

Fractal Energy Trading Crypto MasterClass

Module Nine Fractal Energy Trading

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Fractal Energy Trading

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Introduction to Fractal Energy Trading

I know it seems like every subsequent module is “pulling everything together” but that’s really what we’re doing here in Module Nine. Here’s what we’re integrating:

- Understanding how to evaluate single-timeframe price action.
- Tying this together across multiple 5x timeframes to evaluate a chart via price action on a Fractal basis.
- Understanding that markets constantly move between phases of Range Expansion (trend) and Range Contraction (consolidation or rest).
- Understanding that linear trends remove energy, and non-linear price “chop” adds energy to a market.
- Measuring “energy expended” via the linearity of the trend via the Choppiness Index.
- Measuring the “energy” at every timeframe to create a comprehensive understanding of whether the chart is about ready to trend or consolidate.

So, in this specific module, what we’ll do is go over the **Framework** for how we’re going to go about analyzing a chart via a Fractal Energy series, and in the next module, we’ll go over multiple examples showing how we use that framework.

Step One - Setting Up the Charts

We need to begin the process by setting up our price charts in a methodical progression; it does not matter whether they are set up “Weekly” to “Intraday” left to right or right to left. Whatever makes the most sense to you is the way that you should set up this progression; I favor larger timeframes to smaller timeframes, left-to-right, however there is no “right” way to do this as long as it’s set up in a 5x family progression as shown in Figure 1.

Figure 1



Something to keep in mind is that each of these discrete charts is “linked” together by the same symbol. If I change the symbol that I look at, all four of the charts will automatically change.

The next thing to do is to add the Choppiness Index study as shown in Figure 2:

Figure 2



A big mistake that many newer investors make is to make the vertical scale on the Chop Index to be equal to the price. Ideally, you'll scale the chart so that you'll see just enough of the indicator value without obscuring the price action in the upper part of the chart. Price is King and we need to continue to emphasize that, as there is no more important visual indicator on your chart than the price itself.

Step Two - Understand the Trend at Each Timeframe

What you'll find is that keeping track of the Monthly and Weekly timeframe trends is easy; they don't change very often. Figure 3 shows only a Weekly chart for an "anchor," but it shows how strong the trend has been to the upside, with the left-hand Weekly chart showing higher highs and higher lows on a consistent basis.

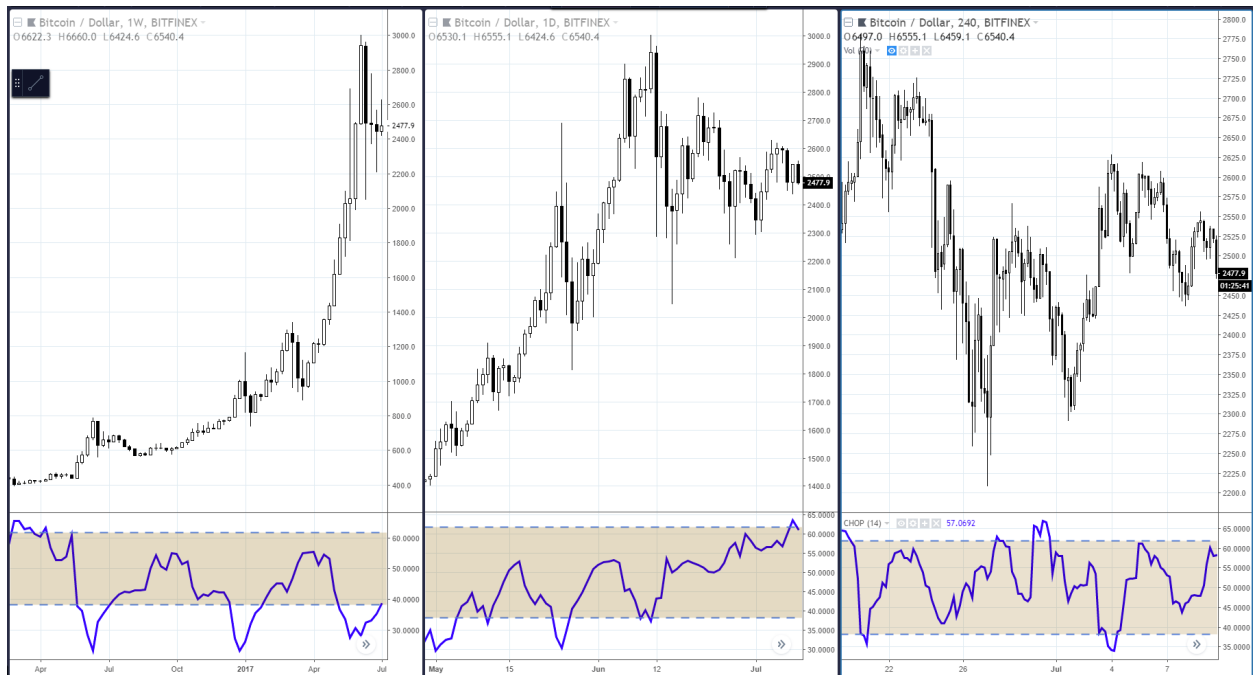
Figure 3



What this means is that any Daily chart pullback is likely to just stretch the "rubber band" before snapping back to the upside and validating the uptrend once more. You can also see how it would take a long time for this chart to show a change in polarity to the downside by printing a series of lower lows and lower highs. Yes, we are seeing somewhat of a pullback on the Weekly (left) chart but this is not a series of lower highs and lower lows yet.

The Daily and 240 minute charts are a different story, however, as shown in Figure 4:

Figure 4



The Daily chart is showing NO trend, with lower highs and higher lows, vectoring into the apex of a triangle consolidation. Within that daily consolidation, you can see the 4 hour chart showing a back-and-forth series of small downtrends and uptrends which correspond to the “swings” within the daily consolidation.

Let’s tabulate our results:

- **Weekly Trend** - Uptrend, undergoing a mild pullback
- **Daily Trend** - Trend-less, with lower highs and higher lows
- **4 Hour Trend** - Current downtrend corresponding to daily swing down

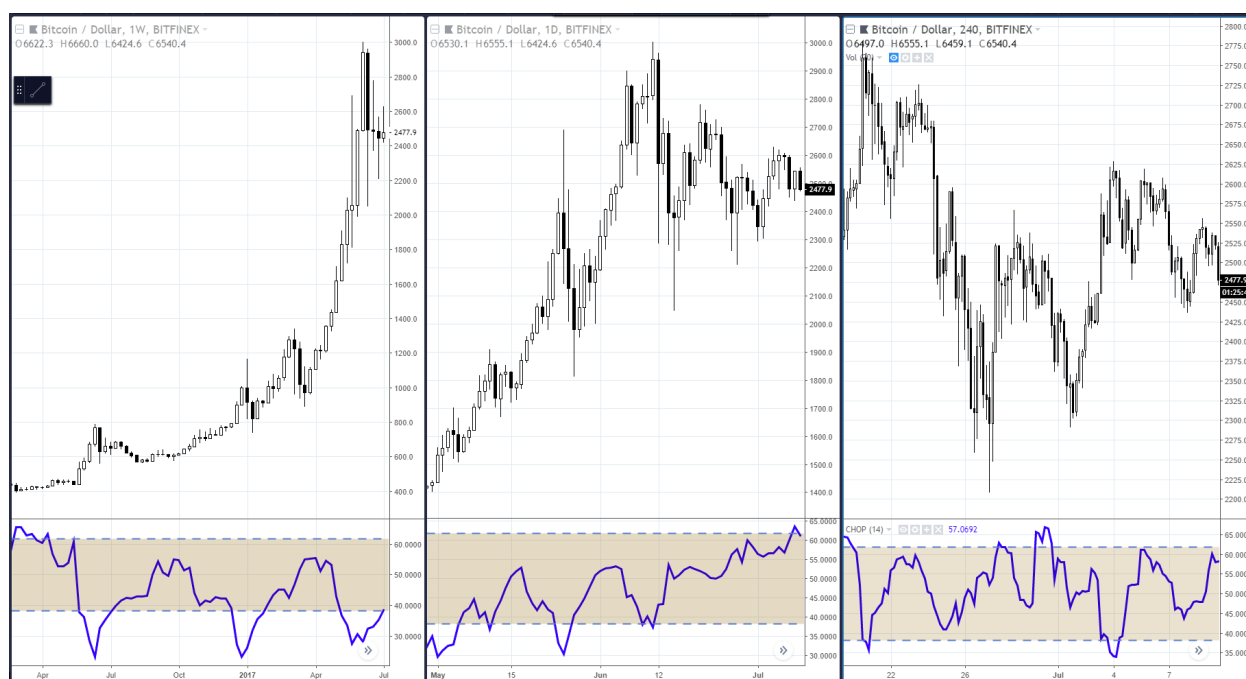
Now we have our trend readings; let’s see what our “Fractal Energy” readings are.

Step Three - Measure Fractal Energies

The next step of our analysis is to evaluate the “fuel gauge” on each timeframe by seeing how much energy the current trend has either removed or added to the chart - at that timeframe.

In Figure 5 we'll look at the Weekly energy on the “anchor” chart on the left:

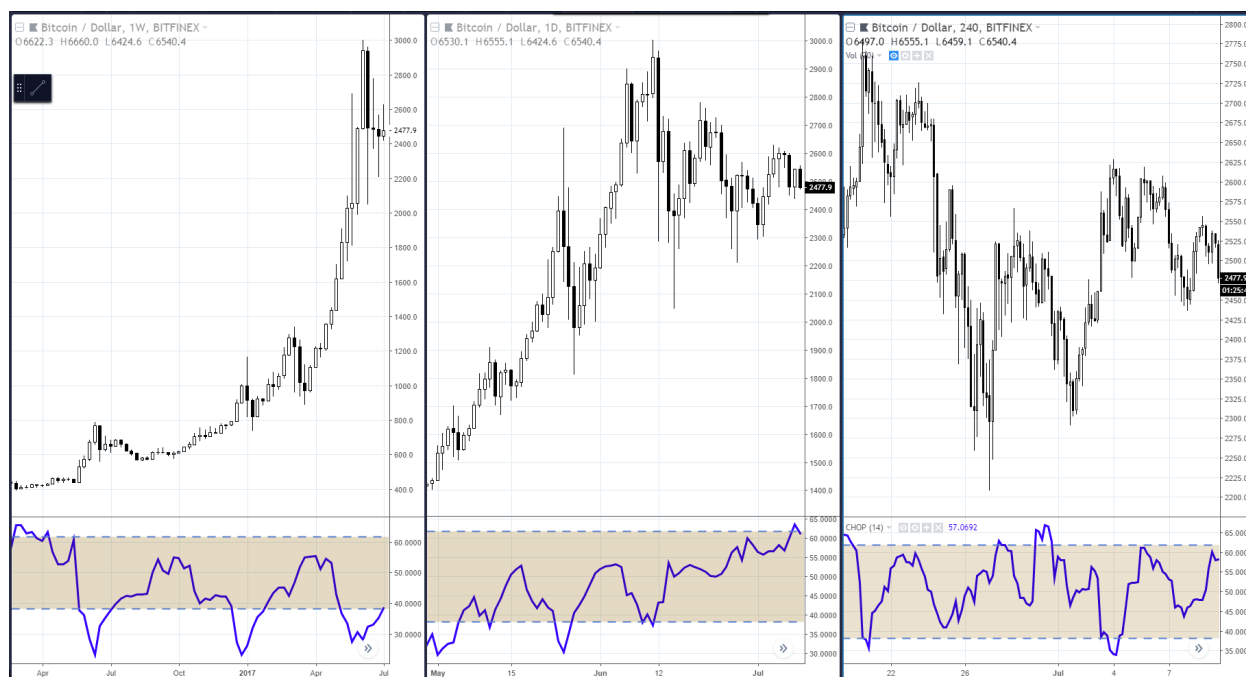
Figure 5



The Weekly chart is (for a technical term) “toast.” It is showing full exhaustion and is trying to recover from that condition. As we saw in earlier modules, the most common way to recover from an exhaustion condition with a parabolic “tail” is a sideways coil, which is precisely what it’s showing. The energy is starting to recover but not to the point of >55 which normally is required to support the next trend.

The Daily and intraday minute charts in Figure 6 give us more energy information:

Figure 6



The Daily chart is HEAVILY charged up which means that we can expect to see a full Daily swing kick in at any moment, in whatever direction that it wants to expend that energy (more on this in a minute). The 240 minute chart also has a fair amount of energy to trend in whatever direction that it wants to.

This is the fun part; the market has just shown us EVERYTHING with those three timeframes in order to be able to develop a forecast for what gives us the highest probability of seeing next. This is NOT predicting the future; it's analyzing the data and signals and allowing the market to show us “what it wants.”

Step Four - Develop the Fractal Forecast

Now we get to stir everything together into the pot to develop our long term, intermediate, and short-term forecast. This is going to be based on our read on price action, trends, and market energies at each timeframe.

Long-Term Forecast

The long-term forecast for the next 2-3 months is mostly derived from the Monthly (if available) and Weekly charts. While the weekly trend is very, very strong, it is also running on a depleted amount of energy after such a strong, linear trend....so my forecast would be for a continued consolidation or “rest” until such time as the Weekly energy restores itself. This could mean several more weeks of relatively volatile price action, which is going to whipsaw short-term traders back and forth if they lack the context of this anchor chart.

Major tops in a market take MONTHS to play out so I would not expect to see a “reversion to the mean” which would be a straight move down. Of course, the “wild card” here would be what’s politely called an “exogenous event” which usually refers to some external force hitting the market causing a VERY rapid repricing.

Barring anything nasty hitting the market, my longer-term forecast for more of the “3 month” forecast would still be additional upside due to the massive momentum (once energy is restored) on the Weekly chart.

Intermediate Forecast

This forecast would be for the next month or so, and is generally what we’re dealing with in terms of Swing strategies.

The Daily chart is currently consolidating with lower highs and higher lows inside of a “triangle” pattern; notice how the daily chart has ALREADY built up a huge amount of energy. This will not “sit still” for much longer. But which way will it move? This is where we can just “frame in” the price highs and lows and wait for a break in either direction. If the price does break to the upside, I would not expect it to go far with the depleted energy condition of the Weekly chart. On the other hand, a break to the downside actually recharges the Weekly chart fastest. Eventually the uptrend should resume by the end of this forecast period. Remember, larger timeframes dominate.

Short-Term Forecast

Right now, the short-term forecast is that we should see MOVEMENT very soon. The 240 minute chart will help us identify any changes in polarity early on, however the 240 minute chart is just tracing out trends inside of the larger Daily timeframe consolidation.

Let's See What Actually Happened

How effective was our forecast? Let's see what happened as we pull the price forward about a month, in Figure 7:

Figure 7



Starting on the left with the Weekly chart, note how the former uptrend resumed, **once energy was restored!** Note how the price actually had to consolidate, and then go down for a short period of time; going backwards is actually the fastest way to recharge, as we saw in the last module.

The Daily chart in the middle actually broke the consolidation to the downside first; note how it waited until it was **fully charged** before the break came! And then note that the upside break near the right side of the chart also waited on a “recharge” before supporting the break higher.

On the right side, we could have used the price read on the 240 minute chart to better identify the “breakout” level that marked the neckline of what was an ascending triangle/consolidation on the daily chart.

Summary - Fractal Energy Trading

What you're generally going to find when you analyze markets like this.....is that it's rare when you have a "no doubter" signal, where the subsequent short term/ intermediate forecasts are easy. They're almost ALWAYS "between" some state, rarely at an extreme. When we get to the trade setups, we WILL look for those extremes to help us identify high-probability setups.

And what will take you the most experience to evaluate is those "in between" states where one timeframe is showing one thing....and a smaller timeframe is showing something else. What we often find is that the smallest timeframe is often subordinate to the larger timeframes. Think of the example of the young child being pulled along by the hand by her father; when it comes to Market Energy, the larger timeframes dominate, just like with price action and the trend.

In the next module, we'll get down to the business of applying this framework with some examples so you can see it more in practice.

Homework and Next Steps

Please complete the following tasks before moving to the next module:

- ☐ Watch the associated video for this module.
- ☐ Mentally go over the four steps to develop a forecast; you'll need that Framework as you cover the next module.