

Discrete Levels and Divergence

The system can be divided into 3 parts:

1. Discrete Levels
2. Divergence
3. Entries (Price Action)

We draw levels and look at oscillator if there is divergence or no. If yes, we are waiting for price action patterns and enter. Easy, right? Now let's study each stage.

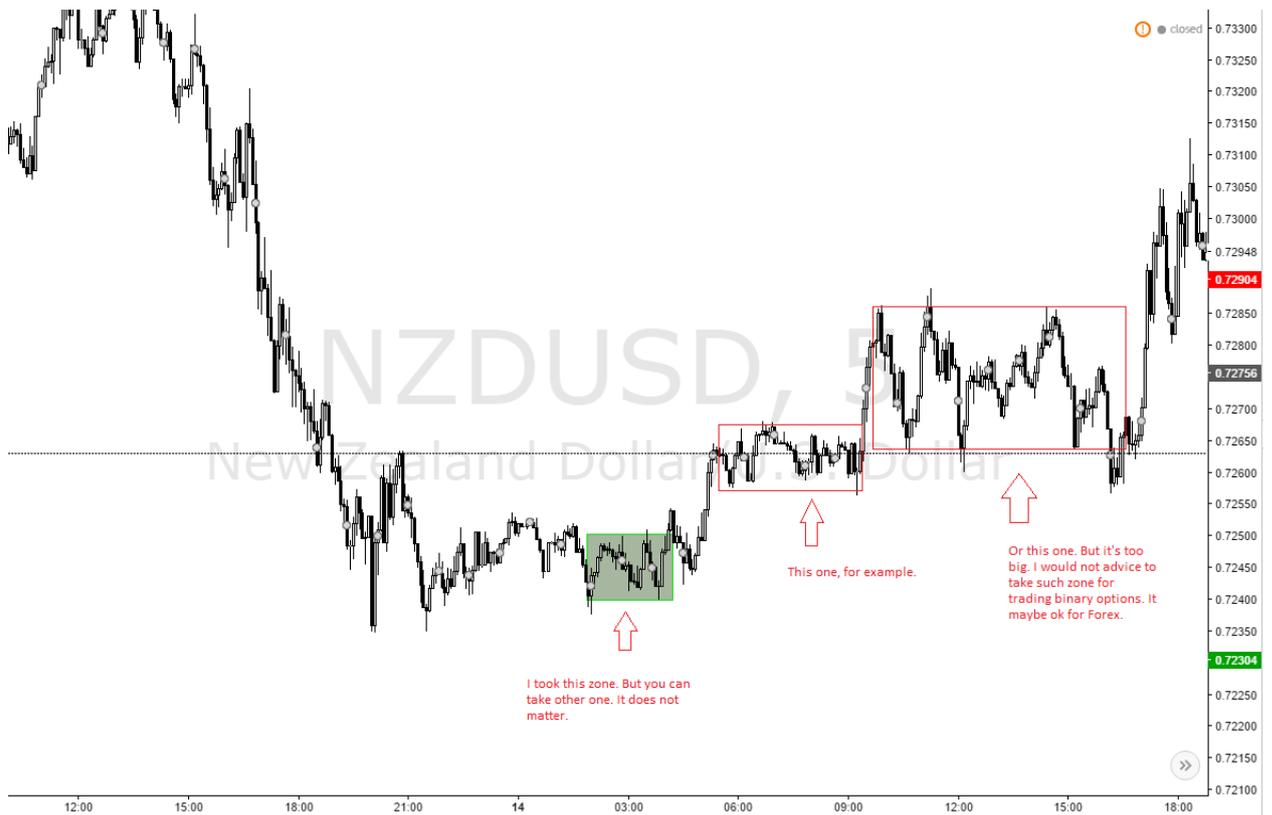
Discrete Levels

This part is the most difficult because many of you have never heard about "discrete levels". So I decided to divide this part on some steps.

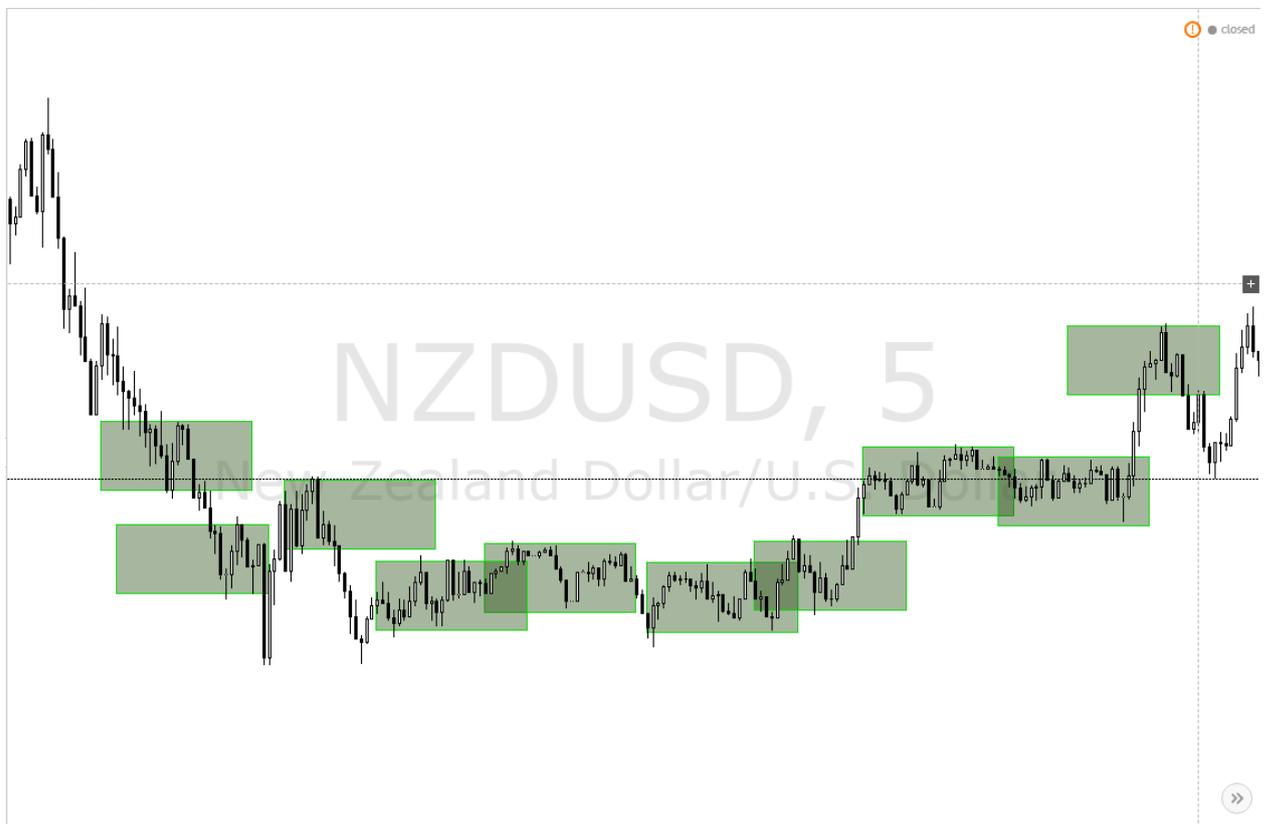
Step 1.

On this stage we will determine the average volatility on specific timeframe and currency. What do we need for it?

1. You open a chart and search for a consolidation zone. And then you mark it with rectangle. You take only one zone. Here is example:



2. You copy your rectangle and drag it to all price movements. The price should be inside your rectangle. Small backlash is allowed. Price must touch lower and upper border of your rectangle. It's hard to explain with words. Let's look at some examples:



Price touched lower and upper borders of my rectangle and almost all price moves are inside of rectangle.

Let's see another example. Now I will take Daily timeframe. AUDUSD



We took a random rectangle and now will try to insert it to all price movements. If we have small backlash and it will fit to price movements, it will mean that we have found average volatility.



If we see that our rectangle does not fit many times. And we have large backlash then we change rectangle.

Our rectangle is a method of approximation of the average volatility.

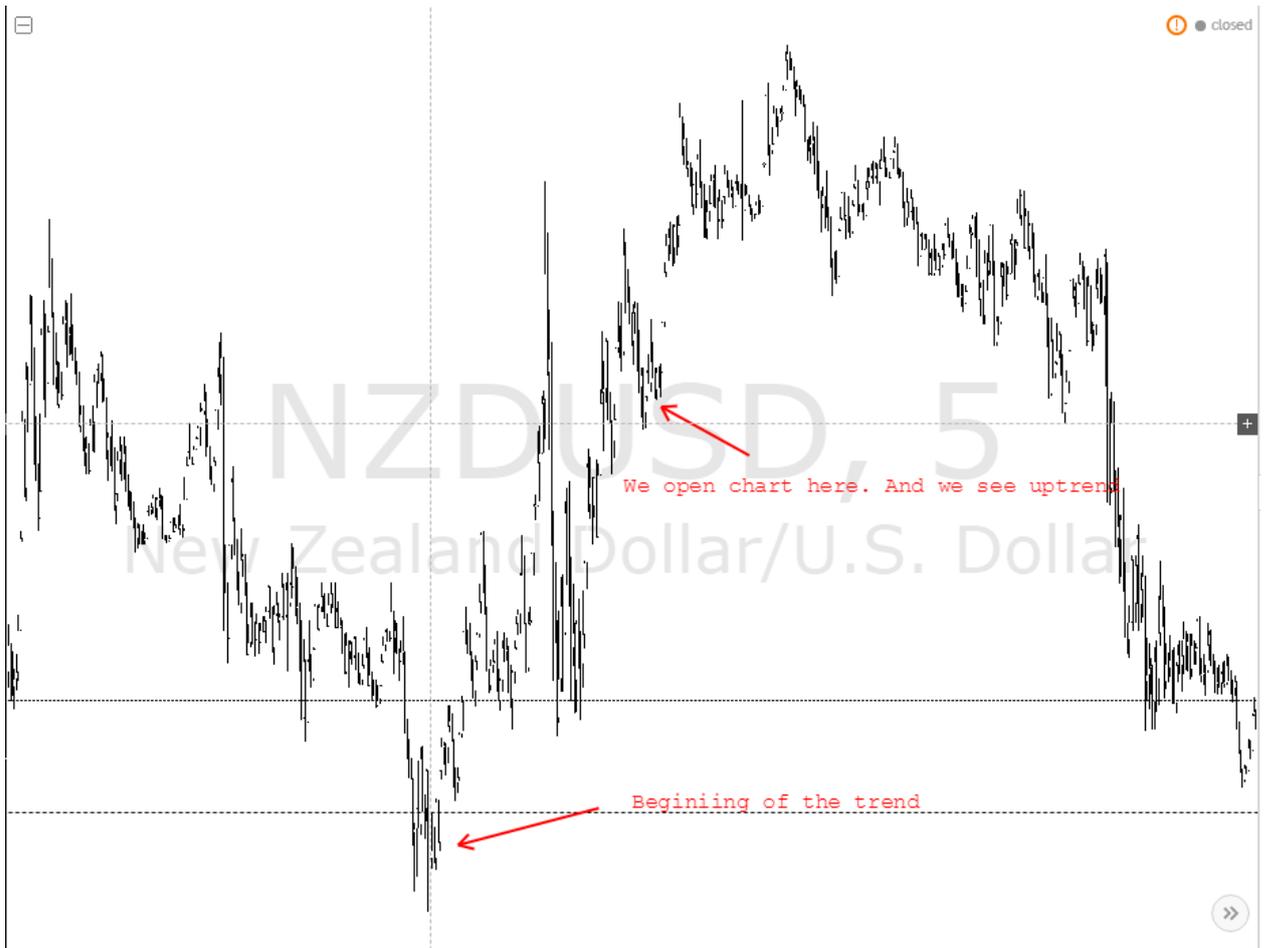
Step 2

Now you can find an average volatility. It's time to learn drawing discrete levels.

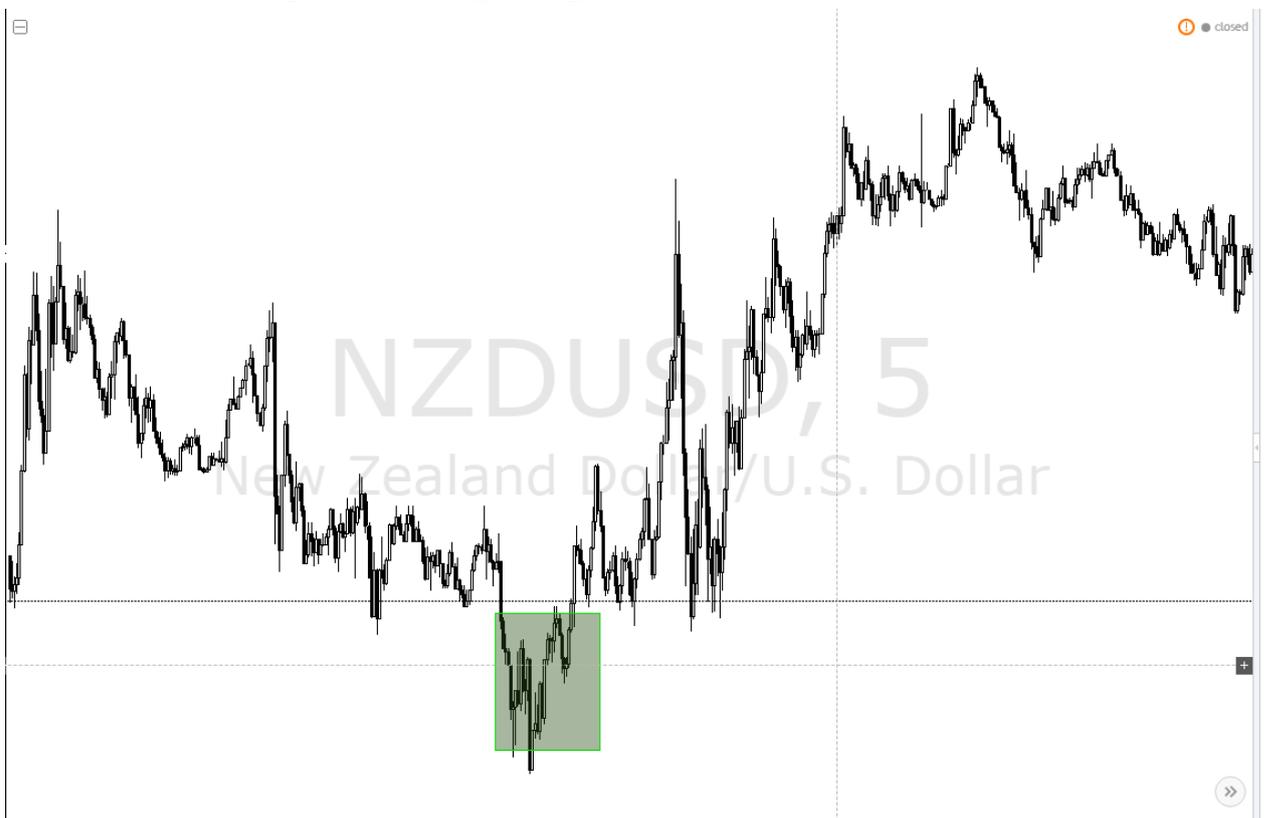
We need our rectangle and Gann Box. If you don't have Gann box you will have to draw levels yourself. It will take much more time.

First of all, you look at trend. If we have trend now, then you search for it's beginning.

Example:

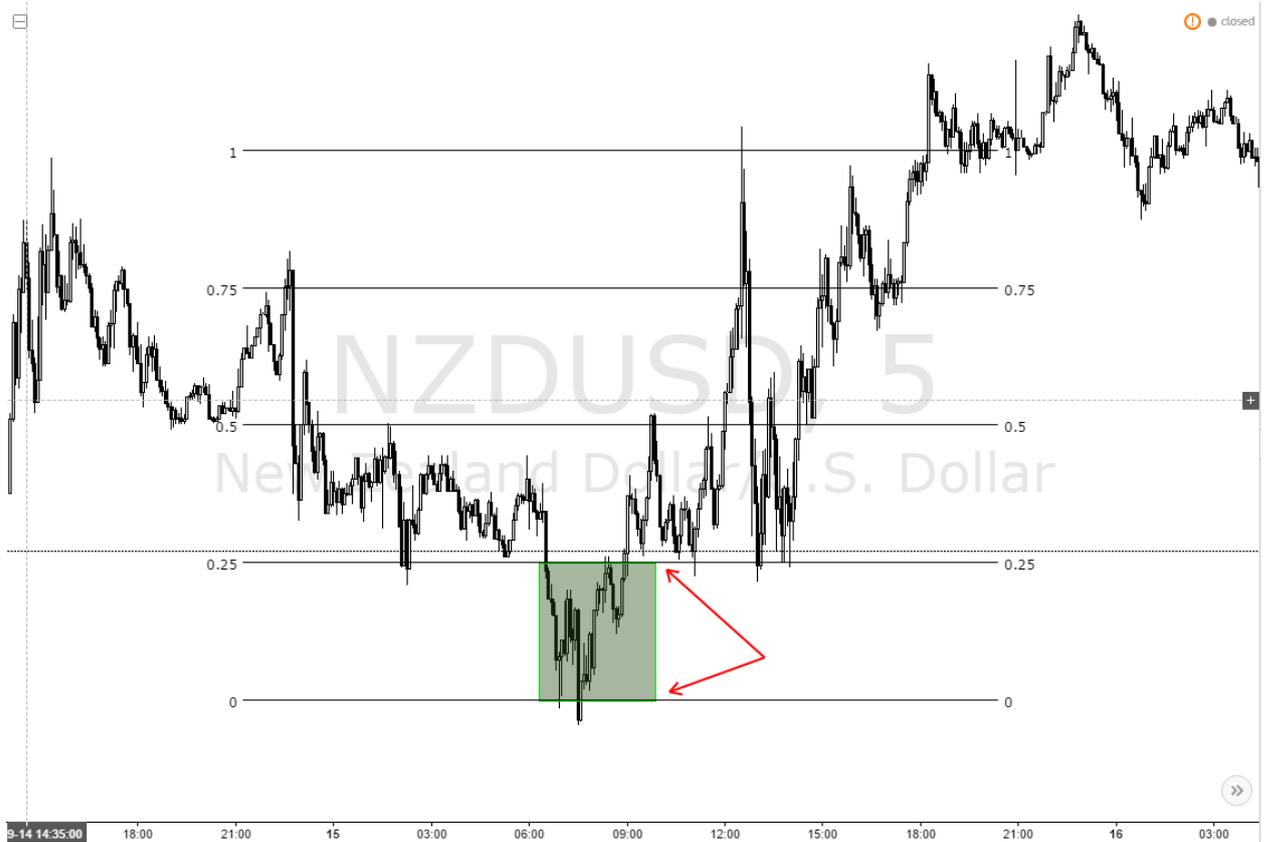


We put our rectangle at the beginning of the trend.

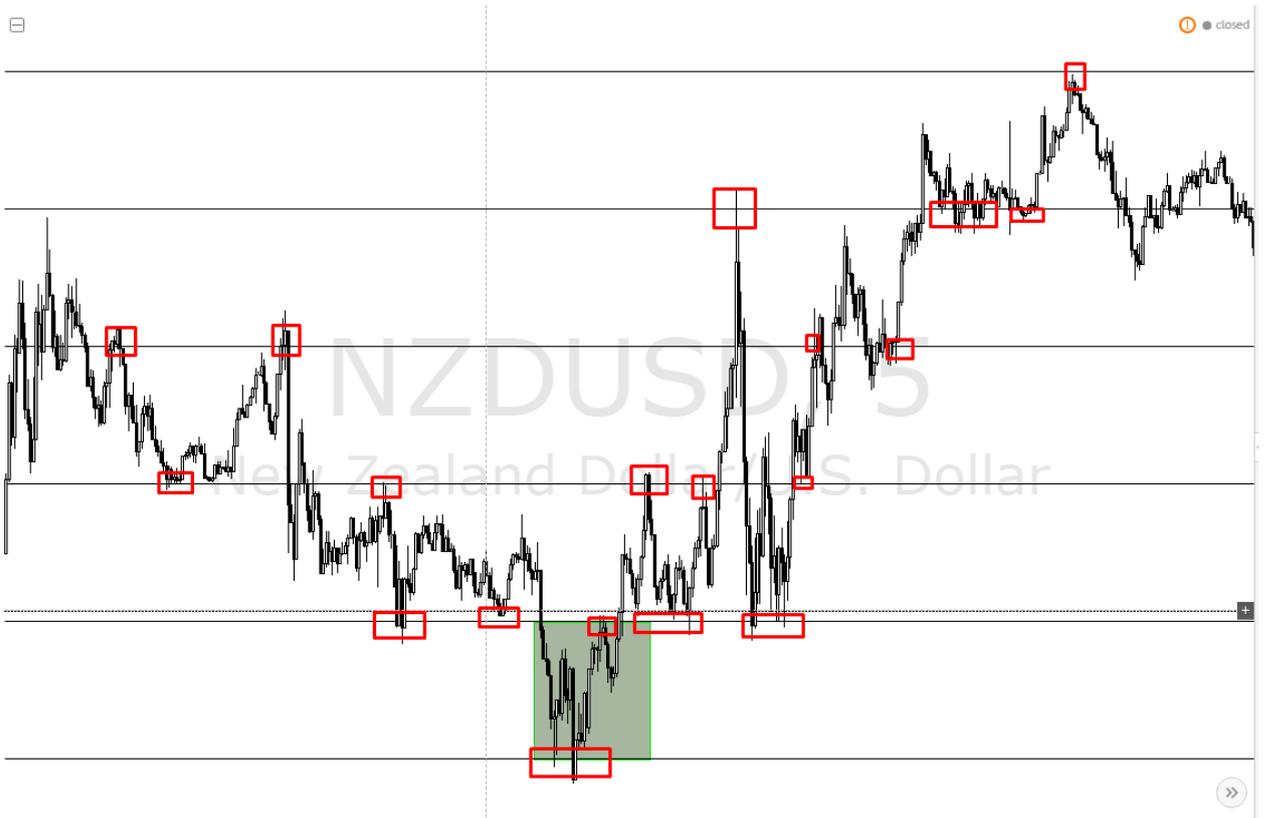


We have a small backlash here. But it's okay. I did not test this rectangle very much. So you should not take it as ideal.

After you put your rectangle at the beginning of the trend, you take Gann Box and do like this:



And then just extend your levels to left and right. Also look how many times Price tested our levels (red zones):



We considered situation when we opened a chart and there was a trend. Now let's imagine that we opened a chart at this time:



In this situation, we take Gann Box and do the same I described earlier. But such as we don't see the trend (we opened a chart when it was consolidation) we see how price reacted at our levels earlier. Example:



We look at previous move. Price likes our levels. So we don't need to correct them. Sometimes it happens that we need to move them a little bit up/down.

Backlash

Usually we don't change our levels. They live for a long time. But sometimes it happens that we start to have large backlash. So we need to move our levels a little up/down. Example:



Let's move levels and see how Price will react.



We moved levels and now we have less backlash. Price reacts to each level.

At the end of this part I want to say that drawing discrete levels is very hard work. You need a lot of practice. Even I make mistakes sometimes. Let's move to part 2.

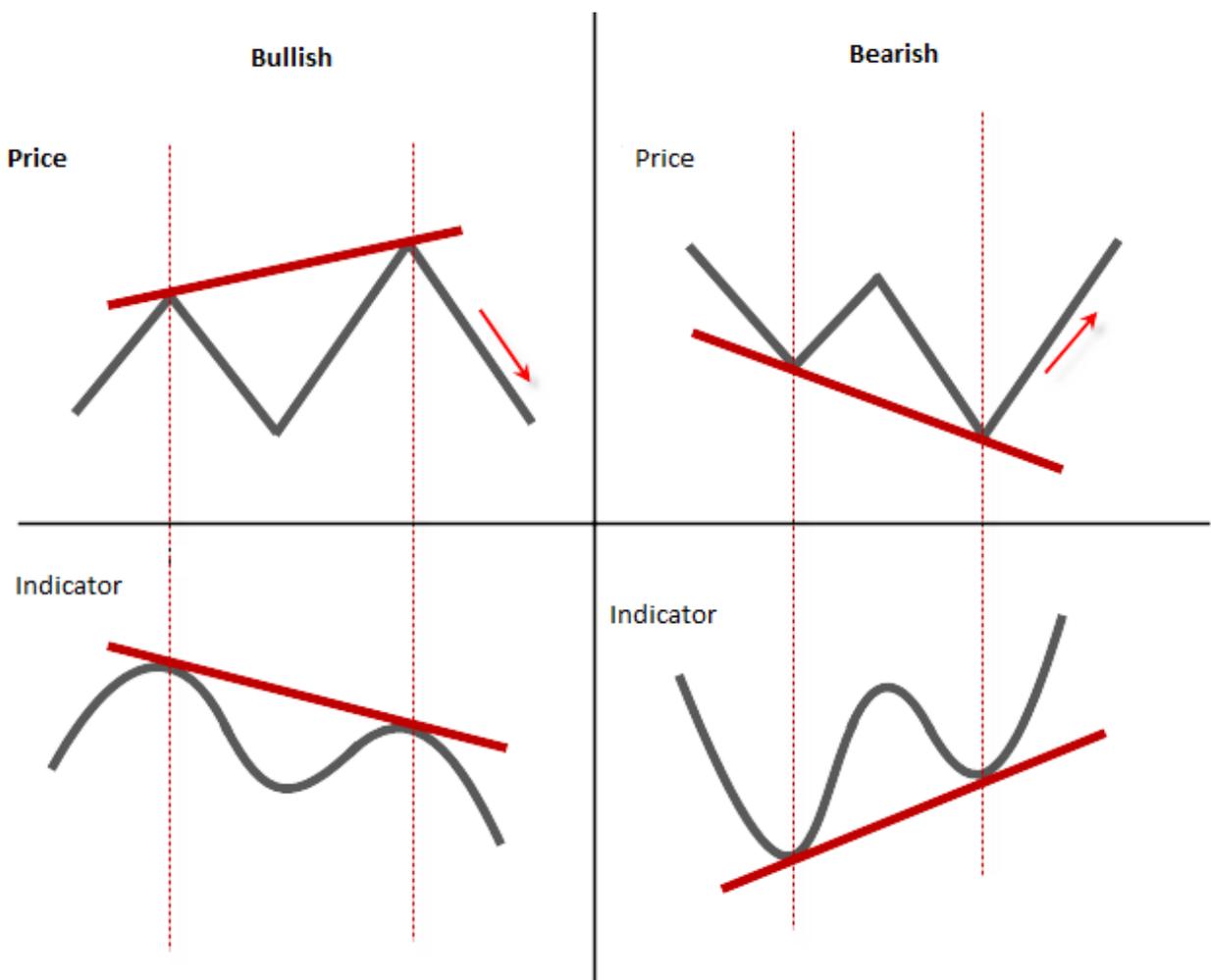
Divergence

I am sure, many of you many times heard about divergence. But I want to describe my whole system, so I am not going miss this part. If you know what is hidden, regular divergence and how to detect them, you can move to part 3, where we will talk about entries. But for those, who has problem in finding divergence, I will help you to solve this problem. So, let's go.

We have two types of divergence: Regular and Hidden.

Regular

A regular divergence is used as a possible sign for a trend reversal.

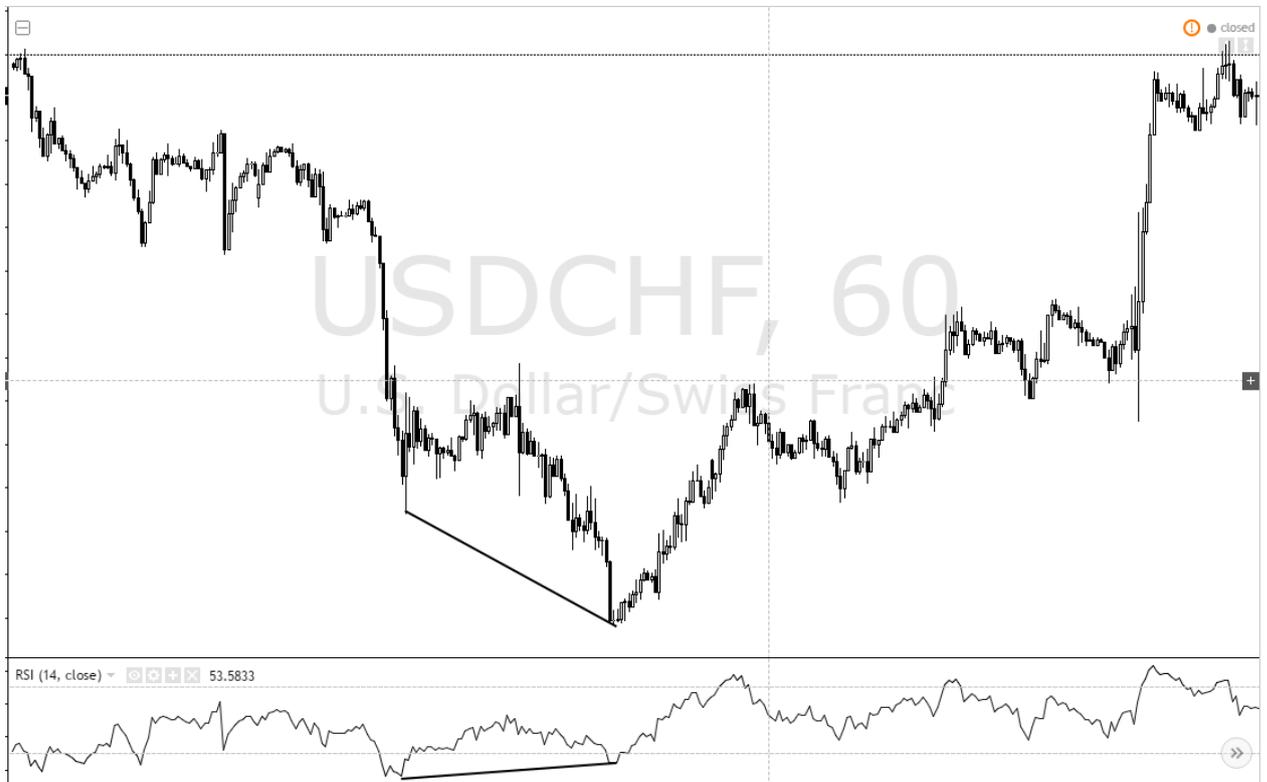


If price is making lower lows (LL), but the oscillator is making higher lows (HL), this is considered to be regular bullish divergence.

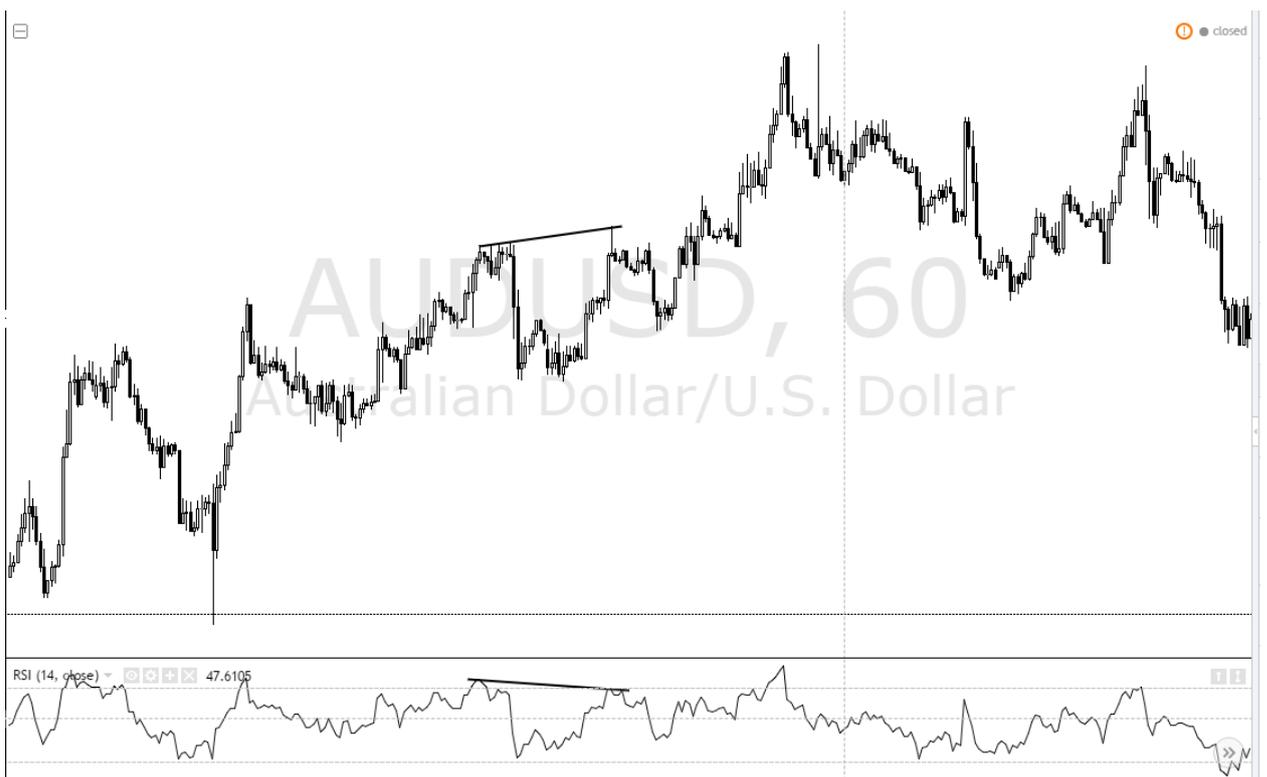
If the price is making a higher high (HH), but the oscillator is lower high (LH), then you have regular bearish divergence.

Examples:

Bullish

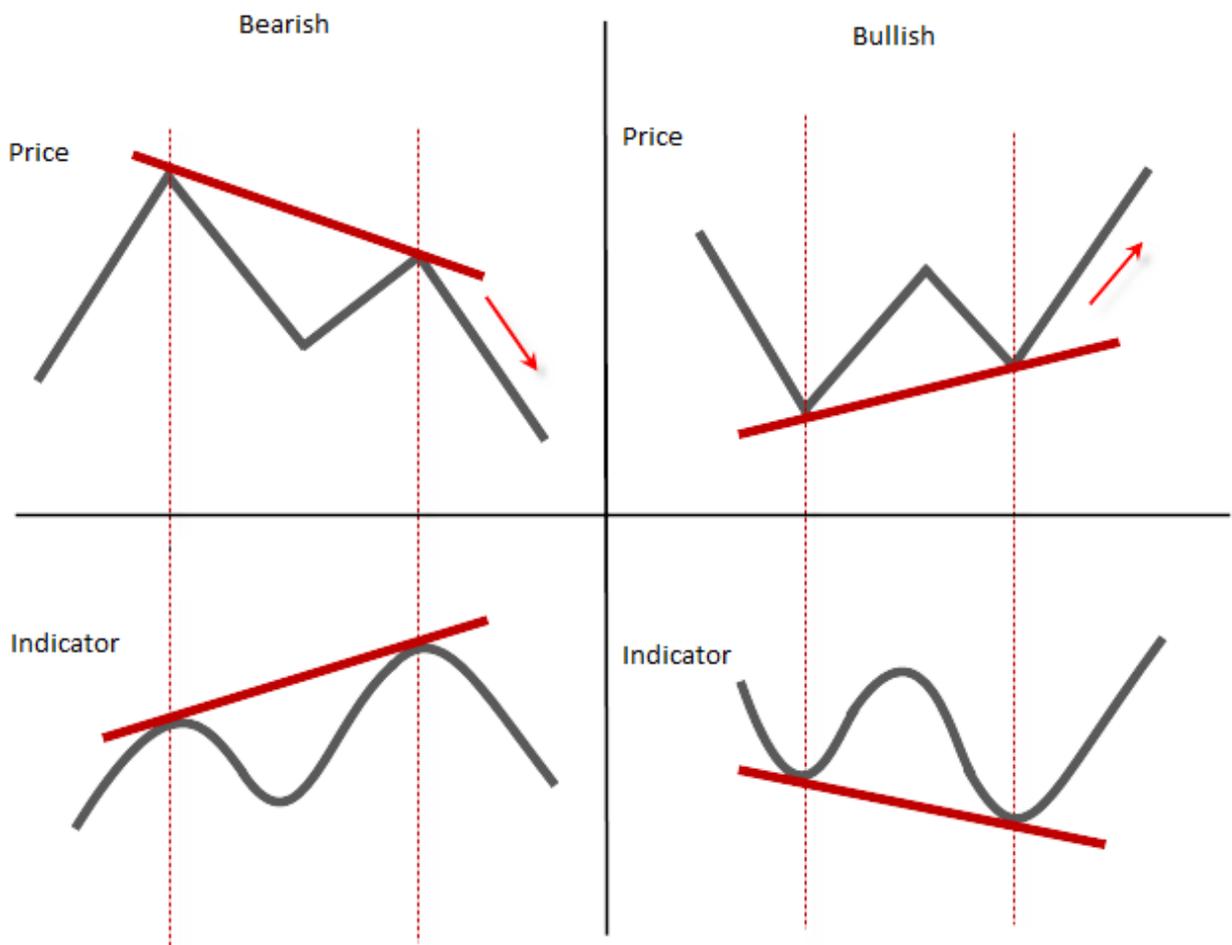


Bearish



Hidden Divergence

This type of divergence is used as a possible sign for a trend continuation.



Hidden bullish divergence happens when price is making a higher low (HL), but the oscillator is showing a lower low (LL).

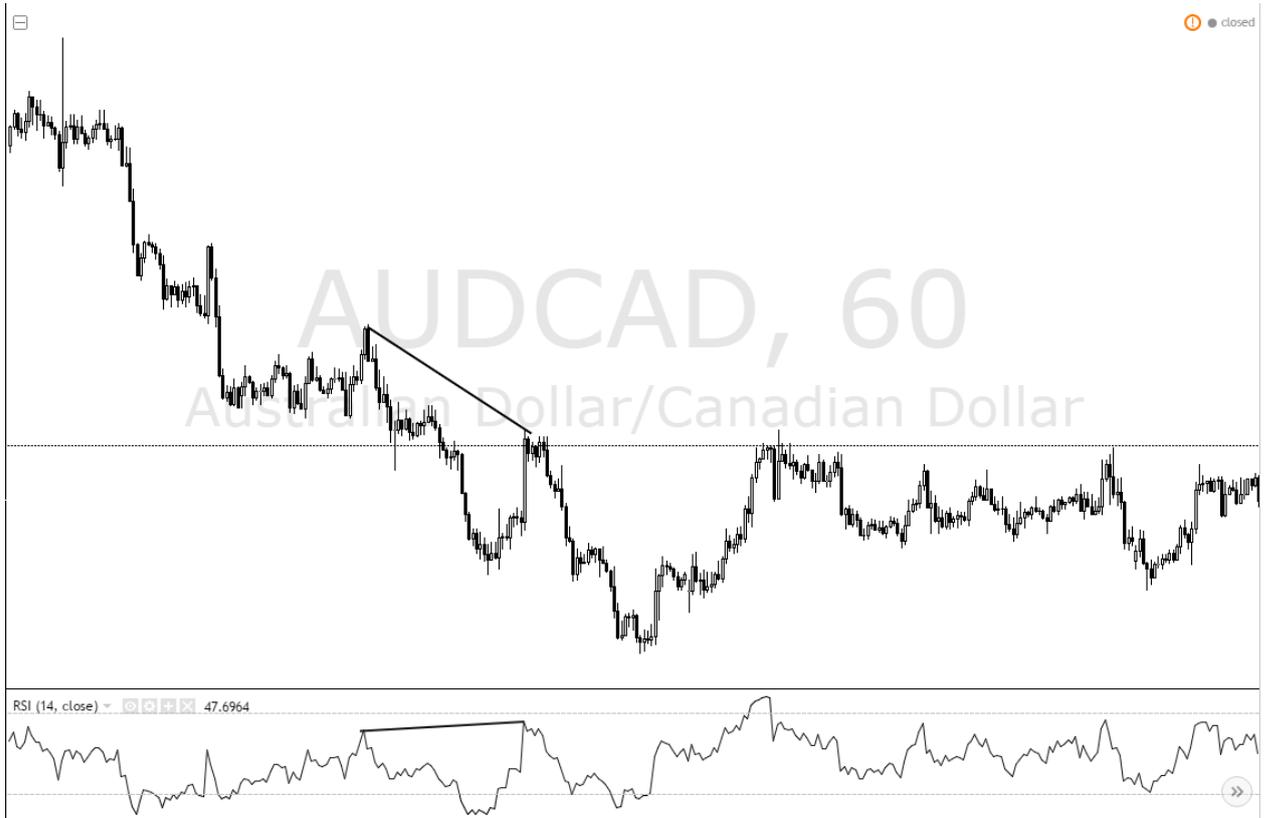
Hidden bearish divergence happens when price a lower high (LH), but the oscillator is making a higher high (HH).

Examples:

Bullish



Bearish



Entries

To enter the market I look for Price Action Patterns on discrete levels. I use Pin-bars and PPR.

I will not explain this part in details because I am sure, many of you know how to enter the market. Especially those, who trade divergence with support and resistance.

I trade this system on binary options so I use 3 candles expiration time.

Examples:



DaXen published on TradingView.com, September 15, 2016 15:08 MSK
FX:AUDUSD, 5 0.74778 ▲+0.00119 (+0.16%) O:0.74800 H:0.74812 L:0.74777 C:0.74778



DaXen published on TradingView.com, September 15, 2016 20:05 MSK
FX:NZDUSD, 5 0.72979 ▲+0.00167 (+0.23%) O:0.72980 H:0.72983 L:0.72976 C:0.72979



DaXen published on TradingView.com, September 11, 2016 18:44 MSK
FX:NZDUSD, 5 0.73187 ▼ -0.00798 (-1.08%) O:0.73222 H:0.73229 L:0.73186 C:0.73187



DaXen published on TradingView.com, September 13, 2016 21:19 MSK
FX:GBPUSD, 5 1.31935 ▼ -0.01406 (-1.05%) O:1.31962 H:1.31962 L:1.31935 C:1.31935



DaXen published on TradingView.com, September 13, 2016 21:20 MSK
FX:GBPUSD, 5 1.31958 ▼-0.01383 (-1.04%) O:1.31958 H:1.31958 L:1.31958 C:1.31958



DaXen published on TradingView.com, September 13, 2016 22:04 MSK
FX:NZDUSD, 5 0.72401 ▼-0.01122 (-1.53%) O:0.72420 H:0.72432 L:0.72390 C:0.72401



DaXen published on TradingView.com, September 14, 2016 11:45 MSK
FX:USDCAD, 5 1.31501 ▼ -0.00260 (-0.2%) O:1.31502 H:1.31506 L:1.31484 C:1.31501



DaXen published on TradingView.com, September 13, 2016 21:06 MSK
FX:AUDUSD, 5 0.74581 ▼ -0.01074 (-1.42%) O:0.74625 H:0.74627 L:0.74581 C:0.74581



Hope this article was helpful to you. I tried to explain how I see the market. If you have any problem with understanding my system, feel free to ask me for help.

Regards,

Brox.