
# Frequently Asked Questions

YTC Price Action Trader FAQ
by Lance Beggs

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## About the Author

Lance Beggs is a full time day-trader with a current preference for forex, FX futures and emini-futures markets. His style of trading is discretionary, operating in the direction of short-term sentiment within a framework of support and resistance.

As an ex-military helicopter pilot and aviation safety specialist, Lance has an interest in applying the lessons and philosophy of aviation safety to the trading environment, through study in human factors, risk management and crew resource management.

He is the founder and chief contributor to http://www.YourTradingCoach.com, which aims to provide quality trading education and resources with an emphasis on the 'less sexy' but more important aspects of trading – business management, risk management, money management and trading psychology.

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**"Who questions much, shall learn much, and retain much."**

**…Francis Bacon**

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## Questions from Volume Five – Trader Development



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# FREQUENTLY ASKED QUESTIONS

# Introduction

Through sharing our questions and answers, we all learn and improve.

This document records all relevant questions received regarding the YTC Price Action Trader, with responses. These are not necessarily 'frequently asked'… more so those that I feel would benefit other readers as well.

As you work through the YTC Price Action Trader, if there is anything you do not understand or need cleared up, please contact me via the following webpage:

http://www.yourtradingcoach.com/Contact-Me/Lance-Beggs.html

*A message subject line of "YTC Price Action Trader Question" will get a faster response than other generic questions.*

I'll respond to your question via email, and copy relevant information into this document in order to share the Q&A with all other traders. No personal details or names will be included.

From time to time, as new changes add up, I will notify you of an updated FAQ document via the YTC Price Action Trader subscription list.

Please note that the Q&A is raw text taken straight from the emails… grammatical errors may therefore apply!

# General Questions

## General Questions

### *Pips vs Ticks*

**Question:**

Unless I am mistaken, in spot forex (unregulated market) an increment in price is referred to as a pip. In futures it is a tick. Is that correct?

**Answer:**

Yeah... spot on.

The smallest price increment in forex is one pip. The smallest price increment in futures is called a tick.

From our perspective, they mean exactly the same thing. I often use the terms interchangeably, which is not quite correct. The proper term should be used for their applicable market.

### *Is it possible to profit on short timeframes?*

**Question:**

I read in other materials that it's extremely difficult to be profitable when you're trading very short timeframes (like 3min or 1min).

Apparently these are the ones you're trading so is it viable on the long term? (It's definitely not for me; I'm trading Forex on Weekly / Daily / 4H charts)

**Answer:**

The following link is an article I wrote a couple of years ago which will share my thoughts on this issue:

http://www.yourtradingcoach.com/Articles-Business-Management/are-short-timeframes-risky.html

Also this may be of interest:

http://www.yourtradingcoach.com/Articles-Strategy/Are-Short-Timeframes-Just-Noise.html

It's a simple case of daily chart traders always saying that intraday charts are just random noise and impossible to trade profitably. Hourly chart traders say the same thing about 5 min charts. 5 min traders say the same thing about 1 min charts. 1 min traders say the same about those using 10 sec charts.

The reality is, as presented in the first article above, there is opportunity and risk in all timeframes. The key is to find the timeframe which best suits your personality and risk profile.

## *Can we use Tick Charts?*

**Question:**

To trade futures, I use 144, 610 and 1597 tick charts instead of minute charts. I find tick charts much smoother with much less noise than minute charts. Is that ok?

**Answer:**

No problems with this at all. I quite like tick charts as well. If you're more comfortable with them, go for it.

## *Can we use Price Bars rather than Candlesticks?*

**Question:**

Instead of candlesticks, I prefer to use price bars. In such cases, it is hard to define S/R zones or areas. Your comment please?

**Answer:**

Happy with that! Price bars and candles are just different representations of the exact same information. Use whichever you're comfortable with.

On the lower scalping timeframes which I trade now, I use price bars. It's important on these timeframes to minimise information on your chart and make it as clean as possible. I find price bars do that.

As to it being hard to define S/R areas, I'm not really sure what you mean. Move above the current price and identify the higher timeframe swing highs. Move down from the current price and identify the higher timeframe swing lows.

# Questions from Volume One - Introduction

## Chapter 1 - Introduction

### *Other Trading Educators*

**Question:**

Would you be kind enough to give websites for these 4 people so I could learn from them - Denise Shull , Davin Clarke, Don Miller and Sam Seiden?

**Answer:**

Denise Shull: http://traderpsyches.com/ideas/blog

Davin Clarke: http://www.trade4edge.com/default.aspx

Don Miller: http://www.donmillerblog.com/

Sam Seiden: http://www.samseiden.com/

# Questions from Volume Two – Markets and Market Analysis

## Chapter 2 – Principles of Markets

### *Understanding Figure 2.14*

**Question:**

You gave a poor example of a 10/20 MA bad cross-over in Fig. 2.14. On the other hand I can show you many good cross-over examples. With all due respect, it does not prove your point by this particular example.

**Answer:**

The point in this example was simply that all an EMA cross is indicating is the fact that price has travelled a certain distance from its last turn point (that distance varying dependent on the EMA parameters), and that price travelling a certain distance is NO guarantee of further price movement.

The chart chosen does represent this.

The intent was not to show that moving average crosses cannot identify a reversal.

The reality is (and the logic error that newbies make is)... all reversals will have a moving average cross, but not all moving average crosses will lead to reversal.

Yes... you can show numerous good examples of MA cross setups, and I can show an equally large number of failed examples. That's irrelevant though. It wasn't the point of the chart.

# Chapter 3 – Market Analysis

## *Can We Alter the Swing High/Low Definition?*

**Question:**

Can the swing high be one peak followed by just one lower high bar on each side instead of two?

**Question:**

Some people do operate like this so feel free to give it a try. I prefer two; otherwise I'm watching too many levels.

However, occasionally price will produce some action that traps traders, with only one lower high bar, so I'll be willing to accept it as an area of potential future S/R influence.

There are no fixed rules here. It's a little subjective. If it's an area of emotion... then it's an area of potential future S/R.

## *Support and Resistance – Confirmation of Levels in Figures 3.28 and 3.30*

**Question:**

I'm looking at support and resistance, figures 3.28 and 3.30 specifically. In figure 3.28 there's a swing high / swing low line at about 1.4940 that I would have thought should be marked as support? Similarly in figure 3.30 there are a couple of significant swing lows that you haven't marked as resistance, at 1.4760.

Am I on the wrong track? If so, why?

I appreciate S/R is important to market structure and I want to use it....but it seems so ... if you look hard enough you'll find it everywhere in some form or another!

I'm looking for some clarity.

**Answer:**

The S/R lines displayed on both these charts (3.28 and 3.30) are the active lines as at the time on the right hand edge of the chart.

Looking specifically at figure 3.28, you've identified the 1.4940 level. You're correct in that it would have previously been identified and used as a support level. However that has since been broken. Based on price action at the right hand side of the chart, we look higher to find the current (active) resistance levels and look lower to find the current (active) support levels.

Likewise for figure 3.30! The levels you identified are no longer in play, having been broken on the downtrend from 04:00. Look from the current price action for swing lows below price. And look for swing lows above price.

Previous areas of S/R, since broken, no longer apply.

Also... don't be too concerned about getting your S/R wrong. Firstly, it gets easier with experience. Secondly, as you'll see later in the book, the much more important thing is watching how price reacts at the levels. We don't just blindly buy at support and sell at resistance. We observe how price behaves in these areas and react based upon that analysis. So if you've got the level totally wrong, it's ok. You should still be trading on the right side of the market, trading with strength and against weakness. (That'll make more sense later).

## *Can You Explain the Psychology Behind Resistance Becoming Support?*

**Question:**

I think I understand the concept of support. Once price rises from a specific area, if price revisits the same area at some future point it is highly probable that price will rise again from that same area. A low probability long trade in the specific area should be a safe bet and even more so if the security is in an uptrend.

I cannot seem to put the whole concept of resistance becoming support in the same layman's language. What is the psychology that accompanies the concept of resistance becoming support and vice versa?

**Answer:**

Before answering the question, let me correct something which I'm assuming was a typo. In talking about support areas, you mentioned, "A low probability long trade in the specific area should be a safe bet and even more so if the security is in an uptrend".

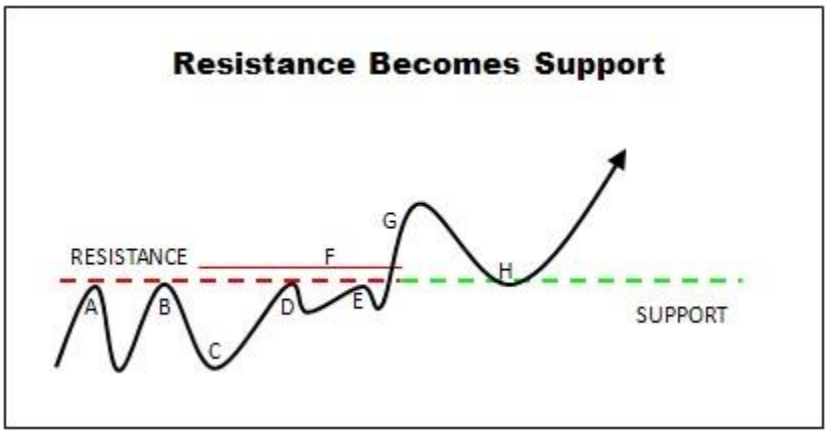
We seek high probability trades at established S/R levels (not low probability) - tests of the level which occurs when the market shows weakness moving into the level; and breakout failures when the market has broken through and stalled or reversed. More on that in Volume 3.

Ok... let's discuss the way that trader psychology causes previous resistance to become support, once broken.

First... There are some articles on the YTC Website which may provide useful information as well:

- http://www.yourtradingcoach.com/Articles-Technical-Analysis/How-Support-and-Resistance-Areas-are-Created.html
- http://www.yourtradingcoach.com/Articles-Technical-Analysis/Support-and-Resistance-2-Swing-Highs-and-Lows.html

All price movement is a result of the net sentiment of all market participants.




The above diagram shows an area of resistance formed by swing highs A and B. This area of resistance is the result of trader decision making, such that bullish sentiment causes a rally to the resistance area, where it is then overwhelmed by bearish sentiment causing the price to fall. The result is swing highs A and B in one area, which we call resistance.

Now let's assume price is in the vicinity of C. As a trader looking at the chart at this point, what do you see and what are you thinking about the price action and potential future trade opportunity? At C, traders will have observed the resistance area holding price on two occasions now, leading to lower prices both times. The resistance area becomes an anchor, or a point of reference, at which these traders will perceive high prices and a great opportunity to short the market (or exit any longs). These traders will be wishing they had acted earlier at point B, and shorted the market. They promise that if price gets back to that resistance area, they'll be smarter this time and enter short.

As a result, when price gets back to area D, these traders will enter short, adding to the bearish orderflow.

Their expectation is that the bullish pressure which caused the rally up to D will reduce - fewer traders will be willing to go long at this point due to it being a point of reference which is perceived as high prices. And also that bearish pressure will increase, as any longs on the rally to D will take profits (sell order) and any traders such as themselves will go short (sell order). They expect that the increase in bearish pressure will not only halt, but overcome the bullish pressure, causing price to fall again as it did after A and B.

However something has changed this time. The net sentiment is not as bearish as previously. Perhaps this is another timeframe influence? Perhaps it is a fundamental influence? Who knows? But regardless of the reason, we see that price does not fall from D as quickly as it did from A and B. Bearish pressure has not been able to overcome bullish pressure this time, meaning either there is still some buying in the market, and/or there are not as many traders willing to go short.

Think of the mindset of the traders who entered short at D, as it stalled and moved sideways through E. Likely they're an emotional wreck, as it first moved their way, then pulled back against them to point E, and then moved in their favor again, before reversing again. Some of these traders will scratch their trade (buy order) to relieve themselves of that stress, adding to bullish orderflow. Other new bulls will be attracted to the market through seeing price unable to fall, entering in anticipation of a breakout.

This increase in bullish pressure drives price higher through the resistance area.

Line F will have been broken, which is where many (not all) of the shorts from A, B and D will have placed their stops (buy orders), and many of the breakout traders will have placed their entry orders (buy orders). This creates a surge of bullish pressure driving price higher to G.

Back to mindset stuff now...

If at C you previously assessed price as high at the resistance area A and B, how will this A-B area now look when price is at G. It will be cheap. This price level now becomes a point of reference or anchor, which is perceived as a cheap prices; a buying opportunity.

Consider those who were long leading up to the area or resistance, and took profits. They'll be cursing the fact that they 'got shaken out early' and missed these extra profits. They'll be determined to buy again if price gets back to the area of breakout.

Consider those who were long before resistance, and held through the whole move. They'll be happy to see this new 'reference point' and will consider adding to their position if price moves back to the area of breakout.

Consider those who caught the breakout at F. Some of them also consider adding to their position on any breakout pullback.

Consider those we discussed earlier, who went short at D, but who were not smart enough to have a stop at F. Persisting through the gut-wrenching pain that comes as a result of the move up to G, they then feel a sense of relief as price crawls back in their direction. Remaining hopeful of a false breakout and a reversal back below the resistance area and into profit, they hold right down to H. Some will exit at H as the price stalls, happy to at least get out at a reduced loss (more buy orders). Others will hold right through the stall at H, panicking as it again starts moving higher. These traders will eventually exit when the pain becomes unbearable, via another buy order adding to the bullish orderflow and driving prices higher.

We've considered a few groups of traders. The important people though are those who've had to suffer through the most emotional pain. Those bears who've held through a loss and those bulls who've missed the initial move higher. These are the people likely to chase higher prices from point H, helping to drive price upwards again. The mindset of all these people, as discussed in our scenarios above, is to buy at or after point H.

Previous resistance has become support, as a result of decision making of the human participants in the market, leading to the most emotional traders all wanting to buy at or around point H.

Now... an obvious thought here would be that not every market participant is using our same timeframe, or our analysis methods.

That's fine, enough are.

The net orderflow is a result of the sentiment and decision making of ALL market participants, regardless of their reasons for trading. By aligning ourselves with strength and against weakness (Vol 3) we ensure our trading is in sync with the market bias that includes all market participants (aligned with the path of least resistance). And by identifying the points on the chart at which traders are trading against the bias (in the direction of weakness) and are trapped in a losing position (or out of a winning position) and therefore under stress (this is also discussed more in Vol 3), we give ourselves a higher probability of trade success, provided we manage the opportunity well enough.

Hopefully that is now clear. Don't worry about the last paragraph yet. That's all Volume 3 stuff. The important part is simply understanding that support when broken becomes resistance. And resistance when broken becomes support. And this occurs a result of normal human response to the emotions generated by price movement in the uncertainly of the market environment.

## *When S/R is Breached, When Do We Discard the Line and Establish a New One?*

**Question:**

I would like to ask you when a support or resistance level should be reassessed? For example, do we need to see it breached twice or three times? Is it necessary to establish a new area? How do we proceed in this kind of event?

**Answer:**

I don't have any fixed rules for when an area of S/R loses its relevance. The important thing to be thinking is, "What are the other traders seeing as a relevant level?"

If it's been breached a few times, but your analysis still says people may be watching that level, then it's still something that should be watched more closely when price returns there again.

Typically though, if a level has been broken twice I imagine it would be rare to have it on my charts.

As to breaches which hold (ie. price breaks the level by a small amount, then rejects these prices producing a breakout failure), after one breach I'd be redefining the *area* of S/R to include the new swing H/L (assuming it didn't already do so). I'd also consider moving the line on my chart to this new extreme.

## *What if S/R Lines Are Close Together?*

**Question:**

Today in the 30min I found 3 levels - my question is since two of them are only 15 pips apart - am I being over the top?

**Answer:**

Generally, it's fine if you find levels close together.

The key thing to remember here is that S/R are areas, not exact price levels. They're areas which previously provided a supply/demand imbalance. And due to the emotion associated with that event, plus the way human beings make decisions, it's likely that they will again offer some barrier to further price movement.

People don't always react at the exact same price point. So it's possible that the second of these two levels is a result of a test of the first level. In essence, they both may be considered one area of S/R, spanning the whole 15 pip range.

If price is above these two levels, we could expect a quite strong area of support, as price now needs sufficient bearish pressure to penetrate the two previous swing H/L areas.

Likewise for price below the two levels, providing a potentially strong area of resistance.

If price is between the two levels... I don't expect it will stay there for long. Watch the lower timeframe for signs of strengthening momentum in either direction, for clues as to the breakout direction.

As mentioned, these are general guidelines only. Consider each occurrence of price interaction with S/R based on its own merits.

## *Do Fibonacci Levels or Pivot Points Produce Valid S/R?*

**Question:**

Fibonacci ratios such as .38, .62 etc, or pivot points based on high, low and close which are popular with floor traders are often used as support/resistance levels. I notice you don't use them. Any particular reason?

**Answer:**

Place enough lines on a chart, and price is sure to turn near one of them.

Fibs and Pivot Points are simply a mathematical guess at where future S/R will exist. The reality is that you can't forecast anything like this. Our understanding of the nature of markets (from Chapter 2) does not accept mathematical forecasting.

It's better to objectively identify previous areas of supply/demand imbalance (S/R), because we know they have potential to again provide some impact on price movement, should price return to these areas.

IF a fib or pivot does happen to halt price, then we'll see that on the first occurrence, and be watching the level for all future touches. So these levels may still play a part in our trading. But only because they've proven themselves as S/R, not because of any forecasting brilliance on our part.

## *Do we use Trading Timeframe S/R levels?*

**Question:**

The trading time frame also has its own S/R lines. Are we supposed to ignore them and only use the S/R lines of the higher time frame?

**Answer:**

No. We absolutely do not ignore them.

S/R levels are drawn on the higher timeframe, identifying potential barriers to the trading timeframe trend.

S/R levels on a trading timeframe (assuming they don't show on the higher timeframe), are swing highs and lows, which absolutely are areas of interest.

For example, consider a trend on the trading timeframe. Every swing high and swing low acts as a potential stall point for the next pullback (see figure 4.15).

## *What do you mean by "I can see the higher time frame within the lower timeframe data?"*

**Question:**

In section 3.2.2, you state: "because I can see the higher time frame within the lower time frame data" - Could you kindly explain this by giving an example?

**Answer:**

Let's assume we're using a 3 min trading timeframe and a 30 min higher timeframe. So, there are 10 trading timeframe candles making up a single higher timeframe candles.

Now let's assume we had a trend up to a swing high, then reversal to downtrend, on the trading timeframe. If there are more than 20 candles each side of the swing high, then I know that this also produces a swing high on the higher timeframe.

Essentially, just step back from the detail and see the larger structure (macro level).

## *What is Range S/R?*

**Question:**

What is Range S/R?

**Answer:**

Range resistance is just the upper edge of a sideways trading range (sideways trend). Range support is the lower edge of a sideways trading range (sideways trend).

## *Do You Draw Lines For Change of Trend Points?*

**Question:**

When you are in your Trading Timeframe, do you "eyeball" or draw lines for your Change of Trend points?

**Answer:**

Rarely will I ever have lines on the chart (apart from the higher timeframe S/R areas). For two reasons:

(1) These swing high/low areas are visually easy to see without lines; and

(2) Its vitally important to be decisive in trading - and a key factor in that regard is minimizing information. Too much clutter on the charts adds to confusion, increasing the likelihood of doubt and creating hesitation at the time of entry.

So, if something doesn't add new information, I don't want it on my chart.

## *Can You Define A Complex Pullback?*

**Question:**

In Volume 2 you mention Complex Pullbacks but I didn't find your specific definition for it.

I assume it is more than one (and less than four) pullbacks from the trend (either upwards or downwards) that doesn't break the previous SH or SL that established the trend.

4 or more pullbacks would indicate the beginning of a Sideways Trend, I believe.

Is that correct?

**Answer:**

Essentially I classify anything which is not a simple, orderly pullback as a complex pullback. I probably should have a greater number of categories, to be honest. Feel free to do so if it helps you. Usually though, a complex pullback will be one of two main types...

1. A 3-swing retracement. These create high probability trades. Vol 3, Ch 4, P 38 will help to see this, as it includes diagrams.

2. An extended duration pullback, which usually grinds slowly downwards / sideways, persisting for a lot longer than anyone expects and likes. Not as easy to trade as the first. Watch for triggers such as a spring (see Ch 4).

## *How is Momentum Analysis Different to Projection and Depth?*

**Question:**

I think I understand the distinction you drawn between Momentum Analysis and Projection/Depth. Although it appears - to me - they both represent the same thing.

In Momentum Analysis you are seeing a change in degree. But is Projection/Depth just another way of looking at the same thing?

**Answer:**

Both momentum analysis and projection/depth are related, but not the same. They are two means of identifying signs of strength or weakness within the price action.

Changes in momentum will be evident through changing slope of price movement. Projection/depth relate to how far price is able to extend beyond the previous swing h/l, and how far it's pushed back.

Often a strengthening or weakening of a trend will show up via both means, but this is not always the case.

Sometimes, for example, each bullish price swing in an uptrend may display the same slope (momentum), offering suggestions of continuation. But then we may observe that each successive price swing is unable to project as far as the previous, indicating supply coming into the market earlier each time. This shows us potential weakening, which was not evident from momentum analysis.

## *Are There Any Objective Measures of Strength and Weakness?*

**Question:**

Your concept of strong and weak swings is brilliant. However, to me drawing arrows seem tentative. Can you suggest some other precise and accurate method of evaluating strength and weaknesses of up and down swings? I feel it is extremely important matter for me.

**Answer:**

Thanks. I wouldn't necessarily say it's my concept though. I don't think there's very much new in the trading world at all, and my understanding of it has no doubt been shaped by many others before me.

As to drawing arrows... that's not necessary on live charts. You should be able to see the slope of price, and easily make comparisons between alternate price swings.

And if it's not an obvious difference in slope, then it's not relevant. We don't need to be getting out a protractor to accurately measure angles.

If it's an obvious increase or decrease in speed or acceleration, then you've got some useful info. Otherwise, await further candle information.

As to a precise and accurate method... no. That's not how the market works. Objective rules cannot accurately measure and define an uncertain and ambiguous environment. Embrace the subjectivity. It becomes easier with experience (actually, you just become more comfortable with 'not knowing'). Allow yourself to build your intuitive and subjective analysis and decision making skills, through simply observing thousands of hours of price action analysis, through a trial and error process as described in Vol 5.

## *Are Momentum Arrows Drawn From Swing High to Swing Low?*

**Question:**

I know you cringe when someone asks for a "specific" when you are trying to teach being "subjective", but I'm hoping you can clear something up for me...

Would you say that the arrow start/stop points are actually the High to Low of the SH/SL and Low to High of SL/SH? Or should the arrows follow trendline rules for each extension?

I realize the arrows are just a guide, but is there a general rule (like the way trendlines are correctly drawn) to eye-balling the arrow direction? From the image, it looks that you've used highs and lows rather randomly (arrows above and below each extension for the same direction).

Could you provide a specific point to point inside the extension that the arrow would normally start and stop? Knowing the specific would help me a great deal in being subjective.

**Answer:**

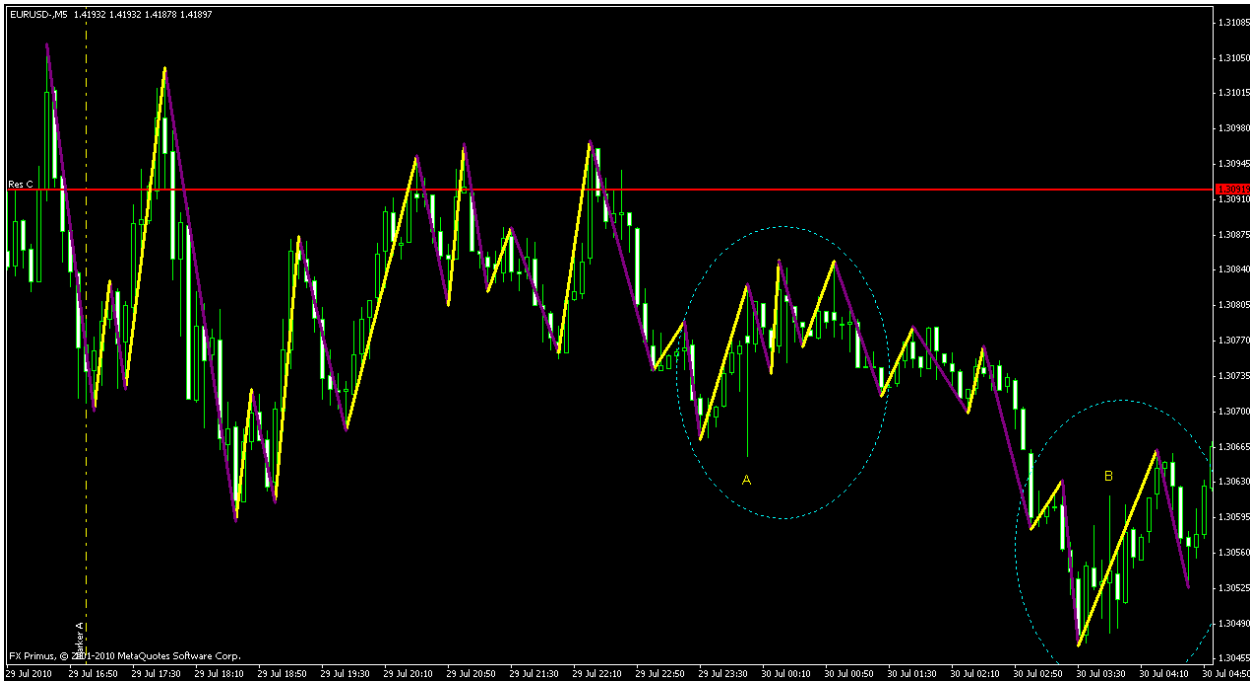
Unfortunately there is no mechanical way of measuring this. It's an eyeball thing.

Refer to the two charts which follow. The first is a chart another reader sent me, asking whether they're doing it correctly. Note how they've mechanically just drawn lines between each high and low. (Ignore the circles - they relate to a different question)

Compare this now to my analysis of the same price action in the second chart.

Too many lines create too much information and it clouds judgment. The aim is simplicity, not complexity. Look for general areas of price movement only.

It's easy to see in hindsight, but through more and more observation and experience, you'll get comfortable with the process at the right hand edge of the chart. Like everything, it's just a case of practice! (See Vol 5).




## *How Can You Spot Accumulation without Volume?*

**Question:**

I am wondering how you would spot accumulation by the big boys without volume information and all the other hints that volume provides - will you be doing a part 2 on volume or perhaps provide examples of accumulation or distribution without use of volume?

**Answer:**

I don't expect I'll do a part 2 on volume (although I should never say never). Although volume is on my charts now, it's really a very minor part of any decision making. If anyone is interested in studying volume and incorporating it into their analysis, I recommend they study Wyckoff principles and Volume Spread Analysis (VSA).

While volume can give great signals at times, it often provides ambiguous signals as well (in my opinion). Like with price action, experience is required to understand what is important information, and what is not. I'm not at that stage yet with volume.

I find momentum analysis to be more effective. Within a range, signs of accumulation or distribution will become evident through changes in the speed of the bullish vs bearish swings, as discussed in chapter 3.

Look for increasing bullish strength to indicate a breakout upwards. Look for increasing bearish strength to indicate a breakout downwards.

## *Figure 3.102 – Can You Explain the Labels P1, P2 and P3?*

**Question:**

In Fig. 3.102, it is not clear to me how you draw (calculated) P1, P2 and D1?

**Answer:**

P1 and P2 display the projection - the distance that price projects beyond the previous swing low. D1 is the depth that the pullback retraces.

## *Page 193 & Figure 3.116 – Candle K – Why Are Shorts Trapped?*

**Question:**

I have questions regarding trapped traders in Section 3.6.3 Page 193 (Candle K). Chart attached.

1) Why are shorts trapped? Is it because they sold when K broke below J? Or did they sell on the close of J? I think what I am really trying to ask is how do we *know* they are trapped?

2) Why will the trapped shorts *slow* any retest of the J lows?

**Answer:**

Firstly, there's never any way of knowing for sure what other traders are thinking. But we can take a very good guess - just through knowing the way most are taught and therefore will act.

Traders will always enter on a breakout.

Candle J breaks below the candle F swing low. This will attract new selling, some on the break below the low and some on the close of this candle.

The following candle (K) would come as a complete surprise to these people (it surprised me), showing evidence of some demand coming in around the 1.5570 level. Anyone who entered short on the break downwards (or even worse if on the close) is now suddenly stuck in a losing position, having just seen a very bullish (potential) reversal.

In most cases their stops will be somewhere higher above the swing high and won't actually get triggered. But these people will be stressed. They endure candle L, which although it doesn't go anywhere it still appears bullish. Then M offers some hope as the market starts moving lower again.

Note the slow rate of fall from M through to P/Q, as the market crawls back to the JK lows. This is evidence of more bullish pressure. Enduring this slow descent will be too much for many of these traders, who will have lost faith in the trade's potential and so will take the opportunity to get out as close to breakeven as they can (which is via a buy order, further adding to bullish pressure). The buying possibly also includes some new bulls trying to catch an early entry into a reversal ("last time it was down here it shot up quickly... it's likely to do it again").

As I said earlier... there's no way to ever know for sure. But the standard human responses play out over and over again more often than not... traders will always enter on breakouts... and large

numbers of these traders will always hold a drawdown in a desperate attempt to get out at or near breakeven.

The orderflow that this creates allows us to anticipate future price action. Consider also the bulls I mentioned before, who entered long on the slow move down to P/Q, in the hope of catching a reversal. When price breaks the JK swing low via candle R, they're suddenly in a bad looking drawdown. Many will hold, perhaps with their stop somewhere below support, but more so just because that's what many novices do... they're terrible at being able to take a loss.

They'll endure the drawdown as long as they can stand it, hoping to get out at or near breakeven. We can therefore expect resistance back at this level if/when price ever gets there, due to an increase in sell orders (longs closing out their position, combined with any new shorts at the point of previous break down). We see that occurred at V/W/X, where a short term cap was placed on higher prices.

It's not easy to see initially, but this stuff becomes easier with experience.

# Questions from
# Volume Three – Trading Strategy

## Chapter 4 – Strategy – YTC Price Action Trader

### *I Have Trouble Seeing the Patterns in Real-Time*

**Question:**

I am not yet seeing the patterns as they seem very subjective at times. I understand your examples but in real time it's a little different.

**Answer:**

This comes with experience. Although difficulties in seeing the setups in real time can often be a result of too much focus on the lower timeframes. You need to maintain the big picture - where's the trend, where's the most likely future trend, where's the opportunity.

Have a look at the setups poster in Vol 6 (page 29). This may simplify the process. In a steady state trend, you're just concerning yourself with PB & CPB setups. In a weakening trend, you may add counter-trend BOF and TST setups. At S/R or range boundaries, look for the TST, BOF, BPB depending on your assessment of price action.

If ever confused, step back to higher timeframes and see the big picture.

And make use of the setups poster – how does the current environment fit within the poster examples… that will provide you with the future trend direction and setups.

It will take experience, but ultimately it should be very simple.

Remember, we are not trying to predict the future; just identifying the most likely direction. And then we ONLY trade these setups IF the future price action conforms to our plans.

## *Can You Explain the Psychology Behind the Setups?*

**Question:**

I can see the psychology behind the BOF set up as the actions represent those of trapped traders. Do the other set-ups represent trapped traders and if so how?

If the psychology of the other set-ups are not represented by trapped traders what is the psychology behind these set-ups.

Example PB- pull back within a trend: this in my mind may not represent a trapped trader my thoughts here, is say we are in an uptrend and there is a pullback I normally think there may be little or no selling on the pullback as folks await higher prices. I would not see trapped here. Please correct any wrong logic in my thoughts.

Is the TST set-up solely for an over-extended move or are there other circumstances for the TST set-up? If the TST is solely for an over-extended move I can see how the psychology of trapped traders applies. As the traders enter late and there is not enough order flow to take the price up much more in an uptrend the traders become trapped as the move down from resistance begins to take place. Please correct me if I am wrong.

Probably my question should be why is TST expected to hold? Is it that in approaching the area of resistance the approach shows signs of weakness in the form of small candle sticks and by say not making it to the resistance line but by reaching say the resistance area only?

**Answer:**

All the setups are based on two principles - trapped traders and fading weakness.

However, with respect to the trapped traders, the setups are not all equal with regards to this factor.

I hate to grade the types of setups, as every setup is a unique occurrence and should be treated on its own merits, however as a generalisation, I expect that BOF, BPB and CPB are the stronger setups. SO let's examine these first.

The reason for this is they have very recently broken a swing H/L or S/R level, and almost immediately place traders in an emotionally uncomfortable position.

The following examples will consider a setup for a SHORT entry, for sake of simplicity of explanation.

BOF: We're considering here a breakout of resistance, for a BOF entry short. Breakout traders will always enter on price breaching a previous swing high or resistance level. If however this move is not widely supported by the marketplace, there will be insufficient orderflow to maintain the breakout direction. Price will stall, stress levels will rise. New traders will enter to fade the breakout, having seen it stall. This adds to the bearish orderflow helping to drive price back down. Stress levels increase further. Some of these breakout traders will bail out (sell order), adding further to the opposing orderflow and further driving price down. Price driving down tempts more new shorts to enter, and more of the breakout traders to exit, further driving prices lower. At some critical point, the majority of the breakout longs will have placed their stops, which when triggered will continue to drive price lower.

Price drives in the direction of the group who are most desperate to act. After the breakout and stall, who is most desperate? Anyone entering long, or those who are already long and suspecting that they might have been sucked into a position which is failing. It's the second group. Their exit will typically be a market order (stop losses are usually a stop market order), so they'll sell at the bid and help drive prices lower.

The BOF traps the breakout traders in a losing position. Their exit orderflow helps drive our short position to profits.

BPB: Same scenario as above, but in this case the breakout pushed in a more bullish manner and the pullback when it did occur did not show widespread market agreement. That is, the pullback is weak. This indicates that the breakout traders are not being placed in sufficient stress to start bailing out of their positions. And new shorts are not being convinced to enter either, to the same degree.

As it returns to the point of breakout, new longs will enter, opposing the pullback orderflow and creating support. There is also another group who helps create support here. Shorts from before the original breakout, who held in drawdown through the whole breakout and pullback, will now take the opportunity to exit (buy order) as price allows them a second chance to exit where they should have earlier (and close to breakeven).

So, price has now broken out, pulled back with weakness and stalled. This is a point of stress for everyone. Kind of a tipping point! If it attracts more selling and drops below the breakout point, the breakout longs will be forced to exit, driving price lower. But if some buying comes in, the pullback traders will be forced to exit, helping drive price higher.

As we've seen two paragraphs above, there is usually buying in this area. The trapped shorts in particular are quite desperate to get out here. But so are the new longs, desperate to ensure they get in the market after having missed the earlier breakout. This orderflow will typically overwhelm the weak pullback orderflow, resulting in the second scenario above - the pullback traders are forced to cover, helping drive our long entry to profits.

So, the BPB profits from the fact that those fading the breakout are taking a low odds position into an area where we expect bullish orderflow. They're not necessarily trapped in a losing position yet. But they're trapped into a low odds trade, and will be forced to exit as the expected bullish orderflow kicks in.

CPB: See my trapped trader article on the YTC site.

http://www.yourtradingcoach.com/Articles-Technical-Analysis/Trapped-Traders-Part-1.html

Consider a downtrend scenario with 3 swing retrace, leading to a short CPB entry. Traders will enter long on the break of the first swing high, in expectation of catching an early entry into the reversal. However this move quickly stalls due to the fact that there are still a lot of with-trend short entries. Remember, on any higher timeframe, this 3 swing retrace will simply be a standard pullback. In the absence of wider support for this bullish move, the reversal traders will be forced to cover their position as price is driven back lower again.

We profit from the orderflow creates as the 'early reversal' traders find themselves trapped in a position which is fighting the dominant trend, and are forced to exit as their stops are hit (if they don't bail out earlier).

Ok... to the final two.

A TST and normal PB do not benefit from breaking a recent H/L. For this reason they're perhaps not as higher probability - although I have no stats to back this up.

However they still trap traders who oppose the market bias in a lower probability situation, which will force them to cover when the market bias orderflow reasserts its authority.

Consider a pullback in a downtrend. It's a low odds scenario to be fighting a trend. All the education says to trust the trend and find with-trend entries. But the reality is that human beings are terrible at trading with the trend - novices especially. Traders will continually try to fight it, trying to get in at what they expect is a reversal point, creating the pullback orderflow. When the pullback extends far enough to attract the more professional with-trend traders into a new wholesale entry, the new short orderflow will halt the pullback. At this point, stress goes way up in the reversal trader. What they were sure was a reversal, is now looking doubtful. Some will exit here at a slight profit or breakeven. Most (especially novices) will hold, only exiting as their stops are hit.

A large part of the with-trend orderflow is the exit orders of those trying to fight the trend.

So, for a PB, we're profiting from the orderflow of those trapped in a low probability situation, attempting to fight the dominant trend.

For a TST... similar scenario... the traders we're trading against may not necessarily be trapped in a losing situation - yet - but they are trading in a low probability situation which makes no sense from a market structure perspective. Orderflow short is expected at an area of resistance. Entry long therefore, right into this area of expected short orderflow, is a low probability situation. As the weak rally to resistance stalls, stress levels increase for these traders. The desperation of their market order exit (usually as the stop is hit) adds to any new short orderflow helping drive price lower.

An overbought market is even better, as you mentioned. The late longs are taking a crazy position, and will be forced to exit in dramatic fashion, setting off a cascading effect as more and more longs are forced to exit.

That's the general concept. There are always other reasons for orderflow as well. For a TST, there may even be longs from the last test of resistance, who held in drawdown through the whole subsequent drawdown, now exiting short to get out at or near breakeven. Their orderflow adds to new shorts.

Every situation is unique and needs to be considered from the perspective of the existing market structure. Whenever you can find traders trapped in a low probability situation, in particular if already in drawdown; or whenever you can find traders under extreme stress; you've found an opportunity to profit from their pain.

## *Can You Confirm My Understanding of the CPB After a Test of S/R?*

**Question:**

I wanted to recap something in the book to get reassurance. After a test of resistance/support I do see instances of complex pullbacks. I see that the last leg of complex pullback falls back to a previous support (first swing low/high formed after the first leg of the complex pullback barely closing below it. I then see price continuing and breaking the higher timeframe support/resistance. With price action support, would this be a good entry point given enough room to break-even. I ask because you may have seen this occur for years whereas I would have to review many charts to identify some comfort level with this type of setup.

**Answer:**

Your understanding of the setup is correct.

Let's review a recent chart example, of a CPB after a pullback from support. Note that this is the 1 minute chart which I currently use as the Trading Timeframe. It's the same concept on any timeframe though.

The YM is in a downtrend. Note that when price breaks the previous swing high at point (1), it does not break the trend definition. The downtrend is still intact. However this break above the previous swing high (actually above two equal swing highs) will attract some buying, as anyone with bullish sentiment will see an opportunity to establish themselves long early in a potential reversal.

The fact that price was unable to continue higher though, is evidence of a lack of wider support for this bullish sentiment. (If the prevailing sentiment was bullish, price would rise; so the fact that it hasn't indicates that there is some selling here, opposing the breakout traders).

It's kind of a tipping point here, in the congestion after point (1). Who's going to give up first? Consider the setup from the perspective of the two parties... those long and those short. Where would you place your stop if you were caught long here? Where would you place your stop if you were short?

Sufficient selling exists to drive price below the area of congestion at point (2), triggering the first of the stops for the longs, and helping drive price lower again.

Complex pullbacks which break a previous swing H/L (ie. 3 swing retrace) are some of the best technical setups (assuming context is considered; ie. where the pattern is occurring within the market structure). This is because they place other traders in immediate and often surprising pain, forcing them to exit. Their exit orderflow helps drive our trade to profit.

They still apply after a successful test of S/R, as shown in this example.

If you need to review and sim trade 100's of charts to become comfortable with this setup... then do so. It'll be worth the effort.

What would have me passing on the CPB trade though, and looking for an entry long? I would require a greater display of strength on the bullish side. Perhaps several more candles pushing higher above the breakout point at (1), followed by a weaker retest back towards this level.

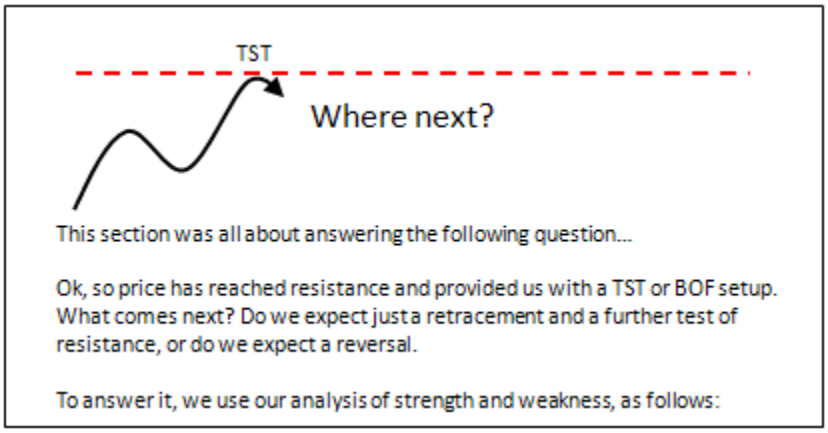
## *What Happens After S/R Holds – Can You Explain Figures 4.34 and 4.35?*

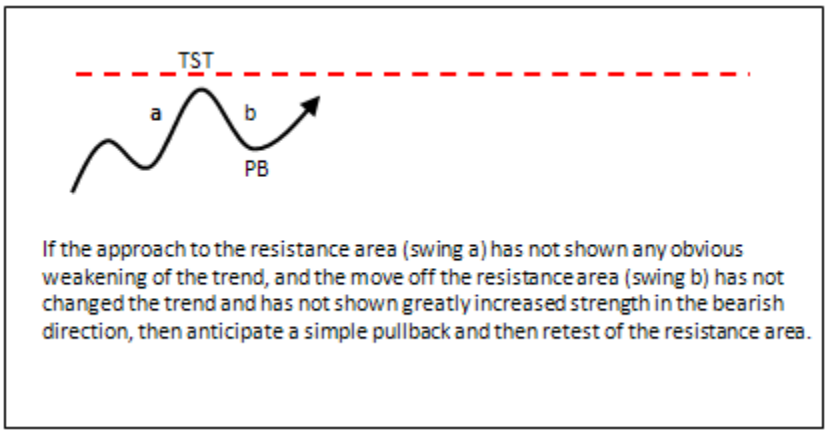
**Question:**

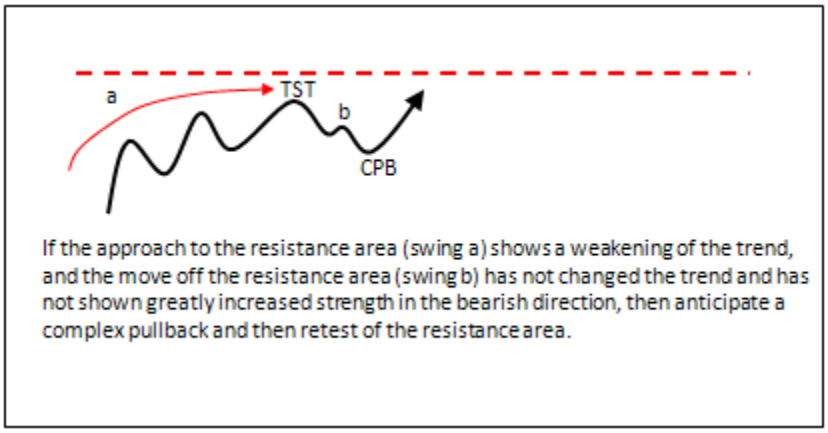
Figures 4.34 and 4.35 are confusing to me. Can you clarify please?

**Answer:**

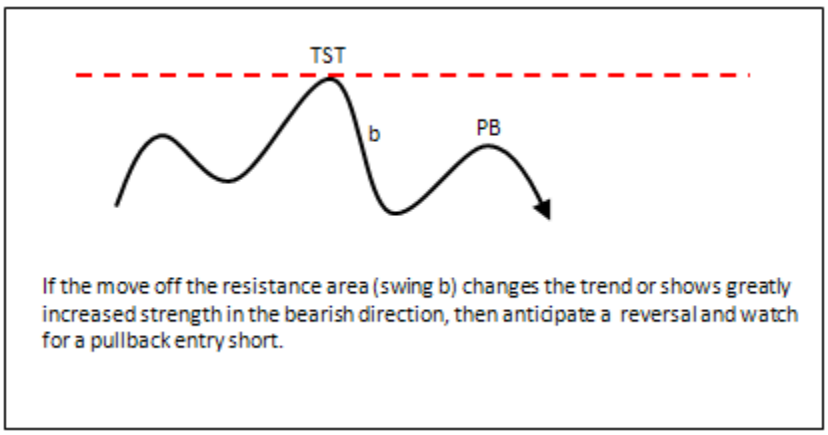
This might be easier understood in diagram form, as follows. Of course, this is just our initial expectations for future price action and future setup areas. Ongoing bar by bar analysis may vary our expectations.






If the approach to the resistance area (swing a) shows a weakening of the trend, and the move off the resistance area (swing b) has not changed the trend and has not shown greatly increased strength in the bearish direction, then anticipate a complex pullback and then retest of the resistance area.




If the move off the resistance area (swing b) changes the trend or shows greatly increased strength in the bearish direction, then anticipate a reversal and watch for a pullback entry short.

## *Do Stalls Apply to Any Setup Area?*

**Question:**

Do stalls apply to any setup area? PB, BOF, CPB, TST..... etc

**Answer:**

A stall can trigger entry at any price action setup. However the best are when the stall is occurring into an established area of support or resistance. Be very careful for example, on a pullback which has not yet pulled back into the previous swing high/low area. If it's in no-mans land, and a stall develops, I'd be more likely to remain patient and use a pattern-based trigger.

Of course, the beauty of a limit entry into a region of stall is that your risk level is low, so when you get it wrong it's only a tiny hit, and when you get it right it can be a much bigger profit.

## *Can You Please Explain the Stall Again?*

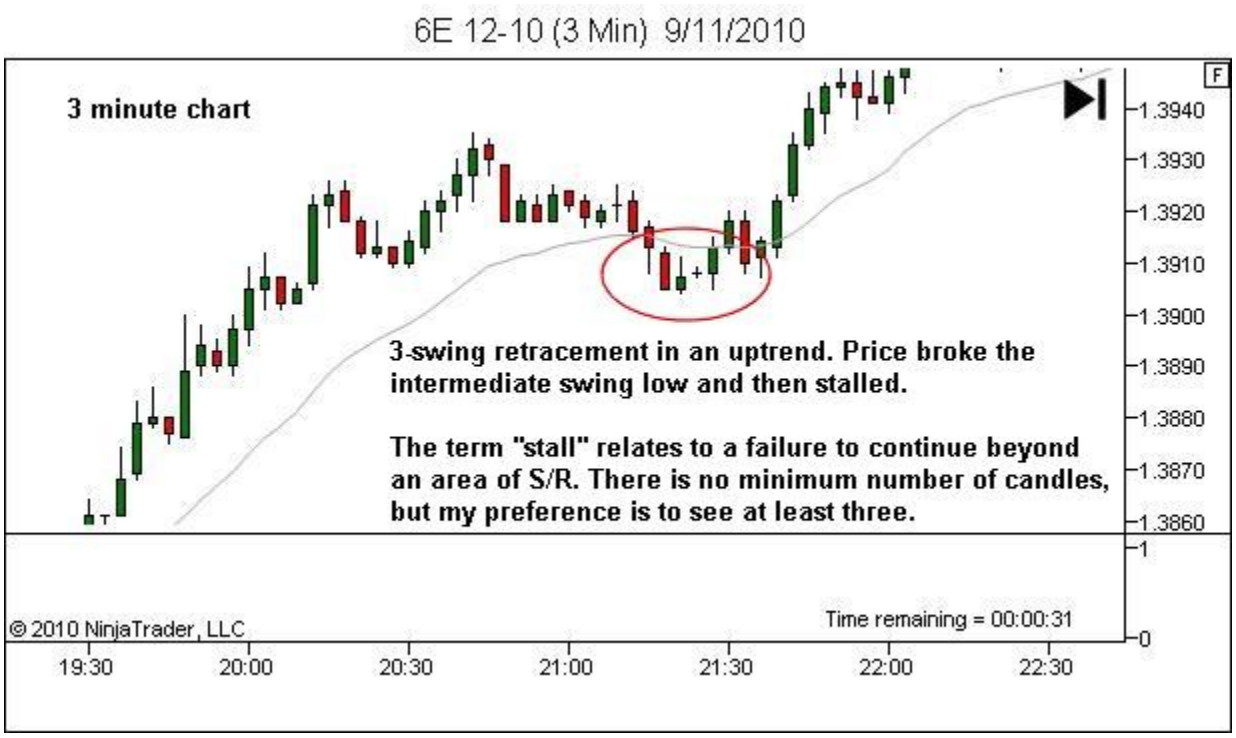
**Question:**

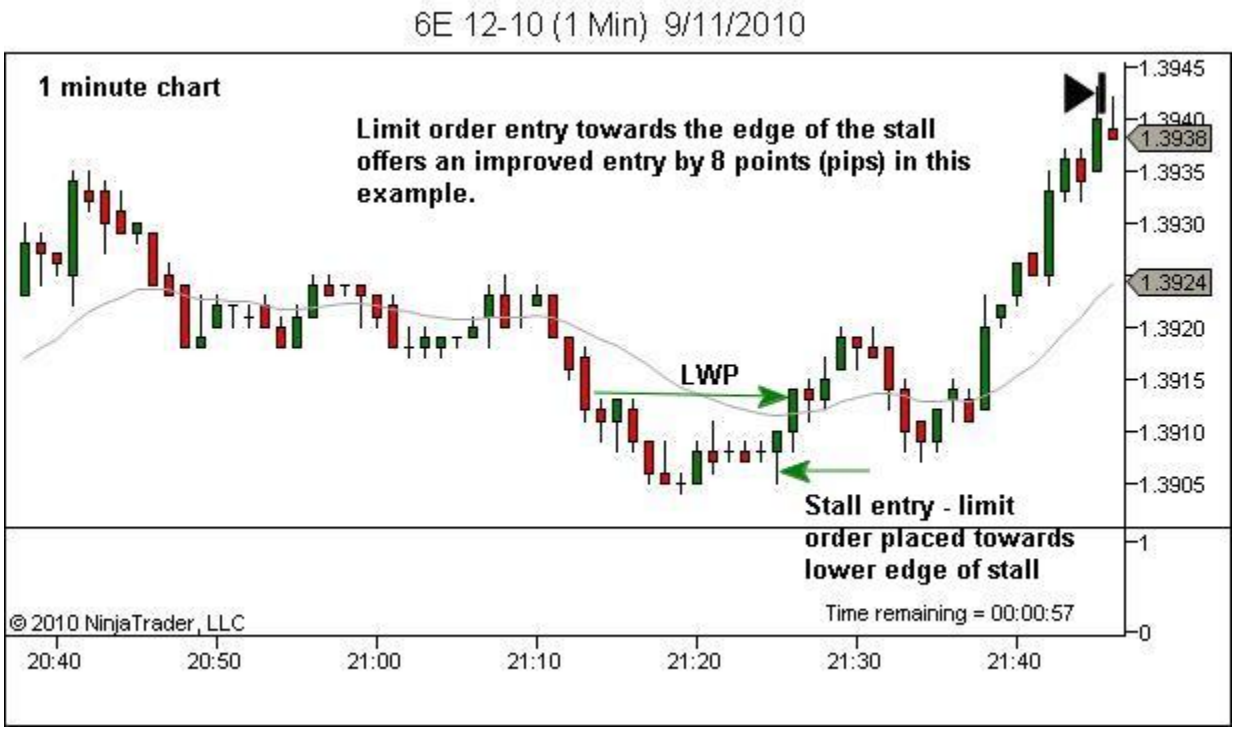
I would like to know a little bit better what a STALL means. I think have the correct idea but it would be best to hear it in your words.

**Answer:**

A stall is any pause in price at a setup area, where it fails to continue in its push against an area of S/R.

Have a look at the charts below, first the three minute chart, then the one minute. Hopefully these explain the stall.






Essentially, the stall allows entry at an improved wholesale price. However, it does require some degree of confidence in your trade premise and in your read of the market sentiment to take such an entry without further confirmation. It's important to realise that this improved entry price (and therefore improvement in our win/loss size ratio) comes at the cost of the occasional stop out (and therefore potential reduction in win%). It's a trade-off. If you're confident with your read of the market though, it can provide an excellent entry.

Newer traders may prefer to ignore this entry method and focus on the pattern-based triggers. In this case you could have triggered entry based on a double bottom trigger, entering long on the break above the same candle that entered me via the stall limit order (approx half way between the stall entry and LWP).

***How is a pre-LWP entry lower risk?***

**Question:**

I understand and embrace your concept of seeing a set-up in the 3 mins TF and then looking for a better price in the 1 min TF as long as your LWP / LRP are acceptable. But you say a few times that because you are getting a better entry your risk is less and you have a better RR. I'm just not sure if I understand you correctly here.

Say on the 3min TF your entry to stop loss is 10 pips and you have a $10,000 trading account risking 1% this equals $100 risk per trade. So this 10 pip stop loss would be 10 / 100 = $10 per pip. But you work a better entry on a price stall in the 1 min TF and now have a 5 pip stop loss. This is where I think I'm not in sync with you. I would have assumed you would then take your 1% ($100) risk and divide it into the new lesser stop loss of 5 pips giving now a 5 / 100 = $20 per pip. So if you were completely stopped out for a full loss on both of these trade scenarios you would have lost your 1% (100) i.e. 10 x $10 on the 3 min TF and 5 x $20 on the worked 1 min TF. So your risk was exactly the same. But if the trade went in your favor, the better worked 1 min entry would have provided a better RR.

Or.....using the above example do you keep the same $ per pip size as worked out via the 3 min TF hence $10 per pip and use this for your newly worked better entry on the 1 min TF but now if you allow your stop loss to be hit you loss is only 5 pips x $10 = $50 but if the trade moves in your favor and say you benefit from a 10 pip gain you still have just made $100 or 1% of your capital but you had only at risk $50 or in this simplified case 0.5%, hence your R vs R is better. I know, I know, Lance take a few headache tablets after reading this.....LOL!

**Answer:**

There is no right or wrong approach here. Feel free to trial both approach and see which works best for you.

I use the second approach.

So, continuing this example let's say the LWP entry offers a 10 pip risk and a 15 pip target, and I was using $10 per pip (10 mini-contracts)... then the lower timeframe offered an earlier entry with only 5 pips risk, I would use the same position size, (10 mini contracts), which now gives a risk of only $50 (5 pips) and potential reward of $200 (20 pips) (less any spread or commissions depending on how your brokerage account works).

This is what I meant when referring to less risk. The earlier entry provides a way into the same trade with less dollar risk, and a greater potential gain. This better R:R is offset slightly by a

potentially worse win%, due to the fact that it might stop out before any original (LWP) entry would have triggered.

Still, provided you're assessment of the future trend bias is good, it's usually a risk worth taking.

Remember also that positions are in two parts. It's essential to catch the occasional large win. That's what part two is for. So... in the above example you'd have a five mini-contract part targeting that +20 pips region, and a second five mini-contract part targeting the next S/R level.

1% is just a maximum. In this case, the trade has risked only 0.5%. I'm fine with that.

As to which method produces the best results over a large sample of trades, I suspect the first approach would (increasing the position size to ensure risk remained the same for every trade). However I've never conducted sufficient testing to compare the long-term effects of the two. It's probably a worthwhile exercise if you're interested.

In this example, you're comparing:

- LWP entry - risk $100; potential reward $150
- Wholesale entry (method one) - risk $100, potential reward $400
- Wholesale entry (method two, the way I do it) - risk $50, potential reward $200.

Either method is better than the LWP entry. Long term results though will depend on your management of the positions. And of course any testing results need to be viewed with some skepticism... accepting the fact that your decision making will differ when managing different size positions. Still, it might be worthwhile doing some testing, to help decide on the approach that suits you best.

I trade what I'm most comfortable with and it works fine for me. I don't need to be calculating new position sizes during the trading session. I've worked out before the session what size I'm using (for a typical size risk), and provided the risk is not much larger I just put on that standard size.

## *Pattern Based Triggers – What do you Mean by Micro-Scale?*

**Question:**

From page 86 - 90 (of volume 3), the section on Pattern Based Triggers, you wrote

- (pattern)..., but on micro scale ...
- (pattern)..., except on micro scale ...

Could you explain the basis for this distinction? Or is it based on experience?

Further to that, how do you define micro scale? Are you referring to the Lower Timeframe, which is 1 min in your illustrations? If my choice of timeframes is 1hour, 15 min and 5 min, does my micro-scale refer to the 5 min timeframe?

**Answer:**

I've probably confused things here by using these terms, without adequately defining them. To be honest, the term 'micro scale' is not required at all and could simply have been left out.

All I'm referring to is the fact that these trigger patterns are occurring on the lower timeframe, and the pattern may not be visible at all within the trading timeframe price action.

Let's look at an example.

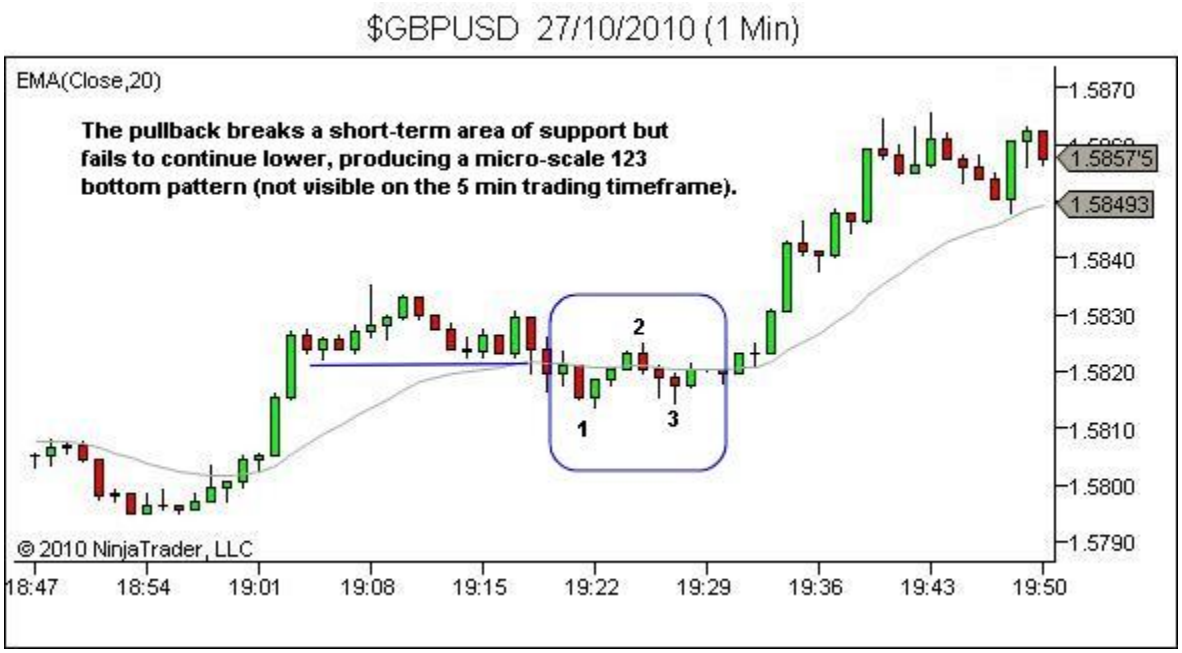
Refer to the 5 min GBP/USD chart (next page), and assume that's our trading timeframe. We're aiming to trade the swings on this timeframe. The circle area identifies a pullback within an uptrend, which is expected to continue higher pushing through some earlier congestion.

We look to the lower timeframe (also next page) to try to get our entry. In this case the pullback broke an initial area of support and was unable to continue further, producing a 123 bottom pattern.

Note that this 123 bottom pattern is not visible on the trading timeframe, occurring within the trading timeframe price bars. This is all I'm referring to when calling it micro-scale. Of course, that's not always the case. Sometimes these lower timeframe patterns are also visible on the trading timeframe (easier to see with experience due to the small number of candles producing the pattern).

Another observation from this particular entry... in this case the entry could be triggered on the 5 min chart through a simple breakout of the high of the last pullback candle. I imagine some people will prefer to operate just with the trading timeframe, and forget about lower timeframe

triggers. However other times it will save a few pips (or points or ticks whichever market you trade). At the very least it provides greater confidence in the pattern. In my opinion it's worth watching the lower timeframe for these triggers.

## *How do you exit a trade when it immediately goes against you?*

**Question:**

I was wondering what your process was, in regards to getting out of a trade when it immediately goes against us.

For example when we enter a trade long and it immediately drops 3 pips below our entry, it stalls and there appears to be weakness over a few more candles. We decide our premise is invalid and we look to exit.

When we are in that sort of range do you bring your Stop Limit up really tight then look to work a Limit Order to get out at a better price and risk maybe losing another 2 pips in the hope of gaining 2-3 back? Much like you work your entry I guess.

Would you ever use a Market Order to exit then and there?

**Answer:**

Yes... exactly right.

Working an exit involves a process of bracketing price with both the target and stop loss orders, bringing them closer until one is triggered.

It's not possible to give fixed rules for how to do this, as every occurrence is dependent on the current price action and market environment.

Generally though...

The urgency with which I exit depends on the degree of risk I perceive. If my assessment of sentiment says that the edge is completely gone and I expect a rapid move against my position, I'll tighten the stop/target right up to the price. I almost never use a market order, allowing either one of my stop/target to exit the trade.

If it's less urgent... ie. I have doubts about the trade premise, but am not completely negative; I'll usually tighten the stop more than the target... just in case it moves in my favor.

Usually tightening the stop/target will involve moving them to closer levels based on lower timeframe swing highs/lows.

# Chapter 5 – Trade Examples

## *Can You Explain the Term "Stall" as Related to Figure 5.10?*

**Question:**

How do you define a price stall? Please clarify. (Fig. 5.10)

**Answer:**

The use of the word stall in this paragraph is different to the way I use it when referring to entry decision (page 84 in Ch 4).

Here, I'm simply using the English language definition. Note the one minute timeframe on the right hand side. Following the entry trigger, price then failed to move higher for 3 candles, all existing within the range of the entry candle A. A stall is just a pause in movement.

# Chapter 6 – Other Markets, Other Timeframes

## *Assessment of Strength and Weakness on Figure 6.15*

**Question:**

I've been looking at example charts trying to identify signs of strength and weakness so that I can really get an understanding of what that looks like, and there's something on the chart in Figure 6.15 (Emini Futures - TF Trading Timeframe - 1 Min Chart) that really jumped out at me.

In the middle of the biggest upswing on the chart (starting around 2:50), there's a period where it loses quite a bit of momentum, right around 629.4 or so.

What sorts of conclusions would you draw from that slowdown in the middle of what appears to be a very strong move, or from the fact it was just a temporary loss of momentum?

There's something else that really attracted my eye to this area of the chart, though, and that is the fact that the later pullback pulled right back into the same area where there was a momentum loss, and then bounced back up.

Would the fact that there was a slowdown in that area, but that the price pretty quickly resumed its upward motion, give you any extra degree of confidence on the following pullback setup? And if so, what is your analysis of what's happening in that region to give that extra confidence?

My (very unrefined and quite possibly incorrect, because I'm learning!) take on this would be:

The loss of momentum was likely caused by quite a bit of profit-taking from longs, but the fact that there was only a slowing rather than a full correction would indicate there's still a pretty high level of demand at the price in that region. So, when the inevitable correction does happen (again likely to be fueled by further profit-taking, or new supply entering the market, rather than a decline in demand), I would expect there to be a very high probability of the price bouncing back in that region.

And actually, with that in mind, the later sharp reversal at the top makes a lot of sense, too.

The slowdown and the pullback both show that there's a significant amount of supply entering the market, but the move has looked pretty strong for quite some time...you know, for like at *least* 15 minutes or so.. :), which seems likely to attract a lot of people who are frustrated that they missed the movement so far, with all the late-comers fueling the final spike up.

That would be my take, although there's clearly at least some amount of 20-20 hindsight going on here. I'd be very much interested in hearing your take on that section of the chart though.

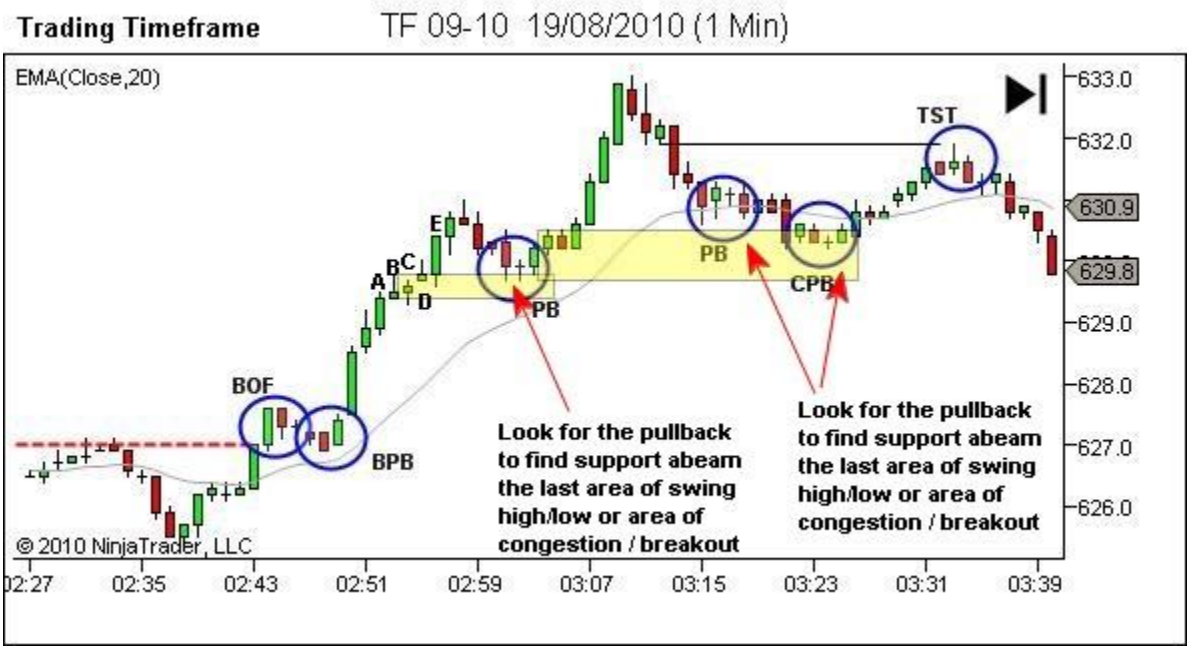
One more quick question, although I'm sure I've already bored you to tears by typing so much: If this chart happened to show an area of higher-timeframe resistance around 632.5 or so, would the steep move into that level look like strength to you, or would it look more like an over-extension spike that would have you watching very closely for a BOF opportunity?

**Answer:**

Well done in thoroughly examining the charts... especially in this case when you're examining price action on charts that weren't part of an active discussion on analysis.

You're analysis, and your explanation for the pause and the subsequent pullback to that area, are perfect. You've answered your own question.

Looking at the analysis bar by bar.




Up to bar A we had three bull candles. Not surprising after the initial breakout at the lower left of the chart. We then follow up with candle B showing a low close range candle. Although not

falling far, it has clearly not rallied either. The bulls' previous dominance is not showing in this candle. We then get candle C (high close range) and D (low close bull, although still within the range of B). This is a clear pause in the initial momentum.

Price movement is a result of orderflow, which is the result of the sentiment of market participants. It has rallied to this point due to an overwhelming bullish sentiment. The fact that it has paused must be due to either a reduction in demand (less people willing to buy at these higher prices) and/or increased supply (profit taking from earlier longs and new shorts from people trying to fade the move and catch an early entry to a reversal).

The fact that it didn't continue lower though is proof of the fact that any supply entering the market was insufficient to overwhelm demand. The initial increase of supply has halted the price rise for 3 minutes. It will only drive it lower if this pause convinces others to enter the market short as well (new shorts or more longs exiting), to continue driving it lower.

The high close bull candle E is a result of the shorts from the B-C-D congestion having to cover their position (stops being executed, helping to drive price higher).

Note though that it doesn't continue far beyond this last thrust higher - evidence there is more supply coming in again at these new higher prices, forcing the pullback to occur.

You'll see clear weakness though on the pullback, compared to the initial move up to A and then candle E. Although we watch bar by bar for the point of pullback failure, the places to watch most closely are abeam previous swing highs/lows, or areas of congestion such as this (which didn't quite create a swing H/L, but still shows interesting supply/demand interaction and an emotional time for a whole bunch of traders who got stopped out).

The pullback was not able to attract sufficient selling to push through this area though. Bullish pressure (from pullback traders such as ourselves, from existing longs who look to add on pullbacks, from shorts who didn't exit on the thrust up to E and now see an opportunity to get out closer to breakeven) was stronger than the weak pullback bearish pressure.

The subsequent acceleration up to highs was driven by the shorts (from the E swing high down to the PB) having to cover (which is a buy order).

Why did B-C-D pause at this price? Possibly there was price action to the left that could have clued us in to this area; a previous swing high/low. I don't recall. Possibly it was also just longs starting to lock in some profits as it approached the 630 round number?

To the second question...


If 632.5 was a resistance area, would I look for a BOF or expect strength to break through the resistance?

As you say, it's difficult to properly comment with the benefit of hindsight, when I can see it does actually fall from this area. I'd love to be able to say I'd take the BOF short.

I suspect though, that given the very strong move up to the resistance area I would be watching more for a small correction, with the next bullish swing providing clearer guidance. A weaker rally would suggest a TST setup. A stronger rally and further breakout would have me looking for a BPB.

The reality though is that it all depends on my feel at the time. Watching live, there may have been very strong evidence of exhaustion at the highs and I may have been tempted to short on a BOF. I would do so though understanding that it's actually fading strength (albeit very over-extended strength), so therefore a lower probability trade. Better to wait for a weaker move (subsequent retest of the highs for TST/BOF, or further breakout & weaker pullback BPB).

## *Opening Gaps*

**Question:**

In section 6.3.1 "Additional Emini Futures Considerations" subsection "Session Opens" you write "However I will be prepared to adjust my *future trend* premise, by treating the session open as if it were an S/R area that had just been broken."

Please help me to understand. Does that mean that you consider the open price as an S/R zone? Does that also mean that you are looking for a possible BOF or BPB based on the open price?

Do you normally consider yesterday's close, the opposite side of any gap, as an S/R zone?

**Answer:**

You're essentially correct here, although it's difficult to answer as there are no real fixed rules.

Every occurrence should be treated on its own merits.

However, generally speaking... gap opens are treated as if they create an area of S/R, usually based upon standard 'opening range breakout' concepts for the first trading timeframe candle.

(See here for an intro to opening range breakouts: http://www.yourtradingcoach.com/Articles-Strategy/Forex-Opening-Range-Breakout-Strategy.html)

So, if we get for example two failed pushes below the low of an opening range, I'll be looking for a BOF entry long. Or for example, if price does break the low and drives lower, then pulls back to that area again, I'll be looking for a BPB opportunity.

Opens which don't gap, but occur within prior price action, are not so much treated in this way. I'll prefer to just identify any new trend and make use of existing S/R.

As I said though, these are generalisations.

For the opposite side of the gap... I won't usually consider that to be the close, but rather the high/low. A gap for me is not one between the close and the open, but rather between yesterday's high/low and today's open. So, on a daily chart it would show as a clear gap, whereas close-open may not show as a gap.

# Questions from Volume Four – Your Trading Business

## Chapter 7 – Money Management

### *Are Contracts Divided Equally Between Part One and Two?*

**Question:**

Do you 'generally' divide the number of contracts evenly between Parts 1 and 2? So, for example, you would enter a total of 8 contracts; liquidate 4 on T1, and the remaining 4 on T2?

What is a good number of contracts to trade?

**Answer:**

There's no right or wrong way to do this. I recommend all entries are done in equal size parts. So a newbie will start with P1 and P2 both of 1 contract each. When comfortable with that they'll increase to P1 and P2 both containing 2 contracts. Then 3. Then 4 etc.

Why this method of equal size parts? Simply because that's what I've done.

To be honest, I have not done any testing on how alternate methods would impact results. There's just not enough time in the day; although it's on my list for 'one day'.

Of interest I'd love to trial a scale-in and out approach (rather than the current all-in, scale out). Another option would be to increase the degree of scale out; allowing more smaller exits rather than two larger exits.

Ultimately though, what is best for each person needs to be discovered through their own trial and error.

So... to use your example... yes, if I traded 8 contracts, 4 would be considered part 1 (targeting T1) and 4 would be part 2 (targeting T2 or running).

What is a good number of contracts to trade? The lesser of (a) that which reaches the 1% risk per trade limit; (b) that which causes consistent slippage on entry or exit; or (c) that which causes

fear of loss to start impacting decision making. All traders should start at the smallest position size possible, and gradually increases in accordance with the plan in Volume 5, until reaching these limits.

## Chapter 8 – Contingency Management

***No Questions***

## Chapter 9 – Goals & Targets

***No Questions***

## Chapter 10 – Trading Psychology – A Practical Approach

***No Questions***

# Chapter 11 – Trading Platform Setup

## *What is the Purpose of the EMA(20)?*

**Question:**

I notice that you have a 20 bar moving average on every chart. I know it's a lagging indicator. Does it serve any purpose in your trading? If not, then why have it?

**Answer:**

From Vol 2, P103:

> *So, why are these EMAs displayed on my charts?*
>
> *Firstly, they are not essential to the strategy – hence you'll usually see them as faint grey lines on my charts – sort of background information.*
>
> *Secondly, they are (partly) a hangover from previous trading approaches.*
>
> *Thirdly, they act as a quick reference visual guide to my trend analysis – an easy-to-see approximation of trend. The majority of time the EMA will define the trend quite accurately.*
>
> *The EMA on my charts are a guide only. A support tool! Use it if you wish. Or leave it off if you prefer. Either way it won't impact the strategy.*

I did consider leaving it out of the book entirely, but decided against this. The whole idea behind the book was to show how I trade, and I do trade with these lines on the charts. Therefore it would be wrong of me to leave them out. The reality is that while they play no documented part of the strategy, it's impossible to know what subjective, intuitive role they play in my analysis and decision making.

Still, if you prefer clean charts... feel free to remove the EMAs.

## Chapter 12 – Trading Plan

### *No Questions*

## Chapter 13 – Procedures Manual

### *How Do We Use the News Page?*

**Question:**

I found the 'news' page to which you refer in YTC:

http://www.forexfactory.com/calendar.php

This is a marvelous resource, but I do need to know something (and, you may have 'alluded to' this in YTC - I just want to be sure).

Do you find that there is generally 'larger movement' when a news item (any news item?) is released? Are there specific items that generate more activity than others?

Also, can one just read this page for the 'time' of the news events, and that is sufficient? Or, are the other parameters (actual, forecast, previous) relevant? Or, more specifically, how does one read these other parameters (do the percentages have an impact on the 'level' of market movement)?

**Answer:**

I'm hoping that the following articles can provide the answers you're seeking, as they all relate to this topic...

http://www.yourtradingcoach.com/Articles-Fundamental-Analysis/So-Which-Economic-Calendar-Do-I-Use.html

http://www.yourtradingcoach.com/Articles-Fundamental-Analysis/CAUTION-Volatility.html

http://www.yourtradingcoach.com/Articles-Fundamental-Analysis/Trading-the-News.html

As stated in the articles, the parameters are irrelevant as far as I'm concerned. My only concern is the volatility risk at the time of release of these reports. How I manage the time of release is outlined in one of the articles (I think it was the third one).

## Chapter 14 – Additional Documentation

### *No Questions*

# Questions from Volume Five – Trader Development

## Chapter 15 – The Journey

***No Questions***

## Chapter 16 – The Learning Process

***No Questions***

## Chapter 17 – Taking Action

***How long should I remain in a demo account?***

**Question:**

I've been trading demo for 6 months but I'm very serious about it since two weeks. How long should one trade demo before going live? I have to say my trading plan is much clearer than it was at the beginning and I'm only focusing on a few high-probability price action setups. Put it another way, I don't think my trading method will be very different in 6 month's time but I plan to be profitable on the demo account for at least 3 consecutive months. Any comment is appreciated.

**Answer:**

How long to stay in the demo environment? Three months consistent profitability is great, if you can do that. Chapter 17 of the ebook series presents a plan for graduating from testing to demo to

live environments. In that I recommend a minimum of four consecutive weeks of profitability and consistent application of the plan. However, remember that this is based on smaller timeframe charts which should give around 5 trades a day. If trading a higher timeframe (and therefore a potential reduction in trade frequency), you should consider an increase in the time spent in simulation. Three months is probably about right. This can be frustrating, but to be honest there's no rush. Why risk funds in a live environment, prior to having confirmed success in a demo environment (which comes with less negative psych influence).

# Questions from Volume Six - Conclusion

## Chapter 18 - Conclusion

***No Questions***

## Resources

Trading Website: www.YourTradingCoach.com
Trading Course: www.YTCPriceActionTrader.com
YouTube Videos: www.youtube.com/YourTradingCoach

*'Because You'd Rather Be Trading For A Living...'*