

Evening Star as resistance area



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The minimum requirement of a star formation is that the third candle cuts AT LEAST half way into the first candle, if the third candle exceeds the first candle, its also a star formation. – **strictly talking about real bodies, the shadows does not matter as criterions of candlestick patterns.**



DISCIPLINE:
Your Blueprint for
Forex Trading Success

Don't ever forget risk- reward

If... Then system

Stops: Always use

Candles in Context

Intra-day candle charts

Pace trades to market environment

Let go of emotions

Indicators: The more the better

Never trade without an eye to news

Examine how market acts at support/resistance



**Don't ever forget
risk- reward**

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Risk vs. Reward

When there is a bad risk reward, don't trade. Look where the S&R, and compare the limit and stops.

Nison Trading Principle #4

Even a “perfect” candle signal
does not equal a good trade!
**YOU MUST ALWAYS JUDGE
THE POTENTIAL TRADE’S
RISK-REWARD**

Hammer confirms support/but what about r/r?



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✚ In the above, would we buy on the hammer even though it confirms with a support and price is likely to go up? The answer should be no, because the resistance area is also near, and by looking at the arrow, our Risk reward is about 1 – 1 not a good risk reward ratio.

✚ Also a candlestick is not an official candlestick signal until it closes for the session.

✚ If price is trading in a lateral box range, and we buy on a break out the stop loss should be the old resistance level which the price just broke, which is also our new support level. The profit limit level should be the height of the initial box range. In the above chart, the green arrows point to the height of the lateral box, and this height should also be the profit taking level once the box is broken

Risk/ Reward



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Is the above a good risk reward if we buy on the hammer or bullish engulfing pattern? You tell me

Morning Star but ????



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- ✚ Would we buy on the morning star enclosed by the box? The answer is NO, because it is a poor risk reward, and because the morning star is happen near a resistance area.

Risk – Reward



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✚ In the above chart, buying on the hammer is fine, because it is a good risk reward.

If then

If..Then system

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Basic idea: If the market does certain thing, we react by certain way.

If a market break resistance, we go long, if break a support we short, **this is momentum trading**

If price does not move within a certain time, we step out of the trade, free up capital.

Support and resistance are not exact.

One of the biggest mistakes a trader do is anticipate,

[Example 1, the price is moving up toward a resistance, a mistake trader make would be going long thinking the price will break the resistance, even though resistance haven't been broken yet.]

[Example 2, the price is moving down toward a support, a trader would go short even though there is no confirmation that support has been broken.]

In both cases, the likelihood of broken resistance is unclear, and speculative, the trader puts on a trade with great profit potential at the expense of the trade not working out.

The if then system advocates initiating trades when resistance have been confirmed, and price clearly move above or below certain level. We increase the likelihood of trade working out with less profit.



- ✚ Also think about time stop. In the above, if we bought on the bullish engulfing pattern and hammer shown by the rectangle, our stop loss would be naturally the low of the hammer, which is the support, and the target is the most recent peak high shown by the chart, at the same time, we also want to think about the amount of time we spend on each trade, this is known as a time stop.

Equity research shows that, if a trend is followed by a long horizontal band, the chance of a continuation is more likely than a reversal.

Stops: always use them

Stops: Always use

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"There is always a price that says we are wrong" its what stop is all about

Always Set stops below whole numbers, because the stop hunters.

Stops

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- In the above, in the second semi circle which is also a bearish engulfing pattern, the stop should be at the high wave candle. Just to be on the safe side.

Setting Stops w/o waiting for close



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- ✚ Sometimes, we find potential limit, and use risk reward ratio to work back to where the stop level is. Also consider the strong S&R level of higher time frames. And if our stop is right below the higher timeframe (eg daily) S&R, we need to also consider setting our stops higher, even if you are just a intraday trader.

Always place our stops before our trades, because of the psychological aspect of trading, when we are in the trade our judgement become polluted with our expectation and emotions. Although actually, the most successful traders, and many will not achieve this level, don't set stops, they have mental stop and pulls the plug in the trade, this require extreme amount of psychological discipline.

Indicators: The more the better

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Indicators – the more the indicators indicate the same thing, the better.
Confluence is when more than one indicators all align to the same thing.

Nison Trading Principle #12

The more signals - either candles or Western or a combination of both – converging at the same level, the more likely a reversal

Confluence of Candles



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- ✚ In the above chart, we have a confluence of candlesticks, where two candlestick patterns converge with a support area. In the first pivot, there is a piercing pattern, the second time, there is a hammer before price goes up.

Western tools



Horizontal support and resistance is very important.

Examine how the market acts at support or resistance

The candlestick screener



The Candlestick Screenener™

Using candles at support or
resistance to screen for the best
probability trades

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- Using candles at S&R to screen good trades.
- Specifically for horizontal ones.
- Always screen for the signals of reversal. Signal for reversals are very important, especially at S&R.
- If there is no signs that a prior trend is losing steam, do not think about initiating a counter trend position.
- Look for how price are doing at resistance, screening for candles for signals of reversal.
- When candles are not confirming to anything else, trend becomes neutral, could use the candle to exit a position.
- If a candle confirms with other indicators, it could be used to not only exit but enter a counter trend position, as the probability of reversal goes up from neutral to possible reversal.
- Move up stops to adjust to new price actions.
- When a breakout happens, there is a bull flag.
- Use doji to adjust stops

Using the Candlestick Screener™ 1 of 3



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- In the above chart, we carefully watch candlestick and price action at resistance. The market has met resistance, the close is not convincing, therefore we should not place too much emphasis on it, and should not initiate a buy position. At the same time, because this trend is not losing steam, we also should not be initiating sell position. We simply wait for more signals.

Using the Candlestick Screener™

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- ✚ This is a possible sell signal because we have seen that at resistance, a shooting star has formed and the price is coming down with a bearish harami. This is particularly important signal because its reversal implication also because it is a candlestick signal happening at strong resistance level.



The Candlestick Screener™



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✚ In the above, we have a small body candles meeting falling resistance, and a bearish engulfing pattern.

Using candles to enter vs. exit



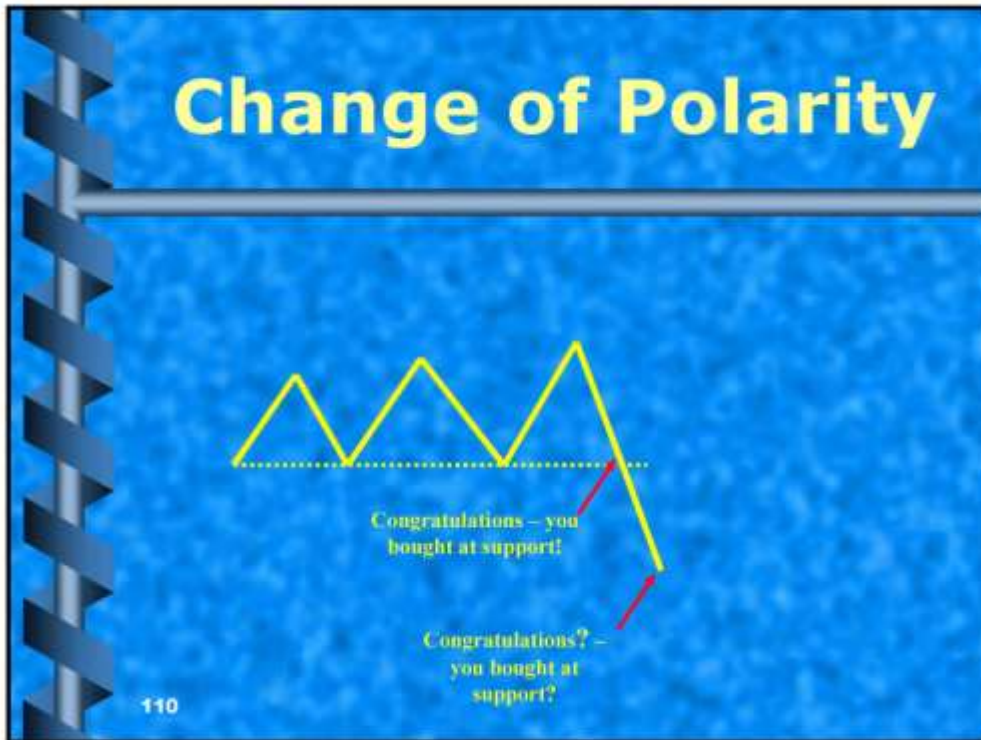
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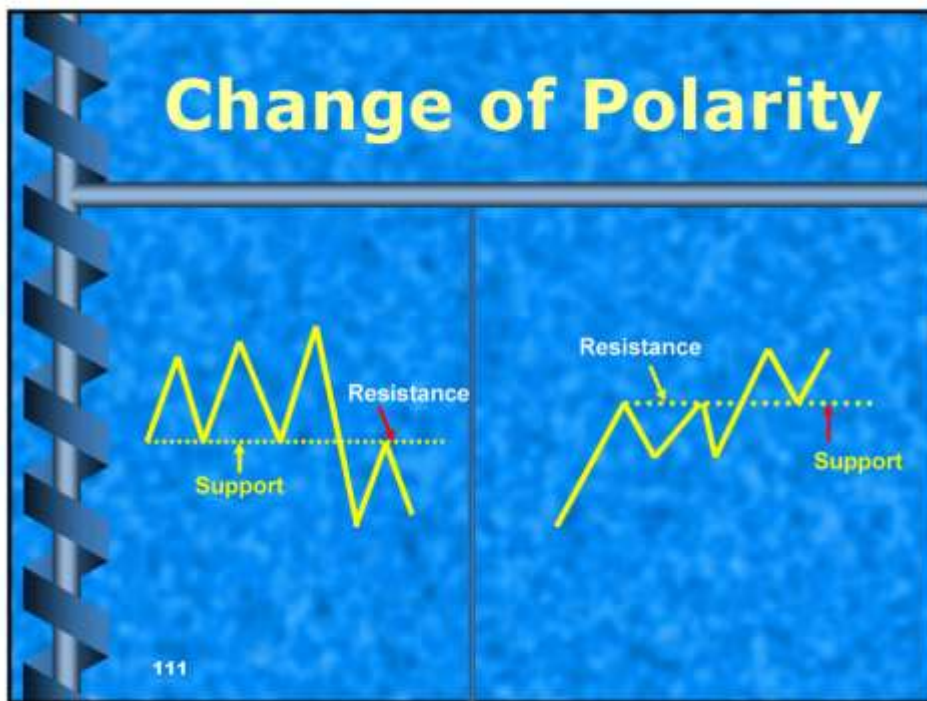
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- ✚ In the above chart, we could enter a long position at the hammer, because it is a hammer which hints reversal at a support area. At the doji, we could use it to exit our long position because it is showing that the market is losing steam. But because it does not confirm other indicators, we do not enter a short position based on a doji.

In short, when a candlestick confirms other indicators, we could place very strong confidence on it and enter positions on its signal, but when candlestick does not confirm other indicators, it is not that strong of a signal, but it could be still valid, so we could use it to exit current position.



Old support becomes new resistance.



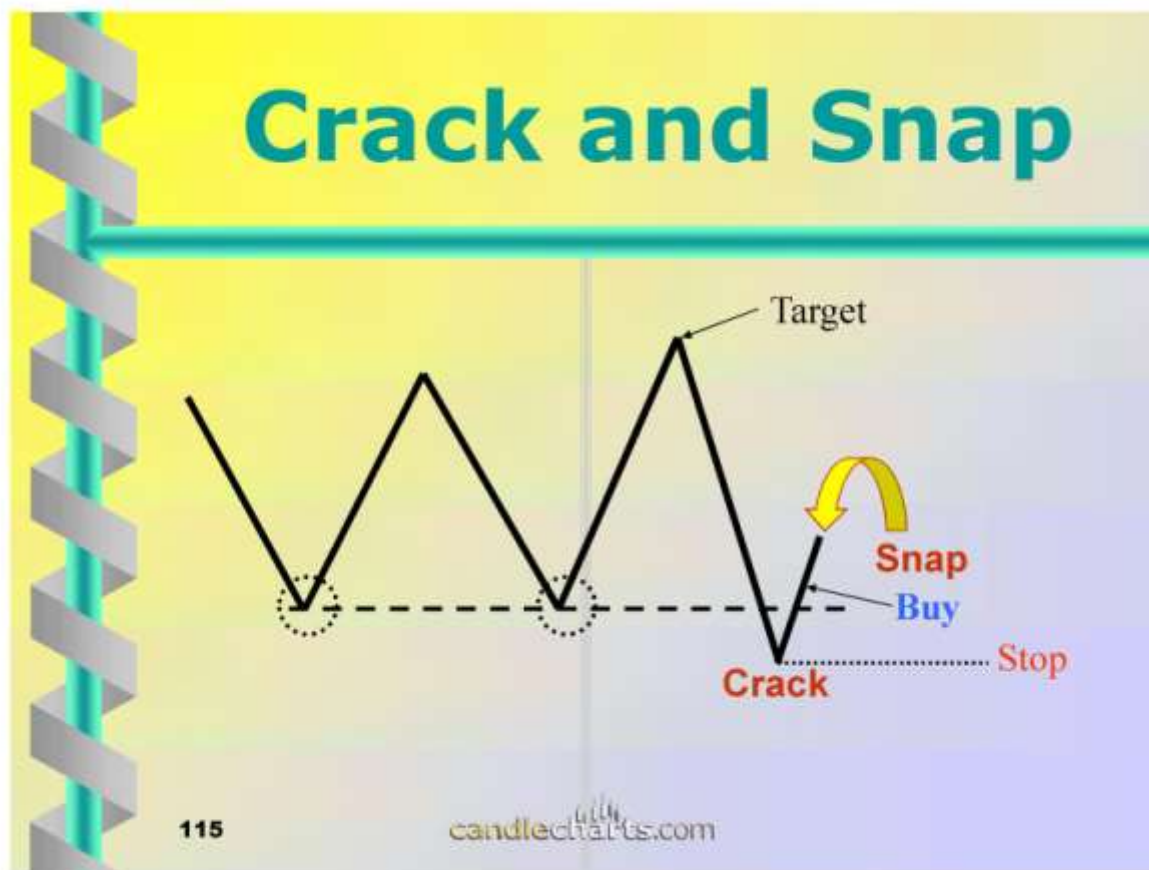
for support turned resistance, the buyers who bought at old support now becomes seller at the old support, therefore new resistance

for resistance turned supported, the old seller becomes buyers at the old Resistance.

The resistance or support should be tested couple of times. Preferably more than two.

East and West = Increased Confidence





The market cracks under a old support level tested 2 or 3 times. And then come back up above the support. The stop should be the at the low of the crack, and the limit taking should be at the most recent high. (not high of the box, but of the previous high)

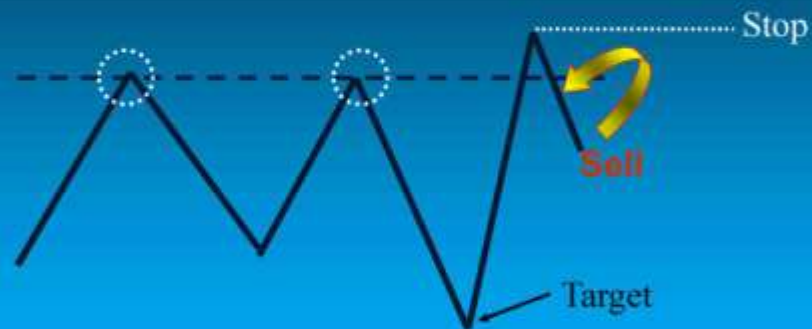
Crack and Snap

Chart courtesy of Genesis FT

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Falling off the Roof



Falling off the roof!



Candles do not give price limits, they are used for reversal. This is one we use candlestick to combine with western technicals, candlesticks are great for calling reversals, yet they do not show how far the reversal will go, this is where western technical comes in.

The price level are at support and resistance which could be shown with candlesticks.

Candles and price targets



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In other words, when the strong and retested resistance or support is pierced once, and could not close above it, the higher or low of the piercing pattern is the stop, and the limit is the most recent high or low.

When there is a breakout, the stop loss level should be the old support or resistance.

When a congestion or box range happens, and there is a break out, the profit taking level is the height of the former box range.

Change of Polarity and Measured Moves



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✚ In the above chart, we use the old box range to define the new profit limit.

West for Targets



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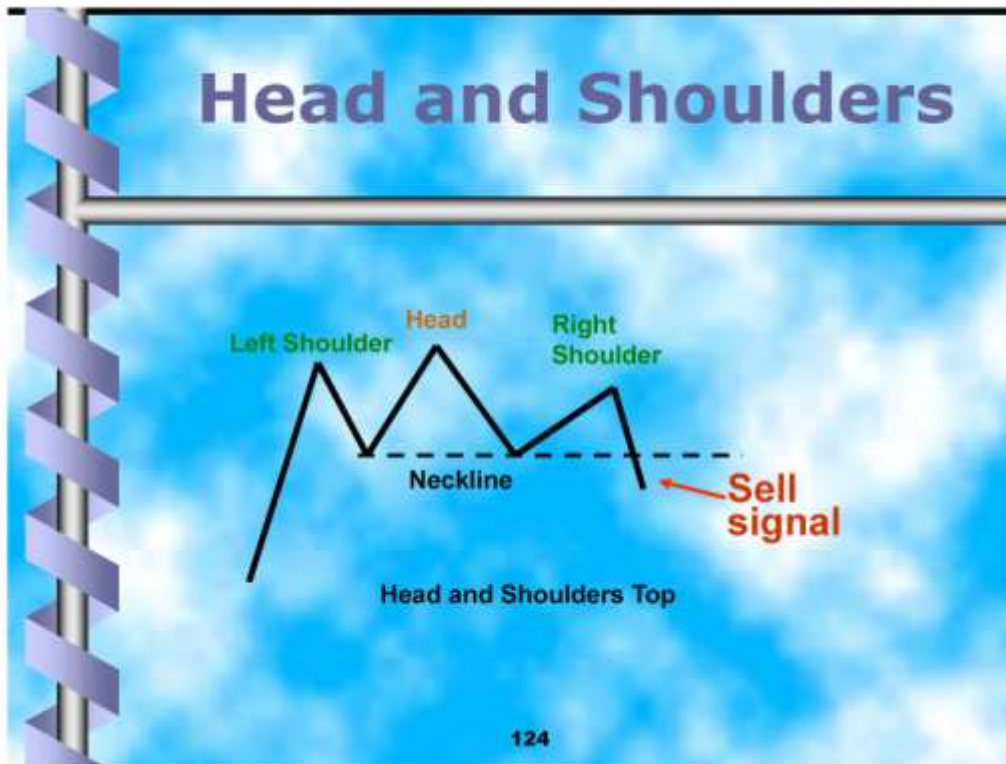
Western Techniques for Targets



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Once the neckline is broken, it is a bearish signal, a sell signal. Technical analysis gauge the emotions and the psychology of the market.

Applying Western Techniques to Candle Charts



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✚ In the above, there is a inverted head and sholders, once the neckline is broken, there is a bullish movement.



- Objective
- Lagging indicators.
- Separate from price
- **Best in lateral markets**
- When trading, use independent information. Use one oscillator of independent function. Don't use stochastic and RSI on the same time frame, because they are same in function.
- Look at the candles and look if they are oversold.
- USE OSCILATORS AS ALERTS, AND CANDLESTICKS AS TRIGGERS TO CONFIRM THE MOVE.
- Oscillators should not be used in trending markets.

Applications

⇒ **Overbought/Oversold:**

too far too fast?

⇒ **Divergence**

Candles in Context of Overbought/Oversold



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In the above chart, we use candlestick signals in conjunction with RSI, the doji at the first arrow is also in a overbought area, therefore higher likelihood of reversal.

Divergence

Positive Divergence



Negative Divergence



The divergence shows that the momentum underlying the price action is slowing down, showing that the market is vulnerable for reversal.

Candles and Oscillators



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In the above, we see the price making a new high, yet there is a negative divergence.

More about oscillators, oscillators should be used as alerts, they tell if a derivative is overbought or sold, we use candlesticks to confirm the reversal.

Oscillators should not be used in trending markets.

East & West



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Bollinger Bands



- Composed of 20 day moving average, and 2 lines above and below with 2 standard deviations included. Therefore 95% possibility of the price movement.

Bollinger Bands



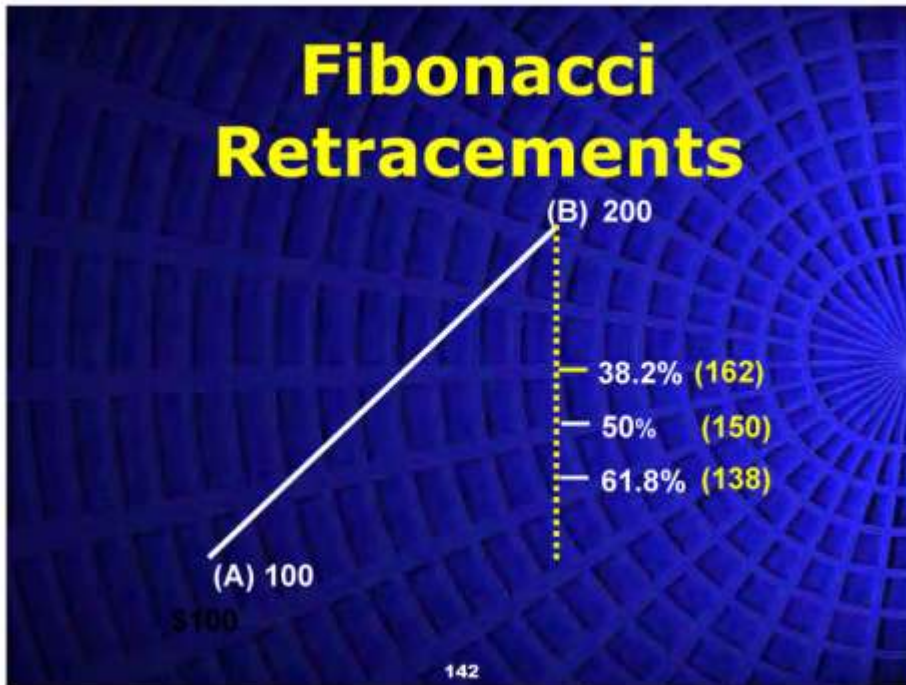
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Always look at risk reward, even if 100 indicator all conclude a reversal. We do not take a trade if the risk reward is bad.

Fibonacci Retracements



- 50 % is very important.
- Fibonacci should not be used for initiate trades, they do not replace solid support and resistance.
- Always buy or sell on significant support or resistance.
- Fibonacci is good if it coincide with support or resistance.

Fib. Retracements



In the above chart, we have back to back strong reversal signals. Therefore we can think of buying at the engulfing pattern at 62%.

East, West & Fibonacci





Looking at candles through the prism of the overall market condition.

Always remember change of polarity and support becomes resistance, and vice versa.

Look at doji and small bodies with stochastic and indicators.

Candles in Context



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- ✚ In the above chart, we would not want to buy on the morning star because of the bad risk reward. Since it is also at a resistance area.

Candles in Context



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✚ Why not sell at the doji? Because it is also at a support area.

Candles in Context



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Candles in Context

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- ✚ In the above, the 1st white high wave/spinning top is at a area where market is overbought, therefore it has certain implication of reversal probability. The 2nd black spinning top is not at a oversold area, therefore its implication for upward reversal is lesser, and the 3rd spinning top is at a prior support, with small body and long shadow signalling for reversal, also at a oversold area, chance of reversal goes up.

Record session



- Market make a new low, and look at the new candles new high shadows, with 7 + shadows, the market is likely to retrace.
- They set up alert, we need reversal signals from candlestick confirmation.
- When a market is trading in a box range, you recount the record session because trading in a box range relieve the one way tension.

Record Session Highs



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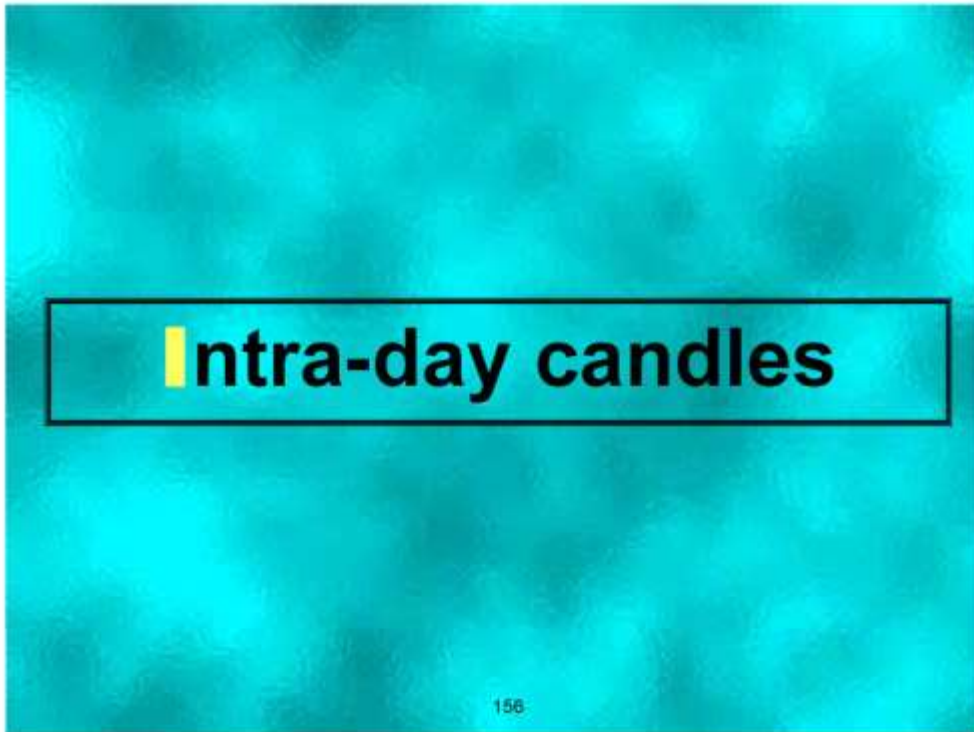
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- ✚ In the above, when the price starts to trade in a box range, the tension for over extension is gone, and we start to recount the record session.

A very important thing to remember is that just because there is over extension indicated in the record session doesn't mean that price will reverse. The real initiation to enter trades is confirmed and only triggered by reversal price action made by the candlestick signals.



Use daily chart support resistance in the intraday charts.

Intraday Candlesticks

Intraday Traders:
Daily Charts for Support
or Resistance

Daily Chart for Support/Resistance

1 of 2



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this level (see next chart).

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... and then use daily support/resistance on intraday chart 2 of 2



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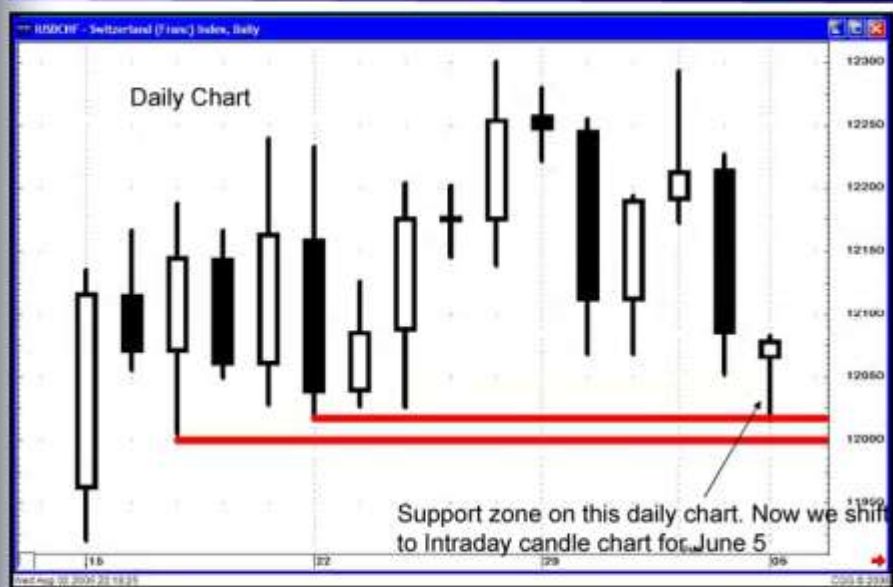
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Always consider the big

Target is on the same time frame as the trigger time frame.

Use bigger time frame support and resistance levels and watch for intra day reversal at the daily S&R, and target level is at the intraday.

Melding Daily Support/Resistance onto Intraday Candle Chart 1 of 2



Melding Daily Support/Resistance onto Intraday Candle Chart 2 of 2



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- ✚ Use the intraday chart to pull the trigger, and the bigger timeframe to look at trend and support and resistance. **And the target is based on the intraday target.**

Trade Intraday? Still have to monitor daily chart 1 of 2



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Always know support/resistance on daily/weekly charts

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For swing traders, use intra day charts to enter

Why Intraday – even if you are not a day trader 1 of 4



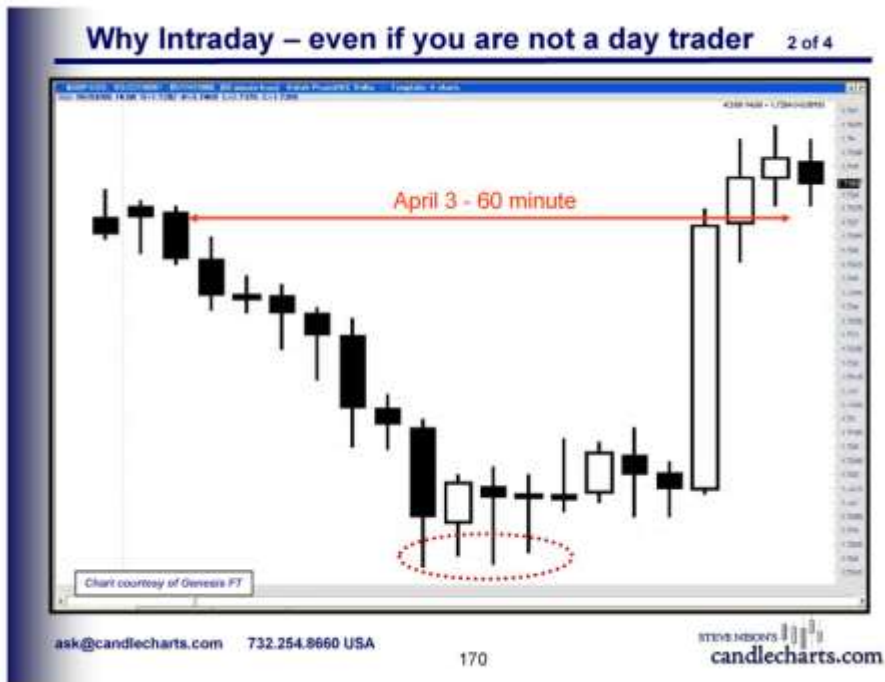
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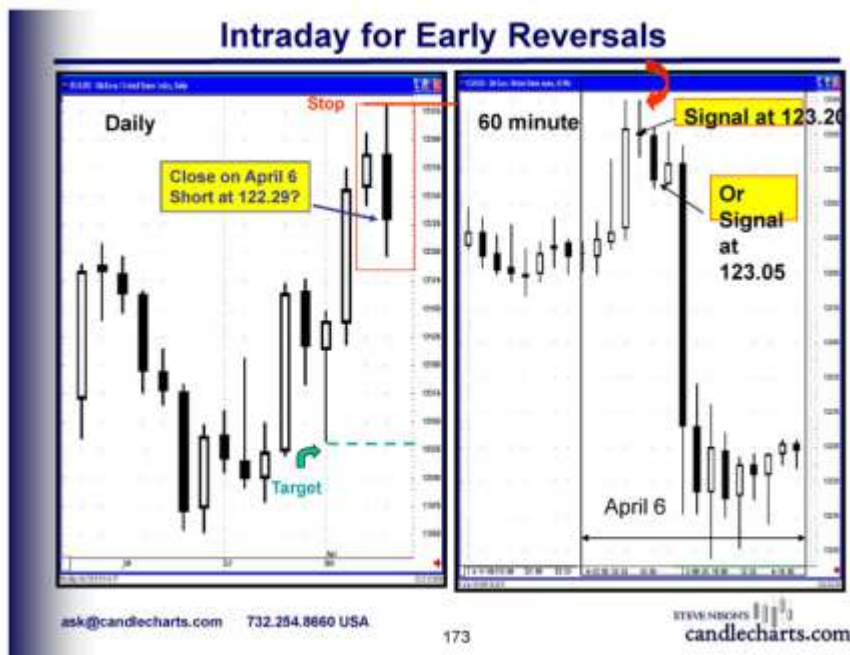
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If we are a swing trader, we would have missed the opportunity to be in on a great long.

Why Intraday – even if you are not a day trader 2 of 4



Yet, on the intra day charts, we could have early reversal and went long early in using a 60 min chart.



One note to mention is that because we are triggering based on a intra day chart, our take profit would also be on the daily chart, even if we are swing traders.

Always use multiple time frames to look at different price action, and how they are behaving at support and resistance from different levels, we could get early reversal signs.

Never trade the news

- Sometimes news could overcome the technical.

Let go of emotions

- Get trading journal.
- We could be anchored to an opinion, because we want to be our opinion confirmed. Therefore, it is recommended to put/decide stops before we enter the trade.

Pace the trades according to the market conditions

- Always assess new information.
- As the market get along, there will be always new support and resistance level which replaces the old ones.

Be a Market Chameleon

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The water looks fine....

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- In the above, we can see that the old resistance now becomes new support and we have to assess our decisions accordingly.



-
- At the first piercing pattern, we know that the support is at the low of the piercing pattern, yet as time goes on, we find that there is another support level right above the piercing pattern.



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- This is our initial targets as we short. Yet when times goes on.



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- Another support emerges, and we have to adjust our take profit level.



1. Don't lose money
2. Don't forget rule one.

Candlesticks are not a system, but a tool that combines with other

The advantage of candlesticks is that they give early reversal.

Early Reversals



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But remember always to avoid bad trades which offer bad risk reward.

Secrets to success

1. Candlestick charting techniques
2. Western charting techniques
3. Risk management.