Twitter Thread by Killer Trader ■■



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Common price action trading mistakes that cost me lakhs of rupees:

A thread ■

1. Front running the market based on my analysis:

Any analysis we do should be proved by market as correct before we jump into a trade.

How?

(1/n)

Example:

Mr. X marked 1500 as a strong support in HDFC Bank. Next day, stock opened at 1510, came down and hit 1500.

ABC went long in the stock. A few minutes later, stop got triggered. What went wrong here?

(2/n)

1500 is support for HDFC bank as per Mr. X but he did not wait to check if market validated his opinion.

At supports and resistances marked by a trader (you), wait for market to show the stock is actually taking support/resistance at those levels.

(3/n)

For your analysis to be correct, market buying>selling at support, market selling>buying at resistance.

Essentially, on a lower TF, check for bullish price action at support, bearish price action at resistance before you enter the

trade.

(4/n)

Remember that no support is too low to be broken and no resistance is too high to be broken.

(5/n)

2. Having the same timeframes for analysis and trading:

If you are a price action based trader, the most important guiding principle for you is:

1. Higher the timeframe, more accurate and reliable the technical analysis
2. But big moves start on small timeframes first.

(6/n)

Both sound contrarian? Yes, they do.

The key is to balance these two principles and have a structure where you analyze markets on a TF and trade on a TF which complement each other.

(7/n)

Example:

If you are a day trader, do not pick stocks on 15 mins TF and trade on 15 mins. Switch your analysis to hourly TF/daily TF.

It will help avoid choppiness in the markets to a large extent.

(8/n)

3. Taking reversal trades based on divergences:

A divergence is a signal for a potential reversal which MAY occur, but not a confirmation.

Just taking reversal bets on divergence will sooner or later burn big holes in your pocket.

(9/n)

To trade any divergence, have a structured rule based action, (Ex: I use fibs to validate divergences) and then take reversal trades after PRICE CONFIRMTION.

Every divergence does not mean reversal and every reversal does not come with divergence.

(10/n)

4. Using multiple oscillators:

Some people use RSI, MACD, Stoch RSI all on one chart.

On a minute basis, even though these oscillators have their own differences, fundamentally on a broader perspective, they have the same purpose.

(11/n)

Doesn't matter whether you use a analog watch or a digital watch, primary purpose is to check time.

So, pick one oscillator and do not clutter your chart and minds in live markets.

(12/n)

Relying too much on candle patterns:

This could get a bit unpopular but I like to put the truth out:

Bullish candle patterns work well in bull markets and bearish patterns work well in bear markets.

(13/n)

But on the whole, deciding the direction of a stock and taking a trade just based on "one single candle pattern" is injurious to account in the longer run.

(14/n)

Focus on understanding the market mechanism.

Deciding the direction based on just 1 candle without considering the positions of market participants of different timeframes is not a good practice.

Focus on developing an analysis method based on multiple factors.

(15/n)

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