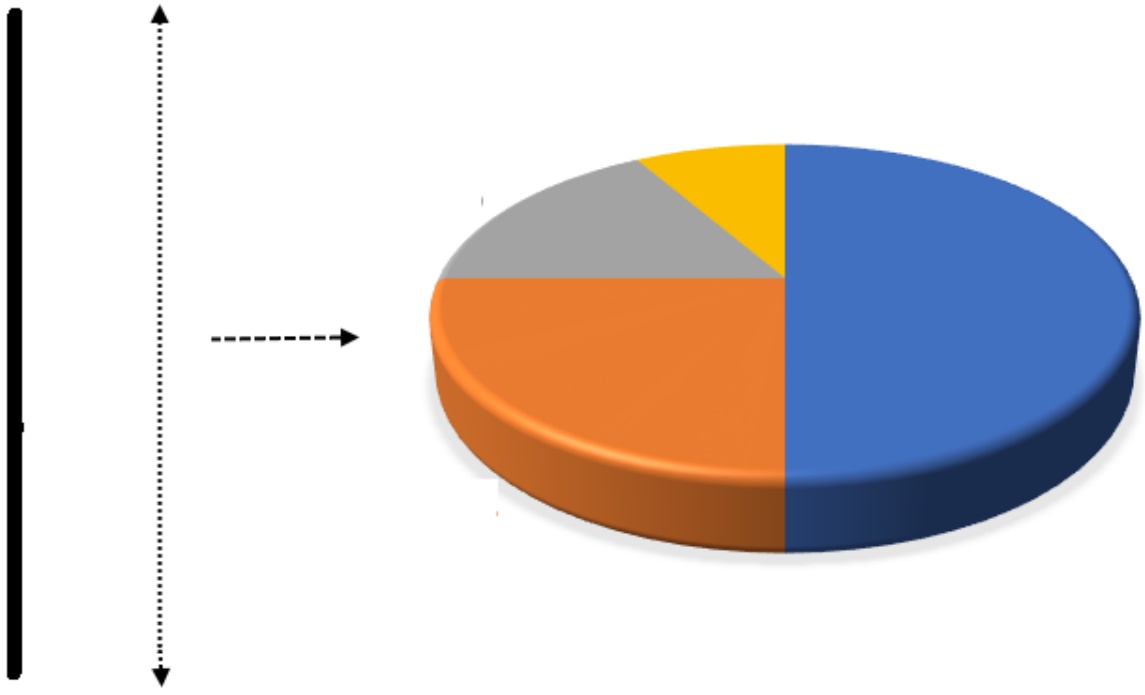
Twitter Thread by Prashant Shah

Prashant Shah
@Prashantshah267

Thread: Camarilla Levels

Continuing our discussion on pivot levels, we look at the Camarilla levels which is another widely followed tool.

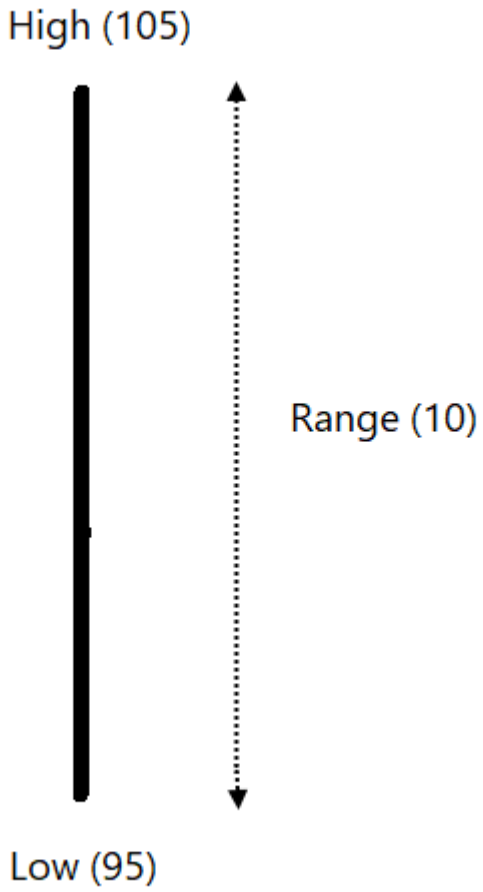
Word ‘Camarilla’ is borrowed from Spanish. It translates to a group of confidential & private advisers of the King or person in authority.



The Camarilla equation was first developed by a bond trader named Nick Scott in 1989. It is said that he didn't disclose the equation, but people studied the levels & reverse engineered it to find the formula. There r different versions of this formula.

We discussed about ‘Range’ in the earlier thread. The range is basically the difference between High & Low of the session.

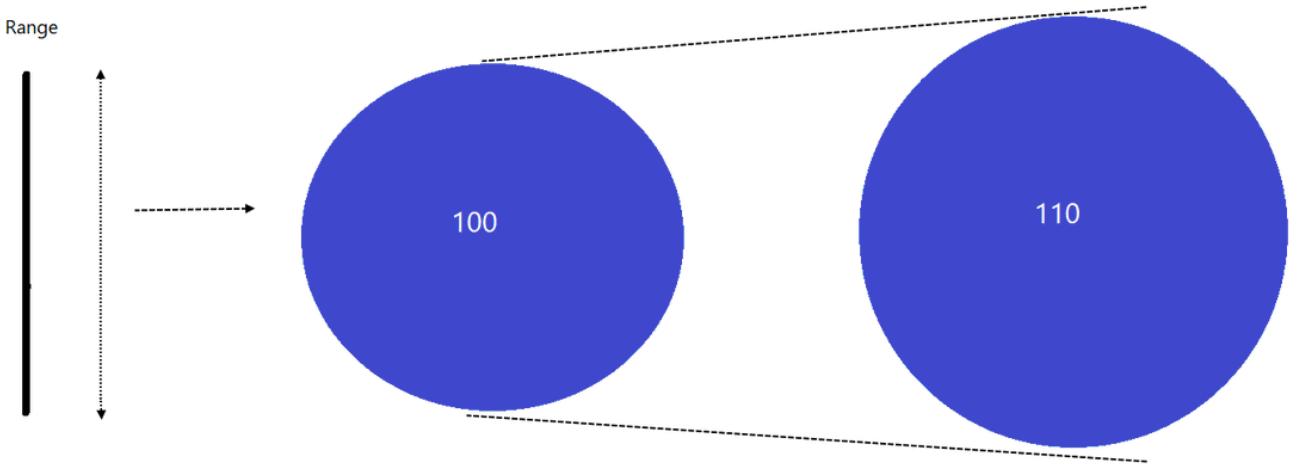
High – Low = Range of the session
Continuing with the same levels as an example, If High of the day is 105 and Low is 95, Range of the session is 10 points.



Range shows us activity during the session irrespective of the trend.
Narrow range = Not much movement
Wide Range = Strong activity

Camarilla calculation depends on the Range of the session.

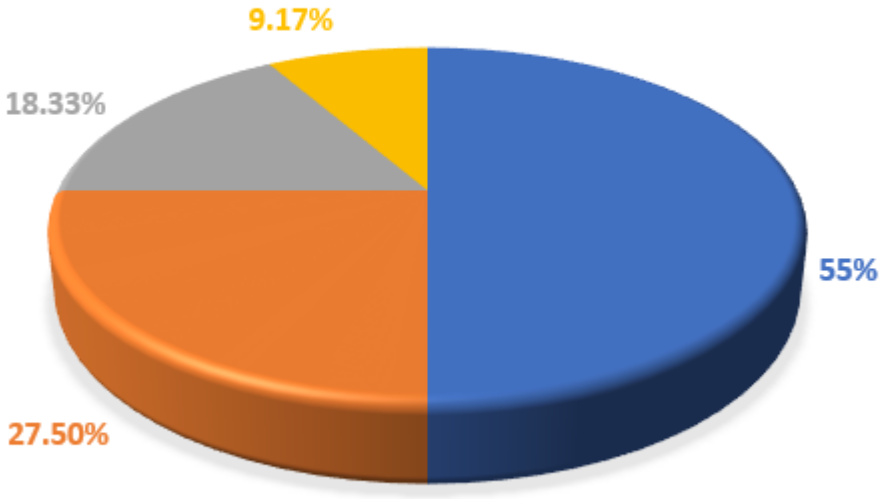
Let’s expand the range to 110%. If Current range is 10, let us make it 11.



Let’s now divide this Range in four parts.

9.17%, 18.33%, 27.50% and 55% of the range.

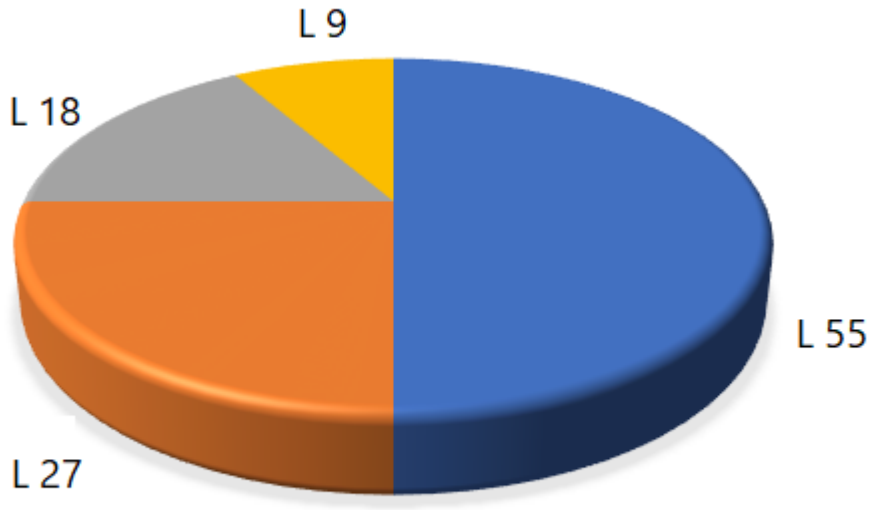
So, if Range is 10 points:
10 x 9.17% = 0.92
10 x 18.33% = 1.83
10 x 27.50% = 2.75
10 x 55% = 5.50



So, this range has four pies now.

Let’s name them: L55, L27, L18 and L9.

There are 8 levels in Camarilla calculation: H1, H2, H3 and H4 plotted above the close of earlier session. L1, L2, L3 and L4 plotted below the close of the earlier session.



We divided the range of earlier session.

Which factor determines the strength of bulls or bears in the session?

Close.

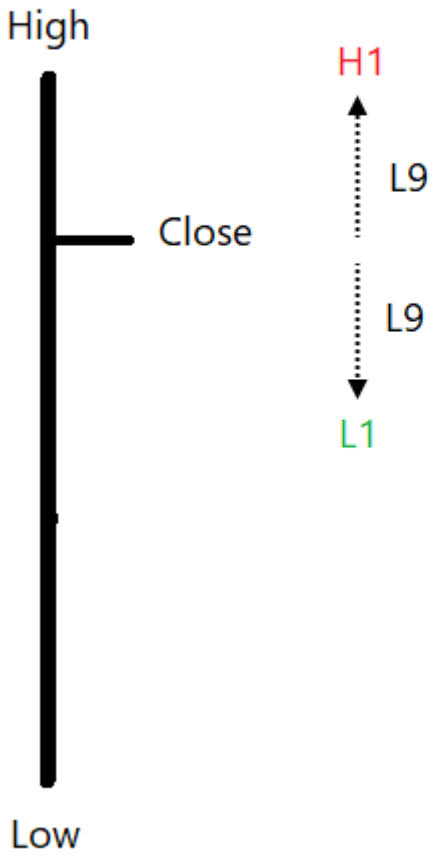
Range = Volatility and activity
Close = Trend and Strength

We’ll decide calculation based on where was the close of the session.

If we add L9 to the close, we get H1.
If we deduct L9 from the close, we get L1.

What will be H1 and L1 if High is 105, Low is 95 and Close is 103?

See the image and calculate it before reading next.

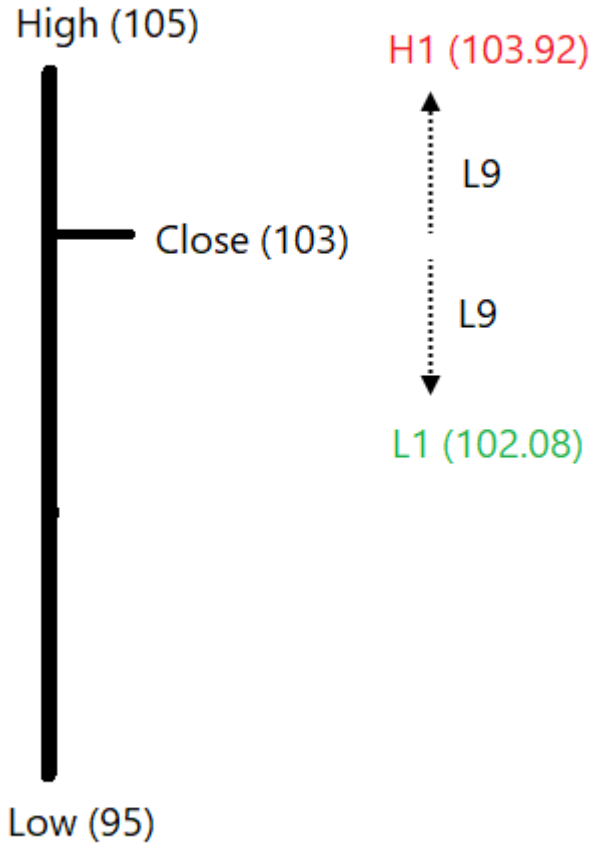


We calculated L9 earlier.

If Range is 10 points, 9.17% (L9) will be 0.92.

So,
H1 = 103.92
103 + 0.92 = 103.92

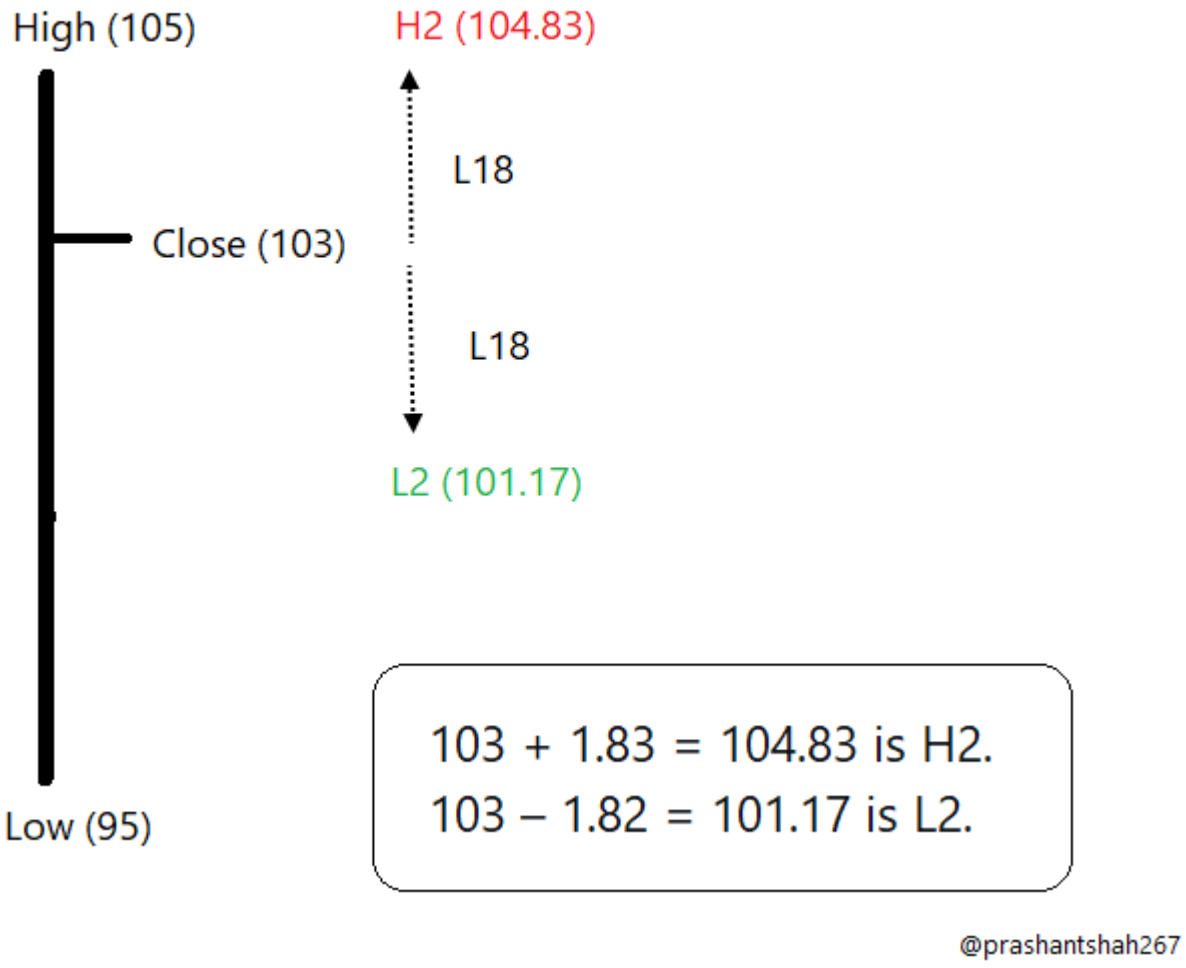
L1 = 102.08
103 – 0.92 = 102.08



I am sure you would have guessed the other 3 levels by now.

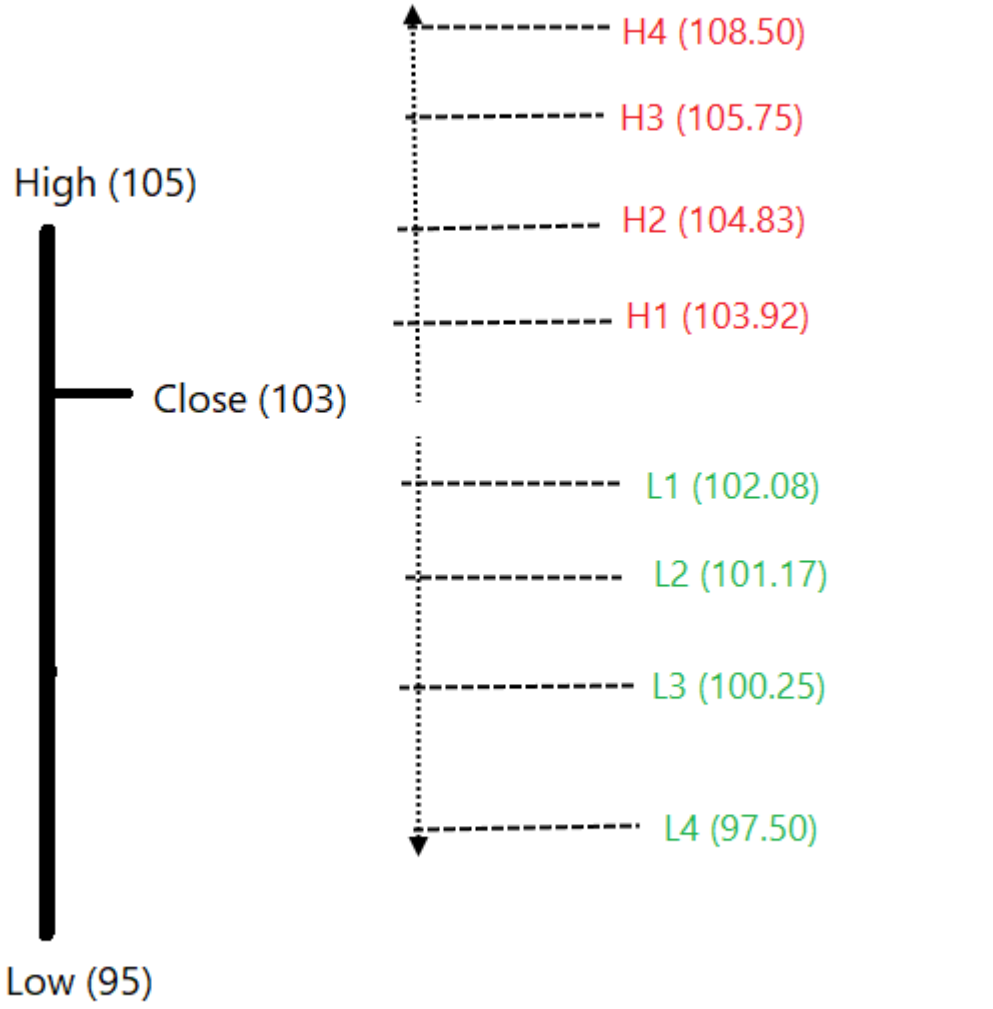
Add & deduct L18 to close to get H2 and L2.
Add & deduct L27 to close to get H3 and L3.
Add & deduct L55 to close to get H4 and L4.

Attached images explains it.



In Nutshell, Camarilla levels are based on the Range and position of the earlier close.

It is important to know that the position of the closing price plays an important role in placement of the levels.

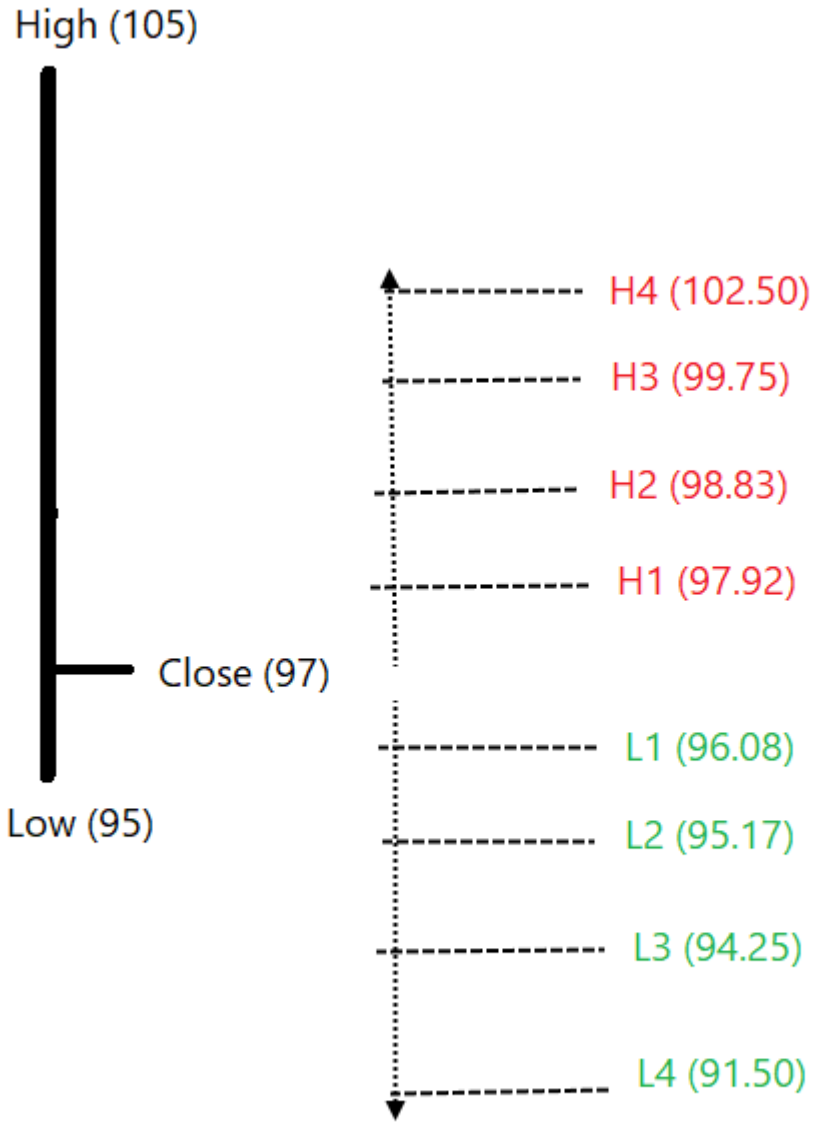


What if the close would have been in lower extreme in above example?

Below is the calculation if closing price was 97 instead of 103.

Same range but lower levels went far from the current bar.

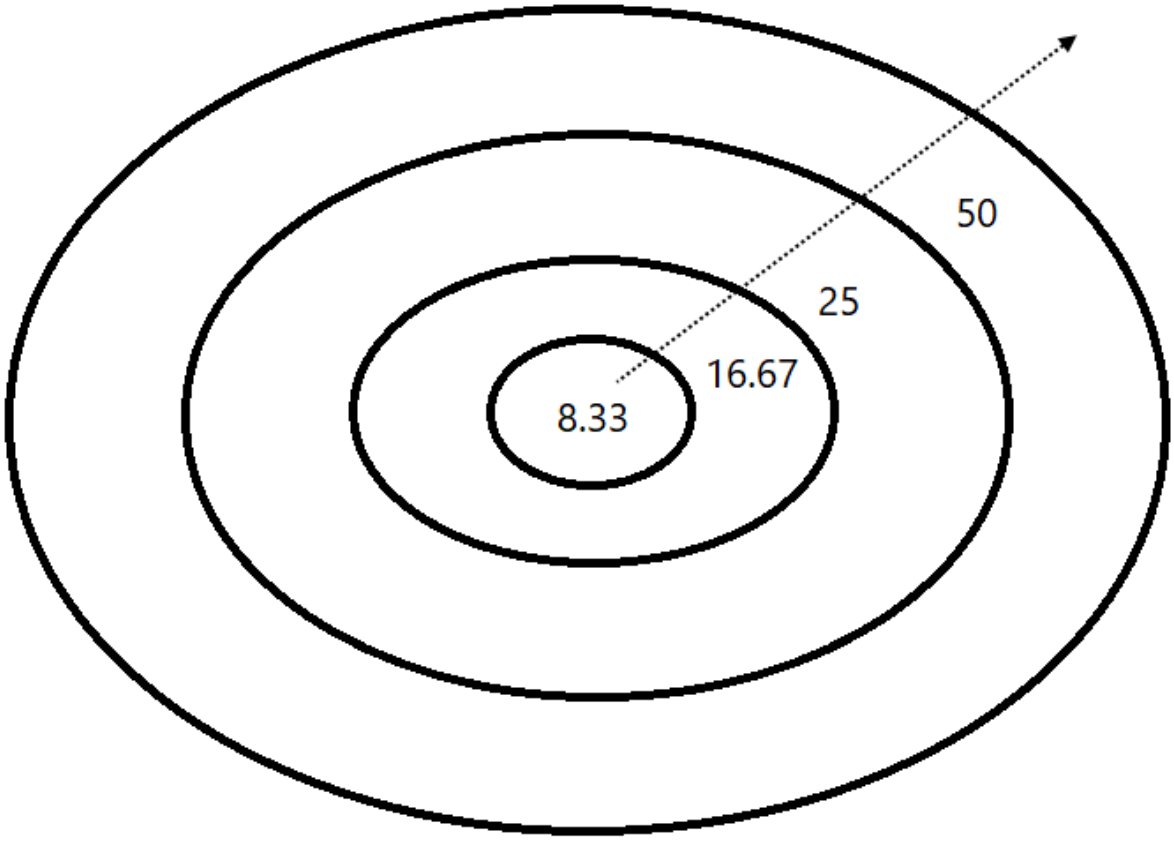
Hence, the next day level depends on current session trend with respect to range.



Some people call it Fib based levels. But that doesn't seem to be the concept.

It is a simple format of distributing the range and going from lower to higher pie for referring the levels.

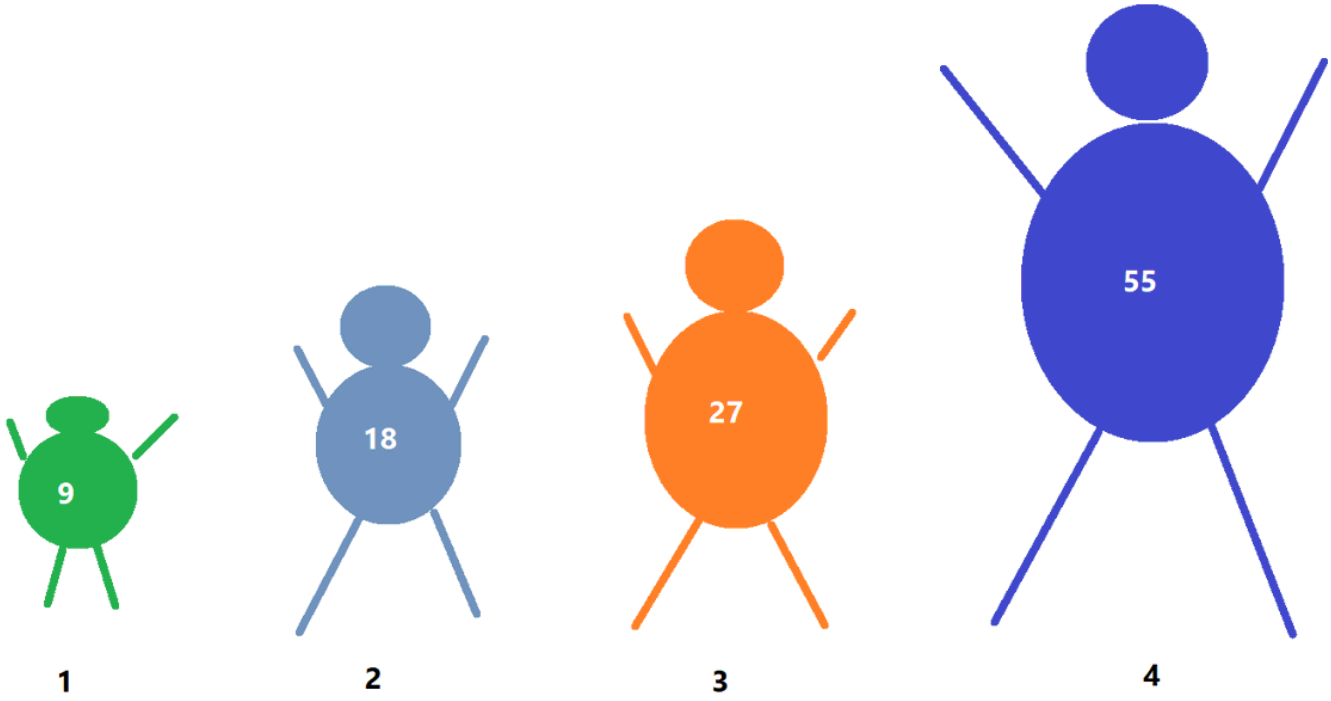
8.33% of the Range is first level and it expands.
8.33 -> 16.67 -> 25 -> 50



From trading perspective, 1 and 2 have small pie. They will be very near to the closing price.

3 (L27) and 4 (L55) are strong players.

We'll come back to the discussion on trading using these levels.

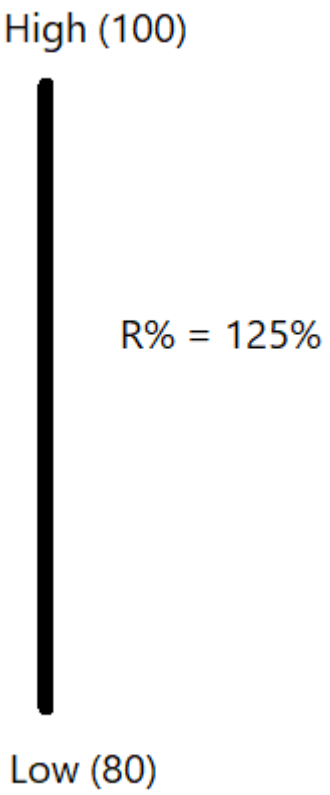


There are couple of other levels known as advanced Camarilla levels.

I have seen the difference in levels people use. Let's discuss them.

If we divide High by low price, we get the percentage of high to low. Let’s call it R%.

Eg, High is 100 & low is 80, R% is 125%.

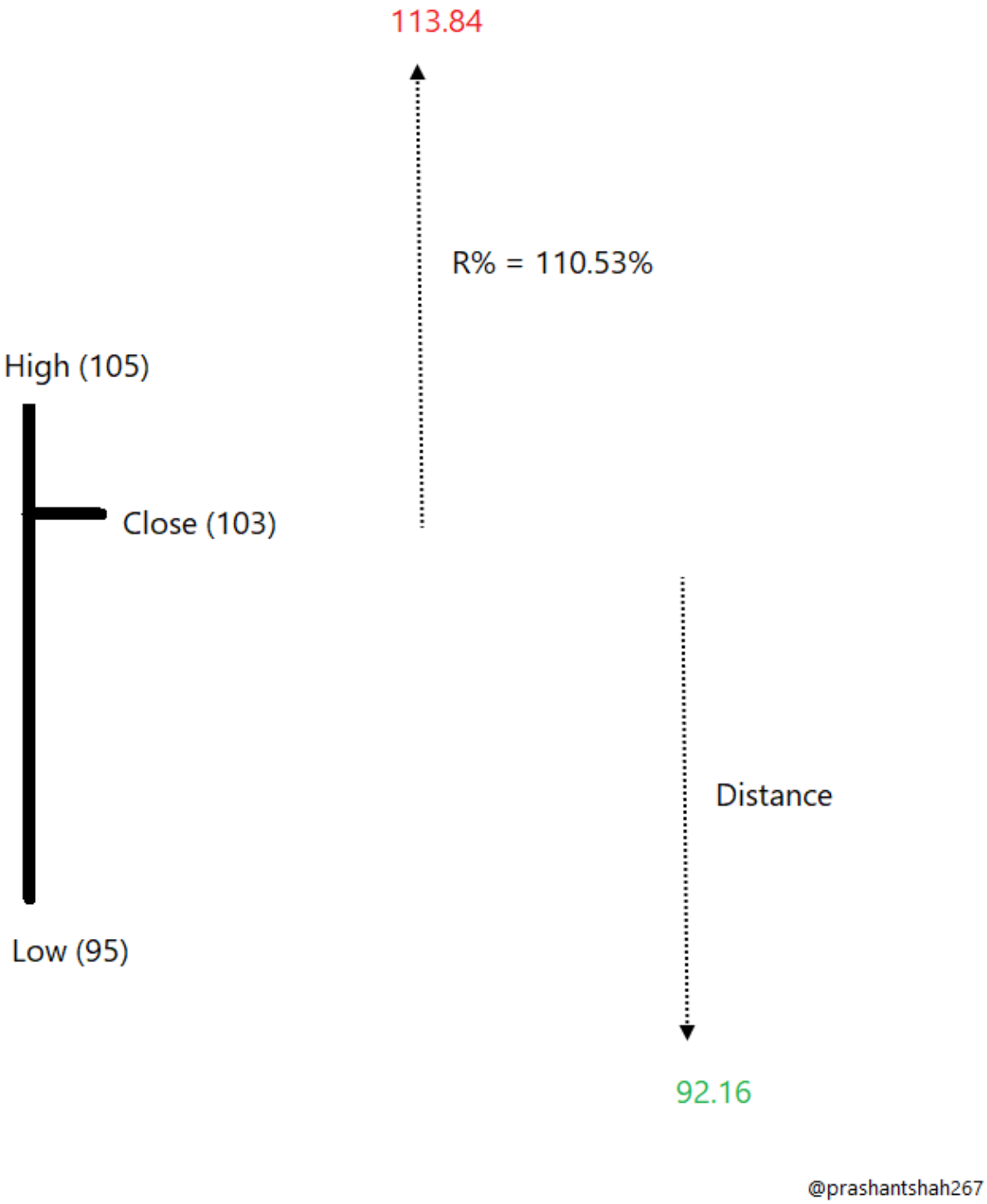


We can project closing price upwards and downwards by R% to get the advanced level.

In our example, R% is 110.53% (105/95).

Close multiplied by R%
103 x 110.53% = 113.84 (RH)

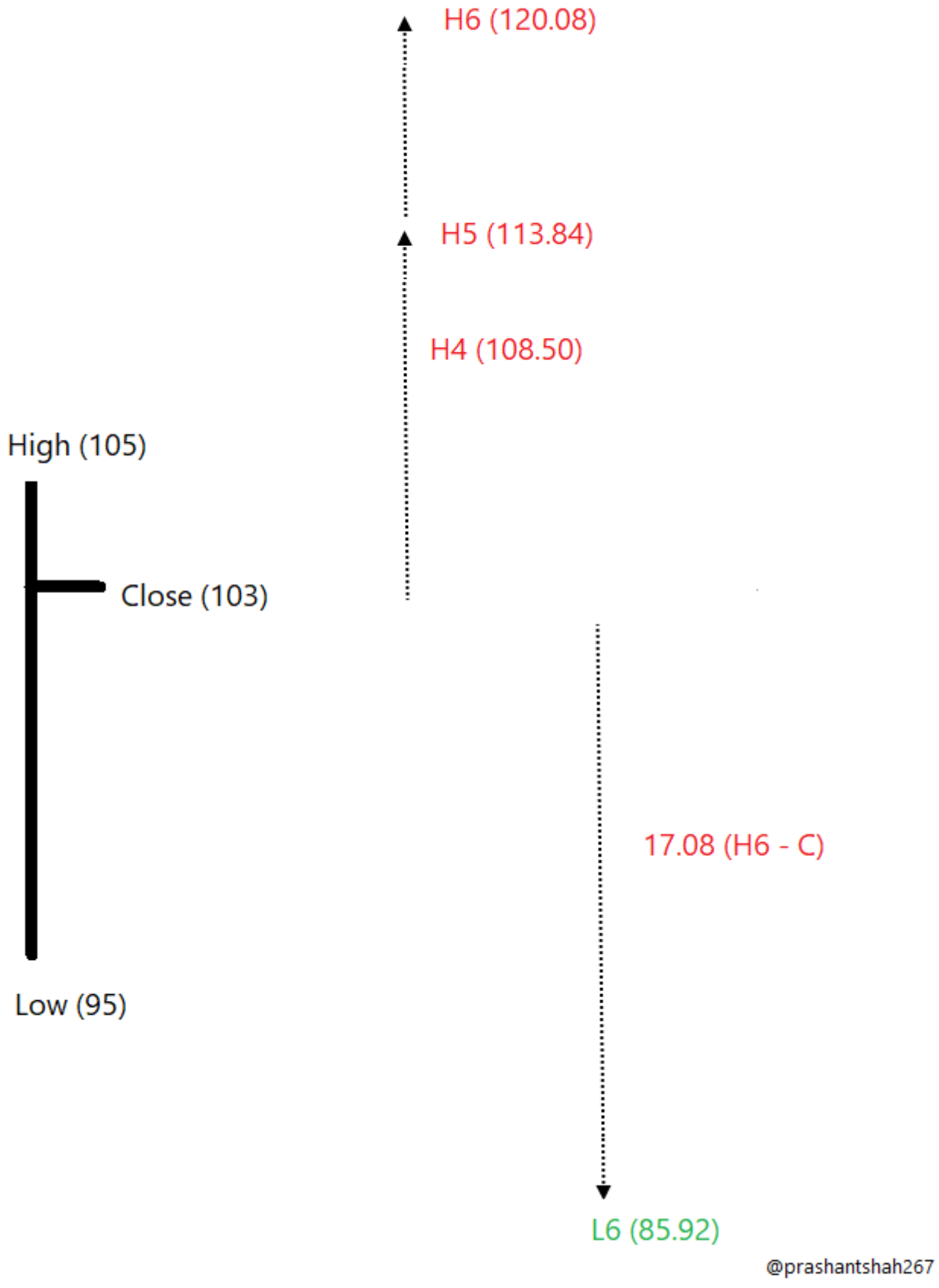
Deduct distance bw close & RH to plot the equidistance lower level
103 - (113.84 – 103) = 92.16 (RL).



These R levels are used as H5 or H6 & L5 or L6.

If the RH level is H5,
1.168 times of difference between H5 and H4 and add to H5
1.168 (113.84 – 108.50) + 113.84 = 120.08

Difference between H6 and Close to be deducted from close to get L6.
103 – 17.08 = 85.92.



Some people plot the R level as H6 and L6.

If RH is H6, 32.12% of the range is added to H4 to get H5.

10 x 32.12% = 3.21

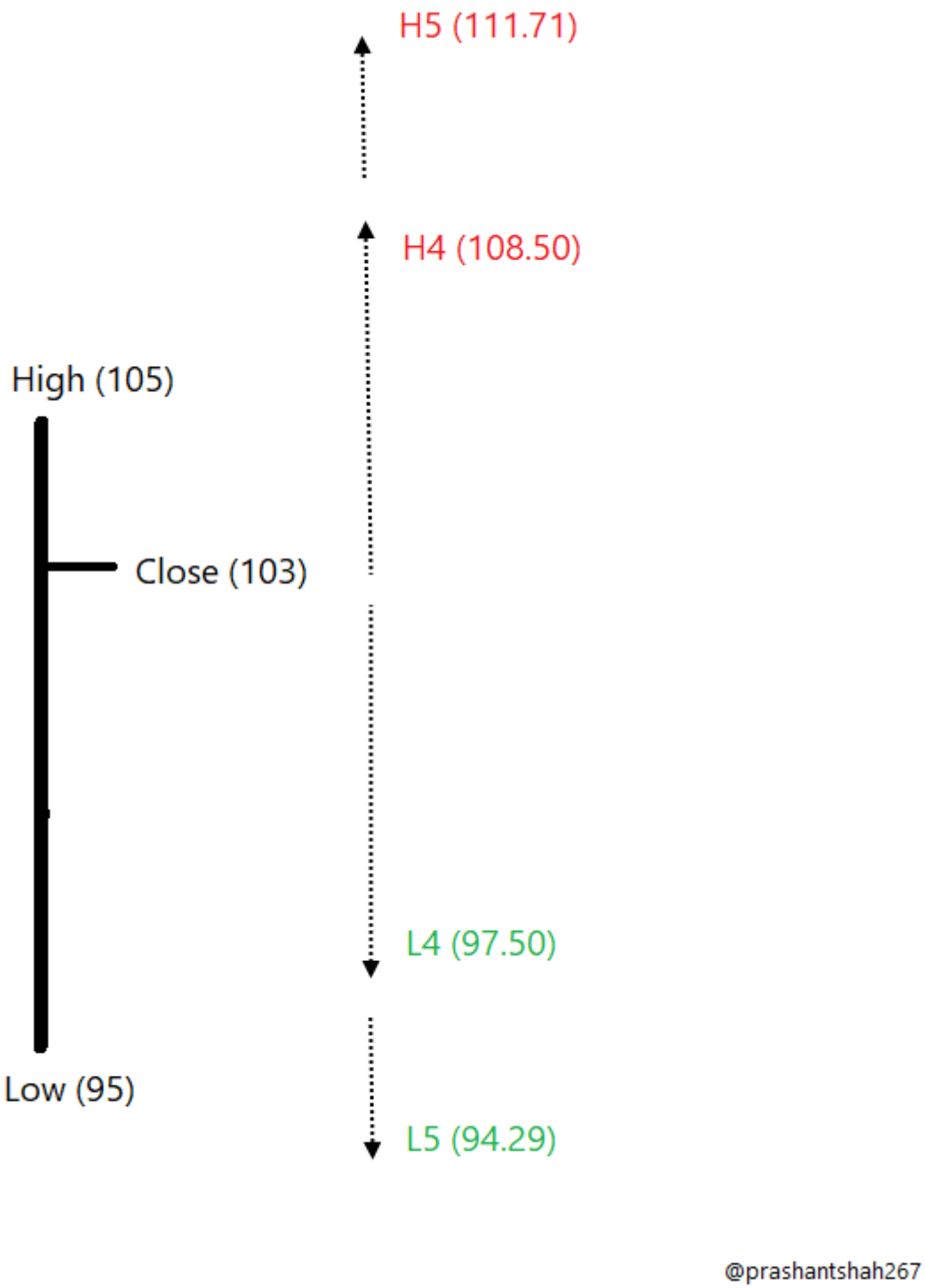
H5

108.50 + 3.21 = 111.71

L5

97.50 – 3.21 = 94.29

I would prefer plotting R levels as H5 and L5.



As discussed, earlier Level 3 and 4 are stronger than others.

H3 and L3 are considered as mean reversion levels. They are useful in rangebound markets. Sell at H3 with stop-loss of H4, L1 and L2 are target areas. Buy at L3 with stop-loss of L4 for target areas of H1 or H2.

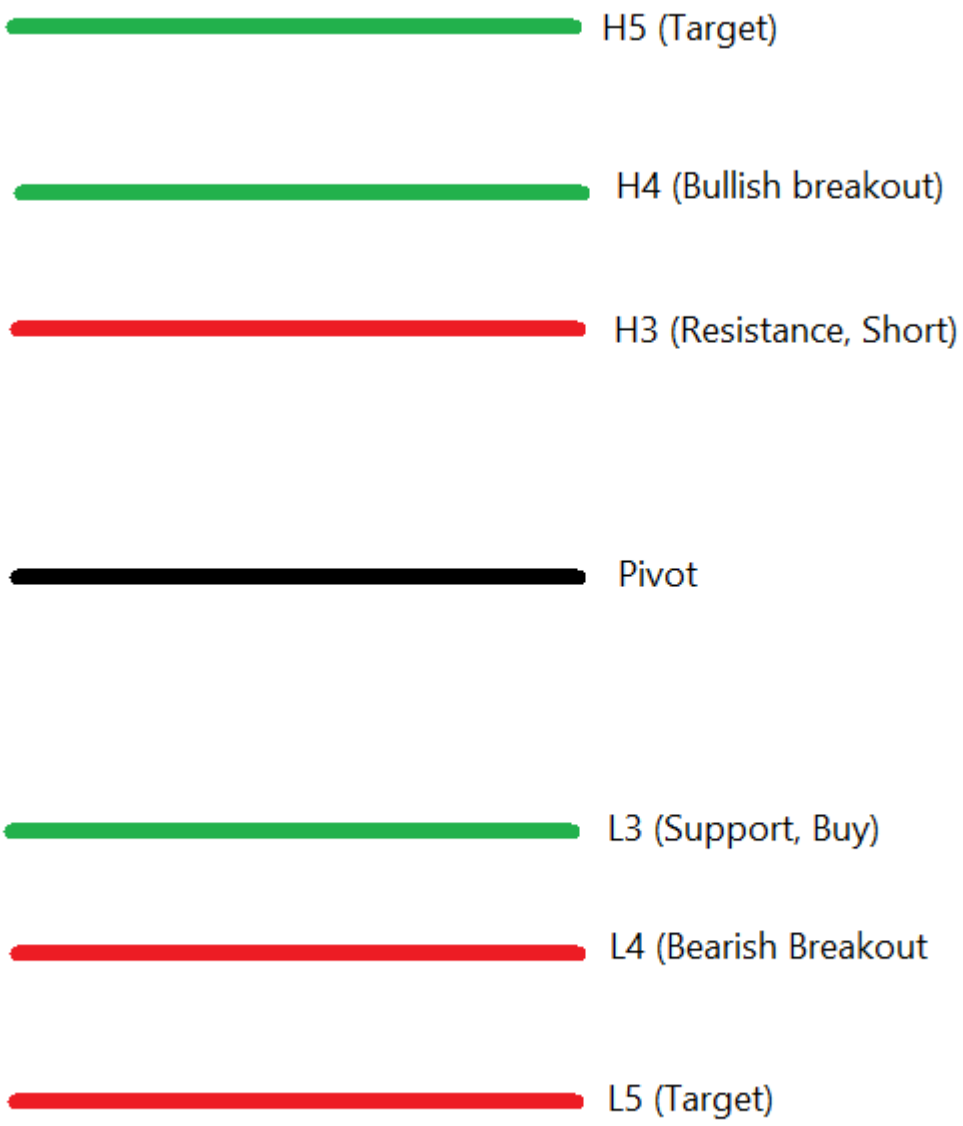
Price above H4 is a bullish breakout, H5 & H6 could be target levels. Price below is a bearish breakout, L5 & L6 are target levels.

Going above H4 & falling below H3 is a bearish reversal pattern. Going below L4 & bouncing back above L3 is a bullish reversal pattern.

With advanced levels, there would be 12 levels of Camarilla.

We can reduce it to 6.
H3 & L3 (L27) is a mean reversion.
H4 & L4 (L55) are breakout levels.
Plot R level as H5 or L5 for a target area.

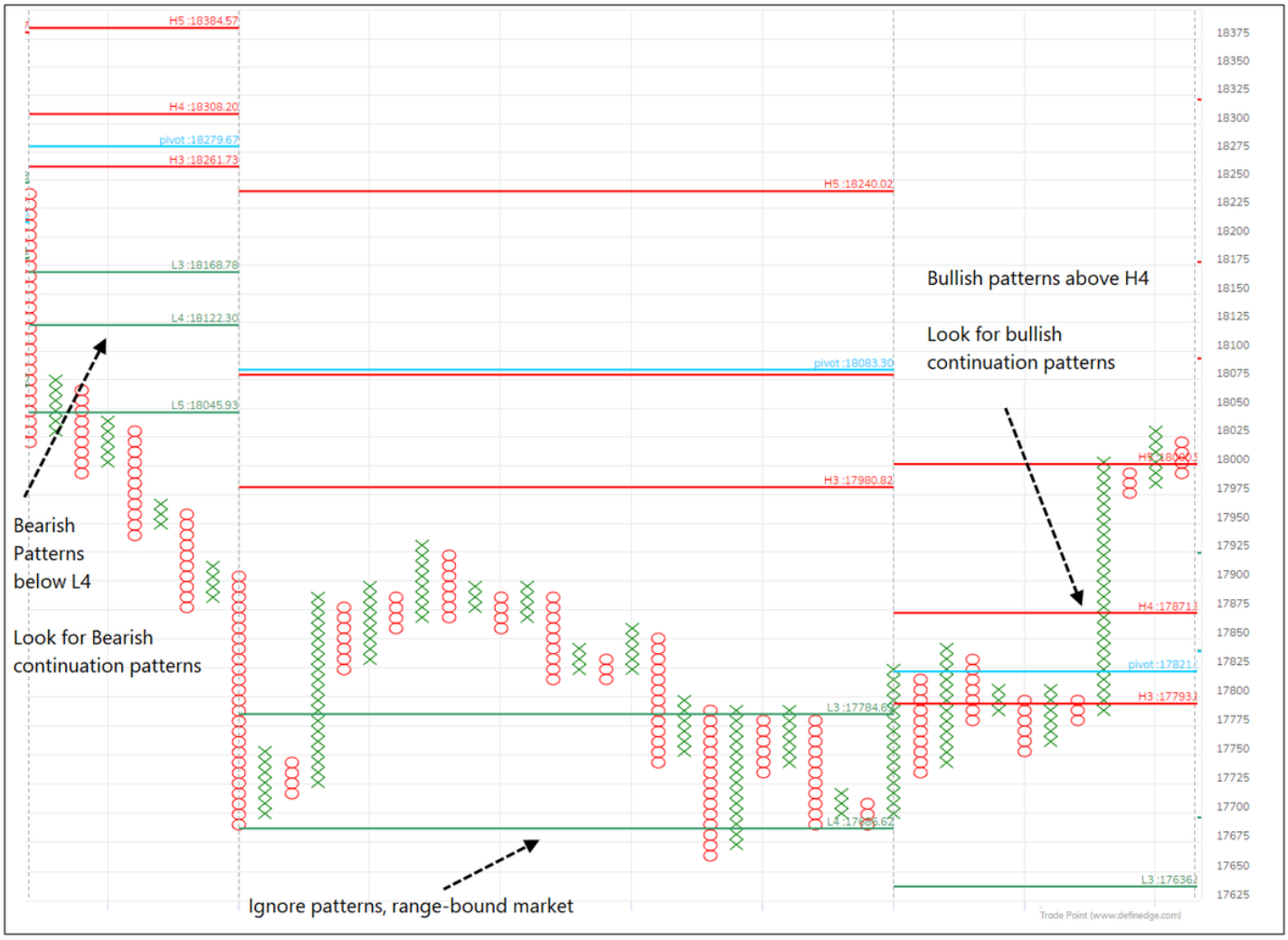
So, you consider it breakout based on the highest pie of the previous range.



If you are trading price patterns, I think H4 & L4 r sufficient.

Trade breakout patterns & look for range expansion when price is beyond these levels. Else, look for mean reversion patterns or avoid trading.

Nonetheless, you can also use any of these levels for profit booking



Now when you know the calculation, do you think that levels will be placed too far when the session range was very high, & close is near middle? How will levels be placed if session range is narrow? How if close is at upper extreme?

Draw candle on a piece of paper & imagine it.

Can you guess the L55 levels without even plotting it? – Roughly 50% of the range?■

The Pivot, CPR & Camarilla tools we discussed r techniques to plot levels based on the prev session. I hv some interesting ideas on this concept. Wish to write more on that.

Hope you liked it!