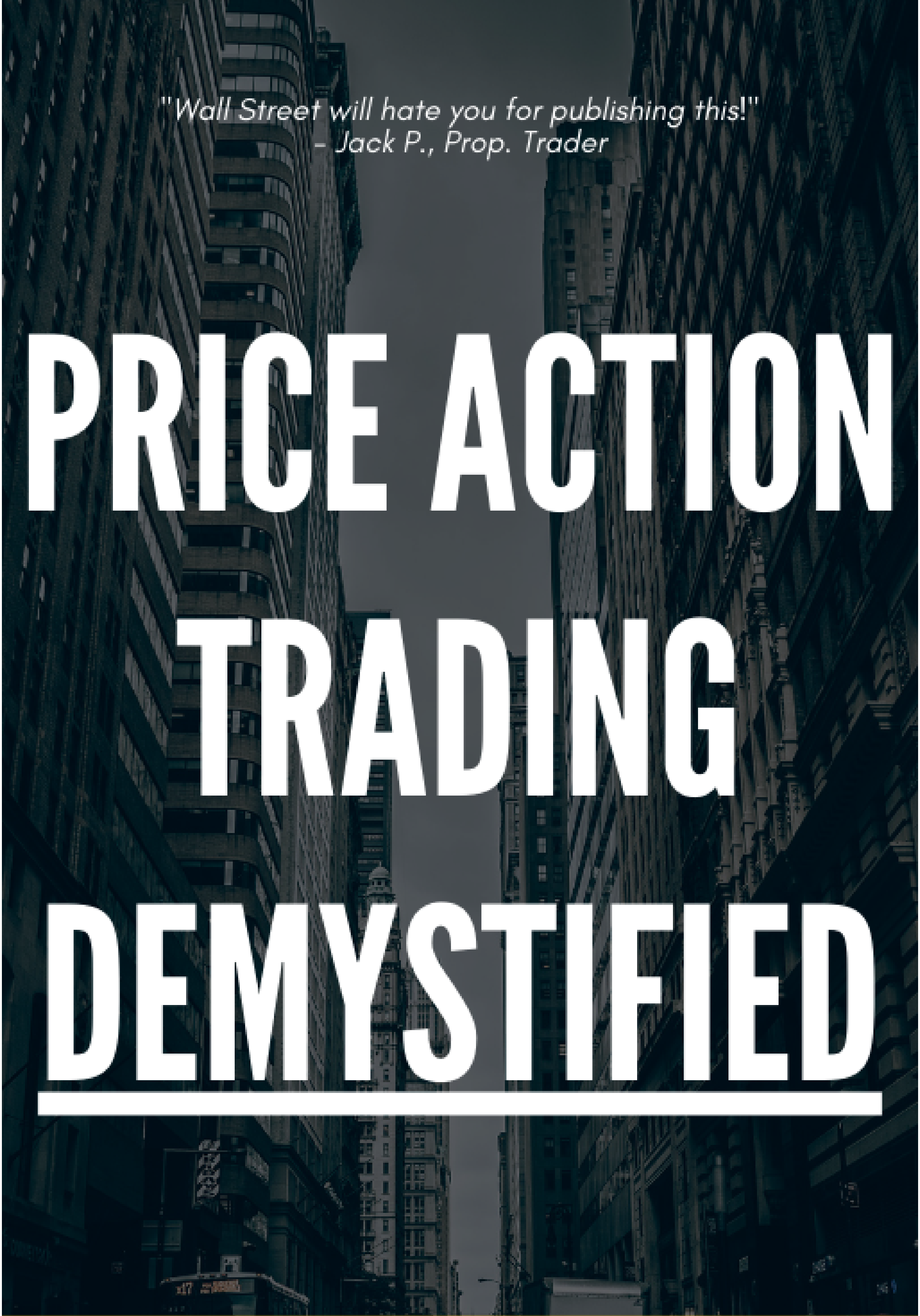


"Wall Street will hate you for publishing this!"
- Jack P., Prop. Trader

PRICE ACTION TRADING DEMYSTIFIED

TRADERS-PARADISE.COM

Price Action Trading Demystified

By Traders-Paradise.com

Disclaimer

Trading foreign exchange on margin carries a high level of risk, and may not be suitable for all investors.

The high degree of leverage can work against you as well as for you.

Before deciding to invest in foreign exchange you should carefully consider your investment objectives, level of experience, and risk appetite.

The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose.

Hypothetical performance results have many inherent limitations.

No representation is being made that any account will or is likely to achieve profits or losses similar to those shown.

In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight.

In addition, hypothetical trading does not involve financial risk.

Variables such as the ability to adhere to a particular trading program in spite of trading losses as well as maintaining adequate liquidity are material points which can adversely affect actual real trading results.

This ebook was written for educational purposes only.

We explicitly don’t make any trading recommendations nor do we give financial advice.

Understand the risks involved before making any trading decision.

What Is Price Action Trading?

With access to modern technology, it seems that every new trader entering the market tries to launch a rocket like NASA, instead of looking at “what really happens in the market”.

That’s exactly what price action trading is about: **Looking at what really happens, right now, without the need for complicated indicators.** (that are based on the price action anyway)

An important aspect of learning how to trade is to "read" the ebb and flow of the market.

We have to understand the most recent price action before making any trade.

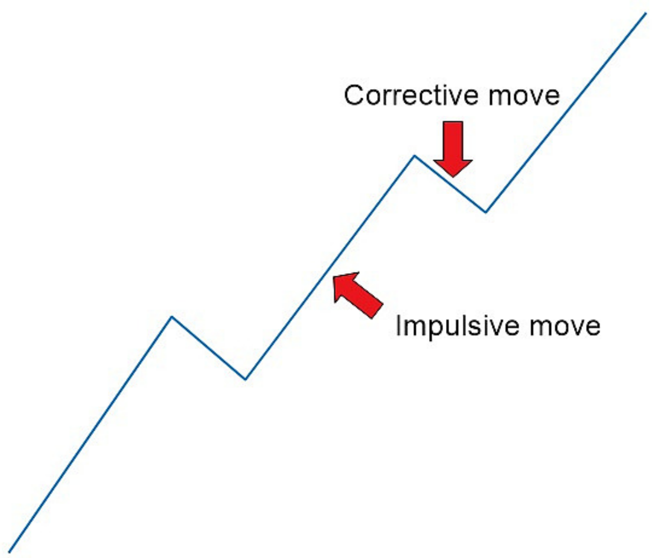
Actually, it’s pretty simple:

We can witness **impulsive** and **corrective** moves in the markets.

And to identify those correctly, we have to understand trends first:

Trends

Let’s begin with an uptrend (bullish):



As you can see, in an uptrend **the impulsive moves are in the direction of the trend**, the corrective moves are showing price action that goes against the trend direction.

Impulsive moves are usually consisting of large candles with small wicks. In the context of this uptrend it means they typically open near the low, and close near the high.

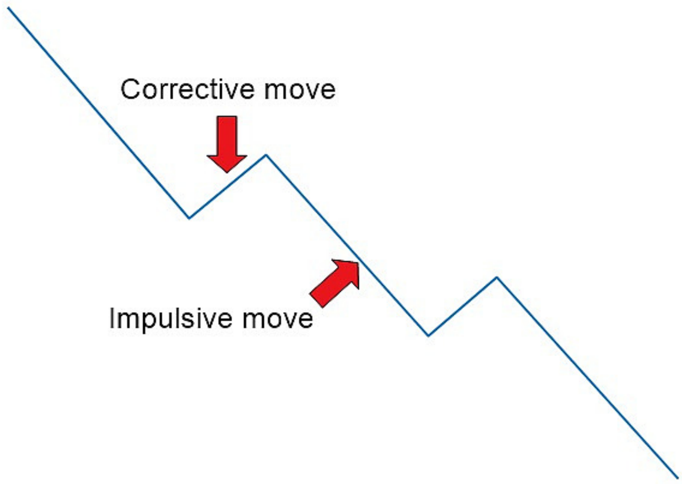
The price action is very directional during these periods of impulsive moves.

Corrective moves are usually consisting of smaller candles which seem not very powerful. They appear almost directionless, random, and sometimes produce longer wicks.

Many traders describe these corrective phases as boring, annoying, weak, and not very interesting.
But: These corrective moves are an important part of healthy trends!

We as traders want to see and trade in the direction of the trend, because we want to be in the market when it's moving quickly in "our direction" during the impulsive moves.

Let's take a look at a typical downtrend next:



As you can see, in a downtrend **the impulsive moves are in the direction of the trend**, the corrective moves are showing price action that goes against the trend direction.

The impulsive moves are usually consisting of large candles with small wicks. In the context of this downtrend it means they typically open near the high, and close near the low.

The price action is very directional during these periods of impulsive moves.

In the context of this downtrend it means, we see rapid price declines within only a few periods.

Corrective moves are usually consisting of smaller candles which seem not very powerful. They appear almost directionless, random, and sometimes produce longer wicks.

In the context of this downtrend, the corrective moves or corrective phases are against the trend direction, so we see lackluster action that appears to be going up or drifting sideways.

Again: We as traders want to see and trade in the direction of the trend, because we want to be in the market when it's moving quickly in "our direction" during the impulsive moves.

In a downtrend, this means we want to be short.

In an uptrend, vice versa.

Patterns & Candlestick Patterns

The names of these patterns are not important.

What is important is **understanding the underlying price action.**

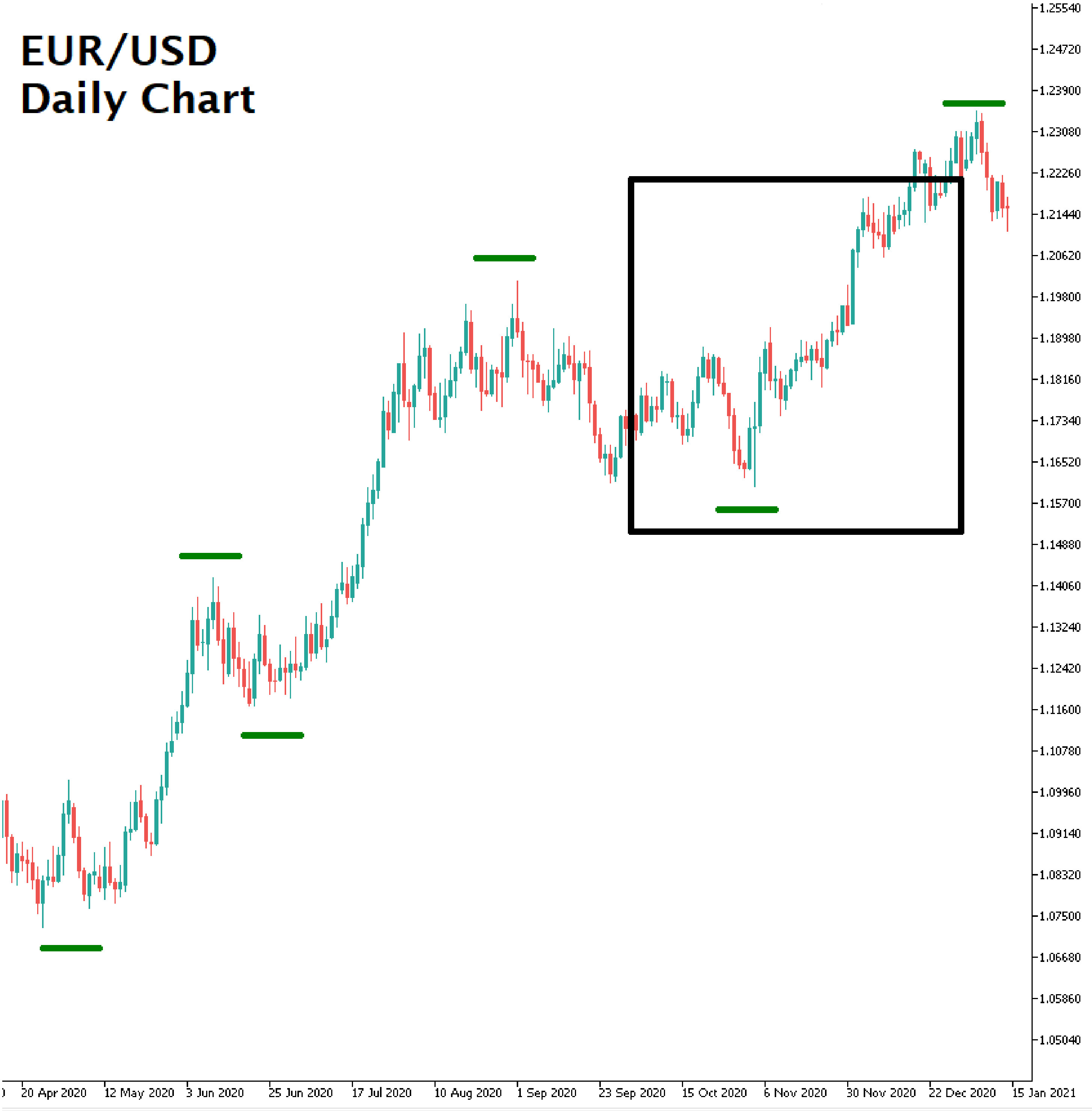
Time Frames & Trading Trends Within Trends

When we “zoom in” into the impulsive and corrective moves by switching to a lower time frame, we can see that these moves often consist of nice trends themselves.

This is especially true for impulsive moves.

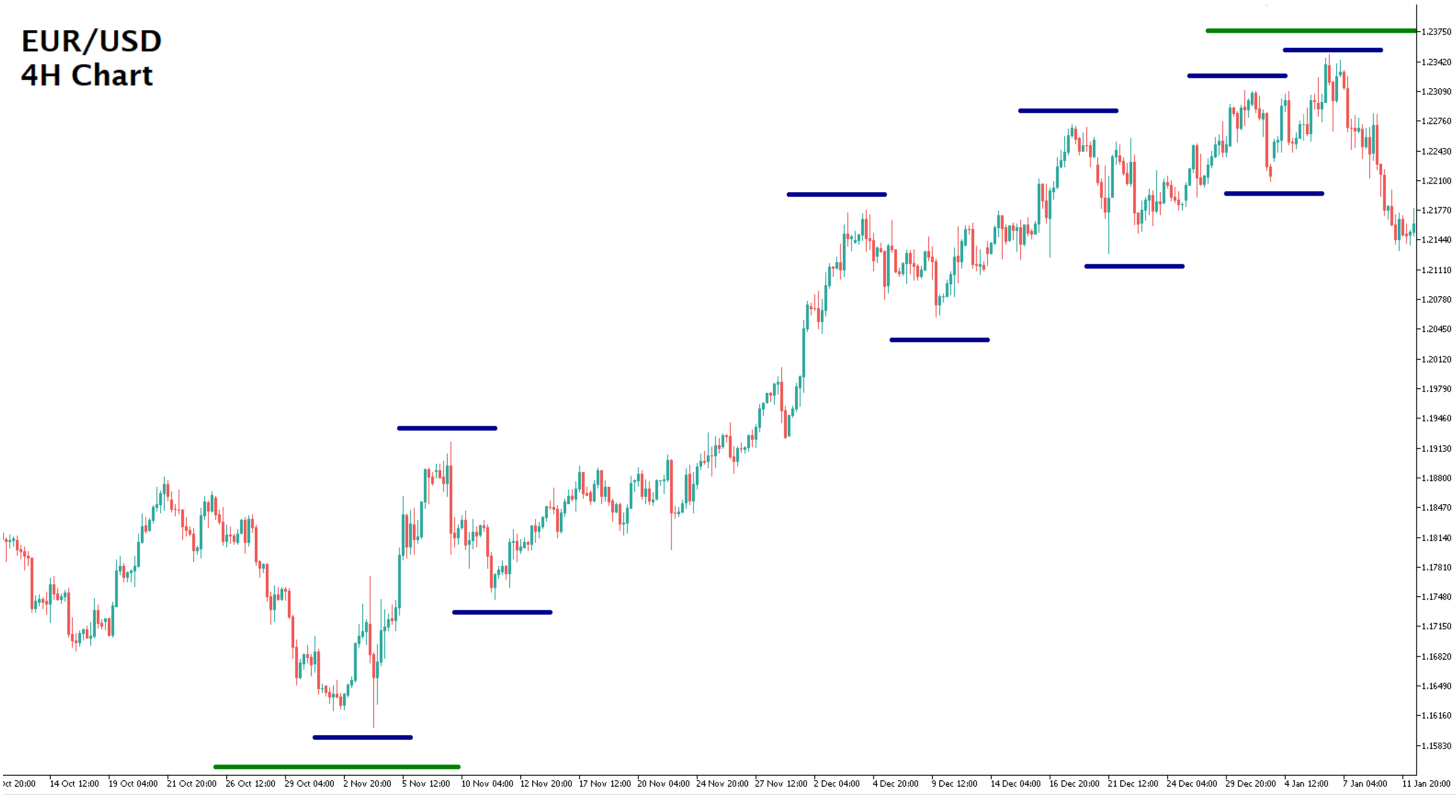
Here’s what we mean:

Let’s take a look at this EUR/USD chart on the daily timeframe: (each candle represents 1 day)



As you can see, the EUR/USD currency pair was in a nice uptrend throughout April to December 2020.

Let’s now “zoom in” and take a look at the 4h time frame of the marked area (black rectangle):



As you can see, the impulsive move on the daily chart represents a nice uptrend on the 4h chart.

Since the uptrend on the daily chart was already well established, any signal, or chart pattern, or pattern breakout that happened in the same direction as the daily chart (long/bullish) on the 4h chart was representing a nice trading opportunity.

Now, we understand hindsight is 20/20.

Everyone can look good by talking about past charts and what already happened… We totally get it.

But it’s from the understanding of the underlying principles that we discussed above that enables us to potentially trade very profitably at the only valid location that any broker allows us to trade:

On the very right side.

The trend on the 4h chart gave us several great entries, and at the same time it also showed us clearly where our (trailing) stop had to be: At or slightly below the most recent low on the 4h trend.

For as long as the daily chart stays in a valid uptrend, trading opportunities on the next lower time frame in the same direction represent potentially great trading opportunities.

If you don’t feel very confident about objectively identifying the best and strongest trends and patterns in the markets yet, we highly suggest you [check out our review of this great trend scanning software.]()

Reading Your Opponents' Minds

Whenever you enter a trade, there's someone else who probably has:

- Access to the same information you have
- Access to the same software and tools you have
- A strong conviction that this trade will work
- A potentially strong opinion of what is going to happen next in this market

But: It's the exact same person who is taking **<u>the opposite side of your trade</u>!**

It's always good to ask yourself:

"If I were trading the opposite direction… Where would I put my stop loss?"

The answer to this question gives great hints to **specific areas on the charts where a lot of action and speed might occur.**

Some people - trading the opposite direction - might have to react quickly there.

They might even panic!

"Damn, my losses are accumulating too fast… That's it for me, get me out of this trade now, at whatever price!"

Of course, the other person might have different motives than you.

The other person might be trading a different timeframe than you.

The other person might want to hold his/her position much longer or much shorter than you.

And: The other person might be forced to close his position because of an entirely unrelated event outside of the market, like a divorce.

(we mention the divorce specifically because we've seen exactly this happening, a market participant was forced to exit his profitable trade prematurely because he had to pay out his partner at that exact time)

This proves an important point: **Not everyone is making decisions to buy or sell based on price action!**

We will never find out exactly who took the other side of our trade, at exactly the same time. But it also doesn't matter.

What matters is that we're **trading within the context of the higher timeframe**, and that we only **take small, calculated bets (read: risks)** whenever we enter a new trade.

This point can't be overstated enough:

It's **rigorous risk management** that practically guarantees the fact that we can come back tomorrow again and trade another day.

Besides risk management, it's all about **cutting our losses quickly**, and **letting our winners run**.

And that's the easiest, when the higher timeframe's trend confirms our trading direction.

Closing Thoughts

An entire industry is living off of artificially making the topic of price action trading and technical analysis appear very complicated.

This includes all "gurus", most book authors, publishers, course sellers, several software platforms, brokerages, and many more.

You don't need "more".

The price action basics we showed you are enough to make plenty of profitable trades.

Don't be fooled or intimidated by people who try to sound smart by knowing the name of every minor chart pattern or meaningless candlestick under the sun.

Focus on the price action basics, trends, and on risk management.

That's it.

What gets you to profitability in trading are:

- Developing a simple, profitable trading strategy
- Monitoring your behaviour in terms of trading errors and risk management
- Identifying high probability, low-risk trading opportunities in the markets
- Trading these situations with specified, calculated risks
- Reviewing your actions based on "what was the situation" and "what did I actually do"

High probability, low-risk trading situations usually appear within **strong trends**.

By **trading within the context of the higher timeframe's trend** you're already ahead of 90% of all traders.

Most market participants are rather gamblers than professional traders.

You don't have to trade every pattern you see.

Focus on a few, high-probability trades within strong trends.

It's called **trend *following*** for a reason. It's not "where might soon appear a trend"-trading.

To help you with that, we found something amazing:

Make sure to check out our review of **the most reliable trend and pattern scanning software** that we could find online here.

And if you're looking for stock trading opportunities, check out our own, self-developed software here.

We wish you all the best, and plenty of great trades!

The Traders-Paradise team

PS: If you like to know more about how we can help you with your trading, simply get in touch with us here.