

Point "R" was not a Ross hook.*Why? Because it was not made in a defined uptrend. Point "R" is like point "A".

Point "S" made a higher high, taking out the high of the previous day. That gave a connecting point from point "R".

Point "T" is a Ross hook. Why? Because it was made in a defined downtrend.

Before I go any further, I must explain how I was taught to identify congestion.

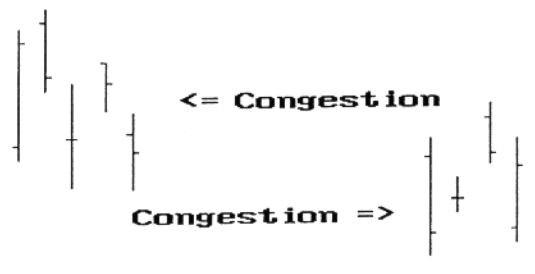
Chapter 5

Identifying Congestion

One of the concepts I learned in the earliest years of my trading was how to know when I was in congestion. I was taught each of the concepts I will present, the most recent by my trader friend, Neal Arthur Muckler. I'll begin with that one.

Any time prices **close** on four bars, within the confines of the range of a **single price bar** and subsequent to that bar, you have congestion. This is regardless of where the highs and lows may be located. The **single price bar** may be termed a **measuring bar**.

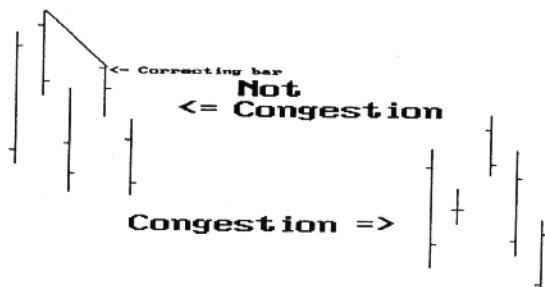
You will have to closely and carefully study the charts that follow. Congestion can be very subtle in appearance. Often the difference between congestion or trend is the positioning of a single open or close.



I have added to this method a concept of my own. Any time prices **open, close, or both** on four consecutive bars, both **subsequent to and within the range of any preceding single measuring bar**, you have congestion, **provided that the bar having only the open inside the applicable range occurs before a correction is made.**

An inside open and close on the same bar count as one towards the four necessary to define congestion.

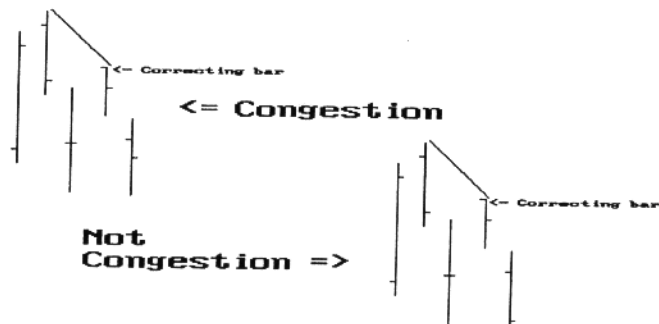
Let's take a look at this concept.



In the first instance above, we do not have congestion because the close of the bar following the correcting bar did not occur within the range of the measuring bar.

In the second instance above, we **do** have a congestion. A correction has **not** occurred, and we cannot initiate a trend line until it does. Keep in mind that the four bars defining congestion must be consecutive. There can be no intervening bars.

Just to be sure that you get the hang of it, let's try it again showing almost identical formations so you can see the difference.



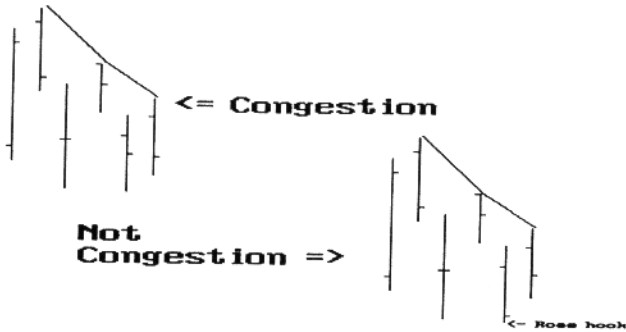
The only difference between these two formations is the position of the close on the last price bar.

Because we have had a correction, all bars must have the close within the confines of the range of the very first bar in order for us to define this situation as congestion.

By drawing an additional bar on the chart we can see the difference that would be made in the decision making process.

In the first instance, the additional bar produces no Ross hook. Why? Because the higher low of the last bar took place in what we have defined as congestion.

In the second instance, the additional bar does produce a Ross hook.



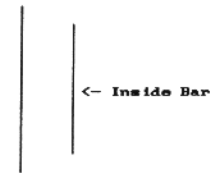
Why? Because in the second instance, the higher low of the last bar was made in what we have defined as a trending market.

Now, to further show you this concept, look at the combination of points "K" through "M" on the chart from the previous chapter, reproduced below. Even though "M" closed below the range of "J," the fact that "L" made a new high and then closed, dropping back into the trading range of "J", tells us that prices are still in congestion. In addition, we now have congestion by virtue of alternating bars, which will be discussed next.

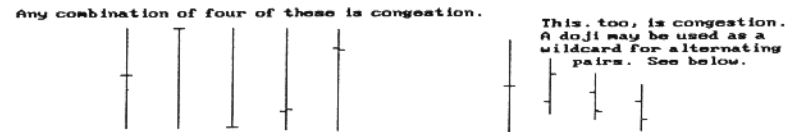


Now it's time to look at another way to know when we are in congestion.

Any time we are not making higher highs and higher lows or lower highs and lower lows, and we can see four alternating bars, at times coupled with inside bars, at times coupled with dojis, we have congestion. Alternating bars are ones where prices open lower and close higher on one bar, and open higher and close lower on the next. Inside bars look like this:



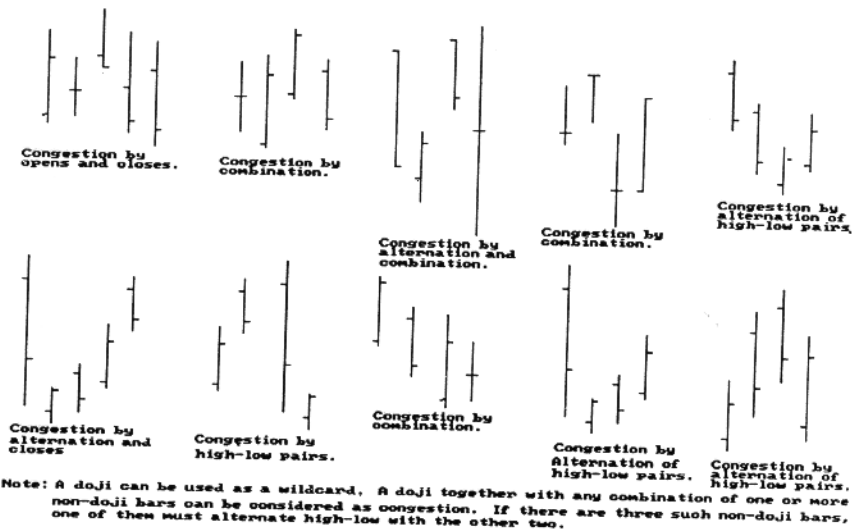
Dojis are bars where the open and close are at the same price or very near to the same price, yielding a bar that looks like this:



A combination of alternate closing high-low, low-high pairs is congestion.

"Pointy" places made when the market is in congestion are not Ross hooks.

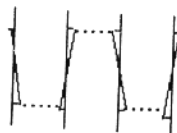
The first bar of the congestion may very well be the last bar of what had been a trend. A congestion may look similar to any of the following, as long as it consists of four or more bars:



Frequently congestion will start or end with a doji. Frequently congestion will begin or end with a long bar move, or a gap.

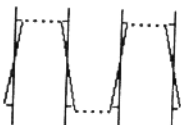
Another way to identify congestion is when you see \wedge or \vee on the chart.

The smallest possible number of bars that can make up this formation is four. Let's see how this can be done.



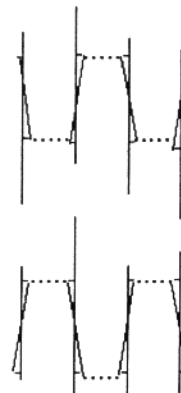
What we have here is an open higher close lower, followed by an open lower close higher, followed by an open higher close lower, followed by an open lower close higher sequence. This forms a \vee .

Idealized \vee 's and \wedge 's



Here we have an open lower close higher, followed by an open higher close lower, followed by an open lower close higher, followed by an open higher close lower sequence. This forms an \wedge .

In reality, we may get something that looks more like the following:

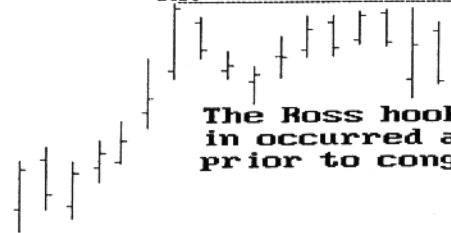


What we have here is an open higher close lower, followed by an open lower close higher, followed by an open higher close lower, followed by an open lower close higher sequence. This forms a \vee .

Here we have an open lower close higher, followed by an open higher close lower, followed by an open lower close higher, followed by an open higher close lower sequence. This forms an \wedge .

If we were to get a formation that looked like the following, the Ross hook would be as marked. If that hook is taken out, we would want to be long. Notice that the bar that created the Ross hook was the last bar of the trend and the first bar of the congestion.

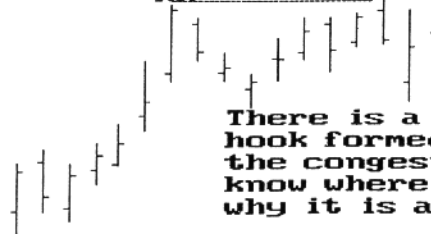
Rh



The Ross hook we're interested in occurred at the high just prior to congestion.

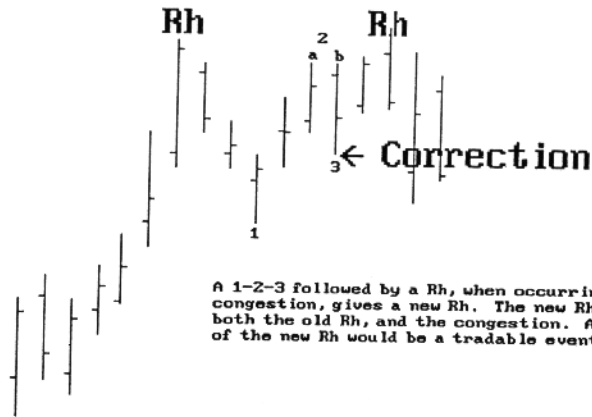
Now, let's see if you're really getting this.

Rh



There is a second Ross hook formed during the congestion. Do you know where it is, and why it is a Ross hook?

The Ross hook is as marked below.

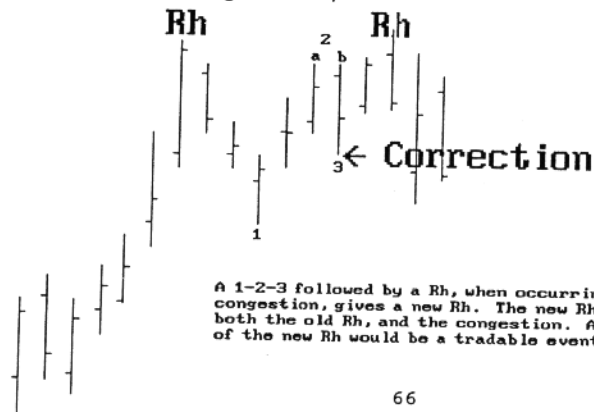


A 1-2-3 followed by a Rh, when occurring in congestion, gives a new Rh. The new Rh supercedes both the old Rh, and the congestion. A taking out of the new Rh would be a tradable event.

Note: A 1-2-3 followed by a breakout of the #2 point, that subsequently results in a Ross hook, supersedes any congestion, or previous Ross hook.

The price bar labeled "b" made a new local low. The take out by prices of the local double resistance, "a" and "b", is a significant event. "a" and "b", together, constitute the number two point of a 1-2-3 low occurring in congestion.

The new Ross hook represents an even more significant breakout point. Combined with the old Rh, there is significant resistance, and within a few ticks, the two constitute a double top. If prices take them both out, you would normally expect a relatively longer term, strong move up.



A 1-2-3 followed by a Rh, when occurring in congestion, gives a new Rh. The new Rh supercedes both the old Rh, and the congestion. A taking out of the new Rh would be a tradable event.

I use the term "relatively" here, because the intensity and the duration of the move would be relative to the time frame in which the price bars were made. Obviously such a move on a one minute chart would hardly compare with an equivalent move on a daily chart.

While we are looking at the above chart, there is something else of importance to notice. Prices retreated from the resistance point, thereby creating the second Ross hook. This represented a failure to break out. This failure is why Reverse Ross hooks are important and will lead into the next chapter.

Before leaving this chapter, let's give you a brief review of the various congestions. All of the three following conditions that define congestion must occur without consistently making higher highs or lower lows.

Congestion by Opens/Closes: Four consecutive closes or opens within the range of a measuring bar. If opens are used, there can be no correcting bars *before* or *coincident* with the bar in which the open is used.

Congestion by Combination: A series of four consecutive dojis, or at least one doji and any three alternating bars. The doji is a wild card and can be used to alternate with any other bar. If there are three non-doji bars, one of them must alternate high-to-low with the other two non-doji bars.

Congestion by Alternation: A series of four consecutive alternating open high - close low, open low - close high bars in any sequence. This definition includes Congestion by High/Low pairs.