



WARRIOR TRADING

CHAPTER 4: DEVELOPING AN EDGE

Developing An Edge

Today You Will Learn

- A Trading Edge

- Steps To Develop An Edge

- Key Elements To Begin Building An Edge

 - General Charting Techniques

 - Basic Principles of Market Structure

Developing An Edge

A trading edge is defined as a refined approach where the ability to identify and act upon specific entry and exit points will allow for an overall positive outcome over time

From a mathematical standpoint, a statistically positive outcome is the goal. Without an approach that satisfies this requirement, NOTHING else matters

WHAT'S YOUR EDGE?

Developing YOUR Edge

Constant evolution in processes where ongoing analysis of ideas and refinements take place to reach a consistent, actionable system

Locating price level zones of significance produces nonrandom reactions which allow for predictable inflection points and subsequent trends

This is crucial to understand as technical trader. Limiting exposure to these precise moments where an imbalance occurs in conjunction with confirming price action allows us to execute trades with precision

What is YOUR edge?

A trader must be able to demonstrate patience and discipline at all times, as well as adhere to their trade strategy and risk management parameters

You develop an edge by becoming proficient at a specific trading strategy such as VWAP Trading, Mean Reversion/Reversal Trading, Breaking News Plays, Trend Following, Bull/Bear Flags, Breakouts/Breakdowns

BE OPPORTUNISTIC!

Be patient until YOUR edge presents itself and become aggressive as most institutions and funds do not have the ability to move freely across different time frames, markets, etc

What is YOUR edge?

Let's breakdown how to approach developing your edge by asking a very simple series of questions

What direction are you most comfortable trading? Long or Short?

What approach are you most comfortable trading in that direction? Continuation?
Reversals?

How will you pinpoint an entry? Flags? Triangles? Flat tops & bottoms?

General Charting Techniques

Arguably the most important tool for a high level technical trader is the ability to decipher market data and price action within charts

SIMPLICITY!

The most efficient way to gain an accurate understanding of price action and underlying tone of the market is to keep your charts CLEAN. This will allow the trader's focus to remain on what matters most: Price Action

CONSISTENCY!

Always maintain the same format between different charting time frames as this will allow for efficient analysis of each situation by focusing on only the most relevant information. In result, the learning curve of successful chart reading techniques will drastically decline

General Charting Techniques: Time Frames

Each trader must choose which time frame best suits their specific trading strategy. Again, consistency is key here to avoid a long and painful learning curve

There are 3 different time frames predominantly utilized by technical traders which are the long term, short term, and precision entry time frames

General Charting Techniques: Long Term

Long Term Time Frame is defined as a “Macro” based perspective utilizing all historical data available. Any of the below time frames can be referenced to locate significant levels of support and resistance

Daily

Weekly

Monthly

General Charting Techniques: Short Term

Short Term Time Frame is defined as the primary trading time frame from which a trade presents a setup and also from which a trade is managed. Any of the below time frames can be referenced for either a trade setup and/or trade management; depending upon your strategy. For example, if you have a swing trading approach, you likely will utilize the 30 and 60 minute charts while intraday traders will utilize the 5 through 15 minute time frames

5 Minute

10 Minute

15 Minute

30 Minute

60 Minute

General Charting Techniques: Precision Entry

Precision Entry Time Frame is defined as the primary entry time frame where precision entries are taken which allows for greatly reduced risk due to the extreme clarity in the price action. These entry time frames are fast for a very specific reason which is CLARITY. The CLARITY in price action allows you to see the “inside” action where highly accurate trading decisions can be made

15 Second

24 Second

30 Second

General Charting Techniques: Precision Entry



General Charting Techniques: Precision Entry



General Charting Techniques: Indicator Set

Moving averages are used on Daily time frame ONLY

Simple Moving Averages (100 Day, & 200 Day)

100 SMA - Yellow

200 SMA - Orange

Exponential Moving Averages (20 Day EMA)

20 EMA - Green

Volume Weighted Average Price (VWAP)

VWAP - White

Volume

Basic Principles of Market Structure

Price Action

Price action can be defined as the way in which a market moves. Thus, creating what is known as market structure which is simply the historical movements of a market where support and resistance originates

Remember, the majority of price action is random on a day to day basis and it is imperative to locate these areas of **market imbalances** where price action shifts from random to predictable in order to have a favorable trading outcome

Basic Principles of Market Structure

The Framework

Market Structure is defined as the **historical** data on a chart which is comprised of the tick by tick movements in price. Every trade that occurs in the market is part of the building blocks of market structure

This is where we identify the advanced technicals, i.e, Pivots, Trendlines, Swing highs/lows, Gaps, etc

Basic Principles of Market Structure

The Framework

Price Action is defined as the **dynamic** movement in price that creates the static price data known as market structure. Price action is what we refer to on intraday time frames for entry and signals

Price action is visible on all of the faster, intraday time frames such as the 15s, 24s, 30s, 5, 10, 15 minute charts

Basic Principles of Market Structure Pivots

Pivots - Comprised of price action that is consistent over preferably a longer term, but also short periods of time that creates an active support/resistance level

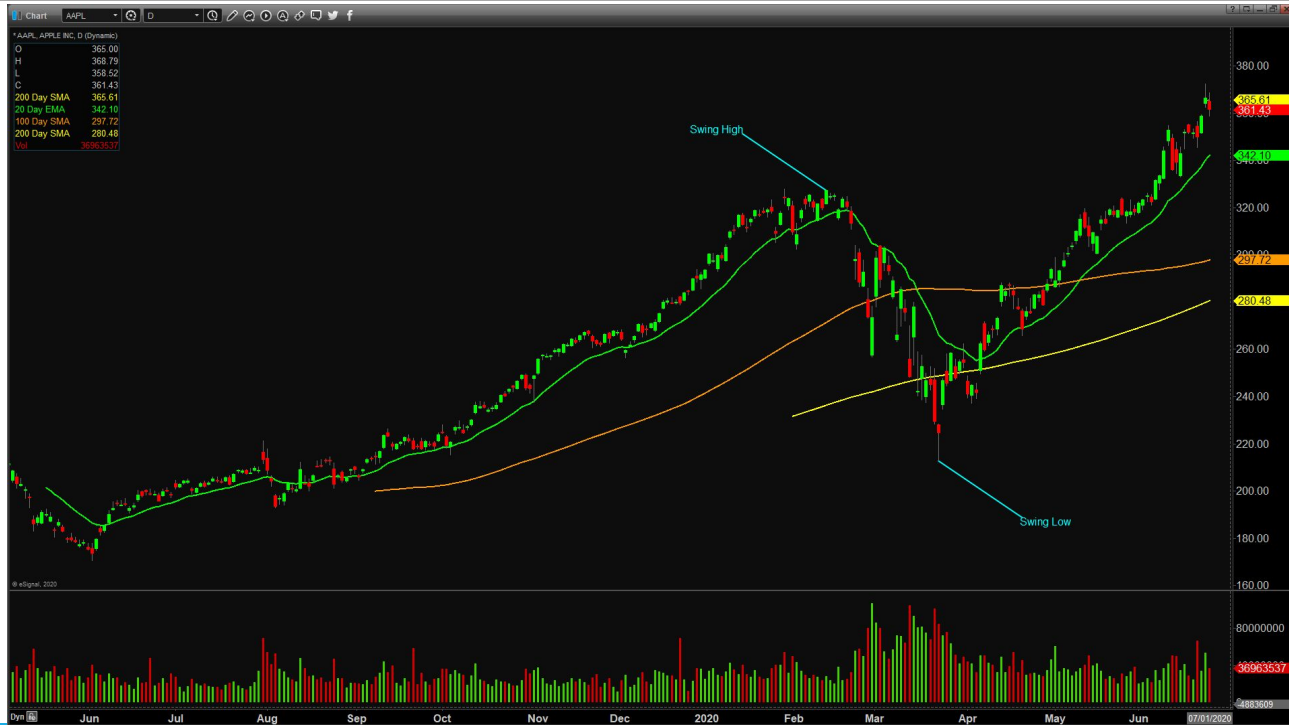
Basic Principles of Market Structure

Swing High

Swing High: A candle/move that is both **HIGHER** than the candles/move that precede it and succeed it signifying a point in the price action where **BUYING** was exhausted. Often referred to as waves or pivot highs

Basic Principles of Market Structure

Swing High



Basic Principles of Market Structure

Swing Low

Swing Low: A candle/move that is both **LOWER** than the candles/move that precede it and succeed it signifying a point in the price action where **SELLING** was exhausted. Often referred to as waves or pivot lows

Basic Principles of Market Structure

Swing Low



Basic Principles of Market Structure Gaps

Gaps: A price break in the chart between the market close and market open (overnight) where the stock gapped sharply up or down with very few or no trades taking place in between

Basic Principles of Market Structure Gaps



Basic Principles of Market Structure

Trendlines

Trendlines - Lines that are drawn between meaningful and extreme pivot points (swing high/low, gaps, etc) on a chart to establish an identifiable trend thus creating support and resistance points

Basic Principles of Market Structure Trendlines





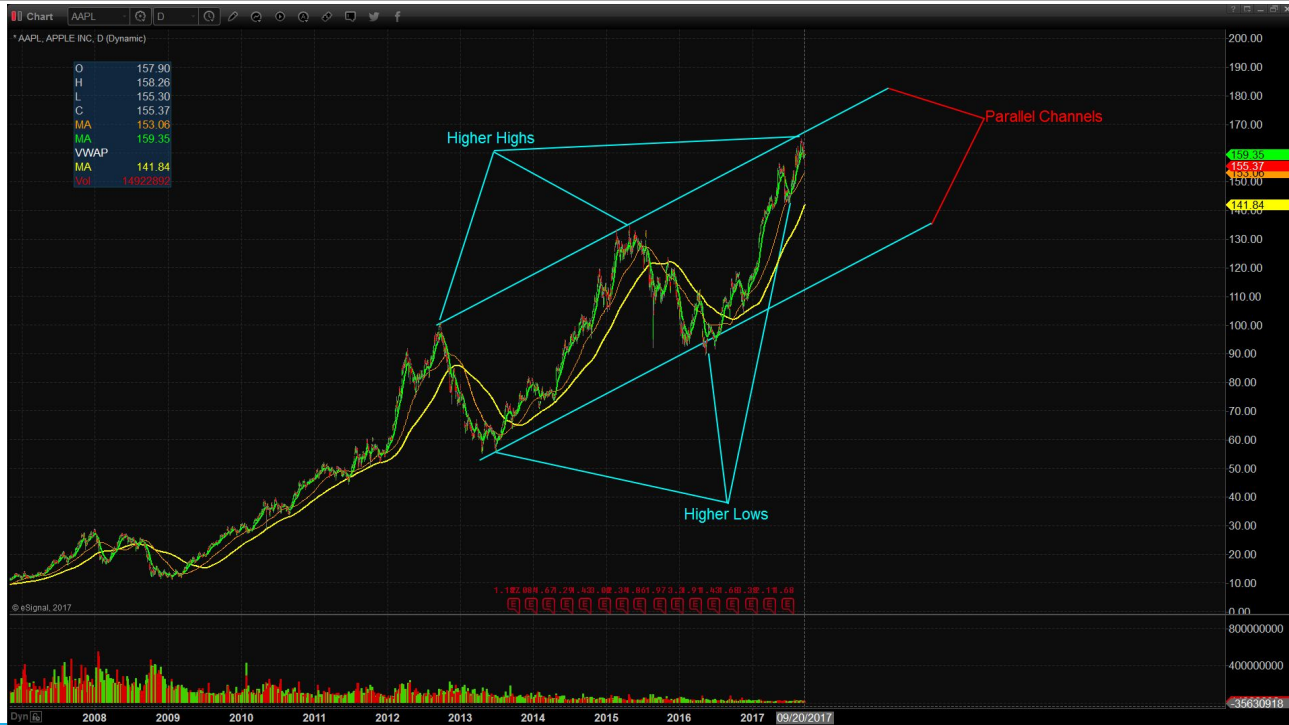
Basic Principles of Market Structure

Basic Price Action Formations

Uptrend

Defined as a consistent upward movement
where buyers outpace sellers

Basic Principles of Market Structure Uptrend





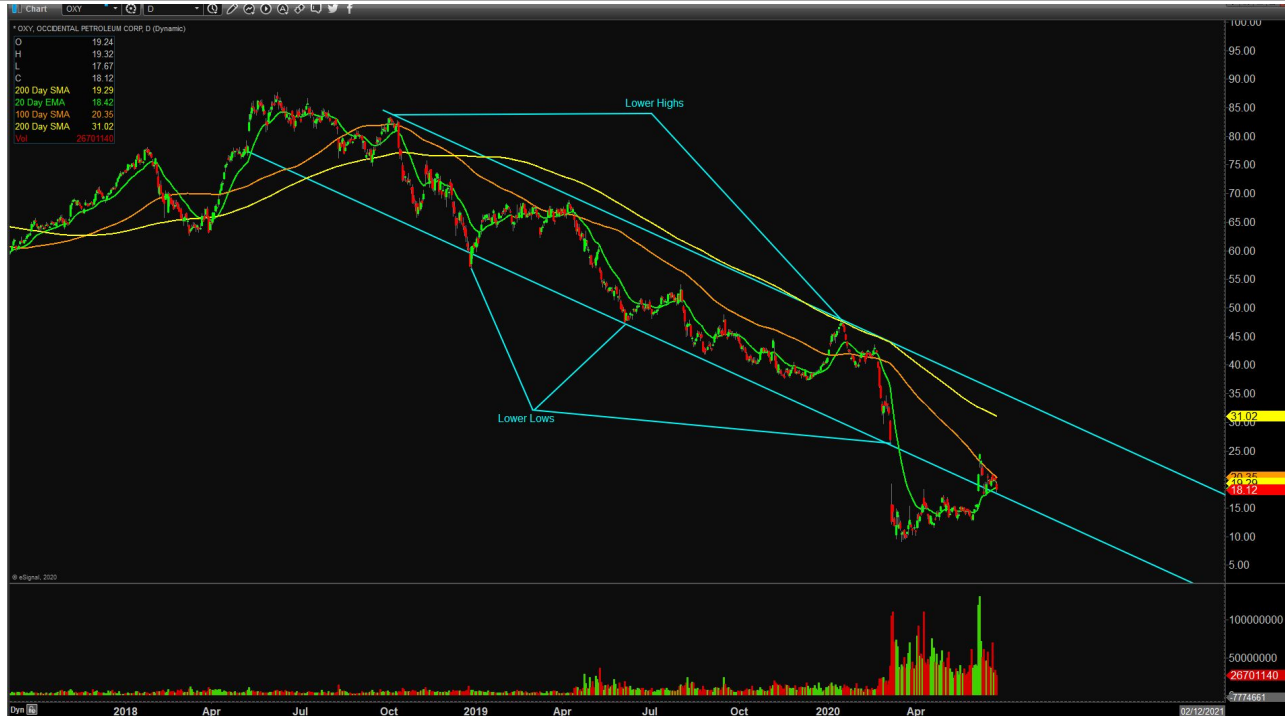
Basic Principles of Market Structure

Basic Price Action Formations

Downtrend

Defined as a consistent downward movement where sellers outpace buyers

Basic Principles of Market Structure Downtrend



Basic Principles of Market Structure

Basic Price Action Formations

Range Bound

Defined as a trading where the pressure of buyers and sellers is at overall equilibrium

Basic Principles of Market Structure

Range Bound



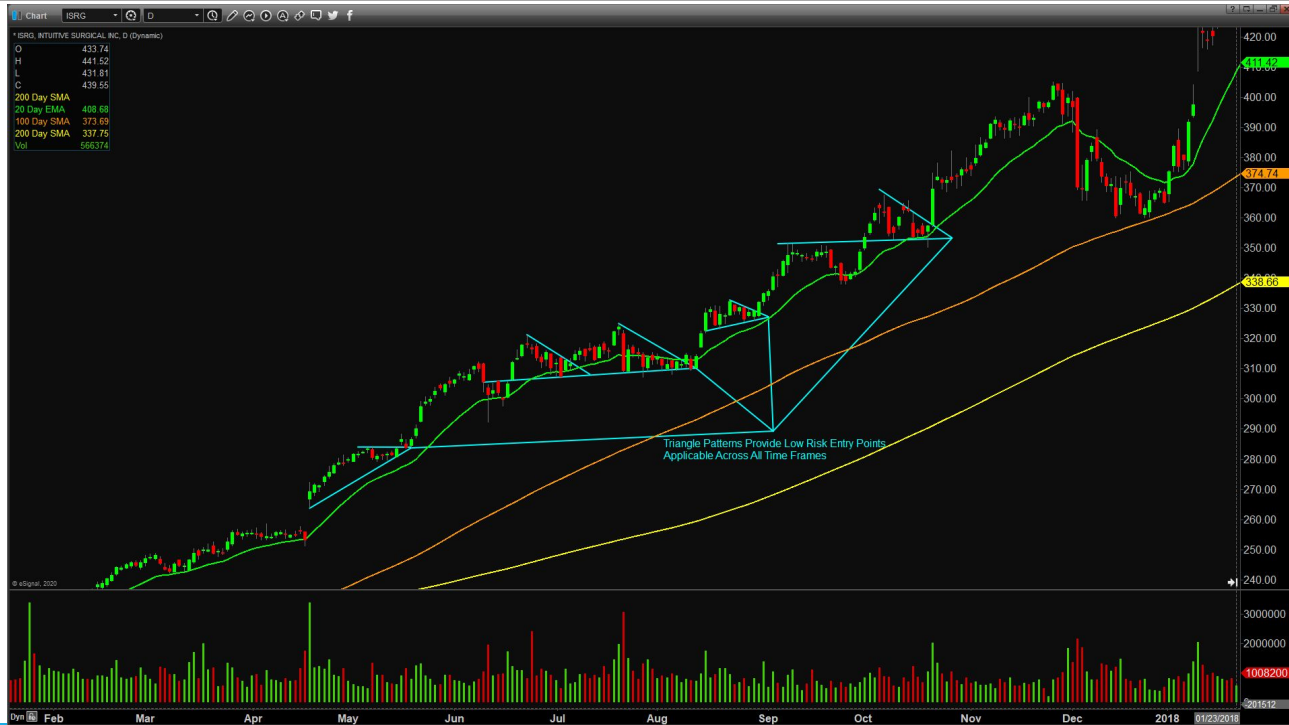
Basic Principles of Market Structure

Basic Price Action Formations

Triangles

Defined as price action triangular in pattern that
often precedes the most powerful
breakouts/breakdowns

Basic Principles of Market Structure Triangles



Basic Principles of Market Structure

Triangles



Basic Principles of Market Structure

Basic Price Action Formations

Contrarian Move

Defined as a trading against the prevailing market movement for powerful reversion moves

Basic Principles of Market Structure

Contrarian Move

The best tests of support and resistance often combine an objective and clear level with some form of overextension. In other words, a large price spike down to support is likely to set up a better bounce from that level than would a slow trend down into support

In fact, a market trending down into support is not showing price rejection, and this type of pressure often presages a significant break of support

Basic Principles of Market Structure

Contrarian Move

