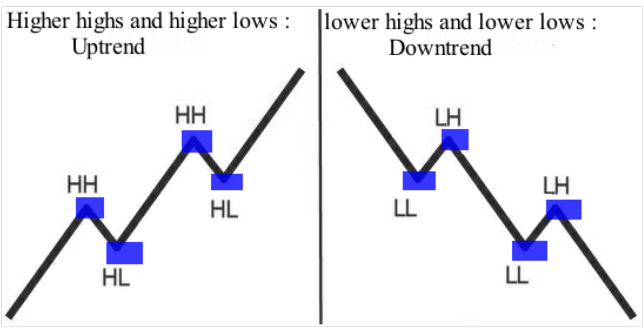
The market structure (Detailed Text Lesson)

LESSON 4 MODULE 1

When a market is moving in one general direction from left to right on the chart, either up or down, it is called a trend or a market bias. If a market is moving up, it is said to have an uptrend, or a bullish trend, if it is moving down, it is said to have a downtrend or a bearish trend. These can also be called bullish bias or bearish bias.

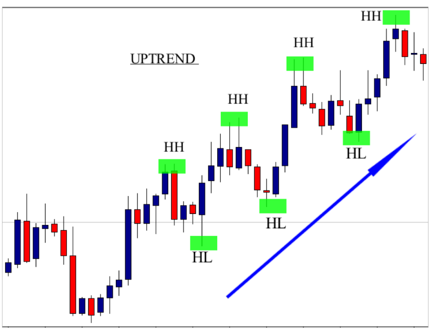
The easiest and most effective way to identify a trend is by observing a market's raw price action from left to right. As a market moves higher or lower, its previous turning points or swing points, become reference points that we can use to help us determine the trend of a market.

The easiest way to identify a trend is to check and see if a market is making a pattern of higher highs and higher lows for an uptrend, or lower highs and lower lows for a downtrend. See the diagram below:



As you see in this simple example above, the diagram shows us the basic idea of looking for higher highs and higher lows for uptrends and lower highs and lower lows for downtrends. To be honest with you, sometimes the market makes it difficult for us to identify a trend, it is not always clear like this, but with screen time and practice, you will be able to easily identify a trending market. Now let me give you a real chart example below:

As you can see in the H4 chart above, the market is making a pattern of lower highs and lower lows. You don't need to be Elbert Einstein to decide whether the market is trending down or up. Only a general observation of swing points can help you identify the market trend. Now let me give you a real chart example of an uptrend below:



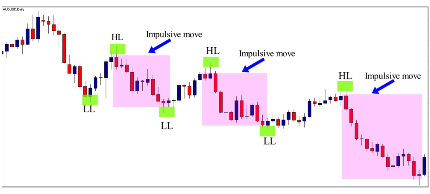
As you see in the EUR USD daily chart above, the market is making clearly higher highs and high lows pattern which indicates an uptrend market.

You shouldn't have to think too hard whether a market is trending or not. Most traders make the trend discovery way too difficult. If you take common sense and patient approach, it is usually fairly obvious if a market is trending or not, just by looking at the raw price action of its chart from left to right. Make sure you make the swing points on your chart as it will draw your attention to them and help you see if there is a pattern of HH and HL or LH and LL as discussed above.

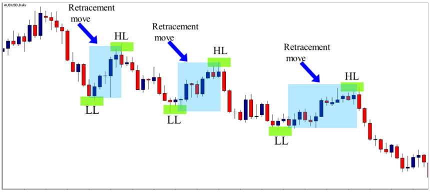
The impulsive and the retracement move

Trending markets are characterized by two important moves, the impulsive move, and the retracement move. You should be able to identify these moves when you are analyzing a trending market, otherwise you will not be able to make the right trading decisions. So let's start with the first move which is an impulsive move.

An impulsive move is one where the market moves strongly or heavily in to one direction, covering a great distance in a short period of time. They are generally more volatile, and they provide us with good risk to reward ratio. See the illustration below:

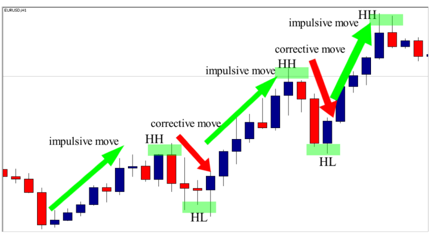


As you can see on the AUD USD daily chart above, the market is trending down, the impulsive move starts from the beginning of the higher low swing points, because it is the area where sellers short the market till the lower low swing point where sellers took their profit. These moves are always with the trend. When the impulsive move ends, it's always followed by a retracement move. See the same chart below:



As you can see on the same AUD USD Daily chart above, when the impulsive move ends, the corrective move, or the retracement move starts. These small moves form against the trend and they shouldn't be traded.

The reason behind the corrective move formation in trending markets is the fact that sellers took their profits, so the market stop trending down and starts moving up little bit because some amateur traders try to trade against the trend while professional wait for the corrective move to end, and place their new orders with the beginning of the impulsive move. See another example below:



As you can see in the EUR USD H1 chart above, the market is trending up, and prices make impulsive moves, and corrective moves, when buyers buy the market prices go up and form an impulsive move, and when they take profit, a corrective move form. During this time,buyers wait for the end of the corrective move and the beginning of the impulsive move to take another order.

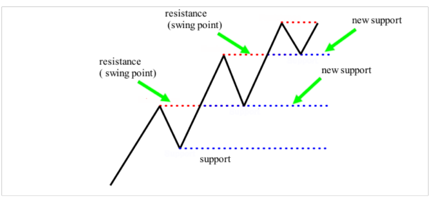
This is how trending markets move, and if you want to make the best trading decisions, you need to know when the corrective moves ends, and when the impulsive move begins. This knowledge will help you catch the beginning of the impulsive move to make big profits and avoid trading the corrective moves. So how can we identify the end of the corrective move and the beginning of the impulsive move?

To predict the end of a corrective move and the beginning of an impulsive move, we use support and resistance. So, what is support and resistance?

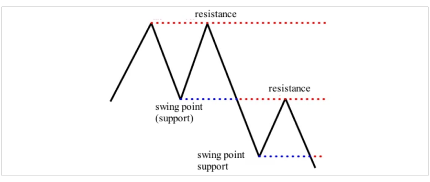
Support and resistance levels are horizontal price levels that typically connect price bar high to other price bar lows forming a horizontal level on a price chart.

In trending markets, support and resistance are created from swing points in a trend. As price trends, it retraces back on the trend, and this retracement leaves a swing point in the market, which in an uptrend looks like a peak and in a downtrend looks like a through.

In an uptrend, the old peaks will tend to act as support after price breaks up past them, and then retraces back down to test them. See the illustration below:



As you can see in the illustration above, as price swings up and down creating this trend continuation pattern, it leaves support and resistance in its wake. When price swings down due to selling, then it leaves behind an area of resistance. When price swings up due to buying, then it leaves behind an area of support. When an area of resistance is broken, it must be watched from other side in case it will act as support. See another example below:



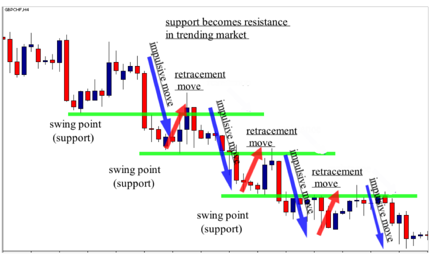
The illustration above shows you how support (swing point) leaves an area when it forms, and this area becomes resistance, when price retraces back to retest it .

This is how support and resistance work in the market, and to draw them in a trending market, all you have to do is to identify a previous swing point and draw a horizontal line on it. When the market breaks it and retraces back to retest it, you should pay attention because if the swing point was support it will become resistance, and if it was resistance it will become support. See the real chart example below:

As you can see in the GBP CHF H4 chart above, the market is trending down, and support levels become resistance, because sellers always take previous swing points as references to enter the market again.

In this example, by taking swing points as references, you can predict the end of the retracement move and the beginning of the impulsive move, because this is how traders identify these moves.

When the market breaks out of the support level, this level becomes a reference, when the market retraces to retest this old support that becomes resistance, we can predict the end of the retracement, and the beginning of a new impulsive move. Look at the same chart below :



As you can see in the chart above, by identifying support and resistance in trending market, we can easily predict the end of the retracement move, and the beginning of the impulsive move that most traders wait for to take their orders. Let me now give you another example of an uptrend market below:

As you can see in the USD CAD H1 chart above, the market is trending up making higher highs and higher lows. The resistance level becomes a reference point after the breakout of it, and when price retraces back to test it, this level becomes support.

By using resistance levels as reference points, we can identify future support levels that can be used to predict the end of retracement moves and the beginning of impulsive moves.

When drawing support and resistance in a trending market, you should connect the wicks and not the bodies, and you should focus on the most recent ones, because they are the most important levels.

Drawing support and resistance in trending markets is a skill that you must learn, because these levels will help you plan your stop loss placement and your profit target, it will also help you predict with high accuracy the next impulsive move that you should ride from the beginning to make bigger profits and avoid being trapped in retracements.

In the first part of this lesson, you learnt how to identify trending markets, and the most important moves in a trending market which are the impolsive and the retracement move, you learnt also how to draw support and resistance so you can predict high probability entry points in the market. In the next part of this lesson you will learn about the second type of markets, which is the ranging market.

The ranging Market

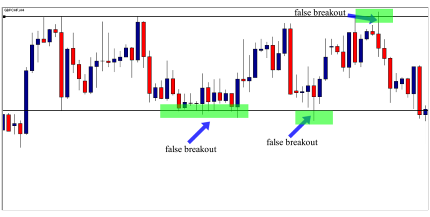
If you look at any forex pair, or any time frame, you will see that when price moves strongly in one direction, it makes strong impulsive moves, followed by smaller corrective moves that are pointing against the direction of where the pair is clearly going.

This type of movement generates higher highs and higher lows in case of an uptrend and lower highs and lower lows in a case of a downtrend. A ranging market is one that it is not behaving like this. A sideway market is characterized by the fact that price is not making new highs and lows any more. instead it begins to make swing high and swing lows horizontally. See the chart below:

As you can see in the chart above, the market is trading horizontally between support and resistance levels. This type of market called ranging market, because in this period of time, buyers and sellers don't know what to do so they keep selling from resistance and buying from support, and the market enter in an indecision phase.

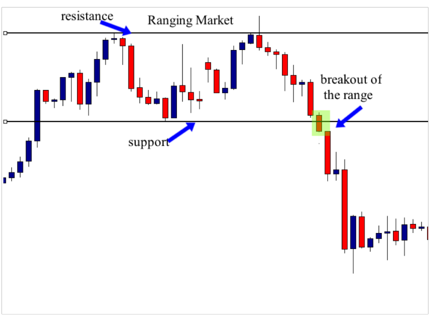
When a ranging market is formed, traders change their way of trading, so instead of following the trend and identifying the beginning of impulsive moves and retracement moves, they use three important strategies:

-False breakout strategies: this strategy consists of trading the false breakout of the support or resistance, the reasons behind this strategy is that buyers and sellers know that there are lot of traders who are ready to enter after the breakout, so they make false breakouts to trap breakout traders and then they go in the opposite direction. See the chart below:



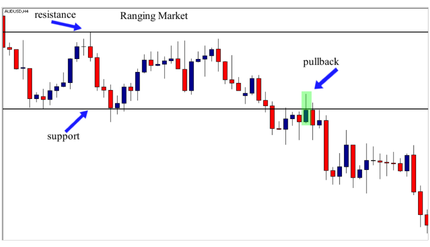
As you can see, after the false breakout the market goes in the opposite direction to reach the next support or resistance levels. Don't try to use this strategy, because I want only to show you how a ranging market works so you can have an idea.

-Breakout strategies: this strategy consists of placing an order in the direction of the breakout, because when the ranging market is broken, it is an indication that buyers or sellers are no more in an indecision phase and they decided to drive the market up or down. See the illustration below:



As you can see, after the breakout of the support level, the market went strongly down, because sellers decided to go down after a long time of hesitation.

-Pullback strategies: the pullback strategy is used by conservative traders that wait for the market to retrace back after the breakout to give them a second chance to enter in the direction of the breakout. See the illustration below:

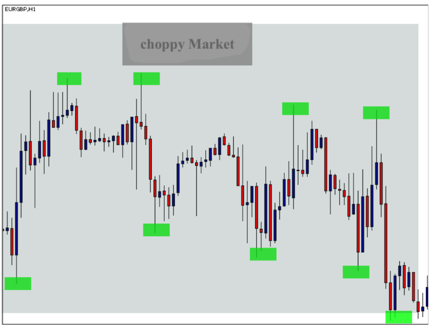


Don't try to use these strategies, because I didn't talk about them in detail. I just want to give you an idea about ranging markets and how they work. So, when you are in a front of a ranging market you should know that prices will move horizontally between support and resistance. And after the breakout of the range, the market goes directly in the direction of the breakout or it pulls back to give another chance to other traders to ride the trend.

Choppy Markets

Choppy markets are those which have no clear direction such as sideways markets, but are a really churned up mess which makes traders lose sleep at night. This is where previous gain can be quickly wiped out and it's a deeply frustrating and demoralizing experience. These kinds of markets can turn your dreams into nightmares if you don't know about them, and if you don't ignore them.

A ranging market is a market condition that doesn't exhibit any type of predictable pattern .it is simply gyrating around randomly without any clear direction up or down. It can be characterized by high volatility or low volatility. But the one defining characteristic is a lack of clear, long term direction up or down see the chart example below:



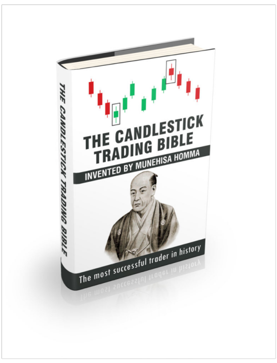
As you can see in the chart above, the market is crazy, it is moving up and down creating a mess in the market, you can't identify clear support and resistance levels in this chart, because nobody knows what the market is doing. And in this case, the best trading decision to make, is to stay away from this market. Let me give you another example below:

As you can see in the AUD JPY H1 chart above, it is difficult to trade in this market because support and resistance are not clear, if you try to trade in these conditions you will certainly blow up your entire trading account.

Knowing when to trade and when not to trade is important for you if you want to become a consistently profitable trader. This is the reason why I started with the basics, especially with the market structure, because if you apply supply and demand strategies in the wrong market condition you will not get the results that you want.

Before you move to study our supply and demand trading method, you should make sure that you can differentiate between trending markets, ranging markets and choppy markets. So please take your time to understand these structures, and then you can move on to study our strategy.

Ps: If you are a complete beginner and you want to learn more about price action, i highly recommend you my best seller ebook below :



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