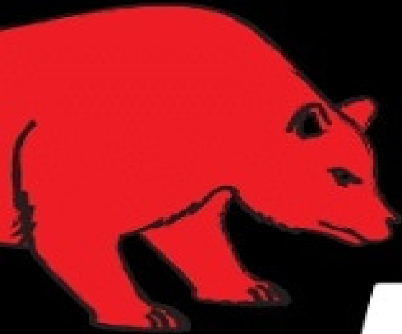
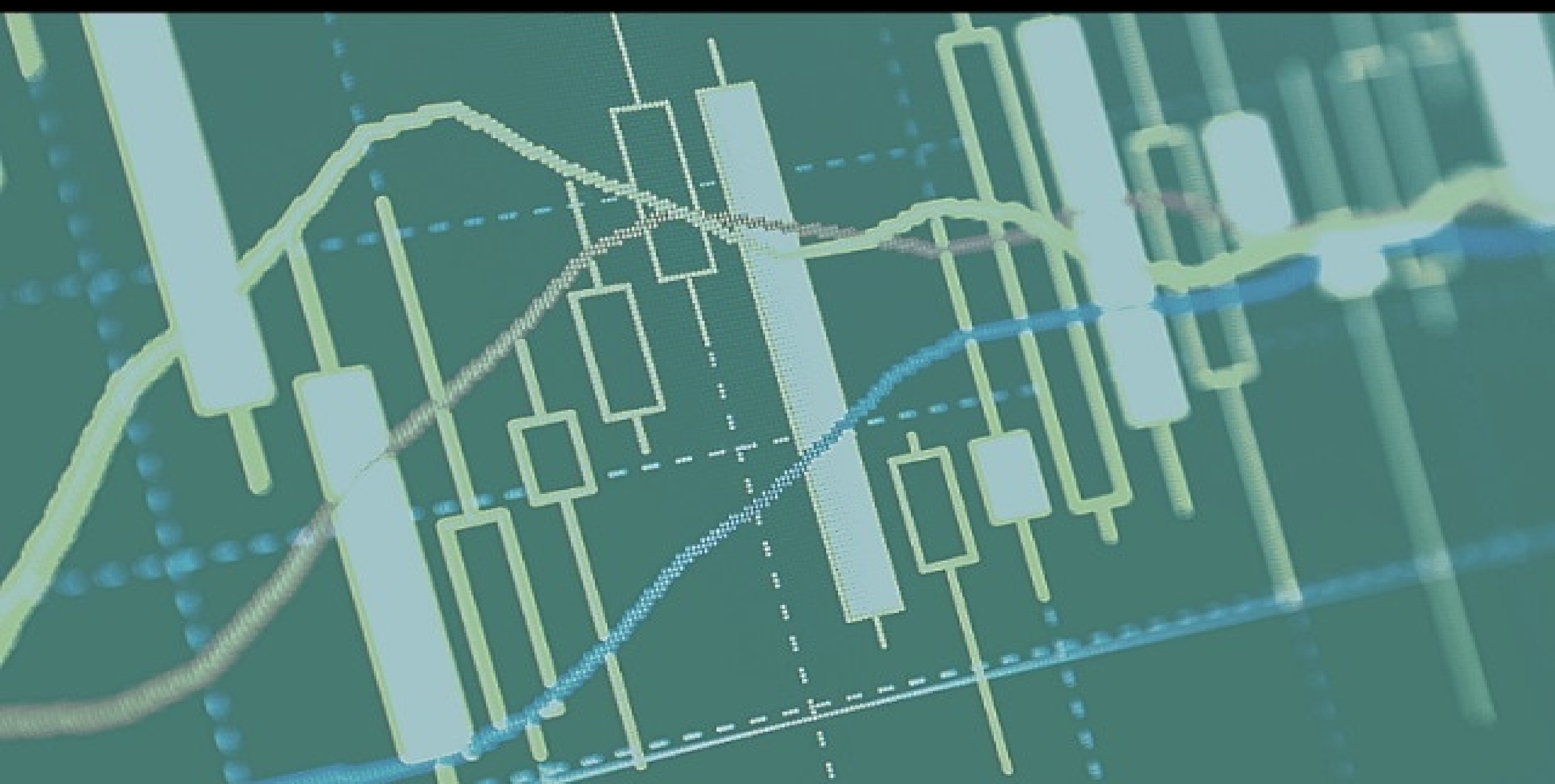


PRICE ACTION TRADING



INDRAZITH SHANTHARAJ

PRICE ACTION TRADING

A Simple Stock Market Trading Book for Beginners – Applicable to Intraday Trading, Swing Trading, & Positional Trading

Indrazith Shantharaj

First published in 2021

Dedication

This book is dedicated

Mr. Keshav Kumar. B

Who is my mentor and

Give the strength to bounce back in life!

Disclaimer

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Technical analysis is a study of past performance, and past performance does not guarantee future performance. Investors and traders are advised to take the services of a competent expert before making any investment or trading decision.

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Preface

After writing three books on the stock market, I thought I would never write one more on the same topic. However, after completing a 25-days pan-India road trip with two of my close buddies, I started thinking: - how can I miss writing a book on price action. A sense of urgency and uneasiness began to push me to write on price action trading.

I visited the same guesthouse I have mentioned in the '**How to make Money with Breakout Trading**' book, and stayed there for a few days. During those days, things became clearer in my mind, and I completed this book.

This book explains how to take successful trades using raw price action, a detailed explanation on Price and Volume, and guidelines to take up trading as a full-time career.

Let's begin!

Acknowledgments

Many helped in the preparation of this book. I would like to thank all my Trading Gurus who taught me everything about trading.

I would like to thank Trading View (https://in.tradingview.com/) as all the charts which are used in this book are taken from them.

Many traders helped me immensely to spread awareness about my books. They are **Sanket Gajjar**, **Harneet Singh**, **Rachit Jain**, **Rajarshita**. More power to you guys!

Thanks to Tony who helped with editing and proofreading.

I have a big list of friends who have supported me in all my book ventures. I will be forever grateful to all of them.

Indrazith Shantharaj
Feb 2021

Chapter 1

Why I Ditched Technical Indicators?

Let me clarify one thing in the beginning. This book is not about glorifying price action trading and condemning indicators. It is all about sharing in-depth information about price action trading, a unique approach to see the price-volume relationship, and also how to switch to full-time trading.

I have a crazy friend who does ultra-crazy things in his life and career. He was my engineering classmate, and I have known him for 20 years. He used to disappear during college days, working holidays, and he would appear, all of a sudden, one day before the exams. He used to beg close friends to share some of their learning on the subject just one day before the exam; but still managed to secure a top-5 position in all the semesters.

My friend ditched all the campus placement offers, and instead, opted to travel through entire India by train. For the next 3 months, he traveled across different cities of India. When he came back from his trip, most of us had started working in some I.T. companies. Instead of following the traditional route, he started his career with a BPO call center job.

After 2 years in the call center job, in night shifts, he wanted to switch his career to I.T. All of us discouraged him, saying, now it's too late to get into an I.T. job. But he was able to get a development role in a small I.T. firm. Initially, he was rejected in the interview.

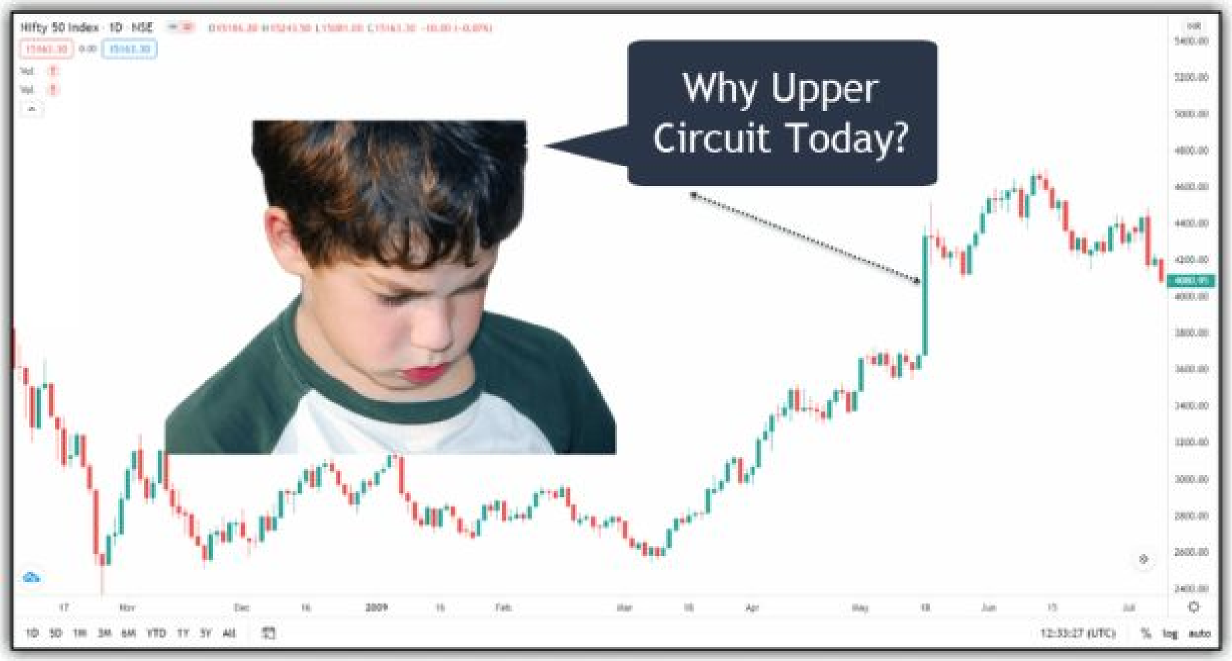
But he had asked two questions to the interview panel:

1) I didn't have any call center experience, but still, I was able to get the '*Employee of the Year'* award in my current company. So, how can you be so sure that I won't perform here (I.T.)?

2) How can you reject my candidature without testing my abilities? Please give me an opportunity for 3 months, don't pay me any salary. If I perform well within the 3 months, give me the offer, else throw me out.

Again he was able to get the role. He worked there for 3 years, and when he was ready to move on, the company offered some % of its stake to retain him. He rejected the offer and moved on. He is still in touch with me, but he doesn't disclose anything about his profession. He is in the U.S for many years, and there is a strong rumor among our friends that he is working on a secret project for the U.S government (as he worked on the Aadhar project in India).

I need to write a separate book to explain his qualities. But to cut it short, he took adventurous and crazy decisions throughout his life. He emerged as a winner in all of them, except one. That one exception belongs to the stock market, and that incident pushed me to consider trading on a serious note. Until then, I was not very serious about markets. I used to buy and sell some shares but never thought of trading as a career.



It was 18-May-2009, and it's a Monday.

Nifty has hit the **Upper Circuit** on that day.

It's a significant and shocking experience for all traders.

All the traders expected a big fall because everyone thought none of the groups would get the majority in the Union elections. But election results were announced on Saturday, and the UPA group had acquired the majority.

People started expecting further fall because many thought that the UPA group is not favorable for markets (It is not my view, and this is what I heard from many people in those days).

My friend also had a similar view, and hence he had bought a lot of short positions in Nifty using margin (in those days, margin rules were not strict).

But to everyone's surprise, Nifty showed a positive open on 18th May 2009, and within a few minutes, it had hit the upper circuit. I couldn't believe this move and failed to calculate how much money my friend had lost. I tried calling him, but there was no response from him. After a week, he appeared and shared how much money he had lost. It was a significant amount (at least for the people who had started their career just 3-4 years back).

Till then, I was a happy soul. I used to do some equitable work at my office, loved my intense sessions in the gym, and enjoyed my trips every weekend. But this incident haunted me and raised a big question in my heart; for the first time, I became serious, and at the same time, very curious about the markets!

Coming back to indicators, I don't hate them or am against them. I do enjoy studying their behavior in different market conditions. Indicators help beginners as they bring some discipline in their trading (otherwise, they will take a lot of trades in 1-2 days only to lose all their money). Besides, it also helps Algo traders to develop some rules in their trading systems. But I don't use any of them in my trading as they are not necessary for me.

I have seen a few successful traders who use only price action trading. I have seen some profitable traders who use 1-2 indicators in their trading system.

But I have seen many traders who lose money with naked price action trading, as well as with indicators. Hence, debating price action trading vs. Indicators is a waste of time. I suggest picking the one which suits your personality. This book gives a detailed overview of price action trading and can give you an edge if you choose this route.

Below are the reasons why I ditched technical indicators:

Indicators Don't Dictate the Price

I feel sad for some people when they come with queries such as, '*RSI is at 30 for XYZ stock which is an oversold zone, can I buy XYZ now?*' or '*ABCD stock is at 200 DMA; hence it cannot fall from here, can I accumulate some position?*'.

Their question itself indicates the ambiguity. They are specifying the sure-shot movement of the price (due to RSI or DMA levels), but they are also looking for suggestions to buy it, which is strange, isn't it?

The price doesn't know or doesn't care whether the RSI is in an oversold zone or close to 200 DMA. It does efficiently what it has to do. If the price falls further, the RSI level will also fall further, but at a slower rate, and the moving average will start moving down slowly.

So it is better to remember, as the name suggests, that 'indicators' give an indication and don't dictate the price. Any fluctuations in the price will also bring changes in the indicators.

Let's take a few examples to understand this concept.

Image 1.1 – Failure of RSI Overbought in Bajaj Finance

If you look at image 1.1, buying straightway when the RSI reaches 30 levels (which is an oversold zone) is a terrible idea, and this trade would have ended with a significant loss. As I said earlier, the price doesn't know or doesn't care about RSI movements.

Image 1.2 – Failure of 200 DMA Support Concept in USD-CAD

If you look at image 1.2, buying straightway when the price reaches 200 DMA is a bad idea, and again this trade would have ended with a significant loss.

I can go on with many indicators, but I don't want to make this a boring book. I want to keep it simple yet effective to convey essential concepts. The key take away is, 'Indicators don't dictate the price!' and never take a trade just because some indicator shows some level.

Indicators Ignore Human Psychology

"***What has happened in the past will happen again. This is because Markets are driven by humans, and human nature never changes***." – Jesse Livermore.

"***Whenever I have had the patience to wait for the market to arrive at what I call a Pivotal Point before I started to trade; I have always made money in my operations***." - Jesse Livermore

These are two quotes by the world-famous trader Jesse Livermore. If you observe them, it indicates the importance of human psychology. Hence, this psychology will be reflected at certain key levels in price. One can name them as pivotal points, support & resistance zones, supply & demand zones, etc.

Millions of people trade in a stock/index, and their combined actions result in the up or down movement of the price. Hence, there will be a few pivotal points in any stock or index, and planning a trade near them will always provide good risk-reward trades.

Image 1.3 – Key Level Concept in BEL

If you look at image 1.3, 75 price level acted as a critical level. Whenever the sellers pushed the price to break this level, a strong buyer has accumulated and prevented the fall. Hence, there is a higher probability that the same level will also play a crucial role in the future (unless the big buyer at 75 changes his view).

But all the indicators fail to identify these crucial price levels. It doesn't matter whether you are using RSI, Bollinger Bands, Stochastics, or some crazy combination of your own indicators. They fail to identify these crucial levels, and hence we miss many such good trade opportunities.

Do you agree?

Indicators are lagging in Nature

You can pick any indicator, but none of them generate trading signals along with the price. There will always be some delay compared to the price (it is commonsense as most of the indicators are derived from the price).

I will take one simple example to explain the same.

Most of you know that EMA crossover is a primary and popular trading system in the traders' community.

A simple system is a combination of 10 EMA and 50 EMA. A buy signal is generated when the 10 EMA crosses 50 EMA from the downside, and a sell signal is generated when the same 10 EMA crosses 50 EMA from the upside.

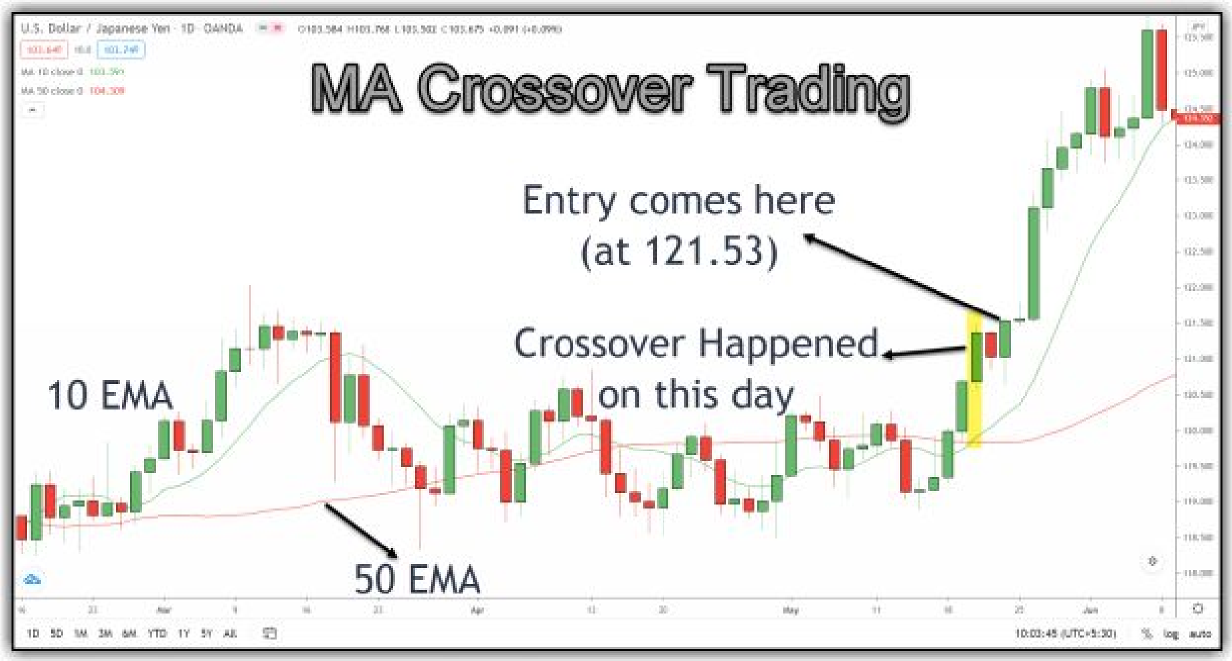


Image 1.4 – Entry based on M.A. Crossover

If you look at image 1.4, 10 EMA crossed 50 EMA from downside on 20-May. Hence, an entry will come at 121.53 on 22-May (above the high of the crossover candle). It is a late entry as compared to the price action trading.

Image 1.5 – Entry based on Price Action

If you look at image 1.5, there was a decisive break out of the resistance trend line on 19-May, and the entry would have been on 20-may at 120.7 level. We would be in the trade 2 days earlier as compared to the M.A. crossover trading system.

At this stage, one might argue that if we reduce the duration of the M.A. (for example, from 10 EMA to 5 EMA) in the M.A. crossover system, it might generate the entry at an early stage.

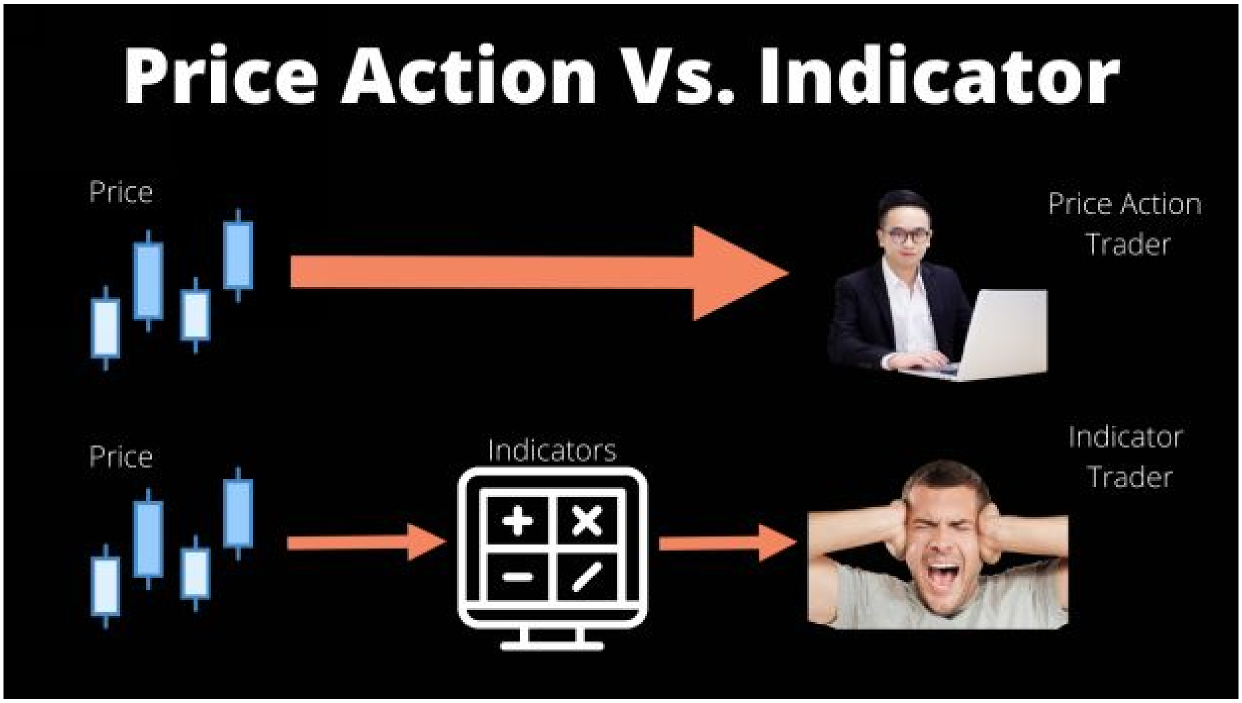
I do agree with that. But I have a question – Is it a good idea to keep on adjusting this for every stock/index you trade? Or is it better to focus on the price, which is simple, yet powerful and gives fantastic Trading results?

Indicators Overcomplicate Trading

How many indicators are there in the market?

1000? 5000? Maybe 10,000?

There is no end to this number as anyone can develop an indicator using any online platform such as 'Trading View,' 'Chartink,' or 'Gocharting.'



The next question is which indicator to choose among the big list of these indicators?

Even if a trader chooses 2-3 indicators, they can come up with different readings anytime. Isn't it?

Now, don't get me wrong. I don't want to deprecate indicators. My concern is that people add 4-5 indicators on the chart, wait for some crossovers or overbought/oversold scenarios, and then pull the trigger. In the end, they don't even know what instrument they are buying or selling.

After some time, these traders feel bad when they don't see good results, and then what do they do?

They start looking to add one more indicator in their trading system, thinking it will fix the problem. It's a vicious cycle!

From the logical perspective, I don't see much difference between a price action trader and an indicator based trader because both are trying to analyze the price but using different approaches.

Let me explain.

A price action trader studies the price directly.

Most of the indicators are derived from the price. Hence, an indicator trader is also studying the price, but indirectly.

Don't you think it's better to study the price directly instead of investigating the same price using different indicators?

I will leave the choice to you!

Chapter 2

A Quick Intro to Price Action Trading

What is Price Action?

'Price Action' means price fluctuations of a stock or index in the given market.

On any trading day, from open to close, the price keeps on changing. This variation is nothing but price action.

Image 2.1 – A Simple Example for Price Action Trading in Bank Nifty

The above image is a Bank nifty 5-minute chart on 24-Dec-2020, and price varied from 30007 (low) to 30546 (high). This variation is nothing but 'Price Action.'

What is Price Action Trading?

'Price Action Trading' is a trading concept in which a trader reads the chart, and makes subjective trading decisions based on the price movements, rather than relying on technical indicators or any other factors.

In simple words, traders use only '***Price***' and '***Volume***' to make any trading decision.

Image 2.2 – Price Action Trading Example in Nifty

If you look at the above image, only a price chart is used to make trading decisions. Traders can also use 'Volume' information along with the 'Price' chart to plan a trade. It is nothing but 'Price Action Trading.'

The three essential components of trading are (in the same order):

1. Price—it advertises all the opportunities.
2. Time—it regulates all the opportunities.
3. Volume—it measures the success or failure of all the advertised opportunities.

Volume is essential as 80% of the trading volume is given by 20% of the big players.

Hence, 'Price' and 'Volume' information is more than enough to succeed with positional Trading, BTST trading, and long-term trading.

One has to master the 'Time' parameter if one is interested in short term trading such as Intraday trading or scalping. I have covered this topic in detail in chapter-5.

How to use Price Action Trading?

Traders need to spend some time getting a fair idea on price action trading as it will not generate any buy or sell signals like other indicators.

It involves three steps:

1- Identify key price levels using any method like drawing trend lines, pivot points, supply-demand zones, round numbers, etc.

2 – Planning an 'Entry', based on the candlestick patterns at key price levels (for beginners) or using raw price action concepts (for experts).

3 - Similar to Step-2, planning an 'Exit' based on the candlestick patterns or raw price action at key price levels.

When 'Left' became 'Right' for a Shooter!

Karoly Takacs was born in Budapest and serving the Hungarian Army. From his childhood days, he was interested only in one sport, which is shooting. His main ambition in life was to win an Olympic gold medal for his country.

By 1936, he was already a world-class shooter. But he didn't get a chance to participate in the 1936 Summer Olympics as he was as a sergeant, and only commissioned officers were allowed to compete in the Olympics games.

Takacs didn't lose hope, and he kept on practicing his favorite sport. Fortunately for him, after the 1936 Summer Olympics, this restriction on non-officers was removed by the Hungarian army, and hence he was free to participate in the 1940 Tokyo Olympics.

So, he started practicing even harder this time. He used to spend many hours every day to practice his shooting. But life had other plans for him. In 1938, during a military drill, a grenade exploded in his hand, and he lost half of his forearm.

Can you imagine his situation now? All his dreams were shattered. He was in the hospital for over a month. When he came back home, he didn't give up practice. He started everything from the beginning, but this time using his **left hand**!

Apart from eating and sleeping for some time, he spent most of his time practicing. After a few months of training with his left hand, he turned up for the Hungarian National Championships in 1939.

All the other shooters assumed he had come to watch the competition and offered their sympathy. But he said, '*I am not here for your sympathetic words, I am here to compete with all of you*!'. He secured first place in the competition, to everyone's surprise, and he was automatically eligible for the next Olympics.

Once again, life had other plans for him. Due to the outbreak of the Second World War, both the 1940 and 1944 Olympics were canceled. He was aged 34 in 1944. For most Olympic athletes, 30s is a retirement age (even today!).

Surprisingly, Takacs didn't give up his training, and once again, he was eligible for the 1948 London Olympics. He was already 38 at that time.

During those years, Carlos Enrique Diaz Saenz Valiente was the world record holder, and he asked Takacs why he is here in London. To this question, Takacs's answer is simple and clear – '***I am here to learn!***'

What happened next should be written in golden letters in the history books. Not only Takacs won the Gold medal, but he also bettered the world record by 10 points!

Takacs appeared again in the 1952 Helsinki Olympics and won the gold medal once again at the age of 42! Valiente (his competitor and previous world record holder) showered compliments on him and said, '***You have learned more than enough; now it's time to teach me!***'.

Now for all traders, who have lost money in trading, there are 2 takeaways from this story:

1- There is no such thing as failure in life. There will be difficult situations that test our character. So, if you have lost money in trading, then accept it. If you don't accept it, your mind will not be open to learning. The loss is part of the game, and we are not supposed to make the same mistakes in this business.

2- You have lost money because you failed to display persistent effort with one trading concept. A basic understanding of 10 different trading concepts will not fetch the money in trading. But a deep understanding of one trading system, along with proper risk management, can give success in trading.

Always remember these two quotes:

"***All You Need is One Pattern to Make a Living!"*** – Linda Raschke

"***I am not afraid of a person who knows 10000 Kicks. But I am afraid of a person who knows one kick but practices it for 10000 times!***" – Bruce Lee.

Chapter 3

Never Underestimate Support and Resistance

As explained earlier, two things play a crucial role in price action trading:

1- Identification of Key Price Levels

2- Confirmation from the price (either through candlestick patterns or through price acceptance/rejection)

The 'Key Price Levels' can be identified through many methods. But identifying them through Support/Resistance by drawing trend lines is the most effective method.

Many traders consider support and resistance concepts as basic trading concepts, and hence they look for some complicated analysis.

But simple things can create wonders in life as well as in trading. I request you to have an open mind and read this chapter thoroughly. I promise you that your ideas and understanding of support and resistance will change forever.

A trader who uses an indicator will have a reference level with an indicator to plan a trade. It can be simple concepts like M.A. crossover, Bollinger Band breakout, or overbought/oversold scenario. However, a price action trader doesn't have this luxury as he has only 'Price' and 'Volume' in his arsenal.

One can only use Volume for **confirmation** in the trade setup. Hence, a price action trader has to depend entirely on the 'Price' to plan his trades.

It appears as a drawback to the price action traders. But in my opinion, it is a boon for them because they have to study the price in-depth, which is where 'Support' and 'Resistance' play a crucial role.

How to Draw Trend lines?

A Trend Line is a straight line drawn on a chart by connecting two or more price peaks, which reveals the script's trend, support & resistance points, and allows one to spot any excellent trade opportunities.

Below are some useful references to draw a trend line:

1. Try to connect more number of Peaks (a minimum of 2 peaks is mandatory)
2. The Slope of the Trend Line should be less than 45 degrees (it is the sign of a healthy trend)
3. The price should respect the Trend Line

Image 3.1 – A Valid Trend Line Example in TCS

The above image shows an example of a valid trend line. It has connected around 8 price peaks. The slope of the trend line (w.r.t imaginary horizontal line) is less than 45 degrees, and the price has respected the trend line from the beginning to the end.

Image 3.2 – An Invalid Trend Line Example in USD-JPY

The trend line which is drawn in image 3.2 is invalid. Because, it has not respected the trend line.

The power of a trend line decreases when the price doesn't respect it in between. Always look to draw a clear trend line connecting many price peaks.

Image 3.3 – An Invalid Trend Line Example in USD-INR

Once again, the trend line which is drawn in image 3.3 is invalid. Because the slope of the trend line is more than 45 degrees (compared to the imaginary horizontal line), it is not a sign of a healthy trend. So, it's better to ignore such a trend line.

What is Support?

A support is the price level at which demand is strong enough to prevent any further fall in the price.

Image 3.4 – A Support Trend line example in Tesla INC

The above image shows an example of a support trend line. The logic is straightforward. People do remember their entry or exit levels either because of pleasure or pain. It would have been pleasure to have made profits or pain if they had lost money.

Hence, whenever the price falls towards support and gets cheaper, buyers become more inclined to accumulate the stock. By the time the price reaches the support level, it is evident that demand will overcome supply and prevent the price from falling below support.

In image 3.4, whenever the price corrected to 58-59 levels, buyers accumulated the stock, and hence it bounced from this level.

Image 3.5 – A Support Box example in Canara Bank

The market is dynamic, and we can't expect that a single price level acts as support every time. Sometimes, a small range of price levels will serve as support, which can be called a 'Support Box.'

In image 3.5, the price range between 130-160 acted as a support box.

What is Resistance?

A resistance is a price level at which selling is strong enough to prevent the price from rising further.

Image 3.6 – A Resistance Trend line example in Intel Corp

The above image shows an example of a resistance trend line. The price level 53 acted as resistance.

As the price moves towards resistance, sellers will be more active, and buyers will be less inclined to buy. By the time price reaches the resistance level, the supply will overcome the demand and stops the price from rising above resistance.

Image 3.7 – A Resistance Box example in Canara Bank

Like a support box, many times, a range of price levels acts as resistance, which can be recognized as a 'Resistance Box.'

In image 3.7, the price range between 290-300 served as resistance.

Variations of Support and Resistance

There is no rule in the market that support and resistance lines are perfect horizontal lines. These support and resistance trend lines often come with a small angle, which is also acceptable.

Image 3.8 – Angled Resistance Trend line example in NVIDIA Corp

The above image shows an example of an angled resistance trend line. Whenever the price bounced towards the angled resistance trend line, sellers entered, and their force pushed the price to the downside.

Image 3.9 – Angled Support Trend line example in IMPINJ INC

The above image shows an example of an angled support trend line. Whenever the price corrected towards the angled support trend line, buyers entered with buying, and their force pushed the price to the upside.

I am not in a position to give a valid explanation of why and how these angled trend lines work. However, I have seen it works very well with the market. Hence, I have deployed them in my trading.

Fatal Mistakes Every Trader should Avoid

Do you know why many traders don't get good results with support and resistance trading concepts? or can you think of any reason why many traders don't believe in, or use support & resistance trading concepts in their trading?

It points to one simple reason.

They assume that a support trend line always prevents the fall and a resistance trend line always resists the bounce.

Besides, they fail to understand *when* the price will take support at the support line or break the support line. The same explanation goes with the resistance line.

Can you think of any better reason? I am sure there is no other reason.

What if you develop an ability to understand whether the price will take support at a support trend line or not and whether price will take resistance at a resistance trend line or not?

Then you can make profitable trades most of the time, isn't it?

Chapter-4 and Chapter-5 explain this concept in detail. But it would be best if you came out of the primary assumption about the infallibility of these lines. A support level may not act as support every time, and a resistance level may not act as resistance every single time.

Then why to use support & resistance?

I am sure the above question has popped-up in your mind now. But the answer is simple.

When the price fails to take support at the support trend line, it gives a big move in the opposite direction, and if we can take this trade, it increases our profits!

Image 3.10 – Break of Support Line resulted in a big move downside in L.T.

The above image shows an example of the failure of the support line. There is a good support trend line on the chart. But when the price reached the support trend line on 25th and 26th Feb, it failed to take support due to the absence of buyers. Hence, it resulted in a big move to the downside.

What if you could foresee this and opted for a 'short' trade after the breakdown of the support trend line instead of waiting to take a long trade? You would have made damn good profits, isn't it? It is the reason we need support and resistance trend lines for price action trading.

Image 3.11 – Break of Resistance Line resulted in a big move upside in CEAT LTD

The above image shows an example of a failure of the resistance line. There is a good resistance trend line on the chart. But when price breached the resistance trend line on 14th March, it resulted in a big move to the upside.

Again, what if you knew early on that the price will not take resistance this time? One can take a better entry in the right direction, isn't it?

Welcome to the exciting world of PRICE ACTION TRADING!

The real essence of price action trading starts in the next chapter. But I request you to read and understand this chapter thoroughly as this is the core foundation for it.

Chapter 4

10 Candlestick Patterns to Step-up Your Trading

I will repeat once again. Two things are crucial in price action trading – 1) Identifying key price levels, and 2) Confirmation or Rejection of the price, to look for any profitable trade opportunities.

In the last chapter, we have covered different aspects of identifying key price levels using trend lines. This chapter focuses on 10 powerful candlestick patterns used for confirmation/rejection of the price at key price levels.

Please note, we are not supposed to use these patterns independently. We need to check for these patterns only at the key price levels.

There are 1000s of candlestick patterns present in the world of technical analysis. Do you think studying and memorizing all of them is practically possible?

Heck, No! isn't it?

Then what is a better way to shortlist them?

It's better to shortlist the candlestick patterns based on two parameters:

1. **Impact of the Pattern**
2. **Repeated Occurrence of the Pattern**

Because if a candlestick pattern has less impact, then it is not useful. Similarly, if a candlestick pattern is powerful, but if it rarely occurs, then again, it is of no use. Is it?

Considering these two parameters, below are some powerful patterns that occur very frequently on all the timeframes.

Bullish Engulfing

Engulfing candles tend to signal a reversal of the current trend/swing in the market. It involves two candles, with the latter candle 'engulfing' the previous candle's entire body.

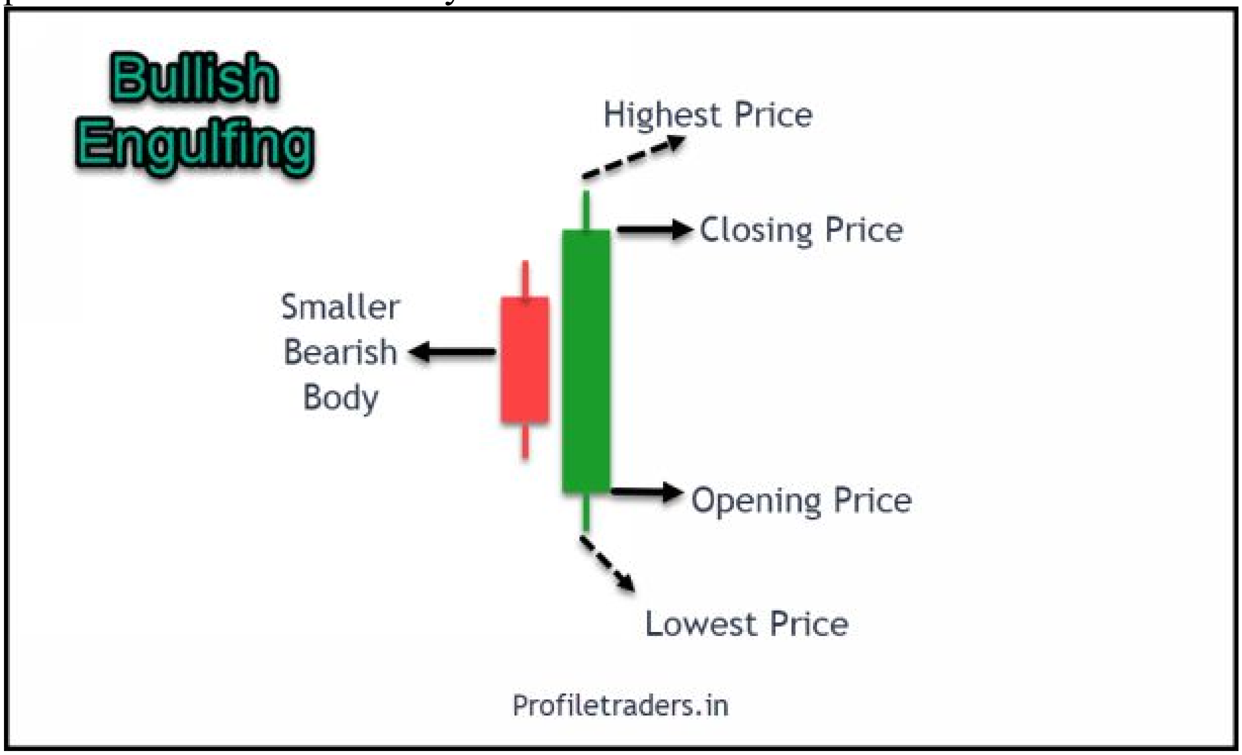


Image 4.1 – Bullish Engulfing Pattern

In the bullish engulfing pattern, the first candle will be a small bearish candle. The second candle opens below the first bearish candle, trades lower than the bearish candle, but due to the entry of powerful bulls, it will witness a close above the bearish candle. Hence, it engulfs the first bearish candle.

It is 'bullish' in nature.

Image 4.2 – Bullish Engulfing Pattern in CEAT LTD

Image 4.3 – Bullish Engulfing Pattern in Jacobs Engineering

Image 4.2 and 4.3 are examples of Bullish Engulfing. The price is in downtrend/swing, and the bullish engulfing pattern appeared at the support trend line. The price rallied on the upside after displaying the bullish engulfing pattern.

Bearish Engulfing

Engulfing candles tend to signal a reversal of the current trend/swing in the market. It involves two candles, with the latter candle 'engulfing' the previous candle's entire body.

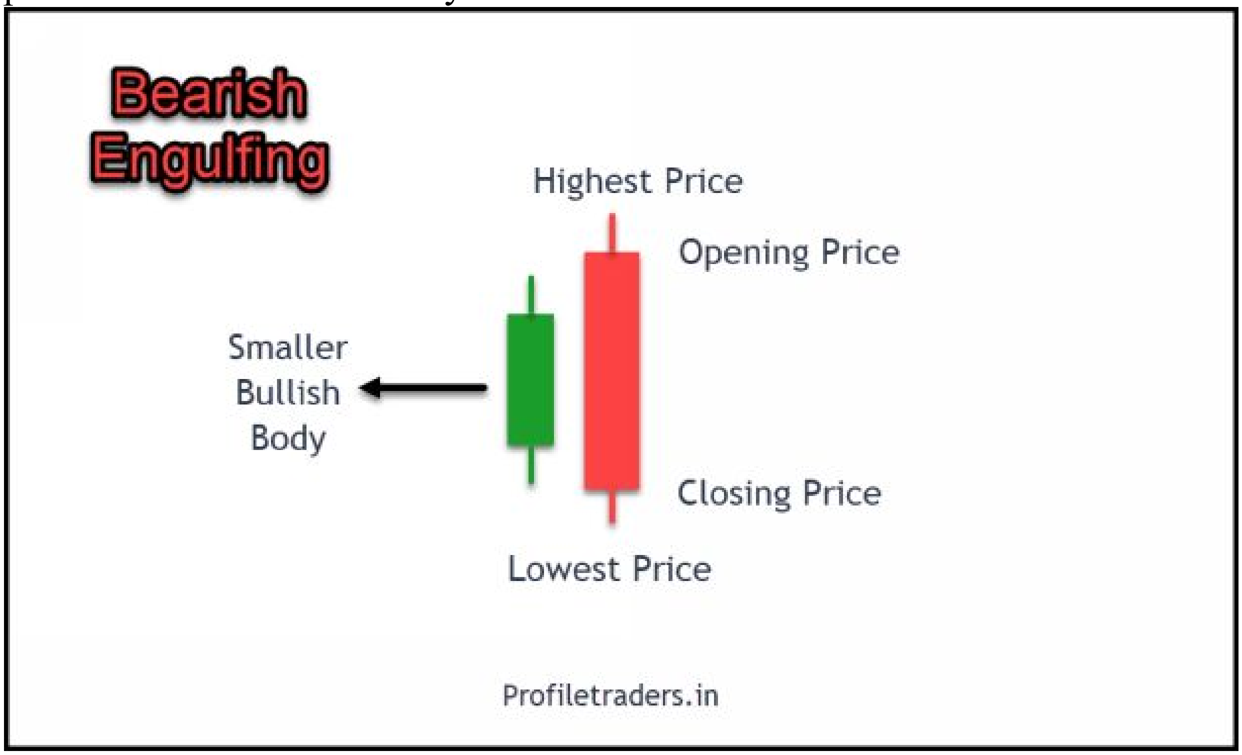


Image 4.4– Bearish Engulfing Pattern

In the bearish engulfing pattern, the first candle will be a small bullish candle. The second candle opens above the first bullish candle, trades higher than the bullish candle. Still, due to the entry of powerful sellers, it will witness a close below the bullish candle. Hence, it engulfs the first bullish candle.

It is 'bearish' in nature.

Image 4.5– Bearish Engulfing Pattern in SBIN

Image 4.6– Bearish Engulfing Pattern in Bank Nifty

Images 4.5 and 4.6 are examples of Bearish Engulfing. The price was in an uptrend/swing, and the bearish engulfing pattern appeared at the resistance trend line. The price fell after forming the bearish engulfing pattern.

Hammer Pattern

When a stock price trades significantly lower than the open price, it bounces back due to the sudden entry of bulls. It closes a little below or above the open price, which results in the Hammer pattern.

If it occurs at a critical support level, then there is a high probability of reversal in the price chart.

Image 4.7 – Hammer Pattern in Bajaj Finance

Image 4.8 – Hammer Pattern in Nifty

Images 4.7 and 4.8 are examples of a hammer pattern. It derived its name as the shape looks like a hammer. In this pattern, the lower shadow is at least twice the size of the real body.

Hanging Man Pattern

It looks similar to the Hammer pattern. However, it occurs at the end of the uptrend and resembles a hanging man from the top. Hence, it's gets its name. It indicates the potential reversal of the price from the uptrend.

If it occurs at a critical resistance level, then there is a high probability of reversal in the price.

Image 4.9 – Hanging Man Pattern in KELLOGG

Image 4.10 – Hanging Man Pattern in TATA Power

Images 4.9 and 4.10 display a hanging man pattern. In image 4.9, the price was in an uptrend, and the price displayed the hanging man precisely at the resistance line. In image 4.10, the trend was down, but the hanging man appeared at the upswing within the downtrend.

It indicates that the buyers have lost their strength to push the price to the upside. Hence, there is a higher probability of price reversing from that level.

Harami Pattern

Like Engulfing, we have two 'Harami' patterns – 1) Bullish Harami and 2) Bearish Harami.

The word 'Harami' means a pregnant lady in the Japanese language. This pattern appears like a pregnant lady, and hence it got this name.

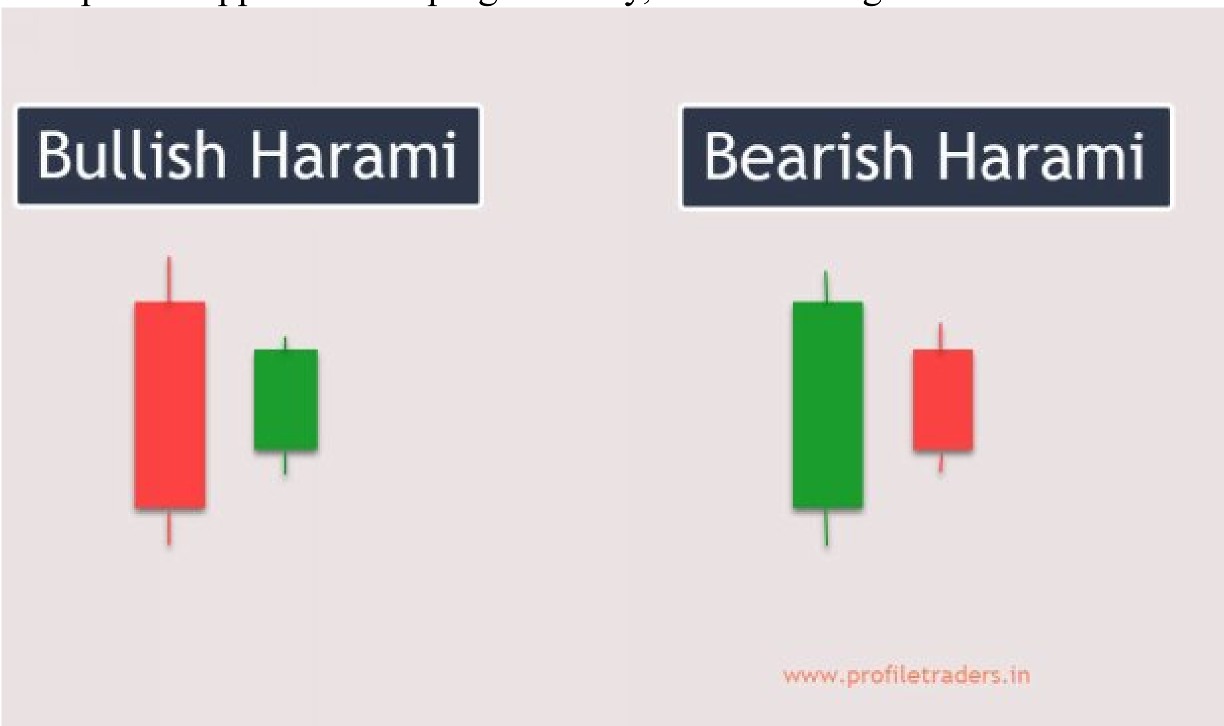


Image 4.11 – Bullish Harami and Bearish Harami

Bullish Harami includes a big bearish candle first, followed by a small bullish candle in the middle. It indicates that the selling is over, and there is a high probability of the price going upward.

Bearish Harami includes a big bullish candle first, followed by a small bearish candle in the middle. It indicates that the buying is over, and there is a high probability of price going in the downside direction.

Image 4.12 – Bullish Harami in Maruti

Image 4.13 – Bearish Harami in DLF

The images-4.12 and 4.13 show examples for Bullish Harami and Bearish Harami pattern respectively.

Morning Star Pattern

A morning star pattern consists of three candlesticks, which occur in a downtrend and often indicate the beginning of the uptrend.

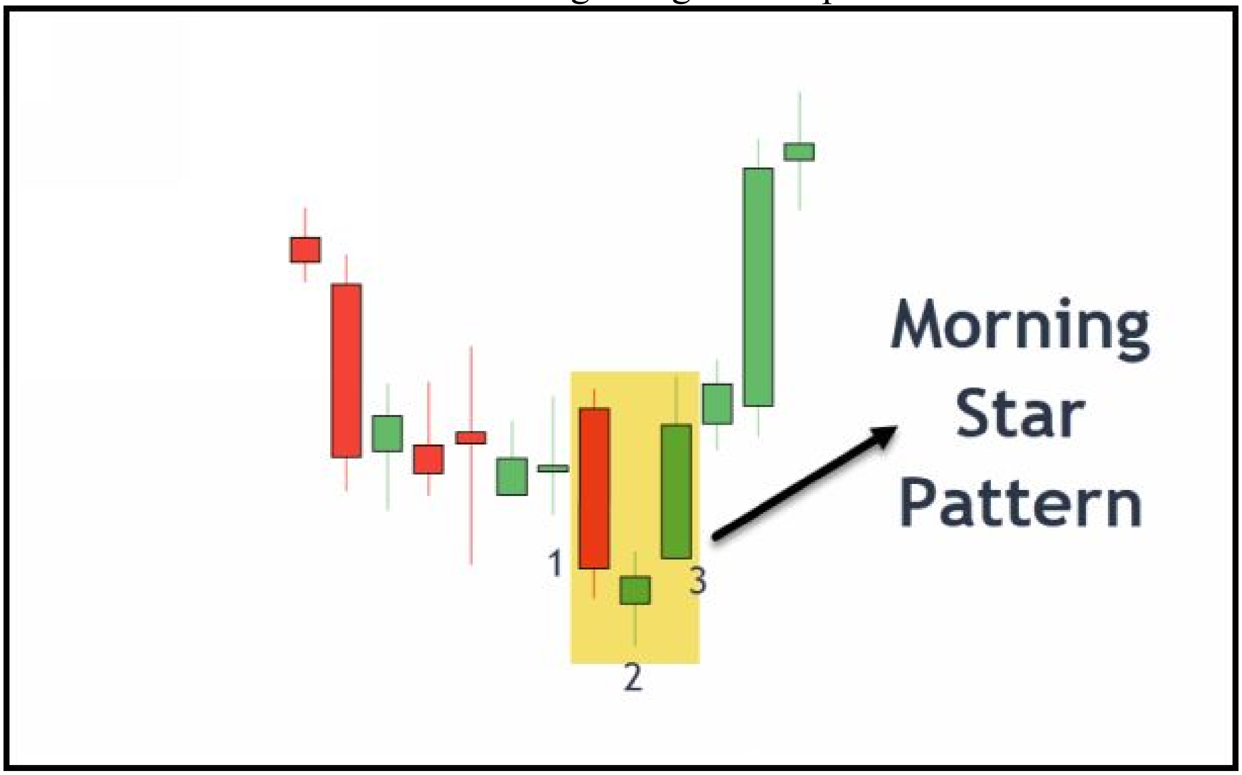


Image 4.14 – Morning Star Pattern

Image 4.15 – Morning Star Pattern in TATA Steel

It consists of 1-2-3 formation in a downtrend, indicating the sign of a change in the trend. The first candle is bearish, and the second candle indicates indecision, and the third candle indicates the bullish behavior of the price.

Evening Star Pattern

It is similar to Morning Star but in the opposite direction. Again this pattern consists of three candlesticks that occur in an uptrend and indicate the beginning of the downtrend.

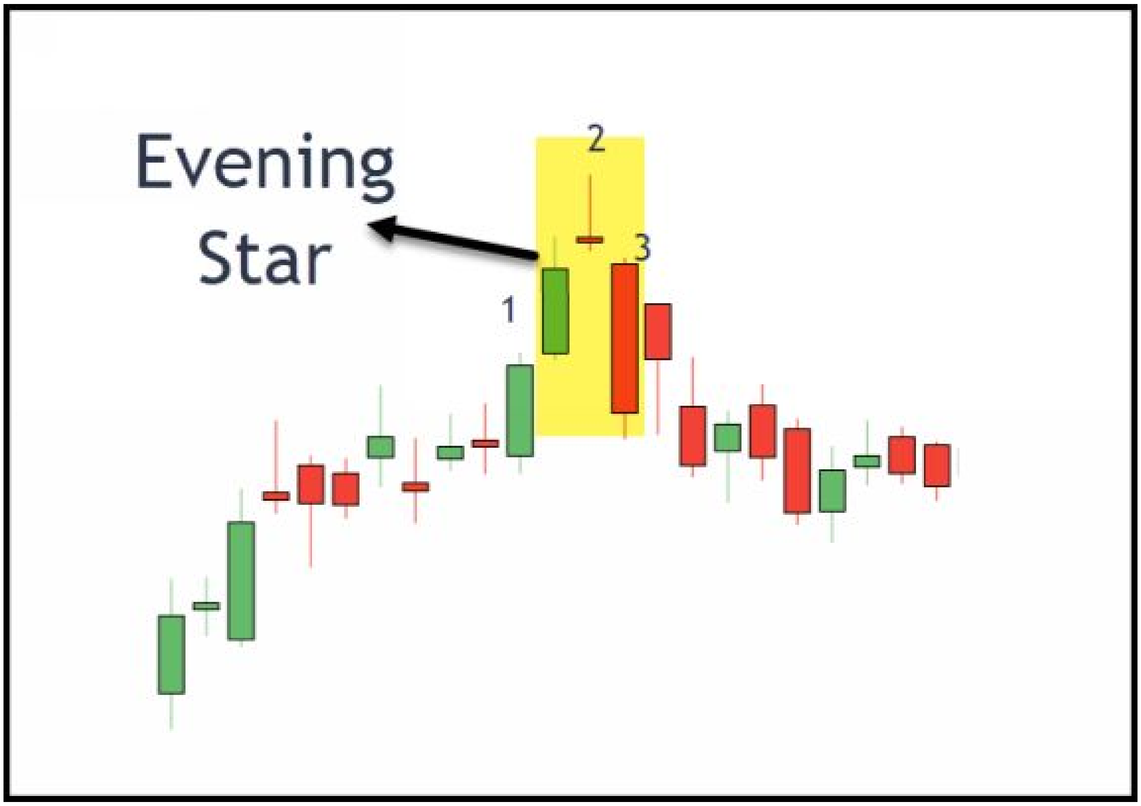


Image 4.16 – Evening Star Pattern

Image 4.17 – Evening Star Pattern in GBP-USD

Similar to Morning Star, this pattern also consists of a 1-2-3 formation but in the opposite direction. It indicates sign of a downtrend. The first candle is bullish, the second candle indicates indecision, and the third candle indicates the bearish behavior of the price.

Doji Pattern

In a Doji pattern, the open and close prices will be nearly equal for the selected time period. It is a neutral pattern that indicates indecision.

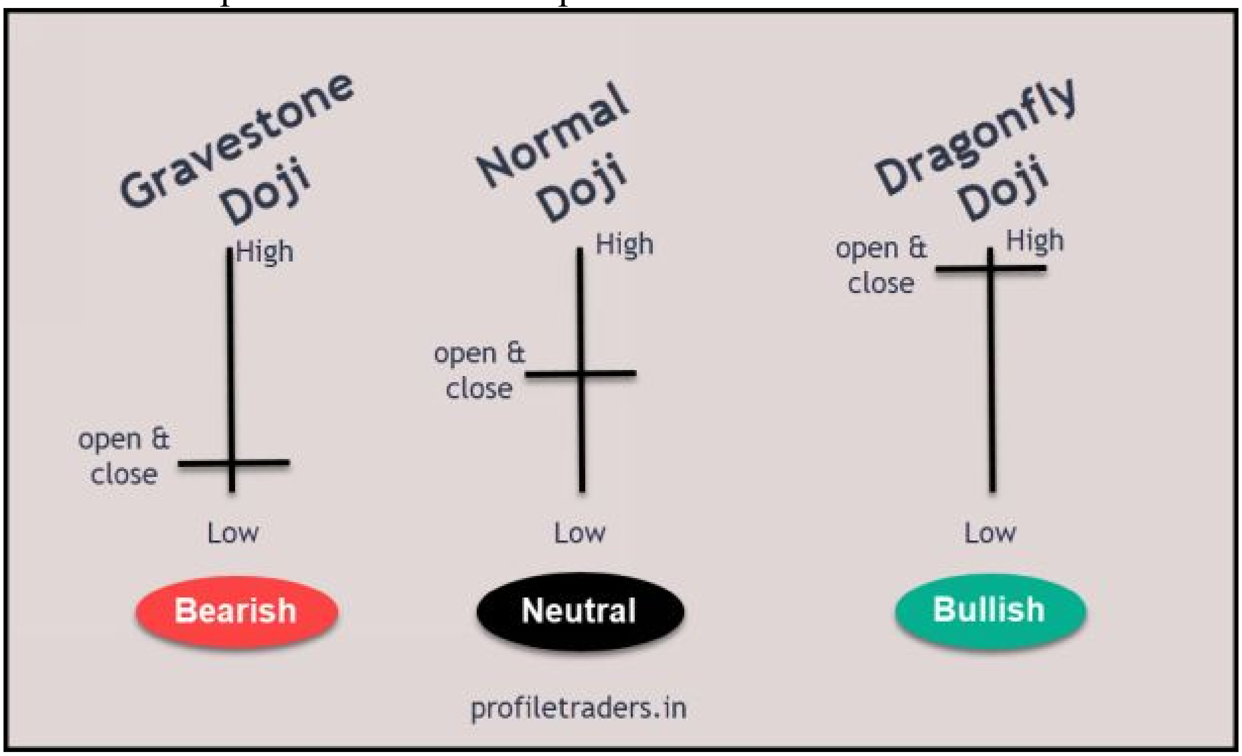


Image 4.18 – Doji Pattern

The above image shows different variations of Doji. In all three types, the price closed at the open level. However, based on the location of open/close, it is possible to identify the sentiment behind it.

In **Gravestone Doji**, the open & price level will be at the bottom. It indicates that buyers attempted to push the price upside in this period, but they lacked the power to drive the price upside. Hence, it closed at the same open level. We can expect only a downside move until the price negates this pattern.

In **Dragonfly Doji**, the situation is precisely the opposite. In this case, sellers tried to push the price downside, but they failed, and hence price closed at the top.

Therefore, we can expect only an upside move until the price negates this pattern.

In Normal Doji (also called **Long Legged Doji**), there is not much clarity in the price.

Besides, it also indicates the equal fight between buyers and sellers. Hence, it shows perfect indecision. It's always better to wait for the next candle completion if we get a normal doji.

Pin bar Patterns

A pin bar consists of one candlestick bar, and it represents a strong reversal and rejection of the price.

Usually, pin bars have a smaller body and a long tail.

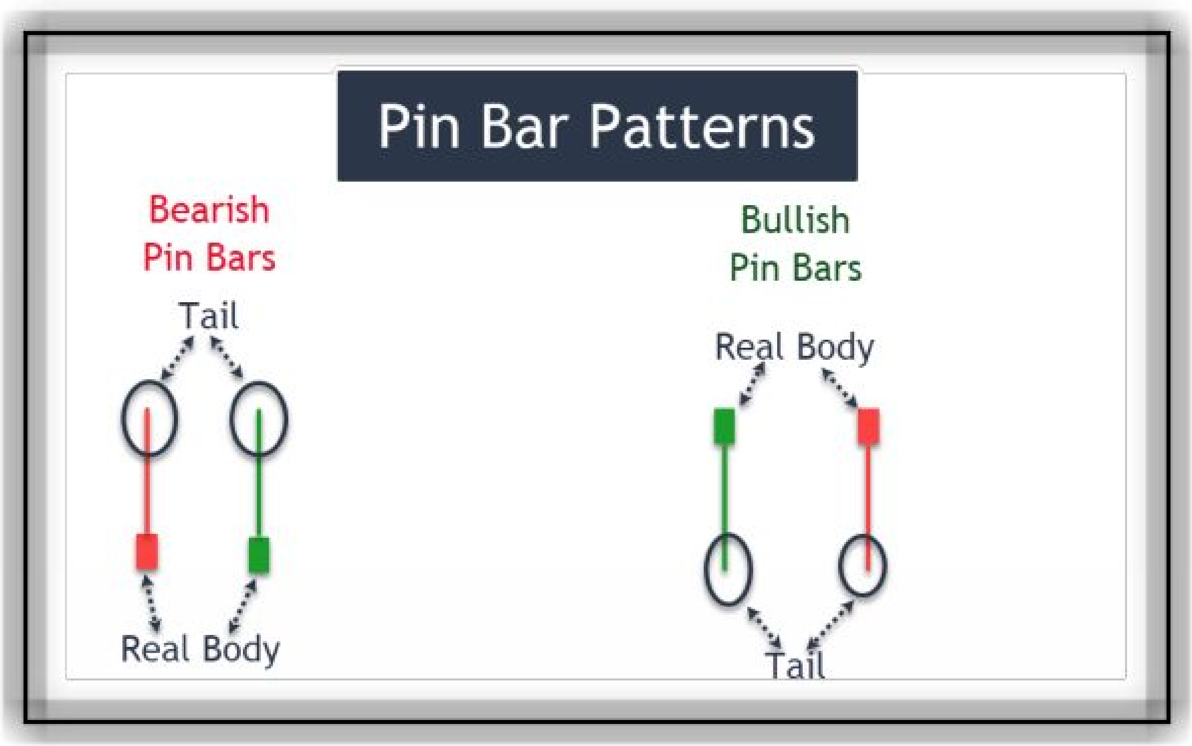


Image 4.19 – Pin Bar Patterns

Again this pattern has two types – 1) Bullish pin bars and 2) Bearish pin bars.

Bullish pin bars are similar to the Hammer pattern. In both types of pin bars, the color of the body doesn't matter much. A longer tail is crucial as it shows the rejection of prices at key levels.

Image 4.20 – Bearish Pin Bar Pattern in PAYPAL Holdings

The above image shows an example of a Bearish Pin bar at the resistance trend line. It indicates the explicit rejection of the price to trade above the resistance trend line. After this point, the price didn't show any signs of recovery and displayed a significant fall.

How to use these Candlestick Patterns?

Traders should not use these candlestick patterns independently to take trades. These patterns should only be used at predetermined key price levels (either support or resistance).

Besides, don't take the trade before the completion of the pattern. For example, if you are using a 1-hour timeframe, and after 30-45 minutes, if it is looking like any of the above-mentioned candlestick patterns, don't opt for the trade immediately. Because pattern might negate or change in the remaining time. It’s always better to plan a trade after the completion of the candlestick pattern.

It’s always better to finalize a trading system and then to apply these candlestick patterns. Otherwise, a trader loses control of trading and ends up with many losing trades every day.

Chapter 5
Price Action Trading Strategies

Do you know why the racing horses' eyes are covered with blinkers or blinders? These blinders are made up of leather or plastic. These are placed on both sides of the horse.

It reduces the angle of the horses' vision by over 75%, but still, all the riders (especially in the races) use it. Are they crazy?

Image Courtesy – Mohamed Noval (unsplash)

The reason is pretty simple and straightforward.

Horses have eyes at the sides of their face, which means they have peripheral vision. It can easily provoke the horse to run in any direction unless they are made to remain focused.

When the riders attach blinders, it will cover the side angle vision and focus ahead. With this device's help, racing horses concentrate better on the target, and they can run with astonishing speed.

The same logic applies to all traders.

We have many trading types, such as Swing Trading, Positional Trading, Trend Following, etc.

If I stop at this point, traders will take trades in all possible trading styles and lose money. So, I will cover a few critical trading styles, and you can pick any one trading style which suits your personality.

Please note, there is no need to implement all of them in your trading.

Swing Trading

Swing trading is a trading technique that seeks to capture a full swing when the price goes to a complete sideways zone.

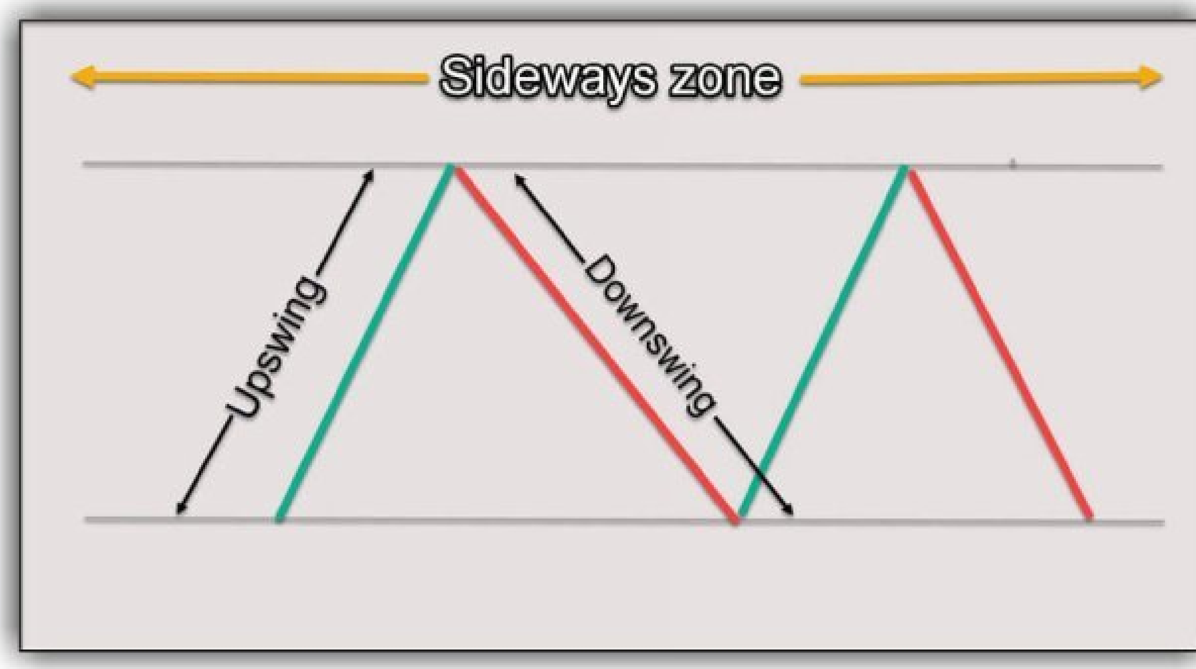


Image 5.1 – Swing Trading

The idea is to get out of the trade before the opposing pressure comes in.

It means you look to book your profits before the market reverses.

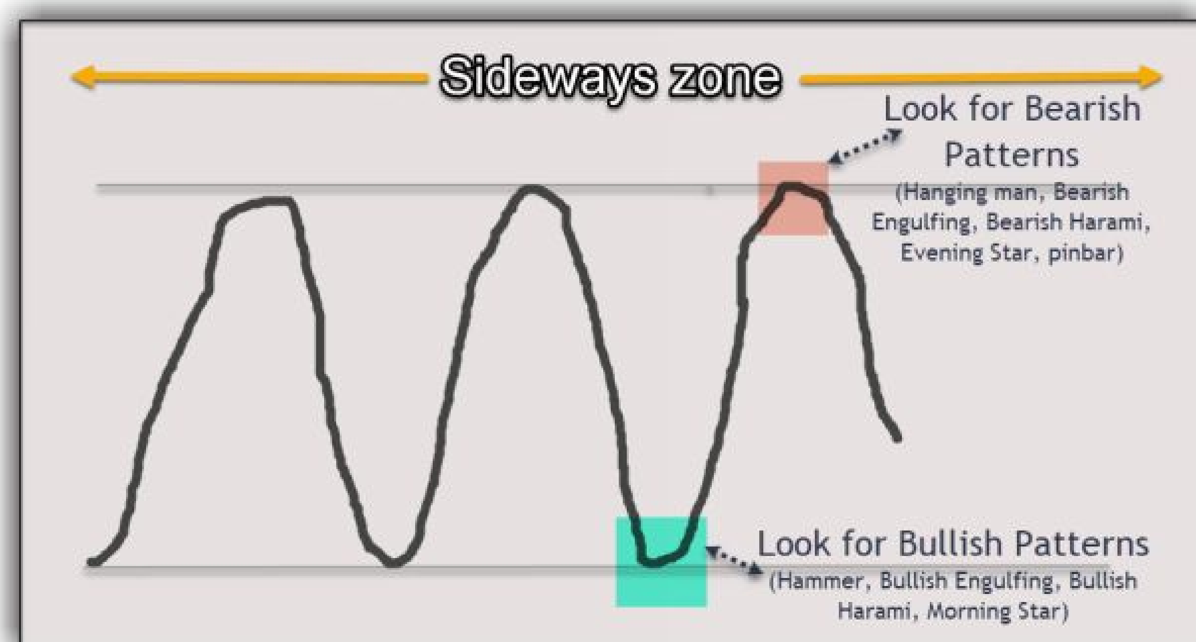


Image 5.2 – Swing Trading Strategy

Identify a range-bound stock or index as the first step.

For a long trade, look for bullish candlestick patterns such as – Bullish Engulfing, Bullish Harami, Hammer, Morning Star.

If you see the price confirmation, opt for a long trade above the chart pattern's high, keeping a stop-loss below the low of the chart pattern.

You can aim for the next resistance line as your target. Plan the trade only if the risk-reward is greater than 1:2.

Image 5.3 – Swing Trading ‘Long’ trade example-1

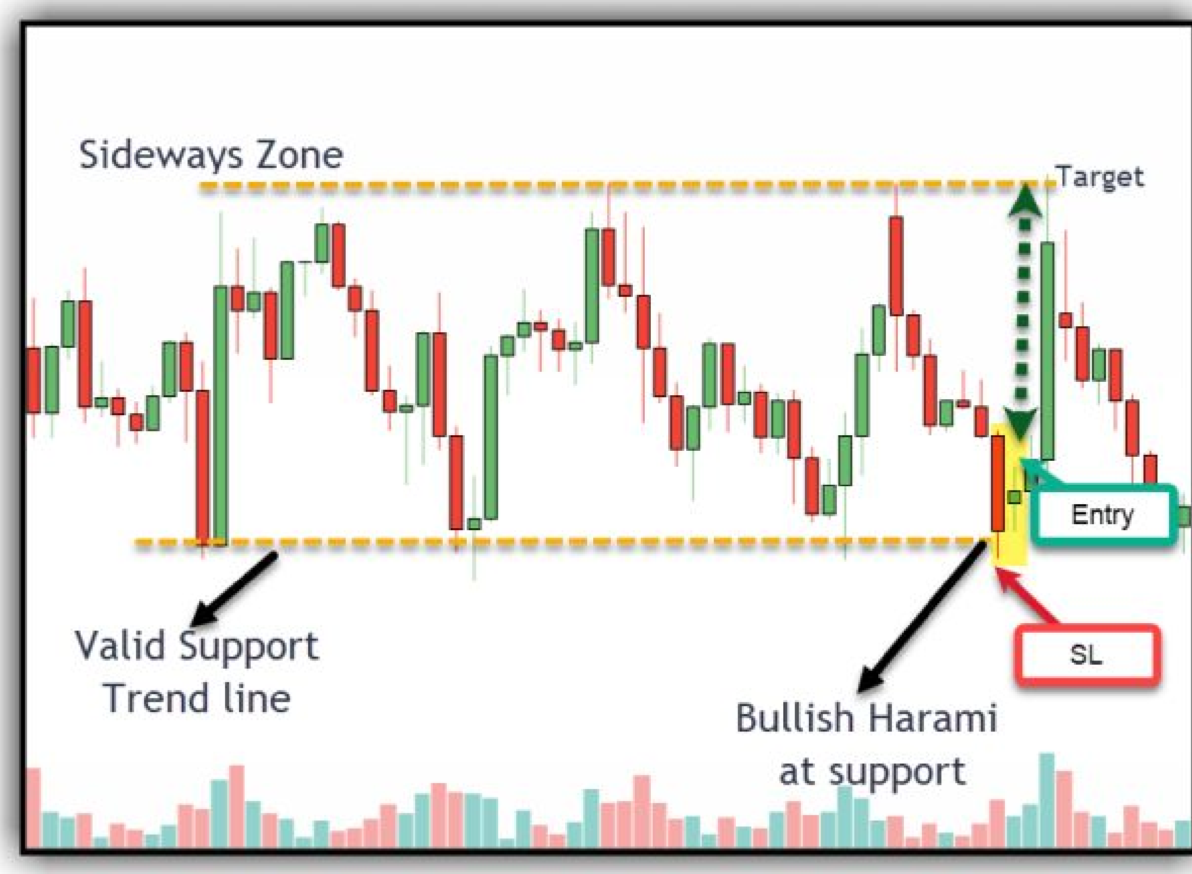


Image 5.4 – Swing Trading 'Long' trade example-2

Image 5.3 and image 5.4 are examples for long trades in swing trading using candlestick patterns. In both cases, the price is in a sideways trend.

There was a good support trend line, and the price displayed candlestick confirmation (Hammer in 5.3 and Bullish Harami in 5.4).

Hence, a long trade can be planned above the high of the confirmation candle, keeping a stop-loss below the confirmation candle's low.

The target will be the next resistance zone, as highlighted in the image.

For a short trade, look for bearish candlestick patterns such as – Bearish Engulfing, Bearish Harami, Hanging man, Evening Star, pin bar.

If you see the price confirmation, opt for a short trade below the chart pattern's low, keeping a stop-loss above the high of the chart pattern.

You can aim for the next support line as your target. Plan the trade only if the risk-reward is greater than 1:2.

Image 5.5 – Swing Trading 'Short' trade example-1

Image 5.6 – Swing Trading 'Short' trade example-2

Image 5.5 and image 5.6 are examples of short trades in swing trading using candlestick patterns.

In both cases, the price is in a sideways trend. There was a good resistance trend line, and the price displayed candlestick confirmation (pin bar + bearish harami in 5.5 and bearish engulfing in 5.6).

Hence, a short trade can be planned below the low of the confirmation candle, keeping a stop-loss above the confirmation candle's high.

The target will be the next support zone, as highlighted in the images.

Trend Following

In this system, ‘Trend’ plays a crucial role as all the trades will come in the direction of the trend.

For long trades, the prior trend should be on the upside. If the price shows healthy correction and a candlestick pattern, one can plan a long trade.

For short trades, the prior trend should be down. If the price shows a bounce and a candlestick pattern, one can plan a short trade.

Rules for Long Trades:

1 – Price should be in a clear uptrend
2 – Healthy pullback
3 – Price should display a bullish candlestick pattern at the support line
4 – Risk-Reward should be a minimum of 1:1.5

Image 5.7 – Trend Following 'Long' trade in Loews Corp

Image 5.8 – Trend Following 'Long' trade in USD-CAD

Images 5.7 and 5.8 are simple examples for long trades using the trend following technique.

In both the cases, the prior trend is up, there was a healthy pullback, and candlestick confirmation occurred exactly at the support trend line ('hammer' in 5.7 and 'bullish engulfing' in 5.8).

A trader can plan a long trade above the high of the confirmation candle, keeping a stop-loss below the low of the confirmation candle.

The previous swing high is the safe target (as the primary trend is up). Hence, we can plan to exit 50-75% of the position at the target and carry the remaining position by trailing stop-loss below every swing low.

Trailing stop-loss is the most critical aspect of the trend following system as you never know where the trend will stop. In fact, it is the core logic in this trading approach. Sometimes, profits in one trade (using trailing S.L.) can absorb the loss of many failed trades.

Rules for Short Trades:

1 – Price should be in a clear downtrend
2 – Healthy bounce
3 – Price should display a bearish candlestick pattern at the resistance line
4 – Risk-Reward should be a minimum of 1:1.5

Image 5.9 – Trend Following 'Short' trade in DLF

Image 5.10 – Trend Following ‘Short’ trade in Ryder System

Images 5.9 and 5.10 are the simple examples for short trades under the trend following technique.

In both cases, the prior trend is down, there was a healthy bounce, and candlestick confirmation exactly at the resistance trend line (‘bearish engulfing’ in 5.9 and ‘pin bar’ in 5.10).

A trader can plan a short trade below the low of the confirmation candle, keeping a stop-loss above the high of the confirmation candle.

The previous swing low is the safe target (as the primary trend is down). Hence, we can plan to exit 50-75% of the position at the target and carry the remaining position by trailing stop-loss above every swing high.

‘Swing Trading’ and ‘Trend Following’ are the two simple trading systems, and we can apply price action strategies directly in them.

If you are a beginner or an intermediate level trader, mastering any one of these strategies is more than enough to taste success in trading.

The next chapter contains some advanced trading topics and a few trading systems based on those concepts. Again feel free to skip it if you are a beginner and go to chapter-7 directly.

Breakout Trading

A breakout trade opportunity is nothing but a stock price moving outside a defined resistance level with increased volume.

Image 5.11 – Breakout Trading System

A breakout trader enters a long position after the price breaks above the resistance level, keeping a stop-loss below the resistance.

In this process, they either trail their stop-losses or target to exit at higher levels to make profits.

I have written a detailed book "***How to make Money with Breakout Trading***" on this topic. Please read this book to know more about Breakout Trading.

Chapter 6

Price Acceptance and Price Rejection

Irrespective of your reputation, experience, and educational qualifications, only two things decide the fate of your trade – 1) Entry and 2) Exit.

Everything else doesn’t matter, or the market doesn’t care about any other aspect except your ‘Entry’ and ‘Exit’. Hence, it is better to have a deep understanding of the price to get success.

Price Rejection

Image 6.1 – Support Trading Plan (a)

Image 6.1(a) shows a support box in the USD-INR chart, and the price has reached the support box.

If the smart money (big people who already invested) still have a bullish view, what do they do? They pitch in and buy in large quantities.

Otherwise (if they are not bullish), buying will not come. Isn’t it?

Let’s see what happened in the next candle.

Image 6.2 – Support Trading Plan (b)

Now carefully observe what happened the next day.

The price broke the lower levels of the support box. If the smart money is bullish (or keen to accumulate this), it is a wonderful opportunity for them. Hence, they entered with large quantity, and their size displayed as the rejection of the break of the support. It is called '**Price Rejection**.'

Once the price shows clear rejection from the smart money, there is a higher probability of the support box acting as support.

Hence, traders can plan a long trade above the rejection candle (or at the upper line of the support box if you are looking for a safer trade), keeping a stop-loss below the rejection candle.

Below Image shows the result:

Image 6.3 – Support Trading Plan - Result

Price Acceptance

Image 6.4 – Resistance Trading Plan (a)

The above image shows CEAT LTD daily chart.

There is a clear resistance trend line, and it looks like the price is taking resistance at the moment.

But if you observe, one can identify two things (this is the beauty of price action trading):

1 – Rejection candle is not strong

2 – Strong buying is witnessed in all the previous swings

If the sellers are powerful, they have to take the price below the strong buying level. Isn't it?

Image 6.5 – Resistance Trading Plan (b)

Image 6.5 shows what happened next few days. Sellers were clearly struggling to push the price downside.

Image 6.6 – Resistance Trading Plan (c)

In image 6.6, the failure of sellers is clearly visible. Besides, buyers' dominance pushed the price above the resistance trend line and witnessed a strong close. It is called 'Price Acceptance.'

Do you think now is it still a good idea to think resistance line acts as resistance?

I hope your answer is 'No'!

We can then plan a long trade above the high of the accepted candle; keeping a stop-loss below the accepted candle. This has every probability of success, isn't it?

You can see the result in image 6.7!

Image 6.7 – Resistance Trading Plan – Result

Case Study 1 – USD INR

Image 6.8 – Case Study 1 (PA-1)

Case study-1 shows the USD-INR Daily chart. There is a good resistance trend line, the price traded below the trend line for over a month.

But sellers' power is not enough to push the price to the downside (as it failed to make lower-lows), and also strong buying can be witnessed at every swing low (highlighted as 'A' in the image).

Besides, the price is trying to trade above the resistance trend line. It is a beautiful opportunity for sellers (if they are keen) to load their short positions. But their activity is so small that it created only two small pin bars.

It indicates a higher probability of price trading above the resistance trend line (which means the resistance line will not hold). However, we should not plan a 'Long' trade at this point. We need to wait for the entry of bulls (or the complete negation of sellers).

Image 6.9 – Case Study 1 (PA-2)

Image 6.9 shows the same chart after one day of trading activity.

It is evident that sellers failed to push the price downside. Besides, buyers also entered and negated all the selling (highlighted as ‘C’).

It also supports our previous assumption. Hence, it is better to plan a ‘Long’ trade above the green candle's high, keeping a stop-loss below the low of the green candle. This trade has a high probability of success.

Image 6.10 – Case Study 1 Result

As I said earlier, only ‘Entry’ and ‘Exit’ decide the fate of your trade.

At the moment, I am focusing on ‘Entry.’ I will also provide a detailed explanation of ‘Exit’ in the subsequent case studies.

Every trader can follow a straightforward exit strategy to book profits for 50% of the position at 1:2 risk-reward and carry the rest with the trail SL concept (below swing low for ‘long’ trades and above the swing high for ‘short’ trades).

Case Study 2 – PLATINUM FUTURES

Image 6.11 – Case Study 2 (PA-1)

Image 6.11 shows the daily chart of Platinum Futures.

It has a good support trend line.

The price is near the support line, and the question is whether it will hold or not.

If you observe, the price failed to make higher highs, and the selling is strong at the swing highs.

We should not short at this moment as the scrip witnessed some buying (due to small buying wick). We can plan a 'short' trade once the price negates the selling.

Image 6.12 – Case Study 2 (PA-2)

Image 6.12 provides the same chart, but after a few days of trading activity.

It is evident that buyers struggled a lot to push the price to the upside (consolidation). Besides, there is a significant bearish candle (bearish engulfing) at the end, the last nail in the bulls' coffin.

It indicates 'Price Acceptance.'

It means there is a higher probability of price going downside. Isn't it?

So, we can plan a 'short' trade below the low of the big bearish candle (or below the trend line for safe trade), keeping a stop-loss above the high of the bearish candle.

Image 6.13 – Case Study 2 Result

Image 6.13 shows the result of this trade, and it conveys everything.

In this case, there are no good reference points to manage 'exit.' Hence, a trader can exit 50% for 1:2 risk-reward and carry the rest with the trail S.L. concept.

Case Study 3 – TCS

Image 6.14 – Case Study 3 (PA-1)

The above image is a daily chart of TCS.

Price is moving in a clear sideways channel. In the end, buyers tried to push the price to the upside. But they failed miserably due to the sudden entry of sellers above the resistance zone.

In this candle, approx. 50% of the daily range is a selling wick. It indicates that buyers lack the firepower to fight with sellers. Instead of taking a ‘short’ trade, we can wait for one more candle to see who is more powerful.

Image 6.15 – Case Study 3 (PA-2)

If you look at image 6.15, the next candle is dominated by sellers. There was an open-high, and then the fall sustained for the entire day. Besides, the price failed to trade above the resistance line and high of the previous candle.

It confirms the presence of a robust selling force. Hence, we can plan a ‘short’ trade below the low of the selling candle, keeping a stop-loss above the selling wick or the resistance trend line. We can aim for the support trend line as our target.

Image 6.16 – Case Study 3 Result

Image 6.16 shows the result of the trade. The price has reached our target of the support trend line.

I suggest exiting the trade at this moment. Can you think of a reason?

The answer is simple. There is a rejection candle with a big buying wick at the support line. So, instead of taking a risk, it is better to book the profit.

I am not saying it will go entirely upside from here. But there is a possibility of a slight bounce after seeing the rejection candle, and we are not sure to what level it will bounce. Hence, it is better to exit the trade.

If you are a risky trader, you can exit 50-75% of the position at the support line and carry the remaining position with the entry price as your stop-loss. In this way, even if the price hits your stop-loss for the small position, you end up making money for the large quantity.

Case Study 4 – Nifty 15-min Chart

The same price action concepts work very well, even in intraday or shorter time frames. But traders forget or ignore one crucial aspect when it comes to intraday trading or short-term trading. Whenever we get into a lower timeframe, opportunities increase so does the risk and noise. So our money management rules should be designed to prevent erosion of our capital even if we get a few successive failed trades.

Image 6.17 – Case Study 4 (PA-1)

Image 6.17 shows a Nifty 15-min chart. Below points are very clear from the chart:

- Buyers are struggling to push the price upside
- Sellers are dominant (big red candles) in the channel
- Buyers failed to push the price above the resistance trend line
- Price showed acceptance close to the support trend line

All these points indicate that there is a higher probability of price breaking the support trend line.

We can either plan a 'short' trade below the last red candle or wait for completion of one more candle (please note that in intraday trading, due to waiting, we may miss good opportunities).

Image 6.18 – Case Study 4 (PA-2)

Image 6.18 shows the same chart after the completion of another 15-min candle.

It is clear that sellers are in complete control. If you have already taken the trade, you are already in profit. If not, you can plan a 'short' trade below the low of the last red candle, keeping a stop-loss above the high of the red candle (or above the support line). We can aim for the previous swing low (13455) as our target.

Image 6.19 – Case Study 4 Result

Image 6.19 shows the result of the trade and it doesn't need any explanation!

Case Study 5 – Banknifty 5 Min chart

Image 6.20 – Case Study 5 (PA-1)

Image 6.20 presents an interesting scenario with a 5-min chart of Bank nifty.

Banknifty showed a gap down open from the previous day low. However, it failed to extend on the downside. It started to make higher lows successively.

However, strong selling can be witnessed in the three candles with large upper wicks below the resistance trend line, as shown in the image. At this moment, it is an equal fight between buyers and sellers.

All the sellers have kept their stop-loss above the day’s high. Similarly, all the buyers have kept their stop-loss below the day’s low.

Image 6.21 – Case Study 5 (PA-2)

Image 6.21 shows the same chart but after completion of 3 candles.

These three candles displayed 'Acceptance' of the price at the resistance trend line. The last candle also traded above the day's high, which means all the sellers should run to cover their positions.

It also indicates a 'Trend Day' possibility with an upside 'Range Extension' (Both Trend Day and Range Extension are Market Profile concepts. Market profile is highly beneficial for intraday traders and short-term traders. (To know more about market profile, read this article).

Hence, a trader can plan a 'Long' trade above the breakout candle's high, keeping a stop-loss below the breakout candle's low. One should apply the same logic of price action at every resistance level to manage the exit for their trades.

Image 6.22 – Case Study 5 Result

Image 6.22 shows the result of the trade. It witnessed a significant and quick move on the upside. The primary reason is that sellers ran for cover and indirectly became buyers (their stop-loss order is a buy order), and their eagerness to close the trade resulted in a massive move on the upside.

I hope all these explanations and case studies about price action are helpful. Did you notice I have not mentioned anything about "Volume" yet? I did this intentionally because of two reasons:

1 – To focus your attention on the considerable information available from about the 'Price' alone, and

2 – Many traders have read the traditional usage of 'Volume,' and their minds would think to apply all those things if I would have included volume

The next chapter is dedicated entirely to "Volume," and you will find a completely different application of volume in this chapter.

Chapter 7

What if I Say Most Traders Use VOLUME in a Wrong Way?

In price action trading, only two things are important – 1) Price and 2) Volume.

Till the previous chapter, we studied 'price,' and in this chapter, we will explore 'volume.'

I have not used the above title to catch your eye, but I have kept it because that is the fact.

This chapter has two modules – 1) Volume Analysis Basic and 2) Volume Analysis Advanced.

I am sharing basic aspects of volume analysis in the beginning because advanced volume analysis will raise many questions in your mind, and it will shake the idea or foundations of volume principles.

So, beginners and intermediate level traders will benefit from the basic information about volume. More experienced traders will benefit more from the advanced concepts.

Volume Analysis Basics

'Volume' is nothing but the total number of buyers and sellers exchanging shares over a particular period.

For example, if the volume of XYZ stock on one trading day is 1 million, it means a group of people sold 1 million XYZ shares and another group of people have bought 1 million shares on the same day.

Traders should use 'Volume' as a confirmation tool and should never use it independently to initiate a trade (ignoring the 'Price').

Price	Volume	Direction
Increase in Price	Increase in Volume	Bullish (It can go up)
Increase in Price	Decrease in Volume	Not Bullish
Decrease in Price	Increase in Volume	Bearish (It can go down)
Decrease in Price	Decrease in Volume	Not Bearish

The above table explains the price-volume co-relationship.

When the price is increasing along with an increase in volume, it is bullish in nature. But when the price is increasing with a decrease in volume, it is not bullish in nature. That does not mean we should look to short it because volume can go up again after the consolidation.

When the price is falling along with an increase in volume, it is bearish in nature. But when the price is falling with a decrease in volume, it is not bearish in nature.

Image 7.1 – Increase in Price and Volume

The above image shows the case where both price and volume are increasing simultaneously. Whenever we see this kind of scenario, there is a higher probability of price going upside.

Image 7.2 – Volume confirmation for a long trade in USD-CAD

Image 7.2 shows an example of a long trade in the trend following technique.

The prior trend is upside; there is a healthy pullback, and also, the price has shown a bullish harami pattern at the support trend line. So from the 'Price' perspective, it looks good to take a long trade.

Now observe 'Volume.' Every increase in price also witnessed an increase in the volume, and every decrease in price, followed by a decrease in volume. Hence, it looks good for the long trade.

Image 7.3 – Volume confirmation is missing in USD-JPY

The above image shows a similar example for a long trade in the trend following technique.

The prior trend is up, there is a healthy pullback, and the price has displayed a bullish harami pattern at the support trend line.

However, if you look at the price-volume co-relationship, it tells another story. It has witnessed a volume spike during the downswings and not seen a surge in volume in upswings.

It indicates the presence of serious sellers. Hence, it is not good to opt for a long trade even though the price has shown a bullish harami pattern at the support trend line.

Image 7.4 – Volume confirmation for a Breakout Trade in USD-INR

Image 7.4 shows an example of a breakout trade in USD-INR.

Look at the price-volume co-relationship carefully. Every price rise has witnessed increased volume, and every correction in price has caught less volume. This criteria is good for bulls and acts as confirmation from the volume side to opt for a long trade.

Image 7.5 – Volume confirmation for a Short Trade in TATA Motors

Image 7.5 shows an example of a short trade in Tata Motors.

The prior trend is down; there is a healthy bounce, and the price also displays a few bearish candlestick patterns such as bearish harami and pin bar at the resistance trend line.

Now carefully look at the price-volume co-relationship. Every fall in price has witnessed an increase in volume, and every price rise has shown less volume. Hence, the volume indicates the strong presence of bears. Therefore, it is a good idea to opt for a short trade.

Volume Analysis Advanced

I want to give a small caution before I proceed with this part. If you are a beginner, please skip this part and go to the next chapter directly. You can use the concepts from volume analysis basic, and you can read this part after getting some experience.

The traditional idea or understanding of price-volume co-relationship doesn't work all the time, and it misses many important aspects.

For example, traders say the 'price' will go up only with increase in 'volume.' In my opinion, this idea is not correct. The 'price' can go up further with more volume, it can go up with medium volume, and it can also go up with less volume.

Do you think my idea is rubbish? Let's look at some charts.

Image 7.6 – Price-Volume co-relationship in USD-CAD

In image 7.6, the price has gone up from Oct to Dec end. But where is the increase in volume? The volume is almost the same as compared to the average volume. Isn't it?

Do you have a tough time digesting this fact? Let's look at the below chart.

Image 7.7 – Price-Volume co-relationship in USD-INR

Image 7.7 is a USD-INR chart in which the price has gone up from 64.25 to 68.75. But look at the volume part; it's less than the average volume. Isn't it?

It clearly shows that the price can go up even with less volume.

Image 7.8 – Price-Volume co-relationship in Facebook

Image 7.8 shows one more example in which the price has gone up without an increase in volume.

At least by now, do you agree that the price can go up with more volume, or medium volume, or less volume?

If you still have a tough time accepting and digesting this fact, please visit some charts and observe the 'Volume' part in the upswings of the price.

Image 7.9 – Price-Volume co-relationship in LIC

Now a simple chart to test your understanding.

Observe image 7.9. A resistance trend line, and price opened and closed above the trend line with a significant volume spike.

What is your view on this chart? Bullish? Bearish? Or no clarity?

If your answer is 'Bullish,' then there is a serious mismatch between your understanding and reality. Let me explain in detail.

Do you agree that the resistance zone belongs to sellers?

Besides, sellers should be absent at the resistance zone to give further move on the upside.

But look at the breakout candle carefully. It has a selling wick that is about 50% of the body. It means 50% of them are sellers.

You have developed a bullish view after looking at the big green color volume spike. Isn't it?

But this volume spike indicates that 50% are sellers. This is where the analysis of many traders goes wrong.

Let's study one more example.

Image 7.10 – Price-Volume co-relationship in Tata Motors

Look at image 7.10 carefully; and what is your view on the volume spikes 'A' and 'B'?

The price candle corresponding to the 'A' volume spike contains a buying wick of 40%; hence there are 40% buyers in the 'A' volume spike.

The price candle corresponding to the 'B' volume spike contains a buying wick of over 60%; hence there are 60% buyers in the 'B' volume spike.

After clearing this major misconception, I can explain how I analyze the price-volume relationship.

Image 7.11 – Price-Volume Advanced Analysis

Earlier, we have learnt to use 'price' to decide whether the support or resistance will hold or not. Now we will explore the same through 'volume,' and later, we can combine both 'Price' and 'Volume' to make a trading decision.

Image 7.11 shows a daily chart of L.T, and now the price is near the support trend line. To decide whether the support will hold or not through 'volume,' we need to analyze the significant volume spikes.

I have marked five significant volume spikes on the chart, and I analyze these spikes as below:

Spike 1 – It looks bullish, but there is a selling wick and also price fell later. Hence, I mark this spike as **bearish**.

Spike 2 – There is no buying wick and also the price fell later. Hence, I mark this spike as **bearish**.

Spike 3 – Again there is no buying wick and also the price fell later. Hence, I mark this spike as **bearish**.

Spike 4 – Not much selling wick and price has gone up later. Hence, I mark this spike as **bullish**.

Spike 5 – This spike is debatable. It has both buying and selling wicks. But the price fell after 2 days. Hence, I mark this spike as **Neutral**.

Now there are 5 volume spikes in total. Among 5, there are 3 bearish volume spikes, 1 bullish spike, and 1 neutral spike. Hence, there is a high probability of price breaking the support trend line.

You can look at the result in the below image.

Image 7.12 – Price-Volume Advanced Analysis Result

I hope this information is useful.

If you want to know more about Price-Volume relationship, please consider looking at '[The Price Action Trading Strategy Guide'](#) course.

Chapter 8
The 4 Pillars of Successful Trading

Most traders give more importance only to ‘Technical Analysis’ and ignore the remaining concepts. Please don’t commit such a big blunder.

There are 4 pillars to successful trading:

1. Technical Analysis
2. Money Management
3. Psychology
4. Execution

All these concepts are similar to the 4 wheels of a car, and without any one wheel, you will not be able to achieve trading success. Hence, give equal importance to all the concepts to get success in trading.

Pillar 1- Technical Analysis

In simple words, whatever you learned in the previous chapter is a small aspect of technical analysis.

Technical Analysis is a method used to predict the future price movement of a stock/index by analysis of the old data in different ways. Technical traders believe current and past price action is the most reliable tool to predict future price movements. They don’t use any fundamental information to make a trading decision.

Technical traders use price charts (the most popular one is candlestick chart), indicators (there are 1000s), and different representations of volume (volume profile, order flow) to analyze the price.

Pillar 2- Money Management

“***Even a poor trading system could make money with good money management***” – Jack D. Schwager.

Money Management is a set of rules to allocate the required position size to reduce the risk while aiming for good returns in trading.

There are many ways, but the right way always focuses on both ‘reducing the losses and ‘maximizing profits.’

Before you pick any money management method, it is essential to ask yourself what type of trader you are. Because one particular method suits positional traders and another method suits intraday traders, scalpers.

I will explain both the techniques, but based on your trading style, pick the method which suits your trading.

For Positional Traders

For each trade, allocate 10% of your capital.

For example, if you have Rs.1,00,000 as your capital, finalize a script XYZ for trading, and let’s assume the CMP of XYZ is Rs.100.

Then 10% of your capital is Rs.10,000. So, you can buy 10,000/100 = 100 Shares of XYZ.

Using this approach, your entire capital percentage risk per trade varies between 0.5% - 2% (based on how deep your stop-loss is), which is adequate.

For Intraday Traders

Risk only 2% per trade on any trading day. Besides, don't lose more than 5% on any trading day, which means you are not supposed to take more than 2-3 trades on any trading day.

Many traders suggest to risk only 1-2% of your capital even for positional trades, and they don't put an upper cap on the capital. It brings some confusion while taking positional trades.

Let me explain with one example.

Assume your capital is Rs.1,00,000.

You plan to risk 2% of your capital per positional trade, which is Rs.2000/trade.

You had shortlisted a script XYZ – Entry at 1000 and SL at 990.

Then the total number of shares to buy = Rs.2000/10 = 200 shares.

The capital required to buy 200 shares = 200 X Rs.1000 = Rs.2,00,000

But you don't have Rs.2,00,000 capital in your account, do you?

So, the simple way is to deploy only 10% of your capital on one positional trade. Isn't it?

It will solve many problems for positional traders.

This problem may not arise if a trader is planning to take positional trades in futures as leverage will take care of the additional capital requirement (but need to take care of big gap opening risks).

Intraday traders also don't face this issue as most of them take trades in futures or options. In both cases, leverage is available, and it will look after the additional capital requirement.

To put it in simple terms –

Positional Traders: Deploy 10% of your capital per trade.
Intraday Traders – Risk only 2% of your capital per trade.

Pillar 3- Psychology

Psychology means the mental factors or emotions governing a situation or activity. So, when we say trading psychology, it implies cognitive factors governing trading.

Four major emotions revolving around trading are greed, fear, regret, and hope. Please note, all these factors emerge because of a lack of knowledge.

Greed

Developing a compulsive attitude to generate more profits from every trade is greed. We lose money in some trades, we make small profits in a few trades, and only very few trades fetch big profits.

A trader can survive in markets without profits but not without capital. Protecting capital is pivotal, and the next important aspect is consistent profit-making.

Friendly advice - Set process-oriented goals and not monetary goals. Think of protecting capital and surviving in the market for a more extended period.

Fear

Most of the fears in your mind are created from your past bad experiences in trading. For example, you are ready to take a breakout trade. But your mind hesitates to pull the trigger which means in the past you have lost money with some breakout trades and your subconscious mind has stored the breakout trading concept with pain. Hence, there is hesitation in your mind.

In some cases, fear also occurs due to your upbringing. For example, if you have absorbed the thought that business is bad while growing up, then you face many difficulties in your trading.

The only way to get rid of fears in trading is by increasing the conviction in trading. You can do this by back testing your system with more data, reading specific niche books on trading, or taking a particular Trading course.

If you have any fears related to your upbringing, then identifying and acknowledging them is the most important step. Then you can use simple methods such as affirmations or practicing gratitude to get rid of these fears. If the issue persists, you can consult a mental coach or hypnotist.

Friendly advice: Plan your trade and trade your plan.

Regret

In trading, our regrets are never-ending. If you exit a trade and the price keeps moving in a favorable direction, you regret your exit decision. If you don't take profits from a trade and then the trade takes a turn into the negative zone, a trader will regret his decision for not exiting.

Friendly advice –

1. Be satisfied with your decision.
2. Keep learning and improving day by day, trade by trade.
3. Don't spend your energy regretting your choices if they are in line with your trading plan.

Hope

A trader starts hoping for some miracle to happen as soon as he deviates from his trading plan.

For example, a trader plans to buy a stock at 100 with 98 as Stop loss level and book profit at 104 level.

The price moved to 100, and he is in the trade.

After some time, the price moves to 104, but he didn't book profit as he starts hoping that short covering will come into the market anytime and it will take his position to massive profit.

Now the market takes a U-turn. Our stock price moves back to 99, and now he starts to hope for a rebound. Price falls below 98, but he doesn't book the loss as he thinks a rebound is just around the corner. Price is now 96, and he is still living in the hope of a re-bound.

What has happened in the above example is that he has lost control of his trading plan.

Pre-decided stop loss and target are the 2 points where we need to act. Once we do not act on reaching those points, the situation is not in our control, and the decision we take after that is based on hope, which is a sign of weakness.

Friendly advice: Be ready with action points (Stop loss and target) and act as per your trade plan. The market keeps throwing many good opportunities. Please don't allow any trade to be dependent on hope and then become hopeless.

Negative things affect the psychology of a trader. No matter how skilled a person you are as a trader, you can't succeed in this business if you fill your mind with negative thoughts.

Below are some methods to get rid of negative thoughts from your mind:

Start Positive: Start your day by reading a positive quote or book for some time or by watching a positive or motivational video. When you think positive thoughts early in the morning, your mind carries these positive vibrations throughout the day. You will stay energetic and happy the entire day.

Gratitude: We always think about the objects or people who are not present in our life. It always creates unhappiness or incompleteness in our mind. It's good to think about the objects or people you desire; however, it's more critical to show gratitude for all the things or people you do have at the moment.

Every night before going to bed, think about all the things and people you have in your life now and feel happy about all these things. This behavior brings completeness and happiness in your mind, and it will increase your energy level to achieve further goals.

T.V./mobile: If possible, avoid watching T.V. or using mobiles before going to sleep. As per the latest studies, the bright light from T.V., mobiles stimulates the brain, affecting the secretion of melatonin, a hormone necessary for quality sleep. Lack of quality sleep will harm your mindset.

Avoid fights, gossiping, and arguments: Fights, gossiping, and arguments are significant sources for our negative thoughts. If you are angry, avoid conversation with any person, and it is better to take some time off, to relax. Once you come out of the angry mood, construct the thoughts for the discussion, and then continue your discussion with that person. Gossiping will not benefit anyone; use this time to read a good book or for any other good hobby.

Pillar 4- Execution

How One Idea Can Change Your Life

In 1931, Ted, a pharmacist, and his wife Dorothy, a former teacher, bought a small drug store in the town of Wall, South Dakota, US. They wanted to settle down in a small village that had both a school and a good church. Wall fulfilled these requirements, and hence they started their business in Wall by purchasing a tiny drug store.

Many tourists were traveling across the roads of Wall. However, no one was turning up at their medical shop. Summer season started, and the hopes of Ted and Dorothy began to go down. The main problem was how to attract tourists from the main road into the store.

Ted and Dorothy got an excellent idea. They started serving cold water to anyone who walked into their store. They also put a few signboards on the main road with the route map to the Wall drug store and the availability of the cold water.

With this idea, their business started growing, and today it has its shops all over the world. Today, all the branches of Wall drug store serve cold water to anyone who walks into their shops.

There is no need to look at their overall profits because they spend over $400,000 every year just on billboards!

What is your new idea to bring more discipline to trading? Remember, one idea can change your life!!

Execution is the real Holy Grail in Trading. Suppose you have an excellent positive expectancy system and clear money management rules, in that case, you can make money in trading in the long run, if you execute the plan in all market conditions.

Chapter 9

Trading for a Living

There is a vast difference between '***Trading for Fun***' and '***Trading for a Living***.'

Trading for fun is like a silly fight between siblings on a cozy bed in a bedroom.

Trading for a Living is like a fierce fight between you vs. Mike Tyson, Muhammad Ali, Rocky Marciano, Manny Pacquiao, etc. altogether simultaneously.

It is because trading is designed in such a manner. Anyone can enter and participate in the game. When you can take a trade, always remember you are fighting with many people who have spent decades in this business!

Never plan to take up Trading for a Living just because you have tasted some success in trading. Below guidelines are helpful if you are seriously thinking to consider trading as a profession:

1 – Passive Income

I learned so many things in my school and college days except one thing, which is how to make money without putting in your TIME and MONEY. This art is called 'Passive Income.'

One has to plan a few passive income sources when they have a decent job.

Having a few passive income sources will increase the confidence in your life. It will release the pressure to generate some money every month through trading to pay your monthly bills.

I am sure everyone has some talent or passion for some activity. If you keep some focus and get little expertise, you can add a passive source of income.

I know everybody can't quit their job and become an entrepreneur. But most of us can determine to begin something small today, which can't be taken away.

I can give a few hints:

If you are good at photography, upload your good photos online. Many portals pay for good photos. For more information check, https://submit.shutterstock.com/, https://www.freeimages.com/, https://pixabay.com/, https://www.gettyimages.in/, https://www.istockphoto.com/

If you are creative, you can try to develop a cover page for eBooks. Do you know how ambitious Amazon is with its KDP project? Mark my words, you will see a hell of a lot of eBooks in the next few years, and all those eBook authors need attractive cover photos (by the way, the cover page of this book is also created in a similar way. That's his side hustle!). Check https://www.fiverr.com/ for more opportunities.

If you are good at video editing, help You Tubers. Many successful people want to start their own YouTube channel, but they are biding their time as they don't know how to edit the videos.

If you are good at teaching something, create a course in https://www.udemy.com/ or https://www.urbanpro.com/.If the content is good, then it will fetch you money, even when you are sleeping!

Suppose you are good at yoga and meditation. You can start teaching it online. The entire world is your target audience, as everyone is working to improve their immunity due to COIVD-19. Find one such inspiring success story here https://www.kushiyogalaya.com/onlineyogaclasses

Like me, you can also write a self-help book. If the content is useful and if you do little marketing, you can fetch some money every month. Check https://kdp.amazon.com/ for more details.

2 – Zero Debts

If you have a monthly commitment (EMI) towards any loan, this will add extra pressure to your Trading career as you have to generate this amount every month.

Sometimes, there will be no opportunities in the market, or if you fail to make money in the market, extra pressure will be created in your mind, which impacts trading decisions.

Hence, it is better to clear all your pending loans before starting to think of trading as a full-time business.

3 – Savings

One should save enough money to run the family for at least one year.

Suppose if you need Rs.1,00,000 (or 2000 USD approx.) per month to look after all the expenses in your family, then you have to save Rs. 12,00,000 (or 24,000 USD approx.) before taking up trading as a full-time business.

This amount is excluded from your Trading capital, which you require for your trading. In this case, your trading results will not impact your mindset, and also, you will not get any emotional pressure from your family members.

4 – Trading Results

Trading looks very simple when a beginner makes some quick money. However, one should realize that the market conditions are always dynamic and it requires enormous skills to make consistent money in the market.

So it is better to measure our trading success before we take the extreme step of becoming a full-time trader. It is a good idea to consider yourself as a successful trader when:

(I) you make at least six months of your current salary from trading profits in total, and

(II) you make profits for three consecutive months in trading.

5 – Trading Capital

Only the above parameters are not sufficient to enable you to quit your current job and jump into trading. One should have adequate Trading capital to make profits in the market.

If you can make 10% returns every month (10% per month is good returns as per any trading expert), you need a minimum of Rs. 10,00,000 (or 20,000 USD approx.) as your trading capital if your monthly expense is around Rs. 1,00,000 (or 2000 USD approx.).

A Small Caution

One of the most significant advantages and disadvantages of full-time trading is '**You are the Boss**' in your work, and you don't have to report to anybody. Usually, we are used to the 'Reporting' style of work, and this freedom may work against you, if you don't have serious trading plans and goals. One can keep the following points in their mind when they become a full-time trader:

- One should not take breaks in the trading days for any reason. Because opportunities may come at any moment, one should be ready to grab these opportunities on all trading days.

- Your laziness can cost you dearly in the market. Trading is your business, and you should be ready like a business person before the open of the market. You have to finish your exercise, meditation, bath, etc., before looking at the market open. If you cannot concentrate on the market at home, hire a single-seat desk in any office (nowadays, you can hire a single-seat desk for monthly rent, including Internet connection, maintenance at the desk, coffee, etc.).

- All successful traders maintain a 'Trading Journal', and hence it is a good idea to log all your trades with Entry, exit, S.L. price, etc. You should review these trades on a periodical basis and evaluate your trading skills.

- Usually, in all other professions, we will have a supporting environment. However, in trading, it isn't easy to have such an environment. Hence, one should develop a circle of profitable traders and be involved in monthly gatherings or other meetings. If possible, attend major events on Trading like Trader's Carnival, a seminar conducted by experts, etc.

Chapter 10

How to Make Money in Trading Without Quitting Your 9-5 Job

Ask any established trader what their most important tip for the people who are aiming at full-time trading is, and every one of them suggests, "***Not to quit the current job immediately.***"

If you have a 9 to 5 job, you can still earn some passive income from trading by following specific steps. These steps help to improve your trading skills while working 9-to-5 and allows you to enjoy your life.

But any person has to overcome the below roadblocks to get better results in trading:

Responsibility – Trading is all about decision making (either buy or sell) and one has to take 100% responsibility for their decisions. Like in office, you can't blame management or colleagues here.

One Man Battle – Most of the time, you will be alone in trading. The majority of the people lose money in the stock market, so if you try to stay in a group, there is a high probability of getting bad trade results. It's better to stay aside from the group and focus on your own trading.

Motivation – One has to find their own inspiration in trading. Nobody gets any target reports or performance assessment reports in trading. Besides, there will not be any boss to monitor your work. The market is the supreme boss here, and it will reward everyone based on their merit.

Here are the 8 steps and tips that will help you to make money in trading while working with your 9-to-5 job:

1 – Pick the Right Trading System

It is essential to have the right trading system with a suitable timeframe that compliments your personality and schedule.

For example, If you have a tight schedule in your 9-to-5 job, there is no point in looking for trade opportunities in a 5-min chart. Because a 5-min chart demands more screen time and with your work schedule, you will not be able to give justice to your work and trading.

Opportunities do exist in all the timeframes. Any intelligent person will pick the suitable timeframe, wait for the proper trade setup, and manages the trade within the money management limits.

The two essential trading methods suitable for working professionals are – 1) Positional Trading, 2) Intraday Trading.

Positional Trading- It is a type of trading in which a trader carries the positions overnight for a few days or weeks.

BTST trades, STBT trades, or any trading type with a few days to few weeks holding period will fall under positional trading.

Intraday Trading - It is a type of trading in which you have to close the trade on the same day. Many people believe that intraday trading demands 100% screen time, but it is not correct. If you have a trading system, this screen time can be reduced by over 75% using some of the tools such as – alert mechanism, using SL-M trigger order, or partial/full algo trading.

Tip-1 – Check your work schedule and decide whether you want to become an intraday trader or positional trader. If you pick intraday trading, please note you get more trade opportunities, and hence noise and failure rate will also be more.

2 – Select the Right Trading Instrument

We have below 3 trading instruments in the stock market:

1. Equity
2. Futures
3. Options

So, a trader should know how these trading instruments work.

Let us take an example to understand better.

Assume one Trading Account has Rs. 3,30,000 (3.3 Lakh).

ACC Current Market Price CMP is 1620.

Assume ACC went 5% (81 points) up in the next 2 trading days. (Explanation sake)

Case-1: Equity
With 3.30 lakh, one can buy 203 shares.
Profit made due to 5% upside movement is Rs.16,443 (203 shares X 81 points)
ROI on Capital is 5%

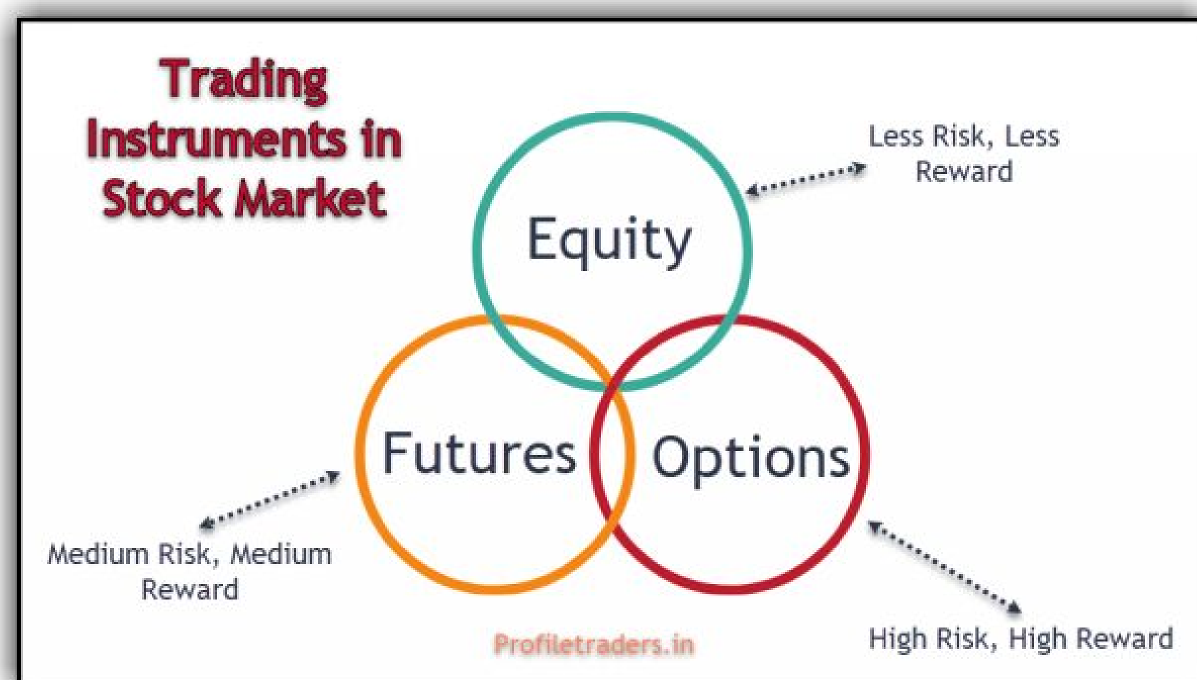
Case-2: Futures
With 3.30 lakh, a trader can buy 1 lot (500 shares). One can verify future details here.
Profit made due to 5% upside movement is Rs. 40,500 (500 QTY X 81)
ROI on Capital is 12%

Case-3: Options
With 3.30 lakh, one can buy 7500 QTY of 1700 CE of ACC (assuming premium at 42)

Profit made due to 5% upside movement is Rs. 2,43,000 approx (IV at 40%)

ROI on Capital is 74%

ROI varies drastically in all the 3 trading instruments.



Please note this explanation is not intended to encourage trading in options. F&O trading carries the highest risk levels, and the above description gives an overview of how the three trading instruments work by offering various degrees of risk and reward.

Tip-2 – Start your trading with equity. Even if you get failures, you lose less money. One can try 'futures' only when they are profitable with equity trading. Similarly, one should try 'options' only when they are profitable with futures trading. Please note these derivative products just amplifies your trading results!

3 – Avoid System Hopping

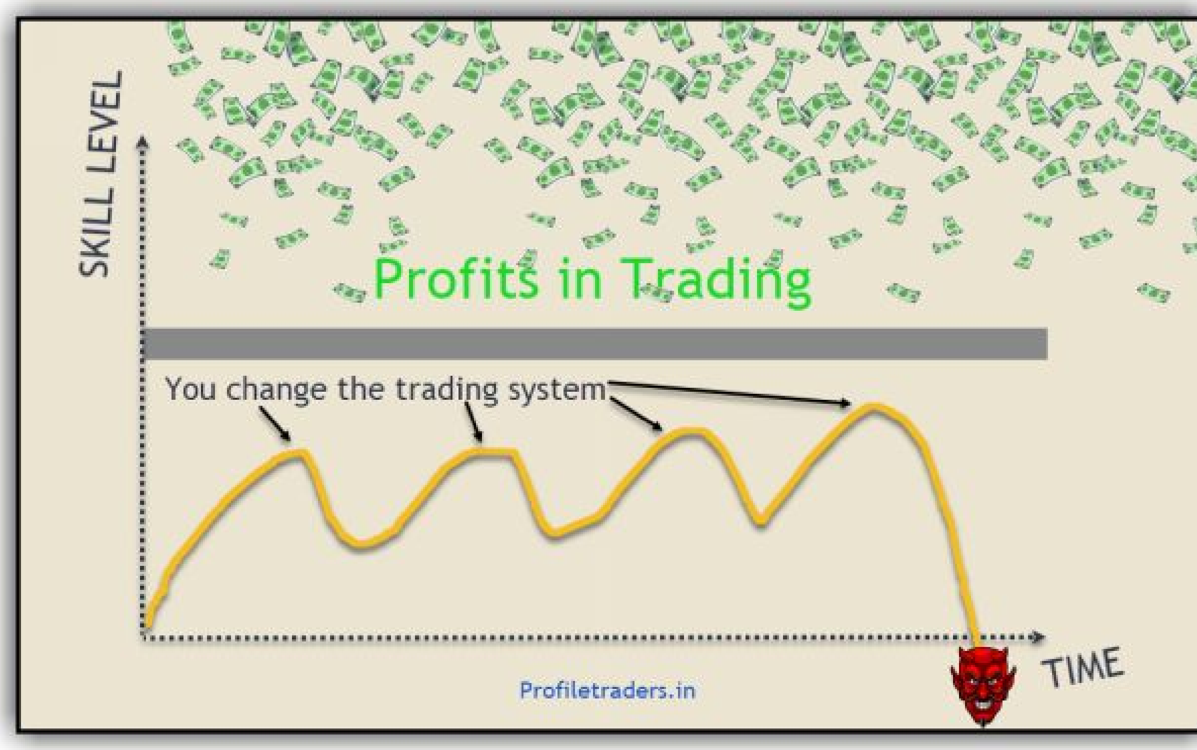
A person starts to learn how to drive a car. Today he starts with one car; get to know all the basics. Tomorrow he will start the process again with another vehicle, and this process continues. Every day he will continue the learning with a different car. Do you think he will be able to complete the learning process?

It is better if he sticks to one car until he completes all the learning process and can drive any car as he wishes. Isn't it?

But when it comes to trading, many people forget this process. People study one indicator or a trading concept; try it for some time. When they get some failures, they immediately start using another system or start looking to add one more indicator in their trading system, thinking it will fix it. It's a vicious cycle!

"***All you need is one pattern to make a living***" - Linda Raschke

One can finalize a trading system after complete back testing. If the system shows positive expectancy in the long run, then it can be deployed in trading. But ensure not to lose more than 2% of your capital on any trade.



Tip-3 – Take an oath not to change your trading system for one whole year. Study every mistake, identify the route cause behind the mistake, and avoid the mistake next time in your trading.

4 – Improve Trading Psychology

Psychology means the mental factors or emotions governing a situation or activity. So, when we say trading psychology, it implies cognitive factors governing trading.

Four primary emotions revolving around stock market trading are greed, fear, regret, and hope. Suppose a trader works to get more conviction on his trading system and improves the psychology (to avoid unnecessary trades, riding profits, adhering to money management rules). In that case, these issues get dissolves automatically.

Tip-4 – Psychology plays a crucial role as compared to the trading system. Affirmations, developing gratitude for what you have, and meditation help to get a better mindset and make better trading decisions.

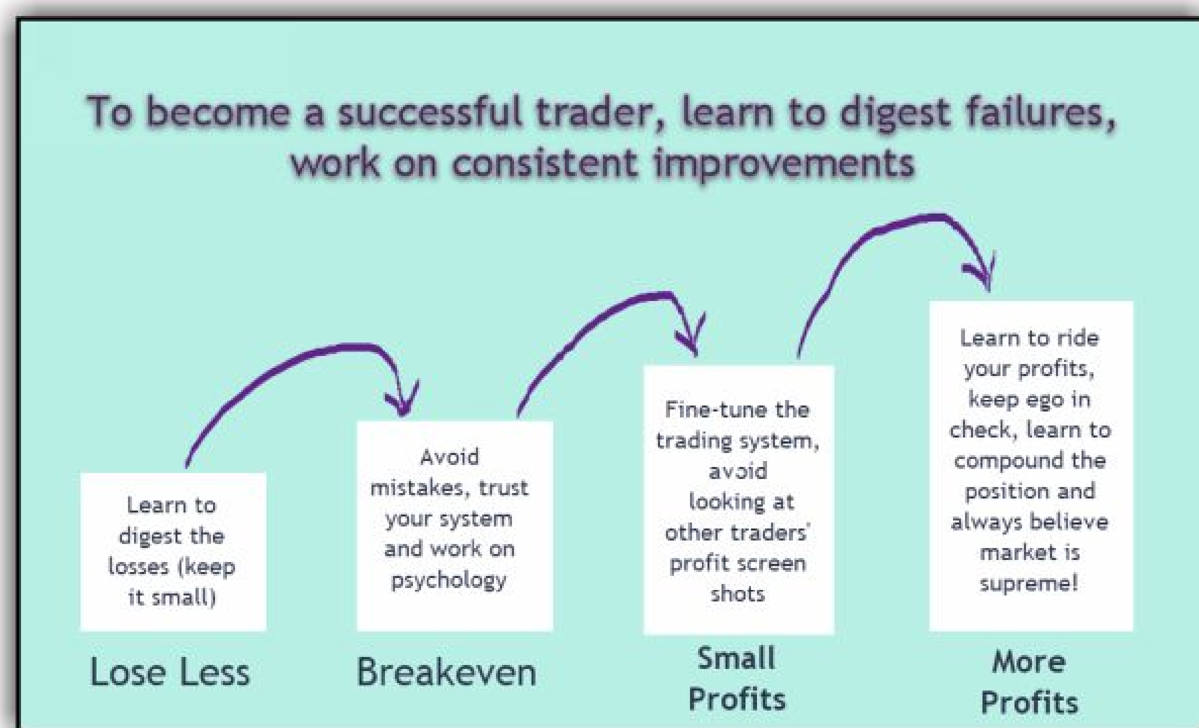
5 – Learn to face Failures

All our upbringing thought one common thing, which is '***failure is bad***'.

None of the parents like to see their kids failing in any exams. Hence, they take all the measures to ensure their children pass all the exams. This kind of upbringing saves the lesson, 'failure is unacceptable' in our subconscious mind.

Because of this one reason, many traders feel bad (sometimes pathetic) even if they lose little money in a trade. It's not because they can't afford that money; it's because they have a tough time digesting the failure!

At this moment, they develop a revenge attitude and take more trades or more risk per trade to get back the money from the market as soon as possible. Needless to say, they end up losing more money.



Tip-5 – Failure is inevitable in trading. Nobody wins 100% of their trades. A successful trader loses less money when he is wrong and makes more money when he is right.

6 – Know the difference between "A Good Trade" and "Good Trading."

The difference between '***A Good Trade***' and '***Good Trading***' is a lot of money. Most of the traders feel high when they more profits in one trade and hence they always run behind one such big trade.

It is not wrong to get one good trade to make more profits, but a person will lose many small opportunities to make consistent profits if he runs behind it. Besides, traders commit many mistakes such as taking more trades in a day, taking unnecessary trades, etc.

Tip-6 – Any trader can only control how much he will risk in a trade. The market will decide how much to reward for the trade. Hence, follow the entry and exit mechanism as defined in your trading system.

7 – Don't get addicted to your Salary

Nassim Nicholas Taleb, the author of the famous book "The Black Swan" once said:

"***The three most harmful addictions are heroin, carbohydrates, and a monthly salary.***"

Most people have some dreams in their heart, but they don't pursue their dream because they are addicted to their salary. Most of us start to make some commitments (house loan, car loan, etc.) whenever we get into a new position. We can't even survive if we don't get the salary for a month because of these commitments.

Profits from trading vary every month based on the market conditions. If we have some financial commitments every month, it always brings some pressure in the mind even if you are a salaried person. Hence, it is better to stay out of these commitments when you are learning to trade.

When you don't have any commitments, you don't get addicted to your salary; your mind is free most of the time, making better trading decisions.

Try to add 20-25% of your salary every month to another savings account. If you are already successful in trading, then you can add this amount to your trading capital. Otherwise, park the amount in some source where you get some returns and also easy to withdraw.

Tip-7 – Don't invest in depreciating assets by taking a loan. Many people buy a house taking over 75% of value through a bank loan. When they get into some challenging situations like a job loss, health emergency, they suffer more as they will not be able to sell the house and can't pay the EMI. A simple way to avoid this problem is to reverse the calculations. Never buy a house until you save at least 50-75% of the cost through savings.

8 – Life is precious than trading

Trading is important; making money in life is also vital, but this life is always precious than all of them. What is the point of having tons of money if you can't enjoy it? What is the benefit of becoming a successful person if you are not happy?

Tip-8 – Every month, visit a new place. You don’t have to plan an expensive vacation; a nearby good place like a forest or beach is also fine. Develop a hobby to stay fit; it can be hitting the gym, practicing yoga every day, or playing some game.

Final Words

I genuinely hope that you have gained some useful knowledge on Price Action Trading.

I hope it will also play a decisive role in your trading career. I hope to spread the positive impact on the lives of others through this book.

Now that you have read my book, I ask that you please do one of two things (or both) if you have some time.

1. If you have enjoyed this book, PLEASE leave a kind review on Amazon. As an independent author, word of mouth is my only advertising. Amazon Link - https://amzn.to/2Zb86uO

2. No book is perfect. If there are any errors, omissions, or anything you would like to see added, please email me at Indrazith.s@gmail.com. I promise a quick, personal response.

I would LOVE to hear your success stories, comments, and suggestions!
Signing off.
Indrazith Shantharaj

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Price Action Trading Course

If you need more clarity on Price Action Trading, or if you want to see more examples of price-volume relationship, then please take the below online course –

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Intraday Trading Course

***Intraday Trading** is the most debated and misunderstood topic in the trading community.*

Every day we hear many scams related to intraday trading, which promises huge returns.

Unfortunately, many beginners who believe in 'get-rich-quick' schemes fall for it and lose their hard-earned money.

However, many successful intraday traders make their living just by doing intraday trading.

Let us say you have got an opportunity to drive a Formula-1 car.

What do you say?

*'**Formula-1 car does not work!**' or*

*'**I do not know how to drive a Formula-1 car**.'*

If you are sensible, you pick the second statement. Isn't it?

The same explanation goes with intraday trading.

There is no point in debating whether intraday trading is profitable or not.

It is only a type of trading in which you have to close the trade on the same day.

If you are right, you make money, and if you are wrong, you lose money.

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