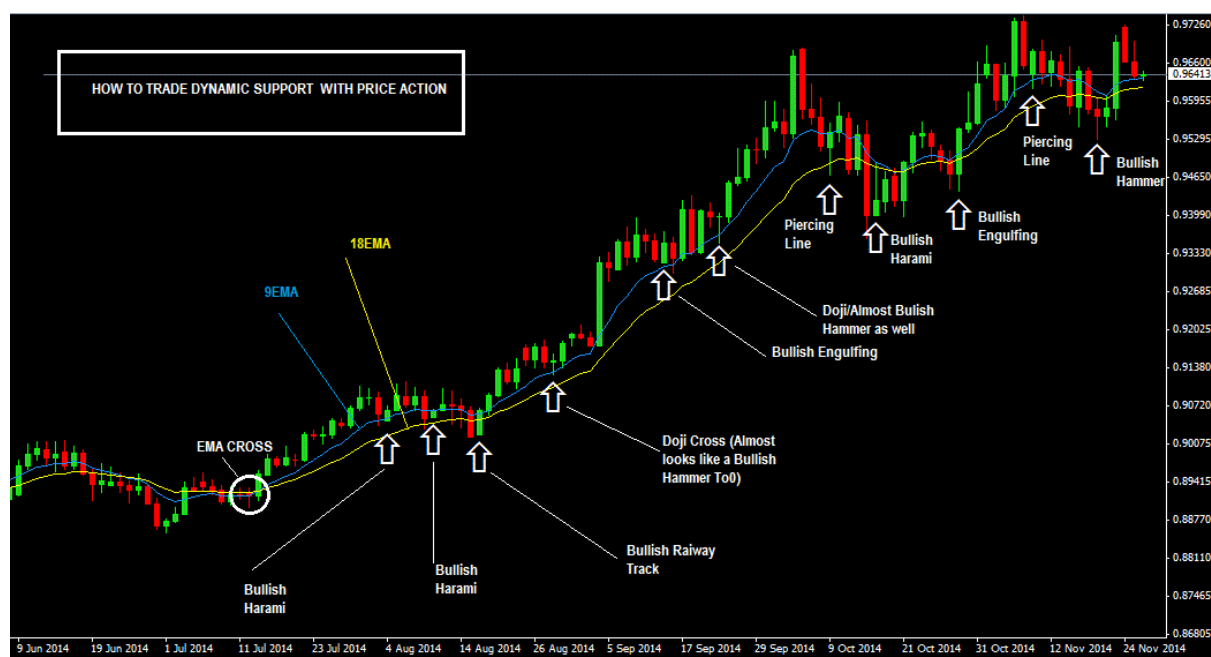


Now, it's easy to say here that “ you could have bought here and sold here” etc based on what happened in the past because now you can see how the market has played out in the past...

But real challenge for many traders is that when a setup is happening, they will most likely second guess it because this is how its going to look:



And this is how it turned out:



Here's an example of trading trading using dynamic resistance levels with price action:



## CHAPTER 15: HOW TO TRADE CONFLUENCE WITH PRICE ACTION

*What is confluence?* Well, let's find out here in this following example...

What if you were watching the market and then you saw that price is heading to a resistance level and then you checked your Fibonacci retracement and it's almost like a coincidence that the resistance level is also at 61.8 Fibonacci level as well. And there's even more...the overall trend is also down.

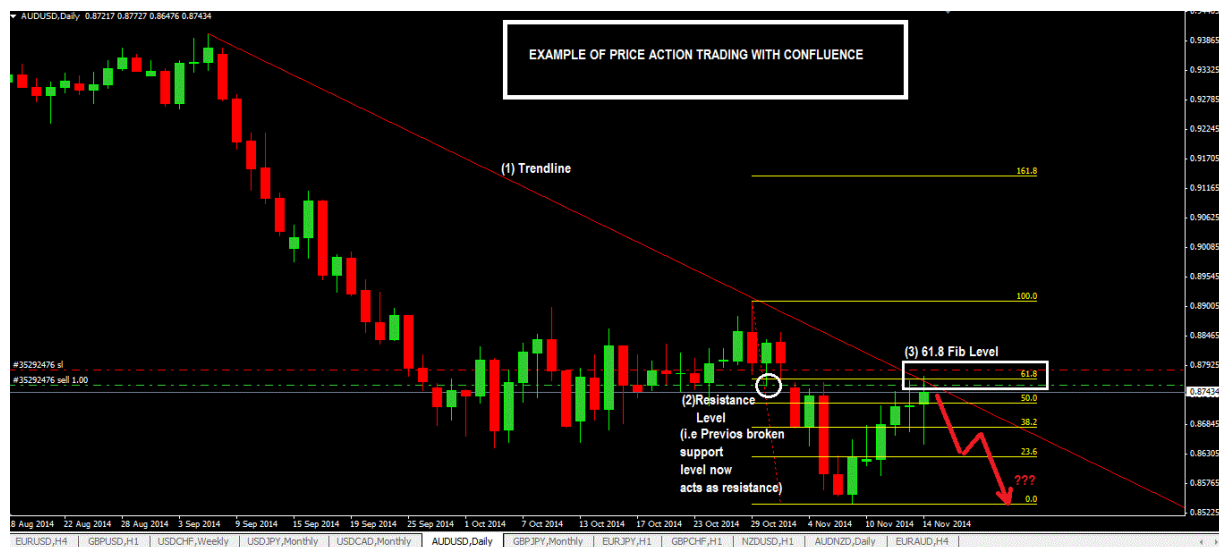
So you have 3 things lining up for you, here they are again:

1. the overall trend is down
2. you have a resistance level that price is coming to
3. and you notice that the price is also heading up to the fib level is 61.8 which coincides with the resistance level.

What I've described above is an *example of confluence*. A confluence is a point/level in the market where two or more levels intersect each other (or come together) and they form a *flash point or hot point* or confluent point.

### **Here's An Example Of How I Trade With Confluence**

Let me give a real example of a trade that I took as I was writing this. This is the daily chart for AUDUSD. Have a good and close look at it.



Here's why I took that trade:

1. I first drew a downward trendline and was waiting to see if price would come up to touch the trendline.
2. And I also noticed that the previous support level that was broken could *potentially act as a resistance level* causing price to reverse. Therefore now I have two things coming together.
3. Next thing I did was to check what the fib retracement level to see if price came and hit that resistance level what the ratio would be. Surprisingly, it was 61.8%. Sweet! So now I have 3 things coming together.

So how did I take the trade then?

I switched to the 1hr timeframe and waited for price to come and hit the confluence zone and saw a shooting star, a bearish reversal Candlestick pattern (also sometimes called a bearish pin bar). That was my clue to execute a short trade right there.

Here's is a close up of how the trade setup looked like in the 1hr where I was waiting to take the trade(see chart below):



I risked 50 pips for this trade and later I'm going to set the *previous swing low as my profit target* which is 215 pips and if my profit target gets hits, I will make 7 times what I risked initially.

### Update:

Good thing as I was stilling writing this guide this trade played out so I can show you what happened: As you can see, I managed to make 138 pips on the first trade. Note also that I also made a 2<sup>nd</sup> trade which made 125pips as well. Even



though my profit target was not hit, I used trailing stop loss as shown below until I got stopped out when price moved back up.



That's the beauty about these kinds of trades:

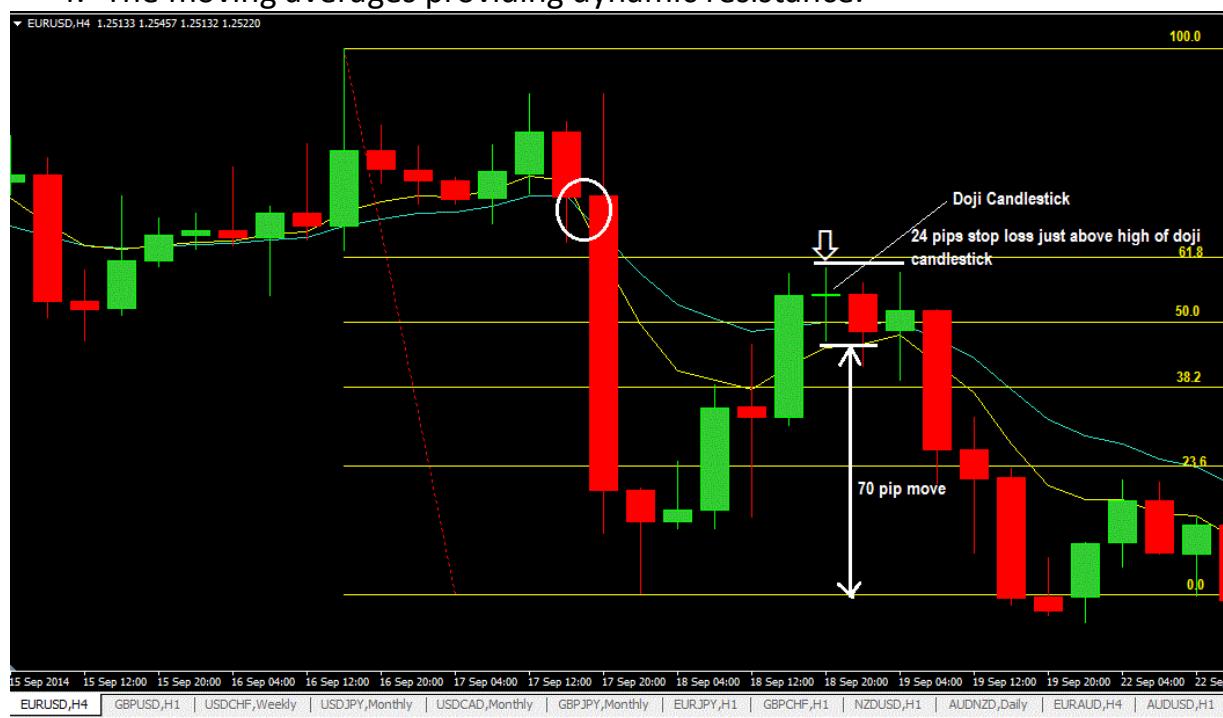
- They are really low risk-high reward entry trades.
- They have great chance of being profitable.

There's two ways you will learn from price action:

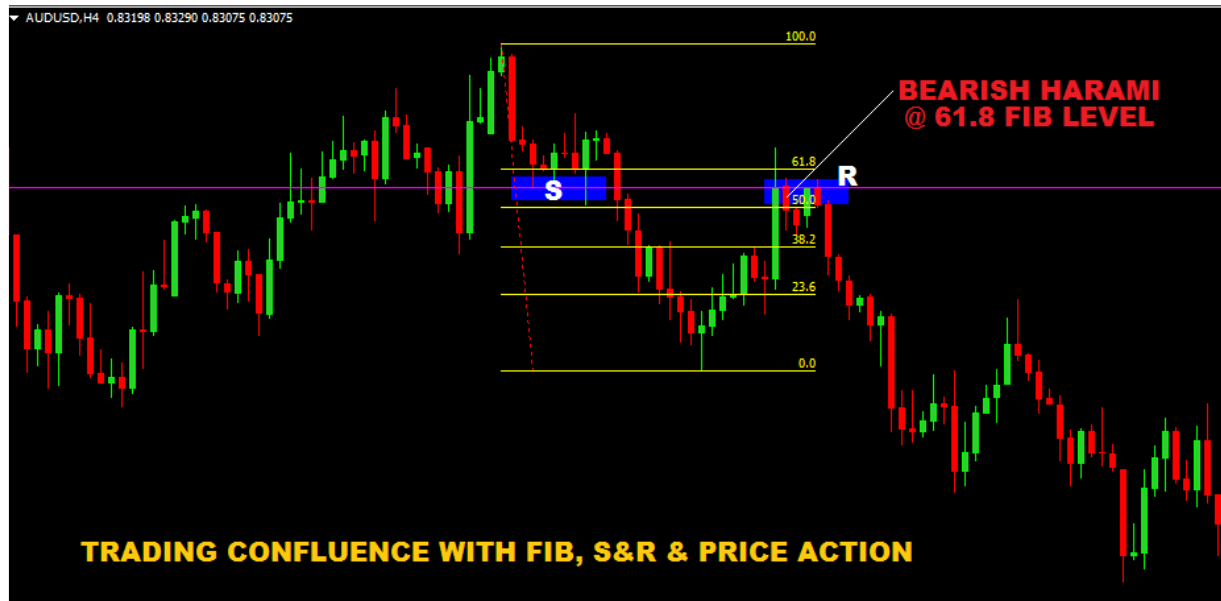
1. First is to spend hours over your charts analysing what happened in the past and asking these types of questions: *Why did price make a big upward move from here and why did price make a big downward move from here? What price action signals that formed there that could have given anybody an indication that this massive move was about to happen?* You will be bloody surprised at what type of reversal candlesticks and chart patterns you will find!!!
2. Then with that knowledge, get back to the present and see if you can see these patterns unfolding in the current market.

Here's an example of a doji candlestick confluence with the dominant downtrend, as if formed telling you to sell the market with the trend. This short trade setup had 4 factors of confluence supporting it:

1. The doji had confluence with the dominant downtrend, as it formed telling you to sell the market with the trend.
2. The doji showed a clear indecision by the sellers and the buyers therefore the breakout of the low of doji candlestick was what the sellers were waiting for to push the market down.
3. The doji candlestick also formed between 50-61.8 fibonacci retracement zone.
4. The moving averages providing dynamic resistance.



Here's another example:



Now, I can put lots of charts giving you examples of what happened in the past...but it's best that now you see and understand what I am explaining here, and then go and sit down and observe what happens on your charts in real time.

All this information here is providing you the foundation; the basic framework you need to trade price action, the learning comes from observing and doing.

## CHAPTER 16: TOP 2 REASONS WHY I USE MULTI-TIMEFRAME ANALYSIS AND TRADING

There are 2 main reasons why I use multi-timeframe trading:

1. For getting better trade entries
2. For reducing stop loss distance so I have better risk:reward ratio which means I can also increase the amount of contracts I trade without risking more of my trading account...so if my trade direction is right, I make a lot more money!

Now, I will explain both in detail...

### How To Get Better Trade Entries And So Reduce Your Stop Loss Distance With Multi-Timeframe Analysis And Trading

If you are trading strictly using the large timeframes like the daily chart, your stop loss distance will be huge and the issue with that is your risk:reward ratio can be reduced (no necessarily all the time):

**Risk to Reward Ratio Explained:** Simply put, investing money into the investment markets has a high degree of risk, and if you're going to take the risk, the amount of money you stand to gain needs to be big. If somebody you marginally trust asks for a \$50 loan and offers to pay you \$60 in two weeks, it might not be worth the risk, but what if they offered to pay you \$100? The risk of losing \$50 for the chance to make \$100 might be appealing. So in that case your risk:reward ratio will be 1:2

But what if you decided that you want to minimize your stop loss distance?

And even though you are trading with a setup in the daily chart, for your trade entry, you are actually switching to the smaller timeframe and watching for a sell signal in the 1hr timeframe?

Well, what I've just described is a *really good example of multi-timeframe trading to get better trade entries.*

Let's study a chart of what happened in the past to make you understand what I am talking about...

This chart below is a daily chart and shows a triple top pattern in a solid resistance level. Price has been pushed down twice from this level and when the third time it price reaches this level, it was pushed down again.



Now, you can see the bearish harami reversal candlestick pattern and you could have used this as your sell signal by placing a pending sell stop order just a few pips under the low. And placed your stop loss outside of the resistance line as shown on the chart above.

But if you switched to the 1hr chart to wait for trade entry, your stop loss distances would be very small in comparison to the daily timeframe as shown by the chart below(I've zoomed in to get in closer):



Notice that for the 1hr trade entry, it was done almost at the very top and the stop loss distance was very small in comparison to the trade taken in the daily timeframe. Which means that the risk:reward of the 1hr timeframe trade is a lot better than what you would get in the daily.

Now, you can do this with *daily timeframe and 4hrs* or even down to the 30 and 15 minute timeframes.

Or you can watch trade setups in the 4hr but switch to either the 1hr, 30mins, 15min and 5mins for your trade entries.

I often use the 1hr for my trade entries and can even go down to 5min timeframe for my entries. If you are new trader, stick to 1hr or 4hr timeframe for your trade entries.

So when you trade in the 1hr timeframe (or much smaller timeframe) you can actually trade a lot more contracts without risking more because your stop loss distance are very small compared to the larger timeframe trade.

For example, the stop loss for the 1hr timeframe trade is 20 pips but for the daily timeframe trade is 80 pips. Let's say that you have a \$10,000 account and you risk 2%(\$200) each trade. If you trade in the daily chart, that stop loss of 80 pips is roughly \$800 so to keep your risk at 2% the amount of contracts you will trade will be 0.25.

However If you've traded in the 1hr you can be able to trade 1 standard lot.

This simple example explains why I wait patiently for trade setups to happen in the monthly, weekly, daily, 4hr timeframes and then use smaller timeframes to get good trade entries. This is the beauty of multi-timeframe trading using price action.

Let me give one more example of multi-time frame analysis...As I'm writing this book (the date now is 5<sup>th</sup> of Dec 2014), I can see that EURJPY has been on an uptrend since July 2012 on the monthly charts and I can also see that there is resistance level at 149.115 which it hit already. This is the monthly chart:



Now, let's zoom in on the daily chart and see what the price action is like on where the arrow is pointing (see chart below):





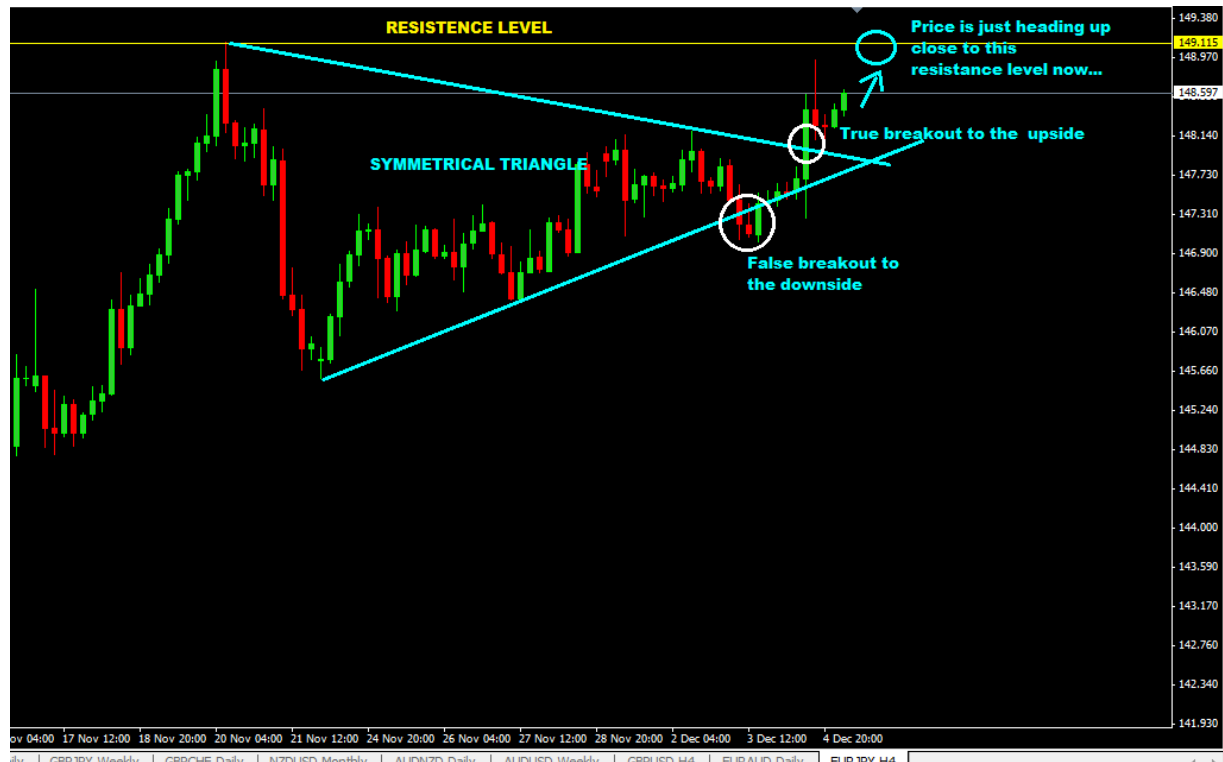
Ok, I begin to see what's happening...so obviously, EURJPY has been rejected down on the 149.115 resistance level with the formation of the shooting star (bearish candlestick signal) but now, I can see that its going back up to test that level again.

Two things can happen here:

1. Price is going to hit the resistance level and head back down ( and I will be waiting for a bearish reversal candlestick there to sell when I see one).

2. Or its going to break it and if it breaks it, there's a significant resistance level above it you can see on the monthly chart.

Now, let's go down into the 4hr chart to see what is happening there as well...



So now you can see how I do my multi-timeframe analysis to get down a timeframe where I execute a trade at a very good price level or entry point whilst keeping my stop loss distance tight.

Now, here's the thing about larger timeframes:

**“They cover up trading setups that are happening in smaller timeframes that could be really reliable trading setups.”**

But when you switch back and forth between timeframes, you begin to see how you can trade the larger timeframes setups based on the setups that happen in the smaller timeframes.

For this eurjpy setup above, I'm going to be sitting down and watching it to see if I get a bearish reversal candlestick in the 1hr or the 4hr....it's probably going to happen tonight in maybe 4-8hrs time but the price is getting close to that resistance level. I really don't like trading breakouts where I see the price has been overextend for a long period of time so even if this one breakouts to the upside, I will not be buying. I will be waiting for a pullback to buy, if that happens.

## CHAPTER 17: TRADE THE OBVIOUS

I hope you have learnt how powerful price action trading can be. **Now, not all trading setups you see will become winners.**

But here's the thing...if your losses are small but your profits are large, you will always be in be out in front. That's why trading risk management is important.

When you are watching the chart for trading setups, you need see and trade the obvious.

What do I mean by that?

Well, if there is an obvious pattern on the chart and you can see it clearly, then you should know that there are thousands of traders out there are watching the exact same thing as you are doing...because it's *so obvious*.

Things like:

- Trendlines or channels or bullish pin bar forming on major support level, if you can see that, there are many that will be seeing the same thing.
- All these traders will be waiting to see what happens at these levels and say if a bullish hammer forms on a major support level, then guess what will happen next? The most likely outcome of that is that as soon as the high of the hammer candlestick is broken, price will shoot up!

*Trade the obvious!*



How many times have you ever went over your chart and you are like:

*“Goodness me! I should have taken a trade here and look at how the market moved after that bearish shooting star candlestick was formed after hitting the resistance level.”*

When you trade the obvious, then you trade with what everybody else is seeing and in essence you are really doing piggy-back, riding on the market move created by all these orders that puts the odds in your favour.

See chart below for this: if you see a support major support level and price is heading down to it and at the same time, that support level is coinciding with an upward trendline...

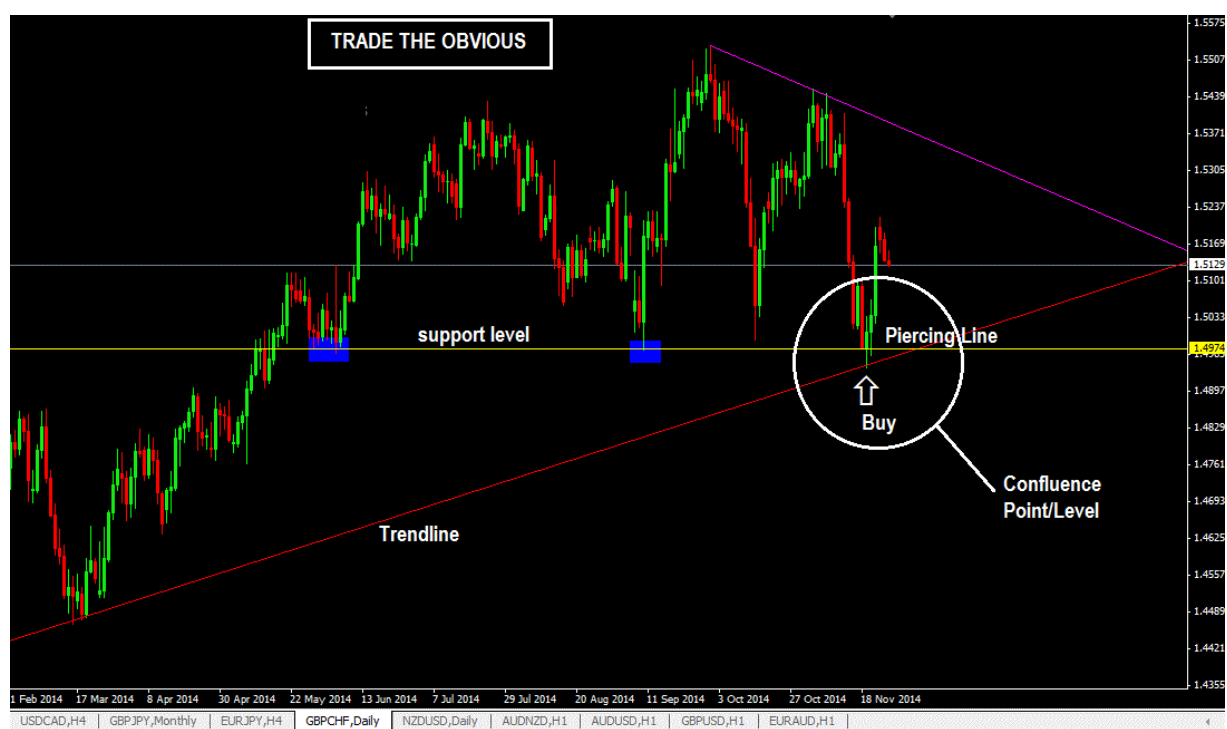
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What does this mean? That's Confluence buddy! And then you see a bullish Piercing line reversal candlestick form right at the area of confluence.

Are you going to be undecided about this price signal and pull up stochastics or CCI indicator to really make sure (give you confidence) you need to buy???

Seriously???

*NO need for that...Just Trade the obvious!*



## CHAPTER 18: CLOSING REMARKS

Some things I have learnt:

- **Levels are not lines drawn in concrete, they get broken.** You see, the more a level is tested multiple times, sooner or later it will get broken. From my observations, 2-3 times is the average, after that, expect a breakout of the level.
- **Don't listen to analysts.** They can stuff up your decision making process and cloud your judgement. For example: I see a sell setup on my chart but because I've read the analysts report that says he is bullish on this currency pair because of *this and that reason*, I hesitate to pull the trigger. Later, I check the chart and see that If I had sold, I would have made money. So use your own independent judgment based on what you see on your charts.
- **Find your best timeframe to trade.** Your personality, work circumstances etc may dictate what timeframe you can use. For me, I can trade from the 4hr, 1hr down to the 5 & 1 min charts because I use multi-timeframe trading. Yes, there will be people that will say "You are crazy to be trading in the smaller timeframes like the 5min and 1minute because there's too much noise in the smaller timeframes." Yes, I know that...The whole point of me switching to lower timeframes is this: *to get better trade entries*. You don't have to do that, that's my style. That's what I like.
- **If the bus leaves you, don't chase the bus!** In other words... don't chase trades. If you are late to get into a trade at an optimal entry point and realized that you might "miss out", then back off and wait. There will always be another opportunity or wait for a retrace/retest/pullback etc and then enter.
- **Be patient for the right trading setups to form.**
- **If you are suffering from losing streaks, take a break.** Take a week off from trading to clear up your mind then come back with a clear mind to trade.
- **If you have winning streaks, don't get overconfident and risk more.** You streaks of losses may be just around the corner.



***"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." -George Soros***