TSR TRADING SETUPS REVIEW

HOW TO TRADE WITH PRICE ACTION

MASTER

GALEN WOODS

How to Trade with Price Action (Master)

Trading Tools, Tips & Methods

Galen Woods

Contents

Notices & Disclaimers

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Introduction

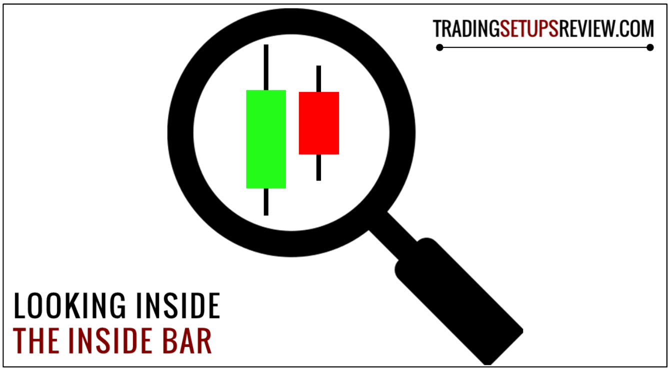
This eBook contains a selection of articles I have written on Trading Setups Review. You can find out more about me by clicking here.

(All articles in this eBook are available for viewing online at http://www.tradingsetupsreview.com for free.)

In this Master Edition, I have selected 10 articles that build on the concepts mentioned in the Kickstarter Edition with a focus on intraday trading. They cover in-depth analysis of trading tools and trading concepts that are applicable for price action trading.

I hope you find this eBook a friendly companion for your offline learning, and I wish you all the best in your trading career.

1. Looking Inside the Inside Bar for Day Trading



Looking Inside the Inside Bar

Two weeks ago, I saw an inside bar forming in the ES futures contract chart right in front of me. I pondered over this popular bar pattern. It is one of the most popular two-bar trading pattern, and forms the basis of many trading setups including the three-bar inside bar trading strategy and the ID/NR4 trading setup.

Armed with my Ninjatrader software, I decided to peer inside the inside bar and find out what makes an inside bar tick.

We will examine if the following factors affect the performance of inside bars.

- Relative volume
- Relative range
- Open-to-close spread

- Bull or bear

Our back-testing parameters are:

- November 2008 to November 2013 (Regular trading session)
- 5 minute trading time frame
- ES futures contract
- Slope of 20-period EMA as trend filter
- 1:1 risk to reward ratio

1.1 Control Benchmark - Inside Bar

Within our back-testing period, the winning percentage of inside bars is **37.33% in a sample size of 4107**. This is the benchmark in our evaluation.

1.2 Relative Volume of Inside Bar

Our hypothesis is this: High volume inside bars contain more activity which leads to stronger breakouts. "High" is relative, so we compared the volume of the inside bar to that of its preceding bar.

In our testing, inside bars with volume **higher than 75% of the volume of the preceding bar** are considered high volume inside bars. Inside bars with volume **lower than 25% of the volume of the preceding bar** are considered low volume inside bars.

Volume	No. of Trades	% Profitable	Relative to Benchmark
High Volume	746	39.41	-2.08
Low Volume	174	32.76	-4.57

While high volume bars perform better than low volume bars, both under-performed the benchmark.

1.3 Relative Range of Inside Bar

Inside bars represent an area of congestion, in which price range contracts. The smaller the range, the more agreeable the traders are. When traders agree, prices stagnate and breakouts tend to fail.

We computed the range of the inside bar as a fraction of the range of its preceding bar. A wide range bar takes up **more than 75% of range of the preceding bar**. A narrow range bar takes up **less than 25% of the range of the preceding bar**.

Range	No. of Trades	% Profitable	Relative to Benchmark
Wide Range	167	52.69	+15.36
Narrow Range	32	50	+12.67

Both wide range and narrow range inside bars out-performed the benchmark substantially. However, the samples sizes are relatively small, especially for narrow range inside bars which gave only 32 trades.

1.4 Open-to-close Spread of Inside Bar

If the open-to-close spread is zero, it is the perfect doji. It means that neither the bulls nor the bears are winning. On the other hand, if the open-to-close spread is wide, it means that the bar, despite being an inside bar, is relatively directional.

To determine if a bar is directional, we looked at the open-to-close spread as fraction of the entire range of the inside bar (high-to-low spread). I could use some candlestick terminology here. If the body takes up **more than half of the entire candlestick**, it is directional. If not, it is considered a doji for our purpose.

Spread	No. of Trades	% Profitable	Relative to Benchmark
Directional	531	39.17	+1.84
Doji	2439	37.31	-0.02

Most inside bars are doji-like bars (2439 compared to 531). The performance of both directional bars and dojis does not differ too much from our benchmark.

1.5 Bull or Bear Inside Bar

It is conventional wisdom that the signal bar should support the direction of our trade. If an inside bar closes higher than it opened, it is a bullish bar suited for long trades. This is because it shows momentum in our favor, confirming that the trend is with us.

Hence, we restricted our long trades to only bullish inside bars, and short trades to only bearish inside bars, in order to have our **signal bars support our trades**. The reverse is also tested.

Support?	No. of Trades	% Profitable	Relative to Benchmark
Support	1782	40.97	+3.64
Against	1104	33.19	-4.14

Conventional wisdom is right. Choosing inside bars that support our trades is a better trading strategy.

1.6 What Is Inside The Inside Bar?

Our testing revealed that **wide range inside bars** (with range more than 75% of the range of the preceding bars) out-performed our benchmark by the largest margin. These are bars that barely make it as inside bars and represent only a slight contraction.

We also found that **inside bars that closed in our trade direction** seems to have an edge. Inside bars that support our trades did considerably better than inside bars that did not.

The other two factors (open-to-close spread and volume) did not show significant improvement.

We focused on **wide range inside bars that closed in the direction of our trade**, and ran our test again on several other futures contract to see if our results are robust.

Instrument	All Inside Bars	Filtered Inside Bars	Difference
ES	37.33	50	+12.67
YM	39.58	47.58	+8
NQ	39.76	48.04	+8.28
TF	41.45	49.89	+8.44
CL	42.68	51.17	+8.49
ZN	37.56	39.13	+1.57

The results are encouraging. Most of the futures contacts show an improvement of over 8%. This is a significant edge in the competitive field of day trading. Of course, I must emphasis the naive and simplistic assumptions we made. This includes the 1:1 risk to reward ratio and using the 20-period EMA as a trend filter.

Our results are not meant to be used in isolation as a complete trading system. However, this is a good start to understand more about inside bars that occur in day trading time frames.

At the very least, for my trend trades, I am going to pay more attention to wide range inside bars that closed in my direction.

I am not a quantitative finance buff. So this is not a rigorous academic paper. I am just a curious price action trader playing with his Ninjatrader back-testing function.

2. 10 Types of Price Charts for Trading

Do you trade with the 5-minute chart? Or the daily chart? But why are we constrained by time bases?

Are there other ways to visualise price data? Do they offer valuable perspectives?

Here are 10 types of price charts to satisfy your curiosity.

(Beware. They might turn your trading perspective upside down.)

For easy comparison, we are using the same two trading sessions as examples for each chart type. One chart shows a clear trend while the other will shows a trading range.

1. Line Chart
2. Bar Chart
3. Candlestick Chart
4. Volume Chart
5. Tick Chart
6. Range Bar Chart
7. Point & Figure Chart
8. Renko Chart
9. Kagi Chart
10. Three-Line Break Chart

Price Charts with a Time Base

These three chart types are commonly plotted with a time base. It means that each data point on the chart comes from a fixed time period. For instance, if the time base is daily, each data point will represent price level(s) of each trading day. The charts below show the 5-minute time-frame.

Study of price charts began before technology was able to send market (tick) data instantaneously. Building charts with continuous price data was not possible. Hence, charts with a time base have become the standard in technical analysis.

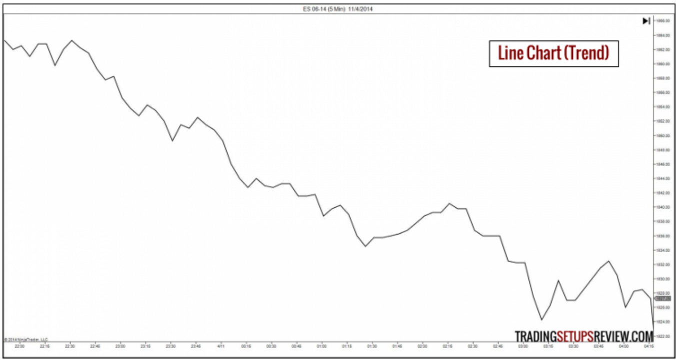
However, these three chart types are not always plotted with a time base. You can also plot them with a tick or volume base as we will discuss in the second section.

2.1 Line Charts

Constructing a Line Chart

It is extremely simple to build a line chart.

1. Mark out the closing price of each time period
2. Connect them



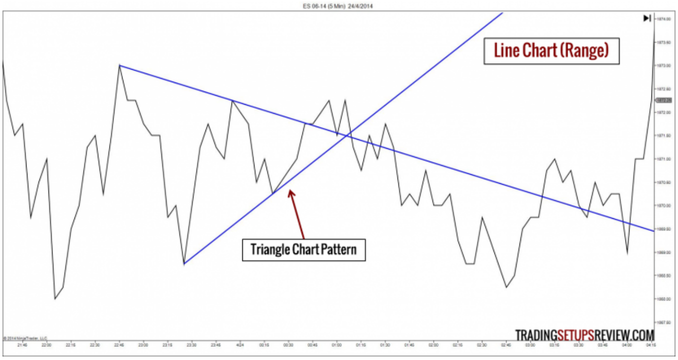
Line Chart (Trend)

Trading with a Line Chart

A line chart does not offer much detail as it includes only the closing price of each period.

However, line charts are cleaner than other chart types. Hence, they are great for:

- Observing long-term trends
- Picking out chart patterns like Head & Shoulders and Triangles



Line Chart (Range)

2.2 Bar Charts

Constructing a Bar Chart

To build a bar chart, we need the following pieces of price data from each time period.

- Opening price
- Highest price
- Lowest price
- Closing price

With these information, we can build a price bar for each time period. These four pieces of data explains why some traders call them OHLC bar charts.

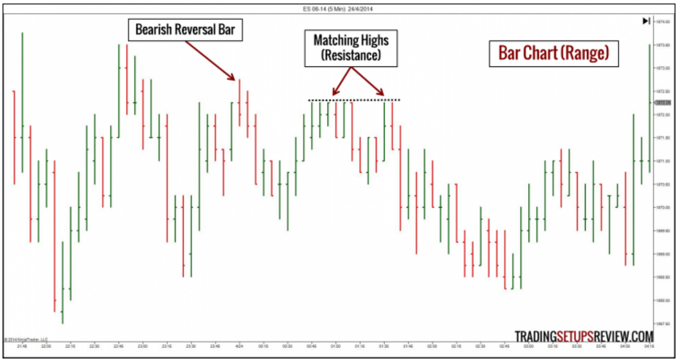
Bar Chart (Trend)

Trading with a Bar Chart

A bar chart has important details that are essential for timing our trades.

Armed with a bar chart, we can study the relationship between the highs, lows, closes, and opens of different bars to derive a whole host of bar patterns.

Look at the examples. Bar patterns are nifty timing tools that offer us trade entries with controlled risk.

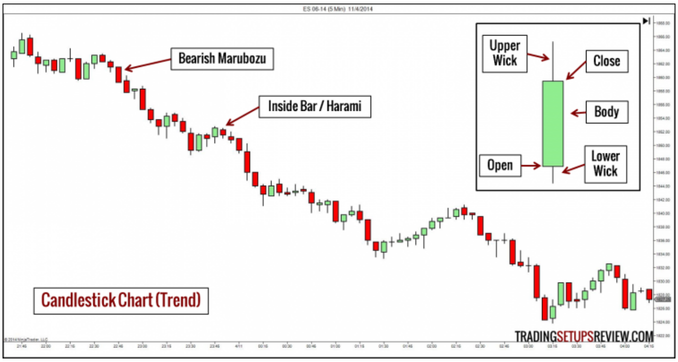


Bar Chart (Range)

2.3 Candlestick Charts

Constructing a Candlestick Chart

A candlestick has that same price data as a price bar. They are similar, except for an enlarged region between the opening and closing price. The range between the opening and closing price of each candlestick is the body of the candlestick, which is its defining feature.



Candlestick Chart (Trend)

Trading with a Candlestick Chart

It is not surprising that candlestick charts have become the preferred choice for most traders. Other than being able to add various candlestick patterns to their arsenal, a candlestick chart does not dilute our ability to spot bar patterns. A rare chance to get the best of both worlds.

The relationship between the bodies of candlesticks is important to candlestick patterns. Candlestick charts makes it easy to spot gaps between bodies. (A candlestick with a body that does not overlap with the body of the preceding candlestick is a "star".)

A slight drawback of candlestick chart is that candlesticks occupy more space than OHLC bars. In most charting platforms, the most you can display with a candlestick chart is less than what you can with a bar chart.

Candlestick Chart (Range)

For more examples, read Three Basic Chart Types.

Price Charts with an Activity Level Base

Time can pass without market activity. This poses a problem to time-based price charts. As time passes, regardless of the level of activity in the market, the chart continues to print new bars or candlesticks. In such cases, time-based charts present an inflated impression of market activity.

To address this issue, some traders use the level of market activity (measured by volume or ticks) instead of time as a basis to sample price data.

There is an important caveat for activity based charts. You cannot get tick or volume charts from different data feeds to match up completely. This is due to filtering of the market data by your feed provider, and possible issues with your internet connection and computer performance. However, whether these issues outweigh the potential benefits of using tick and volume charts depends on your trading style and evaluation.

In particular, be careful if you intend to use volume or tick charts for spot forex trading. As there is no centralised market for spot forex trading, the volume or tick data is limited to your liquidity pool, which in some cases are only restricted to your forex broker's clients. Thus, the volume or tick data might not be representative of the entire market for the instrument you are trading.

2.4 Volume Charts

Constructing a Volume Chart

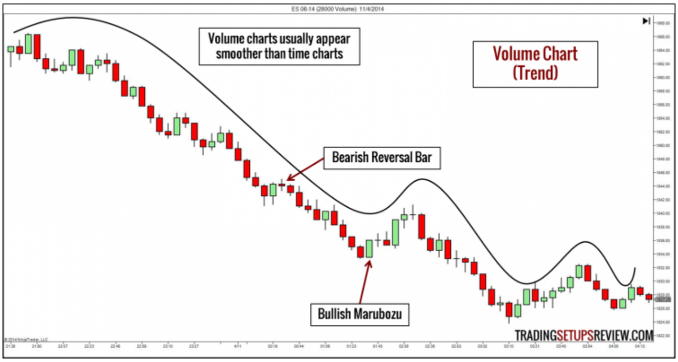
Volume is the number of contracts or shares traded. It is the most direct way to measure the amount of market activity.

Instead of using the OHLC data of fixed time periods, we take the OHLC data from a volume block. Hence, on volume charts, each bar (candlestick) represents a fixed volume. For instance, a 233-volume chart will display the OHLC of a 233-volume block for each bar.

You can plot volume charts in the style of a bar chart or candlestick chart.

Not sure what setting to use for your volume chart?

A simple starting point is to use the average volume of your usual trading time-frame. For instance, we arrived at 28000-volume charts in the examples by measuring the long-term average volume of 5-minute ES bars.



Volume Chart (Trend)

Trading with a Volume Chart

As a volume chart slows down when market activity is low, it shows less sideways movement. Hence, it tends to show smoother price waves that are conducive for trading. This is the main advantage of a volume chart.

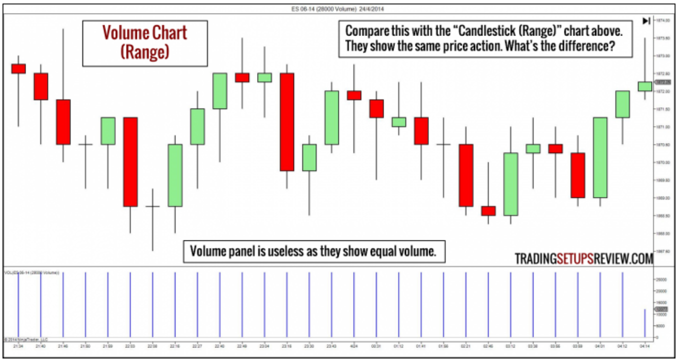
Generally, you can still rely on bar patterns and candlestick patterns in volume charts.

However, using a volume chart has major implications on traditional volume analysis. A trader using volume charts can **no longer**:

- Look for volume patterns that support chart patterns
- Use volume to confirm if a break-out is valid
- Use volume indicators
- Employ Volume Spread Analysis

Nonetheless, if you understand the underlying concepts of the above techniques, you can adapt them for trading volume charts. For instance, to find high volume breakouts, look for price thrusts with consecutive bars moving in the same direction. As each bar represents a fixed volume, the consecutive bars represent a high volume swing.

Naturally, a basic volume overlay is useless. Instead, consider using a time overlay that shows the time taken to complete each volume bar.



Volume Chart (Range)

2.5 Tick Charts

Constructing a Tick Chart

In this context, a tick refers to a transaction. Like the volume traded, the number of transactions also measures the level of market activity. (Do not confuse this with the NYSE $TICK.)

However, the volume of each transaction differs. Hence, a tick chart does not replicate the volume chart.

Each bar/candlestick on a tick chart represents the OHLC of a given number of ticks.

The tick setting depends on the volatility of the market. When starting out, measure the average range of your usual trading time-frame. Then, adjust the tick setting to get a chart with similar volatility. Fibonacci numbers like 144-tick and 233-tick are also popular choices for tick charts.

Tick Chart (Trend)

Trading with a Tick Chart

As with volume charts, short-term price patterns are still effective with tick charts. The example above shows that tick charts work well in trending markets. Do not take that as a sign that tick charts offer the Holy Grail. Many trading methods work like a charm in trending markets.

While volume analysis is possible with tick charts, you will find less variation in the volume of each tick bar as both tick and volume are measures of market activity.

Tick Chart (Range)

For more examples on volume and tick charts, read Trading without Time.

Simply Price Charts

The next five price charts are simply *price* charts. They share a simple characteristic. They move only when price moves. If you are a price action purist, you will enjoy exploring the following chart types.

However, out of the five chart types below, the range bar chart is the only one that is plotted without any regard to time.

The other four chart types (P&F, Renko, Kagi, Three-Line Break) are built using a time-based chart that determines the chart update frequency. This is hardly surprising as traders developed them back in the days when continuous updating of prices charts cannot be done. For the examples below, we used a 5-minute bar chart as the underlying time-based chart.

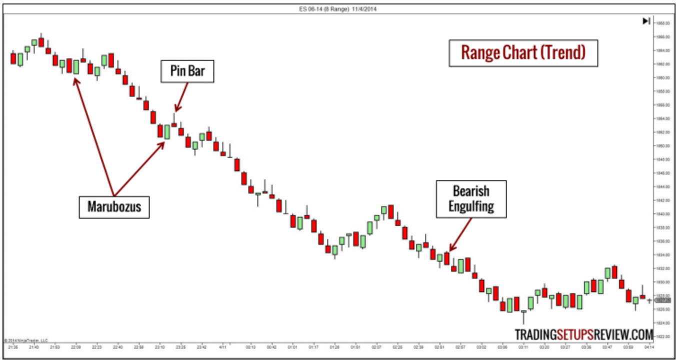
Hence, only the range bar chart shows the exact price action. The other four price charts filter out “noise” using different techniques and do not show exact market prices.

2.6 Range Bar Charts

Constructing a Range Bar Chart

First, specify a range. In a range bar chart, every bar will end once the range between its high and low equals the chosen range.

Thus, every bar will have the same bar range. In addition, every bar will close either at its high or low.



Range Chart (Trend)

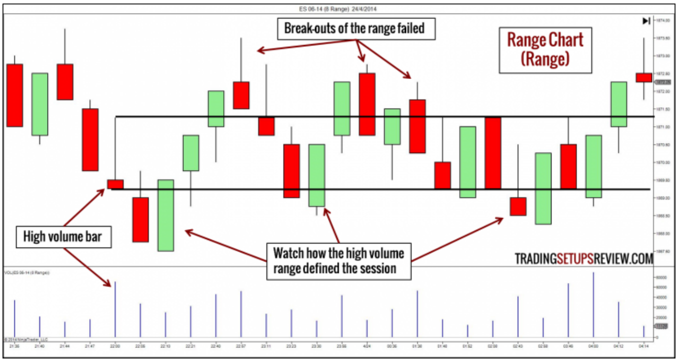
Trading with a Range Bar Chart

Due to the forced break after a fixed bar range, many bar and candlestick patterns disappear from a range chart. For instance, Harami patterns and inside bars will never show up on range bar chart. Of course, patterns like ID/NR4 and NR7 also become non-existent.

You will still find some patterns in range charts, and the prominent ones include:

- Doji
- Marubozu
- Pin Bar
- Engulfing Pattern

Combining a range chart with volume analysis is an interesting approach. As every bar has the same range, you can easily pick up the bars that attract a high volume. These bars are potential support or resistance levels. Look at the example below.



Range Chart (Range)

2.7 Point & Figure (P&F) Charts

Constructing a Point & Figure Chart

The first input of a P&F chart is the box size. For our example, let's use 4 ticks.

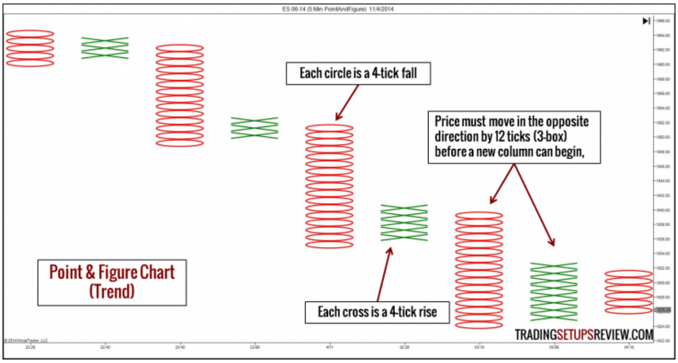
- When the market rises, we draw a rising column of "X". Each "X" represents 4 ticks.

- When the market falls, we draw a falling column of "O". Each "O" represents 4 ticks.
- Whenever the market reverses, we draw a new column. Hence, you will never see both "X" and "O" in the same column.

How do we know if a market has reversed?

This question brings us to the second input of a P&F chart. We need to decide on a reversal amount. The standard reversal amount is 3-box. This means that for a rising column to end and a falling column to start, the market must drop by 12 ticks (3 box times 4-tick box size).

Our examples are based on the closes of 5-minute bars. It means that we update the chart using the closing price of 5-minute bars. (Using the high/low prices of each bar is also an option.)



Point and Figure Chart (Trend)

Trading with a Point & Figure Chart

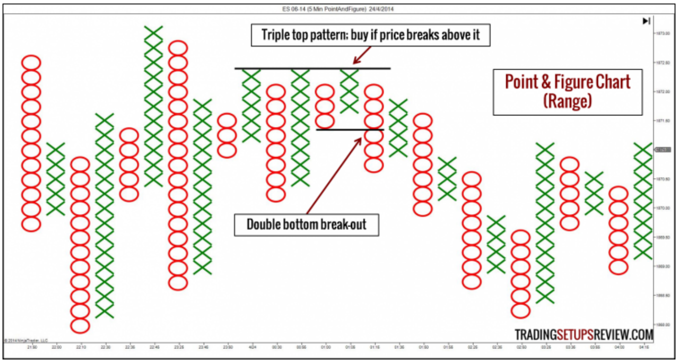
Our examples show intraday charts for ease of comparison with other chart types. The fact is, however, P&F charts are more commonly used in daily and above time-frames.

There are chart patterns specific to point and figure charting. While they are simple break-out patterns, you will need some practice before you can pick them out. The good news is that the P&F chart patterns have clearer definitions than their counterparts on bar charts. In addition, P&F charts offer unique methods for projecting targets.

Trading with P&F charts is an in-depth topic. Refer to the following books to learn more.

- The Definitive Guide to Point and Figure: A Comprehensive Guide to the Theory and Practical Use of the Point and Figure Charting Method
- Point and Figure Charting: The Essential Application for Forecasting and Tracking Market Prices

These authoritative books will also offer insights on how to set the box size.



Point and Figure Chart (Range)

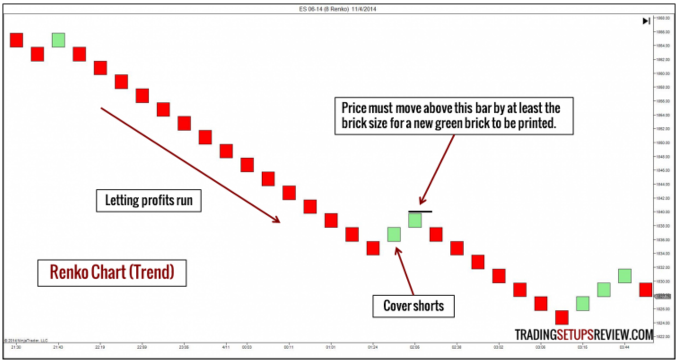
2.8 Renko Charts

Constructing a Renko Chart

Renko comes from the Japanese word for "brick". To begin, we must choose a brick size.

The chart prints a new brick when the market moves more than the brick size away from the preceding brick. (Like the P&F chart, we can focus on only the closing prices or the high/low prices of the underlying time chart.)

This means that a Renko chart does not display the exact price action. It filters away whipsaws that are smaller than the brick size.



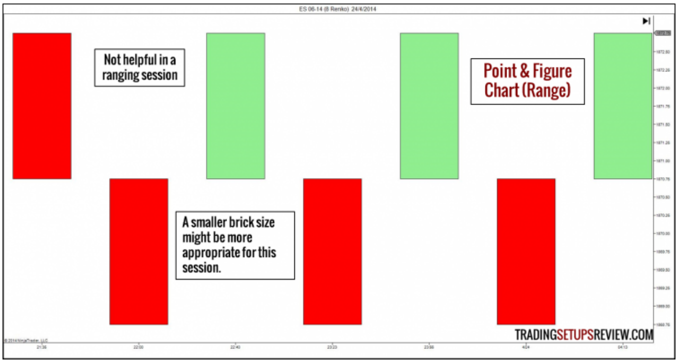
Renko Chart (Trend)

Trading with a Renko Chart

A Renko chart leaves no room for bar/candlestick pattern analysis. However, it excels at highlighting trends as it ignores "noise" movements that are less than the brick size.

Hence, we can use Renko charts for two purposes.

- Track trends on a higher time-frame with a large brick size setting. We can then take trades aligned with the Renko chart's direction using a smaller time-frame.
- Guide us in letting our profits run as shown in the example above.



Renko Chart (Range)

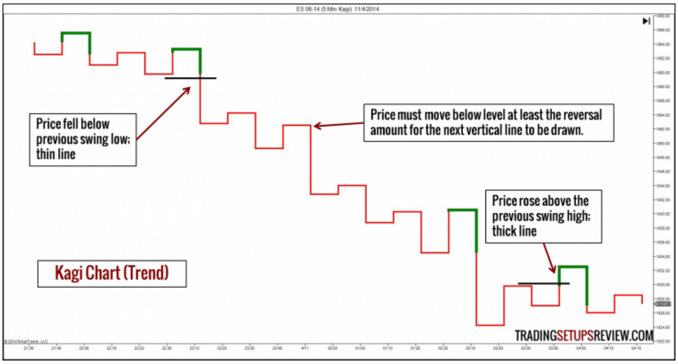
2.9 Kagi Charts

Constructing a Kagi Chart

The closest Western cousin of the Japanese Kagi chart is the P&F chart we touched on above.

However, a Kagi chart does not need a box size. All it needs is the reversal amount that you can specify in absolute price range or percentage change. Once price heads in the opposite direction by the specified reversal amount, the chart will change direction.

A distinguishing feature of a Kagi chart is the different line width. When the market goes higher than a previous swing high (shoulder), the line thickens (Yang line). When price breaks below a previous swing low (waist), the line thins (Yin line).

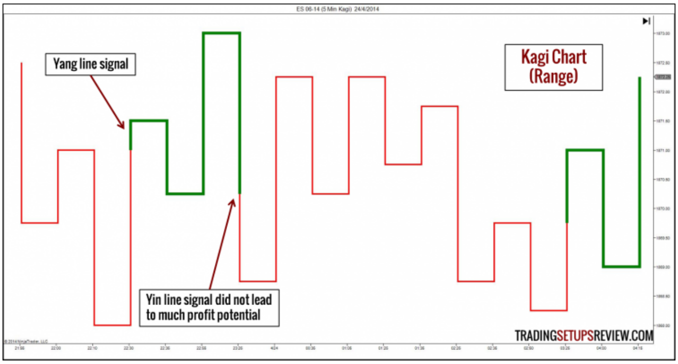


Kagi Chart (Trend)

Trading with a Kagi Chart

With the Yin and Yang lines, a Kagi chart highlights the break-out of swing highs and lows. Hence, it is unwise to rely on it in a sideways market in which most break-outs fail. (Refer to example below.)

However, it is especially useful for tracking the market structure of swing highs and lows. Thus, a Kagi chart is effective for finding support/resistance and tracking the market bias.



Kagi Chart (Range)

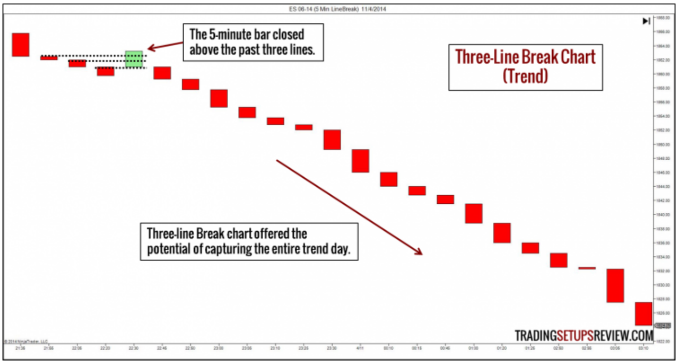
2.10 Three-Line Break Charts

Constructing a Three-Line Break Chart

A Three-Line Break chart is made up of "lines". These lines are plotted according to the closing prices of the underlying time chart. (In the first example, the underlying chart is the 5-minute chart.)

A new line in the same direction is made when the underlying time-based chart closes beyond the preceding line in the same direction.

A new line in the opposing direction is made when the underlying time-based chart **closes beyond the last three lines** in the opposing direction. This is where it got its name from.



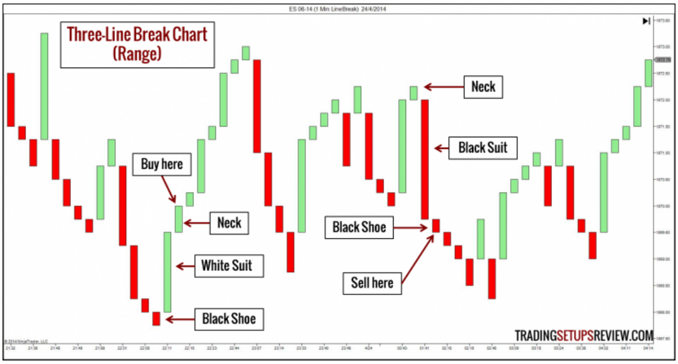
Three-Line Break Chart (Trend)

Trading with a Three-Line Break Chart

Standard trend line and support/resistance analysis will work well (or even better) on Three-Line Break charts.

While bar and candlestick patterns are not applicable, Three-Line Break charts offer a unique trading signal made up of three lines (black shoes, suits, and necks). A white suit means buy, and a black suit means sell.

Look at the chart below for examples. (We had to change the underlying time base to 1-minute for the trading signals to surface.)



Three-Line Break Chart (Range)

To learn more about the Renko, Kagi, and Three-Line Break charts, you should definitely refer to Steve Nison's Beyond Candlesticks: New Japanese Charting Techniques Revealed. It explains how to construct each chart type in detail together with practice examples.

2.11 What's Next?

Move Prudently with New Price Chart Types

Using a new type of price charts has great ramifications on your trading. Make sure that you understand the consequences of factoring it into your market analysis.

Remember that the bulk of technical analysis was, and still is, designed with time-based charts in mind. This means that their effectiveness might be undermined in alternative chart types. Of course, you might also find pleasant surprises as you try them out.

A sound way to start exploring a new price chart is to use it as a complement to your current chart type. In addition to getting a second opinion, you are able to compare their efficacy.

Checking out new chart types is certainly interesting. Initially, it might even look like a promising candidate for the Holy Grail. However, eventually, you will realise that every chart type has its drawbacks.

Check the Implementation of Alternative Price Charts in Your Charting Platform

While most charting platforms offer time-based charts, the availability of other chart types differs among platforms. Furthermore, the implementation of these alternative chart types might not be consistent, given their relative obscurity.

For instance, NinjaTrader's range bar charts have a gap between bars while the range bars in QuoteTracker do not.

Read your charting software's documentation. Ensure that you understand how your charting platform builds the chart and are comfortable with the formula that goes behind the chart plot.

Have fun!

Bonus Candlestick Chart Type: Heiken-Ashi

3. 4 Price Action Methods to Define the Intraday Trend: Part I

For all traders, the trend is the big picture. It is the rising tide that lifts all. For day traders, the intraday trend makes the difference between a session of windfall profits and one of major losses. By trading along with the intraday trend, we are following the path of least resistance to day trading profits.

As the trend is the big picture, it seems removed from current price action. Hence, many traders are tempted to leave price action out of the trend equation. They rely on a distant moving average to define the market trend and do not factor in price action. These traders are missing an important confirmation tool.

Using indicators to identify the intraday trend is reasonable. However, if we link them up with price action, we are able to enhance their prowess. Hence, in the first part of this two-part series, we will focus on using indicators with price action to track the intraday trend. In the second part, we will discuss two other methods to find the intraday trend.

3.1 Moving Average with Price Action

This method uses a 20-period simple moving average (SMA) with price action to clarify the intraday trend. Essentially, we are looking for a shallow pullback followed by a new high (low) to confirm a bull (bear) trend.

To confirm a bullish intraday trend, look out for the following conditions. The rationale for each condition is in brackets.

1. Price touches the moving average. (Establishes baseline. Useful for sessions that open with a gap.)
2. Price stays above the moving average for at least one bar. (Bullishness)
3. Price retraces down towards the moving average without making any bar high below the moving average. (Lack of bearish commitment)
4. Bull trend confirmed when price rises above the last extreme high. (Confirmation of bullish market structure)

To confirm a bearish intraday trend, look out for the following.

1. Price touches the moving average.
2. Price stays below the moving average for at least one bar. (Bearishness)
3. Price retraces up towards the moving average without making any bar low above the moving average. (Lack of bullish strength)
4. Bear trend confirmed when price falls below the last extreme low. (Confirmation of bearish market structure)

Let's take a look at an example from the NQ futures market.

Intraday Trend - Moving Average with Price Action

This session opened with a bullish gap.

1. Instead of guessing if the gap would start a new bull trend or close the gap, we waited for price to return to our benchmark SMA.
2. Price touched the SMA.
3. This bar stayed below the SMA, confirming the bearish momentum,
4. This bar made a higher bar high but could not even rise to test the SMA.
5. As the market fell past the last extreme low below the SMA, we confirmed a bear trend.

This intraday bear trend held up for the rest of the session, despite a 50% pullback in the middle of it.

Trading with just a 20-period moving average is an excellent starting point for any trader.

3.2 Price Channel with Price Action

In this second technique, instead of using a simple moving average of bar closes, we use two moving averages of bar highs and lows. The resulting lines form a price channel to help us clarify the intraday trend.

Jake Bernstein employed this concept in his Moving Average Channel Day Trade.

Since the indicator in this case is more complex, the interpretation rules are simpler. When two price bars stay completely above the channel, we define a bull trend. When two price bars stay completely below the channel, it's a bear trend.

Intraday Trend - Price Channel with Price Action

The example above shows how the price channel helped to define a change of intraday trend.

1. Although the market has risen sharply since this session opened, according to this method, we could only define a bull trend at this point.
2. These two bars changed the intraday trend to bearish.

There are different ways to build a price channel. Other than using moving averages of bar highs and lows, you can also use Keltner Bands and Bollinger Bands. As these price channels are constructed differently, you will need to adapt the rules for defining the intraday trend.

3.3 Finding the Intraday Trend - A Comparison

Both the SMA method and price channel described above use indicators to clarify price action, but in different ways.

By comparing them, we are able to understand both methods better. The SMA method focuses on finding lack of momentum on pullback to identify new trends. The price channel method finds powerful moves that lift the market beyond the price envelope to start new trends.

How do these two methods compare with the next two pure price action methods?

Read the next chapter to find out.

4. 4 Price Action Methods to Define the Intraday Trend: Part II

In the first part of this series, we discussed the role of price action in our analysis of the intraday trend. We also looked at two ways to define the intraday trend by combining simple indicators with price action.

Now, in this second and final part, we will look at the next two methods to decipher the intraday trend. These techniques focus on only price action.

4.1 Higher Time-Frames

As mentioned in the first part of this series, the trend is the big picture. It is a higher level perspective of the market. Hence, one popular method to determine the intraday trend is to look at the price action of a higher time-frame.

The example below shows how we used the hourly bar highs/lows to find the intraday trend for the 5-minute time-frame.

Intraday Trend - Higher Time-Frame

This chart shows the 5-minute time-frame in the top panel and the corresponding hourly chart in the lower panel.

1. This hourly bar made a lower low and confirmed a bearish intraday trend.
2. This bar made a higher bar high and turned the intraday trend bullish.

For more examples, refer to Kane's Stochastic %K Hooks Day Trading Strategy. It is a classic example of using a higher time-frame for intraday trading. It uses the hourly chart to assess the intraday trend before trading in the five-minute time-frame.

For multiple time-frame analysis, the Triple Screen System in Dr Alexander Elder's book "Trading for a Living" is also a great starting point. In his solid system, he recommends a factor of five when considering higher-frames. An example would include the 1-minute, 5-minute, and 25-minute time-frames.

4.2 Trend Line

Price action traders love trend lines. It is useful for both intraday and longer term analysis.

By linking up swing pivots, we get trend lines of varying slopes and importance. Trend lines highlight the market structure of swings and project their momentum and speed.

The basic interpretation of a trend line is that the trend reverses after it is broken. The example below shows how a broken bear trend line hinted at the later bull trend.

Intraday Trend - Trend Lines

This method is simpler in the sense that it does not use any indicators and focuses on one time-frame. However, to make it work, you will need to master the skill of drawing trend lines.

4.3 The Best Method for Finding Intraday Trend

No method of determining the intraday trend is perfect. There will always be instances when the market resumes its earlier trend just as we conclude an intraday trend reversal. There will always be cases when we confirm a trend only when it starts reversing.

Such instances are unavoidable. This is why we have trading setups to pinpoint entries and limit our risk.

Each of the four methods above has its specific drawbacks.

For the two methods that rely partly on indicators (discussed in part one), we need to decide on the look-back period of the indicators. Without a sensible look-back period, the indicators will add little value to our trend analysis. The suitable value depends on the market volatility which is ever-changing.

The higher time-time method then depends on our choice of the higher time-frame. Which higher time-frame reflects the intraday trend? The half-hourly and hourly charts are popular among day traders. But forex traders might prefer the 4-hour time-frame.

As for the trend line method, the clear challenge is in drawing meaningful trend lines. If we draw trend lines indiscriminately, we will find more whipsaws than trends. The crux is to draw consistent and relevant trend lines.

If you want to pick up a consistent framework for drawing trend lines, take a look at my "Day Trading with Price Action" course. With dozens of step-by-step examples, you will learn to read market swings and build them up to draw the trend lines that matter.

5. Day Trading With Only The 20-Period Moving Average

Day trading is a fast game with many factors. It is best to keep your trading method simple for effective trading.

For traders looking for simplicity, using only a 20-period moving average to day trade is a great option.

20 is not a magical number or the best kept secret in day trading. Basically, any intermediate period is useful for day trading. A long 200-period moving average lags too much and does not help day traders. A short 3-period moving average is almost like price itself and is mostly redundant.

As for the choice of moving average type, we are using exponential. But a simple moving average will work fine too. The key is consistency and do not keep changing the period or type of your moving average.

5.1 Using Moving Average For Market Context Analysis

Determining the price action context, whether the market is trending or in a range, requires discretion and experience. A moving average can help to clarify the price action.

These are some questions to help you clarify the context using a moving average.

1. Are prices above or below the moving average now?
2. How did prices get there?
3. Have prices been overlapping with the moving average?
4. What is the slope of the moving average?
5. Has the slope been changing often?

The answers to these questions cannot be interpreted in isolation. We need to integrate them to form an analysis.

Example of Using Moving Average for Price Action Context

The is an example with a 5-minute chart of NQ futures. It shows the first 20 bars of the session.

Day Trading with Moving Average Example

Let’s try to answer the guiding questions above.

1. Price is now above the moving average.
2. It got there after a bounce off the moving average. However, it has not exceeded the last swing high.
3. 7 out of the past 20 bars overlapped with the moving average. The bars that overlapped mainly had long bottom tails. The

bars that did not overlap the moving average were all above it.

4. The slope of the moving average is positive but not overly steep.
5. The slope of the moving average turned down momentarily at two instances.

Integration and analysis of trading context

Prices were mostly above the moving average and bounced from the moving average. These signs show that the **day has been bullish**.

However, the slope of the moving average is not steep and had turned negative at two instances. So, despite the bullishness, the **market is not in a strong trend**.

What are the implications of our analysis on our day trading?

We should only take long trades until there are bearish signs. But due to the lack of a strong trend, we should aim for nearer targets.

5.2 Moving Average Day Trading Setups

After analyzing the market context, we have to look for trade setups and the moving average is again a useful tool.

In a bull trend, buy when prices retrace to the 20-period moving average. In a bear trend, sell when prices pullback up to the 20-period moving average.

This chart shows the price action after our price context analysis.

Day Trading with Moving Average Trade Setup

The two-bar reversal at the moving average was a buy signal. As the context was bullish, we took the trade. However, as implied by our context analysis, we should not press for large gains.

We can also usecandlestick patterns with the moving average to pinpoint entries.

5.3 Trade Management

Although not applicable in the same example, the moving average is also a natural tool for placing trailing stops. The moving average follows the price trend but lags behind it.

Hence, a trailing stop based on a moving average locks in profit and at the same time gives enough room for whipsaw action.

5.4 Conclusion: Day Trading with Moving Average

Day trading with a moving average is a simple approach to capturing intra-day trends.

It is a valuable tool for traders learning price action. This because a moving average plots on the price chart itself and interacts with price itself. When we look at a moving average, we have to look at price as well.

Open a chart now and put on a 20-period moving average. If you practice enough, a 20-period moving average is possibly the only indicator you need.

6. How to Enter the Market as a Price Action Trader

Imagine that the market just formed a bullish two-bar reversal at a support area. Your assessment of the market is bullish. You decide to enter the market.

You click on your trading platform to enter the market with a ____________ .

a. Market order
b. Stop order
c. Limit order
d. Is there a difference?

There are many discussions of trading with price action patterns (bar and candlestick patterns) and support/resistance. But most gloss over the technical aspect of exactly how to enter the market.

6.1 Common Trading Order Types

Most trading platforms offer three order types: stop order, market order, and limit order.

Let's start with the distinction between a market order and a limit order.

Market Order

A market order is executed immediately. But you do not know what price your order will be executed at.

Its execution is guaranteed, but the price is not.

Limit Order

A limit order must be entered with a limit price. You can only place a buy limit order below the market price. (Placing a limit order above the market price turns it into a market order.) Similarly, you can only place a sell limit order above the market price.

If the market lets you in at the limit price, your limit order will be filled. If the market does not hit your limit price, your order will not be executed. The implication of a limit order is the opposite of a market order.

While you know the price your order will be filled at (if it does), you have no assurance that it will be filled.

Stop Order

Once you understand the difference between a market order and a limit order, you will find it easy to learn what is a stop order. A stop order is a conditional market order.

A buy stop order is placed at a price level above the market price. (A sell stop order is placed below the market price.) When the market hits that price level, the stop order becomes a market order to be executed immediately.

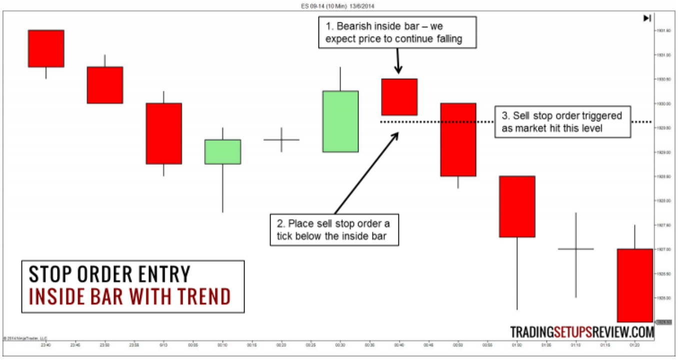
Note that a stop order becomes a market order when triggered. This means that the fill price is not guaranteed.

6.2 Price Action Trading Entry Techniques

Simply put, stop orders are for trading break-outs and limit orders are for fading them.

Break-Out Trades - Stop Orders

If you think that price will continue in the same direction after a break-out, use stop orders.



Price Action Trading Entry with Stop Order

The chart above shows a snapshot of a bearish market.

1. Bearish inside bar. We expected the market to fall further after breaking below the inside bar.
2. Placed a sell stop order a tick below the bearish inside bar
3. Sell stop order triggered as the market breaks down below the inside bar.

In this case, we are using a sell stop order to trade the break-out of an inside bar. We can also use stop orders for trading the break-out of any other price action formations. They include price patterns, swing pivots or any other support/resistance levels.

Stop orders offer the advantages of confirmation and efficient execution.

Stop orders are only triggered on break-outs. The break-out serves to confirm our market assessment. Hence, with stop orders, we are entering the market with confirmation. If the confirmation (break-out) does not occur, we will not enter the trade.

Moreover, it is the most efficient way to trade break-outs. If we waited for the break-out before entering a market order manually, we might suffer great slippage. However, with a stop order, the break-out automatically turns the stop order into a market order to be executed right away. Although we might still suffer slippage, using stop orders still beats manual entry of market orders.

When I trade price patterns, I prefer to use stop orders. This is because price patterns are break-out signals. Price patterns are hints that price would break-out and continue in a direction. Bullish patterns point up and bearish patterns point down.

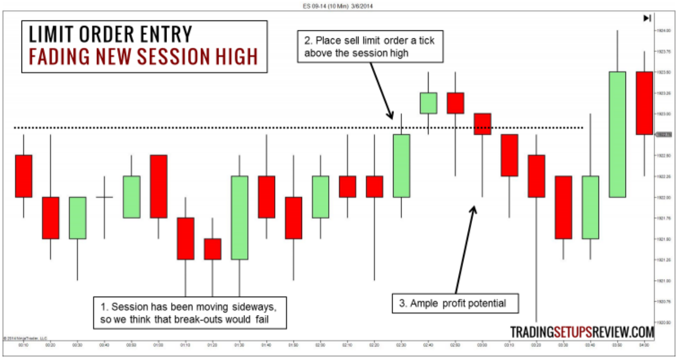
(Unless, I expect that they will fail and want to fade them.)

Fade Trades - Limit Orders

If you think that price will reverse its direction after a break-out, use limit orders.

There are two typical scenarios. You might want to fade break-outs of a price range. Or, you might want to fade a counter-trend move.

The example below shows the first scenario.



Price Action Trading Entry with Limit Order

1. This trading session has moved nowhere since it began, forming a tight trading range.
2. As we expected break-outs of this tight trading range to fail, we placed a sell limit order just above the session high. As price surged up, our limit order was triggered.
3. Having our order filled just above the trading range, we had plenty of profit potential.

When trading a tight trading range, limit orders are ideal. If not, your profit potential might be severely handicapped.

Entering the market with limit orders is an advanced technique. This is because, at its core, limit orders represent a bet against the most recent market movement. At a micro level, using limit orders is reversal trading. And reversal trading is always tricky.

But if you are able to use limit orders wisely, they offer a great timing advantage with little adverse movement. With a well-placed limit order, you need not suffer more than a couple of ticks of paper loss throughout your trade.

6.3 More Considerations for Price Action Entries

The general rule is use stop orders for break-outs and limit orders for break-out failures.

But the overriding principle is to use what is consistent with your trading strategy.

If your trading strategy dictates a certain entry method, follow it unless there are reasons to tweak.

Entry methods, like any other parts of a trading strategy, can never be perfect. Do not seek the perfect entry method. Simply understand their implications and trade-offs.

7. 4 Trading Strategies That Profit From Trapped Traders

Why do we need to understand the concept of trapped traders? What are trapped traders?

We want to find trapped traders because trapped traders lose money. If we find them and take advantage of the order flow they create, we can take their money from them.

There are two types of trapped traders. We can easily empathize with them because at some point in our trading, we were trapped traders as well.

7.1 Two Types of Trapped Traders

Trapped in Losing Positions

The first type of trapped traders are trapped in a losing position. What do they have to do eventually?

They must exit their positions as dictated by their stop-loss orders.

Trapped out of Winning Positions

The second type of trapped traders are trapped out of winning positions.

For instance, you are in a long position and prices dropped and hit your stop-loss order. Almost immediately after you got stopped out, prices shot up again moving quickly up towards your original price target.

What would you have done?

Probably, you would chase after the market and try to get into the move.

7.2 Day Trading Strategies With Trapped Traders

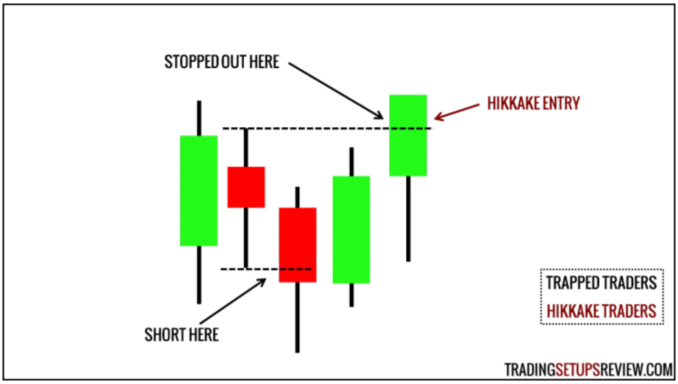
Trapped traders are not a new concept in trading. In fact, there are many trading patterns that rely on trapped traders.

We have reviewed the follow trading strategies before. Here, we will point out the trapped traders in each trading setup. This will allow you to focus on the high quality trading setups with a healthy amount of trapped traders.

Hikkake Trading Strategy

Hikkake is an inside bar failure trading strategy. It waits for a breakout of an inside bar to fail. Then, Hikkake traders enter as the breakout traders are getting out of their positions.

This diagram shows the different perspectives of the trapped traders and the Hikkake traders.



Hikkake Trapped Traders

If you understand the concept of trapped traders, you will know why Hikkake works exceptionally well.

Inside bars are narrow bars which means less trade risk. Traders love to lower their risk, and will not give up a low-risk inside bar break-out trading setup.

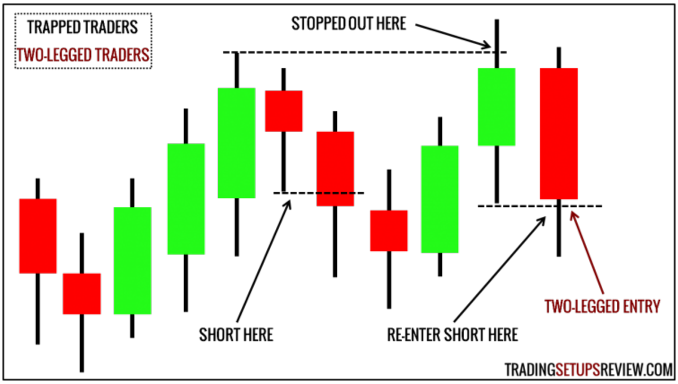
What does this mean for the Hikkake trader? It means more trapped traders, and higher chance of success.

So what is the first step to find high probability Hikkake setups? Find the best inside bar trading setups. Then wait for them to fail.

Two-legged Pullback in a Trend

Another well-known price action trading strategy is the two-legged pullback in a trend.

The diagram below shows the perspective of trapped traders. The two-legged pullback starts from the low of a down trend.



Two-Legged Trapped Traders

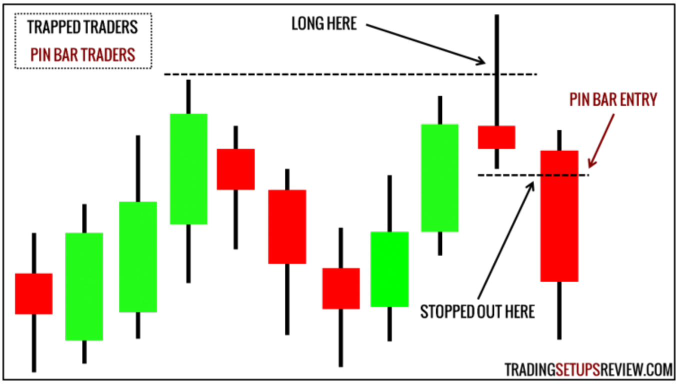
The power of two-legged pullbacks stems from the trapping of two groups of traders. This diagram shows only one group.

You can try to figure out where the other group of trapped traders are and how they went into the trap. (Hint: They went against the down trend.)

Pin Bar Trading Strategy

The pin bar really goes the distance to trap traders by poking up above a swing high or below a swing low.

Not only that, its long tail confirms that a nice trap is present.



Pin Bar Trapped Traders

The best pin bars are those that went beyond major swing highs and swing lows. This is because many traders enter or exit their trades at major swing highs and lows. These traders, if trapped, will fuel our blast to profits.

Trend Bar Failure

Earlier, I shared a simple price action trading setup based on trapped traders with our newsletter subscribers. Its simplicity makes it one of the most versatile and effective price action pattern.

This setup is included in the "How to Trade with Price Action (Strategies Edition)" eBook.

7.3 Conclusion - Traders' Trap

One simple way to improve your trading with these trading strategies is to change your perspective.

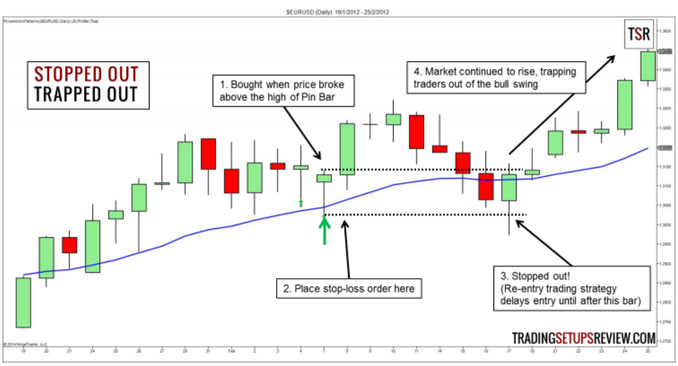
Think like trapped traders but do not act like them. It is not that difficult because all traders, including you and me, were once trapped.

Once you think like a trapped trader, you will be able to find the high quality trading setups using these 4 trading strategies.

8. Forex Price Action Re-Entry Trading Strategy

Re-entry trading is a high probability trading concept in my course - "Day Trading with Price Action". It is a simple but powerful concept that works in all markets. In this article, I will explain it with price action patterns in the forex futures markets.

Does the following experience sound familiar?



Stopped Out and Trapped Out

1. After carefully studying the market bias, you took a long Pin Bar trade in the EUR/USD forex market.
2. Accordingly, you placed a pattern stop just below the Pin Bar.
3. Shortly after, the market fell and hit your stop-loss order.
4. Almost immediately after you got stopped out, the market leapt up again.

If you were nimble and alert, you might have re-entered the position. If not, you might have been left standing in the dust while the market blazed ahead without you.

In any case, you would be frustrated and have suffered a loss due to the first original Pin Bar entry.

Thus, in the re-entry trading strategy, we aim to skip the first entry and enter the market only upon the "re-entry" opportunity. A re-entry opportunity often offers a higher probability of success.

Essentially, while our trading premise is the same, we delay our trade entry.

A re-entry trading strategy takes the following form:

1. Find a trading setup with any price pattern. (Original setup)
2. Do not take the original setup.
3. Wait for the traders of the original setup to be stopped out.
4. Enter as the market reverses and moves in the direction of the original setup.

As the traders of the original setup were stopped out, they would need to seek a re-entry. In other words, they were trapped out of their positions and had to re-enter. Their re-entries would help to push the market in our favour.

8.1 Trading Rules - Forex Price Action Re-Entry

In this set of trading rules, we will use the Pin Bar, a popular forex price action pattern, as our basis for re-entries. You can replace it with any other price action pattern.

Long Re-Entry Trading Setup

1. Look for a bullish Pin Bar
2. The next bar must move above the high of the Pin Bar

3. The market must fall below the low of the Pin Bar (but not too far below)
4. Look to buy when price breaks above any bullish bar

Short Re-Entry Trading Setup

1. Look for a bearish Pin Bar
2. The next bar must move below the low of the Pin Bar
3. The market must rise above the high of the Pin Bar (but not too far above)
4. Look to buy when price breaks below any bearish bar

Explanation of Trading Rules

1. Original setup (do not take)
2. Original setup triggered
3. Original setup stopped out
4. Confirmation that the stop-out was a false alarm ("re-entry")

8.2 Forex Price Action Re-Entry Trading Examples

In these examples, the blue line is the 20-period EMA. The Pin Bars shown are marked out with our Price Action Patterns Indicator. (Get the indicator for free.)

Winning Trade - Bullish Re-Entry (6E Forex Futures)

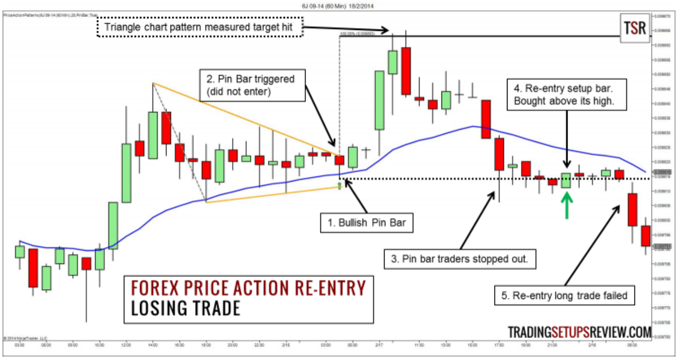
Forex Price Action Re-Entry Trading Strategy (Winning)

This is a 30-minute chart of the 6E forex futures (EUR/USD).

1. A bullish Pin Bar bouncing off the EMA. It was a decent setup, but in our re-entry trading strategy, we do not take it.
2. As the market rose above the Pin Bar, some traders initiated their long positions.
3. Two bars later, price fell and hit stop-loss orders placed around the low of the Pin Bar (a common pattern stop level).
4. The market recovered quickly and offered a re-entry chance with a second bullish Pin Bar. We bought as price broke above its high.

After our entry, the market rose with a strong thrust.

Losing Trade - Bullish Re-Entry (6J Forex Futures)



Forex Price Action Re-Entry Trading Strategy (Losing)

This is an hourly chart of the 6J forex futures (JPY/USD).

1. A bullish Pin Bar bouncing off the EMA after finding clear support around it.
2. The Pin Bar was triggered and some traders went long. (not us)
3. After overshooting the last trend high, price fell and hit stop-loss orders placed at the low of the Pin Bar.
4. As buying pressure emerged (lower shadows), we bought as the market rose above a bullish Marubozu.
5. The market meandered for a few hours before falling again, resulting in a loss.

This losing trade has a stark difference with the winning instance. The losing instance's re-entry occurred below the moving average. It was a hint that the market bias was no longer bullish. On the other hand, the winning example's re-entry setup bar had the support of the moving average.

Moreover, the market has hit a target projected from a triangle chart pattern (orange lines). Since the original setup took place with the break-out of the triangle, the projected target held sway. After the projected target was hit, some traders took their profits and closed their long positions. It follows that when the market fell down, fewer traders were stopped out and trapped out. Hence, the re-entry approach was not ideal in this case.

8.3 Review - Forex Price Action Re-Entry Trading Strategy

The re-entry trading strategy is a simple method to enhance the probability of any price action pattern. Generally, good re-entries occur soon after the original setup.

The re-entry trading strategy is versatile as you can use any price pattern as its basis. Thus, it is easy to look for re-entry trading setups using the price action patterns you are already familiar with. All it takes is patience. Skip the original entry and wait for the re-entry.

Like many other trading methods, it is not mechanical. It is a discretionary approach to trading that focuses on prudence and patience. Always consider the market bias before using the re-entry trading strategy. It is not meant for use in isolation.

Using a re-entry trading strategy in forex trading has its trade-offs. The main drawback is fewer trading opportunities. At times, the market takes off without offering a re-entry opportunity. In such cases, we miss out on the profits. This is a necessary sacrifice for better forex trading odds.

If you tend to overtrade, I strongly recommend that you adopt this re-entry trading approach. It offers a trading technique that lowers trade frequency and increases probability of success.

Go ahead and try this concept in markets beyond forex.

9. Price Action Trading Tips from the Reminiscences of a Stock Operator

"Reminiscences of a Stock Operator" by Edwin Lefevre recounts Jesse Livermore's legendary trading career with its dramatic turns. It is a book about the life of a great trader, written from a first-person narrative of Edwin Lefevre.

Jesse Livermore did not trade with charts. He read prices printed on tape. He was a tape reader who focused on price action.

Jesse Livermore might not be a star fund manager, having gone broke several times. But his intuition and market perspectives offer great insights for any aspiring professional trader. In Alan Greenspan's "The Age of Turbulence: Adventures in a New World", he mentioned the "Reminiscences of a Stock Operator" as a "font of investing wisdom".

All in all, this book is a classic because of its trading wisdom. If you read it looking for exact trading methods, prepare for disappointment. Nonetheless, there are practical price action trading tips we can distill from this book on the legendary stock operator.

9.1 Price Action Tip - Start with the Broad Market Trend

> I think it was a long step forward in my trading education when I realized at last that when old Mr. Partridge kept on telling the other customers, "Well,

> you know this is a bull market!" he really meant to tell them that the big money was not in the individual fluctuations but in the main movements that is, not in reading the tape but in sizing up the entire market and its trend.

In summary, the money is in tracking the entire market and its trend.

Practically, we can adopt a macro perspective by:

- Starting our analysis with broad markets. For instance, if you trade stocks, find out the trend of the stock market index before looking at individual stocks.
- Examining the market trend with trend lines and support and resistance.

9.2 Price Action Tip - Aim to Trade Large Impulse Swings

> I began to realize that the big money must necessarily be in the big swing.

Look out for the next big swing instead of getting obsessed with small fluctuations.

Practically, we can capitalise on large impulse swings by:

- Finding long trading setups when the next resistance area is far away, and short setups when the next support area is far away.
- Letting our profits run. If we are trading large swings, our exit strategy must allow it. If we exit with a small profit each time, we are unable to reap the profits of large swings.

9.3 Price Action Tip - Understand the Difference between Trend and Timing

> Was I fundamentally wrong in being bearish or merely temporarily wrong in having begun to sell short too soon?

There are two types of "wrong trades". We can be wrong about the trend or the timing.

Practically, we can use timing to our advantage by:

- Recognising the difference between getting the trend wrong and getting the timing wrong (whipsaw).
- Using price action patterns (bar patterns and candlestick patterns) to time our trades.
- Placing a pattern stop-loss order. A pattern stop-loss order is just below a bullish pattern or just above a bearish pattern.

9.4 Price Action Tip - Do not Overtrade

> Nobody can catch all the fluctuations.

In analysing the market, price action traders use fewer or no indicators. Thus, they tend focus on every price tick, every price bar, and every market swing.

New price action traders might mistake this constant analysis of price as a technique to catch every price swing in the market. Regardless of your trading style, trying to profit from every market swing is not only exhausting, but also impossible. It results in overtrading which usually leads to a plunge in your trading capital.

Practically, we prevent overtrading by:

- Understanding that even the best traders like Livermore do not catch all market swings.
- Having clear trading rules for entry.
- Limiting the number of trades within a given period. Day traders who overtrade should try taking one good trade a day.

9.5 Price Action Tip - Avoid Reversal Trades

> Obviously the thing to do was to be bullish in a bull market and bearish in a bear market.

It's self-explanatory.

Practically, we can stay on the side of the general sentiment by:

- Trading the trend.
- Using tools like longer-term moving averages and trend lines drawn with major swing pivots to highlight the current state of the market.

9.6 Learn more about Price Action Trading from Jesse Livermore

These five price action trading tips are snapshots of the value you can derive from studying Jesse Livermore. As you are the master of your trading strategy and style, reading the book will give you further great ideas to improve your personal trading.

For books that spend less time narrating Jesse Livermore's life and more on his trading techniques, take a look at these two books.

- Jesse Livermore's Methods of Trading in Stocks (Richard Wyckoff)
- How to Trade in Stocks (Jesse Livermore)

10. 3 Useful Tips for Intraday Price Action Trading

Price action trading is especially useful for day traders. This is because in day trading, timing is crucial. By timing your entries with market tipping points, it is possible to profit from swift trades.

Price action offers the natural tool for timing market entries. Even when we are wrong, well-timed entries help to limit our losses. Thus, bar patterns and candlestick patterns are getting more popular among intraday traders.

However, an astute price action trader's ability extends far beyond price patterns.

Here are three price action trading tips for intraday traders.

10.1 Avoid Tight Congestion

Avoid trading when the market is showing a tight congestion. A tight congestion area hardly offers any high probability trades with solid reward-to-risk ratio.

Some day traders are anxious to make money. Hence, they often aim for unrealistic profits. This behaviour is exceptionally damaging when the market is congesting.

If you try to squeeze a 10-tick profit from a 5-tick trading range, you are wasting your time on the impossible. You end up clocking up more losses. Scalping for a couple of points might make sense but is a tedious trading strategy. Moreover, scalping is definitely not for beginners. Hence, do yourself a favour and take a break when the market is in a tight congestion.

How do we know when a market is in a tight congestion?

Each trading session has a volatility pattern. The market tends to show wilder movements at certain times of the day and tends to move in a subdued manner at other times. This volatility pattern provides a guide to the low volatility hours when congestions are more likely to occur.

Usually, a trading session starts and ends with high volatility. Towards the middle of each session, the market might enter into a congestion phase.

Intraday Price Action Trading - Avoid Tight Congestion

The chart shows 10-minute bars in the ES futures market.

1. The trading session started with nice long swings.
2. Towards midday, the market started to congest with small candle bodies. It was unwise to look for trading setups here.
3. After a clear break-out like this bullish thrust, we could look to buy again.
4. The market continued to drift upwards without further congestion.

The example above shows a typical intraday volatility pattern. The volatility pattern might differ among markets. The best way to grasp the volatility pattern is to measure the average range of an hourly (or half-hourly) price bar. For forex traders, there are several free tools online that calculates the hourly range of different currency pairs.

The clear-headed price action trader can also recognise congestion price patterns as they form. Congestion patterns occur when the market fails to close higher (lower) for at least three consecutive price bars.

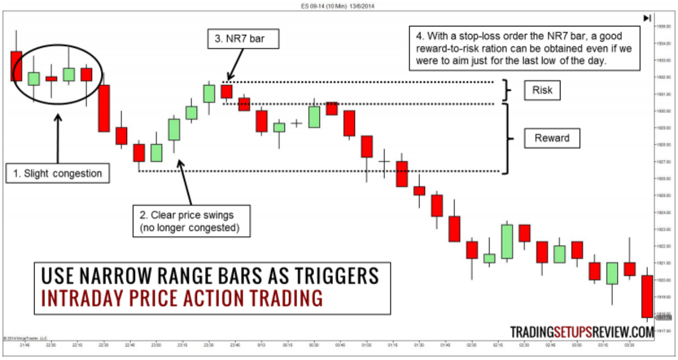
Once you find that the market is in a congestion phase, stop trading.

10.2 Use Narrow Range Bars to Limit Risk

Narrow range bars are windows of opportunities. They offer efficient trades that risk little and are likely to produce quick profits.

(Limit your risk with the NR4/ID and NR7 trading strategies.)

There is an important exception to this price action tip. Do not trade narrow range bars within a tight congestion. Narrow range bars are characteristic of tight trading ranges which are not conducive for trading. **Hence, do not trade narrow range bars indiscriminately**.



Intraday Price Action Trading - Use Narrow Range Bars as Triggers

This example shows a NR7 trading setup.

1. The trading session started with a minor congestion. Narrow range bars here were not ideal signal bars.
2. However, the market quickly emerged out of the congestion.
3. A bullish pullback ended with a NR7 bar.
4. Even with a conservative target placed at the last extreme low, this NR7 trading setup offered a healthy reward-to-risk ratio.

10.3 Do Not Go Against Price Momentum

One of the worst behavior of a day trader is to trade against a trend day.

A trend day is one that opens near one extreme of the trading session and ends near the other extreme. A bullish trend day opens near its low and closes near its high. A bearish one opens near its high and closes near its low.

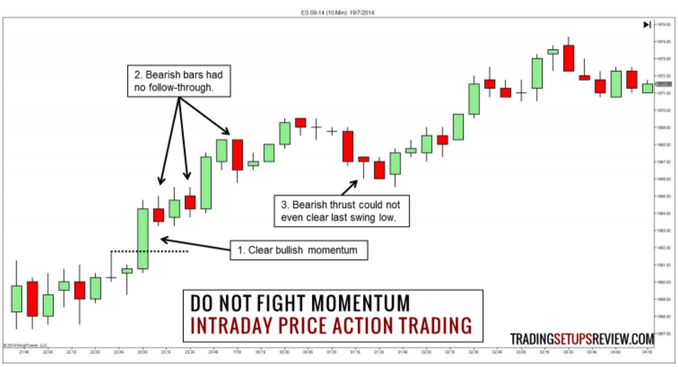
In a trading session that does nothing but rises, shorting again and again is the worst trading strategy. Yet many intraday traders do just that. There are two reasons underlying such destructive behaviour.

First, these traders refuse to accept the fact that they might be wrong. They think that the market must be going down. They cannot be wrong. So they short again and again.

Second, they are tempted by the prospect of selling at the top of the trading session. For some reason, they want to be dramatic heroes and not rich winners.

To avoid fighting such losing battles, look for price momentum. The definition of momentum is the rate of change of price when used in technical indicators. **Here, I use "momentum" as a loose term for the strength of a market swing.**

To recognise price momentum, pay attention to how the market reacts as it hits the last swing high or swing low.



Intraday Price Action Trading - Do Not Fight Price Momentum

This example shows a bull trend day.

1. This bar cleared above the last swing high with strength.
2. The potential for a trend day was apparent as these bearish bars generated little interest.
3. The strongest bear thrust of the trading session could not even push past the last swing low.

These are signs of bullish momentum. They are crystal clear to price action traders. It was not a day for short positions.

Do not trade against price momentum.

10.4 Stay Out Of Trouble With These Intraday Price Action Trading Tips

Two out of the three tips above are about staying out of trouble.

Do not trade when the market is in a tight congestion. Do not trade against the market momentum.

For intraday trading, it is often more important to minimise the number of bad trades than trying to catch the trade of your lifetime. Focus on trading only when the market conditions are ideal.

11. What's Next?

You are now ready to explore price action by observing real markets. Test your understanding in simulation trading. Do not be too quick to jump into live trading.

Want to consolidate your learning?

Here are some recommended options.

11.1 How to Trade with Price Action (eBooks)

You have just completed the Master Edition of this 3-book series.

If you want to review or clarify the basics of price action trading, read the Kickstarter Edition. It gives you a solid foundation with basic price action concepts and terms that will bring you a long way.

For concrete trading strategies, the Strategies Edition contains 10 price action trading strategies that focus on price patterns and minimal indicators.

Click here to download the 3-book "How to Trade with Price Action" series for free (or pay what you want).

11.2 How to Trade with Price Action (Online)

The "How to Trade with Price Action" eBooks are compilations of selected articles on Trading Setups Review and are updated periodically.

For our latest articles on price action trading, visit our website now.

11.3 Day Trading with Price Action Self-Study Course

Interested to learn the complete price action trading framework I use to trade? Take a look at my self-study course.

Click here to learn more.