



Soulz's Playbook

Trading Manual

2022

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1. Candlesticks

a. Foundation

What charts are we going to focus on, or what kind of chart do I use daily?

Chart formed by candlesticks:

- For each time interval, a candlestick chart uses a bar (called the “shadow”) and a rectangular box (called the “body”).

For a certain time interval:

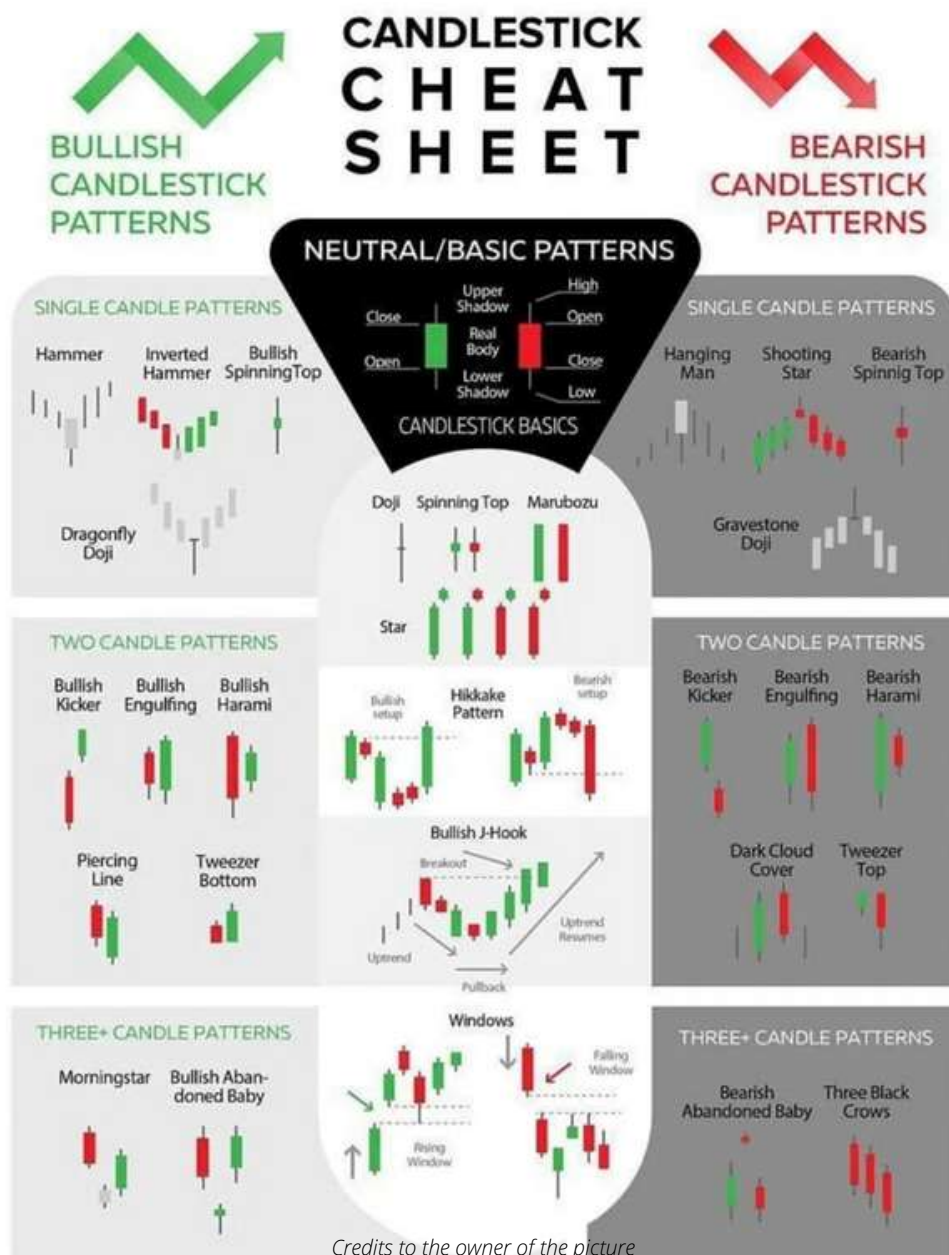
- The opening and closing prices define the dimensions of the body
- The maximum and minimum prices of the considered period define the dimensions of the bar.
- The part of the bar above the box is called the “upper shadow”.
- The part of the bar below the box is called the “lower shadow”.

It is important to clarify:

In my charts I use **black candles as bearish candles** and **white candles as bullish candles**.

1. Candlesticks

b. Candlesticks Patterns



Study and remember this cheat sheet

On the **left** of the cheat sheet you have **bullish candlestick patterns**, on **right** are the **bearish candlestick patterns**, and in the **middle** of the cheat sheet are the **NEUTRAL candlestick patterns**.

1. Candlesticks

c. How to Use Them?

Every trader has his own system and time frame in which he operates.

Candlestick patterns will always be more reliable on higher time frames. I usually operate on **4H - 1D**, for a **spot** position (mid-long term). If I want to **swing trade**, I focus the time frame on **1H**.

Candlestick patterns will be **more effective and reliable** when they occur on **support or resistance**. That's why we can only use Candlestick Patterns are confluence and not the basis of our trades.

For example, a **bullish hammer on a support** on **4H - 1D** when the *RSI* is oversold, will mark as a buy. Then, a **bearish engulfing candlestick** on a resistance on **4H - 1D** and *RSI* is overbought will mark as a sell.

The **Time Frame** you are going to use depends on yourself, in which time frame you feel more comfortable. But I really encourage you to study that cheat sheet, and you will find the patterns easier.

2. Trends

It must be determined as soon as possible when a trend starts. For this we must look at the market structure.

An **uptrend** will start when **HH and HL** are formed on the chart, while a **downtrend** will start when **LL and LH** are formed on the chart.

HL means “Higher Low”, and **LL** means “Lower low”.

HH means “Higher High”, and **LH** means “Lower High”



2. Trends

Trends are fractals, the patterns repeat themselves regardless of the time period considered.

The long term trends are affected by the next shorter time trend (indeed, the shorter time frame trends often give an early warning about longer trends)

The definition of a trend is simply the direction that the Price of an asset is going to follow. We need to understand that the “trend” indicates a **direction** of the Price. It is not a line that the Price follows.

When the trend is not clear, that is, neither down nor up, and it moves between support and resistance, that area is called **“trading range”**

3. Trading Range

We will be in a trading range when the new peaks and low points of the prices are at approximately at the **same height as the prior peaks and points of the previous lows.**

Trading ranges usually occur after a very long uptrend or downtrend comes to a temporary standstill. In fact, “trading ranges” are also called “consolidation zones” or a “congestion area”.

The trading range is characterized by prices staying in a specific range over time. The price of the asset tends to fluctuate between support and resistance.

A “trading range” or transaction area is an area where both the resistance zone and the support are relatively close and the price oscillates between them until, at some moment, momentum will break one of those zones.

This raises two possible strategies:

1. Make transactions within the “trading range”.
2. Carry out transactions when the break occurs.

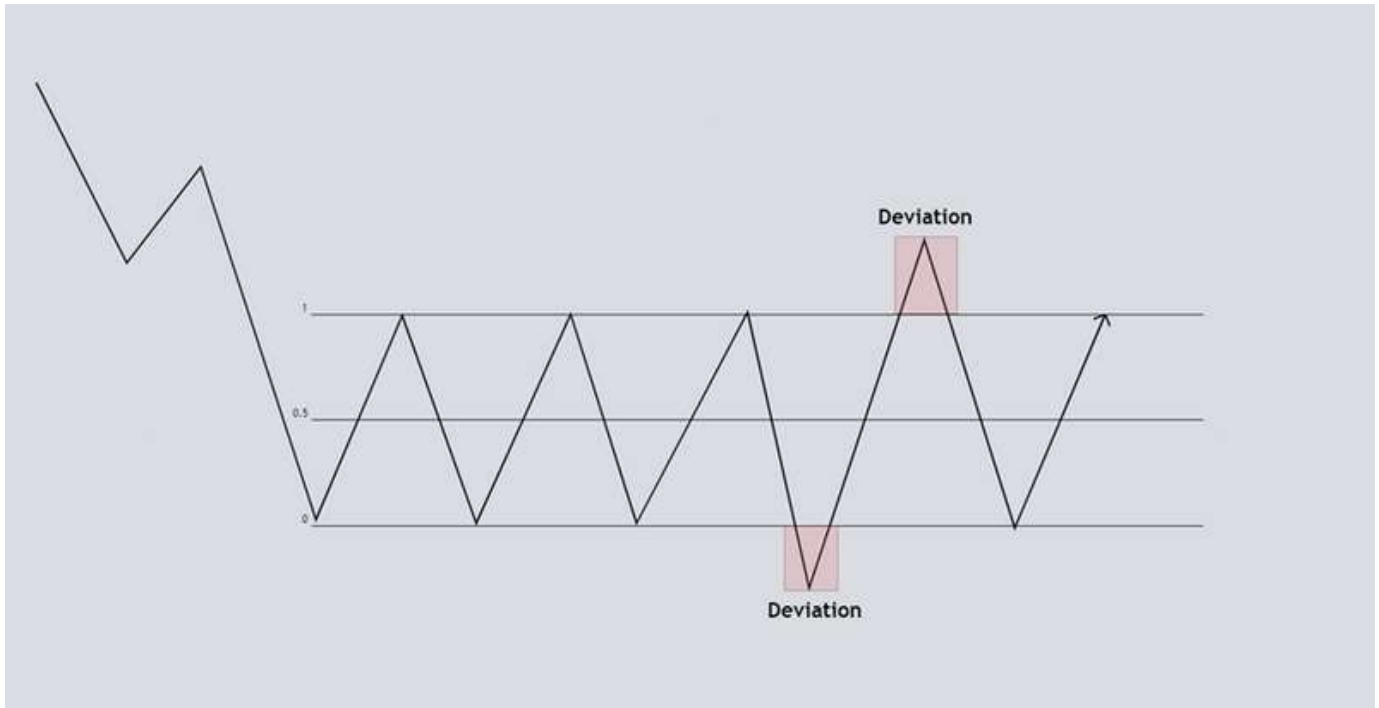
We will search for entries at the bottom of that trading range (at support), in order to sell at resistance. Indicators will help us to know when the price is overbought or oversold in that trading range, indicators we will use for that:

1. Relative Strength Index (RSI)
2. MACD

3. Trends

Another thing to note is a **Deviation**, it is when Price **deviates or goes out of the Range** and then comes back to the original Trading Range

Examples of a Range:

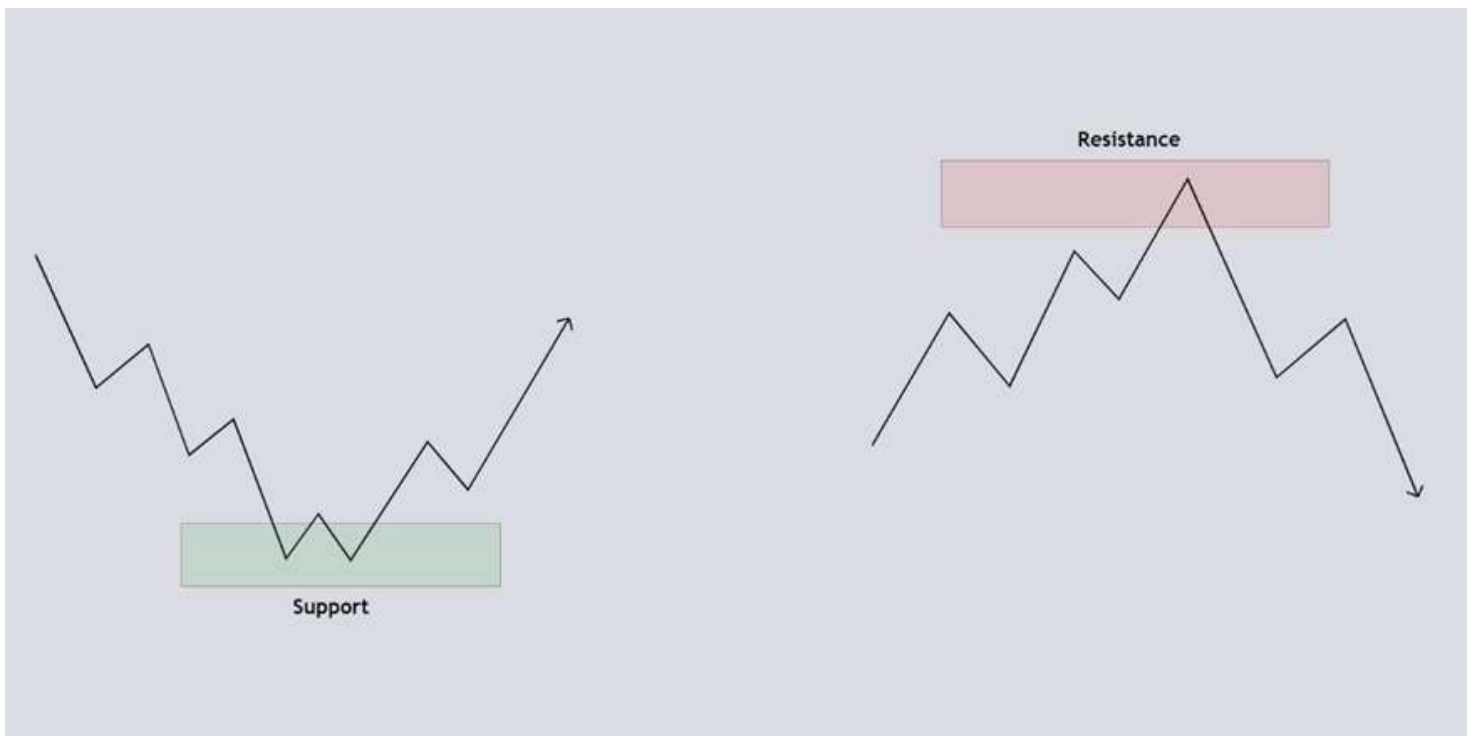


4. Support and Resistance

Prices in the market and the market itself, move by trends. There are two types of trends as you already know, bullish and bearish.

Support, or a support level, refers to the price level that an asset does not fall below for period of time. An asset's support level is created by buyers entering the market whenever the asset dips to a lower price.

Resistance is just the opposite of support, it represents a level at which the pressure to sell beats the pressure to buy, then the **price falls down** from that resistance.



4. Support and Resistance

You need to understand the concepts of resistance and support. In an uptrend each low must be higher than the previous one. If, therefore, we see that in this upward trend the price reaches the previous low, it can be an indicator that this upward trend is coming to an end, therefore there may be a change in the trend.

If support for this current trend is lost, the trend structure will turn bearish.

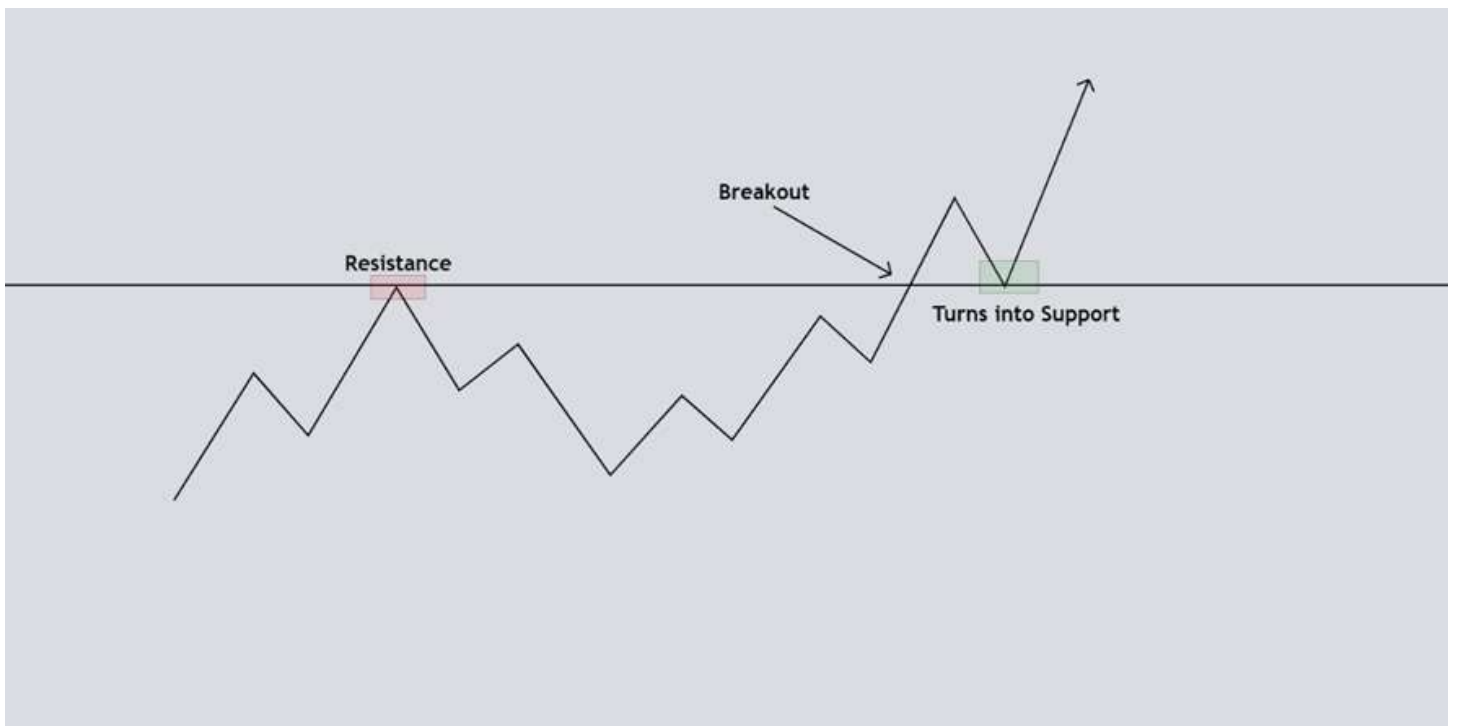
It is necessary to mention that every time a resistance is retested (the price touches the resistance but does not break it), it becomes **weaker**. That is, the more we touch a resistance, the easier it will be to break it, and for the price to exceed it. This is similar with support, the more times the price retraces to that support, the support will be **weaker**, and with a tendency to lose it.

4. Support and Resistance

a. Support and Resistance Flip

In the image below we can see a flip from resistance to support. When the resistance is broken, the price retraces to that previous resistance and **establishes it as support**, it is a good opportunity to open a **LONG**. Never open a position before price establishes it as support.

If we open a position before establishing as support, it may not break the resistance, or it may break it and go back to the same point or even lower.

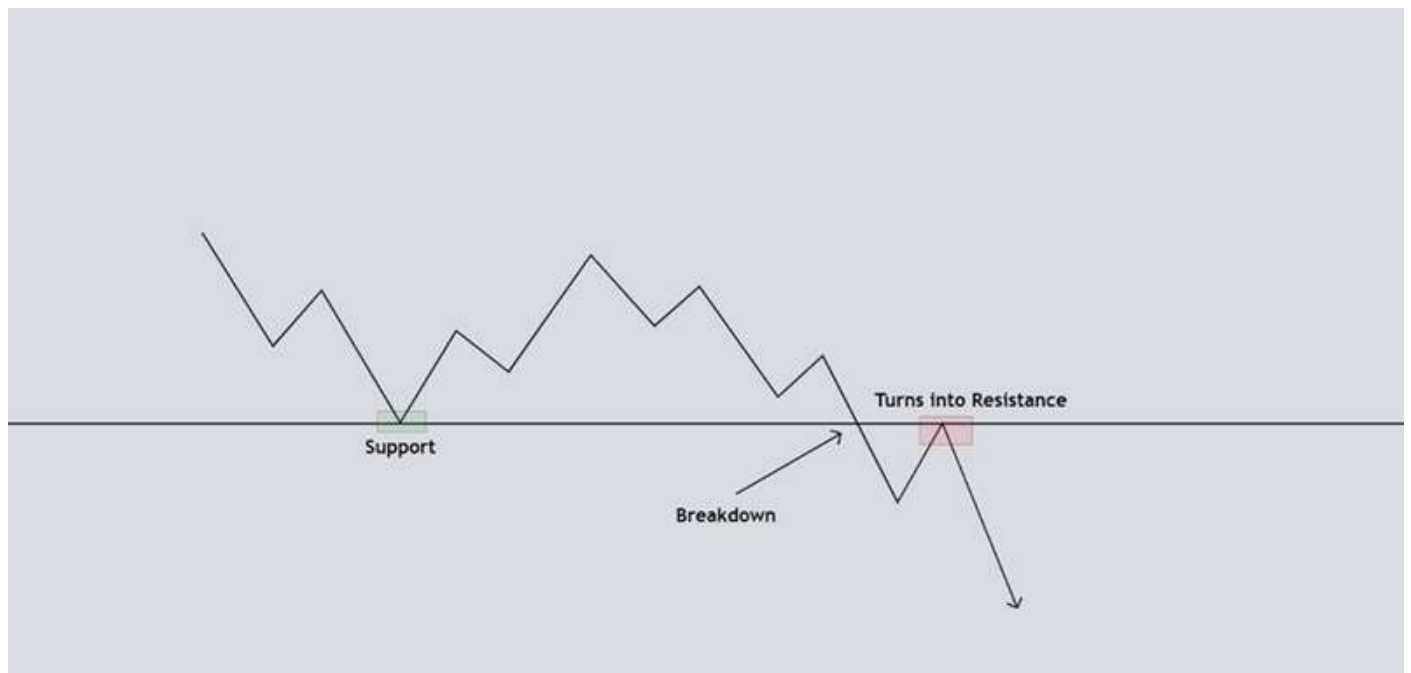


4. Support and Resistance

a. Support and Resistance Flip

In this case, we have our support, which has been tested, and we lose it. When the price tries to re-establish itself at that support (now resistance since we have lost it), as you can see the price goes back down.

Therefore, our support now becomes a resistance. At the moment of retreating in that resistance, having no buying force, the price falls.



Therefore, support and resistance are a kind of psychological barrier stored in memory, that slows price movements.

And for this reason, we assume that the prices, probably, will stop when they touch those local minimum and maximum points (or zones).

4. Support and Resistance

To determine Support and Resistance:

Draw a horizontal line through the switch points (either low points or peaks) that are relevant.

The greater the number of times a certain price level has served to stop price falls/rises, the stronger the support/resistance will be in the future.

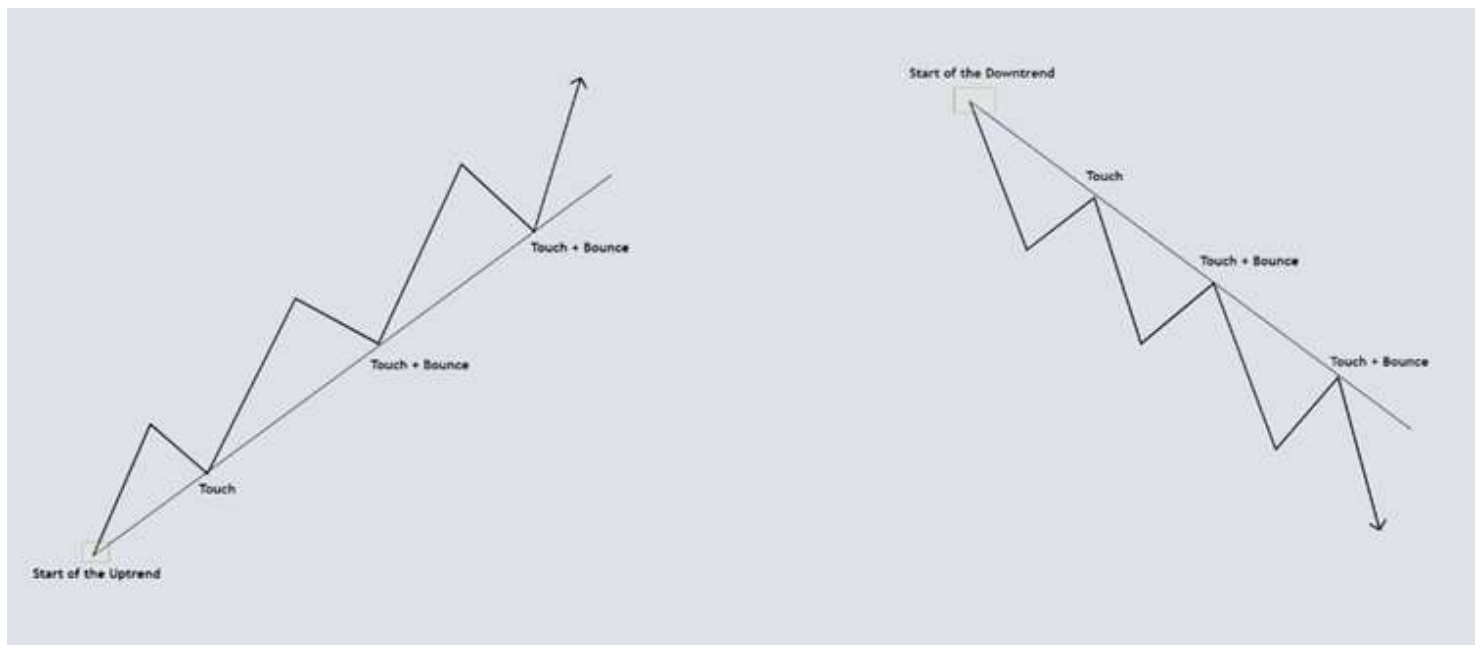
If the price enters the support or resistance zone and exceeds the lower or upper boundary of the zone, it's called a "breakout".



5. Trendlines

It is the oldest and simplest method of determining the trend of prices. To draw them, it is only necessary to draw a line that passes through two local minimum prices or two local maximum prices.

In an uptrend, the trendline joins the lows, and in a downtrend, the peaks.



5. Trendlines

a. Downtrend and Uptrend

An uptrend or downtrend line, is a line that passes through what would be moving support/resistance. Remember that our purpose is to detect signs of change in trend. In the case of trend lines, what we are going to look for are prices that break these lines.

It is necessary to clarify that in the trend line, the more it extends in time and the more times the trendline is touched (without overtaking) by prices, will be the signal generated when finally the prices break the line.

Trend lines are not an exact tool; it must be taken into account that deviations may occur which may not be permanent.

5. Trendlines

a. Downtrend and Uptrend

Examples:

Uptrend Trendline



Downtrend Trendline



5. Trendlines

Accelerating Trends:

Local lows or highs can join by a convex or concave curve, instead of with a straight line.

This type of trend line occurs when the prices fall or rise very fast and occurs at an ever-increasing speed. It's associated with speculative bubbles or financial panics.

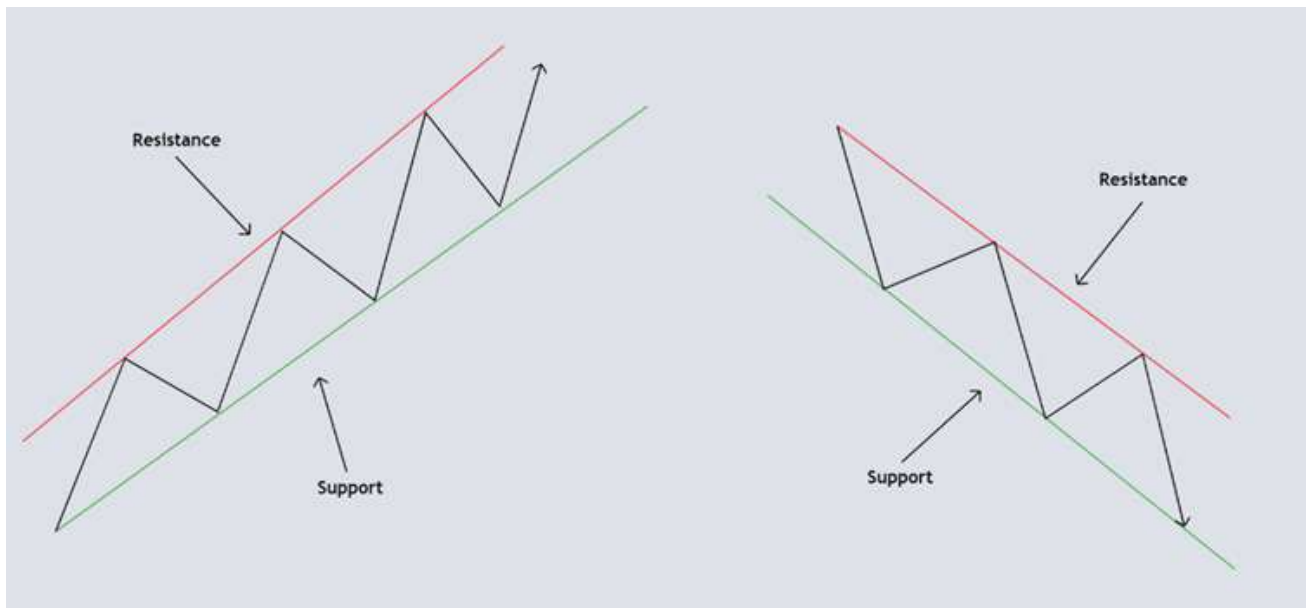
Decelerating Trends:

Fan lines (decelerating trends) are contrary to a trend accelerated.

They are a set of normal trend lines that are being successively broken, without there being a clear change in the direction prices will take.

5. Trendlines

b. Channels



To build a channel, **join the peaks or low points**, so that price movements are contained in the area within the channel.

The upward or downward trend lines are drawn joining low points or peaks, so when prices rise or fall they remain above or below the trend line.

So, we can have a bullish or bearish channels.

When the peaks in the channel are getting lower, this could indicate that a trend reversal is about to occur.

6. Retracements

A retracement is a small counter-trend within a trend. For example, in a strong uptrend, you have a retracement when the rise in prices is periodically interrupted by downward corrections.

In an uptrend, the start of a pullback/retracement is always a resistance and the minimum recoil level is always a support.

A retracement is, in fact, a trend in itself, but of shorter duration than the general trend in which it is part of.

A **pullback/retracement/throwback** can be an opportunity for those investors who missed the opportunity to join the trend at one point.

Now, given the drop in prices in a uptrend, we could take positions in the trend, with a more profitable price.

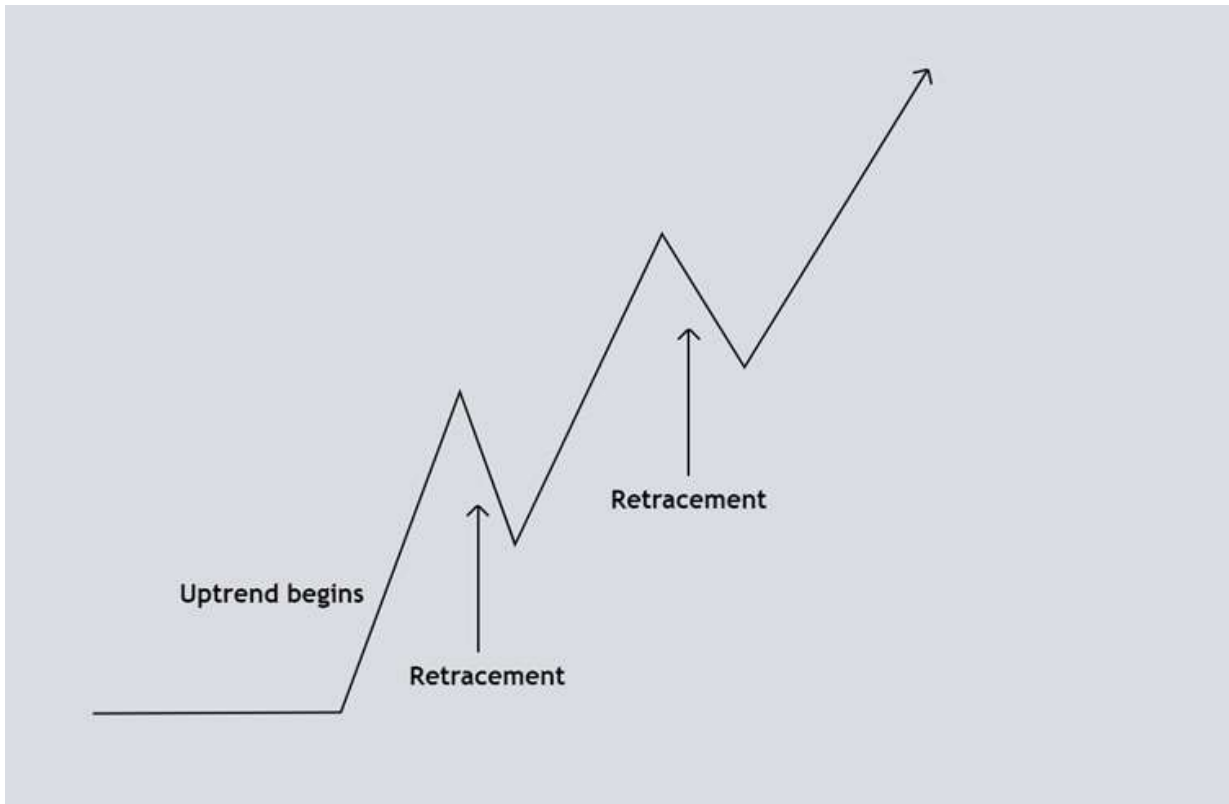
Bounces are a variant of retracements. There are two types:

Pullbacks: After a breakout to the downside, occurs a “pullback” when prices return to temporarily stand above the broken supports.

Throwbacks: After a breakout to the upside, occurs a “throwback” when prices return to momentarily fall below the broken resistances.

6. Retracements

Example:

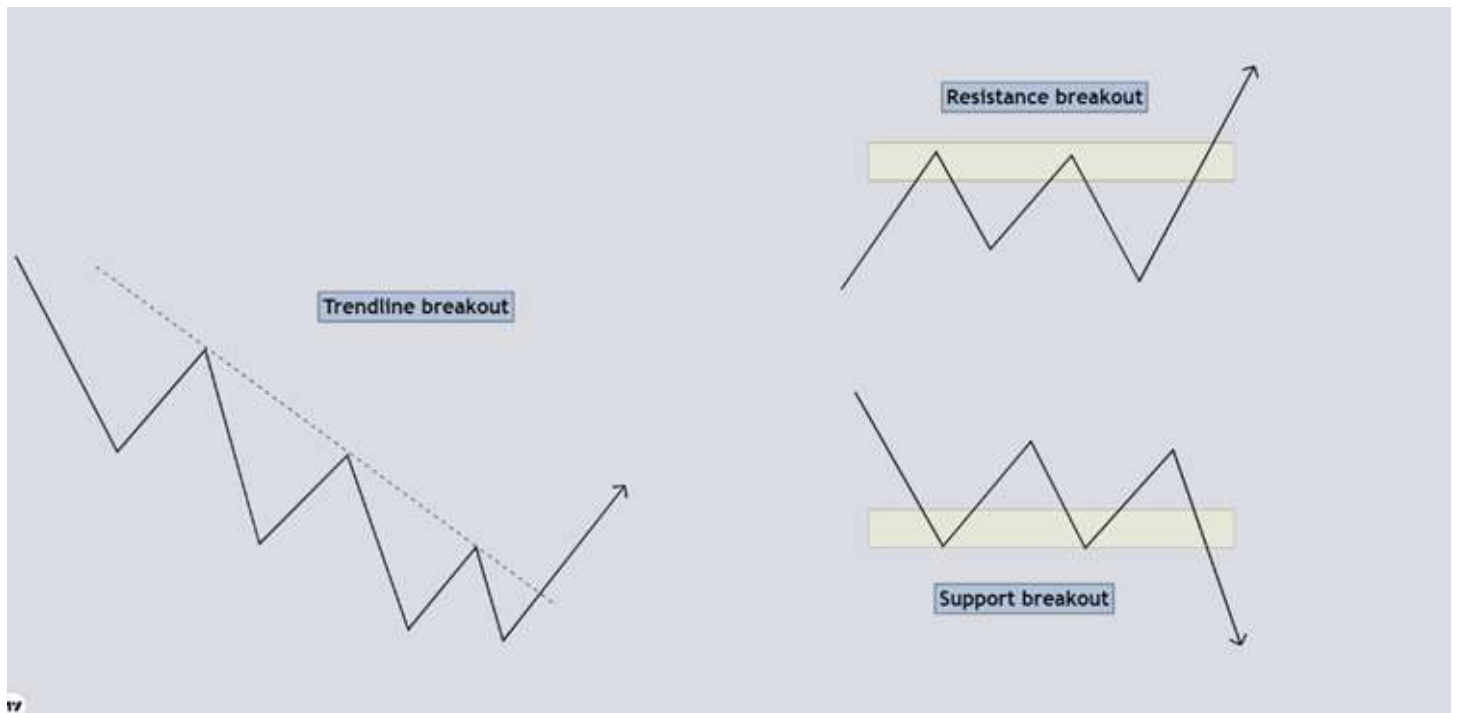


7. Breakouts

A breakout occurs when a price “breaks” a support or resistance level or zone. And also a breakout occurs when a trend line is broken, breaking it is a signal that the trend may be running out.

A breakout usually signals that a significant change in supply and demand has occurred and that a new trend may be about to start.

However, false breakouts are **frequent**.



7. Breakouts

Example:



How did I predict this bullish rebound?

First of all the volume was very low, look at the previous volumes. The price remains above the support, and the candlestick at the time was forming a hammer. The MACD indicator marked us a purchase (green dot), as well as the RSI marked us purchase, bouncing off an "oversold" level. It is necessary to mention that the price returns to its market structure, that is, the price returns to levels that have previously served as supports, also compare the volumes prior to that support, and as you can see, the volume grew dramatically once the price bounced off that support.

7. Breakouts

I show below the movement of the price after the purchase:



Sign of a possible bullish rebound: Prices oscillate low or in the support zone, and the volume grows with price increases.

8. Stop Loss

A stop is a buy/sell order when a specific price is reached. A sell stop order or also called stop loss, is an order to sell an asset at a specific price below the actual price. The order is executed automatically.

Therefore, exit stop orders (SL) are used to:

- Cover from further losses (protective stops).
- Protect profits so that they do not become losses.

Stops should be placed based on the price action of the relevant asset and the levels where breakouts are likely to take place.



8. Stop Loss



The entry of this position would be after that big candle that bounces on support, since we start drawing the R:R. As you see, the price didn't hit our SL before hitting our TP.

Establish your SL in previous supports.

8. Stop Loss

We can also set up stop loss on SHORTS, not only on LONGS, for example:



Credits to the owner of the picture
@tradingous

8. Stop Loss

Although we can also use stops to buy, therefore, a stop is also a buy order.

Entry stop orders are used, for example, to warrant buying the asset if the resistance level is penetrated into a break.



This is a \$SLP chart from a few months ago, as you can see, the red lines are important resistances. Sensing that the price would reach the second marked resistance, I would place my stop buy at the first red resistance (once we have established that resistance as support) in order to take profits at the second resistance.

8. Stop Loss



Look at the volume we had after breaking that first red resistance, if we had our stop buys on that resistance, we could have earned a +40% in 1 week. That's the importance of stop loss and a stop buy.

8. Stop Loss

Although there are also some risks associated with stops. Stop orders are defensive, but they shouldn't be used without sufficient caution.

If we place stops too close from current prices, you may be taking a big risk.

A simple example, which has happened to all of us: We buy an asset and place a stop order (loss) at a price, very close to our purchase, the price of the asset falls, and the stop loss is triggered and the asset is sold. Then, the price of the asset rises above the purchase price.



This is an example in 1H on \$MATIC of a stop loss hit. We place the stop loss at a previous support. The price falls to that support and loses it, and therefore our stop loss is activated, liquidity is obtained to boost the price and it reaches our target.

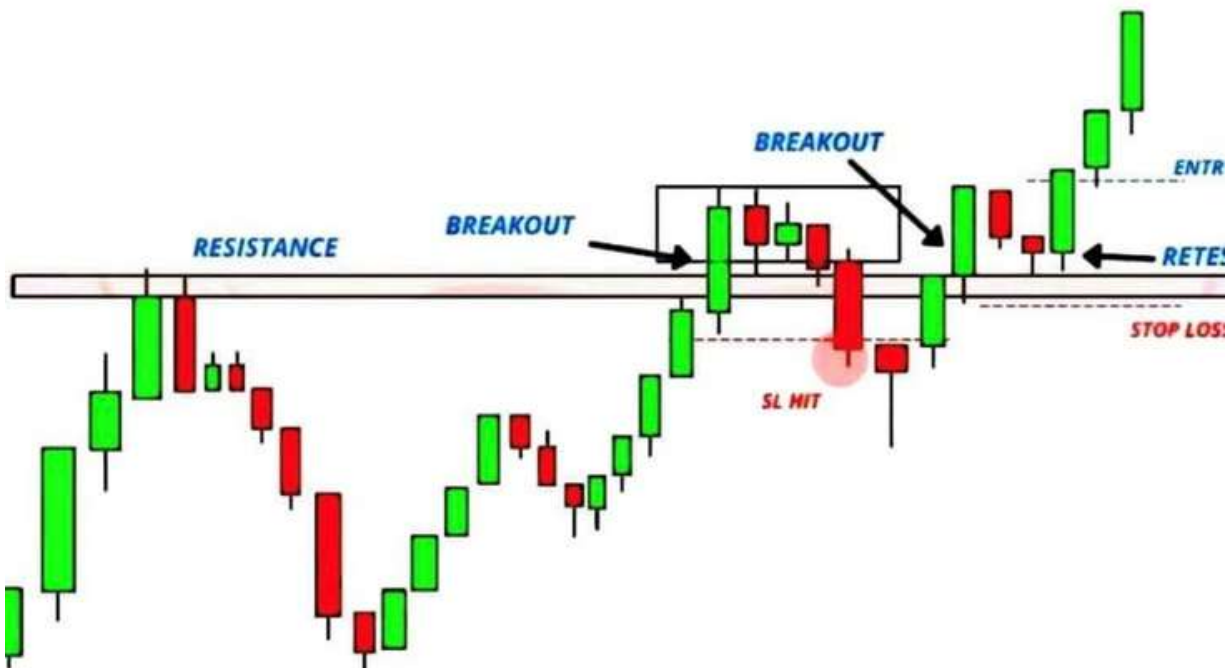
8. Stop Loss

Here you have another example of SL hit and subsequent rally.

STOP LOSS HUNT

BEST TO AVOID THIS SITUATION :

- *Always wait for retest.*
- *Wait for confirmation after retest.*
- *Always trade with stop loss.*



As you can see, the SL got hit, why? Because we didn't establish that resistance into support. When the price establish that resistance into support, we can then establish our SL under the support, and it will be a much safer entry.

8. Stop Loss

The importance of Stop Loss:



In this example of \$LUNA, my entry would be where the green arrow is marked. The stop loss is established on a previous key support. As you see, we respected that support before we bounced and fall again.

This is the importance of the stop loss. If we don't have it, the price will fall off a cliff and we will be late to cut losses. Price dropped from 62.57\$ to 48\$ in 2 days.

8. Stop Loss

When trading with stop loss, your losses are limited, it is about having an invalidation point. Liquidity is the most important thing to preserve.

Always when entering an asset, I recommend accompanying the order of buy with an exit stop loss. The reason behind this is to protect capital against possible losses.

The idea is to place the protective stop order at a level where it's known that with a high probability the trend would change. It's foolish to think that any investment will be profitable. The risk always exists and some investments can generate large losses.

This type of order allows us to set the level of capital risk that we assume in the transaction.

8. Stop Loss

The risk of changing Stop Orders:

Its function is to protect the capital, stop orders should never be changed to establish a new price that moves away from the trend of the asset, because of an emotional decision.

If we place a stop order at a level that, given the current trend, is reasonable, the temptation to cancel the order is less. Otherwise, by canceling and changing it, we would be being undisciplined and letting ourselves be carried away by emotional pressures, for example, the refusal to admit our own mistakes, or wanting to recover what was previously lost.

We will change the stop order when we see significant new support and resistance forming in the development of price action.

8. Stop Loss

Trailing Stops:

This type of order can be used to avoid potential losses in profits obtained. They are necessary because, in a trend, support and resistance can get out of date quickly.

If the stop loss remains at a certain level, the price could drop significantly (with the consequent loss of profit) before the protective stop loss order is activated. Therefore, in that case, we could change the order to benefit the trade. Set our stop loss at a higher key support so as not to lose any profits made.

9. Moving Averages

The use of moving averages helps to identify trends and changes in trend, the purpose of a moving average is to smooth the evolution of prices, it eliminates short-term oscillations.

Moving averages are used to eliminate or smooth out the effect of unpredictable movements, making it easier to see the trend.



9. Moving Averages

a. SMA

SMA (Simple Moving Average)

The SMA is responsible for averaging the movement in the investment markets to identify trends in the short, medium and long term. There is a correlation between the length of the averaging period, the strength of the trend line and the buy/sell signals.



Simple Moving Averages

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9. Moving Averages

a. SMA

Which simple moving averages we should pay attention to in the Short Term?

-7 days

-20 days

-30 days

For a Long Term perspective:

-50 days

-100 days

-200 days

9. Moving Averages

b. EMA

Another very important moving average very important is the Exponential Moving Average (EMA), it is similar to the SMA. But EMA is more sensitive to the price movement, is more exact. It will help you identify trends earlier than SMA.



EMA's are used to determine trend direction and then, trade in that direction. They are mainly used to spot Resistance and supports.

As you can see in the chart, the blue EMA acts as a resistance, look the circled red area at 5.2\$

Also it acts as a support as you can see. Bounces on 4.3\$ (which EMAS also marks as support)

9. Moving Averages

b. EMA

When we find a rising EMA, this one tends to support the price action. But, on the other hand, when we find a falling EMA, this tends to provide a resistance.

It's important to clarify that Moving averages are "lagging indicators". They are not designed to identify the exact bottom or top on a market structure, they will help you trade in the direction of the trend but with a **delay** on the entry and exit points, because like I said, it is a lagging indicator.

The most frequent EMA'S to use are: 20/50/100/200.

10. Patterns

a. Do Patterns really exist?

Some academics and traders doubt the existence of patterns; for them, prices move at random, or at least indecipherable and unpredictable.

However, in my humble opinion, without ever forgetting that there is the probability of being wrong, and bearing in mind that the past patterns may not be profitable in the future, pattern recognition can be a **another tool**, which in combination with others, allows us to analyze changes in the market and make profitable investments.

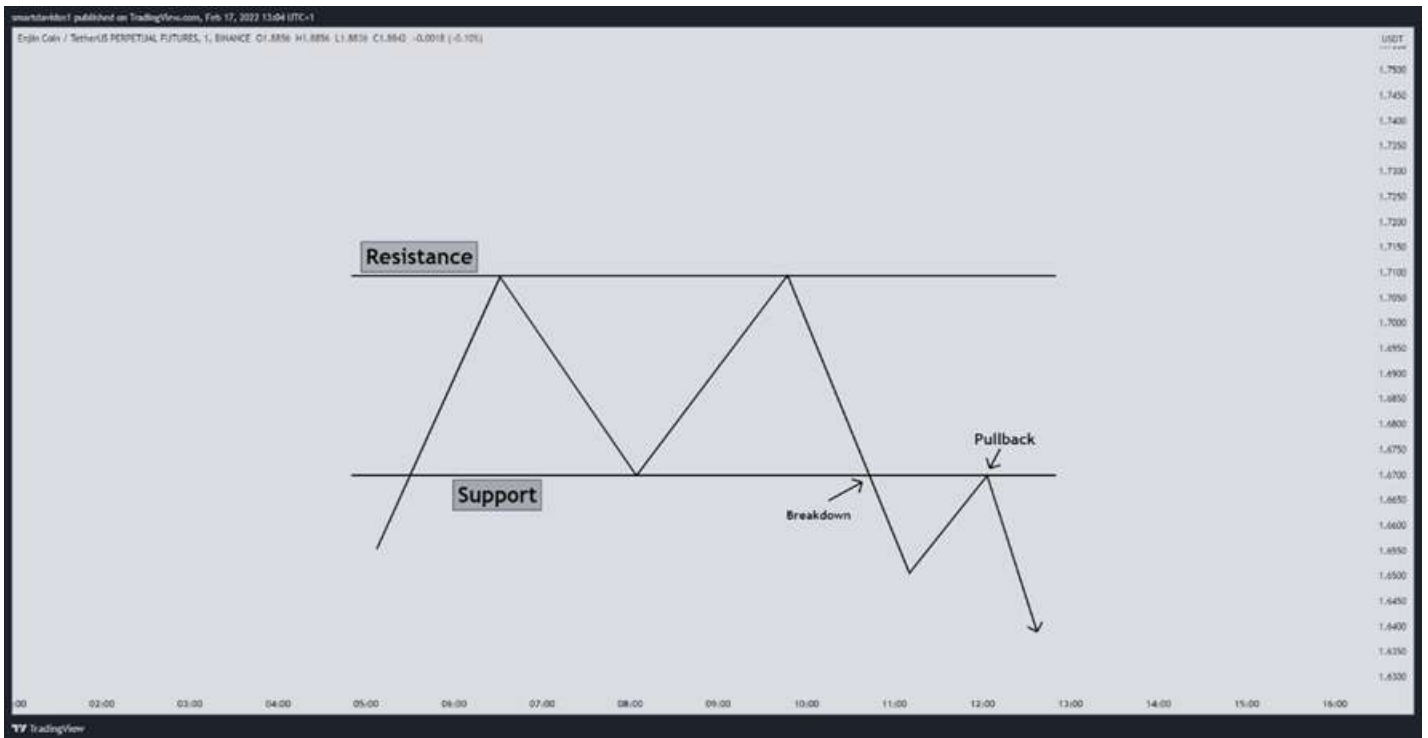
My suggestion is to use patterns as a **confluence** and NOT the basis of one's trade as trading solely based on patterns is not profitable in my opinion.

10. Patterns

b. Common Patterns

The patterns are obtained by combining the resistance and support and trend lines.

A pattern is simply a result of the movements of the price of an asset that is bounded, superior and inferiorly, by a line or a curve.



The entry into the price of the channel is made from below, but when making two maximums the price loses the support and returns to a price equal to or less than the one that entered the channel.

Looking at this picture, we can see that you could take a long position when the price enters the channel, and sell at the resistance. And then a short position when the price reverses and pulls back at the resistance.

10. Patterns

b. Common Patterns

Patterns can occur on any chart, regardless of the length of the period considered.

The bounces ("pullbacks" or "throwbacks") occur when prices break the pattern (down or up) and then return to a level (above or below) the breakout point.

One way to classify patterns is between **continuation patterns** and **trend reversal patterns**.

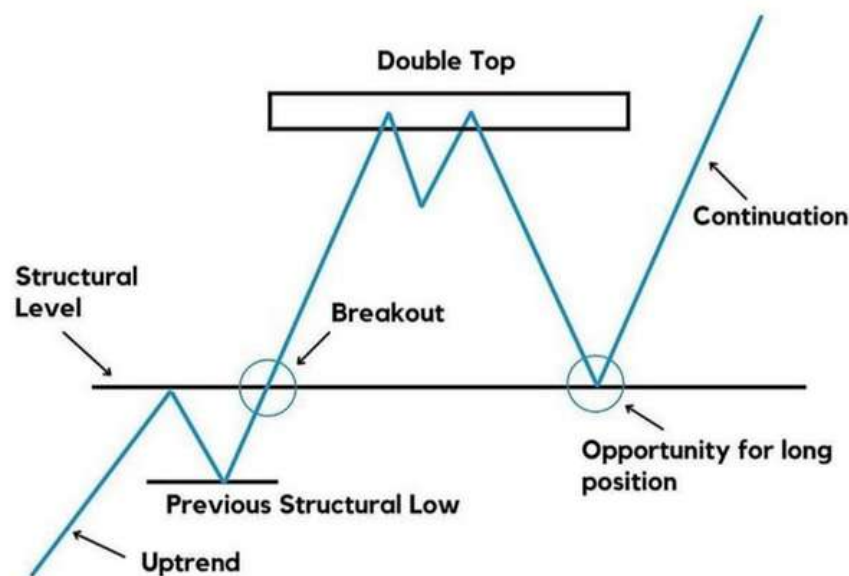
10. Patterns

B. Common Patterns

1. Double Top

Double formations (double top and bottom) is one of the simplest patterns.

HOW TO TRADE A DOUBLE TOP



- A double top is formed by two peaks and a low point.
- The initial price enters the pattern from below that low point, and the output signal occurs when the price break below the structural level.

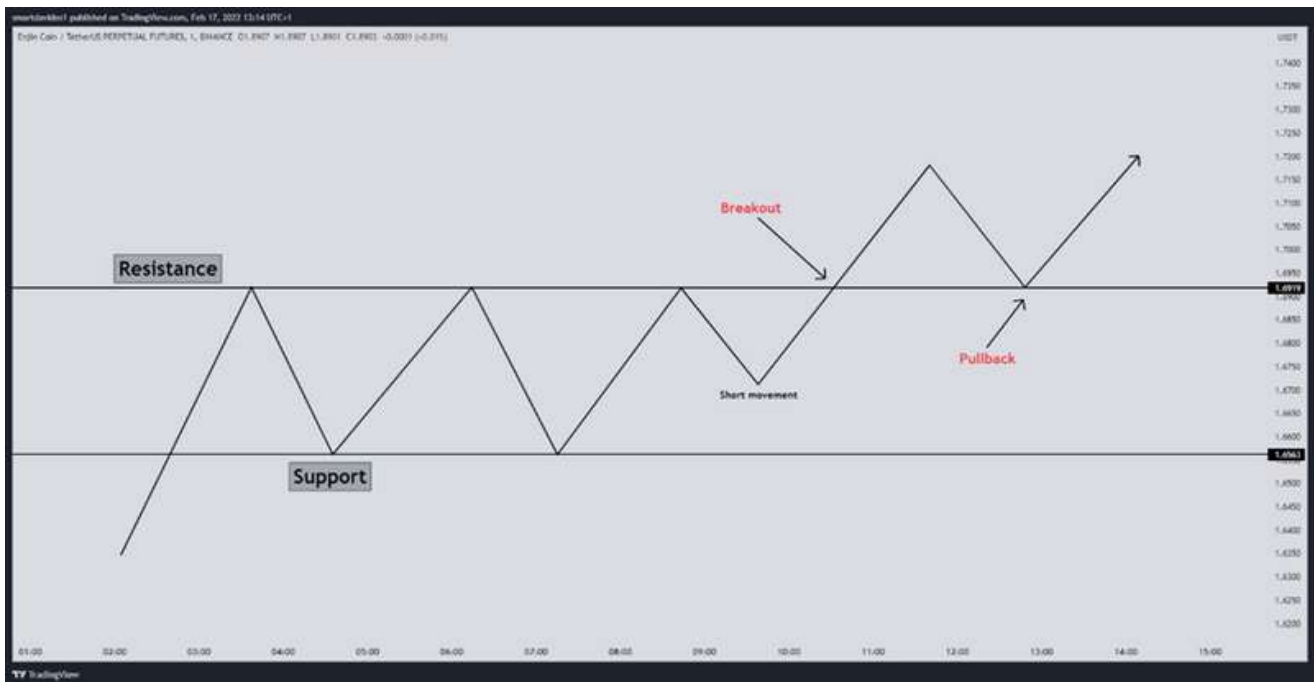
Rules before a double formation:

- Don't buy before the breakout occurs.
- Make sure there is no consolidation zone (it is say, a flat trend) around the pattern.

10. Patterns

B. Common Patterns

2. Rectangle (or range or box of transactions)



Prices don't always touch both breakout zones (the resistance line and support), and this could be a sign of the direction it could take the final break (as you may see in the image from above)

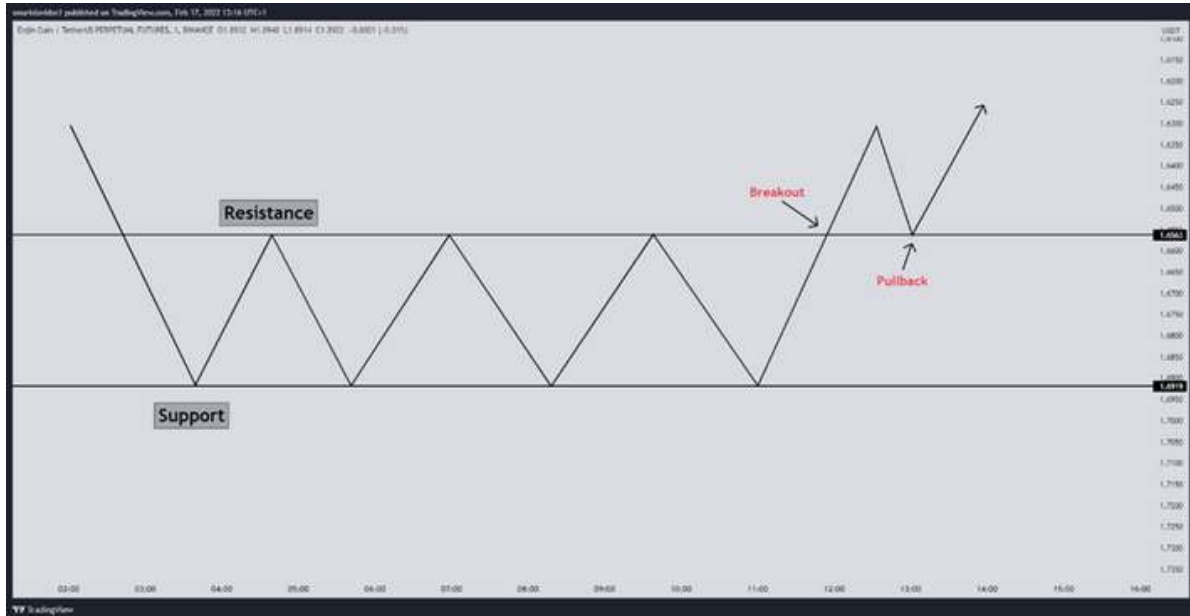
About 40% of the occasions, the price bounces towards the levels below (throwback) or above (pullback) the breakout level, which provides a new opportunity to join the trend. Depending on how the entry and exit of the rectangle are, this will tell us if it is a continuation or trend reversal pattern.

Rectangles are often continuation patterns; Two out of three rectangles are usually continuation, so the direction the breakout is likely to occur, will be the same as the trend prior to the chart formation.

10. Patterns

B. Common Patterns

3. Triple Top/Bottom

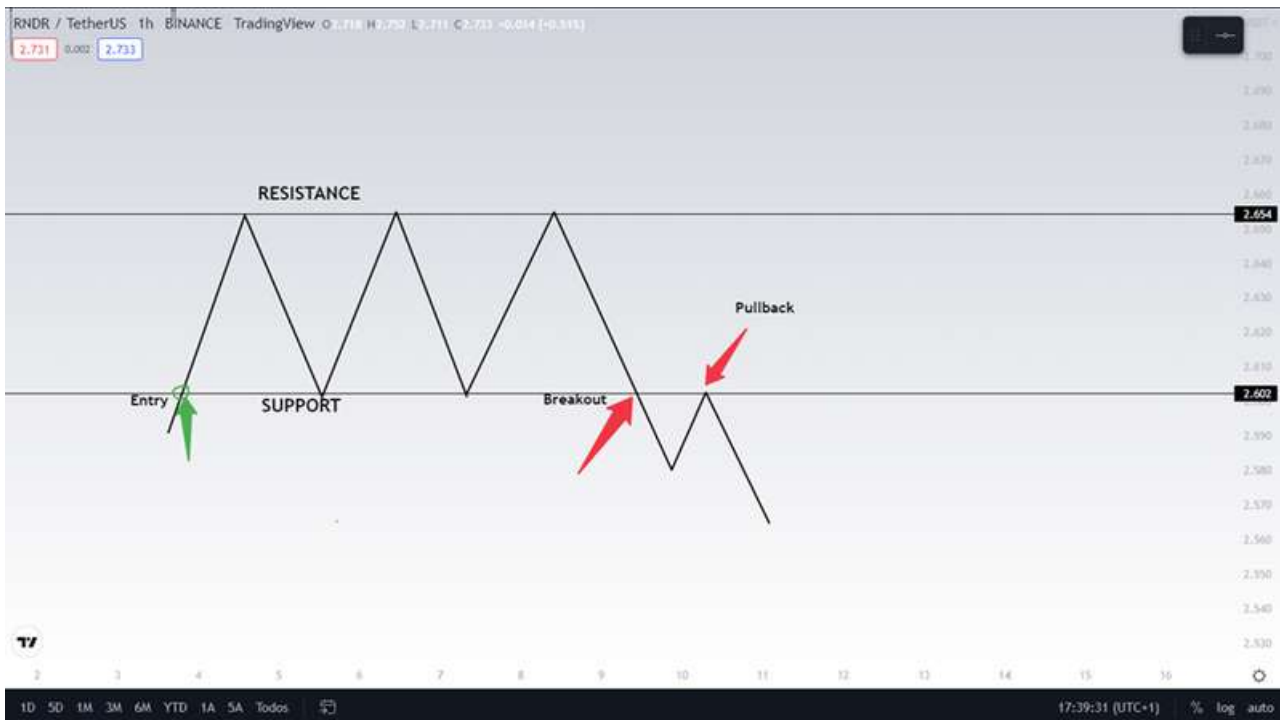


The triple bottom is a rectangle which has the peculiarity that the number of times the price touches the support line is equal to three.

In a triple bottom, each peak in the minimum level should be at the same level and should have approx. the same shape. Although the peak (point minimum) central can be a little more higher than the rest.

10. Patterns

B. Common Patterns



The triple top is the inverted reflection of the triple bottom.

It is less common than the rectangle.

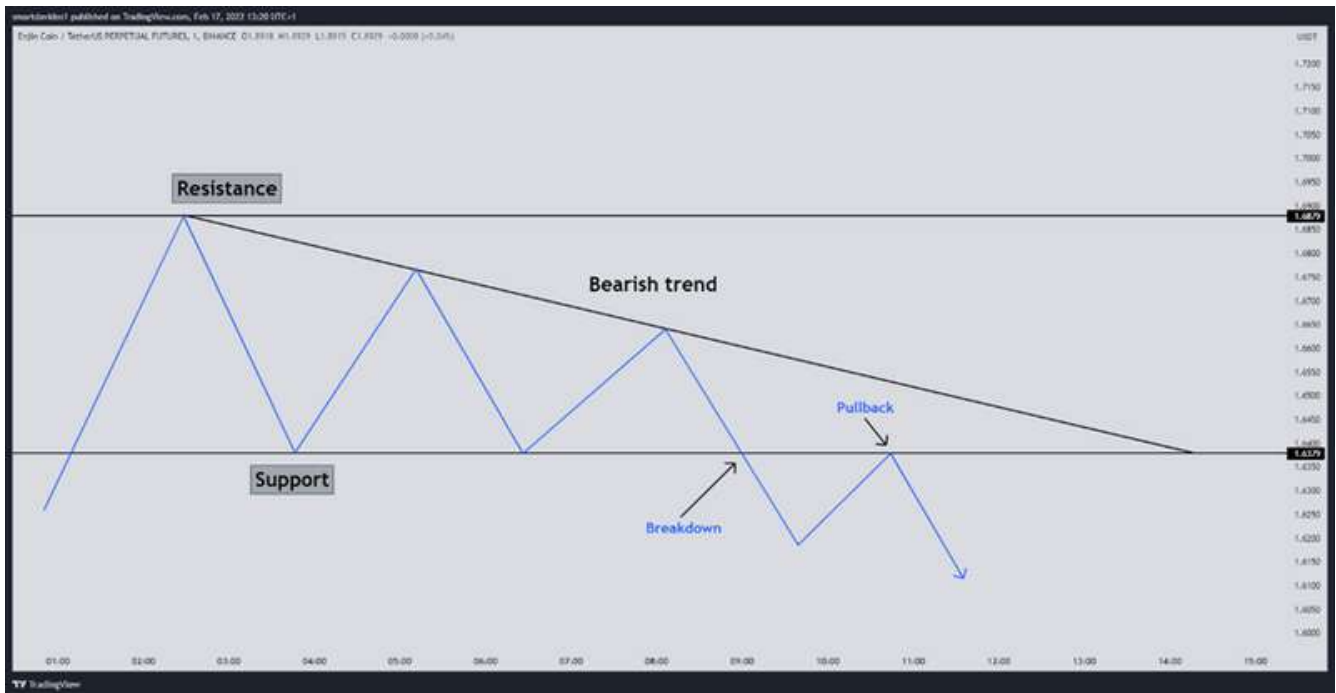
In a triple top, each peak should be at the same level and should have approximately the same shape (although the central peak can be a little lower than the rest)

In a triple top, you will only have a breakout when the price breaks through below the two peaks of the figure.

10. Patterns

B. Common Patterns

4. Descending Triangle



Prices can enter a triangle from any direction.

Prices should touch each limit of the figure at least twice and they should "sweep" all the interior space of the triangle.

There can be both an upward breakout, but also, a breakout downward, but it is usually more common a breakout downward.

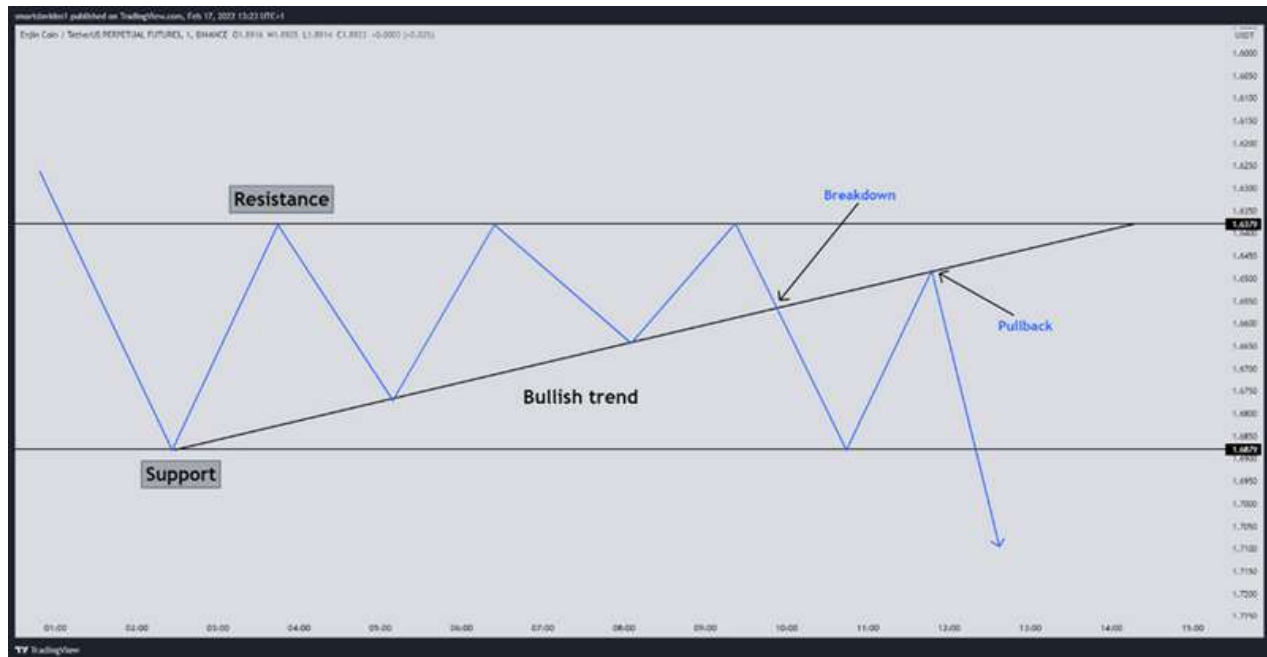
However, upward breakouts are usually, on average, more reliable and profitable.

The trend lines that define the figure limits are almost never precise, and usually generate a large number of false breakouts. Therefore, to make beneficial use of these pattern, you must strictly follow a strategy of clear breakouts.

10. Patterns

B. Common Patterns

5. Ascending Triangle



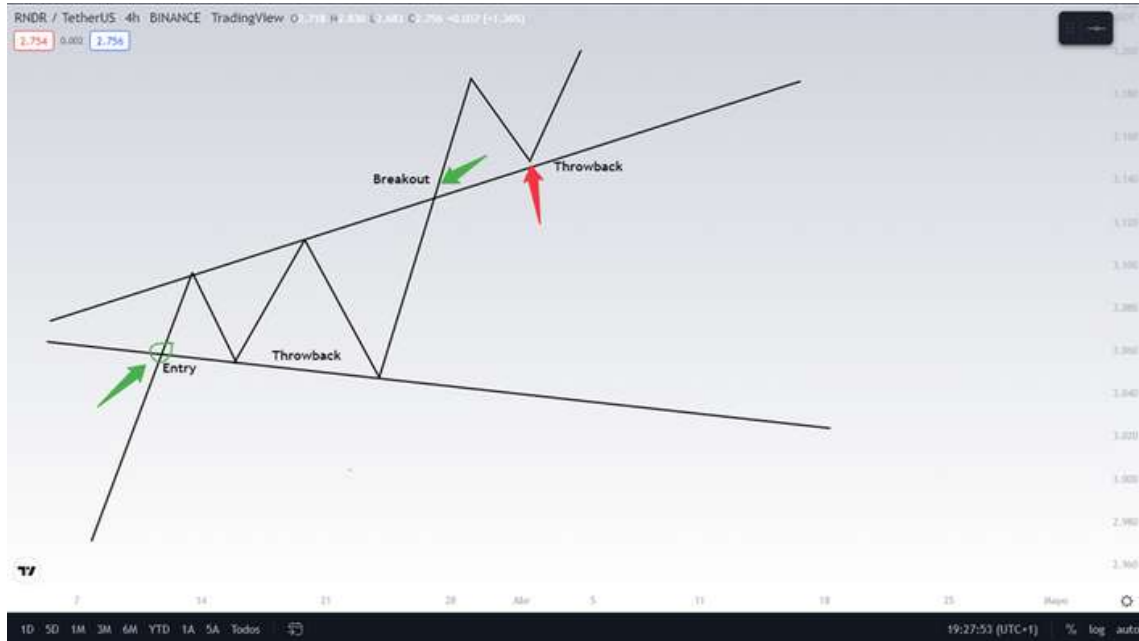
The features of an ascending triangle are similar to those of a descending triangle.

The erratic signals that a descending triangle generates are also present for this type of pattern; they are configurations with a lot of movement of prices, many peaks and bottoms, false breaks, etc.

10. Patterns

B. Common Patterns

6. Inverted Triangle



Inverted triangles, (like other triangles), also have several possible combinations.

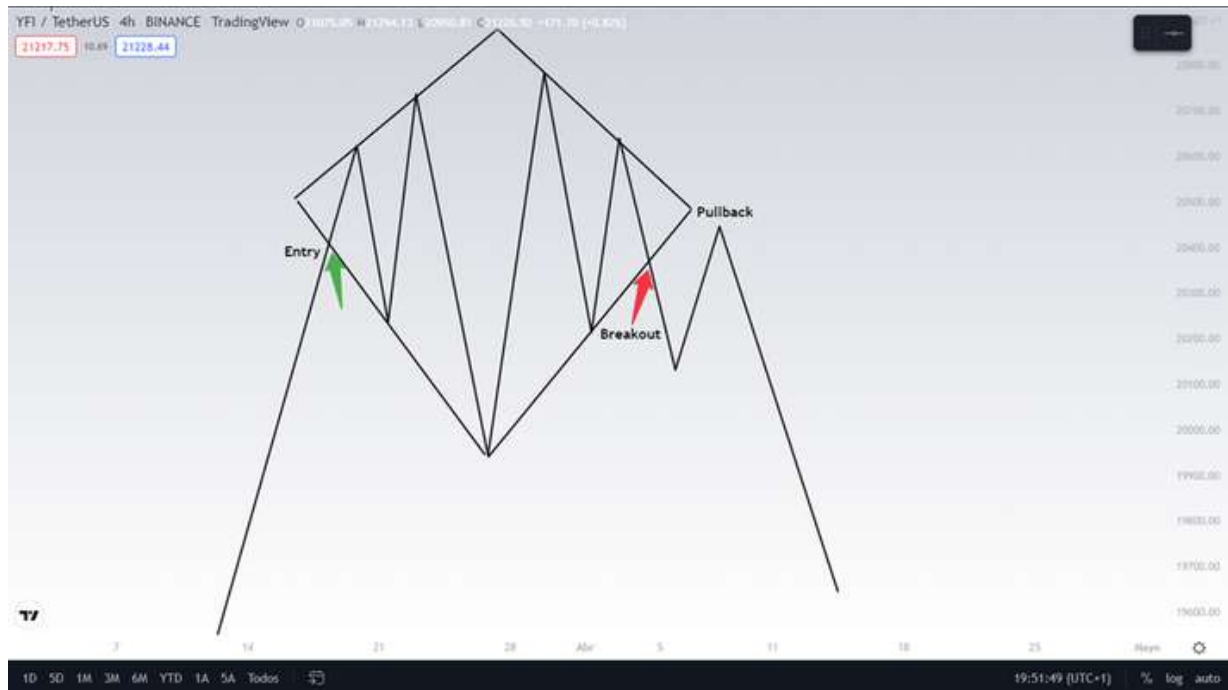
This type of pattern is the least useful and occurs infrequently and are often difficult to identify; it's hard to profit from them.

Because the break lines are constantly moving away from each other (for example, since the point of upper break is increasingly found high, in case it finally cause a breakout to the upside there may be little travel to obtain benefits) And also the level of rupture is more and more distant of any possible protective stop order, which implies assuming greater risks. Failure rate of this pattern rate is higher than any other chart pattern.

10. Patterns

B. Common Patterns

7. Diamond Pattern



Not a common setting but it is very profitable. Each part of the diamond has two peaks and two minimum points.

Diamonds are mainly patterns that occur at the peak of a trend. After an uptrend, breakouts to the downside occur in 67% of the occasions (that is, the diamonds are usually a shape typical of the end of a bullish trend)

The diamonds that break towards to the downside generate signals that usually are one of the most profitable patterns.

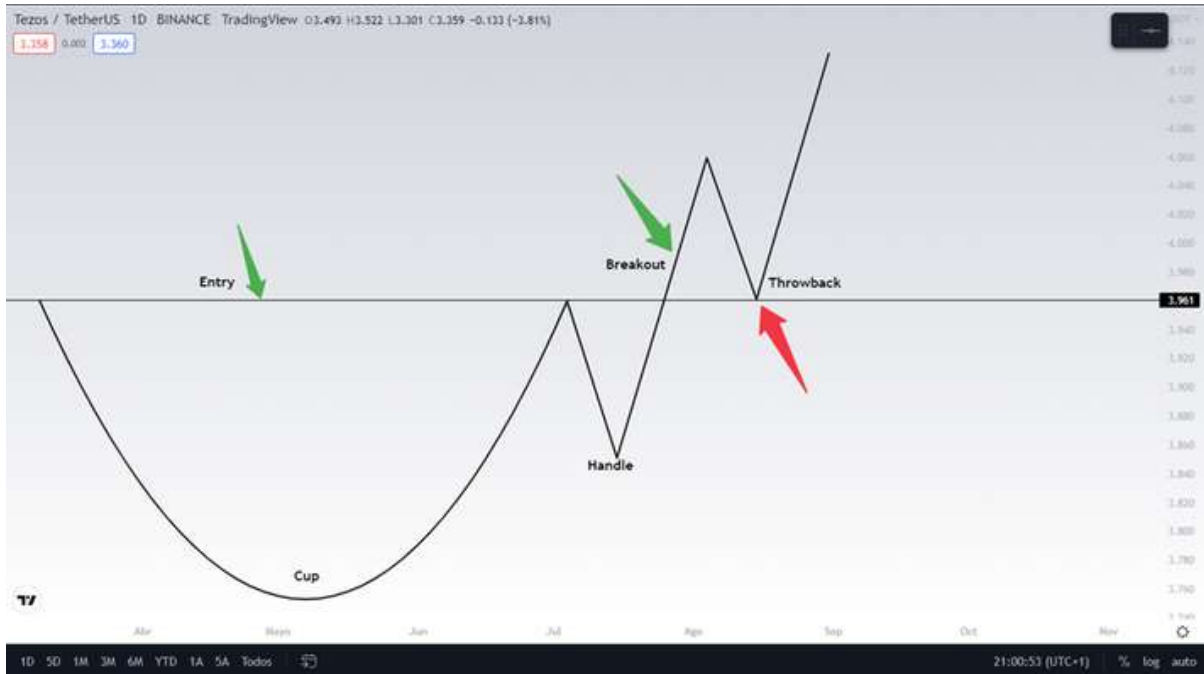
Although the breaks upwards are less profitable.

Diamond pattern is used as a signal for a investment strategy which is reasonably reliable.

10. Patterns

b. Common Patterns

8. Cup and Handle



The Cup and Handle is a continuation pattern that looks like a cup and handle with a defined resistance level at the top of the cup.

It forms from a strong upward thrust that pulls back and consolidates over a period of time creating the cup before doing another push to resistance where it pulls back again but not as far creating the handle and then does the final push passing the resistance level and continuing the trend.

10. Patterns

b. Common Patterns

What to look for in a Cup and Handle?

- **Depth:** The ideal cup pattern should not be too deep. Also avoid patterns with handles that are too deep, as the handles should form somewhere in the top half of the cup pattern.
- **Volume:** Volume should decrease as price decreases, and then remain lower than the average seen at the bottom of the cup. The price should rise as the security starts to move higher towards the previous high.

10. Patterns

b. Common Patterns

How to enter a Cup and Handle trade?

To trade using a Cup and Handle strategy, place your stop buy order a little higher than the upper trend line of the handle.

Your order will only be executed if the price breaks the resistance of the pattern.

Alternatively, you can wait for price to close higher than the handle's upper trend line, and then place a buy limit order slightly lower than the pattern breakout level, which will be executed if price pulls back.

Wait for a handle to form. The handle often takes the form of a lateral or descending channel. Buy when the price breaks above the top of the channel. When the price breaks out of the handle, the pattern is considered complete and the price is expected to rise.

Although the price is expected to rise, that does not mean that it will. The price could go up a bit and then drop, it could move sideways, or it could drop right after the entry. For this reason, a stop-loss is needed.

11. Indicators

a. RSI

1. RSI:



The RSI or relative strength index is an oscillator that reflects the relative strength, between the uptrend and the downtrend.

It measures the relationship between the ascending and descending movements and normalizes the calculation so that it fluctuates on a scale from 0 to 100.

11. Indicators

a. RSI

RSI indicator around **level 30**: reflects oversold levels, as well as indicates that prices have accumulated relative strength. In this case, it's a situation where prices have dropped sharply and now the move could run out of steam.

RSI indicator around **level 70**: reflects overbought levels, as well as indicates that prices do not have accumulated relative strength. This is a situation where prices have risen sharply and the move is likely to weaken.

The RSI indicator oscillates horizontally around the 50 level: it means that the market lacks a trend. The 50 level is the middle line that separates the indicator's bullish and bearish territories.

11. Indicators

a. RSI



To draw an uptrend line on the indicator, you need to connect two or three or more peaks of the RSI indicator as higher and higher points appear.

On the other hand, a descending line is drawn by connecting three or more peaks as the points descend. The breakout of an RSI trendline could indicate a possible price continuation or reversal.

Note that a trendline breakout on the indicator usually precedes a trendline breakout on the main chart of your asset, thus providing early warning and an opportunity to anticipate the move and determine the trend.

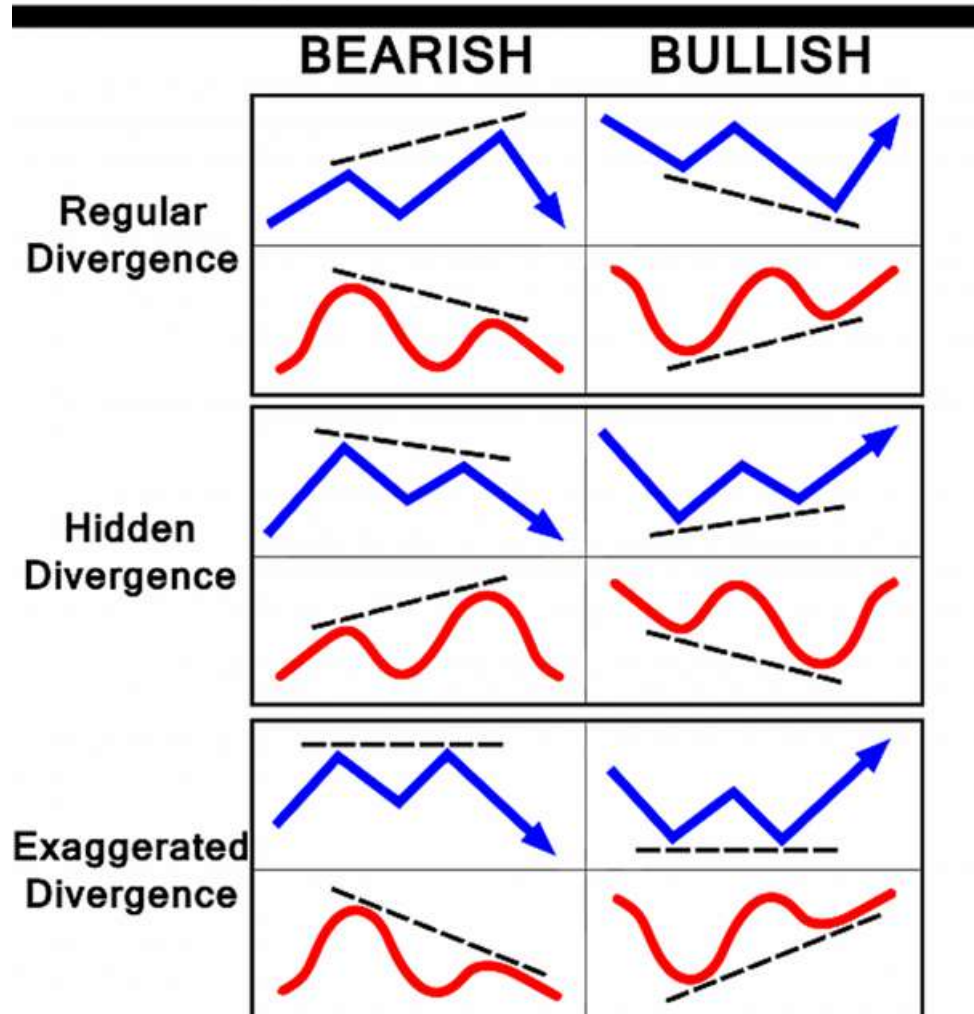
11. Indicators

a. RSI

In the RSI we can also trade with divergences. But what is a divergence? It occurs when the indicator shows us a contrary direction of the price that can mean two things:

- The price is running out, so there could be a corrective process in either direction.
- The end of the trend is near and it could turn around or consolidate.

Divergence Cheat Sheet



11. Indicators

a. RSI

Bullish divergence: This is when the price forms a series of lower highs and the indicator is forming bullish horizontal points. This could indicate that a turn towards an uptrend is about to take place.

Bearish Divergence: Conversely, the price forms a series of bullish highs and the indicator makes a bearish horizontal high.

11. Indicators

b. MACD

2. MACD

MACD stands for Moving Average Convergence Divergence. As its name indicates, what the MACD measures is the convergence and divergence over time of two moving averages of the price of an asset.

MACD indicates, at each moment, the separation between the value of two moving averages with different calculation periods.

To calculate the MACD, an exponential moving average with a short calculation period and another exponential moving average with an average time period are used.

Typically, 12 periods are used for the short average and 26 periods for the other average. The shorter the calculation period, the more sensitive the moving average is to price variation.

MACD turns two trend-following indicators, moving averages (12 and 26 days), into a momentum oscillator by subtracting the longer moving average from the shorter moving average.

As a result, the MACD offers the best of both worlds: trend following and momentum.

11. Indicators

b. MACD

Signal line crossovers are the most commonly used MACD trade signals.

The signal line is a 9-day EMA of the MACD Line. As a moving average of the indicator, it trails the MACD and makes it easier to spot MACD turns.

A bullish crossover occurs when the MACD turns up and crosses above the signal line. A bearish crossover occurs when the MACD turns down and crosses below the signal line.



11. Indicators

b. MACD

On the chart, the MACD line is depicted in blue, the Signal line in orange, and the histogram in two colors, depending on which value is above it:

Green when the MACD has a value greater than the signal.
Red when the MACD has a lower value than the signal.



11. Indicators

b. MACD



The crosses between the MACD and signal lines will give bullish or bearish signals about the direction of the price evolution depending on the following:

When the crossing of the MACD line with the Signal line occurs from the bottom up, that is, the MACD exceeds the Signal, the trend will be bullish.

When the crossing of the MACD line with the Signal line occurs from top to bottom, that is, the Signal exceeds the MACD, the trend will be bearish.

Two bullish crosses (green arrows) and one bearish cross (red arrow) are represented on the chart.

11. Indicators

c. RSI + MACD

3. RSI + MACD



The RSI is an indicator that is also used to analyze the strength of a price movement, as you already know.

Due to its characteristics, it is easy to understand that it is an indicator that combines very well with the MACD. Both seek to identify early the creation of a bullish or bearish trend, to alert the trader on whether he should buy or sell a certain position.

Therefore, the analysis of only one of the indicators may be insufficient. But, by corroborating the conclusions with both tools, your decision will be more founded and will give you greater certainty. To better understand, I have combined the use of these two indicators in the example of the chart above.

11. Indicators

c. RSI + MACD

Histogram:

The MACD histogram (known as MACDh) measures the distance between the two MACD curves, but visually it is very useful because it tells us who is in control at any moment, whether the bulls or the bears.

It also tells us if there is buying pressure or if there is selling pressure.

If the bars are above zero (in this case, green) it means that the bulls rule, therefore, the uptrend will most likely continue. When the histogram changes the color to red, we know that the trend no longer has the strength to support it.

Also, we can look at whether the bars grow or shrink. If they grow, it is a good idea to enter in favor of the trend; on the other hand, if they shrink, it is best not to get into trouble.

11. Indicators

b. MACD

Conclusion:

The MACD is a technical indicator that measures the strength of the price movement.

The indicator is made up of three elements: two lines, MACD and Signal, and a histogram.

The crossings of the lines give signals of possible bullish and bearish movements.

The histogram measures the amplitude and speed of the movement, allowing the signals indicated by the crosses to be confirmed.

To confirm the signals of the MACD, it is advisable to use it in conjunction with another technical indicator, such as the RSI or the stochastic.

11. Indicators

d. TD Sequential

4. TD Sequential

The TD Sequential indicates when a trend is running out, approaching turning points, and gives precise signals when to enter the market with a new position or when to close an existing trade.

The TD Sequential consists of two patterns:

1. TD Setup: Layout, formation of the pattern itself
2. TD Countdown: The countdown

11. Indicators

d. TD Sequential

1.TD Setup:

The TD Setup is the shortest duration part of the TD Sequential. The complete pattern is made up of 9 bars.



11. Indicators

d. TD Sequential

Possible buy signal: We should be prepared to buy if 9 consecutive bars are recorded in which the closing price of each bar is lower than the closing price of the fourth previous bar.

If before reaching the 9th bar, a bar appears in which its close of the candlestick is higher than the 4th previous bar, the pattern is invalidated.

The close of the previous 4 candles must be lower for the pattern to be valid.

Possible sell signal: when the pattern is made up of nine bars in which the closing price of each one is higher than the closing price of the fourth previous bar.

11. Indicators

d. TD Sequential



The "perfect" TD Setup for a sell signal is when the price high of bar 8 or 9 is higher than the highs of bars 6 and 7. As in the case of buying, if a bar or candle appears where the close is not higher than the close 4 candles ago, the pattern is invalidated.

12. Risk Management

In this section I will proceed to explain what I consider **PILLARS** in risk management, as well as what percentage I use in each trade, and how to manage your risk.

1. **NEVER** invest all your eggs in one basket.

When you deposit for the first time, never invest all your capital in one coin, not even two. Divide your capital and you will reduce the risk in your assets.

12. Risk Management

2. Have an invalidation point on every trade or investment you take.

A fairly common mistake with people who start investing is to let a winning position become a losing one.

It is common that a position that was profitable at the beginning, when we see that it goes into losses, we hold it because we believe that "it will go back up". And sometimes the market goes down more than expected and that position ends up being a drag on our portfolio.

When we have an invalidation point in each trade/investment we take, and we set our stop-loss there, the losses in your portfolio are drastically reduced.

12. Risk Management

3. Don't trade against the trend, your goal is to preserve money.

Following the market trend is key to preserving your money.

In a bear market, forcing long positions when the market structure is bearish is a mistake. The risk in doing so is much higher than in a bull market.

Risk management will not only help you earn more money by having a plan in advance, but it will also help you not to make as many mistakes as before. The important thing is to know when to cut your losses.

4. Trade the chart, do not be influenced by your feelings.

It is important to mention the management of feelings in risk management.

It is key that when we are operating, we operate what we see on the chart, that fear or greed do not influence us when making decisions.

Always have an SL and TP prior to entry, this way we will reduce the temptation to change both as we let the position run.

12. Risk Management

a. The 5% Rule

The 5% Rule

NEVER risk more than 3-5% of your portfolio on a single trade.

3% is what I mostly use for the trades I take.

By this I do not mean that I entered the position with only 3-5% of my total capital.

The 5 rule means that you're RISKING 5% of your equity in a single trade.

Whatever happens in the trade, you are limiting yourself to not losing more than 5% of your capital in a single operation.

Therefore you have risk control. And how you limit to not lose more than 5% in a trade? Using stop loss.

The stop loss must be placed based on a previous technical analysis.

12. Risk Management

The size of the trade will be determined by the LEVERAGE to be used of that 5% of the capital.

Let's explain this with an example:

Total Equity: \$200.000

Capital % we are going to risk: 5% of \$200,000 = \$10.000

Trading size used: **Capital we risk X Leverage**

Let's assume leverage = 20.

$\$10,000 \times 20 = \$200,000$

So as I mentioned previously, the leverage should be based on your stop loss and the capital you are going to risk is based on that.

To become a profitable trader for me lies in Risk to Reward ratio combined with proper risk management.

This cheat sheet on the next page will determine you how much R:R you need from your winners in order to become profitable. Make your system based on a R:R.

12. Risk Management

R-Multiple	Required Winrate
0.5	67%
1	50%
1.5	40%
2	33%
2.5	29%
3	25%
3.5	22%
<i>General formula</i>	$\frac{1}{(1 + R \text{ multiple})}$

Drawdown	Recovery Rate
5%	5.3%
10%	11.1%
20%	25%
30%	43%
40%	67%
50%	100%
60%	150%
70%	233%
80%	400%
90%	900%

Expectancy

$(\text{Winrate} * \text{Position size} * \text{R-multiple}) - ((1 - \text{Winrate}) * \text{Pos. Size}) = \text{Trade Expectancy}$

Example:

Winrate = 55% | Pos. Size = 2% | R-multiple = 1.5

Trade Expectancy =

$(55\% * 2\% * 1.5) - ((1 - 55\%) * 2\%) = 0.75\%$

An expectancy of 0.75% indicates that each trade has a value of 0.75% over the long-term.

Losing Streaks and loss of capital

Losers in a row	Loss % (1% risk)	Loss % (3% risk)	Loss % (5% risk)
1	1.0%	3.0%	5.0%
2	2.0%	5.9%	9.8%
3	3.0%	8.7%	14.3%
4	3.9%	11.5%	18.5%
5	4.9%	14.1%	22.6%
6	5.9%	16.7%	26.5%
7	6.8%	19.2%	30.2%
8	7.7%	21.6%	33.7%
9	8.6%	24.0%	37.0%
10	9.6%	26.3%	40.1%

Exponential Growth

Example:

Winrate: 55% | Pos. Size: 2% | R-multiple: 2
Account size : \$10,000

	Gain per trade
1. trade	\$ 130.00
10. trade	\$ 146.03
50. trade	\$ 241.66
100. trade	\$ 466.96
200. trade	\$ 1,699.12
500. trade	\$ 81,857.14

Consecutive Losses

Winrate	1	2	3	4	5
70%	30%	9%	2.7%	0.8%	0.2%
60%	40%	16%	6.4%	2.6%	1%
50%	50%	25%	13%	6%	3%
40%	60%	36%	22%	13%	8%
30%	70%	49%	34%	24%	17%

Likelihood of consecutive losses based on winrate

Credits to the owner of the picture

12. Risk Management

The risk/reward ratio (R/R ratio or R) calculates how much risk a trader takes in exchange for a potential amount of profit. In other words, it shows what the potential rewards are for every \$1 you risk on an investment.

The calculation itself is simple. It is about dividing your maximum risk by your target net profit.

How is it done? The first thing is to analyze where you want to open your position. Next, you decide at what point you would take profit (if the trade is successful), and where you would place your stop-loss.



12. Risk Management

I am going to use this example of a trade that I published on Twitter.

From its price action, I anticipated a deviation after breaking resistance and going down again strongly, scoring two equal highs and showing weakness.

In the following image I show you how to find out the R:R to use in that operation.



In the image, where you can read: “Relación/ Riesgo beneficio”, it means, Risk Reward.

It's a 2.7:1 RR successful trade, nearly 3. Remember with 2.5:1 RR we only need 29% of winrate to be profitable, and 25% winrate on 3:1 RR to be profitable.

12. Risk Management

Here is another example using Risk/Reward ratio. The stop loss as I mentioned before, is always set up based on technical analysis.



As we can see, the price is bouncing off support. In the same support that the price has previously bounced by having buying pressure on it.

When we decide that we are going to enter a long position by seeing this image, we should set up the SL and know our R:R to execute the trade.

12. Risk Management



By setting our stop loss, and our take profit we will know the risk:reward ratio we are going to have before entering a position.

13. Applying the Concepts



As we can see in the image, the Bitcoin price action is showing us weakness. Lower highs (LH) and lower lows (LL) are forming, typical of a downtrend.

If we look at the RSI, we can clearly see that when it reaches the overbought zone, it retraces strongly, and its highs are getting lower and lower.

When we were at \$41,000, the MACD gave us a sell signal (red dot). That candle closing below resistance, lower than the previous high, with the RSI overbought on all time frames, and the MACD marking a sell signal, was a clear signal to take a short position.

13. Applying the Concepts

When I posted the image below on Twitter, I wrote this below:

"Right now I can't find any reason to be bullish on #Bitcoin. At 4H TF is forming LH and LL, technically a downtrend.

Also keep in mind that the S&P500 is losing important key supports.

I wouldn't be surprised if #Bitcoin revisits the \$33-34,000 zone again."



As you can see, Bitcoin has fallen more than (-25%) since this tweet. Only by using indicators and looking at the Bitcoin MS (market structure), we could guess where the price was going to go.

13. Applying the Concepts

FTM Short Trade on the 5 Minute Timeframe:



The reason I took this short on FTM may not be as clear as the previous trade. I made this trade in 5 minutes, at that time Bitcoin looked very weak. \$FTM retested resistance at 0.36, but going back and wanting to test 0.352, FTM does not have enough strength and made 2 clear tops at that price.

The MACD at that time was indicating a sell signal, and the price was hanging on a trendline, if this was lost, added to the weakness of Bitcoin, the price should retest the lows at 0.33 again (when it loses the trendline, it is when it retests those lows for the first time)

13. Applying the Concepts



As we can see, we lose the trendline, before losing it, it retests it (another place where we could have executed another short order), after that, it reaches the two marked take profits. And it bounces hard on the second one, after taking profits.

It was a +35% trade, leverage x8.

13. Applying the Concepts

AAVE Long Trade on 1H Timeframe:



\$AAVE at that time was leaning on support, had to keep it to form a HL. As can be seen in the MACD it's marked a buy signal. Prior to the current candle that we can see, two local highs had been marked which had to be overcome by another high in order to reach the marked resistance. Therefore I draw that resistance on those highs, and mark that the break of these would precede the resistance.

13. Applying the Concepts



As we can see in the image above, the price manages to break those highs and reaches the marked resistance. It doesn't get to retest the 2nd resistance, and is landing on support in the image. Which will lose momentarily just to set those past highs as a support and bounce from there to hit the key resistance at \$97.2. This will be shown on the next image.

13. Applying the Concepts



You can see that we lost the support of the previous image, but we formed another one where we draw the resistance in those highs, and from there it bounces up to \$97.2, a point which we had marked as key resistance (point where profits should always be taken)

It was a +15% trade.

13. Applying the Concepts

ATOM Long Trade on the 4H Timeframe:



\$ATOM came as you can see from a bearish trend in 4H TF, I decided to take a LONG in this position because I had observed the formation of a "double bottom" in the support.

The RSI was in the process of rising, rebounding from the "oversold" zone, the buying volume was very weak at that time, therefore, an increase in demand was expected.

If the price retested that black resistance and we broke it, the most likely thing is that the price would retest the highs, the red resistance at \$20.27, and that is what happened.

13. Applying the Concepts



As can be seen in the chart, the histogram continued to grow after taking the trade, this is an indicator that the uptrend would continue.

When it touches the resistance and retraces, you can see a sell signal on the MACD (red dot).

A rejection of resistance, the RSI overbought and falling, and the MACD giving us a sell signal: are clear indications that we should have taken profits and abandoned the trade.

A thank you note:

That concludes all the lessons I have made for this PDF. I wanted to collect in this book, the sections that, in my opinion, are basic and necessary to begin to understand price action and to understand how and why the price moves.

I want to thank each and every one of my followers for the support and motivation to make this PDF.

Without such a supportive and interactive community, it would be difficult to put out this type of content. I hope that you have acquired more knowledge through this PDF.

Those of you who are reading this, keep educating yourselves. There is nothing more expensive than not educating yourself in something that YOU love.

I hope you have learned new concepts. Apply what you have learned, practice.

**Sincerely yours,
Soulz**



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