

# Price Correction and Its Justification in Behavioral Finance with The Jabalameli Chartical Method and Its Adaptation to The Omnipotence Defense Mechanism

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## ABSTRACT

All human beings, from the moment of birth to the moment of death, without any exception, will face all kinds of bitter and sweet events, which are sometimes chosen and sometimes out of the individual's will, but either by choice or imposed, These events will have an effect on the nervous system. Because after a person enters this world from the safe environment of his mother's womb, until the moment of death, he must know his complex world and always make conscious and unconscious efforts to survive. Being according to the customs of the society or in other words becoming the same colour as the congregation is one of the most common methods of a person in order to maintain his position in society in order to ensure his survival. One of the methods of observing this behavioural phenomenon in humans is the behaviour and trading decisions of a person in the face of the price movement trend in the financial markets based on financial-behavioural. The present study is a review of the concept of price correction and its justification in behavioural finance using the Jabal Ameli chartical method, which is descriptive-analytical, and the information data required for it is collected by library and document research methods. The obtained results indicate that entering the price movement process at any point of the financial market without taking into account sufficient skill in managing it is one of the most fundamental reasons for the formation of correction and such transactions and correction can be achieved. He considered it a kind of defence mechanism to relieve the stress of the nervous system.

## **Introduction**

One of the topics that are very important for people and is one of the main pillars of their life is financial affairs (Abdul Rahim and Hossein, 2022). The behaviour of investors, as those who have rational behaviours, seek to optimize profits, are omniscient and infinitely rational; It is difficult to understand in the real world. Even assuming that investors are aware of everything, the fact that they may have to interact in information search processes and that they may have rational limitations has been ignored (Barassoud and Zamardian, 2020). The behaviour of investors, including financial literacy and past behaviour, has an important contribution to the intention to invest in the stock market. In order for analysts to provide a correct analysis of investors' behaviour, they must identify all the factors influencing their decision. Identifying these factors helps the analysts to take more corrective actions to attract investors and besides paying attention to other financial, economic and personal variables, also occupational and educational factors as important variables influencing the decisions of investors. Pay attention in advance (Panahi et al., 2020).

The relationship between the personality of investors and their investment performance showed that the personality traits of investors are related to financial risk tolerance, financial overconfidence and perceptive investment performance. Also, financial risk tolerance and financial overconfidence showed a negative relationship with perceived investment performance. The analysis of mediating relationships revealed that the two psychological characteristics of the study, i.e., financial risk tolerance and financial overconfidence, have a complete mediating role in the relationship between personality traits and investment performance (Akhtar and Das, 2020). In Jabalameli's chartical method, no indicators, oscillators, patterns or even types of technical analysis methods such as harmonic, classical or any other methods such as Elliott and even fundamental are used. In this method, in general, the trader seeks to know what type of traders the people inside the market are. There are institutional traders who are present in the market with large and influential money, professional traders whose money does not have much impact on the market but has analyzable behaviours, or now retail traders in There are people in the market that neither their money has a special effect on the market nor that they can create good behaviour in the price movement.

In Jabalameli's chartical method, the trading market trader looks for the trend. Because the trend is caused by the influx of big money from institutional and professional traders. In order to identify behaviour in this method, one of the most important principles of social sciences should be addressed. As was said before, in behavioural finance, the focus is on the community of traders, and it should be considered what kind of behaviour they exhibit, what tendencies they have and what decisions they will make. The principle in social sciences says that: as long as you examine the people of society individually and want to predict what behaviour they will show or what decision they will make in the not-so-distant future, You can never identify the correct option with the highest probability, but if you examine the same people and society when they are under stress, their behaviour and decision in the near future will be identified with a very high probability. When people are under tension as a group, their choices are limited and finally, their behaviour can be recognized with a higher probability (Jabalameli, 2022). Defence styles are unconscious psychological processes that are involuntarily triggered in response to the perception of psychological danger and are used to reduce anxiety and worry. The power and ability to return to the original life and start a new situation by reducing the nervous pressure or distorting it in some way is related to the defence mechanisms (Jazairi, Watankhah and Badiei, 2013, quoted by Poladi-Rimhari and Golestane, 2022).

Types of correction

In the trading markets, one of the most important clues is the actions that can give useful information to the trader to enter the transaction. Extension and correction in trading markets are like inhaling and exhaling in humans. In the same way that a person needs to inhale and

exhale to survive and continue living, and one of them alone can never keep a person alive, in trading markets, extension and correction It is the same. Whenever the market continues an upward or downward movement without stopping, the trader should realize that that time frame is not suitable and should go to a higher time frame, and if the higher time frame is the same, he should find out that The unhealthy and unrealistic price is growing and is actually a bubble. In Jabalameli's chartical method, when trading markets correct, they create a position to enter into transactions, whether they are continuation or reversal transactions, and in any case, according to Khalaf's argument, corrections are needed.

#### Types of corrections

Although corrections are the ebb and flow of the market and must exist to be sure of its health status, the types of corrections also give clues to the trader. For example, how much liquidity is there in the market now? Or how much will the market move now? The trader should first familiarize himself with their types in terms of technical specifications and appearance.

#### Stall correction

One of the types of correction is stall correction. As you can see in the picture below, in stall corrections, after the extension is completed and when the price wants to make a correction, it cannot return more than 15% of the extension amount, and the correction or deep correction will not For example, when an extension is made and has a movement of 100 pips, its correction cannot be more than 15 pips or fifteen per cent and correct the movement.

The pressure in the stall, i.e., those traders who, with their persistence, desires and emotions, have invested a lot of money in worse numbers, have been trading constantly and stubbornly based on the auction theory. Due to the pressure of the emotions and desires of the traders, the extension is high and when the price wants to make a correction, due to the pressure of liquidity, the price cannot return more than 15% of the distance travelled by the extension and stalls forward. Come to The stall mode should be between 3 and 5 candles. In other words, the pressure should be high enough that it cannot stay in this area and continue its movement again. The trader should keep in mind that the stall is formed after the spike and the spike is the first movement of a new trend that is very powerful and starts with small candles. Gradually, the candles became bigger and this means that the stall can be found only at the beginning of the trends. There is never a stall movement in the second and third steps, and if a correction similar to a stall is created based on a random sequence, it is still good in terms of traders' strength in the direction of the trend, but it is not as good as the first step. This happening in the middle of a process can be due to false excitement like publishing news. The trader should keep in mind that 3 to 5 candles are needed to detect a stall correction, and if it is more than 5 candles, it is a bullish movement, and less than 3 candles are normal behavior. is an extension. Due to the high financial tenacity of the traders who make the extension, when the price wants to make a correction, it is not allowed to push back, and it can only return up to 15% of the extension, and in this way, the strongest correction mode., the correction is stall.

#### **Pull Back Correction**

The next type of modification is pullback mode. After the price makes an extension, it is expected to have a correction, but the maximum limit that this correction can return is 50% and it should not correct more than 50% of its extension distance. For example, in an uptrend, if the last extension was 100 pips, it should not be more than 50 pips. If there is a fall, otherwise this situation is not a correction and it will be an extension, and in this case, by observing a weak correction, it is expected that the downward trend will continue. Another type of correction, which is a weak, common and repeated mode in the market, is a pullback. A normal pullback or a simple pullback means that after the extension, the price makes a pullback that returns between 15 and 50%.

Assume that the price needs to make a hundred trade lots or a hundred thousand trade

contracts to create an upward extension. It is certain that a powerful movement has formed in a society and has led to an extension. Now, if the price corrects up to 50%, it can be inferred that the traders who make the extension, whether bullish or bearish, if the correction corrects the extension by 50%, they are still at least as much as 50%. The percentages are stable and their tendencies have not changed and the price movement in the previous direction has not seriously weakened. But let's assume that this correction is more than 50% and reaches, for example, 60%. When the price corrects by 60%, it means that we have had 100 units of transactions that were, for example, purchases, but were corrected by 60%. In other words, 60 units of sales transactions have entered the market and 40 units of purchase transactions have remained, which means that a smaller community of extension creators has remained. In this way, we can be sure that the larger community is still the community that created the extension, because if, for example, the correction reaches 60%, the community is actually stronger with this 60%, and if a correction is the opposite It should be created, for example, in an upward trend, in this case, it is no longer an upward movement, but it can be said that a downward movement is forming, or at least the market has entered a state of suffering.

### **Complex Pullback**

The pullback complex is the weakest state of the trend ; Because the traders who made the extension were not strong enough and did not have the tenacity and perseverance to allow the price to go back and make a pullback just once when the market entered the correction phase. In other words, the traders against the extension have been able to reverse two opposite price movements. This is called complex pullback or multiple corrections.

As can be seen in the picture below, the price has a reversal like a simple pullback and is even ready to move, but either due to the lack of buying again and strong buyers in the upward trend or the excessive selling pressure of opposing sellers. The price has not started to rise again and cannot make the next extension and falls again. In this case, a pullback complex or multiple corrections is formed, which indicates the weakening of traders in the direction of the trend or the strengthening of traders against the trend.

In the pullback complex, there are two pullback lags, and for the price, two pullbacks occur continuously in the correction, but there is another mode that occurs only with time. That is, either as in the above image, two corrections such as pullbacks occur continuously and one after the other, or as in the image below, the correction movement of the price appears to be stretched and by creating erosive candles, i.e. weak candles that indicate a lack of liquidity and Or it is the indecision of the traders, it is formed and the corrective movement takes a long time.

### **Pullback Reversal**

The next type of correction is reversal. The corrections model that was reviewed earlier were the corrections that were considered for continuing transactions, that is, when the trader intends to trade in the direction of the trend. But when the trader intends to trade against the direction of the trend, as you can see in the picture below, the action should still be observed; Because the actions and behaviour of traders in that area are very important. In this image, the correction shows itself in the form of a (failed to continue), which means that the price has made an extension, and the correction has also shown itself as a pullback, and when it wanted to, from the last He failed to pass his swings and build a new extension. In Jabalameli's chartical method, in this case, it is believed that a failed to continue has occurred and an inability to continue has occurred, and this is a pullback to the reversal that the trader uses to enter reverse transactions. . In other words, the traders of this trend are not willing to buy at higher prices. The same thing can happen to sales transactions, that is, there has been a movement or downward trend that when the price had a correction in its last extension after

it wanted to continue its movement in the direction of the trend, it remained unable and the inability. Then it failed to continue and turned into a reversal correction.

In Jabalameli's chartical method, the trader is only allowed to look for a pullback reversal at the edges of the upper frame and the lower frame of the market text. Because according to the principles of the trend, the trader is not allowed to assume the return of the price until he has reached the opposite level. As a result, for the reversal of pullbacks, one should only wait at the upper and lower edges of the market text frame.

## **Discussion**

The trend is the result of money coming in by big traders, professionals and people with high skills who create the flow of orders or in other words the flow of market liquidity in different positions. When a trend is formed, different traders want to enter the market and follow that trend. In other words, they should be of the same colour and according to the custom of financial behaviour of big and professional traders. Although this choice is very logical and rational, it also has prerequisites, of which financial expertise, emotional management, and psychological issues are the most important, but they are unaware of the fact that great and professional traders are trend makers. There are no entrants to it. Retail traders are traders who may enter the market at any point of the process without considering the necessary background, but the interesting point is that trading management at that point of entering the market is very important. It is more that it is not often present in these people and it is in these moments that irrational behaviours begin to show themselves.

It seems that factors such as insufficient financial literacy, regret and psychological pressure caused by not taking a trading position at the right moment with more preparation, psychological pressure and tension resulting from remembering other similar experiences in trading markets and personal life. Consciously or unconsciously, and other such reasons lead to the emergence of the defence mechanisms of the mental system to relieve tension, including the all-powerful defence mechanism, and such people enter the market and make all kinds of corrections, which start from experience. The failures of personal life are off the charts, which have been aggravated by the failure of the individual's transactions, and in the same way, they continue until the removal of the individual from the financial markets, and in this way, the correction can be the result of the mechanisms of the system. Ravan knew in order to relieve the tension. In the end, it is suggested that the trader must start the process of treating his psychological problems before entering the financial markets and ensure his survival in these markets by minimizing his unconscious and non-adaptive defence mechanisms.

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