Why You Should Avoid Rally-Base-Rally/Drop-Base-Drop Zones PDF

Today I want to explain why you should avoid trading rally-base rally/drop-base-drop supply and demand zones.

In S & D trading, these are considered some of the best zones and are well-liked by most supply and demand traders, with many choosing to trade them over the typically rarer rally-base-drop (RBD) drop-base-rally zones (DBR).

The problem is, while RBR/DBD zones CAN give you the odd successful trade from time to time, their probability of causing a reversal is actually quite low.

And in this guide, I'm going to reveal why.

First, I'll give you a quick rundown of what RBR/DBD – RBD/DBR zones are and how they work.

Then, I'll explain why RBR/DBD zones don't work as well as RBD/DBR zones. The reason has to do with how and why the zones form, which is why you need to understand both types of zone to know why they don't work as well.

So, let's kick off by quickly going over what RBR/DBD zones are and how they work.

Rally-Base-Rally/Drop-Base-Drop Zones

Rally-base-rally/drop-base-drop zones (or RBR/DBR for short) are the lessen known, and I'd say more uncommon type of supply and demand zone.

They get their name from how they form: from a move in one direction e.g rally, followed by a base (a small consolidation or pause), followed by another move in the same direction (another rally, for example).

Unlike RBD/DBR zones, RBR/DBD zones always result in a continuation of the movement preceding the zone, rather than a reversal.

Looks-wise, RBR/DBD zones are the same as RBD/DBR zones.

The key difference, however, is rather than create a new swing like RBD/DBR zones do, they form when the swing is already underway, typically somewhere in the middle.

It doesn't sound like a big deal, but the fact they form during a swing rather than at the beginning is one of the main reasons the zones don't work as well as their RBD/DBR counterparts, and it has to do with how the banks enter their trades.

More on this later. First, lets quickly go over how RBD/DBR zones work.

Rally-Base-Drop/Drop-Base-Rally Zones

On the other side of the fence, we have rally-base-drop/drop-base-rally zones - or the normal type of supply and demand zones. These are the zones you're probably most familiar with. They're the ones you get taught to trade, and that get talked about by all the gurus.

Rally-base-drop/drop-base-rally zones have the same appearance as RBR/DBD zones, but rather than form in the middle of a swing they create the swing itself.

They way they form is also different.

The zones form from a move in one direction, then a base, followed by a move in the counter direction, which creates the zone. This plays a large part in why the zones tend to work better than RBR/DBD zones, as you'll now see...

The Problem With Rally Base Rally/Drop Base Drop Zones

On the surface, RBR/DBD zones seem no different to RBD/DBR zones. They both look the same, you trade them in the same way, and they even form under the same process; the banks placing trades or taking profits.

But looks can be deceiving...

RBR/DBD zones, even though they appear the same as RBD/DBR zones, have a much lower probability of causing reversals.

The reason why comes down to how they form…

Rally-base-rally/drop-base-drop zones form from the banks either placing trades or taking profits, just like rally-base-drop/drop-base-rally zones. The banks place their trades or take profits, and price moves away, creating the zone.

So far, so supply and demand 101.

But here's the important point to remember…

Whether a zone causes a reversal or not depends on the size of the trades the banks placed.

For example, if they place a big trade, the zone has a high chance of causing price to reverse, as they won't want it to breakthrough and potentially make them lose.

What this means is the strength of a zone depends on how many orders were coming into the market at the time the banks placed their trades. If lots of orders were coming in, the banks could naturally place bigger trades, making the zone stronger.

Now here's where it gets interesting…

In my supply and demand book, I explain how to gauge the strength of a zone by looking at the move that preceded it.

The logic is the move preceding the zone gives you an idea of how many people were buying or selling before the zone formed, and thus, how many orders the banks had to place trades with to cause the zone to form.

The key point I make is if a zone forms after a long sustained move in the opposite direction – like a trend - it's much stronger than a zone that forms after a move in the same direction.

The reason why is simple:

If price rises and a demand zone forms, most people are already buying, so the banks only have a small number of sell orders to use to place buy trades with – remember they need opposing orders to buy or sell; buy orders if they want to sell, sell orders if they want to buy.

Now, where do rally base rally/drop base drop zones form again?

Oh yeh: after price has already moved in the same direction!

They always form in the middle of a swing, when most traders are already entering trades to get into the rise or decline, rise in our case.

Because of this, the banks don't have many orders to use to place trades with. They need people doing the opposite to what they want to do – buying if they want to sell, selling if they want to buy – to be able to place trades.

If few people are doing that, as is the case for rally-base rally/drop-base-drop zones, they can't place big trades, resulting in a weak zone.

For rally-base-drop/drop-base-rally zones, this isn't the case.

See, they always form after a move in the opposite direction, like you see in the image. This gives the banks lots of orders to place trades with, as again, they need lots of people selling if they want to buy or buying if they want to sell.

With more orders available, the banks can place much bigger trades, giving the zone a much higher probability of being successful.

So, the reason RBR/DBD zones don't work as well as RBD/DBR zones is down to the fact they form AFTER price has already moved in that direction.

The initial move – so a rally, for example – makes a substantial number of traders buy because they think price is heading higher. When it then retraces or consolidates/pauses, creating the base of the RBR zone, not many traders sell since they think the market is heading higher.

With only a few sellers, the banks can't place big buy trades; not enough traders are selling.

So, the resulting RBR zone, which might look strong structurally – has a sharp move away, forms from a nice base – is actually quite weak and doesn't have a high probability of causing a large reversal once price returns.

Summary

I know many of you RBR/DBD zone stalwarts probably don't like what I've said in this guide, and that's completely okay!

If you trade the zones and are doing so successfully, more power to you. Keep trading!

All I'm saying is to keep a close eye on which zones most of your losses come from.

Like you, I used to trade RBR/DBD zones all the time. At one point, they were all I traded. But when I went back through my wins/losses, I saw most of my losses came from RBR/DBD zones, so I stopped trading them.

And what do you know, my results improved.

So, check your wins and losses, see which zones they come from.

If you find that most are coming from RBR/DBD zones, the answer is simple: STOP trading them and focus ONLY on the RBD/DBR zones. Then you should see your results improve, just like mine did.