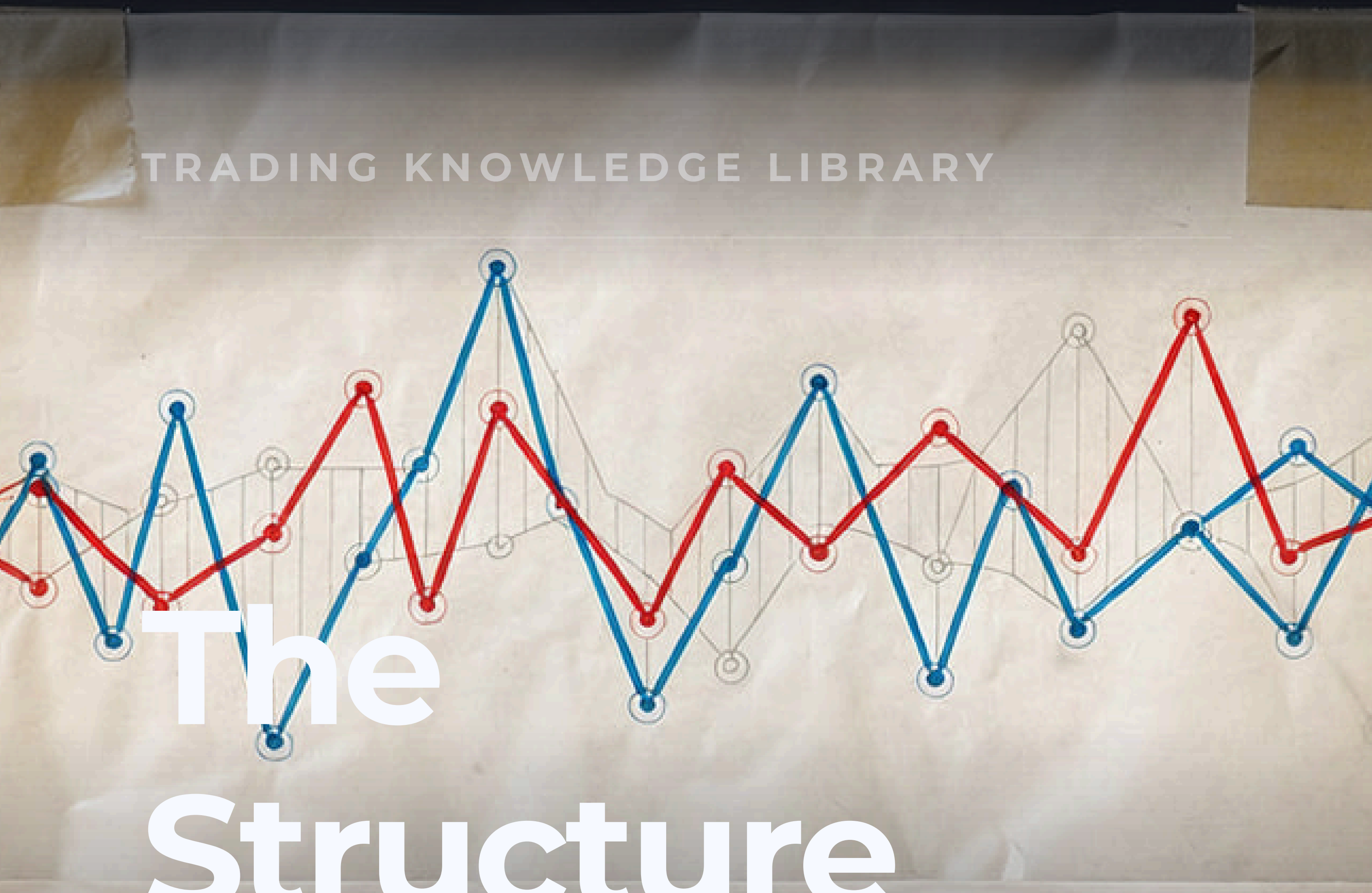

TRADING KNOWLEDGE LIBRARY

The Structure You Drew

Price Action

Trading Papers

The Structure You Drew

Market structure, break of structure, and the setting that decides both

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01

The grammar everyone uses

Every course on this subject opens the same way. Price makes a high, then a higher one; it makes a low, then a higher one; and from those four words — higher high, higher low, lower high, lower low — the entire method is built. It is a good place to start, and this paper takes it seriously enough to draw it before arguing with it.

The grammar, drawn. Price is grey and quiet; the skeleton laid over it is the thing every structure claim is actually about. Four labels, and each one is a comparison between two points on that skeleton rather than anything a single candle can tell you.

Notice what the figure actually contains. The candles are drawn grey and quiet because they are not the subject; the subject is the jointed line laid over them, running from turn to turn. Every structure claim you will ever read is a claim about that line rather than about the bars underneath it.

The label	What it asserts	What it needs first
Higher high	this swing high is above the last one	two agreed swing highs
Higher low	this swing low is above the last one	two agreed swing lows
Lower high	this swing high is below the last one	two agreed swing highs
Lower low	this swing low is below the last one	two agreed swing lows

The four labels and what each one asserts. Read the right column: every entry is a comparison, and a comparison needs two agreed points. That requirement is the whole subject of this paper, and it is the part the courses pass over in a sentence.

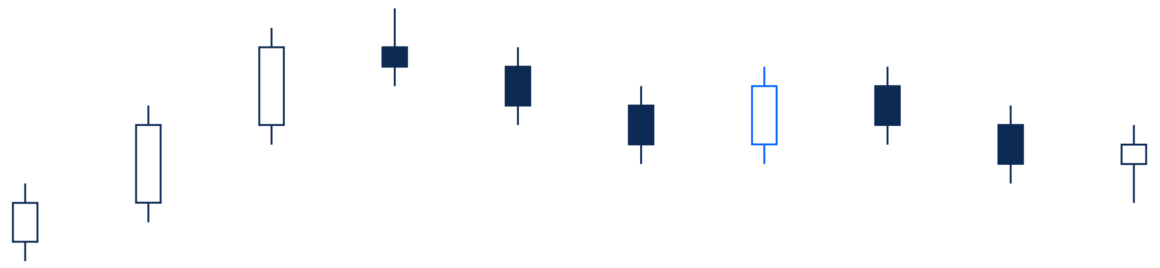
Read the right-hand column of that table downward. Each label is a comparison, and a comparison requires two agreed points. The candles do not supply those points; something else does, and the whole of this paper is about what that something else is.

> The liquidity paper in this library takes apart sweeps, order blocks and inducement, and deliberately leaves market structure alone. This paper is the other half, and it does not repeat that argument. Where the two touch — hindsight naming, in particular — this one points there rather than making the case again.

02

The question underneath

Before higher or lower can mean anything, something has to decide which bars are turns at all. Here is that question in its simplest form.



The question the grammar depends on and never answers. The accented bar is higher than the two beside it, and lower than a bar five to its left. Is it a swing high? There is no fact of the matter until somebody says how many bars have to be lower on each side.

The accented bar is higher than the bar on either side of it. It is also well below a bar five places to its left. Is it a swing high? The honest answer is that there is no fact of the matter yet. It becomes one only when somebody states how many lower bars are required on each side, and that statement is a choice rather than an observation.

Definition	A swing high is a bar whose high is above	Skeleton it produces
Fractal, strength 1	the one bar on each side	many points, every wiggle
Fractal, strength 3	the three bars on each side	few points, only major turns
Fractal, strength 5	the five bars on each side	very few points
Close-based	the closes, not the highs, on each side	different points again

Three definitions of a swing high, all of them in common use, none of them wrong. They are simply different instruments. Hand the same chart to three traders holding these three definitions and you will get three skeletons, three structure readings, and three sincere disagreements about what price is doing.

All three definitions in that table are in ordinary use and none of them is mistaken. They are different instruments, the way a wide lens and a long lens are different instruments, and they show different things about the same scene. The difficulty is not that people use different ones. It is that almost nobody says which one they are using, including to themselves.

This is not a pedantic point about terminology. The next two figures are the same twenty-two candles, and they tell two different stories about what the market is doing — because that one unstated number is different.

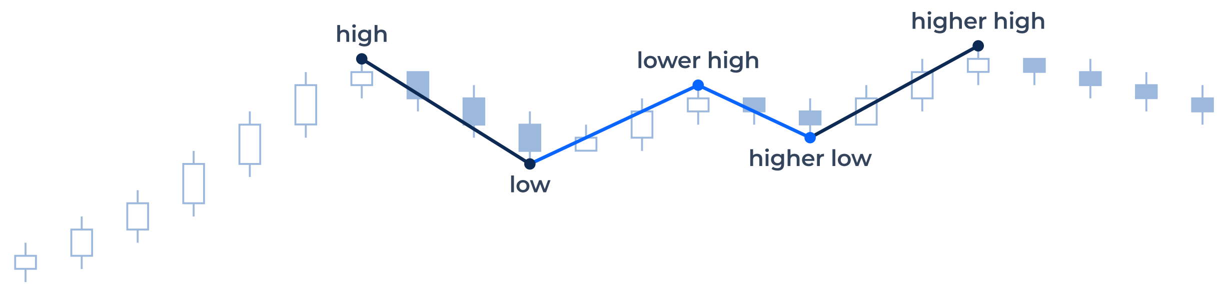
03

The same bars, twice

What follows is a single set of bars, drawn twice. Nothing about the price data changes between the two figures. Only the swing definition changes.

One reading of twenty-two bars, using a swing definition that needs three lower bars on each side. Three points survive: a high, a low beneath it, and a higher high. The story is a clean uptrend that paused once and carried on. Nothing in this skeleton is bearish at any moment.

With a swing defined as a bar exceeded by three lower bars on each side, three points survive. A high, a low beneath it, and later a higher high. The reading is unambiguous and calm: an uptrend that paused once and then continued. There is nothing bearish in this picture at any moment in its history.



The same twenty-two bars. Not a similar chart, not a later session — the identical candles, redrawn with a swing definition that needs one lower bar on each side. Five points survive now, and two of them did not exist a page ago: a lower high, and a higher low beneath it.

Now the identical candles with a swing defined as a bar exceeded by one lower bar on each side. Five points survive, and two of them did not exist a moment ago: a lower high partway through, and a higher low beneath it. Under the rules taught in every course, that lower high is a change of character — the headline event of the method, the thing that says the trend may have ended.

	Strength 3	**Strength 1**
Swing points found	3	5
Lower highs present	none	one
Higher lows present	none	one
Change of character signalled	no	yes

The two skeletons put side by side. The bars are the same bars; only the swing definition changed. The last row is the one that matters: a change of character is a headline event in this method, and one reading has one while the other has nothing to report.

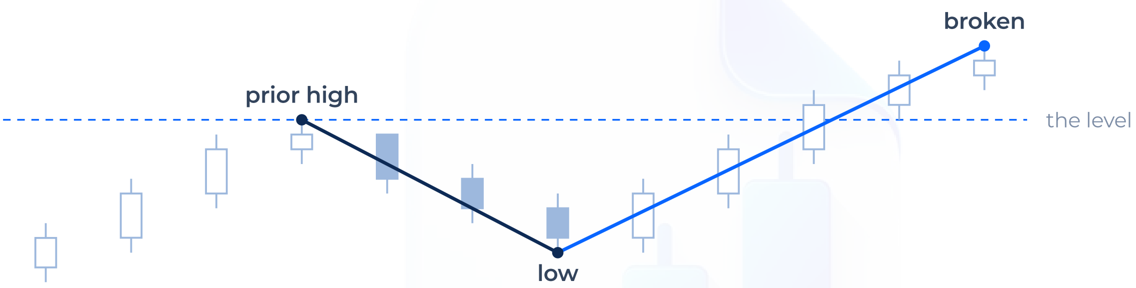
One reading contains a change of character and the other contains no such event anywhere. The bars did not change, the timeframe did not change, and neither reader made a mistake. A number that neither of them said out loud decided which of the two charts they were looking at.

This is the paper in one page. Everything after it is either a consequence of this or a repair for it.

04

Break of structure

With the skeleton problem in view, the two headline events can be looked at properly. The simpler one first.



Break of structure, drawn with the broken level shown as a rule so the claim is visible rather than asserted. Price takes out the prior swing high and closes beyond it. Whether this is a break at all depends entirely on which point was called the prior swing high.

A break of structure is price closing beyond the most recent swing in the direction the run was already going. Drawn with the broken level shown as a rule, the claim becomes visible: this specific price, taken out by this specific close. It is a perfectly respectable definition and it does real work.

Field	This rule says
Swing definition	high with 3 lower highs each side
Reference point	the most recent swing high before now
Break condition	a close above that high, not a wick
Recorded as	one break, at the close of that bar

Break of structure written so that a stranger could mark every one on a chart without asking a question. Four lines, and three of them are the settings the phrase normally hides.

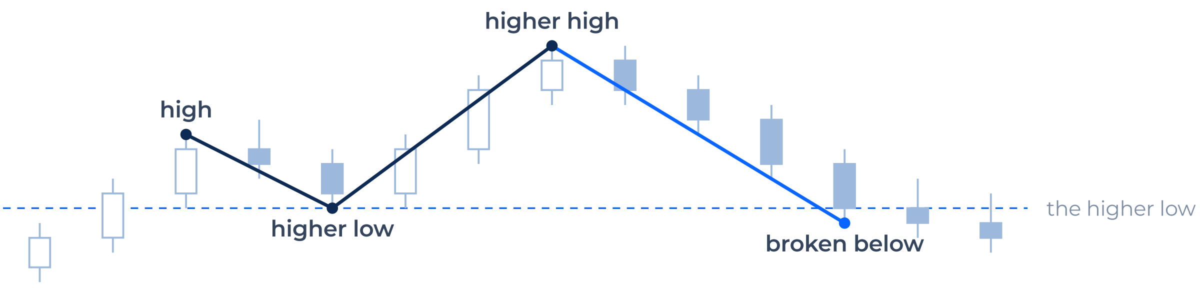
Written as four fields it becomes something a stranger could apply to a chart without asking you a single question — which is the standard this library applies everywhere. Three of those four lines are settings that the phrase break of structure normally hides, and the first of them is the swing definition from the previous section.

It is worth saying plainly that there is nothing wrong with the concept once it is written down like this. A break of structure so defined is an event you can mark mechanically, count, and be wrong about. That is high praise in this field.

05

Change of character

The second event is the one that carries more weight in practice and stands on weaker ground.



Change of character: the first break in the opposite direction to the run that preceded it. Here the sequence of higher highs and higher lows ends when price closes below the last higher low. Note that the event is only nameable once you accept the skeleton drawn over it.

A change of character is the first break in the opposite direction to the run that preceded it. In the figure, a sequence of higher highs and higher lows ends when price closes below the last higher low. Where a break of structure says the trend continued, this says the trend may have ended, and traders act on it accordingly.

	Break of structure	Change of character
What broke	a swing in the trend's direction	a swing against the trend
What it claims	the trend continued	the trend may have ended
Depends on prior run	no	yes
Nameable at the time	yes, if the rule is written	only if the run was defined too

The two events distinguished, because they are routinely used as though they were one. The difference is not in the candles; it is in what came before, which means both names describe a context rather than a bar.

The difference between the two is not in the candles at all. It is in what came before them, which means both names describe a context rather than a bar. And a context is assembled from the skeleton — so a change of character inherits every ambiguity the swing definition has, and adds one of its own: you must also have defined where the prior run began.

That is why the two skeletons in the previous section could disagree so sharply. A change of character is a statement about a sequence, and the finer definition produced a longer sequence with an extra turn in it. Neither reader invented anything. They were comparing different sequences.

06

Writing the parameter down

The repair is unglamorous and takes about a minute. It is to say the numbers out loud before the session rather than after the trade.

Swing	how many bars must be lower on each side
Extreme	whether a swing uses the wick or the close
Break	whether a break needs a close beyond or a touch
Timeframe	which chart the skeleton is drawn on
Reference	which prior swing the comparison is against
Equal levels	what happens when two swings are the same price

Everything you must state before the word structure means anything to a second person. None of these is exotic and none is controversial; they are simply left unsaid, and every one of them changes the picture.

Six lines, none of them exotic, every one of them capable of changing the picture. The first is the swing strength this paper has been circling. The third matters more than people expect: whether a break requires a close beyond a level or merely a touch will change the count of breaks on any instrument by a wide margin, and the two versions are not interchangeable.

Field	This rule says
Universe	one instrument, chosen before the week
Timeframe	one chart, named, never switched mid-read
Swing	strength 3, measured on wicks
Structure	the sequence of those swings, in order
Trigger	a close beyond the last swing in the run
Invalidation	a close back beyond the swing before it
Record	every marked swing, including the ones you disliked

The same seven fields this library applies to every method, filled in for a structure rule. The point is not that these particular settings are correct — it is that once they are written, two people can compare results and one of them can be shown to be wrong.

Filled into the seven-field shape this library uses for every method, it stops being a doctrine and becomes a procedure. The important property is not that these settings are right — strength three is not a discovery, it is a choice — but that once written, the reading can be reproduced, compared, and shown to be worse than another one.

An unstated skeleton has a quiet advantage that is worth naming: it can never be wrong. When the trade works, the structure was read correctly; when it fails, it was misread. Both sentences are available afterwards and neither can be checked, which makes the method feel robust while teaching its user nothing. Writing the parameter down is what removes that comfort, and removing it is the entire benefit.

07

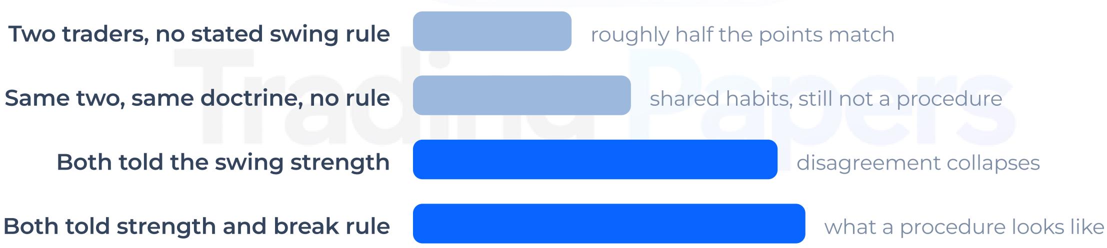
Two traders, one chart

If the argument so far is right, it should be possible to demonstrate it in an evening rather than accept it on authority.

1. Print the same chart twice, with no annotations
2. Mark the structure yourself, without a stated swing rule
3. Have a second trader mark the same chart the same way
4. Lay them over each other and count the points that agree
5. Now both mark it again with the swing strength written down first

An experiment worth one evening, and the fastest way to find out whether your structure reading is a procedure or a preference. Most people who run it are surprised by step four rather than step three.

The experiment is simple enough to run tonight, and the surprise is rarely where people expect it. Step three usually produces a mess: two competent traders mark structure on the same chart and agree on roughly half the points. The revealing part is step four, when they compare and each can explain, convincingly, why their own marking was correct.



What that experiment tends to produce, and why the last bar is the useful one. Agreement is not a sign of skill; it is a sign that the procedure was specified. Two people using a written rule agree almost completely, and where they still differ, the rule can be improved.

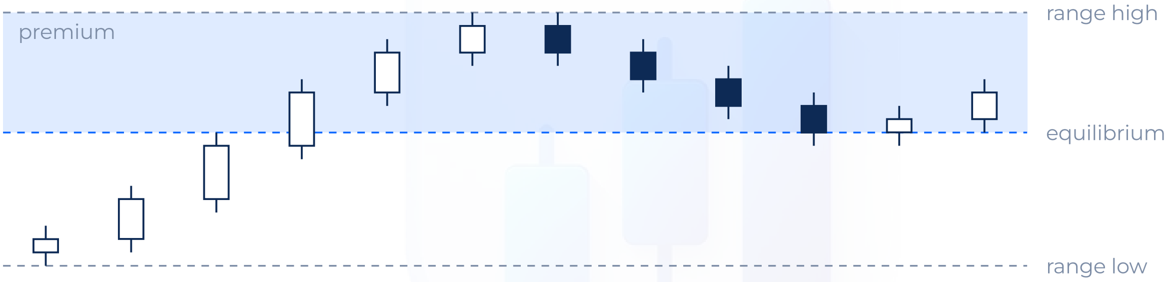
The last two bars are the useful ones. Once the swing strength is stated the disagreement very nearly disappears, and once the break rule is stated as well it disappears almost entirely. That collapse is the proof: the disagreement was never about market insight, it was about an unshared setting.

There is a corollary worth taking seriously. If your structure reading agrees with another trader's without either of you having stated a rule, that agreement is not evidence that you are both reading the market correctly. It is evidence that you learned from the same teacher and inherited the same unstated number.

08

The concept that survives

Not everything in this vocabulary has the problem. One idea comes through the examination cleanly, and it deserves to be said as loudly as the criticism.



The one idea in this vocabulary that is completely specified: take the range between a swing low and a swing high, halve it, and call above the half premium and below it discount. Given the two ends, every reader gets the same line. That is what a checkable concept looks like.

Take a range between a swing low and a swing high, halve it, and call the upper part premium and the lower part discount. Given the two ends, every reader in the world computes the same line. There is no lookback, no doctrine, and no judgement in the halving.

Question	Answer
Is it fully specified?	yes, once the two ends are given
Do two readers agree?	yes, exactly
What is still chosen?	which swing high and low bound the range
Is the claim testable?	yes — count outcomes above and below the half

Premium and discount assessed on the same terms as everything else in this paper. It passes, with one condition — and that condition is the same parameter problem in a smaller coat.

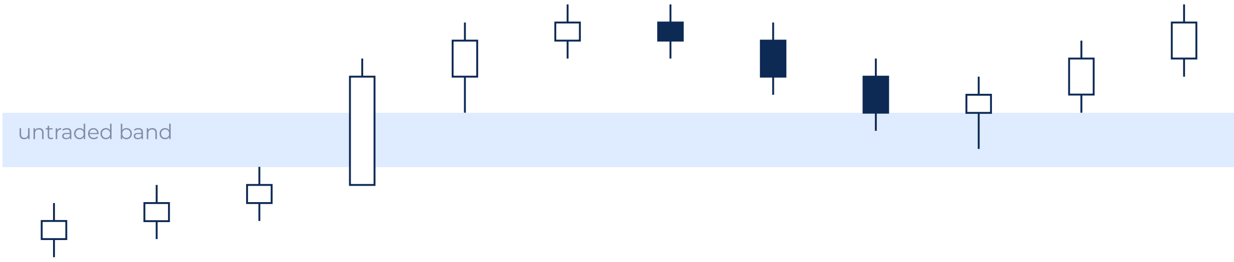
It passes on every count except one, and that exception is instructive: what remains chosen is which swing high and swing low bound the range — which is the same parameter problem, one level down. State the two ends and the concept is completely specified. Leave them implicit and it inherits everything this paper has been describing.

It is also, unusually, easy to test. Mark ranges by a stated rule, note whether entries taken in the discount half outperformed entries taken in the premium half, and you have a number nobody can argue with. Very little in this subject offers that, and it is worth using where it does.

09

Imbalance, measured and asserted

The same separation can be applied to the other structural idea in the course, and it comes apart just as cleanly.



An imbalance: three bars where the middle one travels far enough that the outer two leave a band untraded. The band is a fact about the bars and needs no interpretation. What is asserted on top of it — that price returns to trade through it — is a separate claim, and a countable one.

Three bars, the middle one long enough that the first bar's high and the third bar's low do not overlap. The band between them went untraded. That is a measurement: it is either true of the bars or it is not, and two readers will always agree.

The statement	Kind of thing it is
A band of price went untraded	a measurement, visible on the bars
Price returns to that band	a prediction, testable by counting
It returns because it must rebalance	an explanation, not required by the trade
The band is where institutions act	unobservable from a chart

The imbalance claim split into the part that is a measurement and the part that is a prediction. Only the second row needs testing, and it is the row that is almost never counted before it is taught.

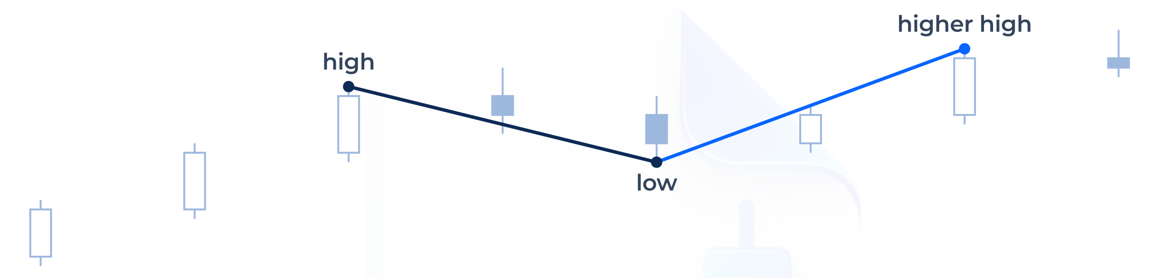
The table separates the four things usually said in one breath. The first is a measurement. The second is a prediction, and a good one in the sense that it can be counted — mark every such band by a stated rule, then count how many were traded back through within a stated number of bars. The third is an explanation, and the fourth is unobservable.

The practical consequence is that you only ever need to test the second row. Whether price returns because of rebalancing, because of resting orders, or for no reason anyone can name does not change a single decision you would make. That is worth remembering whenever an explanation is offered in place of a count.

10

The higher timeframe

Almost every version of this method instructs you to read structure on a slow chart and take entries on a fast one. The instruction is sound and the reasoning behind it is where care is needed.



The same instrument on a slower chart, where each bar swallows several of the faster ones. The skeleton here is shorter and calmer, and it is a different skeleton — not a summary of the fast one. That is why the two can point in opposite directions at the same moment.

The slower chart has its own skeleton, and it is worth being precise about what that skeleton is. It is not a summary of the faster one. It is a different set of swing points, produced by applying a swing definition to different bars, and it can point one way while the fast chart points the other at the same instant. That is not a malfunction; it is what the two instruments are for.

	Fast chart agrees	Fast chart disagrees
Slow chart up	Act, if the written rule also triggers.	Wait. Not a short — simply no trade.
Slow chart down	Wait. Not a long — simply no trade.	Act on the short side, same conditions.

The alignment rule as a grid, because it is usually taught as a slogan. Only one cell tells you to act, which is the rule's real content: most of the time it is an instruction to do nothing, and that is the part traders quietly drop.

Set out as a grid, the rule's real content becomes visible: two of the four cells say wait. Most of the time the alignment rule is an instruction to do nothing, and doing nothing is the part that gets quietly dropped when the fast chart is producing signals every twenty minutes.

Step	The reasoning	Sound?
1	read the slow chart's structure	yes, if the swing rule is stated
2	take fast-chart trades in that direction only	yes, it is a filter
3	a losing trade means the fast entry was poor	sometimes
4	so the bias was right and the entry was wrong	no — this cannot be false

Where the alignment argument turns in a circle, set out one step at a time. Steps one to three are fine. Step four is the one to watch, because it lets any outcome confirm the method and therefore lets none of them test it.

The fourth row is the one to watch. Once you accept that a loss means the entry was poor rather than the bias wrong, no outcome can count against the bias, and the higher timeframe read becomes unfalsifiable. The repair is the same as everywhere else in this paper: decide in advance what result would make you say the bias was wrong, and write that down beside the bias.

11

Counting it yourself

Everything above prepares for a count that takes some evenings and settles the question for your instrument rather than in general.

1. Fix the swing strength and break rule in writing, before looking
2. Mark every break of structure in six months, mechanically
3. Keep the ones that failed immediately, with equal weight
4. Count how often the break was followed by continuation
5. Compare against a coin, and against the same count at another strength

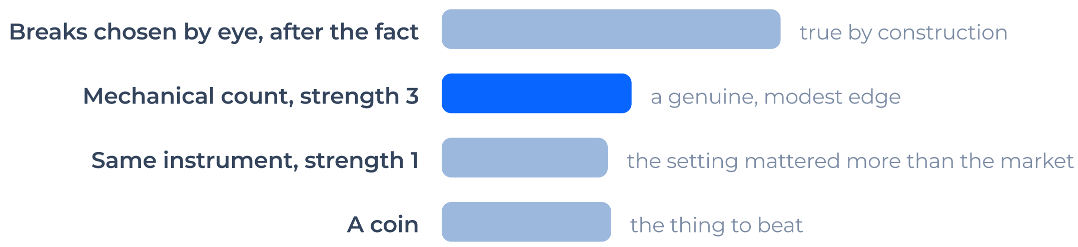
How to find out whether structure earns its place on your own instrument, using nothing but a written swing rule and some evenings. The third step is where this differs from a chart study, and it is the step that makes the result mean anything.

The third step is where this differs from the chart study everybody has already done. Breaks that failed immediately have to stay in the list with equal weight, and they are exactly the ones the hand skips over. Keeping them is uncomfortable for the same reason it is necessary.

The number	What it settles
Breaks found	whether the event is common enough to matter
Share followed by continuation	whether the claim beats a coin
Average distance after the break	whether it is worth the spread
Same figures at a different strength	whether the result was the market or the setting

The four numbers that come out, and what each settles. The last row is the one this paper exists to make possible: without a stated swing rule you cannot even produce it, because you cannot re-run your own marking.

The fourth row is the one this paper exists to make possible. Running the same count at a second swing strength tells you whether you measured the market or measured your setting — and if the answer changes materially between strength one and strength three, then what you have been calling structure was mostly a parameter.



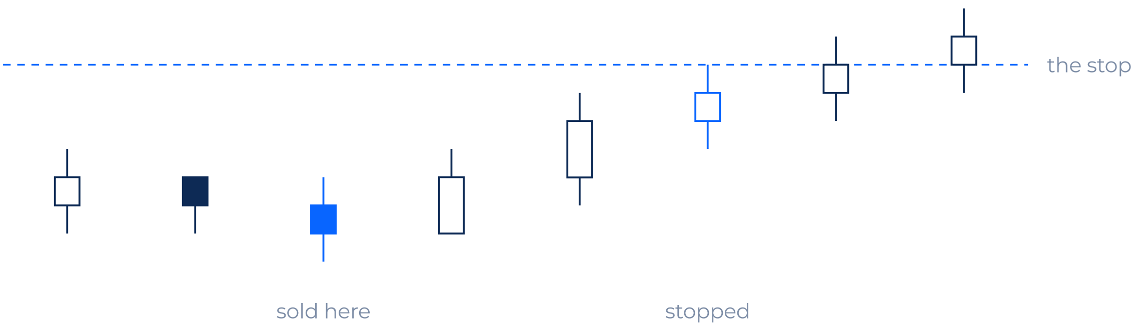
What a real answer looks like when the marking is mechanical. The top bar is what a hand-picked collection of breaks will always report, for the reason the liquidity paper in this library sets out at length. The lower bars are the range honest counts land in.

It helps to know in advance what a good answer looks like. A mechanical count that comes back around fifty-six per cent with a sensible reward is a genuinely useful result and better than most people ever establish. The top bar is what a collection of breaks chosen by eye after the fact will always report, for reasons the liquidity paper in this library sets out at length.

12

What a label costs

It is worth seeing the parameter problem arrive as a loss rather than as an argument, because that is how it is usually met.



What a mislabelled skeleton costs in practice. Reading the finer structure as a change of character, this trader sold into what the coarser structure called an ordinary pullback inside an uptrend. The loss is not caused by bad discipline; it is caused by an unstated parameter.

This trader read a lower high on a fine skeleton, called it a change of character, and sold. On the coarse skeleton those same bars contain no event at all — they are an ordinary pullback inside a continuing uptrend. Price resumed, the stop was taken, and nothing about the execution was careless.

	What happened
The signal	a lower high, on a strength-1 skeleton
The same bars, strength 3	no signal at all
The trade	short, into a continuing uptrend
The cause	an unstated parameter, not indiscipline
The fix	state the strength before the session

The same trade as a ledger. Nothing in the right column is a psychological failing, which is the point: this is a specification error, and specification errors are fixed by writing things down rather than by trying harder.

Read the right-hand column. Not one line is a psychological failing, and that is precisely the point. This was a specification error, and specification errors are not repaired by more discipline or a calmer state of mind. They are repaired by writing a number down before the session starts.

There is a useful diagnostic in your own history, and it costs one evening. Go back through your losing trades and mark the ones where you would have seen no signal at all under a coarser swing definition. If that set is large, your problem has never been patience or conviction — it has been that you were reading a chart nobody else was looking at.

13

What is knowable here

The whole subject fits on one grid, and most of the confusion it produces is a confusion about which cell a statement belongs in.

	Specified	Unspecified
Two readers agree	A procedure. Countable, improvable, arguable.	Cannot happen — agreement without a rule is luck.
Two readers differ	A rule worth refining. Find the case that split them.	Where most structure teaching sits. Nothing can be tested.

The whole subject on one grid. The bottom-left cell is where structure becomes useful, and it is one short written line away from the top-right cell, where most of it currently lives.

The bottom-left cell is where structure becomes worth having. Two readers with a written rule who still disagree have found something valuable: a specific case that splits them, which can be examined and used to sharpen the rule. Disagreement is productive there in a way it can never be without a rule.

The bottom-right cell is where most structure teaching currently sits, and it is a comfortable place to be. Nothing said there can be shown to be wrong, so nothing said there can be improved either. The method survives every outcome and teaches its user nothing across years of use.

The top-right cell deserves its own sentence, because it is the one people believe they are in.

Two readers cannot agree on an unspecified reading except by accident or by shared habit. If you and your mentor always see the same structure, the most likely explanation is not that you are both reading the market — it is that you inherited the same unstated number and have never had cause to notice it.

14

What this does not settle

Three limits, in the spirit of the rest of this library.

The limit	What it means here
Discretion can outperform a rule	possibly — but it cannot be taught or tested
A stated rule is still arbitrary	true, and now visibly so, which is the improvement
Structure may work for other reasons	the count does not care why, only whether

Three limits on the argument, stated as plainly as the argument was. None of them rescues an unstated skeleton, and none of them is a reason to abandon structure.

The first is genuine. A skilled discretionary reader may well outperform any fixed swing rule, and nothing here proves otherwise. But an unwritten skill cannot be taught, cannot be tested, and cannot be improved on purpose — so even if discretion is better, a stated rule is the only version that can be examined, and the only version worth publishing.

The second is the obvious objection and it is correct. Strength three is arbitrary; so is strength one. Writing it down does not make it right. What it does is make the arbitrariness visible, which converts a hidden assumption into a variable you can vary — and varying it is exactly what the fourth row of the count table asks you to do.

The third is a caution about the count itself. If breaks of structure are followed by continuation more often than chance on your instrument, that is a fact about the instrument and the period, not a law. It may be produced by something that has nothing to do with the story attached to it, and the count does not care why. Neither should you, until the count stops working.

Term	As used in this paper
Swing high	a bar whose high exceeds a stated number of bars each side.
Skeleton	the sequence of swing points a definition produces.
Break of structure	a close beyond the last swing in the run's direction.
Change of character	the first break against the direction of the prior run.
Swing strength	how many bars must be lower, or higher, on each side.
Equilibrium	the halfway price between a range's two ends.

The terms this paper uses in a fixed sense. They carry the same meaning across the rest of the library.

The useful summary is two sentences. Market structure is not something the chart hands you — it is a skeleton you construct by applying a swing definition, and the definition, not the market, decides whether the chart in front of you contains a change of character. So state the strength, state the break, state the timeframe, and keep the count at two different settings; then structure becomes a procedure that can be argued with, tested, and made better, instead of a reading that is always right afterwards.

> Educational content only. Nothing in this document is financial advice, and no part of it is a recommendation to buy or sell anything.