

Part I: Trading Continuation

Conditions

- (a) is the market in a Range, Trend, or Countertrend
- (b) do any of these factors serve as potential obstructions:
 - Round number
 - EMA
 - Cluster Progressions / Formations / Highs or Lows
- (c) what context do the Fundamentals & Correlations provide

Dominant Pressure

- (a) who has the dominant pressure in the overall chart; what is the contrarian pressure up to
- (b) what is the overall slope of the market; is the market printing LL, HH, HL, LH
- (c) which party has printed more bars with respect to the slope on the EMA
- (d) how do the last few arches relate to one another

Buildup

- (a) is there a visible & lengthy fight occurring somewhat near the pattern line
- (b) is there a proportionate ratio of build up relative to number of pattern barrier touches
- (c) are there any identifiable price action principles at play; any candlestick/formations applying pressure
- (d) what is the narrative inside the build up (i.e. identify build up inside build up); consider the following:
 - EMA
 - Round Number
 - Pattern Barrier

Set Up/Entry:

- (a) is the signal bar near the EMA & not excessively tall
- (b) is the pattern line barrier non-debatable
- (c) does the signal bar have sufficient backing (build up); **Tip:** Use Line Graph
- (d) assess the characteristics, touch, & context (adjacent) of signal bar

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Price Action Theory

- **Build Up:**

- compare the height of build up relative to its associated range to assess how tightly compressed the pattern boundaries are.
- the element of buildup is never hard to detect: prices keep pushing at and bouncing off a level of interest, until either the defenders or the attackers throw in the towel ; it essentially excessive stalling
- the less build up, the less likely it will overcome the first technical barrier. The more touches involved to form a pattern boundary, the "harder" this barrier, and the more buildup needed to push the defenders out of the way. Thus build up should be proportionate to the number of pattern line touches
- the height of the build up is a function of volatility. The best pressure mounts from a squeeze but that is not the requirement. The simple definition is that build up is a skirmish between both parties that builds pre-breakout tension

- **Pressure:**

- Storylines should always be seen from the cycle of action-response-action; exceptional formations should always still be viewed with this in mind (possible counterattack)
- Failed Breakout, EMA, & Round Number undertakings send signals across the market on who holds the pressure
- Failure Attempts by the **Aggressors** show either:
 - a) a sign of desperation adding to the uneasiness.
 - b) prematureness foreshadowing event
- Failure Attempts by the **Defenders** show either:
 - a) weakness improving follow through outlook for aggressors
 - b) lack of of interest to create a boundary of interest at those levels
- Careful attention should be put into practice after multiple attempts at reaching objectives. The subsequent price action that follows can set the stage for consensus on market direction. Besides a miserable failure can flip the chart on its head especially after repeated attempts!!!
- If prices cannot make much headway even after breaking out successfully from a buildup situation, then maybe there is more danger on the boil.

- **Transitions of Pressure**

- Shifts in power need to come with real shifts in structure. To justify such change one must assess at the very least:
 - a) a diagonal and horizontal tails,
 - b) formations
 - c) pivot highs/lows violations
- Ask yourself: What fundamental structure/condition would need change in order for this shift of power to materialize ?

- Transitions of power in trending environments take much longer to materialize (more contrarian tactics) However the thicker the pattern shows up, though, the more work there is to be done by trend trading parties to undo the reversal implications.
- **Support/Resistance:**
 - ranked obstructions/magnets are 1) fat blocky cluster progressions 2) double top/bottoms 3) former highs and lows
 - blocky clusters that can still be framed by an *angular* line on the right are generally easier to cut through than pure *square blocks*
 - rejections off Support/Resistance indicate the participation of opposing forces; read these dramatic shifts in the context of pressure
 - When the aggressors print technical test beyond that of a pattern boundary it can mean:
 - a) foreshadowing event of the breakout (usually followed by build up)
 - b) desperation upthrust(or spring) often printed with a long upper/lower tail
 - When price approaches S/R the rate of change (slope) tends to decrease
 - Closes beyond that of the S/R boundary send out market signals of strength
- **False Breaks**
 - false breaks often times are *harbingers* of pressure in opposite direction
 - unqualified rallies that originate from well within the chart, often below the EMA
 - The false breakouts themselves may provide value for future price action (highs/lows)
 - Pullback line can often be drawn back to pattern boundary but substantial build up is needed to provoke a build up considering the origination of the rally
- **Tease Breaks**
 - often times provoked by thin build up or originating from "too deep" within the pattern
 - strategically recovers at s/r levels inside the range
 - Tease breaks often precede dominant pressure breakouts
- **Ceiling Tests**
 - retest of a technical element (previous high/low, inside bar, highs/lows of previous build up, or turnaround bar (e.g. signal bar)
 - could serve as a springboard for pullback reversal (pr/pbp)
 - need not perfectly touch but a clear test stand better chances for other traders to take heed
 - price often overextends to next pattern line as a ceiling test and pullback to set up as a proper break out (foreshadowing pattern break event)
- **False Highs & Lows**
 - harbingers of pressure (or corrections) in opposite direction
 - often times triggers rallies with no technical confluence
 - useful piece of information especially in hinting possession of the EMA, Breakout level, or round number
- **Round Number**
 - often produces lengthy fights between buyers and sellers requiring proper build up
 - could stand to assist or hinder follow through (adverse magnet affect)
 - early stages price action can be rather fickle, do not pick sides to eagerly
 - perforation of the round number is often followed by **retest**

- failure to reach round number often sets the stage for the opposing party
- can easily get broken and retraced in lower time frames. (think wick in the higher time frame)

Chart Formations

● Flag - clustering of price as a byproduct of a rally

- pole-flag harmony - proportion of pole and flag should be relatively the same. Harmony is a function of the number of sideways bars relative to the strength of the flagpole. In the case that they are **not proportional** then:

a) in the case that the pole is longer than flag; market has not yet absorbed the foregoing move (still part of pullback correction)

b) in the case that the flag is longer than pole; market conditions and pressure may have changed (no longer part of pullback correction)

- pullback can be angular or horizontal pullback; or it could be a horizontal pullback turned angular
- failed continuations often form part of reversal patterns (e.g. W or M) or have a reversal pattern embedded within
- often times a pullback of a recent break (i.e. small pattern outside broken barrier)
- unexplained strong flag poles need not be candidates for continuation however should be respected in terms of the technical picture
- could be formed by more than 1 swing
 - In multi-swing flags, the flag proportions (harmony) and retracement (depth) should be measured by the same pole.
- Measured Move Objective: pole-flag-swing principle - on continuation price moves the length of pole

● W / Ww or M / Mm

- middle part the most prevalent; usually a side ways cluster progression and favorably blocky. the blockier the cluster the more it serves the attacking party
- If you see the lows of the W pattern slanted downward as well as the highs remained net neutral; w pattern can be a subset of a much bigger M pattern variant. (+ vice versa)
- Wv is essentially an embedded (nested) Ww pattern (same for Mm/Mv)
- Can be few bar set ups (such as morning stars / evening stars) easily identifiable in LTF
- W and M reversal patterns in the lows and highs of a rally are common (at times underneath EMA) and can set the stage for a change in dominant pressure
- In a textbook Ww-pattern box, the top side is formed by the high of the big Ws middle-part, a level that is then repeatedly matched as the pattern progresses over time
- Ww-pattern, in which the bigger W represents a double-bottom base, and the smaller w a squeeze that sets up the future breakout. Seen as Double Bottom & Lower Bottom
- a tease break often prints first in a Ww or Mm formation before follow through

- the small w is essentially a flag hanging from big Ws right leg. Thus, the Ww-breakout is best acted on when both elements (W and w) relate **proportionally** to one another (vertically and horizontally)
- **Ascending, Descending, Symmetrical Triangles**
 - Symmetrical Triangle is usually seen after an extended period of time w/ no clear dominant party; often times formed preceding an announcement
 - two lines connecting highs and lows to show price converging towards the corner of the triangles
 - tricky near the apex; sides should not be picked too eagerly as they notoriously trigger false breakout orders before taking off
- **Arches (U/V or upside down)**
 - can be used to determine pressure of relatively flat moving average
 - can be a small number of bars (e.g. at the end of build up - flatter, potent)
 - flat arches should be examined to see if they are part of H & S formation
- **Head and Shoulders**
 - triple arch formation w/ 2 shoulders and 1 leg usually on pattern line, referred to as neckline (need to be horizontal)
 - the right shoulder deserves the most attention and can print in a few number of compressed bars
 - often part a bigger pattern with an embedded W or M formation
- **Double/Triple Tops & Bottoms**
 - requires subsequent price action to establish barrier that breaks away from the high/low rendering it false (i.e. follow through in the opposing direction)
 - barriers could be a few pips off from one another; should still be evaluated as an extended flat or slightly tilted trendline
 - the more touches → the more significant the barrier (the more fight needed to break through it)
 - double top followed by a lower top gives a bearish outlook (as well as vice versa)
- **Squeeze**
 - candles formulating tightly in between pattern line and EMA
 - often have a combi included
 - still requires considerate build up to be effective
 - might included bigger bars in accelerated markets
 - false high in squeezes demoralize bulls and vice versa
 - could be seen as a **mini-arch**
- **4-5-6 Retracement Levels**
 - attractive levels from which price bounces off of to continue in the dominant direction
 - 5-6 are the more attractive levels; 4 in a faster market
 - the most notable swings often times have participants lying in these retracement zones giving steam for price to follow through

Candlesticks

● Signal bar

- signal bars tend to be remembered in subsequent price action (potentially a ceiling test of a critical candlestick)
- Potential signal bars that set up as the opposite color or are otherwise questionable see if it still looks like a breakout with a colorless schema and check LTF/HTF for context.
 - LTF: deeper understanding of technical significance (e.g. a last minute attempt by defenders that may serve as a future failed counter attack)
 - HTF: confirmation of potential breakout level in questions

● Powerbar

- bar that open on one ends and strongly closes at the other (in relation to the average size of neighboring bars)
- can complete the leg of chart formations (i.e. M,W) and bars(i.e. engulfing candle, evening/morning stars) which indicate a strong push for change in momentum
- often time an unqualified signal bar whose next bar sets up as pbc(s)
- should be assessed in HTF to see implications on bigger scale

● Inside bars

- Any bar that neither takes out the high nor low of its predecessor (ignoring open and close)
- 1 bar build up progression (can be more than 1)

● Morning/Evening Star

- Normally a 3 bar trend reversal candlestick pattern that mimics a W or M pattern
- the first any size bar is in direction of the trend, the second a thin indecision candle (e.g. doji) and the third a strength bar in the opposite direction of the former trend
- could potentially incorporate two middle indecision candles

● Topping/Bottoming Tails

- If rather tall, it indicates that in the course of bar formation, prices reached a certain high or low but then closed significantly away from that level (price rejection).
- Tail bars in the current highs or lows of a rally can provide valuable information
- commonly a leading signal waning momentum or a final burst of a trending environment.
- could also give insight on fleeing/joining parties in the market (e.g. in build up)

● Triples / Doubles Touches

- requires technical test, pullback to EMA, and 4-5-6 retracement levels or Round Number
- technical test can be a touch of a pattern barrier, ceiling tests, or support/resistance (any significant chart formations or candlestick)
- these multi-touches are more potent when a technical test is present

● Turnaround bars / Pivots

- bars that clearly indicate a turn (sharp point) such as a down leg with a quick turnaround bullish strength bar (potentially forming a double bottom).
- often a point on current or future pattern lines

● Double Bar Breaks

- shows more tension than a single bar set up based on the premise that any extra tension preceding a breakout will help sooner follow through than obstruct it

Timeframes

- **LTF:**
 - use LTF for confirmation and re-entries for pullbacks (*sparingly*) for trades that offer another entry point
 - useful for spotting mini-formations in TTF (M Pattern, H&S, etc)
 - Deeper dive into build up; Answers a Key Question: is the signal bar invalid or is it part of a meaningful structure in LTF
- **HTF**
 - In ranging markets it's often the case that the pattern line aligns well in HTF (and looks like a decent trade); less so in trending markets.
 - higher time frames support/resistance lines can serve as great barriers for price to move when adjusted to round numbers

Conditions

- **News:**
 - News can set the stage for follow up price action as they are usually accompanied by an increase in volatility/volume
- **Volatility & Volume**
 - Key ingredients to successful breakout; when volatility (wider range bars) & volume increases. View the chart at a much larger scale to see possible implications (Zoom Out, HTF, etc)
 - Increases in momentum in HTF are usually indications that the breakout was part of a much larger pattern with different objectives than that of the LTF (momentum diminishes when approaching S/R)
 - The real body of a candlestick can you give clues as to the momentum
- **Ranges**
 - are the barriers of the range well defined (e.g. strong & resistance)
 - is price swinging back and forth inside of the range (potentially tradeable)
 - is the current price near the lower or upper region of the range; is it beneficial relative to target or is its break anticipatable
 - does the range span for a considerable length of time
 - in wide ranges: a thick build up is needed to break through in convincing fashion (e.g. squeeze)
 - in tight ranges: thin build up may be enough to set the stage for follow through
 - Volatility expansion following a contraction is inevitable thus special consideration should be given to the pre-expansive range barriers

- Ranges can hint at the direction of the potential trade by keeping track of the double tops/bottoms (pivots)
- **Trends**
 - always question the origination of the trend to understand *trend integrity*:
 - did the trend originate from improper build up (e.g. mere false low)
 - originate well below the ema
 - non harmonious flags
 - brisk and sharp counter rallies
 - is the current swing an attempt for follow through (or clearly established)
 - is the EMA lagging due to price acceleration in the current rally
 - the stronger the trending slope, the more likely the pullback will reverse and continue on with new market participants
 - is the current swing a countertrend in HTF
 - always question the strength of the trend:
 - how many times has the market retested the trend;
 - in what leg is the trend currently on;
 - are the legs reasonably equal in length; or are they decreasing in size
 - is there a decreasing rate of change (slope)
 - is it on its upthrust or printing quick symmetrical highs (e.g. visible tails)
 - trend legs decreasing in size may be a sign of a trend losing force
 - price acceleration in a mature rally, say, in the third or fourth leg of it, this often indicates the final burst of the trending environment
 - in a strong trending market, flat and lengthy flagpoles are very common; market looks to absorb the foregoing move with a corrections in time
 - define whether pullback is horizontal or angular and whether or not the leg and pullback is harmonious; is it aggressive (average span in relation to dominant swing); part of favorable chart formation (4-5-6); did it roll over in mid air; is it a shallow or deep correction

Manual Exit

- **Resistance exit**
 - resistance exit generally positioned in the high/lows of former turnaround bars or cluster
 - evaluate build up, previous touches and volatility as part of understanding the necessity and placement of resistance exit (i.e. highs, lows, or mids of cluster);
 - In a ranging market it may **not** always be necessary to exit a trade in resistance if build up is of fine quality
 - In a very slow moving chart, position exit at meager resistance such as as the former high/low
- **Reversal Exit -TBD**

Chartist

- **Pattern Boundary**

- should have as many touches as possible provided the pattern line is clearly defined
- When there is a false low or high involved sooner place your barrier at the level before the perforation. The false perforation sooner acknowledges the foregoing move rather than invalidates it
- Pattern lines should be relatively flat in range breakout (not too angular) with the best one extending across multiple periods) & also a meaningful barrier in HTF
- Barriers should cross cross important pivot points that are established based on subsequent price action
- Pattern lines are information first; will not always lead to a trading decision
- A pattern line that is less debatable or at a cross of another pattern line is beneficial as more eyes will be looking to trade the break
- At any point in time a normally well-behaving pair can behave abnormally; understand the context from which you print pattern line as this may not always line so wonderfully

- **ATR**

- Used as a measure of volatility in the market.
- With a higher volatility, the odds of reaching distant objective if the trade follows through in your favor

- **EMA**

- Price **FIRMLY** positions itself on the other end of the EMA in order for it to be a successful capture of the EMA
- a lagging indicator useful for determining chart dominant pressure (has difficulty keeping pace in a fast strong moving market); as it flattens or steepens the information on the technical picture will change.
- should be in alignment with your trade in a regular session (trading away from EMA)
- a potentially beneficial or adverse magnet of sorts (although more illusory and **not** a technical element)
- notice any attempts to *retaking possession of the average* - average is perforated and so many bars manage to close on the side of the perforation
- commonly prices tend to bounce of average on first touch (rebreak)
- price can often pierce the EMA and then close on the originating side (indicating a 'stress' test of sorts)
- the last candle before the break does not necessarily need to touch the EMA especially in pullback reversals where touches of EMA are often made before the signal bar prints

- **Line Graph**

- may allow you to see the quality of the pattern line drawn and unbiasedly build up tension that has aggregated near the edge pattern boundary.

SetUps

- **the pattern break**

- the bigger the total pattern and the stronger its relevant barrier (number of touches), the more work to be done by the assailers to crack it convincingly.
- When it breaks from deep inside the pattern, it pays to look at the retracement levels of the breakout swing
- the best follow-through potential for a pattern break is found on the break of a lengthy sideways range

- **the pattern break pullback**

- When a post-breakout correction puts in a technical test (e.g. ceiling test, round number) back inside or on the broken pattern, this potentially sets up a second break in line with the first.
- As long as the fight persists (Buildup) there is still reasonable chance for the market to break in line with the former break
- In a pattern break pullback it is highly preferable for the signal bar to set up not only in the broken barrier area but in the EMA as well.
- There are three ways for price to pull back that deserve attention:
 - Price Breaks but clings near broken barrier
 - Prices do follow through on the original break but then pullback to test barrier
 - Stalling in the breakout level itself, and the pattern line travels through build up
- does not require much separation from pattern line nor does it needed to be plotted back to the original line
- Tease Breaks can transform into pbp: continue to monitor price action for a technical test & build up. If the counter attacks fail the market may swing in pullback reversal fashion

- **the pattern break combi**

- A two (or >2) bar pattern, a power bar followed by an inside bar (or **reversed**)
- high/lows could be a few pips off from each other
- body of the inside bar should be engulfed in the range of the power bar and the inside bar range should not greatly exceed that of the power bar (high/low can slightly stick out); it is favorable however when both bars share the same high or low at the breaking end (double-bar break)
- potent when placed in a build up progression
- entry usually is taken on the break of inside bar (infrequently after power bar break)
- it is quite common for a combi to set up a break inside a squeeze variant
- commonly part of a two/three bar combi which displays directional pressure
- power bar can be a long tailed doji but should still align with the direction of the dominant pressure; could be two dojis closing in the same direction from their center; or doji and inside bar
- favorably the color of the inside bar's body, if not a neutral dash, is the same as that of the powerbar. could be different color but requires to be in the adjacent candles region
- the lows and highs of the power bar can be seen as support/resistances (possible future ceiling test)
- the inside candle should be a candle that represents indecision of sorts (spinning tops - short body with longer even wicks & varying dojis-middle upper and lower),

- **the pullback reversal**

- In order to be qualified for a reversal candidate it **must** be a **4-5-6 correction in price**. (Corrections in time must be dealt with as a regular pattern break)
- The best reversal candidate is a pullback that appears to travel almost reluctantly against dominant pressure;
- A pullback reversal that needs to surpass the barrier of a range to get to target is likely to meet more opposition
- objective is to **locate a crucial bar** whose break to play the reversal
- whenever the bars start to position themselves **firmly** at the other side of the average, we are technically no longer dealing with a regular pullback or a flag-shaped correction of sorts.
- the more parties lying in wait to trade a pullback reversal, the less likely the actual turning point will set itself up in non debatable fashion; the break of a pattern in line with the turn of the pullback is often acted on even with less technical merit
- **second break principle** - should the anticipated turn fail to materialize and then start to stall second time around, this is much more likely to set up a turn in "dependable" fashion; it visually may appear as a M / W pattern variant or evening/morning star
- the length of the pullback is inferior to its strength (i.e. nature of appearance)
- the stronger the pullback presents itself the more fighting (buildup) necessary to force its turn (less likely to be one-bar reversal setup)
- the best follow-through potential for a reversal is found in the turn of a substantial pullback
- favorable for the correction to perforate (if not touch) the EMA, touch a technical test, and build up as a turnaround low or high for the pattern to set up
- the later in the trend a reversal pattern shows up, and the blockier its features, the harder it will be for the dominant parties to promote continuation (thus a possible shift in dominant party).
- the first bar with same directional pressure as the trend is not the BEST looking reversal positioned as turn around as the best pullbacks reversals come from pushing and pulling before reversal. in countless turnaround situations it is the second break that triggers double pressure response.
- Trades that are not aligned with the HTF must have resistance exit
- Pull back will do everything to postpone which is why you see many false turn arounds the on first attempt to reverse
- The first pullback to appear in a newborn dominant swing is usually the most eagerly reversed