If you are an F1 driver, you cannot just look at what's directly in front of you.

Because you will not be prepared for any sudden obstacles or changes ahead.

Instead, you must look further ahead, so can anticipate any obstacles and prepare the necessary maneuvers.

And this is the same for trading.

It's not enough to only identify Support and Resistance because you could enter trades when there are obstacles ahead of you (going long into a key Resistance area, or trading the trend).

So, this is where market structure comes into play as you can identify where you are in the "big picture".

And it can be broken down into four main stages: Accumulation, Advancing, Distribution, and Declining.

Once you've identified which stage of the markets you are in, you can start making better trading decisions.

So in this lesson, you will learn:

- The accumulation stage
- The advancing stage
- The distribution stage
- The declining stage
- How to find high probability reversal areas

Ready? Then let's begin.

The accumulation stage

The accumulation phase looks like a range market in a downtrend.

However, from an orderflow perspective, the buyers and sellers are in equilibrium (that's why the market is in a range instead of a trending market).

Generally in the accumulation stage:

- The ratio of bullish to bearish candles are close
- The 50-period moving average is flattening out
- The price whips back and forth around the 50-period moving average

As time goes by, stops will gradually build up beyond the range as traders long near the lows and short near the highs of the range.

An example:

Now… there's no guarantee that the market will reverse from here.

But it should alert you to the possibility that the bears are getting weak and the bulls could take control and push the price higher above the highs of the range.

And when this occurs, it leads us to the next phase…

The advancing stage

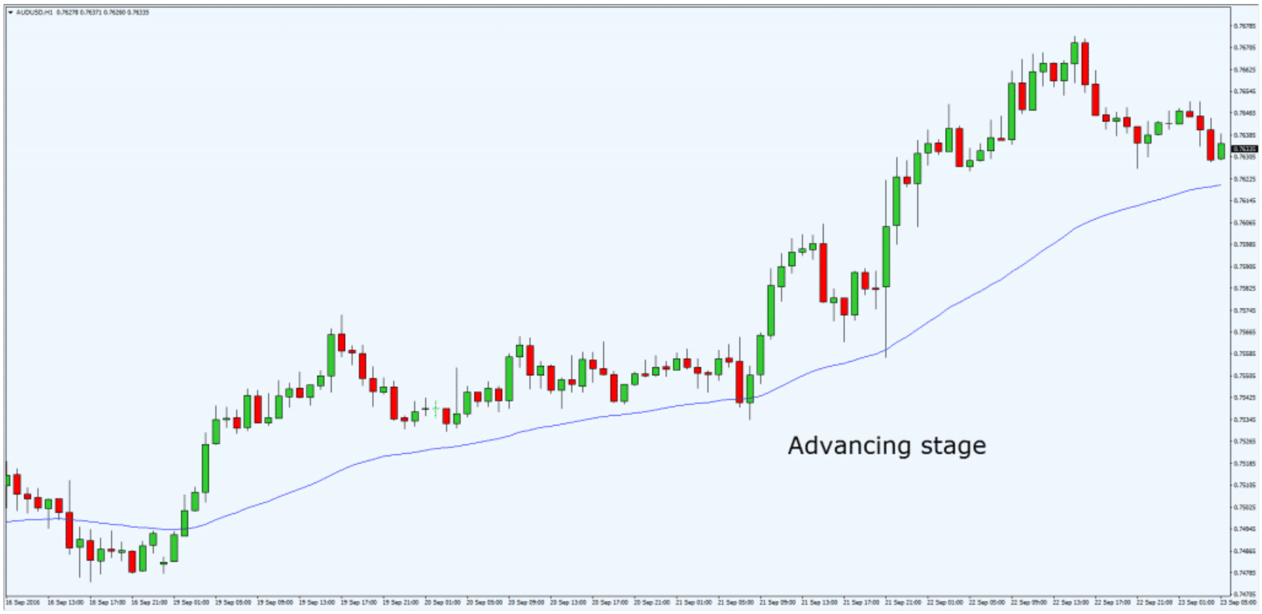
The advancing phase is essentially an uptrend with price making higher highs and lows.

From an orderflow perspective, the buying pressure overwhelms the selling pressure (that's why the market is trending higher).

Generally in the advancing stage:

- There's more bullish than bearish candles
- The bullish candles are larger than the bearish candles
- The price is above the 50-period moving average
- The 50-period moving average is pointing higher

An example:



Now… the advancing stage eventually will need to “take a break” because the early buyers will start taking profits and sellers will look to short the markets as prices are at attractive levels.

When this occurs, it leads us to the next phase…

The distribution stage

The distribution phase looks like a range market in an uptrend.

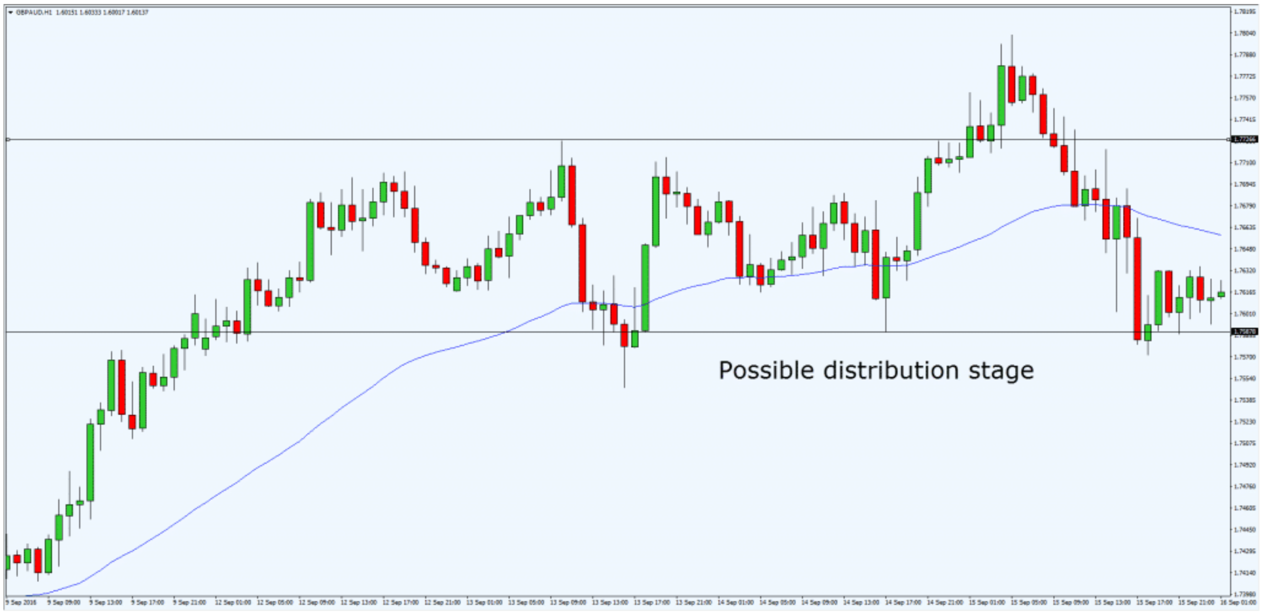
However, from an orderflow perspective, the buyers and sellers are in equilibrium (that’s why the market is in a range instead of a trending market).

Generally in the distribution stage:

- The ratio of bullish to bearish candles are close
- The 50-period moving average is flattening out
- The price whips back and forth around the 50-period moving average

As time goes by, stops will gradually build up beyond the range as traders long near the lows and short near the highs of the range.

An example:



Now… there's no guarantee that the market will reverse from here.

But it should alert you to the possibility that the bulls are getting weak and the bears could take control and push price lower below the lows of the range.

The declining stage

The declining stage is essentially a downtrend with price making lower highs and lows.

From an orderflow perspective, the selling pressure overwhelms the buying pressure (that's why the market is trending lower).

Generally in the declining stage:

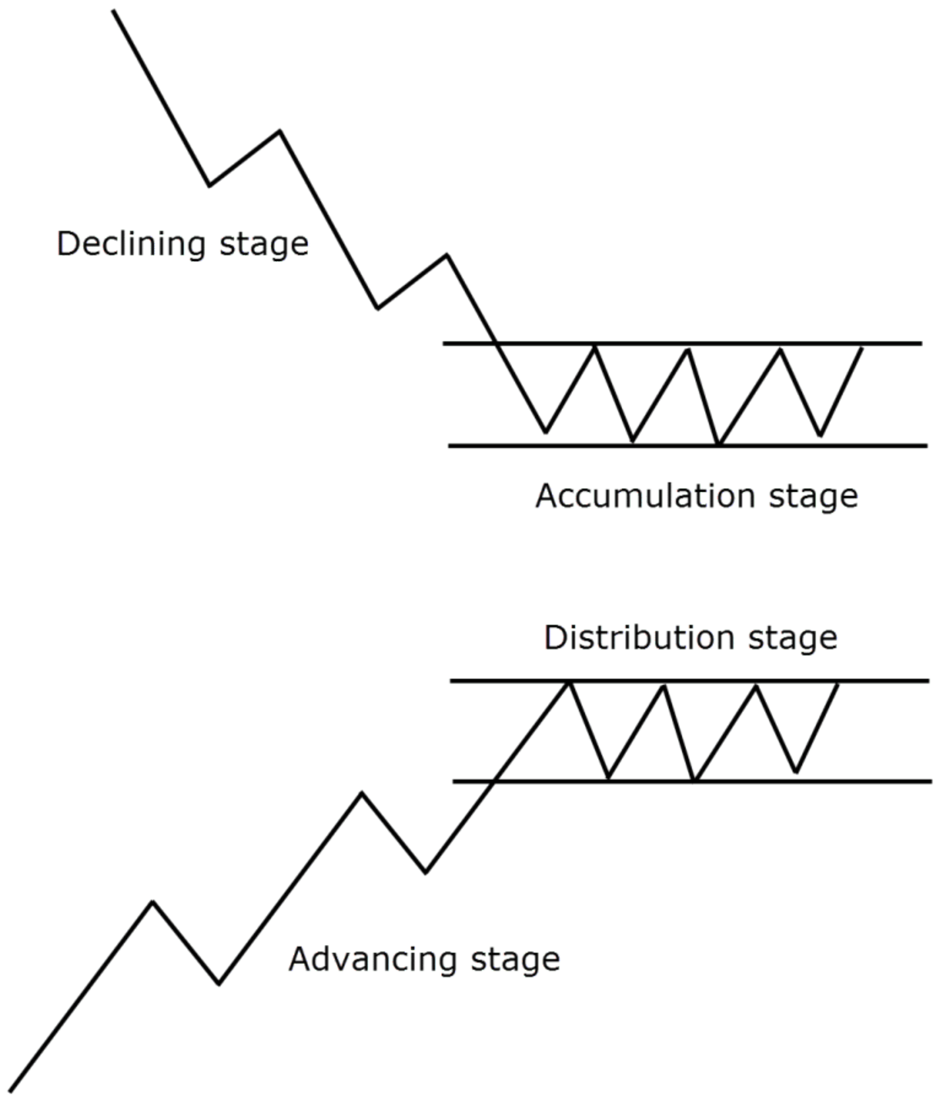
- There's more bearish than bullish candles
- The bearish candles are larger than the bullish candles
- The price is below the 50-period moving average
- The 50-period moving average is pointing lower

An example:

Now… the declining stage eventually will need to “take a break” because the early sellers will start taking profits and buyers will look to long the markets as prices are at attractive levels.

When this occurs, it leads us back to the accumulation phase.

In essence, the 4 stages of the markets look something like this:



Now you must know that the markets are fractals.

This means you'll be able to see similar patterns repeat itself on any timeframes.

Anyway if you want to learn more about the 4 stages of the markets, go read the works of *Richard Wyckoff, Stan Weinstein's Secrets of Profiting in Bull and Bear Markets*, and Mark Minervini's *Trade Like a Stock Market Wizard.*

How to find high probability reversal areas

Now you're probably thinking: "How do you know if the market will break out of the accumulation stage, and not just continue trading lower?"

That’s a good question.

Here’s the thing, there’s no way to know for sure whether the market will break higher out of the accumulation stage.

But, here’s a technique that increases the odds of it breaking higher.

The “trick” is to look for the price to lean against the structure of the higher timeframe.

Let me explain…

You know an accumulation stage is a range market within a downtrend.

But, if the lows of the range coincide with Support on the higher timeframe, it greatly increases the odds of the market breaking out higher.

Here’s what I mean:

This is powerful stuff, right?

This means you wait for the price to come to an area of Support on the daily timeframe — and then look for the break of accumulation on 1-hour (or 4-hour timeframe).

Now…

Don't try to memorize patterns because the markets are always changing.

Instead, learn to think deeper about market structure (like which are the levels you'll trade, or the trading setups you'll avoid) so you can plan out possibilities ahead of time.

Often traders are looking for the "holy grail" in the markets; a trading strategy that works all the time.

But here's the truth, no trading strategy will work 100% of the time.

Your job as a trader is to understand the market structure you are in, and then select the appropriate trading strategy for it.

Or at least, know when to stay out of the markets when your trading strategy isn't working.

Because if you can do this, it will greatly improve your trading results.

Summary

- The accumulation stage looks like a range market in a downtrend
- The advancing stage is an uptrend that consists of higher highs and lows
- The distribution stage looks like a range market in an uptrend
- The declining stage is a downtrend that consists of lower highs and lows
- High probability reversal areas occur when the lows of an accumulation stage coincides with the Support on the higher timeframe