

Volume Analysis Deep Dive

Understanding What Price Can't Tell You

Introduction

Price is what the market did. Volume is why it happened and who did it.

Most traders watch price obsessively while ignoring volume—the single most reliable indicator of conviction behind a move. This guide will teach you to read volume like a professional.

Part 1: Volume Fundamentals

What Volume Actually Represents

Volume counts the number of shares, contracts, or coins that changed hands during a period. But here's what matters:

| VOLUME EVENT | WHAT IT REALLY MEANS |
|---------------------------------|-----------------------------------|
| High volume + price up | Strong buying conviction |
| High volume + price down | Strong selling conviction |
| Low volume + price up | Weak rally, likely to fail |
| Low volume + price down | Weak selloff, likely to reverse |
| High volume + no price movement | Absorption happening (important!) |

The Volume-Price Relationship

HEALTHY TREND:

Volume rises with price → Confirms trend
Volume falls on pullbacks → Confirms healthy consolidation

UNHEALTHY TREND:

Volume falls with rising price → Warning sign
Volume rises on pullbacks → Trend may be reversing

Part 2: Volume Bar Analysis

Reading Individual Volume Bars

Every volume bar tells a story:

Bar Height = Participation Level - Tall bar: Many participants active - Short bar: Few participants active

Bar Context = Meaning - Tall bar at breakout: Conviction - Tall bar at top: Potential climax - Short bar at support test: Weak test

Relative Volume

Absolute volume means nothing. Relative volume is everything.

Relative Volume = Current Bar Volume / Average Volume

RV > 1.5x = High volume (significant)

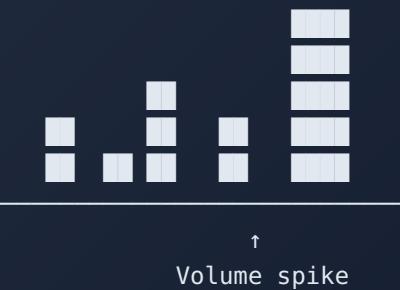
RV 0.7-1.5x = Normal volume

RV < 0.7x = Low volume (insignificant)

Part 3: Volume Patterns

Pattern 1: Volume Climax

What it looks like:



What it means: - Extreme participation (often 2-3x average) - Usually marks exhaustion - Often precedes reversal or consolidation

How to trade it: - Volume climax at resistance → Watch for reversal - Volume climax at breakout → Wait for pullback entry - Volume climax at bottom → Capitulation, potential reversal

Pattern 2: Declining Volume in Trend

What it looks like:

Price: ↗↗↗↗↗ (rising)

Volume:

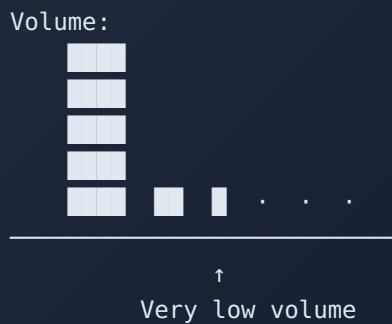


What it means: - Fewer participants buying each rally - Trend is weakening - Reversal or consolidation approaching

How to trade it: - Tighten stops - Take partial profits - Watch for reversal signals (WRN, CAP)

Pattern 3: Volume Dry-Up

What it looks like:



What it means: - Nobody trading - Often before explosive move - Compression before expansion

How to trade it: - Prepare for breakout - Watch for volume expansion - Don't trade the quiet period

Pattern 4: Volume Expansion on Breakout

What it looks like:



What it means: - Real breakout (volume confirms) - Many new participants entering - Trend likely to continue

How to trade it: - Enter on breakout or retest - Stop below breakout candle - Volume should sustain on follow-through

Part 4: Buy Volume vs. Sell Volume (Delta)

What Is Delta?

Delta = Buy Volume - Sell Volume

Positive delta: More buying than selling

Negative delta: More selling than buying

Zero delta: Balanced (indecision)

How Delta Is Calculated

On most platforms, delta is estimated from price action: - Close near high → Most volume assumed buying - Close near low → Most volume assumed selling - Close in middle → Split

More precise: Actual tape reading (futures, Time & Sales)

Delta Patterns

Bullish Delta Pattern:

Price: ↑

Delta: ████ (strongly positive)

= Buyers in control, trend confirmed

Bearish Delta Pattern:

Price: ↓

Delta: ██████ (strongly negative)

= Sellers in control, trend confirmed

Bullish Divergence (Absorption):

Price: ↓ (down)
Delta: █ (positive)
= Buyers absorbing selling pressure
= Potential reversal

Bearish Divergence (Distribution):

Price: ↑ (up)
Delta: █ (negative)
= Sellers distributing into strength
= Potential reversal

Part 5: On-Balance Volume (OBV)

What Is OBV?

OBV is cumulative volume that adds volume on up days and subtracts on down days:

If today's close > yesterday's close:
OBV = Previous OBV + Today's Volume

If today's close < yesterday's close:
OBV = Previous OBV - Today's Volume

Reading OBV

OBV Confirmation:

Price trending up + OBV trending up = Healthy trend
Price trending down + OBV trending down = Healthy trend

OBV Divergence:

Price making higher high + OBV making lower high = Bearish divergence

Price making lower low + OBV making higher low = Bullish divergence

OBV Trading Applications

| OBV PATTERN | PRICE PATTERN | INTERPRETATION |
|---------------|---------------------|------------------------|
| OBV breakout | Price at resistance | Breakout likely |
| OBV breakdown | Price at support | Breakdown likely |
| OBV rising | Price falling | Accumulation (bullish) |
| OBV falling | Price rising | Distribution (bearish) |

Part 6: Volume Profile

What Is Volume Profile?

Volume Profile shows volume traded at each price level, not at each time period.



Key Volume Profile Levels

| LEVEL | NAME | MEANING |
|-------|------------------|---------------------------------|
| POC | Point of Control | Most traded price, strong S/R |
| VAH | Value Area High | Upper 70% boundary |
| VAL | Value Area Low | Lower 70% boundary |
| HVN | High Volume Node | Price accepted here |
| LVN | Low Volume Node | Price rejected here, moves fast |

Trading Volume Profile

Price at POC: - Strong S/R level - Expect price to spend time here - Magnet for price

Price at LVN: - Price moves fast through - Don't expect support/resistance - Use for targets, not stops

Price above VAH: - Bullish bias - Look for longs

Price below VAL: - Bearish bias - Look for shorts

Part 7: Volume and Market Structure

Volume at Key Levels

Breakout with Volume:

Volume confirms → Real breakout → Trade it
Volume absent → Fake breakout → Fade it

Support Test with Volume:

High volume test → Strong defense → Bounce likely
Low volume test → Weak defense → Watch for break

Volume Through Structure Breaks

Before the Break: - Volume often dries up (compression) - Tight range, low participation

At the Break: - Volume should expand significantly - 1.5-2x average minimum for real break

After the Break: - Volume should sustain - Declining volume post-break = potential failure

Part 8: Advanced Volume Concepts

Absorption

When large orders absorb opposing pressure without moving price.

Bullish Absorption:

Candle: Red (sellers attacking)
Volume: Very high
Delta: Positive (buyers absorbing)
Result: Price doesn't drop
Next: Price rises

Bearish Absorption:

Candle: Green (buyers attacking)
Volume: Very high
Delta: Negative (sellers absorbing)
Result: Price doesn't rise
Next: Price drops

Exhaustion vs. Absorption

| CHARACTERISTIC | EXHAUSTION | ABSORPTION |
|----------------|--------------------------|-------------------|
| Volume | Climactic spike | Sustained high |
| Price movement | Extreme, overextended | Contained |
| Delta | Confirms price direction | Contradicts price |
| Following bars | Immediate reversal | Gradual turn |

Initiative vs. Response

Initiative: - New buyers/sellers entering - Wide-range bars - Volume expanding - Often at breakouts

Response: - Counteracting existing move - Rejection wicks - Volume spike then decline - Often at S/R levels

Part 9: Plutus Flow Application

How Plutus Flow Uses These Concepts

Plutus Flow combines: 1. Statistical OBV (with significance bands) 2. Delta histogram 3. Absorption detection 4. Divergence identification

Plutus Flow + Pentarch

| PENTARCH SIGNAL | PLUTUS CONFIRMATION |
|-----------------|---------------------------------|
| TD | OBV divergence + positive delta |
| IGN | OBV breakout + volume expansion |
| WRN | OBV divergence forming |
| CAP | Volume climax + OBV extreme |
| BDN | OBV breakdown + negative delta |

Part 10: Volume Analysis Checklist

Before Entry

- [] Is volume confirming price direction?
- [] Any divergences present?
- [] Where is price vs. POC?
- [] Is this a high-volume or low-volume environment?
- [] What does delta say about buying/selling pressure?

During Trade

- [] Is volume sustaining in my direction?
- [] Watch for delta divergence against position
- [] Note absorption patterns at targets

At Exit Points

- [] Volume climax at my target? Take profit.
- [] Volume divergence forming? Tighten stops.
- [] Volume dying? Move may stall.

Part 11: Common Mistakes

| MISTAKE | REALITY |
|-------------------------------|--|
| "High volume = price goes up" | High volume means participation, not direction |
| Ignoring relative volume | Absolute numbers mean nothing |
| Trading low volume breakouts | Most are fake |
| Only watching price | Volume often leads price |
| Using volume on very low TF | Noisy below 5m |

Part 12: Summary

Key Principles

- 1. Volume confirms or contradicts price**
- 2. Relative volume matters more than absolute**
- 3. Delta reveals buying/selling pressure**
- 4. OBV shows cumulative conviction**
- 5. Volume Profile shows where price accepted/rejected**
- 6. Climax volume often marks exhaustion**
- 7. Low volume breakouts usually fail**
- 8. Absorption can be more important than direction**

Volume Analysis Hierarchy

- Level 1: Is volume high or low?
- Level 2: Is volume confirming price?
- Level 3: What does delta say?
- Level 4: Any divergences forming?
- Level 5: Where are we in Volume Profile?

Master these levels in order. Volume analysis is a skill that develops over time.

Educational purposes only. Not financial advice.

© Signal Pilot Education Hub

Signal Pilot Education Hub

signalpilot.io | education.signalpilot.io

Educational purposes only. This is not financial advice. Always do your own research.