Nick McDonald

Nick McDonald is a leading independent trader with a global following via the company he founded, www.tradewithprecision.com. A specialist in technical trading strategy for any market and any time frame, Nick possesses a unique approach to modern technical trading which forms the basis of the strategies that he teaches. Nick is in high demand as a speaker on the global trading circuit with speaking engagements on multiple continents each and every year.

The Path to Trading Success

PART 7: PRICE ACTION MASTERY – PART 3

In this article we complete our discussion on price action mastery by looking at the only three candle patterns that you need to know and introducing multiple time frame analysis into the trading mix.

➔ **CANDLES**
If you are expecting this to be the 69,876th article to be

The author's advice? Think about what is going on within the candle… ask yourself if there was more

the question as to who is in control then you can effectively categorise every single possible candle

There are only three candlestick patterns: bullish, bearish, and indecisive.

written on the same old candlestick pattern names of dojis, hammers and shooting stars, you will be sorely disappointed. The author uses candles every day in his trading but he doesn't refer to names at all, in fact he considers there to be just three candle patterns:

1. Bullish
2. Bearish
3. Indecisive (no clear winner between the bulls and bears)
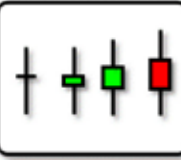
Is it possible for a candle to be anything else? – NO! So why all the names then?

That's a great question and the best answer we can give you from years of our own research is that the art of creating hundreds of names for essentially the same thing (bullish, bearish or indecisive) is a great way to sell books. It's great for the candlestick book authors, not so great for us traders trying to make a buck from trading! The good news is that you don't need to read the book, nor any book on candles. Save your time and your money and take a look at Image 1. You will see that many of the popular candlestick pattern names are all easily identified by simply considering what is happening and who is in control of the candle. Did the buyers win or did the sellers win? Answer that one simple question and the name is irrelevant. Of course there are many more potential patterns and shapes that can occur, but every single one of them will still fall under one of those three categories.

buying or selling pressure within each candle, who is winning the constant tug-of-war. If you can answer

pattern and you don't need to memorise 100 names yet you are indeed a true expert!

F1) CANDLESTICK PATTERN NAMES

- Long Day
- Hangman
- Hammer
- Dragon Fly Doji

BULLISH

- Long Day
- Inverted Hammer
- Shooting Star
- Graveyard Doji

BEARISH

- Harami
- Doji
- Long Leg Doji
- Short Day
- Spinning Top

INDECISIVE

Every possible candlestick pattern can be categorised under three names – bullish, bearish or indecisive – memorising more names is only helping candlestick book authors to sell more books and is unnecessary information for traders.
Source: Precision Universal LP

MULTIPLE TIME FRAMES

The process of studying multiple time frames simply refers to assessing all of the price action mastery aspects that the author has already reviewed, but looking at them across 'many' or 'multiple' time frames. He does this to gain a greater understanding of market direction, always asking the question, who is in control, the bulls or the bears? He is looking for a situation where:

1. He has a trading strategy setup (watch out for part 9 of this series where we cover strategy).
2. The direction of the strategy i.e. long or short, is confirmed by the price action on multiple higher time frames.

The author refers to the chart where he finds his setup as the so-called Precision chart or 'P' for short. The time frame above that is P1, then P2, P3 and so on. For example if we have a setup on a 1-hour chart then the 2-hour chart is P1, 4-hour chart is P2, 8-hour is P3 and finally the daily chart will be P4. Time frames that the author might use range from short term intraday charts right up to the monthly: minute charts – 1, 2, 5, 15, 30; hour charts – 1, 2, 4, 8 and then daily, weekly and monthly charts.

Ultimately the author is looking for a trade where at least four or more time frames agree i.e. they are all bullish for a long trade or for a short trade they

F2) MULTIPLE TIME FRAME ON RUSSELL 2000

A multiple time frame trend on the Russell 2000 futures contract (TF) with four major time frames all showing trend agreement.
Source: Trade Station

the way and no signs of slowing. Now all we are doing is looking for trading strategy setups on those very charts, as well as lower time frames, since we know the higher time frames already agree – we just need an entry point. Once we have an entry, we call that chart

sugar, butter, flour, milk, chocolate, eggs and baking soda… but no one actually gave you the recipe that told you how to make the chocolate cake? This is the downfall of the technique known as 'technical analysis' – it teaches ingredients but no recipe.

Ultimately the author is looking for a trade where at least four time frames agree.

are all bearish. These multiple timeframe trends are occurring pretty much daily and it is never too hard to find one. Right now as the author types this, one such chart that he follows closely is the Russell 2000 Futures contract or the TF. Check out Figure 2 and see how the 4-hour, 8-hour, daily and weekly charts are all in very strong, bullish uptrends, with no resistance in

P and then proceed to check the trend on P1, P2 and P3 as an absolute minimum, all agree with the trades direction.

Via parts 1-7 of this series the author has now taught multiple price action factors or "ingredients" as he likes to call them. What would you think if you attended a course on cooking and you learnt about

Trading Strategy is the bit that gets people most excited and it's also the author's specialty but before he gets to that he still needs to bring a few more ingredients to the fore. Watch out for Part 8 next month on leading versus lagging technical indicators before he finally combines the ingredients together into a solid trading strategy in part 9.