No.

I’m not referring to candlestick chart (that is secondary and I’ll cover it later).

This is far more important — learning how to read a price chart.

Because once you’ve mastered it, you need not memorize any chart pattern, candlestick pattern — ever again.

This is essential to any serious price action trader and I want you to learn it, now.

Here’s what you can expect:

- Candlestick size: How it reveals the strength of a move
- The trending and retracement move
- What are major swing points and why it matters
- How to read chart patterns like a pro without memorizing a single one

Are you ready to roll?

Then let’s begin…

Candlestick size: How it reveals the strength of a move

Here’s the thing:

Most traders focus on price and volume only, while ignoring an important element, time.

Combining price and time, it gives you powerful insight into the “hidden” strength & weakness of the markets.

Here’s how it works…

For example:

If price took 2 days to move up 200 pips, and over the next 5 days, it manages to retrace only 70 pips… then it’s telling you there’s weakness on the pullback.

Why?

Because think about this. The buyers took price higher by 200 pips within 2 days. Whereas sellers pushed price lower for 5 days, but only did so by 70 pips.

In terms of strength, who’s stronger?

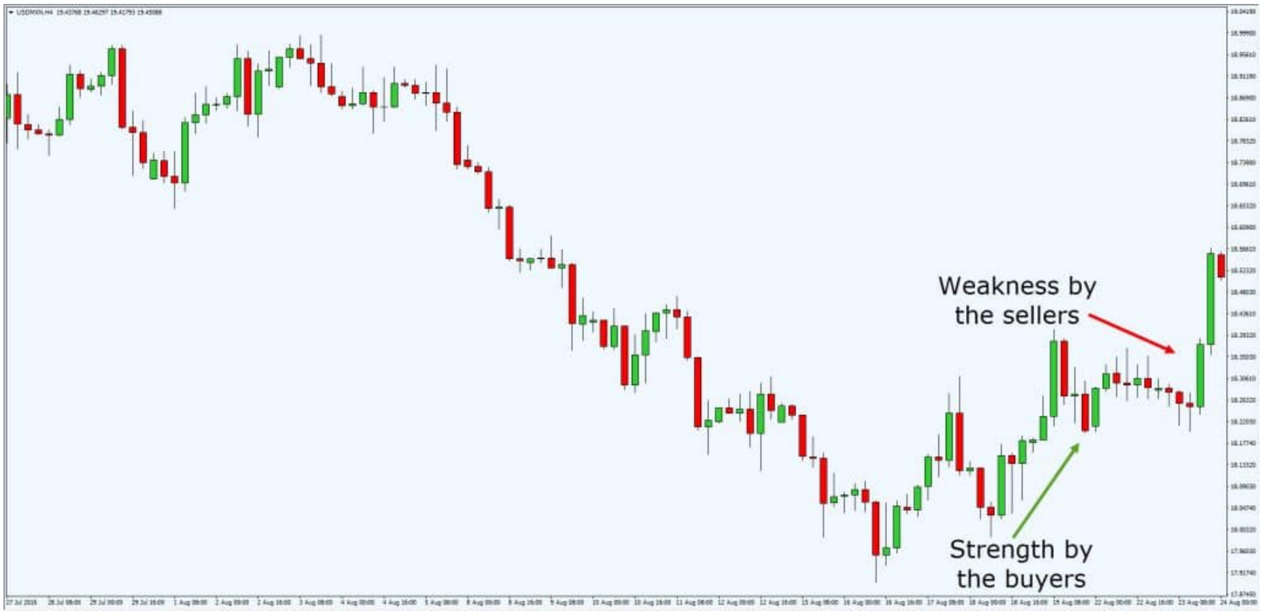
The buyers because they pushed the price higher in a shorter time period.

In terms of weakness, who’s weaker?

The sellers because they could not push price lower even after a longer time period.

And on the chart… it shows large bodied candles (formed by the buyers), followed by small-bodied (formed by the sellers)

A visual example:



If you apply this concept in trending markets, you'll find two types of moves that occur regularly. The trending move and retracement move.

The trending move and retracement move

The trending move

This is the "stronger leg" as the candles are usually larger and trading in the same direction as the trend (thus the name trending move).

In an uptrend, you can expect more bullish than bearish candles, the size of the bullish candles are relatively larger than the bearish ones, and the bullish candles closing near the highs.

Vice versa for a downtrend.

An example:

You don’t necessarily want to enter your trade during the trending move because sometimes it may be too late.

So, an alternative is to wait for the retracement move. In my opinion, the retracement moves provide an opportunity to trade with the existing trend.

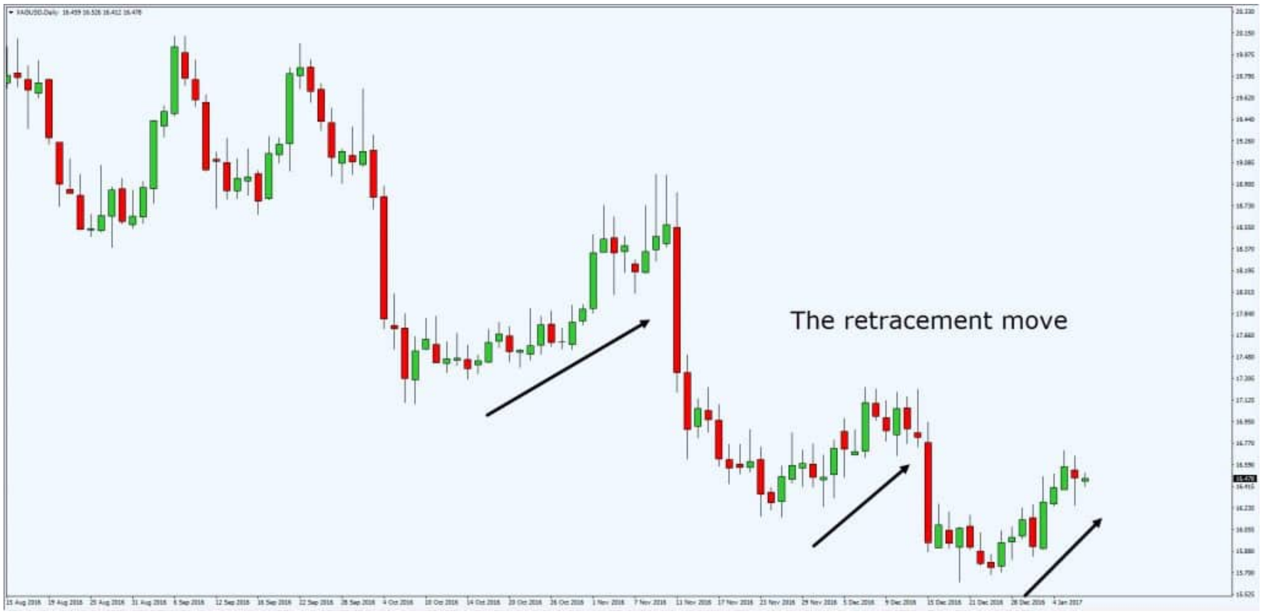
The retracement move

This is the “weaker leg” as the candles tend to be smaller and it’s trading against the direction of the trend.

In an uptrend, you can expect the retracement move to consist of smaller-bodied candles (relative to the trending move), and it usually closes near the middle or lows of the range.

Vice versa for a downtrend.

An example:



Let’s move on…

What are major swing points and why it matters

Major swings points are obvious levels on your chart that shows where the price has reversed from.

These are useful reference points on your charts because it tells you who is in control (whether it’s the buyers, sellers, or none of them).

For example:

You can use major swings points to identify a trend, identify a range, or tell when a trend is getting weak.

Let me explain…

How to use major swings points to identify trend and range

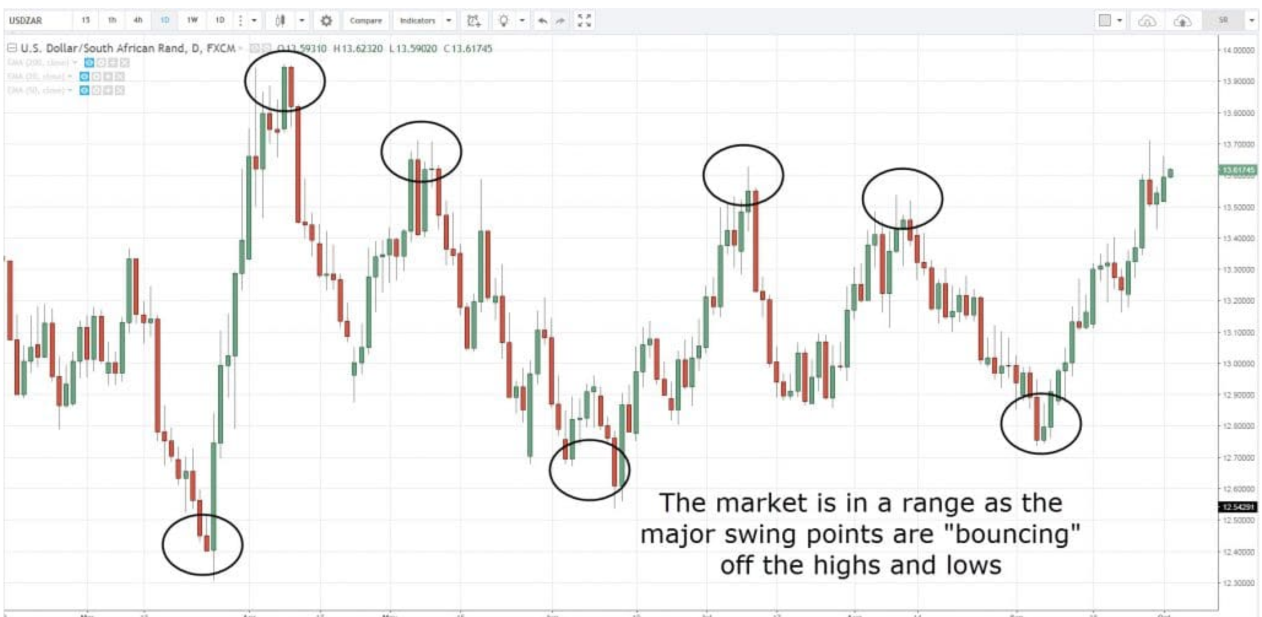
Here’s how…

An uptrend – The major swing points are forming higher highs and lows

A downtrend – The major swing points are forming lower highs and lows

A range – The major swings points are bouncing off Support and Resistance area

Here’s what I mean:



How to tell when a trend is getting weak

Here’s the thing:

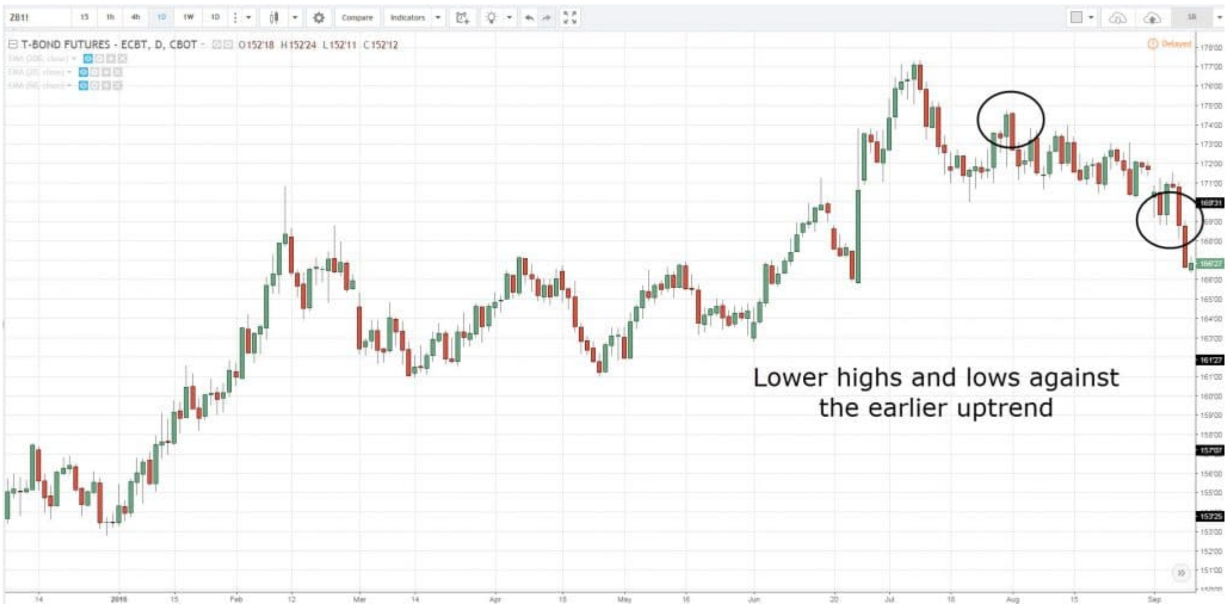
All trends must end and one of the earliest sign is when the price breaks a major swing point.

Here’s how…

An uptrend consists of higher highs and higher lows. But, if it forms a lower high and lower low, the trend probably is getting weak and could reverse (or go into a range).

And vice versa for a downtrend.

An example:



Pro tip:

You can use a line chart to help you identify the major swing points.

How to read chart patterns like a pro without memorizing a single one

Now using what you've learned earlier, you can read any chart patterns accurately even if you've never studied them before.

You only need to know 3 things:

1. Is this a trending or retracement move
2. What is the size of the candlestick body relative to the earlier swings
3. How are the major swing points behaving

Let me explain with a few chart patterns…

Double Top

A – The price is making nice consistent gains with a strong trending move

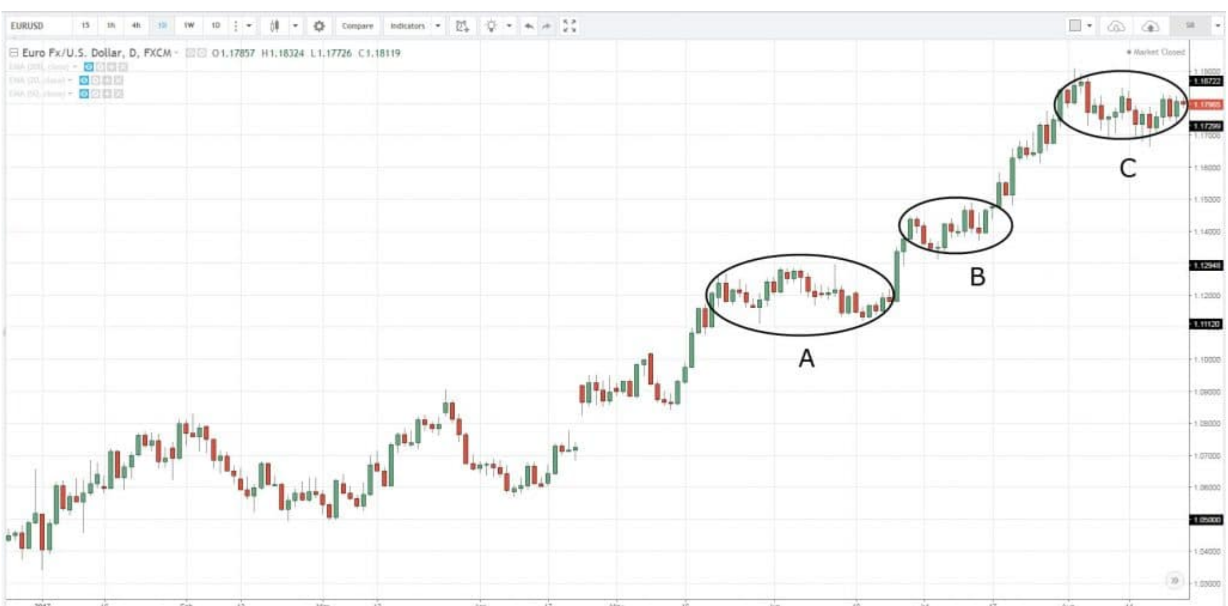
B – The price got rejected by the previous swing high

C – The trending move gets weaker as the size of the candlestick body gets smaller

D – The price broke and close below Support (which is a major swing point)

At this point, it's not a good sign for the buyers as they are losing the battle against the sellers.

Flag



A, B & C – The price is making a retracement move as the body of the candles are relatively smaller compared to the trending move

The major swing points are forming higher highs and lows which tell you the buyers are in control.

And that’s it!

You can now read any chart patterns if you observe the 3 things I’ve mentioned.

In the later lessons, I’ll share with you my favorite chart patterns and how to trade them correctly.

Summary

- The size of the candlestick reveals the strength behind the move
- The trending move is the “stronger” leg of a trend and the retracement move is the “weaker” leg of the trend
- Major swing points can identify whether the market is in a trend or range
- Never memorize chart patterns again, just focus on the size of the candlestick, trending and retracement move, and major swing points