The Forex Trader's Guide to Price Action

By James Stanley, Trading Instructor

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Over the past few months, we've published multiple articles on the topic of Price Action, which is the study of one of the most pure indicators available to traders: Price.

With knowledge of price action, traders can perform a wide range of technical analysis functions without the necessity of any indicators. Perhaps more importantly, price action can assist traders with the management of risk; whether that management is setting up good risk-reward ratios on potential setups, or effectively managing positions after the trade is opened.

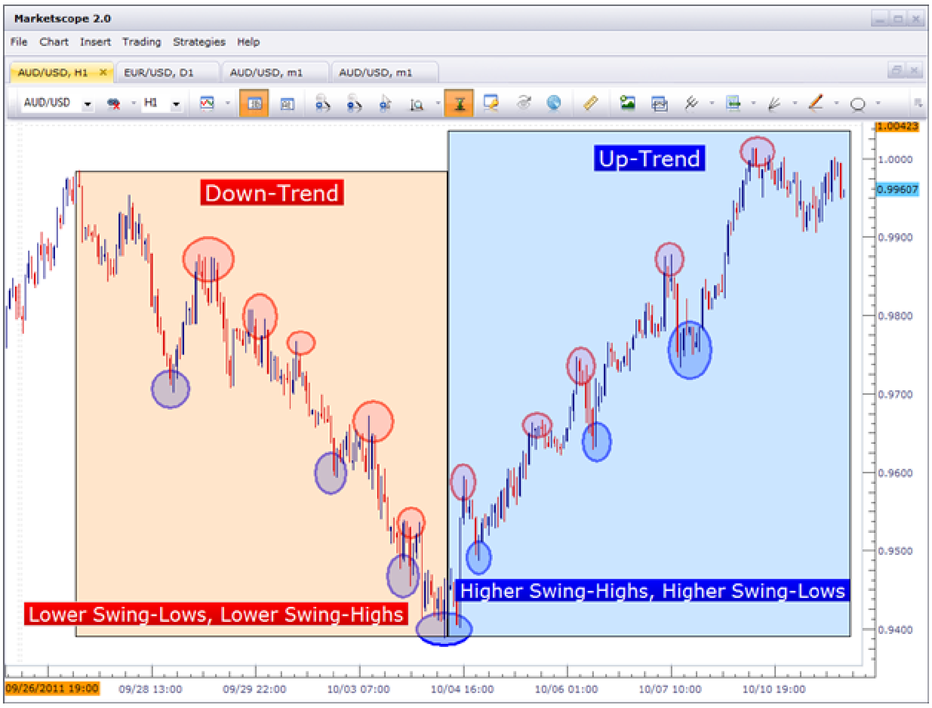
This article is a capstone of all of price action studies that we've published thus far; teaching traders to analyze and grade trends, enter trades in 6 different ways with various setups, and manage risk while looking at support and/or resistance.

Before we get into the individual elements of price action, there are a few important points to establish.

Trend Analysis

The first area of analysis that traders will often want to focus on is diagnosing the trend (or lack thereof), to see where any perceivable biases may exist or how sentiment is playing out at the time.

In Price Action Introduction we looked at how traders can notice higher-highs and higher-lows in currency pairs to denote up-trends; or lower-lows, and lower-highs to qualify down-trends. The chart below will illustrate in more detail:



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Entering Trades

After the trend has been analyzed, and the Price Action trader has an idea for sentiment on the chart, and trend in the currency pair – it's time to look for trades.

There are quite a few different ways of doing so, and we've published quite a few resources on the topic.

In Price Action Pin Bars, we examined one of the more popular candlestick setups available, which traders will commonly call a 'Pin Bar.' The Pin Bar is highlighted by the elongated wick that 'sticks out' from price action. The picture below will show a pin bar in greater detail:

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We took this a step further in [How to Trade Fake Pin Bars](), as we looked at how traders can trade candles that show long wicks that don't quite 'stick out' from price action. This is where trend analysis can greatly assist in the setting of initial risk (stops and limits). The following picture will show how a trader might want to play a 'Fake Pin Bar.'

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Periods of congestion or consolidation can also be used by traders utilizing price action. In [Trading Double-Spikes](), we looked at the 'double bottom' or 'double top' formation that is popular across markets. We looked at two different ways of playing Double-Spikes, both of which we've outlined in the following 2 charts.

We looked at the [Double-Spike breakout]() for instances in which traders are anticipating that the support (or resistance) that has twice rebuked price may get broken with strength. The Double-Spike breakout is plotted below:

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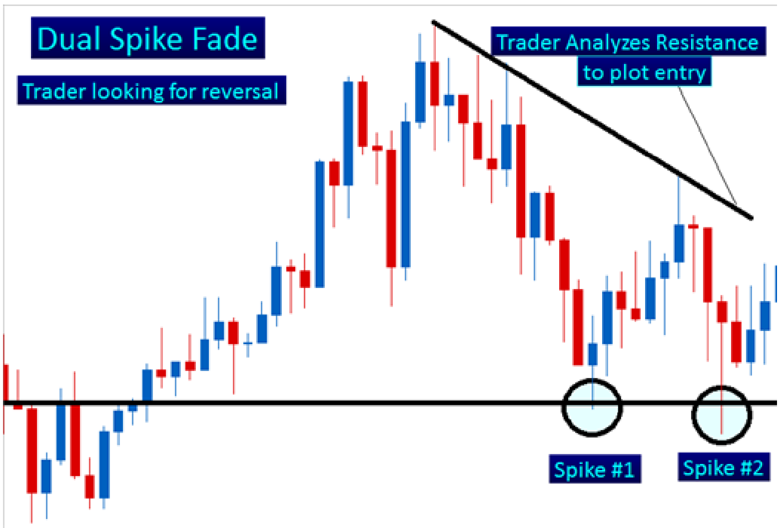
And for situations in which traders are anticipating support or resistance continuing to be respected, the [Double-Spike Fade]() may be more accommodating:



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On the topic of congestion, another very popular setup that we discussed was Trading Price Action Triangles.

While there are different types of triangles, most traders look to trade these periods by anticipating a breakout. Below is the 'Descending Triangle,' in which price has respected a horizontal support level while offering a down-ward sloping trend-line. Related is the ascending triangle that is highlighted with an upward sloping trend-line. In both instances, traders are often looking to play breakouts of the horizontal support or resistance level (this horizontal line is support for descending triangles, and resistance for ascending triangles).

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If no horizontal support or resistance exists, traders may be looking at a 'symmetrical triangle,' which adds an element of complication since there are no horizontal levels with which to look to play breakouts. The following illustration shows a symmetrical triangle setup, along with how a trader may look to trade it:

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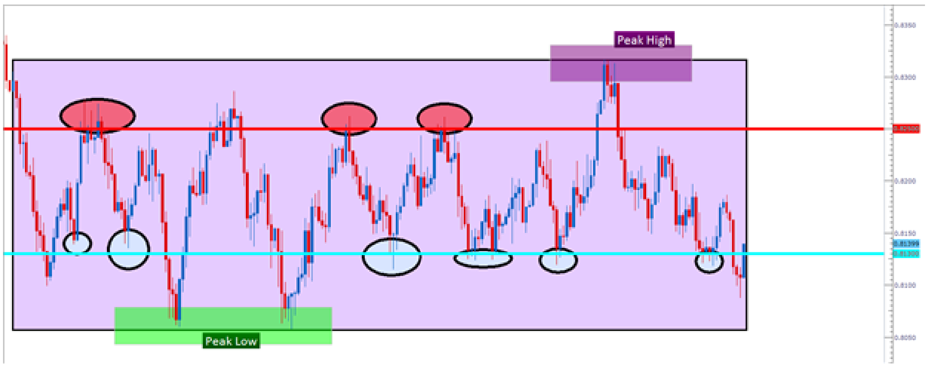
And for periods in which the market is ranging the article How to Analyze and Trade Ranges with Price Action went over the topic in detail.



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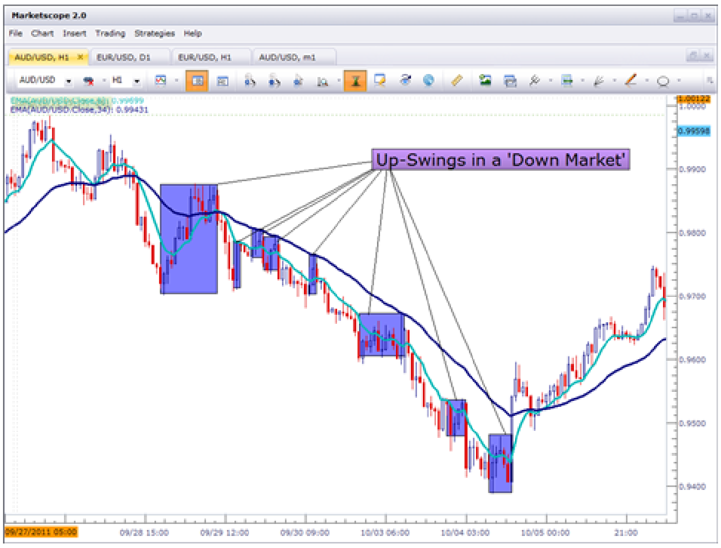
Risk Management

In [Price Action Swings]() we identified 'swing-highs' and 'swing-lows' with which traders could use to identify comfortable areas of setting stops or limits.



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And of course, in an up-trend:

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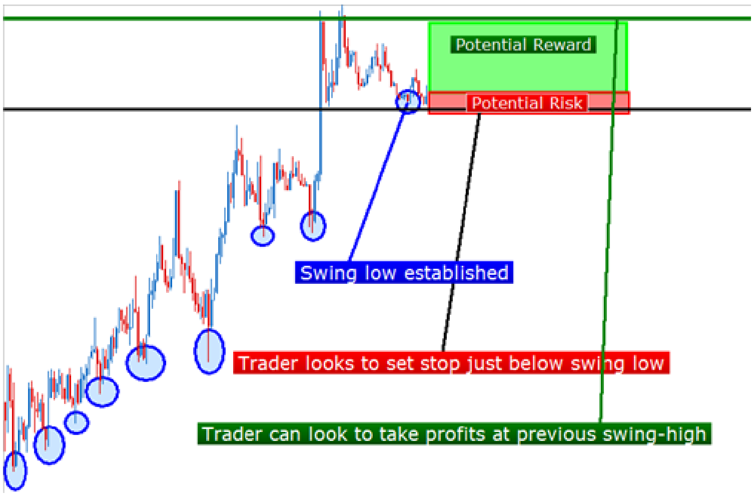
We took this a step further in the article [How to Identify Positive Risk-Reward Ratios with Price Action](), so that traders can analyze the relevant swings to decide whether or not the potential trade (given its management parameters) would be warranted.



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And of course, once we are in the trade, managing profits is a topic of key consideration. We looked at exactly that in [Trading Trends by Trailing Stops with Price Swings](). The following picture will illustrate this concept further:

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--- Written by James B. Stanley

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