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SMART MONEY CONCEPTS IN THE FOREX MARKET

A strategy for Individual Traders

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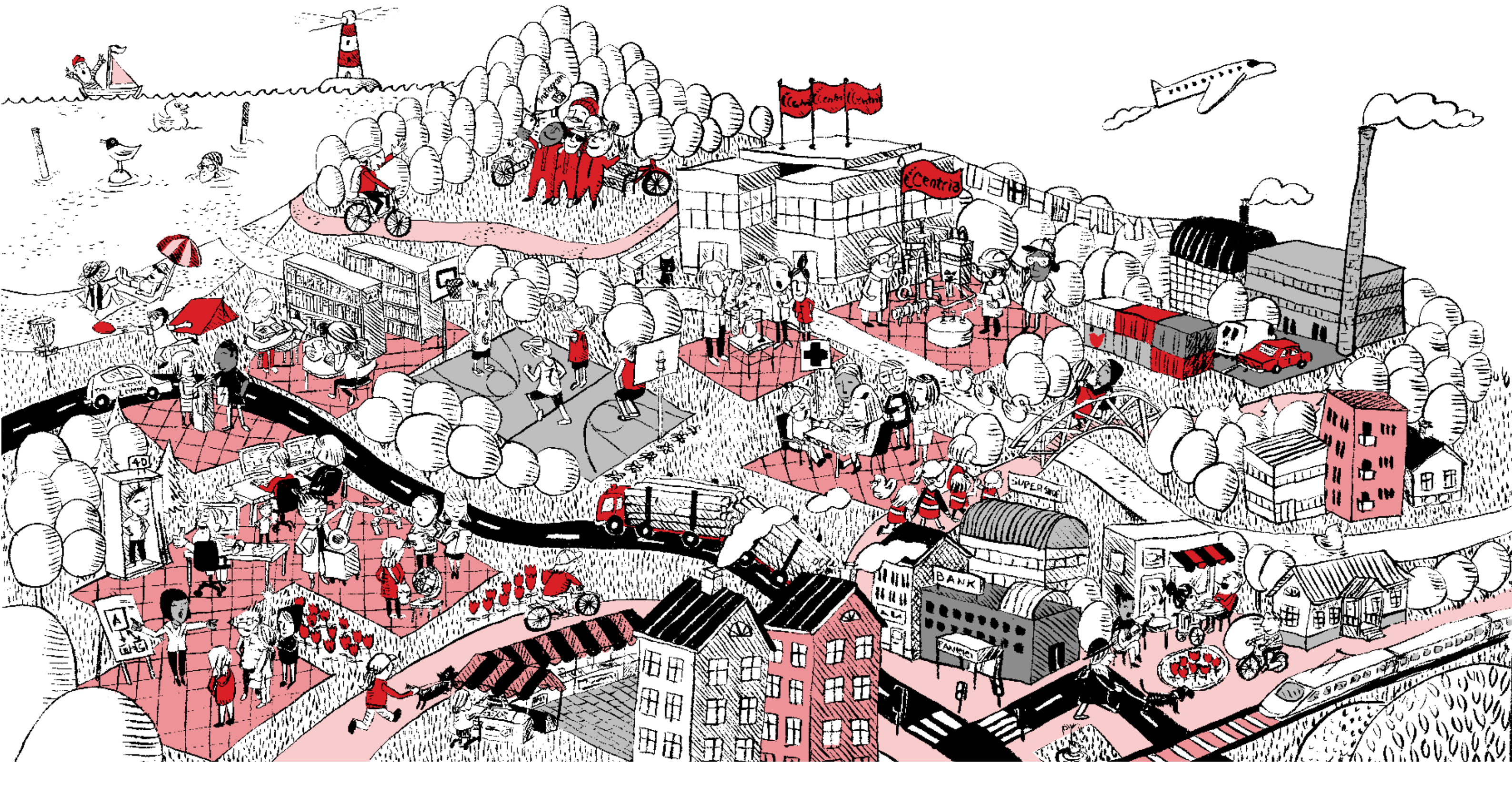

ABSTRACT

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The foreign exchange market, Forex is the most liquid and the most popular market. The main goal of this study was to create a simple profitable trading strategy for new traders using smart money concepts in the Forex Exchange (Forex) market. The author has a strong passion for this market. The author has tested and tried many different strategies and has found this smart concept strategy to be most useful and profitable.

The thesis consists of an introduction, and the theoretical and empirical research parts. The thesis gives us the introduction to the forex market and terms used in forex trading, the movement behind the price in the market, the analysis, and the risk and capital management in the currency market. The empirical part consists of a trading strategy which was created combining various smart money concepts and strategies found on the internet along with the experience of the author trading forex. The complete strategy was kept and explained in a simple way along with the methods to implement it.

With lots of different strategies online, the author found out this smart money concept strategy to be the most successful. The risk management in the strategy is developed in a way that the traders will be profitable even if their ratio of losing trade is bigger than their winning trade. The main points to consider using this strategy is to get a good knowledge of the market structure, supply and demand, and risk management and practice it a lot in a demo account before using it to trade with real money.

Key words
Break of structure, Forex Exchange Market (Forex), mitigation, smart money, supply and demand.

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1 INTRODUCTION

The foreign exchange (Forex market) is a multi-trillion-dollar market and is the largest financial market in the world and one of the most volatile. Banks, institutions, investment management firms, wealthy investors, and retail individuals mainly participate in the forex market for the process of buying, selling, and exchanging currencies. The financial market is worth 1.93 quadrillion dollars with an average transaction of 6.6 trillion dollars every day in 2019. (James Chen, 2021). The U.S dollar is the most traded currency in the forex market while euros and Japanese yen come in the second and third place, respectively. It is found that about 70% - 80% of retail investors lose money in the currency market. (Forex Ninja, 2019).

The main objective of the thesis is to understand the price action and movement in the forex market and to develop a profitable trading strategy for retail traders and investors mainly using smart money concepts. The thesis also comprises the technical patterns and analysis used by the retail trader for trading. The study consists of analysing the advanced price action and structures in the market and trading with a smart money footprint left by institutions and banks.

The thesis also introduces the technical analysis used by the retail traders to help the new traders understand the way the majority of retail traders trade in this market. The study is primarily focused on the market structure, supply and demand, the mitigation of the level, and risk management strategies to creating a profitable strategy used by institutions and banks. The strategy will be kept simple so that the new traders can understand it easily. The research on the thesis is based on materials available on the internet and the author's experience in the field of trading the forex market. More than 70% of retail traders lose money in the forex market. This topic has been chosen because of the author's strong interest in forex trading and to help new traders get information about smart money concepts along with the strategy required for the trader to become profitable.

2 UNDERSTANDING THE FOREX MARKET

Forex is the most liquid market in the world. With a daily trading volume of 6.6 trillion dollars daily, it is about 53 times more than that of the New York Stock exchange. The foreign exchange refers to the buying and selling of currencies in correspondence to another. It is the most traded market in the world. More than 70% of the volume and transactions happen in only seven major currencies EURUSD, USDJPY, GBPUSD, AUDUSD, NZDUSD, USDCAD, USDCHF (Ibeth Rivero, 2020).

2.1 How does the market move?

The primary factor to move any market is the orders of supply and demand. An increase in supply causes the price to rise, while a decrease in demand causes the price to fall.

The second most primary element to impact the price in the forex market is the interest rates and economy of the country. There is a better yield on high-interest rates. Those high rates could improve the economy of a country and better economy encourages investment helping to strengthen the price of the currency of the country. Bad economy of the country results in fewer and limited investment opportunities which could impact and weaken the currency of the country. (Babypips.com, 2021).

Financial and economic news like retail sales, Consumer Price Index (CPI) and Gross Domestic Product (GDP), Central Bank meetings, non-farm payroll, Unplanned news like political speeches, terrorism, etc. will also impact a country's economy, trust in the economy, and its currency (Fxsignal, 2021). Also, the sentiment among the financial investors and traders about the market future price can be impacting the currency as the majority of the investors are investing with the sentiment of the market moving in one direction.

Among all the factors, the most common here is buying and selling in the market. Buying and selling move the price of the market because for every transaction in the market buyers and sellers are needed. More buying pressure causes the market to rise, while the market falls when there is more selling pressure.

2.2 Forex Terms

Forex Terms or Forex terminology is the simple term used in the forex market. These terms must be well known and understood before starting to trade. Forex terms help new investors and traders to get acquainted with the forex market and help them to execute a trade in the currency market. Among several forex terms, some of the most common and important terms are explained below.

2.2.1 Currency Pairs

More than 180 currencies are being used in 195 countries (Finance Magnet, 2019). Forex is traded with the change or performance of one currency in correspondence to another. It is usually traded in pairs and correlation to one another, for example GBP/USD. The base currency here is GBP while the quote currency is USD. If GBP/USD is increasing in price of the exchange rates, then the pound is getting stronger against the dollar while a decrease in the exchange rates indicates the dollar is getting stronger against the pound.

There are more than 55 currency pairs available to trade. Among them, EURUSD, USDJPY, GBPUSD, AUDUSD, NZDUSD, USDCAD, USDCHF are the major currencies pairs where more than 85% of the total forex market are held. (Ibeth Rivero, 2020).

2.2.2 Leverage

Leverage in forex trading refers to the borrowing of money. Leverage happens in the trading account, and it allows a trader to execute a position of bigger lots with a very little balance. It allows a trader to open large position orders with the balance he has. Using high leverage is a very effective method to profit and trade in the currency market without the investment of a huge amount of capital and targeting to earn high profits in a short period.

To open a position of a standard lot in the EUR/USD currency pair, a trader needs to have 120000$ in his account. But using 1:500 leverage he can open the position with just $240 and can control 120000$ worth of position with just 240$. But high leverage also means high risk. With 1:500 leverage, the trader could easily lose all their margin used to open the position if the market moved a little pip against them.

So, it is very important to keep the leverage below 1:100 while starting and then slowly increasing it with experience and time.

2.2.3 Bid/Ask price & Spread

In the forex market, when one currency is bought at the same time the other one is being sold. Bid refers to the highest price the trader has to pay for an asset whereas ask price refers to the lowest price a trader will take for the same asset. The ask price is never lower than the bid price. Spread refers to the difference in the price between ask and bid. Brokers in the forex market earn by the commission charged to open a position or through the spread between the prices. (Elizabeth Belugina, 2021).

When opening the position in the broker platform, every trade starts slightly with a negative pip. This is because of the spread. In forex, spread refers to the difference between ask price and bid price of the broker. Spread in the forex market is not constant and varies a lot with the broker. When entering the long position in the currency pair or buying the base currency in the pair, then the quote currency must be closed to sell it, which causes the price difference. This price difference is called the spread. Spread in the currency pairs depends on various factors like volatility, liquidity, and volume of the currency pairs. (Harion Camargo, 2021).

FIGURE 1. Bid/Ask price (Darwinex).

As can be seen in Figure 1, the first column represents the symbol of the currency pair, the second column represents the bid price, the price at which the sellers are willing to sell the pair of the currency and the third column represents the ask price which is the highest price at which the buyer will buy the pair of the currency for.

2.2.4 Long/Short position

Long and short positions are the trades executed in the forex market. Entering a long position in the forex implies buying the base currency and selling the quote currency of the pair. It implies buying the base currency and expecting the base currency to rise in cost as opposed to quoting currency whereas going short position implies selling the base currency and anticipating the base currency to drop in price in contrast to the quote currency. (Finance Magnet, 2019). For example, in a EUR/USD pair, taking a long position means buying the euro and expecting it to rise in price against the dollar while taking a short position means selling the euro expecting it to drop in value against the dollar.

2.2.5 Margin

Margin is the capital or money the trader needs to open a position in the currency market. It is very important to know about margin when trading with leverage in the currency market. Margin helps the trader to open large order positions in the forex market. It is the amount of capital the trader should invest to execute a trade. Margin trading with the use of leverage is a very effective way to earn profit in a short time as the trader can execute bigger orders. But it is to be considered that margin trading with high leverage can also risk the trader blowing up the account in a short time. (Finance Magnet, 2019). If a trader wants to open a position of standard lot i.e., $200,000, then he should deposit the 1% margin or 2000$ to execute the trade.

2.2.6 Pips

Pips can be defined as the smallest movement a price can have in the currency market. It stands for Percentage in Point. (Adam Hayes, 2021). Pips are 1/100 of the 1%, or the 4th decimal number

(0.0001). (James Chen, 2021). Pips are used to calculate the movement in the forex market. For example, in EUR/USD chart, suppose the latest price is 1.2052. It means with 1 Euro we will be able to buy 1.2052 dollars.

If the trader predicts the market accurately expecting euros to get stronger against the US dollar and buys the Euros for 1.2052 and get out of the position or exit the trade at 1.2080, then he/she will make a total profit of 28 pips. But if the euros weaken against the US dollar and the falls market fall to 1.2022 then he will lose a total of 30 pips.

2.2.7 Lot size

The lot size is the currency unit, or the size of the order or position executed in the trade. In the stock market, the number of stocks bought is calculated in shares like 100 shares, but in the forex market, the contracts are bought in the lot. A standard lot in forex is 100,000 units of currency. Also, there is a mini lot which is 10,000 units of the currency, a micro lot which is 1,000, and a nano lot which is 100 units of the currency. (Finance Magnet, 2019). E.g., in a EUR/USD pair, opening a standard lot position in a dollar will mean the size of the trade is $100,000, where one pip is equal to 10$. Similarly, a 10 pips movement in the favour of a trader means a profit of 100$.

2.2.8 Bullish and Bearish trend

In simple terms, a bullish trend refers to the rising of the price in the market while a bearish trend means falling of the price in the market. These trends are also called the bull and bear trend. This is because bulls often hit upward with their horns and bears try to hit with their paws downward. In a bullish trend, the market makes new highs. (Finance Magnet, 2019).

A bullish trend is a candlestick chart often made by series of blue or green candles moving rapidly upwards while a bearish trend in a candlestick chart is made by series of red or black candles moving downwards quickly.

2.2.9 Stop-loss and Take profit order

Stop loss and take profit order, both refer to signalling the trader when the position of the trade should be closed. A stop-loss order refers to placing the order at a certain position for the risk a trader is willing to take, while take profit order means placing the order in a certain position for the profit the trader wants to make. (Axiory, 2020).

Stop-loss or stop-loss order means protecting the trade executed from further loss by stopping it at a certain price. The order remains even if the trader is not using his trading device. It helps to protect the capital of the trader if the currency fluctuates, or the trade goes against the position executed by the trader. (Axiory, 2020). E.g., if a trader executes a long position at a certain price, then he put a stop-loss at a certain pip below the entry price so that the trade executed closes as soon as the market reaches that price. Similarly, if a trader executes a short position at a certain price, he put a stop-loss at a certain pip above the entry price so that the trade executed closes as soon as the market reaches the level of that price.

Similarly, taking profit or take profit order is the opposite of stop-loss order. It means closing the already executed position by taking some profit. Even a profitable trade can sometimes turn to loss. Take profit order helps to prevent the trader from committing such a loss by placing a pending order. (Axiory, 2020). By placing take profit order the trader will be able to take profit by closing the buy position a few pips above the entry price or taking profit by selling the close position a few pips below the entry price.

2.3 Forex vs Stock markets

Forex and stocks are two of the most popular and the most traded markets. Forex is the buying and selling of currency pairs while stocks are the buying and selling of shares of the company. Forex market does not require a commission to execute an order and the commission is paid in a spread whereas a trader needs to pay a commission to execute an order in the stock market. (Becca Cattlin, 2020).

Forex market operates 24 hours a day for five days a week. The trader can execute his order at any time in this market during these hours. The opening hour of the stock market is quite different and depends on the opening session of the exchanges the stocks of the company are listed on. The most suitable time to trade stock market is when the two sessions in the market overlap and the market is most active. (Becca Cattlin, 2020). Investors and traders in the stock market buy and hold the shares. They sell their shares if they believe the market will fall. But investing in the currency market is a lot different. Traders and investors do not buy and hold the orders bought in the currency market and sell them later. They execute long position if they think the market is going to rise and short position if they think the market is going to fall which could provide the trader with more opportunities to trade.

Supply and demand are the main reasons behind the movement of the price in both markets. But some fundamental factors affect the price too. When trading stocks, it is very important to analyze the performance of the company along with some other important factors like debt, profits, cash flows, etc. which affect the share prices of the company. But with forex, the trader is trading with two currencies and the trader needs to be updated on the economy of the two currencies. So, it is important to be aware of the currency since there is one currency being bought while the other one is being sold. Also, the traders need to be focused on major economic events and news like non-farm payroll, inflation, GDP, political events, etc. (Becca Cattlin, 2020).

The stock market is usually trendier. The majority of the stock market trends upwards, as a result, it is easier to profit in this market simply by buying the share of the good stock. The forex market is more volatile. The volatility in the forex market can provide a lot of trading opportunities, but this volatility also can be very risky. Therefore, risk management is very vital in the forex market. (Becca Cattlin, 2020). Forex is not a simple hold-and-buy market. Either long or short positions should be taken in the market, and there could be more opportunities to enter a trade in this market in comparison to the stock market as the forex market swings a lot.

3 TECHNICAL ANALYSIS AND PATTERNS

Technical analysis is the most common way of trading in the forex market. It is mostly used by individuals like us who are also called retail traders and investors. The rise and fall of the price are indicated by patterns. These patterns are made by the movement of the price using trend lines or curves. (Adam Hayes, 2021).

Reversal patterns are the technical analysis patterns signalling a change in direction of the trend while the continuous pattern is the trend continuing pattern signalling to continue in the direction of the existing trend. These patterns are mostly used by retail traders to analyse the current price moments and predict the future market. (Adam Hayes, 2021). Below are some of the most common technical analysis and chart patterns traded by retail traders.

3.1 Support and resistance

Support and Resistance are the most common technical analysis used by traders to enter a position in the forex market. Traders use support and resistance to identify the level in the chart where price could reverse or consolidates from. Support is formed where a bearish trend pauses due to the demand of the orders while resistance is formed when a bullish trend pauses because of the selling interest. (Casey Murphy, 2021).

Support acts as a floor that does not let the price fall further down and resistance act as a ceiling that does not let the price rise further up. When the price reaches the zone of support or resistance, the price either breaches the level or bounces back from the level till the next support or resistance zones. (Casey Murphy, 2021). Also, if a price breaks support, then that area of support is treated as resistance and if a price breaks a resistance, then that area of resistance is treated as support.

FIGURE 2. Support and Resistance Zone on EURUSD chart.

In Figure 2, we can see support and resistance levels. The support zone can be seen as the level where price could not breach further, hence acting as a floor, and the resistance zone can be seen as the level where the price is not being able to breach further upwards hence acting as a ceiling.

3.2 Trend line

Trend lines are the diagonal lines connecting the lows of the candlesticks in an uptrend and the high of the candlesticks in a downtrend. It is one diagonal form of support and resistance levels. It is drawn when the price moves in a zigzag direction but is continuing in one direction of the trend. When the market is in bullish momentum, levels of resistance form, and the trendline is drawn by connecting a series of low peaks moving in an upward direction, while in a downtrend, a trendline can be drawn by connecting a series of high peaks moving in a downward direction. Trend lines are believed to be stronger when the price fails to breach the level multiple times. (Casey Murphy, 2021).

FIGURE 3. Trendline in a downtrend.

In Figure 3, we can see the trend line in the down trend holding the price. The price is moving in the downward direction and the trend line is drawn connecting the series of high peaks moving in a downward direction. The price moves down after touching the trendline, which in the figure is acting as the resistance level.

3.3 Head and Shoulder

Head and Shoulder is a reversal technical pattern. The pattern is made of three peaks, a smaller peak on both sides with a large peak in the middle and the final peak which is similar to the first. The middle peaks of candles are known as the head, while the side ones are called the shoulder. Traders view the head and shoulder pattern as a trend reversal from a bullish trend to a bearish trend. When the third peak breaks down the neckline, the trend is likely to break down to a bearish trend to the downside. This pattern can be drawn by connecting the base of the peaks as shown in the figure below. Head and shoulder is one of the most consistent and reliable technical pattern, which signals upward trend is nearing the end. (Adam Hayes, 2021).

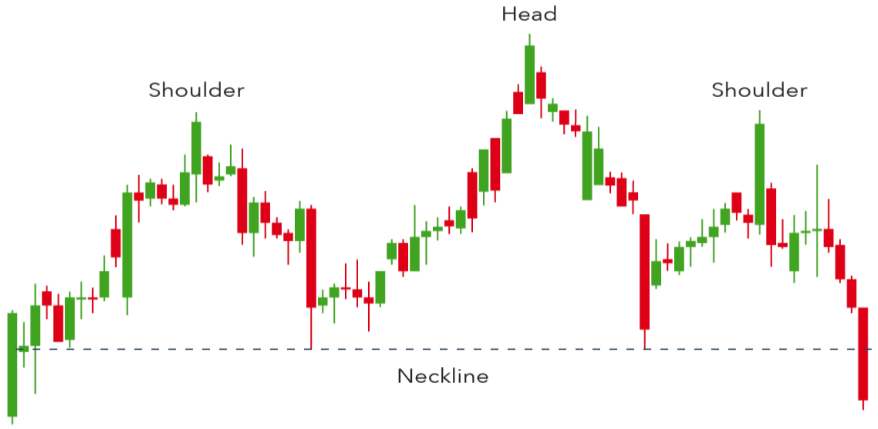


FIGURE 4. Head and Shoulder pattern

In Figure 4, we can see head and should pattern forming with the small two peaks or shoulder on the two sides and a large peak in the middle. The trend reverses when the neckline is broken by the third shoulder reversing the trend to a downward direction.

3.4 Pennants

Pennants are the price continuing trend chart pattern which is mainly formed when there is a large movement in price and then the consolidation. Pennants are drawn by two trendlines that in the end meet at a point. These trendlines must be moving in two opposite directions: one upwards and one downwards. When a pennant is formed, there will be a decrease in the volume of the price and then a sudden increase after the break of the pennant. (Adam Hayes, 2021).

FIGURE 5. Breakdown of the Bearish Pennant and downward continuation of price.

In Figure 5, we can see that in the price trend price consolidates and forms pennant. This is the price continuing pattern and once, the price breakout of the pennant it continued to move in its existing direction of the trend.

3.5 Flags

Flags are the trend continuing patterns that are usually made from the two parallel trendlines that can either be sloping up or down or moving sideways. The up-sloping flags can be considered as consolidation of price in a downtrend while down sloping flags can be considered as a consolidation of price in an uptrend. (Adam Hayes, 2021).

When a flag is formed after a huge moment of price, then there can be seen a decrease in the volume of the price. Once the price breaks down of the flag the decreased volume will recover. (Adam Hayes, 2021).

FIGURE 6. Bearish flag pattern showing downward falling of price after a breakout.

In Figure 6, we can see an upward sloping flag pattern. Once, the price breaks down of the flag pattern the price continued to its bearish momentum of the trend.

3.6 Wedges

Wedges are the technical price pattern that is made by the convergence of two trend lines. It is a consolidation that refers to the pause in the trend and then the continuation in trend after the breakout. Wedges are like pennants. The only difference between them is that both trendlines in the wedge are moving in the same direction. There are two types of wedges: Rising Wedge and Falling Wedge.
A rising wedge is a wedge that is pointing towards an upward direction, representing consolidation in a downtrend while a falling wedge is a wedge that is pointing towards a downward direction representing consolidation in an uptrend. (Adam Hayes, 2021).

Like in the pennants and flags pattern, the wedge is also the consolidation in price and the volume decreases with the formation of the wedge pattern.

FIGURE 7. Breakout of the falling wedge in downtrend and continuation of price.

In Figure 7, we can see the falling wedge, which is similar to flag patterns, but with both trend lines moving towards the downward direction. When the falling wedge is formed, the price consolidates and there can be seen a decrease in the volume of the price. After the breakout of the wedge, the price continues its bullish trend.

3.7 Triangles

Triangles are the continuous and the most occurring price pattern in the candlesticks chart. These are also the most popular technical patterns. This chart patterns often signal trend continuation. Symmetrical, Ascending, and Descending triangles are the triangle patterns widely popular among retail traders. These triangular patterns usually occur in the middle of the trend and last up to several weeks or months. (Adam Hayes, 2021).

The symmetrical triangle is the convergence of two opposite trendlines connecting in two opposite directions, which signals the breakout about to occur. While an ascending triangle is a trend continuing triangle occurring mostly in bullish trend having flat upper trend line and rising lower trend line suggesting the higher breakout of the price. And the descending triangle is the opposite of the ascending triangle, having a horizontal lower trendline and rising upper trendline suggesting a breakout of the trend. (Adam Hayes, 2021). The size of the break of the patterns is usually similar to the height of the triangle as shown in the figure below.

FIGURE 8. Break down of the ascending triangle

In Figure 8, we can see the descending triangle breaking down and continuing its existing bearish trend. When the triangle forms and consolidates we can see the decrease in the volume of the price. The size of the breakdown of the triangle can be seen likely to be the size of the triangle which we can use as a profit taking area.

3.8 Double Top and Double Bottom

Double top and Double Bottom are the most common reversal pattern used by retail traders. Double top indicates the reversal of price from bullish to bearish trend, while double bottom indicates the reversal of price from the bearish to a bullish trend. Double tops often look like the letter M where the price first pushes to the resistance and then tries to push again to the resistance but fails in the second attempt which outcomes in the trend reversal. (Adam Hayes, 2021).

A double bottom looks like the letter W and is the opposite of a double top and occurs after the second failed attempt to breach the support level on the second time outcoming with the trend reversal. Triple tops and triple bottoms are also the reversal pattern similar to double tops and bottoms where the prices try to breach resistance or support zone three times and fail, causing the price to reverse. (Adam Hayes, 2021).

FIGURE 9. Double Bottom causing the reversal of the trend.

FIGURE 10. Double top causing a reversal of the trend to the downside

Figures 9 and 10 show us the double bottom and top respectively. In Figure 9, we can see a double bottom pattern which looks like the letter W, where price tries to push to the support zone two times but could not breach it causing the reversal of the trend. Similarly in Figure 10, we can see the double top pattern. This pattern looks like the letter M, and the price comes to push the resistance zone two times but could not breach the level causing the reversal of the price towards the downward direction of the trend.

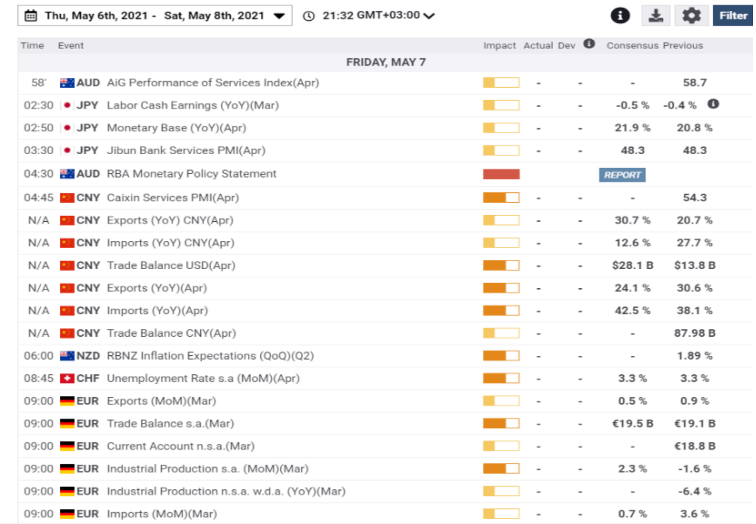
4 FUNDAMENTAL ANALYSIS

Fundamental analysis means predicting the move in the market by the analysis of financial and economic news, political, social, and economic factors that could influence the overall price of the currency. While technical analysis means looking at the chart and trends and using different technical patterns to predict the market, trading on the aspects of fundamental analysis means buying or selling the currency based on the news and many other economic factors expecting the price to weaken or get stronger. (Babypips, 2021).

Different news in the forex market could have a different impact on the price. Some news could have a high impact on the market while some do not cause any effect on the price at all. Major news like Gross Domestic Product (GDP), Unemployment, Central Bank meetings, Consumer Price Index (CPI), and Unplanned Forex News like terrorism, political speeches, etc. could have a significant impact on the price and move the market rapidly. (Fxsignal, 2021).

The fundamental analysis gives information about the country's current and future economic conditions and helps to predict whether the currency of the country will strengthen or get weaker. It helps to analyze the economic condition of the country, where a good economy means strong currency value and a bad economy means the value of the currency gets lower. (Babypips, 2021).

A short-term fundamental analysis trader prefers news trading because of its volatility, where the market could move up or down by several pips in a very short time. A fundamental analysis trader uses an economic calendar to watch the upcoming economic events. The economic calendar refers to the events and release of the news that can affect the price of a currency. It is an important tool to watch for the upcoming economic information and important events of a country. Events like central banks meetings, interest rates, employment rates, GDP report etc. can be found on the economic calendar, with the time and date of the events along with the impact on the price, the event can cause in the market. The economic calendar is used by the retail traders to be attentive and protect their open position from the events or news release that may affect their trade. (babypips.com, 2021).



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Time	Event		Impact	Actual	Dev	Consensus	Previous
		FRIDAY, MAY 7					
58'	AUD	AiG Performance of Services Index(Apr)		-	-	-	58.7
02:30	JPY	Labor Cash Earnings (YoY)(Mar)		-	-	-0.5 %	-0.4 %
02:50	JPY	Monetary Base (YoY)(Apr)		-	-	21.9 %	20.8 %
03:30	JPY	Jibun Bank Services PMI(Apr)		-	-	48.3	48.3
04:30	AUD	RBA Monetary Policy Statement				REPORT	
04:45	CNY	Caixin Services PMI(Apr)		-	-	-	54.3
N/A	CNY	Exports (YoY) CNY(Apr)		-	-	30.7 %	20.7 %
N/A	CNY	Imports (YoY) CNY(Apr)		-	-	12.6 %	27.7 %
N/A	CNY	Trade Balance USD(Apr)		-	-	$28.1 B	$13.8 B
N/A	CNY	Exports (YoY)(Apr)		-	-	24.1 %	30.6 %
N/A	CNY	Imports (YoY)(Apr)		-	-	42.5 %	38.1 %
N/A	CNY	Trade Balance CNY(Apr)		-	-	-	87.98 B
06:00	NZD	RBNZ Inflation Expectations (QoQ)(Q2)		-	-	-	1.89 %
08:45	CHF	Unemployment Rate s.a (MoM)(Apr)		-	-	3.3 %	3.3 %
09:00	EUR	Exports (MoM)(Mar)		-	-	0.5 %	0.9 %
09:00	EUR	Trade Balance s.a.(Mar)		-	-	€19.5 B	€19.1 B
09:00	EUR	Current Account n.s.a.(Mar)		-	-	-	€18.8 B
09:00	EUR	Industrial Production s.a. (MoM)(Mar)		-	-	2.3 %	-1.6 %
09:00	EUR	Industrial Production n.s.a. w.d.a. (YoY)(Mar)		-	-	-	-6.4 %
09:00	EUR	Imports (MoM)(Mar)		-	-	0.7 %	3.6 %

FIGURE 11. An Economic calendar of 8th May 2021. (https://www.fxstreet.com/economic-calendar).

The economic calendar in Figure 11 above is extracted from fxstreet.com. The calendar shows time in the first column, the currency name in the second, the name of the economic events in the third, and the expected impact of the event in the fourth (Red shows the high impact, orange shows the moderate impact, and yellow shows very low impact which can be ignored). The sixth column represents actual data which is displayed after the event is released and the seventh column deviation is the calculation displayed if the actual data is different from the consensus. The eight-column consensus shows the expected outcome of the number by the experts and the ninth column shows the previous outcome number when the event had occurred.

5 SMART MONEY

Smart money is the money invested by central banks, big banks, institutions, market experts, hedge funds, investment management firms, and other professionals. Smart money is the word derived from gambling terms, where it is often referred to as the money profited by gamblers with a good record of success. It was often referred to gamblers who used to have an in-depth idea and insider information of the game. (Caroline Banton, 2020).

The concept is similar in the investing world. The smart money in forex is often referred to as the capital invested with deep knowledge of the market, which the retail traders cannot approach. Thus, it is considered to have a lot more chance of success than the technical analysis of retail traders (Caroline Banton, 2020).

Smart money refers to the smartest players with a huge force of money who can cause an impact in the market and move the price. They are also described as market makers. These smart money traders have enough volumes and money, to cause a change in the live market. Central Banks, Hedge Funds, big Interbank; Bank of America, Barclays, Goldman Sachs, HSBC, Citigroup, UBS, major insurance, and global companies are some of the examples behind smart money. They have enormous influence and are always powerful in the financial market. (Forexlens, 2020).

Banks are the smart money traders with the highest volume. The volumes banks invest in the forex market usually make up more than 60% of the total volume of the market. They have in-depth information, knowledge, and a professional team that helps them persistently profit from their trades. Smart money has a huge amount of capital to trade with. Because of their large orders, their actions cannot be unseen. (Stacey Burke, 2018).

Banks and institutions are the top players of the forex market. The volume of currency banks and institutions trade forex is much higher in contrast to the retail traders. They are the players who are consistently correct about the market. (Fxssi, 2021). Their huge amount of volume can force the change of direction in the market. Smart money is entirely different from retail traders. Where retail traders trade breakouts and breakdowns and follow the trend, smart money sells at the top and buys at the bottom. Smart money trading means trading along with the institutional strategies, which are lined up with the aspects of smart money. This method of trading is more powerful than the use of any technical analysis which is used by retail traders. (Forexlens, 2020).

Retail traders cannot move the market as smart money controls more than 60% of the total volume of the market. (Stacey Burke). Trading with smart money takes a lot of practice and time. Smart money trading is very confidential, and they are one of the most hidden strategies in the currency world. Bigger institutions and banks never reveal their strategy. (Forexlens, 2020). Smart money trading in an institutional way is mainly focused on market structure and supply and demand concepts. Therefore, it is very important to have deep knowledge about the concepts of market structures and supply and demand trading and the order flow analysis the bank trades with.

6 MARKET CYCLE

The market moves in four phases; Accumulation phase, Mark-Up phase, Distribution Phase, and Mark-down Phase. Every market goes through the phases of this cycle. Rise, peaking high, dipping, and bottoming of the price are some of the common cycles the market goes through. Smart money buys in the accumulation phase of the market as price as the market has fallen a lot and the price is stable while the sentiment of the market is still bearish. They sell in the distribution and the last stage of the mark-up phase of the market as the overall sentiment is mostly bullish, meaning the market is about to reverse the cycle and the price. (Mary Hal, 2021).

6.1 Accumulation Phase

Accumulation is the first phase in the market cycle where the price is at the bottom level. It is the phase where bigger operators or smart money absorb the orders and position in the market. Smart money starts to buy as the market has bottomed in the accumulation phase. The sentiment of the market in this phase is bearish, where retail trades start to sell while smart money begins to buy. (Phillip Konchar, 2020).

6.2 Mark-up Phase

The Mark-up phase usually occurs after the accumulation phase. It occurs after the smart money has accumulated enough orders available in the market. During this stage, the market begins to consolidate, and price begins to move rapidly higher. The market structure is mostly higher high and higher lows in this phase. The market sentiment in this phase turns to euphoric from the bullish sentiment. (Phillip Konchar, 2020).

6.3 Distribution Phase

This phase usually occurs after the mark-up phase, where the price gets ranged or stable for a certain time and the seller starts to dominate the market. After the end of this phase, the market changes its trend. Smart money starts to sell their orders in the market during this phase. Price remains stable and the bullish sentiment of the market becomes mixed sentiment. (Phillip Konchar, 2020).

6.4 Mark-down Phase

In this phase of the market cycle, the market is fully controlled by bears. This is the last phase that occurs after distribution with the huge fall of the price. The smart money takes profit of their position and sells heavily making the price fall drastically. The market structure is lower high and lower low in this phase. Most of the dumb money tries to sell in this early phase of the market, while smart money looks to buy at the bottom price. This phase signals the beginning of the new accumulation phase. (Phillip Konchar, 2020)

7 MARKET STRUCTURE

Market structure is the most important element in the forex market. Markets are fractal and so is the structure. They often change in every timeframe.

The market structure consists of four basic movements. Higher high (hh), higher low (hl), lower high (lh), and lower low (ll) are four of the swing points in the market. The market is ranged when it creates equal high (eh) and equal lows (el). Bullish, Bearish, and Sideways are the three trends of a market. As in Figure 12, we can see that a bullish trend is often represented by higher highs and higher lows. The trend remains in continuation until a lower low is made by the price and starts to weaken after it fails to create a new high. While the bearish trend is represented by lower high and lower low and remains in continuation until the price fails to create a new low. The sideways trend in the market has equal highs and lows and the market remains in consolidation for a period until the market breaks the range of consolidation for the bottom or the top. (Victorio Stefanov, 2021).

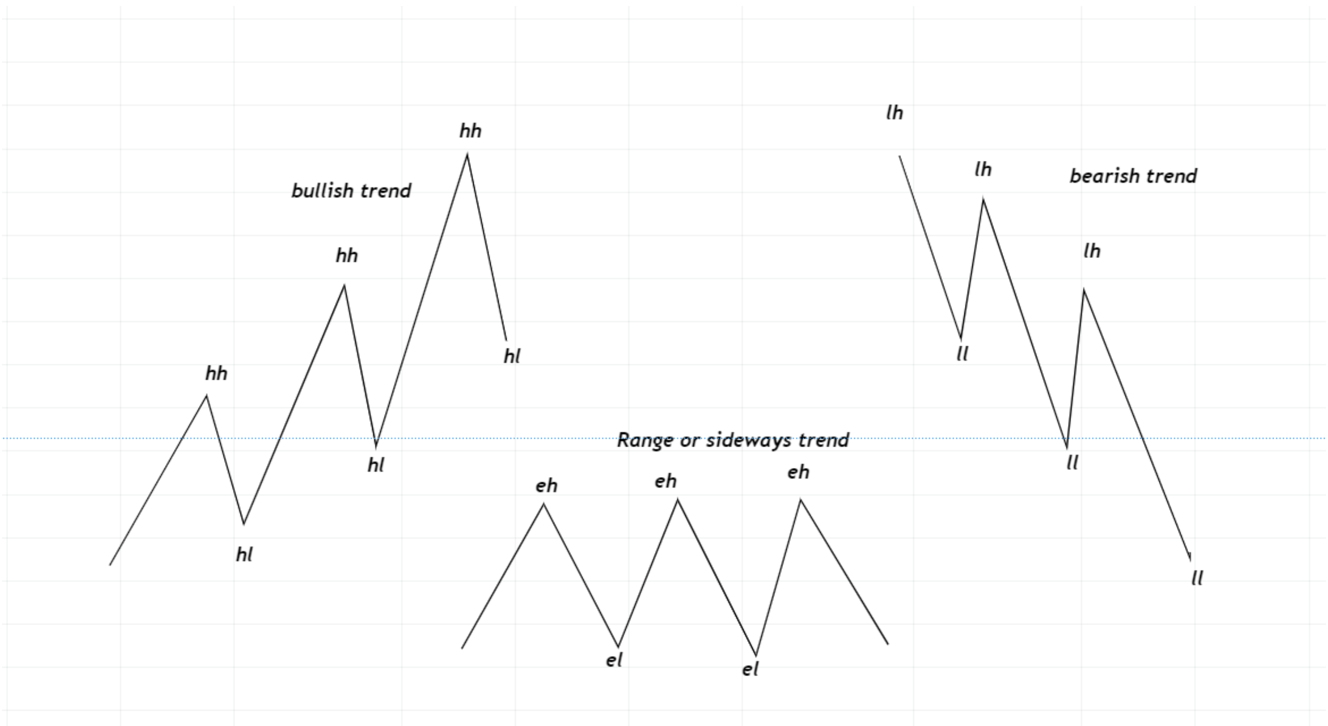

FIGURE 12. Bullish trend printing higher high and higher lows, bearish trend printing lower high and lower lows, and sideways trend printing equal high and equal lows.

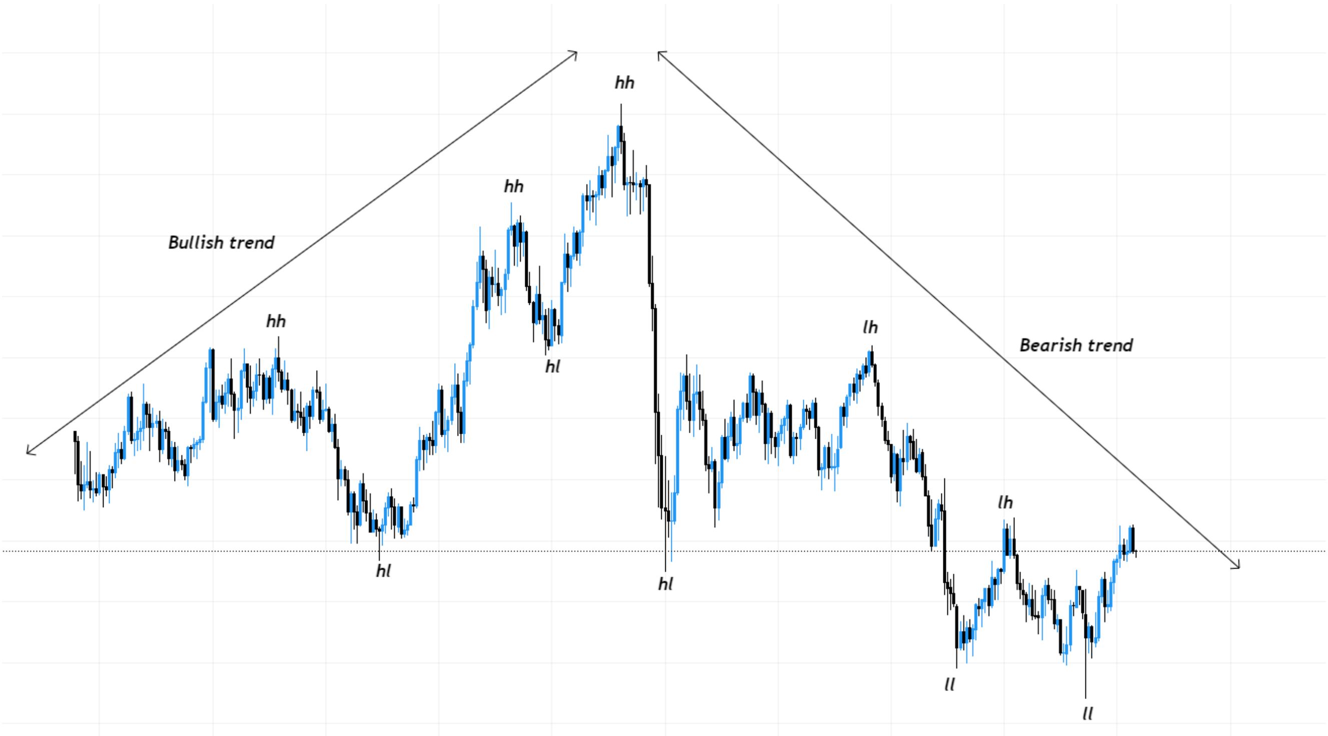

FIGURE 13. Real-time market structure on a candlesticks chart and its trend.

Also, in figure 13, we can see the market structure in the real-time chart, where the market is creating higher high and higher low when the trend is bullish and lower low and lower high when the trend is bearish. The market has changed its trend to bearish after it broke the structure.

7.1 Break of structure

A market mostly prints higher high and higher lows in an uptrend or bullish trend and lower high and lower lows in a bearish or downtrend. For the market to move in a bullish or bearish direction it must break the market structure. A market remains in consolidation when the higher high or lower low is not printed. (A Teen Trader, 2018).

Bullish or bearish are the two types of market structure. If these structure does not get printed, we can consider the market to be in a period of consolidation. The bullish structure is the market structure where higher high and higher low are printed as a key swing point in the market. This structure can be recognized when the market starts to make a new higher high and higher low in the market as seen in the figure below. While bearish structure can be identified as the market making a new lower low and lower high as a key swing point. The structure can be recognized when the market starts to make new lower lows and lower highs in the market. (A Teen Trader, 2018). If the market broke the structure and starts to create a new high in a bearish trend and a new low in a bullish trend, then we can consider the market to have broken the structure.

Fig. 14. Bullish market structure creating new higher highs and higher lows

As in Figure 14, we can see the market creating new highs and moving in a bullish trend. If the market fails to create a new high in the market and creates a new low, we can consider the market to have broken the structure.

For the market to continue its bullish or bearish trend it must break the structure in the market. This break of structure in the market occurs, when the market starts to change its direction breaking the previous higher high and higher low or previous lower low and lower high. (A Teen Trader, 2018).

As we can see in Figure 15, in a bullish trend where the market creates higher high and higher low as swing points, the failure of creating a new high and the market creating a new low can be considered as a break of structure and possibly hints us the reverse of the trend. Similarly, in a bearish trend where the lower high and lower low is the swing points in the market when the market fails to create a new low and makes a new high, then it can be considered as a break of structure, and we can expect the reverse of the direction of the trend. (A Teen Trader, 2018).

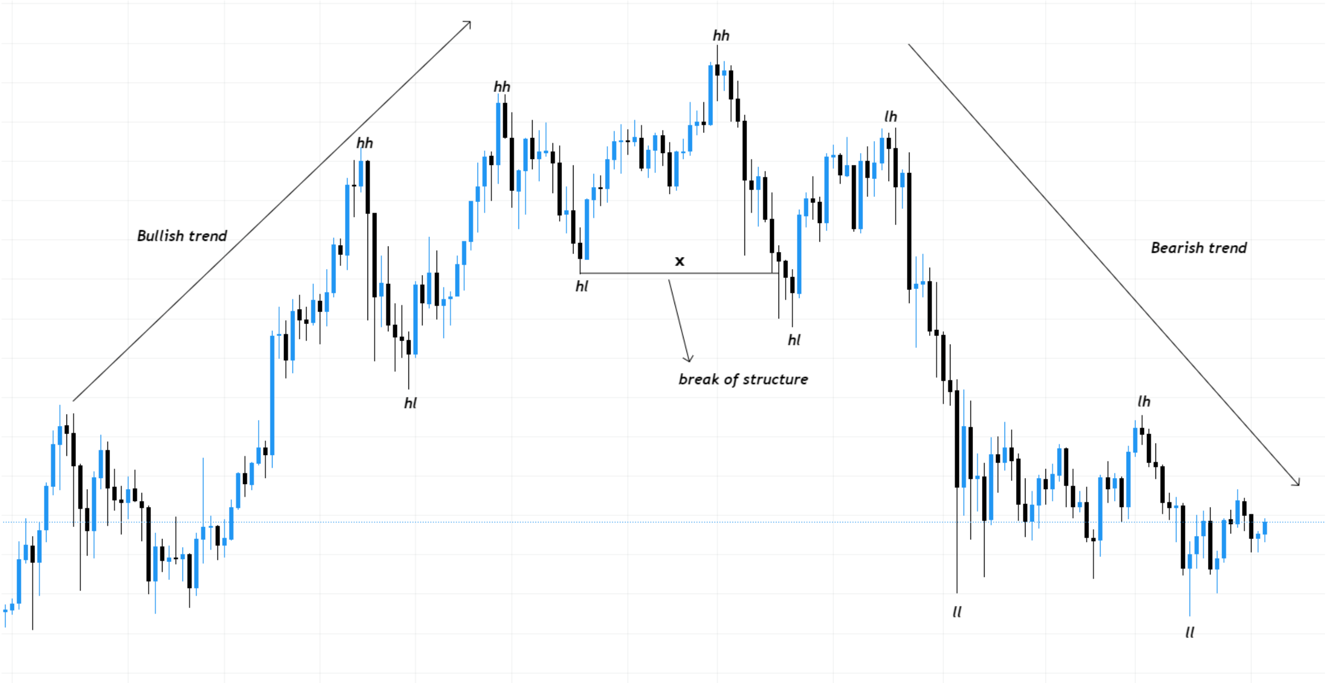

FIGURE 15. Break of structure and reversal of the trend from bullish to bearish on the real-time chart.

In Figure 15, we can see that the market changing its momentum after breaking the structure. The market was printing new higher highs and higher lows. But after the break of structure and creating a new lower high and lower low, the market starts to shift its direction from a bullish to a bearish trend. Market structure is very important for trading the forex market. It alone is not a trading strategy, but this structure helps us to identify the overall momentum of the market. (A Teen Trader, 2018).

8 IMBALANCES

Imbalances or Order Imbalances are inefficiencies in the market. They are often created when there is an extensive amount of buying or selling orders from the smart money which could not match the orders of buyers and sellers, leaving behind the inefficiencies in the market causing the price rapidly to rise or fall. (Will Kenton, 2020).

Imbalances or inefficiencies in the market are caused when the market maker or smart money buys or sells their position in the market with huge orders leaving behind no supply or demands. The significant change in the momentum of the market occurs from the level where there is an imbalance in supply and demand. In figure 16, we can see the price falling rapidly leaving behind an imbalance. This is because of the huge sell order from the smart money moving the market rapidly. When price comes back to this level in the future, the price does not fall rapidly but rather consolidates and breaks it up. (Sam Seiden, 2012).

FIGURE 16. Imbalance created due to huge amount of sell order.

FIGURE 17. Price changing its momentum and falling down from the supply zone. (Sam Seiden, 2012).

In figure 17 above, we can see that there is an imbalance between supply zone one and supply zone two. There is also an imbalance below supply zone two, but supply zone two has consolidated and there is series of candles in this zone. After the price has broken out supply zone two, the price only spent little time in supply zone one and falls rapidly, where we can figure out that there is a big imbalance and lots of sell short position from the smart money when the price comes to visit the level of supply zone one.

9 SUPPLY AND DEMAND ZONES

Supply and demand are the most primary concepts in the field of economics. It applies everywhere, and supply and demand in the vegetable market are not different which takes in the forex market daily. They are the connection between sellers and buyers. In simple words, we can say that supply is the accessible amount and demand is the amount wanted. (Warren Venketas, 2019). Therefore, the supply zone is often used for selling, and the demand zone is used for buying.

Supply zones represent sellers while demand zones represent buyers. (The5%ers, 2021). The demand zone is the area of demand with increased buying pressure, where the price of the market rises, and the supply zone is the area of supply where the price is expected to fall. The more impulsive move of the price away from the supply and demand zone means there is more imbalance in that zone, where heavy orders are executed from the smart money making the zone much stronger. (dot net tutorials, 2020).

It is very important to search for big movement of prices after consolidation to find a good supply and demand zones. These zones are very important because we are selling at a high price in the supply zone and buying at a low price in the demand zone as smart money does.

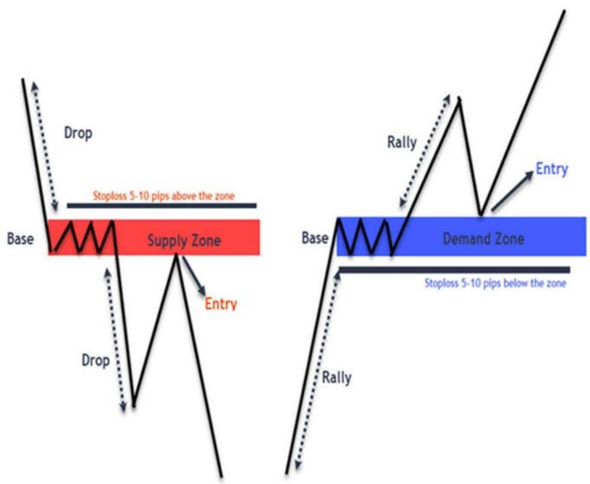

Fig 18. Supply & Demand Zone (Geen Catogorie, 2019).

Figure 18 above on the left shows the supply zone, from where the price has fallen down impulsively, while the image on the right shows the demand zone where price rises with huge impulsive move.

When the market comes to revisit these areas, we can see the price mitigating and falling down from the supply zone while mitigating and contining upwards from the demand zone.

9.1 Finding a Supply and Demand Zone

Supply and demand zones can be found in any timeframe. It is very important to search for a good rally for demand and rapid fall of the price for supply to find a good supply & demand zone. In order to find a supply and demand zone first we should look for a ranged or balanced zone where the price has been in consolidation for a certain amount of time. Then we should look for the price breaking out from that tight ranging or consolidation zones. Large price movements or large candle bodies should be taken into consideration before searching for supply and demand zones. If the zone breaks upward, it shows the increase in demand and if the zone breaks downwards it represents the supply in the market is increasing. The strength of the supply and demand depends on the stronger impulsive move of the market from the supply and demand zones. (The5%ers, 2021).

FIGURE 19. Demand Zone on a candlestick chart. (The5ers, 2021).

As we can see in Figure 19, the market consolidates and impulsively breaks the consolidation upwards with a very large candle. In order to find the demand zone on the chart, we can look for the impulsive move with large candles moving upward from the demand zone. (The5ers, 2021).

Fig. 20. Supply zone on a candlestick chart. (The5ers, 2021).

Similarly as shown in figure 20 above, finding supply one is similar to finding demand zone but reversed. We can look for the impulsive move from the candles, falling down from the last two candles. (The5ers, 2021).

FIGURE 21. Supply & Demand Zones

Figure 21 above shows the Supply and Demand Zones and price mitigating off the level. We have taken imbalance into consideration and used the last up candle to mark our supply zone while viewing the imbalance we used the last demand zone to mark our demand zone. The supply zone is here of higher time frame while the demand zone is of lower time frame. After retesting the supply zone of the higher timeframe, the price is coming back to continue its bullish trend to mitigate the demand zone of the lower timeframe. The easiest way to find these zones is to look at the respected rally or drop of the price and use the imbalance to find the last up move for the supply zone and the last down move for the demand zone.

9.2 Refining the Supply and Demand Zones

Supply and Demand Zones often should be refined to get a tight stop-loss and gain more profit. This can be done by refining the higher time frame zones and plotting them in the lower time frame with the help of imbalance.

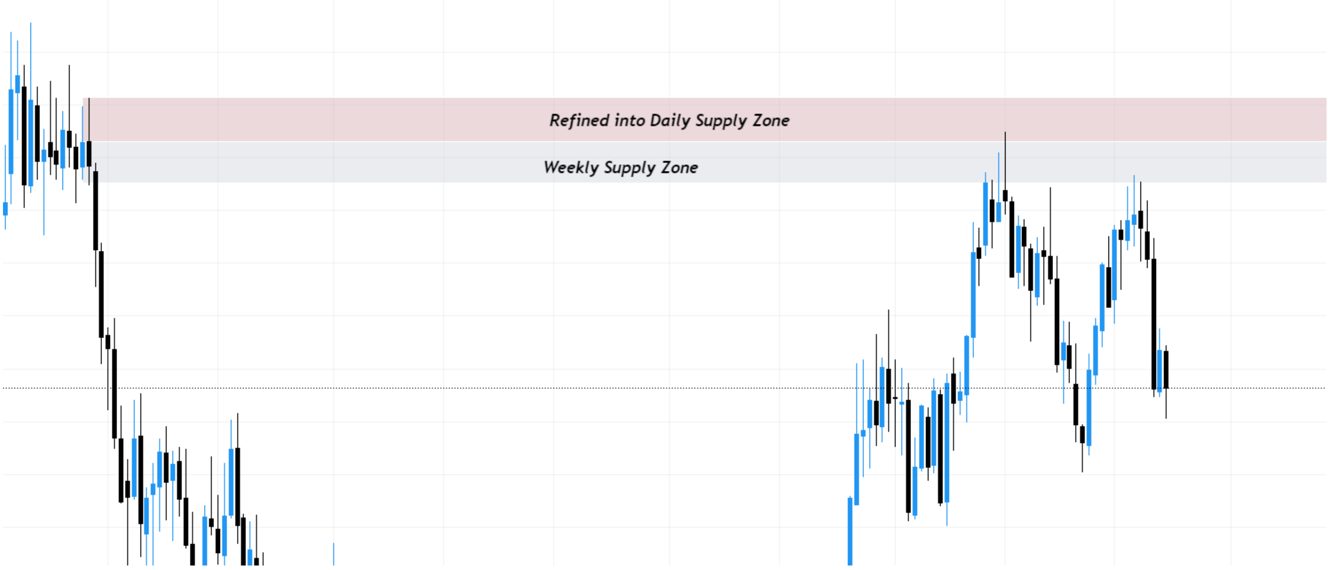

FIGURE 22. Weekly Supply zone refined into Daily supply and price mitigation off the level.

In Figure 22, we have refined the weekly supply zones to the daily supply zones. Similarly, we can use much lower time frame zones to refine it into the lower time frame supply & demand zones in order to get tight stop-loss and find the trade much quickly.

FIGURE 23. Daily Supply zone refined into hourly supply zone and price falling after mitigating the position from the zone.

In Figure 23, we further refined the daily supply zone into an hourly supply zone. This refinement is very useful to be profitable. After the refinement, we can look for the break of the structure or lower time frame confirmation to execute our position.

10 MULTIPLE TIMEFRAME ANALYSIS

Market Structures are fractal when we go lower with the time frame. There can be several trends within the same market when we zoom in on the structure with the timeframe. Multiple timeframe analysis helps to view the same market in different timeframes. A higher timeframe creates the trend, and a lower time frame is usually used to get good entry into the forex market. (Richard Snow, 2019). A larger time frame makes the trend while the reversal of trend is started from a lower time frame, which grows towards creating the higher timeframe reversal. (dot net tutorials, 2021).

Multi-time frame analysis is the process of analysisng the chart in multiple time frames. The ratio of 1:4 or 1:6 can be used when switching between the time frames. This helps us to cover small movements and get good entries in the market. For e.g., when analysisng the market on an hourly time frame, we can switch to 10 minutes time frame (1:6), or when analysisng the daily chart we can analyse a 4-hour chart (1:6) for ideal entries. (Richard Snow, 2019).

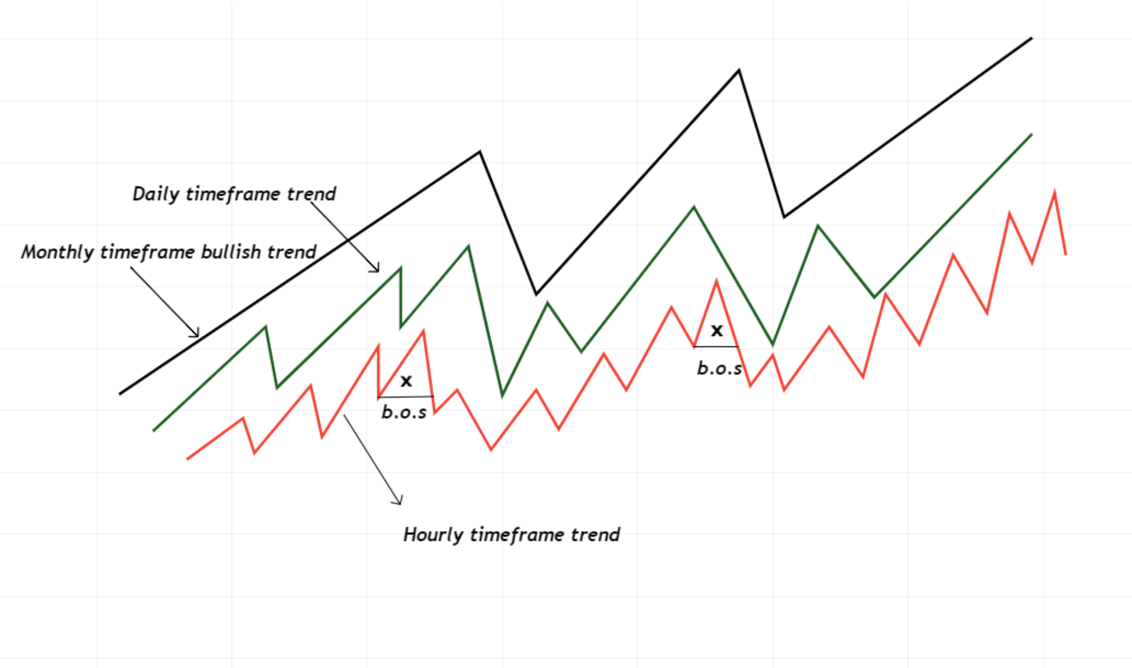

FIGURE 24. Fractal nature of the market in 3 different time frames.

Figure 24 shows the fractal nature of the market. We can see that the market is bullish in the monthly time frame making higher highs and higher lows. But as we zoom on the chart and go towards the daily time frame, we can see the market breaking the structure and changing the trend, and even further down in the daily time frame we can see the market breaking a structure lot of time and change of the trend several times. The monthly timeframe in the above chart is a higher timeframe structure and is bullish, dominating the trend, while daily and hourly timeframe structures are following the bullish trend of the monthly timeframe structure. We should work with the lower time frame market structure as it helps to profit a lot but within the trend of the higher timeframe market structure.

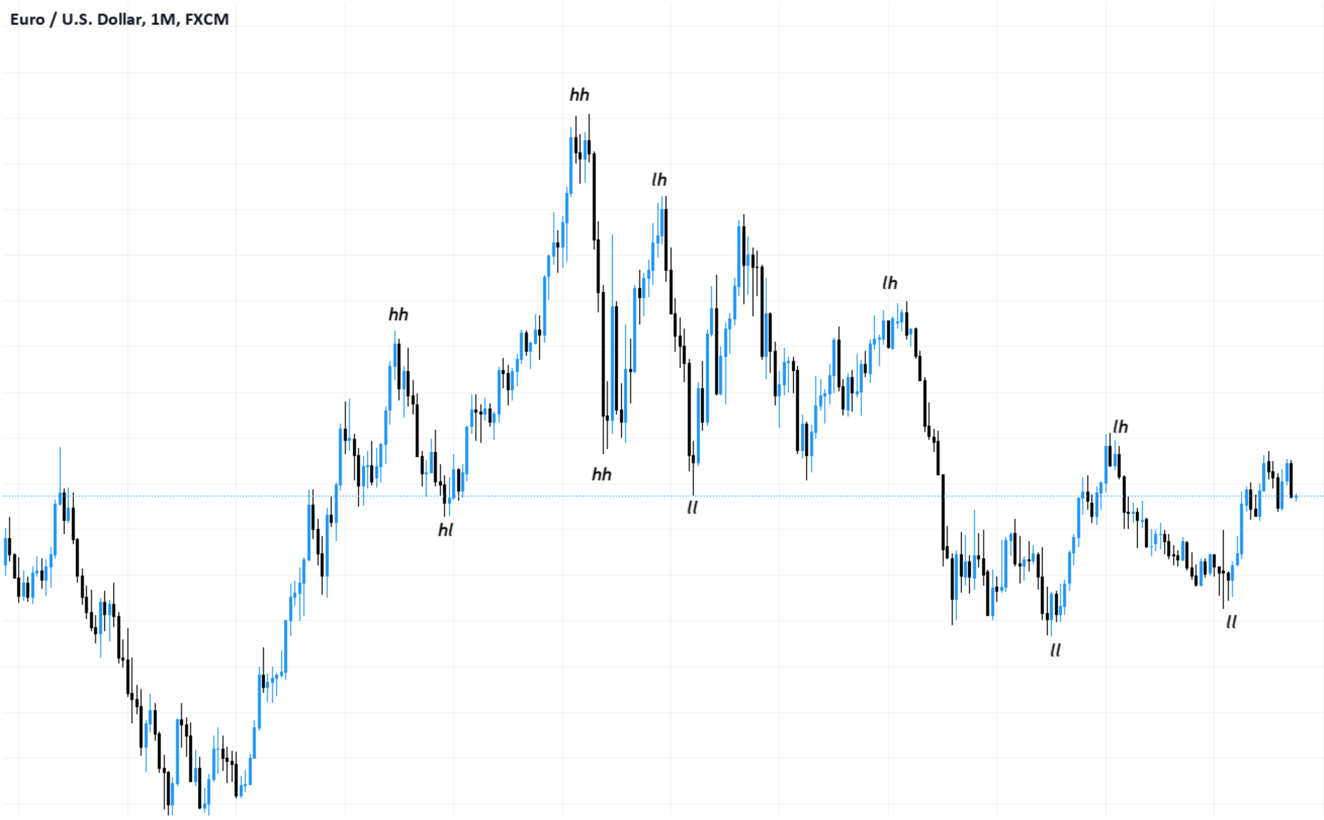

FIGURE 25. Bearish trend in monthly market structure.

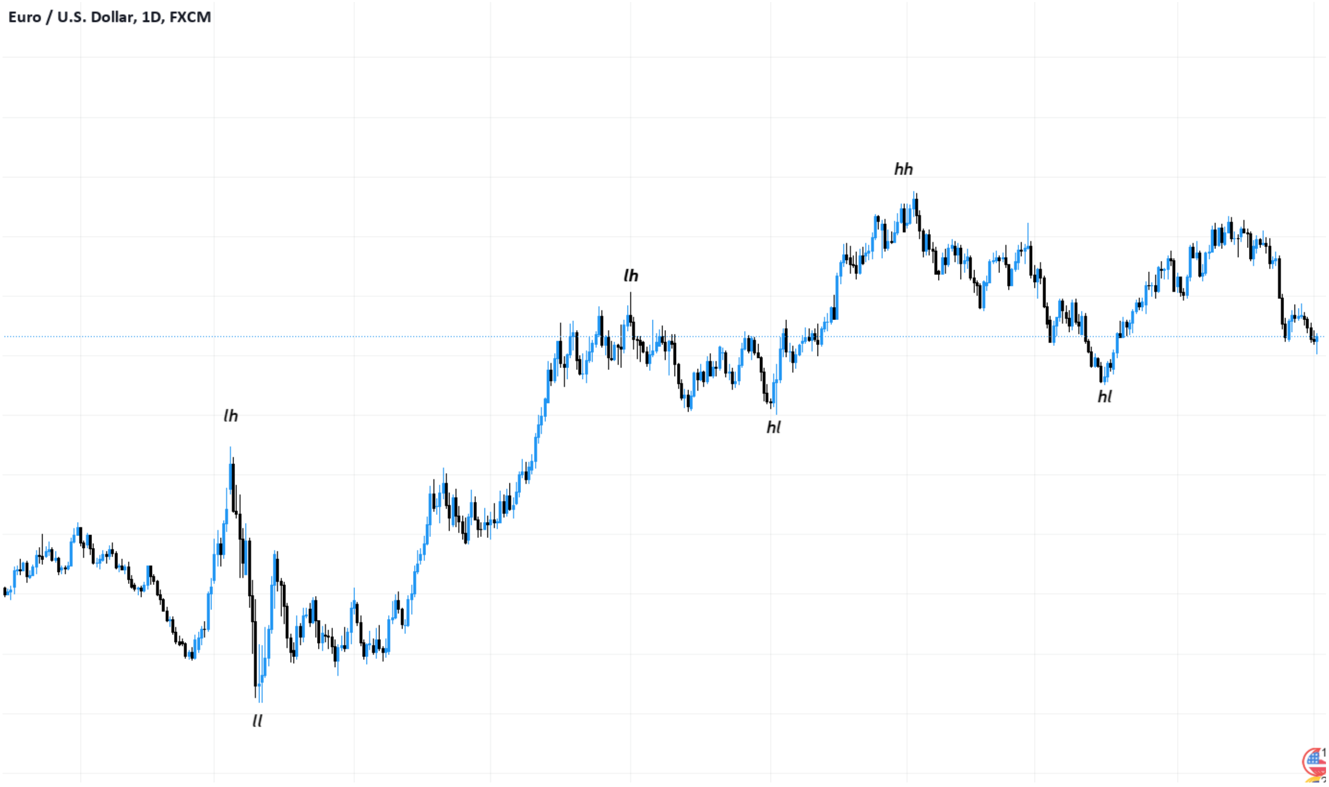

FIGURE 26. Bullish trend in daily market structure

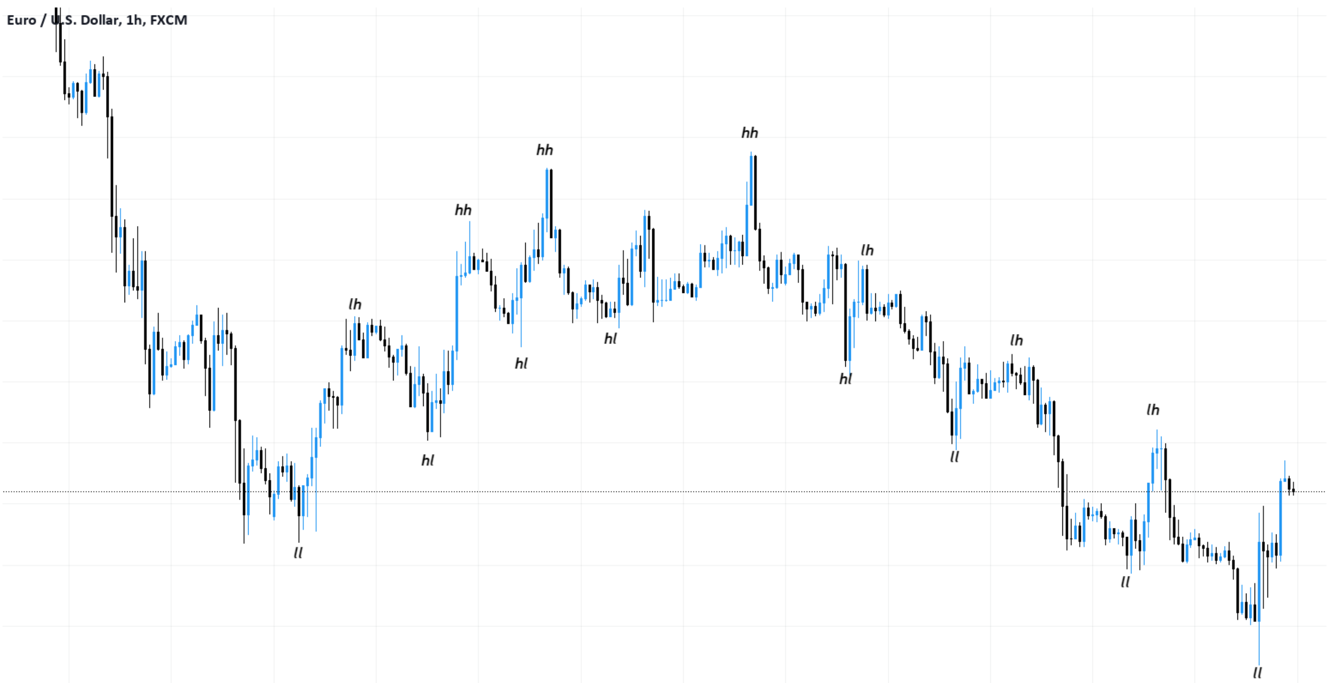

FIGURE 27. Bearish trend in hourly market structure.

In Figure 25-27, we can see that the market in EURUSD chart in the monthly timeframe is bearish while the daily is bullish, and hourly is bearish. The fractal nature of the market changes a lot when going further with the lower timeframe which is quite confusing. Therefore, it is very important to always first analyze the trend of higher timeframe. Analyzing the market in lower timeframes helps to get a good confirmation for the higher trend letting us get a good profit with tight stop-loss.

10.1 Lower timeframe Structure

The market creates and moves from patterns to patterns from smaller time frames to higher time frames. A larger time frame structure consists of several lower time frame structures. The reversal of market trends always starts with the smaller timeframes and continues upwards. While the market is completely dominated by larger timeframe trends, smaller timeframes are very vital as they help us to predict the reverse in the market. (dot net tutorials, 2021). By this it means, in a monthly bullish trend, as we analyze the lower timeframe with daily structure and see the break of structure in the daily timeframe, we can predict the market in the higher timeframe trend is likely to reverse.

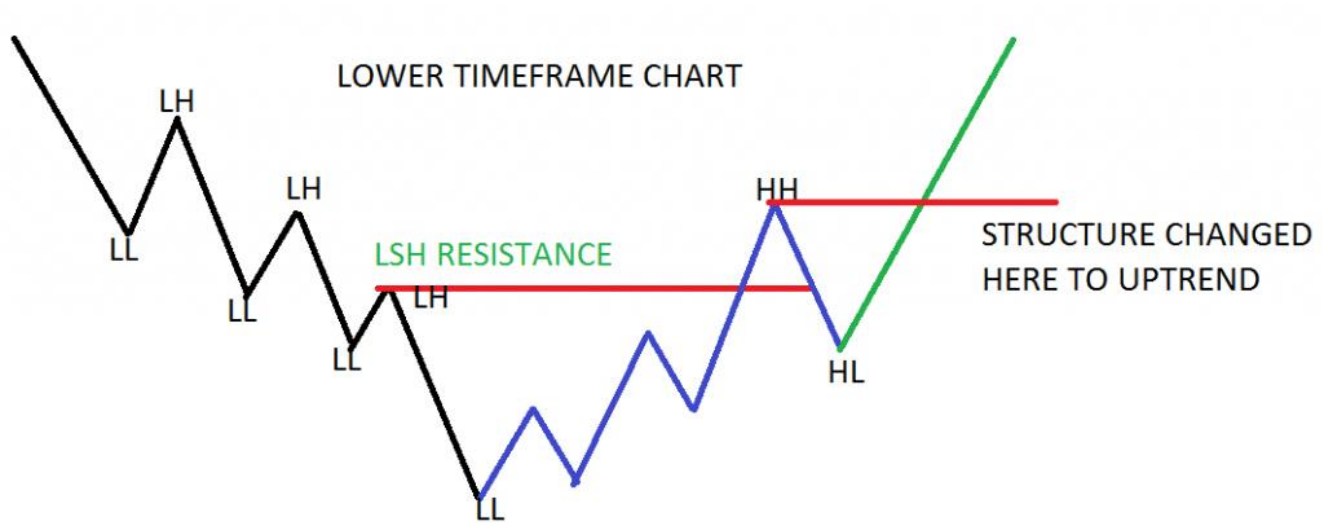

FIGURE 28. Change of market structure in the lower timeframe reversing the price.

Figure 28 above shows the market changing its trend from bearish to bullish momentum. The market was making lower low and lower high and continuing its bullish trend. After the market comes to revisit the area of demand the market broke the structure and starts to create a new high where we can start to anticipate the change of direction in the market.

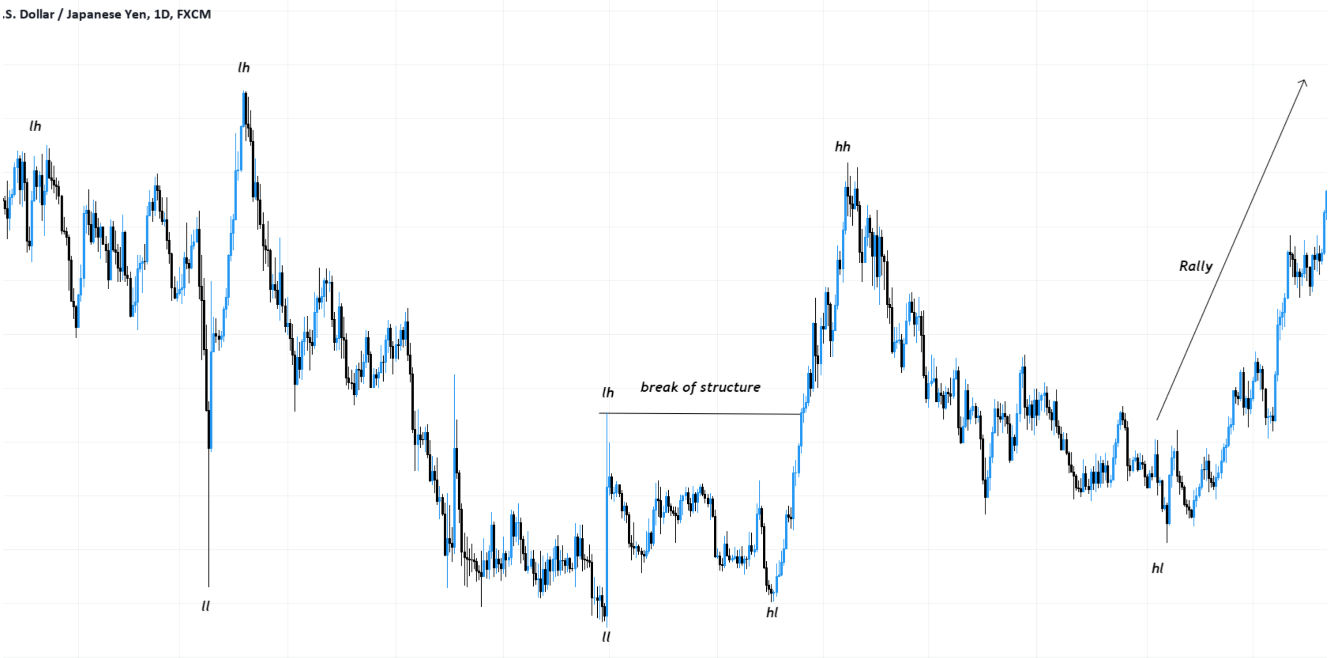

FIGURE 29. Monthly bearish trend changed into bullish after the break of structure and confirmation in the smaller daily time frame.

Figure 29 above shows the market reversing by breaking the structure in the lower time frame. We should have to anticipate the lower time frame with the higher timeframe structure and work accordingly. E.g., the break of structure on the daily lower timeframe should help us to predict the change of the trend in the market on the weekly and monthly time frame. But the break of structure in the hourly or 4-hour timeframe should not mean the market will change the trend in monthly or weekly time frames. It helps us to predict the change of structure in a daily timeframe.

11 SUPPLY AND DEMAND PATTERNS

Supply and demand patterns are very important when trading smart money using supply and demand zones. There are four different ways how the price visits these supply and demand zones and moves away from the zones.

11.1 Rally-Base-Drop

This is the first kind of supply and demand zones pattern. These patterns form with a strong upward move or rally, carried on by a small consolidation and then a strong drop from the zone. (Felix, 2019).

FIGURE 30. Rally-Base-Drop pattern. (Felix, 2019).

In Figure 30, we can see the Rally-Base-Drop pattern off the supply and demand zones. There was a strong rally with a small consolidation and a drop off the price. In this supply and demand pattern, we should be considering the supply zones where we can see a strong impulsive drop in the price.

11.2 Rally-Base-Rally

This supply and demand patterns form when a rally of the bullish trend stops for a while due to short consolidating of the price, forming the base and continuing towards the upward direction again. As in figure 31, we can see the Rally-Base-Rally pattern which can be also considered as a demand pattern, where we are analysing and considering demand zones in a bullish market where price rallies with a strong move. (Felix, 2019).

FIGURE 31. Rally-Base-Rally pattern. (Felix, 2019).

11.3 Drop-Base-Rally

This supply and demand pattern is the opposite of the Rally-Base-Drop pattern. In this pattern, we are considering the drop of the price to a demand zone, where a base or consolidation of the price forms, before shooting the price towards upwards direction with a strong move. (Felix, 2019).

FIGURE 32. Drop-Base-Rally pattern. (Felix, 2019).

As in Figure 32, we can see the Drop-Base-Rally pattern which is also the demand pattern where we are considering the low of the downtrend, where price rallies up with a strong bullish move.

11.4 Drop-Base-Drop

In this supply pattern, the price in a downtrend consolidates for a short period of time and continues its downward momentum with a stronger downward push.

FIGURE 33. Drop-Base-Drop pattern. (Felix, 2019).

As in Figure 33, we can see the Drop-Base-Drop pattern which is the reverse of the Rally-Base-Rally pattern. This is the supply pattern, where we are considering the supply zones of the downtrend, where price further continues its bearish momentum. (Felix, 2019).

12 SMART MONEY TRADING IN SUPPLY AND DEMAND ZONES

Smart money buys and sells a lot in the forex market. They use supply and demand to move the price. The supply zone is the area or a zone where large sell orders from the smart money occur resulting in an imbalance between supply and demand, where the supply is greater than demand which makes the price of the currency fall. Where, demand zone is the area or a zone where large orders of buy from the smart money occur, which results in an imbalance where demand is greater than supply, which rises the price of the currency. (Felix, 2019).

FIGURE 34. Price mitigating supply zones and demand zones. (Felix, 2019).

In Figure 34, we can see prices ranging in the supply zone and falling heavily creating an imbalance between the supply and demand. Also, on the demand zone, we can see the price having impulsive move towards an upward direction.

12.1 SUPPLY AND DEMAND BOUNCE

Supply and demand bounce is the most important trading strategy when trading supply and demand zones with smart money concepts. After a strong movement from the supply and demand zones, the price often comes to retest and bounce off from the zones. This bounce happens because of the smart money buying and selling when revisiting these areas. (Felix, 2019).

FIGURE 35. Price bouncing from the demand zone. (Felix, 2019).

In Figure 35, on the left side, we can see price rallying towards an upward direction with a short consolidation which creates a demand zone. On revisiting this demand zone, it quickly mitigates this area and rallies up again.

13 COMPILING THE STRATEGY

After a long introduction to the market structure, trends, supply and demands, and multi-timeframe analysis it's time to compile all the understandings into one strategy. The forex market is not random. It is driven by smart money often called market makers who are the smartest investors in the market. These smart money strategies are more reliable and successful than any of the strategies used by retail traders. (Forexlens, 2020).

Trading with supply and demand zones we are buying at a low price on demand zones and selling at a high price on supply zones. (The5%ers, 2021). Our strategy is based on trading these zones, using supply and demand bounce and patterns confirming with a good entry in a lower time frame. The first step of our strategy is to determine the trend of the higher time frame. E.g., starting with the order flow flowing in monthly, weekly, and daily timeframe. Whether the market is bullish or bearish, the bias should be based on the direction of a higher timeframe. Supply and Demand zones should be drawn in this higher-timeframe structure. This helps us to predict and anticipate the move from where the market is continuing or reversing its trend. After that, we can look for supply and demand bounce or patterns or trend continuation and trend reversal patterns to trade these zones. With the help of these patterns, we can move on to a lower time frame chart and using a 1:4 or 1:6 lower time frame chart, we can find a perfect entry for our trade. (Richard Snow, 2020).

Trend continuation and trend reversal are also some of the common patterns used to trade smart money using supply and demand. The price will fall when it reaches the supply zone and rises when it reaches the demand zone. (Binomo, 2021). These two most common patterns to trade supply and demand zones are explained below.

13.1 Trend continuing patterns

These trend continuing patterns on the supply and demand zones are formed within the trend. When the market is moving in an uptrend, price consolidates for a certain period of time on the base and then starts to rise upwards again where it creates an area of demand. A long position should be entered when the price comes to mitigate or revisit this area. (Binomo).

And, in a downtrend, we can trade this pattern when the price falls down and consolidates and creates a base and further breaks down and creates a supply zone. A short position should be entered when the price comes to mitigate this area. (Binomo, 2021).

And, in a downtrend when the market is making lower low and lower high, we can expect the market to continue its trend from the latest supply zones. Rally-Base-Rally is bullish trend continuing pattern while drop-base-rally is a bearish trend continuing pattern.

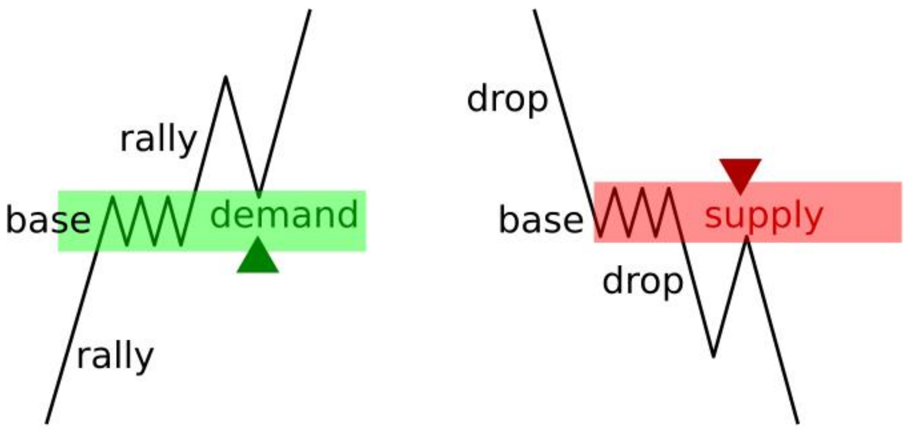

FIGURE 36. Supply and demand trend continuing patterns (Binomo, 2021).

In Figure 36, we can see that the market continuing its trend after creating a base and mitigating it from the supply and demand zones. This trend continuing pattern is very powerful, but further lower time confirmation should be used to find a good entry using this pattern.

FIGURE 37. Market continuing its bearish trend on a real-time chart.

In figure 37, we can see that the market continuing its bearish trend in a real time chart. The market is falling and creating news lows. The market continues its momentum after revisiting the supply zone, continuing the trend.

13.2 Reversal of the trend

The market needs to change its trend in a lower timeframe to get its trend change in the higher timeframe. In the bullish trend, when the market is making a higher high and higher low the market must break the structure and create a new low to change its structure in the higher timeframe. When the price falls, then consolidates and moves in the base for a certain period of time, a new demand zone is formed and we can anticipate our buy position from this demand zone, reversing the direction of the market giving us the demand reversal pattern. (Binomo, 2021).

Similarly, in a bearish trend when the market is making a lower high and lower low, the market breaks the structure to change its direction. A reversal pattern from the supply zone is formed when the market moving in an uptrend consolidates within the base and starts to move downwards. A short position should be opened when the market comes to revisit this supply zone. (Binomo, 2021).

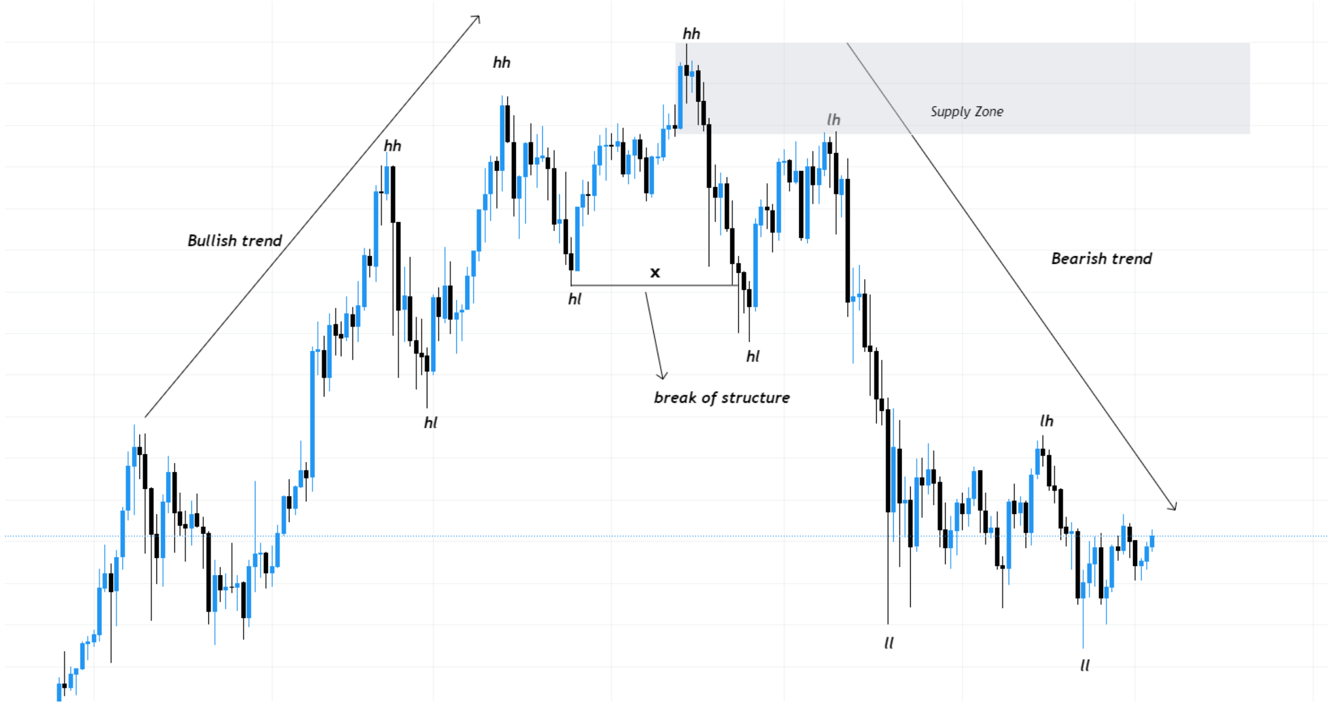

FIGURE 38. Bullish trend reversal pattern in a real-time chart.

Figure 38 shows us the trend reversal pattern. The market was moving in an uptrend creating new highs, but as soon as the market breaks the structure and creates a base and consolidates for a certain period of time, a new supply zone was formed. As soon as the market comes to revisit this newly formed supply zone, a short position could have been entered, where the market starts to fall down rapidly.

14 LOWER TIMEFRAME CONFIRMATION

After the analysis of the higher timeframe chart, finding the supply and demand zones, and waiting for the price to revisit these zones we should look for lower time confirmation to execute our trend. We can use the 1:4 or 1:6 ratio to refine our confirmation for an ideal entry. 10- or 15-minutes time frame should be used for an hourly chart, and similarly, for a daily chart, four hours lower time frame confirmation should be used. (Richard Snow, 2019).

The higher timeframe bias should match the lower timeframe bias to confirm the position. E.g., if the daily timeframe is bullish, then a long position should be entered from the demand of the four-hour timeframe.

FIGURE 39. Market continuing its bearish trend in the daily timeframe

In figure 39, we can see the higher time frame structure where the market comes to revisit the supply zone in a daily time frame. After revisiting the supply zone, the market starts to fall down rapidly. The lower time confirmation can be used to find a good entry to anticipate this trade.

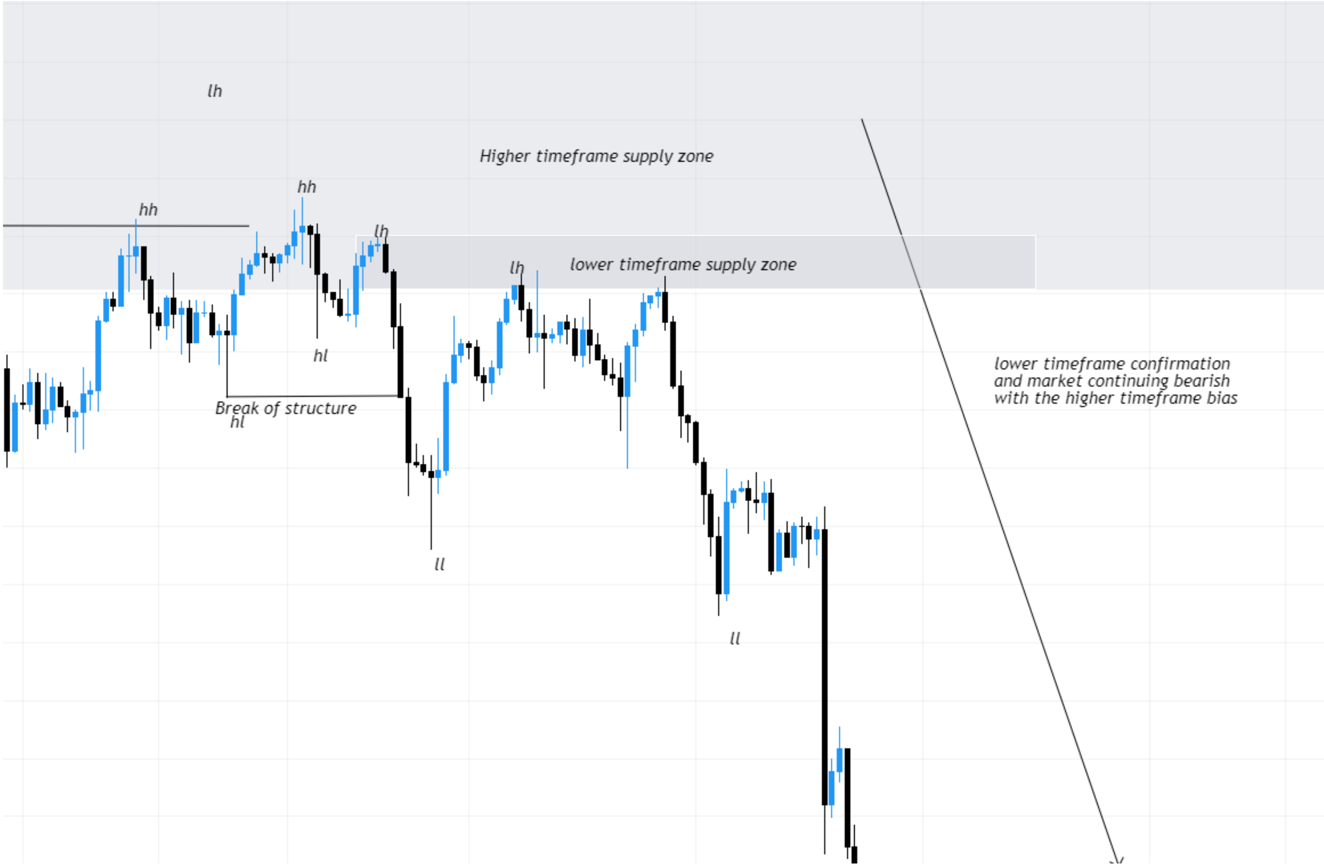

FIGURE 40. Lower timeframe confirmation of the figure above

Figure 40 above shows the lower time frame confirmation of the daily timeframe market structure. Using the rule of thumb of 1:4 or 1:6 lower time frame confirmation, in the figure draw the supply zone in a four-hour time frame and look for reversal patterns to and execute our trade. (Richard Snow, 2019).

In the Figure 40 above, we can see the market in daily timeframe was continuing its bearish trend making lower highs and lower lows. And after it made the new low and came back to mitigate the fresh supply to create a new low, we went to the four-hour timeframe to confirm the position, where the market was in a bullish trend. And, in the four-hour timeframe when the market broke the structure to the downside and confirm that it was trying to go lower, we executed our short position.

15 TRADING STRATEGY

The main theme of the study is to get knowledge about smart money concepts and refined entries. The study also teaches to manage the risk and have tight stop loss along with the measure of how much profit a trader should take in each trade and how much should he be willing to risk according to the amount of capital he possesses.

The strategy is entirely based on the market structure, supply and demand zones, lower time confirmations, and risk management. The first step in the strategy is to analyze the order flow of the higher timeframe. It is very important to analyze the market structure and trend of the higher timeframe as it completely dominates the market. It is advisable to start with monthly, weekly, and daily timeframe order flow.

The second step is to analyze the market structure and draw supply & demand zones and trade using supply and demand patterns. From higher timeframe order flow analysis, it is very vital to also analyze the structure to predict whether the market is about to continue its trend or is about to reverse. Supply for bearish trend & Demand zones for bullish trend should be drawn accordingly using supply and demand patterns looking at the market momentum for expecting the market mitigate and move from the zone. After drawing supply or demand zones according to the trend, there should also be a refined supply or demand drawn. Huge impulsive momentum of the price should be taken into consideration when drawing supply and demand zones.

FIGURE 41. Expecting the price to return and move away from demand and supply zone respectively. (The5ers, 2021).

In Figure 41, on the supply and demand zones, price rallies up from the demand zone on the left side and falls down from the supply zone on the right side. We are waiting for the supply and demand zones bounce trading strategy, where price revisits the area dips and moves back towards again.

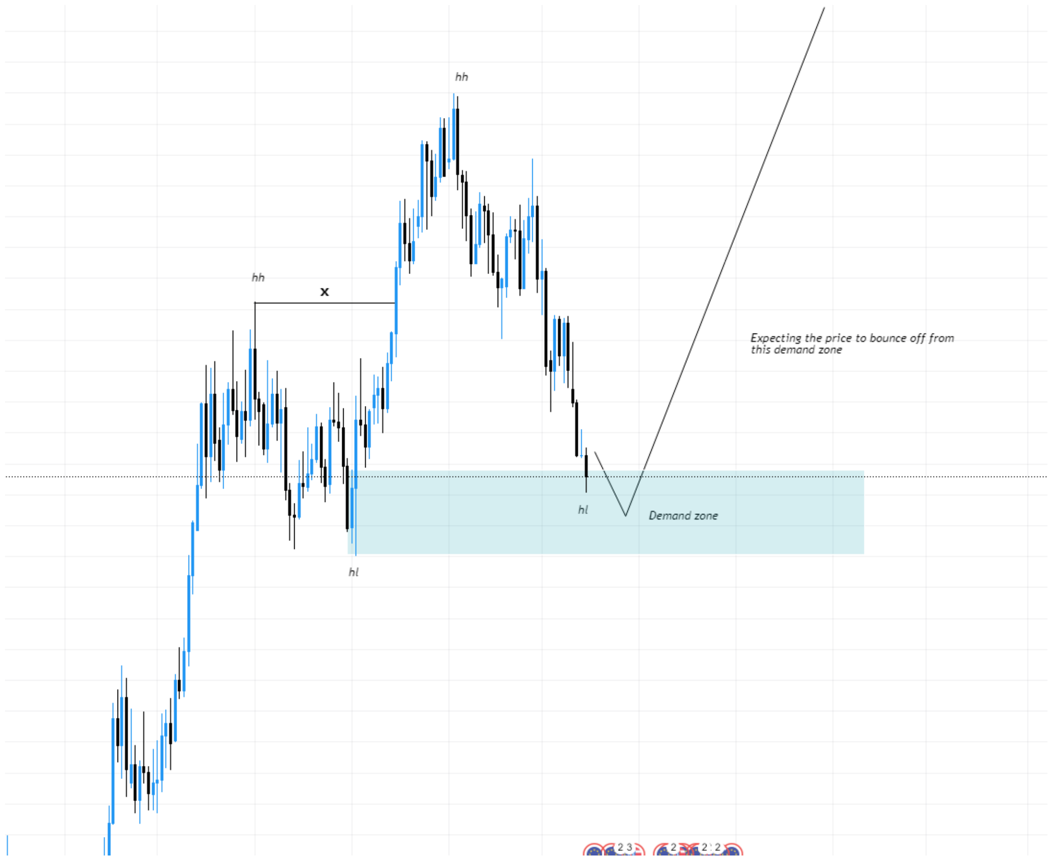

FIGURE 42. Bullish order flow on the daily timeframe and demand zone.

The third step is to wait for the market to come to the drawn supply & demand zones and trade with supply and demand trading patterns. Supply and demand patterns should be taken into consideration when executing the trade. If the market does not reach the supply & demand zones, then the trader should be patient and should not execute the trade. As in Figure 42, After the market reaches the supply zone in bearish and demand zone in a bullish trend, then the trader should zoom in on the chart to confirm the market momentum in the lower timeframe. A daily chart should be used to confirm the order flow of monthly trade, to confirm the trade on monthly chart hourly time frame should be used and to confirm the trade on 4-hour chart 15 minutes timeframe should be used and so on.

The order flow on the lower timeframe is exactly like the higher time frame. If the daily timeframe order flow is bullish, then the confirmation timeframe is an hourly timeframe, and a long position must be executed with the demand from the hourly timeframe. Similarly, for the bearish timeframe, if the confirmation timeframe is bearish, then the short position must be executed with the supply zone of the hourly time frame.

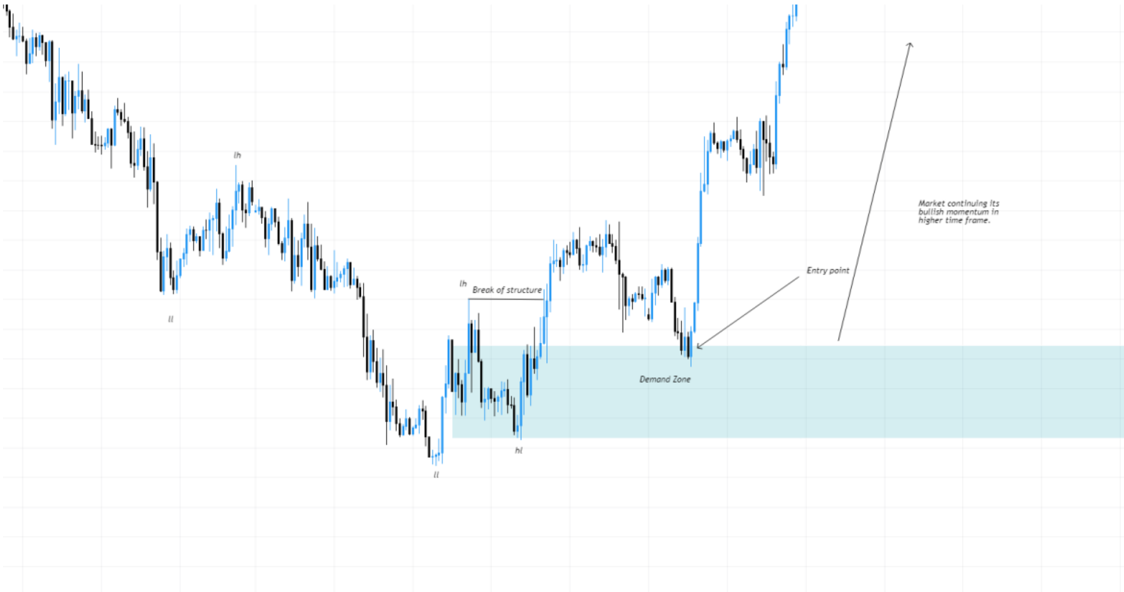

FIGURE 43. Lower time confirmation on the hourly chart.

Figure 43 above shows the lower time confirmation using a 1-hour timeframe. After drawing the demand zone on a higher timeframe, we waited for the market to reach the level. And, on the level in the lower timeframe, the market broke the structure creating a new high. After that, we waited for the market to reach our hourly level demand zone and executed our position. The market rallied up as soon as it mitigated the order lying on the demand zone.

The final step of our strategy is to manage the risk. It is a very important step as it determines the traders' consistency in the market. The main goal of a new trader is to protect his capital rather than trying to profit in the market (Gregory Mittel, 14-15). A trader needs to trade with only 1.5-2% of the total capital in a single trade. The goal of trading is not to be rich overnight but to slowly increase the total capital of a trader. The stop-loss order must be placed in every trade on the top of the supply zone in the downtrend and the end of the demand zone in the uptrend. Risk to Reward ratio must be greater than 1:1.5 RR. so that the trader profit even with the 50% or less win ratio with their every trade in the long run.

16 CAPITAL MANAGEMENT

Capital management is the most vital factor to consider gaining consistent profit in the forex market. It helps to determine the amount of capital to risk in a single trade and how much to profit.
Forex has the risk of losing the entire capital. 70% - 80% of retail investors lose money in the currency market (Forex Ninja, 2019). One should never invest the money one cannot bear to lose. Protecting the capital is the main duty of a trader. Profits come with experience, knowledge, and skills the trader gain. It takes years for a trader to become professional and to gain these skills. (Gregory Mittel, 14-15). It is always better to risk only 1-2% of the capital on every single trade.

The risk on each trade should be a small amount of the total capital. Only a small percentage of the total amount of capital should be risked on each of the trades executed. 2% of the total amount of capital should be risked for executing the trade. For e.g with 3000 euros capital, more than 2% of the capital should not be risked in a single trade. With this limit, the maximum loss in a single trade should not exceed 60 euros. (Selwyn M. Gishen, 2020).

A good trading plan is required for a trader in any market. Traders should never let their decision be controlled by emotions. Successful forex traders grab few big wins while experiencing smaller losses. Patience is the key quality required for a trader along with the discipline to follow his trading rules. Consecutive losses can be emotionally difficult for traders to control their patience in trading. Traders must not trade against the market and trigger position because of fear and greed the market as this can completely wipe out his whole capital. (Robert Stammers, 2021).

Trading forex does not make wealthy overnight. Every trader will face losses in their trade. Capital and risk management should be equally focused by traders as they focus on developing their strategy. Learning from mistakes and from the experience of professional traders is the most successful way to learn a good way to trade the forex market. (Robert Stammers, 2021). Traders must stick to their trading strategy and plan even after continuous losses. The main skill a professional and experienced trader have is the control of their emotions. They have a trading plan, and they rarely change their plan even if they encounter a lot of losses. Emotions should be thrown away during the trade and habits must be developed to learn from the mistakes.

17 RISK MANAGEMENT

Risk Management in the Forex Market is very important if one wants to profit consistently from the forex market (J.R. Bosanko, 2016). Fancy indicators, software, or systems are not needed to profit in the forex market. Supply and demand are the only things moving the price in the market. The trader needs to have a lot of knowledge of Supply & Demand before executing his first trade in a real account.

The trader should focus on controlling emotions before executing their trade. He should practice a lot in the demo account and try to protect the capital in his account rather than profiting from the first day.

17.1 Stop-loss order

A Stop-loss order means placing a stop order which helps the trader to limit the loss. No matter what your trading strategy, money management or risk management is stop loss must be placed. Stop-loss cannot be too big nor too small. Bigger stop losses can cause stress to a trader and smaller stop losses can get the trader out of the trade quickly. So, stop loss must be placed according to the trader's money management and strategy (Gregory Mittel 2015, 32).

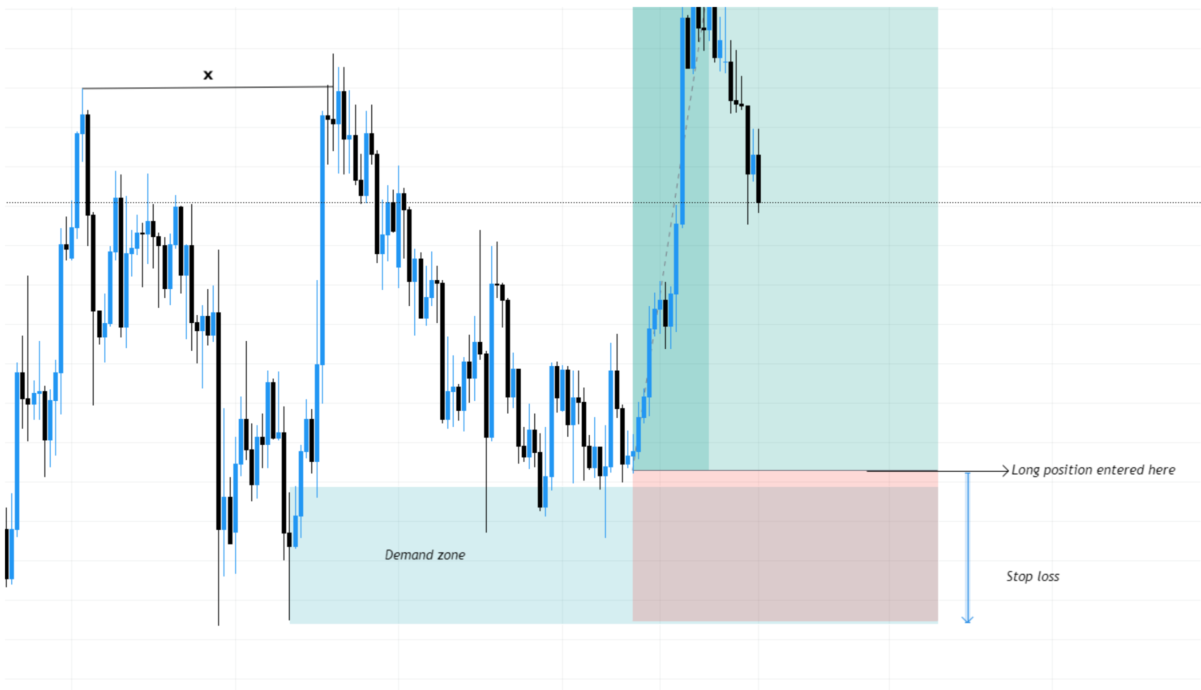

FIGURE 44. Stop loss order placed at the end of the demand zone.

Figure 44 shows us the stop-loss order executed on the demand zone. A long position has been entered after the market broke the structure and came back to revisit the demand zone. The stop-loss order has been executed at the end of the demand zone to protect the trader from further loss if the market has turned against him.

After executing a long or short position, stop-loss order at top of the supply zone in the short position and at end of the demand zone in a long position. We use a lower time frame to confirm our trade to keep our stop loss as tight as possible, so if in any case if the trade went against us, then we lose less and profit more if the trade goes in our favor.

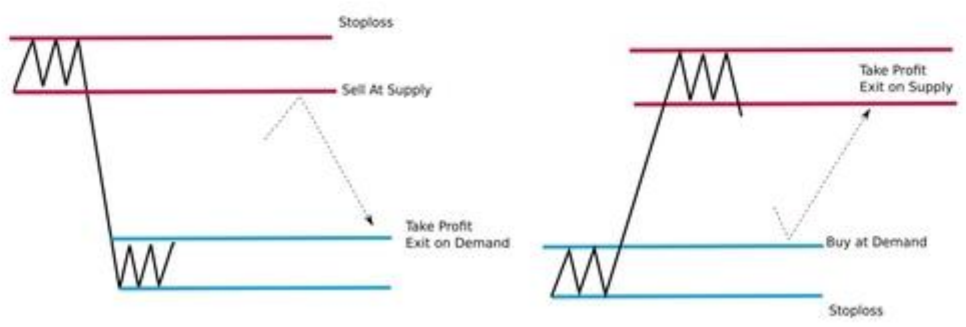

FIGURE 45. Stop-loss and Take Profit position on supply and demand zones. (The5ers, 2021).

Figure 45 shows the stop loss and take profit orders placed on the supply and demand zone. Here, on the left-hand side of the figure short position has been executed. We can see stop-loss orders placed on the top of the supply zone while take-profit orders placed on the top of the demand zone. Also, in the right-side figure, we long position has been executed placing take profit order on the supply zone and stop-loss order on the end of the demand zone.

17.2 Risk to Reward Ratio

Risk to Reward or RR is the ratio of the capital the trader is willing to risk gaining a certain reward. If a trader risks 50 euros with a risk to reward ratio of 1:5, he is risking 50 euros to gain 250 euros.

While taking a long position we can calculate the risk to reward ratio by using the formula: RR = Entry – Stop loss/Target – Entry. And while taking a short position we can calculate RR by using RR = Stop loss – Entry/Entry – Target (Gregory Mittel 2015, 47-48).

It is necessary to target the profit over 1:1.5 RR. Targeting high RR, with the next lows in the short position and the next highs in the long position can make it easier to make a profit. With the proper RR, the trader will be profitable even with his 50%-win ratio or less.

TABLE 1. Calculating win ratio with Risk to reward ratio.

Risk-to-reward ratio (in pips)	Win Ratio required to Break Even
40/20 (2:1)	67 %
40/40 (1:1)	50 %
40/60 (1:1.5)	40 %
40/80 (1:2)	33.5 %
60/20 (3:1)	75 %
100/100 (1:1)	50 %

Table 1 shows that traders should not need to win a lot of trade to be profitable. With the good risk to reward, stop loss, strategy, and money management he can achieve the same feat even if he lost two or three trades in a streak and win the next one.

18 CONCLUSIONS

The study is mostly based on the strategy provided by professional traders and the strategy is created using the information found on the internet and the author's experiences in forex trading. The course is entirely based on smart money concepts and the use of strategies used by financial institutions and banks for trading.

Forex is a very volatile market. One should not invest an amount one cannot afford to lose. This study is not a piece of investment advice but an introduction to the forex markets and smart money concepts and strategies for retail traders to profit from the forex markets. The author is not a financial advisor and is not responsible for any of the capital lost by the traders using this strategy. The author has four years of experience in the field of trading the forex market. It is advised that the trader should do immense practice on the demo account before using this strategy.

The simple goal of the author in the study was to create a profitable strategy for new traders using smart money concepts. Smart money concepts may be old in the forex market, but this concept is new to retail traders, and therefore there are not a lot of materials about this concept found on the internet. To keep the strategy simple, the author prefers to choose the books and study materials used for the new traders in the forex market.

The study is mainly targeted at new traders in the forex market. Basic terminology and a simple introduction are included in the study which is needed for new traders to understand the market. The author has also included the technical analysis and patterns so that the new traders could know how most of the retail trader's trade. The thesis is chiefly focused on creating the strategy using smart-money concepts and the market structure with which the author thinks the trader could be profitable if perceived and implemented appropriately.

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