

Al Brooks MD

Sacramento, CA

3 New Books:

Trading Price Action **TRENDS**

Trading Price Action **TRADING RANGES**

Trading Price Action **REVERSALS**

Available on Amazon and Wiley

Brookspriceaction.com

BrooksPriceAction.com

Traders run it, I provide content

- Free articles
- Free detailed analysis of 5 min Emini for several months
- Free videos of daily Emini analysis
- Real-time daily webinar (\$99/month)

What Can The Market Do?

- The Market is in a never ending Cycle
 - Trend
 - Trading Range
 - Breakout in Either Direction
 - Trend

What Can The Market Do?

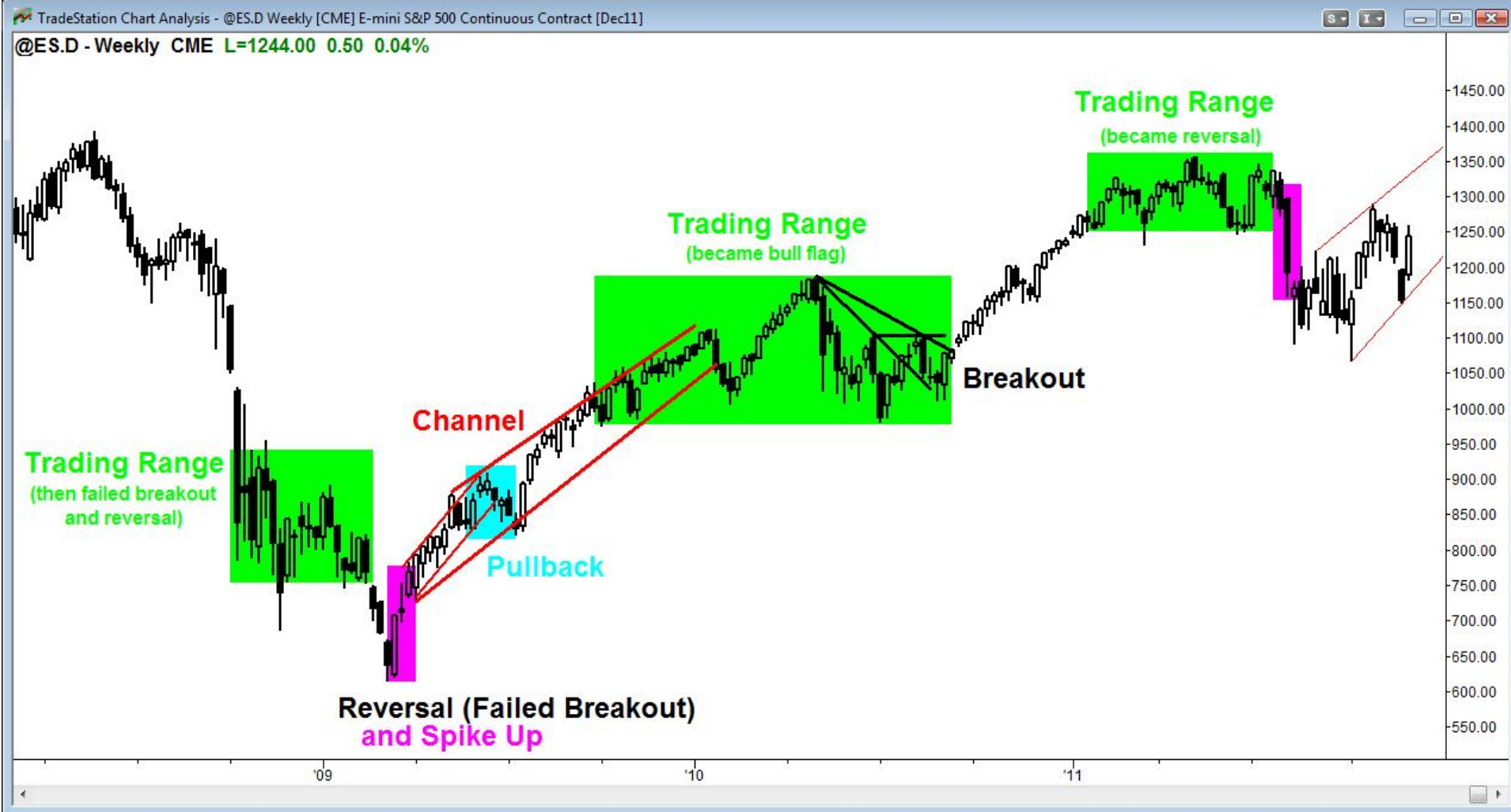
- **Trend**

- Strong = Breakout = **Spike**
- Weak = **Channel**

- **Trading Range**

- Small = **Pullback** = pause in a Trend
- Big = Breakout in Either Direction

What is Price Action?



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

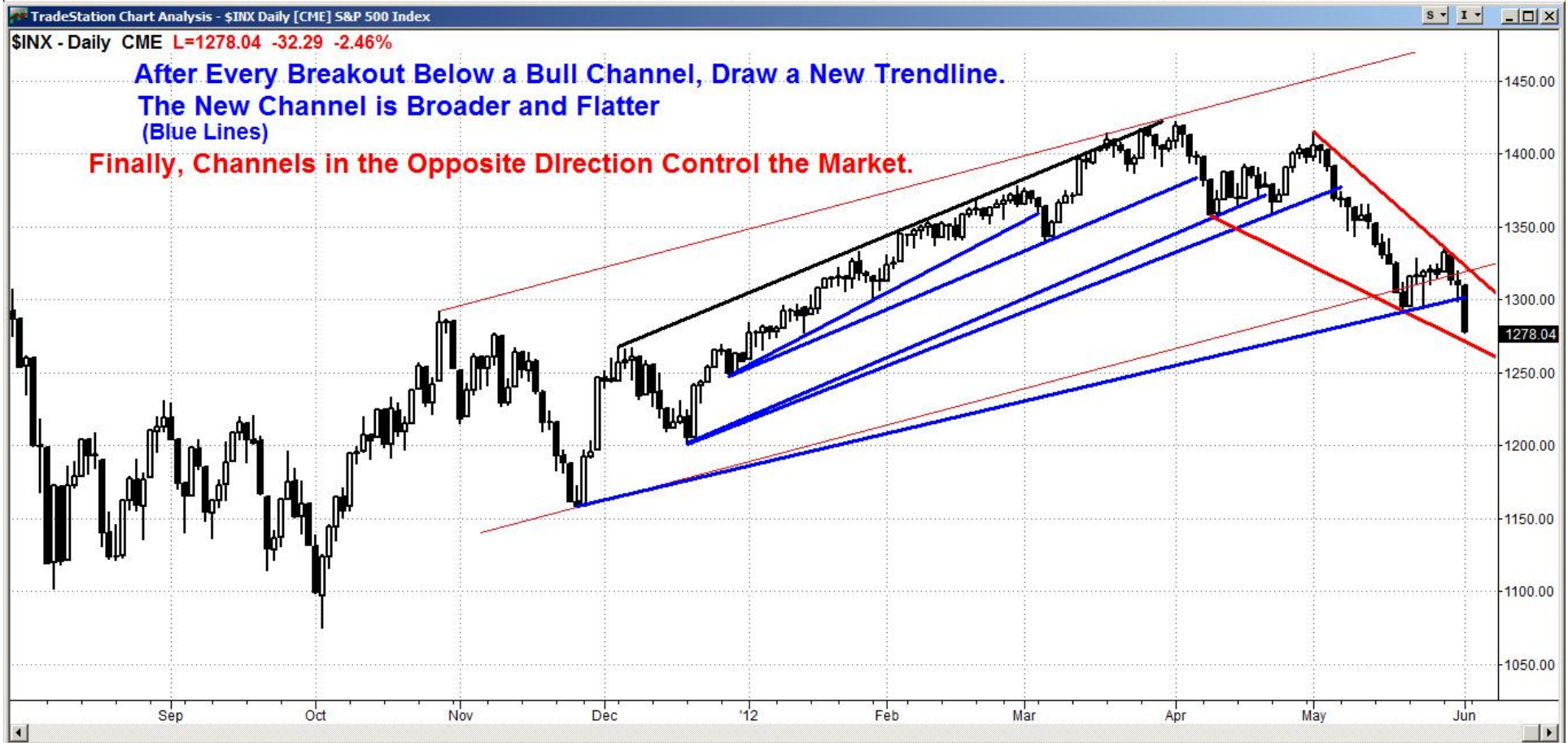
Brookspriceaction.com

How To Draw Channels



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Channels Get Broader and Flatter





Is a Trend Strong or Weak?

- All Trends begin with a **Spike** (**Strong trend**)
- Momentum slows and a **Channel** begins (**Weak Trend**)
- Channels evolve into **Trading Ranges**
 - As the Momentum in opposite direction increases, a Trading Range forms



Channels

Channel: Weak Trend contained between a couple of lines

Bull Channel

- Weak bull trend with a bull **trend line** below and a bull **trend channel line** above

Bear Channel

- Weak bear trend with a bear **trend line** above and a bear **trend channel line** below



Channels

Channels Offer Trading Opportunities

- When the Market Tests the Top or Bottom, it then Either Breaks Out or Reverses
- This Can Create Trades Where the Reward is Much Greater than the Risk



Channels = Weak Trend

A **Channel** is a **hybrid** between

a **Spike** (Strong Trend) and a **Trading Range**



Channels = Weak Trend

Channels can be:

- Strong (Tight) and behave more like a Spike
- Weak (Big Swings) and behave more like a Trading Range

Both are trends, but weaker than the Spike Phase



Channels = Weak Trend

Strong Channel

- Steep and tight
- Behaves more like a Spike
- Spike on a Higher Time Frame
- Trade in the direction of the trend

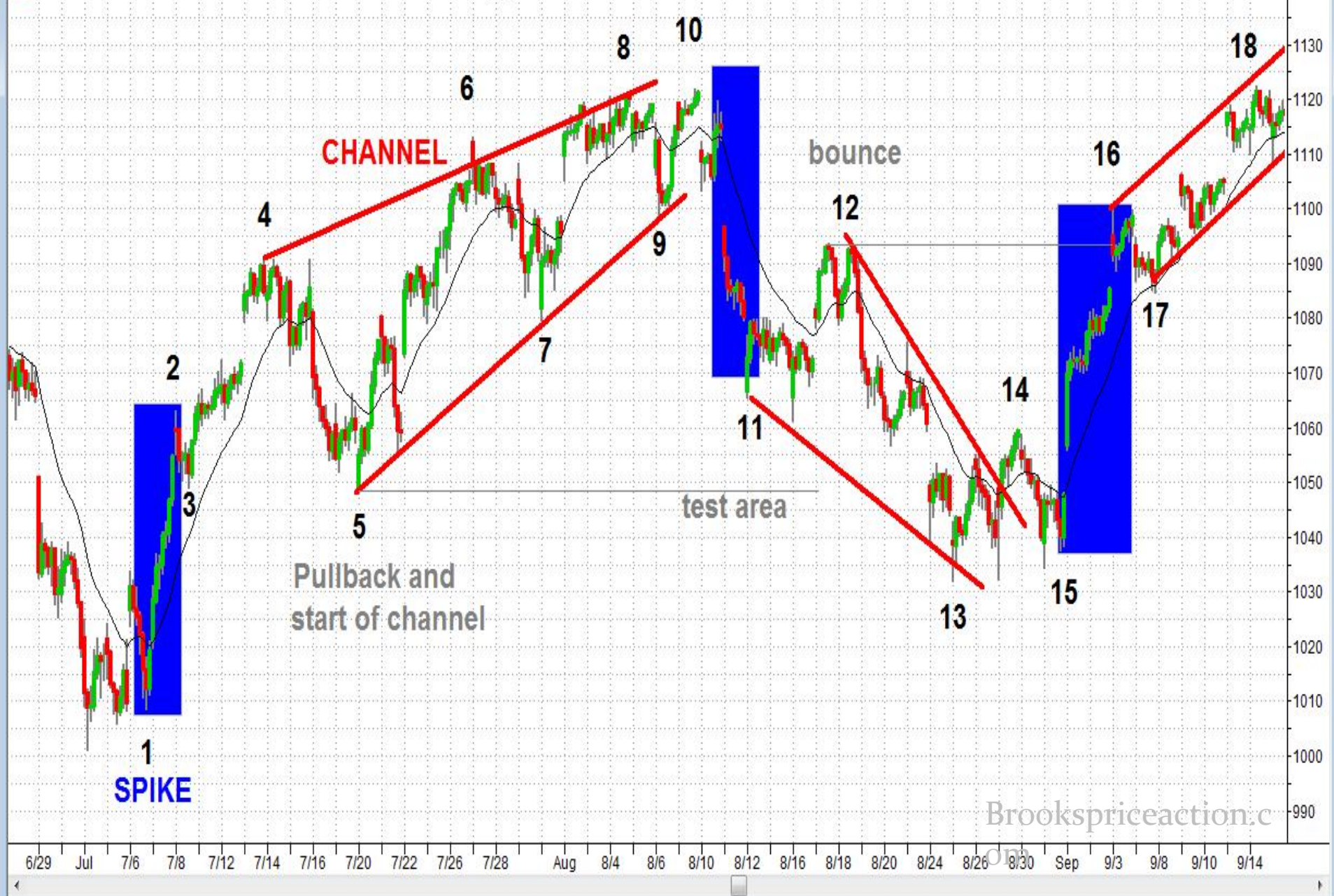


Channels = Weak Trend

Weak Channel

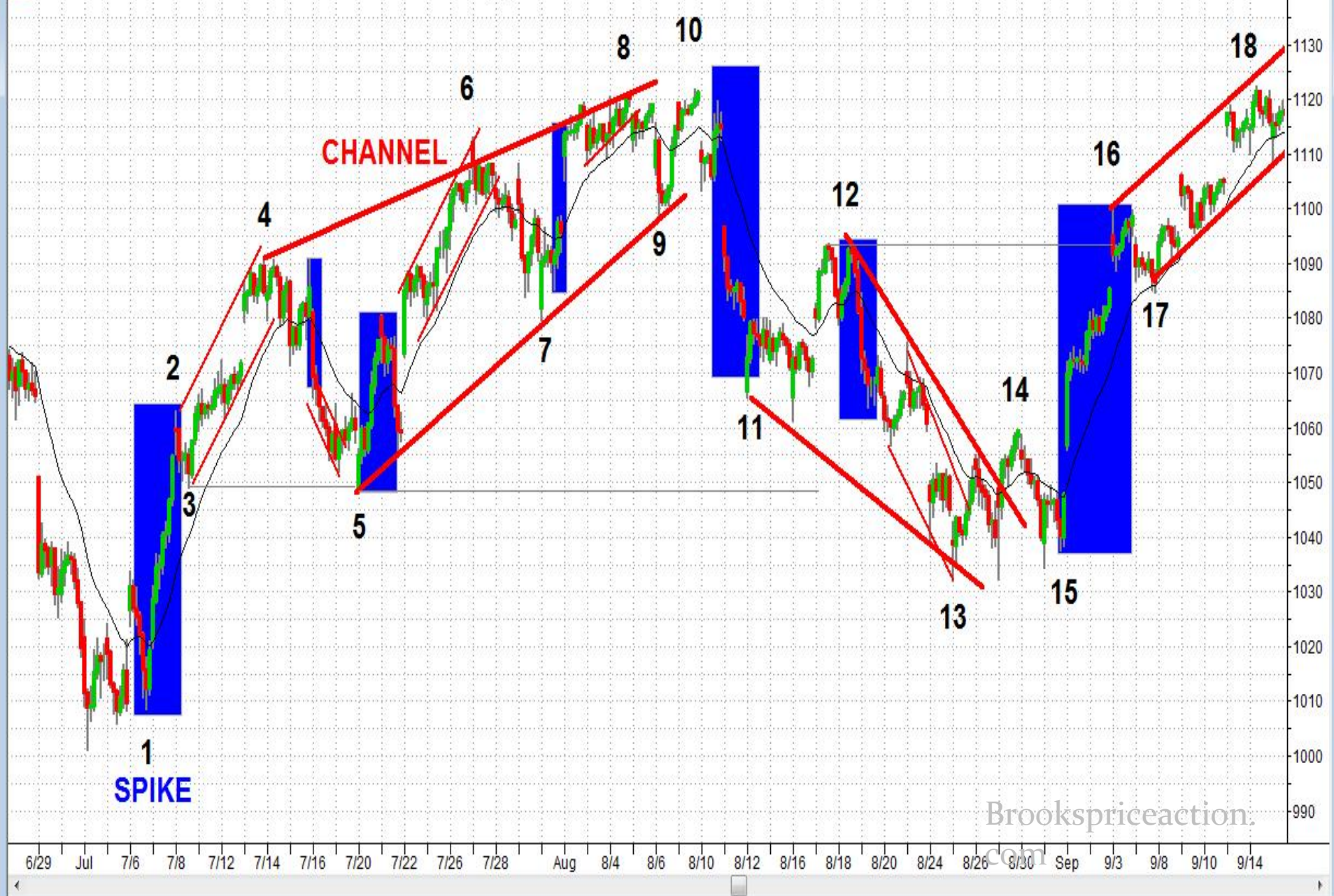
- Lots of swings, like a Wedge or a Stairs Pattern
- Behaves more like a Trading Range
- Trade in both directions

@ES.D - 60 min CME L=1155.00 20.25 1.78% MAX 20 (20) 1145.09



Brookspriceaction.c

@ES.D - 60 min CME L=1155.00 20.25 1.78% MAX 20 (20) 1145.09



Brookspriceaction.com



Enter With Stops or Limit Orders?

- Buying on a Stop = Buying a Breakout
- Every Tail = Failed Breakout
- If most bars have tails and overlap prior bar too much, then most breakouts will fail
- Tails = Better to bet on failed breakouts
 - enter with limit orders (Buy below, Sell above)

Stop Entry = Breakout Entry but, Tails = Failed Breakouts



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Brookspriceaction.com

Why are Channels Difficult?

- Uncertainty is high
- Reward can be low compared to risk
- Always Trying to Reverse
- Sometimes Trend Accelerates and has Breakout :
 - Bull Breakout above Bull Channel
 - Bear Breakout below Bear Channel



Edges are Fleeting and Small

- This is a zero sum game and you are trying to take money from very smart people, who are trying very hard to take money from you.
- All trading is subjective and hard.



MARKET INERTIA

- Always bet that the market will continue to do what it has been doing
- When the market is **Trending**, 80% of attempts to reverse will fail (so trade in the direction of the trend)
- When the market is in a **Trading Range**, 80% of attempts to breakout into a trend will fail (so trade in the opposite direction of the incipient trend)

Failed Bull Breakout of Bull Channel: Target = Bottom of Channel



Bull Breakout of Bull Channel



Strong Bull Trend (Not Channel)

Spike Phase: Get long!!

- Buy at the market
- Buy close of any strong bull or bear trend bar
- Buy above (and below!) prior bar
- Press bets and buy breakouts above swing highs
- Buy small pullbacks

Tight Bull Channel (Strong Channel But a Weak Bull Trend)

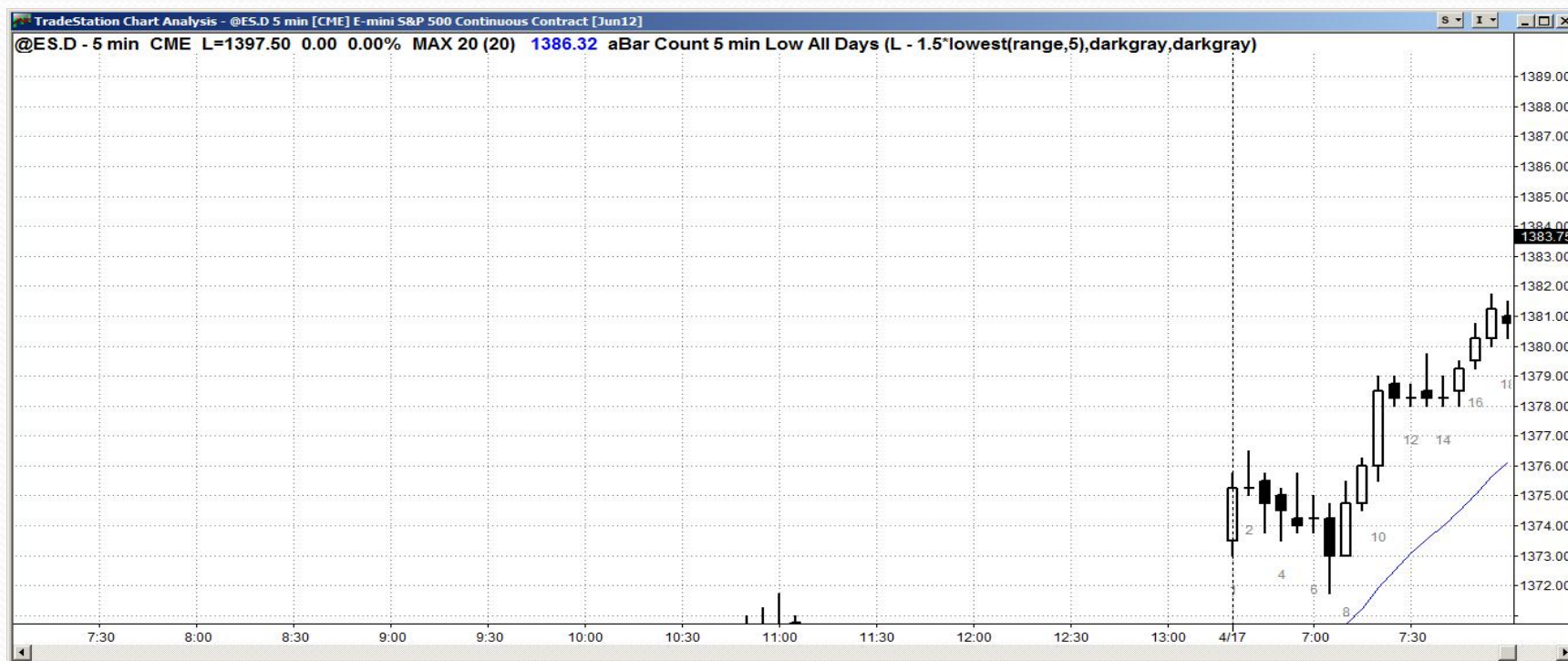
- It is a Spike on a higher time frame, so only look to Buy
- Swinging is Better than Scalping

Tight Bull Channel

(Strong Channel But a Weak Bull Trend)

- Buy at and below low of prior bar
- Buy closes of both strong bull and bear bars
- Buy breakouts of bull flags
- Buy at support
- Take profits at new highs and resistance

Tight (Strong) Bull Channel: Diagnose Early, Then Buy! Will act more like Spike than Channel



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Brookspriceaction.com



Tight (Strong) Bull Channel

Buy For Any Reason (and Don't Sell)

- How Do I Get Long?
- Where is My Protective Stop?

Tight (Strong) Bull Channel Buy For Any Reason (and Don't Sell)



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Brookspriceaction.com

Strong Bull Channel

Buy on Stops Above Bars



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Brookspriceaction.com

Strong Bull Channel

Buy With Limit Orders Below Bars



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Brookspriceaction.com

Strong Bull Channel

Buy At The Market



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Tight Bull Channel (Strong Channel But a Weak Bull Trend)

- Protective Stops When **Swinging**
 - Trail Stop below most recent higher low
- Protective Stops When **Scalping**
 - Don't allow pullbacks
 - Get out below any bear bar or strong bull bar

Strong Bull Channel

Protective Stops



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.



Weak Bull Channel

“Bull” implies Trend

“Channel” implies Weak Trend

- The Weaker it is, the more likely trades in both directions will be okay



Weak Bull Channel

- Overlapping bars
- Weak follow-through after bull trend bars
- Many bars with tails on top
- Many bars with bear bodies
- Obvious pullbacks and often small swings



Weak Bull Channel

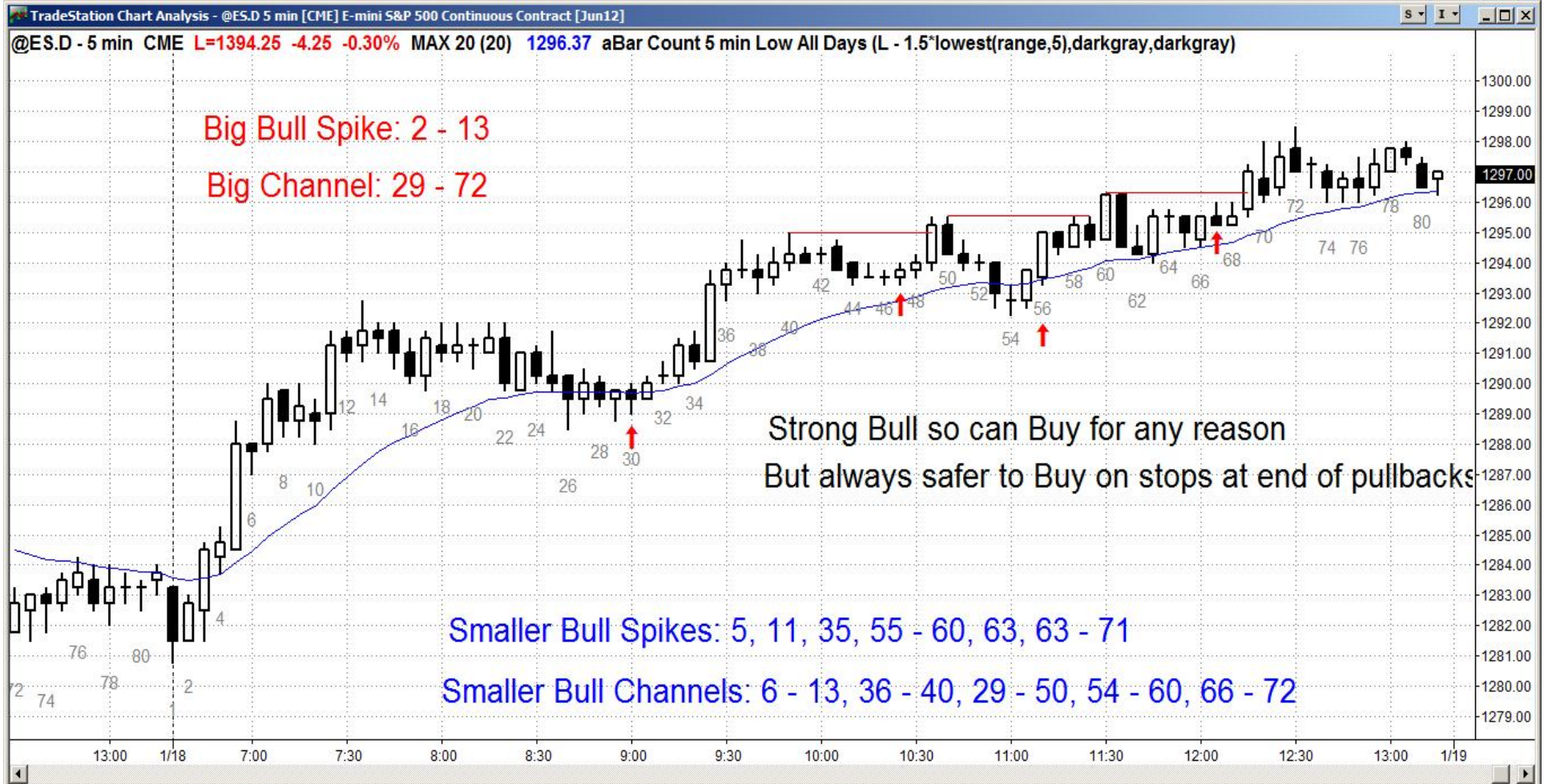
(It is still a Bull Trend)

- Tradable swings in both directions
- Behaves like a Trading Range that is Tilted Up
- **Buy Low, Sell High, Scalp**, like in a Trading Range
- Buy at support
- Take profits or even short at new highs and resistance

Weak Bull Channel

- Protective Stops
 - Better to scalp most trades, like in a Trading Range
 - If only **Scalping**, don't allow pullbacks and get out below any bear bar or strong bull bar
 - Initial Stop is Below the Signal Bar

Weak Bull Channel in Bull



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

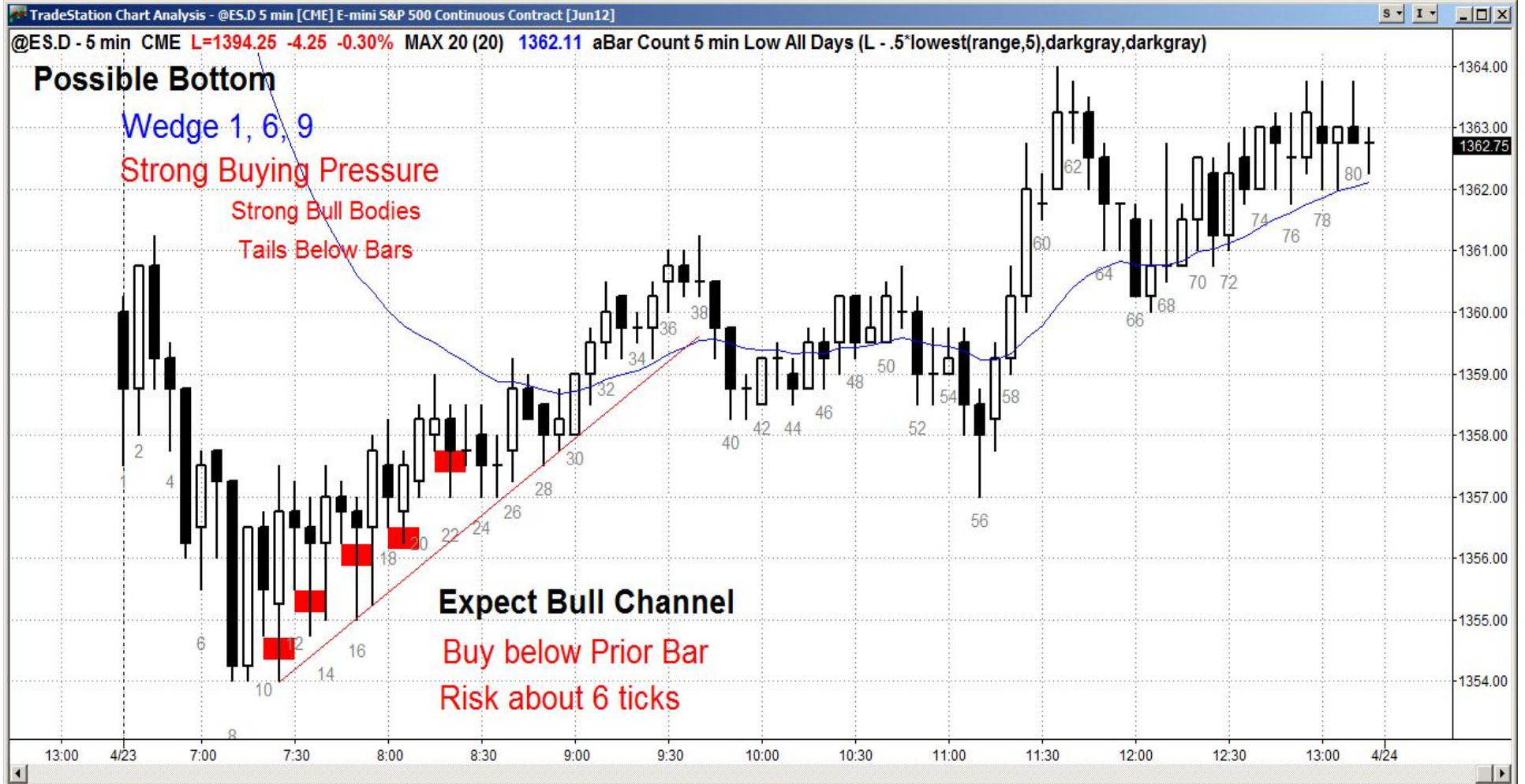
Brookspriceaction.com

Weak Bull Channel in Bull: Protective Stops



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Weak Bull Channel in Bear

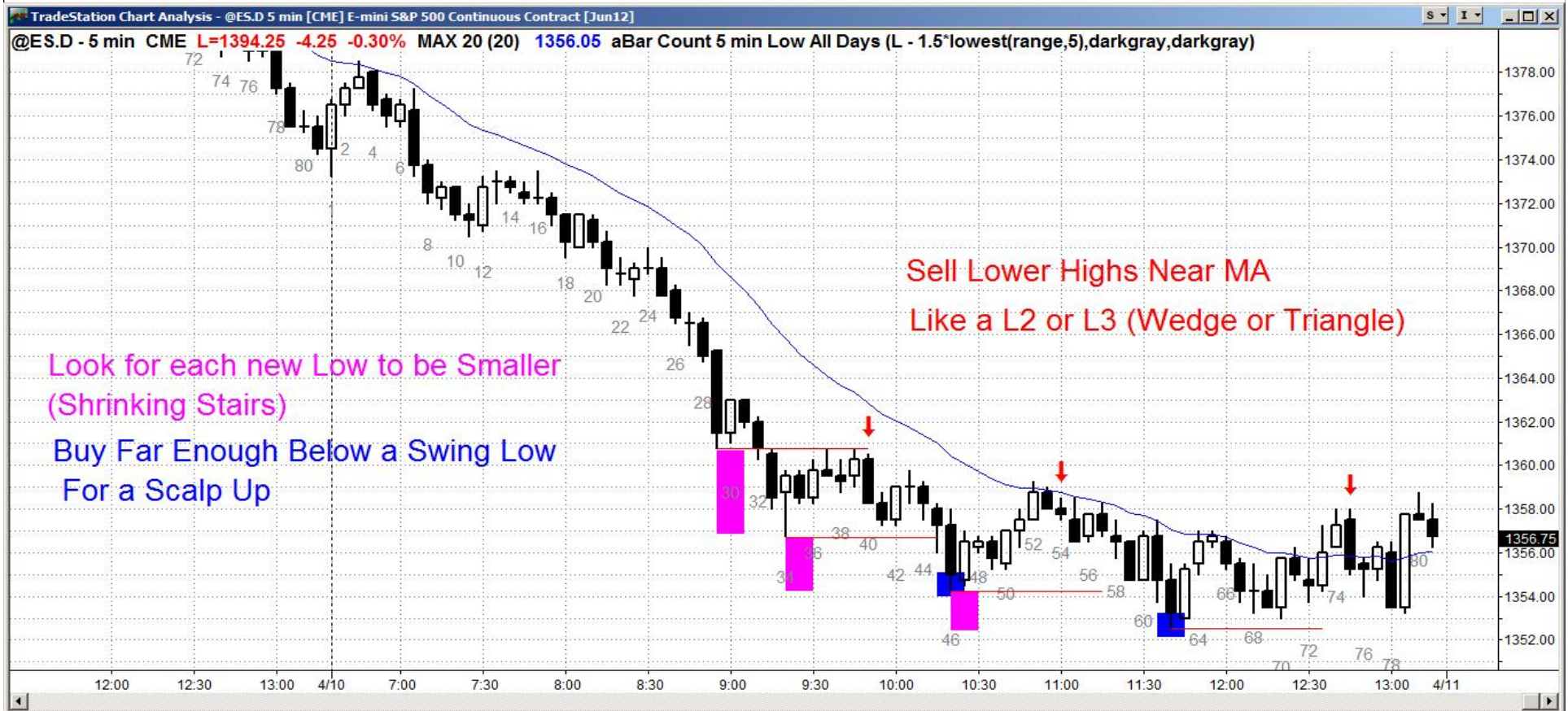


Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Brookspriceaction.com

Shrinking Stairs

(Buyers Getting More Eager)

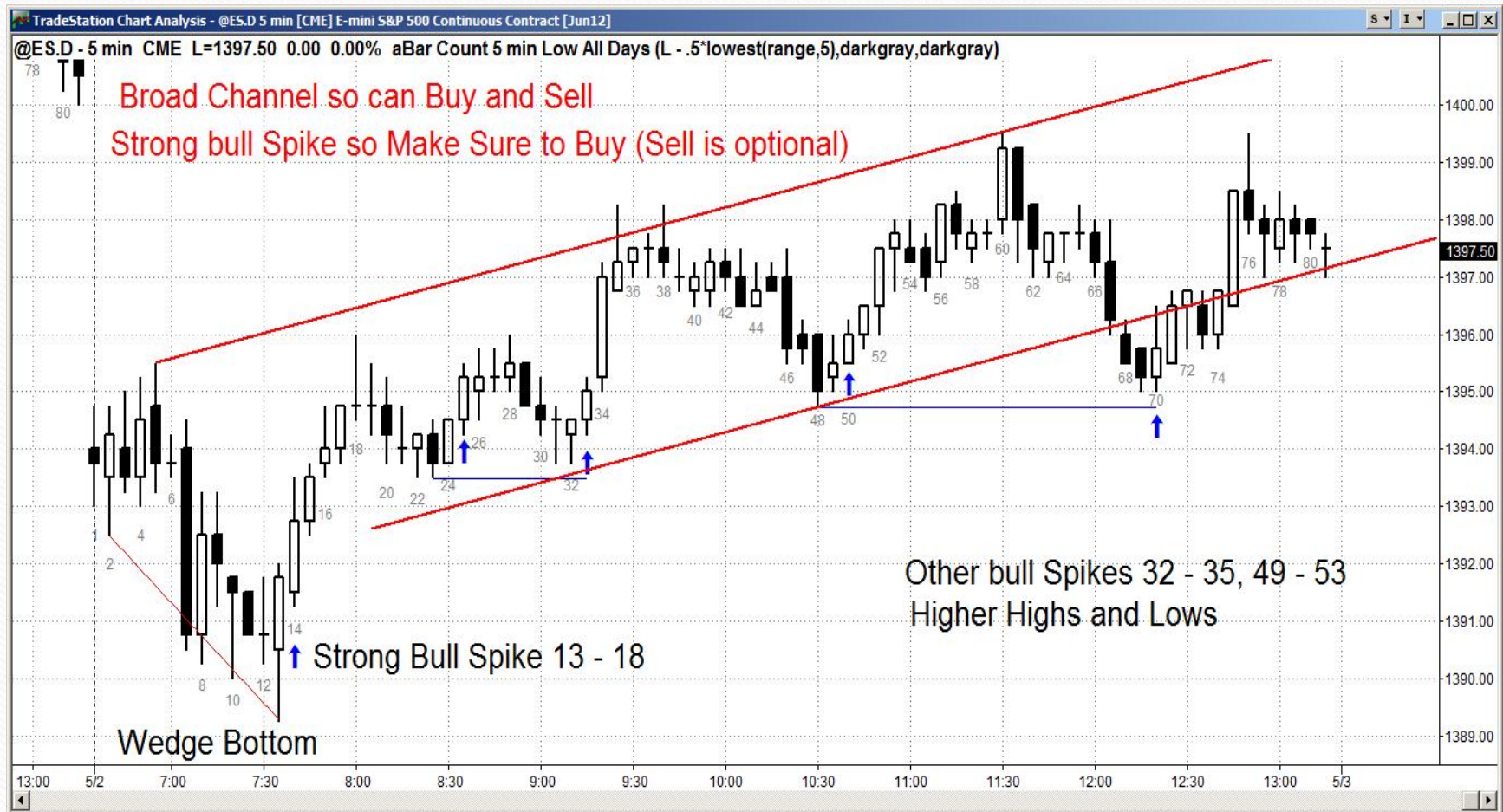


Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Brookspriceaction.com

Broad Channel

Trade Like a Trading Range:
Buy Low, Sell High, Scalp



Broad Channel

Here, a Wedge. Trade Like a Trading Range.



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Brookspriceaction.com

S&P Cash Index, Month



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

S&P Cash Index, Week



S&P Cash Index, Day



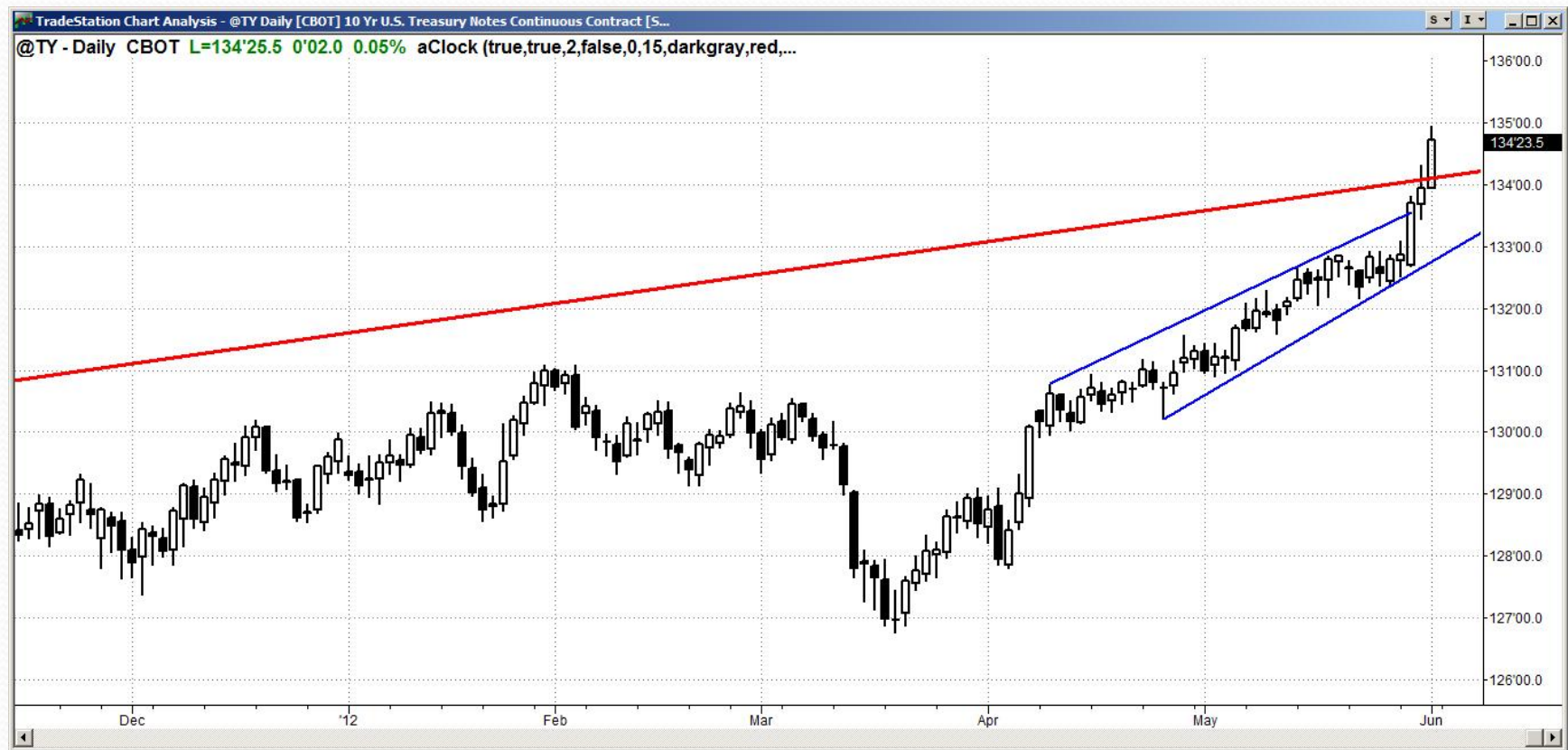
Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

10 Year Notes, Month



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

10 Year Notes, Day



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

GLD, Week: Channels Evolve into Trading Ranges



AAPL, Month



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

AAPL, Week





Additional Information on Price Action

Free examples of 5 min Emini charts that are analyzed bar by bar

BrooksPriceAction.com