Here is a short excerpt from one of the sections of the 'Day Trading with Price Action' course.

Defining Market Direction

Market direction or bias is particularly important in Day trading. It puts the odds in our favor as we are not looking to trade against the herd, but in the direction of where it is likely headed. Our approach is to figure out the direction of the market if it is trending up, trending down, or going sideways. Then, we use appropriate price action-based trading setups to time our entry.

As a day trader we like to avoid choppy and sideway sessions (unless of course you are looking to trade a credit spreads or sell volatility, in which case you profit from market going sideways). Therefore, in our trading structure, we will stick to entering positions when the market is not sideways. Essentially you can say we are looking for some sort of trend. When the market is bullish, we will look for bullish setups. When the prices are bearish, we will look to get in short setups.

The next section covers the market direction in which we will use two concepts to create a market bias.

Swing Pivots & Trend Lines.

Swings

Before we get into Trendlines, there is an important concept of Price Swings. Looking at any chart you will agree that prices do not move in a straight line. It does not move from one point to the other in a vertical line or from one time to the other in a horizontal manner. It moves in waves, or what a lot of traders refer to as swings.

In a Bullish market, prices go up in a series of up and down swings. The length of upswing is more than the downswing in such a market. The opposite is true in a Bearish market.

Therefore, by observing these market swings we can form some opinion into the underlying structure of the market. Following the market swing is our first insight into finding out the market bias.

The first step to defining market swings systematically is to classify every price bar into one of the four types shown below.

Types of Prices bar: -

1. Up bars - Higher high, Higher low

2. Down bars - Lower high, Lower low

3. Inside bars - Lower high, Higher low

4. Outside bars - Higher high, Lower low

As a trader you should be able to classify each price bar into one of the categories above. These labels define the relationship of each bar's high & low relative to the previous bar. For practice, try to classify each bar in the chart above.

Also note that the closing price of a bar does not matter in this classification. An up bar might close lower than it opened. A down bar might close higher than it opened. Stick with four rules below.

1. An up bar starts an upswing and confirms the end of a downswing.

2. A down bar starts a downswing and confirms the end of upswing.

3. Inside bars do not break the previous high or low. Therefore, they do not impact the direction of the current swing.

4. Outside bars break both the previous high and low. This brings uncertainty into the market structure. However, we will assume that trends tend to continue. So outside bars in an upswing continues the upswing. Similarly, outside bars in downswing continues the downswing.

Let us look at an example: -

The dotted blue lines mark the beginning and end of swing points. Normally you would draw the lines as shown in chart A. But observe that the price bars highlighted in the box are not down bars as per our definition.

Chart A

Chart B

Here is how the chart looks when we draw the dotted lines as per our definition. The outside bar and inside bars are considered as continuation of the trend.

Most of the time, you can mark out market swings easily with up bars and down bars. The one shown above was a trickier uncommon situation. If you understand it, all good here.

Next section is about Swing Pivots.

Swing Pivots

Swing pivots are turning points of each market swing. In short, the point where an upswing turns down is a swing high. The point where a downswing turns up is a swing low. We already learned how to mark the start and end of these swings.

The **Green boxes** show **Swing Low**.

The **Red boxes** show **Swing High**.

These price points turned the price direction. I would not classify them as random as these represent some form of momentary change in the supply and demand forces.

Let us get into the importance of these swing pivots followed by some examples.

Keeping the approach simple and consistent is our priority.