Introduction to Supply and Demand Trading

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1. Introduction

Welcome to the next lesson of the trading mentorship.

After reading this tutorial, you will be able to master:

➢ How is price determined using supply and demand in the market.
➢ How are support and resistance formed in real life and their importance.
➢ Understand the two different types of S/R zones, demonstrated with drawings and actual market charts.
➢ Implement these basics in real charts and trade setups.

This Tutorial will assume that you've read Parts 1 and 2 of the market structure lesson. Please check the Mentorship Index.

This is the beginning of real trading setups which can easily be your go to and only strategy.

I encourage you to take your time to study the document in hand, and in case of any confusion, remember to post your questions in the comments section.

Love,
EmperorBTC

2. How supply and demand determines the price of support and resistance

The whole market runs like a continuous auction throughout the day, with buyers and sellers continuously competing with each other to get the best possible price. Buyers are the bidding cohort that brings upward pressure on price.

Certain price zones spark buyers' interest and that's where their bids are placed. Upon reaching that zone, if price has a bullish reaction, more market buying takes place. That's how support is formed.

Sellers on the other hand apply downward pressure on price. If more people are willing to sell an asset than buy it, then there is an abundance of that asset, and that's how resistance is formed.

The levels where price might find support or resistance can be psychological and sometimes even random; but in general these zones are formed because large positions are willing to defend these price levels; a buyer buys to sell at a specific price and vice versa.

For all executed trades, the number of buyers and sellers have to be the same to form a contract because each contract needs a buyer and a seller.

What makes the difference is the aggression with which both parties are willing to participate.

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Figure 1. Pressure from buyers and sellers on the price

In economics, supply and demand levels can be demonstrated on a graph as curves. Let's start with the demand graph.
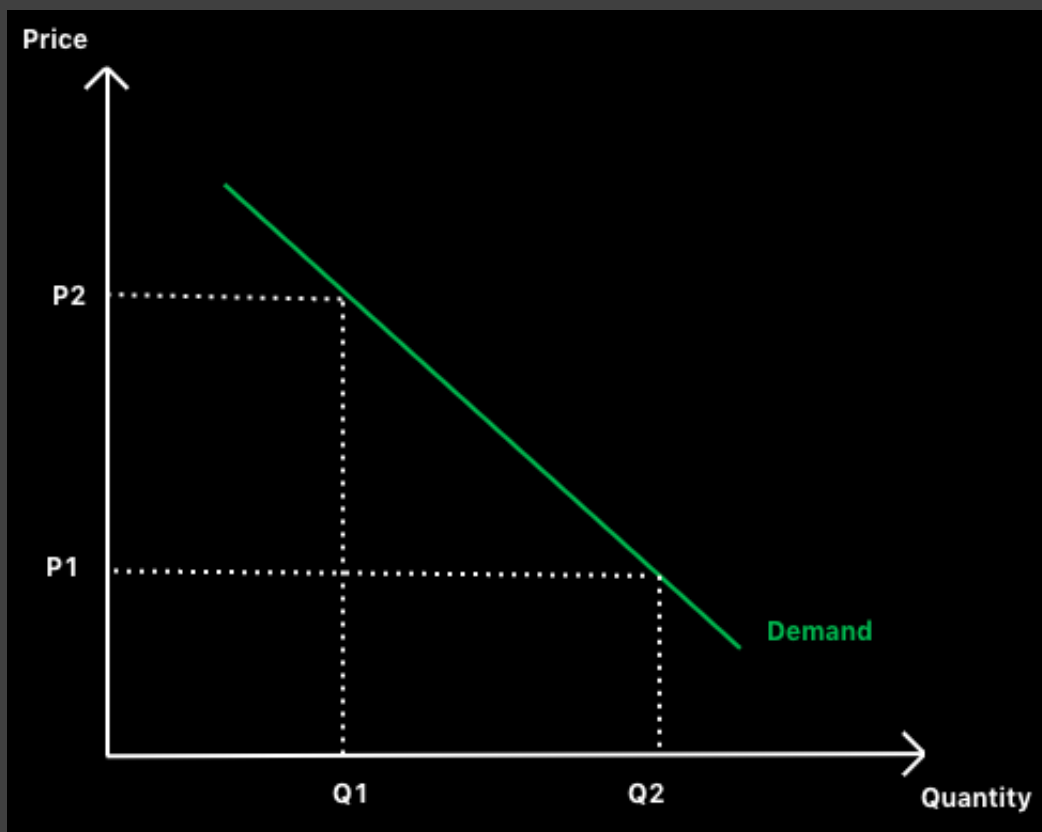

Figure 2. Demand graph

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In figure 2, we see that when the price is at its highest (P2), the amount of quantity demanded in the market is at its lowest (Q1). And as the price falls (P1), the amount of demand increases (Q2). This indicates that the cheaper the price is, the higher the demand is (buyers).
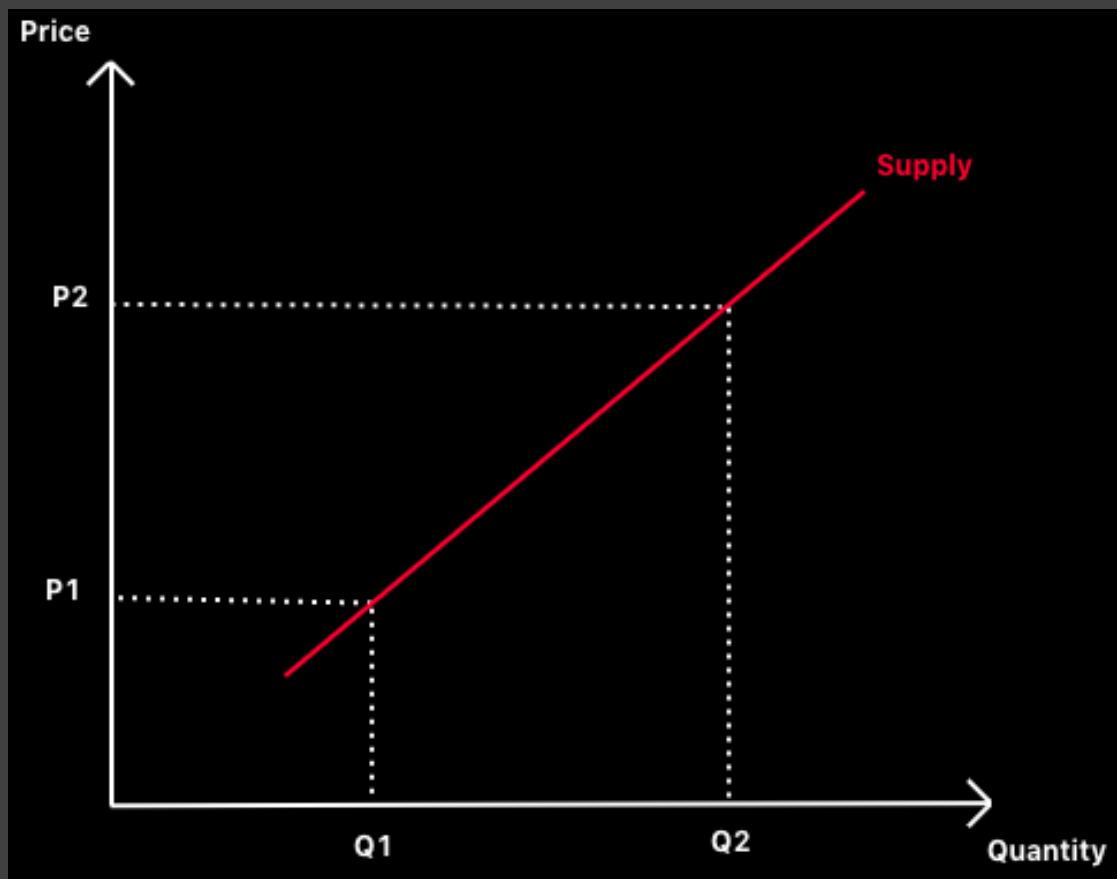

Figure 3. Supply graph

In figure 3, when the price is at its lowest (P1), the amount of quantity that is supplied to the market is at its lowest (Q1), but as the price rises (P2), the supply increases as well (Q2).
This indicates that the higher the price is, the higher the supply is (sellers).

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But since the market is not only made out of buyers or sellers, we get what is called the market price when we put both sides of the market on same graph at the same time (see figure 4).
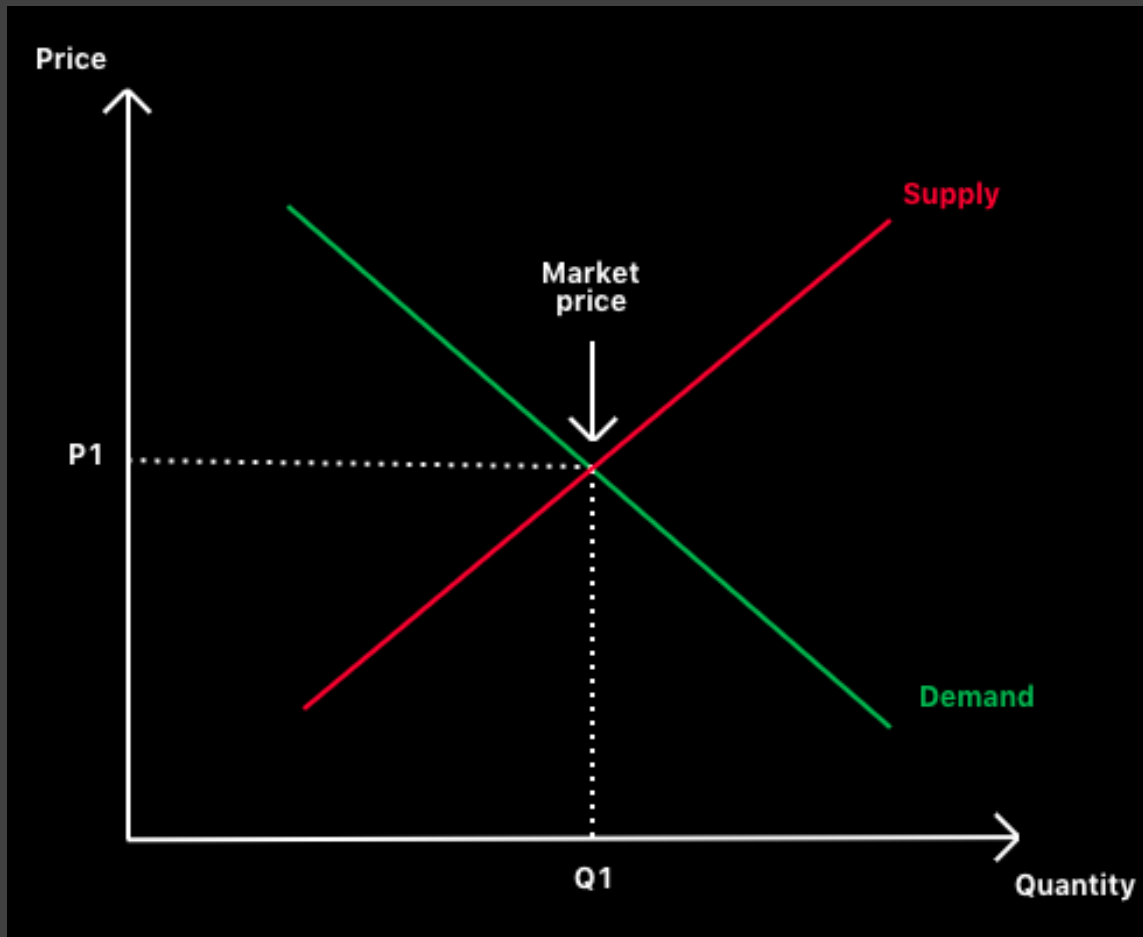

Figure 4. Equilibrium or market price

The intersection of these curves marks the equilibrium or market price, at which demand equals supply and represents the process of price discovery in the marketplace.

ANNOUNCEMENT

Before we dive deeper into the tutorial, I have a surprise for you guys. For our community, Binance will arrange for the biggest trading competition.

I am also doing a **12 THOUSAND DOLLAR** giveaway with **Binance**. To make things interesting, I am giving away 10k, and Binance will reward the other 2k.

If you are not on Binance yet, register using the link below. If you already have an account, create a new one and trade with it to be able to participate.
At the end of the month, 12 traders who used the link and have good active trading volume will be chosen and awarded 1k EACH.
No strings attached.

Thank You, this is only possible because of the love of the community.

Click here to register and trade.

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3. Support & Resistance Zones

Support & Resistance zones are the two factors that lead to the price action we observe in our charts. In this section, we will get to define these zones and know why they are so relevant in trading.

3.1 Support Zone

A support zone is where the price breaks out of a range to the upside creating a base for the price to return to. Please note that this is the view of the support zone when looking for these zones on a lower timeframe.
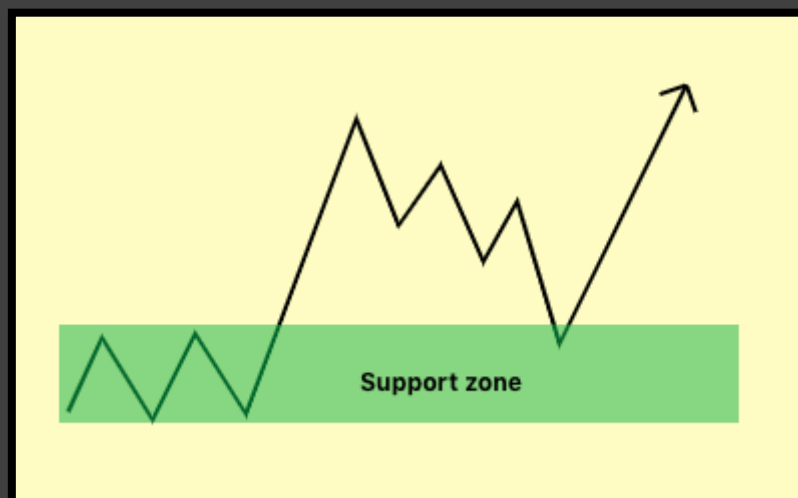

Figure 5. Support Zone illustration

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There's no specific way to draw the zone in practice. I prefer to take the range of extremities. You can take the lowest and highest wicks or the lowest and highest candle closes; try to backtest and find what works best for you. The goal is to identify where the interest lies for people to place orders.

Figure 6. BTC 4H chart support zone

3.2 Resistance Zone

A resistance zone is where the price breaks out of a range to the downside creating a base for the price to return to.

Figure 7. Resistance zone illustration

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Figure 8. BTC 1H chart resistance zone

3.3 Why are support and resistance zones so relevant?

Every time an order of significant size is placed, a huge imbalance occurs in these zones. We will discuss this further when we cover orderflow. These breakouts from the range are the footprint or large players entering or exiting the market because a huge order size is required to make that happen. Thus, using these levels will give retail traders the advantage of getting into positions with the same directional bias as large financial institutions.

Another nice benefit to support and resistance zone trading is that it offers an ability to ladder orders inside the zones, this is better than identifying pinpoint horizontal levels and being front ran. Since price levels are predetermined, traders can set them and wait. This is great

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for traders who do not want to sit and monitor every single move on the screen.

4. Types of support and resistance zones

There are two types of zones. These zones are classified based on where they form in the market.

4.1 Type1: Continuation Zones

If the price continues in the same trend direction after forming a short-term range with a small gap between range extremities, then we call it either support continuation or resistance continuation.
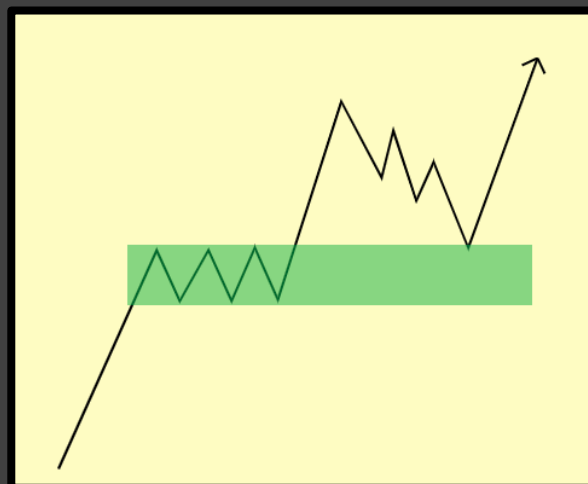

Figure 9. Support continuation illustration

Figure 10. Support continuation (BTC 1H chart)

Support continuation is when the price is in an uptrend before the zone was created, then breaks out of the range and continues to the upside. (see figure10)
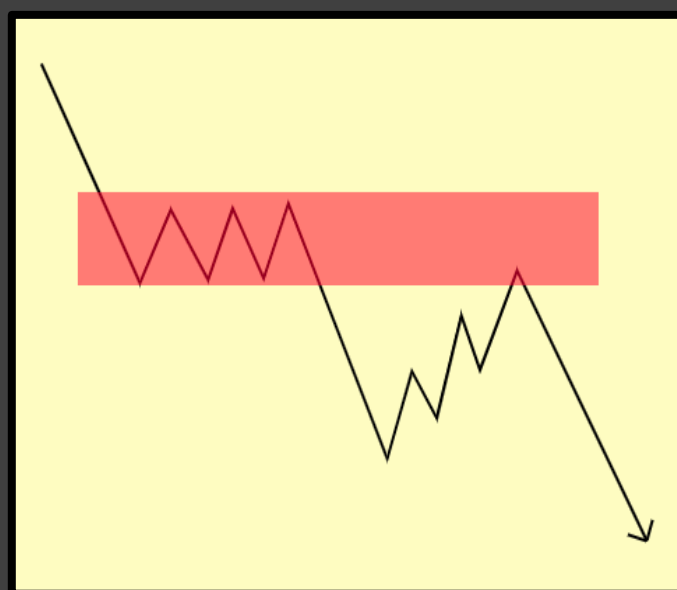

Figure 11. Resistance continuation illustration

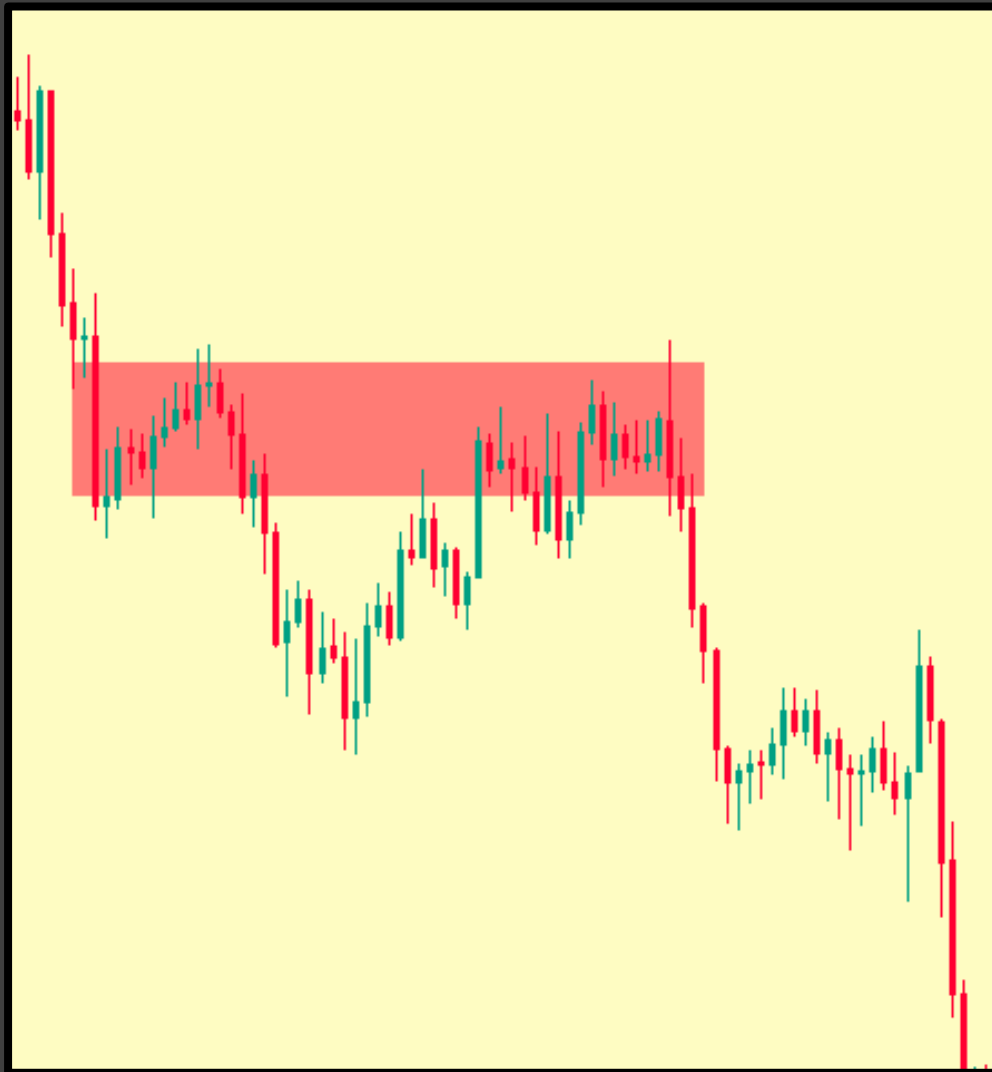Introduction to Supply and Demand Trading

Figure 12. Resistance continuation (1H BTC chart)

Resistance continuation is the exact opposite of support continuation. In figure 12, the price is in a downtrend before the zone was created, breaks out of the range and continues to the downside.

If the market returns to this resistance zone, a move to the downside is expected (not guaranteed).

This would basically look like a support/resistance flip on higher time frames. You need to understand that here, it does not matter what concepts you're using; trading is a game where your primary job is to

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identify which price levels or zones would spark enough interest to find buyers or sellers. (see figure 13&14)
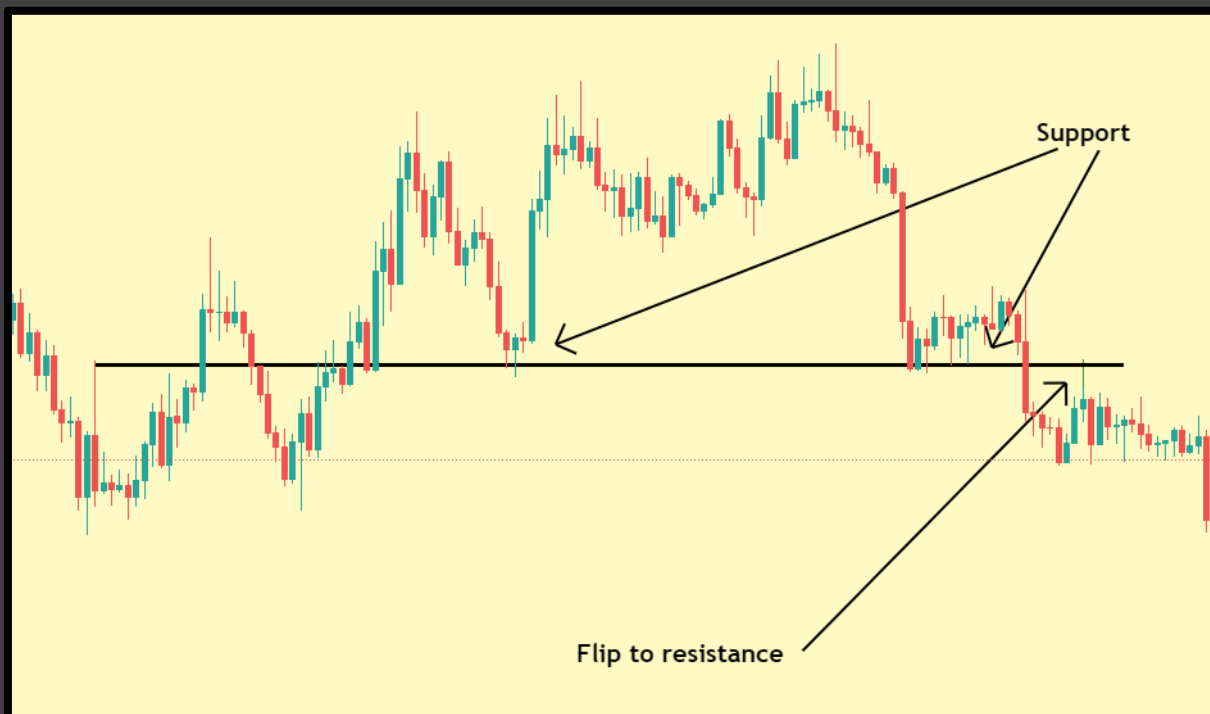

Figure 13. Zoomed in look

Figure 14. Zoomed-out (higher time frame) view of the same chart

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4.2 <u>Type2</u>: Reversal Zones

If the price changes trend direction after a short-term range then we call it a reversal zone.

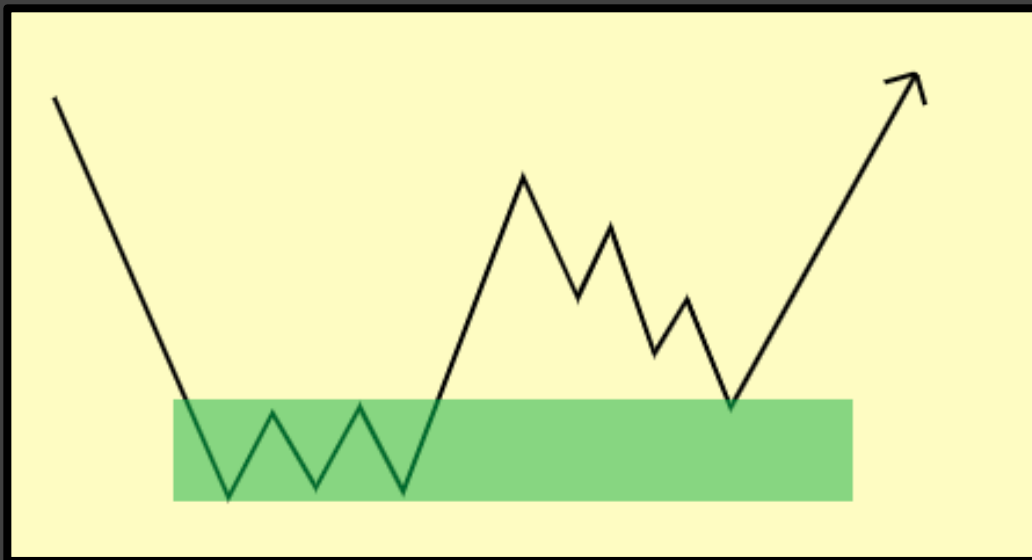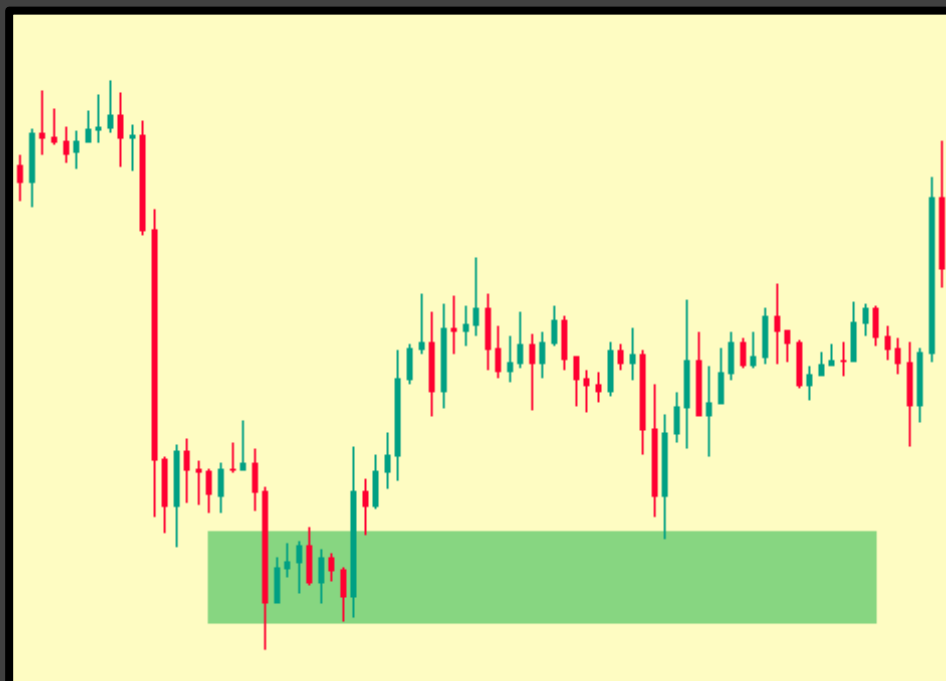**Figure 15. Illustration of bullish reversal zone**

Figure 16. Reversal zone on 1h BTC chart

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In figure 16, the price was in a downtrend and once it hit the highlighted range, the trend direction changed from bearish to bullish. If we get another entry in this zone, we take it. If the price never returns to our reversal zone, we never jump into the trade with market orders. We simply move on to the next trade; patience is vital.
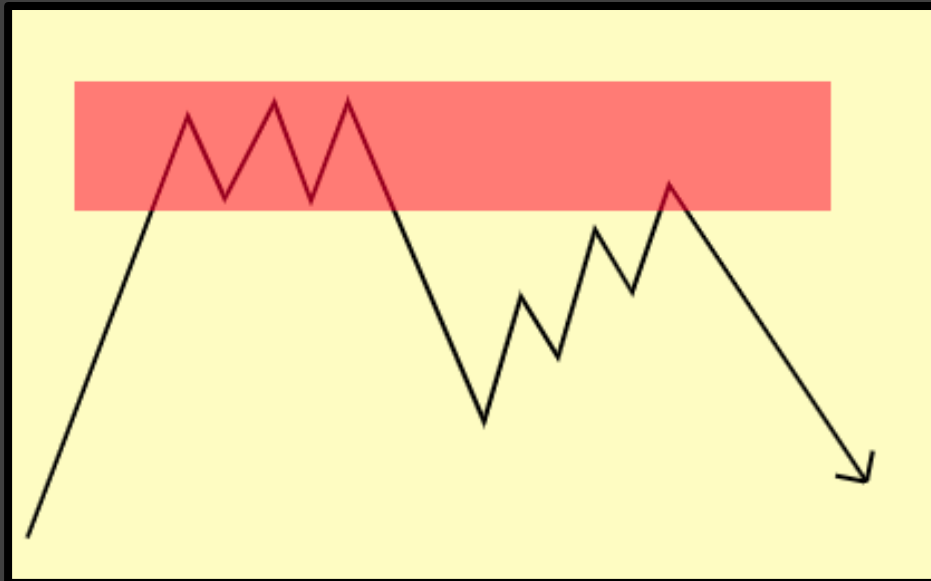

Figure 17. Illustration of bearish reversal zone

Figure 18. Bearish reversal zone on BTC 1H chart

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In figure 18, the price was in an uptrend and once it hit the highlighted range, the trend direction changed from bullish to bearish. We see the price struggling to break above this area, resulting in a breakout to the downside.

This zone forms when an uptrending market moves lower after a short-term range.

5. Trading support & resistance zones with the market structure confluence

We already know that we should be looking for support zones to buy and resistance zones to sell. Charts are full of support and resistance zones, but not all are worth trading. So how do you determine which ones can provide you with actionable entries?

Now that we understand the concepts, it is essential to identify which zones are the best to trade off because one can force hundreds of these zones on the chart across multiple timeframes.

For this matter, I suggest two trading methods in confluence with the market structure. There are other ways to add confluence, but we will use the tools covered in the mentorship so far.
Prerequisites for this section are the market structure tutorials.
Check Mentorship Index.

- The first method is where we will be using support and resistance zones, causing a break of structure (BOS).

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- And the second method is for more aggressive traders, where we'll look for areas of support and resistance reversals causing a change of character (CHoCH) in the substructure.

For beginners, it is better to stick with the first method, where you wait for a BOS confirmation before you jump into trades.
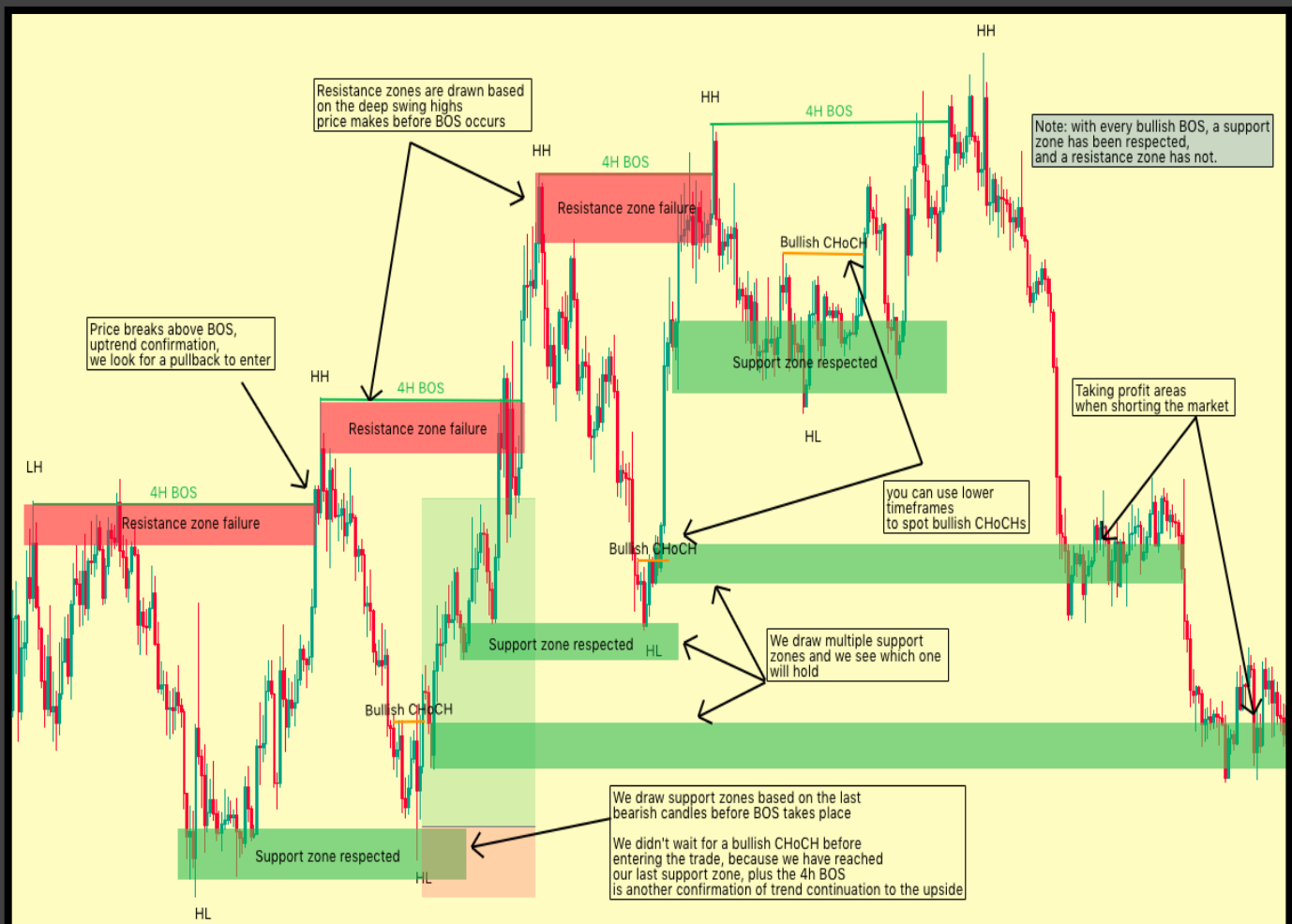
5.1 Example 1: Continuation zones with MS

Figure 19. trade setup using MS + continuation zones

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Figure 19 is a 4H BTC chart. The first break of structure indicates a trend change to the upside; again we never enter right after a BOS occurs; we wait for a pullback. This time we draw our support zones based on the last bearish candles before the BOS has occurred, and we see which one of the previous support zones will hold.

In the example above, support zones are used in confluence with bullish CHoCHs to anticipate the end of a pullback and to indicate which one of the support zones will be holding the price from breaking to the downside.

Our resistance zones are drawn based on every deep swing high the price makes. Every time these zones fail to drive the price lower than the last low, it indicates a zone failure.

Remember to focus on support/resistance zones that lead to the BOS. These areas are highly likely to hold next time the price comes back to them.
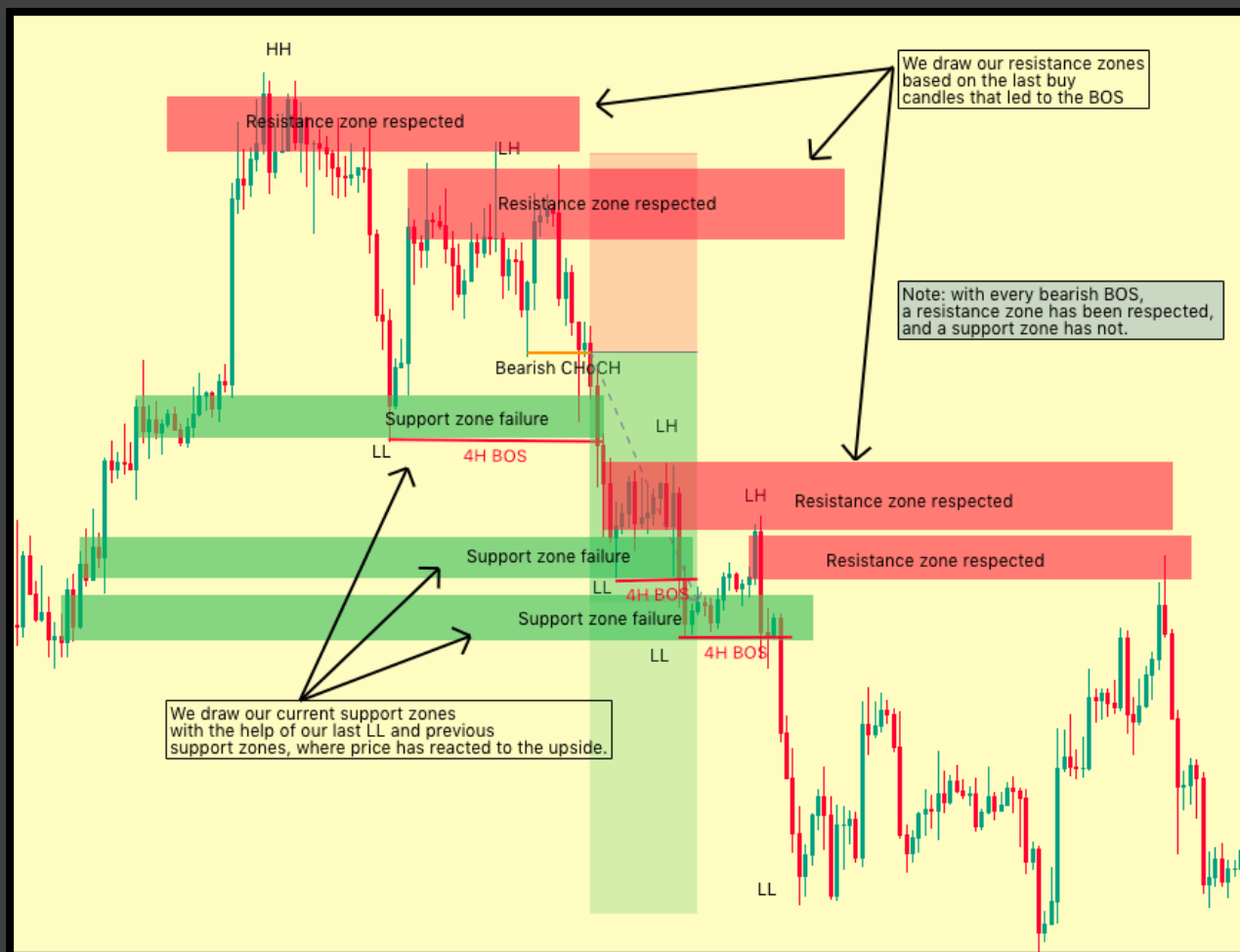
5.2 Example 2: Reversals with MS

Figure 20. trade setup using MS + reversal zones

In figure 20, and before we get our first sign of reversal, which is a bearish CHoCH, we see the price showing a lot of weakness while attempting to break the last high.

After the first bearish BOS, a trend change is now confirmed. Every lower high price makes, is a resistance zone in formation. We draw our zones based on the last buy candle that led to the bearish BOS.

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6. Conclusion

I hope this tutorial has helped you understand support and resistance concepts on a deeper level. It is crucial that you understand that all trading concepts require you to identify areas where buyers and sellers would be interested in.

I recommend that you keep track of every lesson shared throughout this mentorship since all lessons are related.

The whole purpose of these lessons is to add more confluence to your trading system, but remember that if you don't make an effort to study this material and put in the screen time, no one else will do it for you.

I hope you take this mentorship seriously.

Love,
EmperorBTC