

# Pivot points, market structure & the three phases of major trends

## Dow Theory — Foundation

Charles Dow is the grandfather of technical analysis. He co-founded the Dow Jones Industrial Average (1896, still running today) and the Wall Street Journal. His work was done without computers — all manually charted with pencil and paper.

The other three TA Titans built on Dow's work:

- **Ralph Elliott** — developed Elliott Wave Theory (wave structures driven by collective investor psychology). Dove deeper into the patterns within Dow's phases
- **Richard Wyckoff** — developed the Wyckoff Method, going deeper into exactly what accumulation and distribution phases look like (signature patterns)
- **W.D. Gann** — theories on price, time, and geometry. Everything runs on time cycles (life, weather, seasons — financial markets are no different)

## The 6 Tenets of Dow Theory

Each tenet is covered in depth throughout the course. Summary:

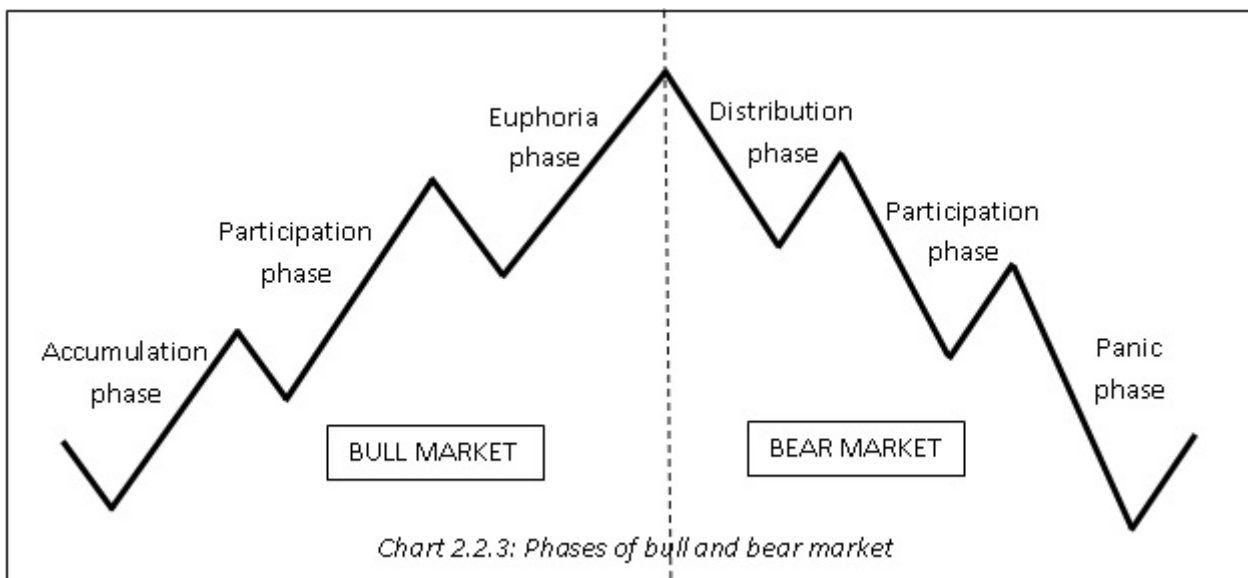
1. **The averages discount everything** — all available information (economic, political, market) is already reflected in price. "Buy the rumour, sell the news" — if you're hearing about it, professionals already knew
2. **The market has three trends** — Primary (long-term), Secondary (medium-term), Minor (short-term). A common mistake: wanting to invest long-term but taking entries on minor short-term moves
3. **Primary trends have three phases** — Accumulation, Public Participation, Excess/Distribution (*this week's focus*)
4. **A trend persists until its reversal is indicated** — like Newton's first law: a trend stays in motion until acted upon. There are only three ways a trend can reverse (*covered in*

Week 3)

5. **The averages must confirm one another** — a trend needs confirmation from multiple sources, just like you'd research a major purchase from multiple angles, not just one data point
6. **Volume must confirm the trend** — volume should rise with the trend. Big money can mask price action but they can't mask volume — you can't hide how many units were bought or sold

# The Three Phases of a Primary Trend

A bull market is broken into three phases: Accumulation → Public Participation → Excess. Then it reverses through: Distribution → Public selling → Panic. Then it resets.



## Phase 1: Accumulation

- Occurs after a prolonged decline or bear market
- Smart money / experienced investors start buying undervalued assets (just because something is down bad, doesn't mean it can't go down more)
- Market sentiment is very pessimistic — "this thing sucks", everyone expects it to keep going down
- Low trading volumes and gradual price stabilisation
- Key insight: "If everyone's bearish, who's left to sell?" — that's often where it finds a bottom

- Can last years (Microsoft went sideways for 14 years after the tech bubble, FMG went sideways for 10 years after the GFC)

**The Spring / Liquidity Grab:** During accumulation, big money often pushes price below the bottom of the range before sending it up. Why? Anyone who bought support had stop losses just underneath — big money grabs that liquidity, shakes people out, then sends it. If something breaks out of a major sideways range to the downside and pops straight back in — that's actually a sign of strength (a "spring"). The opposite applies to distribution: a pop above the range that falls back in is a sign of weakness.

## Phase 2: Public Participation

- Momentum builds as more investors recognise the trend
- Media and public interest increases — some positive news articles, battle between bulls and bears
- Price rises significantly due to higher demand
- **This is usually the longest phase** — where the most gains come from
- Increased trading volumes
- Positive market sentiment, with a taste of euphoria toward the very end
- The really savvy investors get in early in this phase, majority get in mid-to-late

## Phase 3: Excess

- Smart money begins selling at higher prices
- Can manifest as a **blow-off top** (fast spike then fast sell-off) or a **long sideways distribution**
- Overvaluation concerns arise but people start ignoring them ("maybe the market just likes it at this price")
- Sentiment is overly optimistic or euphoric — you'll struggle to find anyone saying anything bad about it. 90% bullish
- **Declining trading volumes despite higher prices** — price going up but volume not confirming (Tenet 6)
- Signs of reversal or instability may appear but average investors won't recognise them

## The Sentiment Cycle

The emotional progression through the phases:

**Bull market (going up):** Disdain → Skepticism ("just a dead cat bounce") → Caution → Growing confidence → Conviction → Peak Greed/Euphoria

**Bear market (coming down):** Hope ("just another zig-zag") → Worry → Fear ("what have I done") → Disgust → Disdain

Peak fear at the bottom. Peak greed at the top. Every time.

## Corrections Between Phases (Craig's Key Rule)

- After accumulation ends → expect a **1/3 to 2/3 pullback** of the accumulation gains
- After public participation ends → expect a **1/3 to 2/3 pullback** of the public participation gains
- After excess ends → you don't just correct the excess. **You correct the ENTIRE move** from the start of accumulation to the top of excess. These are the major resets (GFC wiped 57% off S&P, crypto cycles pull back 80%)

This is why getting caught buying in the excess phase is so dangerous — you're not just giving back the excess gains, you're giving back everything. It can take 6-13 years to recover.

## Phases Within Phases (Fractal Nature)

Each major phase contains its own sub-phases of accumulation, public participation, and excess. The more you zoom in, the more sub-phases you see. This concept is the foundation of Elliott Wave Theory (Term 3).

Example: The S&P 500 since 2009 has a big accumulation, big public participation, and big excess phase. But within the big public participation, there were smaller accumulation, public, and excess sub-phases.

## Commodity vs Equity Phase Differences

- **Equities/Indices:** Public participation is the dominant, longest phase. Accumulation and excess are often similar sizes
- **Commodities (and commodity stocks like lithium, gold, uranium miners):** The excess phase can be disproportionately massive — huge blow-off tops. Public participation can be relatively smaller

## Examples

- **Bitcoin 2018-2021:** Sideways accumulation 2018-2020, public participation started when 20K broke (savvy ones got in at 12K), excess phase when everyone was talking

about "who's buying next after Tesla" — they distributed into the good news

- **Microsoft:** Parabolic into 2000 tech bubble, crashed, went sideways for 14 years (accumulation), broke out ~\$37 resistance, then public participation trending up
  - **FMG:** Massive spike pre-GFC, crashed to \$1, accumulated for 10 years at \$1-7, broke out and ran to \$23+
  - **Core Lithium:** Went up 9,700% — but most holders didn't get out and gave it all back (lost 96% from top). Perfect example of why understanding excess phase matters
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# Pivot Points

**If you cannot identify pivot points, you cannot identify market structure. If you cannot identify market structure, you cannot identify a trend.** This is the literal backbone of technical analysis.

## How to Identify Pivot Points

1. **Look for 3 candles moving in the opposite direction** — this is not a textbook rule, it's a beginner-friendly method to stop you getting faked out on tiny moves. ~90-95% of pivot points will follow this rule
2. **They don't have to be 3 red or 3 green candles** — they can be a mix of colours. You're looking for the overall direction changing (3 candles moving the opposite way to the primary move)
3. **Exceptions:** During elevated market volatility, 1-2 very large candles can count as a pivot (e.g. a big bullish engulfing candle on its own)
4. **Craig's clarification:** The 3-candle rule is a *guide* to prevent you marking 100 tiny pivots that add no value. What you're really looking for is significant peaks and significant troughs. If it's just undulating noise, you probably don't need a pivot there

## Pivot Point Shapes



- **V-shaped:** Rapid, sharp reversal — price quickly changes direction. Most common
- **U-shaped:** Gradual shift — price hangs around the bottom/top sideways for a bit before reversing

## Swing Highs and Swing Lows

Pivot points are also called swing points:

- **Swing High (H):** Pivot at the top where sellers step in — identifies resistance levels
- **Swing Low (L):** Pivot at the bottom where buyers step in — identifies support levels

## Practical Tips for Marking Pivots

- Use the **highlighter tool** in TradingView (small dots) to mark pivots

- Colour code: **green dots** for lows/buyers, **red dots** for highs/sellers — green=go, red=stop
  - **Line chart trick:** Switch from candles to line chart to more easily see pivots when the wicks and candles are clouding your judgment. It strips away the noise and shows the pivots clearly
  - **Hold Ctrl + click** on a dot to drag-copy it (saves time vs recreating each one)
  - **Start on the weekly timeframe** — Dow himself never traded below the daily because it was all manipulated noise. The lower you go, the harder it gets. Weekly for the first 6 weeks minimum
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# The 3 Types of Market Structure

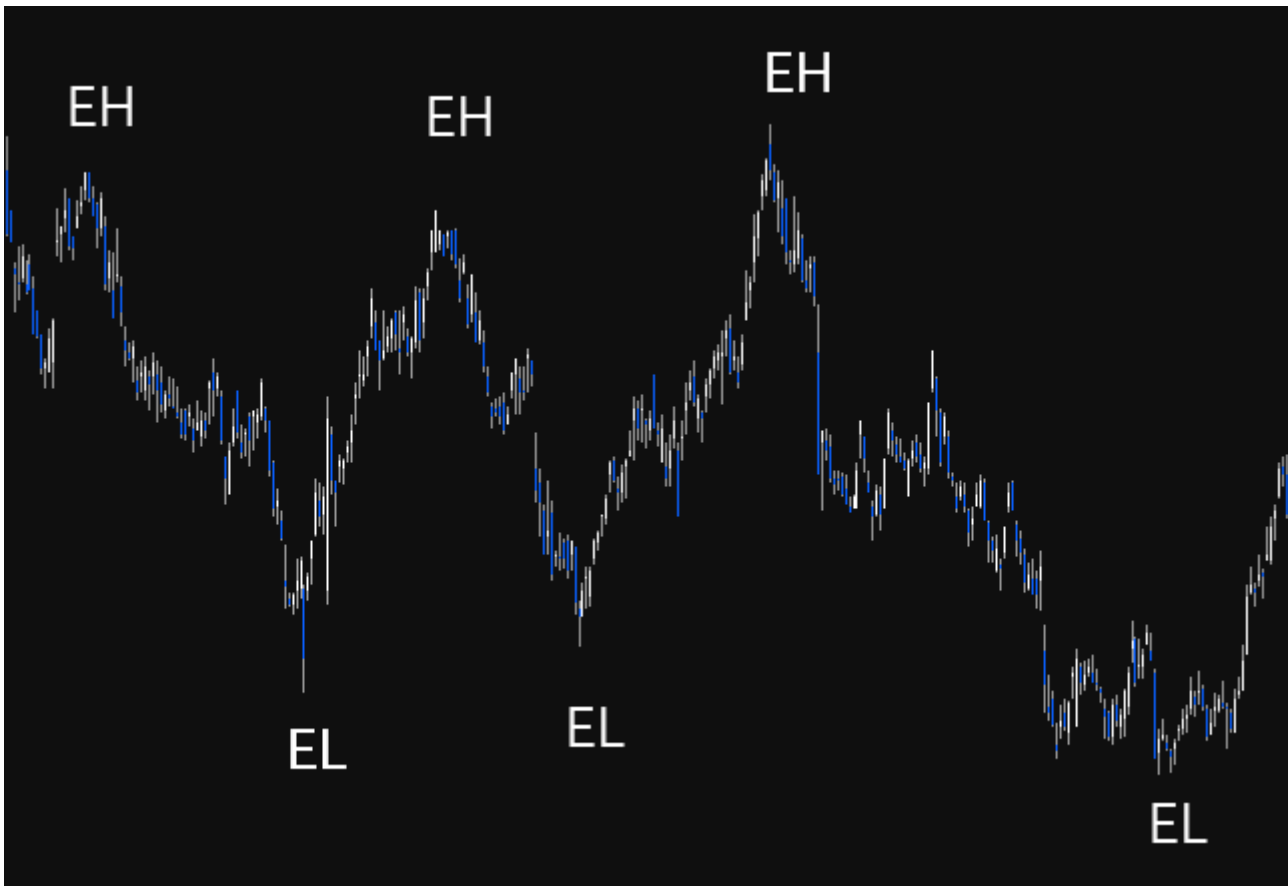
There are only 3 things a market can do: go up, go down, or go sideways. The first thing you should do when pulling up any chart is identify pivot points, then identify market structure.

**"Market structure is king"** — when you go against market structure, that's when you lose.



# Bullish (HH / HL)

- The market is going up
- Marked by consistent **higher highs** and **higher lows**
- Pivot peaks are higher than the previous highs — signals increased demand and optimism (sellers selling higher each time)
- Pivot lows are higher than previous low — signals resilience, buyers stepping in higher each time (buyers believe it won't go back to the old price)
- Think: "Why are they buying at \$18K when last time they didn't buy until \$16K? Why are they selling at \$20K when last time they sold at \$18K?" — that's a strong uptrend



# Consolidation (EH / EL)

- Market moving sideways
- No clear trend — equal highs (selling at roughly the same level) and equal lows (buying at roughly the same level)
- Traders look for breakouts (above EH = potential uptrend) or breakdowns (below EL = potential downtrend)



## Bearish (LL / LH)

- The market is going down
- Lower Lows: each trough is lower than the previous — buyers waiting for lower prices each time
- Lower Highs: each peak is lower than the previous — sellers stepping in earlier each time, don't believe it will reach the previous high
- Think: "Why are they selling at \$22K when last time they were selling at \$23K? Why are they buying at \$19K when last time they bought at \$21K?"
- Can be good for shorting

## Market Structure Change Confirmation

**You need BOTH to confirm a change:**

- Bullish change: need a **higher high AND a higher low**. Getting just a higher high with a lower low is NOT a change — buyers are still coming in lower (still bearish)
- Bearish change: need a **lower low AND a lower high**. Getting just a lower low without a lower high is NOT confirmed

## Connecting Pivots

Draw a line connecting your pivot points to visually see the trend direction. This makes it obvious when you transition from uptrend → sideways → downtrend.

# Transition Through Phases Using Market Structure

Markets transition: Uptrend (HH/HL) → Sideways (EH/EL) → Downtrend (LL/LH) and vice versa. The phases map directly: Accumulation = sideways (EH/EL), Public Participation = uptrend (HH/HL), Excess = potentially still making highs but with warning signs, Distribution = begins transition to LL/LH.

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