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INTRODUCTION TO ADVANCED

# PRICE ACTION TRADING

PRICE PSYCHOLOGY AND MARKET FORMATION

Written by

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## DEAR FRIENDS,

On 27th of October 2018, it was my birthday. I was going to party with my best friends, and my family was going to visit. My dad called me at 4:30pm to ask me about my plans. It's was beautiful. He was proud of me, and nothing could make me happier.

At 6:30 PM, he had a heart attack and left me forever. With no notice, no warning.

I still remember the day like the back of my hand. I can't describe the pain it brought to me and the pieces it broke my heart into.

Sometimes life decides to throw the worst at you. I know most of you have trouble in your life to but there's no option but to keep going.

Find something that you really like, get good at it, and never stop. That's the only way to live, nothing else.

If you are reading this, there is a possibility that you want to improve your understanding of price movements.

After reading this PDF, you will understand the price psychology and the introduction of Price Action.

I have made a point to not mention topics that are irrelevant for Trading, we want to become traders and lecturers.

This is an introduction to Price Action and we have a long way to go, so be ready for new, exciting, and boring lessons.

I hope this PDF helps you a bit. I have made them keeping in mind all levels of traders. Advances traders might find it too basic but do read it to be on the same page.

As always, please know that this is an introduction to Price Action and as time goes by, at will get a lot deeper in concepts.

Yours,  
EmperorBTC

# A NOTE OF THANK YOU

I have collaborated with Delta to produce better and more faster content. Producing world class tutorials needs a lot of time, money and help.

I am working hard to keep the content practical, world class and free, as it should be in a community.

This collaboration will help me to hire more people, get better graphics, formatting and concentrate only on content.

**You can help my by signing up for Delta at <http://delta.exchange/EmperorBTC> and trading there.**

**They are a high liquidity exchange that I am trading on full time now.**

**They also have a deposit Bonus of 30,000 dollars if you deposit and trade there. All this will cost you nothing and will help keep the content free.**

# PRICE MARKET PSYCHOLOGY

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Prices are determined by people's perception of changing fundamentals.

The strength of a fundamental is limited to how much impact it'll have on people's psychology about the asset price.

The price of a freely traded asset is not determined by the news, but by the perception of the people about the impact of such news.

If the news can change the psychology of the market about an asset, only then will the price change.



## Assets are worth what people think they are worth.

The psychology leads to multiple perpetual conclusions from one participant to another, and hence a trend is formed. A price trends because the psychology of a market moves in trend.

The value of the asset is what people think it's worth and the psychology of an asset's worth makes the trend.

This is why asset prices are not randomly scattered on a chart but in a trend.

An increase in earnings or market growth or technical advancements by a company/asset doesn't determine the trend of the price.

Only the perception of the market towards these changes determines the price.

More earning doesn't mean higher prices.

It doesn't matter if the revenue or earnings of a company is increasing or their technology is advancing.



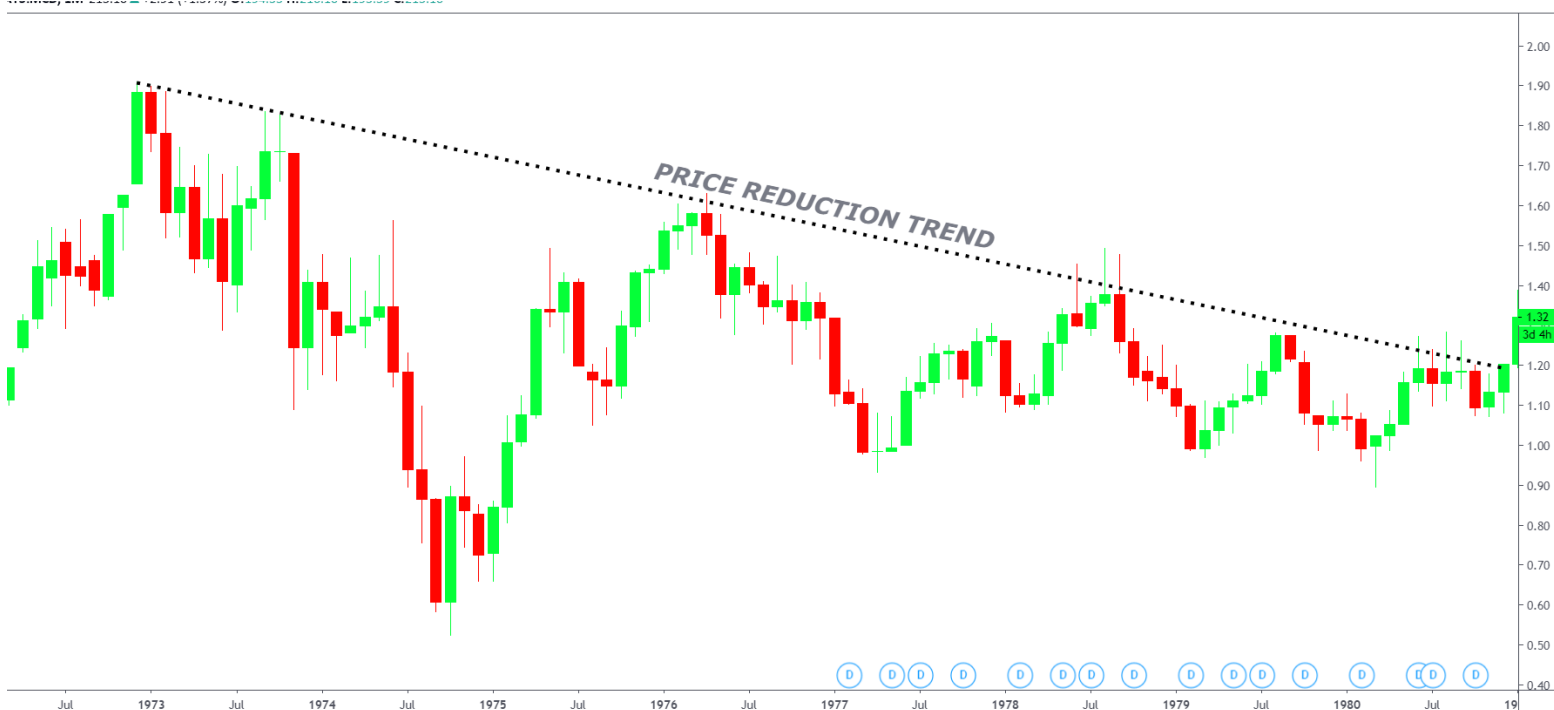
The price of an asset only depends upon the perception of the people i.e. Market psychology about an asset.

# THE MCDONALDS STUDY



The price of McDonald's stock continued to decrease throughout the '70s.

At this time, McDonald's was booming, an increase in earnings, mass expansion of franchises.



Still, the prices decreased.

This means the market, didn't factor the revenues growth to be enough stimulus.

# AMAZON PRICE VALUE DILEMMA

The Price of Amazon took 10 years to come back to where it was in 1999.

Do you think in the time period 2000-09, Amazon was less technologically advanced than in 1999? No.



It's just that, the market perception about Amazon in 1999 was a lot higher than in the later years. Action, not just price.



Prices do not act as support or resistance. The structure and the path taken to reach there makes them a S/R.

## Conclusion.

1. Prices move in trend because there's continuous speculation about the impact of news on the price.
2. Asset prices are determined by how the market determines a news will affect the price, but not by the assets themselves.
3. Prices are made by beliefs of the People who are betting to buy at current prices and exchange at higher price.

The belief of future appreciation makes people buy.



# PRICE ACTION

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It is any representation of price movement, of any financial instrument, on any type of chart and on any timeframe. It is also a reflection on human behavior, as the Market simply represents the choices of traders.

**To get rid of the word salad, any change in price which can be observed on a chart.**

A few Principles.

**1. Prices action study is based on historical patterns.**

**If a pattern took place in the past, it will take place again and that's the direction we bet on.**

If the pattern doesn't repeat, the trade fails and we rely on capital preservation to not get bankrupt.

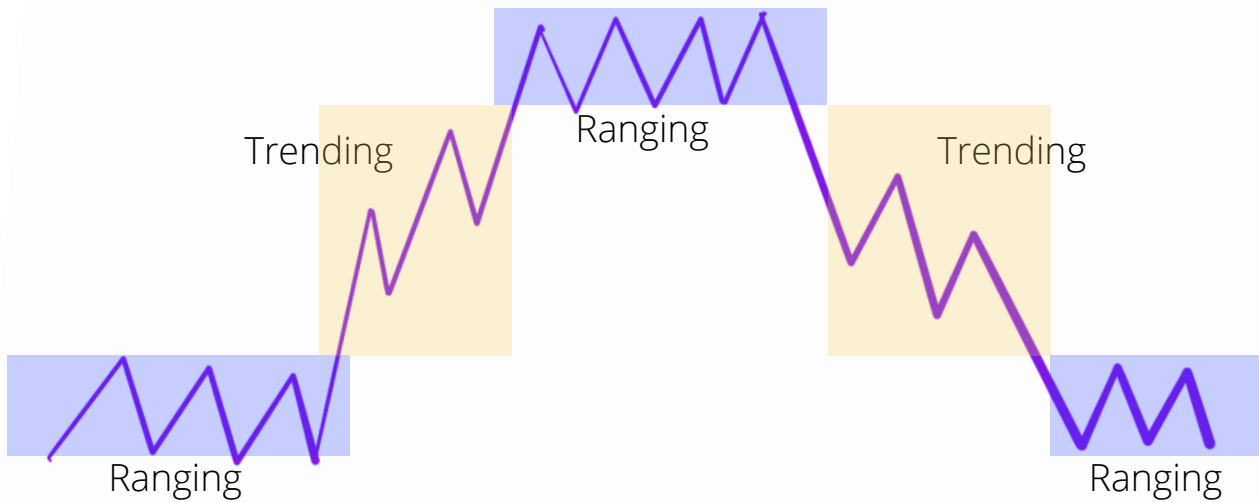
**2. Prices act the same way on all time frames.**

**How you study the 1 minute time frame is the same as 1 month time frame.**

# MARKET FORMATION

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Every market at all times is in a trend or a trading range.



This is what a typical market cycle looks like.

We will study what different kinds of ranging are later.

Now in order to understand how trend takes place, we'll see how a bull market starts.

The initiation of a bull market has 4 parts:

- Breakout
- Pullback
- Base
- Channel



After the breakout, (usually accompanied by huge volume) which can last a number of bars, there is a pullback (many authors say that the pullback bar should go below the low of the second breakout bar, but there is no such set condition.)

The Pullback then leads to formation of a base, and here is where a channel starts.

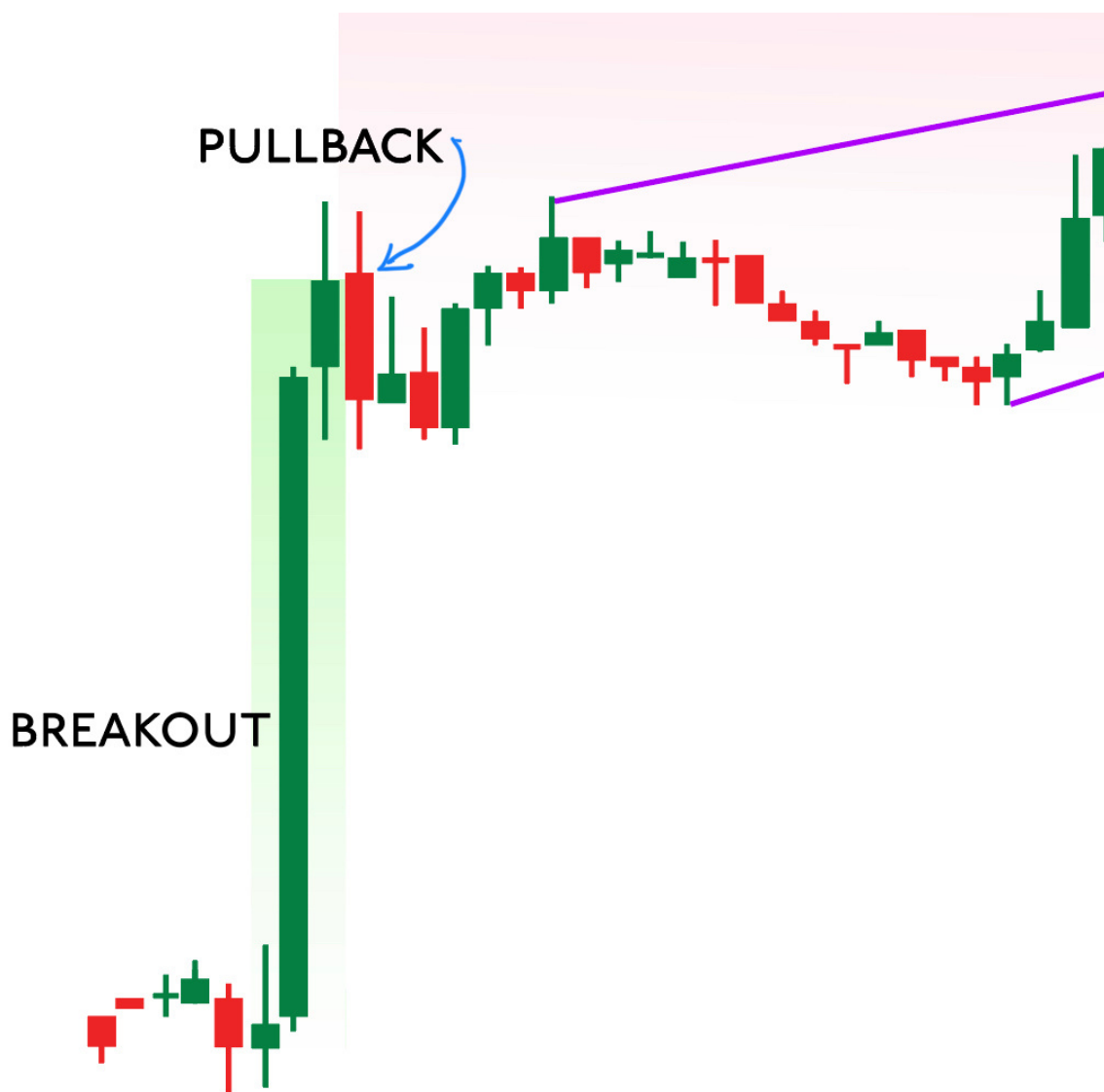
This is a transition from a breakout trend to the channel phase of the trend.

A Channel is a weaker part of the bull trend, but it's still going up. We have higher highs and higher lows. A channel evolves into a trading range.

Once the market is in a trading range, it's in breakout mode which means traders should anticipate a breakout upside (continuation) or downside (reversal).

## Conclusion:

- Breakouts are generally accompanied by huge volume, although most price action authors don't consider volume an important part of PA. It is reasonable to correlate to a breakout to be accompanied by a volume expansion.
- There is likely to be a pullback after a breakout. This is where the market participants take profit and momentum slows down.
- Once the base is established, an entry can be taken with the take profits at the extremes of the channel.



You've previously heard me discuss support and resistance, but just a quick recap. The link to a detailed study on S/R will be linked at the end.

Support is a price below the current price where a sell off is likely to pause and reverse.

Resistance is price above the current price and rally to that level is likely to pause or reverse.



Breakout is a move beyond the support or resistance. Generally, a move out of resistance is called a breakout, and a move below support is called a breakdown.

Example of a failed breakdown followed by a successful breakout.



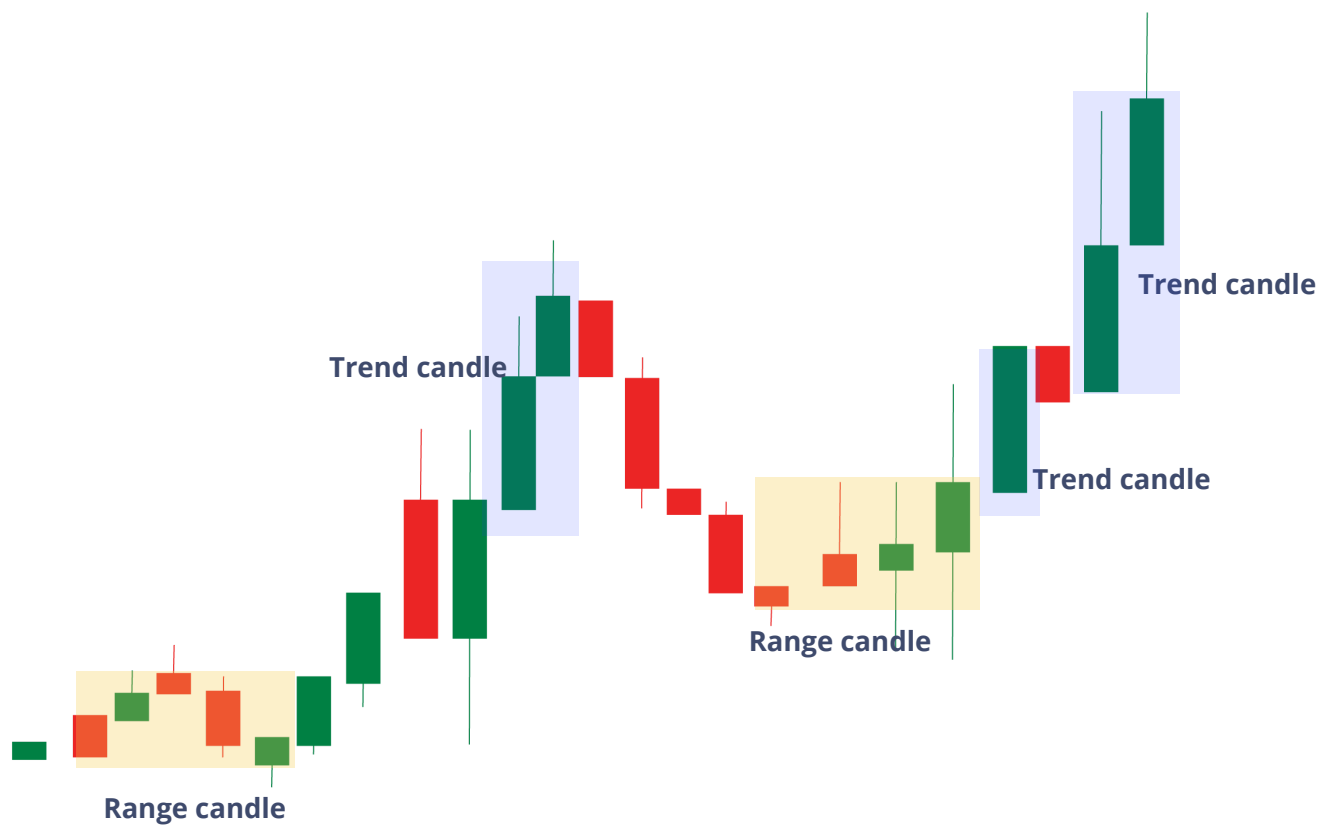
Here we have a big bear trend bar, moving below support.

It's tested the lower support level (prior low) and traders will have to see if it breaks down further or if the support holds. In this case, it holds and it bounces up.

Generally, a candlestick can be divided into two types:

- Trend candle: usually have small wicks and longer bodies. Sometimes they have long tails.
- Range candle: Dojis, smaller bodies, more prominent tails on both sides, 1 bar trading range (especially on smaller timeframes).

Note: Trend bars can sometimes have a long wick in the opposite direction of the movement. For example, if the trend candle is up it can have a long bottom wick.

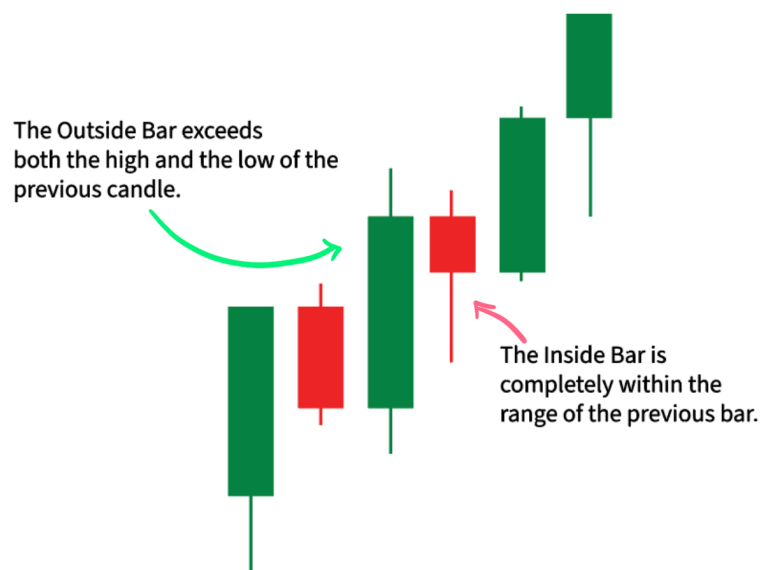


We are going to discuss 2 important candle sticks with regards to Price Action. I want you to understand them correctly. These are important in future lessons, please keep them in mind.

Outside bar: it's high and low exceeds/engulfs the high and low of the prior bar.

Inside bar: it's high and low are found completely within the range of the previous bar.

I want you to understand these very well. We will discuss the trading strategies with these in the next lesson



# BASIC PULLBACKS

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Pullbacks are organic correction in price, which is needed before continuing the trend.

## ABC Pullback in a Bull Trend:

We are in a trend, as we're going up we see a reversal. Then, we form a high, and that's called H1. Then, we reverse again, and then we form another high H2. The moment we break above this, we are supposed to enter a long.

We go up, retracement, H1, retracement, H2, break above we enter.

Example below:



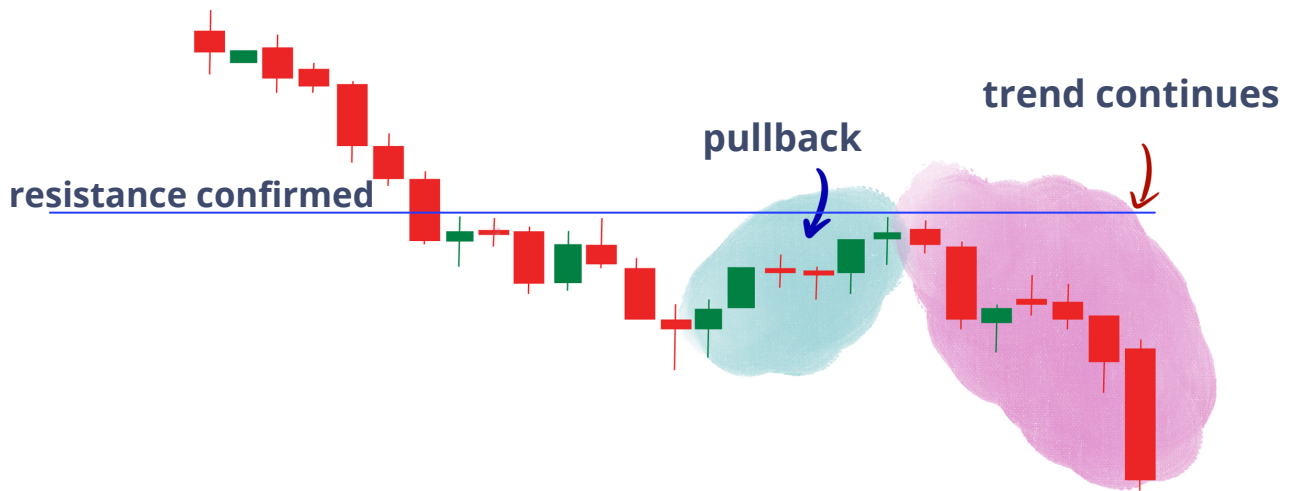
In an up trend, wait for a pull back.

The first high made with a trend candle after a pull back is called H1. Wait for a pull back again and H2.

Once H2 gets above the high of H1, look for a long.



**Minor trend reversals:** usually leads to Leg in a trading range.  
For example, a bear trend has a pullback (minor reversal). And the trend resumes\*



**Major trend reversal:** for example, if a bear trend goes to a bull trend, it's considered a major reversal. If a trend goes sideways and resumes, it's a minor reversal.

This is an example of a major reversal, looking at the large breakout far above the bear channel.



This is how the market bottoms and reverses, please remember these phases for future study of Market Reversals.

In above we have just understood Reversals, major Reversals and pull back.

We haven't learn what a break of trend and change in trend means and how to determine it.

We will learn these in the next lecture.

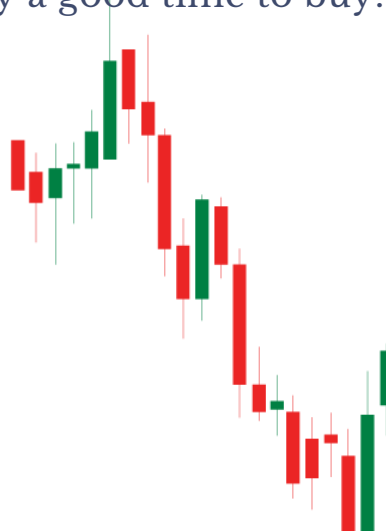
**Setups** are made with the use of a chart pattern. It makes one believe there's a profitable trade.

The **Entry bar** is the bar when you enter the trade.

The **signal bar** is the bar before it, and it's the reason or "signal" one took to enter the trade.



When placing a trade, we need to pay attention to **context**, which is all the bars to the left of the current bar. For example, if there's a bear trend, is this really a good time to buy? It's more likely the reversal will fail.



Remember to trade always in the direction of the current trade, may it be long or short.

For example, the market is always in long (bull trend).

## Let's put these concepts together.

Here, context is bear trend, but evolving into a Wedge Bottom, and Head and shoulders bottom. It is evolving into a trading range, and may reverse soon.

Lower highs lower lows, series of 3 big bear bodies, there is a tail at the bottom of the bar which indicates a weakening trend.

Another big bear breakout, but the close of this bar is higher than the low of the previous breakout. Bulls are buying higher lows and they're making money. This means the bear channel is evolving into a trading range and traders will look for trend reversals.



We have a tight channel, and we have a bull trend bar breaking into the high of the channel.



We have a low, a lower low, and the bears are trying to reverse back down but this has formed a higher low, this set up is a Higher Low major trend reversal with the potential of reversing to a major trend.

# THIS IS THE END OF INTRODUCTION TO PRICE ACTION.

We have discussed the absolute basics of price Action.

If you do not understand something, there is absolutely nothing to worry about.

The aim of this pdf was to get you familiar with some theory, pricing, psychology of price and how candles can be studied.

Do not stress too much.

Things will be a lot clearer in the next PDF if it isn't already.

If you didn't understand anything, don't think too hard and quickly read things again.

THERE IS ABSOLUTELY no need to memorize anything.

The next PDF will come soon concentrating on Market Structures.

Thank you for reading.

Love,

EmperorBTC.