3 Supply And Demand Mistakes: Killing Your Trading (2023 Update)

By PriceActionNinja.com

What's a better way to kick off the new year than chatting about mistakes?

Just like life, trading comes with its own set of slip-ups. And there's a ton of them waiting to happen when you're trading supply and demand.

Some of these are minor, like picking the wrong signal to enter a trade or choosing an incorrect zone. They might cause a small loss here and there, but it's nothing to lose sleep over.

However, some mistakes can **DESTROY your account balance**.

These are the ones we need to sidestep.

Today, we're zeroing in on the **top three mistakes**.

I'll guide you through what these mistakes are, why even seasoned traders can make them, and dish out some advice on how you can either **avoid them altogether or mitigate their damage.**

So, are you ready?

Let's dive in.

Mistake #1: Believing Price Movement is Solely Dictated by Supply and Demand

I've run into this **misunderstanding** numerous times during my trading career, and I'll be the first to admit, I made the same error when I started with Supply and Demand (S&D).

So, what's the deal?

S&D isn't just a trading strategy; it's also a **theory** on why prices move and how the forex market functions.

It's our compass, our guide to deciphering the market's behaviour.

Here's the theory:

Banks create supply and demand zones through **significant trading actions**. The banks then manipulate price to revisit these zones, filling their remaining positions.

This activity gives rise to the reversals we see in these zones.

The theory makes sense, doesn't it?

But here's the problem:

Many traders **misapply the theory of supply and demand to everything in the market**. Once they start trading S&D, they start to believe every tick and twitch on the chart somehow comes from the zones.

They discard:

- **Support & resistance levels**
- **Psychological levels**
- **Swing structure**
- **Order flow**

If these traders see a reversal which doesn't originate from a zone, they'll conveniently attribute it to a zone from some other timeframe.

Sound familiar?

Ever catch yourself falling into this trap?

I get why traders go down this path; believe me, **I've been there**. I, too, assumed every market movement could be attributed to S&D. If I noticed a reversal, I'd chalk it up to some zone—even if the zone hadn't materialized on my current timeframe.

Sometimes, I'd even hop between smaller timeframes until I stumbled upon a zone that aligned with the reversal, just to validate my theory.

But experience taught me a lesson: **This isn't accurate**.

While S&D zones do influence a significant portion of price movement, they aren't the factors behind every reversal.

Other elements can—and do—trigger price reversals.

These factors often coincide with supply and demand zones, creating the illusion the zone instigated the reversal, when in reality, it was some **other technical factor** completely unrelated.

Take **Psychological levels**, for example...

At first glance, the reversal appears to be **triggered by the supply zone**. Most S&D traders would nod in agreement because, well, they naturally assume all price movement originates from zones.

But hold on a second and **look again**...

Notice the **1.25500 Psychological Level** and the **resistance level** just below?

These also align with the supply zone. Either of these could be the real culprit behind the reversal. Traders who use these technical points might argue these levels triggered the reversal.

So, the million-dollar question is: **Who's correct?**

- What was the real cause of this reversal?
- Was it the supply zone, as S&D traders would bet?
- Was it the psychological level or resistance level, as other traders might argue.

Truthfully, I don't know.

I can't say with certainty which of these technical points actually led to the reversal. There's no definitive way to know, as none of these factors come supported by real evidence; they're just theories developed by traders.

That said, **there's a way to make educated guesses**—through the process of elimination.

Let's start with supply zones.

In S&D trading, old zones are **unlikely candidates for causing reversals**. Why? Because it doesn't make sense for banks to sit on their hands for weeks, months, or even years to enter leftover positions.

So, if the supply zone in our example is old, we can safely rule it out as the cause of the reversal.

That leaves us with the **psychological level or the resistance level**.

Let's look again...

The supply zone formed **35 days before price returned.**

For a 1-hour timeframe, that's practically ancient. (Don't worry, we'll dive into old zones later). Given the zone's age, we can cross this supply zone off our list of culprits for the reversal.

Now, let's check out the **resistance level**.

My hot take: Support and resistance levels don't hold much water.

Sure, these levels exist, but they function more like **short-term pit stops** rather than pivotal reversal points. And I'm far from convinced reversals occur at levels simply because they've had multiple touches in the past.

Why would banks choose to buy or sell from a spot where price has reversed three or four times already?

What logic is there in that?

I've yet to find a strong answer.

So, in my book, support and resistance levels only hold significant validity when they've been touched recently and drawn as a zone.

Our current resistance level?

It doesn't meet this criteria.

Yes, it has multiple touches, but none are fresh.

The most recent unbroken touches (which I've marked with blue arrows) got obliterated when price rose just before the reversal kicked in.

All its touches are from the past; **none are recent!**

Adding to that, the level's last touch was marred by a significant price drop, effectively erasing any value or significance it once held. So, it's safe to say the reversal was likely **not** triggered by the resistance level.

This narrows down our options to just one more possibility:

The **1.25500 Psychological Level.**

Psychological levels do, in fact, have **statistical evidence** backing them up. Studies confirm these levels are significant influencers in various markets.

But you might be wondering:

Why would price change direction at a psychological level?

Well, here's why: **Banks CANNOT buy or sell all at once.**

They must break up their trades, placing them only when sufficient orders are available. This results in banks entering trades at similar prices, effectively emulating a single, larger transaction.

(If you've read my other books, this concept should ring a bell).

To streamline their entry, banks often push price toward points where a large number of orders have accumulated. Doing so allows them to execute larger positions, reducing the need for additional positions later down the line.

And where do a lot of these orders congregate?

You guessed it—right at psychological levels!

So, the reason price frequently reverses at these levels is banks are leveraging the piled-up orders to execute various trading actions.

In short: The psychological level probably caused the reversal as it's the only point with **solid evidence** behind it.

Now, what's my point in saying all this?

Should you scrutinize every supply and demand zone to predict whether it'll cause a reversal, or if some other factor will come into play?

Absolutely not!

That would be an enormous time sink.

What I am emphasizing is this: **Don't make the mistake of attributing every price change, reversal, or market movement solely to your trading strategy.**

Forex is a behemoth of a market, riddled with complex variables that interact in un-predictable ways. Reducing it to a single theory—like Supply and Demand—is overly simplistic and likely to cost you money without understanding why.

As Einstein wisely put it, **"Make things as simple as possible, but not simpler."**

To help you navigate, here's a quick guide on which technical points typically cause reversals, depending on where price is situated.

1. Short-term reversals are usually caused by new supply and demand zones, as the banks always want to execute trading actions quickly.

2. If a supply or demand zone is too old to cause a reversal, the next most likely point to watch are psychological levels.

Remember: Psychological levels should be considered as zones, not just levels, much like Supply & Demand (S&D).

(Want to learn how to draw these zones and employ them in your trading? Check out my VIP post)

3. Traditional support and resistance levels don't hold much significance. However, levels with at least **two recent unbroken touches** can often act as triggers for short-term directional shifts.

You'll commonly see this when price moves sideways following steep rise or decline, creating two similarly priced lows or highs. Once the second low or high takes shape, price often retraces to a comparable point and reverses.

Sometimes, a **weak demand zone** may emerge from this second high/low, but it's not a guarantee.

Mistake #2: Adopting Incorrect Guidelines for Drawing Zones

Drawing zones correctly is the most critical skill in supply and demand trading.

Period.

Here's the simple truth:

If you can't draw zones in accordance with the correct rules and guidelines, you'll flounder when it comes to entering trades. Consistently making money with supply and demand will become an uphill battle.

The good news?

Drawing zones isn't complicated.

First, identify the source of the move that's creating the zone. Then, drag a rectangle from the beginning of the move to the most recent swing high or low.

- **Swing high for supply zones,**
- **Swing low for demand zones.**

So, why do so many traders stumble here?

Because they're taught to draw zones incorrectly.

Here's why:

Supply and demand trading shot to prominence about a decade ago. Since then, it's become almost ubiquitous, even giving stiff competition to tried-and-true strategies like price action and support and resistance trading.

In fact, supply and demand receives almost as many searches as support and resistance trading.

Check it out...

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Keyword	Ad group	Max. CPC	Clicks	Impressions	Cost	CTR	Avg. CPC
supply and demand trading	ad group 2	£2.00	51.30	1,128.63	£40.79	4.5%	£0.80
support and resistance	ad group 2	£2.00	0.00	0.00	£0.00	–	–
supply and demand forex	ad group 2	£2.00	0.06	4.07	£0.02	1.6%	£0.29
support and resistance forex	ad group 2	£2.00	0.00	0.00	£0.00	–	–
support and resistance trading	ad group 2	£2.00	3.53	103.55	£4.41	3.4%	£1.25
earnometer gold	ad group 2	£2.00	0.00	0.00	£0.00	–	–
cfd forex	Ad group 1	£2.00	75.18	1,746.98	£71.90	4.3%	£0.96

Cool, right?

More power to us!

But hold on—there's a downside to this surge in popularity: **The Gurus**.

These are the traders who claim to understand supply and demand but are essentially clueless as to how the strategy really functions.

Sound familiar?

A classic example is the way some so-called experts instruct traders to draw zones.

Tell me:

Ever been told to draw zones like this...?

What on Earth is going on here!?

Shockingly, many **prominent gurus** teach this method for drawing supply and demand zones. According to them, the candle bodies indicate where the banks have placed their buy and sell orders.

Therefore: This should be the point where price reverses upon returning.

Sounds logical, right?

Wrong.

You must consider how banks actually enter their positions.

Banks can only enter when there's a flood of opposing orders in the market. This only happens when price is either tanking or shooting higher —that's when most traders are frantically buying or selling.

Here's how it happens:

1. **The banks execute** their positions against these traders.
2. **The price then reverses**, moving in the opposite direction.
3. **The resulting move** creates a new swing high or low.

My Point:

The recent swing high or low marks the bank's entry point and serves as the correct basis for drawing zones—**NOT the candlestick bodies.** While using this method might net you a win here and there, it usually ends in lost money and missed trades.

So, what's the **real way to draw zones?**

It's actually quite simple:

Find the first small candle in the steep rise or decline which created the zone. From there, extend the zone to the most recent swing high or swing low.

For supply zones, extend to the **swing high.**
For demand zones, extend to the **swing low.**

Here's how it comes together with our **demand zone**.

Note: Observe how the spike causing the reversal remains within the zone, instead of breaching the lower edge? This is further evidence zones should be drawn based on lows/highs rather than candle bodies.

Here's another one...

The **supply zone** is drawn from the most recent swing high, extending down to the first small candle in the decline.

Simple, right?

Sure, there's a bit of a knack to drawing the zones correctly.

But give it a couple of days, and you should have it down pat.

For those hungry for more insights, my supply and demand trading guide dives deeper.

Mistake #3: Relying on Outdated Supply and Demand Zones for Trading

At last, we're diving into **trading old zones**.

This common mistake stems from a fundamental misunderstanding about how supply and demand zones function—a misconception rooted in the teachings of their creator:

Sam Seiden.

Drawing from his time at the **Chicago Mercantile Exchange**, Sam created the supply and demand strategy as we know it today.

He's the force behind most concepts S&D traders swear by.

For instance, the idea banks drive price back to zones to fill leftover positions, or the belief zones evolve from steep rises/decline due to banks taking significant positions—**these are core tenets of S&D trading**.

We owe a ton to Sam and his ideas.

Without him, S&D trading might not even exist, and this site probably wouldn't be here either. **But let's keep it real:** Just because Sam is the pioneer of supply and demand, doesn't mean everything he says becomes gospel.

Case in point:

Sam's assumption old zones perform identically to new ones.

While Sam hasn't explicitly stated this, his teachings and materials don't differentiate between old zones and recent zones—a clear signal he sees no difference between the two.

It's easy to see why Sam and countless traders believe old supply and demand zones function the same as new ones.

After all, price seems to reverse from old zones quite frequently.

But here's the problem...

While it may appear the zone is driving the reversal, it's usually some other, unrelated factor at play.

Here's why:

Banks create supply and demand zones by initiating significant trading positions. The process happens like this:

1. **Banks enter a major buy trade.**
2. **Price surges, creating a demand zone.**
3. **Banks loop price back later to fill any remaining orders.**

Banks orchestrate these returns because they can't fill all buy/sell orders simultaneously at a single price point.

This is **Supply and Demand 101**.

But here's what most people overlook:

Why would banks wait weeks, months, or even years for price to return to a supply or demand zone to execute leftover positions/orders?

I mean, think about it...

If banks have an incomplete order on, let's say, EUR/USD, would they really sit around waiting for 3 or 4 months for price to return?

Seems unlikely, doesn't it?

Consider the following:

- The entire economic landscape could shift,
- The price may have increased or decreased far beyond the zone,
- Unforeseen events could have occurred in the respective countries.

This is why the idea old zones cause reversals **just doesn't hold water**.

Banks won't wait eons to complete their trades.

The longer they wait, the more volatile the market conditions become—sentiments change, economic indicators fluctuate, and a host of other variables also come into play.

All these shifts make it increasingly risky for banks to delay re-entry.

So, the question now is:

How can you tell if a zone has become too old?

While there's no one-size-fits-all answer, I've devised a few guidelines to gauge the "expiry date" of a zone:

- For 1-min, 5-min, 15-min charts: **1 day.**
- For 30-min, 1-hour, 4-hour charts: **20 days.**
- For Daily charts: **3 months.**

Remember, these timelines aren't set in stone!

Allow the market an extra couple of days or weeks—depending on the timeframe—for price to reverse past these suggested periods. This wiggle room will give price a better chance to reverse from the zone.

Don’t forget: If a zone forms within a higher timeframe zone, **use the higher timeframe's rules.** Why? Because banks often use zones created within higher timeframe zones to execute their positions; hence, the same time rules apply.

The Bottom Line

It's a universal truth: **mistakes in trading supply and demand are unavoidable.** It's a harsh reality of trading we all must come to terms with.

But I digress...

I hope this guide has illuminated some of the **deadly mistakes** you should steer clear of when trading supply and demand, and why these errors can be a severe blow to your bottom line.

Armed with this newfound knowledge, you should be better equipped to sidestep these pitfalls, keeping you firmly on the right path when navigating and trading supply and demand zones.

For a deeper dive, feel free to **check out my supply and demand course** for more comprehensive insights.

Thanks for reading...

PAN.