



The 8-Step Price Action Trading Checklist

Part of The Talking Chart: Uncover The Secret Message Behind Price Action

The best would be, to begin with, the steps outlaid in this checklist with an already generated trading idea. When we combine an “outside the chart” trading idea with price action trading we'll get the best results.

First, we should focus on the last candlestick, the last closed period of the chart. It can be the last day for the daily chart, the last hour if the chosen timeframe is hourly or the last 5-minute candlestick if we use even lower timeframe.

Then we concentrate on the current candlestick.

Here are the steps.

Step #1

Higher Low or Lower High?

Find the last top and the last bottom, on the left from the current candlestick.

- If the current price is **higher** than the **last bottom**, we can look for long signals.
- If the current price is **lower** than the **last top**, we can look for short signals.

This step ensures that we trade with the trend.

Step #2

Where is the last close?

Compare the last close price to the full range (high–low) of the candle four periods ago.

- Is it **higher**? Then long positions should be preferred.
- if it is **lower**, then prioritise short positions.
- **inside** that range, you can take both but consider the other steps first.

This will prevent us from trying to "*catch a falling knife*". In case it violates the previous step, we should give priority to **Step #1**.

Step #3

Which one is the **strongest**? Which one is the **weakest**?

Most instruments we trade can be divided into separate groups:

- **Precious metals** - Gold, Silver and Platinum.
- **Currencies** - Australian Dollar, Euro, British Pound, Japanese Yen, etc.
- **Indices** – S&P500, NASDAQ, DJIA, etc
- also Energies, Grains, Softs, Financials, Stocks and so on

Pay attention to which one of the family is stronger and which instrument is weaker.

To do that you can use the previous steps. For example, the stronger will make higher lows while the weaker—lower lows. The strongest would have its last close, higher than the close n-days ago. The close price of the weakest might be even lower than the one n-days ago. Or if higher than that of the strongest one would comparatively higher.

As a rule of thumb, we should aim to take longs in the strongest and short in the weakest.

Step #4

Is it **Big** or **Small**?

Look again at the last finished candlestick (the last closed period). Is it big, or is it small? If too big, then expect the current candlestick to be small. If it is small and even better, it is part of a series of small candlesticks, then we can expect the current one to be big.

That is a price action cycle discovered by the legendary Larry Williams. Mind the size of the previous candlestick, and you'll do better.

Step #5

What does the last candlestick look like?

Case #1 Is the Body the *longest part*?

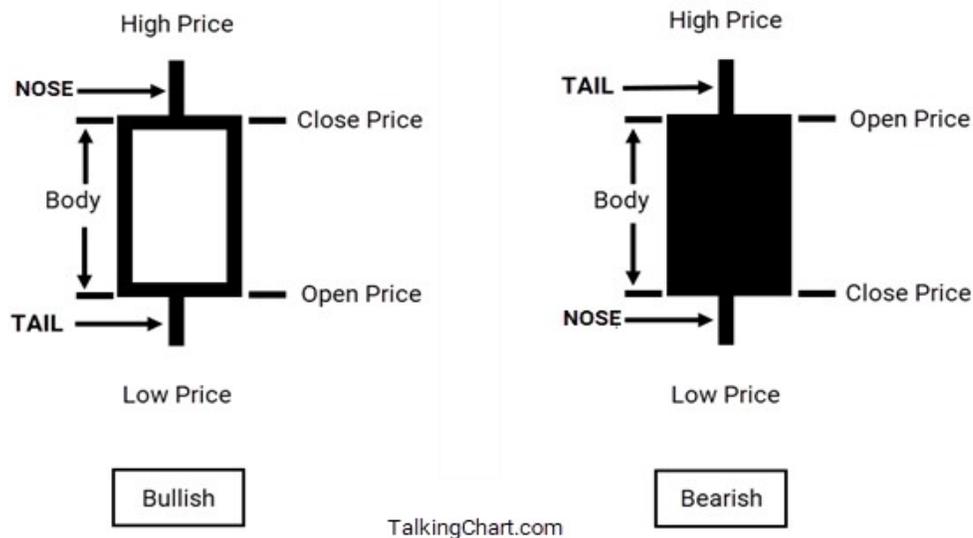


Figure 1: Long Body Candlestick

If the body is the biggest part then expect the current candlestick to continue in the same direction. That is especially true if it breaks above the high (if bullish) or below the low (bearish) of the last candlestick. Be careful with the size, see **Step #4**.

Learn more Long Body combinations and probabilities in Chapter 5 of the book.

Case #2 Does it look like *this one*?

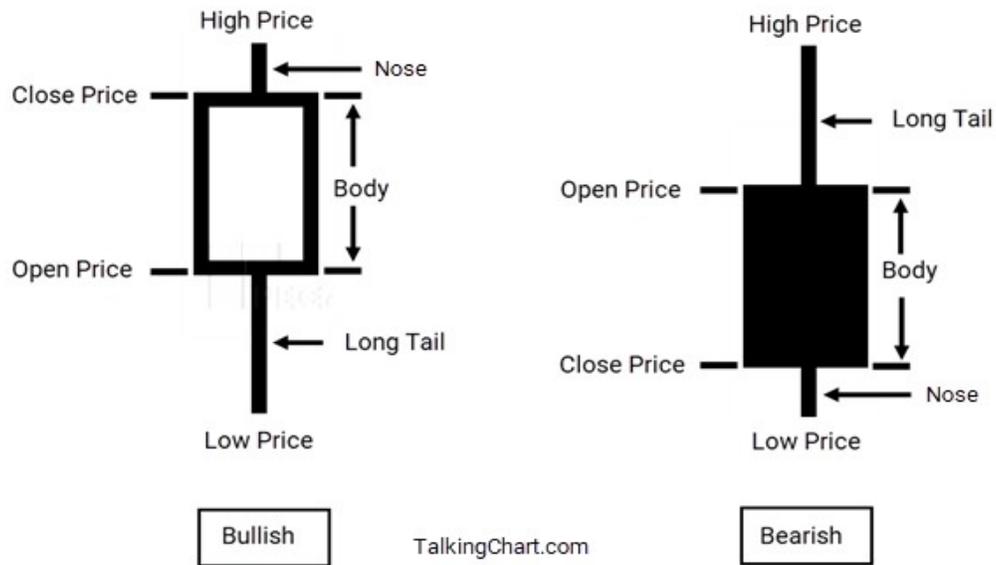


Figure 2: Long Tail Candlestick

If yes, then it is a Long Tail candlestick. It points to a continuation. The probability increases if there is a breakout of the high (bullish candlestick) or the low (bearish case).

The size of the tail very important.

More combinations and probabilities about the Long Tail shape can be found in Chapter 8

Case #3 Maybe it looks like *this one*?

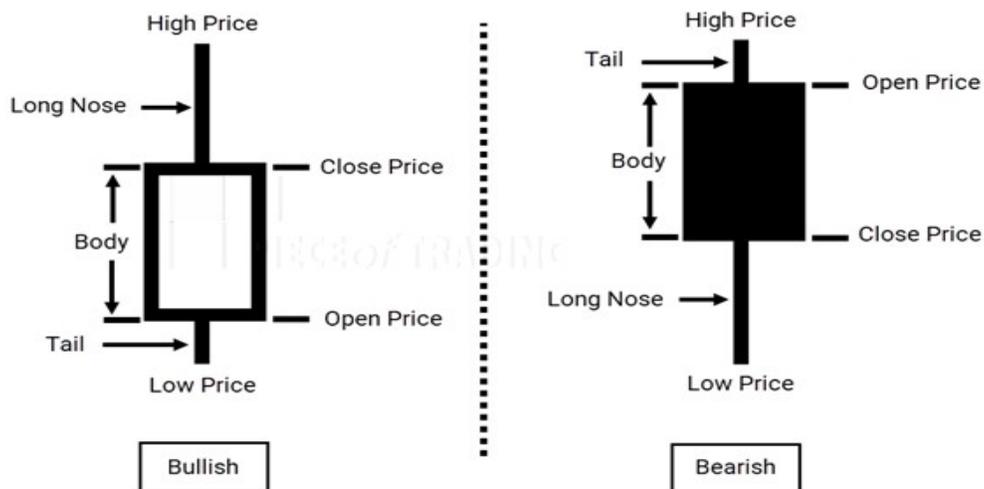


Figure 3: Long Nose Candlestick

This shape slightly points towards a reverse. The current candlestick should close in the opposite direction. But if the current candlestick breaks above/below the Nose, then expect a continuation. During the tests happened in more than 75% of the cases!

The length of the Nose is very important.

Chapter 6 of the book is explaining different Long Nose variations and the probabilities associated with them.

Case #4 Perhaps the last candlestick looks *like this*?

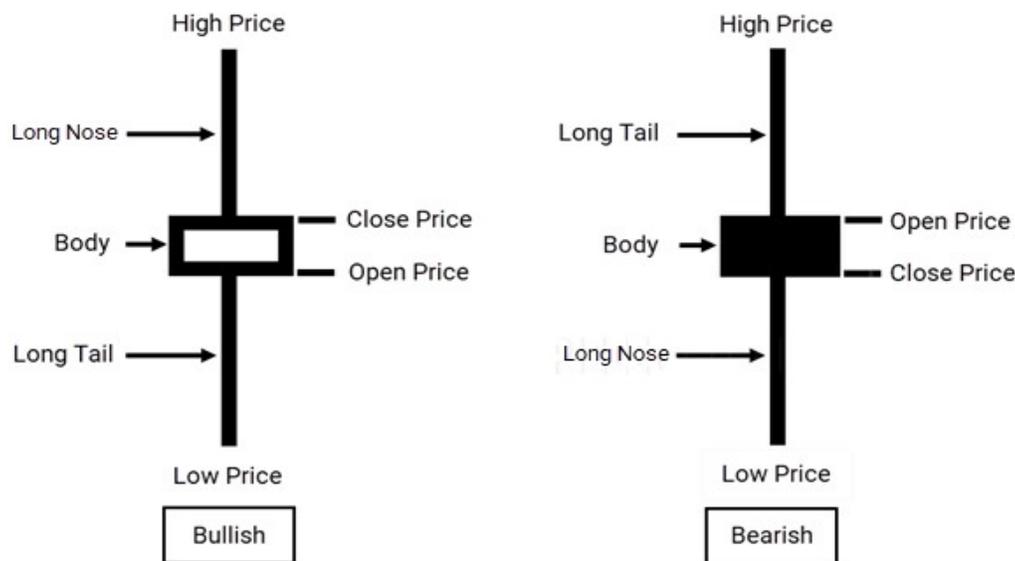


Figure 4: Equality Candlestick

Such candlesticks, especially the larger ones, usually appear at the end of the movement (top or bottom). Both the high and the low of this shape act as equally strong support and resistance level.

More information about Equality Candlestick and real examples can be found in **Chapter 11**.

Step #6

Look at the last candlestick. Is there something missing?

In some rare cases, you will notice that part or even parts of a candlestick is missing.

Case #1 Everything is missing

Then it should look like this:

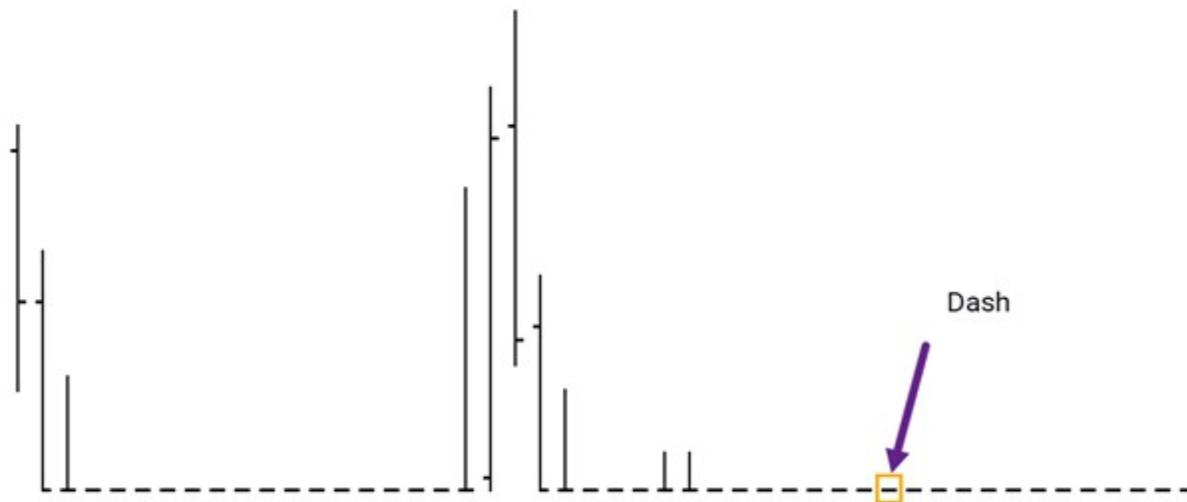


Figure 5: The Dash

This one is very rare. Depends on the timeframe and when it appears it can be ignored, or it can mean to ignore the previous setup.

If you see this on your chart, check Chapter 7 for insights.

Case #2 The *Tail* is missing!

Here is how such candlestick should look like on your charts:

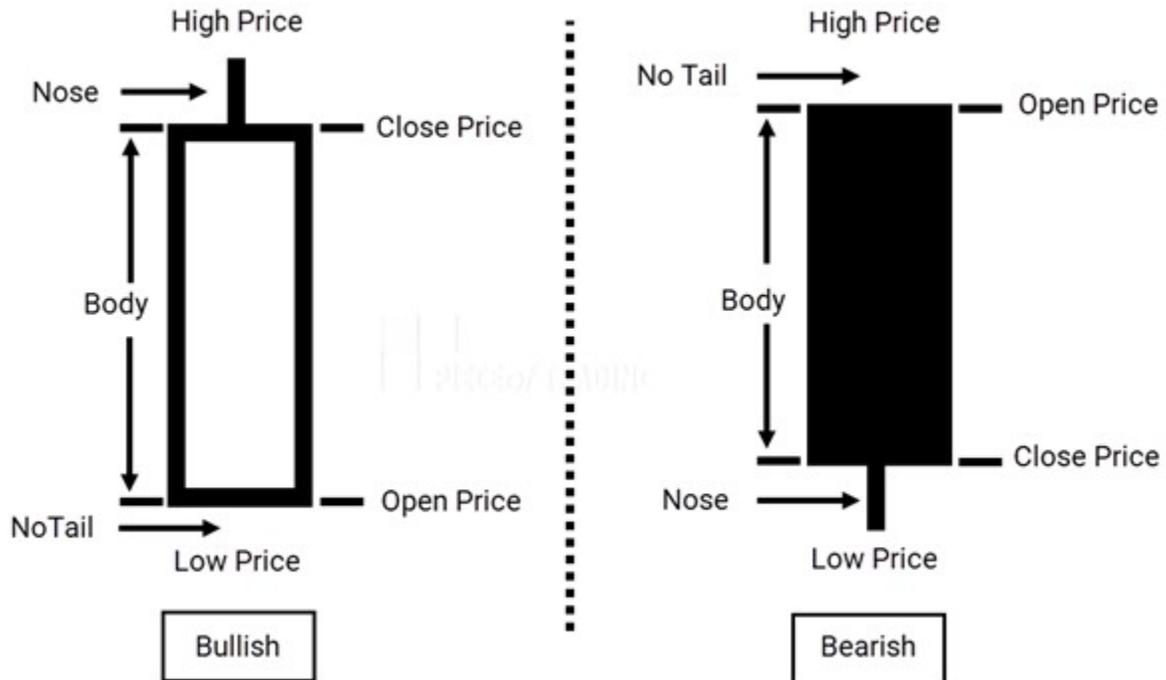


Figure 6: No Tail

If the Tail of the last candlestick is missing we should immediately ask ourselves:

- was the prior candlestick big?
- Did it break through the high/low of the candlestick two periods ago (the period before the last period)

The Tail might be missing in a really small candlestick and that probably doesn't mean anything. But if it was big then there was intensive buying or selling. That might mean that we are for the party.

Check the book's chapter 9 to see what can be expected for the current candlestick.

Case #3 The Tail is here but this time the *Nose* is missing!

Like the book says this one is even rarer than the previous candlestick. To find it on your charts you should look for a candlestick like this one:

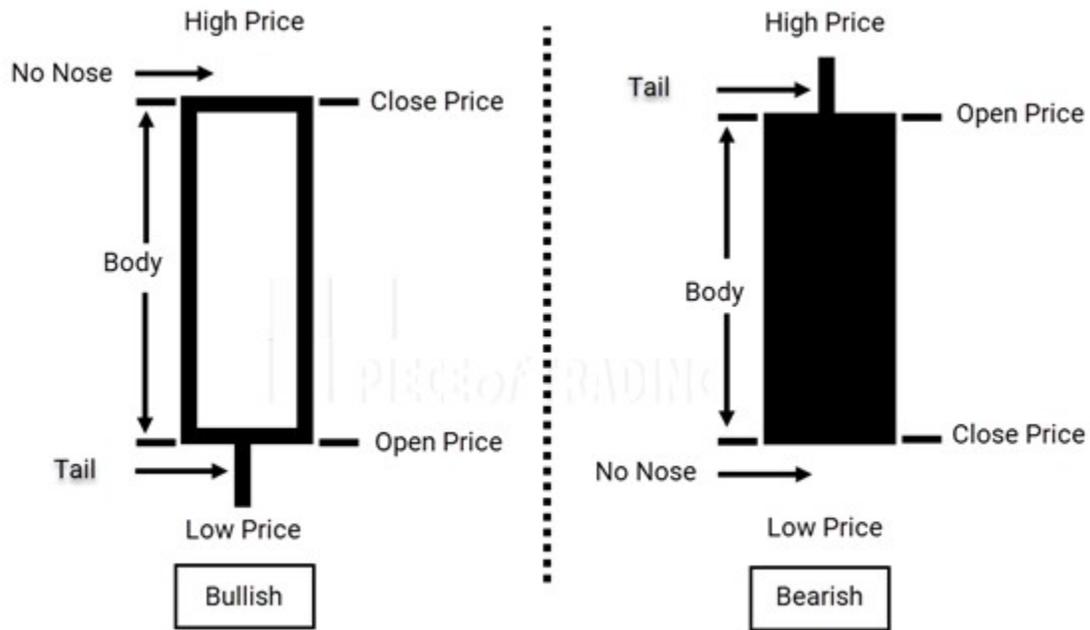


Figure 7: No Nose Candlestick

This one is very important and I believe it would help you a lot in your trading. Like all other shapes read the book twice, maybe three times and try to understand why is this one happening. It is in Chapter 10.

Now, when you see such candlestick ask yourself "how is this candlestick positioned compared to the previous periods?". Your goal is to find:

- is it appearing after a strong move in one direction and the No Nose is in the same directions? Then this might mean that the end of that move or at least a temporary pause is coming.
- Is in the opposite of the previous move direction? Then depending on the shape of this candlestick (see again Chapter 10) it might signal the beginning of a new move.

Also, check the targets this candlestick is giving us.

Case #4 Both Tail & Nose are missing!

This is how such a candlestick looks like:

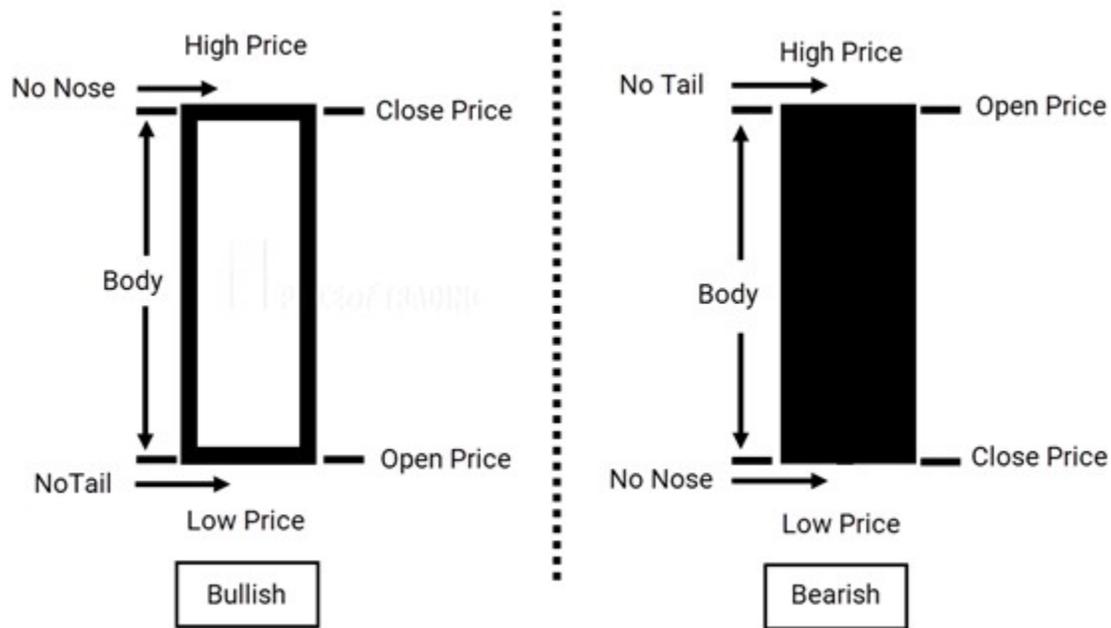


Figure 8: No Tail, No Nose

As you can see from the book some of the probabilities associated with this one reach 100%. Of course, it might be because it is pretty rare but still, double-check Chapter 12.

With this one, you should combine what we've already covered in cases #2 and #3 of this Step #6.

If we are not sure what is the shape of the last candlestick (according to Step #5 and Step #6), we do not proceed. We wait for a distinguishable shape.

Step #7

Are there any price action catalysts?

A breakout of the last candlestick's high/low is a stronger signal if accompanied by one or more catalysts.

Gap?

A gap between the current open price and the close price of the last candlestick might strengthen the breakout signal. The power of the gap is closely related to the shape of the previous candlestick, but in general the following tend to be stronger:

a high/low breakout, after an unfilled gap (both in the same candlestick), and

a high/low breakout, preceded by an opening gap to the opposite side of the candlestick

Such cases usually create large-range candlesticks.

Here you can see a few examples:

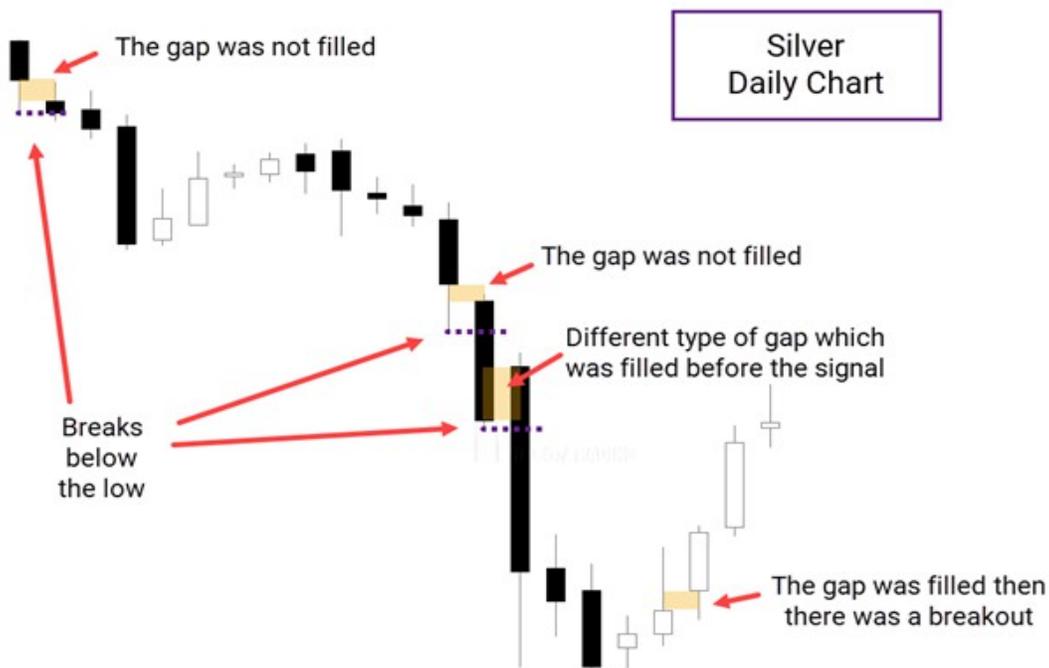


Figure 9: Gaps. Silver Futures. Daily Chart

No Tail?

Sometimes, from the opening, the price is moving only in one direction. That creates a candlestick with no tail (or a tiny tail). Again, it depends on the shape of the previous candlestick, but:

a stronger signal occurs when with no tail, a candlestick breaks above/below the previous high/ low.

Those candlesticks tend to end with a big body - in 70% of the cases.

Below is the chart of Euro FX futures.

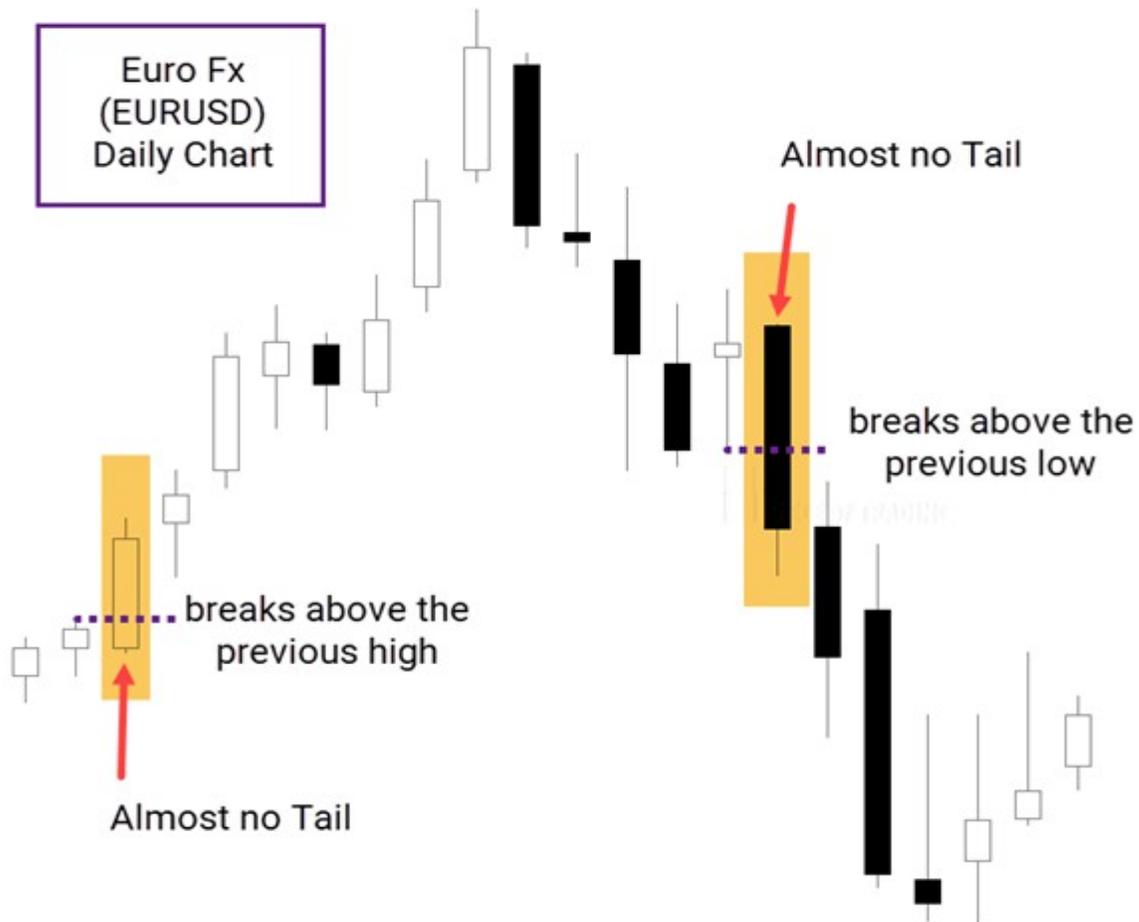


Figure 10: No Tail Candlestick. Euro Fx Futures. Daily Chart

Step #8

Is there a combination?

As traders, we should wait for the right combination. The best signals occur when most of the steps were checked with "yes". Trading is combining!

What to do next?

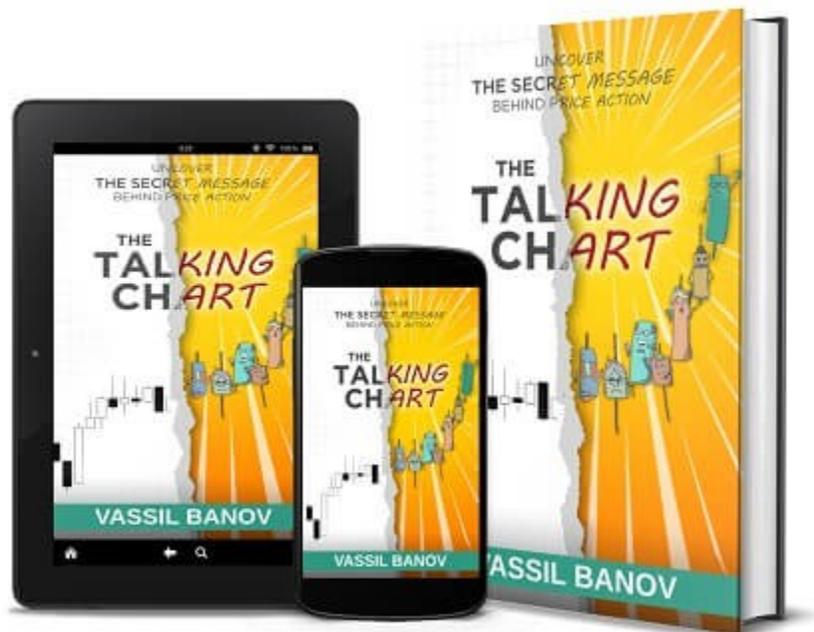
Read this checklist again, then go to your charts. See how your favourite trading instrument behaves and which shapes are the most common. Then think of a way to integrate that price action checklist with your current rules.

How to continue learning?

- [The Talking Chart: Uncover The Secret Message Behind Price Action](#) book will teach you more price action shapes and techniques to use.
- If you want to learn you can join the [Talking Chart Facebook page](#). A lot of useful lessons are published there.

Trade well!

Yours,
Vassil



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