

Supply And Demand:How To Find And Trade The Best Zones

Introduction

Supply and demand trading remains one of the most popular trading strategies almost 10 years after it first came to prominence.

In that time, there have been very few changes in how people trade supply and demand zones. If you go online and search for supply and demand trading, you'll see for the most part, there is very little difference between how different traders trade the zones.

I think I speak for the majority of traders when I say the current method of trading supply and demand promoted by Sam Seiden does not result in consistent profits. Most traders are under the impression the reason they're not making consistent profits from trading supply and demand is because of something they're doing wrong trading the zones.

The reality is the reason why people trading supply and demand zones are not making consistent profits is that the understanding they have of how to find and trade supply and demand zones is incorrect.

In this book, I'm going to give you the understanding you need to find supply and demand zones that are likely to give you profitable trades.

What I'm going to do is break down the mechanics of what causes supply and demand zones to form along with showing you the different reasons why the market will return to the zones once they have been created.

In addition to this, you'll see the length of time it takes for the market to return to a supply or demand zone is the most important factors in knowing whether the zone will work out successfully or not.

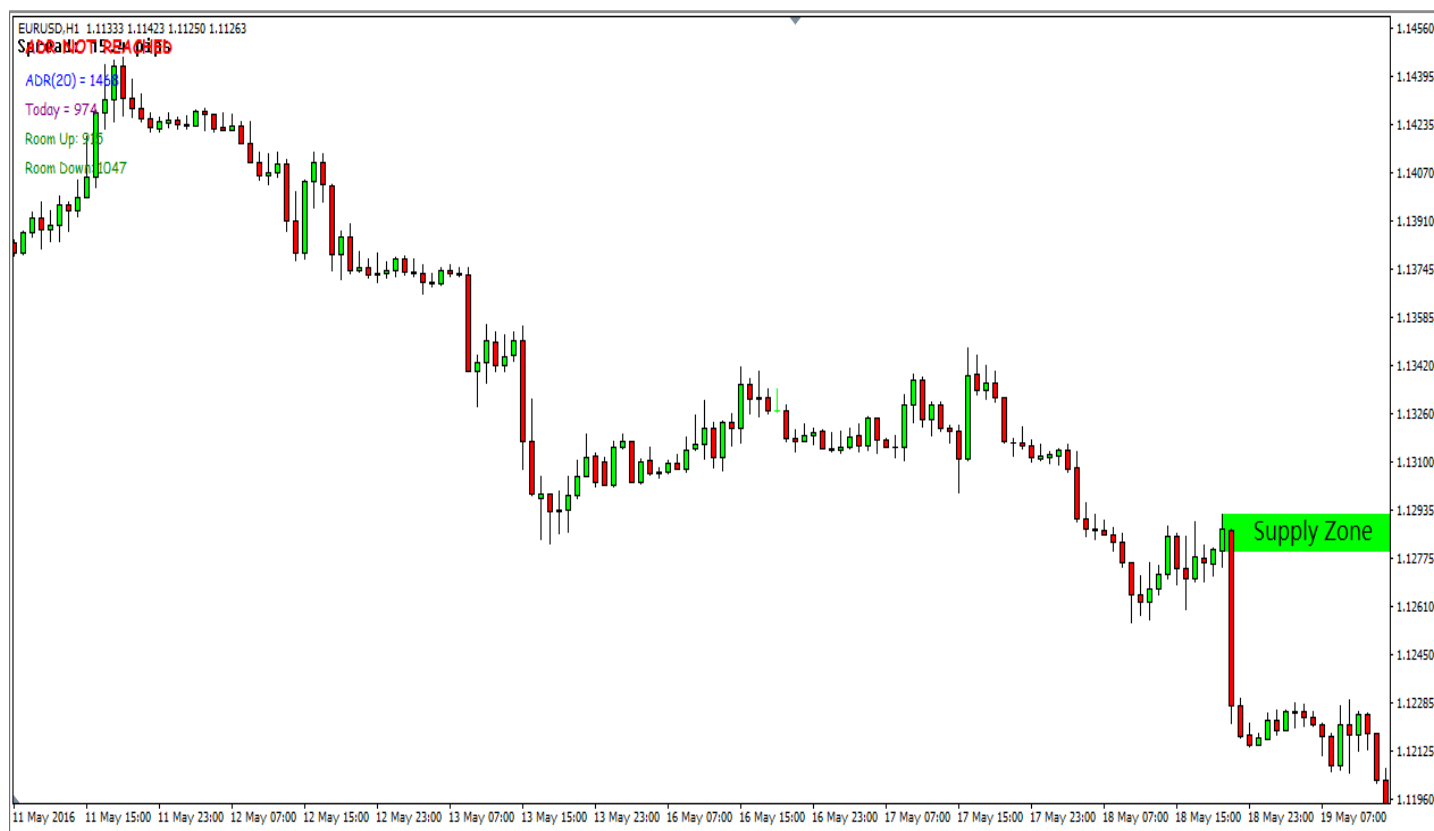
Hope you enjoy the book.

How To Determine If A Supply Or Demand Zone Is Going To Result In A Successful Trade

I think the best way to start the book, is by revealing to what the most important factor is in trying to identify if a supply or demand zone is going to result in a successful trade.

One of the main concepts supply and demand traders teach, is the idea that the strength of a zone is determined by how long the market has been away from the zone. The guru's say "*The longer the market has been away from a zone, the stronger that zone becomes*".

This concept is the number one reason why most supply and demand traders are not making consistent money. The reason why is because it causes people to favor placing trades at zones that formed a long time ago over ones that have been created recently when it's the zones that have formed recently that have the best chance of providing people with successful trades.



The image above shows a supply zone that formed during a large swing lower on the 1-hour chart of EUR/USD.

This supply zone formed due to the bank traders placing sell trades. We can

confirm this to be fact because the market continued to fall after the zone formed.

Now the only reason why the market would come back to this supply zone is that the banks were not able to get all of their sell trades placed when the price dropped creating the zone.

If they wanted to get these remaining sell trades placed, they'll make the price move up into the zone soon after it has been created. They won't wait for price to drop a large distance before making it come back, as it would negate the point of placing the sell trade in the first place.

The banks want to place the sell trade at the zone to make money from the price falling, so why make the price drop by a large amount before causing it to come all the back to the area just to get their sell trade placed?



Look what happens when the market returns to the supply zone.

It breaks straight through without even a hint of stopping or pausing.

The funny thing about this supply zone is it actually meets the criteria most supply and traders use to gauge whether a zone has a high probability of being successful.

It has a large drop away, the strength of the move into the zone is strong, and the zone has not been revisited for a long time. All of these things are supposed to signal the zone has a high probability of being successful, yet as we can see, the market is easily able to break through it upon returning.

This is because the banks didn't have any sell trades left to place at the zone. If they did, we would have seen price return to the zone soon after it formed instead of taking 11 days.

Another point to make is the fact the supply zone had been created by the bank traders placing sell trades.

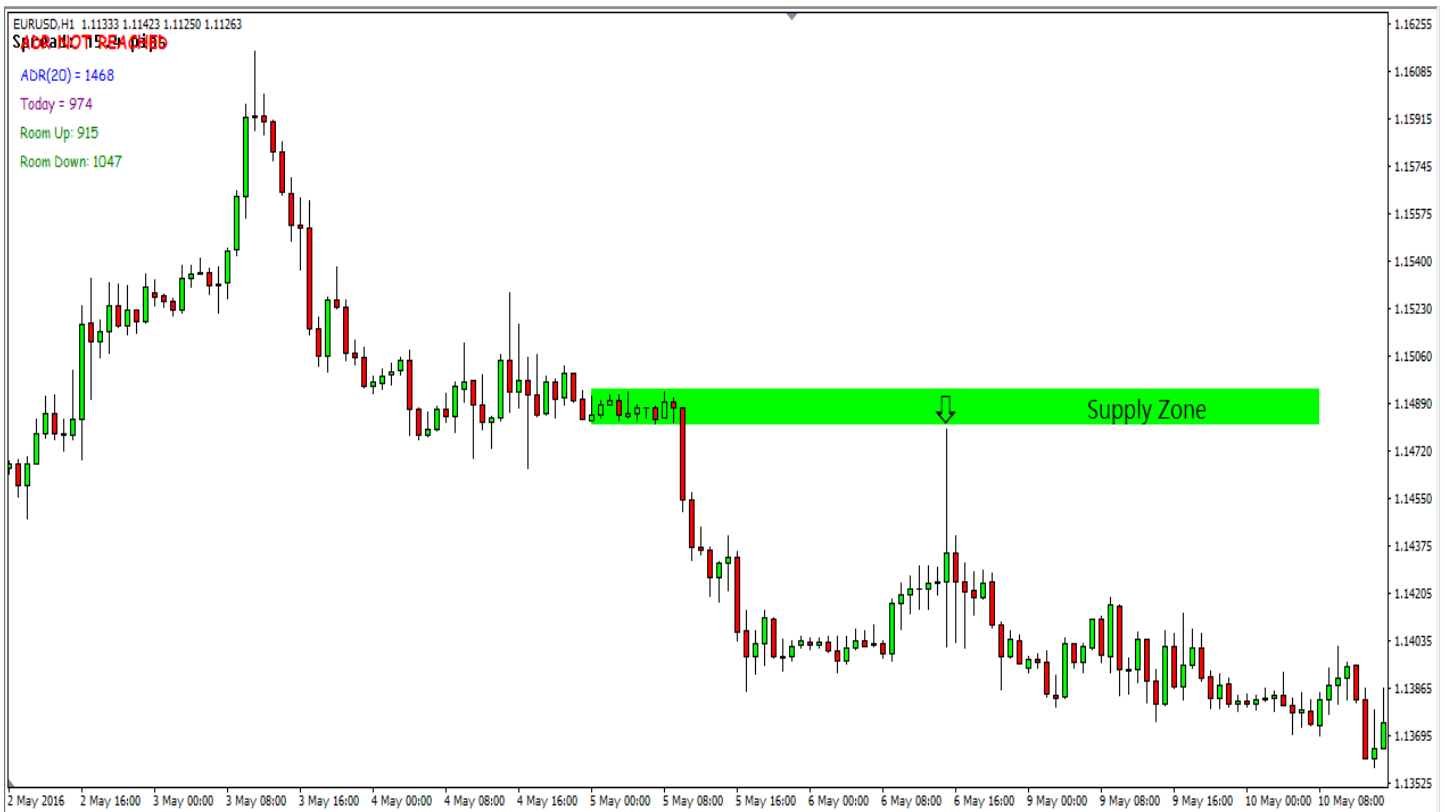
When the banks have got sell trades open they'll stop any attempt by the market to break past the point where their trades have been placed because it could jeopardize their position and cause them to lose money.

What this means is even if the banks did not have any more sell trades to get placed at the supply zone, a move up towards the zone soon after it was created would cause the banks to enter the market and place more sell trades just to stop the price from breaking through the high of zone and causing the sell trades they already have placed to go into a loss.

However, the thing to remember is the only time the banks will only come into the market and protect their trades is if they haven't already closed them.

In our example, the sell trades the banks placed to create the supply zone had been closed by the time the market returned to the zone 11 days later.

This means there's no point in the banks coming in and placing more to stop the market from breaking past the point where their sell trade was placed as their trade has been closed.



Here's another supply zone that formed a little earlier in the same down-move as the zone seen in the previous image.

This supply zone also formed because of the banks placing sell trades.

You can see how the market returned to the zone soon after it formed as opposed to taking a long time, as we saw in the previous example.

It takes a total of 26 hours for the market to return to this supply zone whilst it took 283 hours for the market to return to the supply zone seen in the other example.

The reason the market fell upon hitting this zone was not that the banks had sell trades left they needed to fill, it was because they had to come into the market and protect the sell trades they placed that created the zone in the first place.

The spike into this zone was caused by the NFP news being released. When the news came out, lots of traders placed buy trades, which caused price to move into the supply zone. When it enters the zone, the banks come in and place more sell trades to purposely push price back down.

Had they not done this, the market would have kept moving up through the zone and caused the sell trades the bank traders placed to create the zone to begin losing money.



Here's another demand zone said to have a high chance of causing a reversal

Like the other example, this zone has a strong move away, and we can see from the image that not only does it take the market a long time to return to the zone, the move into the zone is very strong as well.



You can see when the market returns to the zone it breaks right through.

This zone would have probably resulted in a successful trade had the market returned to it soon after it formed.

If price had continued to drop on the first retracement we see after the market shot up creating the zone, it's likely the market would have reversed upon hitting the zone, because we know if the banks have trades left they need to get placed they'll make the market return to a supply or demand zones quickly as opposed to taking a long time.

How Long Should It Take For The Market To Return To A Supply Or Demand Zone ?

So, how long should it actually take the market to return to the zones?

The answer depends on the timeframe the zone has formed on. The higher the timeframe, the longer it should take.

Here's a quick guide:

1min/5min/15min – 1 day.

30min/1hour/4hour – 20 days

Daily – 3 months.

Remember, these aren't cold hard rules. If price returns to a zone 2 or 3 days or a few minutes over the times above, it's fine for trading.

Understanding Why The Market Returns To Supply And Demand Zones

Now you understand why the market must return to supply and demand zones quickly as opposed to taking a long time, the next thing we need to look at is why the market tends to return to supply and demand zones once they have formed.

If you currently trade supply and demand zones, you'll know the reason the market is said to return to the zones, is because the banks were not able to get all of their trades placed when the zone formed.

To get their remaining trades placed, the banks leave pending orders at the zones, so when the market returns, the trades they were not able to place initially are executed.

Now, I don't want to get into a discussion as to why this idea of pending orders being placed at the zones is incorrect. What I will say, is the reason the market comes back to supply and demand zones is not always because the banks have trades left they need to place.

There are lots of zones that form as a result of the banks taking profits off trades. The reason the market comes back to these zones is that the banks are taking additional profits off their trades, not because they are getting unfilled trades placed they couldn't place when the zone formed.

Additionally, other zones form because of the banks placing trades.

The reason the market returns to these zones isn't always because the banks have not been able to get all of their trades placed (although a lot of the times this will be the case). It's because when the banks are placing multiple trades into the market, they will usually try to get any additional trades placed at prices they already have existing trades placed at.

Knowing what's caused a supply or demand zone to form is the only way to figure out why the market should return it and reverse.

Lets now take a look at the two types of supply and demand zone that can form in the market.

Profit Taking Supply And Demand Zones

The first type of zone we 're going to look at are zones created by the banks taking profits.

Profit taking zones always form counter to the direction of the current trend. If the market was in a downtrend ,the banks profit taking will form demand zones near the swing lows. In up-trends, the profit taking will always form supply zones close to the swing highs.



The image above shows two supply zones that formed due to the banks taking profits off buy trades placed earlier in the move up.

How do I know these supply zones have been created by profit-taking?

One because the price had been moving up before these zones formed, and two because price continues to move up once the market revisits the zones.

The reason the market revisits these supply zones is that the banks were not able to take the required amount of profit off their long trades when the market was rising.

When the banks decide to take profits off their long trades the buy orders currently coming into the market from other traders buying are consumed, and the price starts to fall, which creates the supply zone.

The banks then use the profits made by taking profits off their buy trade to get more buy trades placed in the direction of the up-move, which is what causes the price to stop falling and move back up into the supply zone.

The move-up makes a large number of traders place buy trades, as they believe the price is going to continue rising. Once the market enters the supply zone created by the bank's first bout of profit-taking, they take profits again using the new buy orders that have come into the market from traders buying on the move

up into the zone.

Price then drops again, and either the same process will repeat itself, or the market will continue moving higher and break through the supply zone.



Here are three demand zones that were created by the banks taking profits off sell trades.

Notice how all the zones form from swing lows and how they all generate a small reaction upon being hit?

The same process is taking place with these demand zones as was taking place with the supply zones in the previous image.

The banks decide to take some profits off their sell trades, this causes the price to begin rising, which in turn, causes a percentage of traders to place buy trades.

The banks then place more sell trades using the buy orders generated from the traders buying because of the move up. When the banks sell trades have been placed, price falls, which causes people to place sell trades. When the price has fallen back to the point where the banks took profits off their sell trades (the demand zone), they take the rest of the profits they were unable to initially due to there not being enough sell orders coming into the market.

Their profit taking causes a small reaction to take place upon the market hitting the demand zone, and price can rise for a short amount of time before dropping below the swing low made by the banks first deciding to take profits off.

Two problems come with trading supply and demand zones that are created by the banks taking profits...

The first and probably main problem you'll encounter is the reaction the supply or demand zone will generate upon the market returning to it is likely to be small. This is because the banks ultimately still want the market to continue moving in the direction of the trend once they have taken the required amount of profits off. This means if you take a trade based on a zone which has been created due to the bank traders taking profits, you must keep your expectations of how much money you'll make low, as it will only be a matter of time before the price turns and begins moving back in the direction of the trend.

The second problem with trading zones created by profit-taking is there's a much higher chance of the market breaking past the high or low of the zone before reversing than there is of a zone created because of the bank traders placing trades.

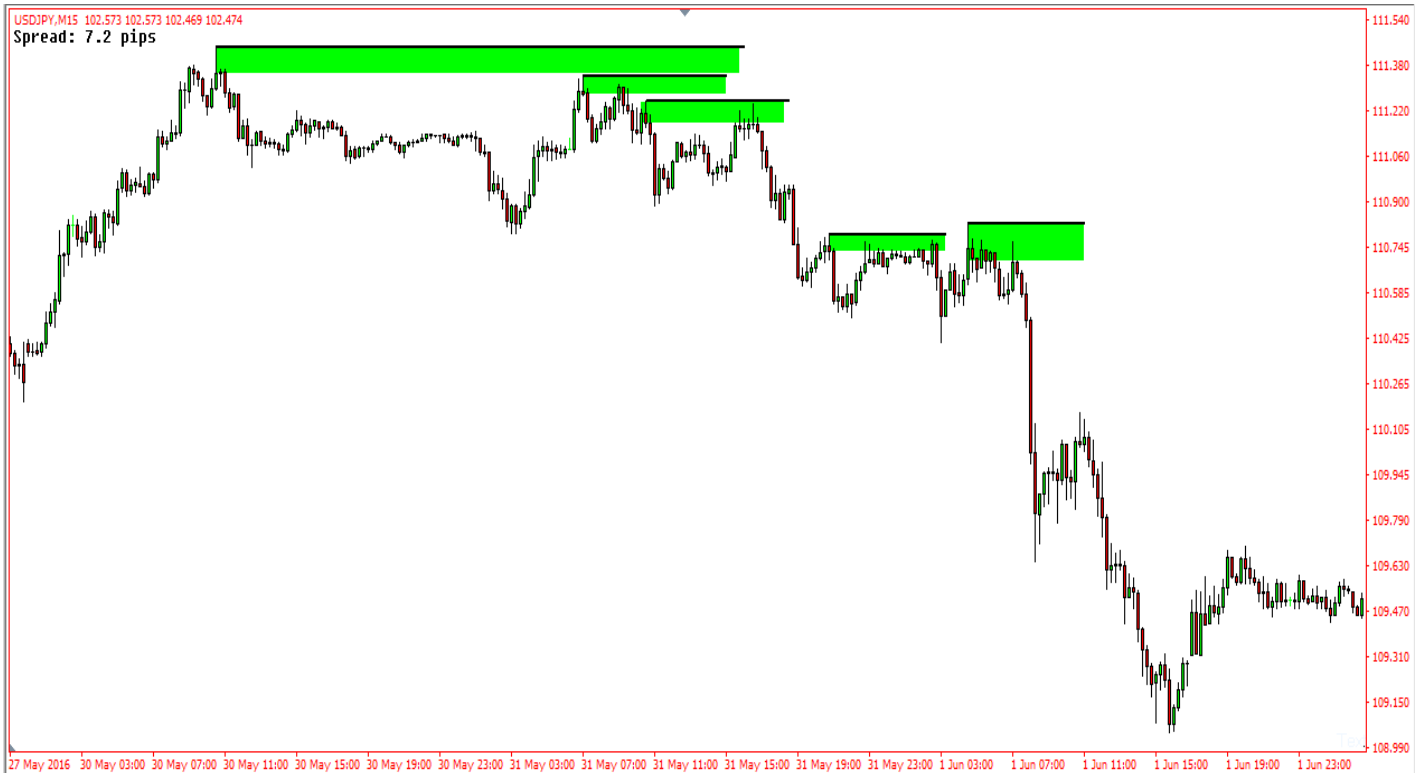
The reason why is because when the banks have placed a trade and caused a supply or demand zone to form, they have a great interest in not letting the market break the point where they have placed their trade, as it has the potential to cause them to lose money.

With zones created by profit-taking, there isn't really any need for the banks to take profits before the market reaches the high or low because they're not going to lose any money from doing so, which means you'll quite frequently see the price spike above the high or below the low of the zone before reversing,

This can be annoying as the most likely place to put your stop loss when trading supply and demand zones is the high or low of the zone. To combat this, I suggest you either don't trade zones created by profit-taking or you add a few pips to the stop-loss.

Supply And Demand Zones Created By The Banks Placing Trades

Now we're going to take a look at supply and demand zones that form from the bank traders placing trades.



Here are 5 supply zones that formed because from the bank traders placing sell trades.

We know these zones were created by the banks placing trades because the market continued to fall once they formed.

The reason the market will return to zones created by the banks placing trades is similar to the reason why the market comes back to zones created by them taking profits.

Most of the time, when the banks are getting trades placed, there won't be enough buy or sell orders coming in for them to get their entire trade placed. This means they must manipulate the price to drum up enough buy or sell orders to get their remaining trades placed.

In our example, the banks had placed sell trades, which is what caused the supply zones to form. The problem was the banks were unable to get all of their sell trades placed due to the fact not enough buy orders were coming into the

market at the time of them wanting to place their sell trade.

Now the banks must make the price move back up to get people to place buy trades, as that will give them the buy orders they need to get their remaining sell trades placed.

They do this by taking a little bit of profit off the sell trades they've already got placed. When they take profits, price begins to move up, which causes retail traders to buy.

When the market comes back up into the supply zone the banks use the buy orders generated from the move higher to place the sell trades they were unable to place when the zone was created initially.

The critical thing to understand about supply and demand zones created by the banks placing trades is the point where the banks place their original trade that created the zone, cannot be broken when the market returns.



Look at the supply zones above, and you'll notice the market does not break the high of each zone upon its return.

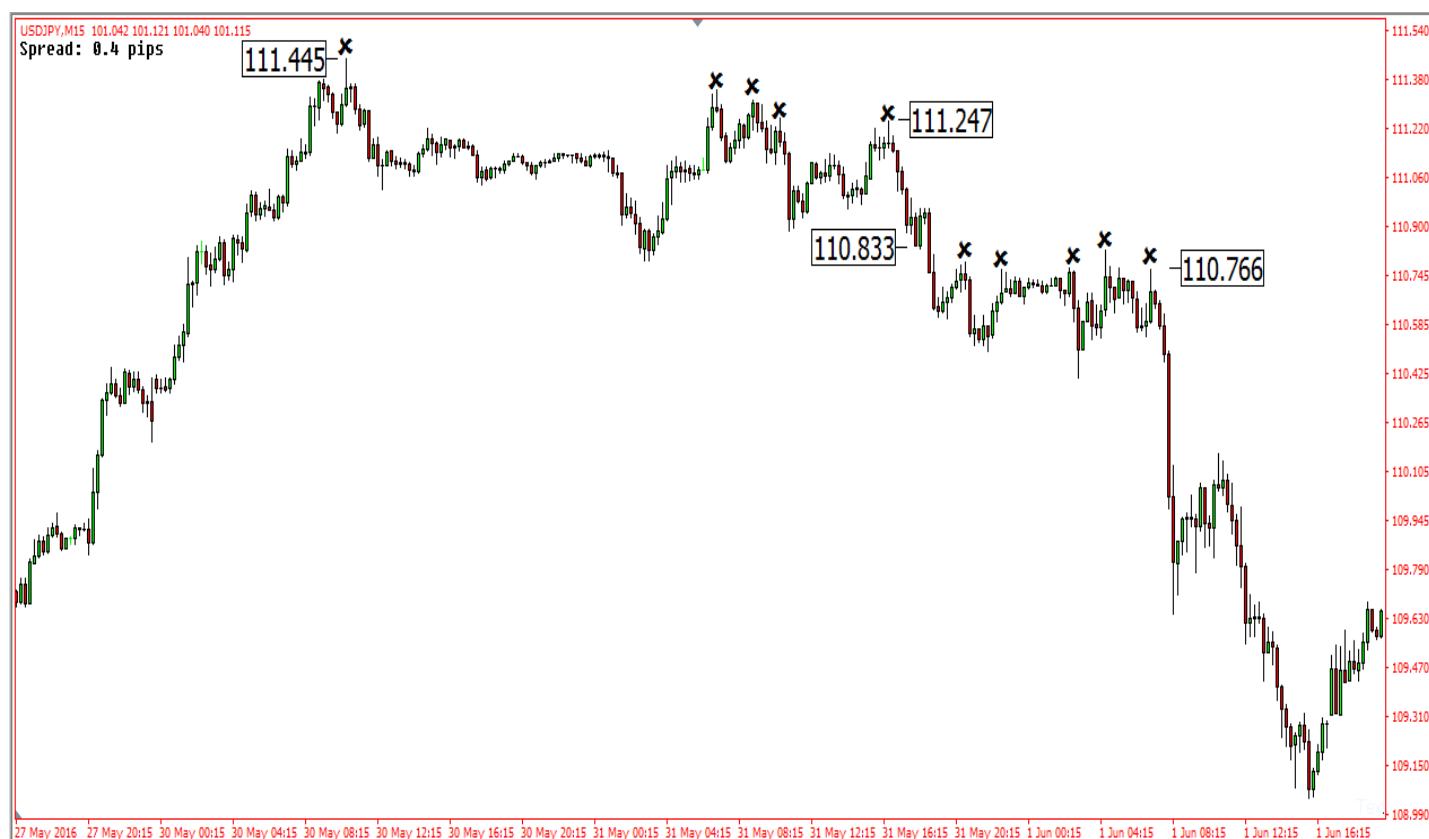
The reason why the high can't be broken (at least by a large distance) is that the banks do not want to jeopardize the sell trades they placed that caused the supply zone to form in the first place.

If the market breaks above the high it would cause the sell trades they've already placed to go into a loss. That could make enough traders place buy trades that the price would be pushed far higher than what the bank traders want, which could potentially mean they have to close their sell trade at a loss.

This is something that I spend a great deal of time explaining in my "How The Large Institutions Operate In The Forex Market Book". When the banks are getting trades placed in anticipation of a reversal occurring, they'll try to get as many of their trades as possible placed at the same price.

I don't mean at the exact same price, but at prices which are close to each other.

The banks do this because it makes it easier for them to calculate how many buy or sell orders they'll need to take profits off their trades.



This is the image we looked at previously, only I've removed the supply zones and instead marked all the points where the bank traders placed their sell trades.

You can see two main price ranges where the banks are placing their sell trades.

Their first set was placed between the 111.247 - 111.445 price range (which is only around 20 pips), and their second set was placed between the 110.766 - 110.833 price range, which is only 6 pips.

This clearly shows how the banks get their trades placed similar prices.

The supply zones that formed due to the banks placing trades had the market return to them because the banks wanted to get their trades placed at a similar price, not because there weren't enough buy orders coming into the market when they wanted to get their trade placed initially.

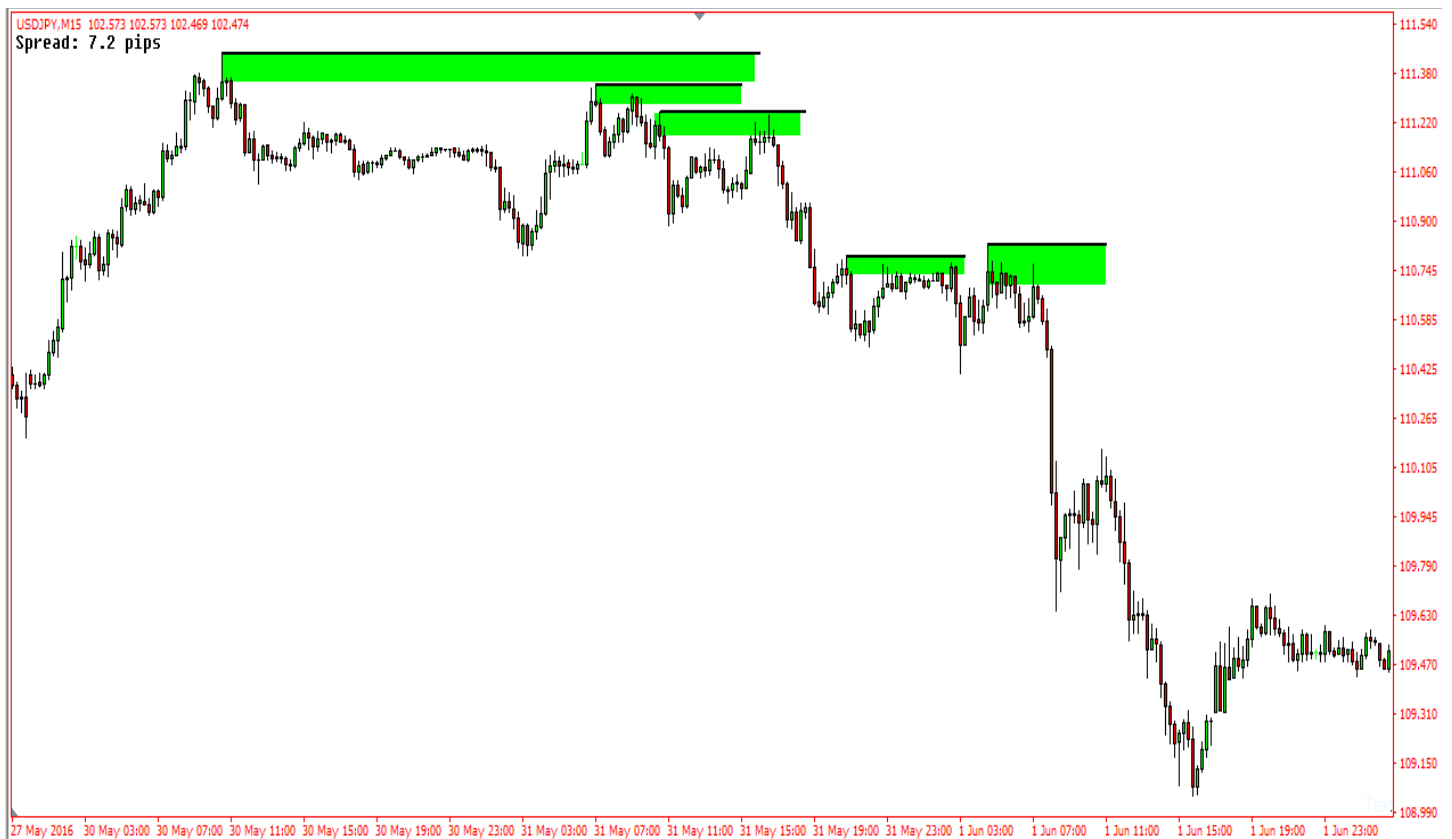
The only time you'll see the banks get their trades placed at similar prices is when they're setting up a major reversal to take place.

In times when the market is trending, the majority of the supply and demand zones that form will have the market come back to them not because the banks want to get their trades placed at a similar price, but because they have been unable to get all of their trades placed due to a lack of buy or sell orders coming into the market.

Understanding The Condition's Supply And Demand Zones Work Best In

Something integral to trading forex profitably no matter what strategy you use is knowing the market condition's your trading method works best in.

Supply and demand trading is a versatile strategy because it can give you successful trades in a variety of different market conditions. The problem is traders don't understand that the market condition plays a large part in whether the supply and demand zones will work out successfully or not.



Here's the image we looked at earlier of some supply zones caused by the banks placing trades. We can see from this image how most of the supply zones that caused the market to reverse formed at the beginning of the swing-down.

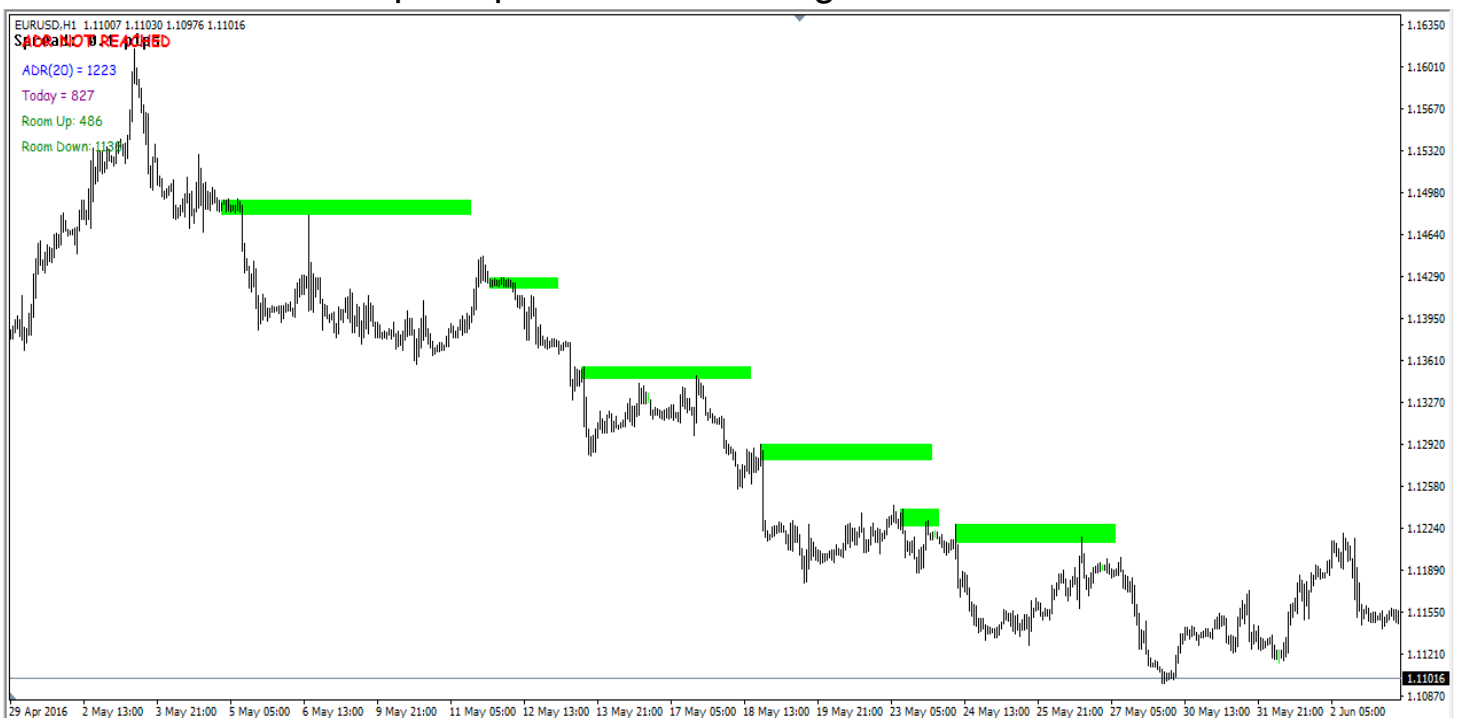
If you go and look on your charts, you'll see most of the supply zones that formed later on in this move down didn't work out successfully because the market was unable to return to them in time.



In this image, we can see how the supply zones started to form towards the end of a swing lower instead of at the beginning as we saw in the previous image.

None of these zones would have resulted in you having a successful trade because the market was unable to return to the zones soon after they were created.

By the time the market does return to the zones the trend is in a retracement phase, and the trades the banks placed to cause the zones to form have been closed, which means there is no point in them entering the market and placing more sell trades to stop the price from breaking above the zone.



Hopefully, you can see there is a clear difference between the way the market was falling in the previous images.

The down-move seen on the previous image has the market return to the supply zones through the whole duration of the move down, and we also see the supply zones form consistently, by that I mean, the zones are spread out quite evenly instead of only being found at the beginning of the move down or at the end as we saw in the other images.

In my post “5 Rules For Trading Supply And Demand Zones” I talk about the differences between zones constructed from a (rally – base – drop/drop – base – rally) to zones which form from a (rally – base – rally/drop – base – drop)

I said how the zones that form from the market making a rally – base – drop or a drop – base – rally have a much higher chance of causing the market to reverse than the zones which form from a rally – base – rally/drop – base – drop.

In the image, you can see a drop – base – drop zone forms on the 12th of May.

The reason this zone worked out successfully is because of the type of down-move that was taking place.

Most of the time, rally – base – rally/drop – base – drop zones WILL NOT result in you having successful trades, no matter which type of market conditions you find them in. The only reason we see one working out successfully in the example is because of the type of down-move that was taking place.

Because it's not possible (at least not yet) to figure out how the market is going to move once a reversal takes place, it means we cannot determine which type of supply or demand zones are likely to work better in what market conditions.

Due to this, I think it's best if you focus mainly on taking trades from demand zones which form from a drop – base – rally and supply zones which form from a rally – base – drop.

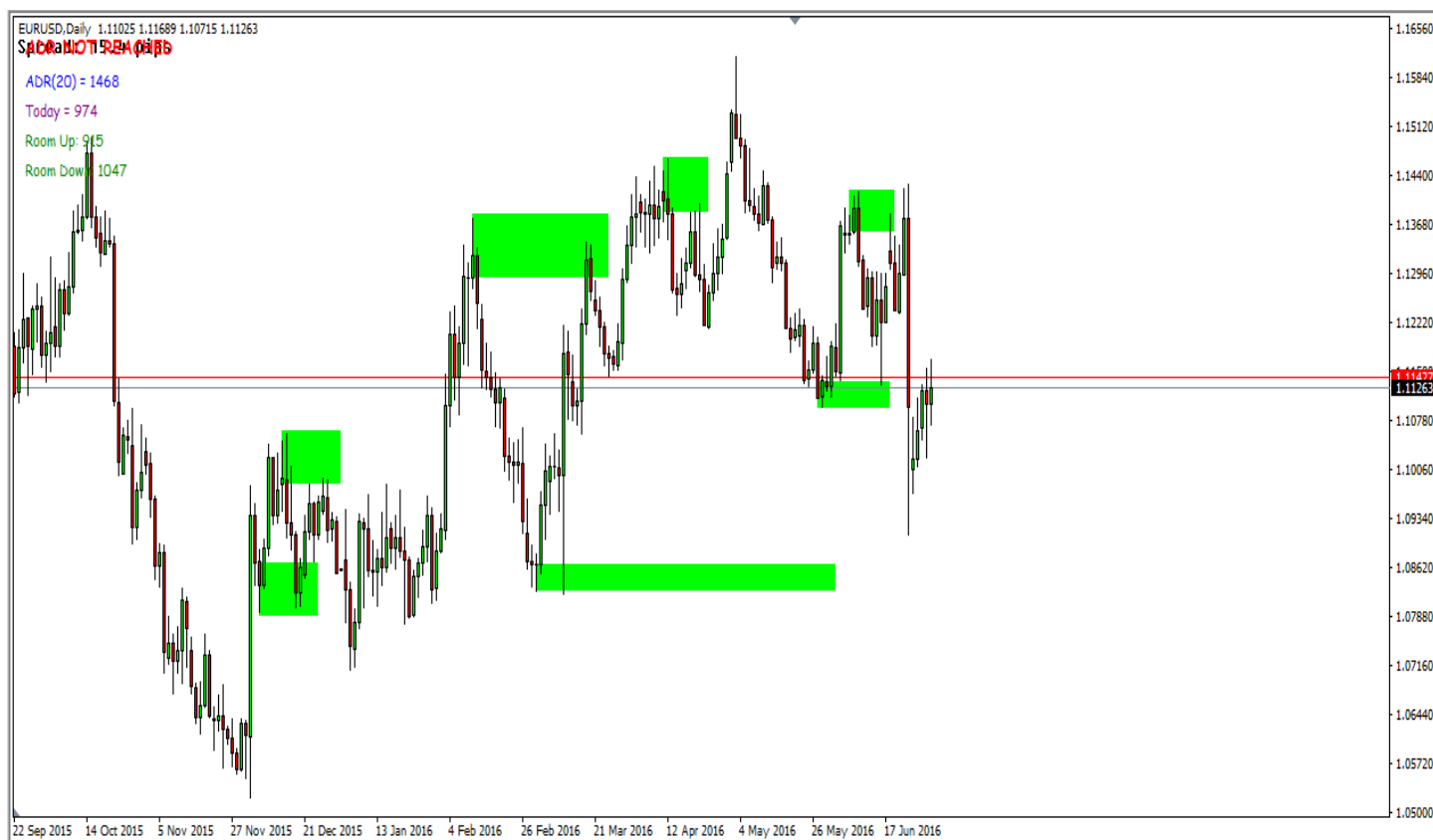
These are the types of zone that'll work no matter what market conditions are taking place.

The Reason Traders Believe Old Supply Zones Cause The Market To Reverse

A big problem with supply and demand trading is the belief that old zones can cause the market to reverse.

Sam Seiden (the main S + D trading guru) says the reason why the market reverses at old supply and demand zones and all supply and demand zones in general, is because the banks have old pending orders placed at these zones due to the fact they were not able to get their whole trade executed when the zone formed.

Now even though this isn't true, (not for old zones at least) people still believe in this idea that old zones can cause reversals because when they look at their charts, they can see the price has reversed at the point where an old supply and demand zone formed in the past.



Here's an image of some supply and demand zones that formed on the daily chart of EUR/USD.

Remember what I said earlier, about how the market will return to supply and demand zones quickly if the banks have got trades left to place?

This rule of the market returning to the zones quickly is relative to the time-frame the supply or demand zone has formed on.

In other words, quickly for a zone on the 1-hour chart is 20 days, whereas on the daily it's 3 months.

Looking at the image, you can see the market comes back to the majority of the daily supply and demand zones within a month of them being created, which means these zones were not considered to be old by the time the market returned to them.

Now contained inside these daily zones are zones on the 1-hour chart. These 1-hour zones are considered to be old by the time the market has revisited the daily zone they have formed in.



If we take a look inside the daily demand zone, we can see there are three 1 hour demand zones.

The demand zone found at the bottom of the image was the one that eventually caused the market to reverse, but the zone found above also managed to generate a small reaction.

The reason this 1-hour zone caused the market to reverse, even though it's considered to be an old zone, is because it's found inside a daily demand zone, not because old zones themselves have the ability to cause a reversal upon being hit.

This is why people sometimes see the market reverse at old zones. They don't realize the old supply or demand zone is contained within a supply or demand zone on a higher time-frame, which is not considered to be old by the time the market has returned to it.

The 1-hour demand zones in the image were old, but the daily demand zone they were inside wasn't, which is why when the market comes back to the zones, they have a high chance of causing a reversal to take place. Take a look at the 1-hour demand zone above.



This zone is considered old due to the fact it's taken the market 17 days to return.

Typical supply and demand traders would say the reason why the market stopped falling and began retracing was that it encountered the demand zone.

They would see something like this occur and start believing that old supply and demand zones have the potential to cause reversals. If they couldn't, then what caused the market reverse?

The reality is the demand zone had NOTHING to do with why the market stopped falling and began retracing. The retracement was caused by the banks deciding to take profits off the sell trades they placed at the swing highs of the move lower.

Their decision to take profits is not based on the fact the market has hit a demand zone, it's based on how many sell orders were coming into the market at the current time.

The banks will only be able to take profits once there is a necessary amount of sell orders in the market. Sometimes the point where enough orders are present is the same point where a supply or demand zone formed in the past.

When the banks take profits using the orders, it looks as though the market has reversed because it hit the demand zone, but really, the demand zones played no part in the price reversing. The bank's decision to take profits off was based solely on how many sell orders were entering the market at the time it was falling.

Hopefully, this explains the reason why you've probably seen old supply and demand zones cause reversals. Sometimes what you see on the charts is not necessarily the reality of what is taking place.

Summary

Finally, we've reached the end of the book. I hope I've enlightened you on some new concepts and ideas that will make your supply and demand trading more profitable.

Below you'll find a round-up of what I believe are the most important points to take away from this book.

Listed below are the main points I want you to take away from this book.

- Supply and demand zones form either because the banks have taken profits off existing trades or because they have placed trades.
- Zones that form at the beginning of reversals have the market return to them because the banks like to get all of their trades placed at similar prices, not because the banks have trades leftover they need to get filled
- Rally – base – drop/drop – base – rally supply and demand zones have a higher chance of causing the market to reverse than rally – base – rally/drop – base – drop zones.
- If a supply or demand zone is going to cause a reversal, the market must return to the zone quickly. How quickly is dependant on the time-frame the zone has formed on.
- For zones on the 1min/5min/15 min, price must return within 1 day.
- For zones on the 30min/1-hour/4-hour, the market must return to the zone within 20 days of being created.
- For zones on the daily, the market must revisit the zone within 3 months.
- Old supply and demand zones do not cause reversals. The only time they do is when the zone is found inside a higher time-frame zone, which the market is returning to quickly.
- Just because you see the market reverse at the point where an old supply or demand zone has formed does not mean the old zone is the reason why the market has reversed.

Most of the time, the reason the market has reversed has nothing to do with the supply or demand zone, it just happens to be chance the decision the banks made which caused the market to reverse has fallen in line with the point where an old supply or demand zone formed.

