Forex Game Theory: How To Exploit Traders For Profit **(**2023 Update**)**

By PriceActionNinja.com

Most trading techniques are built on shaky foundations - they're either untested or just don't hold water.

I've seen countless methods which sweep traders off their feet because they look easy to use. These strategies are often simple and centre around buying or selling when a clear signal appears.

But let's face it:

Forex trading isn't simple… *far from it!*

To make consistent profits, you need to dive deep into the underlying mechanics of the market.

What really drives market prices.

Because it's not lines and zones on a chart which cause price changes, it's something much more obvious:

Other traders.

Traders drive prices by buying and selling for different motivations, but few videos/books/courses ever take the time to explain how this impacts the market and how to use this information in your trading.

That is, until now…

Over the following pages, I'll teach you how different groups of traders making decisions create the trends and price action we see. And how to exploit these traders to understand the market and make better decisions.

So, let's dive right in!

Contents

Understanding The Game

Here's a harsh reality:

Forex trading is a zero-sum game.

In other words, your gain is someone else's loss.

Let's say you made £10,000 on a trade.

That cash didn't just materialize out of thin air. It came from other traders who lost money. And if **you lose £10,000**, well, that money just found its way into someone else's pocket because you bet on the wrong direction.

The best part?

This applies to **everyone** in the market, whether you're a professional trader at a bank or just someone trying to make a few bucks from your home office.

In short:

The only way to come out on top is by outsmarting other traders.

Surprisingly, only a fraction of traders understand this **fundamental fact** about forex.

Debunking the Myth of Trend Profitability

Now, let's address **the elephant in the room** - the concept of '*trend*.'

I know this is going to raise a few eyebrows because most traders have the notion of 'trend' **deeply ingrained in their minds**. But as we go further into this book, I'll unveil why your current understanding of 'trend' is designed to make you lose money.

While you're reading this, here's something to keep in mind:

When does a movement transform into a trend? Or are all movements essentially trends?

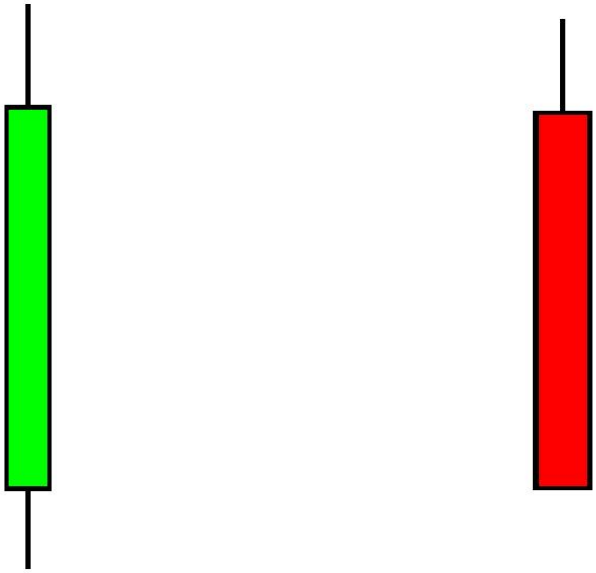
Mull over this, because it's a **key takeaway** from this book.

Defining A Trend

So, how do we define a trend?

This is **crucial** to understand why people lose money in the markets.

Most traders identify a trend using **large range candlesticks**. These candlesticks indicate *a significant price change*.



These candlesticks are the **heartbeat** of every uptrend and downtrend.

Without them, knowing the current market direction and which way price is trending would be next to impossible. Large range candlesticks play a **key role** in shaping traders' perception of the market.

(More on this later in the book)

For now, let's focus on another critical aspect of large range candlesticks:

FOMO (fear of missing out).

Here's the thing: When most retail traders spot a large range candlestick, they instinctively place trades following the candlestick's direction. It's like a **reflex action** - they see the candlestick and *boom!*

They're **in the trade.**

This behaviour isn't rooted in some sophisticated strategy. *Nope!* It's purely **emotional,** driven by a sense of urgency and fear.

Traders spot these candles and **panic:**

"OMG, price is falling without me!"

"If I don't jump in now, I might miss out on a massive profit!!"

Sound familiar?

And here's the interesting part - **the size of the large range candle significantly *fuels* this fear.** The larger the candle, the more convinced traders are about the market's direction.

This phenomenon is visible during news events, which often generate large range candles backed by high volume.

The **volume surge?**

It's the reactive traders entering, *assuming* price will continue its current direction.

Now, look at these movements.

These **steep moves** are like a magnet for reactive traders, who interpret them as golden trading opportunities they can't *miss*.

And it's easy to see why - it each instance, it *appears* the market is surging higher/lower.

But shortly after these movements, the market usually stalls or *zips* in the opposite direction.

Almost like a cunning trap laid by the banks to trip up these reactive traders.

Here's another one...

Look at the **up-move** on the far right of the image.

It's so **bullish** it's *hard to ignore!*

Many traders would have been lured into placing buy trades here, *assuming* price will continue its move higher.

What would you think seeing this move?

Let's see what happens...

The **sudden move higher** misleads thousands of reactive traders into buying, which the banks use to take profits off their own long trades.

The result?

Price tanks, and all the reactive traders lose.

Seem familiar?

And remember: Reactive traders aren't confined to any specific time frame.

Whether you're looking at a 1-hour chart or a different time frame, you'll spot these **steep movements** dotted with large range candles. The influence of these movements remains **consistent across time frames.**

It's greed and fear at the most basic level!

The 3 Trend Phases: A Deep Dive

In this chapter, we'll be breaking down the **three phases** which create *every trending movement* in the market.

I'll kick things off by **defining** what these three phases are, as well as their **purpose**.

Then, we'll sift through some **real-world examples** where these phases are clearly *visible*.

Here's the deal: *Every trend* is made up of **three distinct phases.**

These phases, like clockwork, unfold one after the other, shaping the movements within and creating the trends we see on our charts.

Heads up - My take on a trend is a movement from one point to another *without any significant pullback or consolidation* happening during the movement.

Long term historical trends, like those seen on the weekly or monthly, **aren't significant** to me due to the length of time they've been in play.

Let's dive into the phases now.

Phase 1: Imbalance

The **imbalance phase** is the *trigger* behind all major movements in the market.

This phase is **aptly named** for what must happen for price to change direction. Price can only change course if **orders larger than the orders** pushing the market in its current direction enter the market.

Here's an example:

For EUR/USD to reverse and begin rising, **buy orders** had to enter the market which are **bigger** (in size) than the current sell orders.

Where do those buy orders come from?

In our case, it's **the banks.**

The banks enter large buy trades using the current sell orders coming in, resulting in price *shooting higher*.

Essentially, an **imbalance** has happened.

The buy orders have become **significantly bigger** than the sell orders.

Whenever you spot a change in price direction, it's because this **imbalance phase** is in play. It's what's initiates **ALL major market movements**, no matter which timeframe or currency pair you're observing.

Phase 2: Liquidation

The **liquidation phase** is the *aftermath* of the imbalance created by the first phase.

During the imbalance phase, a **set of orders larger than the ones driving price** in its current direction enter the market.

This is what sparks the initial movement in every price reversal.

As price begins to move in the opposite direction, traders who had open trades in the prior direction before the reversal **begin to close their trades at a loss**.

This further propels price in the direction of the reversal.

Consider our example:

When price **jumps higher** due to the banks entering large buy trades (**Phase 1: Imbalance**), the traders who entered short during the previous move down start losing money.

The **FURTHER** price rises, the **LARGER** their losses become.

Eventually, their losses become unbearable, and they decide to **close their trades**.

How do you close a losing sell trade?

You must **BUY** back what you sold at a **WORSE** price.

These traders, unknowingly, become *buyers* and put more buy orders into the market. This causes the imbalance between buys/sells to become even greater, leading price to rise further.

Now, the banks use these buy orders to **take profits** off their own buy trades placed earlier in the move/trend.

And how do you take profits off a buy trade?

By **SELLING** some of what you **BOUGHT**.

You need buyers to take the opposite side; otherwise, you can't sell!

(Beginning to see how this process comes together now?)

The **key takeaway** about the liquidation phase is: The movement generated by traders closing losing trades **heavily depends** on how many traders were entered in the opposite direction price was moving in before the reversal.

The more traders who had trades open in the previous direction before price reversed, the *larger* the movement generated by their liquidation.

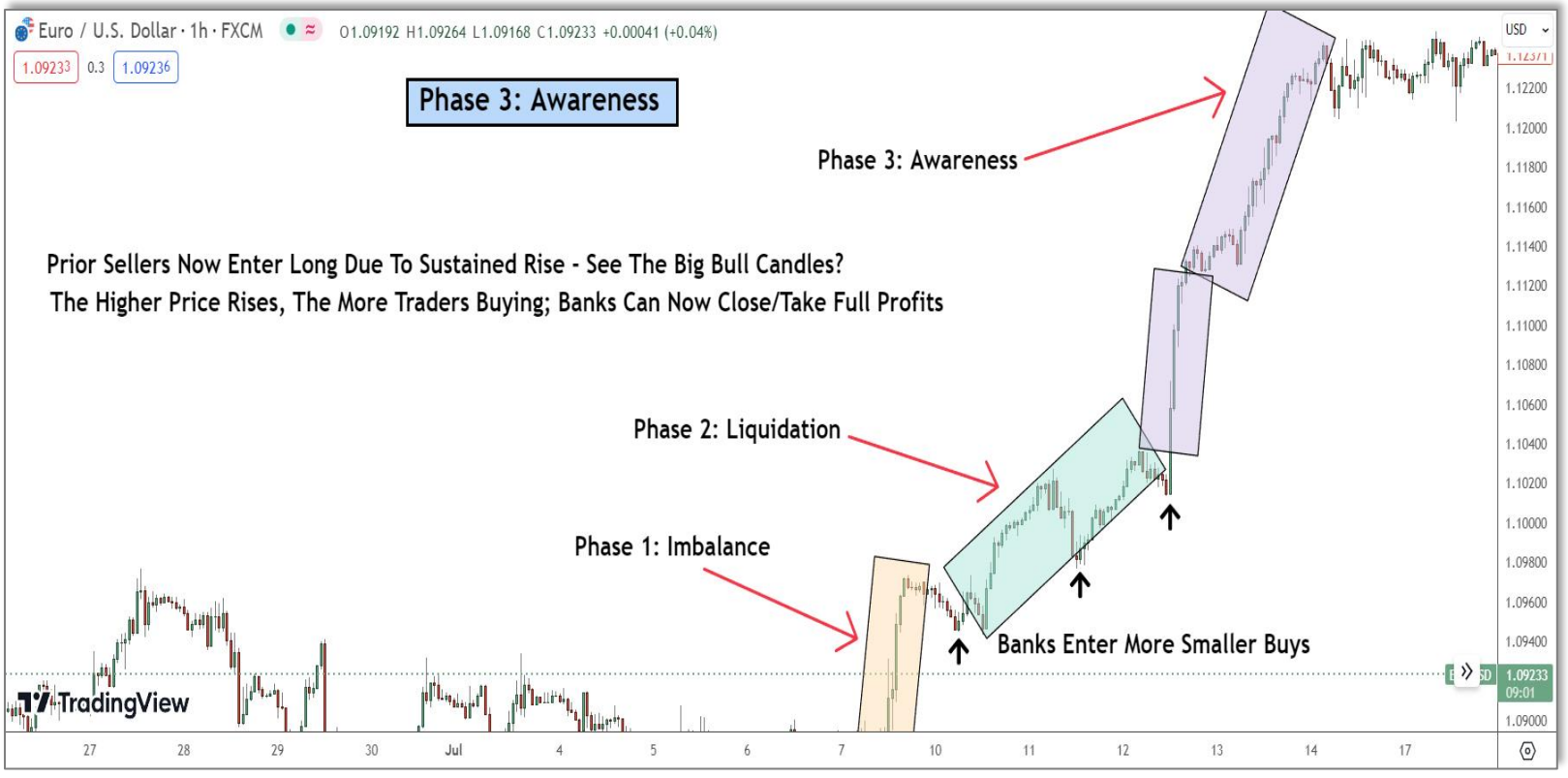
Does that make sense?

Phase 3: Awareness

The awareness phase is essentially the *sum* of the movements generated by the first two phases.

The imbalance and liquidation phases have propelled price far enough to **convince** people a new trend or significant movement is taking place in the market.

In our case:



As people see price rise *further and further,* they begin entering **buy trades**, assuming price will now continue rising rather than reverse.

The **large bullish candles** only add weight to this belief.

As these traders enter buy trades, the discrepancy between buy orders and sell orders **grows even larger**.

The imbalance… becomes BIGGER.

This is when the banks will either **take substantial profits and re-position** (common in long trends) or close their trades and cause a reversal - which is what we see happen after the rise concludes in our example.

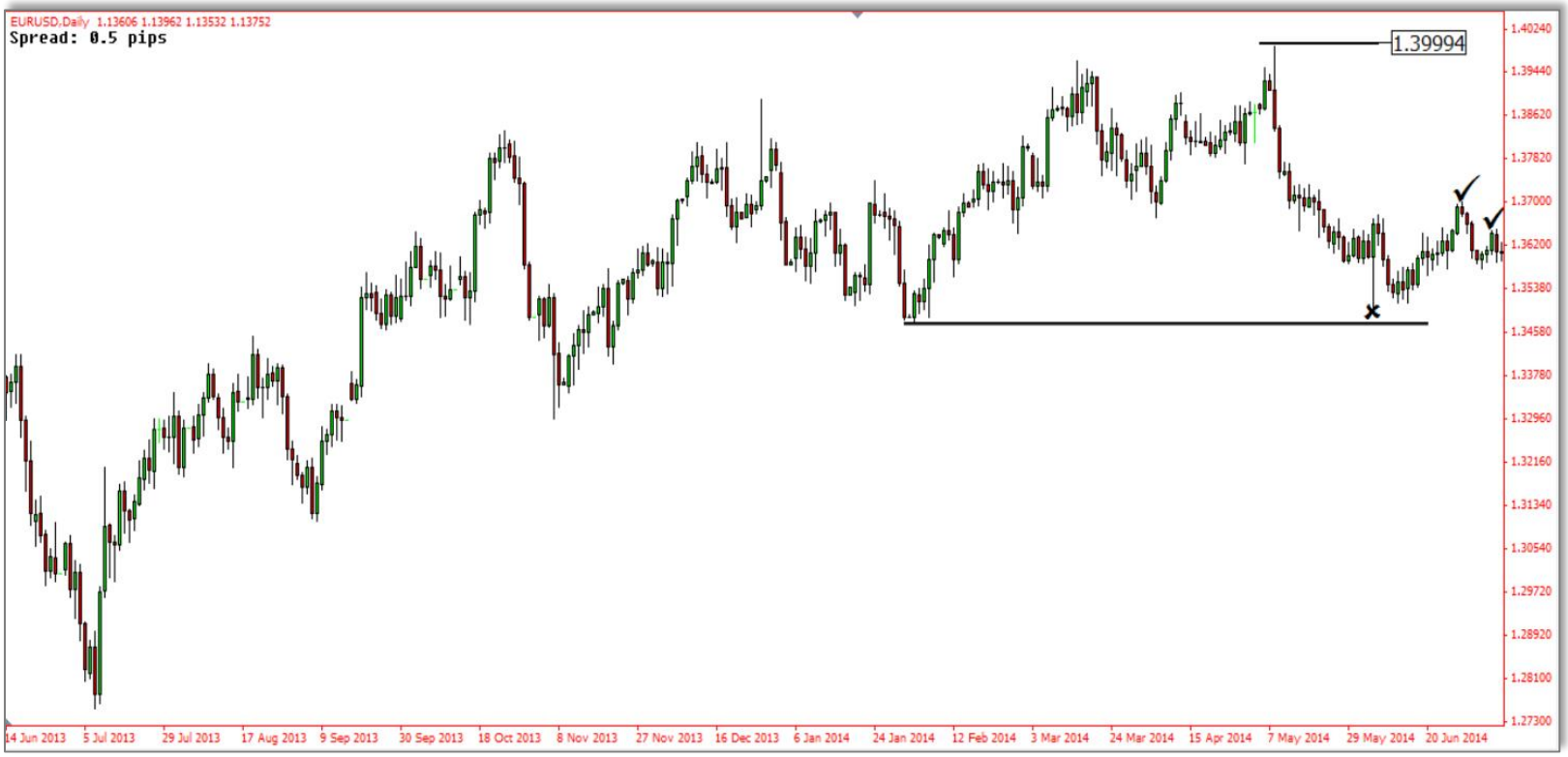
Quick Recap:

Phase 1 - Imbalance: The first phase in every sustained movement or trend (Imbalance) is triggered by a set of orders entering the market *far larger* than the ones causing price to move in its current direction.

Phase 2 - Liquidation: The second phase is driven by traders who had open trades placed *before* the first phase began, now **closing their trades at a loss** due to price reversing from its previous direction.

Phase 3 - Awareness: The third phase is traders realizing a **new significant movement or trend** is now underway because of the movement generated by the first two phases.

Unveiling the Realities Behind Market Trends



Check out the image above...

Imagine you're trying to predict which way the market will move from here. Does it seem like a **massive reversal** is imminent?

Probably not, right?

But why?

Well, the market hasn't fallen *enough* to convince you a **new down-trend** exists.

No **new lower low** (the current lowest low is marked with an 'X') has formed yet, and the recent price history was bullish. So, it still seems plausible the market could rally back up to its highs, or even start consolidating.

Here's a fundamental truth: No one perceives a trend until the market has moved **far enough** in one direction for them to acknowledge a trend *truly exists*.

At the start of this book, I tossed a question at you:

"At what point does a movement transform into a trend, or are all movements considered trends?"

The truth...

All movements are trends, but not to every trader AT THE SAME TIME.

Consider the following:

A trader on the 5-minute chart *doesn't care* what the trend is on the daily chart. Why? His time horizon for placing and holding trades is **significantly shorter** than someone trading off the daily.

Similarly, a trader who trades the daily chart isn't going to stress about what the trend is on a 5-minute chart.

He's making decisions based on a **completely different time horizon**.

However, it's **critical** to realize the decisions made by both sets of traders, based on the trend happening on their individual time-frames, will end up influencing how traders using other time-frames perceive the trend.

For example:

If a **significant downward movement** takes place on the 5-minute chart, numerous traders will start selling.

This wave of selling might drive the market down enough for traders who were long on the 1-hour chart to start closing at a loss, causing further down movement. Depending on its size, the movement may drive price down enough for 1-hour traders to start shorting because they believe a **significant downswing** is now underway.

The added selling pressure could nudge price down even further, persuading traders on the daily chart to place sell trades, thinking a new trend or significant price move is happening.

This results in an even **bigger price drop**.

The variety of time-frames traders operate on means they all perceive the market's price action differently.

A long-sustained price decline (what we'd call a trend) on the 5-minute chart only *appears* as a small decline on the 1 hour and barley even registers on the daily.

Hence, those traders don't view the move as significant.

However, if enough 5-minute traders enter short, creating a long downtrend (on the 5 min, at least) the move may become significant enough for some 1-hour traders to enter.

The movement they generate may then cause price to fall enough for most 1-hour traders to view the decline as a new trend or significant price swing.

By this time, price will have fallen enough for some daily chart traders to enter short and add more downward pressure.

The movement generated by these guys may have then caused price to fall enough for most long-term traders to perceive **a new trend or large price swing** is under-way, causing them to enter and a real long-term trend to form.

Before the downtrend kicked off on EUR/USD, most orders entering the market were **buys**.

Why so?

Because the first down move from the 1.39 high is seen as a downtrend by only a *specific group of traders*, mainly those on lower time-frames like the 15-minute and 1-hour charts.

Most traders on daily and weekly charts wouldn't consider this a new downtrend because price hasn't fallen far enough for them to perceive a new trend exists.

Also, consider how traders on longer time frames, like the daily/weekly, probably haven't closed their losing trades when the initial downward move happened from the 1.39 high.

Their time horizon and risk tolerance explain why.

The daily trader **reacts differently** to price action compared to a 1-hour trader.

For example, **a bearish large range candle** on the daily chart would prompt reactive daily traders to place trades. However, traders on other time-frames don't perceive a bearish large range candle; they just see a minor downtrend.

The last **critical point** is about how professional traders take profits off their trades.

Suppose you sold 100,000 euros at the point marked with two ticks in the image.

By the time the market reaches the current low, your trade could be in a *gigantic* profit (let's say 1 million).

To close the trade and take profits, sell orders need be coming into the market totalling at least 1 million or more.

This situation requires a **massive number of sellers**, which only happens if masses of traders believe price is moving lower and enter short: **I.e**., **When they perceive a new downtrend is underway.**

That's why banks and other large institutions need retail traders to have a misguided understanding of the trend.

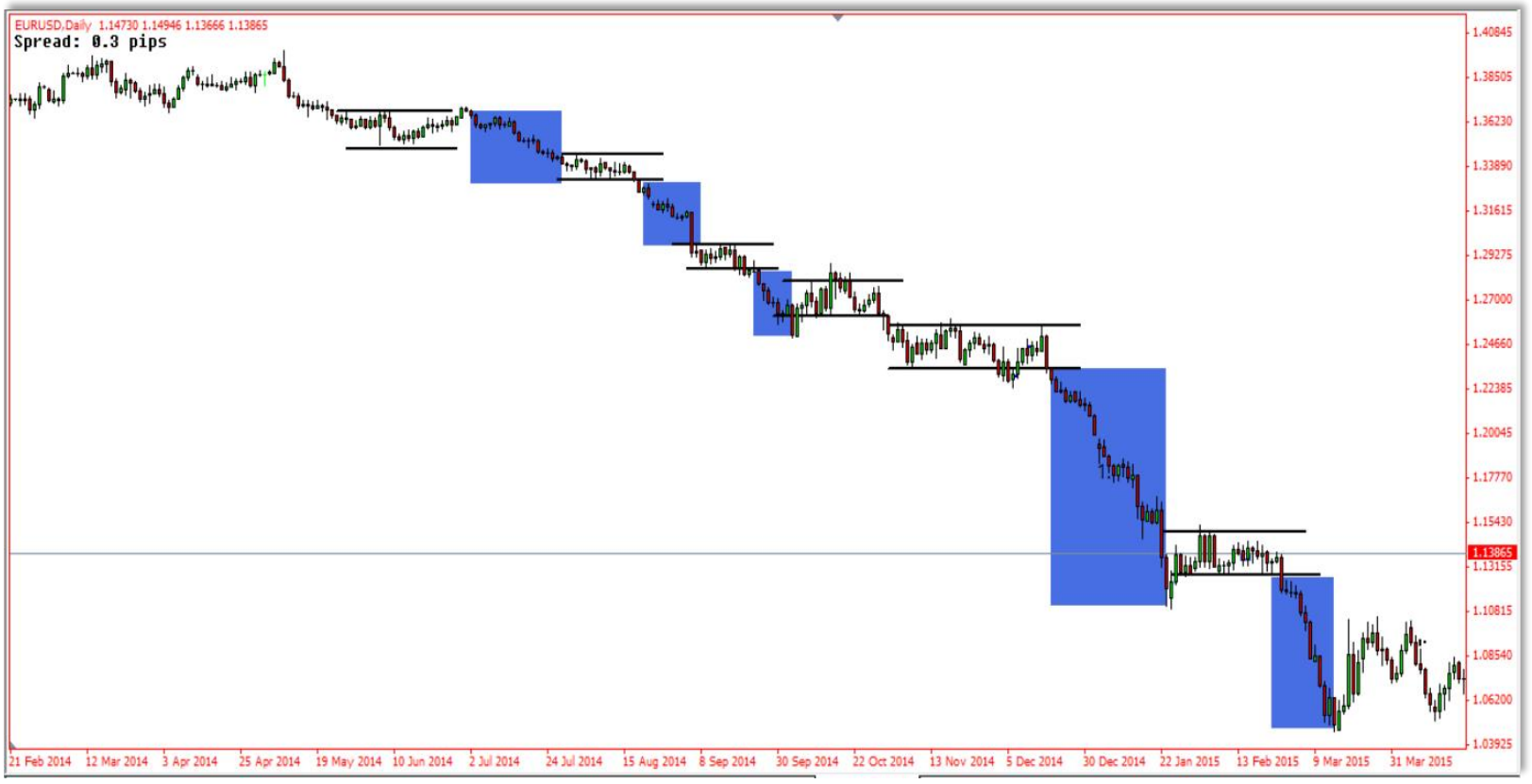
The banks NEED retail traders to always place trades late into a movement or trend because, without that, they can't take profits off their own trades, which grow in profit as a trend continues and require more traders to act as a counterparty with their buy or sell orders.

The Most Important Fractal Pattern In The Market

You might've come across the term **"fractals"** before.

But, don't worry, I'm *not* talking about the fractals Bill Williams usually mentions. Instead, we're delving into the most common **psychological fractal pattern** in the forex market.

Let's pull up the EUR/USD daily chart...



Here's the **downtrend** which unfolded after price broke the low seen in the previous images.

Notice those *blue boxes?*

Each box marks a distinct downward movement in this bearish trend. Each of these follows the three phases I highlighted earlier:

- **Imbalance,**
- **Liquidation,**
- **Awareness**.

Now, let's focus on the **consolidations** happening between each move… These are the catalysts behind each downward shift.

When the market halts and slips into a *consolidation phase*, reversal traders usually believe it's because price is about to move in the opposite direction.

The trend traders, who only enter after they perceive a trend (i.e after they see price rise or fall for a *long time* – depending on timeframe), find themselves at a loss due to the market's counter-trend swing at the start of a consolidation.

What we end up with are **two sets of buy orders** flooding the market.

One lot comes from the *reversal traders* who are buying under the impression a price reversal is imminent.

The **other lot** comes from *trend traders* who enter at the end of sustained price moves closing their now losing sell trades. Bank traders exploit both sets of these buy orders to place more **sell trades**, pushing price in the direction of the current trend.

But here's the thing:

Where these consolidations crop up within the trend can influence the banks' decisions regarding the orders generated by the trend and reversal traders.

If a consolidation forms **at the start of a trend**, the banks might likely use it to build positions aligned with the upcoming trend.

If consolidations appear deep **into an ongoing trend**, they're probably a result of bank traders taking profits off their trades.

Why is this?

As a trend ages, more and more people become aware of its existence, causing a *surge* of traders buying or selling in the same direction.

*(This is the **Awareness phase** I talked about earlier).*

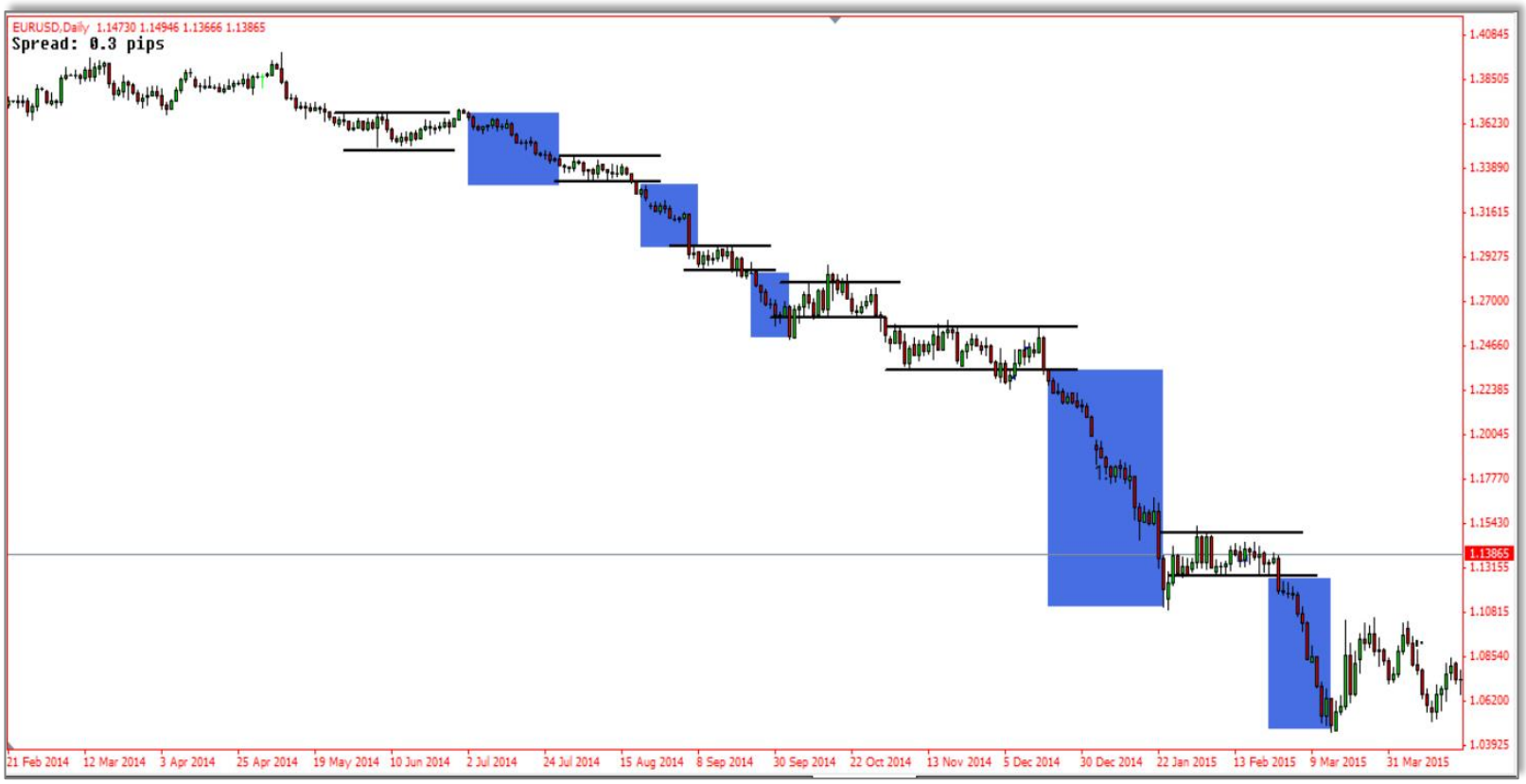
In the initial stages, most traders don't realize a new trend is underway.

Most traders often view the first downward or upward movement in the trend as *merely a retracement* of the preceding trend. That means most traders haven't entered trades in-line with the **new trend**.

Instead, they're trading based on the *previous one*.

In our EUR/USD downtrend example, people only started selling on any retracement or consolidation once the market had been falling for what they deemed as "**long enough**" as for a downtrend to exist.

The longer (and further) price declined, the more traders who jumped on the band-wagon and started selling.



Take a look at the **EUR/USD downtrend image**.

You'll see around the mid-point two consolidations form right next to each other, with only a tiny downward move in between.

This lack of a significant downward move - or a *very minor* one - for multiple days/weeks **extends** the time price isn't trending.

For most traders, this *heightens* their belief a **reversal is near**.

The longer price stays moving sideways rather than falling, the **greater** the number of people who think:

"Hey, price will soon reverse and begin rising."

This means more people will **lose (and close)** if the market falls further.

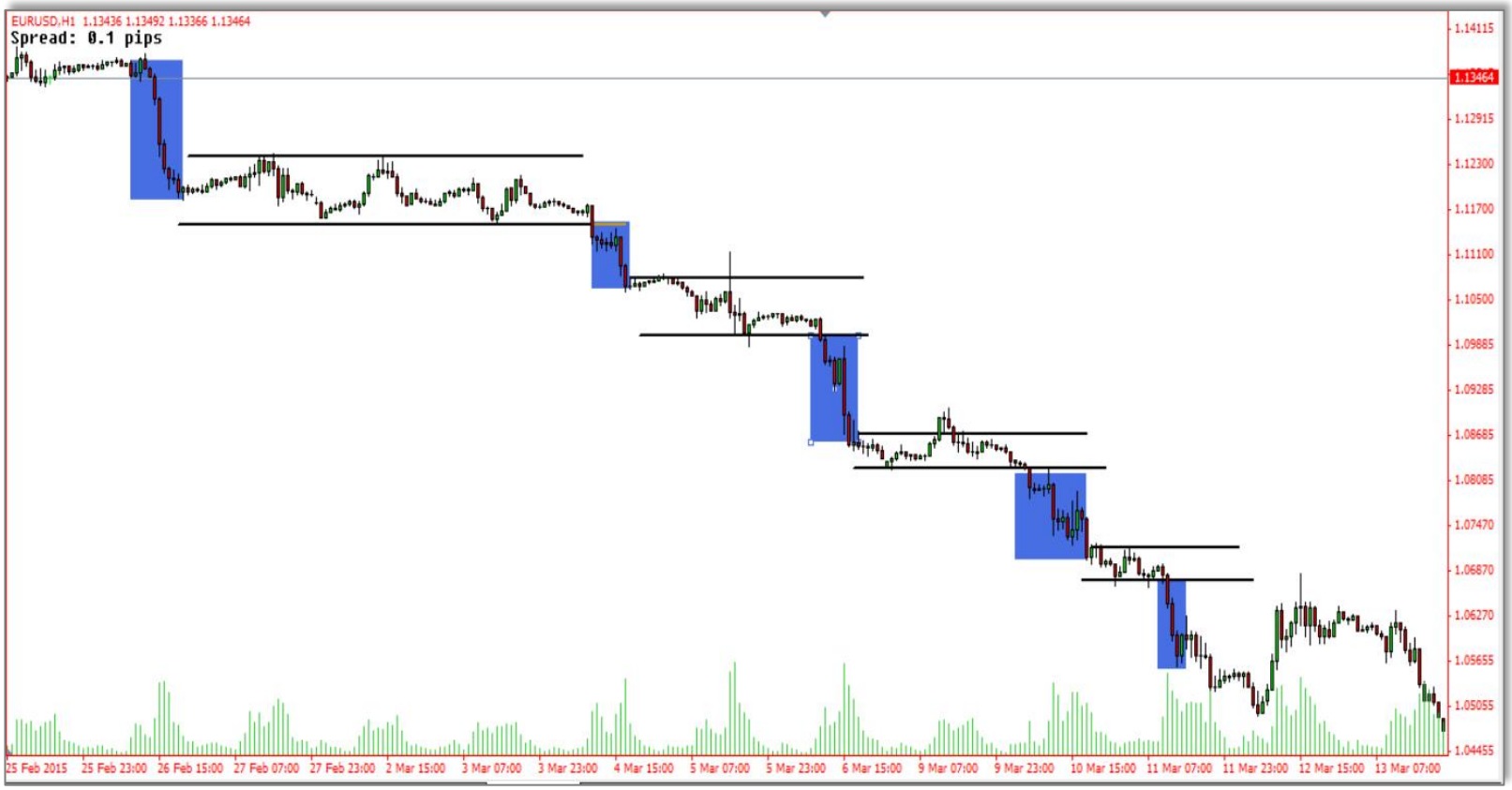
Notice the downward move following the two consolidations?

It's the **steepest yet**, almost equivalent to the combined size of the **three preceding down moves!**

This happened because there were significantly *more* traders closing losing long trades when price started falling after the consolidation compared to the previous ones, all because of how long price was moving sideways.

Exploring Market's Repetitive Nature

Let's dig a bit deeper into those individual downward movements I marked in **blue** on the images.



Check out the image above...

It's the **final downward move** you can see from the previous page's image, but here we're zooming into it on the 1-hour chart, not the daily chart.

The single downward move **mirrors** the entire downtrend's structure - we're seeing downward movements followed by periods of consolidation.

What's happening in this overall downward move is the **same** as what we see during the entire downtrend on the daily chart.

The only difference?

It's affecting a smaller group of traders.

Each downward movement passes through the **three phases** we discussed earlier:

1. Imbalance.
2. Awareness.
3. Liquidation.

The length and duration of each decline depend on *how many traders placed buy orders* when price stopped falling and began consolidating or retracing. It's **important** to understand:

At this point in the downtrend, fewer traders buy when price consolidates.

Why?

Because the market has **clearly** been in a downtrend for a long time across *all timeframes*.

When price has been consistently falling, traders naturally start selling on any price movement - whether up or down - believing the trend will *surely* continue.

Let's shift gears and look at a **downward move** on the 5-minute chart... part of a larger downward move seen on the 1-hour chart.

Surprisingly, even on a timeframe as small as this, the *same structure* holds.

The same process is happening, only it's affecting an even smaller group of traders.

The reason I've shown you these 1-hour and 5-minute chart trend structures is to *illustrate* how **different types of traders impact each other in the market**.

Lower time-frame traders - like those on the 1-minute and 5-minute charts - generate movements which *affect* higher time-frame traders, like those trading on the 30-minute and 1-hour charts.

Then, *these* traders react to the movement caused by the lower time-frame traders, stirring up enough price movement for **daily and weekly chart traders to start placing trades.**

This is how the market works.

It's a web of **cause-and-effect relationships** between all the market's traders.

Diverging Paths: Trend vs. Reversal Trading

In this chapter, we're going to examine how **trend and reversal traders make decisions.**

Most traders utilize either a *reversal strategy* or a *trend trading strategy* to profit from the markets. While every strategy itself has different entry/exit conditions, all fall into these **two categories**.

By understanding *how* these two types of traders make decisions, we're better equipped to **predict their actions when trading.**

Trend Trading

Let's start with trend trading.

Trend traders aim to profit from a movement AFTER it has already started.

For instance, a moving average crossover only generates a signal after one average has crossed the other. **Price MUST rise or fall** for a while for the averages to cross and flash a signal.

Would A Trend Trader Buy If The Market Was Flat?

No, because there's no trend…

A trend trader needs to see the market rise or decline for a **certain length of time** before he decides to buy or sell. He needs **confirmation** a trend actually exists, which can only happen if price has already moved.

Would A Trend Trader Buy Now?

Yes, because now price has risen for a while; the trend trader sees an **opportunity to potentially make money.**

The important point to remember is…

We could be seeing these moves on a 15-minute timeframe, so only the trend traders on the 15-minute **will have identified this movement as a trend.** Traders on higher timeframe will have a different view.

Trend traders on the daily would probably see something like this:

Daily Chart Traders Only See A Small Rise

Does this look like a new trend to daily traders?

Heck NO!!

This rise is far too small to appear as a new trend.

Do you see my point now?

To the traders on the lower time frames, this movement appears as a **significant up-trend**. Anyone using a trend trading strategy on these lower time frames would probably enter upon seeing this movement.

For example:

On the lower TF's, this movement would probably cause an **MA cross** to happen.

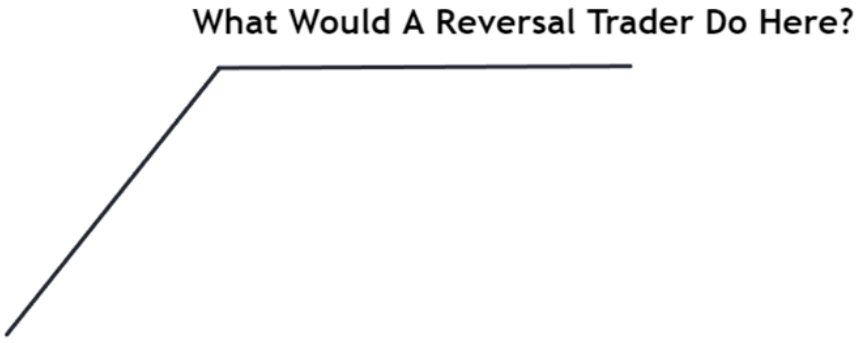
However, to a trader using a moving average crossover on the daily, the movement above would *most likely not have caused the averages to cross* – price hadn't risen far enough.

Reversal Traders

Reversal traders always aim to enter either *in the direction of the current trend* or counter to it.

For example:

When the market is in a downtrend, reversal traders attempt to sell against any up moves, or **against the trend itself**. Hence, their analysis also incorporates the concept of trend, but in a different way to **trend traders.**

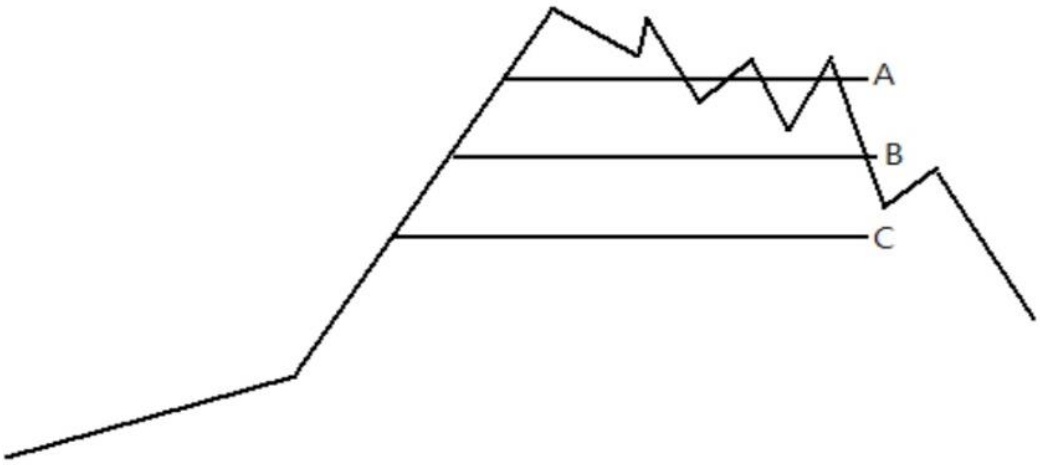


What do you think a **reversal trader** would do if this was all he could see?

It depends on what the *previous trend* was, right?

If the market been trending higher before price stalled, a reversal trader would *probably* enter short to capture a **reversal**.

If the market had been trending lower, a reversal trader would most likely view the *price action* above as a **retracement** and enter short to capture a **continuation of the downtrend.**



Here's a picture depicting how a typical **reversal trader thinks:**

First off, the market is rising, so the trader thinks price is in an **uptrend.**

The goal?

To find a spot to enter this uptrend and hopefully make some money.

So, he pulls up his **charting tools**, sketches lines or rectangles based on *past price action*, and then patiently waits for the market to swing back his way to enter his buy trade **(Point A).**

When price dips back to "line A," he ends up losing money.

But hey, no biggie, right?

The market still *looks* like it's in a **"retracement" phase** of the uptrend.

So, he dusts himself off and fires off another trade at "line B".

Bad luck strikes again.

This time, however, the drop that breaks his line is *way more substantial* than the one which broke line A.

Such a drop usually includes one or more **big, bearish candles** which we know most retail traders use to determine the *current trend*. This shift prompts the trader to *reconsider* his prediction of the **future market direction.**

The sheer magnitude of this drop, compared to the first one at line A, makes him now view the market as a downtrend rather than just a retracement to the uptrend.

And so, the trader repeats the whole process of drawing lines and rectangles, but this time he's looking to go **short into a downtrend** rather than long into an uptrend.

The above cycle is how **ALL reversal traders** think and why they still wind up entering late into a trend rather than at the *beginning*.

Here's another common scenario:

Traders identify the trend on one timeframe (like the daily chart), then try to trade in the trend's direction on a different timeframe (like the 1-hour). But what they often miss is that these trends are **entirely independent**.

The trend could be *up* on the 1-hour chart and *down* on the daily.

But if the trader bases his trend on the daily chart, he'll keep entering *sell* trades on the 1-hour, thinking the daily trend will continue, even though the 1-hour trend is now *up*.

Eventually...

The market will move far enough on the 1-hour for the trader to realize: **The 1-hour trend is now the actual trend.**

Then, he'll start trying to pick reversals in line with the **new 1-hour trend** instead of the previous one.

Another **perception shift** comes from losing trades consistently.

If traders keep losing money trading the same move or direction, there's a point where their beliefs about the direction will change.

For instance:

If *I* believe the market's going to switch to a downtrend when it's currently in an up-trend, and I keep placing *sell* trades against this uptrend thinking the trend's about to flip, but I keep losing, my belief the market is going to go down will eventually fade.

At some point, I'll accept the market isn't going down but is instead going *up*.

So, I'll start placing *buy* trades thinking price is set to climb.

The issue here is, by the time I realize the market is moving higher, the uptrend is nearing its end, meaning it's about to start reverse while I'm still placing *buy* trades thinking it's going to keep climbing.

See the paradox of reversal trading now?

Time's Influence on Market Interpretation

Now let's touch on how time impacts perception, a topic **rarely discussed** in the trading world.

Time is a **critical** element in every trader's market analysis.

For example: **The longer the market moves in one direction, the more people who start believing it'll continue moving the same way indefinitely.**

This assumption is often behind most major market crashes.

People assume because price has been rising almost non-stop for weeks, months, or years, it's bound to keep rising.

I mean, why would it fall if it's risen this far?

So, thousands of people start buying, expecting higher prices, but eventually, there's **no one left to buy**. The risk-reward situation now becomes skewed to the downside, prompting people (usually banks) to start selling.

This time concept also applies to **other market structures**.

Take a glance at the two **consolidations** which occurred during the USD/JPY uptrend back in 2014.

Notice how long each of these consolidations lasted?

Combined: The market was in a consolidation phase for **273 days**.

Ever wondered how this influences traders perspective on the market's future direction?

Think about it…

Both consolidations accomplish **two things**:

First - they *coax* the late buyers out of their trading positions.

Second - they tend to make people lose sight/interest in the previous uptrend. If a consolidation lasts long enough, traders start to believe the market will keep *consolidating indefinitely*.

Just as they often expect **long-standing uptrends** and **downtrends** to continue.

The formation of these consolidations was driven by institutions taking profits from buy trades. However, the length of time the market stays consolidated directly *impacts* most traders' belief the trend has ended, or the market is about to reverse.

If traders with long trades suspect the trend is over, they'll close their trades.

The kicker:

Closing a buy trade means a sell order enters the market.

And guess what?

That's *exactly* what the banks and institutions **want.**

All these sell orders enable them to place massive buy trades.

The banks will keep purchasing from these traders, knowing eventually their buy orders will outnumber the sell orders. As a result, the market will trend upwards, causing everyone who placed a sell trade during the consolidation to lose money and close their trades.

This scenario isn't unique.

You could spot a similar consolidation in *any currency on any timeframe*. The impact on trader psychology would be the same.

A trend CANNOT continue without consistent losers fuelling the banks' profits.

This can only be achieved through a retracement or consolidation.

In case of a retracement, its **length** and **speed** determine the number of traders who lose, due to what the retracement will make them believe about the future market direction.

When it comes to consolidation, **length** is critical.

The longer the market consolidates, the more traders who believe it will keep consolidating, leading to more losses once the consolidation ends.

Moreover, it's also important to consider **WHERE** retracements and consolidations occur concerning the trend.

Let's examine a retracement at the start of the USD/JPY's long uptrend.

This retracement achieved **two things:**

First, it caused those who bought during the **initial up-move** to lose money.

Then, as the market continued to fall for *over 2 months*, traders started viewing it as a **continuation of the previous downtrend**, prompting them to enter sell trades to capture the move.

The **further** price falls, the **more** people who start selling, making the trend more *apparent* to traders on **every timeframe**.

Looking at the **weekly chart**, traders would think price is heading downwards.

Why?

Because the down-move appears as a **continuation** of the downtrend as the market didn't make a *new higher high*.

This situation was **orchestrated** by *institutional traders* to generate **more sell orders** for their massive buy trades. The banks' buying sparked the initial up-move against the prior downtrend in the first place, and their *profit-taking* caused the retracement we see.

The banks wanted price to fall back to where they placed their **initial buy trades** so they could drum up **sell orders** to enter more buy positions.

The banks are aware if they enter **sizable buy trades**, they'll eventually absorb *all* the sell orders from traders selling, and the resulting upward movement will lead those who sold during the decline to close at a loss.

This action will then **trigger further upward movement**, earning the banks a *hand-some profit* on their newly placed positions.

How Do People Identify When A Trend Exists?

Hopefully, by now, you've caught on to **why** the concept of '*trend*' might be designed to make you lose money.

Now, let's talk about *how traders identify the start of a trend*.

See the price action marked between the two lines?

Would you consider this movement as an uptrend?

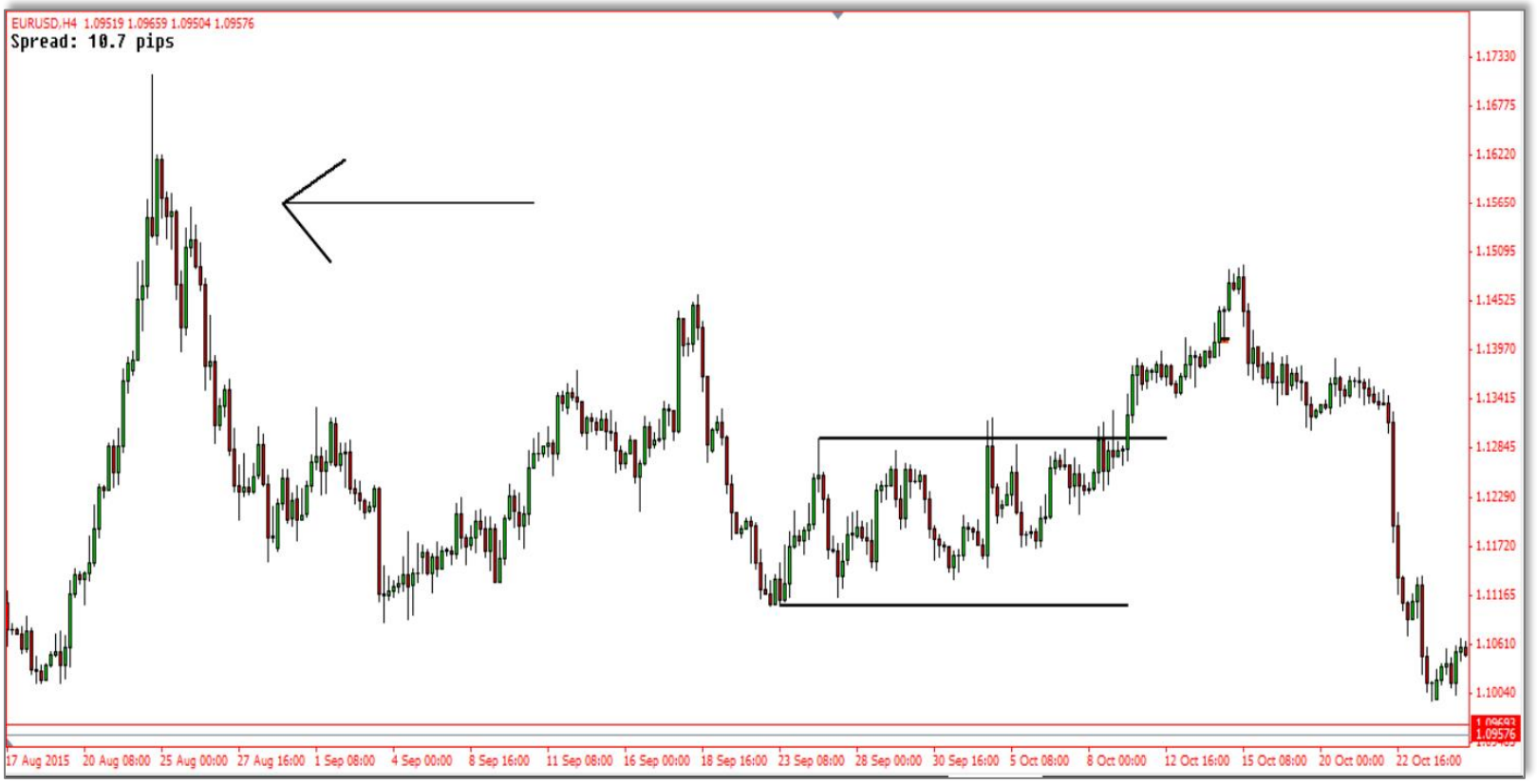
When does the sideways price action, marked between the lines, start to *really* look like a trend to traders?

When the market breaks the previous highs, right?

The **higher high** breaking the last high is the most common form of **trend identification.**

Until price breaches these highs, most traders view the market as directionless.

When the previous high is broken with **bullish, large range candles** – *how most traders define a trend* - it signals the market has an **upward bias**. This prompts a slew of traders to start placing *buy* trades, believing the higher high indicates a breakout leading to a new uptrend.



Clues as to what was likely to happen upon price breaking the consolidation appeared from the downward move pointed to by the arrow.

The almost vertical move would have thrilled *reactive traders* because price rose **significantly** in a short time span. The subsequent downward move was instigated by bank traders selling to the reactive traders who were buying.

Steep upward movements like these are often dubbed **'parabolic'.**

Such movements can never last as there's *no retracement or consolidation* during the rise. Without a retracement or consolidation, there are **no traders losing money** while price is moving higher.

Remember: **A movement/trend can't continue *unless there are consistent losers.***

Losses occur when price stops moving in the direction of the movement, either by consolidating or retracing.

Since the market reversed due to **bank traders placing sell trades**, it indicates they *want* price to reverse and begin falling. If price re-enters the area where they previously sold, they are likely to sell again.

This is what *typically* happens soon after price **breaks out from the consolidation.**

The image **illustrates** how the banks ended up selling where they had done so **five times before.**

The blue line isn't a resistance level; it's there to *show* you where the selling took place during consolidation.

Notice how the blue line *connects* the swing highs of **four previous downward moves**, all created by the banks placing sell trades?

The parabolic rise which broke these highs led the crowd to believe a **breakout was happening**. If the bank traders sell against this parabolic move, they stand to make substantial gains.

Why, you ask?

Because when price falls, the breakout traders will be **forced to close at a loss.**

This is how you could have anticipated the market was unlikely to continue rising after breaking out from the consolidation marked by the lines.

The **breakout** was merely a **tactic** to entice more people to place buy trades, enabling the banks to place more sell trades using the **buy orders generated**.

Consider the start of the **EUR/USD downtrend** seen on the *daily* chart.

Nobody would have considered the market to be in a downtrend until price fell below the low marked by a line in the image.

But what happens when the low is **breached?**

The market begins to consolidate.

If you *observe closely*, you'll notice the consolidation highs align with the point where **trend traders** would have started placing **sell trades**.

This isn't happenstance, my friend.

The *reason* the consolidation highs meet this point is to compel the trend traders to close the sell trades they've just placed. When these trend traders who sold *close their trades*, it **triggers buy orders** in the market.

This allows **banks/institutions** to place their own sell trades.

And once their sell trades are locked in... the market begins to fall.

Now, any reversal traders who placed buy trades during the consolidation will start closing their trades at a loss, injecting **sell orders** into the market and propelling the next **downward move.**

Small Range Consolidation Setup

Let's chat about **engulfing candles...** *the most important candlestick pattern in forex*.

You've probably seen them on your charts, and maybe you've even traded them. But do you *really* understand their impact?

You might not realize this, but: **Engulfing candles are super important.**

These candles can *manipulate traders* in a major way.

Typically, people trade engulfing candles in tandem with tools like *Support and Resistance, Fibonacci, Supply and Demand,* or even as standalone candlestick patterns.

The trouble is... none of these methods can accurately predict when traders will lose money and close their trades. And remember, we're playing a game where **one trader's loss is another trader's gain.**

We **MUST** always hunt for opportunities where traders will **LOSE.**

What truly matters about the method I'm about to reveal isn't the look of the engulfing candle itself, but *comprehending* what it signals to the **broader market structure.**

Your goal is to spot events which will stun a bunch of traders into closing their trades.

Predicting a reversal before it happens?

No-can-do.

Trends begin with an *imbalance phase*, where one set of orders outnumbers the other set. This is followed by the **liquidation phase**, where traders who had trades open before the market reversed, start closing their trades at a loss.

Our aim?

To have our trade set up before **Phase 2** kicks off.

I call this: **The small range consolidation setup.**

Sure, we can't predict a reversal before it starts, but we can certainly do our best to *join the reversal* before most other traders do.

If we nail this, we have a shot at a **sweet trade.**

Why?

Because we're entering right where **heaps of traders** will be closing their trades at a loss, which will drive price the other way and make *our trades profitable*.

Let's take a look...

In the attached image, I've marked bearish candle.

What's so special about this?

It's the candle which causes traders, who had placed buy trades during consolidation, to start closing their trades at a loss.

Prior to this candle, the traders who bought during market consolidation would have experienced **small losses.** However, the appearance of the bearish candle **amplifies** these losses from *minimal* to substantial.

When traders are suddenly confronted with **large losses**, fear often leads them to **close their trades immediately** to avoid losing more money.

This is our opportunity!

If we can spot when people are likely to close their trades, we can *pocket their money*.

How much we stand to gain depends on how many traders decide to **exit.**

Trading this pattern requires you to enter on the candle that's **changing the mindset** of traders entered in the opposite market direction.

In the example, it's **the large bearish candle**.

Although this candle isn't a bearish engulfing, it marks the point where traders' **small losses balloon into larger ones.** As this candle forms, the traders' losses escalate until they eventually decide to cut their losses and close their trades.

This decline pushes our short trade into profit.

Here's another one...

Let's look at this **consolidation** on the daily EUR/USD chart.

The **bearish candle** in question ratchets up the pressures any trader who bought during the consolidation to consider closing their trade at a loss.

This candle's appearance on the *daily chart* suggests the ensuing market drop could be much larger than if the consolidation happened on a lower time frame, like the 1-hour.

You'll see the market enters a brief **consolidation phase** after the bearish candle closes.

Don't sweat it.

It's just the banks *taking profits*, thanks to the new sell orders from traders who are closing losing longs.

Unless the market bounces back up and **breaks the high** of the bearish candle, there's no reason to exit your trade.

Stop Location And Rules

Let's dive into some *key rules* to nail this strategy.

The first one is all about **timing**.

You need to ensure the candle which signals the shift in traders' psychology closes *near the consolidation lows* for a sell trade, or *near the highs* for a buy trade.

Why is this important?

It's all about trader psychology.

If the market closes at the lows or the highs, it's more likely traders will close their trades. When you think about a consolidation, it essentially has three parts: **the highs, the lows, and the middle.**

If the candle causing traders to close their trades winds up closing in the *middle*, fewer traders will bite the bullet as their losses aren't substantial yet.

But if it closes at the **highs** or **lows**, their losses are more severe, and more traders are likely to lose since the market is further from the consolidation's middle. This middle zone is where a significant number of traders would have placed their buy or sell trades, depending on the prevailing trend.

For these small-range consolidations, the stop goes:

- **ABOVE** the candle's high for a **SELL** set-up,
- **BELOW** the candles low for a **BUY** set-up.

If your trade is spot on, you'll usually see another **large-range candle** form immediately following the one that led many traders to suffer losses.

The Bottom Line

This book wasn't written to hand you a failsafe strategy for **consistently successful trades**...

No.

The **primary aim** of this book was to illustrate *how people lose money* in the markets.

I get it...

This book *might* have been a **challenging read**. Some readers may not have **entirely grasped** the concepts I've tried to communicate. *Believe me*, I was the same upon first learning these concepts.

But, my *hope* is that this book, when combined with my **other books/articles/courses**, will equip people with the **knowledge they need** to *consistently earn profits* from the market.

Thanks for sticking with it...

Happy trading!