TraderTom

Final Copy Price Action **Higher Time Frame**

By Tom Hougaard

No Hindsight Price Action

Author: Tom Hougaard www. **Topic**: Day Trading Price Action Bar by Bar - No Hindsight.

Introduction

The most common time frame from a day-trading perspective is the 5-min chart.

However, in a profession where 4 out of 5 traders fail, I think we owe it to ourselves to test every part of our game – including the timeframe we observe the market through?

Why?

If the majority of day traders observe the market through the prism of a 5-min chart, and the majority of people lose, what is the common denominator?

I am tired of reading trading related books and articles on technical analysis, where the author subconsciously writes from the “after the fact” perspective.

I wrote this article to show how one trader (me) addresses the difficult task of making money trading. I think this article will benefit many people because it addresses two important issues:

1. It suggests trade signals from a higher time frame.
2. It does not give you the full picture immediately.

There are some 20 charts in this document. They are all of the same instrument, use the same time frame, from the same trading day, but they show you only one bar/candle at a time.

Strictly speaking I could have shown you just one chart. However, you would have missed hundreds of important details, had I done that.

The intention is to show the value of looking at a longer time frame when you are day trading – or at least making you consider having a longer timeframe running side by side your shorter time frame chart.

The integrity of “price action” is not compromised by introducing a longer timeframe. In fact, I believe it adds value to the trader, because it does not promote overtrading, and it provides a sense of calm to the decision making.

When you have 15 minutes to decide what to do next, you are less in a rush than when you base your trading decisions on a 5-min chart alone.

What follows is a price action "tour guide" of the FTSE 100 index on a 15-min chart on the 12th November 2020.

Premise of the Chart

The chart starts 45 minutes into the trading session. The instrument is the FTSE 100 index.

The market had closed the day before at 6,400. Today, the focus of this article is the 12th November 2020.

The market has gapped down. The open is around 6,325.

While I did trade the FTSE today, I am not displaying my trades. The purpose is not to display my trading skills – or the lack of – but to provide a "bar by bar" insight into trading with a longer time frame using nothing but price action as the guiding principle.

We can all trade perfectly when we are presented with the entire trading day on a chart, but how is your decision making when you only see one bar at a time?

The Trading Day Begins

The chart below is the first chart I want to show you. We start our trading journey 45 minutes into the trading day. We have completed 3 bars of 15 minutes of duration.

Chart 1: Displays Bar 1 to Bar 3

What do you observe?

1. The FTSE has gapped down from the previous day's close.
2. 1st bar has no body.
3. 2nd bar is a bull bar.
4. 3rd bar pushes above the high of the 2nd bar.
5. 3rd bar fails to close at its high – or even in the upper half of the bar.

The trading session is 45 minutes old. I am dealing with an index, which has gapped down, but which is in an overall uptrend.

The first bar shows indecision.

The 2nd bar is bullish, so there are buyers around.

The 3rd bar is continuing the bullishness from the 2nd bar, but it fails to close in a strong manner.

What am I going to do now? I need a plan.

I can act immediately, or I can wait for more information.

Either way, I need a plan of action.

Please bear in mind that I use the expression "bar" and "candle" interchangeably throughout the document. They mean the same thing.

I am also conscious to the fact that I am only making a trading decision once the 15-min bar is completed. I accept that all of us may well make trading decisions during the timespan of a candle, rather than waiting for it to complete.

Scenario Planning

I have to formulate a game plan. The next bar, bar 4, can do one of the following things.

1. Bar 4 breaks above the high of bar 3.
2. Bar 4 breaks below the low of bar 3.
3. Bar 4 does neither of the above.

What is my response to these scenarios? What am I going to do in each of these scenarios?

I know the FTSE index has gapped down. I have to assume there is weakness in the market. Otherwise there would not be a gap down.

The gap may get filled, but "may" is not a strategy in itself. Gaps do not necessarily get filled immediately.

My research tells me that 48% of all gaps on the Dow Jones index gets filled on the same trading day as the gap occurred. The FTSE index has similar statistics. Gaps do not always get filled – no matter what you have read elsewhere!

My Options

I am faced with 2 options – each with their own sub-set of options.

Option 1

I can trade right now – based on what I see.

Option 2

I can wait for more data.

Let me start with option 1. That is the option I went with on this trading day. This document is not about my trades. However, for context I want to show you what I did.

Option 1

I can go long (buy) right now, or I can sell short right now.

I went short.

"Sell Short"

Considering we are in a gap down situation it would favour more weakness at some point. Bar number 3 was weak. The problem is that bar number 2 was strong.

Is bar number 3 just a temporary blip before more upside?

Has bar number 3 re-asserted the bearish tone from the gap

down? If I sell short now, where is my stop loss?

I can place my stop loss above the high of yesterday. The odds of being stopped out are low, but my risk is very big if I do get stopped out.

I can place my stop loss above the high of bar 3, working from the premise that IF the market gets above bar 3, the odds favour more upside, considering the strength of bar number 2.

Option 1 (continued)

“Go Long”

Considering we are in gap down situation, but we are in an overall bull-trend, it might make sense to view this situation as a “buy the dip” setup. If I go with this premise, where is my stop loss?

The chart you are seeing does not offer much history. We only see part of yesterday’s price action. We do not have a visible clue to prior highs and lows on this chart.

So, I will have to stick with what I am seeing right now. I see a low on the first bar. Since then the market has traded higher.

Maybe what is setting up here is a “trend day” where the market opens at its lows and closes at its highs. If so, it would be favourable to buy now, while risk is still low.

I could then place my stop loss just below the low of the day. The odds of it working is probably small, but the risk is small too.

Option 2

Option 2 suggests I wait for more data. Therefore, I have to consider the scenarios that can unfold from here onwards.

I can see 5 possible scenarios.

Scenario 1

If Bar 4, the bar we are waiting for, does break above the high of bar 3, it would mean the continuation of the bull trend bar from bar number 2. It would also mean the weak close from bar 3 is ignored by the bulls.

Anything is possible.

If it were to happen, I think the market is telling me it is actually quite strong. There are buyers around.

I would have to consider buying above the high of bar 3. It would mean to wait for more evidence before I commit to a trade.

Scenario 2

I could sell short if the market moved above the high of bar 3. After all, the market has gapped down. Bar number 3 is not a bullish bar, even though the market has moved higher since the open.
I think the problem with the argument to sell short above the high of bar 3, is that we so far have 3 higher lows. Each 15min chart has a low that is higher than the previous low.

Another problem with selling short above the high of bar 3, is the stop placement. Where would you put it?

Still, anything can happen.

Scenario 3

If bar 4 or a subsequent bar breaks below the low of bar 3 it would mean there is follow through from the weakness from bar 3.

I can sell short below the low of bar 3. I would be trading in the direction of the gap down. I would trade in direction of the sentiment from bar 3.

Considering we are in a gap down situation it would favour more weakness at some point. If a rally to fill the gap were to occur, we probably need to see a double bottom or a very strong reversal bar up.

Scenario 4

I can buy below the low of bar 3. If I do, I can have a stop-loss below the low of the day. The odds of success are probably small, BUT the risk is small too.

Scenario 5

If bar 4 trades inside the range of bar 3, I am essentially just postponing a decision to a later bar, based on what I wrote under scenario 1, 2 and 3.

Bar Number 4

This chart shows bar number 4.

Chart 2: Displays Bar 1 to Bar 4

What can we say about bar 4?

Bar 4 Facts

1. Bar 4 does not get above the high of bar 3.
2. Bar 4 goes below the low of bar 3.
3. Bar 4 closes below the low of bar 3.
4. Bar 4 prints a bearish body.
5. Bar 4 does not close on its lows – but close enough to be bearish.
6. The range of bar 4 is in line with the range of bar 3 and bar 2.

So, what do we do now? It is time to introduce "What If" scenario planning.

"What If" Scenario Planning

What if I am already short?

I explained earlier that I did not want to make this document about my trades. However, for context, I will tell you that I shorted the close of bar 3.
At this point, as bar 4 has completed, I am already short the market. What is my response to the scenarios, which may unfold now?

1. Next bar breaks above the high of bar 4.
2. Next bar breaks above the high of bar 3 as well.
3. Next bar goes below bar 4.
4. Next bar goes below bar 2 as well.
5. Next bar does neither of the above scenarios (inside bar).

As I said, at this point I am short FTSE. A move above bar 4 will make me nervous. A move above bar 3 would probably make me wrong.

A move above bar 3 would signal strength in the index.

A move below the low of bar 4 would signal weakness, a possible test of the morning lows. I would consider selling short more. I would consider adding to my short position.

"What If" Scenario Planning

What if I am already long?

What if I was long from the close of bar 3. I am now losing. What is my response to these scenarios?

1. Next bar breaks above high of candle 4.
2. Next bar breaks above high of candle 3 as well.
3. Next bar goes below bar 4.
4. Next bar goes below bar 2 as well.
5. Next bar does neither of the above scenarios (inside bar).

If I am long my stop loss would be below bar 1.

A move above the high of bar 4 would signal to me that a test of the high of bar 3 was coming. If the high of bar 3 is exceeded, it opens the option for a gap fill.

If the low of bar 2 is tested and fails, then the market will almost certainly test the lows of the day, and my stop loss would protect me against further losses.

Bar Number 5

This chart shows bar number 5.

Chart 3: Displays Bar 1 to Bar 5

What can we say about bar number 5?

Bar 5 Facts

1. Bar 5 goes above the high of bar 4.
2. Bar 5 is “rejected” at the high of bar 3.
3. Bar 5 is bullish – but not overly so.
4. Bar 5 closes at the halfway line of bar.
5. The range of the bar is about the same as prior bars.
6. Bar 5 does not go below low of prior bar 4.

The chart below is a close-up of the 5 bars of the day.

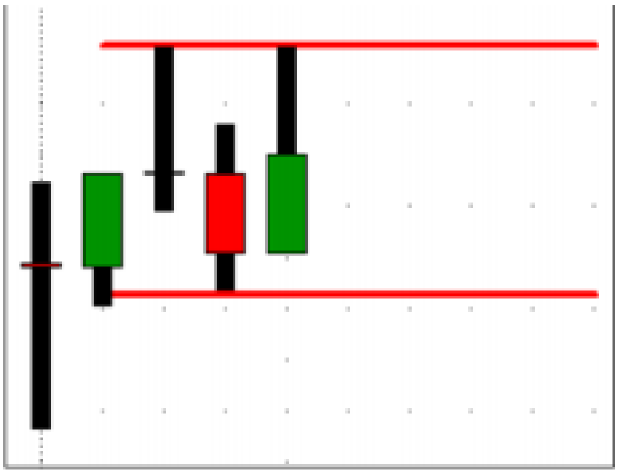


Chart 4: Close-up

The close-up suggests that only a break of the red lines will draw in more buyers or sellers. The gap down has not attracted more sellers, nor has it attracted more buyers. The trading session is 75 minutes old. So far it is in a trading range.

If I was short, my stop is close to being hit in the area above bar 3.

If I were long (I was not), I would be happy. My stop loss could stay below the low of bar 1, or perhaps move it up to below the low of bar 4 – or even bar 5.

The closer you move your stop loss, the higher your risk is of getting stopped out, but your monetary risk is decreased. Yes, I am stating the obvious, but that is the essence of money management.

Large stop loss => small chance of being stopped out => big monetary risk

Small stop loss = > big chance of being stopped out => small monetary risk

Scenario Planning

We are waiting for bar 6 to unfold.

As it completes, what is my response to these scenarios?

1. Bar 6 breaks above high of candle 3 and 5.
2. Bar 6 breaks below low of candle 5.
3. Bar 6 does neither of the above.

If bar 6 trades above bar 3 and bar 5 (which essentially together forms a double top), then I will be stopped out of my short position.

If bar 6 closes above bar 5, it is a "breakout" situation. Will I buy? Where will my stop loss be?

If bar 6 goes above bar 5 and bar 3, but it closes near its lows – like bar 3 did – how will I respond?

Bar Number 6

This chart shows bar number 6.

Chart 5: Displays Bar 1 to Bar 6

What can we say about bar number 6?

Bar 6 Facts

1. Bar 6 goes above high of bar 5 and bar 3.
2. Bar 6 is the high of the trading session.
3. Bar 6 does not go below low of bar 5.
4. Bar 6 closes above the high of bar 5 and bar 3.
5. Bar 6 closes near the high of the candle.
6. Bar 6 range is in line with prior candles.

How do we respond to this pattern? The chart below is a close-up of the day so far.

Chart 6: Close-up

Possible Solutions

1. Maybe the market will turn around and push back down again.

2. Maybe it is an AB=CD move. The market will move down again.

OR

Consider the possibility that the simplest option is the right option – that the market is simply breaking higher.

The concept of Occam's Razor is not a bad idea to bear in mind in trading. We like to complicate things – because we cannot believe that the simplest solution is the best solution.

We like to complicate things with indicators and oscillators and Fibonacci numbers and complicated Gann theory. It fills us with a sense of importance and purpose to emerge ourselves into the mystic code of the markets.

Freud once said "Sometimes a cigar is just a cigar", meaning that not everything signifies something other than what it plainly is. Sometimes we simply have to forget all our theory, and jump on board a trending market.

Side Story

I have a close friend who trades. He does not know about Fibonacci. Nor does he know about pivot lines or indicators. He does not actually know anything about technical analysis beyond what he sees on a 10-minute chart.

He doesn't even know anything about candle patterns or any of the terminology that most technical traders engage with.

Yet somehow, he managed to make £5,000,000 in February this year. He made £800,000 last week. Another friend of mine, who is more familiar with his trading style puts it like this:

“Fair play to him – when an opportunity comes along, he scales up his bet size enormously. He has the biggest balls I have ever seen.”

Go figure!

It is my firm belief that in order to be a profitable trader, you need more than knowledge about technical analysis, or fundamental analysis.

I believe that a good trader is not just an expert in technical analysis. He or she also knows himself, knows his strengths and weaknesses, and works on both his technical knowledge and his mental composition.

Bar Number 7

This is bar number 7.

Chart 7: Displays Bar 1 to Bar 7

Bar number 7 is not quite an inside bar but close enough. It does not disprove the bullish case, but it may pause the bullish case. The range of the bar is smaller, as if the price momentum is slowing down. The high of the bar is on par with the prior bar. The low is not even halfway down the range of the prior bar.

Yes, it is a bearish candle, but is the context bearish?

I do not think it is. I do not think it suggests that the market should be shorted. If this was to turn out to be a top, I would not have a reason to suspect it. There is nothing obvious to suspect this is a top. Therefore, I would expect it to be a case of a pause in the trend, rather than a trend change.

I might be wrong. I would be sceptical of the bullish case if the next bar or the one following were to go below and close below the 6th bar. That is the bar that made new intra-day highs.

I will now skip a few bars.

Bar Number 13

This chart shows the FTSE up until and including bar 13.

We skipped candle 8 (bullish), candle 9 (bullish), candle 10 (bearish candle), candle 11 (bullish candle and finally candle 12 (bearish).

The last candle is candle 13 – a bullish candle showing new highs for the day.

Chart 8: Displays Bar 1 to Bar 13

What can we say about the last 6 candles?

1. Not a single one of them went below the low of the prior bar – maybe with the exception of the candle 13, which looks like it might have just gone slightly below low of bar 12.
2. Not a single one of them closed below a prior bar.
3. The range of some of the candles suggest momentum is slowing down. 4. 3 of the 6 candles created a new high for the day.

I am sure we can find more to say about the last 6 candles. However, I have pointed out what I consider to be the most important ones. We are seeing a tight bull channel.

Timeframe Perspective

An important part of my trading is to observe when a bar closes above the high of a prior bar. Now I am sure you can appreciate that the concept of a "time frame" is important when making such an observation.

See Example Below

Throughout this paper I have used a higher time frame than what a conventional day trader would use. The norm is the 5-min chart. I have used the 15-min chart. The purpose of that is several folds:

1. Reduce volume of signals.
2. Improve signal reliability.

This is a chart of Nasdaq.

On this 5-min chart you can observe several technical particulars:

1/ During the down-trend not a single bar manages to move above the high of the prior bar.

2/ Every bar makes a low below the prior bar.

3/ The first sign of buying comes the moment the current bar manages to move above the high of the prior bar.

Now look at the same chart – but on a 1-min timeframe – and you will see several bars going above prior highs, without changing the trend.

Hence my argument that price actions better on higher time frames.

Bar Number 14

This is bar number 14.

Bar 14 closes near the low of the prior bar. It looks like an “inside bar”, meaning it did not make a new high, and it didn’t make a new low.

What can we factually state about the chart right now?

1. While the market gapped down, the trend since the open has been positive.
2. The range of the bars have been fairly consistent. There are no “standout” bars.

3. The last 3 bars have identified an area of support. All 3 bars have identical lows pricewise.

Chart 11: Displays Bar 1 to Bar 14

If you bought the close of candle 6, your position would be profitable. If you bought the close of bar 11 or bar 13, you would be losing.

Bar 6, bar 11 and bar 13 are important bars, because they all have something in common. They all close at their highs and they all make new highs for the day.

Scenario Planning

What is my response to the current chart pattern?

1. I can buy the close of candle 14.
2. I can sell short the close of candle 14.
3. I can do nothing.

What would you do?

Response to Scenarios

I can buy the close of candle 14.

It has after all paid off to buy the negative closes in the uptrend so far. It is a high odds trade, but with the high odds comes higher risk.

My stop loss needs to be quite far down the page. I have to pay in terms of “risk” for the “higher odds” trade.

I can also sell short candle 14.

I can argue the candle is negative. The trade is a low risk trade, but the odds of success are low as well.

Do you see how odds and risk goes hand in hand?

Bar Number 15

This is bar number 15.

Bar 15 breaks the pattern of the chart. It is a very narrow range bar. It is negative, and it closes at or just below the low of the prior 3 bars.

Chart 11: Displays Bar 1 to Bar 15

Scenario Planning

What is my response to the current chart pattern?

1. How are you going to react to this development?
2. What do you think is going to happen now?
3. How will you manage your risk?

Let me ask you a few questions:

Are you buying? If so, why?

Are you selling? If so, why?

Where would you place your stop loss?

You often see tight bull and bear channels turn into a trading range. This market may simply be mutating into a trading range at this point.

Anything can happen.

Do you have a response to it?

Do I?

What you have to be mindful of is that a close below a prior bar is more significant for direction on a higher timeframe than on a lower time frame.

When a bar closes below a low on a 1-min chart, it does not have the same importance as when a 5-min chart does it.

If I buy here, I have to be mindful of the following points:

1. We are in a gap down situation.
2. We have trended higher all morning.

These two facts pull in the opposite direction. Therefore, you have to be open to the possibility of a test of the lows, but you also have to be open to the possibility of a gap fill.

If the next bar closes above the high of bar 13 and 14, then the odds of a gap fill increase significantly.

However, if buyers cannot hold support of bar 13 and 14, and in particular if the next bar closes below 13 and bar 14, then you can argue that support is gone. That opens the possibility of new lows for the day.

Bar Number 16

This is bar 16.

Chart 12: Displays Bar 1 to Bar 16

Bar Facts

What can we say about the last candle?

Bar 16 has now completed on the chart above.

1. It closes below the low of the prior bar.
2. Its close is right at the low of the bar.
3. The bar did not manage to get above the high of the prior bar.

These facts suggest weakness.

1. If you went long, how do you feel about the current chart pattern? 2. If you went short, how do you feel about the current chart pattern? 3. If you did nothing, would you do something now?

At this point I am not arguing that we are headed to new lows, but unless the buyers can push above the high of bar 16, the odds are high we will see lower prices.

If I were not short now, I would have a clear-cut case for selling short. I have a market which was range-bound for 4 bars – an hour in total. The last bar has just closed below this one-hour trading range.

Bar Number 17

This is bar 17.

Chart 13: Displays Bar 1 to Bar 17

Bar Facts

What can we say about the last candle? Bar 17 has now completed on the chart above. What can we say about bar 17?

1. The trend is accelerating. The range is expanding.
2. There is no bullish wig at all.
3. The candle closes near its lows.
4. The candle trades below a resistance area on the way up. That should technically have been support, but there are no buyers protecting this area.

I would like to ask you what you would do now? If you had a short position, would you:

1. Add to the short position?
2. Would you close the position?
3. Would you close parts of the position?
4. Would you do nothing?

What if you were long? How would you react? What if you had no position – how would you react?

Bar Number 18

This is bar number 18.

The chart below shows the next 15-min bar. It is a real snoozer of a bar – one of those where you check if your charts are updating – checking the internet cable.

Chart 14: Displays Bar 1 to Bar 18

Bar 18 is an inside bar. I personally believe that I need to see the market push above the high of bar 17 and 18 to give the bullish case a reasonable chance.

Otherwise I would expect sellers to push the market towards the lows of the day.

Bar Number 19

This is bar 19.

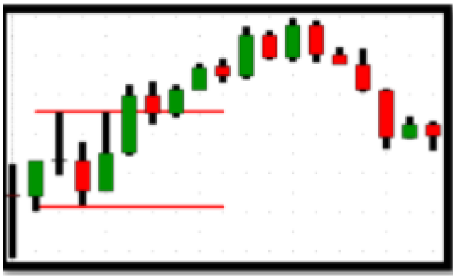
Chart 15: Displays Bar 1 to Bar 19

Bar 19 offers the bullish case some hope, and perhaps some fear for the bears. The bar 19 makes a new low, but it closes off the lows.

It is still a negative candle, but there is a "tail" suggesting that there are some buying off the lows.

For the bullish case to persist, the next candle or the one after needs to push above the high of candle 19.

If we see new lows, a low below the low of bar 19, it opens up for more selling towards the low of the day.



I would like to offer my humble perspective on chart analysis.

It is a rule of thumb. I use it to guide me to make decisions.

If I see a strong bar, strongly positive, or strongly negative, and then later I observe the market trade in the opposite direction, I see that as a "contrary signal".

The small chart above is an example of that. Count the bars and identify bar number 11 and bar number 13. Both are green. I consider these bars strong bars. The fact that we are now trading below their lows is a bearish sign. A good rule of thumb.

Bar Number 20

This is bar number 20.

It is now 1pm local time in the UK.

The US markets do not open for another 90 minutes. 90 minutes is the equivalent of 6 bars of 15 minutes of duration.

Bar 20 breaks decisively below the lows of bar 19 and bar 18. There is no upper tail on bar 20. It means sellers are having no opposition from the bulls.

Bar 20 does not close at its lows, but it is a negative bar, with a range about 3 - 4 times bigger than the range of bar 19 and bar 18.

Chart 17: Displays Bar 1 to Bar 20

Bar Number 21-24

This is bar number 21, 22, 23 and 24.

The next chart shows the price action over the next hour. The range of the bars have significantly decreased. I imagine at this point traders are waiting for the US markets to open. The opening of the US often provides acceleration or trend change.

Chart 18: Displays Bar 1 to Bar 24

The 4 bars all make lower highs. There is simply no buying interest at all. The first sign of bullish momentum would be to see a bar make it above the highs of a prior bar.

Since the high on bar 13 there has not been a single bar that has managed to get above a prior bars' high, let alone close above it.

Bar Number 25

This is bar number 25.

Chart 19: Displays Bar 1 to Bar 25

Chart 19 above sees an expansion of range.

I think this bar is significant because it actually makes new lows for the day. I do not think the "hammer" shape of the bar 25 should be seen as a bullish indication. I suspect the short positions would perhaps want to cover in this area.

Even if there was to be a recovery, it would require more than just a candle that closes near its high, with a long tail. Sure, it has the potential to be the beginning of a move higher, but right now the bear channel is fairly tight.

Statistics and Candlechart

I suggest you google this: "A Statistical Analysis of the Predictive Power of Japanese Candlesticks".

Then find the research by Jamaloodeen, Heinz and Pollacia.

There you will find this piece of statistical research:

Japanese Candlesticks is a technique for plotting past price action of a specific underlying such as a stock, index or commodity using open, high, low and close prices.

These candlesticks create patterns believed to forecast future price movement. Although the candles' popularity has increased rapidly over the last decade, **there is still little statistical evidence about their effectiveness** over a large number of occurrences. In this work, we analyse the predictive power of the Shooting Star and Hammer patterns using over six decades of historical data of the S&P 500 index.

In our studies, we found out that historically these patterns have offered little forecasting reliability . .

Bar Number 26

This is bar number 26.

Bar 26 on the chart below merely confirms what the overall trend has been saying for the last 13 bars. The trend is down.

Bar 26 has a close at the lows. There is no real tail in either direction. This is a bearish close. The FTSE index has now closed below the low made on the first bar at the open.

The "Hammer" pattern offered no reprieve from the bear trend.

Chart 20: Displays Bar 1 to Bar 26

When I trade stock indices during the afternoon – European time – I always make sure I look at **both** US and Europe. You rarely have a trend reversal in Europe without a corresponding reversal in the US.

Bear that in mind as we move onto the next chart.

Bar Number 27

This is bar number 27. We are now witnessing the first more significant green body close in more than 13 bars.

Chart 21: Displays Bar 1 to Bar 27

Of course, we do not know it at the time, but we have just seen the lows of the day in the FTSE index.

As I traded this, I was mindful of the rally in America. The chart below shows the rally in the Dow Jones index. The arrow on the chart below takes place at 14:45.

This time is identical to the time the FTSE prints its first significant green candle. Dow rallies more. So too does the FTSE index as you will see shortly.

Chart 22: Displays Dow Jones Index

Bar Number 28

This is bar 28.

Chart 23: Displays Bar 1 to Bar 28

What is significant about chart 23 is that it is the first time that FTSE manages to close above a prior bar's high. I covered my short position at this point.

As I said earlier, I pay close attention to each individual bar. If a bar closes above or below a prior bar, it is significant.

I did not go long (buy) here because I was already in a position long in the Dow index.

Had I not been, I would probably have bought the FTSE index. It is always easy to say after the fact what you would have done.

Don't be a hindsight trader!!!

The Whole Day

The final chart below is the whole day in perspective. I have had to shift the chart a little to the left to get the last few bars to fit on the chart. The strong bullish close on bar 29 brought with it more buying – or short covering.

Chart 24: Displays the Whole Day!

My Trading Philosophy

I want to show you some charts of my losing trades.

If you wonder why I am volunteering to show you my flaws, I will argue that the best loser wins. I wrote a lengthy article on this subject, which you can find on my website xxx.

Here is what I believe to be true about trading:

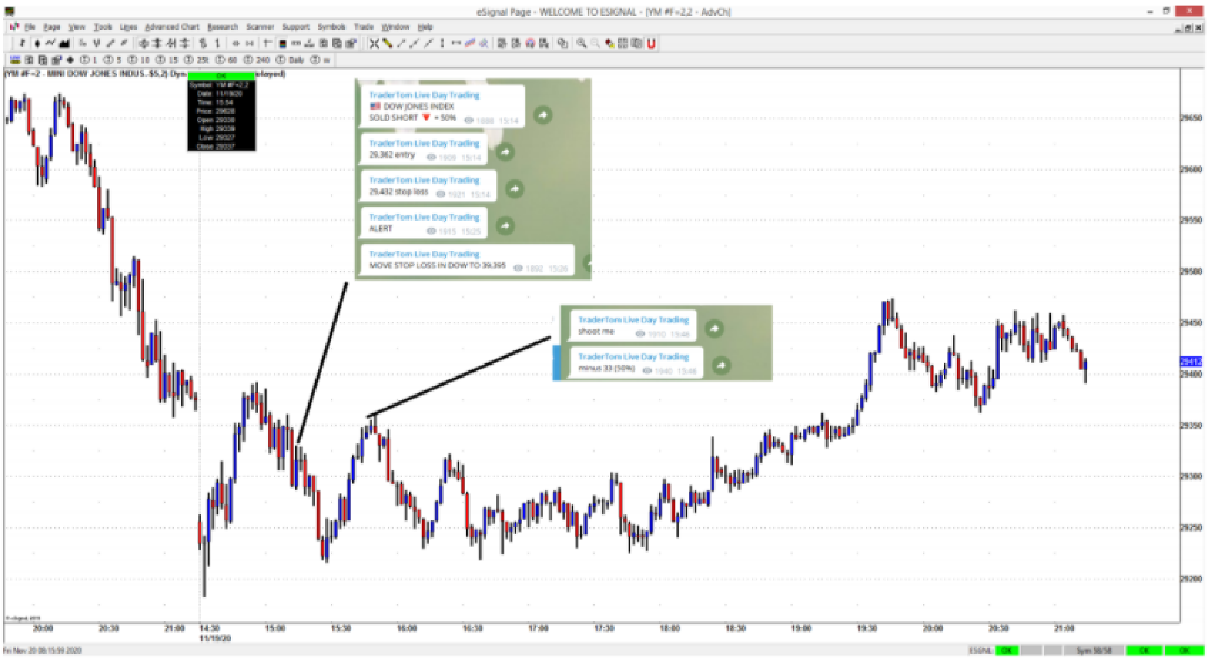
1. Anyone can learn to trade well – if they are taught properly.

2. Trading is not like investing. Trading time is not always on your side.

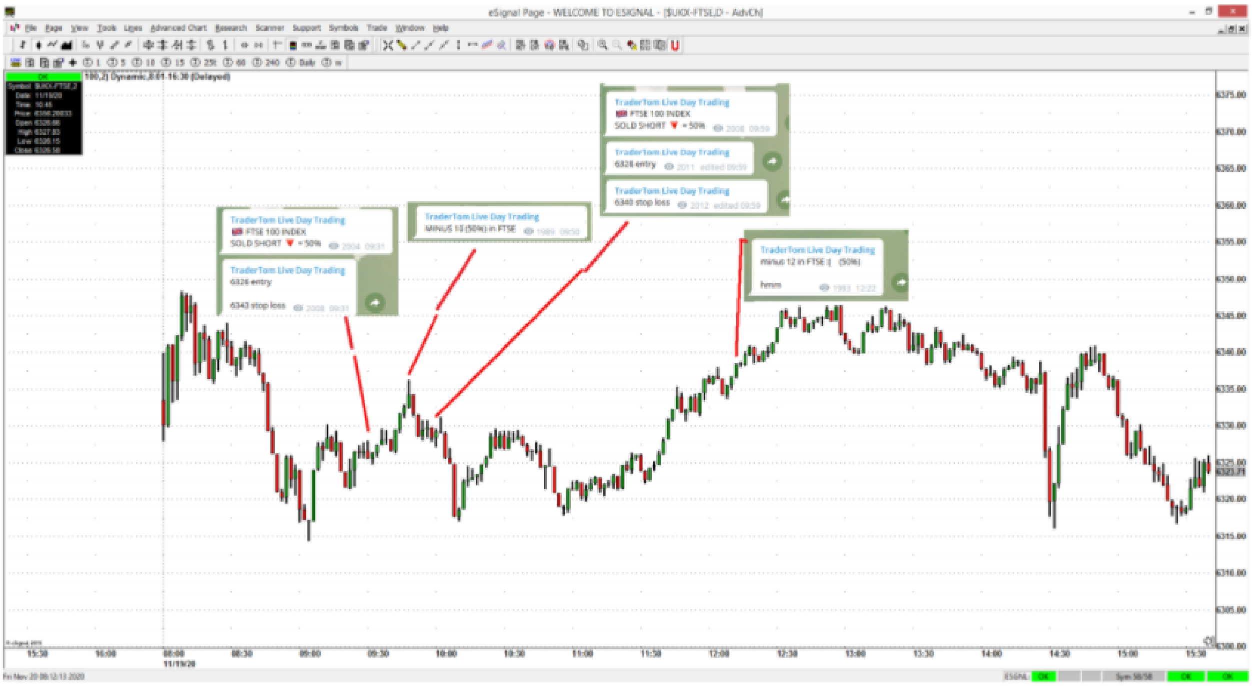
3. Trading successfully requires you to change the way you think about losing.

The next 3 charts are examples of me losing. As I look over the trades, I see what I was trying to do. In a sense I am proud of the trades. They are well executed, and while my frustration spills over on the comments on the charts, I believe I followed my strategy. What else can you ask for?

The pattern at the open is fairly classical. The Dow index gapped down, filled the gap, and started declining again. This is a 2-min chart. I jumped on board the move lower. Annoyingly the market turns, and I get stopped out right at the top tick. It happens. I don't dispute it is annoying to get stopped out and then see the market move in your favour. But I am pleased with the trade.



Here – on this 2min chart of the FTSE index – I am trying to find a place to sell short. My stop loss is probably a little too tight. I get stopped out on the first trade. I short again, and ride the market lower. Once again, the market reverses, and I am left with a loss. However, I did the right thing. Do the right thing over and over, and eventually you will catch big winners.



Finally, here is a DAX chart – again on a 2min chart. I am not trading off a 2min chart, but I felt that this time frame was better to display my trades for you than a 5min chart. Dax gaps down, and I am waiting to short a counter move. I ride the market lower, and I begin to add to my winning position. Sadly, the DAX decided to move up again. I lost. But the process is right.

Conclusion

I wrote this piece because I wanted to highlight the fact that far too few traders/educators/writers showcase a realistic learning environment.

Our minds are cheating machines, and our eyes will seek the solution and create a lesson based on what it sees. If we provide the solution in our teachings, we are robbing ourselves of an opportunity to learn.

By displaying the charts, on a bar by bar basis, we are forcing our eyes and our brains to focus on what is – right here right now. Job well done.

Yes, it is a little tedious to flip through all the pages, but as you do, you are chiselling away at that brain of yours, creating a super trading mind.

Once again – time well spent.

Feedback is always welcome.

xxx

Thank you for reading.

Tom Hougaard.