Supply & Demand: **A Guide to Zone Strength Analysis** (2023 Update)

By PriceActionNinja.com

If I had a dime ...
for every time ...
I was told ...

"*Only trade the zones with a strong move away;*" and; "*Zones with a weak move away rarely work.*"

I probably wouldn't need to trade anymore.

No joke!

Supply & Demand gurus are EVERYWHERE these days; and the above is one of their favourite mantras.

The problem?

These "rules" make ZERO sense.

In supply and demand trading, the move away from a zone, for example, how price rises away from a demand zone, is considered *THE* KEY factor in determining its strength.

This comes down to how zones form in the first place:

The banks placing *orders* into the market via executing trading actions:

- *Placing* trades,
- *Closing* trades,
- *Taking* profits.

The gurus say:

"A strong move away indicates the banks could not place all their orders, making a return to the zone in the future more likely. This return enables the banks to get their remaining orders executed."

On paper, this makes sense, and much of it is true!

There are also gurus of truth;

"*In every good lie there is just enough truth to make it believable."*

Do the banks enter at supply and demand zones?

Yes!

Do banks make price return to enter leftover trades/positions before the main reversal gets underway?

Of course, that's why price reverses!

BUT, as with so many things in trading, while "*powerful zones developing from a strong move away*" **SOUNDS** logical on the surface…

It's just not true.

In reality: The move BEFORE the zone forms determines its power.

And today, I'm going to explain why.

In this guide, we'll learn how to determine the strength of a supply or demand zone by analyzing the **preceding** move coming into the zone. This will provide us a more accurate indication of a zone's strength, both on its own and compared with the surrounding zones.

I've split this guide into two parts:

Part 1:

We'll learn why the move away isn't critical to zone strength because of how supply and demand zones develop. {*hint: it has to do with how the banks trade*}.

Part 2:

This is the meat of the guide.

In this section, I'll provide a step-by-step breakdown of how to analyze the preceding move to determine the strength of a zone.

There are 3 steps in total:

1. Find a supply or demand zone to analyze for strength.
2. Analyze the preceding move immediately before the zone formed.
3. Compare zones to understand their strength on a relative basis.

By the end, we will know:

Why long preceding moves create the strongest zones,
Why weak supply and demand zones form towards the end of sustained swings,
Why the banks use large consolidations or retracements to shake out retail traders.

Overall:

This guide should make it significantly easier to consistently identify powerful supply and demand zones and avoid weak zones with little to no chance of causing large reversals.

So, without further ado, let's jump into the guide...

Contents

Part 1: Why The Move BEFORE A Zone FORMS Is More Important Than The Move Away.

Check out the zone below...

It's clear:

This demand zone experienced a **powerful move away**.

The steep ascent is characterized predominantly by multiple, large, **bullish candles**, interspersed with only a few minor bearish candles.

To most SD experts, this zone radiates **extreme power**.

The sharp departure suggests banks and other institutions probably faced challenges when trying to enter positions during the zone's formation. As a result, there's a high likelihood the price will return, allowing these banks to finalize any outstanding positions.

Seems like a perfect trade, doesn't it?

Let's see what happens when price returns...

... I'll bet you've seen this before.

Unexpectedly, the zone collapses. The price plummets, barely hesitating before a minimal pullback.

How is this possible?
Why did this zone crumble?

The gurus assured us this was an awesome zone…

- It had a strong move away,
- Developed from a nice base,
- And price returned quickly.

It was poised to trigger a momentous reversal.

Yet, price busted through easily.

Have you seen many examples of this?

Here's the truth:

The strongest supply and demand zones **DO NOT** develop from a steep, powerful move away!

Sam Seiden gets it **WRONG**.

The move away means nothing.

It's not even a factor!

Some zones might feature a strong move away, sure. But this isn't what makes it a powerful zone. It's **something else entirely**.

And that "something else" is:

The move BEFORE the zone formed.

Let me explain why...

Banks cannot buy or sell without opposing traders - they **NEED** thousands of other traders either buying or selling at the same time:

- **Banks CANNOT buy** unless other traders are **SELLING** at the same time.
- **Banks CANNOT sell** unless other traders are **BUYING** at the same time.

Buyers need sellers and vice versa, just like a real market.

And that's true for every bank action:

- *Placing* trades,
- *Closing* trades,
- *Taking* profits.

Size plays a part, too...

The more traders buying or selling, the bigger the positions the banks can place into the market.

They can ***place*** larger trades.
They can ***take*** more profits off open trades.
They can ***close*** any open trades much easier.

Make sense?

IN SHORT: What the banks can and can't do depends entirely upon how many retail traders are doing the opposite.

And yes, **size matters**.

More traders doing the opposite = more orders for the banks to use.

Remember this key point!

If you forget, the rest of this guide probably won't make much sense. Get this into your head; in fact, get some paper and **WRITE IT DOWN!!**

"What the banks can and can't do depends entirely upon how many retail traders are doing the opposite, and yes, size matters."

For banks to enter large trades or take significant profits - which creates most Supply & Demand zones - thousands of traders must be on the other side, either buying or selling.

The question is:

What drives the number of traders buying or selling?

And the answer is...

The market (duh!)

Trader's act based on the market sentiment: whether the price is rising, falling, or moving sideways.

It's **common sense**, really!

When the market is bullish, what are most traders doing? **Buying**. Because the price is on the upswing.

When it's bearish?

The opposite holds true.

SO:

To gauge the strength of a zone, we must first determine how many traders were actively buying or selling **before** the zone formed. This helps us gauge the magnitude of the orders the banks initiated to create the zone.

And how do we do that?

By analyzing the movement **BEFORE** to the zone's formation.

Think about this...

The market sentiment—specifically, the price behaviour before the zone formed — sheds light on the volume of traders either buying or selling. This volume, in turn, provides a hint about the size of the orders the banks placed to create the zone.

Consider this example:

If there's a prolonged downtrend before a demand zone forms, it's a sign the zone is **incredibly powerful**.

Why is that?

Simply put, the overwhelming majority were selling due to the prevailing downtrend. The only plausible reason for price to now rise and create a demand zone is if someone opted to buy out all the sellers.

More traders selling = the more the banks had to buy to create the zone.

In essence: Whatever action the banks executed to form the zone - be it placing buy orders or locking in profits from existing sell positions - demanded a tidal wave of counter-orders.

This means the banks had to unleash **enormous orders** of their own.

How else could price reverse?

The banks executed substantial buy orders to consume the sellers and reverse the market.

The result: **A powerful** demand zone.

This is why the movement preceding the zone overshadows the move away.
The preceding movement determines how many retail traders were buying/selling.

In turn, revealing the size and magnitude of the buy orders the banks entered to create the demand zone.

This is what determines the **strength of the zone**.

- **Strong demand zone** = swathes of traders **SELLING** prior to the zone formed.
- **Powerful supply zone** = swathes of traders **BUYING** before the zone formed.

Part 2: How to Gauge the Strength of a Zone Using the Prior Move

In this section, I'll provide a **step-by-step breakdown** on determining the strength of a supply or demand zone. This involves analyzing the preceding move and the market sentiment before a zone forms.

REMEMBER: The preceding move uncovers how many retail traders were actively buying or selling before the emergence of the zone.

Once more, with feeling:

"What the banks can and can't do depends entirely upon how many retail traders are doing the opposite. And yes, size matters."

Banks rely on vast numbers of retail traders either buying or selling to enter their own trades or to secure profits.

Without these retail traders, banks can't execute these actions.

So, what's my point?

By gauging the overall market sentiment (whether it's buying or selling) before the zone's formation, we can estimate the size of the orders placed by the banks. This gives us a glimpse into **how powerful the zone might be**.

For the most part, understanding this is fairly simple... with emphasis on "**fairly**".

Ready to dive in?

Not quite yet...

Once again, for clarity:

"What the banks can and can't do depends entirely upon how many retail traders are doing the opposite. And yes, size matters."

Step 1: **Find a Supply or Demand Zone** - Start By Examining The Length Of The Preceding Move.

First things first: Identify the zone you wish to analyze. Any zone will suffice, be it supply or demand.

Note: This method is applicable across all pairs and timeframes.

All types of supply and demand zones are relevant:

Rally-Base-Rally, Drop-Base-Rally, and so forth.

However, it's essential to keep in mind: RBR/DBD zones are typically weaker than RBD/DBR zones due to the shorter preceding move (we'll delve deeper into this later).

For a more in-depth understanding, check out my article explaining why RBR/DBD zones are weaker than RBD/DBR zones.

In our case, we'll use a 1-hour supply zone on GBP/USD as an example...

Nothing special about this supply zone. I didn't cherry-pick it because the price reversed, which, just for the record, it does.

It just highlights the **distinct phases of analysis**; that's why I chose it.

Okay, **NOW for the fun part**...

Step 2: Analyze the Move BEFORE the Zone Formed

To gauge the potential strength of this supply zone, it's essential to **analyze the move BEFORE the zone formed**.

What was the market sentiment back then?
What were most retail traders contemplating?
Were they bullish, bearish, or neutral?
Were they strongly bullish or just slightly bearish?

Remember: Our goal is to gauge how many retail traders were either buying or selling before the supply zone took shape.

We need to put ourselves in the shoes of the average retail trader, trying to understand their perspective and outlook on the market immediately before the zone emerged.

To achieve this, two points need our attention:

1. **How** long was price rising or falling before the zone formed?
2. **How** bearish or bullish was the market during that phase?

By answering these questions, we can grasp how many retail traders were buying before the zone's formation. This will further allow us to evaluate the volume and magnitude of the buy orders entering the market prior to the banks selling.

The logic is simple:

If most retail traders were buying before the zone formed, the supply zone must hold significant power.

Price could only fall if the banks started selling to offset all the buying entering the market.

The **HEAVIER** the buying, the **MORE** the banks had to sell.

How else could price reverse into a downtrend with such an overwhelming number of traders buying?

Let's check out the move leading into the zone...

Moving the chart back a little, what do we see?

Right away, it's clear: Market sentiment was **strongly bullish** before the supply zone formed.

The price had been rising sharply before this zone emerged, interrupted only by a few minor pauses and retracements.

Moreover, look at the last rise: it's nearly **vertical**!

Multiple large bullish candlesticks propelled the price to new peaks, luring thousands of retail traders into going long, hoping for a continuation.

This was **perfect timing** for the banks.

All things considered; the price trend was **heavily bullish**.

Now, consider this:

We should place ourselves in the perspective of the retail traders witnessing this move.

What might they have been contemplating?
Were they bullish or bearish?

To understand this, adjust the chart to right before the zone's formation. While we won't see the supply zone itself, this adjustment shows us how the market presented itself to traders back then.

It offers insight into the prevailing sentiment and how traders might have perceived the market.

Here's how it looks...

See how the chart sits on the rise before the zone appeared?

This allows us to delve into the psyche of retail traders, giving us a glimpse into their thought processes prior to the formation of the supply zone.

Clearly, the price had been on an upward trajectory even before the last rise which led to the zone's creation. This further emphasizes most retail traders were **strongly bullish** before the zone appeared.

The steep rise, paired with the subsequent upswing, tempted many enter long. There was no recent price activity hinting at an imminent market reversal.

Would you have anticipated a reversal upon seeing this?

So, it's safe to say:

Before the supply zone's formation, a majority of retail traders were entering **long positions**.

This implies the banks had to initiate **massive sell positions** to reverse the price and create the supply zone.

Stop and ponder for a moment...

If every retail trader is buying, the only way for the price to change direction is if sell orders enter the market. Who would sell when everyone else is buying? Who wields such influence in the market?

Undoubtedly, it's the **banks**!

But why would banks opt to sell in such large quantities?

Because they anticipate the price to **reverse and begin falling**.

Here's the takeaway:

From our analysis of the preceding move, it's evident this supply zone possesses a high likelihood of triggering a reversal. Its origin can be traced back to the banks executing **massive sell orders** in the market.

And, if we advance the chart...

It plays out exactly as expected:

Once price returns to the **zone**, a significant reversal begins.

The banks created this **supply zone** by selling to all the traders, who were buying because of the heavily bullish preceding move.

Using these buyers, the banks then entered **major sell trades**.

That's why price **reversed**, and the zone formed!

But, why did the price return later?

It's because the banks had **additional sell orders** to place around the same price. Even with a multitude of buyers, the banks can't always enter significant positions at a single price all at once.

Once the banks locked in these positions, the true reversal kicked in, and the price began falling.

Simple.

Let me know if this meets your expectations!

Once price returns to the zone, a large reversal begins.

The banks created the supply zone by selling to all the traders buying due to the heavily bullish preceding move.

The banks then used these buyers to enter major sell trades.

That's why price reversed, and the zone formed!

Why did price return later?

The banks still had additional sell orders to enter around the same price – even with masses of buyers, the banks can rarely enter significant positions all at once at a single price.
Once the banks entered these positions, the real reversal got underway, and price started falling.

Simple.

What Do Weak Zones Look Like?

Here's the thing:

Here's the insight:

Many, perhaps even most, supply and demand zones are **weak zones** with minimal chances of causing a significant reversal, if any reversal at all.

How do you identify these zones?

EASY: Check for a modest move preceding the zone.

Weak zones **NEVER** form after a lengthy, sustained rise or decline like strong zones. Weak zones **ALWAYS** form after a brief, short-term move, like a retracement/pause.

The shorter the preceding move, the **weaker the zone**.

Here's an example...

Check out the small up-move just before this supply zone formed.

Compared to the pronounced uptrend we witnessed in our prior example, this rise is **minuscule**, spanning a mere two days. This move's limited scope is attributed to it being a retracement within a broader downtrend.

When the price is in a downtrend, what's are most traders doing: **buying or selling**?

Selling, without a doubt!

And why's that?

Because all traders are staunch believers in the **power of trends**.

That is: “The longer price maintains course, the more probable its continuation in the same trajectory.”

Sound familiar?

Many traders are convinced the price will keep falling indefinitely.

Given this overwhelming sentiment towards selling amid the downtrend, would many traders risk buying during a retracement?

HELL, NO!

Traders short hold their ground, anticipating a continued decline.
Traders on the sidelines take retracement as an opportunity to sell at a discount.

Few traders think…

“Is this a sign of a price reversal?”

“Should I buy now?”

Because the downtrend is **undeniable**.

While some might buy, they're in the minority.

Due to this scarcity of buyers amidst the downtrend, banks find themselves without enough buyers to place significant sell orders.

This means:

Any emerging supply zone is bound to be **fragile**.

Large-scale selling by banks isn't feasible. They'd be indifferent if the price surpasses this zone and rises since any minor sell orders entered to create the zone would likely be settled by the time price circles back.

Another thing to note:

Exercise caution when trading zones created towards the tail-end of either upswings or downswings.

Zones forming at the climax of a prolonged price movement tend to lose power post-formation. The banks will likely settle any orders initiated during the zone's creation as the swing endures, diluting its power when price returns.

Why would banks do this?

Simple:

The longer the price rises or falls without a substantial consolidation or retracement to disrupt its course, the more imminent one becomes.

Banks aim to outmanoeuvre retail traders to prevent market dynamics from skewing too heavily in their favour.

Remember: Banks can't profit when most retail traders are trading in same direction since forex is a **zero-sum game**!

How do banks regain the upper hand?

By inducing a retracement or consolidation either by taking profits or closing minor trading positions.

This creates a countertrend move, catching latecomer retail traders off-guard and resulting in losses. It paves the way for banks to reposition at more favourable rates and profit from the traders closing at a loss.

This also propels price past any recent zones, shattering them in its wake.

This is also what happens in our example...

- **Price Reverses**.
- **Punches Through the Supply Zone**.
- **Then Continues Rising**.

This indicates the banks have closed any open sell orders entered at the supply zone. This is particularly evident since the zone formed late into the downswing/downtrend.

So, this supply?

Well, it **isn't very strong**.

The zone's formation is attributed to the banks entering minor sell positions. The brief rise preceding the zone suggests only a handful of traders were providing buy orders for the banks to sell into.

Considering the zone formed after the price had been in a prolonged downtrend for several weeks, a retracement or consolidation was also highly likely.

This implied the zone stood a slim chance of success.

Summary:

Here are the essential points to remember from this section:

Weak zones are ALWAYS preceded by a small move.

1. To spot weak zones, watch for a short move before the zone's formation. This can be a pause, slight consolidation, retracement, or a minor swing.
2. A weak move indicates only a few traders were buying or selling before the zone took shape.

REMEMBER:

Banks **NEED** many retail traders to act contrary to their planned moves. Banks **CANNOT** initiate large trades or realize profits if few buyers/sellers exist.

That's why zones led by a small move lack strength:

The minor move shows only a few traders were buying or selling.

As a result, banks couldn't engage large trades or secure substantial profits, leading to a weak supply or demand zone.

Another thing to note:

The **smaller the move**, the **weaker the zone**.

If two zones are preceded by a long, sustained move, the zone with the shorter move is deemed weaker.

The same rule applies to weak zones.

The zone with the smallest move is the most fragile, followed by others based on the length of the preceding move – from the shortest to the longest. (I'll explain how to compare zones later, so you'll know how to rank them by strength.)

Weak Zones often appear late into upswings or downswings.

For instance, weak zones created after the price has trended upwards or downwards for an extended period without any substantial consolidations or retracements.

The banks **DO NOT** execute significant positions to create these zones.

Why?

Because banks must periodically set-off significant retracements or consolidations to unsettle retail traders, typically breaking any nearby supply and demand zones in the process.

Let me explain further...

As a price swing or trend continues, an increasing number of retail traders become aware of its existence.

The trend becomes glaringly **obvious**.

The result?

An influx of traders jumping on board, all entering in the **same direction**.

However, there's a catch:

Banks NEED retail traders to lose in order to profit.

Remember, is a **zero-sum game**.

This means when most traders are entering in the same direction, it's harder for banks to profit. After all, if most traders are winning, who's left to lose and feed the banks' profits?

So, how do banks react?

They strategically **shake out retail traders** by either introducing a sharp retracement or initiating a prolonged consolidation.

By the time this happens, the current downtrend/down move is so pronounced most retail traders are biased towards short positions.

This poses a major problem for the banks.

Their profits dwindle because their gains are contingent on other traders' losses.

By the time the retracement begins, the current downtrend has become so pronounced most retail traders are positioning themselves short. As a result, the banks' profits take a significant hit.

After all, they can only profit by when other traders lose.

Who's losing when everyone's trading with the trend?

To counter this, the banks shake these traders out by creating a consolidation or retracement. If price retraces significantly or starts to consolidate, many short traders will close their trades at a loss.

This, in turn, will push price higher.

Many traders will also now pivot to entering long positions.

They'll assume the previous downtrend has ended and a new uptrend is underway, providing them another opportunity to profit.

Price will then rise to a level where banks can once again sell, but this time at a much more favourable price.

Now here's the key point:

To instigate a retracement or consolidation, the banks must realize some profits from their open short trades. Given they anticipate a substantial retracement which would breach several nearby supply zones, the banks act accordingly.

How?

By strategically exiting any trades initiated to create these supply zones.

This circumvents any potential losses resulting from the retracement, but also weakens these zones.

With no vested interest in these zones, the banks simply let price break through once it returns.

See for yourself…

This is why zones created late into a swing **rarely** result in significant reversals: the banks simply don't have any trades left to enter!

The banks close their trades to shield against the looming retracement or consolidation. This **severely weakens** the zone's power. Analyze the success rate of zones created late into a swing, and the pattern will become clear to you.

Quick Point:

Noticed the connection here?

See how the banks' actions are **interdependent**?

For the banks to generate profits again, they need price to rise, effectively shaking out those late shorts. There's only one strategy for this: **By taking profits** from their own short positions.

This necessitates a **huge number** of traders selling.

Here's the catch: The banks **CANNOT** take profits unless most traders are already **SELLING**. It's a setup!

Remember...

"What the banks can and can't do depends entirely upon how many retail traders are doing the opposite."

So...

Be wary of zones that form late into a swing.

Focus on the zones created during the beginning and middle of a swing/trend, especially those preceded by a long move. Price will usually reverse at these zones once the consolidation, or retracement terminates.

Of course, don't dismiss late swing zones completely.

Many can still cause a large reversal.

BUT, be **extra cautious** when trading them.

The likelihood of a reversal is **LOW**. Always wait for more confirmation before entering.

A large engulfing candle,
A steep move away.

These are strong signals the banks could be entering at the zone, making a sustained reversal even more likely.

Quick Recap:

The banks **play** with us!

They create many zones and wait for the correct number of victims to fall prey to the traps they set. They're crafty snakes, and you need to be **vigilant** to pick up on their intentions.
Otherwise, you could become their next victim.

Going forward:

Always be careful trading zones which form later into a swing.

Yes, they might appear strong, but chances are they’re weak with only a small chance of creating a large reversal.

Onto the third and final step now…

Step 3: Compare the Zone with the Surrounding Zones {Optional}

You **don't need to carry out this last step** if you don't want to... It's optional, but it stands out in importance compared to the rest.

It's worth knowing or, at the very least, keeping in mind.

Here's the plan:

We're going to determine the strength of all zones close to price and compare them against one another. See how they stack up. This way, we'll discern which zones are strong or weak on a relative basis.

In short: We're crafting a **supply and demand roadmap**.

We'll understand:

- **Which zones** are likely the strongest,
- **Which zones** will instigate the largest reversals,
- **Which zones** to prioritize and which ones to avoid.

***Sound good**?*

Here's what you do...

FIRST:

Locate and highlight all supply and demand zones close to the current price action.

Make sure to include any zone price could realistically approach over the next few hours, days, or minutes (depending on your timeframe) and potentially cause a reversal.

Mark them on the chart, just as I've illustrated below.

In this case, we have **four zones**:

- **2 demand zones**.
- **4 supply zones**.

NEXT:

Determine the strength of each zone.

Analyze the market sentiment *before* the zone formed and the move immediately preceding the zone's formation. Use what I explained earlier to determine whether it's strong or weak.

Remember:

- **Large/long preceding move** = **powerful sentiment** = **strong zone**.
- **Small/short preceding move** = **weak sentiment** = **weak zone**.

Check each zone and determine the general level of strength.

Are they strong, weak, or in the middle?

This is how my zones pan out...

A couple of super-strong zones, and a smattering of weaker ones: a common scenario in S&D trading.

Now, here's the game plan:

We're certain the **two demand zones are potent**. No doubts there. We're also aware that the remaining zones on the flimsier side.

However, our knowledge gap lies in:

- Determining **which** of the two demand zones reigns supreme.
- Gauging the relative strength of the weaker zones against one another.

Sure, they're all considered weak, but the question remains: **Which is the weakest, and which is the strongest?**

That's our mission!

Once we decode this...

We'll be in a prime position to determine the odds linked to each zone.

With this clarity, we'll discern:

1. **Which** zone stands the greatest (or the least) chance of triggering a reversal.
2. The magnitude of the reaction we can anticipate when prices swing back.
3. **Which zones** beckon us to trade, and which scream "stay clear."

In a nutshell:

It's about to get **MUCH EASIER**.

Now, let's tackle the strong demand zones.

Right away, it's clear: Demand zone 1 developed after a **significantly LONGER** downswing than demand zone 2:

3 days vs. 6 days.

While move 2 had more large bearish candles, **remember this**: **duration always trumps strength**.

More traders enter after a long-sustained move in the same direction, rather than after a small steep move, all thanks to the concept of **trend**!

Since the preceding move for demand zone 1 was longer, we deduce that **MORE traders** were selling before it formed. This gave the banks the capacity to place **bigger buy trades**, leading to a **stronger zone**.

More traders were selling, compelling the banks to buy more to reverse the price.

Hence, between the two, **demand zone 1 is the strongest**.

The extended preceding move enabled banks to execute larger buy trades, amplifying the zone's power.

On the other hand, demand zone 2, while also potent due to its similar-length preceding move, doesn't match up in strength. Fewer traders were selling, which means banks couldn't place buy trades the same magnitude as in demand zone 1.

And that's it!

That's all you need!

Compare the zones against each other and identify which one has the **largest preceding move**.

Pretty simple, right?

Now, we apply the same principle to the **supply zones**.

Key Point:

Always compare the zones from left to right. Doing so keeps things more orderly and systematic.

Now, setting aside the two demand zones, our focus shifts to analyzing these **4 supply zones**. We aim to determine their relative strengths and weaknesses by comparing them against one another.

So, how do we do this?

First, identify which zone has the most substantial preceding move. Following that, rank them from 1 to 4, with 1 being the strongest and 4 the weakest.

Here's my analysis:

Supply Zone 1 is, without a doubt, the strongest of the four zones. It stands out due to its extensive preceding move over an extended period.

Interestingly, this move originates from **Demand Zone 1**.

The significant rise indicates a bullish sentiment, suggesting many traders were buying before the zone formed. This heavy buying activity implies banks had to sell in large quantities to drive price down and create the zone.

Therefore, it's clear: the supply in this zone is notably stronger than in the others.

Should the price continue its upward trajectory, we can anticipate a significant reaction or reversal when it encounters this zone.

Now, let's delve into **Supply Zone 4**...

A somewhat messy zone, Supply Zone 4 developed from a small consolidation near the end of the downswing.

Key Point:

Small consolidations **DO NOT** cause many traders to buy or sell due to the prevailing confusion and uncertainty.

For this reason: Supply Zone 4, although it's the second strongest supply, remains notably weak. It's undeniably stronger than the other supply zones, but it doesn't come close to Supply Zone 1.

In fact, the zone isn't even in the same league.

Next up – Supply Zone 3.

Next up – Supply zone 3.

Zone 3 emerged from a small pause or consolidation after price declined from its highs, forming the downswing.

Key Point:

When two or more zones arise from a consolidation and there's ambiguity about which is more powerful, the stronger zone is the one with the longest consolidation.

So, supply zone 4 in this case.

The longer the consolidation, the more traders who enter in the opposite direction.

They think:

"*Price isn't falling anymore, so perhaps it's about to reverse?*"

Hence, they start buying in anticipation of this reversal. All these actions provide banks with more buy orders to execute their sell trades against.

Quick Note: Did you notice how all the weak zones are **Drop-Base-Drop** patterns?

You could dismiss this as a coincidence.

It's not!

RBR (Rally, Base, Rally) and **DBD (Drop, Base, Drop)** zones are **always** weaker than their **RBD (Rally, Base, Drop)** and **DBR (Drop, Base, Rally)** counterparts.

Why, you ask?

For one simple reason:

RBR and DBD zones always form **after** price has already reversed and changed direction.

If price has reversed, numerous traders are already positioning themselves in-line with the current direction by the time the zone takes shape. For instance, many traders have already started **SELLING** when price pauses or consolidates, leading to the creation of DBD zones.

This means:

When price either retraces or consolidates, a smaller number of traders anticipate a potential reversal, resulting in fewer buy trades.

Fewer buy trades mean banks are restricted from initiating large sell trades.

The outcome?

A **weak supply zone** emerges.

This is the underlying reason why **Rally-Base-Drop** and **Drop-Base-Rally** zones consistently outperform DBD and RBR zones.

These zones **always** materialize after a significant **REVERSAL**.

Prior to this, the price was moving counter to its eventual direction.

A larger number of traders were entering in the opposite direction, providing banks with a substantial number of orders they could leverage to enter their own major trades.

Does this make sense?

For a comprehensive deep dive into this topic, refer to the article titled "Why Rally-Base-Rally/Drop-Base-Drop Zones?".

Lastly, let's look at **Supply Zone 2**...

Of the four supply zones, *Supply Zone 2* stands out as the weakest.

The reason should be clear:

While the other zones formed after either a small consolidation or a retracement, *Supply Zone 2* only developed from a brief pause.

Ask yourself: Were many traders buying at this point?

Apart from the odd trader, such short pauses rarely inspire a significant number of traders to enter.

Price doesn't reverse; it just halts for a few hours.

When a zone emerges from such a minor pause, very few traders decide to enter against the current movement - buy in this case. This absence of buyers means banks only have a limited set of buy orders available, resulting in a **weak zone**.

Here's a breakdown of our zones based on their strength:

Among the two demand zones:

Zone 1 is the strongest, while *Zone 2* lags slightly behind, its power diminished by a less substantial preceding move.

Should price revisit these zones in the future, anticipate a **reversal**.

Considering the four supply zones:

They range in potency from strongest to weakest.

Zone 1, reigns supreme, its notable strength derived from the extended upswing seen before it formed. Directly below, *Zone 2* appears the weakest, due to the small pause signifying its creation.

The remaining two zones stand almost shoulder to shoulder in terms of strength, but *Zone 3* slightly outpaces *Zone 4*, owing to its lengthier consolidation.

Now, let's see how the market unfolded...

Look at the reversals/reactions generated by each zone...

Pretty telling, isn't it?

Each zone's strength typically indicates the reaction generated.

The **strongest zones** generate the **largest reversals**, such as **Demand Zone 2** and **Supply Zone 1**. From our analysis, we anticipated these were probably the strongest zones.

Lo and behold, they triggered the most significant reactions.

The same principle applied to the weaker zones:

All these zones produced a reversal/reaction based on their relative strength and rank.

- **Weaker zones** = smallest reversals/reactions.
- **Stronger zones** = largest reversals/reactions.

Do you see the advantage of comparing the zones now?

Comparing the zones provides a pseudo 'roadmap' of what to anticipate from each:

- **Strong zones** = significant reversal/retracement.
- **Weak zones** = minor retracement or pause.

This offers insight into which zones to prioritize and the potential reaction each might generate once price returns. By understanding the reaction each zone may create, you can **mind map** the future price trajectory.

Try it out for yourself.

Once you recognize the foresight comparing zones offers, you'll perceive zones in a totally different way.

This, I can promise you.

The Bottom Line

The key to making consistent profits trading supply and demand is finding and trading the strong zones.

And with today's information, you now have an accurate method.

Test this method out for a while…

Look at your results.

Start with individual zones first, to get a sense of how analyzing the preceding move works in real market conditions.

Then, begin comparing the zones against one another.

Knowing the strength of zones on a relative basis is the key to mapping out the market and having a plan of action for when and where price might reverse/retrace/react in the future.

This is how I use supply and demand.

1. I rank the zones in order of strength,
2. I make a note of which reaction to expect,
3. I wait for price to reach the strongest and then enter.

I don't discount the weak zones –

Anything could happen, this is trading, of course.

But I keep in mind these are weak zones, so strong signs of a reversal must appear for a valid entry to happen, like a large engulfing candle, or steep rise/decline.
Do the same in *your* trading, and I guarantee you'll see better results.

Oh, and remember...

If you have any questions about what we've learned today or Supply & Demand in general, feel free to email me using the address below or leave a comment somewhere on the site...

I'm happy to clear up anyone's understanding of how this method works.

Just shoot me an email, and I'll get back to you ASAP.

PAN

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