TRADING·ACADEMY
SETTING THE STANDARD

TRADING ACADEMY

LEVEL-1: THE COMPLETE GUIDE TO TRADING FOREX & CFDs

MODULE-3
TECHNICAL ANALYSIS

SECTION-6
PRICE ACTION

TRADING ACADEMY LIMITED

MODULE-3: TECHNICAL ANALYSIS

SECTION-6: PRICE ACTION TRADING

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PREVIEW

ABOUT THIS SECTION

This section will take a look at Price Action Trading and the role it plays for traders within the arena of technical analysis. Price Action Trading, whilst by design intends to be stripped back and raw it can be as simple or as complex as you make it.

Price Action Trading can be as minimal as identifying candle types and patterns on naked charts suggestive of possible price continuations or reversal to as complex as adding further points of confluence for increased confirmation such as support and resistance, trendlines, moving averages, Fibonacci and swings. This section will look into the traditional use of this style of trading with the marriage of added tools, indicators and strategies.

This section will also cover the importance of Price Action Trading in motion with the elements comprising the life cycle of a trade such as trading in accordance with your trade plan and risk management strategies.

SECTION OBJECTIVES

At the end of this section you should:

- Have an understanding of Price Action Trading and the role it plays
- Have an idea of how to trade with naked charts
- Be able to incorporate candle types and patterns into your trading
- Have an understanding of trendline trading in conjunction with price action
- Be able to explain the use of moving averages with Price Action Trading
- Have an understanding of the role of support and resistance with price action
- Be able to implement Fibonacci and swings with Price Action Trading
- Have an understanding of volume trading and how is it used
- Have an understanding of Price Action Trading in motion from trade inception to trade completion

6. OVERVIEW OF PRICE ACTION

Price Action Trading incorporates the movement of price from past and present data, covered in technical analysis through the concept of finding possible suggestive outcomes within a seemingly random charting environment. Price Action Trading refers to everything the price does and is therefore analyzed on a purely subjective basis depending on the type of analysis executed.

Price Action Trading is a process traditionally used to perform your trading decisions based on the information you have to execute a trade from naked or stripped down charts. Little prior analysis is used and you are looking for indications of price movements based on the patterns formed as a result of human behaviour and the impact depicted on the canvas of the naked chart.

Price Action Trading and technical analysis in general anticipates possible behaviour and possible levels in price. Price action does not try to predict a particular price, however it may be useful in identifying areas of support and resistance, reversals and continuations, which have traditionally been used to identify trading opportunities, entry levels, stop loss levels and take profit levels. These price levels may be logically related to your charts in accordance with price action and technical analysis practices, allowing you to create trade plans and assess risk and reward ratios in accordance with your risk management strategy.

Price Action Trading is a style of trading that can lend itself toward high frequency scalping trading as the trader is searching for identifiable criteria within individual candle types and group patterns, therefore as daily charts take some time for the candles and their groupings to form, price action traders tend to zoom closer in to the markets to look for increased activity and movement. This type of trading requires monitoring of charts and therefore most trades are executed 'At Market' that can lead to high frequency trading, which is a driver of the 'urgency factor' that collectively moves market pricing.

Automated systematic trading is also available through the Trading Academy and this takes into consideration the many candle types and patterns to optimize trading systems for revealing potentially favourable equity curves. Price Action Trading therefore plays a more in depth role with 'algo' trading and automated systems.

6.1: NAKED CHARTS VS. MESSY CHARTS

Price Action Trading typically uses candle types and patterns to determine possible outcomes and trades are executed on that basis. This takes into consideration the various candle types and patterns as covered in Sections 2 and 4 of this module without the use of tools and indicators. As noted with other trading strategies covered so far, the charts lose a little real estate when populated with various tools and indicators and may become convoluted with this information taking away from the natural raw environment of price action and pure movement.

This is a simplistic and minimalist approach to the markets as it relies predominantly on raw data. Although simplistic this is by no means an easy method of trading and requires a sound understanding and background of trading experience to recognize the tell tale signs of potential trade setups.

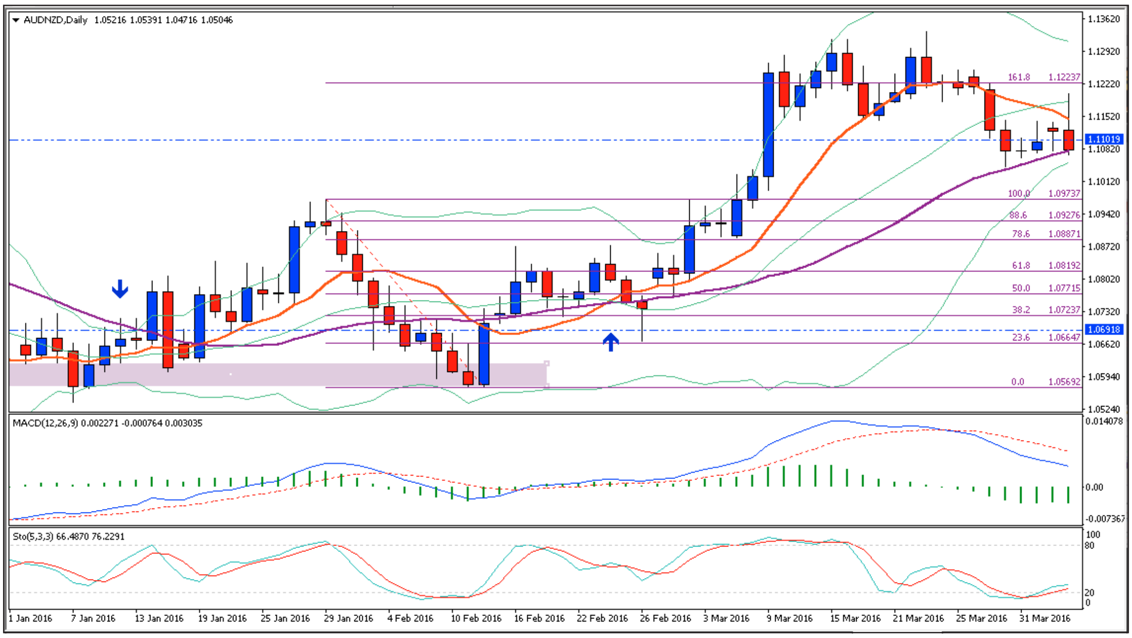
Price Action Trading tunes the trader in to recognize the acute and subtle behaviour of the markets. This takes time and experience and ultimately a price action trader aims to do away with tools and indicators that lag behind the market, possibly obstructing current market data with complex information that may create confusing mixed messages. See Fig 6.1 vs Fig 6.2

Trading in this manner is broken down simply by the immediate past data with a quick scour of more historic data to identify key support and resistance levels, as well as identifying overall trend information. Once these details are established you could look for other areas of confluence using strategies such as Fibonacci, trendlines and chart patterns to help determine your entry and exit prices. It may all sound relatively straightforward, however it does take practice and the more points of confluence you can add to your analysis the more confident your trade execution will be.

FIG 6.1: SIMPLE CLEAN CHART

The AUD/NZD 1-Day chart above has no indicators or objects giving you a clear look at exactly how the candles are moving, making it easier in the beginning to identify candle patterns and possible setups.

FIG 6.2: BUSY OR MESSY CHART



The same AUD/NZD 1-day chart above has many indicators and objects added to the chart making it very busy and possibly harder to identify the candles movements.

PRICE ACTION WITH CANDLE TYPES AND PATTERNS

Price Action Trading does not use past data to do a point prediction of future price levels but rather puts more weight on current market pricing and candle types/patterns to determine what moves may potentially occur next. The single, double, triple or group candle patterns as highlighted earlier throughout Section-2 and 4 may provide clues as to the markets' next moves based on possible price action that is currently occurring.

Some of the more commonly used setups in Price Action Trading are coined in the following way:

- Pin Bar Setup
- Fake Pin Bar Setup
- Inside Bar Setup
- Outside Bar Pattern
- Reversal Bar Pattern
- Key Reversal Bar
- Exhaustion Bar
- Two-Bar Reversal
- Three Bar Reversal

6.2: PIN BAR SETUP

A Pin Bar (Fig 6.3 - Fig 6.5) is a commonly used signal when trading with price action especially along trendlines as they may signify a bounce off support or resistance depending on the direction of the market. Pin bars may also be used in counter trend environments if the pin bar is extending significantly beyond the market price, which may signal a possible reversal back to the previous line of support or resistance.

KEY POINTS OF THE PIN BAR SETUP:

- Pin bars may form in a continuation trend or signal a reversal
- Typically pin bars are thought to reject from trendlines
- Traditionally pin bars are believed to reverse from support and resistance
- A bullish pin bar has a long lower wick and can be a bull or bear candle
- A bearish pin bar has a long upper wick and can be a bull or bear candle
- Traded in conjunction with trendlines or support and resistance
- Entries may be considered above or below the rejection in a bull or bear market
- Take profits should be sought from further information and points of confluence
- Trade in accordance with your trade plan and risk management strategies

FIG 6.3: BEARISH AND BULLISH PIN BAR PATTERNS

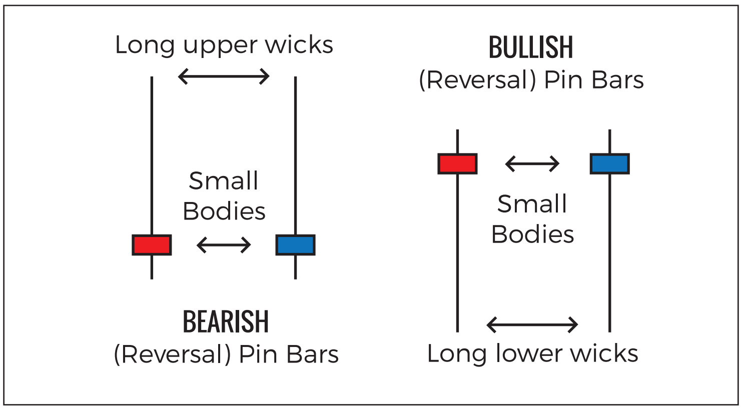


FIG 6.4: BEARISH PIN BAR SETUP

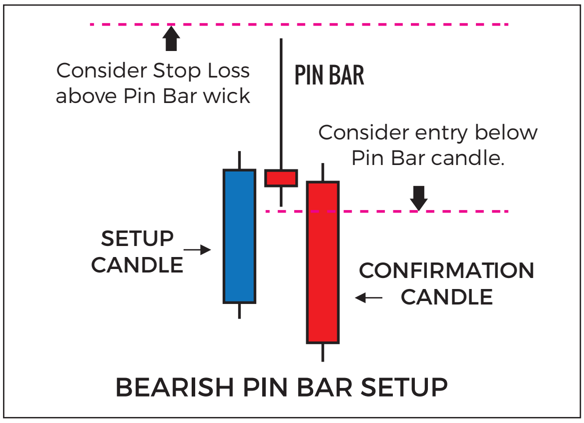
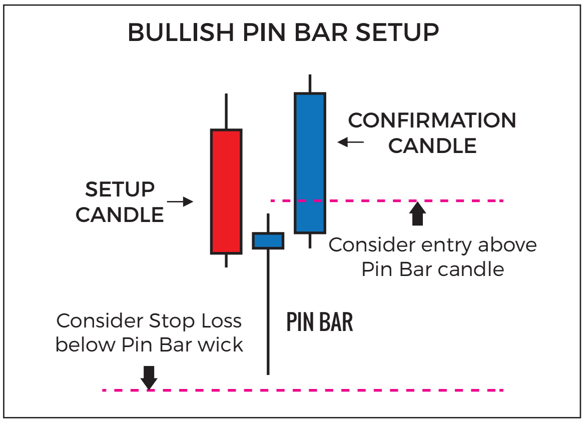


FIG 6.5: BULLISH PIN BAR SETUP



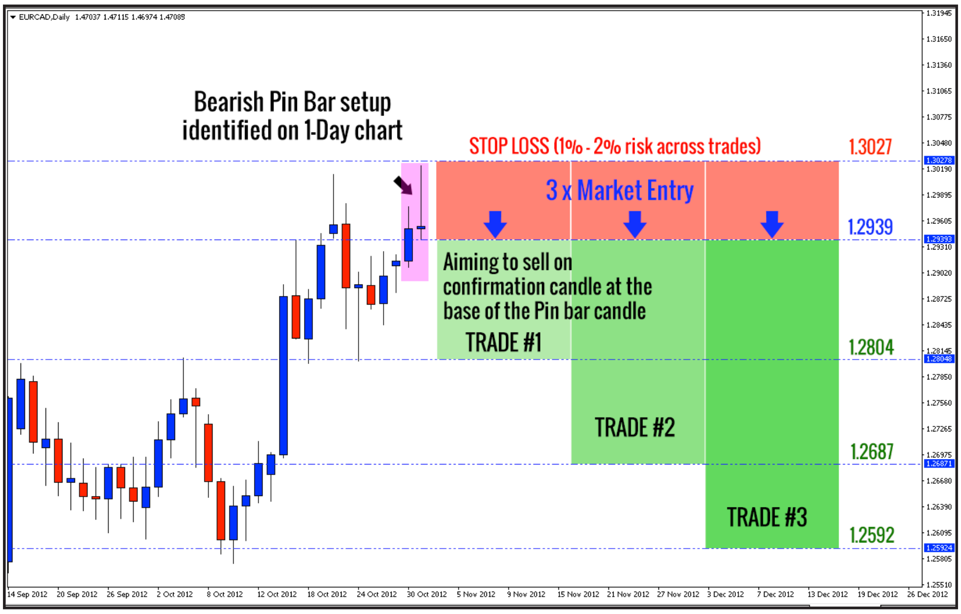
TRADING: BEARISH PIN BAR SETUP (FIG 6.6 - FIG 6.7)

TRADE PLAN::

Buy at Market: EUR/CAD
Entry: 1.2939
Stop Loss: 1.3027
Take Profit #1: 1.2804
Take Profit #2: 1.2687
Take Profit #3: 1.2592

Trade Idea: Bearish Pin Bar identified on the 1-day chart. Looking to sell on the confirmation candle. Selling at market.

FIG 6.6: BEARISH PIN-BAR SETUP: TRADE PLAN - EUR/CAD 1-DAY

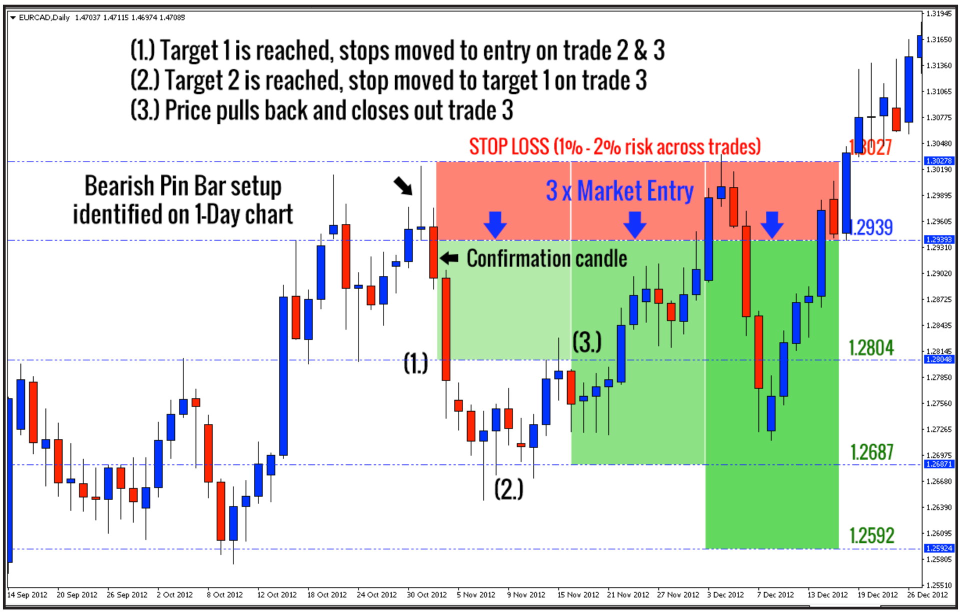


Trade Plan: A bearish Pin Bar setup is identified on the 1-day chart. Looking to sell on the confirmation candle at market with 3 open positions. We will wait for the price to drop to the bottom of pin bar candle before entering. Aiming for 3 targets which are based on historical S/R zones. Stop loss should at least clear the Pin Bar's shadow or wick. (Fig 6.6)

TRADE RESULT::

Trade Result: Trade triggered and target 1 & 2 were reached. Stops were moved to entry on trade 2 when TP#1 was reached and then to TP#1 when TP#2 was reached. Trade #3 stopped out on TP#1.

FIG 6.7: BEARISH PIN-BAR SETUP: TRADE RESULT - EUR/CAD 1-DAY



Trade Result: 3 trades were opened with confirmation candle giving signal. The price dropped over the next couple of days through target one and then target 2. Stop losses were monitored during this period before trade three stopped out on target 1. (Fig 6.7)

6.3: FAKE PIN BAR SETUP

The Fake Pin Bar Setup (Fig 6.8 - Fig 6.9) or false break may be indicative of a price rejection at a key area of support or resistance in the market. During a continuation trend the price may consolidate for a short period along a support or resistance level and then a fake pin bar or false break out may occur luring some traders in for a price reversal, however, but in the case of a fake pin bar it is believed the price pulls back and makes a solid move in the previous dominant trend.

KEY POINTS OF FAKE PIN BAR:

- Traditionally believed to be a trend continuation pattern
- Identified by strong contrary pressure represented in the wick
- In a continuation pattern the trend is believed to continue
- Entries may be placed beyond the bars close
- Stops may be placed above or below the fake pin bar wick
- Take profits should be sought from further information and points of confluence
- Trade only in accordance with your trade plan and risk management strategy

FIG 6.8: BEARISH FAKE PIN BAR SETUP

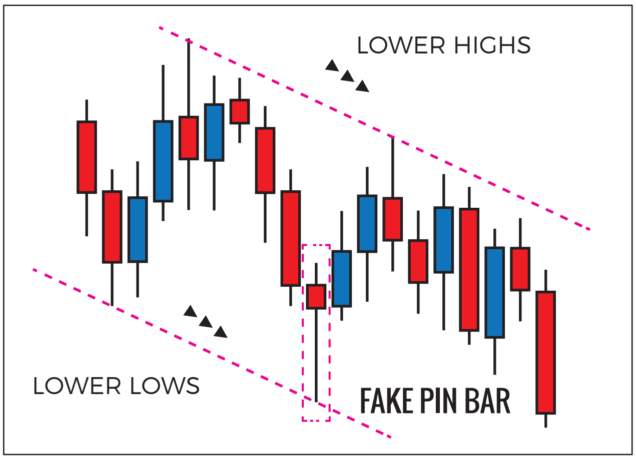
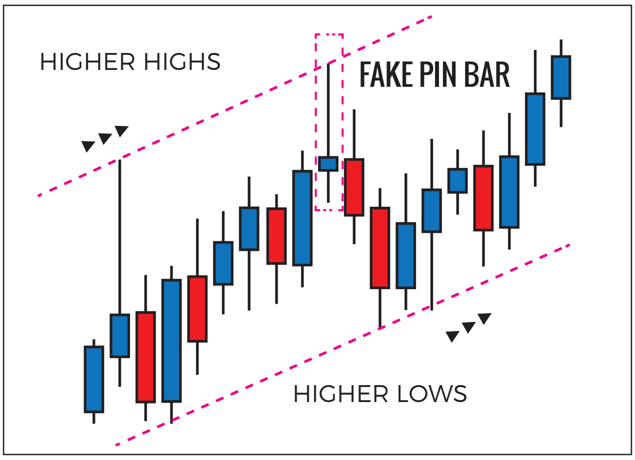


FIG 6.9: BULLISH FAKE PIN BAR SETUP



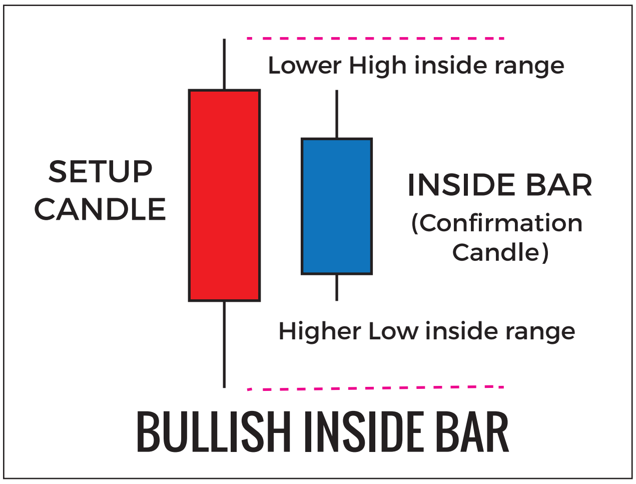
6.4: INSIDE BAR PATTERN

The Inside Bar (Fig 6.10 - Fig 6.11) is said to be a trend continuation pattern and although it can also be used as a reversal sign it may be easier to recognize during a continuation cycle. During these continued moves the inside bar may be completely contained within the range of the previous candlestick, which could lead to a very brief consolidation before a potential breakout in the continued direction. These setups may provide the opportunity for very small stop loss values in comparison to the expected target of the continued movement, resulting in potentially high risk:reward ratios.

KEY POINTS OF THE INSIDE BAR PATTERN:

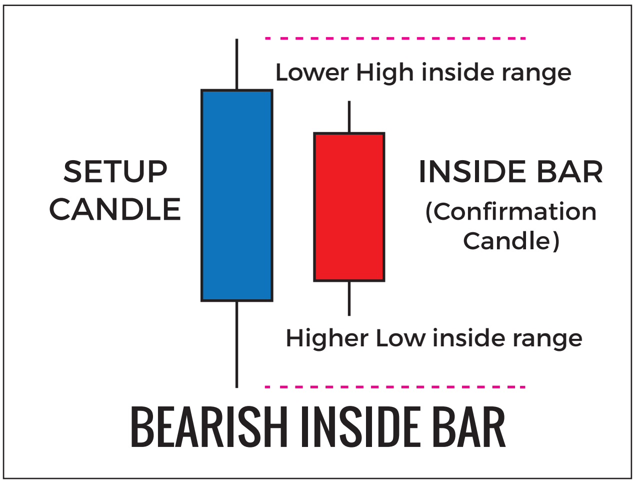
- Traditionally believed to be a continuation pattern but may also be a reversal
- The confirmation candle forms within the confines of the setup candle
- OCO orders may be used to trade either direction with a buffer zone for volatility
- Place entries above and below the setup bars high and low range
- Tight stops may be considered for low risk: high reward
- Take profits may also be considered for low risk: high reward
- Trade in accordance with your trade plan and risk management strategy

FIG 6.10: BULLISH INSIDE BAR



Bullish inside bar can signal a reversal or a continuation of trend. It is traditionally believed to be traded as a trend continuation.

FIG 6.11: BEARISH INSIDE BAR



Bearish inside bar can signal a reversal or a continuation of trend. It is traditionally believed to be traded as a trend continuation.

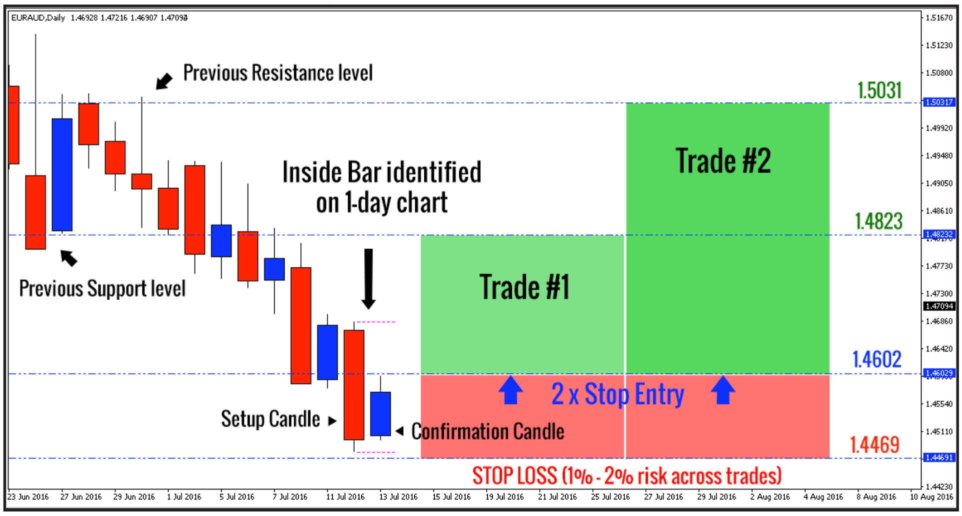
TRADING: INSIDE BAR SETUP (FIG 6.12 - FIG 6.13)

TRADE PLAN::

Buy STOP:	EUR/AUD
Entry:	1.4602
Stop Loss:	1.4469
Take Profit #1:	1.4823
Take Profit #2:	1.5031

Trade Idea: Inside Bar setup identified on 1-Day chart.

FIG 6.12: INSIDE BAR - TRADE PLAN: EUR/AUD 1-DAY CHART

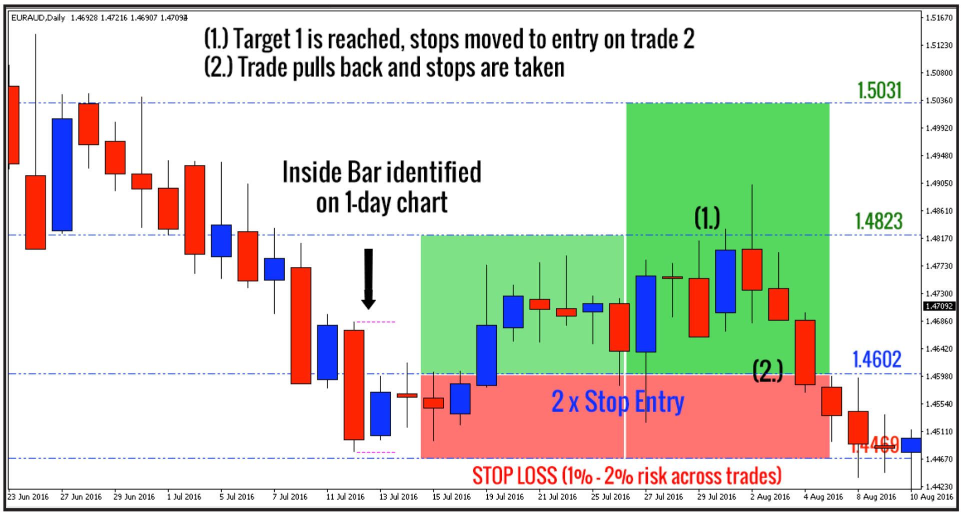


Trade Plan: An Inside bar is identified at the bottom of a downtrend. Using the inside bar setup as a bullish reversal, we aim to go long with entry above the high of the previous confirmation candle. Stop loss to clear low of setup candle. Aiming for 2 targets based on historical S/R zones and levels. (Fig 6.12)

TRADE RESULT::

Trade Result: Trade triggered with next day candle. Target 1 is reached before trade 2 stops out on entry.

FIG 6.13: INSIDE BAR - TRADE RESULT: EUR/AUD 1-DAY CHART



Trade Result: Trades trigger on the next day candle making slow progress before finally reaching target 1. Stops were moved to entry before the trade pulled back and hit entry, stopping out trade 2 (Fig 6.13)

6.5: OUTSIDE BAR PATTERN

Outside bar or engulfing candle (Fig 6.14 - Fig 6.15) is the opposite of an inside bar with the confirmation candle opening and closing outside of the setup candle body. Typically an outside bar is considered to be a price reversal pattern and long positions in a bullish outside bar pattern could be considered whilst short positions in a bearish outside bar pattern may be considered. Remembering to trade in accordance with your trade plan and risk management strategy.

KEY POINTS OF THE OUTSIDE BAR PATTERN:

- Outside bars are typically considered to be price reversal patterns
- The setup candle body falls within the open and close of the confirmation candle
- A bullish outside bar is thought to be a reversal to the upside
- A bearish outside bar is thought to be a reversal to the downside
- Entries may be considered above the confirmation candle in a bullish pattern
- Entries may be considered below the confirmation candle in a bearish pattern
- Stops may be considered at the mid way point of the set up candle
- Take profits should be sought from further information and points of confluence
- Trade in accordance with your trade plan and risk management strategy

FIG 6.14: BULLISH OUTSIDE BAR

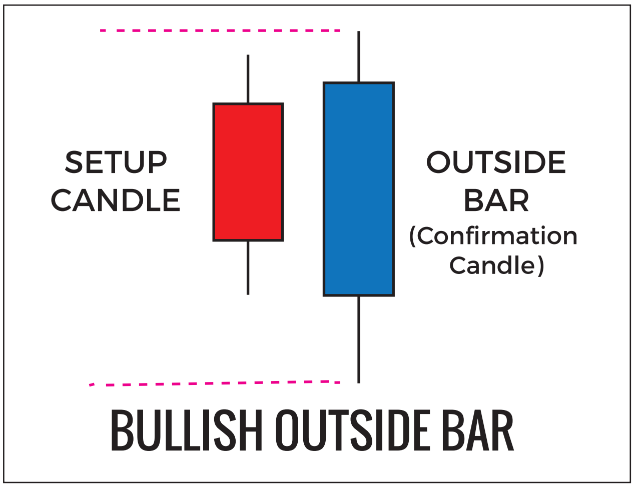
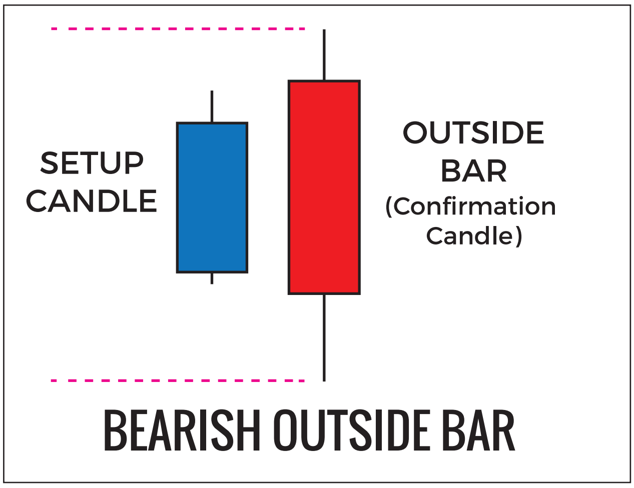


FIG 6.15: BEARISH OUTSIDE BAR



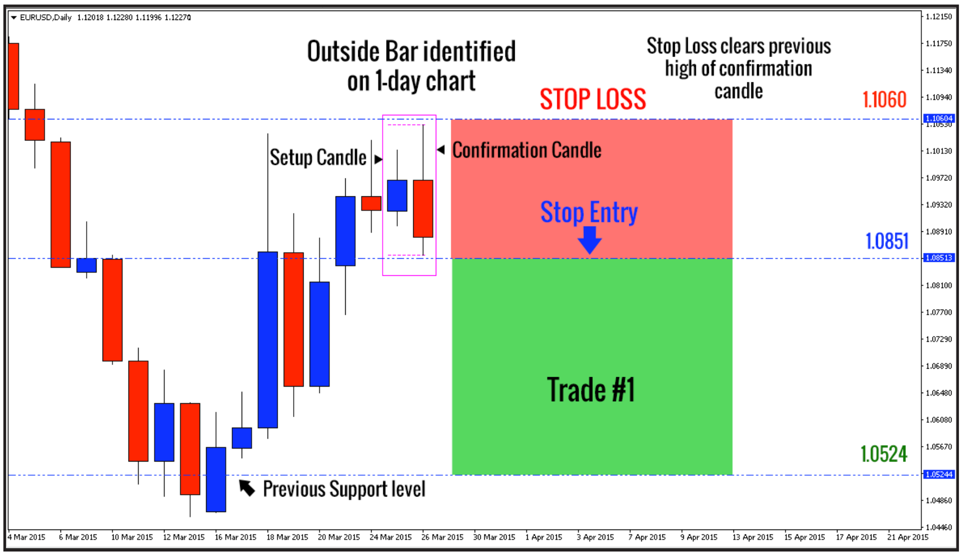
TRADING: OUTSIDE BAR SETUP (FIG 6.16 - FIG 6.17)

TRADE PLAN::

Sell STOP:	EUR/USD
Entry:	1.0851
Stop Loss:	1.1060
Take Profit #1:	1.0524

Trade Idea: Outside Bar setup identified on 1-Day chart.

FIG 6.16: OUTSIDE BAR - TRADE PLAN: EUR/USD 1-DAY CHART

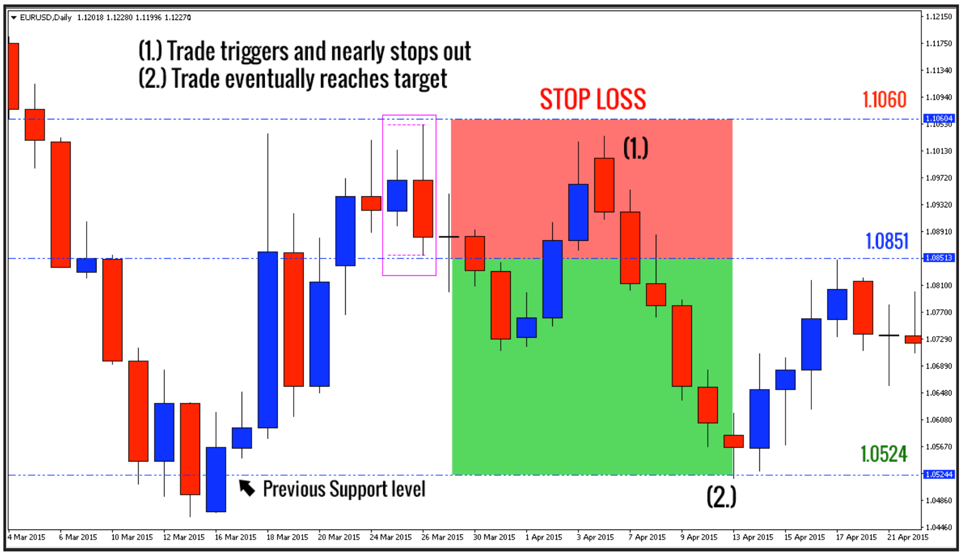


Trade Plan: Outside Bar setup identified on the 1-day chart. Set a stop entry order just below the previous low of the confirmation candle. Stop loss is set above the previous high of the confirmation candle. Aiming for one target on a historical support level. (Fig 6.16)

TRADE RESULT::

Trade Result: Trade triggered with next day candle. Target is reached few bars later.

FIG 6.17: OUTSIDE BAR - TRADE RESULT: EUR/USD 1-DAY CHART



Trade Result: Trades trigger on the next day candle making slow progress before finally reaching target 1. (Fig 6.17)

6.6: REVERSAL BAR PATTERN

As is suggested by its name this is considered to be a potential reversal pattern. A bullish reversal bar (Fig 6.18) is identified by a setup bear followed by a confirmation bull with the low range forming lower that the previous bar and closing higher than the open, forming a bull confirmation candle. A setup bull followed by a confirmation bear with the high range forming higher than the previous bar and closing lower than the open, identifies a bearish reversal bar. (Fig 6.19)

KEY POINTS OF THE REVERSAL BAR:

- Traditionally traded as a potential reversal pattern
- Long orders may be placed above the bullish reversal bar in an uptrend
- Short orders may be placed below the bearish reversal bar in a downtrend
- Stops may be considered below the bull confirmation candle or above the bear confirmation candle
- Take profits should be sought from further information and points of confluence
- Trade in accordance with your trade plan and risk management strategy

FIG 6.18: BULLISH REVERSAL BAR

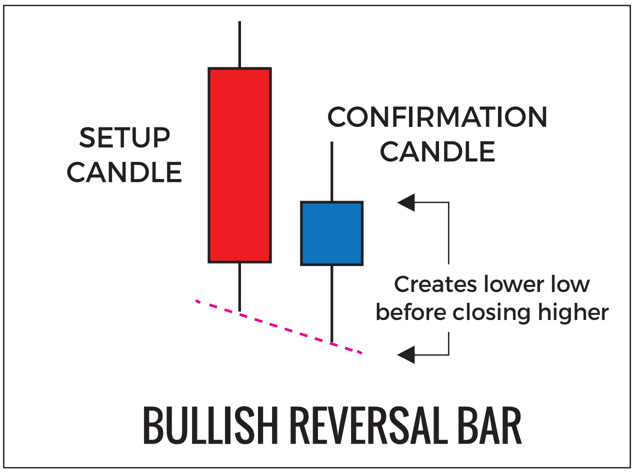
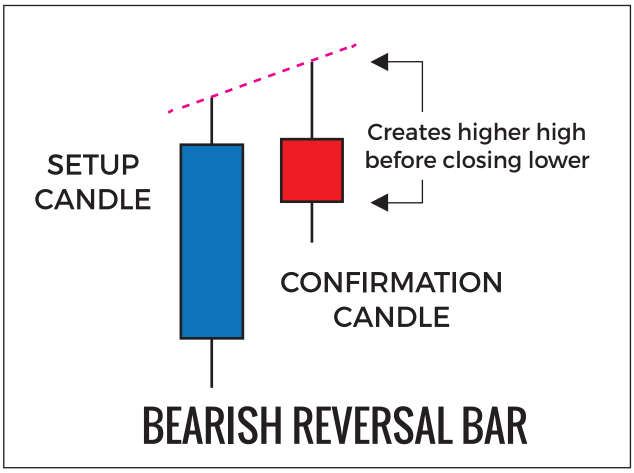


FIG 6.19: BEARISH REVERSAL BAR



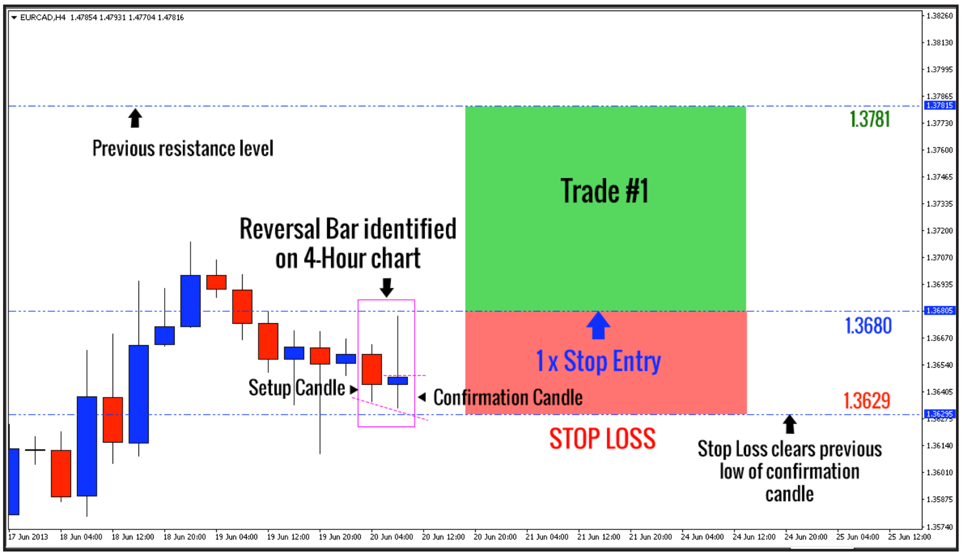
TRADING: REVERSAL BAR SETUP (FIG 6.20 - FIG 6.21)

TRADE PLAN::

Buy LIMIT:	EUR/CAD
Entry:	1.3680
Stop Loss:	1.3629
Take Profit #1:	1.3781

Trade Idea: Reversal Bar setup identified on the 4-Hour chart.

FIG 6.20: REVERSAL BAR - TRADE PLAN: EUR/CAD 4-HOUR CHART

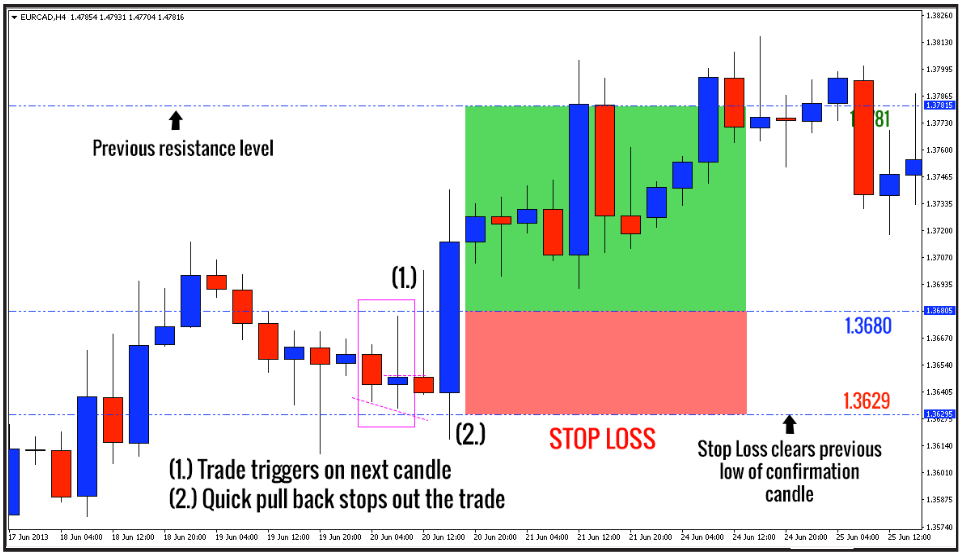


Trade Plan: Reversal bar setup identified on 4-hour chart. Set entry just above confirmation candle and stop loss below the low of the confirmation candle. Aiming for 1 target at previous resistance level. (Fig 6.20)

TRADE RESULT::

Trade Result: Trade triggers and stop loss is taken out before correct move takes place.

FIG 6.21: REVERSAL BAR - TRADE RESULT: EUR/CAD 4-HOUR CHART



Trade Result: Trade triggers on next candle but the bears continue the pressure and following the next candle the stop loss is taken out. (Fig 6.21)

6.7: KEY REVERSAL BAR

In Price Action Trading a key reversal bar (Fig 6.22 - Fig 6.23) is believed to behave the way its name suggests, as a reversal pattern. The confirmation candle opening and closing above and below the setup up candles high and low range incorporating a market gap identifies the key reversal bar. If the confirmation candle is a bull then this is suggestive of an upward move, whilst if the confirmation candle is a bear then the following move is believed to be to the downside.

KEY POINTS OF THE KEY REVERSAL BAR:

- Believed to be a reversal pattern
- A bull confirmation candle is suggestive of an upward move
- A bear confirmation candle is suggestive of a downward move
- Entries may be placed above the bullish confirmation candle
- Entries may be placed below the bearish confirmation candle
- Stops may be considered approximately midway along the setup candle
- Take profits should be sought from further information and points of confluence
- Trade in accordance with your trade plan and risk management strategy

FIG 6.22: KEY REVERSAL BAR - BULLISH

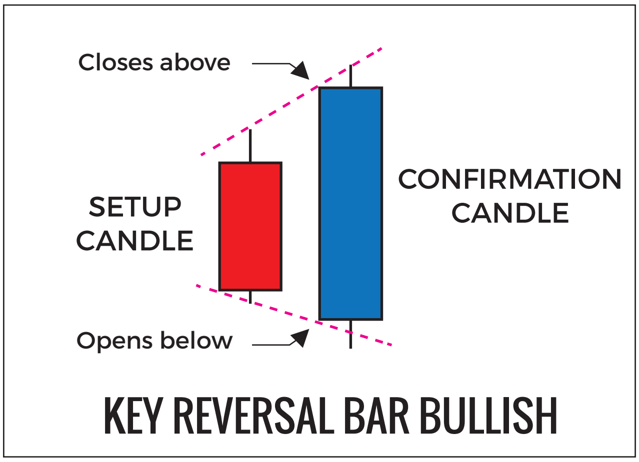
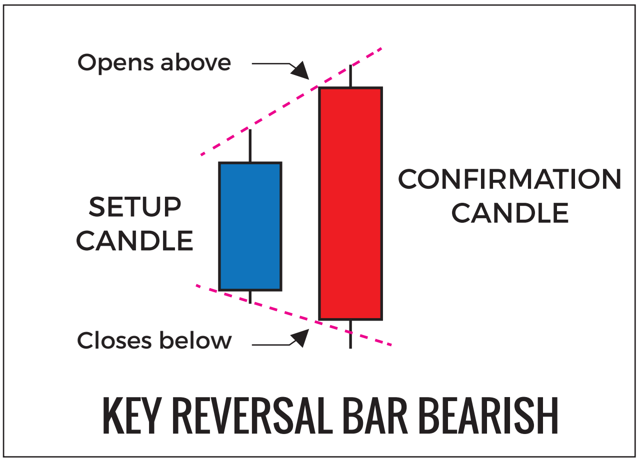


FIG 6.23: KEY REVERSAL BAR - BEARISH



6.8: EXHAUSTION BAR

Believed in many price action texts to be a reversal pattern and is identified in a bullish exhaustion bar by a gap down after a bearish set up candle to a bull confirmation candle, whilst a bearish exhaustion bar is identified by a gap up after a bull setup candle to a bear confirmation candle. It is anticipated that the strength of the setup candle has possibly waned and the confirmation candle may take the lead pushing the market in its direction. (Fig 6.24 - Fig 6.25)

KEY POINTS TO THE EXHAUSTION BAR:

- Believed to be a reversal pattern
- A bull confirmation candle is suggestive of an upward move
- A bear confirmation candle is suggestive of a downward move
- Entries may be placed above the bullish confirmation candle
- Entries may be placed below the bearish confirmation candle
- Stops may be considered approximately midway along the confirmation candle
- Take profits should be sought from further information and points of confluence
- Trade in accordance with your trade plan and risk management strategy

FIG 6.24: BULLISH EXHAUSTION BAR

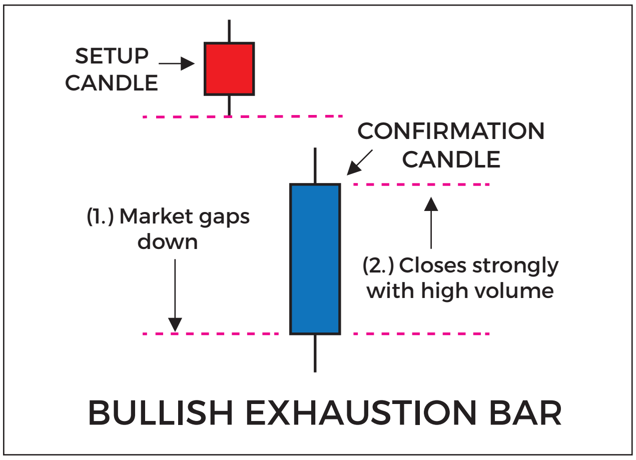
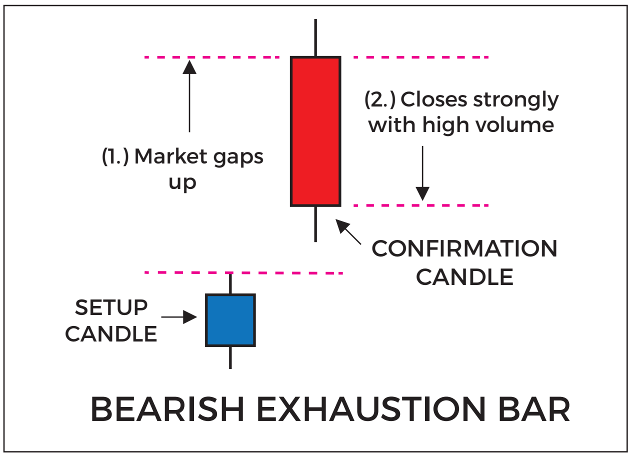


FIG 6.25: BEARISH EXHAUSTION BAR



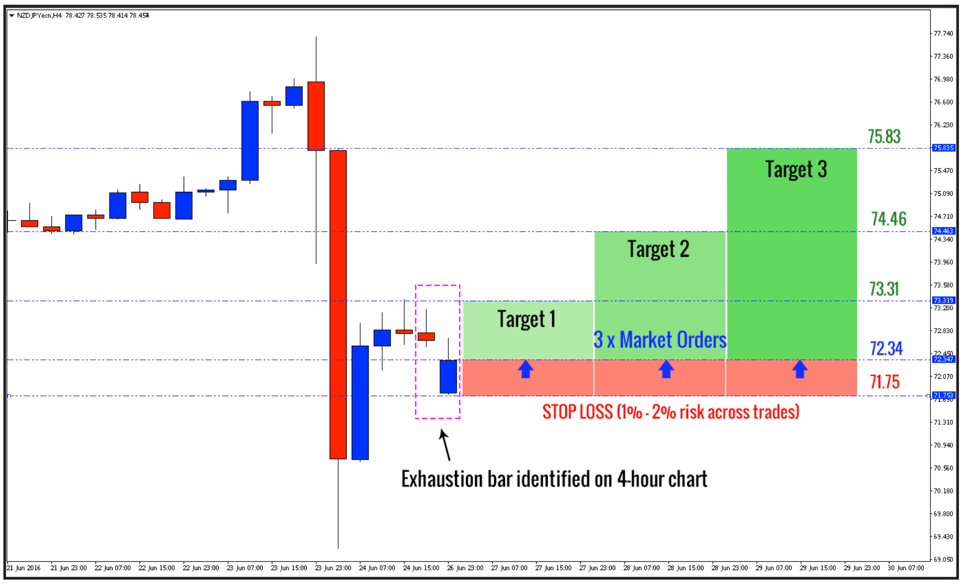
TRADING: EXHAUSTION BAR SETUP (FIG 6.26 - FIG 6.27)

TRADE PLAN::

Buy LIMIT:	NZD/JPY
Entry:	72.34
Stop Loss:	71.75
Take Profit #1:	73.31
Take Profit #2:	74.46
Take Profit #3:	75.83

Trade Idea: Exhaustion bar identified on the 4-hour chart with an opportunity to go long at market when the confirmation candle closes with strong bullish pressure.

FIG 6.26: EXHAUSTION BAR - TRADE PLAN: NZD/JPY 4-HOUR CHART

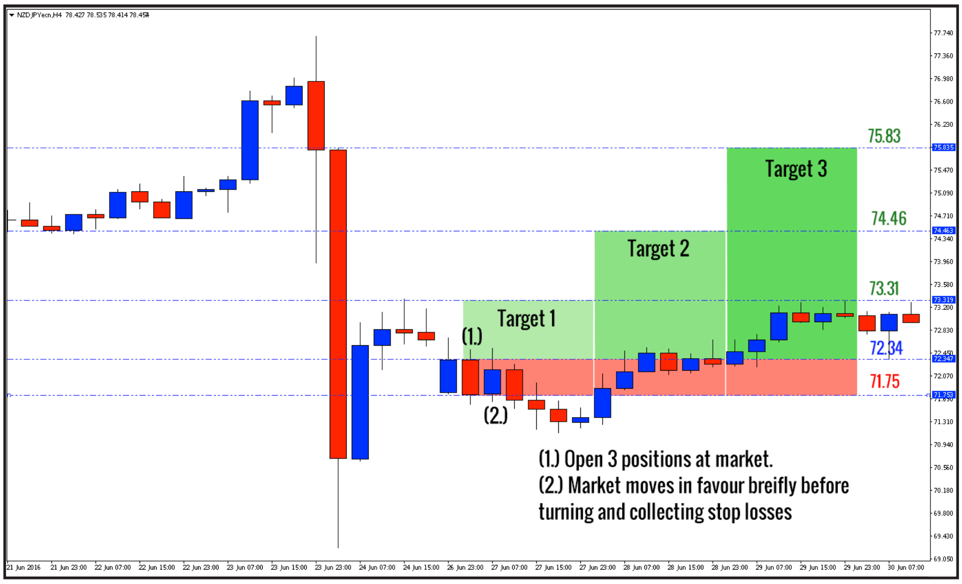


Trade Plan: Exhaustion identified on 4-hour chart. Planning to buy at market once the confirmation candle closes and shows strength. Open 3 trades, aiming for 3 targets. Stop loss is placed just below the confirmation candle. (Fig 6.26)

TRADE RESULT::

Trade Result: Trade triggers but no momentum takes place initially and stop losses is taken out.

FIG 6.27: EXHAUSTION BAR - TRADE RESULT: NZD/JPY 4-HOUR CHART



Trade Result: Confirmation candle closes with strong bullish pressure and 3 positions are opened to go long. Market moves in favour briefly before losing momentum and pushing back down to collect stop losses. (Fig 6.27)

6.9: TWO-BAR REVERSAL

As the name suggests the two bar reversal (Fig 6.27 - Fig 6.28) is traditionally believed to be a reversal pattern identified by two solid opposing bars of the same or similar stature with the confirmation candle representing the reversal direction. The reversal is thought to take place as a result of a strong rejection of the previous movement and may be indicative of a strong reversal move.

KEY POINTS OF THE TWO-BAR REVERSAL:

- Believed to be a reversal pattern
- The confirmation candle is suggestive of the reversal direction
- Buy entries may be placed above the bullish confirmation candles close
- Sell entries may be placed below the bearish confirmation candles close
- Stops may be considered at the midway point of the confirmation candle
- Take profits should be sought from further information and points of confluence
- Trade in accordance with your trade plan and risk management strategies

FIG 6.28: BULLISH TWO-BAR REVERSAL

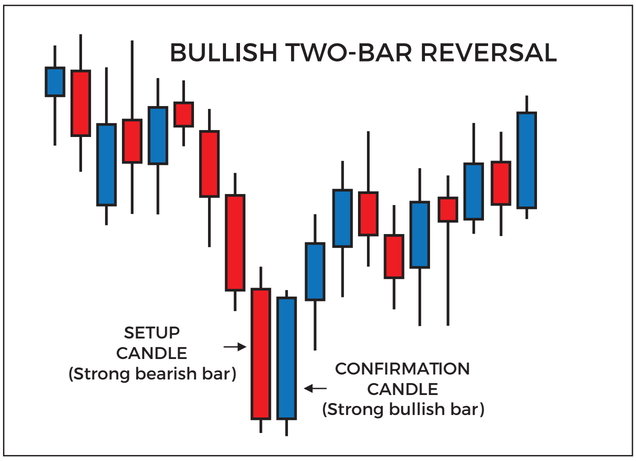
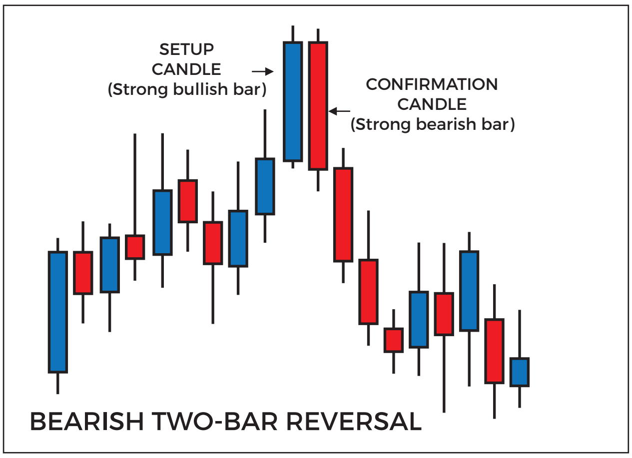


FIG 6.29: BEARISH TWO-BAR REVERSAL



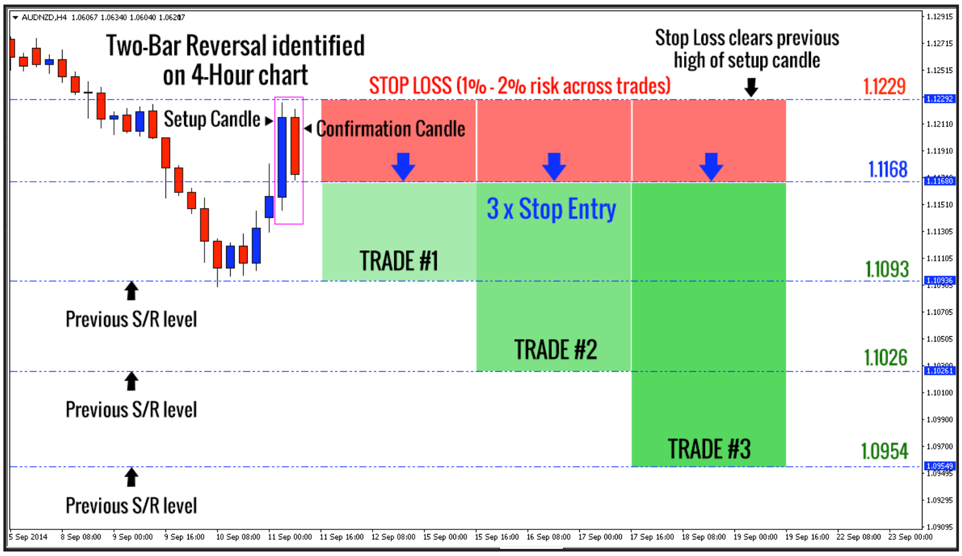
TRADING: TWO-BAR REVERSAL SETUP (FIG 6.30 - FIG 6.31)

TRADE PLAN::

Sell STOP:	AUD/NZD
Entry:	1.1168
Stop Loss:	1.1229
Take Profit #1:	1.1093
Take Profit #2:	1.1026
Take Profit #3:	1.0954

Trade Idea: Two-Bar Reversal setup identified on 4-Hour chart.

FIG 6.30: TWO-BAR REVERSAL - TRADE PLAN: AUD/NZD 4-HOUR CHART

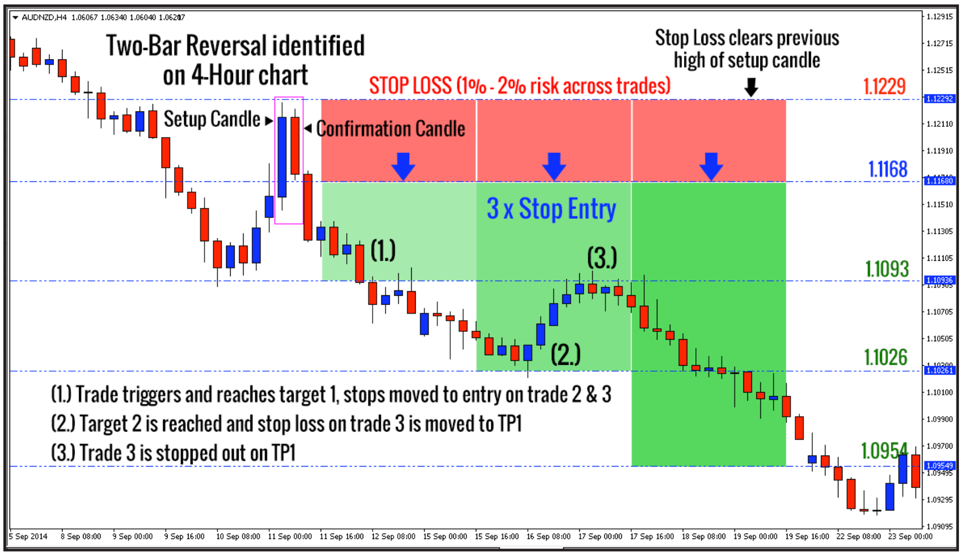


Trade Plan: Strong two-bar reversal setup identified on the 4-hour chart. Place 3 x stop entry orders with entry below the low of confirmation candle. Stop loss is placed above the high of the setup candle and three targets are set on historical S/R levels. (Fig 6.30)

TRADE RESULT::

Trade Result: Trade triggers and reaches target 2, with trade #3 stopping out on TP#1

FIG 6.31: TWO-BAR REVERSAL - TRADE RESULT: AUD/NZD 4-HOUR CHART



Trade Result: Trade triggers on next candle and moves to target 1, stop loss is then moved to entry on trade 2 & 3. Trade continues in desired direction and reaches target 2. Stop loss on trade 3 is moved to target 1 before the price retraces back and stops out trade 3. (Fig 6.31)

6.10: THREE-BAR REVERSAL

This pattern is also believed to be a potential reversal pattern as the name suggests and is identified by three candles. (Fig 6.32 - Fig 6.33) A bullish three-bar reversal pattern is typically recognized by an initial setup and confirmation candle in a downward direction, followed by a second confirmation bull that closes higher than the high range of the previous candle, signaling a potential move to the upside. A bearish three bar reversal pattern is typically recognized by an initial setup and confirmation candle in an upward direction, followed by a second confirmation bear that closes lower than the low range of the previous candle, signaling a possible move to the downside.

KEY POINTS OF THE THREE-BAR REVERSAL:

- Traditionally believed to be a reversal pattern
- The second confirmation candle is suggestive of the reversal direction
- In a bull reversal the final candle closes higher than the range of the previous bar
- In a bear reversal the final candle closes lower than the range of the previous bar
- Entries may be considered beyond the range of the final bar
- Stops may be considered at the midway point of the final confirmation candle
- Take profits should be sought from further information and points of confluence
- Trade in accordance with your trade plan and risk management strategies

FIG 6.32: BULLISH THREE-BAR REVERSAL

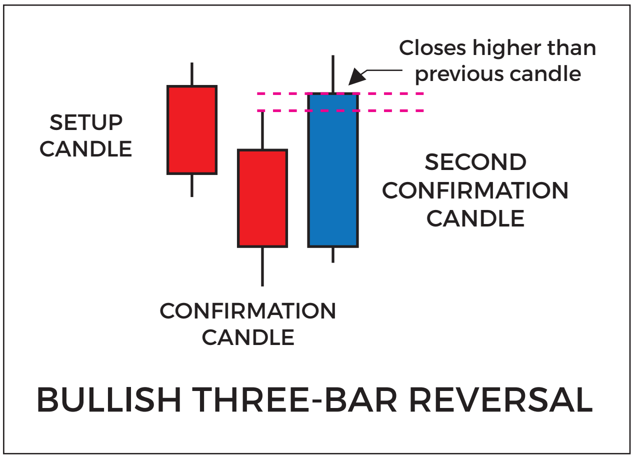
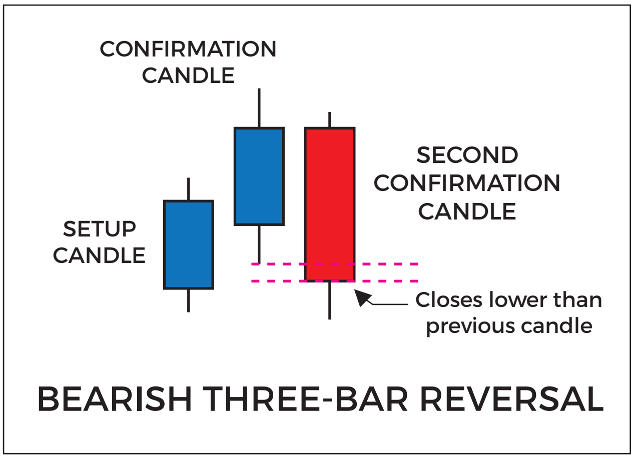


FIG 6.33: BEARISH THREE-BAR REVERSAL



There are many candle types and patterns that may be considered when Price Action Trading and volumes alone on the subject could be dedicated to the subtle nuances of those varying patterns, however for the purpose of Trading Academy's education we will focus solely on some of the most commonly used candle types and patterns as have been covered previously throughout this module.

OTHER POTENTIAL REVERSAL PATTERNS TRADITIONALLY USED FOR PRICE ACTION TRADING THAT HAVE PREVIOUSLY BEEN COVERED ARE:

- Harami
- Hammer & Hanging Man
- Inverted Hammer & Shooting Star
- Morning Star & Evening Star
- Head and Shoulders
- Double Tops & Double Bottoms
- Triple Tops & Triple Bottoms

OTHER POTENTIAL CONTINUATION PATTERNS TRADITIONALLY USED FOR PRICE ACTION TRADING THAT HAVE PREVIOUSLY BEEN COVERED ARE: (THESE PATTERNS MAY ALSO BE USED FOR REVERSAL PATTERNS)

- Maribozu
- Three White Soldiers & Three Black Crows
- Rectangles
- Wedges
- Triangles
- Flags
- Pennants

6.11: PRICE ACTION WITH TRENDLINES

Trendlines may also serve as a useful tool in conjunction with Price Action Trading to help identify bullish or bearish trending markets and potential 'hot spots' by connecting lower lows or lower highs for a downward trend and higher highs or higher lows for identifying a potential upward trend. (Fig 6.34) Typically two points are required to create a trendline, however added points of intersection to a trendline may deem the trendline as having more strength. The trendline projects further beyond the market to provide possible future hotspot areas of support and resistance.

When the market price tests a trendline the price may meet with support or resistance providing a potential price reversal. The use of candle types and patterns may therefore be useful in conjunction with trendline trading to provide added points of confluence for basing a trading decision on. If any reversal pattern appears on or near a trendline this may well be the added confidence you are seeking to base a trading decision on, so these hot spots are vital to keep an eye on for confirmation of reversal patterns.

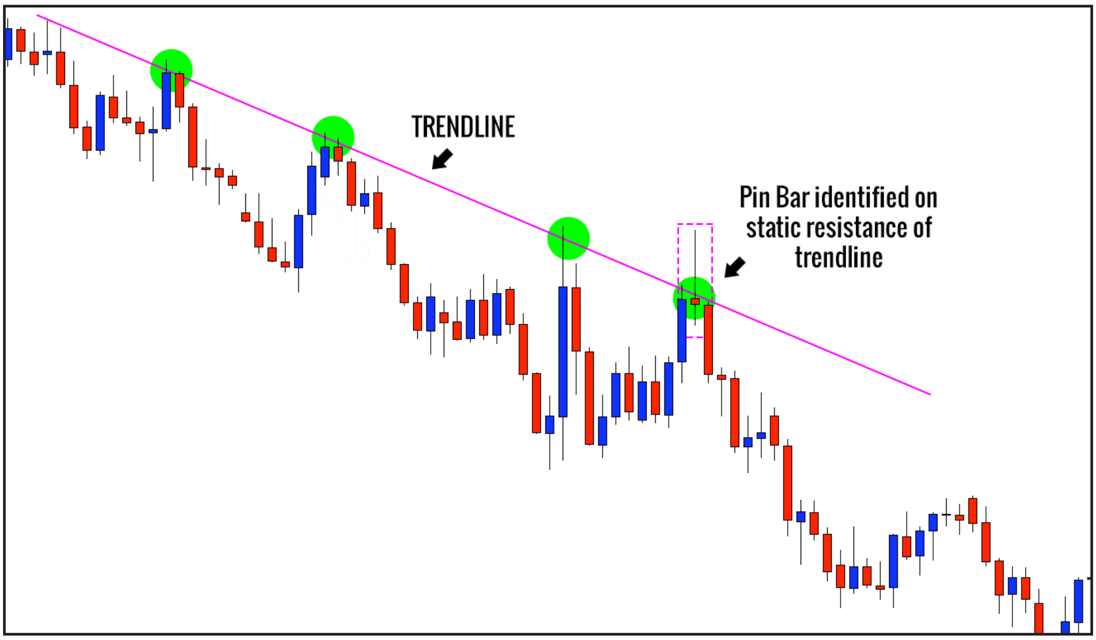
Trendlines can be both static and dynamic. Static trendlines are typically created by connecting two or more points with a diagonal trendline whilst adding trend indicators such as moving averages creates dynamic support and resistance lines. Multiple trendlines may be added in various time frame charts to look for added areas of confluence.

Trend trading in channels works in the same way also providing potential trading opportunities within the trending support and resistance zones, keeping an eye out for further clues of significant candle types and patterns. The use of two parallel, converging, or expanding trendlines create static rising or falling channels, whilst incorporating the use of an indicator such as Bollinger band may act as a dynamic channel providing potential areas of support and resistance.

KEY POINTS OF TRENDLINES & PRICE ACTION TRADING:

- Use trendlines to connect two or more points of ascending or descending highs or lows for static support and resistance
- Look for potential reversal candle types or patterns forming at hotspot points on support or resistance
- Entry consideration may be 'At Market'
- You may consider placing an entry on the trendline or just beyond when confirmation is received of a potential reversal pattern
- Stops should be considered beyond previous tests of the same horizontal level
- Take profits could be considered in conjunction with other areas of confluence
- Always trade in accordance with your trade plan and risk management strategy

FIG 6.34: TRENDLINE ACTING AS RESISTANCE FOR PRICE ACTION



TRADING: PRICE ACTION TRENDLINE (FIG 6.35 - FIG 6.37)

FIG 6.35: MAJOR TRENDLINES ON 1-DAY CHART - AUD/USD

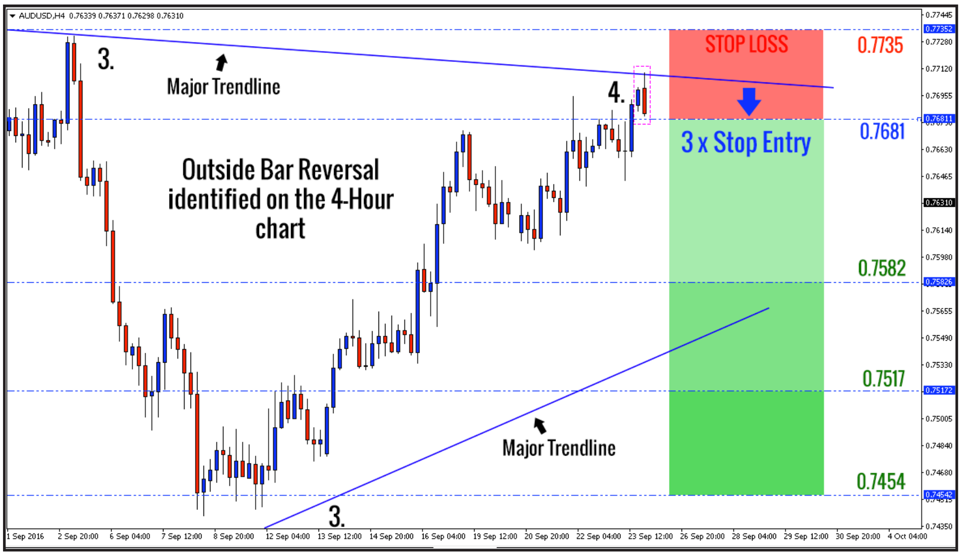
We observe on the AUD/USD daily chart major trendlines and where the market intersects with support and resistance. This helps identify possible entry points to the market on the daily or 4-hour chart. (Fig 6.35)

TRADE PLAN::

Sell STOP:	AUD/USD
Entry:	0.7681
Stop Loss:	0.7735
Take Profit #1:	0.7582
Take Profit #2:	0.7517
Take Profit #3:	0.7454

Trade Idea: Outside bar identified on the 4-hour chart with confirmation bounce off major trendline.

FIG 6.37: TRENDLINE WITH PRICE ACTION: TRADE PLAN - AUD/USD 4-HOUR

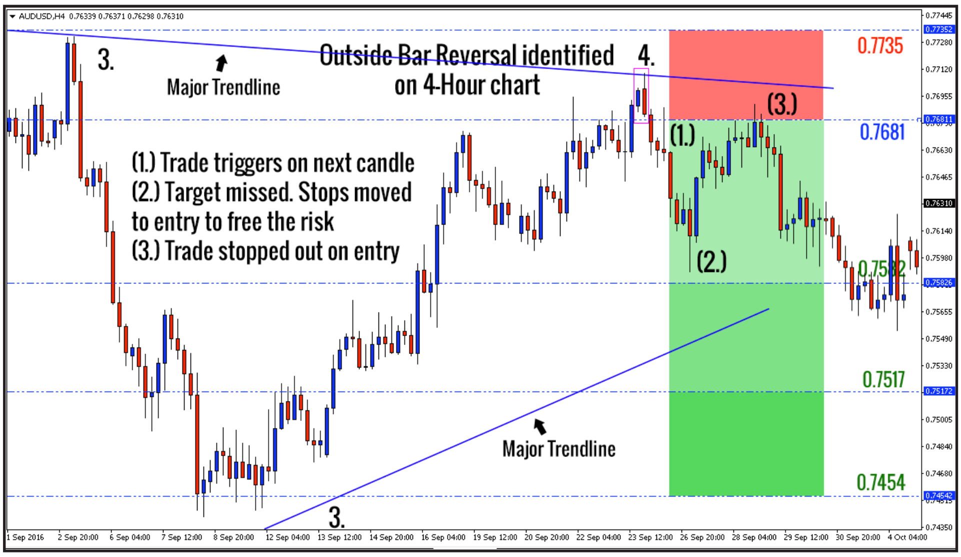


Trade Plan: Price approaching major trendline for a 4th time. (First 3 tests can be seen on Fig 6.35) Outside Bar pattern identified on the resistance trendline. Placing 3 x stop entry orders below the low of the confirmation candle and the stop loss above the last major swing high on the trendline. Aiming for 3 targets using historical S/R zones. (Fig 6.36)

TRADE RESULT::

Trade Result: Trade triggers and progresses towards TP1. Stops moved to entry to free the risk. Trade retraces back to entry and stops out the trades.

FIG 6.36: TRENDLINE WITH PRICE ACTION: TRADE PLAN - AUD/USD 4-HOUR



Trade Result: Trade triggers on next candle and moves towards target 1, price doesn't quite reach this far before turning around and retracing back to entry. Stops were moved to entry as target 1 was approached, the trade then stopped out on entry. (Fig 6.37)

6.12: PRICE ACTION WITH MOVING AVERAGES

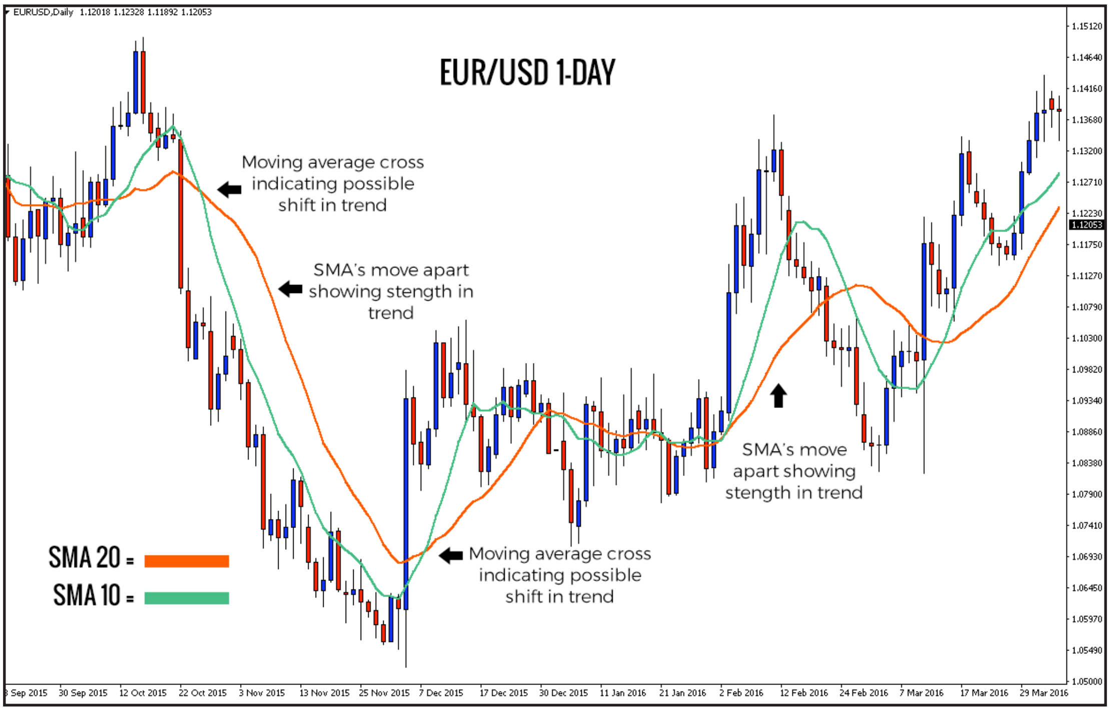
Moving averages may also be used together with Price Action Trading to help provide further points of confluence at designated hot spot areas of possible price reversal zones. At these areas moving average crossovers may provide added evidence toward your trading decision if a crossover takes place, taking into consideration that you may already be looking at a trendline, support or resistance zone as well as perhaps a pin bar setup. (Fig 6.38 - Fig 6.39)

Moving averages may also be used as dynamic support and resistance levels. A 20-day period SMA or EMA will lag behind the market price, smoothing out the market, revealing bearish pressure if the price falls under the moving average serving as resistance and signaling bullish pressure if the price rises above the moving average serving as support. Candle types may help to identify tests on support or resistance if a possible price reversal is present, a breakout is likely to occur or a false break results from the move.

KEY POINTS OF MOVING AVERAGES & PRICE ACTION TRADING:

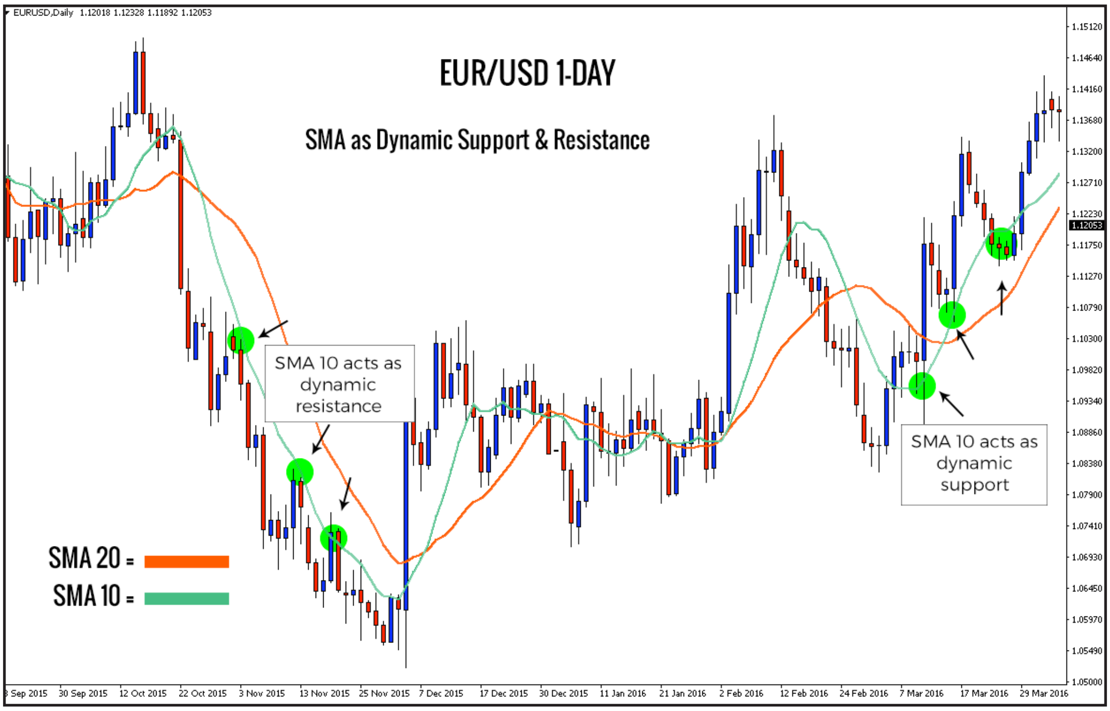
- Consider using an SMA or EMA moving average period of 10 to 20 to identify dynamic levels of support and resistance
- Look for potential reversal candle types or patterns forming at hotspot points on dynamic support or resistance
- Entry consideration may be ‘At Market’
- You may consider placing an entry on or just beyond the moving average when confirmation is received of a potential reversal pattern
- Stops should be considered beyond previous tests of the same horizontal level
- Take profits could be considered in conjunction with other areas of confluence
- Always trade in accordance with your trade plan and risk management strategy

FIG 6.38: SMA'S SMOOTHING OUT THE PRICE REVEALING THE TREND



Using the SMA of 20 period and 10 period on the 1-day chart it helps smooth out pricing. We can also see the crossovers indicating possible trend shifting and then the widening of the SMA's show strength in the trend. (Fig 6.38)

FIG 6.39: SMA'S ACTING AS DYNAMIC SUPPORT & RESISTANCE



Using the same 1-day chart we also notice where the SMA's can act as dynamic support and resistance as the price bounces off them after a crossover. (Fig 6.39)

6.13: PRICE ACTION WITH SUPPORT AND RESISTANCE

Support and resistance zones may help to identify areas of historic congestion or consolidation zones serving as possible entry and exit levels to the market. (Fig 6.40) Some historic S & R levels are more predominant than others and therefore may be more persuasive in their effect on the market price. These areas are considered 'Key Levels' of support and resistance and are traditionally used by price action traders to play a vital role in determining possible areas of continuation or reversals.

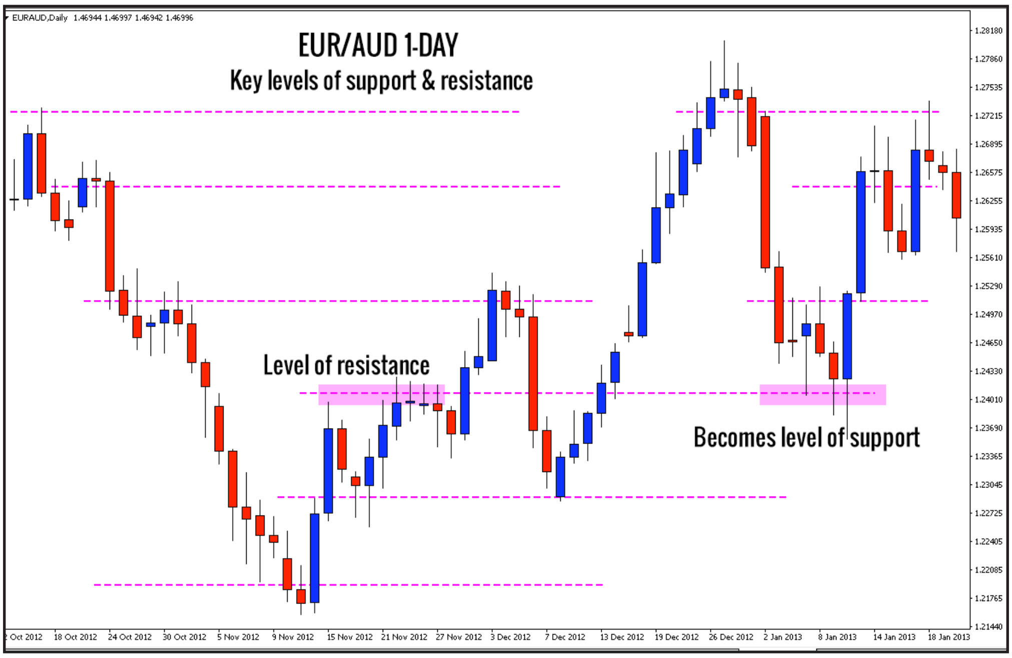
Support and resistance when added together with trendlines, channels, moving averages, candle types and candle patterns stack together multiple points of information and if these points converge at a hot spot that may well be the confidence you require to base a trading decision on. This is how trade ideas are born, when the light bulb goes on during your analysis and you identify a potential sweet spot for entering the market.

Once that sweet spot is identified and your trade idea is coming to life, then you further analyze to put all of the pieces of the puzzle together in accordance with your trade plan and risk management strategy.

KEY POINTS OF SUPPORT & RESISTANCE WITH PRICE ACTION TRADING:

- Create horizontal support and resistance zones on key historic levels
- Look for potential reversal candle types or patterns forming at hotspot points on horizontal support or resistance
- Entry consideration may be 'At Market'
- You may consider placing an entry on or just beyond the support or resistance level when confirmation is received of a potential reversal pattern
- Stops should be considered beyond previous tests of the same horizontal level
- Take profits could be considered in conjunction with other areas of confluence
- Always trade in accordance with your trade plan and risk management strategy

FIG 6.40: KEY LEVELS OF SUPPORT & RESISTANCE



6.14: PRICE ACTION WITH FIBONACCI

Fibonacci is another tool that can be used in conjunction with Price Action Trading by providing further areas of confluence to help gather further evidence when creating a trade idea and deciding on a possible position. (Fig 6.41)

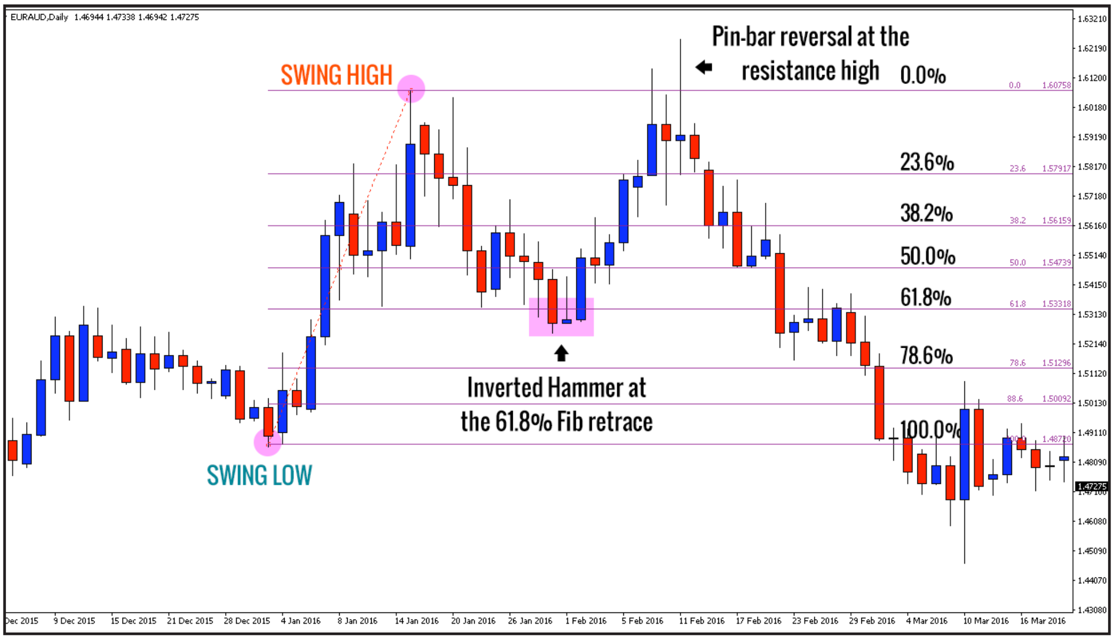
The use of Fibonacci may determine potential areas of support and resistance delivering a few levels of possible reversal. Price Action Trading may come into effect at these fib levels by watching the candle types as they form and close out to determine if there is a possible reversal pending or perhaps a continuation to the next level of support or resistance.

Regardless of which tool, indicator or trading strategy is used in conjunction with Price Action Trading you should always consider the strategic approach of your trade plan and the careful consideration of your entry price, stop loss and take profit levels, trading in accordance with your risk management strategy.

KEY POINTS OF FIBONACCI & PRICE ACTION TRADING:

- Use the Fibonacci retracement tool to determine potential entry levels
- Look for potential reversal candle types or patterns forming at hotspot points on Fibonacci ratios of support or resistance
- Entry consideration may be ‘At Market’
- Consider placing an entry on or just beyond the current Fibonacci ratio level when confirmation is received of a potential reversal pattern
- Stops should be considered beyond previous tests of the same horizontal level
- Take profits could be considered in conjunction with other areas of confluence
- Always trade in accordance with your trade plan and risk management strategy

FIG 6.41: FIBONACCI AND PRICE ACTION



6.15: VOLUME TRADING

Volume trading is a popular tool amongst some trader circles to determine the level of volume in the markets of buyers and sellers over a given period of time. Traditionally volume trading is used predominantly in centralized regulated markets such as the equities and futures markets, however, volume trading may also provide added insight into forex price movements, delivering an idea of how much volume is within each time period and market.

The volume indicator may reveal information that some candles or bars have a large amount of volume whilst others carry only a small level of volume. Volume trading in MT4 with CFD's is an estimate only and is measured in two ways, tick volume or lot volume and is an estimate of money flow specific to the broker or liquidity provider and not actual data across the market.

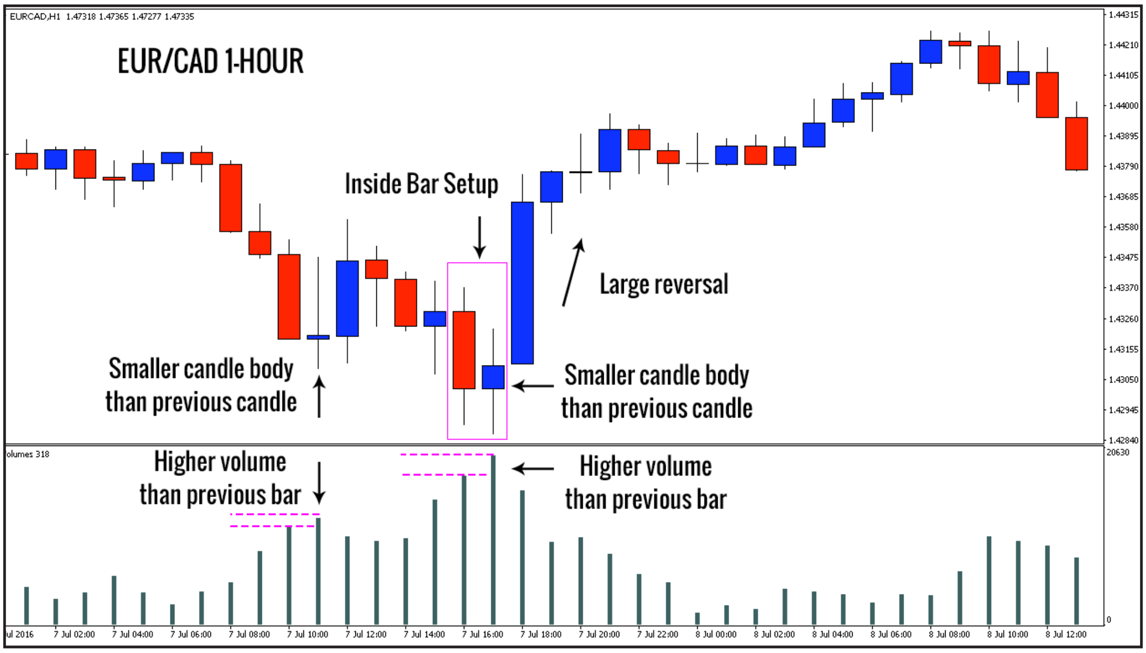
Real volume may determine the total quantity of price for the product bought and sold during the time period being analyzed or traded. The volume indicators available for MT4 may provide traders with an estimated barometer of how much liquidity is in the market. Higher volume means more liquidity, while less volume in the markets reflects lower liquidity. Volume is normally higher around market open and close times and lower during lunchtimes or prior to holiday periods.

Volume may reveal enthusiasm and confidence in the market place, potentially influencing volume traders in a rising market to keep pushing the price higher and when volume drops off in a rising market this may alert the trader that there is a lack of interest in buying at this price and the product may soon sell off creating a potential price reversal. This means that a rise or drop in price on little volume is not a strong signal and therefore not indicative of a confirmed retrace.

Volume trading is closely related to Price Action Trading, as the volume is measured bar by bar on current price movement and therefore does not embody the typical lagging indicator properties taken from historical data. This makes volume and Price Action Trading an up close and personal candle by candle, bar by bar trading experience with each bar/candle relationship potentially housing the required information to suggest the following move.

If some economic factor or event occurs creating movement in the market then the volume indicator reacts, however, the volume indicator doesn't suggest that that economic factor or event was about to occur and therefore although volume behaves in accordance with Price Action Trading it is still reactive rather than predictive.

FIG 6.42: VOLUME AND PRICE ACTION



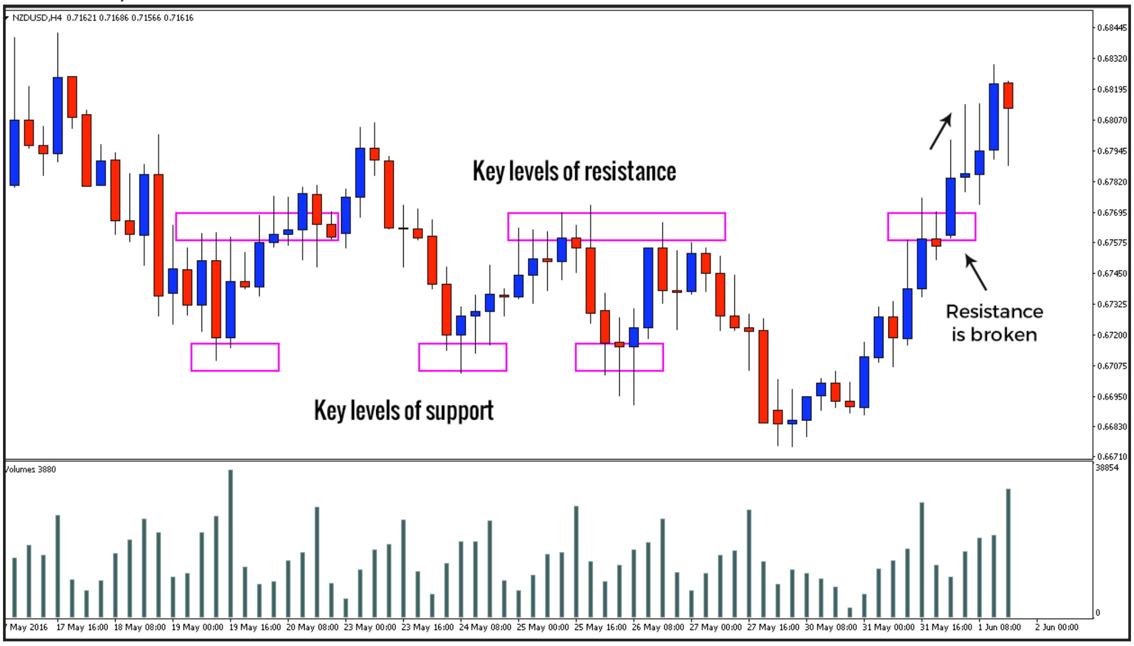
We can see on the example above with the EUR/CAD 1-hour chart there is more volume on a previous bar yet the candle is showing less movement. This could indicate a potential reversal in the market as the bulls or bears are showing more strength to reverse the direction.

High volume reflects high market interest whilst low volume reflects low market interest. The volume indicator essentially only measures the volume in the market for the liquidity provider that is providing the capital to the broker for the trader to engage with, therefore revealing the level of volume/liquidity of the pertaining market. Although volume may not be exactly the same across various brokers' platforms as a result of the liquidity provider, volume movement relative to market prices will be the same as market interest at each price level.

Volume may reveal where there are key levels of support and resistance and these areas may act as strong restraining grounds when price gravitates toward these zones. Minor or weak levels of support and resistance may indicate price momentum could pass through these areas quite effortlessly and traders may likely gather with predetermined entries at the successive levels of strong support and resistance. As a result, the market may gravitate to and from these price levels several times while the market ranges around these areas. Many moves with volume and Price Action Trading may appear repetitive and predictable.

On the following chart (Fig 6.43) the price has consolidated around a key support and resistance level and has ranged for a few days with the indicator signaling lower volume while the price is tracking sideways. If the price breaks above or below the key areas and volume remains low this will most likely signal a false breakout, as there is little interest in the market place. If volume spikes as the price breaks through a key support or resistance level then this may be indicative of confidence in the market and a higher likelihood of a genuine breakout.

FIG 6.43: S/R BREAKOUT WITH VOLUME



We can see on the example above the price is ranging between key levels of support & resistance before the resistance is broken and the trend has changed. (Fig 6.43)

A price reversal may be identified when the market begins to range with low volume after an uptrend or downtrend followed by increased volume in the market and a reversal candle revealing renewed confidence from the current support or resistance zone. In this way volume trading adds a new dimension to Price Action Trading as changes in volume relative to previous bars may provide significant information in relation to the candle types and patterns and the hot spots of confluence they intersect with.

KEY POINTS TO VOLUME TRADING:

- Traditionally volume is used as an estimate of money flow in each time frame
- Volume is reactive to the market and does not predict its outcome
- Typically higher volume means more liquidity, whilst lower volume means less liquidity
- Lowering volume in a rising or falling market may indicate a potential reversal
- A rise or drop in price on low volume may not provide a strong signal
- Volume and price action work hand in hand and may be analyzed bar by bar
- Volume may be used to help identify potential support and resistance levels
- Volume may be used to help identify a false break or a genuine break
- Volume may be used to help identify price continuations or price reversals

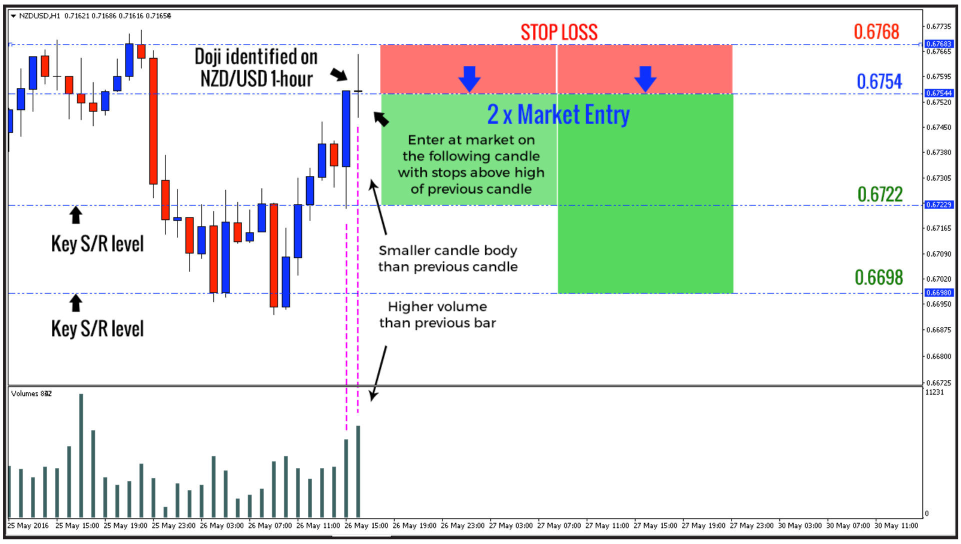
TRADING: VOLUME TRADE WITH PRICE ACTION (FIG 6.44 - FIG 6.45)

TRADE PLAN::

Sell at MARKET NZD/USD
Entry: 0.6754
Stop Loss: 0.6768
Take Profit #1: 0.6722
Take Profit #2: 0.6698

Trade Idea: Long legged Doji identified on 1-hour. Volume indicates potential reversal.

FIG 6.44: USING VOLUME WITH PRICE ACTION - TRADE PLAN - NZD/USD 1-HOUR



Trade Plan: Following bar by bar on the volume indicator we see a previous bar with large volume relating to a large candle movement. Following this a bar the volume has increased but the candle body is very small indicating a potential reversal. Now we see a Long legged doji appears. We then buy at market following this doji with 2 positions aiming for two recent support levels. Stop losses to clear the recent high of the doji candle. (Fig 6.44)

TRADE RESULT::

Trade Result: Target 1 is reached. Trade 2 stops out on entry.

FIG 6.45: USING VOLUME WITH PRICE ACTION - TRADE RESULT - NZD/USD 1-HOUR

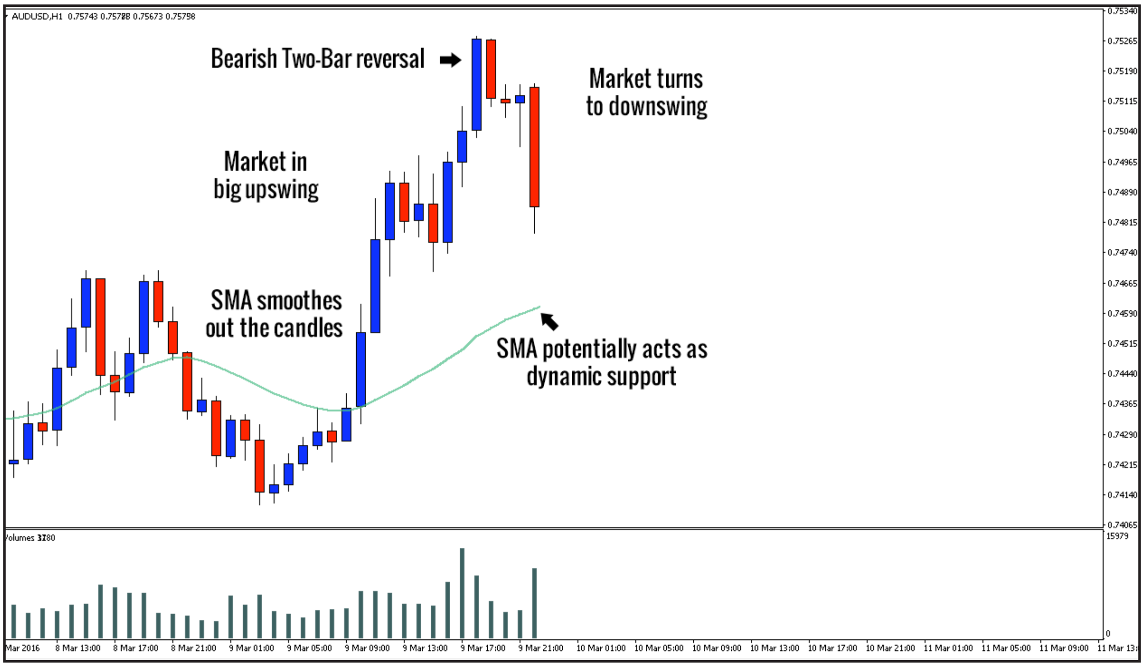
Trade Result: Trade analysis is correct from the volume indicator plus the candle pattern and the trade reaches target 1. Stops are moved to entry to free the risk of trade 2, price retraces back up and closes trade 2 at entry. (Fig 6.45)

6.16: PRICE ACTION TRADING IN MOTION

Stringing all the components together you may well have a stand-alone trading strategy in Price Action Trading to take you from trade inception to trade execution incorporating the use of many points of confluence to base your trading decisions on.

Starting with raw naked charts you can begin by identifying if the market is trending upward, downward or ranging sideways. If you are unable to identify this with the naked eye, you may first choose to add a moving average of a 20 or 30 period to smooth out the noise and volatility of the market. The moving average will reveal if the curve of the line is sloping downward, rising upward or moving sideways. The moving average creates a dynamic support and resistance zone revealing potential reversal or breakout areas.

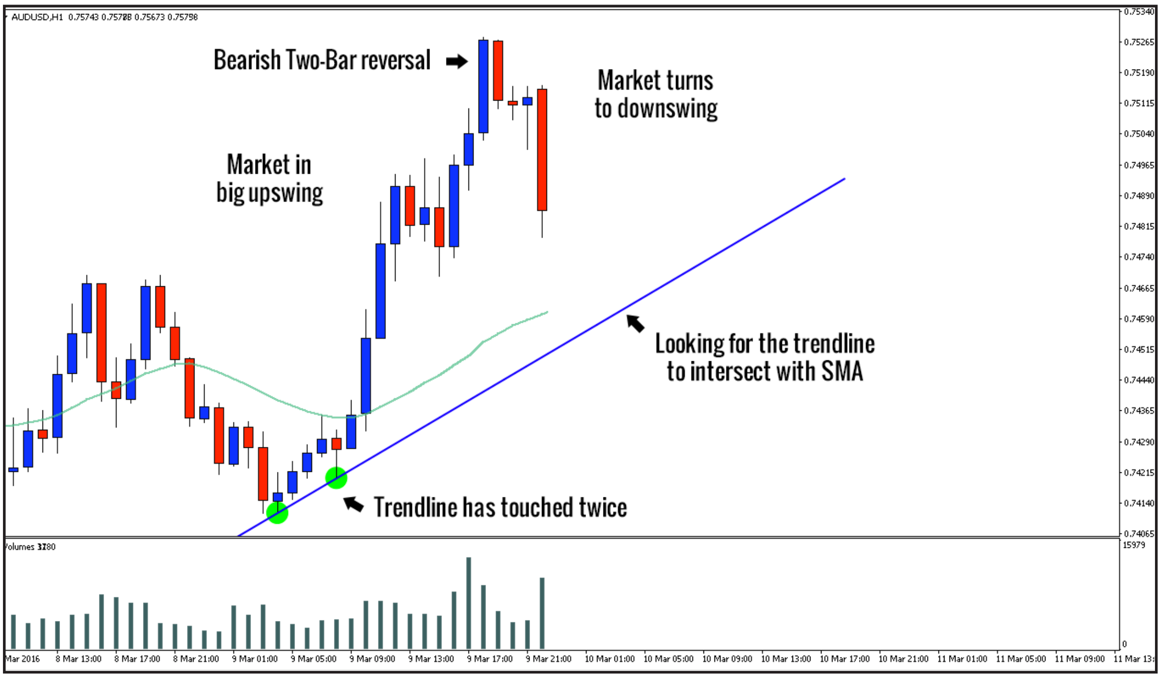
FIG 6.46: SMA - SMOOTHES OUT MARKET PRICING



Adding an SMA to the chart can help smooth out the candle patterns and possibly acts as dynamic support or resistance. (Fig 6.46)

Trendlines may be added to reveal historic highs and lows by connecting two or more points together. This can be done in any time frame, but in our experience the daily charts and even 4-hour charts are best for identifying longer range trading parameters. The use of trendlines may reveal rising channels, descending channels, wedges, triangles, converging or expanding patterns. These outlines provide areas of potential hot spot reversal zones or possible break out areas.

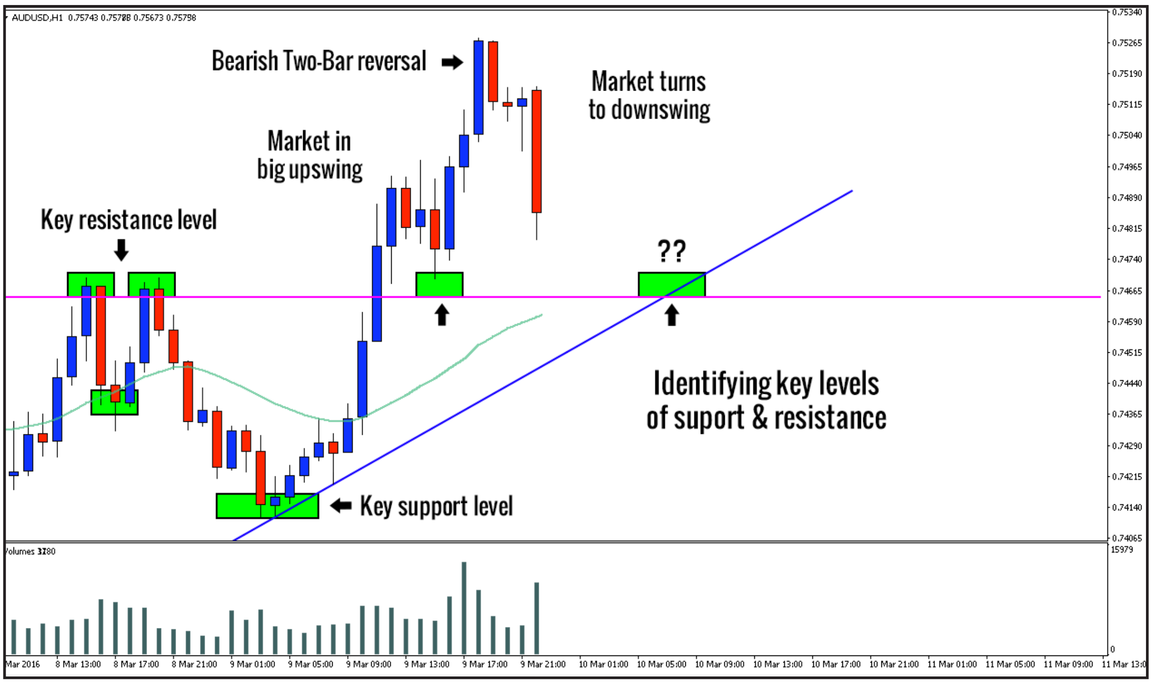
FIG 6.47: TRENDLINE - POTENTIAL DYNAMIC S&R LEVELS



Next we can add a trendline to help identify any other possible support & resistance levels. (Fig 6.47)

Support and resistance can also be used to identify key levels of historic congestion to identify possible areas the market price may test and reverse or continue on to another zone. Key areas to identify at this point are possible hot spot areas where the moving average, trendlines and support and resistance zones intersect.

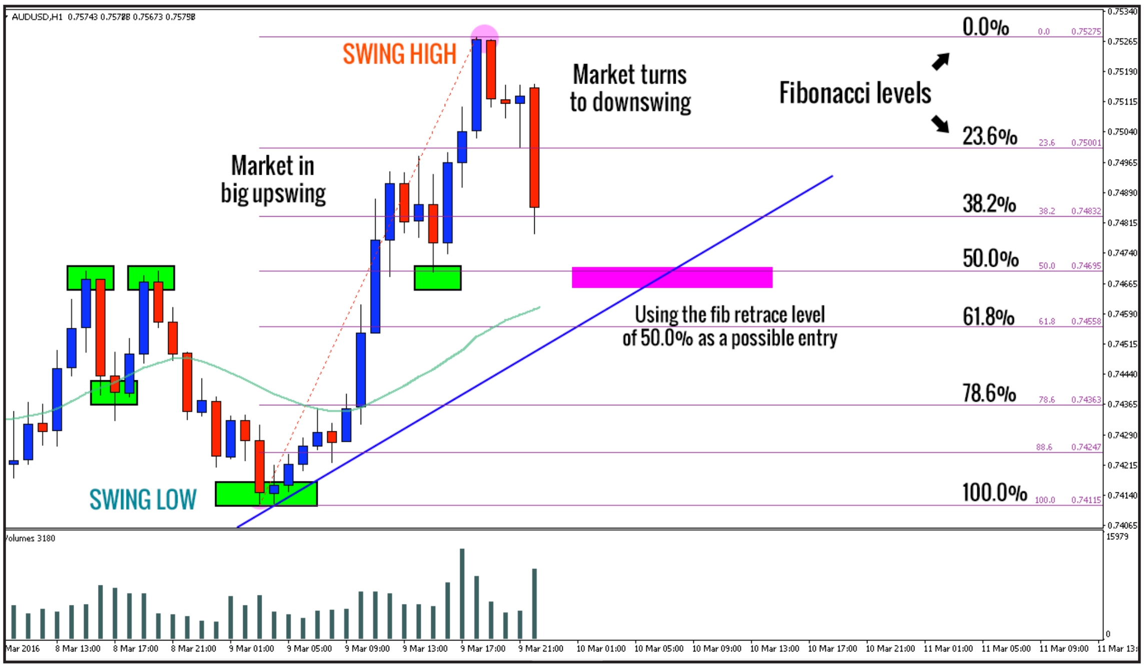
FIG 6.48: SUPPORT & RESISTANCE LEVELS



Finding recent support & resistance levels may help with potential entry points and adds another area of confluence. (Fig 6.48)

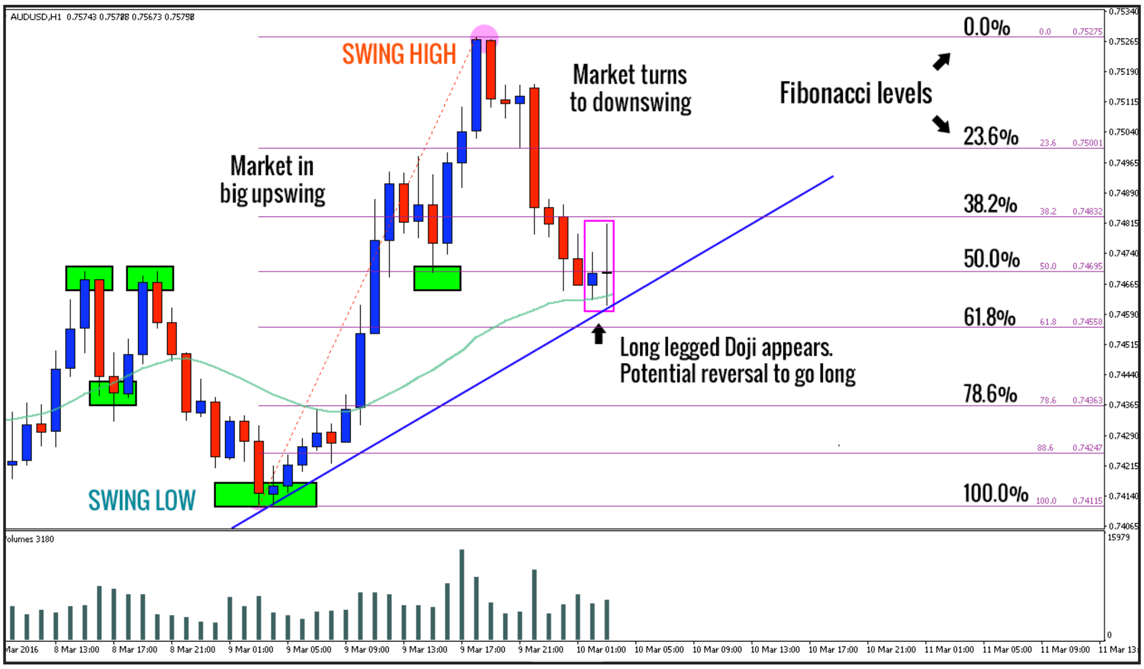
Fibonacci may also be used to reveal potential support and resistance levels that may be tested on account of previous price movements. Areas of interest could be if any of these levels intersect with other points of information already identified on the chart. Some fib levels are believed to be more responsive than others such as the golden ratio of 61.8%.

FIG 6.49: FIBONACCI ADDED FOR MORE AREAS OF CONFLUENCE



Adding a Fibonacci swing low to swing high we can see the possible levels the price may retrace to on the down leg. This also adds another valuable area of confluence. (Fig 6.49)

FIG 6.50: PRICE ACTION - CANDLE PATTERN

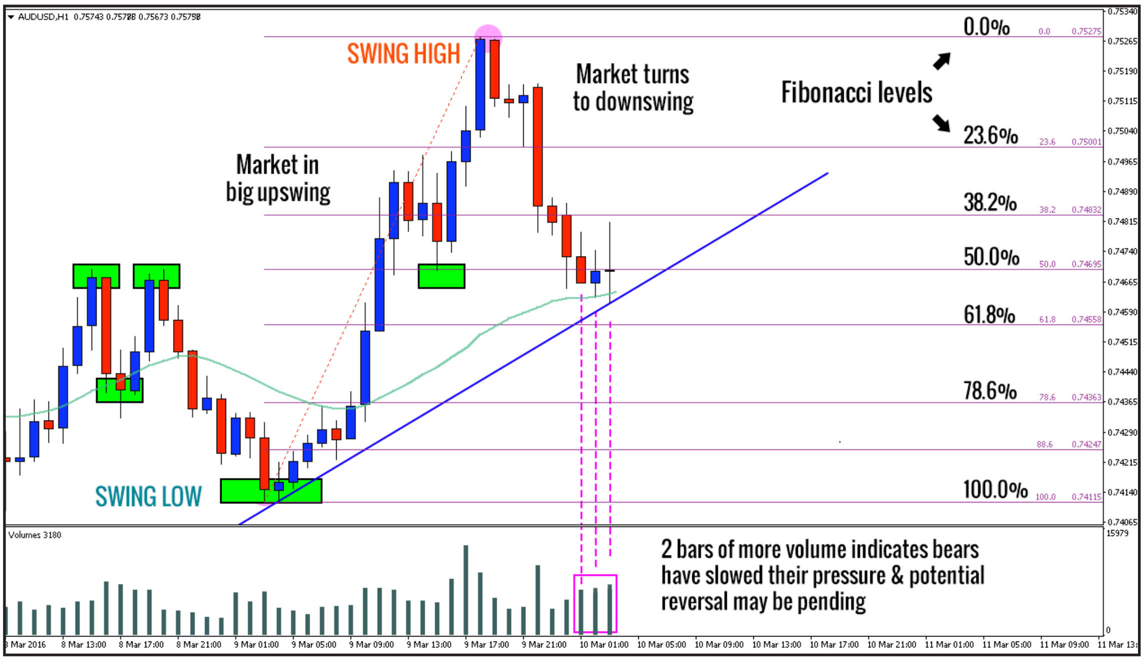


Now we can see as the candles advance further into our area of confluence we can identify a long legged Doji forms on the 50.0% fib retrace level. (Fig 6.50)

The next key to identify possible give away signals or tell tale signs are individual candle types or grouped candle patterns to determine if a reversal or continuation may be present. As previously explored, candle types and their patterns are believed by many price action traders to carry out a specific reversal or continuation function.

The volume indicator may also be used to determine if the candle type is providing a false or genuine signal, if there is strength or weakness, confidence or uncertainty in the market and if a potential reversal is imminent, a sideways market or a continuation.

FIG 6.51: VOLUME INDICATOR



Using the volume indicator we see the market now has more volume, however, the downward pressure from the bears has diminished leaving us with a potential pending reversal. (Fig 6.51)

In our experience of trading, no outcome is a given and therefore it is our belief that the most imperative piece of information you can learn when trading is to adhere strictly to your trade plan and risk management strategy.

By implementing the use of a few technical analysis features as outlined above you may well have identified possible areas of entry to the markets with an idea of where you think the market will move to next on account of this analysis and as a result a trade idea may well be born. Your trade idea can now be translated into a trade plan, incorporated with risk management ready to send to market for trade execution as a market position or a pending order.

Stop losses should be carefully considered, taking into account recent and historic price tests, successive areas of support or resistance, false breaks if trading a reversal as well as a buffer for volatility, the brokers spread and potential slippage or market gaps.

Order entry types should be considered carefully. Is there a need to transact urgently at market, or can you pull the entry price away from the market allowing for the natural rhythms of price movement to trigger you into the market in due time. Moving the entry price away from the market will also allow more breathing space for your stop loss, providing an opportunity to create a pending order, perhaps as a limit order a stop entry order or an OCO order.

Take profit areas should also be carefully considered to ensure that the targets are reasonable and the risk: reward ratios are favourable. Support and resistance zones or Fibonacci expansions may be used to take into consideration successive levels of take profit targets.

Your risk management strategy should be employed to ensure your risk profile is deemed low-risk in comparison to your account balance and is consistent with all of your trades. As there is no certainty of which trades will be successful and which trades will be unsuccessful. Be sure to spread the risk across your trades if you are scaling in or scaling out using a tiered profit take trade plan such as the 3-trade plan.

In this way all trades should be taken through the process of the life cycle of a trade ensuring that each aspect is carefully considered and each sub aspect check box is ticked off, until trading becomes second nature and mechanical. It is this diligent structured approach that you should be continually working toward as an aspiring trader.

This type of trading in action will be covered in greater detail throughout Module-4, specifically designed for trading strategies implemented from start to finish of the life cycle of a trade; trade inception to trade completion.

TRADING: PRICE ACTION - TRADING IN MOTION (FIG 6.52 - FIG 6.53)

TRADE PLAN::

Sell at MARKET NZD/USD
Entry: 0.7468
Stop Loss: 0.7458
Take Profit #1: 0.7493
Take Profit #2: 0.7510
Take Profit #3: 0.7528

Trade Idea: Long legged Doji identified on 1-hour. Volume indicates potential reversal. Buy at market 3 positions aiming for 3 targets.

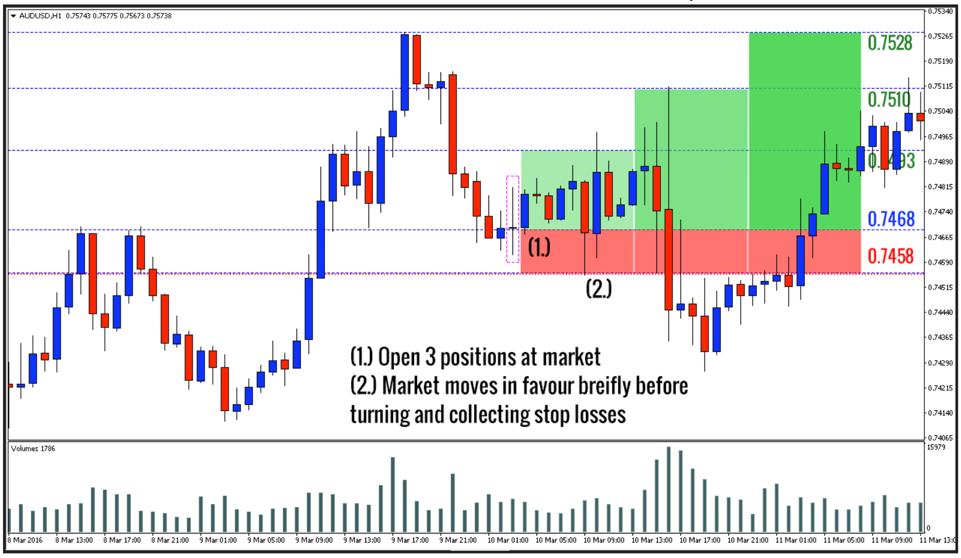
FIG 6.53: PRICE ACTION IN MOTION - TRADE PLAN - NZD/USD 1-HOUR

Trade Plan: Doji identified on the 1-hour chart with multiple confluence from previous charts. Buy 3 positions at market aiming for 3 targets based on historical S/R zones. Stop losses to clear the 61.8% Fib retrace. (Fig 6.52)

TRADE RESULT::

Trade Result: Positions open at market and begin moving in a favourable direction before turning around and falling through the stop losses.

FIG 6.52: PRICE ACTION IN MOTION - TRADE RESULT - NZD/USD 1-HOUR



Trade Result: All 3 positions open at market. The market moves in favourable position initially before turning around and collecting stop losses at the 61.8% fib retrace. (Fig 6.53)

REVIEW

SUMMARY

This section visited the implementation of Price Action Trading as both a stand-alone trading strategy and one that could be used in conjunction with other technical analysis tools, indicators and trading styles.

Price Action Trading covers candle types, candle patterns and chart patterns in conjunction with other technical analysis information. This section covered the traditional folklore that surrounds the ingredients of this trading style and what is believed to be the determined outcome of their use.

This section also took a look at Price Action Trading in collaboration with trendlines, channels, moving averages, support and resistance, Fibonacci and volume trading as well as taking a brief look at Price Action Trading in motion from trade inception to trade execution.

QUESTIONS

1. What is Price Action Trading and what is its purpose?
2. Name 5 price reversal patterns
3. Name 5 price continuation patterns
4. How might trendlines work in conjunction with Price Action Trading?
5. What role could moving averages serve for the price action trader?
6. How do S & R zones work in conjunction with Price Action Trading?
7. What role does Fibonacci play in Price Action Trading?
8. How does volume trading affect price action?
9. How might a trade plan be derived from Price Action Trading?

ANSWERS

1. Price Action Trading is a style of trading that some traders implement to trade off historic data and immediate market movements. Typically, price action traders trade with naked or raw charts with little analysis and weight decisions more heavily on individual and group candle movements.

2. Five patterns amongst others that are believed to be reversal patterns by price action traders are the Reversal Bar Pattern, Key Reversal Bar, Exhaustion Bar, Hammer and Hanging Man as well as the Head and Shoulders Pattern.

3. Five patterns amongst others that are traditionally believed by price action traders to be continuation patterns are Rectangles, Maribozu, Three Bullish Soldiers, Three Bearish Crows, Flags and Pennants.

4. Trendlines are typically used to connect historical higher highs, lower highs, higher lows and lower lows to determine possible market trends and price movements that may provide a capacity within which the market may appear to move. Trendlines create potential hot spots that the market may test resulting in potential reversals or breakouts for trend continuations. Price action can be used in conjunction with trendlines to look for clues in candle types and patterns at these hot spots that may suggest either a reversal or continuation in price.

5. Moving averages can help to provide a dynamic testing ground for potential tests of support or resistance as well as provide potential insights in to exchanges between bullish and bearish pressure. The role of price action with moving averages is to look for suggestive outcomes based on candle types and patterns as the moving average is tested for a possible reversal or price continuation.

6. Price action traders typically use S & R zones to help identify key levels of historic congestion that may be considered as support or resistance levels to assist ones trading decisions. When the price tests these historical levels attention could then be paid to individual candle types and their group patterns to help determine a potential outcome to the upside or downside.

7. Fibonacci is a tool that can be used in the absence of more identifiable levels of support and resistance, revealing possible levels that the price may test as a potential reversal ground or continuation to the next successive fib level. Price action can be used in conjunction with Fibonacci to help identify further points of confluence to suggest if a fib level is likely to hold or be broken.

8. Volume is an indicator that measures the amount of lots traded with the liquidity provider in a particular market and may provide key information in conjunction with Price Action Trading to help determine reversals, continuations or ranging markets.

9. Price Action Trading and its collaboration with other technical analysis criteria may be used as a stand alone trading strategy to identify entry levels, stop loss levels and take profit levels in accordance with your trade plan. Your risk management strategy may then be applied to your trade plan.

CHECKLIST

Below is a checklist of the main points covered in this section.

- [ ] Price Action Trading is used by some traders as a stand alone trading strategy and typically approaches the market from a minimalist perspective using little analysis and weighting its analysis more heavily on recent and current market movement.

- [ ] Candle types and their patterns are traditionally used to be suggestive of a particular outcome. Price action traders predominantly weight their trading decisions on the candle types and patterns presented on the charts to help determine a price reversal or a price continuation.

- [ ] Trendlines may be used to help assist the price action trader with added points of confirmation for basing trading decisions on by revealing potential hotspots for an anticipated move of possible price reversal or continuation.

- [ ] Moving averages may provide added areas of confluence by providing dynamic levels of support and resistance as well as revealing potential bullish or bearish pressure. When the market price tests a moving average this may also provide areas of hot spots for the price action trader to be aware of in the instance of candle type and candle pattern revelation.

- [ ] Price action traders typically use support and resistance levels to help identify key levels of historic congestion that may be suggestive of the current market movement.

- [ ] Price action traders may incorporate the use of Fibonacci to help identify possible levels of support and resistance in the absence of other key levels of support or resistance. Price action methods may help identify which fib level may hold up as a reversal ground or serve as a continuation point dependent upon the information served up by the candle types and their patterns as the information presents itself.

- [ ] Volume trading can help provide an up close encounter with the markets alongside Price Action Trading by reading the charts bar by bar, deciphering the information presented. Volume is an estimate only of the overall market as it pertains specifically to the liquidity provider.

- [ ] Price action traders typically use the strategy as a stand alone trading method to create trade ideas that can be translated into a trade plan complete with order entry type, entry levels, stop loss levels and take profit levels ready to incorporate with your risk management strategy.

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