5 Price Action Secrets That'll Change Your Trading

By PriceActionNinja.com

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Introduction

In 2021, price action is more popular than ever – and for good reason.

By far the most informative way of trading, price action gives you a real-time birds-eye view of everything happening in the market. Every event, no matter how small or big, can escape price action analysis.

Want to know where buyers and sellers exist; use price action.
Want to locate where and when price could reverse; use price action.
The possibilities are endless, and we're only scratching the surface.

By now, most of you probably know the ins and outs of price action – candlestick patterns, support and resistance, Fibonacci, supply and demand… we've studied these concepts endlessly over the years. We know them like the back of our hands.

That said, price action goes deep…
Way deeper than most think…

Did you know…
Pin bars form for different reasons.
And get this: candlestick wicks reveal what the banks are up to.

Secrets like this are unknown to most price action traders because 99% of the PA education repeats the same old talking points. Which is why today, in this book, I'm going to give you my 5 biggest secrets for trading price action.

These secrets cover all aspects of PA – pin bars, S & R levels, other concepts. They'll open your eyes to the inner workings of PA and give you a helping hand in trading the markets.

Sound interesting? Let's begin with secret #1…

#1 Support And Resistance: Zones Work Better Than Lines

It’s one of the most annoying sights in price action…

Seeing price near a support or resistance level, then reverse without actually touching the level (and failing to provide an entry signal) infuriates even the most level-headed traders, especially when it results in missing a successful trade.

I’m sure you’ve experienced this yourself – many times, too!
It’s super annoying and almost impossible to avoid.
Or, at least, it was…

Consider the following example…

Here’s a textbook example of what I explained – seem familiar?

Price falls to support, and a bullish pin bar forms. However, rather than form after touching the level (and giving a valid long entry), the pin instead misses and forms a few pips away.

Since the pin doesn’t touch the level, we get no entry signal and end-up missing the reversal.
… annoying, to say the least.

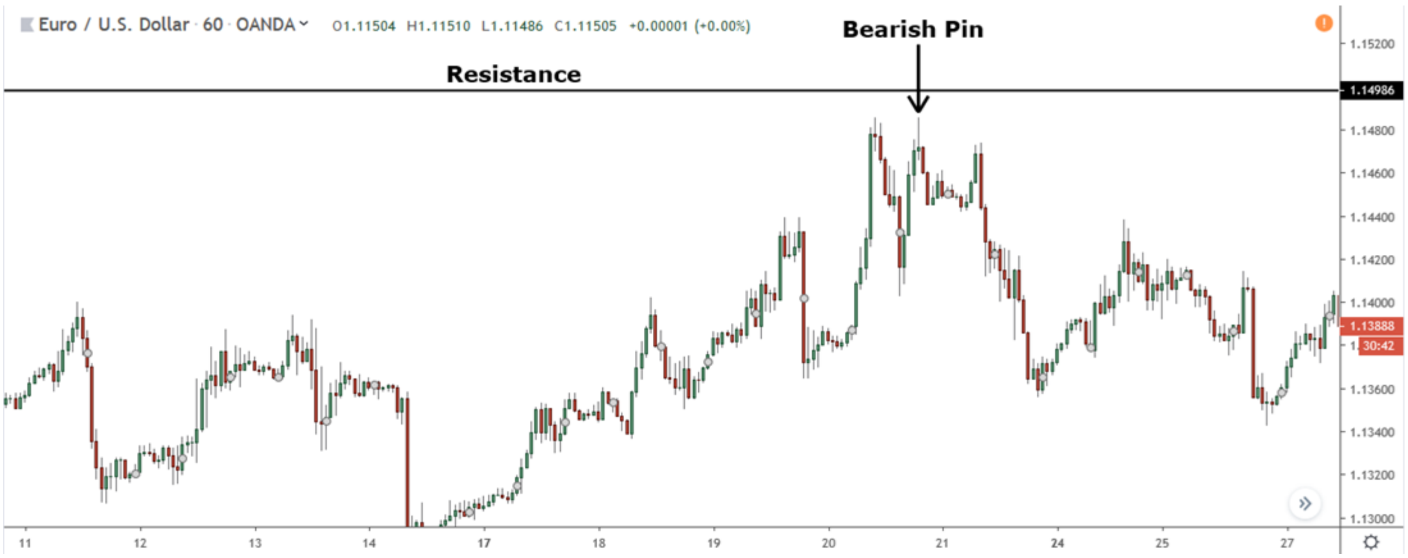
Now I'm going to show to you the image again, but this time…
Instead of marking the resistance level as a line, I'm going to show it as a zone.
Yes, a zone – I’m not kidding around!

I'm going to turn this level into a zone, just like a demand zone. The zone will give price a wider area for the pin bar to form in. That'll substantiality increasesthe chance the pin will form inside and provide us with a valid long entry into the reversal.

This solves the problem of price missing the level before reversing!

Before, the pattern had to form after touching the level to give a valid entry.
Now, the pattern must only touch the zone, making the entry much easier.

Here's a quick example…



Again, similar situation…

Price rises, comes within a hair resistance, before reversing without providing a valid entry signal.

No luck this time, but let's see what happens with a zone marked around the level.

And just like that…

We have a successful trade!

Like the previous example, defining the level with a zone instead of a line gives price a large area to reverse in. Rather than the bearish pin missing the level, it taps the zone, giving us a valid short entry. Now we can get into a nice short trade!

If you want to learn how to use S & R zones, read my Support And Resistance Handbook.

The book will cover how to draw the zones correctly and go over multiple examples of how to use the zones in your trading. Check it out below…

Support And Resistance Handbook.

#2 Pin Bars Don't Form For The Same Reason

How many times have you seen a seemingly perfect pin bar fail to cause a reversal?
It's got a big wick, formed at multiple technical points, and has the opposite close.
Yet, it still fails.

If you're like me, you see this happen very frequently.
And I bet you scratch your head wondering why.

Why do perfect pin bars, pin bars that should without any doubt generate a massive reversal, fail so frequently to cause even a small retracement?

The answer… is NOT what you think.

Take a look at the pin bar below…

According to most price action experts, this bearish pin has a high chance of causing a large reversal. It has a long wick jutting out from the surrounding price action, a small body with the opposite close, and has also formed at a major resistance level.

Overall, this pin should cause the price to reverse.

But look what happens...

Price continues to rise. The pin hardly caused it to fall an inch.

Most people would put this down to bad luck. Some pins fail; it happens. And while that is the case for many pins, it's not the case for this pin or most perfect pin bars that fail.

The real reason this pin failed…
Because it formed from the banks taking profits off their trades.

All price action sites assume pins form for the same reason: people buying and selling to make the price reverse.

To most traders, this makes sense - I mean, why else would they form? However, when you dig a little deeper and think about how the forex market works and why price moves up and down, you realize just how one-dimensional this line of thinking really is.

For a start, traders don't always buy and sell for the same reason…
Some buy because they want the price to reverse.
Others buy to take profits off a sell position.

On top of this, who's behind the buying or selling? Forex is made up of multiple trader groups, all buying and selling for their own reasons. A bank may buy to make the price reverse, whereas a bunch of retail traders might sell in response to a news release.

These actions play a massive part in whether a pin will cause a reversal or not.

Here's another seemingly perfect pin.

Like the other example, it has a long wick, a small body, and formed at a support level.
But again, it fails to cause a reversal.

This pin didn't fail because it had the wrong features or formed at the wrong technical level. It failed because it formed due to the banks taking profits off their trades – sell trades, in this case. And if you look at where the pin formed, this becomes obvious.

The pin appeared almost immediately after a sharp decline.

Whoever sold to cause the drop –the banks - would naturally now want to take some profits off. What happens when they take profits?

Price rises, resulting in a supposedly great bullish pin bar that fails to cause a reversal.

If you want to become more successful trading pins, start thinking about why they form.

Having a big wick and appearing at multiple technical levels is important, don't get me wrong. But your main focus should always be on figuring out why the pin has formed. Because that'll have the greatest effect on whether it causes a reversal or not.

#3 Candle Wicks Reveal What The Banks Are Upto

If it wasn't already obvious, the banks are pretty important in trading.

Understanding how they operate is key to making money because they control the market and dictate the price action. As you've already seen, though, this is far from easy and requires deep technical knowledge of how the market works the way it does.

One way you can get a sense of what the banks are up to is to look at candlestick wicks.

Key Fact:

The #1 most critical point to understand about the banks is they CANNOT buy or sell unless other traders are buying or selling at the same time: buying if they want to sell and selling if they want to buy.

For trading, this has two really important implications:

1. The banks can only buy when the price is falling.
2. They can only sell when it's rising.

In short: Everything the banks do is the opposite of what everyone else is doing.

When price is falling, the banks can take profits off buy trades, close sell trades or place buy trades.
When price is rising, they can only take profits from sell trades, close buy trades, or place sell trades.

Now, here's the important bit:

When the banks buy or sell, price moves in the opposite direction. Sometimes this causes a wick to form on the bottom of a bearish candle (if they buy) and a wick to form on top of a bullish candle (if they sell). That wick can give you important clues on what the banks are up to.

Look at the top of this rise... see the wicks?

These wicks tell us the banks are up to something. How do I know? Because the only way price could fall and form the wick is if selling entered the market. And who sells when price is trending higher? It's certainly not retail traders, that's for sure.

Obviously, it's the banks – they're selling!
But why would they sell when price is rising?
There can only be 3 reasons…

Since price is rising, the banks can only carry out sell actions. Because most traders are buying, so they can't buy – they haven't got anyone to sell to! Buyers need sellers, remember!

The banks can only buy when lots of sellers exist and only sell when lots of buyers are present.
In our case, price is rising; most traders are buying. So, the banks can only enact sell actions.

Those actions being…
Take profits off open long trades,
Close out open long trades,
Enter new sell trades.

Now, what action is taking place, we don't know – could be any of the three. It is possible to gauge which it'll be using probability and understanding a few key facts about the market, but you'll need to watch my video course to learn how to do that – check it out here.

In any case, we should soon see price reverse.

And sure enough…

A few hours after the wicks appear, price reverses, and a large down move ensues.

This reveals the banks took significant profits off their open buy trades – we know this because price reversed and jumped higher again after the retracement ended.

See how useful the wicks are now?

In this case, they warned you of an impending drop. That gave you an early chance to take some profits off an open buy trade or, if you were looking for short entries, told you to start watching for signals.

It always best to look for multiple big wicks to form close to one another at similar prices. These usually indicate the banks are up to something, so is a signal price will soon probably fall or rise.

One or two wicks forming on their own usually doesn't mean anything.

However, if they're really big like you see in the image above, it often means the banks have taken action and that a large rise or decline is incoming.

#4 Spot Reversals Early By Looking For Multiple Swings

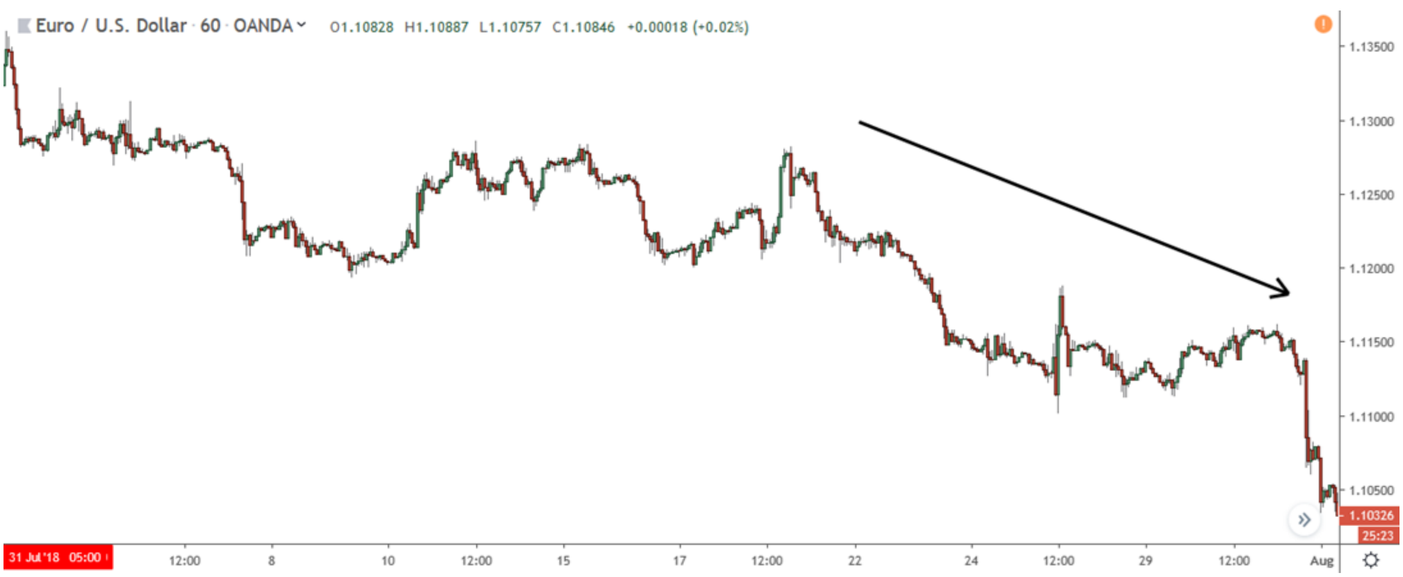
Predicting reversals usually means plonking a technical level on the chart and watching what price action appears to confirm when the reversal might be underway.

Is this a good method? Sure.
But is it the only way to predict reversals?
Hell NO!!

Technical levels are one of the best ways to predict reversals, but another way is to watch for multiple swing highs/lows to form at similar prices to one another.

Look at the reversal above.

And now compare it with this one…

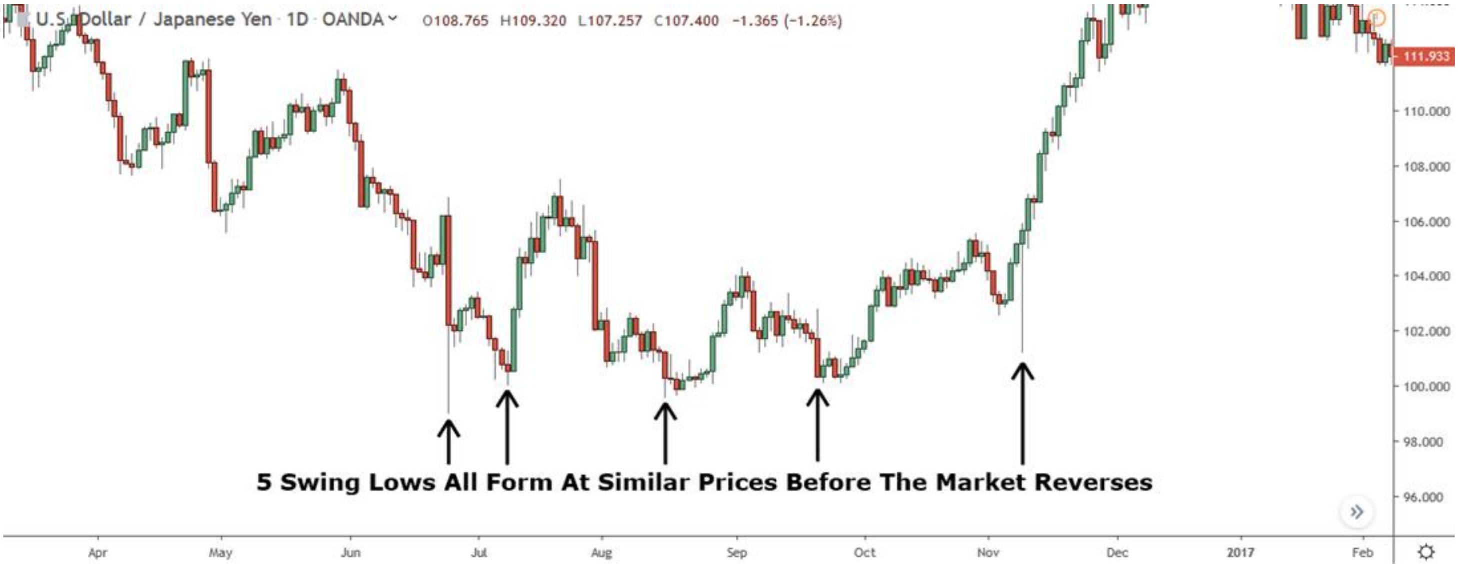


They look nothing alike, do they? Both initiating reversals to the downside, sure, but aside from that, these two reversals appear totally different from one another. Or do they? Look closely, and you notice these two reversals share the same feature:

They both begin after multiple swings form at similar prices.

Each reversal began after multiple highs formed at similar prices; 4 for the first reversal, 5 for the above.

Here's another one…



Remember this reversal that initiated the huge uptrend on USD/JPY at the end of 2016?

Again, look at the swing lows... it's the same pattern!

Multiple lows - 5 in this case - formed before price reversed and did so at similar prices. The first four appeared around 100.000, and one formed roughly at 100.500 – *also note how they formed around the 100.000 big round number level (more on this in a min).*

So, why does this happen?
Why do multiple swing lows or highs form at similar prices before large reversals begin?

The answer lies in how the banks place their trades.

As I said earlier, the banks can only buy or sell when other traders are doing the opposite.

Because of their size, the banks can never place their entire positions (like a trade) all at once; not enough traders are taking the opposing action (buying or selling). Instead, they split their position into smaller pieces; and place each when enough opposing traders are free.

On a chart, this appears as multiple swing lows or swing highs forming at similar prices.

Each high or low is the banks entering a smaller position, placed separately from the others.

They place each at similar prices to mimic the effect of entering their entire position in one go – their favoured method if enough opposing buyers or sellers were free.

And if we go back to example again…

It's clear how each swing high represented a separate trade.

If you want to know whether a big reversal is building, watch for this swing pattern.
If the banks want to enter a big position, they MUST split it into smaller chunks.
That always appears as multiple highs/lows forming at similar prices.

The overall structure will never be the same – note the difference between our examples – but at least two or more swing highs/lows will always form at similar prices. That's the key characteristic present whenever this pattern forms.

#5 Trend Reversals Usually Begin At Big Round Number Prices

Want to get into those huge market-changing trend reversals we sometimes see?
You need to start watching big round number prices.

Big round numbers are without question the most powerful but overlooked technical level in forex.

Any price that ends in 500, 000 or 0000 is classed as a big round number - or BRN for short. These prices hold incredible significance in forex due to a phenomenon known as the **order clustering effect**.

Order clustering is when people tend to place orders around big round numbers rather than other prices.

It happens partly because people are biased into thinking the numbers are better than others (due to being bigger) but also because humans are hard-wired to always look for order - a big round number like 1.12500 is much more orderly than something like 1.12452, for example.

So, why do we see so many trend reversals begin near BRN prices?
Again, it all comes down to how the banks enter their positions.

In forex, the banks can never enter their full position in one sitting; they must split the position into smaller chunks to lessen the opposing buyers/sellers needed and then place them at similar prices. We talked about this earlier in the book.

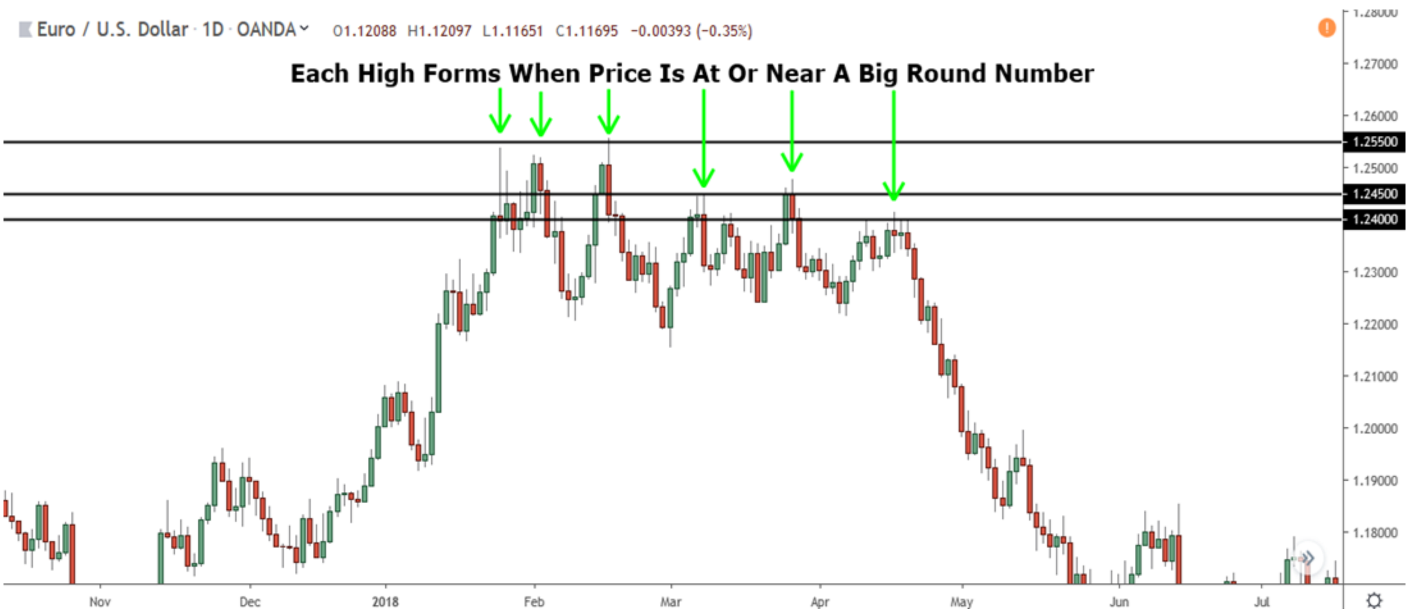
Even by splitting their positions, the banks rarely have enough orders free.
To lessen the load even more, they always push price to points where they know a ton of orders exist.
And where do thousands of orders build up?

At big round number prices!

The order-clustering effect causes masses of orders to accumulate on and around big round number prices.

By pushing price to these numbers, the banks can generate more opposing buyers/sellers; and enter more of their positions at favourable prices.

You can see this in the example below…



These 6 major swing highs, which were created by the banks selling remember, all formed around 3 big round number prices – see them on the right?

Masses of buy/sell orders had accumulated at these prices.
The banks knew this, so purposely, pushed price into them to help enter their positions.
That's why #1 the highs all form at BRN prices and #2 why the highs themselves appear at similar prices.

The banks pushed price into a round number, used the orders to enter some small sell trades, then brought price back again to enter more trades at a similar price. The result being multiple swing highs forming at big round numbers but at similar prices.

That’s the magic of big round numbers.
Pretty cool, huh?

Note: Learn how to mark and trade big round number zones in this post.

Closing Words

Well, that’s your lot… 5 price action secrets all traders need to know. Price action has been done to death by this point, but as you’ve seen today, it goes way deeper than the typical “watch for pin bars to form at S & R” advice you hear most guru’s/sites spew.

If you want to take PA to the next level, start thinking about the why.

WHY has a pin bar formed?
WHY did price fail to reverse from support?
WHY have wicks started appearing above/below the candles?

Way too much emphasis gets placed on the "what" in price action – and trading in general – when really, it’s the “why” that’s most important to know. That's where all the secrets explained today came from - me thinking about why something happened.

Anyone can look at a chart and identify a pin bar – that’s the “what”.
But how many ever think what’s caused a pin to form – that’s the “why”.

Start thinking about the why, and you’ll be amazed at the insights you gain. For more price action secrets, check out my books and trading course.