WHAT IS A ZONE AND WHERE SHOULD IT BE LOCATED?

What is Zone?

A zone is a price range, sometime in the past. An area of importance where price had a severe imbalance in the nearest past. It is made up of 3 to 5 candles. Where left-most candle, the first candle is a long, expanded candle with body to range ratio of greater than 50%, the following candles, up to 3, are basing candles with body to range ratio less than 50%. The final candle, is also an expanded candle with body to range ratio of greater than 50%. This range is called fresh if the price never returned to this zone between today and when the zone was formed. Below are the rules that determine a valid zone.

1. How many candles make up a zone?
   Minimum 3, Maximum 5.

2. How are these candles positioned next to each other?
   The first and last candles in the set up are always expanded range long candles, called leg-in and leg-out, the middle candles, maximum up to 3 are basing candles. These 3, 4 or 5-candle cluster must exist together as a single group, always.

3. The ratio of "open and close" relative to "high and low" of each candle that make up the candles in the zone.
   The expanded range candles, called *Leg-in or Leg-out* are always very long candles, with their body (Open to Close) make up 50% or higher of the entire range (high and Low) of the candle.
   The *Base* are always smaller candles with their bodies (Open to Close) make up 50% or less of the entire range (high and Low) of each respective candle.

Where is a valid zone located?

Location of a zone is ALWAYS relative to the **current** price and also how far back in the past - **time**.

Location relative to Current:

Every scan must start from knowing 3 pieces of information of about the current candle - where the current price is, the lowest price the current candle has made, and the highest price the current candle has made. Since it is a current candle, it will not have a closing price. This candle is active and therefore, it will never be considered a part of a zone. The price information of the current candle is used to determine a starting point for analysis. This value is how every ticker/symbol/stock will be measured again and will form the starting price level for all stocks and all scans.

A zone is made of price range, not just a price level. This range is entirely located below the current price and is drawn from the Highest body of the base (highest body of any base candle), to the lowest price of any base candle or the leg-out. Similar, but flipping it, if a range is above

the current price, it is drawn from the lowest body of the base (lowest body of any of the base candle) to the highest price of any base candle or the leg-out. It should also be entirely above the current candle.

In the image below, the orange box, is the supply zone. As you can see, the zone is drawn from the lowest body of the base to the highest price of base or leg-out. It can also be confirmed that this zone is fresh, since the prices never returned to that level.

Similarly, the green box is the demand zone, below the current price. It is drawn from the highest body of the three base candles to the lowest price of the base or leg-out. It can also be noted that the prices once left the demand zone, have not returned to the zone yet and that makes it a **fresh and valid zone**.

As can also be seen, both leg-outs on the demand and supply side, also have outside, unfulfilled gaps (explained in detail in gaps document). This is a good indicator of quality zone but not a requirement.

The program must always find fresh and valid zones, before it is TRUE for recommendation.

Location relative to time:
Since these zones are created sometime in the past, we also must assign how far back are we willing to look for these price formations. This limit is assigned in the GUI field 5 before the scan. For example, if on the HTF, the value is 50, it will look back 50 candles in the past from the

current candle as its maximum look back period. However, for the opposing zone, it will not be limited by GUI field 5, and will compare as far back as the database goes, as long as those levels are fresh. The most recent zone, closest to current price, is more valuable than a zone that was created earlier. In summary, the zones must be located within the total candles picked to compare, the zone must be closest to current price and once the two zones are determined for curve on the HTF, then the LTF zone, must be located within the two HTF zones. i.e. the LTF trading zones are always located within the price levels of two HTF curve zones. Also, note, if a valid setup cannot be found in the past for opposing zone, then the ATH exception kicks in to determine the range of the curve on HTF and the range of the trading risk to reward levels on LTF.

Freshness of a Zone:

A zone must be entirely located below or above the current candle's range. Also, it is required that all other candles between the current candle and the zone candles never touch the zone. This means that once the prices left the zone with a leg-out, they have NEVER returned to date. Only then it is a **valid fresh** zone. The image below also represents examples of fresh zones. Once the prices left either of the zone, they have not yet returned to the same levels.

Demand Zone Fresh Level (Grey Box)

Supply Zone Fresh Level (Grey Box):

What is the quality of the zone?

Quality of a zone is determined by the size of price change of Leg-out and Leg-ins "Open to close" relative to all other candles between today and total candles compared (gui field 5). Before the scan, the value assigned in GUI field 6(HTF) & 9(LTF) is used to find the best quality setup. What this means is that if *gui field 6* has a value of 10 and *gui field 9* a value of 5. Then the Leg-in and leg-out candles must be within the top 10 candles in size (open to close price difference) compared to all the candles in the HTF between today and gui field 5. Similarly, for LTF, the leg-in and leg-out must be within the top 5 candles in size (open to close price difference) between today and the date where the HTF zone is located.

DEMAND ZONE CONDITIONS

>Total Candles in any and all demand zones: **TRUE for 3, 4 OR 5. FALSE FOR <3, >5**

>Total LEGIN Candles in any and all demand zones: **TRUE for 1. FALSE FOR 0, >1**

>TOTAL LEGOUT Candles in any and all demand zones: **TRUE for 1. FALSE FOR 0, >1**

>Minimum BASING candles in any and all demand zones: **TRUE for 1. FALSE FOR 0, >1**

>Maximum BASING candles in any and all demand zones: **TRUE for 1,2 or 3. FALSE for 0, >3**

>This cluster of 3,4 or 5 candle must be consecutive i.e. next to each other. **CONDITION MUST ALWAYS BE TRUE.**

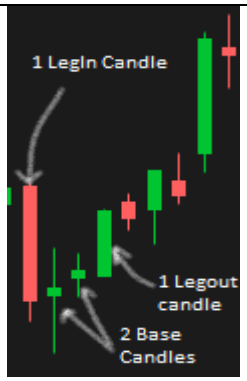
> **ALWAYS TRUE if** Direction of Price movement in LEGOUT Candle is **GREEN. i.e. Up i.e. Closing price is higher than Open price. FALSE IF LEG OUT IS RED CANDLE.**

>THE **CLOSING** PRICE OF **LEGOUT** CANDLE MUST BE **ABOVE** THE **HIGHEST** PRICE OF THE PREVIOUS ONE BASE CANDLE (ONLY PREVIOUS CANDLE, NOT ALL THE BASE CANDLES. JUST THE ONE NEXT TO IT). **CONDITION MUST ALWAYS BE TRUE**

> Zone Price Range - The Zone will range from highest Body of the Basing Candles to the lowest price among any of the basing candle and the leg-out candle (leg-in candle is ignored to mark the zone). **CONDITION MUST ALWAYS BE TRUE**

> Zone Range Location (fresh Level): The zone's price range must be entirely **LOWER (Below)** the Current candle's lowest price **AND** the zone price range must also be LOWER than the lowest of ALL candles between today (current candle) and the top area of the demand zone. **CONDITION MUST ALWAYS BE TRUE.** As shown here in grey boxes:

Demand Zone made of 3 candles.
1 Leg-in
1 Base
1 Leg-Out



Demand Zone made of 4 candles.
1 Leg-in
2 Base
1 Leg-Out

Demand Zone made of 5 candles.
1 Leg-in
3 Base
1 Leg-Out

SUPPLY ZONE CONDITIONS:

It is the exact opposite, flipped view of demand zone but must be located above the high of the current candle.

>Total Candles in any and all supply zones: **TRUE for 3, 4 OR 5. FALSE FOR <3, >5**

>Total LEGIN Candles in any and all supply zones: **TRUE for 1. FALSE FOR 0, >1**

>TOTAL LEGOUT Candles in any and all supply zones: **TRUE for 1. FALSE FOR 0, >1**

>Minimum basing candles in any and all supply zones: **TRUE for 1. FALSE FOR 0, >1**

>Maximum basing candles in any and all supply zones: **TRUE for 1,2 or 3. FALSE for 0, >3**

.>This cluster of 3,4 or 5 candle must be consecutive i.e. next to each other. **CONDITION MUST ALWAYS BE TRUE.**

> **ALWAYS TRUE if** Direction of Price movement in LEGOUT Candle is **RED. i.e. Up i.e. Closing price is LOWER than Open price. FALSE IF LEG OUT IS GREEN CANDLE.**

>Location of LEGOUT ***Relative*** to previous and adjacent ***basing*** candles: THE **CLOSING** PRICE OF **LEGOUT** CANDLE MUST BE **BELOW** THE **LOWEST** PRICE OF THE PREVIOUS BASE CANDLE (ONLY PREVIOUS CANDLE, NOT ALL THE BASE CANDLES. JUST THE ONE NEXT TO IT). **CONDITION MUST ALWAYS BE TRUE**

>Drawing of the Zone Range **Relative to** the most current candle (today's).
Zone Price Range: The Zone will range from lowest Body of the Basing Candles to the highest price among any of the basing candles and the leg-out candle (leg-in candle is ignored to mark the zone). **CONDITION MUST ALWAYS BE TRUE**

Zone Range Location (fresh level): The Zone's price range must be entirely **HIGHER(Above)** the Current (TODAY) candle's highest price AND the zone price range must be HIGHER than the HIGHEST of ALL candles between today (current candle) and the lowest part of the supply zone. **CONDITION MUST ALWAYS BE TRUE**

ZONE MADE OF 3 CANDLES

ZONE MADE OF 4 CANDLES

ZONE MADE OF 5 CANDLES

*Definition of a leg-In and leg-out candle are; where body to range ratio is 50% or more. Where open to close is 50% (or more) compared to the Highest to Lowest Range. For best quality setup, >70% ratio is used.

*Definition of a Basing candle are; where body to range ratio is 50% or less. Where open to close is 50% (or less) compared to the Highest to Lowest Range. For best quality setup, <30% ratio is used.