



Price Action Phase

Giving structure to price action so you can anticipate what is likely to happen next.

By Trading Education Blogs



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Trading education, community,
coaching and mentoring.

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Goals

- To learn the basic structure of price action so that price movement will never be random.
- To understand how the basic price structure is created by market participants.
- To begin forming trading scenarios based on recognition of the basic price action structure.

Charts and Technical Analysis



- Charting monitors price action, that price action creates patterns and those patterns create trading scenarios.
- Our goal is to study and memorize repeating chart patterns and volume so that when the pattern presents itself again, we can take advantage of a high percentage trade scenario.
- You absolutely must have a structure for price action or ALL movement will be random and confusing!
- Price action **MUST** look very specific before you take action and risk capital!

Accumulation: Big Money Buying



- Accumulation: Where institutions and hedge funds are buying shares as quietly as possible, as price moves lower in a down trend.
- This will be **buying ending a down trend** leading to a consolidation or a pull back. They are beginning to accumulate a position.
- Most traders who are objectively watching this stock are selling, and with good reason it is going down.
- Since the stock is going down it will be easy for the funds to begin accumulating the position quietly.
***Sellers are abundant as price moves lower.

Accumulation in action



- When a institution has a large order to fill, they will try to do it as quietly as possible.
- The reason for wanting to do it quietly is simple, if they tip their hand on the size of the order they will push the price up on themselves.
- They will passively buy as many shares as they can until the selling dries up. If they need more, they will need to pay higher prices.
- a. Can be seen on a chart as a **PAUSE** in the trend (**consolidation** or a **pull back** with heavier than normal volume after a downtrend.)

The Mark Up: Buying urgency



- The Markup: The large buyer in need of more shares, must start to pay higher prices to fill the order.
- The PAUSE that was formed by the large buyer has caused many traders who were selling to stop, the stock is no longer going down.
- We now have two groups of traders who need to buy stock. Traders who sold the stock short (and are now wrong) and the larger buyer who needs more stock.
- The only logical thing that can happen now is that prices will rise.



The Markup = an uptrend

1. Demand eventually overtakes supply and the price action begins to break out of the PAUSE with larger volume traded in the direction of the break out.
2. The markup **starts** with larger green body “energy” candles, accompanied by significant volume.
3. An urgency to acquire shares has arrived.
 - This Markup is what we all know as an uptrend.
 - A markup with good order flow will be identified with higher highs and higher lows with light volume pauses in between.

Distribution: end of an uptrend



- When the large buyer has filled the majority of the order, the markup will typically end with an obvious increase in volume.
 - For this to be distribution and the end of the markup, there will be a heavy volume pause or a heavy volume very fast move.
 - The large buyer is selling the end of the order while prices are still in an uptrend.
1. After the markup, many shares are trading **after** significant price movement upward price movement.
 2. Can be seen on a chart as a pause (consolidation or pullback) with heavier than normal volume after an uptrend. Or a huge spike in volatility with heavy volume **after** a fast move up.

The Markdown: selling urgency, the downtrend

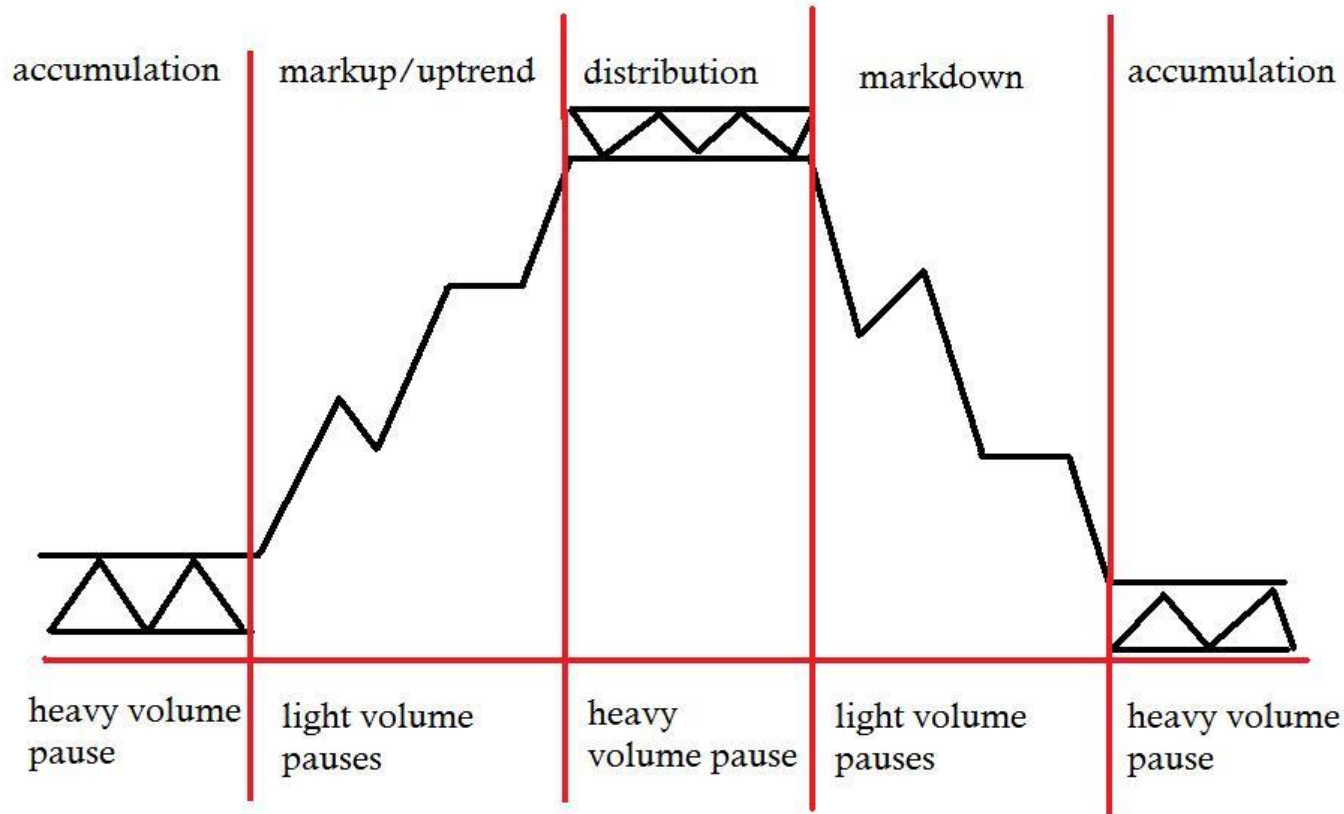


- At this phase institutional buying has slowed and the stock no longer has the demand to support the high prices.
 - Traders sensing that the demand has exhausted itself, will now begin to test the short side by selling stock.
 - Traders that bought stock late into the markup are now long and wrong. These late entrants must now sell to exit their positions, creating selling urgency.
 - When previous support levels are broken, these two selling forces will add fuel to the downside.
1. The Markdown starts with “energy” red candles leading to a down trending stock with light volume pauses between lower lows and lower highs



Picture Perfect Price Action

* remember a pause can be a consolidation or a pull back



Price action phase: 3 weeks



Your Roadmap: Price Action Structure



- The markup and markdown are what traders know as a trend.
- The trend will consist of momentum and light volume pauses.
- As a trader you will assume the trend will continue until you recognize a pause or parabolic price action with heavier than normal volume.
- This **heavy volume price action** will be the first clue to a potential change of trend.

How To Correctly Apply Price Action Phase



- Short-term price action is ***only relevant*** in the context of long-term price action.
- Great traders identify the phase of price action on longer term charts and then **ONLY** look for short-term price action to trade in that direction.
- Struggling traders are not patient to wait for the two ideas to be in sync. They try to trade every movement.
- Keep in mind “long-term charts” is relative.
- A day trader could use a five day hourly chart and as swing trader could use a weekly chart.
- The key is to be consistent in your choice. This is where conviction comes from; reliable trading results are born from using the same method over and over and letting the odds work over time.

Price Action Phase: Trend Or Pause?



- Your first consideration should be:
 - ***Are we trending or pausing?***
- If a trend is present, you will be patiently waiting for a pause in price action to get involved.
- That pause will be a consolidation or a pullback.
- Volume during the pause will give you clues to the move after the pause.
- **Light volume** during the pause equals trend continuation, **heavy volume** during a pause or after a fast move signals a trend reversal is coming soon.

Price Action Analysis Made Simple



- Markup (uptrend) and markdown (downtrend) are made up of basic moves and consolidations
- There are two Basic Moves: flag or momentum. **Basic moves typically start and end with swing points**
- There are three types of consolidations:
 1. accumulation
 2. distribution
 3. continuation pause (light volume).
- **Consolidations end with a volume breakout.**
- Volume in a flag or consolidation will give clues to the next move.



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