The Art of Technical Analysis

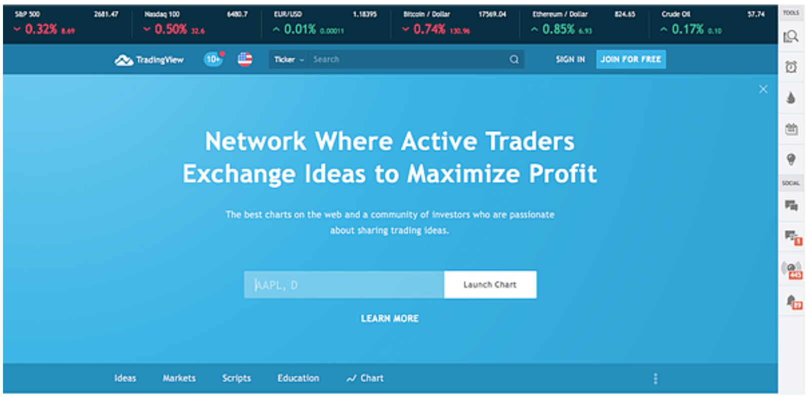
What is Technical Analysis

If you haven't already noticed here at the Swing Trader Society we take pride in our chart work. We really do treat the trading screen like an artist would treat his canvas. If you really want to see the clearest of pictures when you are analysing charts then take pride in your chart work. Having a clear chart results in a clear mind, and I cannot stress the importance for having a clear mind when trading.

So, now we've addressed taking pride in your work, as I would expect anyone to do in area area of life that they want to have some kind of success, lets talk about what technical analysis is. Technical analysis employs models and trading rules based on price and volume transformations in the market. There are a variety of trading tools and indicators that can be used whilst trading, however I am going to teach you a way of trading that limits the use of technical indicators. I will be instead looking to employ strategies that look to predict the future movements of a currency pair based on a very simplistic approach that focuses on understanding price actions and market structure. The reason I don't focus on having lots of indicators is because indicators are summaries of past price movements, however as traders we're not interested in what happened yesterday, we want to know how price is going to move today. Hence I explore strategies that focuses on the ability to predict future price movement on any given currency pair.

Software

Before I dig into technical analysis there is no point in explaining what it is without showing you the software I use to analyse my charts. Now many of you may already use this platform, some may have never of heard of it, others may use a different platform, however the platform that I personally use is called 'Trading View'. Of course you do not have to use this trading software, as you are free to use whatever source you wish, however this is one that I certainly recommend due to its functionality, ease of use and its *free*. If you decide to use 'www.tradingview.com' and want to set your charts up like mine, let me show you around the website in order for you to get started!



Above: Screenshot of www.tradingview.com

Once you have typed into www.tradingview.com into your browser your homepage should look like this! Those of you who are already set up you are more than welcome to skip this section. Those of you who have an account already then make sure you are logged in. Those of you who do not have an account click the 'Join For Free' button and create yourself an account. Once you have created yourself a profile you are all good to go and start analysing the charts.

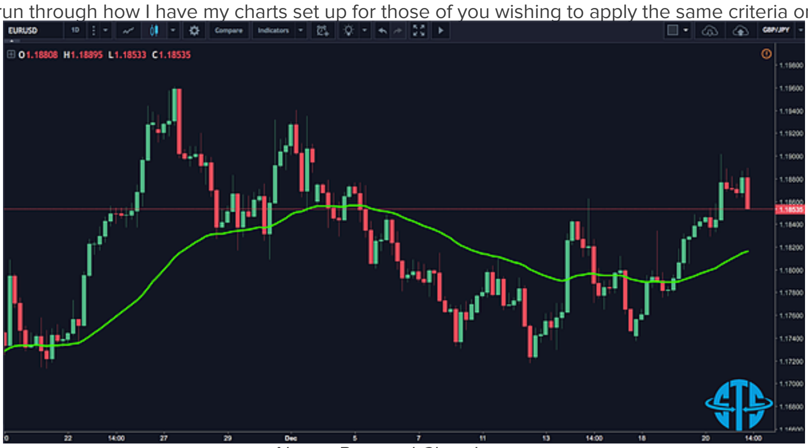
Above: Launching a Chart

Now you've set up an account, you will see this side bar which gives you options to ope
view. Whether that it stocks as shown in the example above 'APPL' is the code for Apple
search for index funds such as the S&P500 which code is 'SPX', you can search cryptoc

typing in 'BTCUSD', you can search for commodities such as Gold by typing in 'XAUUSD' and finally you can search for pretty much any given currency pair such as 'EUR/USD'. However we will be focusing on currency pairs as this is an FX course so lets open up EUR/USD as previously referred too. This will show us the price of the Euro in relation to that of the United States Dollar.

Chart Setup

I will quickly run through how I have my charts set up for those of you wishing to apply the same criteria on your charts...



Above: Personal Chart Layout

The above image is what my candlestick charts look like on a day to day basis. You obviously don't have to use this layout however i find a lot of clarity when using this template I have created. Some traders prefer the white background (I used to use it myself) however have found the darker background suits me better. Those of you trading of an evening or at night time may prefer the dark template as there is less strain on your eyes, those of you trading in the day time may prefer the white background. Its all personal preference! If you're happy with your charts the way they are, move on. If you want to copy mine, stay with me.

Above: Alternative Bar Chart Layout

Another popular layout is to opt for the bar chart, again it's what some traders use in the community already and is another viable option. The price of each individual candle reads the same and the candlestick chart however it is just displayed as a bar instead of a candle. I personally prefer the candlestick chart as i find it easier to read the price action and the charts in general. However, this is down to personal opinion and you can set your charts up in whatever way suits you best.

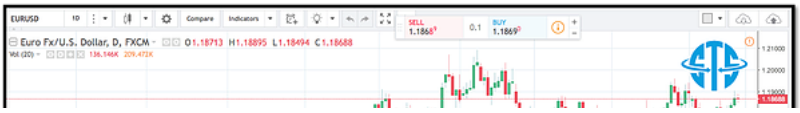
Template Mini-Tutorial

For those of you familiar with operating trading view I use the following criteria:
Chart: Candles
Template: Dark
Horizontal and Vertical Lines: Transparent
Indicator: 50 Exponential Moving Average (EMA)
Bullish Candles: Green - including border and wicks
Bearish Candles: Red - including border and wicks
Pivot Point: Orange

For those of you who have no idea how to change the above let me walk you through it:

Chart

When you open your first chart on trading view it will look vastly different to what mine looks like now. The initial chart that gets loaded up looks somewhat amateurish and to be honest it just doesn't look the part. Regardless of whatever point of this journey you are at, even if your not the part yet, you at least want to look and feel like you are! So here is what your chart will look like:



Above: Original Trading View Chart

Looks horrendous right? Yeah i couldn't agree more. So how do i take my chart from the monstrosity above to something that looks more crisp and clean. Well let me begin...

Now, I'm pretty sure that all charts begin with the candlestick chart. Incase they don't or incase you want to experiment with a new candle layout simply click on the little arrow next to the image that shows the style of candles on the chart and select the candlestick option (or option you wish) as seen below.

Above: Candlestick Chart Layout

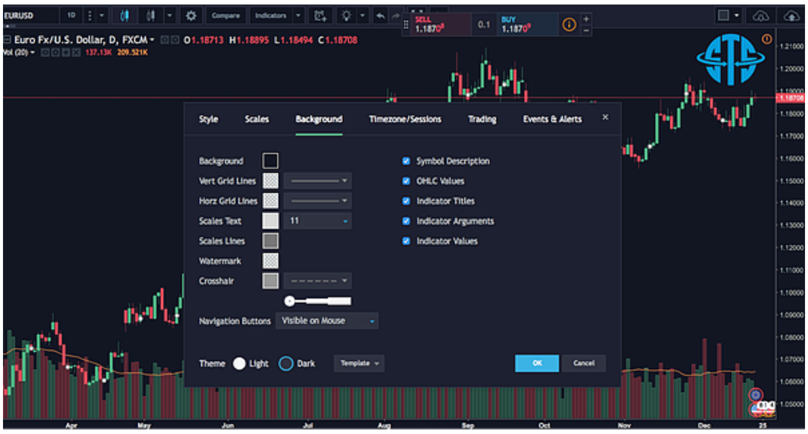
Template

Now in order to edit the template you need to right click, select properties (the bottom option), then select the 'dark' option in the bottom left hand corner where it says 'Theme'. This will then turn your whole chart including all borders to a darker shade of grey/black as seen below:

Above: Dark Chart Layout

Background

Now we've altered the theme, lets change the background. Simply click on the background tab at the top. Where it says 'Vert Grid Lines' and 'Horz Grid Lines' adjust the colour on these so they are transparent. This way they will not appear as an eye sore on your charts making it look much more clean. See below:



Above: Background Layout

Removing Trading Volume

I don't know about you but I know how much volume is traded through the FX market in a day is (and so should you after reading Lesson 2) so I don't need is displayed on my graph as a bar chart at the bottom. So to remove it you simply need to click on the bars and it will highlighted little white dots across the line that crosses over it. Simply delete (or press backspace on a Mac) and it will delete this volume based indicator from your chart.

Above: Delete Volume Based Indicator

Indicator

Incase you haven't already noticed I like to keep my charts simplistic, therefore I only really two technical indicators, one being the 50EMA and the other being the Pivot Point. To add the 50EMA all you need to do is the following: click where it says indicators at the top row of tabs, type in 'Moving Average Exponential' and click on it. A line will then appear on your chart which represents the EMA. You will then need to double click on it and charge the Input from the default setting of '9' to '50'. You can then change the style if you wish. It should look as below:

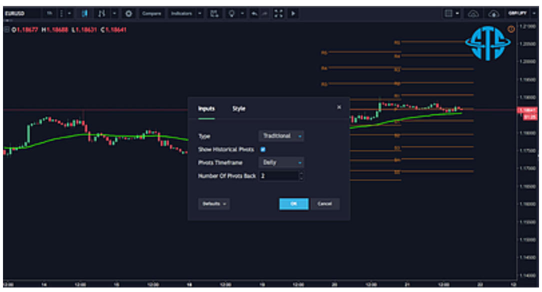
Above: 50EMA Chart

Pivot Point

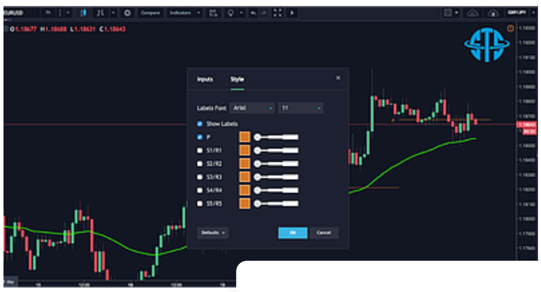
Now we've got the 50EMA setup we now need to take a look at the pivot point. The pivot point is something I use as a confluence for one of the strategies that I will show you in Lesson 9 and I will explain its purpose along with everything else in more detail then. However to set it up on the chart you need to do the following: select indicators, type in the search box pivot point, select 'Pivot Point Standard', you will then have a tonne of lines appear on your screen:

Above: 50EMA Chart

Double click on these orange lines and then you will be able to edit the inputs and the style of the pivot points, and get rid of all the extra bits you don't need for the technical setups of the strategies. You need to have the criteria on the following screenshots in order for your pivot point to look like mine:



Above: Pivot Point Inputs



Above:

Inputs: On the inputs all you need to change is the Timeframe to 'Daily' as we are looking for the daily pivot point and you also need to change the number of pivots back to '2', this is because we aren't interested anything prior to this period.
Style: On the style you can change the colour and line thickness as you please, however untick all the boxes apart from 'P' this stands for Pivot Point. This is all we are interested in so it's the only thing that needs to be displayed on the chart.
Now you have you're charts set up let's dig into some technicals...

Support and Resistance

The concepts of support and resistance levels are two of the key attributes involved in sound technical analysis and can often be confusing to understand for beginners. Let me break this down very simply, support and resistance levels act as key psychological barriers in the market where traders cannot push price below or above specific price levels at any given time. Let me discuss what i mean by this in more detail...

Above: Support and Resistance (GBP/USD)

Looking at the image above I have highlighted the price levels which act and support and resistance on GBP/USD. I have highlighted the areas of support in green. So what is a support level? It is an area that can be identified as the 'floor' in the market when price is trading above the given level. As you can see we have key levels of support at 1.21000, 1.27750 and 1.30500 as shown on the chart above. Why and how have identified these levels as support you may ask? Well, simply price has come into that price zone and rejected it on several occasions. Let's take 1.21000 support as an example, as you can see post BREXIT we have a large sell off on the GBP causing a bearish run until we hit 1.21000 support and then price begins to rally back up to 1.27750. This happens on a further two occasions before price proceeds to move higher. Support levels are usually a good buying opportunity, hence the saying '*buy low*'.

Similarly, we have resistance levels too which can be see as the ceilings in the market when price is trading below a given level. As you can see on the chart above, we have resistance levels at 1.27750, 1.30500, 1.34500 and 1.36500 where you can see price has rejected from on several occasions.Lets take a look at 1.34500 as resistance, look along the line to the left hand side and you can see price rejects this level on 6 different days of trading before further falling as a result of BREXIT. Resistance levels are usually a good selling opportunity, hence the saying '*sell high*'.

Identifying Support and Resistance

Whilst this can be a very tricky thing for some traders , it is in fact very simple. It may take a little trial and error and some slight re-fining, however once you've got your key levels sorted on the charts down you'll never need to change them again because these same levels are respected time and time again. You can open a chart and there will be the same levels of support and resistance now in 2017 as there was 20 years ago in 1997.

Above: 20 Years of Support and Resistance (EUR/USD)

You probably didn't believe me when I said the same levels hold for over 20 years, so take a look at the chart above. No i'm not a market wizard, however I do know how to read a chart and identify key areas of support and resistance. Above shows the monthly timeframe of EUR/USD and as you can see back in 1997 we had a key area of support at 1.0400 similarly we had a key area of resistance at 1.2000, look across to the most recent price action here in 2017 and we can see once again that 1.0400 has once again held as support, similarly 1.2000 has held as strong resistance. Mind blown? We haven't even started yet...

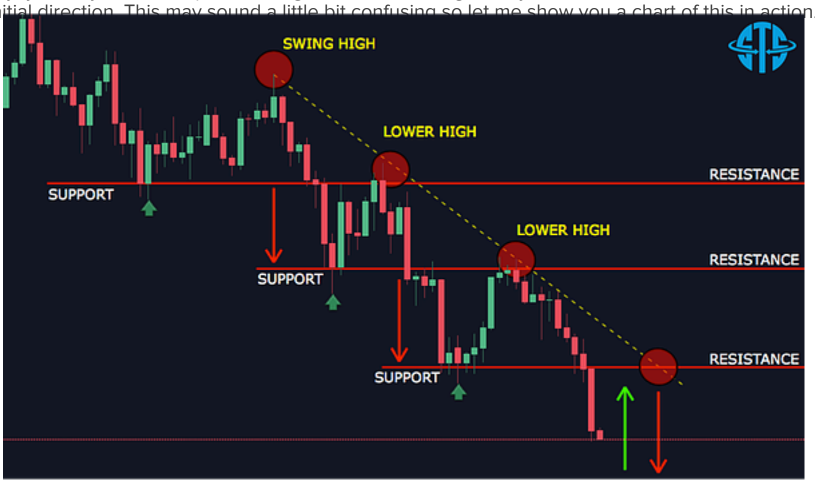
Plotting Support and Resistance

Now we've seen the reliability of using support and resistance levels and understand how price rejects from these key psychological barriers, let me explain how I plot support and resistance on my charts. Firstly, I plot support and resistance levels *only* from the monthly, weekly and daily time frames as these are our *major* levels. Yes support and resistance levels still hold on the lower time frames such as the 1-hour and 4-hour however these are considered as *minor* support and resistance levels. Whilst it's important to acknowledge them, you need to have more focus on the key levels. Why you may ask? Well if you plotted every single *major* and *minor* level on a chart you'd have so many levels on the chart you wouldn't know where start, let alone entering or exiting trades or even understand if the market is tradable as you will lose clarity of the overall bigger picture.

So how do i plot these major levels? Well there a couple of key criteria that helps me understand whether or not a price level is a key level or not.

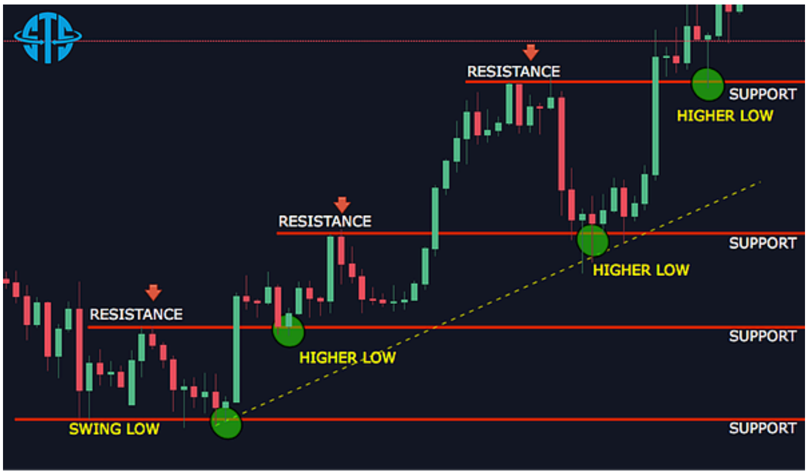
Re-test and Rejections

Now as you can see on the charts above, price comes into the key areas outlined and rejects the levels time and time again. Similarly, you may see when price manages to break through a key level, that it will retest the level before heading back in the initial direction. This may sound a little bit confusing so let me show you a chart of this in action...



Above: Bearish Market - Re-test and Reject (USD/JPY)

Let's begin to bring together market structure highlighted in Lesson 1 and Support and Resistance. As you can see, we are in a bearish market structure with price making lower highs and lower lows. So, focusing on support and resistance, working from the top down, you can see that when price breaks through a key area of support it makes a new low, before proceeding to come back up to retest the same level before falling again. The best way to identify this is to always look left! Always look to see where the last '*floor*' was in the market when we are in a bearish market. This same '*floor*' will also act as a '*ceiling*' if market structure is respected. Identifying these movements in the market where price moves in this stairway-like fashion will help you identify support and resistance levels on a chart.



Above: Bullish Market - Re-test and Reject (USD/JPY)

To provide more clarity take a look at the same technique of understanding support and resistance but instead in a bullish market. As you can see price bottoms out at the swing low providing us a strong level of support. Price then breaks above the previous resistance and re-tests the level to form a higher low before once again moving higher. Price continued to make new highs before proceeding the retest the previous key level. Again always look left, I hope by look at the level of support and following the line across you can see the same level being used as resistance. Keep it simple guys, when you have charts set up like this it really can be as simple as it looks.

Round Numbers

As you have probably recognised I have already referred to support and resistance levels and psychological barriers in the market. Remember, the institutional traders who drive the movements in price in the market are humans too and human nature suggests we like our numbers round. Let me give you an example...

Above: Psychology Behind Round Numbers

You trading career is going well, you've made some sound investments, you've grown yo... are now in an amazing financial position to buy yourself a Lamborghini. The Lamborghini £149,950. You go to pick up your best buddy in your nice new car and they ask 'wow hov you going to respond with A) £149,950 or B) £150,000? I can guarantee the large majority

£150k. This kind of psychology works EXACTLY the same with traders and trading with round numbers! Whilst round numbers are used, so are quartiles. Quartiles are exactly what they sound like, quarters. What is a quarter? Well it is 1/4 as a fraction, 25 cents as a currency or 25% as a percentage. So naturally, moving up in quarters you will have 1/4, 1/2 or 3/4 as a fraction, 25 cents, 50 cents and 75 cents as a currency and 25%, 50% and 75% as a percentage. Essentially they are the quartiles between two round numbers. So what does this look like when displayed as a currency pair?

Price Level: 1.25000 (round number)
Price Level: 1.25250 (lower quartile)
Price Level: 1.25500 (mid quartile)
Price Level: 1.25750 (upper quartile)

To identify these quartiles you simply need to focus on the last 3 digits on the displayed currency price. You will find time and time again that there are key turning points in the market and using the examples above should help you identify where these key levels are that price is likely to reverse from.

A Common Rule

As we have seen above, price respects key levels in the market due to this we need to focus on the probability that these will continue to be respected in the future. If we have probability on our side then we can use our major key levels to add to our strategic technical edge in the market. Why am I saying this? Well there is a rule when it comes to using support and resistance and i cant emphasise enough and if you don't follow this rule it could have a hugely adverse effect on your trading results. This may seem self-explanatory but my it happens on far to many occasions for me not to make it explicitly obvious...

Do not buy into resistance and sell into support!

You want to be instead selling off resistance and buying off support, not the other way around! Sounds simple right? Good! If not, go back and read this section on support and resistance again!

Fibonacci

A key technical tool that is used to add confluence to trade setups and help identify market structure and predict future price movements is the fibonacci tool. So what is fibonacci? Well it was created by an Italian mathematician called Leonardo Fibonacci back in the 13th century. Some of you may be familiar with the fibonacci sequence from school which is as follows: 0,1,1,2,3,5,8,13,21,34,55,89,144,233,377 etc... Each number in the sequence is simply the sum of the two previous terms and the sequence obviously continues infinitely. . Now the way this sequence works is that the numerical sequence shows that each number is approximately 1.618 times greater than the previous number. This relationship between the numbers in the sequence is the foundation of the common ratios used in retracement studies that we are more familiar with when trading the Foreign Exchange Market.

From a technical analysis stand point, fibonacci retracement is created by taking the most recent high and low in the market, and dividing the vertical distance by the key fibonacci ratios which are 38.2%, 50% and 61.8%. Now fortunately for us we don't have to manually calculate these levels like they used to do in the old days because we have a fibonacci tool on trading view that we can use to outline these horizontal levels. How though does the fibonacci sequence link to these percentages shown above?

The Golden Ratio

In fibonacci, the 61.8% retracement is also referred to as the golden ratio. The 61.8% retracement comes from dividing one number in the series by the number that follows it. For example, lets take numbers 13 and 21 in the sequence. Divide 13 by 21 and you get 0.619. Lets also take 55 and 89, divide 55 by 89 and you get 0.6179. The mean of these calculations gives us 0.618, which expressed as a percentage by multiply by 100 gives us the 61.8% fibonacci retracement.

38.2% & 50% Ratios

Where do the other ratios come from then? Well the 38.2% ratio is found by dividing one number in the series by the number that is found two places to the right. For example lets take 55 and 144, divide 55 by 144 and you get 0.38.2, multiply this by 100 to turn it into a percetange and you have 38.2%. In relation to the 50% retracement level, it is not really linked to the fibonacci ratio, but it is used due to the overwhelming probability for a currency pairs price to continue in a given direction once it completes a 50% fibonacci retracement.

For reasons that are largely unknown, these ratios seem to place an important role in determining furture movements in the foreign excahnge market. They can be used to determine critical points in the market where price is likely to reverse. Similar to the use of support and resistance levels. Yes this does mean that if a key area of support/resistance lines up with one your key fibonacci levels you can predict that price is highly likely to reject this level - this helps add confluence to a trade. Time to introduce you to how to plot these fibonacci levels on your charts in both bullish and bearish markets...

Fibonacci in Action - Bear Market

38.2% Retracement

50% Retracement

61.8% Retracement

Now to set up a fibonacci retracement tool in a bear market you need to take the most recent swing low and connect it to the swing high. The fibonacci retracement percentages will then automatically appear. The only difference is that I use only have the 78.6%, 61.8%, 50%, 38.2%, -27% and -61.8% levels displayed. Note the default settings will not give you the -27% and the -61.8% you will need to manually input these into the fibonacci tool and edit them. As you can see above once the market has formed a retracement to the given levels, it regularly proceeds to hit our -27% fibonacci extension. This is a key exit strategy that we use but more on that later.

Using fibonacci allows us to predict the size of the retracement and the future movement in price after the retracement has occurred. Traders determine this as an ABCD formation which you may have heard before, we will refer to this again later when we bring all of our analysis together.The great thing about using the fibonacci tool is that it adds key confluence to our trade setups and it allows us to sell the market at a high point, when traders obtain 'wick entries' with minimum drawdown, this is usually one of the key tools that they use!

Fibonacci in Action - Bull Market

38.2% Retracement

50% Retracement

61.8% Retracement

Using fibonacci in a bull market is exactly the same as using it in a bear market apart from you need to connect the swing high to the swing low. Again as you can see that fibonacci extension at the -27% is always hit proceeding the retracement in price. Bare this in mind when we head into the Lesson 9 on Strategy. So now you know what fibonacci is and where it originates from, as well as the golden ratio and the alternative ratios that can be used, plus a visual interpretation of what these movements in price look like in both bullish and bearish markets, I hope that you can see the power of using this tool and how accurate it is in predicting potential price movements.

50 Exponential Moving Average

The 50 Exponential Moving Average or EMA for short is a calculation of the average price of the previous 50 candles providing a mean price level on the chart. The difference between the normal moving average and the exponential moving average is that the EMA puts more weight on the most recent price action, somewhat slightly eliminating some of the issues associated with using technical indicators based on past information. To put this into perspective if you are looking at the daily time frame it calculates the previous 50 days average price, likewise if you are trading on the hourly time frame the EMA will demonstrate the previous 50 hours worth of price action.

So what is the point in having the 50EMA on the chart? Well it acts as a level of dynamic support and resistance which is you will find is highly respected and can act as a key confluence when exploring trade setups. Let me show you this on a chart...

Above: 50EMA Dynamic Support / Resistance

As you can see clearly above, price regularly respects and tests the 50EMA as a level of support and resistance. When the market is in an uptrend making higher lows and higher highs price tests the level on 4 occasions and rejects the level before moving higher. When price eventually breaks below the 50EMA to the downside, it usually suggests a change in the momentum in price. Remember it is an average price of the previous 50 candles.Therefore if price is trading above the 50EMA you can interpret this as the market being bullish, however when price breaks below the 50EMA you can interpret this as a bearish market. As you can see once price breaks below the 50EMA it comes back up to retest the level on more than one occasion before proceeding to make new lower lows as market sentiment changes from a bullish market structure to a bearish market structure.

There are two key aspects I want you to take away from using the 50EMA as an indicator on your chart. Firstly, if price is above the indicator consider the market momentum as bullish. If price is below the indicator consider the market momentum as bearish. Understanding the directional bias of a market is key when you are looking for trade setups. Secondly, the 50EMA acts as a very convincing level of dynamic support and resistance where price regularly rejects from. Due to this you do not want to be executing trades where you are relying on price to break through the 50EMA on any time frame as there is a high probability that a reversal will occur which could result in a losing trade. So in other words, looking to trade away from the 50EMA rather than into it.

Chart Patterns

Having the technical ability to identify and understand specific chart patterns will help you not only improve your trading but it will also help provide additional confluence and potential trade setups for you to take advantage of. The history of trading tells us that patterns and price repeat themselves; therefore these chart patterns will come up time and time again! You just need to know what you're looking for, so let's no wait around...

1. Ascending Wedge

Above: Ascending Wedge Pattern Formation

This type of pattern offers very clean price action and is present where market conditions are very clear. What i mean by this is that in the example above we have an obvious bullish market structure. Price is making higher highs and higher lows. When you connect the lows at the bottom together and the higher at the top, you have an upper and a lower trend line. As you can see the trend lines move closer together as time moves on, hence the name a 'wedge'. When price is forming this wedge it gives us opportunity for trade setups. The general rule of thumb I have is that we ignore the first and second legs as we need a trend line to form first. Once we have two lows connected and two highs together I then draw my trend line. The third bounce from the trend line is where you can execute a trade. For example the third higher high we could sell at the trend line which would give us an optimum entry but is more high risk. The other strategy you can use is the breakout of the pattern and then trade in the overall direction of the market. I will elaborate of strategy execution later though.

2. Descending Wedge

Above: Descending Wedge Pattern Formation

The descending wedge pattern has the same criteria than the ascending wedge pattern but the difference is a descending wedge pattern occurs in a bearish market structure, as opposed to an ascending wedge pattern which occurs in a bullish market structure. Here we can see price stuck in a range between two trend lines. Note from the previous pattern, always wait for two connections before drawing a trend line such as two lower highs or two lower lows before connecting the dots. Chart work can really be as simple as drawing some trend lines - trust me. So how is this pattern relevant? Well it shows price being squeezed and the lower low becoming more shallow highlighting the anticipation for a breakout. There are actually two valid buy setups off the lower low which would've banked you a significant amount of pips. All you need to do is identify these patterns and how price moves, then you can capitalise on bigger moves in the market with optimal entry criteria. Can you spot the two setups? If you can, fantastic, if not, you'll enjoy the rest of this section!

3. Double Top

Above: Double Top Formation

The double top formation is a means of playing off a key level of resistance, as you can see above price rejects the same level twice and is trapped between support and resistance. (Note from earlier how the 50EMA also acts as a key level of dynamic resistance too). When price has cleanly rejected the same level twice, it shows that sellers are entering the market at this level. So, how is this relevant? Well a higher risk approach would be to execute a sell off the level of resistance and trade the move down. A more conservative approach would be allow the market to break the previous low at the level of support, wait for a retest of the level as resistance and then execute a sell. Notice how these patterns can provide some structure and clarity to your overall analysis.

4. Double Bottom

Above: Double Bottom Formation

The double bottom is exactly the opposite of the double top, but the principles are very similar. A double bottom formation focuses on the strength of an area of support. If we see two strong rejections from the level of support we can consider the level a key level and that buyers are entering the market from that level. As you can see above the second rejection prompts a breakout of resistance before we see a retest of support and bullish momentum continues. Let, me just highlight price action specifically around the area of support and why you could predict that this level would reject price. Looking at point number 1, we see a consistent bearish run from resistance before price begins to decelerate. We see two indecision candles looking at the two doji's. Followed by one final bearish engulfing candle as the final push for the sellers, but price didn't manage to break the level of support. Price bounces from support and runs back up to resistance. Now at point 2 we have a different scenario. Price falls quite heavily into the area of support with just two bearish candles after a rejection off the 50EMA. Price pierces support but fails to close below it. The bulls then enter the market and a bullish engulfing candle appears off support before the next bull run. Here I am trying to highlight the importance of not only understanding support and resistance, and understanding specific chart patterns, but also look more in-depth. Ask yourself what is price actually doing? Does it look like we are seeing any indecision or deceleration in price? Understanding the market to this level of depth will allow you to not only notice these patterns in your analysis but also how you are going to negotiate the market to obtain an optimum setup.

5. Box Play

Above: Box Play Formation

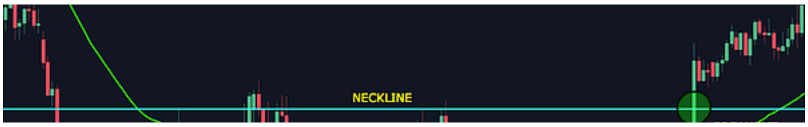
The Box Play also makes the most of understanding support and resistance as well as market structure. In this example we can see a bullish run up into the 'box' where price then gets trapped. Bouncing off both support and resistance multiple times over. Now from a bigger picture point of view when I look at this chart i'm seeing a bullish impulse and vitally an exhaustion in price. The bulls have clearly ran out of momentum in this shot. The way to look to trade this formation is to wait for a breakout and retest of the 'box'. Essentially we are just playing off support and resistance but we are identifying slightly different patterns which can be used to our strategic advantage. As you can see price breaks the level and retests the zone before falling quite heavily once we see a break below dynamic support of the 50EMA. Understand your charts and the price action and when the market is uncertain like in the example above, plan for the breakout and trade your plan.

6. Head and Shoulders

Above: Head and Shoulders Formation

The Head and Shoulders pattern is a textbook charting pattern where you will see price fail to sustain bullish momentum forming a 'head' after a break of resistance, with two more rejections from resistance at both the left shoulder and the right shoulder. In this example the right shoulder actually attempts to break resistance to invalidate the H&S setup, however as you can see there is a big gap down below resistance on market open and price then respects the level in the following hours, we will talk more about gaps in our fundamental analysis lesson. So what are we looking for to identify a Head and Shoulders pattern? Well you want to see a respected level of support also known as the neckline, likewise an area of resistance that is also respected despite having a failed bullish breakout attempt. To capitalise on such movement you can either trade the bullish legs between the neckline and the shoulders/head, or conversely the bearish legs between the shoulders/head to the neckline. You can also take a conservative approach and wait for a breakout of the pattern and the neckline and sell it to the downside.

7. Inverse Head and Shoulders



Above: Inverse Head and Shoulders Formation

The Inverse Head and Shoulders pattern is the exact opposite of the normal head and shoulders pattern, however the principles are still the same. We are looking for the market to bottom out at an area of support which prompts buyers into the market at the given level. Similarly, as above we want to identify these patterns as they play out to allow us to capitalise on the shifts in market direction. The above chart is the daily time frame, if you can spot such patterns play out on the higher time frames your potential to make so much more pips is higher. Again we also want to be looking at a trade on the break of the neckline which acts as resistance. This allows us to capitalise on the next phase in the market cycle. When a key level of support is broken you are looking to sell and if a key level of resistance is broken you are looking to buy, the same principles apply here.

How Do Markets Move?

This section of the course is vital for your understanding on how markets operate. Not only will it allow you to determine the directional bias of the current market structure but it will also allow you to obtain valid trade setups by understanding the following technical analysis. But, I think the first thing to say is that every currency pair acts in the same manner, you just need to know what you're looking for! So what are we looking for exactly? Well let me show you with a chart and then let me explain...

Above: Bearish Market Structure

So, as you can clearly see above we have a bearish market structure, but how you can anticipate this and how can you benefit from it? Well, the way the market moves is in three phases. We firstly have an impulse, so in the example above we have increased selling pressure which causing the market to move in a bearish fashion. Note, this is where traders go wrong so listen up! Many traders will wait for a run like this to happen, execute a sell at the very bottom thinking they're missing a massive bearish shift, BUT after an impulse comes a correction.

Now in this instance the correction is fairly shallow and price doesn't really pullback due to previous selling pressure, however in many instances you'll find the market will pullback heavily from an impulse before it makes another shift to the downside, don't be caught out - wait for the correction! So what is a correction? A correction is a period in the market above where price is just being allowed to breath from previous selling pressure. This provides us with opportunity! Allow the correction to play out, some times you may have a shallow correction, other times you might have a larger deeper correction, other times you may have a very small and shallow correction, just be prepared that a correction is a positive thing!

What happens after a corrective structure has formed? Well once the correction is broken we get the second impulse also known as a continuation. The continuation will emulate the previous bearish move and price will fall to make a new low. Let me show you it in a bullish structure just to provide more clarity...

Above: Bullish Market Structure

As above, we have a bullish move in the market, followed by a corrective structure. Note from the discussion above, this is an example of a deeper correction. One that would catch a trader out who jumped in long right at the top of this first bullish impulse. Wait for the correction to play out by connecting the lower lows and the lower highs together with your trend lines. This will provide clarity and accuracy when you look to trade these moves.

After the correction, wait for a break of that counter trend line - the reason it's called a counter trend line is that we are breaking the bearish correction in a bullish market, i.e. countering the trend. Once the trend line is broken you will then see the second impulse to the upside also known as a continuation.

IMPULSE-CORRECTION-CONTINATUON - remember those words!

When Not To Trade

However, what I do need to make you aware of is that sometimes the market doesn't operate with the idealistic textbook view of the examples above. To put this into perspective for you, there are 28 major currency pairs which are traceable 5 days a week 24 hours a day. Put that all together and you get 3,360 hours of opportunity to execute trades. But, and this is a BIG but, I probably on a busy week will only execute perhaps only 5 trades. So for every 672 hours that all 28 currency pairs are operating I only take one trade which I may be waiting for a single 1 hour candle to close to get my entry. What i'm trying to demonstrate here is that the market conditions are not tradable all of the time. Sometimes the market may be unclear, there may be no real market structure being formed, thats why you need to be patient and wait for the textbook setups and market conditions to be met in your analysis before you begin to execute any kind of trade. You always want to be seeking high probability, A+ setups! Not a mediocre, higher risk setup that is more likely to tkae you out for a loss.

What Your Cha

I hope if you've ... he principles of the technica ... be overwhelmed v ... approach and focus on price ... echnical analyst:

Above: What Your Charts Shouldn't Look Like!

I have probably seen examples worse than this, but its simply to illustrate the point. Too many support and resistance levels on your chart will cloud your judgement. Which ones are more relevant than other? What are the key levels and what are the minor levels? Don't overuse your trend lines, take one structure in the market and trade it, don't overuse them as again you'll be lost as to which wait the market is actually trending. Similarly, technical indicators should be kept to a minimum. I use one 50EMA, yes it's ok if you want to use a couple of EMA's to add confluence to a trade, but don't get caught using lots and lots of indicators as you'll find they give conflicting information and you'll never known which way to execute a trade. Focus on price action, market structure and a minimalistic approach to your technical chart work and it will all make much more sense, trust me!

The Approach - Top Down Analysis

Whilst all of the above may seem to be a lot to take in so far, the top-down analysis approach will provide some structure to help you complete effective technical analysis. The top-down approach is exactly what is sounds like. You start at the top and work your way down. What do i mean by this? Well, you start with looking at the higher time frames such as the monthly and weekly, then move your way down to the daily, 4 hour and 1 hour time frame.

On the monthly, weekly and daily time frame you want to determine your key levels of support and resistance. Look back over time, where has price held time and time again? The levels which are rejected more often at those that are key levels. If you've forgotten some of the fundamental principles of support and resistance jump back up to the top of this lesson.

When you are looking at these time frames, determine which way the market is moving in. What is the weekly and daily time frame telling us? The most recent candles specifically, is market structure looking bullish or bearish? Remember the trend is your friend, if you can determine the trends directional bias on the higher time frames it gives you a high probability chance that when you execute a trade off the lower time frames you have a higher chance of success.

We also want to identify the key trend lines on the weekly and daily time frames if there are any obvious ones present. Outline them on your chart and start to think how you could literally 'read between the lines' but i mean in the sense of the chart, not the other meaning!

Then break it down to the 4-hour and 1-hour time frame, where is price in relation to our key levels of support and resistance? Are we making an impulse, correction, continuation or is it unclear? Is price making lower lows and lower highs or higher highs and higher lows, or is it unclear? Where is price in relation to our 50EMA dynamic support/resistance, are we in close proximity and trading towards it or are we trading away from it? You need to be asking yourself all these questions when you break down a chart to determine the overall direction of the market.

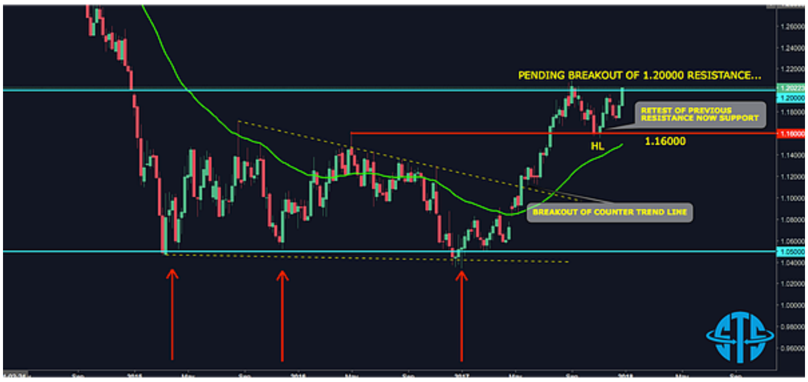
For clarity, let me do a complete a top down analysis on EUR/USD to help demonstrate this approach...

MONTHLY

Above: EUR/USD Monthly Outlook

EUR/USD Monthly Time Frame: A chance to outline key levels across all time horizons, right back to the 1990's looking at key levels of support and resistance that have been respected time and time again. When we are trading on the monthly time frame whilst it is good practise to outline support and resistance at extremes of the market, i.e. the lows of 2000-2002 and the highs of 2008, our approach and focus is more around the two key price levels in relation to the most recent market price. Analysing this chart from the monthly we can see price bottomed out at 1.0500 support and rejected this level on 3 separate occasions between 2015 and 2017. Due to price respecting this level it appears that the bear run since 2014 has exhausted and come to an end given price failed to break any lower.

WEEKLY



Above: EUR/USD Weekly Outlook

EUR/USD Weekly Time Frame: Used to dig deeper into price action which can be used to determine the near future directional bias of the market. As you can see above more clearly, we have those rejections of 1.0500 support. However, now we've zoomed in a little on the weekly we can also see a counter trend line that ran from September 2015 to May 2017 where a bullish engulfing candle breached the trend line. From this point price rallied, breaking above previous highs with a huge bullish impulse before reaching a key level of resistance at 1.2000. Which as you can see on the Monthly Time Frame was tested as both support and resistance time and time again. When price rejected this level, how do we know how far price will fall? Well look left! As you can see we have a previous area of resistance at 1.16000, price fell perfectly back into this level to form a higher low and price shot back up off this level!

DAILY

Above: EUR/USD Daily Outlook

EUR/USD Daily Time Frame: So as per our analysis above we can see clearly on the daily time frame that our level of 1.16000 held perfectly well as a level of support. Following this rejection we made a new high, so yep, you guessed it, time to connect the dots! We draw a trend line from the highs to form our counter trend line, meaning a break above this level would prompt further upside. However, before the breakout we got a pullback to form a higher low, to retest the 61.8% fibonacci retracement and the 50EMA before price once again pushed much higher! Once we had drawn the fibonacci retracement tool on our chart we can see our fibonacci extensions at -27% and -61.8% giving us possible upside targets for this most recent continuation in bullish momentum.

4-HOUR

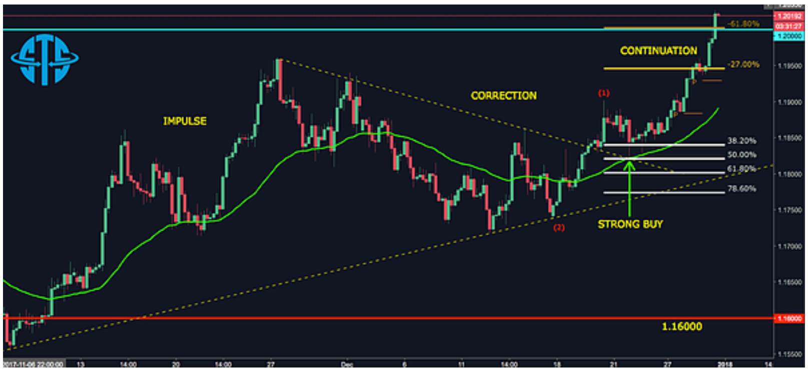
Above: EUR/USD 4-H Outlook

EUR/USD 4-Hour Time Frame: Zooming in a little closer we can re-fine our trend lines and really focus on the future prediction in the movement in price. As per our analysis above, we have an bullish Impulse, Correction and Continuation present here which offers great market conditions to actively trade this pair with the expe
time frame I have re-adjusted the fibonacci to the most recent swing high and swing low
the breakout we had a retest of the 50% fibonacci retracement, 4H 50EMA and the coun

Let's Chat!

a strong buy! Why? Because you have broken structure to the upside (as expected), you have retested structural support in the trend line, completed a 50% fibonacci retracement and strongly rejected the dynamic support of the 4H 50EMA. If that doesn't scream BUY to you, then i'm not sure what will. However, i'm not done yet...

1-HOUR



Above: EUR/USD 1-H Outlook

EUR/USD 1-Hour Time Frame: So we've noted that market structure is bullish, but how does that look on the 1H time frame when it comes to actually looking to execute a trade. Well, our strong buy signal that we noted on the 4H time frame becomes even more clear on the 1H. Note we have a minor zone of support where price so convincingly rejects from. Not only this but the 1H 50EMA also acts as strong dynamic support as we can see from the long wick on the 1H candle close. Also the candle itself shows that buyers have just entered the market as you can see from the bullish hammer. We can also outline another smaller correction after the quite explosive bullish impulse from the breakout of the trend line. What comes after a correction? Yeah, you guessed it, continuation! What happens? A continuation! Simple stuff right? We can then also highlight another minor level where the most recent previous resistance turns into a support level for price, which also touches the pivot point before moving higher towards our projected targets of the -27% and the 61.8%.

I hope providing a full breakdown from start to finish will vastly enhance your understanding of the depth and detail of analysis that goes into making a trade. You may have noted several chances to get into a long position during the analysis, which is great because it means that the knowledge is starting to sink in and can be replicated in your own technical analysis!

Currency and Commodity Correlation

Whilst this course is heavily focused on the Foreign Exchange Market, I thought it would be useful to bring some additional resources and knowledge around the commodities market and how this can help add confluence to yours trades.

The two main commodities I am going to be focusing on is Gold and Oil. Now you may ask, how on earth does Gold and Oil have anything to do with the currency market? Well let me explain...

Back in the 1900's Gold and the USD were associated when something called the Gold Standard was being used. The Gold Standard essentially meant that the value of a unit of currency was tied to a specific amount of Gold. Now whilst this finished back in 1971 the relationship between the USD and Gold has continued.

When the value of the USD decreases, investors will look for alternative investment sources to store their portfolio value, Gold being one of them. Also, when the USD decreases in value, the value of other currencies increases, this increases the demand for commodities such as Gold, therefore the price of Gold increases. Due to this investors usually look to buy Gold when the value of the USD is falling and vice versa. Let me show you how Gold and the USD Index correlate.

Above: Gold (XAUUSD) Chart

Above: US Dollar Index (DXY) Chart

As you can see on the left we have the price of Gold and on the right we have the DXY (USD Index) chart. During the exact time period we can see that as the value of the USD decreases, the value of Gold increases. To the scale that the DXY has fell just over 2% in value whilst the value of Gold is up just over 5%.

So how does this allow you to trade the currency market better? Well if you know the price of Gold is increasing, along with a weak Dollar Index, you know that it is more likely that the value of the USD is going to be falling. This allows you to look for setups to short the USD, as such resulting in an enhanced technical edge in the market. This also works the opposite way around, when the USD is strong, the value of Gold usually falls!

Gold isn't the only commodity that can be used to enhance our technical edge in the mar correlated to the Canadian Dollar (CAD). The high positive correlation between these twc portion of the Canada's foreign exchange earnings that is gathered from crude oil sales. Crude oil is the largest single component of goods exported and accounts for over 72% of current account receipts earned by Canada.

Due to these simple facts when the price of Oil increases, the price of the Canadian Dollar strengthens due to the possibility of generating more revenue for the country. Let's look at the charts...

Above: USD/CAD Chart

Above: Oil (USOil) Chart

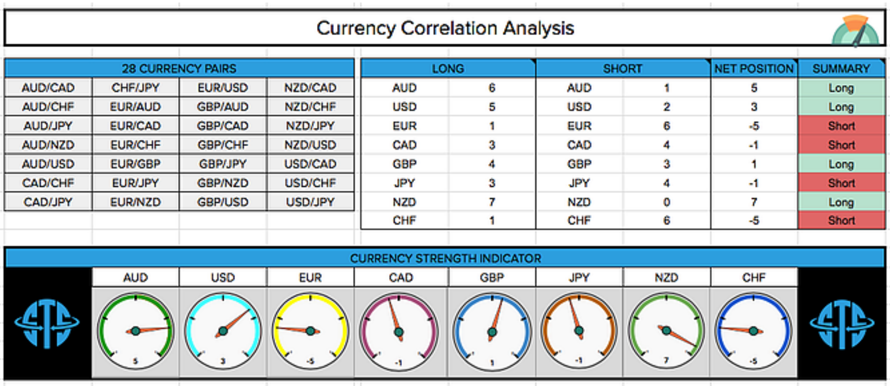
As you can see from the two charts above, when we look at the change in price over the exact time frame, we have the price of the USD/CAD and the price of oil moving in exactly the opposite direction. Over the same time horizon the USD/CAD falls by just over 3% whereas the price of Oil is up over 6%. As discussed above, as the value of Oil increases the value of the CAD increases, this means that alternative currency pairs such as the USD will depreciate in value against the CAD. Having this knowledge allows you to cross check your analysis, lets say you have to setup for USD/CAD, you can always check the price of Oil to see the relative strength of the CAD and how this may reflect in your trade.

Whilst the examples above are not 100% correlated, they do add a technical edge to your trading setups through the additional confluence that is present. Trading is all about stacking the confluences in your favour, once your criteria has been met then you execute the trade. Having an extra confluence you may not have previously realised will give you added confidence about your setup and should help enhance your overall performance.

Currency Correlation Analysis

Many people ask me, how do i determine my weekly watchlist? How do i know which currency pairs to trade? Well what i'm about to show you is a powerful technique that will provide clarity on the relative strength of a single currency and how i use this technique to select the currency pairs I want to trade.

So what is the technique? Well we want to crosscheck our 28 major currency pairs (or the select few pairs that you trade) and break them down as single currencies. This will give us net positions on the relative strength of an individual currency, then very simply you trade the strong currencies with the weak currencies to give you the highest probability of a winning trade. How do we do it and what is the criteria?



Currency Correlation Analysis

28 CURRENCY PAIRS			
AUD/CAD	CHF/JPY	EUR/USD	NZD/CAD
AUD/CHF	EUR/AUD	GBP/AUD	NZD/CHF
AUD/JPY	EUR/CAD	GBP/CAD	NZD/JPY
AUD/NZD	EUR/CHF	GBP/CHF	NZD/USD
AUD/USD	EUR/GBP	GBP/JPY	USD/CAD
CAD/CHF	EUR/JPY	GBP/NZD	USD/CHF
CAD/JPY	EUR/NZD	GBP/USD	USD/JPY

LONG		SHORT		NET POSITION	SUMMARY
AUD	6	AUD	1	5	Long
USD	5	USD	2	3	Long
EUR	1	EUR	6	-5	Short
CAD	3	CAD	4	-1	Short
GBP	4	GBP	3	1	Long
JPY	3	JPY	4	-1	Short
NZD	7	NZD	0	7	Long
CHF	1	CHF	6	-5	Short

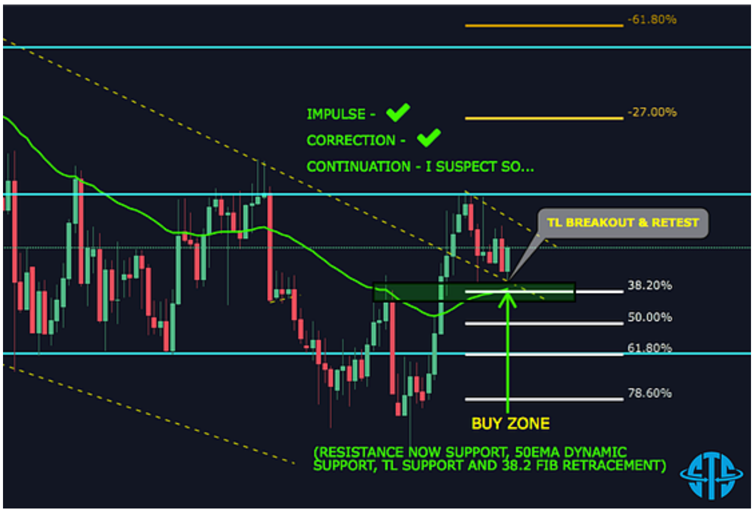
Above: Currency Correlation Analysis

Before we jump in at the deep end let's just go over some housekeeping rules of this document so you know exactly how to use it as you'll be able to download it below. Firstly, none of the cells are locked, so feel free to change the spreadsheet to fit your own needs. Secondly, the only variables that you need to input is a number in the 'Long' column, a number in the 'Short' column, and the highest correlated positions, the rest will automatically update for you. You don't need to do any calculations and the summary section will tell you automatically whether the currency is bullish or bearish based on your inputs.

Housekeeping finished, let me actually explain this document and how it works. As you can see on the left hand side you have the 28 major currency pairs that you will need to analyse (or the select few that you trade) to get an overall bias of the whole market.

The general technique to do this is as follows, lets take the first currency pair AUD/CAD for example. As a swing trader I do this at the start of every week to determine the directional bias of the different currencies. So to start with I will look at the weekly and daily time frames, taking the approach of the top down analysis taught earlier in this lesson. The reason I want to look at these time frames is that I want to understand the bigger picture, therefore meaning i must look at and understand the larger time frames.

So this is where we bring all of our technical analysis together. There are 6 main variable relation to the current market price which are as follows: Support, Resistance, 50EMA, Ma and Trend Lines. Once you have determined where price is now and where you expect it to go in the future you can begin to tally up your results. So, AUD/CAD lets look at the chart...



Above: AUD/CAD - Currency Correlation Analysis

Let's see how this chart compares to our key variables and determine whether the AUD/CAD is bullish or bearish.

1) Support & Resistance
We can see a clear level of support which directly lines up with the 61.8% fibonacci retracement. Price recently broke above the level which would've been resistance at the time to push higher, forming a new high and running into the next level of resistance where price began to fall.

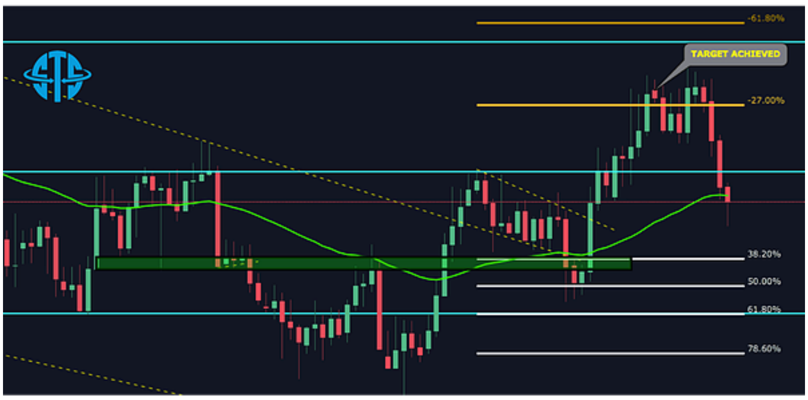
2) 50EMA
Remember the 50EMA acts as a key dynamic support/resistance level, we can see from the most recent impulse that price broke above the 50EMA which has been well respected in the past. Price has now came back down to re-test the region of the 50EMA which I suspect we will see strong buying pressure enter the market after this pullback has occurred.

3) Market Structure
As referred to above, we have recently posted a new high, I suspect price is now forming a new higher low around previous resistance now support which I have highlighted as our buy zone. Market structure is therefore bullish.

4) Current Trend
We were in a bearish trend for some time with AUD/CAD, however a recent breakout of this trend has suggested that this pair could push higher still after a retest of several key buying confluences such as the 50EMA, trend line structural support, 38.2% fib and a minor level of resistance now acting as support.

5) Trend Lines
We can clearly see that price has broke above the larger daily trend line with the most recent bullish impulse. Remember, what comes after an impulse?A correction! Price is currently in that corrective structure where on the lower time frames you can draw more of an accurate trend line. If we see a break to the upside of this correction I suspect a continuation of price action to be bullish.

Just For Reference:



Above: Analysis Outcome

The outcome of analysis? We need to go back to our Currency Correlation Analysis and score 1 point for AUD LONG and score 1 point for CAD SHORT. Why? Because as demonstrated from the analysis we are predicting in the following week of trading that the AUD will be stronger than the CAD.

Complete this for all 28 currency pairs (or the ones relevant to you) and you will have a complete overview of the market and the relative strength or weakness of individual currencies. The spreadsheet will then tell you whether the currency is bullish or bearish. From there you then need to simply pick off the strongest and weakest currencies and pair them up together!

Looking at the example above we have AUD scoring a net 5 points, meaning it is bullish. We also have EUR which is scoring a net -5 points, meaning it is bearish. Pair these together and you get EUR/AUD SHORT.

Let's look at another example, NZD is scoring a net 7 points, but the CHF is scoring -5 p
around going LONG NZD/CHF. Hopefully you get the picture!

By completing this analysis it really allows you to refine your weekly watch lists and your setups for the week ahead. IT will provide clarity, structure and organisation to your trading. It will remove emotional trading and provide a more strategic approach. Preparation is key.

11:25

✅ Currency Correlation Tool

Painting the Picture

Bringing this all together... video style! Check out the first of episode of the Painting the Picture video series. Throughout the course of this series we will be pulling together all of the technical analysis that you have seen above and we will be highlighting exactly how we use the above analysis in our chart work, this is to help you adopt the same style of trading to help give you a technical edge in the market! We will cover market structure, pattern recognition, forecasting and outlining how to identify setups on your charts! Check out episode 1 below:

from **Mitchell Shoesmith**

15:56

Click Here To Watch The Painting the Picture Series

NEXT LESSON!