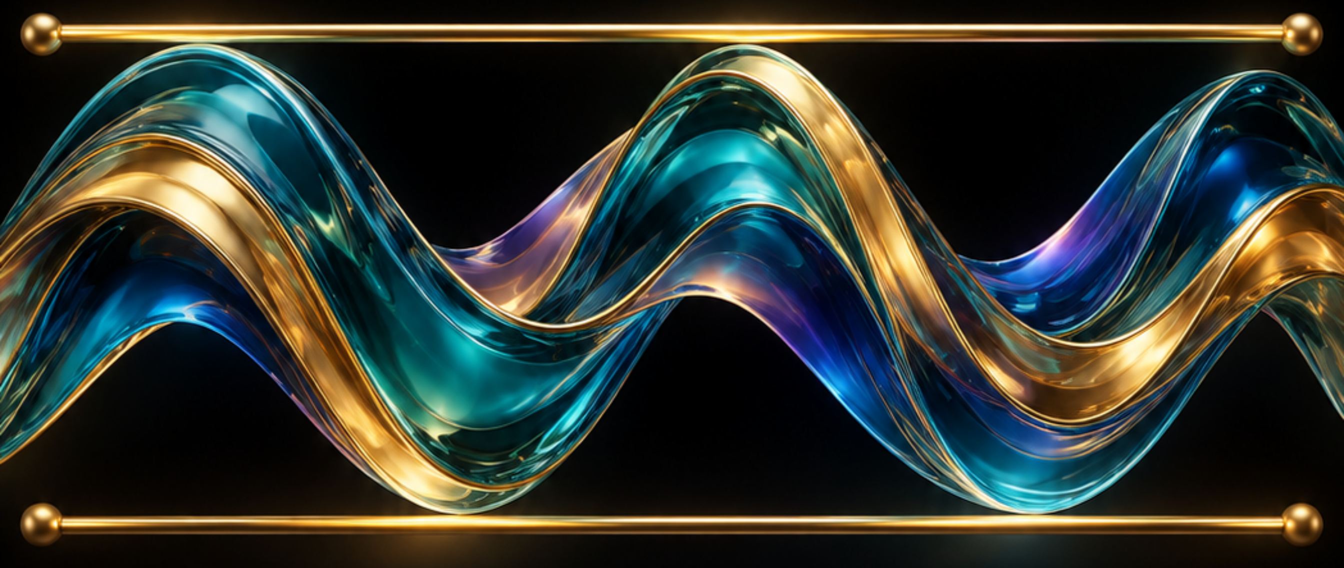
PREVIEW

Issam Algo

TRADING LIBRARY / VOLUME 10

RANGE TRADING AND MEAN REVERSION

A Practical Illustrated Guide



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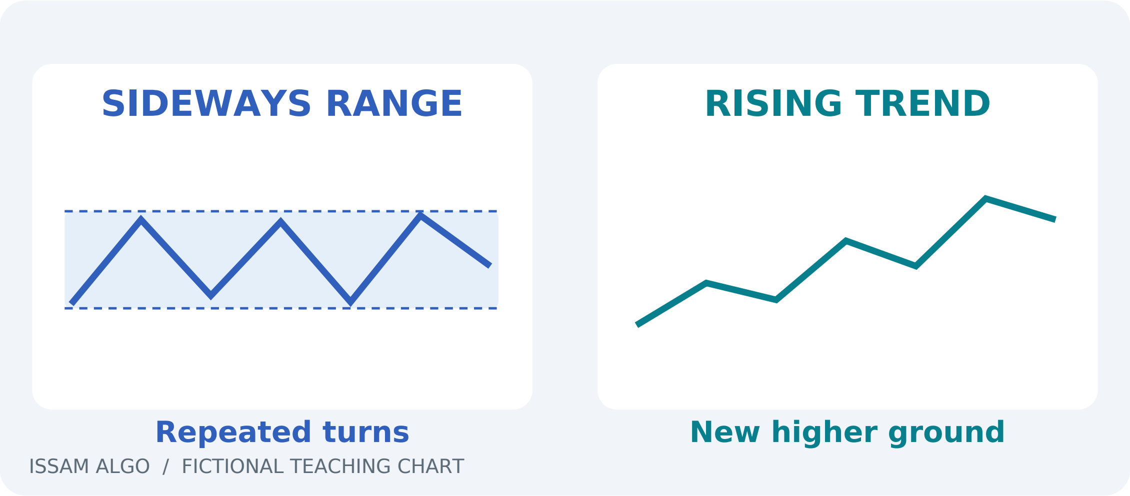
A range is a pattern, not a promise

A trading range is a period when price repeatedly moves between a lower area and an upper area. The repeated turns are visible. The next turn is still unknown.



A sideways path revisits similar prices. A rising path keeps making progress. Both are schematic.

Support names a lower area where declines have paused; resistance names an upper area where advances have paused. These are reference areas, not barriers that must hold. [1]

Range trading looks for a move back into that space. Trend following looks for continued directional progress. Either reading can be wrong.

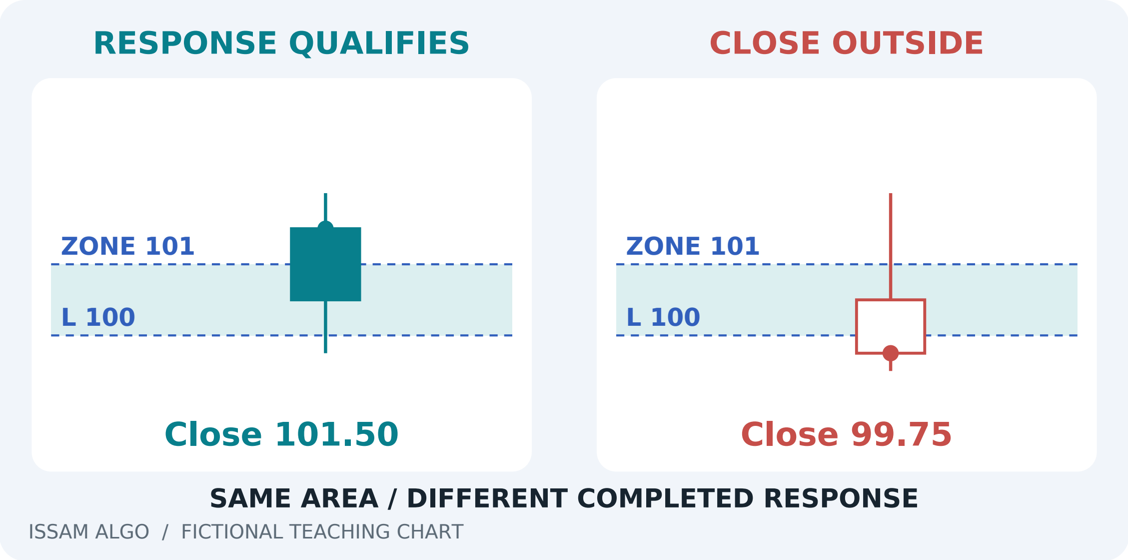
Start by asking: are recent movements returning to familiar areas, or steadily leaving them behind?

COMMON MISTAKE

Calling every pause a range, then assuming that price must bounce.

At an edge, watch the response

Touching a lower edge is an event. Closing back above the edge zone is a response. Even that response can be followed by another decline.



Left: low 99.75, close 101.50 above the zone. Right: close 99.75 below the range. Separate possible paths.

In our long-only exercise, the lower zone ends at 101. A qualifying test reaches 101 or lower, then closes above 101 and above its own open.

The left candle briefly moves below L = 100 and returns. The right candle closes below L: cancel an unentered attempt. Neither candle reveals anyone’s hidden orders.

Wait for the close. If the first lower-zone test fails the response rule, this model ends that attempt. A later attractive candle cannot repair it.

COMMON MISTAKE

Buying on the touch while describing the trade afterward as a confirmed bounce.