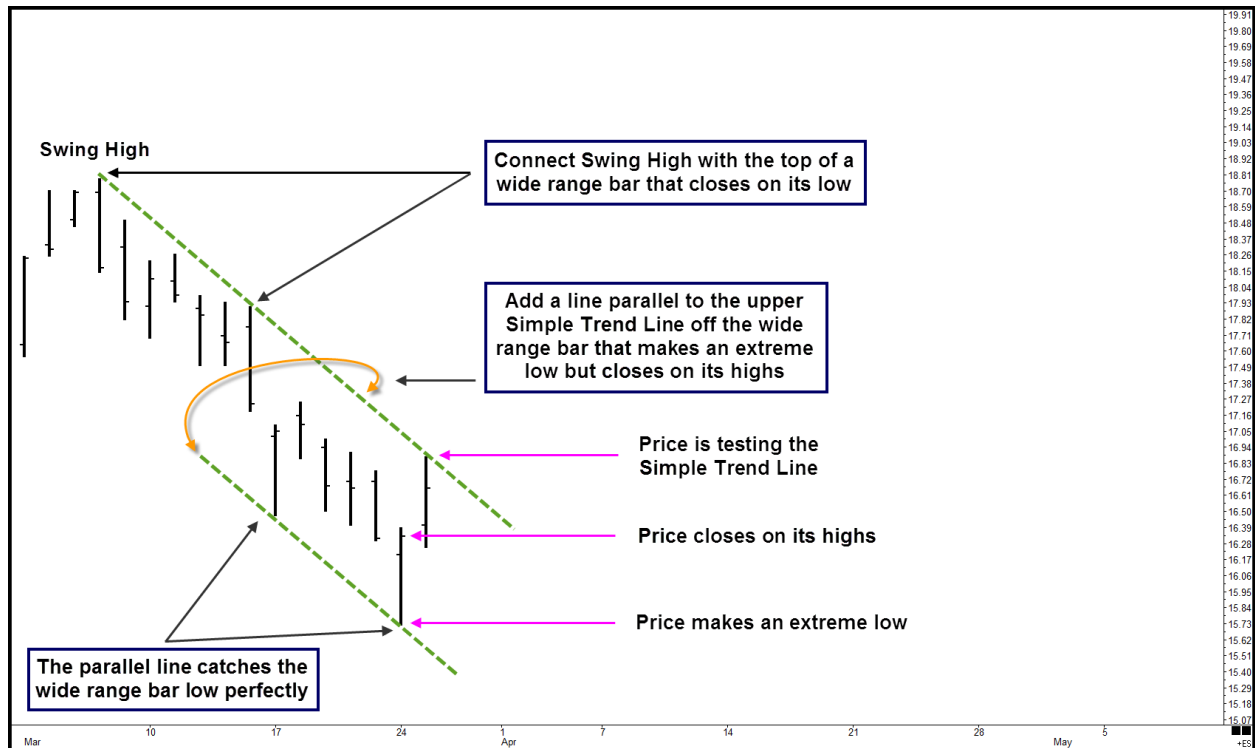


Get in, Get Out, No One Gets Hurt...

I've written this over and over: Most traders are focused on entries and are sadly unprepared when it comes to Market Structure, money management and framing their trades to give them solid Risk Reward ratios and reasonable exit targets. Everyone is afraid they will miss the 'big move' and so they focus entirely on complicated entry techniques, techniques I would contend that give them many false signals; to me, simple is better and often, less is much, much more.

Watch how I stalk a trade using extremely simple lines, solid money management and Risk Reward. I pay strict attention to Market Structure, down to the detail of how each bar unfolds -the range of the bar, the relative length of the bar and where the bar opens and closes; if it sounds like work, it is! Trading can be quite tedious and I would never turn my own capital over to a curve fit indicator or model-I'll trust simple lines and solid money management over them every time.



Here is a wonderful example of using simple lines to make a Market Map. You wouldn't leave on a trip to a new destination without a map in your car, would you? You shouldn't trade the markets without first mapping out the major Market Structure and the defining characteristics of the current market - because you may have ideas about where the market is going but you never know where it is going. Always remember that price is always right and price goes where it wants to go.

But there are markers we can read that will show us the likely path of price or show us signs that the market has just done something significant - Learn to pay attention to these signs!

On this chart, price was in a nice orderly down trend, in a formation I named a Rolling Chop many years ago. It is testing the Upper and Lower set of Simple Trend Lines that have the same slope - These lines differ slightly from simple channels because of how I 'found' the correct slope and applied these lines. Let me explain: I used the Major Swing High and connected it to the high of a wide range bar that opened near its low and closed on its low. This type of bar is a marker for weakness. Now look at the next bar: It, too, was a wide range bar and it gapped lower, opening on its high and making a new low for the move. But then it rallied to close on its high and this is a sign that there are buyers in that area.

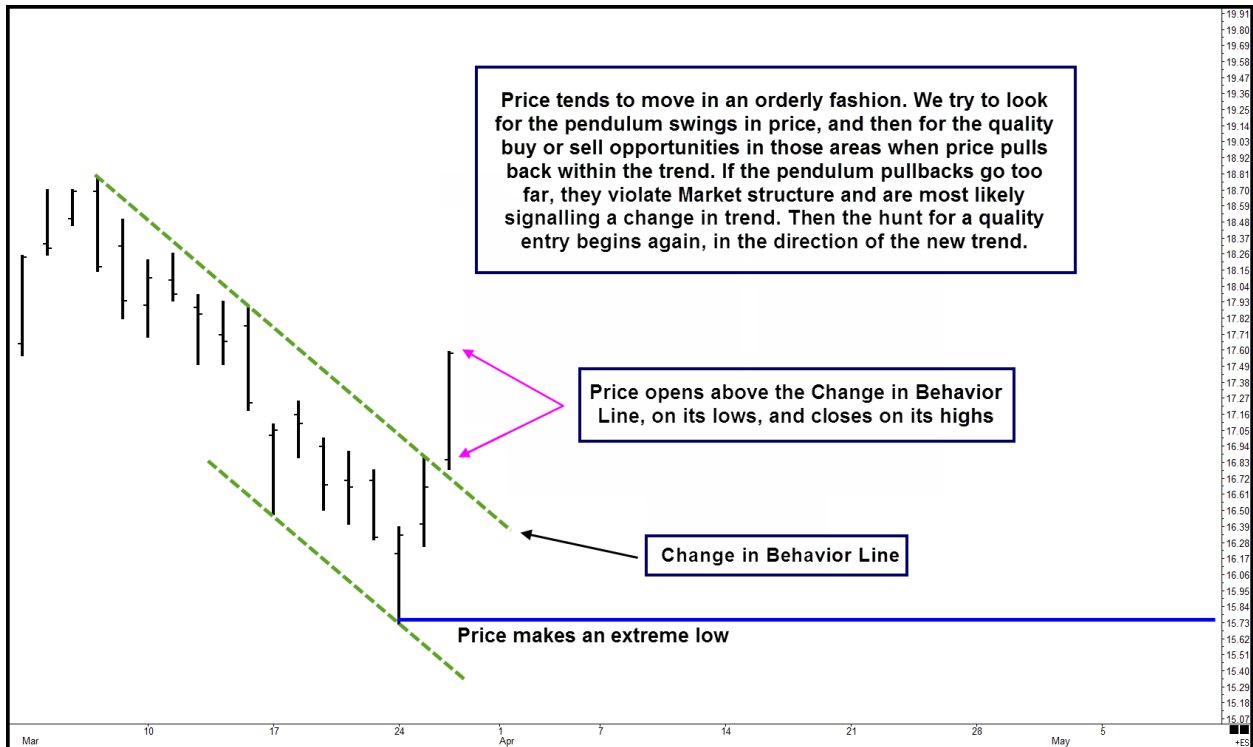
Even though price seems to be in a down trend, I don't ignore that price just made a wide range bar, opened on its highs and closed on its highs; instead, I copy the slope of the down sloping Simple Trend Line drawn from the Major Swing High and add a new down sloping line from this wide range that closed on its highs. This bar represents the 'buy area' of this Market Map at the moment, but it's important to understand the buy area moves lower as each bar unfolds, because price IS in a down trend. People that follow my work have heard me state countless times that you have a ten percent edge when you trade with the trend - when you trade in the same direction of the slope of the lines on your Market Map. In a down trend, support areas [other than support from pure Market Structure] and profit targets tend to move lower as space and time moves on; the opposite is true in an uptrend.

There's an important line drawn on this chart that I purposely did not name or point out. See if you can identify it!

IF price is going to remain in this down trending Rolling Chop Formation, there's a line price should not significantly violate. The pullbacks to this line are the pendulum swings that define the back and forth action of a moving or rolling market. But what if the pendulum swings go too far?

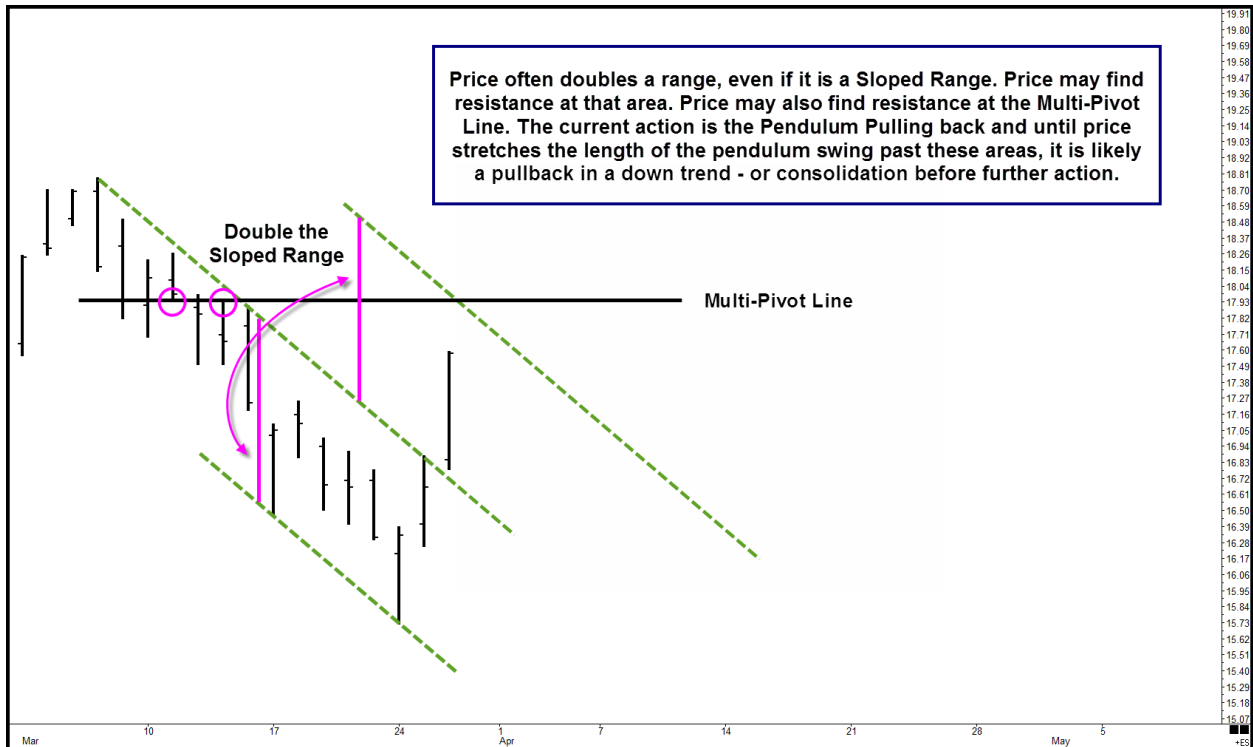
Do you see the line? What would it take for you to suspect that this Rolling Chop Formation has been violated so far that it is no longer valid?

You should have your Market Map in front of you and be looking for road signs, as well as signs on the road that trouble may be ahead!



Price opened higher and traded higher all day, closing on its high. Look closely at the dotted green down sloping Simple Trend Line price opened above: This line had been defining the Rolling Chop Formation on the top side, but if price was moving in a less orderly fashion, it would represent what I call the 'Change in Behavior' Line. When price opens above this down sloping line and trades higher, closing above it, it's a sure sign of warning for traders that think the market is in a clear down trend.

Is the down trend over? No, no material damage has been done to the overall down trend. No Major Swing Highs have been broken to the up side; but the Rolling Chop Formation and its trade plan are dead.

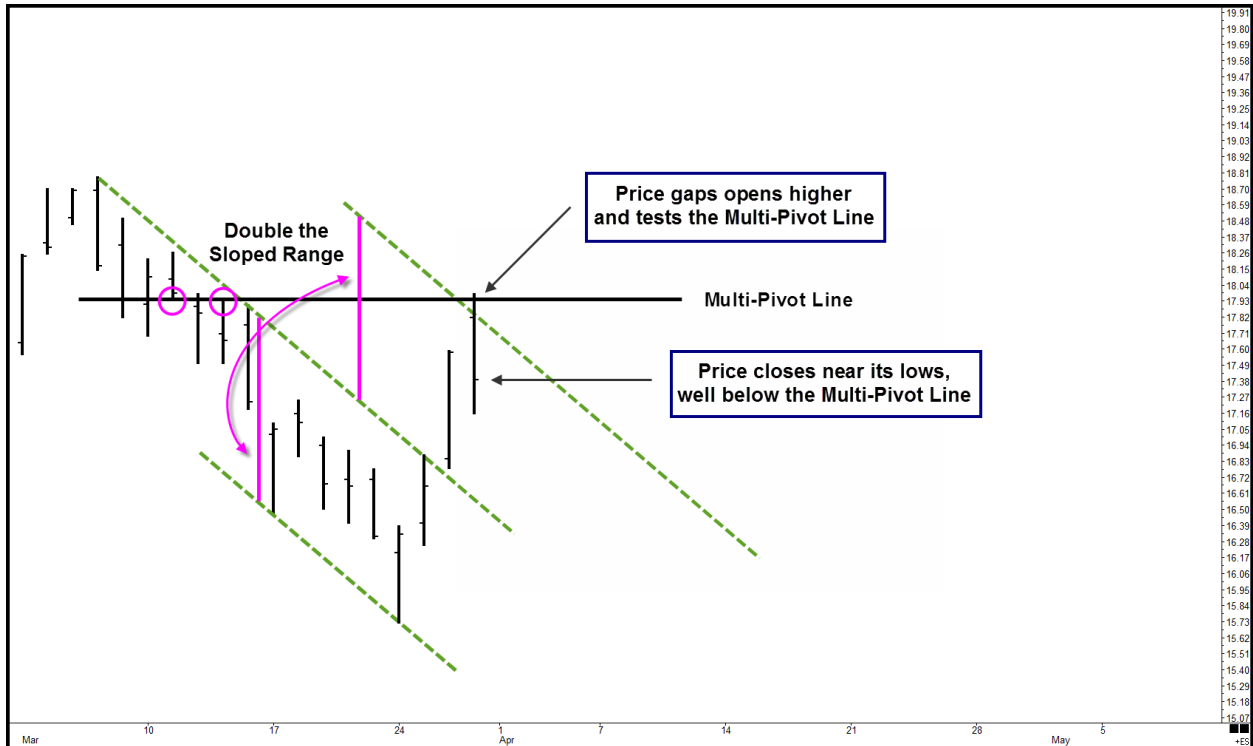


As you look at the prior chart, you should be drawing a Market Map [either in your head or you can literally add the possibilities onto your live chart] that maps out where price may run into resistance. And it's important to decide when projecting that area of resistance just how important that area is: Is it an area where Limit Entry orders are likely to be waiting? If so, do you want to consider looking for an entry set up for your own account in that area?

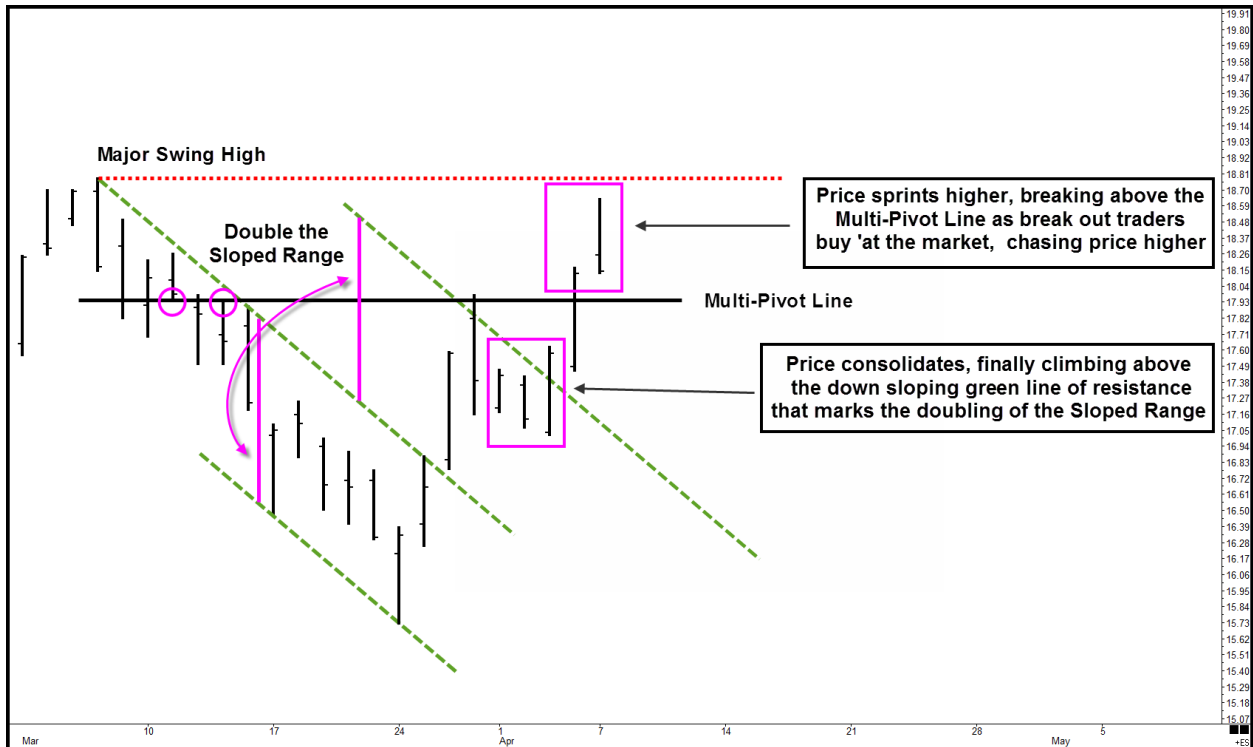
Is the area a key to the probable path of price? If price brings the pendulum to this level and this level is a 'make or break' area for the trend, you should be deciding what you want to do at this key level:

- If you like the Market Structure and price action that brought price to this key area, it's a wonderful place to enter for a potential reversion to the trend [if you have a quality entry set up and stop] because your entry will be 'close to the bone', meaning you will have entered well before most traders take positions in the direction of the trend and will most likely have a much better entry price.
- If you don't like the way price headed toward this key level, 'buy another bar' or two, which means watch how price acts when it gets to this area. If price begins to stall at this key level and build Market Structure you are more comfortable with, begin looking for a trade entry set up- though these areas often spawn quick turns IF price is about to return to the prior trend, so by waiting for more information, you may miss a 'close to the bone' entry.
- If you are uncomfortable with the price action that brought price to this key level and you see nothing that relieves that uncomfortable feeling, stay out, don't waste too much of your focus on the market. Wait until you see Market Structure you can 'see', that you know you can trade successfully, before spending time, energy and money on this market.

On the chart above, I added my Market Map and marked out what I thought were two key possibilities if price continued higher: 1] Price often doubles a range, even a Sloped Range, and then returns back to the prior trend; 2] Price often runs into Limit Entry orders at a Multi-Pivot Line. These orders are left above the current price action by the larger traders [the Whales] in a down trend, in case price pulls back to levels that give them a quality entry on a pendulum type pullback [and the opposite in an uptrend, of course].



Price gapped open higher, rose to the confluence formed by the Multi-Pivot Line and the down sloping line that marks the area where price effectively doubled its 'Sloped Range' and then turned lower. To stay within the down trend, price could only stretch the pendulum back that far-any further would have violated the key Market Structure; at least for now, Market Structure and potential Limit Entry Sell orders turned price back towards the down trend.

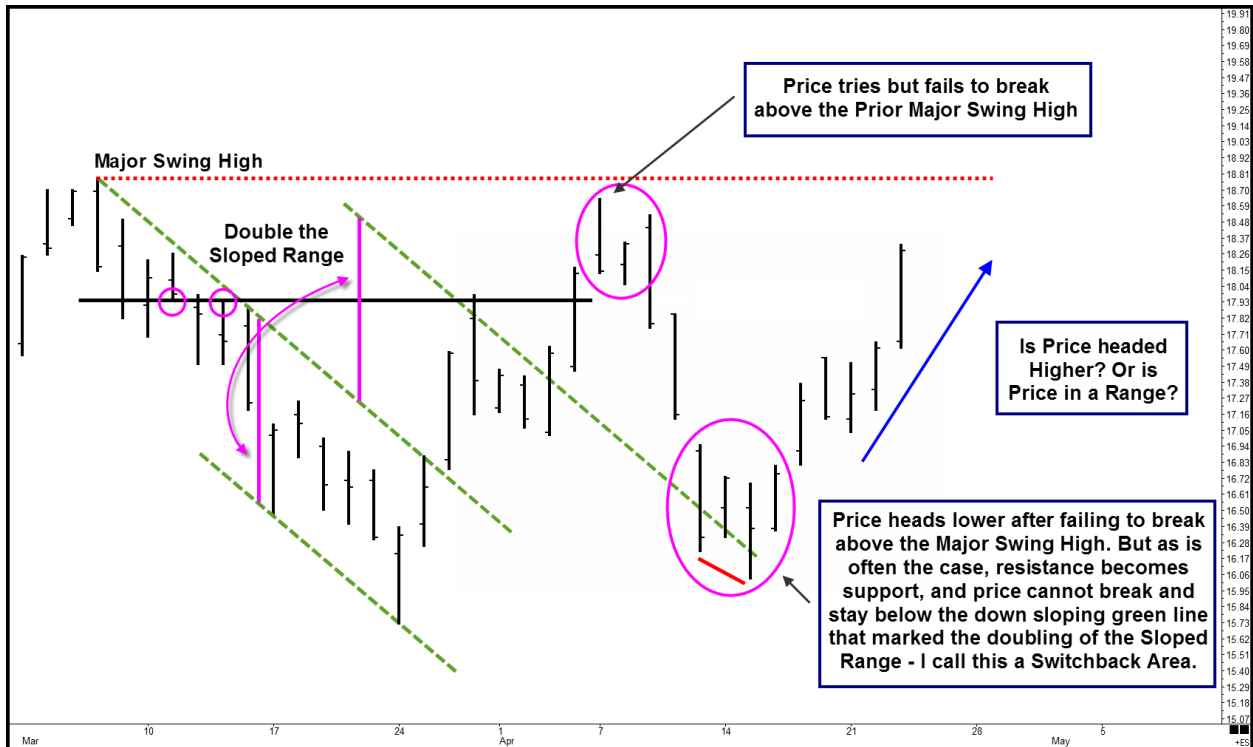


The return to the down trend does not last long. Price consolidates for a few bars, drifting higher and above the down sloping green line that mark the doubling of the Sloped Range. Once above this level, price accelerates its climb and when it trades above the Multi-Pivot Line, break out buyers and stop loss buying propel it even higher - these are the traders chasing price as it moves higher, either by choice or because they must exit their short positions.

There is one last obstacle in price's upward path.

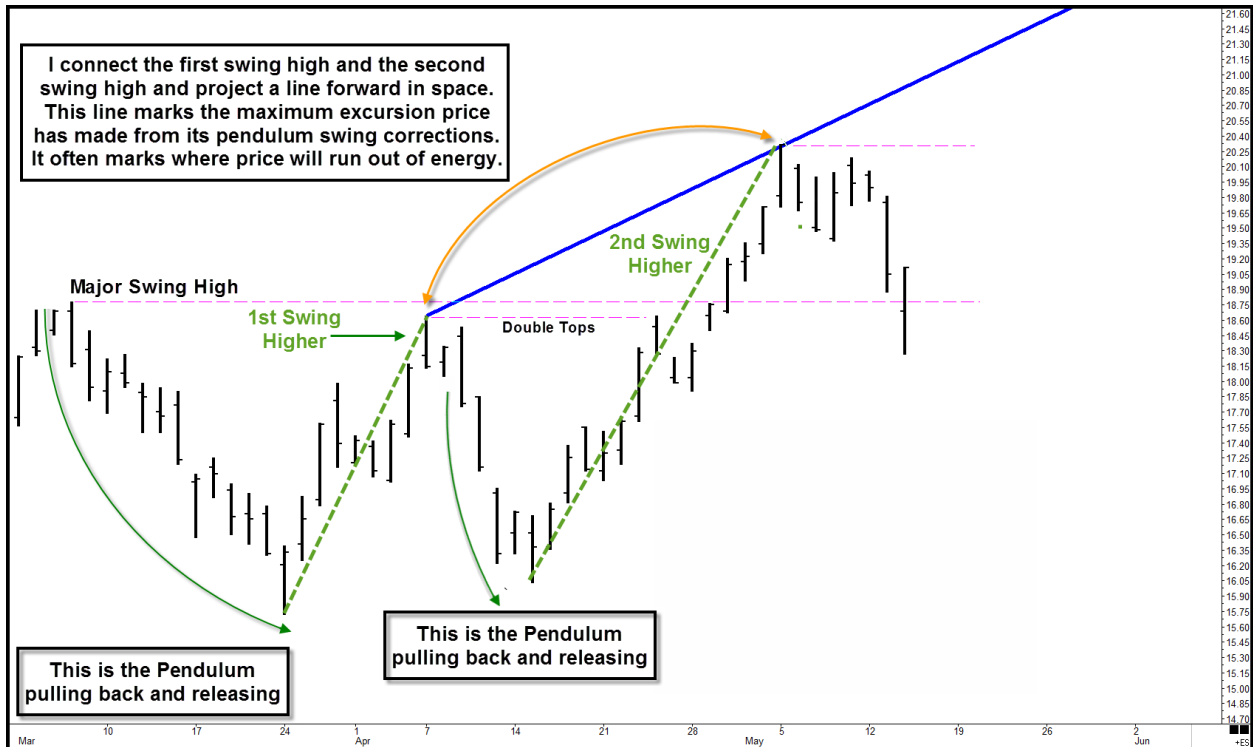
Do you see it?

Do you think price will have the strength to move above it?



Price fails to trade above the Major Swing High; after failing, it turns back lower. But the green down sloping line that had been resistance now acts as support and after a few quiet bars, price turns back higher again. I call these areas that 'switch allegiance' Switchbacks and they are quite useful once you get used to looking for them. They often give you further important clues on your Market Map, clues most traders do not have.

IF price manages to break above the Prior Major Swing High, we will have seen a Change in Behavior and should be wondering if price has already begun a new up trend; should this happen, we'll have to completely revise our Market Map.



Price does climb above the Major Swing High, so I completely revise my Market Map. I mark the Pendulum Swing Pullbacks - note the second pullback is not as deep as the first pullback - and then I connect the lows and highs of the first and second swings higher to make them easier to see.

Now let me show you something I haven't marked on a chart shown publicly before: When price makes these Pendulum Pullbacks that are easy to spot, connect the extremes generated by the first two pullbacks with a Simple Trend Line and project it out in space. This line marks just how far price is rocketed higher by the 'slingshot' effect once the cocked Pendulum is released. Because the lengths of the Pendulum Pullbacks and the swings following them are not equidistant, the line has a slope. This sloped line shows the maximum excursion away from the swing lows and by connecting the first two extremes, we often get a very accurate measurement of where price will run out of upside directional energy.



Here's an updated Market Map. Price made an even shallower pullback and then a new high for the move-but note it didn't make it high enough to test the Maximum Excursion Line; the air is generally thin up there. Price had expended all its directional energy on that run up and when it turned lower, it left a huge Open Gap lower, followed by an extremely wide range bar that opened on its lows but closed near its highs—clearly there were large Limit Buy Entry orders when price fell in a near vertical fashion after the Gap.

Remember, traders [especially large traders] love to push price to fill an Open Gap, especially if they can sense the 'crowd' is caught leaning the wrong way. And after that huge Open Gap lower followed by an even larger Gap Open lower, there were no midsized or smaller traders long this market - Many had been stopped out of their long positions at very painful prices and some had even gone short after the Open Gap. Only the Whales were left to buy this market. If they were long, they were adding at these lower levels. If they missed the original run higher, price was approaching the area where price would most likely run out of down side directional energy. You can see where I added in what I consider to be the Change in Direction Line; until price begins to form mature Market Structure below this line, price was swinging, and swinging wildly, but it was still making higher highs and staying above key Swing Lows.

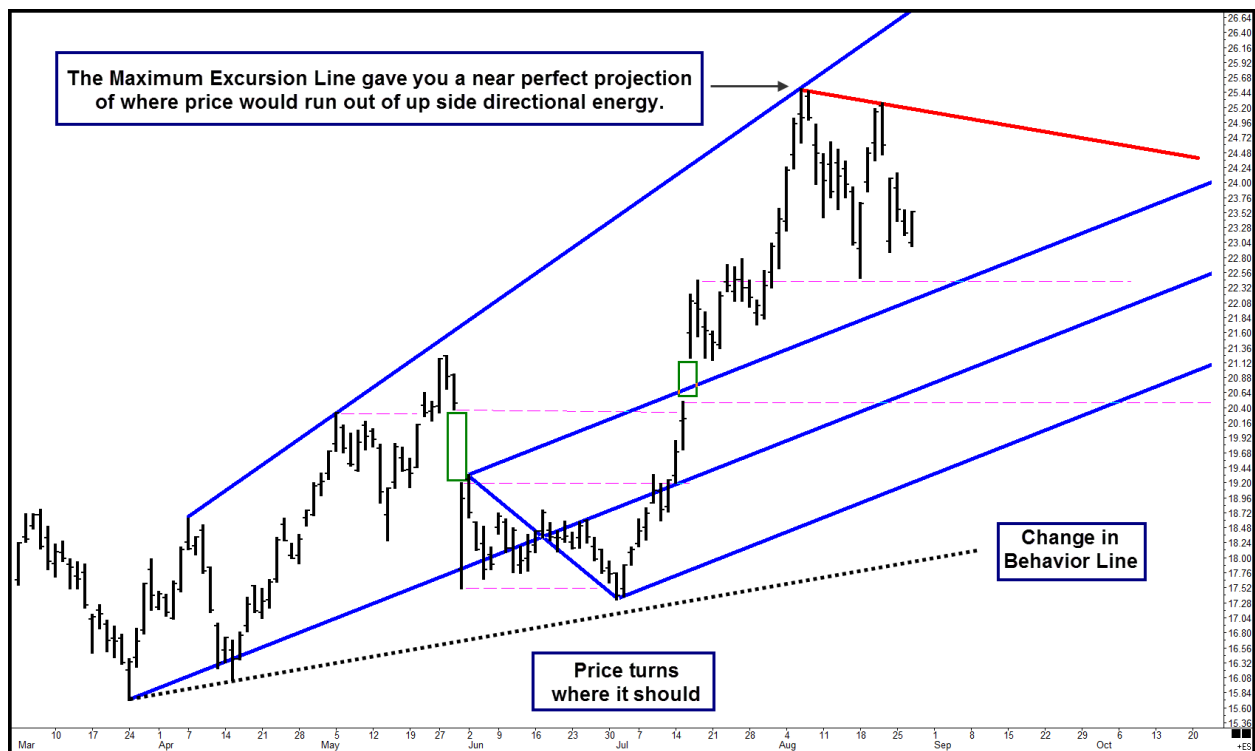


Price turned just about where it should have turned. Could you have entered there? There were many reasons to expect a turn in that area, but the size of the stops and the wild last vertical fall may have kept many savvy traders from taking this trade—at least 'close to the bone', right at the 'C' Pivot of the up sloping blue Lower Median Line Parallel. But the Whales were buying there, and you can see they immediately began 'pulling the string' on any traders that attempted to go short this market prematurely—because price was still above the Change in Behavior Line.

Do you think price is headed higher from here?

Do you think price is going to continue to trade in a range now?

Do you think price will plunge and break through the Change in Behavior Line, leaving the Whales stranded?



Price continues higher, not only breaking out of the current range but breaking out in style, with an Open Gap higher! Price briefly consolidates, catching its breath, and then heads higher again, in a near vertical fashion.

Price finally tests the Maximum Excursion Line and you can see this line, drawn from the first two Swing Highs of this move higher, call the turning point as perfect as possible.

Does this tool always catch the exact top? No, it's not realistic to think any tool works one hundred percent of the time. I don't place my Limit Exit orders [my profit orders] at this line - instead, I use Market Structure or run trailing stops under prior Swing Lows to box in profits; or I may use Euclid's Expansion series and measured moves or Median Line projections. But I keep this simple line on my charts whenever I can clearly see the Pendulum Pullbacks in a trend. I use it as a warning, much as the ancient Greeks had a servant standing behind them, whispering in their ear that 'Fame is fleeting'; in this case, it is a warning that the closer price approaches the Maximum Excursion Line, the more likely price is running low on directional energy. My first floor broker, and still one of my closest friend, used to say to me, 'Get in, get out, no one gets hurt', as a sort of mantra to me to frame my trade and get my money out before the rest of the crowd headed for the exits. This type of thinking has always served me well. I would rather have some money in my pocket and leave some money on the table for others to fight over then let slip away what was in my hands.

This is a simple line all of you can draw and if you practice, it can improve your profit taking decisions dramatically-literally from the first day you begin using it.

I wish you all good trading. Best,

Timothy Morge