Here's the thing:

On the surface, it looks like the market can only do 1 of 2 things — either a range or a trend.

But if you look deeper, there are nuances in a range and trending market.

And this can be the difference between entering your trades too early, too late, or at the worst possible time.

So in this lesson, you'll learn:

- What is a range contraction and expansion
- How to trade the 3 different types of trend
- How the market moves in volatility cycles

Once you've learned it, you'll never see the market in the same way again.

Let's begin…

Range markets

A market is in a range when trading between Support and Resistance.

From an orderflow perspective, the market is in equilibrium as buying and selling pressure are contained within the highs and lows of the range (if you think about this, the accumulation and distribution stage are actually range markets).

Now you're probably thinking:

"That's easy, I'll just buy Support and sell Resistance".

That's possible.

But there's more to it because you will encounter range expansion and range contraction, which makes things a little trickier.

Let me explain…

Range expansion

A range expansion occurs when price breaks out of Support/Resistance, only to go back into the range (thereby expanding the range itself).

And it fools a lot of breakout traders as they trade the breakout, only to watch the markets reverse its direction.

This is what I mean:

This scenario is "tricky" as breakouts tend to fail and trading at the edges of the range (going long Support or short Resistance) may still stop you out of your trade.

In my opinion, a better to trade this market condition is to wait for the false breakout to occur before establishing a position.

Range contraction

A range contraction occurs when the price is within an established range, and then forms an even tighter range within the range.

One reason is because an important news event is coming up, and traders wait on the sidelines till the new is out.

Here's an example:

Now, you can trade the break of the tight range, but the markets could whip both the highs and lows of the range before making the “real move”.

Alternatively, you can let the market make its move and then enter on a pullback (but you may risk missing the move if the market doesn’t retrace).

Clearly, both approaches have their pros and cons, and there’s no right or wrong down here.

Next, we will talk about trending markets…

Trending markets

A market is trending when there’s an imbalance of buying/selling pressure.

In an uptrend, you have an imbalance of buying pressure as the buyers are in control. On the chart, you will see higher highs and lows.

In a downtrend, you have an imbalance of selling pressure as the sellers are in control. On the chart, you will see lower highs and lows.

But… what if you get a chart that looks like this?

Is this an uptrend, range, or downtrend?

Uh oh.

And this is the problem when you define trends using higher highs and lows — there is subjectivity involved.

So, what can you do?

You can use the 200-period moving average (MA) to help you with it. Here's how…

- If the price is above 200MA, then it's a long-term uptrend
- If the price is below 200MA, then it's a long-term downtrend

Here's an example:

Now, identifying the highs and lows in the markets isn't enough to trade trends because not all trends are created equal.

Some trends are more favorable to trade breakouts, and some to trade pullbacks.

So, let's take things a step further and classify the different types of trends.

They are:

- Strong trend
- Healthy trend
- Weak trend

Strong uptrend – In a strong uptrend, the buyers are in control with little selling pressure.

You can expect this trend to have shallow pullbacks —barely retracing beyond the 20MA. In some cases, you will get no selling pressure as the trend goes parabolic.

This makes it difficult to enter on a pullback because the market hardly retraces and then continues trading higher.

The best way to trade this trend is on a breakout or, to find an entry on the lower timeframe.

An example:

Healthy uptrend – In a healthy uptrend, the buyers are still in control with the presence of selling pressure (possibly due to traders taking profits, or traders looking to take counter-trend setups).

You can expect this trend to have a decent retracement usually towards the 50MA, which provides an opportunity to hop on board the trend.

Now, you can also enter on a breakout but you must "endure" the retracement back towards 50MA (which drains your mental capital).

An example:

Weak uptrend – In a weak uptrend, both buyers and sellers are vying for control, with the buyers having a slight advantage.

You can expect the market to have steep pullbacks and trades beyond the 50MA.

And in this type of trend, the market breaks out of the highs only to retrace back much lower (which makes it prone to false breakout).

The best way to enter this trend is at Support or Resistance.

An example:

Does it make sense?

Good.

Next, you'll learn how volatility works in the market…

How the market moves in volatility cycles

The market is always changing.

It moves from a period of low volatility to high volatility and vice versa.

And because of it, you must tweak your strategies accordingly in different volatility environment.

Low volatility environment

This is my favorite time to enter a trade because of the favorable risk to reward it offers.

Think about this…

In low volatility period, your stop loss is tighter as the range of the market is smaller.

This means you can put on a larger position size for the same level of risk (in nominal value).

Next, you know the market moves from a period of low volatility to high volatility.

So when volatility expands in your favor, you can get many R multiples on your trade.

An example:

High volatility environment

Things are moving fast in the high volatility trading environment — and it's easy to get caught with the fear of missing out (FOMO) as the market moves quickly.

If you want to trade in such environment, it's best to wait for the market to approach your key levels before you enter a trade.

This offers a sensible place to set your stop loss (instead of placing it randomly), and only to get stopped out on the crazy swings.

And if the market doesn't come to your level, don't "chase" it because the risk to reward isn't worth the trade.

Instead, move on to other markets with more sensible price action.

An example of high volatility environment:

Now, these principles apply to any markets like Forex, stocks, cryptocurrencies, and etc.

So, spend some time learning it as it'll pay dividends in the long run.

Summary

- A range market can expand or contract
- There are 3 types of trend; a strong trend, healthy trend, and weak trend
- The market moves from a period of low volatility to high volatility and vice versa