

FOREX PRICE ACTION SCALPING

an in-depth look into the field
of professional scalping

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Preface

Ever since the days of old, the markets have suffered no shortage of volunteers ready to sacrifice themselves on the ever-growing battlefields of supply and demand. Fortune-hunters, plungers, gamblers, misfits, and a motley crew of optimists and adventurers, all have roamed, and will continue to roam, the marketplace in search for quick-and-easy gains. Yet no other venture has led to more carnage of capital, more broken dreams and shattered hopes, than the act of reckless speculation.

Strangely enough, despite the ill-boding facts and the painful fate of all those who perished before him, the typical trader still shows up on the scene wholly unprepared. And those who do take the trouble to build themselves a method, in most instances seem to only postpone their inevitable fall. On the slippery slope of the learning curve, things can get pretty unpleasant and many never recover from the tuition bills presented on the job. Not surprisingly, this has led to an endless debate on the actual feasibility of profitable trading, in which skeptics and romantics fight out a battle of their own.

To the skeptic, no doubt, the glorified image of a consistently profitable trader seems highly suspect. After all, the only ones who have always prospered in the trading field, at the expense of the ignorant, are brokers, vendors and clever marketeers. And if it is already hard to picture himself a proficient long-term investor surviving the odds, then, surely, the idea of a consistently profitable scalper must be bordering

on the idiotic. To see the skeptic's point, one only needs to follow the route of common logic: in a line of business where so many traders have tried, and failed, to successfully trade the long-term charts, those venturing out on the miniature frames can only be setting themselves up for an even uglier fate, and a faster one at that.

And indeed, the shorter the time frame, the more erratic the moves on the chart; and with spreads and commissions cutting deep into a scalper's average trade, the odds seem stacked against the enterprise from the very onset. Success stories are few and far between and it's hard to not take note of the sobering statistics that appear to confirm all reservations, at least way more than defy them.

That being said, skeptics and statistics, of course, should never demoralize the dedicated. Scalping the charts profitably on a consistent basis is by no means an illusion. Nor does it have to take years to acquire the necessary skills. It is done every day again by many traders all over the markets, and it can be done by anyone who is determined to educate himself properly and diligently in all aspects of the field. The true issue is not the feasibility of profitable scalping but simply the quality of one's education.

Even so, scalping may not be for everyone. If nothing else, this book could be an excellent way to find out. Its sole objective is to show the reader all there is to know about the profession to effectively take on the job himself. Countless charts, setups and trade examples will be presented to fully ingrain the necessary techniques into the mind.

The contract of focus in all of the coming chapters will be the eur/usd currency pair. To a nimble scalper, this instrument is an absolute delight. It offers highly repetitive intraday characteristics, a low dealing spread and is accessible to even the smallest of traders; however, since price action principles are quite universal, not too many adjustments would have to be made to take the method to another market with similar volatility and attractive trading costs. In that respect, this guide may serve many non-Forex traders as well.

The benefits of scalping are plenty and speak for themselves. Just one single chart. No fancy indicators. One-click in and out. Everything preset. And opportunities abound in an almost repetitive loop.

Have a look at the example below. Figure P.1 is a snapshot impression of what a scalper's chart of the eur/usd can look like. The vertical axis shows the price of the instrument; the horizontal axis displays the passing of time and the curved line in the chart is an exponential moving average, the only indicator allowed. The boxes encapsulate some of the price action patterns that we will get to discuss later on.



Figure P.1 In just a little under an hour, the market offered an alert scalper numerous textbook trades.

To build a solid foundation beneath a scalping method, it will not suffice to merely deal with the technical side of trade selection. We have to examine all aspects of the profession from every possible angle so as to filter potentially disruptive elements completely out of the equation.

Each of the coming chapters will take on a part of the journey. We will delve into the specifics of chart selection, price behavior, pattern recognition, favorable and unfavorable markets, setups, entries and exits, targets and stops, traps and tricks, psychological issues, accounting matters—basically anything that comes to pass in the field of professional scalping.

Whether a beginning trader, a struggling one, or even a veteran in other fields of speculation, I sincerely hope this book will be enjoyed by all and that within its pages the necessary information is found to be able to scalp one's way through the market for many profitable years to come. This work will not insult the reader's intelligence by showing him all kinds of stuff that do not reflect the reality of trading. There is no plowing through endless chapters of meaningless babble and industry gobbledygook. *Forex Price Action Scalping* truly *is* about scalping. It is written by a trader at heart, and at all times with the aspiring trader in mind.

Excerpts from Chapter 10:

Block Break (BB)

If all setups were to qualify in one of three categories, the options being either with-trend, non-trend or countertrend, then the patterns we have discussed so far—DD, FB and SB—are unmistakably with-trend ventures. They not only acknowledge the presence of a trend, they try to capitalize on its continuation as well. And that makes sense, if you think of it. Although opinions on its definition may differ widely across the board, the love for the trend in general is quite universal. Almost any trading method will incorporate at least a couple of clever with-trend plays to hop on or ride out a good move.

Unfortunately, as any chartist will surely admit, things seldom materialize in the most desirable way. Many times there is a lot of pulling and pushing and backing and filling, even in a very visible trend, and this often ruins the possibility of using the classic with-trend setups to get ourselves in position. It is all part and parcel of the trading game. However, in many such instances, the opportunities are not necessarily lost and with a little luck and patience we may just be able to pull a nice trump card from our sleeve: the multipurpose Block Break setup (BB).

This setup comes in many shapes and forms and we would probably not do it justice if we were to casually generalize on its appearance. A most simplistic description would be to characterize the pattern as a cluster of price bars tightly grouped together in a narrow vertical span. Preferably, the barriers of this block of bars are made up of several

touches each, meaning that the top and bottom side of the pattern clearly represent resistance and support. On occasion, depending on the speed of the market, this group of bars could appear and be broken in a matter of seconds, but the formation itself could best be seen as a miniature trading range.

If we were to draw a rectangular box around all the bars that make up this pattern, what should emerge is a distinctive block of price action in which a relatively large amount of contracts changed hands without price being really affected. But the tension within should almost be tangible, like that of a coil being suppressed by a weakening force that is bound to give in. If prices eventually break free in the direction of the path of least resistance, we immediately enter the market on a break of the box. This makes the broken horizontal barrier the *signal line* to our entry point. Should prices break out at the less favorable side, then no action is taken just yet.

When encountering this cluster of bars at the possible end of a pullback in the area of the 20ema, a trendside breakout would require similar action as would a break of a regular DD or SB setup. In fact, if we would also wrap a box around a group of dojis that make up a typical DD, we would basically create a miniature BB setup. The same goes for the SB pattern as a whole, though be it that the entry in this setup usually shows up *before* the highs or lows of the complete pattern are taken out.

But make no mistake, when it comes to the BB setup, we are not just dealing here with another trick to take a with-trend trade at the end of a pullback, although that is one of its functions. What gives this pattern its unique quality and personal character is its multipurpose application. This setup could essentially show up anywhere in the chart, while still conforming to the requirements of a tradable event. Its abundant presence makes it one of the better weapons to tackle almost any market, trending or not.

There are some factors to assess, though, before we can start to regard this pattern as a valid setup. We cannot simply trade any odd block break and expect the market to take off for at least a 10 pip run. As is the case with any other setup, the block break, too, should be seen

as just an *aid* to get in on a market that has already been identified as favorable; it would be a painful mistake to use it as a pet setup with little or no regard for underlying conditions.

But what exactly is a favorable market?

As we have already observed, a pullback in a trend, for one, leaves little room for discussion on that part. But how about a sideways market that just printed a nice double bottom and a higher bottom in support? How about a market that broke so violently that countertrend traders cannot even force a noteworthy pullback in it? How about an uptrending market that shows clear signs of resistance, like double tops and lower tops? And what about a market that seems chaotic in any respect, apart from the fact that it successfully slammed back all attempts to break a round number zone?

The situations above, just randomly chosen, may be as different from each other as night and day, but they do have one particular characteristic in common: not so much that they paint a very vivid picture of the perpetual clash between the bulls and bears, but more that they show us who is currently winning. The market may put up a fight, as it tends to do, but in the end, prices simply have no choice but to succumb to whoever is pushing the hardest. Just when and how, that is for a trader to find out. But maybe it is nice to know that the point of surrender is often preceded by a suppressed block of candles ready to pop.

Since there are just too many variations of the BB setup, it is best to get to the charts and see them in the flesh. Before we do that, let us first point out the most likely places for this setup to show up. In essence there are only three. 1: As a block of bars in the end of a pullback. In case this pullback is quite extended, the setup may at times show the characteristics of a countertrend trade. 2: As a horizontal pullback in a strong trend. This block usually shows up in a very brisk move that just cannot seem to pull back. Whereas a typical pullback seems to move somewhat diagonally against the trend, this one merely travels sideways, forms a block, and then breaks out in the direction of the trend. 3: As a block of bars in a non-trending market. This block can be found in topping or bottoming price action and even in the midst

of a sideways consolidation. It can be played with-trend as well as countertrend.

As we will see in the next three chapters on Range Breaks, the BB setup can also be involved in the breakout of a bigger pattern, the range, but we best take on that correlation once we have familiarized ourselves with the more individual block breaks first.

In the coming charts we will see all of the BBs encapsulated by a rectangular box, aiding the visual process of identifying the highs and lows within each block. Although it is not necessary to draw these boxes when engaged in a live session, it does come in handy to at least plot the signal line in the chart. That way we can keep a real good eye on the exact break, because the highs or lows that make up the signal line may be several bars apart.

Note: When looking at the chart, it is quite tempting to focus mainly on the moving price action and on the possible development of a tradable setup. Yet the status of the overall picture deserves the most attention. Whatever price bar is currently being formed, it can only derive value from its relation to the bigger picture. It is this wider view on the price action that ultimately determines our setups to be valid or not. On average, an hour and a half of price action will usually do just fine. To stay sharp and not lose focus, repeatedly force yourself to judge the price action in its present light. Do you see higher bottoms, lower tops, horizontal breakouts, round number fights? Is the market trending, running in resistance, testing support? Keeping track of the 20ema is just one way of assessing the current pressure in the market, and an excellent one at that. But the whole array of actual tops and bottoms in the chart determines the overall pressure. More distinctive higher bottoms than lower tops: the pressure is currently up. More distinctive lower tops than higher bottoms: the pressure is currently down. Alternating tops and bottoms: the current pressure is evenly distributed.



Figure 10.2 Painted by the magical hand of the market in the space of just twenty minutes, the BB setup in the chart above looks treacherously non-descriptive. However, this one little pattern may very well represent the near perfect box, should there exist such a thing as perfection in the tricky nature of the market.

Let us see how exactly this pattern earned its credentials. Earlier on, the bullish character of the market was somewhat curbed by the resistance of the 1.3480 level (1). After a little *backing and filling*, as aimless price action is often referred to, the market drifted lower in the next 30 minutes of trading and then established its most distinctive low so far (2). Of course, we can only identify this low once the bulls start to buy themselves into the market again and take prices back up. Since it is our primary intention to trade this particular chart to the upside, we have to wait patiently for some sort of resistance to come in. This resistance can then later be cracked. The first sign of it was portrayed by the first distinctive top of (3) that followed the low of (2). That gives a scalper a potential level to put his signal line on.

Now that we have a high and a low to go by, it is just a matter of following the price action until anything tradable develops. Preferably, we like to see a number of equal highs hitting the potential signal line, but the market is not always so kind as to serve a trader on his every

wish. Should prices break out immediately, then that is just too bad. There are many ways to play the market and should a scalper have to forgo a particular setup, then he just moves on to the next tradable event. In this case, prices very orderly stayed within the boundaries of the low and high and even managed to produce 7 equal tests of the first high in the box, which is excellent. The stronger the significance of the signal line, the more traders will spot the break and have to react. Either to get in or to get out.

Within the setup, a number of higher bottoms can be counted (4, 5 and 6), lending extra credit to the possibility of a bullish breakout. As the coil is now being suppressed to the max, something has got to give. We can imagine it to be the signal line, but as clever scalpers we will never act before our turn.

Notice how gently the 20ema eventually guides the bars through the top of the box, literally pushing them out. The six small bars right before the break, five of them sharing equal highs, represent what we will refer to as classic *pre-breakout tension* (6). We could say it is a miniature box within the box itself. The subsequent reaction to the break speaks volumes. With the 1.3480 resistance area now cleared, prices were simply sucked into the vacuum below the round number zone of 1.35.

Note: Similar as in the previous chart (Figure 10.1) there is a little overhead resistance to be spotted to the left of the setup (1). Would that not be worrisome? To a tiny DD pattern it most probably would. There may just be too little tension building up within the dojis to counter the resistance overhead. But the BB pattern, in that respect, is quite different: it has tension written all over it. What's more, the most likely reason why the BB set itself up in the first place is because of that same overhead resistance. Which is also why the break of it stands to cause a sharp reaction. Once the defenders give up and step out of the way, the path is usually cleared for at least a number of pip.

Aspiring scalpers, when slowly taking a liking to this method, are recommended to study the characteristics of boxes like those of Figures 10.1 and 10.2 (and their reversed counterparts) with great attention to detail. Hardly a session will go by without these very tell-tale patterns showing up in the chart, one way or another. However, it is important

to never lose sight of the overall pressure in the market, because that is what ultimately determines the future direction of prices. Obviously, assessing the overall pressure in a trending chart will not cause much problems. In more sideways progressions, this process requires a little more subtlety on the part of the chartist, as is the case, for example, in the next chart below.

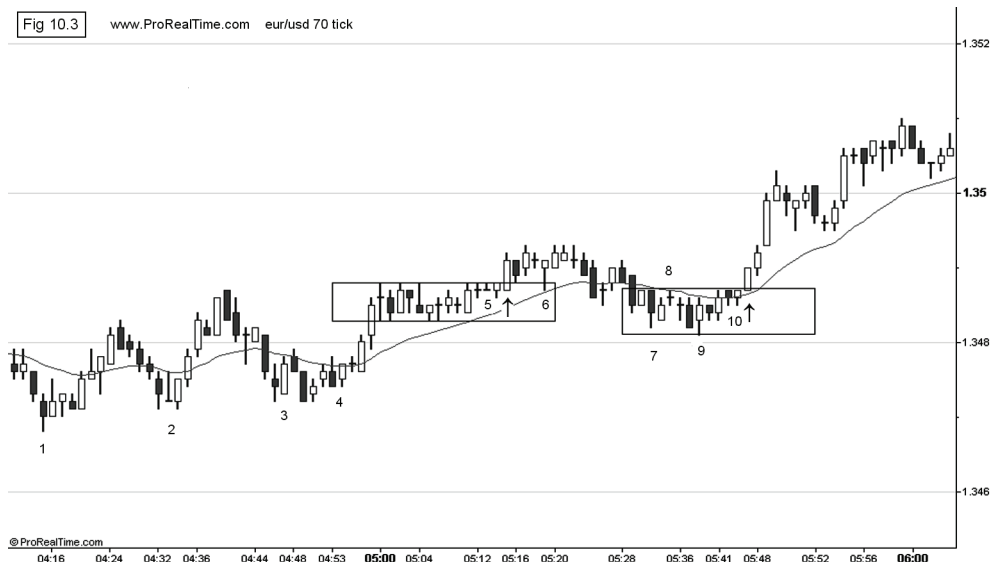


Figure 10.3 When casually regarded, the sideways action before 05:00 could be interpreted as ordinary backing and filling; after all, price merely dances above and below the sideways trailing 20ema without showing particular preference to go one way more than another. Still, the observant scalper may have already spotted a series of almost nonchalantly printed higher bottoms in this sideways progression (1, 2, 3 and 4). When that fourth higher bottom was printed, forming a cluster together with the handful of price bars next to it, things are starting to get interesting. Take a moment to compare the sharp upmove initiating from the second bottom (2) with the move that emerged out of the cluster (3 and 4). Although they look quite similar in their thrust, the first one shot through the average with hardly any buildup preceding it, whereas the latter first saw a cluster of bars build up tension before breaking out. As subtle as these differences may be, they are of great significance

technically. Both moves seem to appear equally strong, but the one that emerged out of the cluster stands a much better chance of holding up. Not only does it stem from a slightly higher bottom, the fact that it broke free from a cluster puts a solid foundation beneath the current market. This means that if prices were to retrace back to where they broke free from, as they often do, they are most likely to be halted right at the level of the earlier break (resistance becoming support). After all, it is much harder for prices to dig themselves a way through a solid group of bars than when there is very little standing in their way. The mere implication of potential support can already be so strong that a market doesn't even feel the need to test its validity.

In a similar way, tension was also building up within the first BB setup in the chart. No less than seven equal touches of the top barrier can be counted within that block before the market finally broke through to the upside. Notice how prices bounced off of the signal line, a few bars after the break, which clearly shows us the power of cluster support (6).

Have a look at the three very small dojis leading up to the break of the box (5). They are displaying in miniature the same pre-breakout tension as the complete box is displaying in the bigger picture of the chart (just wrap an imaginary box around the highs and lows of the price action from 04:16 to 05:16). At the risk of being overly elaborate, I am pointing this out for a very valid reason. If you learn to train your eye to recognize these subtleties in a live market environment, you will eventually be doing yourself a tremendous favor. The rise and fall of prices is not a result of somebody swinging a giant wheel of fortune. There are actual people in the market, trading actual ideas, feeling actual pain and actual pleasure. You may never know for sure what motivates them to do what they do at any given moment in time, yet of one thing you *can* be sure: their actions are reactions to other traders actions, which is why most of the time everything happens in such repetitive manner. Markets may be random, as it is often stated, but traders surely are not.

Despite the upward pressure, the cluster below and the magnetic pull of the round number above, with-trend participation after the break quickly died out. Eventually, this trade would have had to be scratched for a loss (where exactly to bail out on a failing trade will be discussed

in Chapter 14 on Tipping Point Technique).

Although they clearly lost a round, we can expect the bulls in this chart to not just crawl up in a turtle position. Given all the higher bottoms earlier on, they will surely be on the lookout to buy themselves back into the market at more economical levels. The most logical area to pick up new contracts would be in the 1.3480 support zone. In fact, they didn't even wait for prices to hit the level spot on (7).

With the market traveling a few pip higher because of this buying activity, touching the 20ema from below, the bears were now offered a more favorable level to become a little more aggressive (8). And indeed, they managed to squeeze out one more low (9). They were given little time to enjoy that feat, though, as a large number of sidelines bulls quickly stepped in. It is the information necessary to keep a trader on high alert for another bullish attempt to take control of the market.

With no less than six equal highs testing one another, a scalper did not have to think very long about where to draw the signal line of the second box.

What is the major difference between the first box and the second? At first glance, box number one originated from a more favorable position (above the 20ema), whereas the second box popped up in sideways action (flat 20ema). Keep in mind, though, that the market couldn't care less about our 20-bar exponential moving average. That is only an instrument in our own personal toolbox. In fact, in a somewhat sideways environment, buying above it could at times be more dangerous than buying below it. Therefore, from a technical perspective, both patterns here are very similar in nature: sideways action, support holding up, a buildup of tension and a subsequent break. Take a mental note of the two little dojis right before the break of the second box (10). We will see this duo many times over throughout this guide. They represent classic *pre-breakout tension*: a final attempt of those who operate against the current pressure to keep the box from breaking. Both bulls and bears will be very quick to act, though, should the proverbial jack pop out. In the first block pattern there are even three of these dojis to be detected, together forming not only a higher bottom in the box but also the very welcome pressure underneath the signal line (5).



Figure 10.4 No less than six reasons immediately come to mind why this short trade has excellent potential to pocket a trader another 10 pip of easy profit. 1: The market gave up a rather lengthy support zone (first half of the chart). 2: Countertrend traders lacked enthusiasm to test the broken support properly (1). 3: Instead, a lower top got printed in what can only be described as a horizontal pullback (2). 4: Two tiny dojis represented pre-breakout tension (3, basically another lower top). 5: A solid signal line succumbed to the bearish pressure (4). 6: The magnetic pull of the round number below may just finish off the job (1.31).

As pleasurable as it may be to occasionally stumble upon the near perfect trade, it also poses a rather interesting challenge on the topic of volume versus predictability. If we were to assign a rating to each individual trade—by counting the number of valid reasons to either skip or trade a setup—and came to conclude that the probability factor is apparently not a constant but varies visibly from setup to setup, should this not force an intelligent strategy to alter the volume per trade in compliance with the degree of predictability?

As you may recall, I strongly suggested to not put more than 2 percent of capital at risk on any one trade (when consistently profitable). I also suggested to cram as much volume in these 2 percent as allowed in order to exploit our edge to the fullest. If so, then that rules out adding

anything extra, no matter how good-looking the trade, because the maximum amount of units are already at work. On the other hand, one could argue that if there is such a thing as a superior trade, then, naturally, there must also be its counterpart, the inferior trade (though still possessing a positive expectancy); when opting to trade the latter, could one not *take off* volume and tread lightly?

The true statistical mathematician, the one that eats bell curves and standard deviations for breakfast, would probably cringe at the typical layman's view on probability. And rightly so. Still, it remains to be seen whether his clinical calculations hold up in a real market environment, where nothing is what it seems, where dubious emotions play a major role in assessing the odds to begin with, and where his faithful law of probability may even be defied by the very same forces that are causing it.

Once again, my take on this matter is to not delve into the complexities of individual outcomes, but to at all times keep things simple, with the bigger picture in mind. Once consistently profitable in the market, even marginally, a trader could best explore every *valid* setup with appropriate passion and just load up. Whenever we picture ourselves to have an edge, each setup deserves to be treated with equal respect, no matter how shady or pretty its appearance. And that means assigning the maximum allowable amount of units per trade to fully capitalize on the principle of positive expectancy.

Note: Contrary to common perception, the least important of all your trades is the one you are currently in. All your previous trades, though insignificant by themselves, at least have a statistical relevance. Together they determine the power of your edge. Your current trade, on the other hand, has yet to earn its notch on the historical slate. It is just a trade in process. And it is totally irrelevant whether it will win or lose. In fact, in a consistently profitable strategy that has proven to stand the test of time, a losing trade is basically a false assumption. Why is that? Reflect for a moment on the following: if a 1000 individual outcomes would show an assembled profit of 2000 pip and your next trade came up a loser of 6, would you say you just lost 6 pip, or rather that you made another 2 on balance? Granted, embracing a losing trade as if it

were a winner may be stretching it a bit. But the point does show the importance of a proper understanding of distribution in a probability play. All individual outcomes are just data. The only thing that truly matters is the collective result of all your scalping actions in the market.



Figure 10.6 When confronted with a dull and rather lengthy non-trending market, like the first half of the chart above, it is not uncommon for a trader to start experiencing a somewhat uncomfortable mixture of impatience, boredom and even agitation. It can indeed be a mental challenge to have to sit out these times of inactivity, hoping for action and not getting any, especially to those traders who look upon their trading platform as a slot machine in a penny arcade. A word of caution may be in place here, because these sideways ranges do have the nasty habit of luring a trader in one of two very classic mistakes.

The first one is to start seeing and taking trades where there are none to be found. This warped sense of reality is typical for a trader who just *needs* action. And wrath be upon the market if he doesn't get it. Apart from the occasional winner that may come out of this, seeing a growing bunch of scratched trades eat their way into earlier profits will sooner or later present this trader with the unsettling notion of being reprimanded by the very market he is trying to punish. Needless to say

that this sort of attitude towards trading is of the backfiring kind, and it remains to be seen whether this trader can pick himself back up in time for when the real action begins.

The second classic mistake is made by traders who on the surface seem to stay composed rather well in a sideways market. You won't catch them doing anything irrational like taking silly trades, nor will you see them get angry with the market or force their will upon it. They can watch the proverbial grass grow for what seems like an eternity without any sense of discomfort. Proficient enough to recognize the current indecision of the market as something that needs to be cleared by powers bigger than themselves, they simply sit back. Up until that one amazing moment that boredom abruptly kicks in. For reasons unbeknownst to themselves they suddenly have to get up to make these phone calls, do their exercises, watch the news on the TV or even take a stroll outside. Anything to get away from that screen and that market!

Although not nearly as detrimental to a trader's overall results as the other case, giving in to a sudden burst of boredom after a prolonged spell of inactivity is like walking away from an investment that is just about to sprout. It is a pity that traders are so caught up in the notion that trading trending markets is the only way to go. Contrary to popular belief, sideways markets deliver excellent opportunities, for the simple reason that they have to break out eventually, just like a trending market will eventually come to a halt or even reverse. Whereas it is impossible to define the exact moment when a trending market will move into the sideways phase, the sideways market, on the other hand, can give off very strong signals that it is about to move into a trending phase.

A good example of such a predictable breakout can be found in the chart above. The first hour of price action obviously shows the market in consolidation mode. With the moving average traveling sideways and price bars alternating above and below it, there is not much to make of it. This is your typical round number zone tug-o-war in the absence of a clear incentive (1.3150). But of one thing we can be sure: unless it is a national holiday, late Friday evening, or lunchtime in an already dead Asian session, price will not stay put for hours on end. Sooner or later some party will give the market a push and that will be incentive

enough for others to react.

The trick is to recognize the buildup that most often precedes it. This is why it is so important to familiarize yourself with *pre-breakout tension*. What will help is to draw, or imagine, a box around any clustering price action that might lead to a break. It may take some practice to recognize the right set of bars to wrap a box around, but essentially there are not too many variations to grasp. The first box here, for instance, is almost an exact copy of the fourth box in the previous chart (Figure 10.5, box 4).

By extending the signal line to the right, we can see that the pullback following the break successfully tested the breakout level as well as the broken round number of 1.3150 (1). That will certainly have inspired a number of bears to just throw in the towel. And a number of bulls to quickly enter the ring. However, despite this potential for double pressure, markets do not always immediately pop. In this chart the bears still put up a reasonable fight, as we can tell by the cluster of hesitating bars (3) that eventually led up to the forming of the second box.

If you look closely, you can see that the top barrier of this second BB setup is not exactly running across the absolute high (2) but one pip below it, across the equal extremes of four consecutive bars. As much as it may be preferable to see a signal line unbroken by an earlier bar, we definitely do not need to see the perfect box in order to trade. Whenever there is room for a little doubt regarding the actual breakout level, it is best to let yourself be guided by technical logic. Here it seems logical to put more weight to the four equal highs than to that one single high sticking out on the left. It would be overly prudent to wait for this high to be taken out, too. But let us ignore our setup for a moment and see what the market has to say about this: it put in a series of distinctive higher bottoms within the course of two hours; it broke a round number zone and saw it successfully tested; it built up towards a possible bullish breakout and now it breaks a cluster of four bars with equal highs. I think it is telling us to trade.

Excerpts from Chapter 11: Range Break (RB)



Figure 11.2 This chart is almost the mirror image of the previous example (Figure 11.1). Once again, the breaking of a round number zone trapped traders on the wrong side of the market. In the previous chart, it was a downward break through the zone that not long after turned bullish, here it was an upward break that soon turned bearish.

Is there a reason these round number breaks don't hold up? Probably no more than there is to any other break or move that fails or falls short: a lack of follow-through. It is not uncommon to see enthusiasm dwindle in rather subdued markets, or in situations where the round numbers are more of a symbolic nature than that they actually represent true technical levels of resistance and support. In these cases, it is fair to assume that not too many stop-losses reside above or below the levels. As a result, the price action remains calm; as much as those in position do not see the need to get out, those on the sidelines are not exactly scrambling to get in, either.

More practical than trying to figure out the reason (foolish in any respect) is asking ourselves if these failed round number breaks could somehow be anticipated and possibly exploited. Interestingly, in the

majority of cases there is indeed a pattern to be spotted. First the round number is broken, quite often with hardly any fight. Not much later the break is tested, usually successful. On seeing this, a number of new players step in, thinking they're in for a treat. And then, for some reason or another, the play dies out like a flame. Traders at any moment in time may buy as cheaply or sell as dearly as the market allows them, but if no new players pick up on their idea of direction (follow-through), they are trapped on the wrong side of the field. All of this is not uncommonly captured within the confines of an unmistakable range very close to the round number of interest. It is a scalper's task to figure out when the predicament of the trapped becomes unbearable from a technical perspective. Naturally, the idea is to capitalize on their instinct of flight.

Everything is very easy in hindsight, yet if you managed to grasp the concept of the forces in play that caused the upside break in Figure 11.1, I am sure you can also see why this particular range, halfway through, started to develop a fancy for a downward break.

Let us examine up close what exactly went on from the moment the third top was set (4). It started to go wrong for the bulls when the reaction to this top (a tiny countermove) was not being picked up by new bulls in the 20ema a few bars later. That would have been a perfect opportunity to swing prices back up. From there on, they could have created themselves a nice squeeze by not giving in to whatever bearish pressure and then force themselves a way through the top barrier of the range. In fact, the three earlier tops (1, 3 and 4) would have made for an excellent barrier to trade that upside break from.

However, instead of working on that upside break, the market set out on its way to the bottom of the range again (5) and now even showed a classic triple top in its wake. These are not bullish signs.

But there was hope still. After all, the round number zone was cracked to the upside and successfully tested earlier on, and that should at least amount to something. If somehow new bulls found it in their heart to aggressively step in above the 1.33 level, inspiring even more bulls to jump in after them and bring prices once again to the top of the range, the chart would show an unmistakable double bottom in round number support (2 and 5). And that would look quite bullish.

Sometimes it only needs one bar to turn pleasurable hope into the idle variety. How about that little doji (7) that stuck its head a pip above the high to the left of it (6). A higher high in a bullish market after a possible double bottom in round number support, that should have attracted new bulls to the scene. What kept them away? We can imagine it to be the triple top pattern to the left; but it is not our business to decipher or explain the actions or non-actions of our fellow traders. Everything is just information.

As observant scalpers our task is not just to monitor a chart, but to look for clues in it. The more crucial the signs we can assemble, the more we can solve the puzzle of who is possibly toppling who in the market. Any sign or hint that leaves a distinctive mark in the chart will work to the benefit of our assessment. These signs, at times, can be quite obvious, like triple tops and other well-known reversal patterns, but they can also be rather tiny, like a one pip false break. The best indication to determine the value of a particular chart event is to consider its place in the chart in relation to whatever price action preceded it. To give an example, the tiny false upside break of (7) would have been considerably less indicative had the market not printed that triple top shortly before.

With prices now trapped below the 20ema, the market was on the brink of being sandwiched into a bearish breakout through the bottom barrier of the range.

That brings us to the interesting part that you may have already spotted: the first breakout below the barrier. Why did I mark this one as a tease (T).

Granted, this one reflects the proverbial close call and I couldn't really argue with anyone looking upon it as a valid break. For my own personal comfort, I would like to see prices get squeezed a little bit more before breaking down. Preferably, I would like to see the market print a couple of dojis right on the bottom level of the range (as in a regular BB setup). It must be stated, though, that a conservative stance is not always the most successful approach.

It would be nice if we could really put a rule of thumb on these false breaks, particularly on the tease variant, but alas, it often depends on the situation at hand. Here the market was extremely slow and the price

action very subdued (almost every bar a doji). That makes me want to wait for superior conditions just a little bit longer than, for instance, in case of a speedy market, where I might run the risk of fully missing the break on account of being too conservative.

Note: As for the difference between the false break trap and the tease break variant, imagine for a moment the 05:00 low (5) to have dipped a pip below the range barrier. That would have turned it into a false break of the earlier bottom of (2) and not a tease. Why? Because prices came straight down from the high of the pattern (4) to the low of it and then immediately broke through without any buildup. That typifies a classic false break (in terms of potential, of course, for any break, even a silly one, may find follow-through and prove itself true). When it comes to the tease break, on the other hand, the cracking of the range usually starts with a move that originates not at the top or bottom of the pattern, but more from the middle of it, or at least from the 20ema zone. In case of a downward break, for example, before breaking out, prices usually first touch the bottom barrier and then bounce up to make an intermediate high in the 20ema. From that point on there may be some squeezing between the average and the bottom barrier, but usually too little of it to consider it sufficient buildup to a tradable break. It would be preferable to see prices bounce up and down at least a few times between the bottom barrier and the average, until they are finally being squeezed out. And that makes sense; the more contracts change hands in the squeeze, the more traders will find themselves on the wrong side of the market once support gives in. And most of them will have no choice but to sell back to the market what they had bought at bottom prices just moments before. Add to this a number of sideline bears eagerly stepping in and we have ourselves the perfect ingredients of double pressure and thus follow-through.

At times, the anticipation of this little chain of events is very straightforward. At other times, the assessment of the squeeze can be a lot more subtle and it may leave a scalper wondering whether or not to trade. Particularly when the space between the 20ema and the barrier line is no more than a few pip in width, the tease break may be almost indistinguishable from a valid break.

If you ever find yourself caught in a tease break, or in any other valid break that acts as a tease, similar calm is required as in the case of the BB trade where prices break out of the box and then crawl back in. As we have seen already in several examples, the 20ema, just like in the chart above, can still guide prices back out in favor of the trade. In many cases that is also the final incentive for the market to really pop.

Take a moment to compare the string of black bars after the break in this chart with the string of white bars after the break in Figure 11.1. What do these moves represent? They clearly show us the unwinding of positions of those traders trapped on the wrong side of the market. In the chart above, for instance, *all* scalpers that picked up long contracts inside of the range are carrying losing positions the moment prices break down below 1.33. That string of black bars represents their predicament and their panic, so in essence a rapid unwinding of long positions that are being sold back to the market. Naturally, clever bears on the sidelines, smelling blood, will be happy to add fuel to the fire by quickly selling contracts to whoever still entertains bullish fantasies. Of course, even a falling market will always find traders ready to buy, but these bulls will not be so eager as to not demand lower prices to trade at. As a result, prices will fall even more until eventually the market calms down and more bulls than bears are willing to trade. This, in short, is the principle of supply and demand. It works the other way around in equal fashion. And it is our job to anticipate it before it even takes place. To the non-initiated this may seem like quite a daunting task. Yet those who observe, study and learn will most likely come to see the repetitive nature of it all. And soon they will be able to exploit those who do not.

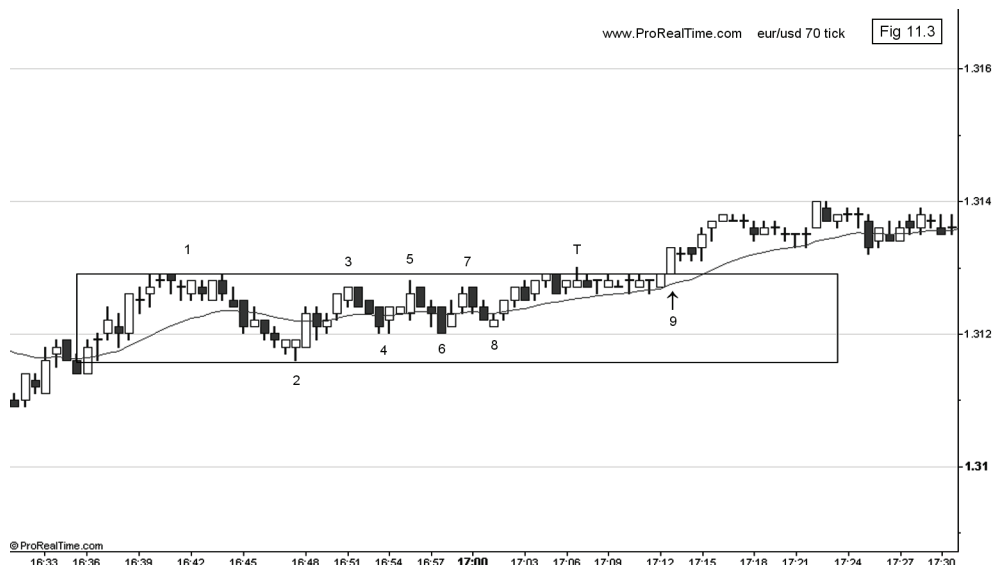


Figure 11.3 Anyone who has ever studied the eur/usd pair on intraday basis will surely have noticed this market's remarkable tendency to move in stepwise increments of 20 pip. For example, if, say, 1.3120 is cracked to the upside, as in the chart above, and then tested back and proven sound, then, more often than not, the market's next stop will be 1.3140. Variations on this pattern repeat themselves with such relentless persistence that it is not hard to imagine how numerous intraday strategies are solely built to exploit this phenomenon. And yes, the market's fixation with these round number levels at times is truly astonishing. Of course, as scalpers we are only interested in one thing: can we exploit it?

Psychologists have us believe that the omnipresent round number effect, visible also in many other aspects of life, has no coherent relation to value whatsoever but is simply a way for the human brain to filter out noise to protect itself from information overload. From a practical perspective, there may even be a strong self-fulfilling aspect attached to it: if we all believe that round numbers bear significance, then, naturally, our actions concerning these numbers bring significance about. Anyhow, if nothing else, round numbers do have the pleasant side-effect of framing things in organized manner, just like wrapping boxes around ranges gives us clarity on resistance and support. When

it comes to the 20-levels (00, 20, 40, 60 and 80), you will have noticed that I have set up my software to plot these levels thinly in the chart; but I use them solely for guidance and try not to look upon them as absolute levels of resistance and support. They may do so at the moment, but I rather leave that to the price action itself. Frankly, in the never-ending quest for simplicity I have tried to scalp with a clean chart, meaning without the 20-lines in it, but somehow my conditioned brain felt less comfortable without these levels framing the action. This may very well be a personal quirk and any scalper can try for himself what suits him best. One last thing: on the road from 40 to 60, and the other way around, things can get very tricky. Currency trading, like it or not, is a big players game, and the 50-level is arguably their favorite toy. Unlike the 00 round number, this level is not a 20-level itself. Hence the occasional conflicting mishmash between 40 and 60. However, do not *expect* anything to happen around this level. Just be on the alert. Always monitor any action carefully, but keep a special eye on the two major round number zones of 00 and 50. More often than not, these levels are what the bigger chart is all about and why we see so many ranges appear as a result.

Let us look at Figure 11.3 and see if that RB trade was easy to spot. Halfway through the chart, the options are very much open. There are no trades near and a scalper should just relax and apply patience. To obtain an idea on support and resistance, he may have already drawn a horizontal line across the first top of (1) and then another below the low that followed it (2). Tip: you do not necessarily need to draw boxes, a horizontal line across the tops and one beneath the lows will do just fine.

At any moment in time there are always three ways to look at a chart. Through bullish eyes, bearish eyes, or neutral eyes. Needless to say, observing the price action with a neutral disposition is the way to go. Many traders, however, can't help themselves looking at the market from the perspective of their current positions (or intentions), so either from a bullish or a bearish stance. It is a bit the same as with the novice chess player who only moves his pieces around in order to attack; this player usually pays very little attention to position play or even to the

many gaping holes in his own defense.

When biased towards the upside, a bull may view the triple bottom pattern (4, 6 and 8) as a very healthy token that the market is building up towards a bullish breakout. And with reason; the market definitely shows signs of support in the 1.3120 area. Should it continue its pattern of slightly higher bottoms, then breaking out to the upside, eventually, would technically be the most logical result.

When looking at things from the bearish side, traders may find comfort in the triple top pattern (3, 5 and 7) that appeared on a lower level than the earlier, more dominant top of (1).

As neutral scalpers, we can only sit back and enjoy whatever the market has in store for each party. If you place your thumb on the chart for a moment, to block the prices after 17:00, you can see that it wouldn't have taken that much of an effort from the Powers That Be to give this chart a more bearish look; cracking the 1.3120 level by a few pip would have probably done the trick. One thing is of importance, though, and that is to not walk away from this chart in a silly act of boredom. If the bulls show a bit more persistence, particularly when entering a potential squeeze phase, we may have a trade on our hands in a matter of minutes.

The first break through the upper barrier could be classified as a typical tease on account of it not originating from a proper squeeze situation yet (T). In order for the market to deliver a more reliable break, it is preferable to see prices first retest the 20ema again and then attack the barrier in buildup fashion. As a matter of fact, the subsequent price action after the tease, that is the perfect squeeze that led to an excellent textbook RB trade (9).

If these tease breaks, after breaking back, are so often caught by the 20ema and then still manage to break out eventually, couldn't we just always look upon them as valid breaks and trade them no matter what? That is a very fair question. So far the examples here show outcomes that point in favor of that option. It is my observation, though, that in most cases you can get away with being a little more patient. In other words, missing a range break trade due to a conservative stance is less common than one might think. Secondly, there is also the

matter of protection to take into consideration. As we will see in the section on Trade Management, squeezes provide excellent levels for stop placement. Conversely, a tease break situation, in essence a somewhat hastier break, seldom delivers the same technical clarity in terms of where to place the stop. When trading breaks, patience truly is a virtue. Therefore, my advice would be to shun the non-buildup breaks entirely (false break traps) and those resulting from little buildup as much as you can (tease break traps).

Note: If prices after a tease break are pushed back inside the range but not much later break out again as in a valid RB, then it is not necessary to postpone entering until the tease level is taken out, too. It is usually best to just take the trade as if the tease had not occurred, which means firing a market order on a break of the original range barrier. An exception would be if there are multiple tease breaks in a row that together form a new barrier by themselves. Then it may be recommended to assess the situation from the perspective of that new barrier (see Figure 11.6 for a good example).

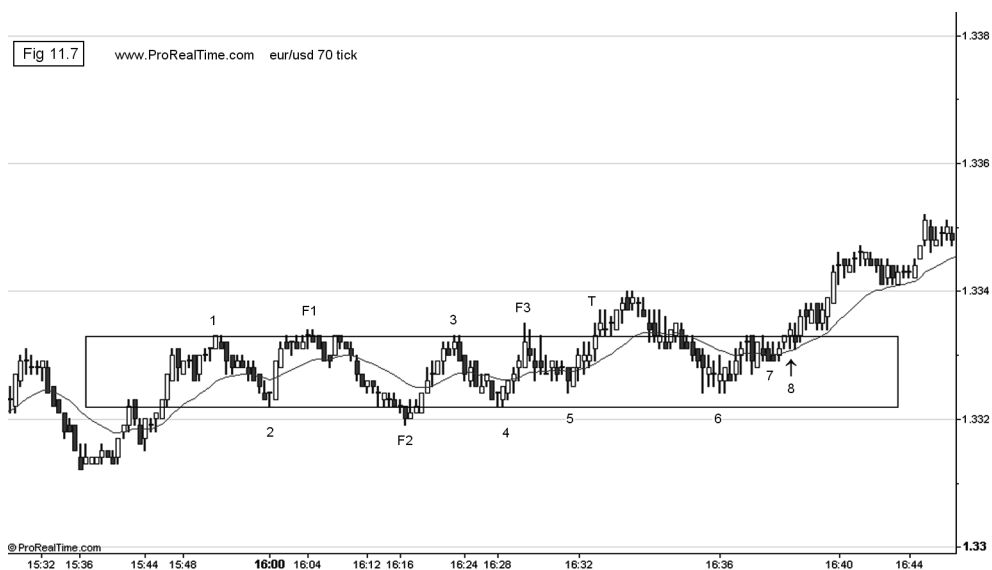


Figure 11.7 This range may look a little rough around the edges but all in all it contained pretty straightforward price action. Despite the many false breaks, there was no need to get caught in any of them. In fact,

a scalper would probably not even have started plotting his barriers before the top of (3) equaled the top of (1), and the low of (4) equaled the low of (2); and that would have already eliminated two false breaks (F1 and F2).

This chart, obviously, shows the market being a bit nervous. If you look closely at the time scale below it, you can see that the second half of the range printed the bars about three times as fast as the first half of it. By that information alone, it is quite safe to assume that halfway through it, the market was bracing itself for a typical news release. News releases bear an intrinsic potential to really rip a chart apart. They are mostly dreaded by those in position, of course, for there is no way of telling how hefty the market will respond. The first sign of news hitting the market is the way the chart speeds up. It means that contracts change hands so feverishly that it looks like the bars are literally being spit out on the screen. Seeing them get printed ten times as fast as their normal production rate is definitely not uncommon. It is also the time when you can really tell the difference between a tick chart and a time frame chart; tick charts can still show the ebb and flow of even the wildest markets, whereas a 1-minute chart, for example, may just show a huge 1-minute bar. A second characteristic of news hitting the market is that resistance and support levels can evaporate in a matter of seconds, regardless of their earlier significance. And then there is the potential for huge spikes, even 50 pip or more; these arrows of death are not only known to shake traders out of their positions at the speed of light, they tend to cause enormous slippage to boot. Not seldom, these spikes are extremely short-lived, but that is of little consolation to those shaken out. All in all, news breaks offer a dangerous environment to scalp in. To avoid getting caught by surprise, traders can check the economic calendars (freely available on the web) for the exact moment of *major* announcements (like interest rate decisions and non-farm payroll numbers). If caught anyway, and not immediately shaken out, just remain calm. Always aim for a technical way out of a trade. With a bit of luck the market hits the side of the target first. If it shoots off the other way, then there is always the automated stop to prevent excessive damage. It may get hit with slippage, but that is just part of the game

(and a good incentive to be more cautious next time).

But the market's erratic reaction to a news release may not be the only danger to worry about; retail traders trading through a no-commission retail broker are advised to check their company's policy on spread mark-up, because some spreads are known to go as high as 10 pip during news breaks. Of course, traders should avoid these brokers in the first place. But then again, trading through a retail broker is a game of give and take. If the broker is okay in any other respect, offers a solid platform to trade from and keeps the spread at 1 pip throughout 99 percent of your sessions, then a simple solution would be to avoid the occasional mark-up by simply not trading during a hefty news release. The brokers to absolutely avoid are those who mark up their spreads more sneakily for no particular reason and for hours on end. Even if they just add a few pipettes either side, it can have a devastating effect on even the best of scalping strategies.

In terms of turmoil, the reaction to the news in this chart was rather subdued. But not without tricks, though. First appeared another false upside break (F3), which got slammed back pretty fast. Next in line was the tease break (T) that suffered a similar fate.

We have to give the bulls some credit for not throwing in the towel then and there. Instead, they played their last trump card, which was to keep the pressure up by not allowing prices to slide below the last low in the range. And that worked out wonderfully well. The low of (6) matched the low of (5), forming a double bottom, and not much later prices were pushing against the top barrier once more (7). Notice the pretty little squeeze and how nicely the 20ema guided prices out of the box. Out of all the breaks through that top barrier, this was the only one that deserved true RB status (8).

Excerpts from Chapter 12: Inside Range Break (IRB)

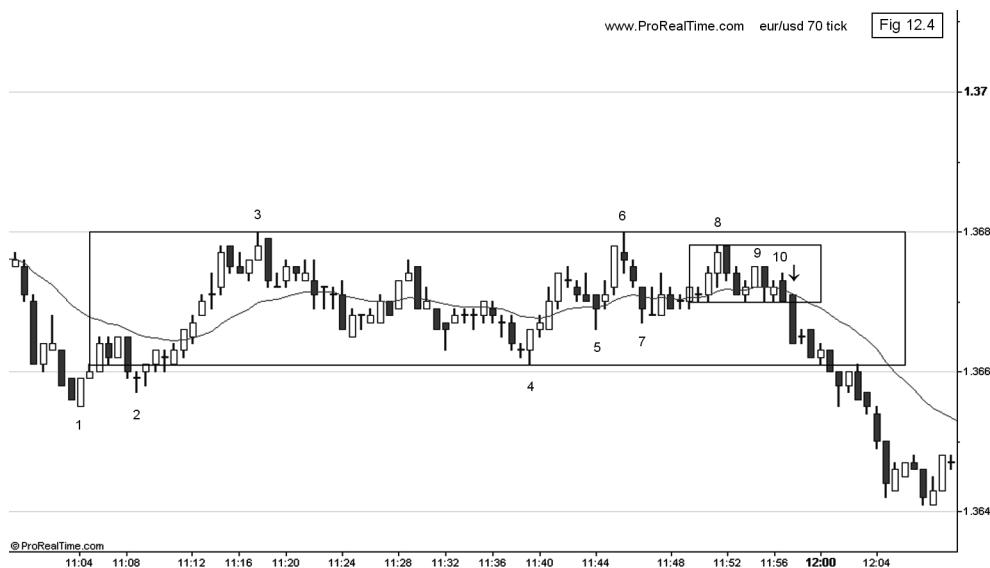


Figure 12.4 Once again, we got ourselves a range formation that gets resolved in about an hour's time. As we have seen already many times before, it is not essential for the market to have prices attack a particular barrier up to the point of exhaustion. Quite often, it needs no more than a double top or double bottom to show all participants who is in charge. At times, it can make you wonder, though, why at some point the strongest walls of resistance get attacked with a relentless fervor, while elsewhere in the market a mere halfhearted expression of power remains completely undisputed. But the market is what it is and does what it does. In the end, the direction of prices is a big players game and the mortal scalper has no business asking questions. The good thing is, however, that although the tiny trader may never know the *why* behind the big player's agenda, he may just be able to tell the *when* if he pays close attention.

Up until the encapsulated IRB setup there was not much to make of this range in terms of possible direction. Prices had printed a clear double top (3-6), indicating resistance, but a series of consecutive higher bottoms betrayed unmistakable support (2, 4, 5 and 7, all higher

than 1). But once again, signs of support and resistance, no matter how prevalent in the chart, are not necessarily reflecting major levels in the market that need to be conquered unambiguously in a heroic fight, with one party ultimately succumbing to the other. In fact, they could dissolve in a matter of seconds without any signs of protest. That is why it is probably not a very good strategy—at least not for the aspiring scalper—to simply sell in resistance or buy in support, not even for the sake of a brief little scalp. Overall, the safer approach is to see how the market handles these zones and *then* try to trade them.

Whenever the market is approaching a barrier, or even just a former top or bottom, basically three things can happen. 1: the level is broken as if non-existent. 2: the level is fully respected and prices bounce off of it as if hit by a hammer. 3: the level is heavily attacked as well as defended.

It is the latter situation that presents the best opportunities in sideways progressions. And the longer the fights lasts, the bigger the pain of those who eventually lose out. In order to stop it, they can only do one thing, which is to flee from the scene as fast as they can. This hurried flight to safety, a mass exodus at times, is what presents the sideline scalper with an excellent opportunity to earn some pip at the expense of those on the run.

Almost by definition, any tension in the chart represents the dreams and hopes of two opposing parties. A bull, for instance, is basically telling the bear: I am buying your contract but I am shorting your dream. And, likewise, so does the bear scorn the bull in return. Inevitably, one of these two will soon pay the price for their bravado and the bill can be a painful one. Each and every trader on the sidelines, aiming for profit, has essentially just one thing in mind: to find out who gets the bill presented and then quickly capitalize on a burst of demoralization as many hopes and dreams get crushed. It should come as no surprise that the average trader is not particularly burdened by moral inhibitions, nor does he feel the need to pledge a humane disposition towards his fellow trader in the market. After all, he knows very well he is not exactly operating in the welfare industry and that at any moment in time he himself may get trampled by another. But the game, at all times, should be played fairly,

with equal chances for all involved, big or small, bull or bear, novice or experienced. It is the novice, no doubt, who will get burnt the most in his line of duty; that is why it is so important to escape that status as soon as possible through sound preparation and extensive study, and with the inevitable lessons in the market costing as little as possible.

The IRB pattern in the chart above is another great example of how to trade a top barrier bounce. Or we could say, it shows how to capitalize on the pain of demoralized bulls running for cover after their dreams of higher prices got shattered by a simple break of the pattern lows. The pattern itself shows three arches, the second and third lower than the first, colorfully named a *reversed-cup-and-two-handles* formation by those who love their classic patterns (8, 9 and 10). No less than six identical bottom touches formed an excellent signal line before prices finally gave way to the downward pressure.

It would be a misconception to think that prices, at any one time, could tank or rise more than 30 pip straight on account of such a tiny IRB setup alone. Predominantly, the markets move because of the overall technical conditions. There could be a number of other reasons for markets to rise and fall as they do, even against the current trend, for that matter. But it is highly unlikely that a little tug-o-war with a vertical span of a mere 5 pip can cause the market to move six times the width of that pattern. The setups are nothing more than tools for entering at the best possible spots. The pattern here, for instance, was put in by the market at just the right place and the break occurred at just the right time; it only provided the proverbial trigger for the bulls to get out and for the bears to get in.

Whenever one party yields to the pressure of another, bulls and bears alike, though be it for complete different reasons, will start to aggressively hit prices in the same direction. In many instances, it only needs one single pip to surpass a certain level to provoke this unanimous act. It is a scalper's task to locate that very crucial spot beforehand and trade it the moment it breaks. He may only have a split second to act before it may be too late. But a split second is all it takes to fire an order that is already set.



Figure 12.6 Price action does not always have to win a beauty contest to deliver a tradable event. Granted, if the chart truly shows a mishmash of erratic movements that make no technical sense then it is best left alone until the picture clears up. But do not give up on a chart too easily. More often than not, from below the surface of non-descriptive price action clarity will emerge and before you know it the pieces of the puzzle may fall neatly into place. One more reason to always stay alert and focused, even throughout the less attractive doldrums of lunch hour ranges.

Like the proverbial ball that is pushed under water, so is the price action within a range suppressed and contained. But the equilibrium in both upward and downward forces is an artificial one and can only be of a temporary nature; eventually, like in any tug-o-war, one side will simply have to let go of the rope. When that happens, prices usually do the one logical thing: they pop. Of course, in the marketplace the pressure can escape at either side and it may not be in textbook fashion. What's more, even a classic break may turn out to be a trap. But does it really matter? Classic breaks are valid breaks and the occasional trap is just part of the game. The point is not to question the valid break but to avoid the classic trap. Regardless of his years in the market, a scalper will never be able to tell whether his break will be true or false.

All he can do is follow the clues in the chart and trade any valid break that comes along.

Let us look at the chart above and see if we can detect the signs that may have inspired a scalper to trade the IRB breakout. In the beginning of the chart, prices came down from a 20-level to test the round number of 1.33. They subsequently bounced up and rose to test the former highs. Things got interesting when prices surpassed the earlier high of (1) by a mere pip (F). A classic trap. Countertrend traders, always ready to punish those less able, quickly rose to the occasion and started slamming prices as fast as they could. Just by watching this, our scalper is already offered two very technical clues that may prove to be of value later on: support in the round number zone and resistance about 20 pip above it. He may not be able to draw exemplary and workable range boundaries yet, or feel the need to, but at least he has gained an impression of what the future price action may be about. Should prices travel all the way down to support again, then the most prompting question, of course, will concern the round number defense. Will it hold up, or give in to bearish pressure?

The false break aside (F), we cannot blame the bears for shorting the market in an area of a former top (5). It is often seen that when prices initially bounce up from a round number (2), the market will attempt to revisit the level at least once not long after. It can even be defended that traders initiated new shorts when the market, a little later, cracked below the 20ema (6). At that point in time there was still plenty of room for a quick scalp into the vacuum above 1.33.

However, it soon became obvious that the market had no intention of revisiting the round number to the pip. Instead, it formed another double bottom (7-8), reinforcing the base of support put in by the earlier lows (3-4). An important clue.

Next up was about fifteen minutes of very choppy price action (8-11). Although the bears did manage to keep a lid on the upward pressure, fact is that they were not powerful enough to prevent the bulls from putting in another double bottom in support, and a higher one to boot (9-10).

Now that the price action was slowly starting to tip its hand, how

hard was it to find the setup within? First of all, with prices in an area of support, there was no point in looking for a DD, FB or a SB setup, because these patterns are best played from a pullback situation in a trending market. Nor was there any need to think RB with prices slowly moving away from support. As the market moved between hope and fear within that sideways cluster, the only workable setup to contemplate was an IRB.

In this particular chart, the setup seems a little rough and one might think it was not that easy to locate. Still, if we ignore the tease break (T), the pattern showed an excellent signal line of five equal touches, the last two put in by a very familiar duo of pre-breakout dojis. Not only did the two little bars help to form and complete the breakout level, they also built up tension beneath it. On top of that, the lows of these dojis found support in the 20ema, adding one more cherry to the cake.

All in all, this chart presented numerous practical clues. The setup may have required some focus, but it was very tradable nonetheless. A good reason to really study these type of IRBs in round number support (or the reversed variety in round number resistance) is because these breakouts can be so powerful that they considerably diminish the potential of seeing a regular RB show up at the other end of the range. Remember, a little aggression may be called for in a barrier bounce trade; the speedy nature of the breakout reduces the possibility of a pullback to the signal line and thus the opportunity for a scalper to get in on second instance.

Excerpts from Chapter 14: Tipping Point Technique



Figure 14.9 After three attempts to break the barrier (hence an ARB instead of a regular RB), we want the market to just take off and not look back (first arrow). That allows for a tipping point of the tightest variety (first dotted line). Placing it one pip lower, below the bar of (1) is doable, but, from a bullish perspective, it would not look pretty to see prices once again dip below the dotted line. If this ARB gets disrespected, the bulls might very well throw in the towel. The tight stop still allows for one last little pullback below the barrier, but no more than that. Had there been less struggle to force the break, then maybe it would have been safer to opt for the extra pip, as a token of insurance. In general, only apply the bigger stop when questioning the technical significance of the more economical one.

The second dotted line, beneath the DD setup lows, is beyond question. It is placed at the most economical spot and below a prominent low in the chart. If challenged, the low will either hold up or crack, but there is no point in giving it an extra pip, at least not from a technical standpoint. The nearest level below the low that may offer some support is presented by the top of the little bull flag pattern of (2). That is way

too far out to be of any help.

Just briefly before, I mentioned the rule of thumb of not scratching a long position when prices are still above the 20ema. This chart shows a nice exception. Have a look at where the third dotted line is placed. It represents a lifted tipping point in the DD trade, quite against standard procedure. Why would it be wise to put the stop underneath that low? To answer this we have to look a bit to the left and take note of the earlier, and rather distinctive, double top (3-4). These tops should not keep a scalper from trading the DD break, given the bullish credentials of the chart, but it is good to not lose sight of them. They do represent unmistakable resistance.

Let us sharpen our focus for a moment and contemplate the situation in that top area in detail. Once the tiny pullback doji of (6) gets broken topside, the market basically has only one option to keep the bullish pressure up and that is to take out the double top highs of (3) and (4). If not, and prices dip below the low of (6), then that will print a triple top pattern in the chart (3-4-5). It does not have to mean the end of this nice uptrend, but to a scalper in a long position, it would be extremely uncomfortable. The market's reaction to that technical feat may be quite hefty and therefore it is recommended to just get out of the way by exiting as soon as the tipping point low is taken out. In this chart the DD scalper got lucky because the false break above the highs of the double top took the DD trade to target just in time before prices dipped heavily south (7).

This example gives to show that the 20ema, no matter how faithful a companion, should not be looked upon as an absolute. It guides us 90 percent of the time, but every now and then it just has to be discarded on account of stronger technical development.

A question of conscience: when the bar of (5) matched the highs of the double top next to it, the DD trade may have been up over 9 pip. Is it truly wise in a situation like this to wait for the market to take out such strong resistance for the sake of a few extra pipettes? Yes and no. No, because of technical considerations. It may not be worth to risk a big part of profit in strong resistance for a few measly pipettes. But to just let the trade be may very well serve a purpose of its own. Once a scalper

starts to allow himself the luxury of premature scratching in his daily routine, he may not be able to control himself in the many instances where he should just stand pat. After all, it is rare for a chart not to show *any* obstacles to a trade. Yet it is very common to ascribe more value to obstacles than necessary.

Forex Price Action Scalping, *an in-depth look into the field of professional scalping*, authored by Bob Volman. Available for one-day shipping on Amazon. Price \$39.90, 358 pages.