

Anatomy of a Base Box

Research, analysis and publication by Barkworth - Twitter / X: @barkworth17

When a swing finds a top or a bottom, price will either reverse (V-shape) or consolidate (base). Every year, there are 2 to 3 larger consolidation ranges, and out of these originate large swings.

Here is one year of SPX price action, and consolidation ranges are easily identified, and it is easy to see that multi week contractions lead to multi week expansions:



The same principle applies to hourly consolidations, or even consolidations on lower timeframes.

I decided to backtest these structures, to see what the requirements are for price to start basing instead of putting in a V shape reversal or continuation, and came up with a few parameters that appear every single time.

This document is a publication of these discoveries. I hope this will help you increase your awareness, in addition to a system that you may already have, or if you are a beginner, I am certain that bits and pieces of what I go through, will be of aid to get you started with your own journey.

At least, I hope you'll appreciate my work.

Good luck,

Bark, though my friends call me Barky.

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First, my setup. For my work, I use the Ripster EMA clouds, simply because they are beautiful, but mostly because the cloud fills visualise convergence and crosses in real time.

My settings are EMA8/9 as a small ribbon for fast trend, EMA14 and EMA21 to complete the first ribbon, and EMA34/50 for governing trend, and finally, a cloud between EMA21 and EMA200 for daily charts only. If you backtest daily EMA21/EMA200 crosses, you'll understand why.

I use volume mostly for lower timeframe entry models, when price consolidates on decreasing volume, it tells me that a move is pending, and I use RSI for divergence and strength/weakness, but I haven't included RSI in this document.

So with the setup on screen, let's get started with an example base.



In short, here is the explanation:

I use three colours for three different stages.

- 1) The red colour represents the stage where the governing trend (EMA50) hasn't ended yet, meaning that price can simply continue.
- 2) First when the EMA50 trend ends, and an initial reversal attempt (V shape) fails, price starts basing as the EMA ribbons on this particular timeframe start to converge, in orange.
- 3) Backtesting has shown that each stage uses more or less the same amount of time, so red gives the size of orange, gives the size of green. During the green stage, the EMA clouds are ready to support a break out.

Rules:

- 1) Red stage: I only scalp against the trend while I look for continuation.
- 2) Orange stage: long at support, short at resistance. Break outs: wait for a consolidation above or below the range.
- 3) Green stage: use a lower timeframe entry model in anticipation of a sustainable break out.
- 4) After a failed break out at green stage, shift to the next higher timeframe.

Following below is a series of 27 slides that explain my interpretation of trend in detail.

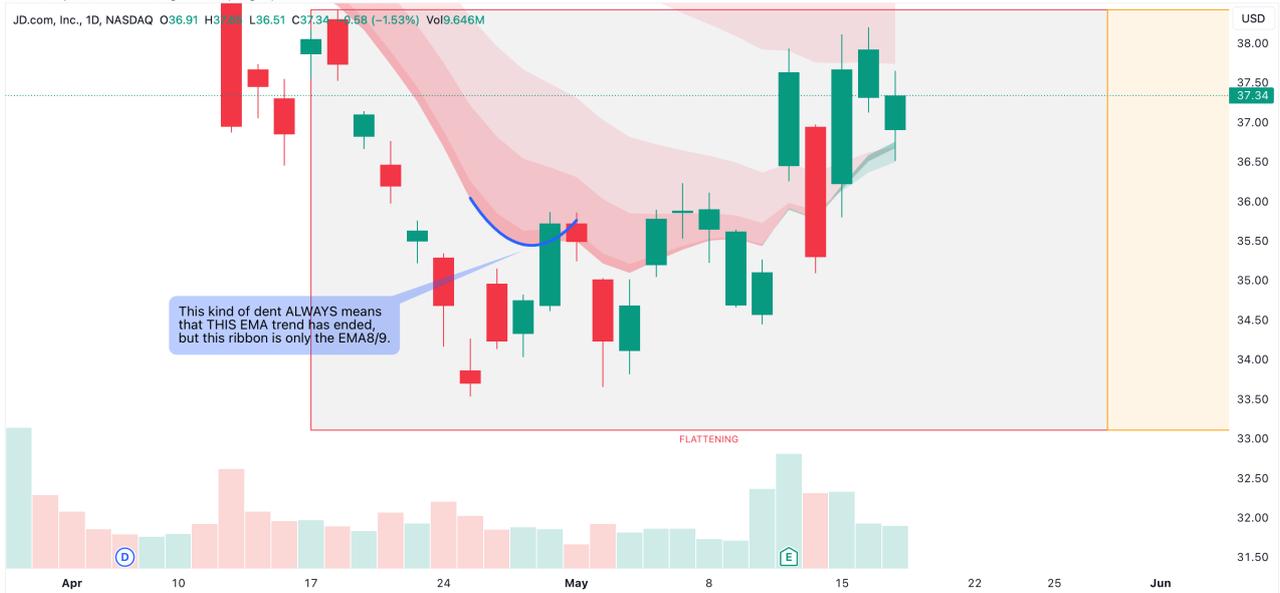
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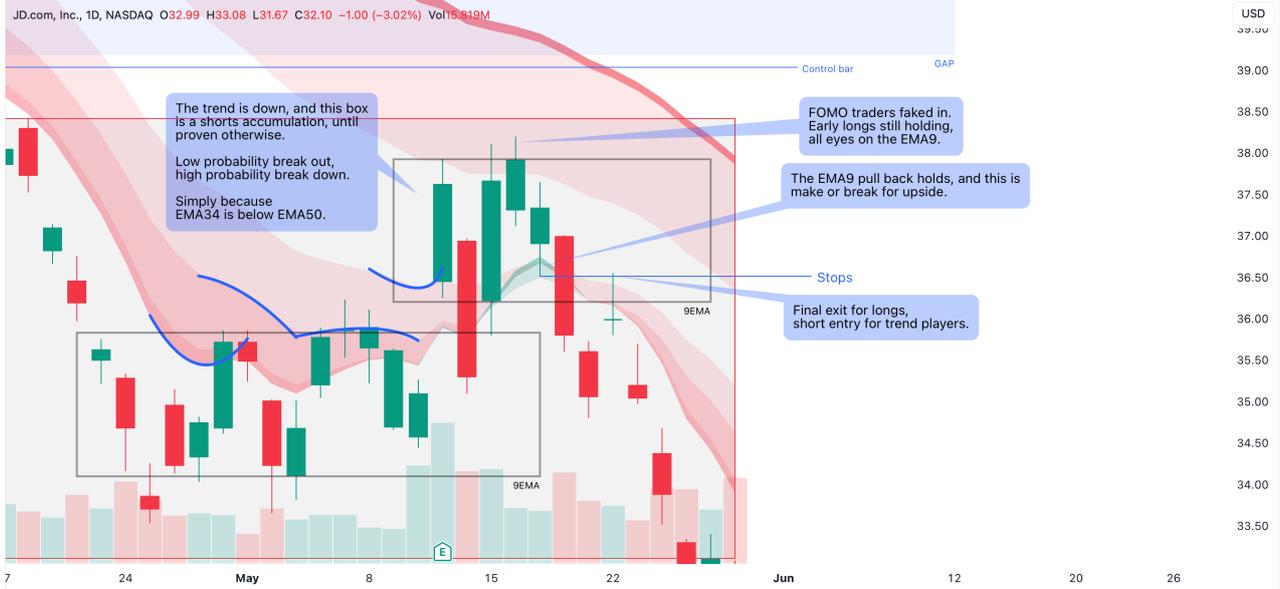
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JD.com, Inc., 1W, NASDAQ O 34.92 H 50.13 L 33.85 C 34.13 -0.74 (-2.12%) Vol 48.244M



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JD.com, Inc., 1D, NASDAQ O 34.19 H 34.49 L 33.85 C 34.13 +0.11 (+0.32%) Vol 14.16M



TradingView

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USD



The Flattening stage also consists of a 3 wave move. In total, Flattening and Converging setup 6 pivots of a 7 pivot move.

The 7th pivot is the break out stage, and takes us to the final stage of the base consolidation.....

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USD



Arriving in the break out stage completes the setup.

Price will now do one of 4 things:
- fake out into higher timeframe EMA50 and break down;
- set up a consolidation inside the base;
- break out and set up a consolidation above the base;
- break lower and set up a consolidation below the base.

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USD



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USD

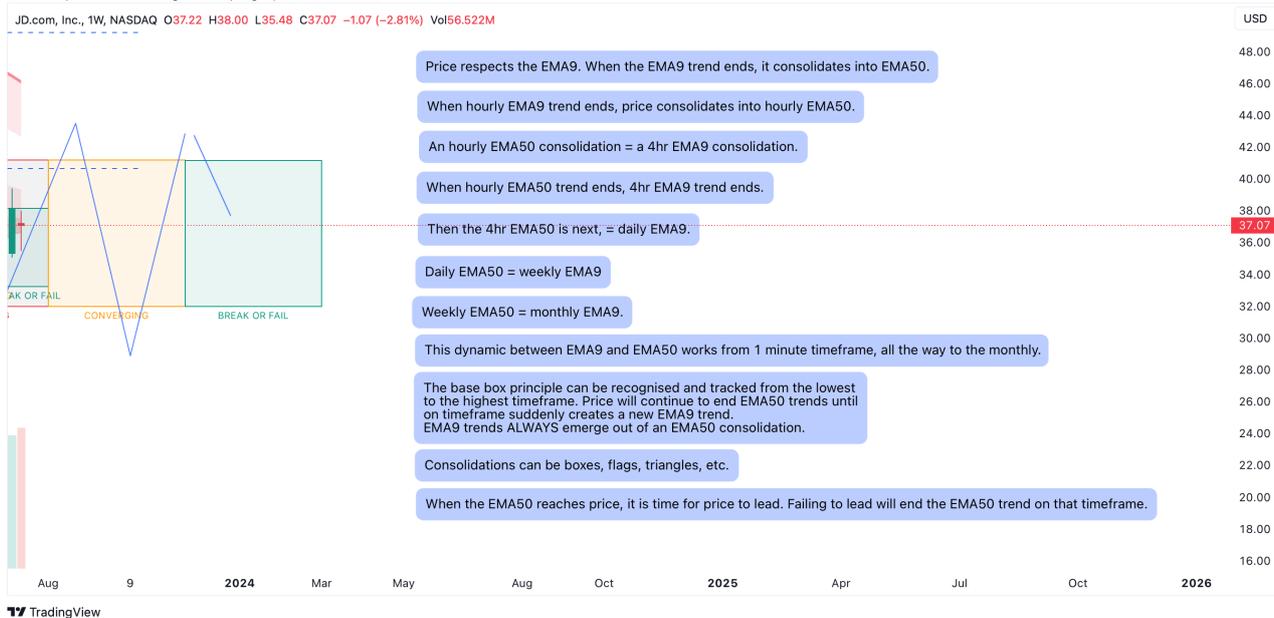


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So that is all it is. Lower timeframe entry models are flags, rectangles, triangles, wedges, whatever price throws at us. Learn how to trade each of those models to understand where to place your stop, so that you can calculate risk, so that you can size your position.

If you invest a majority of your time into study and analysis, you will create an awareness that aids you in your attempt to treat trading as a business and design your own customised system.

I'll add two examples on lower timeframes below. I hope you have enjoyed this, and I wish you all the best.

Bark - and if you have made it this far, you may call me Barky.
Twitter / X: @barkworth17

Example on 4 hour timeframe:



Example on 1 minute timeframe:

