5 Reasons Why Price Action ISN'T the Holy Grail

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One of the biggest problems facing traders is self-created - it's the tendency to focus efforts on a sole area of expertise within trading. This could be a certain type of setup, money management techniques or even trader psychology.

But whilst mastering one of these is likely to be very useful, each one on its own is just one of the cogs in the trading machine. In the same way price action ISN'T the Holy Grail and here's why.

What's the trading Holy Grail anyway?

The trading Holy Grail if it existed, would be a system, strategy or method that always produces results no matter what.

It'd be easy to interpret. It'd be easy to implement. It'd be easy to make money with. It'd work effectively across all types of markets and all types of market conditions. It'd be great for small and large accounts alike.

Now of course, there are things that might be viewed by some as coming close, but I can't say that I've come across something which meets all the above criteria and is foolproof.

In any case, let's face it, if you presented a group people with a great strategy and all that they needed to be successful, most of them would still struggle to make it work without any guidance. In short, the trading Holy Grail doesn't exist.

Happens all the time

Price action is happening all the time and the thing is, it's happening in all places too - not just the places that might be relevant to you.

So if you focus solely on price action, you'll end up taking in a great deal of what some call noise. This can lead you to taking less than optimal trades at less than optimal prices and times.

On its own, price action can convince you of your feelings about direction, but it's just not enough for consistently profitable trading. And just like any other form of technical analysis, it doesn't tell you what will happen, just what might happen.

It can make you blinkered

Aligning yourself with a higher timeframe participant is virtually always beneficial. It's something which traders strive to do even to the extent where people develop specialized approaches for "detecting" them.

You see, higher timeframe participants are generally much larger and tend to initiate directional movement in the markets - get on the right side of this and clearly there's going to be the opportunity to make some money.

The problem with price action is that it has the potential to draw you in to a smaller and smaller timeframe. But whichever timeframe you're viewing the market in, it's very difficult to look outside (and over a bigger timeframe) of this.

This is because price action can change relatively quickly and you won't want to miss anything. But if you're not careful, you'll miss what the higher timeframe participants are doing.

Getting sucked in

Getting sucked into the market when there's no real reason to trade is one of the biggest plights of the day trader and price action can easily do this to you if you're dependent on it alone.

Seeing markets that are moving quickly and maybe look like they're about to present a great opportunity, even if you're following price action rules, can get you to take some pretty dangerous trades.

Think of when there's higher volatility than normal - can you justify the increased size of stop you need to let a trade play out? Do you have the ability to balance the added risk by reducing size? *Are you actually doing this?*

Doesn't help you with trade execution and management

Whatever the price action is telling you is more likely to happen, it doesn't necessarily help a trader to manage a position effectively.

Money management of course can be supported by price action changing the unfolding picture, but the fact is that a big part of adjusting a position's target and stop orders, rightly or wrongly, comes down to how far price moves relative to the position itself.

Think about the case of a trailing stop as an example. The stop can be hit without price action dictating that a change has even occurred.

Moreover, what price action doesn't do (and perhaps for some, will do the opposite) is help a trader remain calm and follow their trading plan. Sticking to your game plan can be the difference between making a success of trading and not.

All of this said, although price action isn't the Holy Grail, price action IS a very important piece of the puzzle if you're using it as part of a holistic approach.

Understanding it with context and an understanding of what markets tend to react to in terms of price, can give you a much better idea of the relative short-term direction a market is likely to move in.

Even with this, you still need to have a solid plan, a good strategy, trade management techniques, manage your emotions and so on.

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