How To Determine When A Reversal Is Going To Take Place

Introduction

Determining when a reversal is going to take place is the goal of many forex traders.

Unfortunately, most traders have great difficulty in finding out when a reversal is going to occur. The reason why is because they don't really understand the market structure that leads to reversals taking place. Most of the reversals you see in the market occur after a specific structure has formed. This structure is similar to a pattern, in that it always has the same features, but looks different each time it forms.

A big part of my trading method revolves around identifying and trading this pattern. I have other setups like stops hunts, pin bars, supply and demand zones, etc, but my main goal is to try to get in when this pattern is forming because it's usually a good signal a large reversal is going to take place.

The pattern is called the reversal structure pattern.

In this book, I'm going to teach you how to find and trade the reversal structure pattern.

First, I'll give you a little background on how the pattern form and what it looks like because it's not like the common forex patterns you find in books and stuff. Then, I'll show you how to find and trade the pattern. At the end, I've left a few examples that detail step by step on how you trade the pattern so you know exactly what to do.

Hope you enjoy the book.

What Is The Reversal Structure Pattern?

To start, I think it's best to give you a little bit of information about the reversal structure pattern and show you some examples of it forming, to give you an idea of what you need to look for to see one forming.

The pattern itself is not like the common technical analysis patterns you read about in books and on trading websites. Its formation does not resemble any common shapes or structures, like the head and shoulders pattern for instance, it just has certain features that are present in all variations of the pattern.

As you can probably tell from the name, the reversal structure pattern is a reversal pattern, which means you'll only see it form immediately before a reversal takes place. It forms on all time-frames and is a fractal pattern, i.e it's a pattern constructed of the same pattern forming on a lower time scale (more on this in a minute).

It can form as a result of the bank traders either getting their trades placed to make the market reverse or from taking profits off trades they've already got open.

There are two main features of the pattern you'll always find to be present whenever you see it form.

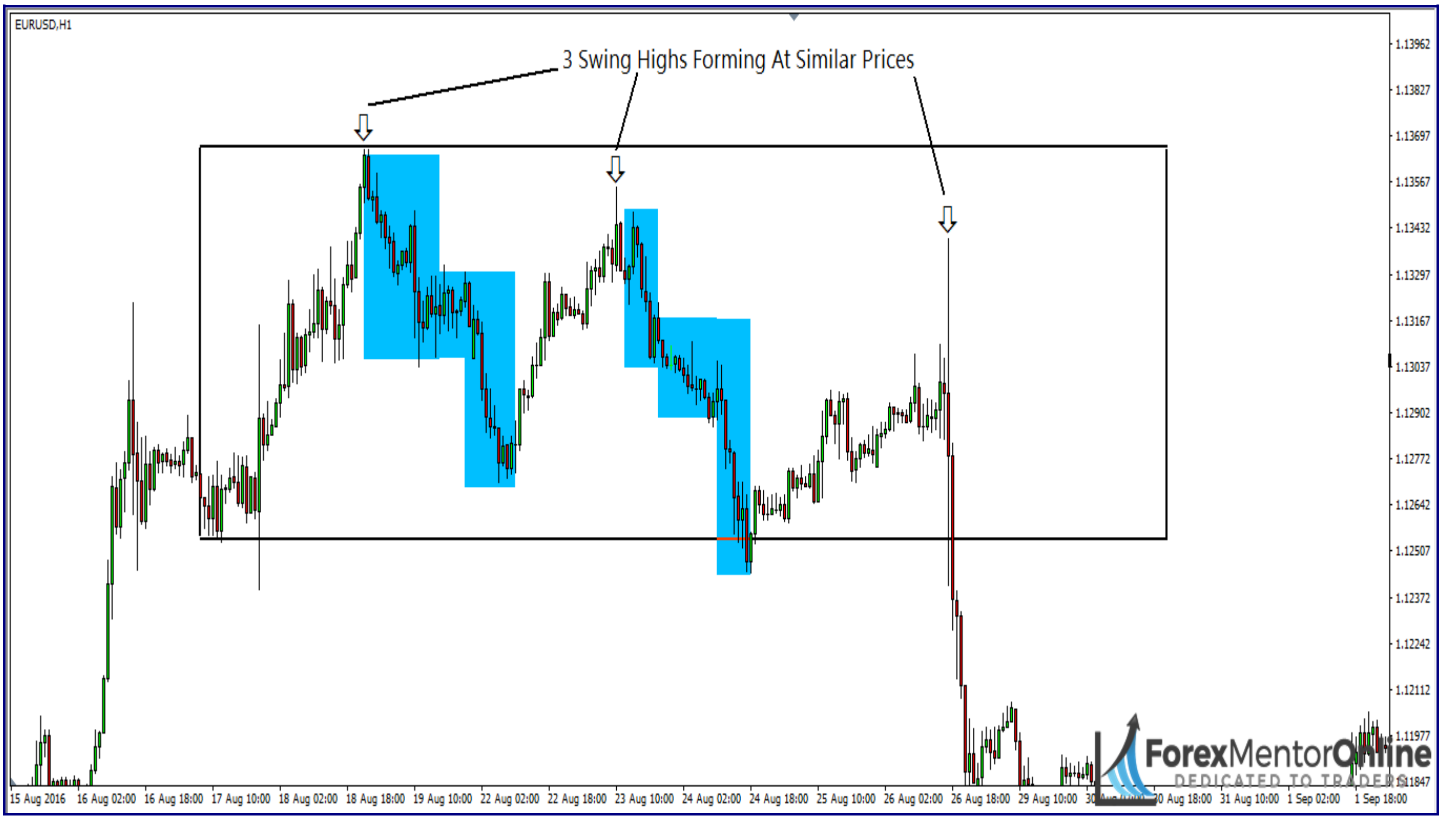
The first is that by the time the pattern has formed multiple up and downswings will have taken place. At least two upswings for a bullish pattern to be valid and at least two downswings for a bearish pattern to be valid.

And the second is that the swing lows (or highs depending on the which type of reversal the pattern is creating), of the up and down swings will form at similar prices to one another.

Here's a reversal structure pattern that formed on the 1-hour chart of AUD/USD.

This is the bullish variation of the pattern, which means it's formation is a signal the current down-move is going to come to an end and cause the market to start moving to the upside.

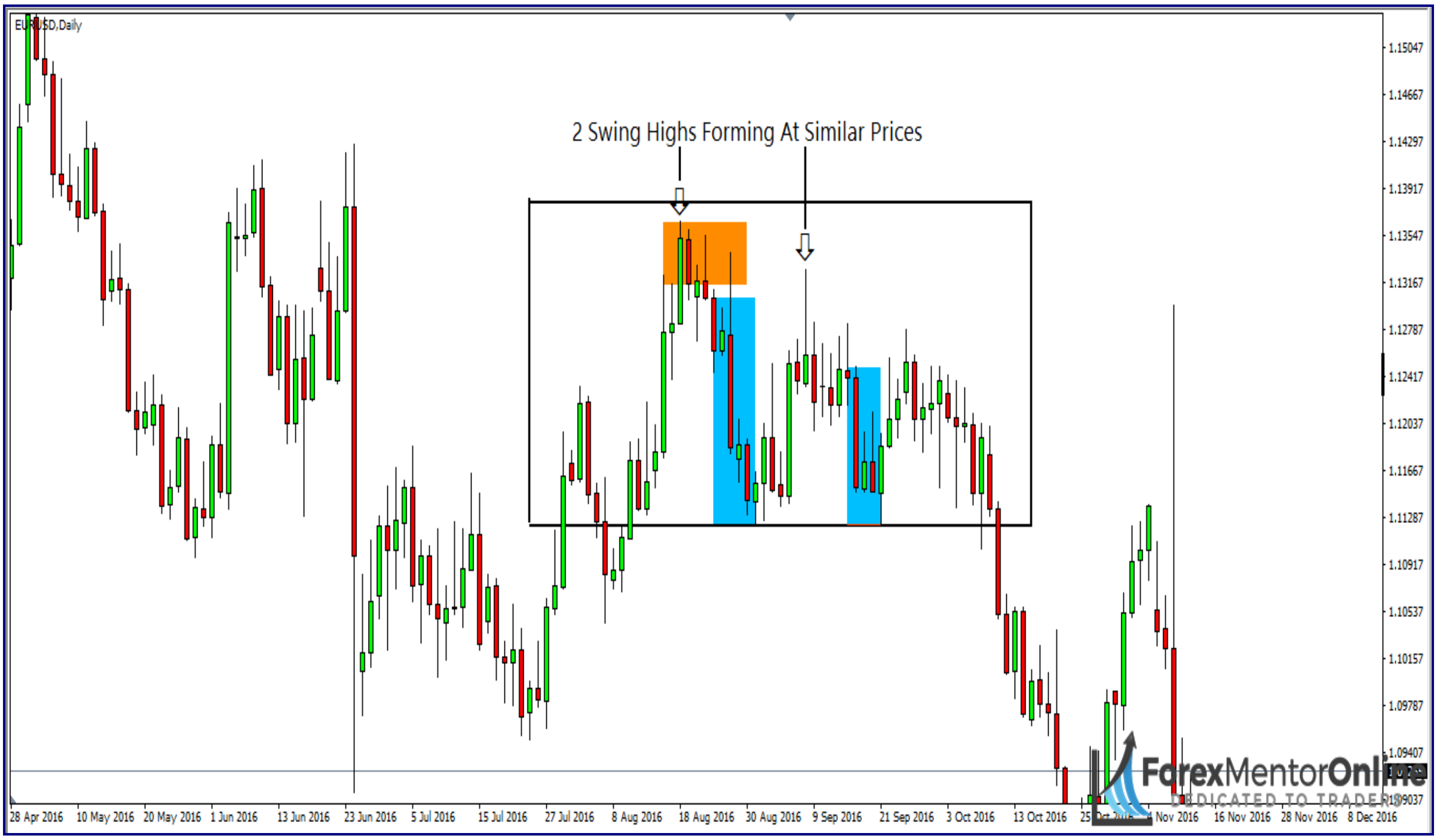
You can see the pattern consists of the two features I just talking about. It has at least two upswings (which is a requirement for bullish patterns), and the lows of these upswings have all formed at similar prices to one another. The lows don't all have to form at similar prices, but at least two do, so keep that mind when looking for the pattern.



Here's a bearish reversal structure pattern on EUR/USD.

Again, just like the pattern in the previous image, this pattern contains the same two features. It has at least two downswings forming (three if you count the one that caused the reversal to occur), and the swing highs of each these downswings all forming at similar prices to one another.

The pattern you can see in this image is actually part of an even bigger bearish reversal structure pattern that had been forming on the daily chart.

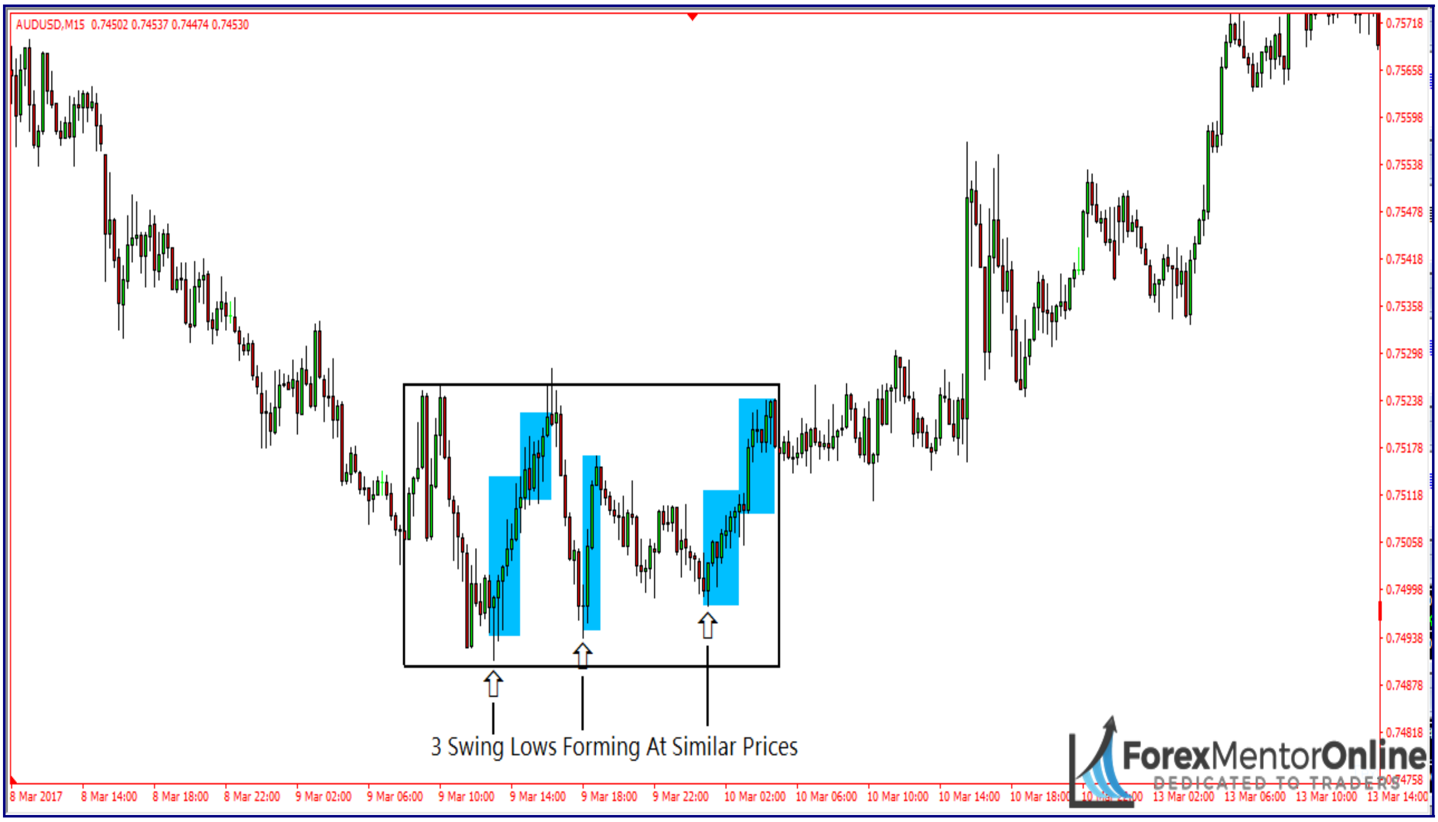


If you go onto the daily chart, you can see where the reversal structure pattern in the previous image formed in relation to the bigger pattern that was in the process of forming.

The small orange box I've marked shows the point where the pattern in the previous image was forming. It turned out that the pattern just caused the first downswing in this bigger pattern to form, with another one being created only a couple of weeks later.

The fact that the swings which form in reversal structure patterns are often created by the same pattern forming on a lower timeframe, means you can figure out where additional upswings or downswing are likely to form on the higher timeframe just by watching for a pattern to form on a lower timeframe. This is something I'll show you how to do later on in the book.

Let's take a look at some more examples of patterns forming.



This image shows a bullish reversal structure pattern on the 15-minute chart of AUD/USD.

You can see even when a pattern forms on a timeframe as low as this, the same features are all present. In this instance, we saw 3 upswings form with their swing lows at similar prices, instead of the two we saw in the previous image.

It's not possible to tell how many swings will form before the pattern causes the market to reverse, but in my experience, it's highly unlikely you'll see more than 5 form. If you do happen to see more than 5 form, it's a strong sign a consolidation is in the process of forming, not a reversal structure pattern.

Understanding The Characteristics Of The Reversal Structure Pattern

Now you've got an idea of what the reversal structure pattern looks like, I want to explain what causes the different features of the pattern to form, as that will make it easier for you to understand how the pattern is created.

Like I showed you in the previous section, all bullish and bearish reversal structure patterns consist of two main features, which will be present in all variations of the pattern you see form.

The first feature is multiple up and down swings forming, and the second is the swing highs (or lows depending on the pattern) of these swings forming at similar prices to one another.

Lets take a look at why multiple swings form during the formation of the pattern.

Why Do Multiple Swings Form?

To understand why you see multiple swings form during the formation of the pattern, you have to have a small bit of knowledge on how the bank traders get their trades placed.

When it comes to placing trades or taking any other action for that matter, the banks need to have buy or sell orders coming into the market.

The type of orders they need to have depends on what they are trying to do. For example, if the market was falling and the bank traders wanted to get buy trades placed, they would need to have lots of sell orders entering the market, as the only way you can buy is if other people are selling at the same time.

Conversely, if the market was rising and the banks wanted to get sell trades placed to make, they'd need lots of buy orders entering the market, because you can't sell unless other people are buying at the same time.

Now the problem the banks always have when they decide they want to cause the market to reverse, is they don't have enough people buying or selling for them to get all of their trades placed in one go. There's enough to get some of placed but nowhere near enough for them to get their entire position placed.

So what they have to do once they've managed to get some of their trades placed is find a way to get people to buy or sell again so that they can use the orders to get their remaining trades executed.

They way they do this is by taking a small amount of profit off the trades they got placed using the orders they had available initially. When they got some of their trades placed, the market would've moved in the direction they wanted it to reverse, so by taking a small bit of profit off the trades, they make the market move back in the direction it was moving in originally.

This causes traders to enter traders again and gives the bank traders some more of the orders they need to get their remaining trades placed.

This image shows an example of the process described above taking place in the market.

When the banks decided to get their first set of buy trades placed to cause this reversal, they only had enough sell orders to get 50,000 trades placed. The total number of buy trades they had to get placed was 90,000, so once they had got the 50,000 placed, they still had a further 40,000 left to get executed.

To get the rest of these trades placed, the banks had to find a way to get people to sell again, as the market would've moved up after they got their 50,000 buy trades placed. The way they cause people to sell is by taking some profits off the buy trades they'd just placed.

When they take profits, price drops, and people begin selling again because they believe the drop is a continuation of the prior move down. With more sell orders now available, the banks can get another 30,000 of their buy trades placed, but there's still 10,000 left which they need to get executed, so they carry out the same process all over again.

Once the market has moved up from them placing their 30,000 buy trades, they take another small bit of profit off their trades. This causes the price to fall and gives them remaining sell orders they need to get the rest of their buy trades placed.

Once these last 10,000 buy trades have been placed, the market starts moving up again. But this time, instead of taking profits to make the market fall they just let the move higher continue, as now they've got all their buy trades placed there's no need for them to cause another drop to occur to generate more sell orders.

This process of placing trades and taking profits to generate orders is what causes all bullish and bearish reversal structure patterns to form. The example I've shown you here isn't true to life, in terms of the size of the buy trades the bank traders would be placing, but the overall process is the same as what you will see in real market conditions.

Hopefully, that's given you a better understanding of why you'll always see multiple swings form during the formation of a reversal structure pattern.

Lets now move on and take a look at the reason why multiple swing lows or highs will form at similar prices to one another when a pattern is forming.

Why Do The Swing Lows Or Highs Form At Similar Prices To One Another?

In simple terms, the reason why we see multiple swing lows or highs form at similar prices is that the bank traders want to get their trades placed in a way that mimics that of if they were placing all of their trades at one price.

If they had enough orders entering the market they would place all of their trades at the same time at a single price, as that would be the most cost-effective way to make the market reverse.

The fact that they're almost always unable to do that means they have to find a way to not only get all of their trades placed into the market but place them in such a way where it's virtually identical to if they had got them all placed at a single price.

The way they do that is by making sure to place each set of trades at a similar price. By placing them at similar prices, the banks mimic the effect of having all of their trades placed at the same price, albeit not all at once, which is what they would've wanted had there been enough orders available.

Chapter Summary

Well, I hope this chapter has given you a good overview of what the reversal structure pattern looks like, along with an understanding of what causes it's two most obvious features to form.

Below is just a quick summary of the main points I want you to take away from this chapter.

- The reversal structure pattern is a price pattern that forms right before a reversal takes place. It forms on all timeframes and always consists of the same two features. The first feature is multiple up and downswings taking place during the formation of the pattern. The second is that the swing lows or highs of these swings will all form at similar prices to one another. *Note: Only two swing lows or swing highs have to form at similar prices to one another for the pattern to be valid.*

- The reason multiple swings form during the creation of the pattern is because of the way the bank traders have to get their trades placed to make the market reverse. The banks never have enough orders coming in to get all of their trades placed in one go, so they have to place them at different points when they have enough orders available. They generate orders themselves by making the market move up and down, as that causes people to place trades, which gives the banks the orders they need to get all of their o own trade executed.

- Swing lows or highs form at similar prices to one another as a result of the bank traders trying to get their trades placed in a way similar to that of if they had just been able to get one massive trade placed to cause the market to reverse. If they could get all of their trades placed at once they'd all be placed at the same price, but since that's an impossibility, they have to do the next best thing, which is to get them all placed at similar prices. By placing them at similar prices they achieve the same effect of having all their trades placed at once at the same price, only with very minor price differences.

- The reversal structure pattern is fractal, a pattern created by the same pattern forming only on a lower timeframe.

Where Should You Look For Reversal Structure Patterns To Form?

In this next chapter, I'm going to show you where the reversal structure pattern forms because even though patterns can and do form everywhere, there are certain places they have a better chance of being successful than others.

Before we start, it's important to know two types of reversal structure pattern form in the market.

The first is the type which forms in the direction of the current trend and causes a continuation to occur - (current trend defined as the most recent lower low or higher high the market), and the second is the type which forms against the current trend and ultimately causes it to change by reversing.

Whilst these two types of patterns can always be found forming around the same points - big round number prices - they won't all form in the same location in regards to the trend. For example, a reversal structure pattern that forms against the current trend could form immediately after a trend reversal, or it could form long after a reversal has occurred.

This difference in location may seem slight, but the effect it has on the probability of the pattern being successful is very big, which makes knowing where each type of pattern is likely to form very important.

Let's take a look at where the high probability patterns which form against the trend are likely to form.

Patterns That Form Against The Trend

The patterns that form against the trend will begin forming right after a trend change has taken place. Most of the patterns will cause small retracements to occur, but some will form without generating any counter-trend movement at all. These are not the reversal structure patterns you want to be trading.

Even though it is possible to make some small profits off trading these patterns, it's very difficult to trade them over and over again. It's far easier to just trade the patterns that have a high probability of causing large reversals or retracements. These patterns only form after the market has been in a trend for a long time. The reason why is because the forex market is a zero-sum game, a game where you can't make money unless other traders lose money.

Because this applies to everyone in the market, it means the bank traders only make money when other traders are losing money. If a large enough group of traders open trades in an attempt to make money from the market, the bank traders will make the market move in the opposite direction to purposely make the traders lose, as they can't make money from their own trades if everyone else is also making money at the same time.

Of course, the question now is, how do you know when a large number of traders have opened trades in an attempt to make money?

The answer comes in the form of the trend. The trend is a concept most forex traders use to determine which direction the market is going to move in the future.

Traders mistakenly believe the longer the trend has been in place, the higher the probability the market has of continuing to move in the direction of the trend in the future. This means the longer the market moves in the direction of the trend, the higher the number of traders that enter trades in the same direction.

Think about it like this...

When a reversal takes place and causes the trend to change, most people are not aware a new trend has begun, due to the fact the initial movement of the trend will just look like a retracement to the prior trend. It's only after the market has moved a large distance against the previous trend that people start to realize a new trend is in place, and begin placing trades to take advantage of the new movement.

Initially, there won't be that many people getting trades placed, but as the trend continues, more and more will start entering, because their belief the market is going to continue moving in the direction of the trend increases the longer the trend is in place.

Eventually, it'll reach a point where the market has been trending for such a long time that most of the traders will be getting their own trades placed to take advantage of what they are certain to be a trend continuation.

This is the point where the bank traders make the market move in the opposite direction. If all these traders are now placing trades in the direction of the trend, it means they can no longer make money off their trades, as there isn't anyone losing money for them to make a profit.

There are two ways the bank traders can make the market move against the trend.

The first is by causing a trend reversal by placing new trades. And the second is by causing a really big retracement to take place by taking a large amount of profit off trades they've already got open.

If they place new trades, the resulting reversal will cause all the traders who had placed trades in the direction of the trend to close their trades at a loss. This will push the market in the direction of the new trend and will cause the banks to make a large amount of profit off the new trades they just placed.

If they take profits to cause a retracement it'll have the same effect. The only difference is the size of the retracement will cause traders to place trades in the opposite direction to the trend, as most of them will mistakenly think an entirely new trend is beginning, and thus put orders in the market for the bank traders to use to get more of their own trades placed in the direction of the trend.

When they place their trades the retracement comes to an end, and all the traders who placed trades under the impression the retracement was the beginning of a new trend, now start closing their trades at a loss. Closing their losing trades is what pushes the market back in the direction of the trend and causes the bank traders to make a profit on their trades once again.

Now whether or not the bank traders decide to make money again by causing a reversal or large retracement isn't important. What is important, is that no matter what they decide to do a reversal structure pattern will usually end up forming against the current trend.

These are the patterns you want to watch out for, as they have the best chance of being successful and making you a large amount of money. They only form when the banks decide to cause a reversal or large retracement, which, as I've just shown, is after the market has been in a trend for a long time.

If you look at this downswing on USD/JPY, you can see two bullish reversal structure patterns formed after the market reversed.

The pattern that caused the large retracement to take place only formed once the market had fallen a large distance, whereas the pattern that formed right after the reversal occurred didn't cause any up-movement to take place. The reason why was because not many people realized the trend had changed by that point, therefore there was no need for the bank traders to cause a reversal or large retracement, as most traders had yet to start opening trades in the direction of the new trend.

Now, by the time the reversal pattern at the bottom of the image formed, the market had already been falling for quite a long time, which meant most of the traders in the market would've been opening sell trades to make a profit off what they believed was going to be a continuation. This is the point where the bank traders stop making money on their own sell trades and have to make the market change direction to get people to place buy trades they can use to get more sell trades placed to cause people to lose money again.

The main take away I want you to have from all of this is the reversal structure patterns that form after the market has been moving in the direction of the trend for a long time are the ones which you want to be trading, as these will have formed because the bank traders need to make the market reverse.

Patterns That Form With The Trend

Like the patterns that form against the trend, the reversal structure patterns that form with the trend can also appear in two different locations. They can either form during a retracement and cause it to end, or form without any retracement being created at all. The ones you want to watch out for, are the ones that cause retracements to end.

These patterns have a higher probability of being successful than the patterns that form without a retracement, due to the fact they primarily form as a result of the bank traders placing trades.

Most of the patterns that form without a retracement are also created by the bank traders placing trades.

The problem is, during formation, it's very difficult to tell if these patterns have formed because the bank traders are taking profits off their trades, or if they are placing trades to keep the market moving in its current direction.

You don't really have this problem with the patterns that form at the end of retracements, because they'll typically only form as a result of the banks getting trades placed.

The ones that do happen to form from profit-taking aren't a problem, because they usually cause a decent move to occur, so by the time they come to an end, you would've already closed your trade or at least moved your stop to breakeven.
Here's a pattern that caused a retracement to end on the 1-hour chart of USD/JPY.

You can see even though this pattern has formed with the trend, and is signaling a continuation, all its features are the same as what we would see on a pattern that forms against the trend. It has multiple up and downswings forming during its creation, and the swing highs of these swings all end up forming at similar prices to one another.

Let's look at a pattern which forms without a retracement.

Here's a pattern that formed with the trend, but without any retracement taking place.

As you can see, this pattern also has the same features of the other patterns we've seen so far.

The problem is, because it's formed without a retracement taking place, it's tough to determine the reason why it's formed. We now know the pattern formed as a result of the bank traders taking profits off sell trades, but during the time it was being created, you wouldn't have been able to tell if it was forming because they were taking profits or placing trades to make the market reverse.

How To Trade The Reversal Structure Pattern

Overall, trading the pattern is a fairly simple process, although it's one which you may find to be a little bit alien, due to the signals you have to watch to get a trade placed.

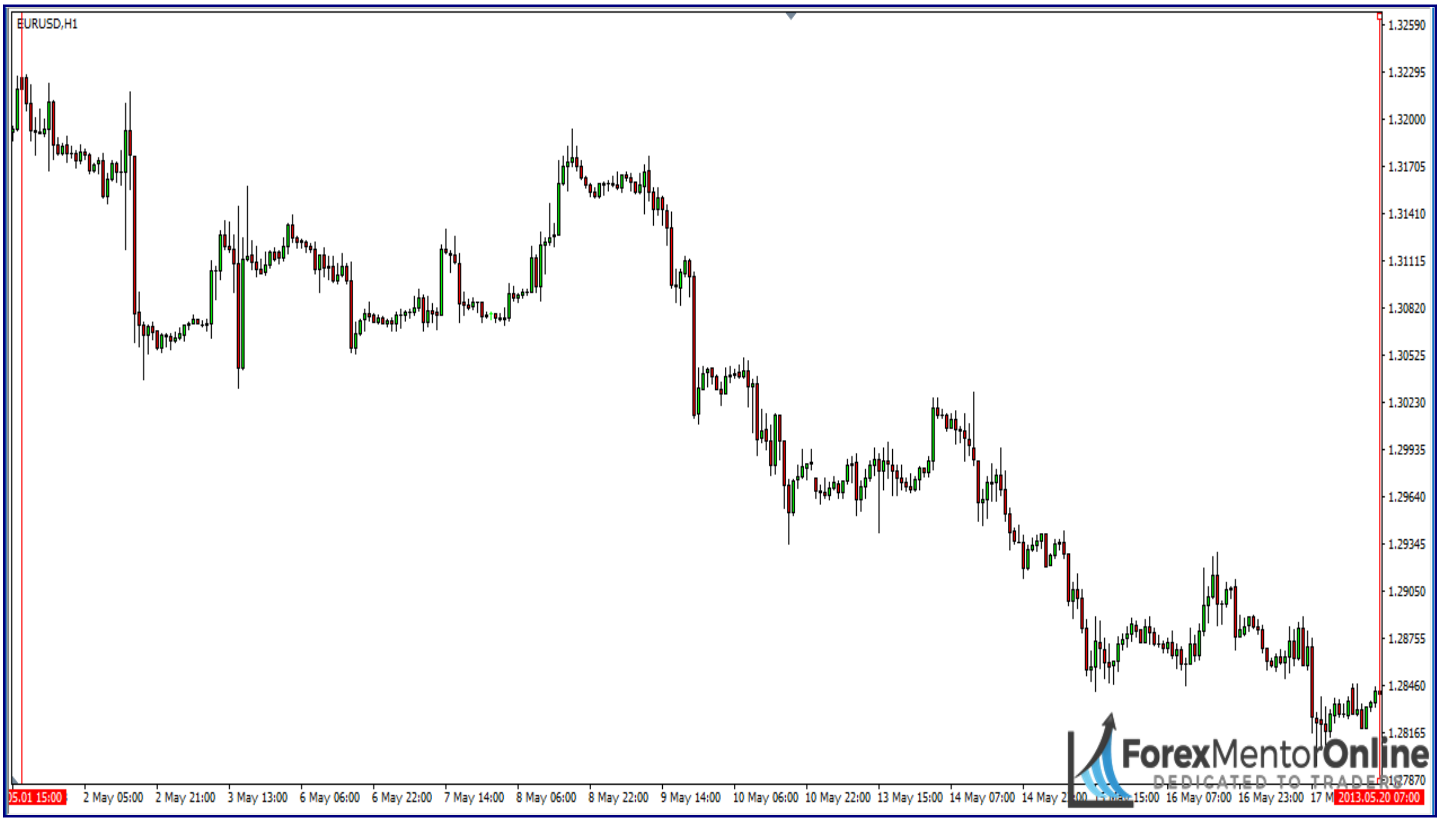
Some of the steps you have to go through to trade the patterns that form with the trend are a little different to the ones taken to trade the patterns that form against the trend.

So I've split this section into two parts:

The first will detail the steps you need to go through to trade the patterns that form against the trend, and the second will show you how to trade the patterns that form with the trend.

How To Trade The Patterns That Form Against The Trend

The first step to trading the patterns that form against the trend is to wait until the market has been moving in the same direction for a long duration of time because that's when the bank traders are likely to cause a large retracement or reversal.



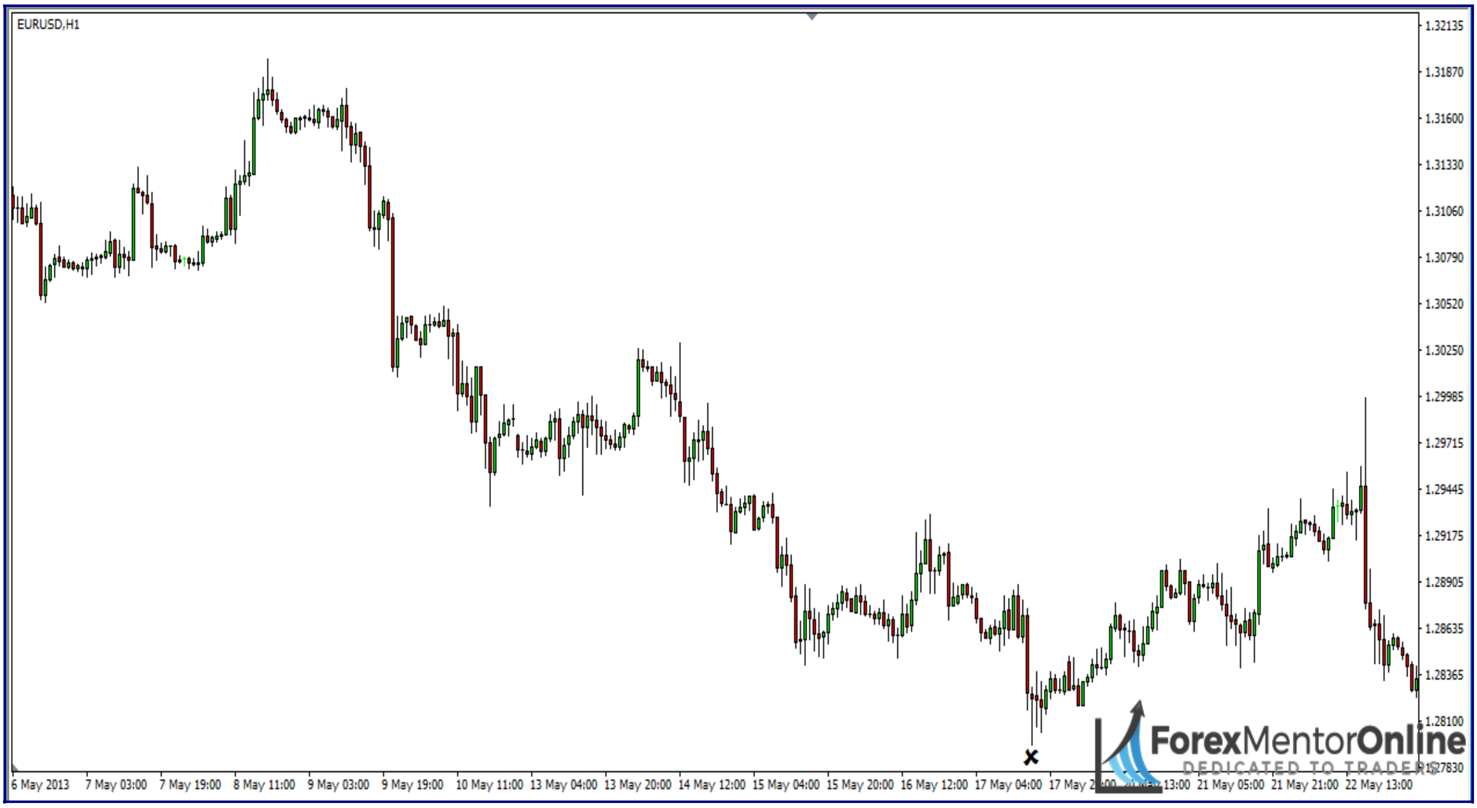
Here's a downswing that took place on EUR/USD.

You can see I've moved the chart so it sits on the point where the market reversed and caused the most recent swing down on the daily chart to begin.

Notice the market is now in the bottom right corner of the chart?

The fact that it's moved this far tells us the movement has been in place for a long time, which means it's likely we could see the banks cause a complete reversal or large retracement to take place.

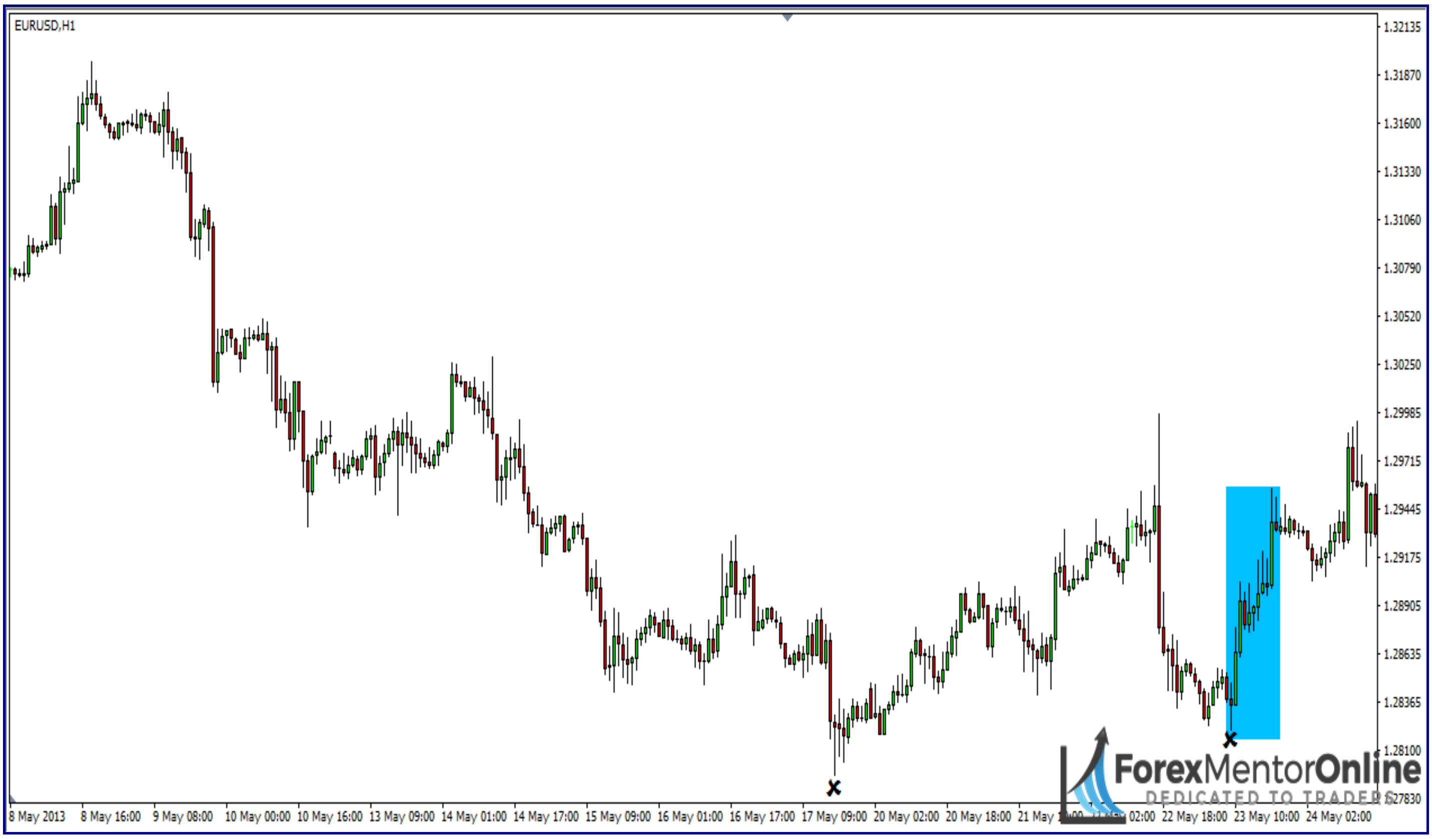
It's at this point when you start watching for signs of a reversal structure pattern to form against the trend.



If I move the chart along, you can see a short time after the previous image was taken, an up-swing formed that was bigger than all of the other up-swings we'd seen since the downswing began.

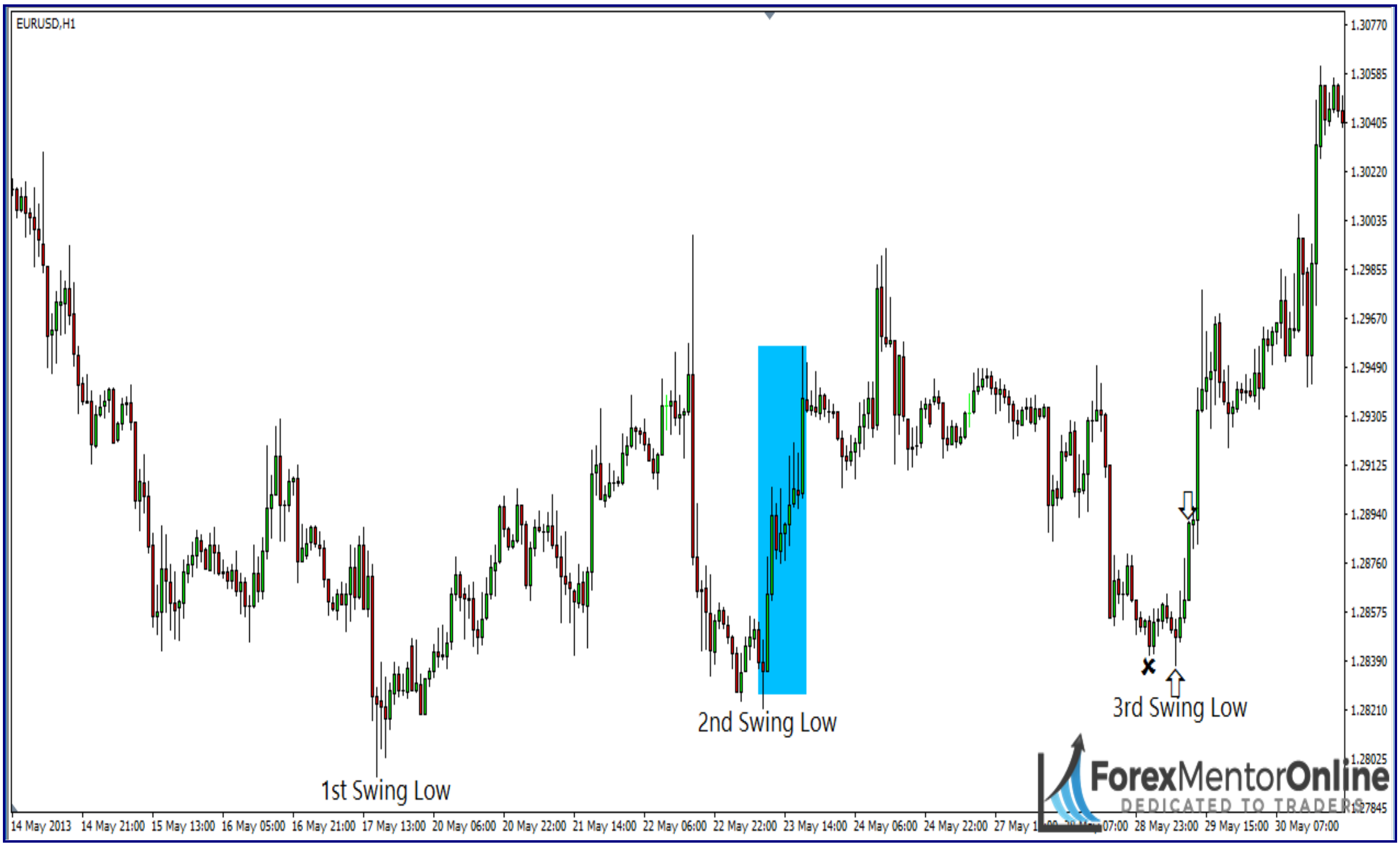
The fact it's bigger than the others isn't significant in any way, but the swing itself could end up being important if another upswing begins after the market has fallen to the swing low, as that would be a sign a reversal structure pattern is potentially forming.

So when the up-swing comes to an end and the market is beginning to drop back towards the lows, you would be monitoring the price action to see if another swing higher looks to be developing because if it is it's likely a reversal structure pattern is forming.



As you can see, the downswing resulting from the upswing does not cause the market to break through the swing low.

Instead, it terminates just 23 pips away before a new upswing pushes the market back up to the point where the swing down originated from. This is the point when you begin watching the market closely because there is now evidence to suggest a reversal structure pattern is forming, which means another swing down to the point where the 1st and 2nd swing lows formed is soon likely to take place.



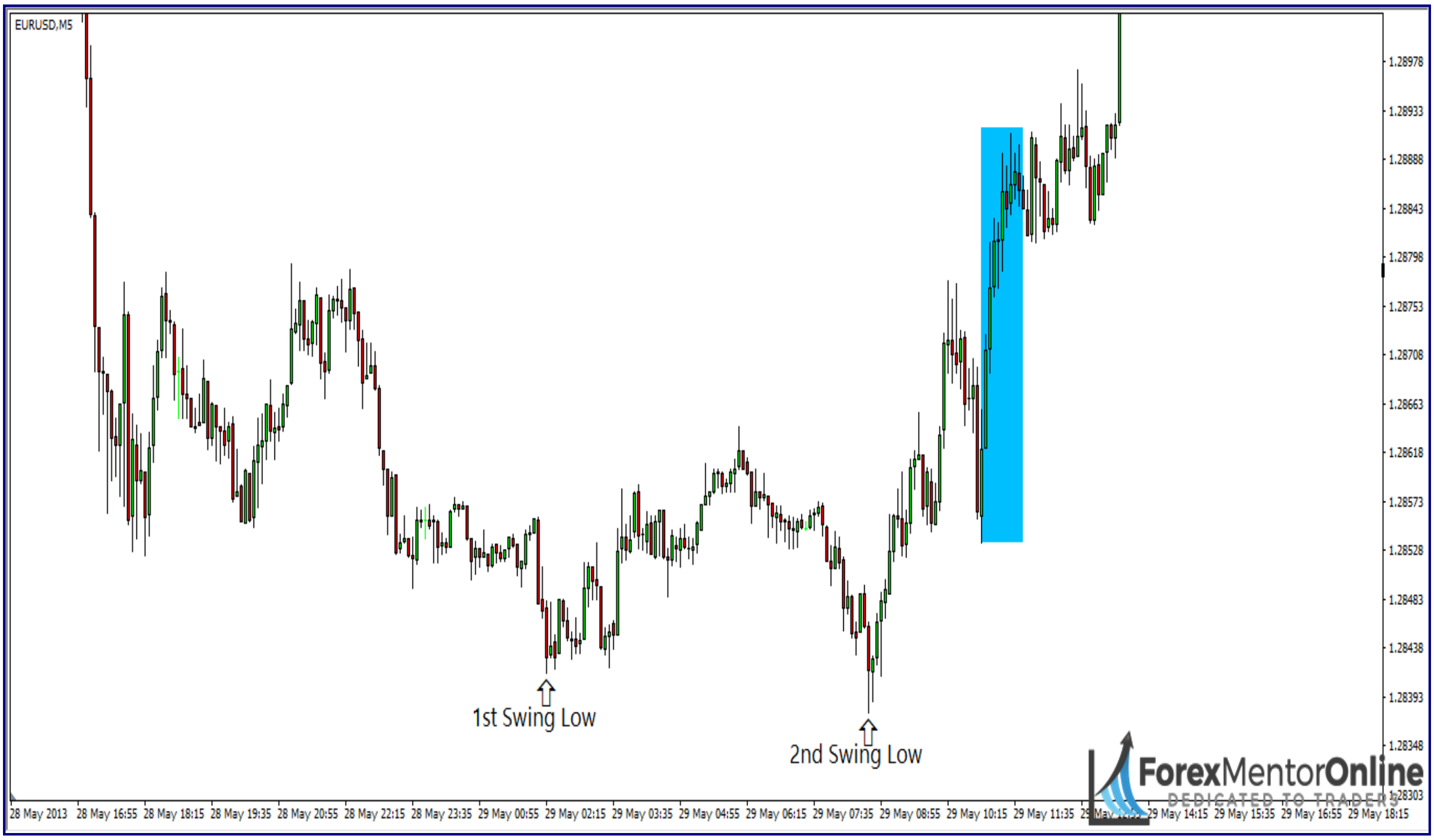
In this instance, you can see the market ends up falling to the point where the 2nd swing low formed before reversing.

This won't be the case with all the patterns you see form. Sometimes a couple of up-swings will form and the market will drop past the low of the 2nd upswing before reversing. Other times it will create one or two swings before dropping through the lows of both of them before reversing.

It's impossible to know whether the market is going to break through the swings, or which swing lows it's going to breakthrough. But it's not an issue anyway because of the method used to trade the pattern.

When you see the market come close to the point where the 2nd up-swing originated from, you need to go onto the 5-minute chart to begin watching for another reversal structure pattern to form. The reason why is because of what I talked about earlier on in the book, about how the reversal structure pattern is a fractal pattern that forms as a result of the same pattern forming on a lower timeframe.

So to find out when the 3rd swing low of the pattern might be forming, all you need to do is watch for a reversal structure pattern to form on the 5-minute chart when the market is around the point where the 2nd swing low formed. As any additional swing lows in the pattern are likely to form around the same point where swing lows have already been created.

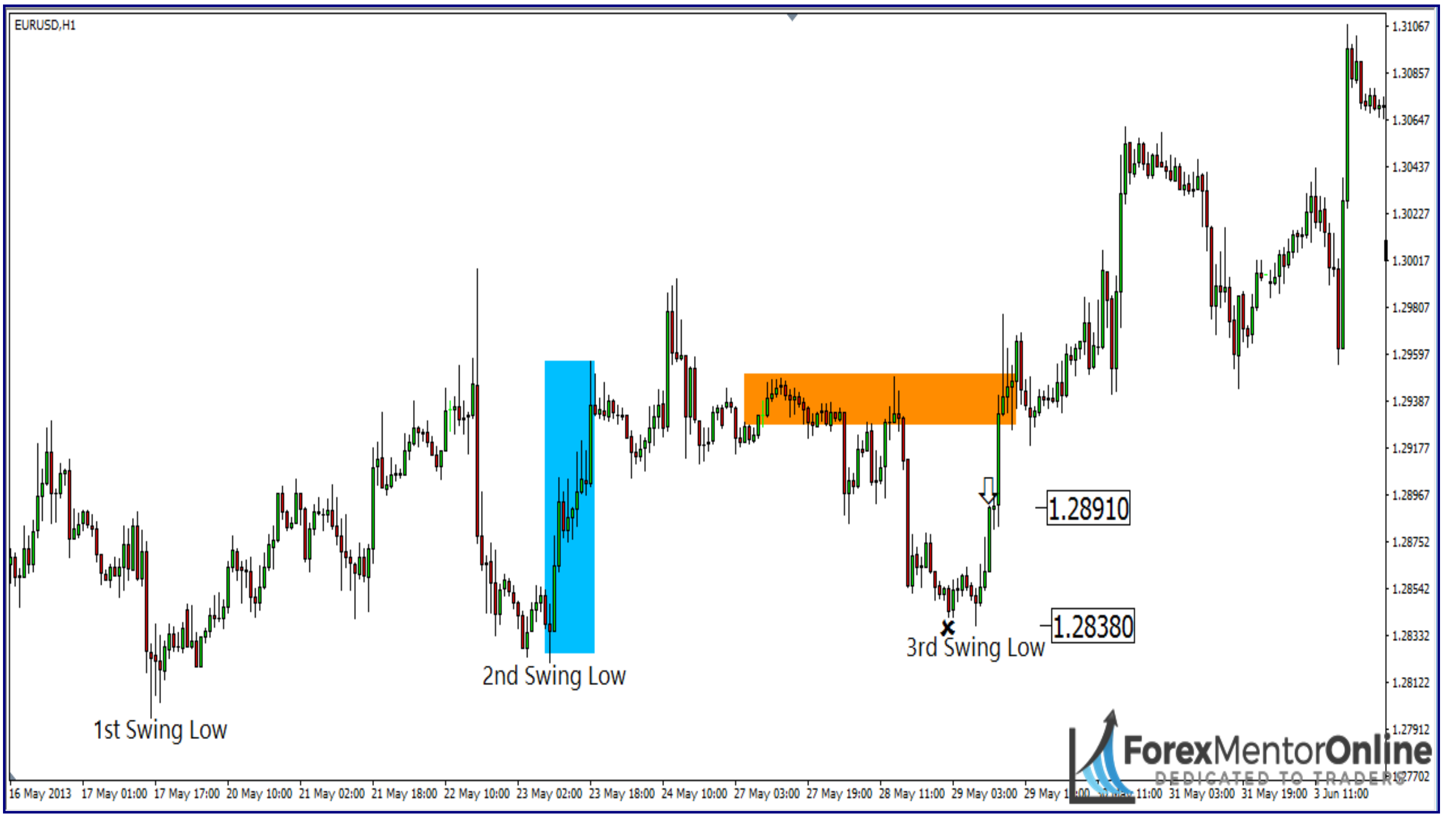


In the image above, you can see a reversal structure pattern that forms on the 5 minute chart when the market comes down to the point where the 2nd swing low formed on the 1 hour chart.

This pattern contains all the same features of the pattern that formed on the 1-hour chart. It doesn't look the same, but all the features are present. We have multiple swings being created, the swing lows of these swings forming at similar prices to one another (the other pattern has three but two is the minimum required for a pattern to form), and the swings themselves are large and prominent.

The formation of the pattern is a sign the 3rd swing low might be forming on the 1-hour chart, but this isn't confirmed until the market has managed to close beyond the swing high of the swing down by at least one candlestick.

This means when you see the 2nd swing low has formed, you don't enter a buy trade until the market has closed past the high of the down-swing that caused the market to fall back to the point where the 1st swing low formed. As soon as you see it's closed past the high, you enter a buy trade with your stop loss placed below the 2nd swing low.



With the trade executed and your stop loss placed, the next task is for you to go onto the 1-hour chart to wait until the market is close to reaching the source of the last down-swing before moving your stop to the breakeven point. When it does reach the source, you need to monitor the price action closely, because if another swing down is going to take place, it will likely do so near the point where the previous swing down originated from.

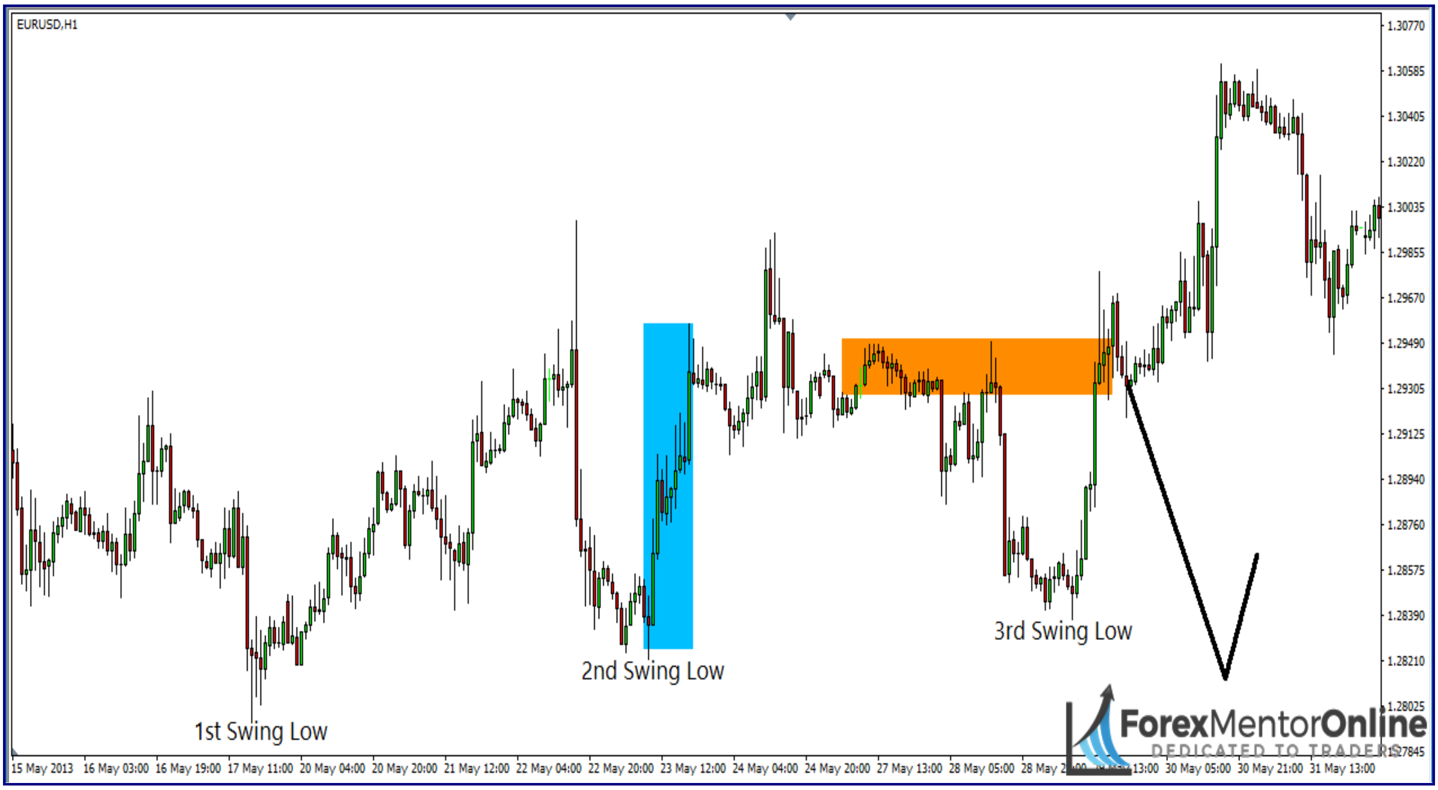
Note:

If a swing low forms without a pattern forming on a lower timeframe, you can still get a trade placed by waiting for a large bullish candle to form. In the image above, you can see I've marked a large bullish candle with a down arrow.

This is the candle you would use to enter a buy trade if you didn't see a pattern form on the lower timeframe, as it's formation confirms the swing low as being valid.

Also, if you saw a swing high form without a pattern on the lower timeframe when trading a bearish reversal structure pattern, you can still get a trade placed by waiting for a large bearish candlestick to form after the swing high has been created.

If another swing down does occur, it will probably take you out of your buy trade. But don't be alarmed, it's not a signal the pattern has failed, it's just a sign that a 4th swing low could be forming.



Here's an example of a theoretical situation where the market falls again after reaching the source of the previous swing down.

The down-swing that occurs after the market reaches the source (marked with an orange box) causes price to drop through the 2nd and 3rd swing lows that formed previously. When you see the market drop down to the point where each low formed, you'd go onto the 5-minute chart to begin watching for a reversal structure to form because if another swing higher is going to take place, it will do so near to the point where the current lows have been created.

If one does end up forming, you just follow the same instruction I gave you before.

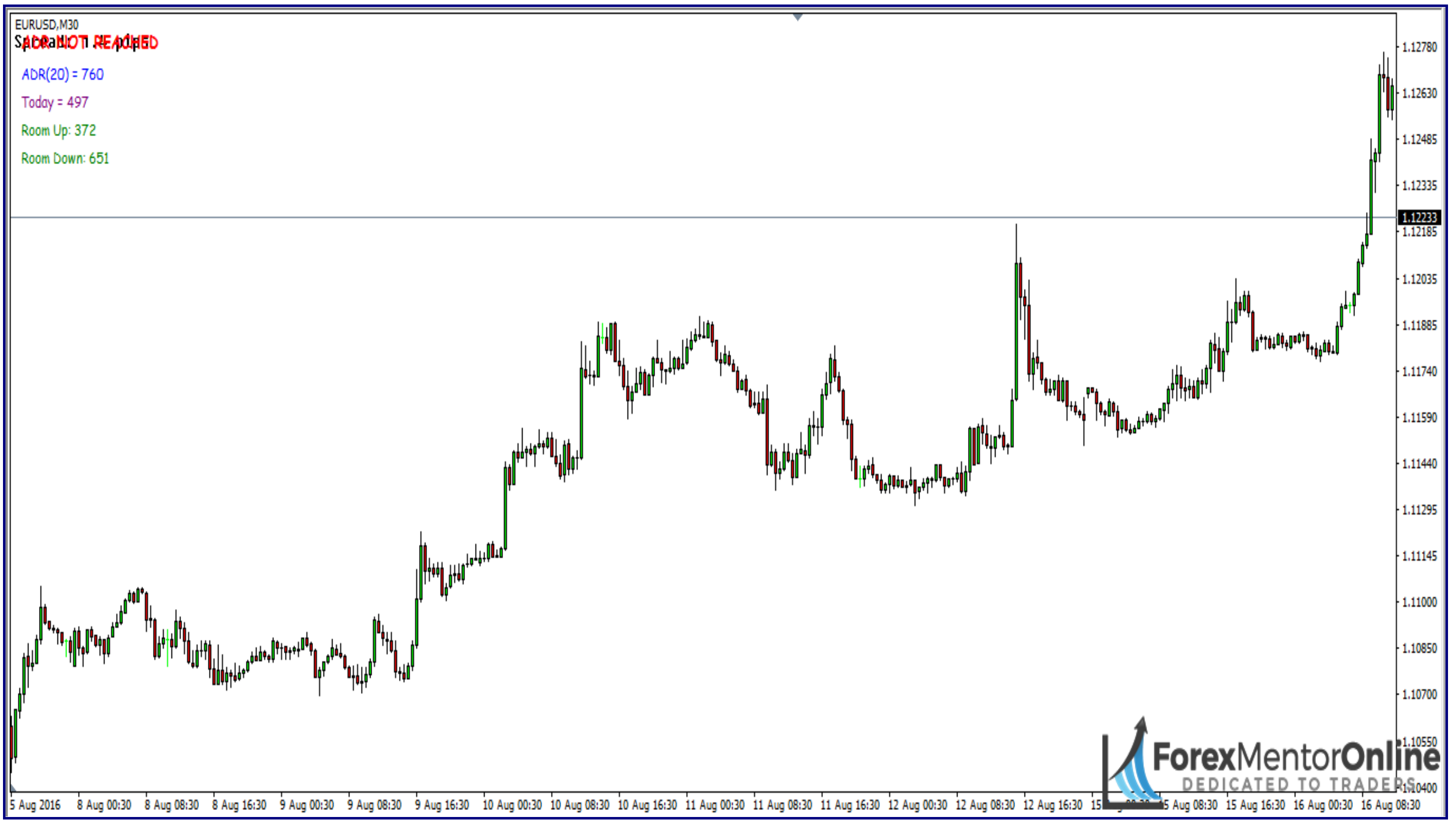
You wait until the market has broken above the high of the swing down and then enter a buy trade with your stop loss below the low of the up-swing that caused the high to break.

If it manages to move back to the source of the last swing down on the 1-hour chart, you move your stop loss to breakeven to avoid any losses that could occur if another downswing develops.

Now I've shown you a bullish example of a reversal structure pattern forming against the trend, I want to give you a walk-through of a bearish pattern, to make sure the process is clear no matter where you see the pattern form.

Just like the previous example, step one is to wait for price to fall for a while, as the banks only cause a reversal or large retracement to take place when the market has moved a large distance in the same direction for a long duration of time.

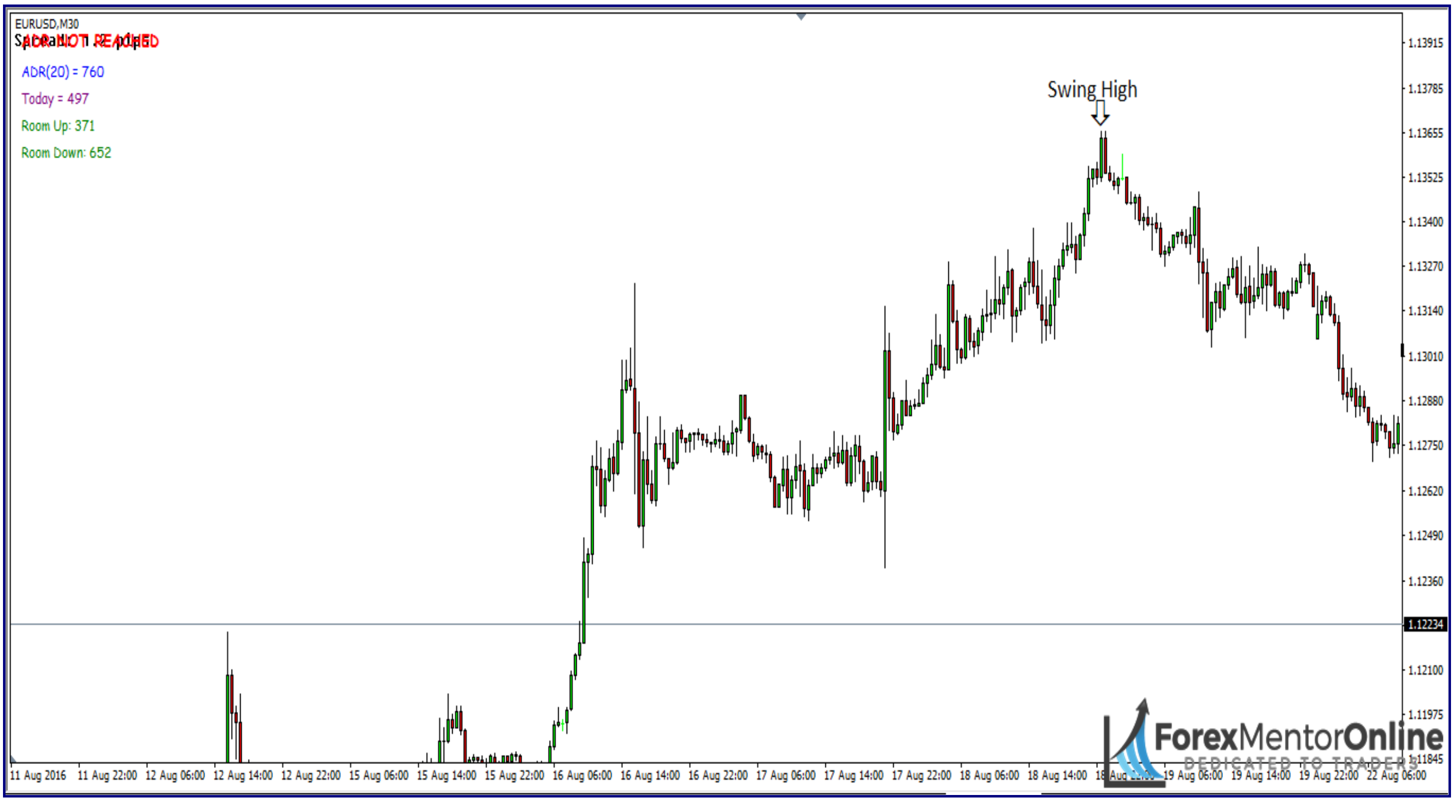
You wait until the market has broken above the high of the swing down and then enter a buy trade with your stop loss below the low of the up-swing that caused the high to break.



The image above shows an up-swing that took place on the 1-hour chart of EUR/USD.

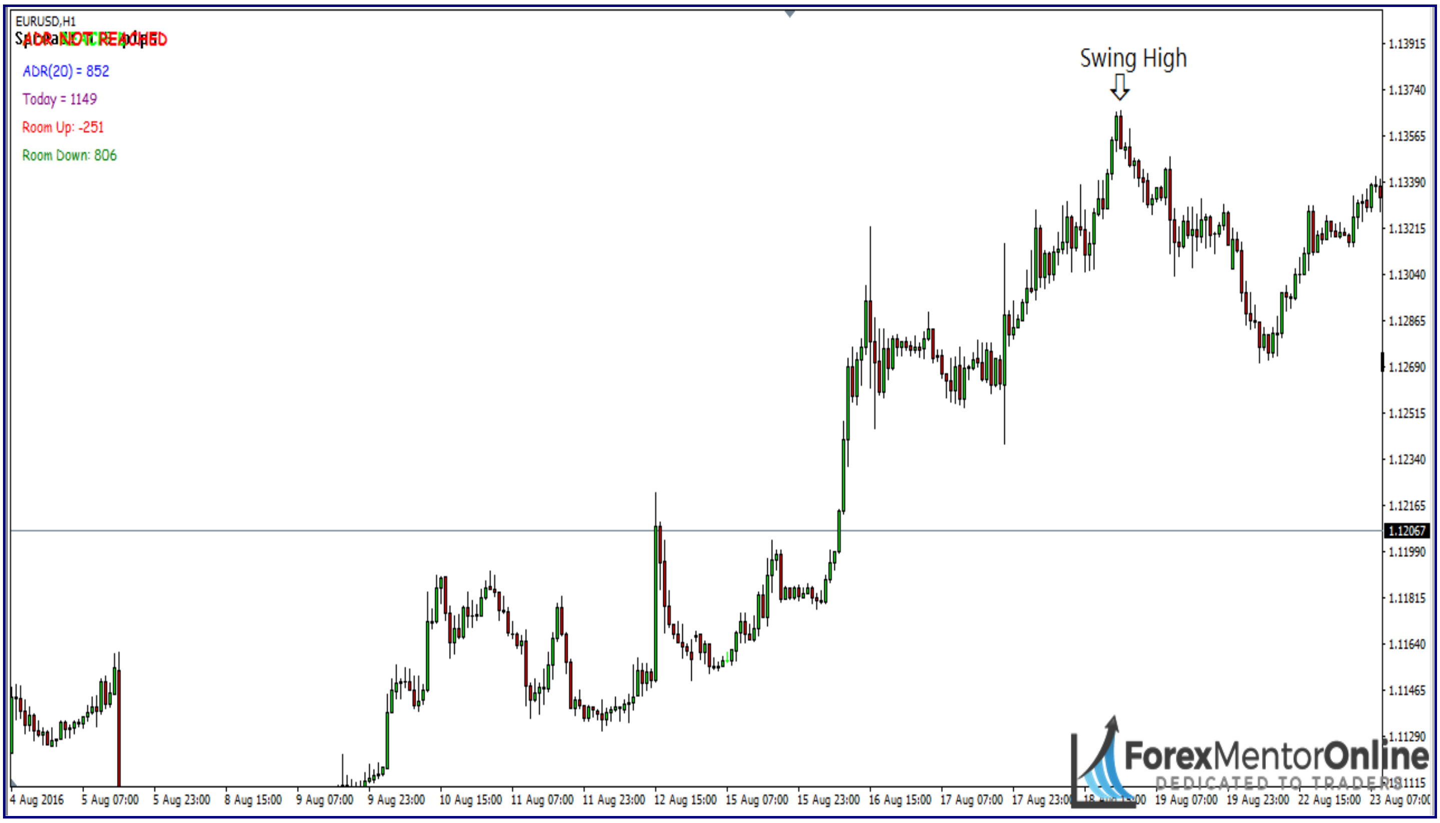
As you can see, this upswing has caused the market to move in the same direction for a long time.

Because it's moved this far, you know a reversal structure pattern is likely to form soon, as the banks cannot make money unless they cause deep retracements and reversals to take place every so often.



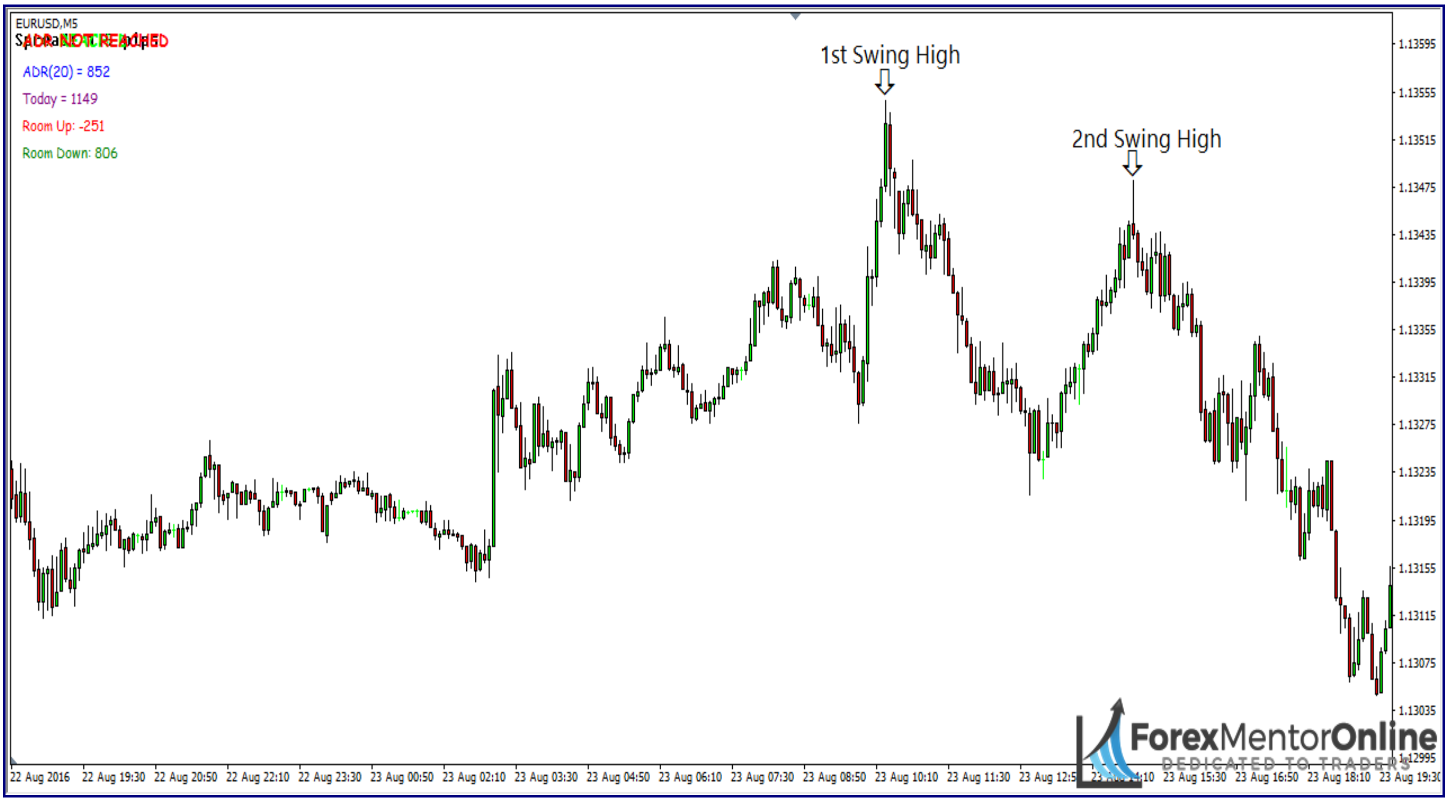
In this image, you can see shortly after the previous image was taken, a downswing occurs and causes a swing high to form.

This downswing and the swing high it creates is not significant at the time of its formation, but it could signal the beginning of a reversal structure pattern if another swing high ends up forming at a similar price when the market moves back up.



When the market reaches the area where the swing high formed, you would be waiting to see if another swing down takes place, because if it does, that would give further confirmation a reversal structure pattern is forming.

You could decide to go down onto a lower time-frame to watch to see if a reversal structure pattern forms at the point where the swing high formed, as that would be a good sign the second swing down is about to begin.



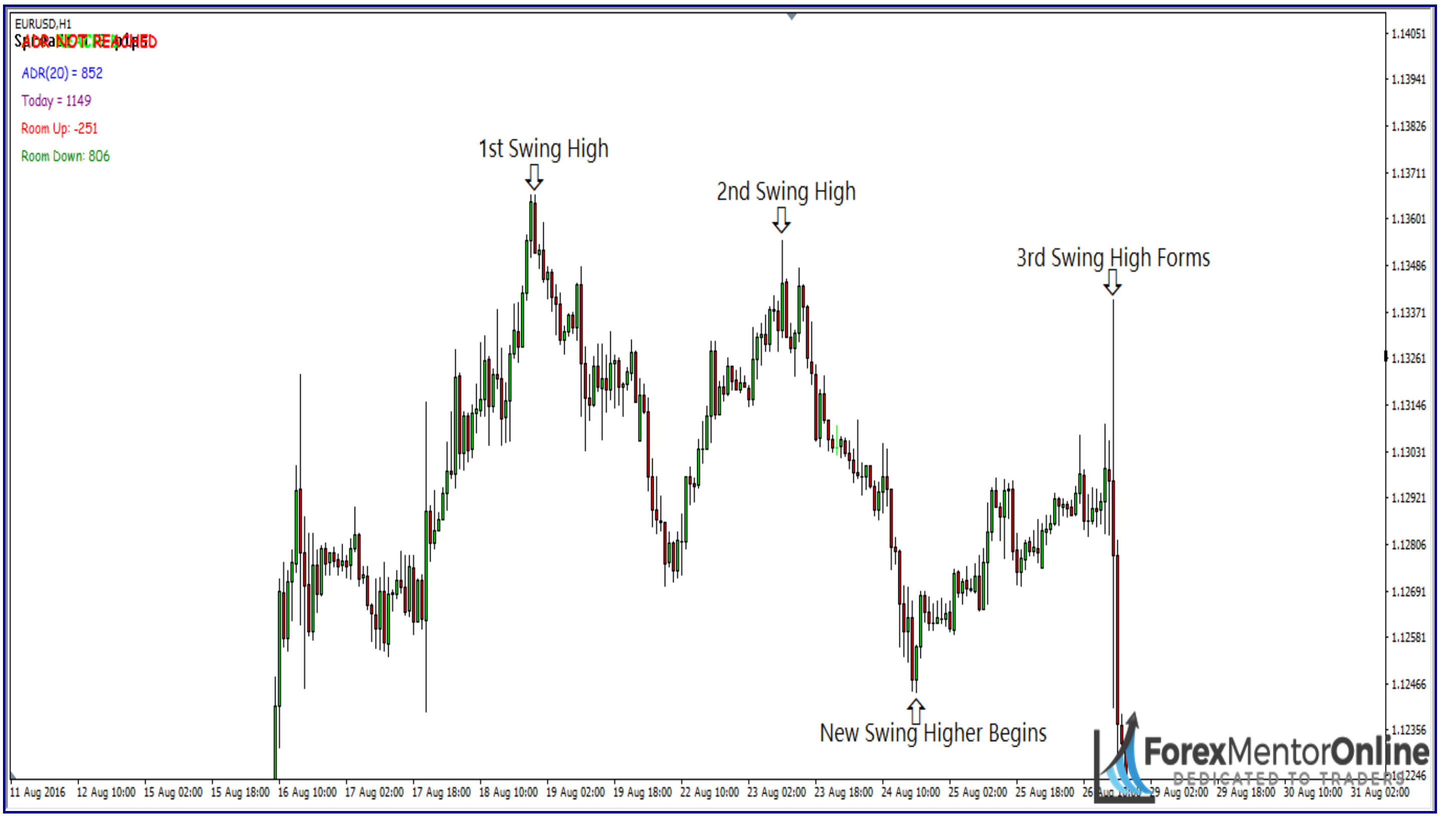
If you look on the 5-minute chart, you can see a pattern did actually form when the market reached the area where the 1st swing high formed on the 1-hour chart.

You could have used the formation of this pattern as a sign another swing down was going to take place, but you also could've used it to get a sell trade placed, as a means of trading the pattern earlier. Doing this means you're taking a lower probability trade, not because the trade itself has a lower probability of being successful, but because there's a lower chance the market is actually going to end up breaking through the low of the first swing on the 1-hour chart.

If you do decide to take a trade upon seeing a pattern form on a lower timeframe, you need to make sure you enter your position after the market has managed to close below the swing low of the most recent swing up, as that would be confirmation the swing down on the 1 hour chart is now going to take place. Your stop loss would be placed above the swing high of the swing down that caused the market to close below the low, and you would move it to break even when the market is close to reaching the swing low created by the most recent swing higher on the 1-hour chart.

Now assuming you didn't use the pattern that formed on the 5-minute chart to get an entry into a trade, at this point you'd still be watching to see if the second swing down continues or causes another swing higher to take place.

In this instance, you can see the second swing down does come to an end, and soon after another swing higher develops. When this new swing causes the market to move back to the point where the second swing high formed, you need to drop down to the 5-minute chart to monitor the price action to see if a reversal structure pattern forms.



Now, unfortunately, although a 3rd swing high does form upon the market returning to the point where the 2nd swing high was created, it doesn't form as a result of a reversal structure pattern forming on a lower time-frame.

In most cases, this wouldn't be much of a problem because you could just enter a sell trade upon seeing the 3rd swing high form on the 1-hour chart. In this example, however, the 3rd swing high happens to be a huge spike, which means by the time it's confirmed as being a swing high (when the big bearish candle marked with an X closes), the market has already dropped 92 pips away.

The fact that it's moved this far means the size of the stop loss on any sell trade you decide to place is going to really big. You can still place a trade and have it work out fine, but in my opinion, it just wouldn't be worth it, due to the amount of money you would have to risk on the trade.

How To Trade Patterns That Form With The Trend

I'm just going to run through a quick example of how to trade the patterns that form with the trend. It's a very similar process to what we've just looked at, so it shouldn't take long.

In this image, you can see a retracement that took place on the 1-hour chart of EUR/USD.

When this image was taken a swing down had just formed. Just like in the other examples I've shown, this swing down is not significant at the time of its formation, but it could turn out to be if another swing down occurs close to the point where this one originated from.

And it does...

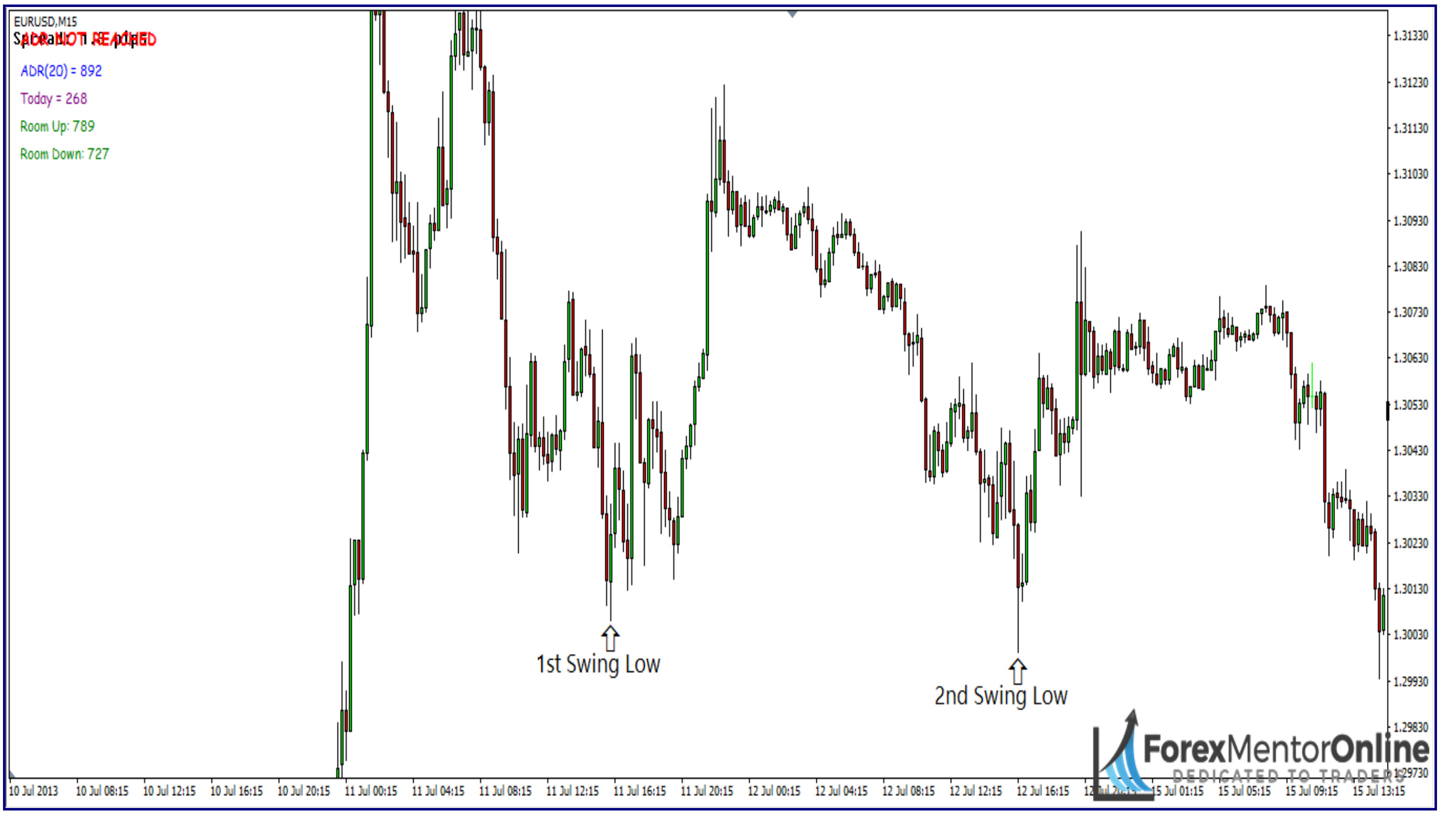
You can see another swing down does form upon the market reaching the point where the first swing down originated from.

The formation of this second swing suggests that a reversal structure pattern is in the process of forming.

At this point, you could decide to do one of two things:

You could either wait for more swings to form to give further confirmation a reversal pattern is forming, or you could decide to get a sell trade placed as a means of entering the pattern early. In my experience, it's better to wait for three swings to form before getting a trade placed.

Most of the patterns you see will consist of three or four swing lows (or highs in this case), so waiting until you see them form is usually better than placing a trade once the second high has been confirmed, i.e when a large candle has pushed the market away from the high.

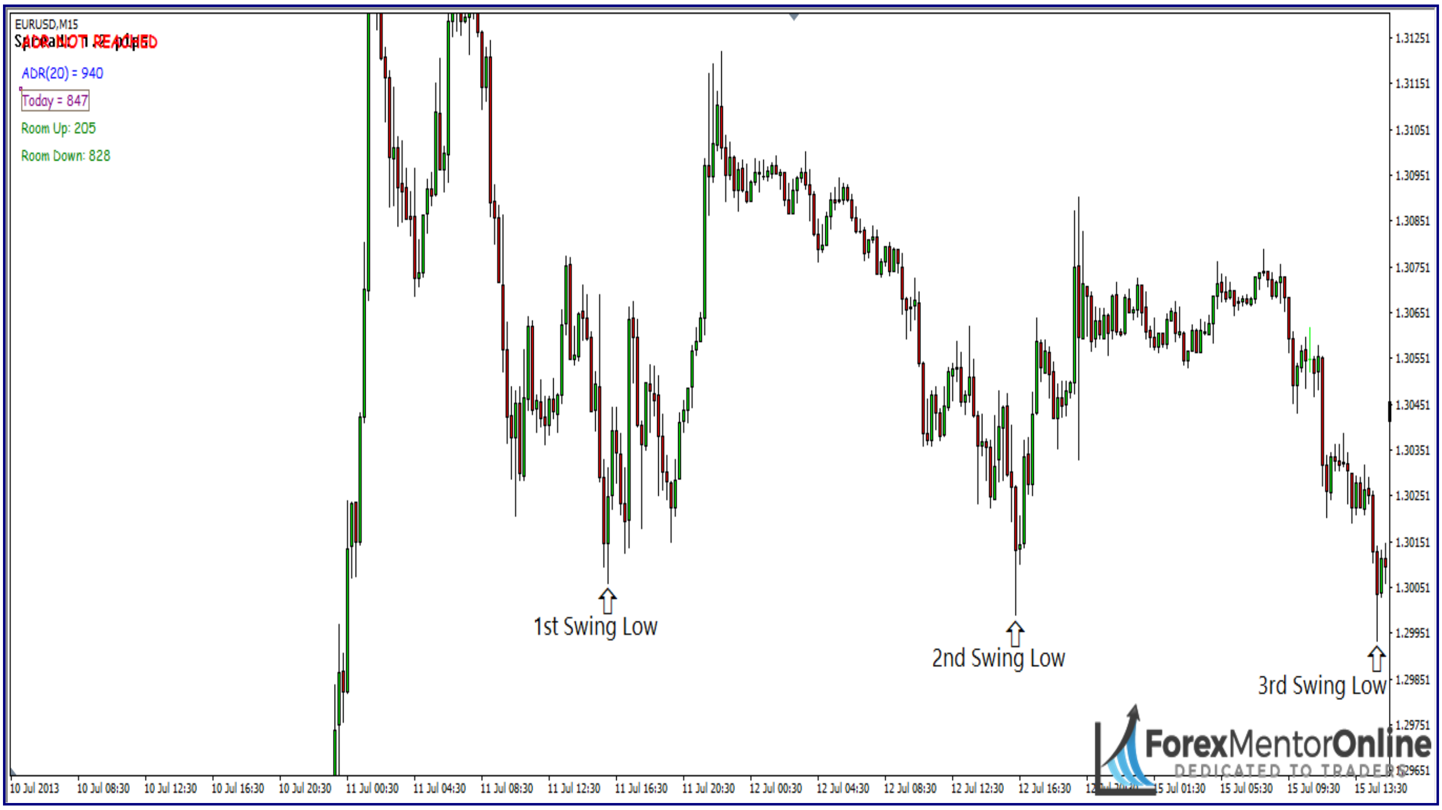


In our example, the second up-swing doesn't cause the market to reverse.

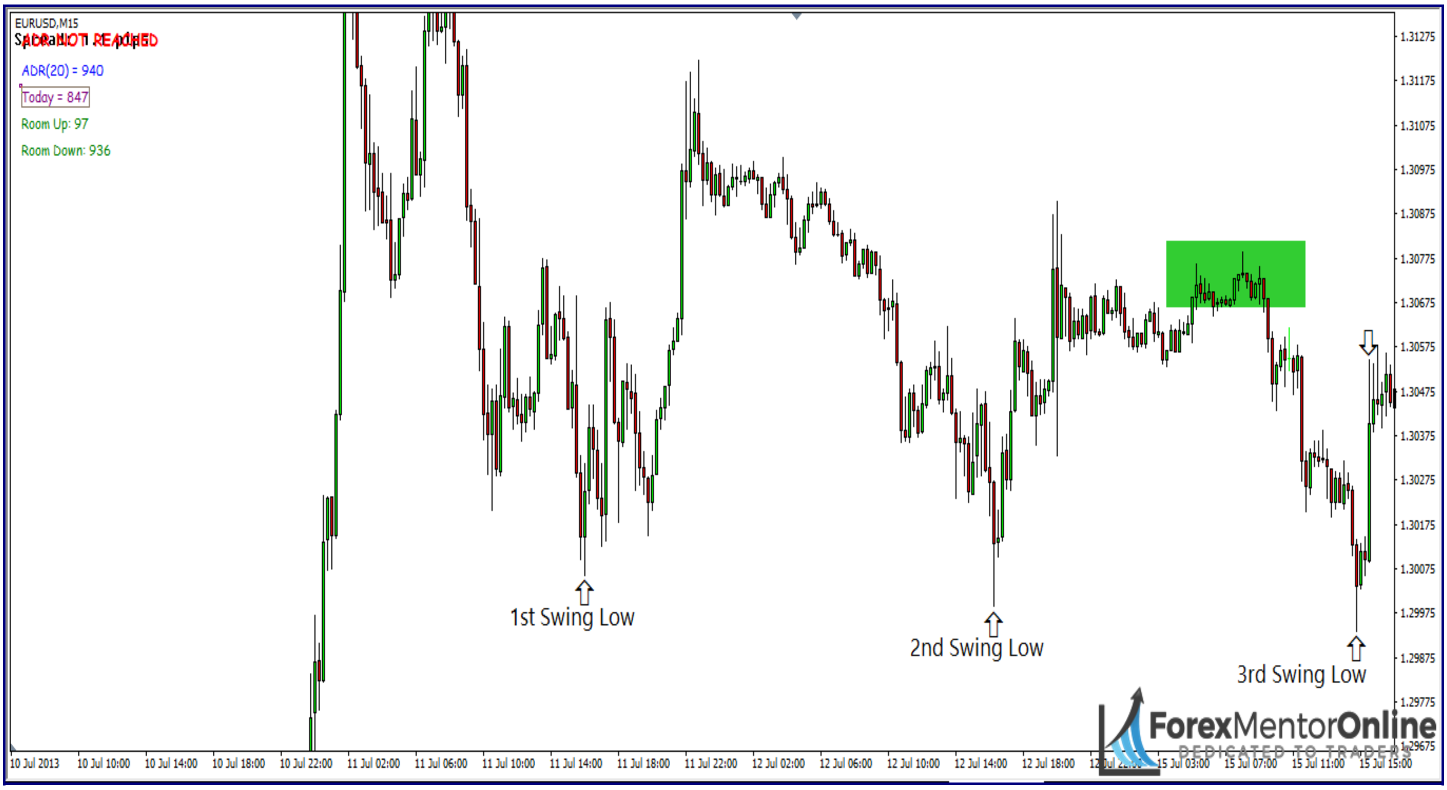
Instead, it causes it to move back to the point where the 2nd swing low formed upon reaching the highs created by the prior upswing.

This is when you'll want to start watching for reversal structure patterns to form on the 5-minute chart.

The formation of a pattern near the point where the 2nd swing high formed would be a good sign the 3rd swing high is about to be created. By trading this pattern, you can get a low-risk entry into a sell trade with a really tight stop loss.



In this instance, a pattern doesn't form on the 5-minute chart. This means the only way to enter a sell trade now is to wait until the swing high has been confirmed via a large bearish candle forming.



Here you can see 4 hours after the 3rd swing low formed, a large bullish candlestick appeared and pushed the market up towards the highs of the swing down that created the 3rd swing low.

The appearance of this candle confirms the 3rd swing low is now in place, so upon seeing it close, you would enter a buy trade with your stop loss placed below the 3rd swing low.

When the market reaches the point where the downswing leading into the 3rd swing low originated from, you need to move your stop loss to breakeven, because if another swing down is going to take place, it will do so from somewhere around here.

As you can see, another swing down doesn't materialize when the market reaches the source of the downswing. The fact it didn't occur means you can now just focus on monitoring your trade and taking profits off at the right time.

You should always take some profits off when the market makes a new lower low, or in the case of our example, a new higher high.

Also, if you see two swings form with their highs or lows at similar prices to one another when you've got a trade open, you should move your stop to the point where the low of the swing which created the second high formed. Or if the two swings form during a downtrend, the high of the swing that caused the second low to form, as a reversal structure pattern could be in the process of forming.

Important Things To Keep In Mind

Before we come to the end,, there are a couple of things I want to talk about you need to keep in mind when identifying and trading the reversal structure pattern.

Which Timeframes You Need To Use To Trade The Pattern

As I showed you in the previous chapter, when watching for a swing to form in to get a trade placed, it's best to drop down onto a lower timeframe to watch for a reversal structure pattern to form, because you can usually get a really good entry into a trade with a tight stop loss.

Of course, the timeframe you need to drop down to differs depending on which timeframe the pattern you're trading has formed on. So what I've done below is create a small list of which timeframes you need drop to onto when trading the reversal structure pattern.

If a pattern forms on the 30 minute or 1-hour chart, look for a pattern to form on the 5-minute chart.

If a pattern forms on the 5 or 15-minute chart, watch for a pattern to form on the 1-minute chart to enter your trade.

If a pattern forms on the 4-hour chart, watch for a pattern to form on the 15-minute chart to enter a trade.

If a pattern forms on the daily chart, look for a pattern to form on the 1-hour chart to enter your trade.

Watch For Patterns To Form Around The Points Where The Bank Traders Have Got Their Trades Placed

Although you can never know exactly where a reversal structure pattern is likely to form, there does happen to be some places where they're more likely to form than others. These places are the points where the bank traders have got some of their trades placed.

The reason they're more likely to form here is that when the bank traders are getting their trades placed, they often don't have enough orders coming into the market to get all of their trades placed at one price.

Because they can't get all their trades placed at one price, it means that once they get what trades they can place placed, they have to make the market move back to the point where their trades were executed, to get the rest of their trades placed at a similar price to the others.

When they get the rest of these trades placed, it tends to result in a reversal structure pattern forming. So essentially, by understanding the points where the bank traders have potentially got trades placed, you can come up with an idea as to where a pattern is likely to form.

Now even though there are lots of locations where the bank traders have potentially got trades placed, there are some which are more important than others, due to the size of trades they may have placed. Consolidations, reversals, and the point where retracements end, are all places where the bank traders will have got a substantial amount of their trades placed.

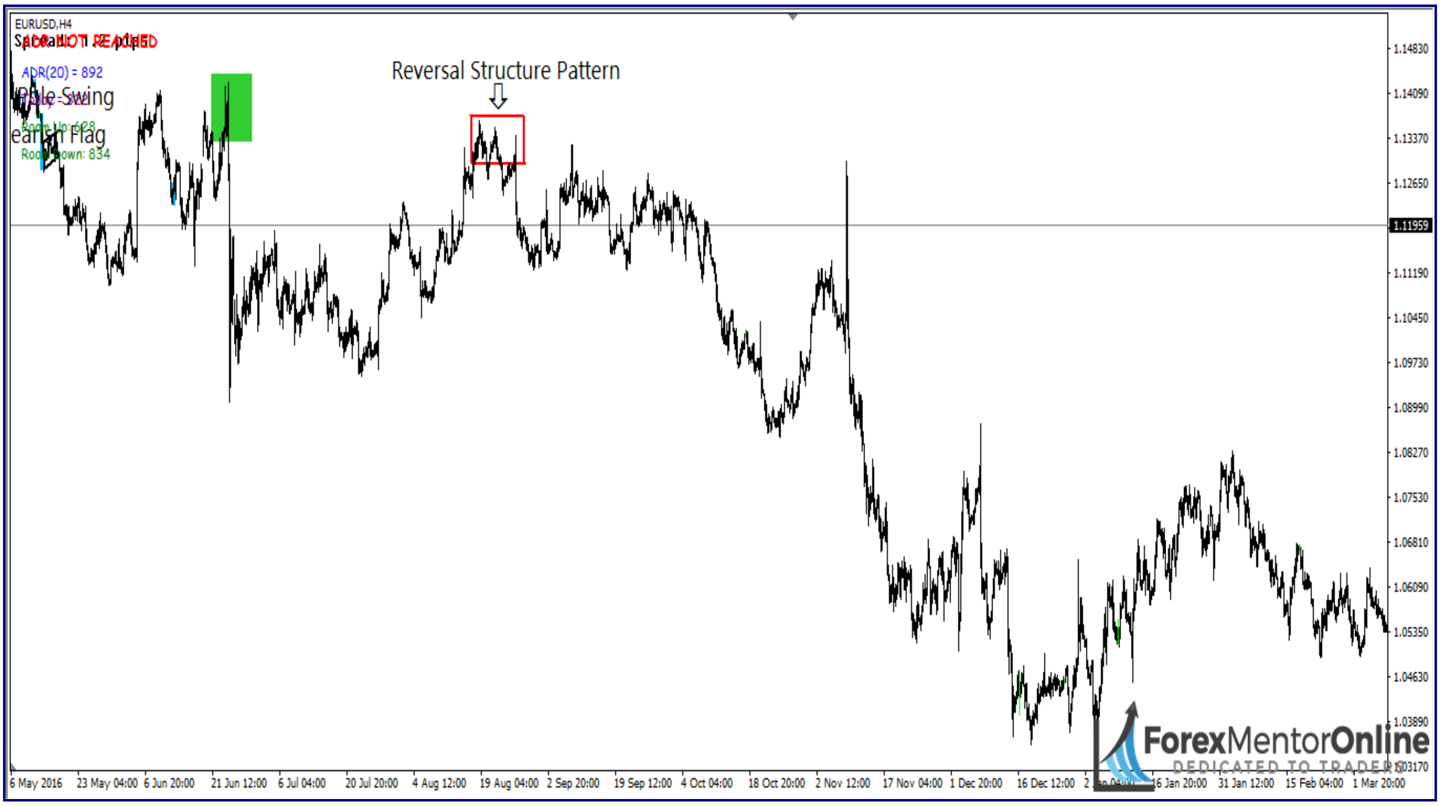
These are the places you want to watching for reversal structure patterns to form because if the bank traders were unable to get all of their trades placed during the consolidation, reversal, or retracement, they'll make the market move back to the point where it occurred to get the rest of their trades placed.

Here's a reversal structure pattern we looked at earlier in the book.

By zooming out a bit, you can see this pattern formed at a point where the market reversed a few days before.

This reversal, along with the pattern, had been created by the bank traders placing trades to make the market reverse. When the reversal took place, the bank traders were not able to get all of their trades placed at one price.

This meant they had to make the market move back up to the point where the reversal occurred, to generate buy orders to use to get the rest of their trades placed.



If we move onto the 4-hour chart, you can see once they got their trades placed to cause the pattern to form, the market dropped before entering a consolidation.

This consolidation has taken place because they still weren't able to get all of their trades placed during the formation of the pattern.

We can confirm this based on the fact the highs of the consolidation, reversal, and pattern have all formed at very similar prices to one another. Even the spike that occurred a couple of weeks after the consolidation came to an end, terminated at a similar price to where all the other highs had all formed - thus proving the banks got positions placed around this point in the market.

Closing Words

Hopefully, the examples I've shown you over the past few pages have given you a good idea of the steps you need to go through to trade the pattern. I realize the reversal structure pattern isn't the easiest pattern to identify and trade, but it is a pattern that can help you immensely because even if you don't decide to trade it, you can still use its formation as a sign a reversal is likely going to take place.

If you have any questions about the concepts discussed throughout the book, feel free to email me at liampriceactionninja@outlook.com. I'll always try to answer any emails I receive the day I get them, but sometimes I'm unable to due to the overwhelming number of emails people send me. Please give me at least 5 days to get back to you. If I haven't replied within 5 days, resend me the email, and I'll make sure to answer it that same day.

Thanks for reading.