PRECISION PIPS ACADEMY

# How to Read a Retracement

A lesson on distinguishing a temporary pullback from a genuine market structure shift — using higher-timeframe context, key zones, liquidity and confirmation.

CATEGORY: MARKET STRUCTURE • LEVEL: INTERMEDIATE • CONCEPTS: ICT / SMC, LIQUIDITY, FVG, ORDER BLOCKS



One of the biggest mistakes traders make is assuming that every move against the current trend means the market is reversing. A retracement is simply a temporary move against the current directional move before price potentially continues. The key skill is learning to distinguish a retracement from a genuine market structure shift — and this lesson walks through exactly how.

## 1 Start With the Bigger Picture

Before judging a retracement, establish the higher-timeframe context. A lower-timeframe pullback means very little if you don't understand the larger structure it's happening inside of.

> Ask yourself:
> - What is the current market structure?
> - Where is price relative to the dealing range?
> - Where is the nearest liquidity?
> - Are we in premium or discount?
> - What HTF zones are nearby?

## 2 Watch What Price Retraces Into

A retracement may return toward areas such as:

**FVG** — Fair Value Gap left behind by displacement

**Order Block** — the last opposing candle before an impulsive move

**Breaker** — a failed structure level that flips role

**Previous structure** — a prior high or low that once mattered

**Premium / Discount area** — price's position within the dealing range

**Liquidity** — resting orders above/below recent swings

> **Important:** these areas can provide context for where price may react — but a zone is a location, not an automatic entry.




FIG. 1 — Price retracing into a Fair Value Gap after tapping buy-side liquidity, shown against the premium / equilibrium / discount range.

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## 3 Study the Strength of the Retracement

A healthy retracement may move back toward a key area without completely destroying the structure that created the original move.

**Example — Bullish structure:** HH → HL → HH
Price pulls back toward the previous HL or an FVG. That pullback doesn't automatically mean the bullish structure is finished. We need to see what happens next.

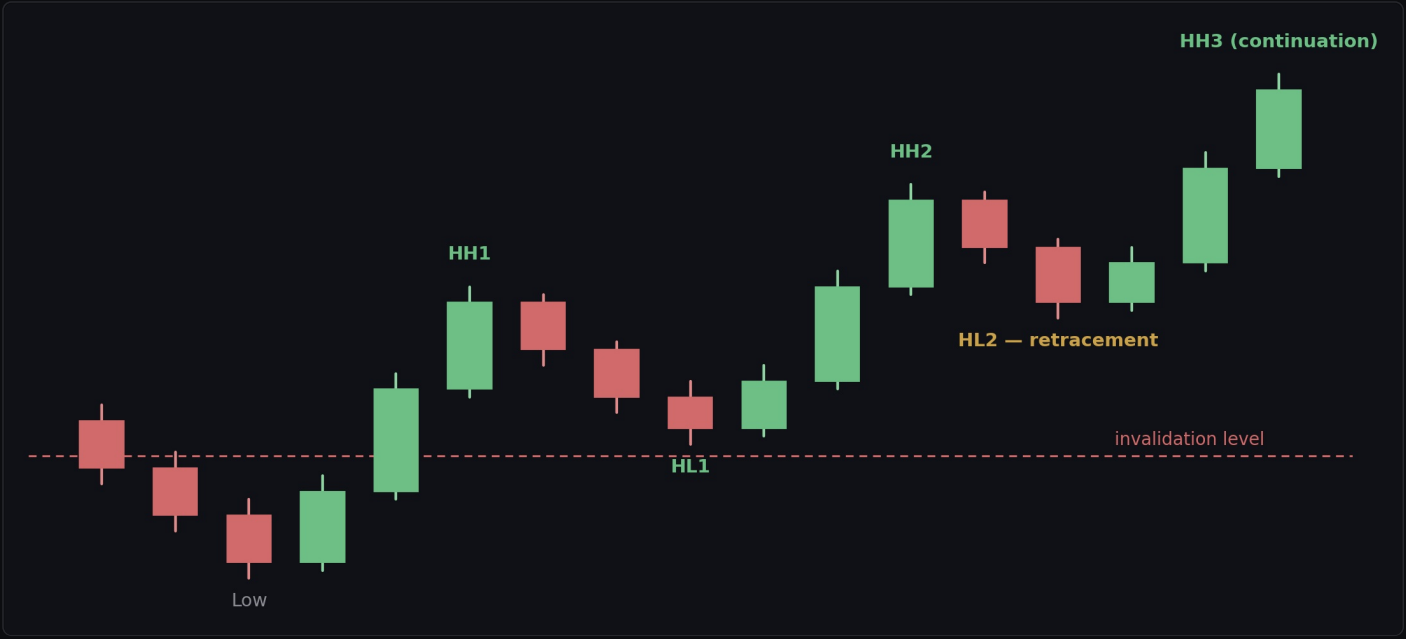



FIG. 2 — A healthy bullish retracement (HH2 → HL2) respects prior structure. A break below the HL1 invalidation line would change the picture.

## 4 Look for Confirmation

When price reaches your area of interest, look for evidence — the reaction and confirmation matter far more than the simple fact that price touched a zone.

**Bullish scenario**
Retracement → SSL taken → bullish displacement → MSS → FVG → continuation

**Bearish scenario**
Retracement → BSL taken → bearish displacement → MSS → FVG → continuation

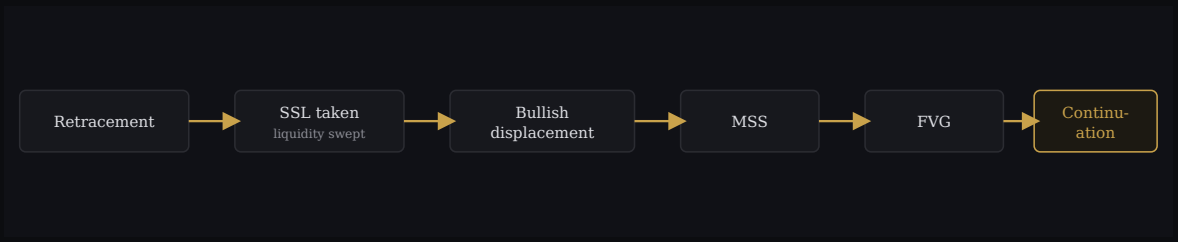



FIG. 3 — The bullish confirmation sequence: a zone touch is only the starting point, not the signal itself.

## 5 When Does a Retracement Become a Problem?

Ask: *has the structure that supported my original idea actually been invalidated?* If yes, don't keep holding onto the original bias simply because you want the trade to work. The market can change — that's why every setup needs a clear invalidation point.

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## 6 Worked Example — XAUUSD

Imagine XAUUSD is showing bullish structure. Price sweeps sell-side liquidity, displaces bullishly, breaks structure, creates an FVG, then retraces.

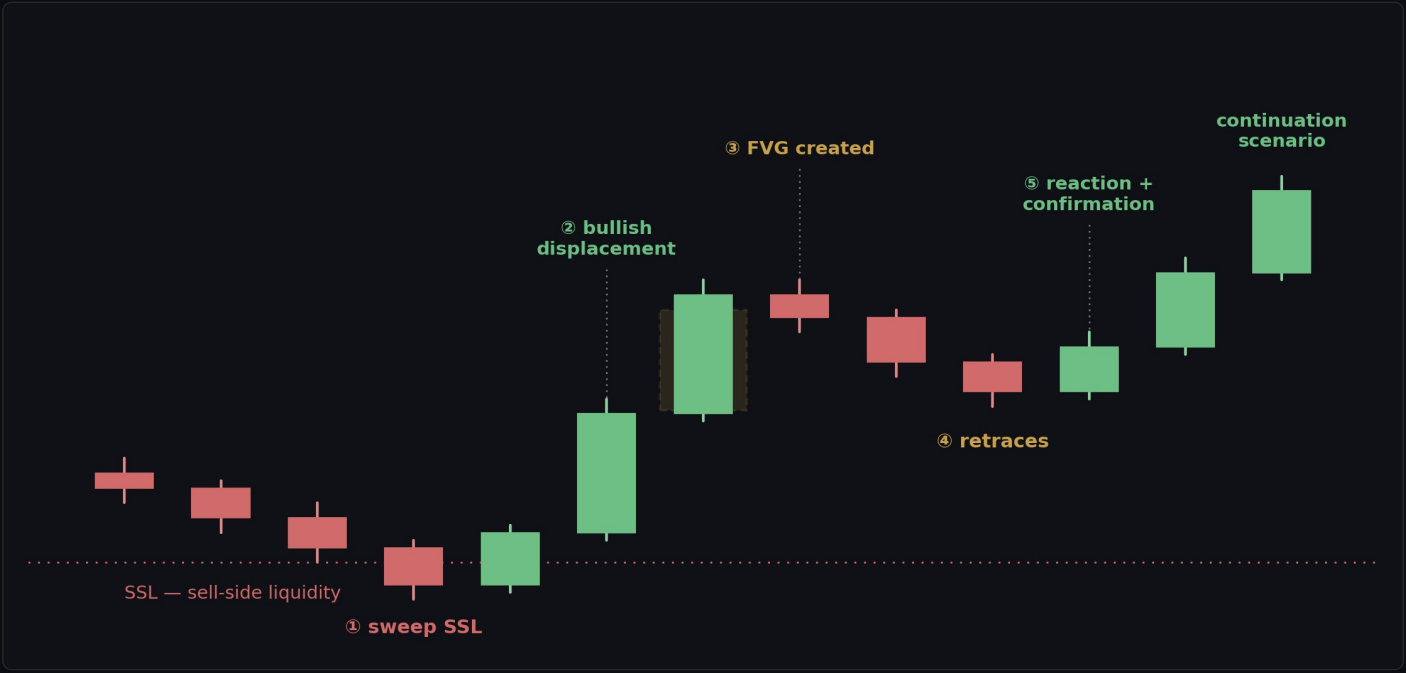



FIG. 4 — Illustrative XAUUSD walk-through. Educational example only — not a live chart or a trade recommendation.

| | |
|---|---|
| ✕ "Price is falling, so the bullish setup is over." | ✓ "Is this simply a retracement into my area of interest?" Then observe the reaction. If price reacts and confirms, continuation becomes a scenario to consider. If price breaks the structure that invalidates the setup, the original idea needs to be reassessed. |

## 7 Common Mistakes

- ✕ Treating every pullback as a reversal
- ✕ Entering immediately when price touches an FVG
- ✕ Ignoring higher-timeframe structure
- ✕ Moving your stop because you don't want to accept invalidation
- ✕ Chasing price after the retracement has already finished
- ✕ Forcing the original bias after market conditions change
- ✕ Confusing a deep retracement (e.g. into a 70–80% zone) with an automatic reversal signal
- ✕ Ignoring how the retracement itself unfolds — impulsive vs. corrective price action

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## 8 One Layer Deeper — Reading the Retracement Itself

*(Additional Precision Pips notes beyond the original lesson.)*

**Corrective vs. impulsive pullbacks.** A retracement that unfolds slowly, in overlapping, choppy candles, generally reads as corrective — a pause within the existing trend. A retracement that moves fast, with strong displacement candles and little overlap, behaves more like an impulse — and impulsive counter-moves deserve more caution, since they can be the first leg of an actual reversal.

**Time and session context matter.** A retracement that develops during a low-liquidity session (e.g. late Asian session) carries less weight than one that develops through London or New York, where genuine institutional participation is more likely to be present.

**Multiple timeframe alignment.** The strongest confirmations tend to appear when a lower-timeframe MSS lines up with the higher-timeframe bias rather than against it. A 5-minute "confirmation" that fights the 4H trend is a lower-quality signal than one that's moving in the same direction as HTF structure.

## 9 Precision Pips Checklist

Before trading a retracement, run through this checklist:

- ☑ What is the HTF direction?
- ☑ What caused the original displacement?
- ☑ Where is price retracing to?
- ☑ Is liquidity nearby?
- ☑ Is the structure still intact?
- ☑ What confirmation am I waiting for?
- ☑ Where is my invalidation?
- ☑ Where is the logical target?
- ☑ Does my lower-timeframe confirmation align with the higher-timeframe bias?
- ☑ Am I reacting to price, or waiting for the plan to confirm itself?

### FINAL LESSON

A retracement is not automatically a reversal. Don't react to every candle moving against your position. Understand the structure, location, liquidity and reaction before deciding what the market may be doing.

*Don't fear the retracement. Learn to read it. — Precision Pips*

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