Price Action Trading Equation

Do Not Waste Anymore of Your Valuable Time and Energy on Trading Approaches That Will Tie You Up in Knots

I admit, with my hands aloft, that I too wasted far too much time at the front end of my trading career grappling with complicated technical indicators, expert advisors and all manner of other things, including trading robots and listening to very expensive self appointed trading gurus before it dawned on me that I really just needed to understand price movements. To this day, I still feel stupid that it took me so long to draw this conclusion. However, once I had drawn this conclusion, I did not know with any certainty what lay ahead or whether I could find an answer to suit me. What I did know was nothing I had tried and persisted with so far worked well and it all somehow was disconnected from price action and what the markets actually do. There was no logic to the numerous trading approaches I tried and although I did not realise it at the time I had actually learned a great deal about how NOT to trade. Only after the event could I fully appreciate that I had not entirely wasted my time and money as I had learned quite a lot about what not to do.

It is important that I describe to some extent the journey that I took and how I arrived at my destination so that you realise that this price action trading approach was not flung together in a state of desperation (although I did feel pretty desperate from time to time) on the contrary once I had geared up to it, it was a planned out project and considerable effort, a thorough analysis of price action and took me far longer than I ever imagined. Long after the event, I of course can look back on it as being the most productive project I have ever undertaken as I emerged understanding how markets move and how to negotiate with them as a trader. Had it proved a fruitless exercise then I would have been faced with drawing a line in the sand and concluding I tried and I failed and I really would have drawn a line under it. I am not the sort of person to flog a dead horse.

Is Price Action Predictive

This may sound a little controversial and many will disagree with me but as a Price Action practitioner of many years now I am going to say a definite YES. I will further qualify this by adding that price action developments over the course of a trading session further inform direction and extent of movement UP or DOWN and the session high and session low are very important price levels too. **So trading has absolutely nothing to do with the roll of a dice or crossing your fingers and hoping for luck to be on your side.** Having said YES, the predictive nature of price action is probably the most difficult aspect of a price action trading approach to accept but the more you see the more you can believe. So when you see the same set ups arise day in day out with the same outcomes then you have little choice but to accept them as solid, when you realise that using a big picture view of earlier price action as a measure of future price action plus some consideration of the position of the session high and low then you can really beef up your trading plan. Look at the real session examples I have made available, work through them, study them and learn a few valuable lessons from them. A traders’ exposure to price action on live markets is the only way to move forward, as a trader as you cannot develop the mindset required to underpin your trading efforts without gaining experience. You can only read so many books and study so much information but then you do have to get your feet wet and accept that you are going to embark upon a journey that will shape both you and your future. As traders we have to behave like adults and step up to the plate, throwing a fit just because you make a mistake is pretty childish.
How Do the Markets Move

I do not make any distinction between markets since they do all notify and confirm future movement in exactly the same way. Different markets may move in larger or smaller denominations but set ups for trades are the same. It took me longer than I care to admit until I fully recognised and took on board that it is humans/traders that move markets NOT SOME UNKNOWN FORCE that no-one can quantify or explain. The majority view of humans/traders is what makes the markets move either UP or DOWN. Ergo, if the majority see the market going higher they will BUY and push prices higher........if the majority think price should be lower the majority will SELL and push the market down AND IF THERE IS NO MAJORITY VIEW then a tight range may develop until the view changes or a dominant view emerges. This can lead to a clash of buyers and sellers and can cause price action congestion and possibly a reason to leave the market alone until there is some sort of breakout that then later provides a suitable place to take a trade. When price has moved enough either up or down then humans/traders take profits and markets have little choice but to change direction until traders combined decide it has been pushed far enough the other way. It explains why after a decent rise or decline on any market you will get a change in direction and it is the very reason why you should never BUY close to the top of a range nor SELL near the bottom. You are too late to join the party and the move is generally over for the time being so you should be looking to do the opposite of what the market is suggesting you should do. It is human nature also to want to BUY into a rising market near the top of its current range and likewise SELL into a declining market near the bottom of its current range. Most of the time we should of course be adopting the opposite view and trading back into territory where the market has already been earlier.

So the SELL high and BUY low principle is naturally embedded into price action trading. In very simple terms a market moves UP to a level of resistance beyond which it cannot go for the time being, so if the market cannot rise any further it has little option but to go down OR move DOWN to a level of support beyond which it cannot go for the time being, so if the market cannot decline any further it has little option but to rise. Some traders really struggle with this simple reality.

Importantly a market must rise away from its lower ground before it provides a price action SELL set up and must decline away from its higher ground before it provides a price action BUY set up. This fulfills the requirement to sell high and buy low too. Price action set-ups do develop where the move UP or DOWN commences and allows the trader to get in as close to the start of a move as is possible. Look at the examples of live sessions I have provided, as this will make the approach much easier to understand.

Price Action is also a great indicator of when it is wise to walk away from the markets and let them do their thing without you. any successful trader will tell you that knowing when not to trade is very important and can save you from some uncomfortable trading situations and potential losses. A decision not to trade is a valid trading decision after all and again sometimes the keenness of new traders overrules this and they end up in a tight spot and destined to a losing trade. Price action can become congested, unclear and lack any real momentum up or down at times.

These conditions are best avoided as you will regret your decision to get involved most of the time. Low liquidity or irregular volatility can pose tricky trading conditions too and will dictate to the trader whether it is wise to get involved or not. What you want to avoid really is a trade that requires very close monitoring due to the conditions in which it presented.

It is also worth pointing out that the trading arena can attract some weird and wonderful characters seeking quick financial fixes and fast routes to the money and it should be made very clear that price action trading is definitely neither of these. Furthermore, trading forums are stuffed full of struggling traders in search of the Holy Grail, which if you have any common sense you will realise does not exist. You cannot avoid or curb the
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upfront hard work and effort required to later down the line emerge as someone who can trade profitably and if you think you can then you are definitely on another planet. The good news is that a well developed understanding and application of price action trading is as close as you will ever likely get to a magic bullet once you have done the apprenticeship. The actual length of the apprenticeship rests entirely in your own hands.

I worked out that the reality is that Price Action Trading requires a structured approach, some rules to cater for entry, exit, stop loss and money management. Your trading plan should reflect your own trading goals based upon your level of skill/expertise. Your trading plan objectives can be adjusted to suit your growing expertise as you move forward but you do need a trading plan. You also need a simple way to analyze your trading outcomes. Trading outcomes should be kept up to date so that you can learn from any errors, build upon your strengths and address weaknesses. We all have different strengths and weaknesses and they need to help shape your trading plan as they emerge and make themselves known to you. What emerges may surprise you and falls into what I call the dark side of trading, the side of trading people prefer not to expose, the ugly stuff, the reasons why you screw up. It is why trading is often described as simple BUT not easy. I like to call it the human factor.

Price Action Trading – what is the structure needed to make it viable

ONLY AFTER considerable research and endless observation of the markets did I conclude that Price Action Trading is best approached and negotiated using a set of daily standard pivot points further enhanced to include other important psychological price level zones to make up what I call the price action trading “equation”. The strategy is very different to the traditional pivot point approach, which I discovered has some very important missing links and inherent weaknesses. The equation does not rely on chart time frames or any form of technical analysis beyond price action. It is driven by price action behaviour in relation to the “daily trading equation”. You will need a chart to assist in staying abreast of price action developments and it is best to see the chart as a tool rather than something you cannot move away from. You will need to refer to a clean chart to establish what the market has done as opposed to what the market is doing now. What the market is doing now may be totally irrelevant to its overall direction but it may be nearing a suitable price for entry or exit. Much of what the market does creates noise and obscures the view if you let it. Price action trading is not about scalping small moves that come about from the normal ebb and flow of a much bigger move. Why grab 10 pips when 50 or 100+ pips are potentially on offer. It is very much about trading the big picture that presents using the trading equation levels for suitable entry and exit points when the market is in position and it capitalizes on the fact that the markets are not random...they are highly predictable and past price action is a very reliable basis upon which to predict future price action. New traders often start out taking profits much sooner than they should using a price action trading approach but with experience and competence then pips per trade should grow considerably over and above the trades of scalpers.

When you understand how to construct a daily trading equation you can apply the same exact method to any market that has good intraday movement and momentum. I encourage traders to choose and stick with one or two markets and ignore the rest as you can be highly successful sticking with one market (having one in reserve). The WTI Crude Oil, Major and Minor FX pairs and Indices can easily throw up significant pips each day off price levels that appear in the daily trading equation. Every day is not a party however and some days do stay quiet and tight particularly if prior sessions have moved significantly. The markets do need to take a rest and catch their breath, as do traders while they gear up again.

As with any new venture the novice trader is positively encouraged to embrace the learning process by making use of a demo, simulator or paper trading methods until they have perfected their own approach and settled on a personal preliminary trading plan.

Such an approach ensures you do not lose money needlessly while learning the ropes and you will not trade for real until you are ready in terms of mental/emotional capacity and knowledge. I am not a huge fan of demo/simulated trading and see it as a stopgap while you get used to the trading platform and set-ups as per

your trading strategy. Beyond this there is no substitute for real time trading. You do not discover who you are as a trader until you put real money on the line. It is possible to trade at tiny stakes so I suggest you stay at this level until you fully understand what you are doing and wrestle with the human factor that I have mentioned earlier.

The learning process for Price Action Trading throws up different issues and obstacles for traders. Each person is different and therein lies the difficulty sometimes but I am sure you appreciate that trading is 90% mind set and 10% application of a set of hard and fast rules. Following rules should be easy but the human factor can blindside the trader to the rules and his/her trading plan in the learning phase. A trader would be unique if the dark side of trading did not emerge and cause roadblocks and at times real problems. Dealing with the roadblocks ultimately dictates whether the trader succeeds...a trader’s success has nothing to do with the markets.

 Obviously, there is no place for out of control emotions. Some people have a real battle with themselves despite understanding the trading approach.

Having said this, most do get there with the required effort (and at times help) but it can take months of practice and disappointments for folks who find the emotional side of trading difficult to master. As a learning trader it is not good to remain in denial, get it all out in front of you and deal with it.

Price action trading does have elements of discretion concerned with exact entry and exit points but there are only certain safe entry price levels at which you can enter a market anyway given the trading range that is in place so far in any trading session.

When you understand Price Action then most markets will be on offer to you since Price Action and understanding it enables you to be in an elevated position as a trader...elevated because you understand what the markets are doing and what they plan to do next. Let this encourage you, don’t prod and poke at it, just learn how to do it.

**Price Action Trading – Economic News**

Any strategy used to trade the financial markets will be impacted at times by economic news and unscheduled announcements. Price action trading is no different. Common sense should dictate that you should never try and pre-empt important news items in the economic calendar or how the crowd may react to it and red flagged news should dictate when you are in the market or sat on the side-lines if you are trading daily markets. So make sure you know what news is due and when and avoid being in trade when red flagged news is due. Breaking and unscheduled news is something we as traders can do nothing about. That is one of the reasons why we trade with a stop loss. Draw comfort from the fact that this does not arise often enough to concern you on a day-to-day basis. It will happen now and again. Don’t fret over things you cannot control. Concentrate on what you can control, and if you study what I am sharing with you this Price Action Trading approach should have enhanced your understanding of the markets and how they move and you need to become more familiar with market movements before you can start to trade price action yourself.
So What Is So Great About Pivot Points

Much has been written about using Pivot Points and some traders still think that is highly unlikely that markets can be influenced by them sufficiently to warrant their consideration or inclusion in the daily trading regime. Instead some traders prefer to stuff their charts with all manner of technical indicators and use them rather than relying on what they can see happening with their own eyes.

I am not at all sure just how many technical indicators and chart patterns exist (too many to count) but when I set out as a trader many years ago, using these methods had me paralysed most of the time and I really struggled to enter any trade with confidence. I became a butterfly trader, flitting in and out of bad trades all day long. Occasionally, I would get lucky and that just gave me a bit of hope. That bit of hope did nothing more than encourage me to continue and more bad trades followed.

After some soul searching it was time to ditch the indicators and clear the chart and take a look at what the markets actually do. The charts had looked like wiring diagrams previously, so much so, that an electrician may have had a better chance than I in making any sense of them. Plus, if I did manage to glean anything from the messy chart it was then too late, the move was well underway and I was chasing after it.

Pivot Points Provide a Structure and Price Action Lights the Path

I did not discover the relevance of pivot points overnight and I did not fully understand how to interpret price action either but it had to be better than the wiring diagrams I had been using.

After some painstaking analysis I discovered that price action and initial direction is impacted based upon where the market opens relative to a set of Daily Standard Pivot Points and provides a very useful starting point for price action trade set ups. In turn these present high probability trades once confirmed with subsequent price action. The opening price is considered to provide an initial directional signal, which will confirm or not confirm AFTER the first 30 minutes of the session having elapsed.

What Do Standard Daily Pivots Look Like

Example Crude Oil

R3 = 98.37
R2 = 96.69
R1 = 95.00
PP = 93.51
S1 = 91.82
S2 = 90.33
S3 = 88.64

So nothing special, just a simple set of price levels.

It took me around two years to complete my analysis and to develop a set of rules to apply to daily price
action trading using daily standard *pivot* points. It was necessary to ensure that all possible market opening positions were catered for and crucially that I was using the best standard *pivot* points. These are not created equal and I eliminated many during all my analysis.

I found the clash of buyers and sellers during open session did not lend itself to real time analysis, as the noise was initially difficult to separate from the music so to speak UNTIL I became more familiar with what I was trying to work out. So by looking back after the session had closed I could not only determine whether opening prices of markets held any clues to initial direction but could also very clearly determine how exactly trade setups were presented and then confirmed or not confirmed. It did become a labour of love and dogged determination and it took me a while to join the dots. I had concentrated on one market initially to get a handle on opening positions and I selected The Dow (Wall Street Daily) to kick off the fun and games. To this day I love The Dow and it remains one of my closest friends, in a trading sense that is.

My objective was to be able to use what emerged and apply it in real time. It was also necessary to ensure these opening price positions stood the test of time, were reliable and provided a solid structure for price action trading day in day out. *What I discovered was eye opening.*

Then after establishing the opening rules based on The Dow (Wall Street Daily) other markets were selected based upon their average daily range so a selection of major and minor FX pairs, WTI Crude Oil and European Indices were also analysed. I ignored any market where there was little movement and momentum each day, after all there is little mileage in day trading financial instruments that do not move very much on a daily basis. You want reasonably big moving markets that throw pips at you and there are plenty to choose from. I ended up with literally boxes full of my research and daily analysis as I tested and tested and tested. Obviously, I had to see over a good period of time the sustainability of what I was creating. A flash in the pan was not the objective. I wanted something solid and evergreen.
Parameters Used For Standard Daily Pivot Point Analysis

After some considerable head scratching I decided that a starting point for price action consideration was 7.00 UK time. I hung my hat here as it just turned out to be the best time to start and the markets now tend to gear up for day ahead and it coincides with the Frankfurt Exchange opening.

Price action was analysed during the first 30 minutes of my test markets, as it is during this period of time that markets can provide their biggest clues as to whether the opening signal will be confirmed or not confirmed. Over time I concluded that initial confirmation may or may not occur during the first 30 minutes BUT further confirmation arises in subsequent price action after the first 30 minutes when price action trade set-ups also form and present. So my PATe trading approach only presents trades for consideration after 7.30 UK time.

Nearly two years analysis produced a set of opening rules and a much more developed understanding of market movements. And I really thought I’d cracked it at this point. I was rather hoping I had as I was now exhausted and had very tired eyes but I had also made some cracking trades too based on my new found knowledge. Much to my delight they were profitable ones that resulted in money but something was missing still, I could feel it.

So Did Pivot Points Hold The Key When Trading Price Action?

Not exactly much to my dismay at the time. Although, initially my findings were exciting they did then lead to a lot more head scratching before I was done. I was encouraged by the accuracy of what I had determined so far so needed to plough on and refine the rules of entry, exit and stop loss requirements as well as understand how each of the opening signals then confirmed the trade set up and much of this was already circling in my head, just needed planting on some paper to add to the paper mountain that I had already created. I did go through some peaks and troughs during all this development and more than once did think all this paper would make a great bonfire.

Even though standard daily Pivot Points are widely observed by traders across the globe I knew something was however not quite right. Something was missing from what I was now referring to as the Price Action Trading equation.

Pivot points alone did not work as well as I had expected. But all was not lost. I was exasperated but could not let all my hard work gather dust. Made of strong stuff or just plain stubborn I pushed on as I did have more than an inkling as to what the missing crucial link was.

During my analysis I had been drawn to the obvious and huge influence of round numbers and the midway point between round numbers and had noticed quite early on how they proved to be barriers to a move UP or DOWN across the markets. Round numbers and midway price levels caused roadblocks I reckoned after a good move up or down and a change in direction usually followed. They could cause roadblocks from 7.00 too and as the markets geared up after 7.30.

I then found some reference to how round numbers influence all of us as we go about our daily lives and I had already positioned them mentally into the standard daily pivot point levels because of the important role they played in all trading sessions I had analyzed. I had no choice but to enhance the standard pivot points to include round numbers and midpoint levels realizing their HUGE psychological impact upon traders. They were
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in fact far more influential than most of the standard levels and once incorporated into the equation they really made it tick.........I had found the glue to make everything stick together.

_The price action trading equation expands when you add in the Psychological Levels (PL). You just add round numbers and midpoints to the daily standard pivot points as they occur._

This exercise produced a very long string of standard and psychological price levels but served to fully illustrate just how many more psychological price levels there are compared to the Daily Standard Pivot Points. And all my light bulb moments had come at once. Constructing the equation is explained in another section so go and take a look when you are done here.

You will be relieved to know that the opening position of the market at 7.00 UK time immediately eliminates a good proportion of the levels from any consideration in session and once familiar with the Price Action Trading equation composition it is not really necessary to physically insert the Psychological Levels into your equation as long as you know they are there. New or forgetful traders do find that by inserting them into the equation they do serve as a constant reminder as to what must be achieved and down for moves to develop beyond levels.

I should just mention that as well as eliminating 11 other permutations of pivot points I too had eliminated Fibonacci price levels and those suggested by way of something called the Camarilla equation, Fibonacci levels definitely have a place in longer term trading but they did not cut the mustard for negotiating with daily markets and the camarilla equation relied on breakouts. All the analysis of breakout trading on daily markets caused a high failure rate on trade set ups to the tune of nearly 95% and that is because after a break out there is usually a retrace or pullback before a resumption of the breakout or a failure of it.

_How Can You Take This Further_

_Why not observe this yourself and see the influence of the opening position relative to its Pivot Point and observe the huge influence of round numbers and midpoints as price action unfolds during a trading session. If you cannot appreciate this in real time initially then look back at a clean one-minute chart of the session after it has closed and see what I saw that enabled the creation of this solid price action trading strategy. Also be aware that markets do not care about timeframes, traders created them for their own convenience and comfort. Price is what matters most and the collective beliefs of all the traders trading the market throughout a session. A move of 100 or so pips can take no time at all. Equally, the same move may take 4 or 5 hours or all session._

_I would expect having read and studied all the information at this site that two weeks in you will get it BUT I would caution that to learn how to trade to a competent level with ANY trading method is more likely to take at least 6 to 12 months and for some emotional people, then longer. Price action tends to dazzle new or inexperienced traders...........take your foot off the pedal and learn at a pace to suit you so that the dazzle is not blinding you to the obvious, you must put learning ahead of making money. If you do not learn correctly and do not correct your behavior, then the money is just pie in the sky. If not ready to learn then no way are you ready to trade._

_I often tell people that you know you have arrived when and only when trading has become boring, the excitement has long gone and you have emerged the victor of your emotions and objectives. Moving forward you need to maintain the patience, discipline and common sense that has got you to where you want to be and maintain your performance._

_I am also prone to tell people that traders fail not because of someone else or something else, it is actually_
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your fault if you fail and you have probably got into trading with unrealistic expectations and from day one you have been too fixated on the finishing post. Trading is a journey and what you need and what you want is directly influenced by your competence and emotional maturity to deal with the markets and what they may or may not be offering. It can be a marathon and it certainly is not a sprint.

I have already said that if you think the money falls into your lap then you are on another planet and you will notice that I lean a lot on trading psychology and needing to think like a trader and getting the mind set in place to actually cope with trading.

You can be encouraged that trading price action works, this is already widely accepted around the globe and you can be certain that it does not stop working just because you have decided to get involved.

It is a startling statistic that 4 out of 5 people cannot do fractions. But you can be relieved that you do not need to be a mathematician to understand the Price Action Trading equation, neither do you need a degree in economics to understand the news and data that helps to grease the wheels of market movements. So if you happen to have a problem with fractions or absolutely no interest in global economics you will be fine. If however, you cannot follow rules or a planned trading approach you are going to have huge problems.

You should thoroughly read and absorb all of the information supplied at my site and then make a start. I wish you well with your trading journey.

Julie Hatch