

PIPOY

Naked Charts: Unlocking the Art of Price Action Trading



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Introduction

Welcome to your journey into the world of trading using naked charts. Over my fifteen years of experience, I've learned that the simplest methods can often lead to the best results. Here's how this book will guide you:

- **Early Challenges:** When I started trading, I used every indicator available—oscillators, moving averages, and more. Sadly, this approach led to consistent losses. I thought the problem was my discipline or psychological issues.
- **A Shift in Approach:** My perspective changed when I discovered how to read the price on the chart without any indicators. It took months to learn, but I realized that I had been trading without truly understanding market movements.
- **The Benefits of Naked Trading:** Trading with just the price made everything simpler and clearer. It became fun and less stressful. I learned not only when to enter trades but also how to manage them effectively—setting stop losses, taking profits, and adjusting strategies on the fly.
- **The Limitations of Indicators:** Relying on indicators can be limiting. They only follow the price and don't give a complete view of the market's past or present. They can make you trade blindly, without understanding the essential dynamics of price.
- **What You Will Learn:**
- **Supply and Demand:** Understand how these fundamental forces drive prices.
- **Support and Resistance:** Identify key levels where price movements can pause or reverse.
- **Price Compression and Expansion:** Recognize when the market is gathering energy for a big move.
- **Momentum:** Use changes in momentum to spot potential trading opportunities.

This book is designed to strip away the complexities of trading and bring you back to the basics that truly matter. By the end, you will not just follow the market—you will understand its language and rhythms, and you'll have the best knowledge needed to become a profitable and professional trader.

Chapter 2: Understanding the Basics of Price Action

Before we dive deep into each component of price movement, let's first discuss price action in general.

Price action trading strips away the noise from indicators and focuses purely on the price movements on the chart. This section will delve into how you can interpret these movements to make informed trading decisions. Understanding price action is essential for anyone looking to trade effectively with naked charts.



The Concept of Price Action

Price action trading involves analyzing the past and current behavior of price movements to forecast future market direction. It's all about observing and interpreting how prices have reacted at various times and using this information to predict where they might go next.

- **Definition:** Simply put, price action is the movement of a security's price plotted over time. Traders rely on price action to make logical trading decisions based on ongoing changes in market dynamics.
- **Core elements:** This includes the study of candlestick patterns, price bars, and other raw market data. Price action trading doesn't depend on complex indicators but instead focuses on the price itself.

- Why it matters: By understanding price action, traders can make more informed decisions without the distraction of conflicting signals from multiple indicators. It provides a direct view of the market, offering clearer insights into current and potential future movements.

Key Components of Price Action Trading

To master price action trading, it's crucial to grasp its key components. This understanding helps in predicting market movements and planning trades more accurately.

- Trends: Identifying trends is fundamental in price action trading. An uptrend is marked by a series of higher highs and higher lows, while a downtrend consists of lower highs and lower lows. Recognizing these patterns allows traders to align with the market's momentum.
- Swing Points: Swing highs and lows are pivotal points that provide insight into market sentiment and potential reversals. They are essential for determining stop placements and entry points.
- Price Levels: Historical and psychological price levels where the market has shown significant activity in the past often act as support or resistance in the future. Observing these levels can be key to predicting future price behavior.
- Pattern Recognition: Certain patterns, such as double tops, double bottoms, head and shoulders, and various triangles, often precede significant market moves. Recognizing these patterns early can give traders a competitive advantage.

Conclusion

This chapter has covered the foundational aspects of price action trading, highlighting its importance in making educated trading decisions using naked charts. By mastering these basics, traders can begin to anticipate and react to market movements more confidently and with greater precision.

Chapter 3: Supply and Demand Levels?

Introduction

In the dynamic world of trading, the ability to accurately draw and interpret supply and demand levels on charts is a key skill every trader must possess. These levels are crucial for understanding market movements and can be the difference between a profitable trade and a loss. This chapter will delve into the mechanisms of supply and demand in trading, providing insights into how these critical levels are established and the logic behind their formation.

Understanding Supply and Demand Levels

Supply and demand levels on a chart represent areas where the imbalance between buyers and sellers is so significant that it impacts price movements. For instance, if there are a lot of buy orders placed at a specific level with few sell orders, the price is likely to jump. Conversely, a large volume of sell orders with minimal buying interest can lead to a sharp price decline. These dramatic shifts occur only when there is a considerable imbalance in the market.

Market Players

The market's so-called 'smart money'—institutional players such as central banks or hedge funds—often plays a pivotal role in creating these imbalances. With substantial

capital at their disposal, these entities can influence the market by creating significant supply or demand levels that dictate price movements. Understanding the behavior of these major players can provide smaller traders with insights into potential market directions.

Indicators of Supply and Demand Imbalances

Supply and demand levels are usually indicated by specific price behaviors on the charts. Often, just before a strong price move, you might see several small candles moving sideways within a narrow range. This pattern suggests a tug of war between buyers and sellers, indicating that a decisive price movement is imminent. These small consolidating candles form the base of what will become a key supply or demand zone.

Spotting Supply Zones:

A supply zone is typically found after a significant move downward and is characterized by a consolidation area where the price has made a sharp drop. These zones indicate areas where sellers have previously overwhelmed buyers, leading to a fall

in prices. Identifying these zones involves looking for:

- A rapid decline in prices from the zone.
- A consolidation pattern before the drop, indicating accumulation of sell orders.
- Volume spikes can also validate the presence of a strong supply zone.



Spotting Demand Zones:

Conversely, a demand zone is identified after a significant upward move and indicates an area where buyers previously outnumbered sellers, causing the price to rise. Features of a demand zone include:

- A sharp increase in prices from the zone.
- A period of consolidation before the rise, suggested an accumulation of buy orders.
- Volume analysis can again be useful, with increased volume signifying a strong demand zone.



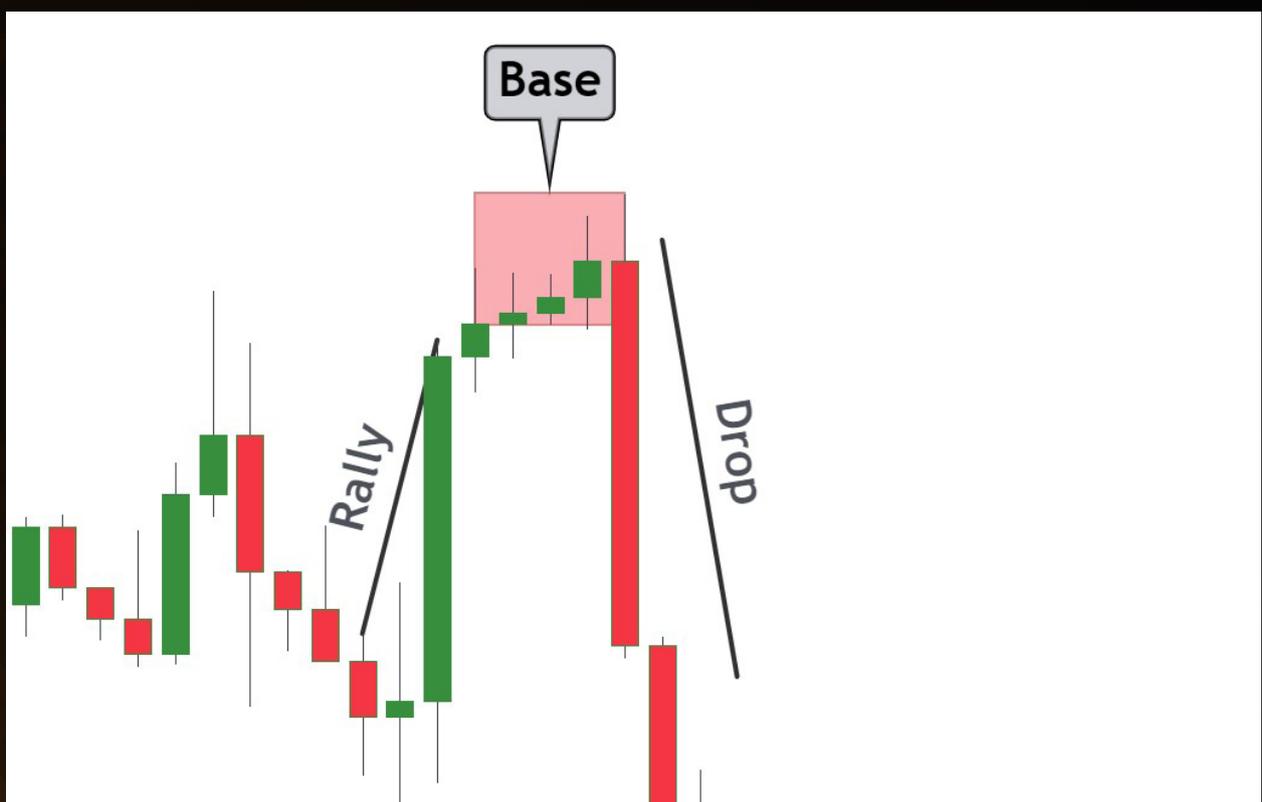
Practical Example: The Formation of Demand

Consider a scenario where a major financial player, such as a central bank or hedge fund, needs to liquidate its position in USD to buy 3 billion EUR. As the price begins to match all existing buy orders, it collects all available USD sellers. If a price level is reached where there are no more USD offers, but there are still 2 billion EUR buy orders pending, a huge imbalance occurs. This results in a rapid price increase. The remaining 2 billion EUR buy orders, now unfilled, establish a new demand level on the chart, illustrating how significant market players can dictate price action.

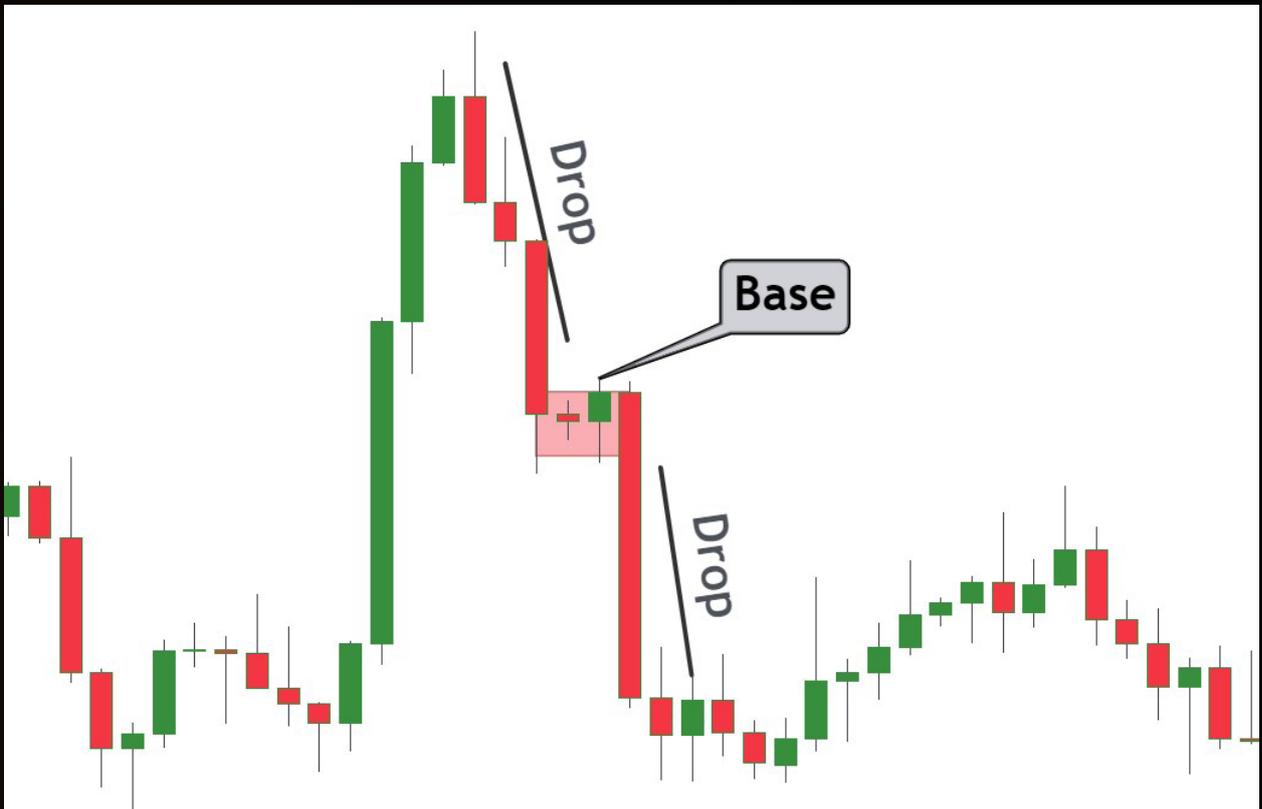
Four different types of bases.

There are four types of supply and demand levels observable on the charts, each defined by the type of base they form:

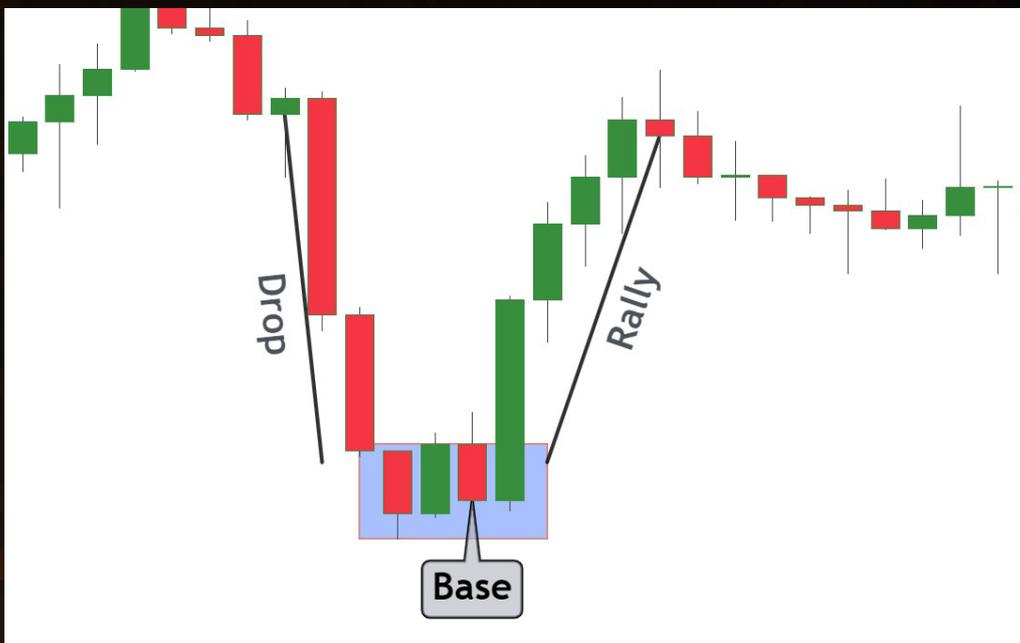
- **Rally Base Drop (RBD):** Here, the price moves up rapidly, forms a base with a few small candles, and then quickly drops from that level. This pattern is indicative of a reversal level.



- **Drop Base Drop (DBD):** In this pattern, the price drops, pauses to form a base with a few small candles, and then continues to drop. This is considered a continuation level.

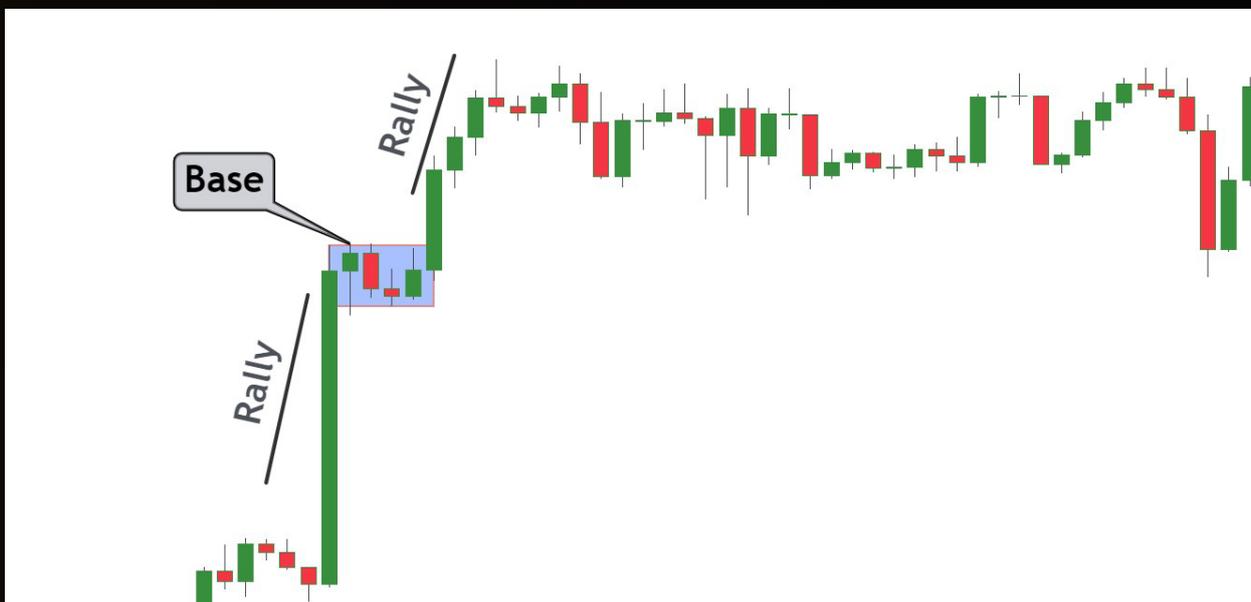


- **Drop Base Rally (DBR):** The price makes a significant drop, stops for a few candles to create a base, and then rallies significantly from that level. Like RBD, this pattern also represents a reversal level.



- **Rally Base Rally (RBR):** The price moves up quickly, pauses for a few candles at the base, and then continues its rally. This pattern is a continuation level.

These patterns help traders identify potential reversal or continuation in the market's direction, aiding in making informed trading decisions based on the behavior observed at these key levels.



How to trade Supply and Demand?

Supply and demand levels can only be spotted and defined after observing the price make a strong and rapid movement up or down of at least several tens of pips. The swifter the price moves away from the base, the better, as it indicates a significant imbalance between buyers and sellers. Once we identify a supply or demand level, we await the first touch of the price at this level, watching for the price to retrace to the base that it left quickly and forcefully.

On the first touch of that level, we open a position. The rationale behind this strategy is that the unfilled orders are likely to be executed once the price touches this level again. We take action only at the first touch because each subsequent touch of the price to this level decreases the likelihood that there are remaining unfilled orders. This principle underscores why trading on the first touch is crucial; the more frequently the level is tested, the higher the chances that the pool of unfilled orders will be exhausted.

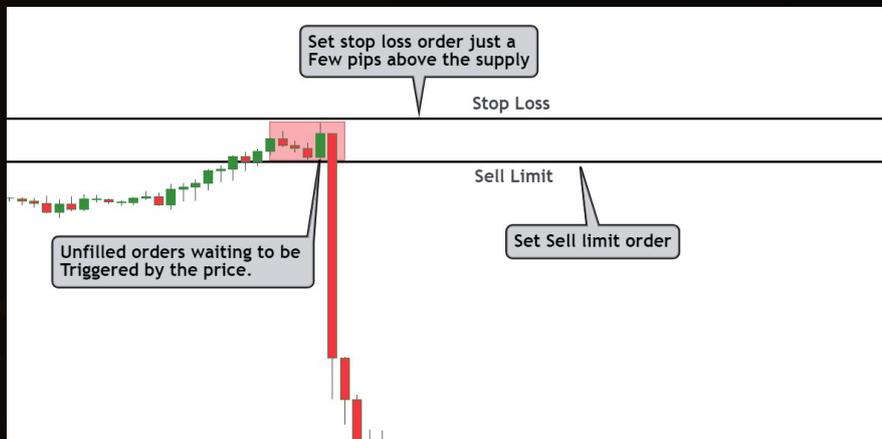
Conclusion

This chapter has explored how supply and demand levels are determined and the major role that institutional players play in this process. Understanding these concepts is essential for traders who wish to capitalize on significant market movements and trade more effectively. By recognizing these levels and the conditions that create them, traders can enhance their decision-making process and potentially increase their profitability.

Buy the Demand



Sell the Supply



Chapter 4: Understanding Price Compression in Trading

Introduction

Trading is akin to learning a new language, with charts serving as the pages on which this language is written. Without a solid understanding of this language, making profitable trades can be challenging. However, once mastered, trading becomes not only a skill but also an enjoyable activity. We can justify every trading decision based on the price movements observed on the chart, without the need for indicators or other tools. In technical analysis, recognizing subtle price movements is key to trading success.

One intriguing pattern that offers important insights is “price compression.” This pattern helps traders make informed decisions, whether they’re thinking about opening a new position or managing an existing one. Understanding price compression allows traders to position themselves advantageously, improving their grasp of market dynamics.

Defining Price Compression

Price compression occurs when a currency pair, or any financial asset, moves within a relatively narrow range, showing reduced volatility. This pattern indicates a lack of strong momentum from both buyers and sellers. It is often seen as a period where the price makes slow, controlled movements, suggesting indecision or balanced market forces.

- **Characteristics:** The movement during compression is gradual and lacks aggressive price changes. This is visible through small, irregular candlesticks that stay within a confined space.
- **Market Dynamics:** Unlike clear supply and demand situations where large quantities of unfilled orders drive substantial price moves, compression suggests a balance or a temporary stalemate in market forces.

Why is Price Compression Important?

Recognizing price compression is crucial for traders because it signals a potential build-up to a significant market move. When prices are compressed:

- **Market Equilibrium:** It indicates that the market is in equilibrium, with buying and selling pressures roughly equal. This equilibrium can be a sign that a breakout is imminent, either upwards or downwards.

- **Trading Strategy:** Trading out of compression can often position a trader on the stronger side of the market. It suggests a coming surge in volatility, which can lead to profitable opportunities.



Practical Tips

- **Observation:** Watch for periods of small, erratic candlesticks that do not make significant highs or lows.
- **Preparation:** Prepare for a breakout by setting up trades that capitalize on a sudden increase in volatility, which typically follows a compression.

Conclusion

Price compression is a subtle yet powerful market condition that every trader should understand. By aligning trades with the insights gained from these patterns, traders can significantly enhance their ability to read and react to market dynamics. Price compression not only informs about current market conditions but also prepares traders for potential explosive movements that can yield high returns.

Combining price compression with Supply and Demand levels:

Supply and Demand Levels:

These are key levels on a price chart where there is a significant concentration of buying or selling interest. Supply levels act as barriers to upward price movement, while Demand levels act as barriers to downward price movement.

Selling at Supply Level with Price Compression:

When price compression occurs and it aligns with a Supply level, it signifies a convergence of technical factors. This is powerful because it indicates that the market is testing a strong level with limited upward momentum. Traders interpret this as a favorable opportunity to initiate a short position.

Price compressed toward supply



Reasons for Selling at Supply Level:

- **High Probability of Success:** Since the price is struggling to move beyond the Supply level due to the compression, there's a higher likelihood of a successful trade.
- **Swift and Secure Profits:** As there are no lingering unfilled orders (if we're selling against compression), once the price starts moving in the expected direction, it tends to reach the profit target quickly and without significant obstacles.

Psychological Benefits:

- The swifter movements typically seen after a period of compression assist us in reaching our targets more securely and expeditiously. This aids traders in overcoming a prevalent psychological hurdle: the tendency to prematurely close a winning position due to the fear of losing a profitable trade.

Buying at Demand Level with Price Compression

Conversely, when price compression aligns with a Demand level, it indicates a strong support zone. This presents an attractive opportunity to initiate a long position.

By integrating trading compression with Supply and Demand levels, traders gain a comprehensive understanding of market dynamics. This strategy not only provides entry and exit points but also offers a framework for managing trades effectively. It's a potent tool for making informed and confident trading decisions in the forex market.

Price compressed toward demand



Navigating Price Compression with an Open Position

Finding yourself in a price compression while holding an open position can be quite challenging. This scenario indicates that the market is experiencing low volatility and is uncertain, which often leads to a sudden breakout in either direction. Here are some practical strategies to effectively manage this situation:

Stay Calm and Monitor Closely

- **Keep Calm:** It's vital to remain calm as price compressions often lead to significant price movements. Avoid making hasty decisions that could jeopardize your position.
- **Continuous Monitoring:** Keep a close eye on the market as new trends may emerge quickly.

Review Your Trading Plan

- **Revisit Your Trade Reasons:** Think back to why you entered the trade. Are those reasons still valid? This might include specific technical patterns, market conditions, or economic indicators that influenced your decision.

Manage Risks Effectively

- **Set Clear Stop-Loss and Take-Profit:** Ensure you have defined stop-loss and take-profit levels to protect your investment from sudden market movements.
- **Use a Trailing Stop-Loss:** If the market has moved in your favor, consider a trailing stop-loss to secure profits while allowing room for additional gains.



Prepare for Volatility

- **Expect Sudden Changes:** Be aware that once the compression phase ends, the market may experience increased volatility, leading to a sharp breakout.

Stay Informed

- **Monitor News and Events:** Keep an eye on any significant news or economic events that could impact market conditions and influence price action.

Consider Adjusting Your Position

- **Partial Closures:** If the uncertainty of the compression phase makes you uncomfortable, think about closing part of your position to reduce risk.

Adjust and Reassess

- **Update Your Strategy:** If the market has changed significantly from when you opened your position, it may be necessary to adjust your trading strategy.
- **Plan for Different Outcomes:** Be ready for various scenarios—know what you will do if the price breaks favorably or moves against you.

Chapter 5: Support and Resistance

Support and resistance levels are among the most fundamental concepts in technical trading. These levels represent key junctures where the forces of supply and demand meet, often leading to noticeable changes in price direction. Understanding how to identify and interpret these levels can significantly enhance a trader's ability to make informed decisions.

What are Support and Resistance?

- **Support:** This is a price level where a downtrend can be expected to pause due to a concentration of demand. As the price of an asset approaches this point, buyers see it as a favorable opportunity to buy, while sellers start to back off, potentially leading to a price bounce upward. Each support was originally a demand.
- **Resistance:** In contrast, a resistance level is where the price of an asset tends to stop rising and may begin to drop due to a concentration of selling interest. As prices reach this level, sellers find it optimal to sell, and buyers are less inclined to buy, possibly resulting in a price reversal downward. Each resistance was originally a supply.

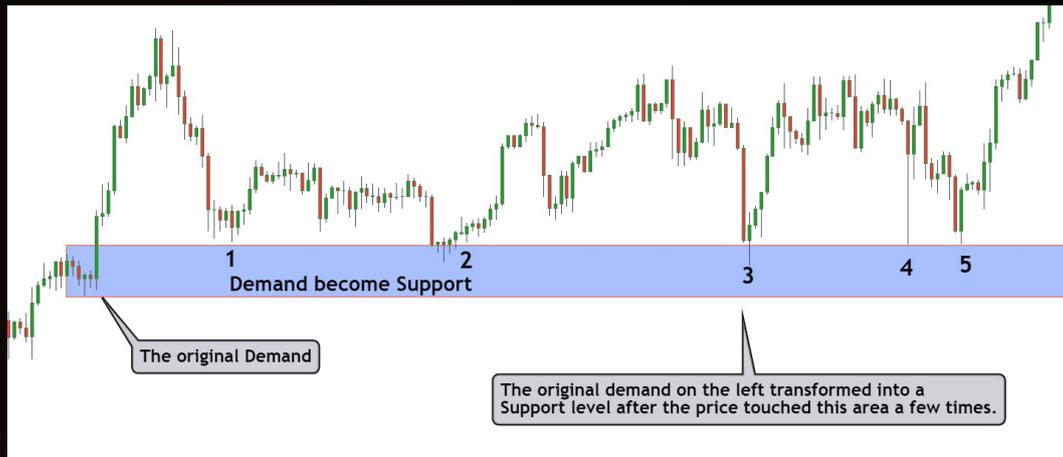
Comparison with Supply and Demand

Understanding the relationship between support and resistance levels and supply and demand zones is crucial for any trader. While both concepts are foundational in technical analysis, they serve different purposes and offer various levels of trading security.

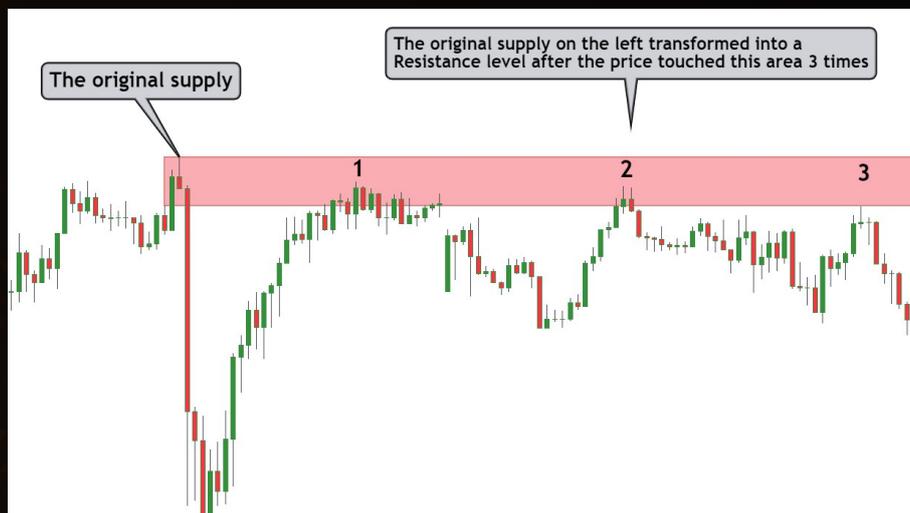
Origin of Support and Resistance

- **Transformation from Supply and Demand:** Every support and resistance level originates from supply and demand zones. A support level was once a demand zone, and a resistance level was once a supply zone. These levels evolve from supply and demand when the price tests these zones multiple times.
- **Repeated Testing:** The more frequently a level is tested, the more it transforms from a primary supply or demand zone into a support or resistance level.

Demand Turned Into Support



Supply Turned Into Resistance.



Trading Implications

- **Trading at First Touch:** In the supply and demand chapter, we discussed the importance of trading at the first touch of these levels. This is considered the safest time to execute trades because the original imbalance that created the zone is most potent at this point.
- **Risks of Subsequent Touches:** After a zone has been touched several times by the price, it becomes a support or resistance level. Trading at these levels carries more risk, as the initial supply or demand that created the zone may be depleted.

Strategic Considerations

- **Critical Levels:** While supply and demand zones are seen as critical and safe levels for initiating trades, support and resistance should be treated differently. These levels are significant but are not typically ideal for opening new positions.

- Position Management: Support and resistance levels are better utilized for managing existing positions. Actions such as closing part of a position, rolling stop-loss orders, or even closing a position entirely can be strategically executed when the price reaches these levels.

Conclusion

Understanding the evolution from supply and demand zones to support and resistance levels helps traders make informed decisions about where to enter and exit trades. While supply and demand zones offer the best opportunities for entering trades, support and resistance levels are invaluable for position management and risk mitigation.



Chapter 6: Understanding Momentum in Trading

Introduction

Momentum in trading is a critical concept that indicates the strength and direction of market trends. It reveals whether the buyers or sellers are controlling the market, guiding traders on when to enter or exit trades. This chapter will explore the characteristics of momentum, how to identify shifts, and the implications of these movements on trading strategies.

Defining Momentum

- **Basic Definition:** Momentum measures the rate of acceleration of a security's price or volume. In a broader sense, it reflects the intensity with which a market is moving in a particular direction, either up or down.
- **Types of Momentum:**
- **Bullish Momentum:** This occurs when the market is trending upwards, marked by higher highs and higher lows. It indicates that buyers are in control, pushing the prices up.
- **Bearish Momentum:** Conversely, bearish momentum is seen in downward trends, characterized by lower lows and higher highs, showing that sellers have the upper hand.

Identifying Momentum

- **Chart Indicators:** Discuss the use of various technical indicators to measure momentum, such as the Relative Strength Index (RSI), Moving Average Convergence Divergence (MACD), and momentum oscillators.
- **Price Action:** Explain how traders can visually identify momentum by observing the patterns of highs and lows on price charts. Provide examples of bullish and bearish momentum patterns.
- After all, the most reliable and correct way to define momentum is by observing the highs and the lows the price formed.

Momentum and Time Frames

- **Relative to Time Frames:** Momentum must always be analyzed in the context of specific time frames. What appears as a bullish trend on a short-term chart could still be part of a bearish trend on a longer-term chart.
- **Multi-Time Frame Analysis:** Describe the importance of examining

momentum across different time frames to make more informed trading decisions and avoid potential traps set by misleading short-term movements.

Momentum Shifts

- Indications of a Shift: Detail how a shift from bullish to bearish momentum (and vice versa) is typically signaled by the price breaking key levels. For bullish momentum, a shift occurs if the price drops below the most recent low. For bearish momentum, it changes when the price rises above the most recent high.
- Trading Strategy Adjustments: Offer insights on how traders should adjust their strategies in response to momentum shifts. Include practical tips on entry points, stop losses, and potential signals for exiting or reversing a position.

Bullish To Bearish



Bearish To Bullish



Conclusion

Understanding and correctly interpreting momentum can significantly enhance a trader's ability to profit in the financial markets. By recognizing the signs of momentum and adjusting strategies accordingly, traders can align themselves with the market's strength, increasing their chances of successful trading outcomes.



Chapter 7: The Powerful Quasimodo Pattern in Trading

Introduction

In the intricate world of technical analysis, the Quasimodo pattern emerges as a key player. Known for its reliability and effectiveness, this reversal pattern offers traders significant insights, aiding them in making informed trading decisions. This chapter will delve into the Quasimodo pattern, exploring its identification, application in bullish and bearish markets, and its unique advantages.

Understanding the Quasimodo Pattern

The Quasimodo pattern, often likened to the hunchback figure from Victor Hugo's novel due to its asymmetrical structure, is a standout in technical chart patterns. It is characterized by a series of price movements that suggest a potential reversal:

- **Formation:** The pattern typically appears at the end of a trend and is marked by a series of highs and lows. In an uptrend, a high is followed by a higher low and then a lower low (the Quasimodo low), signaling a potential shift to a downtrend. Conversely, in a downtrend, a low is followed by a lower high and then a higher high (the Quasimodo high), indicating a possible shift to an uptrend.
- **Identification:** Recognizing a Quasimodo pattern involves spotting these unique sequences of price movements. It's essential to note the last low in a bullish pattern and the last high in a bearish pattern, as these points serve as critical levels for the pattern's confirmation.

Bullish Quasimodo



- A: Spotlights the second-to-last lowest point in the preceding uptrend.
- B: represent the last high of the preceding downtrend, as we can see, this high is higher than its predecessor.
- C: Illustrate the most recent low in the price during the preceding downtrend.
- D: Diverging from the price action observed in the prior downtrend, characterized by consistently lower highs, there is a sudden occurrence of a new higher high, giving rise to the Quasimodo pattern, the quasimodo level is point C and that's where we should look for a long (buy) position. The faster and stronger the movement from point C to point D, the more reliable the pattern
- E: Depicting the entry point for a long (buy) position, following the price retracement from point D back to C, which designates the Quasimodo level, we aim to initiate a long (buy) position typically at the same level of the left shoulder which is point A.

Bearish Quasimodo



- A: Spotlights the second-to-last highest point in the preceding uptrend.
- B: represents the last low of the preceding uptrend, as we can see, this low is higher than its predecessor.
- C: Illustrate the most recent peak in the price during the preceding uptrend.
- D: Diverging from the price action observed in the prior uptrend, characterized by consistently higher lows, there is a sudden occurrence of a new lower low, giving rise to the Quasimodo pattern, the Quasimodo level is point C and that's where we should look for a short (sell) position. The faster and stronger the movement from point C to point D, the more reliable the pattern
- E: Depicting the entry point for a short (sell) position, following the price retracement from point D back to point C, which designates the Quasimodo level, we aim to initiate a short (sell) position typically at the same level of the left shoulder which is point A.

Practical Application of the Quasimodo Pattern

- **Bullish Scenario:** In a bullish Quasimodo setup, traders look for a sequence where the price drops to a new low before rebounding to a point that does not surpass the previous high, signaling buyer momentum.
- **Bearish Scenario:** In a bearish setup, the price will peak to a new high before falling to a level that does not break the previous low, indicating seller control.
- **Entry Points:** Traders use the last low (in bullish patterns) or the last high (in bearish patterns) as the Quasimodo level for placing trades. This level is critical for setting up entry points once the pattern confirms a reversal.

Leveraging the Quasimodo Levels

- **Risk-Reward Ratio:** One of the significant advantages of the Quasimodo pattern is its favorable risk-reward balance, offering traders substantial upside for comparatively lower risk.
- **Early Entries:** Utilizing Quasimodo levels allows traders to enter trades at the inception of a trend reversal, maximizing profit potential from the new trend.
- **Stop Loss and Take Profit:** Properly setting stop losses just beyond the Quasimodo level minimizes risk, while take profit levels are set at significant previous support (in bullish patterns) or resistance (in bearish patterns) levels.

Refining Quasimodo Pattern Trades

Successful trading with the Quasimodo pattern doesn't just rely on pattern recognition but also on corroborative indicators:

- **Supporting Indicators:** Aligning the Quasimodo pattern with other technical indicators or significant chart levels enhances the reliability of the trading signals.
- **Price Action Confirmation:** Additional confirmation through price action, particularly looking for signs of price rejection at Quasimodo levels, can provide further validation for entry.

Conclusion

The Quasimodo pattern is a powerful tool in the forex trader's arsenal, renowned for its predictive reliability and favorable trading conditions. Whether trading in bullish or bearish markets, this pattern provides a strategic edge in identifying trend reversals, offering opportunities for both long and short positions. Understanding and applying the Quasimodo pattern can significantly enhance a trader's effectiveness, leading to consistent trading success.



Wrapping Up Our Journey

This e-book has journeyed through the fundamental and advanced concepts of trading using naked charts, offering you a lens to view and interpret market dynamics without the clutter of conventional indicators. From the foundational ideas of price action, supply and demand, and support and resistance, to more complex patterns like price compression and the Quasimodo pattern, we've covered a broad spectrum of tools that enhance decision-making and refine trading strategies.

As you move forward, remember that the key to successful trading lies in continuous learning and practice. The strategies and insights provided here should serve as a starting point for your exploration into naked chart trading. Embrace the simplicity and clarity of this approach, and let the market's language guide you to make informed and strategic trading decisions. May your trading journey be as enlightening as it is profitable.