

SUPPLY AND DEMAND

readthemarket

Price Reading

In order to be able to trade the markets, we need to be able to understand why price is where it is, and where it will go to next. The best indicator for all this is Price itself. It holds all the clues you'll ever need to work the market out. We do our trading at levels called Supply and Demand Zones (Video), and we watch Price Action there to give us signs as to the intentions of the big money.

Here's what we look for on the charts:

General: HTF. Know where price is coming from and going to, and the PA past and present in all the TFs, from the Monthly down.

Specific: At the zones you want to trade, look to

Past. study the zone in all TFs, down to M1

ask yourself

Where were the decisions made? Clean S/D? Mark these lines. No clean S/D? – compressed zone

Did price really shoot away from the zone, or did it cp away?

Did the zone itself react at the right place? Look beyond the zone further into the past. See what it reacted to. Was there a better S/D nearby that price wants to visit? This explains many fakeouts. Did price originally react to the RS of a Flag Limit? It can fakeout to true SD of the FL.

Present.

Approach.

How is price returning to the zone?

Where's the nearest flag in the TF you want to trade? This is your tg1 in this TF. Flags in the LTFs? What does PA tell you?

Has price tested the last flag on approach? (good sign)

Has price compressed into the zone in this TF or LTFs? (good sign)

Is there big news on the way? Has there just been big news?

Reaction

In LTF, does price react violently to the first decision point? Does it quickly engulf the nearest S/D? (good sign)

Does price simply CP away? Maybe it wants to go to the next decision point

If the first decision point breaks, watch the signs on approach to the next, and, of course, reaction.

Chew this over for now. Apply it to your chart history. Apply it to as many failed setups as successful ones. Millions of them if possible! Capture and file them all. This will help make it instinctive

Technical Analysis



1) Trends

Technical Analysis contains lots of different aspects and subjects . One of the Topics that we are going to cover here is “Trends”.

What is a Trend?

To keep it simple, say that a trend is really nothing more than a “direction” in which a currency pair is trading.

Type of trends?

If you would ask the majority of the traders what they know about trends, they would probably tell you that there are 3 types of trends; an Uptrend, Downtrend and a Sideways trend. However, there are in reality only 2 types of trends.

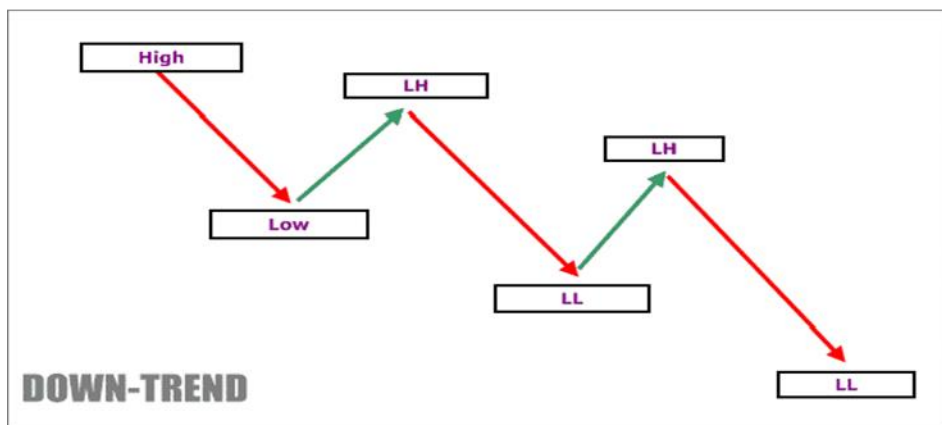
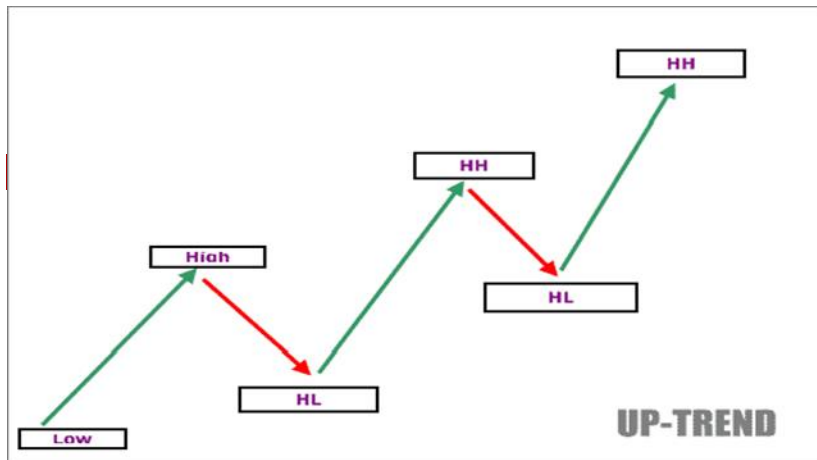
There is an Uptrend and a Downtrend. A “Sideways Trend” really doesn't exist, because even if price moves in a “sideways” range, price is still trading up and down....Also there are only 2 types of orders that can be placed, either a Buy order or a Sell order. There is no sideways order :-)



We can see that on the left side of the picture, price is trending down and that it is trending up on the right side of the picture. When price is trending in either a down or uptrend , it is not trading in a straight line.

If you observe how price tends to move, you will certainly recognize a “repetitive pattern”.

In a Downtrend, price will tend to move down while making Lower Highs (LH) and Lower Lows (LL) and in an Uptrend price will tend to move up while making a serie of Higher Highs (HH) and Higher Lows (HL). So in other words, price would have to make new highs or new lows in order to remain in an up or down trend.

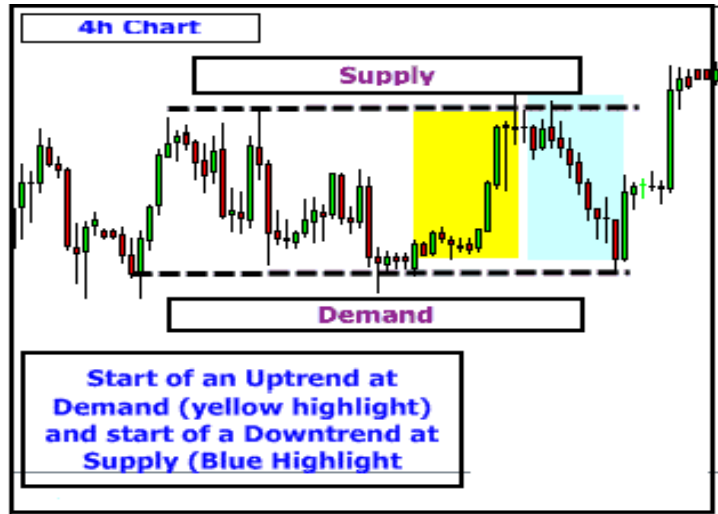


Start of new Trends

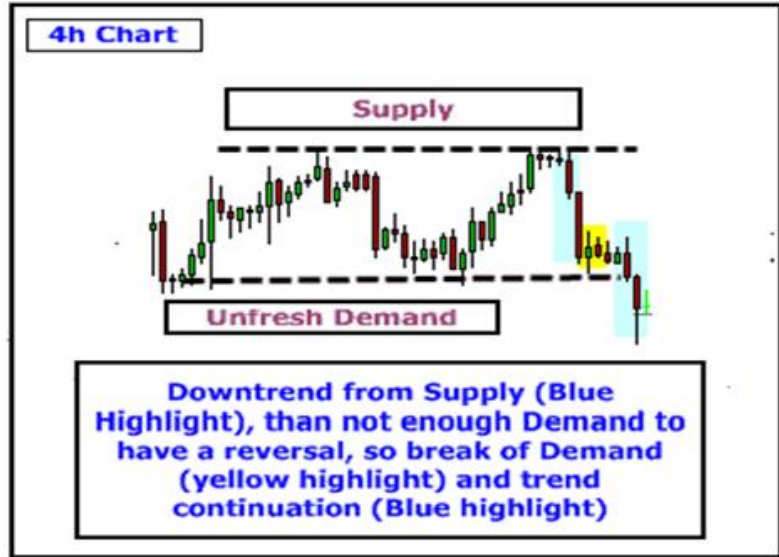
Since we firmly believe in the Supply and Demand dynamics, we expect price reversals or Trends continuations to take place at a significant Higher Timeframe Supply or Demand levels. See [Supply and Demand basics article here](#).

In other words we would expect to see a new Uptrend forming at a significant Demand Level and a new Downtrend at a significant Supply Level.

A Trend Continuation would most of the time occur once an Unfresh Supply or Demand zone would break. See RBR & DBD for more info about breaks of S/D levels.



The following chart is all about the Higher Timeframe (in this case 4h TF) trends at Supply or Demand. You can clearly see price trending up in yellow and down in blue, if you would zoom in, on a LTF, you would see price making HH's in the yellow box and LL's in the blue box.



And the chart below is a representation of an Unfresh Demand Level that got broken, allowing the downtrend to continue. Here again, looking at a LTF such as a 15 min and lower, you would clearly see Lower Highs and Lower Lows in the blue highlighted areas.



End of a Trend

We would expect to see a trend ending when price arrives at a fresh Supply or Demand level. However if the Supply or Demand level isn't Fresh anymore, two things can happen.

- a trend reversal**

- a trend continuation**

There are clues that can help us to determine if a Supply or Demand Level will hold or not but this in itself is whole other topic See S/D or Price Compression.

Looking at HH's/HL's and LH's/LL's can also help us in our Trend analysis. Let's take a Downtrend for an example. We would have been trading down from a significant Higher Timeframe Supply Level, while arriving at an opposite level, in this case a HTF Demand level, we would look at price movement, we would like to see price making a new high aswell as HL's. Note that a Trend is relevant to the Timeframe we are looking at; while on a 4h Chart we may see an Uptrend, when we zoom in at a Lower Timeframe such we may see an opposite trend there



Trendlines

A trendline is a tool that is used to connect the Higher Lows (in an uptrend) or the lower highs (in a downtrend) . This technique will help visualize the current trend and can be used to add “Confluence” to a trade setup.



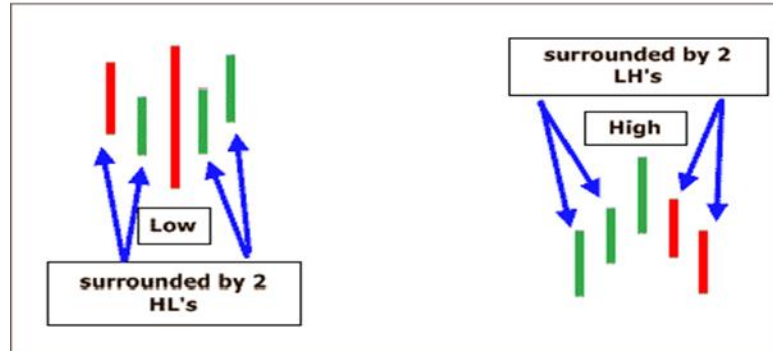
On the first chart, we can see that the trendline got broken once price bounced up from the HTF Demand Level and vice versa for the second chart and the Supply Level.

Drawing Trendlines

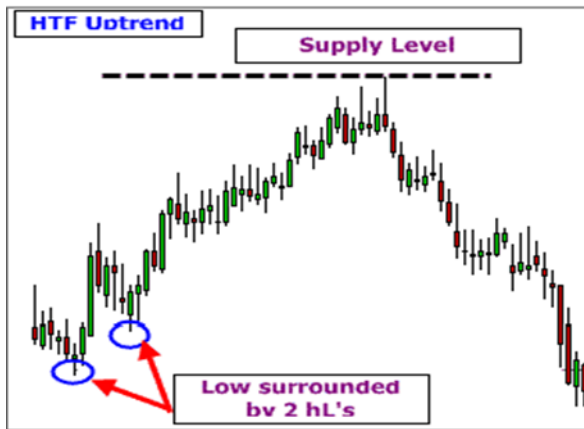
When drawing trendlines, connect the obvious LH's or HL's. In a downtrend, look for a high followed by two lower highs. In an uptrend, look for a low followed by two higher lows.



What is a low surrounded by 2 higher lows?

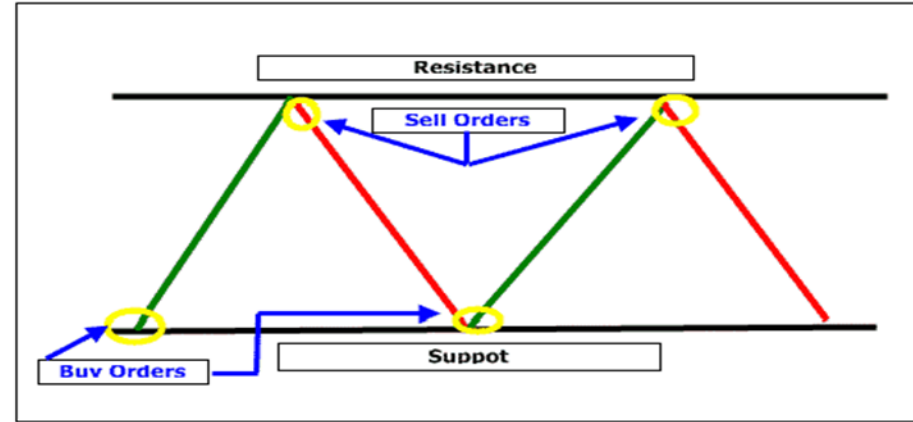


This way we'll be able to pick the quality Highs and lows from the other ones. Look at the charts below... the quality highs and lows are circled, the rest do not qualify since they do not meet the wanted criteria.



What do Support & Resistance look like?

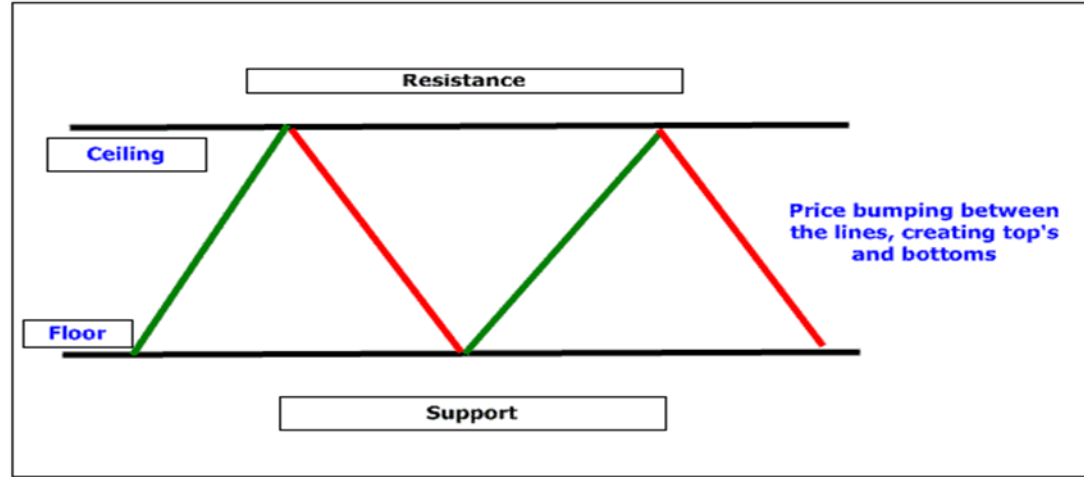
- **2)Support & Resistance**
- Now that we talked about Trends, there is another important subject that we have to cover. In this second part of the Technical Analysis article, we will cover Support & Resistance.
- **What is Support & Resistance?**
- A Support also referred as “floor” and Resistance also referred as “Ceiling” is nothing more than a decision level that first gets tested and then either “accepted” or rejected, thus “broken”.
- When Price bounces from a Support level, it does so because there was much more Buying Pressure than Selling Pressure at that particular point and vice versa for a Resistance level.
- It's as simple as that...



As you can see on the above picture, when price came to test the Resistance level, a decision was made. In this case the decision was that price was too high, forcing price to trade down until it found a Support level.

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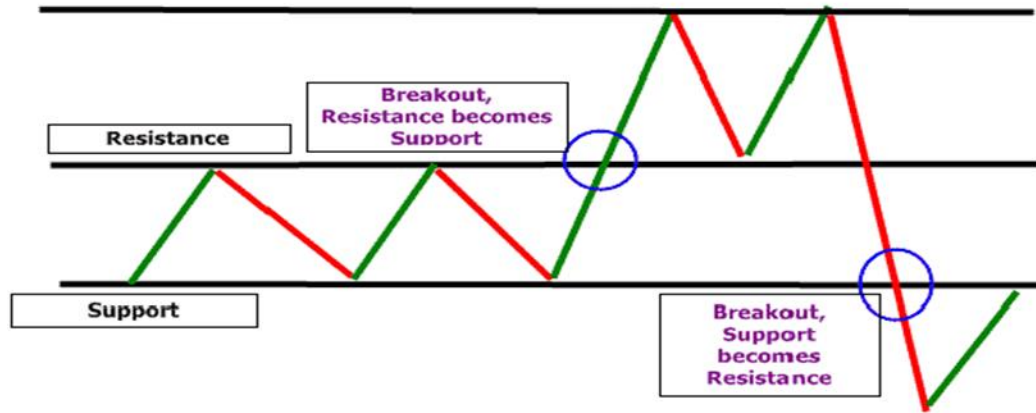
Let's look at the picture below. Look at the “pattern” in which price behaves between and at the lines, It is almost like a bouncing ball that is bouncing from the floor to the ceiling...



Support and Resistance breakout

- ❑ If you search for Support and Resistance on the internet, you will probably find that lots of sources/traders think that the more a Support or Resistance level gets tested, the better...
- ❑ Obviously, this doesn't make sense at all, because every time price comes to test an S/R level, it consumes the Sell/Buy orders at every touch/retest. So sooner or later all the orders will get filled and a breakout will have to take place.
- ❑ When a breakout will happen, Support will often become Resistance/ Resistance will become Support.

When we went over the Trends topic, you learned that in order to have an uptrend, price had to keep on making Higher Highs and Higher Lows and Lower Highs and Lower Lows for a downtrend, Now you will understand that the highs in an uptrend, and the lows in a downtrend, will have to get broken for the trend to continue it's direction.

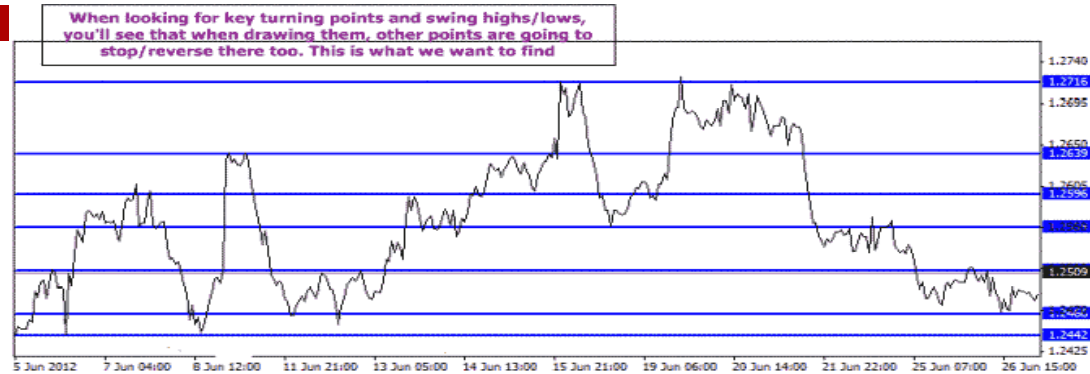


How to draw a Support/Resistance level?

There are really no fixed rules to draw Support and Resistance levels. Often the easiest way to draw a Support/Resistance level, is to use a line chart.

Let's look at a line chart and find some Support and Resistance levels. Looking for Key tops and bottoms with at least 2 touches in order to draw a horizontal line. What we want to find are turning points or swing points and mark them.

Sometimes you will see price arriving at a support or resistance level and trying to break the line, trading above the resistance or below the support and then quickly pulling back and closing under the resistance line or above a support line. This is what is called a “false breakout”, or fakeout. A fakeout happens for different reasons. One of the reasons is that price is looking for liquidity (a stop loss hunt). We are not able to know how many touches a support or resistance can accept, we can only know that it often becomes the opposite once it is clearly broken.



Extra Comments:

- When we get a False Breakout at a support or resistance level, while it's breaking out, it will very often react to a previous decision point.

- A support/resistance area is not totally the same as a Supply or Demand level.

A supply or demand level is an area where the real orders are placed while a support or resistance area is where we can spot the retests of the fresh supply or demand levels. However, we believe that every historical price lines such as Support & Resistance are based on a historical Supply or Demand level.

- Support and Resistance areas can be spotted on any chart and on any timeframe. However, the Higher Timeframes supply and demand zones are much stronger than the Lower Timeframe ones.

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Price Action

Past

- Supply and Demand
- Support and Resistance
- PAZ - Price Action Zones
- Caps on Price - RBD/DBR *
- Flag Limits - DBD/RBR *
- Fail to Return - FTR

Approach

- Compression *
- 3 Drive

Reaction

- Engulf
- Quasimodo *
- Diamond *
- The CanCan *

Supply & Demand

What is Supply and Demand trading?

Goods are bought and sold at what their perceived value is at the time. The same applies for financial instruments, with the expectation that their price will change in the future and will be bought or sold at differing prices, potentially bringing a profit for traders.

Prices adjust according to willing buyers and sellers, in-turn creating supply and demand zones, the sellers represent the amount that is available for sale (supply) while buyers represent the amount available to be bought (demand). It is when there is an imbalance between buyers and sellers that we see a change in price, for example, when there are more willing sellers, price will begin to fall until it finds more buyers and when there are more willing buyers, price will rise until it finds more sellers. Knowing where these areas are on a price chart will give you an edge, and allow you to follow the interests of big/smart money, the real market movers.

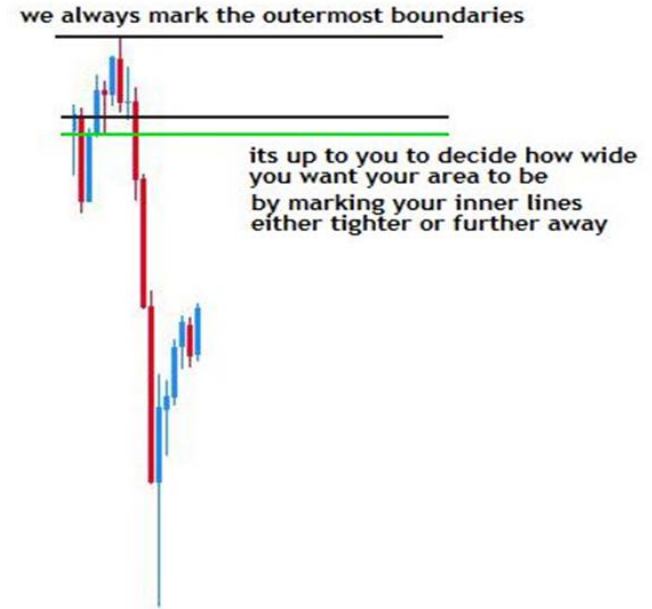
Identifying Supply/Demand zones

First we look at the chart for an area where price strongly shot up from (demand) or dropped away from (supply).



The next step is to mark the base of these moves.

We always mark the outermost limit of a move, marking the inner is a personal preference for each of us depending how loose or tight one wants to keep their zones.



RBD DBR and RBR DBD

As price moves it creates (swing) highs and lows, the extremes of these moves can be marked as “bases”, just like the ones marked above. When bases are created after a “rally” or a “drop” they form a Rally-Base-Drop (RBD) or a Drop-Base-Rally (DBR). Let’s mark some on a chart.



Price can also create small bases along a rally or a drop, these smaller moves are known as Drop-Base-Drops (DBD) and Rally-Base-Rallies (RBR). Let's find some on a chart.



Balance vs. Imbalance

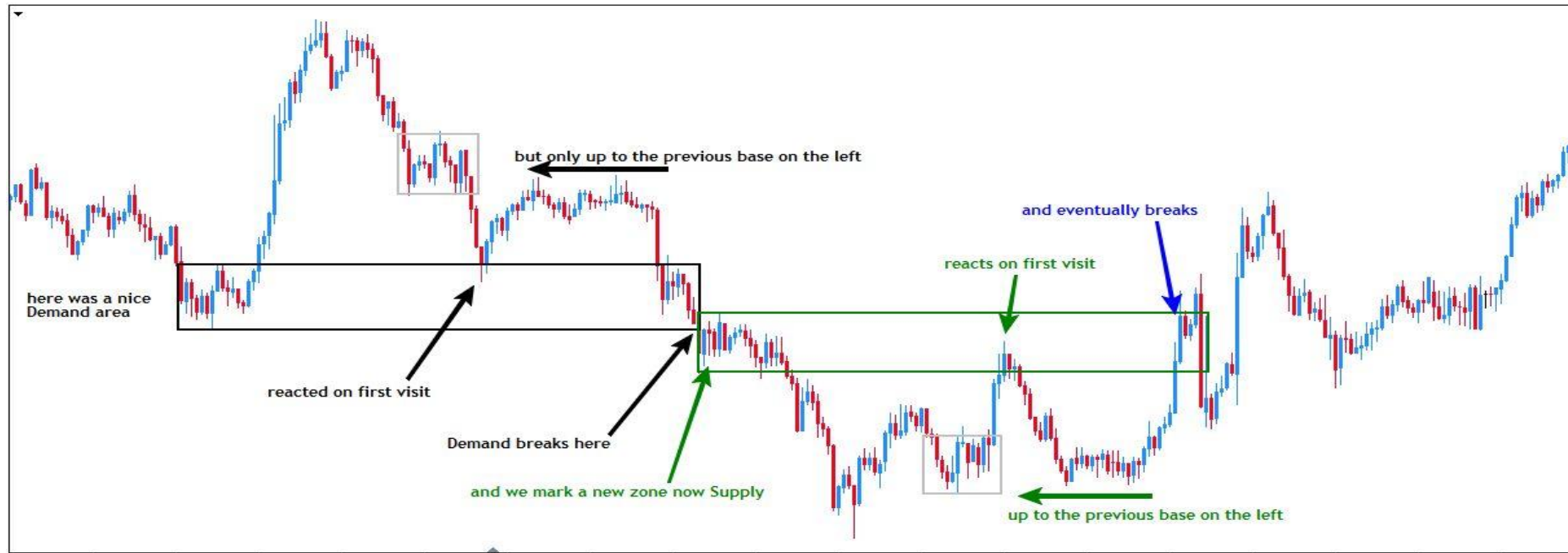
During the formation of a base, we consider price to be in balance. This is because there is not a significant difference in the amount of buy or sell orders in this area thus price doesn't rally or drop as long as this balance exists. For price to start moving in a direction there needs to be more of one type of order (buys or sells) than the other causing price to rally or to drop, it is at this point a base is confirmed and a decision that price was either too cheap or too expensive has been made. When price moves away from a base there are naturally unfilled orders which remain, so when price returns to the base in the future we can expect the remaining orders to be triggered causing a reaction in price. It is this what supply/demand traders try and take advantage of.

When Supply/Demand breaks

After a level is tested many times or during a strong move, Supply and Demand levels eventually break. This can be due to the once remaining orders being triggered and gradually removed, or an overwhelming amount of orders in the opposite direction breaking the level. Orders can even be removed manually by a trader who formed the level.

Every broken supply/demand level holds some significance. Where once were more sell orders (supply) now more buy orders remain/exist, with the opposite applying for demand levels. This means upon return to a broken level, we could see a reaction in price, these levels are often referred to as “swap” levels.

It is at these levels where we can look for conformation to take a trade. This is how the look on a chart:



Part 2: Supply and Demand as reactions to the FTR

Wouldn't it be nice if we were able to trade supply/demand levels knowing when one will hold or when one will break? Well believe it or not we can, because as hard as it may sound supply/demand levels are NOT created equally! There are some that are much more important than others, and some even further beyond important. Most articles on supply/demand will mostly have you read about "reactions" to levels, because that is what is important right? Sure, they are important if all you want to do is look at the far right of your charts and gamble, but what are the supply/demand levels **themselves** reactions to?

Hopefully we have pricked your attention, because this is going to be the first time something as important as this will be covered in a supply/demand article and it is very exciting to be writing about. I can already hear you all screaming; hold on! Supply/demand levels can be reactions to other supply/demand levels! Or Support/Resistance levels! Or MA's and fibs! Please...If you are still using MA's and fibs, let me direct you to our **technical analysis** article.

The truth is; supply/demand are often reactions to the Flag Limit (a RBD or DBR after a break of a high or low). You can read about the **FL here**. It is these levels that are the important ones, the ones that will contain price in a range, and give you the heads up when price is going to change direction. Sure there are other areas and reasons supply/demand forms, just like the ones you yelled at me earlier, but these are lesser important levels, ones that are much more subjected to breaks and fake moves! Knowing the important ones will keep you on the right side of the market at all times.



Here is some help on defining these levels, but remember, to truly understand them you need to find and mark them out for yourselves!

There are plenty of other supply/demand levels which I did not mark, but they would all hold lesser importance than the ones formed after the breaks of highs or low. However, important levels can also break so it is important to monitor these levels for signs of reversals. When they break however, they hold a lot of importance.



You can see from the image above I marked a DBR after a break of the highs to the left of it. This is a level that forms after a break of a high, it's a FTR, and we can expect it to bounce price, but it doesn't, it breaks. The FTR that proceeds is the RBD that is the important one, this is where we want to keenly look for PA.

How to trade Supply and Demand Areas

Conventional supply and demand trading teaches the game of probabilities; by trading enough zones, with a decent enough RR, one should make money. These levels are in general blindly traded with a stop just above, and a target at the next level, this is very often done with limit orders, longing there is a decent enough RR (2:1 is usually good enough).

If a proper plan is in place, this method will make you money, but it is still essentially gambling, and here at RTM we don't gamble. We want to be absolutely sure a level is going to hold, and once we know, we want the very best RR on every trade we take (yes 15:1 can be more common than you think!). By looking for PA in the correct spots, there is no reason you shouldn't be able to get into great trades, with great rewards and very little risk. You can find everything you need to know about PA in the [markepedia](#) section. So get to work, log your progress in the [homework](#) section and join our great community.

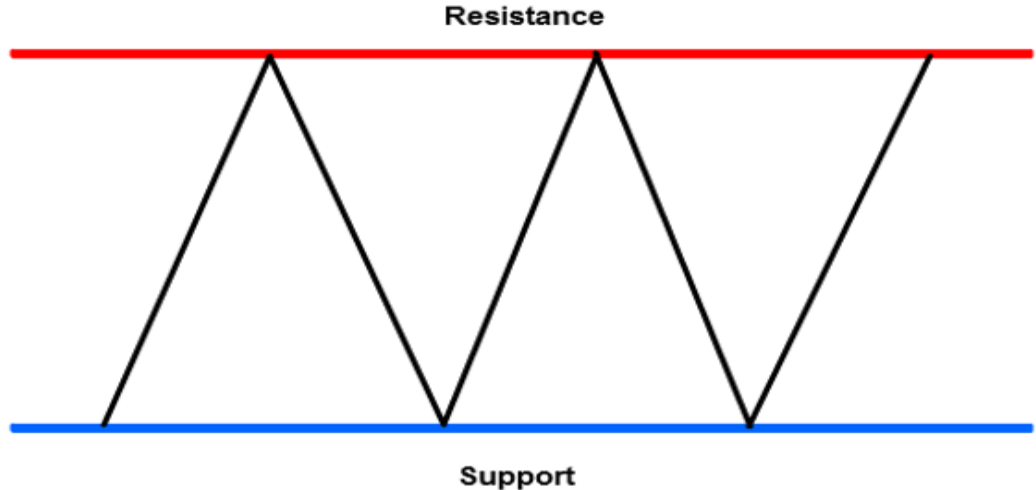


Support and Ressitance

What is Support and Resistance?

As price moves it creates highs and lows, these often provide “support” or “resistance” when price returns. This happens because more orders of one kind are in that area (buy or sells). When no more orders remain in these places, price will go through and we say that the support/resistance level “breaks”.

This is essential for price to move, otherwise it would be trapped inside a range forever. So support and resistance is important as is its breaks.



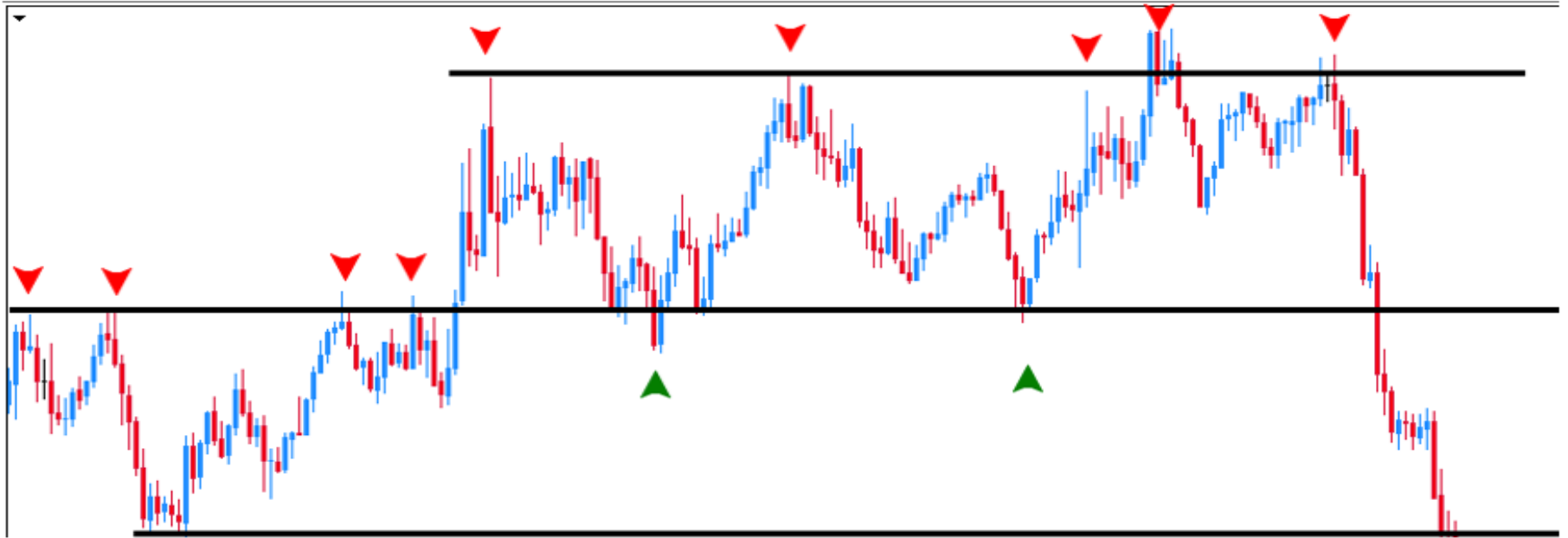
It is a common misconception that the more times price bounces off Support or Resistance then the stronger that level is. Every time price bounces off them a decision is made on price value (if price is cheap or expensive). But as we said price bounces off these places because one type of orders (buys or sells) are more than the other. Each time price visits, it consumes orders. At some point price will go through as there will be no more opposing orders there any more and this is what makes a Support or Resistance level to break.



In a similar way we could draw some more SR lines on that same image.



It is very common for price to break Support and Resistance levels, old highs and lows break as the orders get depleted from them and price moves through. Broken S/R areas will often react on return as now more orders of the opposite kind remain unfilled in these places.



How to find S/R levels?

A common practice is to zoom out like in the chart below so you have a wider picture of the area you look at. Then look for places that price bounced off and mark it with a horizontal line. See how price often respects these lines, then breaks them and when price returns they often get respected again. Support becomes resistance and the opposite.

Of course you will see many times price breaking through and then reversing, often this is called a false break (false breakout, or fakeout are some other names commonly used). The simple reason this happens is because price looks for liquidity and this often happens in these places as traders trade these breakouts from S/R and get trapped, having their stops hit as price “fakes” and moves in the other direction.



Price Action Zones – The last piece of the puzzle

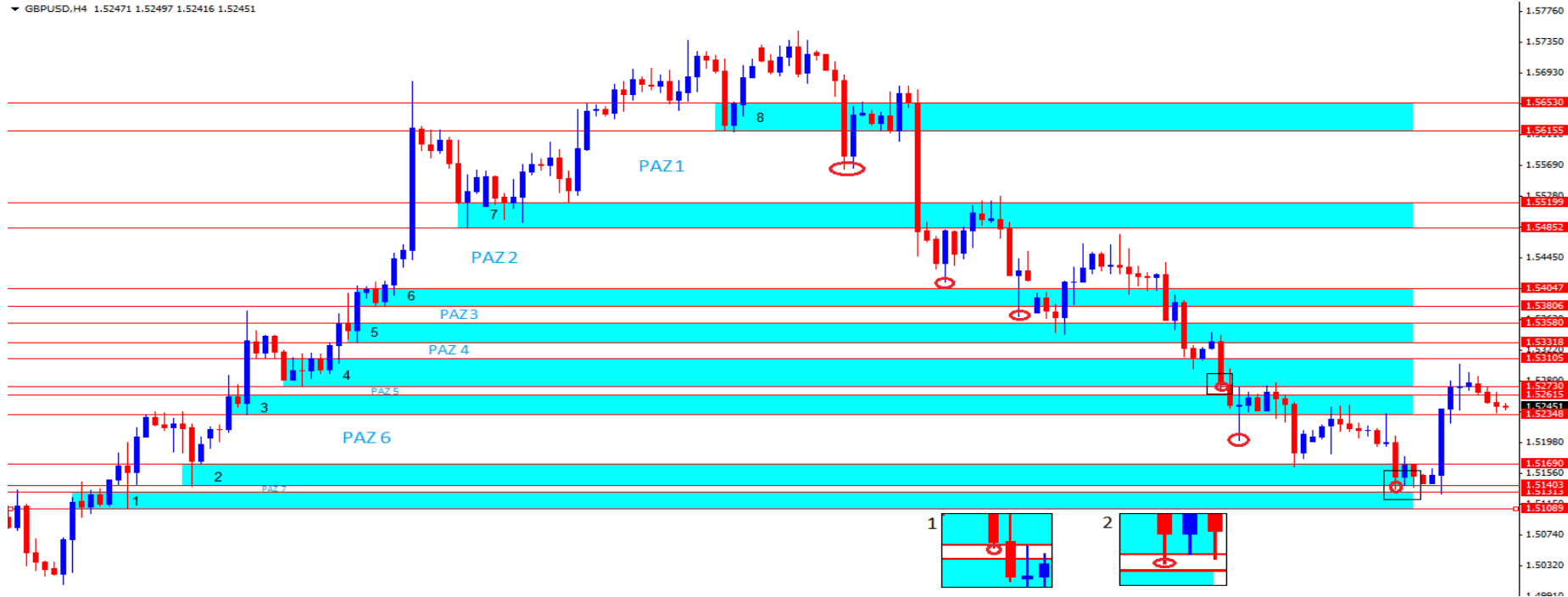
Every candle on the chart is part of a PAZ of one form or another and knowing where price is in relation to these zones gives us a massive edge on the markets. Up until now, we have been taught nearly everything we need to know to be successful traders, PAZs really are the last piece of the puzzle.


So let's get started!

So what is a Price Action Zone? A PAZ is exactly what it says; it's a zone on your charts that show a distinct type of Price Action! These distinct zones include poles, flags, stacked supply/demand and compression. Once we are able to accurately determine where these zones are, there is one rule. **ONLY** trade the edges!



Response	Percentage
Yes	78%
No	21%





You can see in the above chart I have marked off 8 FTR's as price climbed up, between each one of these FTR we have a PAZ. So we have 7 PAZs. Simple as. Once price breaks into a PAZ (engulfs a FTR) we know it wants to go to the other side of the zone (the next FTR). So let's look what happens on the way back down.

- \$1• FTR 8 gets engulfed, price has now gotten into PAZ 1. Price retraces then goes to FTR 7
- \$1• FTR 7 gets engulfed, price has now gotten into PAZ 2. Price retraces then goes to FTR 6
- \$1• FTR 6 gets engulfed, price has now gotten into PAZ 3. Price retraces then goes to FTR 5
- \$1• FTR 5 eventually gets engulfed and gets into PAZ 4 and follows through to engulf FTR 4 and FTR 3 and gets into PAZ 6. Price retraces before going to FTR 2
- \$1• FTR 2 gets engulfed (see insert 2). Price retraces then goes to FTR 1



Caps - RBD/DBR

When price makes a rally with a strong pole up (this whole lesson works vice versa for poles etc down), there's sure to be some profit taking by the institutions, allowing price to drop back into the pole.

Price will very often flag at the top of the pole, as the institutions either begin to add long positions to take price higher, or begin to hide short positions to turn price.

To understand the break of a flag, be aware of Order Flow and Liquidity gaps



This article deals with the latter scenario; price rising (rally), flagging (base), and then dropping (drop!)

The flag was a way for the institutions to keep retail traders buying in the expectation of an advance in price, giving them lots of orders to sell against.



Seen in a slightly higher timeframe, this is a very uniform cap on price, and in every TF there's a really strong pole moving down from it



The cap price is obviously way too high, so when price returns to it, the sellers are waiting.

There are often other signs that a cap will hold, such as the engulf in the chart above, or compression on approach

Caps are simply excellent places to look for price to turn!



Here's a video on Price Caps

□ <http://youtu.be/469ZS2YxjhE>

Homework:

Mark at least 200 caps on your charts - there are so many to see that it won't take long.

Draw a box from the cap to where price hit it later. Note how price approached the caps, and how it reacted. If price broke the cap, note what happened next. Was the cap still relevant?



Flag Limits



Price spends more time in consolidation ranges than moving and trending.

Until recently i would wait 'til price breaks out of these ranges and i would wait for a retest of the break.

But these ranges are tradeable, so why not benefit?

A few months back Ifmyante posted an image of a BEFL and he said price should bounce at this area and he pointed at a DBD hiccup in the way down.

I said i have noticed a lot of these and asked what is the name, he said "we don't have a name for it, just a decision point".

I told him "i think i found me some new homework, i'll go find many examples of it and report back."

I guess this is it now.

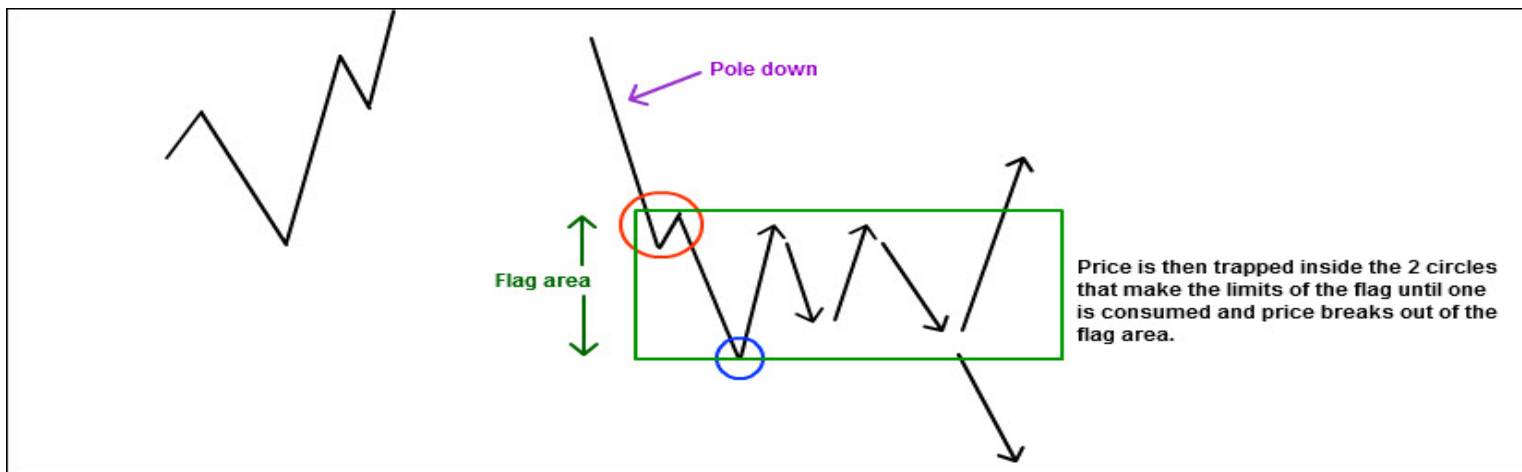
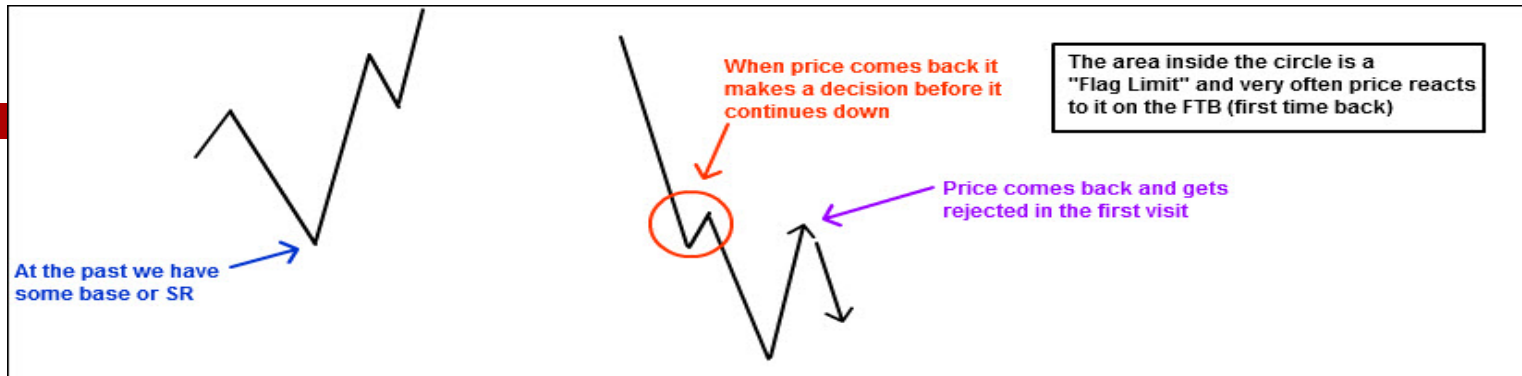
So here is a short article of what is a "Flag Limit" since it is widely used lately. It should help avoid confusion.

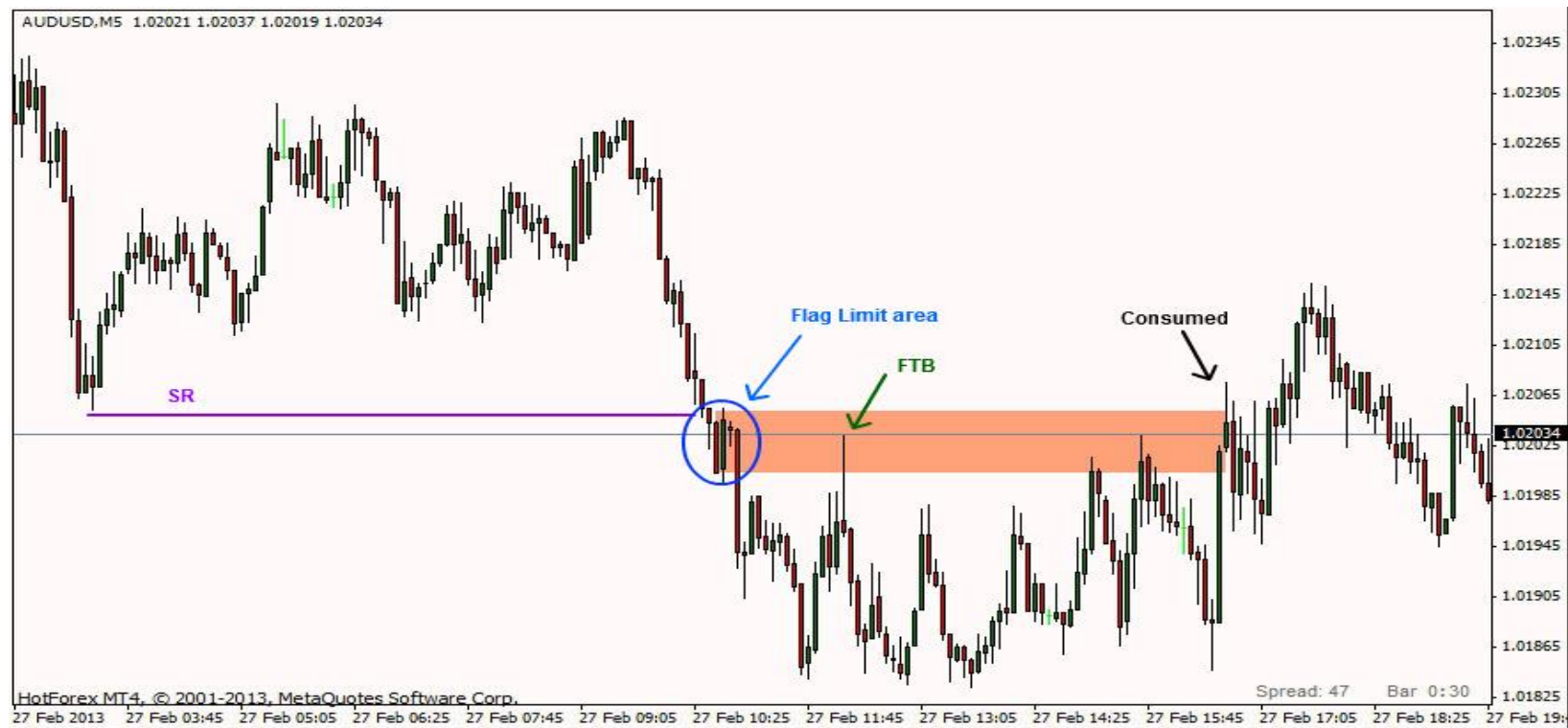
As Ifmyante said a while back : "If there's an area of indecision, it manifests itself as a flag. The limits of this flag then become the new zones."

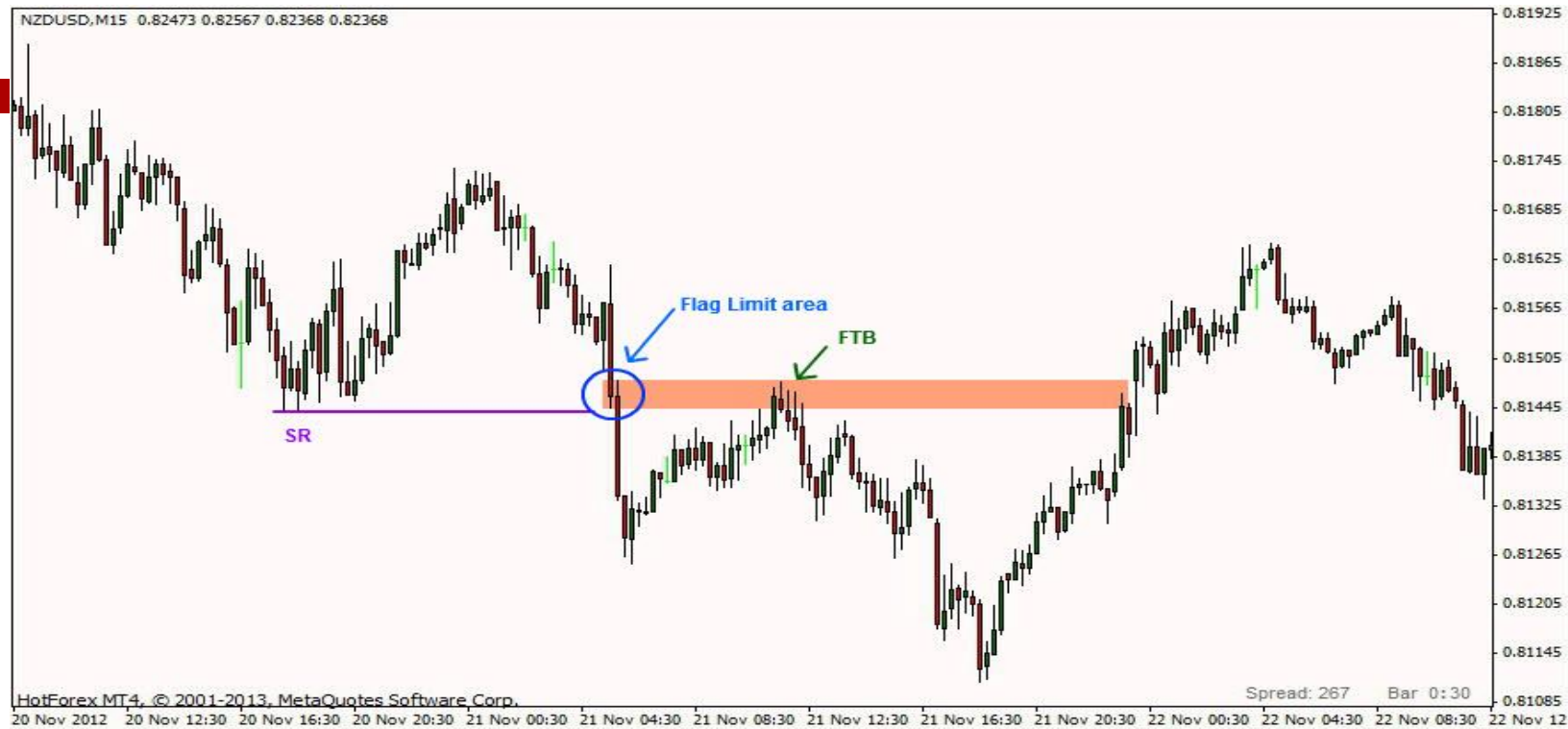
He also said that "the Flag Limit represents the end of the momentum".

All credit goes to him, for bringing it to my attention.

Some graphic representations to simplify things before we go on real examples.











Some of course are more messy than others, the trick here is to take the best shaped and clear ones.

The whole Flag area has a lot more plays than the FTB alone.

Its your job, if you like, to take this basic setup and expand on it.

I don't list any other plays here because it will only confuse you for now and miss the basic point.

Discussion will continue in your blogs, if you have questions post in the school room.

Best of luck to everyone.

FTR

1. Introduction

Before solving the puzzle of price action and before being able to read it successfully, one must discover and understand the individual pieces the puzzle is made of. After all, every eye-catching building is made of individual bricks and stones. For most of us at RTM, the beauty of price action is just as stunning a structure as the cathedral of Chartres or Sagrada Familia in Barcelona. The only difference is that bricks and stones of real buildings are represented by price caps, FTRs, engulfs, fakeouts, quasimodos, diamonds etc. Of the building blocks of the price structure nothing is more important than engulfs and FTRs!

In my article I am going to explain one of the two most important pieces of price action – FTR. Together we will explore what it looks like, where it can be found and what is its role in the structure of price action.

FTR must be learned properly before one can advance further. Please take your time, don't rush; learning price action is an amazing journey, so enjoy it.

2. What is FTR?

So, what actually is FTR? FTR means 'Failure to Return'. But wait... Who wants to return? Where do they want to return? And why on earth do they fail?

These three important questions must be answered, so let's do it.

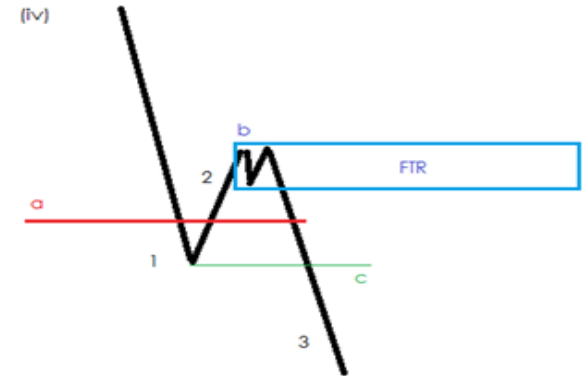
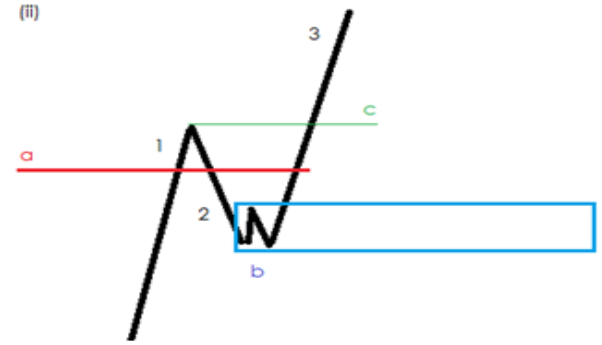
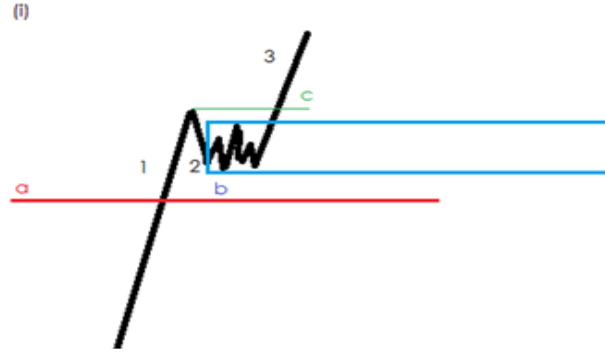
It's a well known fact that price, once it reaches a certain barrier, either bounces off it or breaks it. Once it breaks it, two possible scenarios occur: it either returns back below/above the barrier and goes on in the direction against the break or fails to return and keeps going in the direction of the break. In the latter scenario, a FTR is made. ALWAYS! And it is of vital importance to be able to identify it!


Why? Well, there is such a strong buying or selling pressure aka supply / demand at the FTR that the price just cannot return, it must go on in the direction of the break.

Hint 1: the selling / buying pressure always remains at FTR after price has left. Can you see the implication? J

Now let's take a look at the anatomy of FTRs.

In the following picture you can see a diagram showing some basic variations of FTRs. Look at them carefully, you will see that they may look a bit different but remember: they are absolutely the same in terms of the structure.





The red line (a) represents a barrier. It can be a SUPPORT / RESISTANCE, a FTR in opposite direction (will be explained later) or limit of a PAZ (Price Action Zone).

Price action breaks the barrier (1) and retraces (2). It is irrelevant whether price action crosses the barrier again or not (as in examples (ii) and (iv) above). At the extreme of the retrace a base is very often made (b).

Then, price action continues in the direction of the break (3). FTR is confirmed after price action breaks the high / low (c) which formed after the break of the barrier. Only after the break of (c) we can say that price action indeed failed to return.

Now, when the FTR is confirmed, we draw a rectangle at the base (b) and protract it to the right.

Hint 2: for information how to draw the blue rectangles see the article Caps on Price at RTM Marketpedia.

Now that we have studied the diagrams above, we can look at real life examples of FTRs.

(i)



(ii)



(iii)



(iv)



3. FTR after the break of SUPPORT / RESISTANCE

FTRs after the break of support / resistance are very common. They are simply everywhere in the chart and you will learn to spot them.

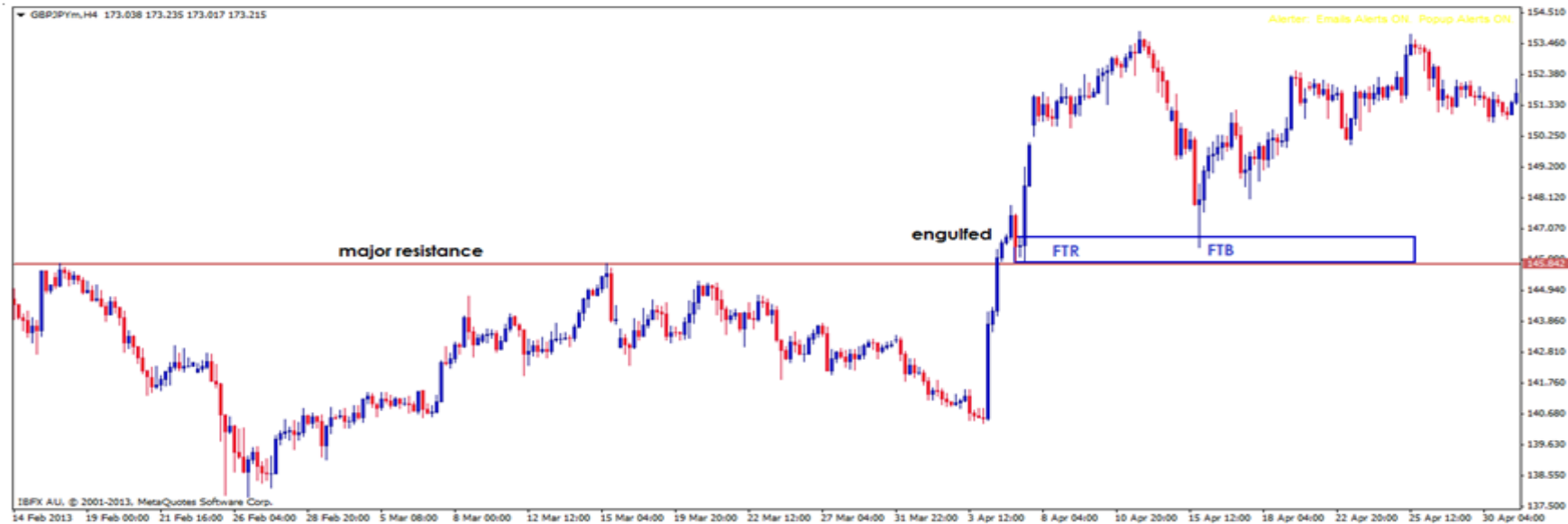
You certainly know that there are major support resistance lines as well as minor ones... the more important the S/R line is, the more significance we must assign to the FTR that follows.

Major S/R line

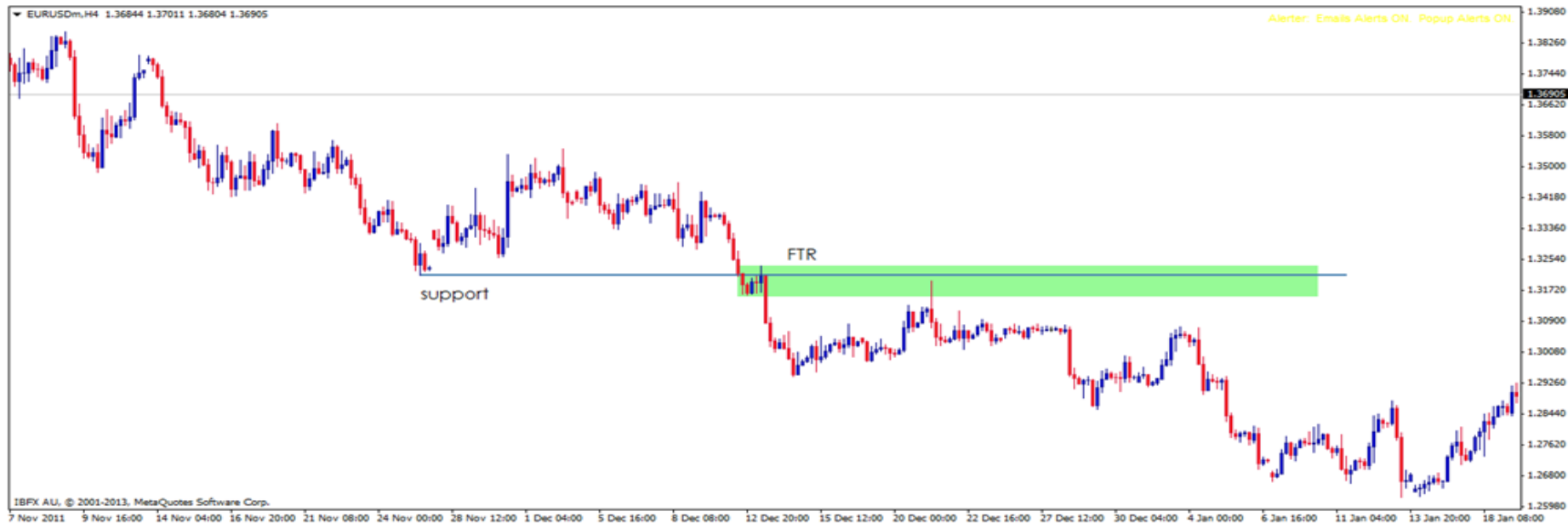
Ok, let's start with the major ones. I assume that you already know how to distinguish a major SR from minor SR...

In the following chart you can see the brown RESISTANCE line. The RESISTANCE is a major one, it has been respected many times in the past (not just those two touches seen in the picture). Suddenly, the R line is broken. Is it just a fakeout or genuine break? How will we know it? Yes, right! We will wait for a FTR to be formed.

And voila, a spectacular FTR is made! The price then rushes away from the R line. Now it's going to be interesting! Such FTR is an amazing place to trade on the first visit. The first visit occurred in approximately one week. And look at the reaction! The first visit to an FTR is called FTB (First Time Back).



Hint 3: Upon return to the FTR the price is falling in a free fall, everyone is happily jumping into trend because “it’s going to go on and on...” but beware, predators are patiently waiting in FTR level, and so should you...!



For your convenience, there are two more examples:

▼ EURUSDm,H4 1.36844 1.37011 1.36804 1.36907

Alerter: Email Alerts ON, Popup Alerts ON

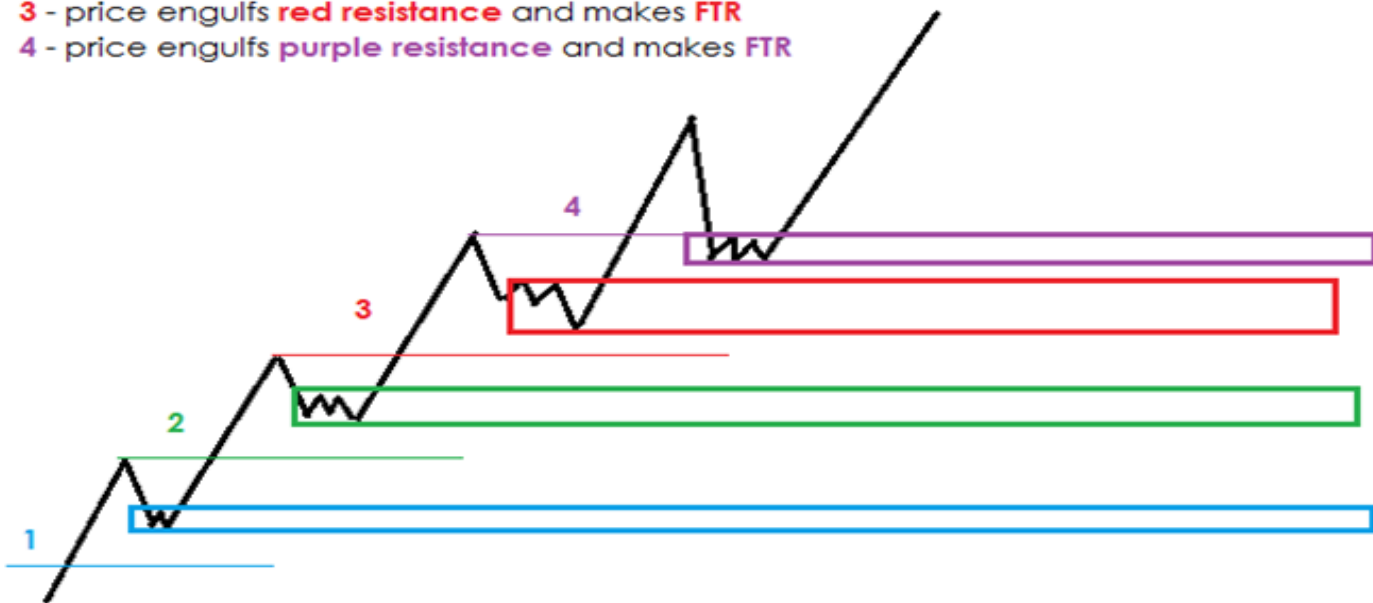


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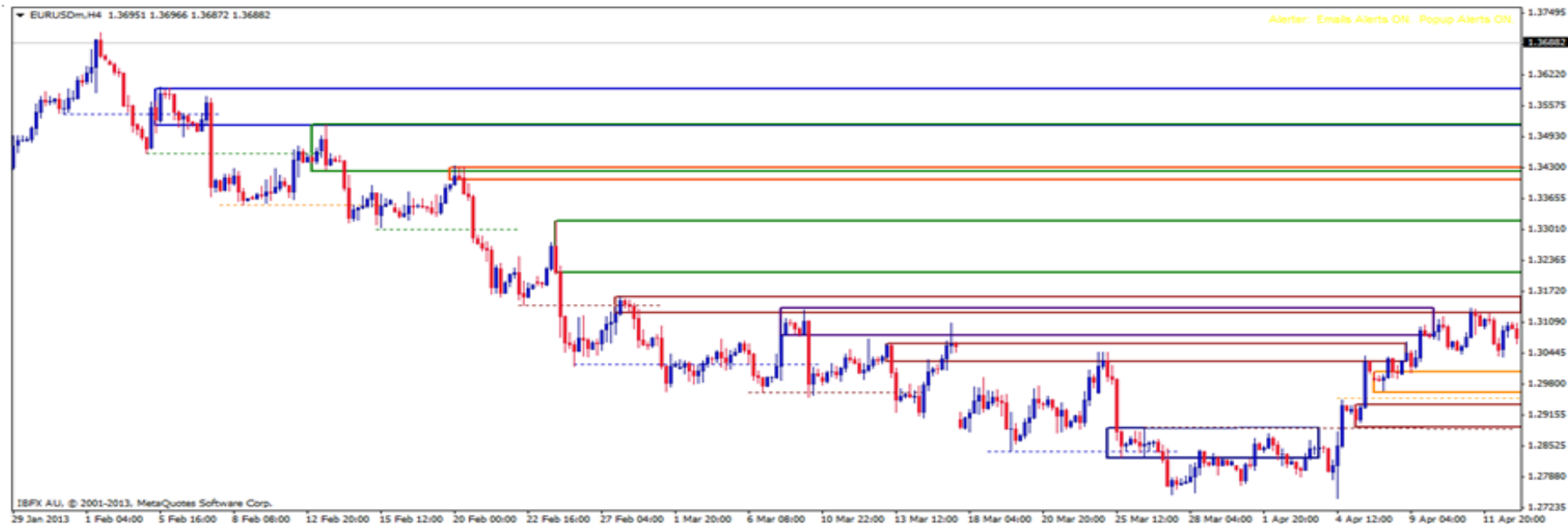
Minor S/R line

It's important to know that the FTRs in the above three charts are actually not the only FTRs that can be spotted. Far from it! Every time price breaks a minor support/resistance, fails to return and goes on, a new FTR is made!

- 1 - price engulfs **blue resistance** and makes **FTR**
- 2 - price engulfs **green resistance** and makes **FTR**
- 3 - price engulfs **red resistance** and makes **FTR**
- 4 - price engulfs **purple resistance** and makes **FTR**



In real life, however, the chart seldom looks so neat and clean as in the above diagram. In the following chart you can see the above principle in a real chart (in a down trend).



Please take your time and study the above chart, you may notice that I haven't marked absolutely ALL FTRs because the chart would be very messy.

Open a chart in your platform and mark all FTRs. Practise! Mark a swing high/low, find where it was engulfed, then find the FTR. Repeat with next high/low.

Remember, the purpose of the article is not to tell you that each and every FTR is tradable but to teach you how to spot FTRs and how to mark them. Let me repeat: it is of paramount importance!

4. FTR after the break of a FTR in opposite direction

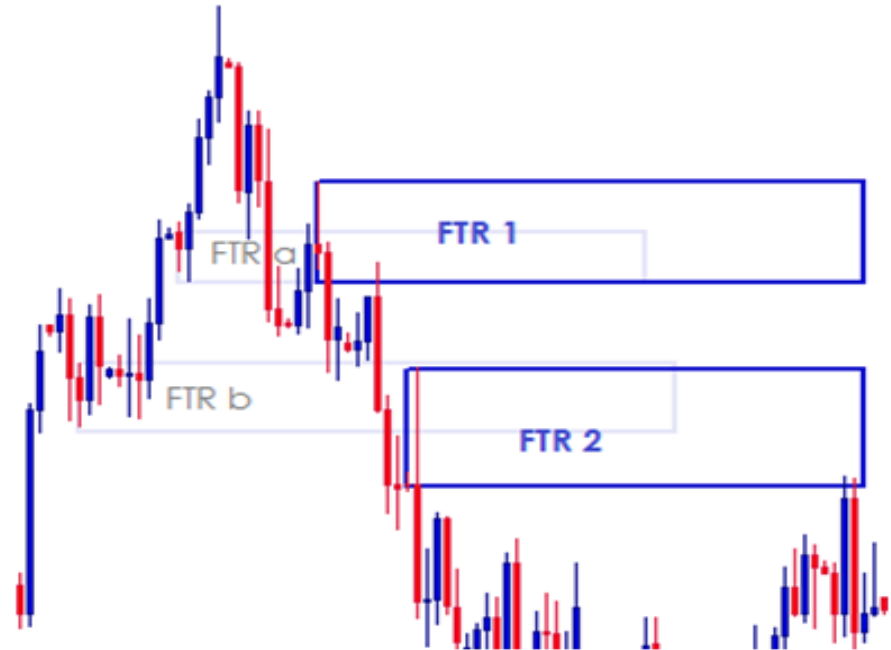
FTRs are formed after engulfing of a barrier. We already know this. One of such barriers is an FTR in opposite direction. Look at the diagram below, I think it is self-explanatory.

TR d is engulfed and FTR 1 is made, and so on.



And a real life
example.

***Hint 4: FTR 1 is a great
confirmation of a reversal. For
more information on this see my
journal starting with post 304
on page 13 (sweet FTRs).***



5. FTR after the break of a PAZ limit

The limit of a PAZ is another barrier, the break of which results in extremely important FTRs! This is, however, rather advanced and it goes beyond the scope of this article on the FTR basics.



6. Conclusion

In my article I tried to introduce a very important building block of price structure – FTR. We have learned that FTRs are formed after the break of a price barrier. It is important to realise that FTRs are places where institutional traders open / close their positions. This makes them ideal places for looking for trade setups or targets.

However, it must be stressed that FTRs on their own are not enough for trading, one must master other important building blocks, engulfing being the most important one.

Compression

Touch trading a Supply/Demand zone can be a very daunting prospect, as price doesn't always react as we'd like it to.

But, we're very often shown that the big money is getting ready to turn price at the next zone.

As price is rising, they start selling down to pockets of demand on the way, consuming the orders, so that when they put their big orders in at Supply, all those buy orders are gone and price can slide through to the origin of the compression or beyond.

It's exactly the same principle for price compressing down to Demand



USDCAD,M15 1.01267 1.01268 1.01231 1.01244



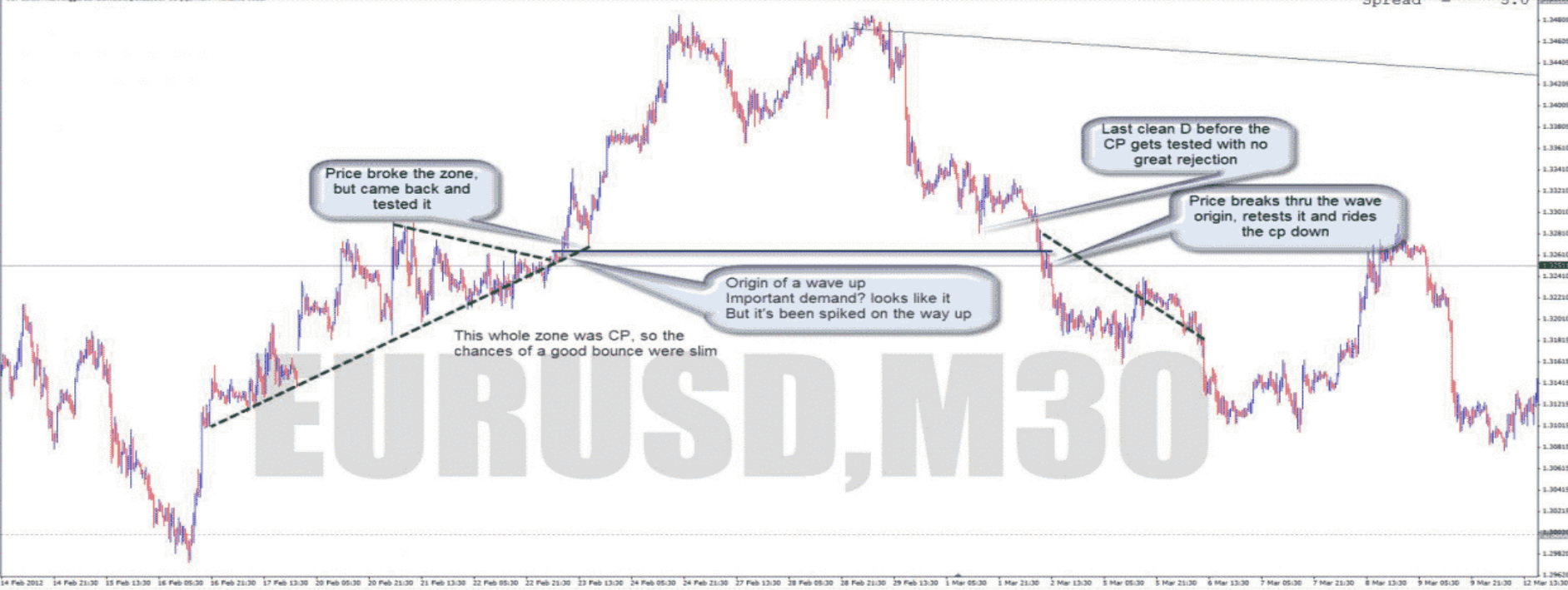
In the example below, price compresses up to a certain point, above which there is no Supply left before the origin, so it shoots up to there before reversing and cutting through the CP. This is called Compression and Liquidity (CPLQ)







EURUSD,M30 1.32406 1.32504 1.32388 1.32511
4:27 23.99 Alert triggered: EURUSD@1.32511. 51 pip from Trendline 9933.



EURUSD,M30

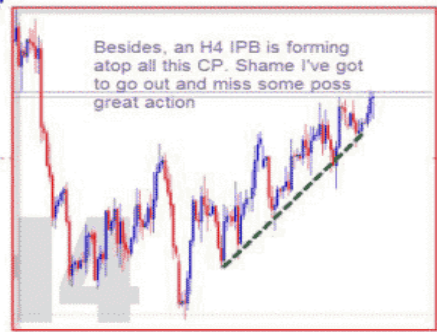
EURUSD.M1 1.32744 1.32753 1.32746 1.32748
5/1 15:43 Alert triggered: EURUSD@1.32747, 8 pips from Horizontal line \$5415.

Spread Δ $CP + 5 \times \frac{1}{1000}$ 1.8

This may go higher,
but until that decision
is made, this is all I
can definitely take
from the trade

Besides, an H4 IPB is forming
atop all this CP. Shame I've got
to go out and miss some poss
great action

EURUSD, M1



- Here is a video about Compression by Ifmyante
- <http://youtu.be/bOhGwkXMG1k>

3 Drive

The 3Drive onto S/D can be a strong indication that price will turn.

It shows that price advances are slowing down, while compressing up/down, taking out orders as it goes.



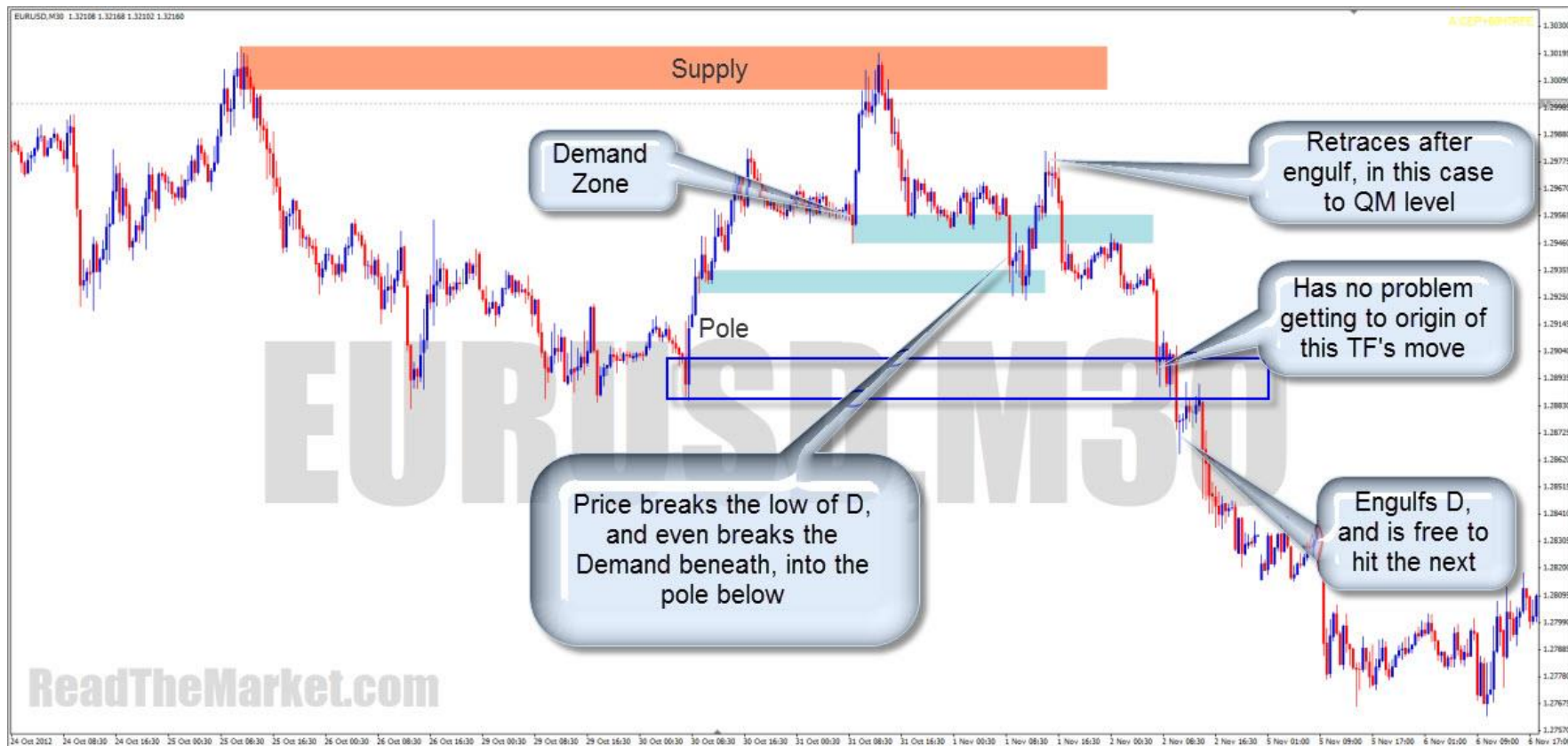
Engulf

If you're not one to simply trade on the touch of a zone, but would rather wait for confirmation that price has rejected, there are some brilliant PA patterns you can look for before you enter a trade.

The best ones we'll cover involve an **Engulf**

Simply put, an engulf involves price making a lower low on reaction to Supply, or higher high from Demand

This is a very powerful sign that price is on the turn. They say that a trend is a succession of LL's and HH's, or vice versa, so if you get a Lower Low from Supply, it's a great first sign that the uptrend may be over, and of course flip the scenario for an HH from Demand.



If you didn't have the patience to wait for that engulf, see the Lower timeframe for another lovely engulf showing the way much earlier!





Can you trade an engulf as a breakout trade?

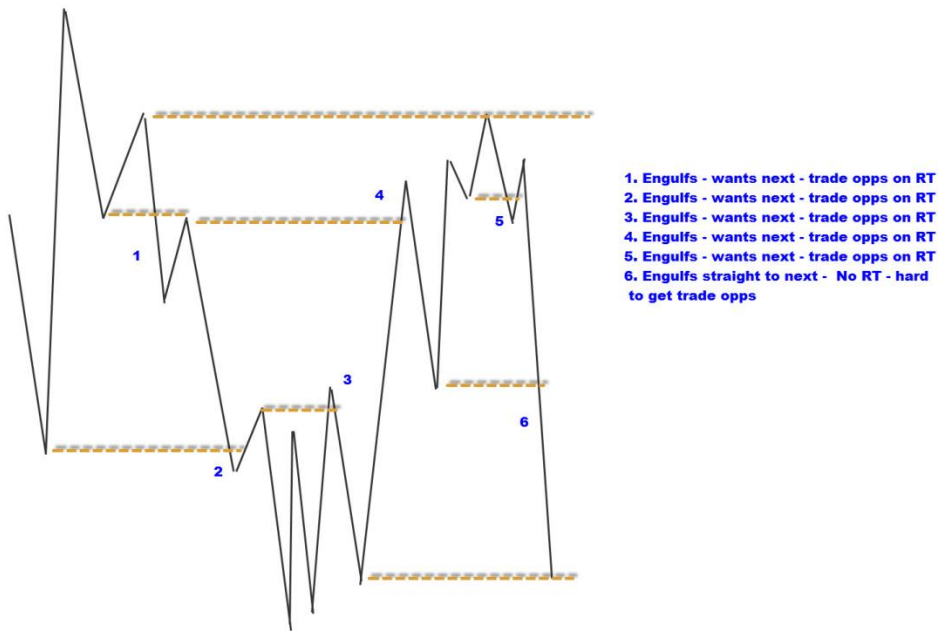
Well, yes, but price very often retraces after the engulf, to confuse the breakout traders and hit their stop losses, creating more orders to take the other side of the big money's new direction trades.

This means that the stop loss would, in most cases, still need to be beyond the original zone.

Here's a video about the engulf

<https://youtu.be/IM8-Yd6uCLY>

So, in essence, it's as simple as this



Two of our favourite Price Action structures based on the engulf are the Quasimodo and the Diamond

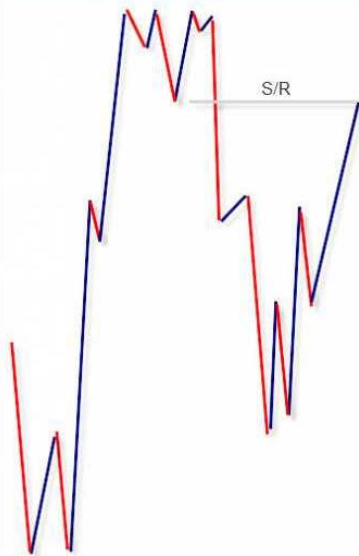
Quasimodo

The Quasimodo is a beautiful and powerful Price Action structure.

It gives a big sign that the big money is ready to change price direction. It often serves to trick the uninitiated into giving up good positions to them, allowing them to get big orders filled.

We look for them at areas of Supply and Demand, where we look for all our trades, and use them as confirmation that price has turned, due to the engulf that occurs in their formation

Here's an ideal setup for a Quasimodo



Big money begins selling here

Novices see the turn and begin selling

Stops above the high

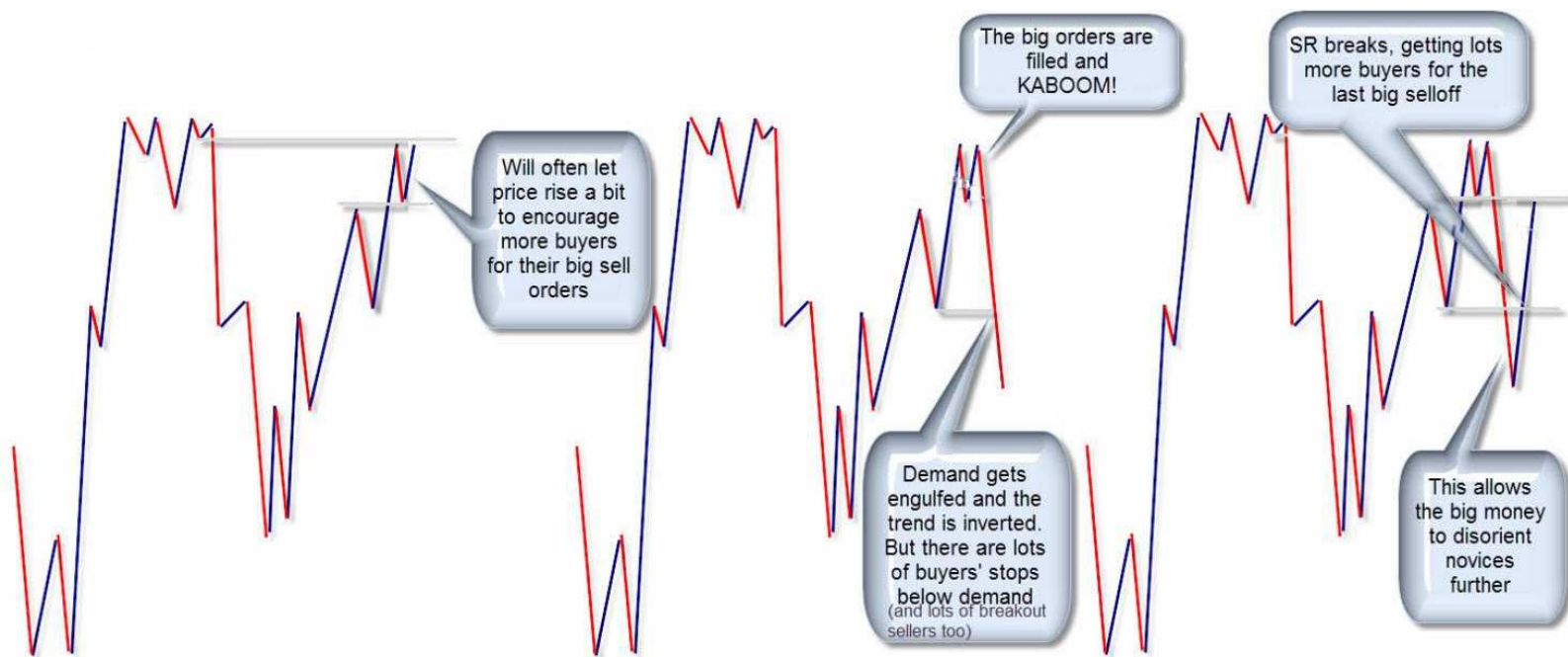
R/S

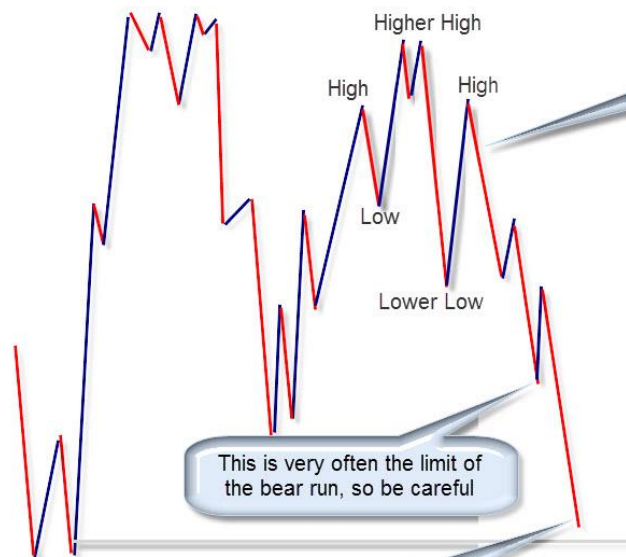
Big money wants to fill massive shorts, so needs lots of buy orders to help fill them. They begin to buy

Gets to true Supply, filling sellers' stops, creating buys for the big money's shorts

True S

Novices also buy the breakout. Lots of buys to fill the big shorts.






Final selloff is complete,
and price is gone

So, the common rules of Supply and Demand have made yet
another beautiful Quasimodo

This is very often the limit of
the bear run, so be careful

But usually, eventually, price will make it to
the origin of the move up



A QM doesn't need to form all at once either
Here's a video of one which took many months to form - it was also one of my favourite trades ever

<http://youtu.be/JufS5cKBVng>

Homework:

Find at least 60 QMs through history and file them. Mark the zones they're reacting to, and where price went to next.

They can be in any TF, any pair. Find ones that worked, and ones that failed. You'll learn from both





The Diamond

