

How To Time Reversals: Using Consolidations + Retracements (2023 Update)

By PriceActionNinja.com

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In forex, the rhythm of price movement is an intricate dance of trends, consolidations, and retracements.

- **Trends** represent prolonged periods of price **rising or falling**.
- **Consolidations** represent periods of price moving **sideways**.
- **Retracements** represent periods of price move **countertrend**.

To most traders, these three market states appear random and unrelated to one another, but their formation actually depends largely on the status of the other states.

What do I mean by this?

In short:

Trends CANNOT form without consolidations/retracement.

Retracements and consolidations **MUST** periodically occur for a trend to form and persists; they act as fuel for the trend.

For this reason:

We can time changes in the trend by understanding how and when consolidations and retracement form.

In this book, I'll explain why consolidations and retracements are essential for the trend due to their formation and the psychological effect they have on traders. And how to exploit their formation to better time future price reversals.

Ready to get started?

Let's jump in...

Contents

What Really Causes The Market To Move?.....	4
Deciphering Market Structures: Retracements and Consolidations.....	7
Understanding the Formation of Retracements.....	10
The Fear Of Missing Out (FOMO).....	16
How Do Consolidations Form?	25
Putting It All Together	38
How To Use This New Understanding In Your Trading.....	41
Closing Words.....	54

What Really Causes The Market To Move?

Let's begin with a fundamental question:

What truly drives market movements?

The key lies in the actions of traders, especially traders closing losing positions. This dynamic is rooted in the key principle that the forex market operates as a "zero-sum game."

Wondering what that means?

Imagine a game of poker...

For you to win, you must claim money from your opponents.

Your potential winnings are directly proportional to the amount your opponents are willing to risk.

Similarly, in forex trading, the profits you can make in a day depend on the size and frequency of trades by other players. If, hypothetically, everyone stopped trading for a day, the market would stagnate—*no price movement, no profits*.

Here's the reality: Profits in forex come at the expense of other traders' losses.

More losses equate to more potential profits.

This holds true for all market participants.

You might wonder:

"How can I make other traders lose money?"

The truth: You can't, at least not directly.

Retail traders don't wield enough influence to sway market prices. That power is reserved for the big fish—banks and hedge funds—whose massive trading positions can indeed dictate price movements.

So, what's the primary objective for us in forex?

It's the following:

To discern the strategies of bank traders, understanding how and when they might manipulate prices to induce losses in others.

This knowledge helps us predict potential reversals or significant price shifts.

But how exactly do banks manipulate prices?

Here's the scoop:

Banks usually employ deception, leading traders to believe the market will move contrary to the bank's actual positions.

Once a significant number of traders are committed, banks shift the market in their intended direction. As banks initiate their trades, they counteract the positions of retail traders, forcing many to close with losses.

And how does one close a losing position?

By executing the counter action:

1. Closing a losing **SELL** position requires a **BUY**.
2. Closing a losing **BUY** position requires a **SELL**.

As retail traders exit their losing positions, they inadvertently push price in the direction favourable to the banks, thus amplifying the profits on their trades.

This dance of deception and strategy unfolds daily.

But there's a silver lining: When banks influence the market, they inadvertently create tell-tale patterns.

And you've probably guessed them by now:

Retracements and consolidations!

Let's delve deeper...

Deciphering Market Structures: Retracements and Consolidations

In the ever-evolving market, retracements and consolidations stand out as two prevalent patterns.

Often seen during trends and significant price swings, they serve as momentary halts or counter-movements to the prevailing trend. Many traders accept their existence at face value, but have you ever pondered:

- **What** drives the formation of retracements and consolidations?
- **Who** pushes the price against the ongoing trend?
- **What** marks the end of a retracement or consolidation?

Let's dig deeper...

The common perception is retracements and consolidations are mere interruptions or pauses to the current trend.

But here's a more insightful perspective: **They are strategic manoeuvres by the institutions designed to unsettle traders.**

Their goal?

To encourage traders to enter counter to the existing trend, allowing these institutions to capitalize on their losses. This strategic play is the underlying reason behind why consolidations and retracements form.

While both patterns emerge from similar institutional strategies – primarily banks taking profits from their trades – their impact on traders varies:

Retracements:

Think of them as market detours.

As the price moves counter to the prevailing trend or swing, it instils doubt among traders, making many assume the trend has concluded and a reversal is now probably imminent.

Consolidations:

Picture them as market pit-stops.

They momentarily halt the ongoing trend, resulting in a sideways price movement. This stirs confusion, prompting some traders to anticipate a reversal, while others, particularly trend traders, exit due to the lack of directional movement.

In essence, although retracements and consolidations influence market behaviour differently, they both aim to:

1. Dislodge trend traders from the prevailing trend.
2. Foster a belief among many traders a reversal is on the horizon.

It's crucial to recognize that while the end goal of retracements and consolidations is consistent, the entry points for traders within each structure can vary significantly.

Identifying these entry points can provide invaluable insights into the potential emergence of the next consolidation or retracement.

In the next section, we'll delve into a guide on how these market patterns materialize. This will shed light on typical trader behaviour during each structure's formation, equipping you with foresight on potential future movements.

Let's start with retracements...

Understanding the Formation of Retracements

Let's take an example of a retracement formed on the 1-hour chart of AUD/USD.

Remember - While this specific example is taken from a 1-hour chart, the underlying mechanism behind its formation is consistent across all timeframes. The psychology of trader reactions remains constant, irrespective of the duration.



In our example, we notice a retracement amidst a pronounced downswing in AUD/USD.

What triggers such a retracement during a significant downtrend?

The primary instigator is the banks deciding to take profits from their open sell positions. When the banks lock in their profits, price naturally begins to counteract the prevailing downward momentum, giving rise to a retracement.

Let's dissect this further...

As price begins to climb, traders who entered sell positions during the latter stages of the downswing (indicated by the blue box) find themselves underwater.

Their positions are now moving against them, leading many to exit at a loss.

But how does one exit a sell trade?

By using a **BUY ORDER**.

Traders must buy back what they sold at a worse price.

This domino effect has broader implications: As these traders hurriedly close their losing short positions, a surge of buy orders cascades into the market, amplifying the upward price movement of the retracement.

The higher price climbs, the more traders who become convinced this retracement might actually be a reversal. The bullish sentiment compels even those who had shorted earlier in the downtrend to close their positions at a loss.

An increasing number of traders now enter buy trades, propelling price even higher.

These traders entering is what causes those steep upward price spikes – **it's the market's way of saying everyone is now entering long!**



Price eventually retraces to a level where late-joining trend traders are effectively flushed out by the banks.

At this point, banks enter their sell positions.

But why enter now?

It's straightforward: Banks now have a substantial cluster of buyers they can exploit to make profit from.

Banks know their selling will drive prices down.

This decline triggers anxiety among retail traders who had optimistically entered long positions, expecting prices to surge. As panic sets in, many hastily close their positions at a loss, inadvertently amplifying the selling pressure.

The result?

Price plummets with even greater velocity.

As prices continue to fall, a ripple effect ensues:

More long positions are closed, and a new wave of traders jump in short, aiming to capitalize on the downward trend.



This image illustrates the cascading effect of retail traders closing their unprofitable long trades.

Here's the sequence of events:

1. Banks sell into buying, causing a slight dip in price.
2. A segment of retail traders decides to exit, pushing price down.
3. As even more traders exit, price plunges significantly.

The further price falls, the more traders decide to exit their positions.

Additionally, those fortunate retail traders who initially had profitable long trades now begin to see losses and opt to close out.



Eventually, the market hits a point where the sheer volume of exiting retail traders pushes the price beneath the retracement low.

By the time the price reaches this level, most traders who entered long during the retrace-ment phase have likely closed out at a loss.

While we cannot state this with absolute certainty, it's a reasonable assumption given how far the price has shifted from where most traders entered — the halfway point of the large bullish candle.

(We'll delve deeper into this shortly)



Re-examine the image: The blue box highlights the area where most traders likely entered long.

This box encapsulates the steep upward movement just before price began falling. What might have prompted so many traders to buy at this point?

The answer is clear – “The fear of missing out”.

Or, to you and me: **FOMO!**

The Fear Of Missing Out (FOMO)

"Fear of Missing Out", commonly known as FOMO, manifests in the trading world when traders are gripped by the anxiety of missing potential profits by not taking immediate action.

For example:

Imagine witnessing a sudden steep move higher.

You observe a series of large, bullish candlesticks forming one after the other. *What's your immediate reaction?*

A compelling urge to go long, isn't it?

Those dominant bullish signals are incredibly enticing, almost beckoning you to jump in before the market speeds ahead without you.

That's FOMO at work.

The Kicker: FOMO fuels the movement we see in retracements and consolidations.

Let me explain...



Consider the large bullish candlestick that formed.

To many traders, this might confirm a potential reversal or at the very least, a significant retracement.

The sheer size/strength of the candle often convinces traders a reversal or substantial retracement is now underway.

Always Remember: Large Candles = Strength = Price Direction.

Having seen price shoot higher, traders scramble to enter long, hoping to capitalize on the anticipated upward trend.

But what usually follows?

A sudden reversal.

Prices plummet, diving below retracement lows.

Coincidence or a consequence of strategic market manipulation?

(I think you know the answer!)

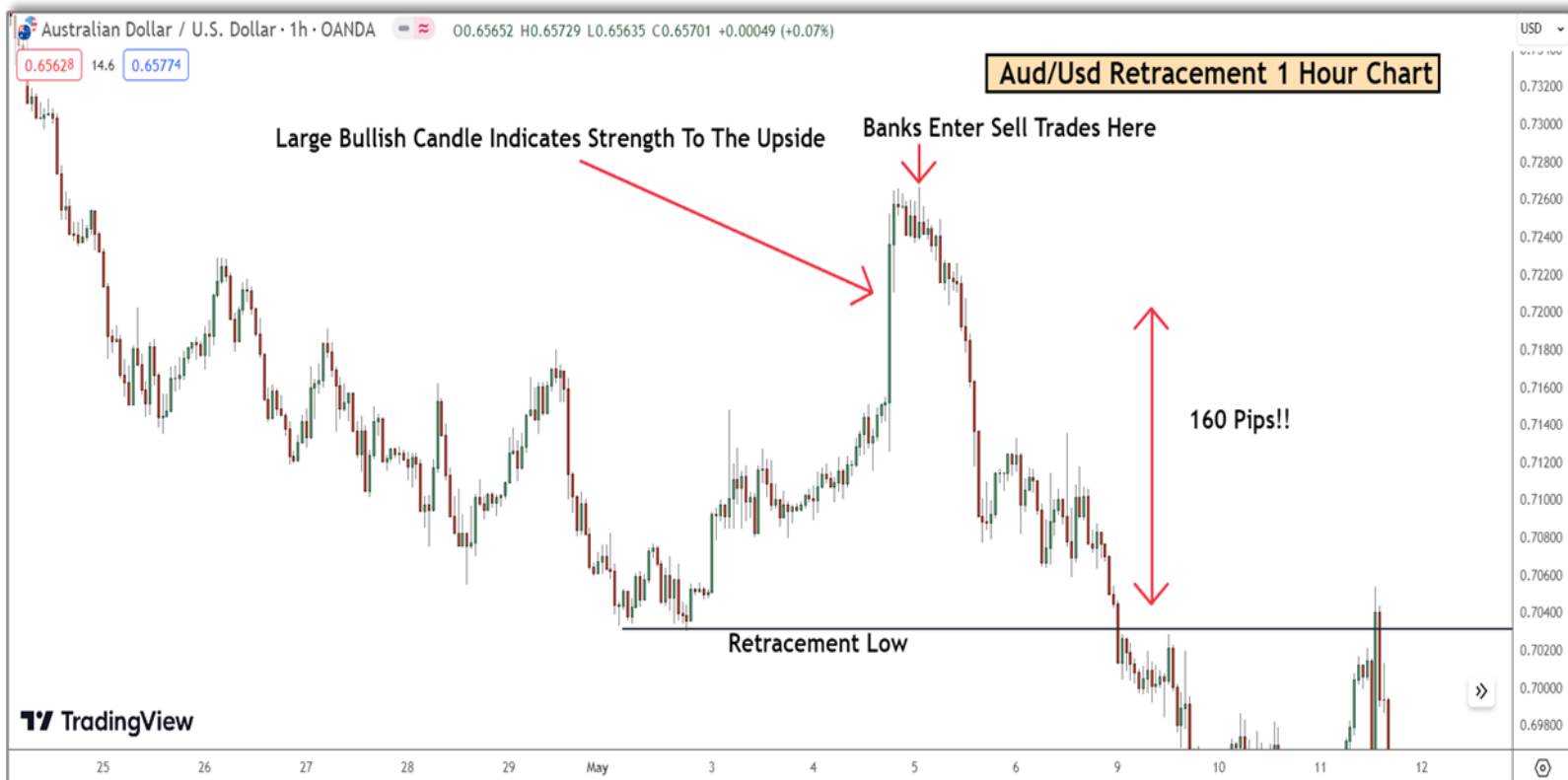
To pinpoint where most retail traders enter during a retracement:

1. Identify the LATEST significant candlestick (bullish in our scenario).
2. Trace the LATEST substantial multi-candle move aligned with the retracement.

Many traders interpret these signs as confirmation of a retracement or reversal, prompting them to enter. However, when the market shifts, they find themselves trapped, usually leading to hasty exits at a loss.

These very traders then become catalysts for the subsequent trend phase, which I've call the 'liquidation phase' in my "Game Theory" book.

Here's how it happens...



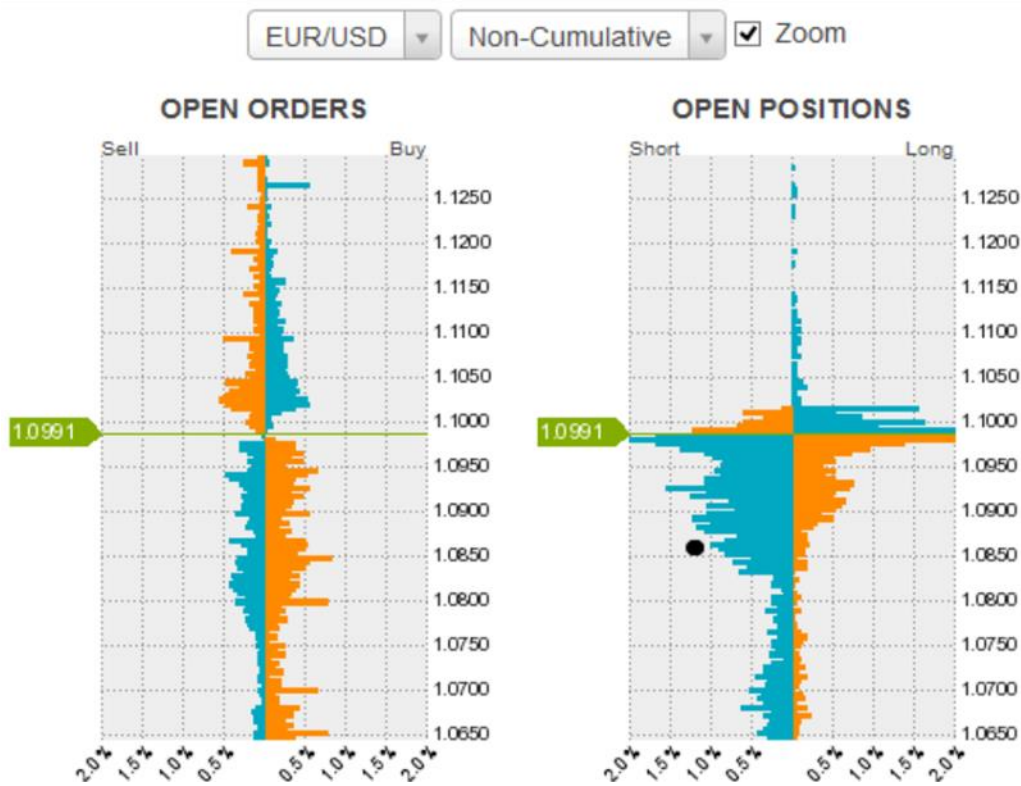
When the market moves back to the retracement low, it has plummeted by 160 pips from the point where most traders opted to go long – the latter half of the massive bullish candlestick.

This substantial distance suggests a significant number of these traders have likely exited their positions to prevent further losses.

How can we be so sure?

The evidence lies in Oanda's Order Book.

Although Oanda's "Order Book" tool no longer works, it provided a valuable insight: **Most retail traders tend to close a position once the market moves approximately 100 pips against them.**



Take a look at the open positions graph.

I've pinpointed a black dot indicating the retail traders who decided to go short around the 1.0850 - 1.0870 mark.

At this point, only 1% of traders are still holding onto their short positions.

It might seem like a significant percentage, but consider this: **Originally, OVER 2% of traders were short at this price level.**

The reduction is due to the market moving away from where these traders entered. As the market drifts further away, their losses increase. By the time the market has shifted 150 pips away from their entry, most would have cut their losses.

What happens next?

Banks begin to take profits off their new trades.

However, a dilemma arises:

For banks to profit from their sell trades, new sell orders need to enter the market. But with the previous sell orders from retail traders closing now absent, where do these new orders come from?

The answer: New traders going short.

But as the retracement concludes and the price starts its upward trajectory, few retail traders are keen on entering short positions.

The reason why?

The retracement low hasn't been breached.

The low is crucial as it signifies the threshold the price must cross to establish a new lower low and continuation of the current down-move/downtrend.

This is a clear indicator for most traders the downtrend is back underway.

Moreover, those who faced losses earlier are hesitant to re-enter unless they are 100% sure price will continue falling.

And when might they be tempted back into the fray?

When **FOMO** strikes!

In essence, this is triggered when large bearish candlesticks begin to form, beckoning traders back into the fold.



When price surpasses the retracement low, a flurry of activity ensues as traders rush to place short trades.

The combination of this low being breached, together with pronounced bearish candles, acts as confirmation, signalling the downtrend has regained momentum. Recognizing this, traders move to short, aiming to capture the continuation.

The banks now take profits from their short positions.

Leveraging the influx of sell orders from traders shorting, the banks strategically buy back portions of their earlier sells.



This allows them to pocket a tidy profit from their positions.

Yet, the very act of banks capitalizing on their profits often triggers another retracement.

However, this isn't always the case... Instead of a subsequent retracement, you might sometimes witness a consolidation or even a reversal. Regardless of the outcome, the underpinning mechanism remains largely consistent.

By the way:

Did you spot how the subsequent retracement terminated just beneath the previous retracements low?

The low is the precise point where most retail traders would have been enticed into entering short. It begs the question: **Is this a coincidence or a strategic move by banks to sweep up all the shorts?**

(I think you know the answer)

Key Takeaways:

1. Every retracement, irrespective of its magnitude or duration, follows the outlined procedure above.
2. Retracements during uptrends evolve similarly: Banks take profits, traders enter short, and subsequently, banks repurchase to propel the uptrend forward.
3. To pinpoint the prevalent trading sentiment during a retracement, look for the largest candlestick or a significant multi-candle rise/decline that aligns with the retracement, preceding the price reversal.

How Do Consolidations Form?

Now that you've got the hang of how retracements work, let's switch over and move on to consolidations.



Look at the image above: it presents a consolidation during an upward trajectory of USD/JPY.

What caused this consolidation?

Some may attribute it to an influx of sellers in the market.

Others might theorize that supply met demand, creating equilibrium, or perhaps traders grew uncertain about the future trend. These explanations seem logical on the surface, but they don't hit the mark.

The true catalyst?

Large financial institutions, like banks, taking profits.

This consolidation was triggered when banks opted to realize the profits from buy trades they'd initiated earlier in the up-trend.

Ponder on this: **Who would be selling during a steep price rise?**

Not the traders on ForexFactory, that's for sure!

It's the banks offloading portions of their earlier buy trades.

The mechanics are simple: Banks can only take profits off buy trades when a significant volume of traders are buying. This is because they need to sell some of their holdings, which mandates the presence of buyers.

(Open Long Trades) No buyers = banks can't take profits - No-one to sell to!

(Open Short Trades) No sellers = banks can't take profits - No-one to buy from!

Is the picture becoming clearer?

Here's the ripple effect:

As banks begin to take profits, price starts moving in opposition to the retail traders who've been buying due to the upward trend. The shift leaves many of these traders in the lurch, compelling them to offload their now unprofitable buy trades.

And how does one exit a sinking buy trade?

They must sell their position at a less favourable price.

In other words, traders inadvertently shift from being BUYERS to SELLERS.

The cascading effect is undeniable: As retail traders scramble to exit their faltering long positions, they unintentionally flood the market with sell orders, which in turn drives the price down even more.

But here's where it gets interesting:



In contrast to allowing price to retrace deep into the prior swing, like we see with retracements, banks enter more buy positions.

This propels price back in alignment with the prevailing trend.

Such manoeuvres mislead retail traders into assuming the earlier uptrend is persisting. The presence of large bullish candles only reinforces this misconception.

As a result, a surge of traders are now enticed to enter long positions.



Banks are well-aware of this phenomenon and exploit the influx of buy orders to take more profits from their existing long positions. Consequently, price falls again, giving the banks even more sell orders, which they utilize to initiate more buy trades.

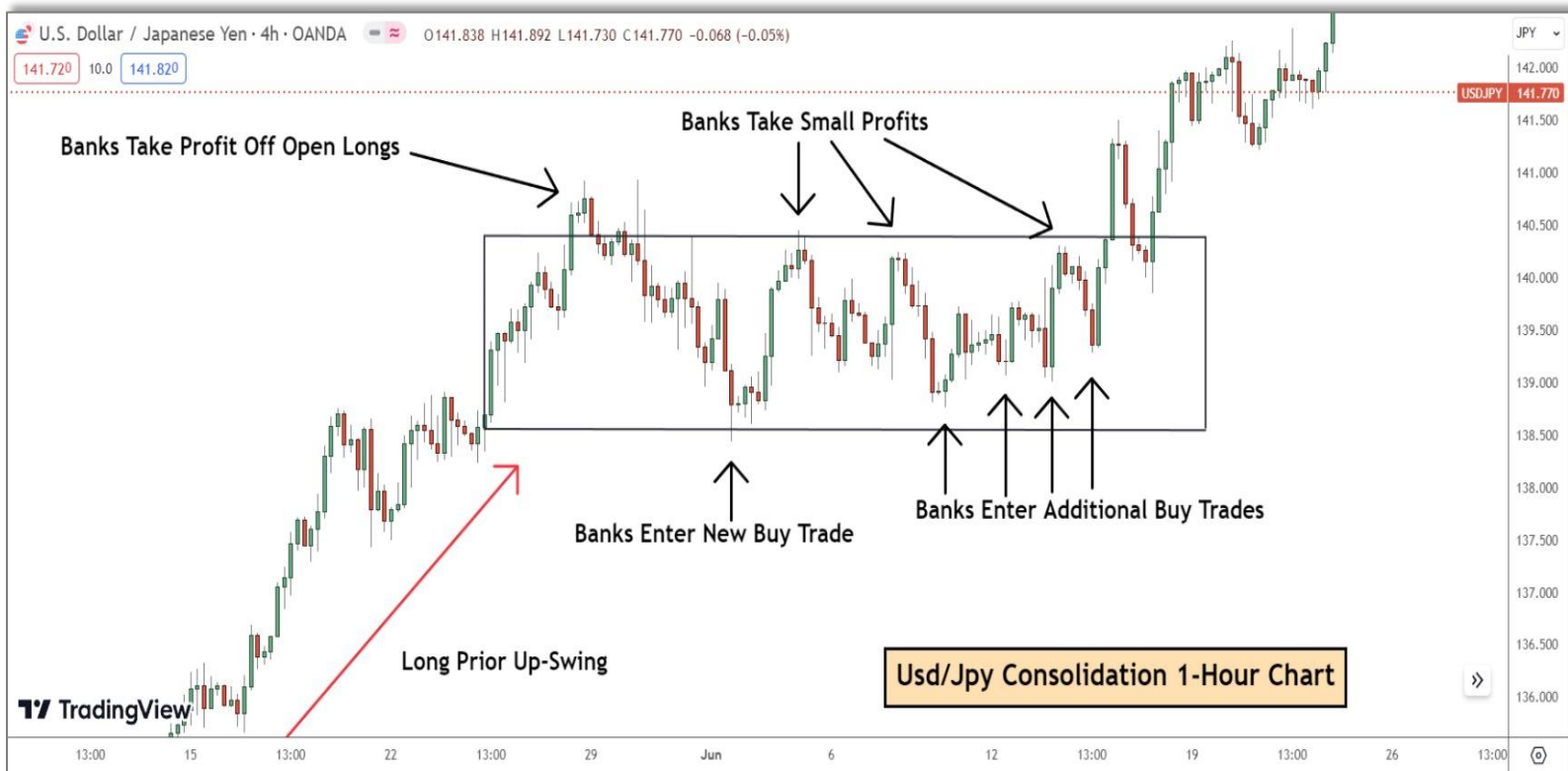
See the pattern now?

This pattern of initiating new buy trades and taking profits continues until these the banks have entered all their positions.

Only then do they let the market breakout and start rising, capitalizing on the now losing short traders who are trapped around the lows of the consolidation. These traders closing fuels the next rise and allows the banks to profit on their positions.

As these short traders exit their positions, the resulting price surge provides banks with further opportunities for profit.

Here's how it happens:



When the market reaches the top of the consolidation, most traders who entered short haven't yet closed at a loss.

But why is this the case?

The answer: The market conditions suggest a continued consolidation.

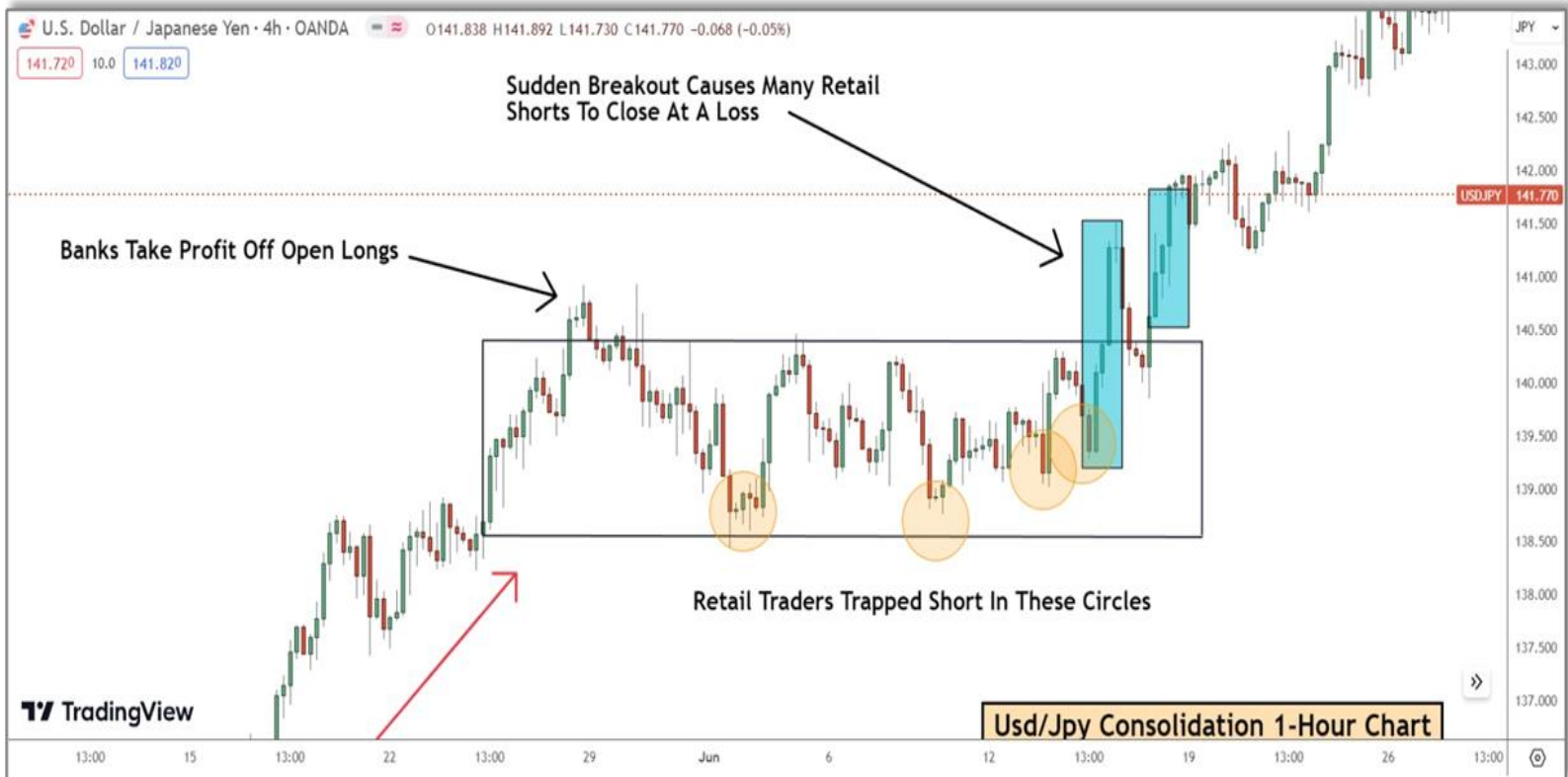
Each swing higher until now has led to a swing down, a result of the banks cashing in their profits. This recurring price action, characterized by its ebb and flow, offers no reason for short traders to close their positions.

The consolidation, so far, hasn't indicated any imminent conclusion.

Thus, short traders remain unconvinced this latest rise will deviate from the established pattern, and they maintain their sell trades, anticipating another downturn.

Key Insight: Most retail traders initiate trades near the extreme highs or lows of the consolidation. In this scenario, since the consolidation developed during an uptrend, most traders took short positions near its lows.

Conversely, if the consolidation had evolved during a downtrend, most would have entered long around the highs.

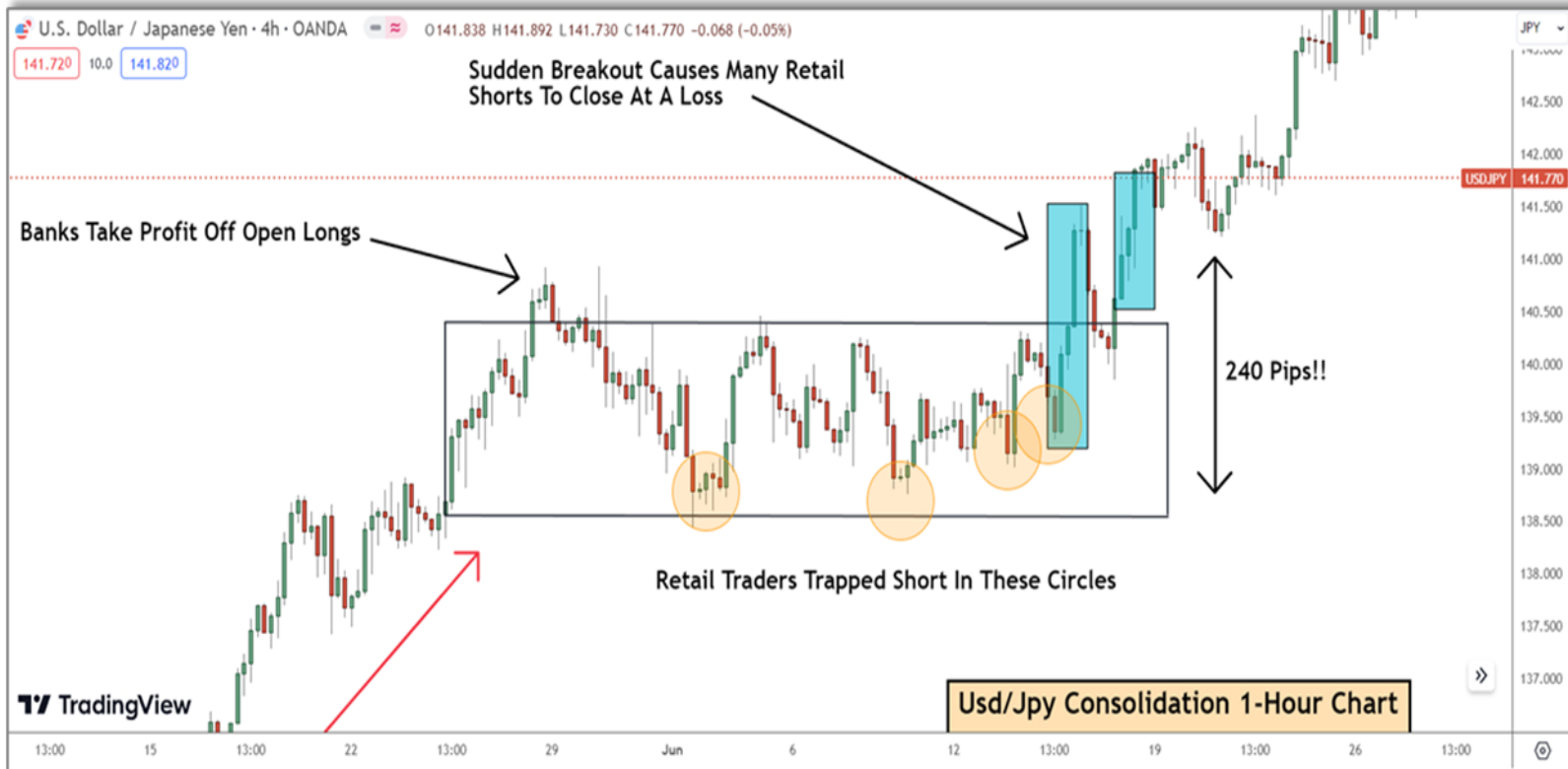


As soon as the market breaches the consolidation's upper boundary, a wave of traders with losing short positions decide to cut their losses.

The break higher serves as a confirmation for them the consolidation might have concluded, prompting them to exit in large numbers. Their collective action is a significant factor behind the intensity of market breakouts: **a mass exodus of traders occurring simultaneously.**

This is why breakouts can be so violent:

Tons of traders exit all at once!



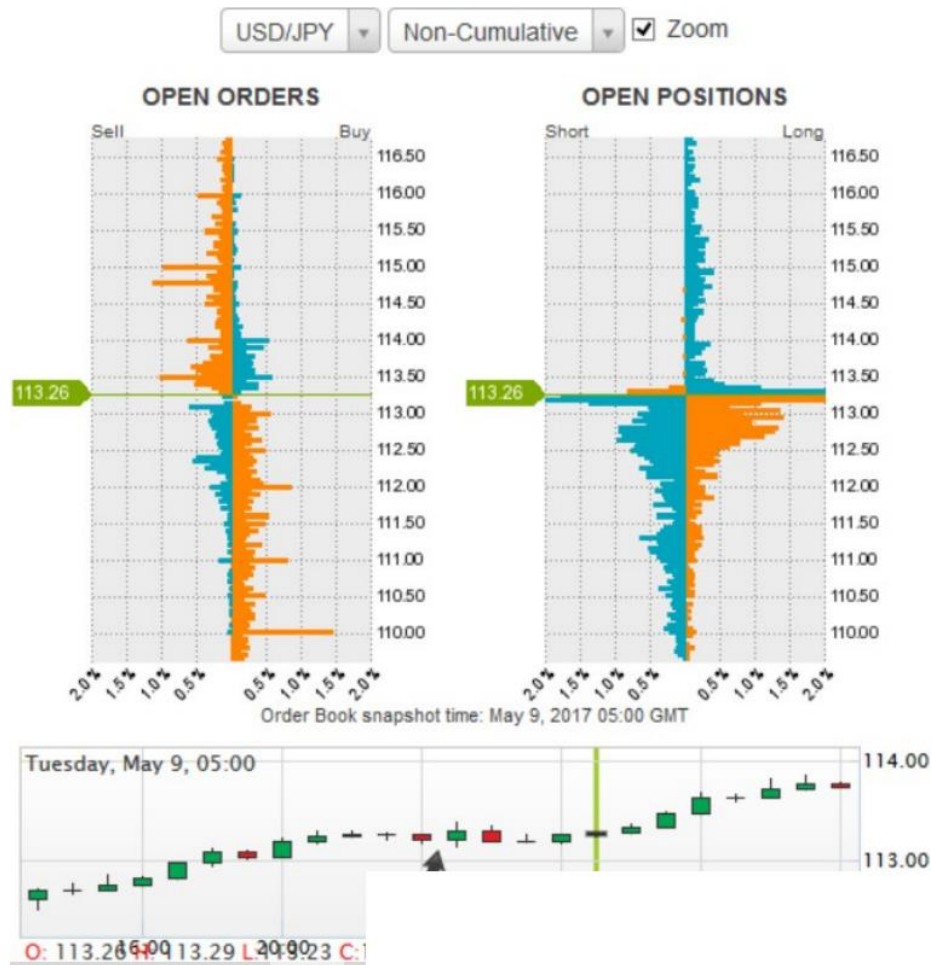
When the market moves approximately 200 pips from the traders' entry point at the consolidation lows, it's likely most of these traders have closed their unprofitable positions.

What makes us so certain?

Consider this:

Oanda's Open Position Graph reveals traders who enter positions during such consolidations usually close once the market moves around 60 pips from their initial entry.

Take a closer look...



The image above shows the Open Positions Graph shortly before the consolidation ended on USD/JPY.

The graph shows over 2% of traders were holding losing short trades near the 113.200 mark.

These traders initiated their sell trades approximately two hours prior to this snapshot, precisely when the market experienced a minor dip around 3 am.

Mistakenly interpreting this dip as an impending market reversal, these traders went short, anticipating gains from a potential market decline.

Here's another snapshot...



Here's an updated image of the Open Positions Graph taken six hours after the first, and eight hours following the initiation of sell trades by traders in response to the market's decline.

Noticeably, the percentage of traders in losing sell trades has decreased substantially. It dropped from 2% around the 113.200 level to 1% by the time the market reached the 113.700 level.

What accounts for this marked reduction?

It's primarily because the market had significantly deviated from the point these traders initiated their sell trades.

The further the market moved, the deeper their losses became.

As the market approached the 113.700 level, most traders had already exited their positions, unable to bear losses of 150 – 200 pips any further and fearing the risk of missing the subsequent upswing.

(Who holds a losing trade open at a 200-pip loss?)

At this point, the banks began to capitalize on their newly placed buy trades by taking small profits.

Why do they take profits now?

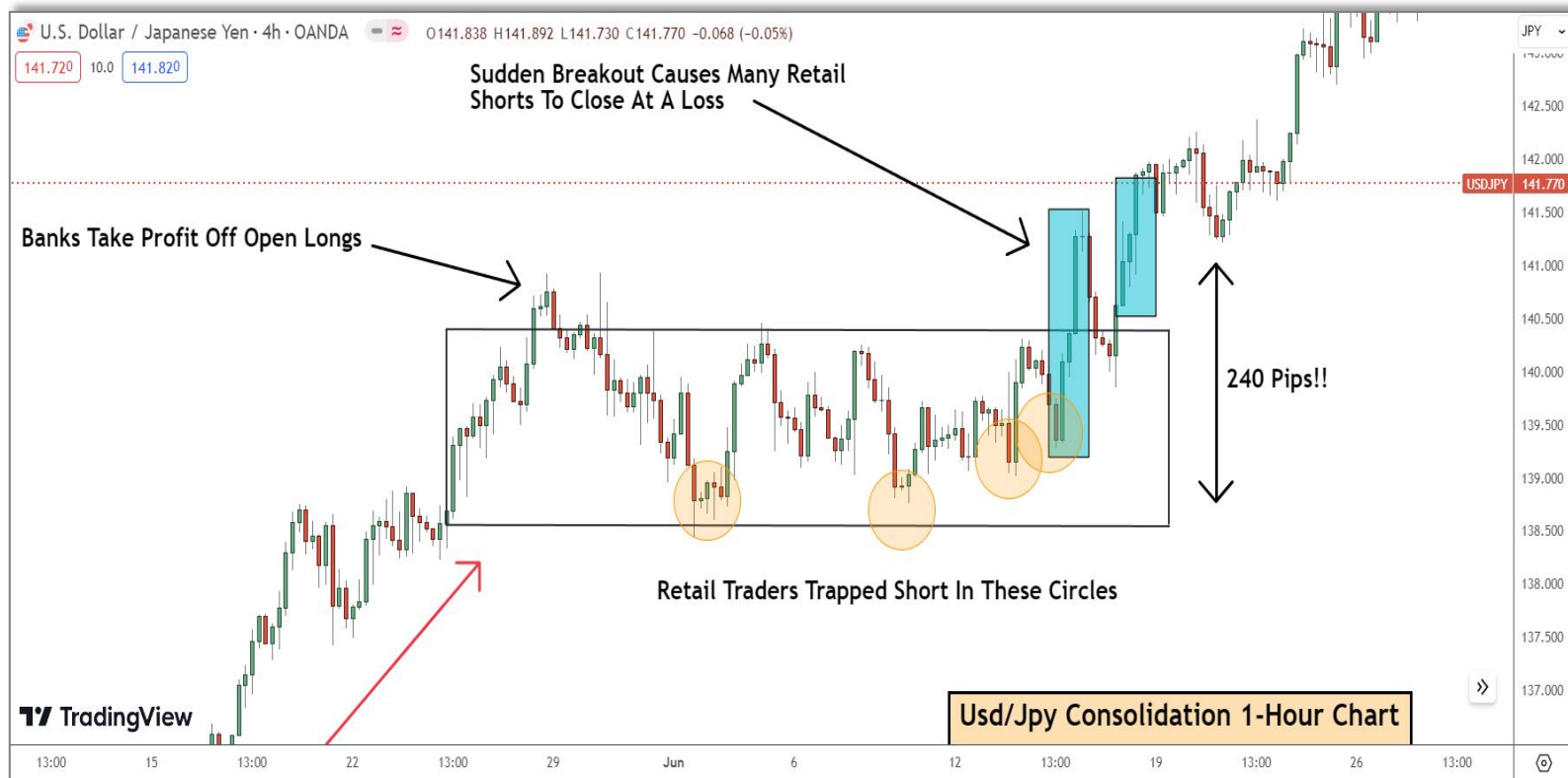
Because once the market drifts 50 - 60 pips from the consolidation, a resurgence of traders typically re-enter with new long trades.

This influx presents a golden opportunity for banks, as they rely on a surge of buy orders to realize their profits.

Remember:

- To take profits off a BUY trade, other traders must be BUYING.
- To take profits off a SELL trade, other traders must be SELLING.

What happens when the banks take profits...



After initially moving away, price revisits the consolidation zone before experiencing renewed upward momentum.

The retracement triggers numerous long-position traders, who had entered during the breakout, to exit their trades at a loss. This, in turn, provides the bank traders with an influx of sell orders, allowing them to strategically execute additional buy orders.

The culmination of these actions is the price surge following the end of the retracement.

Chapter Recap:

Before we proceed, let's recap the primary insights from this chapter:

The main points where traders often find themselves trapped in unprofitable positions during consolidations correspond to the consolidation's swing highs and lows.

- During uptrends: Losing traders trapped around swing lows.
- During downtrends: Losing trades trapped around swing highs.

Bank traders play a pivotal role in the formation of consolidations.

Banks initiate consolidations by taking profits and subsequently executing trades in the reverse direction. Instead of waiting for the market to counter the prevailing trend before establishing their positions, they act shortly after securing profits.

These new trades create the highs or lows of the consolidation.

Putting It All Together

Early in this book, I underscored a fundamental tenet of forex: **it operates as a zero-sum game.**

Every loss for one participant translates into a gain for another.

This dynamic is true for all players in the market, including:

1. Banks,
2. Hedge funds,
3. Retail traders,
4. Market makers, and so on.

To put it bluntly: The primary way institutions like banks and major entities make profits is by capitalizing on the mistakes of other traders.

But how do they master this?

The answer lies in strategic **manipulation** and adept **misdirection**.

Institutions often deploy tactics that misguide retail traders, prompting them to make unfavourable decisions.

Once these traders are committed to a particular direction, these institutions place their trades to counteract, driving the market in the opposite direction. This strategy

compels retail traders to liquidate their positions at a loss, inadvertently driving the price in favour of the institutions, thus amplifying their profits.

But here's the key point to remember:

The **LONGR** price rises or falls uninterrupted – i.e without any **MAJOR** consolidations or retracements forming – the **MORE** retail traders who start entering traders in the **SAME** direction.

The more prolonged and consistent a market trend—either rising or falling—the greater the number of traders entering the same way.

This situation poses a MASSIVE challenge for banks.

The issue is simple:

When most retail traders enter in the same direction, there are fewer on the losing side for banks to capitalize on.

Remember: **Banks profit on the losses of other traders.**

Forex is a zero-sum game – the losers pay the winners!

Consider a scenario where price has been steadily climbing for several days. What's are most retail traders doing:

That's right – **BUYING!**

In such an environment, banks find it challenging to profit from their buy trades because there's a shortage of traders on the losing end.

To address this, banks often adopt a counterintuitive strategy: they momentarily drive the market in the opposite direction by causing a either retracement or consolidation to form against the trend.

This tactic is designed to unsettle traders, making them believe the trend is reversing.

In the ensuing panic, many retail traders exit their positions or even start selling. Seizing this opportunity, banks can then initiate more buy trades.

As the market resumes its upward trend, those who went short are now at a loss, ensuring profits for the banks.

In short: The market **CANNOT** rise or fall uninterrupted without retracements or consolidations breaking up the action.

Banks **MUST** periodically take profits to create consolidations and retracements to trick retail traders into entering in the opposite direction.

It's as simple as that.

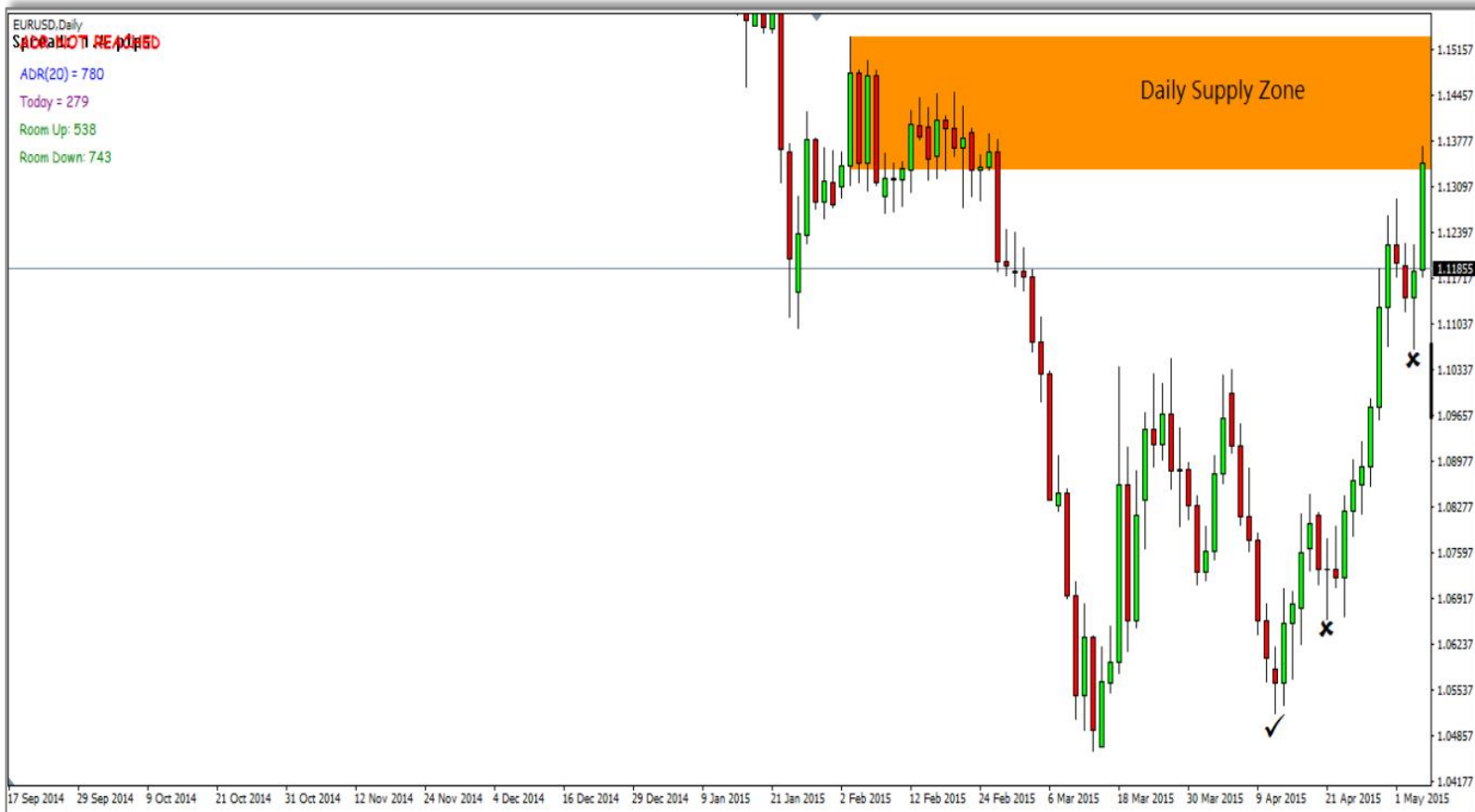
No if's, and no but's.

How To Use This New Understanding In Your Trading

Understanding markets can't perpetually rise or fall without interruptions from consolidations and retracements can significantly benefit you in two pivotal ways:

- You can anticipate **WHEN** these retracements or consolidations might happen.
- You can identify **WHICH** levels these pauses or pullbacks will commence.

Let me explain...



The image above shows a daily DBD supply zone on EUR/USD.

See how price surged by nearly 500 pips by the time it touched this supply zone?

Check out the time, too:

It's been OVER 3 weeks since the last major downward movement.

While there were minor pullbacks or retracements (indicated by X's) during this ascent, they were brief and acted more like brief pauses than genuine setbacks.

We saw:

No substantial retracement where price decreased consecutively for several days.

No notable consolidation where price remained relatively stable, moving sideways.

Given these observations, there was a heightened likelihood we would see a pronounced consolidation or retracement once the market reached the supply zone. This wasn't due to any intrinsic power or uniqueness of the zone, but rather a fundamental market principle:

Markets **CANNOT** perpetually rise or fall **WITHOUT** retracements and consolidations punctuating the movements.

Let's see what happens...



After the market reached the supply zone, it experienced a notable drop, leading to the formation of a significant retracement.

Here's the takeaway:

While it was uncertain whether a consolidation, retracement, or reversal would initiate from this zone, being aware of the high likelihood of one of them forming empowered us to navigate the situation more effectively.

- You recognized the potential for a long entry upon the retracement's end.
- You were informed to take profits from any longs initiated during the rise.
- You understood the potential gains from initiating a short position or hedging.

Let's dive into another example...



The image shows a subtle retracement that began just as the market reached the demand zone.

If you recall our earlier discussion, you might have anticipated a retracement, consolidation, or even a reversal in this area.

Why?

Price had plummeted a staggering 200 pips in less than a week without any significant consolidations or retracements in its path. The only respite during this decline was a brief pause midway.

Here's a principle to remember:

The **GREATER** the **DISTANCE** price travels from the **LAST** significant retracement or consolidation, the more likely it is that another consolidation or retracement will soon form.

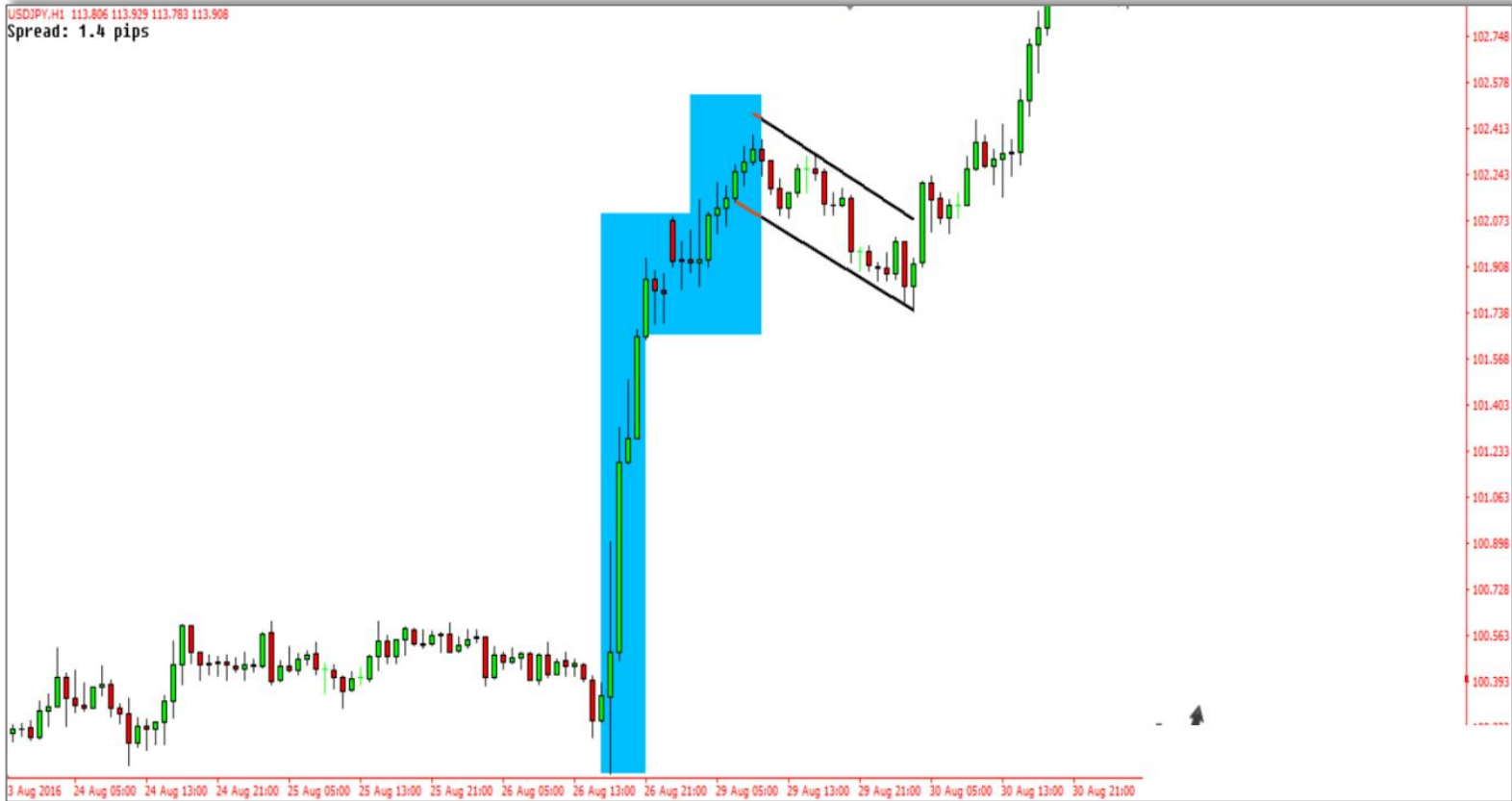
The demand zone was an ideal location for this to occur. However, other crucial points to consider include:

- Supply and demand zones,
- Major round figures,
- Psychological levels.

We can use this new understanding to forecast the timing of potential reversals and deep retracements.

By observing when the last major retracement, reversal, or consolidation occurred on a longer timeframe, you can predict potential significant movements on your current timeframe.

Consider the following example:



After a large price surge on USD/JPY, a retracement emerges.

Given the significant distance since the previous consolidation or retracement (right before this rise), one could have predicted a subsequent retracement or consolidation would now take place.

What's the implication here?

Consider the following insights:

1. Financial institutions are likely eyeing profit-taking from their long positions.
2. A surge of traders has jumped into long positions, driven by FOMO.

When these two forces converge, the stage is set for a retracement or consolidation to unfold.

The Crucial Insight:

If you had determined a retracement was on the horizon in the 1-hour chart, it would've been a signal a reversal was probably imminent on the 5-minute and 1-minute charts.

It's vital to grasp this nuance: **a minor decline on the 1-hour timeframe can translate into a significant reversal on the 5-minute chart.**



When we view the retracement on the 1-hour chart on the 5-minute timeframe, the contrast is evident.

A seemingly inconsequential dip on the 1-hour chart magnifies into a substantial shift on the 5-minute chart.

Had a trader been privy to this potential movement, it would've been a strategic insight for those operating on the 5-minute chart. They could've entered short or capitalized on any open long trades.

But here's the thing:

This methodology isn't exclusive to low timeframes.

You can extrapolate this approach to predict significant retracements, pauses, or reversals on the 1-hour chart as well.



In the image above, a consolidation forms after a pronounced decline on the daily chart of USD/JPY.

Given the substantial distance the market had travelled from its last significant re-tracement, one could have assumed the likelihood of a consolidation or retracement forming in that vicinity as being very high.

Keep in mind: Bank traders can **ONLY** profit when other traders are on the **LOSING** side. The longer price continues rising or falling without significant retracements or consolidations, the **FEWER** traders stand to lose.

So, what's the implication?

Simply put:

The more extended the current rise/decline, the greater the probability a consolidation or retracement is on the horizon.

Banks **NEED** to disrupt the trend to maximize their profits.

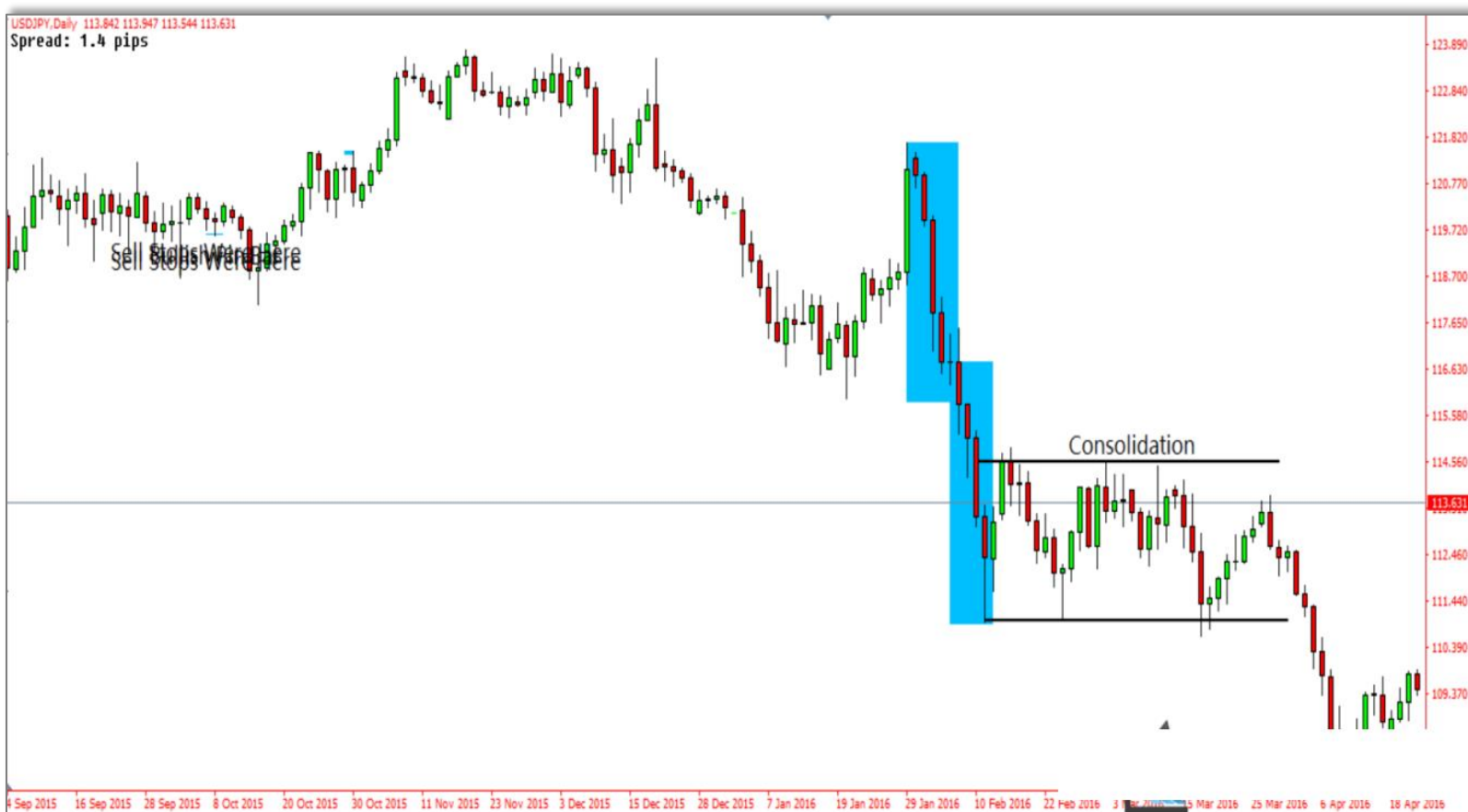
Banks **CANNOT** profit when most traders have open short positions.

As price continues falling, an increasing number of traders enter short.

Recognizing a retracement, consolidation, or reversal was likely to form is invaluable for traders operating on a daily timeframe.

However, this insight becomes even more crucial for those trading on a 1-hour timeframe.

Let's compare the two...



Seems pretty standard, right?

But now let's check out the 1-hour chart...



It's huge!

On both timeframes, the size of the swings is the same. However, their impact is way more pronounced on the 1-hour chart compared to the daily chart.

For those trading on the 1-hour, these swings offer numerous opportunities.

Anticipating the onset of either a significant consolidation or retracement (which isn't immediately clear before one actually forms) could be strategically beneficial in several ways.

This knowledge would allow you to:

- Lock in profits from any open sell trades.
- Monitor potential reversal signs to position against the prevailing trend.
- Strategize trades based on potential consolidation or retracement endpoints.

The main takeaway:

While it's impossible to predict with certainty the exact structure that will emerge after significant price movements from the previous consolidations/retracements, this uncertainty isn't a drawback.

Why?

It's simple:

The longer a price trend persists without any signs of consolidation or retracement, the higher the likelihood of one emerging soon.

Simply being aware the likelihood of a consolidation or retracement increases the further price extends away from previous points of consolidation, retracement, or reversal can significantly enhance your trade management and decision-making process.

Key Points From The Last Chapter:

Price Movement and Technical Zones:

If you observe price moving significantly from the location of the most recent consolidation or retracement, and it's approaching a supply or demand zone (or another pivotal technical point), anticipate a new consolidation or retracement as the price enters that zone or hits that level.

Interplay Between Timeframes:

Evaluating the market's movement relative to the most recent consolidation or retracement on a higher timeframe can provide clues about potential significant reversals, retracements, or consolidations on a lower timeframe.

This perspective is invaluable because a seemingly minor fluctuation on one timeframe can represent a substantial shift on a shorter timeframe.

Practical Application:

- For traders focusing on 1-minute or 5-minute charts, analyze the 1-hour chart to forecast significant reversals or retracements.
- Conversely, if you're trading based on the 1-hour or 4-hour charts, keep an eye on the daily chart for insights.

Market Stamina Analogy: Think of the market as a long-distance runner. It can't maintain a sprint indefinitely. After a sustained run, it will inevitably need a moment to recuperate, manifesting as a consolidation or retracement.

The longer it goes without pausing, the more imminent that pause becomes.

Always remember, understanding the rhythm and pacing of the market is essential for strategic trading.

Closing Words

Consolidations and retracements are not mere random price structures that sporadically appear on your trading chart. They are, in fact, fundamental mechanisms underlying the intricate ebb and flow of the market.

Their significance in shaping trends cannot be overstated.

Remember: Prices can NEVER rise or fall in a straight line.

Consolidations and retracements are the market's natural pauses, the intermissions in its grand performance.

In the zero-sum game of forex, banks can only profit when other traders incur losses. To ensure this, they orchestrate consolidations and retracements, luring traders into misguided entries.

When these traders exit their losing positions, it fuels the market's next directional move and allows the banks to profit.

This cycle is recurrent:

1. As price distances itself from the last consolidation or retracement, more traders align with the prevailing trend.
2. Eventually, when banks can no longer profit due to the lack of opposing trades, a shift is needed.
3. The tool of choice? Craft another consolidation or retracement to divert traders.

While it's challenging to predict the exact moment a consolidation or retracement will commence, understanding its origins and mechanics allows you to gauge its onset using specific technical points.

Key Technical Indicators to Monitor:

- Supply and demand zones.
- Psychological levels (prices ending in 500 or 0000).
- Established support and resistance levels.

Has it been some time since the last retracement or consolidation on your chart? Stay vigilant – the market might be gearing up for another!

Thank you for your time,

Happy trading!

Did you know...

The 3rd week of every September, Bitcoin has a 85% chance of rising?

Or that on the last Friday of every January, Ethereum has a 77% chance of rising?

I've used statistics and data to analyze 20 cryptocurrencies for price inefficiencies and found hundreds of statistically significant effects that traders can exploit for massive profit.

Check out my site (cryptodata.com) to learn more and download a free spreadsheet.