

## Supply and Demand – Steps to Drawing Zones:

### Step 1: Identify an impulse move

Long Trade Setup – A new swing high is created

Sell Short Trade Set up – A new swing low is created

### Step 2: Identify the Move Out Candle indicating an imbalance may exist

Long Trade Setup – Move Out (Rally) Candle is near or below breakout

Short Trade Setup – Move Out (Drop) Candle is near or above breakout

### Step 3: Identify the Move In candle to isolate the base candle(s)

Long Trade Setup – Move In (Rally) Candle is Below the Move Out Candle

Short Trade Set up – Move In (Drop) Candle is Above the Move Out Candle

### Step 4: Identify the Base candles between the Move In and Move Out candles

### Step 5: Draw zones on the base candles

If there is only one base candle draw the zone from wick to wick

If there are 2 to 5 candles draw the zone from body of candle to wick

Long Trade Set up – Top of the body of the highest candle body in the base

Short Trade Set up – Bottom of the body of the lowest candle body in the base

If there are more than 5 candles disqualify the zone

### Long entry zones are called:

Rally-Base-rally: RBR

### Short entry zones are called

Drop-Base-Drop: DBD

Gaps between candles often occur in the stock market and can create confusion. A gap happens when price opens above or below the close of the previous candle. A gap can be a clue to identifying an imbalance in the supply and demand equation. If price gaps above the previous candle's close buyers are typically in control. If price gaps below the previous candle's close sellers are typically in control. Replacing the gaps with manually drawn candles may help to analyze price action and provide clues in identifying Supply and Demand Zones. *Please note: The location of the gap within the context of the trend should be considered if utilizing a gap trading strategy. A Gap in price does not qualify as a gap trading strategy on its own.*

Trading Securities involves risk. The method shown in this document to identify Supply and Demand Zones does not guarantee results. Losses will occur with all trading methods, and strategies.

# Long Trade Setup



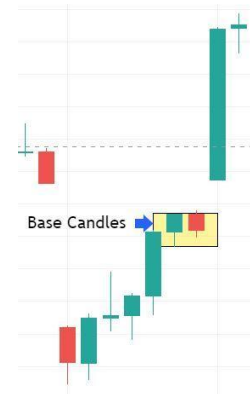
Impulse Move Up



Move Out Rally candle(s)



Move in rally Candle(s)



Base Candle(s)



Rally – Base – Rally (RBR) Long trade set up at a Demand Zone

## Long Trade Set up

Step 1: Identify an impulse move (Breakout). A breakout is defined as a higher swing high



Step 2: Identify a "Rally" candle (Move Out). A green candle that closes near the top of the candle and is taller than previous candles. Ideally there are two or more consecutive move out candles. Look for a strong move out from the basing candle(s).



Step 3: Identify the "Rally" candle (Move In). A green candle that closes near the top of the candle and is typically taller than the previous candles. Look for a strong arrival into the base candle(s).



Step 4: Identify the Base candles between the “Rally” Move In and the “Rally” Move Out candle(s). A base candle is typically a candle with a body of 50% or less of the trading range (wick to wick). There should be 5 or fewer basing candles between the “Rally” Move In and the “Rally” Move out candles to qualify as a high probability Demand Zone.



Step 5: Draw a Demand Zone around the base candles. The top of the zone is at the body of the highest base candle or at the top of the wick if there is only one base candle. The bottom of the zone is at the lowest wick of the base candles. Rally-Base-Rally (RBR) Long Trade Setup at a Demand Zone.





## Short Trade Set up

Step 1: Identify an impulse move (Breakout). A breakout is defined as a lower swing low.



Step 2: Identify a “Drop” candle (Move Out). Red candle that closes near the bottom of candle and is taller than previous candles. Ideally there are two or more consecutive move out candles. Look for a strong move out from the basing candle(s).



Step 3: Identify the “Drop” candle (Move In). Red candle that closes near the bottom of candle and is typically taller than the previous candles. Looking for a strong arrival into the base candle(s).



Step 4: Identify the Base candles between the “Drop” Move In and the “Drop” Move Out candles. A base candle is typically a candle with a body of 50% or less of the trading range (wick to wick). There should be 5 or fewer basing candles between the “Drop” Move In and the “Drop” Move out candles to qualify as a high probability Supply Zone.



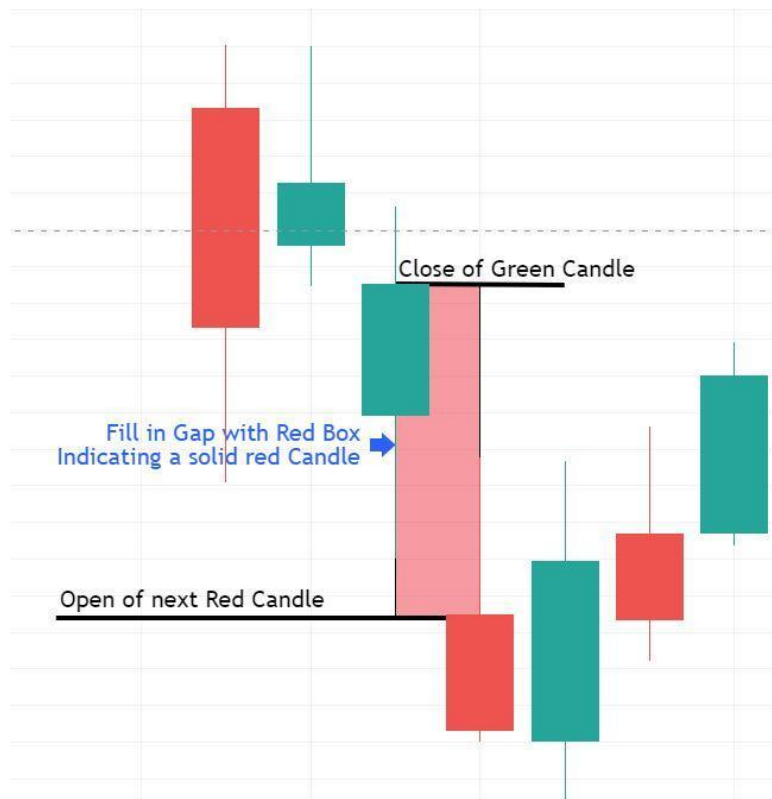
Step 5: Draw a Supply Zone around the base candles. Top of zone is at the wick of the highest base candle. Bottom of zone is at the lowest body of the base candles. Or bottom of wick if there is only one base candle. Drop-Base-Drop (DBD) Sell Short Setup at a Supply Zone



Gaps in price can represent a strong imbalance. If there is a gap up – draw a green box representing a Move Out Green candle. The Base will be below the Gap Up



Gaps in price can represent a strong imbalance. If there is a gap down – draw a red box representing a Move Out Red candle. The Base will be above the Gap Down



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