SELF-STUDY GUIDE

Technical Analysis

Only the essentials: technical analysis without the fluff, in 14 evenings

Edition 1.2

2026

ABOUT THIS EDITION

Technical Analysis. Only the essentials: technical analysis without the fluff, in 14 evenings

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Written and compiled by: Reliable Investments Company.

The illustrations are synthetic: the diagrams are drawn to explain, not taken from a real market.

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CHAPTER 01

Why this workbook exists

You have tried it: price goes into profit, then loss, and an hour later sits where you expected, only without you.

Or you found a “working strategy”: three trades up, seven down. One thing changed: you never understood why price moves.

Why a beginner learns the wrong way

Beginners start with “when to buy”, which cannot be answered without another: what is happening now.

Collecting signals looks like learning, but a signal is a conclusion without premises: you cannot tell where it came from or when it stops working.

“Buy the breakout of a level”: here it starts a move, there it is a run on stops. The difference is not the rule but where price sits in the structure and how often the mark held.

The first shift: not “what to do” but “what is visible”. Facts, then meaning, then action. New questions: where price was, what it did, what got in the way.

Three levels of skill

The layers cannot be skipped: nearly every beginner’s loss comes from starting with the last.

See. Read the chart by eye, no indicators: price climbs in steps, cannot clear a mark for three days, candles shrink. Noise first, then details.

Understand. Explain it by mechanics: who bought here and why they stopped, where those who entered higher had their stops. Trends, levels, patterns become a language of behavior.

Act. Turn understanding into a system: entry and exit rules, position size, stop, journal. Without rules, mood decides.

> **Rookie mistake.** Jumping to the third level: a robot, “better settings”. Without chart understanding, a system breaks on the first odd stretch.

How this book is built

Fourteen chapters, each an evening: forty to sixty minutes of reading and practice. The order repeats the three levels: eye and structure, then patterns, candles, moving averages and indicators, then risk and the journal last. Every chapter ends with “Key takeaways” and “Practice”.

The book gives no guarantees, no income promises, no ready-made signals or a magic formula. It does not cancel the risk of losing money.

If a chapter does not land, reread it, do not skip ahead. Keep a chart open: read about a level, point at three on yours.

Observation journal

Start it today: a chart screenshot and three lines. **What is visible** — facts, no conclusions. **What I expected** — a hypothesis made before the result, not hindsight. **What happened** — a day or two later.

A page-long breakdown you drop on day five; three lines you still write. Records do not flatter like memory: twenty entries show where you are systematically wrong.

Key takeaways

- A signal without context breaks when the market changes.
- Skill is built in layers: see, understand, act.
- A system without understanding breaks on an unusual stretch.
- The book gives no guarantees, no income promises, no ready-made signals.

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Practice

1. Open the daily chart of any asset and describe the last ten days in three sentences, without “probably” or “seems”.
2. Start a journal file and make the first entry: a screenshot and three lines on today’s chart.

CHAPTER 02

What technical analysis is

Some places on a chart are visible without settings: price comes to the same mark, bounces, returns, and the fourth time goes through. You have seen it. Technical analysis gives what you see names and rules.

Definition

Technical analysis is the study of price behavior on a chart to estimate the probabilities of the next move. It is not a forecast but work with odds, which is why stop and risk are not an appendix to the method but part of it.

The material is price and what is calculated from it: highs, lows, volumes. News is context, not material.

Price is the result of the last trade where buyer and seller met. It rises slowly, falls in a lurch: sellers act more sharply. While pullbacks stay higher, buyers are not backing off.

It is more honest to call the method graphical: the work is done by eye, and indicator precision is measurement precision, no more.

Three postulates

Separately they are weak; together they describe the mechanics of the market.

Everything is already in the price. Thousands see the news, and price jumps in seconds: the reaction is inside. You can read a chart without the cause; the cause tells you if the regime changed.

Price moves in trends. While buyers pay more, pullbacks get bought, lows stay higher. An uptrend is a sequence of higher highs and higher lows. When the imbalance closes, a range begins.

History repeats. People fear loss more than they enjoy profit, so sellers appear at the same mark again. But similarity is not identity: on a thin market the same pattern plays out differently.

> **Important.** “History repeats” is about behavior, not prices. Waiting for a return to a mark only because price bounced there before is not analysis but hope.

Limits of the method

- **It does not predict.** “In six cases out of ten” is an edge, not a forecast. Instead, a scenario: holds the zone, up is likelier; closes below, cancelled.
- **It gives no certainty.** A mistake is part of the method, so stop-loss goes in before entry.

- **It lags and errs.** Indicators come from past prices, false breakouts are normal. The question is not how to avoid mistakes but what a mistake costs.

The arithmetic is simple. Four winning trades out of ten at 1:2 give eight units of profit, six losses take six. That is plus two units. Four right calls out of ten are enough if a mistake is cheaper than being right.

Technical and fundamental analysis

Fundamental analysis answers what an asset should be worth; its horizon is months and years. Technical analysis: what participants do now; minutes and days.

They are not enemies: one gives direction and cause, the other timing and risk. The technician needs a release calendar to know when levels stop working.

Technicals give way when news changes conditions: a gap outside the range, and a level that held four times holds nothing. Technicals describe current conditions; on release days you reduce the position.

Assets and myths

The principles are the same, details differ. Where volume is honest, it confirms the move; where not, lean on structure and candles.

Asset	What to account for
Currencies (spot)	No exchange, so no volume; the terminal shows tick volume, a proxy
Currency futures	Exchange volume exists, but it is a different instrument with its own expiry
Stocks	Volume is real; gaps after news
Indices	A smoothed picture, fewer outliers
Crypto	Around the clock, volatile, volume depends on the venue
Commodities	Seasonality and supply

Three myths

“Technical analysis does not work.” Usually said by someone who lost money without stops. The method is a language of description and a frame for decisions, not a “profit” button; spread and commission take part of the edge.

“You need indicators.” An indicator is calculated from the same prices and knows no more than price. Structure is visible without it; it helps as a second opinion.

“There is a secret pattern.” A formula with a hundred percent return would stop working once people used it. Secrecy is marketing; the edge is boring repetition by rules.

Key takeaways

- Technical analysis studies price behavior and estimates probabilities rather than predicting.

- Postulates: everything is in the price, price moves in trends, psychology repeats.
- The method lags and errs; probabilities and risk/reward do the work.
- Technical and fundamental analysis are horizons of one market; assets differ in volume and gaps.

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🛡 The first rule is the safety of your deposit

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Practice

1. Find a level price bounced from twice and describe how the third approach looked.
2. Compare daily charts of a stock and a currency pair for a month and note the difference in gaps and volume.

CHAPTER 03

From rice candles to algorithms

Coloured rectangles with little sticks look like a programmer's invention, yet the picture is more than two and a half centuries old: a rice trader drew it, and he had neither a computer nor electricity.

How it all started

In the seventeenth century Amsterdam traded East India Company shares: forward deals, short selling, rumours, panic. Joseph de la Vega in 1688 described not charts but behaviour: fear replaces greed, and the same tricks repeat century after century.

Rice, a candle and Homma

The eighteenth century, Japan: rice and receipts for the coming harvest. The rice trader Munehisa Homma — by legend — was the first to record price with candles, and he noticed something: when everyone expects a fall, price often rises, because no sellers are left.

A candle (candlestick) is four numbers in one picture: open and close in the body, high and low in the wicks. It reached the West in the 1990s.

> **Important.** A candle does not predict the future: it shows who pushed, who resisted and where the market closed.

Dow and the first theory

Charles Dow, a journalist at Dow Jones, wrote no textbook. His notes were collected into a theory: price discounts everything; movement runs in trends; a trend has three scales; a trend lives until it reverses; volume confirms the move. In 1896 he put twelve stocks into the first industrial average.

The rules were gathered by William Hamilton and Robert Rhea, and in the 1930s Richard Schabacker described patterns — head and shoulders, triangles — and turned observation into a method.

1948: the book that never aged

Robert Edwards and John Magee put it all into Technical Analysis of Stock Trends (1948): trend, levels, patterns, volume, breakouts. The book is still reprinted: there is no formula in it, but the language of description has not aged.

Those who hunted for regularities

W. D. Gann looked for the rhythm of price in angles and numbers; there is no confirmation of his trades. R. N. Elliott counted waves — five up, three back; the “correct” count always appears in hindsight. Richard Wyckoff tied volume to the phases of the market: accumulation, markup, distribution, markdown.

Of the three, Wyckoff is the most verifiable: phases and volume are visible on a chart, while Gann’s angles and Elliott’s counts are almost impossible for two people to check the same way.

Indicators, the internet, the industry

In 1978 J. Welles Wilder gave RSI, ATR, ADX and Parabolic SAR. Around the same time Gerald Appel assembled MACD, and in the 1980s John Bollinger added volatility bands around a moving average. All are derived from price, and all lag.



Fig. 3.1. Four centuries of the same questions: what price shows and where it goes.

The profession keeps the method: the MTA (Market Technicians Association) in the US — today it is called the CMT Association — the IFTA (International Federation of Technical Analysts) for national societies, and the CMT (Chartered Market Technician) exam in three levels.

In the 2000s charts moved into the browser: access grew, understanding did not reach everyone. Then came algorithms, high-frequency trading (HFT) and cryptocurrencies with no weekends. A candle invented for rice describes bitcoin: people’s decisions still move price.

Key takeaways

- Technical analysis is older than terminals: the psychology of trading was described in the seventeenth century.
- Candles came from rice trading: four numbers in one picture.
- Dow gave the language of trend; in the 1930s Schabacker made observation into a method.
- The 1948 book by Edwards and Magee has not aged.
- Of Gann, Elliott and Wyckoff, Wyckoff is the most verifiable.
- Wilder’s and Appel’s indicators are derived from price, so they lag.

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🎯 Finding patterns and levels takes hundreds of hours

Patterns, levels and liquidity sweeps are what our systems are built on. The entry logic is the same as in this book; only the execution differs.

📈 See the terms and monitoring in Telegram →

Practice

1. Find a moment on your chart when the crowd was wrong and describe what the buyers felt at that moment.
2. Write out the dates 1688, 1896, 1948, 1978 and add one line each: what happened and why it matters.

CHAPTER 04

The chart: how to read price

The coloured rectangles are four numbers; everything else only shows them. Learn to read those numbers and the chart becomes a record of buyers and sellers talking.

Four numbers instead of a picture

A bar is a slice of time: a minute, an hour, a day. Four points to remember: open, high, low, close — OHLC. Bars and candles draw all four numbers, a line only the close.

The close matters more than the rest: it is the price both sides agreed on at the end. The day opened at 1.0820, reached 1.0865 and closed at 1.0848: buyers tried, but did not hold the top. A level is built like this: the core of the zone from the bodies, where the agreement sits, and the borders widened along the wicks, where the stops fired.

Anatomy of a candle

The rectangle is the body: its edges are the open and the close. A close above the open is bullish, below is bearish; colour is convention, so watch the direction. Wicks show the high and the low: where price went but did not stay.

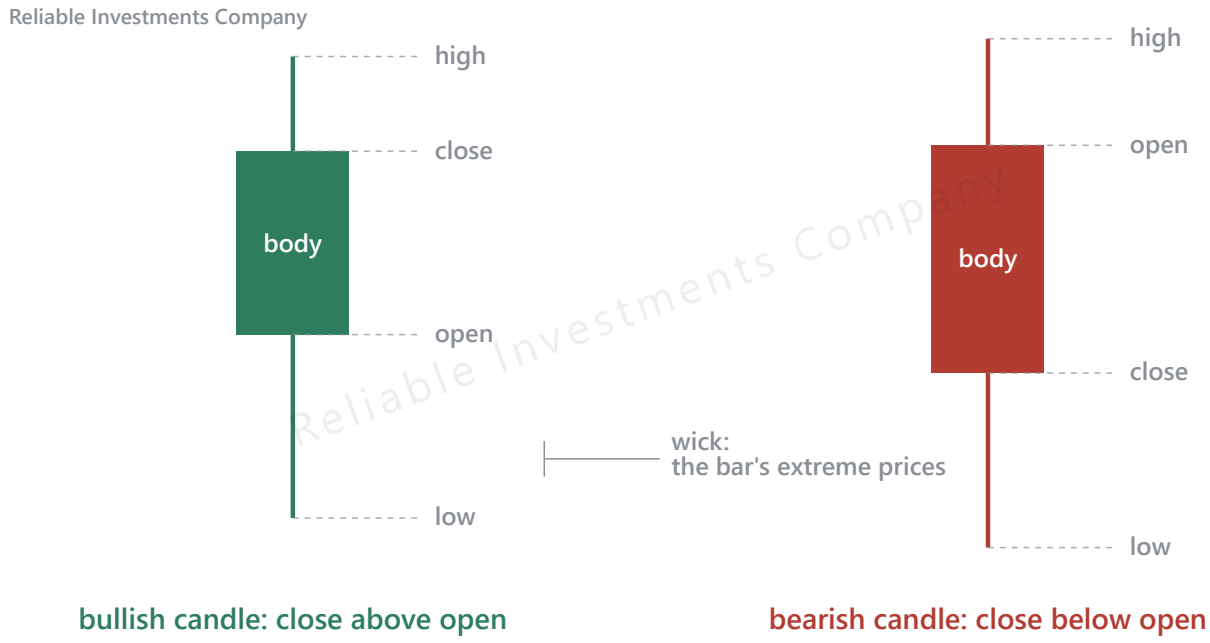


Fig. 4.1. The body shows where price opened and closed, the wicks where it visited.

Three things are read: body length (who won), the close (at the high — it held), the wicks (a long upper one — the rally met sellers). The candle does not say in what order price passed the points.

Doji

A doji has almost no body: open and close at one level. Not a signal but a balance, and location gives meaning: at resistance after a rally it is a question, mid-range it is noise.

> **Rookie mistake.** Seeing a message in every candle. One candle is one voice; the series, the context and the higher frames are what count.

Line, bars, candles

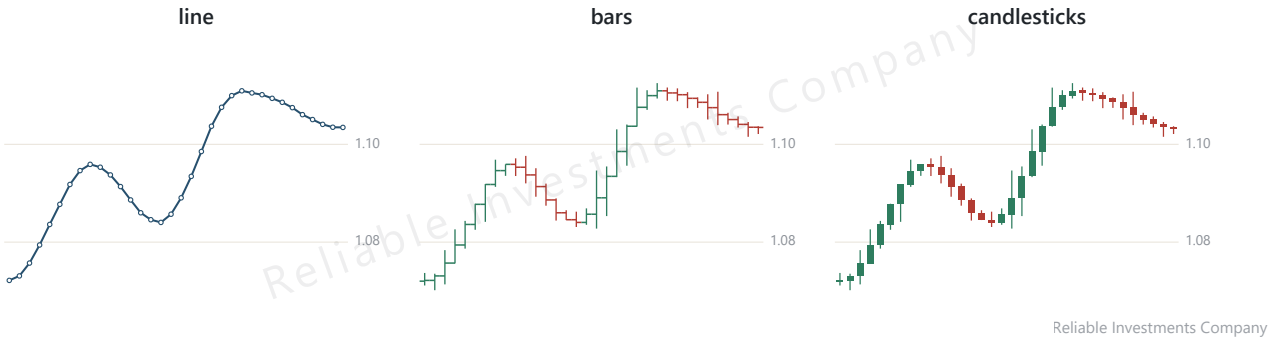


Fig. 4.2. The same data: a line, bars and Japanese candles.

A line shows closes only: direction is clear, extremes and volatility lost. **Bars** give the whole OHLC, yet read slower. **Candles** fill the body: instant direction, a denser chart.

No type adds data: bars and candles hold the whole OHLC, a line only the closes. “Candles are more precise than a line” is about convenience, not information. A chart is also discrete: between Friday and Monday the picture is empty. Overview — a line, work — candles.

Timeframes: three views

A timeframe is the size of one bar: M5, H1, H4, D1, W1. One market on different frames looks like different markets.

The lower frame deceives with a feeling of control: many bars, most of them noise. The smaller the frame, the more false signals there are and the dearer each mistake after commissions.

The rule of three timeframes: the higher sets context and levels, the middle the setup, the lower the entry. Neighbouring frames differ 4-6 times: D1 — H4 — H1 — M15. Taking every other frame (D1, H4, M15) makes the gap sixteenfold, and the lowest then serves only a precise entry. Pick the frame for your holding time and stop, not the other way round.



Fig. 4.3. One area on three timeframes: the daily trend and its close-up on H4 and M15.

Sessions, weekends and gaps

At night liquidity is lower: the spread widens, price jerks on random trades.

Session	Time (UTC)	What stands out
Asia	00:00-09:00	narrow ranges, the yen
London	07:00-16:00	volume, European data
New York	12:00-21:00	overlap with London 12:00-16:00: peak liquidity

The times are UTC and shift with summer and winter time: in the terminal watch session borders, not the wall clock.

News drives price in a minute; no candle predicts it. A London strategy in the Asian night gives false entries: the hour of entry is a parameter like any stop.

A gap is the distance between Friday's close and the week's open. Example for a short: closed at 1.0900, opened at 1.0945, and a stop at 1.0910 fills at 1.0945 — that is slippage. "A gap always closes" is a myth: over the weekend cut size or close on Friday.

Key takeaways

- Any bar is four numbers: open, high, low, close.
- The body is open and close, the wicks high and low.
- A doji is a balance, not a signal; meaning comes from context.
- Bars and candles hold the whole OHLC, a line only the closes; the difference is detail and reading speed.
- The higher frame is context, the middle the setup, the lower the entry.

- A gap at the weekly open can jump your stop.

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🕷 The trader's main enemy is emotion and broken risk rules

The risk per trade is set in advance and does not depend on mood: the system follows the rules, not a human.

📲 Get the drawdown and performance statistics →

Practice

1. Switch one chart between a line, bars and candles; find a moment invisible on the line, obvious on the candles.
2. Find a gap at the weekly open, measure its size and see whether it filled in the following days.

CHAPTER 05

Trend and market structure

You bought the pullback because “the trend is up”. Price went below the previous low, and the trend ended right there, not when someone announced a reversal. The structure broke.

Trend is structure

An uptrend: every high above the previous, every pullback above the previous low — higher high (HH), higher low (HL). A downtrend mirrors it: lower high (LH), lower low (LL).

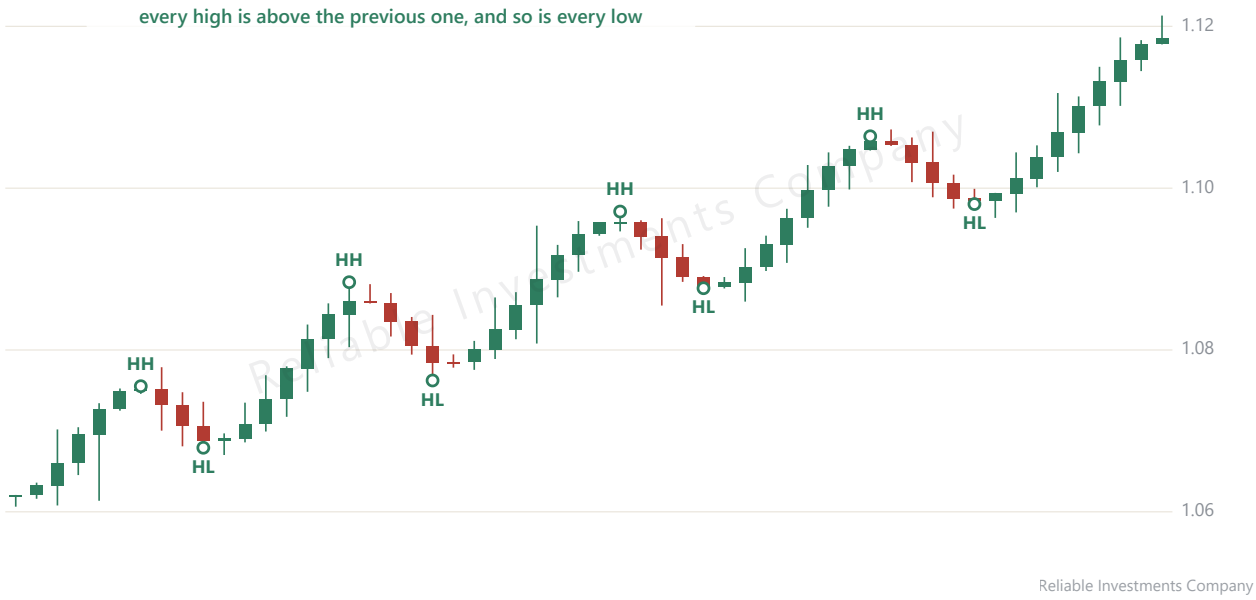


Fig. 5.1. Uptrend structure: highs and lows rise.

A trend is a pair: rising highs are not enough. It has an impulse and a pullback: while the impulse is longer, the move lives; when the pullback outlasts the rally, the trend tires — stops wider, target further.

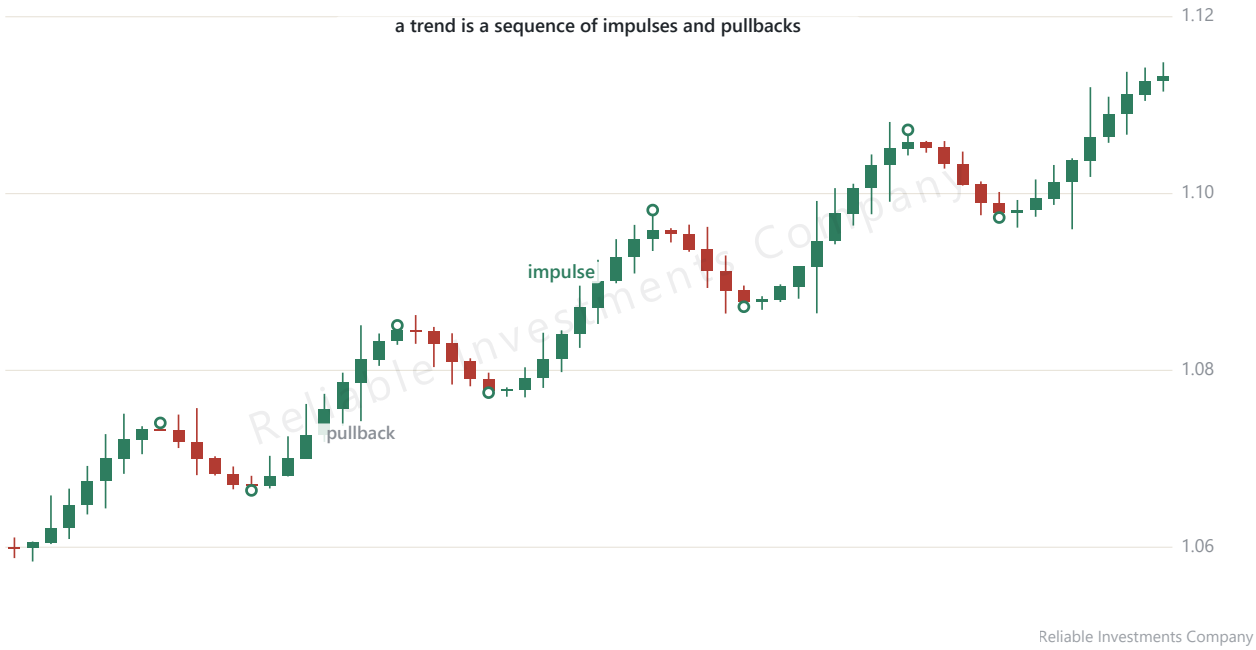


Fig. 5.2. Not a straight line: impulse, pullback, impulse again.

The down structure is the mirror: every high below the previous, every low too.



Fig. 5.3. Downtrend structure: every high is lower than the previous one.

Mark the last three or four extremes. A swing is a high above three to five bars to the left and to the right, or a low below them. It is confirmed only after those bars, so the latest extreme stays in question and is never redrawn.

> **Important.** Structure is read on closes, not wicks. A wick can spike the low and come back: a stop hunt, not a break.

Range: the market collects orders

A range: price travels between the borders. Resistance above, support below.

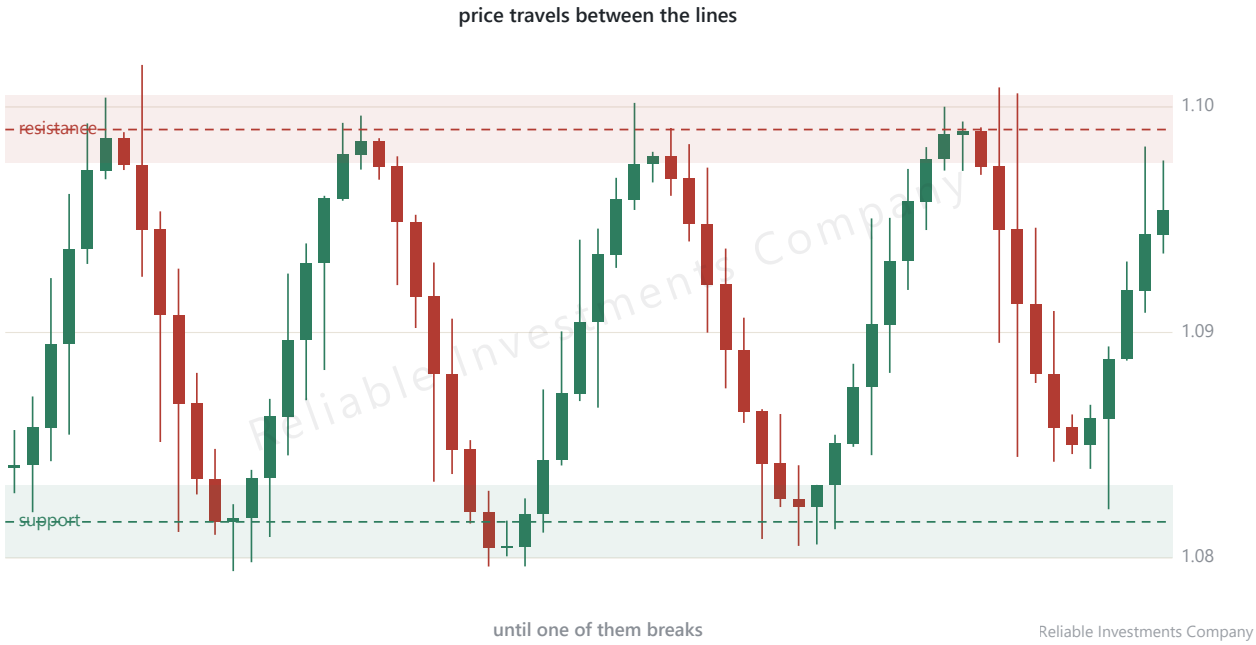


Fig. 5.4. Range: price between the borders until one breaks.

Not a pause before a rally but accumulation: the longer the range, the more stops sit beyond its borders — the exit can be sharp, but a false break is more likely.

A squeeze: the amplitude falls. It does not say where price goes, only that a move comes; do not enter, wait for the exit.

At the borders the bounce works (stop beyond the border, target at the opposite wall) and the breakout with a hold. Mid-range is a bad entry.

Three degrees of trend

On D1 the market rises, on H4 it falls, on M15 it falls too. No contradiction: one degree's trend is another's correction.

D1 sets the direction, H4 shows the wave and the entry zone, M15 gives the moment. Higher timeframe first.

On M15 the pullback looks like a full downtrend: LH, LL. But it is a pullback inside the daily rally: while D1 holds its last HL, the H4 fall is a wave.

A countertrend needs the lower timeframe to break its own structure, not to "look oversold".

Trendline and channel

A trendline: a line under the lows in an uptrend. It shows the pace of the move; the trend finally breaks not by the line but by a structure break — below.

Two points are not a line: the third touch makes one. And it never cuts through bodies, or you fit the picture.

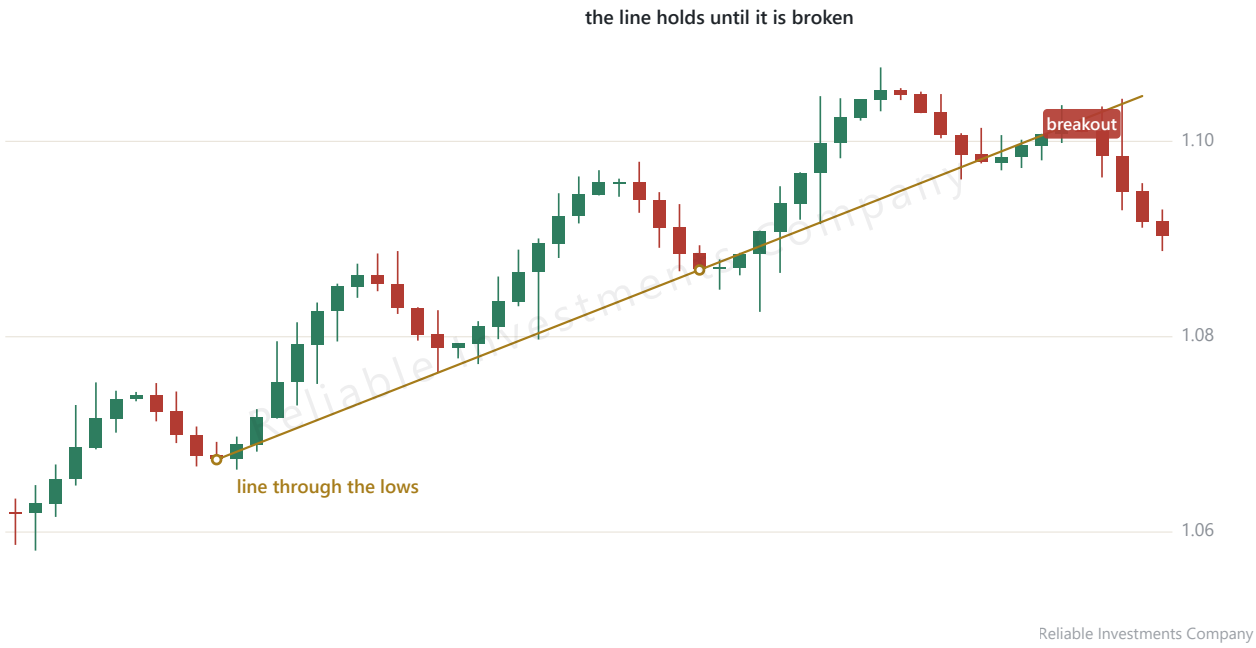


Fig. 5.5. Trendline through the lows: it works until it is broken.

On bodies it is stricter, fewer false breaks; on wicks softer but noisier. The line is never redrawn to fit the price.

A line break and a structure break differ: line broken, HL intact, so the trend weakened, not reversed.

A channel: the trendline and its copy through the nearest major high. Price bounces off the walls.

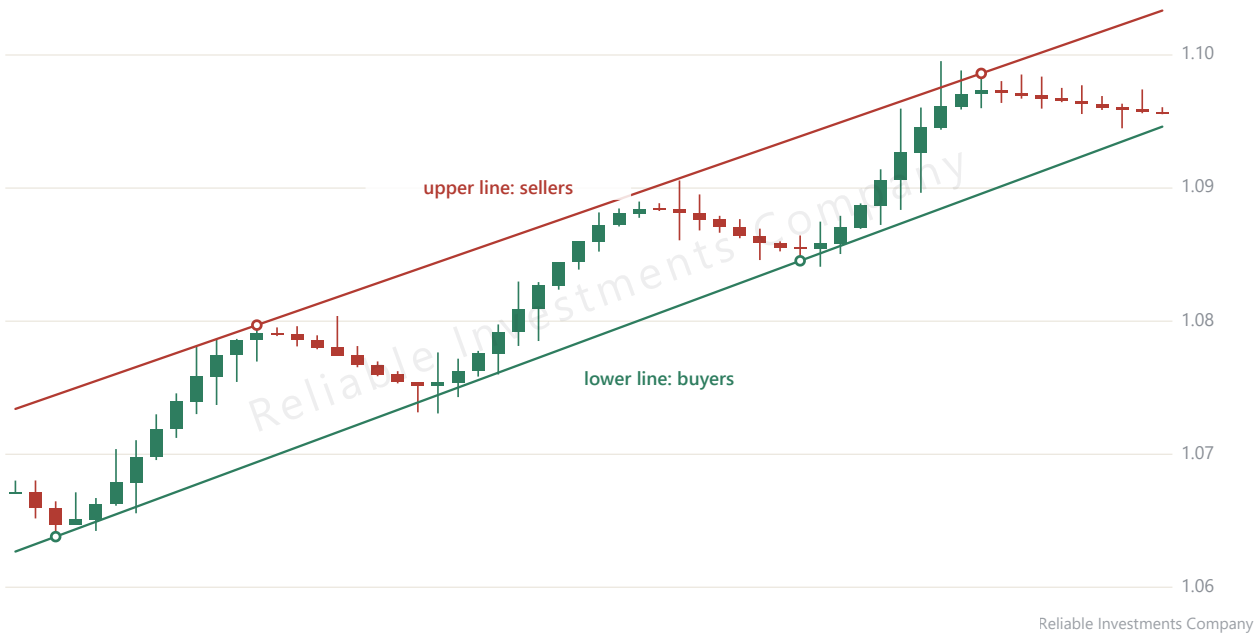


Fig. 5.6. Channel: two borders through the extremes that price bounces from.

A channel break is an early signal: down it often runs ahead of the structure break. Wait for the close; a wick is not a break.



Fig. 5.7. Channel break down: an early signal of a turn, not a verdict on the trend.

Structure break: BOS and CHoCH

A trend lives on the last HL, not on a line.

BOS (break of structure): a break with the trend. Price made an HL and cleared the previous high.

CHoCH (change of character): a close below the last HL, not just any low. The next high will likely be lower.



Fig. 5.8. A break of the last low: up structure broken.

Correction or reversal

Entering right on the break is bad: price returns to test the broken low from below, and that return gives the entry.

A correction is told apart by depth (a third or a half of the move; two thirds claims a reversal), speed (slow, small candles), volume (falling) and behaviour at the level (a bounce, not a breakout that holds).

Not clear? Do not enter. While the last HL is intact, the trend is not broken, however scary the pullback.

Key takeaways

- A trend is HH/HL or LH/LL, not a sloping line.
- While the last HL is intact, the uptrend is alive.
- The higher timeframe sets direction, the lower the entry.
- Depth, speed, volume, behaviour at the level mark a correction.

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Practice

1. Open the daily chart of any pair. Mark the last four highs and lows, name it HH/HL, LH/LL or a range. Measure the last pullback in percent of the impulse.
2. Draw a trendline through two lows on H4, find the third touch. Then the latest M15 break: how many percent did price travel after the close beyond the HL?

CHAPTER 06

Levels: where the market makes decisions

Three days running, price hits the same mark. That is a level: a place where the market has already made a decision. An indicator is computed from the past; a level is the memory of where buyer and seller met and unfilled orders stayed.

A level is a zone, not a line

A level is not a hairline a pixel thick but a zone a few points wide, where supply and demand shifted. Orders do not stand at one price: one at 1.0848, another at 1.0853.

Zone width comes from the candles at the mark: twenty-point bounces give a twenty- to thirty-point zone. Entry inside is normal, the stop beyond the far border.



Fig. 6.1. Levels price bounced from several times.

How to build levels

One rule: the core of the zone is built on bodies — where deals were agreed — and the borders widen along the wicks, where stops fired. Then look at what confirms the mark.

From extremes: the high or low of a candle shows where stops fired, so wicks matter. But a lone long wick is not a level yet: more reliable when bodies stand nearby and price returned several times.

From clusters of bodies: the borders of a band where price spent time beat a lone wick — the balance really changed there.

From round numbers: 1.1000, 100, 50,000 are magnets and walls: orders of those who think in even figures, and their stops. Take those visible on the higher timeframe.

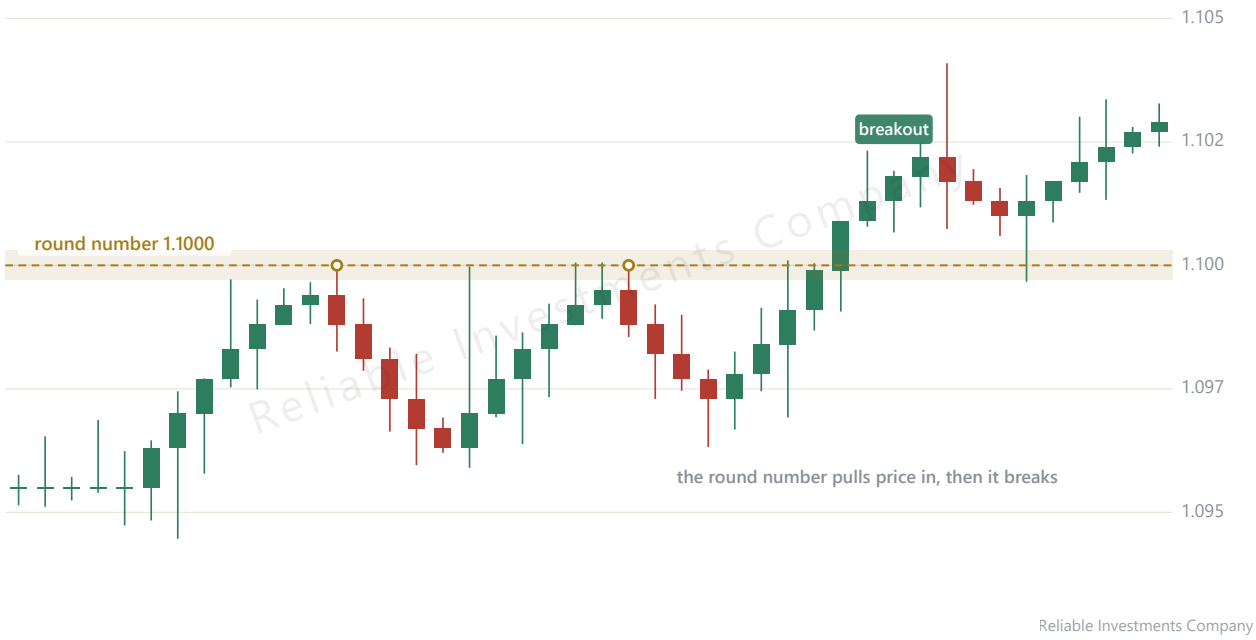


Fig. 6.2. Round numbers: 1.1000 pulls the price in until the orders are filled, then a break.

Yesterday's daily borders and the weekly open are seen by all, algorithms included.

Strength of a level

Touches: one is an accident, two or three make a level, after many it weakens: orders fill and no one defends the mark. Timeframe: D1 beats any M5. Sharpness of departure: a bounce in one impulse means large orders. Confluences strengthen the mark; freshness beats age.

> **Important.** The higher the timeframe, the stronger the level. A daily mark matters more than any five-minute line.

Why price bounces

Three groups stand at a level: limit orders, the stops of those who bought above or sold short at it, and those waiting for confirmation. It works not because it looks nice but because others' obligations sit on it. Once filled, the level breaks.

Role reversal

Broken resistance becomes support, broken support resistance. Whoever sold at resistance buys on the return to close; whoever waited for the breakout enters.

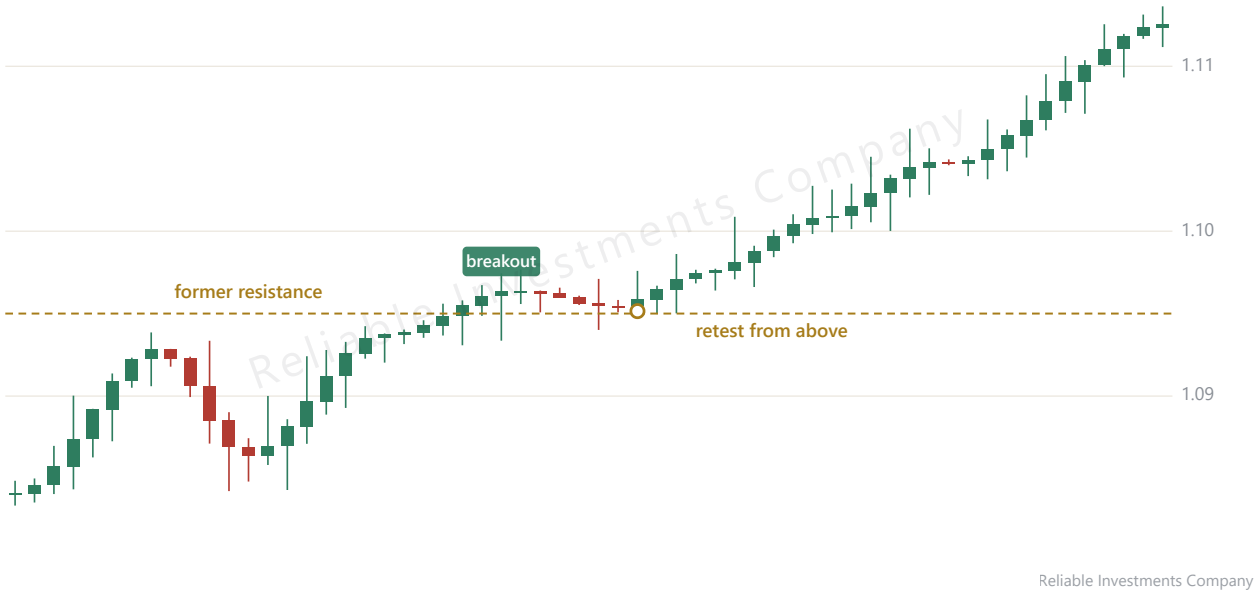


Fig. 6.3. A break of the level and a retest from above: former resistance became support.

Two facts confirm the role: a close beyond the level and a hold above it. Came back and bounced: the role changed; fell back through: the break was false. Until the second fact, treat the level as before.

A retest is a return to the broken level from the other side. It beats a breakout: the level visibly holds, and the stop sits right behind it — shorter than an entry on the breakout itself, but the retest may not come. A missed trade costs nothing, a bad one money.

False breakout and two tactics

Price spikes the level, collects stops and comes back. A false breakout, or liquidity grab: a large participant pushes price beyond the level, collects the orders and sells to them.



Fig. 6.4. False breakout: price spiked beyond the level and came back.

A real breakout shows in the close (a body beyond, not a wick), volume (rising and holding), the speed of return (within two candles is false) and depth: a short spike marks a false one, a hold beyond the level a real one.

Bounce. Entry with the bounce, stop beyond the far border of the zone. The stop is short, occasions many, but some bounces are stop hunts, and against the higher trend they are dangerous.

Breakout with a retest. Entry after a close beyond the level and a return, stop behind the level. Confirmed breakout, the stop shorter than an entry on the breakout itself — but the retest may not come. In a range the bounce works, in a trend the breakout with a retest.

Key takeaways

- A level is a zone, not a line: orders stand in a corridor of prices.
- Strength comes from touches, the timeframe, sharpness of departure and confluences.
- Broken resistance becomes support, and vice versa.
- A false breakout shows in the close, volume and speed of return.
- Two tactics: the bounce and the breakout with a retest, each with its stop.

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Practice

1. Open the daily chart and mark three levels that price approached at least twice. Count the touches and the width of the zone in points.
2. Find broken resistance that became support, and the retest point: how many points did the bounce give? Then a false breakout last month and the feature that would have told you.

CHAPTER 07

Volume: what it really shows

You entered on a breakout — an hour later price was back below the level. Volume on the breakout was lower than at lunch yesterday: nobody stood behind the level, only silence.

Volume measures participation, not strength

Volume is how many shares, contracts or coins changed owner in a period. A trade has two sides, so 100 shares of volume means “100 shares passed from one owner to another”.

The point: volume measures participation, not strength. It answers “how many came to the square”, not “where they will go”. The crowd gathers both to buy and to bail out in panic — the bar looks the same.

Where volume is honest and where it is not

Volume is a property of the market, not of the chart: an exchange with an order book has volume.

Stocks, futures, crypto

On an exchange every trade lands in the common tape, so volume is real. Crypto needs a correction: many exchanges, each counting only its own trades. Watch several venues and relative changes.

Spot forex and what to use instead

Spot forex is over-the-counter: you buy euros from a broker. The “volume” here is tick volume, how often price moved, or one broker’s data. A proxy, not volume.

> **Important.** Tick volume counts price changes, exchange volume counts money. Do not compare them directly, nor carry futures conclusions over to forex.

There are two substitutes. The first is a currency future: volume there is exchange-traded and honest, but it is a different instrument with its own expiry. The second is broker data: the volume of that broker’s client trades. Open interest is not volume but the number of contracts still open, and the two must not be confused.

VWAP is not a substitute for volume but a price weighted by volume: it shows where trades went through on average during the day. Useful, but it is computed from the same volume spot does not have — so VWAP on spot forex is approximate too.

How to read the histogram

The column under price is one bar's volume, coloured like the candle. The line over it is the 20-bar average: a spike two or three times above is obvious, ten percent is noise. Compare within the same instrument and session: morning and evening give different numbers.

Rising volume confirms the move. Price rising on falling volume is weakness: fewer buyers behind the highs. A spike on a breakout is a good sign, but a spike in the first minutes of the session means nothing: every instrument does it at once. A breakout without volume is often false: price steps onto a thin market and comes back.

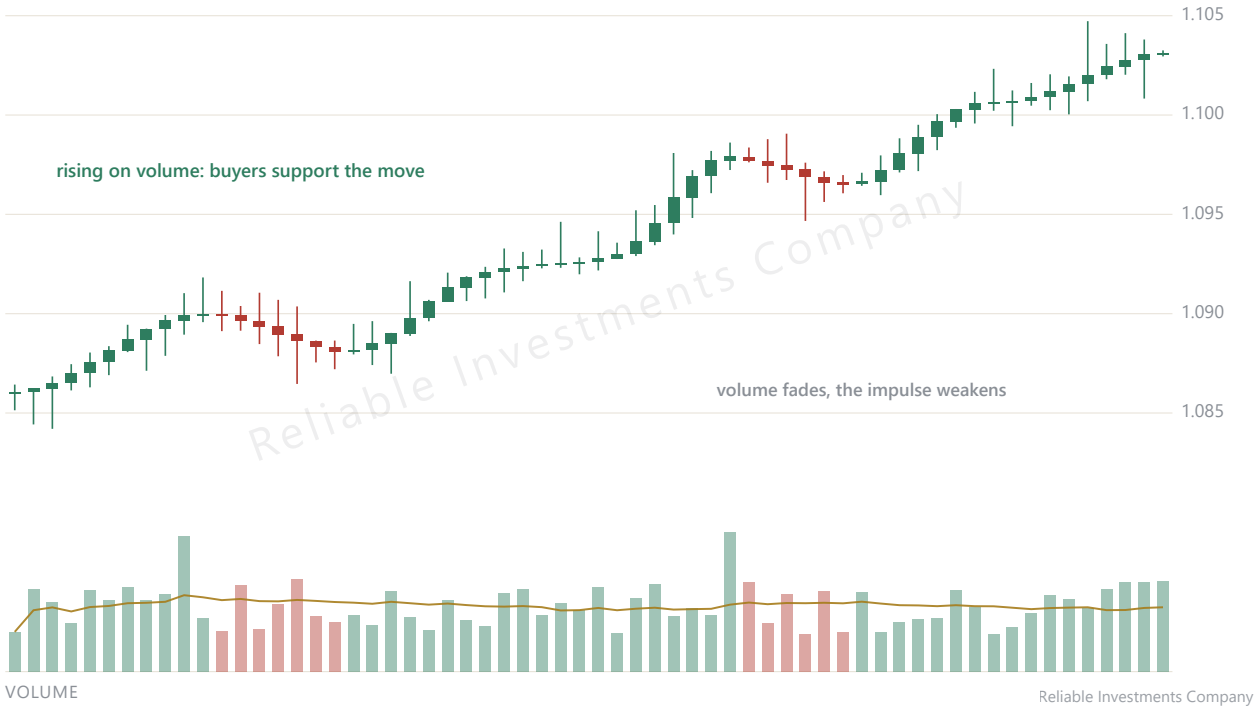


Fig. 7.1. Price and tick volume (a proxy): price rises on rising volume.

Volume confirms, does not predict: a spike can start a move or end it.

Breakout, range, divergence

In a range volume is high first — the market argues at the borders — then falls: participants have decided, the rest wait. Compression at the end of the range is a coiled spring: an exit on volume above the 20-candle average beats one into empty space.

Divergence is a mismatch: a new price high without a new volume high. Fewer people will pay more, and the move runs on inertia.



Fig. 7.2. Divergence: a new price high without a new volume high.

> **Important.** The diagrams in this chapter are drawn on a currency pair, so the volume on them is tick volume. It shows activity, not money; on stocks and futures the picture would be more precise.

That is exhaustion, not a reversal: price can make two or three more highs. It lies in a strong trend (a small free float climbs for months on small volume), on news, when comparing sessions. So do not enter against the trend — tighten the stop.

Key takeaways

- Volume measures participation, not strength: it shows no direction.
- Honest volume is on stocks and futures; in crypto it depends on the venue.
- Spot forex has no volume: tick volume and broker data are proxies.
- Compare volume with its 20-bar average and the same session.
- A breakout with volume means money stood behind the level; without volume the breakout is more often false.

- Divergence warns of exhaustion but does not turn price.

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Practice

1. On a stock's daily chart, find the three days with the highest volume in six months: what did price do over the next five days?
2. Compare your last breakout's volume with the 20-candle average. Was it with volume or without? Find a divergence and mark what followed.

CHAPTER 08

Reversal patterns

You have seen it a hundred times: three peaks, the middle higher, a line beneath. You waited for the break, went short — and price came back. The pattern is found by eye but works in context.

The three conditions without which there is no pattern

A reversal pattern is a sequence of highs and lows after which the trend more probably turns. It maps crowd behaviour: the shape shows where orders and stops piled up beyond a level.

The trend before the pattern. A visible trend: up for a top, down for a bottom, not a one-day one — weeks on H4, months on D1. Cover it with your hand: a move on the left, or a mess? A range has nothing to reverse.

Timeframe from H1 up. On five minutes a pattern comes every half hour, half are noise. Look on H4 or D1, enter on H1. Timeframes disagree — skip.

A breakout with volume. Inside the shape it is only an observation. The signal is a close beyond the border, not a wick, on volume above average. No condition, no trade.

> **Rookie mistake.** Entering before the break “so as not to be late”: nowhere for the stop — too far behind, taken out inside.

Head and shoulders

Three peaks: the outer ones level, the middle higher. The line through two lows is the neckline. Buyers pushed up three times, but the third attempt — the right shoulder — did not reach the head.

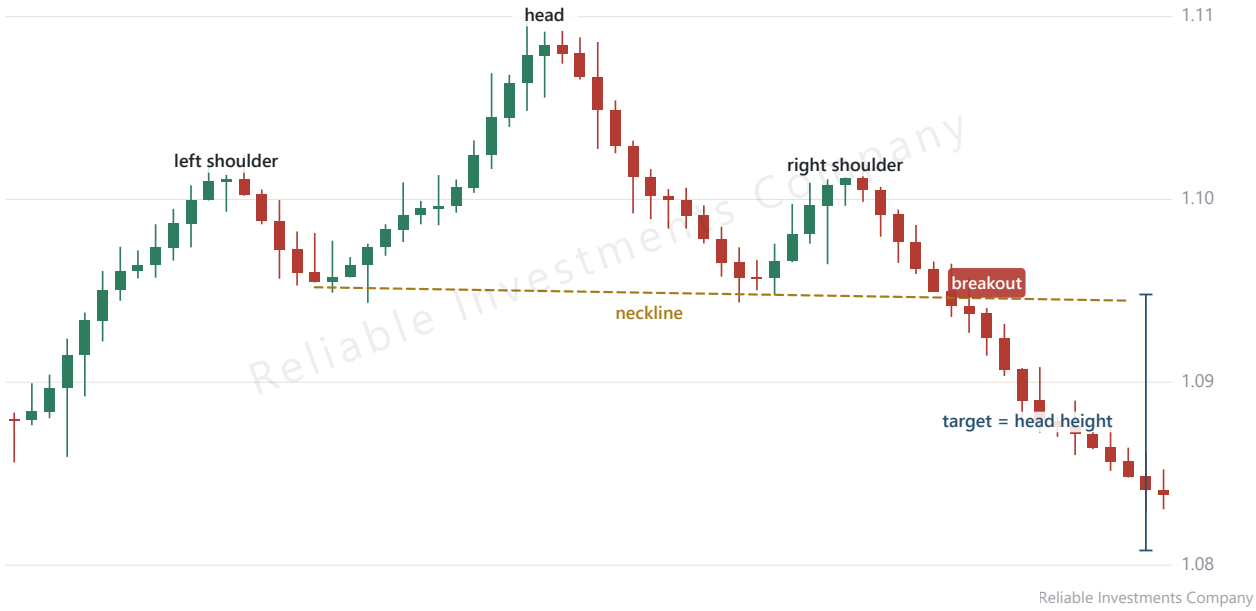


Fig. 8.1. Head and shoulders: three peaks and a neckline whose break starts the reversal.

Volume inside fades: the left shoulder tops, the head lower, the right lower still. The break of the neckline comes with a spike.

Entry on the close below the neckline, target the head's height from it, stop above the right shoulder: back above it, the pattern is broken. If the target gives less than two risks, skip. A retest of the neckline from below is a second entry.

Inverse head and shoulders — the same shape upside down: three troughs, neckline on top, stop under the right shoulder. Good at a bottom after a fall.

Double top and double bottom

Price comes to the level twice and rolls back; the low between is the neckline. The second peak is usually lower: not enough strength left.



Fig. 8.2. Double top: price failed to break the level twice.

Signal: a break of the neckline down, target the top's height, stop behind the second top. The neckline sits clearly below the tops; otherwise these are two candles with wicks.

The double bottom mirrors it, but is trickier: stops are hunted at lows — price gets pierced, stops collected, price returned. A bottom is a zone, not a line.

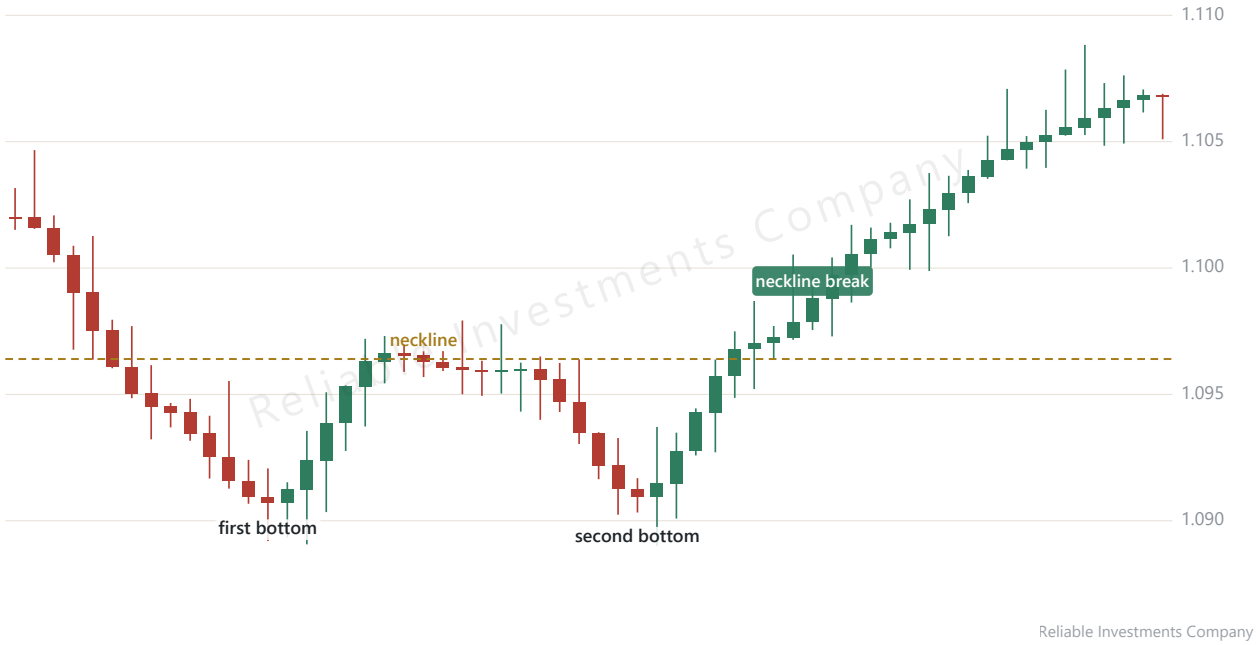


Fig. 8.3. Double bottom: two bounces off the same support.

Volume is higher on the first bounce, lower on the second: panic is over. The break must come with rising volume, else the rally rests on sellers leaving, not buyers arriving.

Triple top, cup and handle, saucer

Triple top and triple bottom

Three touches, neckline through two lows. More reliable than the double: three failures prove real sellers at the level. The cost is rarity and lateness: the third peak is already off the high. The triple bottom mirrors it; its third touch often sits below the first two and the pattern holds.

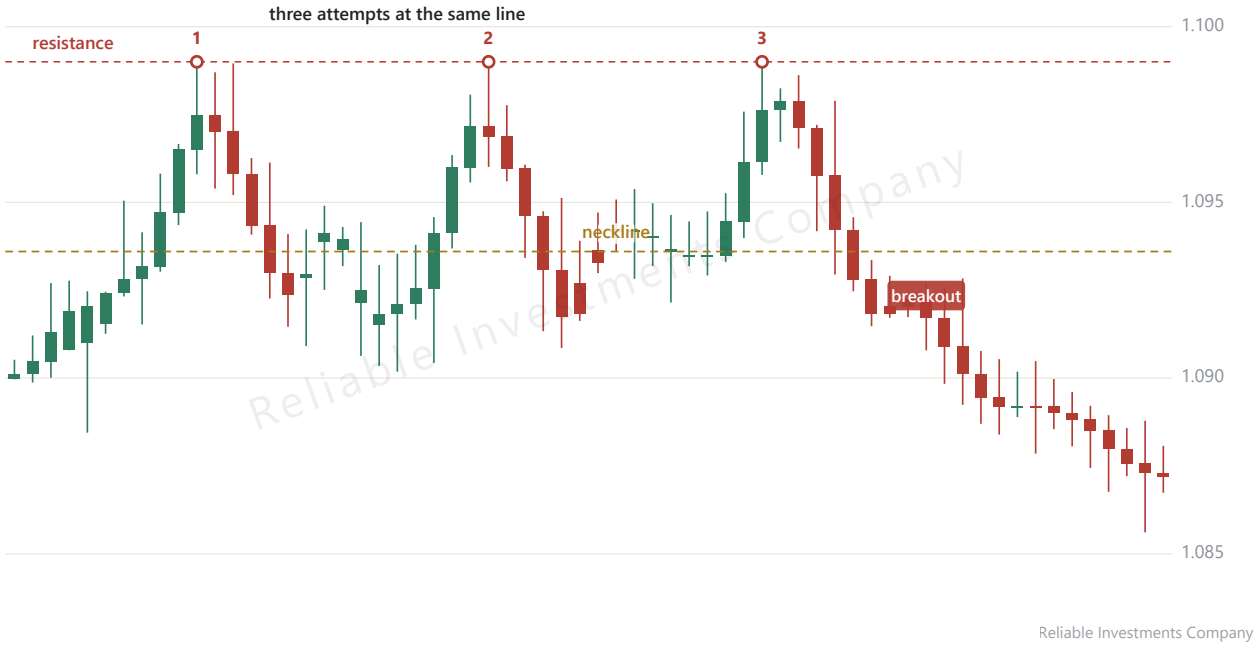


Fig. 8.4. Triple top: three failed attempts to break the level.

Cup and handle, and saucer

Cup and handle is more often a continuation pattern: a rounded decline, a smooth return to the start, a correction before the move. It works best after a rise or a long fall at the bottom. The handle must not go below the middle of the cup, or the shape is broken. Entry on the handle break, target the cup's height, stop under it.

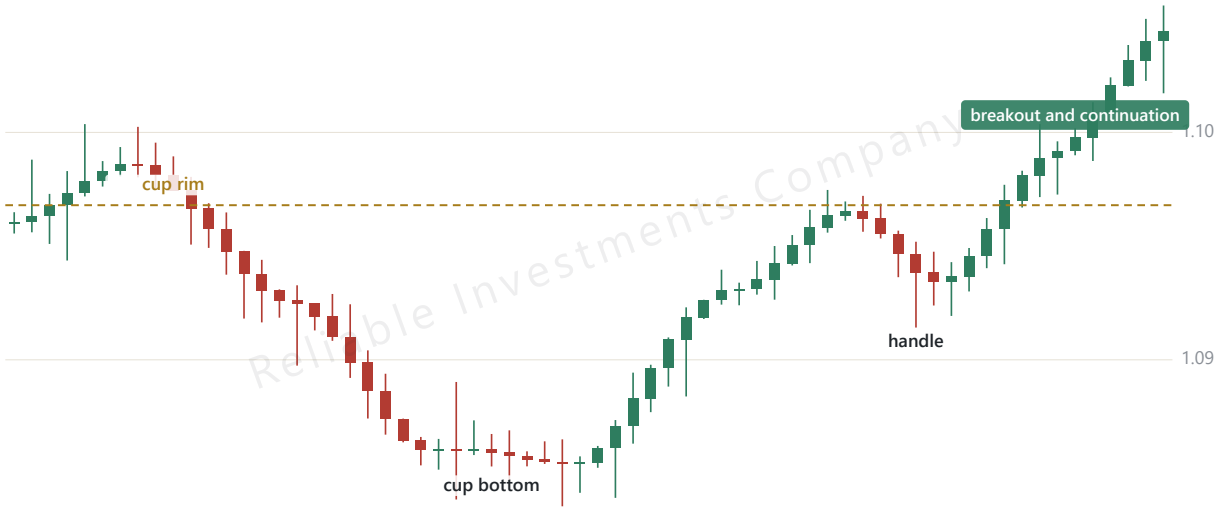


Fig. 8.5. Cup and handle: a smooth reversal and the last correction before the move.

Volume in the cup is calmer: lowest at the bottom, rising on the right, falling in the handle, spiking on the break. A saucer is the same minus the handle and smoother, months on a daily chart; signal: a break of the level where the decline began.

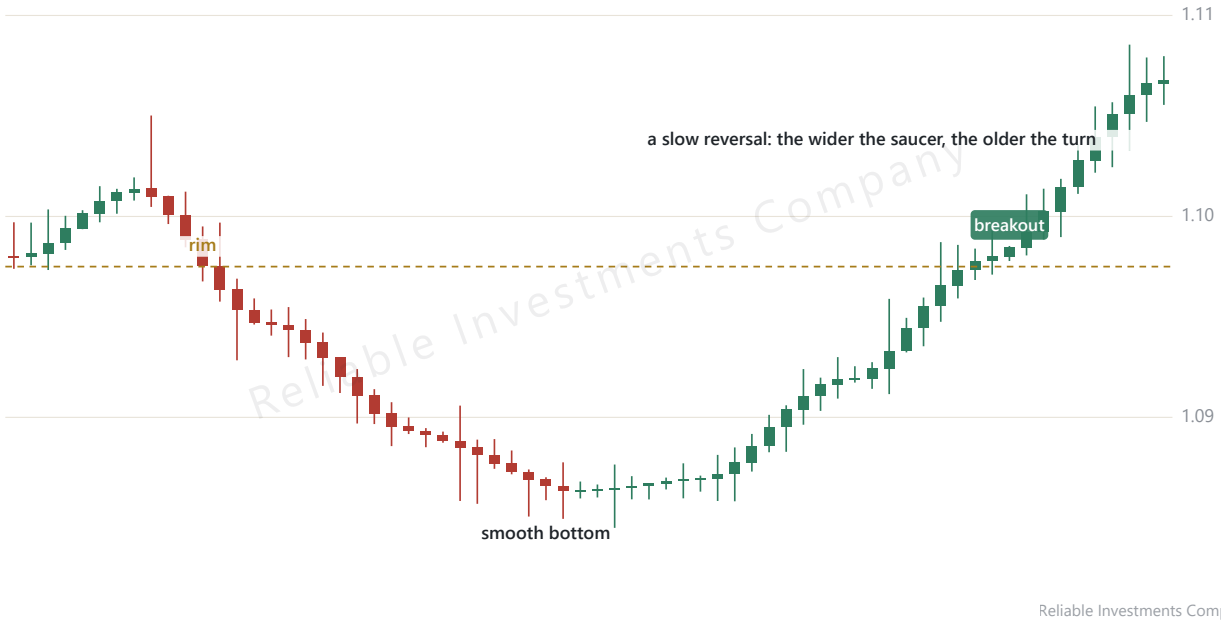


Fig. 8.6. Saucer: a smooth bottom, a rim break, a reversal on the higher timeframe.

Targets, stops and reality

A target is a reference, not a promise: news breaks technique, and the calculated level often lands on a big one where the crowd takes profit. A strong level in the way is the target, not arithmetic.

Management: bank part at the midpoint, after one risk, stop to breakeven, run the rest by structure. If the target gives less than two risks, skip the trade.

A broken pattern is information too: buyers were stronger. One action — exit on the stop. Note what came next.

Key takeaways

- A pattern maps crowd behaviour: where buyers ran out of breath.
- Three conditions: trend before it, timeframe from H1, breakout with volume.
- Head and shoulders: target the head’s height, stop behind the right shoulder.
- Double top and bottom: neckline interim extreme, second touch a zone.
- A triple is more reliable, rarer, later; the handle stays above the cup’s middle.
- A target is a reference: partial profit, stop to breakeven after one risk.

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Practice

1. Find a head and shoulders on a daily chart over a year: mark the neckline, measure the head’s height, did price reach the target?
2. Find a double top and a double bottom, compare their breaks and volume. Take apart your losing entry: no pattern, against trend, or in before the break?

CHAPTER 09

Continuation patterns and gaps

Price rose four days, then stalled: a day flat, a second, a third. You close the long, and next morning price adds two percent. Without you.

A pause: a big buyer needs plenty of stock and enters in pieces.

Shapes are few: triangles, flag, pennant, wedge, rectangle, gaps — continuation patterns.

A pause, not a reversal

One skeleton: a trend before the pattern, compression inside, a breakout out. No trend before, no pattern: just a rectangle on a screen.

Inside volume falls, on the breakout it rises; without volume the breakout returns inside: no money, just the wish to grab stops.

Patterns work not by the textbook: thousands put stops in the same places.

So check the higher frame, the level, volume and scale: a ten-point pattern on a minute is the spread.

Triangles

A triangle: two converging lines through highs and lows; at least two highs and two lows must touch them.

Symmetrical triangle

Both borders converge at equal angles: buyers lift lows, sellers lower highs.



Fig. 9.1. Symmetrical triangle: borders converge to one point.

It breaks with the trend more often, but not always: by various estimates, about a third of breakouts go against the move. At its apex a triangle is spent: the normal breakout comes two thirds along.

Ascending and descending

In an ascending one the top is flat, the bottom rises: sellers hold the level, buyers lift the price on every pullback.



Fig. 9.2. Ascending triangle: buyers lift the lower border.

A flat top is a magnet for stops, hence false breakouts: price stabs the level and returns. After a long rally it can be distribution, not accumulation. The descending one mirrors it: buyer stops pile under a flat bottom, and a break down can be a liquidity grab.



Fig. 9.3. Descending triangle: sellers lower the upper border.

Entry, stop, target

Three numbers before entry: where you go in, where you admit the mistake, where you take profit.

Entry is the close beyond the border, not the touch: until the bar closes there is no breakout. Stronger is the retest: price returns to the border and leaves again — the stop is closer, but a retest may not come.

The stop goes beyond the opposite border or the last extreme inside, not right at the edge: the market snags tight stops.

The target is the base height from the breakout. An example: a 100-104 rectangle, a breakout up at 104, the target 108. The stop goes not beyond the opposite border, which risks 4 for a 1:1 ratio, but beyond the last low inside, at 102.5. Risk 1.5, potential 4, a ratio of about 1:2.6. The pattern is broken when price closes back inside; then do not average down and do not move the stop.

Flag, pennant, wedge, rectangle

The flag is the fastest: an impulse on volume, a short pause in a channel against the move, another impulse.



Fig. 9.4. Flag: a short pause after an impulse, then continuation.

Signs of a real flag: sharp impulse, pause of three to ten bars, pullback no deeper than half. In a reversal the pause gains volume, in a flag it falls; the target is the length of the pole from the breakout.

The pennant is the same, but the pause narrows into a triangle.



Fig. 9.5. Pennant: the same pause, but shaped as a triangle.

The wedge has converging borders too, but both slope the same way, not in opposite directions as in a triangle.



Fig. 9.6. Wedge: converging borders, both sloping the same way.

Place decides a wedge's meaning. An ascending wedge after a rise is a reversal down: each step is shorter, buyers run out of air. A descending wedge after a rise usually continues: it is a pullback where sellers weaken, and the move resumes up. At a bottom it mirrors.

The rectangle is the same range in a trend. The longer it stands, the more stops pile up: the exit can be sharp, but a false breakout is more likely — wait for confirmation.

Gap

A gap is empty space where no trades happened: price jumped the whole range at once.



Fig. 9.7. Gap: the space between candles that price often tries to close.

Causes are mundane: news, earnings, the weekend, a thin market; size alone means nothing.

Three kinds, differing by place: a breakaway gap leaves a range at the start of a move, on volume; a runaway gap sits mid-trend; an exhaustion gap ends a long move on huge volume.

A gap closes when price returns to the previous close. Most do close, over different spans — from hours to weeks — and an unclosed gap becomes a level. A gap at the weekly open is often closed in the first hours, but far from always: a run with the trend and no return is a continuation signal.

> **Rookie mistake.** Trading every gap “for the close”. An exhaustion gap closes often, a breakaway gap rarely: price keeps going.

Key takeaways

- A continuation pattern is a pause in a trend where a large player builds a position.
- No trend before, no pattern; no volume on the breakout, no breakout.
- An ascending triangle (flat top) means buyers are pressing; a descending one (flat bottom) means sellers; a symmetrical one means the sides are even.
- The stop goes beyond the opposite border or beyond the last extreme inside, if the border is too far.
- Flag and pennant: a pause after an impulse, the pole as target; the wedge is decided by place, not shape.

- A breakaway gap is the start, a runaway the middle, an exhaustion gap the end of a move.

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Practice

1. Find three triangles from the past year on the daily: where the breakout went and whether it matched the trend before. 20 minutes.
2. Take the latest flag on the hourly, measure the impulse and check whether price reached the pole target. 25 minutes.

CHAPTER 10

Candlestick patterns

For a third day price comes to one level. A daily candle shows a long lower wick: sellers pressed price down, but by the close almost all of it was bought back — it closed almost where it opened. You skip it, and next day price goes up.

A candle records one argument: who started, who won, where he retreated. Thousands exist, most meaningless; telling a signal from a random wick is the whole job.

A candle is a micro-story of the bar

Each bar gives four numbers: open, high, low, close.

The body runs from the open to the close: a long one means one side pushed the other and held the result; wicks show what happened outside.

A bar opened at 100, low 96, close 99.6: the lower wick is 3.6. Sellers dropped it four percent, yet gave almost all back by the evening.

The body shows strength, the wick refusal.

One-candle patterns

A pin bar is a long wick two or three times the body: price was pushed, not held; works at a level, mid-range it is noise.

Hammer and hanging man are one shape: a small body on top, a long lower wick. Hammer after a decline at support, hanging man after a rally at resistance; place tells them apart, and both wait for a confirming bar.

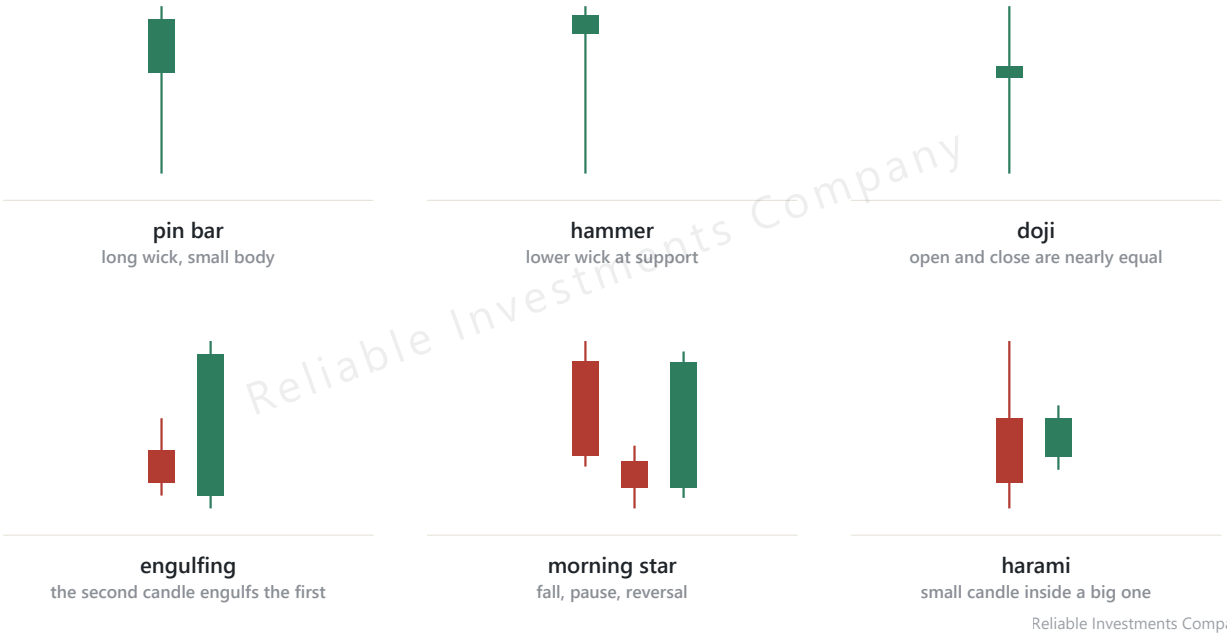


Fig. 10.1. Six candlestick patterns: one shape, the meaning depends on where it sits.

A doji: open and close almost coincide, a draw. After a move at a level it is a pause, in a trend nothing; the next bar decides.

A marubozu is a body without wicks: clean advantage for one side. Strength at the start of a move, a climax at the end of a long trend.

Two- and three-candle patterns

An engulfing: the second candle covers the first body and closes the other way — power changes hands in a bar. Counted by bodies; one candle cannot cancel months of trend.

A harami: a small body inside the previous big one — compression, the market thinks. Weak, almost always needing a confirming bar.

A star: three candles, a big body with the trend, a small one, a big body against it; morning star at a bottom, evening star at a top. Works at the end of moves, not mid-trend.

Place matters more than shape

A hammer mid-range stops being a hammer: just a candle with a long wick. The same candle at strong support after a decline becomes a signal.

Pattern strength is level plus trend plus volume; remove one and only a picture remains. The fourth factor is the timeframe: a daily candle on a round-the-clock market holds almost three hundred five-minute bars, and an “engulfing” on a lower frame is often one day’s fight.

Volume

A pin bar on rising volume is a fight buyers won; on dead volume, a thin market. A wick without volume is not refusal but absent buyers.

Price action and the order of steps

Price action is reading the market from the chart itself, without indicators: candles, levels, structure, volume, patterns. Indicators are secondary: they confirm the visible.

Candles are not a system but a filter: the edge is a few percent, and the spread eats it fast, because everyone sees them.

The order: a level on the higher timeframe, a bar with the pattern closing there is the entry, stop beyond the wick, target the next level.

> **Rookie mistake.** Finding a pattern, entering, and only then looking at the trend. The order is reversed: context first, the candle after.

Key takeaways

- A candle is a micro-story of the bar: the body shows strength, the wick refusal.
- Hammer and hanging man are identical in shape; their place tells them apart.
- Pin bar, doji, engulfing, harami, star and marubozu read by one rule: shape plus place.
- A pattern needs a level, a trend and volume; on a lower timeframe it is noise.
- Candles are a filter, not a system: entry on the close, stop beyond the wick, target the next level.

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Practice

1. Find five pin bars from the past months on the daily: was there a level nearby, did volume rise on the candle. 20 minutes.
2. Find a hammer and a hanging man on one chart and compare what followed each. 15 minutes.

CHAPTER 11

Moving averages

Price bounces for the third day off a line you didn't draw: the platform calculated it. This is the moving average (MA), the average price over a period. It doesn't know the future: MA shows where price averaged and where that average drifts. The period counts in bars: on the daily the 200 is almost a year, on the hourly weeks.

Two properties and three kinds

An average smooths noise and lags: price sat at 100 for five days, went to 110 on the sixth, and the five-day average reads 102.

Lag is not a defect

An average of past prices cannot be ahead of price. It gives no entry at the low — it confirms the move; structure catches the reversal at the point.

SMA, EMA, WMA

A simple average (SMA) weights every close equally. The exponential one (EMA) gives fresh prices more weight (2/(N+1)) and turns earlier. The weighted one (WMA) fades weight linearly. On a long period the type matters less than the period: the 20 and the 200 diverge far more than SMA and EMA of one period.

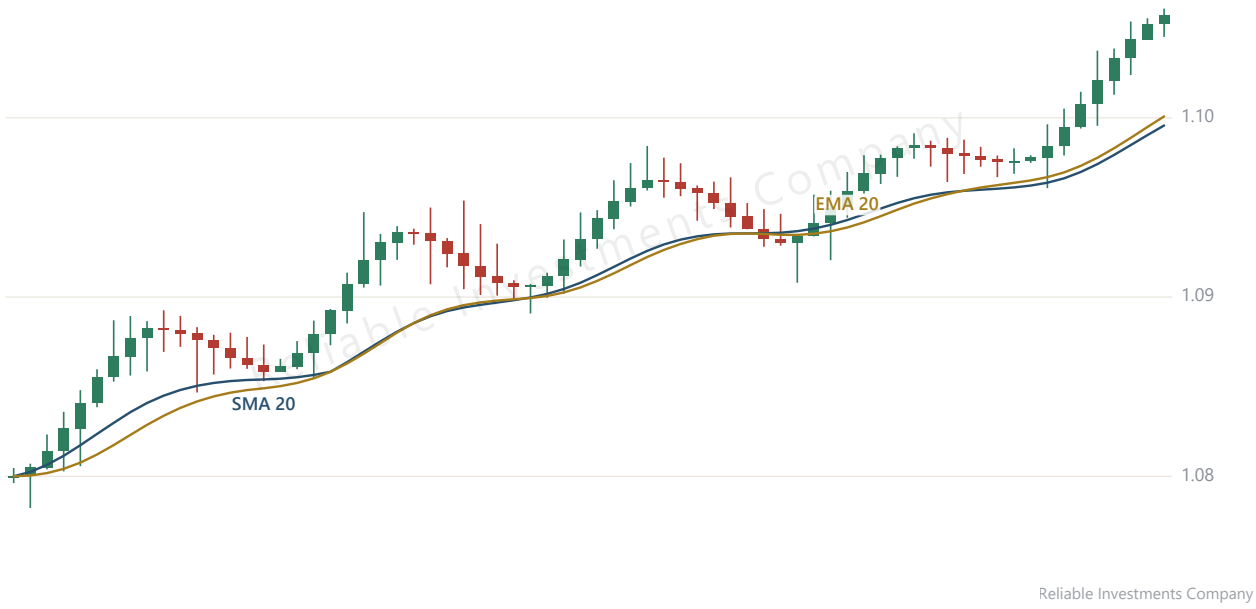


Fig. 11.1. SMA and EMA together: the EMA reacts faster and stays closer to price.

Periods: 20, 50, 100, 200

Twenty daily bars is about a month, fifty a quarter, and 100 to 200 run from half a year to a year. No magic in the numbers: most people watch them, so orders and stops collect near the line.

The period is picked for your frame and holding time: if a position lives two days, the 200 on the daily has almost nothing to do with your trading.

Three uses

Slope and support

Look not at price but at where the line points: up means buyers are stronger, down sellers, flat no direction. The slope of the 200 changes over weeks and rarely lies.

In a trend price pulls back to the 20 or the 50: stops and limit orders sit there. The line moves, hence “dynamic support”. A touch is not an entry: you need a close above the line.

Crossovers

The 50 above the 200 is a golden cross, the reverse a death cross. A crossover lags by definition: it confirms a trend change, it doesn’t catch one. Better to wait for a pullback to the 50. On a five-minute chart 200 bars is under a day, about seventeen hours: pure noise.



Fig. 11.2. The 50 and 200 crossing: the moment a medium-term trend change is confirmed.

Filter and range

The 200's most useful job is a ban on entries: longs only above the line, shorts below. The filter doesn’t improve the entry, it throws trades away: of thirty signals a dozen remain, and fewer buys fight the move.

In a range the average lies: price travels across it. A month between 98 and 102 with the 50 at 100 gives eight crossovers, almost all stopped out. The average measures direction, and here there is none: a flat line, many crossovers.

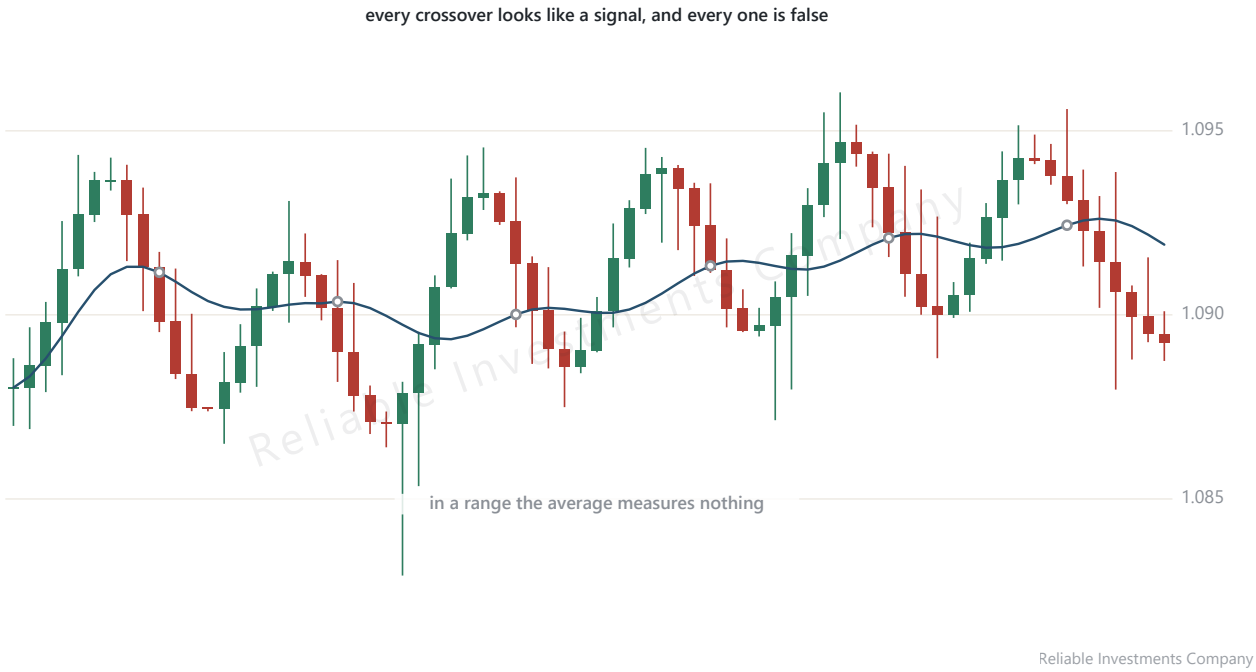


Fig. 11.3. In a range almost every crossover of the average is a false signal.

Four rules

1. Two averages at most: direction and a foothold.
2. Don’t fit the period to history.
3. Remember the lag: the average confirms, it doesn’t predict.
4. Structure and levels first, the average as background.

> **Rookie mistake.** Believing price “has to bounce” off the 200. The line is an arithmetic mean, not a concrete wall.

Key takeaways

- A moving average is the average price over a period, not a forecast.
- It smooths noise and lags: confirms a move, doesn’t catch a reversal.
- SMA weights bars equally, EMA fresh ones, WMA linearly; the period matters more than the type.
- 20, 50 and 200 work because most people watch them: slope, support, crossovers.

- In a range the average gives false signals: there is no direction there.

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Practice

1. Put two averages on the daily chart, 50 and 200: where does the slope point, and does it match your view of the trend? Find the last crossover and judge its delay.
2. Find a month of range and count the 50 crossovers. Test the filter “longs only above the 200”: how many entries would it remove?

CHAPTER 12

Indicators without illusions

RSI reads 82, you sell “from overbought” — and price goes higher still. The indicator was neither right nor guilty: it showed a number made of past prices, the rest was interpretation.

An indicator is a function, not a forecast

An indicator is a mathematical function of price, sometimes of volume. Past bars in, a number or a line out; no new information: everything is on the chart already, only compressed. RSI condenses the last 14 bars into a number from 0 to 100, ATR the spread of bars into points. You pay for speed with detail: it sees no level, no volume, no news.

So it always comes second: structure and levels first, a check of the hypothesis after. It also lags: it counts closed bars, and the longer the period, the bigger the delay.

Five families of indicators: trend (MA, MACD, ADX), oscillators (RSI, stochastic), volatility (ATR, bands), volume (A/D, OBV) and “time since the extreme” (Aroon).

RSI: the strength of a move

RSI (relative strength index) compares average gain and average loss over 14 bars and maps the ratio onto a 0-100 scale. Above 70 is overbought, below 30 oversold, 50 the balance line.

Zones are not commands. In a trend RSI lives in the zone for weeks, and selling “because it is overbought” goes against the move that produced the reading. On a five-minute chart 14 bars is an hour, and it gets nervous.

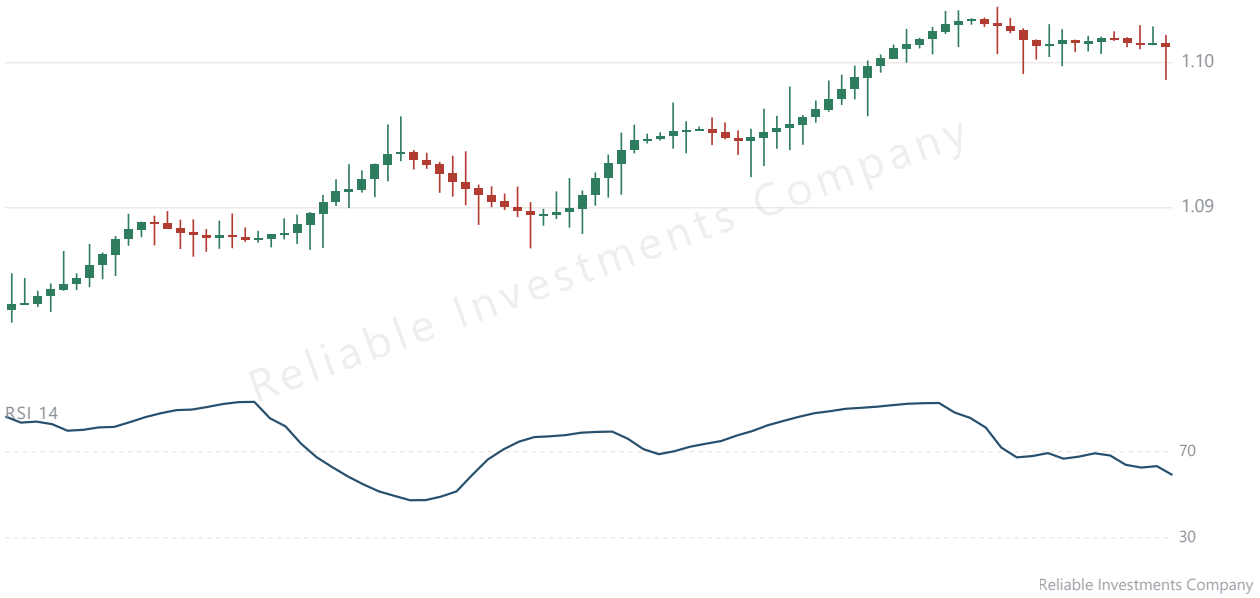


Fig. 12.1. RSI: overbought and oversold zones.

Divergence beats zones: price makes a new high, RSI doesn't, and the move runs on less strength. It signals weakening, not reversal — it can appear three times, so check it with a break of structure.



Fig. 12.2. RSI divergence: price makes new highs, the indicator doesn't.

MACD and stochastic

MACD is EMA 12 minus EMA 26, plus a signal EMA 9 and a histogram. It measures pace, not price: the short average pulls away from the long one, and the trend accelerates. Three signals: a line crossover, a zero crossing, divergence. MACD lags twice, on its own and through the signal line; a shrinking histogram shows the fuel running out.

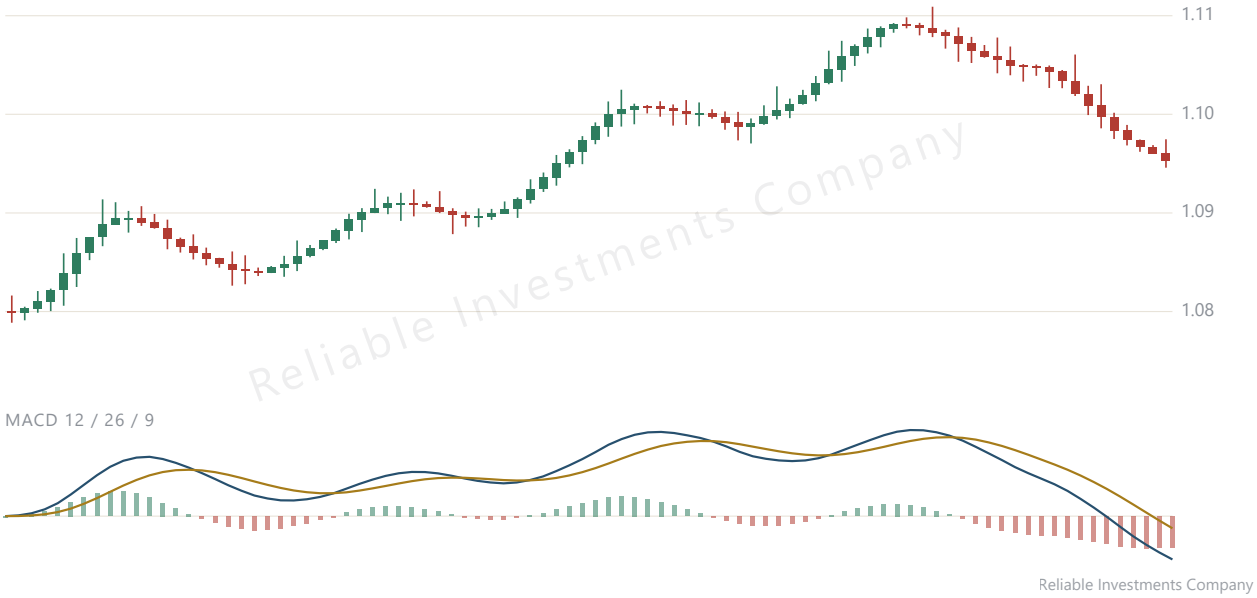


Fig. 12.3. MACD: lines, histogram and crossover signals.

Stochastic shows where the close sits in the 14-bar range: 0 at the low, 100 at the high. Settings 14/3/3, zones 80 and 20. In a range it is the most accurate, measuring the place inside the corridor; in a trend it is noisy, so switch it off when ADX is high.

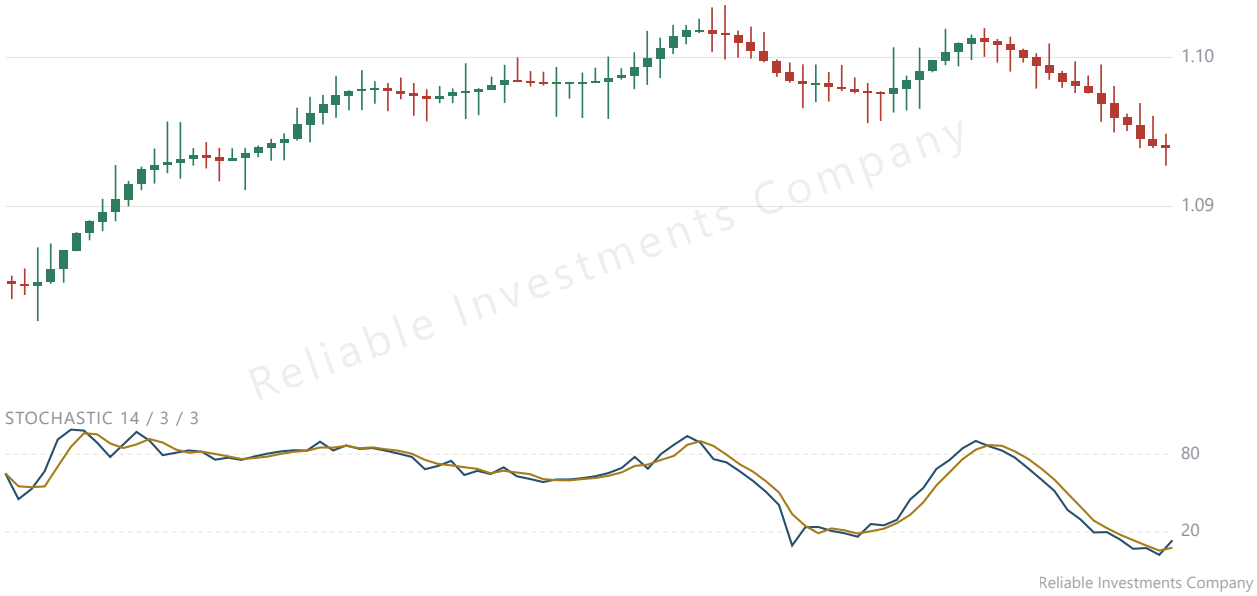


Fig. 12.4. Stochastic: the 80 and 20 zones and where the close sits inside the range.

ADX, bands, ATR

ADX (14) answers whether there is a trend, not where it goes: above 25 a trend, below 20 a range; +DI and -DI give direction. ADX 45 means “moving hard”, not “rising hard”.

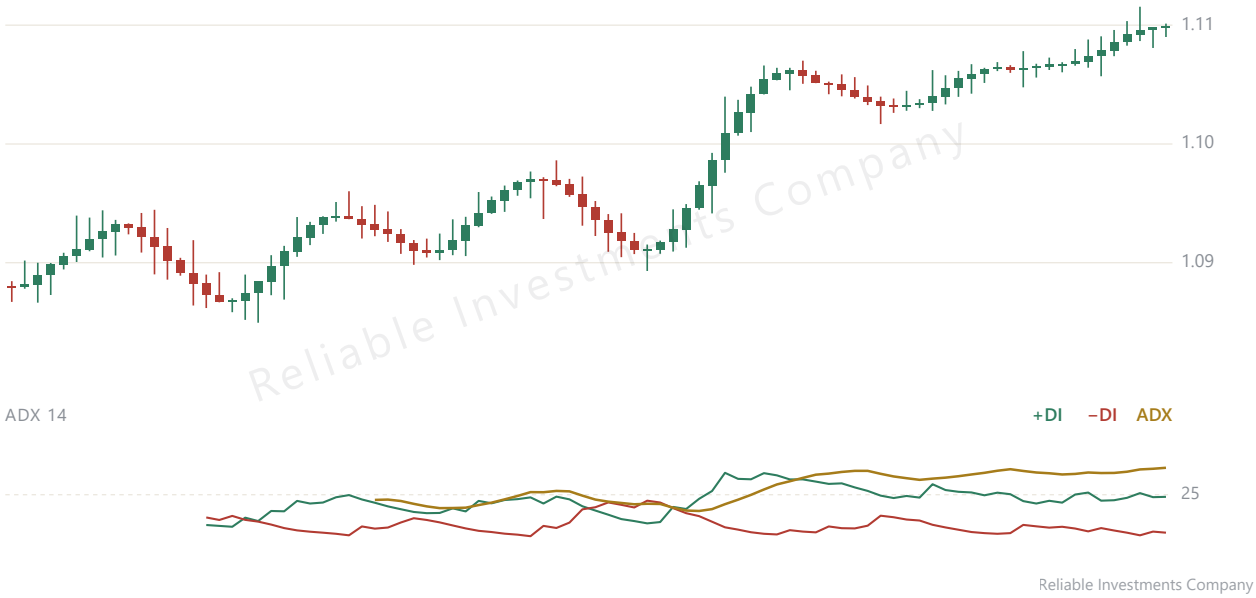


Fig. 12.5. ADX shows the strength of a trend, not its direction.

Bollinger Bands are the 20-period average plus two standard deviations. A touch of a band is not a level and not overbought, it is statistics. Read the width: narrow bands are a squeeze before an impulse, but which way is unknown.



Fig. 12.6. Bollinger Bands: a squeeze before an impulse.

ATR (14) turns volatility into points: how far the instrument travels per bar. The stop is still placed by structure, and ATR checks that it is not too tight: one or two ATR survives ordinary noise.

Volume, time and the rule of two

A/D ties volume to where the bar closed: near the high accumulation, near the low distribution. OBV is simpler: closed higher, volume added; closed lower, subtracted. For both, slope and divergence with price matter, not the absolute value; both need honest volume — on spot forex it is tick-based (chapter 7).

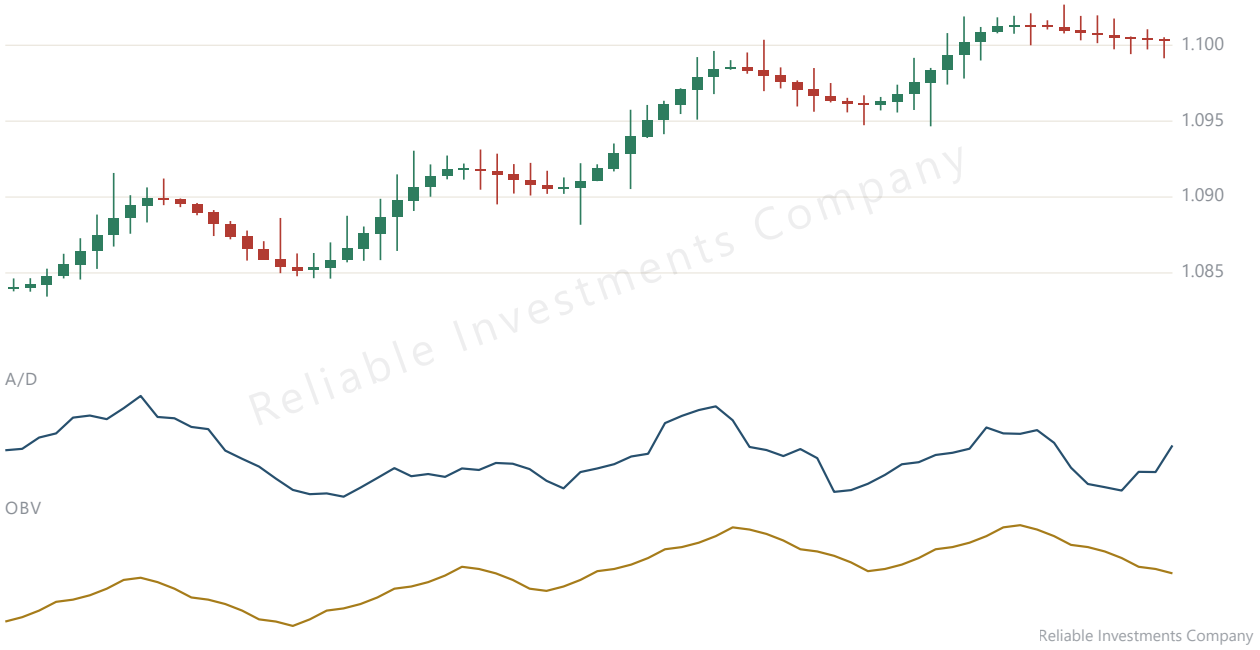


Fig. 12.7. A/D and OBV: slope and divergences matter, not absolute values.

Aroon answers how long ago the extreme was: a line at 100 means the high was just made, at zero long ago. Both lines at zero is a range.

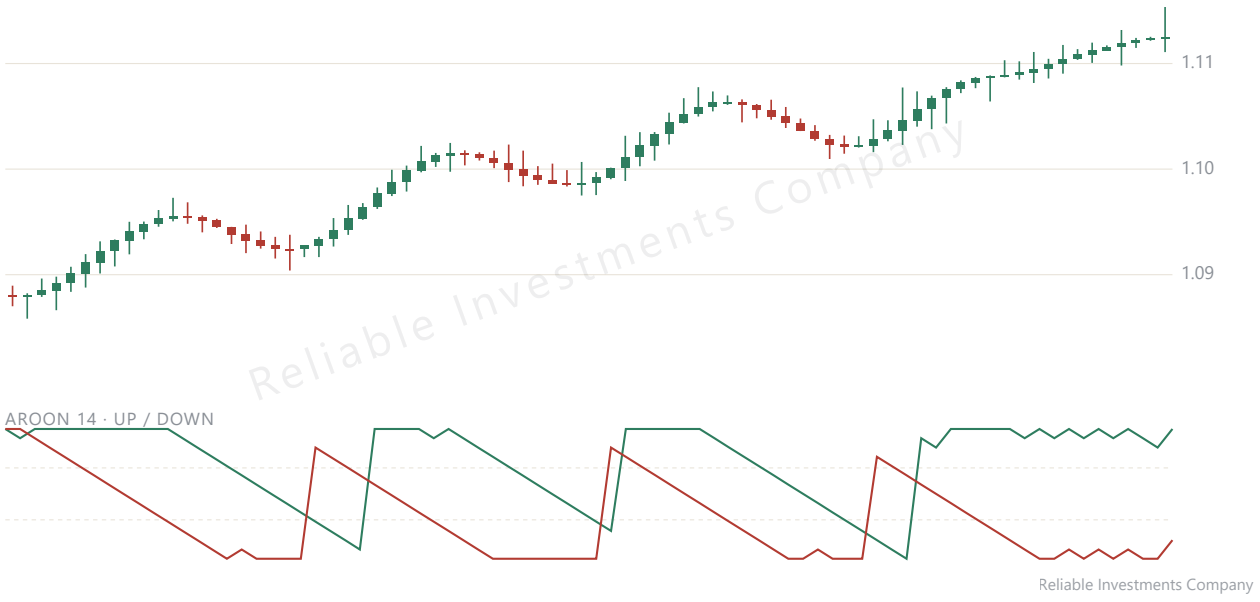


Fig. 12.8. Aroon: the lines show how long ago the high and the low were.

The rule of two: two indicators at most, both only as confirmation. Take the pair from different families: a trend one plus an oscillator, ADX and RSI for instance. Two oscillators or two averages duplicate each other. And no indicator cancels the stop.

> **Rookie mistake.** “RSI is overbought, so I sell” with no structure at all. The zone means the move was strong, not that it is over.

Key takeaways

- An indicator is a function of price, not a forecast: the past in other words, always lagging.
- RSI (14): 70 and 30 are zones, not commands; divergence is more informative than the zones.
- MACD (12/26/9) is about acceleration, stochastic (14/3/3) about the place in the range.
- ADX (14): above 25 a trend, below 20 a range; strength without direction.
- Bollinger (20, two standard deviations) is volatility, ATR its size in points: ATR checks that the stop is not too tight and takes part in position sizing.
- A/D, OBV and Aroon: slope and time since the extreme matter, not absolute numbers.

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🎎 The trader's main enemy is emotion and broken risk rules

The risk per trade is set in advance and does not depend on mood: the system follows the rules, not a human.

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Practice

1. Find a stretch where RSI stayed above 70 for over two weeks and see what price did. There, find a divergence and mark how many bars later structure broke.
2. Compare your stop with ATR 14: if it is smaller than one ATR, you trade against your own noise. Check a month of history: how often would you be stopped out?

CHAPTER 13

From analysis to a system

You saw it all correctly: level, third bounce, pin bar. You went in — an hour later, stop. Monday the same picture, another stop. By Wednesday only irritation: analysis does not work.

The analysis was not the problem: it was working. What was missing was a protocol — short, written, boring — between “I see a setup” and “I am in”.

A setup is not yet a trade

A setup is a repeating configuration: a pin bar at a level, a breakout with a retest, a flag after an impulse. It says “something is happening here”, not “buy”.

Inspiration cannot be checked, a protocol can: it has conditions for entry and for staying out.

A system is not indicators but decisions made in advance. Where to put the stop, you decided yesterday; on the chart you only check the rules. Boredom is the right sign: the process works.

> **Important.** A rule without an entry condition is a wish. A condition without an exit rule is a lottery.

The decision chain

Seven steps, one order.

1. **Context.** You trade H1, so watch H4 and D1: is the structure up, down or sideways? A range is a pause.
2. **Level.** Where the balance changed. An entry in the middle of a range has no address: no reason, no stop, no target.
3. **Confirmation.** Two signs out of three: candle, volume (tick volume on spot), structure. One is a coincidence, two are a signal.
4. **Trigger.** “The hourly candle closes above 1.0850”, not “it looks ready”.
5. **Stop.** Where the idea stops being correct, not where losing does not hurt.
6. **Target.** Before entry, at the nearest obstacle; “we will see” means there is none.
7. **Size.** Not “how much I want to make” but “how much I can lose”: risk first, size after.

Checklist and 1-2% risk

A “no” to any question means no trade, not a smaller one.

1. Higher timeframe on the side of the entry?
2. Level older than my timeframe?

3. Two confirmations out of three?
4. Has the trigger already happened?
5. Stop behind the idea level, in points?
6. Does the target give 1:2?
7. Lot calculated and inside 1-2%?

Risk per trade is the deposit share lost at the stop; the working range is 1-2%. Losses count from what is left: ten in a row at 2% give -18% and need +22%; ten at 10% give -65% and need a threefold gain.

Position size and 1:2 R:R

Size = risk in money / (distance to stop x point value)

Example on EUR/USD. Deposit $1000, risk 1% is $10. Stop 50 points. On a standard lot (100,000 units) one point costs about $10, so 50 points are $500 per lot. Divide 10 by 500 and get 0.02 lots.

A 100-point stop means $1000 of risk per lot, so the position is 0.01 lots. Round down; structure sets the stop, not convenience.

R:R is planned gain per unit of risk, where 1R is your risk. Minimum 1:2: a third of hits pays you back. At 40% and an honest 1:2 that is +0.2R per trade and +20R over a hundred; so 40% with 1:2 beats 70% with 1:0.5.

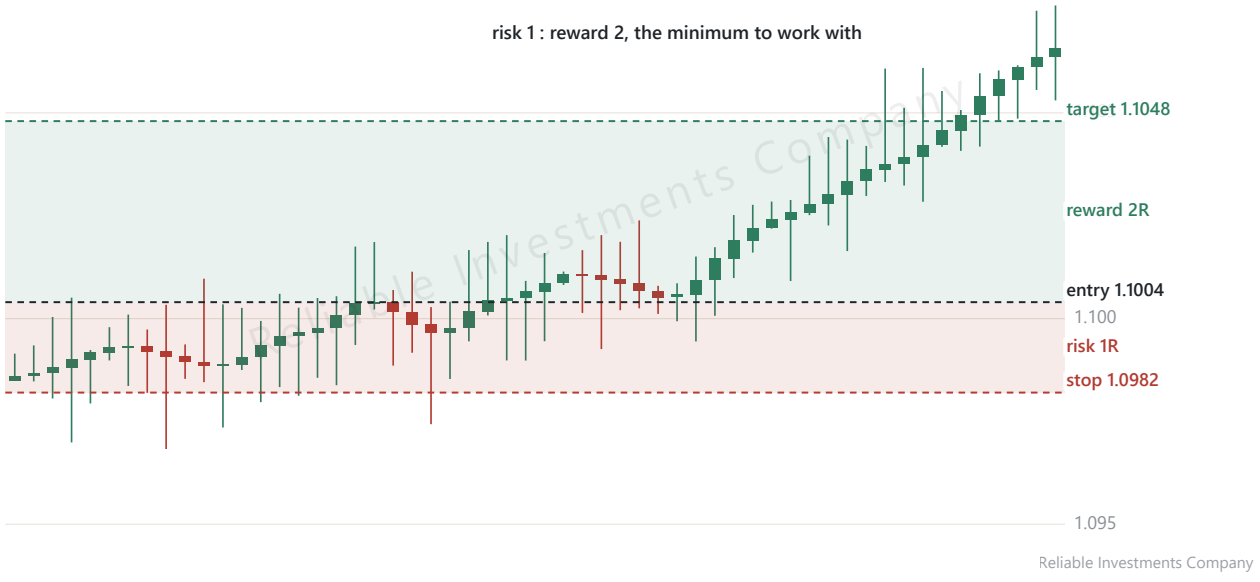


Fig. 13.1. The whole trade: entry, stop, target and risk/reward.

Journal, psychology and a hundred trades

You remember two or three vivid trades, usually the worst, and conclude nothing works. The journal is a table: date, instrument, timeframe, setup, entry and stop, target, exit, result in R, emotion, note. The main number is R, not money; thirty minutes a week: which mistake repeats?

Four traps: overtrading (trading boredom), revenge on the market (an entry without a signal), a bigger lot after a loss (the drawdown grows faster than it recovers), “winning it back” (trades at the end of the day). Hence the daily limit: minus two R in a day closes the terminal until the next session. This is protection from emotions, not a verdict on the system: at a 40% win rate two failures in a row happen more than a third of the time, and are no reason to change the rules.

Ten trades are noise. First conclusions need about a hundred, and the time depends on the timeframe: years on the daily chart, months on H1. So check it on demo, on H1, under the same higher-context rules, instead of waiting three years. Count the win rate, average R, drawdown, the losing streak and average R per setup. Changing rules before a hundred trades means fitting them to the last loss.

Key takeaways

- A setup is recognition, not a decision: a protocol stands between them.
- One chain: context, level, confirmation, trigger, stop, target, size.
- The checklist works when “no” means no trade.
- Risk 1-2% per trade; size comes from risk and stop.
- Minimum 1:2 pays off from a win rate of a third.
- A hundred trades and a journal are the minimum for first conclusions, not proof of being right.

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Practice

1. Run the last three setups you saw but did not trade through the seven steps and write down where each fell apart.
2. Calculate the position size for a deposit of $1000, risk 1% and stops of 20, 40 and 80 points at $10 per point per lot. Check by multiplying back.

CHAPTER 14

Practice, checklist and glossary

Fourteen chapters are fourteen evenings, and it seems you now see the market differently.

The feeling is deceptive: a month without practice and only “candle” and “trend” will remain. Knowledge that has not become action disappears first.

The workshop: twelve tasks

“Practice” at the end of each chapter is done on the same evening you read it: those are the 14 evenings of reading. The tasks below are the second circle, for consolidation: one per chapter, fifteen to thirty minutes, no money. One instrument, otherwise there is nothing to compare. Write down the result: “understood” does not mean “done”.

> **Important.** The tasks go in the order of the chapters: patterns lean on levels and volume, so no chapter can be skipped.

1. **Chapter 02.** Find three trend stretches and three ranges on the daily chart.
2. **Chapter 03.** Mark the three biggest moves on the monthly chart and the dates they began.
3. **Chapter 04.** Take one instrument on M15, H1, H4 and D1 and describe twenty candles on each.
4. **Chapter 05.** Mark three months by HH, HL, LH, LL — twelve points.
5. **Chapter 06.** Build the same level by bodies, by wicks and by both — compare where it is more precise.
6. **Chapter 07.** Find five days of growth on volume (tick volume on forex) and five without volume: what happened to price next.
7. **Chapter 08.** Find three “head and shoulders”, draw the neckline and measure if price reached the target.
8. **Chapter 09.** Find three flags: measure the flagpole, the pullback and what came after the breakout.
9. **Chapter 10.** Examine ten pin bars: how many stood at a level and how many worked.
10. **Chapter 11.** Put two moving averages, 50 and 200, on the daily chart and find three bounces off the 50.
11. **Chapter 12.** Compare RSI and MACD: where the signals agreed and where they diverged.
12. **Chapter 13.** Calculate the position size for a deposit of $1000, risk 1% and stops of 20, 40 and 80 points at $10 per point per lot.

One case: a false breakout

Level 100.00 on the daily chart: three touches, three bounces down. On the fourth day a candle closes above the level on volume, but its body is small and the upper wick is long.

What is visible: the close beyond the level exists, but the strength is doubtful. What we decide: we do not enter — it looks like a stop hunt, not a move. We wait for a close below the level and a retest from below.

What happens: next day the price returns below 100.00. Short from 99.95, stop 100.60 (65 points), target 98.60 (135 points) — slightly better than 1:2, the target is hit in four days. The only possible mistake in this story is the entry on the breakout candle.

Checklist before entry

This is the same card as in chapter 13. Cut it out and keep it next to the terminal.

1. Higher timeframe on the side of the entry?
2. Level older than my timeframe?
3. Two confirmations out of three?
4. Has the trigger already happened?
5. Stop behind the idea level, in points?
6. Does the target give 1:2?
7. Position size calculated and inside 1-2%?

Seven “yes” answers mean an entry. Any “no” or doubt is a pass.

Glossary

Term	What it means
Candle (candlestick)	four prices per segment: open, high, low, close
Body	distance from open to close
Wick (shadow)	price trace beyond the body
Timeframe	chart scale: M5, H1, D1
Trend	highs and lows rise (or fall)
HH, HL	higher high, higher low — above previous ones
LH, LL	lower high, lower low — below previous ones
Range (flat)	a corridor without direction
Level	where the balance of supply and demand changed
Support	a level where price bounces up
Resistance	a level where price bounces down
Zone	a band around a level, not a thin line
Role change	broken level works from the other side

Term	What it means
Breakout	exit beyond a level with a hold
False breakout	exit beyond a level, quick return
Retest	return to the broken level from the other side
Trend line	straight line through lows or highs
Channel	two parallel trend lines
Market structure	sequence of highs and lows
BOS	break of structure: a break in the trend direction, the trend continues
CHoCH	change of character: close beyond the last HL or LH, trend change
Impulse	move with the trend, longer than the pullback
Pullback (correction)	move against the trend inside it
Swing	high or low standing out from the 3-5 bars around it
Liquidity	orders and stops that can be executed
Stop hunt	spike through a level, collects stops, returns
Volume	participation: how many units changed owner
Tick volume	number of price changes; a proxy for spot forex
VWAP	price weighted by volume
Divergence	gap between price and indicator
MA (SMA, EMA)	smoothed price over a period
Golden cross	the 50 crossing the 200 upwards
RSI	index of move strength, 0-100
MACD	difference of two averages and a signal line
Stochastic	close position inside the range, 0-100
ADX	trend strength without direction
ATR	average bar range in points
Bollinger Bands	average plus or minus two deviations
A/D, OBV	indicators linking price and volume
Aroon	time since the extreme
Head and shoulders	three peaks, middle higher, a neckline
Double top	two highs and a break of the low

Term	What it means
Triple top	three touches of a level, reversal
Cup with handle	rounded bottom, then a correction
Triangle	converging borders, compression
Flag, pennant	a pause after an impulse
Wedge	converging borders with a slope
Gap	empty space between candles
Pin bar	long wick, small body
Doji	open and close almost equal
Harami	small body inside the previous candle's body
Star	three candles: big body, small, big in the opposite direction
Engulfing	body covers the previous candle
Point (pip)	the minimum price step: for EUR/USD 0.0001 (the fourth decimal). With five-digit brokers the fifth decimal is a tenth of a pip
Lot	standard position size (100,000 units)
Long	buying for a rise
Short	selling for a fall
Setup	repeating entry configuration
Stop loss	order closing the trade when the idea is wrong
Risk per trade	deposit share at the stop, 1-2%
R:R	profit per unit of risk
R	trade result in units of risk
Spread	gap between buy and sell price
Slippage	execution at a price worse than ordered
Drawdown	deposit fall from its peak
Win rate	share of profitable trades

What next

Next comes a boring sequence: demo for one to three months with the same risk, journal and checklist. It will not teach psychology, it will test the mechanics.

Then a hundred trades, one strategy, one instrument, one timeframe. And do not change the system after two losses: the market has not changed — the view has.

Key takeaways

- A task you “thought about” is not done.
- In a case review the order matters: what is visible, what we decide, what happens.
- The checklist works when “no” means a pass.
- Next: demo, a hundred trades, one strategy, one instrument, one timeframe.

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Practice

1. Work through the twelve tasks, one per evening.
2. Take ten demo trades by the checklist, with a journal.

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Afterword

You have reached the last page. That alone puts you ahead of most readers: trading books are bought in the hope of a quick answer, and finished rarely.

What starts now is the boring part that decides everything. Open the chart you trade and describe it in three sentences: what is the trend, where is the nearest level, what would a breakout mean. Write it down. Repeat tomorrow. In a month you will have thirty observations, and you will start noticing what used to slip past: how price approaches a level, what volume does, where you lie to yourself.

In six months, a hundred journal records — and far fewer trades: the hundred trades account takes longer. That is when you can see whether you have a system — not by feel, but by numbers: how many trades, what average result in R, what maximum drawdown. Until those numbers exist, “I can feel the market” is a conversation with yourself, not a job.

We deliberately gave you no ready-made signals and no magic indicators. Signals are sold faster than thinking is taught, and they stop working exactly when they have been paid for. What you got instead is a way of looking: structure, levels, volume, context. It will not expire in a year, because it describes people rather than markets.

There will be losing weeks. There will be trades where you did everything right and still took a loss — that is a normal part of a probabilistic game, not proof that the method is broken. There will be an urge to win it all back in one evening. Those are the moments that test whether you actually read the chapter on risk or just skimmed it.

And one last thing. Come back to this book in a year. You will be surprised how much of it is said in plain words about things that now seem obvious. The book will not change. The reader will.

Good luck on the chart. And keep writing things down.

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Brokers we have worked with

We have worked with each of these companies: we opened accounts, deposited and withdrew money. This is our experience and our rating. Tap a broker name to open an account.

1. **VT Markets**
2. **Ryumount**
3. **Exness**
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All links on one page: https://montegorod.github.io/fxa-docs/docs/brokers-en.html

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