



Tactical Trading Training

Initial Reverse1

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In this training video, I am going to go over chart mode and with it the initial reverse – defining what these are, along with some related terminology AND further discussing this in the context of method trading.

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We use the term chart mode to refer to what direction our next trade will be – if the market is in sell mode it will be a sell, and if the market is in buy mode it will be a buy.

Associated to chart mode is swing reverse – with this being where the swing reverses by the chart mode changing. Consider the chart mode changes into sell mode – what happens:

- (1) There is a mex cross where the blue line crosses the purple line.
- (2) There is a ttm or histogram reverse, where the color changes from green to red.
- (3) There is a dc dot shift, where there is a purple dot on top.

Note that these will be close to being simultaneous, but it is not necessary for it to happen on the same bar OR a specific order that they will occur – what is necessary is for them all to have happened.

As the chart mode changes, we also have a swing reverse and initial reverse, where I will say that swing reverse is synonymous with chart mode change – is initial reverse the same thing?

I will answer that as no. I want initial reverse to refer a location, as in the initial reverse price – we will discuss this further as we look at additional charts and drawings.

Looking at this chart, you can see that there have been 2 chart mode changes, and thus 2 swing reverses:

#1 is a reverse into buy mode – you can see (1) mex has crossed with the purple line on the bottom – note that you will always have a mex-dc dot color synch, meaning that they will both be purple on the bottom for buy mode, and purple on the top for sell mode (2) ttm, or the momentum histogram has changed from red to green, and (3) there is a dc dot shift to purple on the bottom.

#2 is a reverse into sell mode – you can see (1) mex has crossed with the purple line on top (3) ttm has changed from green to red, and (3) there is a dc dot shift to purple on the top.

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Here is another chart where you can see that there were 3 chart mode changes OR swing reverses.

Now here are some other things to be sure you are not confused about:

(1) A swing reverse is not a trade signal – it is the direction of your next trade if you get a trade setup.

(2) A swing reverse is also not necessarily a trade exit. Even though you know that you are holding a trade against mode – depending upon the location of a next price for support or resistance it could be appropriate to hold the open trade.

For instance, consider a left side sell into this period and #1 – directional strength is down, and you are holding a trade with 2 partials. There is a mode change, but definitely no buy setup – now you could exit your trade, but at 702.50 there is a shift line for resistance, I have held the trailing short, what I call price holding.

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Now let's look at the same chart with regards to initial reverse and initial reverse price – again remember that I want you to think of initial reverse as a location -vs- swing reverse as a change in the chart mode.

I think that the predominant confusion with what is an initial reverse price comes from: (1) the break1 reverse, and/or (2) not having a left side price brought to the area.

Look at the numbers labeled on the chart:

#1 is a break1 reverse – there is nothing showing an initial reverse price besides the location of the dot break.

#2 is a channel break initial reverse – look how much clearer this is when you can associate that channel break with an initial reverse price.

#3 is another break1 reverse – again there is nothing to show an initial reverse price besides the location of the dot break.

When you consider this for trading, there is no trade that I can consider at #1 or #3, but I was able to do an add-on at #2 as a shift line reject-channel break initial reverse, resuming left side direction, and with next support at the blue line which is more than partial width – the difference is being able to see something for an initial reverse price -vs- reacting to a break1 reverse.

I also want you to think about left side price -vs- the dots or channel location, again look at #2: the channel is 701.60, but if there had been a left side price at 701.80, then that would have been the initial reverse price AND I would have entered the trade on the break of that line instead of the break of the channel – you can see where I showed this example below the chart.

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Here is a drawing of the break1 reverse. You can consider that the mode changed at the purple square, and the reverse was at the yellow circle – the bottom left drawing shows the break1 bar.

Now for some reason, people look at the bottom right drawing, sees the second bar AND this changes everything for them – the first bar is break1 so the 2nd bar is break2, and since the mode changed at the purple square and bar1, this then means that bar2 is a break2 with mex flow.

This isn't the case. Consecutive overlapping bars are meaningless in terms of the break2 or failure break concept, and in fact if you think about just how meaningless this is – 2 48 tick bars don't even = 1 110 tick bar AND no it wouldn't matter if there were 3 consecutive overlapping bars.

The break2 pattern was never based on literal bar count – its relevance came from having a channel or price break, then having a retrace with mex flow in the direction of the trade AND then having a 2nd break or break2 with mex flow, and what we then call a failure break. We will discuss this further in other videos on failure breaks and entry patterns BUT you have to understand that these consecutive overlapping bars just don't mean anything of significance.

So as further discussion of the previous chart and initial reverse – the break1 reverse has no apparent initial reverse price, other than simply where the dots break AND this is the mode change, but is not relevant as a price.

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These drawings are intended to compare the break1 swing reverse to one that has an initial reverse price.

(1) The top drawing shows the dot shift-yellow circle initial reverse on a channel break, the channel giving clarity of an initial reverse price –vs- the break1.

(2) The bottom left drawing is the same as the top drawing in terms of the channel being the initial reverse price, but this is intended to show a break2 entry –vs- a break only entry – I would have no issue with either of these IF I was willing to trade the initial reverse because of the continuation AND most likely having a start point where the trade was a start point reject-initial reverse combination with continuation.

(3) The bottom right drawing would be the most relevant swing reverse that you could have – where the initial reverse price is a left side price AND instead of having a right side only setup, you have a right side failure of a left side price for entry.

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As discussed, the channel break initial reverse is right side only, but it may be fine based on the other setup components combined with the entry – one of these that I find myself doing a lot is the shift line reject-initial reverse combination.

This drawing is intended to represent 3 possible swing reverse-initial reverse setups – consider the decisions:

(1) Sell1 is traded based on the diagonal breakout potential to the yellow line which is partial width.

(2) The buy cannot be done, it is an initial reverse directly into the yellow line as resistance – even though there has been a mode change-swing reverse, the trailing sell is price held.

(3) Sell2 is the resumption-reject initial reverse, with continuation being room to the previous channel low where the shift line can serve as a backstop-a topic for another video, while trying to get to the next target at the floor number – in this scenario you would be able to partial if the channel low broke by 2 ticks.

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Let's use this mindmap as a review of chart mode and terminology.

Chart mode is the direction that you will take your next trade.

Associated to chart mode is swing reverse and initial reverse, where the swing reverse is the same as a chart mode change, for instance if chart mode has changed to sell mode then a buy swing has reversed into a sell swing – initial reverse is the location where the swing reverse occurs.

The chart mode changes with a: (1) mex cross (2) ttm reverse (3) dc dot shift – these do not have to happen simultaneously or in a specific order, but they do all have to occur.

The initial reverse happens through a: (1) break¹ of the dots after the swing reverse, where you really do not get a meaningful price (2) a channel break where you get what becomes a right side price (3) a break of a left side price brought to the right, this being the most relevant initial reverse we have as this gives us the price component to a trade setup.

This concludes this video on chart mode - in a following video we will go through a number of charts discussing chart mode-swing reverse and initial reverse, along with the related trading.