

In this book, I'm going to show you a method you can use to determine when reversals and reversal structure patterns are likely to form in the market. This method is a bit novel, in terms of how you use it to find out where reversals are going to occur, but it's the only thing I could come up with that will work on most timeframes in the market.

You don't need any kind of deep understanding of the market in order to use the following method, you just need to know how to use the MT4 platform.

Lets get into it and take a look at the method.



Okay, so the first step to using this method is to zoom in on your chart to the maximum it can go, where you can literally only see maybe a couple dozen candlesticks on the chart itself. Once you've done that, click the zoom out button three times.

Your chart should now be zoomed out to the same degree as what I am in the image below.

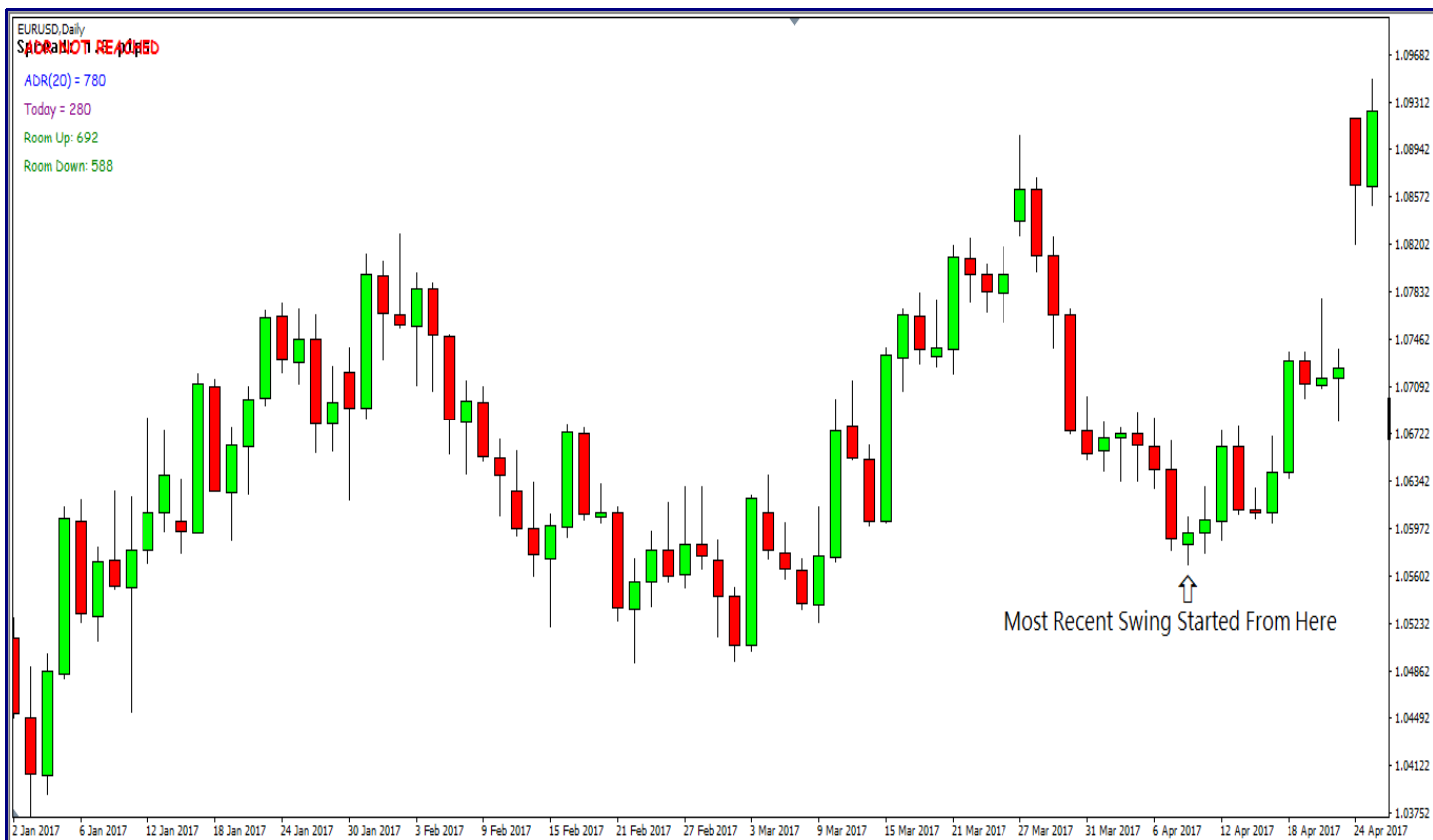


With the chart zoomed out the correct distance, the next task is for you to find the point where the most recent upswing (if the market is in an uptrend) began on the daily chart.

Note:

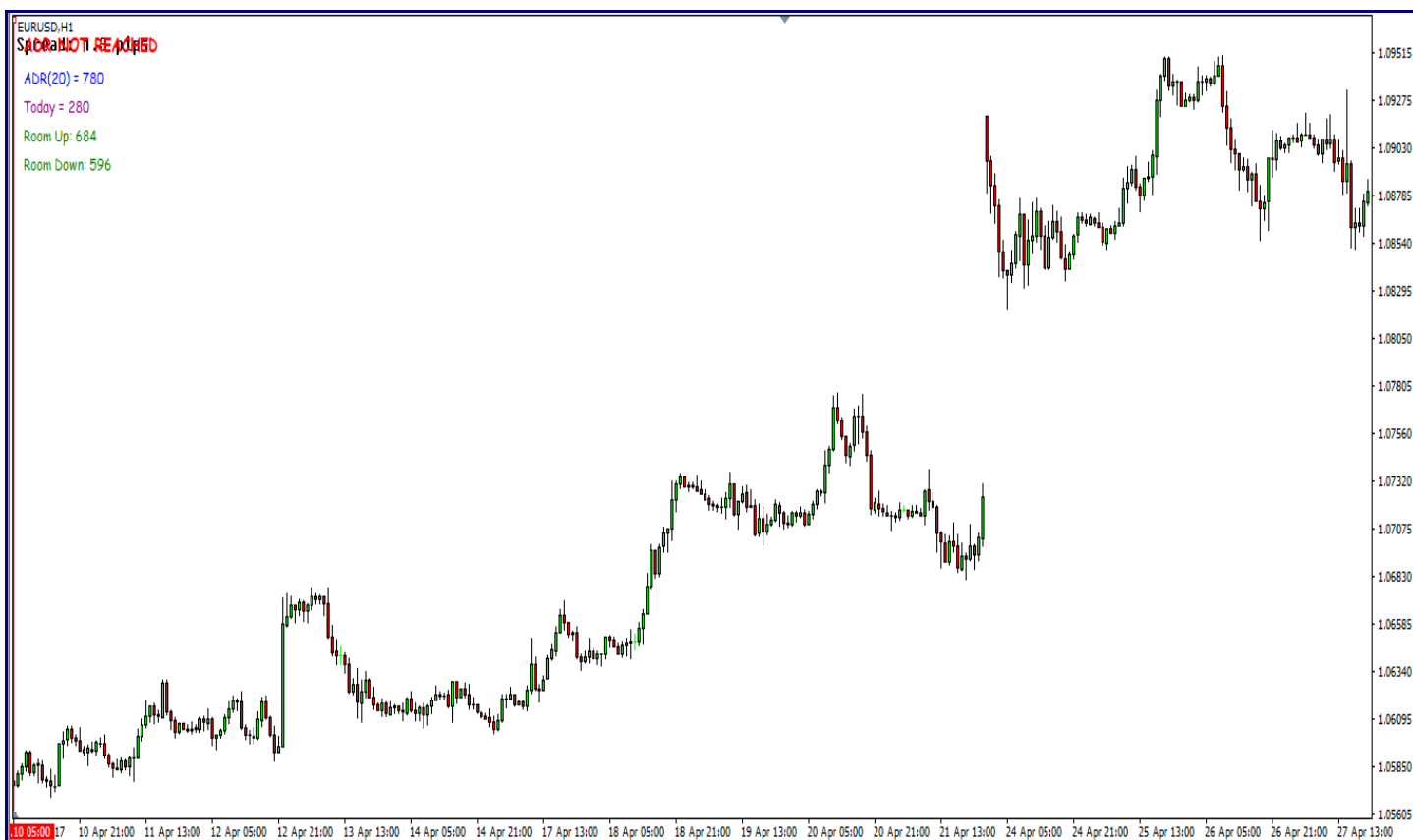
The timeframe you use to find the beginning of the swing depends on what timeframe you're using to actually watch for a reversal to occur. In this case I'm watching for a bearish reversal to take place on the 1 hour chart, so I need to find the beginning of the most recent upswing on the daily chart.

I've left a guide on what timeframe you need to use at the end of the book, make sure you check it to see which timeframe you should use if you don't trade off the 1 hour chart like I do.



Here's an image showing the point where the most recent upswing on EUR/USD formed from.

What you need to do now is drop down onto the timeframe you use to watch for reversals, (in this case the 1 hour chart) and move the left hand side of the chart so that it sits ontop of the point where the upswing began.



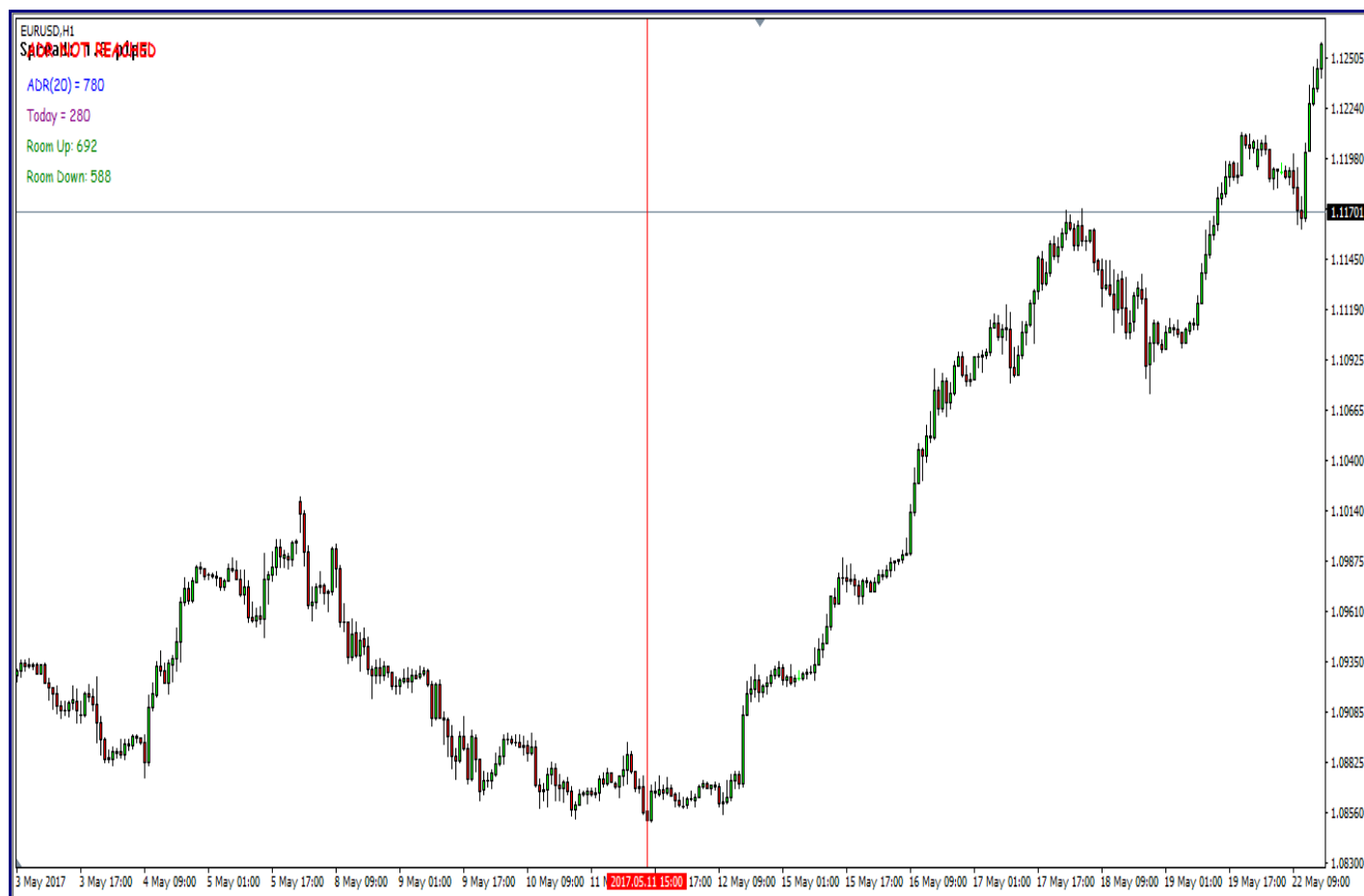
Here's what you can see on the 1 hour chart once I've moved the chart to sit on the point where the upswing began.

Notice how the market has moved all the way up to the top right hand corner of the chart window. The fact that it's moved all the way up to the top right, means that a reversal - deep retracement or long consolidation is likely going to take place soon. If a deep retracement or reversal forms, it's likely to do so after a reversal structure pattern has been created, so this would be the time you start keeping an eye out for patterns to form against the trend.

If we had a situation where the market hadn't managed to reach the top of the chart, or had moved up to the top left to top middle, you wouldn't look for a reversal structure pattern to form, because it would be a sign the market has moved up to quickly and that it's unlikely for a reversal structure pattern to form, at least not one which is going to result in you having a successful trade.

Now if you locate the beginning of a swing but find that you can't actually move the chart so that it sits ontop of the point where it formed, what you need to do is move the chart so that the point where the swing originated from sits roughly in the center of the chart window.

If you find that the market has moved up to the top far right of the chart upon doing this, it's a signal you're probably going to see a reversal - deep retracement or consolidation take place soon.



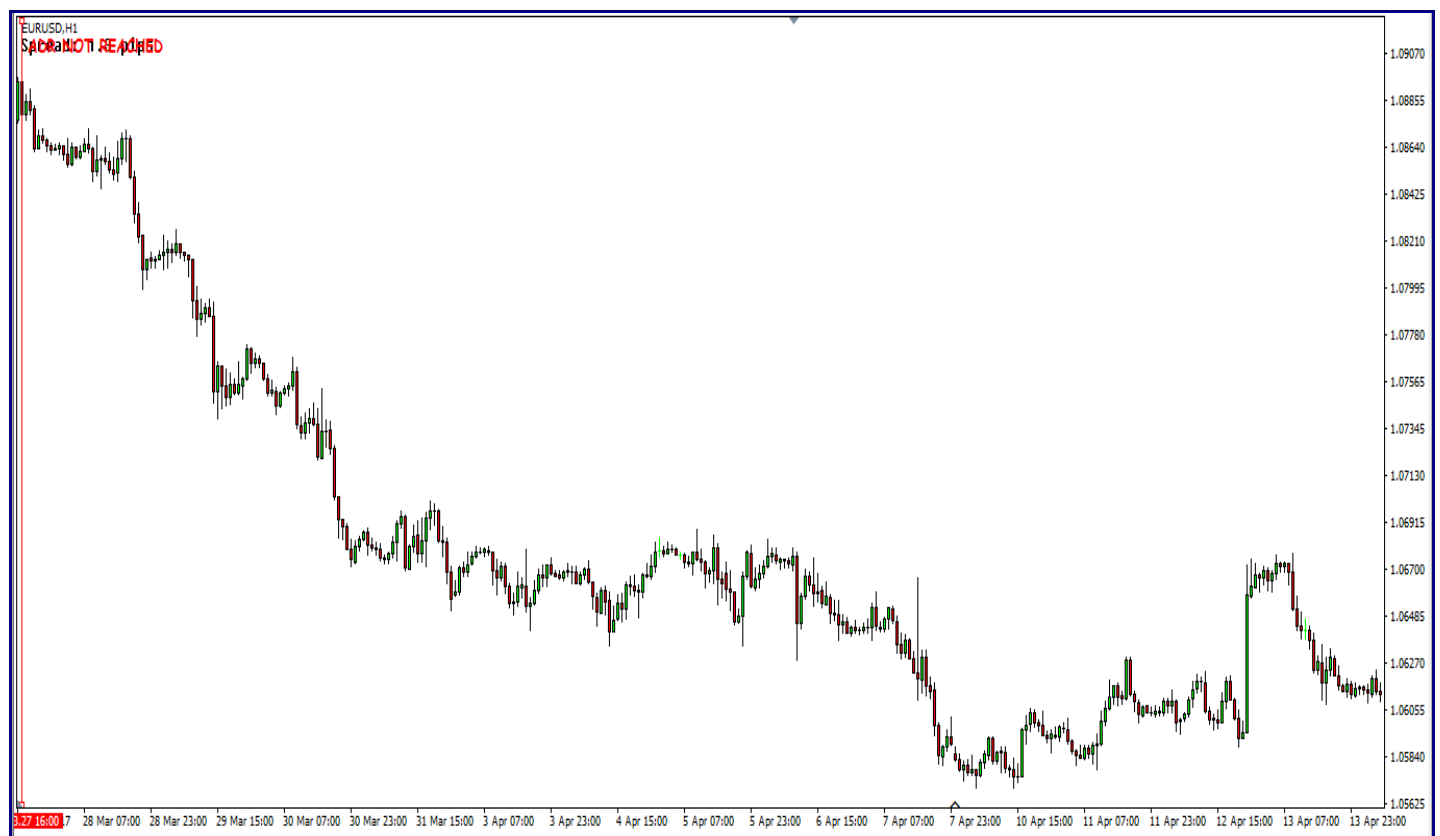
Here's an image showing the point where the upswing originated from being centered in the middle of the chart instead of at the far left.

You can see that by moving it to the center the market has moved all the way up to the top right of the chart window. Seeing that it's moved up to here is a good signal a reversal - deep retracement or consolidation is going to occur soon, so upon seeing this you would begin watching for reversal structure patterns to form against the trend.

If you can't move the chart so that the point where the swing began sits in the middle of the screen, it means a reversal - deep retracement or consolidation is unlikely to take place, as the swing isn't hasn't been in place for a time long enough for the banks to make it reverse.

Examples

I'm just going to run some examples of carrying out this method on different timeframes, so you know what to do when watching the market.

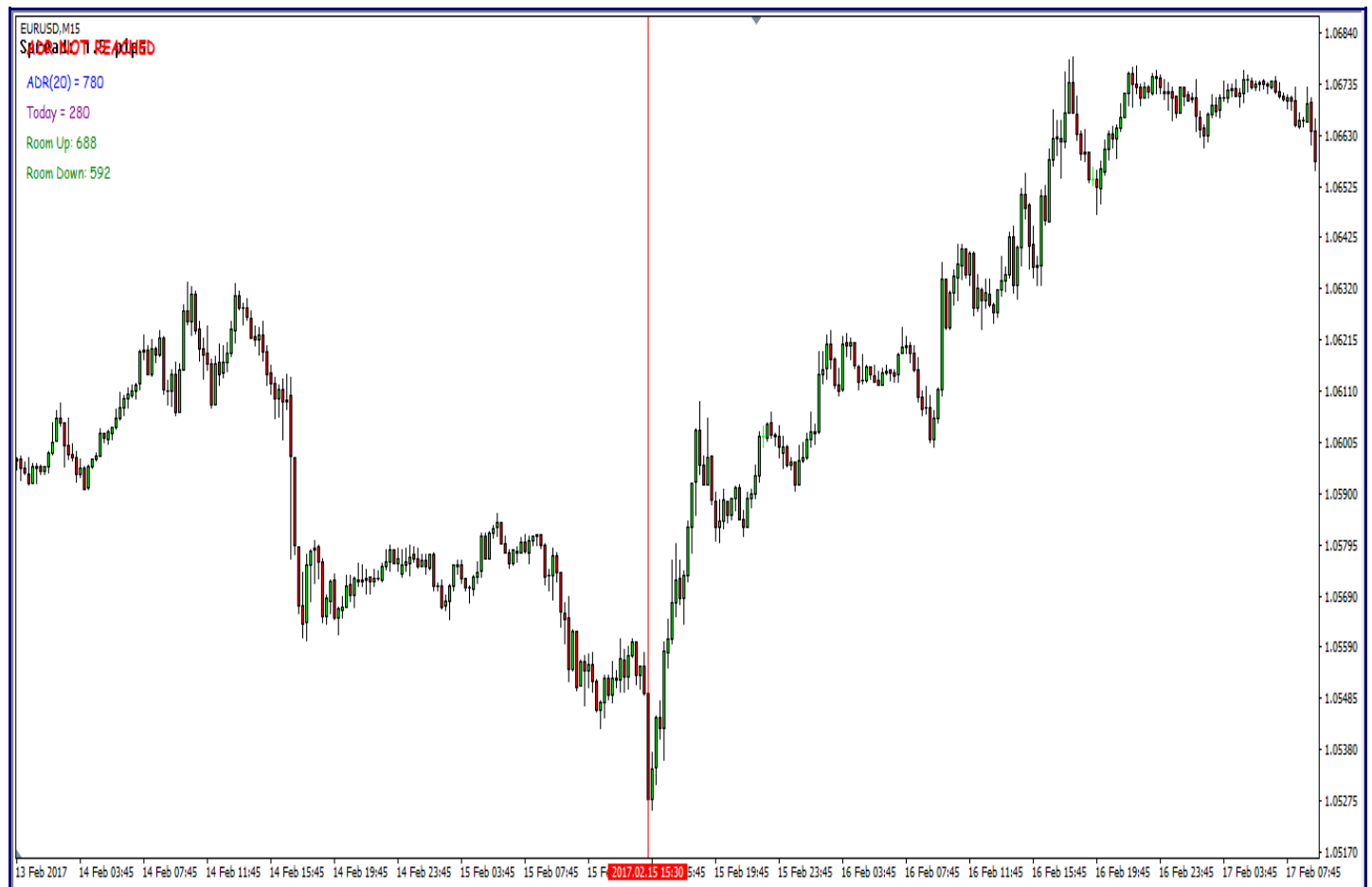


Here's an image of a downswing which occurred on the 1 hour chart of EUR/USD.

You can see that I've zoomed out three times, and moved the chart so that the left hand side sits ontop of the point where the most recent downswing took place on the daily chart.

Because this is downswing, it means instead of watching to see if the market has moved up to the top middle to top right hand corner of the chart, we have to watch to see if it has moved down to the bottom middle to bottom right, because if it has it's a sign a reversal - deep retracement or consolidation is likely going to take place.

As you can see, the market has in fact moved down to the bottom of the chart window. At this point, you would start watching for a reversal structure pattern to form against the trend, as you would know a reversal or deep retracement now has a high probability of forming.



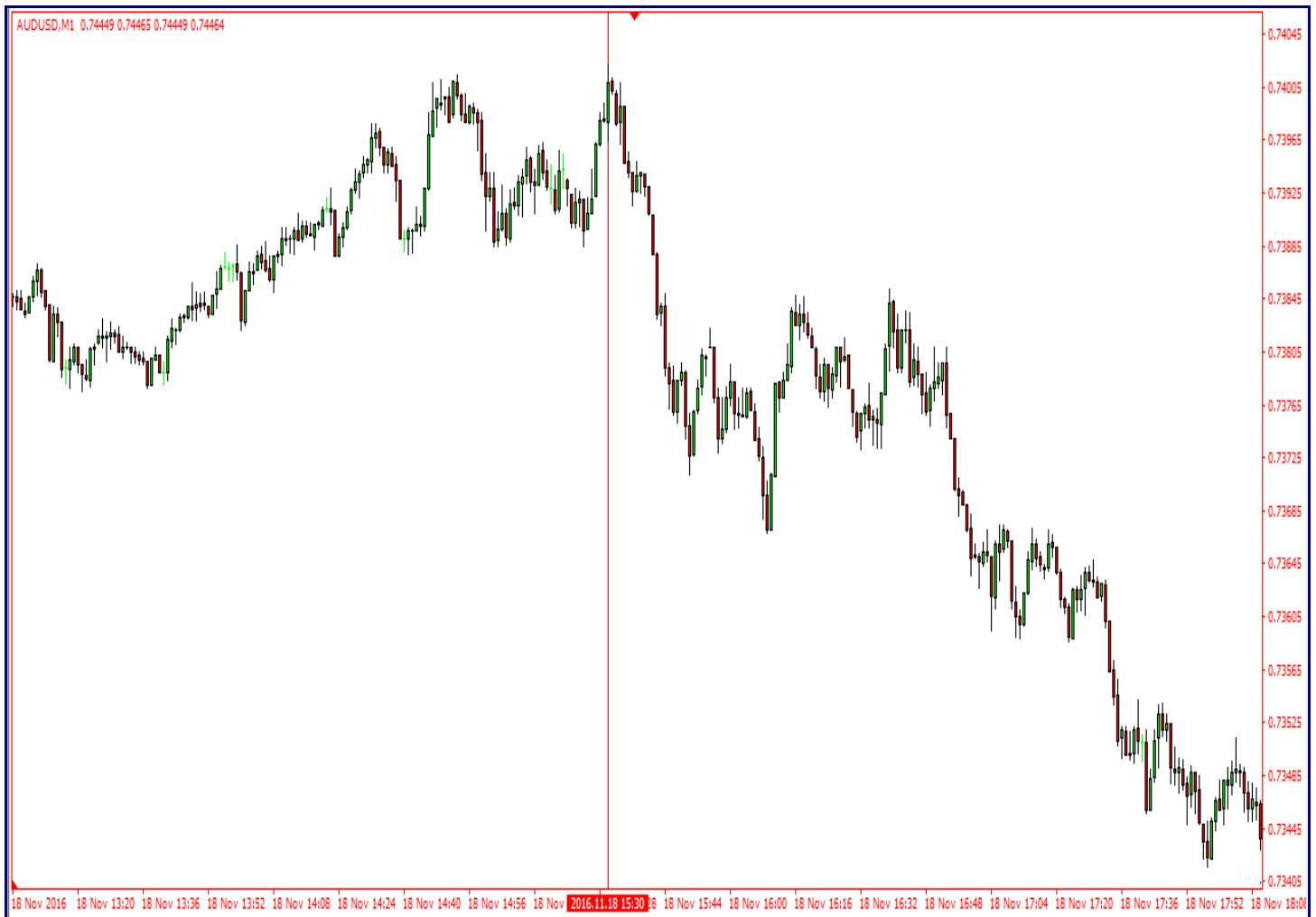
This image shows an upswing that took place on the 15 minute chart of EUR/USD.

The red line denominates the point where most recent upswing originated from on the 1 hour chart. For the sake of this example we're just going to pretend that I couldn't move the left hand side of the chart to sit on the point where the upswing formed. I can actually move it there but we're just going to pretend that I can't, so I can run through another example of what to do in this situation.

Because it wasn't possible for me to move the chart so that the left hand side sits on top of the point where the upswing originated from, it meant that I had to move it so that the red line sits in the center of the chart window. As you can see from the image, moving it to the center reveals that the market has moved all the way up to the top right hand corner of the chart.

This tells us the market has moved far enough for a reversal - deep retracement or large consolidation to take place soon, meaning that now would be the time you start watching for reversal structure patterns to form against the trend.

Here's another example.



The image above shows a downswing that took place on the 1 minute chart of AUD/USD.

You can see I've moved the chart so that the point where the most recent downswing originated from on the 15 minute chart, (the red line) is in the middle of the screen. By having the point of origin placed in the center, you can see the market has dropped down to the bottom right hand corner of the chart.

The fact that it's fallen all the way down here is a sign a reversal may soon take place, so this would be the time when you start watching for reversal structure patterns to form.

Which Timeframes To Use To Spot The Swings

Below is a guide on which timeframes you need to use to find the point where the most recent swing originated from.

If you trade off the 30 minute chart or 1 hour chart, you need to find the beginning of the most recent swing that's occurred on the daily chart.

If you trade off the 1 minute or 5 minute chart, you need to find the origin of the most recent swing on the 15 minute chart.

If you trade off the 15 minute chart, you need to find the beginning of the most recent swing that's taken place on the 1 hour chart.

Unfortunately the swings on the daily - weekly and monthly charts never take place long enough for the market to move all the way from one side of the screen to the other, so you can't use the above method to find out when a reversal is going to occur on those timeframes.

Summary

Although the method described above is not perfect by any means, it does provide quite a useful way to gauge when a reversal is likely to take place in the market.