Mastering the Art of Trading - ghous

http://www.forexfactory.com/showthread.php?t=444115

Hello FF,

Its been about half a decade since I first dropped in here and have never looked back since. Met some wonderful people all along and progressed leaps and bounds with my trading education.

Here's some of it right back:

A bit about me and my style

I am 23 years old and downloaded my first demo mt4 at 18. Since my time here at FF, I have gone through many different trading systems, some of which are still active today and kicking along as they should. The real breakthrough came about when I dropped by the James16 thread and the rest is really memorable history.

For quite some time I wouldn't consider myself a true trader if I wasn't looking at my charts 6 hours a day with at least 10-15 trades per day. It was not until a couple of years that I realized I wasn't meant to be a trader on the m5.

I trade the daily the 4H and the 1H TF. I don't need 10 hours a day in front of charts anymore. In fact 2-4 hours is all I need. I am no longer fighting the "noise" of news spikes and short term order flow. I am no longer exposing my capital to 10 trades a day. I have on my watch list as many pairs as my broker offers. Around here you will find charts ranging from majors to the most exotic pairs. Well price is price and it doesn't change its course of action in exotic markets and for that matter even in the non-FX markets.It is not uncommon for me to be watching 50+ pairs at any given time and yeah I still need a handful of hours to take/manage trades.

I primarily trade Support and Resistance as taught at the James16 group. However I only use the knowledge in an indirect way in validating and managing trades. My "system" is different to the conventional james16 stuff to an extent yet its still a pure modification of the material itself through ideas and research work of the very senior members at the group and at Forex Factory forums in general.

The Basics of the method

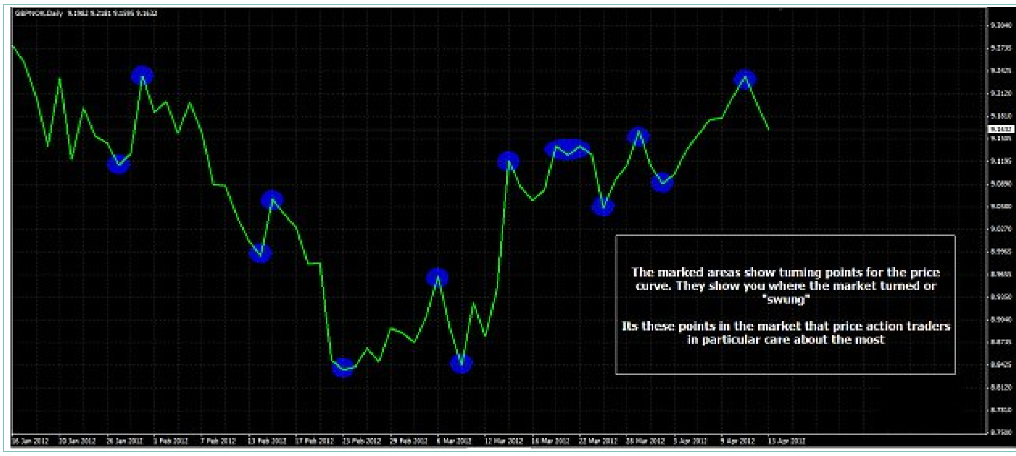
Foreword

By putting the material contained in this post I have assumed that my audience has had at least some kind of exposure to the James16 group either at the public thread at forex factory or at the private forum. While this system is not about a direct application of the James16 material it is primarily a modification of it with the core still very much intact and in its original form. This method will be best assimilated by someone who has a good idea of how we look at our charts at the James16group.

Identification of swing points

These are defined, in plain and simple terms as points in the market where price took a U turn, either for the longer term (reversal) or for an elongated correction/pull back.

These are not difficult to spot on the chart at all. Here's a chart to get you going...



Simple enough?

Introduction to the fake out

We know there are two types of traders participating in these markets. The novice trader that is under capitalized and is pretty naive when it comes to trading knowledge. And then there are the real big pros, the hedge funds, the banks and other institutions who know their stuff and have really big accounts. These 'cool' traders however suffer from a major problem that stems from the size of their account. The problem of liquidity. The FX markets are amongst the most liquid markets in the world yet there still is a problem when a hedge fund wants to sell 10,000,000 units of EUR/USD at resistance where obviously others are willing to short as well. You see why? How many traders do you think want to long in a market that is heading towards resistance? This poses a serious problem and these guys will then take some measures to get rid of this problem. These are smart people BTW. They break their position sizes into smaller lots and execute it at closely bound price levels instead of clicking a 10,000,000 position size at a single price level.They also artificially create buy side liquidity in the market by targeting the novice traders.

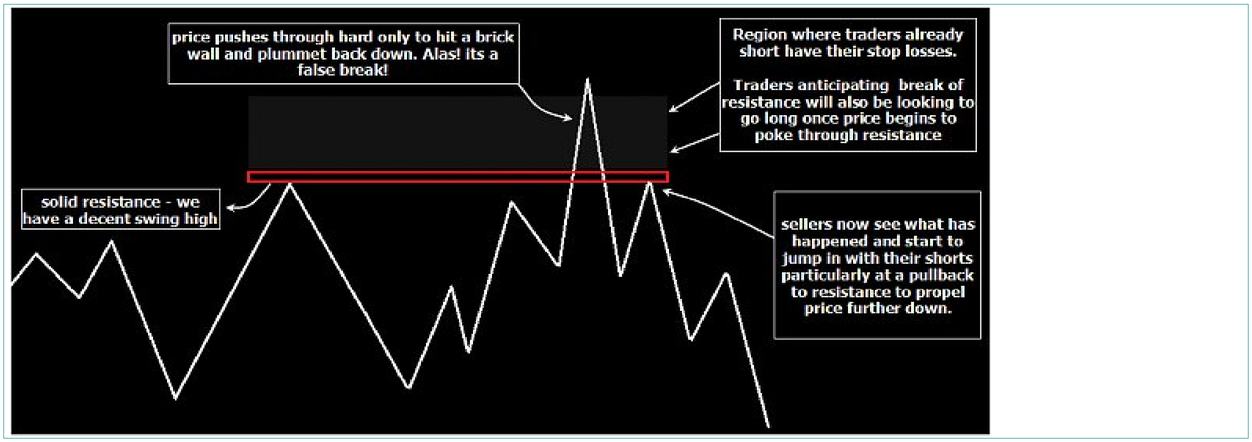
Small positions selling into support and buying into resistance, create the "buzz". Or just simply pulling off all orders leaving a vacuum for retail traders to push price through. Enough manipulation to lure traders into thinking price is headed for a break of support/resistance. The breakout traders start jumping in. At resistance for instance, traders short in the market who most likely will have their stops above resistance or below support (the pros know it all!) start to freak out and their stops start getting hit creating more buy side liquidity (a stop loss on a short order is actually a long). By creating an artificial scenario in the market the pro traders have managed to, like a sheep dog, get the herd where they want them to be.

They can now pull out their long positions and start dumping their huge short orders on traders willing to now buy into a breakout that is going to be a fake one. Now guess what? All those traders that jumped in long will start hitting their stop losses because the big orders are propelling price south and which creates more selling in the market to take price down (long traders will close their trades by selling their positions), but the pros are already in and any selling pressure now is just adding cash to their wallets. Some smart folks and james16 are probably looking at pin bar showing this very information and are short too WITH THE BIG BOYS. DO you now see how the 95% of losing traders are filling up the pockets of the remaining 5%? The naive trader lost when he was short at resistance. He also lost when he thought he could catch a smooth break out.

These pros have nothing against retail traders. Its like a huge ocean where survival for the big fish means consuming smaller fish. Its a zero sum game after all.

So what does a fake out look like on a chart?

Attached Image (click to enlarge)



At a strong area of support or resistance you'll often see price moving sharply to notify a breakout and either on the same bar or on the next few bars will sharply pull back into the swing point. It will either leave behind a wick or a few dead bars (low range indecision bars) showing a strong move up (like you would see in a break out) followed by a complete reversal back into res/supp.

What I said above is good knowledge for someone really interested in going behind the backdrop to take a sneak peak of "behind the scenes" but its perfectly ok to be comfy in an audience seat ready and tuned in for the action as and when it happens.

Enough of the details of the chemical composition of bread and butter...let's get down to earning some.

The system explained

How do you convert this market knowledge into a consistent solid trading method:

You simply wait for price to approach a major swing point. A point in the market you know a bunch of traders will have their eyes on. They may be anticipating different things though hence the "market imperfection" and that is what gives you the edge.

For a short setup price must make a move higher than the highest high in that period of resistance (I call it the HHR - short for Highest High of Resistance) and fail to *close* above resistance, preferably on the same bar i.e leaving behind a "wick".

Similarly for Long I am looking for a move below the LLS (Lowest Low of Support) that fails to sustain itself and closes back above leaving behind a wick.

ENTRY

Entry would be at the close of the fake out bar. Since it can some times be far away from the source itself (in case of a long spike where price closes further away from the HHR/LLS) a good idea is to wait for a pull back (happens often) to the HHR/LLS via a pending order once the fake out bar forms. Obviously the latter strategy might lead you to missing a few trade setups because while price will often pull back at least once to the HHR/LLS *after* the fake out bar forms it won't do it all the time. For me, It almost always boils down to the grade of the setup itself and the distance from the source that is in question. If I find its a setup off of a great area I might not wait for a pull back and enter on the close itself, other times I will wait with a pending order at the HHR/LLS. Of course the case where you get a fake out close, close enough the HHR/LLS an entry on the bar close itself is totally justified.

STOP LOSS

A fake out setup, as per this method is NOT over unless you get a close beyond the fake out bar high/low. period.

Enough literature out there and your charts too, if you do your homework, spell out that a fake out is most meritorious up to the point where price fails to respect the order flow that created the fake out. Most often this is illustrated by a strong close beyond the fake out bar high/low. Other times price literally does just this (i.e close beyond the fake out high/low) and totally reverse right back so as to comply with the order flow that created the fake out.

There really is no way to say for sure when exactly is a fake out setup invalidated. Its important to understand that a certain level of ambiguity and grey areas have to be deliberately left out to make the market imperfect enough to allow for the edges to exist. Think about it, if fake outs as a phenomena was exactly repetitive each time "the edge" for the pros that it represents would be gone. Remember a lot of small fish need to be wrong to feed a single large fish.

Again -> A fake out setup, as per this method is NOT over unless you get a close beyond the fake out bar high/low.

This is probably a good benchmark to give your method the rules it rests on. It is is usually unlikely for a fake out to work out if price goes against the direction of the fake out and closes strongly. NOT ALWAYS...I said USUALLY.
Interestingly it poses another major problem. Waiting for a bar to actually close beyond the fake out bar high/low is essentially keeping your stop loss totally open until you get a close beyond the fake out bar high/low. This could be detrimental specially if you are day trading. Furthermore it obviously makes position sizing calculations complex because you are unaware of the exact pips and you can only roughly guesstimate a position size.

My stop loss (a hard literal one) is placed arbitrarily a few pips beyond the high/low of the fake out bar. Again there are no hard and fast rules here, I could go a bit tight or a bit loose depending on the situation and also on the size of the wick of the fake out bar. Foe example if my HHR/LLS lines line up with a RN I can use it as an additional cushion and go real tight on the stop loss to enjoy a better R:R.

As far as stops go you have to go with your gut feel driven by your evaluation of the setup itself and the ongoing market action. This is easier said than done because decisions on stops are usually the ones that involve the most emotions. Where gut feel is involved experience comes in big time, and I can't stress this enough, that you must practice, practice and practice this method till you start to anticipate market action over and above your emotions.

Being an order flow method, how good you do with it depends not on the rules as much as it does on your grasp of price action and order flow dynamics. This is why I feel knowing the James16 stuff is such a HUGE ADVANTAGE!

EXIT

Another crucial aspect. Depending on the strength of the setup I will either exit at the first MAJOR S/R area in the way or prefer to hold on to see if it can blow through (for stronger setups)

At the James16 group we discuss the concept of "space vs traffic". The idea that a trade that is running into fewer bar highs and lows and HCR/LCS levels has far more potential than a trade in traffic. Traffic here is defined as cramped up space with close by trouble areas specially when you're trading straight into a period of consolidation or into a major PPZ.

"Decent space" is a crucial requirement for me, and unless the other factors are tipped heavily in my favor (very STRONG swing point, large fake out bar wick) a setup that is heading into traffic is rejected.

Links to video posts:

Thoughts on a few fake out setups on the Yens (4H) http://vimeo.com/73694161

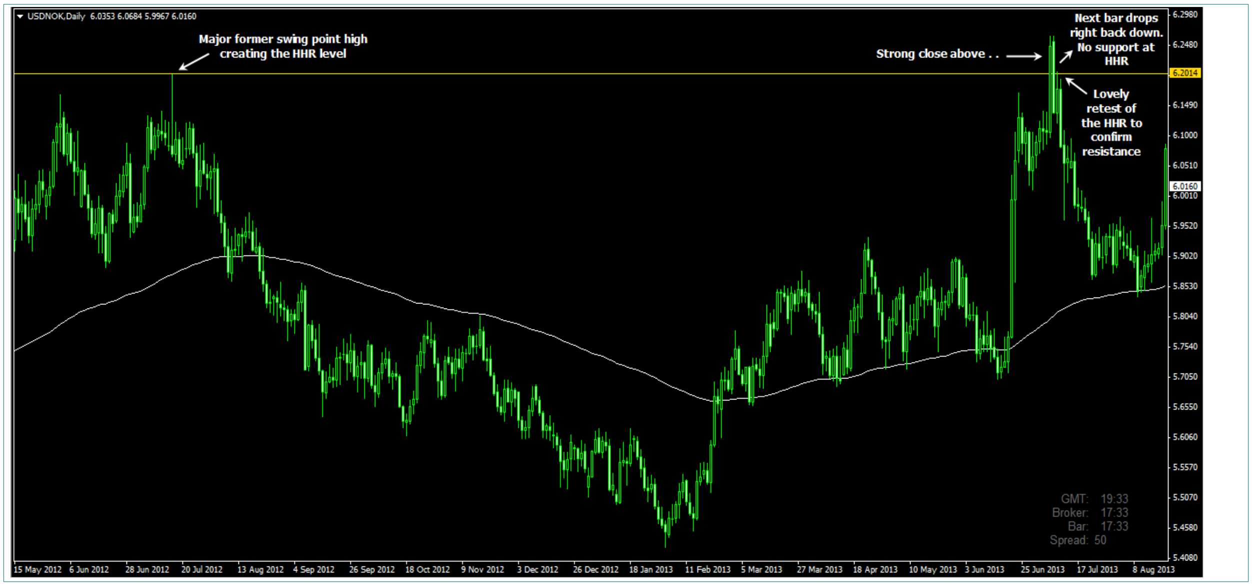
Explanation of the "fake out phenomena" through a past trade

Support and resistance specially the flip where support turns into resistance and vice versa are among the most fundamental and foundational phenomenon that the market action, or price action as we like to refer to it as, is based.

If price breaks through an HHR area and on the retrace holds up at it as support, then clearly this is not a fake out scenario.

What we are looking for, is price to move beyond the HHR, hit the stops as well as the big block of orders and fall back. If this is true selling coming in and a fake out in the making then price shouldn't find it troublesome to move smoothly back into the HHR level and close below it.

As an example here is a former trade I took. Notice how price closed strongly above at first, but then next bar pops right back down without holding up at the HHR. This is very telling about the strength of the selling pressure that's coming in. A retest of the HHR from under occurs before the selling continues to confirm resistance at the HHR. Textbook stuff really.



g.

Hazards of trading in a strong trending market

his is something that I will be getting into very soon when I get well from this stupid food poisoning.

The triggers to this method lye in spotting a swing point, demarcating an LLS/HHR and simply watching for a failed attempt to break it. This will always be very easy to spot. Bear in mind that the bigger and more critical aspect to successfully executing this method is the sound understanding of "the bigger picture". Something that comes with a lot of practice.

Now with the EUR/AUD example you showed. I see a swing high and an HHR and I see that we may have a possible fake out off of it. But ask yourself this. Is that a major former sell off area to be considering to take a short off during this strong an up trend? It took me quite a few painful burns to understand that this method was best suited to a sideways market. By nature this is a "counter trend method" and you'll find yourself in a lot of trouble if you start shorting up trends based off minor swing points.

You will have people bragging about the pips they bagged during a trending market based on an MA touch/cross system. Come a sideways period and most systems will turn on their heads. This method I have always experienced to be at its finest best (both with number of opportunities as well as the reliability) when the market is sideways. Don't get me wrong. Of course these markets can be tricky, but also extremely rewarding if you have a basic understanding of side to side support and resistance and your approach is spot on.

You'll be hearing more on this and other critical issues/aspects very soon.

g.

[Quoting str8](#)

> {quote} Ghous, you said here that "The human race will need to evolve into something totally different to stop order flow and market dynamics to work the way they have been working for hundreds of years." This means this strategy of trading fake outs from swing points will work in every year? This strategy also worked before the financial crisis from 2008? Did you make backtesting for the period before 2008? You also said something about this fake outs work in sideways markets. If I see a pair is in a strong trend I shouldn't look anymore at historical...

Go as far as you want to. :)

And yes trends are always notorious for me. I generally like to see a swinging/side ways market. The point here is that with strong trends in place you're not likely to find any major deep swing points near by to take advantage of. If you're getting lured into trading fake outs in a market that is trending, its most probably because you're antsy and wanting to take on a minor swing point.

Of course it isn't a rule set in stone though. In an uptrend if you have a retest of a swing low that lines up with a support trend line, an EMA and a round number. a trade to anticipate a continuation of the trend is surely on. But then again, stumbling across tradable setups during a strong trending market is rare, or comparatively more rare than trading in a sideways market.

g.

Dealing with different 4H/Daily bar closes on different feeds

Quoting jlpi

> Hi ghous, one point I would like to highlight is that the Daily and H4 candles may be very different from a broker to an other as the day starts at different times depending on the broker. And as the close price plays a big role then it may affect quite much the trades. What is your experience on this (I suppose that traders in James16 group use many different brokers). On the other side H1 candles are pretty much the same on different brokers. Because of this wouldn't the be better candidates to spot the fake breakout?

true that.

I always just stick to the Ny close feed which tends to be unofficial close time for FX markets, in the sense that I have seen many traders use it. It makes sense too as other markets close around that time too.

In the end though it really doesn't matter all that much as in the end it all balances out. Also, the real underlying reasons for taking a trade are almost always centered towards the bigger story comprising of a big chunk of price information which doesn't change from one feed to another. So for instance if I have a former major swing high line up to the pip with a big round number, another feed might show me an HHR that either missed the RN by a few pips or closed above by a few pips. Either ways it doesn't alter the depth of the swing point nor the fact that the HHR is "more or less" lined up with a round number.

So again its not possible that people are looking at altogether different setups on different broker feeds except maybe some minor differences that tend to even further diminish when you start to look at your charts more holistically and stop treating the markets like a machine that works in perfect rhythms and behaves on a "to the pip" basis.

hope this is clear.

g.

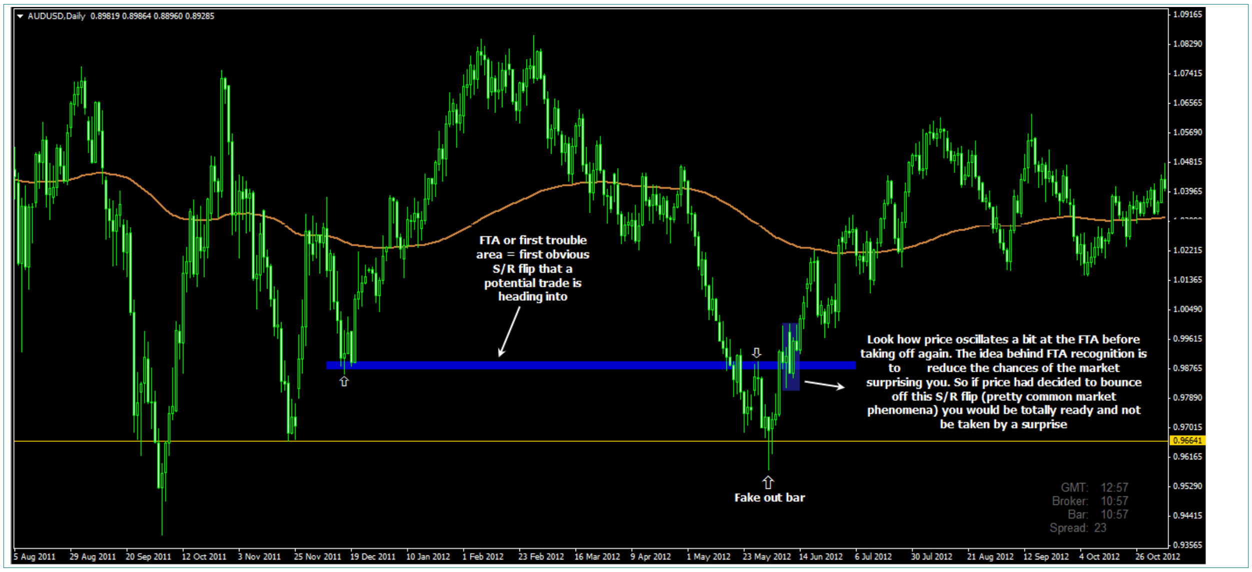
What is a "First Trouble Area"

Quoting cfdtaleong

> Thanks for the thread. Great to read something that specializes in sideways market. I just don't quite get the definition of a "trouble area". Is it an area of many dojis that kind of stuff?

The first trouble area is the first minor/major flip of support and resistance that a potential trade may find trouble at.

here's an example:



The FTA is important information that helps a trader develop a logical trade plan that eradicates all ambiguity and lines the trader up to be warned and also take advantage of realistic expectations from the market.

Here are a few examples of designing the trade plan around your FTA:

1) Take full profit at FTA (if the FTA is extremely major such as with the GBP/NZD trade I shared)

2) Take partial profit at FTA

3) Move the stop i.e reduce exposure on the trade as price hits the FTA

4) Do nothing and simply watch like a hawk how price is reacting at the FTA (recommended only when the FTA is extremely minor)

What we always discuss about at the james16 group as well, is that there is absolutely no point in taking a full loss once price makes it to the FTA. So you see the FTA is by far the most important aspect of a trade in the initial stages, which needless to say is obviously the make or break times for the trade.

Part of a trade plan should always consist of clearly marking out the FTA and all subsequent trouble areas if you do plan to hold a trade beyond the FTA.

g.

Understanding the "Bigger Picture"

Quoting Pinbar

> Even though, I do not like the fact that price did not spend much time away from this area, before returning to it, the close of yesterdays bar interests me. Let's see what the rt of the HHR can do. {image} {image}

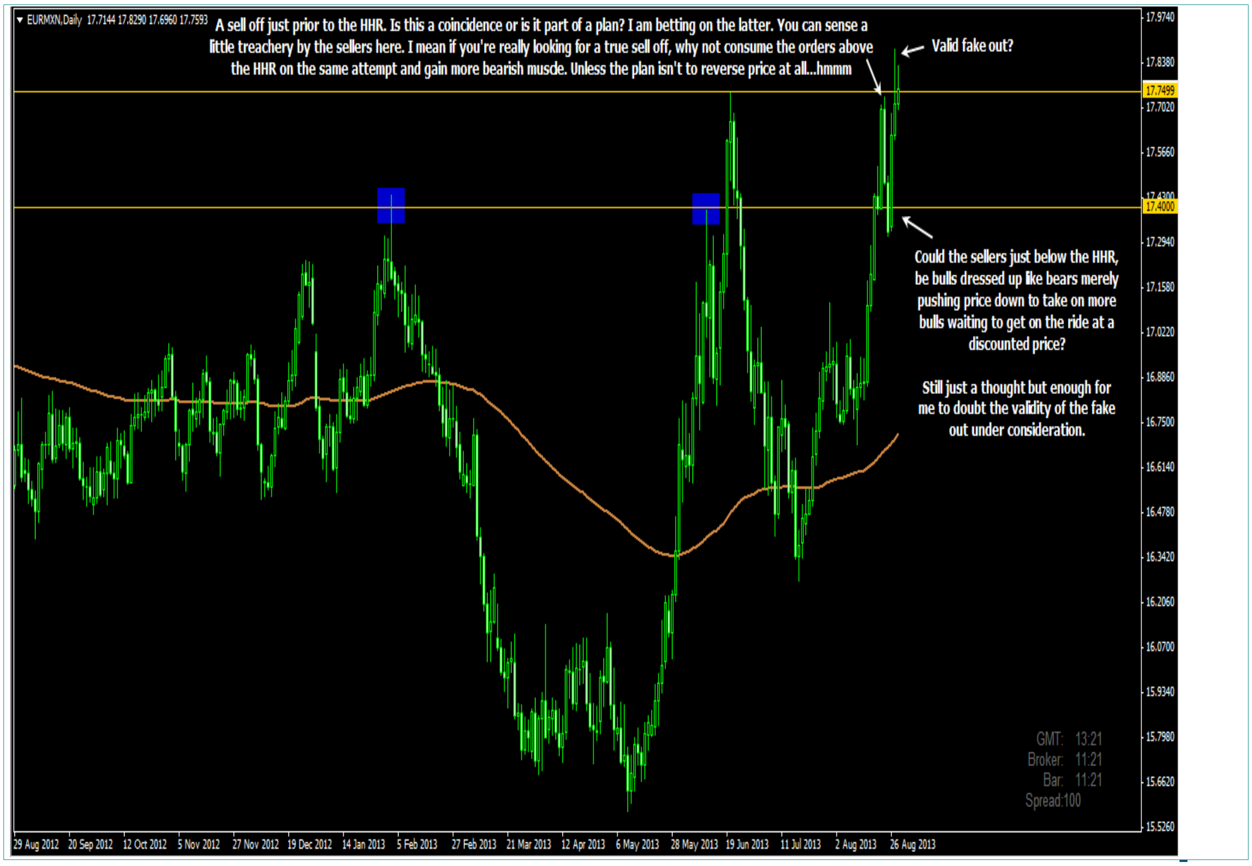
hey Steve,

Its always best for price to rapidly approach the HHR/LLS and get rejected off of it on the first attempt. Here for example a bounce just before the HHR is not a very strong sign for a fake out setup. First it shows a misalignment of bearish order flow. I mean if we're really playing the fake out game, what the hell were sellers doing just underneath the HHR to allow price to drop 4000 pips only to see fresh buying coming in?

Although the fake out bar here has ended up closing within the more recent minor newer HHR it still strips the setup of quality considerably IMO.

Some more food for thought on the chart:

As a prologue, why would true selling want to occur in chunks when price could have bought its way into the HHR and take on all the selling pressure?



PS I hope this doesn't confuse the newbies too much. If it does, just simply ignore it. I am yet to get into explaining some of the major market dynamics around which I build my bigger story for the trades. You just saw an example above, and if it makes sense even a tiny bit you need to be patting yourself on the back or err.. get someone to do it for you!

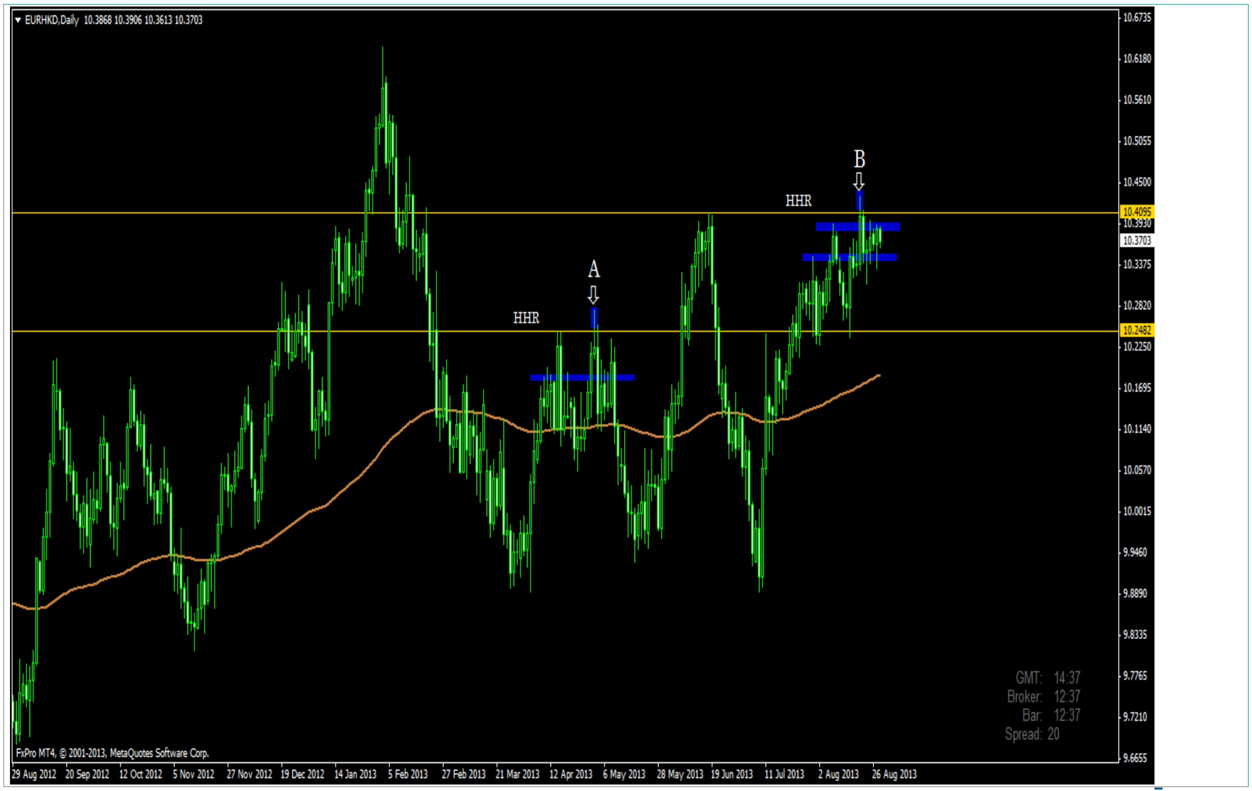
g.

Space - An important consideration for your trades

[Quoting cfdtaleong](#)

> {quote} bar type?

yes and notice also the difference in space in the two trades. Setup A has comparatively more space to the FTA while setup B is running straight away into it as well as facing more contentious traffic.



Always analyze your trades in 3 domains:

1) The location (Round numbers, MAs, depth of swing points and other confluence factors)

2) The bar (the longer the wick the better)

3) The space for the trade to move into (FTA not being too close to make trade management a pain)

g.

Using the idea of "multiple confirmations" on fake out setups on lower time frames

Quoting ghous

> {quote} Brilliant! I want to be using this example to launch an idea about trading this method on the lower time frames that might just replicate the reliability you get with this method on the higher time frames. Again based on just pure common sense! However its still very much in the laboratory for me, with the potential to be a spin off method on its own designed particularly for the lower time frames. g.

Lets get right back to the basic idea of a "swing failure":

Price swiftly hitting a major HHR or an LLS and testing the region beyond it without successfully sustaining the momentum and falling right back within the swing point.

The daily bar close is a condition that helps systematize the concept as well as filter the not so obvious setups but be very clear that while a daily closing back within the HHR/LLS is a strong sign of a fake out, its not what makes or breaks a fake out setup....or rather to avoid the confusion I should say the close doesn't make or break the fake out "scenario".

I say this because while for the most part the best fake out setups are the ones, where you have the daily closing in your favor, scan your charts and you'll find tonnes of examples where price closes strongly beyond the swing point and immediately and some times even eventually closes right back within the swing point.

The most defining characteristic of a fake out is quite simply the falsification of the basic structural principle of support turning into resistance and vice versa

Going by this, whenever you see price stepping on the gas beyond an HHR (resistance) and find it not being able to hold up via support at the HHR upon a pull back, you have a fake out. Beyond this every condition I use is honestly for systematization and filtration purposes.

*****************--------------------------*****************

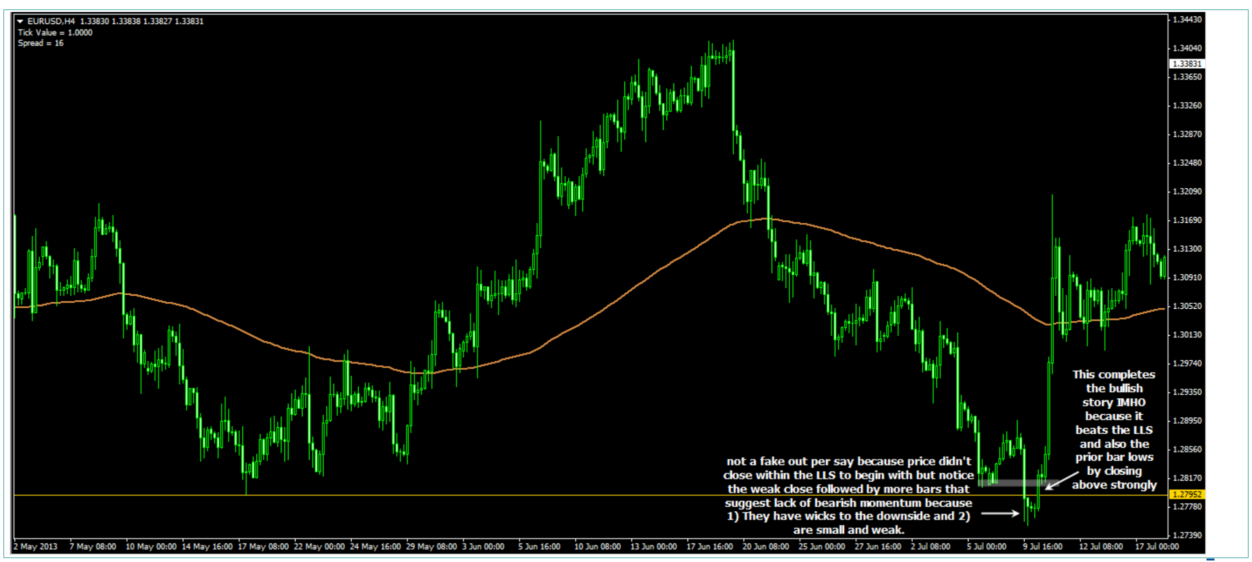
Now that we have the back drop set, let's get down to what I was talking about the other day:

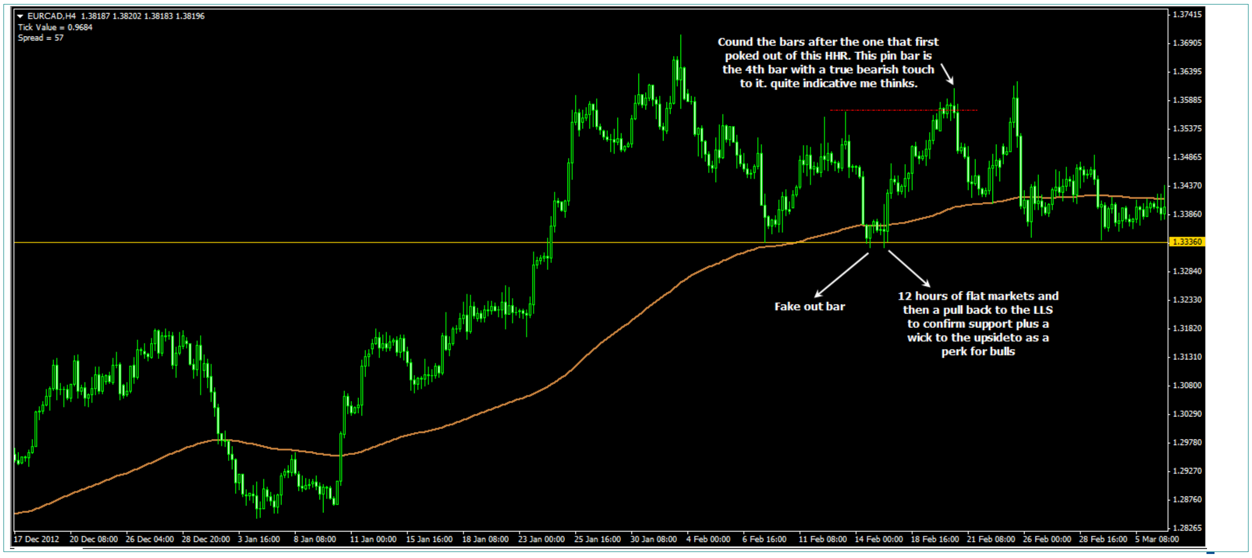
As I mentioned, I like the dailies because they contain more information and a bigger chunk of time encompassing all the trading sessions. With a 4H fake out or a 1H fake out, you are banking on partial or incomplete information which doesn't invalidate those time frames for trading but does extract some reliability juice from the method.

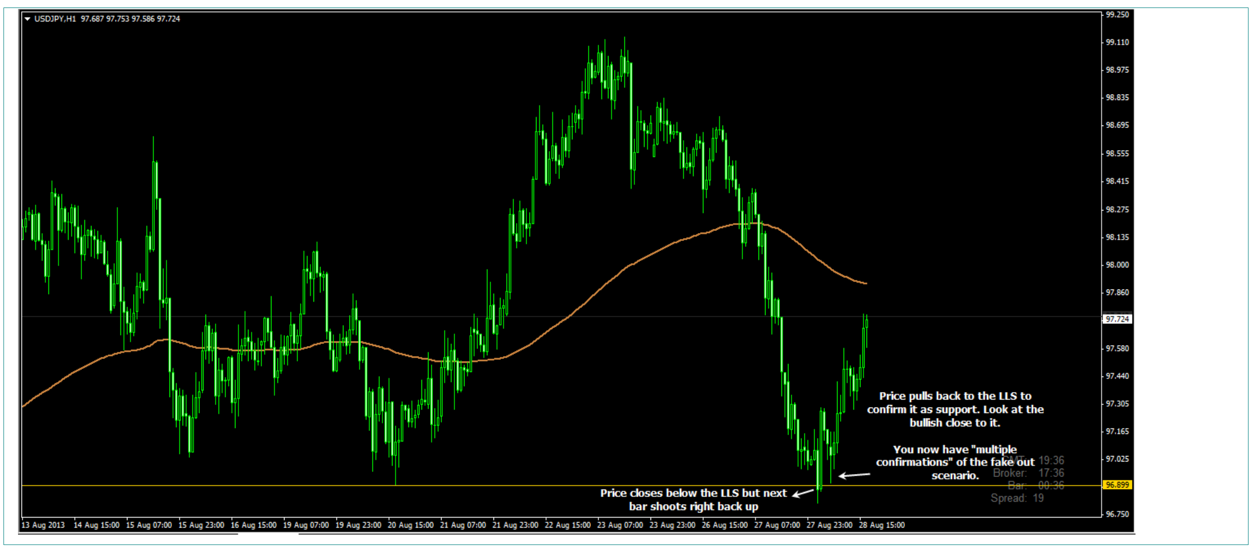
Attempts can still be made though, by taking a more conservative stance on the lower time frames than on the higher time frames, to still execute the method confidently. Being conservative obviously means waiting for the best swing points (possibly ones that stand out even on the higher time frames) but additionally in this scenario it means, waiting for multiple confirmations after the fake out actually occurs. Not only are you then dealing with more information, you also have seen through a larger "time bracket" to be more confident about your decision.

Here are a few examples:


CADCHF,H4 0.8898 0.8901 0.8898 0.8898
Multiple confirmations of the HHR holding as resistance after the initial fake out. Notice the final pull back to the HHR before price finally dumped.
GMT: 10:15
Broker: 08:15
Bar: 00:15
Spread: 8


EURUSD,H4 1.33830 1.33838 1.33827 1.33831
Tick Value = 1.0000
Spread = 16
This completes the bullish story IMHO because it beats the LLS and also the prior bar lows by closing above strongly
not a fake out per say because price didn't close within the LLS to begin with but notice the weak close followed by more bars that suggest lack of bearish momentum because 1) They have wicks to the downside and 2) are small and weak.





PS: this is still an idea which is very much in a test tube, so kindly don't start running through several intra day live trades of "fake out scenarios". Do some serious back and forward testing and possibly post the results or questions or points of discussion here so it benefits you and all. Stay safe please.

g.

couple of good examples of the same

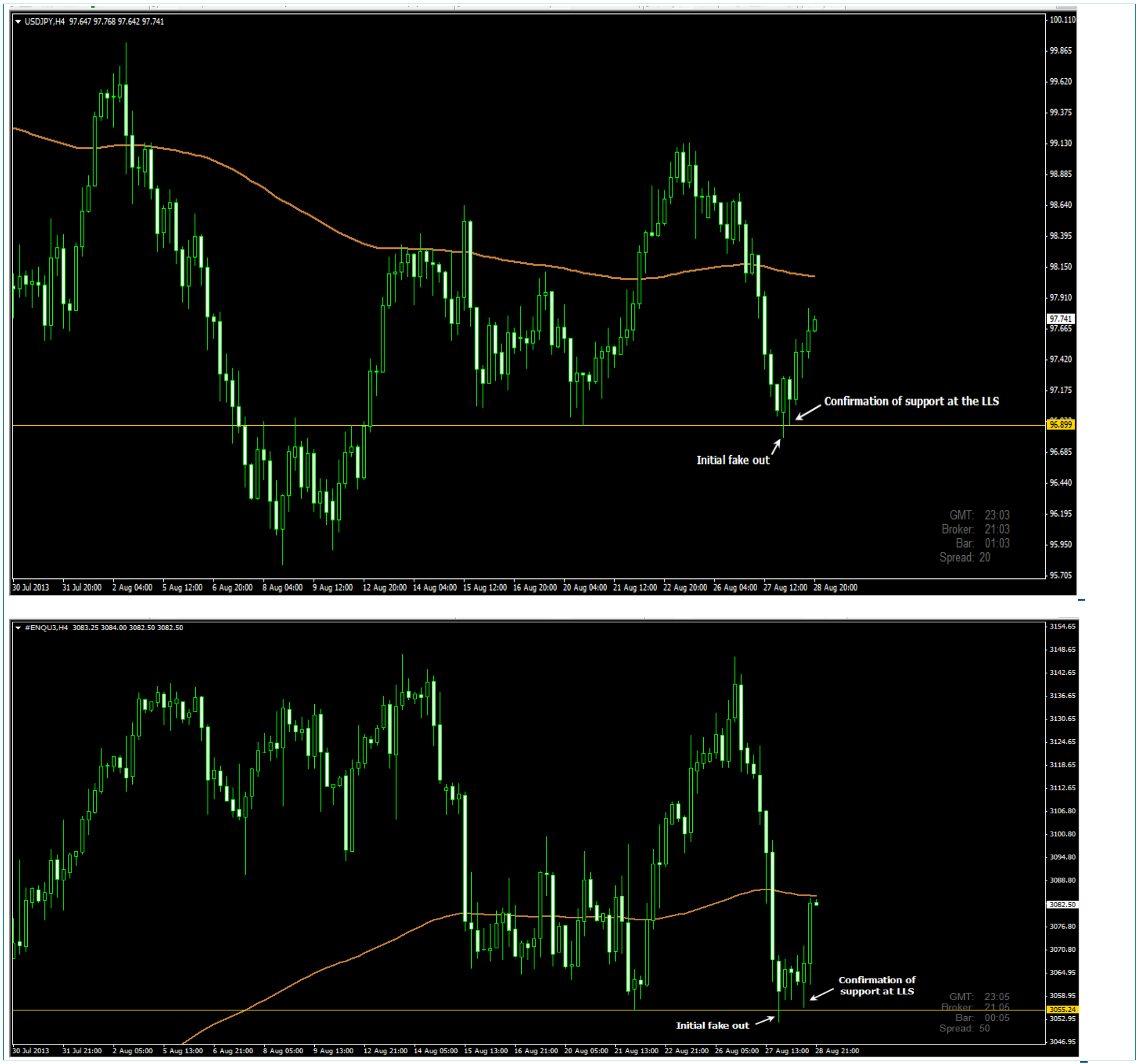
Quoting Osman

> Examples that worked today : 1) USD/JPY 4hr Fakeout at 96.890 2) Future Nasdaq 4hr Both images attached. Thx Ghous !! {image} {image}

Hey Osman,

Good stuff.

Notice how each of these gave a second confirmation of support at the LLS before taking off. Just the kind of stuff I like to see on the lower time frames.



g.

I am purely a technical trader

[*Quoting realclick*]

> {quote} Just my two cents, do we also incorporate fundamentals in this systems or its 100% technical, right now with US probably going to Bomb Syria any time soon(matter of days) a tendency to strengthen

> USD as a safe haven ,do you ignore that which is likely to determine how price may move within the short term.

I think she has already decided to. Either ways fundamentals don't play a part for me. Price has a way of factoring in the fundamentals, at least on the more general front. So if the USD must weaken, the technicals will conform to it. For instance if the Euro shoots off on Monday, I am happy because being a technical trader I see a fake out setup working out and the guys who follow fundamentals think price shot off because the USD is weakening as the US military decides to wage yet another war. Perhaps in some other part of the world, someone's jumping around because he got a perfect MACD+RSI+EGIJKIE crossover that got him a killer 10R trade.

The technical vs the fundamental debate is as long as the markets themselves. My personal view is, that the markets offer scope for either extremes and many other approaches that lye in between, provided that the edge is proven and is consistently executable.

I for one occupy the technical extreme of the spectrum and don't find myself handicapped. :)

g.

How far to the left should one look for a swing point to take a fake out trade off of -

Quoting str8

> {quote} Thanks for your answer. I was thinking about historical swing points that you can't see if you don't zoom your chart. For example a pair is in a strong up trend at 1.4800 and a historical high from a couple of years ago is at 1.5000. Do you look for shorts at that level? A short would mean a position against a very strong trend but if a fake out occurs at it and you have space would you trade it?

Magnificent question! I am thrilled!

If its too far off to the left It simply indicates to me that to trade it I need to move to a higher time frame to find it closer to the current action. There is nothing to be obsessed about taking swing points nearer to the current action, but its imperative for me more so, because if its too far off, then the swing point is a longer term play and hence calls for a fake out on a time frame higher than the current one.

For instance an adjacent swing point on the weekly, could be way off to the left on say the 15 min. So if you mark it out and go for a 15 min fake out off it then you're basically taking on more risk in the sense that you're expecting the level to hold straight away with an accuracy that shows off all the way down to the m15. Put another way, you could still get a very valid weekly fake out off that weekly swing point with many 15 min bar closes beyond the swing point and perhaps some minor instances of price holding up a bit when it pulls back to the HHR/LLS. This is simply because for a weekly swing point, you need the information spread across at least a week to be confident about your bias.

Here is an example showing a good decent daily swing point with a neat daily fake out comprising of some rough 1H action.

The take away from this, shouldn't be to avoid major swing points, but to simply not look for swing points way far off to the left, unless you want to trade them off a higher Time frame.

hope this is clear.

g.

I am giving away the tricks of the pros, this should agitate them and importantly stop the system from working, or will it?

I got a real smart question from a trader via Pm (not sure why given the validity of the question) and keeping the anonymity that I guess he wanted, here's the content part so we can all learn:

Question:

Ghous,

I read somewhere if too many people follow the same system, the system fails. I don't know how that happens, but I assume that the pros will adapt to whatever change in methodology that the novices are up to.

Currently the thinking is that novice breakout traders enter on the break of resistance and soon get trapped by order flow from the pros. Now all the novice traders know that this is what the pros are doing. The novice trader then hears that this is what results in the pinbar formation. So now all novice traders start to enter at the low of the pinbar and places stop loss at the high of the pinbar. The pros realize that this is what the novices are doing and they then engineer a move to knock out the stop loss at the high of the pinbar. So basically speaking the pinbar setup would no longer work.

My response:

hey ________. Its not that simple and grim. Actually to be with the pros really means to be selling when the price is hiking? Can you do that? Does the method (this or James16 or any other) require you to sell hard when price is shooting off? Well of course no.

There is a difference between walking with someone, and simply following the footsteps. What we are doing, is following in the foot prints. The fake out and for that matter your pin bars and outside bars work as the foot prints of the order flow coming from the pros. We are just like all other retail traders - reacting to a bar.

There is a difference between creating a fake out and a pin bar and simply trading when one forms. Do you see how we are still a step behind the pros?

The only way the pros would get worried, is if I start teaching people to not do anything until price moves above a swing high and then simply sell. This would only make sense if I and all my students were market makers with those bundles of 100-500 std lot orders or if we could anticipate with great accuracy, what the pros will be doing exactly at the point that they are taking action (as in without any evidence/support from your chart) . Then the market would turn on its head and you'll have more pros than retail traders. More sharks than smaller fish. That's just never going to happen.

If anything, the more number of people following the system the better it gets.

We are just creating the order flow that follows in after the action of the pros. ;)

g.

Dealing with spread issues on exotic pairs

Quoting KOS-fx

> {quote} Thanks for your quick reply... Of course I am talking about Spread because yesterday I went through all pairs my broker offer. some pairs seems to be very high in spread (more than 50). I think that kind of pairs not traderble. I know that your watching more than 80 pairs. I am not going to do that at initial stage at least trying to watch 20 pairs. Thanks Kos

hey KOS,

First of all, never measure spreads in absolute terms. 50 pips could be a lot of movement for one pair and perhaps 1/10th of the amount of movement you see in some other exotic pair. This is so because different pairs have different trading ranges. Most of us use mt4 and mt4 charts operate through a linear scale as opposed to a log scale. So 3 inches of vertical movement in pips on one daily chart doesn't equal another. Interestingly, as pairs evolve into bigger or smaller trading ranges over time you don't even get the same pips across those vertical 3 inches on the *same chart* and *same time frame* scrolling from left to right. You can visually see this, when you see that scrolling left and right tends to sometimes contract and expand your bar/candle sizes.

That said, I agree with the fact that some pairs do of course come with untradable spreads but there is still no harm in just watching how setups unfold on these for educational purposes.

g.

Is a setup dead when price hits the SL?

Quoting Pinbar

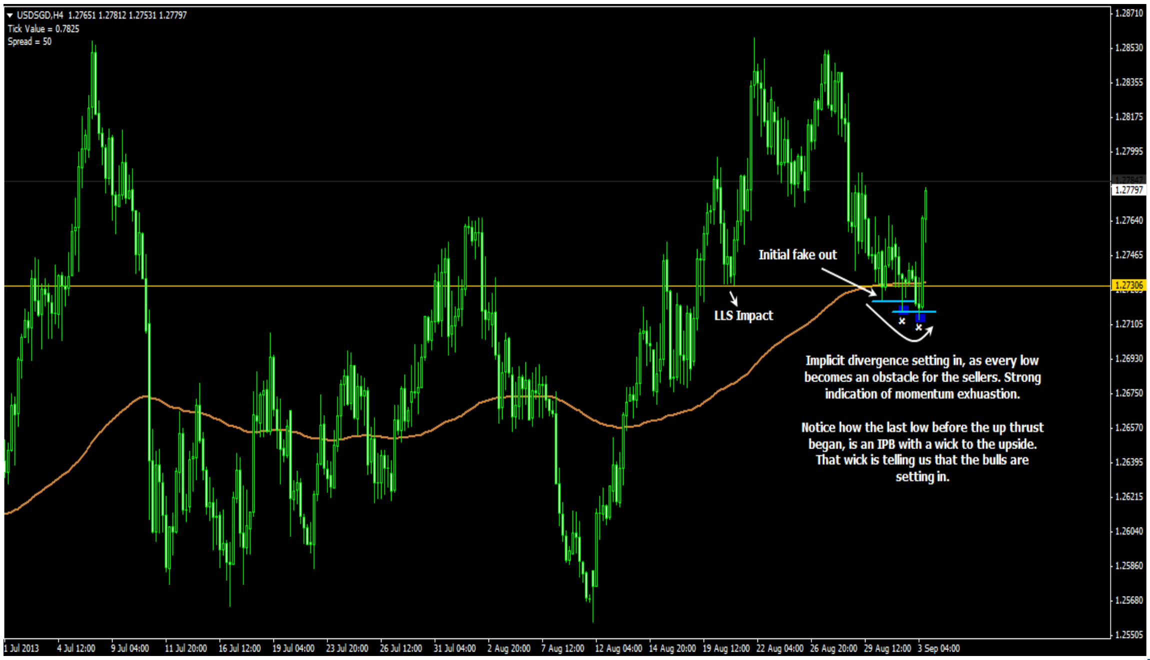
> I have a question for Ghous about the possibility of an early sign of a failure signature. If we get a fake out at a good SP and then the next bar or even the next bar, takes out the high of the FOB, can this be an early sign of a possible failure. I actually took this trade on GBP/JPY in demo to see if it will show me a sign of the the failure. {image} {image}

Not really.

It actually means *the* end of the trade for us as the stop goes beyond the fake out high/low anyway lol. But what I mean is, that price merely breaking the high/low of the fake out bar isn't enough to trigger a solid signal for the fake out failing. It might mean an end to a trade, but a trade remember, stems from a system, and a system simply extracts its merits from generalizations and elements of a market phenomena that are consistent and repeatable.

Getting back to the point, Price may break the fake out high/low yet still close back within it and start off with subsequent bars indicating implicit divergence. In that case, Every bar that follows the sequence only strengthens the setup further. It might look bizare at first, but beyond taking an initial loss on the trade the "fake out scenario" may prepare itself for yet another more promising setup for you. This is *very* common on the lower time frames. In fact that's actually where the idea of the using multiple confirmations on the lower TFs came from.

Here's a recent example:


USDSGD,H4 1.27651 1.27812 1.27531 1.27797
Tick Value = 0.7825
Spread = 50
Initial fake out
LLS Impact
Implicit divergence setting in, as every low becomes an obstacle for the sellers. Strong indication of momentum exhuastion.
Notice how the last low before the up thrust began, is an IPB with a wick to the upside. That wick is telling us that the bulls are setting in.

g.