

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.

$\text{Relative Volume} = \text{Current Bar Volume} / \text{Average Volume}$

$\text{RV} > 1.5x$ = High volume (significant)

$\text{RV } 0.7-1.5x$ = Normal volume

$\text{RV} < 0.7x$ = 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:



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:
 $OBV = \text{Previous OBV} + \text{Today's Volume}$

If today's close < yesterday's close:
 $OBV = \text{Previous OBV} - \text{Today's Volume}$

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

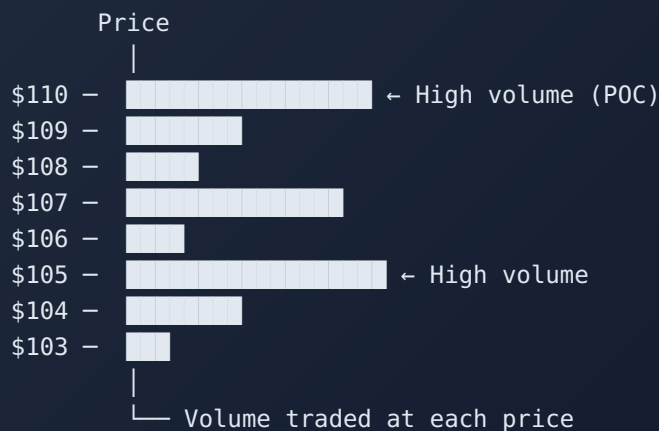
OBV Trading Applications

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.

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