PRICE ACTION TRADING IN CRYPTO MARKETS

Supply/Demand | Liquidity

Ver 1.0

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These notes were compiled on the teachings of the following people, huge thanks to them for showing me how to use Price Action:

- ICT
- RektProof
- Phantom Trading

Preface

Before beginning your trading journey within the crypto market there are some basic things you need to understand. The majority of the market is controlled by computer algorithms, with zero emotion.You are up against the best and brightest in the world. The market is rigged against you and designed to make you lose. It is a zero sum game.

However with a proper trade plan and proper execution there is a way of being profitable within the market. This PDF was created to help you find your edge in the market. This PDF is divided into several sections to help you piece together a plan that can create a winning edge: Market Structure, supply/demand zones, liquidity pools, risk management & entry strategies i personally use.

This guide is strictly price action based and little to no indicators will be used.

I recommend getting a paid version of Tradingview so you can have some options for time frame selection and setting up alerts. TPO profiling can be done via Exocharts (trial version is fine).

Each lesson will provide in depth information on the respective topic. I recommend going through each lesson in their respective order and studying live charts as you work your way through.

As traders we need to rewire our brains with successful habits and replace the bad habits. Psychology and mindset will have a huge impact on your trading. The discipline practices taught in this PDF must be followed. I can show you the way but you have to practice what I teach over and over till you have reprogrammed your brain. Trading is a battle between yourself more than anything. You have to master your impulses. No FOMO.

Lesson 1: Supply & Demand

Ranges

A ranging market precedes a trending market. Rather than making a new high and a new low, the basis of the market is that it finds support at a common low and resistance at a common high. The market trends then it ranges. The orderflow of this can be consolidation before continuation, reversal, accumulation, distribution etc. It all falls under the same trading conditions and that is that the market is ranging before the directional trend. In a trending market it's common to trade the trend in terms of waiting for pull backs anticipating a similar direction. In a ranging market you will have a top and a bottom, bouncing back and forth.

Three key attributes of a range:

1. **Range High/Low** : Key swing points of the determined range.
2. **EQ:** Mid Range (50% level)
3. **Deviations:** Trades below/above set range (false break) before ultimately trading back in mean range.

1. Range High/Low

After an impulse move, key swing points will form. These swing points will be your range high and low. Ideally:

1. After an impulse move downwards, mark the range from first swing high to swing low
2. After an impulse move upwards, mark the range from first swing low to swing high.

2. EQ/Mid-Range

This is the mid range, i.e 50% level. Above mid range, price is at a ***premium***; hence look for shorts. Below mid range, price is at a ***discount***; hence look for longs.

3. Deviations

Price trades above/below the range swing points (Range High/Low), before ultimately trading back in the range. ***Generally, if price deviates a swing point, expect the opposite swing point to get tested.***

Ranges indicate one of 2 things:

1. High volume orderflow
2. Low volume in the market

To determine what level of volume we are dealing with, one must observe how price moves away from the range.

1. Rapid movement away from a range indicates high volume
2. Slow movement away from a range indicates low volume.

A movement away from a range should be significant to clearly showcase momentum being injected into the market. If price moves out of a range and immediately retraces that is further context of low volume.

Supply & Demand

The markets, at their essence, were built to facilitate trading. The price action movements on any chart on your trading platform are the result of this primary objective of the market. Simply put, what you see on your charts is the result of the ***supply and demand principle***. Otherwise said, if demand exceeds supply, the total trading volume of buyers is greater than the total trading volume of sellers, causing the price of any particular financial instrument to go up. Conversely, if supply exceeds demand, the total trading volume of sellers overcomes that of the buyer's, causing the price to fall down.

There are 2 types of high probability zones where one can buy or sell from:

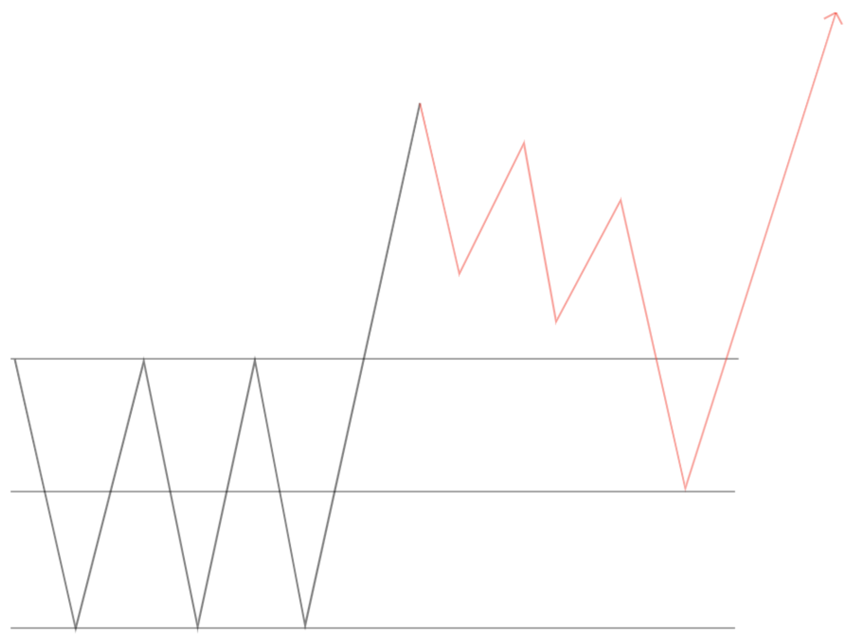
1. Supply zone (Sell)
2. Demand zone (Buy)

Once these zones are formed, the resulting impulse moves normally leave behind ***imbalance***.. Price needs to ***return to zone*** and make price efficient before continuing up/down.

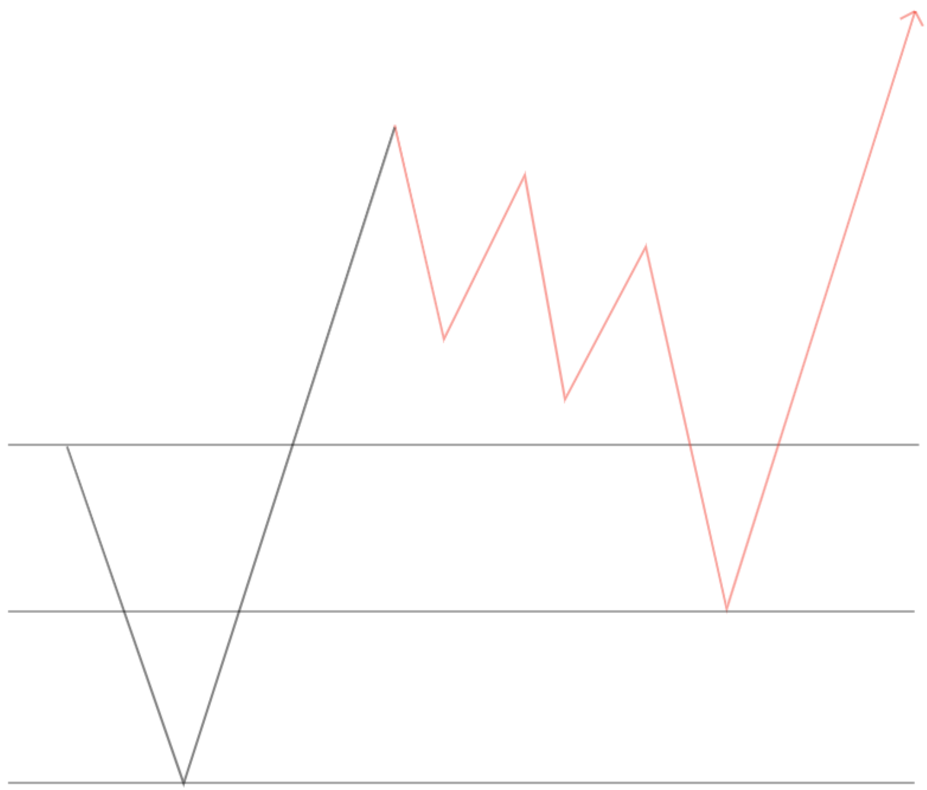
Zone Creation

Supply/Demand zones can be either created through a **range or pivot**, as shown in the diagrams below. Price can be either following a ***continuation or reversal model.*** A ***continuation*** model is where price continues the trend, whereas a ***reversal*** model is where price shifts trend in the opposite direction. Nonetheless it is important the impulsive move up/down results in a ***Break of Structure.***

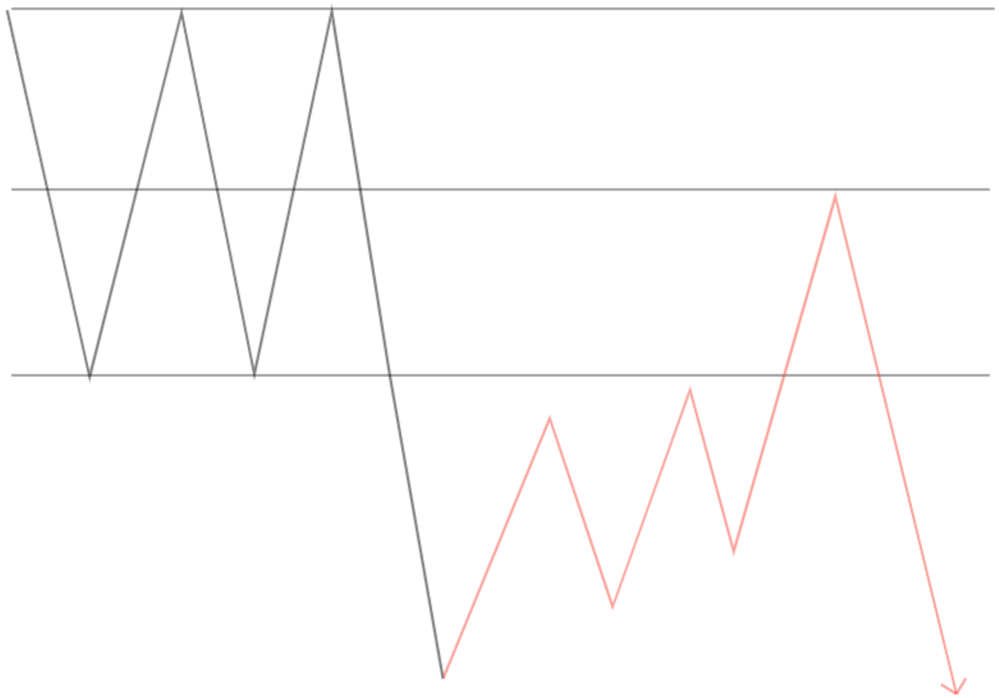
Range Created Demand: Price creates a range, and then rapidly moves to the upside creating a demand zone.



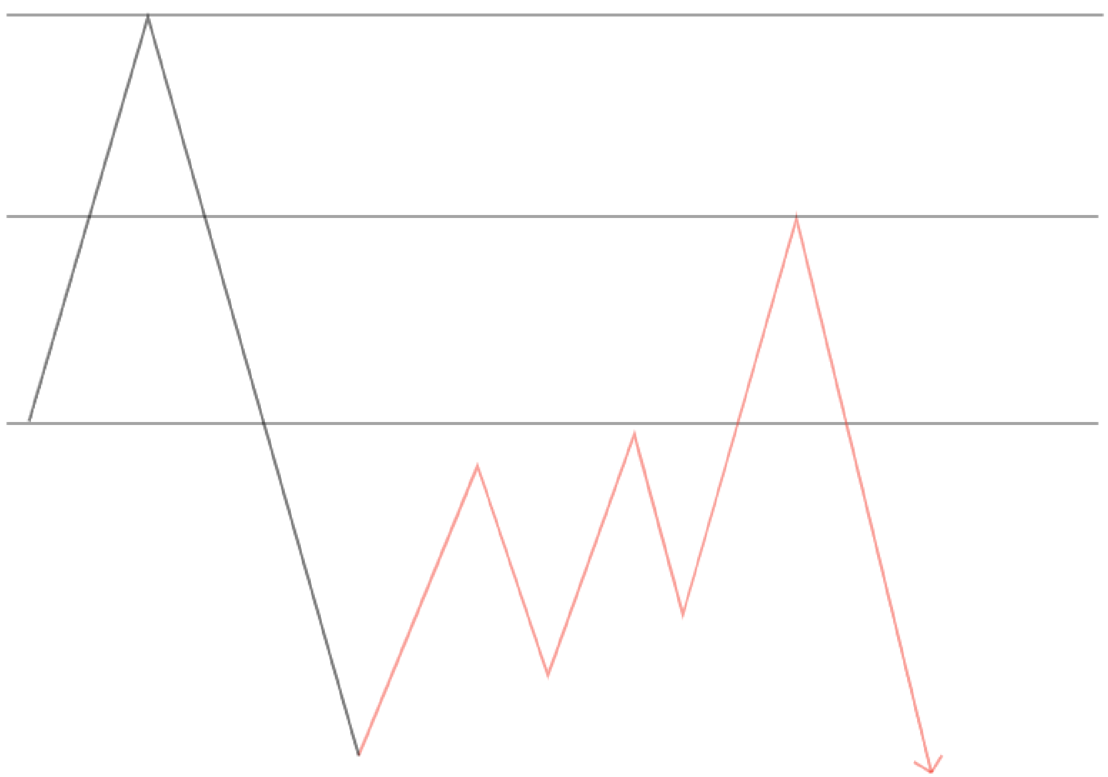
Pivot Created Demand: Price sharply moves to the downside, absorbing and coercing sell orders & generating false supply and then rapidly moves to the upside creating a demand zone.



Range Created Supply: Price creates a range, and then rapidly moves to the upside creating a supply zone.



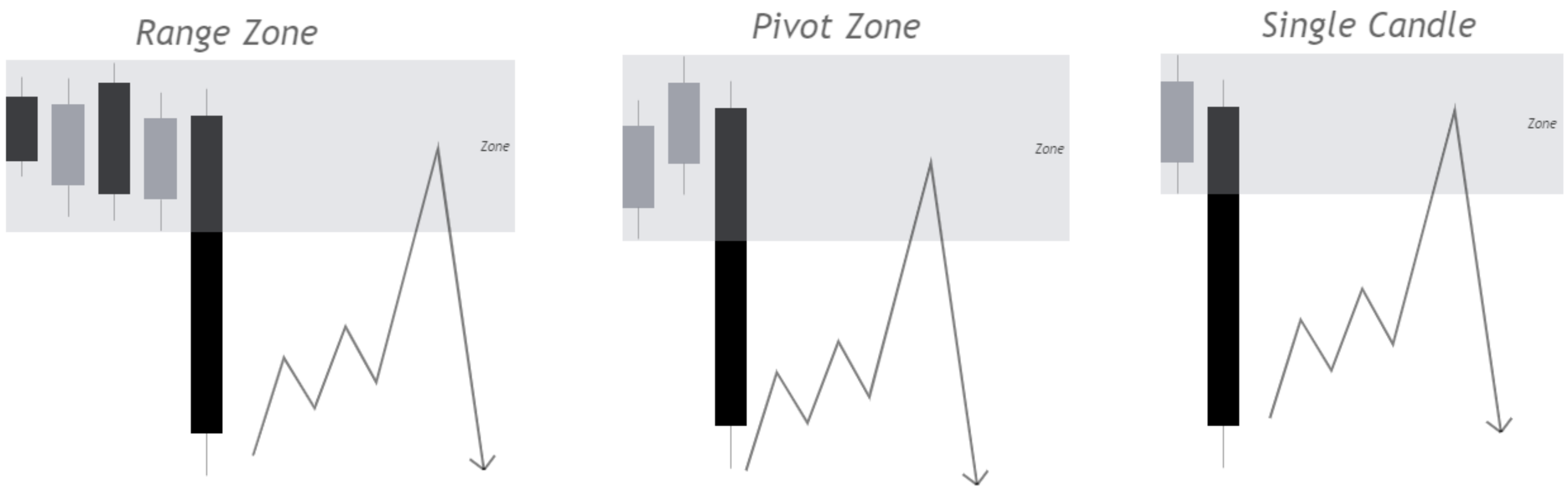
Pivot Created Supply: Price sharply moves to the upside, absorbing and coercing buy orders & generating false demand and then rapidly moves to the downside creating a supply zone.



Zone Creation using Candles

Following on from the previous section, below i've outlined how to map out zones using candles.:

1. **Range Demand/Supply Zone:** You can use 2-4 candles preceding the impulsive move to mark out this zone, marking it out from the highest wick of the range to the lowest wick.
2. **Pivot Demand/Supply Zone:** 2 bullish/bearish candles before an impulsive bearish/bullish candle. (My personal preference)
3. **Single Candle:** Bullish/bearish candles before an impulsive bearish/bullish candle. (My personal preference)



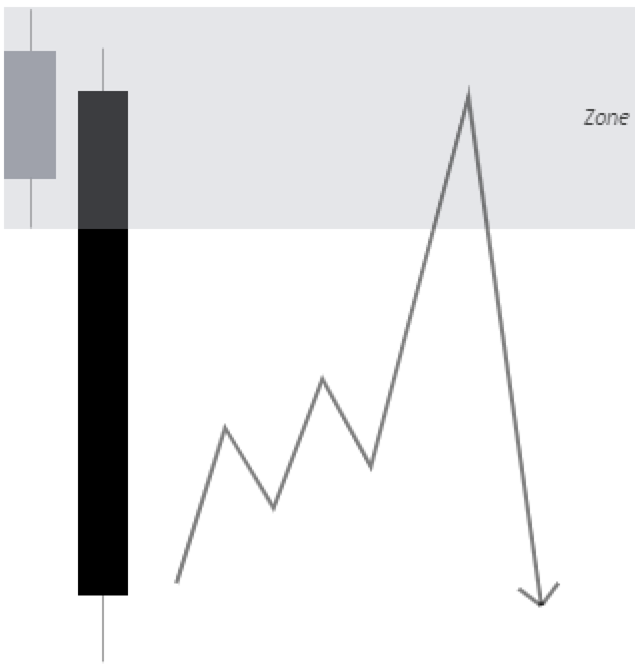
Supply zone creations; inverse holds true for demand zones

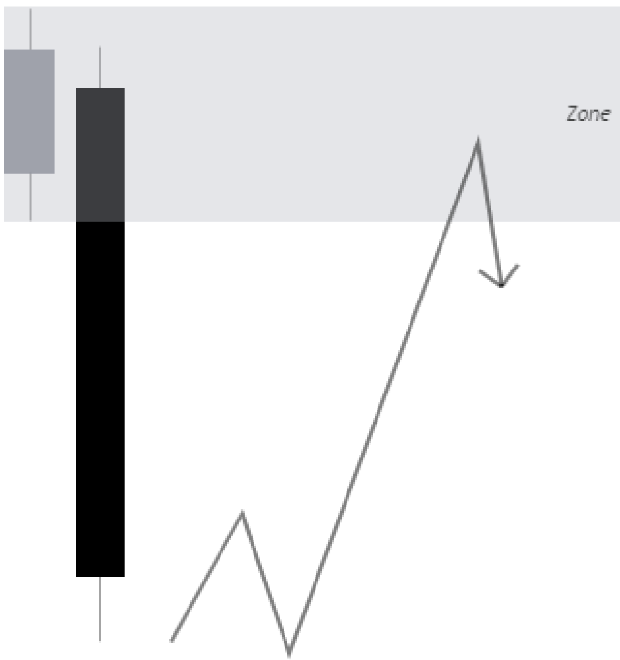
Return to Zone

There are 2 types of return to zone patterns you will see:

1. **Corrective Return** (first chart)
2. **V-Reversal Return** (second chart)

My personal preference is ***playing corrective return patterns*** , allowing for price to give sufficient time and space to accept the new levels at the conclusion of an impulse candle. In my personal experience corrective returns have given a higher probability of working, as generally, corrective returns create liquidity in the form of buy/sell stops and give incentive for price to move in the direction of the impulse direction (discussed in Lesson 4). ***V-Reversals*** are a sign an S/D zone has a lower probability to hold; hence these are good indicators when watching LTF price intentions when seeking to enter on LTF.





Lesson 2: Market Structure

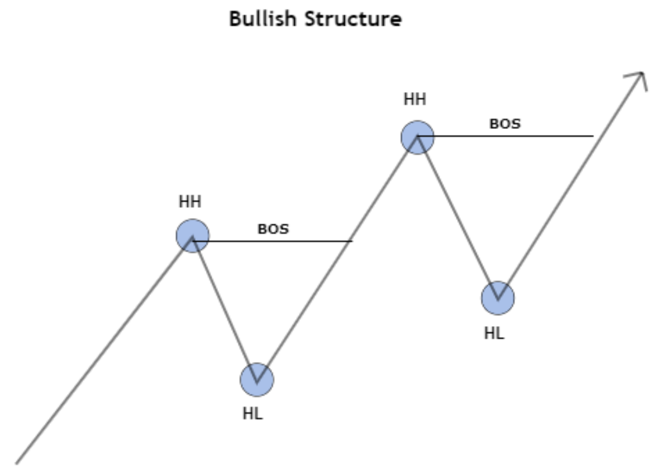
Market Structure

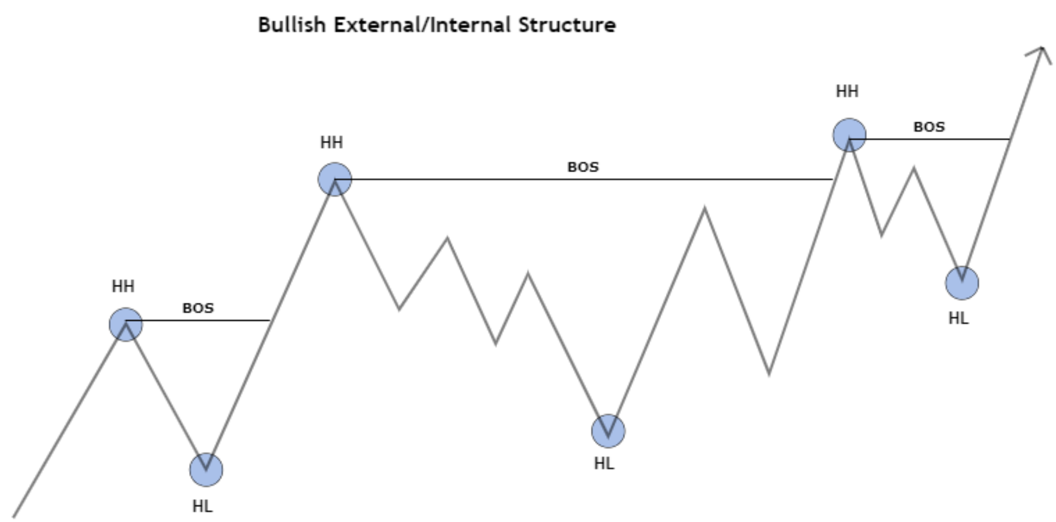
Price can simply be found in one of the 3 phases below:

1. **Consolidation**: Also known as a 'range', and where we mostly find our entries. This can be either Accumulation or Distribution.
2. **Uptrend**
3. **Downtrend**

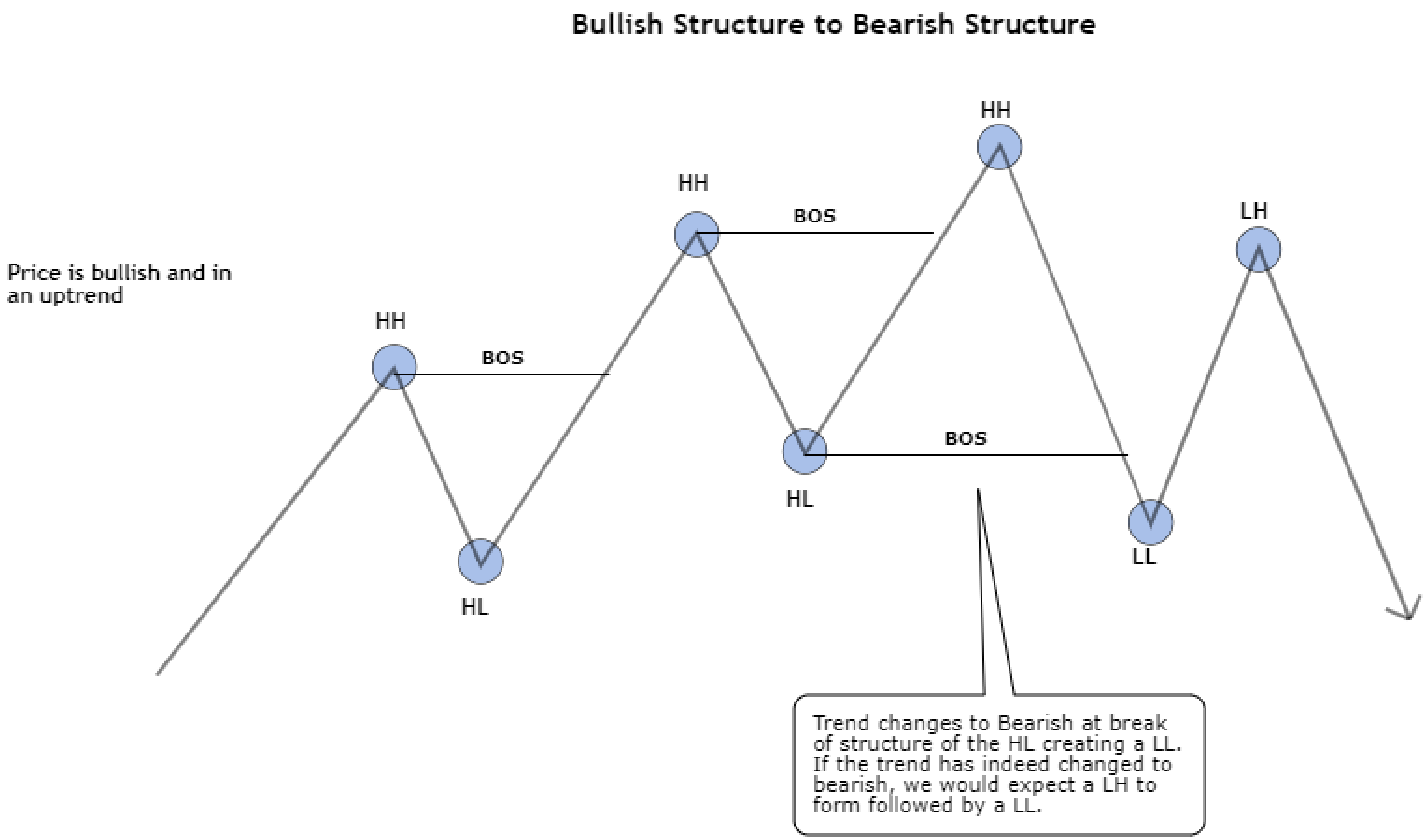
A market will consolidate (range) before commencing a directional trend; uptrend or downtrend. When a market comes off an accumulation phase it's always followed by an uptrend & when a market comes off a distribution phase it's always followed by a downward trend. For a trend to be ***confirmed***, ***2 highs or 2 lows*** *must be created*. The first break of structure makes us unconfirmed and both buys and sells are still on the table.

Market Structure is composed of both an **external structure** as well as an **internal structure** as shown on the right.

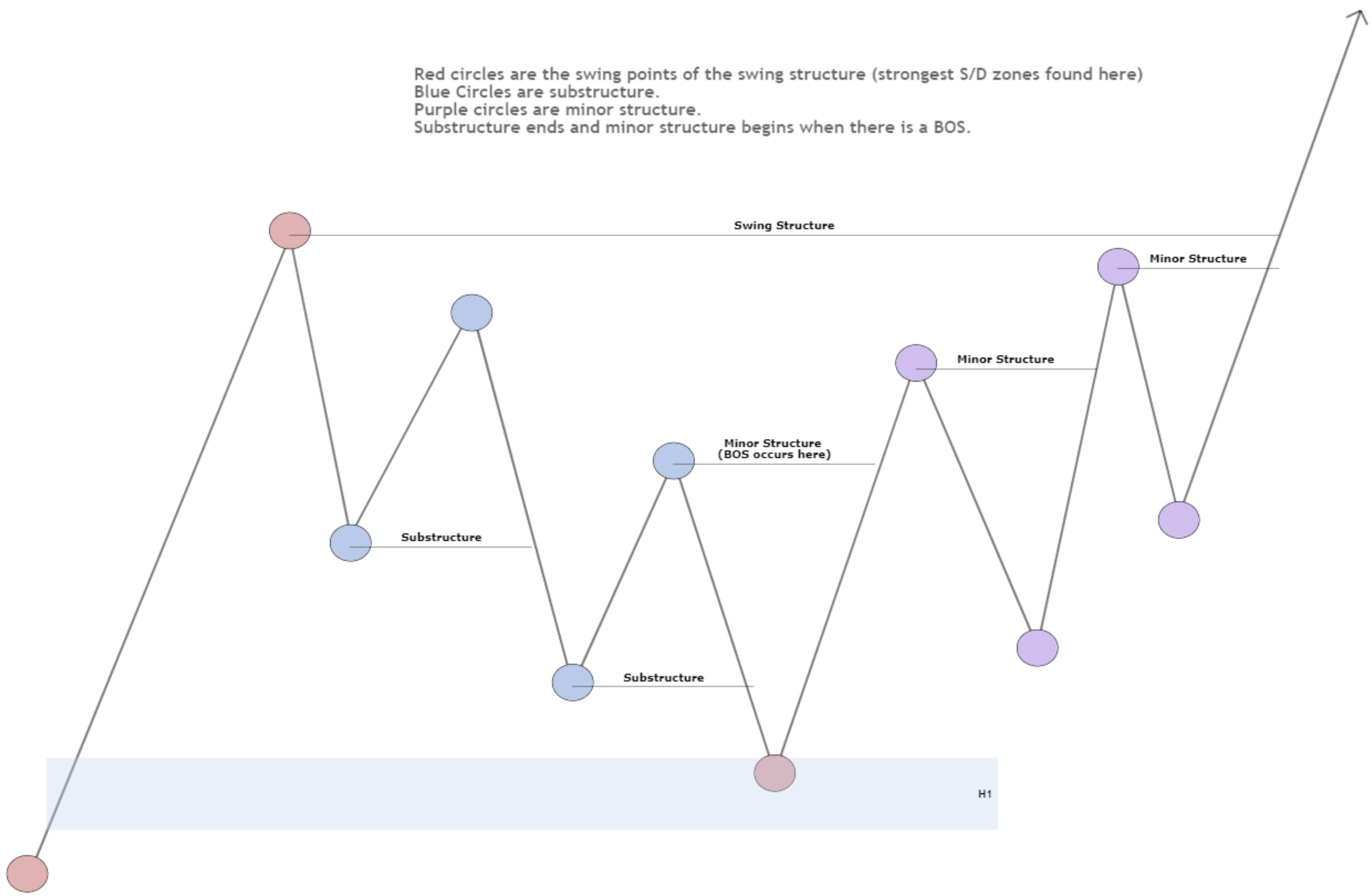




Break of Structure (**BOS**)*:* Occurs when price closes above/below a swing high/low. My preferred method for structure breaks are confirmed by ***candle bodies,*** not wicks. Generally every trader should ***trade in the direction of the higher time frame BOS.***

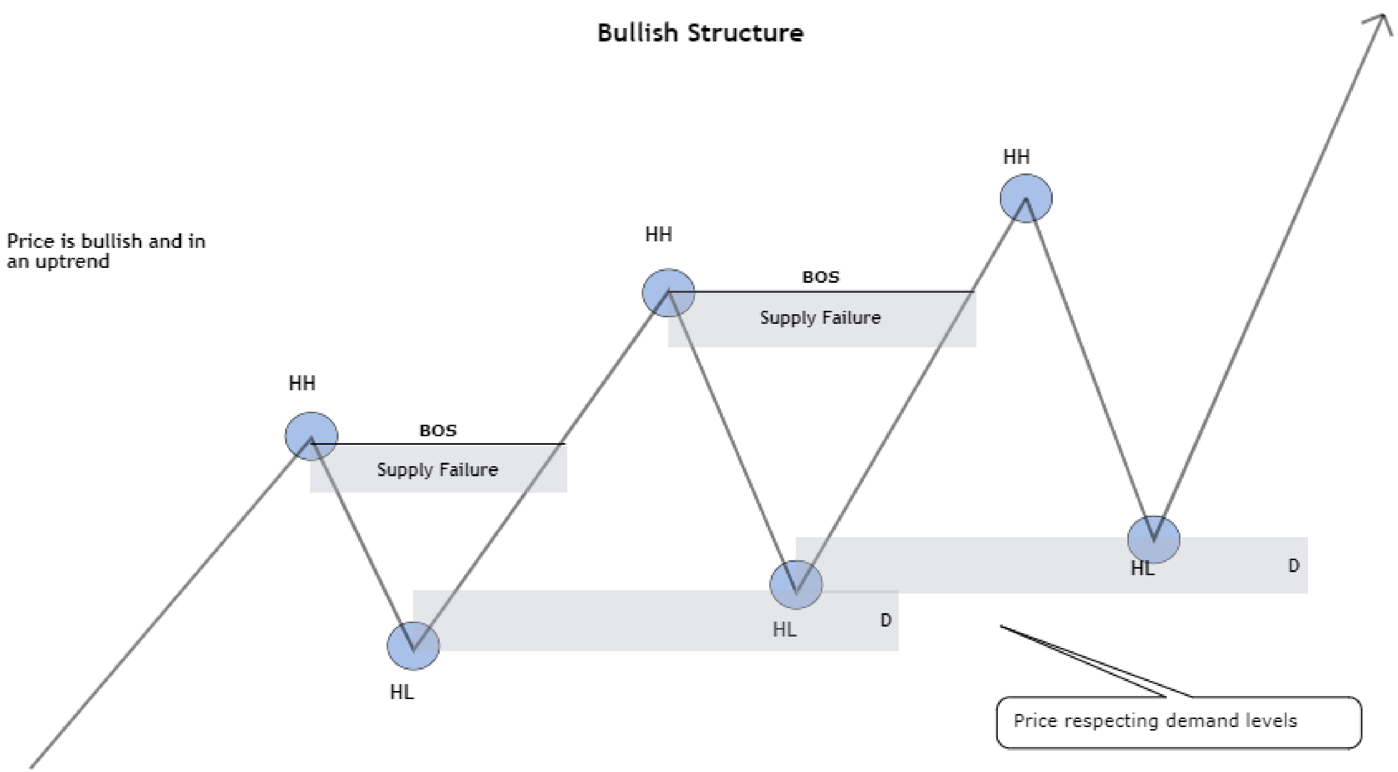


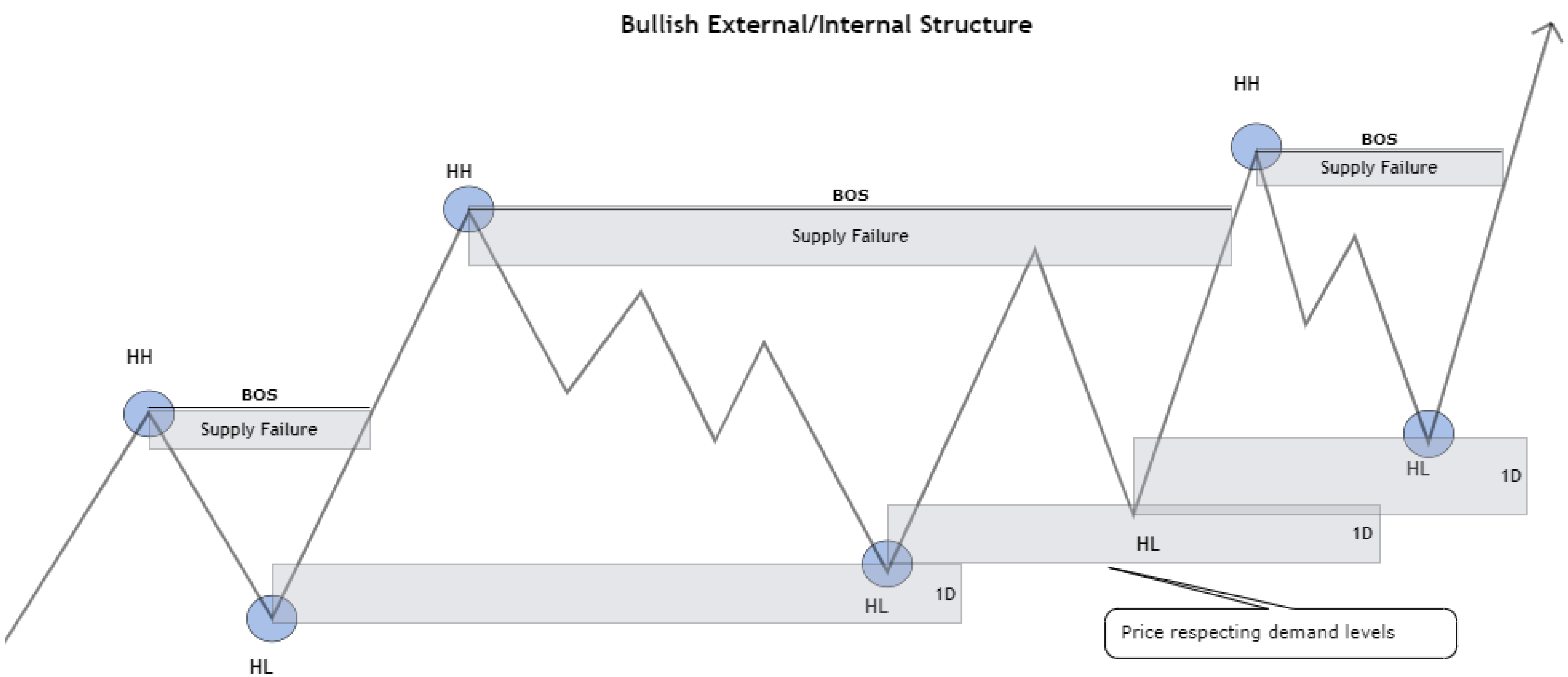
3 types of Structure



Market Structure with Supply/Demand Zones

Expectational Orderflow teaches us that a confirmed trend shall continue until it doesn't. Meaning, in a bullish trend we continue buying until the buys don't work. In a bearish trend we continue selling until the sells no longer work. As mentioned before, market structure reversals occur when there is a break of structure signified by ***a candle body close above a swing high/low***, in which case you would have a trend change and a new unconfirmed trend begins. Once the trend begins and is confirmed (2 highs or 2 lows are created) we use expectational orderflow and keep trading in that trend direction. We can mark out S/D zones once a break of structure occurs (on both continuation or reversal models).

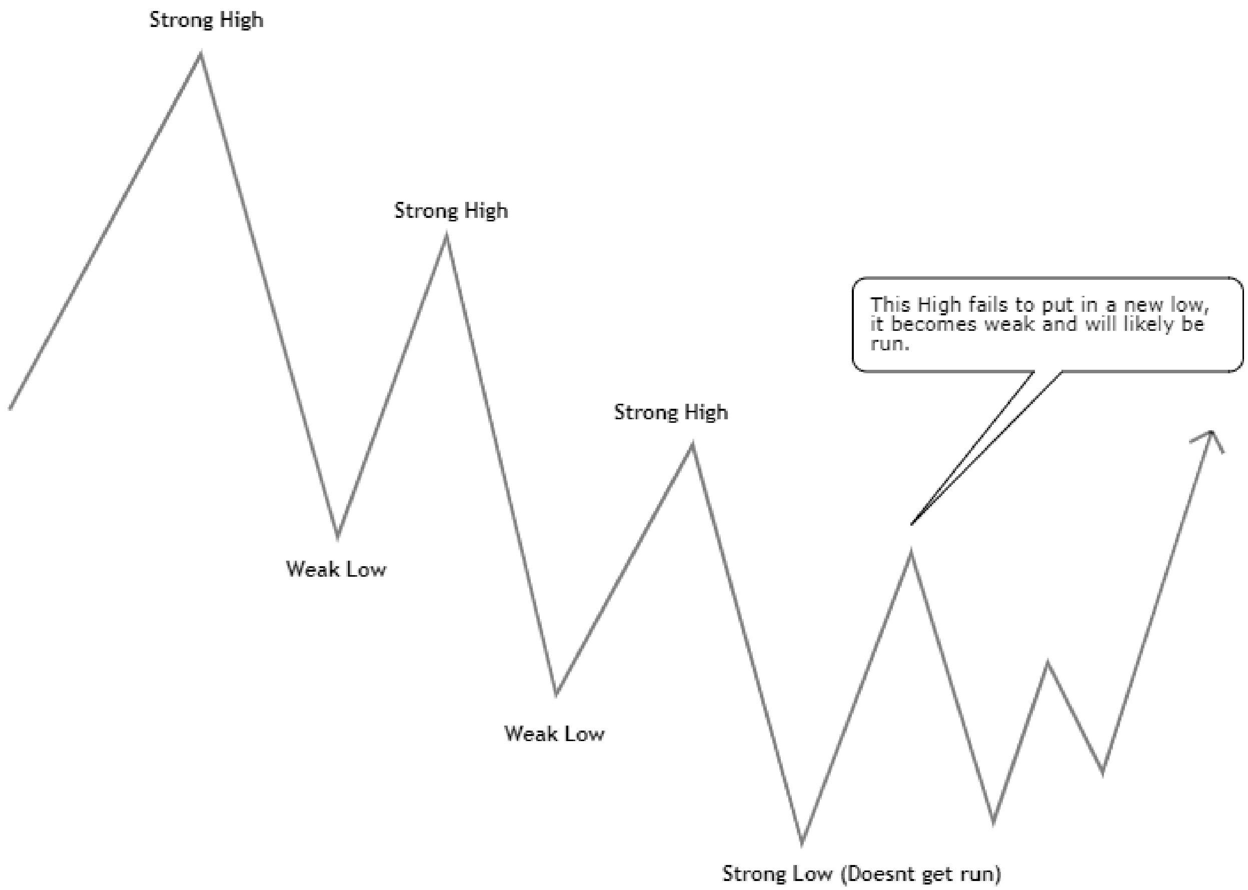




S/D zones on a continuation model with external/internal structure.

Protected vs Targeted Highs & Lows

Protected and Targeted Highs/Lows are also referred to as ***strong/weak highs & lows.*** The lows and highs have a job to do. A low's job is to run a high. A high's job is to run a low. If a low puts in a new high it is considered a ***strong(protected) low***. If a high puts in a new low it is considered a ***strong(protected) high***. Taking the exact same theory now, let's say we're constantly making new highs and suddenly we fail to put in a new high, what happens to the low? It's considered a failed reaction and now that low becomes a ***weak(targeted) low)***. On the flipside, if we're consistently putting in new lows and we fail to put in a new low, that high becomes ***weak(targeted) high*** and will likely be run. **<u>We seek to take orders at the strong points and take profits, generally, at the weak points.</u>**



Lesson 3: Liquidity

Liquidity

Liquidity is defined by Stop losses. Where Stop losses exist, liquidity also exists. Large orders need to activate the stop losses of existing orders in the market so that they can place their positions in the market. Price moves to find liquidity to rebalance the market. Or in other words, price moves to find orders to rebalance the market.

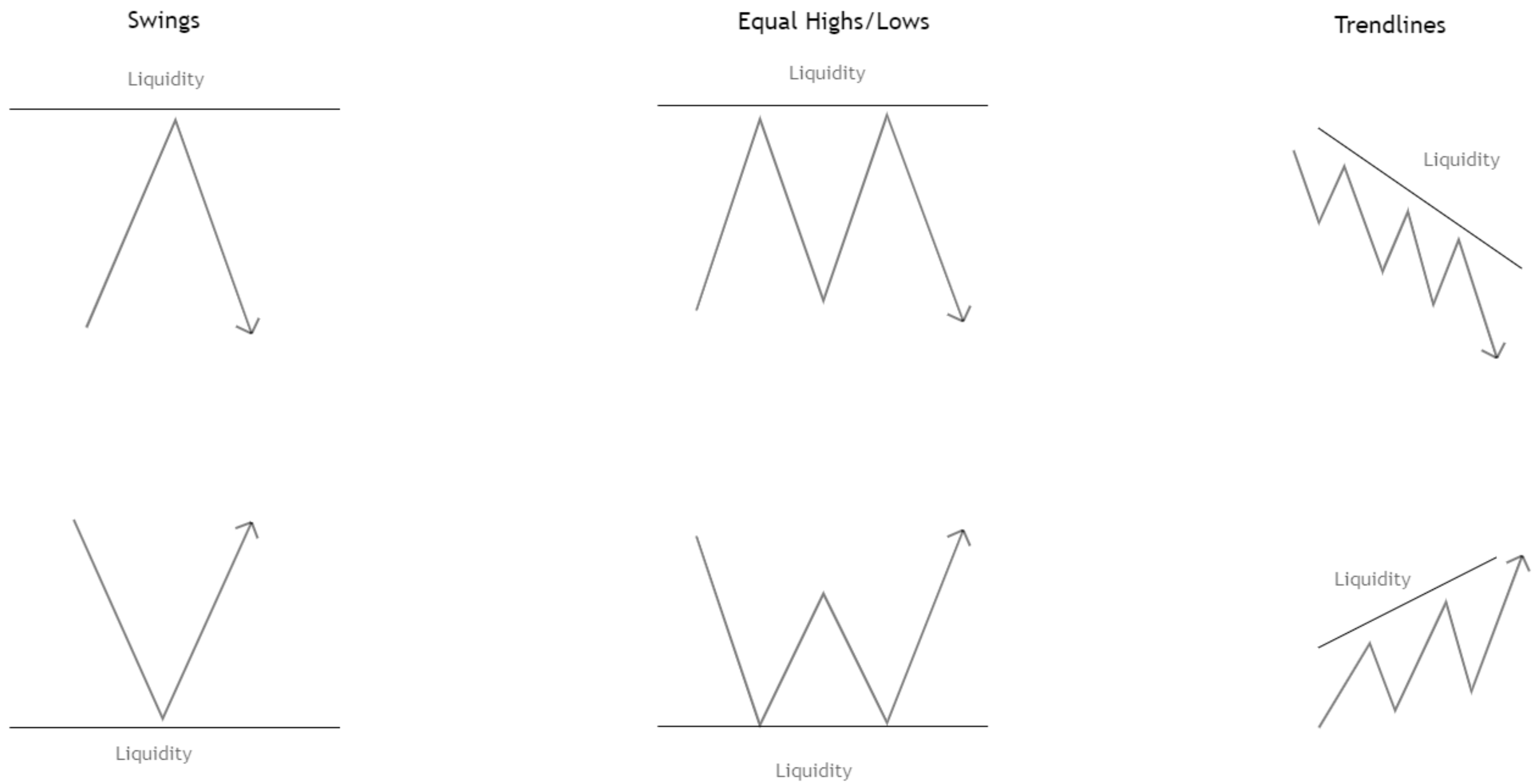
Liquidity pools or resting liquidity, is an established level in the market where stops and orders can be resting, leaving these areas exposed for smart money to hunt these areas taking stop losses and triggering new buy and sell orders into the market. Buy stops and sell stops are sources of liquidity above and below short term and long term highs and lows. Liquidity can also be engineered by smart money knowing they will trigger these levels at a future time in price.

Buy and sell side liquidity are areas of price in which buy stops and or sell stops are mostly residing. BSL is originated by stop losses of sell orders, after the BSL is taken, the market reverses to the downside, because banks use the BSL to place sell orders in the market. The SSL is originated by Stop Losses of Buy orders, after the SSL is taken, the market reverses to the Upside, because banks use the SSL to place Buy orders in the market

If you can understand the higher time frame perspectives and see where the "money" is, then you have a bias once you see price moving off known areas of support or resistance. Price will seek liquidity in order to either reverse or continue within it's expansion move. If we see price as reversing at the buy or sell side of liquidity, then we trade the developed price action, if we see price continue to move through the buy or sell side liquidity, then we stick to the order flow of price and trade the buy or sell side that it is, towards the next price objectives.

Liquidity Structures

Below are 3 common liquidity structures you will come across in your charts:



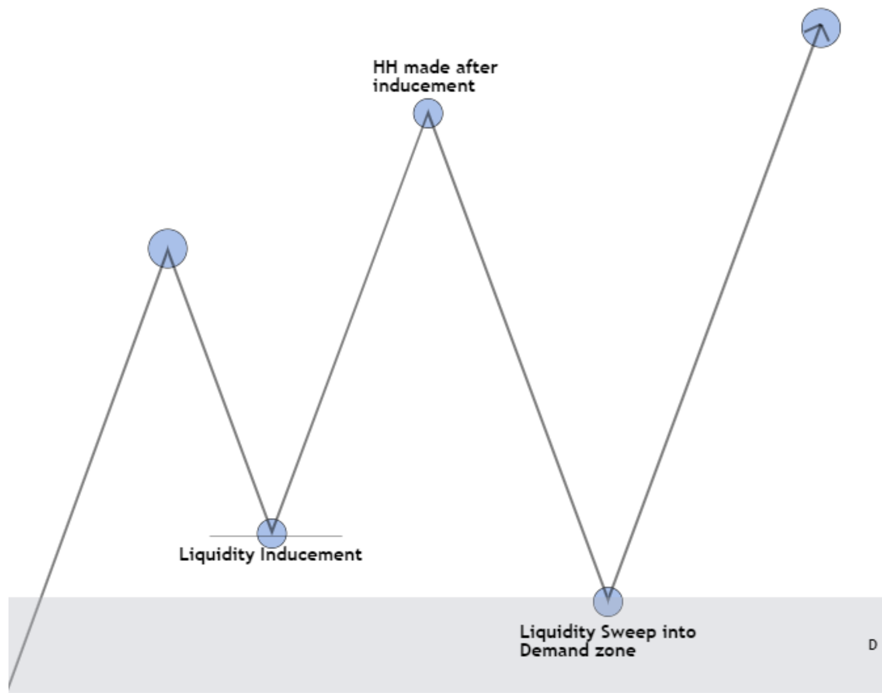
Liquidity Inducement

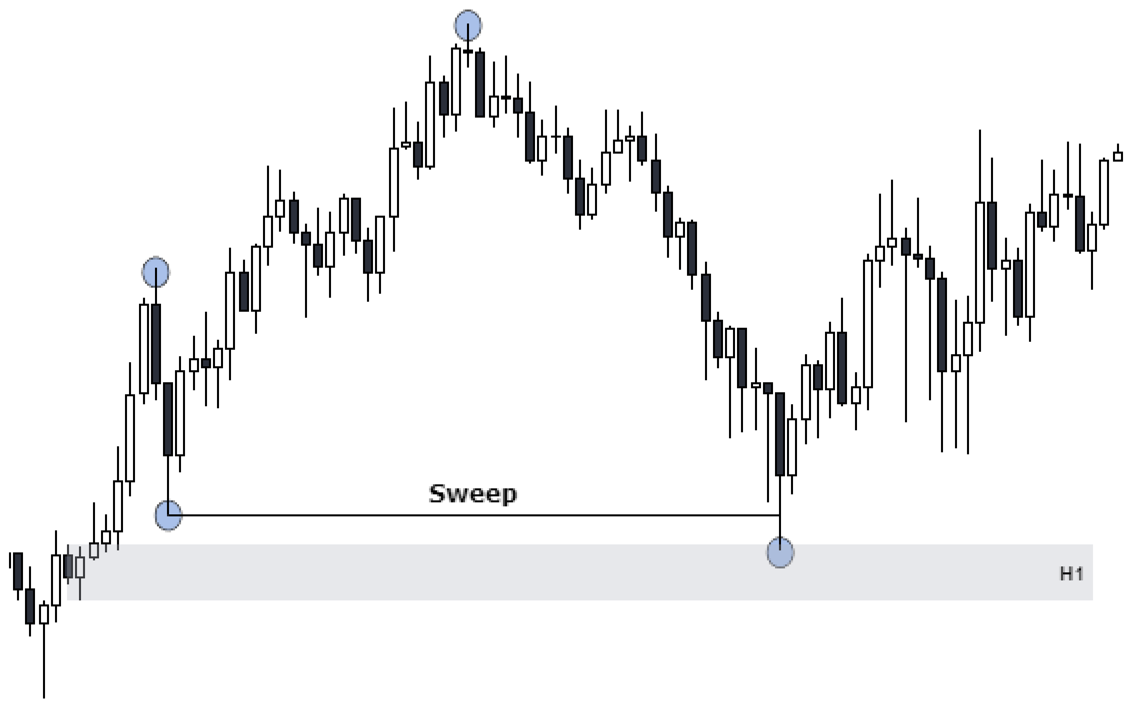
The theory behind Liquidity Inducement is if a supply/demand zone is created and drops inducement as it makes a new high/low, that supply/demand should make a better zone than one that doesn't have inducement. A few things to note:

1. If the inducement is swept and a new high/low was created without touching our zone the next time we come to that zone, the chance of it holding is much lower as the inducement is no longer intact. The fuel has been used to make the move. Look for inducement when selecting supply/demand zones.
2. A very aggressive impulse with no inducement whatsoever has a lower probability of holding.
3. Can come in the form of a swing structure or Equal Highs/Lows.
4. The market seeks to move from liquidity zone to liquidity zone, not S/D zone to S/D zone. Price is fractal; this can be seen in all timeframes.

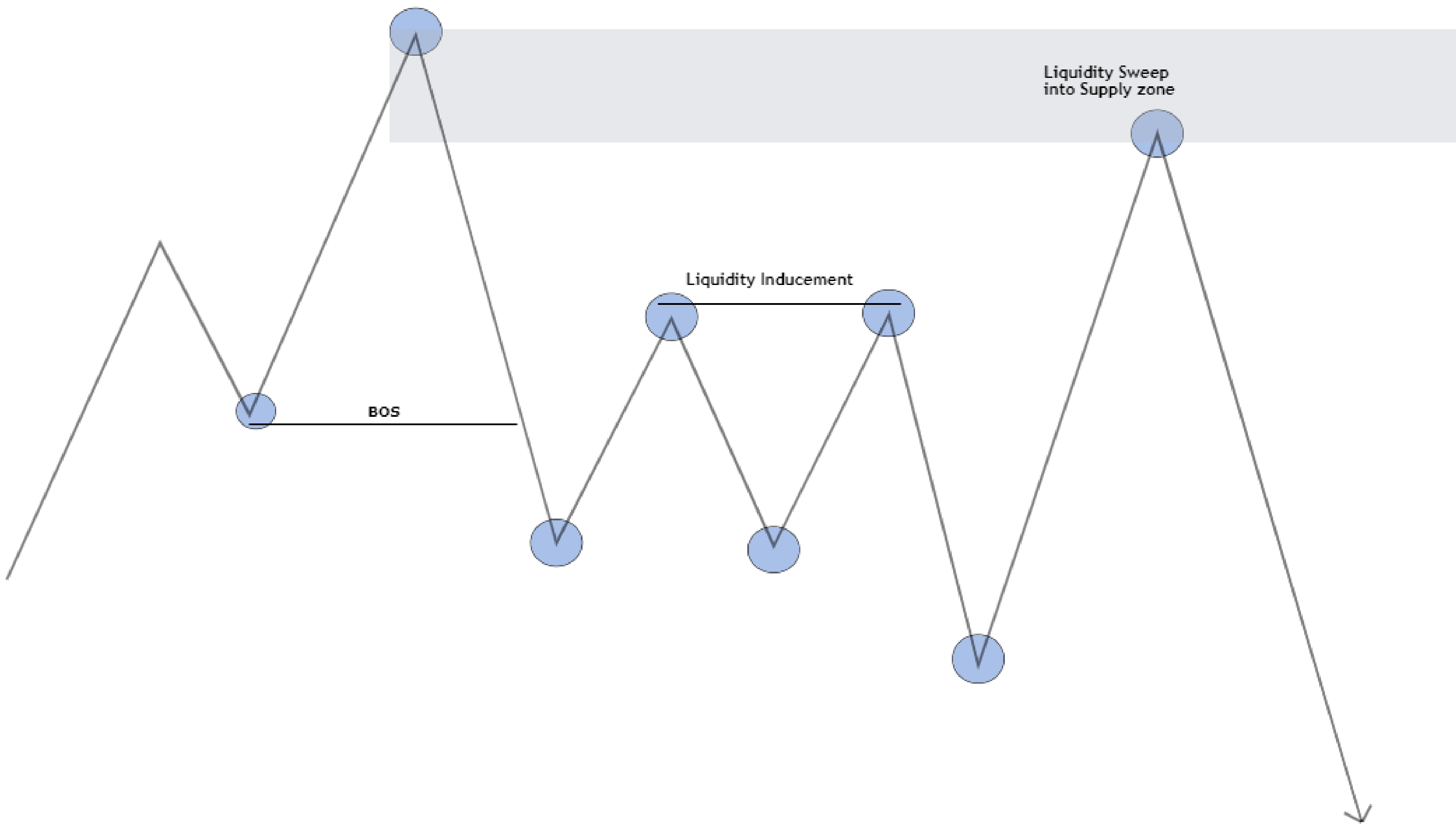
Below are some common price fractals you will see of Liquidity inducement.

An example of Liquidity inducement via swing point into a demand zone.





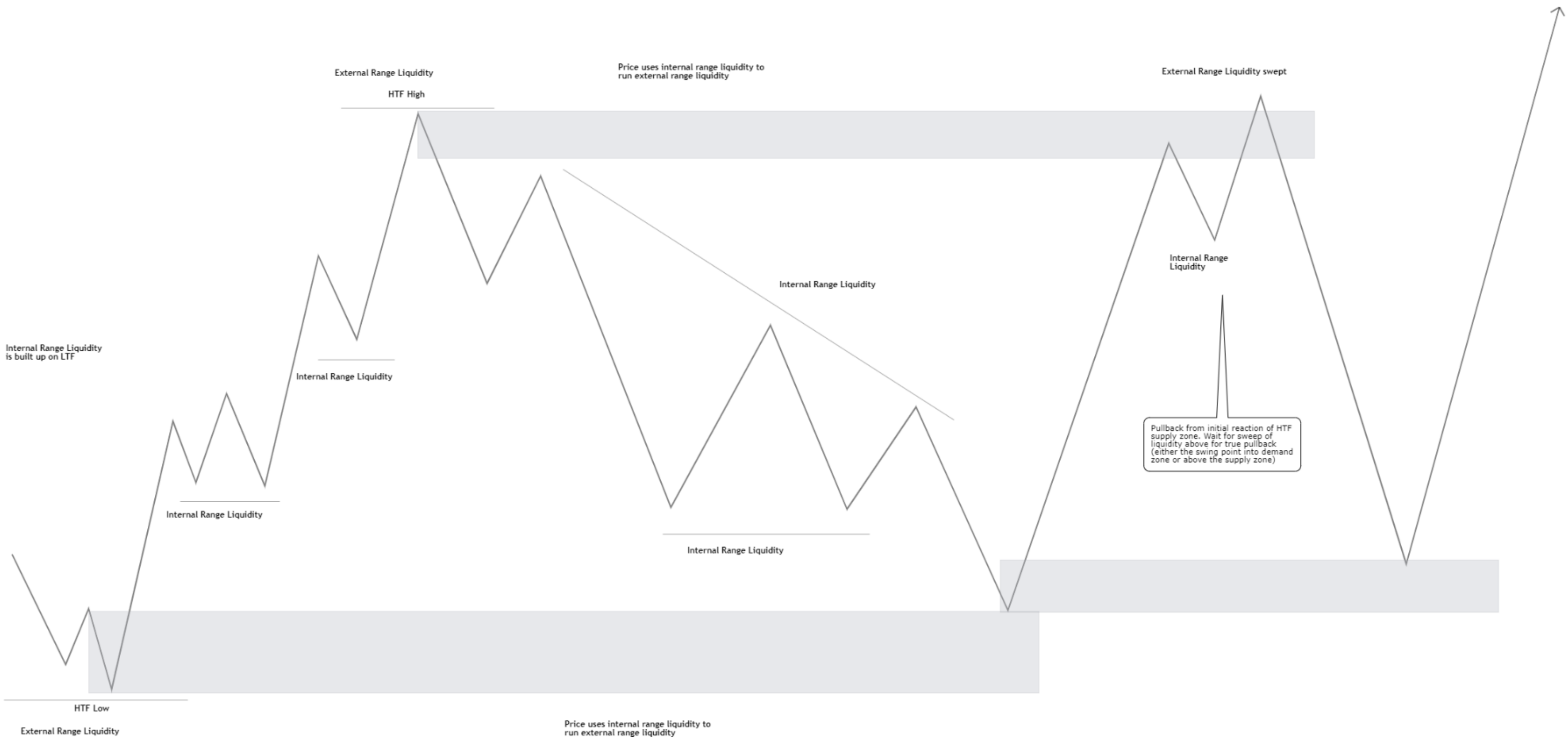
A chart example of Liquidity inducement via swing point into a demand zone.



An example of Liquidity inducement via equal highs into a supply zone

Internal vs External Range Liquidity

Recalling Lesson 1, we know Market structure is composed of the Higher timeframe structure as well as lower timeframe structure. Likewise, liquidity exists on both HTF and LTF structures. Remember, ***price moves from liquidity zone to liquidity zone***; not S/D zone to S/D zone.



Internal and External Liquidity in a bullish trend (Zoom in for clearer chart)

Lesson 4: Trading Plan, Entry Model & Daily Process

For Ease of access, my entire trading plan is here: https://www.notion.so/2022-Trading-Plan-LotusXBT-07fd4b3fa72f46e6b9e8f3e225a2c224