MARKET STRUCTURE

QUANTUM STONE CAPITAL

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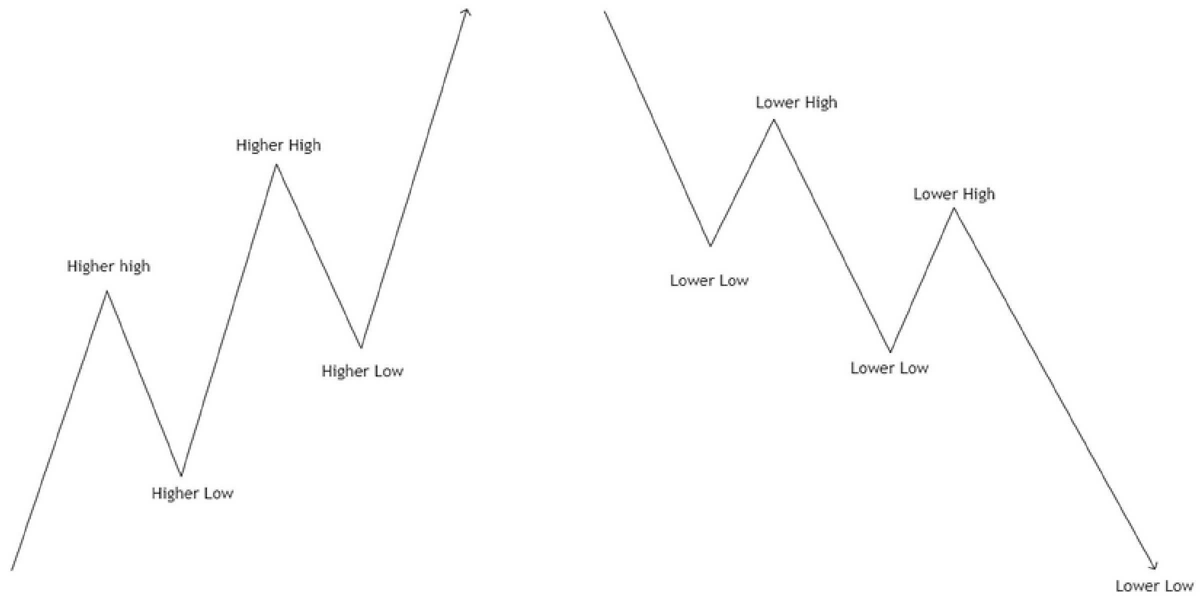
Standard Market Structure



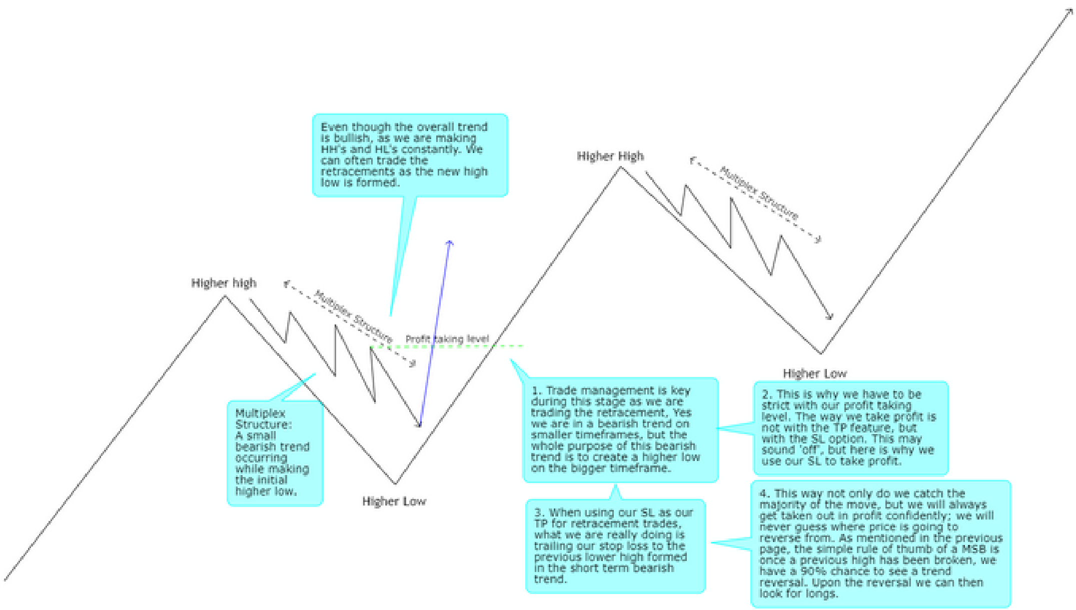
Key thing to know, when we're looking at TradingView data, broker data, from one brokerage to another, or one data feed that you're using on TradingView (for instance Oanda vs FXCM), you'll notice that wicks will differ. And why does that happen? Each broker has access to different liquidity pools and fills, therefore price data feed they offer will slightly vary from broker to broker. So essentially, when you are trading with a brokerage, your spreads tend to increase or decrease depending on volatility in market conditions and you can usually see that on a chart in the form of wicks. But if you're comparing the overall price action between one data provider and another, the one thing that generally speaking remains very true are the candle bodies. You'll see a little bit of difference when you're mapping out wicks when you're looking at one broker, one wick maybe in the denoted place, but on another broker, it might be actually above.

Market structure shows us as institutional trader where the large majority of buy and sell positions are being placed in the market; it illustrates what positions the banks are currently in (net long/short) and the next major trade they could be placing. Market structure is the first ‘brick layer’ of the house. Without understanding these concepts there is no foundation to your trading. When you are able to understand structure from a macro (Monthly, weekly) and micro (5,3,1 minute TF) perspective, that will put you at the top 1% of your game, as you will understand when the banks are going to take their next impulsive move in their specific bias. Then once you have your AOI (area of interest), we can react accordingly on the micro timeframe to get a pin point sniper entry and hold for long last RR trades.

This will often be used on the bigger Timeframes: Monthly, Weekly, Daily and sometimes 4 Hour. It gives us on overview in what direction price is going to trade impulsively. If we are making HH’s and HL’s on the daily timeframe, we should expect a new bullish trend continuation until we reach a valid AOI.

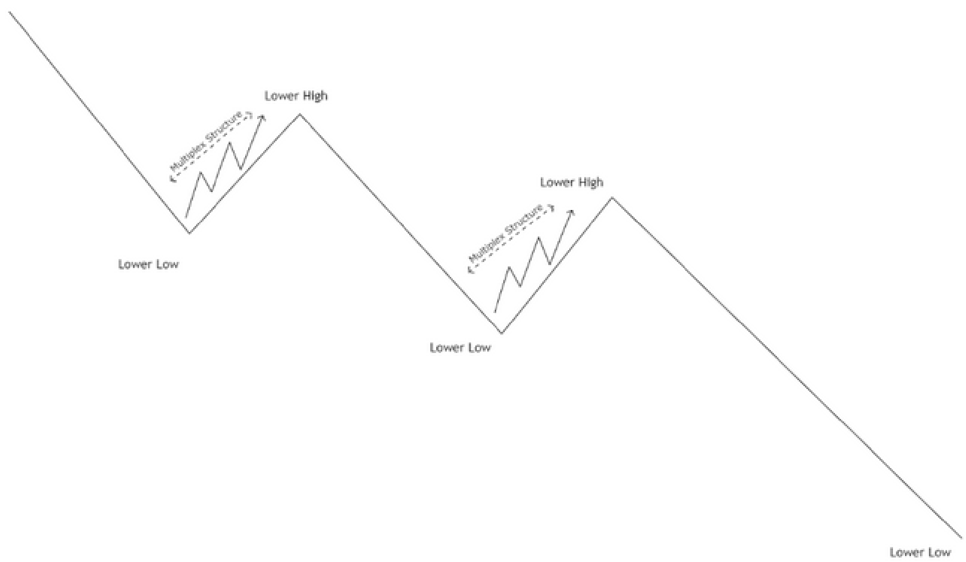
Multiplex Market Structure (Bullish)

There are two different Market structure types we look at: internal and external structure. When we have internal structure, we have something called a multiplex structure.



The best thing when trading a multiplex structure, that's internal structure, is to always start on the higher timeframes to get a general understanding of how price is moving. Are we moving upwards creating higher highs and higher lows or are we moving downwards creating lower highs and lower lows? Once you've determined that it becomes more straight forward dropping down timeframes to determine the market structure on those timeframes and correlating them. When specific bias is understood, we can counter trade that specific trend if structure is present on the smaller/micro timeframes. The diagram above is an accurate representation on how we would go about trading a multiplex structure.

Multiplex Market Structure (Bearish)



The HTF will always be our main interest but because the markets are fractal, you'll be able to utilize LTF just as strongly. This meaning, we can use the multiplex structure to counter trend the main bias; this will also allow us to hedge our position meaning we have capitalized on both sides of the market.

Multiplex Structure + hedging

When we take our multiplex structural trades, these are normally done in a counter trend environment which is not the best scenario, however we can make the multiplex structure a lot more counter intuitive by taking multiplex trades at HTF AOI.

Break of Market Structure (3 different types)

By understanding structure, we will have multiple opportunities to get into the market - but how we become great traders is by minimizing our losses i.e. we take less losses as our losses are capped at 1%. We want to only get into the sponsor candles that have the highest probability of working out - where price will tap and react off instantly.

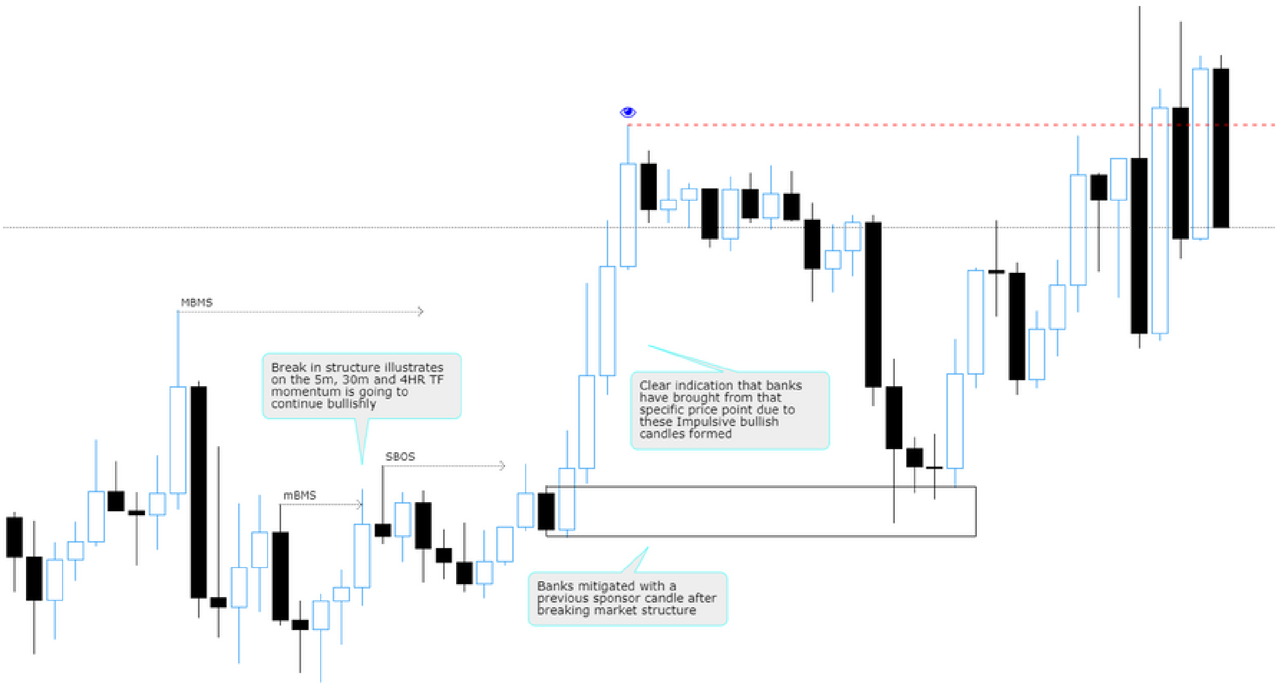
This is really important for us. If we don't know what sponsor candle to put entry on - especially on the lower timeframes - we can get into a lot of bad positions. A lot of things can look like sponsor candles on the LTF, but they are actually already mitigated. We want to have maximum precision and look for real valid "not yet tested sponsor candles" after BMS, because this will avoid us to go further on already filled orders. By waiting for a clear BMS illustrates that big banks and funds are in that move and gives us a good confluence to take the move.

1. **Minor BMS (mBMS)**

This occurs on the smaller timeframes; normally on 15m timeframe and below. We will see an initial move in the specific direction banks look to buy/sell the currency pair on the smaller timeframe first.

2. Significant break of the market structure (SBOS)

This occurs on the 15m - 1HR timeframe. This indicates a major amount of buy/sell orders are coming into the market. When we witness a significant break in market structure with an impulsive move bullishly/bearishly, we can then decide to go long/short upon a mitigation. This is because the reasoning of that significant market structure break big banks have brought into that move. Here is an example below.



3. **Major Market Structure**

This is formed on the Daily Timeframe and above. By us scaling into these larger timeframes we can identify where the majority of smart money positions are placed. If we are constantly breaking market structure bullishly on the weekly timeframe and making HH's/HL's we understand the majority of smart money are long, then we can refine our AOI on smaller timeframes (AOI will be discussed on a smaller timeframe).

Example, if we are looking at an overall daily uptrend, so we're putting in higher highs and higher lows and we start to see on the 4 Hour and 1 Hour that price is making lower lows and lower highs, we might immediately be thinking that we are in a downtrend and that we should only be looking for sells. Well, that may be true on an intraday perspective. One thing we have to keep in mind is what is the higher time frame suggesting from a structural standpoint.

If we know that we are in a heavy bull trend and the price is more than likely going to move to the upside, the lower lows that we're seeing on those time frame charts are more than likely a pullback or retracement phase of that daily chart. So when we have that information in mind we can frame our trades in a completely different manner and especially when we take that one step further and we're looking at 15 minute, 5 minute and 1 minute charts, it is so easy to get lost in those market structures when things are constantly switching from bull to bear, bear to bull and vice a versa.

That's when it ultimately comes down to looking at the higher time frame charts and remaining grounded on the actual momentum and the overall trade idea that you're trading. I hope this gives a little bit of insight of the various approaches of mapping market structure as well as identifying breaks of market structure.

Momentum in the Break of Market Structure

There are two main things we look for:
1. A large body candle that forms imbalance
2. A continuation of these candles

We want to see a committed push breaking structure not an immediate retrace back. If price breaks structure and immediately retraces then this signals weak order flow in that direction. We're trying to identify where large orders are being placed in the markets. If price immediately retraces after breaking structure that tells us there isn't a lot of power behind that move so it likely won't be sustained.