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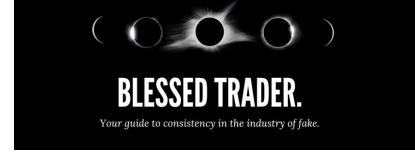


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DISCLAIMER

Everything here are my notes from my trading blog. I am not a financial advisor. This is not financial advice. The content is provided for informational purposes only. To make the best decision that meets your needs please do your own research. All investments carry some form of risk. Nothing is guaranteed. Please do not invest money you can not afford to lose.



LESSON - 8



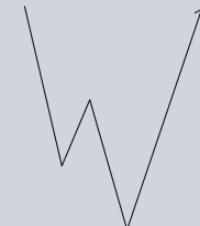
Symmetrical Market Conditions

DXY forms a Higher High when EURUSD forms a Lower Low

DXY



EURUSD



SMT DIVERGENCE

In the market conditions that move in alignment and are "symmetrical", when Dollar Currency Index (DXY) is bullish and forms a higher high, the currencies that we trade (EURUSD / GBPUSD), should form lower lows.

This shows that's there's no crack in correlation and that the trend where the price is trading shouldn't reverse, and should keep expanding. When there's no SMT Divergence and DXY is nicely aligned with the foreign currency the chances of seeing a reversal are not high.

DXY



EURUSD





Non-Symmetrical Market Conditions

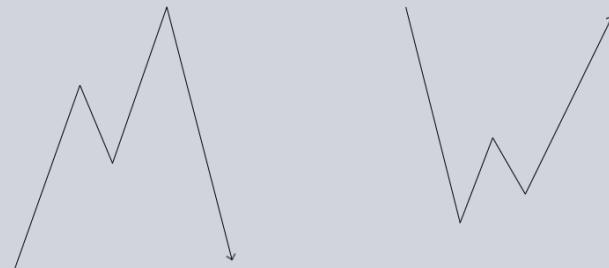
DXY forms a Higher High when EURUSD fails to form Lower Low and instead prints a Higher Low

SMT DIVERGENCE

In non-symmetrical market conditions (price doesn't move in alignment), when DXY forms a higher high but EURUSD fails to expand lower and form a lower low and instead forms a higher low, this is a crack in correlation – SMT Divergence.

That's when we expect a reversal to happen, especially if the price already reached a certain PDA that you've been monitoring, so when DXY & the foreign currency starts moving differently and especially if it moves into the opposite side of the dealing range, etc., think about closing your running positions if you have any and start looking for potential retracements or complete reversals.

DXY EURUSD



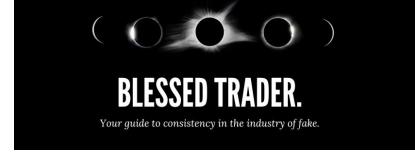
DXY



SMT DIVERGENCE

DXY formed a Higher High, so EURUSD is expected to form a Lower Low, however, price fails to do that and instead forms a Higher Low – that's SMT Divergence (crack in correlation) inside a Higher TF POI. That means that we can expect a reversal to happen from here, DXY ran the short-term high – BSLQ, EURUSD reached a Higher TF Discount area and formed SMT Div.





Top Down Example

EURUSD 60min TF



EURUSD 60min TF



EURUSD 60min TF



EURUSD 60min TF





Price reaches 60min Premium PDA, once that happens we look at the 15min TF & compare it with DXY 15min TF to see if there's crack in correlation – SMT Divergence



SMT DIVERGENCE

So, when we drop to the 15min TF on DXY & EURUSD, what we have here is a clear crack in correlation – EURUSD formed a higher high when DXY failed to form a lower low and instead printed a higher low.

That's exactly what we want to see when price reaches the main POI like EURUSD did in the previous slide. 15min TF SMT Divergence gives confirmation that price is about to reverse.

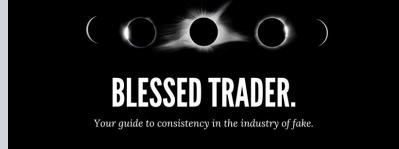
A trick that will help you a lot!

What we did here on the EURUSD chart – we inverted it by pressing “Option + I” (Mac), “Alt + I” (PC).

This simple trick makes things much easier to spot if price is symmetrical or not. In this case, you can clearly see that when the inverted EURUSD chart formed a lower low, DXY failed to follow and instead formed a higher low.



EURUSD 60min TF



After looking for 15min TF SMT Divergence which acts as our confirmation once price goes into the POI. From there we go back to the 60min TF and look for potential short opportunities targeting the sell side liquidity.



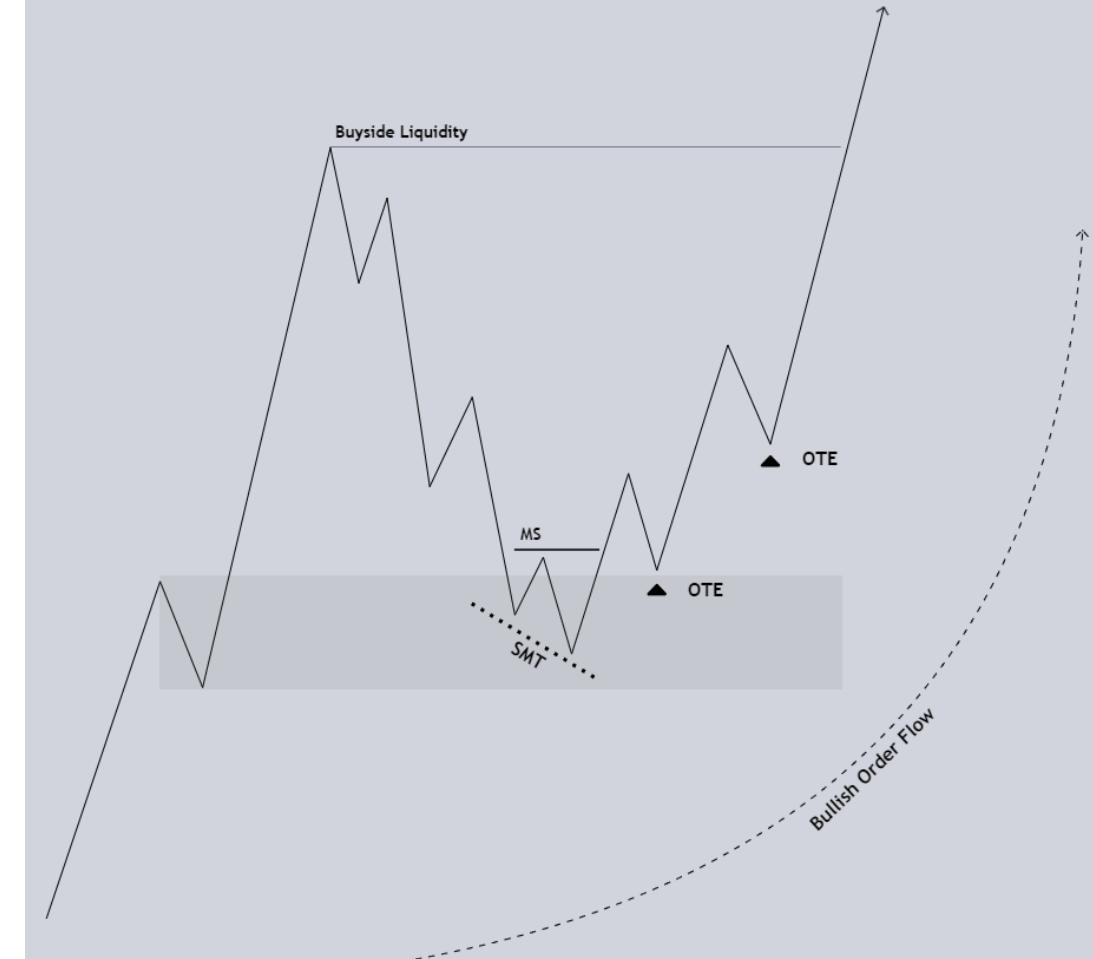
SMT DIVERGENCE

We're not looking at SMT like it's some be-all end-all magic, it's not about jumping into a position whenever there's Divergence.

Don't just blindly rely on it, there has to be some kind of premise, use it as a confirmation tool once everything structurally lines up for the move you've been anticipating.

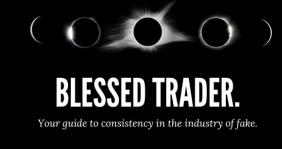
Example on the right, imagine that it's EURUSD 15min TF, what do we see here: we have a bullish overall Order Flow, price leaves a low resistance high, pulls back to Discount PDA, and forms a lower low (runs the SSLQ), if there's no SMT what we should have on DXY? – we should see a higher high but instead let's imagine that price leaves SMT Divergence and forms a lower high.

For us that's a confirmation for the EURUSD example on the right that if price breaks the structure to the upside from here and starts trending higher we should finally see this full bullish expansion happening. In other words, it helps us trust the break of structure and the first OTE that happens after that.





Another way to identify SMT Divergence



1. Go to your EURUSD 5/15min TF
2. Press this "+" icon on the top left called "Compare or Add Symbol"

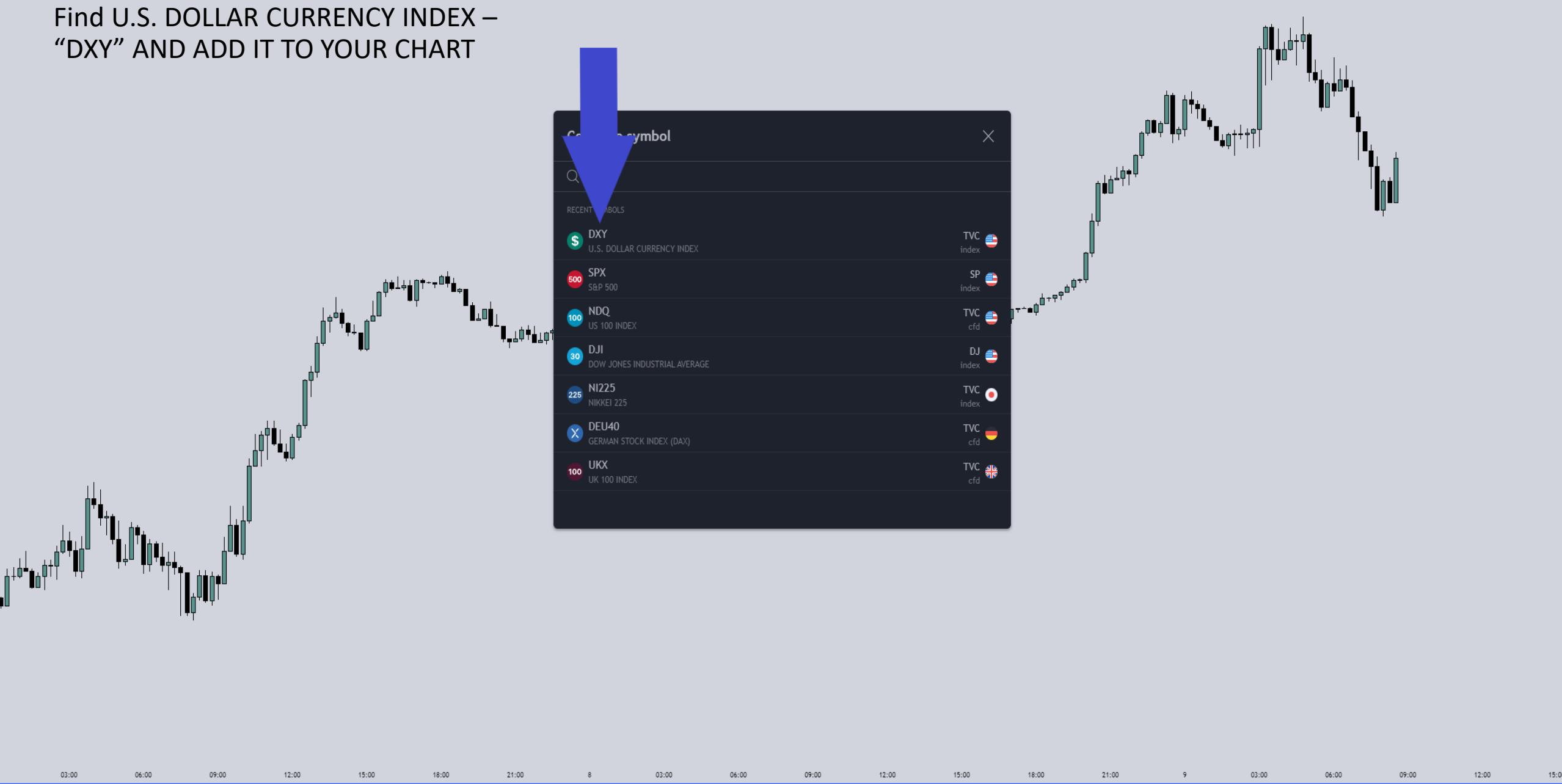


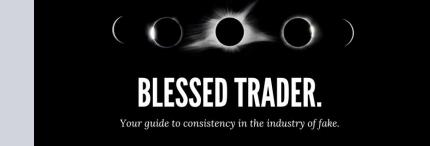


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Find U.S. DOLLAR CURRENCY INDEX – “DXY” AND ADD IT TO YOUR CHART





This is how we spot SMT Divergence by using the “Comparison” function.

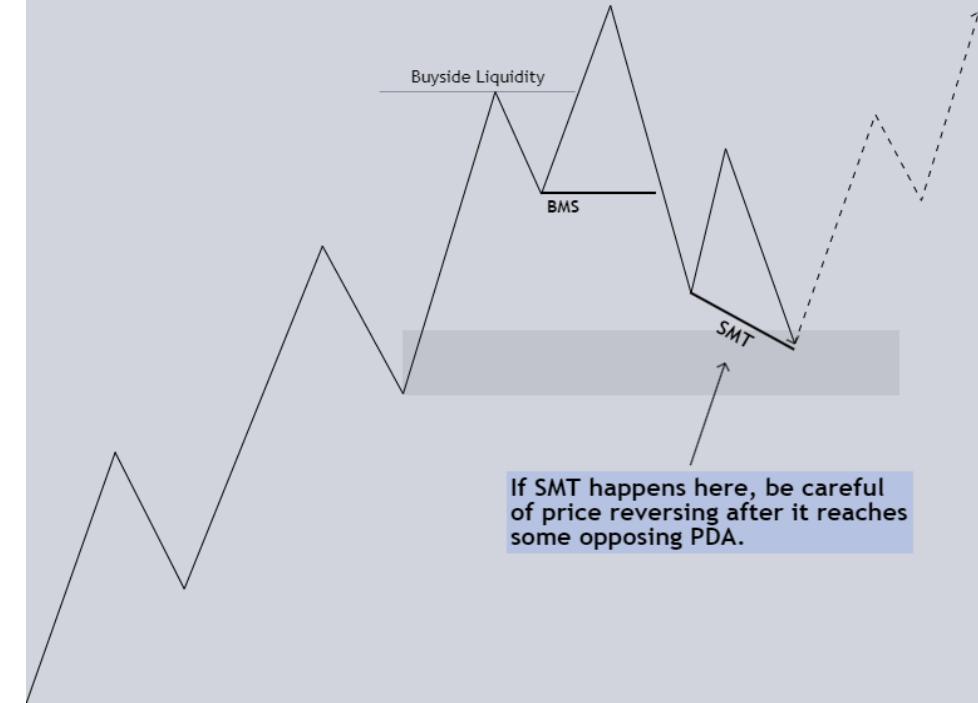
EURUSD formed a higher high, so in symmetrical market conditions DXY should form a lower low, however, price fails to do that and forms a higher low. That's a crack in correlation, and price after forming Divergence turns around and expands to the opposite direction.

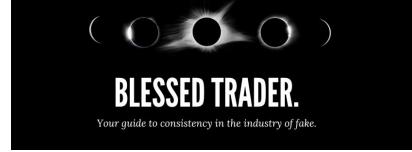


SMT DIVERGENCE

A common situation is when we see a potential breakdown after price runs Liquidity, everything starts looking bearish and we start thinking about the Sellside Liquidity targets when what actually happens – price forms SMT into some Discount PDA, and then takes off against your anticipated direction.

So, when you spot those cracks in correlation slow down, forget about your bias for a minute and look at the whole price action from a neutral perspective – SMT will not only help you confirm your bias but also, will help you to avoid the traps in the market.



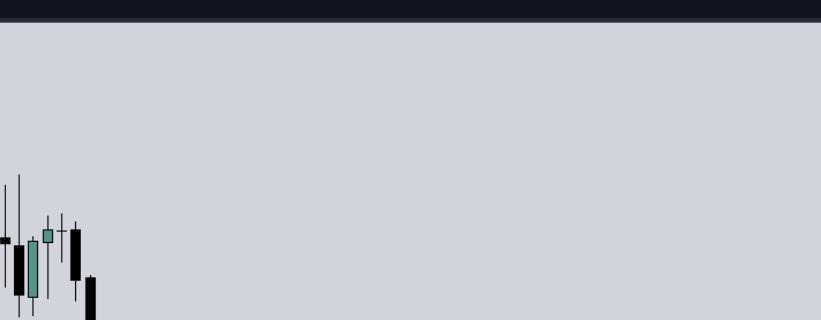


One more example of why you must be nimble with your analysis and always ready to adapt to the situation



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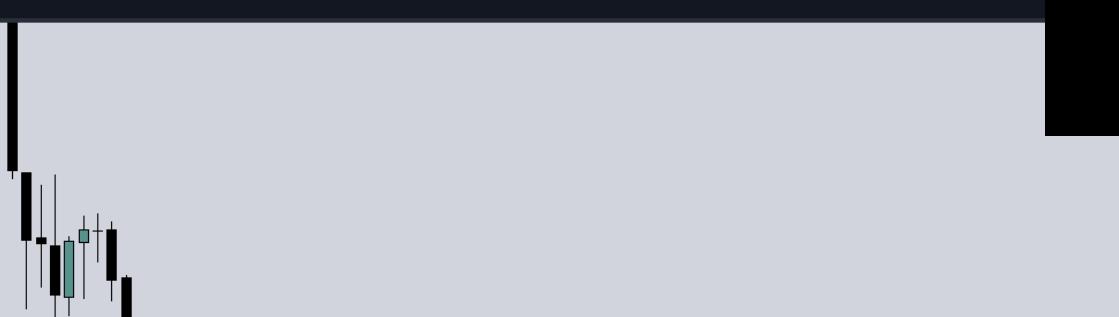
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DXY 15min TF



After a sharp expansion lower price on DXY runs SSLQ, EURUSD gives a sharp expansion higher and runs BSLQ.



DXY 15min TF



Then we see a market shift higher on DXY and we naturally think that it's a new potential dealing range and we will most likely look for potential DXY longs (EURUSD shorts) targeting all the internal liquidity and imbalance.



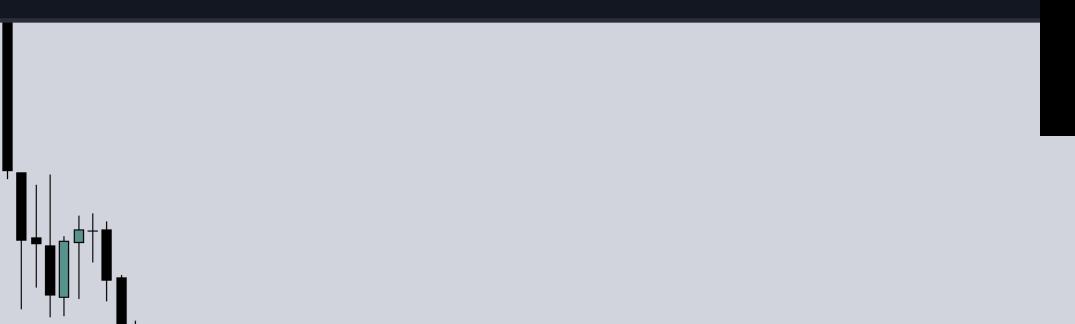
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However, if you look more closely, what do we have here? – SMT Divergence.

When EURUSD ran the SSLQ and formed a lower low, DXY failed to run the BSLQ and instead of forming a higher high, formed a lower high.



DXY 15min TF

SMT

Sellside Liquidity



EURUSD 15min TF

SMT

Buyside Liquidity

Then as you could've guessed, the overall picture changes drastically.

Now this doesn't mean that it's a high probability setup as we're in scalping conditions here (sideways range), however, the SMT acts as a signal to be aware that a totally different scenario could occur, so it helps you to be ready and have a game plan for both sides.



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