Supply/Demand + Trend Trading

Tools:	**Time Frames:**
• CCI • Stochastics • RSI • Trend Indicator - SMA's 30, 50, 100 • Keltner Bands • Market Profile tools	• 1 Day • 4 Hour • 1 Hour • 15 Min • 5 Min

RULES:

STEP 1: *Identify a possible trade setup.*

- In this section the chart used to identify a possible trade will be called the **SETUP CHART**.
- Identify a currency pair that is in a trend. This can be a trend on the 1 hour up to the Daily time frame.
  - This requires the 50 SMA & 100 SMA to be pointing in the same direction either up or down for a minimum of 30 bars.
  - 50 SMA has to be above/below the 100 depending on the trend.
  - The 30 SMA can be near or just crossing the 50 SMA, but not near the 100 SMA.
  - Identify price on a specific time frame pulling back from the trend to the point where price could start to reverse back into the direction of the trend.

- Various techniques can be used:

Identify previous areas of Supply/Demand that may cause price to reverse. ***See Appendix A for a graphical representation***	**!! PRIMARY METHOD !!** ❒ This involves scanning your charts to the left to identify a period of time where price consolidated in a tight price range. ❒ This shows that price was at equilibrium for, meaning for every buyer of the financial instrument being traded there was a seller willing to sell at the offer price. ❒ Once Supply or Demand had been exhausted, price will ideally make a sharp move away from the consolidation area. ❒ This happens because the equilibrium between buyers and sellers disappears. ❒ For example, when price shoots higher after an area of consolidation, this is because the number of traders willing to sell at the consolidation price level was exhausted resulting in demand from the buyers forcing price higher: ***!! More buyers than sellers !!***
Previous Swing Highs and Lows & Previous breakout points	**!! PRIMARY METHOD !!** ❒ Previous swing points often act as support/resistance so identifying these points can often give you a heads-up that price could turn around. A great pattern to watch out for is when price previously breaks a channel top or bottom and then returns to retest that very breakout area. This applies to triangle tops and bottoms too. ❒ This is the old: ***Support turning into Resistance***

Identify technical indicators that have pulled back to O/B or O/S levels.	**!! SECONDARY METHOD !!** ❒ Use Stochastic, CCI, and/or RSI. The idea is that when price is trending in a specific direction these technical indicators can often give an early indication that the pullback has run it's course and you should be watching price action on a lower time frame for the first signs of a turn around back into the direction of the main trend. ❒ The best confirmations often come when all 3 technical indicators give the same OB/OS readings. This will not happen all at the same time as each indicator responds to price in a different manner, but when all 3 have indicated price has achieved the OB/OS level (or close to) you will have a much stronger indication that price is due to turn around. ❒ Note, the indicators are not used to give entry signals, they are just used to identify price has pulled back enough for price to continue with the prevailing trend. ***!! Don't get caught up on the indicators. They are only INDICATORS !!***
Fibonacci Pull Backs	**!! SECONDARY METHOD !!** ❒ The Fibonacci Retracement is the most popular of the Fibonacci price measurement tools used by traders and the most popular retracement levels that traders look are the 38.2% and 61.8%. ❒ Even though this is the case, price more often than not does not stop and reverse at these specific levels, so use the Fibonacci retracement tool to only identify a support / resistance price zone. ❒ The zone should be measured from the 38.2% to the 61.8% retracement levels. When price has pulled back to this price zone, go to the lower time frame to look for price giving signals of a reversal.
Price Bands	**!! SECONDARY METHOD !!** ❒ Price bands such as Moving average envelopes, Bollinger Bands and Keltner Channels can often give good indications that price has reached extreme OB/OS levels. ❒ Price Bands, like oscillating indicators (stochastic) can often go into the OB/OS areas and stay there for long periods. Therefore, do not try to trade from these indicators alone. Once price has become OB/OS drop to a lower time frame to identify price action giving early confirmation price is turning round to continue the trend.
Round Numbers	**!! TAKE NOTE !!** ❒ Finally, keep an eye out for round numbers acting as a psychological support / resistance barrier. The round numbers are often used by traders to group their stop and limit orders at.

- Once you have identified a trending currency pair and time frame, check to see if the higher time frame has any type of trend or price pattern that may hinder your trade setup. This is because the higher time frames tend to be more significant and any price pattern or trend will probably over ride your shorter time frame set-up.
    - *An example would go along the lines of: you have identified a good up-trend on a particular currency pair in the 4-hour time frame with all the SMA's falling in place as they should, but when checking the daily time frame you see price is very close to testing a previous high for the year. This should raise a big red flag to your possible trade setup because the previous high could quite easily act as a strong area of resistance and cause price to bounce back down from that level and thus causing your 4-hour uptrend to stop dead in its tracks. The safe thing to do would be to let this possible trade set-up go. Better safe than sorry.*

- Note, when more than one of the above trade identification techniques can be identified, this gives a confluence of reasons to pursue the trade and actively monitor for an entry. When you have a confluence of reasons to take a trade, you will have a higher trade success rate.
- Finally, check for any fundamental news releases. Don't enter any new trades prior to any fundamental news being issued within a 2 hours. This rule is more applicable to trading the shorter time frames. When trading the 4 hour or daily setups, news should be less of a worry, but stills needs to be considered.

STEP 2: *Entry Identification*

- This is normally the most difficult part of the trade, but by using 1 or more of the techniques listed below, you will have logical entry signals.
- **Price Breakout Entries:** The following entry techniques are all based on price pulling back from a trend and forming standard, easily recognisable chart trading patterns. These entry techniques should be identified and executed on the **SETUP CHART**.

TRIANGLE Breakouts ***Includes symmetrical, ascending, descending and wedge formations***	❒ A Triangle price pattern represents a congestion area where over time price is getting squeezed into a tighter and tighter price range. Identify the two triangle lines on the chart and watch for price to break out of the triangle range in the direction of the trend. ❒ Don't enter immediately as triangles often give false breakout signals. Wait for price to retrace back to the triangle breakout line followed by another reversal in the direction of the breakout. This is called the Breakout-Pullback-continuation pattern - PBC. ❒ You should place a limit order a few pips past the original breakout point. When your order is executed this will be the confirmation that the breakout of the triangle is for real.
CHANNEL/RANGE Breakouts	❒ Channels or Range, are sideways price consolidation patterns. Draw two trend lines, one above and one below the congestion area. Watch for price to breakout of the channel in the direction of the trend. ❒ Don't enter immediately as channels/ranges triangles often give false breakout signals just like the triangle patterns. Follow the same confirmation signal as for the triangle pattern. Wait for price to retrace back to the channel/range followed by another reversal in the direction of the breakout. Basically, follow the BPC pattern. ❒ You should place a limit order a few pips past the original breakout reversal point. When your order is executed this will be the confirmation that the breakout is for real. ❒ Note this price formation is not normally traded in the same way as Triangles and Flag. Use the Channel breakout for entries into.
FLAG & PENNANT Breakout	❒ A flag is a small rectangle pattern that slopes against the previous trend. If the previous move was up, then the flag would slope down. If the move was down, then the flag would slope up. Flags are usually too short in duration to actually have reaction highs and lows, the price action just needs to be contained within two parallel trend lines. ❒ Pennant: A pennant is a small symmetrical triangle that begins wide and converges as the pattern matures (like a cone). The slope is usually neutral. Sometimes there will not be specific reaction highs and lows from which to draw the trend lines and the price action should just be contained within the converging trend lines. ❒ Even though flags and pennants are common formations, identification guidelines should not be taken lightly. It is important that flags and pennants are preceded by a sharp advance or decline. Without a sharp move, the reliability of the formation becomes questionable and trading could carry added risk. ❒ The entry should follow the same rules as the Channel and Triangle breakouts. Use the PBC pattern for entry

See Appendix B for Price Pattern examples

- Trend Swing Continuation Entries:
  - These entry techniques are similar to the ones listed above but are not based on standard trade-able chart pattern characteristics. These techniques identify price starting a new swing in the direction of the trend by reversing from the trend pullback at support/resistance confluence areas.
  - These entry techniques should be identified on a lower time frame than those listed above. These techniques will be identified and executed from the ENTRY CHART.
  - The purpose of using a lower time frame Entry Chart is to monitor and analyze price action behavior, pin-point an exact entry point for the trade, identify the trade stop-loss and once the trade has been triggered, follow the trade and apply in-trade money management.

1-2-3 Formation	❒ Once price has pulled back to a confluence of support areas, monitor price action looking for the 1-2-3 reversal signal. *Example for a long trade:* This formation starts with price making a new low **(1)**, followed by a new high **(2),** then a retrace back down but, this time price makes a higher low **(3)** followed by price moving back up to break higher than the last high at point **(2)**. ❒ The entry for the 1-2-3 is when price breaks above point **(2).** As we are looking for price to resume in the direction of the trend it is advisable to also watch for price breaking some form of retracement trend line when the 1-2-3 formation forms. This can be at the area between point **(1)** & **(2)** or between points **(3)** and the thrust above point **(2)**.
Head & Shoulders Formation	❒ This well known formation is to be entered just like the 1-2-3. Again, price will have pulled back to a confluence of support areas, forming a H&S pattern. ❒ Draw a trend line identifying the neck line of the formation and wait for price to break. When the formation has good symmetry and has a strong confluence of support has been identified, one can take an aggressive entry on this pattern by entering the trade when price breaks the neck line by a few pips. ❒ Alternatively, if the pattern doesn't look almost perfect and/or you do not have a confluence of many support areas on the Setup Chart, be more cautious and wait for price to exhibit the PBC pattern and place your limit order a few pips past the original breakout reversal point. When your order is executed this will be the confirmation that the breakout is for real.
Trend Line Breakout	❒ This is a very common way of identifying reversal formations and is often found alongside the 1-2-3 formation. ❒ As price is retracing from the major trend, price follows a trend lone back a confluence of support areas. Draw a trend line that fit along the bottom of the price bars (*in an upside retracement*). ❒ When price finally breaks below the trend line, wait for a BPC pattern before entering the trade. As usual place your limit order a few pips past the original breakout reversal point.
Supply/Demand Reversal	❒ If you have managed to identify a Supply/Demand (S/D) area at the point where price has pulled back from a trend, wait for price to enter S/D area and then monitor price action closely for price to turn around back into the direction of the main trend. ❒ Sometimes the turn around can happen very quickly and other times price will test this area for quite some time. You need to keep watching price for signs of a reversal. The reversal itself can come in the form of a 1-2-3, a channel break of other price pattern breaks. ❒ One thing to keep in mind is if price penetrates the far side of the S/D area by along way or consolidates above this area, the pattern is broken and you should move on to the next trade. Alternatively, still monitor price for a little while to see if price follows the rules of one of the other entry techniques already identified above. ❒ The entry for these techniques is the same as many on the other techniques, use the BPC pattern. You may want to use a more aggressive entry by placing a limit order at the start of the S/D area but you must have a strong confluence of support at the S/D area to back up your decision.

STEP 3: *Stop Placement and Targets*

- Prior to entering the trade workout the possible **Target Price Points**.

Price Pattern Trades	❒ When trading a well known price pattern, calculate the final target based on the price pattern itself. • Triangle Formations: Final target should measure by adding the triangle's price distance to the actual breakout price point. • Flag Formation: Measure the flag pole length and add it to the tip of the retracement. • Range/Channel Formation: Measure the width of the channel and project it forward into the direction of the trend by adding it to the breakout level. ❒ Note, once price reaches the target projected from the Triangle and Flag formations, price normally decides to either pull-back or consolidate. The Range/Channel formation often acts differently. Act the Channel/Range width target has been reached, price tend to have a little pullback as trader take profit but then price often move further into the direction of the trend, so be prepared to give the Range/Channel a little wiggle room to further in you favor. ❒ Once you have your projected target, identify previous support/resistance price areas around your projected target price. If any are identified, it is best to reduce your target to a few pips before the S/R price point. ❒ If your projected target is close to a round number, shorten you target to 5 - 10 pips before the round number. ***!! Help your trade where ever possible by removing as many obstacles as you can, giving your trade a better chance of reaching it final goal !!***
Trend Swing Continuation Trades	**Identify the Final Target** ❒ Workout the distance of the previous swing and add it to the tip of the retracement for your current trend swing entry formation. ❒ Once you have your projected target, identify previous support/resistance price areas around your projected target price. If any are identified, it is best to reduce your target to a few pips before the S/R price point. ❒ If your projected target is close to a round number, shorten you target to 5 - 10 pips before the round number. ***!! Help your trade where ever possible by removing as many obstacles as you can, giving your trade a better chance of reaching it final goal !!*** **Reduce Trade Risk with multiple exit points** ❒ Everyone likes to get as many pips as possible from a trade, but there are plenty of times when the final target will not be reached. Therefore plan your trade with multiple exits points. ❒ Identify the previous swing point from where the retracement began. This is a good area to exit part the trade. At the same time, this presents a good area to bring your stop-loss down a level to break-even for the remaining lots or just above a prominent swing point. When identifying the previous swing point, it is advisable to make you target just a few pips before that point. The reason is the same as before... the price point will likely act as some form of resistance and it is always best to get some profit without having to sweat-out a few pips at a resistance level. ❒ If the previous swing point is quite a distance away, consider setting another profit target in between your entry point and the swing point. This is a good way to make sure you take profit from the trade just in case the previous swing point doesn't get reached. Make sure you aim for at least a 1:1 risk/reward target.

- Next, workout the correct **Stop-Loss Placement**.
  - Stop-loss placement is the one of the most important aspect of trading.
  - The policy on stop losses is very simple and very straight forward: the stop loss is to be placed behind the event that got me into the trade. There is no reason to overstretch the stops; if the actual event that made you push the BUY/SELL button is violated, there is no reason to be involved in that trade anymore.
  - *Example*, You are trading a triangle breakout after the receiving confirmation of your entry from the BPC

pattern. The BPC pattern is **the** confirmation you were looking for to enter the breakout trade. Therefore the stop placement should be placed a few pips behind the tip of the pullback phase. If upon entry price retraces back beyond the pullback phase and your stop with it, then the confirmation of that breakout is now *void* and most likely the breakout has died-out too!

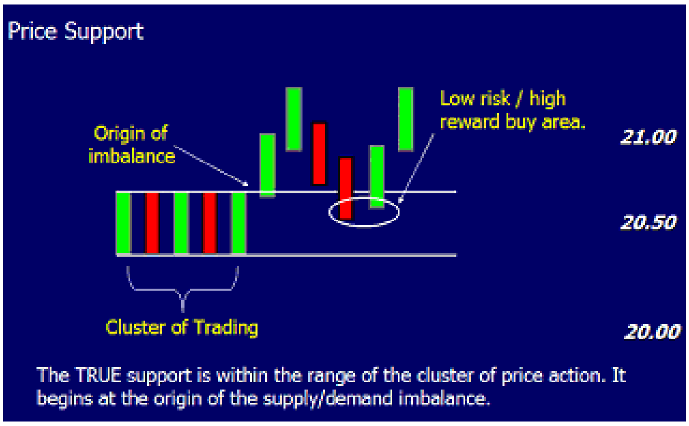
!! *There is no point being in the trade anymore as the breakout was not for real !!*

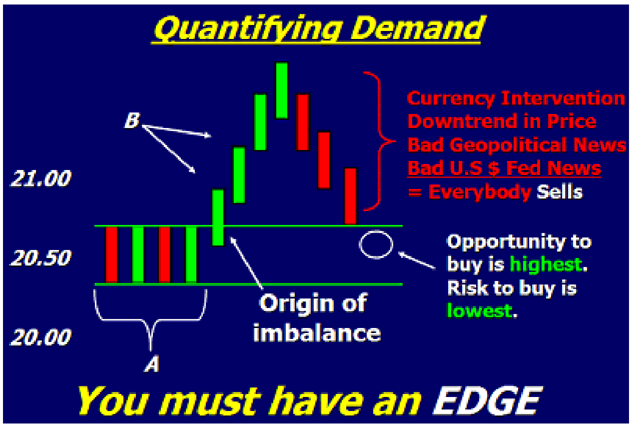
- Although, there may be times when a previous S/R level or round number is close by, it makes sense to extend your stop by a few pips to get some added protection.
- If it turnout your stop-loss will be very small, it makes sense to widen it a little. Look at making your stop-loss no smaller than say 1-20 pips depending on the currency pair you are trading. The reasoning for this is that general market noise can cause price to spike up and down at any time. If you stop is too close, you will likely get stopped out only to see the trade carry on without you.

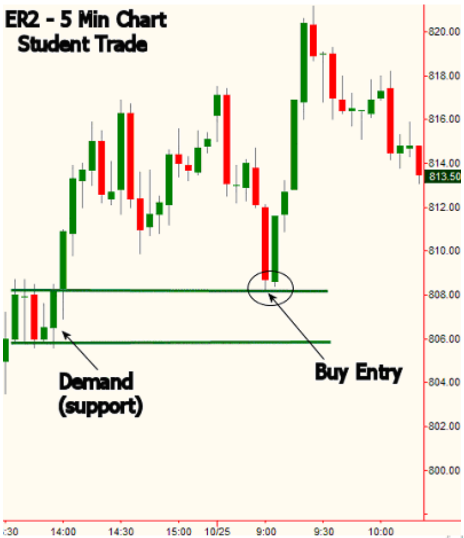
STEP 4: *Final Checks*

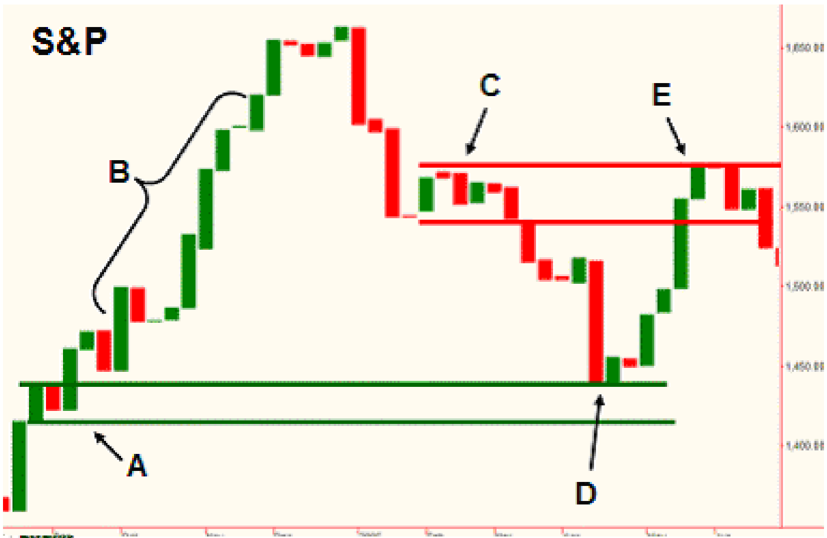
- **Risk/Reward:**
    - The last check before receiving the green light to enter a trade is to check that the trade has a good enough Risk VS Reward ratio.
    - Every single trade place must have a minimum Risk/Reward ratio of 1 to 2. This means if you are risking $100 on the trade you must have a target price point that will result in a $200 profit. Every trader will have losing trades, and having the risk/reward biased in your favor is one of the key components of becoming a successful trader.
- **Account Capital at Risk:**
    - Once you have identified your Entry, Exits and Stop-Loss price points, you must ensure the amount of money you are risking on the trade is not greater than 3% of you entire trading account. Traders can often have strings of losing trades that can have a dramatic affect on their trading capital. It is imperative that this rule is adhered to ensure any string of losing trades do not wipe out your account.

Appendix A - Supply/Demand Examples

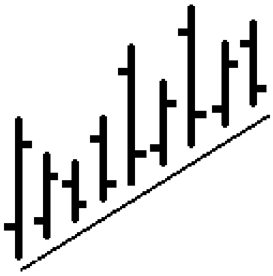
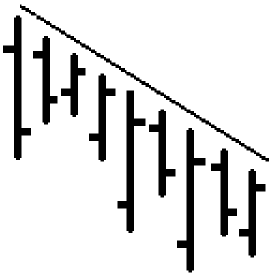
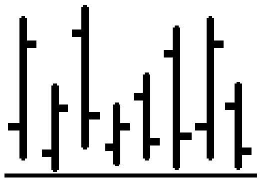
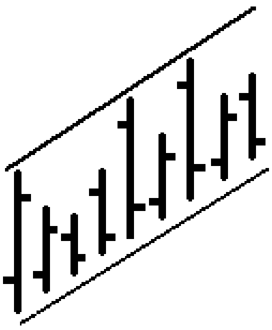


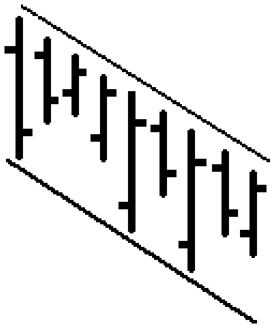
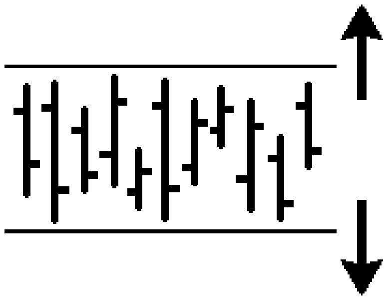
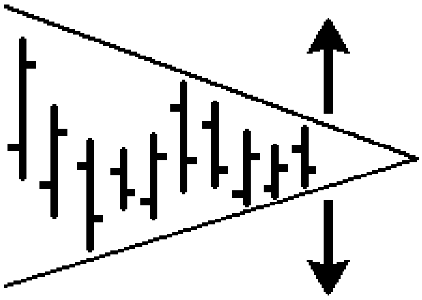
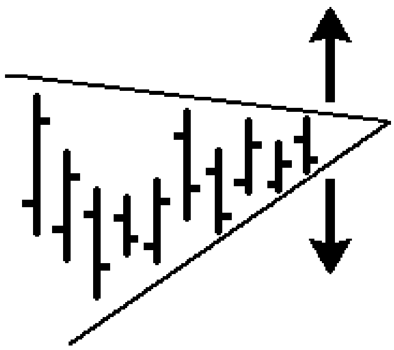
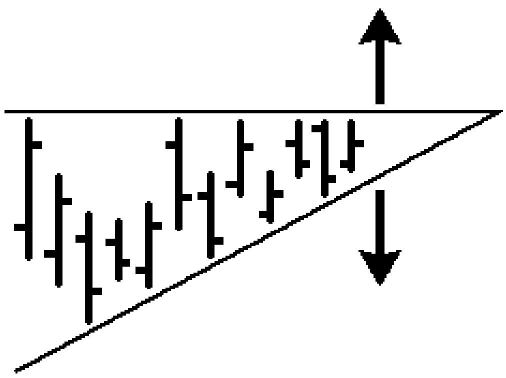


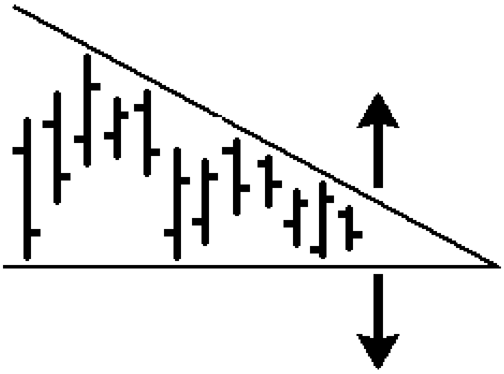




Appendix B - Price Patterns

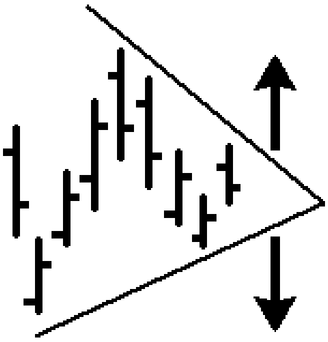
Trendlines	
	**Inclining Trendline** A straight line usually drawn to define an uptrend against or through price bar lows.
	**Declining Trendline** A straight line usually drawn to define a downtrend against or through price bar highs.
	**Support** A horizontal floor where interest in buying a commodity is strong enough to overcome the pressure to sell. Therefore a decrease in price is reversed and prices rise once again. Typically, support can be identified on a chart by a previous set of lows.
	**Resistance** A horizontal ceiling where the pressure to sell is greater than the pressure to buy. Therefore, an increase in price is reversed and prices revert downward. Typically resistance can be located on a chart by a previous set of highs.
Channels	
	**Inclining** The inclining channel is a formation with parallel price barriers along both the price ceiling and floor. Unlike the sideways channel the inclining channel has an increase in both the price ceiling and price floor.

	**Declining** The declining channel is a formation with parallel price barriers along both the price ceiling and floor. Unlike the sideways channel the declining channel has a decrease in both the price ceiling and price floor.
	**Horizontal or Sideways** A horizontal or sideways is a formation that features both resistance and support. Support forms the low price bar, while resistance provides the price ceiling.
Triangles	
	**Symmetrical** A formation in which the slope of price highs and lows are converging to a point so as to outline the pattern in a symmetrical triangle. To trade this formation place a buy order on a break up and out of the triangle or a sell order on a break down and out of the triangle.
	**Non-Symmetrical** A formation in which the slope of price highs and lows are converging to a point so as to outline the pattern in a non-symmetrical triangle. To trade this formation, place a buy order on a break up and out of the triangle or a sell order on a break down and out of the triangle.
	**Ascending Triangle** A formation in which the slope of price highs and lows come together at a point outlining the pattern of a Right Triangle. The hypotenuse in an Ascending Triangle should be sloping from lower to higher and from left to right. To trade this formation, place a buy order on a break up and out of the triangle or a sell order on a break down and out of the triangle. Ascending triangles, with a prior downtrend, are anticipated to break down and out, rather than up and out.



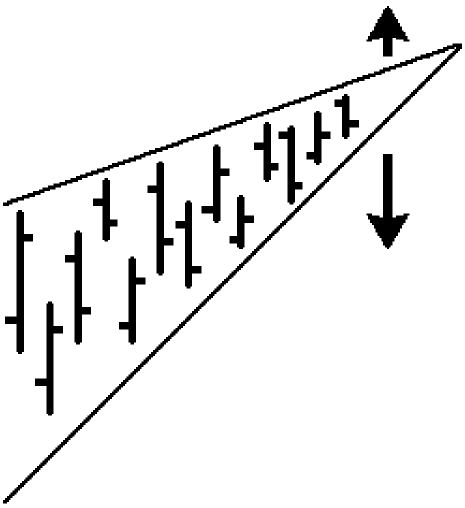
Descending Triangle
A formation in which the slope of price highs and lows come together at a point outlining the pattern of a Right Triangle. The hypotenuse in an Descending Triangle should be sloping from higher to lower and left to right. To trade this formation, place a buy order on a break up and out of the triangle or a sell order on a break down and out of the triangle. Descending triangles, with a prior uptrend, are anticipated to break up and out, rather than down and out.

Pennants

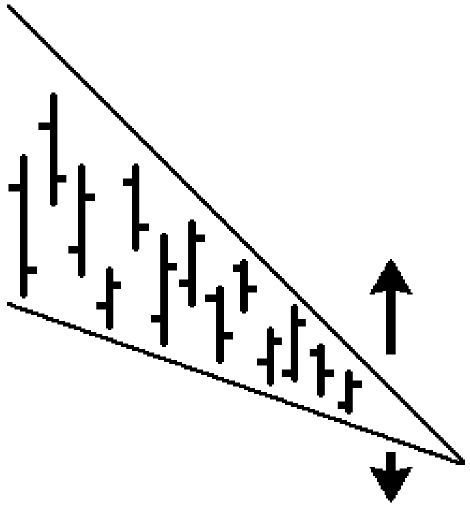
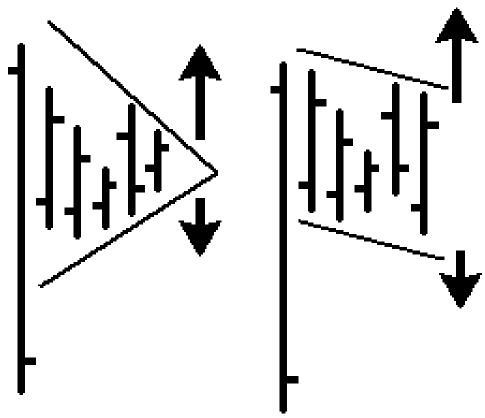
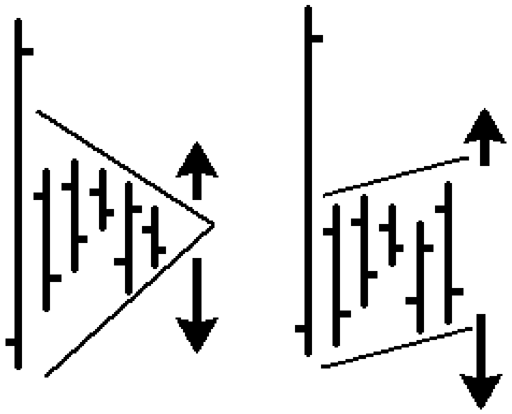


Pennants
Similar to a Symmetrical Triangle but generally stubbier or not as elongated. A formation in which the slope of price bar highs and lows are converging to a point so as to outline the pattern in a symmetrical triangle. To trade this formation, you can place orders at both the break up and out of the pennant and break down and out of the pennant.

Wedges



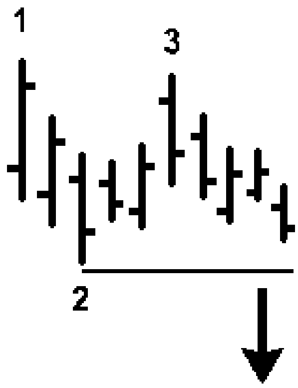
Rising or Inclining
This formation occurs when the slope of price bar highs and lows join at a point forming an inclining wedge. The slope of both lines is up with the lower line being steeper than the higher one. To trade this formation, place an order on a break up and out of the wedge or a sell order on a break down and out the wedge. Rising wedges, with a prior downtrend are anticipated to break down and out, rather than up and out.

	**Falling or Declining** This formation occurs when the slope of price bar highs and lows join at a point forming a declining wedge. The slope of both lines is down with the upper line being steeper than the lower one. To trade this formation, place an order on a break up and out of the wedge or a sell order on a break down and out the wedge. Falling wedges, with a prior uptrend, are anticipated to break up and out, rather than down and out.
Flags	
	**Bull Flag** A formation consisting of a small number of price bars where the slope of price bar highs and lows are parallel and declining. Bull Flags are identified by their characteristic pattern and by the context of the prior trend. In the case of a Bull Flag the trend leading to the formation of the Bull Flag is up. To trade this formation, place orders on the break up and break down points, leaving your unfilled order as your stop loss.
	**Bear Flag** A formation consisting of a small number of price bars in which the slope of price bar highs and lows are parallel and inclining. Bear Flags are identified by their characteristic pattern and by the context of the prior trend. In the case of a Bear Flag the trend leading to the formation of the Bear Flag is down. To trade this formation, place buy and sell orders on the break up and down of the flag, leaving the unfilled order as your stop loss.

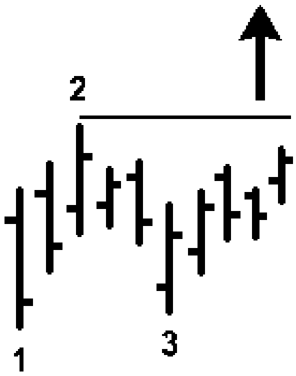
Top and Bottom Formations

1-2-3 (A-B-C) Top

Anticipates a change in trend from up to down on a break below the number 2 point.



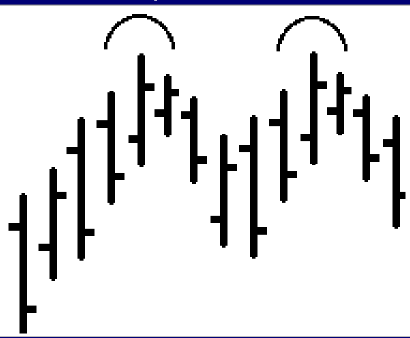
1-2-3 (A-B-C) Bottom
Anticipates a change in trend from down to up on a break above the number 2 point.



Head and Shoulders Top
Anticipates a decline on a break below the Neckline.

Head and Shoulders Bottom
Anticipates a rise in prices on a break above the Neckline.

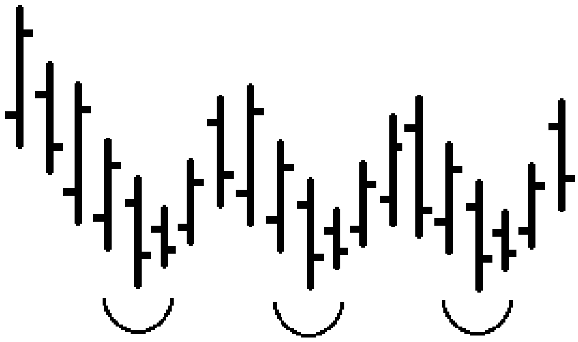
Double Top
Anticipates a change in trend from up to down.



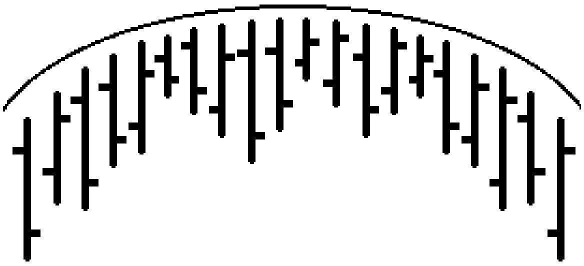
Double Bottom
Anticipates a change in trend for down to up.

Triple Top
Anticipates a change in trend from up to down.

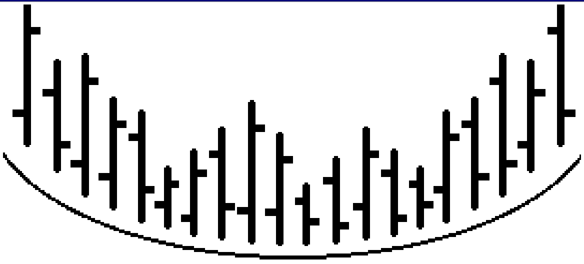
Triple Bottom
Anticipates a change in trend from down to up.



Rounded Top
Anticipates a change in trend from up to down.



Rounded Bottom
Anticipates a change in trend from down to up.

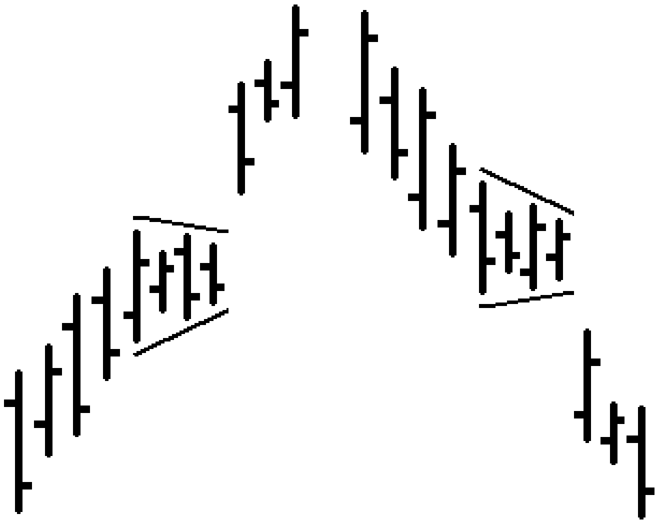


Congestions
Generally refers to any type of chart pattern in which prices are temporarily trapped in a trading range. The range can be converging, expanding or defined by parallel lines on the horizontal. Congestions of shorter duration are usually found to be a variation of a Flag, or some variation of a converging or expanding triangle. Periods of longer congestion are usually defined by a variation of a converging or expanding triangle, or may be an elongated parallel channel on the horizontal. Such patterns are frequently referred to being Continuation patterns if price break out in the direction of the trend leading to the formation of the congestion pattern.

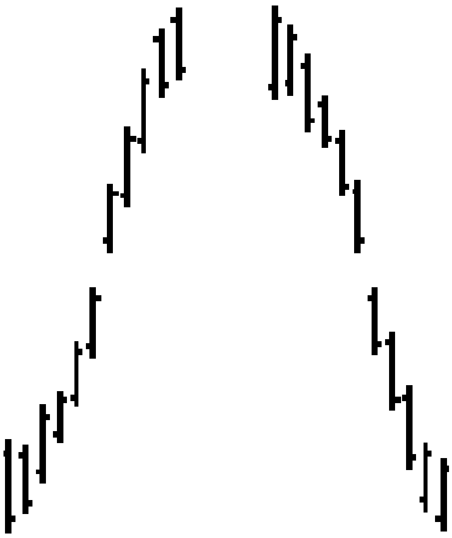
Continuation Patterns
Periods of longer congestion are usually defined by a variation of a converging or expanding triangle, or may be an elongated parallel channel on the horizontal. Such patterns are frequently referred to being continuation patterns if price break out in the direction of the trend leading to the formation of the congestion pattern.

Gaps

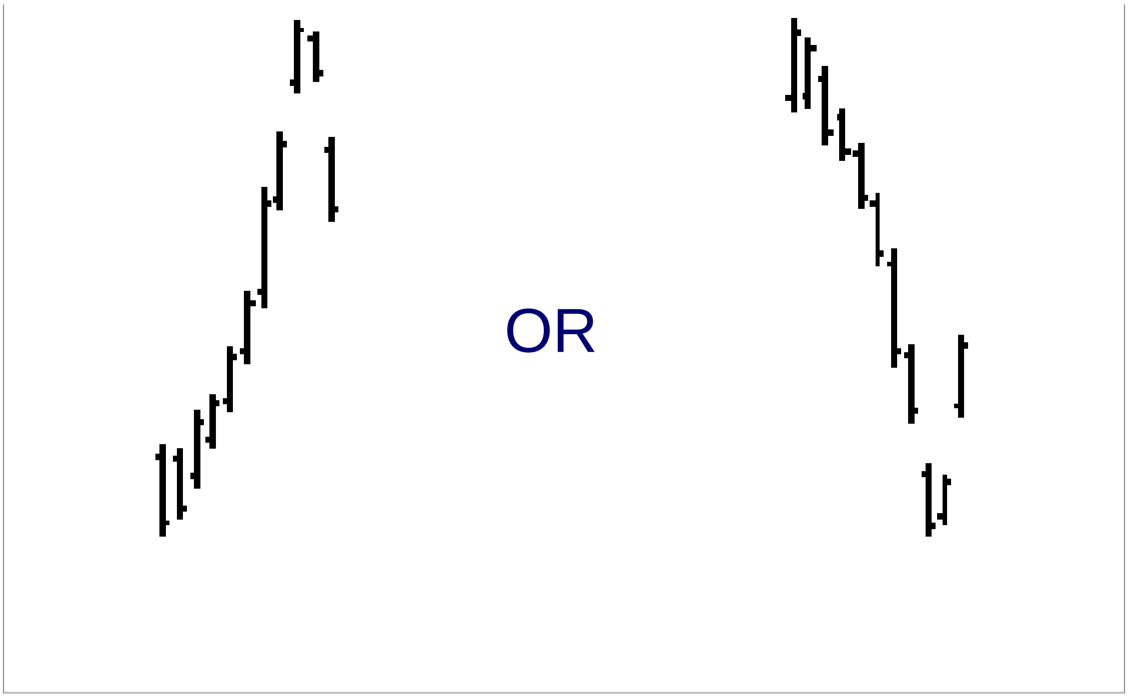
Breakaway Gaps
Occur when prices gap higher or lower out of a congestion pattern in the direction of the prevailing trend.



Measuring or Running Gaps
Difficult to identify, but usually occur at the midpoint in a price rally or decline.



Exhaustion Gaps
Occur at the end of a market trend, usually after steep accelerated uptrend or downtrend. The gap can leave one price bar or a small number of congestive price bars behind.


OR