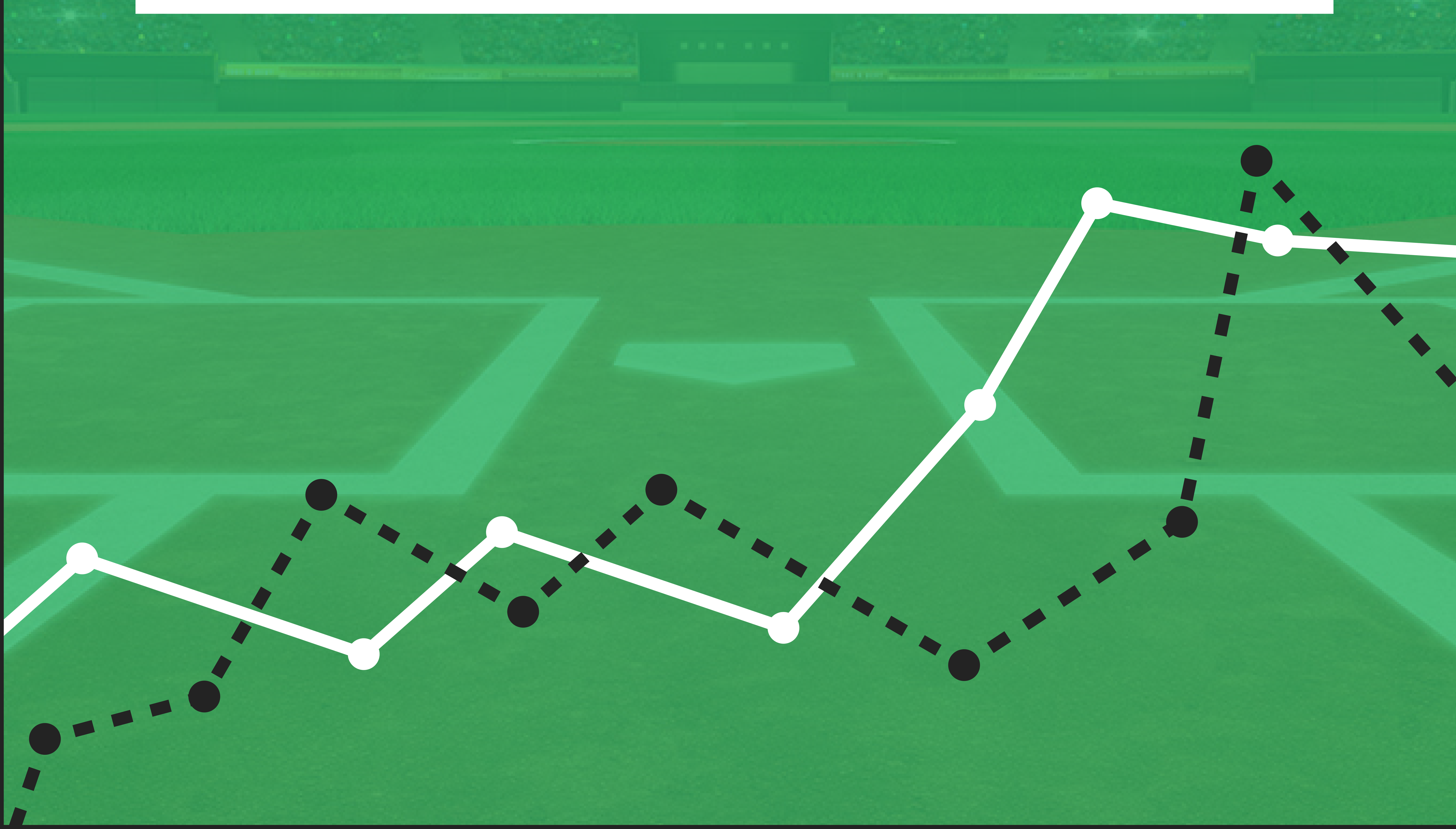
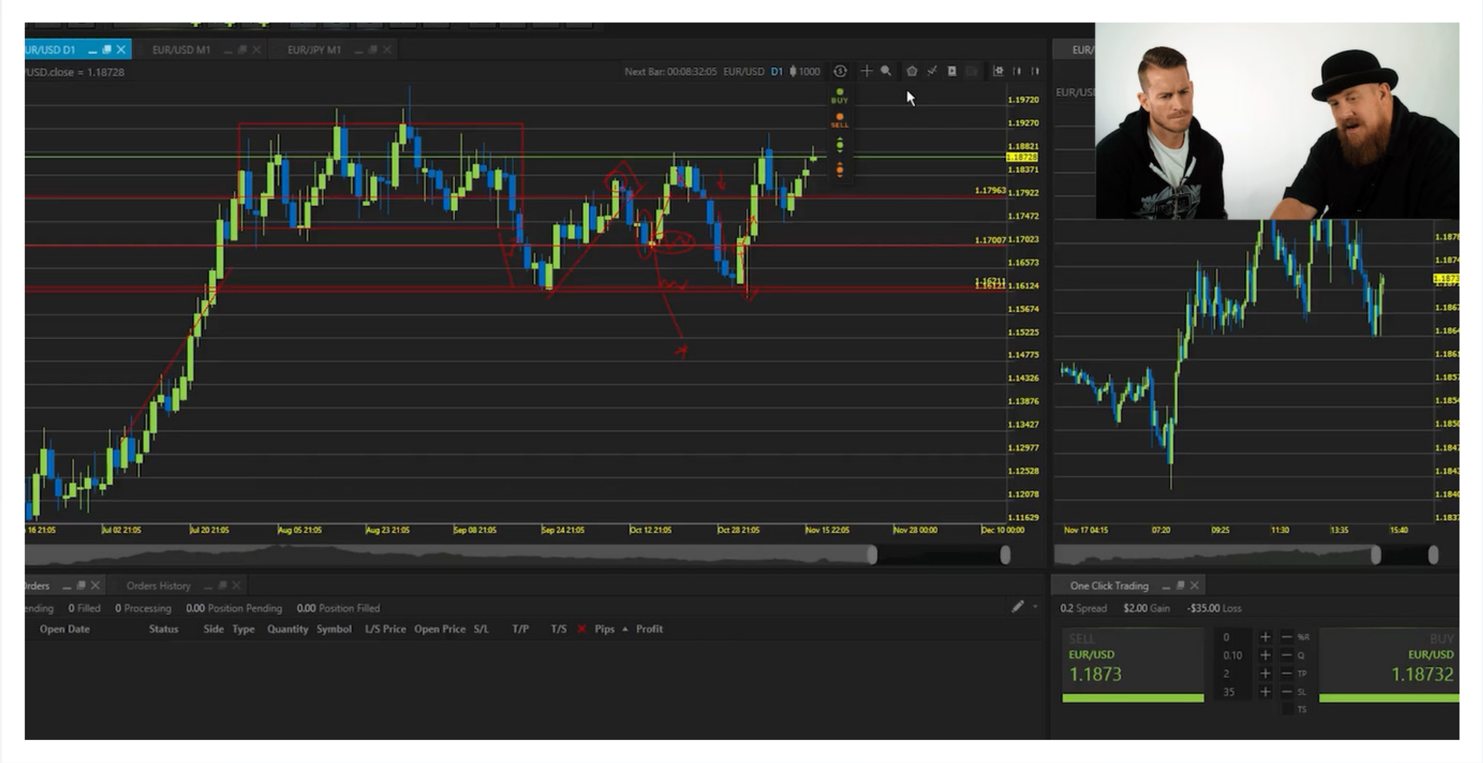
TRADER ON THE STREET

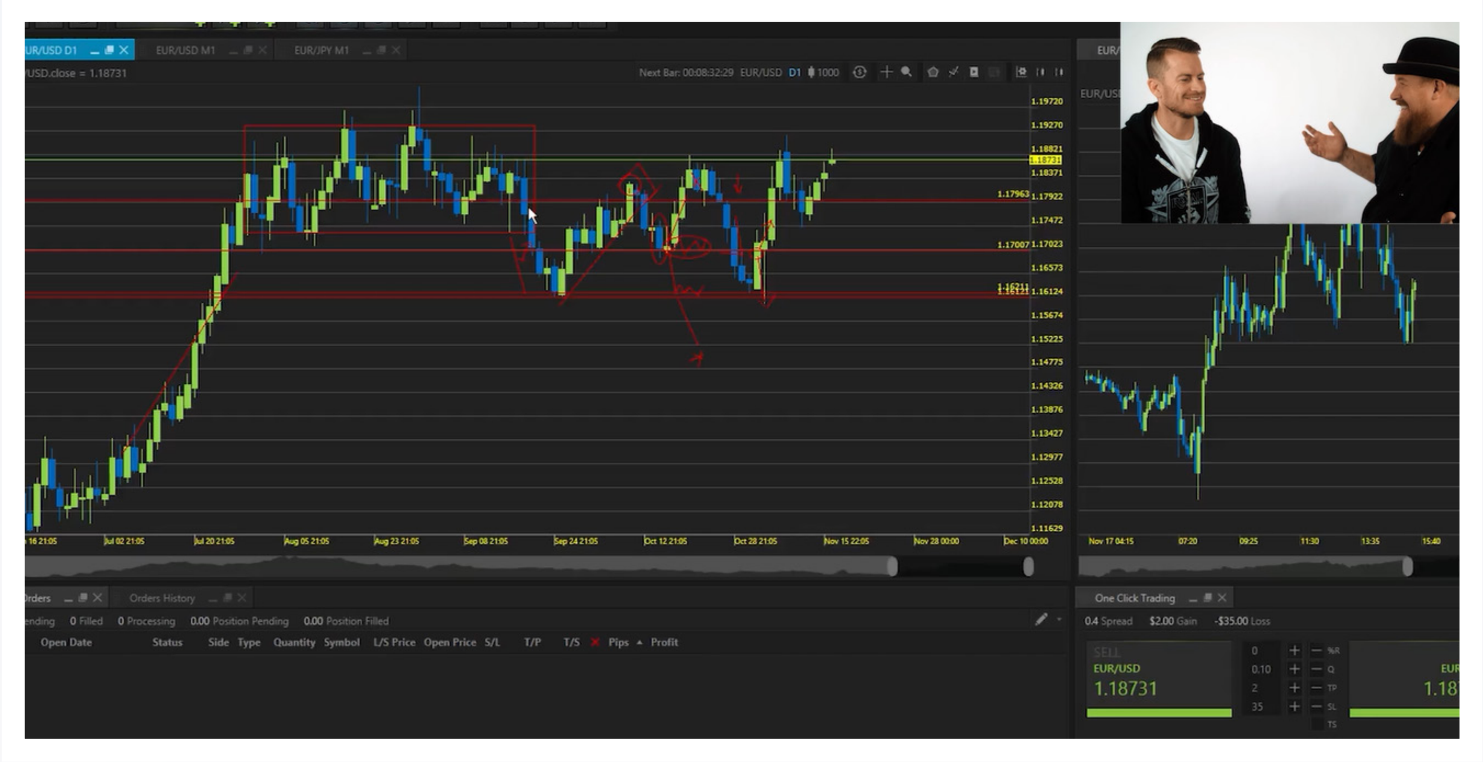
Hitting Singles: How to Make Small Trades in Consolidating Markets

Trend traders fervently follow big movements in the markets. However, these are conditions you might see 20% of the time in your trading sessions. So, what can you trade? Believe it or not, you can make the brunt of your trading profits simply by trading consolidations. What are consolidations? They're defined as periods in the market when high trading activity tapers off and either the bulls or the bears vie for control of market sentiment. So, how can you trade during these times when volatility looks to be limited? Here are some ways to get started.



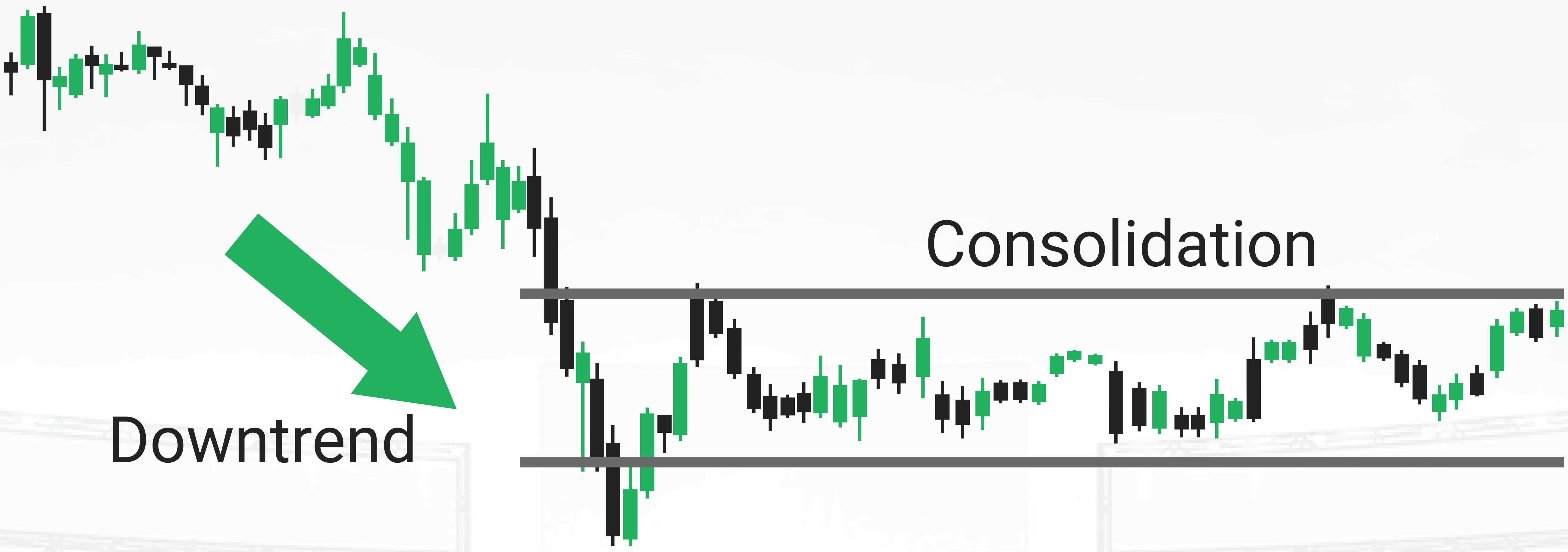
Identify Consolidations





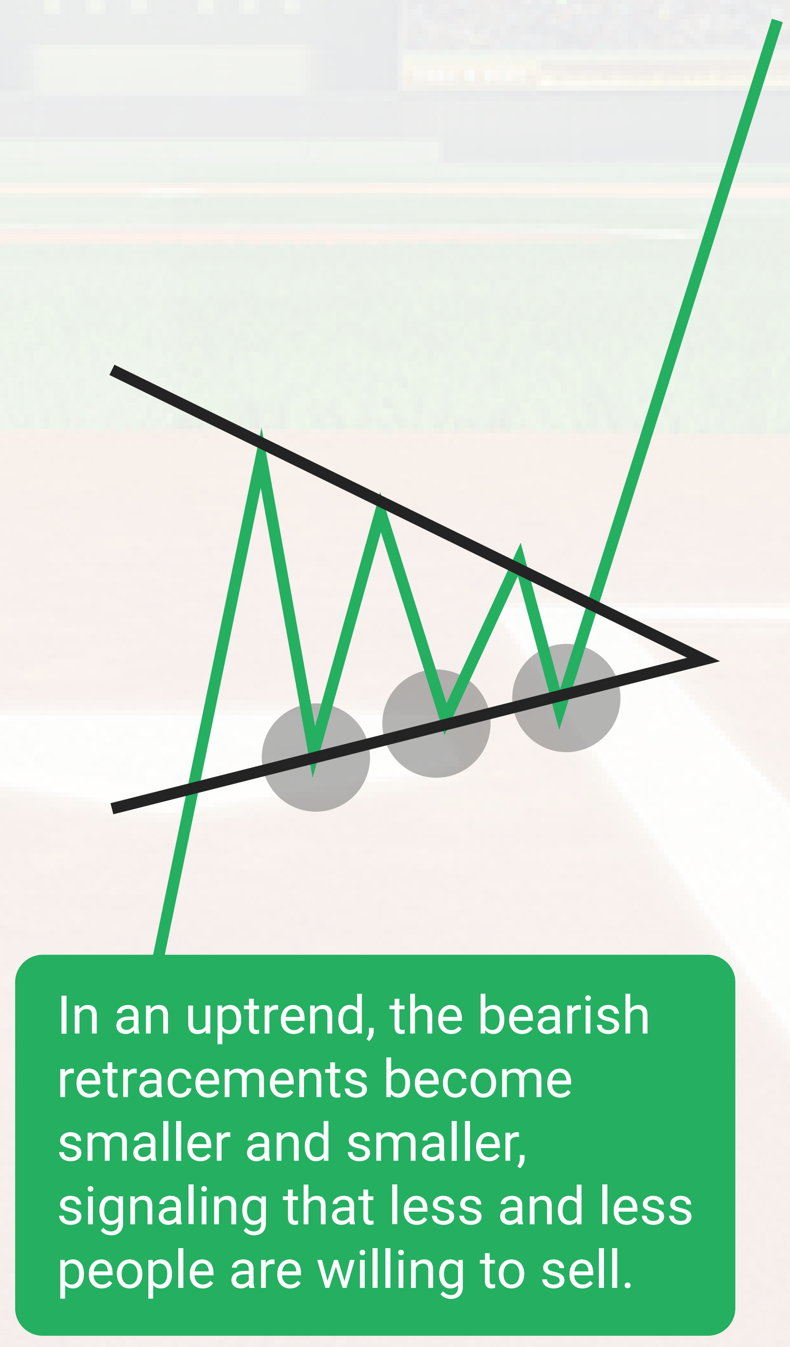
When consolidating markets occur, certain patterns form that can give you information about where the markets will head next. However, those signals are not what to look for when trading consolidations.

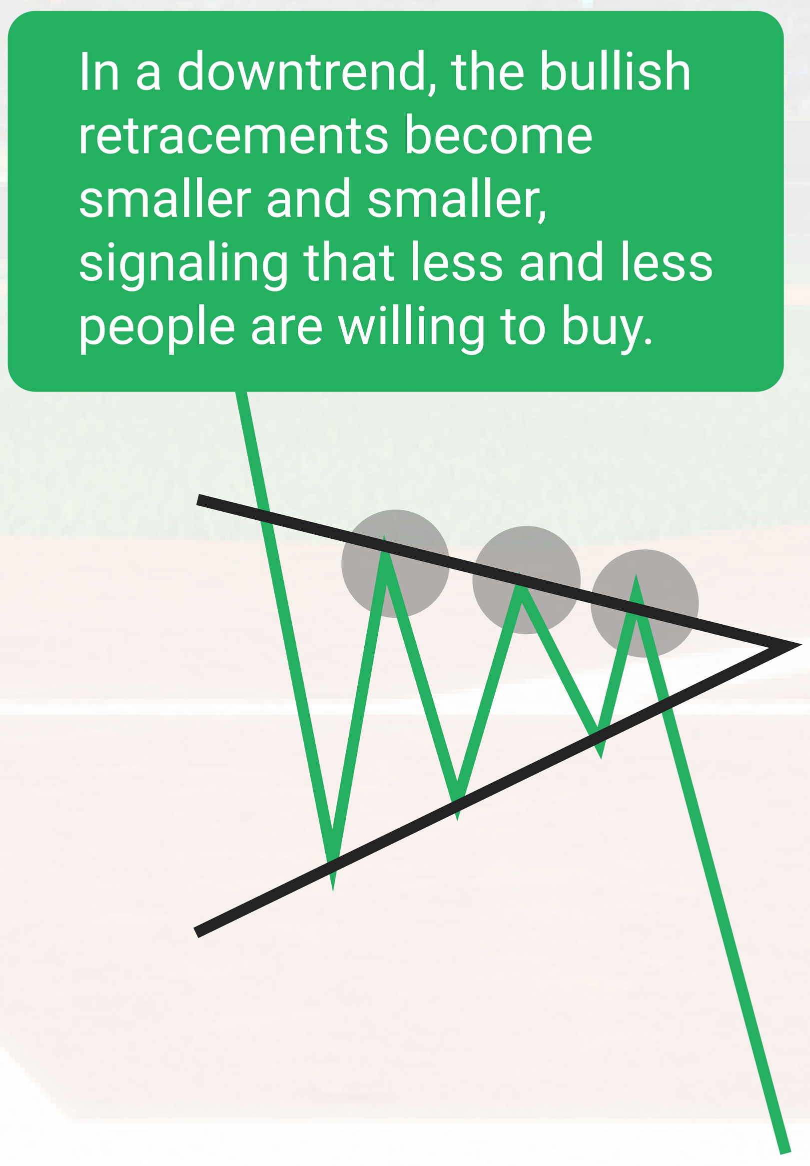
The below example is a consolidation after a bearish trend. As you can see, it begins to develop a series of highs and lows. This is the period of indecision that drives these conditions. This is what's typically referred to as a range.



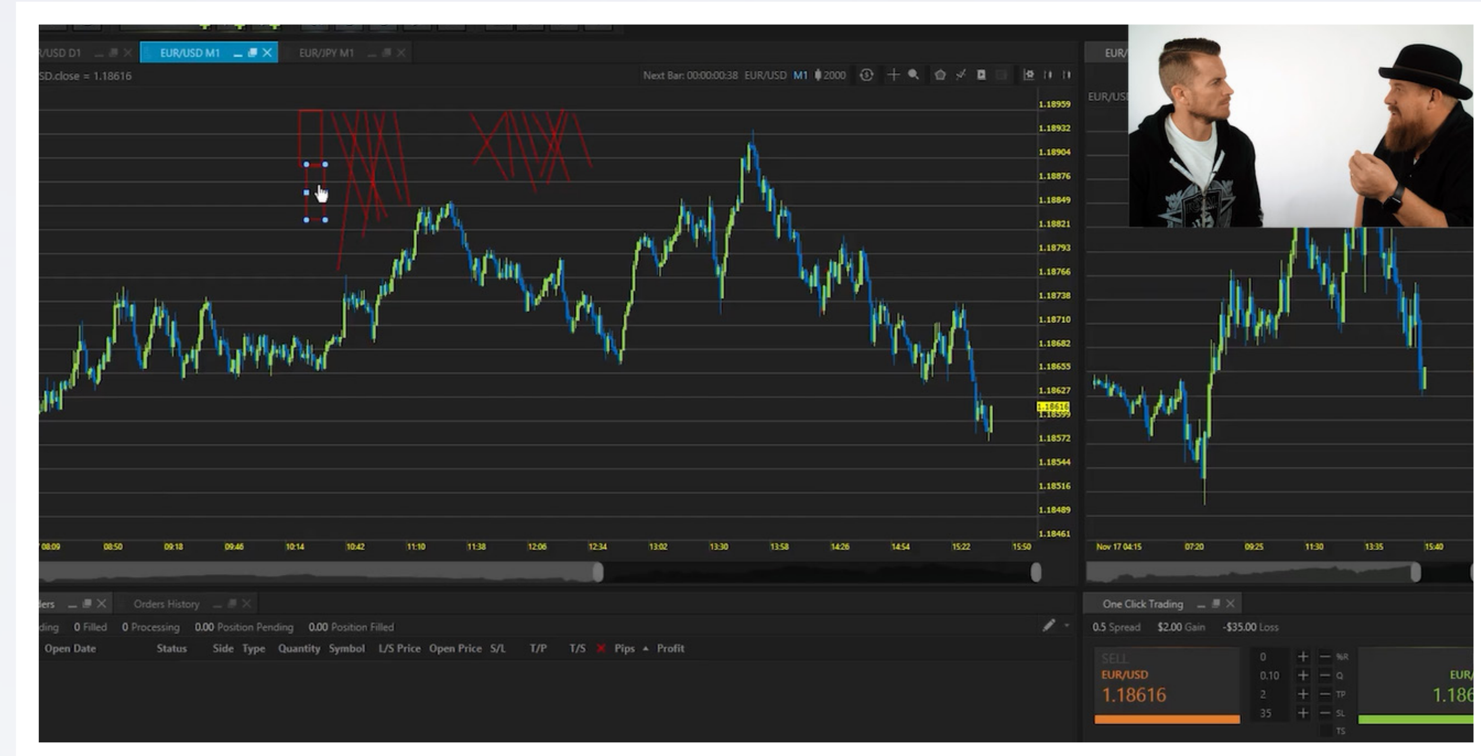
You can also see different formations, like triangle patterns referred to as pennants and wedges. These often mean traders are becoming less willing to trade in a certain direction. Therefore, you can more easily predict where the breakout is heading.

Knowing where the breakout is crucial when trading these conditions. They can help figure out when you should stop trading since the new or continuing trend will affect the trades placed during consolidation.





Keeping Trades Small

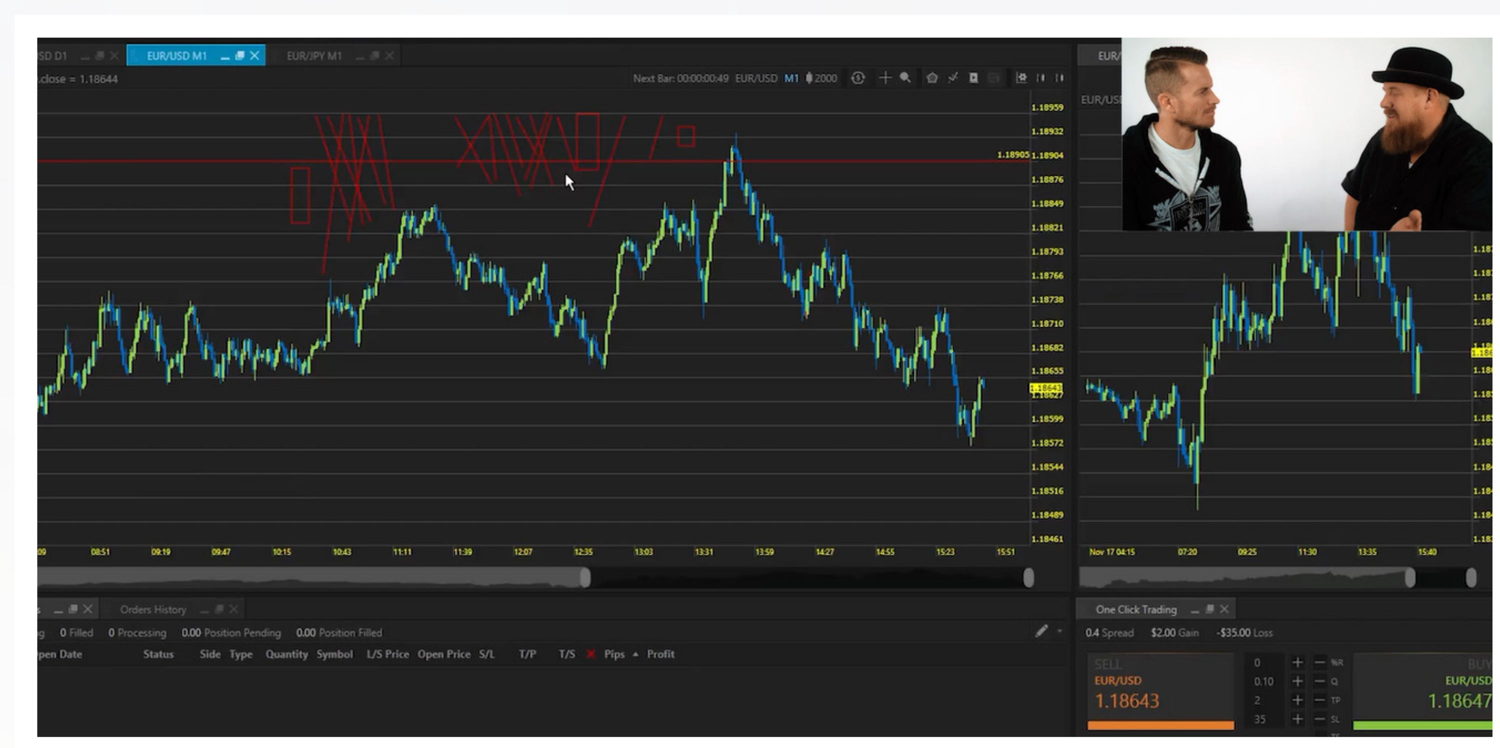


In order to trade during these conditions, scalping is a necessity. The risk is always present. So, it's important to know when to exit the trade and to keep your take profits and stop losses small.

This way, you can increase the amount of trades placed and have them add up to bigger profits. Below, we can see an example of a range from the Taproom and the areas of support and resistance.

Here, we can see that price action toward the end of the range is shrinking and heading upward. The highs continue to test the previous resistance level. Once we receive confirmation of the new trend direction, we exit any active trades for a profit.

How to Trade These Markets



Considering these consolidations go up and down before traders decide on a direction, trading these ranges gets tricky. Therefore, trade these market conditions with low take profits while looking for where you think price action will test support and resistance. Doing this continually means you'll have a large amount of small trades closing before the consolidation ends.

There are a few keys to successful consolidation trading. Firstly, you must understand the volume of the consolidation, and whether it's active or flat. This can determine how frequently you enter trades.

Secondly, you need to know the length and width of the consolidation. Often, some traders will prematurely enter the markets and get caught in false breakouts or no breakout at all. So, patience is important here. It allows you to witness these kinds of trades happen and not jump into them.

Lastly, you need to look for the retests. Within the boundaries of the consolidation, price action will continually jump and down, testing the range compared to previous trends. These are where you'll place most of your trades. So, you need to keep it small and fight the urge to go big expecting a breakout without confirmation. If you're attentive, you can trade consolidations successfully without suffering the pitfalls of novice traders.