

Fractal Energy Trading Crypto MasterClass

Module Three Markets and Fractals

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Markets and Fractals

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Table of Contents

Introduction to Markets and Fractals	4
The Factor of Five Series	5
The Family of Timeframes	7
Summary - Fractals and Financial Markets	10
Homework and Next Steps	11

Introduction to Markets and Fractals

In the material up to this point of this program, I've been talking about Fractals and using different examples and analogs to make my point, specifically that *"larger things are made up of a collection of identical smaller things"* and *"change starts from smaller things and propagates upward."*

Now it's time to graduate to financial markets and start to apply these concepts to things that we *really* care about, which ultimately is making money by having a better "edge" in the market!

Timeframes and Not "Things"

The first thing that we're going to discard from our previous analogy is the concept of "things"....we're generally going to focus on TIME from this point forward. Most of the charts that we use are based on charting the actual price as time goes by on the horizontal axis of the chart. (there are other relationships that work for this Fractal concept which we'll discuss later)

So when we previously said that *"larger things are made up of a collection of identical smaller things"* we are now going to say that:

- **Larger Timeframe chart moves (swings) are made up of a collection of identical smaller timeframe chart moves.**

And when we previously said that *"change starts from smaller things and propagates upward"* we are going to modify that for financial markets by saying that:

- **Trend change starts from smaller timeframe reversals and propagates upward to larger timeframe chart reversals.**

By the end of this section you'll see how this all fits neatly together, like a puzzle just waiting to be solved.

Which Timeframes?

When I first started my own journey to learning technical analysis, there didn't seem to be any rhyme or reason about what timeframe charts that traders would use. Most would use the daily chart for swing trading, but would also look at the Weekly chart, a 60 minute chart, a 15 minute chart, and so on. I was beyond confused....they all looked somewhat different and gave different information. Which one was in charge? Which one to trade off of? Nothing made sense.

All that changes now with the introduction to the **Factor of Five**.

The Factor of Five Series

What solved this riddle of “what timeframes should I use” was learning about the “Factor of Five” from one of my early mentors. Once you start to apply it, you’ll start to see these Fractal patterns literally pop out of the charts....you’ll start to see how larger timeframe patterns are made up of a collection of identical smaller timeframe patterns.

Figure 1



Notice how this swing outlined in red on the Weekly chart in Figure 1, is actually built out of several distinct swings on the Daily chart in Figure 2:

Figure 2



This is why the rules that we'll cover for Price Action in the next module will work for any market, at any time, regardless of what manipulation, meddling and artificial stimulation that we feed that financial market.

Back to the Factor of Five. This means that a Daily chart and a Weekly chart are separated by *roughly* this factor, since there are seven trading days in one week. (The relationship is somewhat neater in other markets that only trade five days per week, but it still works well enough with Crypto) Some other relationships that we can explore are:

- **The Monthly Chart has approximately Five Weeks in one bar/candle.**
- **The Daily Chart has six four-hour periods inside of it, so the four-hour chart comes in use.**

And so on. Now, is there some mathematical basis for this “Factor of Five?” I’m sure that some of you will not be swayed unless there is a Fibonacci number behind a relationship, as this “five” number seems arbitrary. And the answer is...that it *doesn't really matter*. This Factor of Five works nicely because it shows a nice interrelationship between the timeframes, without being so spaced out that you lose detail. You can truly see the “swings within the swing” with the 5x differential, or anything close to that number. So don't get hung up if there is not a PERFECT 5x differential between the two timeframes that you're trying to interrelate. All you're trying to do is to select an “anchor” and a “signal” chart that are close to 5x apart.

Now, what timeframe do you “anchor” on? Where do you start? Where do you end? To answer these questions, we need to define our “Family of Timeframes” that we'll trade with.

The Family of Timeframes



Think about a typical family of four; two parents, two children, and you'll typically find that they'll differ in size from larger to smaller members.

Think about how they operate as a unit when there is a shared mission, such as going on vacation. There's nothing more exciting than going to a remote, exotic vacation spot! Everyone is up early getting their stuff and packing the car for the long journey ahead. Everyone is well-rested and they all work well together to get on the road. Laughing, singing and in good spirits, they hit the road and make good time to start the day.

And then....stuff happens, doesn't it?

Those of you that have children can relate to this, and perhaps you can even remember back to those days of sitting in the back seat on a long trip. No, we had no handheld games back then nor movies to watch, so it was endless hours of boredom and challenging your sister to spot more blue cars than you could.

And this is where the youngest begins to crack. *"Are we there yet? I'm hungry. I have to go to the bathroom."* Most fathers behind the wheel would ignore these initial requests for as long as possible before the Mother would empathize, *"It's been an hour, can't we make one little pit stop?"* This irks the Father to no end, as they are making GOOD TIME with MOMENTUM, and he is on a MISSION.

So they stop for a short break, and the Father races back onto the road trying to make up the lost time.

An hour later, the oldest child pipes up, *"I'm not feeling well. Can we pull over?"* *"More delays!"* grumbles the Father....*"...at this rate we'll never get there!"*

They pull over, for a somewhat longer break now, especially since the Mother has found a cute little gift shop. Once again, the Father pulls all of them together and roars off down the road. He has MOMENTUM and wants to keep going!

Well, this scene plays out over and over again during the course of the day and they haltingly make progress towards their destination. But a change comes over the parents by the end of the day, still far from their destination. The Mother is completely exhausted from tending to her children's needs. The children are now up and bouncing

in the back seat, as they close in on their destination. Yet all of this pulling along his family has taken its toll on the Father; he is now tired and is having a difficult time keeping his eyes open. He's pulled for all he's worth, and now he's done. They pull into a hotel and the parents collapse on their bed, asleep before their heads hit the pillow, while the kids jump up and down on the second bed.

Can't you just see it? Isn't this how family trips are?

And this same scenario is how major market moves play out over the course of months or sometimes years. Let's say our "Family of Timeframes" is the Weekly/Daily/240 minute charts.

As we'll see in upcoming modules, a period of "rest" for this family of timeframes is when a trend springs out of a lengthy consolidation pattern, similar to a long "slumber." At first, all of the timeframes are on for the ride based on the strength of the breakout from these areas of "rest" as shown as yellow zones in Figure 3:

Figure 3



You can also see that the trend itself is never a straight line, because small little "detours" take place, which are just smaller timeframe pullbacks, similar to when the children needed a quick rest stop.

I'd like you to hang on to that analogy of how the road trip played out for our "family," and how it's a perfect analog to how markets actually move.

The largest "anchor" chart can sometimes be the Monthly chart but not very often, since most coins don't have a long-enough lifespan to print enough Monthly candles to make that chart offer any information. So most of the time our Anchor chart is the

Weekly chart, will be large enough to give a trend enormous momentum. The Daily chart is also very powerful, but only has one-seventh the information contained in the Weekly chart (in Crypto) so it will “tire” faster. Intraday charts like the 4-hour or 1-hour will see much more movement than either the Weekly or Daily charts, often throwing off traders who think that the first red candle they see is the beginning of a new Bear Market. Each of these timeframes is approximately a “factor of five” in timeframe from its neighbor. I will typically arrange these charts in order as in Figure 4, from Weekly chart on the left all the way to the 4 hour chart on the right:

Figure 4



This chart series might not make sense just yet; after all, we’re used to adorning our charts with all sorts of interesting, colorful indicators. In the upcoming modules of this program, we’ll show you how to “glue” all of these charts together so that you can start to build a very powerful edge into your chart-reading analysis.

Summary - Fractals and Financial Markets

Let's look at some of the concepts that we've discussed in this module of the program...even though it doesn't seem like we've covered much ground, I think that you'll be surprised at how you'll find yourself thinking about markets in a completely different manner than you probably did before.

Larger Timeframe chart swings are made up of a collection of identical smaller timeframe chart swings and trends.

The major swings that we see on a larger timeframe chart like the Weekly chart...are built up from several smaller swings and trends from its "child" chart.

There is a 5x or "Factor of Five" Relationship Between Chart Timeframes

This relationship differential shows excellent detail of smaller timeframe swings within the "parent" timeframe trend, even if it's not an exact 5x multiple.

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

We quickly showed how larger trends contain smaller swings in price, but we didn't get down to the detail of showing how trend changes start from the smaller timeframes yet. That's precisely what we'll cover in the next module, and is one of the most important concepts that we'll cover in this entire course.

Homework and Next Steps

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

- ☐ Watch the associated video for this module.
- ☐ Lay out a Fractal Timeframe series on your charting package; this might require some homework on your part to determine how to display multiple chart windows simultaneously.
- ☐ Spend some time observing each series; note how the smaller timeframe “swings” show up as quick pullbacks on the 5x larger chart.