# PRICE ACTION

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## ABSTRACT

Stock market is the most trending topic of today. The most common mistake which is made by today's generation is that they directly jump into the market without gaining the proper knowledge of it. Newbie generally rely on the indicators without back-testing them. This paper includes the importance of price action than indicator and some overview of the price action.

**Keywords-** Price action, indicators, Stock market

## I. INTRODUCTION

The word Stock Market or Share Market both are same. There is no difference in these two names. stock market is the aggregation of buyers and sellers of stocks (also called shares), which represent ownership claims on businesses. In other words, "Stock market" is a Connecting BRIDGE between buyers & Sellers to trade financial instrument such as share / stock. Stock market is also termed as Equity market or Share market or Capital market. Stock market is nothing but the financial market of a nation in general.

## II. WHY ARE INDICATORS USELESS

- They were invented by tools, clowns, and idiots.
- They were invented at a time we lacked computational *know-how* to really validate these strategies at a massive scale.
- People have no idea how to interpret them
  - ➢ Buy RSI when 30, sell at 70.
  - ➢ What about 70? 01..? Or 29.99?
  - ➢ Idiot.
- The creators of these specialized models never really anticipated that any numbskull should run with the possibility that their horse crap specialized investigation model, which they imagined during a night brimming with smoking pot, would be an instrument others would utilize their well-deserved cash with.
  - ➢ Designers of specialized pointers never began with numerical evidence, they just defined a few boundaries on an outline, had wrong victors' predisposition, and inferred that their fabulous thought (which they considered while being stoned) rises to profits.
  - ➢ Look at a 5-year bull market
    - ❖ Think of all sorts of bullshit technical indicators which magically always come up with **a** buy

- ❖ I could have linked the sale of soft drinks during a hot summer with the rise of the share market in a strong bull market, it doesn't mean what I base my thoughts on is accurate.

Stock markets attract a lot of people. Many of them are clueless, and want the money, without the hassle of understanding what's going on.

You know what it doesn't have? *A mathematical tool box to verify these indicators.*

If they would, even dumb and dumber might realise they are pissing away money to the house.

Any technical analysis which has no mathematical backing is horse manure. Very fresh horse dung.

## III. PRICE ACTION

Price Action is nothing but a technical analysis of basic movements of the price to generate entry & exit signals in trades without using indicators.

This price action analysis can be applied on anywhere, where there is a chart.

We can apply Price Action on the charts of any instrument (Ex. Index, Stock, Crypto, Currency)

- Analysing price movements of any instrument
- Doesn't use indicators
- Uses past / historical data to predict the future price direction
- As no indicators are used in this type of analysis, chart looks very clean & neat and also easy to understand.

## IV. COMPONENTS OF PRICE ACTION

There are five components of Price action which impact the Price Action.

- Candlesticks
- Support & Resistance
- Chart Patterns
- Volume
- Trends

## V. HOW TO USE PRICE ACTION IN TRADING

- As we know that we can't take trade only on the basis of indicators.
- Likewise, we can't trade only on the basis of Price Action.
- We need to consider few facts like current affairs related to the specific instrument we're trading along with Price Action for better accuracy.
- Below are the few facts that we need to take into consider while trading with Price Action
  - ➢ Market direction
  - ➢ Global activities like wars, president elections, ban on imports & exports etc.
  - ➢ National sentiment for a particular stock/instrument

- Company sentiment
- Crowd psychology
- Crowd mentality
- Other confirmations like Volume
- Confirmations from few indicators

Taking confirmations from above mentioned factors 8 combining them together gives us a great result. But we need to learn, practice 8 give time to market for learning.

## VI. CONCEPT OF DOW THEORY

- The DOW Theory was developed by Charles Dow
- Dow theory was developed based on the analysis of market's Price Action
- Dow theory was developed in the late 19th century
- Charles Dow was a part owner as well as an editor of the Wall Street Journal
- All the characters/analysis identified & developed as Dow theory are still following the principles of Dow theory in today's market even after
  - Technical Analysis.
  - Price Action
  - Market Philosophy
  - Market Psychology

We can trade even on the basis of Dow Theory only. But still, it is better to trade with all other confirmations.

## VII. MARKET STRUCTURE

Every professional trader starts trading with indicators but ends with Price action.

With proper money management, trading psychology and dedicated practice on charts, successful traders become familiar with price action only.

To become successful trader, we need to follow Smart money.

Smart money doesn't let us know their way, but still with continuous practice we can identify their path & follow

How to follow smart money?

## VIII. WYCKOFF'S THEORY!!

There are four phases of price movement

- Accumulation
- Markup stage
- Distribution
- Mark down stage

## IX. PHASES IN WYCKOFF'THEORY

- Accumulation phase:

  Smart money buys in smaller quantities/orders gradually rather than buying in a single bulk order as they don't want to show that they're entering into the trade.

- Distribution phase:

  Smart money sells in smaller quantities/orders gradually rather than selling in a single bulk order as they don't want to show that they're exiting from the trade.

## X. SUPPORT

- Support is the price level where demand seems to be strong enough to prevent the price from falling further.
- A Support is the price level at which a greater number of buyers get activated in the market.
- Buyers will be waiting to buy at that price level as that particular level might have acted as a support for the price while declining & the price might have been reversed upside in previous.

## XI. RESISANCE

- Resistance is the price level where Supply seems to be strong enough to prevent the price from going further higher.
- Support is the price level at which the sellers are expected to enter the market in sufficient numbers to take control over buyers & not let the price move upside.
- Sellers will be waiting to sell at that price level as that particular level might have acted as a resistance for the price while inclining & the price might have been reversed downside in the previous.

## XII. SUPPLY AND DEMAND ZONE

There are 3 main points to be considered for finding Supply & Demand Zones.

1. Timely Exit
2. Order Absorption
3. Throwback / Spring Formation

Now we'll see in detail,

Timely Exit

- o Good Supply/Demand zones are somewhat narrow and do not hold too long
- o Usually, the price shouldn't spend too much time in a supply zone
- o It will be very meaningful if a strong move is seen after a Narrow & short accumulation

- Order Absorption
  - o Order Absorption around a price level is like a ball bouncing on the floor
  - o Each time the ball hits the ground some of the energy(speed) is absorbed by the floor
  - o Each consecutive bounce will be lower than the previous one until all energy is gone and the ball comes to a zero-motion level
- Throwback / Spring Formation
  - o Shows false/failed Breakout (BO) or Breakdown (BD) attempts which are immediately reversed
  - o False BO (near Resistance) is called a Throwback
  - o False BD (near Support) is called Spring
  - o Buyers & Sellers will be ready at these levels & react immediately

**RULES OF TECHNICAL INDICATORS**

Rule 1: Price action is God

Price action is very much important in trading, because first price is taken action then indicator shows. Only with indicator we cannot take entry and exit. So, Price action is God for trading.

Rule 2: Indicators don't always work

Every time indicator will work that is no guaranty. indicators can give fake signal also. So many peoples are use so many indicators for trading and all indicators show same thing and don't take other confirmation and they get confuse them self. So here we will learn how to get right use of technical indicators.

Rule 3: Trading technical indicators on its own is a very weak signal.

Trading technical indicators are given very week signal for that you have to take other confirmations also like volume, price action and others also. Then your trading will be more successful.

Rule 4: Understand Why you are using selected indicators.

You should understand why you are using your selected indicators, and which indicators you can use. Indicators you are using, what is correct use of these indicators. If you don't know that then indicators will not help you in your trading.

## XIII. AVERAGE TRUE RANGE

**CONCEPT OF ATR**

The Average True Range is a volatility indicator that shows how much a stock moves on average, during a selected time frame.

ATR indicator is use world-wide and this very important indicator because this indicator focuses on Risk Management and you know How important is risk management in your trading.

**IMPORTANCE OF ATR**

The ATR is used with 14 periods shows the volatility values that are in relation to the stock's price.

Low ATR correspond to a range trading High ATK values may indicate a trend breakout, breakdown or big move.

When ATR is in low Values, it means piece is in range values. When ATR is high values that may indicate volatility will increase and price will breakout, breakdown or big move.

ATR you can use for intraday trading, you will have small stop loss. If you want to you for swing trading then your stop loss will big, so I recommend you to use this indicator for intraday. Rest we will see in Uses section.

Also put in mind there is no guaranty of any indicator in market. Market is Supreme.

**Uses Of ATR.**

ATR gives idea of the first reading on how big the moves will get typically.

It does not give any sense of direction; market will go up or down.

ATR are is mainly use to set stop losses.

Calculation of what will be typical stop loss is 1.5 X AT of past 14 days.

(You can use this stop loss method in intraday you will get small stop loss and if you use in swing trading then you will get big stop loss.)

This gives idea to Determine position size. (When you know the stop loss then you can do position sizing)

Also, you can Set profit targets as 1:2, 1:3 extra.

ATR is measuring volatility.

**RSI**

**Concept of RSI**

The Relative Strength Index (RSI), is a momentum indicator that measures the speed and change of price movements.

It is one type of oscillator which shows overbought and oversold levels.

RSI is important momentum Indicator; you are seen how to plot on chart and we do some changes in the default setting. That upper band is 70 that change to 60 and lower band is 30 that change to

40 Middle band is 50.

**Logic Behind the RSI.**

It is Oscillating indicator ranges from 0 to 100.

Generally, it is used to identify stock is overbought or oversold.

Mean reversion- means if overbought then sell & if oversold then buy.

Generally, people use RSI as above upper band 70 over sold brought then people sell and bellow lower limit 40 over sold then people buy. But this is wrong use in market.

We chart commando Buy above upper limit 60. And sell bellow lower limit 40. This is correct use of RSI.

**Use of RSI**

If the RSI gets above 70, that indicates that the stock is overbought & it is considered to go down.

If the RSI gets below 30, then considered the stock is oversold & go up.

This is wrong use, correct use of RSI with 60 and 40 level you will see in reference video.

Confirm price movements.

Identify potential price & reversals through divergence.

**Four Types of Divergence**

- Bullish diversion
- Bearish divergence
- Hidden bullish divergence
- Hidden bearish divergence

Divergence is very simple If the price and RSI is not in same direction means Divergence.

**BOLLINGER BAND**

Bollinger band was invented by John Bollinger.

What is Bollinger Band?

These are set of dynamic lines plotted 2 standard deviations away from simple 20 moving average.

Mainly use for Volatility

Calculation

Middle Band = 20-day simple moving average (SMA)

Upper Band = 20-duy SMA + (20-day standard deviation of price x 2)

lower Band = 20-day SMA - (20-day standard deviation of price x 2)

## XIV. CONCLUSION

Price action or the technical analysis is the most used and correct way of determining the market. Indicators are lagging and are not effective. These are just the tools used to enhance the probability of being correct in the market. But the most effective tool in the market is always the price action concept. Price action being very simple focus on the movement of the market or the points where the market resist or take support. So, to conclude we can say that price action should be used than indicators.

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