



There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Thursday, December 27, 2012

Liquidity Pools



Look at the above picture. You might have seen this pattern many times. Market is in a bull trend. It pulls back and makes a low at point A. Afterwards it goes up and later returns to the same price level and prints a beautiful pin bar.

As a trader what will be your action in this area?

Some possibilities are

1. You will keep a stop loss order just below point A if you are holding long position
2. You will sell just below point A expecting a breakout to the down side
3. You will go long above the pin bar with a stop loss below the candle

Will you buy at the circled area? Who bought there? Who absorbed both stop loss selling and breakout selling? Why?

This is a copy paste of an earlier post titled [Food for Thought](#). I had posted the same question in two major discussion forums namely [Traderji](#) and [Indi Traders](#). Go through these threads. At least you can have an idea about the quality of content in these forums. Now coming back to the subject. I have read tons of materials on trading. So far I have not seen any authors, bloggers or traders recommending to buy at the circled area. Then who bought here?

The answer is Big Money not Smart Money. Big Money is not always Smart Money. On many occasions Big Money will end up as Dumb Money. There are specific reasons for BM to place their orders here.

BM trade big and they can be institutions, big funds or High net worth traders. Generally they are higher time frame traders and do not bother about ten or fifteen point moves like retail traders. They never chase price. They will place their limit orders and let the market come to them and fill their orders quietly at the right price.

Now think about the above situation. Everybody knows a lot of sell orders exist below the previous support. There exists a "Liquidity Pool". Where else can BM hide their buy orders? Most of the retailers will end up providing liquidity to BM.

Market is a living organism. First priority of the Market is to ensure its own survival. Once the orders dry up it will move towards a "Liquidity Pool" where a lot of orders exist. Market will shake out many traders and will create order flow on its own.

Always pay attention to "Liquidity Pools". You will get a lot of trading opportunities around these areas.

17 comments:

Anurag [December 28, 2012 at 12:08 AM](#)

ST Sir,

We know there are cartels of all kind Big Money, Smart Money, Dumb money etc. When we talk about liquidity pool below the 'support' level, I guess location and calculation of the support level has to be important. For BM to make use of sell orders below the support level, it has to be a support that is well established in many Technical Analysis simultaneously (pivots, fibonacci, Gann, BRN etc.) only then probably more liquidity will be created.

I have not read much about VSA, suggest some good resource or book on the same.

Reply



Kamalesh P Langote [December 28, 2012 at 9:17 AM](#)

Excellent post.

An easy way to resolve this dilemma is to let the candle complete. This is what I do... if I have a positional trade, then I look at EOD charts only and not intraday. There are pros and cons to this but one is better off sticking to the originally planned timeframe.

I do like your explanation about BM hiding their buy orders near / below SL.

Reply



SMART Trader [December 28, 2012 at 10:00 AM](#)

Anurag

Yes . There will always be more liquidity beyond confluence levels. We will never know for sure where BM is going to act. No analysis can reveal this.

We must be well aware of such roadblocks and traps so that we can be prepared to deal with such situations

Karthik Marar threads in TJ and IT gives good insights into VSA

ST

Reply



SMART Trader [December 28, 2012 at 10:52 AM](#)

Kpl Sir

Thanks.

Yes I have noticed that most of the time the breakout bar will qualify as most significant recent bar. Entering on the break of this bar extreme with SL at the other extreme is a very successful method

ST

Reply

Anonymous [December 28, 2012 at 7:54 PM](#)

Truly FFT.

Only thing I can think of other than confluence is DeMark. There are some methods from Thomas DeMark where he counts bars to find supports and resistances. I think I read somewhere that DeMark came up with these methods to help Big Money trade with minimum impact on the price.

Smart_trade discusses some of DeMark's methods on TJ and TSF.

Reply



SMART Trader [December 28, 2012 at 8:23 PM](#)

Anon

I think TDM systems is applicable to Daily time frame. Not very sure.

ST

Reply

Anonymous [December 30, 2012 at 6:03 PM](#)

That is what Wyckoff called as "Spring". You get detailed analysis of Springs and Upthrusts in Wyckoff Trading Course. It is an excellent place to initiate trade with tight stop loss.

Ofcourse one must be aware of different types of springs, the importance of their location in the trend etc. If you are interested go through Wyckoff trading course

Upthrust is just the opposite of spring.

David Weiss, veteran Wyckoff trader, says one can make a living by trading springs and upthrusts alone.

Hope this helps
R. S. Iyer
Reply



SMART Trader December 30, 2012 at 9:43 PM

Iyer Sir

Thanks

Successful tape reading is a study of Force; it requires ability to judge which side has the greatest pulling power and one must have the courage to go with that side. There are critical points which occur in each swing, just as in the life of a business or individual. At these junctures it seems as though a feather's weight on either side would determine the immediate trend. Anyone who can spot these points has much to win and little to lose: Wyckoff

ST

Reply

Anonymous December 30, 2012 at 10:40 PM

Have you analysed the failure of "spring"? See how many are whipsawed and how many are caught on the wrong footing on that setup. Those who sold earlier breakdown are forced to coverup their shorts on the rise (that is what spring does), then voila!!! price breaks down again, trapping all those who had established long position right at the bottom thinking that this is a false break and it is unsustainable. So on the move down, their stops are triggered. Now you have a great game. Those who were forced to coverup their earlier shorts will think twice and many may be too hesitant to short again. Those who had gone long will be stopped out when price moves down now. Net result is that there may be that short period of time when both these camps hesitate and this short period of time can be used to move price down so swiftly that by the time everyone realises that the true trend is downward, smart money could establish a sizeable short position. Now once the trend is clear, there will be trend followers who will short it further down, adding to the profits of smart money. Did you think about this?

That is why Wyckoff said all springs are not equal. You may not see the above possibility in an uptrend. But you will find many examples of the above situation in downtrend.

May be, this can be another detailed blog entry for you.

Hope this helps
R. S. Iyer
Reply

Anonymous January 2, 2013 at 6:57 PM

Hi ST

This is an excellent point that you have raised. I am very interested in this discussion. I checked your threads on TJ and Indi and I was disappointed by the kind of response there. I request you to make a post about it on BigMikeTrading Forum - <http://www.bigniketradng.com/>

I have been to many forums in the past and this one is THE BEST so far.

If because of any reasons you think you would not like to post this on BMT, then I would ask your permission to allow me to post it there. Although it would be much better if you yourself make this post.

Looking forward to a healthy discussion on this very interesting topic.

Thanks a lot

PS : Your blog is excellent. Very genuine and valid points, no typical bullshit in any way. Thanks for sharing this with us.

Reply



SMART Trader January 2, 2013 at 8:27 PM

Anon

Thanks for the visit and comment.
Please do post it in BMT and share the link. You may post it as such or feel free to post it in a better way.

ST

Reply

Anonymous January 2, 2013 at 10:01 PM

Dear ST

Thanks for the permission.
I have made the thread on your behalf at this link - <http://www.bigniketradng.com/traders-hideout/25114-food-thought.html>

and immediately replies have started to pour in :)

I would request you to have a look, and if possible, then please make some comment as well, as this question originated from you, i simply did the copy paste work.

Thanks again

Reply

Anonymous January 3, 2013 at 2:10 AM

Hi ST

When you get some time, then please suggest a new name for this thread - <http://www.bigniketradings.com/traders-hideout/25114-food-thought.html>

Mike feels that the thread title does not reveals anything about the kind of stuff which is being discussed in that thread, therefor other users will not be able to find it when they search using some Trading Terminology.

Thanks

PS: your participation there would make the thread much better, but if you choose to stay away, then I will not ask you for it again.

Reply

Anonymous January 3, 2013 at 9:05 PM

Hi NT,

As I told previously, I need to change the thread title. I am thinking about renaming it to - "Studying the Reasons for Price Reversal around Liquidity Pools" and also add a few lines about liquidity pools there.

Please let me know what you think about this change, so that I can then go ahead with it.

Thanks

Reply



SMART Trader January 3, 2013 at 9:52 PM

Anon

Please go ahead.
I am following the thread

ST

Reply



goodidea.vishal July 6, 2014 at 11:06 PM

here is good example of Liquidity Pool

Below BRN there is PIN BAR set up

<http://www.nifty nirvana.blogspot.in/2014/07/04072014.html>

thnaks ST

Reply

▼ Replies



SMART Trader July 6, 2014 at 11:21 PM

Vishal

Most of the counter trend moves terminate at liquidity pools
Big Money gets very favourable fills here

ST

Reply

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 - [03122012](#)
 - [November](#) (28)
 - [October](#) (28)
 - [September](#) (27)
 - [August](#) (30)
 - [July](#) (33)
 - [June](#) (33)
 - [May](#) (33)
 - [April](#) (27)
 - [March](#) (31)
 - [February](#) (42)
 - [January](#) (3)