



Pay Attention To Price Action



BECOME A PRO
MONEY WILL FLOW

**FOCUS =
SUCCESS!**

PAPA

by

Avadhut Sathe

TM



PAY ATTENTION
to
PRICE ACTION



PAPA

INDEX

Introduction.....	6
Doji at Top/Bottom.....	12
Engulfing Patterns.....	15
Hammer at Lows of Bullish Engulf.....	18
High-wave Candle.....	19
Shadows.....	20
Accumulation.....	21
Distribution.....	22
Counter Attacks.....	23
Sandwich Pattern.....	26
Gaps.....	27

INDEX

Importance of 3 Candlestick Patterns.....	29
Identifying Slowdown in Momentum.....	34
Mother Candle.....	36
HA for Trailing SL.....	38
Using Candles with EMAs and Bollinger Bands.....	40
Timing the Market.....	43
BB with 3 Std. Deviation.....	46
Fake Breakout/Breakdown.....	48
Genuine Breakout/Breakdown.....	49
Adapting To Market Conditions.....	50

Do you Qualify for this workshop !?

Markets rise when

- i. There are more buyers than sellers
 - ii. Buyers are more aggressive than sellers
 - iii. Sellers are afraid and demand a premium
 - iv. More shares or contracts are bought than sold
-
- a. i and ii
 - b. ii and iii
 - c. ii and iv
 - d. iii and iv

Find out - when Markets Fall!?

Introduction

TA is Simple: Why Complicate things?

- Candlesticks do speak a lot....be a **Good Listener!**
- Market is a battle field between the Bulls and Bears. They try to intrude into each others territory and while doing so they print a picture. That's what candles are all about. Candles shows who is dominating at that **particular period**.
- Its always about being with the dominating force in the market. So listen to the candlesticks very carefully....they always tell you a **STORY!**

Candlesticks Make TA easy!

- They help to minimize complications of decision making involving many parameters, as it focuses only on price action!
- Even Fundamental Analysts could use it to time the entry and exits based on candlesticks and their view of the stock / market.
- They help you identify the resistance and support areas.
- They help to derive proper stop loss.
- They help momentum traders to pause and enter at the right time.
- They help swing traders to time entry and exits.
- They help to “**Time**” the major tops and bottoms!

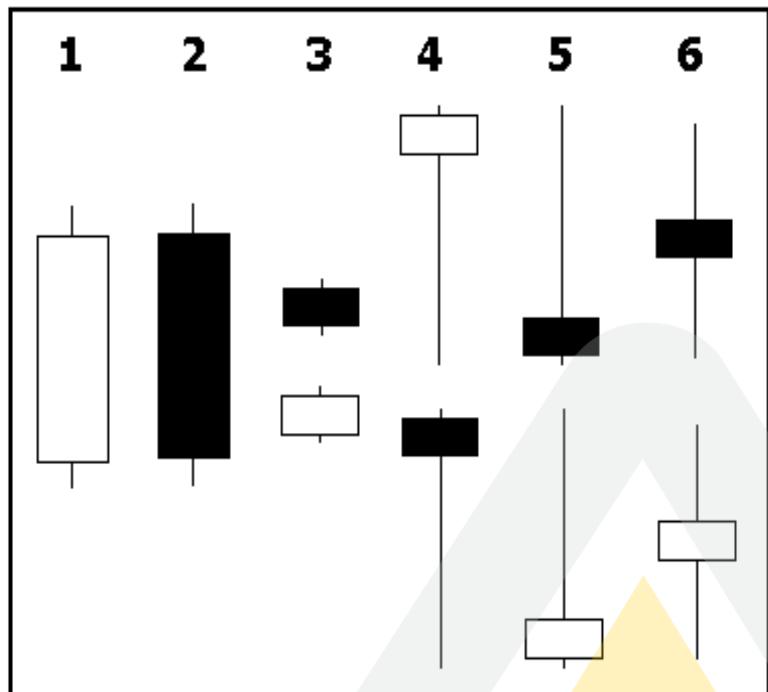
Candlestick Pattern

- Japanese rice traders began using candlestick charts in 16th century.
- Body of each candle represents distance between opening and closing prices.
- The upper and lower tail (if exists) mark high and low for the day respectively
- White / Green Candle: If closing price is higher than opening price
- Black / Red Candle: If closing price is lower than opening price
- A candlestick represents data for specific period i.e. in daily chart it represents price action for the day and on a 30 minute intra-day chart it represents price action for that 30 minute period.

Always ask yourself: “**Why are you in the trade?**”

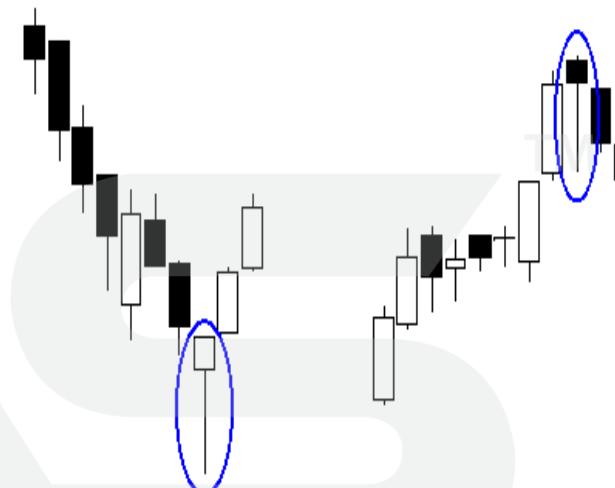
Answer lies in PA: **PRICE ACTION**

Bulls vs. Bears



Hammer

Hanging Man



1. Long white candlesticks indicate that the Bulls controlled the ball (trading) for most of the game.
2. Long black candlesticks indicate that the Bears controlled the ball (trading) for most of the game.
3. Small candlesticks indicate that neither team could move the ball and prices finished about where they started.
4. A long lower shadow indicates that the Bears controlled the ball for part of the game, but lost control by the end and the Bulls made an impressive comeback.
5. A long upper shadow indicates that the Bulls controlled the ball for part of the game, but lost control by the end and the Bears made an impressive comeback.
6. A long upper and lower shadow indicates that the both the Bears and the Bulls had their moments during the game, but neither could put the other away, resulting in a standoff.

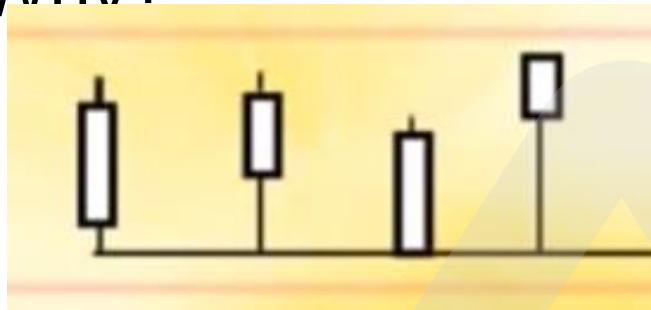
Understanding Resistance & Support

Candles that help you arrive at support and resistances:
Hammers, Shooting star, Candles with Long Shadows,
Gravestone Doji, Long Legged Doji

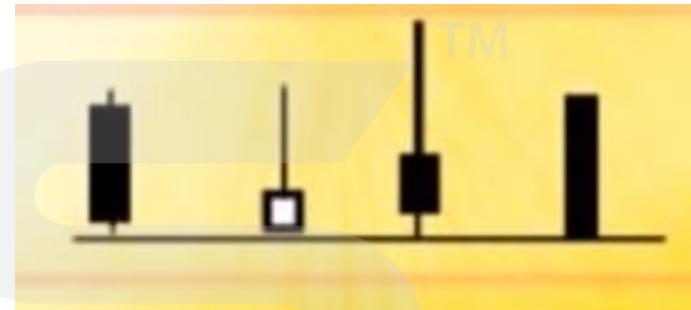


Support / Resistance in the context of candles

Which scenario is more bullish - Case I or II? and Why?



Case I

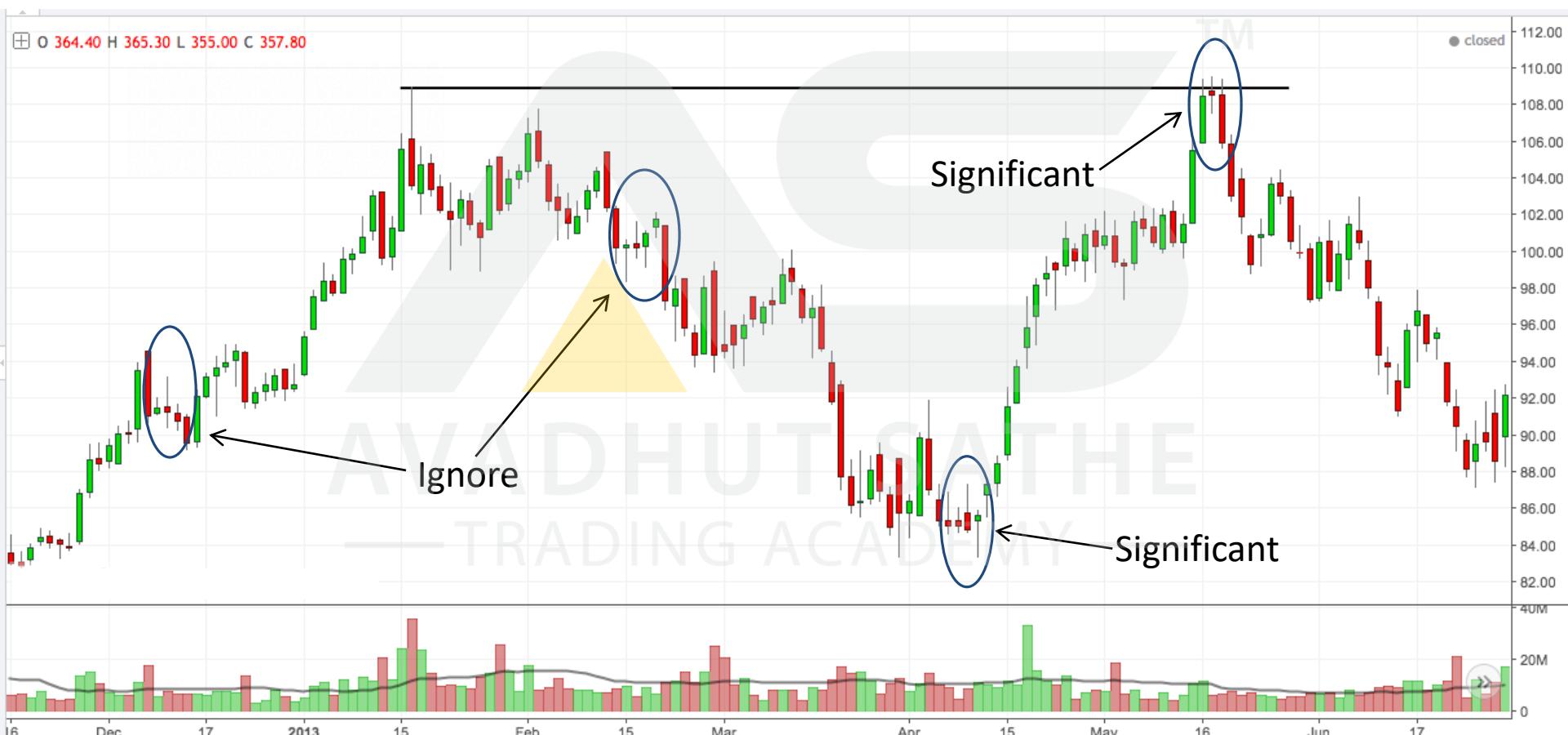


Case II

Because long lower shadows are more stronger signals than smaller ones.

Doji: use to time the top / bottom

- Significant only at the end of the trend.
- Confirmation only after the following candle.
- One must ignore Dojis in the middle of the range.



Various scenarios

- Uptrend – top – correction – rally - doji at double top – confirmation candle ☺
- Dojis within flag: Ignore / do not pay attention
- Dojis within trend: Ignore / do not pay attention



Will you short after this Doji?

Nifty 50: Mar 05, 2014



Engulfing Patterns:

- Bullish Engulf - only when found near the bottom of the trend, ignore the rest.
- Bearish Engulf - only when found near the top of the trend, ignore the rest.
- Hence, preceding trend matters. Size of the body matters the most.
- When to ignore?
 - When they are not confirming potential reversal
 - Within a range or flag
- Bullish Engulf pattern at the top of a trend could turnout to be bearish, how? - Combine the two, its like a hanging man.

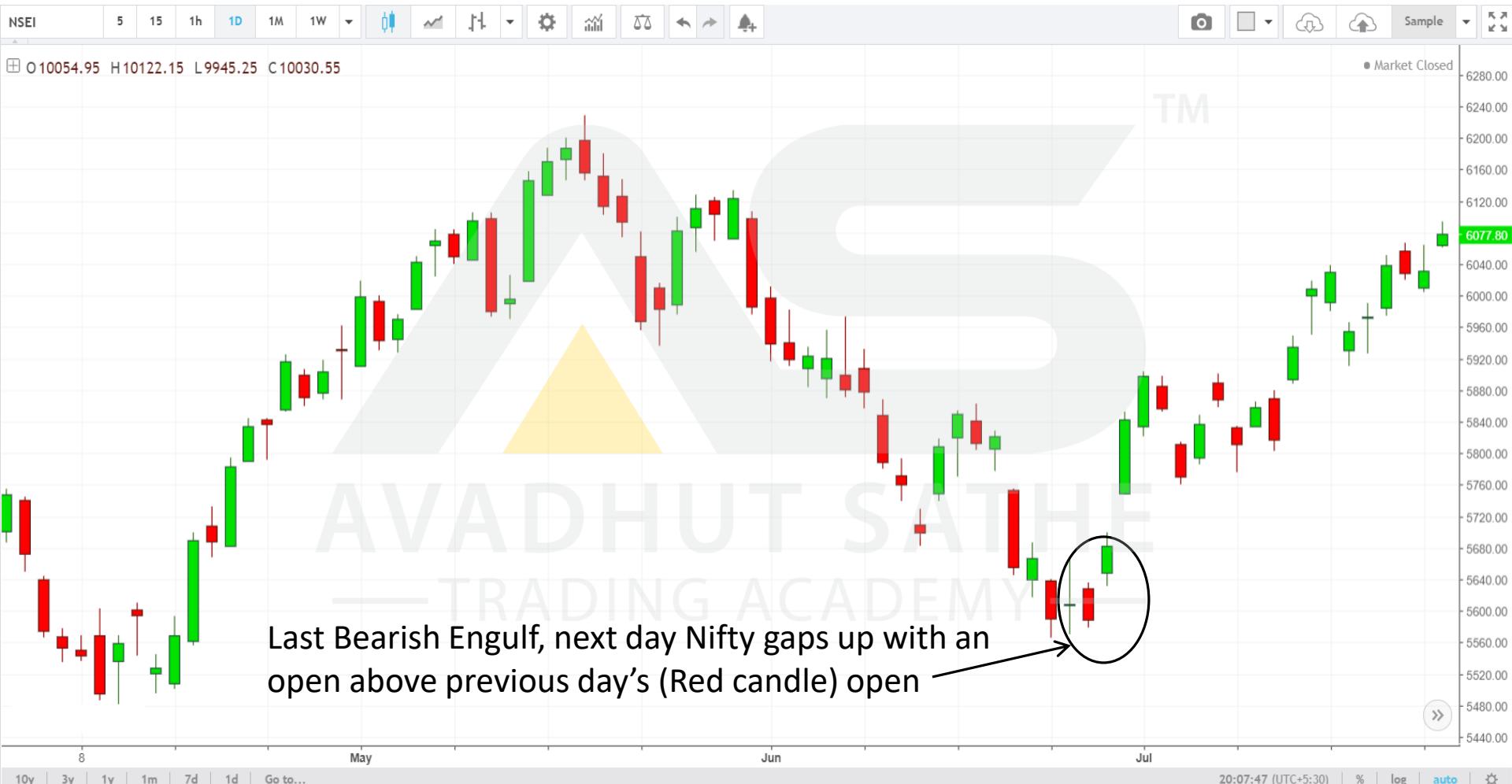
Classic Bearish Engulf

Sun Pharma – Mar 03, 2014



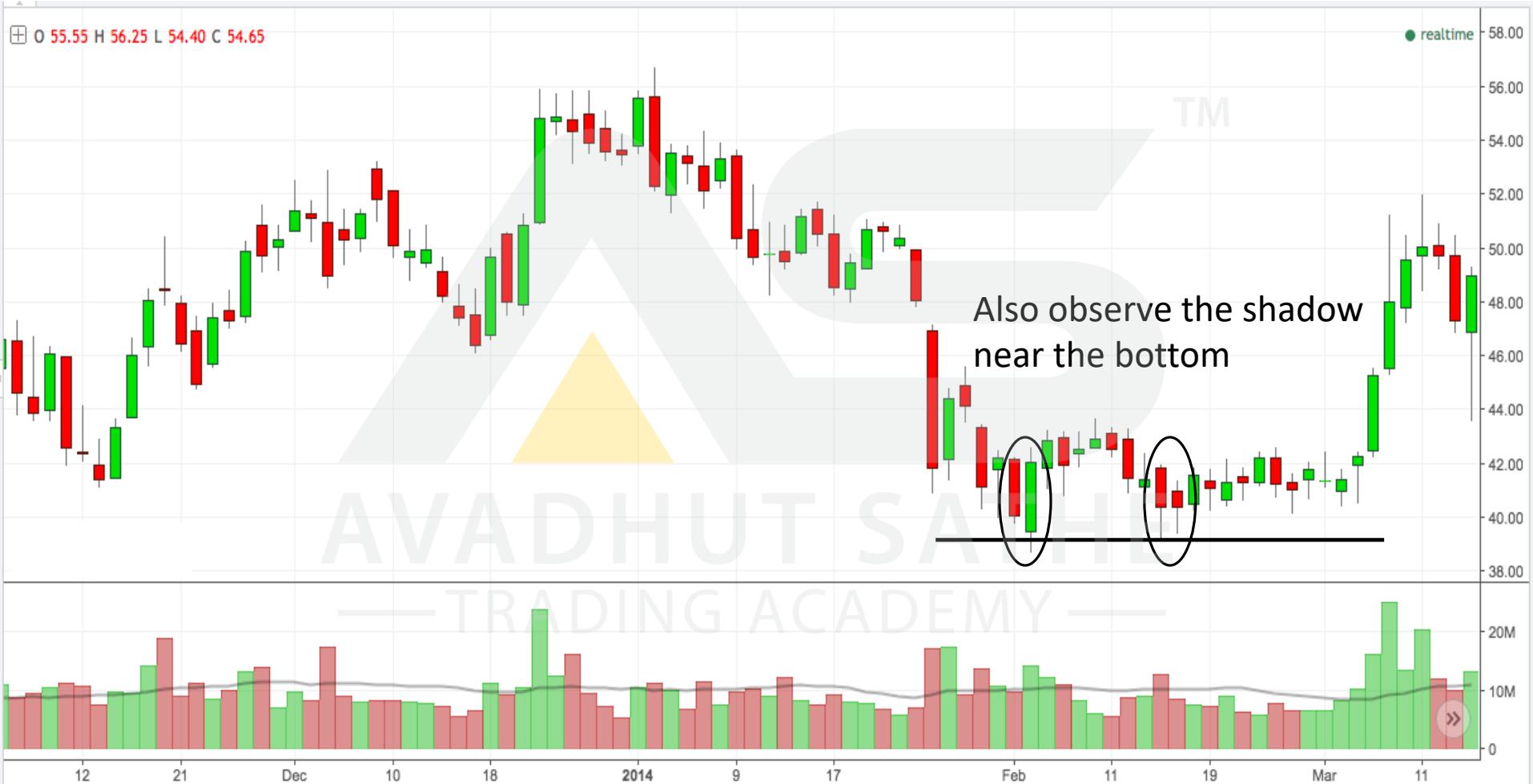
Engulfing Patterns: Check The Context

Nifty 50 – Daily chart



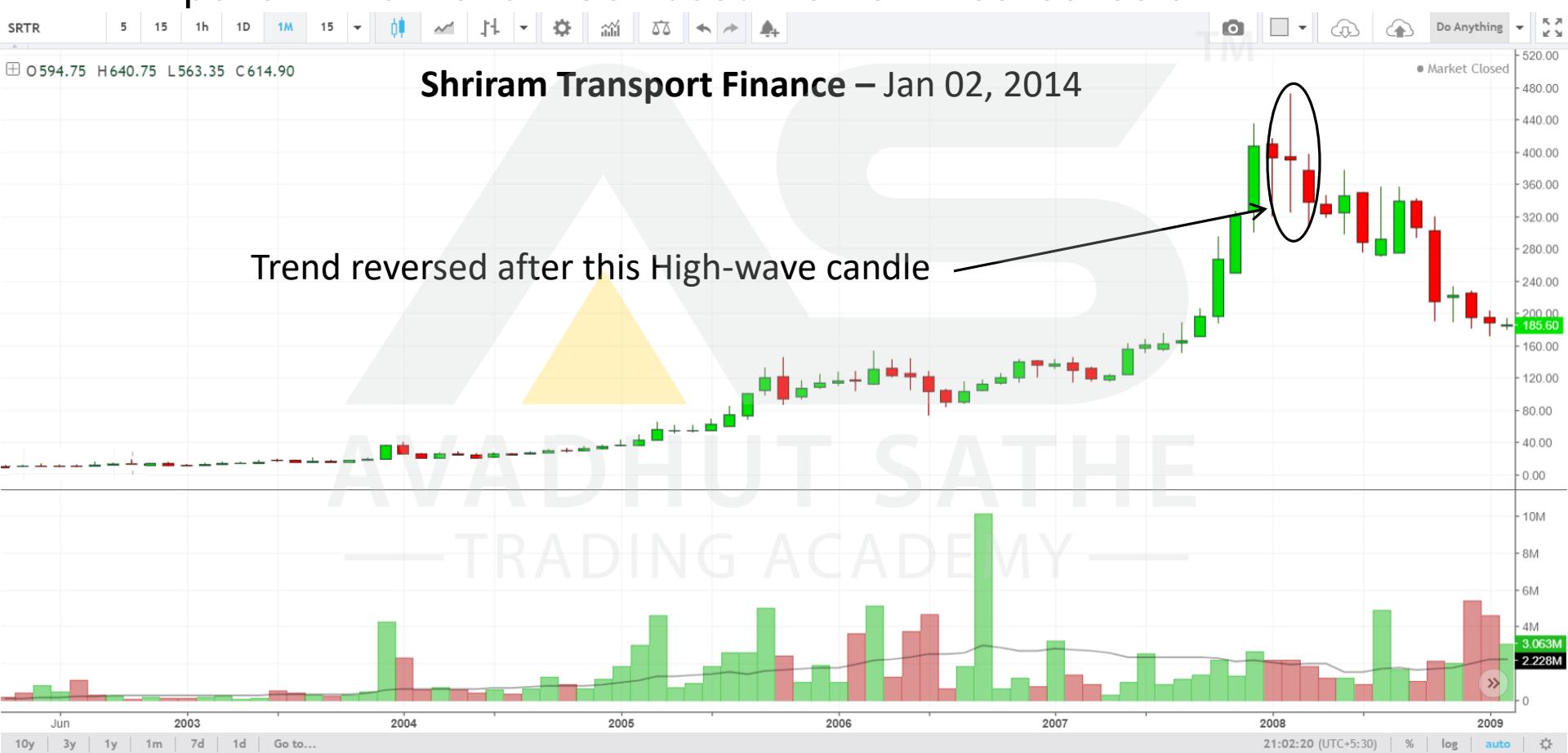
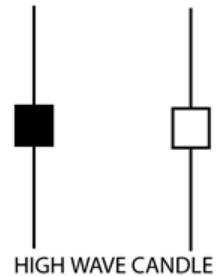
Hammer near the lows of Bullish Engulf

HDIL – Feb 2014



High-wave candle

- Long upper lower shadows on either side with small body.
Market does not know what it wants to do, this is important information. Confused market....lost sense of



Shadows

- Upper Shadows : Indicate inability of Bulls to control the price action.
- Lower Shadows : Indicate inability of Bears to control the price action.

HDIL – Top in 2014



Accumulation at the Bottom

- It means that the particular asset is being accumulated or bought.
- Accumulation can be generally identified by a sideways action with many neutral candles at the bottom/support and no major follow-up on the downside.

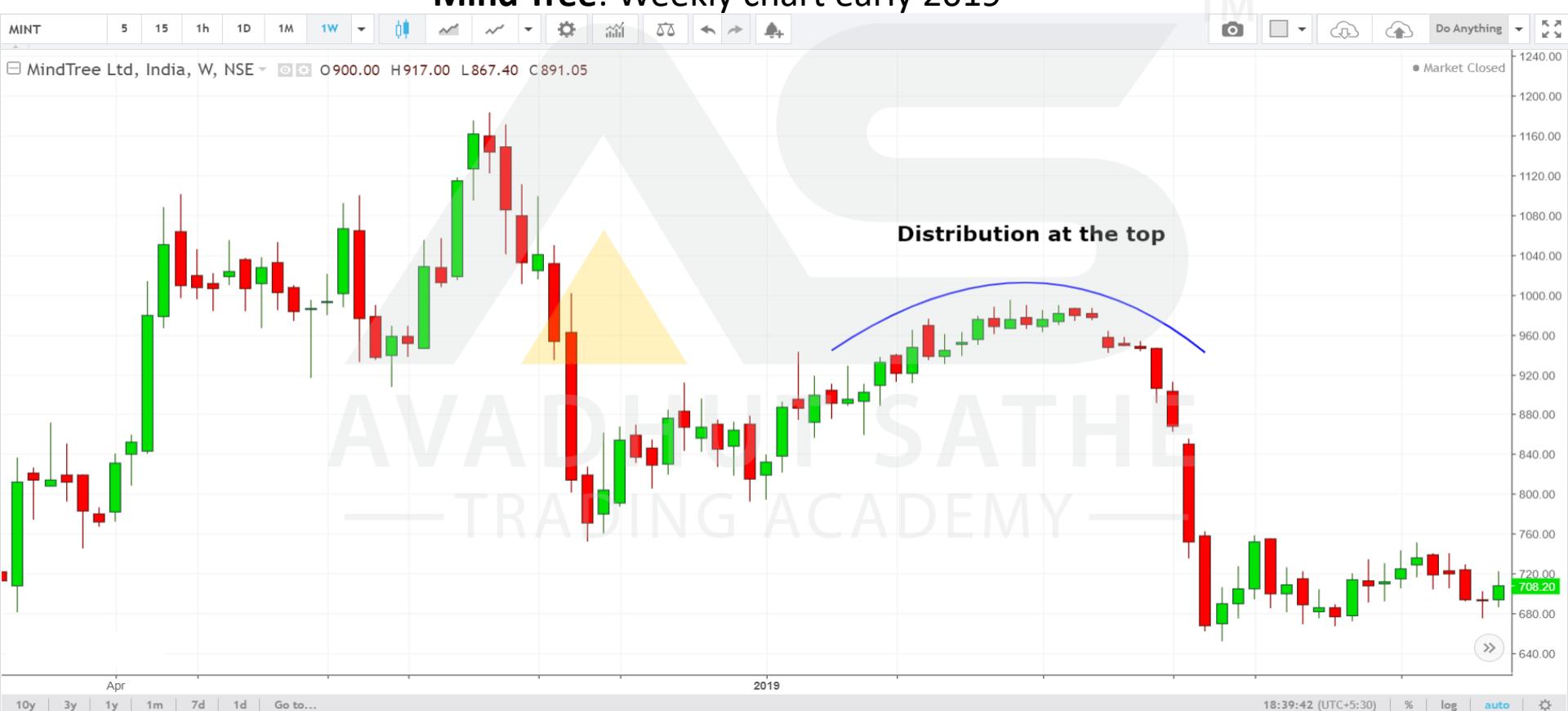
Reliance Industries: Daily chart early 2014



Distribution at the Top

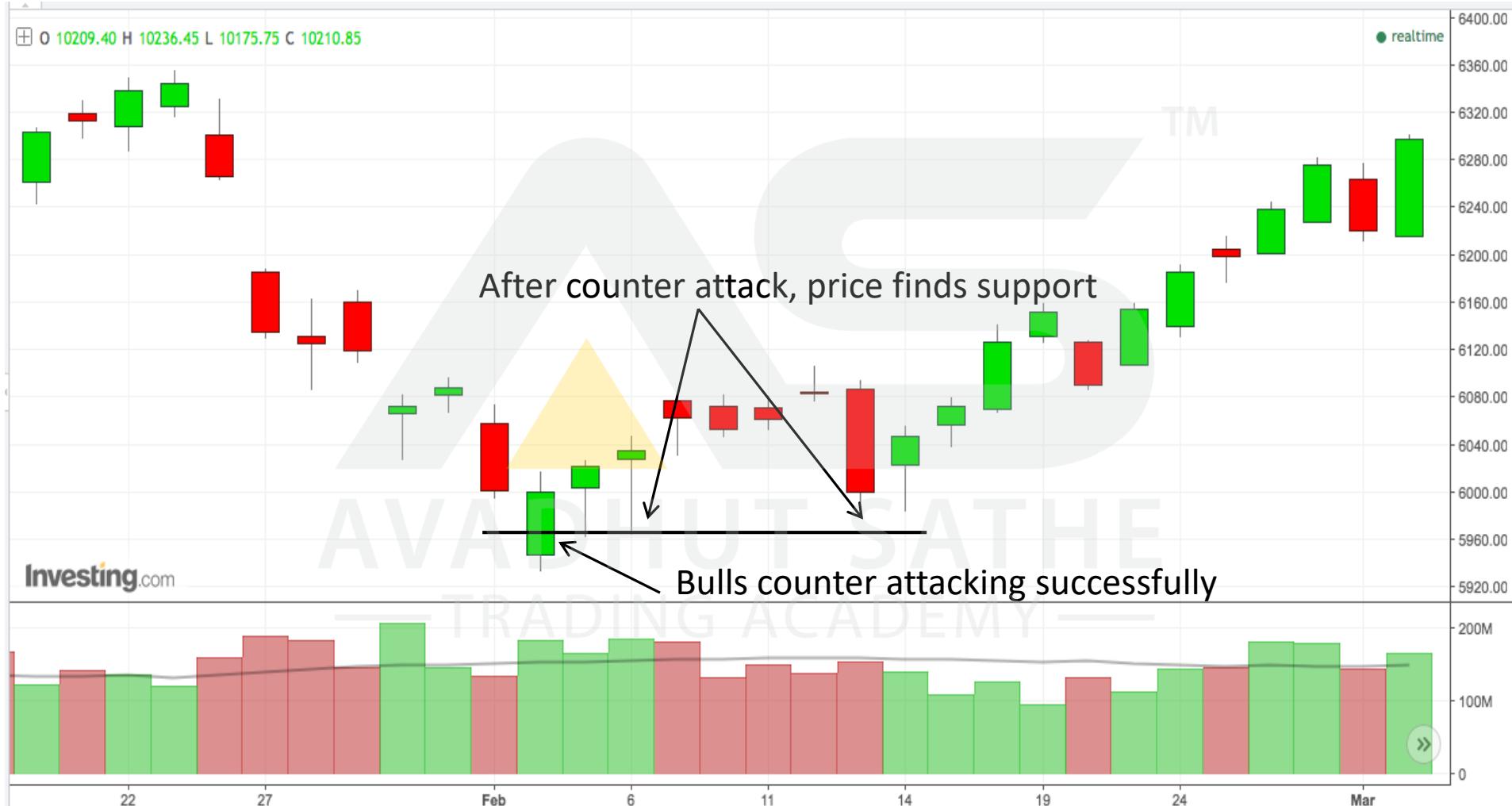
- It means that the particular asset is being distributed/sold. In other words, players getting out of their existing investments.
- Distribution can be generally identified by a sideways action with many neutral candles at the top/resistance with no major follow-up on the upside.

Mind Tree: Weekly chart early 2019



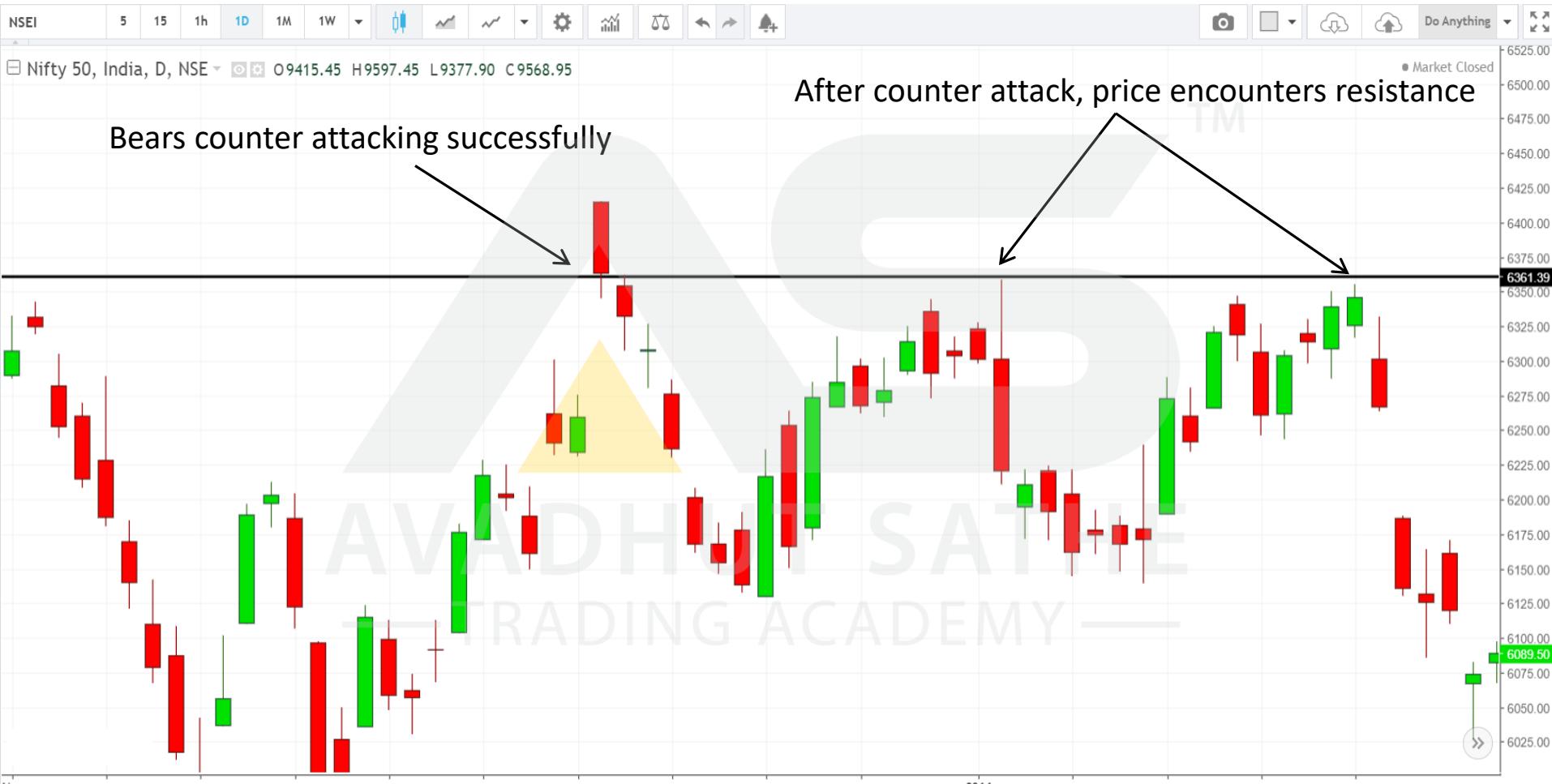
Bull Counter Attack

Nifty 50 – Bull Counter Attack



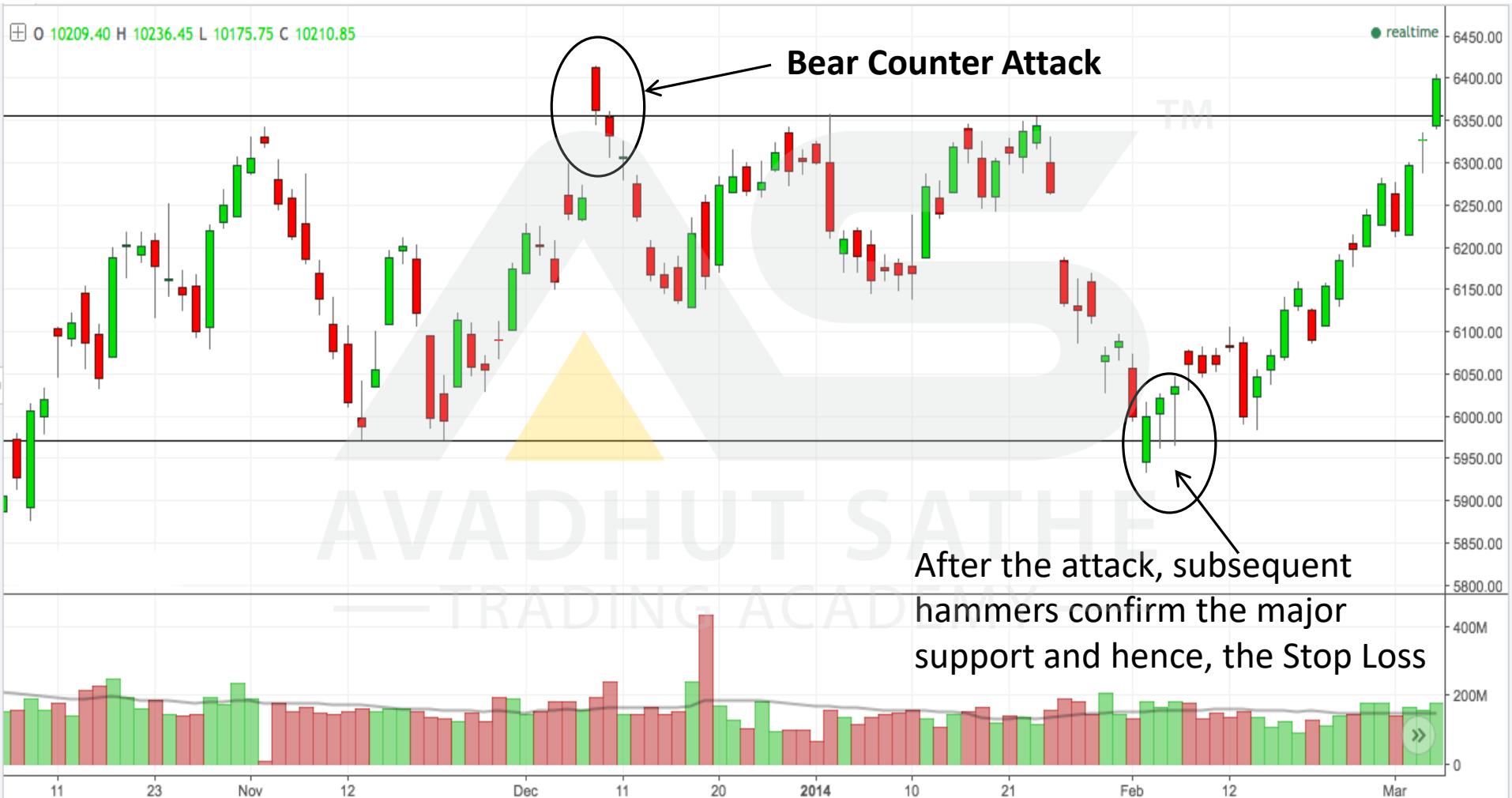
Bear Counter Attack

Nifty 50 – Bear Counter Attack



Identifying Counter Attacks

Nifty 50 – Dec 2013



Sandwich Pattern

- Sandwich pattern is a combination of Red-Green-Red-Green candles.
- The colour sequence is mostly alternate (Red v/s Green) and there is no limitation to number of candles too.

Nifty 50 – Jul 08, 2010



Gaps

- In a technical chart, gap is an area from where the price has opened up or down from the previous day's close with no trading occurring in between. They are found mainly on daily charts.
- They indicate major resistance / support levels and can be used to find targets.
- Significant Gaps :
 - Breakaway gaps - Usually found in 3rd wave. Use Elliot wave principles to identify breakaway gaps
 - When a major support / resistance is broken with the Gap

GAPs

YES Bank – Jul 24, 2013

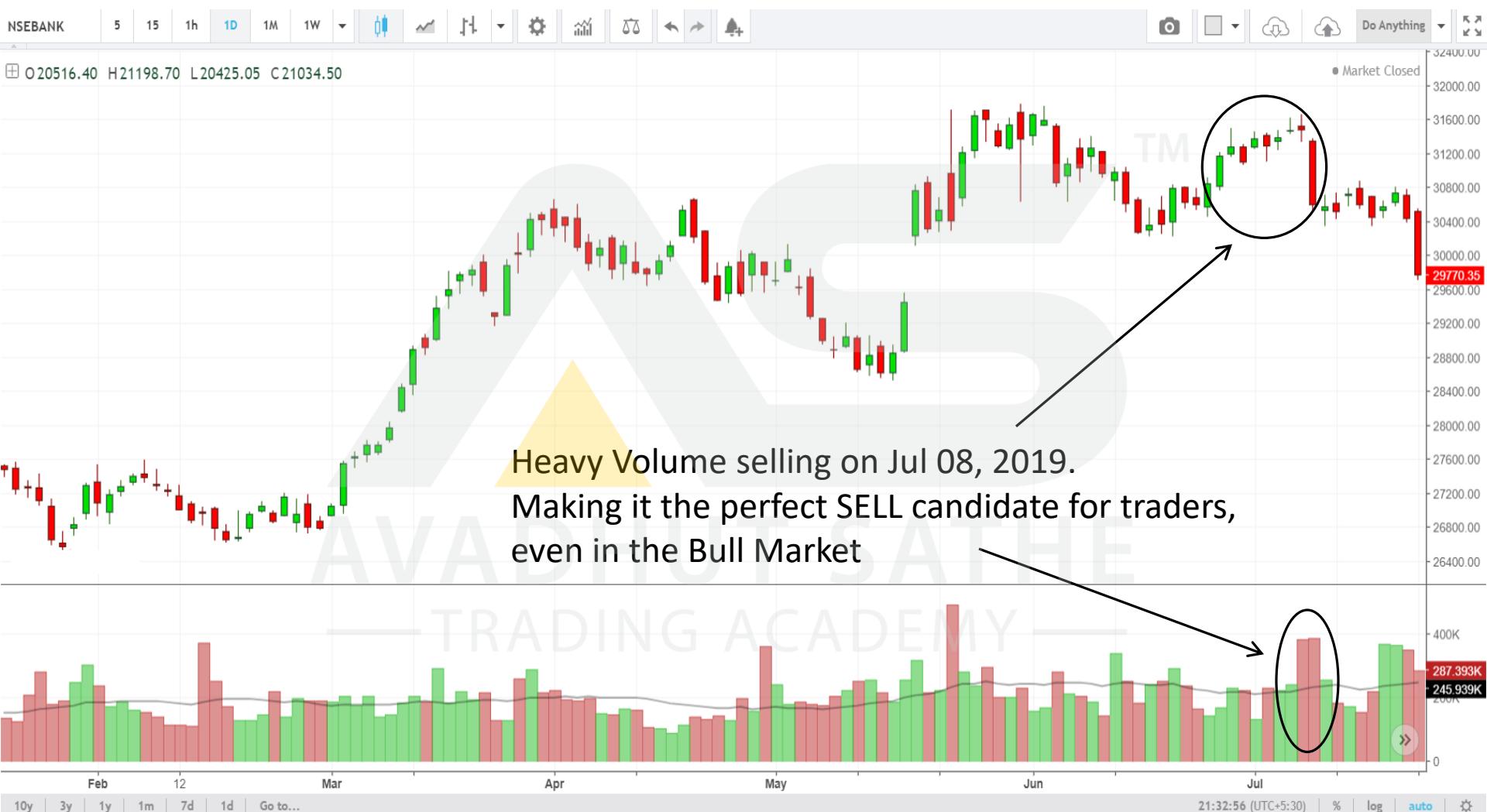


Three Candlestick Patterns

- 3 candle patterns are more significant than 2 candles or a single one viz.
 - Morning / Evening stars
 - Three Black Crows
 - Three White Soldiers
- **VOLUME Confirms the Price Action!!!**

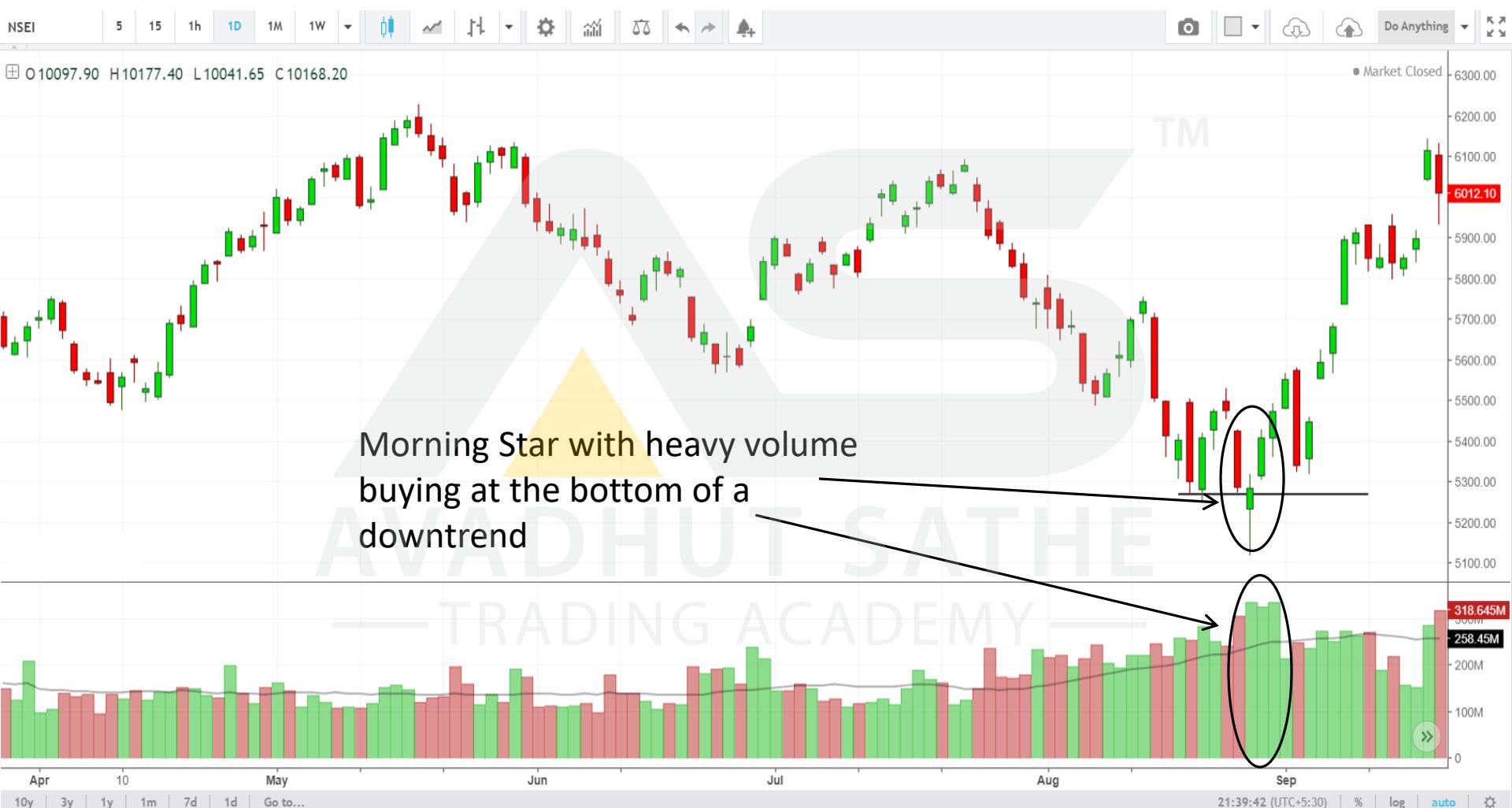
Evening Star

Bank Nifty – July 08, 2019



Morning Star

Nifty 50 – Aug 29, 2013



Three Black Crows

Sun Pharma – Mar 7 – 11, 2014



Three White Soldiers



Identifying Slowdown in Momentum

Many small body candles with tight higher high action



Mother Candle Reversal

Mother candle broken down by the bearish can trigger a reversal sign:



Mother Candle Reversal

Mother candle broken out by the bullish indicated a buy entry:



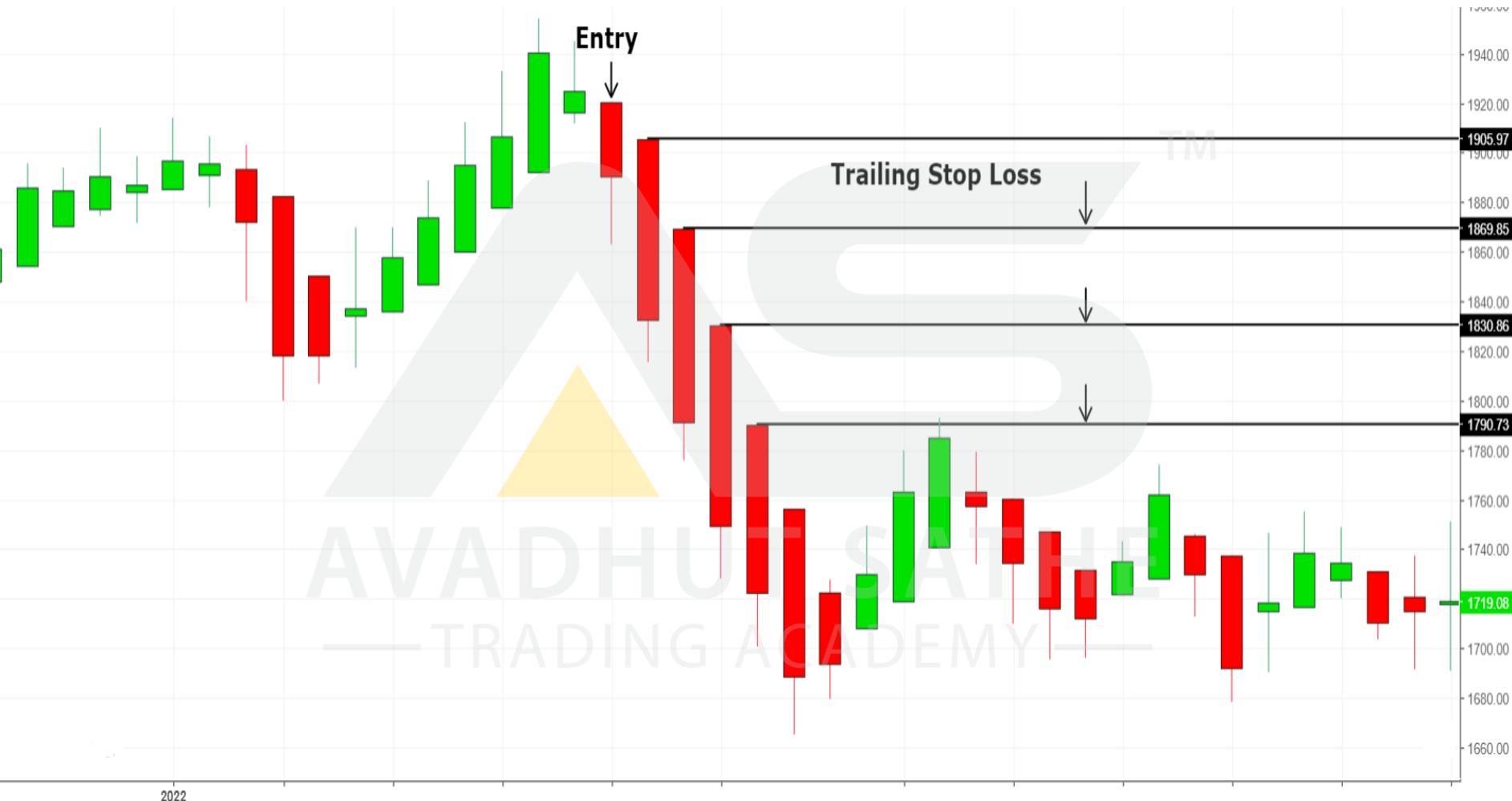
HA for Trailing SL

HA helps you to be stay in the trade without any noise. Below example of a bullish trade shows how:



HA for Trailing SL

Below shown is a shorting selling trade where SL is trailed using HA:

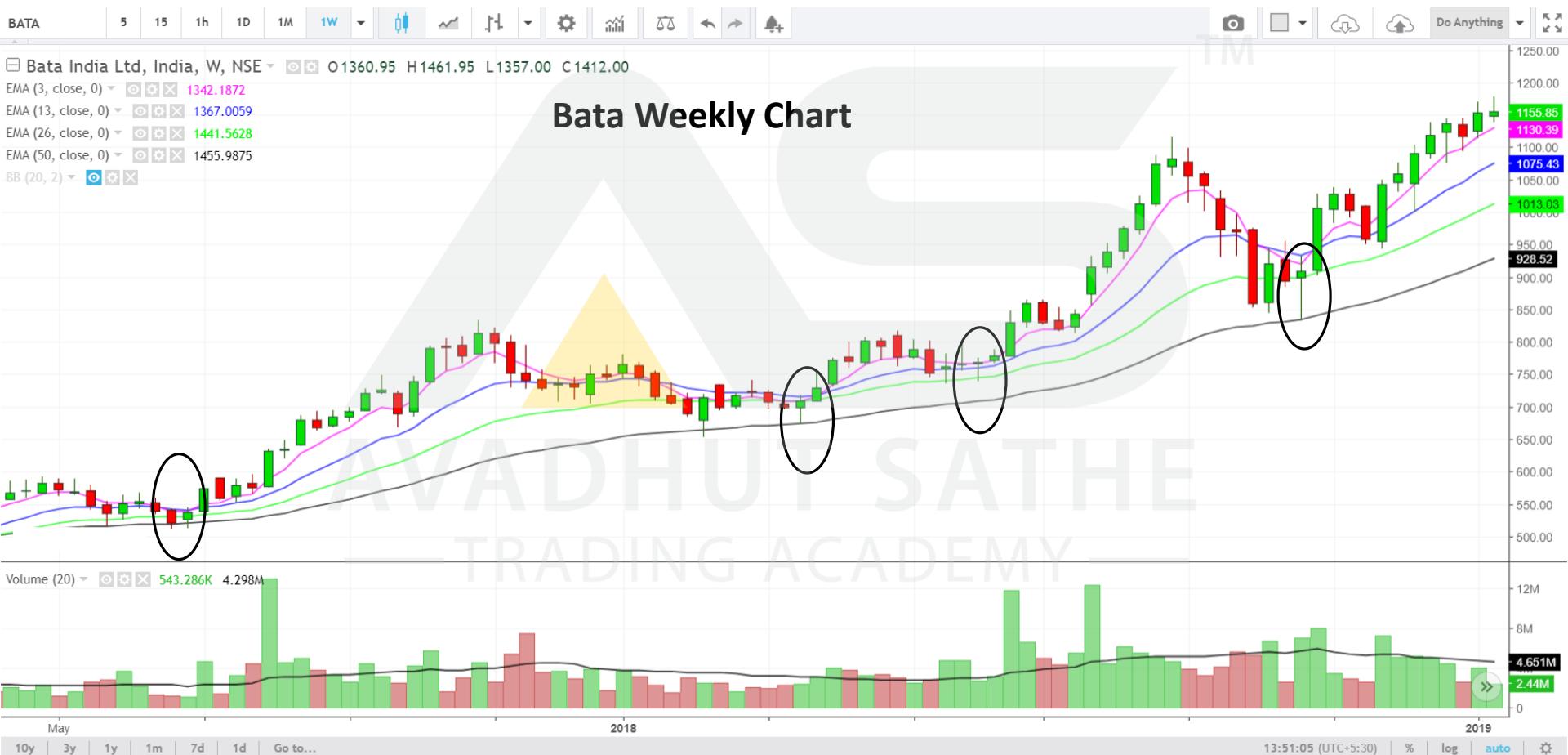


Using Candlesticks With Other Parameters

- EMAs: They provide natural support / resistances.
 - Use Hammers as buy signal on declines to EMA support levels.
 - Use shooting stars as sell signal on rallies to EMA resistance levels.
- Bollinger Bands
 - Shooting stars that fail to challenge the upper band confirm the resistance.
 - Hammers that fail to challenge the lower band confirm the support.

Hammer with EMAs

- In continuation patterns one may use Hammers for entry on correction near supporting EMAs.
- You should combine such entry signals with other parameters such as Oscillators, and Bollinger Bands.



Shooting Star with Bollinger Bands

- A shooting star that fails to challenge the upper band confirms resistance. You may take fresh short position.

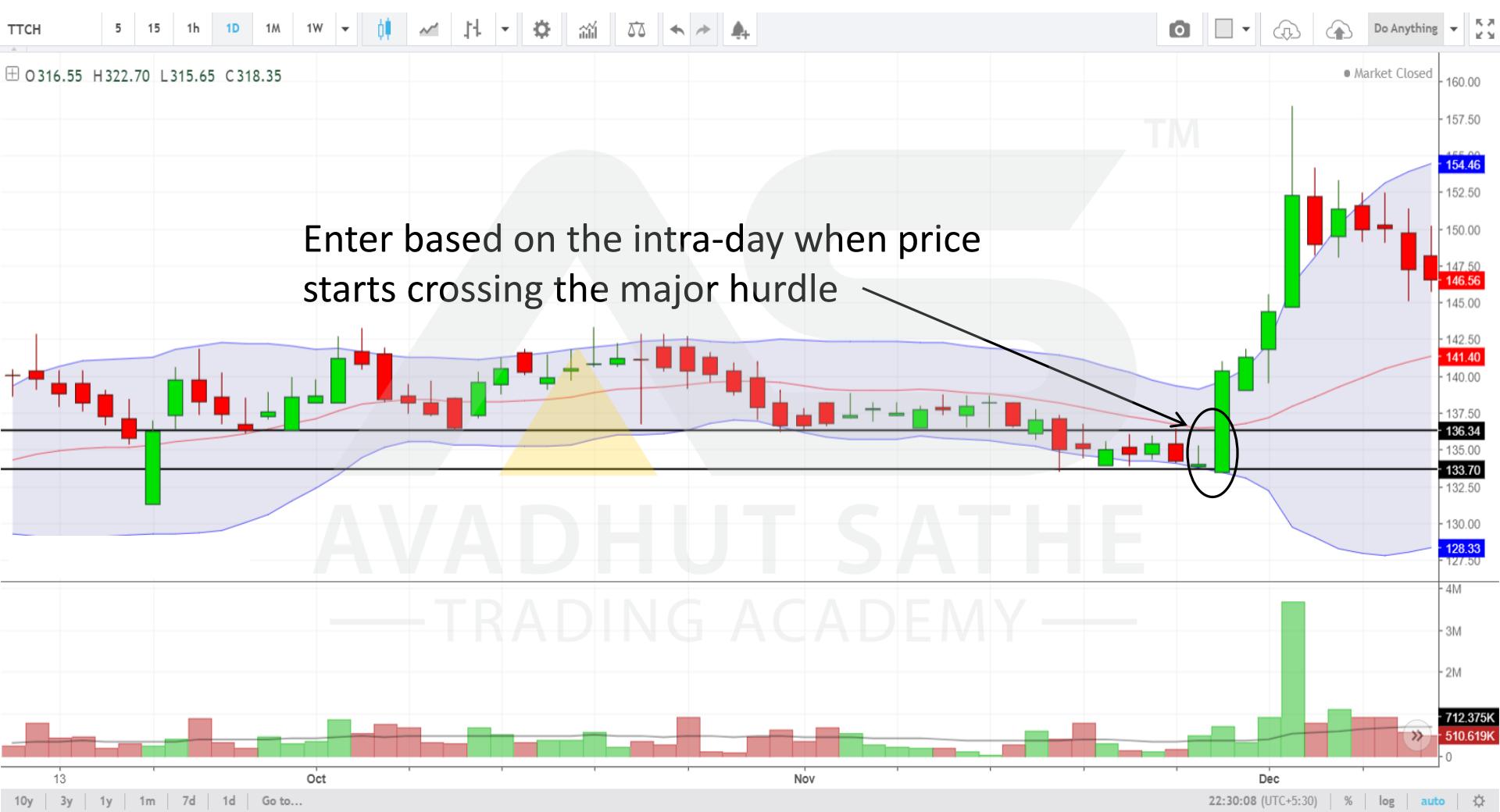


Timing the Market

- Why?
 - To reduce your risk and increase the reward!
- How?
 - Use double screens: Intra-day-Daily or Daily-Weekly combination
 - Potential Engulfing patterns
 - Potential Morning / Evening stars
 - Potential Fake breakdowns / breakouts

Timing the Entry!

Tata Chemical – Nov 29, 2012



Timing the Entry!

- Visualize the chart using intra-day – daily combination



Will you short after the Gravestone Doji?
Will you buy when the Doji high is taken out?

Bollinger Band – 3 Std. Deviation

In a bullish or bearish momentum trade, when a candle goes beyond the “BB with 3 std. deviation”, there are higher chances of a pull back.

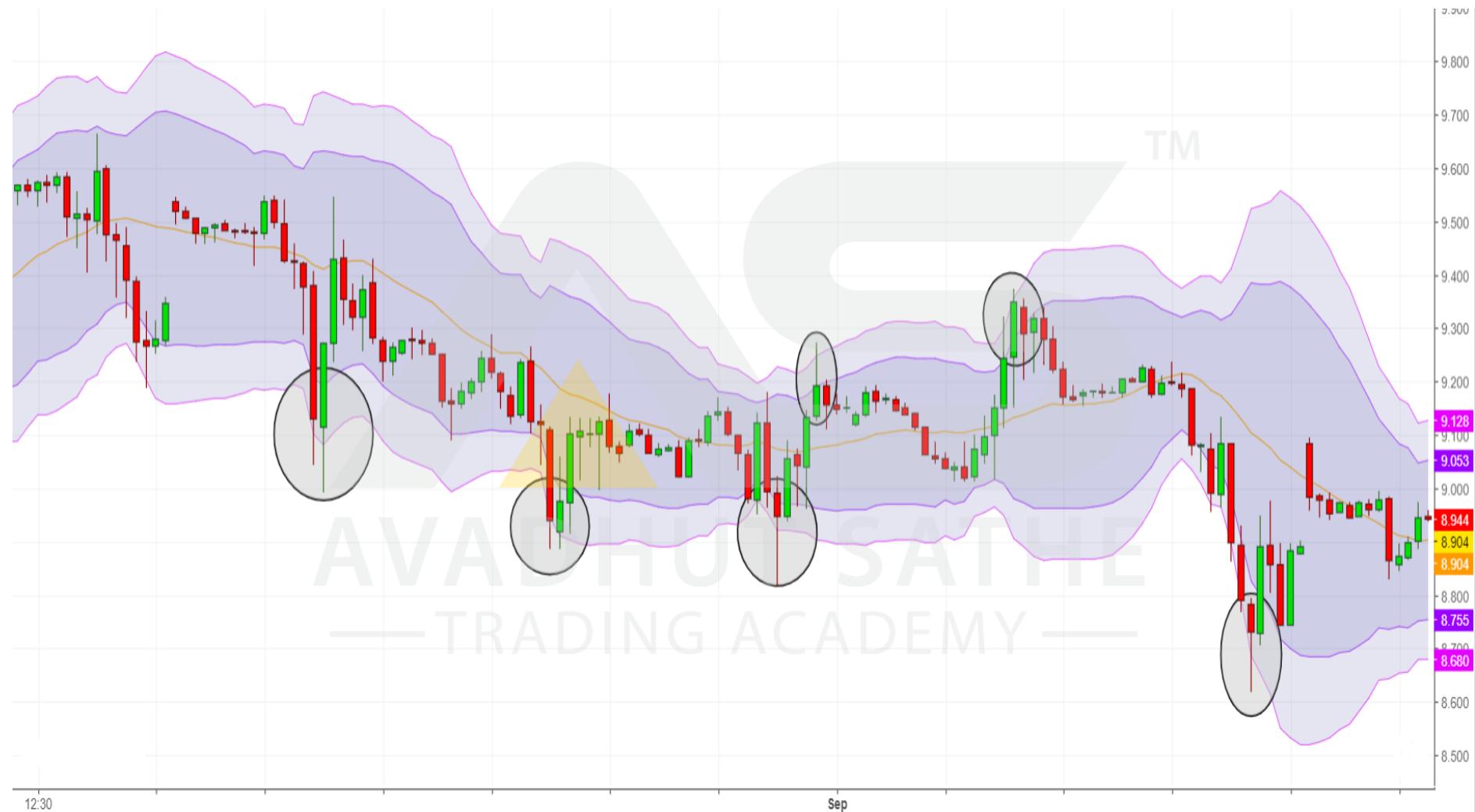
Candle going beyond the upper BB of “3 std. deviation” shows extreme excitement whereas candle going beyond the lower BB of “3 std. deviation” shows extreme panic, in market participants.

BB with 3 Std. Deviation helps you:

1. To exit at a better price and
2. To not take an impulsive entry in a momentum trade

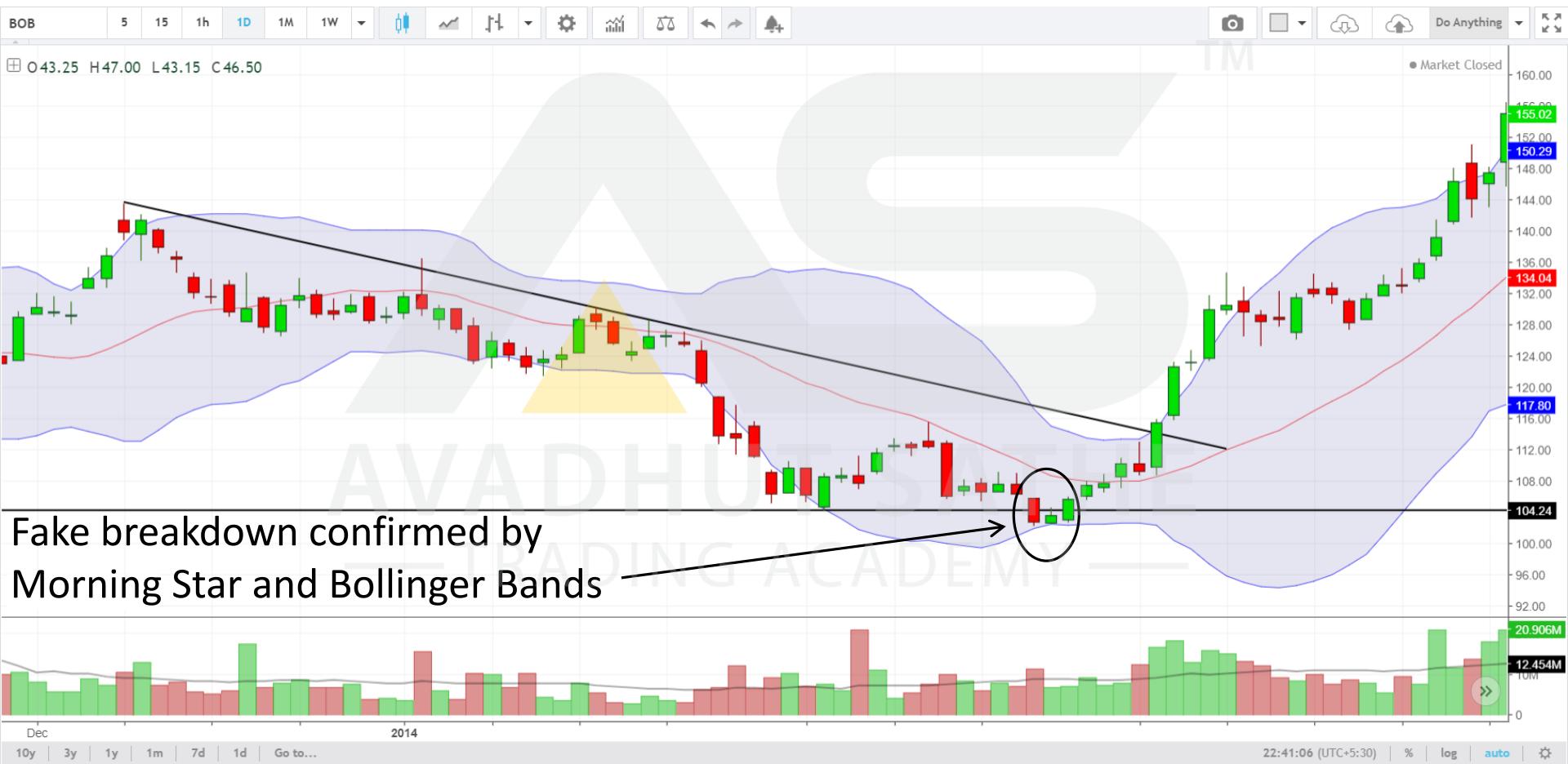
Bollinger Band – 3 Std. Deviation

Below example shows how “BB with 3 Std. Deviation” helps understanding the possibility of a pull-back and thus, preventing impulsive entries:



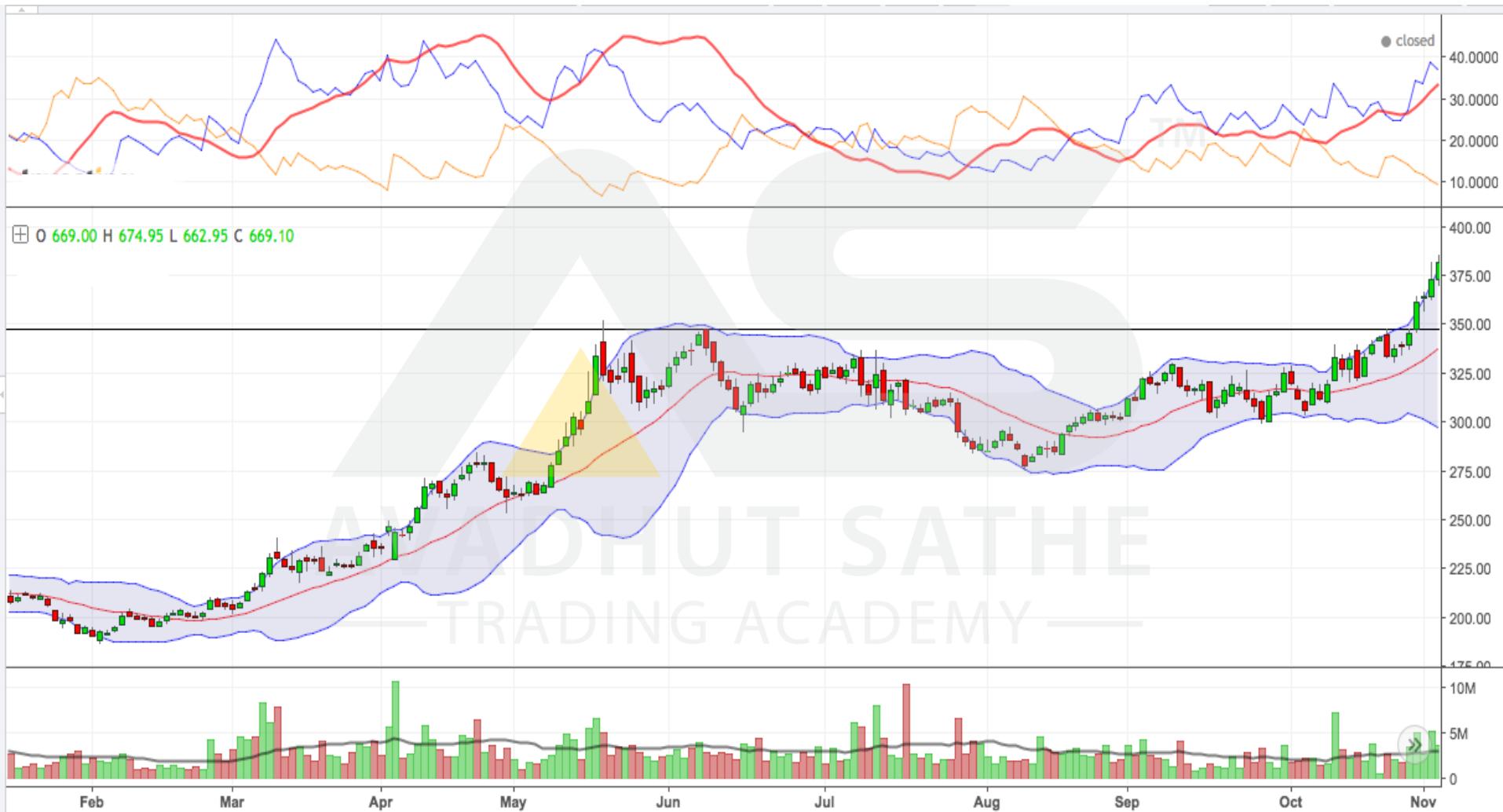
Identifying Fake Breakdown

- Why?
 - Fresh trades with much better risk / reward.
 - They help derive new support.



Identifying Genuine breakouts / breakdowns

- Genuine breakouts/breakdowns usually have a **SHAKEOUT** just before the breakout/breakdown.



Adapting To Market Conditions

- Never take an anticipatory trade!
- Have momentum on your side.
- Always trade in the direction of major trend. Use Moving Averages and MACD to find main trend.
- Entry:
 - Buy oversold condition in an up-trend on bullish signal in PA
 - Short Sell overbought condition in a down-trend on sell signal in PA
- Exit:
 - Book profits on bullish signal in downtrend (for Bears holding short position)
 - Book profits on bearish signal in uptrend (for Bulls holding long position)
- **Follow what market is doing; not what you want market to do!**
 - If it doesn't act as forecasted, do not try to justify your decision. Exit ASAP and enter on confirmation only.
- **Always check the preceding trend while considering a signal from the candlestick patterns. Check the overall context!**

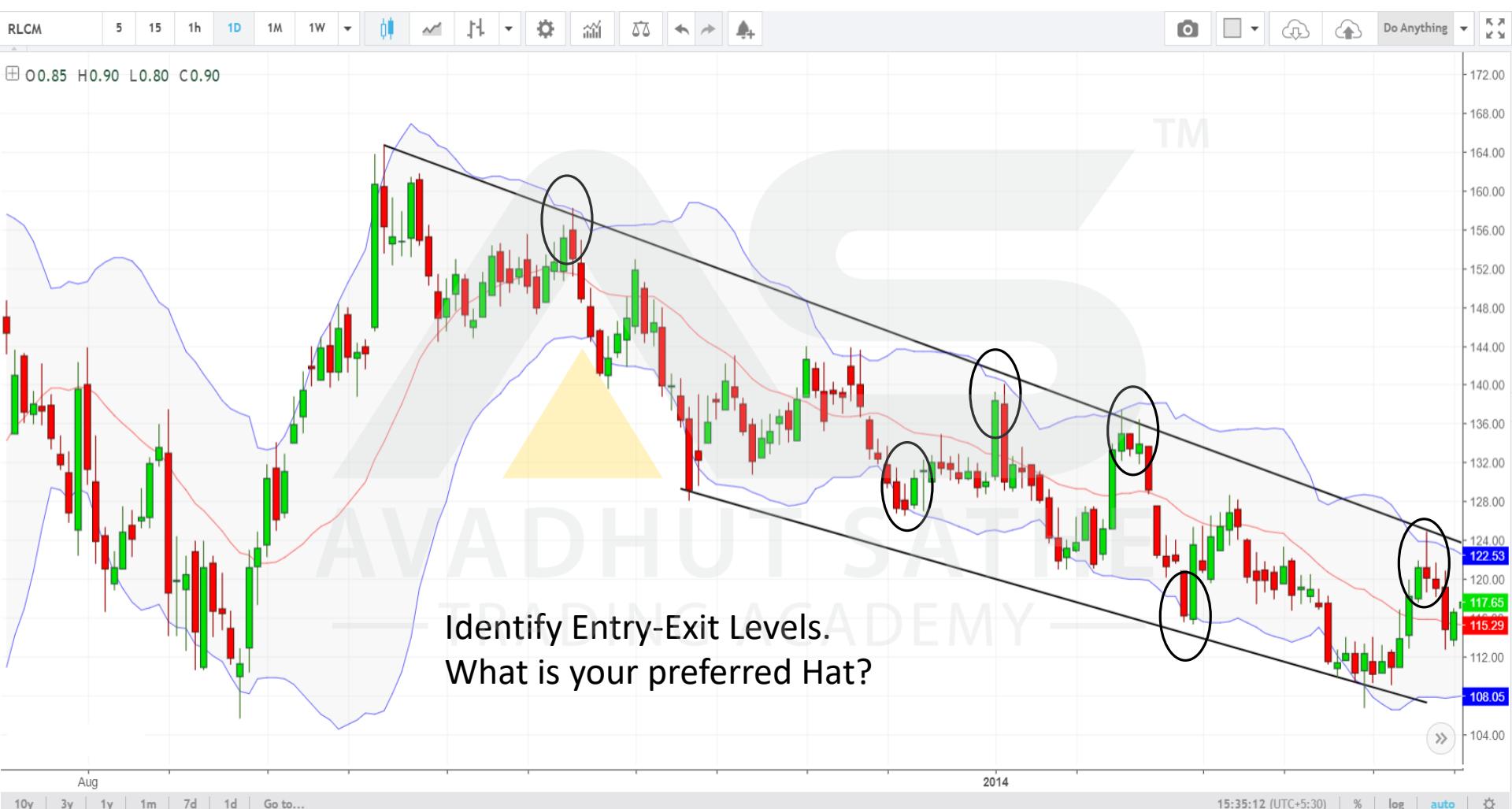
Head & Shoulder Pattern

- This is a well known reversal pattern. However, it's important to wait for confirmation before entering the trade.



Following The Trend

Reliance Communications - Downtrend



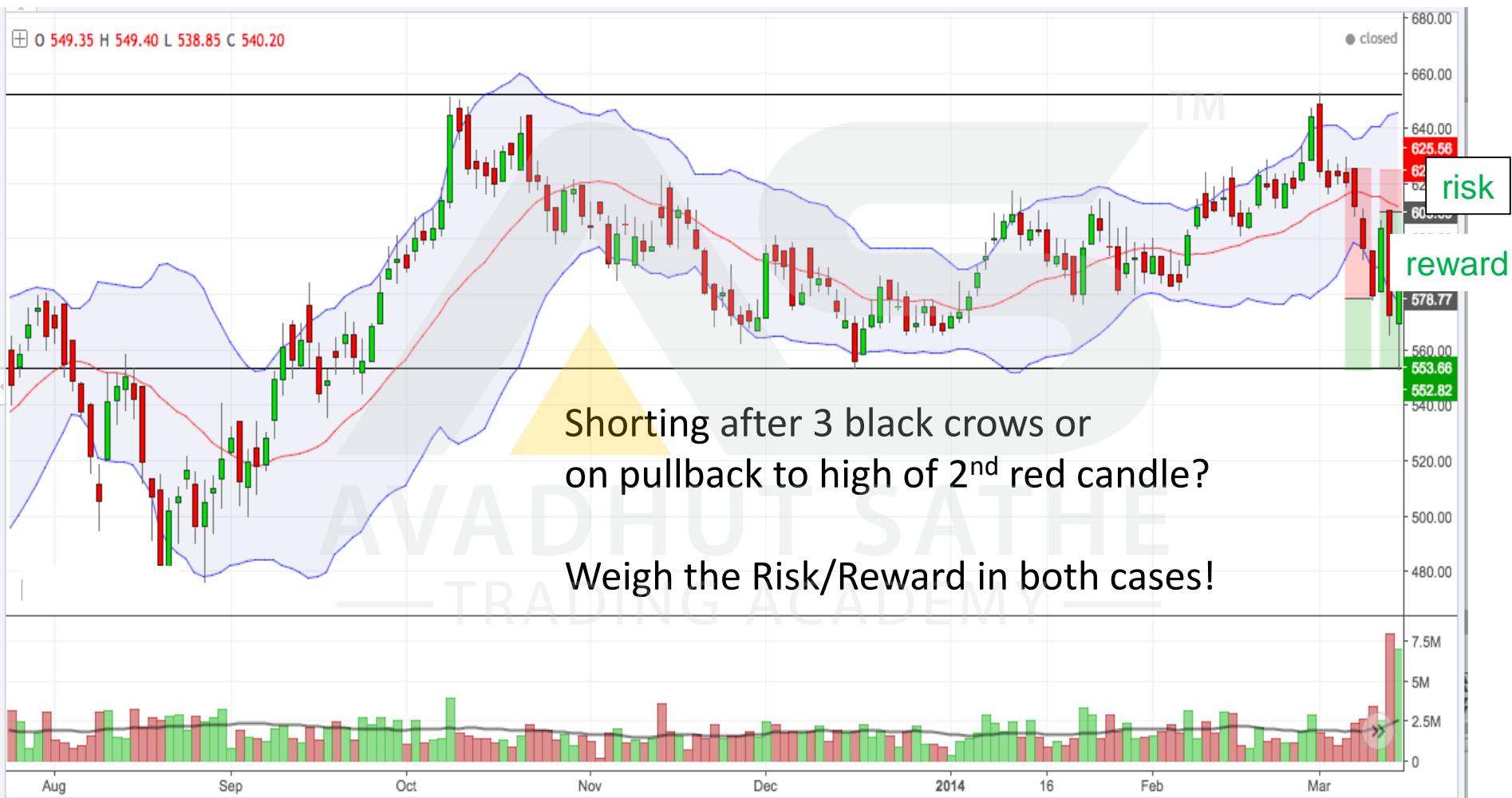
Overall Context

Reliance Communications - Downtrend



Never Compromise: Money Management Rules

- A perfect candle doesn't necessarily mean a good trade if it doesn't fit into proper risk/reward of 1:3.



THANK YOU!!!

- Learn to Listen
- Learn to Ignore
- Keep it Simple
- Reduce your Risks
- Outsmart Competition
- Follow the market action (not your mind)!
- Practice the 3-Ms for success!!!

Our Motto
at



**ALL-FOR-ONE
ONE-FOR-ALL
DEVELOPING CHARACTER THAT DESERVES
SUCCESS!**