NetPicks

Income Indicators

Using Price Action to Create a Lifetime of Trading Income

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Introduction

Congratulations. Welcome to your requested strategy guide "Income Indicators: Using Price Action to Create a Lifetime of Income"

Take your time reading each of these guides.

You'd be surprised how powerful indicators based on price action can be to help guide your trading.

Indicators on their own are not enough to develop a complete trading system. However, they are the baseline of any successful technically based trading system.

Income Indicators...

Just some of what we will be covering...

- How to Profit from Volatility in Your Trading
- Surfing the ranges - learn how to profit from range based markets
- Day trading too tiring? Learn how to Swing Trade with the MACD instead
- The art of using the Keltner Channel - we built a whole trading system on this one indicator

At NetPicks, we've spent 21 years developing active trading systems for people just like you. All of our systems use indicators. Most times we use standard indicators combined with our own proprietary indicators to create a complete trading system. The "Trade Plan" is key with every successful system.

I think you'll see what is possible with indicators and price action and then I urge you to watch your email for more information and education from us on our fully developed trade systems.

Mark Soberman, NetPicks.com

Find High Probability Trading Setups At These 4 Locations

Shane Daly

You have heard about high probability trading setups and you probably wonder if they really exist. Often times that term is used by marketers that say their trading strategies are high probability hoping to hook the novice trader with those words.

Let's define what that probability means:

Probability is the measure of the likelihood that an event will occur.Probability is quantified as a number between 0 and 1 (where 0 indicates impossibility and 1 indicates certainty). The higher the probability of an event, the more certain that the event will occur. - Wikipedia

I think the term "high probability trading setups" is misleading because it implies that whatever setup that is being referred to does not just have a probable outcome, but the outcome is close to certain.

There is nothing certain in trading.

When we talk about a trading edge, and the edges in the market are quite small, we are still talking about a random distribution of wins and losses throughout the use of the trading technique.

Semantics?

Perhaps.

In trading though, I think **being exact in your thoughts** is very important. Take support and resistance as an example. When price is coming down to a certain level that has rejected price in the past, we don't know if price will hold. Using the term "potential" support is more exact and reminds you that certainty does not exist.

Do High Probability Trading Setups Even Exist?

If I was forced to use that term in relation to trading, there is only a few place that I would refer to for a high probability trading event.

There are many good trading entry setups out there, but few of them stipulate where or when to use them. Sure, some of them might use another trading indicator as a filter but that's not always enough to consistently increase the probability of a setup.

If you can identify where a market has the **most directional potential energy,** you will find something close to a high probability trading setups.

Obviously in order to take advantage of any move in the market, you must have a **trading system that has a positive expectancy**. In order to understand the potential of your trading setup, there are basic trading performance metrics that are required to adequately assess your back tested trade plan, trading system and track your progress as you trade it.

Potential Directional Energy Can Drive Your Trades

The markets have a varying degree of potential to make a concerted move in a single direction depending on a variety of factors.

Think about this for a moment. If a trader believes there is a good chance for a directional move from a particular price, they may decide to take a trade if they get a setup and see what they need to in order to be convinced that the opportunity is a good one.

If many traders believe in an opportunity, the chances that their **combined action will precipitate the expected move**, are far greater.

Of course, directional moves can start from anywhere. However, they tend to start from key prices and times.

For example, consider a market that's been in a trading range for the last week or so. It's currently trading towards the upper end of the range and there's no particular reason, such as news or economic data that's just been released, to believe that there's an imminent change.

At the high of the range, there's **the maximum potential for price movement possible, without the need for the balanced ranging behavior to change**.

In this scenario, it's quite likely that there will be many traders who are persuaded by the location and the fact that there's not been a change in the context which created the recent range, to take the opportunity.

This doesn't mean they are right. But if they are, they should get a nice move for them and if they're not, **they don't have to risk too many ticks in order to find out**.

If you take trades when a market is poised like this, you're **maximizing the probability of your particular trading technique**.

Let's take a look at some examples of where and when a market might have a decent amount of potential directional energy.

1. Look At The Primary Trading Session Open For Trading Setups

For many markets, the primary session open is naturally a time when there's a good chance to see a decent move. This is because participants are at their **most active** at this time. You can easily see this in a volume or range heat map such as this one for Crude Oil.

	Average of Volume						
	15min Bar	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday
	07:15		934	1183	1118	1188	1136
	07:30		1059	1262	1200	1315	1160
	07:45		1287	1533	1406	1592	1391
	08:00		1442	1739	1572	1823	1548
	08:15		1843	2218	2024	2076	2077
	08:30		1992	2464	2442	2467	2221
	08:45		2750	3776	3621	4873	5702
	09:00		3285	4204	3890	4618	4693
Pit Open	09:15		7932	9183	7971	9453	8847
	09:30		5521	6715	5561	6658	6302
	09:45		7342	9294	7763	8670	8090
	10:00		6687	8182	6990	7752	8047
	10:15		8055	9318	7643	9385	8704
	10:30		6382	8117	5980	7099	7691
Inventories	10:45		6386	7969	19304	7567	7508
	11:00		6331	7693	10612	7397	6904
	11:15		6435	8019	9688	8973	7342
	11:30		6328	7702	9140	8267	7046
	11:45		5502	7034	8206	7008	6276
	12:00		4716	6074	6782	6060	5518
	12:15		4538	5719	6185	5770	5327
	12:30		4225	4993	5494	5131	4666

High Probability Trading Setups At Market Open

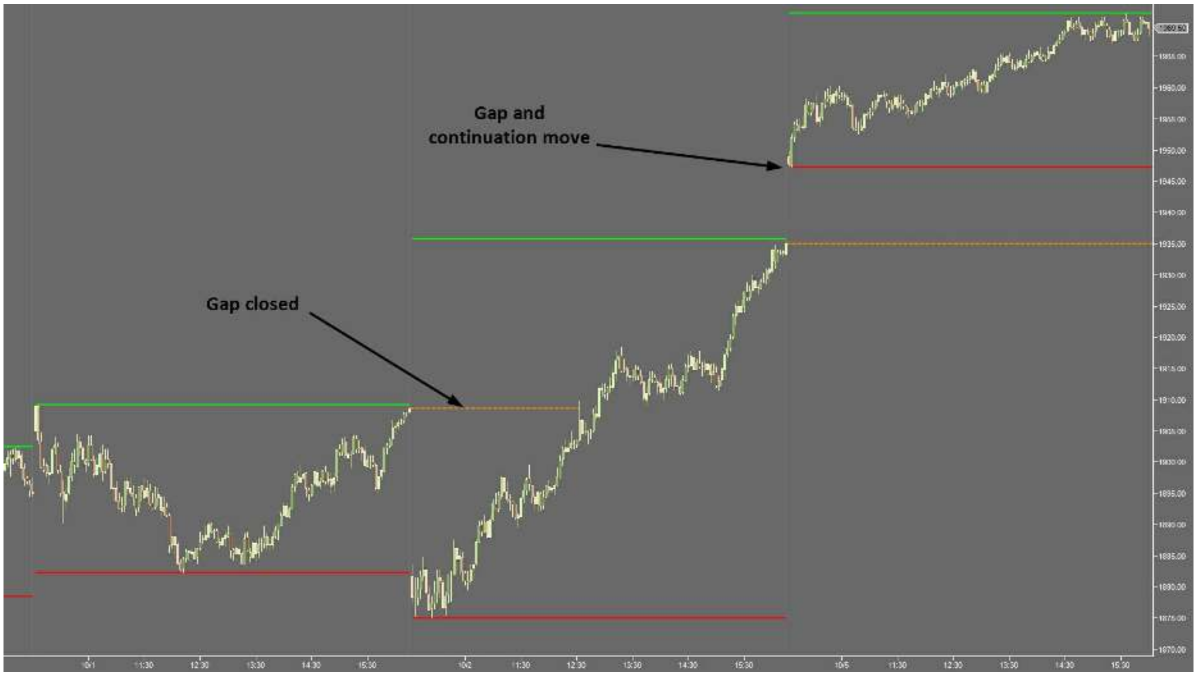
In particular, if a market is opening some distance from the where the majority of the prior session's trading activity executed, **either the market is going to correct and retrace back to this zone or there's a reason why it's moving away and the move could continue**.

2. Session and Range Gaps Make For High Probability Trades

In the same way, a market that has gapped away from the closing price, ideally beyond the high or low of the prior session, is showing that either it's moving strongly in that direction and is likely to continue or traders have got ahead of themselves and will need to cover their positions as the market retraces the gap.

In general, gaps are most prominent when charting the primary market session. They also tend to be the most important. Once a gap starts to close, **it often closes or at least pushes a significant way**. A failed test into the gap and new extreme on the opposite side for the day, **often leads to a gap continuation**.

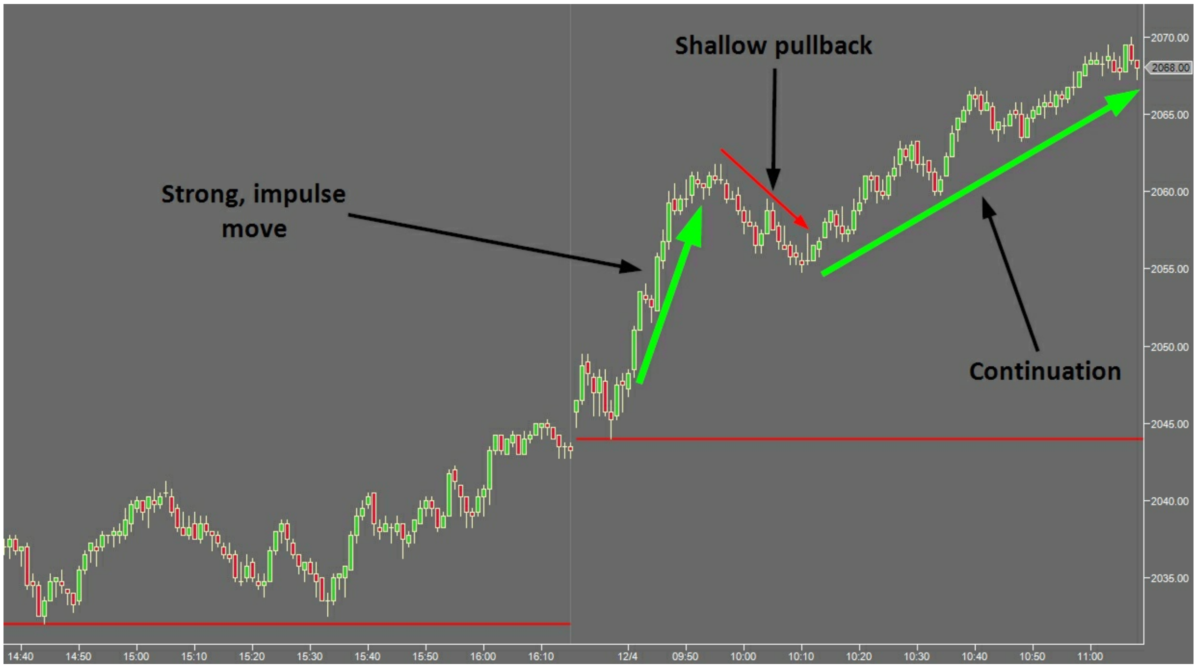
Here's a chart with two examples in the ES – one gap close, one gap continuation.



Use Gaps To Find High Probability Trading Technique Areas

3. Strong Impulse Moves Can Lead To Another For A Possible Trading Setup

When you get a strong move in a market, **there's often at least a secondary attempt in the same direction**, following the pullback. Recognizing this, a trader can look for a setup that could be classified as a high probability trading setup by virtue of the momentum in the market, to take advantage, once the pullback starts to roll over.



Impulse Moves Often Lead To Another

The caveat to this is that you need to understand what a big move is for the time frame that you personally trade. A 20 tick move might be huge on a 233 tick chart for some products, but if you're trading a 610 tick chart, it might be the norm. Do the stats work in Excel so you know what's abnormal.

4. High Probability Trading Setups With Balanced Or Ranging Markets

Balanced or ranging markets, have at least two reliable places where something is bound to happen at. **These are the extremes of the balance**. This can mean the high and low of the range or like in the FTSE example below, the pattern which defines the balance.

Balance Areas For Better Trading Setups

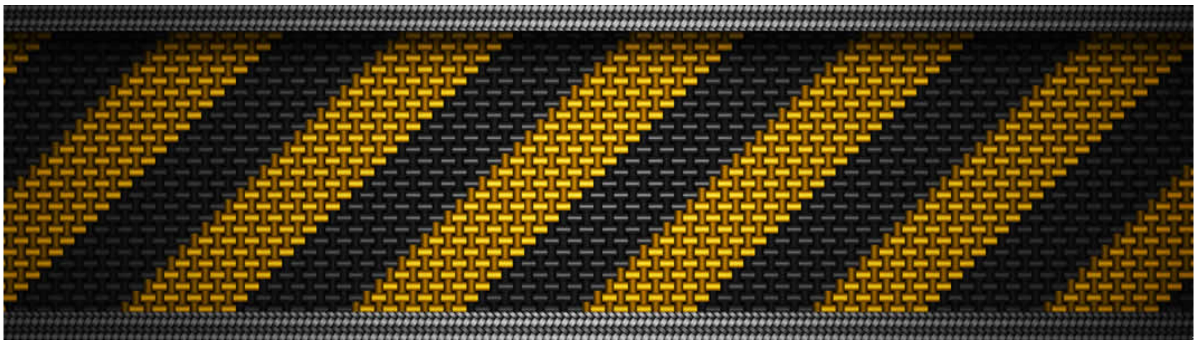
These are where either the market decides it wants to remain in balance – in which case there's plenty of room to trade back in to or it decides to **break out of the recent balance** and explore different prices. In both cases, there's plenty of scope for a large, directional move.

The point to recognize with balances is that they are far **more reliable in their action when they are based on a longer time frame**. I tend to like looking for balance over several days at least to find places where a big move could happen from and I classify those as high probability trading setups. The FTSE example here has a 2 month balance.

You shouldn't expect that a strategy will work in **every location and every moment in time**, even if it has got a high win rate. By targeting trades that occur when a market has a high level directional potential energy, like some of the examples discussed here, and staying out of the noise, you're adding a reason for **other traders to get behind you** and you're targeting high probability trading setups.

Combining a good entry setup and technique with good location, can give your strategy the best chance of generating winning trades for you. Are these high probability trading setups at these locations? I think it is as close to that as you will ever get.

Price Action Reversal Strategy Warnings



Many traders like to find ways to short the tops and buy the bottoms so they seek out **price action reversal strategies** so they catch the turns. There is a time and place to use a reversal strategy and the key is to know when the move is failing.

More often than not, the stronger trend will assert itself and if you are not using appropriate risk measures, you could be looking at a loss much greater than anticipated if the move fails with strength.

It is vital to understand when a move is not playing out as expected and to take appropriate action to avoid an unplanned loss.

Bullish Bar Reversal in USDCAD

This Forex pair has been in a steady downtrend for a year (time frame dependent) and after a strong push downwards of 14%, price began to consolidate. After swings were registered, we were able to start a trend line (demand line) on the bottom of price.

Solid Rejections at Levels Of Support

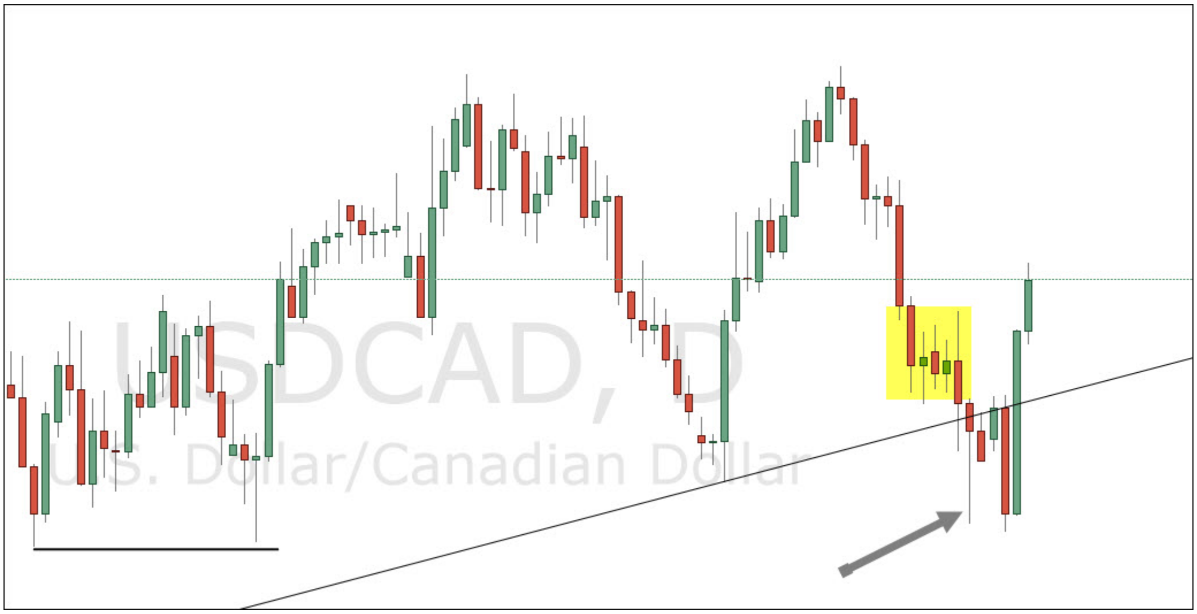
I've left out the top trend line that would form a trend channel to keep this example focused. I've also left out many fanned trend lines except for the small red initial line.

1. Price puts in a clean double bottom pattern that starts the drive to take out the swing high on the left. After the high is registered, price begins its decent.
2. The decent halts in the area of the previous double bottom and that is a fairly clean, albeit low volatility move away from the level. We are also able to connect two swing point for our demand line.
3. After another clean rejection just to the right of the #2 label, price rallies and after putting in a higher high (uptrend pattern), price drops to reject off the previous low giving us a double bottom and an obvious bullish reversal candle.
4. Price makes a tentative approach to the demand line (price action would point to low interest at this point and a probably hold of support) and 5 days of CAD gains are cleanly wiped out.

In all of these cases, there was never a warning shot given as price approached support that we'd lose the level. If there was a trend channel drawn, you can see that trading this range would not have been too difficult (although real time may have caused you some issues).

Range Break and Price Action Signs Of Danger

A great way to read price is to ask yourself what should happen if "A" happens. An example of that is #3. Price found support and rejected with a pin bar and then two bull candles right after which broke highs.



Breakout! Reversal?

That's a true sign of strength and something you'd expect to see given the context of the play.

What if the pin formed and price didn't move?

As price once again approached the demand line and previous low rejection with strength zone, price began to consolidate. It's a hard fought battle and the last highlighted candle breaks support.

Not shown but on the one hour chart, you can see how that candle formed. It had bearish implications as price broke to the upside of the consolidation first then broke support.

Important information? There are a few ways that candle could have formed and would it change your opinion of the support break if price broke lower first and then took the high of the consolidation? Food for thought.

We get the obvious pin bar and what would you expect to happen?

1. Would you expect consolidation or would you expect clean rejections like the previous ones?

2. Would you expect to see the large bear candle if it was a strong arrow of support?

These are the types of questions you need to ask yourself in real time. Forget that Canada was set to release interest rate news the next day (they held on rates) but just looking at price would not point to strength. Reading the price action would alert you that the bulls are in jeopardy and a long play could get painful.

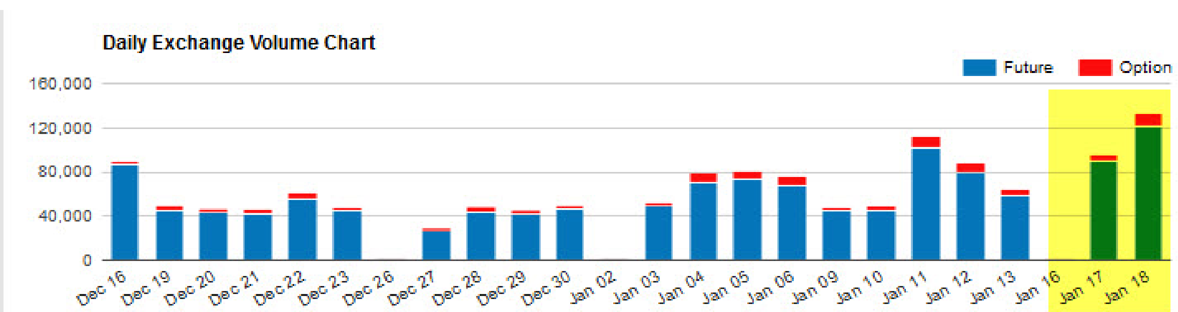
To be fair, the pin bar reversal strategy would have had you playing long at the break of the pin (fakey - never liked that name. Price is seeking volume.) and clearly there was buying interest prior to the break.

Was that momentum red candle brought to life by those hitting the exits when price didn't soundly reject the low and trade back inside the range?

You Trade What You See On The Chart

I'm sure there are quite a few people boasting that they took part in this quick upside move because they read the pin bar play. However, price action was not pointing towards upside at the point before the news release. In fact, the day before closed on its lows eating up the pin buyers and those that came before it.

I will be transparent....I was set to play the upside move and cancelled my order when there was no follow through and we had momentum to the downside. There was no trade for me and the trade was not simply because there was a pin bar. It was context and I read it as a failure test of lows.



http://www.cmegroup.com/

So where are we now?

Who knows. I don't forecast and just trade what I see. Will this upwards move continue on this massive volume relative to recent history (CAD futures) or, since the market likes to hurt the most people, will it turn and take out the long heavy candles we just formed?

Let the price action tell you the story and you just read along.

Since many traders like to use indicators (**usually the wrong way**) for their trading method, Netpicks has put together a free and vital “Indicator Blueprint” to put you on the right track when using an indicator for your trading decision.
Get access to the PDF and videos by clicking here.

3 Volatility Indicators To Help You Trade Effectively

The natural rhythm of the market is not only trending and consolidation but we have to also deal with different types of volatility. This is where understanding and using volatility indicators can help you trade more effectively and keep your expectations in check.

Volatile periods in the markets can, in the worst scenario, **create wild and sharp swings in the markets** which can make them difficult to trade. We often see extreme volatility after certain news releases and world events that are extreme in nature and this type of action is easily seen on the chart.

Volatility can be more subtle which we see during extended runs during trending markets and more muted volatility during the consolidation phase of the market. Each of these types of environments are going to have different types of market approaches that can be used.

High Volatility

- Trending types of systems looking to take advantage of individual swings or longer positions until there is a change in trend
- Breakout systems will take advantage of the volatility that arises when there is a true breakout of a consolidation

Low Volatility

- You can utilize a channel trading system which can be trend line channels or some types of bands
- Reversion systems will have you taking positions when markets reach a support or resistance zone the contains the consolidation

Knowing what phase the market is in will assist you in **using the "right tool" for the job**. You probably don't want to look for longer term trending plays inside of a low volatility consolidation area. You would be letting positions ride when the reversal takes place which will have detrimental impact on your trading account.

Inside of every charting platform, **there are tools called volatility indicators** that will help you objectively measure the level of the volatility and it's important to fully understand the tool you are going to use. Keep in mind there is no best volatility indicator to use so don't spend too much time picking and tweaking the indicator. This applies to any market including Forex and Futures. Apply it to your chart using the standard setting and that should help you begin to learn how to see volatility in price action.

Using ADX As A Volatility Indicator

The ADX indicator measures the strength of a trend based on the highs and lows of the price bars over a specified number of bars, typically 14. Generally an ADX crossing of the 20 or 25 levels is considered the beginning of a trend, either an uptrend or a downtrend. A move down in the ADX is considered to **signal the end of a trend**. While the ADX is below 20 or 25 the market is usually in a consolidation.

As long as ADX continues to rise, the trend remains strong, but once it starts to turn down the trend is weakening. This chart shows a strong trend in place on the left and as price is showing consolidation periods and no strong price thrusts, the ADX peaks and is s sloping downwards with occasional upturns. This can **objectively show you that the strength of the move** has softened and any positions in the price trend direction should be managed closely.

The far right of the chart we see an upturn from below 20 with an upturn in the ADX. This can indicate **the volatility has returned** to the market and you may want to adapt your trading approach to suit the new reality.

ADX Volatility Indicator Rising And Falling

The ADX has two drawbacks that you must be aware of before thinking you've found the holy grail of trading.

1. It does not indicate the direction of the trend. For that it's often combined with the Directional Indicator (+DI and –DI) and as a matter of fact the ADX calculation is based on the DI. It's easy enough however to determine the trend visually of with the use of a simple moving average or using the typical trending price description.
2. As is the case with most trading indicators the ADX is a lagging indicator. It signals the beginning or end of a trend after the fact. With proper risk management however that can still allow us to profit from the bulk of a strong move.

Compare the move of the ADX and the condition of price in the graphic and see what else you can learn from this chart that may apply to your trading.

ATR - Average True Range Indicator

The ATR measures the true range of the specified number of price bars, again typically 14. The true range differs from a simple range in that it includes the close of the prior bar in its calculation.

ATR is a **pure volatility measure** and does not necessarily indicate a trend. It's quite possible to have volatile price movement inside a choppy market, as is often the case during an important news event.

The best way to use the ATR is as an indication of a **change in the nature of the market**. We may see ATR rise as the market moves from a tight consolidation to a strong trend or we may see ATR fall as the market transitions from choppy price action into a smooth, strong trend. This chart shows a couple of examples where ATR actually falls as price begins to trend, and drops as price enters some choppy consolidation.

Average True Range Not A Direct Reflection Of Price

The ATR has the same drawbacks as the ADX.

1. It does not indicate direction, so we often see a rising (or falling) ATR in both an uptrend and a downtrend
2. It is a lagging indicator so it will not catch the very beginning or end of a market transition.
3. The ATR will not work with range, momentum or Renko bars. Since those are all constant range bars the ATR will essentially be flat and equal to the constant range.

Using Bollinger Bands As A Volatility Measure

Bollinger Bands are calculated based on the distance of price from a moving average over a specified number of bars, typically 20. The bands are a fixed number of standard deviations above and below the moving average, usually two standard deviations. If the price deviation follows a normal distribution that means that 95% of the normal price fluctuation should be contained within the bands, so a breakout from the bands implies a move outside of that 95% probability range, or an increase in volatility.

Direction and Volatility

Unlike ADX and ATR, Bollinger Bands indicate both volatility and direction. When price volatility is high the bands widen, when it's low the bands tighten. Since it's possible to have high volatility during consolidation, typically choppy periods will have wide bands moving sideways, as shown in the highlighted section labelled "A".

Bollinger Bands Show Volatility and Direction

When prices transition into a trend, the bands will widen and slope up or down, as shown in the area marked "B". As long as price continues to hug the upper or lower band the trend remains strong, but once price drops away from the bands the market is **typically entering a consolidation phase or possibly reversing**. You can clearly see these transitions in the chart but I have highlighted small retraces in price to the moving average inside the bands.

A simple trading method using the information the Bollinger Bands is telling us could be:

1. Wait for price to poke outside the bands which indicates a large deviation from normal price hence volatility
2. Price pulls back to the area around the 20 period moving average (there is no magic here)
3. Look for a price pattern to indicate a reversal in price

I put together a post on a trading system that uses the same idea but utilizes Keltner Channels for the volatility and the price pullback measure. I also compare the differences between the two indicators: Simple Keltner Channel Trading Strategy

Bollinger Bands are an excellent volatility and trend indicator but like all indicators, they are not perfect. They also lag **price action** so they will not catch the very beginning or end of a trend. To be fair, you don't need to catch the exact turning point but you also don't want to be taking positions when the move has had a significant run.

They can also signal false transitions as shown in the zone marked "A", where price bounces between the bands. Although clear in hindsight, at the time price touches the bands it's not clear if it signals the start of a trend or the beginning of a fading move or reversal.

Volatility Squeeze

This is not a single volatility indicator but combines both the Keltner Channel and the Bollinger Bands. It takes full advantage of the **difference in the way both indicators measure and react to changes** in volatility which can assist you in determining true breakouts as well as the end of a trending move.

This is a special technique and Netpicks has put together a standalone article on this topic so you can better understand and utilize this technique called the Bollinger Band squeeze.

Apply These Indicators To Your Trading

These have been just a few volatility indicators commonly available in all charting platforms. I encourage you to experiment with them and observe them in action. They can be excellent tools to identify market transitions, and combined with other trending indicators or oscillators could form the basis of a flexible trading system.

Keep in mind that nothing is perfect and optimizing indicators such as these used for volatility can have you curve fitting a trading system. This is a dangerous practice and one you should avoid at all costs. You should read: How To Avoid Curve Fitting During Back Testing which will give you concrete steps you can take to ensure the viability of a trading system.

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3 Most Useful Day Trading Indicators

Day trading indicators are often touted as the holy grail of trading but that is simply not true.

They are a useful trading tool that should be used in conjunction with a well rounded trading plan but are not the plan itself.

In this article I will cover:

- **The uses of trading indicators**
- **Indicator selection**
- **Two simple trading methods you can expand on**

Keeping Trading Simple

Whether you swing trade, day trade, or even position trade, too many trading indicators equals complexity which usually equals lack of consistency with trading decisions.

Information overload is often the result of traders finding a mix of day trading indicators potentially useful but in fact don't really help in the trader making a profitable decision.

I have used trading tools in different combinations over the years and there are three that I found to initially be the most useful day trading indicators for how I like to trade.

As time went on, simple became my mantra and as a result, my trading decisions were clearer and were made with much less confusion and stress.

Day Trading Indicators Give Information About Price and Volume

Almost every charting platform comes with a host of indicators that those who engage in technical trading may find useful. You simply apply any of them to your chart and a mathematical calculation takes place taking into past price, current price and depending on the market, volume.

Different types of technical indicators do different things:

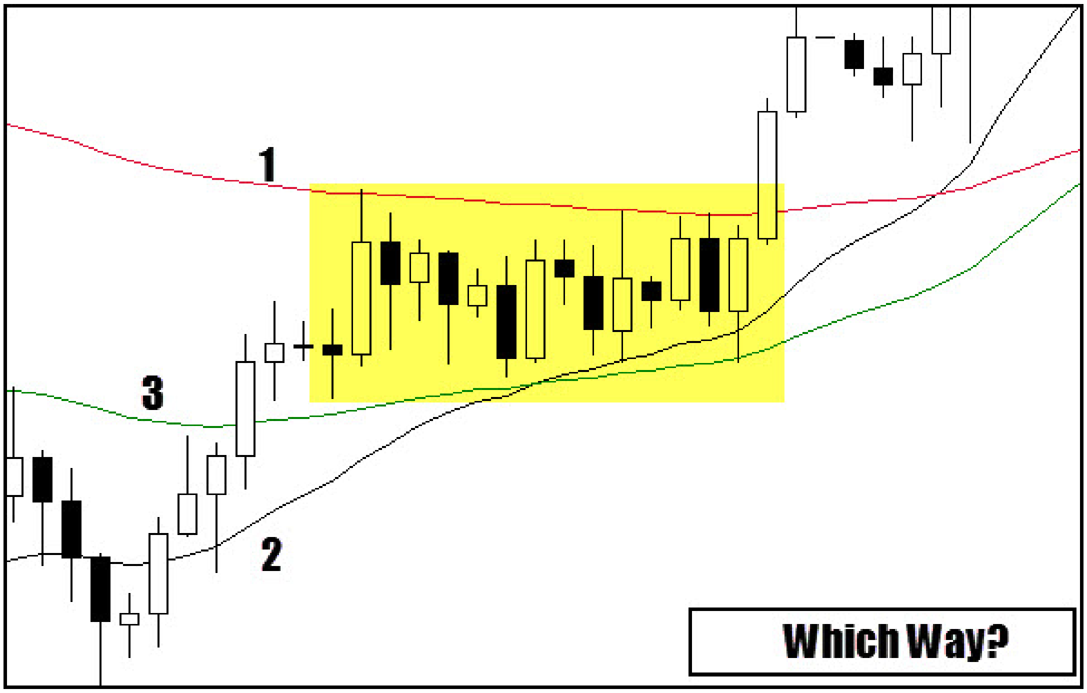
- **Trend direction**
- **Momentum or the lack of momentum in the market**
- **Volatility for profit potential**
- **Volume measures to see how popular the market is**

The issue now becomes using the same types of indicators on the chart which basically gives you the same information. While this may be explained as looking for "trade confirmation", what it really does is give you conflicting information as well as more information to process.

A simple example is having several trend indicators that show you the short term, medium term, and longer term trend. From a multiple time frame perspective, this may appear logical.

Many traders though can attest to seeing a perfectly valid setup negated because of a trend conflict and then watching the trade play itself out to profit.

Too much information can cause analysis paralysis which can keep you from making trading choices that are actually profitable ones.



Looking at just the trading range portion and price relation to the moving average, we have:

1. Price below longer term average means short
2. Price above medium term means long
3. Price above short term means long

Not seen on this chart but the pivot black candle below #2 is actually a retrace into an area where a long trade was the call yet all trading indicators called to short at that time.

That is the main drawback with most trading indicators and that is since they are derived from price, they lag price.

A trend indicator can be a useful addition to your day trading but be extremely careful of confusing a relatively simple trend concept.

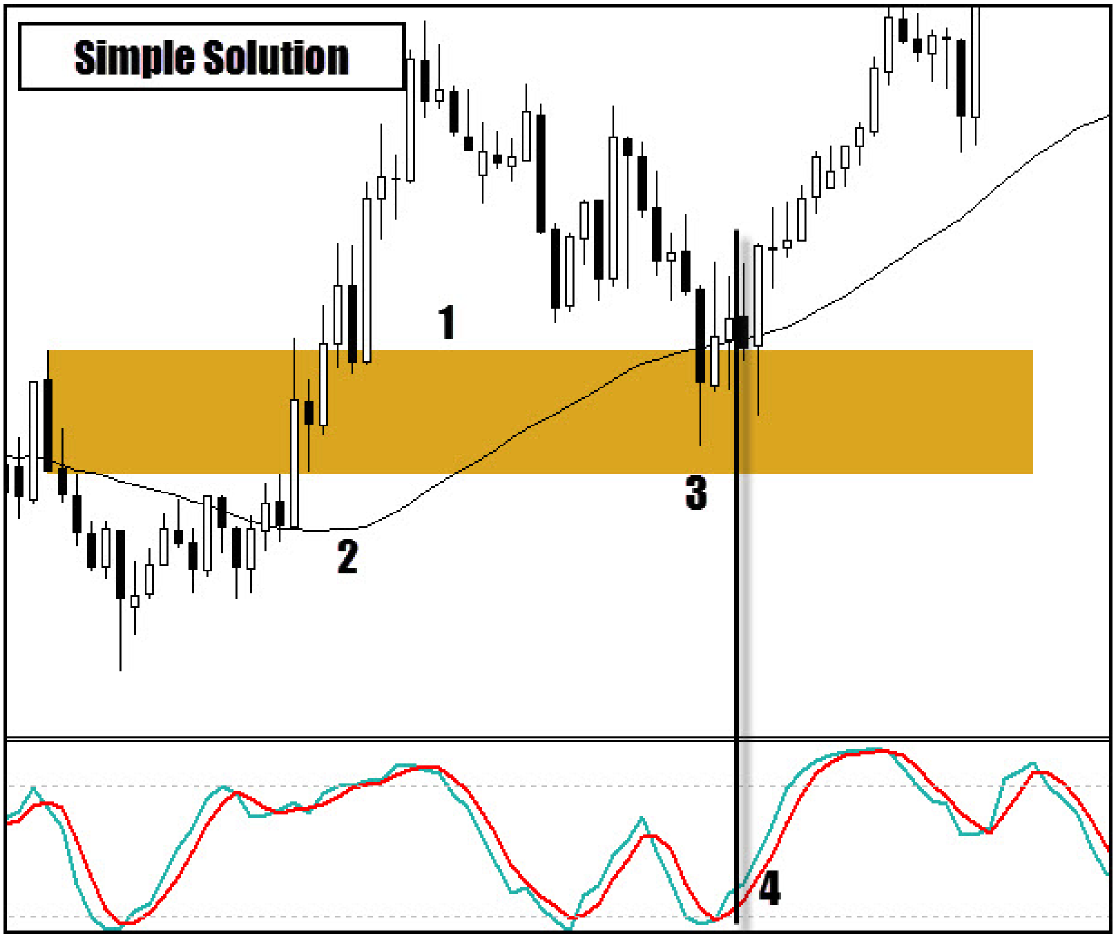
Day Trading Question: Day trading involves quick decisions.
Would your trading be better served by simple or complex information gathering?

Useful Trading Indicator Selection

Useful is subjective but there are general guidelines you can use when seeking out useful indicators for your day trading.

One simple guideline is to choose **one trend indicator** such as a moving average and **one momentum trading indicator** such as the stochastic oscillator.

In order to explain how these can be useful as day trading indicators, take a look at this chart:



1. In brief, this is a pivot area where price broke through and rallied hard away from the moving average
2. Price starts to trade above moving average as well as slope of indicator is up and our plan says trend is up
3. Price returns to the area marked #1 (also a complex ab=cd retrace)
4. Momentum indicator crosses and turns up and we buy stop the high of the candle that turned it

Simple selection of trading indicators mixed with chart technicals can be the basis for your trading system.

Do Trading Indicators Work?

It all depends on how they are put together in the context of a trading plan. Some of

the most used technical indicators such as moving averages, MACD, and CCI work in the sense that they do their job in calculating information.

The power of the indicator lies in how you interpret the information as part of an overall trade plan.

Don't be sold on the "holy grail" indicator that marketers flood your inbox with. Proper usage of basic indicators against a well tested trade plan through back testing , forward testing, and through demo trading is a solid route to take.

All of the systems that are offered by Netpicks not only come with tested trade plans but also hammer home that you must prove any trading system or trading indicator to yourself.

Threat Of Over-Optimization

There is a downside when searching for day trading indicators that work for your style of trading and your plan.

Many systems that are sold use standard indicators that have been fine tuned to give the best results on past data. They package it up and then sell it without taking into account changes in market behavior.

The backbone of many trading systems are very mechanical in the sense that "if A happens, do B".

There is nothing wrong with optimizing to take into account current market realities but your approach and mindset in doing so can either have you being realistic or over-optimizing out of the realm of reality.

One way you may choose to not fall into the over-optimizing trap is to simply use the standard settings for all trading indicators. This ensures you are not zeroing in on the most effective setting for the market of today without regard for tomorrow.

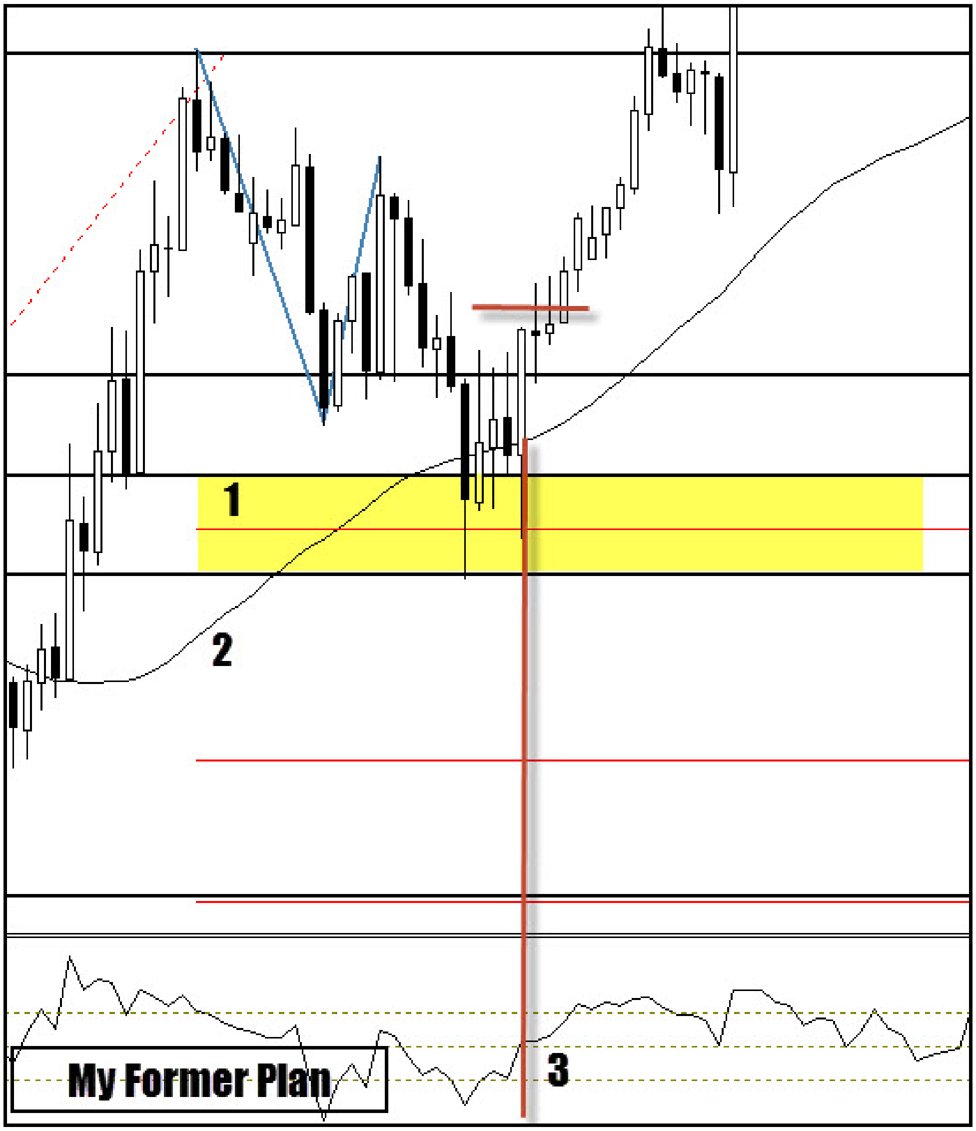
Small List of Useful Day Trading Indicators

As I mentioned at the start of this article, there are three indicators which I personally have had great success with over the years and is how I started.

My trading as evolved as I began to understand other aspects of the trading but these are where I started:

1. Fibonacci
2. Moving averages
3. CCI - Commodity Channel Index

For the sake of consistency, I am going to use the same chart as I previously did. This is a day trading/swing trading chart of 1 hour on a Forex pair.



1. This zone was determined once the swing high was in place. It is a combination of the Fibonacci retracement and Fibonacci expansion (used for symmetry)
2. This is the moving average used for objective trend determination. A short term setting will give you faster trend changes with more whipsaw. A longer term setting can have you miss a large portion of the current move
3. Once the CCI comes close to or crosses the 0 level, a buy stop is place above the high.

You can see the trend is up and price has retraced into an area that I would be interested in taking a trade. Once price hits the area, there is a potential setup but a trade trigger is needed to get into the trade.

The commodity channel index plus price moving in the trade direction is the needed trigger.

I purposely left out exact rules and settings (hint - settings are standard) so you can design your own strategy using your current trading knowledge.

This exact setup is applicable to day trading, swing trading, and even position trading

To summarize:

- **Moving average** - Determine trend and can be part of the process in triggering in a trade and momentum plays. (both not described in this trading article)
- **Fibonacci** - Determine, in advance of price, zones I may be interested in for a setup and possible trigger. Can also be used for profit targets.
- **CCI** - Used for trade triggers but does have many uses including trend determination.

Does The Choice Of Trading Indicators Change?

As you can see, this list gives the 3 most useful trading indicators for **me at a certain point in my trading.**

Times change and what was useful then may not be useful for me today.

Every trader will find something that speaks to them which will allow them to find a **particular technical trading indicator** useful. Whatever you find, the keys is to be consistent with it and try not to overload your charts and yourself with information.

Simple is usually best:

Determine trend - Determine setup - Determine trigger -Manage risk

Keltner Channel Trading Strategy

One thing you want to be aware of when trading an indicator method such as the Keltner Channel trading strategy is that, like all indicators, there is a lag time.

Indicators are derivative of price meaning that the results that you see via an indicator will come via a calculation using the price you see on your chart.

Price first.

Indicator second.

Before we get into the strategy that you can use with the Keltner Channel indicator (Keltner bands), let's cover why a channel can be useful for any trading strategy.

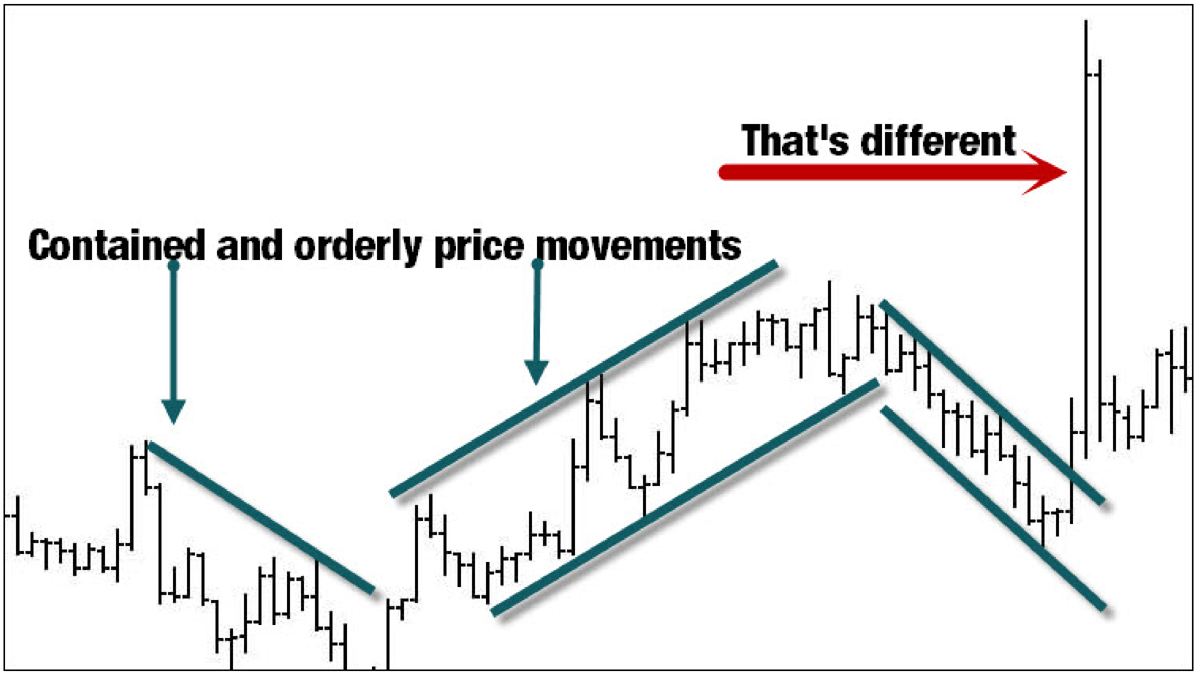
Channels Measure Extremes

It is the buying and selling by humans (and computers although the trading programs are programmed by humans) that will move price. As humans, we are susceptible to emotions and beliefs and emotions are even more vulnerable when money is on the line.

Channels, and this includes Bollinger bands and moving average envelopes, are theoretically designed to surround the general price action of the charted instrument.

The key words are "general price action" because anything seen outside of the general movement of price can be considered an extreme movement.

One way to envision this general movement is consider that the price is travelling without an extreme bullish or bearish bias. While there may be an overall bias in one direction, there is nothing out of the ordinary with the movement of price.



There are times when a "that's different" moment takes place and the price will make a move in one direction or the other.

This is the time when you want to be on alert for potential trading opportunities as it is clear that volatility has increased. You use the word potential because you don't want to take a trade based on one indicator alone.

There are other things to consider but we can use the Keltner channel bands that surround price and the channels moving average as an alert for possible opportunity.

The bands do not act as a physical barrier to price just as moving averages do not magically support price.

They are a measure of volatility in the case of the bands and consensus when referring to moving averages.

Keeping that truth in mind, you can see how important it is not to just "push the buttons" because the price has found itself in those locations.

The Moving Average Consensus

The Keltner channel is plotted with two outer bands and through the middle is a 20 period exponential moving average (EMA).

Using the moving average as an area of general agreement in price, we can see when price moves away from it that one side is favored over the other. The further price moves away, the more we expect a snap back in the price.

The moving average can also act as the landing zone after the price makes the snap back and when I say zone, I mean we don't expect price to land directly on the average. That is why we don't simply execute trades when price is supporting or resisting in the area of a moving average.

Keltner Channel Settings

Like most indicators, there are inputs that you can change and that in itself can offer up a whole different set of problems.

There are several settings we can change with the Keltner channel depending on your charting platform:

1. Moving average length (will determine lag time of channel)
2. Average true range (ATR)
3. Band multiplier (uses ATR reading)
4. Moving average type (EMA, SMA)
5. ATR type (EMA, SMA)

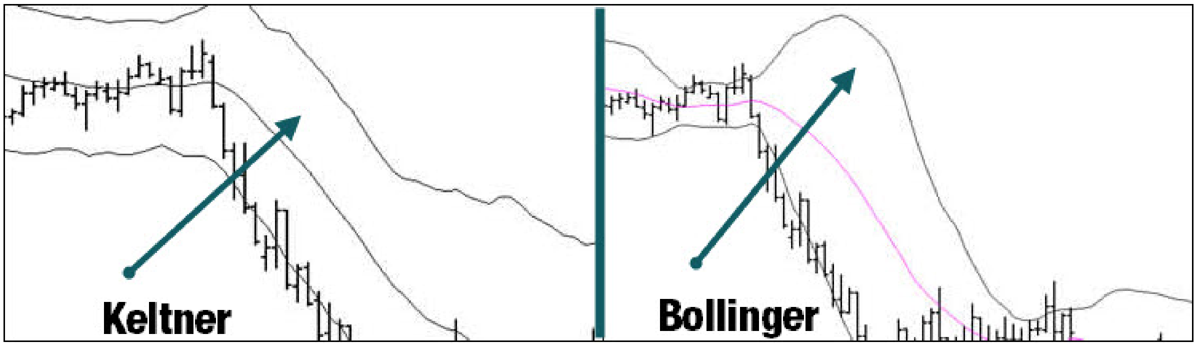
The band multiplier is a very important number as it will determine how tight the outer and lower bands are to price. If the bands are tight, you may get a lot of excursions to the bands and beyond. This may be suitable for those scalping with the Keltner channel but not suitable for those looking for longer term plays in their instrument.

Day trading is also a viable option with the Keltner channel and you can tweak the band multiplier to suit your trading needs.

Keltner Channel VS Bollinger Bands

There are those that often confuse the BB and KC but they do act differently in terms of reaction to price. The big difference is the Bollinger band is calculated using a standard deviation while the Keltner uses ATR.

You can visually see how Bollinger bands reacts differently with sudden price shocks.



Some traders utilize the Bollinger bands and the Keltner channel together to show a Bollinger squeeze. When the Bollinger is inside the keltner, the squeeze is on and when in a trade setup, the movement of the bands outside of the channel is the trigger. This would indicate that the price is potentially about to go on a run.

Whether you are going to use the channel or Bollinger indicator for this trading system, is not the point. You can use either because it is the concept we are looking at.

Price Channel Trading Plan

The original Keltner used a 10 period for the moving average but it caused traders to be whipsawed around far too much. Over time, the popular setting became a 20 period EMA, a 20 period ATR and a 2.25 multiple. **You can of course test various settings but in the end, we are simply looking for price engaging with either of sides of the channel.**

Pullback Trading

Trading pullbacks is best done in a market that has exhibited a strong push in a direction. This is based on swing analysis where you want to see conviction in a market swing that indicates another move in the same direction.

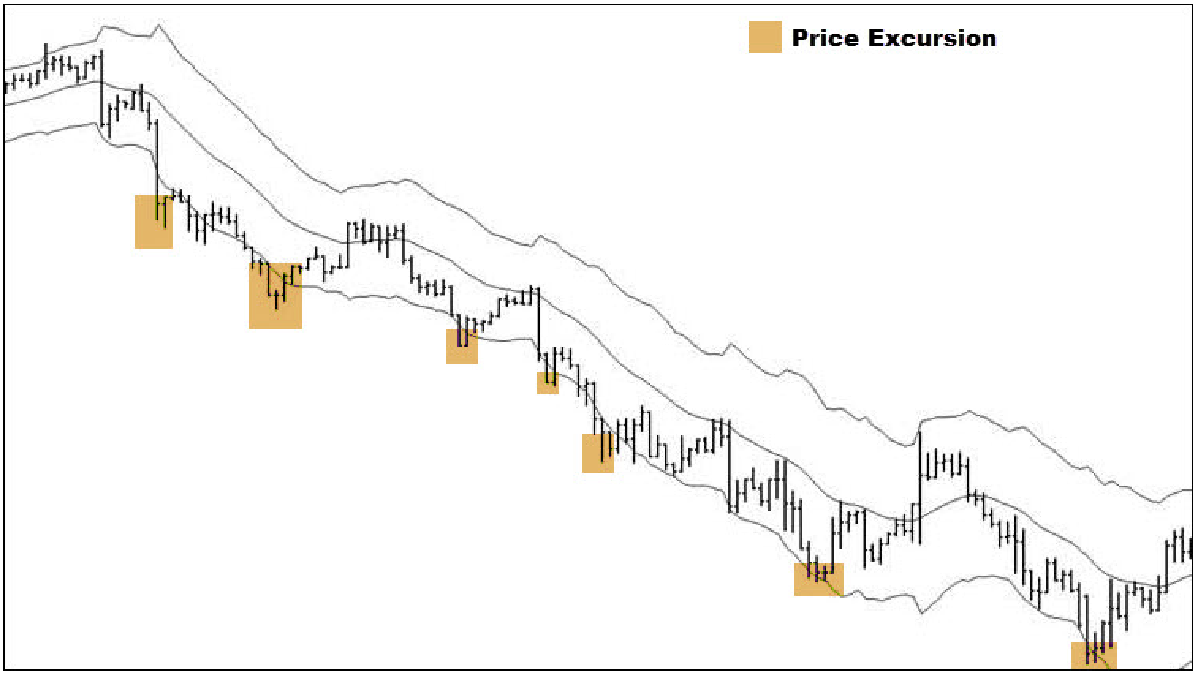
Using the Keltner channel, we can use travel outside the bands as an indication there was conviction in the swing.

If we are trading in an downtrend, you want to see price travel to the bottom channel and plot outside of the channel. Even a shadow plot is sufficient if you are a more aggressive trader.

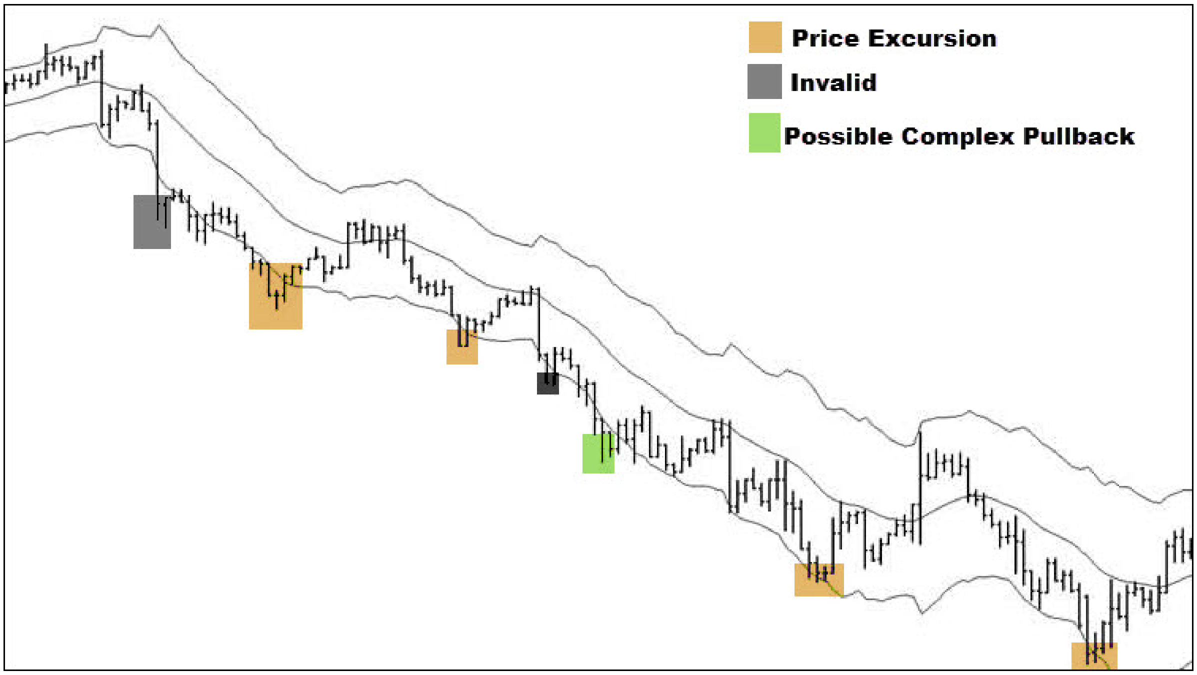
Remember, an excursion outside of the channel indicates an extreme from what was a considered normal price action.

When price is at the channel, that is an alert to look for a pullback in the price to an area around the 20 period EMA.

This chart shows a down trending market in play. Highlighted by the orange color, you can see that price has traveled outside of the channel. This is the first sign that we may have a trade if the pullback fits other criteria. In certain charting packages, you can set an alert that will signal you if/when price has hit the channel and some of you may find that useful.



Not all excursions equaled a pullback into the zone around the moving average and as you can see that at times, price traveled along the channel. That issue will be covered in a later trading tips segment.



We now have three definite pullbacks that met our criteria of:

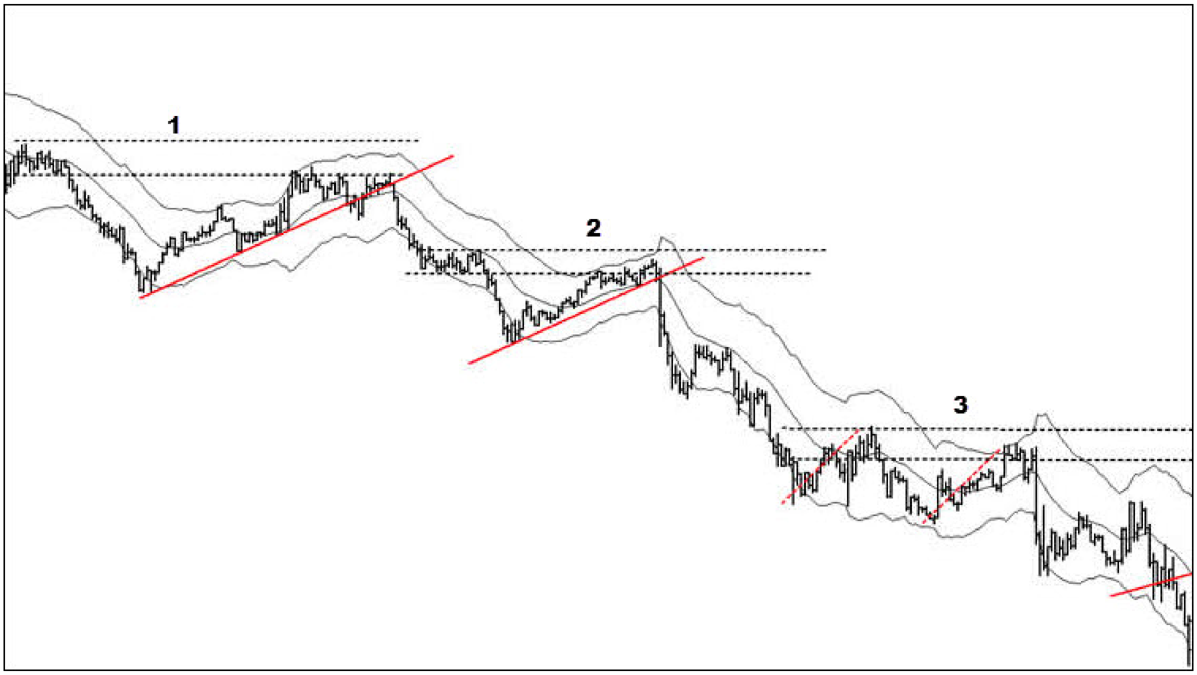
1. Excursion outside of channel
2. Pullback to area of 20 EMA
3. Obvious trending market

Confluence and Trade Triggers

Our potential trade is now being setup but we still don't simply enter when price touches the 20 EMA. We would like to see price pulling back not only to the mid-line but also to a price structure or exhibiting a topping pattern. This is called confluence and can actually increase the probability of your trade getting some traction.

We need a trigger to get into the trade and there are many tools that you can use. Momentum indicators are a popular method as well as the very basic trend line.

This chart is a factor 4 less than the previous chart. By using a smaller time frame to get into the trade, you may be able to get a better position sizing as you position yourself higher in the curve to the downside in this example.



The black dotted lines on this chart are boxing off structures of possible resistance that coincide with the pullback to the mid-line. Let's call these potential resistance zones because when price is pulling back, we don't know with 100% certainty if price will stop at these areas but it potentially could.

These potential zones of trading opportunity that includes the structure are from the trading chart and I encourage you not to use the trigger chart to find the structure.

The trigger chart is only used for exactly what the name implies.

Before continuing, the area marked three may have some questions. It is a sloppy complex pullback because the second leg did pierce the bottom of the first before reversing from what may be considered a double bottom.

Where this gets interesting is the second leg matches in distance the first leg of the move. This is called symmetry and many traders will utilize this as a stand alone trading system. Price also exhibits a topping pattern, a double top and you can see from this chart that a confluence of factors were in play when price broke solidly to the downside.

I am using standard trend-lines to show the counter-trend move in price which brings us to our setup zone. You may use a standard break of the trend-line for your trade entry.

Stop placements could go either above the turn or above the zone that has acted as resistance.

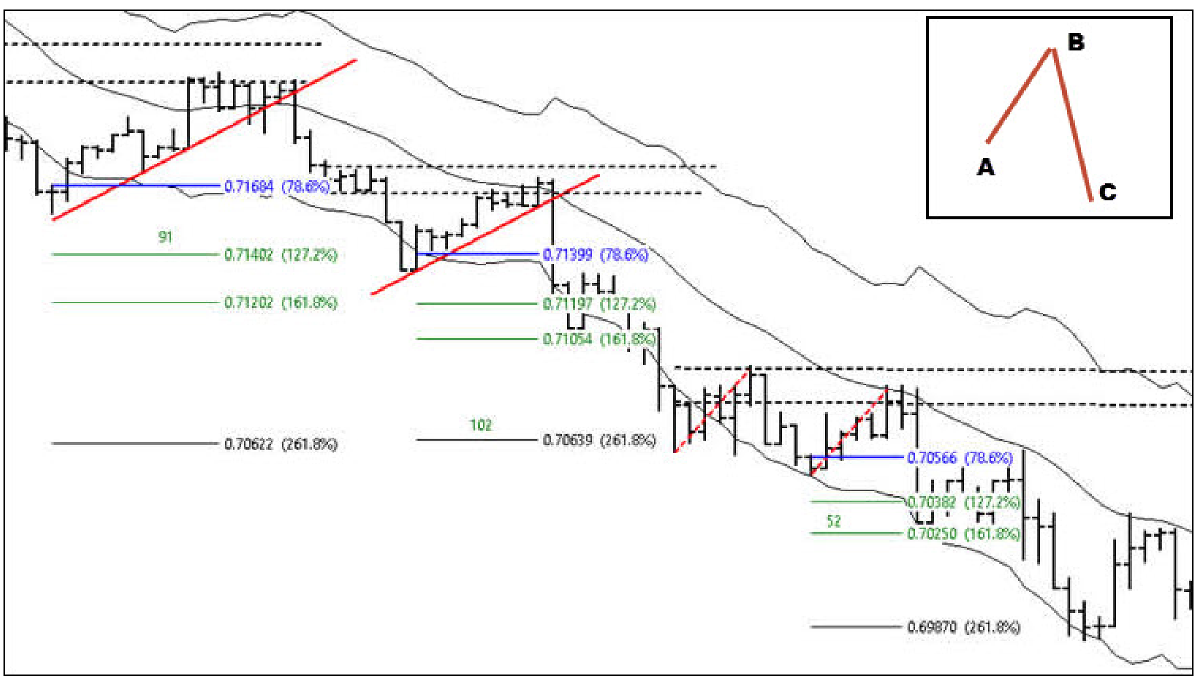
Trade Targets

We are going to use the setup chart for targets and like trade entries, you have a few options.

Some traders like to target opposing structures while others would like a more objective means to find profit targets.

I've spoken about Fibonacci many times over the years and have shown examples from my own trading. Fibonacci was my original method of trading when I first started and have since refined things since the early days.

The fact that we are trading pullbacks makes it easy to find our targets with Fibonacci in a way that is completely objective. We are going to take the move into the extreme of our pullback and project forward in time to a potential price target.



The diagram on the chart shows that "A" is the anchor point and you pull the Fibonacci retracement tool to "B". You project your targets at "C."

Here are the numbers that I personally use and will use for this example. Note that 200 is omitted but I use it for targeting after a range.

1. I used the bottom of the structure range for the entry price.
2. I use .786 as the stop price once price breached the low of the swing leading to the extreme
3. Whatever target price hit just prior to breaching the .786, it was a full exit price.

You can see the total pips for each trade in green for a combined total of 245 pips (Forex example) before spread costs. These targets are shown on the trigger chart for detail.

Complete Trading Plan

This Keltner channel trading system is not complicated but don't be misled by the simplicity. You still have to put in the work in determining the overall trend direction, when counter trend trading is appropriate, extent of excursion plus the very important account management and risk profiles.

That's just to name a few variables.

There are also other trading opportunities that Keltner channel trading may provide and I will cover some of those in a later post.

A lot of work goes into designing a full trading plan including back testing and forward testing. Take a seat in a free Netpicks trading webinar where you can see how a properly designed and tested trading system can increase your trading success. Click here to sign up.

Learn A Simple Range Trading Strategy

It's been said that a market only trends 30% of the time.

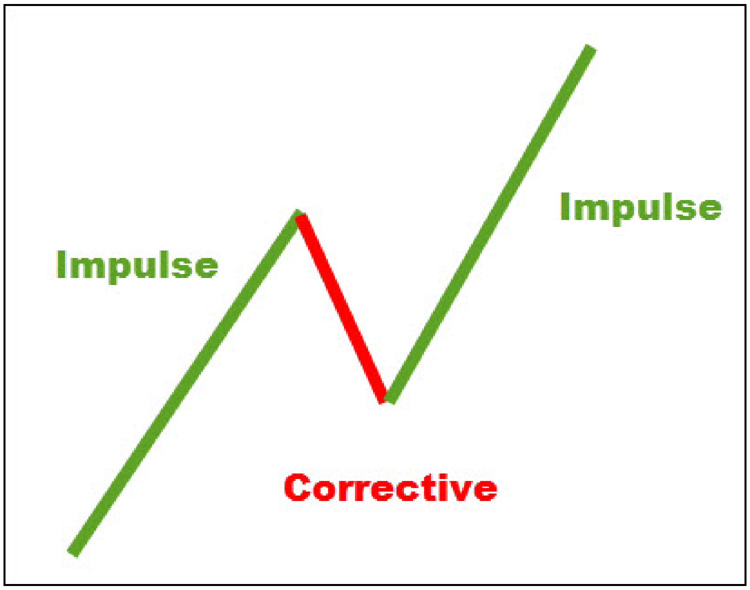
I can't quantify that figure but having a range trading strategy to take advantage of the other 70% is good business.

Range trading is not difficult however it does require discipline and a method of determining when a trading range is in play.

What Is Range Trading

When a market is trending, you will see a stair stepping pattern of higher highs and higher lows in the case of an uptrend. There is an imbalance of buyers and sellers and you can generally see the difference between an impulse move and a corrective move.

Impulse moves are stronger and bigger in scope than a corrective move.



Once that condition stops, markets tend to find themselves stuck between a high and a low and continue to oscillate between these two points.

Buyers and sellers have found a point of relative equilibrium and you can find yourself in a very choppy environment if attempting to trade between the extremes.

This is when traders will place trades against the high/low extremes and will continue until price breaks out of either side.

We've just come to the first issue with range trading and that is finding the two points that will act as potential support and resistance levels to trade against.

I did a piece on support and resistance where I blanked out the chart and randomly laid on some horizontal lines. Turning the price bars back on, price found both support and resistance on every single line.

Related - Do You Textbook Trade Support & Resistance

Of course, that **does not discount the validity of S/R** but it does bring home the fact that price can and will bounce seemingly from a random level on the chart.

To ensure you are using a level that may have some importance, **levels that are obvious** would be a better place to watch for price action and potential trading opportunities.

This instrument is trending down and puts in an obvious low at #1. For the down trend to continue, you would need to see this low taken out to continue our pattern of lower highs and lower lows.

Price rallies and when the price starts to drop, we have our high at #2. The issue is a potential pivot at #3 and is confirmed when the price at #4 takes out the #2 high.

Has this market gone right from a down trend to an up trend?

No.

You will later see that price falls back and takes out the #3 low and you can clearly see that price is not in a trending pattern.

You have the extremes of our range labelled as #1 and #2 but #4 highlights an important fact about these levels.

They are not a defined price.

When looking at these turns, consider them to be zones with a margin of error both outside and inside the range.

Range trading will take into account both extreme zones and a trader will look to position a trade against the potential zones of support and resistance that form the range.

Why potential support/resistance?

You don't know what will happen when price returns to those extreme zones.

- It could stop.
- It could reverse.
- It could breakout.

These zones *potentially* have an effect on price and keeping that word in mind will keep your expectations in check when confronted with the meeting of price and zone.

It will stop you from simply pushing the buttons and taking a trade and will force you to look for signs of what the probable move may be.

Trading Range = Consolidation

When trading trends, most people are used to the impulse and corrective swings in the market. These pullbacks/rallies are continuation patterns of the overall trend.

The same thing can be said about trading ranges.

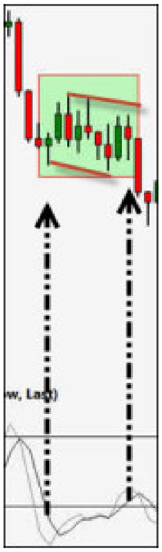
More often than not, a range is a price consolidation as part of the overall trend move. It certainly can be the ending of the current trend and a reversal is imminent but that

has to prove itself and not to be assumed.

4 phases of a market are accumulation, mark up, distribution, and mark down. It is

possible that the consolidation you are looking at is either accumulation/distribution. Let it prove itself to be a trend change or show a clue such as higher time frame divergence but assume a continuation play if trading the smaller time frame.

Ranges can also occur when the higher time frame becomes overextended and the range is where that condition is being worked off.



The first chart shows a range on the daily chart that occurred after 148 days of an overall down trend in the market and 27 days of an impulse leg that terminated at the #1 low.

This chart shows the weekly chart of the same point in time.

You can see that price had two weeks of a momentum push to the downside and our indicator shows an oversold state.

Our daily range played out for 63 days but a quick look at the larger time frame showed an extended and oversold market but the lower highs/lows, lack of divergence, and lack of reversal price action pointed towards a trend continuation and not a reversal.

Risks Of Range Trading

There are a few issues with trading the range but many of them can be avoided if the trader is disciplined in their trading approach and knows what to look for.

Having a read on price action will also go a long way in helping you take advantage of the opportunities that range trading provides.

Runs to the range extremes

You've probably heard it said that the more times something is tested, the stronger it becomes. *"Look for multiple touches to confirm strength".*

No.

I go on the opposite premise that multiple runs to a level weakens it, not strengthens. If a price level is important enough to reject price, why should it continue to revisit that area multiple times?

If it is going to revisit multiple times, I would also expect to see the move away getting stronger and not weaker to indicate strong interest at the extreme.

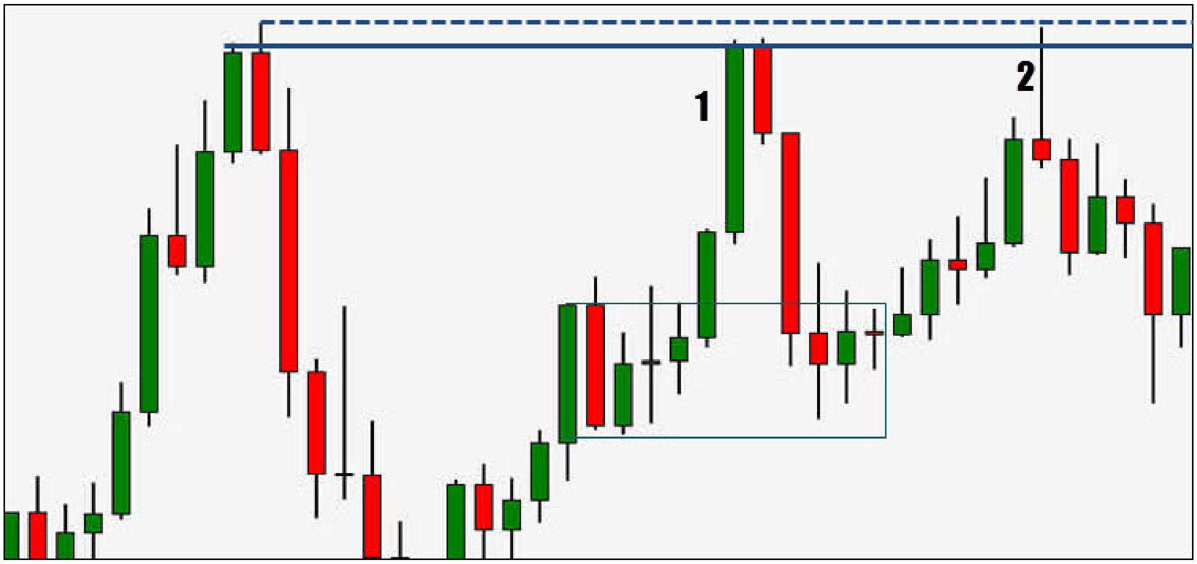
I also look at the number of times traders take positions against the extreme and place their stops just on the other side. If that breaks, especially in the direction of the higher time frame trend, a protective stop cascade could propel price hard, fast, and when those protective stop orders get hit and turn to market orders, how much slippage is going to occur?

The point is **not to blindly take a position simply because the price has moved to an area** from the past especially after multiple hits at the extreme. Remember that markets cycle through ranges and trends so eventually, one of the extremes will break.

If you want to fade the extremes, you want to see some type of failure or signs of a reversal at the extremes.

Related - Profit From The Failure

On the other side of the coin, you don't want to assume you are going to have a trading range breakout simply because price moves strongly towards an extreme.



This chart shows a range and at #1, you can see the strength in the candle as price pushes towards a potential resistance area. You know people bought into this move and the small upper shadow shows a very small number of sellers.

Just as strongly as price advanced, it collapsed and once it was obvious the range breakout was not going to happen, a large momentum candle shows up that could indicate the buyers exiting their positions. It could also indicate that those who bought at the small consolidation or at the support extreme, are taking their profits.

Regardless, anticipating the trading range breakout served up a healthy amount of losers.

Price advances once again to the potential zone of resistance and price action at #2 shows the imbalance of sellers and buyers at the extreme that could be used for a trade entry. This is a picture perfect reversal although it was not a strong continuation away.

You wouldn't know that of course and that is why **trade management must be part of any range/trend trading strategy**.

If you are looking to fade either extreme, this next chart shows the type of action you do not want to see. It's not a perfect example but understanding what is happening is important.

The extreme has been in place for a while and has seen multiple reversals in the area. This last one is different. The reversal on the left had signs of indecision until sellers took over. The last push up has consolidation right at the extreme and there does not appear to have much of a bull/bear battle taking place. You can also see part of the uptrend pattern of higher lows taking place.

We do not want to see a pattern of higher lows into the resistance extreme nor lower highs into the support extreme.

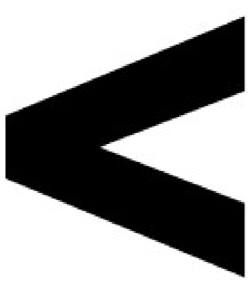
We do not want to see accumulation at either extreme.

While a reversal could still happen, this type of price action and structure at the extreme does not give much confidence for shorts (longs). If anything, some traders may find an entry inside of the consolidation at the failure test candle marked with the arrow.

Expanding trading ranges

When you see price breakout out of both extremes and failing to trend, plus each swing is larger than the previous you get a range that is expanding.

These are not something I want to take part in as the market has

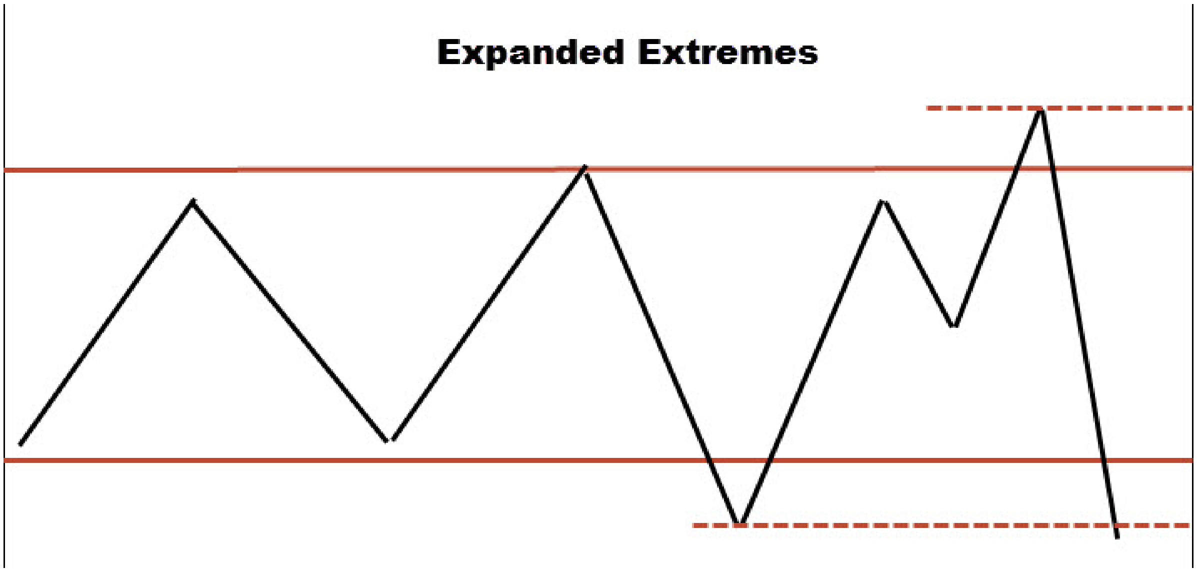


no clear cut consensus on what it wants to do.

Also, if taking a position in this type of environment, where would you put your stop?

Being unable to define the stop on the trade can interfere with your risk profile for your trading plan.

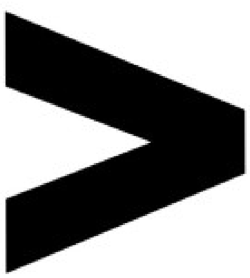
Keep in mind that a simple breach of either extreme does not invalidate the range as the range could simply be expanding to a larger size.



This is quite different than erratic swings in each direction and while it may turn into an erratic expansion, at this point we can still find positions.

Converging range

While there are different names for each chart pattern, I keep it simple and if the market is not in a trending state, I call it simply a range bound market.



This is the opposite of the expanding range and here price appears to zero in on a particular price point. Compression is occurring and generally, a trader will look to position themselves in the breakout of the move when it occurs.

Noting there is **compression is important** because when it breaks, there could be a strong move behind it. Given that, looking to fade breaks of these types of compression ranges is probably not a wise trading plan.

Why Range Trading Works

We covered a few things to look for when trading ranges including not assuming the range will hold and looking for a sign that a fade of the range extreme is the right play.

You also noted that a range can take various forms and some are easier to get a handle on than others.

Seeing a market in an expanding range would probably take that market off my list of tradeable instruments.

The converging range would have a breakout play in mind and while some will still fade the extremes, it doesn't suit my plan.

I actually don't know of anybody who trades inside the converging range.
While there may be some, looking to position in a breakout in the direction price was headed prior to the range seems to be the most common play.

Let's cover why range trading works as a viable trading method.

Once a range has formed and you have determined where the extreme zones are, **you now know exactly where you are to look for a trading opportunity**. There's no guesswork involved. Price will either break out of the extremes, reverse at the extremes, or expand at the extremes.

The middle of the range is not an area you want to play in.

Support and resistance levels *(remember you are looking for obvious ones)* make up the extremes of the range and S/R are zones that garner a lot of trader interest. **You will have some type of action around these levels** that can range from a clean test of the level to price whipping around the zone.

The key is to have a trading strategy that sets up what you are looking for and how you are going to trade it.

- What type of price rejection are you looking for?
- Where will you place your stop?
- Will you use other tools to help in your decision?

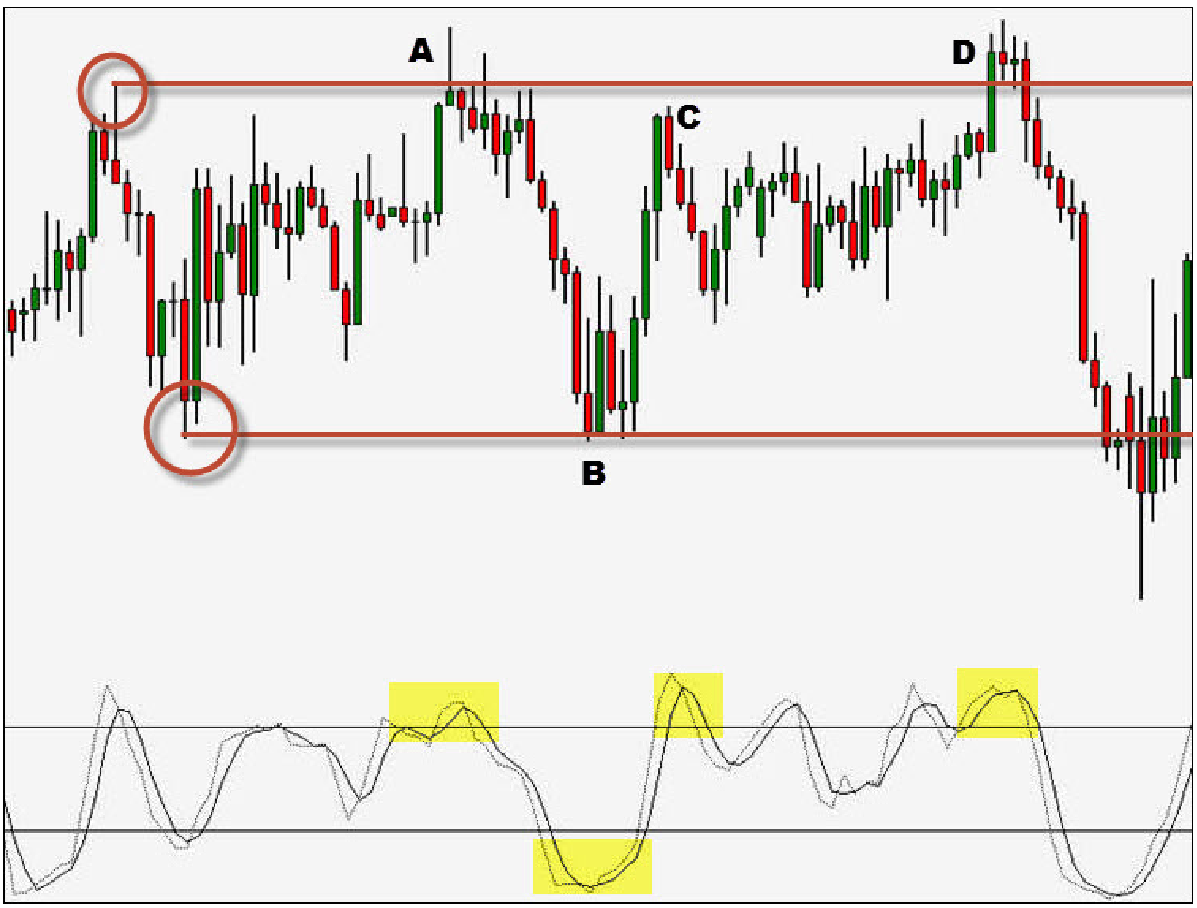
Just remember that ranges end and a trend will begin. Before that happens, taking trades while in a trading range can offer up another opportunity for those looking to make money in the markets.

Using Range Trading Indicators

Trading indicators can aid in your decisions and when trading ranges, oscillators can have a place as part of a trading plan. Let's look at the slow stochastic trading indicator as a tool you can use when looking to trade the extremes of the range.

The extremes are marked by the circles but you can see later that the top gets exceeded in a breakout failure type of action.

Related - 3 Of My Favorite Trading Indicators



At "A", price pushes into the extreme and sets up a reversal candle. The indicator plots into the overbought area **(not a signal by itself)** and you have a shift in momentum which is shown by the cross of the indicator lines. It's a combination of each event that may/may not constitute a trade.

Price drops to the lower extreme at "B" and you get an engulfing candle, an oversold indicator plus a momentum line cross.

Is "C" close enough to the new extreme put in at "A"?

Is there a reversal type of candle pattern?

Is there a slowing of momentum seen in price?

Besides the indicator position, I don't see much enticing with this trade especially since **price action did not show any sign of a potential reversal.**

Finally, at "D" price pushes to the new extreme, shows weakness while the indicator is overbought and you see a momentum line cross.

The indicator is part of an overall range trading plan and should not be the only variable you use for making a trading decision.

Range Trading Strategy Outline

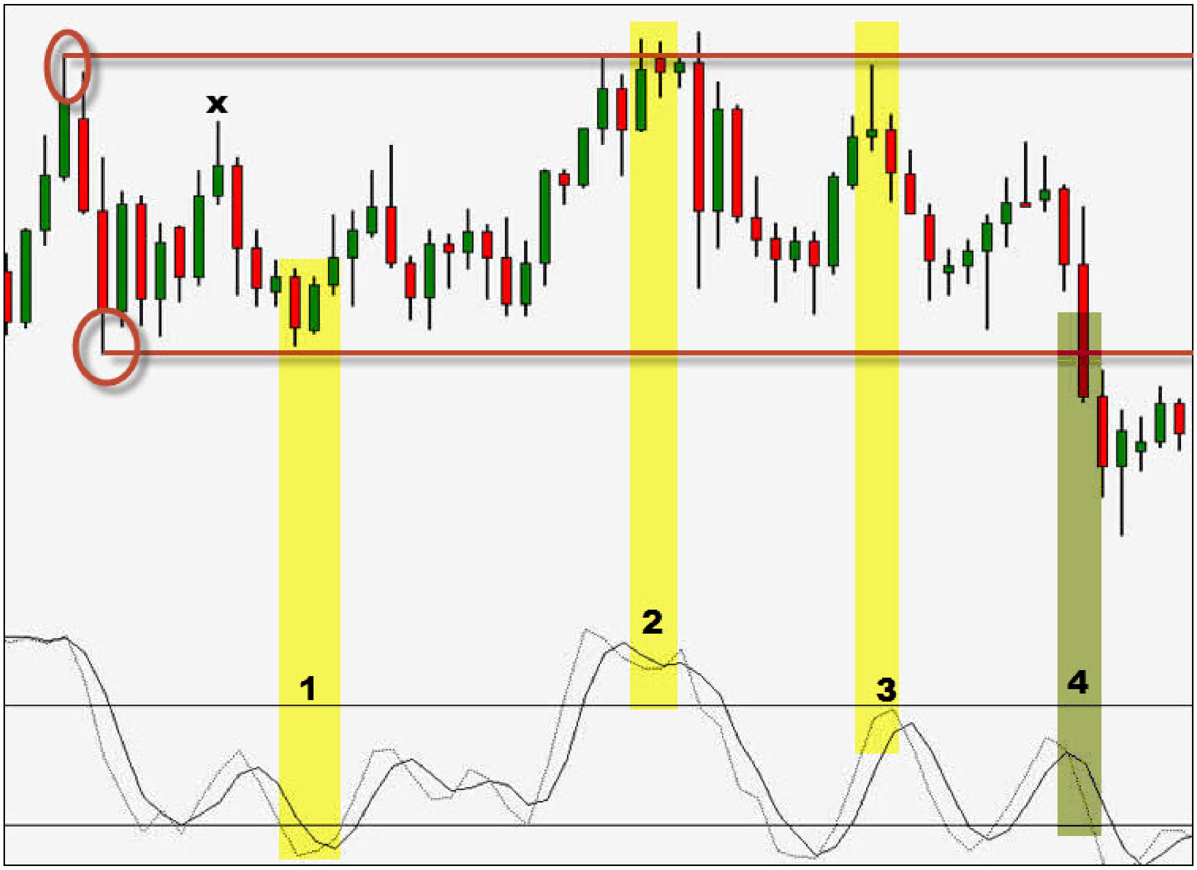
Simple still works in trading and the key is discipline and consistency. Without those, any type of success will be short lived regardless of the merits of your trading system. As you head into the trading strategy, keep in mind everything you've covered up to here.

Find Our Trading Range

Trading ranges are formed with support and resistance zones. You can look for current ranges or find trending markets that are starting to slow down. Ranges turn to trends and trend turn into ranges.

I also consider pullbacks a range in the general sense but those won't be a covered topic here.

This chart has an uptrend in play and then price started to pullback. The high is marked off and once the pivot low is in place, that is marked as well.



For the trend to continue, you need to see a higher high. If that does not develop, you can start thinking of a range play. The chart shows that price didn't advance into a trend continuation after the low as you put in a lower high marked "X" but fail to make a lower low.

I choose a not so perfect example of a range as showing perfection is always easy to do.

Location Of Price

With the extremes of the range marked off, you now have areas where you can monitor what price does and if you have a trading opportunity. In our example chart, the yellow highlights areas of interest.

1. Price revisits the low. Indicator is oversold. Momentum line cross. Inside bar candlestick.
2. High is tested. Consolidation below extreme calls for caution. Candlesticks start showing a lack of momentum and inside pattern. Indicator oversold and cross.
3. Price fails before an extreme test. Indicator not in the overbought zone. Good reversal pattern but no trade.
4. The indicator in the middle zone. Bearish momentum cross. No reversal pattern. Price breaks through extreme.

Quick strategy recap

We needed price to make an attempt at the extremes. When that condition was met, we wanted to see an oversold/overbought indicator position. A bullish/bearish momentum cross helped build our case for a trade and then we needed to see a reversal pattern in the price action.

Place The Protective Stop

You would think that placing your stop just outside of the extreme would make sense. After all, you often read that you should place the stop where you would be proven wrong.

The problem is that you can have the extreme broken and the trade (and range) is still valid.

Think back to the expanded range chart and you can see that the range play is still a valid trading opportunity.

The range still exists but with different extremes.

There is a pattern called a failure test that needs to break an extreme and can take you out of your current trade when you should actually be getting into a trade.

What about a distance away from the extreme? How far is far enough?

Given that most people base their position size on their stop size, this could lead to very small positions or, depending on the market and your capital, no trade.

Inside the range? Thinking about where the majority of people put their stops (textbook stops), where do stop runs usually go?

If you know that most traders use either the extreme or a little bit beyond, those that can run the stops know that as well. Depending on the market and trading volume, a stop run could have traders exiting at prices beyond their stop due to slippage.

Stop orders once triggered turn to market orders to be filled at the best price.

If you were short from the extremes and your stop was placed just outside the extreme, you'd be taken out before the trade is able to mature. If stopped out, this trade may have had slippage giving you a worse risk profile than you planned for.

If the price is going to come close to the extreme, it is probably going to test the extreme and slightly beyond. A stop just inside of the extreme will have you out of the trade before the stop runs trigger.

The fact is there is not a perfect location for the stop that will still allow an optimum position size.

Thinking of yourself as a risk manager will aid you in your stop placement decision.

Range Trading Blueprint

How you end up trading ranges is going to depend a lot on the type of trader you want to be. There are a few important variables to pay attention to however it can be simply summed up with:

Find the extremes of the trading range. Look for signs of reversal. Take a position and manage it.

Whether you are range trading Forex, Futures, or any other market, the basics that were covered here apply. Take your time, test, develop your trading plan, and be consistent with how you have chosen to trade.

Swing Trading With MACD Insight

I made a piece on using the MACD modified into the 3/10 oscillator and mentioned I would show a real life and recent example.

Swing trading Forex is something I've been doing for quite a while and living in Canada, my favorite currency pairing to swing trade is the USDCAD.

Even though I say it was a swing trade, it is actually a position trade that has been added to over the last four years.

At times, it is not a leap to make a swing trade into a position trade especially when the drivers of the moves has changed.

Related - Learn The 3/10 Oscillator - MACD Version

CAD Oil Correlation

There is a high correlation between oil prices and the USDCAD currency pairing. Currency traders should know that the CAD (the loonie) is a commodity currency and Canada exports about 97% of total crude exports to the United States.

When oil prices drop, the CAD weakens against the USD.

An increase in the price of oil generally means a stronger CAD.

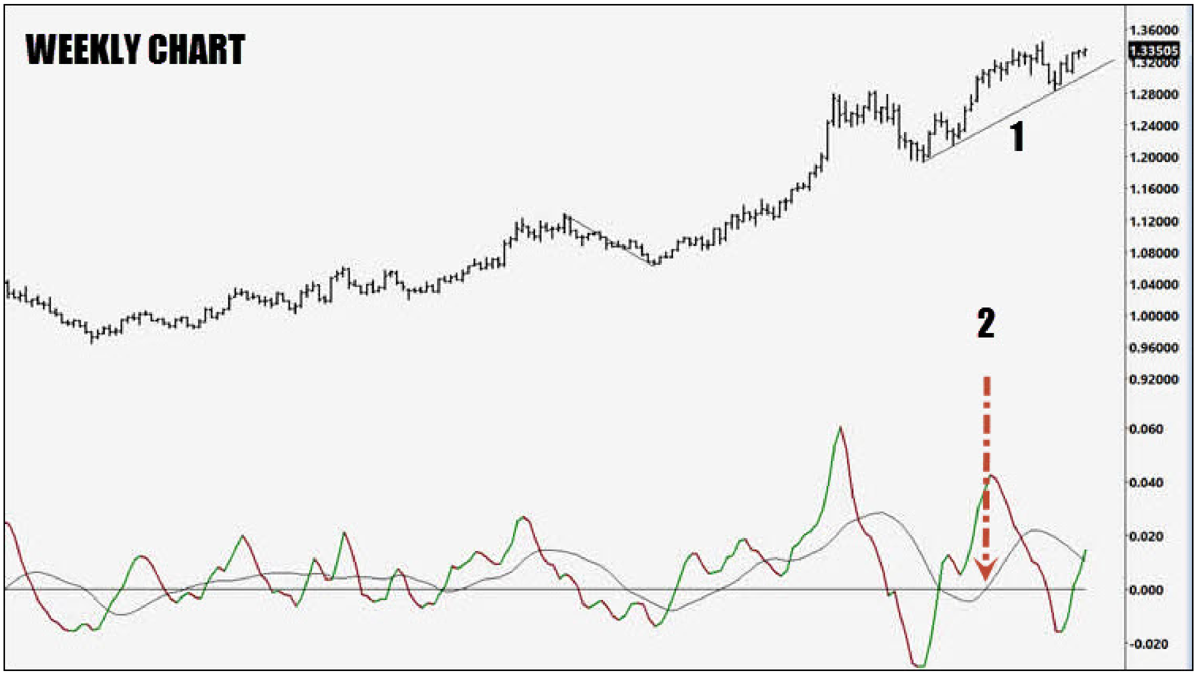
The oil/CAD correlation is not 100% as there are times of divergence in prices however it's high enough for any trader to consider adding it to their trading list and tracking oil prices as well.

A side benefit is that when oil prices increase, gas prices usually increase, and trading this pair can help offset the pain at the pumps.

I want to break down a recent decision on the USDCAD and **especially highlight the usage of the 3/10 oscillator (modified MACD)** along with other analysis to aid in the decision.

Swing Trading With MACD

The weekly chart is clearly in an uptrend. When looking at swing trades/position trades, having a bigger picture view helps define your play.



Just looking at the condition of price, do you see "orderly" price movement as opposed to choppy ranging type of action?

I do and that makes it a great chart to trade!

1. A simple trend line connecting two recent lows that have taken out prior swing high levels.
2. Going back to the piece on the 3/10 oscillator, the slow line has crossed the zero line and is setting up a first cross trade to the upside.

You get a jump on the momentum shift by color coding the slope of the fast line as you can see on the chart

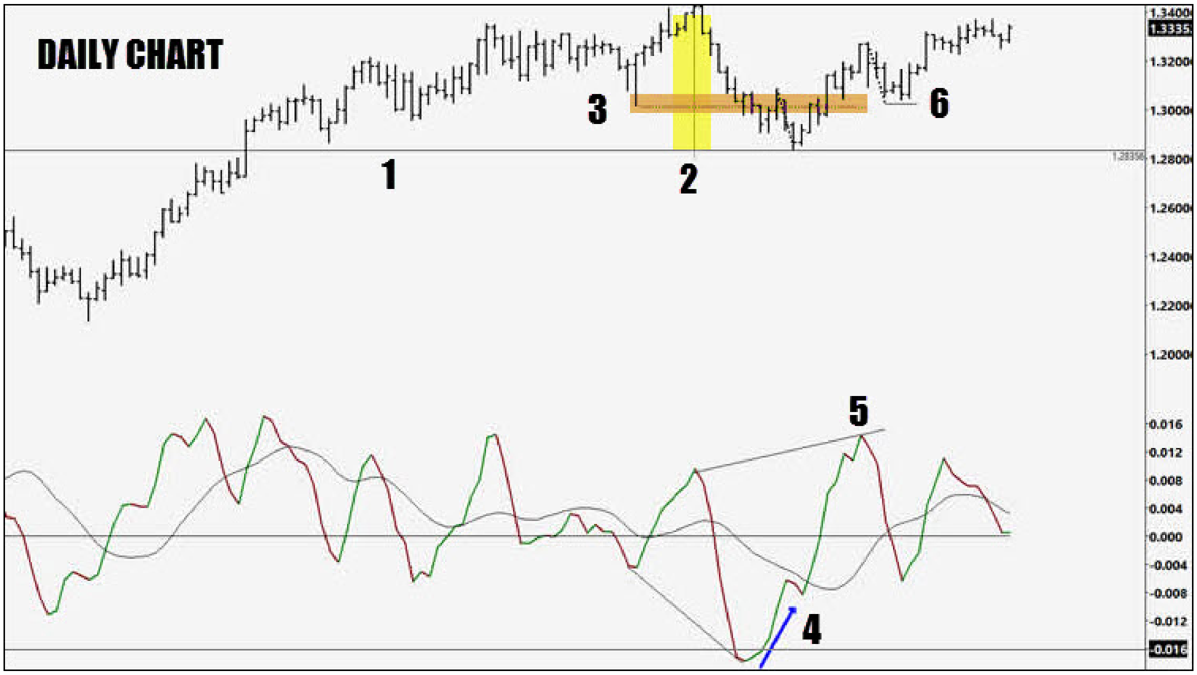
Weekly Chart Breakdown

- In an uptrend
- Intermediate time frame is up
- Momentum is shifting to the upside

Now that you have taken a look at the weekly, dropping down to the daily can help get a more involved look at what is playing out.

Daily Chart Swing Trade Setup

There's a lot going on with this chart and it highlights **basic technical analysis** but also how effective the modified MACD indicator can be.



1. This line represented structure to the left (off the chart) that was resistance for 166 days.

2. The yellow highlighted line represents symmetry to another corrective decline in this uptrend.

3. Marks an obvious pivot that ends in a pin bar that many traders would classify as a sound rejection of lower prices and a possible support zone. It was actually a failure test of a range that was in place for 24 days.

4. The 3/10 (modified MACD) puts in a lower low compared to the previous low. Price behaved the same. The low lines up with the swing that was put in with price just prior to a test of the support level (1). This is a sign to sell the next swing in price.

The short trade works into profit if you shorted but you are shorting into a potential support area.

Shorting into support is not a high probability trade but depending on trade management, a scratch or a small profit would have been made on this chart.

Continuing with #4, price is moving down but the fast line of the 3/10 is showing momentum to the upside. That is a strong heads up that the down move is coming to an end.

5. Notice that the trading indicator puts in a higher high on the bounce off support (as

does price) which tells you to be on alert to buy the next swing down in price.

6. Price corrects to the swing point at #3. It is also a perfect symmetry with the last swing leading into the support rejection.

Trading Indicators Plus Price

In the chart, there were two great buying zones however there were traders that sold the swing down right after the bounce off support.

You may be thinking that traders saw the nine bear candles plus a pivot low taken out and thought the pullback off support was a shorting opportunity into the low at #6.

You would be right and the move down makes that obvious.

Those who shorted had a few days to rethink their trade before they became trapped. Trapped traders bring on a whole different rhythm to the market.

Related - What Are 3 Very Useful Trading Indicators?

But using straight technical analysis plus understanding what the 3/10 MACD is telling you, you would not be one of those traders.

The weekly chart through a combination of technicals and the MACD 3/10 style oscillator that the trend (intermediate and long term) is up and momentum is to the upside.

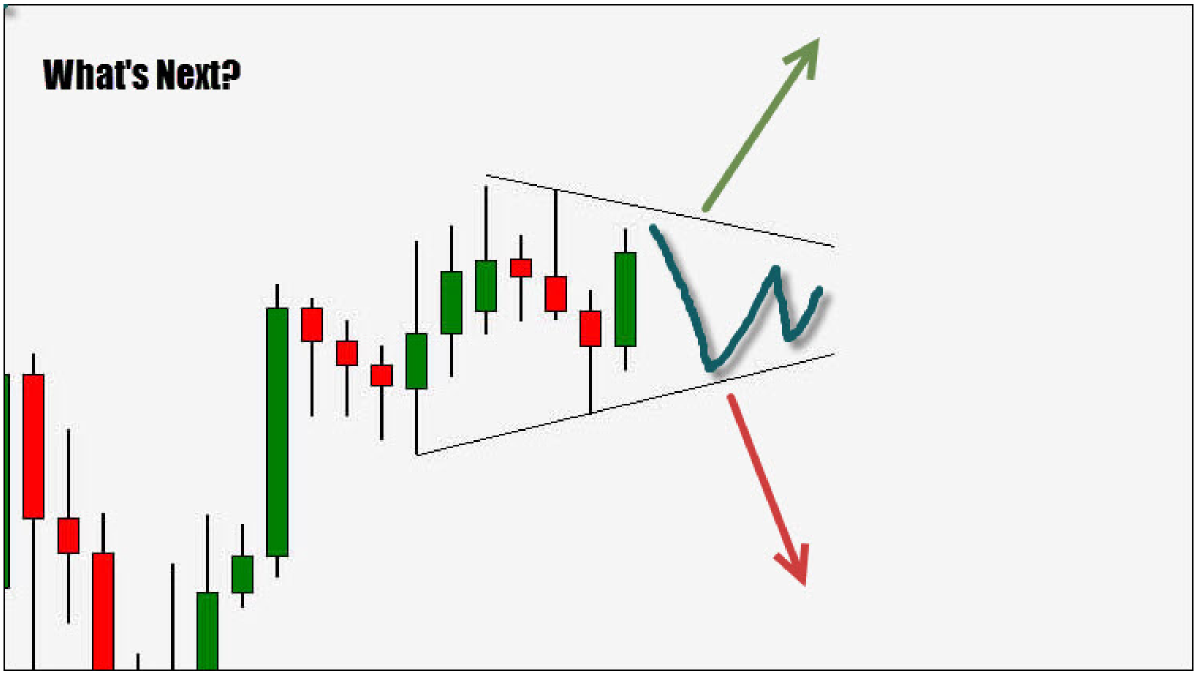
A lot of information came through the **daily USDCAD chart** including a swing analysis with the MACD plus momentum to the upside while price was moving down. We then had a first cross setting up a long entry at point #6.

Trade Swing Entries

1. Is at the correction to support (also market symmetry setup) as momentum turned to the upside on the 3/10 MACD as price was moving downwards.
2. Corrective move finding support at pivot #3, a symmetry pullback, and swing analysis using the MACD

The swing analysis using price swings and the 3/10 MACD fast line swings is a really great tool in adding a confluence to your current trading setups. It is something you may want to investigate further.

Price has not done too much since the last pullback and has stalled inside of a 140 pip range.



The MACD fast and slow line have turned down and the fast line momentum swings are lower highs while price made a moderate higher high. Price is also just below the recent highs.

We may be in for a lengthy range, another correction or perhaps a failure test of the range and then a run for the top. That would be crystal balling the market which is not something I would recommend.

It does however keep your expectations in check and on alert for other trading opportunities.

Profit From Traders Who Are Trapped In Losing Positions

The concept of profiting from traders who are trapped in a losing position is simple.

These traders, by virtue of being on the wrong side of the market, can help propel your trade when they hit the exits.

Wyckoff is actually the person who brought this idea of using upthrusts and springs to capitalize on traders who are on the wrong side of the market.

It is simply using a common price action trading setup and wrong footed traders to aid you in obtaining high probability trading setups.

I want to show you how you can **profit from these traders**.

Issues Of Traders Who Are Trapped

The fear and panic by those who enter a trade only to find the market going against them can cause a sudden burst of price movement.

This movement in price is caused by these traders exiting their positions and creating order flow in the opposite direction from which they entered the trade.

Whenever you look at the high of a green candle, picture someone hitting their buy button and entering the trade. Flash forward to the next candle being a red momentum candle and that trader who bought the high, is trapped.

To exit, they have to sell.

Now imagine many traders or many contracts being sold as these traders exit.

That is what we want to jump on.

Related - Use Momentum In Your Trading

Setups Where Traders May Be Trapped

I want to show two trading setups that are designed to capitalize on the plight of these traders and take advantage of their mistakes. We've all been there and know what it's like to find ourselves on the wrong side of the colored candles.

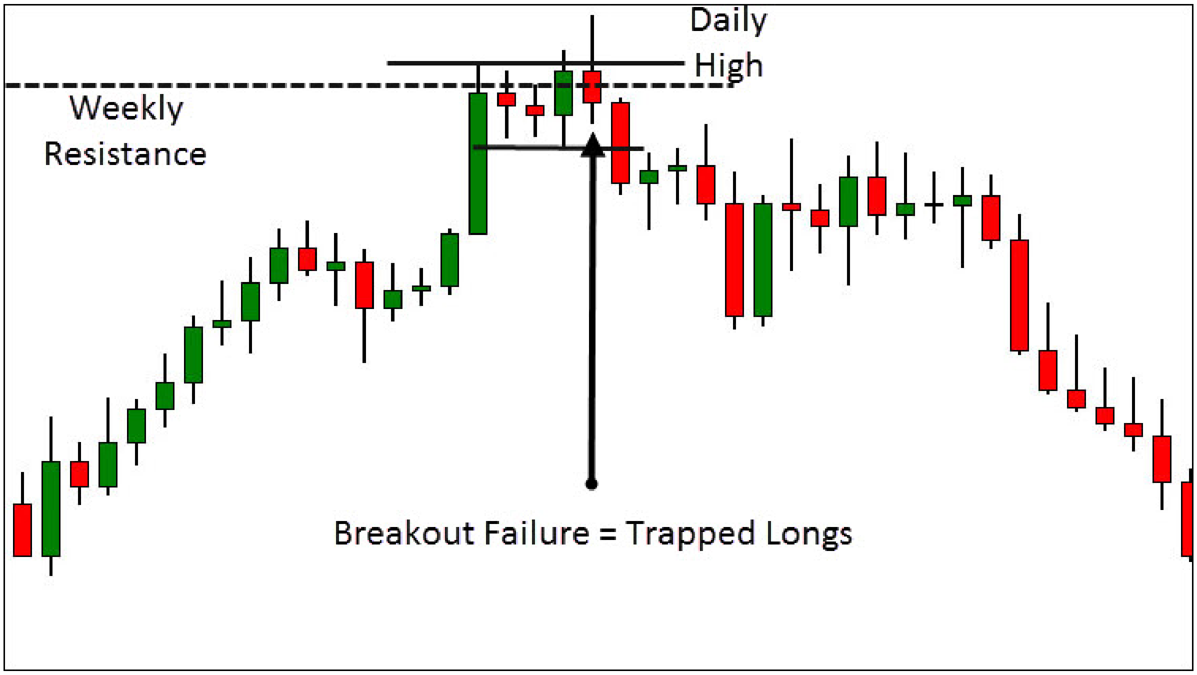
Now, let's find a way that we can profit from those that find themselves in the same position.

These concepts apply to both long and short positions.

Failure Tests Of High/Lows

Some will call these false breakouts but what is usually happening is the market is probing levels above certain areas for some sort of market action. These probes are designed to grab stops above key levels as well as entice buyers or sellers to jump on the breakout. They are also used to gauge interest at prices they are testing.

These are called failure tests or using the term the real inventor of this type of trading (Wyckoff) described it, upthrusts.



This is a daily chart and I have extended a weekly resistance line *(since 2013)* over to the displayed chart position.

Price is consolidating around the zone and this can often indicate a potential for a move in the same direction. I personally look for strong pushes and then price to consolidate at the highs of the move. Often times this can result in a further move up.

But here, context is key. Many traders take too small a view of the market and in doing so, miss out on important information.

This is not a short-term price resistance zone.

It goes back over two years, it's a weekly zone, and the dashed line is not the top end of the zone. It is from a consolidation of price just under the extreme high of the zone.

Traders see the large green candle, the consolidation, probes, and finally a strong push up. Remember, **that failure candle was actually a strong green candle** at one point.

Traders pile into the long side and that high of the reversal candle runs right into the extreme high of the zone!

On the same daily candle, price falls back into the consolidation zone **and those long are trapped on the wrong side of the market.**

They must exit.

The next day, the red candle tells the story of all those traders that ended up being trapped, exiting and new shorts entering the market.

How to play this move?

Once you have noted the reversal candle, you can enter at the break of the low or go short when price revisits inside the consolidation area.

Stop placement is simply above the extreme of the candle. If this is a true failure, **we don't expect the price to exceed that high**.

We also **don't expect the price to stay in the consolidation area**. We want to see strong movement after those that are stuck on the wrong side, exit the trade.

Failure to see price move in your favor soon after entry, you can use the "3-period rule" to exit your trade.

3 Period Rule: If the price does not do what you expected within 3 bars/candles after entry, exit the position.

Related - Failure Test Setup In Action

Trapped Pullback Traders

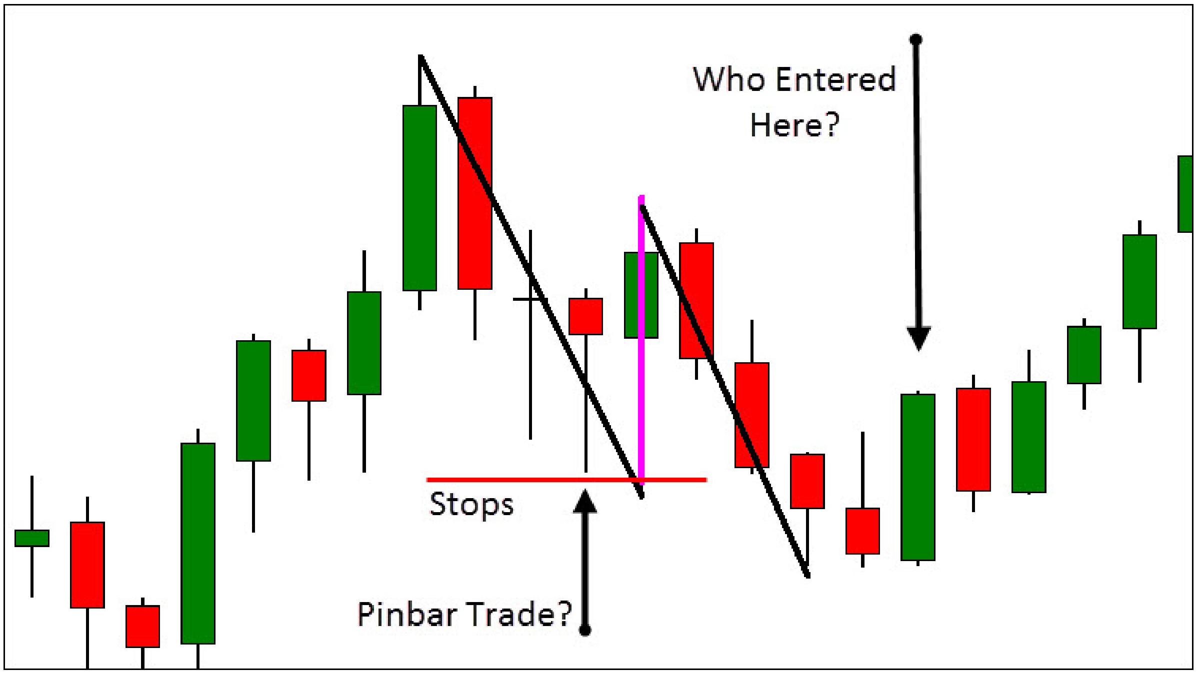
Markets move in waves with impulsive and corrective moves. A very popular trading method is trading the corrective move and entering a trade in the direction of the trend once the corrective move signals completion.

The issue is that many traders are impatient and don't want to risk not being in the move.

So they enter trades too early at the first sign of completion. When stopped out, they still don't want to miss the move so they re-enter.

Complex pullbacks are a little tricky in that they can be hiding inside a higher time frame structure. What may appear to be a simple pullback will actually be a two-legged (complex) pullback on a lower time frame.

Again, this is **simply how the markets move** and nobody invented this concept. If you are a trader and you have to exit a losing position, when would you do it? It's common sense.



Before this complex pullback, we had what appeared to be simple pullbacks on this time frame. Remember, simple pullbacks can be complex pullbacks on smaller time frames. Price advanced off the simple but when this complex completed, the price went on an extended up move.

The first black line indicates the first leg of this pullback and the pin bar looks like it could indicate a resumption of the up trend. Traders enter and place their stop below the candle.

But you are looking for a complex pullback and you sit on your hands.

Price advances then turns around and turns the longs into traders who are trapped short and takes out stops. This could also entice short players who will end up being trapped if/when price turns back in the direction of the trend.

Seeing that large green momentum candle, what could be taking place?

- Traders playing complex corrections take the long
- Traders who were in a losing position who exited longs earlier, re-enter
- Break out traders who got trapped shorting the market exit their position

Entering these types of trades is not always straightforward and neither is the stop placement.

1. You could drill down to a lower time frame and look for a pattern such as a short breakout failure on that chart.
2. You could buy stop a break of the highs once price breaches the low of the first correction and scale buy stop down until invalid.
3. Use a momentum indicator turn such as Stochastic.

Stops can be placed a distance from the low of the correction but not right under the pivot. You can still have price retest the area and execute the test that was mentioned earlier thereby taking out your stop.

Power Of Desperate Traders

It's very hard to see your position on the wrong side of the market and the execution of your stop not only saves your account, but feed the account of others who understand how those who are trapped in a losing position are going to react.

It's only logic to think that a trader in a losing position will exit at moment the paper losses evaporate and they are able to exit at or close to break-even.

Standard technical analysis always tells traders to place stops around the pivot areas or just above support/resistance in a range. **How can you tell traders do that?**

Look around your charts and on every time frame, you will see price enter a zone beyond the traditional stop zones and suddenly reverse.

Being on the right side of those moves can propel your positions into profit very quickly. The key is to see where traders may be on the wrong side of the market and get yourself positioned to take advantage of them when they have to execute.