

Fractal Energy Trading Crypto MasterClass

Module Six Fractal Price Action Examples

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Fractal Price Action Examples

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Introduction to Fractal Price Examples

In the last module we went over lots of examples on how to follow one timeframe and “frame in” the price action so that we were able to set price levels which told us what was happening with the trend at that timeframe. And yes, we limited it to one timeframe because it’s so important that you understand how trends confirm themselves or change polarity. In fact, if you’re still shaky about the concepts that we’ve been through in modules 1-5, I wouldn’t start this text until you have a stronger foundation first.

Recall our two rules for Fractal Price Action:

- **Larger timeframes dominate the trend.**
- **Reversals propagate from smaller timeframes and propagate to larger timeframes.**

What we’re going to do with this module is show how all of the timeframes come together to create a “puzzle” that we can unlock, to show exactly what’s going on with the price. Once we study this “family of four” timeframes and understand the interrelationships, price movements will not seem to be as much of a mystery. In fact, I’ll limit examples in the accompanying module video to three timeframes so as not to overcomplicate the matter to begin with.

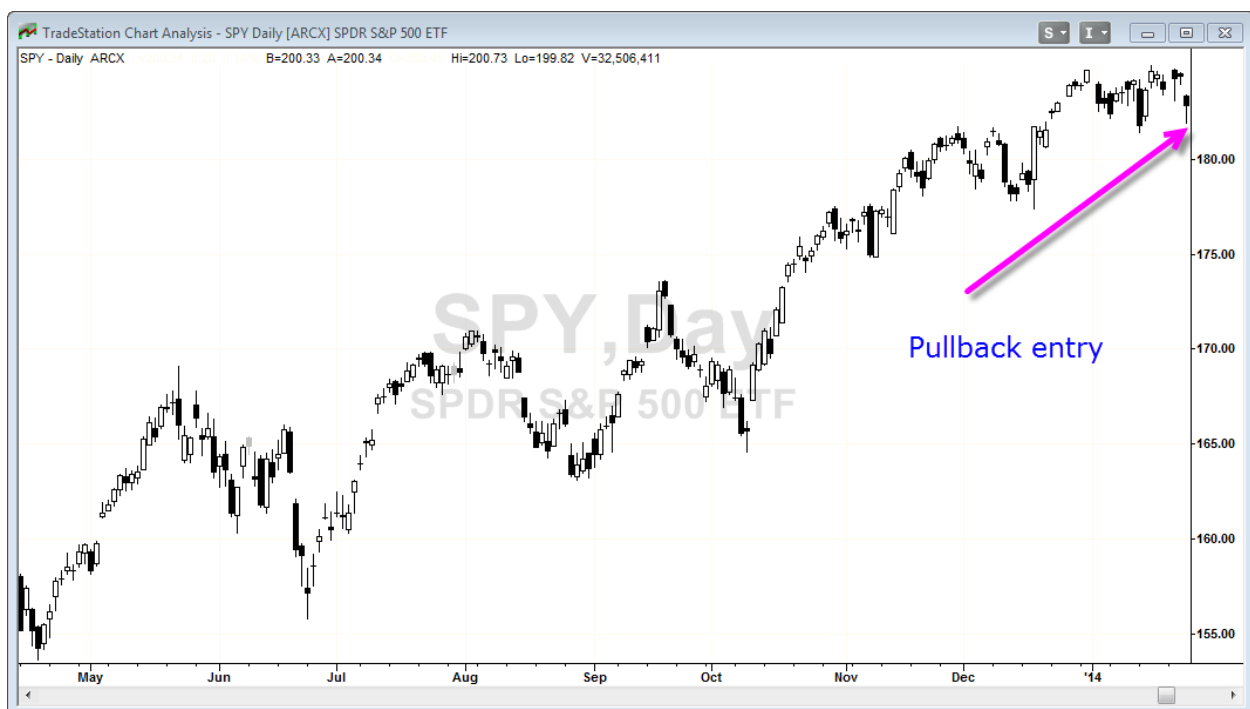
Larger Timeframes Dominate the Trend - Scenarios

We discussed this analogy with the family of four going on vacation, and how the parent's momentum was much stronger than any "diversion" that the child could create. We'll find the same things in Markets as well. There are two scenarios that I see time and time again in the markets that help underscore the importance of this point:

Scenario One - The Larger Timeframe Pullback

Let's say that you're a swing trader using the Daily chart, and after missing several entries on the chart, the price finally pulls back to allow you a long entry:

Figure 1



Finally! You're on board.

However, your elation at the fill quickly turns to disgust as the price keeps pulling back, and eventually stops you out of the trade as you see in Figure 2:

Figure 2



You can see your original entry point labeled in the green circle...why did the price THIS TIME have to pull back further? Doesn't it seem to have eyes at times, waiting for your specific entry?

For some perspective, let's look at the Weekly chart during this same period of time:

Figure 3



Can you see what happened? You stepped right in front of a Weekly chart pullback! You wouldn't know that unless you had been tracking this "parent" timeframe on the same chart.

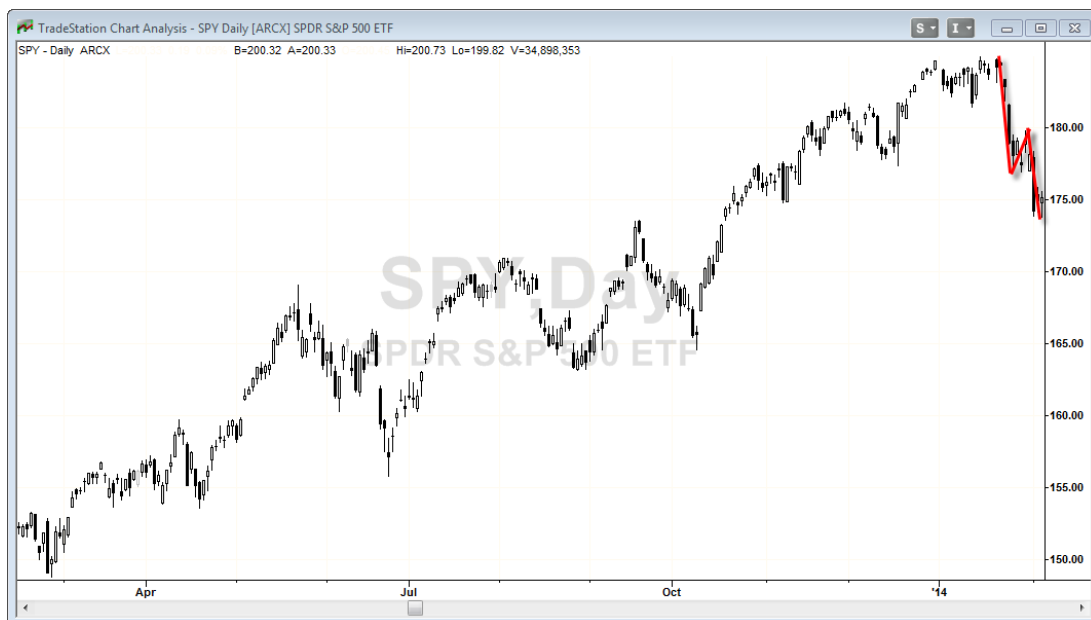
Let's see another typical scenario that traders are affected by:

Scenario Two - Bearish Reversal During a Larger Uptrend

We see this occur over and over again and is one of the main reasons why uptrends seem to have infinite "legs."

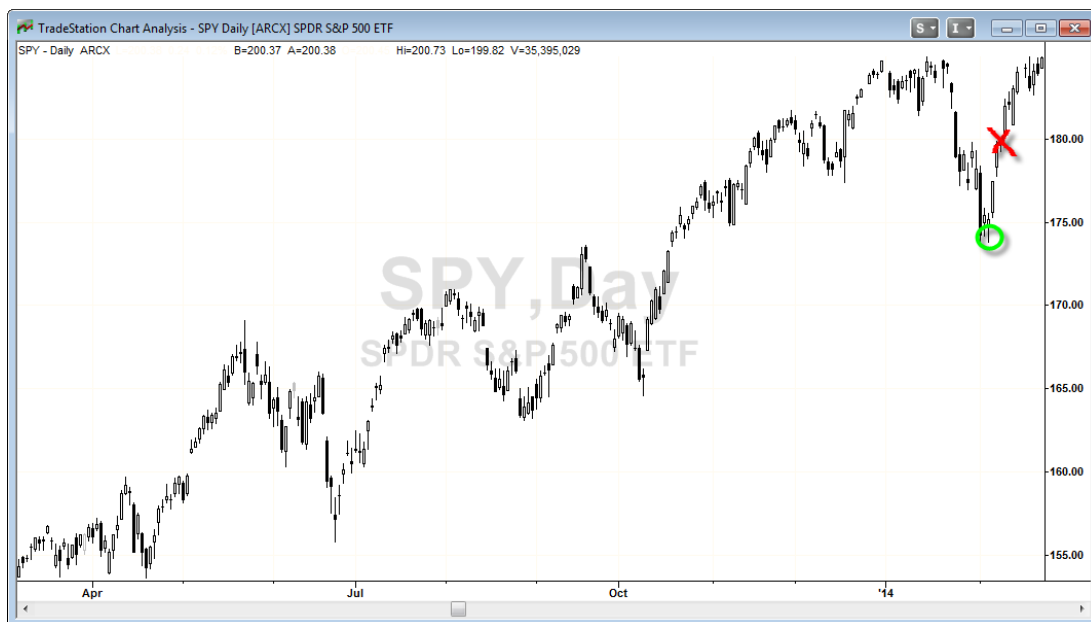
Let's say that you had been stopped out on the previous trade - you stepped in front of a Weekly pullback - and now you notice on the Daily chart that it had changed polarity to a downtrend:

Figure 4



There it is in black and white - lower highs and lower lows. A primary downtrend! You set up a bearish trade, and are shocked when the price suddenly flies up in the face of your position and hits your stop loss again!

Figure 5



The green circle denotes where you entered, and the red “X” shows your stop-out. You’re ready to tear your hair out at this point being whipsawed on two successive position entries for full stop-outs.

If you had bothered to look at the Monthly chart, you would have seen the reason for this quick reversal back to the upside:

Figure 6



This is the equivalent of finding a little eddy pool in the Niagara river which flows backwards for a few feet, and having this backwards flow gives you optimism that you could easily paddle upstream from there. Minutes later as you're swept over the falls, (it's OK, you lived to tell the tale) you realize that there are larger forces at work than that little eddy pool.

The point here is that staying congruent with the larger timeframe trends will keep you on the correct side of that trend, and you'll see shorter-timeframe pullbacks for an opportunity to get "long" instead of trying to pick the very edge of a "top" like all the rest of the frustrated Bears.

Reversals Start from the Inside-Out: Scenarios

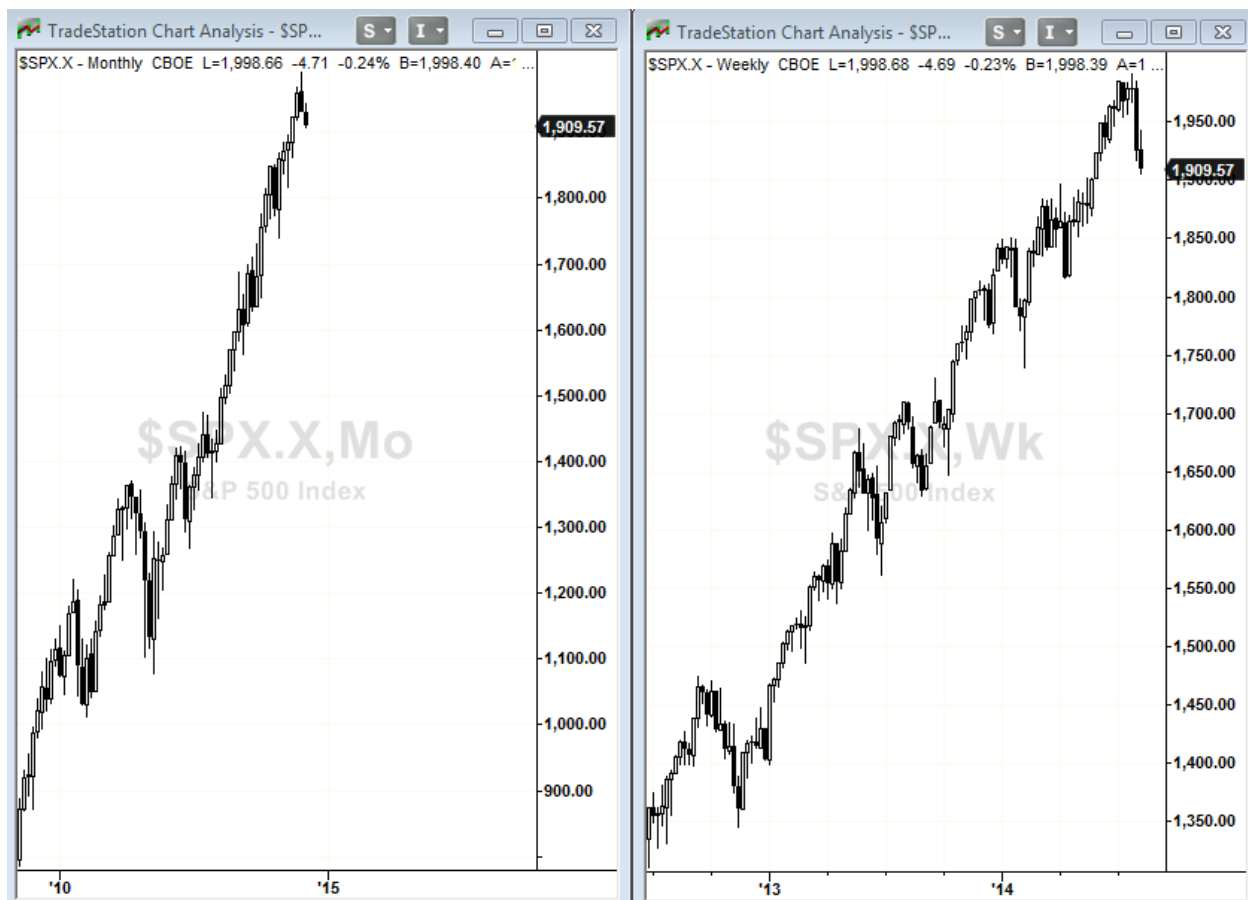
Identifying reversals is really the true “holy grail” of technical analysis. You can do so many positive things when you can identify a high probability scenario where a specific timeframe will likely reverse course, or is starting to show a potential reversal. And we’ll get to those specifics as we get to the “setups” section of this course.

Let’s start with one of the most popular ones:

Scenario One - Reversal Back to an Uptrend During a Bull Market

Since the 2009 Market bottom, there have been literally dozens of these signals showing with regularity, providing fantastic opportunities to traders who are savvy enough to separate “fear” from “fact.” Let’s say that we’re in a longer-term Bull Market as we can see from Figure 7:

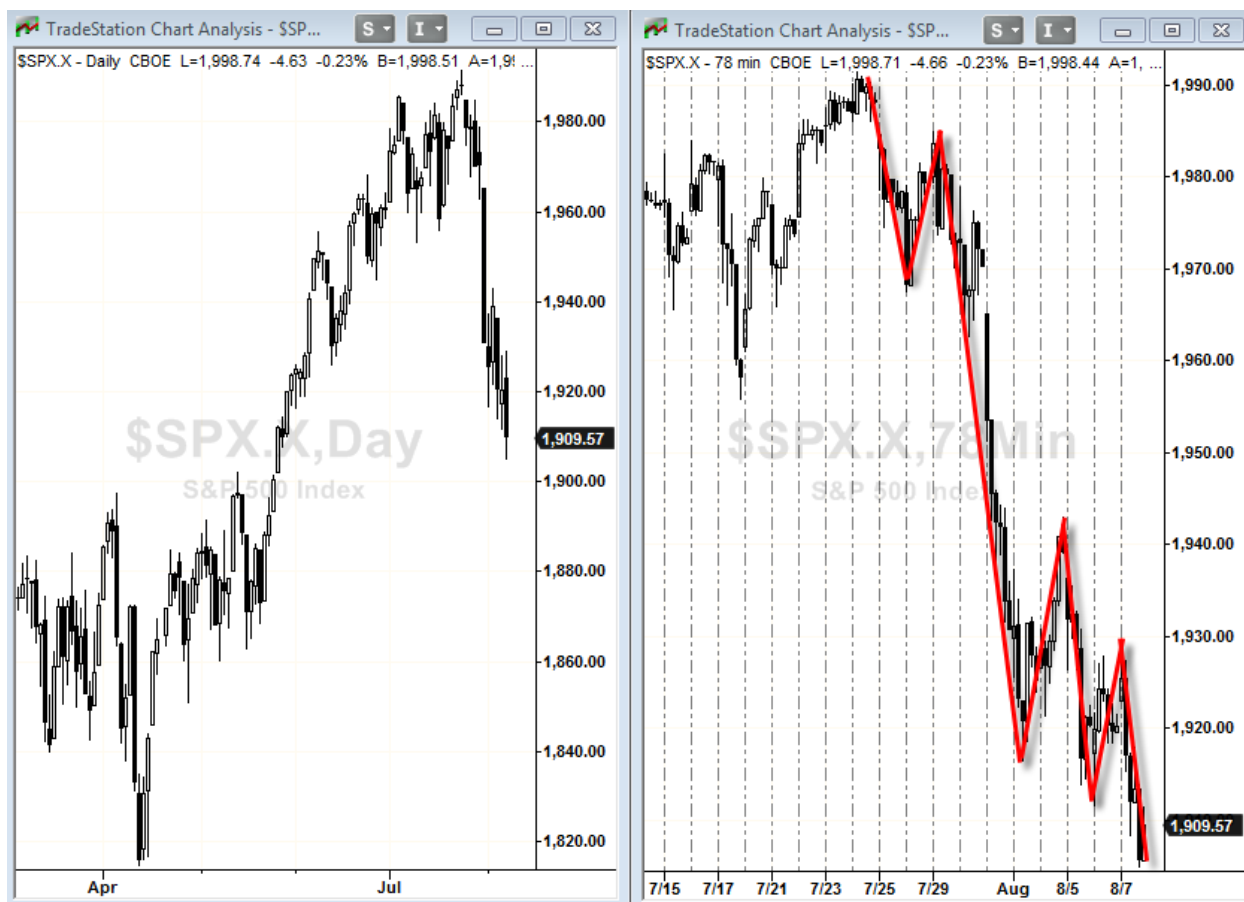
Figure 7



You can see that both charts are showing higher highs and higher lows, and the trend is clearly going higher. Note that the price appears to be pulling back somewhat, which barely shows on the Monthly chart, yet appears to be about a “normal” pullback in terms of average swing length on the Weekly chart.

Can we set up a bullish play right now? Perhaps, but let’s look at what’s happening on the shorter-timeframe charts:

Figure 8



Note how the intraday chart on the right side gave us an “early warning” that the trend was starting to stall out, because it flipped polarity to a primary downtrend with a series of lower highs and lower lows...in late July. This has caused the Daily chart to drop directly to a new “lower low.”

Here’s the opportunity: We believe that this pullback will lead to a bounce at some point, which we can trade against with some sort of bullish position. What we need to watch for is for the intraday chart to flip polarity back to an uptrend by showing a series of higher highs/higher lows, which will propagate to the Daily chart.

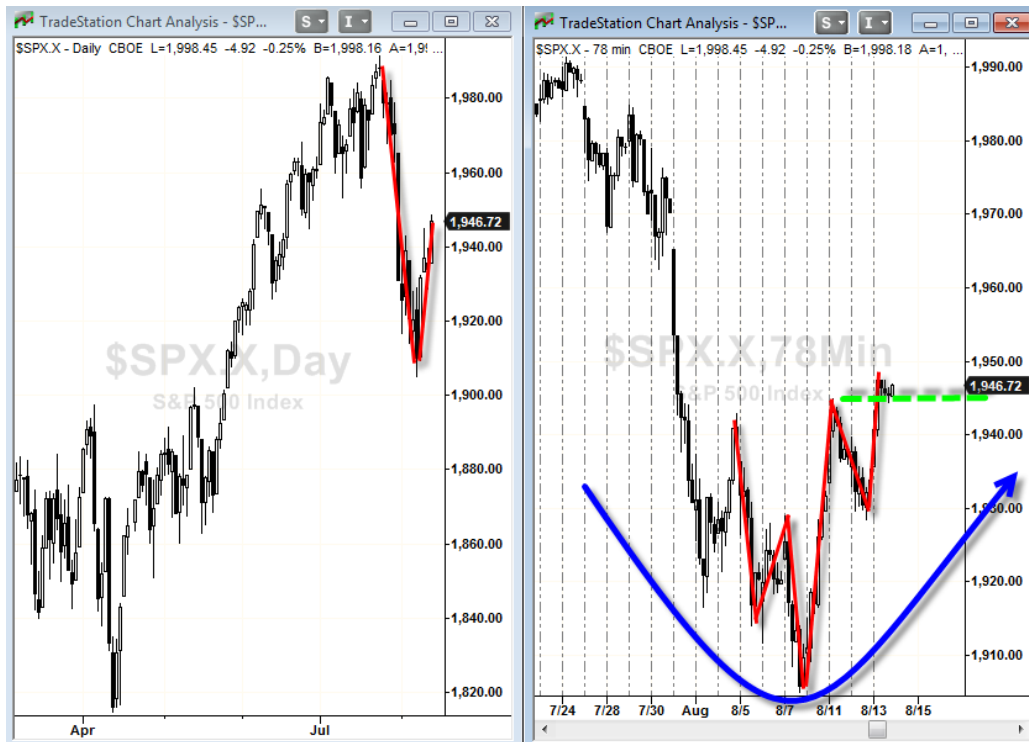


Our moment of opportunity comes a few days later as the intraday chart “takes out” the PSH, and causes us to “flag” this event. We are not initiating any new trades, as we have not seen any change in polarity just yet. One part of the reversal process has been completed by the price making a new “high” but we now need to see a “higher low” followed by the price taking out THIS new high for the full confirmation of a polarity change at the intraday timeframe.

Once this timeframe flips to the upside, then it is highly likely that the Daily chart will also follow suit by printing a “higher low” as well whenever it pulls back enough to create one.

A few days later, we finally see the intraday chart print the higher low, then “take out” that PSH from the 11th to create a confirmed change of polarity back to an uptrend as shown in Figure 9:

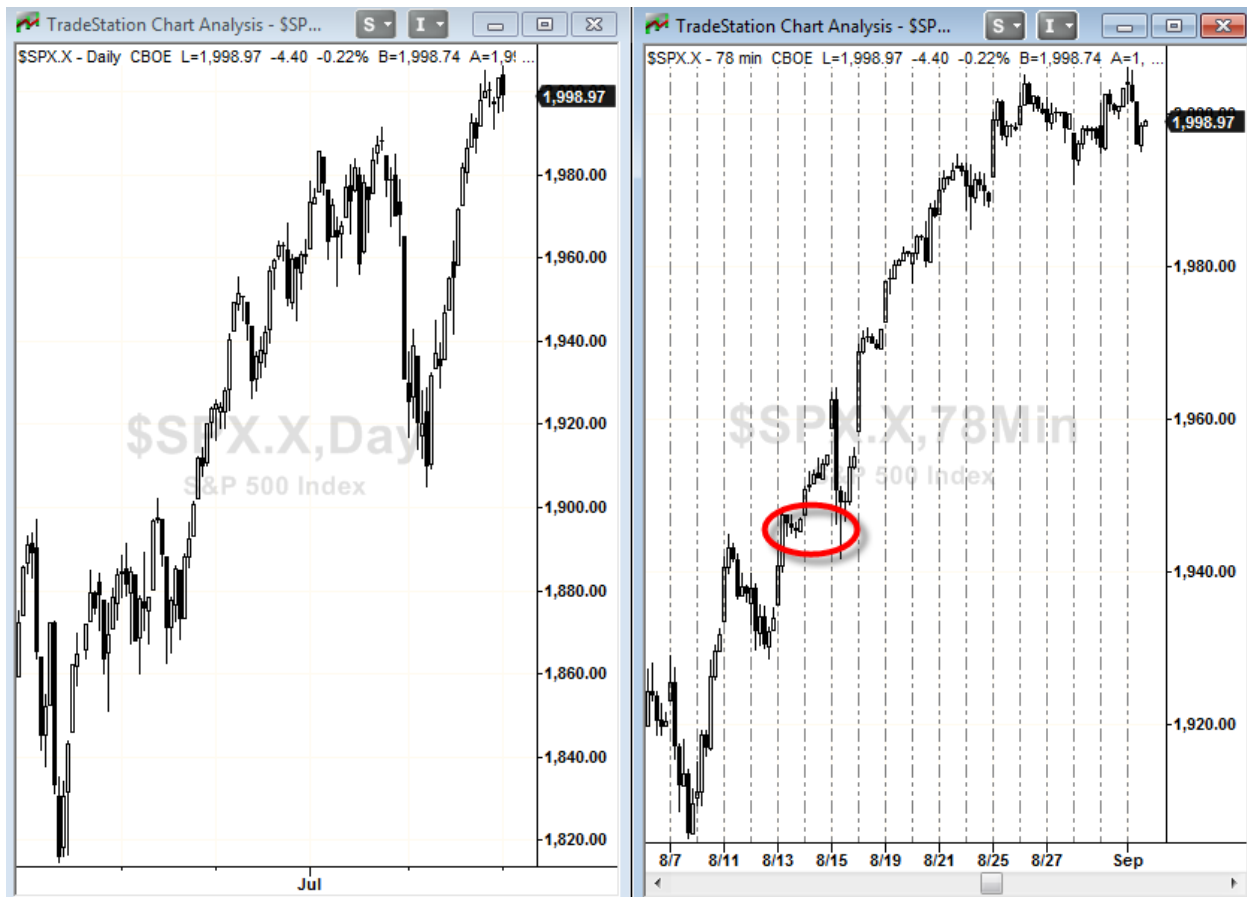
Figure 9



Notice how this move is starting to “propagate” to the Daily chart; so far the price movement is nothing more than a “lower high” on the Daily chart, as it has not printed a “higher low” yet. But the fact that the intraday chart is in an uptrend could create a strong move higher, which is how this chart has moved over the past as referenced by the Monthly chart.

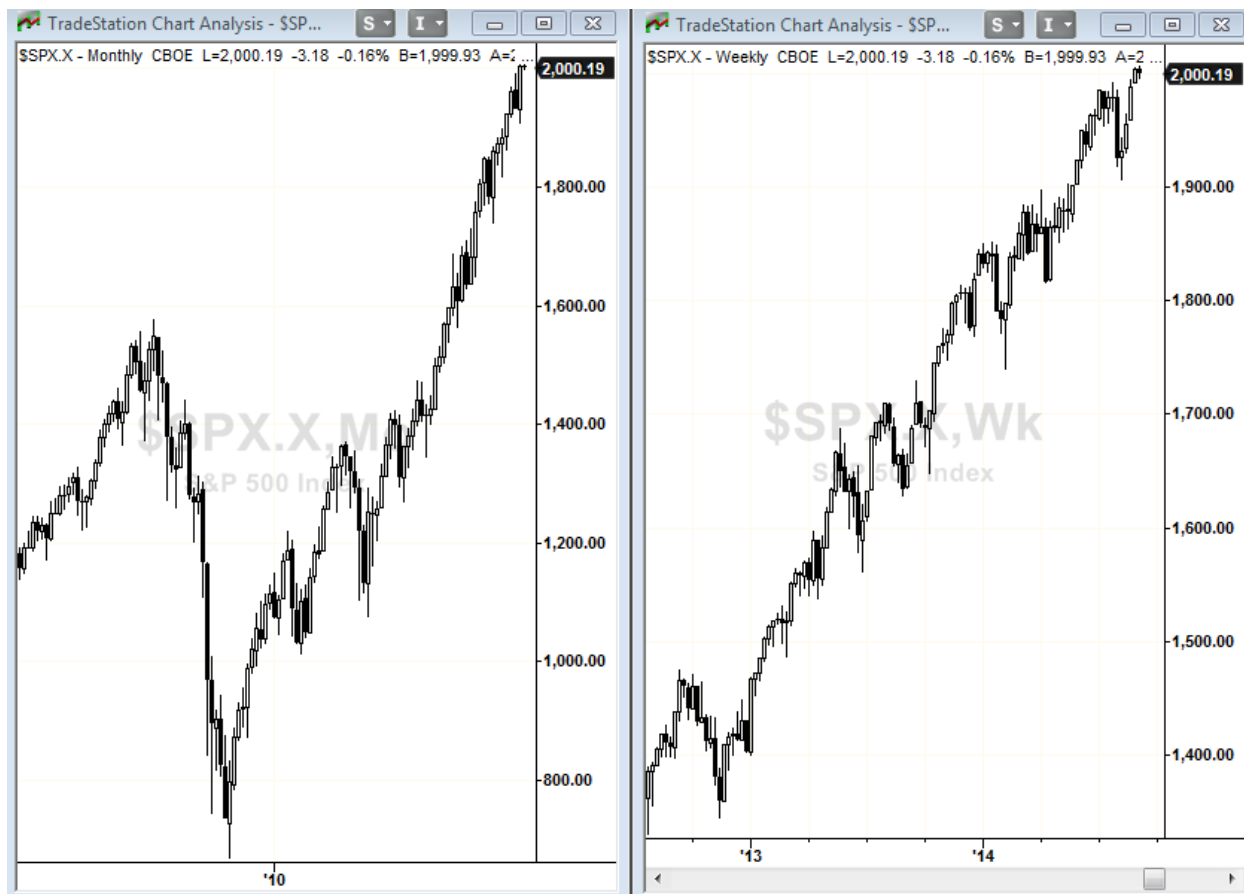
In Figure 10, we have the outcome of the move a couple of weeks later:

Figure 10



The red circle shows the point at which we tagged the intraday chart as having “flipped” polarity. And to show you the strength of the Monthly and Weekly trends, we can see in Figure 11 that this pullback was nothing more than a “shrug” of their shoulders:

Figure 11



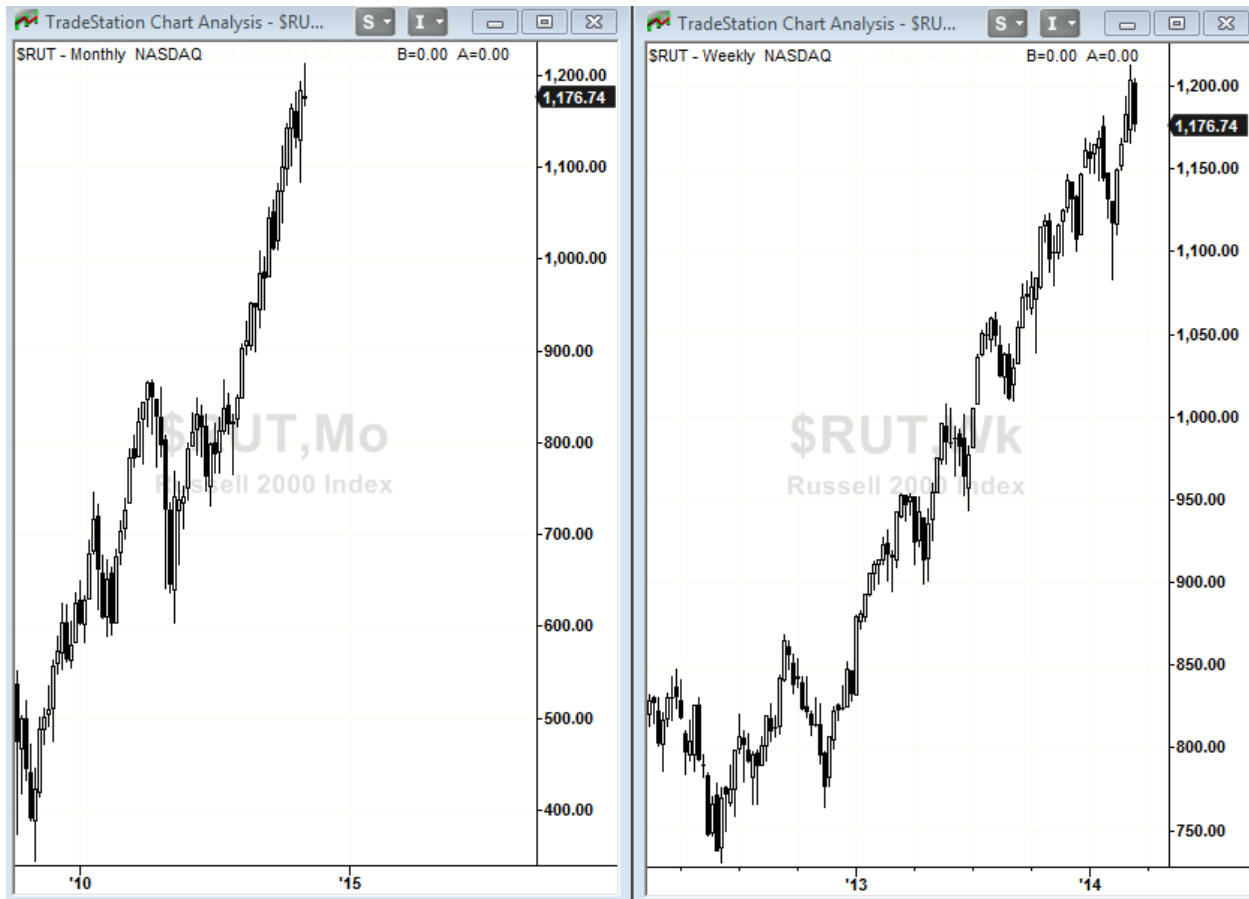
Trading along with the larger timeframe trends, and looking for pullbacks in the shorter-timeframe “child” trends....can be a very rewarding process if you’re able to separate the logic of watching for these polarity reversals, while ignoring the negative news flow that always accompanies these moves.

Scenario Two - A Deeper Pullback in a Bull Market

Not every pullback on the Daily chart will create such a clean V-bottom like the first scenario; there are specific scenarios that we’ll cover in the next section of the program....where we’ll anticipate a DEEPER correction, one perhaps causing a change of polarity at the Daily chart.

In this example you can see the initial state of the Monthly and Weekly charts for this trend, in Figure 12:

Figure 12



Note how strong these trends are, particularly the Monthly chart; the trend is almost vertical! But looking at these charts, there is nothing wrong with the current trend, although we were looking for a slightly deeper correction to commence at this point, and not looking to buy the next “dip” on the daily chart.

At the same time, we could see the uptrend starting to erode on the intraday chart, which was starting to propagate to the Daily chart as a simple pullback, and not a full trend change yet. Figure 13 shows this state on the Daily and intraday charts:

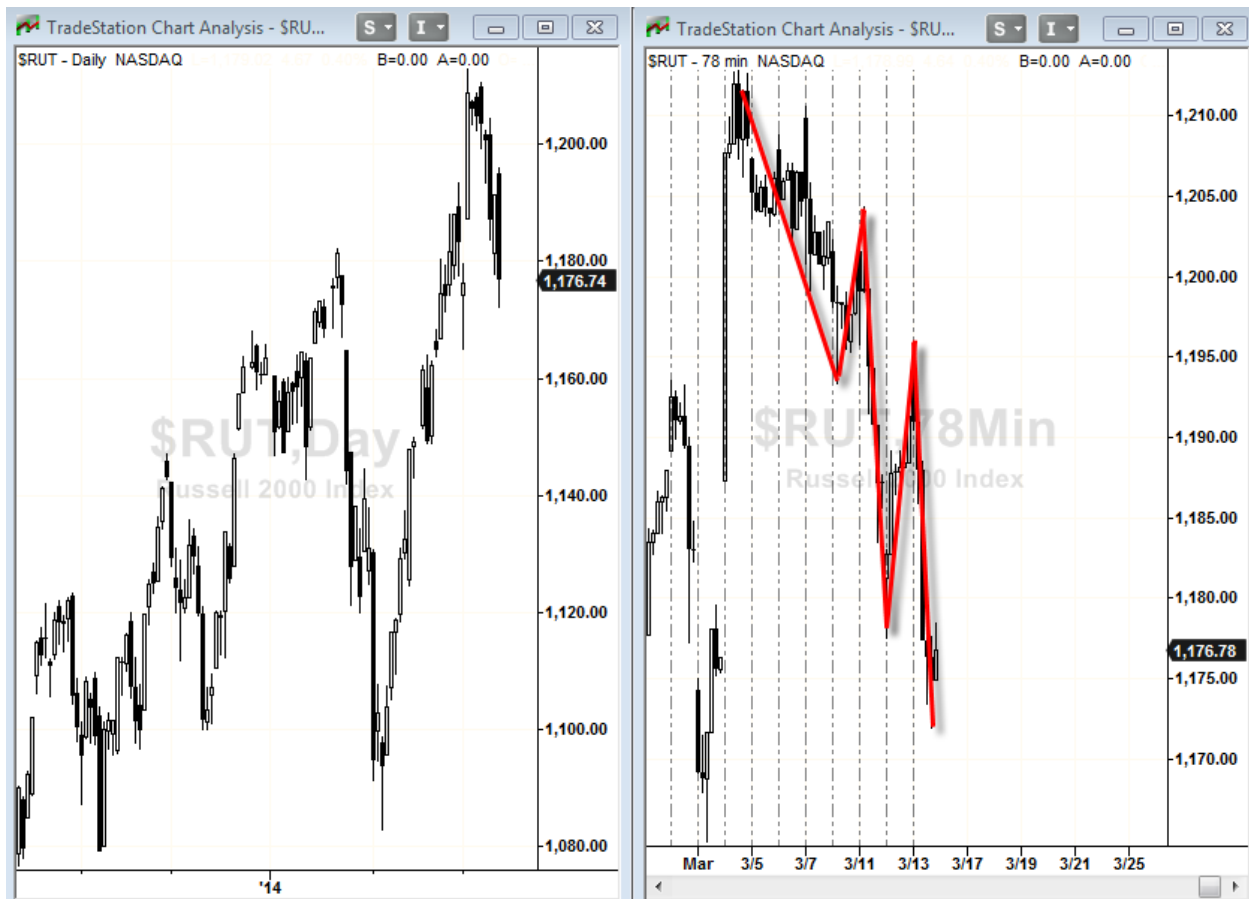
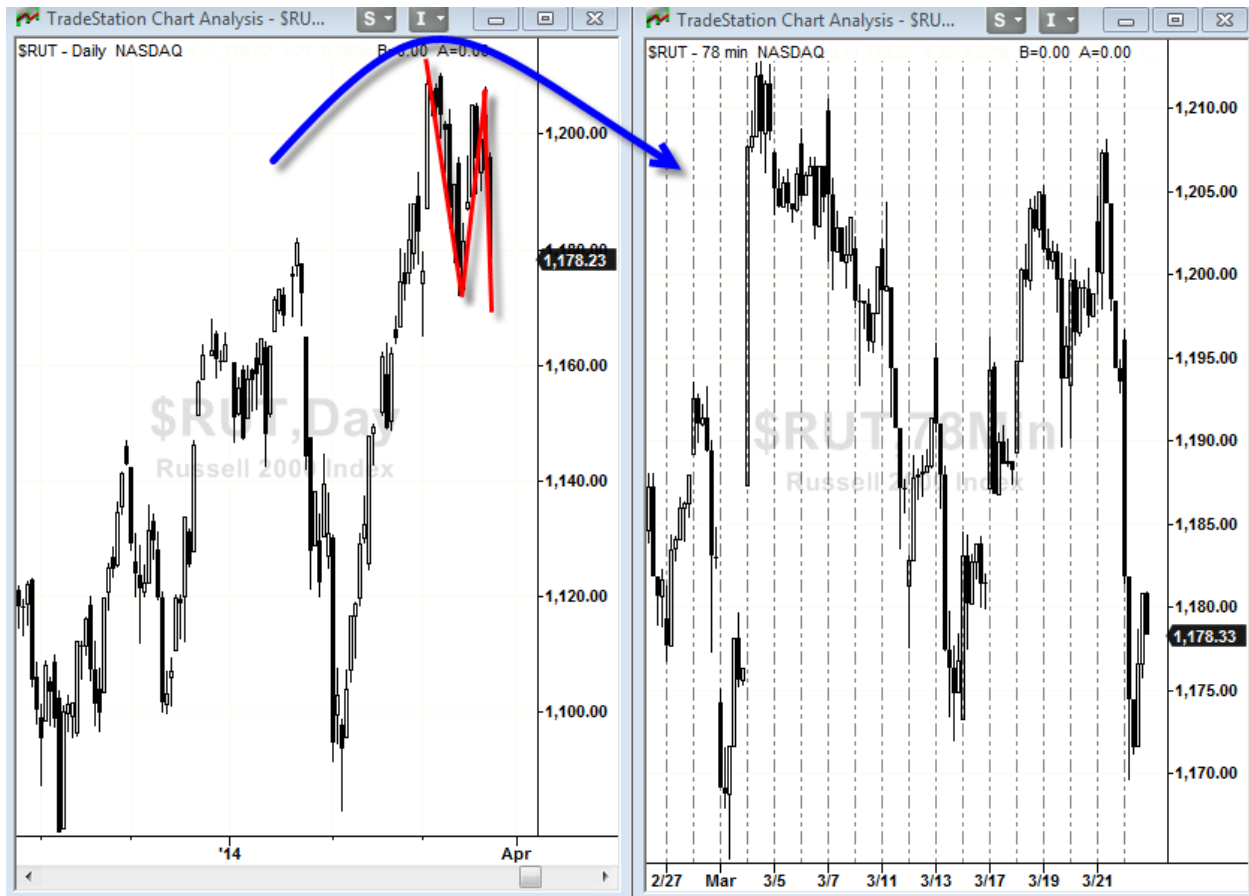


Figure 13

See how the 78 minute/intraday chart has changed polarity to a downtrend? Yet the Daily chart has just pulled straight down, so far creating a “higher low” above the PSL, or Prior Swing Low. Think for a minute what would be required for the Daily chart to show a change of polarity to a downtrend? We would have to see a series of lower highs and lower lows, right?

A couple of weeks later, as the rest of the investing universe sees this chart bounce from the lows...and expects to see new highs....a funny thing happens, shown in Figure 14:

Figure 14



The price prints a “lower high” instead of making a new high, and then very quickly prints a “lower low.” This usually will happen very quickly as it catches most investors leaning the wrong way and not anticipating the weakness at the previous highs.

As you might imagine, this can cause a “panic” reaction amongst investors who have become complacent and used to seeing the market react in a certain manner; because of this, price moves that fail to create new highs can often lead to sharp, sudden sell-offs like this. As we discussed earlier in this text, however, the larger-term trend is still in control, and has barely begun to register on the larger timeframes at this point, as shown by the weekly chart in Figure 15:

Figure 15



Not much of a move, is it? This is the importance of keeping “grounded” by watching the Parent timeframes of any chart that we’re trading.

Summary - Fractal Price Action Examples

For this module, what we've done is to use the same principles as for a single timeframe, and unlock the "puzzle" of how different timeframes fit together to form the fabric that we just see from a distance as price movement.

We saw our two main rules in action:

Larger Timeframe Charts Dominate the Trend.

Trend change starts from smaller timeframes and propagates upward to larger timeframe charts.

If you can get in the practice and begin to "internalize" this form of market analysis, I think you'll see the following benefits quite clearly:

- You'll understand what the price is doing vs. looking at the chart and having no idea what your various indicators are telling you.
- You'll be able to operate off of the "hard right edge" of the chart with more confidence, instead of finding that everything in the past is easy, but everything "forward" is a mystery.
- You'll find that many of the signals and trade triggers that we operate off of are about as fast as you're going to get; they are not "lagging" waiting for moving averages or other indicators to "catch up" to reflect the trend change.

And we're just getting started, however this methodology will NOT come overnight. It will take a lot of practice, however you can speed up the effectiveness of this method if you practice with purpose, and not just blow through the exercises to get trading again.

Now....imagine that you had a better understanding of what the price was doing at all of those timeframes....to the point where you could ANTICIPATE where a timeframe might start to fail its trend and reverse? How cool would that be? Very cool! We'll start that process in the next section of the program, but make sure that you have "price action" nailed before you get there!

Homework and Next Steps

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

- ☐ Watch the associated video for this module.
- ☐ Set up your charts with the “family of timeframes”, ideally at the weekly/daily/intraday levels.
- ☐ Spend at least 5 hours doing hard right edge exercises to understand how larger timeframes dominate, and how reversals start from the inside out.
- ☐ Make sure that you are TOTALLY comfortable with multiple timeframe price action analysis as taught in this module before you go on to the next section of the program.