

The ICT Bible

Introduction to ICT concepts

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Volume 1

FOUNDATION LEVEL

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DISCLAIMER

The contents of this e-Book are for educational purposes only and are of my own interpretation of ICT concepts, which have been authored and created by my mentor Michael.J.Huddleston (ICT). The concepts explained in this e-Book are foundational and are not explained in their entirety. A library of his concepts can be found on his YouTube channel (The Inner Circle Trader) for a deeper understanding. If you find the concepts in this e-Book taught in other places and/or have been renamed, they are still the concepts of Michael.J.Huddleston. SMC (Smart Money Concepts) and ICT concepts are the same, and from the same author, Michael.J.Huddleston. I am not claiming these concepts as my own. I have been privately mentored by Michael and have spent many years studying and using these concepts in my personal trading. I welcome Michael to contact me if any revisions need to be made to this e-book.

INTRODUCTION

Hello! Welcome to The ICT Bible.

Firstly, I would like to thank my mentor M.J.Huddleston (ICT) for bringing his concepts to the retail trading world.

My name is Ali Khan (AK). Prior to becoming a full-time trader, I spent a decade working as a Pharmacist in the UK. Like many of us, I was dabbling in trading on the side of my day job.

Unfortunately, I was not very good and could not find much consistency in my approach to trading. I found myself moving from strategy to strategy, spending thousands of pounds on courses. Despite this, I never seemed to find profitability and never understood why the markets moved the way that they did... until I found ICT. I was fortunate enough to discover ICT in early 2018 after being introduced to him by a friend, who was already enrolled in his private mentorship. Once I started learning his concepts, I quickly realised the truth about how these markets actually book and have never looked back since. (Unless we are talking IPDA data ranges. Lol)

Inspired by Michael, I have decided to give back to the trading community by sharing my trading experiences, and doing my best to help simplify ICT concepts for newer traders. After receiving hundreds of messages, I have decided to create this e-Book to help with some of the recurring questions that I receive.

Finally, I wish you all the best on your trading journey. Trading is NOT easy and ICT concepts require time and experience to be used effectively. Permit yourself time to learn and use this e-Book to aid you in your chart studies.

Good Luck & Good Trading.

AK

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THE ALGORITHM

'An algorithm is responsible for moving price in the markets.'

-ICT

We are taught that price is moved by buying and selling pressure, and that the direction of the market is determined by which side has the larger inflows of cash. This is false.

The truth is, they are not going to let the entire financial system be at the mercy of random buying and selling. Using computer programming to automate the markets with an algorithm is much more efficient and reliable.

Michael (ICT - The engineer of the algorithm) calls this algorithm IPDA (The Interbank Price Delivery Algorithm)

IPDAs job is to manipulate price in order to engineer liquidity into the market place, and to offer fair value. This allows SMART MONEY, who understand how these algorithms work, to capitalise on the movement of price.

There are 2 main targets that IPDA will seek:

- 1) Liquidity above/below old highs and old lows.
- 2) Areas of inefficient price action

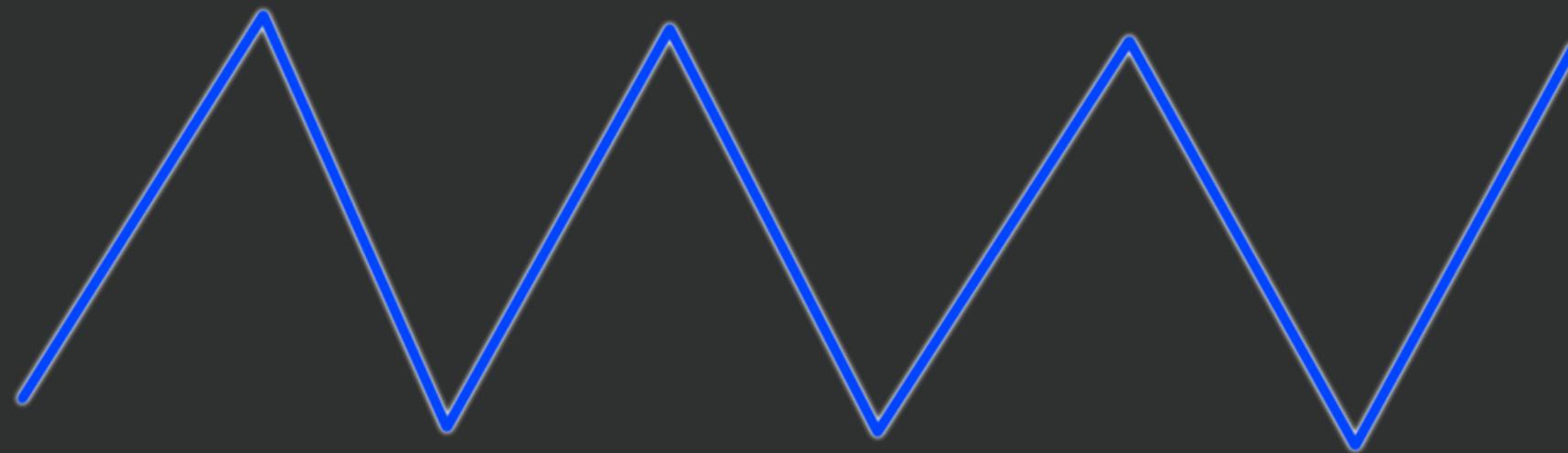
Understanding WHEN and to WHERE IPDA will manipulate price, can give unmatched levels of precision and an understanding in price action that prior to ICT, was never possible for us retail traders..

AMD

Accumulation, Manipulation, Distribution

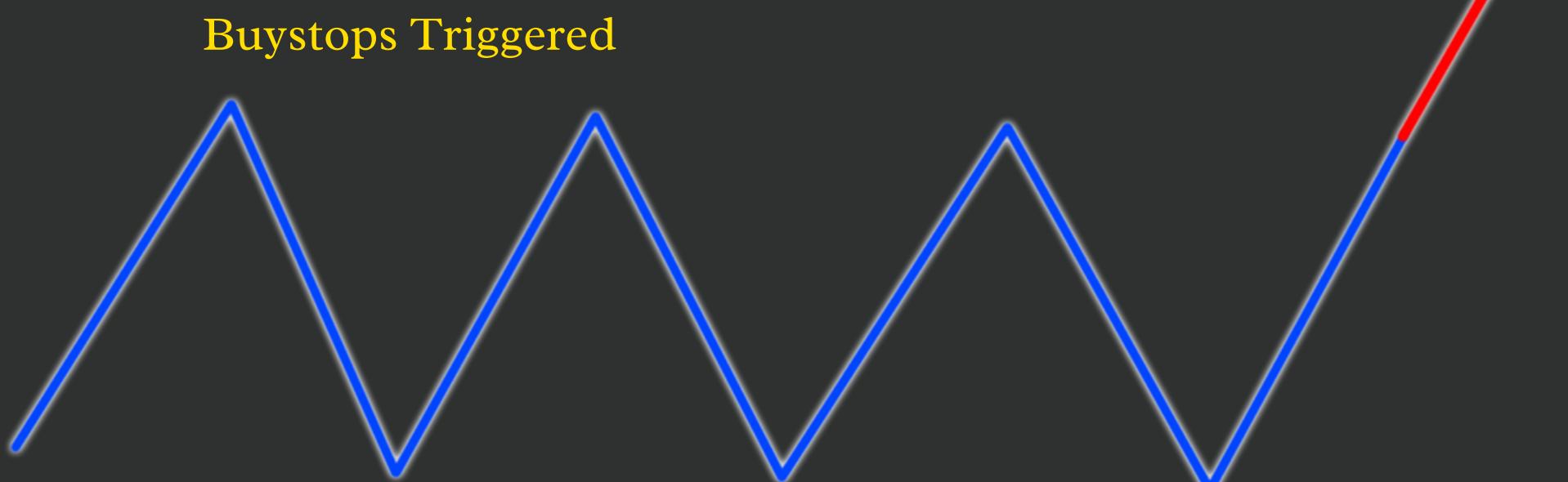
'Everything starts with consolidation'

-ICT

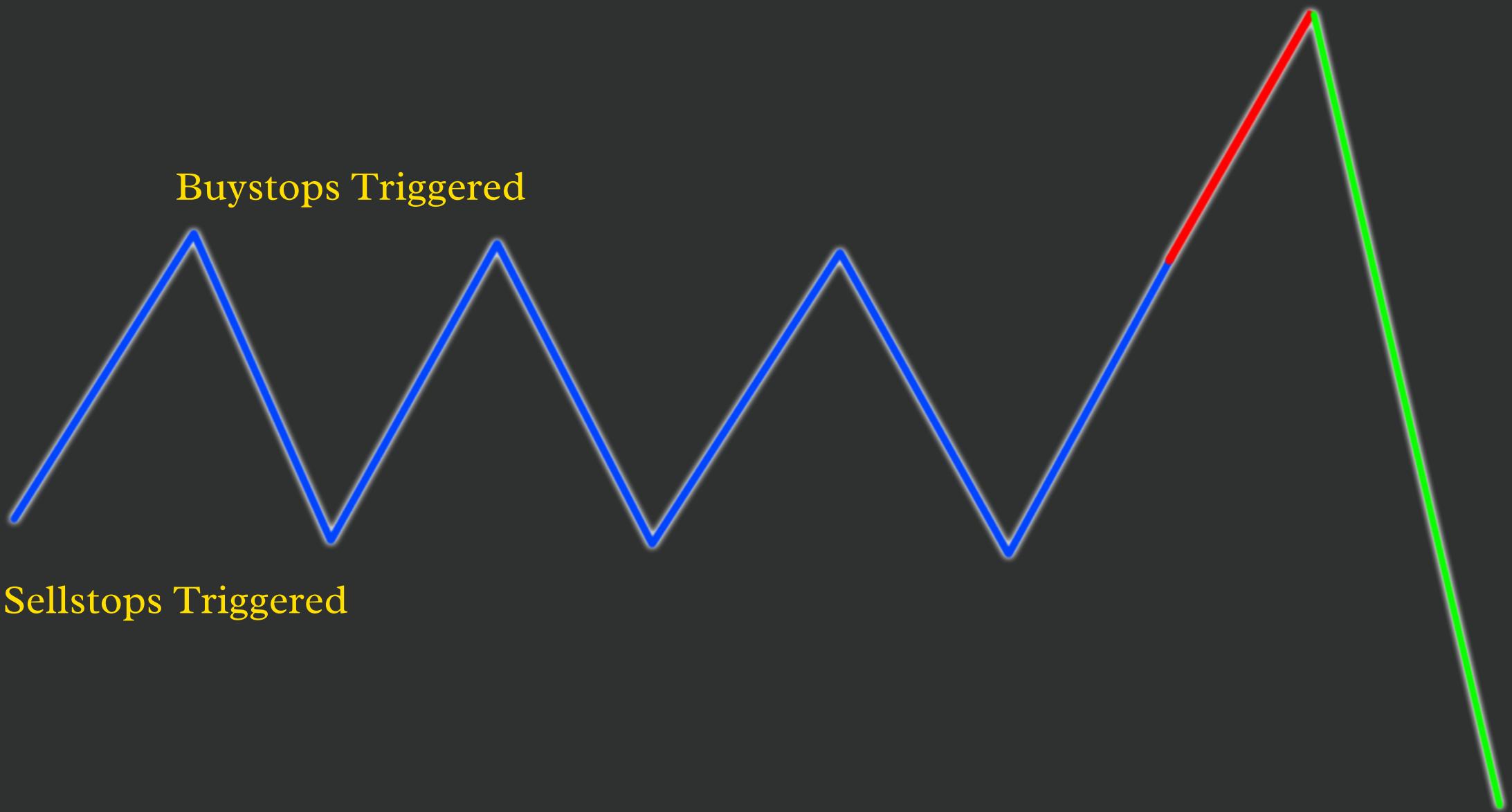


IPDA holds price in a range. This allows liquidity to build up above the consolidation range in the form of buystops, and below the consolidation range in the form of sellstops. This is known as the accumulation phase.

The ICT Bible



IPDA will then reprice above the consolidation range, triggering the buystops into active market orders. This is known as the manipulation phase (often referred to as the Judas swing).



Smart money will pair liquidity from the willing buyers (buystops) with short positions, and offload these positions to willing sellers below the consolidation range (sellstops). This is known as the distribution phase.

This whole process is a part of IPDAs market efficiency paradigm logic, whereby smart money will sell to the buyers and buy back from the sellers (and vice versa). This is obviously oversimplified and there are ways to determine when and where this process is likely to happen, but that is beyond the scope of this e-Book. The speed of the manipulation leg also causes FOMO for buyers, who are chasing the market, thus entering longs in the expansion leg higher. This is also another example of how IPDA will engineer liquidity by the manipulation of price. The same concept can be seen with other retail patterns such as trendlines, support and resistance, head and shoulder patterns, bull and bear flags etc. Each of these patterns are designed to draw retail money into the marketplace. When trading, one should consider 'Where are the retail stops?' when undertaking their trade analysis.

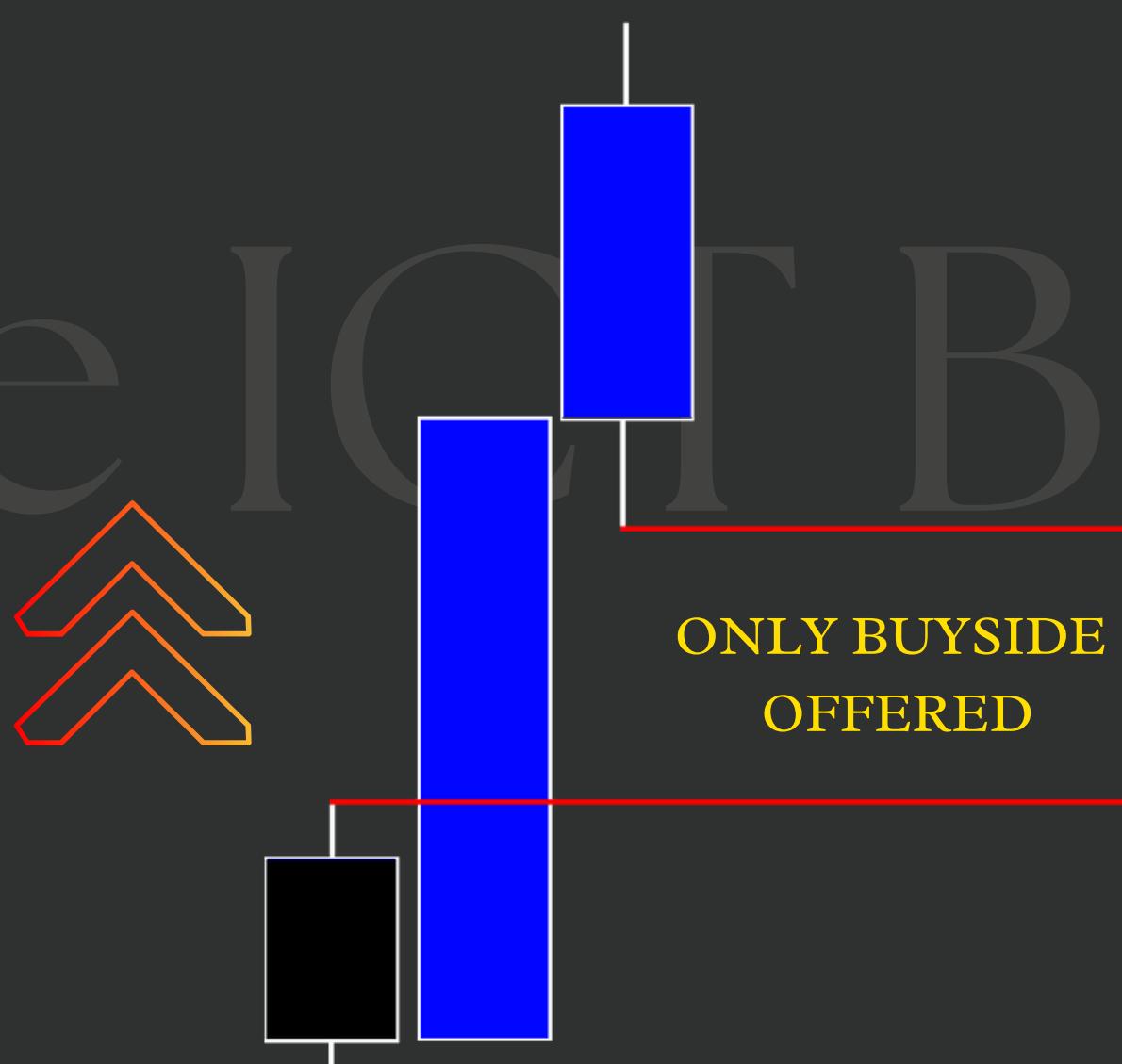
>>> THE FVG <<<

(FAIR VALUE GAP)

IPDA not only engineers liquidity in the markets by moving price, by design it has to offer fair value for buying and for selling. This too is based on its market efficiency paradigm logic. In some cases, IPDA may reprice too quickly in one direction over another, thus leaving an inefficiency in price delivery (A FVG). In order for IPDA to maintain its fair value parameters, it will reprice to rebalance the inefficient price action to offer fair value to both sides of the market.

BISI

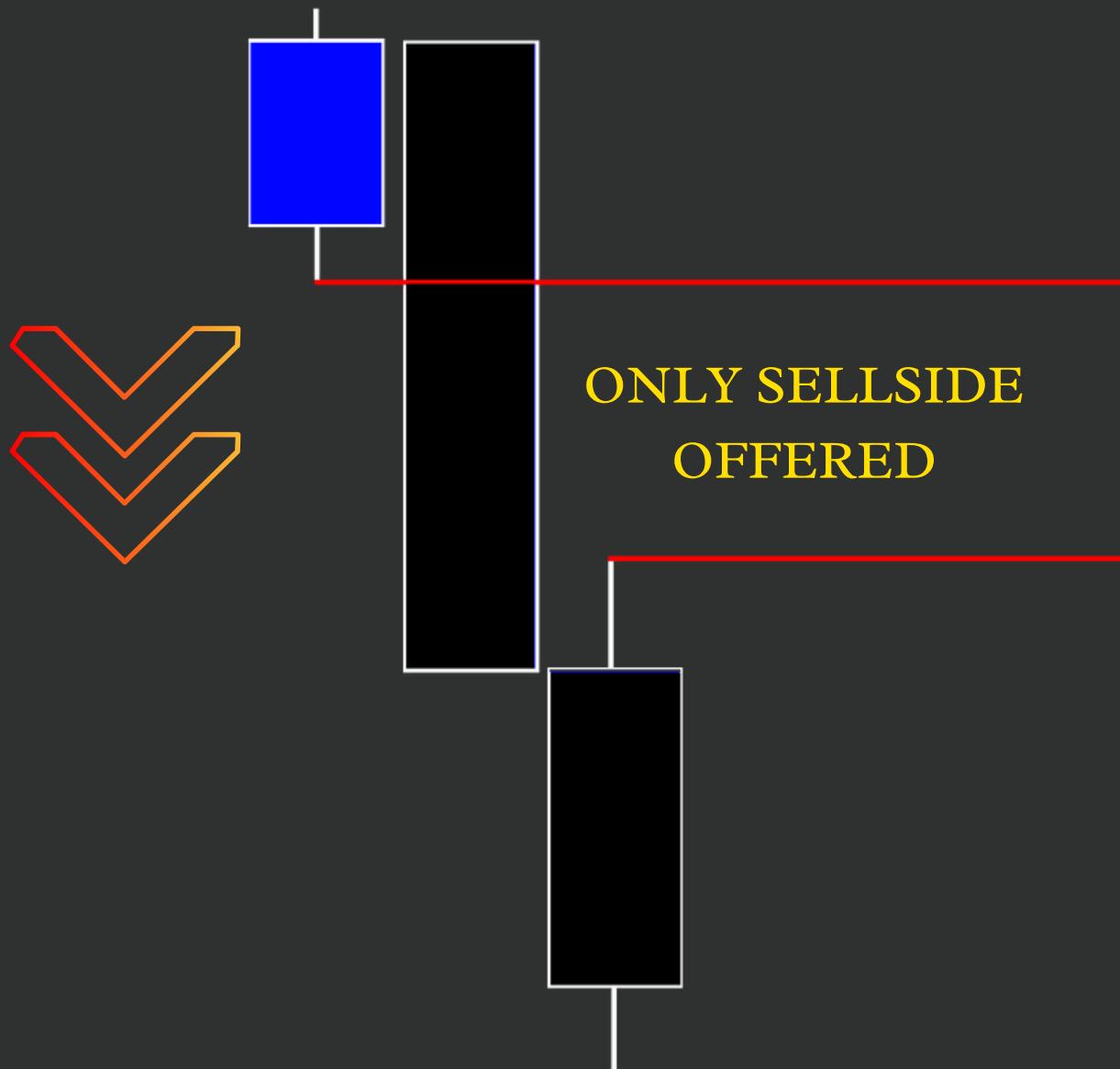
(Buyside Imbalance, Sellside Inefficiency)



The example above is known as a BISI. This is where IPDA has repriced to buyside too quickly. This leaves a buyside imbalance (the space between the red lines). The wicks offer both buying and selling in the up and down movement. The body where no wicks overlap is all buyside delivery and inefficient of any sellside delivery.

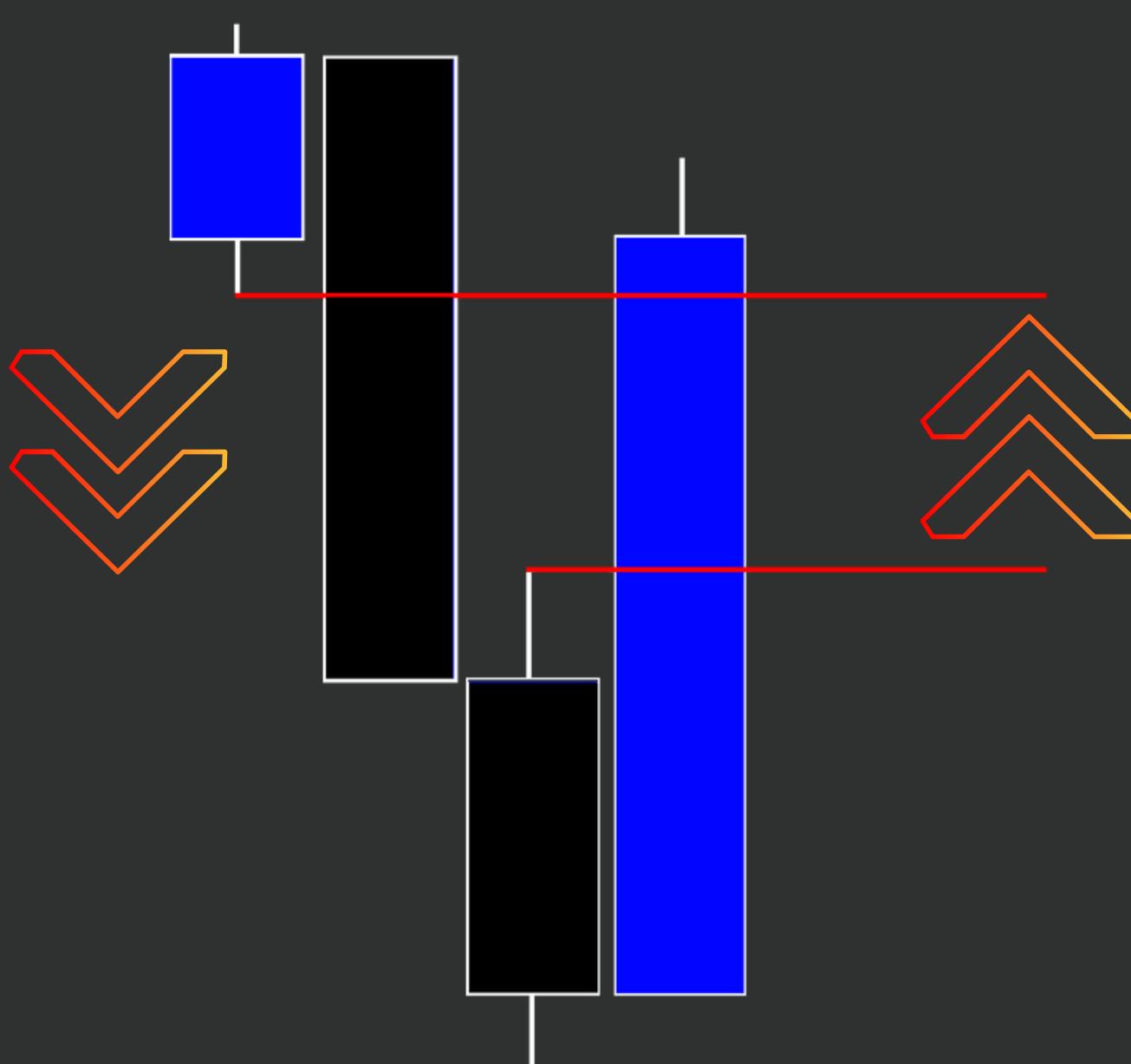
SIBI

(Sellside Imbalance, Buyside Inefficiency)

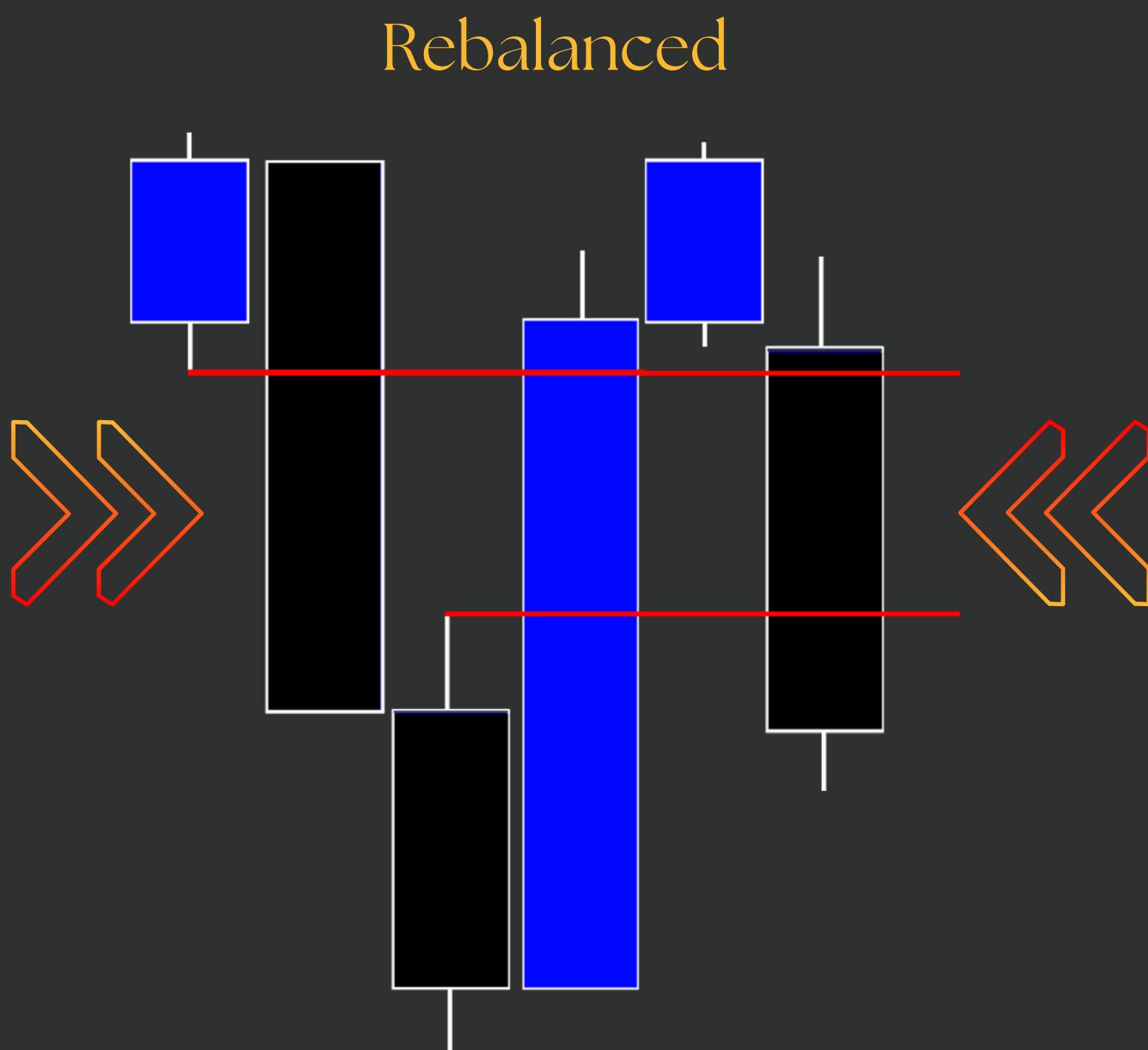


The example above is known as a SIBI. This is where IPDA has repriced to sellside too quickly. This leaves a sellside imbalance (the space between the red lines). The wicks offer both buying and selling in the up and down movement. The body where no wicks overlap is all sellside delivery and inefficient of any buyside delivery.

Redelivered

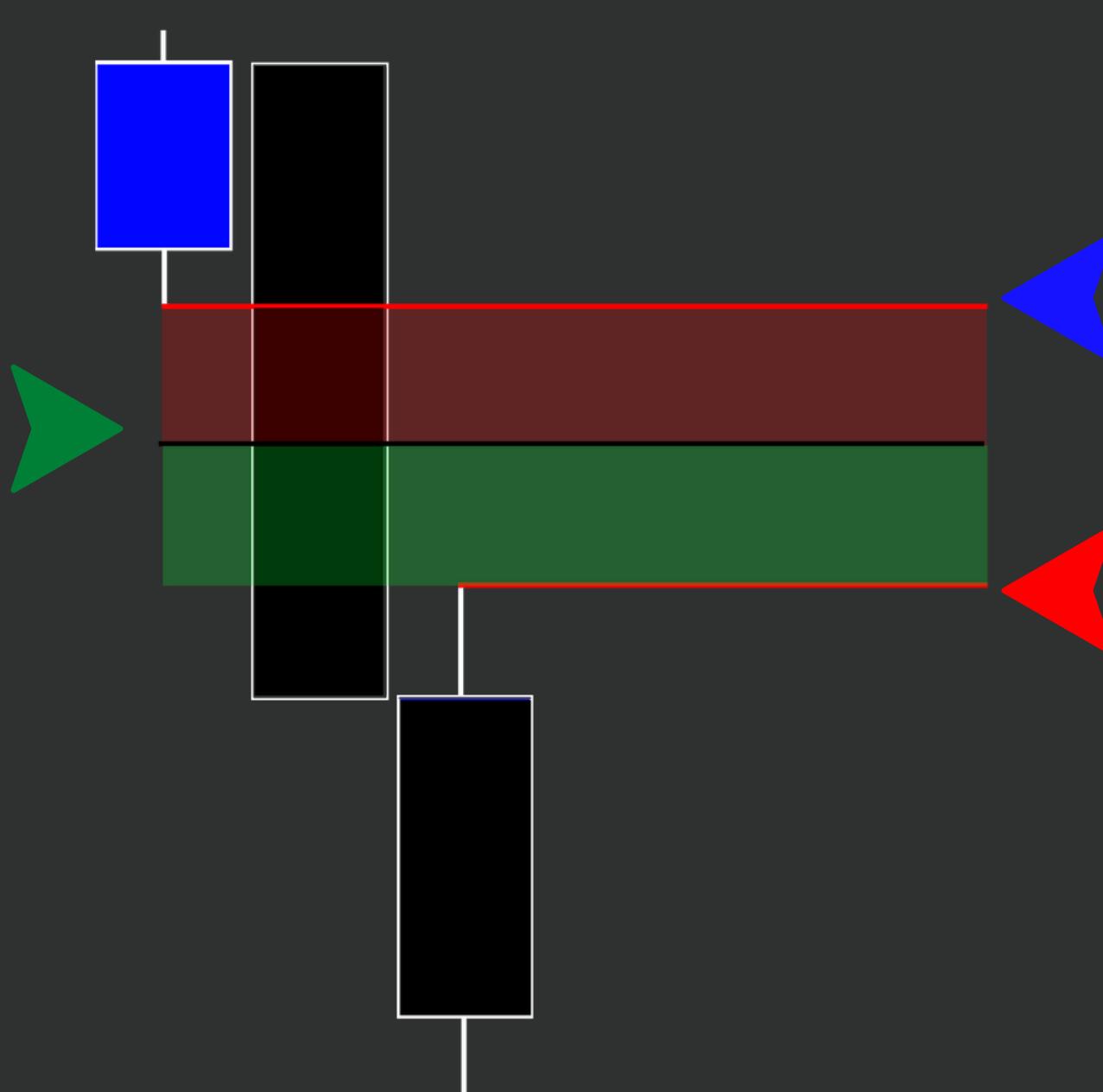


In the example above, buyside movement has been redelivered back through the sellside imbalance. The inefficient sellside imbalance has now been matched with buyside price delivery, offering us a balanced price range of both buyside and sellside delivery.



When price passes back through this range for a 3rd time and leaves it, this whole range has now been rebalanced. Any upward movement back through this range should be met with strong resistance (in a bearish market)

True Support & Resistance (The 3 Levels)

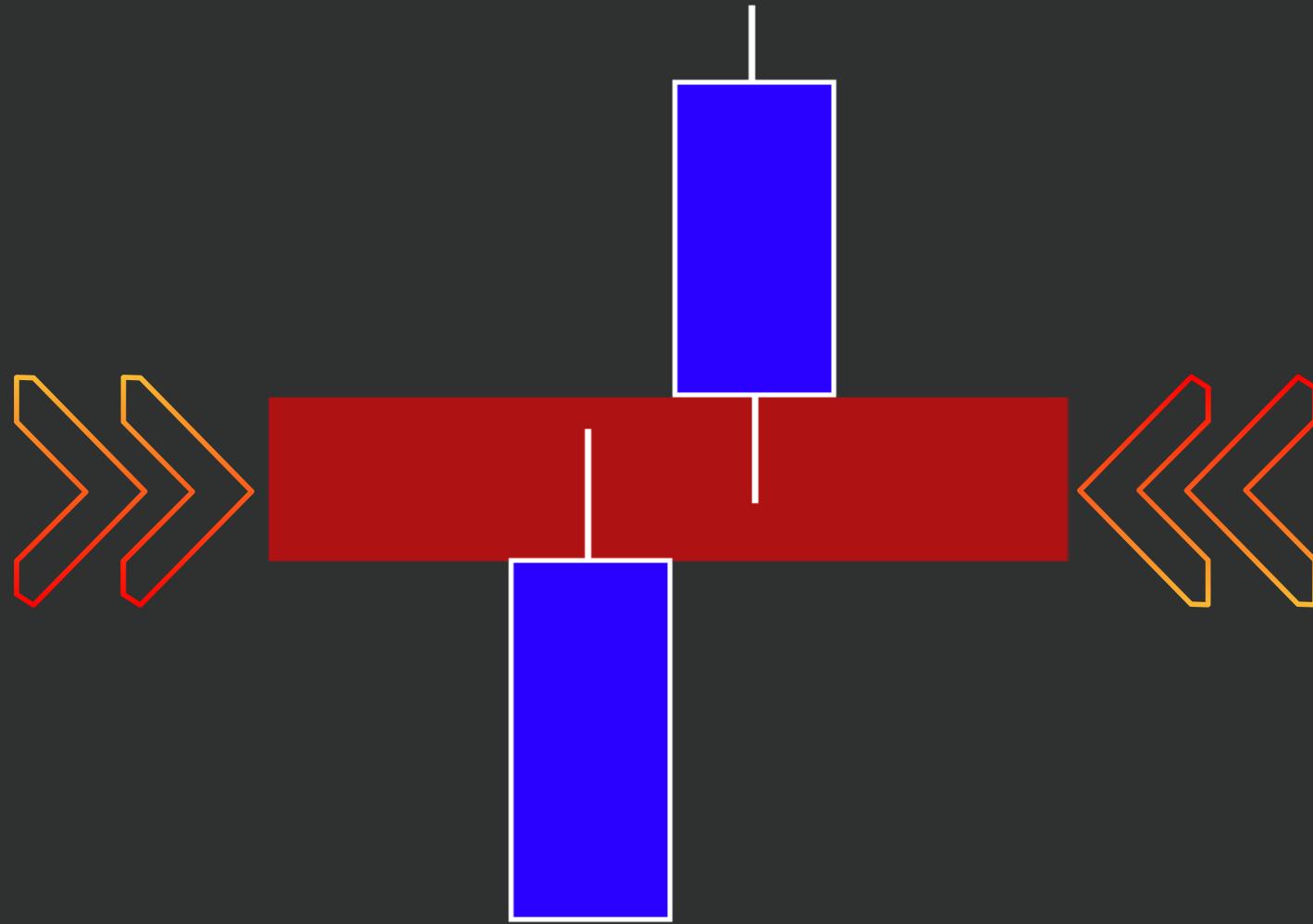


- The PREMIUM level (high) of the FVG should offer support in a bullish market if price has closed above this level. This level becomes even stronger as support if the FVG has been balanced/rebalanced.
- The DISCOUNT level (low) of the FVG should offer resistance in a bearish market if price has closed below this level. This level becomes even stronger as resistance if the FVG has been balanced/rebalanced.
- The CONSEQUENT ENCROACHMENT (C.E) is the midpoint or 50% equilibrium level of a FVG. There are many caveats to this level that are again beyond the scope of this e-Book, but will mainly act as a support/resistance level inside of a FVG.

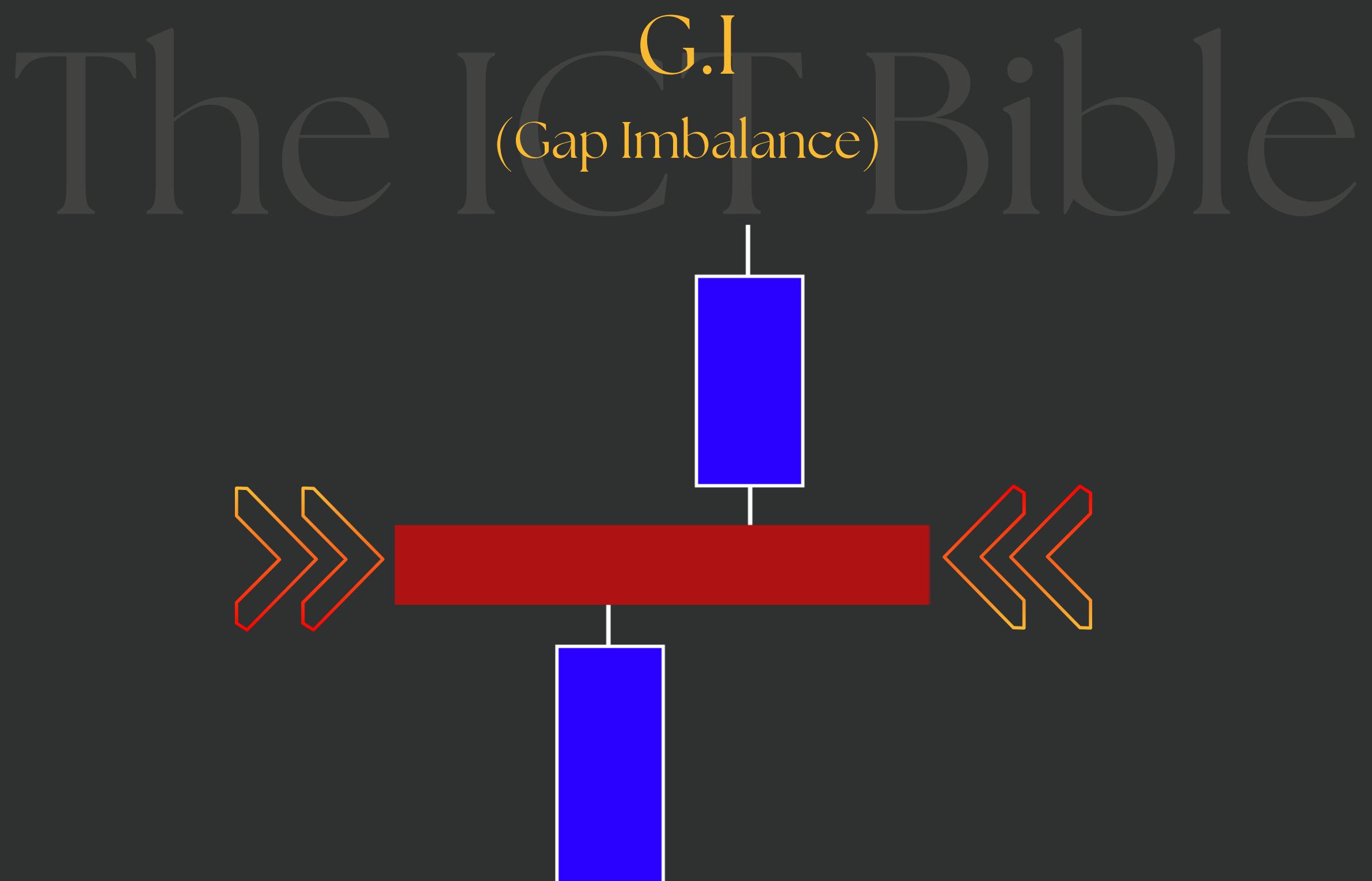
DISPLACEMENT

A FVG can indicate that IPDA is in a hurry to move price in one direction over another. This is an algorithmic footprint that we can see in price action. ICT often uses the analogy of an elephant stepping into a children's pool. Since the size and mass of the elephant's foot is so large, we will of course see a displacement of water. ICT uses this analogy to draw a comparison to larger institutions with 'deep pockets' entering the marketplace. Like everything with ICT concepts, there are of course caveats to when and where we can expect displacement to occur and when to trust it, but keeping this analogy in mind at key support/resistance levels will serve you well.

V.I (Volume Imbalance)



A Volume Imbalance (V.I.) occurs when there is an area of price that has been left without a candle body. There is up-and-down movement in the overlapping of the wicks, however since the bulk of the volume is in the body of the candle, we dub this a Volume Imbalance.



A Gap Imbalance (G.I.) occurs when an area of price is void of any price delivery including wick movement. This is a real price gap.

TIME

Time is the first component IPDA will refer to. Once the time window is in operation, IPDA will then look to seek key levels (PD.ARRAYS) in price. It is always TIME then PRICE.

The manipulation of price will occur in these windows of time. ICT refers to these time windows as KILLZONES.

News drivers within these Killzones are often the catalyst for IPDA to reprice to key levels, by initiating buy/sell programs.

During high-impact news events such as CPI, FOMC or NFP, manual intervention can take place. This is where the normal pricing parameters in IPDA's pricing algorithm can be manually overridden. This is usually done at the central bank level.

The KILLZONES Bible

ASIA - 8pm - 12am

LONDON - 2am - 5am

NEW YORK - 7am - 10am

LONDON CLOSE - 10am - 12pm

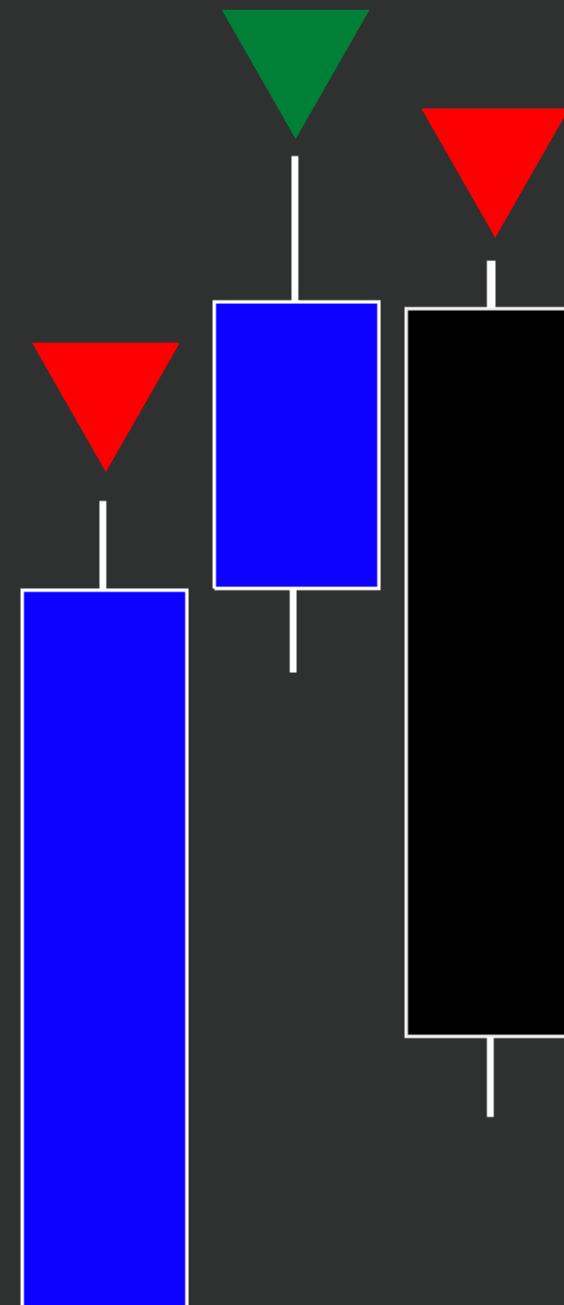
FUTURES/CRYPTO (NY-EST)

AM SESSION - 8.30am- 12pm

PM SESSION - 1.30pm - 4pm

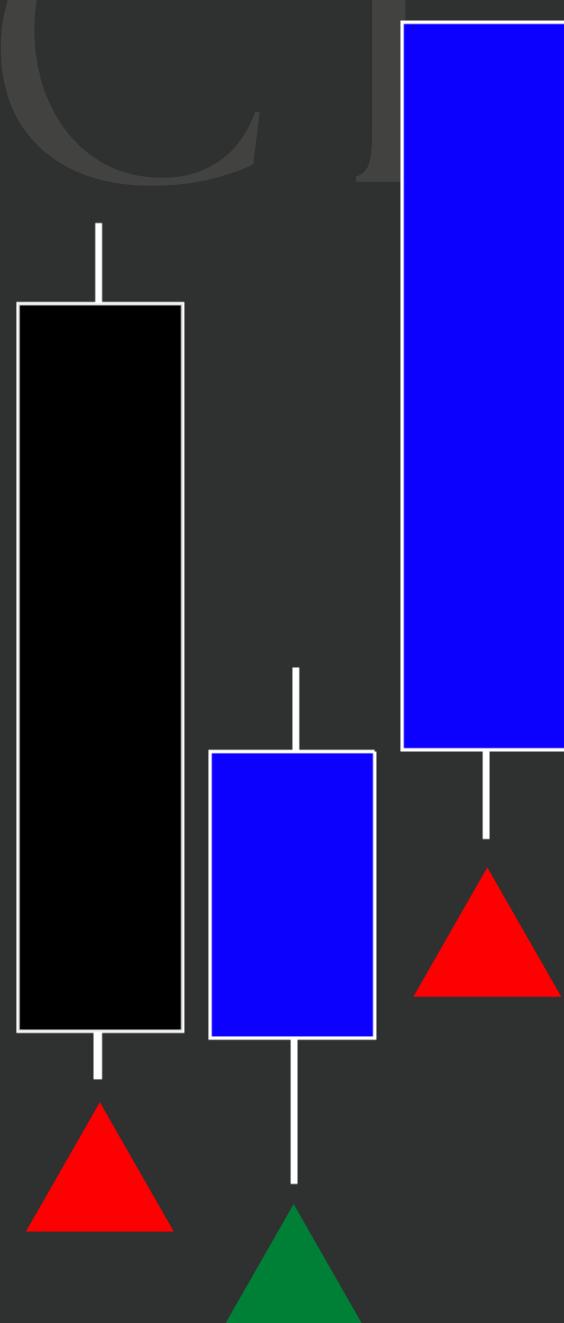
THE 3 BAR SWING

SWING HIGH



A swing high is the highest high (middle candle) with a lower high to the left and a lower high to the right

SWING LOW



A swing low is the lowest low (middle candle) with a higher low to the left and a higher low to the right

INSTITUTIONAL SPONSORSHIP

We can see the footprints of institutional sponsorship within price action. The algorithms that dictate the price of asset classes all work synergistically with one another. It makes sense if you think about it.. If one asset class is correlated with another asset class, price fluctuations are going to have an impact on its correlated asset. ICT calls this S.M.T Divergence (Smart Money Tool)

S.M.T

Correlated Pair 1

The ICT Bible

LOWER LOW

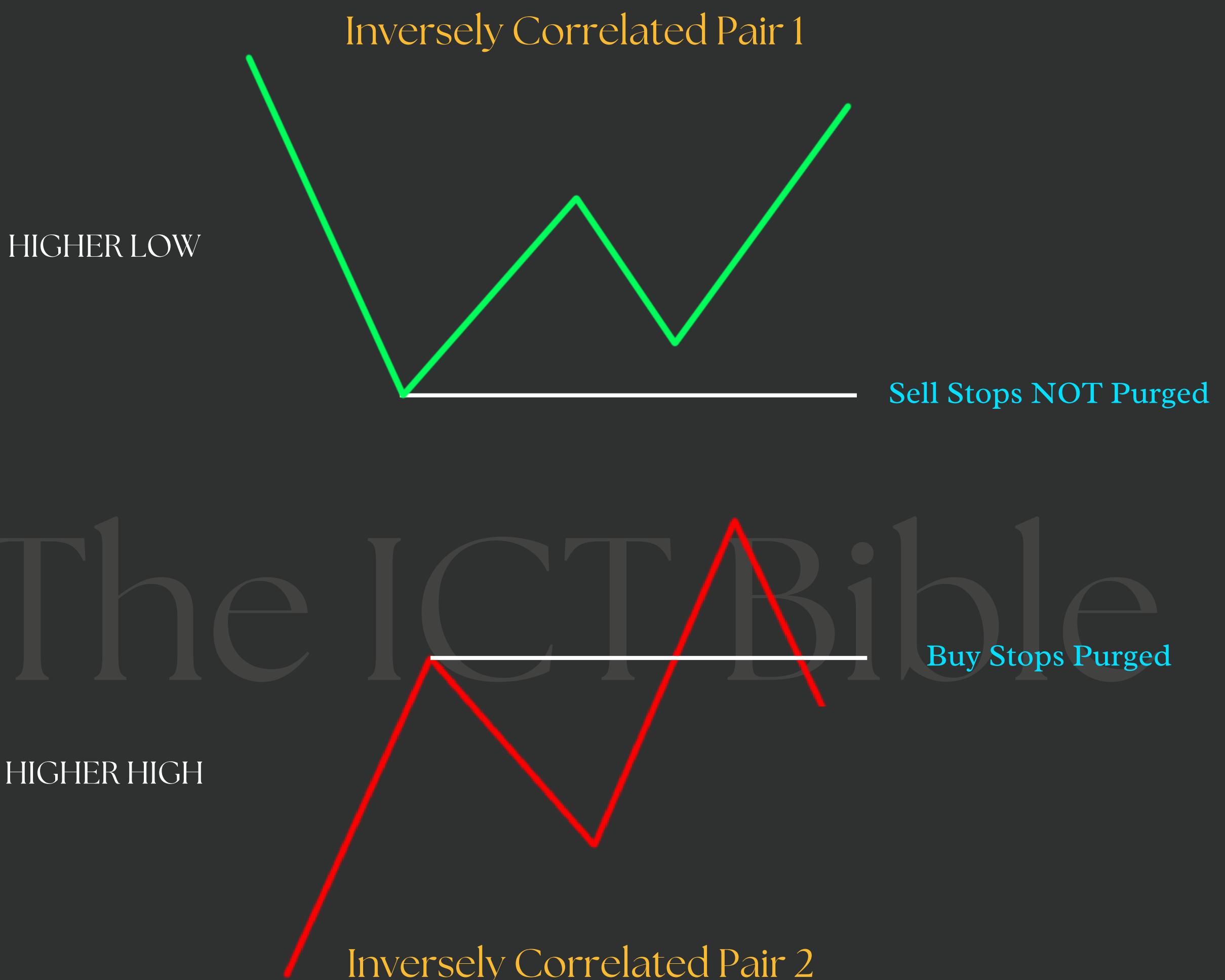
Sell Stops Purged

Correlated Pair 2

HIGHER LOW

Sell Stops NOT Purged

In the example above, we can see that correlated pair 1 made a lower low, running its sellside liquidity below a previous low. Since pair 2 is correlated to pair 1, we should also expect to see it run its sellside liquidity below its previous swing low. It failed to do so. This indicates strength in pair 2 as it is unwilling to take its sellside liquidity. This divergence is a footprint of smart money and institutional accumulation. This crack in correlation indicates that pair 1 is only going lower to take sellside liquidity before repricing higher, with institutional sponsorship behind the move. (Reverse for sellside delivery)

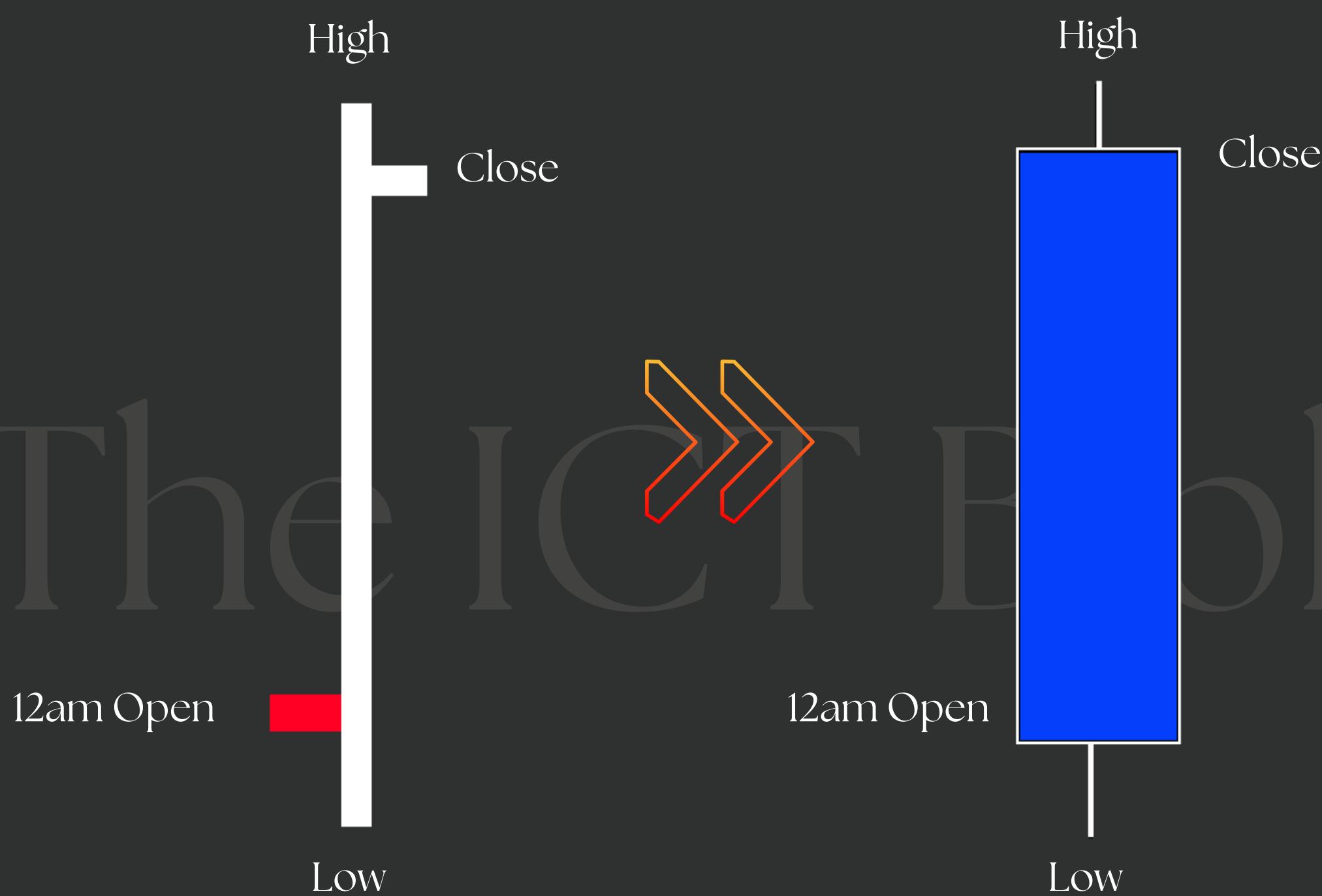


In the example above, we can see that inversely correlated pair 1 failed to run its sellside liquidity below a previous low. Since pair 2 is inversely correlated to pair 1, we should also expect to see it fail to run its buyside liquidity above its previous swing high. It did run the buyside liquidity, whilst pair 1 failed to run its sellside liquidity. This indicates strength in pair 1 as it is unwilling to go lower. This crack in correlation indicates that pair 2 is only going higher to take buyside liquidity before repricing lower.

POWER OF 3

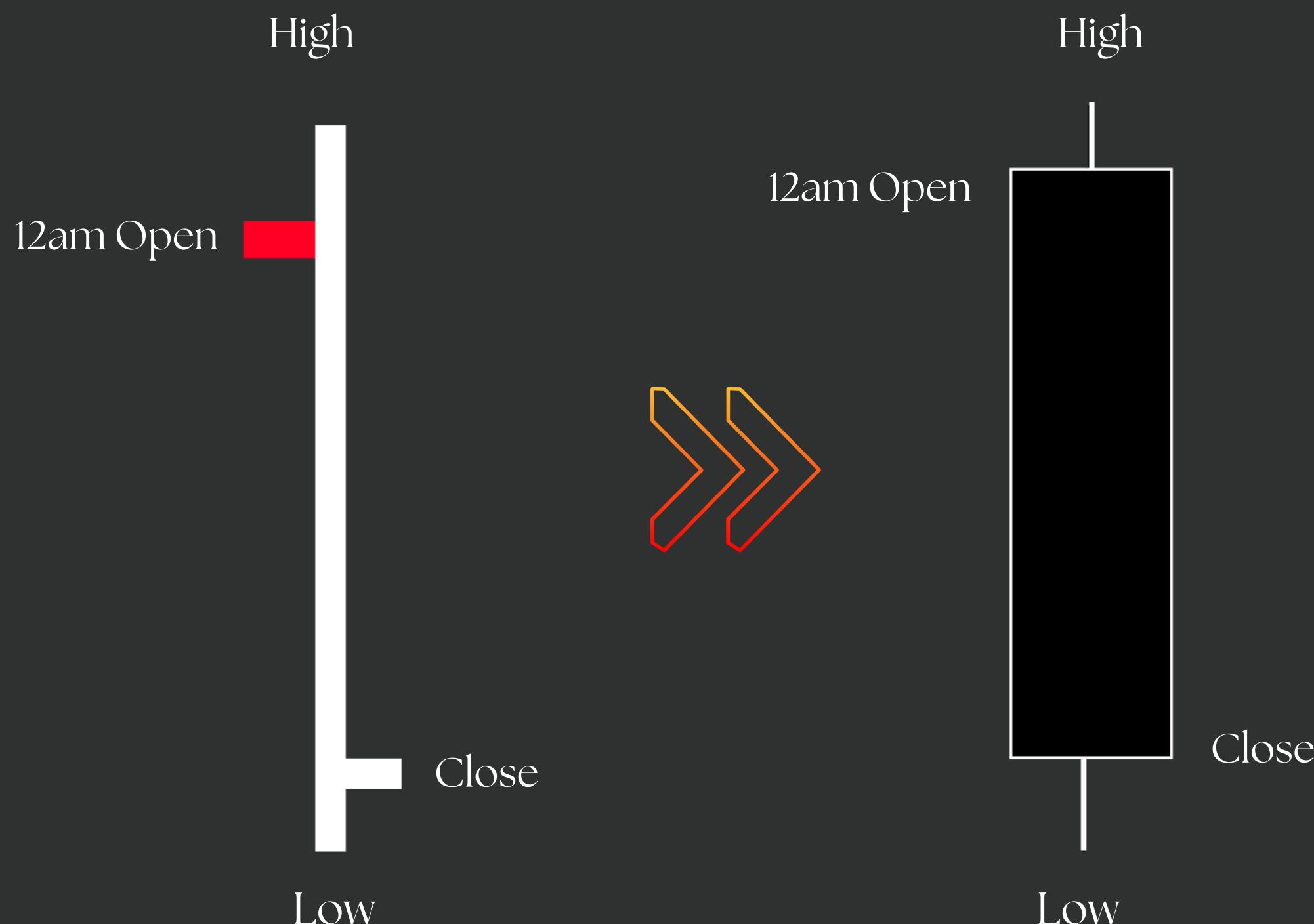
The Po3 concept enables us to buy below the opening price on a buy day and sell above the opening price on a sell day. There are many caveats to this concept but for the purposes of this e-book, I will keep it simple. We use midnight NY (EST) time as our filter for the Po3 concept. The opening price at this time is the true day opening price.

CLASSIC BUY DAY



In the example above, we can see how the OHLC bar can be viewed as a daily candle stick. The 12am opening price is our filter. Our aim is to buy at or below this open as the low is being formed, when we anticipate a bullish day. We are not concerned about the close. Our objective is to trade the bulk of the expansion move higher.

CLASSIC SELL DAY



In the example above, we can see how the OHLC bar can be viewed as a daily candle stick. The midnight opening price is our filter. We aim to sell at or above this open as the high is being formed when we anticipate a bearish day. We are not concerned about the close. Our objective is to trade the bulk of the expansion move lower.

ICT refers to the manipulation above/below the opening price as the JUDAS swing.

Together with time and key levels in price, we can predict how high or low this Judas swing may reach.

I have already explained the time element in this e-book. Next, I will delve into key price levels known as PDArrays.

PD.ARRAYS

(Premium/Discount Arrays)

Arrays are data points that are stored within a program. These arrays are key price levels stored in IPDAs repricing logic, relative to a premium/discount market, and will be referred back to at later dates. These arrays will become active when time aligns with price. We do not have zones in ICT logic. Each array has specific levels, which can be graded and calibrated. There will be different arrays present in each swing that can offer support/resistance. Monitoring how price reacts at these key levels can help us to gauge order flow in a bullish or bearish market environment.

THE PD.ARRAY MATRIX

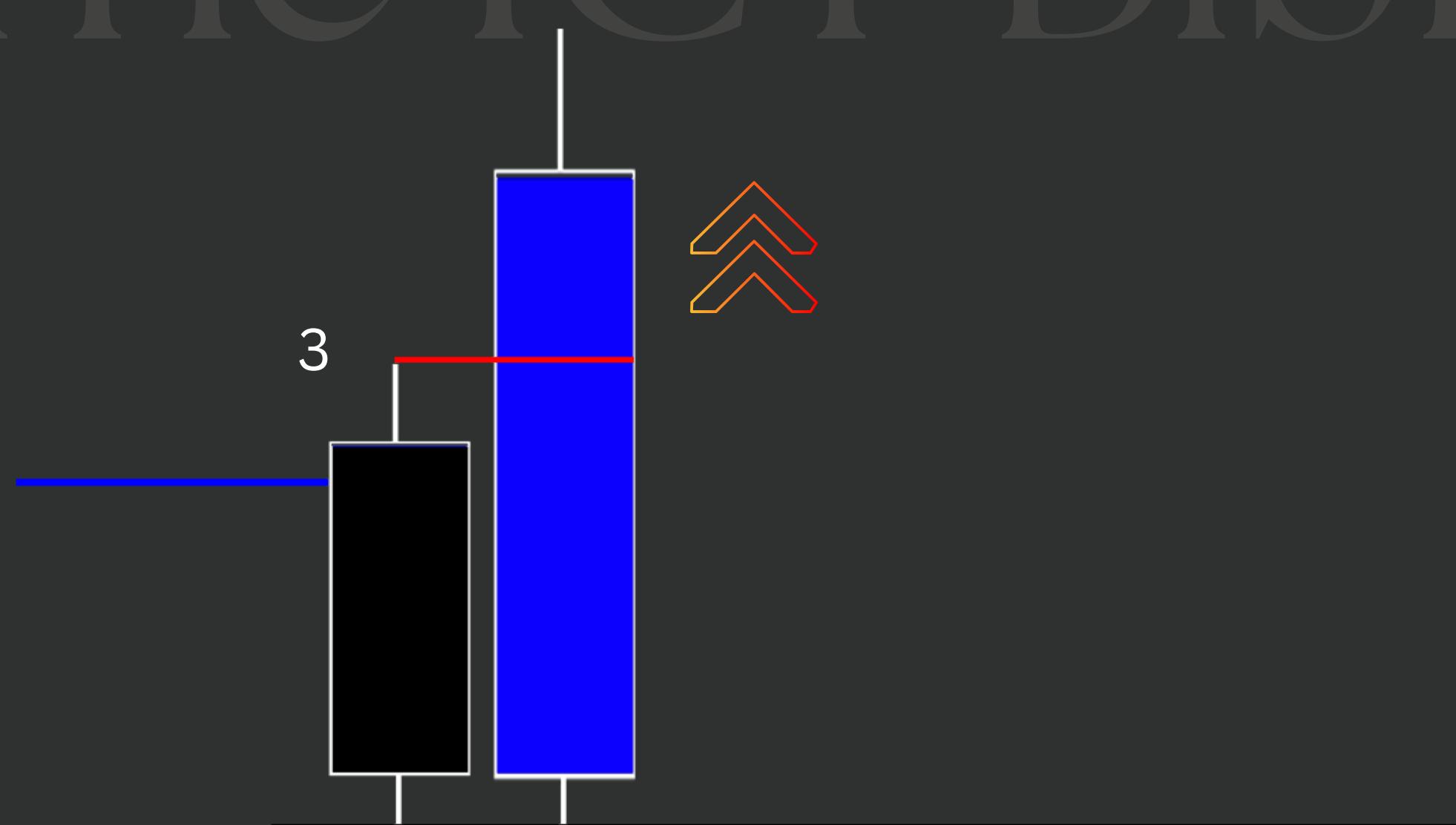


THE ORDER BLOCK

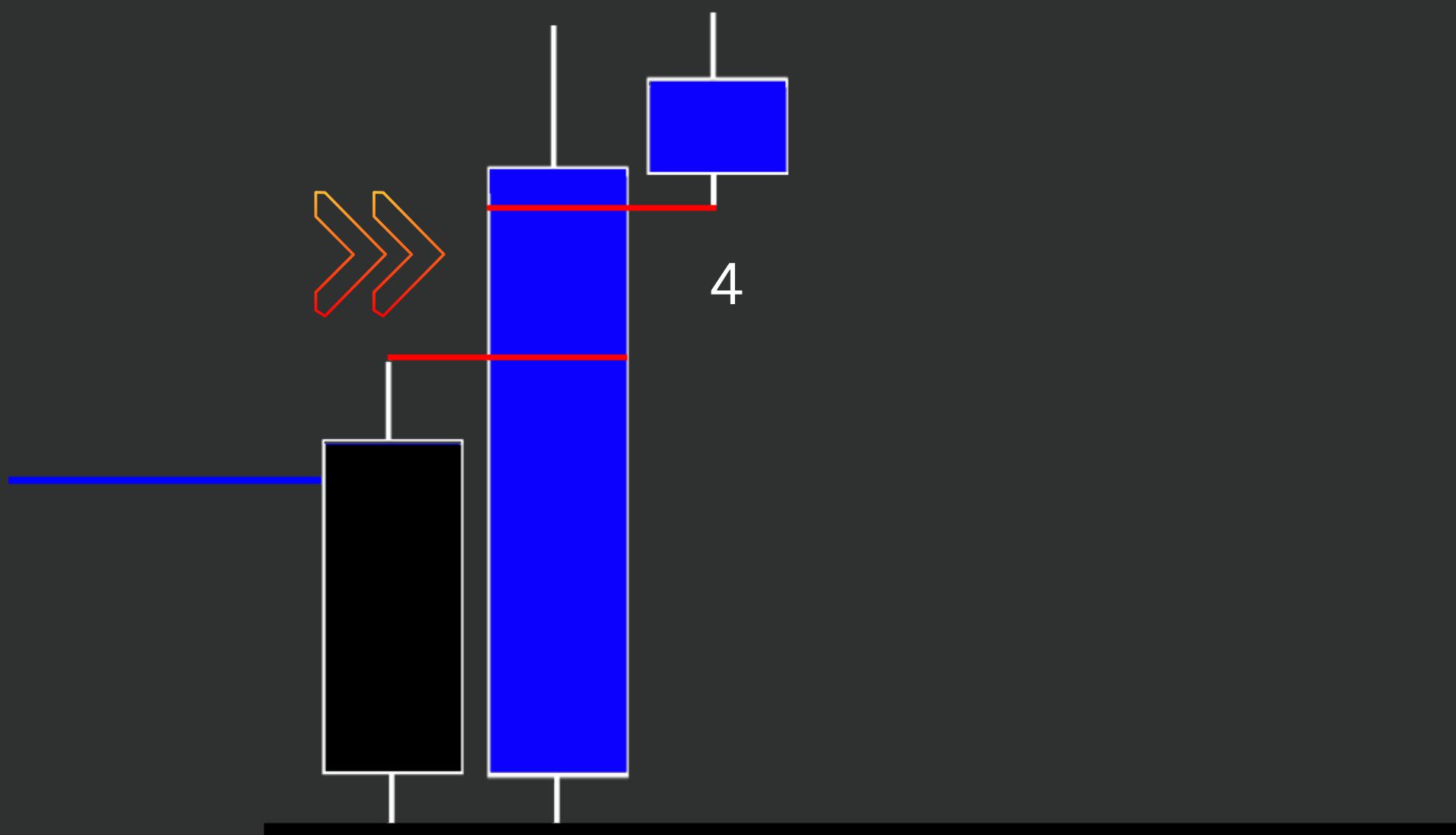
(BULLISH)



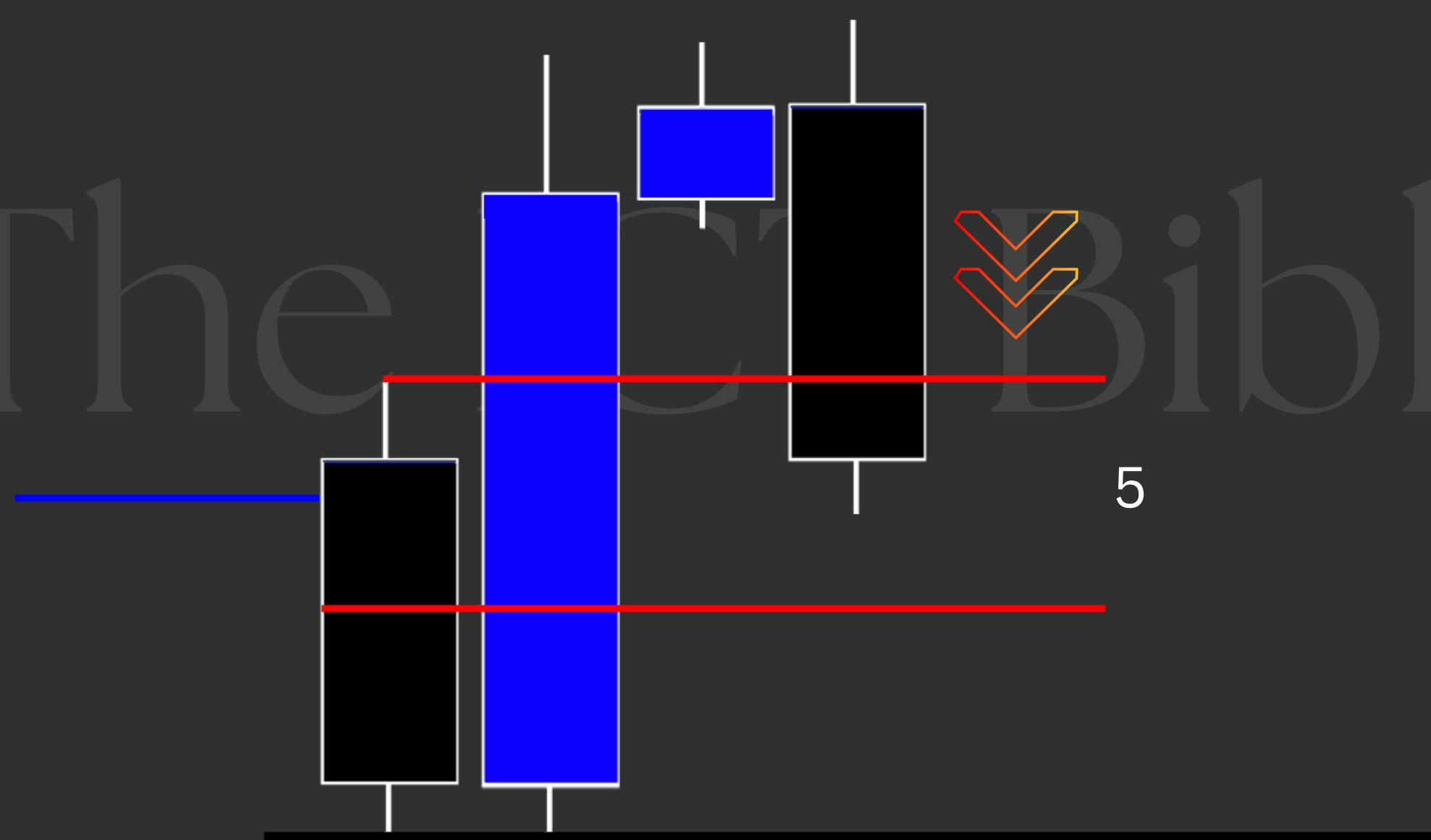
1. A down close candle (or consecutive down close candles) that run sellside liquidity
2. The down close candle(s) come into a HTF support level



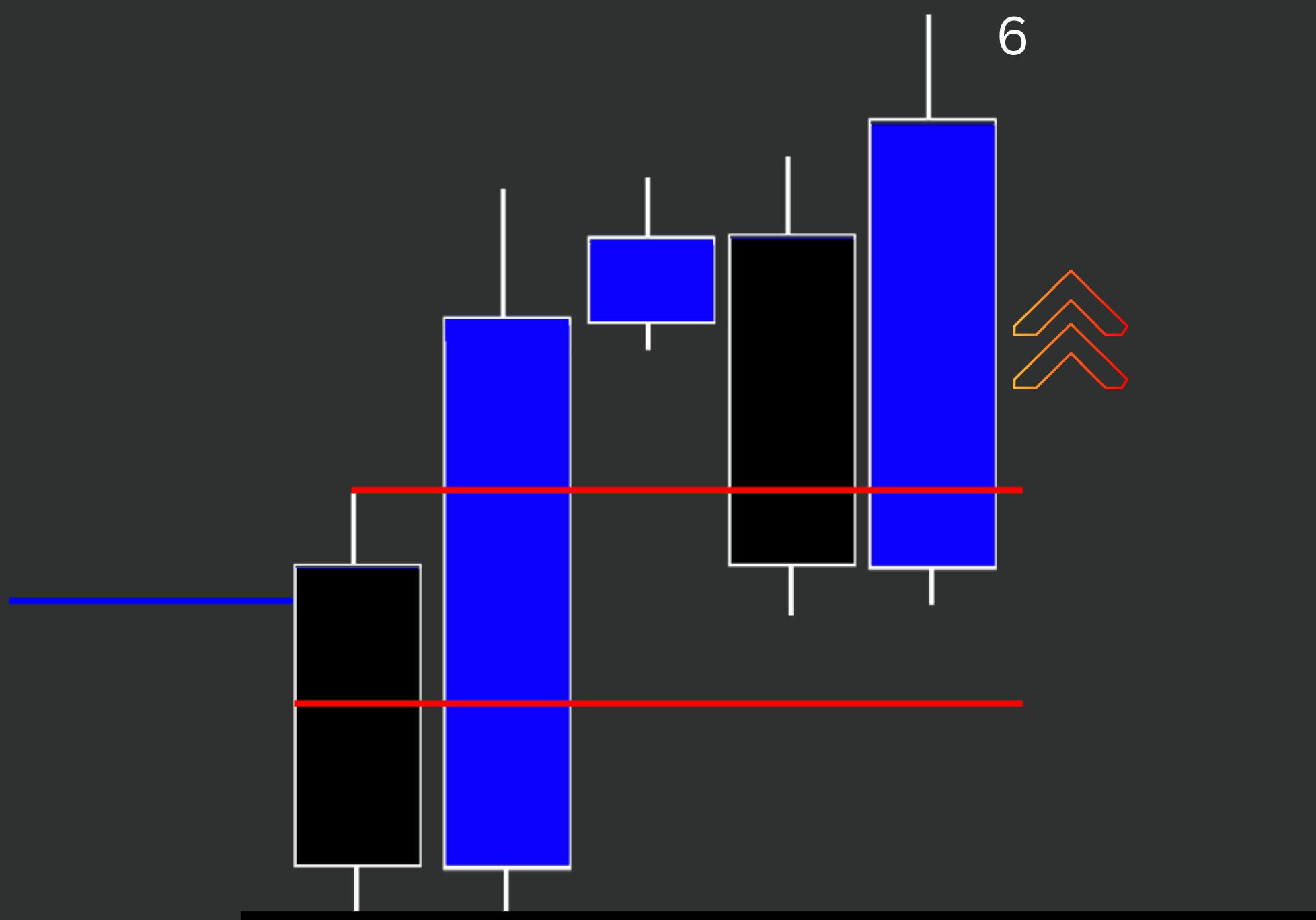
3. The down close candle(s) becomes a valid order block once we close above it's high.



4. A higher quality order block will have a FVG directly above it (displacement)



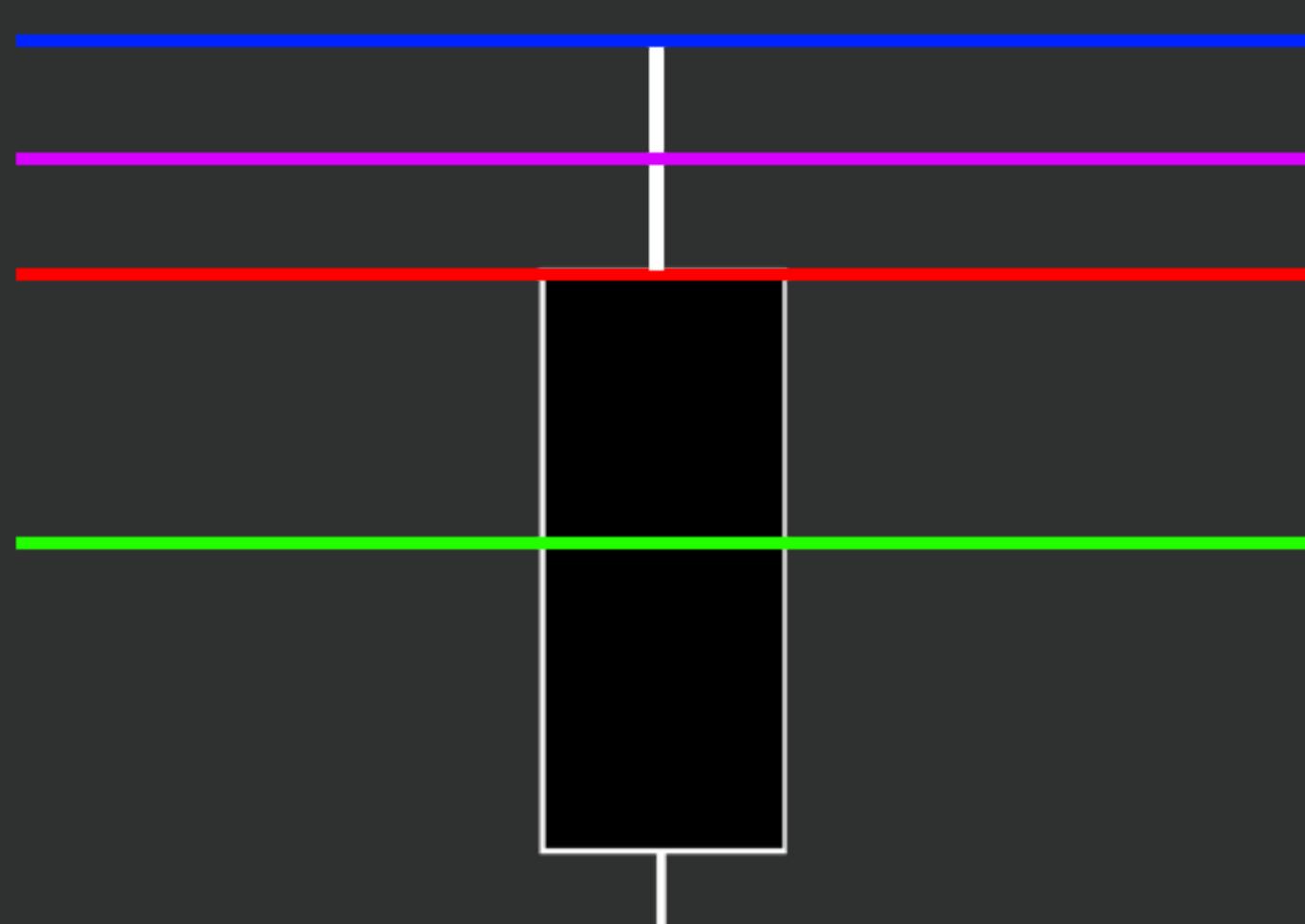
5. When price returns back down, the most sensitive area of the order block will be the high to the mean threshold (50%). We do not want to see price violate the mean threshold of the order block.



6. If the order block is valid, and we are in a bullish environment, we should see a reaction from the order block and IPDA will reprice higher.

Higher probability order blocks will generally be found around the equilibrium level (50%) of a consolidation range.

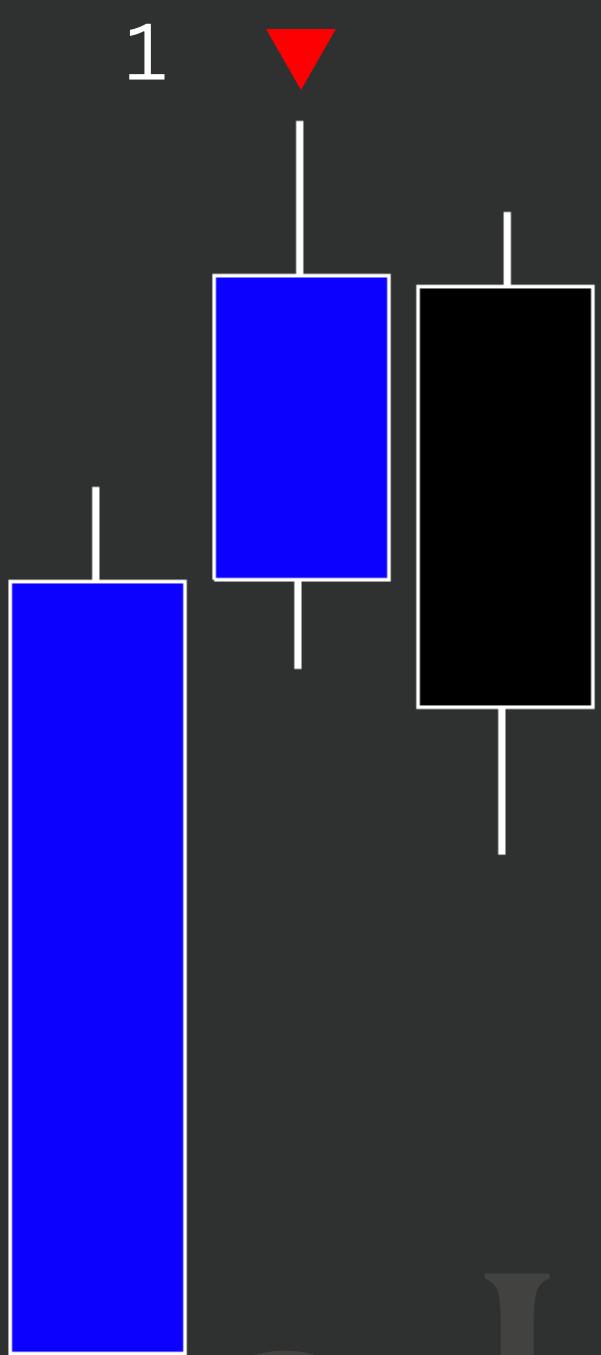
OB KEY LEVELS



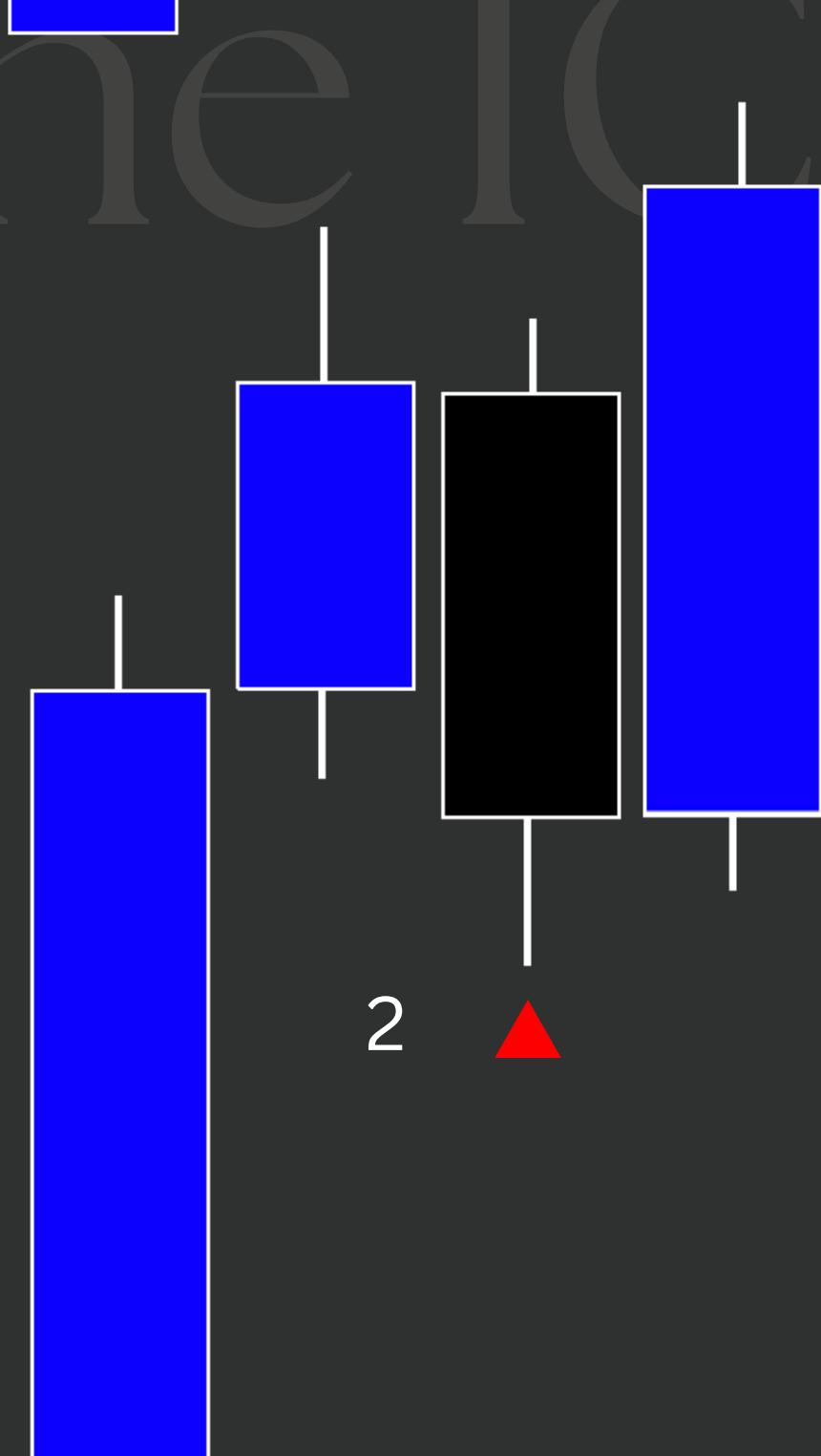
Reverse this for Bearish Order Block (Last up close candle(s))

THE BREAKER

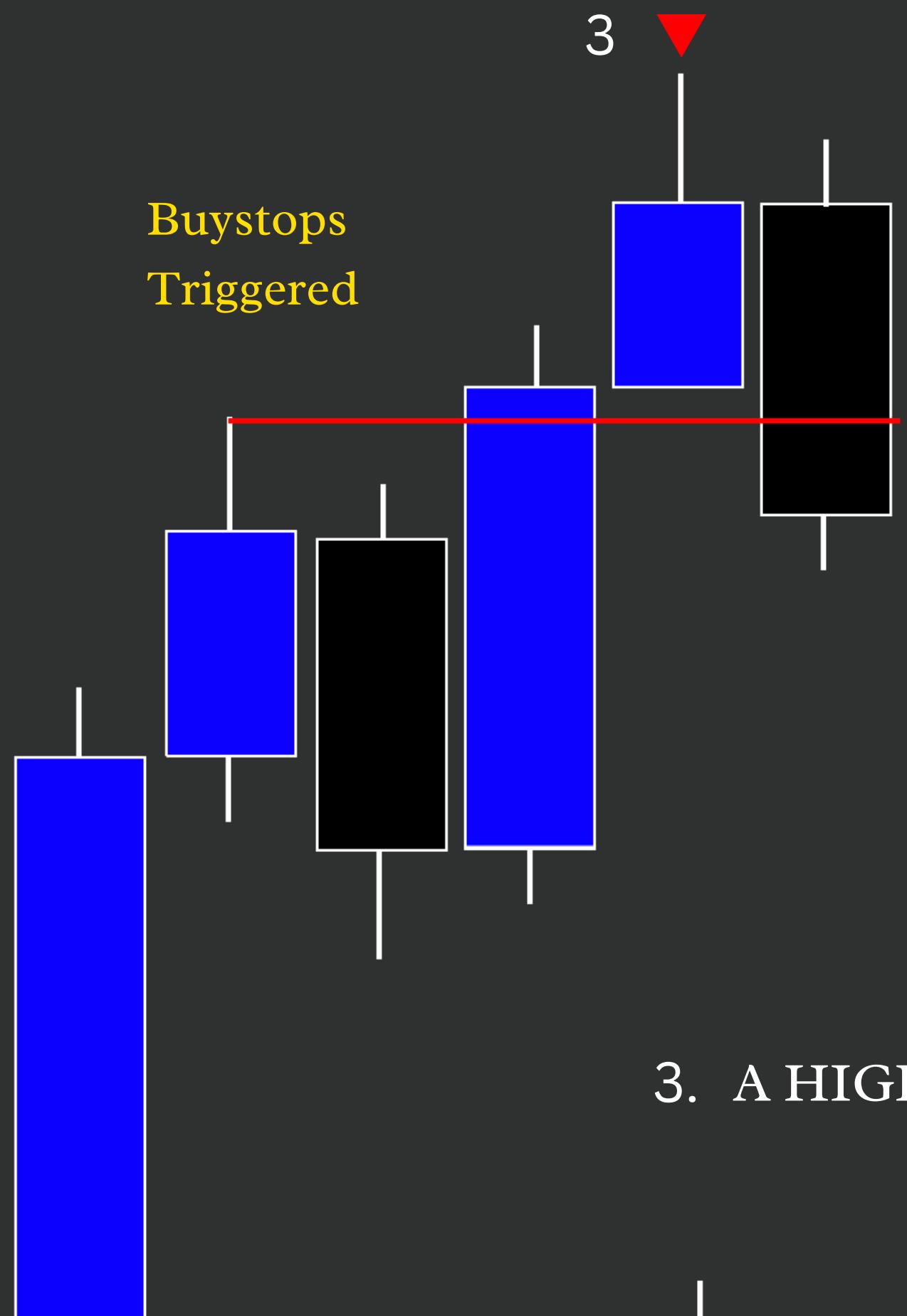
(BEARISH)



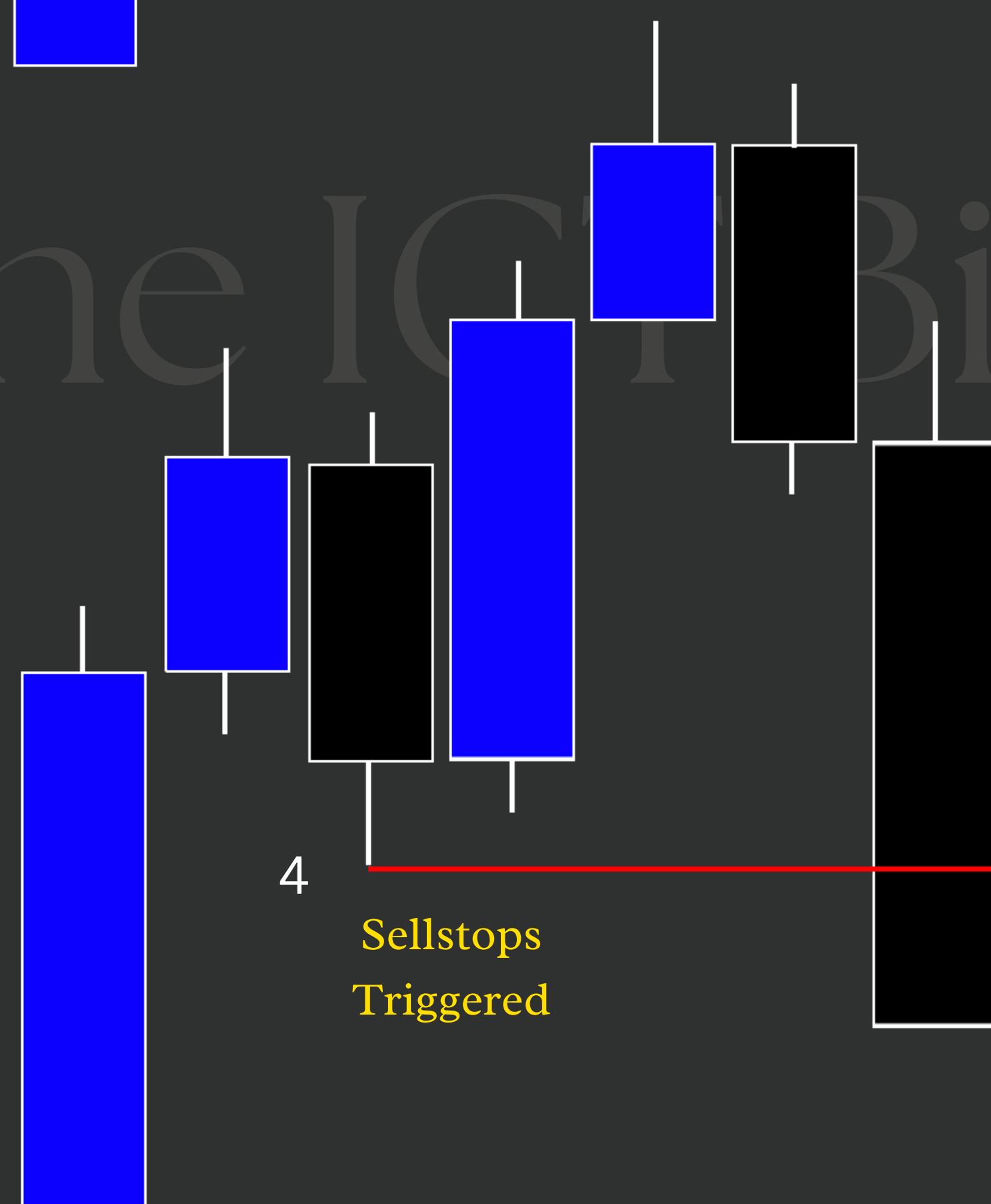
1. A swing high is formed



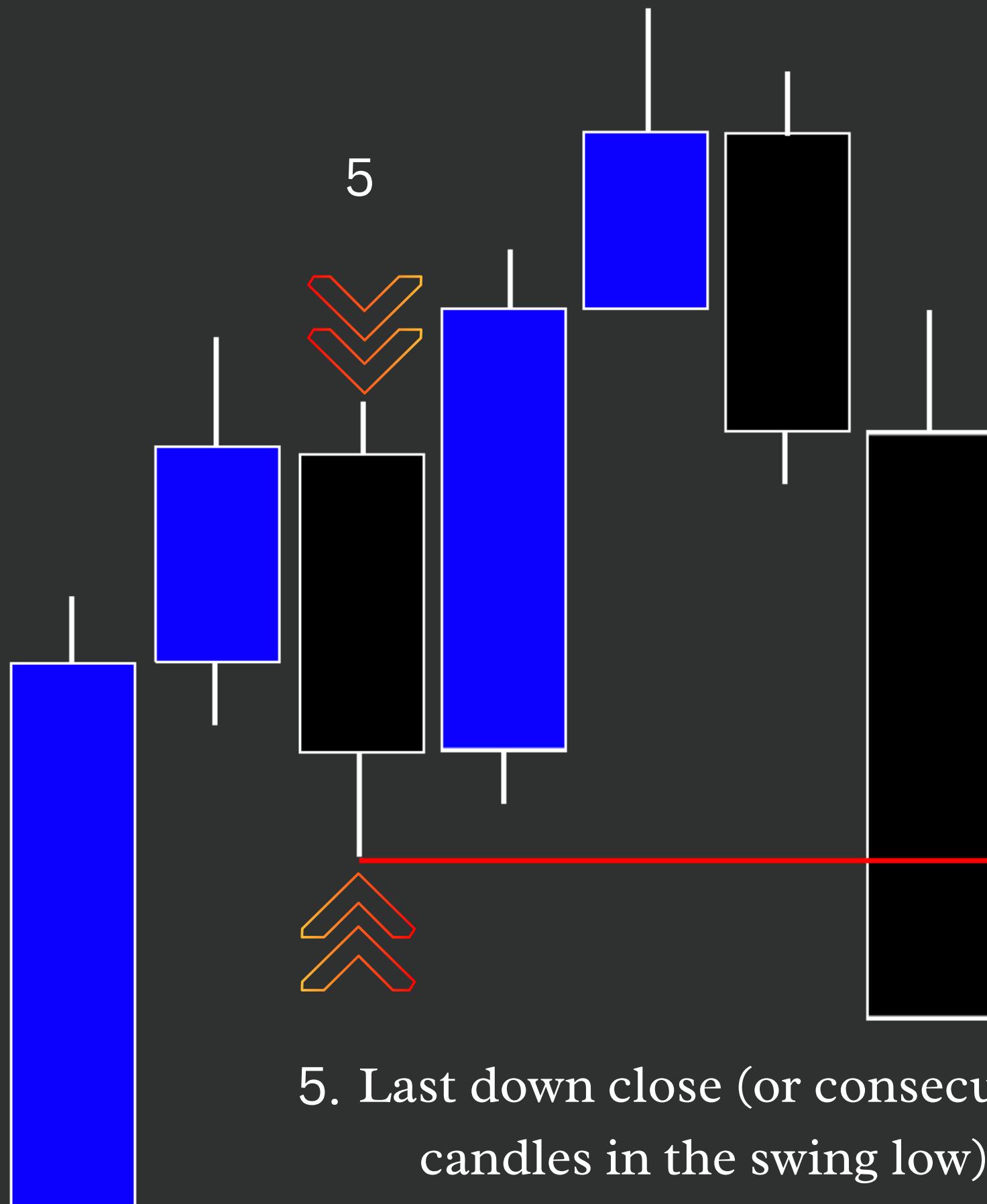
2. A swing low is formed



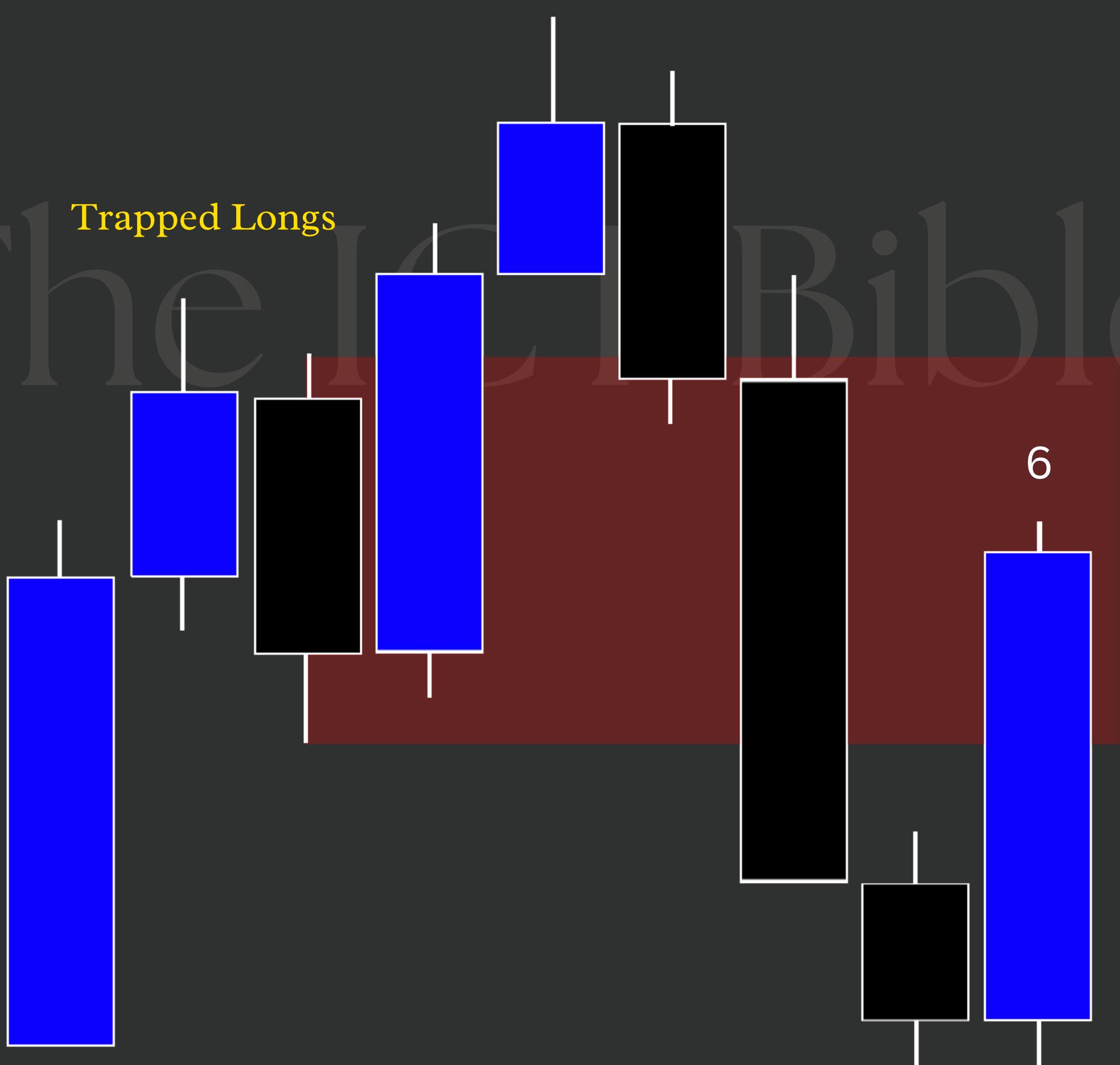
3. A HIGHER HIGH is formed



4. Price reverses and runs below the previous swing low



5. Last down close (or consecutive down close
candles in the swing low) = BREAKER



6. Price returns back to breaker.

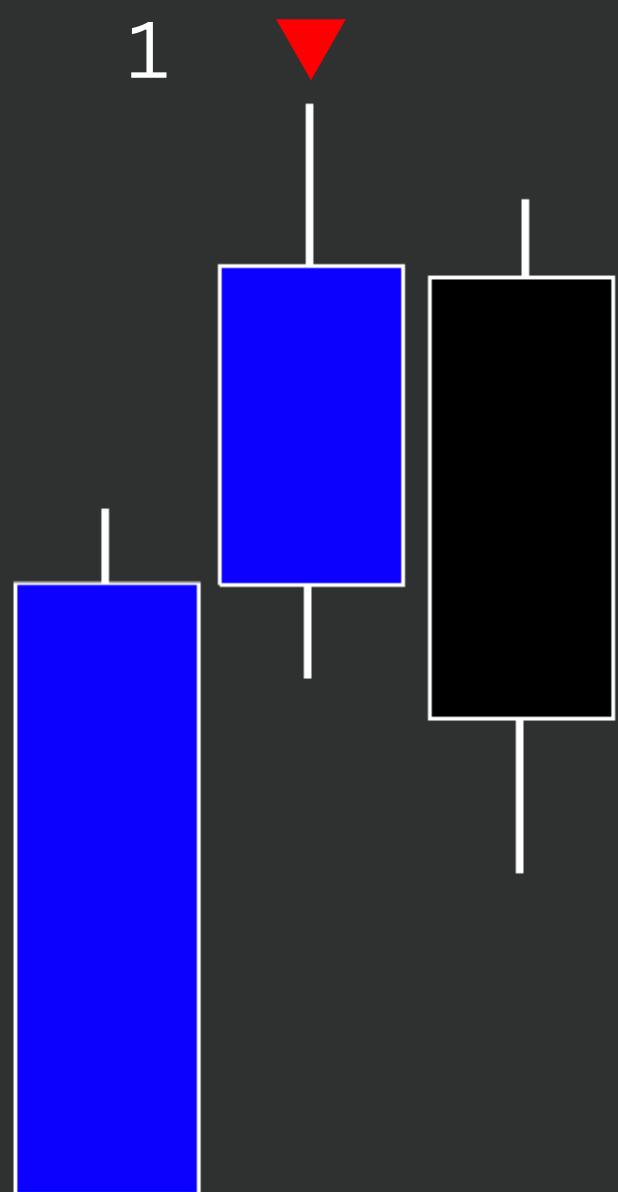


7. This return to the breaker allows interbank traders to mitigate long positions & add to their short positions as the market reprices lower.

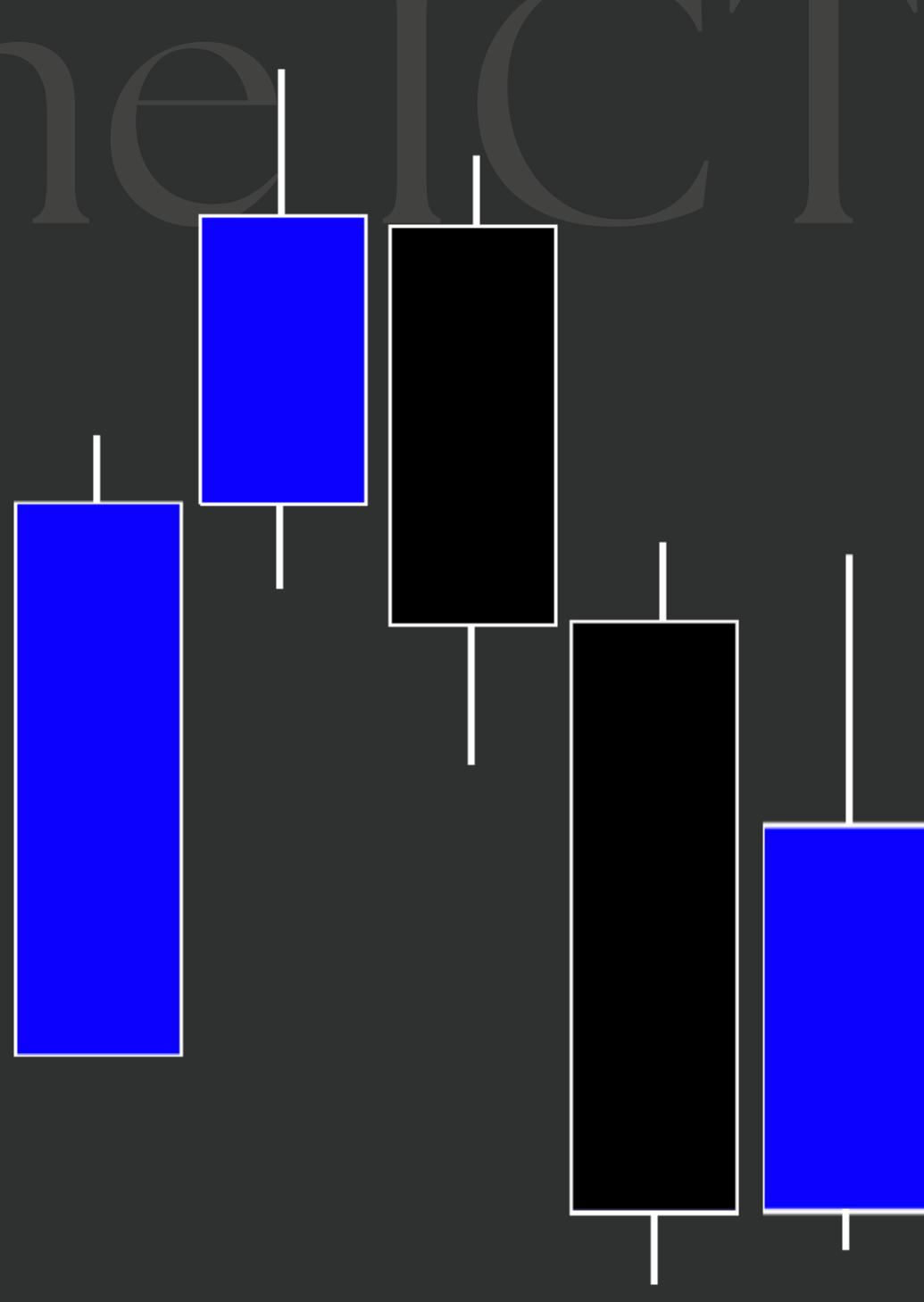
Reverse this for a Bullish Breaker

THE MITIGATION BLOCK

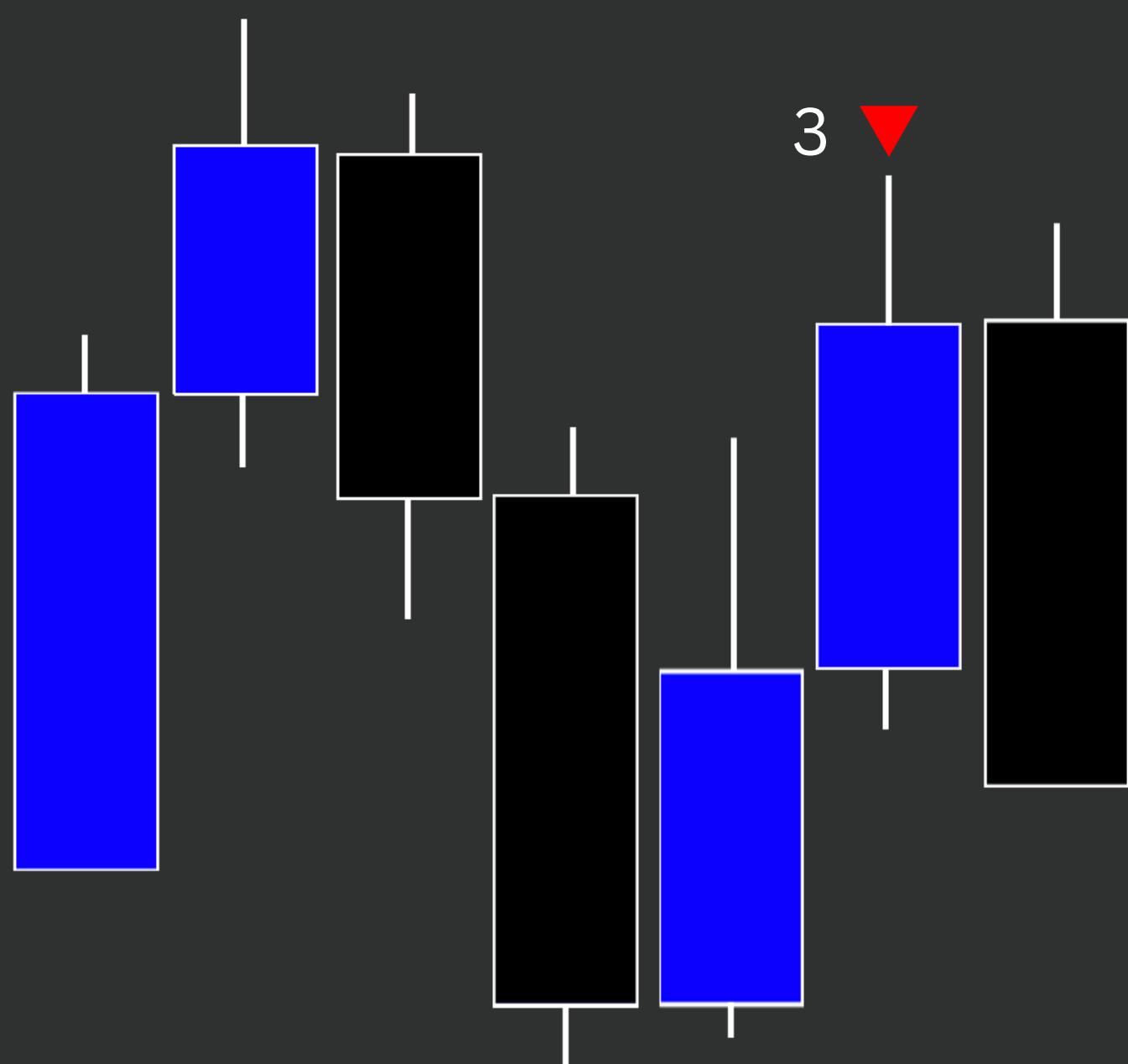
(BEARISH)



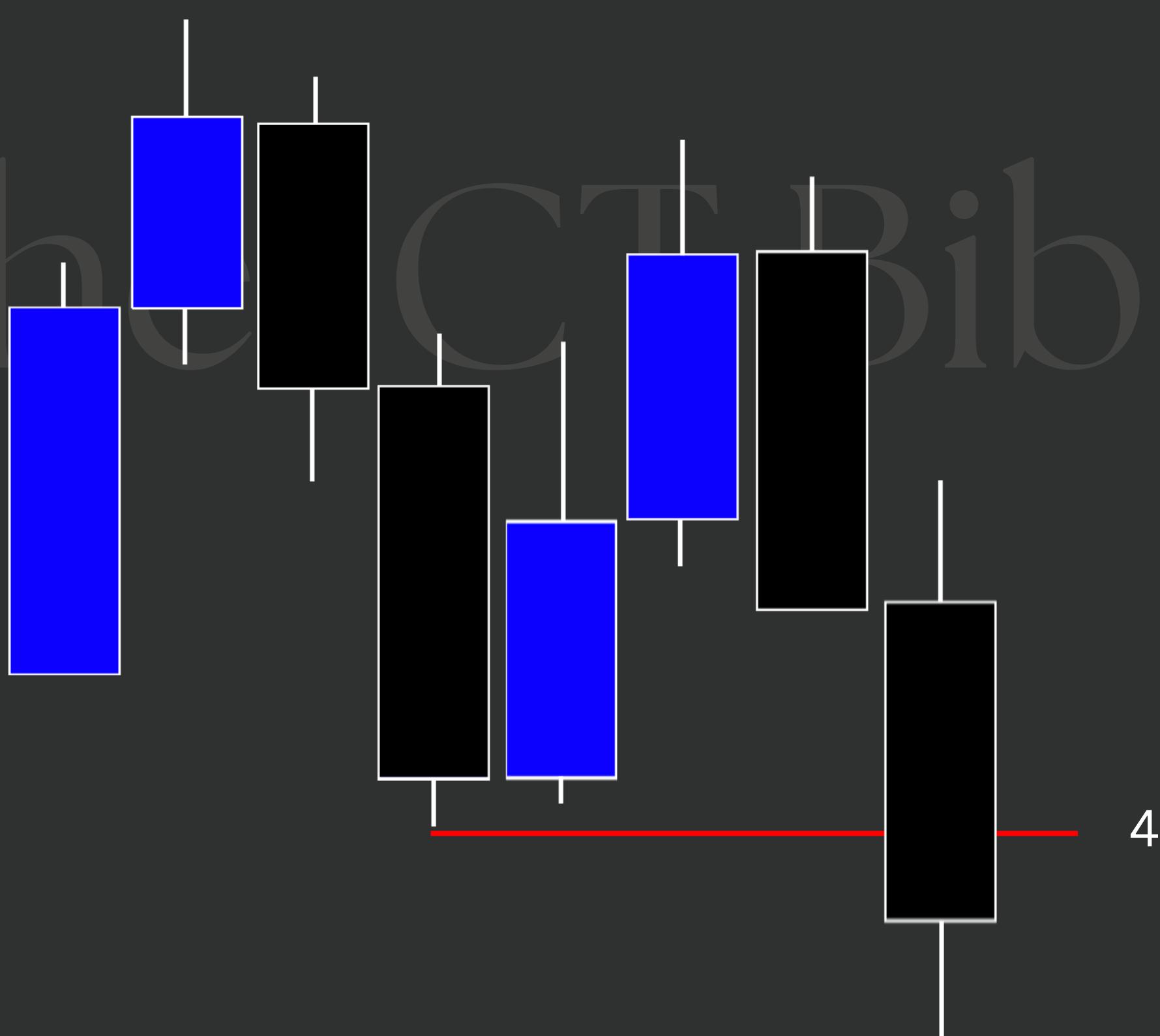
1. A swing high is formed



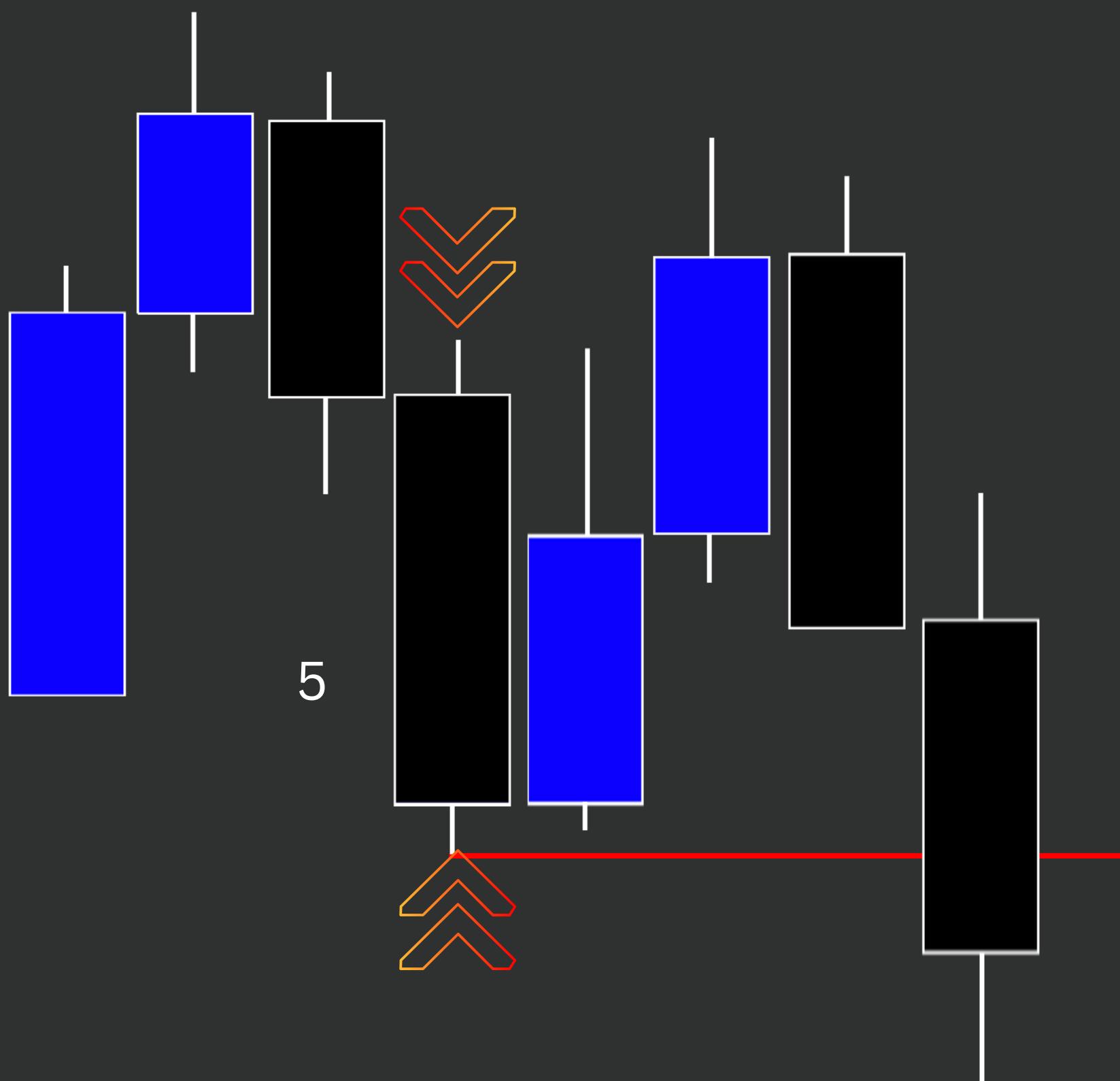
2. A swing low is formed



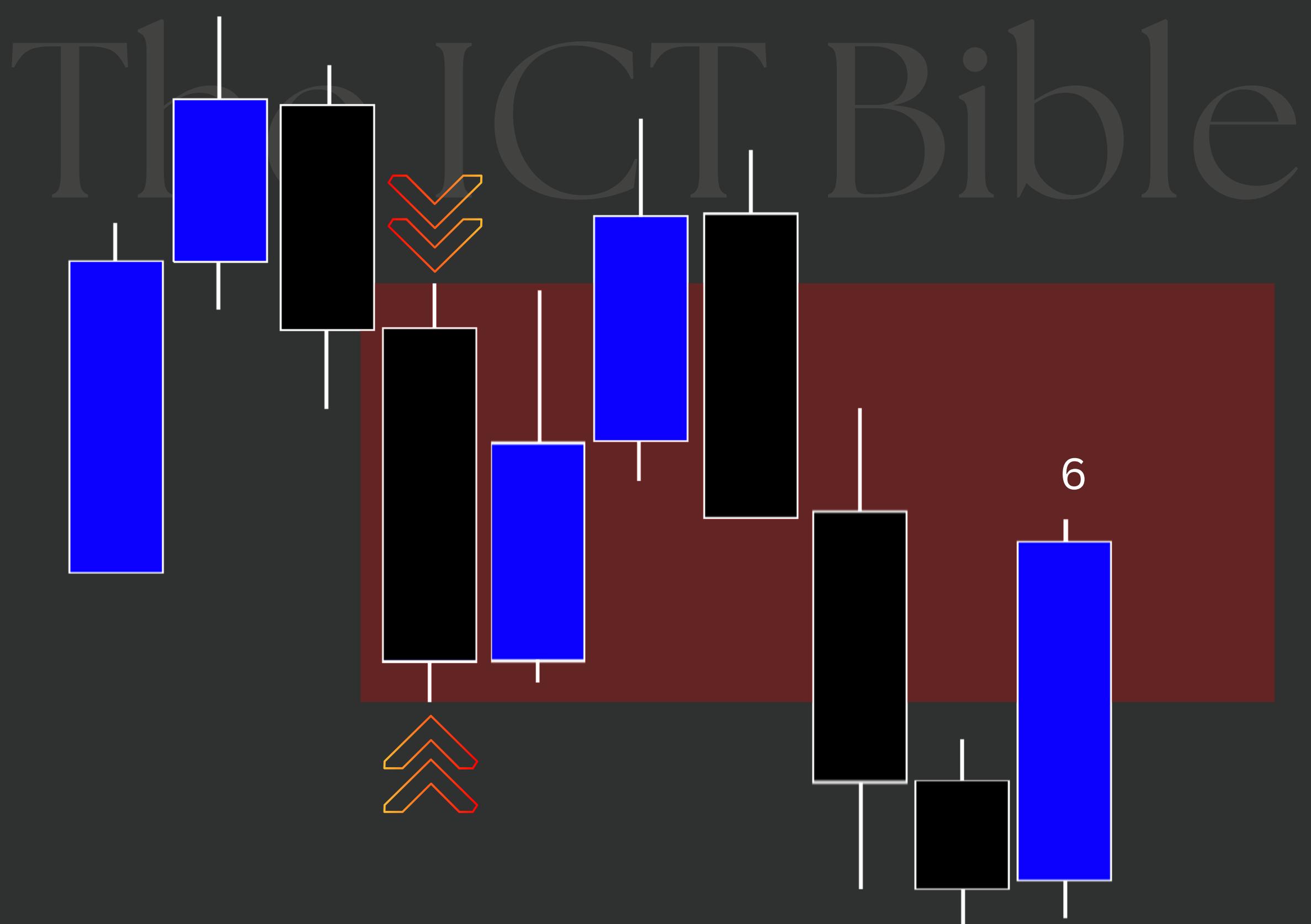
3. A LOWER HIGH is formed



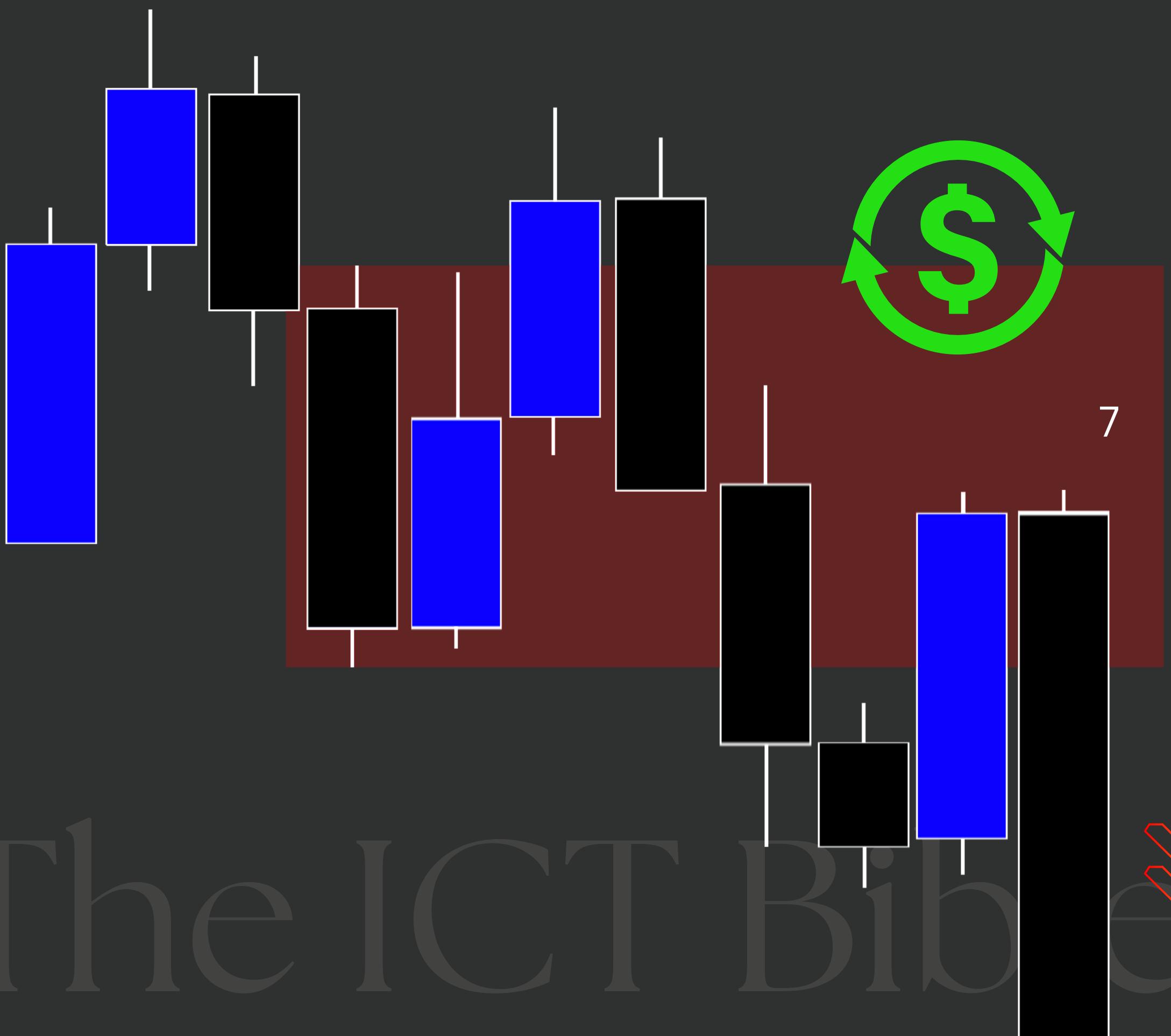
4. Price reverses and runs below previous swing low



5. Last down close (or consecutive down close
candles in the swing low) = M.B



6. Price returns back to Mitigation Block.



7. This return to the Mitigation Block allowing interbank traders to mitigate long positions & add to their short positions as the market reprices lower.

Reverse this for a Bullish Mitigation Block

THE DEALING RANGE

The markets move in ranges. Understanding how a range is created is one of the most essential components to understanding price delivery.

A dealing range is established when we run buyside and sellside liquidity to create a new swing. This new swing will have its own high and low. The range between this new high and low will become the current dealing range. IPDA will seek PDArrays/FVGs and/or INTERNAL RANGE LIQUIDITY (Lows/Highs inside of the range) within this dealing range.

IPDA will seek internal range liquidity, where interbank traders will look to pair buy or sell orders with willing participants and offload their positions to willing participants above/below the dealing range highs and lows (EXTERNAL RANGE LIQUIDITY).

The market constantly moves from internal range liquidity to external range liquidity, and external range liquidity to internal range liquidity (unless manual intervention is in play)



The expansion lower here
has ran sellstops, making a new low

Sellstops purged



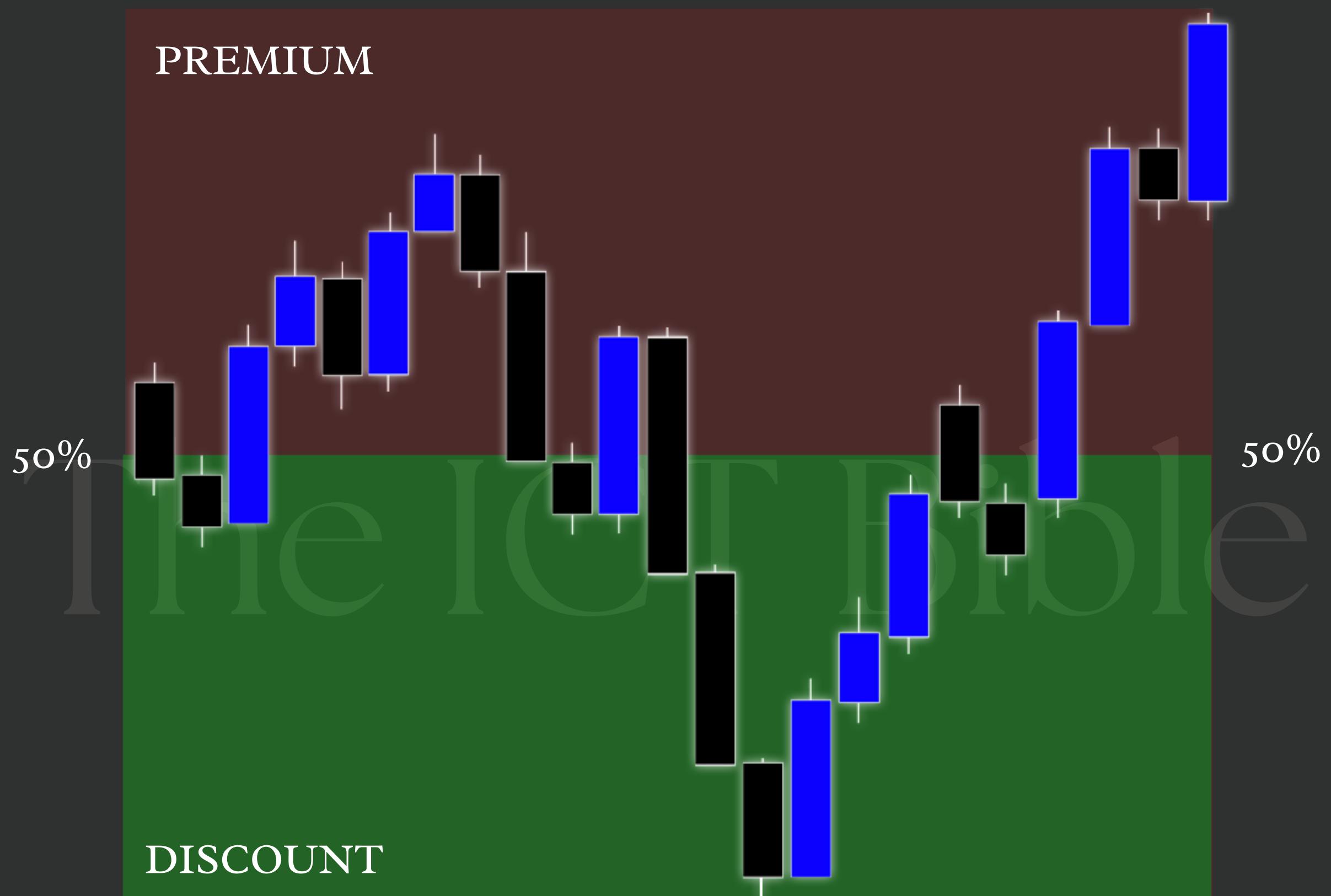
The expansion higher here
has ran buystops, making a new high

Buystops purged

New Dealing Range

A new dealing range has been
established

PREMIUM VS DISCOUNT



Once we have an established dealing range, we can split this range in half. Above the 50% level would become the PREMIUM range and below the 50% level would become the DISCOUNT range.

We seek to buy at discount and sell at a premium.

FINAL THOUGHTS

This e-Book is designed to build a foundation for the understanding of ICT concepts. We only scratch the surface here into how deep these concepts go, and how they are applied to real-life trading. I have done my best to keep things as concise as possible without making this e-Book hundreds of pages long. I intend to explore these concepts in greater detail through later volumes. As many of you are aware, there is a huge amount of ICT content to digest and absorb, and one can only explain so much in text format. I have created a video format of short clips explaining these concepts in more detail through my Trading Academy (details can be found on the website for those interested).

Trading is NOT a get-rich-quick scheme. I cannot stress how important it is to learn self-discipline and thoroughly backtest, collect data, and create your own personal working model. Knowing ICT concepts and how the algorithm's book price does not automatically entitle you to profitability.

Finally, I invite everyone who has read this e-book to dig into their own charts and see for themselves how these concepts work. There is ABSOLUTELY an algorithm controlling these markets. ICT has changed the retail trading game forever, and it would be in our best interests to spend time to fully understand and appreciate the knowledge that he has given to us.

Thank you for reading.

Good Luck & Good Trading

AK



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