



Al Brooks

# Price Action Trading Course

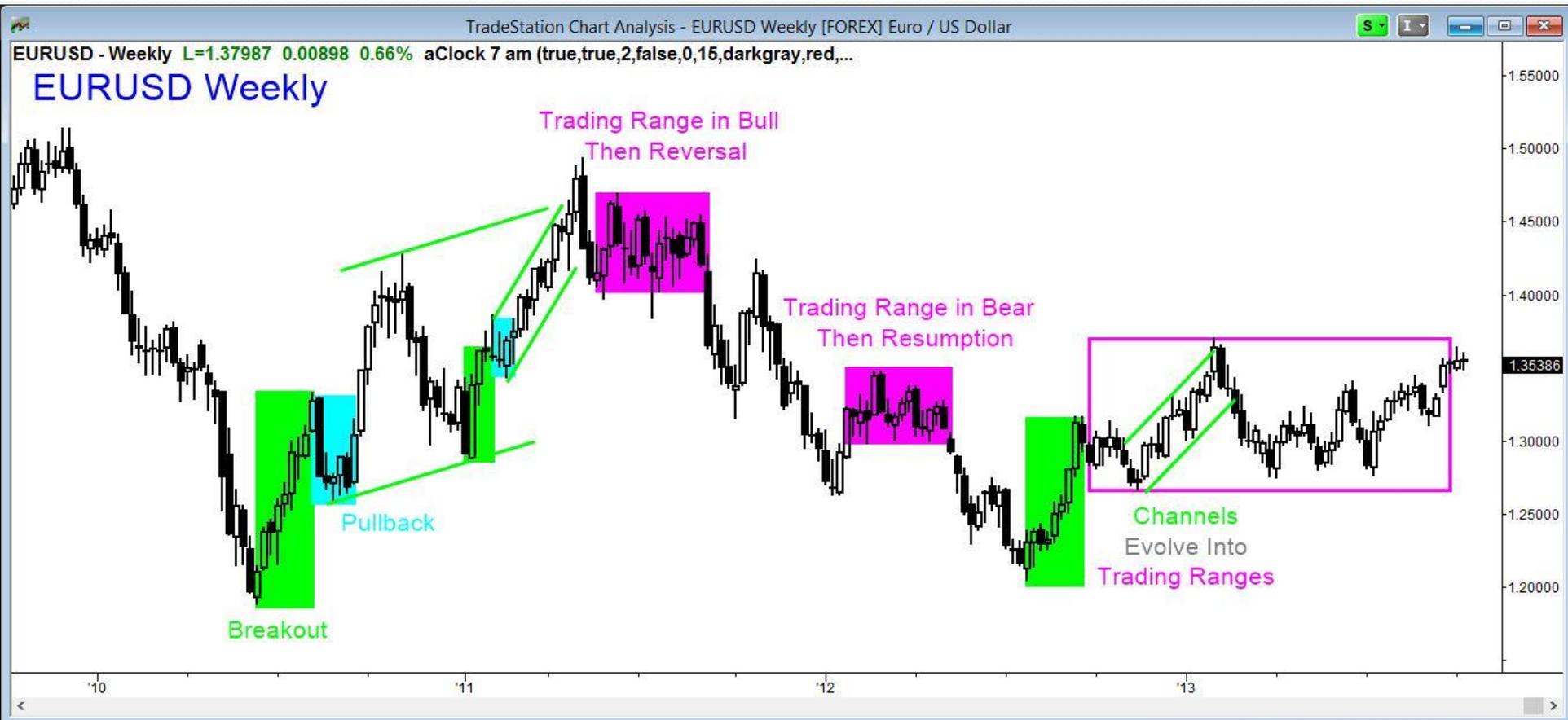
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Excerpt from Module 11  
Market Cycle

# Market is in never ending cycle

- **Trend**
  - Breakout
  - Channel
- **Trading range**
- **Trend** (breakout in either direction)

# Breakout, channel, trading range



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# 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



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# Trading range breakouts fail



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# 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!



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# Bull bar after BO = higher probability of trend



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# Another BO = probable trend



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# Buy at market as soon as bar closes



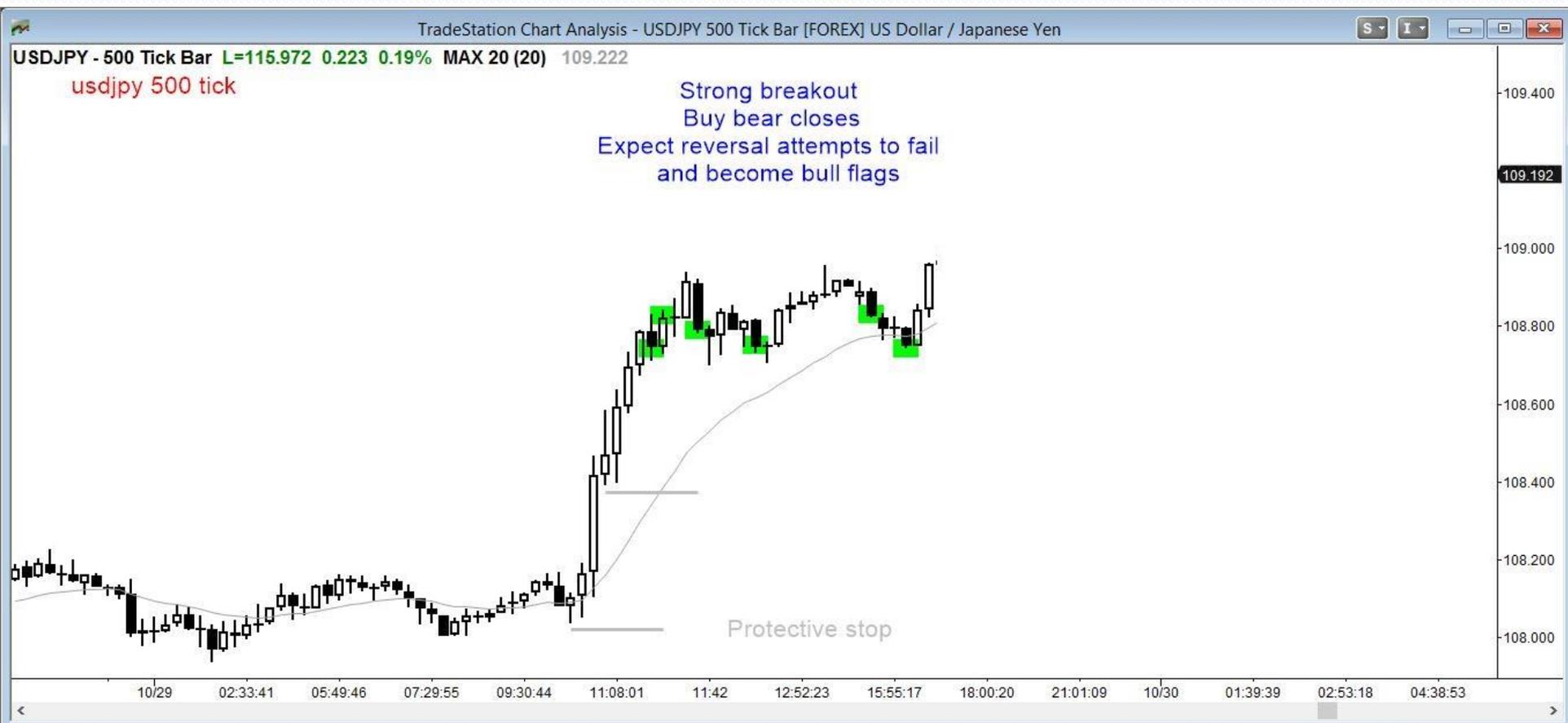
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# Strong bull = buy any new bull close



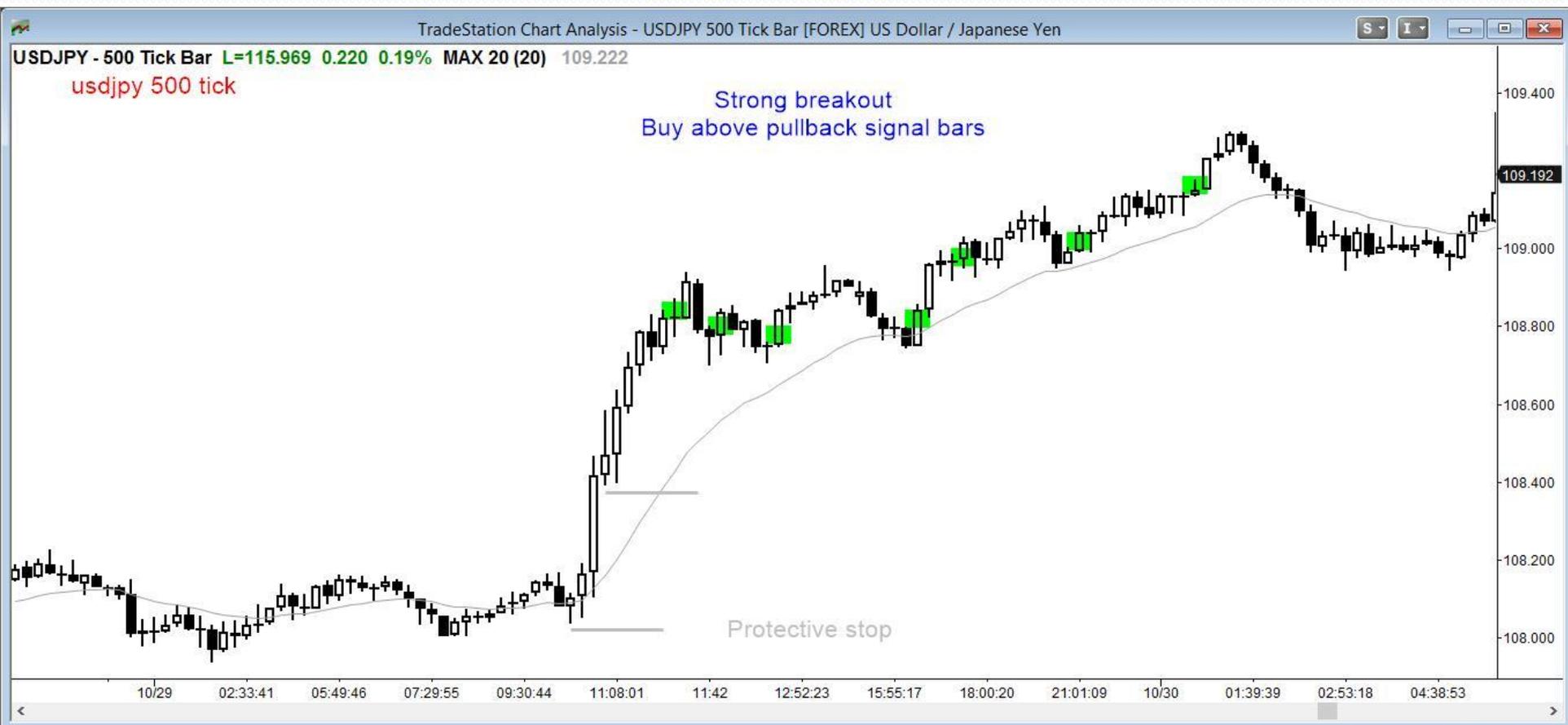
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# Buy bear closes: reversals will fail



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# Buy PB: buy above prior bar



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# Buy below bars



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# 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



# 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**



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End of excerpt from Module 11

# Market Cycle