FTA first trouble area is the first minor/major flip of support and resistance
LLS (Lowest Low of Support)
HHR - short for Highest High of Resistance
PPZ = Price pivot zone

The Basics of the method

Foreword

By putting the material contained in this post I have assumed that my audience has had at least some kind of exposure to the James16 group either at the public thread at forex factory or at the private forum. While this system is not about a direct application of the James16 material it is primarily a modification of it with the core still very much intact and in its original form. This method will be best assimilated by someone who has a good idea of how we look at our charts at the James16group.

Identification of swing points

These are defined, in plain and simple terms as points in the market where price took a U turn, either for the longer term (reversal) or for an elongated correction/pull back.

These are not difficult to spot on the chart at all. Here's a chart to get you going...

Introduction to the fake out

We know there are two types of traders participating in these markets. The novice trader that is under capitalized and is pretty naive when it comes to trading knowledge. And then there are the real big pros, the hedge funds, the banks and other institutions who know their stuff and have really big accounts. These 'cool' traders however suffer from a major problem that stems from the size of their account. The problem of liquidity. The FX markets are amongst the most liquid markets in the world yet there still is a problem when a hedge fund wants to sell 10,000,000 units of EUR/USD at resistance where obviously others are willing to short as well. You see why? How many traders do you think want to long in a market that is heading towards resistance? This poses a serious problem and these guys will then take some measures to get rid of this problem. These are smart people BTW. They break their position sizes into smaller lots and execute it at closely bound price levels instead of clicking a 10,000,000 position size at a single price level.They also artificially create buy side liquidity in the market by targeting the novice traders.

Small positions selling into support and buying into resistance, create the "buzz". Or just simply pulling off all orders leaving a vacuum for retail traders to push price through. Enough manipulation to lure traders into thinking price is headed for a break of support/resistance. The breakout traders start jumping in. At resistance for instance, traders short in the market who most likely will have their stops above resistance or below support (the pros know it all!) start to freak out and their stops start getting hit creating more buy side liquidity (a stop loss on a short order is actually a long). By creating an artificial scenario in the market the pro traders have managed to, like a sheep dog, get the herd where they want them to be.

They can now pull out their long positions and start dumping their huge short orders on traders willing to now buy into a breakout that is going to be a fake one. Now guess what? All those traders that jumped in long will start hitting their stop losses because the big orders are propelling price south and which creates more selling in the market to take price down (long traders will close their trades by selling their positions), but the pros are already in and any selling pressure now is just adding cash to their wallets. Some smart folks and james16 are probably looking at pin bar showing this very information and are short too WITH THE BIG BOYS. DO you now see how the 95% of losing traders are filling up the pockets of the remaining 5%? The naive trader lost when he was short at resistance. He also lost when he thought he could catch a smooth break out.

These pros have nothing against retail traders. Its like a huge ocean where survival for the big fish means consuming smaller fish. Its a zero sum game after all.

xx wait with a pending order just above/below the HHR/LLS for price to pull back to the level.

The triggers to this method lye in spotting a swing point, demarcating an LLS/HHR and simply watching for a failed attempt to break it. This will always be very easy to spot. Bear in mind that the bigger and more critical aspect to successfully executing this method is the sound understanding of "the bigger picture". Something that comes with a lot of practice.

Now with the EUR/AUD example you showed. I see a swing high and an HHR and I see that we may have a possible fake out off of it. But ask yourself this. Is that a major former sell off area to be considering to take a short off during this strong an up trend? It took me quite a few painful burns to understand that this method was best suited to a sideways market. By nature this is a "counter trend method" and you'll find yourself in a lot of trouble if you start shorting up trends based off minor swing points.

You will have people bragging about the pips they bagged during a trending market based on an MA touch/cross system. Come a sideways period and most systems will turn on their heads. This method I have always experienced to be at its finest best (both with number of opportunities as well as the reliability) when the market is sideways. Don't get me wrong. Of course these markets can be tricky, but also extremely rewarding if you have a basic understanding of side to side support and resistance and your approach is spot on.xxxx
xxxxxxxxx **The most defining characteristic of a fake out is quite simply the falsification of the basic structural principle of support turning into resistance and vice versa**

Going by this, whenever you see price stepping on the gas beyond an HHR (resistance) and find it not being able to hold up via support at the HHR upon a pull back, you have a fake out. Beyond this every condition I use is honestly for systematization and filtration purposes. xxxxxxx

x Always analyze your trades in 3 domains:

1) The location (Round numbers, MAs, depth of swing points and other confluence factors)

2) The bar (the longer the wick the better)

3) The space for the trade to move into (FTA not being too close to make trade management a pain)

x Here are a few examples of designing the trade plan around your FTA:

1) Take full profit at FTA (if the FTA is extremely major such as with the GBP/NZD trade I shared)

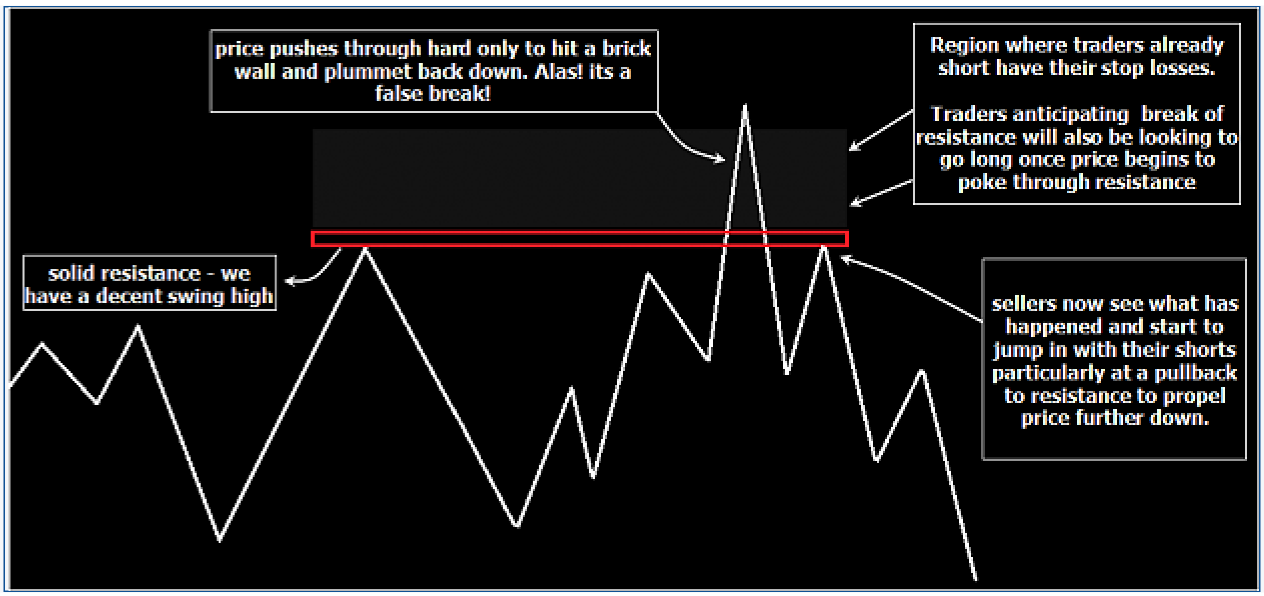
2) Take partial profit at FTA

3) Move the stop i.e reduce exposure on the trade as price hits the FTA

4) Do nothing and simply watch like a hawk how price is reacting at the FTA (recommended only when the FTA is extremely minor)

What we always discuss about at the james16 group as well, is that **there is absolutely no point in taking a full loss once price makes it to the FTA**. So you see the FTA is by far the most important aspect of a trade in the initial stages, which needless to say is obviously the make or break times for the trade.

Part of a trade plan should always consist of clearly marking out the FTA and all subsequent trouble areas if you do plan to hold a trade beyond the FTA.xxx
xx_ the lower time frames aren't ruled out for this method. Heck fake outs work on the 1 minute and the monthly xxxxx I am looking for a nice and deep HHR/LLS preferably lining up with other confluence factors such as a Round number or a Moving average. I am looking for price to accelerate into the HHR and receive a noticeable rejection which marks the fake out for me. I am then looking to get in either at the close of the fake out bar or in case of close further away from the HHR/LLS I am waiting with a pending order near the HHR/LLS in case of a pull back. I also require decent space for the trade to thrive in and to ensure stress free trade management.



At a strong area of support or resistance you'll often see price moving sharply to notify a breakout and either on the same bar or on the next few bars will sharply pull back into the swing point. It will either leave behind a wick or a few dead bars (low range indecision bars) showing a strong move up (like you would see in a break out) followed by a complete reversal back into res/supp.

What I said above is good knowledge for someone really interested in going behind the backdrop to take a sneak peak of "behind the scenes" but its perfectly ok to be comfy in an audience seat ready and tuned in for the action as and when it happens.

Enough of the details of the chemical composition of bread and butter...let's get down to earning some.

The system explained

How do you convert this market knowledge into a consistent solid trading method:

You simply wait for **price to approach a major swing point**. A point in the market you know a bunch of traders will have their eyes on. They may be anticipating different things though hence the "market imperfection" and that is what gives you the edge.

For a short setup price must make a move higher than the highest high in that period of resistance (I call it the HHR - short for Highest High of Resistance) and fail to *close* above resistance, preferably on the same bar i.e leaving behind a "wick".

Similarly for Long I am looking for a move below the LLS (Lowest Low of Support) that fails to sustain itself and closes back above leaving behind a wick.

ENTRY

Entry would be at the close of the fake out bar. **Since it can some times be far away from the source itself (in case of a long spike where price closes further away from the HHR/LLS) a good idea is to wait for a pull back (happens often) to the HHR/LLS via a pending order once the fake out bar forms**. Obviously the latter strategy might lead you to missing a few trade setups because while price will often pull back at least once to the HHR/LLS *after* the fake out bar forms it won't do it all the time. For me, It almost always boils down to the grade of the setup itself and the distance from the source that is in question. If I find its a setup off of a great area I might not wait for a pull back and enter on the close itself, other times I will wait with a pending order at the HHR/LLS. Of course the case where you get a fake out close, close enough the HHR/LLS an entry on the bar close itself is totally justified.xxxxxxxxxxx I like to wait with a pending order near HHR/LLS for setups that have done a bit too much via the fake out bar, only up to the point where price hasn't quite hit the first trouble area. As soon as price hits the FTA the pending order is off and I move on with the hunt. There is little merit to wanting a second shot at the exact same action that price is coming out of. xxxxx I generally like to see a swinging/side ways market. The point here is that with strong trends in place you're not likely to find any major deep swing points near by to take advantage of. If you're getting lured into trading fake outs in a market that is trending, its most probably because you're antsy and wanting to take on a minor swing point. Xxx

A fake out setup, as per this method is NOT over unless you get a close beyond the fake out bar high/low.

STOP LOSS

A fake out setup, as per this method is NOT over unless you get a close beyond the fake out bar high/low.period.

Enough literature out there and your charts too, if you do your homework, spell out that a fake out is most meritorious up to the point where price fails to respect the order flow that created the fake out. Most often this is illustrated by a strong close beyond the fake out bar high/low. Other times price literally does just this (i.e close beyond the fake out high/low) and totally reverse right back so as to comply with the order flow that created the fake out.

There really is no way to say for sure when exactly is a fake out setup invalidated. Its important to understand that a certain level of ambiguity and grey areas have to be deliberately left out to make the market imperfect enough to allow for the edges to exist. Think about it, if fake outs as a phenomena was exactly repetitive each time "the edge" for the pros that it represents would be gone. Remember a lot of small fish need to be wrong to feed a single large fish.

Again -> **A fake out setup, as per this method is NOT over unless you get a close beyond the fake out bar high/low.**

This is probably a good benchmark to give your method the rules it rests on. It is is usually unlikely for a fake out to work out if price goes against the direction of the fake out and closes strongly. NOT ALWAYS...I said USUALLY.
Interestingly it poses another major problem. Waiting for a bar to actually close beyond the fake out bar high/low is essentially keeping your stop loss totally open until you get a close beyond the fake out bar high/low. This could be detrimental specially if you are day trading. Furthermore it obviously makes position sizing calculations complex because you are unaware of the exact pips and you can only roughly guesstimate a position

size.

My stop loss (a hard literal one) is placed arbitrarily a few pips beyond the high/low of the fake out bar. Again there are no hard and fast rules here, I could go a bit tight or a bit loose depending on the situation and also on the size of the wick of the fake out bar. For example if my HHR/LLS lines line up with a RN I can use it as an additional cushion and go real tight on the stop loss to enjoy a better R:R.

As far as stops go you have to go with your gut feel driven by your evaluation of the setup itself and the ongoing market action. This is easier said than done because decisions on stops are usually the ones that involve the most emotions. Where gut feel is involved experience comes in big time, and I can't stress this enough, that you must practice, practice and practice this method till you start to anticipate market action over and above your emotions.

Being an order flow method, how good you do with it depends not on the rules as much as it does on your grasp of price action and order flow dynamics. This is why I feel knowing the James16 stuff is such a HUGE ADVANTAGE!

EXIT

Another crucial aspect. Depending on the strength of the setup I will either exit at the first MAJOR S/R area in the way or prefer to hold on to see if it can blow through (for stronger setups) don't go for hero calls. Call for the next target area. If you develop this skill, you'll see how you can use it to eventually follow your entire trades and manage them really well through more than one trouble areas simply by looking at the action at trouble area 1 and if confident then simply calling for the next area price should be headed for. It puts you so much ahead of the herd. 🙂

At the James16 group we discuss the concept of "space vs traffic". The idea that a trade that is running into fewer bar highs and lows and HCR/LCS levels has far more potential than a trade in traffic. Traffic here is defined as cramped up space with close by trouble areas specially when you're trading straight into a period of consolidation or into a major PPZ.

"Decent space" is a crucial requirement for me, and unless the other factors are tipped heavily in my favor (very STRONG swing point, large fake out bar wick) a setup that is heading into traffic is rejected.

Link to the video channel:

If you assimilated at least some of the information I gave in the earlier sections you would clearly understand what the wicks here are telling you and why, at areas of prime importance, these can give you a good idea of the bigger game in the market.
On a side note, for all james16ers who ever wondered why a pin bar works the way it does, it basically follows the same underlying principles of taking out stops in the market. If you can learn to pick only the bigger supp/res zones that really matter and nail them down using your price action bars you are on your way to building a nice equity worm.

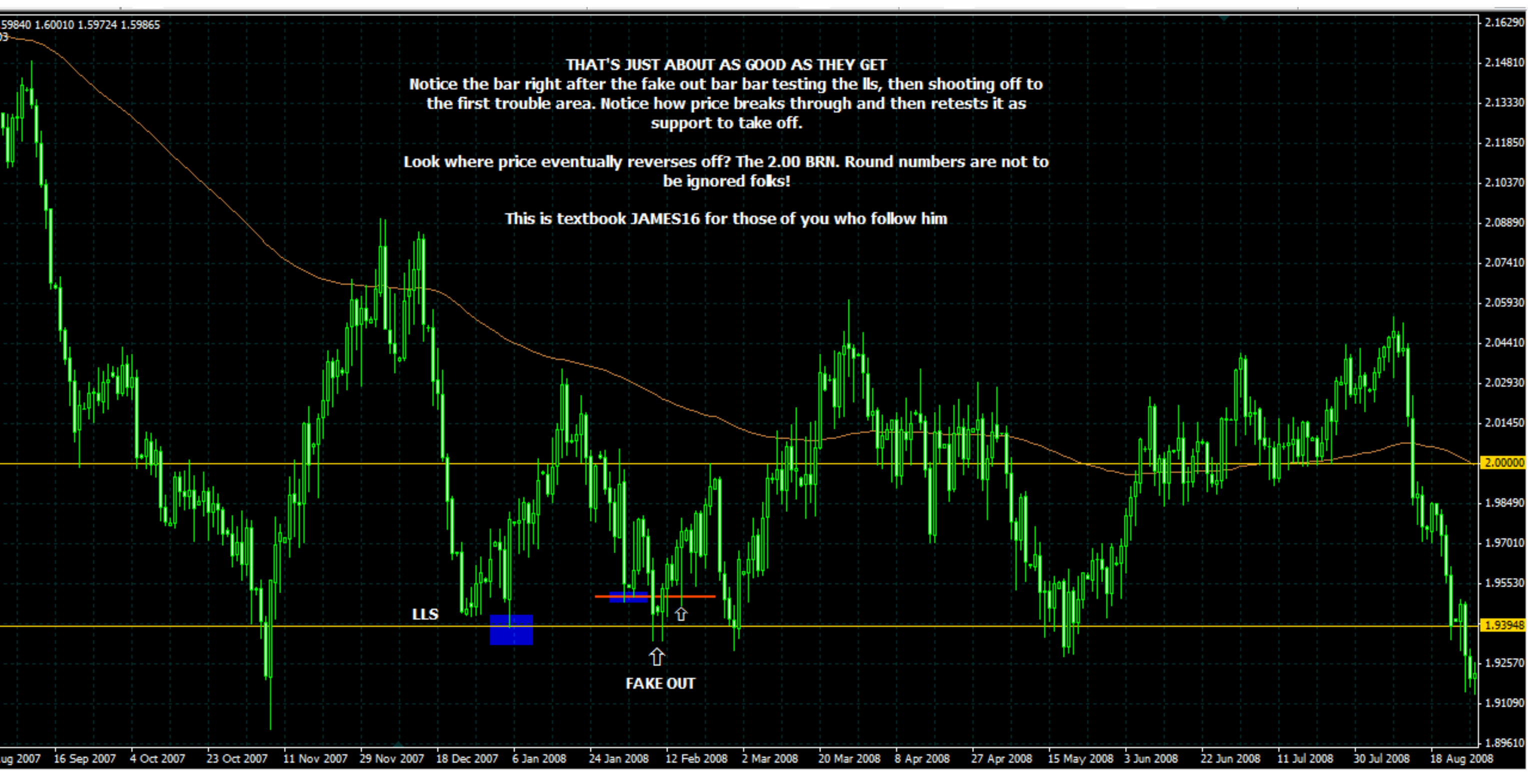
You should notice a few things about these charts. For one these are *daily* charts. I have applied fake outs successfully all the way from the weekly to m1 and ranging from majors to minors and even other markets. However the precision of the phenomena on a higher time frame chart like a daily is unmatched to an intra day counter part. We will take this subject up in more detail a little later...

You will also see that I use a moving average. The EMA I use is the 150 EMA which is part of the base system taught at the james16group. Without getting off on a tangent all I'll say is that I use it for additional confluence for support and resistance. The BASE goes a step ahead and put more weight to a touch of the EMA after some time or the first time after a cross.Now there is obviously more to the base system in the true sense but I only use a particular part of the BASE i.e the 150 EMA that I feel fit and complimentary to my method.

Notice also that out of several swing points I have shown you setups based only on very deep swing points. Since these are daily charts its not often that you see price testing deep major swing

points, and for that purpose these golden trades are rare, but when they come by they are simply MONEY IN THE BANK.

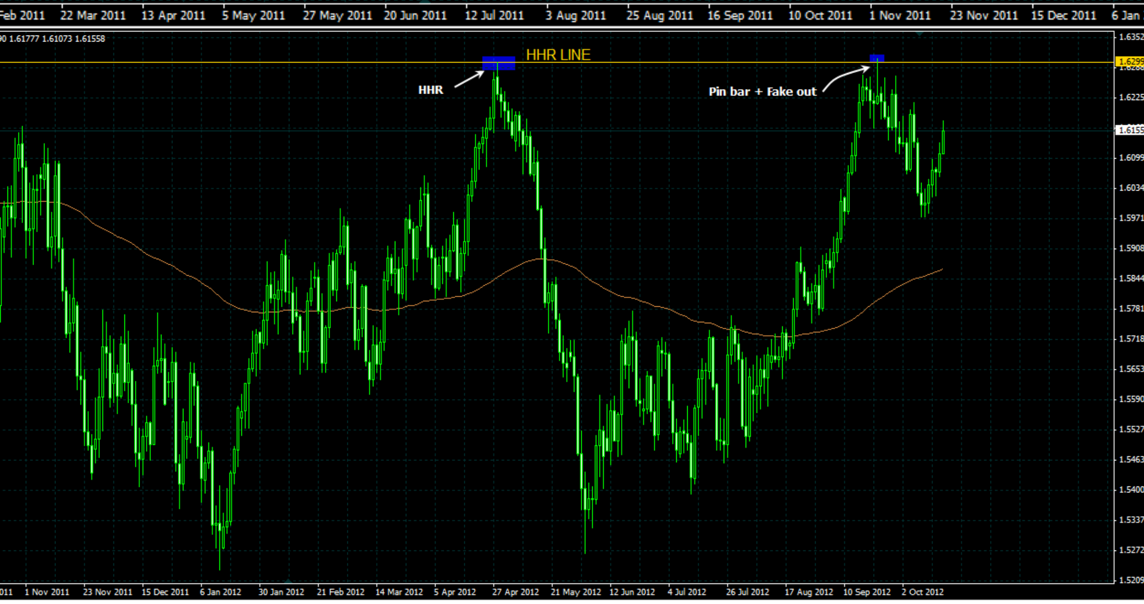
I believe . . .



rading - Mastering the Art of Trading

Price pokes above the HHR and drops right back and closes below - YOU HAVE A FAKE OUT
HHR LINE
High of
e (HHR)

LLS LINE
est Low of Support - LLS
Price pokes through the LLS and closes back above - YOU HAVE A FAKE OUT



You'll now see ke outs can be applied to slightly minor swing points too with success using a little more of the le market information.

Attached Image (click to enlarge)

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Xxxx

xxx


GBPCAD,Daily 1.59840 1.60010 1.59724 1.59818
Tick Value = 1.0004
Spread = 64
Here's an interesting short.
As smart traders what we need to understand is that this trade doesn't have far to go looking at those bar highs coupled with the 150 EMA
We are not pessimists and we're not always looking to kill our trades at first trouble areas, but we know we are taking a full loss if price hits this area and reverses.
Exactly what you do at the trouble area is discretionary. You could take full profit, partial profit, place a hard stop in (or reduce the hard stop) or you could merely watch closely at the proceedings.

XXXX


USDSEK,Daily 6.66950 6.68434 6.65053 6.67304
Tick Value = 0.1499
Spread = 500
HHR
Fake out with a HUGE STORY! 7.00 BRN + rising wedge
These are trades you want to hold on to beyond immediete trouble areas. NO that doesn't mean you ignore them altogether it just means you can be very optimistic about price breaking them heading on in your direction longer.
See how your trouble areas can guide you and help you manage your trades better? You could be trailing your stops behind the major trouble areas as price penetrated them.

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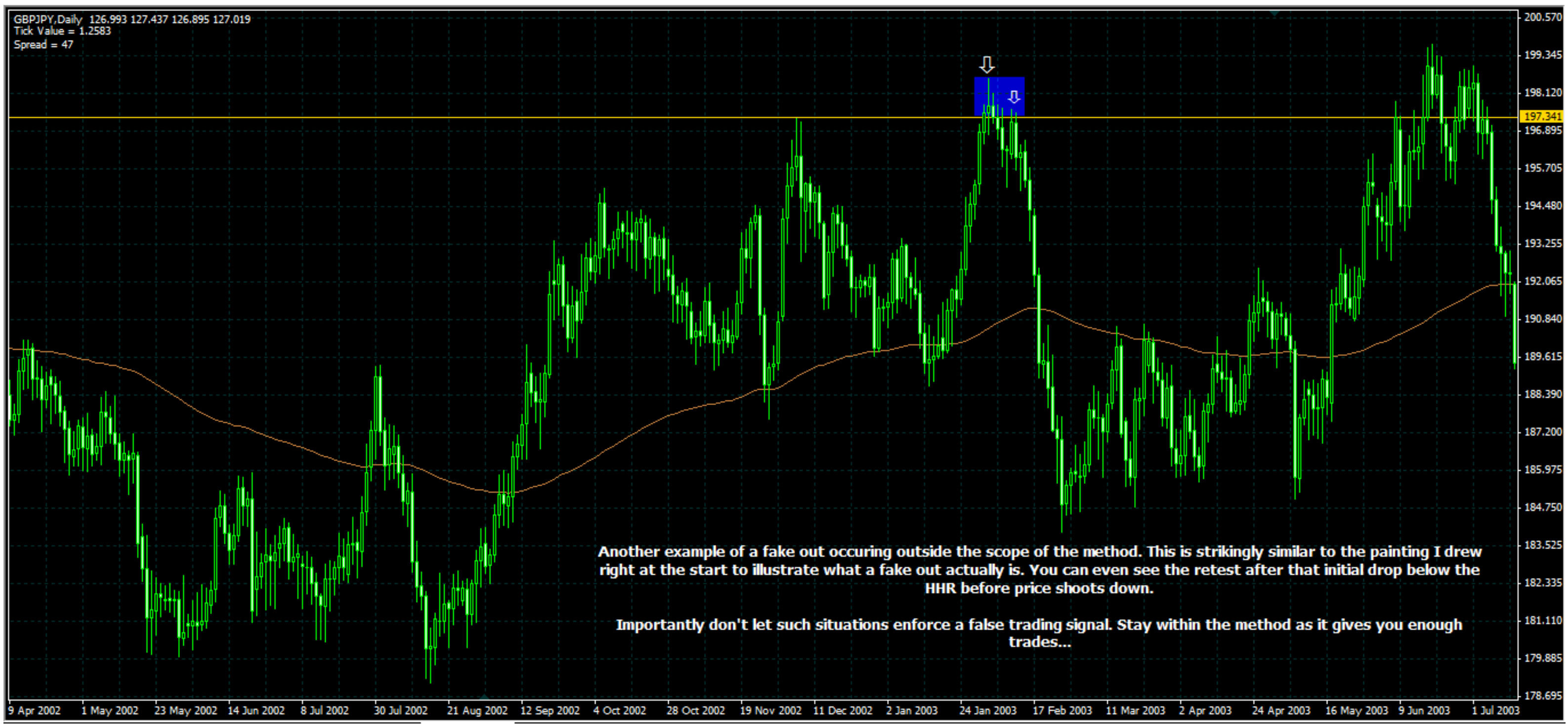

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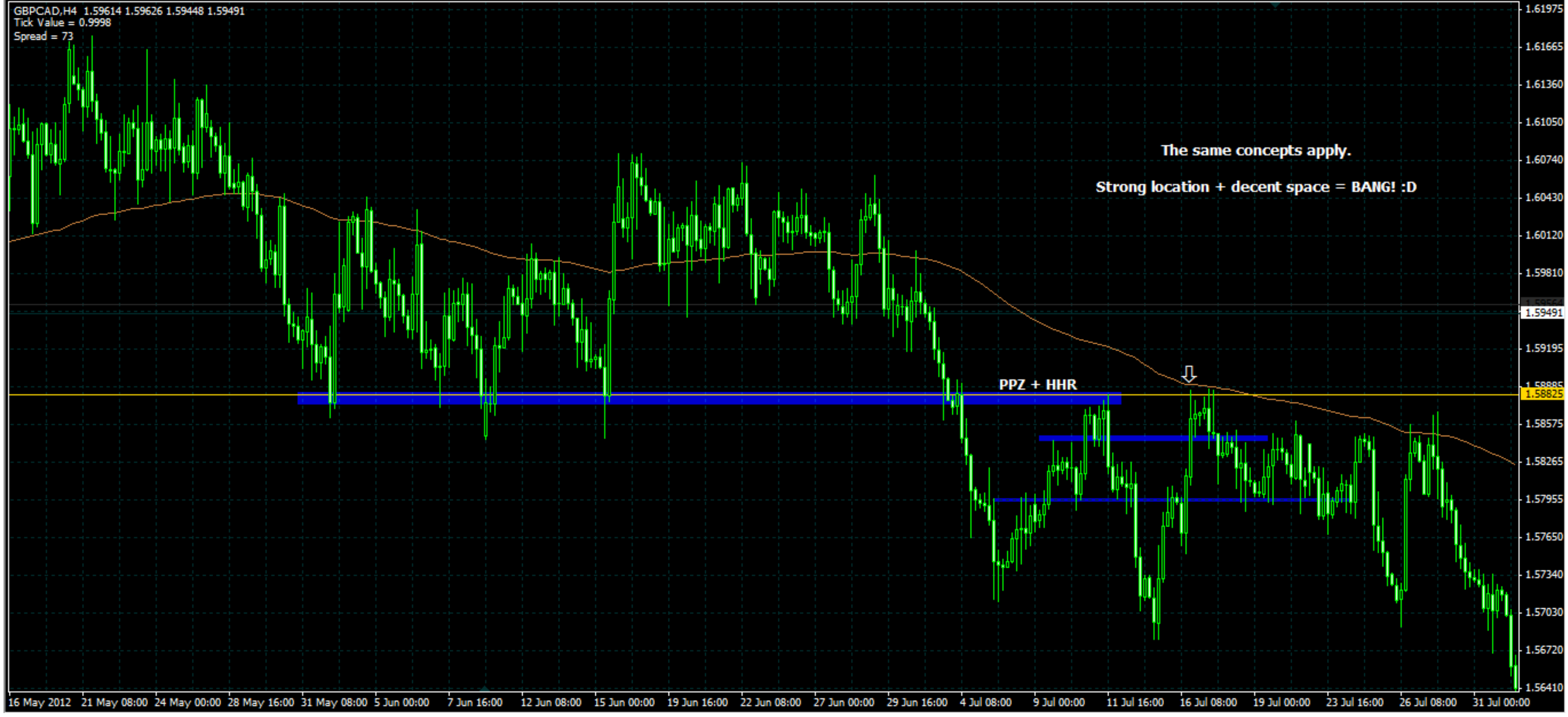

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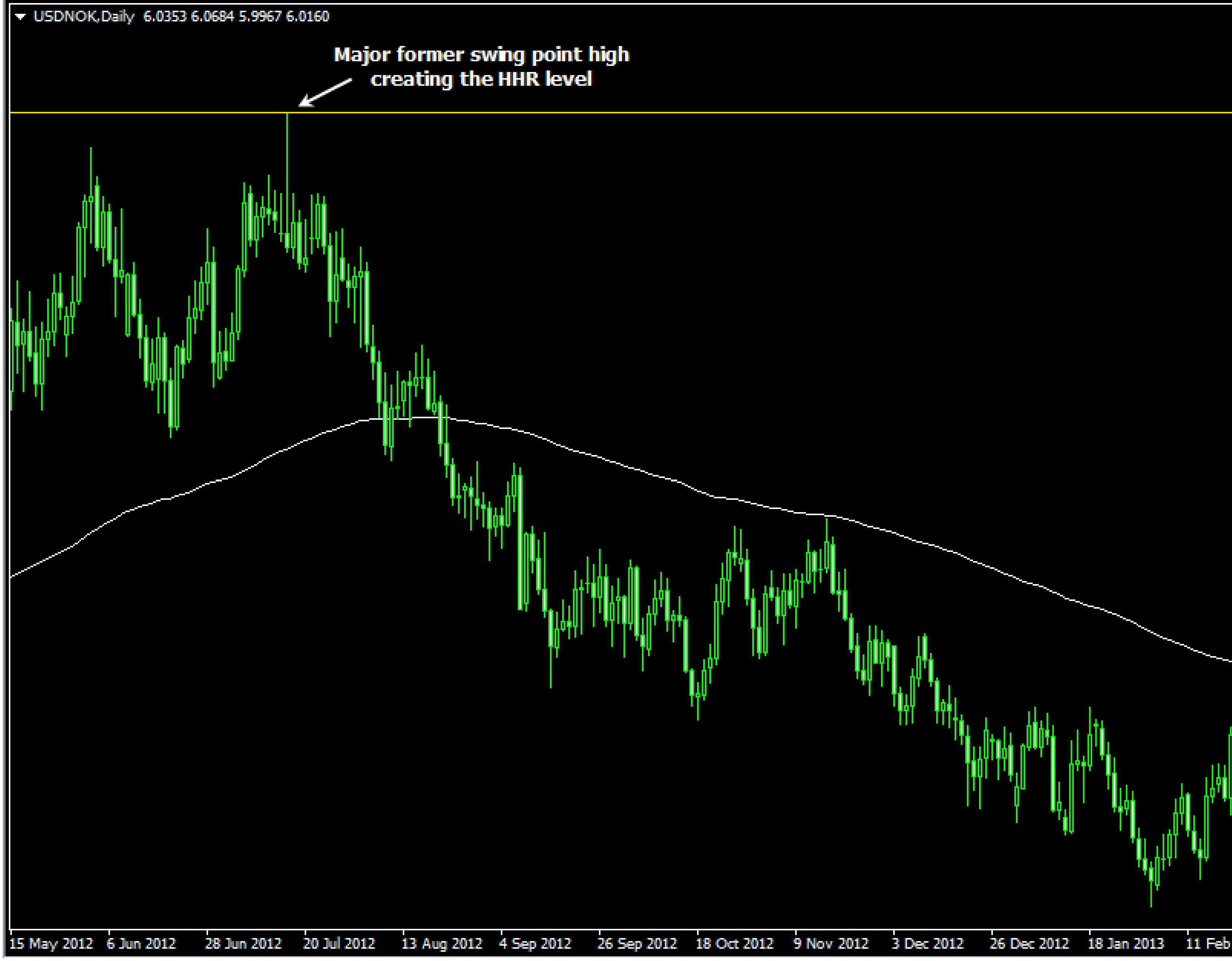

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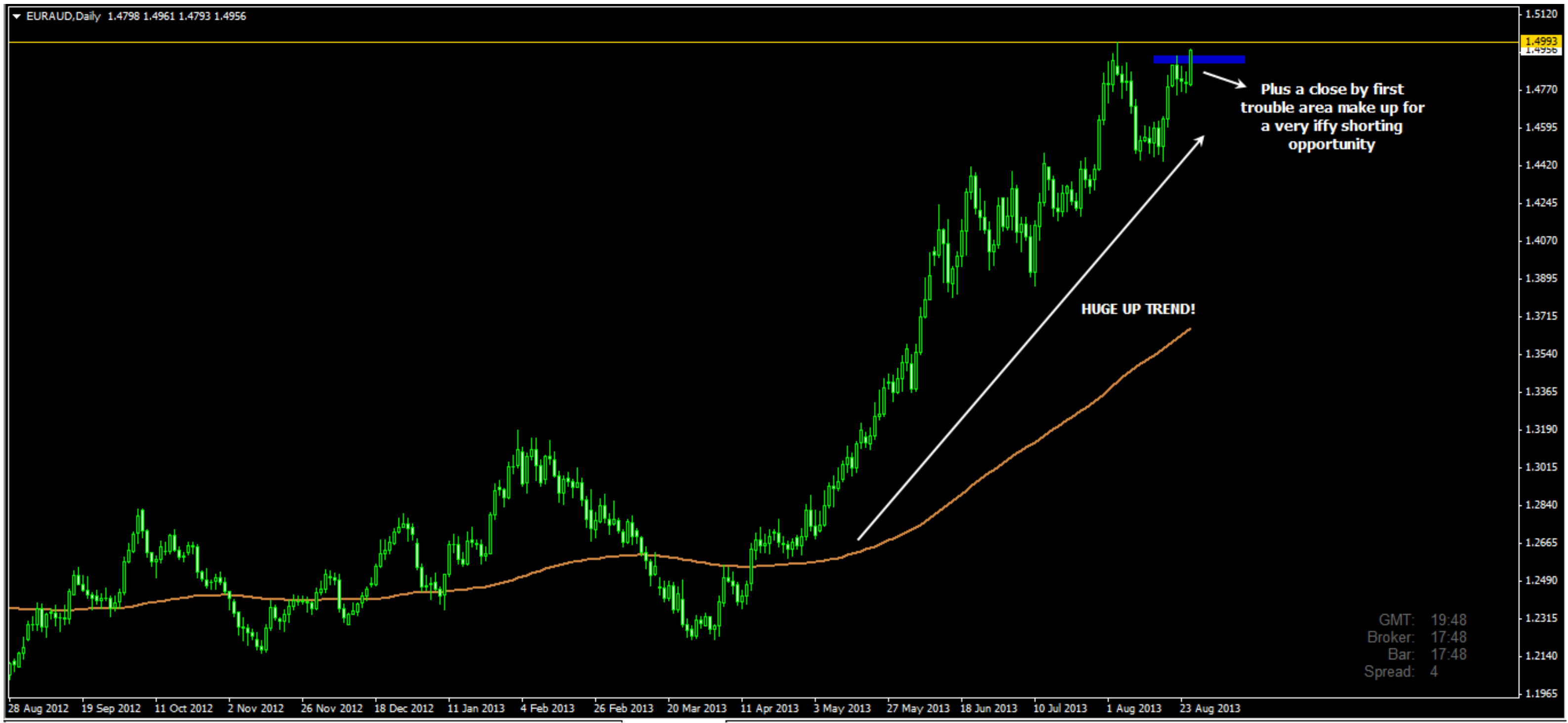
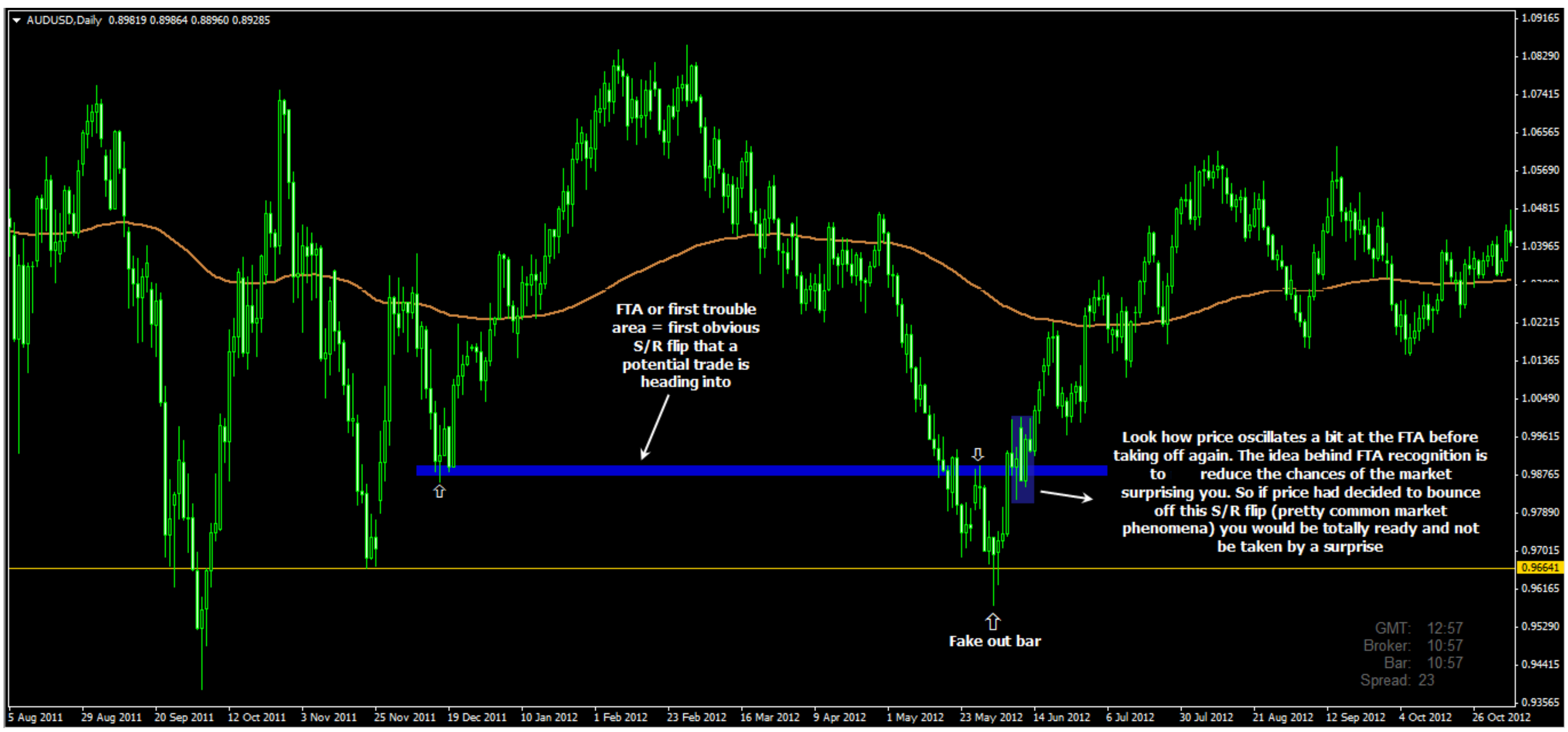
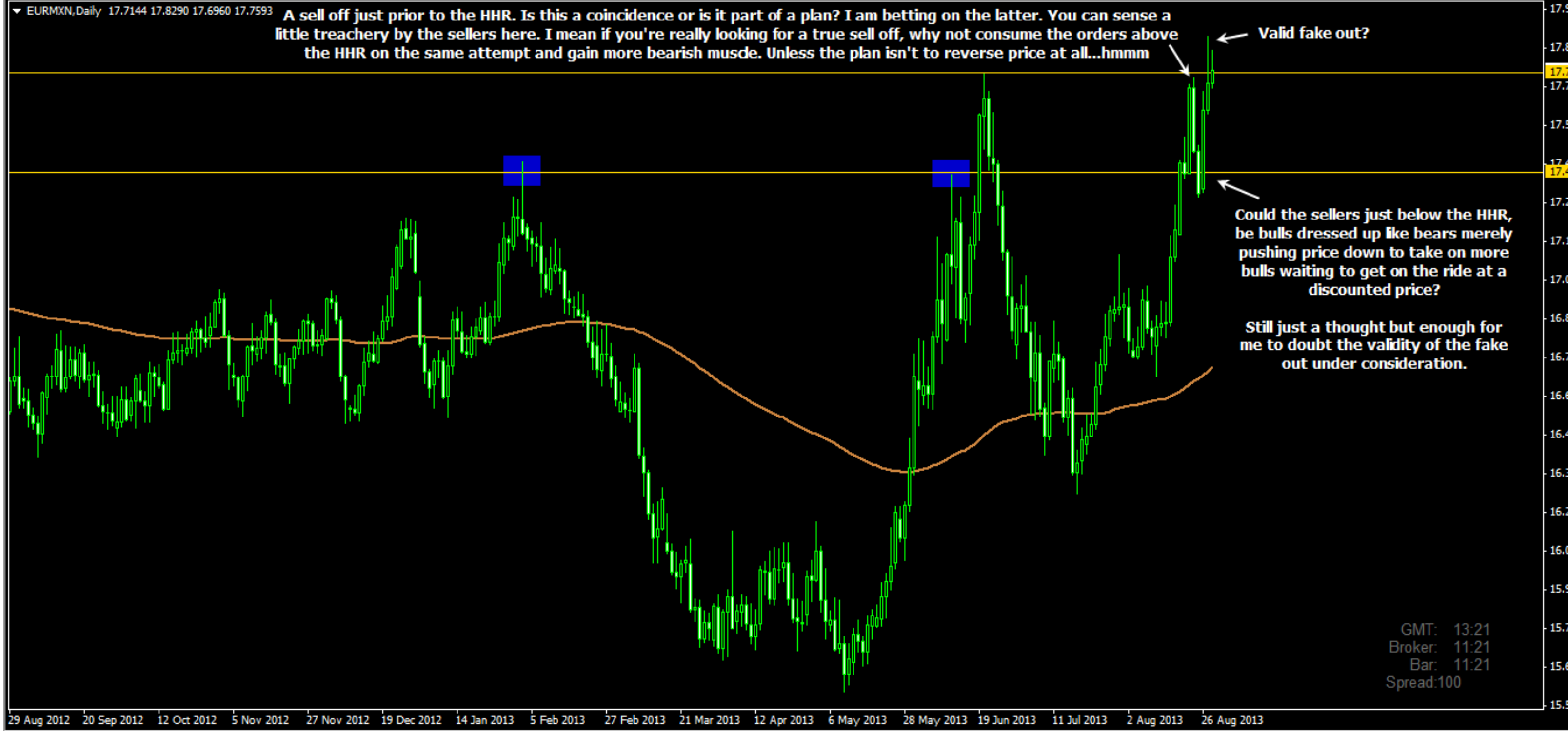

EURAUD,Daily 1.4798 1.4961 1.4793 1.4956
Plus a close by first trouble area make up for a very iffy shorting opportunity
HUGE UP TREND!
GMT: 19:48
Broker: 17:48
Bar: 17:48
Spread: 4

xx


AUDUSD,Daily 0.89819 0.89864 0.88960 0.89285
FTA or first trouble area = first obvious S/R flip that a potential trade is heading into
Look how price oscillates a bit at the FTA before taking off again. The idea behind FTA recognition is to reduce the chances of the market surprising you. So if price had decided to bounce off this S/R flip (pretty common market phenomena) you would be totally ready and not be taken by a surprise
Fake out bar
GMT: 12:57
Broker: 10:57
Bar: 10:57
Spread: 23

xxxxxx



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Joined Jan 2008 | Status: <<--(-$-)-->> | 5,548 Posts

When I started off nothing seemed more thrilling than watching charts. Day trading was an obvious attraction. I would vomit at the thought of having to take a trade or less in a week. 10 trades a day was more like it. One of the major reasons why this business takes so long to succeed at is because of the time you need to spend discovering your true "comfort zone" as opposed to your perceived "comfort zone".

It took me a while to realize I wasn't meant to day trade. In spite of this I have traded this fake out method on the lower time frames for a short while. The nature of this method is aggressive, and as the last chart illustrates it's certainly not for the faint hearted!

I will not shy to state that the confidence I have behind this system has its roots on the higher time frames. I simply didn't do too well on the lower time frames possibly because of my own emotional/psychological constraints.

That said I won't discourage anyone in love with day trading to go ahead and apply it on lower time frames. As you've already seen, and as more homework should reveal, this stuff works across time frames and even across markets. Its an order flow/ price action method. The human race will need to evolve into something totally different to stop order flow and market dynamics to work the way they have been working for hundreds of years.

g.

I believe . . .

- Post 6
- Cleanup
- Quote
- Aug 26, 2013 9:25am
-  ghous
- Joined Jan 2008 | Status: <<--(-$-)-->> | 5,548 Posts

Here's a recent trade I took. I just closed this out a couple of hours ago.

Fake out of a lovely swing high with close under the 2.00 big round number which added to the confluence on the trade.

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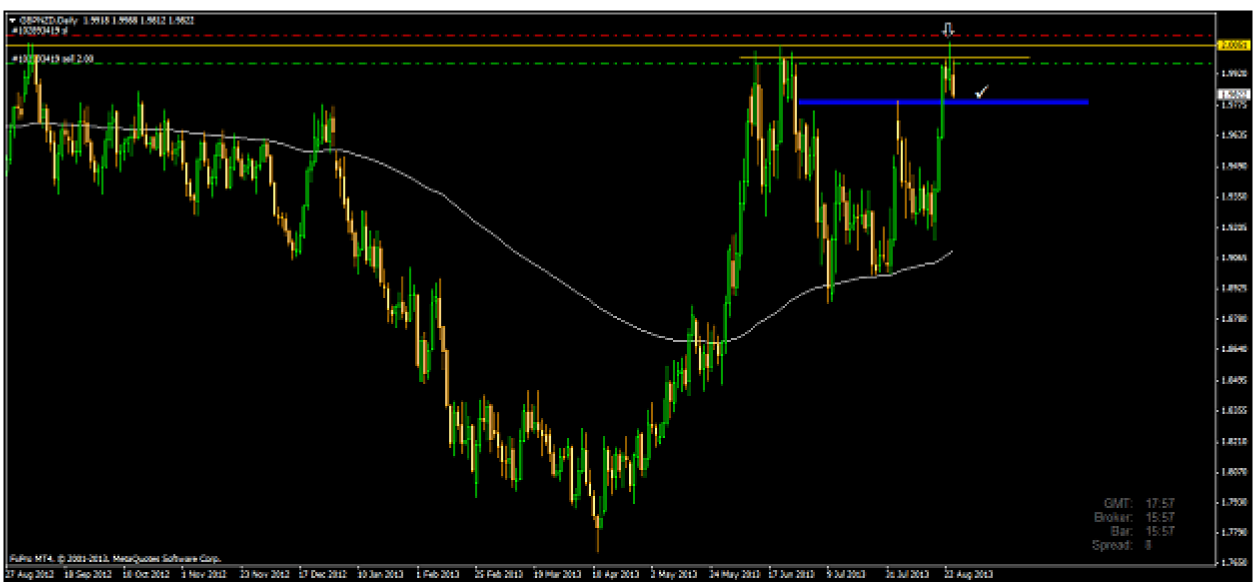
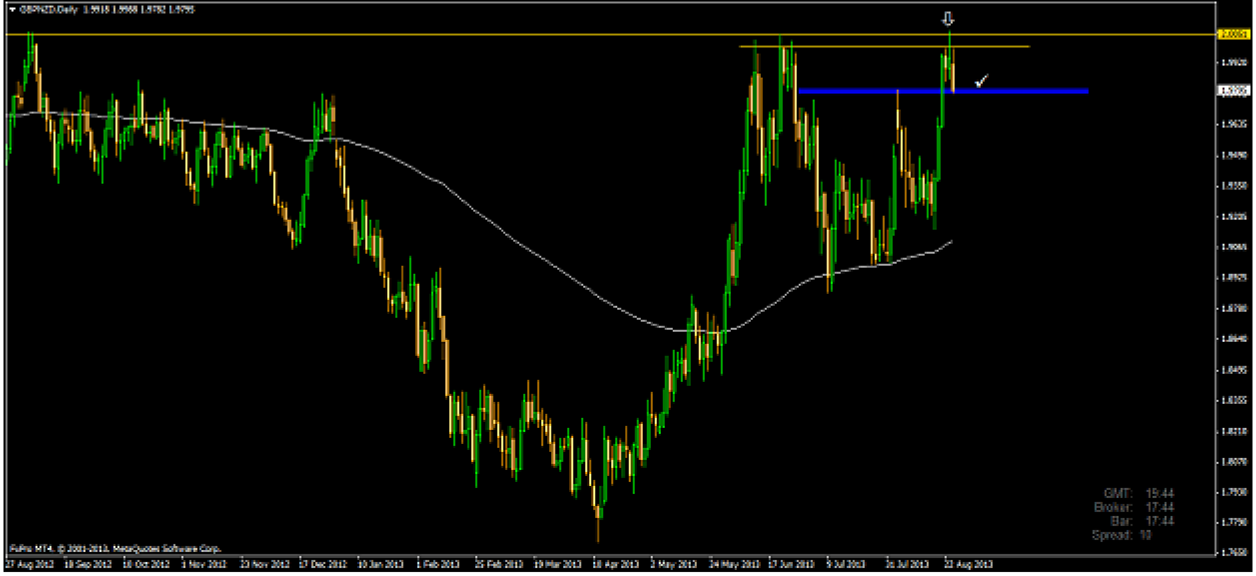
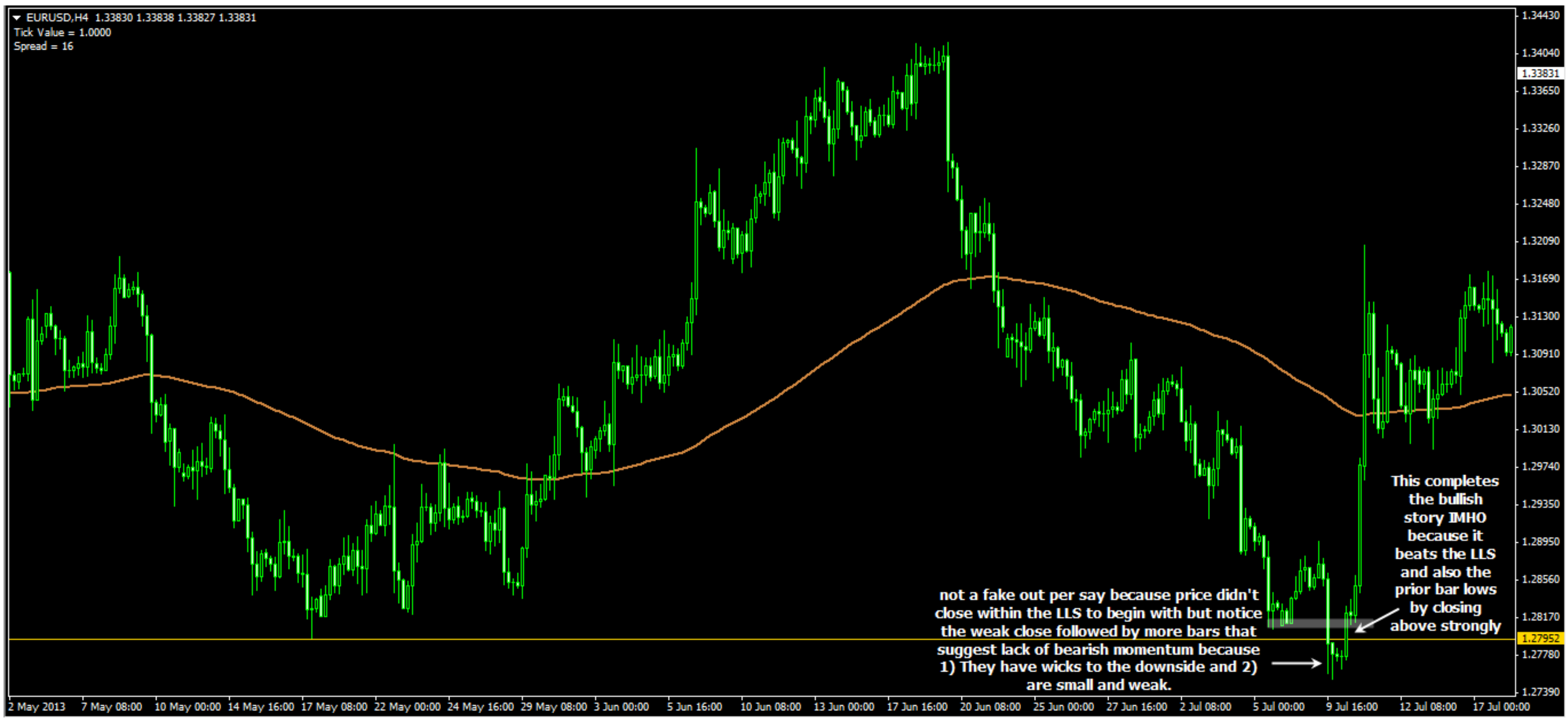




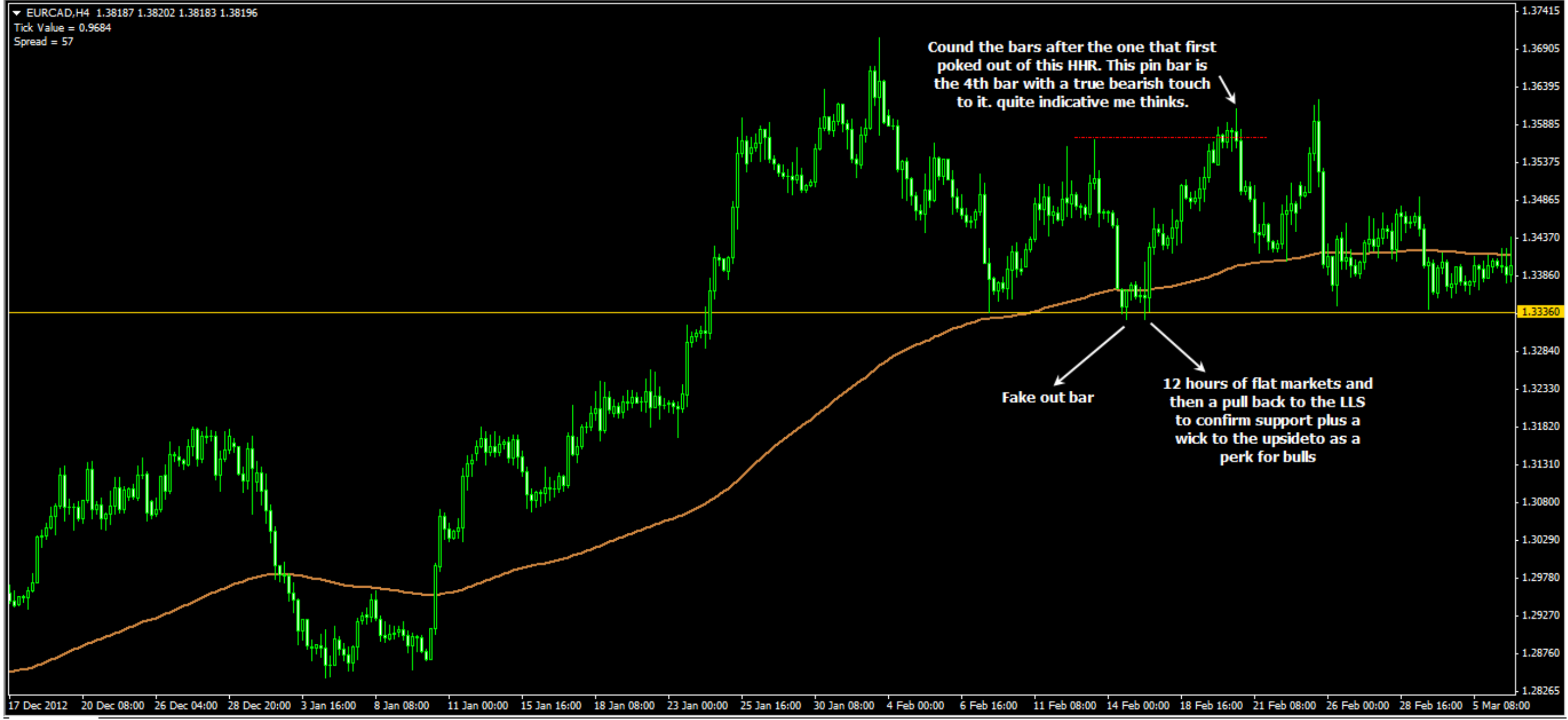
xxxxxxxxx…$ 4Hour


CADCHF,H4 0.8898 0.8901 0.8898 0.8898
19 Dec 2012
24 Dec 00:00
28 Dec 04:00
3 Jan 08:00
8 Jan 00:00
10 Jan 16:00
15 Jan 08:00
18 Jan 00:00
22 Jan 16:00
25 Jan 08:00
30 Jan 00:00
1 Feb 16:00

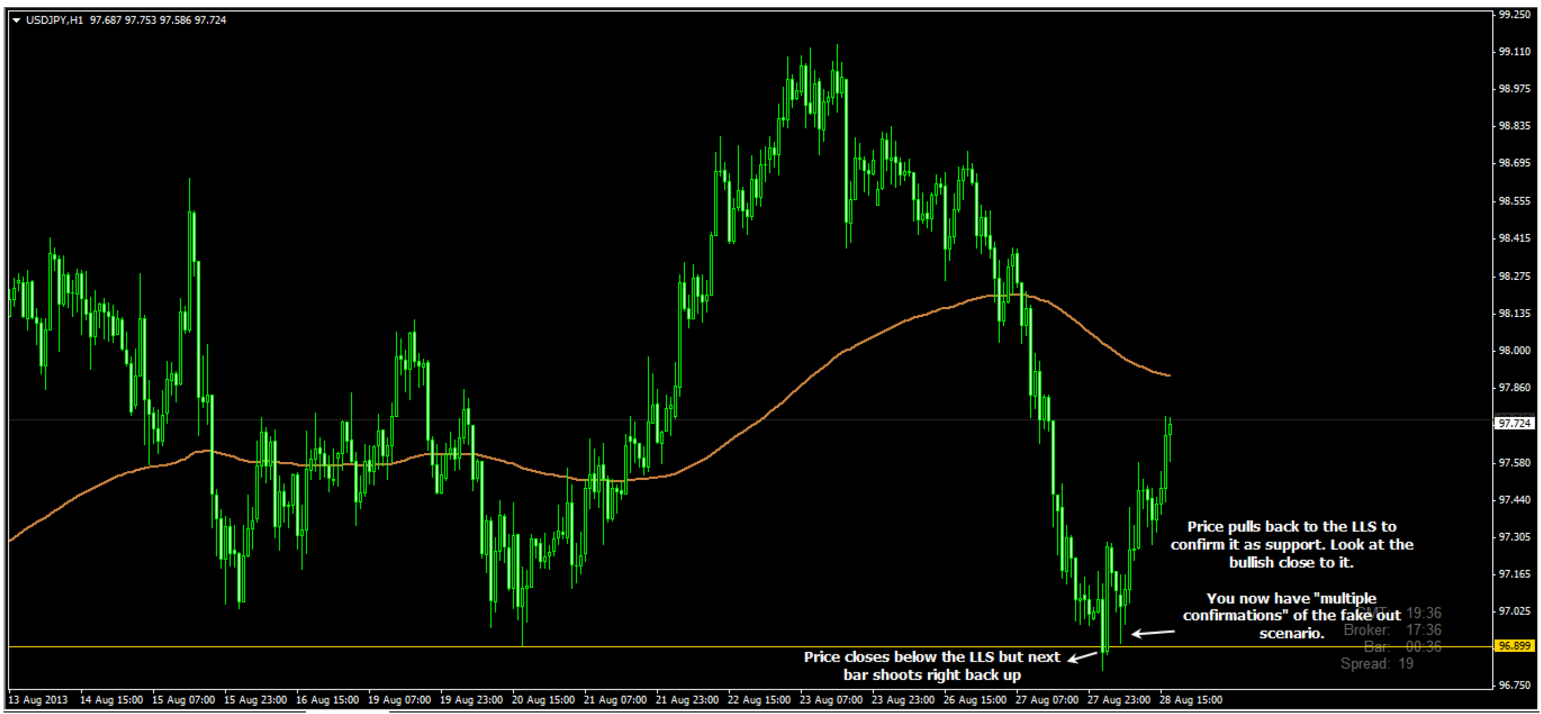
XXX


EURUSD,H4 1.33830 1.33838 1.33827 1.33831
Tick Value = 1.0000
Spread = 16
This completes the bullish story IMHO because it beats the LLS and also the prior bar lows by closing above strongly
not a fake out per say because price didn't close within the LLS to begin with but notice the weak close followed by more bars that suggest lack of bearish momentum because 1) They have wicks to the downside and 2) are small and weak.

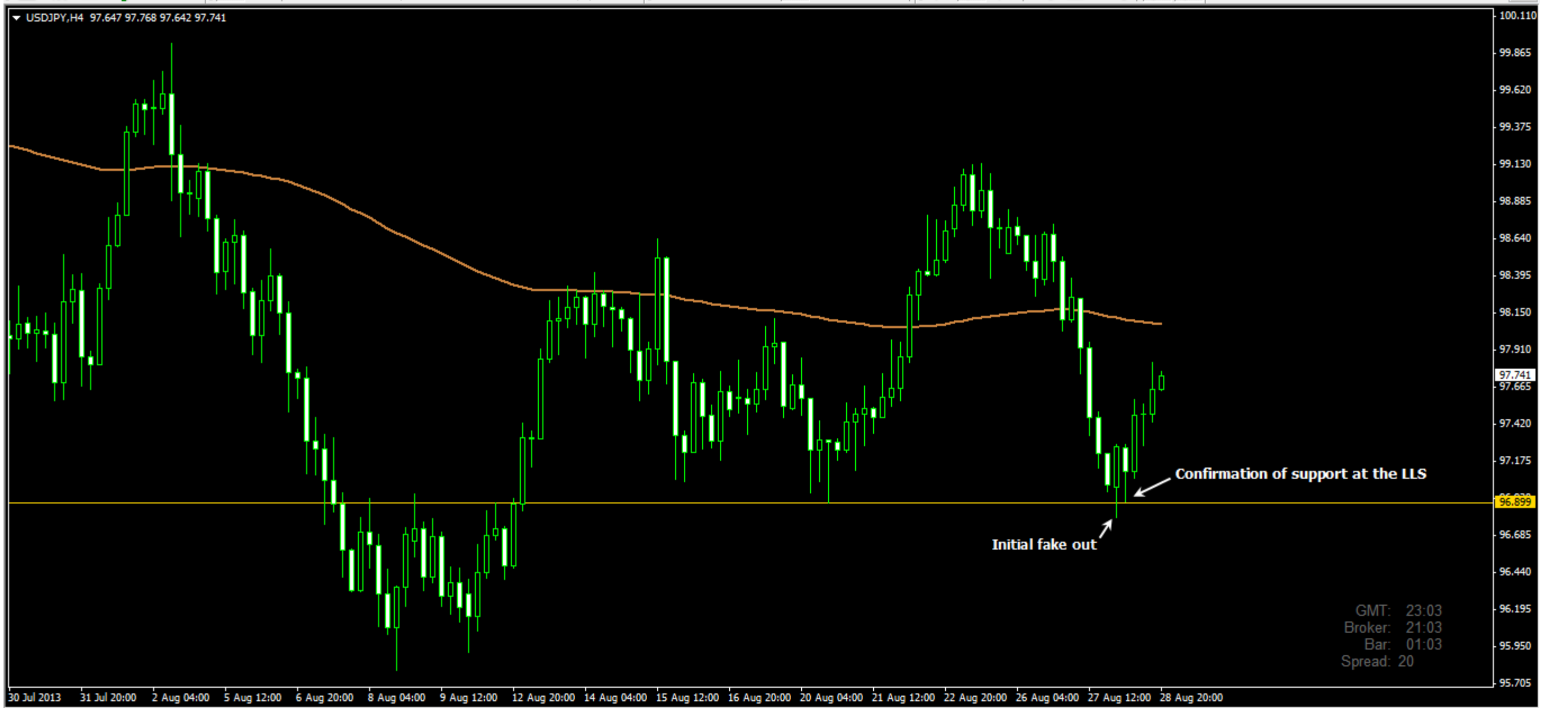
XX


EURCAD,H4 1.38187 1.38202 1.38183 1.38196
Tick Value = 0.9684
Spread = 57
Cound the bars after the one that first poked out of this HHR. This pin bar is the 4th bar with a true bearish touch to it. quite indicative me thinks.
Fake out bar
12 hours of flat markets and then a pull back to the LLS to confirm support plus a wick to the upsideto as a perk for bulls

XXX


USDJPY,H1 97.687 97.753 97.586 97.724
Price pulls back to the LLS to confirm it as support. Look at the bullish close to it.
You now have "multiple confirmations" of the fake out scenario.
Price closes below the LLS but next bar shoots right back up

XXX



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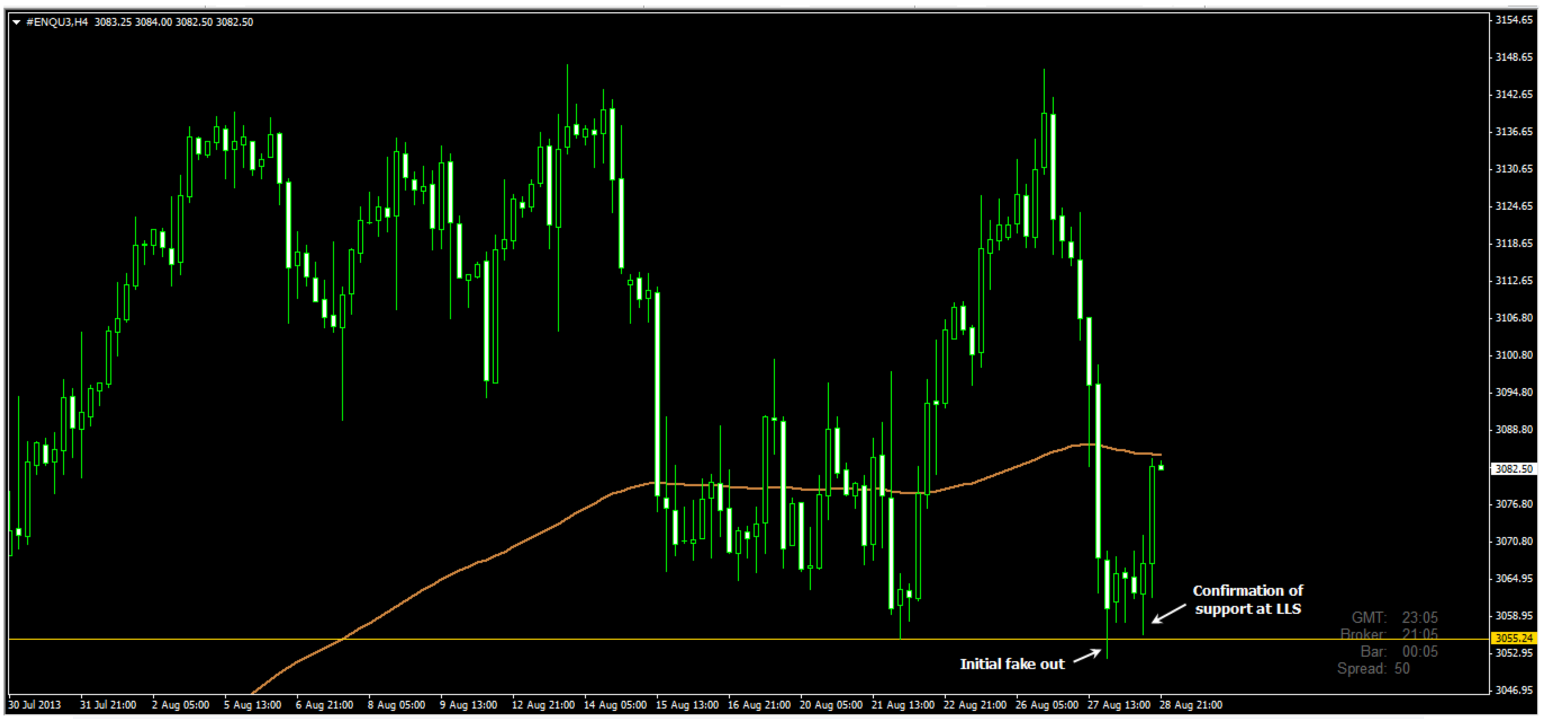
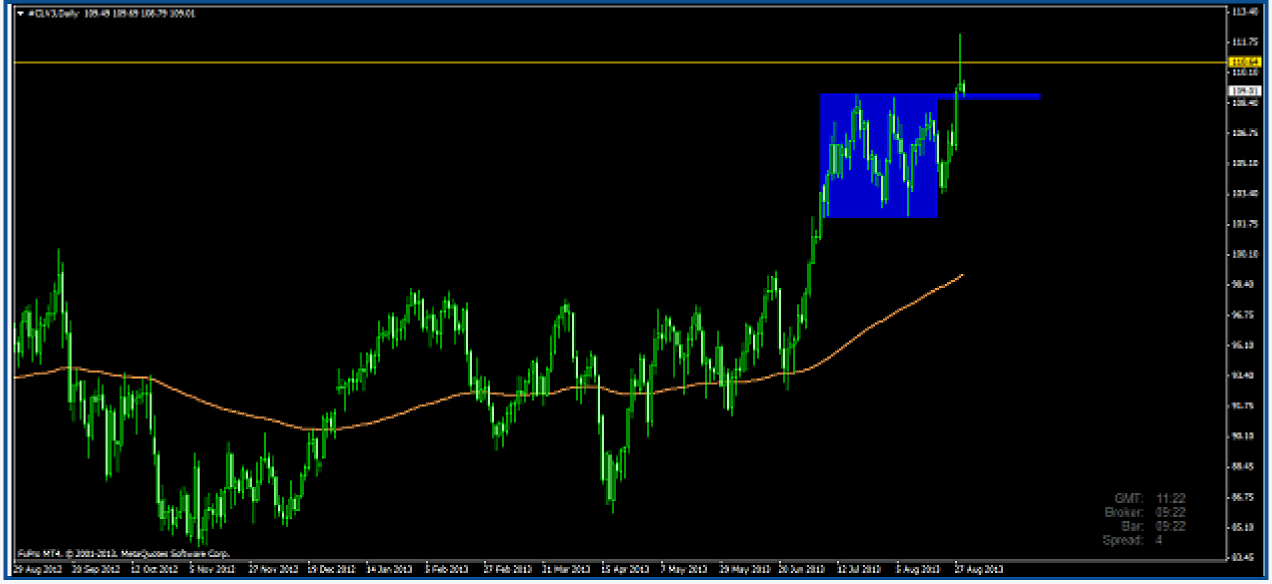


xxxx Everything good about that except the notorious consolidation box just underneath which kills it for space IMHO.

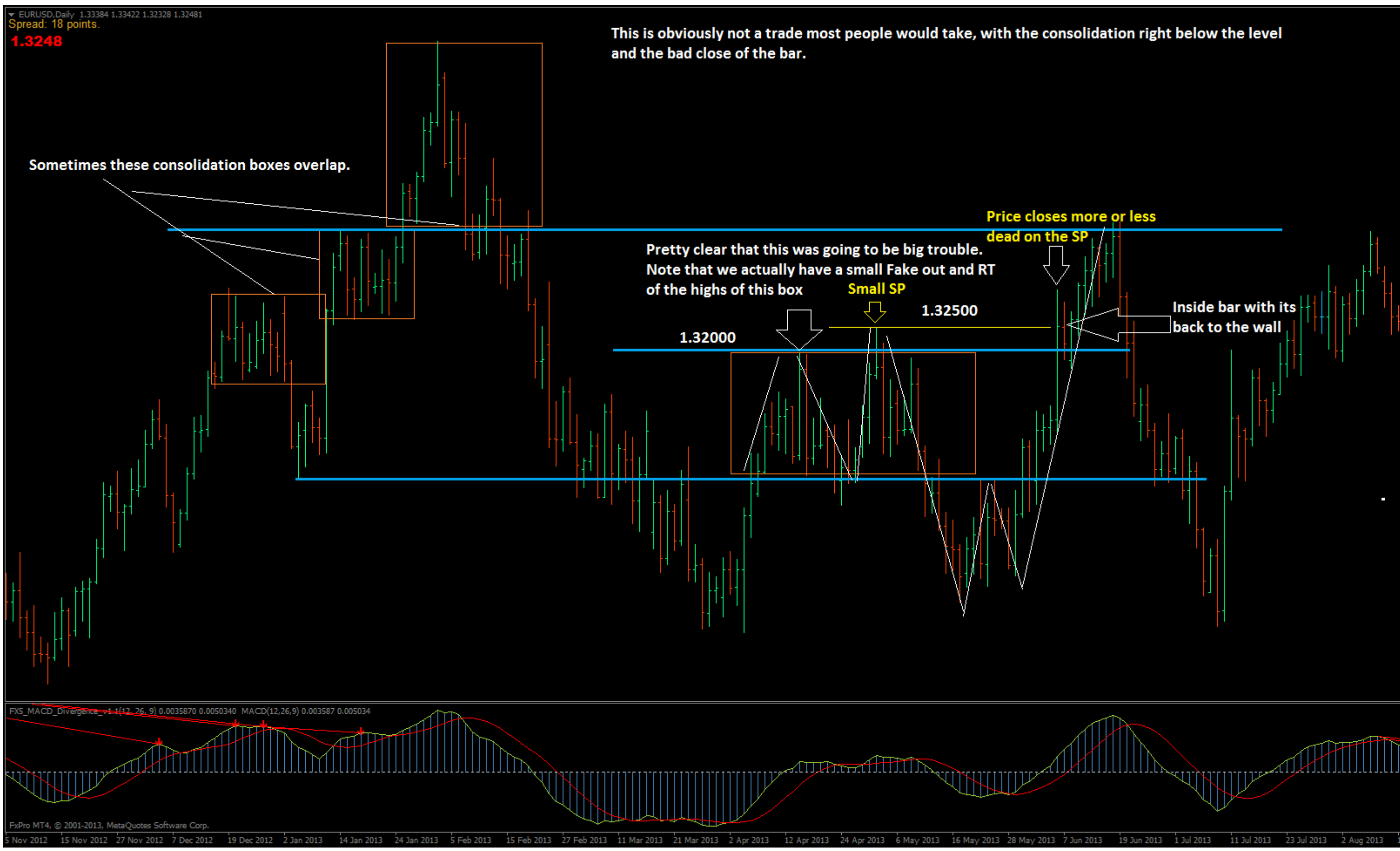
Attached Image (click to enlarge)



I don't quite like how price didn't quite accelerate into the HHR nor dropped strong under it. Moreover, notice how we are headed straight into the 1400 BRN.

Attached Image (click to enlarge)

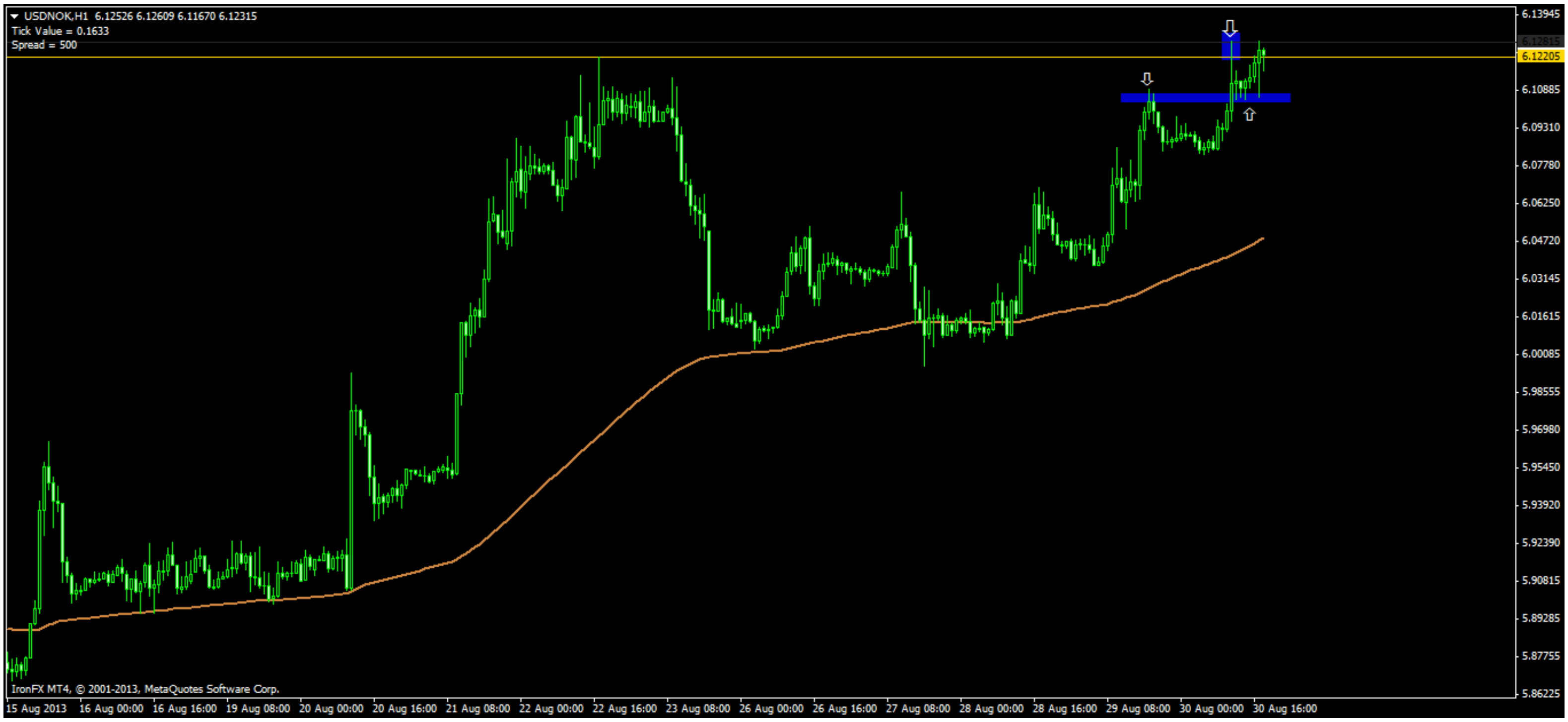
XX



XXX

xx_ this is where the lower TFs will rip you apart if you're not conscious of the overall story.

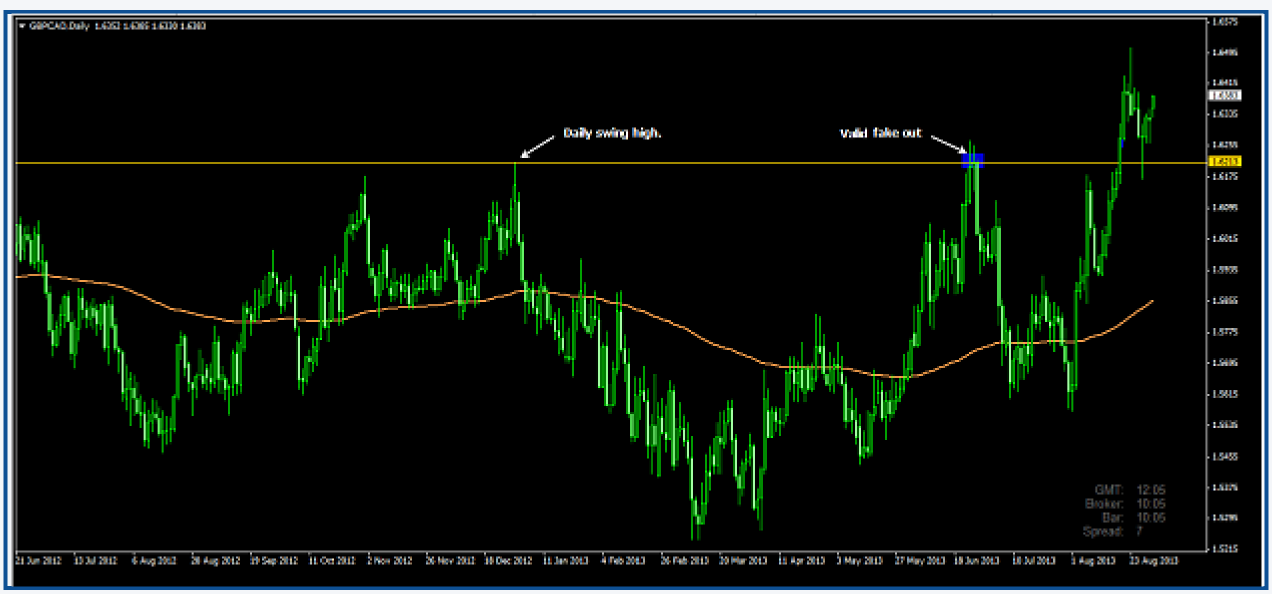
Price didn't accelerate into the HHR. As a result you're bound to be fighting with lack of space on the way back when you short at the HHR. x



xxx

Here is an example showing a good decent daily swing point with a neat daily fake out comprising of some rough 1H action.

Attached Image (click to enlarge)



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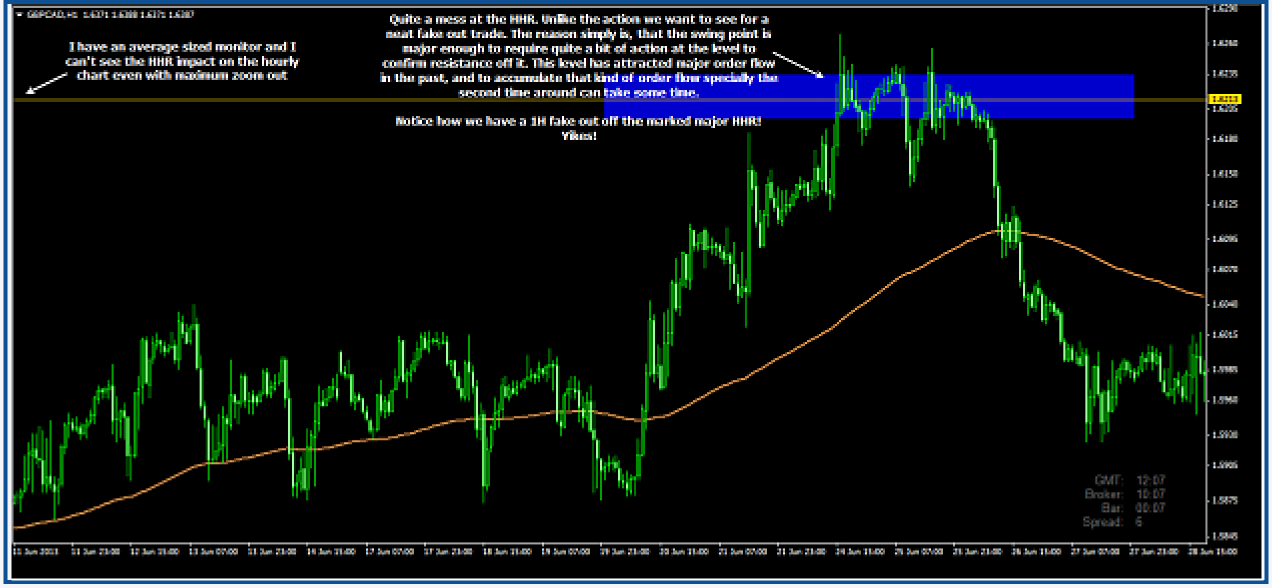

The take away from this, shouldn't be to avoid major swing points, but to simply not look for swing points way far off to the left, unless you want to trade them off a higher Time frame.

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