

THE BITCOIN TRADING MENTORSHIP

MASTERING VWAP

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1. Introduction

The VWAP (The Volume-Weighted Average Price) is an important tool that traders use to eliminate the noise that occurs throughout their trading day, and gauge what prices buyers and sellers are reading trading at.

After reading this material, you will be able to:

- Know what the **VWAP** is, its features and how its calculated.
- Know how the **VWAP** help in trading.
- Learn how to use the **VWAP** with real trade examples.

Please take this tutorial as a basis for practicing on as many charts as you can. As always, the more you practice the more you learn.

I have started a complete Bitcoin Trading Mentorship that I am working on in my time. It's **FREE** and will always be, as knowledge should be. Please join and slowly level up.

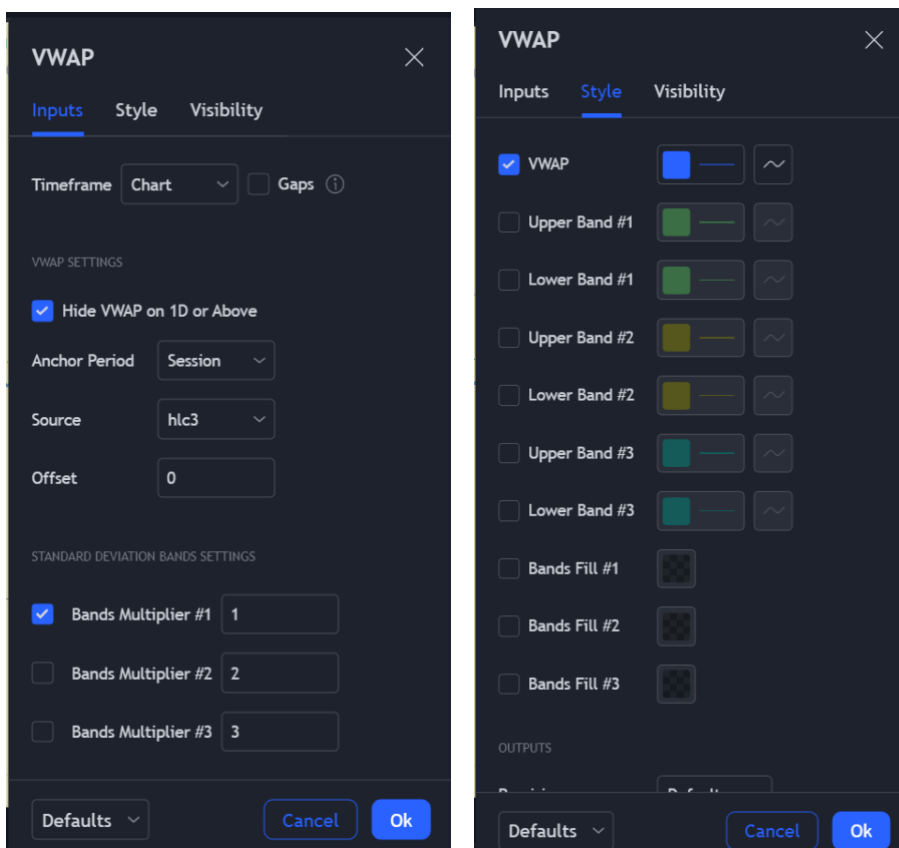
Link- <https://t.me/EmperorbtcTA/611>

Love,
EmperorBTC

2. What is the VWAP

Moving averages typically only provide us with Higher Time Frame levels that a large number of traders might be watching. “The volume-weighted average price (VWAP) is a measurement that shows the average price of a security, adjusted for its volume.” VWAP is calculated by multiplying typical price by volume and dividing by the total volume. A simple moving average incorporates price and time but not volume.

Session VWAP - VWAP is not a long-term indicator, and it resets after each trading session. The session VWAP while trading crypto is based on data for the current trading day. It has the ability to act as a dynamic support/resistance, which provides intraday context. While weekly and daily VWAPs are used by traders, for the purposes of this tutorial, we will stick to the session VWAP first.



You can find the session VWAP indicator on TradingView for free. The above figures highlight the settings for the VWAP indicator that we'll work with for now. We will cover VWAP bands later in the tutorial.

VWAP features:

- It appears as a single line on intraday charts.
- All intraday traders use the VWAP to assist them in determining intraday price trends.
- VWAP levels from the previous session are not relevant at all in most scenarios.

Any good level to watch is one which captures the attention of a lot of traders. However, there is no point in trading those levels blindly.

How is the VWAP calculated?

The formula for calculating VWAP is cumulative typical price x volume divided by cumulative volume.

$$VWAP = \frac{\Sigma \text{ Typical Price} \times \text{Volume}}{\Sigma \text{ Volume}}$$

While:

$$\text{Typical Price} = \frac{H + L + C}{3}$$

Volume = Number of contracts traded

3. How does the VWAP help in trading?

It is important to note that the VWAP indicator provides confluence to an existing trading idea and should not be used to trade while relying solely on it.

It provides confluence for mainly intraday trades, or at least when you use it for entries on the lower timeframe. This makes sense because the indicator resets for after every trading day.



Figure: BTC chart on 5m timeframe (TF)

Pulling up the VWAP indicator on any of the 1-15-minute TFs will make it clear how it can act as dynamic support or resistance. The figure above also shows how blindly longing/shorting when the price approaches the VWAP, is also a bad strategy.

It is important to note that if you're trading on the lower TF, the VWAP also acts as a value indicator. So, a few rules are as follows:

- i) If the price is above VWAP, then don't short.
- ii) If the price is below VWAP, don't long.

NOTE: The assumption here is that your trade trigger is based on the same lower timeframe. The rules don't apply if you are taking swing trades on the 4H timeframe.

Announcement

The trading competition is starting soon. This amazing community has given me a lot. Please use the competition to showcase the skills we have developed together.

Step 1. [Click here to register to be eligible](#)

Step 2. [Click here to register in the competition](#)

4. When to use the VWAP?

The VWAP is not a tool that you want to use under all market conditions. It is similar to the POC (point of control) when you trade using volume profile tools. The first touch of a POC or nPOC (naked POC) is the most important; similarly, the first-time price touches the VWAP in a while is the best time to consider a trade and when it's constantly floating around it.

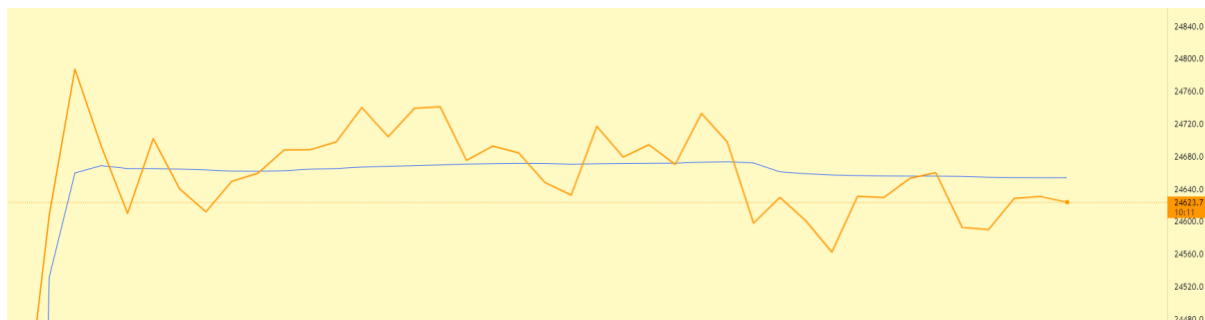


Figure: BTC chart from Feb 16. (Orange-price/Blue-VWAP)

The VWAP represents the area where the most amount of volume was traded with respect to price. In the example above, the price is just oscillating in a tight range above and below the VWAP, it is clear that if you treat it as a support or resistance line, you won't be able to take a profitable trade and will likely get stopped out. **These tight ranging conditions are times when you should NOT rely on the VWAP as an entry trigger.**



Figure: BTC chart from Feb 9th. (Orange-price/Blue-VWAP)

The figure above shows how a short intraday downtrend, or **any trending environment on the lower timeframes can present you with a good opportunity to use the VWAP indicator**. Price spends almost 22 hours without touching the VWAP in a downtrend before finally retesting it as resistance. After the rejection from the VWAP, the price falls considerably (note that this is a day trading tool).

5. Scenarios to Use the Session VWAP:

There is no shortcut to trading, and the VWAP cannot be used like a magic indicator. As for every tool, you must learn the context in which you use it. Normally you'll have to use more tools and levels in tandem with the VWAP indicator before you can take trades; for now, let us discuss when and how to use it.

Scenario 1: Sloping VWAP

Once the price is below/above the VWAP, and it spends some time there, we can take a trade on the first test of the VWAP is the VWAP is sloping down/up. Remember the rule, look for shorts below the VWAP and longs above it.

Therefore,

Retest from below -> Can short

Retest from above -> Can long.



Figure: Example of Sloping VWAP

In the above example, the price crossed below the VWAP, and we spent quite a lot of time under it before coming back up to retest the VWAP. The VWAP at the time of the retest is just starting to slope down as well; this is a good sign. You might not always get an immediate rejection from the VWAP, but it is a good area to look for a short.

Scenario 2: Flat VWAP

During consolidation periods, the price will just chop around the VWAP in a tight range. The VWAP here is not indicating where big orders moved price but simply becomes the mid-point of a tight range. In these trading sessions (days), it is best to enter and exit positions as quickly as possible, as both longs and shorts are in favour.



Figure: BTC 5m chart

This is an example of a flat VWAP, it is best not to overanalyse and just long/short existing levels till they fail. Grid bot trading is also recommended in these conditions. The reason you can long-range low/short-range high without overanalysing these ranges is because when the VWAP is flat, the price always returns back to the VWAP (around mid-range) if it gets too far away.

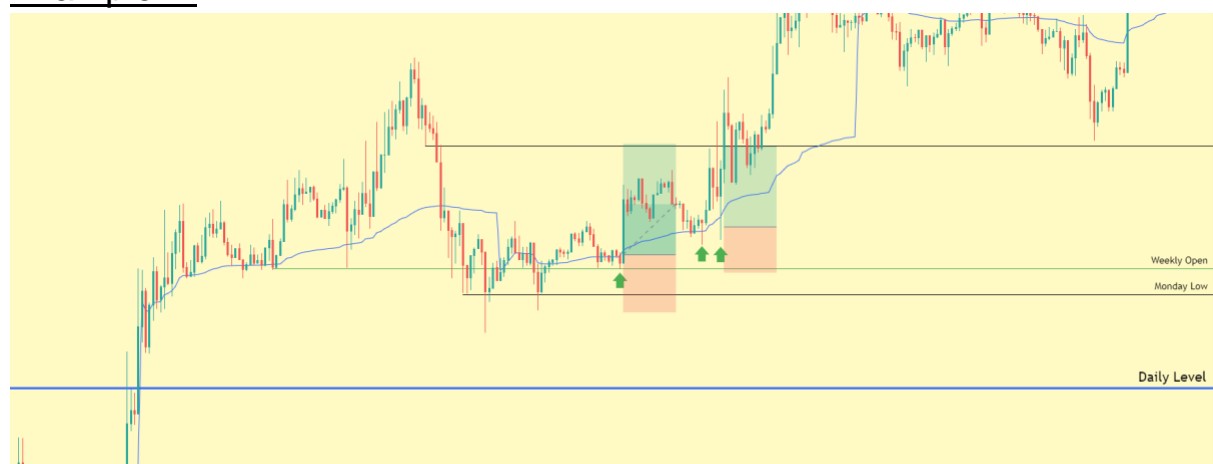
Real Trade Examples With The Session VWAP As Confluence

Example 1:



In this example, the price first tests the previous day's value area high as support before falling below. Then it retested lost support as resistance while also retesting a VWAP that's sloping down. We can place the stop loss above the recent high and target the previous day's value area low.

Example 2:



In the above example, price breaks up above a daily level. Then it consolidated above it for some time before continuation upwards, this gives us a bias the price will likely continue upwards.

Following this we have swept the lows around Monday low and we are also trading above the Weekly Open after a few candles below these levels. These are both very important levels and again gives us a bullish

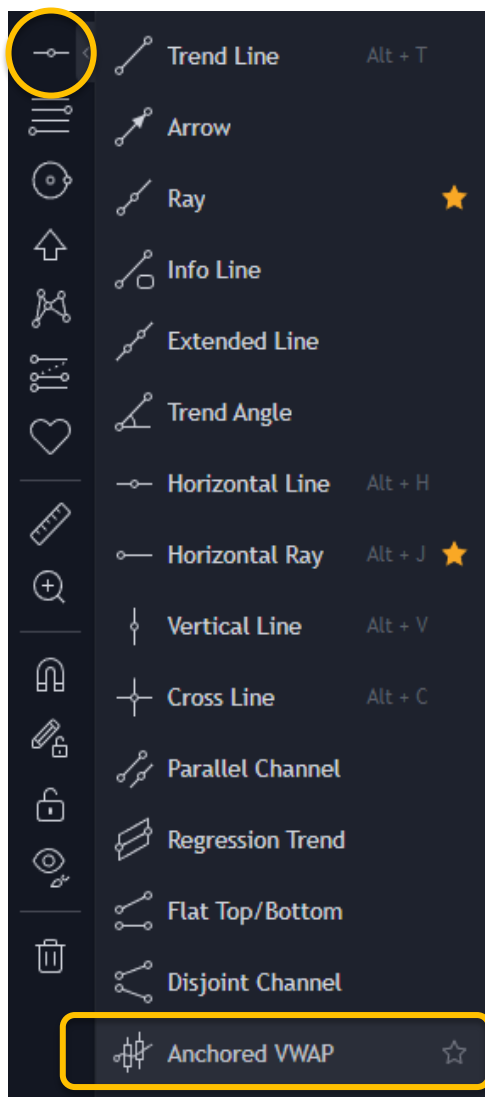
signal. When price retests a VWAP that is sloping up here, we have 2-3 opportunities as indicated by the green arrows, to enter a trade. The first target can be the point where we had a ChoCh (change of character before coming down to retest the lows.

To understand these examples, you must be familiar with the mentorship index and all of the previously covered tutorials, you can access them here. [EmperorBTC learning materials index](#)

6. Anchored VWAP

A VWAP alternative that I like to use is the anchored VWAP. A large number of traders consider the Anchored VWAP to be the most important tool as it does not reset when the trading session ends.

The session VWAP only functions over a 24-hour period, however, sometimes we would like a dynamic support/resistance indicator over a fixed period of time which might be less than 24 hours. The anchored VWAP is a VWAP over a specific timeframe that we select to provide more insight into specific moves that we would like to account for in our trading.



First, we move to the line tools indicator on Tradingview.

Second, we scroll to the absolute bottom of that list, where we find the Anchored VWAP.

By selecting this and clicking at any point on the chart. It will start the VWAP formation and calculation from this point forward.

We will stick to the default settings of the indicator because we will use the bands as well here.

When and how to use it?

There are two scenarios when the anchored VWAP proves most useful:

1) As we have mentioned before, when the normal VWAP is flat, price continues to move in a range and using the normal VWAP does not offer us any great entries. Thus, we make use of it in the following way:



First, we place the anchored VWAP at a point where a consolidation range starts to form while the normal VWAP is flat.

Next, we can use this as a dynamic range to short the range high/long the range low within a larger range formed.

Once the price moves beyond the outer bands, they will most likely act as support/resistance as seen by the blue retests circled.

2) The second scenario is when you don't solely rely on TA. When there is a big announcement for a coin or simply during FOMC or CPI number releases, there is a huge uptick in trading volume. We can then use "time" to anchor our VWAP instead of price.



This is an example of how to use the Anchored VWAP in the second scenario, you anchor it at a time slightly before the actual announcement or news because that is when the insider trading starts.

This was one of the factors why I longed Bitcoin on February 14th. You can see it provided a perfect entry before the move up in the blue circle.

Following this entry, the AVWAP continued to give two more entries as shown by the yellow circles. Please note that once drawn, you can use it as a normal VWAP, in this case, it gave a long signal each of those times as the AVWAP was sloping up and price retested it from above after spending some time away from it.

7. Conclusion

I hope this tutorial has helped you learn how the **VWAP** is calculated, how is it important in trading and to implement it in your trading.

I encourage you to study the trading examples thoroughly and try to implement the techniques explained on as many charts as you can.

We have a lot more to learn in this mentorship series.

Thank you for your time. I appreciate the love and support.

Love,
EmperorBTC