Lesson 6: Equilibrium (Discount and Premium)

Our job as traders/investors is to know when to buy and sell. We don't have to time the top or bottom, but we sure can capture a bulk of the move (trend).

If you want to buy something (go long), you'd like to buy it at a discount and sell it for a premium (make a profit). If you want to sell something (go short), you'd like to sell it a premium and buy it at a discount (make a profit). The market is a place where you can find these opportunities through liquidity. Liquidity gives you the opportunity to buy or sell, equilibrium tells you if it's at a discount or premium.

Equilibrium is the state at which opposing forces are at a balance with one another. For price, this is the fair value where there is no advantage for either buyers or sellers. Our job is to determine the narrative for price (direction and targets), and then determine where we can add our positions and exit.

How To Find Equilibrium

We'll be using the **Fibonacci tool** to find our equilibrium points for our desired-price ranges or what is known as the **dealing range.** Inside this dealing range, we can find our **Price Delivery (PD) Arrays.** These are the lower time frame swing low/high and swing high/low points inside our higher time frame swing high/low or swing low/high point.

- **0.5 is the equilibrium point**
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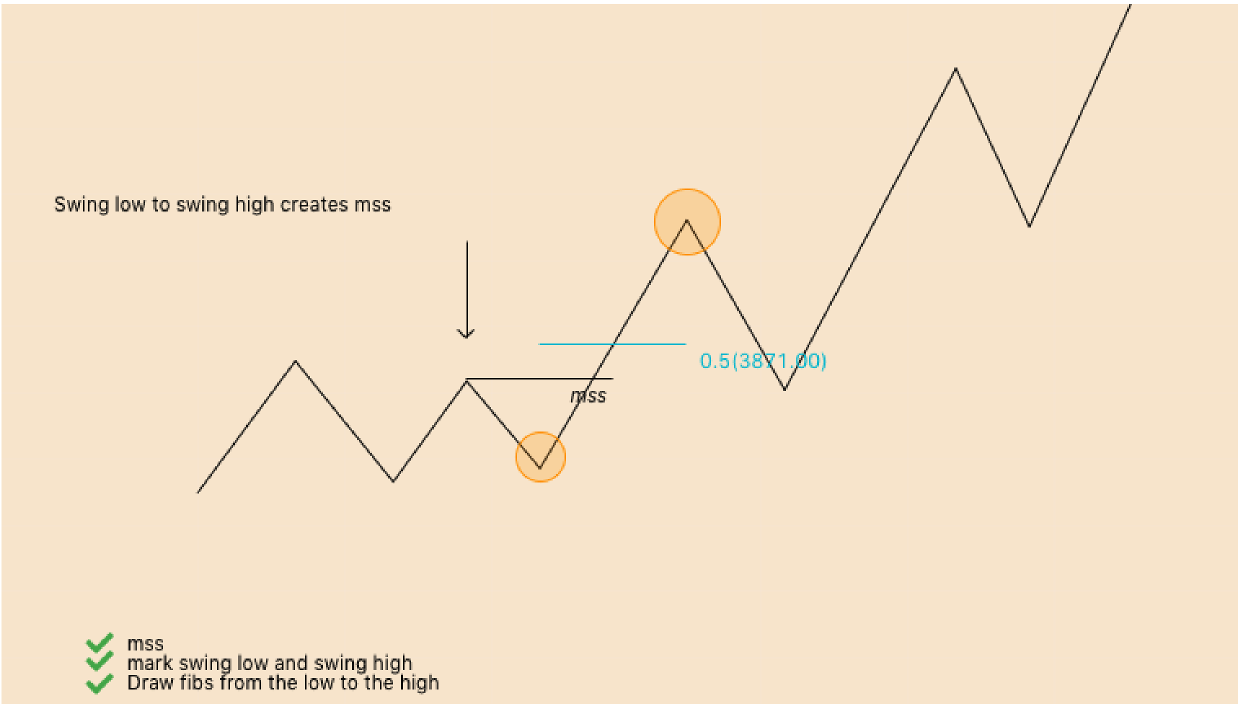
Regardless of the time frame (price and time are both fractal), what you need to find equilibrium, is a swing low/high and a swing high/low point. You **must** also see **mss** between these two points (previous lessons). On one end, you'll pick the swing low/high that starts the displacement and creates the mss. On the other end, you'll pick the swing high/low where displacement ends. Here are some templates of what this looks like.

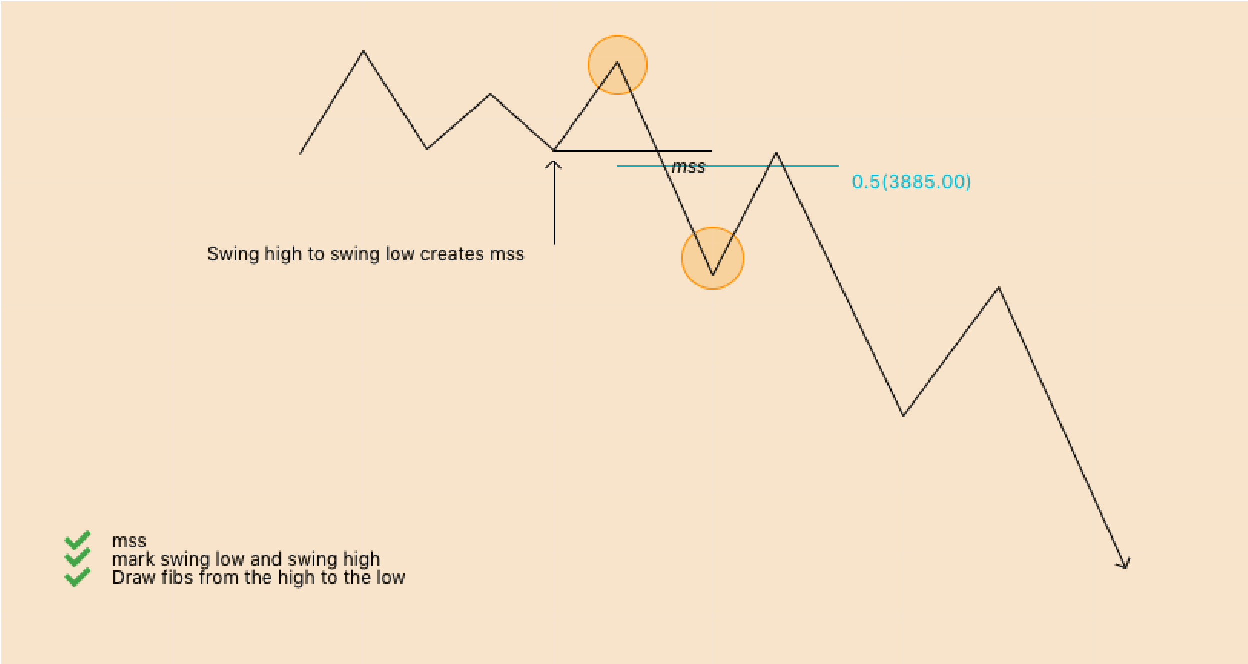
Bullish Scenario Template



→ If you're looking to buy at a discount (want to go long), then you would want the price to retrace back towards the .50 fib area (and below) where you either add inside an FVG or near an OB. The reason for this would be further expecting higher prices.

[Your eyes should be looking for these FVG's and OB's once you get displacement **and** mss.]

Bearish Scenario Template



→ If you're looking to sell something (you want to short), then you would want the price to retrace back to the .50 fib area (or more) where you add inside and FVG or near an OB. The reason for this would be expecting future lower prices.

By letting price pullback into a discount/premium, you are able to mitigate some of the risk while potentially, increasing your reward. This skews the trades overall outcome in your favour if you have correctly read price action.

Using the Fib tool in this manner allows us to do these things:

→ Define the range we are currently dealing with

→ Recognize market structure to support longs or shorts

→ Label this range as either a Bullish PD Array or Bearish PD Array

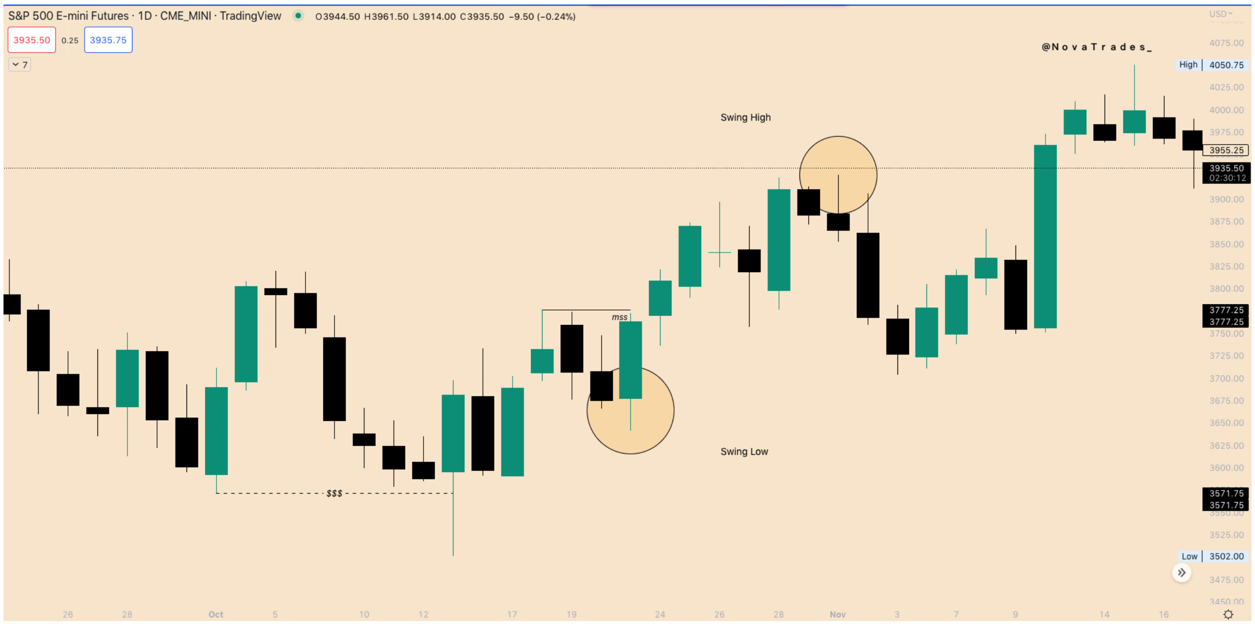
→ KNOW where we would like to enter based on the discount and premium of the PD Array

→ Have defined stops and targets for our position

Examples

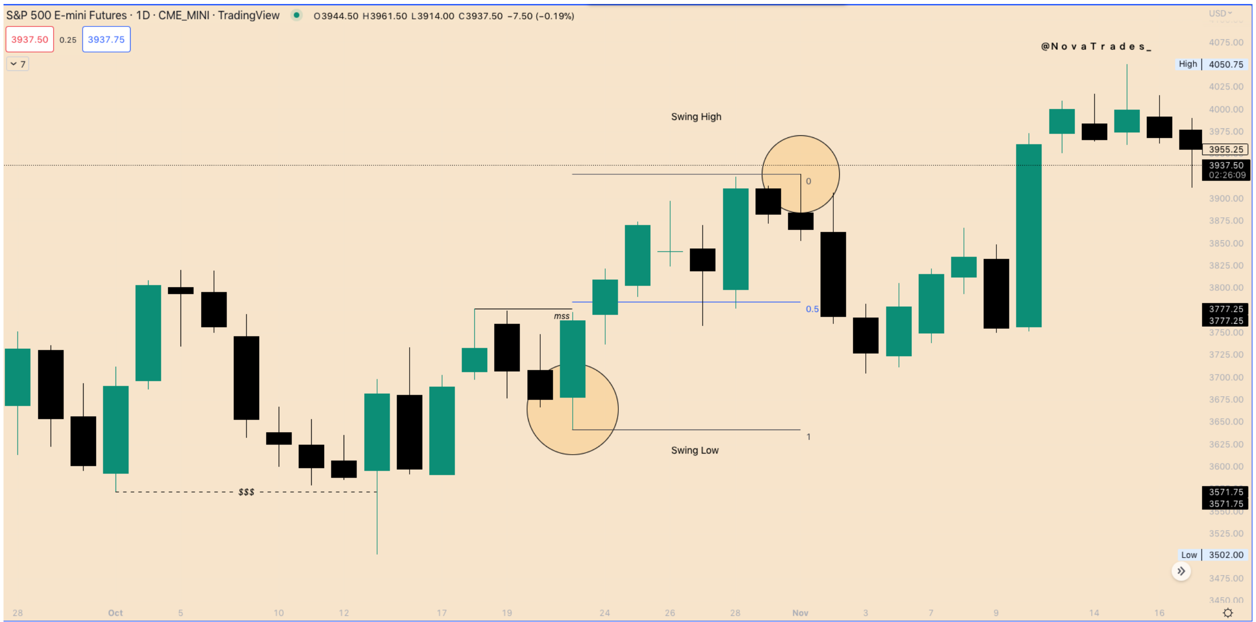
Let's apply the Fib tool to ideas we are familiar with.

Bullish

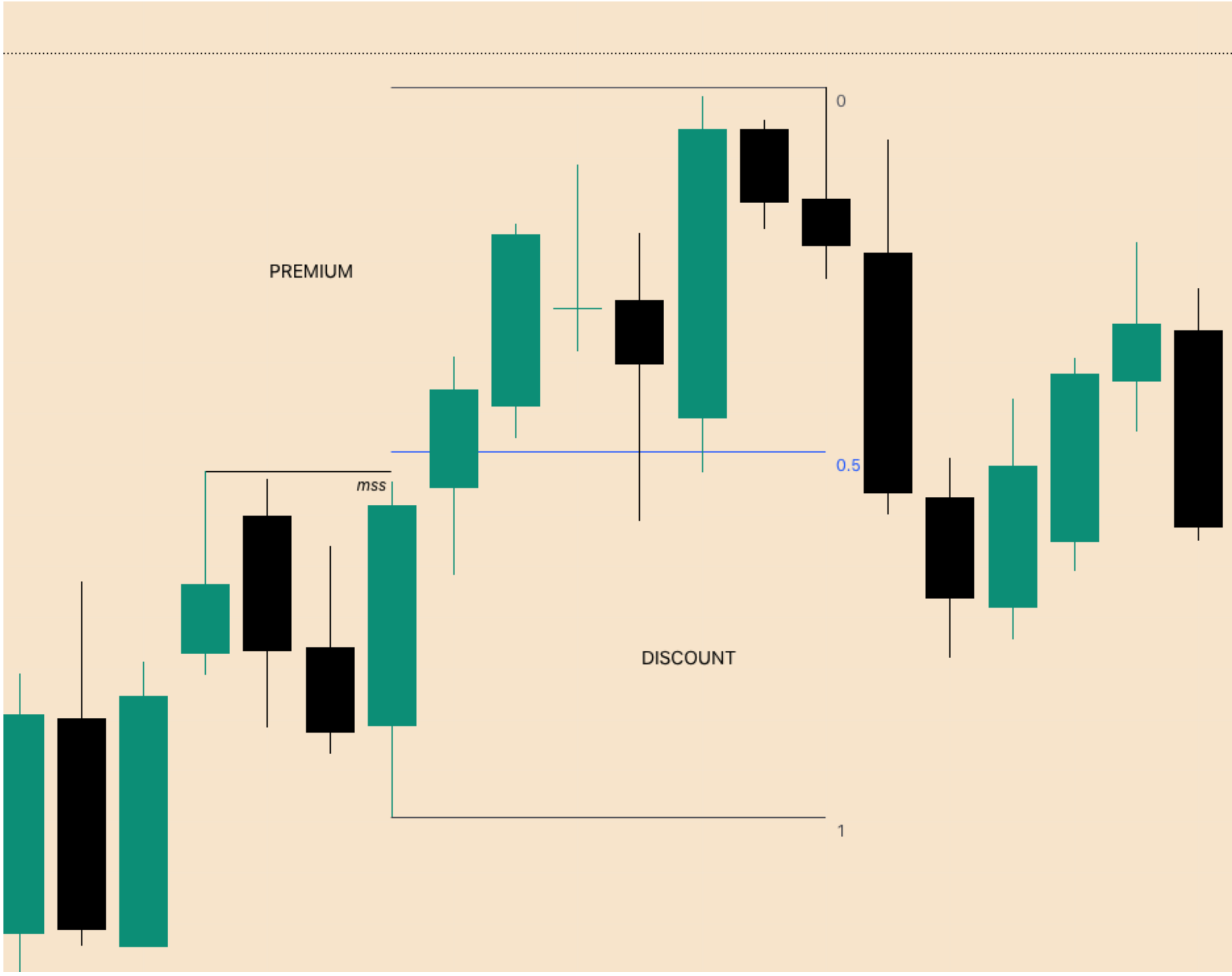


What makes this bullish? From our previous lessons, we have run yearly lows (liquidity). There is a failure to displace down (price takes liquidity), and we end up displacing UP. This creates our mss and gives us some supportive structure to be looking for longs. Our targets will be old swing highs or FVG's (think liquidity).

Now lets add the Fib Tool from the swing low to the swing high:



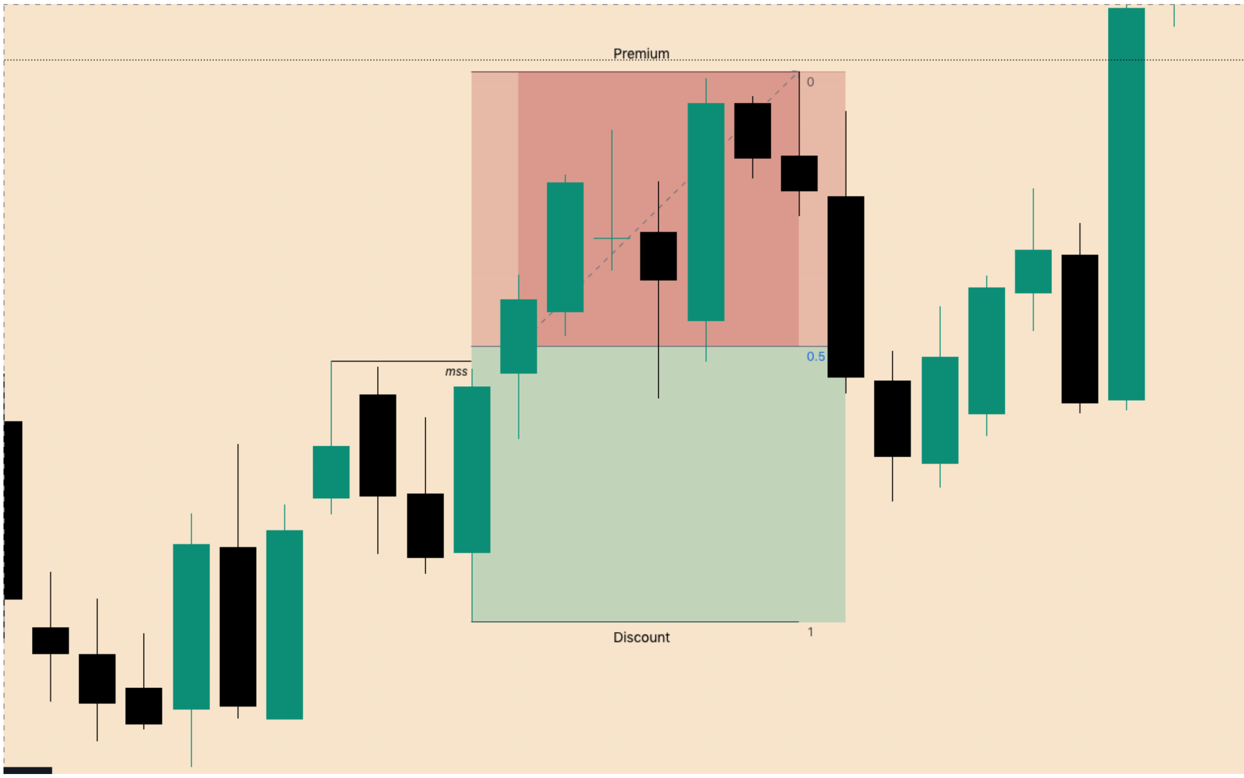
We now have our defined **Bullish PD Array.** We now can define discount and premium, and then our order blocks, FVG’s, stops and targets!



Below the 0.5 → Discount

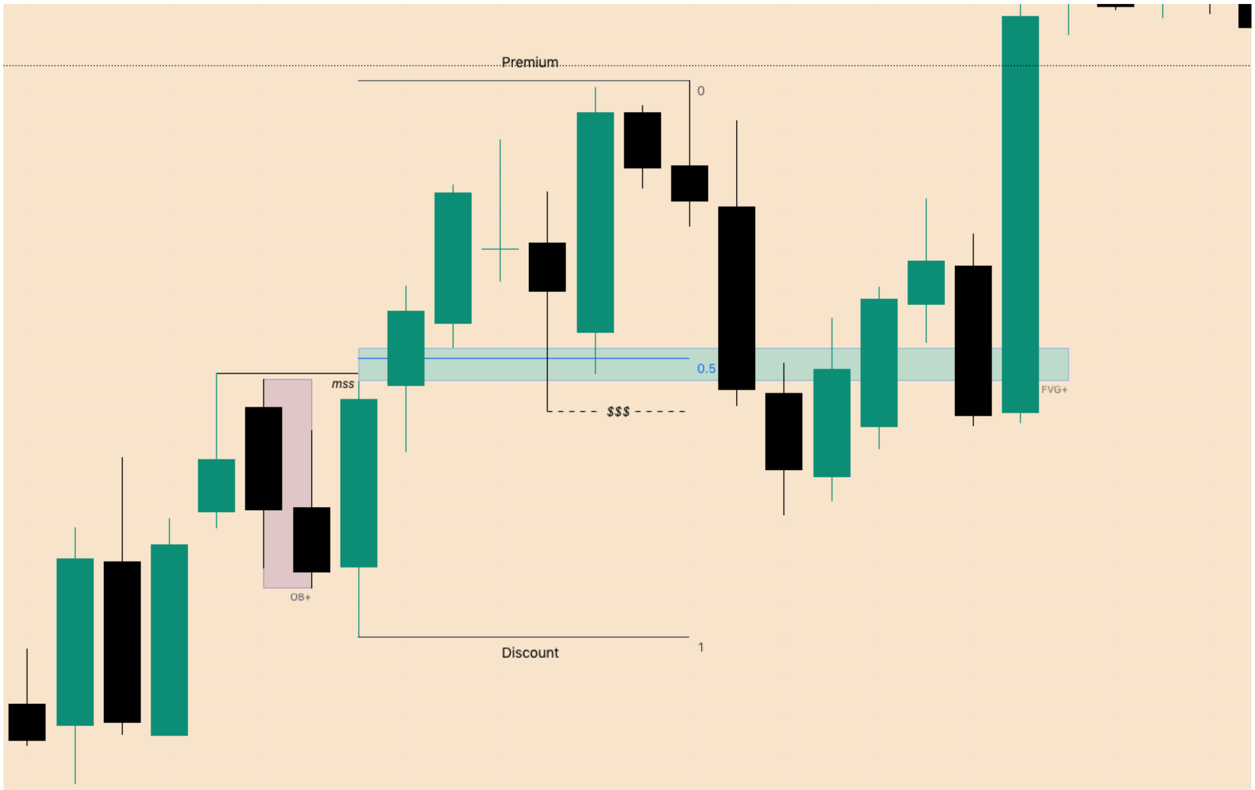
Above the 0.5 → Premium

Another way to illustrate it is using the long/short position tool:



We want to buy in the discount and sell in the premium (or above) our Bullish PD Array.

Now lets add our market structure.



Bullish PD Array with defined market structure.

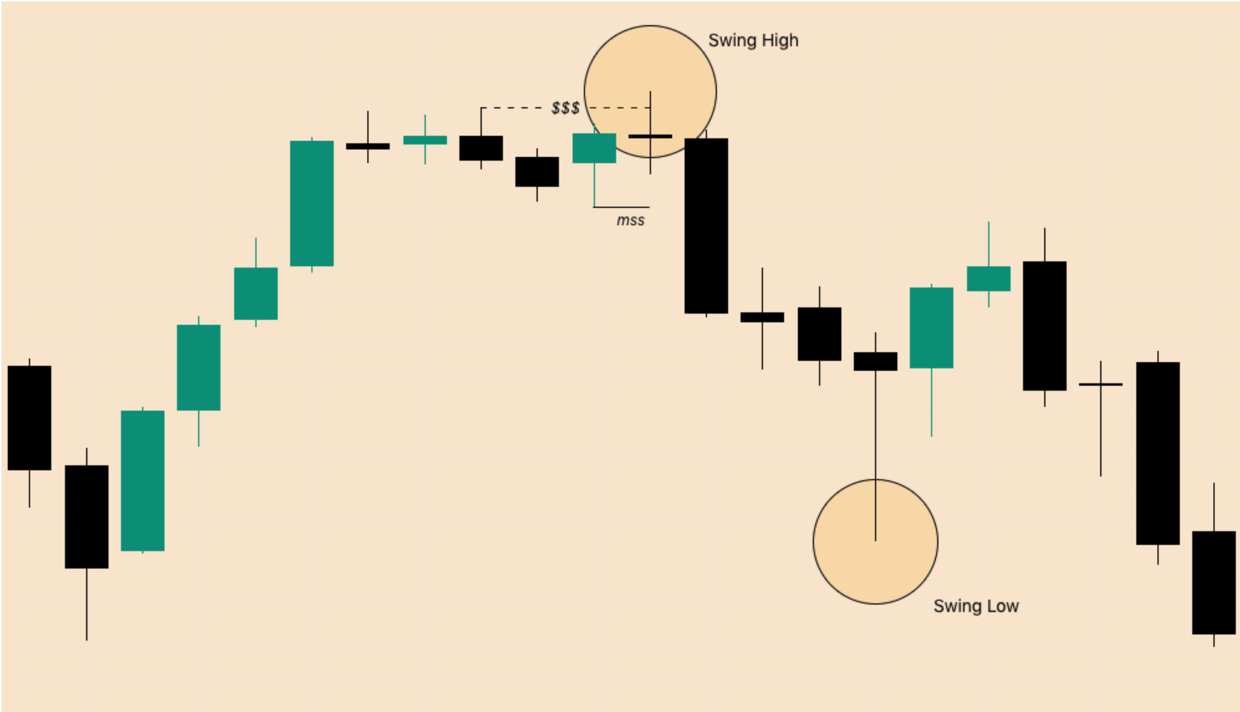
Every time price dropped down into the discount range, it made an attempt to push back up. It took a couple of days, but eventually, it displaces up and away.

The above example shows how price takes internal liquidity ($$$)- liquidity inside our PD Array (between our swing low and swing high - drops into a discount (into our order blocks), and then begins the start of the move up.

You can apply this concept to any time frame - the higher the time frame, the better the odds that is works.

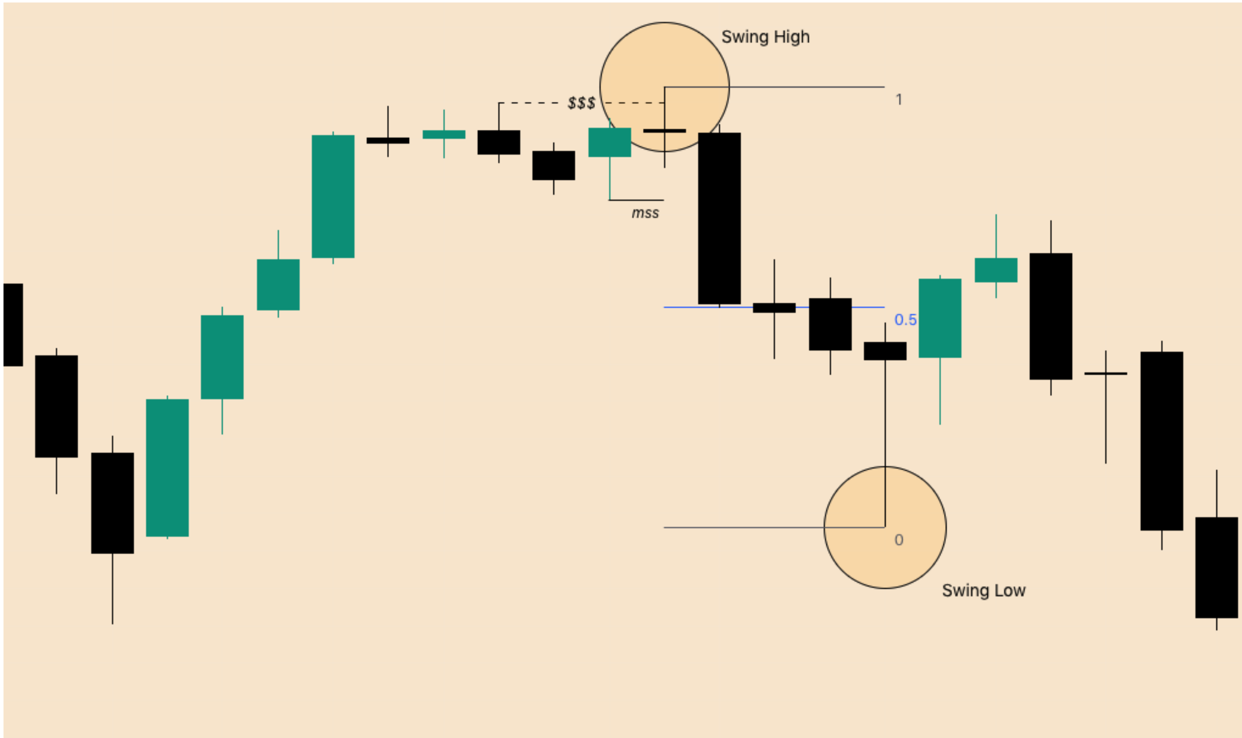
Bearish

Returning to the daily example we have been using during this series, lets label our dealing range - this becomes our **Bearish PD Array.**

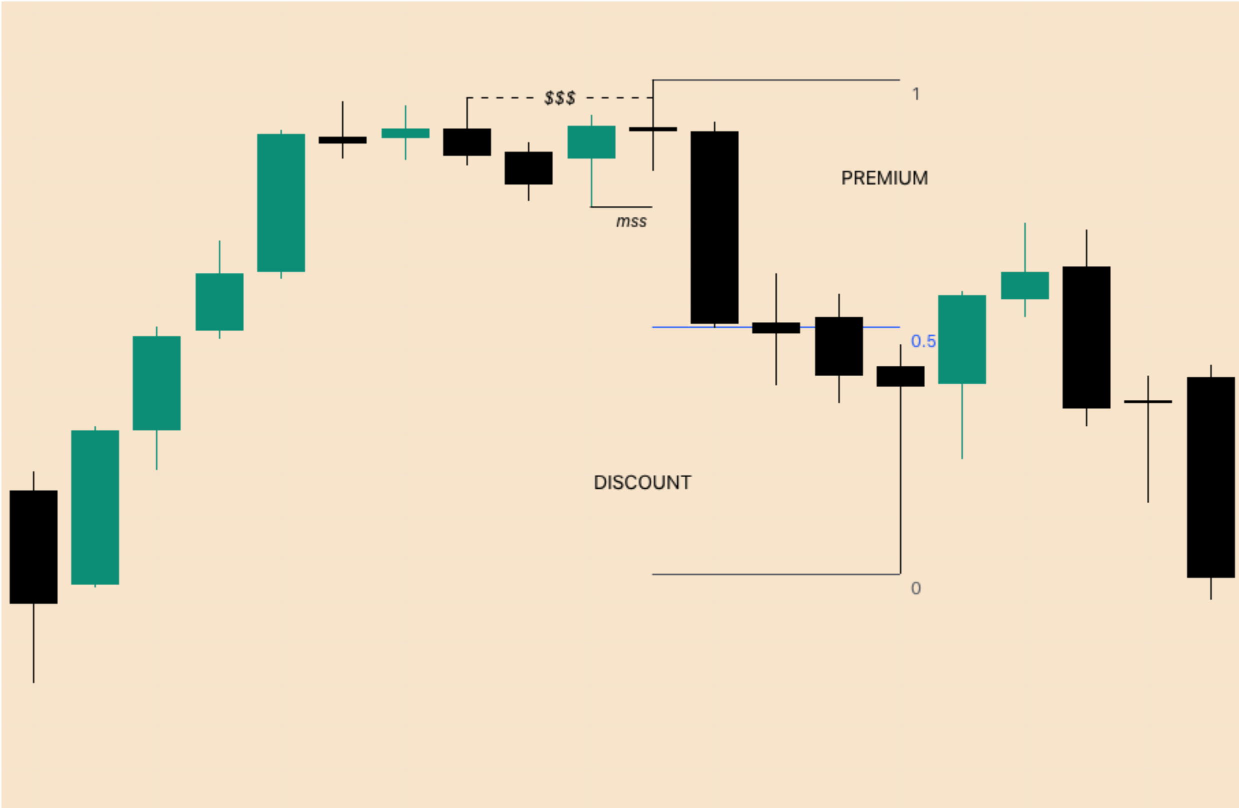


What makes this bearish? From our previous lessons, we have run yearly highs (liquidity). There is a failure to displace up (price takes liquidity), and we end up displacing DOWN. This creates our mss and gives us some supportive structure to be looking for shorts. Our targets will be old swing lows or FVG's (think liquidity).

Now lets add the Fib tool from the swing high to the swing low:



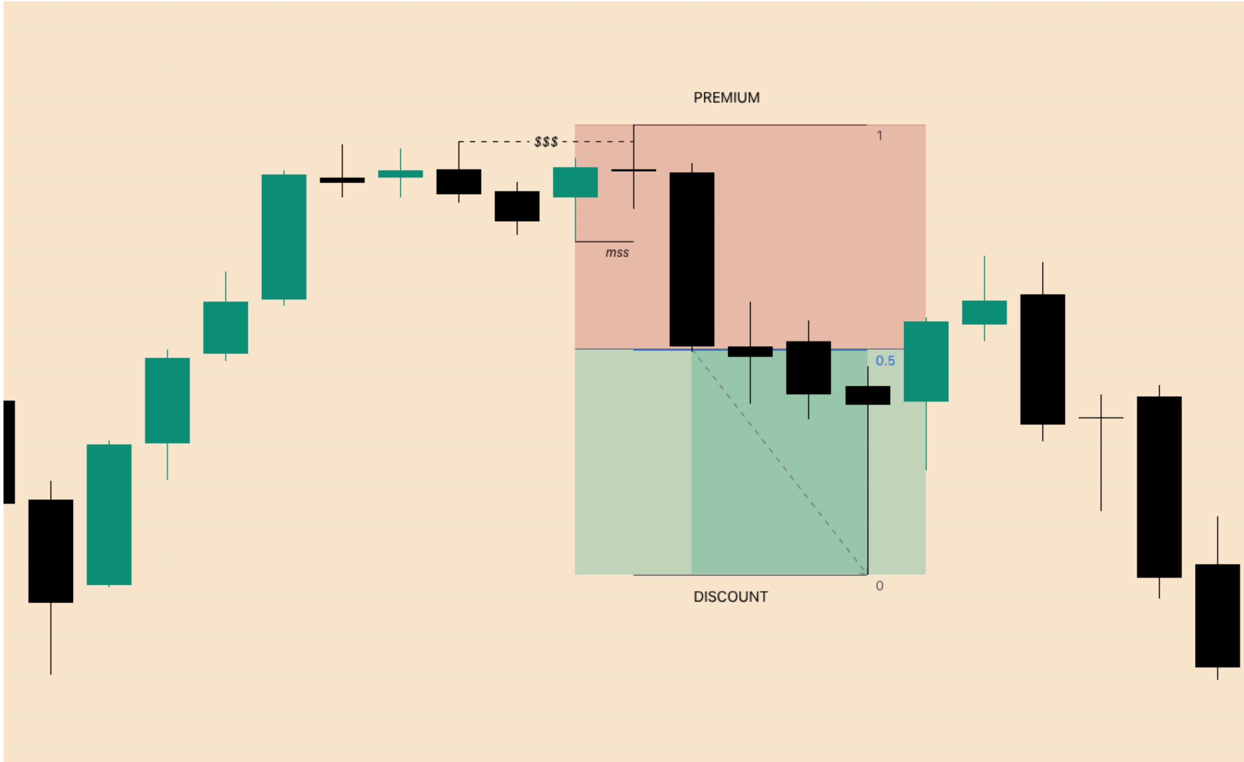
Voila, we now have our defined **Bearish PD Array.** We now can define discount and premium, and then our order blocks, FVG’s, stops and targets!



Below 0.5 → Discount

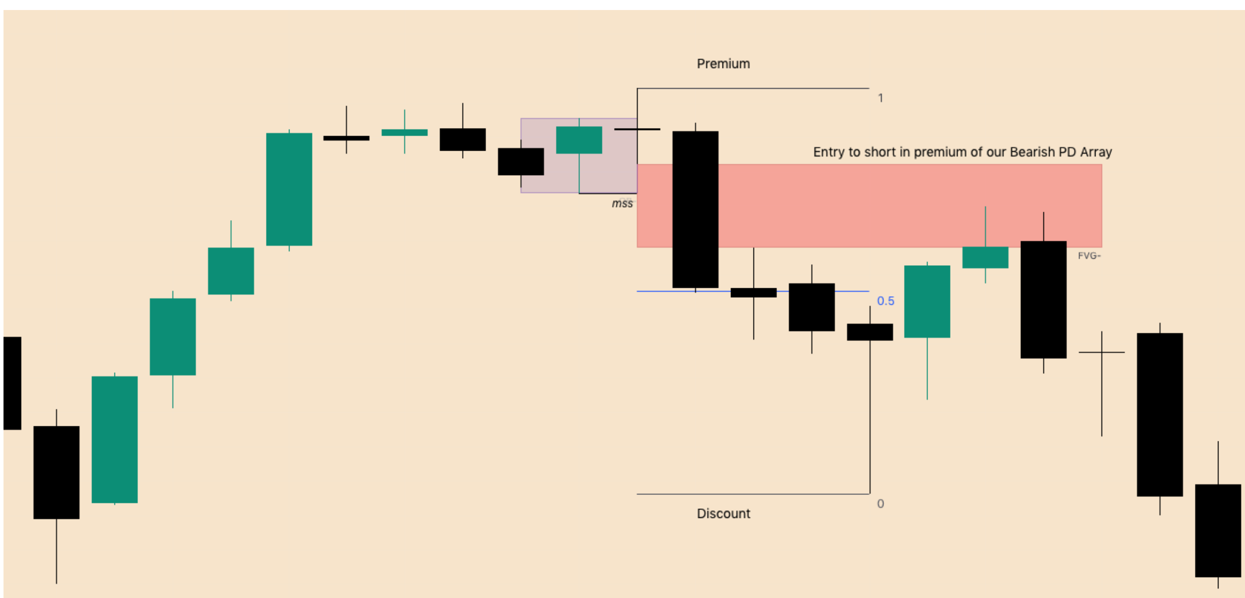
Above 0.5 → Premium

Another way to illustrate it is using the long/short position tool:



We want to sell in the premium and buy in the discount (or further below) to exit our shorts.

Now lets add our market structure.



Price enters our premium range, into our bearish FVG, and immediately begins to move away and displaces down. It takes out the recent swing low and the older swing low outside of our Bearish PD Array.

Our typical targets will be the most recent swing low/high that creates the PD Array and then other swing highs/lows that are outside of the range (external liquidity). External liquidity refers to the liquidity outside of our defined PD arrays.

All of these ideas and concepts are applicable to any time frame!

Summary

The idea now is to use narrative, market structure, and dealing ranges/PD Arrays. We want to either label these as bullish or bearish PD Arrays and then use the idea of discount and premium to give an edge to our entries. Always look for liquidity to be taken, and then our displacement and mss to gives us a sense of direction.