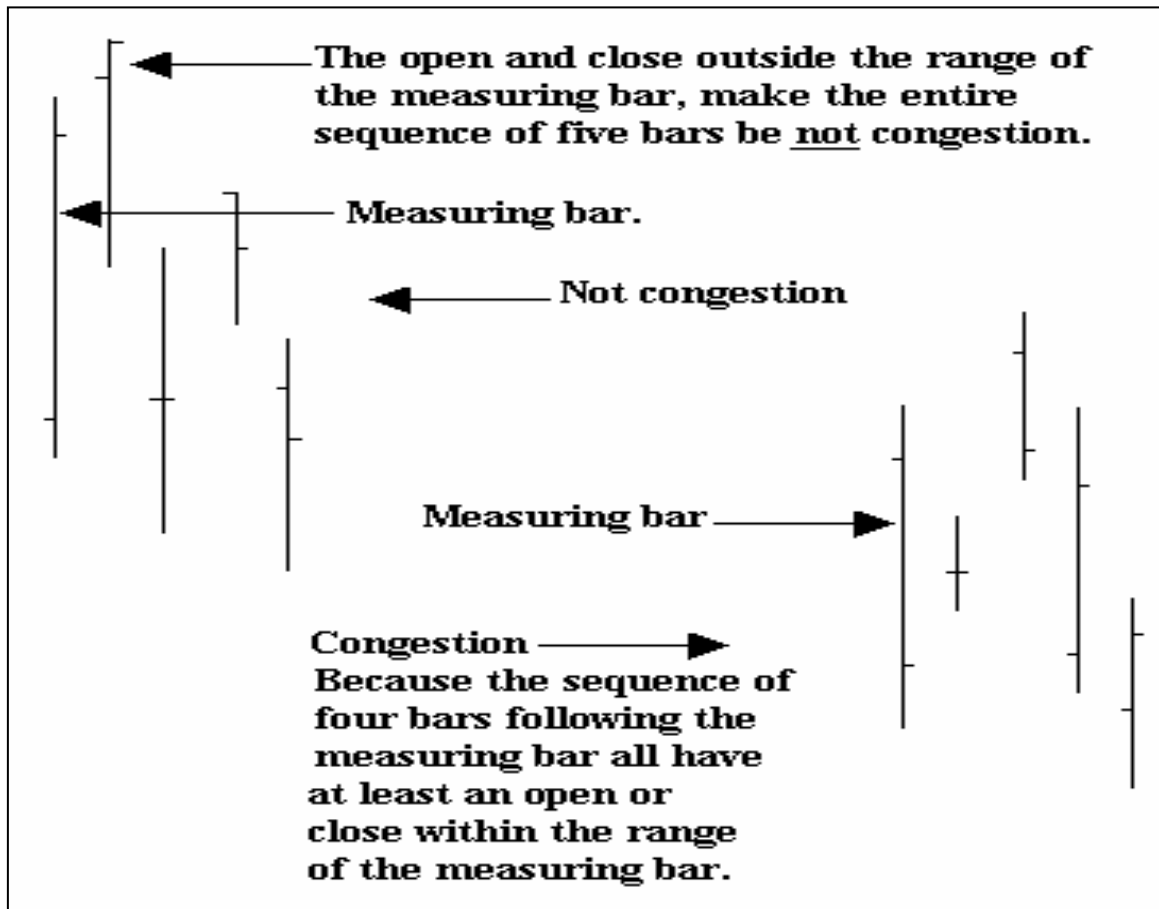


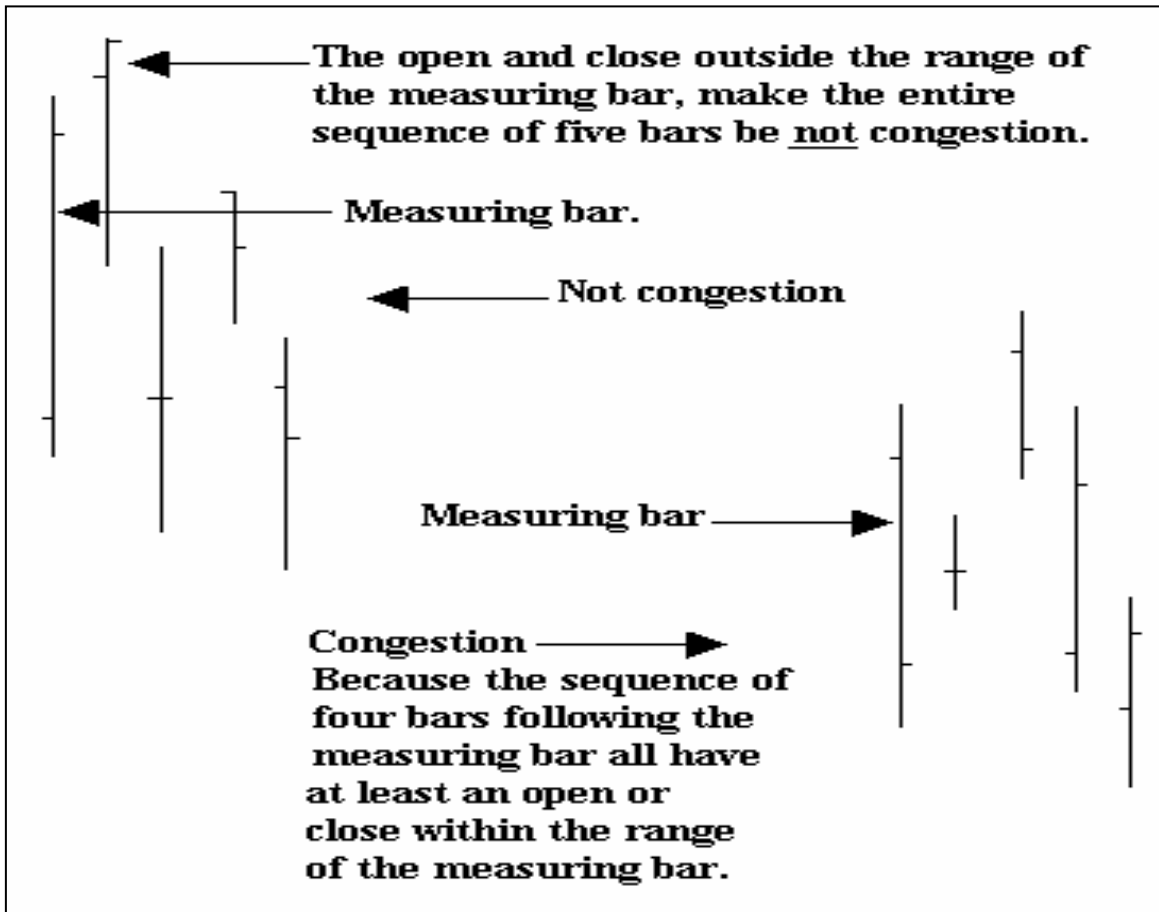
IDENTIFYING CONGESTION

One of the concepts every trader **must learn** is how to know when prices are in congestion. There are a few rules for the early discovery of this ever important price action, and they are explained in detail in this chapter.

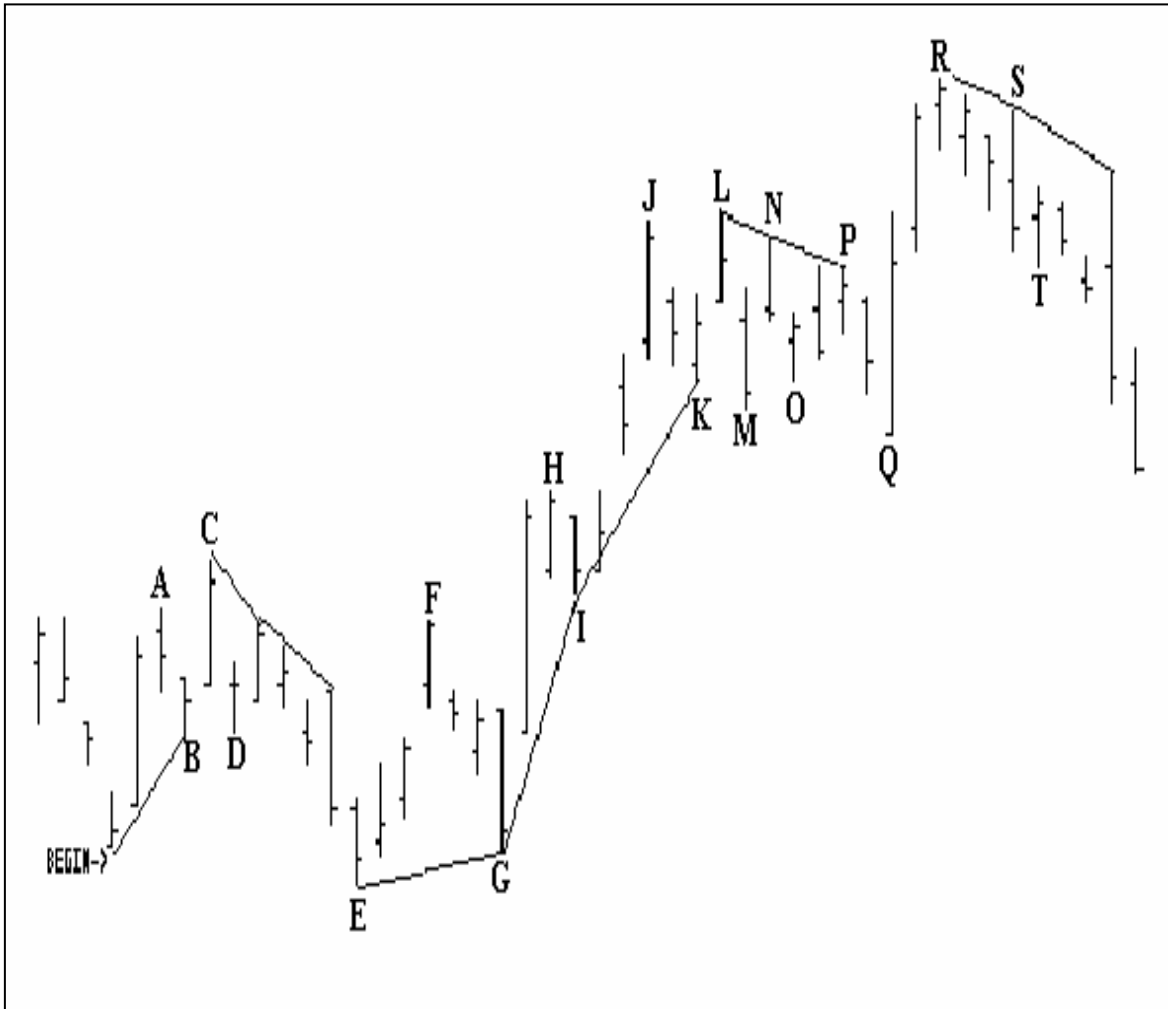
RULE: ANY TIME PRICES OPEN OR CLOSE ON FOUR CONSECUTIVE BARS, WITHIN THE CONFINES OF THE RANGE OF A “MEASURING BAR,” YOU HAVE CONGESTION. THIS IS REGARDLESS OF WHERE THE HIGHS AND LOWS MAY BE LOCATED. A “MEASURING BAR” BECOMES SUCH BY VIRTUE OF ITS PRICE RANGE CONTAINING THE OPENS OR CLOSSES OF AT LEAST 3 OF 4 SUBSEQUENT PRICE BARS.



Closely and carefully study this chart again. Congestion can be very subtle in appearance. Often the difference between congestion or trend is the positioning of a single open or close.

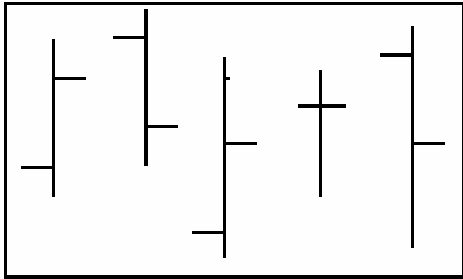


To further demonstrate this concept, let's first look at the combination of points "K" through "M" on the chart below. Even though "M" closed below the range of the measuring bar "J," the fact that "L" made a new high and then closed, dropping back into the Trading Range of "J", tells us that prices are still in congestion. This will be explained on the following pages. In addition, we now have congestion by virtue of alternating bars, which will also be discussed next.

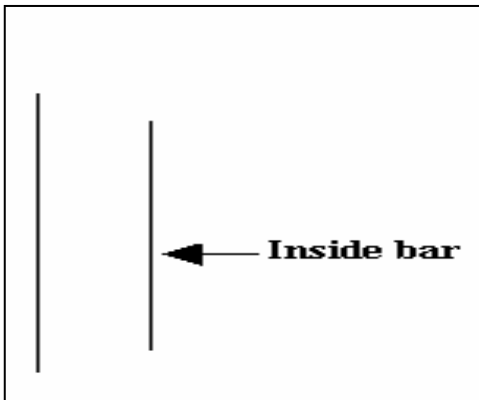


ANY TIME PRICES ARE NOT MAKING HIGHER HIGHS AND HIGHER LOWS, OR LOWER HIGHS AND LOWER LOWS, AND WE CAN SEE FOUR ALTERNATING BARS, AT TIMES COUPLED WITH INSIDE BARS AND AT TIMES COUPLED WITH DOJIS, WE HAVE CONGESTION.

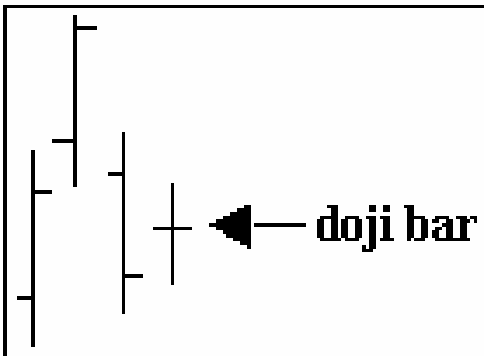
ALTERNATING BARS ARE ONES WHERE PRICES OPEN LOWER AND CLOSE HIGHER ON ONE BAR, AND OPEN HIGHER AND CLOSE LOWER ON THE NEXT.



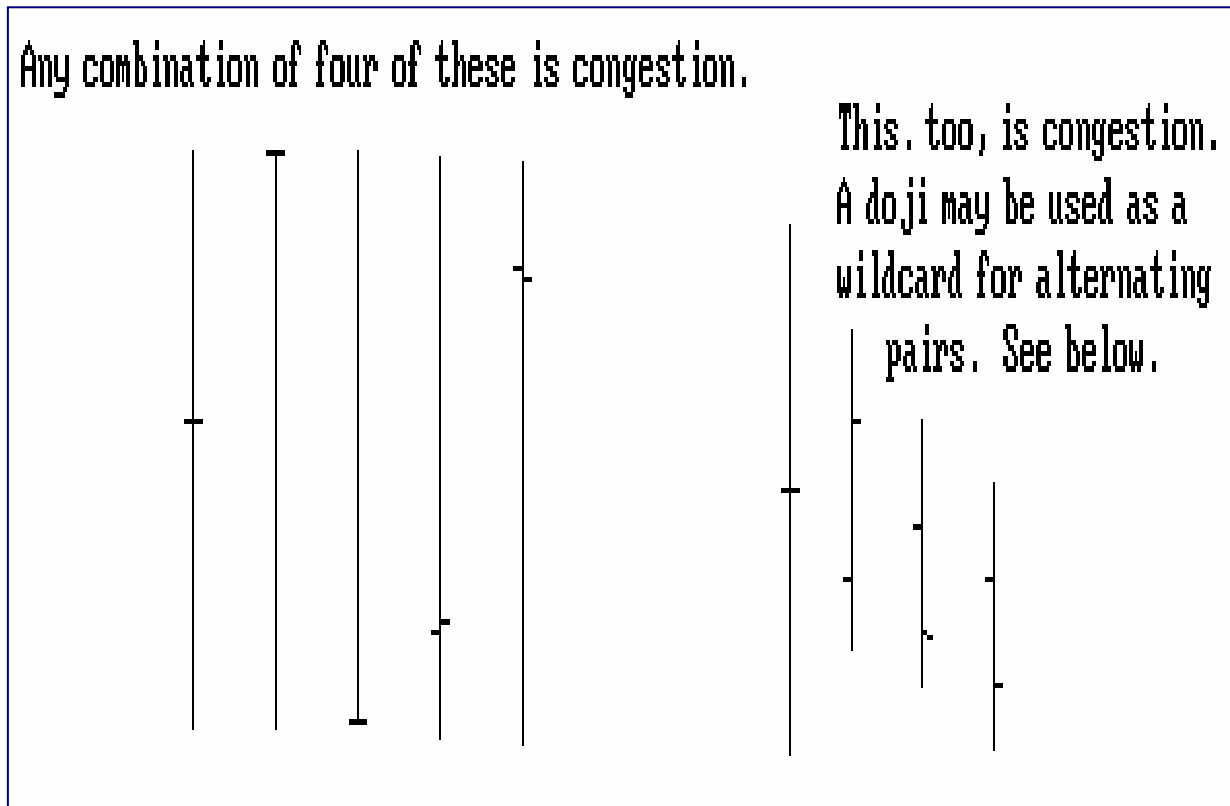
Inside bars look like this:



Doji Bars look like this:



Below are more Doji bars. The open and close are at the same price or very near to the same price, yielding a bar that looks like this:

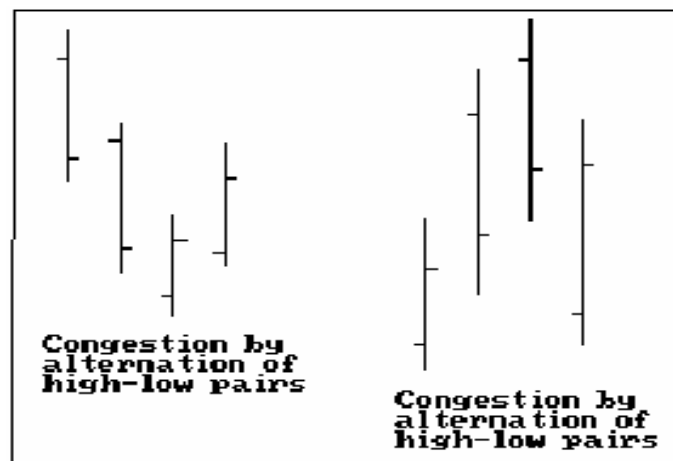
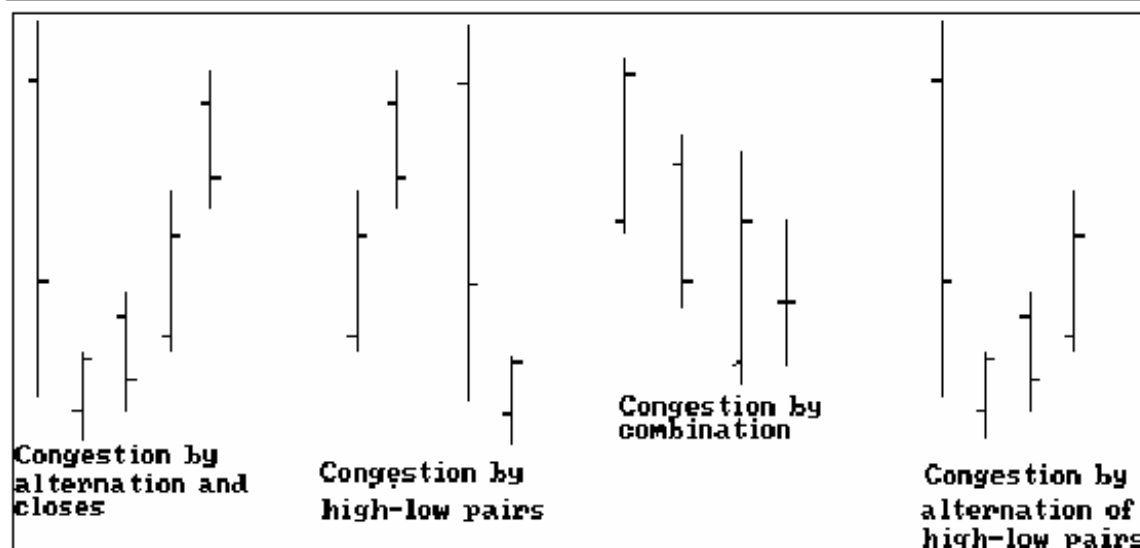
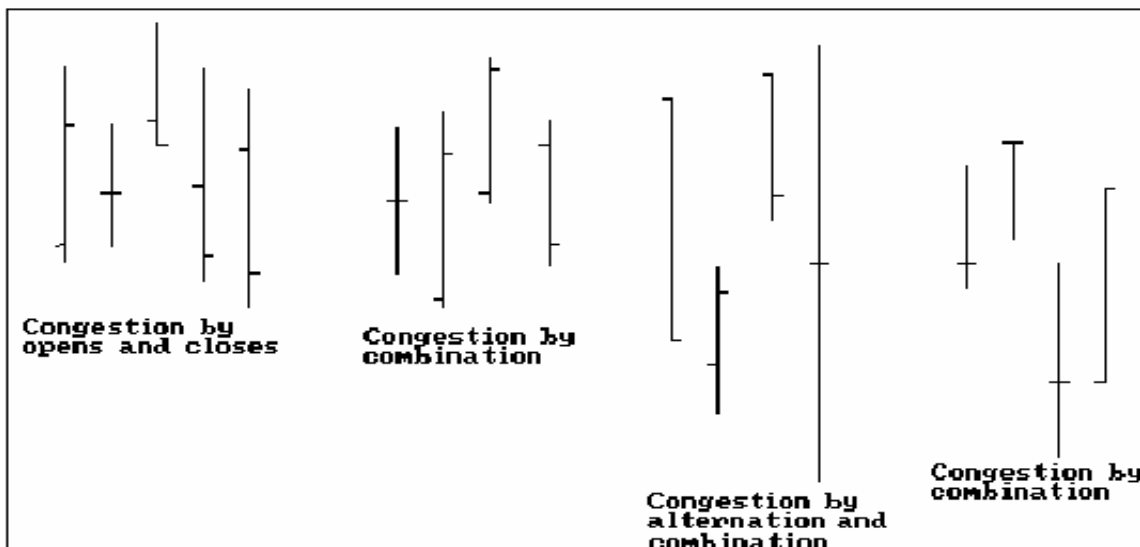


A combination of alternate close-high-open-low, close-low-open-high pairs is congestion.

“Pointy” places made when the market is in congestion are *not* Ross Hooks. If a trend has been defined within congestion, you now have a trend, and any subsequent pointy place is a Ross Hook.

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. Study these formations carefully:

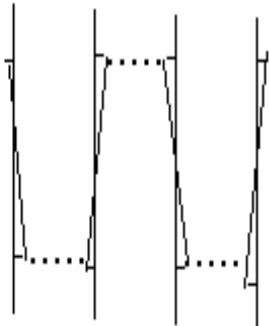
CONGESTIONS:



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

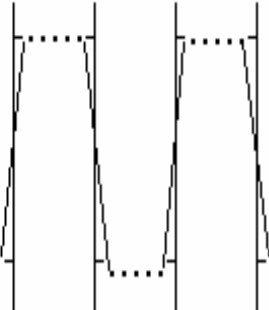
Another way to identify congestion is when you see Λ or ∇ on the chart.

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



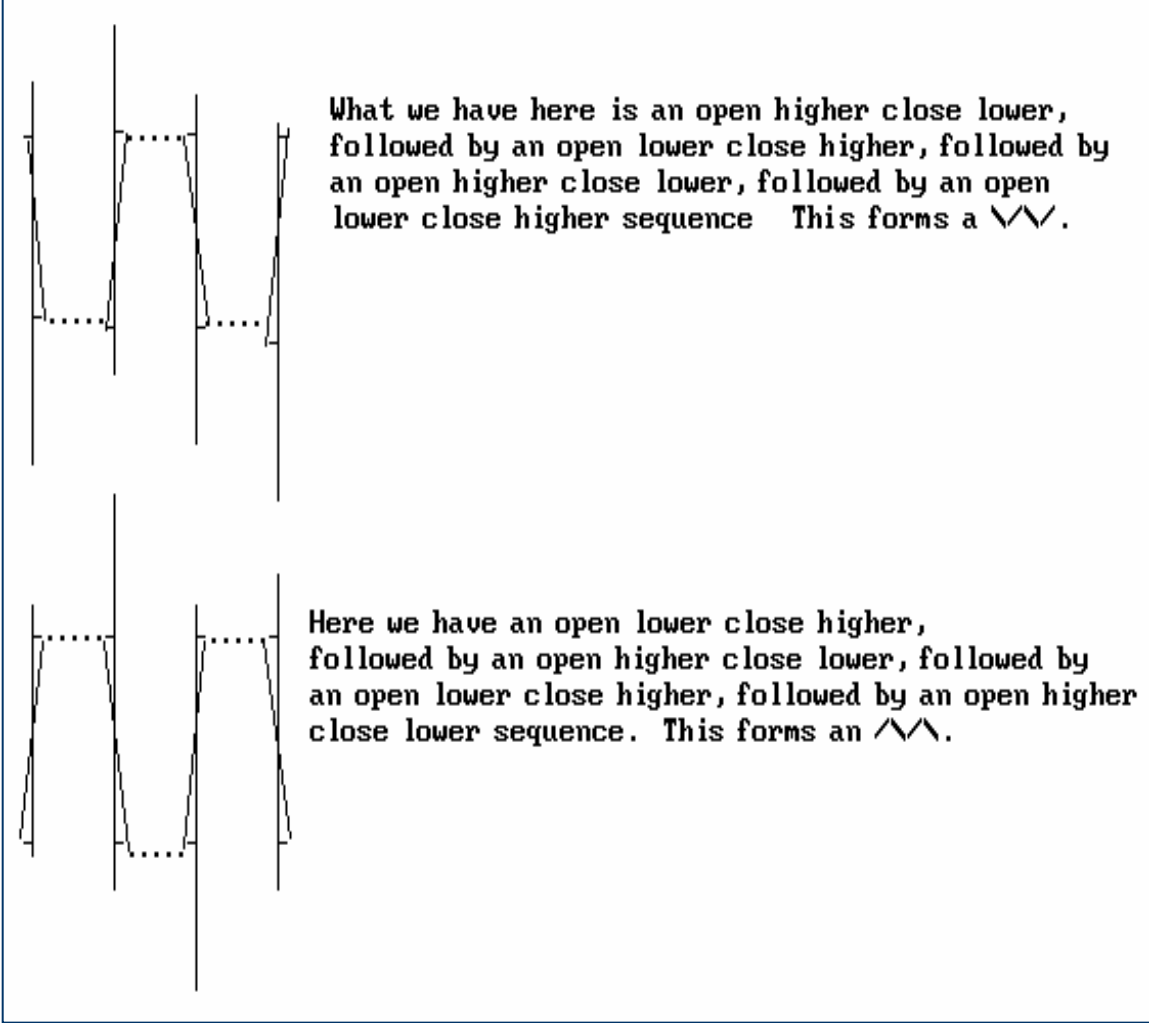
What we have here is an open higher close lower, followed by an open lower close higher, followed by an open higher close lower, followed by an open lower close higher sequence. This forms a $\nabla\nabla$.

**Idealized $\nabla\nabla$'s
and $\Lambda\Lambda$'s**

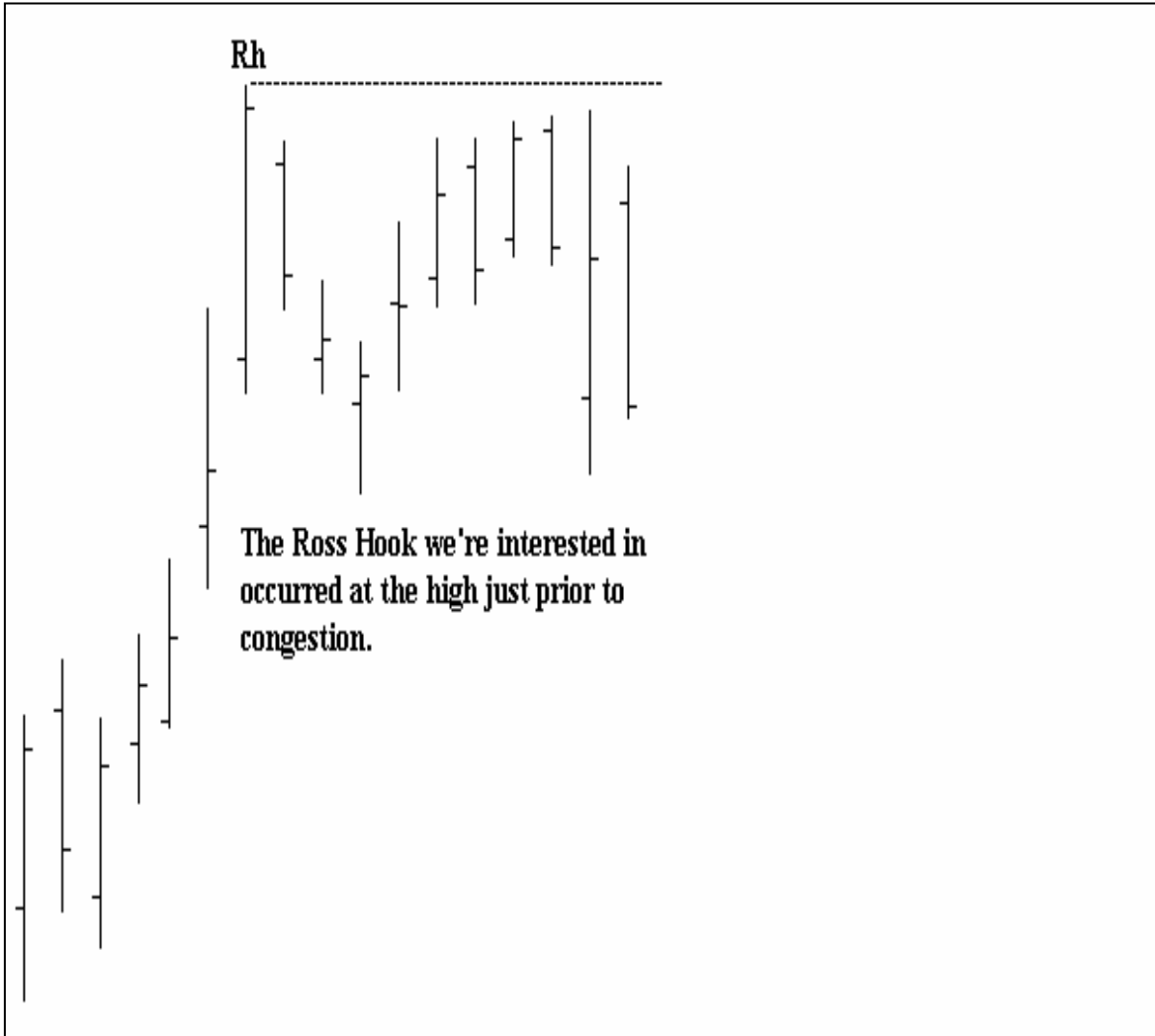


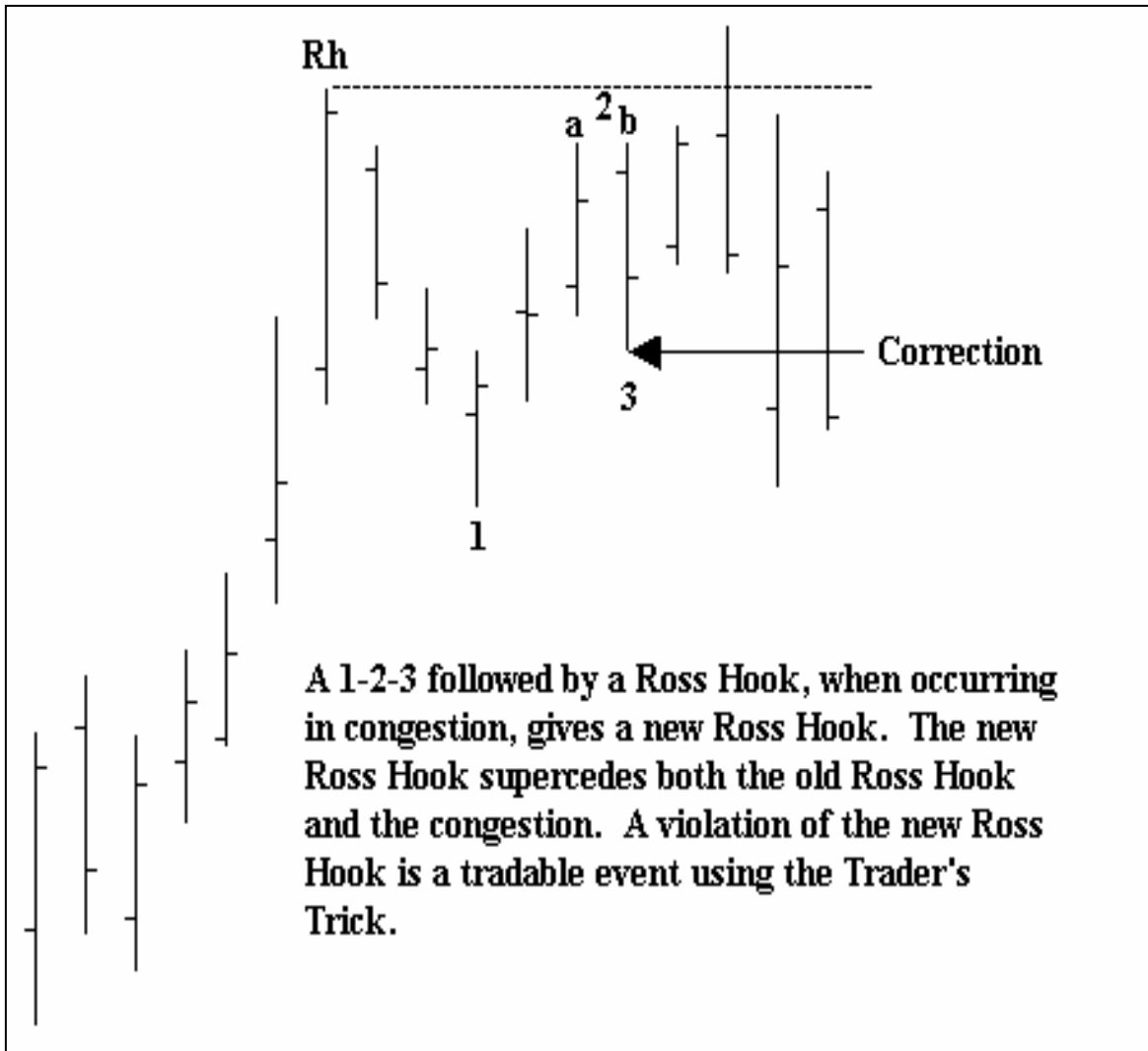
Here we have an open lower close higher, followed by an open higher close lower, followed by an open lower close higher, followed by an open higher close lower sequence. This forms an $\Lambda\Lambda$.

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



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 prior to the violation. Notice that the bar that created the Ross Hook was the last bar of the trend and the first bar of the congestion.





Note: A 1-2-3 FOLLOWED BY A BREAKOUT OF THE #2 POINT THAT SUBSEQUENTLY RESULTS IN A ROSS HOOK, SUPERCEDES ANY CONGESTION OR PREVIOUS ROSS HOOK. QUITE OFTEN, SUCH A SERIES OF PRICE BAR OCCURRENCES WILL BE THE WAY PRICES EXIT A CONGESTION AREA, I.E, A 1-2-3 FORMATION WITHIN A CONGESTION AREA, A BREAKOUT OF THE #2 POINT, FOLLOWED BY A 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 low of bar "b" is also a #3 point, and two bars later we get the highest high of the congestion, which is also an Rh.

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

We 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 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. When prices retreat from a resistance point and move towards a RRh, it may indicate that the only reason the resistance point was challenged or even violated was because prices were “engineered” in that direction by some party or parties capable of moving prices for their own benefit. The anticipation is that prices next may move in the opposite direction toward a violation of the RRh.

Now, go through 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.