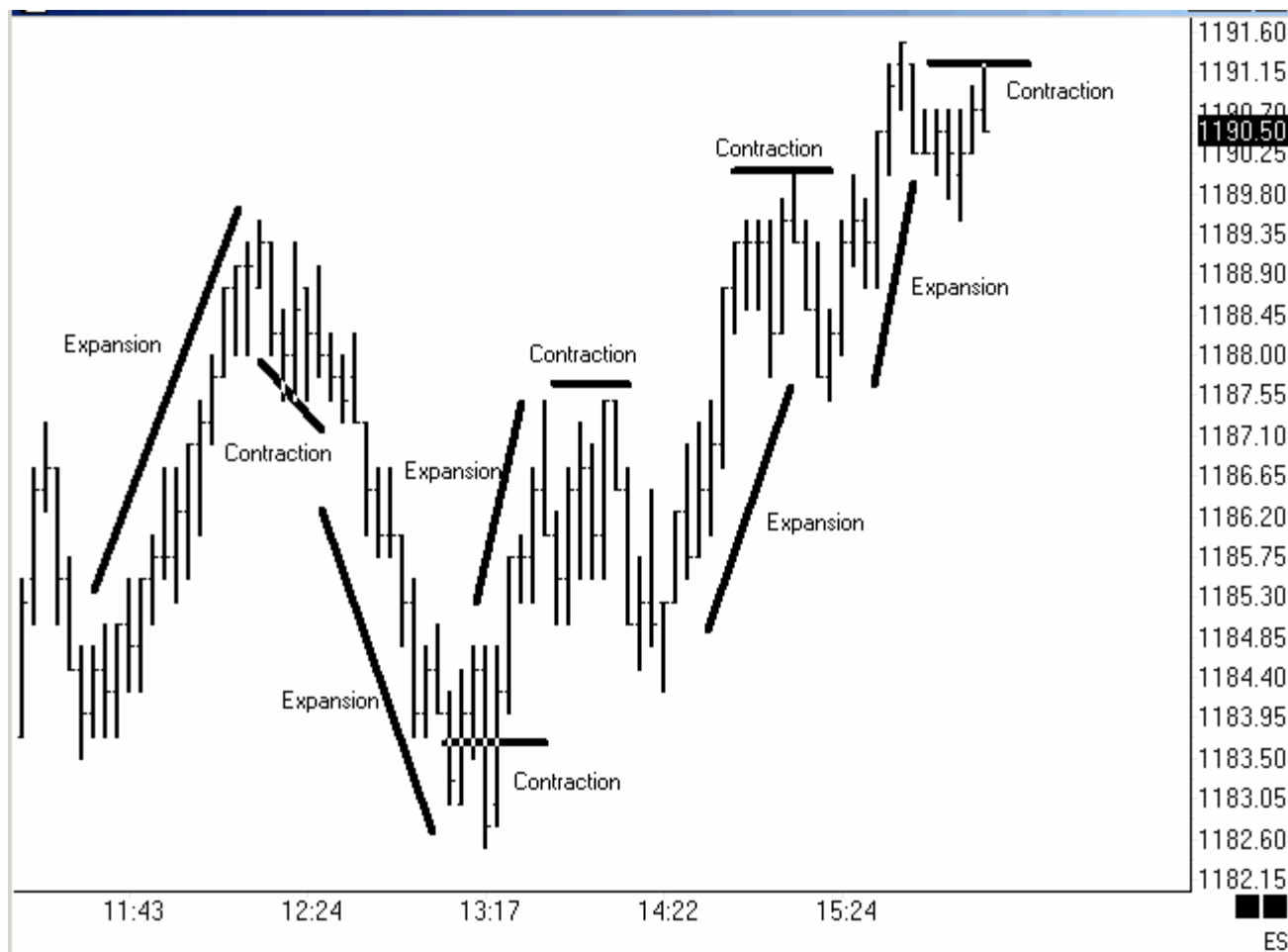


# Narrow Range Bar

## The Markets Live

It is said that markets have personalities. I agree, but feel it's more helpful to think of markets having mood swings. It also helps to view markets as living, breathing entities with a personality akin to someone with a bipolar condition. The markets rest and are at peace, then suddenly erupt and run in one direction until they exhaust themselves, then rest again. Technically speaking, markets move from periods of range contraction to range expansion, and back again.



## As The Market Turns

The mind of a trader cycles from the analytical phase, searching for potential, to the stalking phase, and once a trade is opened, back to the analytical phase to determine when the trade should be closed out. Whether scalping ranges or trend trading, it is important to be able to identify turns in a market. Measuring the range of individual bars can help.

The range of a bar is defined as the difference between the high and the low. A Narrow Range (NR) bar is a price bar with the smallest range of all the bars in the look back period. With the correct settings applied to the proper timeframes, flagging these bars can be very useful for identifying turning points.

Chasing a market that has already turned and is in the range expansion phase is difficult and dangerous. It is certainly less profitable and higher risk than catching a market right at the turn. But of course, most traders shudder at the thought of catching market turns or 'picking tops and bottoms.'

All that is required to catch market turns is keeping in mind a fundamental concept about price action: *Range Expansion follows Range Contraction*. So with that rule firmly anchored in your mind, you tune the tools you already know and are comfortable with to the price action to help identify high probability setups. And finally, you develop entry techniques and a money management strategy that minimizes drawdown when external market forces move the market contrary to the signal given.

This article is about using one tool, the Narrow Range Bar flag. It can help identify market turns and will compliment any trend or range trading system.

## How To Incorporate NR Bars Into Your Trading

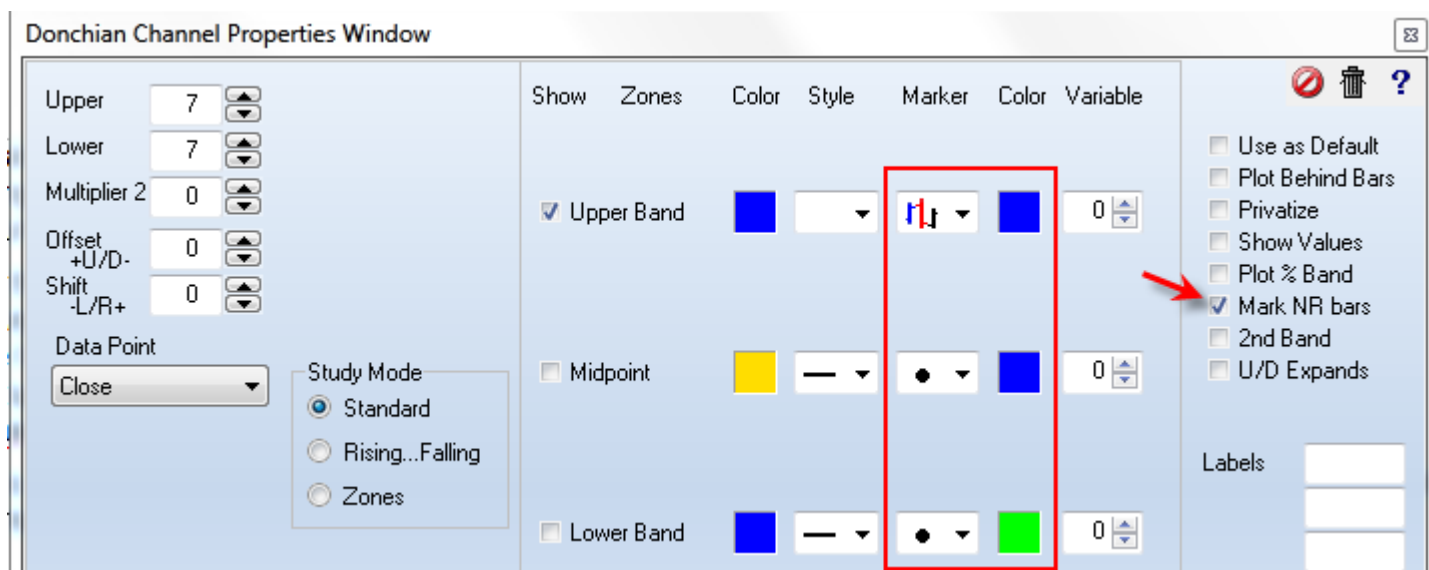
To get used to seeing and identifying NR bars I would recommend applying the study to your larger timeframe charts and just observing them for awhile. Continue using what already works for you and see when the NR bars compliment the setups you already use. They can be used as a stand-alone setup, however you should already be competent at reading price action before you attempt to use them this way.

### Ensign NR7 Properties

The most popular NR Bar setting is 7, followed by 4. My back study work has confirmed that 7 is the best compromise between getting a signal too early or late. However, you really should experiment and determine this for yourself so you're comfortable with the setting.

The NR bar flag is an option within the Donchian Channel study. You will need to apply it to your charts first and then open the Donchian Channel properties window.

The property window shows how to apply the study as an NR7 paint bar. (This is the preferred method because your eye needn't move off the bar under construction to see what's happening.) The bar paints the color selected in the marker color panel, if it's an NR bar. Typically, all bars open as NR bars, but as the bar range expands the bar will change to the normal color. If you use multiple paint bar studies, make sure the NR bar study is last in the objects list, otherwise, it will be overwritten and never paint.



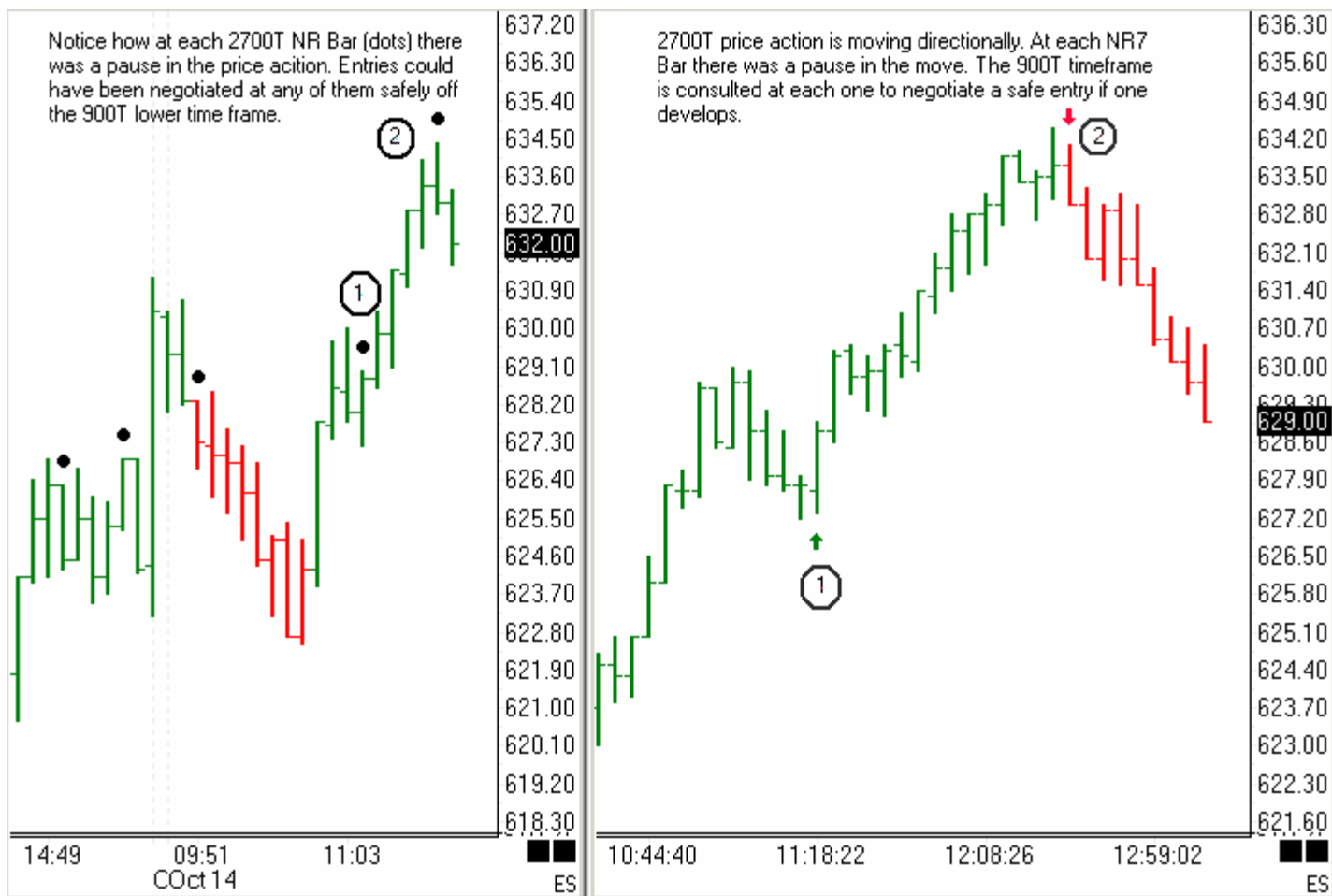
Change the marker to the Dot if you use multiple color bar studies, as some studies won't allow a second color bar study to over paint it. The Dot marker can show above the bar.

## The Art (or Science!) of Identifying Market Turns Using NR Bar Studies

If you are familiar with the Candlestick chart analysis, you will remember the admonition given by Steve Nisson that not all Candlestick patterns are signals all of the time. For example: a doji is only important at extremes. In the middle of a range bound market, doji's appear frequently and are typically meaningless. This is true of NR7 bars as well and is why it is best not to use this study on very small timeframes. The dilemma of 'knowing' when to view a Candlestick pattern as meaningful, also presents itself with flagged NR bars.

So, how does one "**know**" when a bar pattern is meaningful or not?

The answer lies in understanding how to use Multiple Timeframe Analysis (MTFA). Essentially, you look for a large timeframe setup, then negotiate the entry on a small timeframe where you will be able to catch the price action trend reversal easily, which also translates into a safe entry, even if eventually the market tells you that this isn't the turning point. Mastering this, regardless of one's system or setups will supercharge your trading. Here is one example:



NR bars represent a pause in the price action. Meaningful NR bars occur during retracements and at the end of range expansion moves.

In the charts above, you'll see two timeframes. In the larger 2700T timeframe on the left you'll see that a directional move is underway. Note the NR bars at points 1 and 2, flagged by the black dot above the bars. At point 1, the price action begins a retracement as it approaches a resistance area (last swing high). The NR bar represents a pause in the retracement. Just prior to the completion of that 2700T NR bar dial down to the 900T. The entry is the break of the first bar in the direction of the trend in the 2700T. More experienced traders can negotiate the trade on a very small timeframe such as a 50T or smaller.

At point 2 in the 2700T timeframe, we again see a pause (NR bar) in the move. Just prior to the completion of that 2700T bar dial down to the 900T. A NR bar is just a pause in the directional move and very frequently precedes a turn in the market. It is not necessary that a NR bar be the bar that the market turns on. It can come a few bars before. It's just a warning signal to start watching. The entry is the break of the first 900T bar in the counter trend direction. Again, more experienced traders can negotiate the trade on a very small timeframe.

Price action in the upper timeframe must confirm, ultimately, by making a price action trend reversal before another period of range expansion can be expected, as seen in the range-expansion / range-contraction chart at the beginning of the article. However, it's usually safe to enter on a lower timeframe price action trend reversal because you'll be positioned early in the move. Remember, a small hiccup in a larger timeframe can be quite a move in a lower timeframe. This allows you to get your stops to breakeven quickly so even if there isn't a market turn, you can safely negotiate the entry and in all likelihood get a nice scalp out of it.

Article by al\_algorithm