

LANCE BEGGS

YTC *Scalper* ~~*Price Action Trader*~~



Scalping
~~Intraday Swing~~
~~Trading for the~~
~~Forex~~, FX Futures
and Emini
Futures Markets

www.YourTradingCoach.com

**Adapting the
YTC Price Action Trader
to Lower Timeframes**

YTC Scalper
by Lance Beggs

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Lance Beggs is a full time day-trader with a current preference for FX futures and E-mini futures markets. His style of trading is discretionary, operating in the direction of short-term sentiment within a framework of support and resistance.

As an ex-military helicopter pilot and aviation safety specialist, Lance has an interest in applying the lessons and philosophy of aviation safety to the trading environment, through study in human factors, risk management and crew resource management.

He is the founder and chief contributor to <http://www.YourTradingCoach.com>, which aims to provide quality trading education and resources with an emphasis on the 'less sexy' but more important aspects of trading – business management, risk management, money management and trading psychology.

Lance can be contacted via support@YourTradingCoach.com

**“Success is the sum of small efforts –
repeated day in and day out.”**

...Robert Collier

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PART ONE

INTRODUCTION

Chapter 1 - Introduction

1.1 - Welcome

Welcome to the YTC Scalper.

The aim of this book is to discuss the implementation of the YTC Price Action Trader (YTC PAT) methodology on shorter scalping timeframes.

Why a separate book? The fact is that the scalping environment provides some unique considerations which are unlikely to be of interest to all traders. So, given the size of this document, the decision was made to create it as a separate book rather than expand the size of original YTC PAT series.

1.2 - Prerequisites

A prerequisite for reading this document is to have read and understood (and preferably traded) the YTC PAT methodology. In particular, the YTC PAT theory of markets and analysis techniques are considered essential prerequisite knowledge.

This book will not repeat the material contained within the YTC PAT series.

1.3 – Scope

1.3.1 - Strategy, Markets & Timeframes

The YTC PAT methodology is stated as being applicable to all markets and all timeframes, provided they contain sufficient liquidity to allow entry and exit without significant slippage, and provided they offer sufficient profit potential on price swings after overcoming costs.

It was demonstrated using a trading timeframe of 3 minutes, with a recommendation that it not be applied on lower timeframes without first taking into account the additional considerations that will be discussed in this document.

Therefore, the YTC Scalper is primarily for those traders who trade markets that do offer sufficient liquidity and profit potential on trading timeframes less than 3 minutes.

For those who prefer longer timeframes, you will still gain significant benefit from this information. The techniques designed for the YTC Scalper may also be applied on higher timeframes if you prefer.

Which markets do I trade?

At the time of writing, I currently trade the YTC Scalper in the following markets:

- E-mini futures: TF
- FX futures: 6E

Primarily, my trading over the last six months has been on the FX futures, due to the late opening time for the E-mini futures in my part of the world (12:30 am). And my preference has migrated from the 6B to 6E on these lower timeframes, due to the lower ratio of commission to tick-size (ie. lower costs).

I recommend this strategy for the most liquid FX futures and E-mini futures markets only. I have conducted no testing in other markets such as forex or stocks. If these markets interest you, you'll need to conduct your own testing to confirm suitability. As mentioned earlier, your primary concern is confirming liquidity, and profit potential on price swings after covering costs.

This is particularly the case for spot forex which typically has higher spread costs. I do not recommend trading spot forex on these timeframes, although that may be possible with some of the newer ECNs offering spreads at less than one pip. You'll need to test other markets if you're not interested in FX futures or E-mini futures.

I use the following timeframes:

- *Higher Timeframe:* 5 min
- *Trading Timeframe:* 1 min
- *Lower Timeframe:* 1 range*

** **Note regarding lower timeframe:** I have traded the strategy on numerous different lower timeframes, before settling on my preferred choice of 1-range. I particularly like this as it allows visibility of the price action at the finest level.*

However, alternate timeframes and chart-types were found equally as useable. We'll talk more about these alternates later.

1.3.2 - Time and Sales / DOM orderflow analysis

As with the YTC PAT, the YTC Scalper involves chart-based analysis in order to assess likely areas of orderflow.

The scope of this document does not extend to other methods of assessing orderflow on short timeframes, such as through analysis of Time and Sales or DOM / Level II orderflow. Exclusion of these topics is simply due to the fact that I do not trade via these methods. They are certainly valid approaches and I encourage you to investigate them if they interest you, as they may well offer potential in improving YTC Scalper entry and exit decisions.

1.4 - Acknowledgments

The YTC PAT acknowledged some of the many traders and trading educators who have influenced my trading over the last decade.

For this book, I would like to acknowledge all of the readers of the YTC PAT. Your feedback has been very greatly appreciated; and will help to shape the future directions of the whole YTC website and suite of products.

Thanks to you, we have exciting times ahead.

Charting

Charts throughout the book have been produced using Ninja Trader (www.ninjatrader.com).

1.5 - Feedback

As with YTC PAT, feedback is greatly appreciated whether positive or negative. In fact, I absolutely encourage feedback if you disagree with anything presented in this document. I make no claims of being a Guru Trader who knows it all. I see myself as someone who's perhaps been where you are right now and who may be able to help you take the next step. I believe that no-one will ever master this game; rather it provides us with a never-ending process of learning. While I look back at my view of the markets even just five years ago, with a laugh at how naive I was, I would similarly be delighted to look back at this work in another five years and see further progress and growth. We can learn from each other.

Please send all feedback to: support@YourTradingCoach.com

I'd love to hear your thoughts.

1.6 - Contents Overview

The following provides a quick summary of the material to come...

Part One introduces the concept of scalping – what it means to me and why I took this journey.

Part Two delves further into the uncertainty of the markets. Not from the perspective of price movement, as we did with YTC PAT, but from the perspective of the trader, and how he or she makes decisions. In this part of the book we discover why my transition to scalping timeframes proved so challenging.

Part Three provides our solution and discusses the changes required to implement YTC PAT in the lower timeframes. Examples are shown demonstrating application of the YTC Scalper methodology.

Part Four wraps up the book and provides a plan for the way forward; applying your newfound knowledge in the scalping environment.

Before you begin, I recommend spending some time skimming through the book in order to provide yourself with a bigger-picture overview and familiarize yourself with the structure of the contents. Take note also of the short glossary at the rear of the book, which may help with understanding my meaning of key YTC Scalper terms.

Once again though; I will stress that YTC PAT is a pre-requisite. If you have obtained a copy of this document without first having read YTC PAT, then much of the context behind this discussion will be missing, along with ALL the discussion of analysis and strategy. Please read the YTC PAT ebook first in order to properly understand this YTC Scalper supplementary document.

Enjoy!

Chapter 2 – My Trader Evolution

2.1 – My Trader Evolution

It was June 2010... and yet again my trading underwent an evolutionary change, as I made a transition to lower timeframes.

The reason for this change was simple. I was overwhelmed with too many commitments – family, lifestyle, trading, YTC email overload, and a long overdue promise to write the YTC Price Action Trader (YTC PAT) ebook series.

Something had to change.

The easiest decision was for a reduction of trading timeframe, which allowed for trading in a one to two hour session, thereby allowing several more hours per day to work on the YTC PAT writing and editing process. My intent at the time was that this would be a temporary change and I'd revert back to the standard 30/3/1 minute charts on completion of writing.

However, life in the markets is always full of surprises.

Firstly, I discovered that the transition was not as simple as expected. Scalping is a very different game; and scalping timeframes offer some unique challenges. It took a while to understand these challenges and to overcome them, as to do so required breaking down some well-established belief systems. We'll talk about those further throughout this book.

Secondly, I discovered a renewed passion for trading; a simpler (although equally as challenging) process that was more enjoyable than ever before. Like all previous reductions in timeframe, it felt again like this is where I belong.

Of course, this created a dilemma. The YTC PAT ebook series was meant to document how I trade the markets. But the process of writing the document resulted in a change to the way I trade.

Should I therefore re-work the YTC PAT ebook series to just incorporate the new way I trade?

After careful consideration I decided that to do so would not be wise. It would be better to first present "*How I did trade*" for those who want those longer timeframes, and to then follow it up with this new document which outlines, "*How I currently trade*".

Most of all, my concern was that this new approach to the markets appears on the surface to be so incredibly simple. Had I just presented it then I doubt many would have taken it seriously.

By presenting the YTC PAT first, it allows you to follow the same evolutionary learning path that I followed. I believe this is important in truly understanding the beauty of this new approach.

In any case, much of the original material does not change. The theory of markets still applies, as does the analysis process. It's just the trading process that varies – how we enter, manage and exit our positions; plus how we manage our trading routines and procedures.

2.2 – What Does This Mean For You?

Having built up your knowledge with the YTC PAT, I'm now going to tear some of that down.

If you want to operate in the scalping environment, you'll need to think in a very different manner. And like I had to, you'll have to discard some of your beliefs about the way we profit in the markets.

Some of you will find this a challenge. Approach it with an open mind. Don't believe anything I say, but instead test all concepts in the market to prove it for yourself.

Maybe like me you'll also find a new place that feels like it's where you belong.

I hope you enjoy this journey.

Chapter 3 – Scalping

3.1 – What Do I Mean By Scalping?

Traditionally, scalping referred to a trading approach used by market makers or other professionals, which aimed to buy at the bid price and (almost immediately) sell at the ask price in order to make the spread difference.

	1.3780	
	1.3779	
	1.3778	CURRENT
	1.3777	ASK
	1.3776	PRICE
	1.3775	1.3768
	1.3774	
	1.3773	186
	1.3772	41
	1.3771	50
	1.3770	56
	1.3769	19
	1.3768	20
	(4) 1.3767	
29	1.3766	
54	1.3765	Buying at the
48	1.3764	bid and
64	1.3763	immediately
38	1.3762	selling at the
233	1.3761	ask price
	1.3760	would result
CURRENT	1.3759	in two ticks
BID	1.3758	profit.
PRICE	1.3757	
1.3766	1.3756	
	1.3755	
	1.3754	
	1.3753	
	1.3752	
	1.3751	
ASK	+ TARGET	ASK
BID	- TARGET	BID
MARKET	0.008	MARKET

<
REV
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C

Figure 3.1 – The Common Image of Scalping – This is NOT How We Operate

That is NOT the intent with the YTC Scalper.

In recent years, the definition has expanded to include any short-term momentum trade aiming to profit from surges in orderflow.

As the theory behind the YTC PAT trading strategy is all about finding areas of orderflow surge, we find our strategy very applicable to the scalping timeframes.

A short scalp trade might last anywhere from seconds to maybe five minutes.

However... as with the original YTC PAT... we won't limit ourselves to target exits. If the market environment offers the potential for a trending market, then we will aim to keep a portion of the trade open to take advantage of this greater move. If you can catch one that runs all day, then that's a bonus. It's still a YTC Scalper trade though, because the initial premise was based upon a short timeframe surge in orderflow.

Let's have a look at some YTC Scalper trade examples...



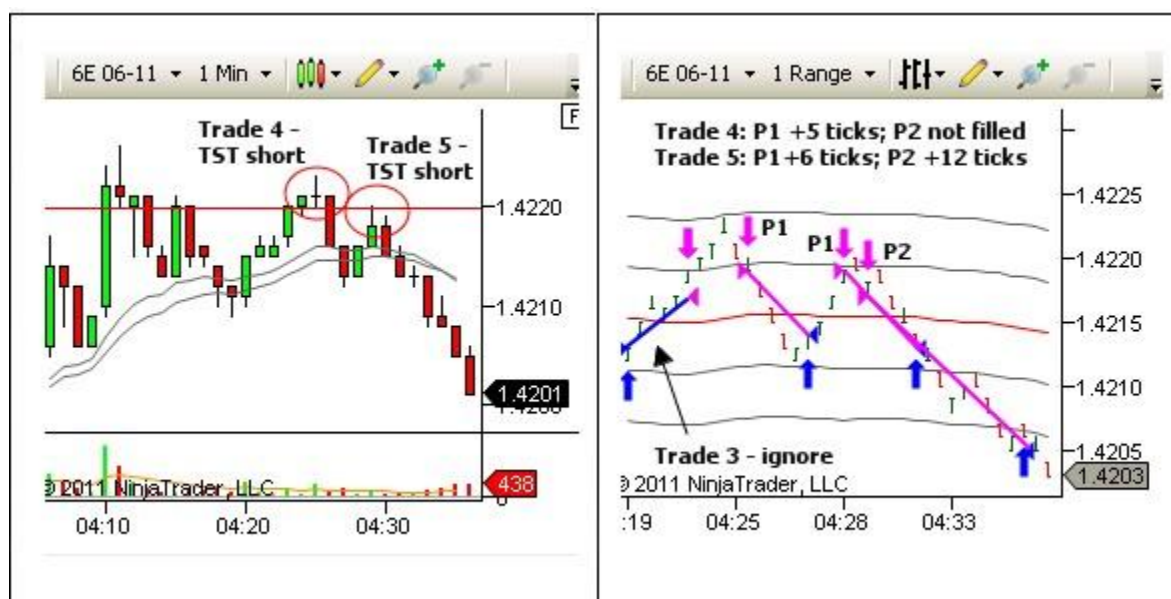
Figure 3.2 – Trade Example 1

Trade 1 (above) demonstrates the standard YTC PAT PB setup long. You'll note that the lower timeframe chart looks a little different, via the use of range bars and channel lines.

Moving along a little in time, we come across trades 2 and 3 which are also occur at standard YTC PAT trade locations – PB long and CPB long.



Trades 4 and 5 below demonstrate counter-trend entry, in expectation of resistance holding.



The analysis which determines our bias for future-trend direction is exactly the same as YTC PAT. What differs and why? Just the chart display and the trade entry and management processes. But we'll talk more about that shortly.

For now... all we need to know is that scalping refers simply to the fact that we operate on lower timeframes. The charts were just a teaser!

3.2 – Advantages

Why would we consider lower timeframes?

Usually the trading books offer the following advantages:

- Less exposure - Reduced holding times means less potential for exposure to any adverse price movement.
- More opportunity – On the standard YTC PAT timeframes you might average around 5 trades per session. On the YTC Scalper timeframes you should easily average that in one quick 60 minute session per day.
- Less dependent on large market moves – This is the old theory that it's easier to pick up 5 ticks 10 times, than to get one 50 tick move. Opportunity can be found in more narrow range bound markets, as well as trending markets.

And that's all well and good. They certainly are advantages.

However, timeframe selection in my opinion is more a matter of finding the right fit for your psychology and your lifestyle.

Here are the advantages, as I see them relating to my own personal situation:

- Lifestyle:
 - All the markets I'm interested in trading operate at night-time. The primary opportunity with FX futures occurs during the UK market hours, which for me operate from 6:00 pm to 3:00 am. The E-mini futures operate in the early hours of the morning, opening at 12:30 am and closing at 7:15 am.
 - Neither option allows trading a full-session without impact on lifestyle. Trading the full UK session impacts on family life too much. Trading the full US session leads to chronic fatigue, ultimately reducing quality-of-life in all areas.

- Trading a reduced session of 1 to 2 hours allows me to fit my trading session around my family responsibilities, while also limiting fatigue. I trade the time period that offers the most potential market movement (as defined by the economic calendar), which also fits best within my families plans for the evening. If I can fit it in, I'll trade the UK open, or the earliest of the UK / EUR news. Otherwise, I'll delay till the US open, the early US economic releases, or the E-mini open.
 - Trading the 1 minute chart still offers sufficient opportunity within that 1-2 hour session, to satisfy my passion for trading.
- Psychology:
 - The greatest challenge I currently face (and have for quite a while) is maintaining focus. I seem to have a very active mind. And if it isn't stimulated by the market action it seems to search out any other form of distraction. This results in a lack of focus, negatively impacting on my trading performance.
 - While focus is equally (if not more) critical at scalping timeframes, I find it easier to focus for a shorter but more intense 1-2 hour session, rather than a complete 8 or 9 hour session.
 - In addition... it's become clear over the years that I am a daytrader. I'm not a longer term swing or position trader. I hate overnight exposure. I hate having open trades when I'm not watching them. I'm a control freak... I like to be watching and managing my trades. It's just the way I am. There's no point fighting it. It's better to find the markets and timeframes that fit my psychology, than trying to adapt to an unsuitable environment.

My reasons for considering a scalping timeframe may differ from yours. But if you suspect that you may be interested in shorter, more intense trading sessions, then the best way to confirm this is to simply trial it for a period of time. You'll know within a month whether or not the scalping timeframes are a match for your lifestyle and your trading psychology.

3.3 – Disadvantages

The primary disadvantage is simply that, if your trading has not yet developed to provide a positive expectancy, then you'll be at risk of accelerating your rate of loss.

More trades, within a shorter period of time, mean that any negative mindset or emotion is more likely to impact upon decision making for subsequent trades. Longer timeframes allow time-out to resolve any issues. This "time-out" is not available at lower timeframes. Unless you have developed the ability to recognise a damaging mindset, and the discipline to walk away from the market or trade despite the emotions, you risk magnifying its effect.

One dumb trading decision leading to an unnecessary loss, may lead to feelings of frustration, doubt, anger and fear of further loss, which then affect decision making for the next trade, leading to hesitation and a missed opportunity, or perhaps entry in a lower probability position in an attempt to exact revenge on the market.

Of course, looking at this from another perspective, it can also be considered an advantage. If you've not yet achieved a positive expectancy, or the ability to manage your decisions and actions despite any negative mindset, at least this way you'll find out quicker.

In addition, increased rates of exposure allow for greater repetition, accelerating your rate of learning. Stick to a simulated environment if you're not yet profitable. And start out in the live market with the smallest position size possible, once you have demonstrated consistency and profitability. Increase position size slowly, as consistency and profitability are again demonstrated at each level.

3.4 – Scalping vs Longer Timeframe Trading

Now having looked at the reasons why I plan to remain in the scalping timeframes, along with a quick discussion of the advantages and disadvantages, I will say that I believe scalping offers a viable alternative for many people; in particular those who trade alongside a job or other full-time commitments.

Common advice for anyone with a job is to move to longer timeframes, such as daily charts, as this will allow a reduced session of maybe 1-2 hours per day, before or after work, for market analysis, new order entry, and management of open positions.

As we discussed earlier, when I shared my reasons for trading, not everyone is psychologically suited to longer timeframes. Personally I almost die of boredom if I have to wait a week or two for a trade to conclude. I need immediate feedback.

Scalping offers an alternative that also fits within a short 1-2 hour time period.

I recommend anyone trading around work should consider both options. Spend a month or two trying the scalping approach. And a month or two trying the daily charts. You'll quickly know which is right for you.

PART TWO

THE INDECISIVE TRADER

Chapter 4 – Trading is a Decision Making Process

4.1 – Further Exploration of Market Uncertainty

In Chapter 2 of the YTC PAT ebook series, we discussed the fact that the market provides an uncertain environment. Although we can determine our bias for future trend direction, based upon our analysis of the strength and weakness within individual candles and price swings, we can never know for sure what will unfold at the right hand edge of the chart. Future movement of price is a function of orderflow. And that orderflow is a function of the collective sentiment of all individual traders within that marketplace.

We cannot predict the future.

The YTC PAT methodology provides structure and routines to enable us to operate effectively within that environment of uncertainty.

However in reducing timeframes we are exposed to new challenges that render some of that structure and routine not only irrelevant, but also damaging.

To understand this, we need to delve a little deeper into the uncertainty that exists within the trading environment. This time though, we do not approach the topic from the perspective of the market, but instead from the perspective of the trader and how they make decisions within this environment.

This is by no means an exhaustive treatise on human decision making. It's certainly not my area of expertise. But it will serve its purpose as a very basic-level introduction to the topic.

4.2 – Why Are We Studying Decision Making?

The end result of our discussions will be a simplification of the way you view and manage trade opportunity within the analysis framework of YTC PAT.

The danger of presenting a simplification of trade approach is that some people will mistake this simplicity for the complete strategy, instead of seeing it as a simpler trading approach fitting within the context of the normal YTC PAT methods of analysis and future-trend assessment.

What do I mean?

I will be introducing the concept of channel flow – price movement within a simple channel between areas of wholesale and retail prices.

A simplistic approach will be to observe this concept and just trade pullbacks within the channel in the direction of channel flow; what I call with-flow (WF) entries.

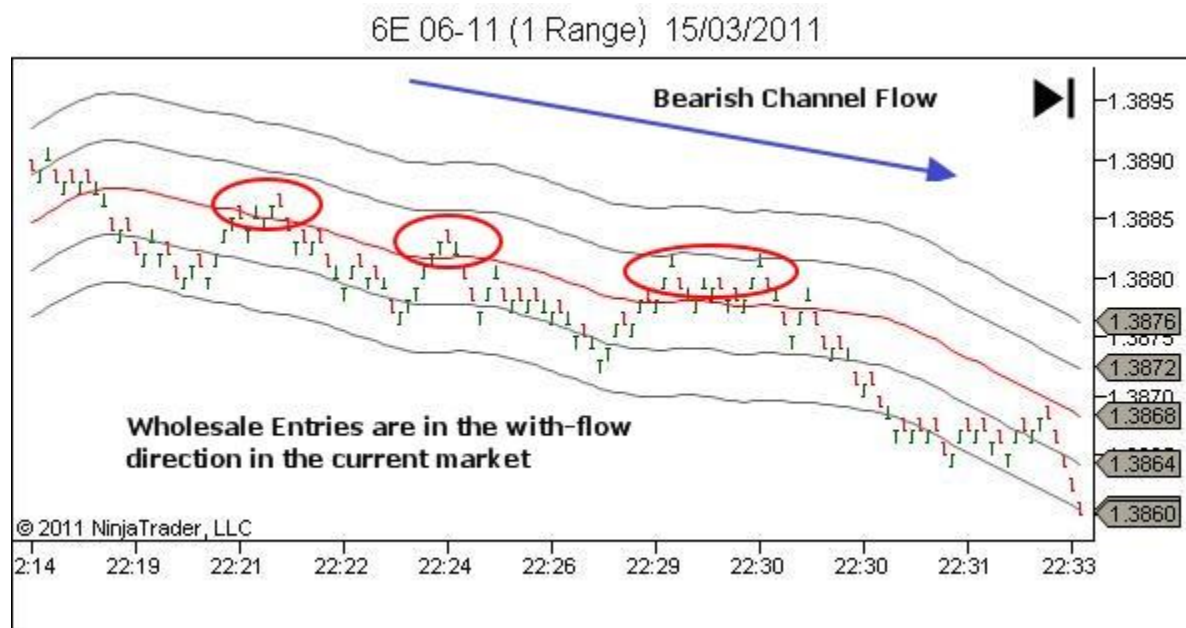


Figure 4.1 – Bearish Channel Flow – With-Flow Entries

This will quite likely underperform if traded in such a simplistic manner.

Proper analysis of market structure, trend and future-trend direction (bias / path of least resistance) will ensure you're aware of the times when the wholesale entry is actually counter-flow (CF) rather than with-flow (WF), and when taking the with-flow entry is actually a lower probability trade.

This is demonstrated on the next chart.

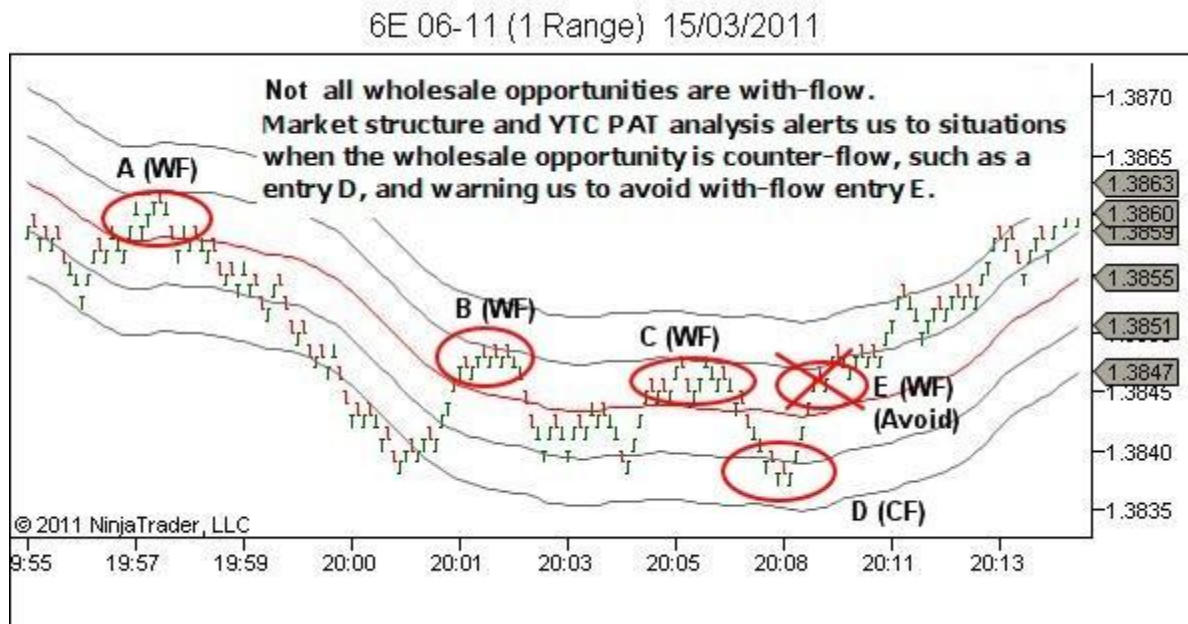


Figure 4.2 – Bearish Channel Flow – Counter-Flow Entry

I cannot stress this point enough... YTC Scalper is not a simplistic mechanical system.

However, it is a simpler approach to trade entry, management and exit that should be traded within the bigger picture produced by the YTC PAT analysis approach.

Simply presenting the strategy would do you a disservice. You'll better understand the importance of trading "YTC Scalper within the context of YTC PAT analysis", if you understand the reasons WHY simplification is necessary.

And for that – you need to understand how we make decisions.

Because it is the nature of human decision making in an uncertain environment that, when presented with information overload, simply results in hesitation. And the solution to this hesitation is not better analysis or different analysis, but rather simplification – less analysis and more feel and intuition.

As such, we will be addressing the following topics within coming chapters:

- We begin Part Two by developing a model for human decision making, both in general and in the market environment.

- We then expand upon that basic model to consider some of the additional challenges that come from uncertainty, and from conflicting subconscious needs.
- We look at how the YTC PAT methodology provided structure and routines that allow us to operate effectively in the market environment, despite all the flaws and inefficiencies within our decision making processes.
- We then introduce the unique challenges of the scalping timeframes, and discuss how they lead ONLY to hesitation.
- And then we present the solution, as mentioned above... simplification of strategy.

Do not be tempted to skip this part of the text and jump straight to the strategy material. This is by far the most important section of the whole book, and will provide you with an understanding of why changes were required in order to effectively operate the YTC PAT at very short timeframes.

4.3 – The Decision Making Model

Trading is a decision making process.

The best analysis is useless if you're unable to make a decision to act upon that analysis.

There are many models for understanding how we make decisions. We will base our discussion on the one I use, built through my brief introduction to this topic in past careers; through the study of Crew Resource Management in aviation, and the study of the Military Appreciation Process.

In simplified form (which will expand as we progress further), the following is our decision making model.

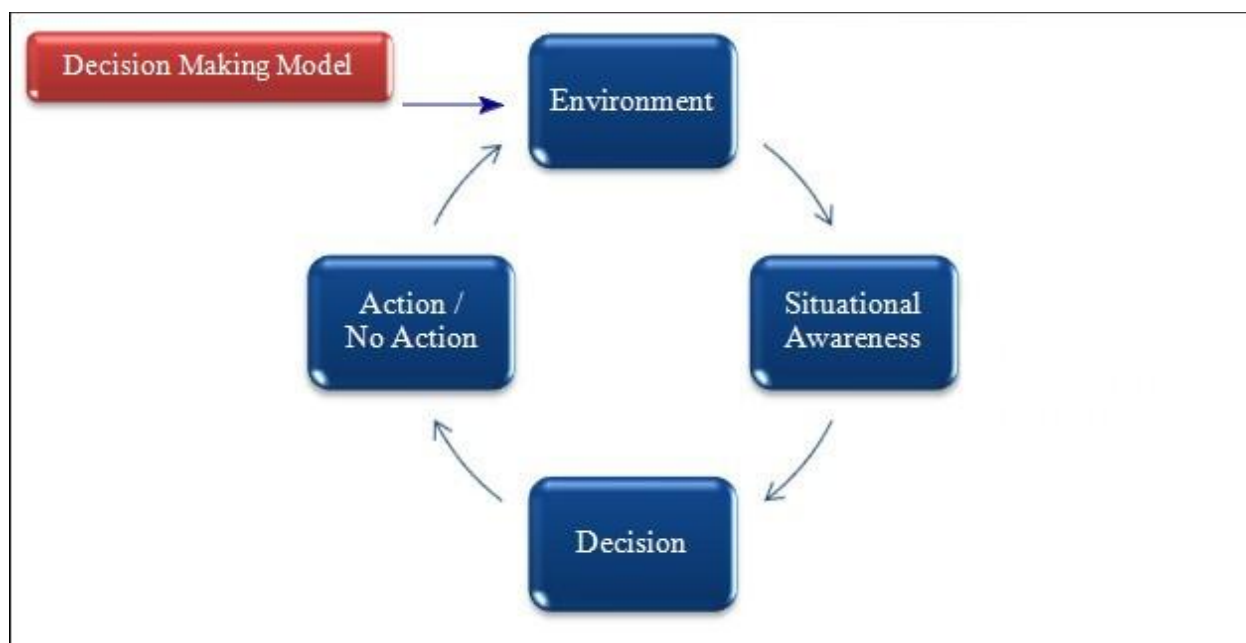


Figure 4.3 – Our Decision Making Model

The market is the environment. You become aware of the market environment, and what it means to you (situational awareness). You make a decision, resulting in either action or no action. And then you repeat the process over and over again.

Let's look at each of the elements of our decision making model.

4.3.1 – The Environment

The environment is simple. It's the market. The market exists. And it's able to be perceived by you, the trader.

4.3.2 – Situational Awareness

Situational Awareness (SA) is the process of becoming aware of and understanding what the market is telling you, and how it will impact you in the future.

SA provides the input we use to form our decision.

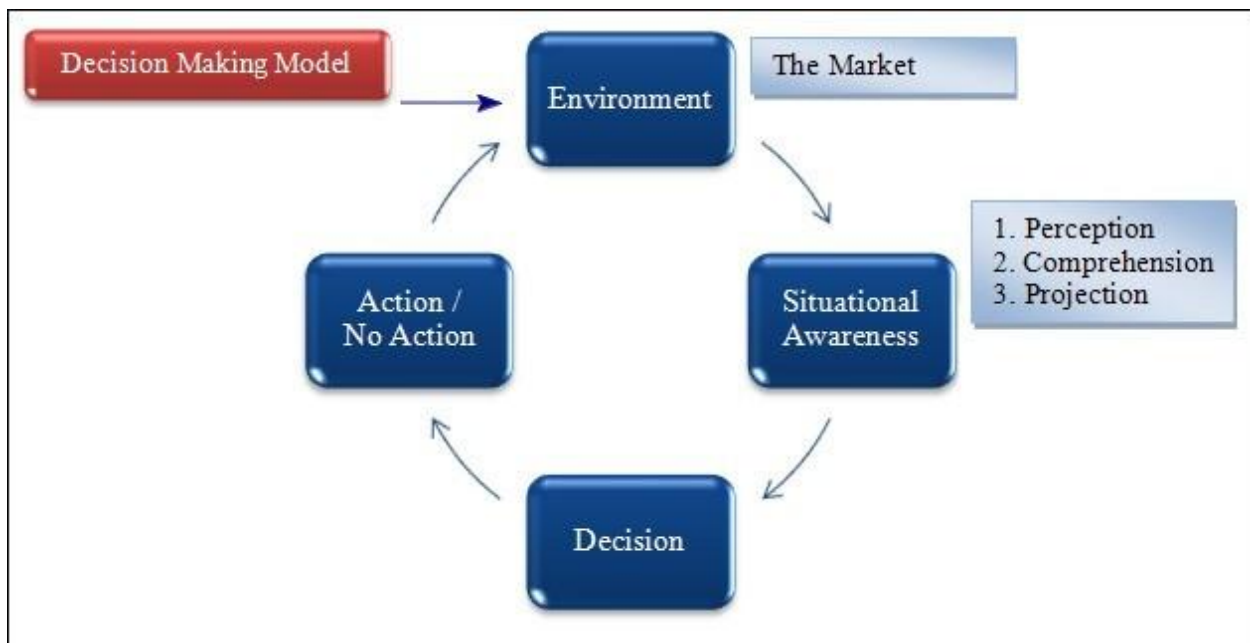


Figure 4.4 – Situational Awareness

In accordance with the definition provided by Endsley (1988), Situational Awareness is:

- “The perception of elements in the environment within a volume of time and space, the comprehension of their meaning, and the projection of their status in the future.”

This definition provides three component steps in achieving SA – perception, comprehension and projection.

- Perception – Being capable of accurately perceiving the information that the markets are providing.
- Comprehension – Understanding, or interpreting, the information available from the markets.
- Projection – Anticipating future trade setup or trade management opportunities or threats, based on your understanding of the market movement.

Perceiving market movement, understanding what that means, and knowing how that will impact you in the future.

In other words... market analysis!

Influences on the Quality of our Situational Awareness

The quality of your decision making depends on the quality of the analysis you provide as input to that decision.

The quality of your analysis depends on the quality of perception, comprehension and projection.

And there are numerous factors which impact upon the quality of your analysis or SA, in all three areas.

- Human perceptual and performance limitations, such as:
 - Fatigue – whether chronic or acute, fatigue will negatively impact your ability to perceive market information, understand it, and understand the potential implications for the future.
 - Stress – impacting both physiological and mental performance, small amounts of stress may actually lead to an increase in our quality of SA. However there are limitations, and our performance rapidly degrades beyond certain levels of increasing stress.
 - Memory limitations – becoming more and more a problem for me as age increases.
 - Distraction – our conscious minds are single channel processors – and any attempt to spread our attention across multiple tasks will negatively impact upon our ability to perceive and understand market information.

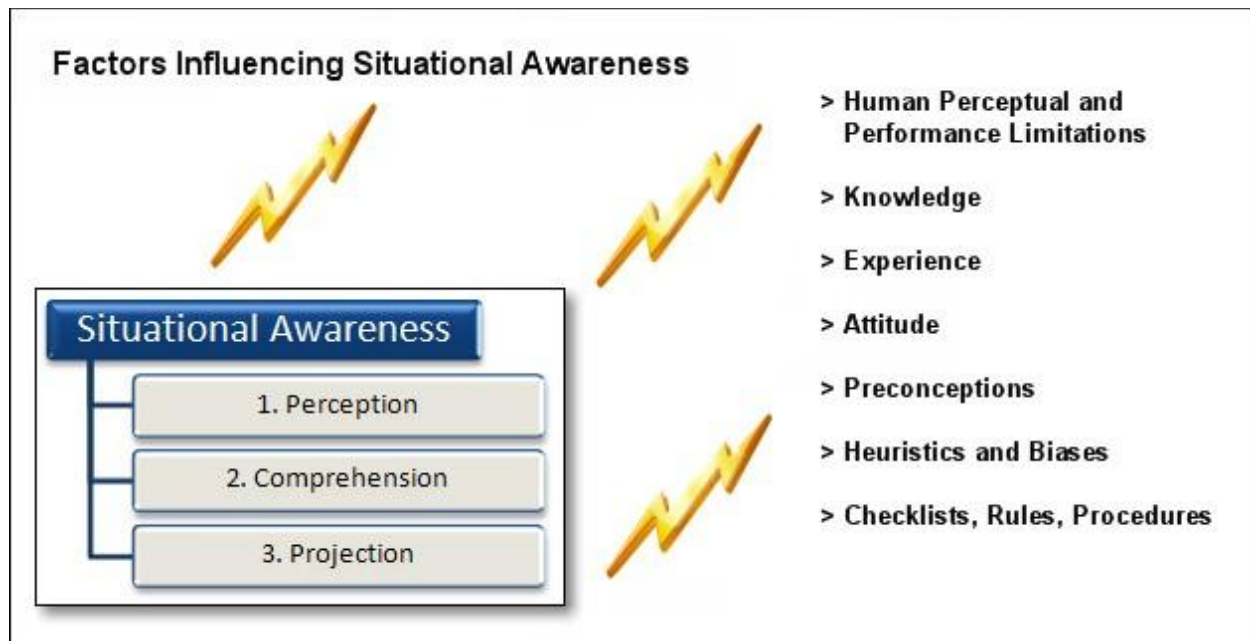


Figure 4.5 – Factors Influencing Situational Awareness

- Knowledge
 - Having a more accurate understanding of the true nature of market movement (Ref: YTC PAT Vol 2) will positively improve the quality of your SA, through being able to better perceive changes in the supply/demand dynamics of the market, better able to understand the meaning of price changes, and better able to understand what this market movement will mean to other traders, and how it will likely impact future orderflow.
 - Increased (and more accurate) knowledge will improve the quality of your SA. Lack of knowledge leads to decreased quality of SA.
- Experience
 - Possibly the most important factor of all; and the end result of the deliberate practice and Trade-Record-Review-Improve cycle discussed in YTC PAT Vol 5.
 - Increased (and higher quality) experience will improve the potential for quality SA. Lack of experience results in lower quality SA.

- Attitude
 - Just try trading when bored and disinterested, or even worse – fearful of loss!
 - A positive attitude leads to higher quality SA. A negative attitude leads to lower quality SA.
- Preconceptions
 - We see the dangerous impact of preconceptions every time we fight a clear market bias (such as attempting to fade an established trend over and over again, despite continuously getting stopped out).
 - Confirmation Bias is a natural tendency to see or overweight information that supports an existing belief, and dismiss or underweight any information that opposes our belief.
 - As such, if we approach trading with a preconceived belief about market bias, normal human processes will potentially blind you to vital information for perceiving and understanding the actual market bias.
- Heuristics and Biases
 - Heuristics are the rules of thumb, or simplifications, that we have learnt to use in solving problems.
 - Biases are a tendency, partiality or prejudice which prevents objective analysis of a situation.
 - These are the normal human processes which provide us with the ability to decide and act quickly and effectively in dynamic situations. However they offer potential dangers in the market environment where they can lead to us missing vital market information.
 - The impact of heuristics and biases is highly personalised, as a result of your own life experiences and past successes and failures.
 - We saw the impact of Confirmation Bias above, when combined with a preconception about market direction. There are many others that impact upon the quality of your analysis, and therefore the quality of your decision making. See here for a comprehensive discussion of many human judgment and decision making heuristics and biases:
 - <http://en.wikipedia.org/wiki/Heuristics>
 - http://en.wikipedia.org/wiki/List_of_cognitive_biases

- Checklists, Rules, Procedures
 - If time allows for their use, and their development is the result of quality knowledge and experience, then the use of checklists, rules and procedures will enhance the quality of your SA.

Quality decision making requires quality analysis. Through addressing the factors which influence the quality of Situational Awareness, we maximise our ability to provide good analysis input into our trading decisions.

Let's now look at how we make our decision...

4.3.3 – Decision

Making a decision is the process of selecting an appropriate course of action (COA), based upon the picture built via our situational awareness of the environment.

As with the Decision Making Model, there are numerous models available for the actual process of making the decision.

All have the same general theme though – comparison of potential courses of action, and making a judgmental call about which (if any) will be chosen.

My preferred Decision Making Model considers the decision process to be a loop consisting of two components:

- COA Identification
- COA Assessment

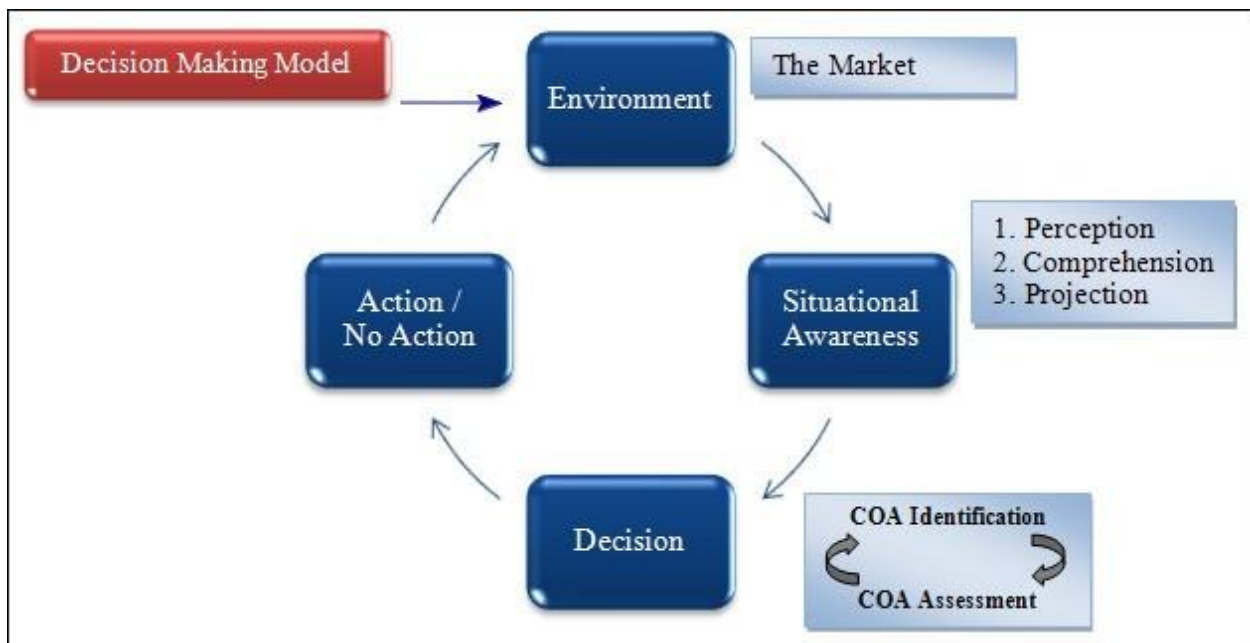


Figure 4.6 – Decision

COA Identification refers to selecting a potential course of action.

COA Assessment is the process of assessing the course of action for suitability.

The loop will continue until a course of action is chosen as suitable for action.

Identify a potential course of action; assess it; identify another potential course of action; assess it; and continue.... until a course of action is selected as suitable for action.

The exact process for making this judgment call, and selecting the most appropriate course of action, will be discussed shortly.

Influences on the Quality of our Decision Making

The primary input into our decision making loop is our analysis, developed through the SA process. Low quality analysis leads to lower quality decisions. High quality analysis leads to higher quality decisions.

In addition, there are many other factors influencing the forming of our decision, just as there were influencing SA. Consider each of these again, and you'll note that they also influence the quality of your decision making.

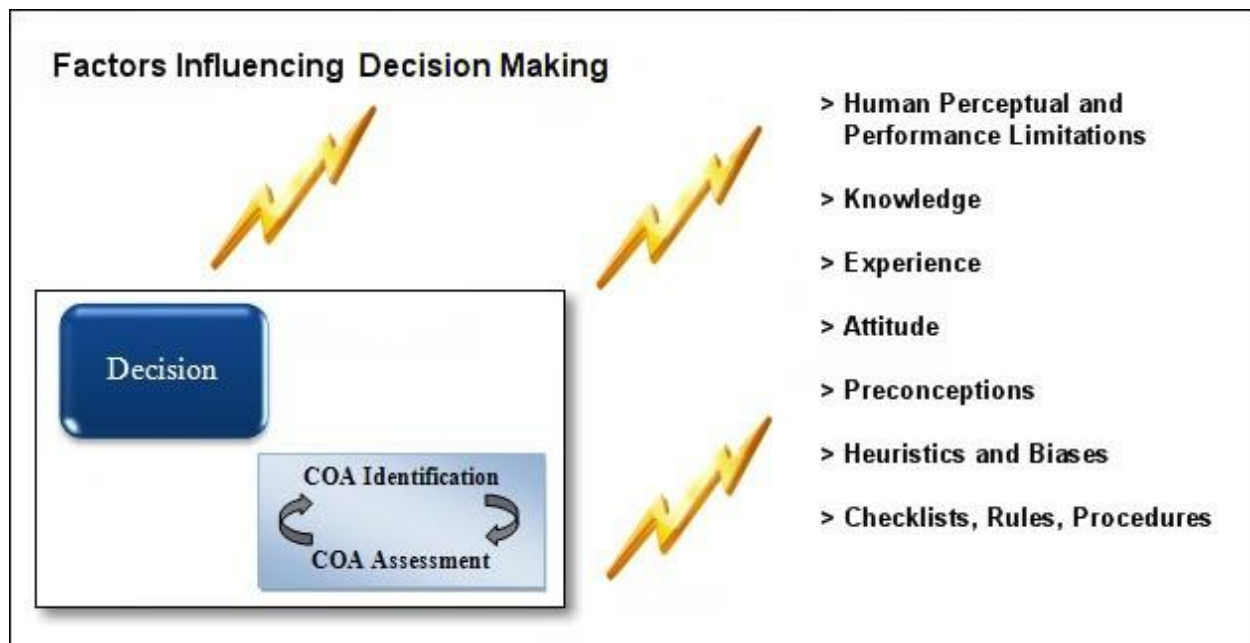


Figure 4.7 – Factors Influencing Our Decision – 1 of 2

However there is one other factor that is of particular importance. And that is the amount of time you have available to form a decision.



Figure 4.8 – Factors Influencing Our Decision – 2 of 2

How we implement our COA Identification and Assessment loop depends largely on the time we have available for making a decision.

Your mind will use one of two very different processes, depending on the time available in which it must form a decision.

If we have a long time available for the process of decision making we typically implement an analytical decision making process. Whereas if we're time limited, we will implement an intuitive decision making process.

Analytical Decision Making

- A planned and thorough process of identifying all potential courses of action, then weighing up the advantages and disadvantages of each.
- For regular tasks, selection of an action may be more likely process driven, through the use of procedures and checklists.

Intuitive Decision Making

- A largely subconscious process of selecting a course of action based upon intuition and experience.
- Having no time for procedures and checklists, the decision relies upon the decision maker's previous experience, and pattern matching against similar scenarios.

Examples – Analytical vs Intuitive Decision Making

As an example, the purchase of a house should be an analytical decision making process. Your situational awareness process identifies all the information that is relevant to your decision, for example price, location, size, building materials, and layout. Your decision making is a thorough process of comparison, weighing up the pros and cons of each house in order to determine the better option for purchase.

Compare this with a sporting example... an American football quarterback who, while operating toward a scripted game plan, will make snap judgment calls to change the play if for example they observe the defense changing formation to block their planned attack. This is an intuitive decision, made as a result of years of experience which allows the quarterback to perceive the field of play as one whole and subconsciously observe tiny shifts or changes in tactics.

Trading – Analytical or Intuitive?

Decision making is of course not a one or the other process – analytical or intuitive – but may be considered a sliding scale between the two. And the game of trading sits at various locations on this scale depending on the approach taken.

A purely mechanical, non-discretionary approach will be considered to involve a more analytical decision making process, interestingly with the majority of the COA analysis and assessment having been conducted during strategy development, and the actual trading process simply involving confirmation of trade criteria.

A discretionary strategy such as YTC PAT operates closer to the intuitive decision making end of the scale – not purely intuitive – but intuitive within some structure devised by the trading plan and procedures manual.

YTC Scalper, as we'll soon see, is even closer to the intuitive end of the scale.

Dr Brett Steenbarger says it beautifully in this quote from his article, “Trading and Information Processing: Why Traders Sabotage Themselves”

The longer the timeframe, the more important the role of explicit deliberation and reasoning. The shorter the timeframe, the greater the need for rapid perceptual processing based upon pattern recognition.

Ref: <http://traderfeed.blogspot.com/2007/03/trading-and-information-processing-why.html>

How We Choose Our Course of Action

Having conducted our analysis and examined various COA, whether through an analytical or intuitive process, how do we actually choose the final COA? How do we make that decision?

Common thought used to be that decision making was a rational process and that the decision made would be the optimal decision available to the trader, considering all the facts presented by the market, and determined in order to maximise any perceived opportunity and to limit risk.

Recent advances in behavioral finance and neuro-economics have determined that this is not correct. Human beings are NOT rational creatures. And regardless of the situational awareness and decision making processes used, the final decision is determined by feelings and emotions.

The COA chosen will be the one that feels the best. Yes, even for a fully analytical approach, where the positive feeling might be simply the satisfaction of having followed our checklist procedures as planned.

“We make judgments not only by assessing probabilities and consequences, but also (and primarily) by evaluating their emotional attributes.”

... Antonio Damasio, Professor of Neuroscience, University of Southern California

So given the latest price movement, how do we decide whether to buy, sell, place or move working orders, or simply wait for further information?

The one you choose will be the one that addresses the most intense and urgent emotions.

- The one that satisfies the greatest need (reactive; self-protection against some perceived threat)
- The one that perceives great opportunity (proactive; taking advantage of potential gain)

Or in the absence of any great emotion, your choice will simply be the first acceptable response (a process called satisficing).

The final selection of an action will be feelings based. This is where the commonly used trading terms of fear and greed enter the picture. Feelings associated with a perceived threat or opportunity.

4.3.4 – Action / No Action

Having decided on an appropriate action, we then take that action.

- Order placement (limit, market or stop)
- Order movement
- Order cancellation, or
- Wait... ie. no action for now

4.3.5 – Repeat

Having taken action (or chosen no-action at this stage), our decision making model then feeds back into further observation of the environment and further analysis (via the SA process).

The loop continues over and over again, with each new tick of the price charts.

4.4 – Quick Summary of the Decision Making Model

Let's summarise the process.

Trading is a decision making process.

With every change in market price, we perceive it, aim to understand its meaning, and assess its likely impact upon our trading positions and upon future market movement.

Being discretionary traders, our mind will subconsciously consider a number of potential courses of action through a largely intuitive process (bounded by our trading plan and procedures), relying largely upon our previous experience and pattern-matching against similar scenarios;

ultimately responding to the market movement based upon the feelings that it raises within our subconscious.

Any subsequent action will be a response to that feeling – action to protect us from a perceived threat, or action to take advantage of perceived opportunity.

The course of action chosen will be that which responds to the strongest and most intense feeling.

Or, in the absence of any particularly urgent need or opportunity, we will likely select the first acceptable option.

The challenge for traders is that we are imperfect and emotional creatures. The quality of our trading depends on the quality of our decision making, and as we saw in this chapter there are numerous factors which act to influence the quality of our decision making at every stage of the process; some in both a positive and negative way, such as our experience level, and some in only a negative way, such as fatigue.

This chapter has provided an introduction to our decision making model. Unfortunately though... it's just the starting point!

Now...let's make it even harder, and see just how deep this rabbit-hole goes.

References:

Endsley, M.R. (1988). Design and evaluation for situation awareness enhancement. In Proceedings of the Human Factors Society 32nd Annual Meeting (pp. 97 -101). Santa Monica, CA: Human Factors Society.

Facilitator Information, 16 Avn Bde Crew Resource Management (CRM) Refresher Course, 2008

ADF CRM Bridging Course and Facilitator Course Notes, 2005

Chapter 5 – The Conflicted Trader

It gets worse! So, let's explore the topic a little deeper.

5.1 - You Don't Trust Your Own Analysis

The quality of your analysis feeds into the quality of your decision making. Garbage in, garbage out!

But even if your analysis is of the highest quality; and even if your knowledge of technical analysis and market structure is good, there's still another problem.

You don't have complete confidence in your analysis.

Data used within your analysis process will be one of two types.

- Facts
- Assumptions

(It's actually more than two as there are different types of assumptions but we'll simplify it for the sake of this discussion.)

Facts are observations gathered from the price data. For example:

- A new swing low has formed.

Assumptions are conclusions drawn as a result of those facts, or as a result of previous assumptions which are taken to be fact. For example:

- Other traders will place stops below that swing low.

Facts are indisputable; objective observations that come with 100% confidence in that observation.

However, assumptions involve a degree of doubt, and will never be made with 100% confidence. It doesn't matter how much you like to convince yourself otherwise. Your subconscious knows the data being analysed is not a fact, and therefore attaches to that assumption some feeling related to the degree of confidence (or lack of confidence).

And our lack of confidence in our analysis gets worse as we progress further through our situational awareness process, through combining assumptions to create more and more assumptions, each with further reduced levels of confidence.

As we get further through the analysis process, we encounter assumptions, based upon assumptions, based upon other assumptions, all offering decreasing confidence in our analysis.

Although it doesn't exactly work this way, the decreasing levels of confidence may be best understood through a mathematical example, where we apply arbitrary percentages to the degree of confidence.

For example, two assumptions (50% and 25% confidence respectively) may be combined to produce a new assumption which will have a confidence level of only 12.5% (50% of 25%).

As we go deeper and deeper into our analysis, the final output will be based upon more and more assumptions, resulting in a quite low degree of confidence.

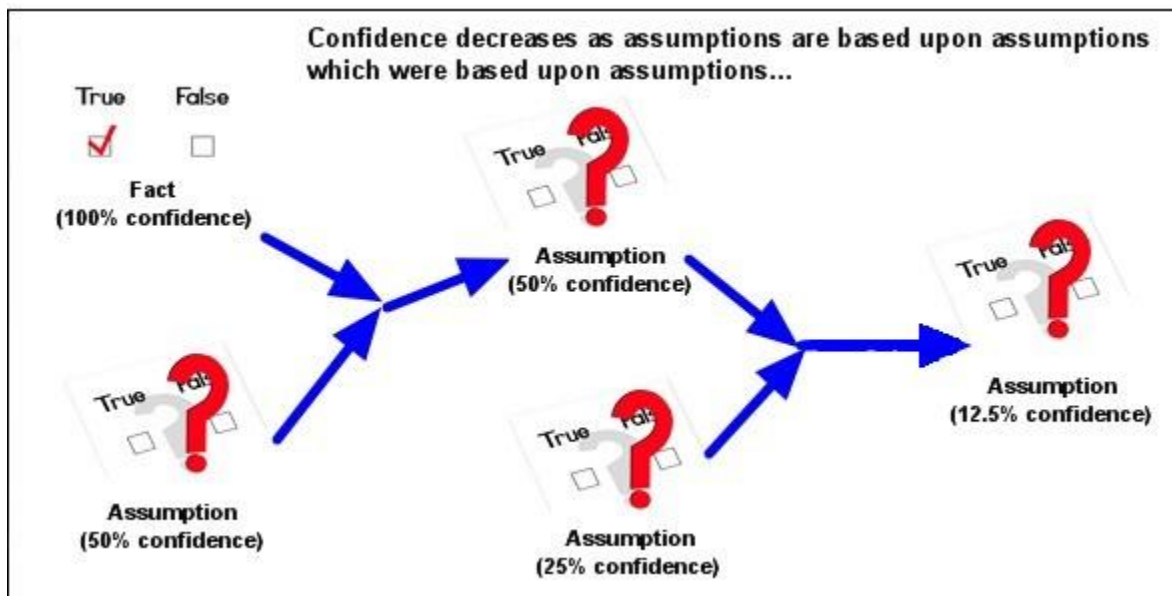


Figure 5.1 – Decreasing Confidence in Analysis

We'll observe this decreasing confidence level as we step through an example:

Perception

- Price has moved upwards. (fact)

Comprehension

- Price has now formed a swing low in accordance with our objective definition of swing lows (fact)

Projection

- Other traders will also perceive this swing low as significant (assumption).
- Other traders will therefore place stops below this swing low, some to exit their long position, and others to enter short (assumption).
- If price triggers these stops (assumption – assuming they are there) it will create a surge of bearish orderflow.
- The trend is strong (assumption), so this bearish orderflow will be insufficient to overcome the wider bullish sentiment (assumption).
- The move will therefore fail (assumption), trapping longs out of their good trade, and trapping shorts in a losing position.
- Failure of the break below the swing low will lead to a good entry opportunity long (assumption)

Our whole analysis process is based upon multiple assumptions.

The analysis input to our decision making loop is therefore subject to a lack of confidence in our input data.

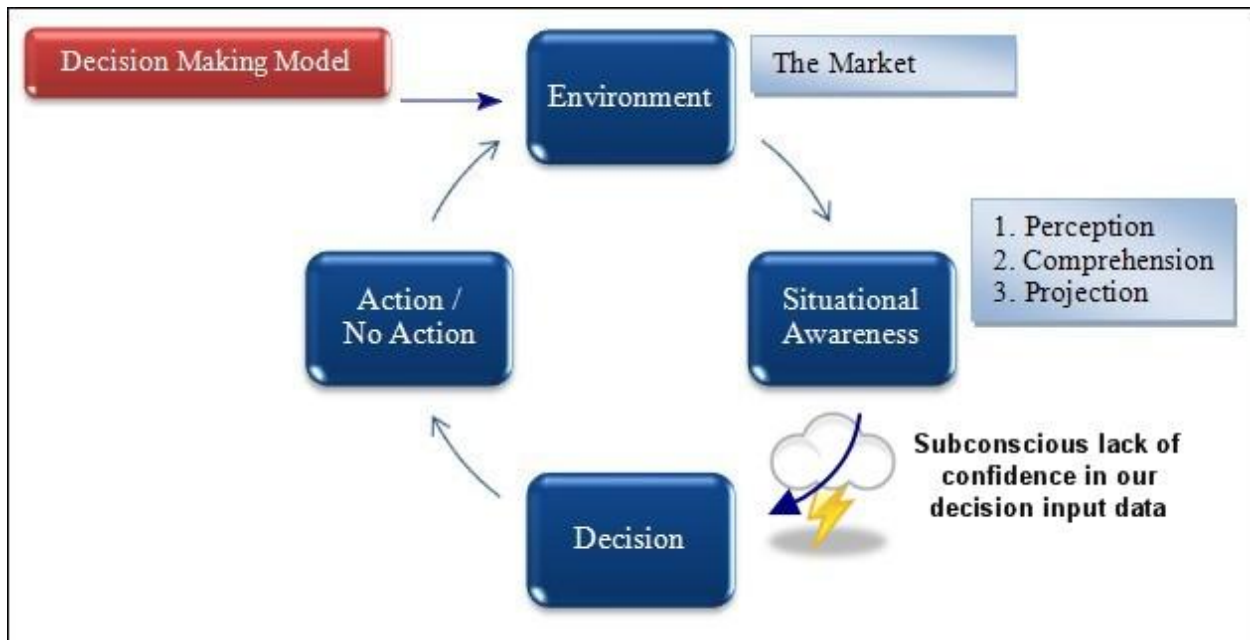


Figure 5.2 – Subconscious Lack of Confidence in our Decision Input Data

Knowing for a fact that the future price action is uncertain and unknowable (Ref: YTC PAT Ch 2), we are now also confused by the subconscious lack of confidence in our market analysis.

It's not so much the market environment that is uncertain – it's our own mind.

5.2 - Competing Needs

There is also another input to our decision making which competes for our attention. This comes from completely outside of our decision making model, competing with our SA for the ability to influence our trading decisions and actions.

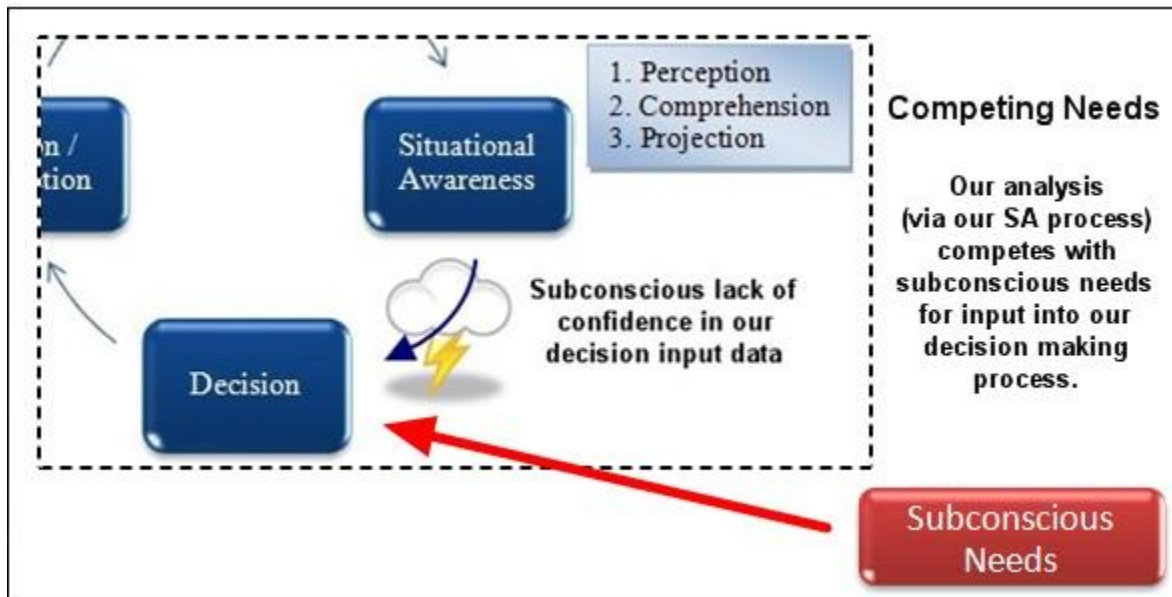


Figure 5.3 – Competing Input – SA vs Subconscious Needs

Our belief systems create competing agendas.

These are our subconscious beliefs, developed from the earliest moments of our childhood, which drive so many of our life decisions; in many cases enduring for our whole lifetime.

Fear of loss, as a result of some perceived (real or imagined) loss that occurred during your formative years.

Fear of failure to meet the standard of excellence perceived to be required to finally receive the feelings of love you desire from your (perceived or real) cold and distant parents.

Fear of...

There are as many variations on these themes as there are people on the planet, but they are all ultimately just variations of fear.

Denise Shull, trader and founder of <http://traderpsyches.com/>, shared the following with her email subscribers on 2nd January, 2009:

The only two emotional ideas I ever hear anyone talk about are fear and greed yet I can tell you from five years of coaching that those ideas are just about worthless. The actual feelings are -

The real ones are

#1) Fear of missing out

#2) Feeling somehow not good enough

#3) I want ____!!!(this one is key).

(I highly recommend you read EVERYTHING that Denise produces – she currently provides, in my opinion, the number one source of new insights into trading psychology and the way that we operate in the uncertain market environment.)

For additional reading, you may also wish to refer to this article, which outlines my beliefs on this issue:

<http://www.yourtradingcoach.com/Articles-Psychology/What-We-Fear-In-Trading-Is.html>

If feelings associated with subconscious beliefs are more intense than feelings associated with the course of action selected as a result of our analysis (SA process), then they will win every time.

If you greatly fear loss, then your “need” to relieve yourself of this fear will override any analysis produced course of action. In fact, you may not even consider your analysis – you’ll scratch your position to relieve yourself of that feeling of risk. Or if already in drawdown you’ll hold the position in hope that it comes back.

Many people struggle to accept this, believing that if they can just work harder to improve their analysis, and if they can just work harder at ignoring emotions, then they’ll make the right trading decision, overriding the other competing subconscious needs?

Unfortunately we can’t ignore our emotions. This is who we are.

As we saw in the last section, our analysis is largely based upon assumption, and has associated with it feelings of lack of confidence. Your underlying subconscious beliefs and fears, whether correct or incorrect, are taken by your subconscious as being 100% certain.

Subconscious needs, when triggered by market movement or our assumptions based upon that market movement, will scream louder than any analysis based identification of need or opportunity. Your SA will be drowned out and your decision and action will be based upon a response to your greater subconscious needs.

We hear of this all the time.

Traders holding positions past their pre-planned stop, due to their subconscious fear of failure or loss, leading to an inability to take the small loss in the hope that price will come back to breakeven.

Traders scratching at breakeven, when the slightest impulse against their position triggers feelings of having something taken away from them; recreating the intense feelings borne from some long-forgotten childhood loss.

Your subconscious needs will win over your trading analysis, which you don't trust anyway, every time.

Therein lays the challenge of trading psychology, and the difficulty we have in making consistently good trading decisions.

5.3 - The Conflicted Trader

So where does this leave us?

My intent is not to turn you off the idea of trading, although I must admit it's not currently looking good.

A psychologically and physiologically flawed trader, attempting to make decisions in an uncertain environment where the right decision can never be known with certainty, using analysis in which he/she lacks confidence.

And then finding that this analysis is often not even considered in forming your decision, as it's drowned out by your larger needs, borne from either real or perceived childhood trauma.

And we haven't even got to the additional challenge of scalping timeframes yet.

Chapter 6 – The Indecisive Trader

6.1 – How YTC PAT Helps Us Operate In The Market Environment

The current stage of our discussion on human decision making is common to all discretionary traders, regardless of timeframe. We haven't got to the additional challenges of the scalping timeframe yet.

However let's pause for some good news.

YTC PAT does help with all of these issues discussed so far, allowing you to operate effectively in the market environment. This is why there was so much emphasis in the YTC PAT on the nature of markets, procedures manuals, routines and checklists, and in practical ways to implement deliberate practice and a graduated approach to trader development.

Volumes 2 to 5 of the YTC Price Action Trader ebook series are your guide to effective SA and decision making, through:

- Ensuring improved understanding of the true nature of market movement (trader decisions leading to orderflow / supply and demand / the dual-auction process).
- Providing knowledge and processes to appropriately analyse the market, to identify the bias for likely future trend direction.
- Providing knowledge and processes to appropriately identify areas of potential trade opportunity within that future bias.
- Providing routines and checklists in order to standardise your daily trading processes.
- Providing guidance via a fatigue management plan and practical psychological tools and techniques, to ensure you approach your trading in peak physical and mental condition.
- Providing processes to maximise learning and the gaining of experience, through an understanding and implementation of methods of deliberate practice, and the implementation of a graduated learning and development process.

Market action offers an infinite number of possibilities and choices.

YTC PAT provides structure and routines, designed to focus your analysis and decision making in the right areas, minimising your potential courses of action and minimising potential for ambiguity and distrust in analysis.

Knowledge of strategy though, is not enough. You need to learn to trust the strategy and trust your ability to trade that strategy. Trust is the only way to achieve mastery over the subconscious, allowing trading decisions to be based upon market related analysis rather than subconscious fear.

Trust... that the market action cannot hurt you (in all the ways that fear resides within)... because you've experienced market action over an extended period of time and have seen that you can survive and in fact improve in both consistency and results.

Subconscious fears and patterns will still exist, albeit in a slightly weakened form. However they will no longer be triggered by price action.

This only comes through experience.

Experience, gained through the deliberate practice routines and trader development processes of Volume 5 will over time lead to you learning to trust yourself, minimising the potential for price action to trigger subconscious patterns which lead to emotion-based trading.

That is the true value within the YTC PAT ebook series. Much more so than the strategy!

Follow the processes presented within that document, and you will learn to make effective trading decisions, despite all of the factors conspiring to reduce the quality of your situational awareness and decision making, and despite all your subconscious beliefs and behavioral patterns.

6.2 – The Unique Challenge of Scalping Timeframes

So... having achieved success with our discretionary trading approach... let us now make it a little harder, through speeding up the timeframes.

There are two primary challenges when moving down to a trading timeframe of one minute or less.

- 1) The information comes too fast
- 2) The information contains more noise

The easiest way for you to understand the challenge is to simply attempt to trade the *pure* YTC PAT methodology on a lower timeframe. Use a simulator to run through a session, with a trading timeframe of 1 minute and a lower timeframe of say 10 seconds.

Most likely you will not have sufficient mental agility and processing power to follow the routines and checklists, and make quick and decisive entries within the setup areas.

It's just too fast.

Noise though, is another challenge. If you've been reading my material for a while you will recall this early article:

- <http://www.yourtradingcoach.com/Articles-Strategy/Are-Short-Timeframes-Just-Noise.html>

While the strategy has evolved a little since those days, the central point of that article is still valid. I hate the term *noise*, as there is really no such thing. All market movement is information.

However what the “*all lower timeframes are just noise*” people are talking about is an increased chance of a shake-out. On a smaller time scale, it only requires a short burst of orderflow in any one direction to appear (to our emotional and self-deceptive mind) to be a complete change in bias. Of course, if that short burst of orderflow does not attract wider following in that direction, then price will rapidly revert to its original direction.

Hence the importance of maintaining a bias on a slightly higher trading timeframe, and not focusing all attention on the lower timeframe.

It is the combination of this *noise* and the rapid speed of new and changing information that provides us with a sense of information overload.

Too much information!

Too fast!

6.3 – How We Respond to Information Overload

Let's get back to the mind briefly...

Here we are operating in an environment in which future price movement cannot be known with certainty. There are gaps in our knowledge. We cannot know with complete certainty what is going to happen next.

How does our mind react to this environment? How do we respond to gaps in knowledge?

Our mind adapts in three different ways.

In an environment where we are starved of data; where a decision is required based upon the information we have available right now and there is no more information available, our mind will immediately make a decision, filling the gaps through assumption based upon intuition and experience.

Or in an environment where there is a probabilistic outcome, such as a spin of the roulette wheel, where intuition and experience are irrelevant, the mind will simply select a guess. Once again almost immediately!

However the markets are not an environment starved of data. More data is available with every tick of price.

And the market is not an environment which offers a probabilistic outcome. There is a great difference between a probabilistic environment and an uncertain environment. In the markets, the probabilities themselves shift.

And your subconscious mind knows the difference.

In this environment... uncertainty... swamped with data... and with more and more data available if we just wait for the next price tick... the mind hesitates.

“Why decide now if I can just wait a little longer, to receive more information that might just improve my analysis and the odds of success on this trade?”

With an overwhelming quantity of data available to traders, the mind will defer decision making, seeking just a little more information in the hope that it will be enough to provide some clarity, or at least reduce the uncomfortable feelings associated with uncertainty.

The trouble is – any further data will also be subject to the same lack of confidence.

We are overwhelmed with data, none of which can ever provide certainty.

End result – either hesitation till too late, or a decision influenced by other subconscious needs, rather than as a result of effective analysis in accordance with our trading plan.

In a fast and uncertain environment, more information equals:

- more ambiguity
- more uncertainty
- more doubt
- more confusion

We suffer from information overload. And we hesitate to make a decision.

Dr Howard S. Marsh, Office of Naval Research, wrote an excellent paper which discusses situational awareness and decision making in military conflict – another uncertain environment in which the modern commander is swamped with intelligence data – what he calls the “glare of war” to differentiate from the older “fog of war” which implies a lack of data.

The following are some key quotes from his paper, discussing human decision making when overloaded with data:

“Increased availability of situation information may also be counterproductive with respect to time critical decision making. When the decision makers expect information to be sparse, they tend to rely on judgment and experience to fill the voids. When information is massive and confusing, decision makers may often delay taking action until additional information can be gathered to fill voids or resolve ambiguities. They may reorient their decision making process from judgment based on experience to reliance on detailed analysis based on hard data. The result can be “analysis paralysis”, leading to a delay of the decision until it is too late.”

... Dr Howard S. Marsh

“Without the tools to handle increased size and complexity of the situation awareness picture, we may sometimes find that less information is better than more.”

... Dr Howard S. Marsh

Ref: Dr Howard S. Marsh, 2000. Draft: Beyond Situation Awareness: The Battlespace of the Future. Office of Naval Research.

6.4 – The Indecisive Trader

Lower timeframes compress the time available for traders to achieve situational awareness and make decisions.

Faster information flow increases demands on our already stretched attentional resources.

Information overload leads to doubt and hesitation.

The result is... The Indecisive Trader.

It's no wonder we struggle to make decisions... and when we do it's often a response to our other subconscious beliefs, rather than a result of our analysis or trading plan processes and procedures.

- Indecision = hesitation
- Hesitation = missed opportunity or entry too late



Figure 6.1 – Indecision = Hesitation = Missed Opportunity

So, what's the way forward for us?

How do we go from indecision to decision?

How do we become The Decisive Trader?

All that is revealed in Part Three!

PART THREE

THE DECISIVE TRADER

Chapter 7 – The Decisive Trader

7.1 – Trading Success Requires Decisive Action

The nature of the market environment, combined with the nature of human decision making (in an uncertain environment, swamped with data, and with limited time for a decision)... results in indecision.

Trading success requires decisive action.

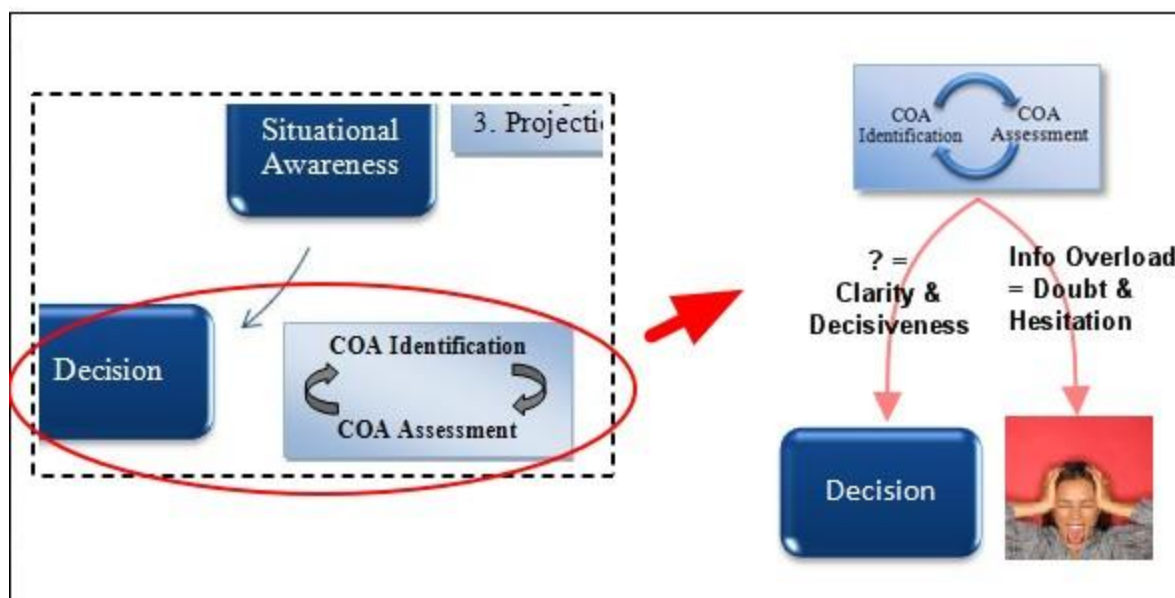


Figure 7.1 – Trading Success Requires Decisive Action

The solution?

More advanced trading does not involve more advanced analysis – you don't (and never can) trust your analysis.

Advanced trading involves simplification – less analysis and more trust and feel.

Simplicity allows for a reduction in the potential courses of action.

Simplicity reduces the feelings or tendency towards information overload.

Simplicity allows decisive action.

We'll be working on simplification via:

- Simplification of all processes and systems to reduce the amount of information available:
 - Reducing the impact upon feelings and emotions
 - Increasing brain space
 - And therefore increasing decisiveness
- Simplification of trade entry through:
 - Semi-automated entry (rules... implemented with discretion)
 - Note: we do not completely automate – this is not a simplistic mechanical strategy

Of course, we always need to keep working on gaining experience. Experience is essential in order to:

- Improve our ability to identify the trading timeframe bias for future-trend
- Understand and work with our subconscious needs
- And build trust, which we saw was a vital ingredient in our ability to make decisions and take action.

That will always be the case.

But the aim of this document is to learn to operate on shorter timeframes.

To do that we need to improve our decision making ability at lower timeframes, to ensure faster and more confident decisions, and higher probability actions.

And we achieve this through a process of simplification.

7.2 – Being Decisive Is More Important Than Being Right

Bob Rotella has a great quote in his book, “Golf Is Not A Game Of Perfect”...

“It is more important to be decisive than to be correct when preparing to play any golf shot”

The same applies to trading... **being decisive is more important than being right.**

A trading approach that consistently identifies wholesale and retail price zones has an inbuilt edge, IF you consistently enter within these wholesale zones and exit within the retail zones.

If you fail to take advantage of the entry opportunity when it presents itself, then the game is lost. You need to be in the market to allow the edge to work. It doesn't matter if this particular trade is a winner or a loser. Losses will be contained. Winners allow the edge to work.

You don't know where the market will go next, but you don't have to. Enjoy the game of uncertainty. Trust your bias. And be decisive – take action when opportunity presents itself.

We'll later be implementing another “trader development” stage, as in YTC PAT Vol 5, where you simply review chart after chart in order to build trust. Trust, such that you know without any doubt that if you've assessed the bias correctly it won't matter if some trades are losers. The winners will take care of your profits.

Work on making this one of your subconscious trading beliefs:

- **Being decisive is more important than being right.**

Chapter 8 – Simplification

8.1 – Simplicity

I mentioned earlier in the book that in mastering the scalper timeframes you'll need to change some beliefs. This is the primary challenge you will face...

- **Accepting that more advanced trading does not involve more or advanced analysis.**
- **Advanced trading involves simplification – less analysis and more intuition and trust.**

Successful scalping requires decisiveness. Decisiveness requires simplicity.

We are going to approach the task of simplification from two directions:

- From a business perspective
- From a strategy perspective

8.2 – Simplicity – From a Business Perspective

8.2.1 - Market Selection and Session Timings

Let's start with the easy stuff - simplify your market selection and timings.

Trade your preferred market ONLY at times of greatest expected volatility, such as the session open, close, or following major news releases. Limit your session to one to two hours only.

Never trade at other times.

This allows you to subconsciously become familiar with the nature of movement of that instrument at that time. Familiarity does reduce doubt and does reduce information overload.

The markets and timings that I typically trade are:

- Euro (6E) at either the UK open, UK major news releases, US open, US major news releases.
- E-mini Russell (TF) at the US E-mini futures open.

The choice as to which I trade will be made PRIOR to any trading. The other non-traded instrument is removed from my screens during my trading session.

8.2.2 - Minimise Information – Clean Charts

Anything on your charts that is not required for your strategy, or does not act to simplify your analysis, should be removed. It acts as a distraction and increases (even if just slightly) the potential for information overload.

First, remove all miscellaneous items as demonstrated below. (*Your platform may offer different items*).

Remove any indicator labels. They add unnecessary clutter. You should know what indicators are on your screen without having to display labels.



Figure 8.1 - Clean Charts – Remove Miscellaneous Features

Remove any right hand side price scale markers associated with indicators. If you don't use the indicator figure for your strategy, then you don't need to know the value. The only one I keep is the last price.

Remove the grid. You don't need it. It obscures your ability to relate current price movement to historical price movement, through drawing your attention to price relationship with gridlines. It's unnecessary information which just adds to your sense of overload. Removal of the grid surprisingly has quite a large effect in terms of simplification.

Make your screens as clear as possible.

And while we're on it...

Use a clear colour scheme... my preference being a white background. A black background, or any other colour just adds more unnecessary information. Yes... colour is information.

Next... remove any unnecessary indicators. By unnecessary, I mean those that are not either (a) a formal part of your strategy or (b) added to simplify your visual interpretation of information (we'll see an example of that later).

So... anything you may be just experimenting with... do that in the sim after session. Not while trading.

For any indicators which will remain on your price chart, lighten the colour so that they partially disappear into the background. This ensures that focus remains on price and any indicator information is less of a distraction, thereby assisting in minimising information overload. I find a light grey works well.



We'll get to the exact indicators that I use shortly (slight variation from YTC PAT). But if there is something else you've added... and you don't really use it... get rid of it.

The result is a nice clean chart... just the vital information...



Figure 8.3 - Clean Chart – Just The Vital Information

8.2.3 - Minimise Information – Candles vs OHLC bars

There has been a big move in recent years away from price bars towards candles. While both are derived from the same information (open, high, low and close), it's commonly stated that the candles provide more visual information, making it easier to perceive the shifting forces of supply and demand.

I generally tend to agree and recommend people become familiar with candles and common candlestick patterns.

However... the fact still remains that they are both derived from the same information. There's nothing new in candles that is not present in OHLC price bars. It's just a different visual representation of this information.

With minimal experience using candles, you should be able to *see the shifting sentiment* just as easily with OHLC price bars.

And the beauty of price bars is that they're cleaner.

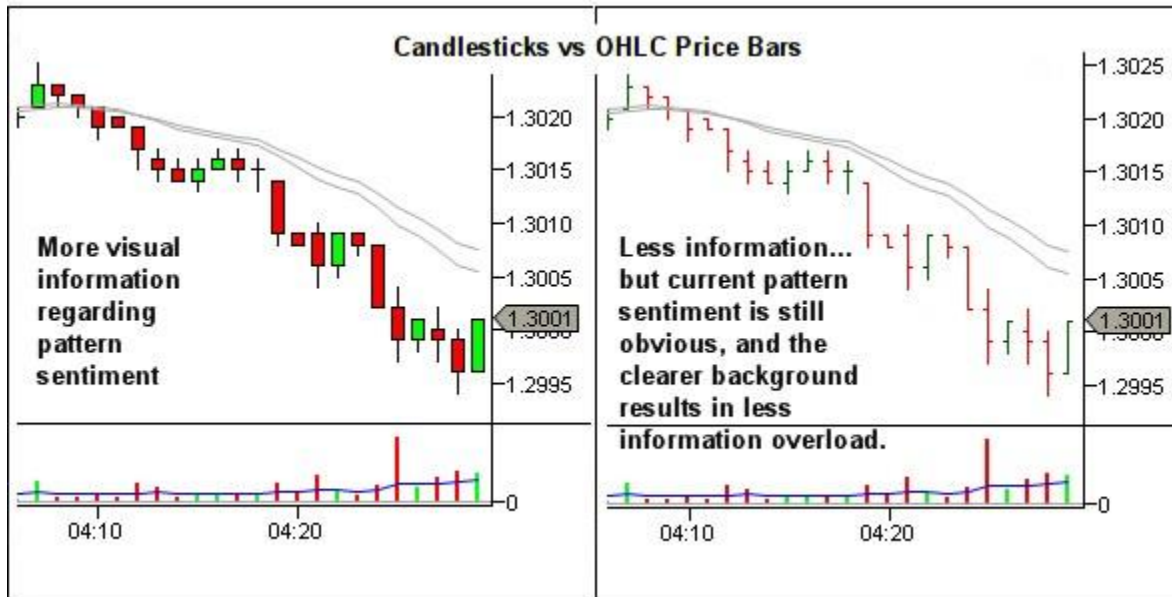


Figure 8.4 - Clean Chart – Candlesticks vs OHLC Price Bars

Experiment with both. I find the optimal setup for myself is candlesticks for the higher and trading timeframes, with the cleaner OHLC price bars for the lower timeframe (especially when the lower timeframe uses a range bar chart).

Less clutter and more space equals simplicity.

So... this configuration will be used throughout the remainder of this document, when displaying trading and lower timeframe charts (trading timeframe = candles; lower timeframe = OHLC price bars).

8.2.4 – Simpler Routines - During-Session

Chapter 13 of YTC PAT outlined your Procedures Manual. This included a section documenting quite comprehensive step-by-step procedures for use during your trading session, covering ongoing analysis as well as trade entry, management and exit.

The intent with YTC PAT was that these procedures should only be referred to during trading until such time as you were familiar with them and could follow them without constant reference.

This is not possible in the quicker scalping timeframes.

During-session routines **MUST** be internalised.

Your trading routines MUST be an automatic process executed with clear purpose and intent.

That being said, if you're like me you may still prefer something to prompt and guide you through daily operations. If that's the case then consider making use of the Action Affirmation (AA) Statements developed in chapter 10 of YTC PAT and also documented within your Procedures Manual.

These are effectively a summarised routine for use during your session.

The following page contains the original YTC PAT AA Statements. The next page after that contains the YTC Scalper variation that I'm using with the scalping channel (still to come).

Adapt as required for any personal changes to the way you trade the strategy and post on the wall beside your trading screens.

Any bracketed text is not verbalised, but is documented in the statement as a reminder of the context.

Repeating these statements to myself ensures my mind is focused on what's important during each critical stage of the analysis and trading process. My actions will therefore be less influenced by doubt, second-guessing or any other negative distracters.

And by internalising these statements, or referring to them on the wall beside my trading screens, I am not required to operate with constant reference to a detailed Procedures Manual.

Internalised and simplified procedures reduce information overload... but only if you understand the actions required for each process step (which should be clear from the YTC PAT document).

Action Affirmation Statements – YTC Price Action Trader

Analysis

- What is the trend?
- Where is the strength?
- Where is the weakness?
- Where is the next opportunity?
- Patience

Focus

- Breathing (slow and deep)
- Mind clear, body relaxed
- Trust (myself and my strategy)
- Focus

Entry

- Confirm the weakness (against S/R or on PB)
- Who's trapped?
- Where will they exit?
- Trust (myself and my strategy)
- Fade the weakness! Spring the trap!
- Strike!

Regroup

- Confirm flat
- Clear my mind
- Review the trade
- Review any error
- Accept it
- Forget it
- Focus

Management

- Patience
- Trust (myself and my strategy)
- Where's the strength?
- Where's the weakness?
- Hold while the premise remains valid

Figure 8.5 - Action Affirmation Statements – YTC Price Action Trader

Action Affirmation Statements – YTC Scalper

Analysis

- Where is the trend?
- Where is the strength?
- Where is the weakness?
- Where is the channel flow?
- Where is the next opportunity?
- Patience

Focus

- Breathing (slow and deep)
- Mind clear, body relaxed
- Trust (myself and my strategy)
- Enjoy the uncertainty
- Focus

Entry

- Place the order (pending limit order)
- Trust (myself and my strategy)
- Enjoy the uncertainty
- Where's the strength?
- Where's the weakness?
- Patience (hold the order while the premise remains valid)

Regroup

- Confirm flat
- Clear my mind
- Accept results
- Forget results
- Enjoy the uncertainty
- Focus

Management

- Position my exits
- Trust (myself and my strategy)
- Enjoy the uncertainty
- Where's the strength?
- Where's the weakness?
- Patience (hold the position while the premise remains valid)

Figure 8.6 - Action Affirmation Statements – YTC Scalper

Side note: In the Action Affirmation Statements you may have noticed the often repeated statement, “Enjoy the uncertainty”. This has two purposes. Firstly, it reduces negative emotion and pressure; and secondly it reminds me that I don’t have to know what is happening next. This is an exciting game where I just have to join the market flow at wholesale levels and then manage whatever comes.

Remember our discussion on trust?

- Trust yourself.
- Trust the strategy.
- Trust the edge.
- And enjoy your trading.

8.2.5 - Tracking Results

I only log four entries in my trading journal spreadsheet each day:

- Part One With-Flow
- Part Two With-Flow
- Part One Counter-Flow
- Part Two Counter-Flow

Spreadsheet entries are a total combining all trades within that session that fit within that category.

(The terms with-flow and counter-flow will make more sense by the end of this chapter.)

In addition I have further reduced emphasis on any single day’s results, through monitoring P&L statistics for a rolling 20-session period. The beauty of this is that it should almost always be positive. If not... something is going wrong and I need to look deeper into my performance.

This is great for ensuring a positive mindset as well.

So while my 70/90/100 goals still remain, the 100% of profitable months is replaced with 100% of “rolling 20-session periods”.

What is a rolling 20-session period? It’s just the last 20 trading sessions. So after a new session, add the four entries for that session (as above) and remove the four from 21 sessions ago.

NOTE: This does not mean we don’t review individual trades post-session. There is great value in learning from individual trades. As you trade, record in your log the time of any trades which

were particularly well managed, or poorly managed, which should be the subject of further review post-session

8.2.6 – Simpler Execution - Chart Trading vs DOM

I've moved my order entry and management from the DOM to the chart.

It's a much cleaner workspace with the DOM removed, and there's less mental effort required to see the relationship between order levels and price bars and patterns.

Less mental effort = more mental processing power available for decision making.

Experiment with this to see if you find the same.

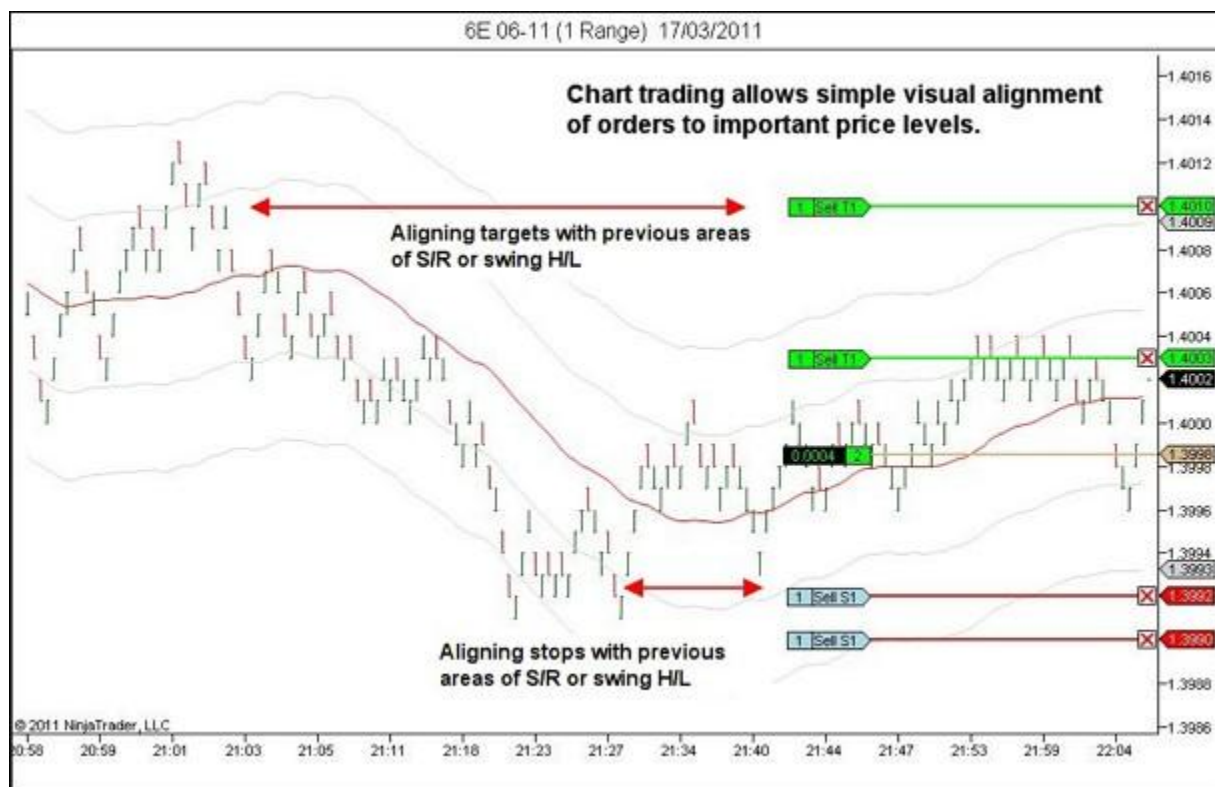


Figure 8.7 - Chart Trading

8.3 – Simplicity – From a Strategy Perspective

Finally... let's get to strategy.

8.3.1 – Concept

The concept behind the YTC Scalper is as follows:

1. We still use the YTC PAT analysis in order to identify our bias for future-trend direction.
2. Within that future path, we simply scalp the channel flow as price moves from wholesale to retail levels within the scalping channel.

Let me explain.

8.3.2 - Analysis Remains the Same

YTC PAT allows us to analyse price and determine a likely bias for future-trend.

We then maintain our assessment of future-trend, through ongoing bar-by-bar analysis, as each new price bar either confirms our current bias or provides reason to reassess.



Figure 8.8 - The YTC PAT Approach to Analysis

YTC Scalper analysis is the same to this point, although using the 5-minute chart for higher timeframe and 1-minute chart for lower timeframe.



Figure 8.9 - The YTC Scalper Approach to Analysis - 1

Another example:

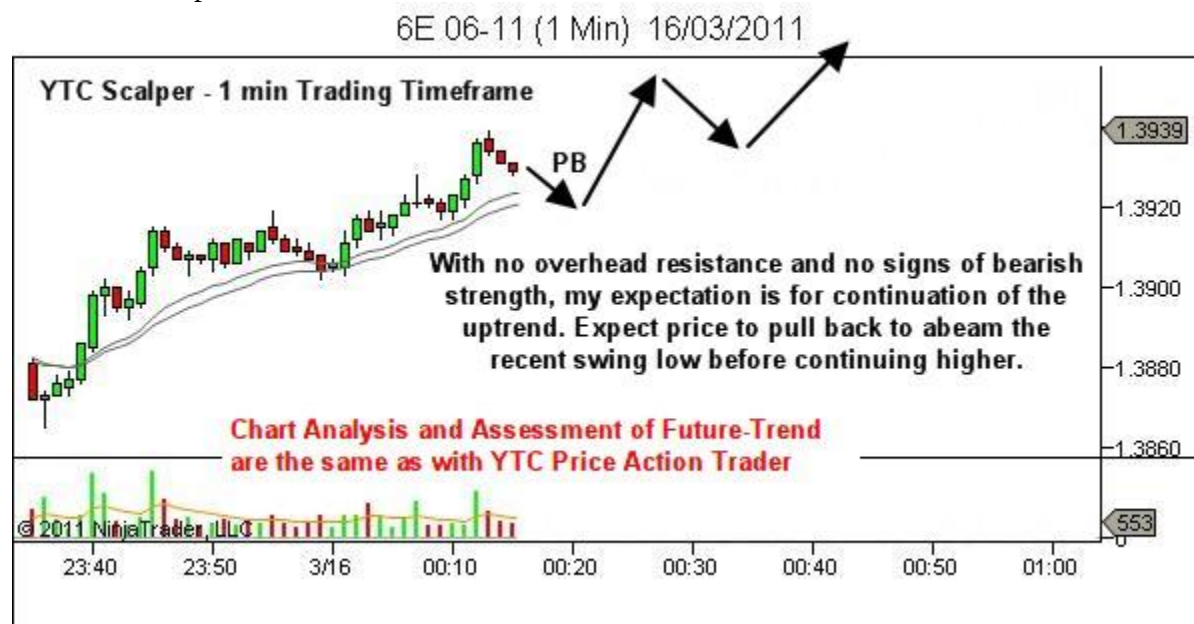


Figure 8.10 - The YTC Scalper Approach to Analysis - 2

The ONLY difference...

You might observe that I now have two EMA lines on the trading timeframe. In addition to the original EMA (20) I have added an EMA (15).

The only time indicators are useful is when they provide new information that can't be gained through price, or when they simplify your reading of price analysis. The first is obviously not the case here. The additional EMA exists for simplification purposes.

I went to great lengths in the YTC PAT to provide you with a price action based assessment of trend, along with reasons why this is superior to an indicator based assessment. This still stands. I haven't changed my mind here.

However the fact is that an EMA cross system such as this provides a simple approximation... provided the market is trending.

Since my aim was simplification of the strategy, the second EMA was added to provide a very simple visual quick assessment of trend. They are not my definitive trend definition – just a 90% solution.

When the market is sideways, they're obviously useless and I'll simply ignore them and make my assessment based upon price action. However when the market is trending, they provide a good confirmation of continuation of the trend, and I don't need to make any more assessments until such time as they flatten or cross.

I know some people will not be happy with this. That's fine. To be honest it's a very minor change. The primary means of simplification are outlined in the next section. Try the additional EMA. Use it if you like it. Remove it if you don't. Remember though... when in doubt about the trend ALWAYS refer back to the price action method of trend assessment. Then, if still in doubt make a subjective assessment, as discussed in YTC PAT (eg. if it looks up then it is up).

8.3.3 – YTC Scalper Simplification – Part One

YTC Scalper simplification is achieved through:

- a) Reducing the number of setups;
- b) Ensuring easier means of finding the setups; and
- c) Ensuring easier means of entry.

All three were achieved through a slight modification to our market model, and through replacing the lower timeframe with a scalping channel.

Let's first examine this alternate market model and scalping channel, and then return to discuss the ways we use this concept to achieve simplification.

8.3.4 – A Different Market Model

An Alternate Market Model – Channel Flow

All price movement can be defined as price flow back and forth within a channel.

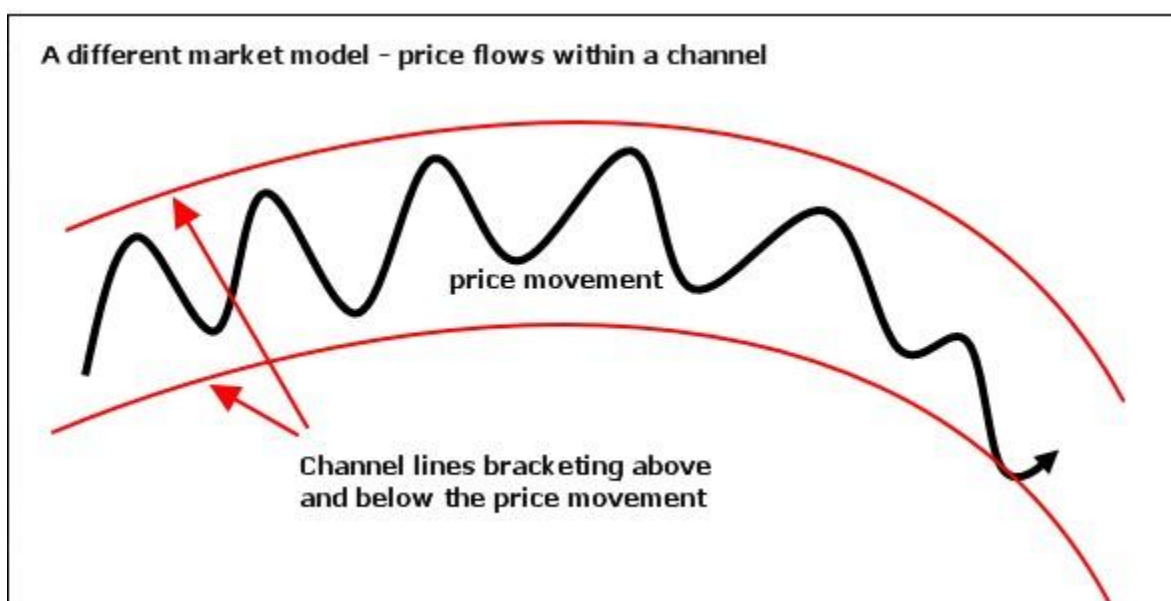


Figure 8.11 - All Price Movement Can Be Contained Within A Channel

We call the direction of channel movement the **channel flow**.

When the channel flow is sloping upward it's considered to be bullish.

When channel flow is sloping downward it's considered to be bearish.

When channel flow is sideward, it's considered to be neutral.

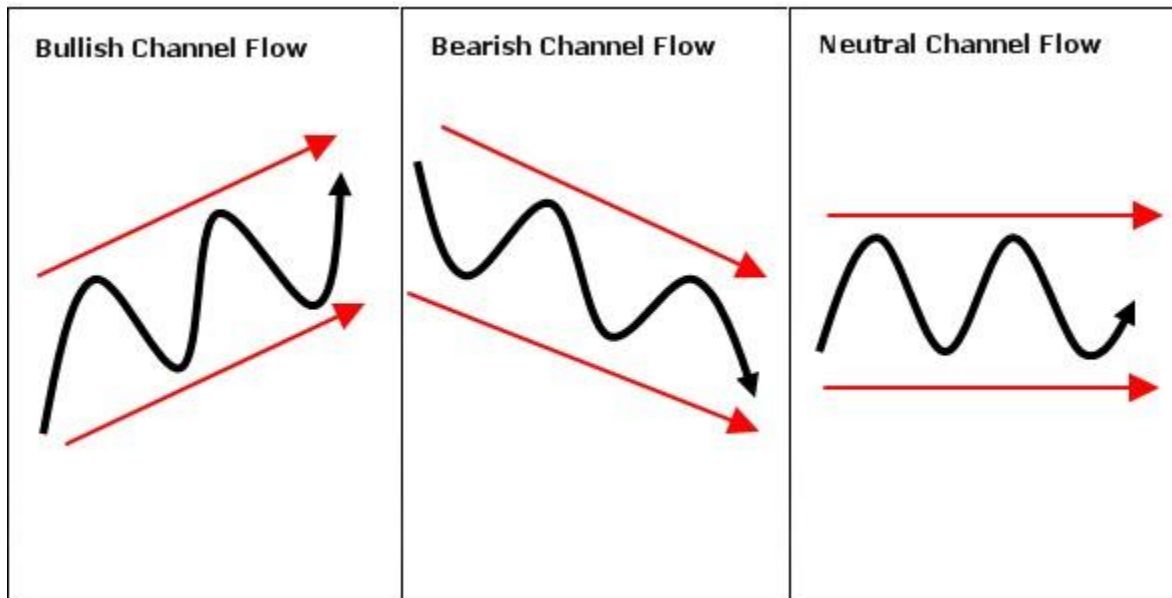


Figure 8.12 - Bullish, Bearish and Neutral Channel Flow

How would you profit using this theoretical channel concept?

Assuming you maintain a correct assessment of future channel flow direction, then you simply enter in the wholesale region and aim to exit in the retail region, holding for larger profits only if potential exists for further movement.

When the channel flow is bullish, wholesale *long* opportunity is found on the pullback to the lower side.

When channel flow is bearish, wholesale *short* opportunity would be found on the pullback to the upper side.

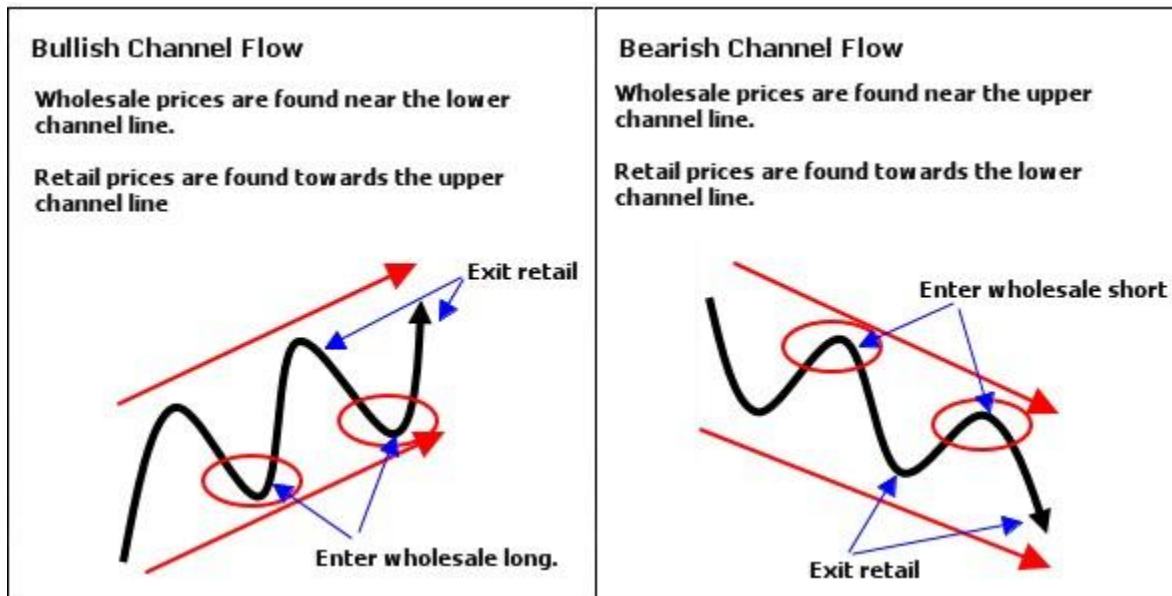


Figure 8.13 - Bullish and Bearish Channel Flow Opportunity

When flow direction changes, wholesale opportunity changes sides.

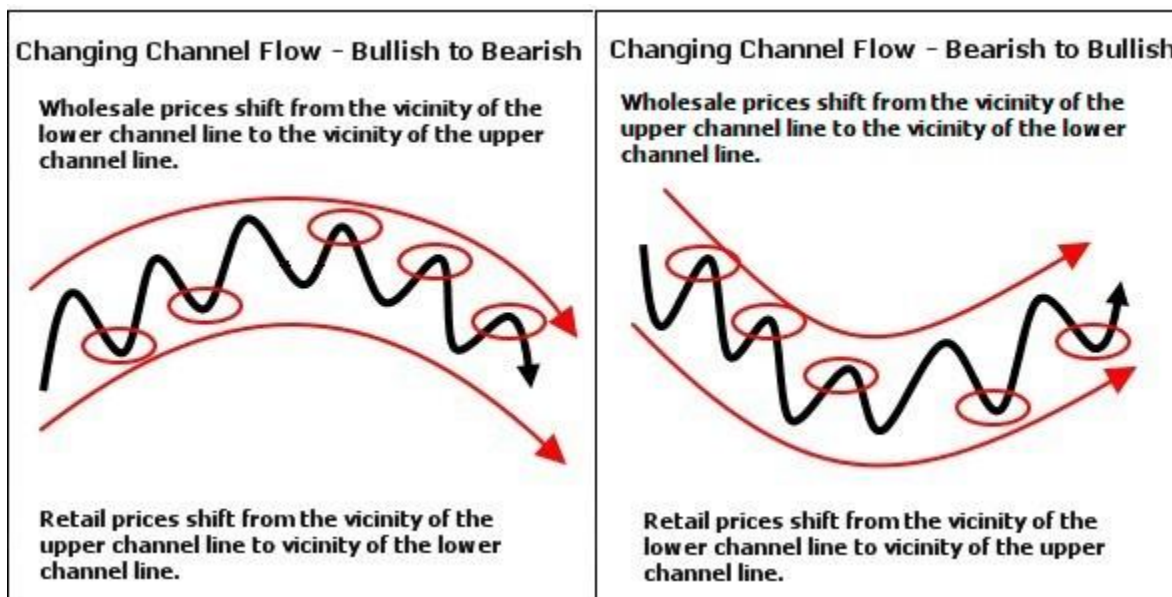


Figure 8.14 - Changing Channel Flow – Bullish to Bearish - Bearish to Bullish

When channel flow is neutral, wholesale opportunity may be found on both sides, or if more conservative then only in the direction of higher timeframe flow.

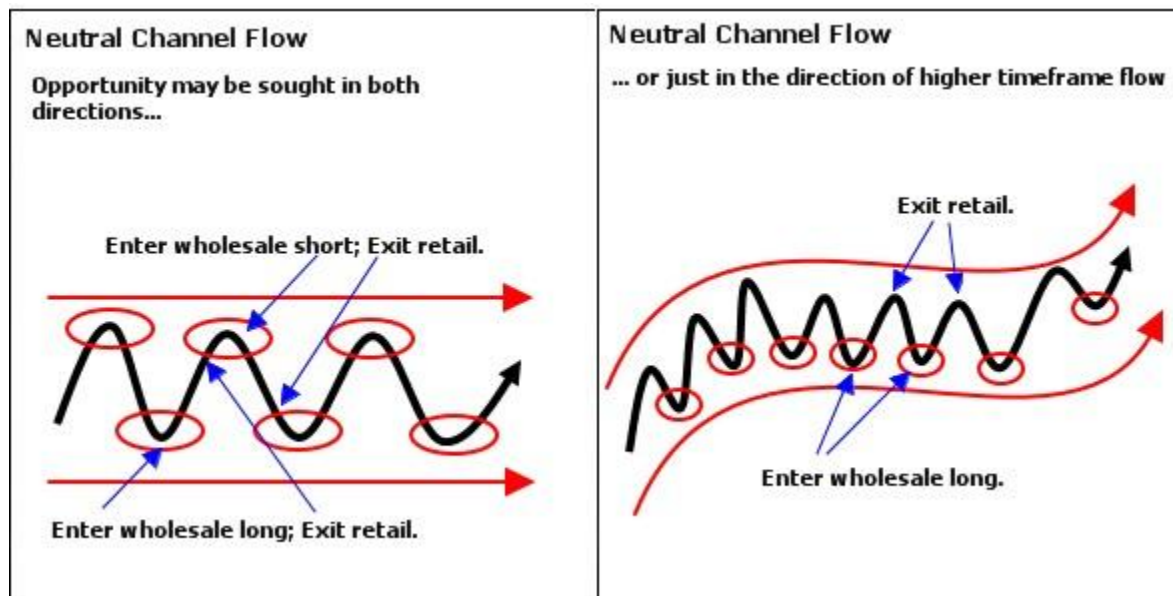


Figure 8.15 - Neutral Channel Flow – Trading Opportunity

Reminder: Refer to the Glossary at the end of this book for my definition of key YTC Scalper terms.

Market price action on ANY timeframe can be defined as flow within a channel environment.

It's a different model to the YTC PAT model of trends within an S/R framework, but equally as valid.

Let's examine some price action to confirm this statement. The following is a chart showing standard price action based analysis.

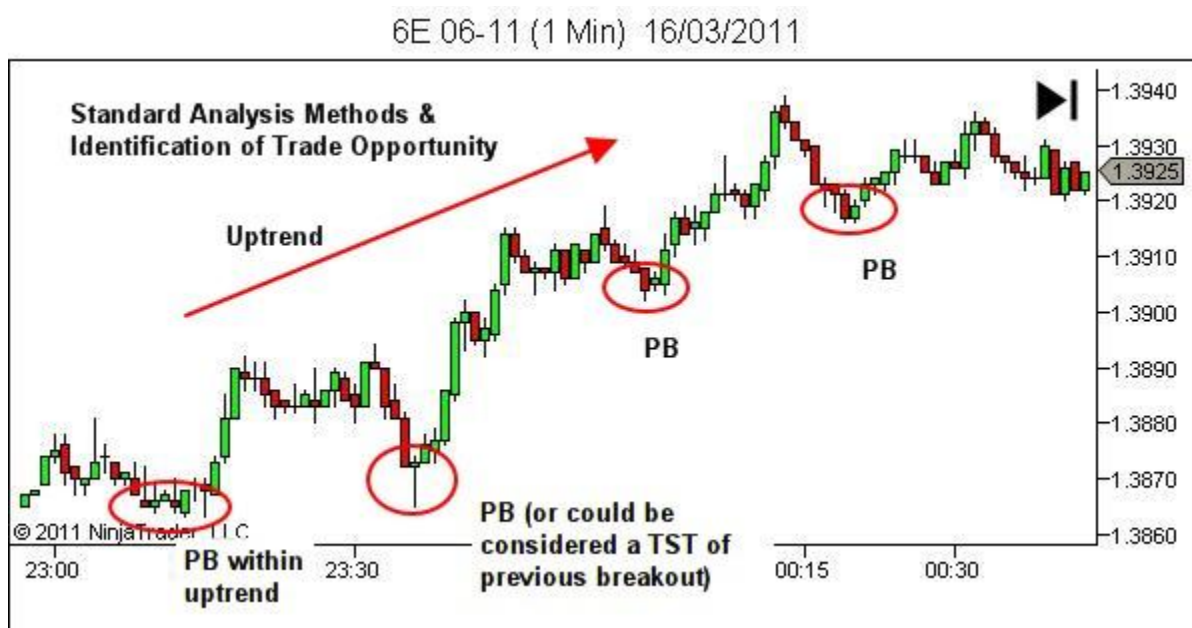


Figure 8.16 - Price Action Analysis

We now see this same chart represented via the channel model of market movement.

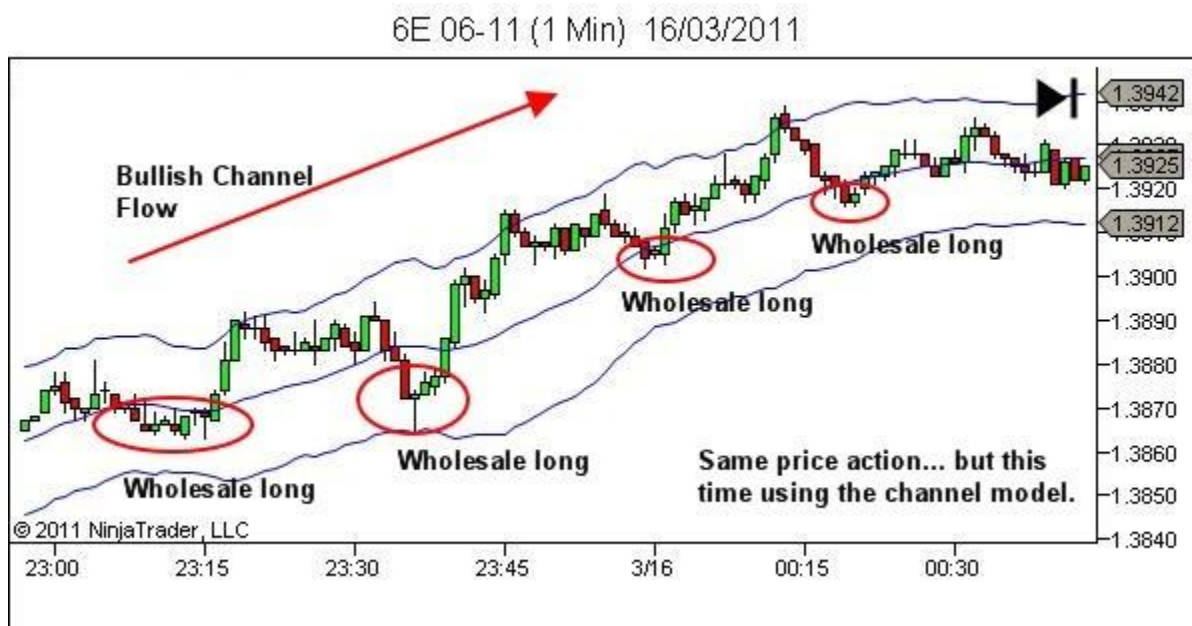


Figure 8.17 - Price Represented As Channel Flow

The YTC Scalper Market Model

Rather than discard our previous YTC PAT model though, I find the two models for price movement integrate exceptionally well.

Price movement is modeled as channel flow occurring within an S/R framework.

- In YTC PAT, analysis of the trading timeframe trend within a higher timeframe S/R framework is done in order to determine the likely future trend direction.
- In YTC Scalper, analysis of the trading timeframe trend within a higher timeframe S/R framework is done in order to determine the likely future channel flow.

Same process – same result – but we visualise the output as channel flow.

- Provided our analysis successfully identifies the likely future channel flow, then we can simply scalp back and forth within the scalping channel from wholesale to retail.



Figure 8.18 - Integration of Both Market Models

In the above chart we see price having broken an area of higher timeframe (5 min) support and holding lower prices. In accordance with the first principle we now expect continuation

downwards towards the next area of support, in this case three support levels in close proximity comprising one area of support.

We will now seek wholesale short entries within our lower timeframe scalping channel down to the position of the support area.

When price is at the area of support, we will reassess future opportunity depending on the strength or weakness shown on approach to the support area.

8.3.5 – Building the Scalping Channel

The YTC Scalper scalping channel looks slightly different to the ones demonstrated earlier (which just demonstrated concept). So let's discuss "how to actually implement this concept".

The scalping channel is built on the lower timeframe using a 1-range chart.

Price movement is overlaid with a channel as follows:

- Keltner Channels (35,4)
 - Period 35, Offset Multiplier 4, forming the centreline and the inner channel lines
- Keltner Channels (35,8)
 - Period 35, Offset Multiplier 8, forming the centreline and the outer channel lines

NOTE: I use the Ninja Trader version of Keltner Channels in which the centerline is $SMA(period)$ and the upper and lower channel lines are offset up and down by the following amount: $(offset\ multiplier \times SMA(H-L, period))$

There are however some variations in formula. If your platform calculates the Keltner Channel by a different formula then you may have a slightly different result. Usually the result will be comparable. If not, adjust your parameters as required to fit price as displayed in the following chart examples.

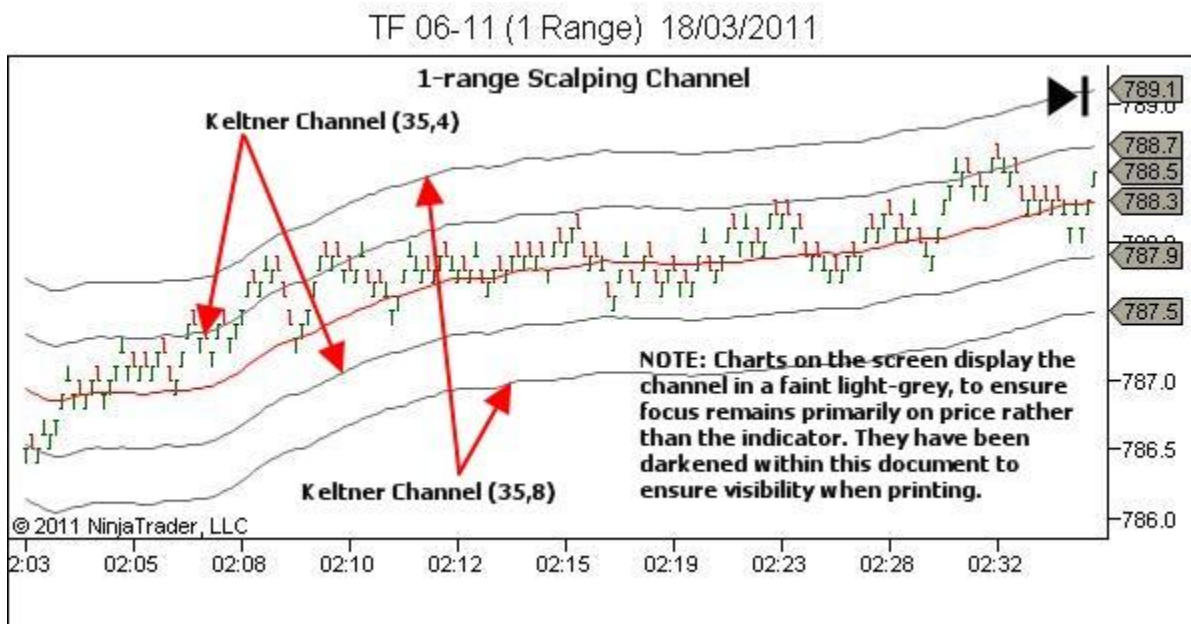


Figure 8.19 - Building the Scalping Channel

The note on the chart is important: Charts on my trading screen have all indicators displayed in a very faint grey. They have been darkened for this document simply to ensure they are visible when printing. Please ensure they are faint on your charts as well in order to maintain maximum focus on price. This applies to the EMAs on the trading timeframe and the channel on the lower timeframe.

Let's define the lines and regions within the scalping channel.

As shown in the following chart, the lines on the scalping channel are defined in the direction of future channel flow as:

- 0-line, $\frac{1}{4}$ -line, $\frac{1}{2}$ -line, $\frac{3}{4}$ -line, 1-line

The regions are defined in the direction of channel flow as:

- Extreme wholesale (WS) – beyond the 0-line
- Major wholesale (WS) – between the 0-line and the $\frac{1}{4}$ -line
- Wholesale (WS) – between the $\frac{1}{4}$ -line and the $\frac{1}{2}$ -line
- Retail (RT) – between the $\frac{1}{2}$ -line and the $\frac{3}{4}$ -line
- Major Retail (RT) – between the $\frac{3}{4}$ -line and the 1-line
- Extreme Retail (RT) – beyond the 1-line

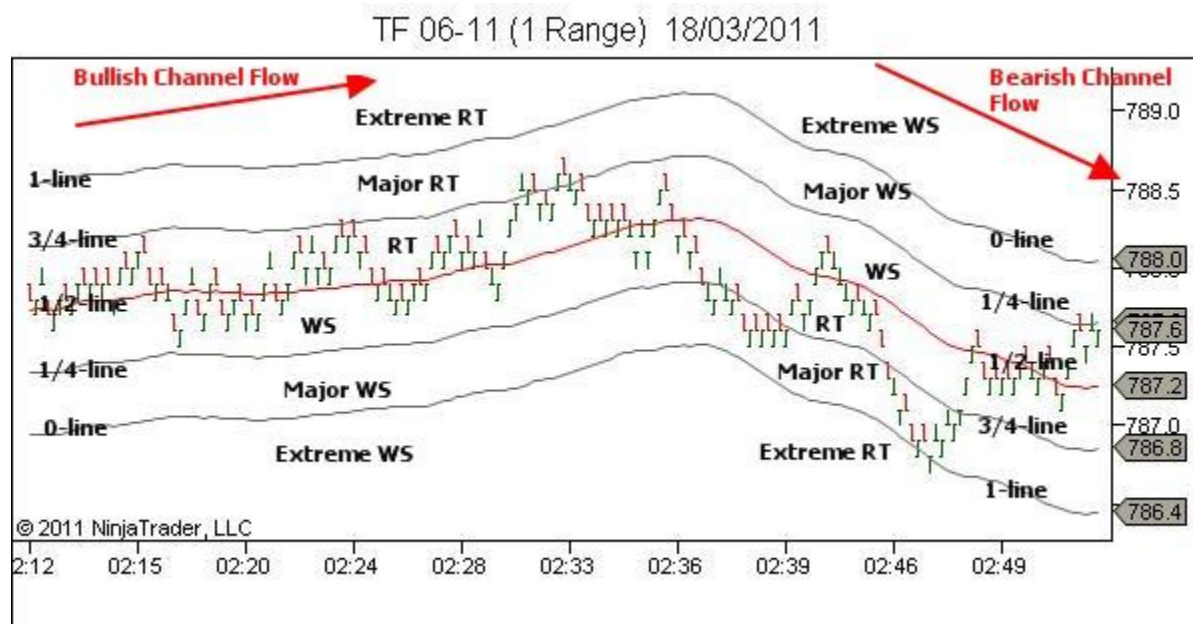


Figure 8.20 - Shifting Definitions with Changing Channel Flow

Don't get too caught up in the names. In essence, there are only wholesale and retail prices. The region names are just different ways to describe the degree of wholesale or retail.

So the following regions are considered to comprise wholesale prices, of increasing degree... wholesale, major wholesale, and extreme wholesale.

And the following regions are considered to comprise retail prices, of increasing degree... retail, major retail, and extreme retail.

Note how the lines and regions shift when the channel flow shifts from bullish to bearish.

When the channel flow is considered neutral, I consider the definitions to shift with shifting price, as displayed in the following chart:

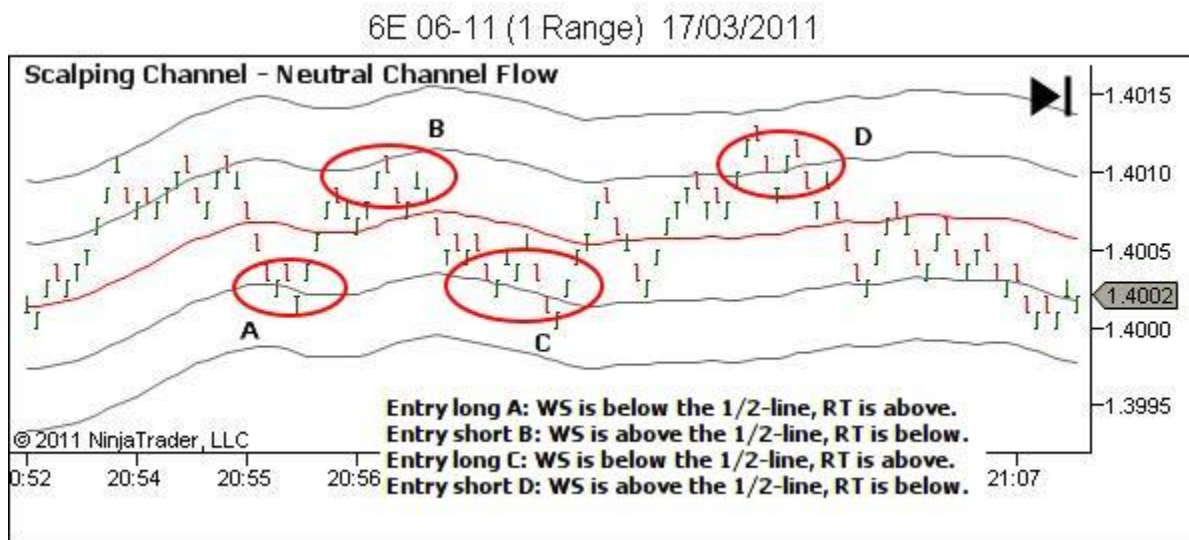


Figure 8.21 - Shifting Definitions within Neutral Channel Flow

So the definitions for the lines and the regions shift depending on whichever direction I see trade opportunity.

NOTE: When defining a channel as having neutral channel flow... the channel will rarely be comprised of perfectly horizontal lines; rather they will cycle between upsloping and downsloping lines. The decision to classify flow as neutral is largely a discretionary decision, based upon price action being in a narrow sideways rangebound market, with no expectation of breakout. In other words, our one minute bias is neutral indicating likely future channel flow being neutral, despite any small up and down movement of the channel.

8.3.6 - YTC Scalper Simplification - Part Two

Having defined our slightly varied market model – channel flow within our S/R framework – and defined how we will display the channel on our lower timeframe chart, let's now return to our earlier discussion and see exactly how this provides simplification.

From earlier... YTC Scalper simplification is achieved through:

- a) Reducing the number of setups;
- b) Ensuring easier means of finding the setups; and
- c) Ensuring easier means of entry.

We'll examine each of these means of simplification, to see how we achieve them through use of the Scalping Channel.

Reducing the number of setups.

Although my 1-minute analysis still identifies key YTC PAT trading areas (PB, CPB, TST, BOF & BPB) as I determine future channel flow direction, I no longer identify them as setups.

Trading timeframe analysis identifies future channel flow, and trade opportunity is simply a scalp within the scalping channel, from wholesale to retail, whenever that presents itself.

Setups are either of the following – a scalp entry in the direction of current channel flow (with-flow / WF), or an entry counter to current channel flow (counter-flow / CF).

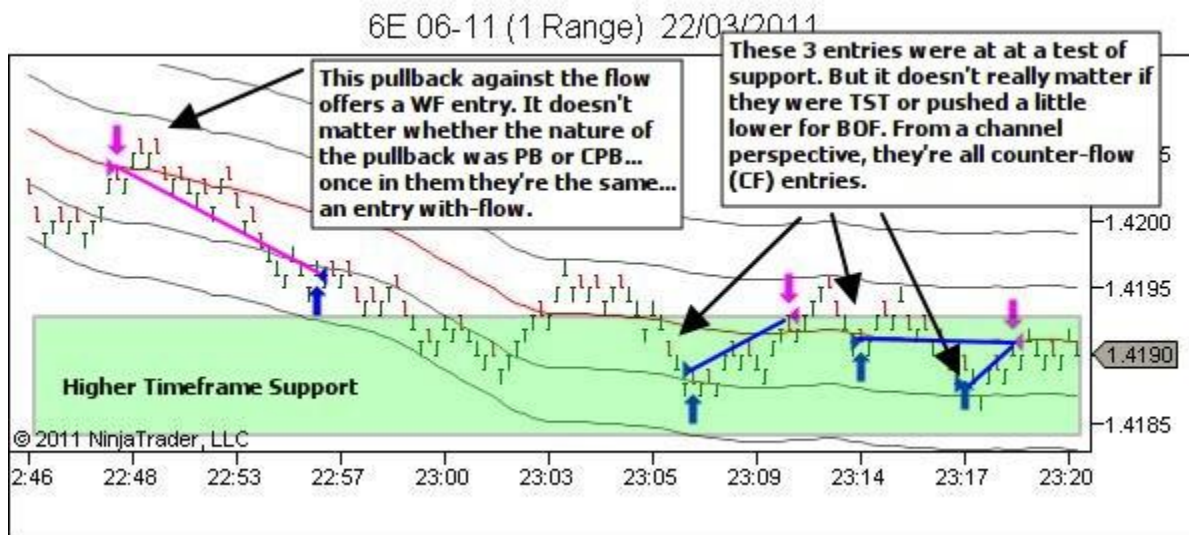


Figure 8.22 - Five Setups (PB, CPB, TST, BOF & BPB) Become Two (WF & CF)

Within a scalping channel, if channel flow is bullish and expected to continue bullish, I take a WF wholesale entry. I don't care if it's a PB or CPB or BPB. From a channel perspective, they all look the same at entry. And once in a trade it doesn't matter what you call it – it's now a whole new ballgame (trade management).

This is MUCH simpler – only two setups – **with-flow (WF)** and **counter-flow (CF)**. That's it.

Ensuring easier means of finding the setups

This should be obvious.

- Identify current channel flow and expected future channel flow.
- Identify a price movement against the expected future channel flow.
- Confirm our analysis process does not expect a reversal, or deeper than usual pullback.
- Enter in the wholesale region.

Simple.



Figure 8.23 - Setup Simplicity

Ensuring easier means of entry.

Entry is based upon a one primary concept - imperfection

Imperfection

Think for a second about the nature of a 1-range chart. The range of each price bar from low to high is only one tick of price movement.

Consider price movement in one direction, say bullish. Price only has to move two ticks from its high point to produce a down bar.

There is VERY little movement required to produce a new bar.

So, if you accept the potential for more “noise” at lower timeframes, you’ll realise that the 1-range timeframe is largely inappropriate for the use of pattern-based triggers, such as we used for lower timeframe entry in YTC PAT.

Any short surge of orderflow, for whatever reason, could be large enough to cause one of our patterns to appear. On such a small timescale though, it is not necessarily an indication of sentiment change.

Sure... sometimes beautiful patterns will present themselves (and they can be traded), but typically I find the majority to be unreliable on this timeframe.

With limited ability to look for patterns... we need to modify our entry approach. Thankfully, the end result also simplifies our trading processes.

At the scalping level, entry is all about areas, not triggers.

We identify a general AREA within which we’re happy to enter, and we aim to enter within that area as best we can.

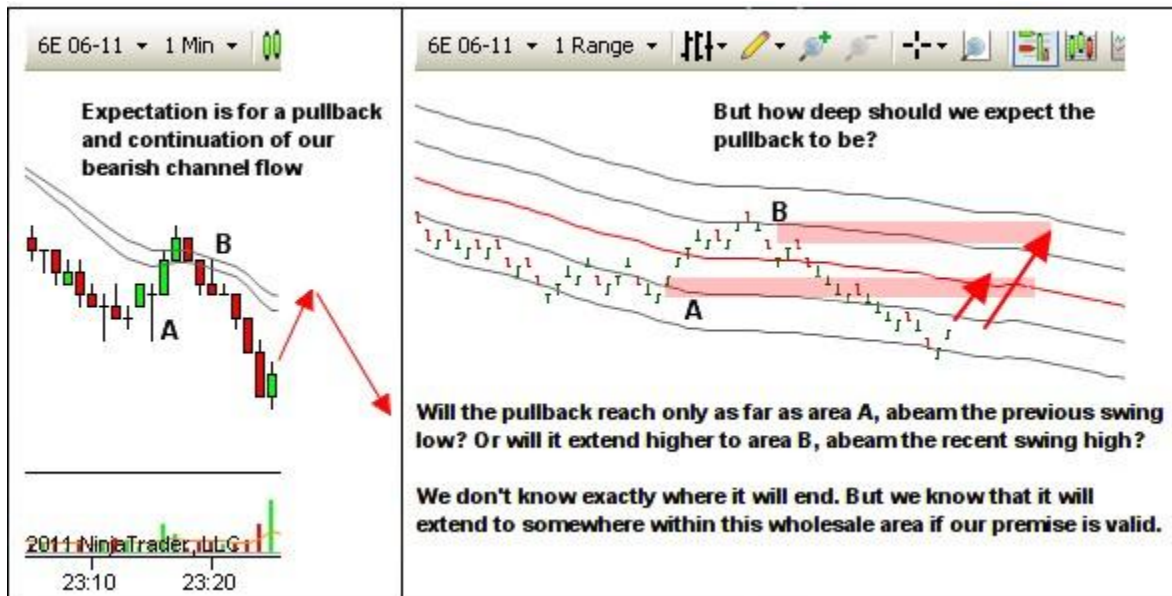


Figure 8.24 - Identifying An Area For Entry - 1

In the chart above, we don't know exactly where the pullback will turn and resume the current downtrend. But we don't have to know the exact location. It's unrealistic to expect to always get the entry to the exact high tick. All we need is a general area in which we wish to enter, and a price level where the premise is invalidated (stop loss).

In this case entry could be expected anywhere in the region A to B. Any pullback beyond B would break our trend structure, requiring reassessment of the expected future channel flow.

Where did price turn? The following chart shows that area A provided sufficient bearish pressure to resume the downtrend (or bearish channel flow). But we can only know that with the benefit of hindsight. In real-time, all we can do is identify the wholesale area between A and B and enter as best we can within that area. (I'll demonstrate how shortly!)



Figure 8.25 - Identifying An Area For Entry - 2

A second example:

In the following example we have a sideways trading range. Price is falling from the upper resistance, but the rally into that resistance was stronger than usual.

Should we expect a long off the top of the lower congestion area (A), or from the lower support area (B)?

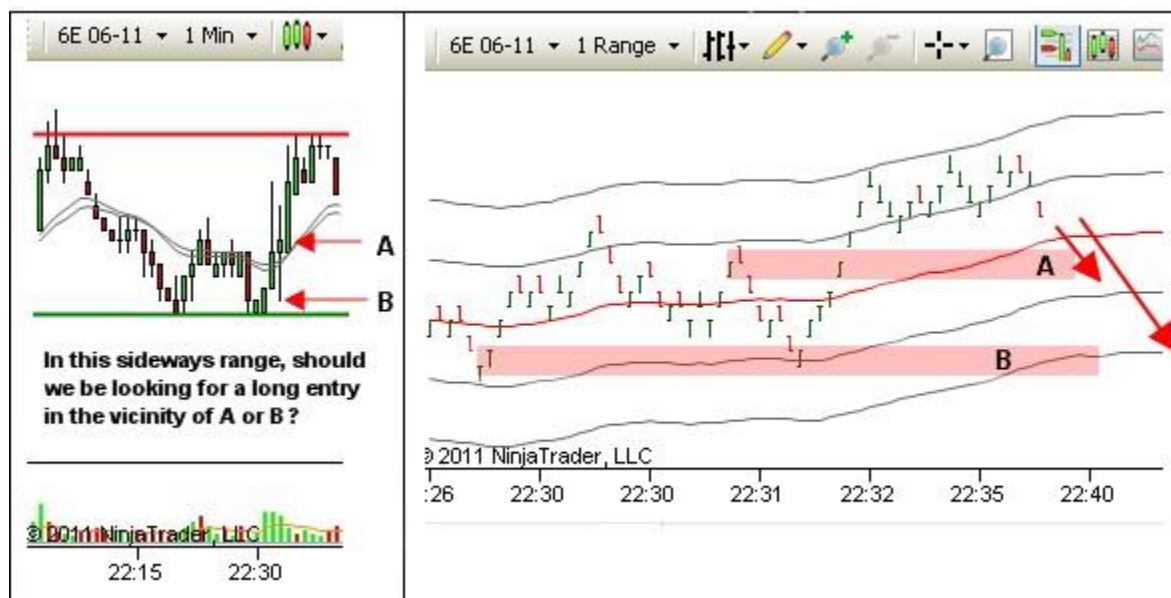


Figure 8.26 - Identifying An Area For Entry - 3

Or should we stop trying to be so precise and just work an entry as best we can within the wholesale region?



Figure 8.27 - Identifying An Area For Entry - 4

At the scalping level, entry is all about areas, not triggers.

We identify a wholesale AREA within which we're happy to enter, and we aim to enter within that area as best we can.

How exactly do we achieve this?

Scaling In

In accepting the principle of imperfection, I've adopted a scaling-in approach, rather than the YTC PAT all-in approach.

I only do this with two parts... you may choose to scale in with more.

This allows for imperfection in entry, rather than precision.

It's borne from the acceptance of the fact that I don't know exactly where price will turn, but I can be reasonably sure of an AREA.

I accept the imperfection, and adjust my trading accordingly, rather than seeking precision which is unlikely to be consistently accurate. After all... is it reasonable to accept that you'll get the exact high or low tick 100% of the time? No. So, given that you've just accepted imperfection is likely, why not adopt an entry approach which works with this concept?

The following section will provide demonstration of my scale-in approach.

Choosing Entry Levels

How exactly do I pick my scale-in prices?

I'll give you two options. I use both, depending on my *feel* for price action movement. The first is more *valid* from a price action perspective. The second is *easier* but has greater potential for failure if your assessment of environment and bias is inaccurate.

Option 1 – Price Action Based Entry

The first option is a price action based approach to entry.

In this approach, we place our entry orders at areas of expected orderflow. So, we look to the left to find areas of previous swing high / low or congestion.

Let's look at an example, using the previous setup from Figure 8.26, reproduced below.

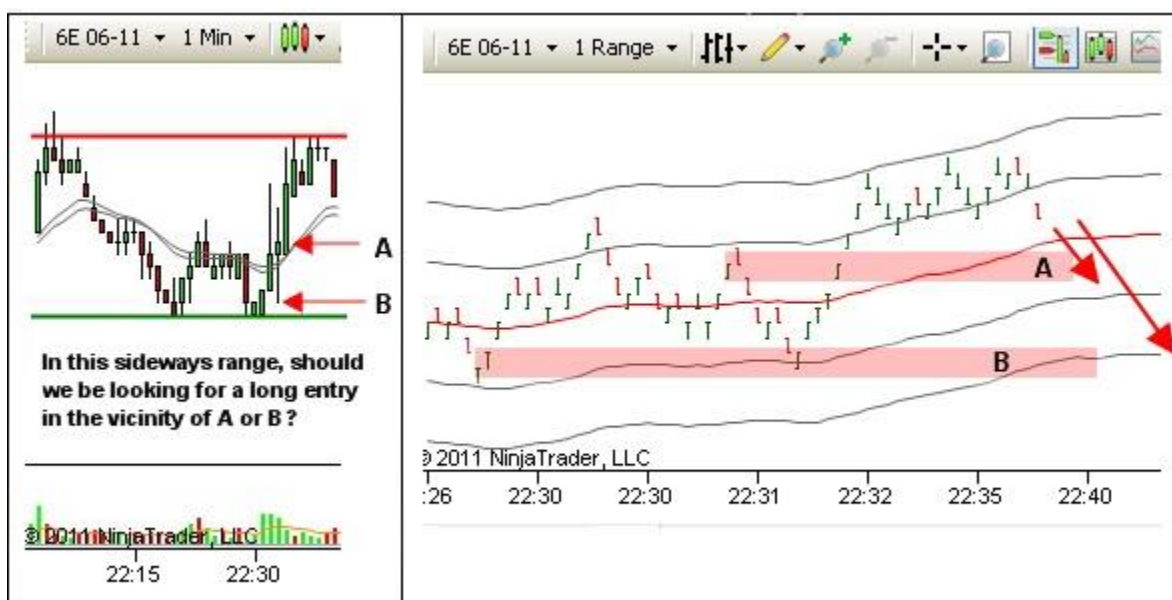


Figure 8.28 - Scaling in Via Price Action - 1

In this case we would place limit orders for entry long in the vicinity of both A and B, triggering entry at 1.4122 and 1.4118, as shown below by the first blue arrow and second blue arrow respectively. The stop would be held below recent swing lows (1.4113). Targets would be in the vicinity of the resistance area, at 1.4127. The first part was exited at target (first magenta arrow). The second part was held till the first 1-range reversal. It wasn't held longer due to expectation of resistance holding.

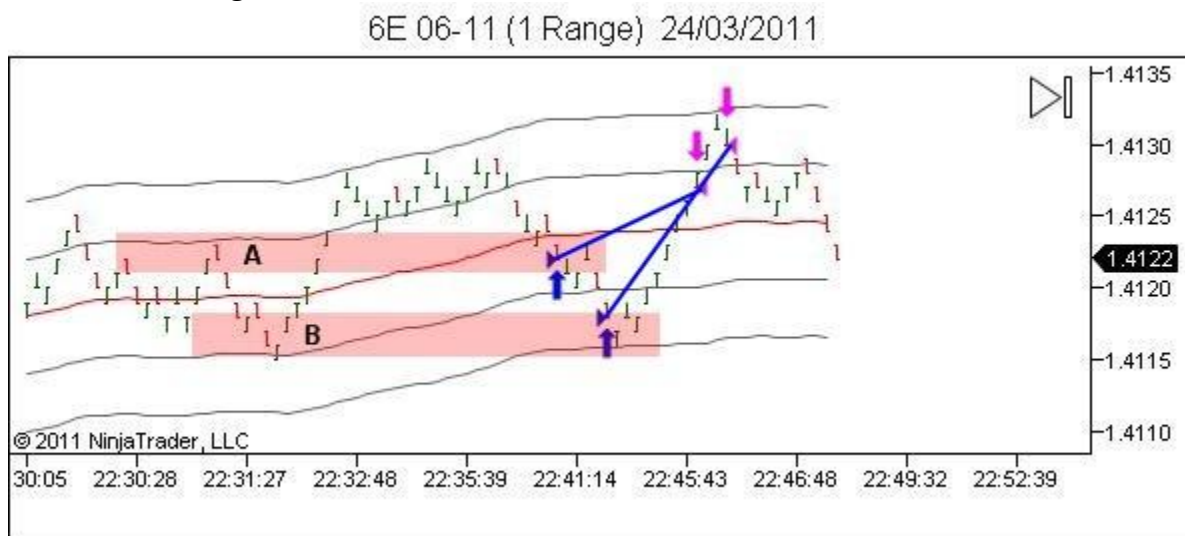


Figure 8.29 - Scaling in Via Price Action - 2

In determining our entry levels, discretion is always applied. Entry orders are only placed when the market environment is conducive to entry and our price action analysis does not suggest the possibility of a reversal or deeper than usual pullback (against bias).

If we have doubts, then we should either pass on the trade altogether, or await further evidence such as price encountering opposing orderflow and stalling or reversing.

Caution though: confirmation increases risk. Don't demand too much reversal before entering. And don't chase price into retail zones.

One risk with scaling in is of course that the second part doesn't fill. This is demonstrated below, where we revisit the previous example show in Figures 8.24 and 8.25. For the first trade, limit entry orders were placed at 1.4106, the start of the wholesale region which also coincided with a pullback to area A, and 1.4110 which coincided with a pullback to area B. Part one only was filled (first magenta arrow), offering a +5 tick scalp down to the lows.

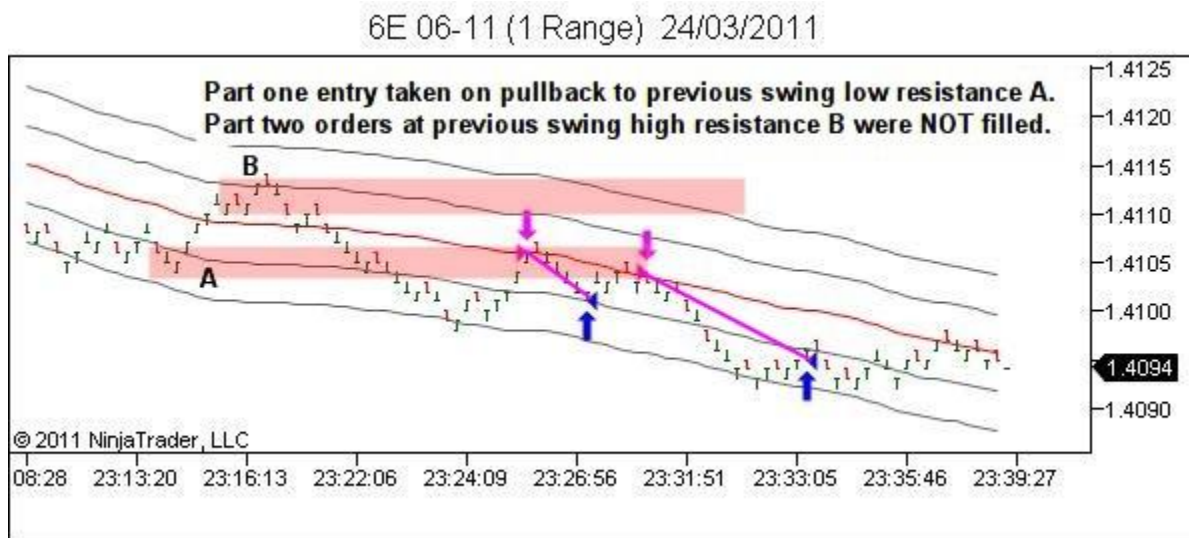


Figure 8.30 - Part Two Entry Orders Not Filled

A re-entry was taken (trade 2), filling part one at 1.4104 (second magenta arrow). Once again the part two order at 1.4109 was not filled.

We'll talk more about this in the trade management section.

Option 2 - Semi-Automatic Entry

The second option is what I call a semi-automatic approach to entry.

This is the best option in terms of *simplicity*. If you find that you hesitate to choose the appropriate price action based entry levels, or have a habit of always being too conservative in choosing these levels (always choosing levels too wholesale resulting in never getting filled for winners but catching every loser)... then this is the entry method for you.

It's not fully automatic... that would be always blindly placing limit orders at the same position within the channel. For example, always placing an entry limit order at the $\frac{1}{2}$ -line, and a second at the $\frac{1}{4}$ -line, with the stop at the 0-line.

That 'fully automatic' approach will work exceptionally well when the market environment is suited to these entry levels, such as in a steady trending environment.

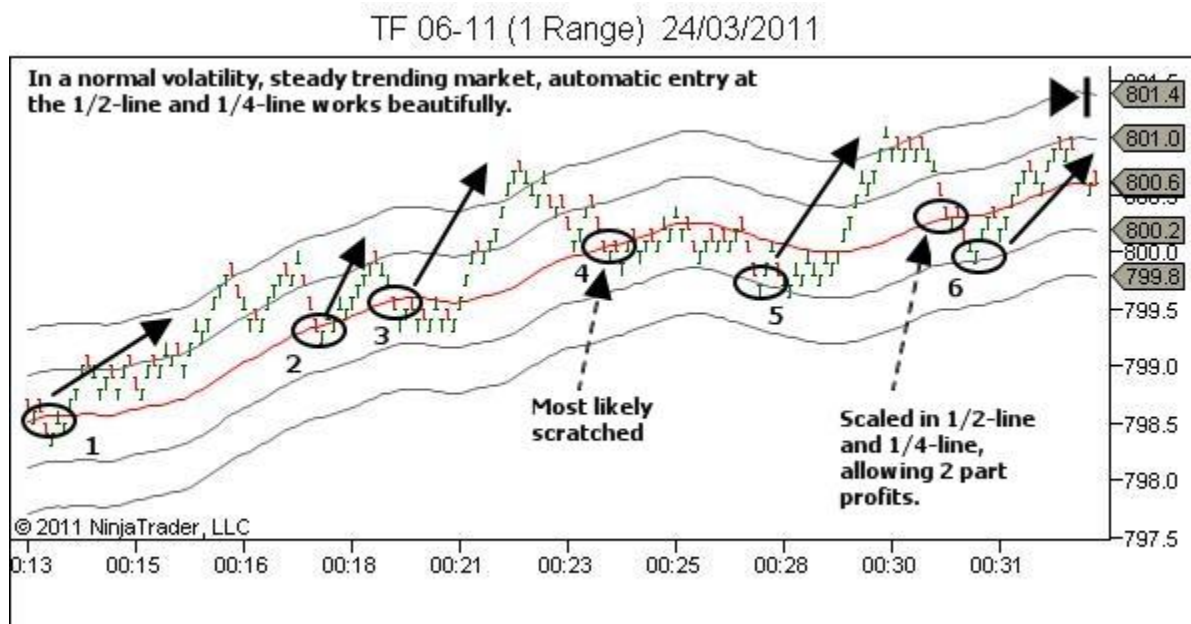


Figure 8.31 - Fully Automatic Entry – Suitable Environment

This is demonstrated in the chart above, where in a steady state upwards trend of normal volatility we don't ever expect pullbacks to reach the extreme-wholesale region. If they did, it's likely that the market environment has changed. So, we can simply place our pullback entry orders at the $\frac{1}{2}$ -line and $\frac{1}{4}$ -line. This typically places them in the vicinity of previous areas of stall or pullback, so they also work well from a price action perspective. Stops would be placed

below the channel 0-line. In this example, the first three trades only filled part one, but all offered great scalp profits. Trade 4 filled part one only, and while you may have held till the part two fill (trade 5), I think most people would have scratched during the extended grind sideways. Trade 5 fills nicely at the $\frac{1}{4}$ -line, for an excellent profit. Trade 6 fills both parts one and two, allowing both the opportunity to profit.

However, this form of fully-automatic entry will underperform when the environment is not suited to this approach, such as via a market with more volatile (wider than usual) price swings. In this environment, it might be reasonable to expect that price will move between the 0-line and the 1-line, at times even projecting slightly into extreme-wholesale and extreme-retail levels. This is demonstrated below, where the slightly wider swinging Euro trend consistently stopped out a simplistic approach of always entering at the $\frac{1}{2}$ -line and $\frac{1}{4}$ -line.

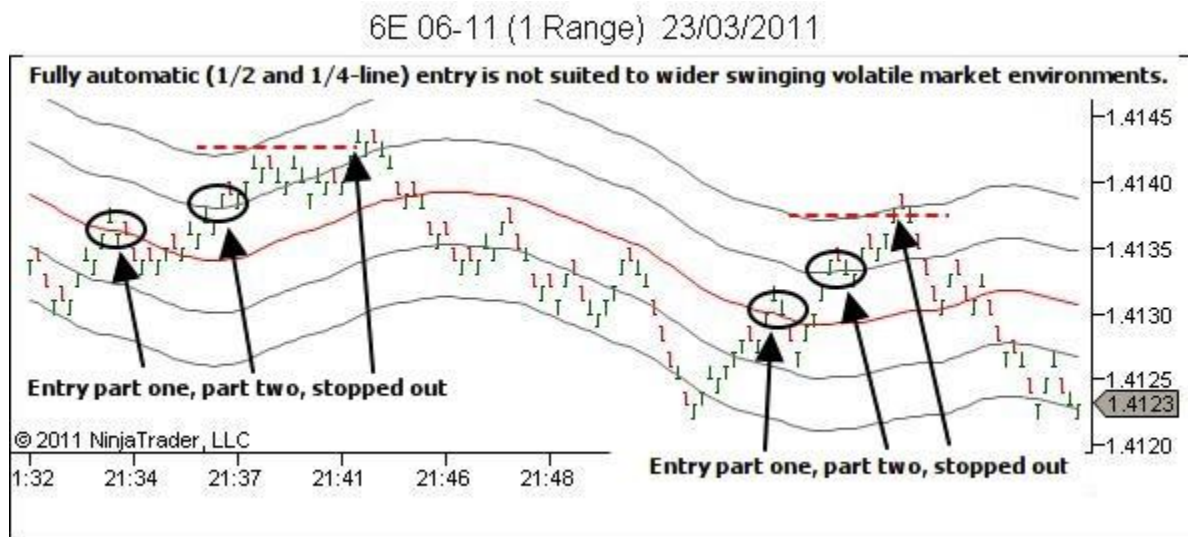


Figure 8.32 - Fully Automatic Entry – Unsuitable Environment

At these times it's our job as discretionary traders to identify the greater volatility, and the potential for the pullback to our entry zone to retrace deeper than in a steady trending environment, and to adjust our entry order location accordingly.

So... instead of orders at the $\frac{1}{2}$ -line and the $\frac{1}{4}$ -line, we might place them at the $\frac{1}{4}$ -line and the 0-line, with a stop further beyond the zero-line at a point we don't expect to be reached.

You may even wish to place entry orders within the zones – midway between the 0-line & $\frac{1}{4}$ -line, and midway between $\frac{1}{4}$ -line and $\frac{1}{2}$ -line.

Past action will show the historical volatility and allow you to adjust your entry levels to suit the environment.

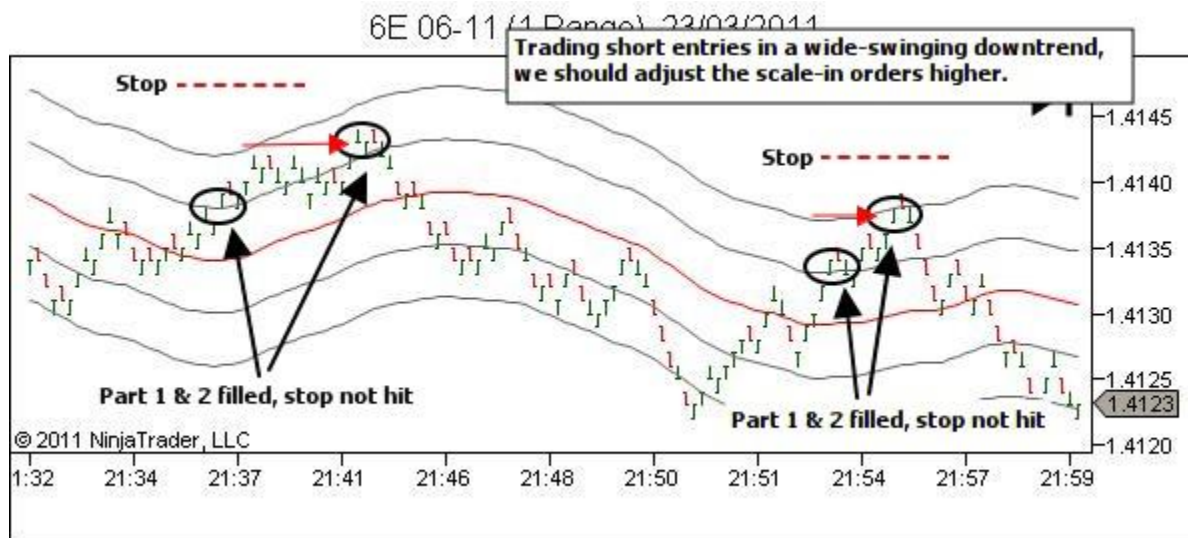


Figure 8.33 - Semi-Automatic Entry – Adjusting for Environment

Semi-automatic... like automatic but with discretion, allowing adjustment to suit the market environment and context of the current price movement.

For those of you concerned that this is an indicator-based approach rather than a price action based approach, I hear your concern. You may prefer the first price action based method.

However, I would ask you to view charts and consider three things:

1. The indicator based semi-automatic entry often gets in at locations very close to price action based entries. (View charts to confirm this is the case.)
2. Rather than see it as indicator-based, maybe see it as simplified scale-in entry on pullback against a price action determined bias for future channel flow. It's therefore still price action based analysis – just using the indicator as a “crutch” for entry!
3. Discretion is allowed for those cases where the entries just don't make sense from a price action perspective.

In some cases we might use our discretion to rule out an entry entirely, such as when price gives us reason to suspect a pending reversal of trend.

Other times we might use our discretion to just wait and see. You might want to see the pullback actually encounter some form of opposing orderflow, before placing your orders. This can be wise in much faster and volatile environments.

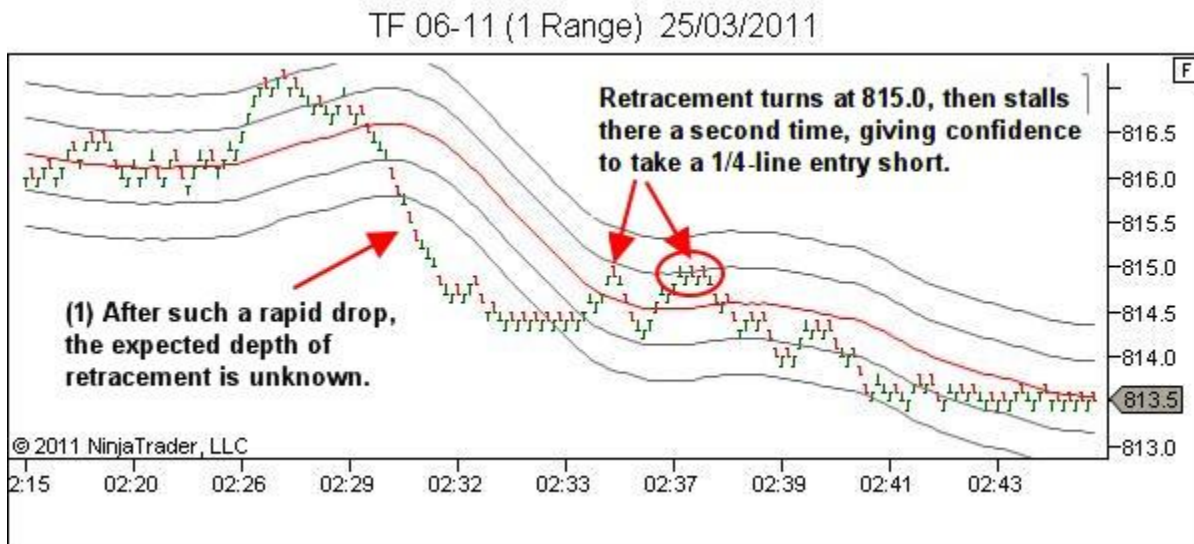


Figure 8.34 - Applying Discretion in a Fast Moving Market

Don't be tempted to "wait and see" in normal action though. You will miss too many entries.

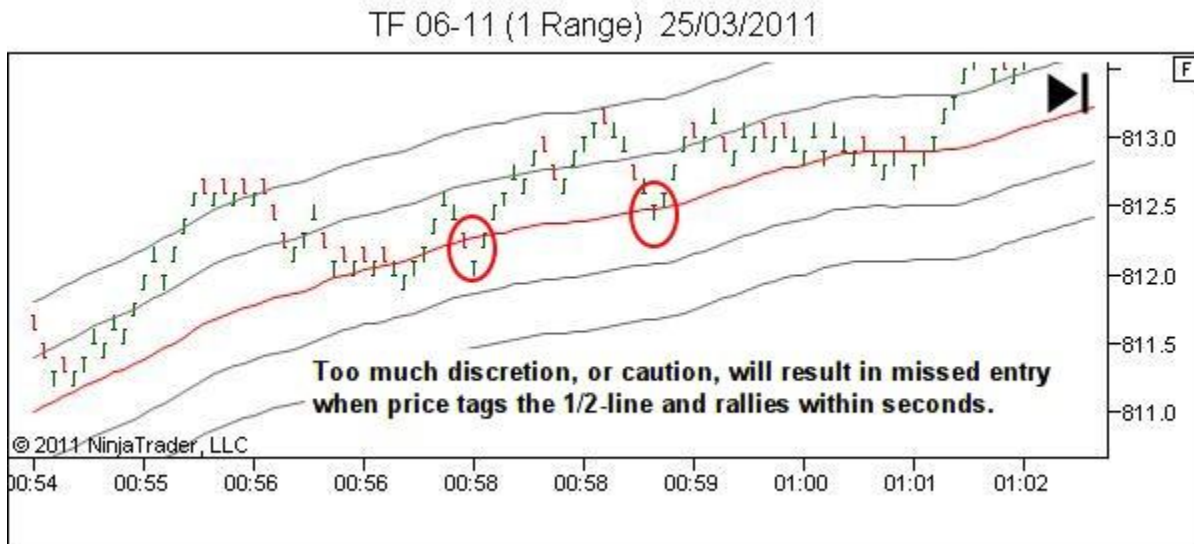


Figure 8.35 - The Danger of Being Too Conservative

Time and time again in steady trending markets you'll see exactly this situation; price tags the ½-line with only minimal excursion into the wholesale price area, before rapidly returning back to retail price areas. Decisiveness is essential!

If in Doubt

If in doubt about the best position to place semi-automatic entry orders for the current market environment then I would recommend only using price action based levels, as per the first entry option.

Place orders at previous areas of stall or reversal.

Highly volatile markets in particular will benefit from use of price action based levels.

Counter-Flow Entries

Counter-flow entries will more typically be placed using a price action based entry decision, in particular when related to a breakout failure setup. In this case, you'll observe the stall post-breakout, and be able to position for an entry on a break of the stall region. This is one time when 1-range patterns can be obvious and tradable.

When using a semi-automatic approach, we need to be more careful. Consider only taking such entries at an area of S/R. And aim for an increased degree of *wholesale*.

That is, while I may still be willing to take a counter-flow entry in the wholesale region right up to the ½-line if I feel great potential for movement, it is actually rare that I do so.

Entry will typically be sought within the major wholesale area (0-line to ¼-line).

Usually I'll be aiming for a part one entry as close to the zero-line as I feel I can expect. Then part two entering in the vicinity of the ¼-line as price moves in my favour. This is of course flexible, and will vary depending on my feel for price movement.

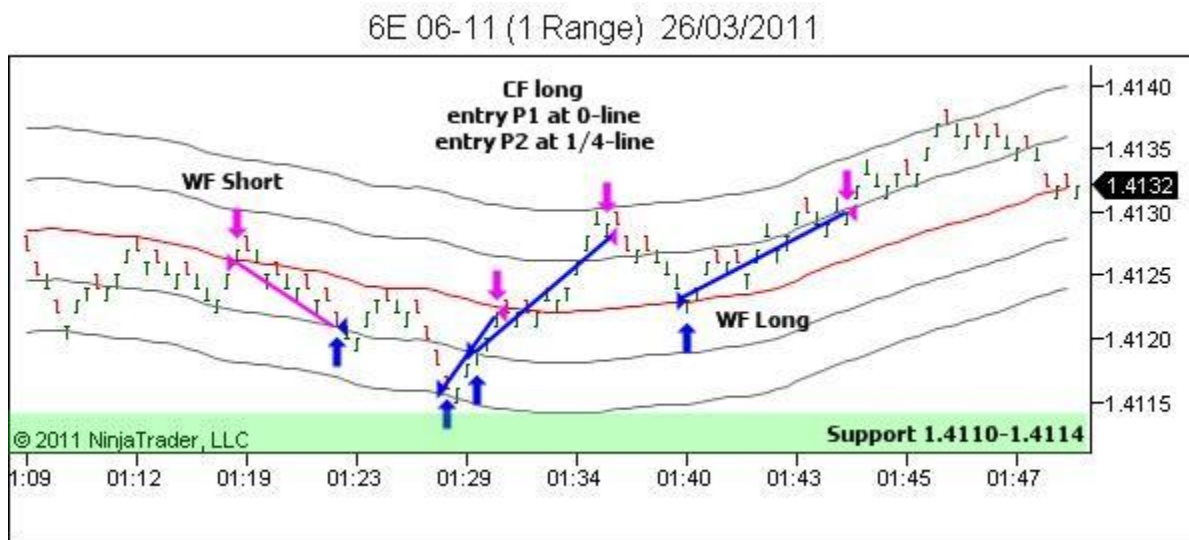


Figure 8.36 - Counter-Flow Entry

By aiming for a greater degree of *wholesale*, we give ourselves increased chance of at least a small move, and an increased opportunity to scratch the trade at or near breakeven when our trade idea proves wrong.

Trust your Bias; Trust the Channel

Enjoy the uncertainty. Identify and trust your assessment of future channel flow. Place your orders. Hope to get filled and then work the trade.

If you have correctly identified future channel flow, then price should NOT extend beyond the channel to your stop location.

If it does hit your stop... your assessment of bias was INCORRECT.

Trade loss (apart from loss resulting from poor management) is an indication of failure to correctly identify the market environment and future bias. It's no longer an entry problem.

The beauty of the channel is it allows for ease of placement of orders, in rapid-time, with little thought required. It operates as a crutch, to help with rapid decision making. This allows the majority of your focus to remain where it should – trying to maintain a feel for market sentiment and the bias for future channel flow – rather than trying to perfect a precision entry into an imprecise market.

There's no more worrying about, "should I place the long entry order at 1.4125 or 1.4126? What if I choose 45 and it only gets down to 46?" Find the general area you want to place the order, and then just place it either at a price action level or at an appropriate channel line (½-line, ¼-line, or 0-line depending on expected volatility and depth of pullback).

- ***I don't know exactly where the market is going... but I don't care.***
- ***I trust the bias.***
- ***I enjoy the uncertainty.***
- ***I take the automatic entries and TRUST the edge.***
- ***I trade price as it flows back and forth, wholesale to retail.***

Deliberate Practice

YTC PAT Vol 5 introduced the topic of deliberate practice. It's essential that the routines and practices discussed in that document are continued with the YTC Scalper methodology. Not just in ongoing trading, but also in learning to trust the edge provided by the scalping channel.

Take some time out from your reading to scan several sessions of scalping channel.

Confirm that... provided you accurately identify the bias for future channel flow direction from the 1-min trading timeframe... the scalping channel offers significant opportunity for profit with semi-automatic entries... and limits losses on those occasions where you fail to correctly assess changes in the bias.

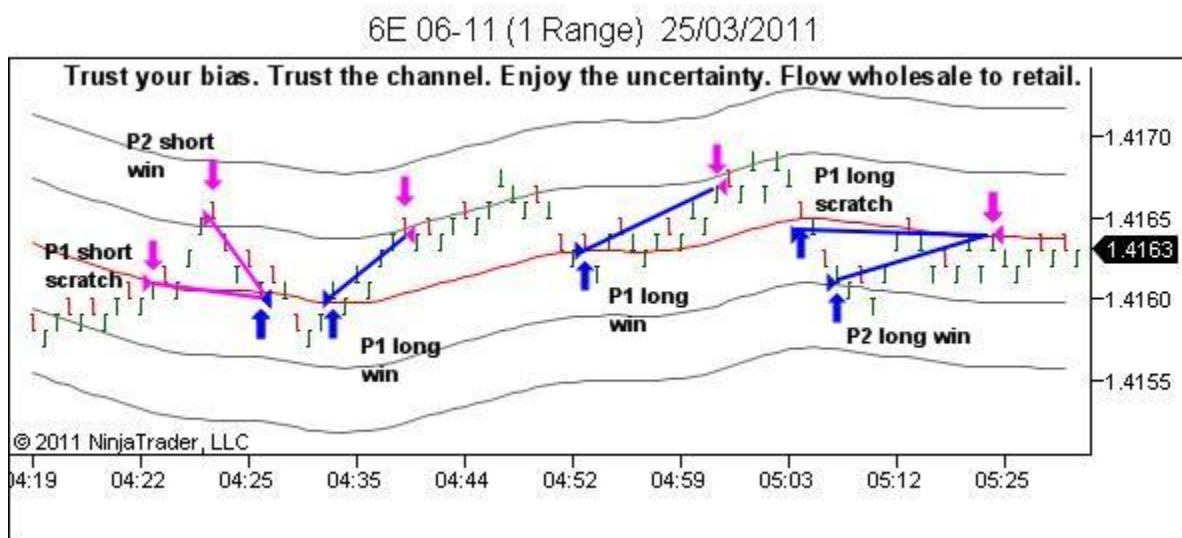


Figure 8.37 - Trust your bias. Trust the Channel – 1

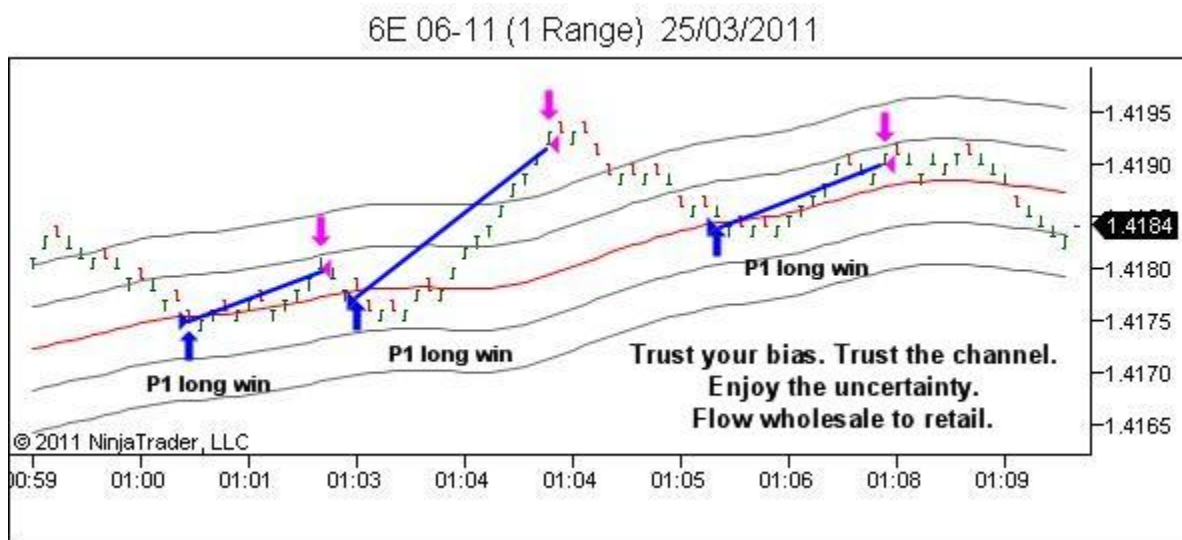


Figure 8.38 - Trust your bias. Trust the Channel – 2

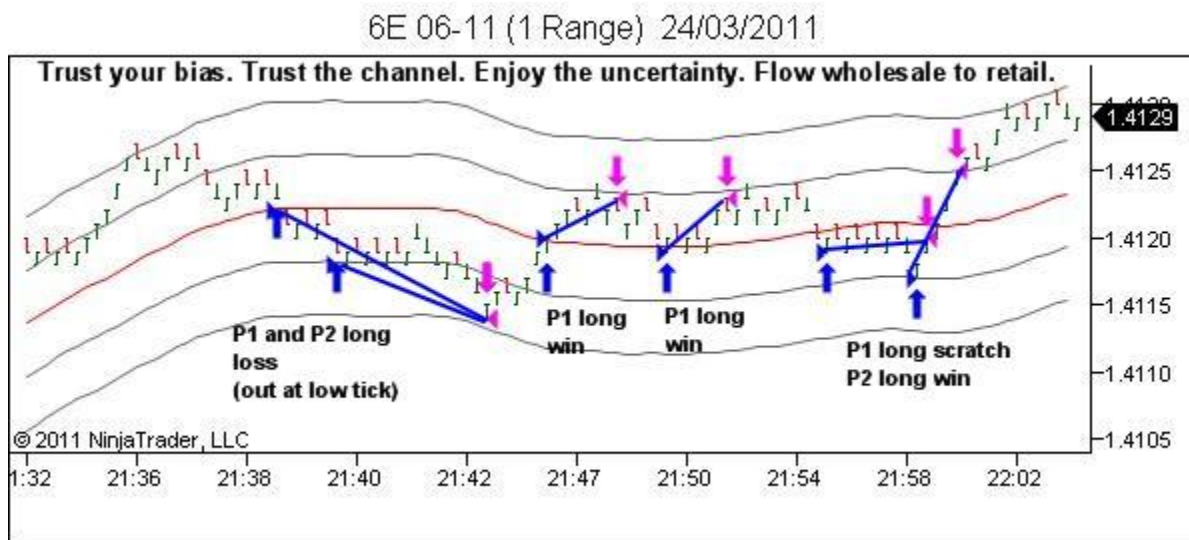


Figure 8.39 - Trust your bias. Trust the Channel – 3

What About Reward:Risk (R:R) Ratios?

Another simplification that is provided by the scalping channel is that the channel lines create a visual scale for comparing potential reward and risk. There is no need to calculate exact numbers of ticks.

In fact, by aiming to join the flow as it moves from wholesale to retail over and over, I find I don't need to concern myself with R:R parameters for individual trades, and will often be happy to take a with-flow entry with an R:R ratio of slightly less than 1:1.

It's your long term results which are important. Trade statistics will tell you when you are consistently taking stops too large in comparison with your profits, over your rolling 20-session sample of trades.

What About Position Risk?

As with YTC PAT, your total risk per position (both parts) should not be greater than 1% of equity.

Trade Management and Exit

General Trade Management

As a result of our new YTC Scalper trade entry approach, you will often find only one part filling. The part two entry will not always be reached.

As such you need to make a decision as to how you will best manage this one part.

The options are to either scalp out, set a target, or allow the position to run.

I always set a target with every entry, but will often move it beyond the channel 1-line (well into the extreme-retail zone) until getting a feel for the price movement.

If I have doubt about any ongoing edge, I will often just move the target order to scalp out with whatever profits are available. Exit may not be immediate though; I may at times try to work a better exit price, as demonstrated in YTC PAT.

If price is moving in the expected manner, then I'll just move the target order to a price action based level. This will usually be a 1-min swing high/low or S/R level.

If price moves with unexpected speed, and I don't expect it's sustainable, windfall profits will usually be taken by trailing the stop behind price and exiting on the first 1-range reversal. The second trade on Figure 8.38 (previous page) demonstrated this type of windfall trade management.

The other option is of course to allow the position to run, trailing a stop behind price. As in YTC PAT this is only done when our price action analysis indicates a higher likelihood of a trending move.

Just a reminder – I use an active trade management approach, so any decision is not final. If my ongoing bar-by-bar analysis warrants a change to my trade management approach, then I happily make that change. Trust your decision making.

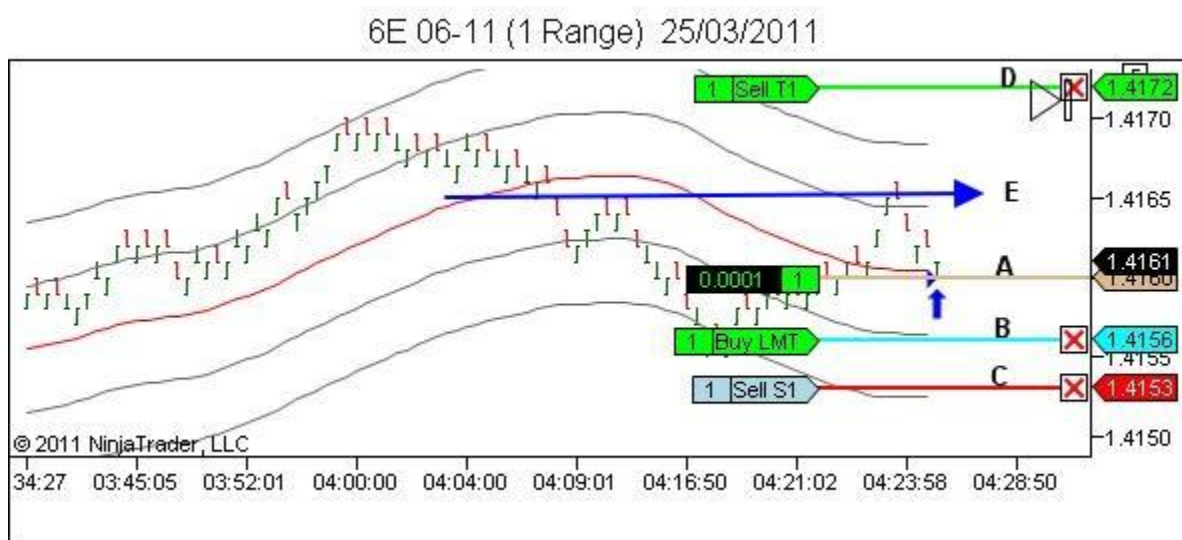


Figure 8.40 - General Trade Management

In the above example, a single part long position has been entered at the $\frac{1}{2}$ -line (A). A resting limit order sits at the $\frac{1}{4}$ -line (B) in the hope of entering a second part if price should retest the recent swing lows.

A stop is positioned at C, two ticks below the recent swing low.

The target is moved above retail prices to D, awaiting an assessment. Most likely, unless a rapid and unexpected spike upward occurs, I will move the target down to its price action target area at E, just below recent highs (see the left hand side of the blue arrow).

Single Position Scale-Out

There is another option for trade management when only a single part is filled. Provided your position size is greater than one contract for each part, you always have the opportunity to scale out of each part of the trade. I don't do this. It may be something you wish to investigate. Essentially, it's an all-in, scale-out strategy, for those times when only a single part is filled.

Two Part Positions

At times when our P1 position moves into drawdown, and triggers a P2 entry, we have two options:

1. Manage both parts separately as for the single position described above.
2. Seek P1 recovery and aim for profits from P2.

A position recovery will be used when the nature of the extended pullback and subsequent price movement raises some doubts about the position. Not enough doubt to warrant an immediate worked-exit or scratching of both parts; but sufficient to warrant reduction of risk.

In this case I will usually aim to exit the P1 position as close to breakeven as possible to reduce risk. In other words, working a favourable P1 exit.

This leaves P2, sitting slightly in profit which obviously allows a little more flexibility in management options. Depending on my feel for the price movement, this remaining position may involve a worked exit at even better price, or quick movement of the stop to breakeven in the event that price does move and prove my original assessment correct.

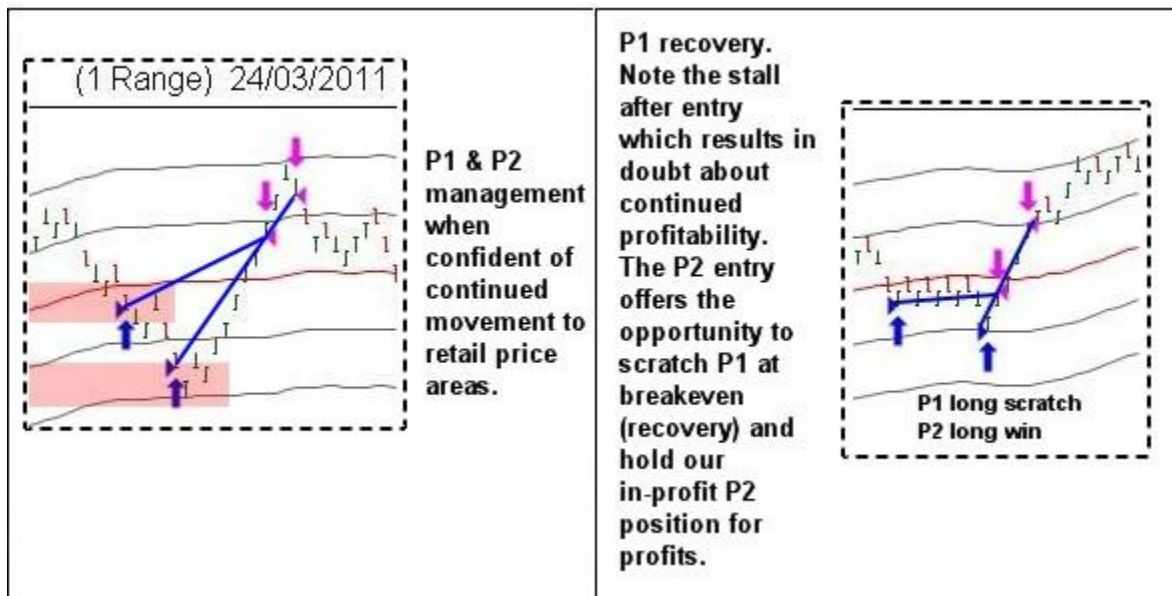


Figure 8.41 - Two Part Management – Normal and Recovery

Of course, recovery doesn't always result in a profit. Sometimes price will continue to draw down, stopping out both positions. Other times you'll be able to recover the first position and then the second will stop out. But that's the point of this decision – it aims for reduced exposure and therefore reduce loss if you are stopped out.

Here's an example:

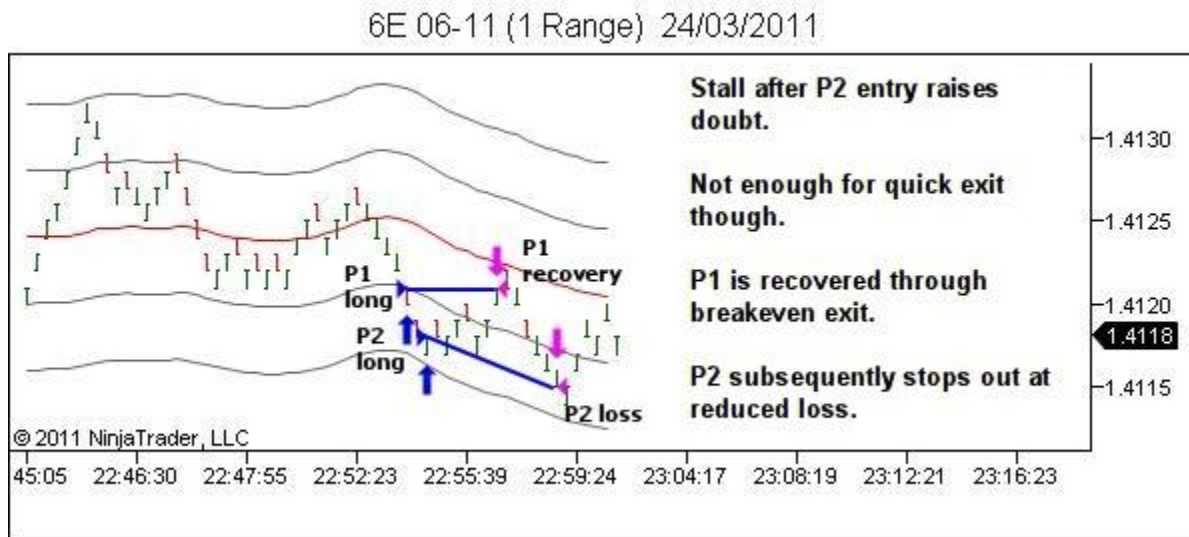


Figure 8.42 - Two Part Management –Recovery Leading To Reduced Loss

Scaling-In Through Chasing Price

Here is another scenario. Say for example your entries are price action based, or you've applied discretion to your semi-automatic entries, and have taken a P1 entry in the vicinity of the $\frac{1}{4}$ -line. There is no further drawdown, meaning that a "more wholesale" P2 is not entered.

Can you take a P2 entry at a worse price than P1?

Yes, absolutely, if your feel for price movement shows expectation of profit potential available for this subsequent part.

I will NOT however chase price past the $\frac{1}{2}$ -line into retail price zones.

This is demonstrated in the following chart.

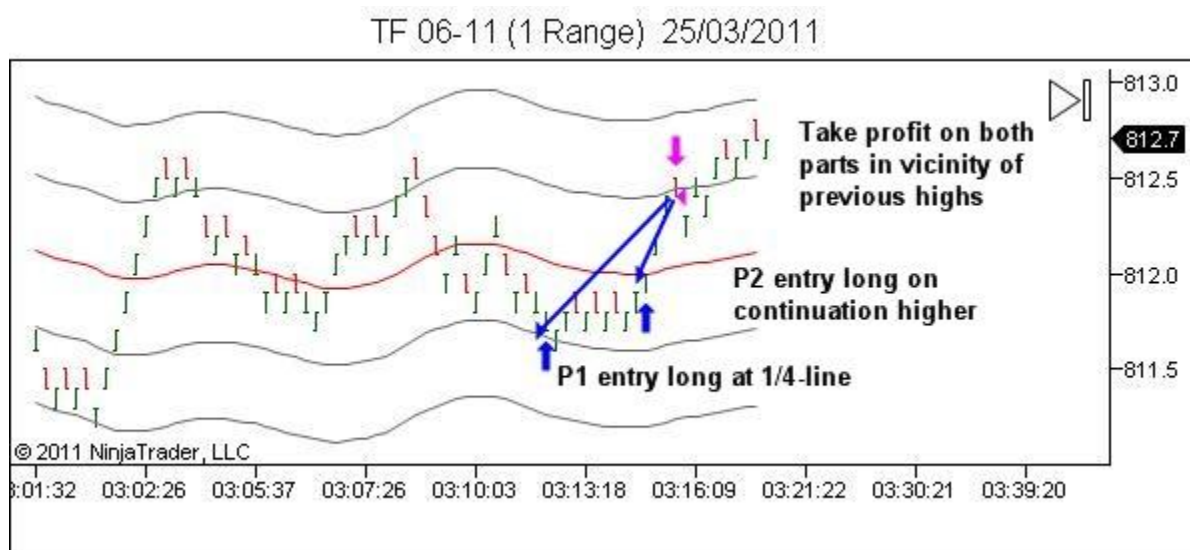


Figure 8.43 - Two Part Management – Chasing Second Part Entry

People; Not Price

As with YTC PAT, your thoughts during analysis and trade management need to be firmly on the feelings and emotions of other traders.

Do not forget our discussion from YTC PAT Vol 2.

Don't be thinking price; but rather how price is affecting the thoughts and feelings of other traders.

What are the longs feeling?

What are the shorts feeling?

Find someone trapped and be part of the orderflow which springs their trap.

8.3.7 – Summary of Concept

Key concepts from this section:

- YTC Scalper simplification is achieved through:
 - a) Reducing the number of setups;
 - b) Ensuring easier means of finding the setups; and
 - c) Ensuring easier means of entry.

All three were achieved through a slight modification to our market model, and through replacing the lower timeframe with a scalping channel.

- Price movement is modelled as channel flow occurring within an S/R framework.
 - All price movement can be defined as price flow back and forth within a channel.
 - We call the direction of channel movement the **channel flow**.
 - Analysis of the trading timeframe trend within a higher timeframe S/R framework is done in order to determine the likely **future channel flow**.
- Provided our analysis successfully identifies the likely future channel flow, then we can simply scalp back and forth within the scalping channel from wholesale to retail.
- Entry is based upon the concept of imperfection. At the scalping level, entry is all about areas, not triggers. We identify a general AREA within which we're happy to enter, and we aim to enter within that area as best we can. Entry within an area is best achieved through a process of scaling into a position.
- The channel allows for ease of placement of orders, in rapid-time, with little thought required. It operates as a crutch, to help with rapid decision making. This allows the majority of your focus to remain where it should – trying to maintain a feel for market sentiment and the bias for future channel flow – rather than trying to perfect a precision entry into an imprecise market.

At the scalping level, this game is simply one of flow.

Identify the current channel flow (1-range channel direction). Use your analysis skills to determine the likely future channel flow (1-min bias). And then just enter that flow, scalping wholesale to retail.

- *I don't know exactly where the market is going... but I don't care.*
- *I trust the bias.*
- *I enjoy the uncertainty.*
- *I take the automatic entries and TRUST the edge.*
- *I trade price as it flows back and forth, wholesale to retail.*

NOTE: Those who prefer to trade the YTC PAT timeframes may also choose to experiment with the use of channel flow and scale-in entries. In particular, if you're having trouble identifying the best time to enter via lower timeframe trigger-entry patterns, then perhaps you're better working with the imperfection instead of trying to seek precision entries? Channel parameters will need to be amended (perhaps to something along the lines of 2-range with KELTNER (20,2) and (20,4)). Experiment and test!

8.3.8 - Examples - Entry and Trade Management

A large number of examples will be shown in Chapter 10. So don't stress if this all confuses you at the moment – it should become clear through those examples. And even clearer again through the Chapter 11 Implementation exercises!

However let's pause to look at two short examples, with a focus on entry and trade management as just discussed.

We saw a chart earlier which demonstrated the integration of our two market models. Let's reproduce this chart and look at the entries available via the lower timeframe scalping channel.

This was the trading timeframe chart presented earlier:



Figure 8.44 - Entry & Management Example – Trading Timeframe

Our expectation is for bearish channel flow, so we will seek opportunity (short) on pullbacks to the wholesale side of that bearish channel flow.

The following chart displays the lower timeframe scalping channel.

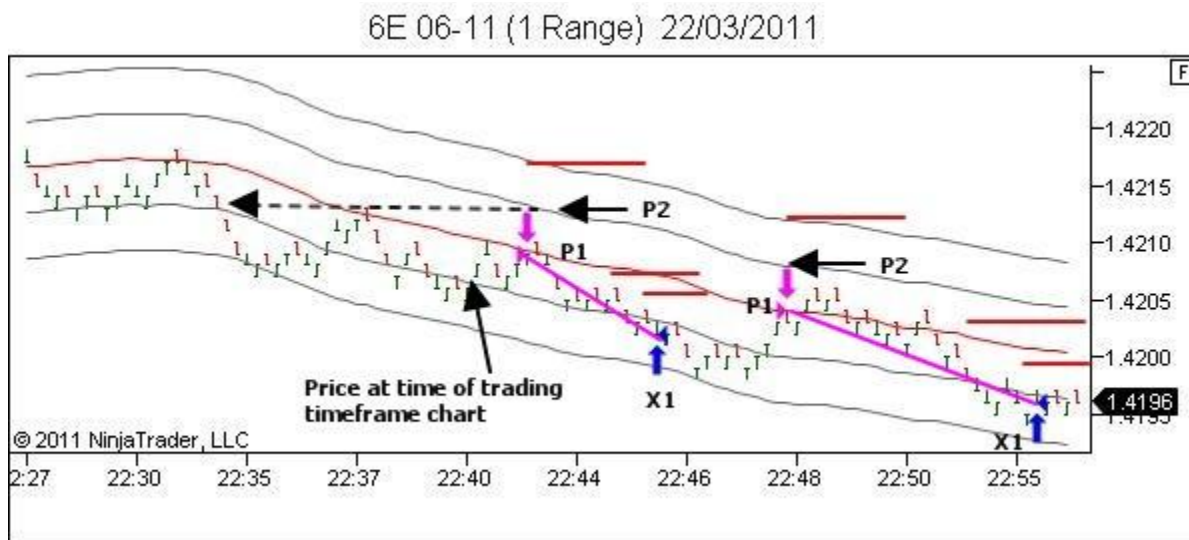


Figure 8.45 - Entry & Management Example – Lower Timeframe

This is a very busy chart, so let's step through it slowly.

First note the text and associated arrow, pointing out the time as at the trading timeframe decision to trade scalp entries in the anticipated bearish channel flow.

Beyond that point we see two trade sequences, both entering at P1 and exiting at X1.

For the first sequence, a limit order was placed for part one (P1) at the $\frac{1}{2}$ -line. This was a semi-automatic entry which also happens to align with previous lower timeframe swing highs, and is also right at the area of expected resistance (1.4210). Another limit order was placed higher to enter part two (P2) in the vicinity of $\frac{1}{4}$ -line, which is also above the highs of the first pullback following the initial break of support. You'll note how the semi-automatic entries often align very closely to the price action based entries.

P1 filled at 1.4209. P2 did not fill.

The red lines show positioning and movement of the stop as it trailed price. The target was initially moved to the just above lower support at 1.4195, then tightened up as price felt as if it was stalling at the 1.4200 round number, resulting in an X1 exit at 1.4202 for a total of +7 ticks.

The second trade worked much the same. The P1 limit order was placed again at the $\frac{1}{2}$ -line which positioned it above the most recent area of congestion. A limit order for P2 was placed at the $\frac{1}{4}$ -line, which also happened to be the previous trade entry, 1.4209, just below resistance.

Again, P1 filled, this time at 1.4204. P2 did not fill.

The red lines again show the movement of the stop loss order.

The target order was moved lower as price approached the support level (to get a feel for how far it could penetrate). It was then moved higher again to exit the position when price stalled in the upper edge of the support region. X1 was 1.4196 for +8 ticks.

Let's move forward in time to see how price interacted with the area of support. First the trading timeframe:



Figure 8.46 - Entry & Management Example 2 – Trading Timeframe

My expectation was initially for a rally from support, leading to an uptrend and bullish channel flow. Of course, it didn't eventuate that way and formed into a neutral sideways price range. But the scalping channel still provided profit opportunity, despite the inaccuracy of my bias.

The following chart displays our lower timeframe scalping channel.

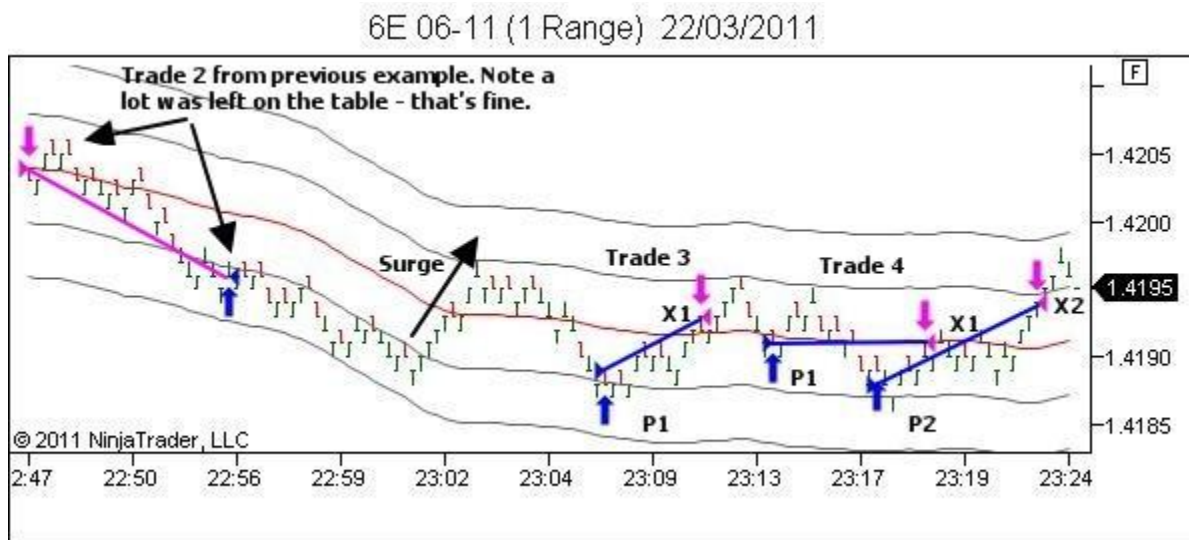


Figure 8.47 - Entry & Management Example 2 – Lower Timeframe

Once again P1 & P2 indicate a part one and two entry. X1 and X2 indicate exit.

In this case, entries are taken counter-flow... but they are (as always) in the direction of our expected future channel flow (bullish).

Here we see a part one entry long on a retest of the lows after the previous surge upwards (see trading timeframe). The entry order was placed just above the $\frac{1}{4}$ -line, positioning our entry just above the prior swing low. I usually prefer a counter-flow entry closer to the 0-line, but didn't feel the potential for movement that far down. So, P1 was placed at the $\frac{1}{4}$ -line just to get something on, with a resting P2 order at the 0-line. P2 was not filled. The exit was taken into the tops of the surge area for +4 ticks (1.4189 → 93).

A re-entry (part one) was then taken on pullback to just below the $\frac{1}{2}$ -line, only just into the wholesale region. This is *much higher* than I usually want to take a counter-flow entry, but I felt that price was going to explode higher. A part two limit order was placed lower, at the $\frac{1}{4}$ -line and just above the previous swing low price. The target for part one was abeam the previous swing high, which didn't quite fill (missed by one tick).

Part two was filled but still didn't move higher as quick as I'd like. Some doubt started to creep in, so part one was scratched at breakeven (X1) to ensure recovery and minimization of risk. Of course, price then rallied. The target for part two (1.4195) was dragged lower to 1.4194 to take an exit when price stalled there.

The total for trade two was zero ticks for part one and +6 for part two.

Chapter 9 – Additional Considerations

9.1 – Market Internals

Traders of the E-mini index futures have available some extra analysis tools which are not currently available in other markets. I'm referring to market internal, or market breadth, indicators.

There are an incredible number of them.

- NYSE Tick
- Cumulative Tick
- Advance / Decline Line
- Absolute Breadth Index
- TRIN (Trader's Index, also known as the Arms Index)
- McClellan Oscillator
- New High/Low Ratio
- ... and dozens more

The reason these indicators are useful, is that they are based upon market wide data rather than the price of the current instrument. Analysis of market internals allows us to use the *whole market* sentiment as either confirmation or non-confirmation of our individual instrument sentiment.

Personally, the only market internal indicator I have used on a consistent basis is the NYSE Tick, which will be examined below. You may (if you have time) wish to explore others to see if they add to your analysis and decision making edge.

9.1.1 – NYSE Tick

The Tick Indicator measures the following:

- $TICK = (\text{number of NYSE stocks trading on an uptick}) - (\text{number of NYSE stocks trading on a downtick})$

where...

- Trading on an uptick means the last price is greater than the preceding price; and
- Trading on a downtick means the last price is lower than the preceding price.

As a generalisation, any reading above zero would be considered bullish, as a greater number of NYSE stocks are trading on upticks than downticks. And any reading less than zero would be considered bearish, as more stocks are trading on downticks than upticks.

The common way to display the NYSE Tick is via a time-based chart positioned below your time-based price chart.



Figure 9.1 – Common Means of Displaying NYSE Tick

Common interpretations of the Tick are as follows:

Bullish / Bearish Tendencies

Tick readings which are consistently positive are bullish. Tick readings which are consistently negative are bearish. Tick readings which generally straddle the zero-line display neutral sentiment.

Overbought / Oversold Readings

In a ranging market we can expect Tick highs in the vicinity of +600 and Tick lows in the vicinity of -600. In an uptrending market, we can expect Tick highs up to +1000, with Tick lows typically around the zero line. In a downtrending market, we can expect Tick lows in the vicinity of -1000, with Tick highs around the zero line.

In any market, readings greater than or equal to +1000 are considered extreme bullish sentiment, and are unsustainable. Expect at least a short pause or pullback.

Any readings less than or equal to -1000 are considered extreme bearish sentiment, and are unsustainable. Expect at least a short pause or pullback.

Tick Divergences

Much like oscillator divergence...

Tick failing to make a higher high, when price makes a higher high, is considered a sign of potential reversal short.

Tick failing to make a lower low, when price makes a lower low, is considered a sign of potential reversal long.

(Please note: I have not shown examples of the common application of Tick – you can search for information on the internet if interested. I will show examples later when discussing my methods of using Tick)

9.1.2 – How I Display NYSE Tick

I reference my Tick chart to the price action on my 1-range lower timeframe chart, rather than the trading timeframe 1-min chart. It's therefore not possible to have an NYSE Tick chart which maintains the same vertical alignment of time.

I use a 150-range chart for Tick, and place this price action within a channel.

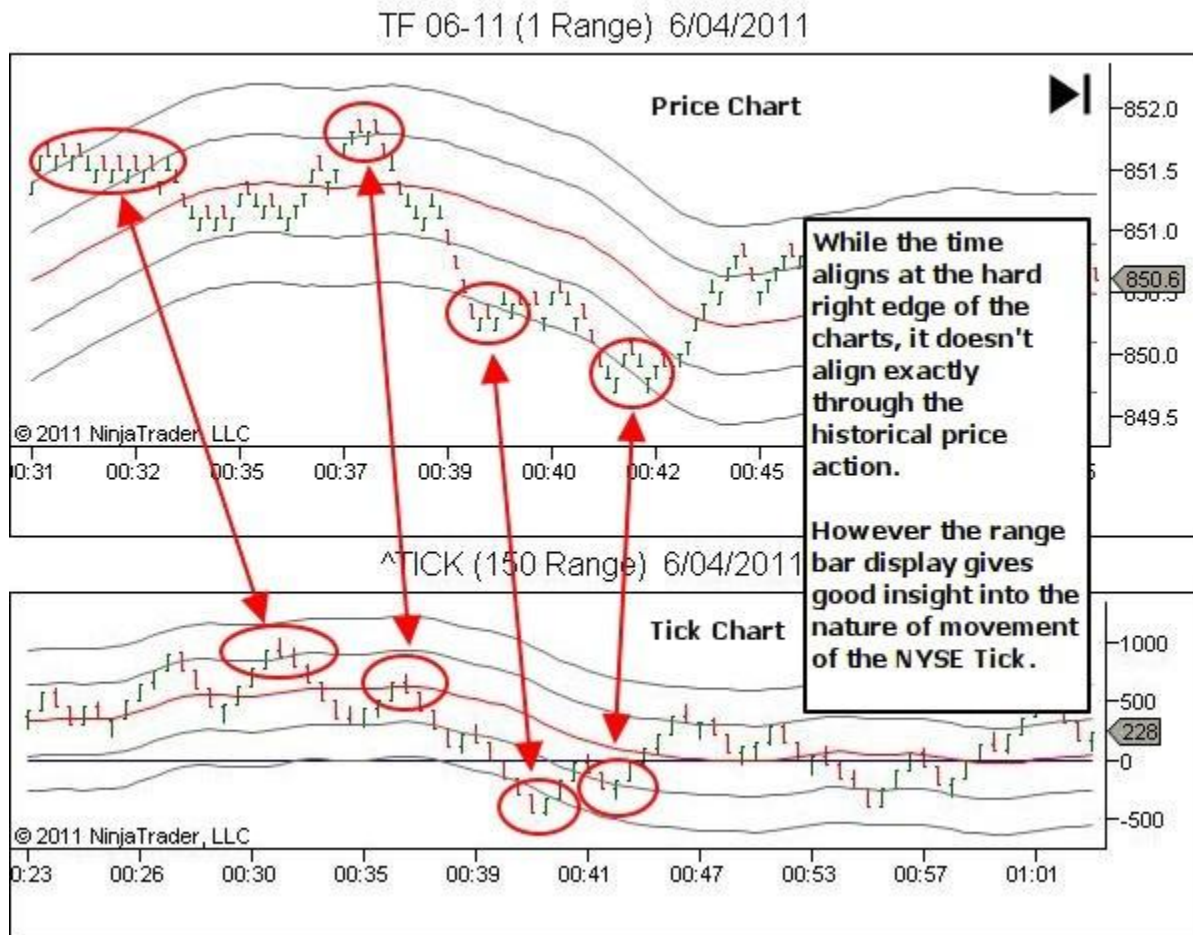


Figure 9.2 – My Display of NYSE Tick

I owe thanks to Mike Reed of <http://www.tradestalker.com/> for introducing me to the concept of channeling the NYSE Tick (amongst so many other things).

I do it differently (I'm not going to share Mike's setup obviously, as its proprietary)... but my approach is based upon the same underlying principles. I actually highly recommend Mike's ebook, "Read The Greed", for all YTC PAT and Scalper traders. The material will complement my methods greatly and you may actually find that you prefer Mike's setups and his method of display of the NYSE Tick. Or perhaps an adaptation of the two approaches! We are all different – experiment and find what works for you.

Overlaying the 150-range Tick chart are the following indicators and parameters:

- Horizontal line at the zero level
- Keltner Channels (20,2)
 - Period 20, Offset Multiplier 2, forming the centreline and the inner channel lines
- Keltner Channels (20,4)
 - Period 20, Offset Multiplier 4, forming the centreline and the outer channel lines

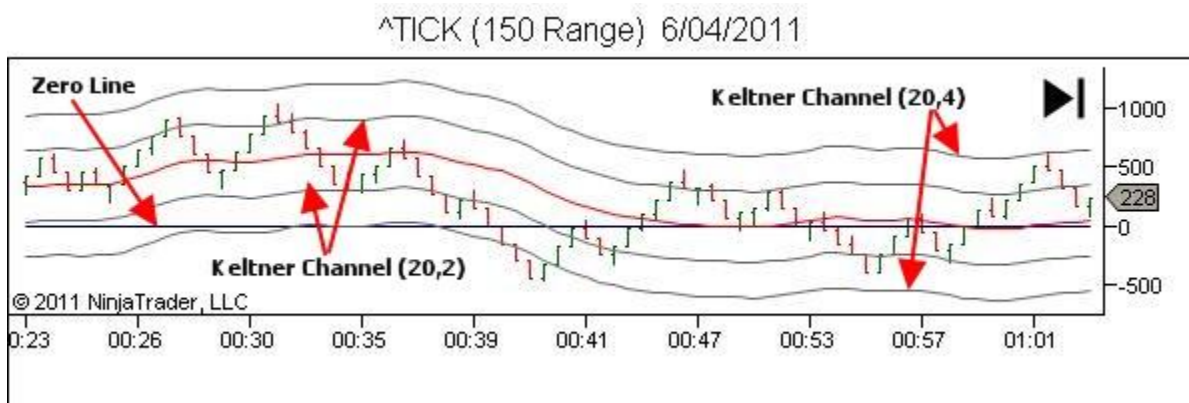


Figure 9.3 –NYSE Tick Indicators and Parameters

I love this method of display of Tick, as it allows a greater feel for movement of the Tick within each of the time-based candles used by most traders.

As an example, refer to the chart below, where you'll see that we have the 1-min Tick displayed on the left and the 150-range Tick displayed on the right.

The red oval and circle represent the same Tick action – a brief excursion below the zero line. Observe how the 150-range chart, with scalping channel, more clearly shows the Tick reversal from an oversold position (see the upcoming section on overbought/oversold).



Figure 9.4 –NYSE Tick – Time Bars vs Range Bars

Please note: the only downside with this approach is that the channel lines typically take around 10 minutes to display at the start of the session (depending on the volatility of the Tick), as sufficient data is needed to print 20 bars. Prior to that, you can simply use the Tick with reference to the zero line, as per normal use.

9.1.3 – How I Use NYSE Tick

At its simplest, I use NYSE Tick overbought/oversold readings or divergence at S/R to support my decisions to enter. But let's look at this in a bit more detail.

First... an important point! NYSE Tick does not provide trading signals. It is used to confirm my assessment of strength and weakness within the market and to support my entry or trade management decisions. Price charts are used as my primary trading and analysis tools. NYSE Tick is a support tool.

Bullish / Bearish Tendencies

As with the standard application, the NYSE Tick can be used to confirm the general sentiment of price – bullish, bearish, neutral – and to identify shifts in this sentiment.

Tick readings which are consistently positive are bullish.

And Tick readings which are consistently negative are bearish.

However we can also look to the slope of the channel for additional information. A rising channel is showing bullish tendencies. A falling channel is showing bearish tendencies. This can give us an insight into the changing sentiment of the wider market.

The following diagram demonstrates these concepts.

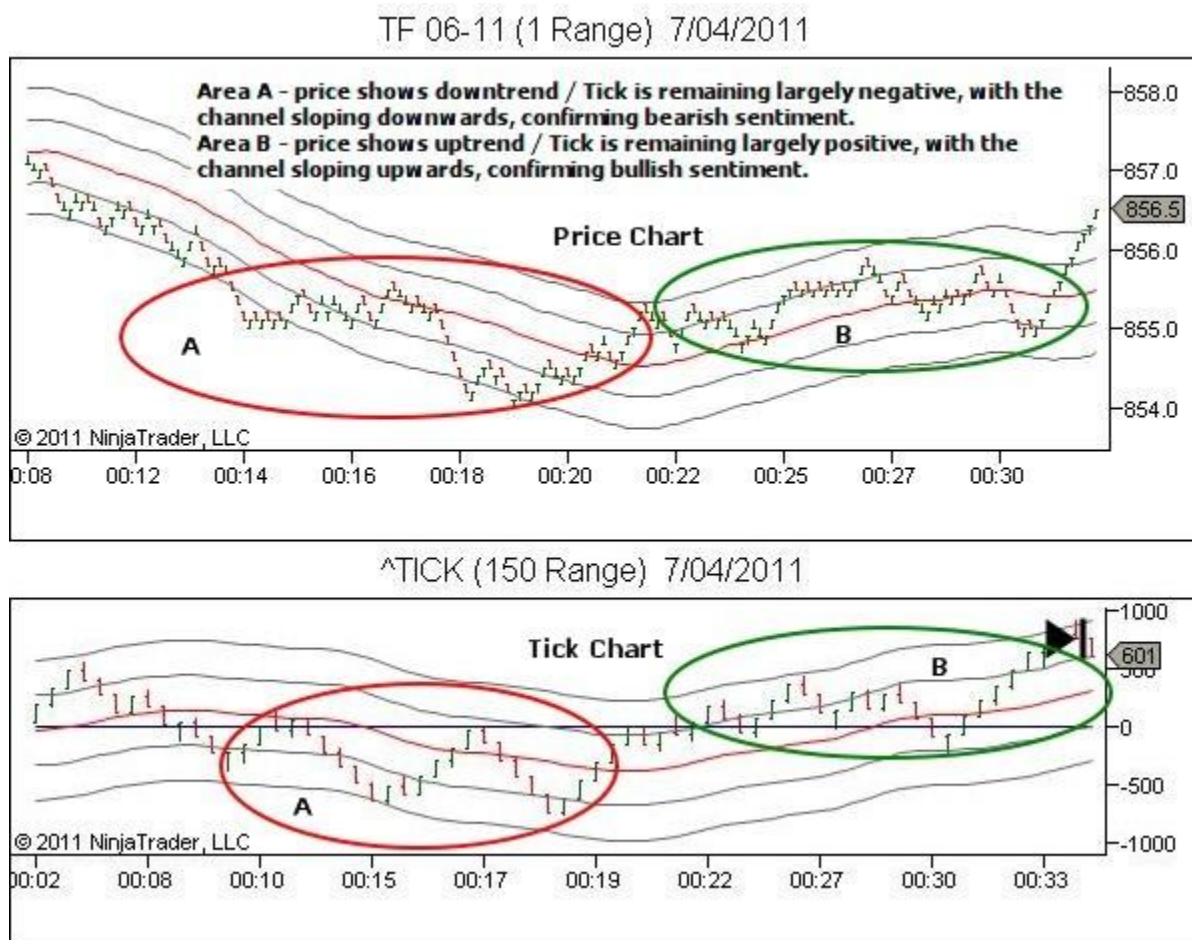


Figure 9.5 – NYSE Tick and Price Sentiment

Tick readings at A are both consistently less than zero (black horizontal line) and also downsloping, confirming our bearish sentiment on the price chart at A.

Tick readings at B are consistently greater than zero (black horizontal line) and also upsloping, confirming our bullish sentiment on the price chart at B.

In both cases (downtrend and uptrend) the Tick has provided confirmation of our price action assessment.

Overbought / Oversold Readings

While we can still refer to the fixed levels (0, +600, +1000, -600, -1000) as per the common use of NYSE Tick, the channel also provides additional indications of overbought and oversold.

In a ranging market, overbought levels are in the upper band while oversold levels are in the lower band.

In an uptrending market, overbought levels are in the upper band, while oversold levels are below the centerline.

In a downtrending market, overbought levels are above the centerline, while oversold levels are in the lower band.

Extremes of sentiment are considered any Tick reading above the upper line, or below the lower line.

Note: With the NYSE Tick channel I do not refer to the zones as Wholesale or Retail, as done with price charts.

This overbought and oversold concept is displayed on the next chart.

Starting first with the downtrend on the left of the chart, we note a reversal of the NYSE Tick within the oversold band at A coinciding with extreme retail price levels on the price chart at A. The NYSE Tick reversal indicates shifting market-wide sentiment and warns of a potential pullback within the E-mini Russell.

A reversal of the NYSE Tick in the overbought band at B confirms the end of the price chart pullback at B and continuation of the trend.

A reversal of the NYSE in the oversold band at C confirms the extreme oversold nature of the price at point C.

Looking at the uptrend on the right of the chart, reversals D and E from the overbought band of the NYSE Tick channel provide great confirmation of the price highs D and E. And the oversold reversal of NYSE Tick at F provides a great confirmation of the end of the price pullback at F.

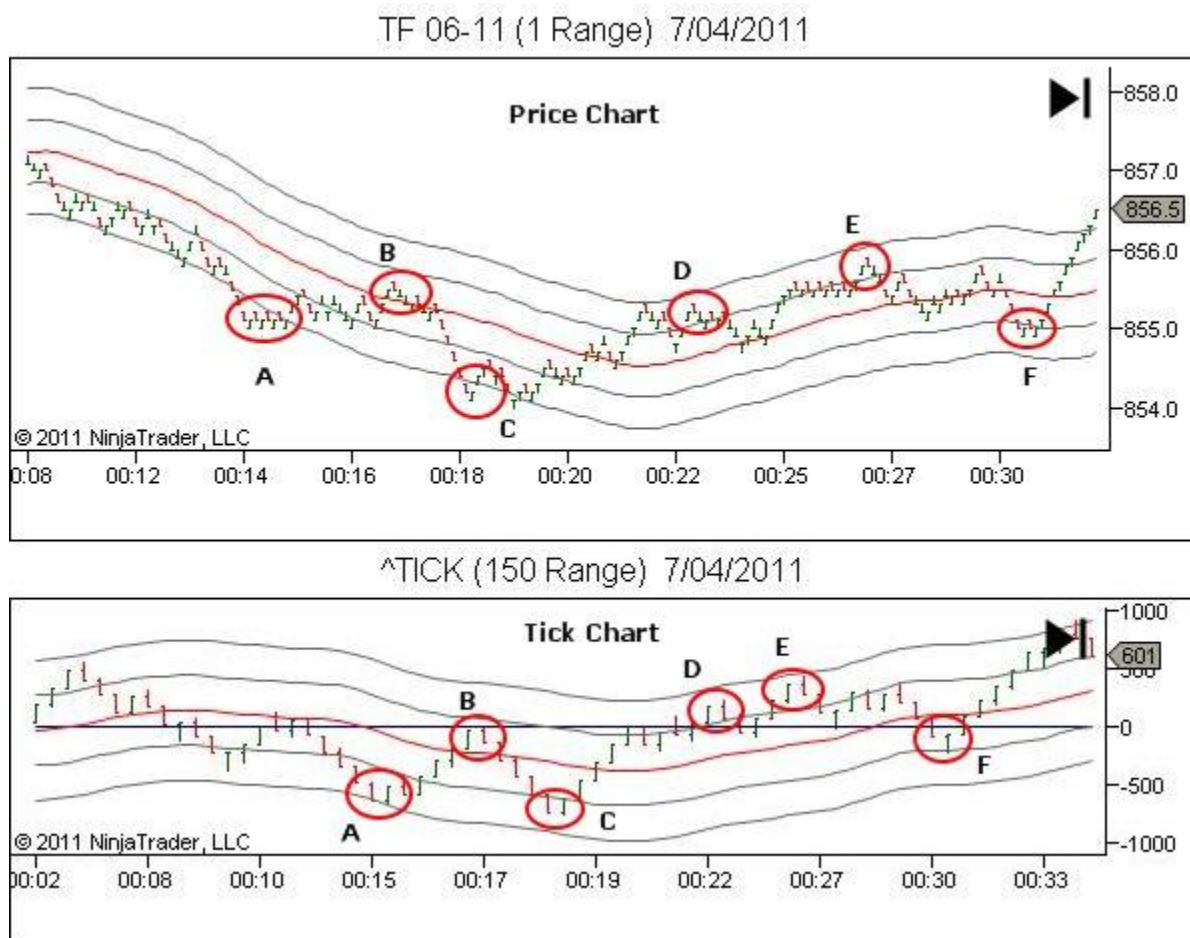


Figure 9.6 – NYSE Tick Overbought and Oversold

When price is in a setup area, an overbought or oversold reversal of the Tick is a great confirmation. Watch closely for your entry trigger.

Tick Divergences

Divergences are the same as for the standard application, although I believe they're easier to see with the channel display.

Tick failing to make a higher high, when price makes a higher high, is considered a sign of potential reversal short.

Tick failing to make a lower low, when price makes a lower low, is considered a sign of potential reversal long.

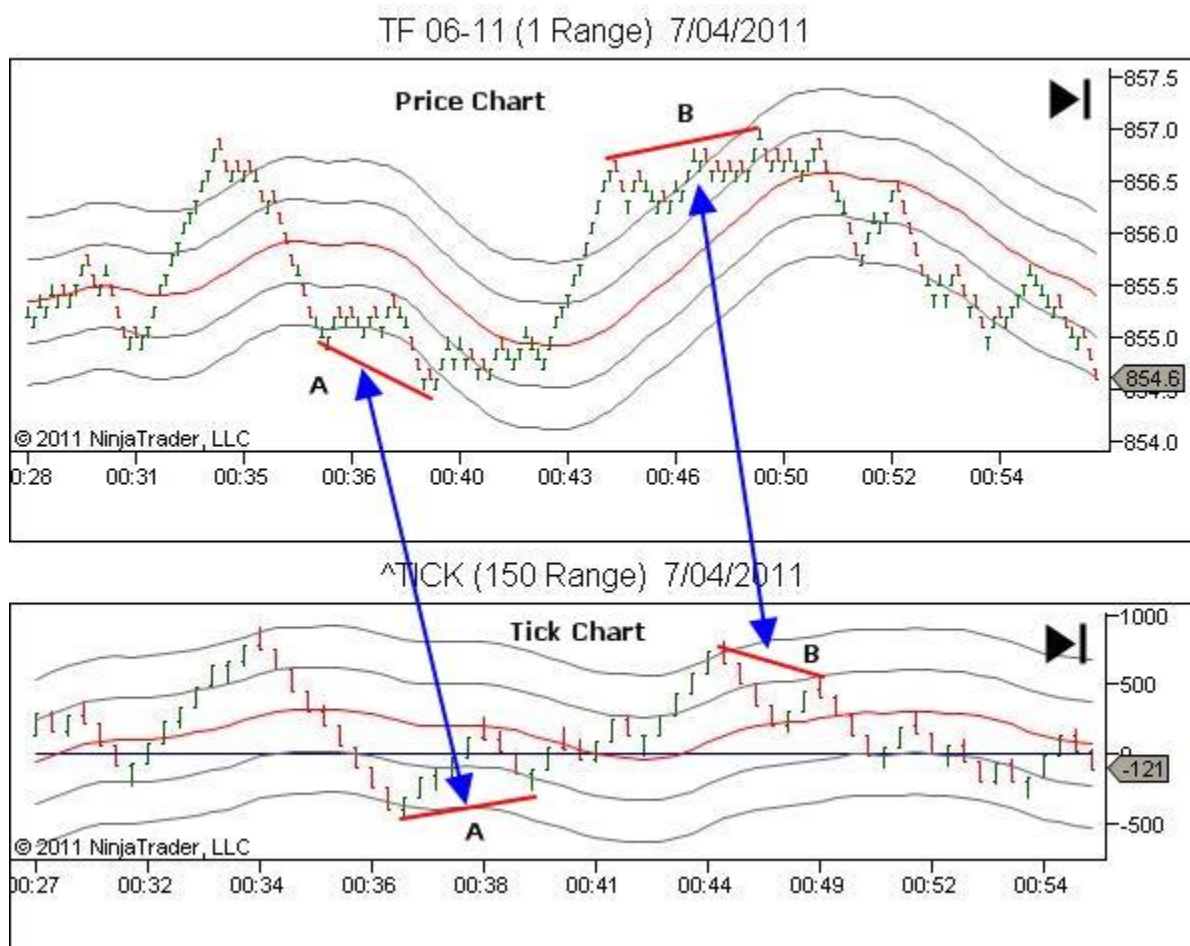


Figure 9.7 – NYSE Tick Divergence

Bullish divergence at A (price makes a lower low while the Tick makes a higher low) shows that the current bearishness in the E-mini Russell (TF) is not evident in the wider market. Price rallies from the divergence.

Bearish divergence at B (price makes a higher high while the Tick makes a lower high) shows that the current bullishness in the E-mini Russell is not evident in the wider market. Price falls from the divergence.

9.1.4 – An Example of NYSE Tick Supporting Analysis

Chapter 10 will include a complete session of E-mini Russell trades, which include a display of the NYSE Tick at every trade entry point.

But let's work through one example here.

The E-mini Russell chart on the next page shows price having spent the bulk of the last 30 minutes above the opening range (we'll discuss opening ranges in the next section on gap opens).

Look to the top left of the chart (1-min) and you'll see the circled area showing price testing the opening range high support. Our expectation is for this to hold price.

The upper right displays the 1-range price chart, with the lower section displaying the NYSE Tick.

Price is testing the support area at price lows B and C. In the absence of any supporting analysis such as available via NYSE Tick, we would have to resort to simply trusting our analysis and entering long in the vicinity of support, while prices sat at the extreme wholesale level at B, or major wholesale at C.

However, the E-mini markets have an advantage, through providing market internal data such as via the NYSE Tick, thereby allowing us some insight into the sentiment within the wider market. This sentiment analysis can act as a confirmation or non-confirmation of our price action analysis.

In this case, the NYSE Tick displays a bullish divergence between lows B and C, supporting our decision for entry following price low C, and allowing a very early wholesale entry into the new rally.

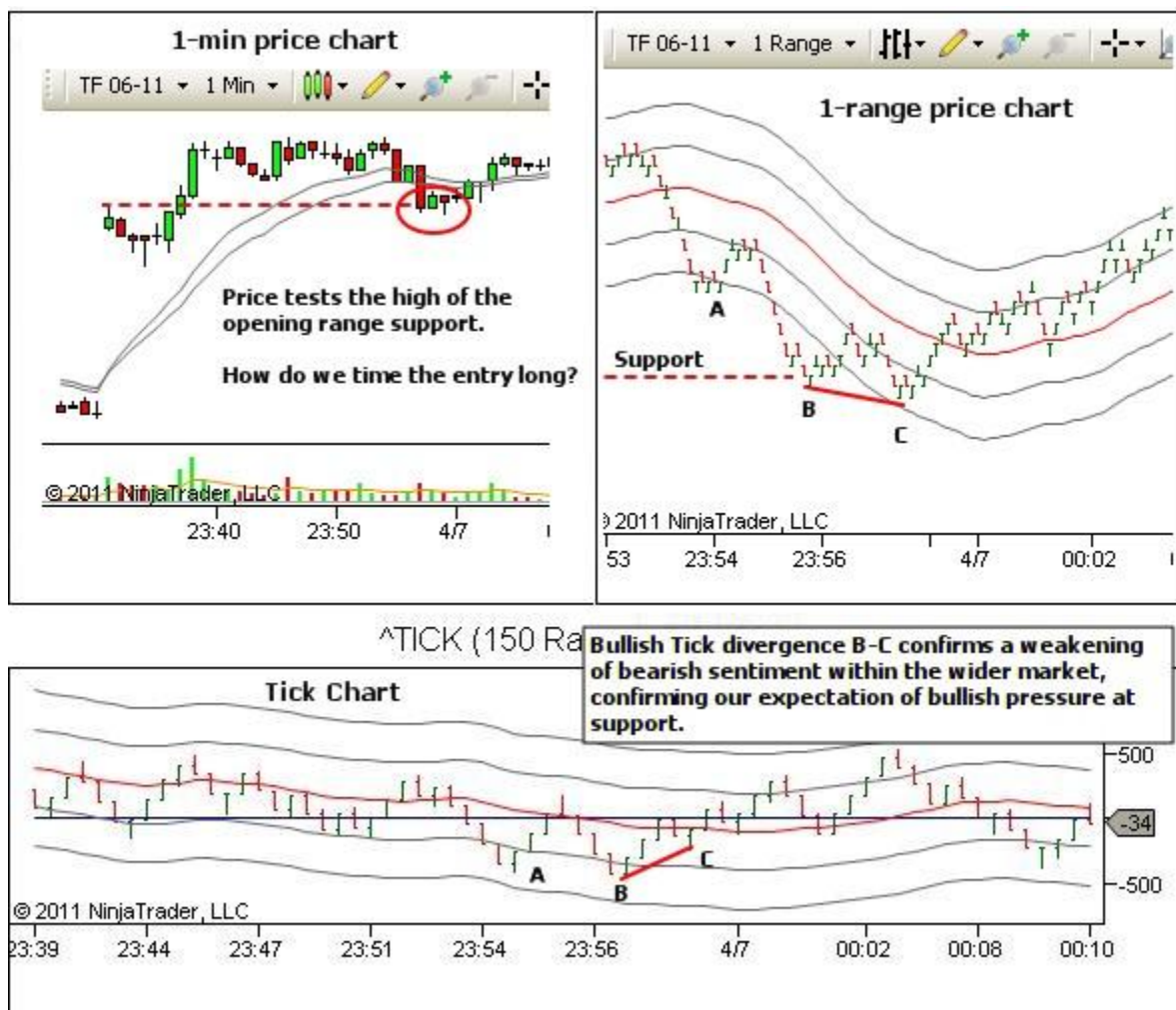


Figure 9.8 – Example - NYSE Tick Supporting Price Action Analysis

9.2 – Gap Opens

Another unique feature of the E-mini index futures is gap opens. Gap opens were mentioned briefly in the YTC PAT ebook series, and also in the following YTC article: <http://www.yourtradingcoach.com/Articles-Strategy/Trading-Gaps.html>

9.2.1 – How I Manage Gap Opens

Common advice is to fade a gap, as studies have shown a tendency to close statistically more often than not. I tend to not like that advice. While it works well when the market complies with the rule, it's downright dangerous on days when the market just gaps and runs.

Rather than fixed rules, I prefer to treat each opportunity in the market as a unique occurrence and trade it based upon what is actually occurring (rather than what statistics tells me should occur most often).

Look for price to establish an open range with the first one-minute candle. Then look at the price action as it interacts with the edges of this range, to find signs of strength and weakness. Who's winning the battle, the bulls or the bears?

Essentially, it's standard "opening-range breakout" theory, if you want to do some research on that. Although, I use a much shorter timeframe (1-min) than most people do in establishing an opening range (5 or 15 min). This technique just establishes the initial bias direction. Ongoing bar-by-bar analysis may vary my bias.

Let's look at how I do this via two examples – an easier one and a harder one. The Trade Examples in Chapter 10 will also include a whole hour of a TF session, trading from a gap open, providing a third example of gap open technique.

Example 1: E-mini Russell, 25th March 2011, gap up opening.

We are looking for price to establish an opening range. In this case, the first candle sets that up nicely, producing a mid-close candle, establishing an opening range via its high and low. We now watch for price interaction with the high or low of the range, seeking signs of strength or weakness.

As show below in our lower timeframe, the blue lines represent the opening minute of one-range price action (A). Following that time period, price pushed against the high of the opening range for 44 seconds (B) before breaking higher. This initially appears to be a sign of bullish strength.

However... if there really was bullish strength, then the breakout should continue to reach further highs. It failed to do so. The higher prices were unable to attract sufficient bullish orderflow to continue higher... indicating weakness in the bulls. This set up an opportunity short, for those who were quick to react as price broke downwards (C).



Figure 9.9 – E-mini Russell - 25th March 2011 – Gap Up Opening - 1

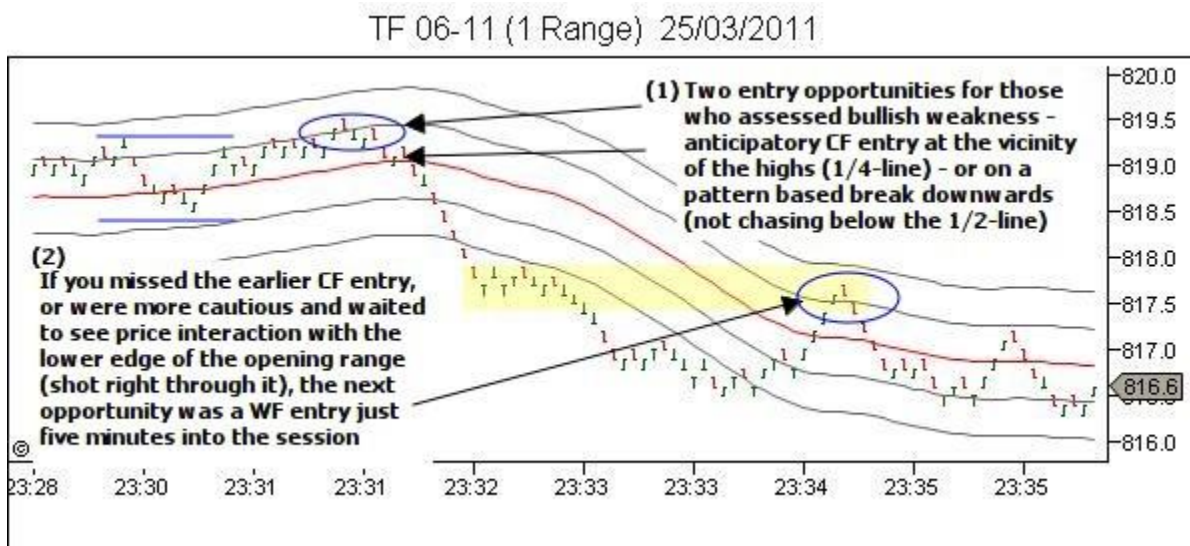


Figure 9.10 – E-mini Russell - 25th March 2011 – Gap Up Opening - 2

Those who missed the counter-flow entry, or who wished to delay their bias decision (awaiting confirmation or non-confirmation through watching price react at the lower boundary of the opening range), were provided with their first short entry just a few minutes later as price completed its first pull back from the move lower.

Example 2: E-mini Russell, 21st March 2011, gap up opening

They're not all as easy as the last one.

The market gapped up strongly on the morning of the 21st March. The diagram below shows the trading timeframe on both the left and right sides; the left side demonstrating the size of the gap; and the right side zooming in to the post-gap trading timeframe candles.



Figure 9.11 – E-mini Russell – 21st March 2011 – Gap Up Opening - 1

As seen above, this example is one in which the price whipped up and down from the opening range, before finally establishing its bias – sideways with a slight bullish tendency.

Looking at the lower timeframe scalping channel we can see the danger that occurs at market open time...

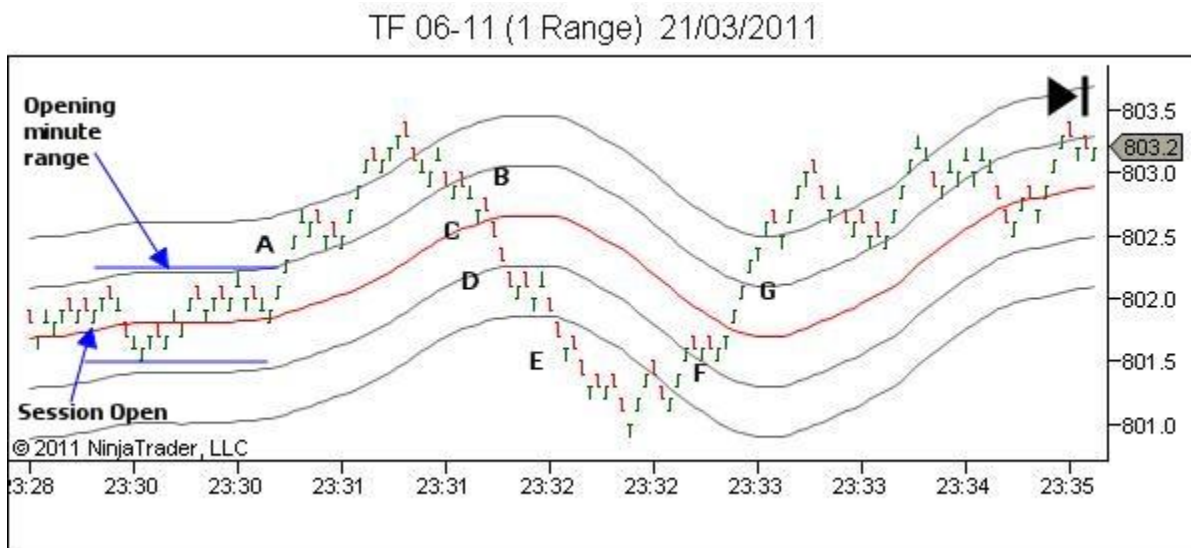


Figure 9.12 – E-mini Russell – 21st March 2011 – Gap Up Opening - 2

Price broke above the opening range at point A and proceeded to rally another point before reversing. Note the difference when compared with the previous example, that demonstrated difficulty in continuing to new highs after the break above the opening range high. Here it occurred relatively easily. This makes the breakout failure much more difficult to assess in this case.

Unless you *felt* the inability to rally higher (at the reversal point), there was little reason to go short at B. And to make it worse, if you tried to enter long at C or D through limit orders then you were starting off the session with a drawdown as it provided a quick losing trade.

The breakout below E stalled a bit sooner, offering a nice 123-pattern based entry long at F (¼-line) – much easier to see than the reversal at the top. However once again this required you to be exact with your assessment of bias and quick with your entries.

And then at G we again broke out to the upside.

For those interested, the NYSE Tick remained above zero throughout, indicating bullishness in the wider market.

The outcome of the initial opening range sequence could be a great profit, or a great loss, depending on your ability to read the whipsaw price action.

Subsequent price action settled down into its sideways range with slight bullish bias, and offered significant opportunity IF you were able to correctly assess that bias and take lower entry prices (¼-line and 0-line for example).

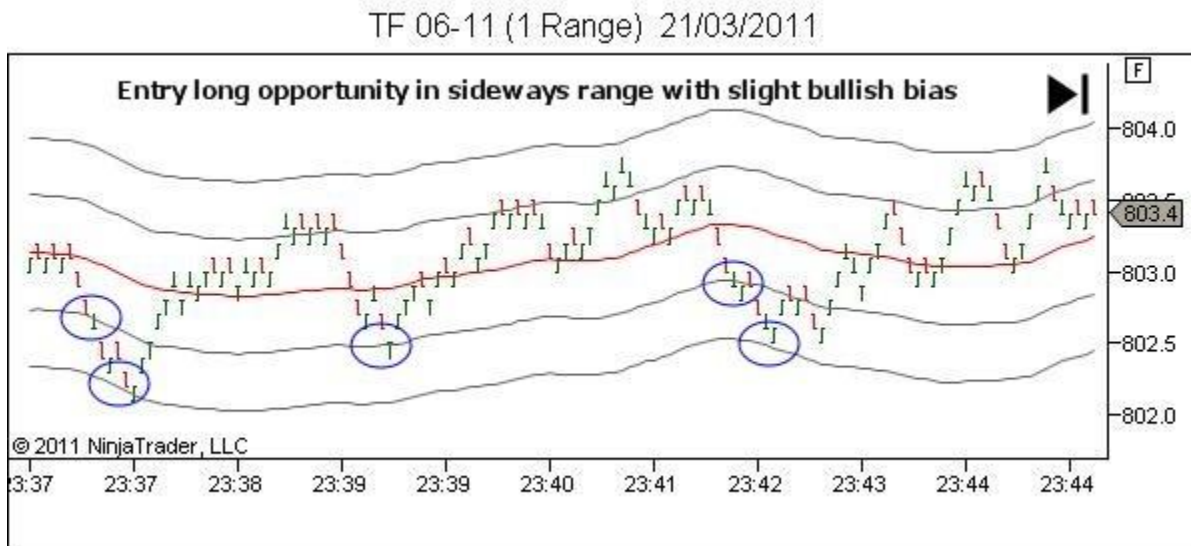


Figure 9.13 – E-mini Russell – 21st March 2011 – Post-Gap Opportunity

I encourage you to study opening gap breakout techniques, if they're applicable to the markets you trade, and practice them regularly via sim and market replay.

However I will also ask you to show caution. The first trade example offered great potential if you were quick to get in. This second example may have provided either great profit or loss – it's not possible to know how you would have read it in real-time.

In both cases though... it was only a few minutes till price settled down into a clear bias and provided great opportunity for the remainder of the session. In the first example you would have had to wait only 5 minutes for your first trade. In the second example you would have had to wait for 7 minutes.

So the lesson here: don't rush your initial assessment following a gap opening. If you've got a clear signal, take it. Otherwise, wait. There is nothing worse than starting a session with a stupid rushed trade resulting in a loss.

And I promise... the market will punish you more often than not when it whipsaws, such as demonstrated in this example.

9.3 – Slow Action

9.3.1 – Quiet Markets

You have a number of opportunities with quiet markets, once identified:

- Walk away and save your trading opportunity for another day;
- Set a price alert for breakout of any range that may be containing price;
- Take advantage of the low volatility, which while it may not offer massive profits, will usually offer consistent small scalps.

Slow markets are not my favourite sessions (due to my lack of patience). But they can offer good opportunity. So don't scare away too quickly. Let's look at a couple of examples...

Example 1: Euro, 21st March 2011

It's a Monday, with no significant economic news expected for a few hours.

The open of the US session set up a slow, grinding uptrend.



Figure 9.14 - Quiet Markets – Euro – 21st March 2011 – Slow Grinding Uptrend – 1

In this case, the bias was clearly upwards on both the trading and lower timeframes, offering easy opportunity if taking entry in the vicinity of the $\frac{1}{2}$ -line, and scalping out small profits maybe in the vicinity of the $\frac{3}{4}$ -line or 1-line.

The hardest part (in my opinion) is trusting the channel enough to hold till profits are available. The third trade for example took 11 minutes to get from entry to the $\frac{3}{4}$ -line exit for +4 ticks profit. I find great temptation to scratch early through feeling that there is just no follow through. Typically it then moves after I get out. Hopefully you find these sessions easier than I do.

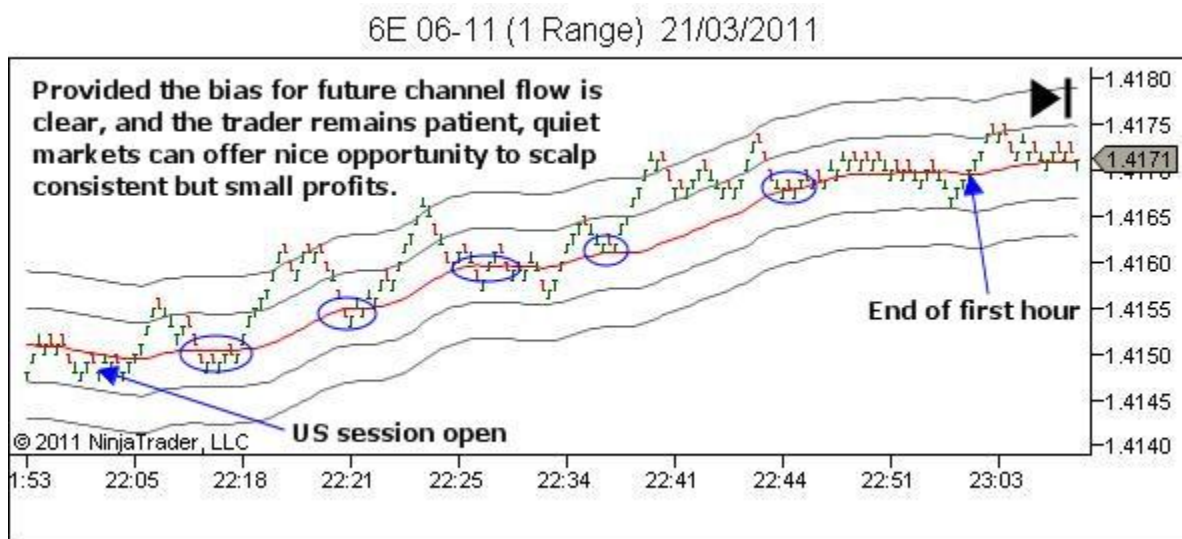


Figure 9.15 - Quiet Markets – Euro – 21st March 2011 – Slow Grinding Uptrend - 2

Example 2: Euro, 24th March 2011

In this second example, we'll look at a slightly different type of quiet market. This one actually occurred following a period of narrow-range sideways action moving through approximately 15 ticks range from high to low. At 22:30 chart-time (08:30 ET) there were a couple of significant economic releases which would usually create some market movement (Core Durable Good Orders and Unemployment Claims).

Making a decision to trade the session post-news provided the following action:



Figure 9.16 - Quiet Markets – Euro – 24th March 2011 – Narrow Range Sideways - 1

The first 5-7 candles after the news release clearly showed selling occurring at the top of the range. The subsequent down-swing also showed buying at the lows of the range.

Price was still stuck in its original narrow-range sideways action.

The choice here is to either walk away, or continue to scalp small pieces from the edges of the range (1/4-line and 0-line in this case).

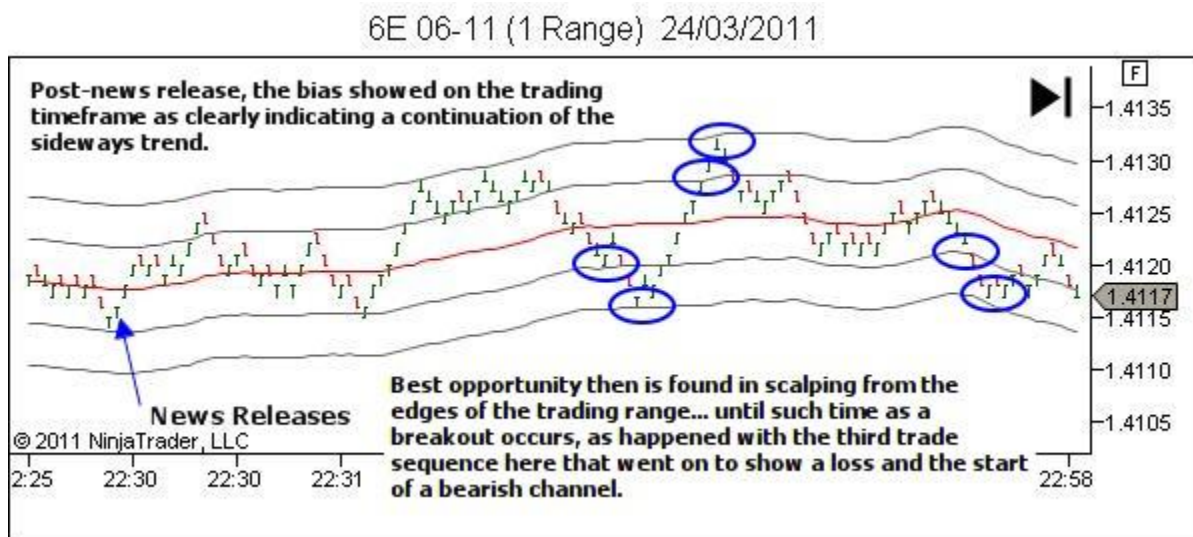


Figure 9.17 - Quiet Markets – Euro – 24th March 2011 – Narrow Range Sideways - 2

Had you correctly identified the bias, and had you traded from the edges of the channel (which coincide with the edges of the range), the next half an hour offered three trade sequences (both two parts), of which the first two were winners. The third was a loser, although it led into a subsequent break downwards from the range, and the commencement of a profitable bearish channel.

Once again though... given the slow nature of the price action... it's not as easy as it looks.

Profits require not only a correct assessment of bias, but also sufficient trust in your bias to hold a position through 5 or more minutes of slow movement. Don't be surprised if you underperform in quiet markets.

9.4 – Highly Volatile Action

9.4.1 – Managing Post-News Speed

Whether it's a planned economic release, or an unexpected announcement, rapid and highly volatile price movement provides both great opportunity and great risk to your session P&L.

In the chart above, price exploded upwards rallying a total of 34 pips in two minutes. At such times, you should either stand aside and wait for normal price movement, or risk entry via breakout orders.



Figure 9.18 - Fast Directional Movement Requires Breakout Entries

Often there will be insufficient pullback on at least the first and second price extensions, with price failing to get anywhere close to the wholesale regions.

Slippage will also be the norm, on both entry and exit.

Caution should be applied in this rapid movement environment. These are high risk trades; although also offering high potential reward. I will normally just stand aside unless already holding significant session profits when a small portion may be risked for potential larger gains.

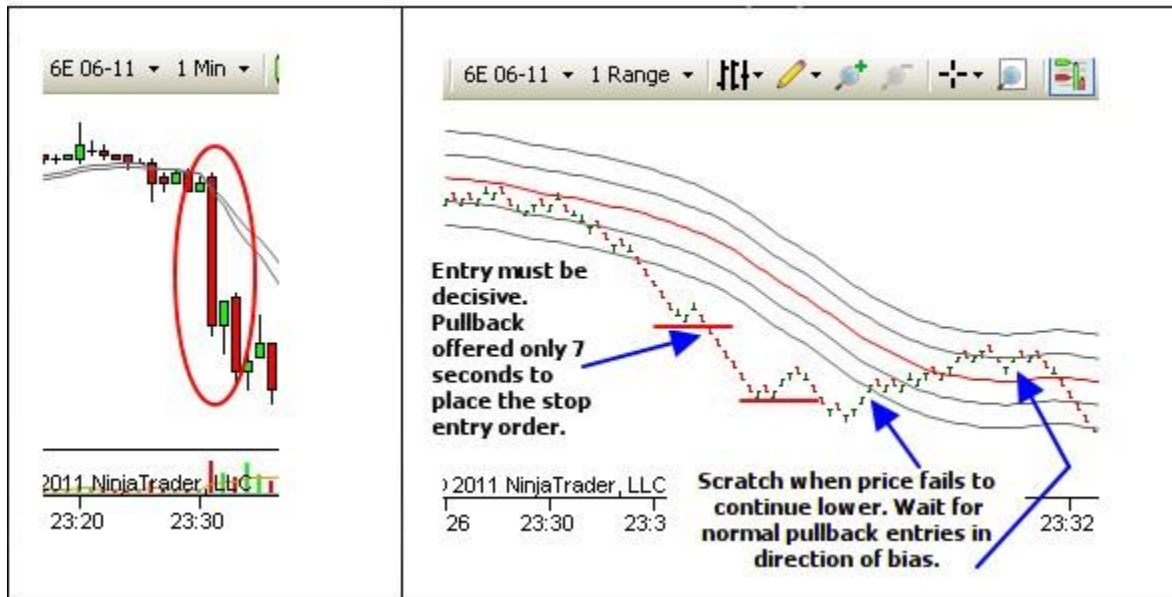


Figure 9.19 - Fast Directional Movement Requires Breakout Entries

9.4.2 – Market Fear / High Volatility

One of the challenges with using a channel-based approach for lower timeframe trade entry and management is that adjustments may need to be made when volatility in the markets increases dramatically.

An example occurred during writing, when the markets were gripped by a combination of continuing Middle East uncertainty (in the leadup to the war in Libya) combined with the earthquake and tsunami devastation and a potential nuclear threat in Japan. Not to mention the ongoing global economic problems.

An example was the E-mini Russell on 17th March 2011, which commenced the session with a gap up of 12 points. The session started with a great sequence of trade opportunities for those quick enough to respond...

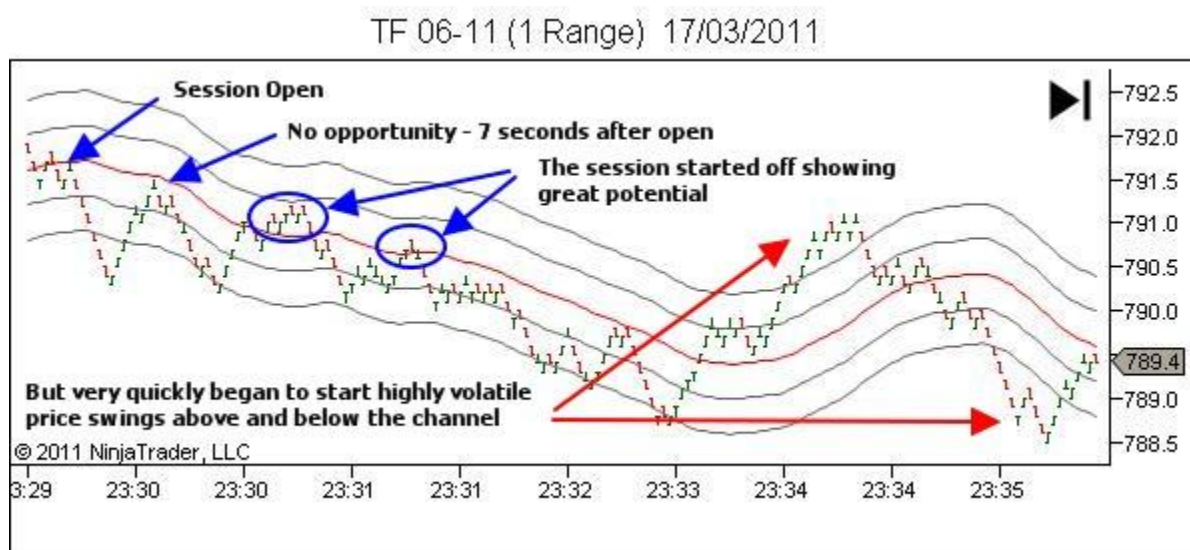


Figure 9.20 - Market Fear and Associated High Volatility Will Require Adjustment - 1

... but then quickly established highly volatile price swings above and below our price channel.

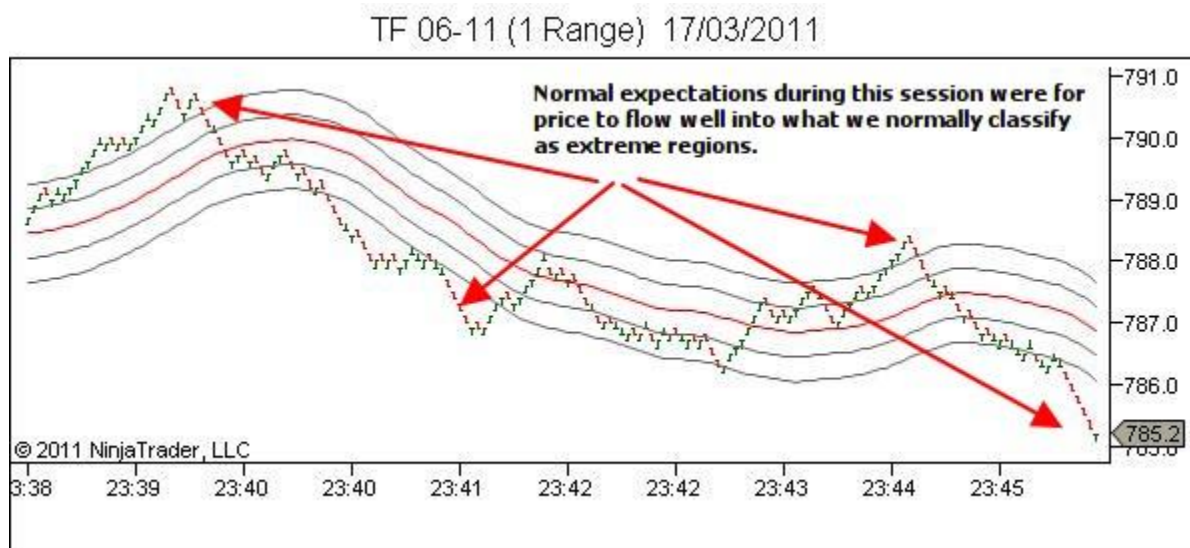


Figure 9.21 - Market Fear and Associated High Volatility Will Require Adjustment - 2

Maintenance of an accurate bias for future channel flow becomes even more important during these highly volatile sessions.

But even then, if you are using semi-automatic entries you'll likely be staring down the barrel of a trading session halt when you hit maximum daily drawdown.

Options...

- First, stand aside and observe the price action. If you can get in sync with the flow then continue, otherwise just use the day as practice (sim only).
- Then, either widen your semi-automatic entries to the ¼-line or 0-line (if applicable), or use price action levels rather than channel lines for entry. Price action levels are by far the better of these two options.
- Or consider one of the slower alternate lower timeframes as discussed in the next section, as these will typically be less volatile than the 1-range. For example, the 20-tick gave some beautiful pattern based reversal triggers during this session.

These days are thankfully not too prevalent, but when they occur you will need to adjust.

Always remember...

Success is a result of your being in tune with the market environment and bias... and being able to adjust your trading tactics to suit.

9.5 – Using Alternate Lower Timeframes

In finding my niche at and below the 1-minute timeframe I experimented with a significant number of variations to the lower timeframe chart. Once you're comfortable with the strategy, I recommend spending an hour or so after a session comparing the 1-range chart to other alternatives.

Just because I prefer the 1-range chart, doesn't mean that it will also suit you. You may see and feel price-flow better on an alternate type of chart.

The following are some of my preferred alternates.

9.5.1 – Alternate Range Chart Settings

I am quite comfortable on 2-range as well, which offers just a little less information. This might be a good option for those who can't quite keep up with the speed of 1-range.

Channel parameters vary from the 1-range due to the significant reduction in volatility. I find the following to be useful in giving similar readings as our 1-range channel:

- Keltner Channels (20,2)
 - Period 20, Offset Multiplier 2, forming the centreline and the inner channel lines
- Keltner Channels (20,4)
 - Period 20, Offset Multiplier 4, forming the centreline and the outer channel lines

Here's a sample chart comparing 1-range with 2-range, allowing you to confirm similar price movement and setup opportunities. Note that the 1-range provides a lot more data, so had to be compressed to cover approximately the same timeframe.

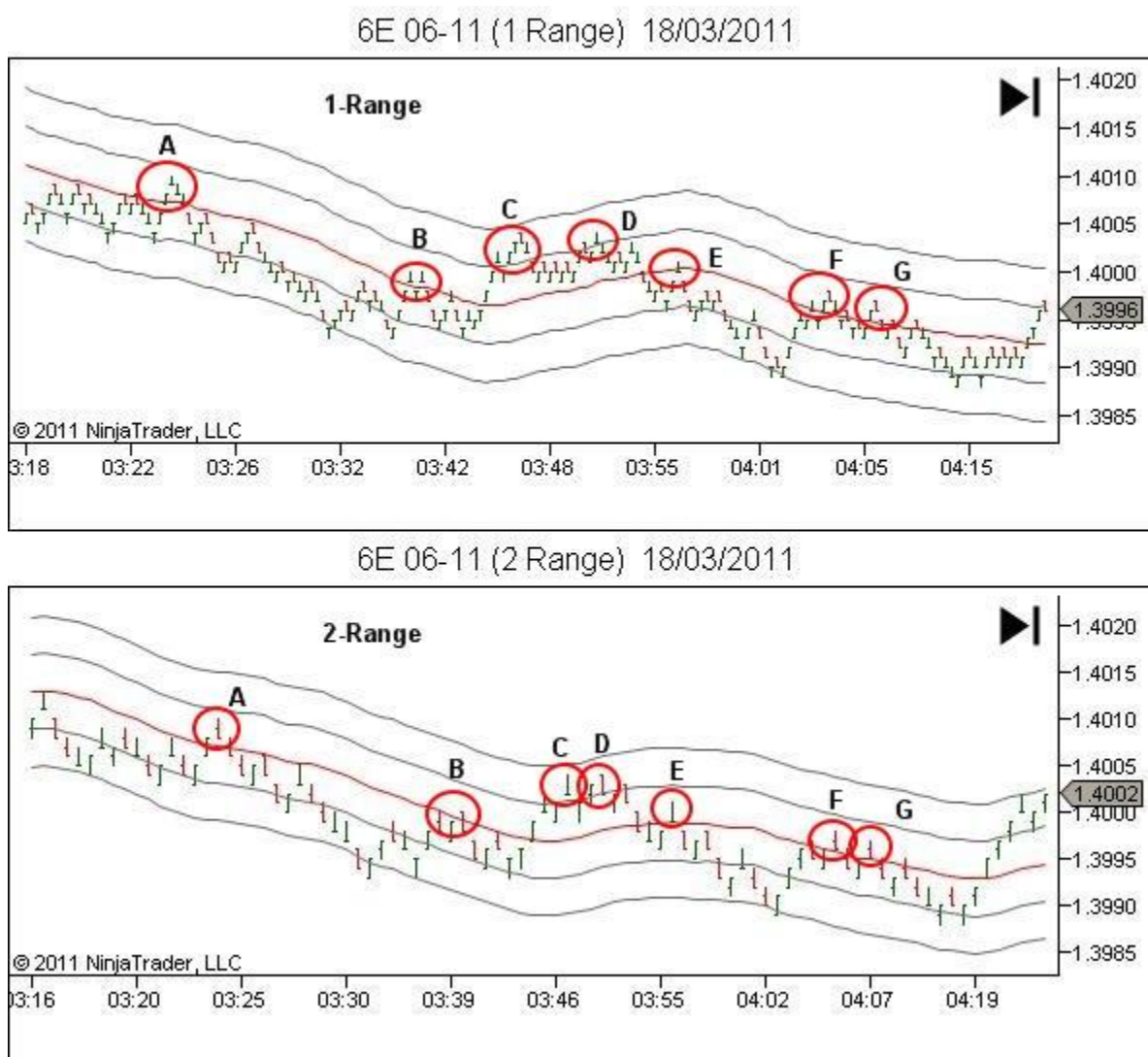


Figure 9.22 - 2-Range Alternate Lower Timeframe Chart

9.5.2 – Tick Charts

My favourite alternate chart setup is with a tick chart. Typically this would be 20 tick for both 6E and TF*.

** **Note regarding tick settings:** Tick values will vary with different brokers and data providers, due to differences in the way that tick data is processed and displayed. The tick values used throughout this book are based upon tick data provided by Interactive Brokers (IB) which is regarded as much less pure than that provided by many other brokers or data providers. If you have a purer data stream, then you will likely find 20 tick to be too fast. Your settings may therefore require changing.*

I recommend adjusting your tick value such that it provides a new bar approximately every 10 seconds during the most active but normal part of a session (such as immediately after the session-open volatility settles down). As is the nature of tick charts, bars will appear more quickly during extreme periods such as immediately post-news, and will appear more slowly during quieter markets.

This setting will provide charts approximating my use of the IB 20 tick charts.

Any references to 20 tick throughout this book refer to the IB data stream, and may therefore need to be adjusted for your data provider.

This variation in tick data quality between brokers and data providers was a large factor in my decision to change the lower timeframe to range bars. Range bars will look the same through all data providers, thereby simplifying YTC Scalper implementation for newer traders.

Channel parameters for your tick chart are the same as for 2-range, again due to the reduced volatility when compared with 1-range.

- Keltner Channels (20,2)
 - Period 20, Offset Multiplier 2, forming the centreline and the inner channel lines
- Keltner Channels (20,4)
 - Period 20, Offset Multiplier 4, forming the centreline and the outer channel lines

The following is an example from the Euro, again showing similarity in price movement and setup opportunities.

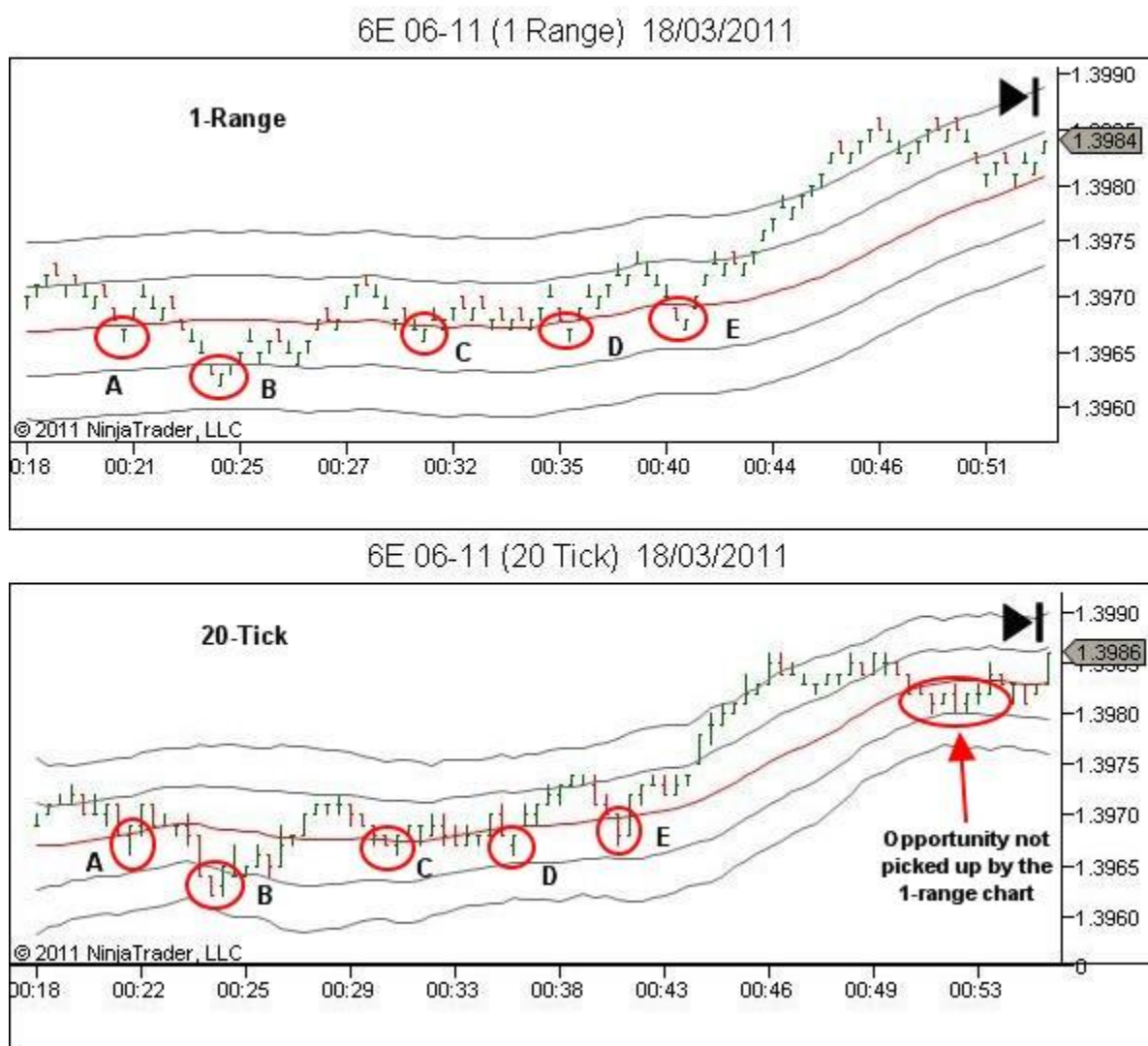


Figure 9.23 - 20-Tick Alternate Lower Timeframe Chart

The 20-tick chart is also great for identifying YTC PAT lower timeframe pattern based entry triggers, if you so desire. This is demonstrated below. I will promise you though – if you try to enter solely through this method you will miss a lot more trades than you get. Learn to trust channel flow and to enjoy the challenge of swinging back and forth from wholesale entry regions to retail exit regions.

Sometimes though, these patterns set up beautifully. If you see one at S/R which traps other traders against your bias, consider taking it.

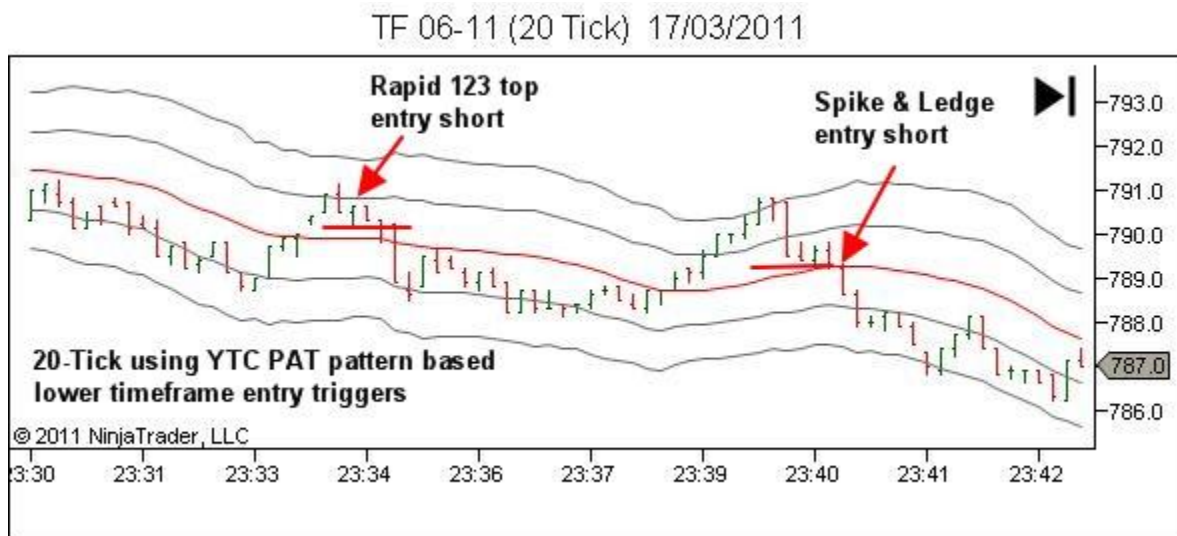


Figure 9.24 - 20-Tick Alternate Lower Timeframe – Pattern Based Trigger Entry

9.5.3 Alternate Lower Timeframe Template

If you're not a fan of the scalping channel, great results can also be achieved simply through the use of two moving averages. From trials, I preferred the EMA (15) and EMA (20) combination.

Flow direction is considered to be the direction of the crossover. That is, when the 15 is above the 20, flow is up. When the 15 is below the 20, flow is down.

The concept is still the same as before.

1. We still use the YTC PAT analysis in order to identify our bias for future-trend direction.
2. Within that future path, we simply scalp the price flow as it moves between wholesale and retail sides of the EMA pair.

At the scalping timeframes, this is just a game of identifying orderflow and taking small pieces out of this flow. The scalping channel concept of flow, wholesale side and retail side, can be equally applied to an EMA – just scalping across the average lines from wholesale to retail.

The entry zone therefore is the wholesale side of the EMA pair. The with-flow and counter-flow concept is the same as for the channel.

The EMA cross method works exceptionally well with the 20 tick chart (IB data). For quite a while it was my primary lower timeframe chart. The following charts compare a 1-range scalping channel with the equivalent 20-tick EMA-cross template.

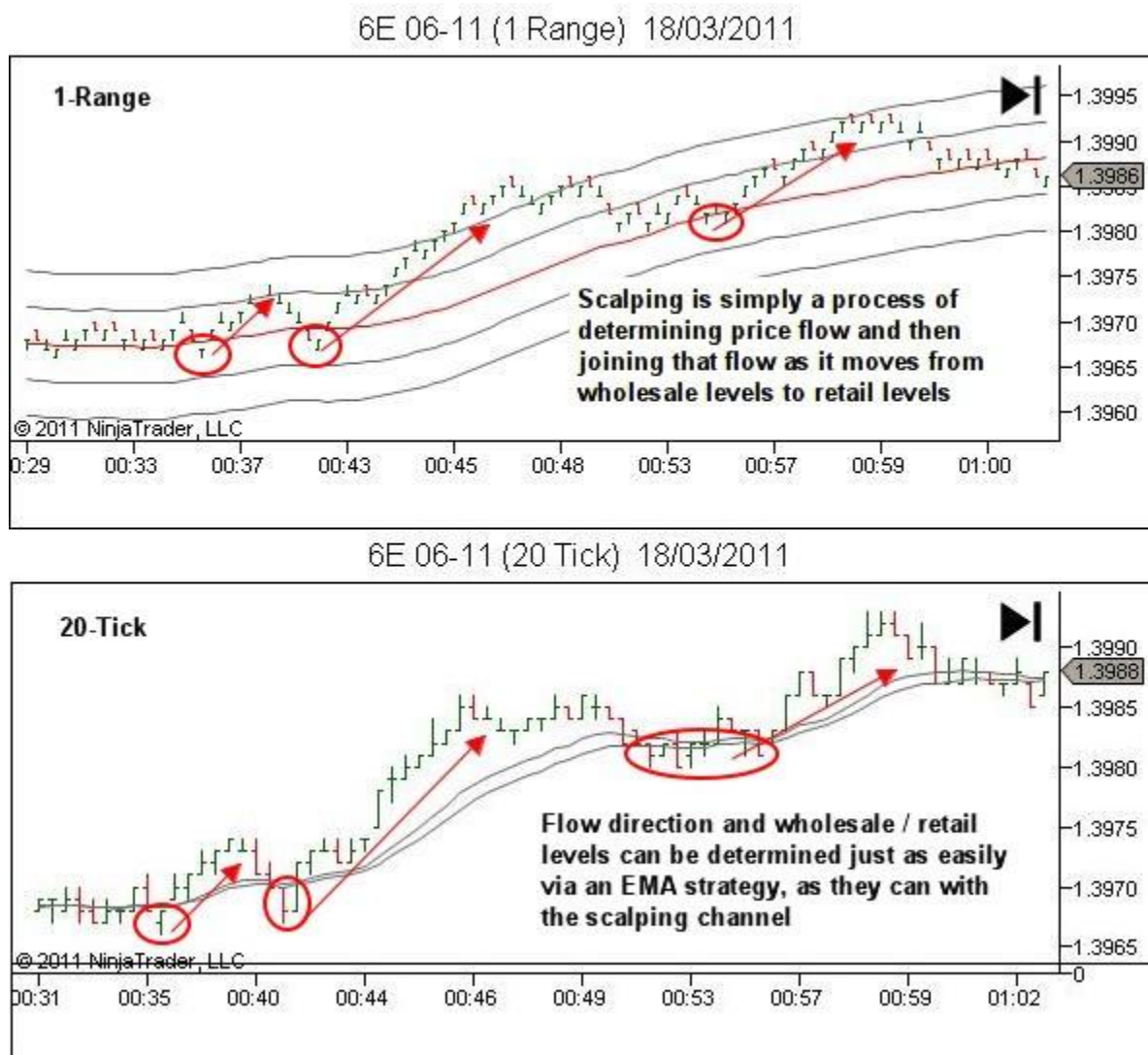


Figure 9.25 - Alternate Lower Timeframe Template

Please realise... this is NOT a simple, mechanical moving average pullback system. Discretion is applied, as it is with the channel, as to when to take the trades and when to pass. In addition, your analysis will allow you to differentiate from when the wholesale entry is with-flow and when it's counter-flow.

For example:

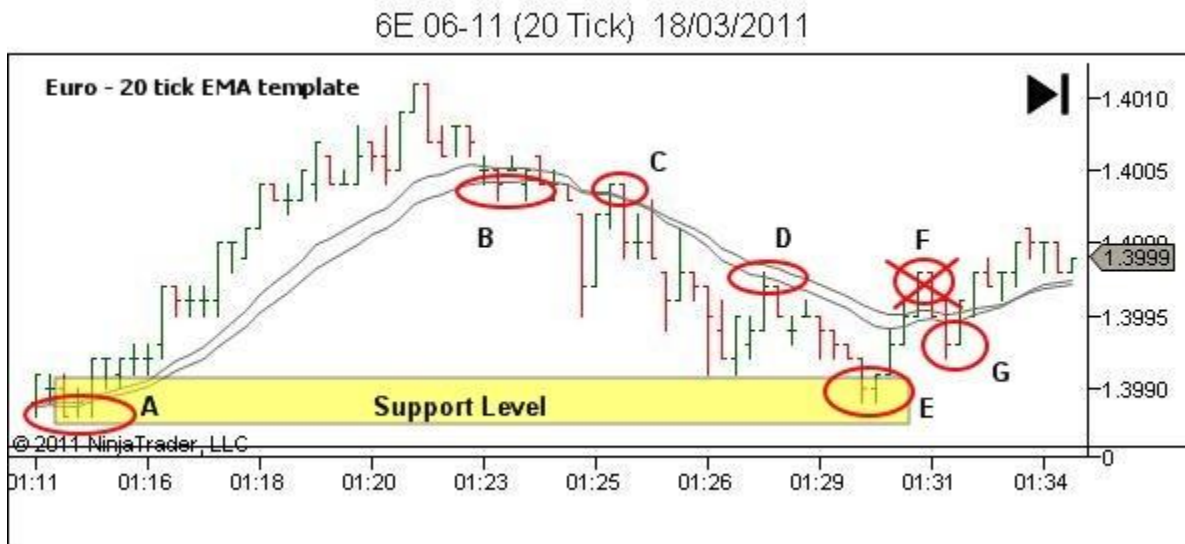


Figure 9.26 - Alternate Lower Timeframe Template – Wholesale Entry Zones WF & CF

Entry would be sought below the EMA in area A and B. Area A provided significant opportunity. Area B would likely be scratched, or have produced a loss, depending on management. Short opportunities were available at areas C and D (if filled), where the part one wholesale entry is at the EMA lines.

Area E shows where price has fallen to an area of support. Here, we expect some kind of bounce and are seeking a counter-flow entry due to the slowing of price into this area of support. Our wholesale region is counter-flow, below the EMAs, not above them as occurs for with-flow entries. Entry should be sought as far below the EMAs as possible.

With-flow entry at F is avoided, due to the analysis showing strength coming off support, with the next wholesale entry being taken counter-flow at G. *Note the two EMA lines having turned upwards prior to G, indicating potential for a change of flow direction.*

The only thing this EMA methodology is lacking, that the channel provides beautifully, is indicator based levels for scaling in and out of trades. However, similar results can be obtained through basing entries off prior price action (as with the channel-based price action entry method), or through simply visualizing areas of sufficient retracement based upon historical volatility.

If scaling in for example you could use the EMA line for partial entry (you'll be surprised how often it tags this level and continues) and then a subsequent entry at approximately half to two-

thirds of typical historical extension beyond the EMA. *This is of course assuming YTC PAT analysis processes identified a clear bias for continuation in your trend direction and provided no reason to expect deeper pullback, as discussed for the channel.*

The same concept would apply for counter-flow entries – partial entry towards the extreme of normal extension below/above EMA, and further entry as price moves in your expected direction. Aim to have the whole position on well before the EMA though – just in case you're wrong. The more *wholesale* you can get, the better!

Confirmation = risk!

This discretionary scaling in, based upon your feel for expected depth of pullbacks and extensions, is (to be honest) a better approach than blind acceptance of the channel lines. However I acknowledge that it is more difficult for newer traders who have not quite developed sufficient trust to make these decisions. Without trust, traders will continuously place their limit orders too deep, resulting in continually missing winning trades and continually catching all the losers. This is part of the reason I adopted the channel approach for my own trading and for this book – simplicity for the beginner. I do recommend (even with using the channel) that as you get more experienced, you select your entry levels from a combination of analysis and feel, rather than just blindly placing them at $\frac{1}{2}$ and $\frac{1}{4}$ -lines.

Let's look at a few more examples of the use of the EMA 15/20 template on the 20-tick chart (IB data), as an alternate to the 1-range chart.

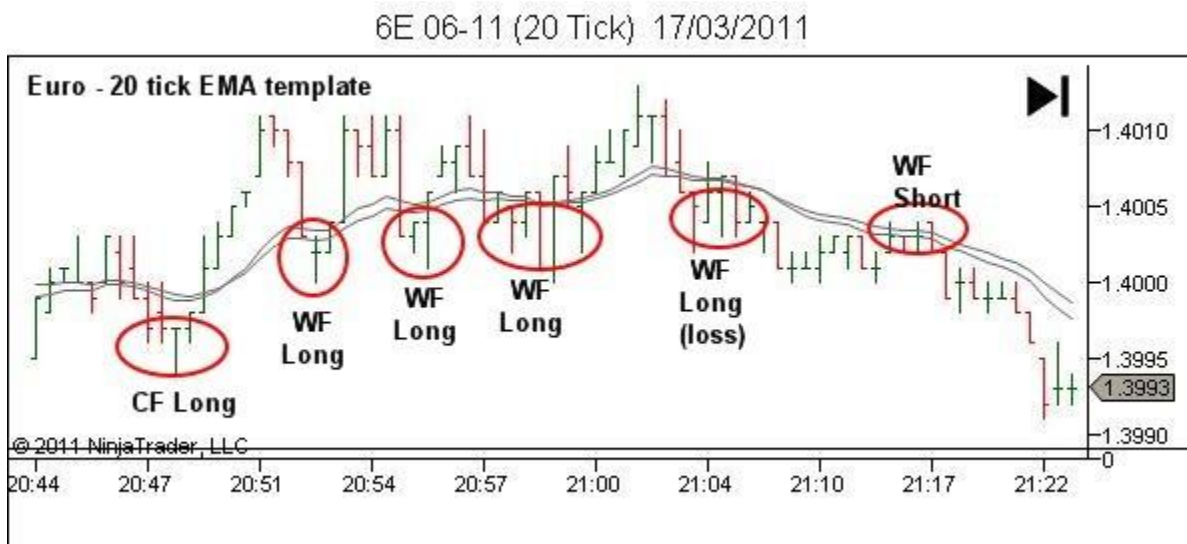


Figure 9.27 - Alternate Lower Timeframe Template – Wholesale Entry Zones WF & CF

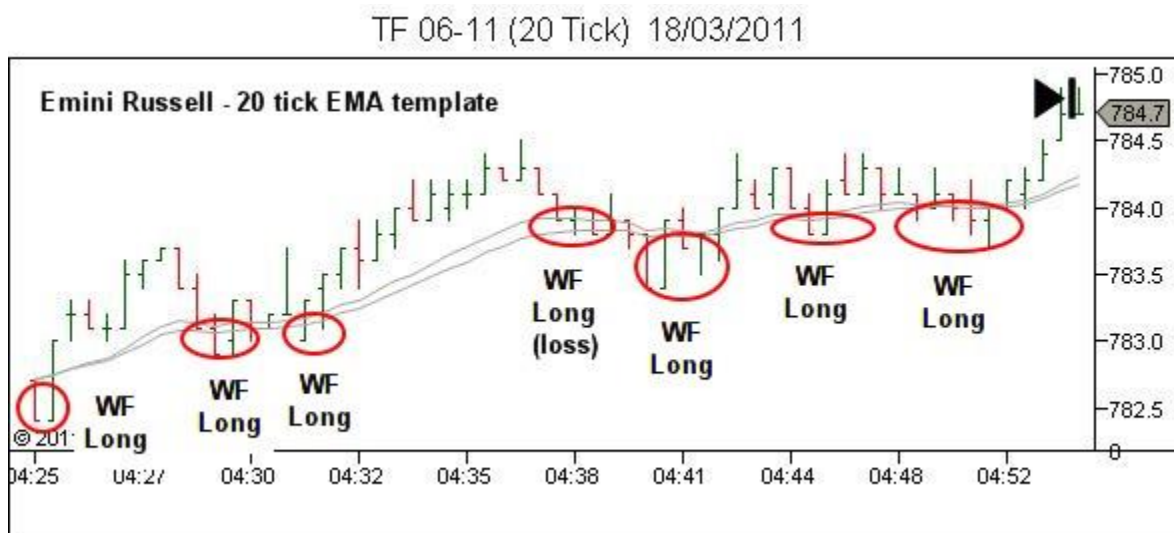


Figure 9.28 - Alternate Lower Timeframe Template – Wholesale Entry Zones WF

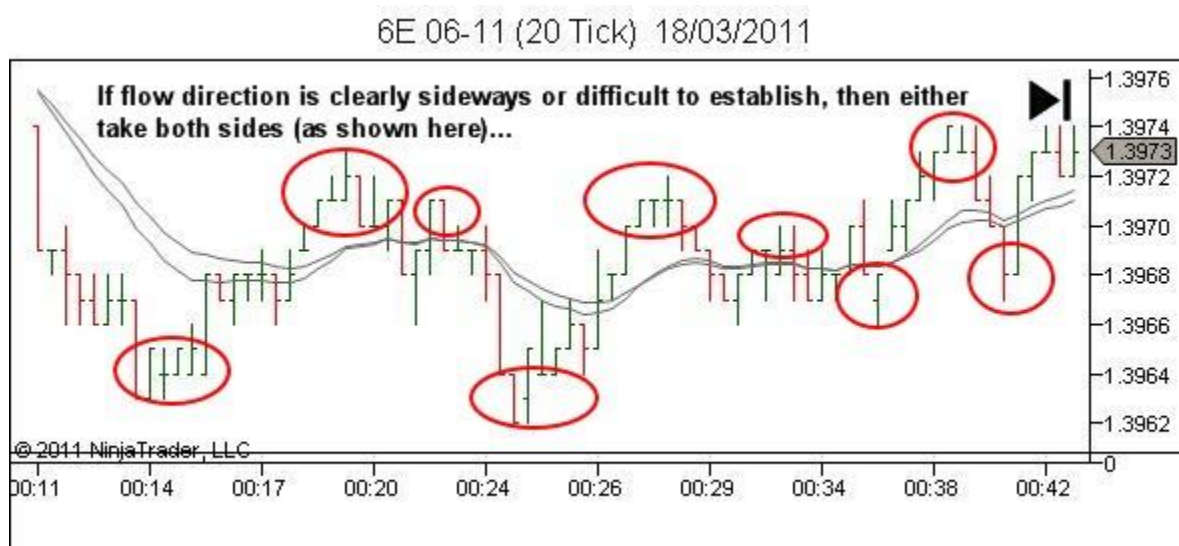


Figure 9.29 - Alternate Lower Timeframe Template –
When Flow Direction Is Sideways or Difficult To Determine – 1 of 2

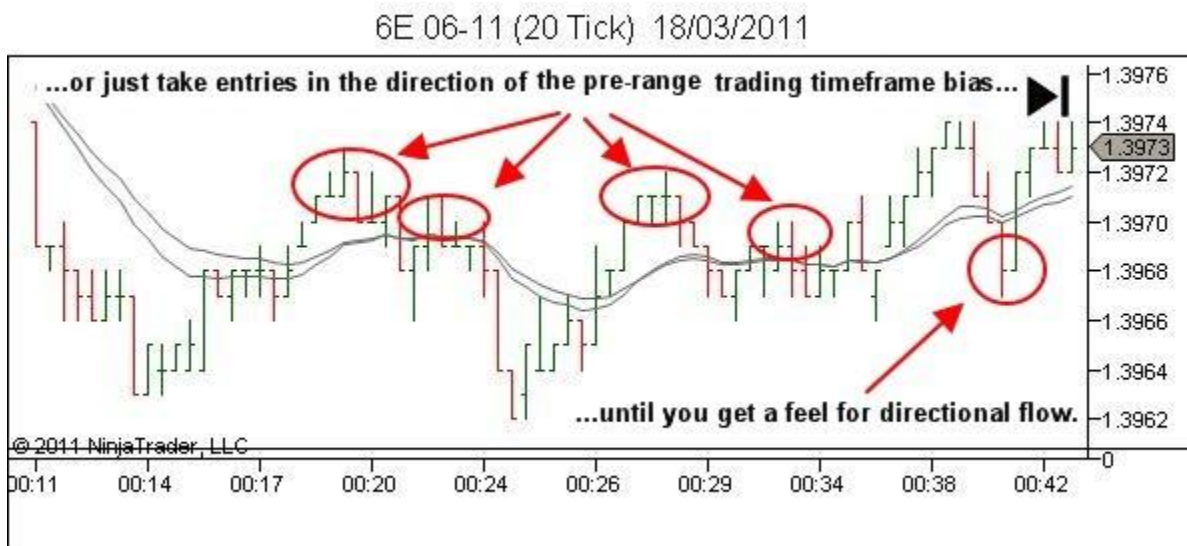


Figure 9.30 - Alternate Lower Timeframe Template –
When Flow Direction Is Sideways or Difficult To Determine – 2 of 2

Again... and I repeat this over and over in the hope of helping you avoid this danger... this is not a simplistic EMA cross system.

Unfortunately scalping appears simple.

Participate in the price swings back and forth across the EMA, or back and forth within a channel. That's all this scalping game is, and to think otherwise is to complicate matters more than they need to be.

However, to make this a simplistic system and just trade every pullback against the EMA cross direction, will be to accept average results. If you wish to trade as a professional trader, never accept average results. Use your YTC PAT analysis skills to identify the trading timeframe bias, and identify the wholesale opportunities within this bias (whether with-flow or counter-flow).

- Enjoy the uncertainty.
- Develop a feel for future trend direction (bias).
- Trust your bias.
- Enter at wholesale areas.
- Manage the hell out of the trade.
- And enjoy the challenge regardless of results.

9.5.4 – Multiple Lower Timeframe Charts

You may even consider watching two different lower timeframes, such as both a 1-range channel and a 20-tick EMA chart. This gives two different perspectives to the price movement. Caution though: it does increase information. So if you find it just adds to doubt and hesitation... pick your favourite chart display and stick with it.

Typically I find that they do complement each other. At times when having difficulty determining the flow direction on the 1-range, it may appear quite obvious on the 20-tick.

9.5.5 – Time Charts

What about good old time charts? This was where I spent my first foray into lower timeframes of less than a minute. My preference was a timeframe of 10 seconds.

I used the standard YTC PAT methodology, looking for a stall or pattern based entry on the 10-second chart, in the area of 1-minute PB, CPB, TST, BOF and BPB. You can see some early examples of the use of the 10 second chart with YTC PAT methodology in the following articles:

- <http://www.yourtradingcoach.com/Articles-Strategy/Scalping.html>
- <http://www.yourtradingcoach.com/Articles-Strategy/Are-Short-Timeframes-Just-Noise.html>

While it works ok, the problem was that it was often too fast for me to make decisions. I missed too many trades. This of course led ultimately to the exploration of alternate chart types and the development of the scalping channel, in my search for simplification.

I found however that I couldn't get a reliable channel out of a 10 second chart. 10 second charts produce periods of illiquidity or sideways action which flatten out the channel, reducing the effectiveness of the scalping channel in providing me with a feel for channel flow.

This is demonstrated in the chart below.

Tick and range charts do not suffer from this problem.

The alternate template (EMA 15/20 cross) is an improvement but still underperforms the use of tick or range charts.

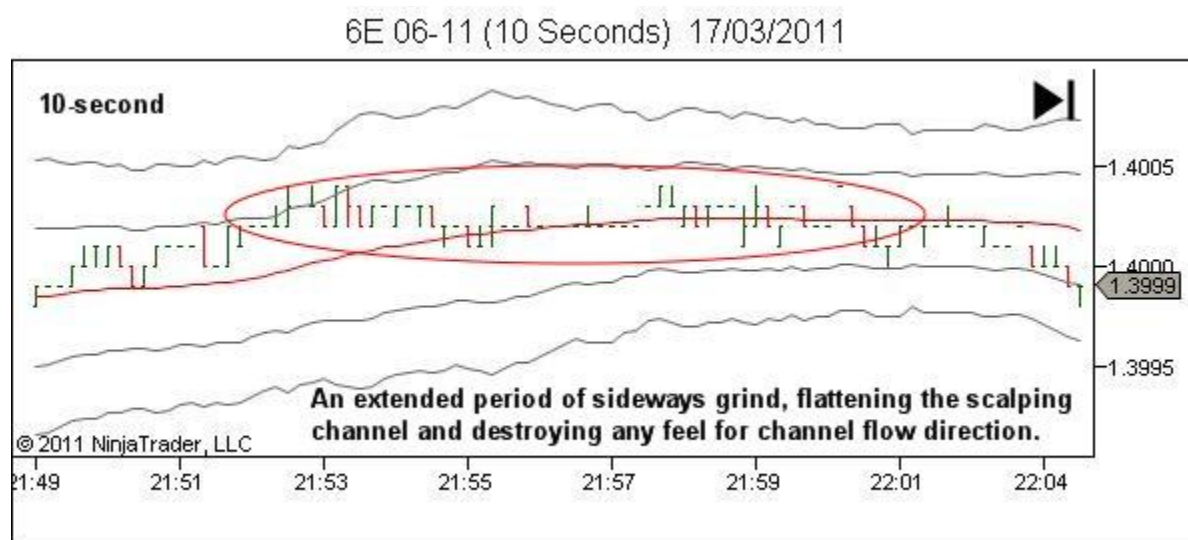


Figure 9.31 - 10-Second Chart Problems

The better option for 10 second charts appears to be the use of standard YTC PAT methodology, triggering entry through standard YTC PAT pattern based triggers. You'll just have to accept occasional missed trades and slippage.

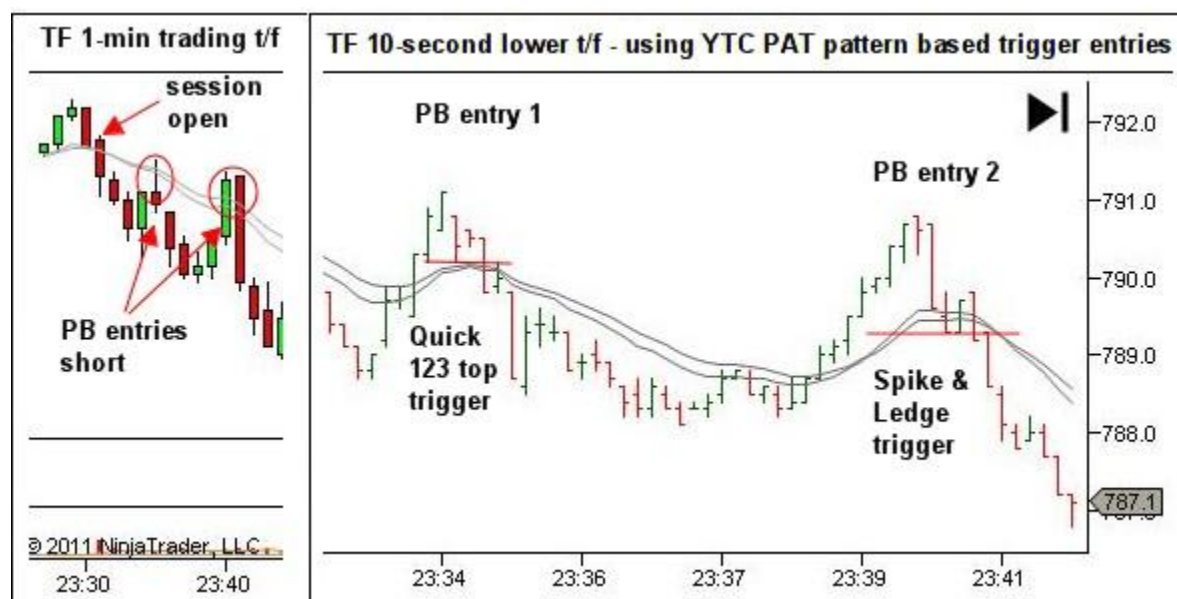


Figure 9.32 - 10-Second Chart – Standard YTC PAT methodology

If you prefer to use time based charts, this may be your only option, simply accepting missed entries or late entries (it does work fine... I just didn't like the missed opportunity). Again, refer to the earlier links to old YTC website articles for some examples of standard YTC PAT entries on 10-second charts.

If you are considering using time based charts purely for the reason that your platform doesn't offer tick or range bars... that's a ridiculous reason...get a more modern platform that does provide them.

Chapter 10 – Trade Examples

Before we begin, some notes regarding the YTC Scalper trade examples:

- 1) The following examples will not follow the comprehensive analysis process used in the YTC PAT ebook series. The principles used in developing a bias for future trend direction (or channel-flow) were covered in that document and do not need to be repeated here.
- 2) NOTE: The channel lines are darker than usually displayed on my screen, in order to be visible on printed copies of this book. On my actual screen setup, they're quite faint (Ninja colour: light grey).
- 3) As you work through the examples, take particular note of the 1-range price movement leading into the entry position. Note how trades are almost always entered via limit orders. In most cases you do NOT need confirmation if your bias is correct. That is especially so when you have an S/R or price action level at your back.
- 4) 1-range charts will display arrows to indicate order locations, and lines to join entry and exit orders. Colours will be as follows:
 - a. Blue arrows will be used for BUY orders.
 - b. Magenta arrows will be used for SELL orders.
 - c. Blue will be used for long trades.
 - d. Magenta lines will be used for short trades.

10.1 – E-mini Russell – 24th March 2011

Session Planning

Plan: Trading the E-mini Russell for the first hour from the open. (Chart times 23:30 – 00:30). Please note that due to timezone differences once the charts pass midnight they may display 25th March. This is just local time... the session is the TF 24th March 2011 session.

Economic News: Durable Goods and Unemployment Claims were released one hour prior to the session. The only news release planned during session is the Natural Gas Storage, due right at the one hour mark (10:30 ET; 00:30 chart time). This is only expected to have minimal impact, if any.

Session Open



Figure 10.1 - TF 24th March 2011 – Session Open

The session gaps open at 813.9, just short of the 815.0 gap closure resistance that has been in effect since the 10th March. Support is at 813.5, 811.3, 808.4 and below the chart at 806.5. Key levels are 815.0 (gap closure) above price and 811.3 (prior days high) below price.

Note: The higher timeframe has not been shown as you should be familiar with this process from YTC PAT. Higher timeframe S/R levels have been copied to the 1-min chart.

Pre-session channel flow is bullish... but this is of little concern. The session open can change the sentiment in the market, so we'll watch the opening range establish itself and then determine a bias depending on how price interacts with that opening range.

The Tick also opens positive at +616, but this can also change rapidly. Let's wait for more information.

Opening Range

The following three charts (1-min, 1-range, Tick) show the opening range which helps establish our bias for bearish channel flow as price breaks the opening range low and holds at lower prices.

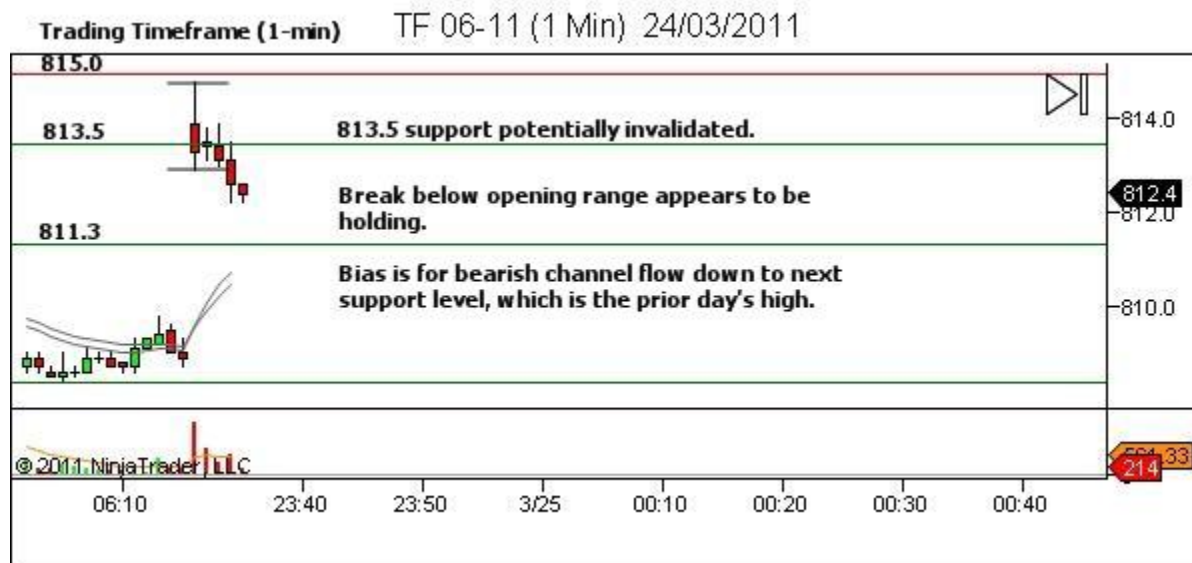


Figure 10.2 - TF 24th March 2011 – Opening Range – 1-Minute

Refer now to the 1-range chart on the next page.

I was tempted to take shorts at A and B, due to the speed of the fall from range high to range low, and then the slow nature of the rallies up to A and B.

More often though the wisest decision (in hindsight) is to hold off on any trades till a clear initial bias can be established. Remember the opening range whipsaws in Figure 9.12.

A and B would have profited, but it's a lower risk option and better passed at this stage.

A bearish bias was established at the point near the RHS of the chart. All bullish moves within the opening range had been struggling to make up ground. The break below was rapid and price was now holding below the opening range. Tick had trended down from its high open and was indicating negative Tick readings.

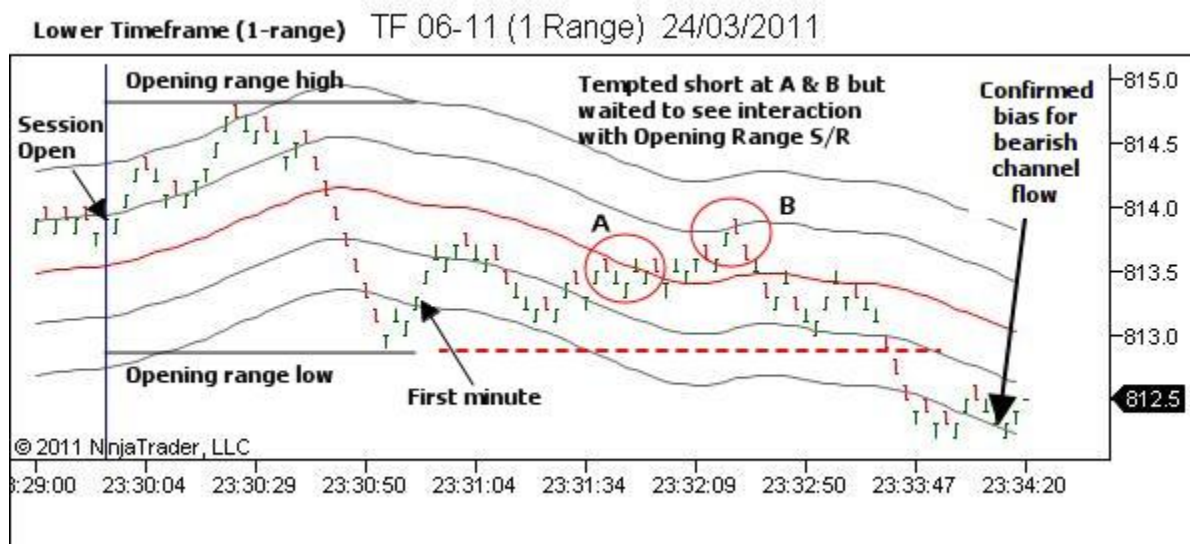


Figure 10.3 - TF 24th March 2011 – Opening Range – 1-Range



Figure 10.4 - TF 24th March 2011 – Opening Range – NYSE Tick

I will now be seeking wholesale short opportunities as price moves down towards the next support at 811.3.

Trade 1- Entry

The first wholesale short entry occurs within minutes, as price enters a pullback towards the opening range lows and the 813.5 resistance. Two parts are entered, the first at the $\frac{1}{2}$ -line (also the lower level of the opening range support), and the second at the $\frac{1}{4}$ -line, just below the last higher swing high.

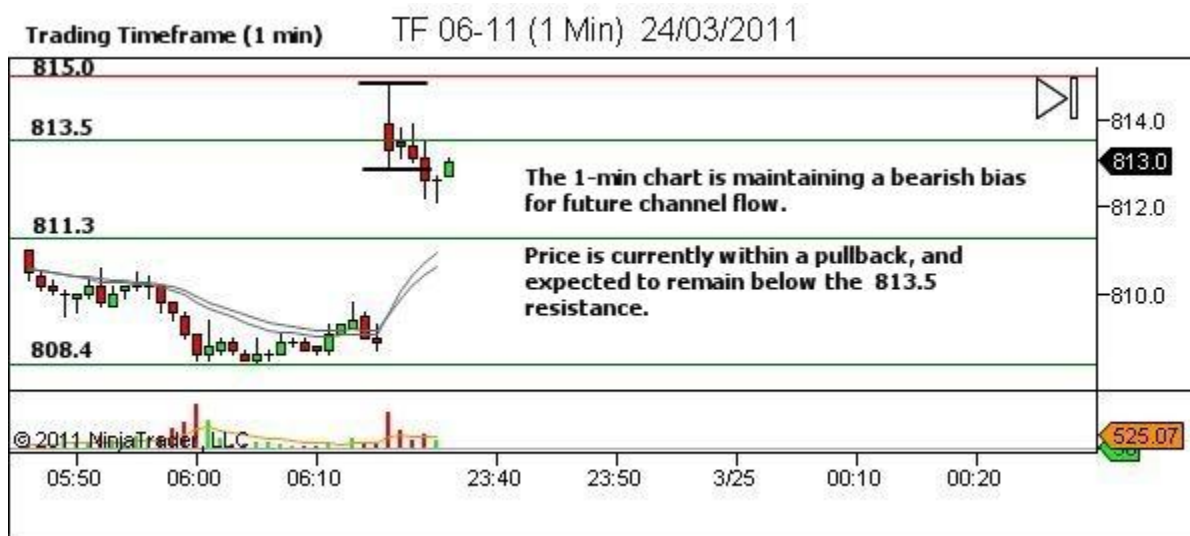


Figure 10.5 - TF 24th March 2011 – Trade 1 – Entry - 1-Minute

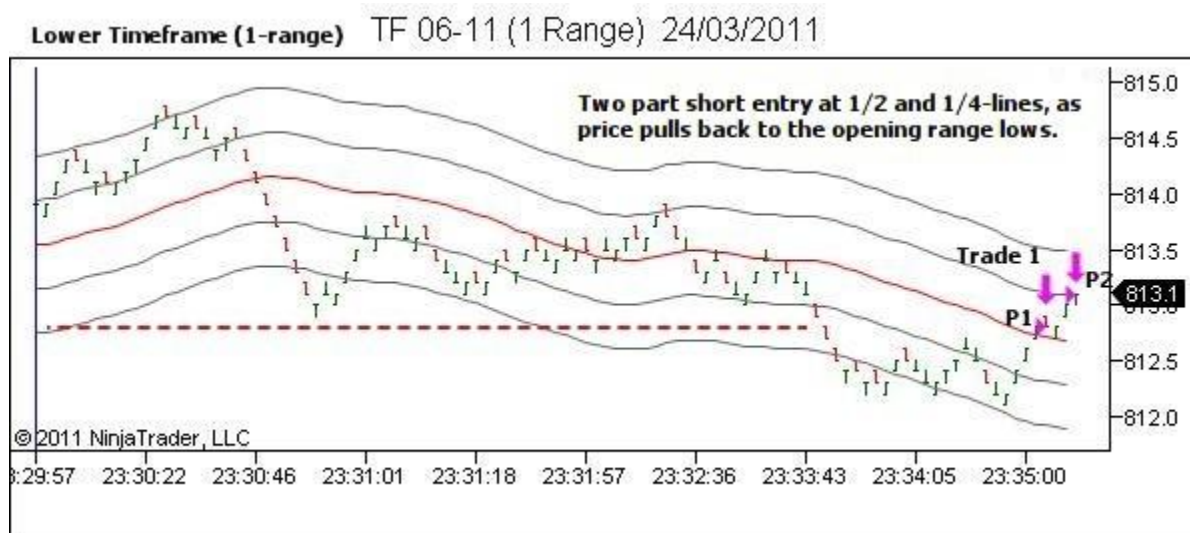


Figure 10.6 - TF 24th March 2011 – Trade 1 – Entry – 1-Range

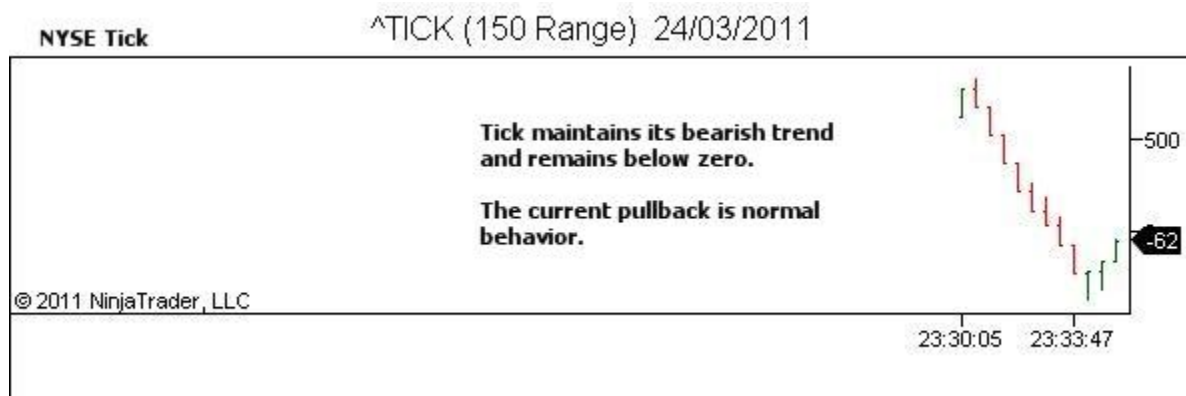


Figure 10.7 - TF 24th March 2011 – Trade 1 – Entry – NYSE Tick

Trade 1- Post-Trade

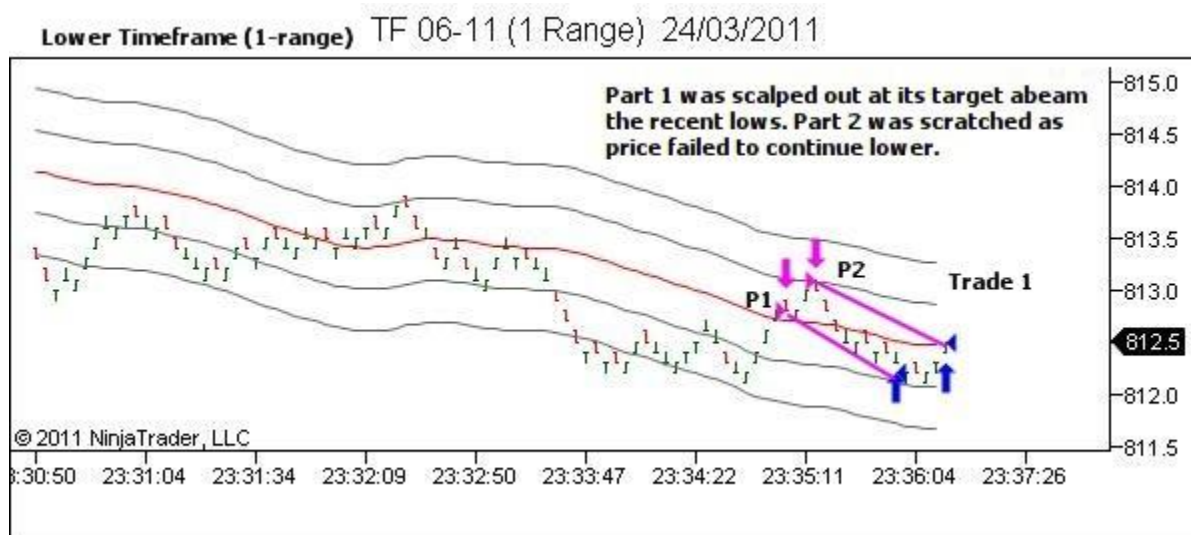


Figure 10.8 - TF 24th March 2011 – Trade 1 – Post-Trade – 1-Range

Trade 1- Results

Part One With-Flow: +6 (less commissions)

Part Two With-Flow: +6 (less commissions)

Trade 2- Entry

Price failed to continue lower after the trade 1 exit, producing an approximate double bottom. This will need to be monitored. But for now... our bias is still for bearish channel flow with wholesale opportunity sought in the upper regions of the channel.



Figure 10.9 - TF 24th March 2011 – Trade 2 – Entry - 1-Minute

The entry orders for trade 2 were raised higher to the 1/4-line and 0-line due to concern regarding the failure of trade one to continue to new lows. Part 1 was the only fill. Part 2 did not fill.

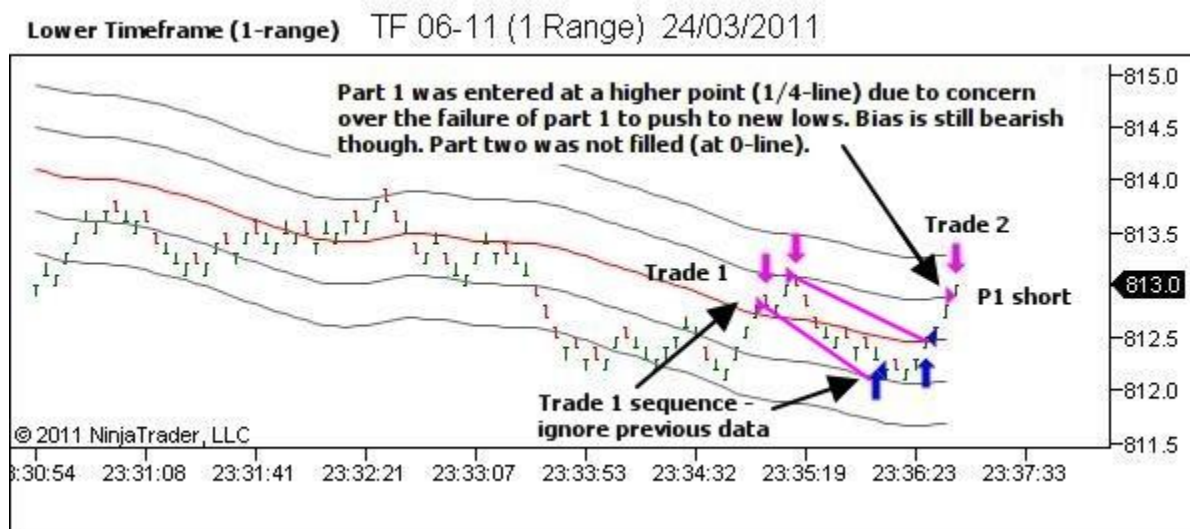


Figure 10.10 - TF 24th March 2011 – Trade 2 – Entry – 1-Range

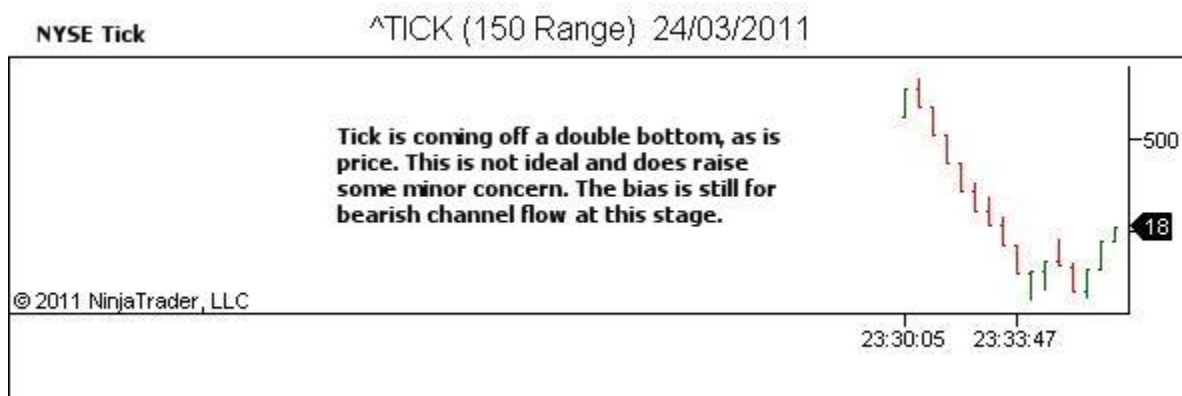


Figure 10.11 - TF 24th March 2011 – Trade 2 – Entry – NYSE Tick

Trade 2- Post-Trade

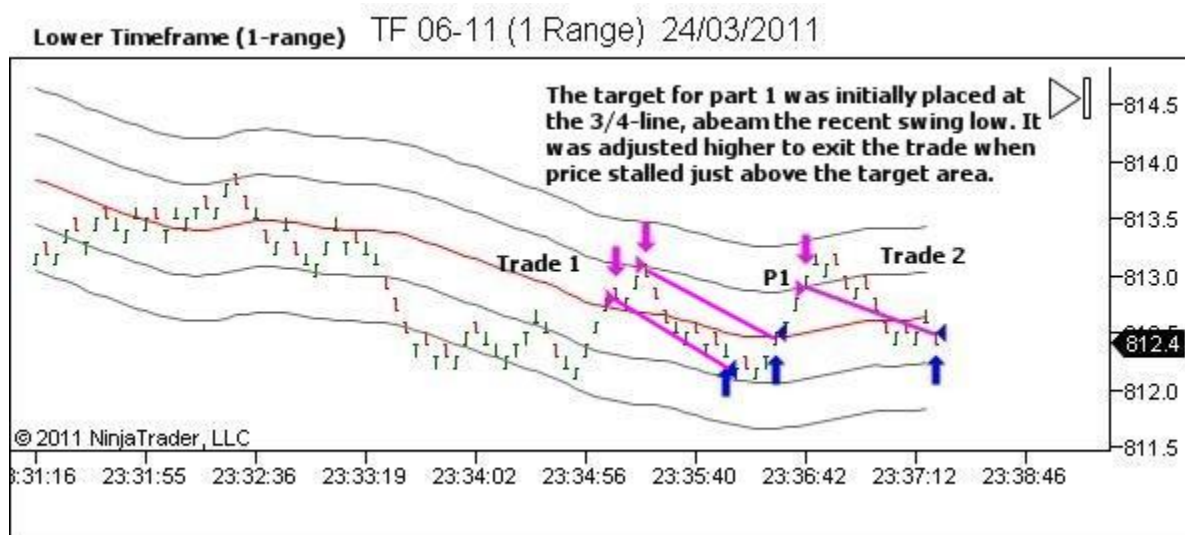


Figure 10.12 - TF 24th March 2011 – Trade 2 – Post-Trade – 1-Range

Trade 2- Results

Part One With-Flow: +4 (less commissions)

Trade 3- Entry

Following the trade 2 exit, price did then extend to new lows, which gave me confidence for continuation lower. My expectation remains for bearish channel flow, with trade opportunity sought on pullback to the wholesale region.

In setting up trade 3, price again commenced a pullback against our expectation for bearish future channel flow.

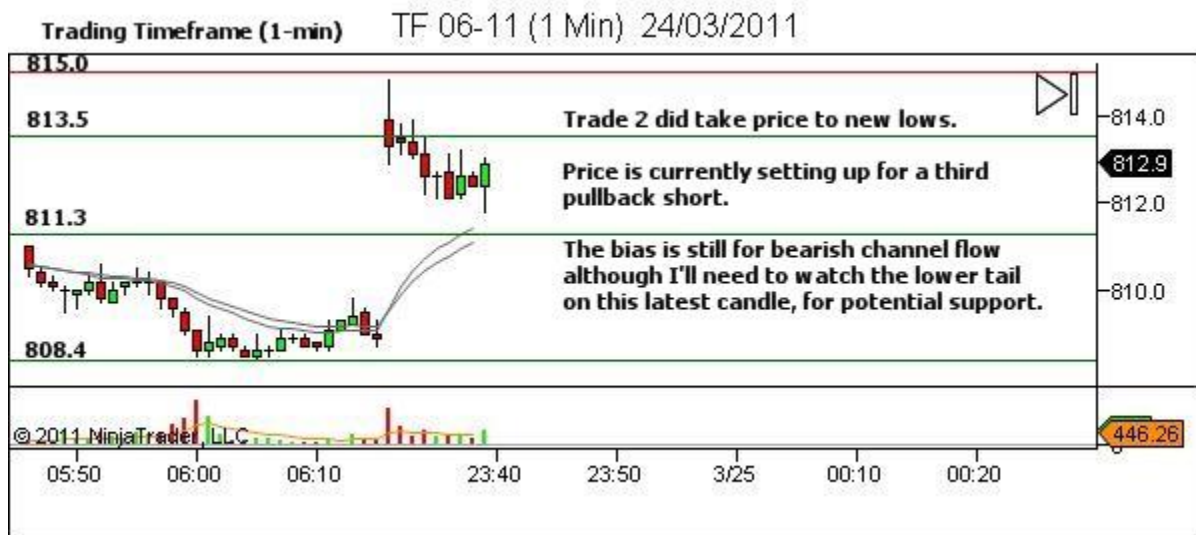


Figure 10.13 - TF 24th March 2011 – Trade 3 – Entry - 1-Minute

Referring to the scalping channel on the next page, you'll note that trade 3 entry short was taken at the $\frac{1}{2}$ -line, above the area of previous stall. Part two was not really expected to fill, although placed at the $\frac{1}{4}$ -line in the event of a pullback to the recent swing high. The stop was above the recent (trade 2) swing high.

Parts 1 and 2 were filled.



Figure 10.14 - TF 24th March 2011 – Trade 3 – Entry – 1-Range

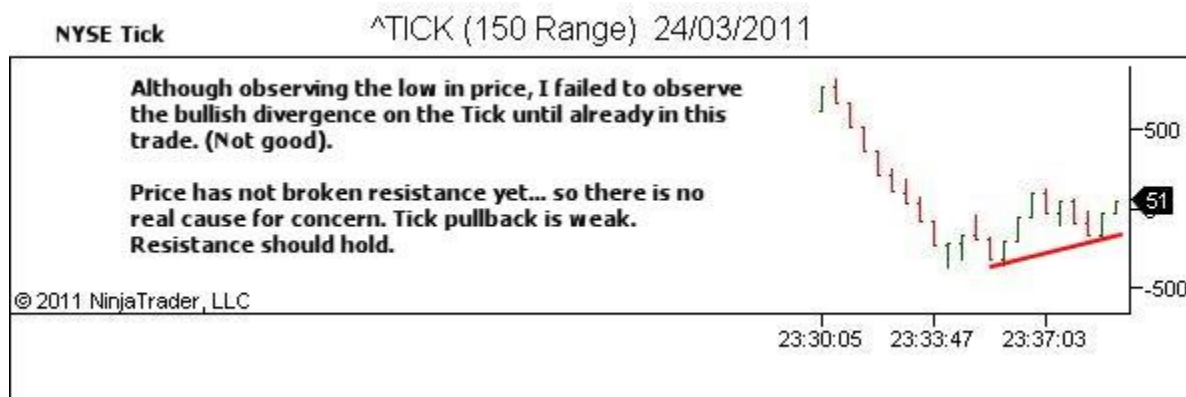


Figure 10.15 - TF 24th March 2011 – Trade 3 – Entry – NYSE Tick

Trade 3- Post-Trade

Price stalled following the entry of part 2, and I finally noticed the Tick divergence. This raised concern that the recent swing low could be a spring leading to a potential change of trend.

An exit for part 1 was worked to get out at breakeven (recovery) in order to reduce risk. Part two quickly moved on to profits after the part 1 exit. The short was covered when price again stalled in the vicinity of the recent lows.

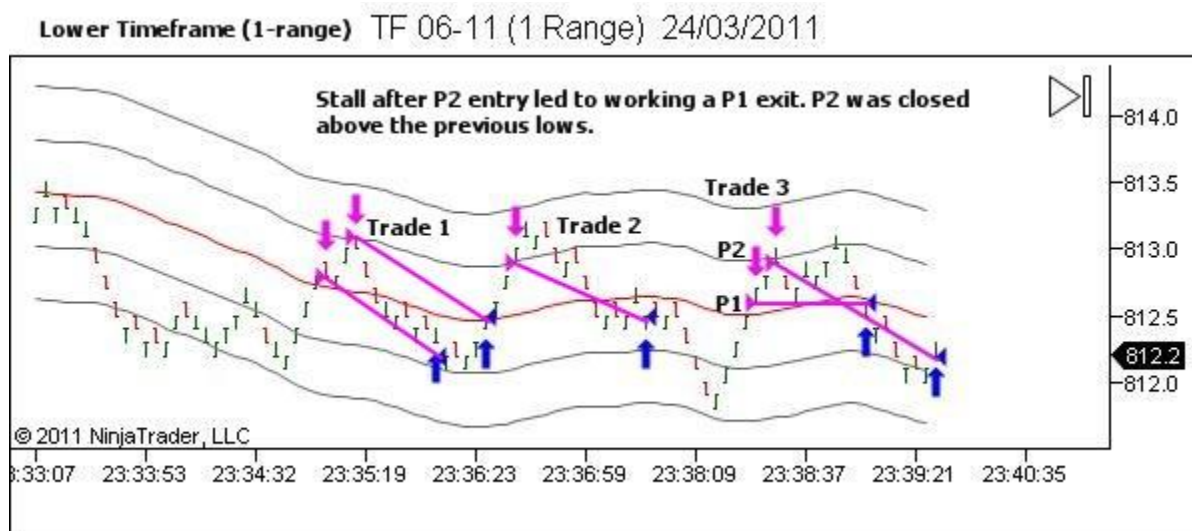


Figure 10.16 - TF 24th March 2011 – Trade 3 – Post-Trade – 1-Range

Trade 3- Results

Part One With-Flow: 0 (less commissions)

Part Two With-Flow: +7 (less commissions)

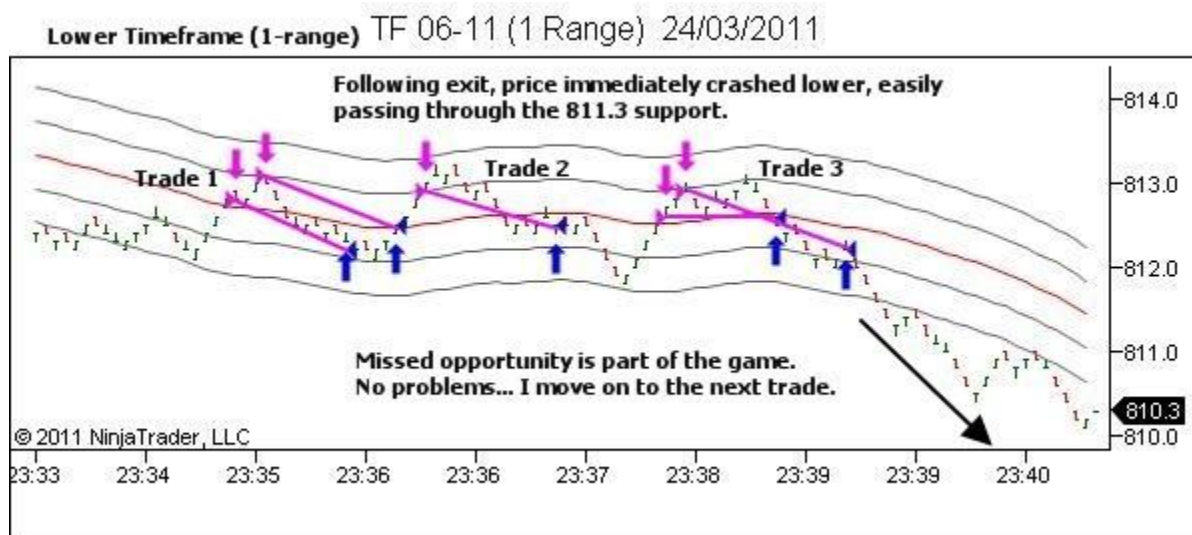


Figure 10.17 - TF 24th March 2011 – Trade 3 – Post-Trade – Missed Opportunity

Trade 4- Entry

The first pullback taken after such a rapid drop is always a cautious entry and should be managed aggressively. In this case there was good evidence of selling pressure so the trade was taken with confidence. Unfortunately only part 1 filled ($\frac{1}{2}$ -line) with the pullback failing to reach part 2 ($\frac{1}{4}$ -line).

Note: 813.5 has been removed from the S/R lines as I expect it has lost relevance. The 5-min higher timeframe chart no longer shows this as a potential level.

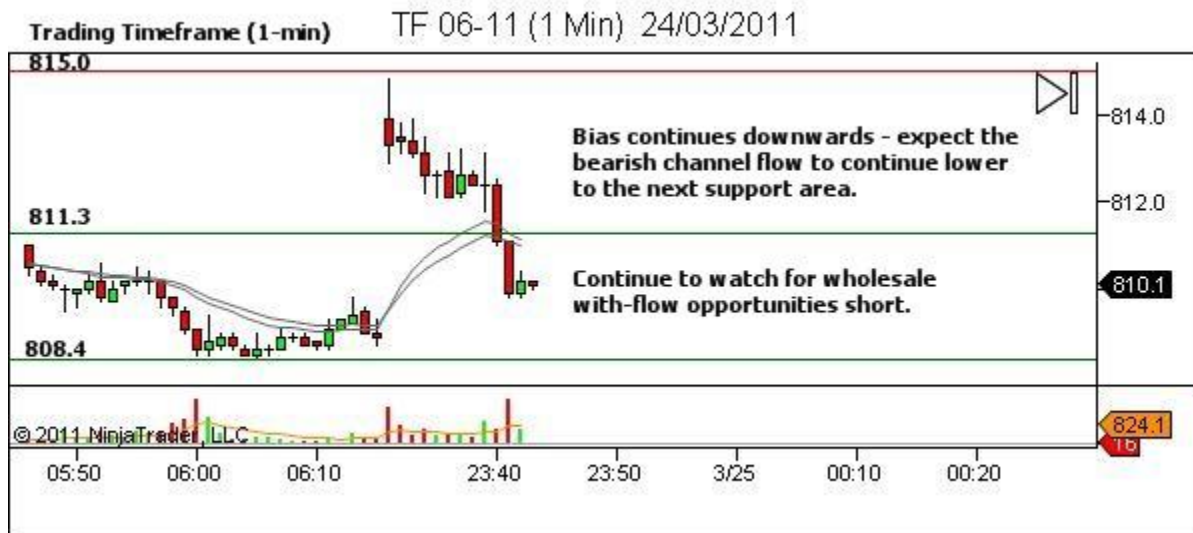


Figure 10.18 - TF 24th March 2011 – Trade 4 – Entry - 1-Minute

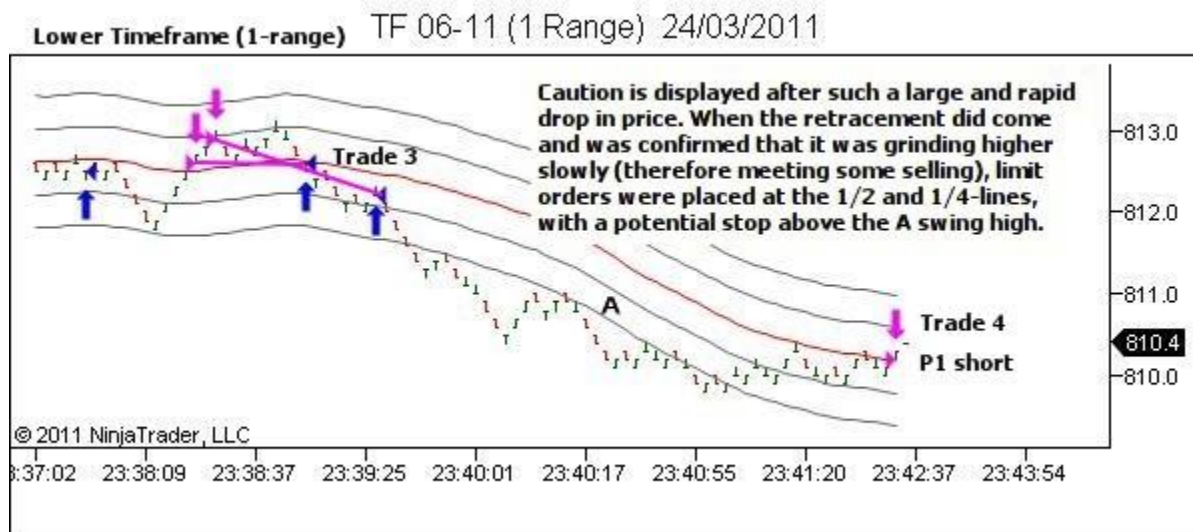


Figure 10.19 - TF 24th March 2011 – Trade 4 – Entry – 1-Range

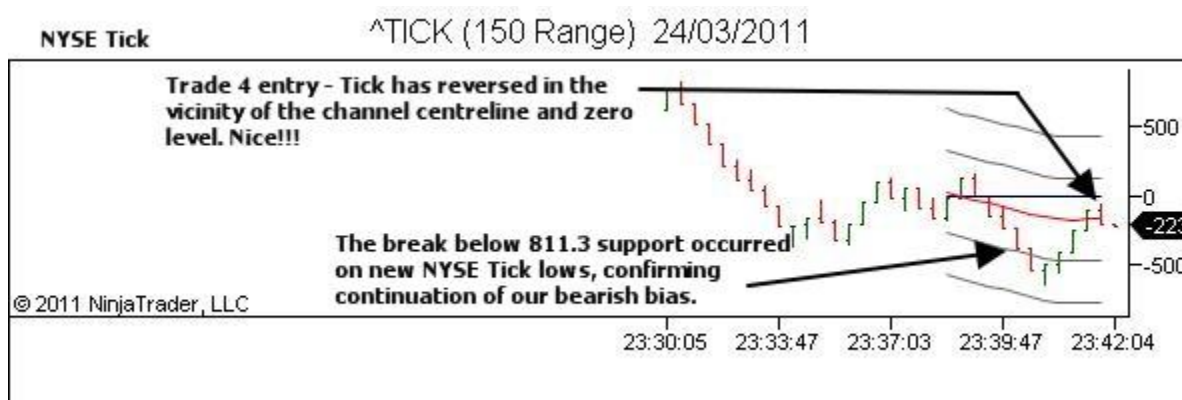


Figure 10.20 - TF 24th March 2011 – Trade 4 – Entry – NYSE Tick

Trade 4- Post-Trade

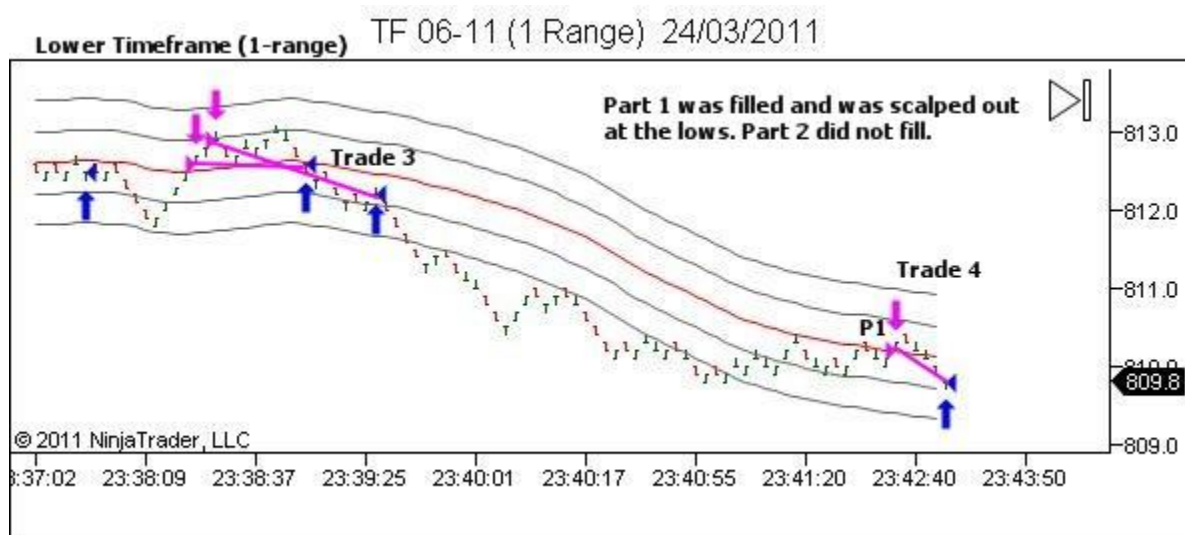


Figure 10.21 - TF 24th March 2011 – Trade 4 – Post-Trade – 1-Range

Trade 4- Results

Part One With-Flow: +4 (less commissions)

Trade 5- Entry

Trade 5 is simply a continuation of the previous bearish sentiment, this time involving a two part entry due to the slightly deeper pullback.



Figure 10.22 - TF 24th March 2011 – Trade 5 – Entry - 1-Minute

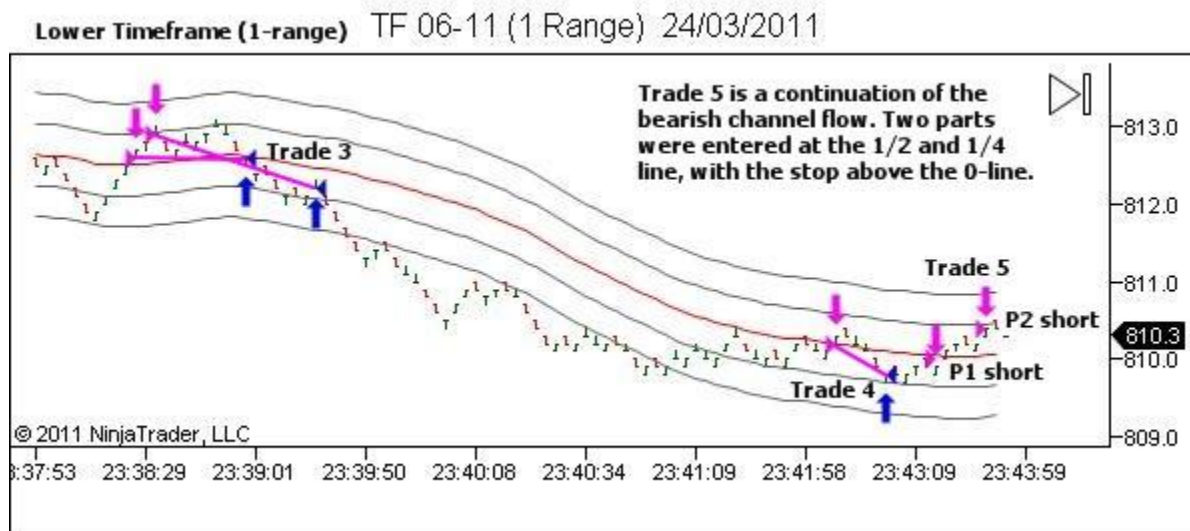


Figure 10.23 - TF 24th March 2011 – Trade 5 – Entry – 1-Range



Figure 10.24 - TF 24th March 2011 – Trade 5 – Entry – NYSE Tick

Trade 5- Post-Trade

The part 1 exit was taken just above the previous lows. Part 2 was given opportunity to move lower, with exit taken after an extended stall.

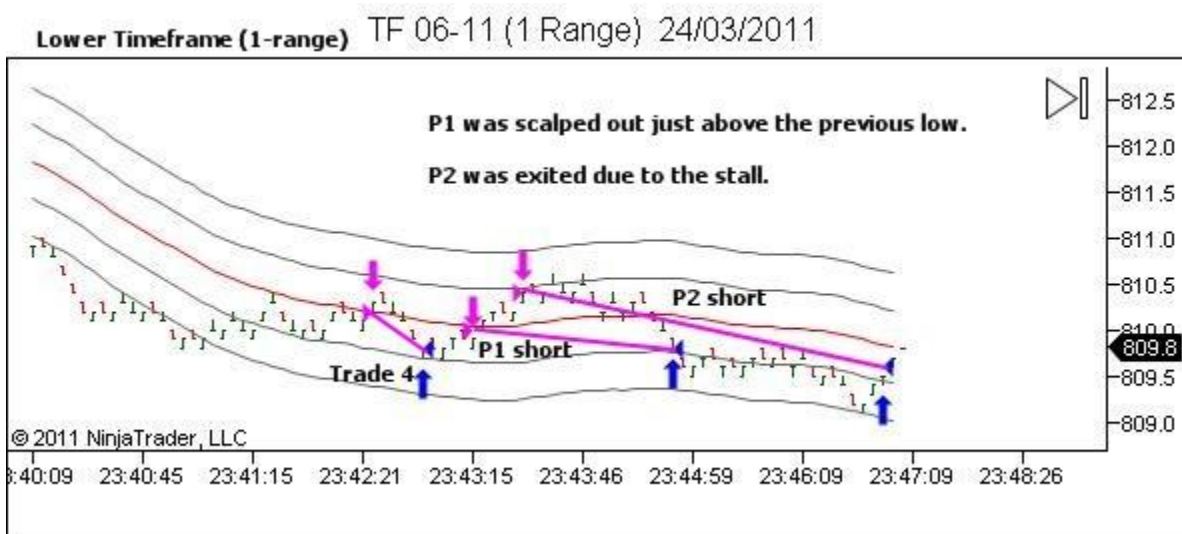


Figure 10.25 - TF 24th March 2011 – Trade 5 – Post-Trade – 1-Range

Trade 5- Results

Part One With-Flow: +2 (less commissions)

Part Two With-Flow: +8 (less commissions)

Trade 6- Entry

Some trades are uncomfortable immediately after they fill. This was one of them.

Entry was raised to the 1/4-line for one part only, in the expectation of previous swing highs holding. I didn't place a part 2 limit order due to concern over the bearish weakness shown after trades 4 and 5, and the bullish Tick divergence.

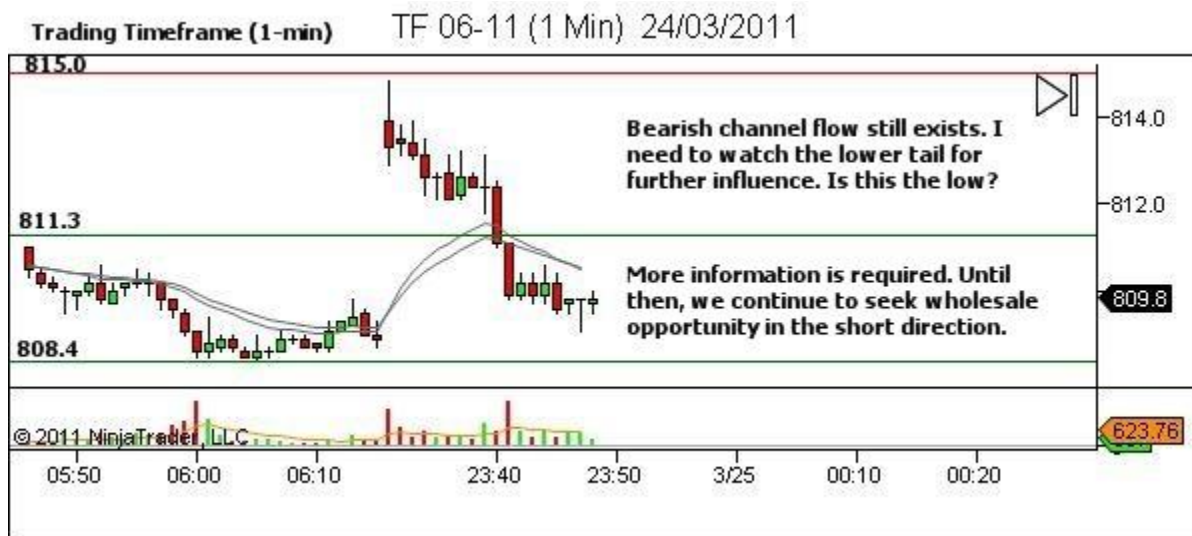


Figure 10.26 - TF 24th March 2011 – Trade 6 – Entry - 1-Minute

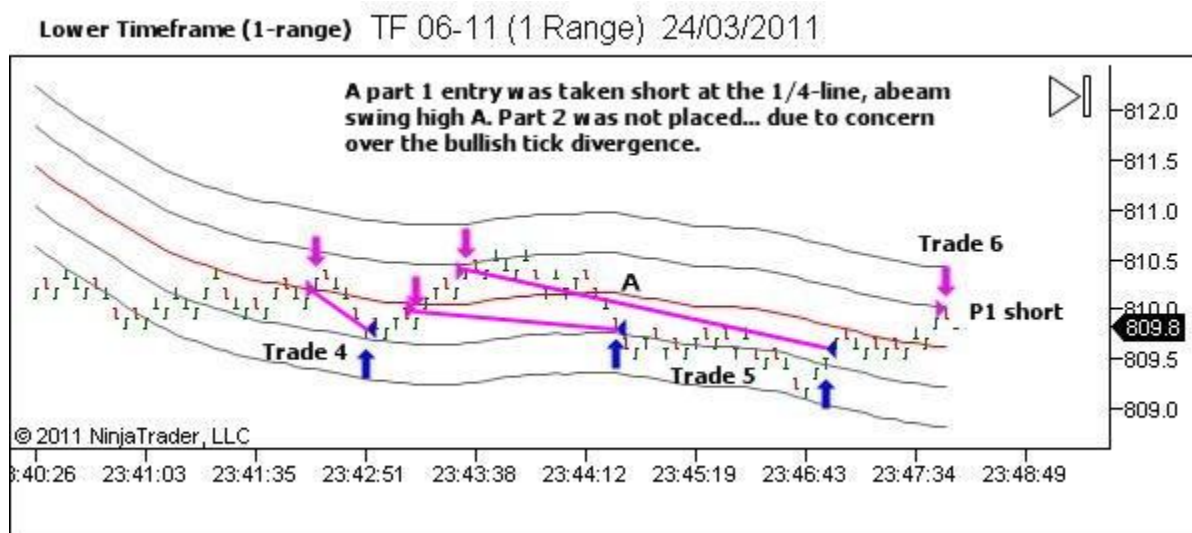


Figure 10.27 - TF 24th March 2011 – Trade 6 – Entry – 1-Range

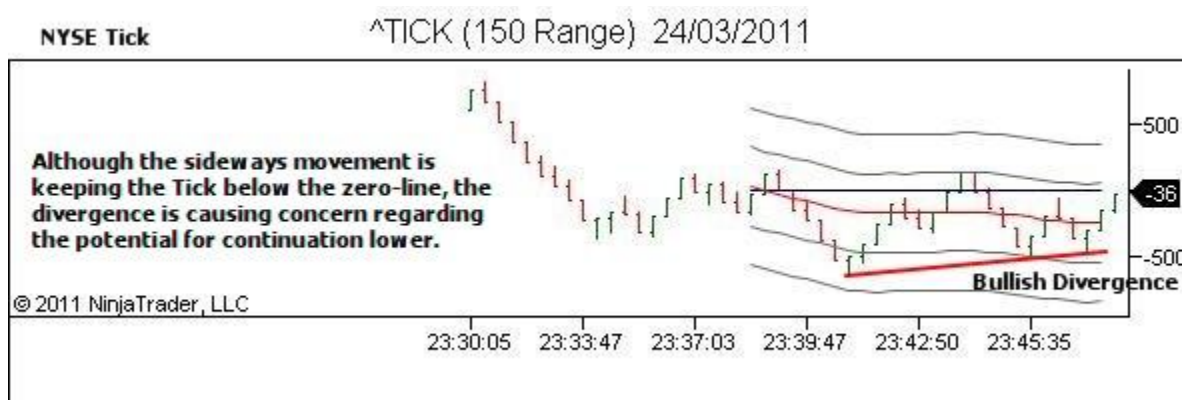


Figure 10.28 - TF 24th March 2011 – Trade 6 – Entry – NYSE Tick

Trade 6- Post-Trade

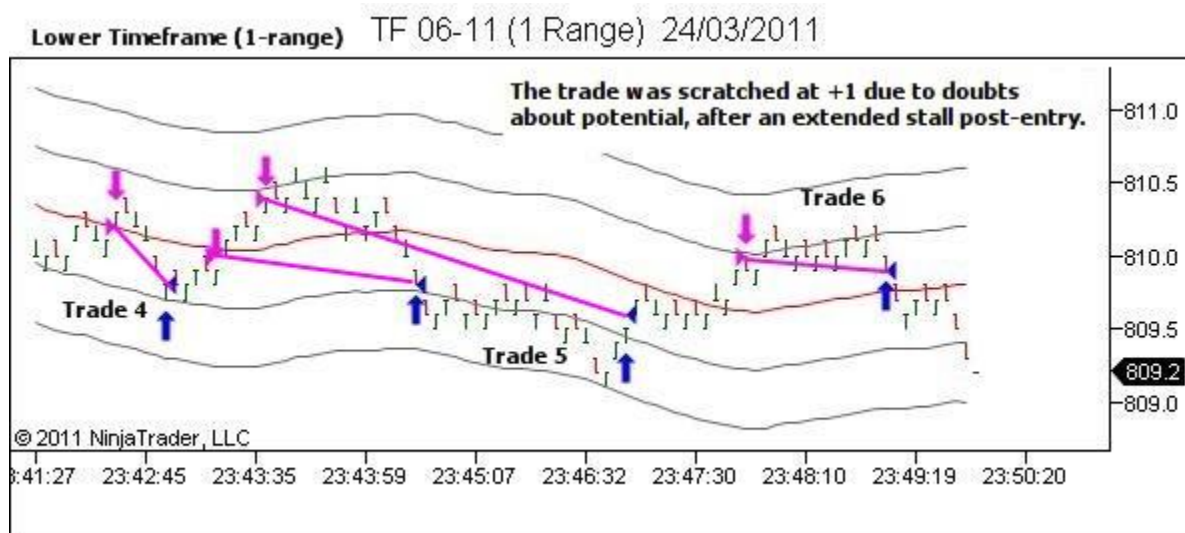


Figure 10.29 - TF 24th March 2011 – Trade 6 – Post-Trade – 1-Range

Trade 6- Results

Part One With-Flow: +1 (less commissions)

Trade 7- Entry

Following trade 6 we saw new lows in both price and Tick. However the 1-min chart feels as though the move is bottoming. Our bearish expectations continue... tentatively.

Price is now pulling back for another wholesale opportunity short.



Figure 10.30 - TF 24th March 2011 – Trade 7 – Entry - 1-Minute

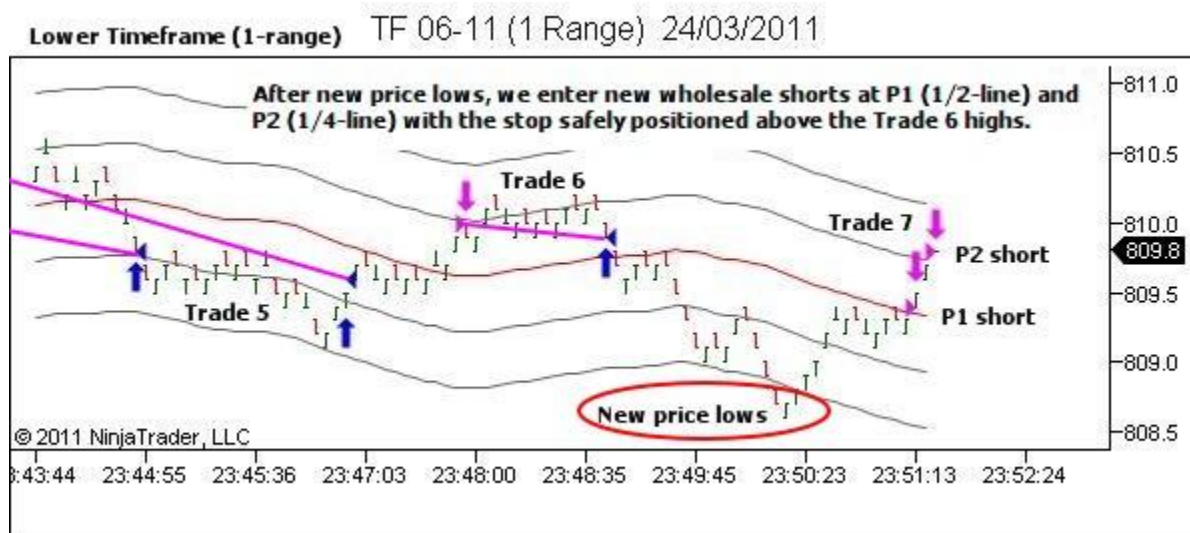


Figure 10.31 - TF 24th March 2011 – Trade 7 – Entry – 1-Range

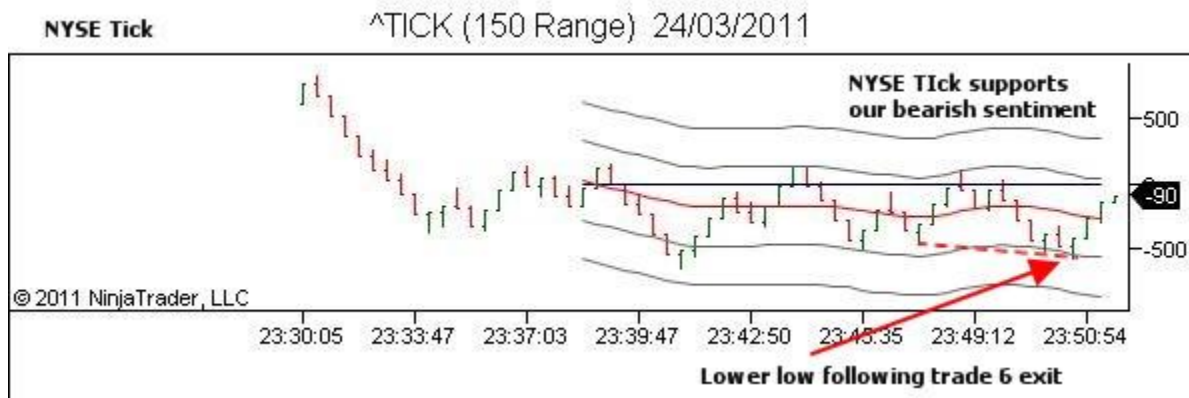


Figure 10.32 - TF 24th March 2011 – Trade 7 – Entry – NYSE Tick

Trade 7- Post-Trade



Figure 10.33 - TF 24th March 2011 – Trade 7 – Post-Trade – 1-Range

Post trade thoughts... At entry I was expecting continuation of the bearish bias due to the lower low on Tick and continuation to new lows on price. But my bias was very tentative and I was treating this area of price movement with caution. With hindsight, better opportunity was available just before my entry in taking a counter-flow long entry off the 0-line, based on the 808.3 support level and the fact that the Tick, although making a lower low, did not hit session lows.

Trade 7- Results

Part One With-Flow: -4 (less commissions)

Part Two With-Flow: +4 (less commissions)

Trade 8- Entry

Moving forward to trade 8, we find the trend has officially changed to upwards. However, as discussed in the comments on the chart I expect the 811.3 resistance to hold, at least for now.

Price has pulled back down, so I'm seeking a with-flow entry long for continuation up to resistance.



Figure 10.34 - TF 24th March 2011 – Trade 8 – Entry - 1-Minute

Note below (on the 1-range chart) an earlier entry was attempted (long at 809.4) but not filled. Missed by one tick! Actually, it probably missed by two as very few transactions filled at 809.5.

Feeling uncomfortable about a $\frac{1}{2}$ -line entry, I placed the P1 limit order at the $\frac{1}{4}$ -line in expectation of a pullback as deep as the previous missed trade area. No P2 entry was placed as I really don't want to see lower prices. I'll watch subsequent price action to see if I can place one somewhere, should price draw down below P1 entry.

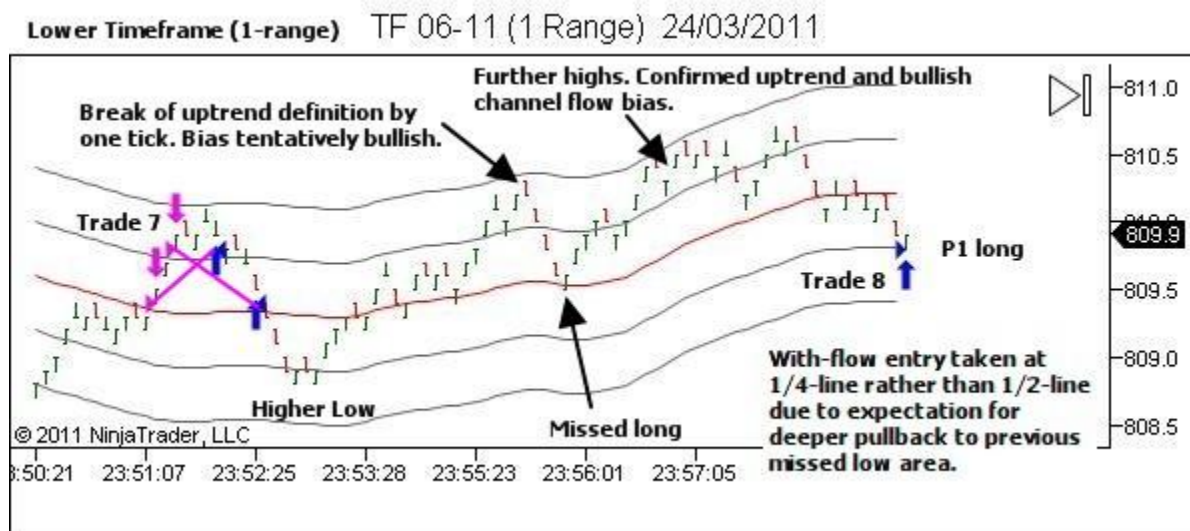


Figure 10.35 - TF 24th March 2011 – Trade 8 – Entry – 1-Range

Tick is not helping... trending towards bullish, but in a VERY weak manner.



Figure 10.36 - TF 24th March 2011 – Trade 8 – Entry – NYSE Tick

Trade 8- Post-Trade

While absolutely confident the lower support at 808.4 will hold, I don't want to sit in drawdown waiting to see how close it will get. The number one rule is survival, and that requires management of risk. I do not like the Tick continuing to hold lower lows. And I do not like the way this trade is feeling, so I'm out of here.

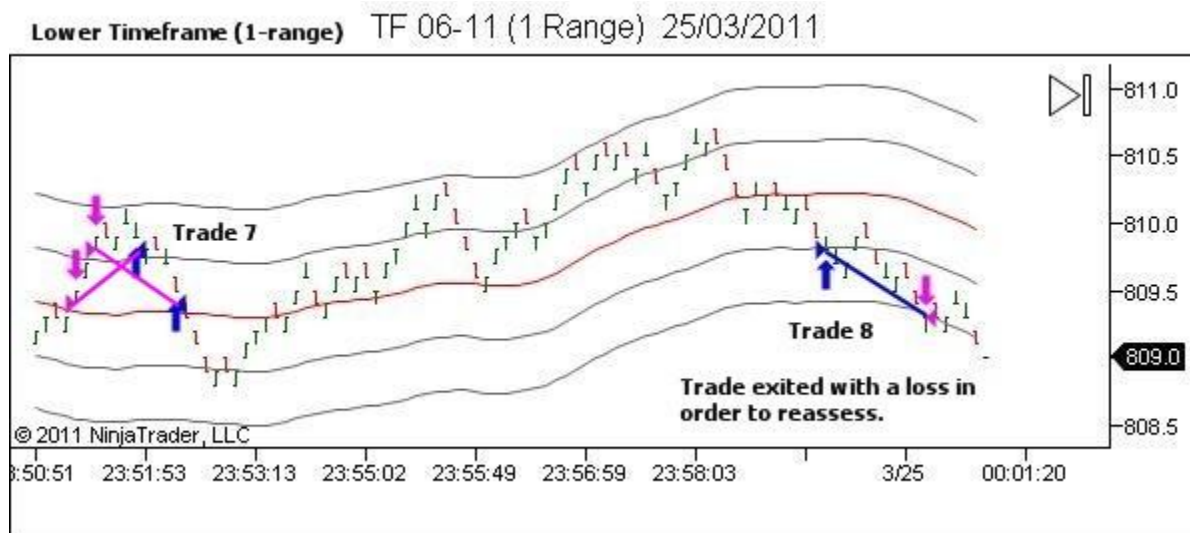


Figure 10.37 - TF 24th March 2011 – Trade 8 – Post-Trade – 1-Range

Trade 8- Results

Part One With-Flow: -5 (less commissions)

Coming off two scratched trades (trade 6 and 7) and a loss, it's time to wait till I've got a clearer read on the bias.

Or to wait for a counter-flow entry off bullish Tick divergence at the lower 808.4 support (didn't eventuate).

Trade 9- Entry

Lower 808.4 support did hold and price has now rallied to the 811.3 resistance, followed by a slight pullback. It's time to look for a wholesale long entry for a second push against resistance. As mentioned before, I'm expecting it to hold for now, so I'll target prices just below resistance and then reassess future opportunity based upon the newer price action.



Figure 10.38 - TF 24th March 2011 – Trade 9 – Entry - 1-Minute

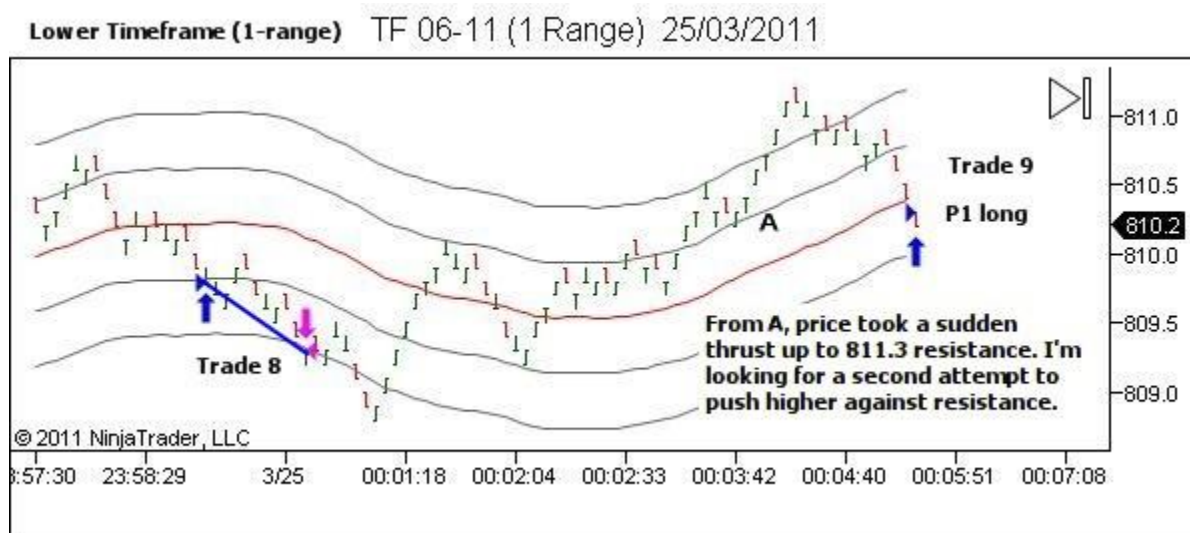


Figure 10.39 - TF 24th March 2011 – Trade 9 – Entry – 1-Range

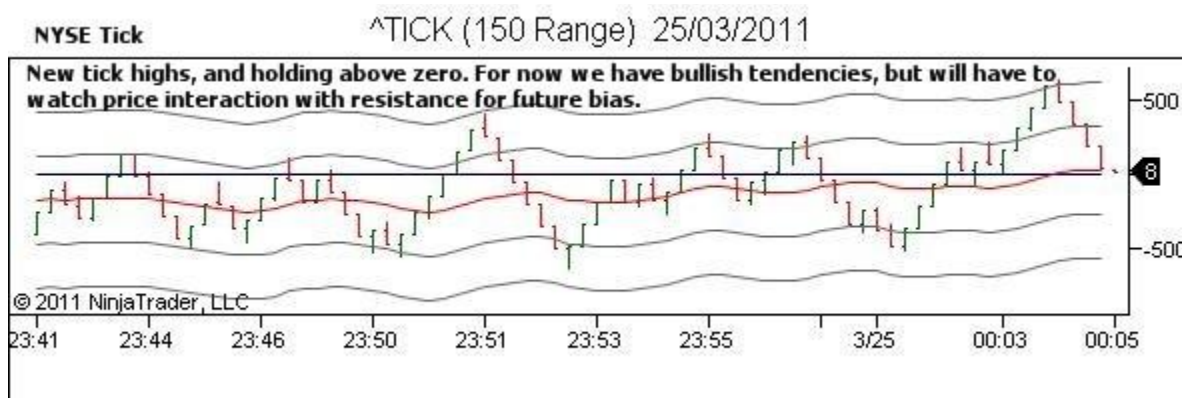


Figure 10.40 - TF 24th March 2011 – Trade 9 – Entry – NYSE Tick

Trade 9- Post-Trade

P2 at the $\frac{1}{4}$ -line did not fill, but P1 moved beautifully towards its target. I pulled the target higher to allow for the possibility of a break, exiting when price held the level.

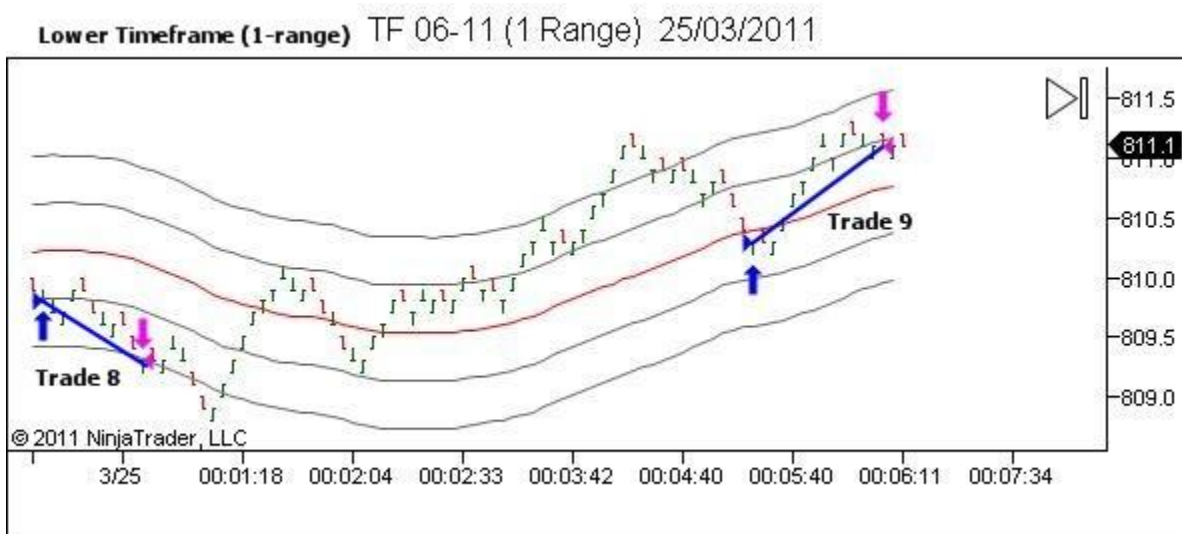


Figure 10.41 - TF 24th March 2011 – Trade 9 – Post-Trade – 1-Range

Trade 9- Results

Part One With-Flow: +8 (less commissions)

Trade 10- Entry



Figure 10.42 - TF 24th March 2011 – Trade 10 – Entry - 1-Minute

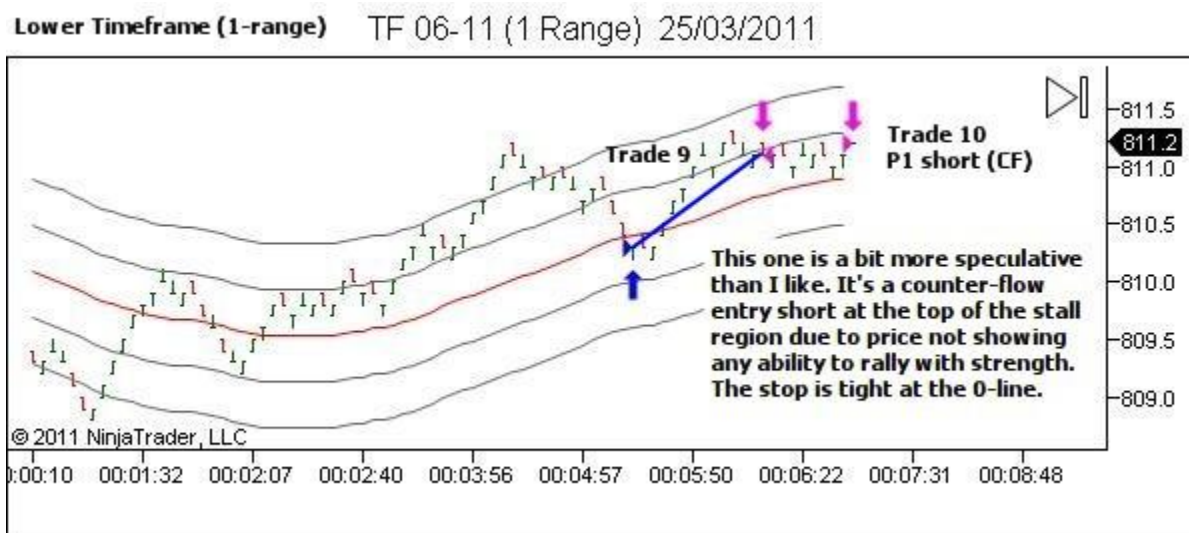


Figure 10.43 - TF 24th March 2011 – Trade 10 – Entry – 1-Range

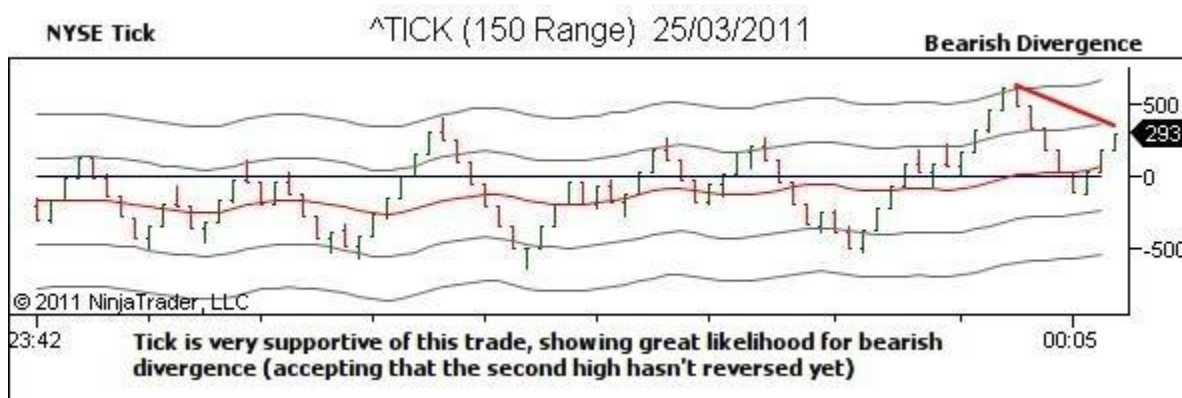


Figure 10.44 - TF 24th March 2011 – Trade 10 – Entry – NYSE Tick

Trade 10- Post-Trade

Stall at resistance with a Tick divergence... nice!

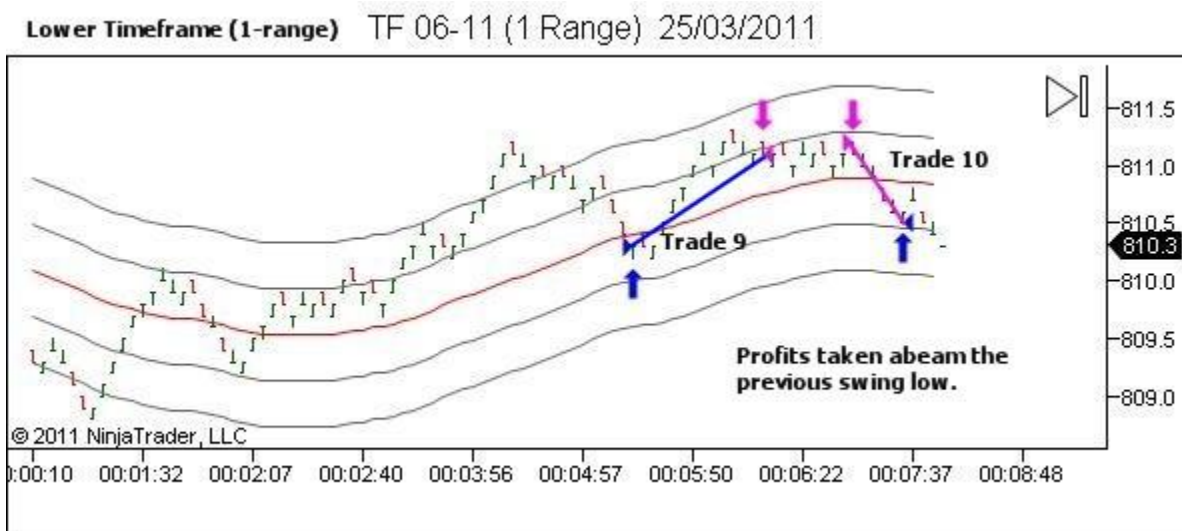


Figure 10.45 - TF 24th March 2011 – Trade 10 – Post-Trade – 1-Range

Trade 10- Results

Part One Counter-Flow: +7 (less commissions)

Trade 11- Entry

Resistance has held and price has moved below the trade 9 lows. I expect the Trade 10 stall region to provide resistance, and offer an entry short for a with-flow continuation lower back towards the 808.4 support.



Figure 10.46 - TF 24th March 2011 – Trade 11 – Entry - 1-Minute

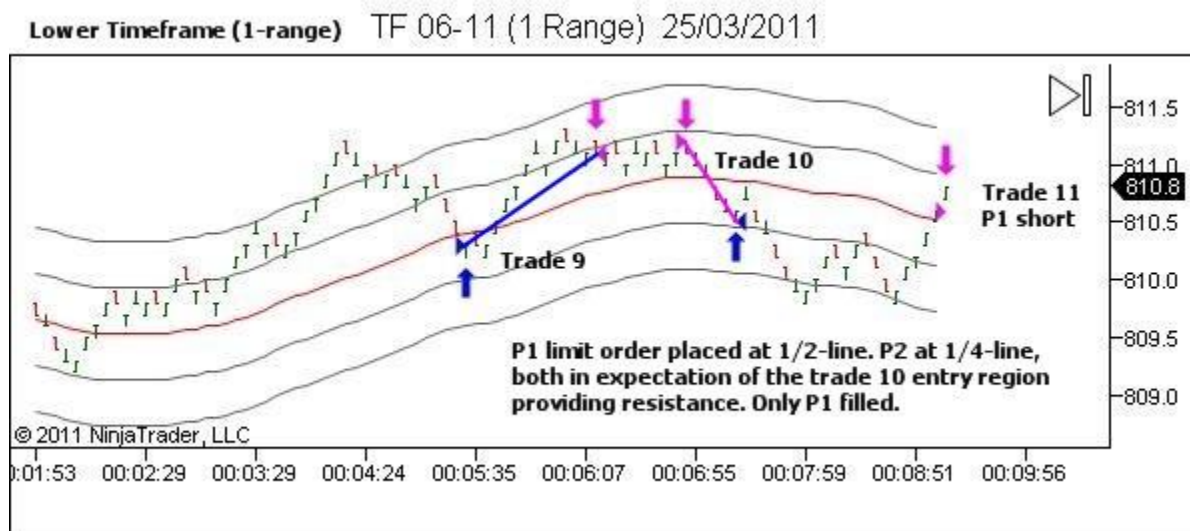


Figure 10.47 - TF 24th March 2011 – Trade 11 – Entry – 1-Range



Figure 10.48 - TF 24th March 2011 – Trade 11 – Entry – NYSE Tick

Trade 11- Post-Trade

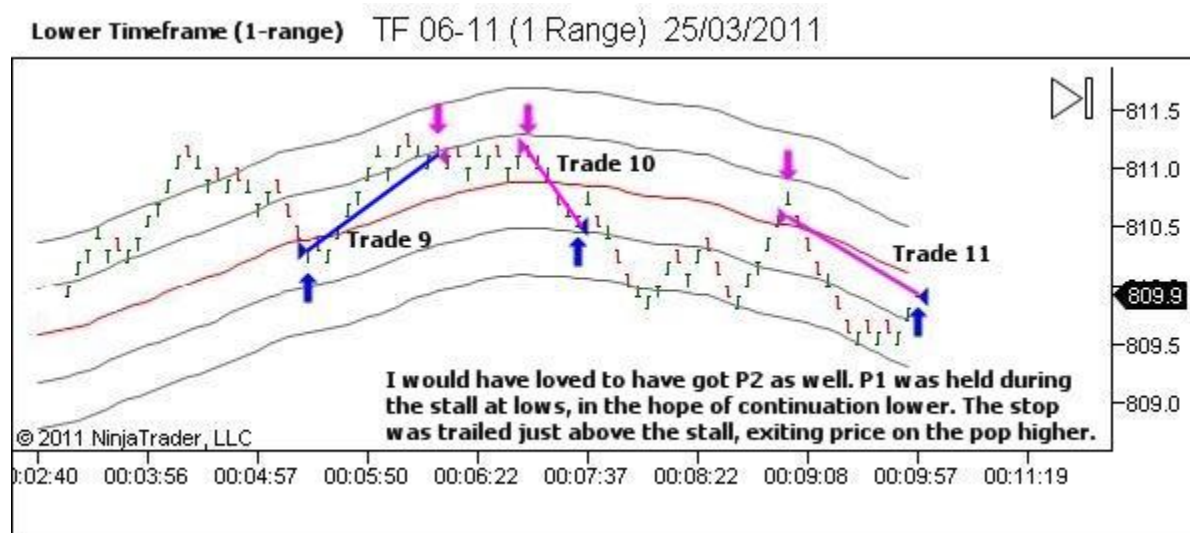


Figure 10.49 - TF 24th March 2011 – Trade 11 – Post-Trade – 1-Range

Trade 11- Results

Part One With-Flow: +7 (less commissions)



Figure 10.50 - TF 24th March 2011 – Trade 11 – Post-Trade – Missed Opportunity

Trade 12- Entry

The move down after trade 11 travelled right through our 808.4 support level without any sign of buying pressure. Price hit our next lower support of 806.5 and has pulled back upwards. Caution should be applied after such a large drop, as the pullbacks can also extend further than expected. Still... I prepare now for a wholesale short with-flow entry.



Figure 10.51 - TF 24th March 2011 – Trade 12 – Entry - 1-Minute

Entry was sought in the shaded region shown below, based upon previous sideways ranging price action just below the 808.4 resistance (previous support).

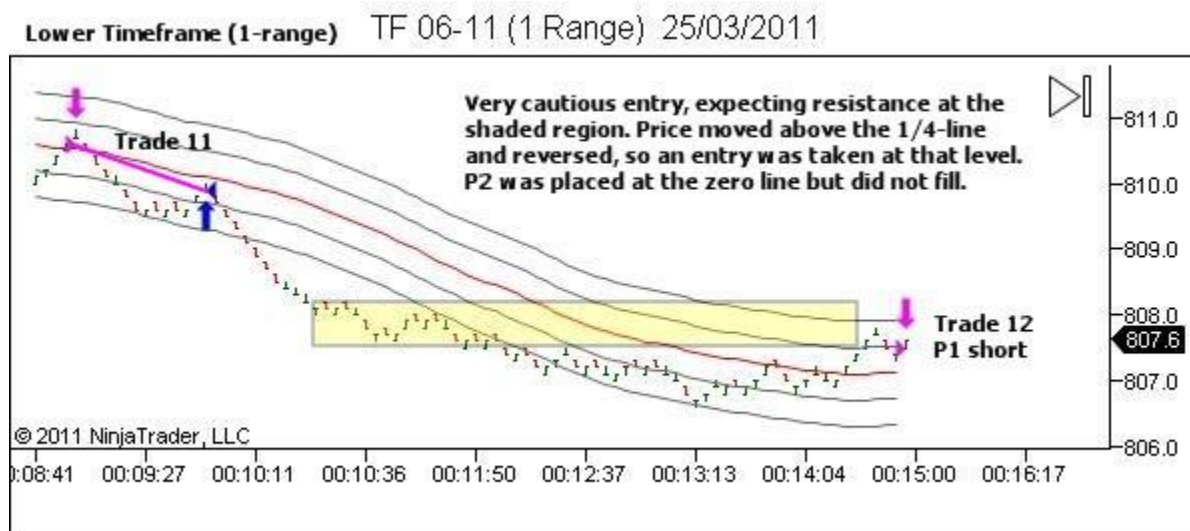


Figure 10.52 - TF 24th March 2011 – Trade 12 – Entry – 1-Range

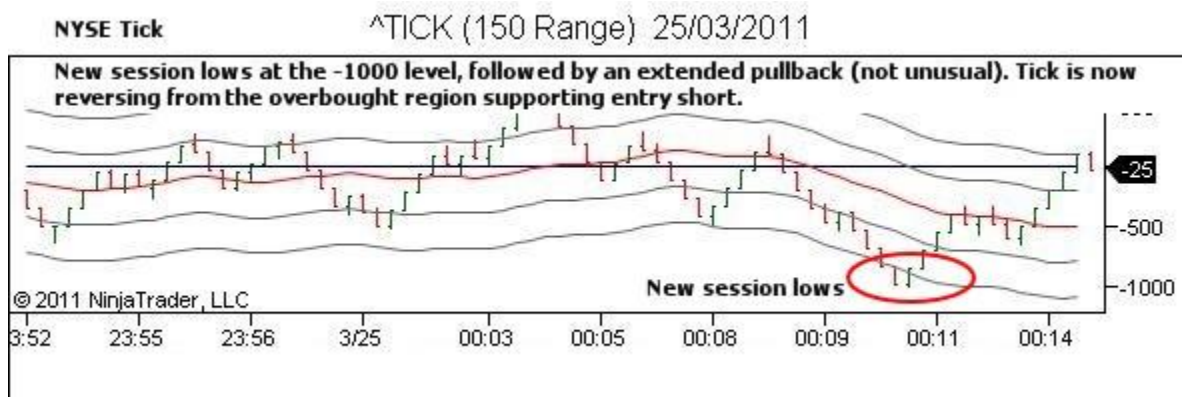


Figure 10.53 - TF 24th March 2011 – Trade 12 – Entry – NYSE Tick

Trade 12- Post-Trade

Continuation lower will require bearish orderflow from other new shorts, and from longs giving up on their position. Price didn't move low enough to convince longs they were trapped. And I'm assuming not enough others agreed with my short entry.

Price stalled, albeit with a very slight downwards tendency.

There is a greater likelihood that I'm the one trapped short. It's time to work an exit.

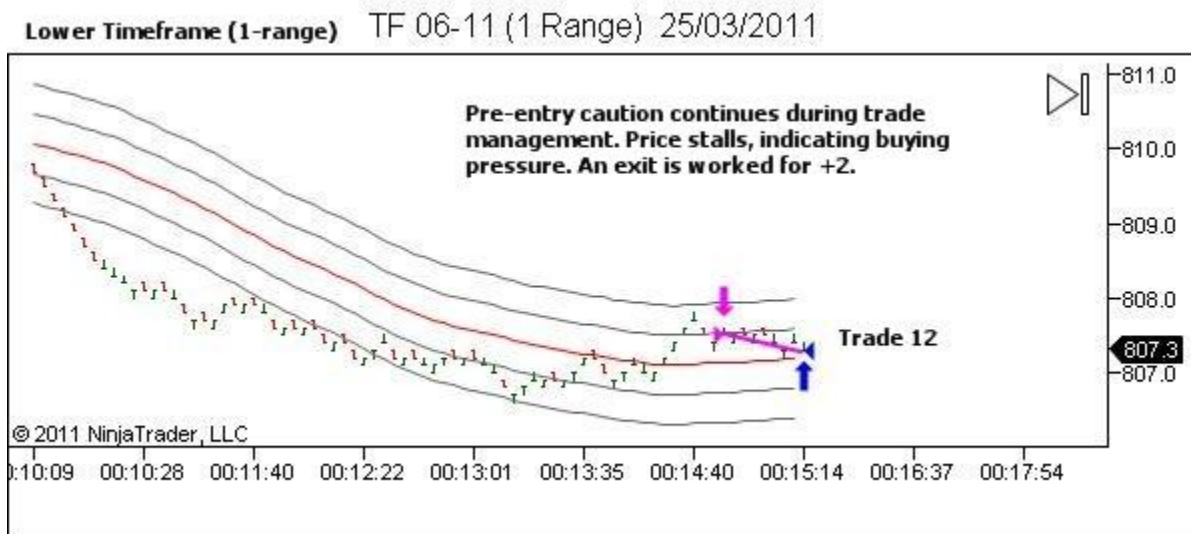


Figure 10.54 - TF 24th March 2011 – Trade 12 – Post-Trade – 1-Range

Trade 12- Results

Part One With-Flow: +2 (less commissions)

Trade 13- Entry

Price moves back upwards and stalls at the 808.4 resistance. I'm watching for a wholesale counter-flow entry short.



Figure 10.55 - TF 24th March 2011 – Trade 13 – Entry - 1-Minute

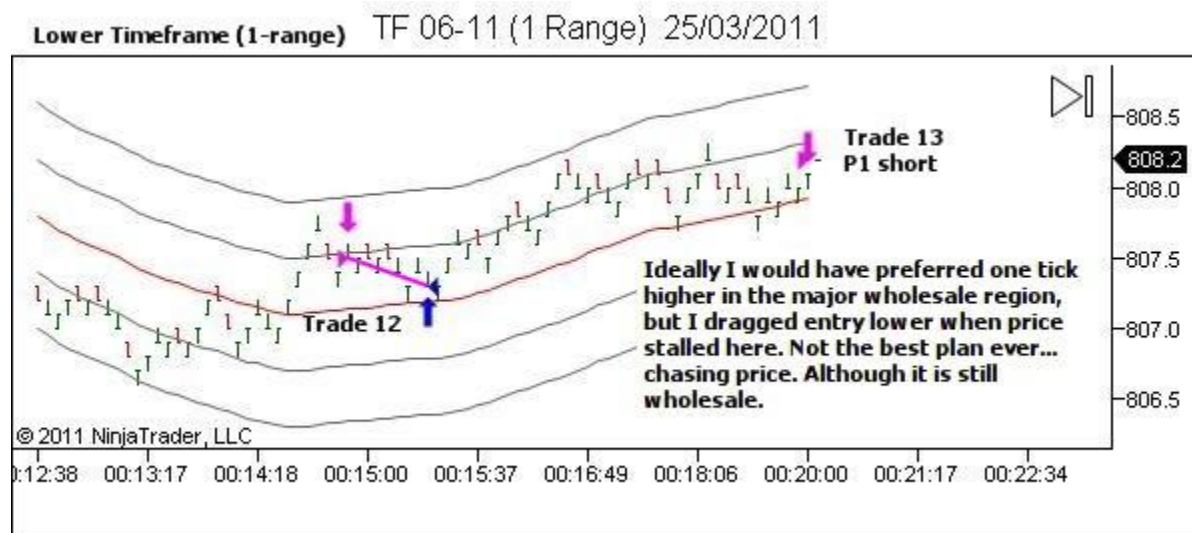


Figure 10.56 - TF 24th March 2011 – Trade 13 – Entry – 1-Range

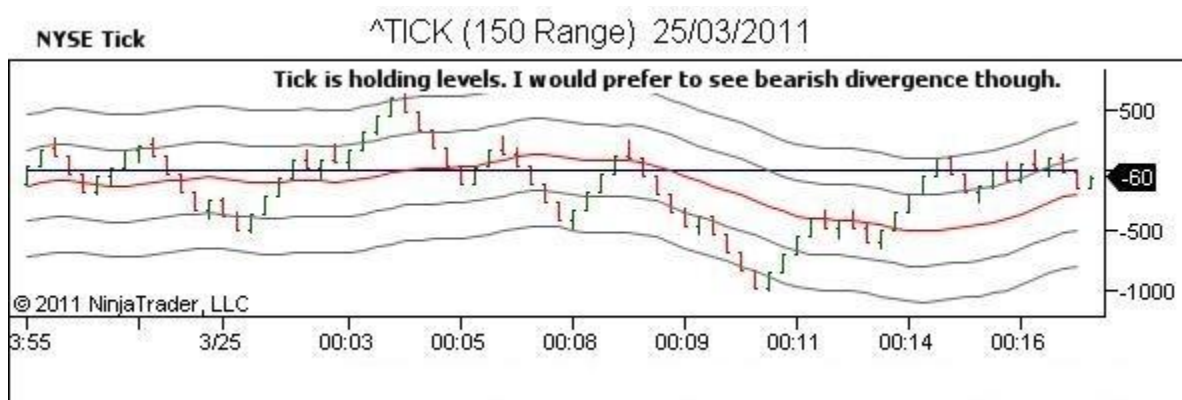


Figure 10.57 - TF 24th March 2011 – Trade 13 – Entry – NYSE Tick

Trade 13- Post-Trade

The trade is stopped out as price breaks the resistance. Note the similarity between trades 10 and 13 with respect to price action, both slowing into resistance. And note the difference with respect to NYSE Tick, with trade 10 having a nice bearish divergence! Trade 10 was higher probability than trade 13.

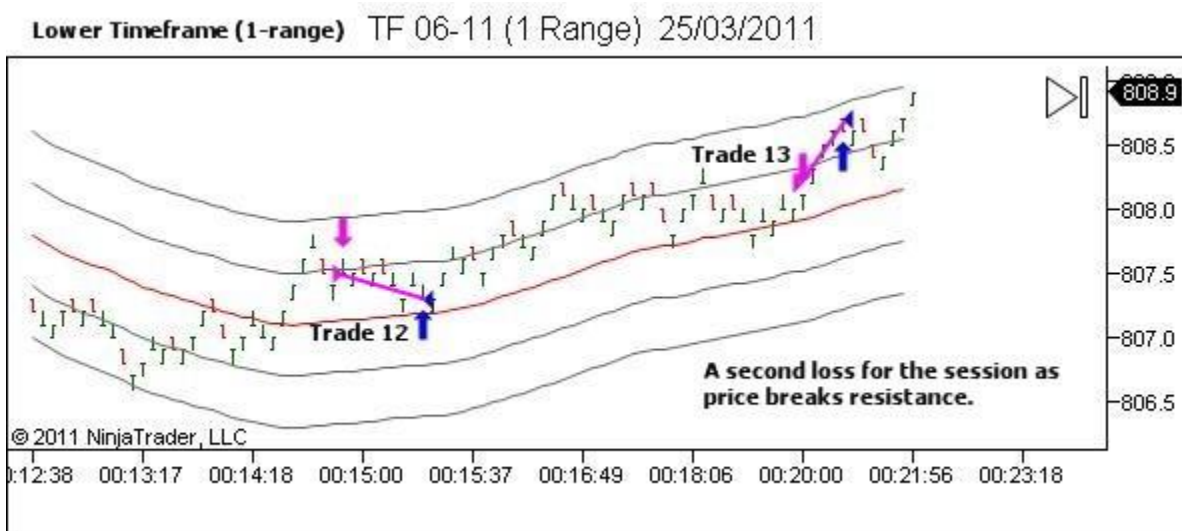


Figure 10.58 - TF 24th March 2011 – Trade 13 – Post-Trade – 1-Range

Trade 13- Results

Part One Counter-Flow: -5 (less commissions)

Trade 14- Entry

Trade 14 is a wholesale opportunity long, with-flow (BPB). Perhaps a better opportunity had been available short counter-flow (BOF). The markets though are full of missed opportunity... let it go and focus on the opportunity that is presenting here and now.



Figure 10.59 - TF 24th March 2011 – Trade 14 – Entry - 1-Minute

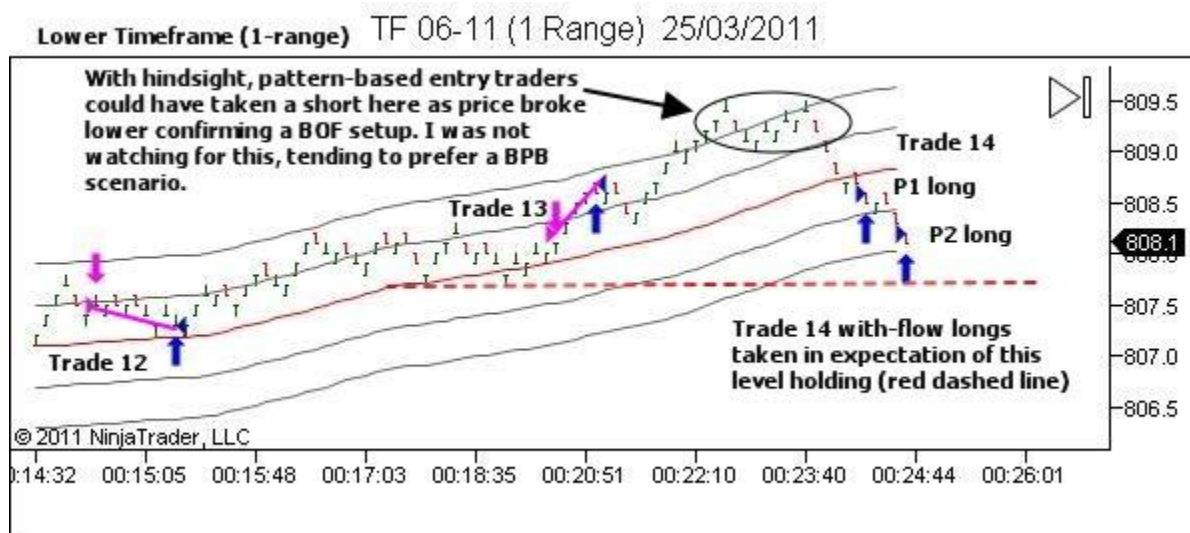


Figure 10.60 - TF 24th March 2011 – Trade 14 – Entry – 1-Range

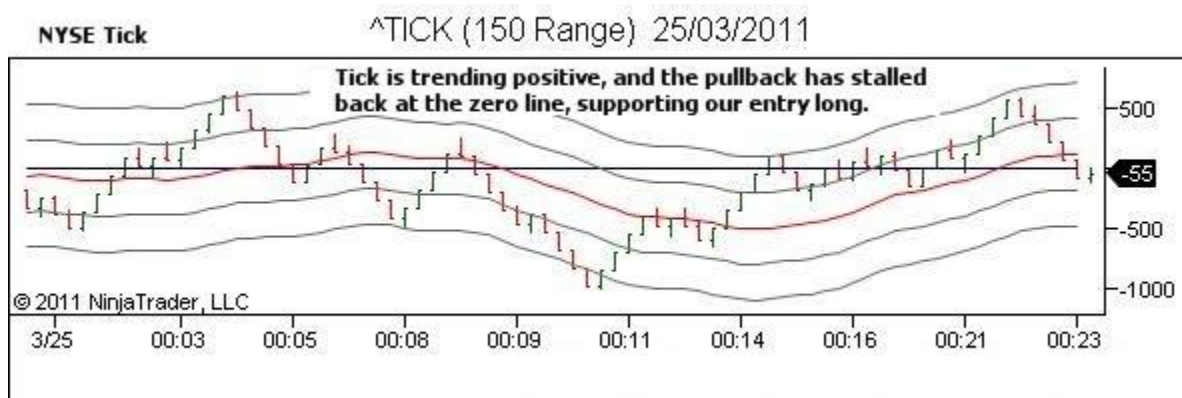


Figure 10.61 - TF 24th March 2011 – Trade 14 – Entry – NYSE Tick

Trade 14- Post-Trade

This felt uncomfortable so P1 was scratched via a recovery exit. P2 was poorly managed when it did pop higher. I felt the price about to fall, and rather than moving my target order to get out I dragged the stop up to 1-tick below price, just before it filled with an extra tick slippage.

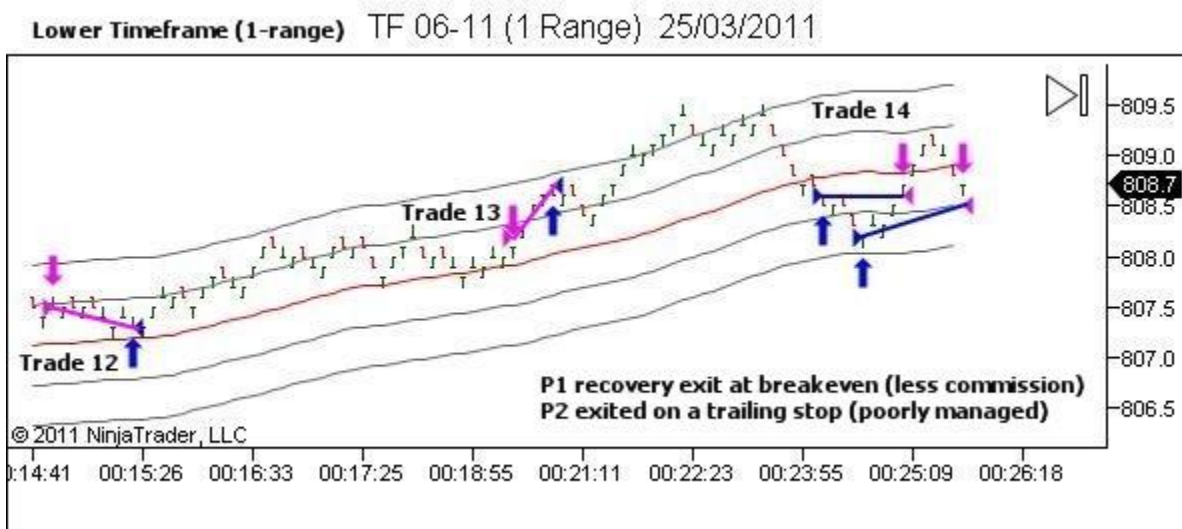


Figure 10.62 - TF 24th March 2011 – Trade 14 – Post-Trade – 1-Range

Trade 14- Results

Part One With-Flow: 0 (less commissions)

Part Two With-Flow: +3 (less commissions)

Trade 15- Entry

Price then holds the 808.4 support, so I look for another BPB wholesale entry long.



Figure 10.63 - TF 24th March 2011 – Trade 15 – Entry - 1-Minute

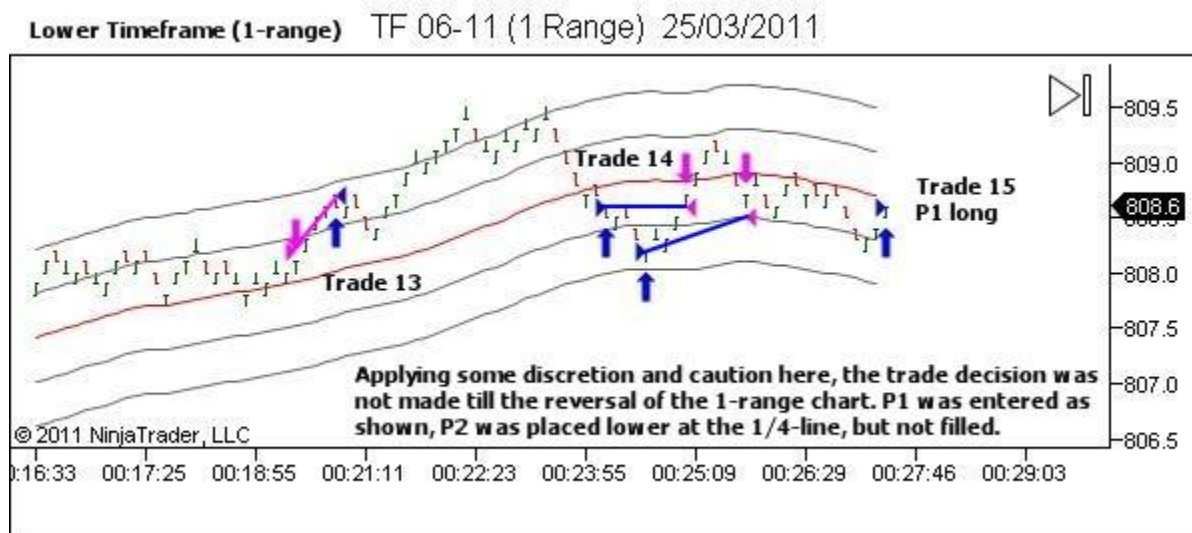


Figure 10.64 - TF 24th March 2011 – Trade 15 – Entry – 1-Range

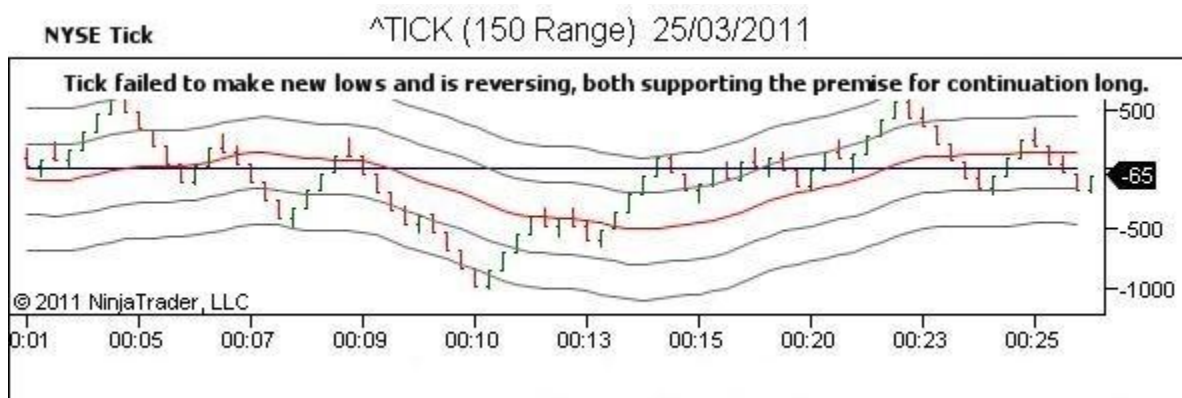


Figure 10.65 - TF 24th March 2011 – Trade 15 – Entry – NYSE Tick

Trade 15- Post-Trade

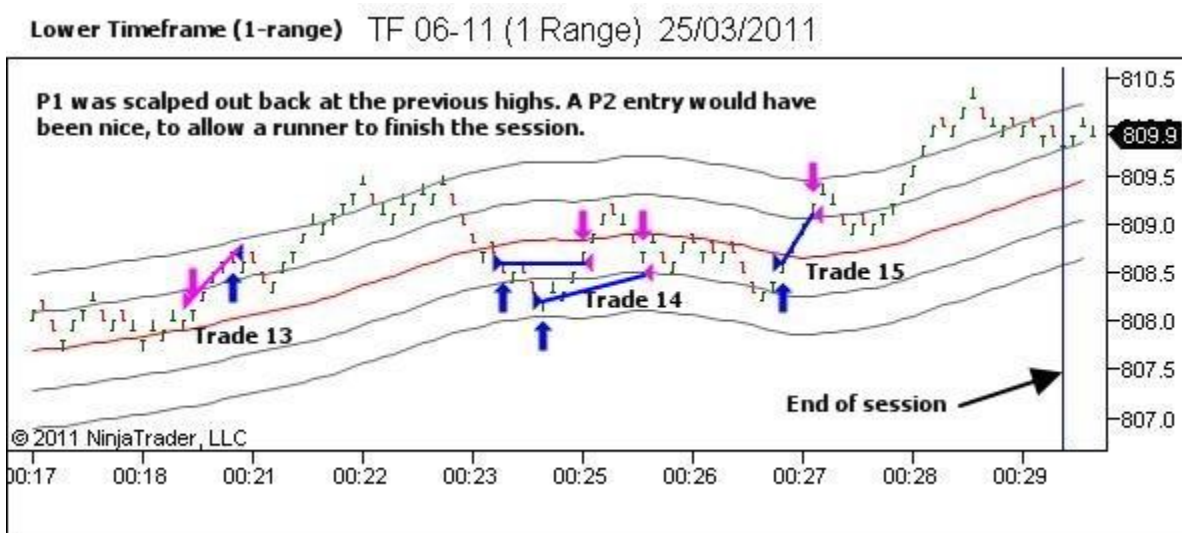


Figure 10.66 - TF 24th March 2011 – Trade 15 – Post-Trade – 1-Range

Trade 15- Results

Part One With-Flow: +5 (less commissions)

Post Session

TOTALS:

Part One With-Flow: +30 ticks (less thirteen commissions)

Part Two With- Flow: +28 ticks (less five commissions)

Part One Counter-Flow: + 2 ticks (less two commissions)

Part Two Counter- Flow: no trades

Outstanding!

I wanted to show a good session to demonstrate the potential, and this is one of the best from recent memory. Please don't get the wrong impression - they're not always this good. But this shows the potential, despite some opportunity left on the table, some opportunity missed entirely, and a mid-session period of confusing bias. Plus the fact that I did not manage to leave any trade on for a runner.

We'll follow this example with a more *usual* session.

It's important to remember though... trade session results work much like your individual trades.

With individual trades, most will provide a small profit or breakeven, plus a few small losses, but then you get the occasional large win. It's these outlier trades which really make a session.

The same applies to trading sessions. Most will be nothing special at all. Small wins, some breakeven. But if you ensure that losing sessions are always limited to small losses only, then it's the larger wins such as this session that provide the large sudden boosts to your equity curve.

Enough said though... let's get on to a more typical session.

10.2 – Euro – 28th March 2011

Of note during this session:

1. The more typical session results that come from grinding away a small profit; and
2. The reduced price range often associated with the Euro (when compared with the E-mini Russell). Traders wanting more action should focus more on TF. Those wanting less may prefer the 6E.

Session Planning

Plan: Trading the Euro for the first hour following US economic news.

Economic News: 22:30 – USD – Core PCE Price Index and Personal Spending (both only medium impact reports)

Session Open

At the time of news release the charts show the following price action.



Figure 10.67 - Euro 28th March 2011 – Session Open – 5-Minute

Resistance is above price at 1.4065 and 1.4040. Support is below price at 1.4000.



Figure 10.68 - Euro 28th March 2011 – Session Open – 1-Minute

The lower timeframe chart confirms bearish channel flow. We tentatively accept this as our initial bias, expecting continuation to 1.4000 support; although we'll watch the post-news price action closely for any signs of a change in bias.

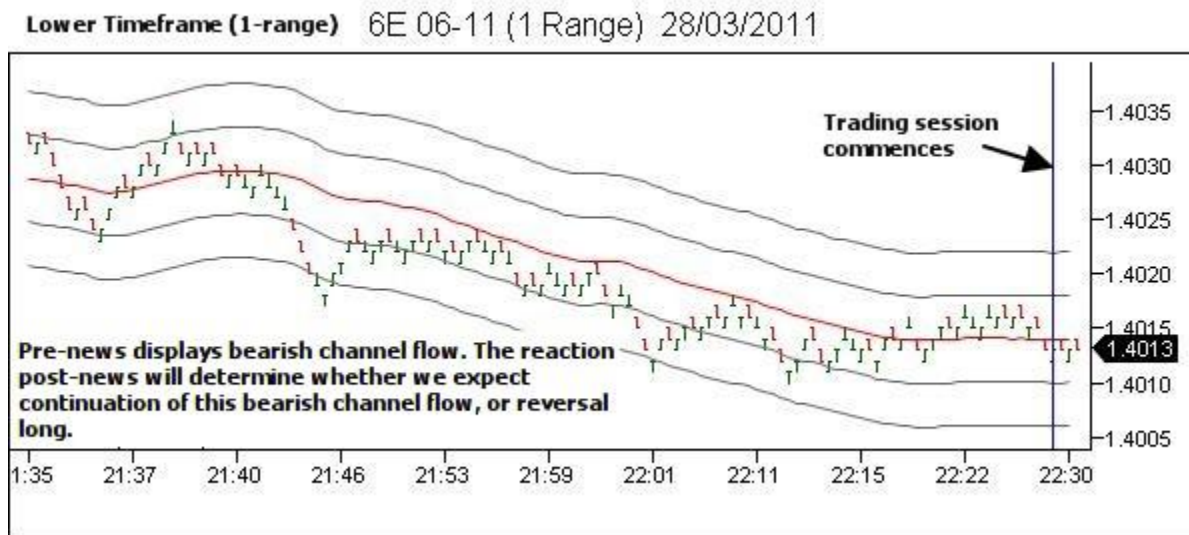


Figure 10.69 - Euro 28th March 2011 – Session Open – 1-Range

Trade 1- Entry

Trade 1 is aiming for continuation of the bearish channel flow, as the initial post-news impulse downwards is followed by a much slower grinding rally back to pre-news levels.



Figure 10.70 - Euro 28th March 2011 – Trade 1 – Entry - 1-Minute

P1 is entered at the $\frac{1}{2}$ -line. A P2 order sits at the $\frac{1}{4}$ -line (equal to the pre-news swing high). Movement above that price will cause concern though, so price will be watched cautiously if it approaches P2 levels.

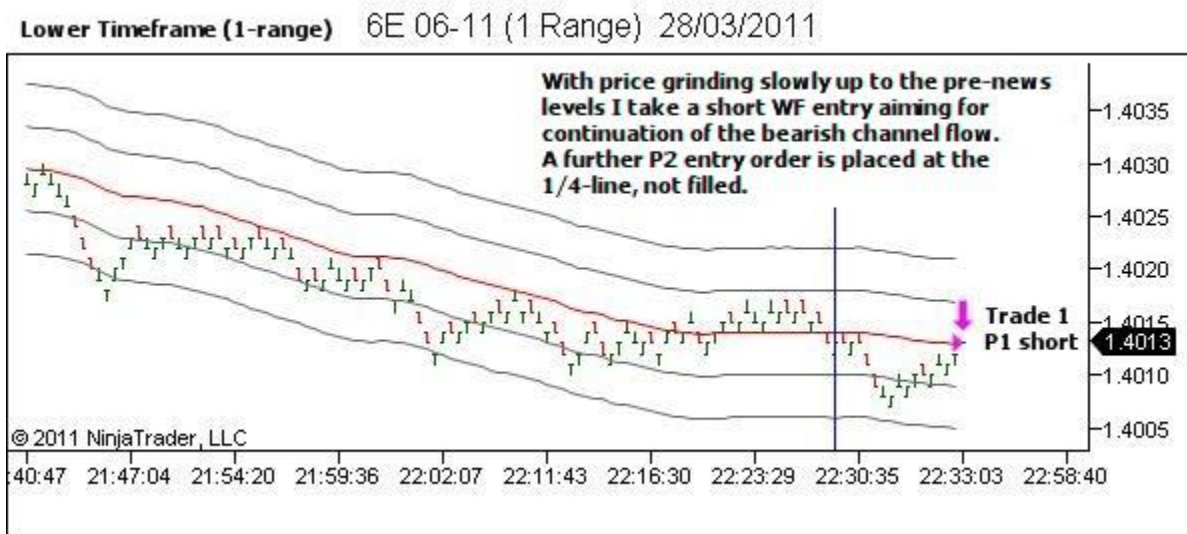


Figure 10.71 - Euro 28th March 2011 – Trade 1 – Entry – 1-Range

Trade 1- Post-Trade

Part 1 provided the only fill. Price did not reach the part 2 entry order, missing by 2 ticks.

A small scalp profit was taken as price found potential support at the lows.

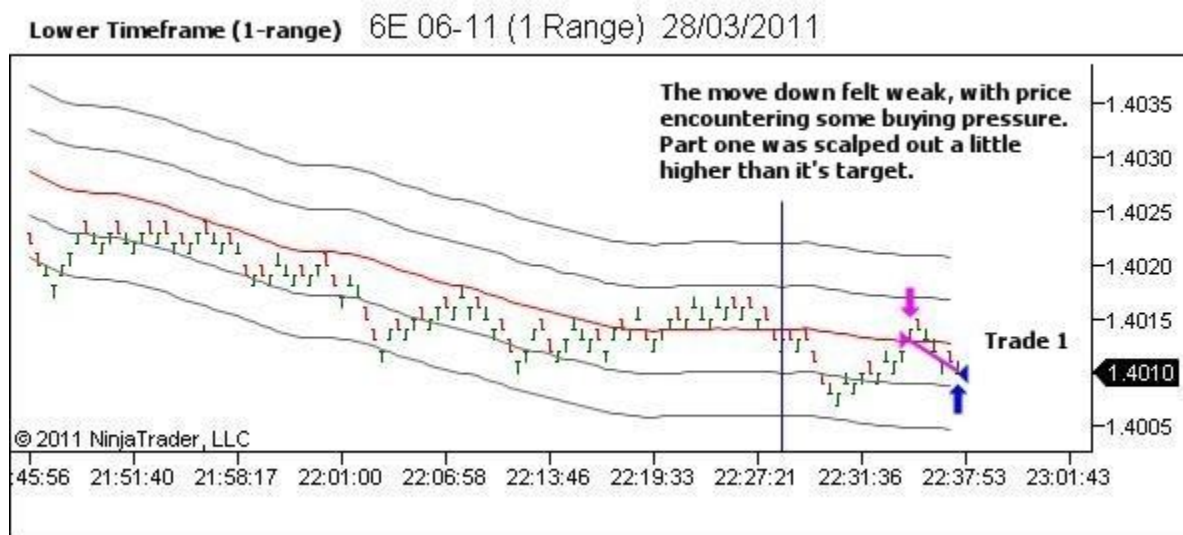


Figure 10.72 - Euro 28th March 2011 – Trade 1 – Post-Trade – 1-Range

Trade 1- Results

Part One With-Flow: +3 (less commissions)

Trade 2- Entry

Although price is grinding higher, it still struggles to approach the pre-news swing high. My bias is still for a continuation lower... although it's testing my patience.



Figure 10.73 - Euro 28th March 2011 – Trade 2 – Entry - 1-Minute

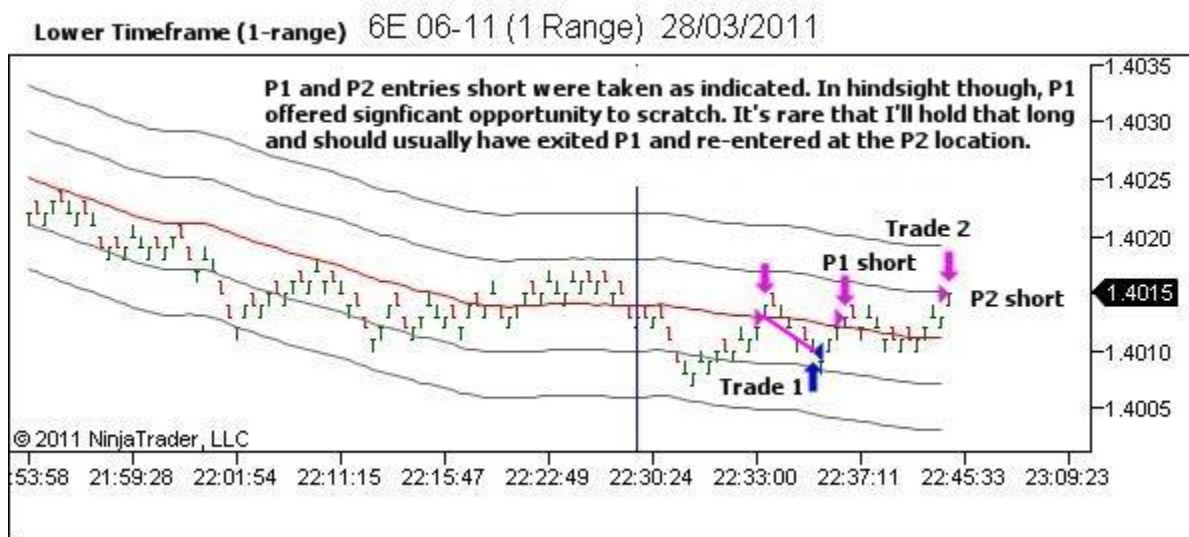


Figure 10.74 - Euro 28th March 2011 – Trade 2 – Entry – 1-Range

Trade 2- Post-Trade

Scratching P1, as discussed in the previous 1-range chart comments, would have been the preferable option and would have reduced risk to a single part only.

For whatever reason though, I continued to feel short was the right direction during the stall, so held P1. The result is a full loss at the stops.

I'm not happy with the trade management here, and suspect some bearish expectations have led to me failing to objectively see what price was trying to tell me.



Figure 10.75 - TF 24th March 2011 – Trade 2 – Post-Trade – 1-Range

Trade 2- Results

Part One With-Flow: -6 (less commissions)

Part Two With-Flow: -4 (less commissions)

The session is now in drawdown at a total of -7 ticks (less commission)

Trade 3- Entry

The trend changed to an uptrend when price broke the pre-news swing high. Our expectation is for bullish channel flow, and so a wholesale entry long is planned.



Figure 10.76 - Euro 28th March 2011 – Trade 3 – Entry - 1-Minute

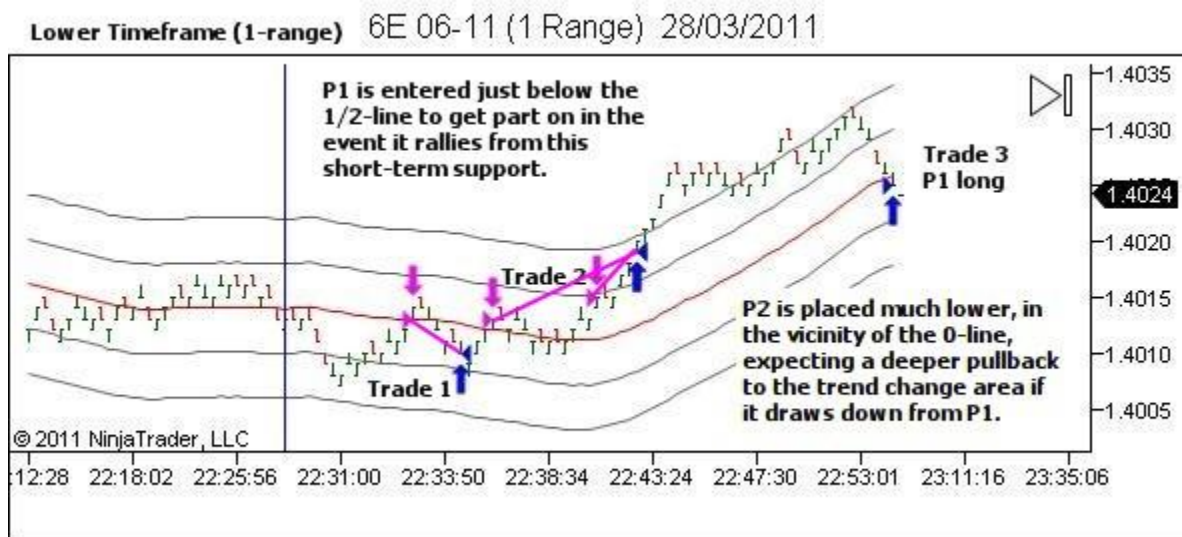


Figure 10.77 - Euro 28th March 2011 – Trade 3 – Entry – 1-Range

Trade 3- Post-Trade

P1 is the only part which fills. It's scalped out at the highs. I would love to have a P2 position as well, as this did offer potential to go higher. Scalping though is not always about getting every runner. Rather I aim to take the higher probability options and at the time I felt that was to take profits abeam the highs expecting at least a slight stall.

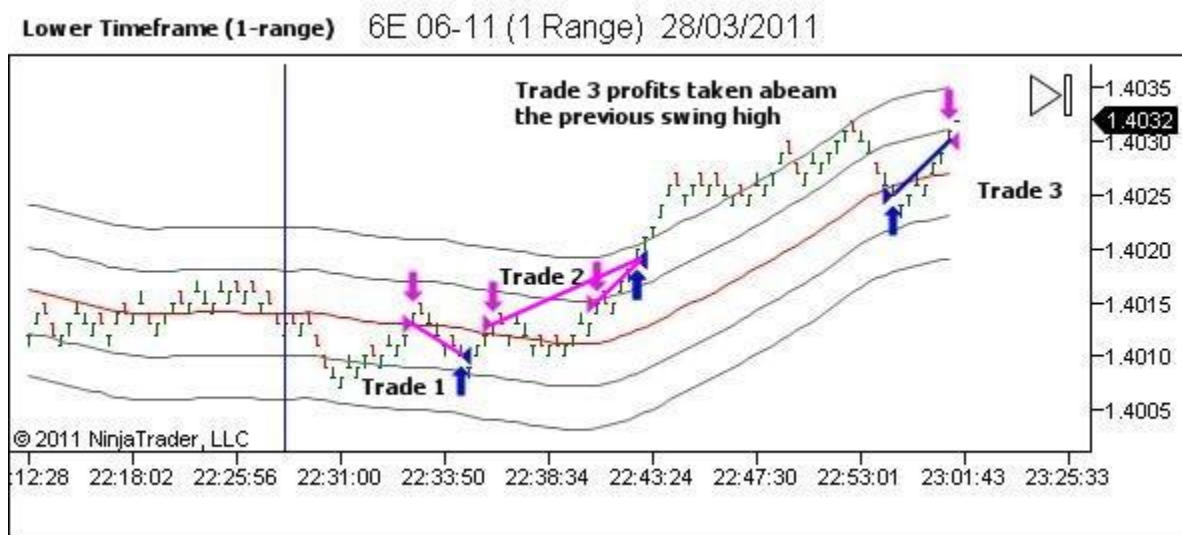


Figure 10.78 - Euro 28th March 2011 – Trade 3 – Post-Trade – 1-Range

Trade 3- Results

Part One With-Flow: +5 (less commissions)

The session is still in drawdown at -2 (actually less after taking away four commissions).

Trade 4- Entry

Price reached the vicinity of 1.4040 resistance following trade 3, before pulling back to offer another entry long. Our bias is still for bullish channel flow, back up to retest the area of resistance.



Figure 10.79 - Euro 28th March 2011 – Trade 4 – Entry - 1-Minute

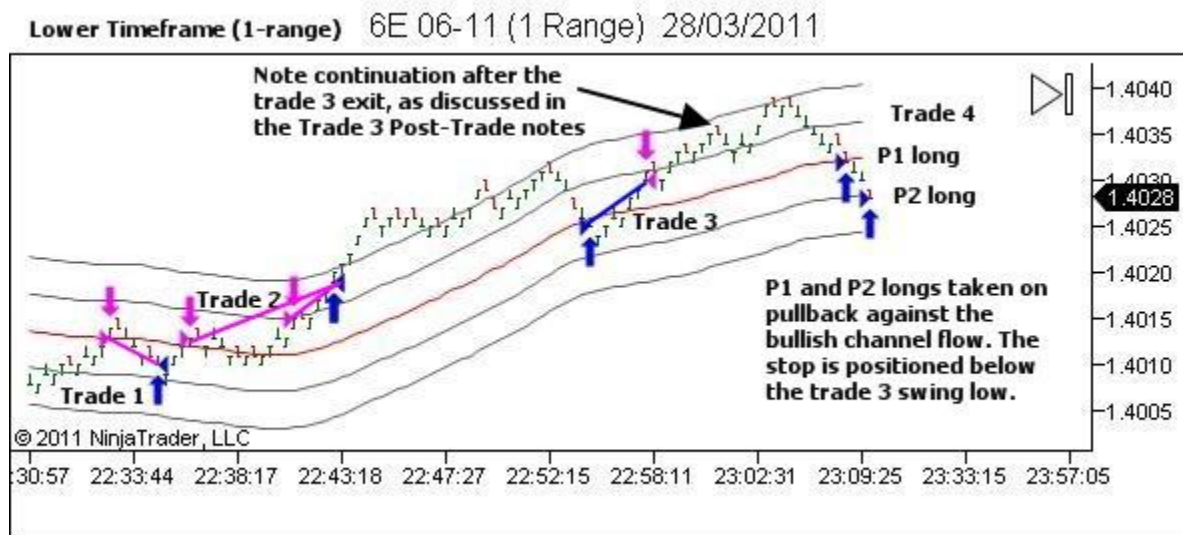


Figure 10.80 - Euro 28th March 2011 – Trade 4 – Entry – 1-Range

Trade 4- Post-Trade

This trade was scratched with small profits due to the extended time in drawdown. When in doubt it's best to be out to allow a more objective reassessment of expected future channel flow.

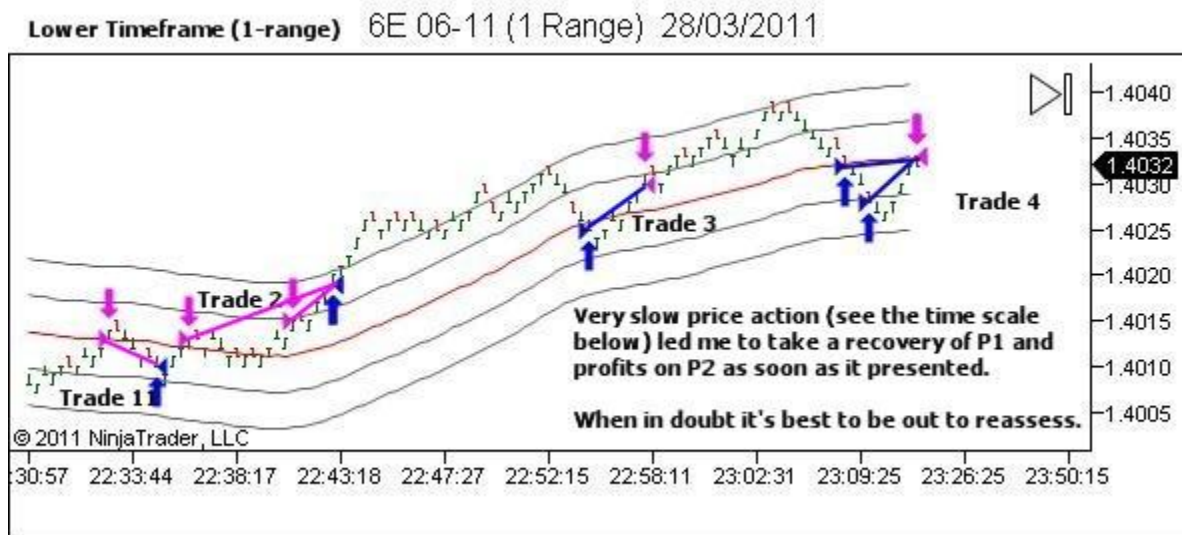


Figure 10.81 - Euro 28th March 2011 – Trade 4 – Post-Trade – 1-Range

Trade 4- Results

Part One With-Flow: +1 (less commissions)

Part Two With-Flow: +5 (less commissions)

P2 profits have taken us positive for the session after commissions (just).

Trade 5- Entry

Being flat allowed a more objective reassessment of bias. I was still expecting continuation of the bullish channel flow, so sought another entry long.

Being cautious though I only sought a P1 entry.



Figure 10.82 - Euro 28th March 2011 – Trade 5 – Entry - 1-Minute

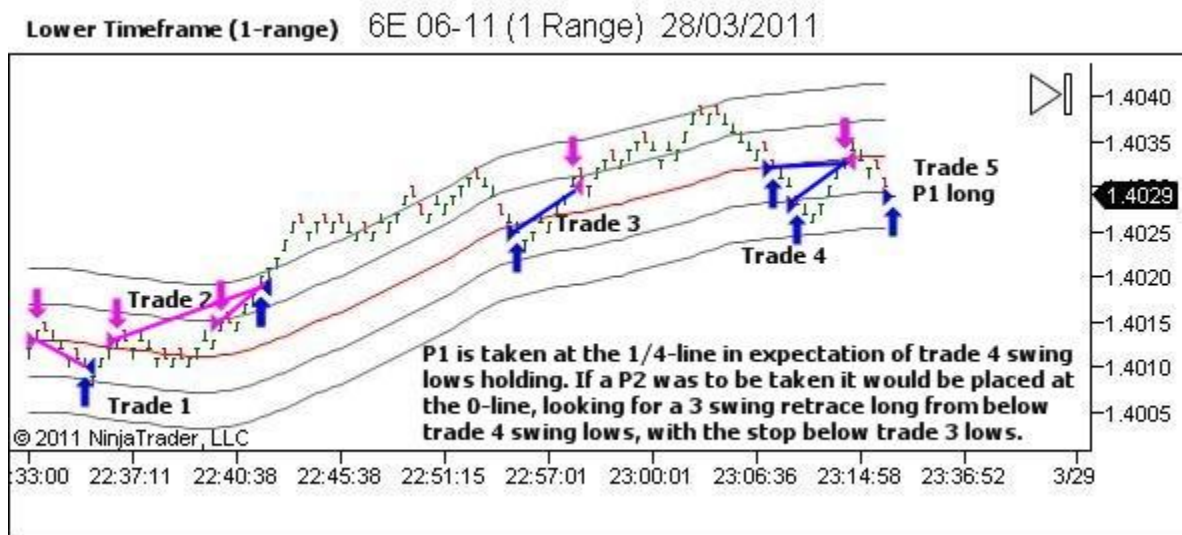


Figure 10.83 - Euro 28th March 2011 – Trade 5 – Entry – 1-Range

Trade 5- Post-Trade

Price continued to move slowly, however this time it did so mostly in profits. Slow action much easier to hold when showing a profit! A scalp exit was taken just short of the 1.4040 resistance and previous swing highs.

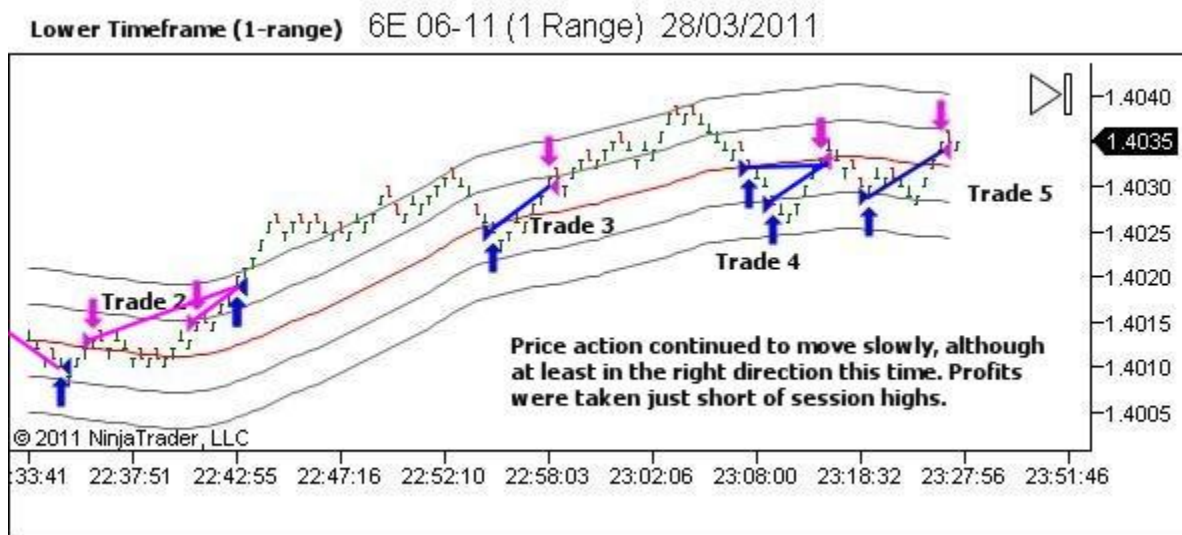


Figure 10.84 - Euro 28th March 2011 – Trade 5 – Post-Trade – 1-Range

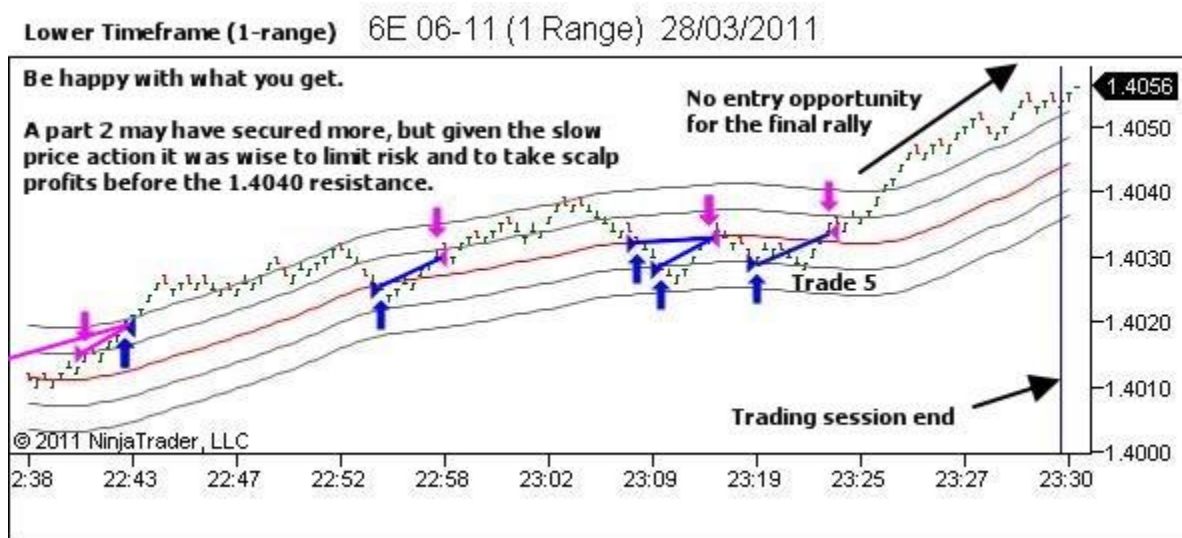


Figure 10.85 - Euro 28th March 2011 – Trade 5 – Post-Trade – Missed Opportunity

Trade 5- Results

Part One With-Flow: +5 (less commissions)

Post Session

TOTALS:

Part One With-Flow: +8 (less five commissions)

Part Two With-Flow: +1 (less two commissions)

Part One Counter-Flow: No trades

Part Two Counter-Flow: No trades

Given the very slow nature of the price action, and the early drawdown with a full loss, I am quite happy with this result, having been able to scalp my way back to session profits.

It's important to note that it was not until the trade 4 exit that I was back in the black. Trade 5 could have finished positive or negative for the session. Lucky for me it got a winner. Unlucky for me it rallied hard after exit. Other times it could work out differently.

My job is not to concern myself with this though. Just to flow with the channel wholesale to retail, as best I can. Back and forth! Over and over again!

If I do this with an accurate read on bias, then profits will take care of themselves over the long term. Remember our 70/90/100 focus from YTC PAT.

10.3 – A Sequence of Losses

Given that the last two session examples were winners, I do want to emphasise the point that some will lose. In fact, our 70/90/100 plan anticipates 30% of losing sessions (3 per fortnight).

Rather than demonstrate a whole session filled with both winners and losers, let's change the format a little and just look at two losing trades in a row.

Because two losses is where it starts getting very difficult for someone who has not developed sufficient trust in their strategy or in themselves!

Session

This is the UK session of the Euro on 29th March 2011.

We'll examine these trades from hindsight only, rather than giving an opening snapshot and a closing snapshot.

Trade 1

Look at the 1-range chart below. Ignore the first short trade to the left hand side. That was a previous trade (winner). The one that concerns us is the next one.

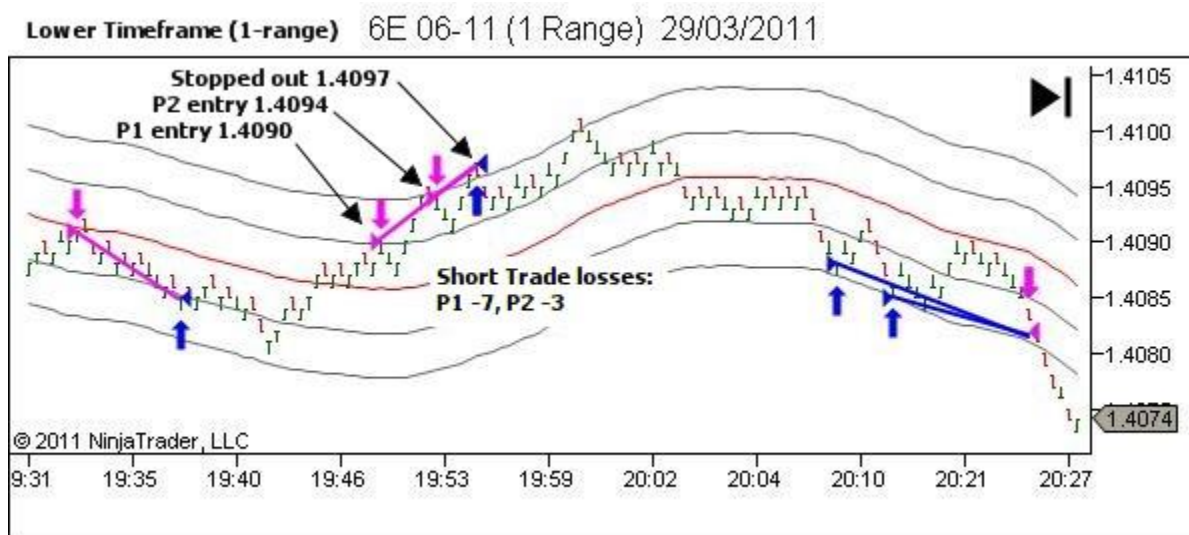


Figure 10.86 - 6E 29th March 2011 – Trade 1 – 1-Range

Price had been trending down nicely for 40 minutes, offering two excellent short trades. It now commenced a larger pullback.

My expectation was for continuation of the bearish channel flow.

An entry was scaled in at the $\frac{1}{4}$ -line and the 0-line. Decision making was more a result of choosing entries close to price action features, rather than blind automatic selection of channel features.

Looking at the 1-minute chart below, you can see that part 1 was entered in anticipation of swing high C holding. Part 2 was positioned to enter us short if swing high C failed. In both cases, I expected swing high B to hold so the stop was positioned above that feature.



Figure 10.87 - 6E 29th March 2011 – Trade 1 – 1-Minute

Unfortunately the pullback just continued grinding higher stopping out the trade.

In hindsight though... I like the trade. And I'd probably take it again.

Trade 2

The following trade was not quite as good.

Following the extended rally of trade 1, I expected the pullback to remain above the 1.4080 support level (previous low). My expectation from support was for bullish future channel flow, so I sought entry long (counter-flow), to position myself early in the rally.

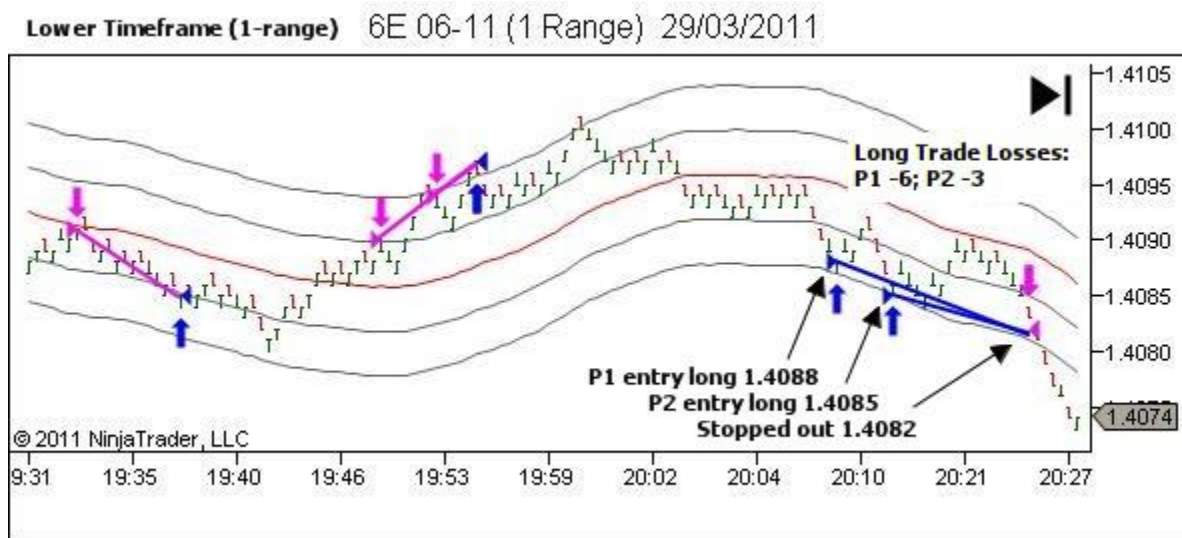


Figure 10.88 - 6E 29th March 2011 – Trade 2 – 1-Range

Part 1 was entered at the 0-line. Part 2 was entered 5 ticks above the session low. The stop was initially below the session low at 1.4078.

Prior to exit the stop had been moved up to just below the price stall area. The position was stopped out at 1.4082.

Let's review the 1 minute chart.

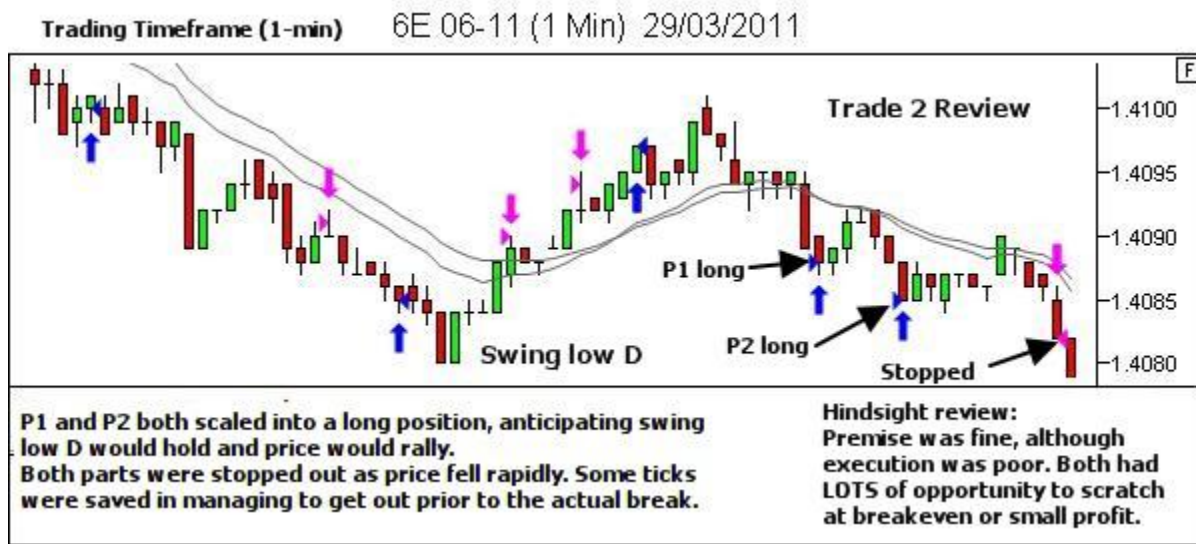


Figure 10.89 - 6E 29th March 2011 – Trade 2 – 1-Minute

In this case, while the entries were good, and my premise proved wrong, it was my trade management that was exceptionally poor.

Both positions provided a lot of opportunity to exit at or near breakeven.

Given the strength on the swings down to P1 entry and P2 entry, I should have had extreme concern about viability of this trade idea, and should have scratched the position when the bullish move failed to eventuate.

I almost never hold a trade this long.

This is the benefit of a post-session hindsight review... comparison of hindsight perfect trading with your actual trading. In this case, I don't have a massive problem with having taken these trades – the entries were good – the problem is that they should never have been allowed to develop into a loss.

Thoughts on Losses

Losses happen! Some will be trades that were perfectly acceptable, such as trade 1 in this example. Others will be trades that have you scratching your head wondering what on Earth you were thinking.

When you enter a trade you can never know whether it's going to lead to a winner or a loser. But you don't have to know. Your job is to manage the opportunity and trust your ability to read the market bias, such that you profit over a longer sequence of trades (such as our 20-session rolling P&L sample).

Individual trades do not matter, provided risk is contained. Losing sessions do not matter, provided risk is contained.

If you hit your session stop-loss, then walk away from the markets. But if you haven't hit the stop, then conduct a personal Recovery process as per the AA Statements:

- Confirm flat
- Clear my mind
- Accept results
- Forget results
- Enjoy the uncertainty
- Focus

The challenge continues. There are more trades to be managed. And just maybe they'll be the ones that take the session back to profits, as shown below where we see the trades which follow our two trade losing sequence.

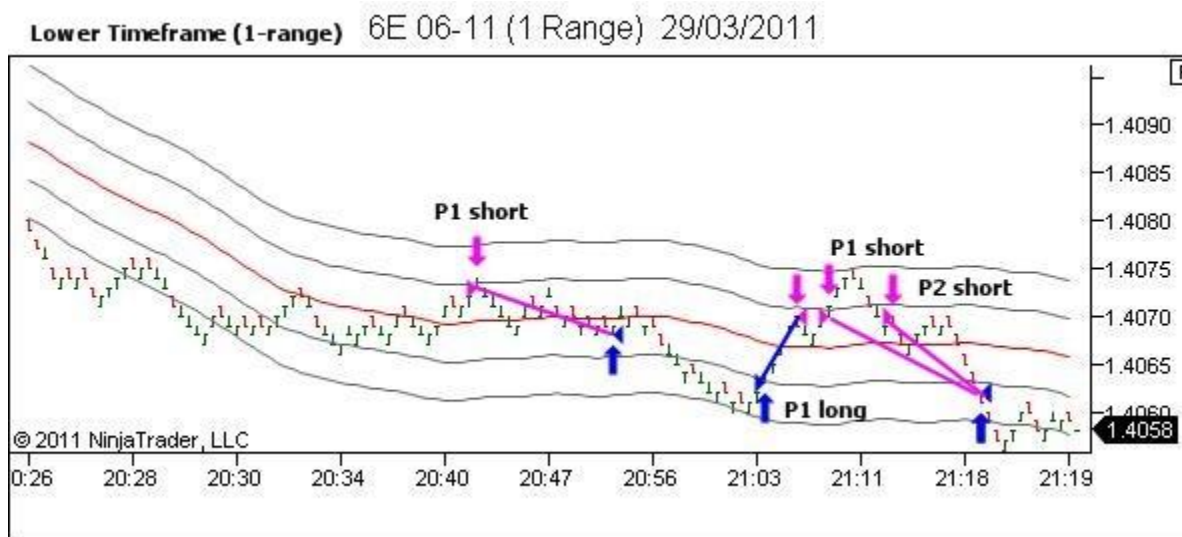


Figure 10.90 - 6E 29th March 2011 – Following Trades

10.4 – Pattern Based Entry

All the previous examples used channel-based entries (which are the type most often used in my scalping), I would like to explore one example which used pattern based entry, rather than automatic entry, to trigger into a counter-flow position. As mentioned earlier, sometimes beautiful patterns do present themselves and beg to be traded.

Market: 6E (Euro)

Date: 14 Mar 2011

Time: 22:59 (08:59 ET)

News Releases: Nil – a quiet day on the economic news front, so expectations are for a mostly rangebound session. Although, Japan is still in the “non-economic” news, facing the devastation of last weekend’s earthquake, tsunami and potential nuclear catastrophe. So caution should be applied as any further devastation could cause rapid market movement.

Pre-Trade:

The assessment of market environment is one of a sideways rangebound market, operating between higher timeframe resistance A and higher timeframe support B.



Figure 10.91 - Example – Pattern Based Entry – Pre-Trade

Price has recently broken above resistance level C, which exists inside the boundaries of our range. This is a beautiful scenario – a break of resistance (C) leading price right into a higher area of resistance (A). This layering of levels of S/R is a great way to trap unsuspecting traders. Anyone entering long on a breakout above C is taking a low probability trade and likely to be caught, as higher timeframe participants (and more astute lower timeframe participants) enter short in the vicinity of A.

In YTC PAT terms, this is an excellent BOF setup (from the breakout of resistance area C), or TST setup (of resistance area A). Call it either and you'll be right.

Entry:

Price stalled post-breakout for approximately 40 seconds, indicating some supply (selling) then pushed higher above the stall by one tick to 1.3950 and stopped dead for around 10-15 seconds. A stop-entry order was placed for a two part position below the pattern at 1.3946. In the event that price hit this level it would trigger an upthrust pattern-based entry into a counter-flow (BOF) trade. Our expectation would be that the trapped longs would start exiting, adding to bearish orderflow. And any movement downwards would attract wider bearish sentiment as other traders entered short in expectation of a reversal from resistance.

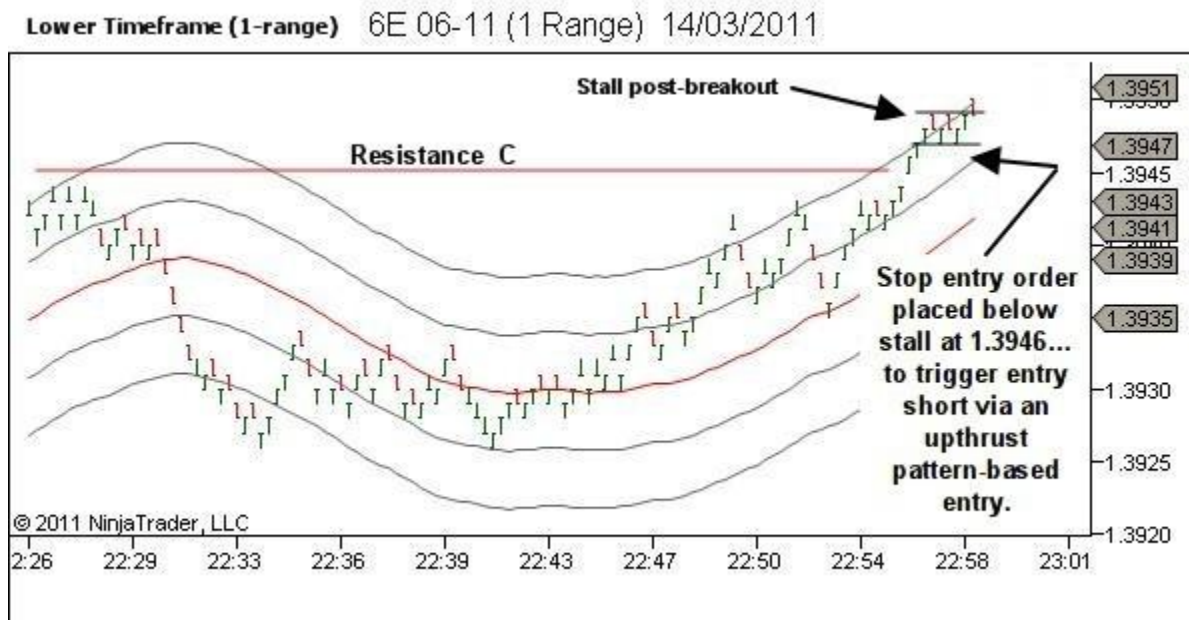


Figure 10.92 - Example – Pattern Based Entry – Pre-Entry

Entry was triggered, with a stop placed above the pattern, and targets placed at the first area of potential stall and the next area of trading and higher timeframe support. Note that if the stop was hit, the setup premise may not be invalidated. The upper resistance area extends through to 1.3960, so could set up for a second attempt.

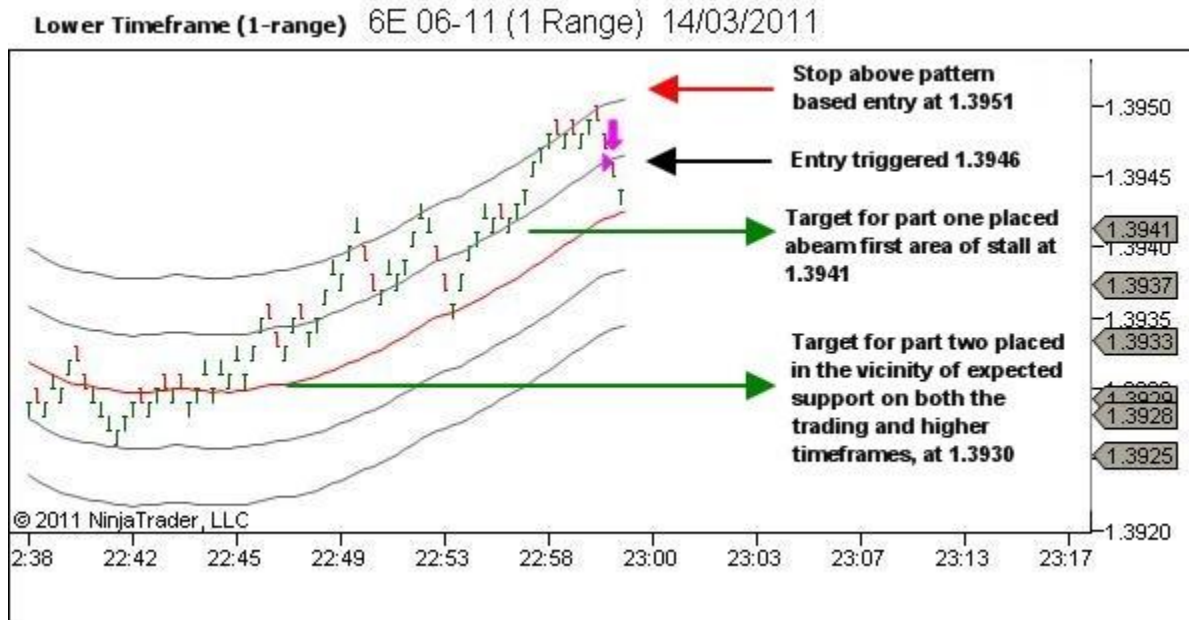


Figure 10.93 - Example – Pattern Based Entry – Post-Entry

A note of caution... the entry time is one minute before the hour. This is a time when you need to consider the thought processes of the larger timeframe participants. Traders watching the 5 min, 15 min, 30 min and 60 min charts will have candles closing and will potentially be making trading decisions. We want to ensure we are not entering short right at the time when these traders would be getting signals to go long. In this case, the 5 min chart does show a bullish candle, but it's right into resistance. And the 15, 30 and 60 min charts show absolutely no reason to go long. I'm happy to enter short here, confident that any professional trading from these timeframes will also be short, assisting my trade. (Note: I do not usually monitor above the 5 min chart. With experience you can visualise these higher timeframe candles from the 5 min candles using a process of candle addition).

Management:

Target T1 was achieved easily, scalping a quick +5 ticks. The stop for part two was moved to just above breakeven by 2 ticks, in expectation that if hit I would have to reassess, and maybe position for a reentry after a possible second attempt at higher resistance.

The stop was not hit, and price then commenced its downward movement to the target. The stop was trailed above stall or turn areas.

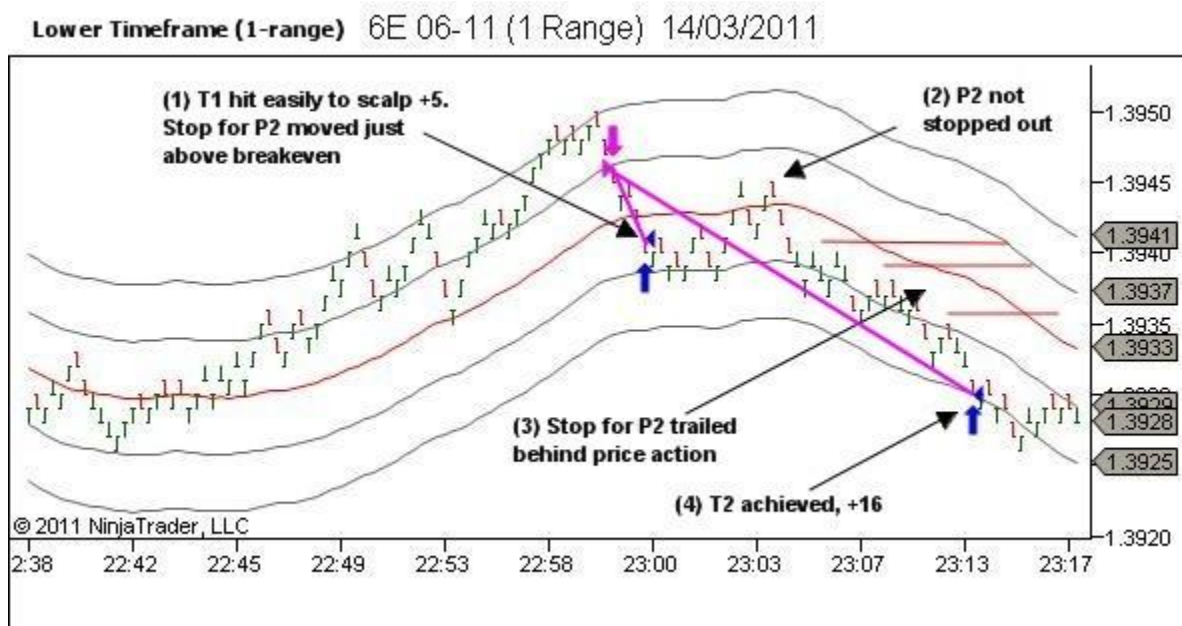


Figure 10.94 - Example – Pattern Based Entry – Trade Management

Post-Trade Review:

Beautiful setup – layered levels of resistance; a breakout of the first level; taking price right into higher resistance and a round number (50) price level.

Beautiful counter-flow entry – a pattern based trigger short with price just in the major-wholesale region of the channel.

Management – No problems.

Result: +5, +16, total +21 less commissions.

The chart below will show how this looks on the one min chart, if you're interested. Note it beautifully captured the whole swing from range resistance to range support – exactly as per our intent with YTC PAT.



Figure 10.95 - Example – Pattern Based Entry – Trading Timeframe Chart.

And for those interested in alternate lower timeframes, the following is the 20-tick chart. Note how clearly the upthrust pattern shows on this chart at entry. Note also the weaker second push that nearly stopped out part two; the weakness giving confidence to hold the trade to the target.

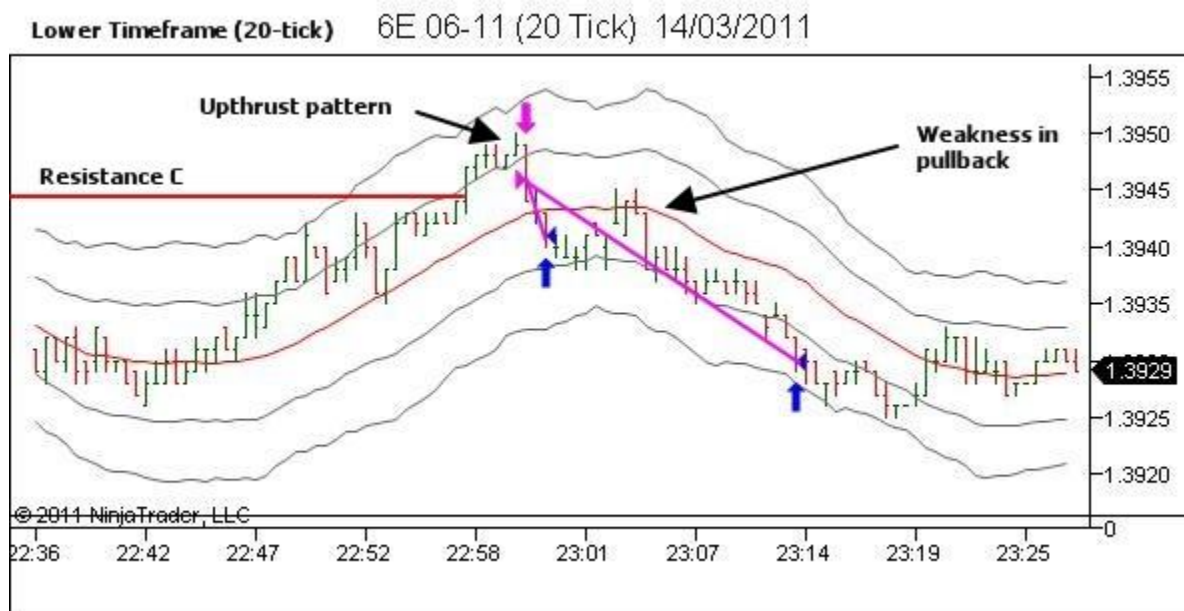


Figure 10.96 - Example – Pattern Based Entry – Alternate Lower Timeframe – 20-Tick

PART FOUR

IMPLEMENTATION

Chapter 11 – Implementation

11.1 – Implementation

YTC PAT Vol 5 talked about deliberate practice and the implementation of a graduated learning plan. I'd encourage you to skim through that section again if it's been a while since you last read it.

In this chapter, I'd like to propose a similar program for learning and advancing with YTC Scalper.

Success is largely a result of building your intuitive ability to flow in sync with price. This comes through experience. So we need a plan to allow for the gaining of experience in as slow and safe a manner as necessary. Vary as required for your markets and your finances, but if it was me starting out I'd go with something like this:

11.1.1 - Post-Session Learning

Implement a 20-session period of chart review.

If you happen to have access to historical data that can provide 1-range price bars, then you can fast-track this stage. If not, you'll need to do it in real-time.

For 20 sessions of chart data, review the price charts at any of the following times:

- Euro – One hour following the UK session open
- Euro – One hour following any UK/EUR news reports (High or Medium Impact)
- Euro – One hour following the US session open
- Euro – One hour following any US news reports (High or Medium Impact)
- E-mini Russell – One hour following the session open

Note: Reviews are completed post-session, not live.

This is a period in which you learn to see the scalping channel opportunity, with the benefit of hindsight.

Your goal in this stage is to develop belief in the scalping channel. Learn to trust that if your bias for future channel-flow is correct, then the scalping channel offers significant opportunity to profit.

Buy a folder for storing your post-session reviews. Start filling it with charts with hand written notes of hindsight based analysis. The following is an example of the kind of post-session review required to maximise learning.

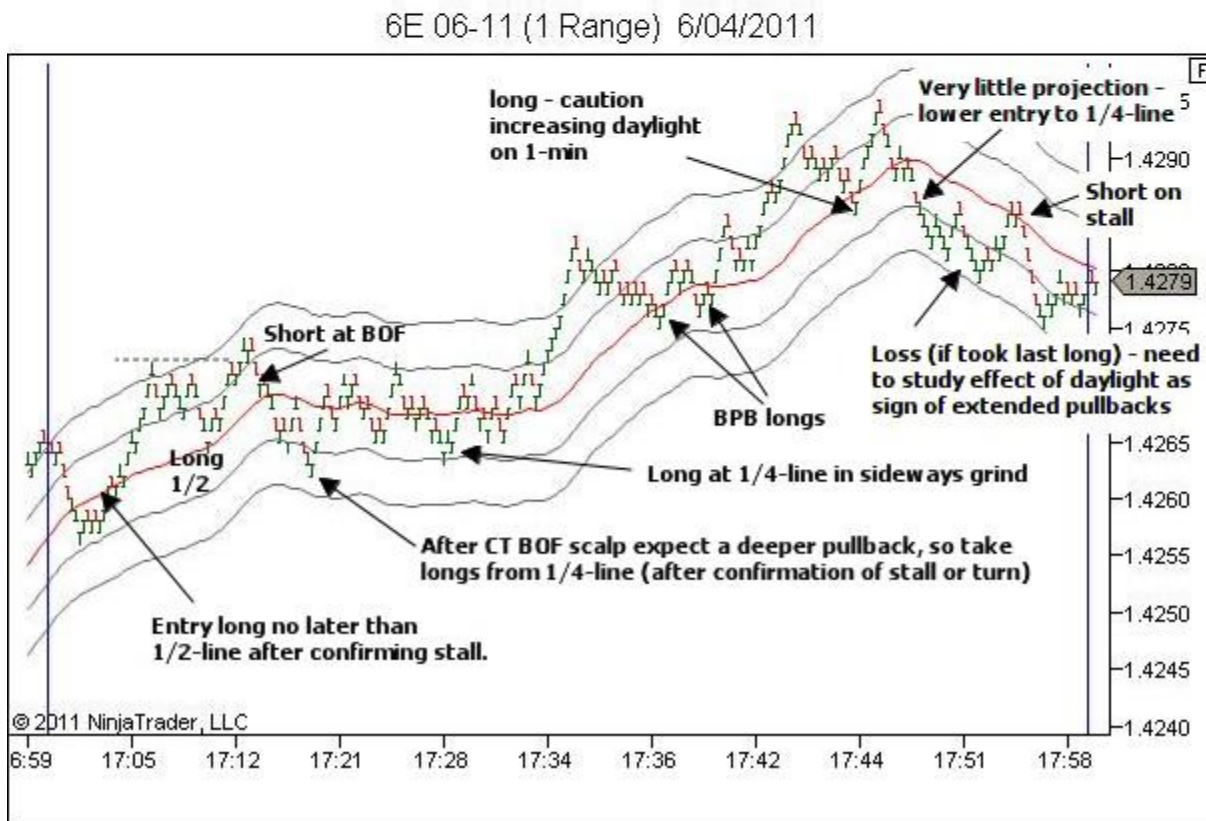


Figure 11.1 – Review Example

11.1.2 - Simulation

Implement a minimum 20-session period of simulator training with real-time data.

Trade exactly as if you were doing this live. This includes effective application of your money management plan, as discussed in YTC PAT Vol 4. Treat this like a business. If you hit any of your session, weekly or monthly drawdown limits then STOP trading. Review your results; regroup and then either continue or start all over again.

Implement your **Trade-Record-Review-Improve** process, as per YTC PAT Vol 5.

- Pick just one of the sessions per day and Trade.
- Record the results.
- Review the session. Compare hindsight perfect trading with your own results. Replay key sequences. Print charts, add notes, and store in your session review folder.
- And Improve.

The goal in this stage involves learning to implement your plan in a safe environment without financial risk:

- a) Learning to see opportunity in real time at the right hand edge of the screen
- b) Building confidence in placing limit orders ahead of time
- c) Building confidence in being able to manage a position, in order to minimise risk and maximise opportunity.

With every second of deliberate practice, you are improving your intuitive ability to perceive and react to shifting signs of strength or weakness within the price action.

At the end of 20-sessions, if you are not profitable (after commissions and expenses), then continue with this stage of learning. Continue tracking your stats for a rolling 20-session period. When you get profitable, and stay there for 5-sessions, advance to the live market.

11.1.3 - Live - Minimum Size

As for the simulation stage, but this time the process is repeated in the live market with the minimum position size available (2-part positions). If you cannot afford this then remain on the simulator until you can afford it.

Trade-Record-Review-Improve.

Continue adding to your session-review folder. And continue with other YTC PAT Vol 5 tools for deliberate practice.

Again... at any stage if you hit any of your session, weekly or monthly drawdown limits then STOP trading. Review your results. Consider whether you need to drop back to the sim for another period of time. Otherwise continue.

The goal in this stage involves learning to implement your plan in the live market with the smallest possible financial risk:

- a) Learning to see opportunity in real time at the right hand edge of the screen
- b) Building confidence in placing limit orders ahead of time
- c) Building confidence in being able to manage a position, in order to minimise risk and maximise opportunity.

With every second of deliberate practice, you are improving your intuitive ability to perceive and react to shifting signs of strength or weakness within the price action.

Track your stats for a rolling 20-session period!

Only ever consider a size increase if (a) your stats show a profit for the last 20-sessions and (b) your account balance allows an increase, such that maximum position risk per trade will still be less than or equal to 1%.

11.1.4 - Live - Increasing Size

For each size increase, monitor the first 20-sessions carefully.

And again... at any stage if you hit any of your session, weekly or monthly drawdown limits then STOP trading. Review your results. Consider whether you need to drop back to the sim or a smaller position size for another period of time. Otherwise, continue.

Most important of all... stop the size increases if it's going to lead to position risk greater than 1% of account.

Your goal in this stage is for gradual increase of risk only as you prove capable of managing each level.

Chapter 12 – Conclusion

12.1 – Final Words

There is no room for complexity within the scalping timeframes.

The YTC PAT routines and procedures worked well in slightly higher timeframes, in allowing us to identify trade setup opportunity, and to work a precise entry and exit. But the processes we developed and applied successfully in that timeframe, actually disadvantage us in the faster scalping timeframes.

Successful scalping does not require more precise analysis. It requires less analysis and more feel and intuition.

Successful scalping requires decisiveness.

Successful scalping requires simplicity.

I'd like to finish by repeating the summary of key concepts found in section 8.3.7:

- YTC Scalper simplification is achieved through:
 - a) Reducing the number of setups;
 - b) Ensuring easier means of finding the setups; and
 - c) Ensuring easier means of entry.

All three were achieved through a slight modification to our market model, and through replacing the lower timeframe with a scalping channel.

- Price movement is modelled as channel flow occurring within an S/R framework.
 - All price movement can be defined as price flow back and forth within a channel.
 - We call the direction of channel movement the **channel flow**.
 - Analysis of the trading timeframe trend within a higher timeframe S/R framework is done in order to determine the likely **future channel flow**.
- Provided our analysis successfully identifies the likely future channel flow, then we can simply scalp back and forth within the scalping channel from wholesale to retail.
- Entry is based upon the concept of imperfection. At the scalping level, entry is all about areas, not triggers. We identify a general AREA within which we're happy to enter, and we aim to enter within that area as best we can. Entry within an area is best achieved through a process of scaling into a position.

- The channel allows for ease of placement of orders, in rapid-time, with little thought required. It operates as a crutch, to help with rapid decision making. This allows the majority of your focus to remain where it should – trying to maintain a feel for market sentiment and the bias for future channel flow – rather than trying to perfect a precision entry into an imprecise market.

At the scalping level, this game is simply one of flow.

Identify the current channel flow (1-range channel direction). Use your analysis skills to determine the likely future channel flow (1-min bias). And then just enter that flow, scalping wholesale to retail.

- *I don't know exactly where the market is going... but I don't care.*
- *I trust the bias.*
- *I enjoy the uncertainty.*
- *I take the automatic entries and TRUST the edge.*
- *I trade price as it flows back and forth, wholesale to retail.*

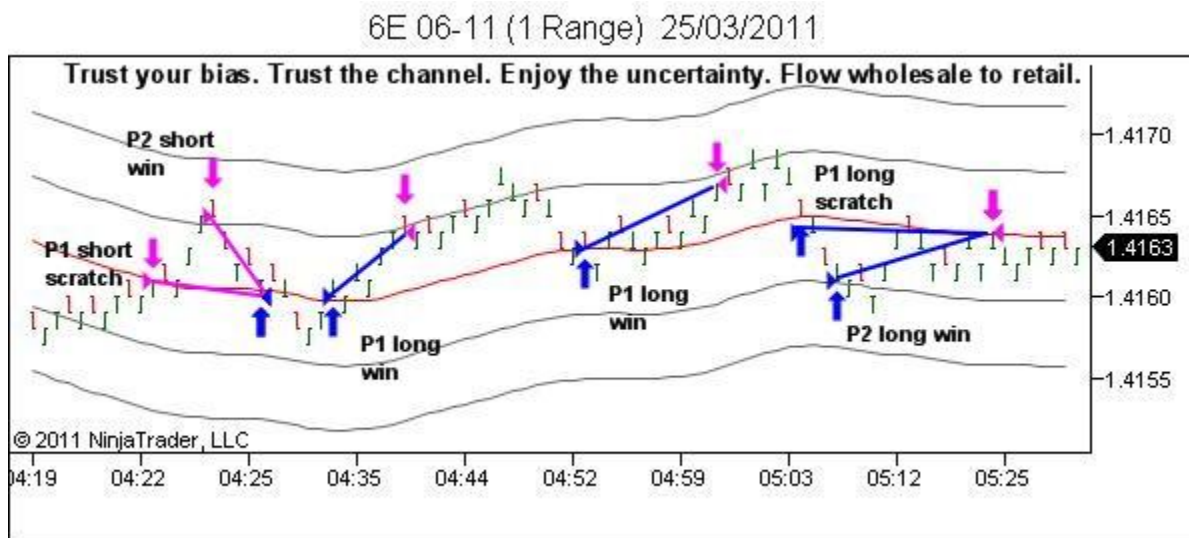


Figure 12.1 - Trust your bias. Trust the Channel – 1

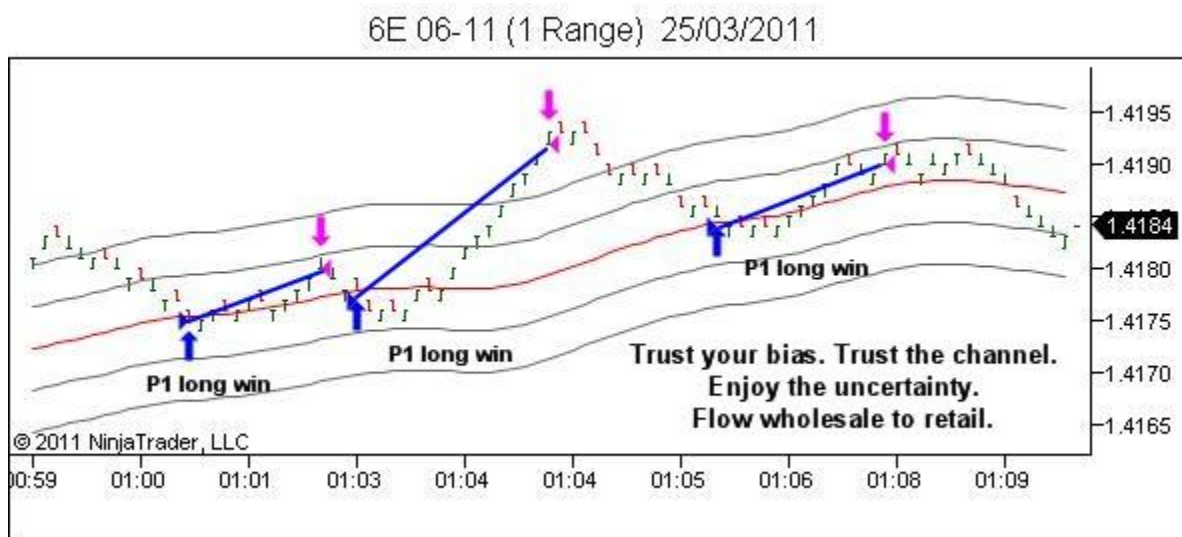


Figure 12.2 - Trust your bias. Trust the Channel – 2

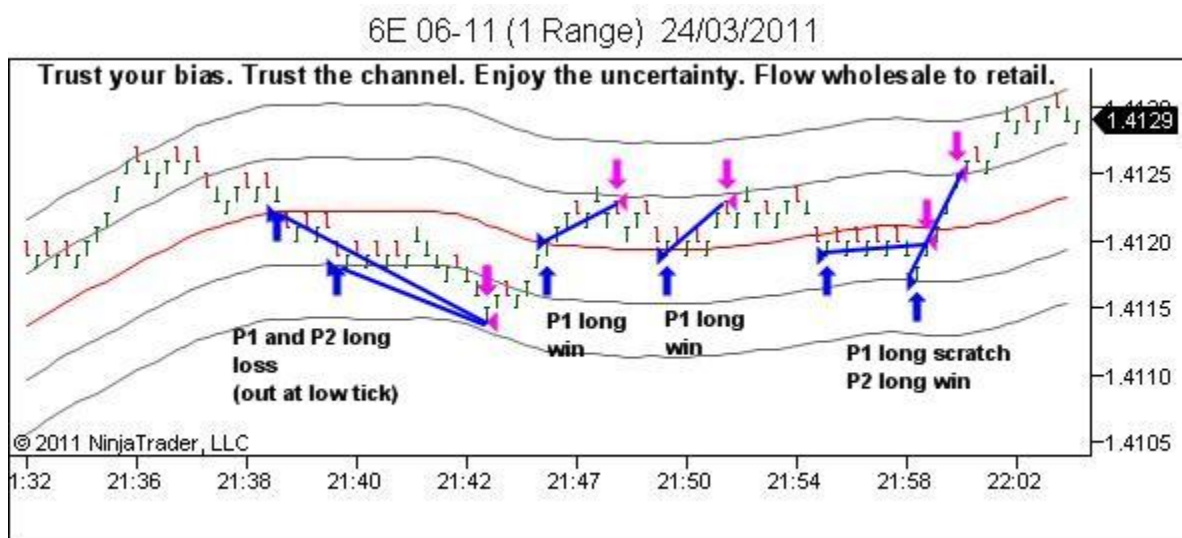


Figure 12.3 - Trust your bias. Trust the Channel – 3

Trade-Record-Review-Improve.

Immerse yourself in the process of deliberate practice. Learn! Develop an intuitive ability to feel the flow of price. Then scalp within the channel – wholesale to retail – trading with the bias.

It's that simple.

But it's never easy.

So enjoy the challenge. And make your trading fun.

Happy Scalping,

Lance Beggs

Glossary

Glossary

Channel Flow

The direction of the scalping channel as currently displayed on the right hand side of the chart. The channel will be moving up (bullish channel flow), down (bearish channel flow), or approximately sideways (neutral channel flow).

Future Channel Flow

Our expectation for the future channel flow, based upon our analysis of the 1-minute trading timeframe chart, using the analysis methods of YTC PAT.

In YTC PAT this would be referred to as our bias for future trend direction.

In YTC Scalper this is referred to as our bias for future channel flow.

Trade opportunity is found on the wholesale side of our expected future channel flow.

Retail

The region of price movement which if entered at this area would provide you with greater risk and lower profit potential. Entry would be late in the move. This is typically the area at which novices will enter, having waited for confirmation in price movement to give confidence in entry.

In terms of the scalping channel, we consider the area beyond the centerline ($\frac{1}{2}$ -line) to be the area of retail prices.

Wholesale

The region of price movement which if entered at this area would provide you with lower risk and greater profit potential. Entry is early in the move. This is typically the area at which professionals enter, having confidence in their analysis and assessment of bias to seek entry without confirmation, or with limited confirmation.

In terms of the scalping channel, we consider the area at or before the centerline ($\frac{1}{2}$ -line) to be the area of wholesale prices.

Resources

Trading Website: www.YourTradingCoach.com
Trading Course: www.YTCPriceActionTrader.com
YouTube Videos: <http://www.youtube.com/YourTradingCoach>

'Because You'd Rather Be Trading For A Living...'