Market Structure

Basics

by

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Table of Contents

Market structure basics

1. Introduction

Welcome!

After a lot of requests and yelling from my fellow twitter friends, who wanted to me to structure all my tutorials better, we have reached here.

From Today, we will study trading, not just Technical Analysis from the beginning.

-Anyone can read these, efforts have been made to keep everything simple for beginners.
-Enough examples have been given to make things clearer.
- If you don't understand anything specific to this tutorial, you can post them in the comments of the tweet.

You are requested to kindly follow along and not give up and try using the theory and examples in real life.
This is the most that I can do.
Is it the best? No. Is it my best? Probably.

Welcome to the first lesson, Let's understand market structure, together.

Why should you trust me?
You should not. I am an anonymous cartoon character on twitter.

-EmperorBTC

Market structure basics

2. Vocabulary

HH = higher high

HL = higher low

LL = lower low

LH = lower high

BOS = Break of Structure

MS = Market Structure

CHoCH = Change of Character (in the market)

Market structure basics

3. Market structure (MS)

Market structure defines the structure that the current market is trading in. It is what tells you whether the market is trending or not. So how do we view it?

I don't advice just being a trend trader or a PA trader. Crypto is full of widely available information and retail move info that anyone can use to her an indepth motion of the market. Hence on the long term, I don't believe just studying PA, or Trading the trend or breakout is a successful strategy. Confluence and data is where the sweet spot lies. However, it is paramount that all your basics are clear and an indepth understanding of PA is a primary requirement.

2.1 Bullish MS

A bullish MS is identified when the price makes a series of higher highs HH and higher lows HL.

Every time the price takes out a high to form a higher high, we get what is called a break of structure BOS or MSB (Market Structure Break).
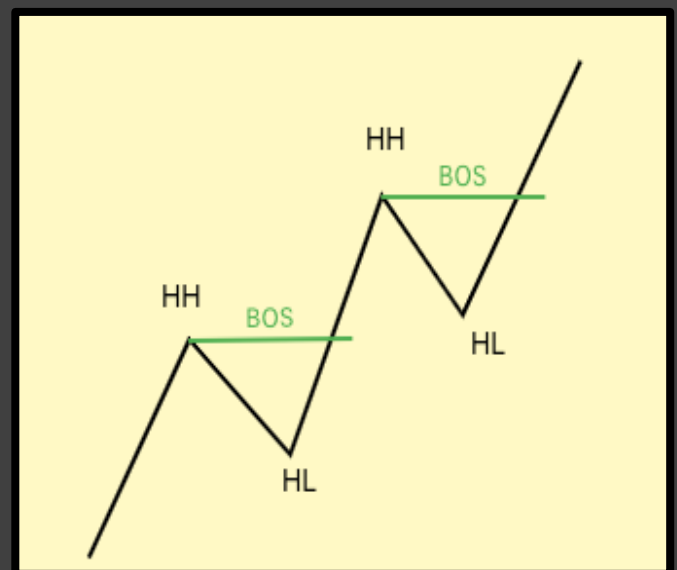
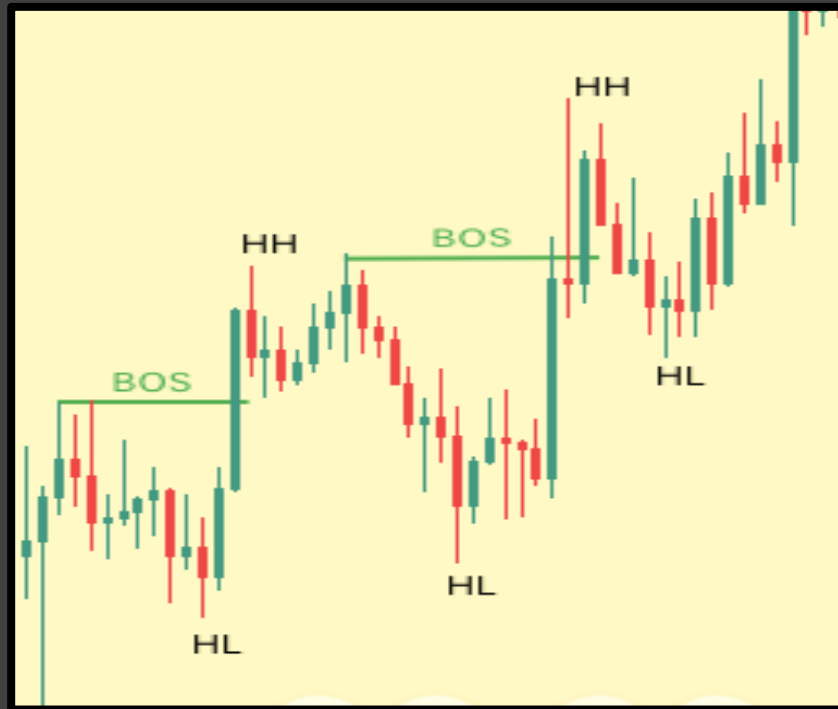

Figure 1. Bullish MS in theory

Market structure basics

Figure 2. Bullish MS in reality (4H BTC chart)

2.2   Bearish MS

A bearish MS is identified when the price makes a series of lower lows LL and lower highs LH.

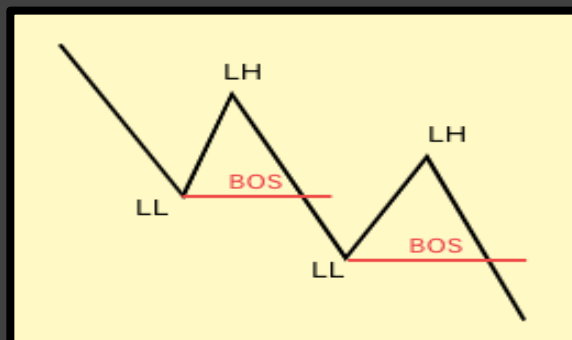Every time the price takes out a low to form a lower low, we get a break of structure BOS.

Figure 3. Bearish MS in theory

Market structure basics
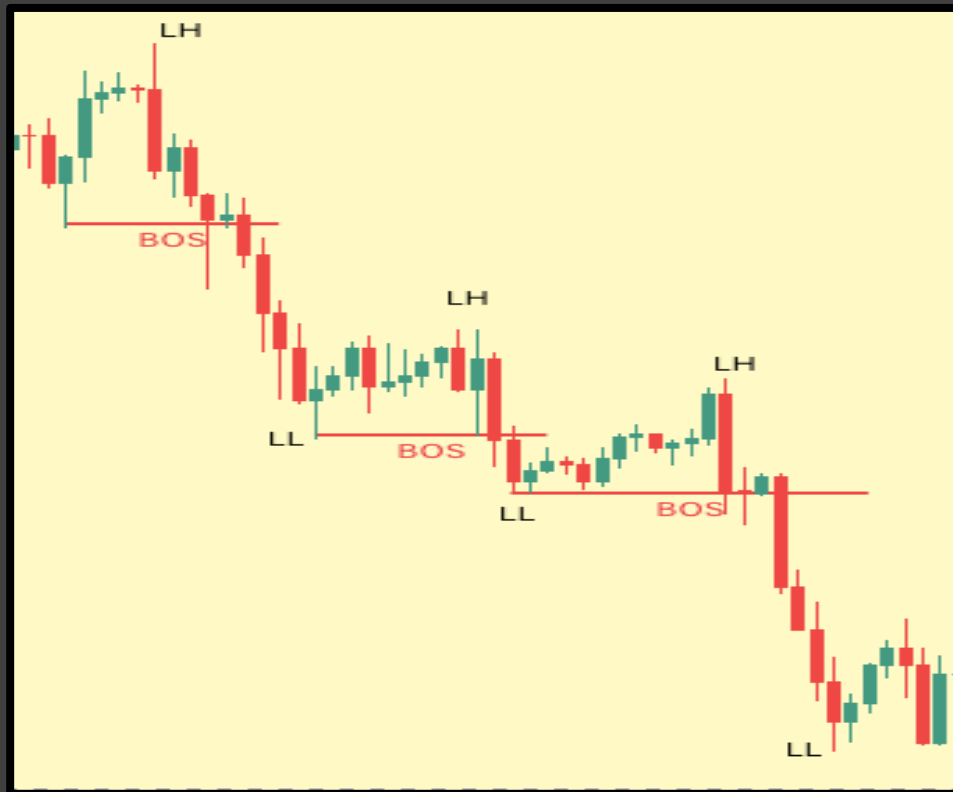
Figure 4. Bearish MS in reality (4H BTC chart)

2.3   Why is MS so relevant in trading?

Remember the famous saying "the trend is your friend?", well it is only popular for a reason!

If you can use the market structure to identify the trend, more often than not, the price will continue in the same direction. This might seem contradictory at first to my usual "trade the range" motto but it is essential to use Higher Time Frame MS to guide how you form a bias while trading a Lower Time Frame range.

Market structure basics

4. How to use MS

Market structure can help you define if-then scenarios. In this section of the tutorial, we will describe how to put it to good use. I like to use the ITTT model (If This, Then That).

3.1 Deep swings

One of the questions I get asked quite frequently about market structure is: which swing points should I use?

I suggest you look for deep swing highs and lows on higher timeframes (never lower) to answer that question.

We define a deep swing high as the highest point that causes the swing low and a deep swing low as the lowest point that causes a swing high.

This is a deep swing High
Because price has failed
to break it causing a change of trend

we don't take any of these
as deep swing highs

HH

HL   BOS

LL

Figure 5. Example of a Deep swing high

Market structure basics

➢ Figure 5 above is an example of the last deep swing high on a 1D BTC chart. The price was previously in a continuous uptrend, making higher highs and higher lows, until it reached the high marked with a green tick. The price proceeded to fail to break that high and ended up moving below the low that formed that high. Thus, you have a BOS.


Figure 6. Example of a deep swing low

➢ Figure 6 is a 1D BTC chart; notice how the price pulls back after the first HH, and after a short downtick was hit; the price started going back up, taking out the previous higher high, with a bullish

➢ green candle closing above it (BOS) and reaching out for a new higher high.

Market structure basics

3.2   Pullbacks

Note that after every BOS we expect a pullback on that same timeframe. And this is where market structure comes in handy.
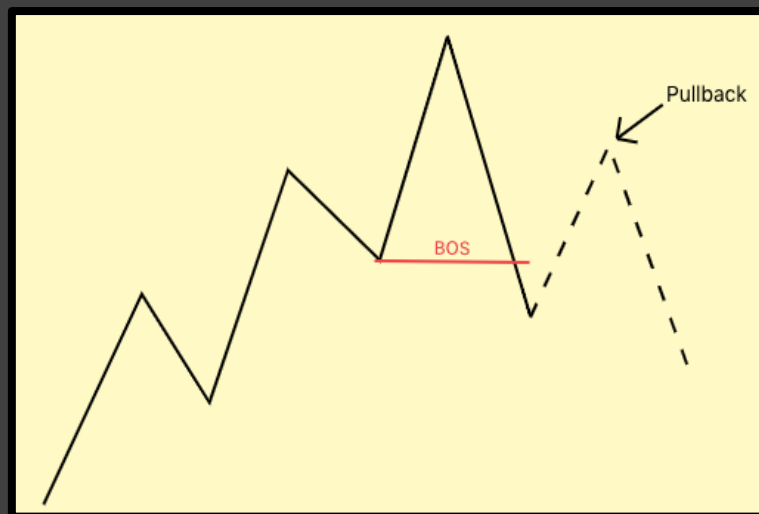
Figure 7. Short on a pullback in theory

If a BOS occurs then look for an opportunity to long/short on a pullback. In other words, never think of buying right after a BOS; wait for the pullback. Studying my SFP (Swing Failure Pattern) tutorial is also advisable to better grasp why it is not wise not to trade breakouts without context. (link - https://t.me/EmperorbtcTA/493)

The following example in figure 8 illustrates an actionable trading setup based entirely on market structure. Price is in an uptrend making higher highs and higher lows. Then bullish continuation failed (failure to make a higher high), which led to a break of market structure (BOS).

The formation of a lower low confirms a bearish trend change, our entry would be on a pullback. We put our stop loss above the last lower high and target previous swing lows.

Please utilise the levels tutorial to grasp better how we identified the entry using a critical level. The scope of this tutorial is limited to introducing MS and explaining its widespread application in trading. (link - https://t.me/EmperorbtcTA/527)

Market structure basics

Figure 8. ETH 1D chart

Text on chart:
- HH
- LH — Price is failing to take out the previous HH making a new LH
- LH — Price is showing weakness failing to break an area of support turning into resistance
- Red candle closing below last HL = trend change confirmed we wait for entry on a pullback
- HH
- LH
- HL
- BOS
- SL above last LH target previous HLs
- HH
- HL
- HL
- LL
- LL confirms bearish trend change

3.3   Change of character CHoCH

The next concept is a tool that you can use alongside the break of market structure (BOS) in order to anticipate when a run may be finished and a pullback may be starting (Bearish CHoCH), and when a pullback has finished and a run may be beginning (Bullish CHoCH).

12

Market structure basics

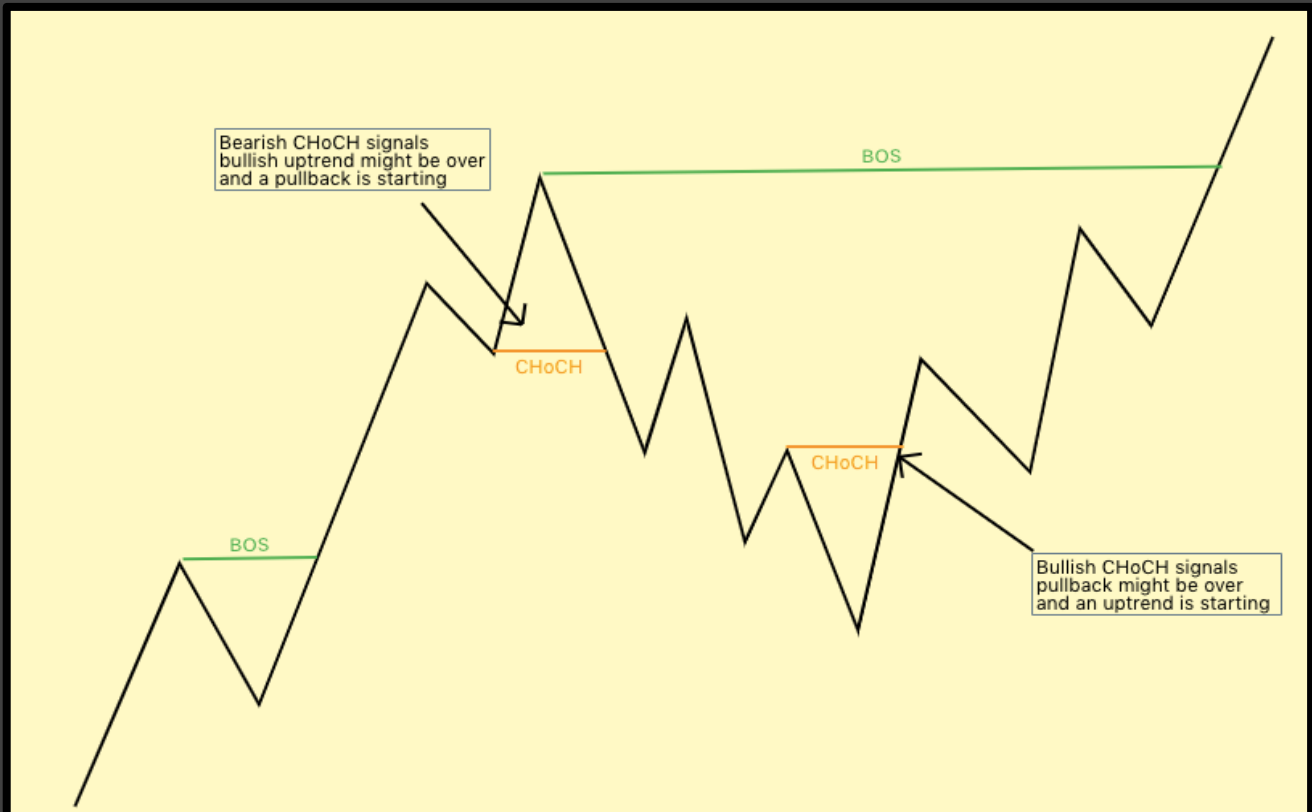The figure below will give you an idea of the whole setup, using BOS and CHoCH combined with the market structure.

Figure 9. BOS+CHoCH in theory

I recommend you look at CHoCH as the first sign of trend change; it doesn't have to be a deep swing structure; it can be in the minor movements in between; while the BOS is a trend continuation where we look for deep swing highs and lows to be taking out.

Note: CHoCH is not a guarantee, it can give false signals, use it in confluence with other tools.

Market structure basics

Figure 10. BTC 1D chart

➢ Figure 10 is an excellent example of a trade I took on the BTC daily chart; we first see a CHoCH after a long uptrend, confirmed by a BOS. In this example, we didn't get the best-looking pullback; the market was in a sell-off mode. Traders who are a bit more aggressive might enter on the first CHoCH. If you are a beginner do not use CHoCH as an entry signal, wait for a deep swing low (LL) confirmation then enter on a pullback. You can also use other tools as confluence.

Market structure basics

5. Trade Setups
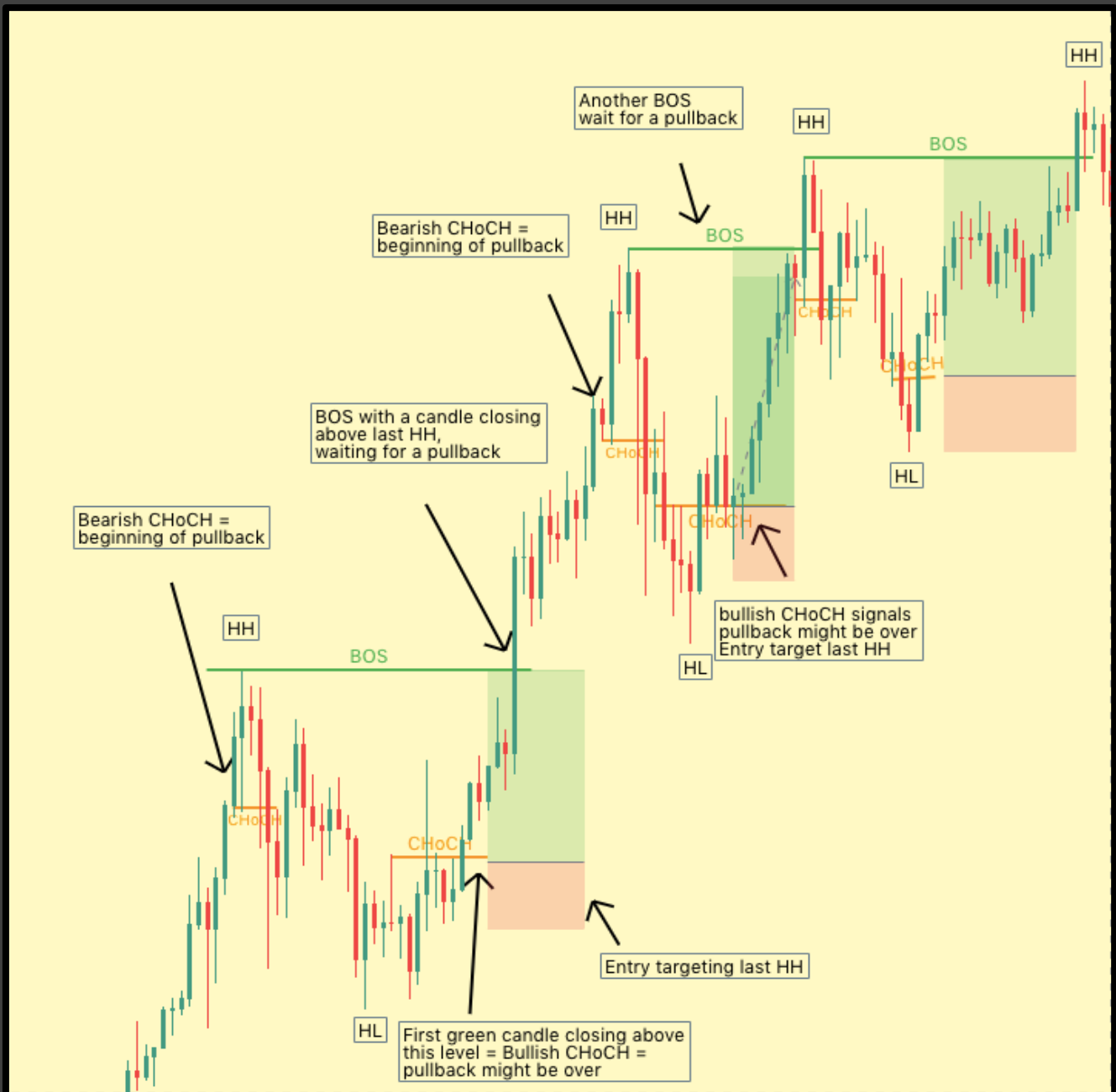
4.1 Example1: Long setup

Figure 11. 1D BTC chart

Market structure basics

➢ figure 11 is an example of consecutive longs taken on a 1D BTC chart. After we defined the first HH on a high timeframe, we wait for a pullback to enter.

➢ The first bearish CHoCH signals that the bullish swing run might be over and a pullback is starting.

➢ The second CHoCH breach is a bullish sign indicating that the pullback might end and a swing run might start.

➢ The same strategy is used for the rest of the trades.

Note: Market structure appears on all timeframes, but more often than not we can get a bearish structure on lower timeframes while the overall MS on higher timeframes is bullish. The key is to look for signs of pullbacks (or CHoCH) on the lower timeframes to get with general MS direction on the higher timeframe.
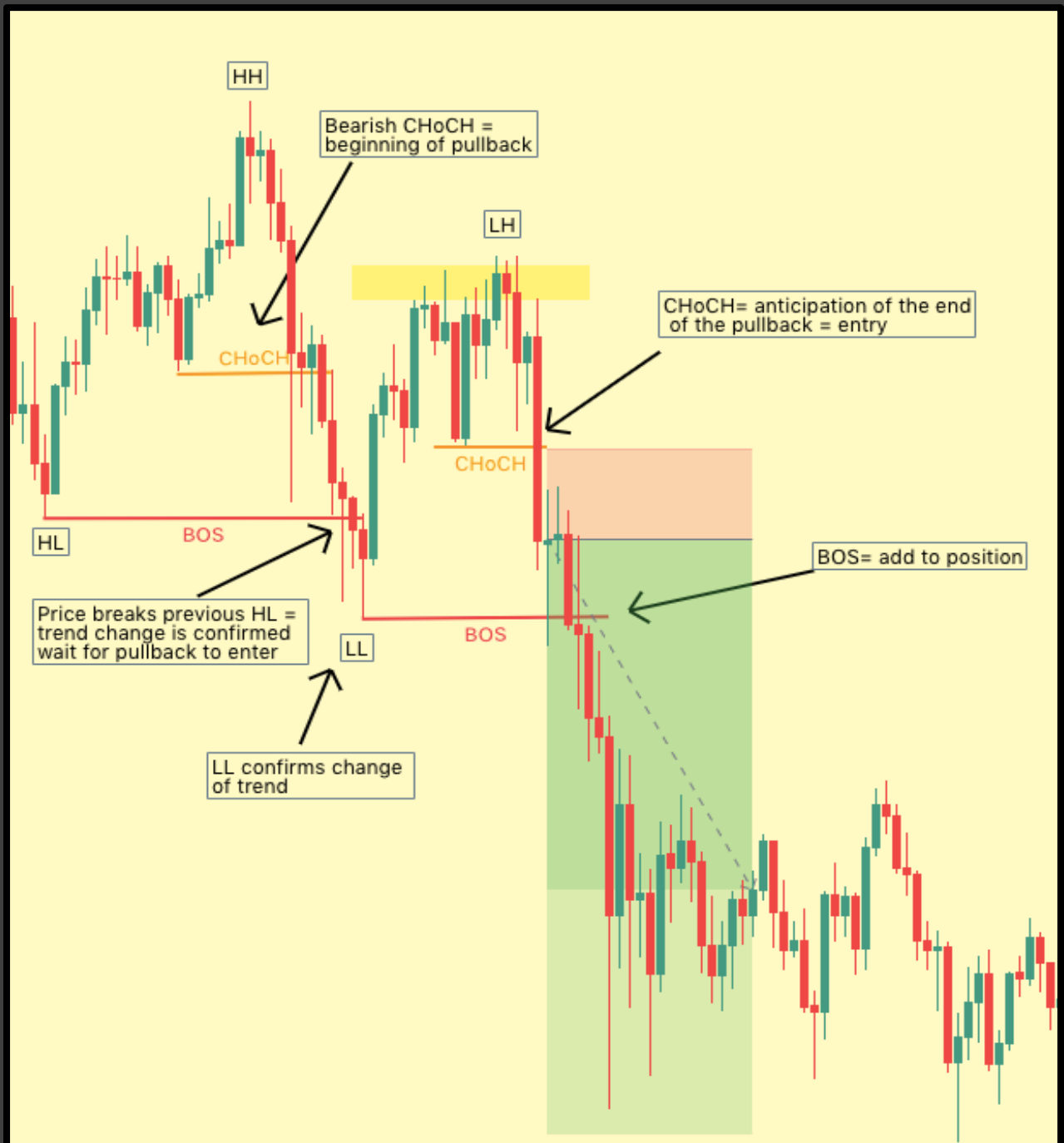
Market structure basics

4.2 Example2: Short setup

Figure 12. BTC 1D chart

➢ Figure 12 is an example of a short setup on the 1D BTC chart.

Market structure basics

➢ The first bearish CHoCH helps us identify when the bullish upswing starts to weaken. Once the price breaks the previous HL, the trend change is now confirmed.

➢ Now we wait for a pullback and a LH to form.

➢ Second bearish CHoCH is indicative of the end of the pullback; more aggressive traders enter shorts after it.

➢ For a beginner, wait for a double BOS (Break of HL and LL) to confirm trend change and target previous swing levels.

6. Conclusion

➢ Higher Time Frame market structure can be used to form a bias. Then trade the Lower Time Frame range to trade.

➢ Understand what BOS is and when it occurs. Use Change of Character for entries before Break of Structure takes place. Explained in the various examples.

➢ Market Structure should act as confluence in all your trades. Use multiple tutorial concepts as confluence for entires.

➢ Market Structure understanding is the basic requirement for all trading. If you don't have a firm grasp on this concept, it will be difficult to create your own trading system

Reference:
A L Brooks, Bob Volman, Trader Dante, Laurentiu Damir.

Market structure basics

I hope you take the beginning of this mentorship seriously. Next post will be answering your questions, mentoring you and sensing questions for you to answer to test your understanding.

I always say, there's ample knowledge on the internet but no one uses it.
This PDF introduces you to the beginning of trading and the next PDFs will take you deeper in journey, I hope you choose to utilise the path.

Love,
EmperorBTC.

Market structure basics