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Book:

Reading Price Charts Bar By Bar:

The Technical Analysis of Price Action for the Serious Trader
(Wiley, 2009)

Available on Amazon (I make very little from it so only buy it if you think you would enjoy it):

http://www.amazon.com/Reading-Price-Charts-Bar-Technical/dp/0470443952/ref=sr_1_1?ie=UTF8&s=books&qid=1240802725&sr=1-1

Websites:

- Free articles:

[Brookspriceaction.com](http://www.brookspriceaction.com)

- Free detailed analysis of 5 min Emini for past several months:

<http://www.brookspriceaction.com/viewforum.php?f=1>

- Free videos of daily Emini analysis:

<http://www.youtube.com/user/brookspriceaction>

- Real-time daily webinar (\$99/month)

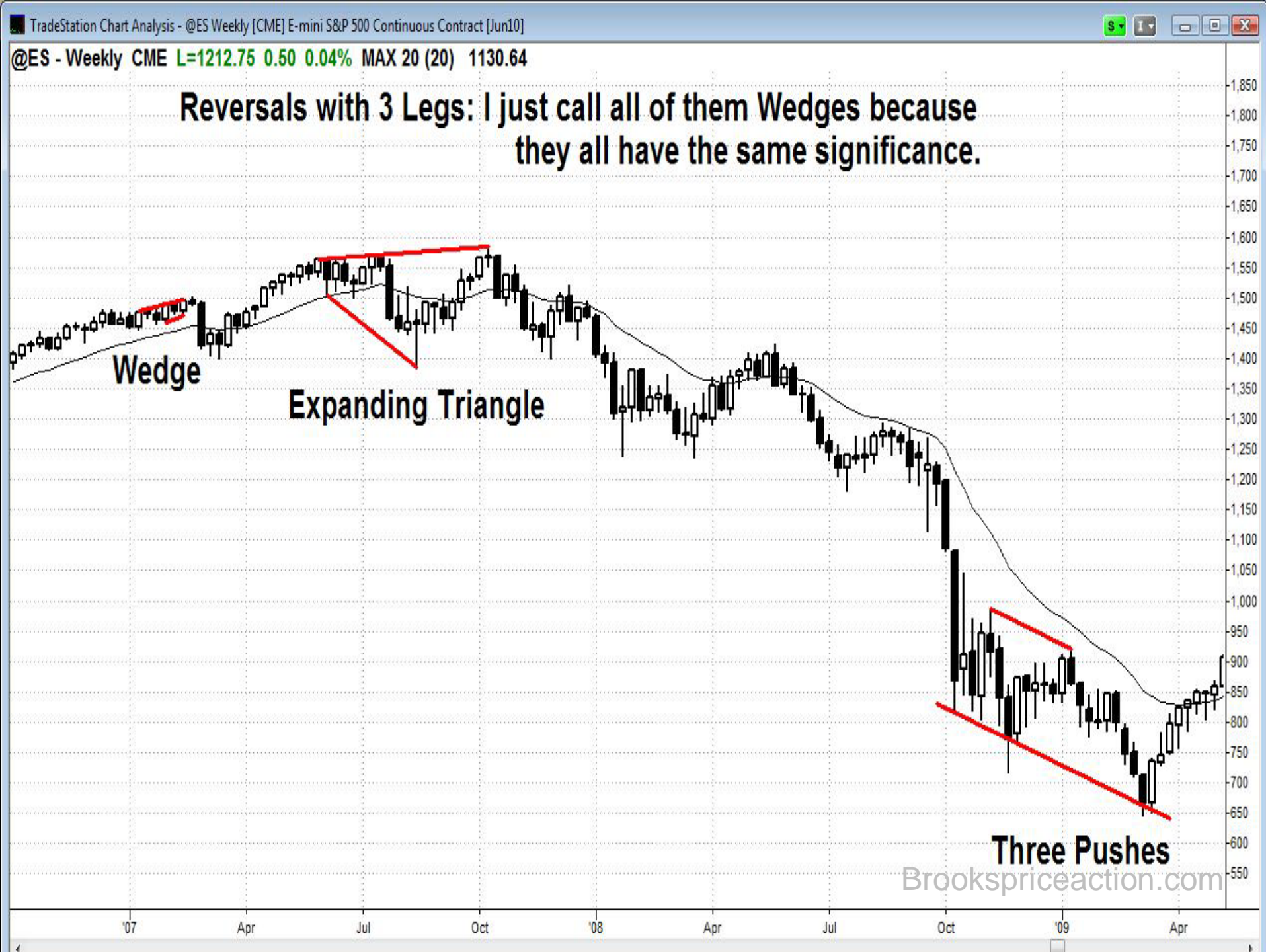
<http://www.brookspriceaction.com/portal.php?page=9>

Three Push Patterns

- Three pushes often lead to a reversal.
- Common Three Push Reversal patterns:
 - Three Push Reversals
 - Wedges
 - Triangles, including Expanding Triangles

Simplicity

- I like simplicity when I trade. Is a bar a trend bar or not a trend bar (a doji bar)?
- Is the market trending or in a trading range?
- Since all Three Push patterns have the same significance and are based on the same logic, I refer to all of them as WEDGES.



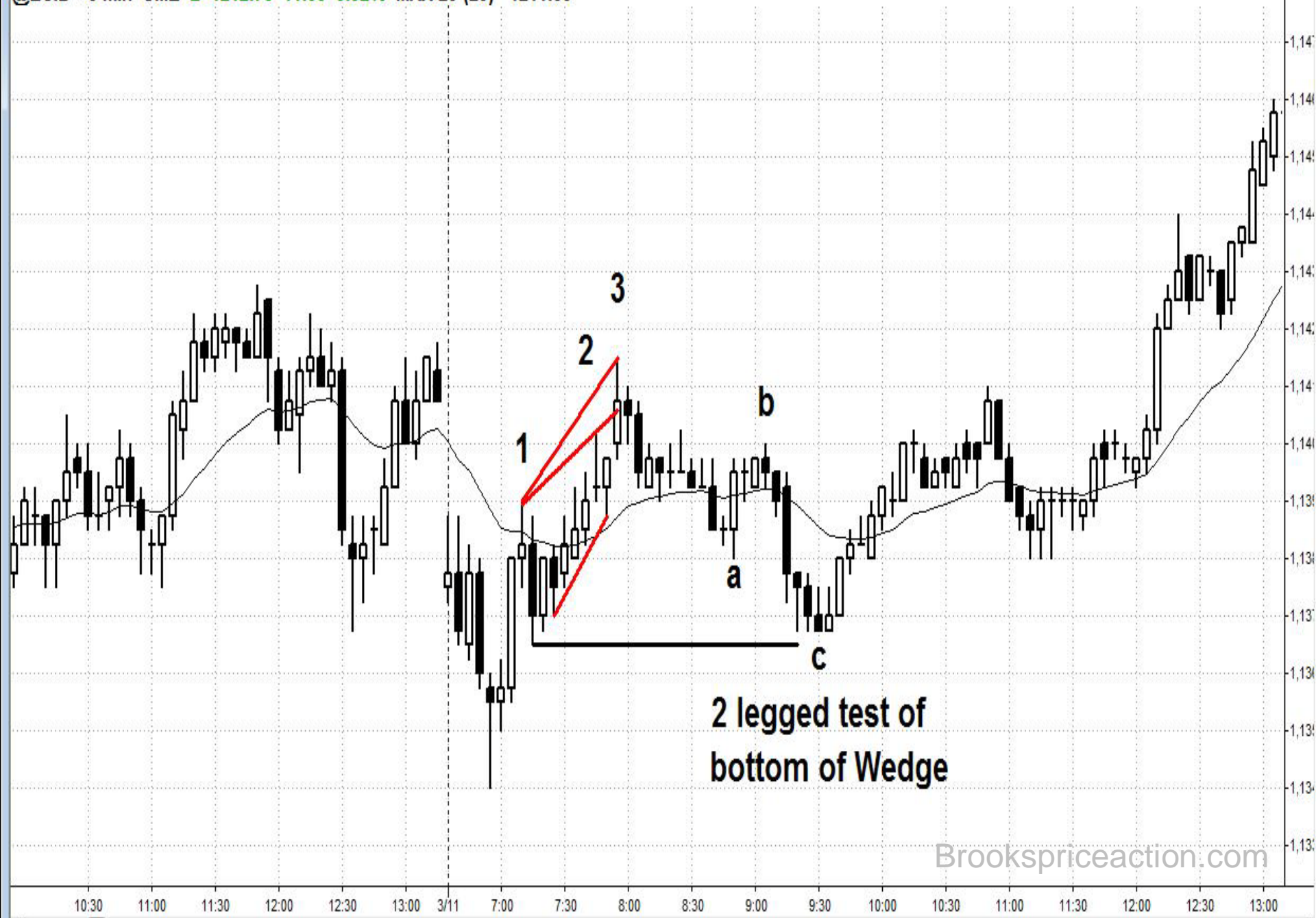
Why do they work?

- Whenever the market tries to do something twice and fails, it usually then tries to do the opposite.
- If the market makes an extreme and then tries two more times to extend the trend and fails, it will usually try to do the opposite.

How far will the reversal go?

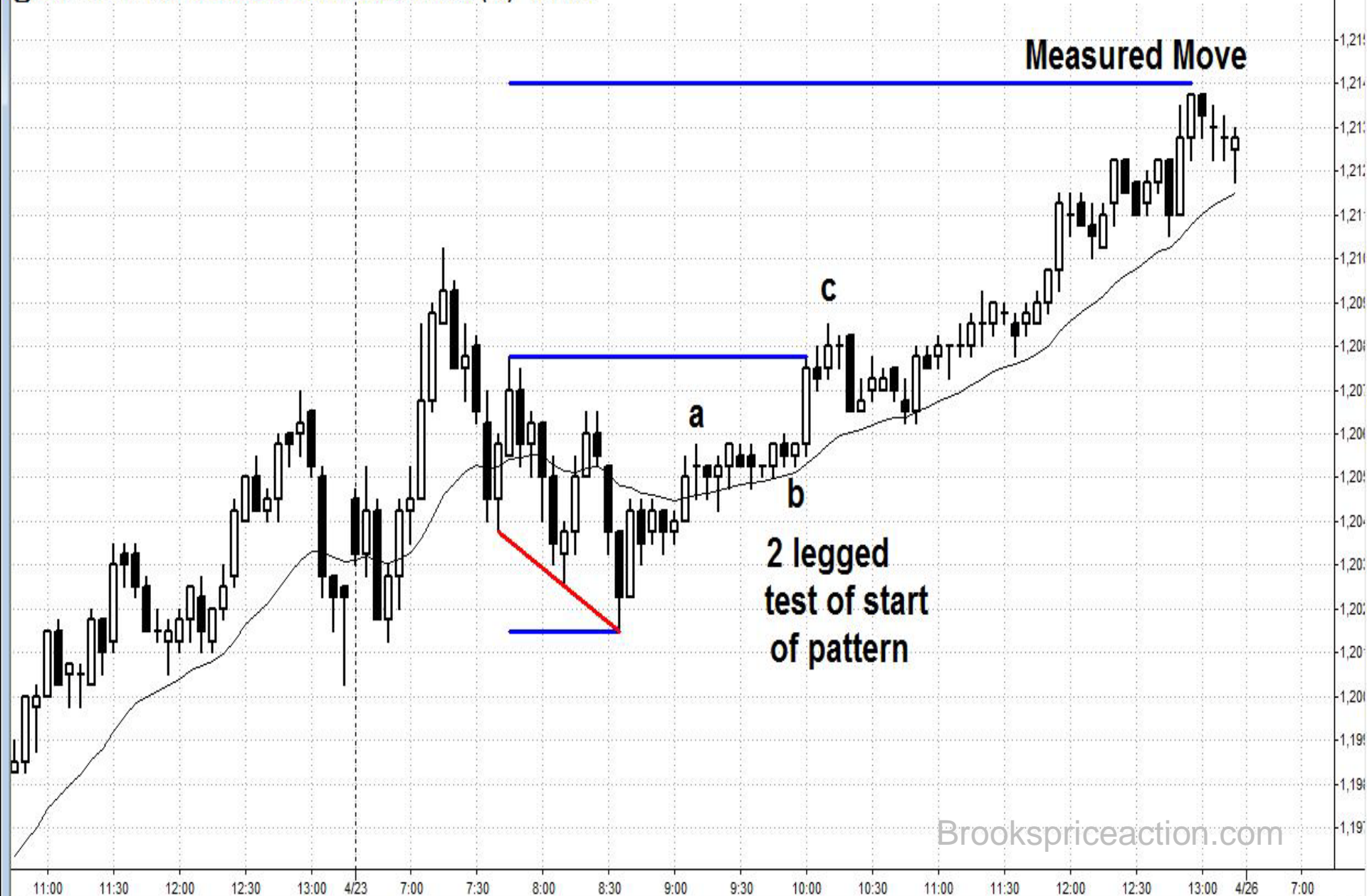
- Like all reversals, they have 2 sided price action and therefore are trading ranges.
- 3 possible objectives:
 - 2 legged countertrend move to the start of the pattern (the opposite end of the trading range).
 - if the market breaks beyond that, the next objective is a Measured Move.
 - a major trend reversal.

@ES.D - 5 min CME L=1212.75 11.00 0.92% MAX 20 (20) 1211.50



2 legged test of
bottom of Wedge

@ES.D - 5 min CME L=1212.75 11.00 0.92% MAX 20 (20) 1211.50



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When constitutes a failed Wedge?

- If the market trades one tick beyond the Wedge, the Wedge fails.
- If a Wedge fails, traders will decide whether:
 - the breakout is significant and the trend is resuming
 - the breakout will fail and becomes just a setup for a second reversal entry for the Wedge.

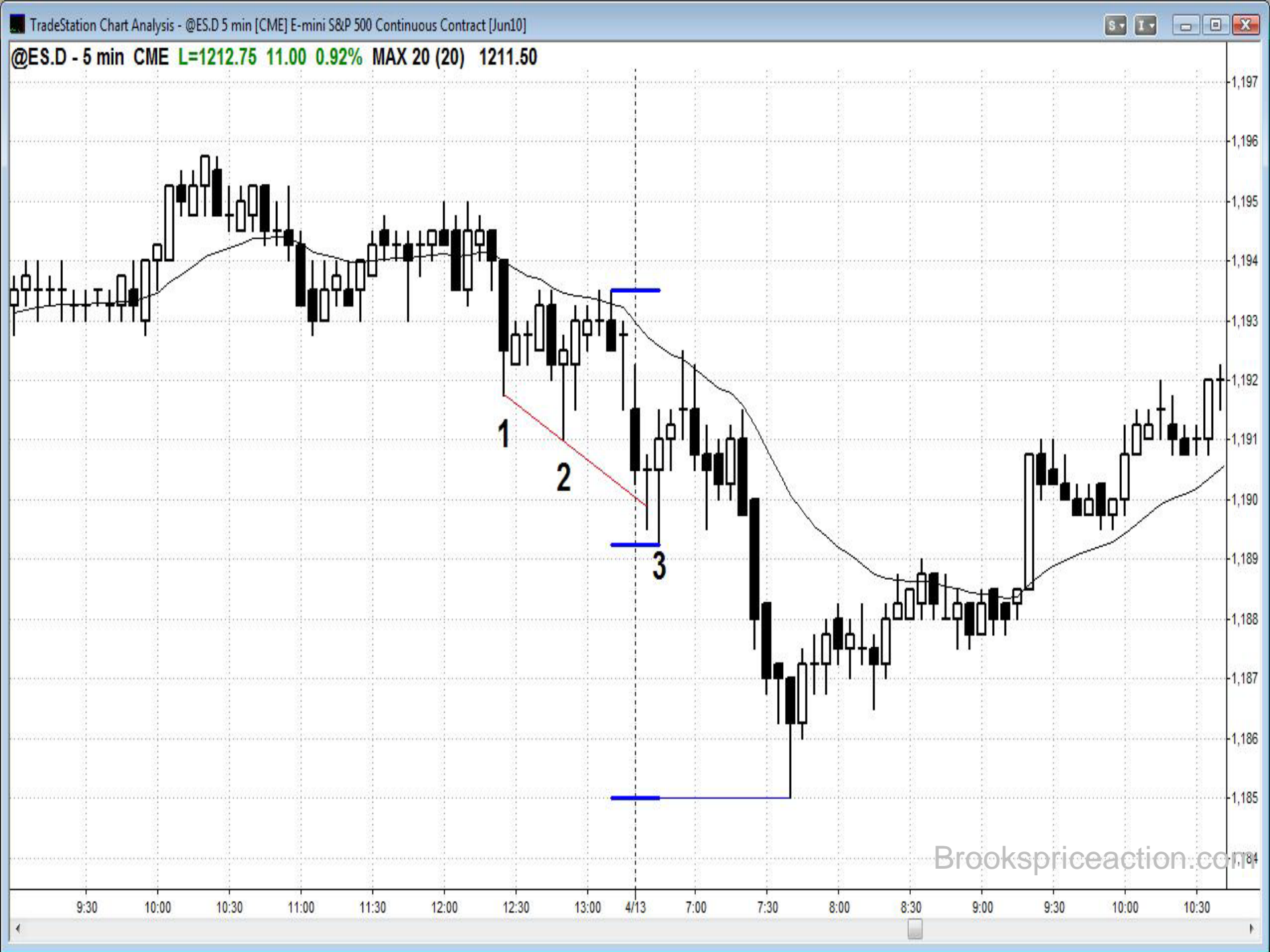
@ES - 2 min CME L=1212.75 0.50 0.04% MAX 20 (20) 1212.36



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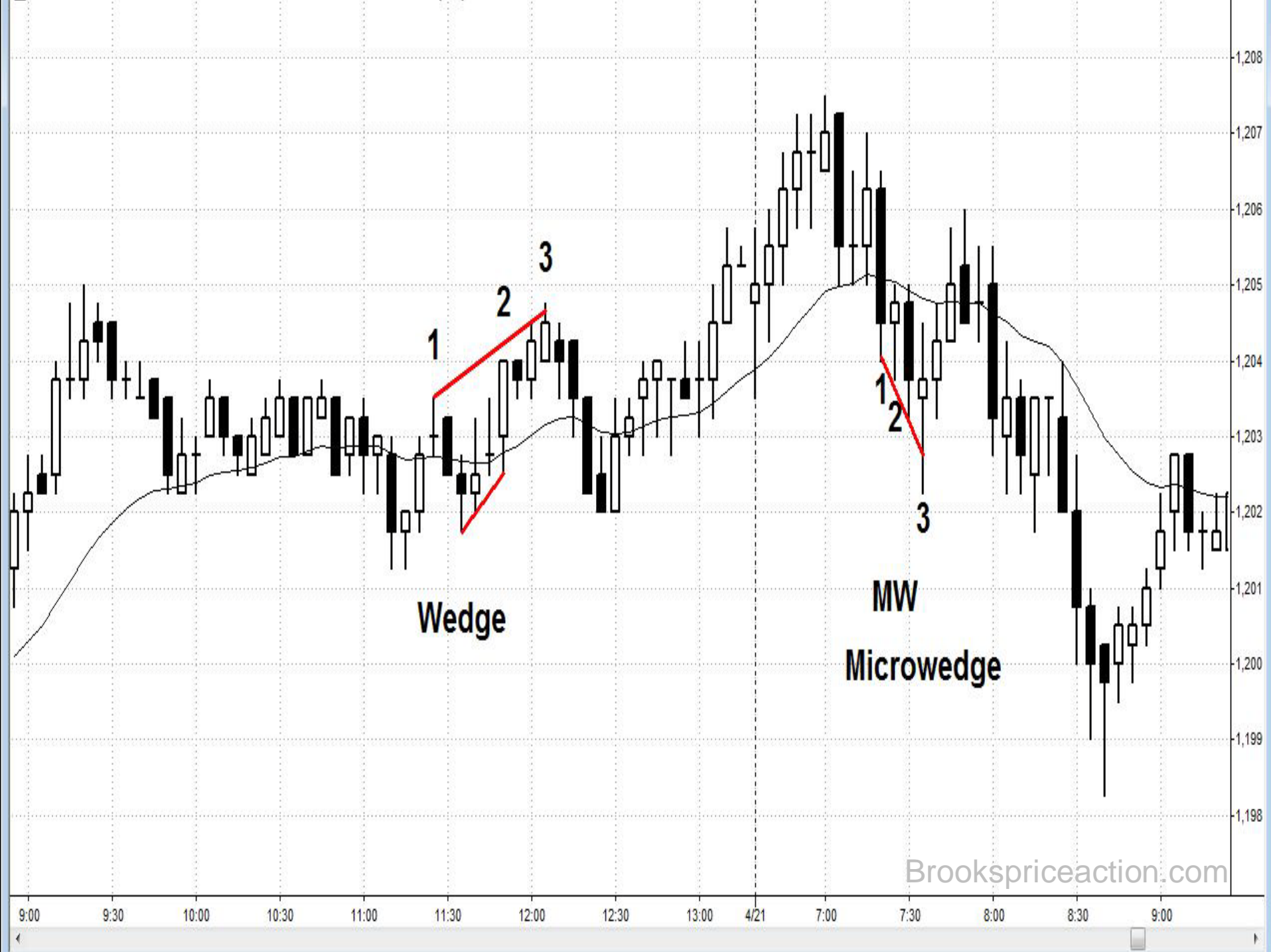
What happens if the market fails to reverse?

- Even the best patterns are only 70% reliable and that means that they fail to do what you expect at least 30% of the time.
- When a Wedge breaks out instead of reverses, it often extends the trend for about a Measured Move, using the top to the bottom of the pattern for the expected distance of the move.



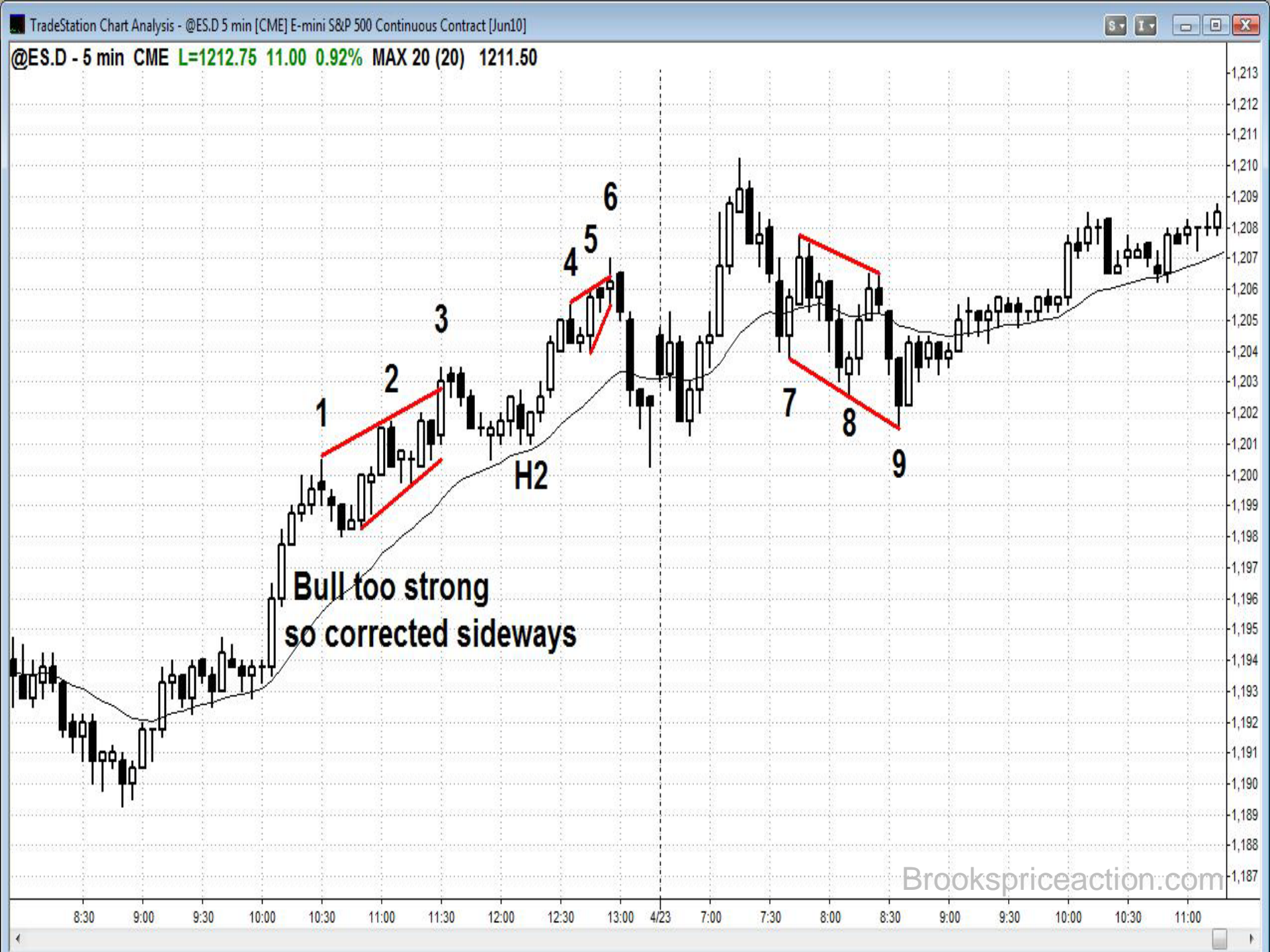
Microwedge

- If 3 – 5 bars each extend beyond the previous bar by a tick or two, they probably are forming a Microwedge.
 - Traders are fading (trading in opposite direction) each new extreme.
 - An actual Wedge might be present on a smaller timeframe chart but this is not worth confirming.
 - This usually leads to a small pullback and not a reversal.



When not to trade a Wedge?

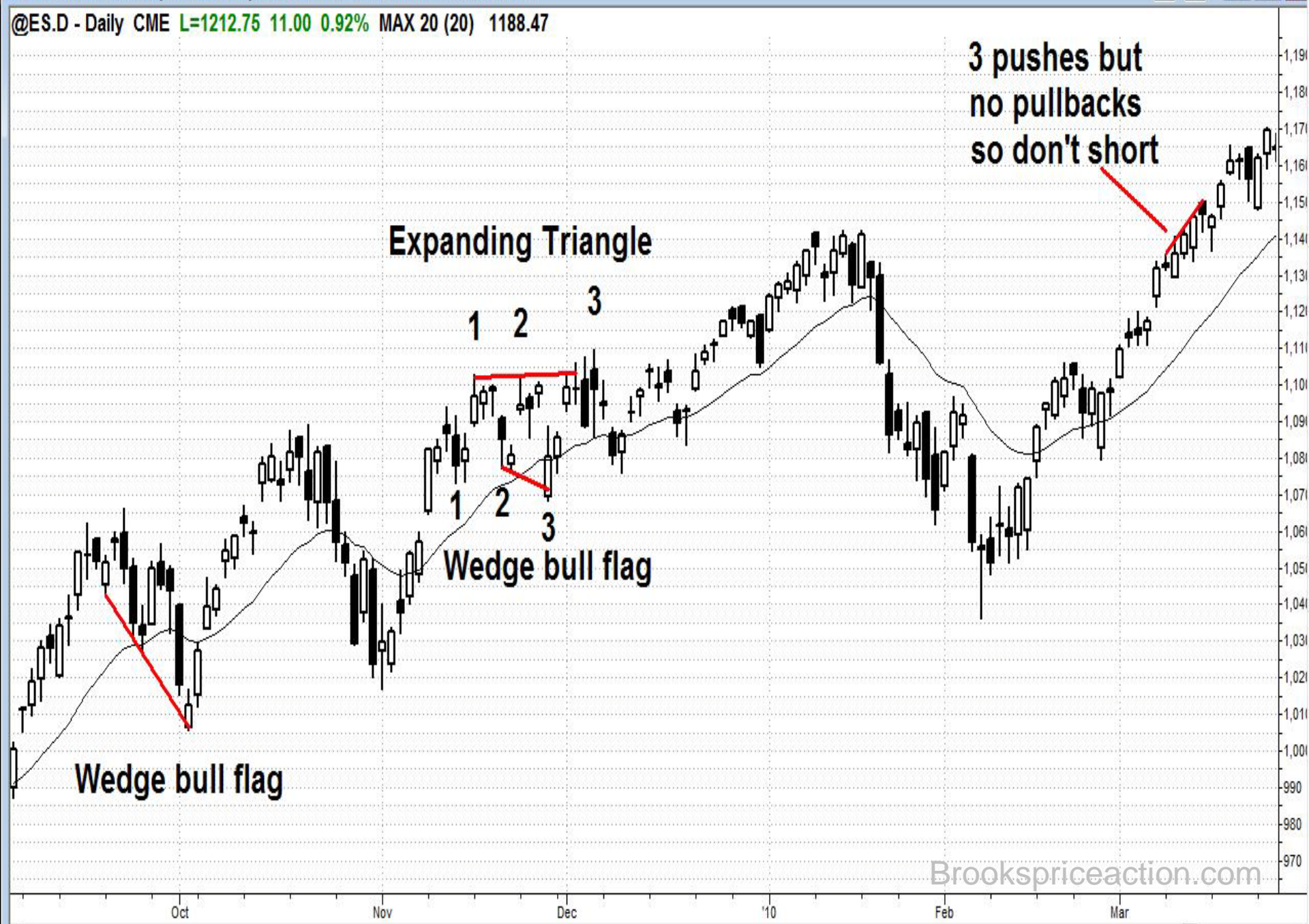
- If the trend is too strong
- If the Wedge is in a tight channel with only small swings
- When the small pullbacks are small and mostly sideways, and last only 1 or 2 bars
- When the trend bars are too large



Wedge Bull Flags

- When there is a bull and then a sideways or downward sloping trading range that has 3 pushes down, this is a Wedge Bull Flag.
- The minimum objective is a test of the top of the pattern.
- A Wedge Bear Flag is the opposite

@ES.D - Daily CME L=1212.75 11.00 0.92% MAX 20 (20) 1188.47



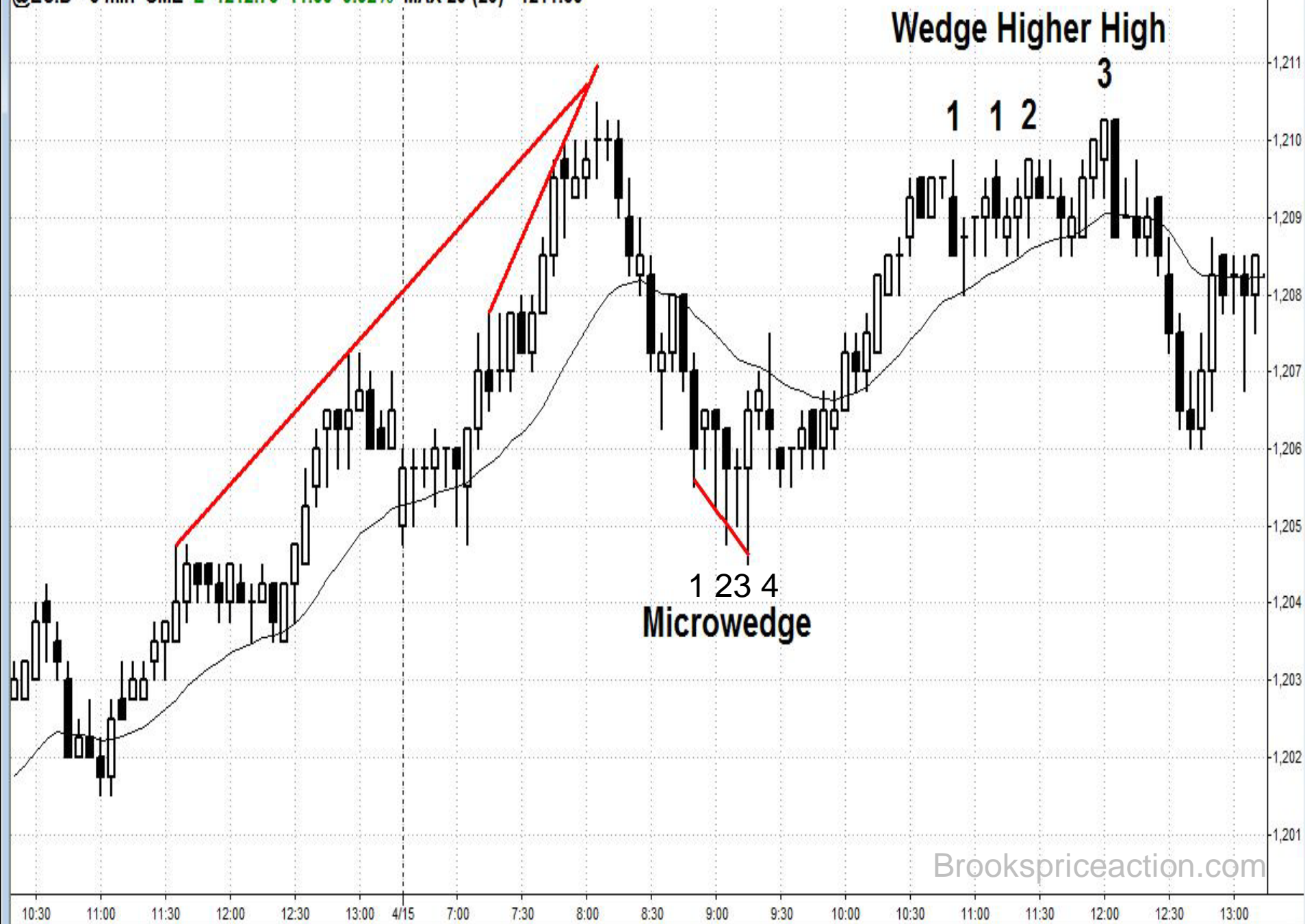
Failed High 2 (f H2)

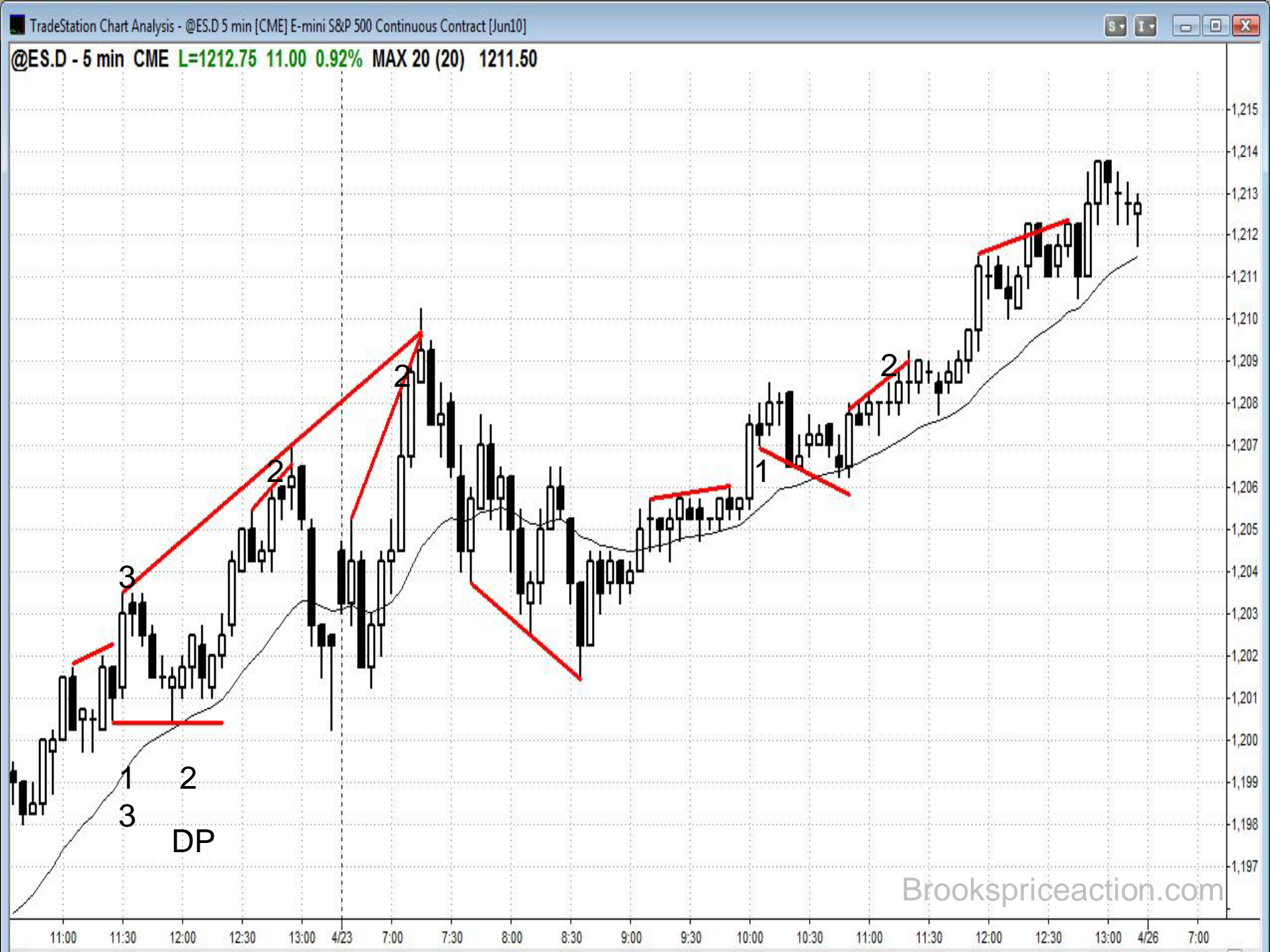
- When a H2 pullback in a bull fails, it usually becomes either a:
 - Wedge, which is a H3 long since it has 3 legs down
 - Breakout to two more legs down and then a High 4 long. If the breakout below the 2nd leg down is large, a H4 is more likely than a Wedge
- (f L2 bear pullback is the opposite)

FCX - Daily NYSE L=79.60 -0.90 -1.12% MAX 20 (20) 81.99



@ES.D - 5 min CME L=1212.75 11.00 0.92% MAX 20 (20) 1211.50





@NQ.D - 5 min CME L=2052.00 15.75 0.77% MAX 20 (20) 2049.49



EURUSD - 60 min FOREX L=1.33814 0.00876 0.66% MAX 20 (20) 1.33318

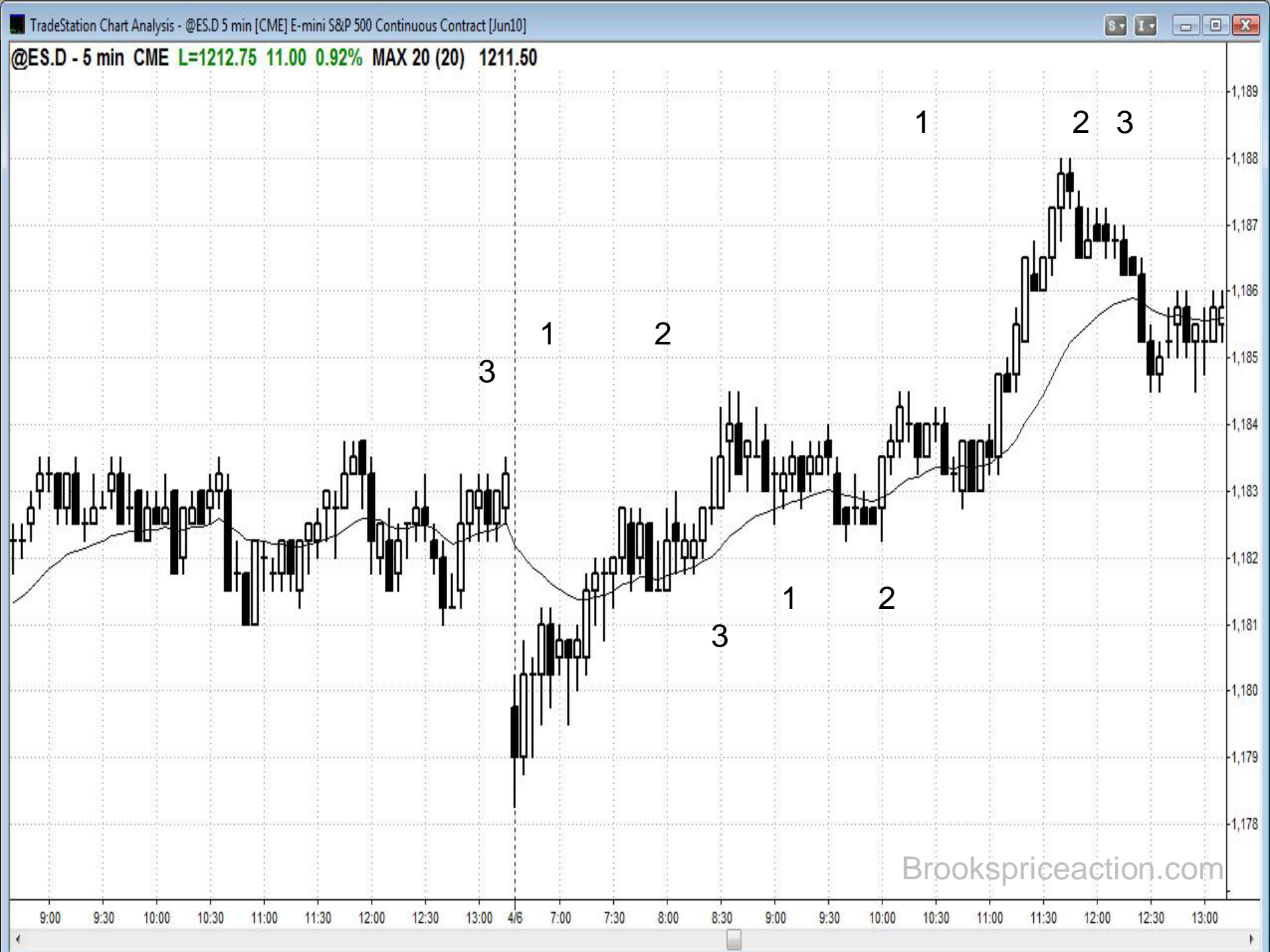
EURUSD 60 min



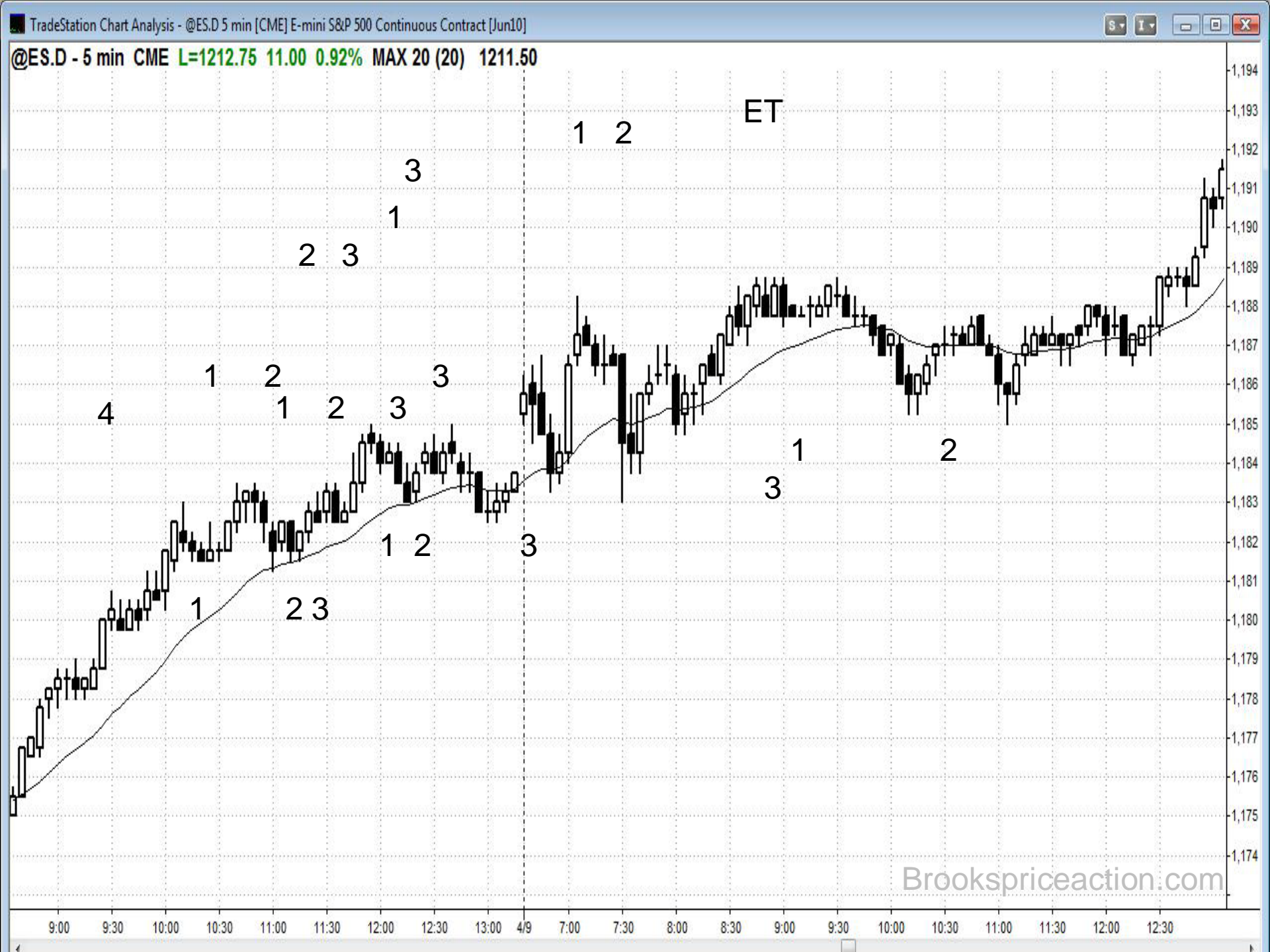
@TY(D) - 5 min CBOT L=116'16.0 -0'10.5 -0.28% MAX 20 (20) 116.478

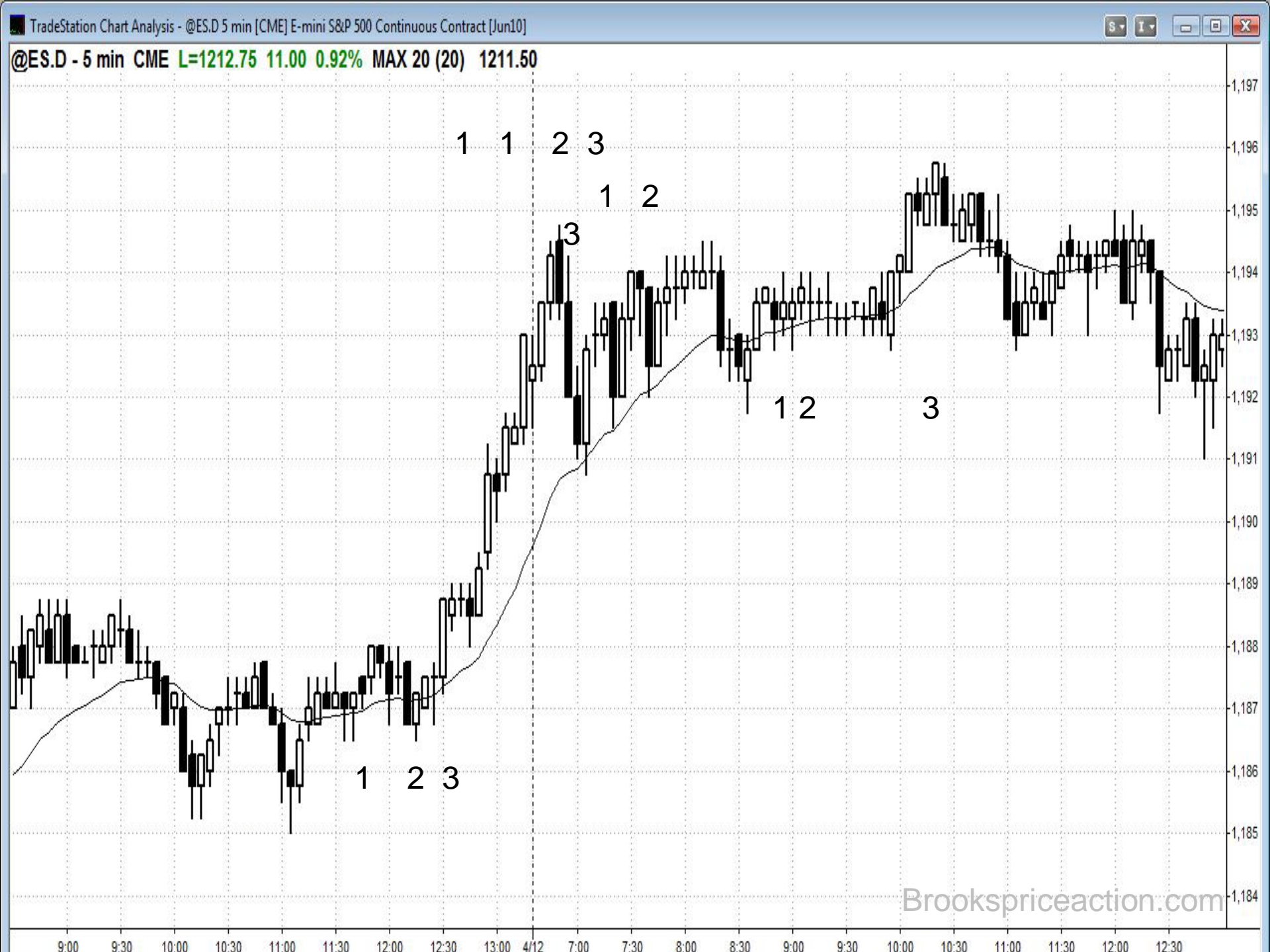
Notes 5 min

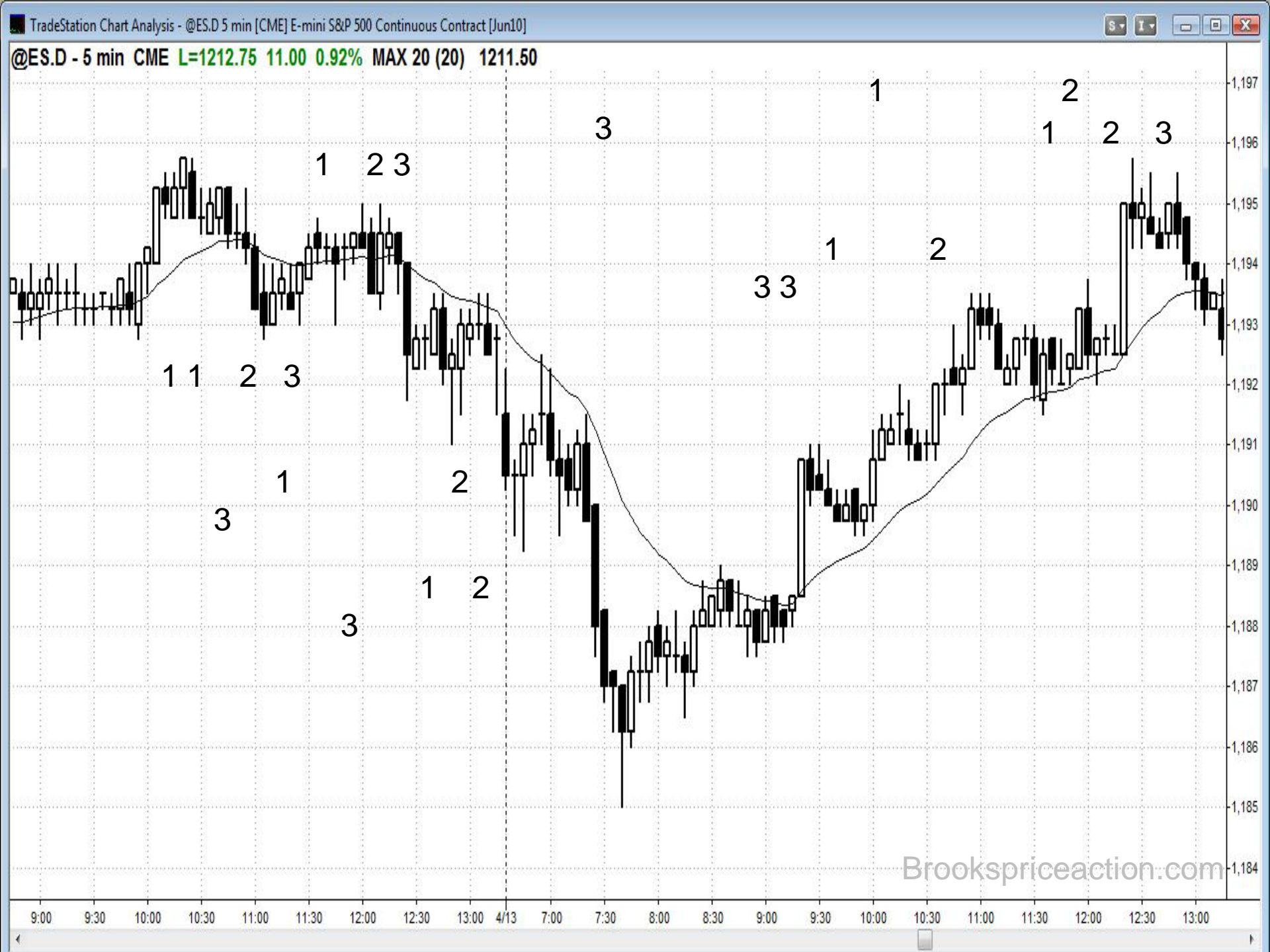


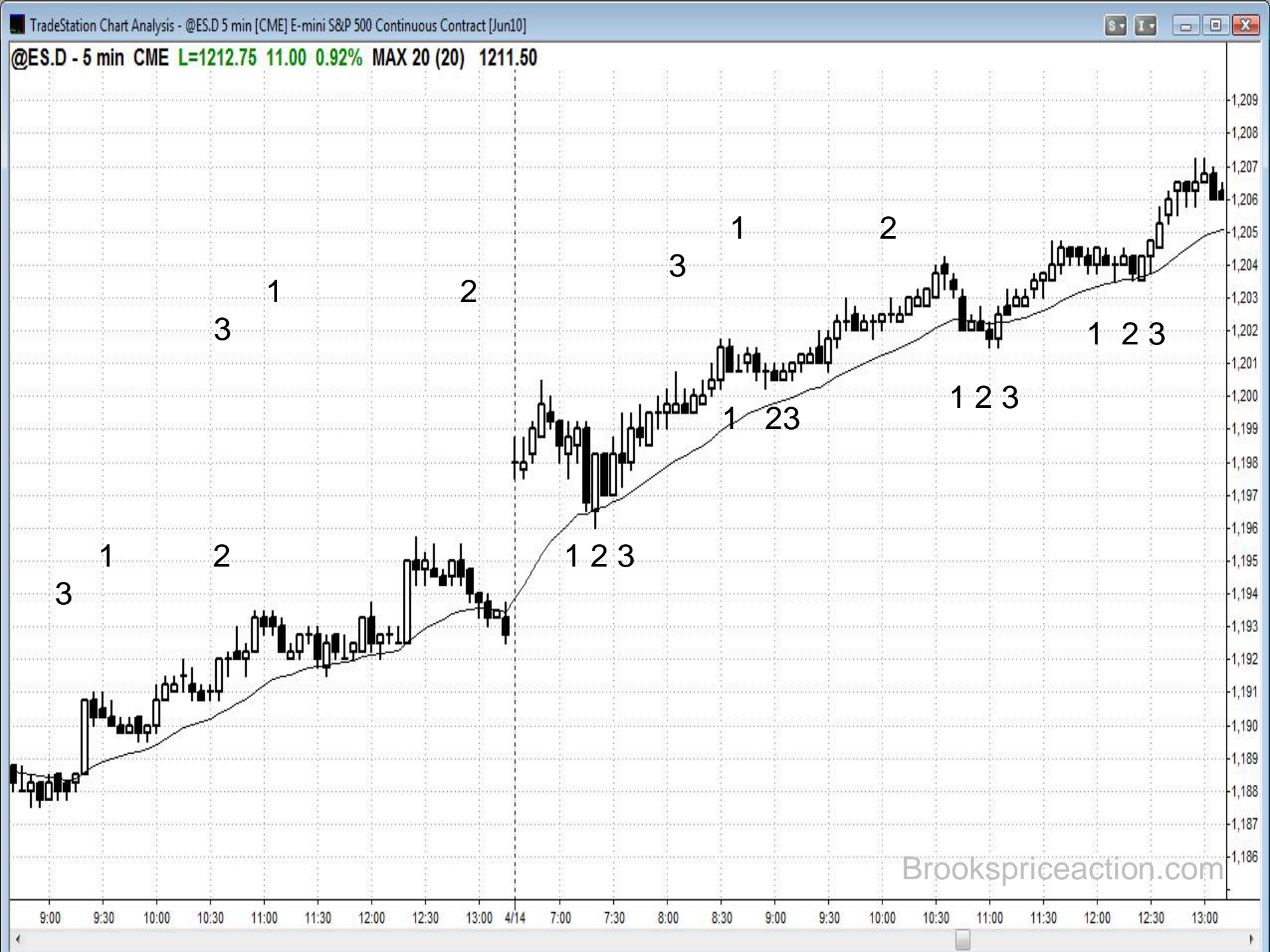


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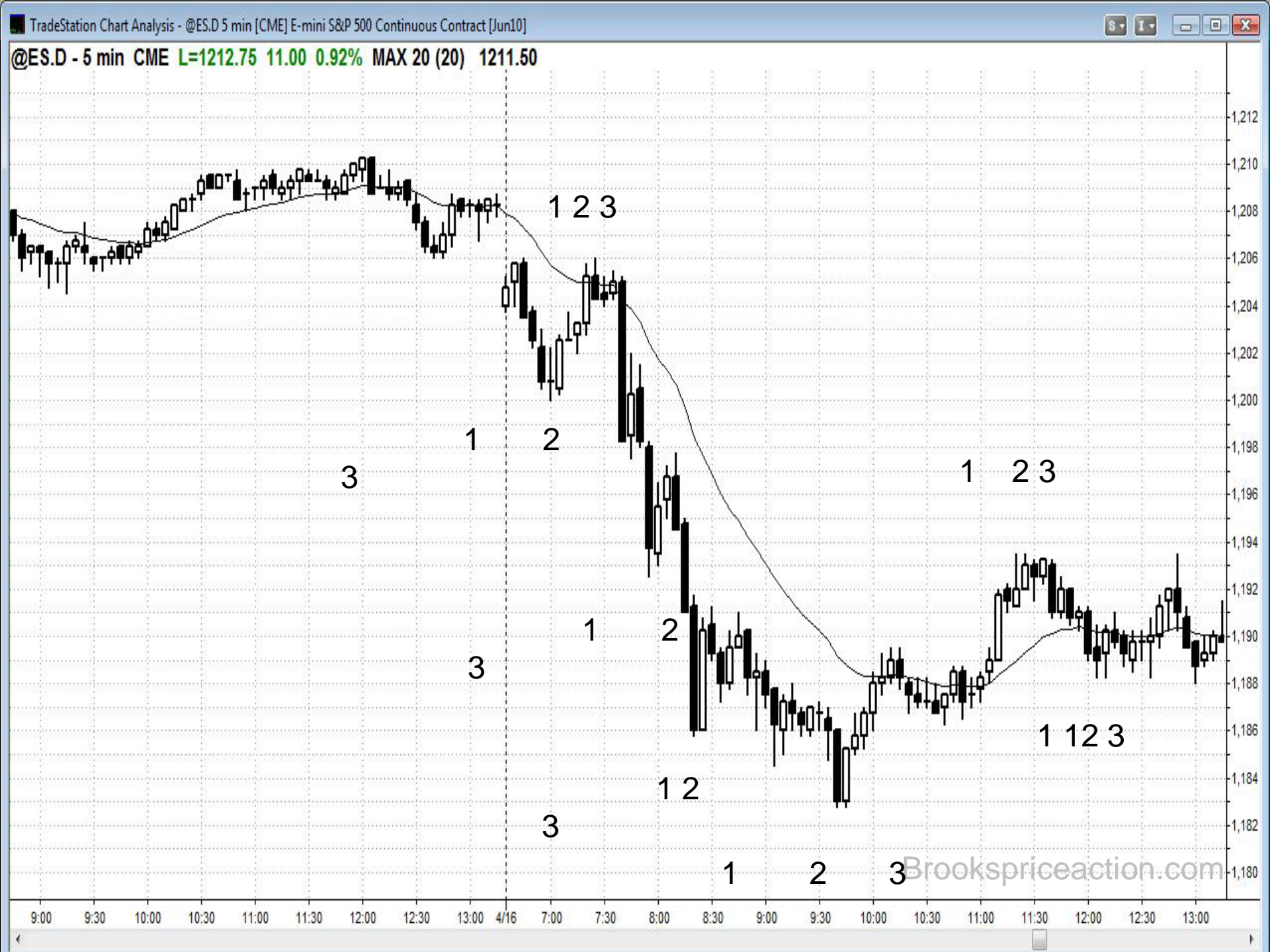








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From Previous Webinars

- This ends my discussion on Wedges but the following slides are reminders of things that some of you might find helpful.

My setup

- Laptop, single 5 min candle chart, 20 bar ema
- No indicators!
- Blinds closed, don't take calls, don't watch TV
- Ignore the news and pundits
- I don't want any distractions or opinions
- I am very focused
- My job: take money from your account and put it into mine (that is the nature of the game we are playing!)

What is Price Action?

- The broadest definition: any representation of price movement during the course of trading for any financial instrument, on any type of chart, and in any timeframe.
- Since price is changing with every tick (trade) during the day, each price change becomes an example of price action.
- You cannot dismiss anything because very often something that initially appears minor leads to a great trade

Why does PA trading work if everyone knows it?

- Simple...Trading is very difficult to do well! The margin for error is tiny and every little mistake works against you being profitable.
- Even the best analysis is right only about 60-70% of the time.
- You are competing against the best traders in the world in a zero sum game, and they want your money.
- There is a huge difference between knowing how to play golf and playing it well enough to make a

Who's the mark?

- If you take a trade and don't believe that the exact opposite can happen at least 40% of the time, you will be trapped in and out of positions.
- In poker, if you don't know who the mark is, then you're the mark.
- In trading, if you don't know who is trapped, you will soon discover that it is you!

Characteristics of great traders

- **Discipline**: there is never “just this time, maybe it will work.”
- **Objectivity**: if you feel any emotion, don’t take the trade. Accept that the market might do the opposite of what you believe, and it will about 40% of the time.
- **Patience**: it can take hours for a good signal. A trade is never overdue.

Starting Out

- Until you are consistently profitable, work on increasing position size rather than the number of trades. Be very selective and take only the best 1 – 3 trades per day.
- If you can average just 1 point/day:
 - 10 contracts per trades = \$100,000/year
 - 25 contracts = \$250,000
 - 100 contracts = \$1 million

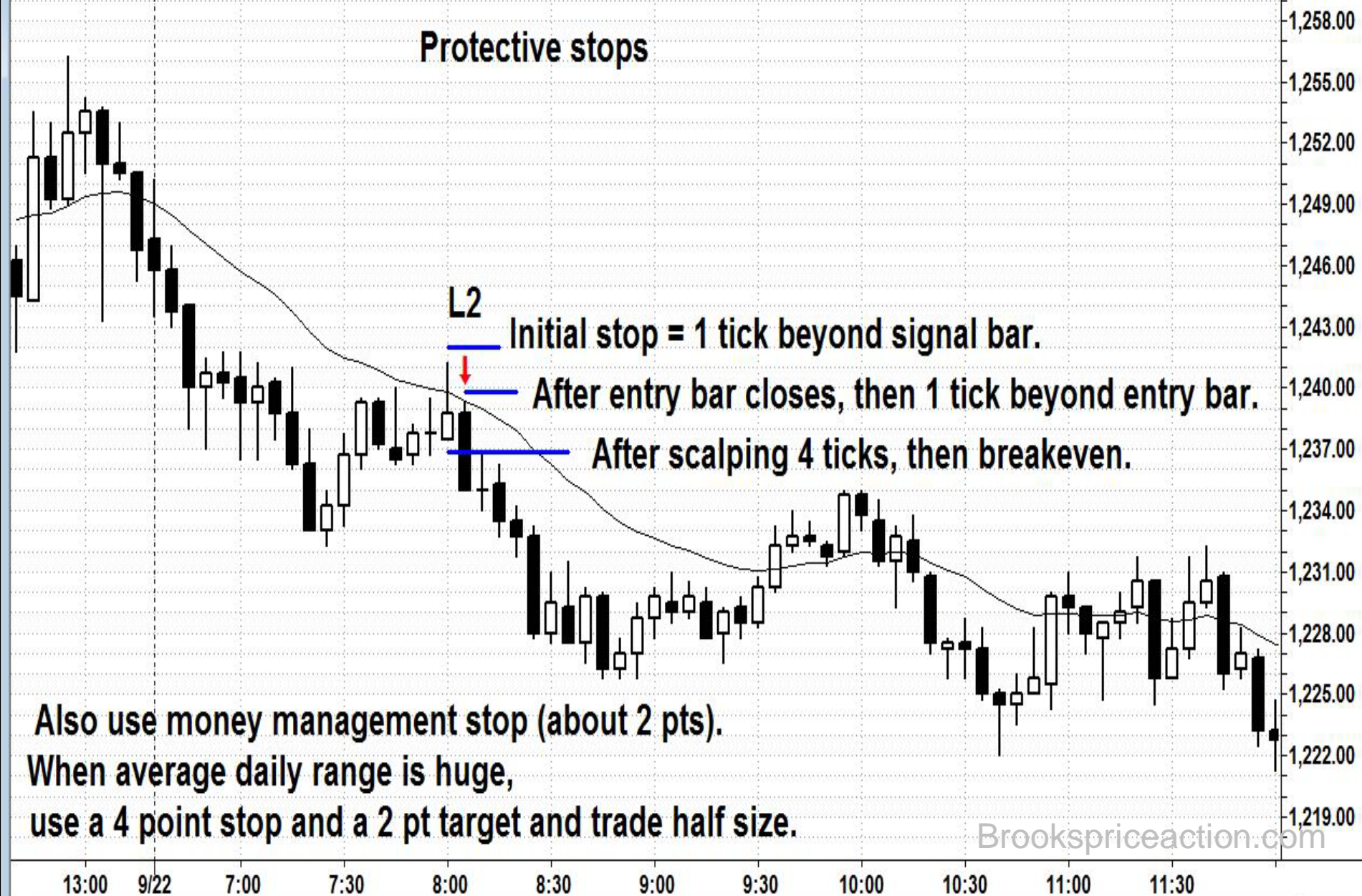
Can anyone really make money at this?

- Yes, but it is difficult. Some supposedly make a fortune:
- Do a search for Paul Rotter
- Supposedly trades 150,000 contracts a day for 3 ticks and made \$60M a year for many years

http://www.trading-naked.com/paul_rotter.htm



ESZ08.D - 5 min CME L=1187.25 -26.50 -2.18% MAX 20 (20) 1196.32



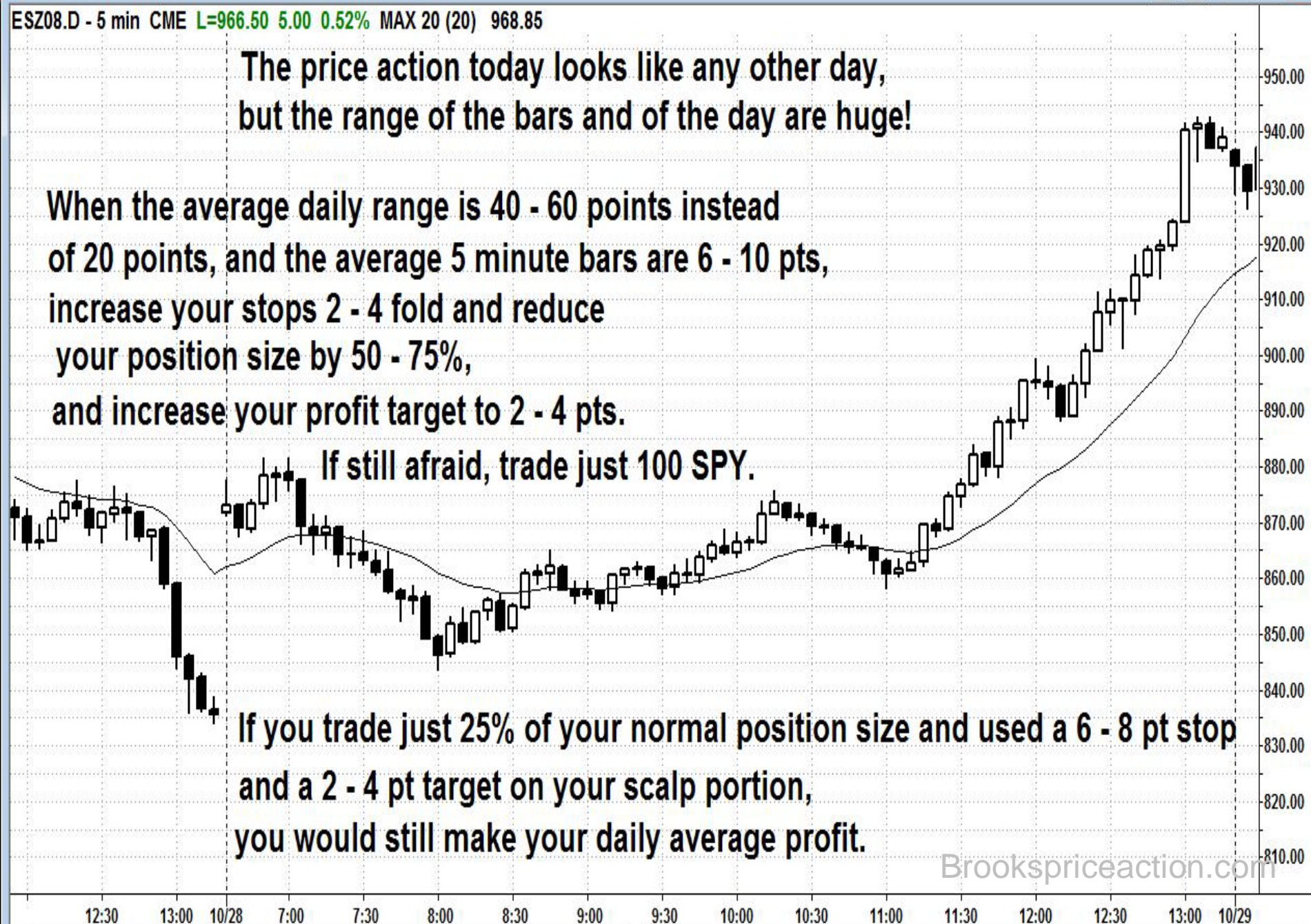
ESZ08.D - 5 min CME L=966.50 5.00 0.52% MAX 20 (20) 968.85

The price action today looks like any other day,
but the range of the bars and of the day are huge!

When the average daily range is 40 - 60 points instead
of 20 points, and the average 5 minute bars are 6 - 10 pts,
increase your stops 2 - 4 fold and reduce
your position size by 50 - 75%,
and increase your profit target to 2 - 4 pts.

If still afraid, trade just 100 SPY.

If you trade just 25% of your normal position size and used a 6 - 8 pt stop
and a 2 - 4 pt target on your scalp portion,
you would still make your daily average profit.



Additional Information

- Where to find lots of other free examples of 5 min Emini charts with bar by bar analysis?

<http://www.brookspriceaction.com/viewforum.php?f=1>