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LESSON: THE DOUBLE TRADE OPPORTUNITY

From time to time there are good discretionary trading opportunities in the market. One of these opportunities is now forming in the GBP/USD pair 4 hour bar chart. The purpose of this lesson is to try and capture the logic of this opportunity before the trade occurs rather than after, something I believe is very important when learning to trade the markets.

As you know, there are basically two types of trading methods: mechanical and discretionary. With a [mechanical trading system](#) a trader does not have to understand much about the market, trading conditions, etc etc since what is needed is only to follow exact rules of the system being traded.

Discretionary trading is the opposite of mechanical trading. A discretionary trader has to judge the market, trading conditions, patterns, trend etc. The success of the discretionary trader is based on his or her proper analysis of the market and a good level of discipline.

Discipline is key here since you are relying on your own discretionary analysis and hence you are in a position to potentially make more mistakes.

One of the most important aspects of a **good** discretionary trade opportunity is that it does not come very often. This means that the more patient you are the better your chances of success can be. Again, this is in contrast to a mechanical system where you can get signals every single day, week or month regardless of market conditions (that is the essence of a mechanical system: follow the signals as they come without asking questions).

Ok, on with today's lesson.

A true good trade opportunity is when there is a situation where there is a good potential regardless of whether the market goes up or down. This is the type of situation that I am seeing at the present in the GBP/USD pair. Let's examine this step by step.

The first thing I want to do is ask you to look at the following chart and write down on a piece of paper what type of [opportunity](#) you see, what is your general market analysis, where do you see the market going and any

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other thoughts you might have. So look at the chart, write everything down and only then read my trade analysis. This is crucial since it let's you actually compare your own knowledge with someone else's. It is one of the better ways to learn about yourself and how your mind works trading wise.

GBP/USD 4 Hour Bar Chart:

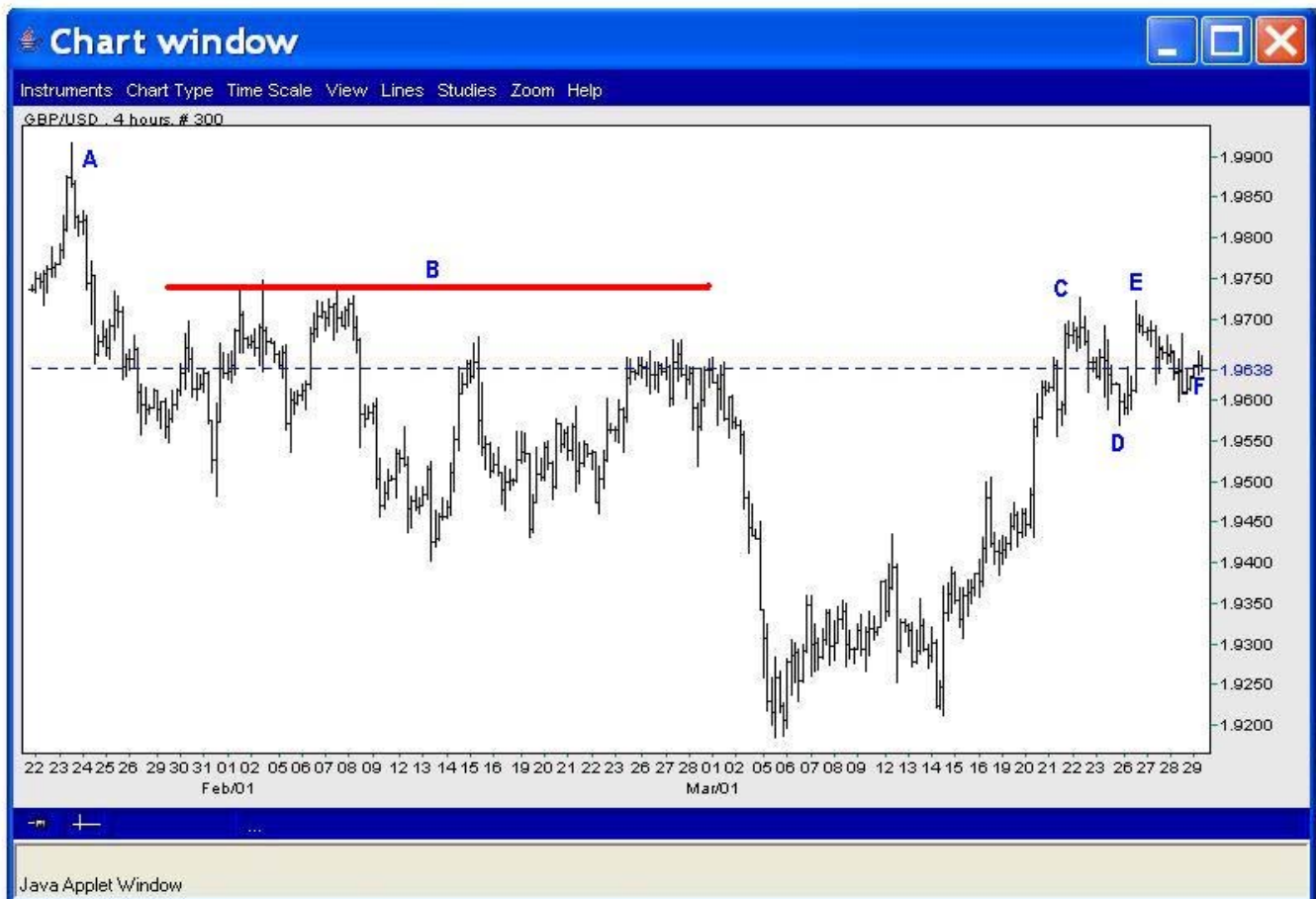


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Ok, after you conducted your own analysis go on to the next page were I will go through the exact train of thought I have regarding this trade opportunity and general market analysis.

My trade opportunity analysis:

The following chart is a general outline of how I see the current market and the probable set-up that is occurring. In other words, **WHAT HAS ALREADY HAPPENED**. In the next chart I will go into the second step of my trade analysis: my speculation of what **WILL** happen in the near future.



Ok, so I start with point **A**. This point shows me a very sharp spike and a strong market reversal afterwards. If you look at a larger time frame chart

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you will also see that this spike represents possible strong resistance. You will understand later why point A is important.

Point **B** shows me that there is a resistance "cluster". A resistance cluster is an area the market has tried to break several times but with no success (you can see the market trying to do this from beginning of Feb until beginning of March).

Resistance clusters are important. Why? On the one hand they act as good resistance levels (more than normal resistance levels). On the other hand if broken, the move has much more thrust.

Point **C** shows me the market stopping in the resistance "cluster" area I referred to above. It stops there after a strong up move.

Point **D** is the distance the market reacted after touching the cluster area.

Point **E** is a re-test of resistance point D (and also the cluster area of course).

Point **F** is where the market is at the time I am writing this lesson.

So, we now have a good view of what are the important areas and I am sure that by now you already have some ideas of your own of what is probably going to happen. So, here is the opportunity I see and the reasoning behind it:



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Ok, so we know that the market is in a short term up swing. Again, this is illustrated by the blue up arrow. The resistance cluster stopped the market and a double top occurred. What is important in this double top (points C and E of previous chart) is that once the market reached this resistance level *it did not bounce hard*. What does this tell us? Look at it, it only bounced down about 120-130 pips after hitting points C and E (and remember that this is a resistance cluster area, the reaction should have been larger). Well, what it tells us is that the resistance cluster is losing its strength. This is very important to learn: the smaller the bounce from a res/supp level the weaker that market price is.

So we have one conclusion until now: the cluster area is losing strength.

Now the second important element: a very nice continuation pattern is occurring. This pattern is called a bullish symmetrical triangle. I marked this triangle between the two lines in the last chart.

This type of pattern is very powerful. Yes, it does not always work nothing in trading does. However, its potential is very good.

So, the idea is that a break from this triangle (up) will allow the short term up trend to continue. Now, a bullish triangle by itself is powerful. BUT, a bullish triangle together with the analysis we made of points C and E (the fact that these points show us that resistance cluster B is losing strength) is even more powerful. This means that we have two elements supporting a good probability trade if the market breaks the upper level of the triangle **AND** breaks resistance points C and E. Can you see the combination of everything and how it all flows together?

Should the market break these levels and move up, what is a good area to either reverse or exit a trade? Well, obviously point A! Now you know why it was important in the general analysis I did at the beginning.

Now to another important element of this particular set-up.

Lately the market has been in a range and continuation patterns have been working well as reversals. Now, my speculation is that if the market can't break out of resistance points C+E and instead it breaks at some point area D

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(marked on the first chart) a strong down move will probably happen. Why? First because of the reverse psychology: everyone is expecting one thing to happen and another thing happens. Second, the market itself is showing very sharp moves from side to side over the past few months. Third, a head and shoulders pattern would have occurred if level D is broken. As you know, head and shoulders is a good reversal patterns.

Now you understand why I see this is a good opportunity and why I called the lesson a double trade opportunity. I believe, because of the above reasoning, that no matter to what side the market breaks a good opportunity can present.

Well, I hope you enjoyed this lesson! Please remember that all the above is only for educational purposes and not a recommendation to establish any market position.

I wish you all the best!

Avi

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All examples in this report are hypothetical.

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