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Price Action Trading Course
BrooksTradingCourse.com

Excerpt from Module 11
Market Cycle
Market is in never ending cycle

- **Trend**
  - Breakout
  - Channel

- **Trading range**

- **Trend** (breakout in either direction)
Breakout, channel, trading range

EURUSD Weekly

- Trading Range in Bull Then Reversal
- Trading Range in Bear Then Resumption
- Pullback
- Breakout
- Channels Evolve Into Trading Ranges
Inertia and 80% rule

Markets tend to continue what they have been doing

Trend...
- 80% reversal attempts fail

Trading range...
- 80% breakout attempts fail
Trend reversals fail... become bear flags

Reversals in strong trends usually fail
Become bear flags

Beginners see reversals, mostly wedges
Experts see bear flags
They short and put stops above the most recent bear BO
Trading range breakouts fail

Trading range breakouts are common, but 80% fail.
They are just vacuum tests of support at the bottom and resistance at the top.

Strong 2nd legs look like they will have a 3rd leg,
but most fail and reverse.

They trap hopeful traders into buying high and selling low for swings.
The experts are doing the opposite... B L, S H, scalp.
Why need to know where in cycle?

- Each part of cycle has trading opportunities

If know where market is in cycle...

- Can take trades that are right for current market
Example: bull trend

Once you think bull trend is likely underway...

- You must buy!!
- Many ways to buy
Looks strong so don’t wait...buy now!

Consecutive bull trend bars
  Big bars
  Close above midpoint
  Close near high
  Context = TR = BO mode

When context = good, one bar makes new trend likely
Bull bar after BO = higher probability of trend

Second bull bar confirms the breakout, even though close in lower half

Must buy some! Don't wait. Trade very small if afraid.

Protective stop = 44 pips
Another BO = probable trend

Breakout: decide early

More breakout instead of pullback
Market running away from you
Buy at least small position

Protective stop = 21 pips
Protective stop = 56 pips
Buy at market as soon as bar closes

Strong breakout so must get long even if small position

As soon as bar closes, buy at the market
If already long, add on at the market or with limit order at close of bar
Strong bull = buy any new bull close
Buy bear closes: reversals will fail

Strong breakout
Buy bear closes
Expect reversal attempts to fail
and become bull flags

Protective stop
Buy PB: buy above prior bar

**Strong breakout**
Buy above pullback signal bars

**Protective stop**

USDJPY - 500 Tick Bar

L=115.969 0.220 0.19% MAX 20 (20) 109.222

usdjpy 500 tick
Buy below bars

Strong breakout
Buy below bars

Tight trading range
No longer BO phase
Do not buy near top
unless new BO

Protective stop

USDJPY - 500 Tick Bar
L=115.972 0.223 0.19% MAX 20 (20) 109.222

usdjpy 500 tick
Pullback = no longer breakout phase

As soon as pullback...

- Breakout phase has ended
- Channel phase has begun
- Later, evolves into trading range
Pullback = channel phase
Evolves into trading range

- Pullback to just below BO point
- Bears will sell new highs

- Channels evolve into trading ranges
- Trading ranges eventually breakout
- Trend can resume up or reverse down
Perfect trades cannot exist

Cannot exist because an institution has to take other side

- No firm would take a trade where there is
  - Low probability of making only a
  - Small reward while exposed to a
  - Large risk
Perfect trades cannot exist

Any trade approaching perfection would be quickly traded by many institutions

This would...

- Create huge trend bar
- Greatly increase risk
- Reduce remaining reward and probability
- Possible climactic end of move
Trading is always difficult

- No one will give you money
- Your **edge** is always small
- Goal = consistently good
- Don’t have to be perfect
40 - 60 rule

90% of time, probability is 40 - 60%

- Of moving X units in one direction before X units in opposite direction
- Applies to 90% of time = channel or trading range (other 10% of bars = breakout)
- 90% of time, probability is unclear, setups don’t look strong
Turn uncertainty into profit

- Simply always go for reward at least twice risk
- Compensates for low probability
- Results in positive trader’s equation
- Profitable strategy
Bulls and bears can both win!  

90% of time...

- Between 40 – 60% chance of profitable trade
- You will lose 40 – 60% of the time, even with great setups
- There is **valid bull and bear case at every moment**
End of excerpt from Module 11

Market Cycle