

Lesson 5: Order Blocks

Order Blocks (OB's)

Order blocks are important for trends. When price retraces back into them, price should not break through the body of these candles. If price manages to do that, then price is suggesting it has terminated the current trend or is exhausting itself out. Higher Time Frame (HTF) OB's are of more importance and should always be favoured when looking at the price trend.

These are represented on the chart on any time frame, by a continuous, unbroken series of uptrend or downtrend candles, before an energetic displacement up or down. These series of candles are actually a single order that is placed and being filled. The more candles that are present within an unbroken series, the larger the order is.

Bullish Order Blocks



Bearish Order Blocks



Higher Probability OB's

These occur under the following settings:

- price enters a HTF POI
- liquidity grab
- Displacement, mss, imbalance.

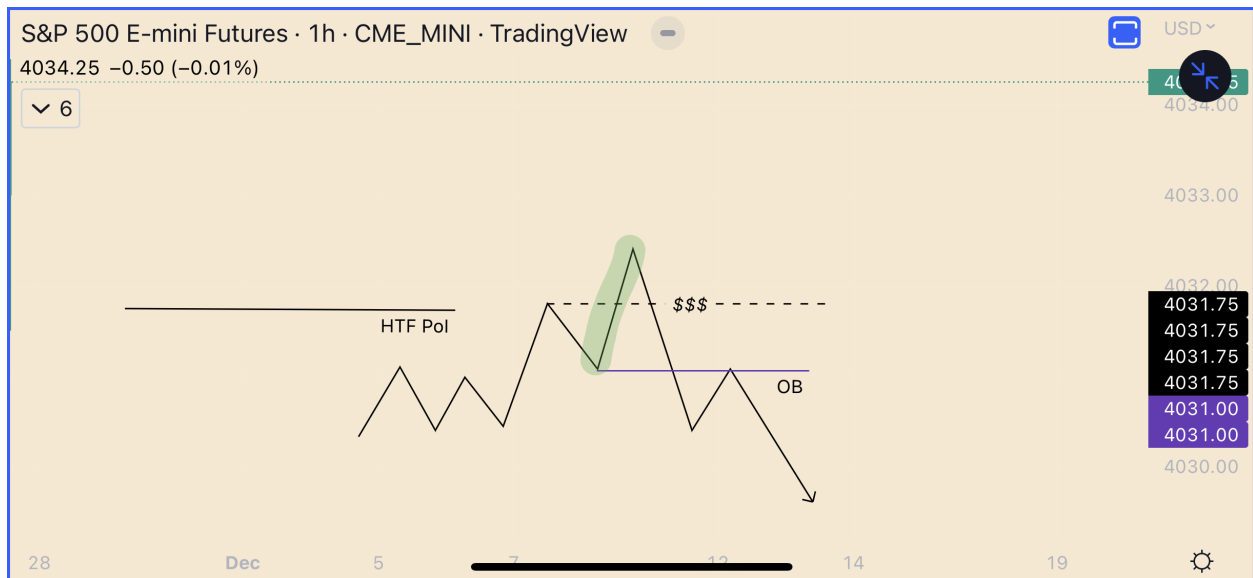
By identifying these points on the trading screen, you will be able to distinguish between trading with the trend/draw on liquidity vs trading against them.

(You'll know when the trade immediately goes green and you panic to take your profits quickly, instead of the common prayer of hope and cusses at the screen).

Bearish OB's

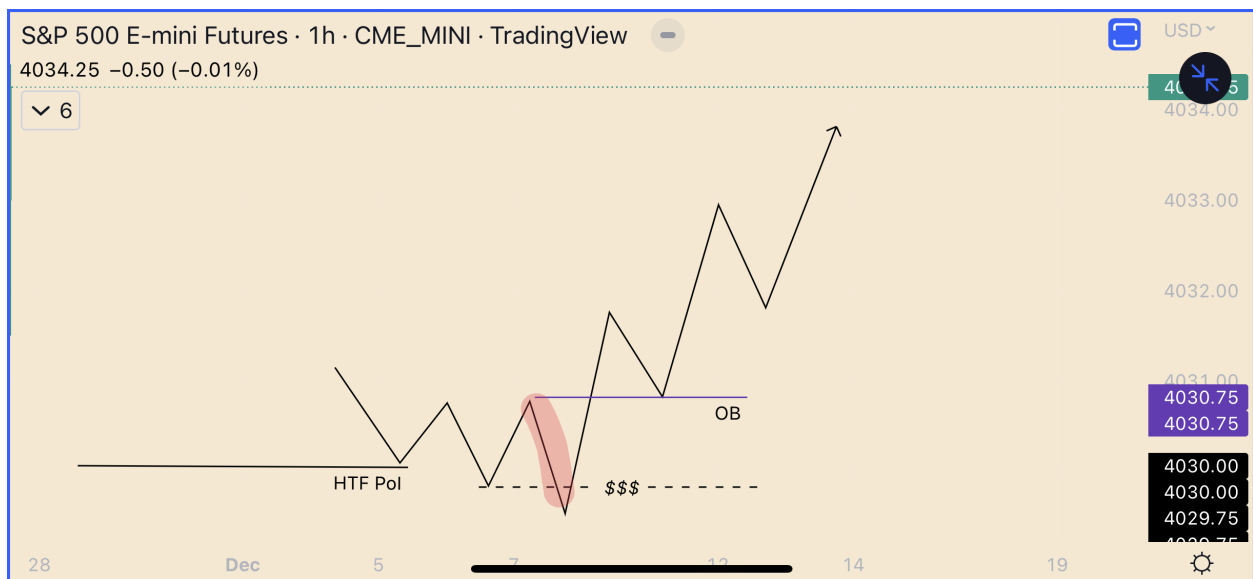
These are the green candles before the displacement and mss down. Here is a general template of what that looks like.

\$\$\$ is liquidity being taken from buy-side.



Bullish OB's

These are the red (I use black) candles before the displacement and mss up. Here is a general template of what that looks like. \$\$\$ is liquidity being taken from sellside.

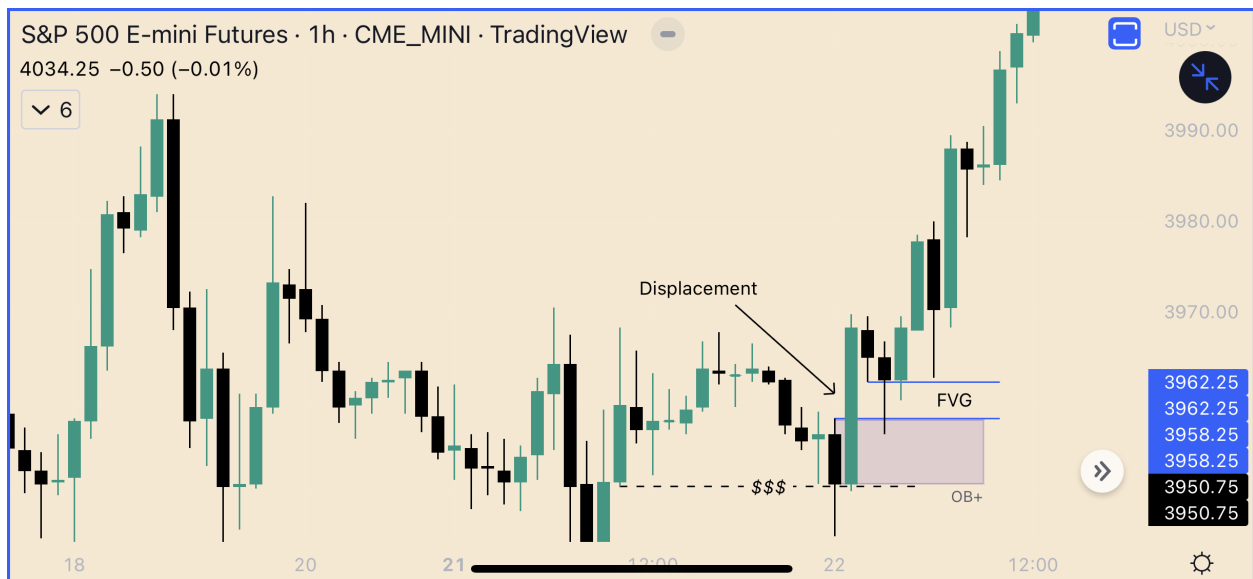


Using Order Blocks to Minimize Risk

The idea is to use OB's as a guide to know where we can enter and/or close our position. They let us define our R for each trade. Let's take a look at some of samples using our higher probability guide for OB's.

Bullish Scenarios

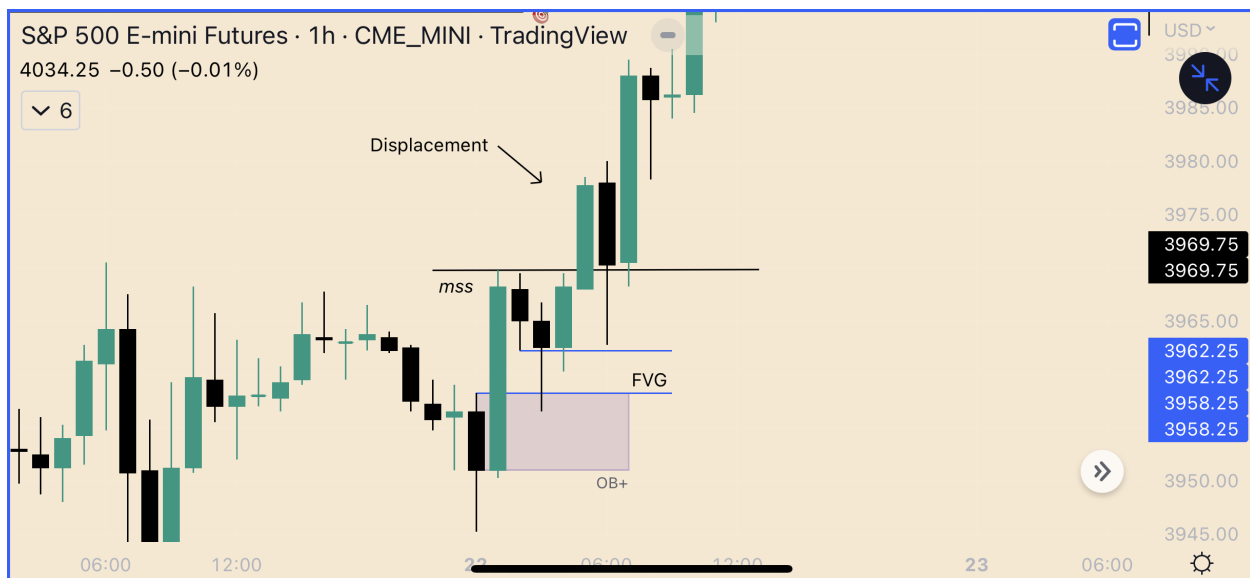
- HTF PoI
- Liquidity
- Displacement + mss



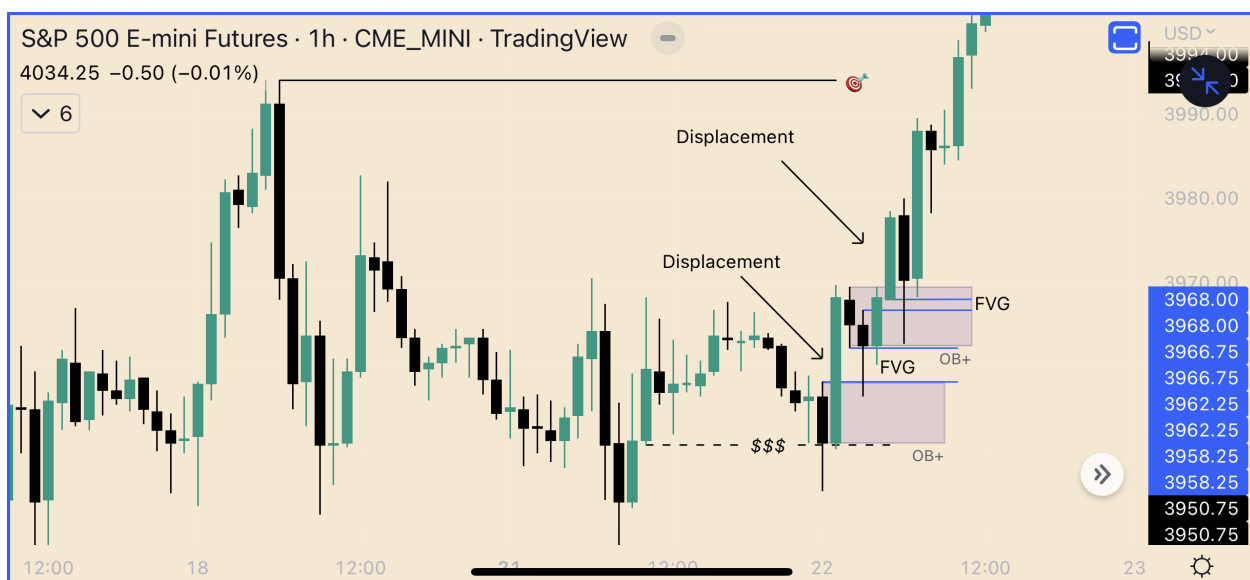
Price runs recent lows and then aggressively displaces up. It creates an imbalance/FVG and leaves behind an OB (demand zone). However, we DON'T have a clear mss just yet.

What should we expect?

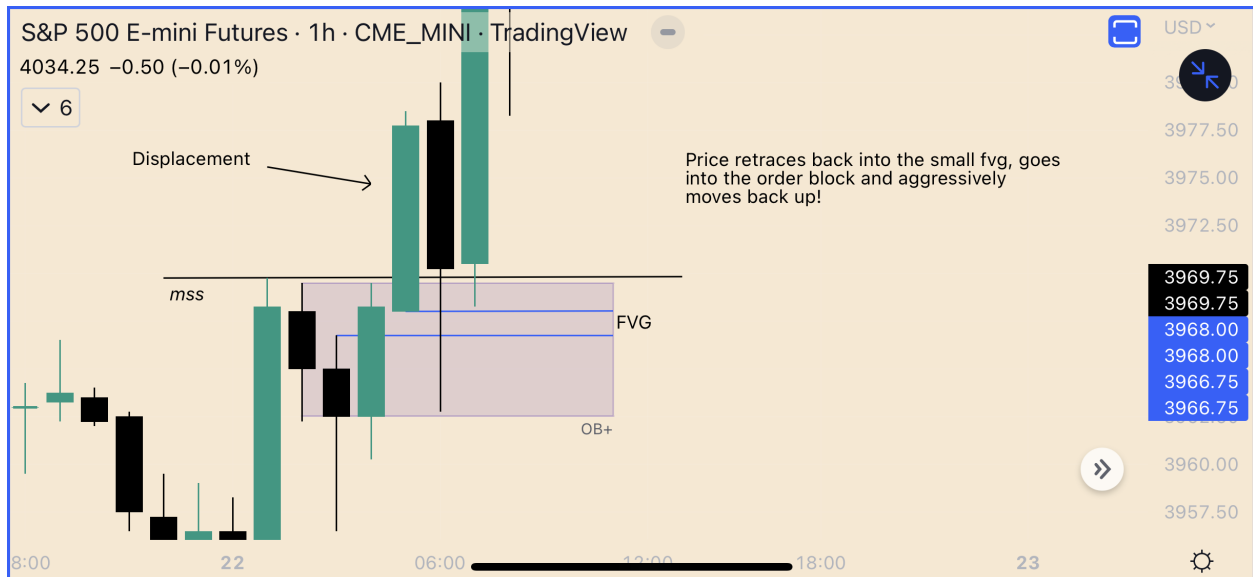
Price to reenter the FVG and/or OB and move aggressively away! This is what happens. Now we have displacement BUT this time WITH mss!



This is our updated structure:



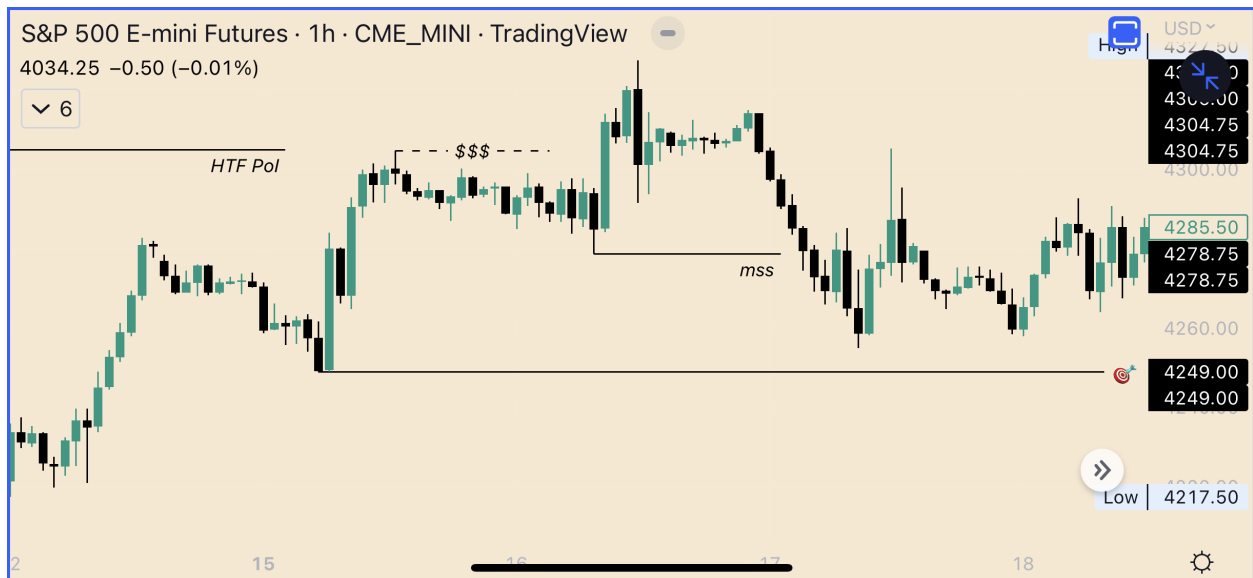
The second displacement leads to the mss we were waiting for. Now we can look to add long in the second set small FVG and/or OB. Price enters the FVG and OB. We take our entry at the OB. Our Stop goes below the lowest OB and we watch for price to aggressively move away from this area to take out our target above!



If you're vigilant, you'll notice that retracements into our FVG's and OB's are becoming future OB's! This is a sign of a bullish trend (a bullish PD Array).

Bearish Scenario

- HTF PoI
- Liquidity
- Displacement + mss



We have our HTF Pol from the daily chart (will review this in future lessons). Price then runs recent highs (\$\$\$) into our HTF Pol. We then have displacement to the downside taking out the recent swing low. This gives us our mss!

These conditions are ideal for our short setup. Now we want to see price retrace back into the imbalances and towards our OB. Where are they?



Price enters our FVG/OB where we will like to enter short. Our stops are indicated on the chart at the last green candle close before the displacement down. Our target is shown below.



Here is the final picture of the entire move. The displacement down from our area to enter short becomes a what? An OB! Look how price to the right enters into the green candle that forms from our area short and fails to break higher (a little more advanced but the same concept - will review shortly in future lessons).

Why do Order Blocks work?

We have to think in terms of liquidity for our structure. We want to see old structure break and then gives us our setup in either the long or short direction. Why? It takes out old 'players' in the game (liquidity) and allows big/smart money to reposition themselves and take advantage of 'easy' liquidity to do so.

Order blocks represent an area of liquidity that has been taken. The resting orders in that area have been filled and we should see price begins to aggressively move away from here. Or it can consolidate and then displace away from here (context matters). The same logic is used for FVG's as they are usually found with order blocks.

Summary/Checklist

HTF POI (future lesson on this)

Liquidity

Displacement

Market Structure Shift

Imbalance/OB/FVG

Target Liquidity