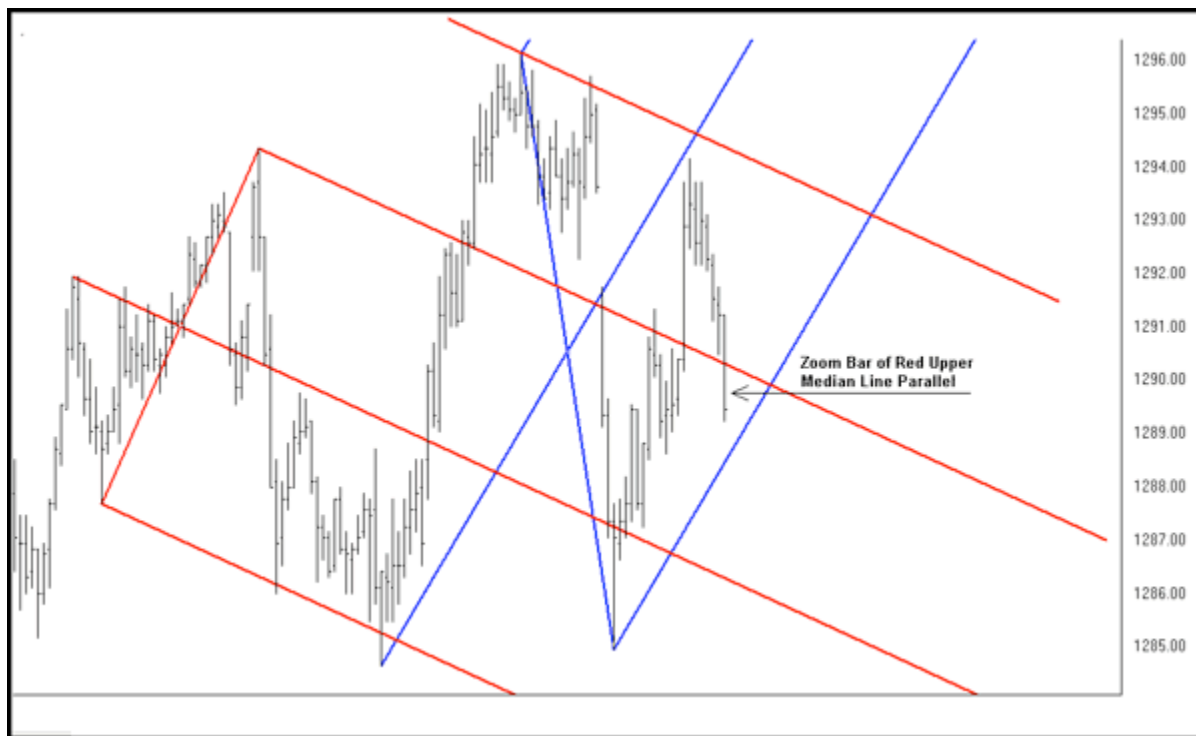


## Swing Trading: Waiting for the Sweet Spot!

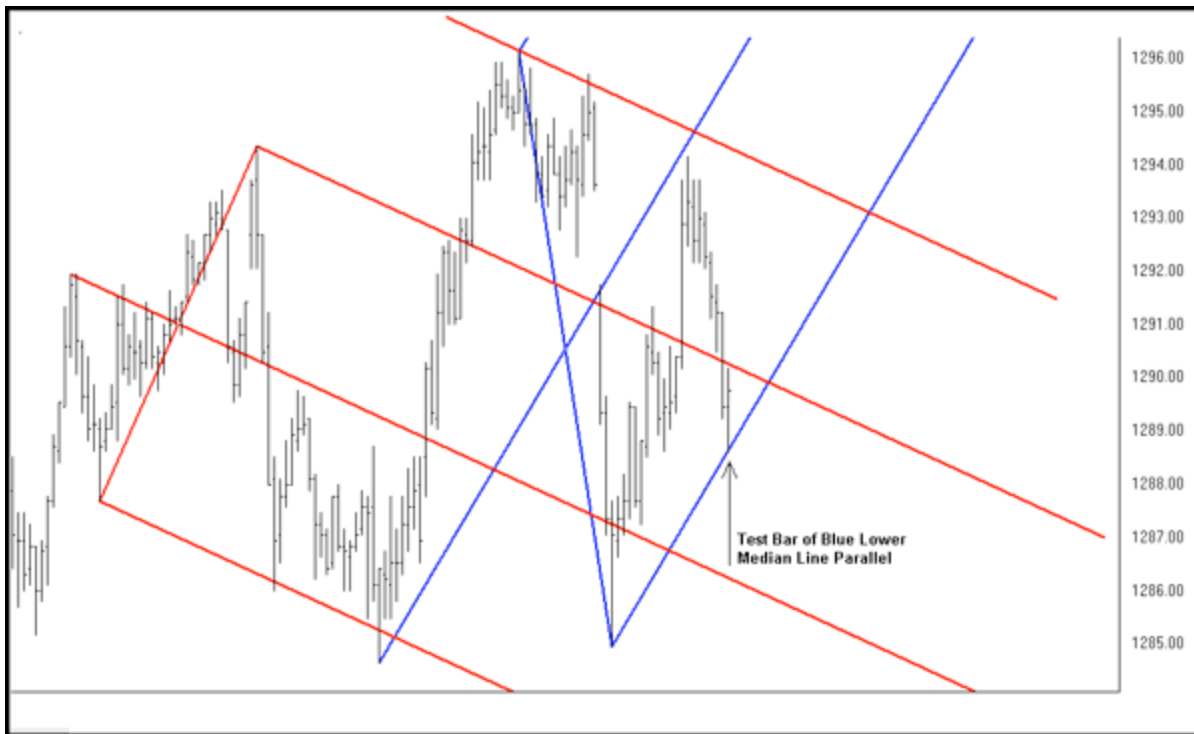
Waiting is one of the most difficult things for traders to do. Traders are generally high-energy individuals and the time spent between trades can often seem like unbearable agony. But it is important to remember that the market is always trending and when it is in a resting phase [congestion], waiting is usually the prudent thing to do. Positions initiated while the market is resting are generally "guesses" about the eventual breakout of a congestion area by a trader-and guesses are generally not very reliable. Rather than guess, I would rather wait for the market to show me which way *it* has decided to go before jumping in.

The chart below shows a typical congestion phase in the market. Price swings are showing both higher lows and lower highs-which means the range is narrowing as price restores its energy. Price *will* break out of this congestion area but at the moment, we can only guess whether price will break out to the up side or the down side.



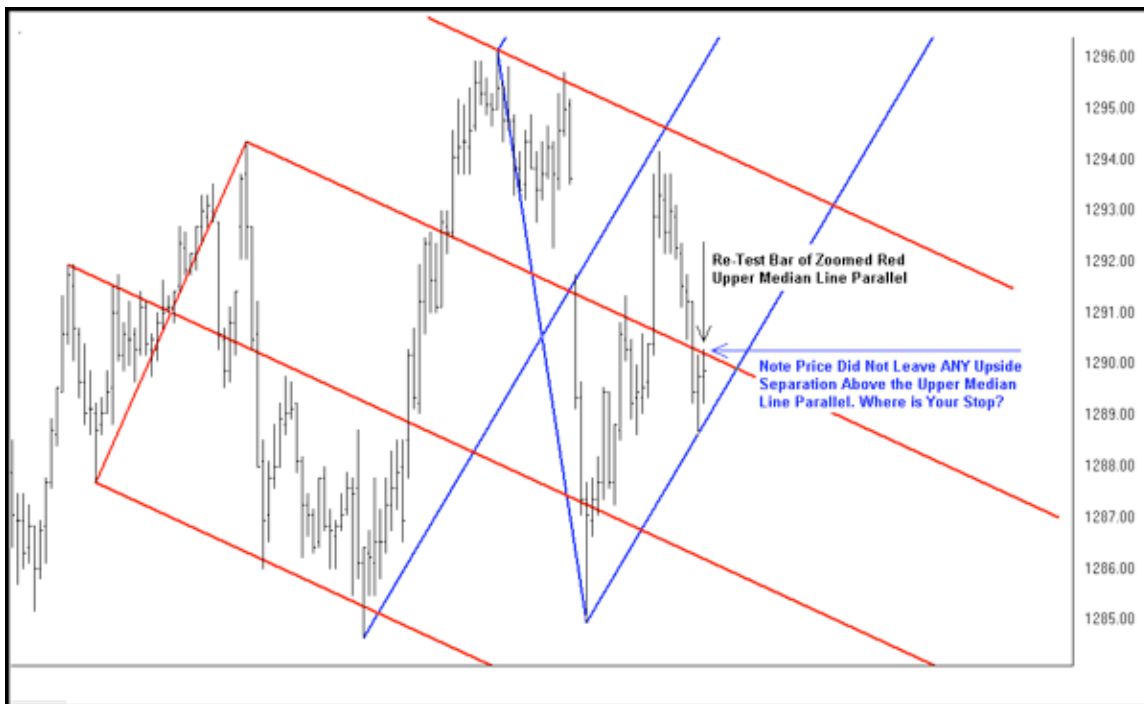
If you look at the last bar on the chart, you can see that it is a wide range bar that breaks below the red down sloping Upper Median Line Parallel and closes well below it-with great separation! Does this bar give me the clue I need to choose a side?

It's an impressive looking bar at first glance but if you examine the chart carefully, you'll immediately see that although the bar has a wide range, it doesn't break below any of the prior swing lows. So it's simply a wide range bar still within the existing congestion. I need a clearer sign from price before I put my money on a trade.



Now price comes down and tests the blue up sloping Lower Median Line Parallel. Once price touches this lower line, it moves back higher and closes well off its lows with good separation. This last bar 'tested' the blue Lower Median Line Parallel but it didn't break below any swing lows.

Can I go long here, since price stopped at the blue up sloping line and closed well above it? Where would I put my stop loss order? I like to place my stop loss orders above or below price formations and there are no price formations to hide under. I still don't have enough information to place any money on a trade.

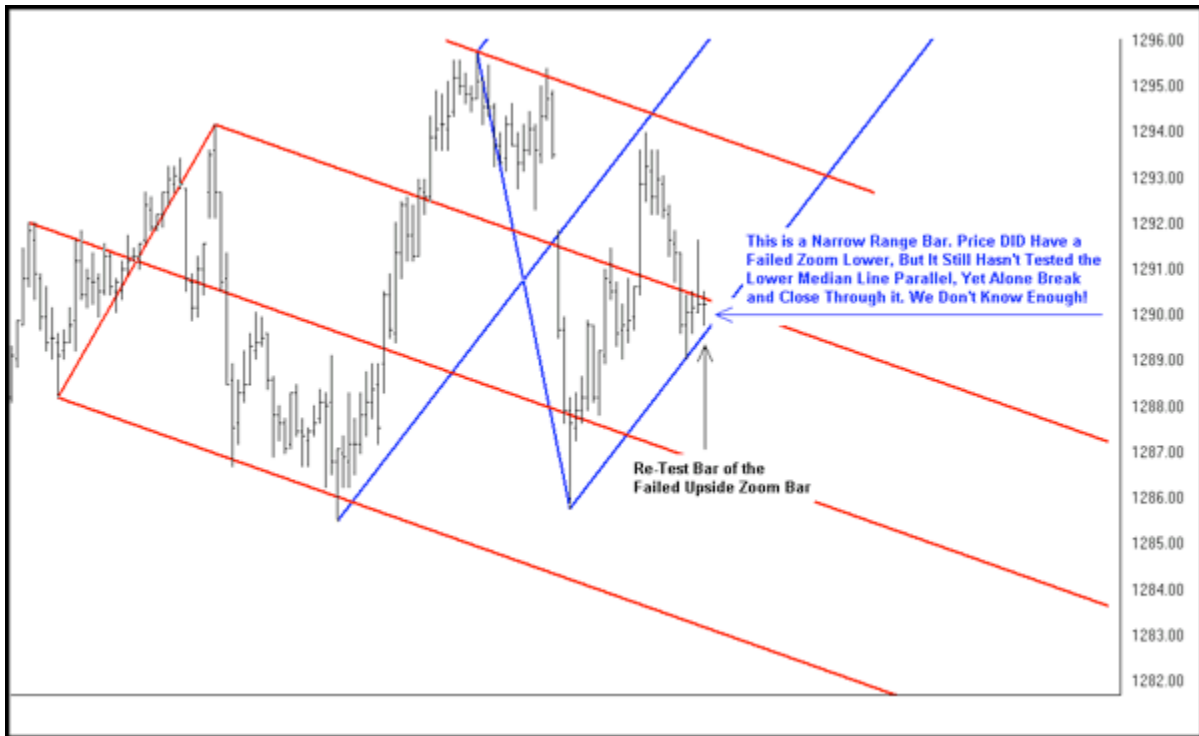


Now price trades a little higher, testing the red down sloping Upper Median Line Parallel it broke below several bars

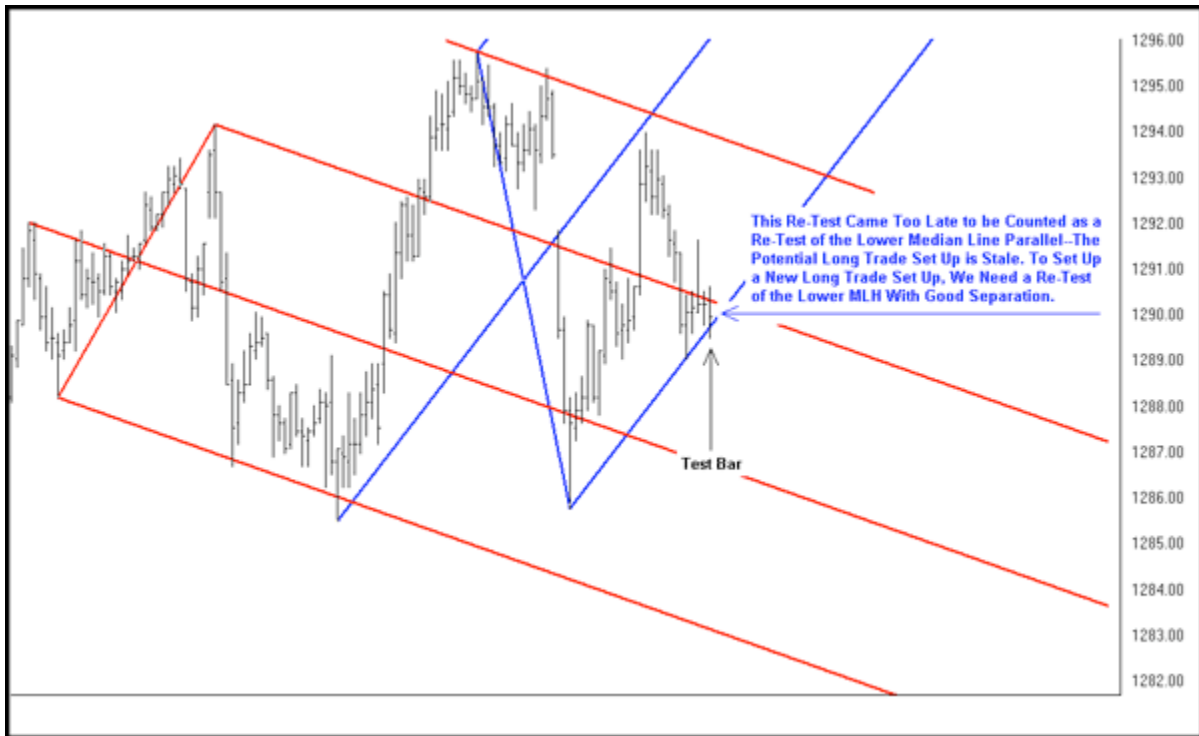
back. But there's nothing new about this area and price didn't close above this line with any separation-and even if I wanted to go short there is no formation to hide my stop above. I'm still waiting.



Here's an interesting bar! Price breaks well above the red down sloping Upper Median Line Parallel but the rally fails miserably and price closes in the lower third of this wide range bar-which is a sign of weakness. But I'm not ready to take a position yet because price is still stuck right in the middle of the current congestion and it hasn't given me a single clear clue where its going when it breaks out.



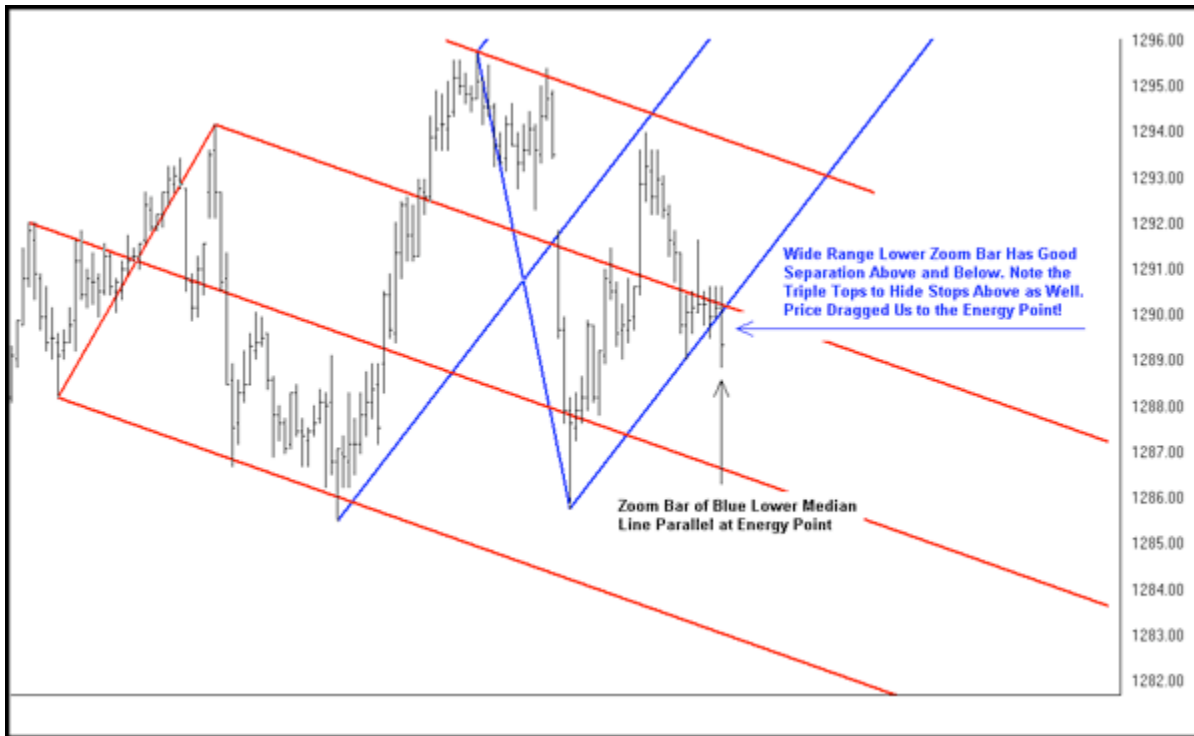
This narrow range bar does nothing to shake my conviction that price is still congesting. Price has been above the red down sloping and below it, but price is really marking time. I'm waiting for a clear sign.



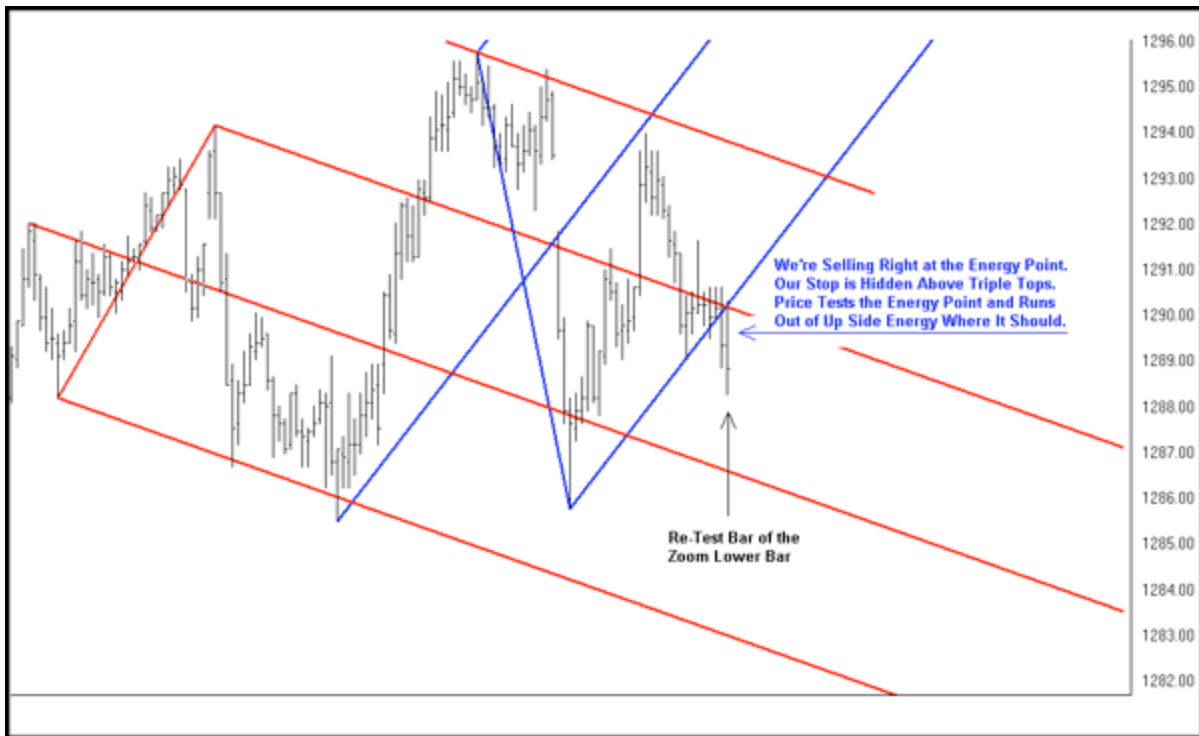
Price trades a little lower, testing the blue up sloping Lower Median Line again-so technically this is the 're-test' in a set up I trade consistently called a 'test and re-test'. But the re-test comes four bars after the original test and I prefer to trade on re-tests within three bars. I have found that the longer the re-test bar takes to occur, the less reliable the set up is. And just looking at the chart, price is still doing nothing more than working back and forth between the red down sloping line and the blue up sloping line. I'll continue to wait for a clear sign.



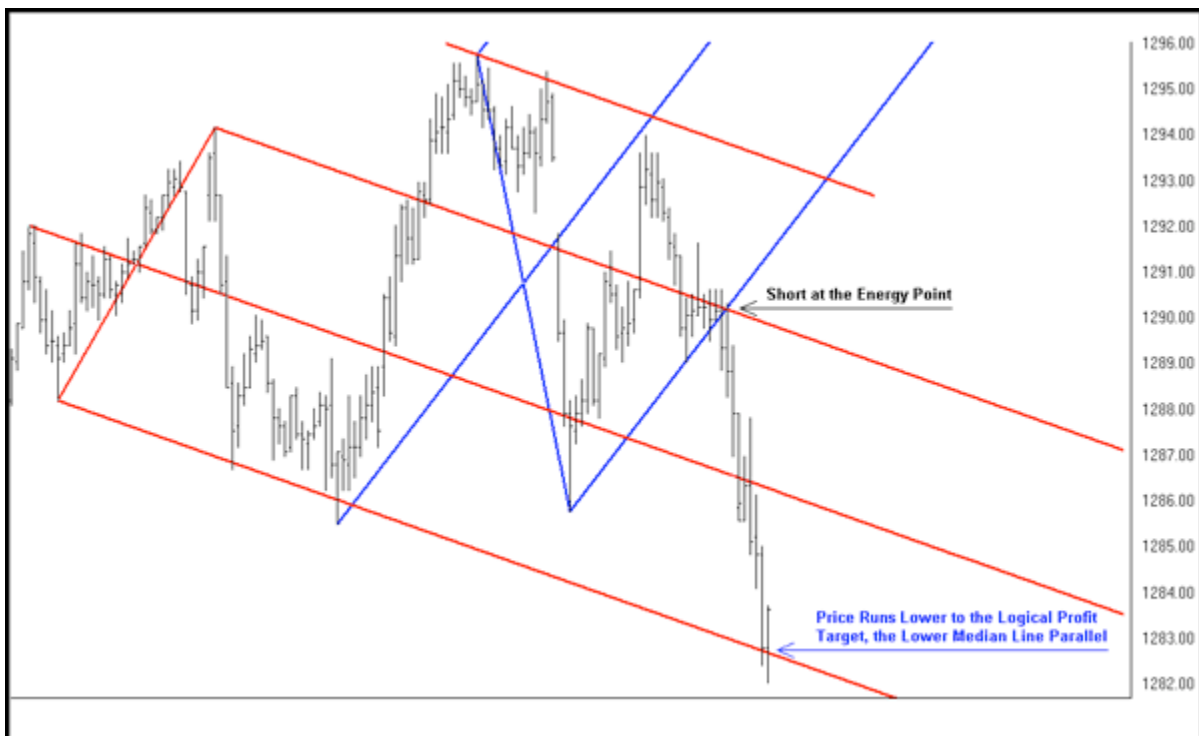
Nothing-new here! More narrow bars trading right at the narrowing intersection of the red down sloping line and the blue up sloping line. I have a fancy term for these areas where two lines with opposite slope meet: I call them Energy Points. And over time, I've found that they act like a magnet to price and attract it-and these interactions with Energy Points tend to be key turning points in markets. When price gets to this Energy Point or area where lines of opposing force meet, maybe it will finally give us a strong sign where it's going!



Just as price enters the Energy Point area, it breaks below the blue up sloping Lower Median Line Parallel. And it closes well below the blue up sloping line, in the lower third of the wide range, with great separation. Not only did price take out several prior swing lows, it left a nice set of triple tops just above the red down sloping line. I can hide my stop loss order above these triple tops! So now I have a clear sign from price of its probable direction and a quality formation I can hide my stops above. *If* price rallies back to re-test the red down sloping line-which would be right at the Energy Point-I'll get short and put my stop loss order three ticks above the triple tops price just left. NOW I am ready to put my own money on a trade.



Price rallies and tests the Energy Point, getting me short in the process. My initial stop loss on the short trade is three ticks above the triple tops and my initial profit target will be at the red down sloping Lower median line Parallel. If price gives me a chance, I'll hide my stops above formations as it works its way lower, boxing in profits.



Once price tested the Energy Point from below and failed to break back above it, you can see it was a one-way move lower. If I had spent my cash and emotional energy getting long and short and long short during the congestion, I would probably have been emotionally bankrupt and lost a tidy sum of money. And when price finally did give a clear sign of where it was going, I would have probably been so frustrated I'd have passed on the trade.

There is a time for patience. It's often the hardest lesson for traders to learn but waiting patiently and listening to what the market is telling you will improve your trading success and profitability greatly.

I wish you all good trading!

Timothy Morge

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