



Lesson # 1

Topic:
Supply & Demand

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Today's Agenda

- 1) Powerpoint lesson foundation & basics
- 2) 10 Minute Break
- 3) Powerpoint lesson foundation & basics
- 4) Review and quiz

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What you will learn today:

- 1) How to identify turning points in the markets
- 2) How to place buy & sell orders in areas of high probability, high reward & low risk
- 3) How to use Supply & Demand to find trading opportunities
- 4) How to enter long and short positions in area of demand and supply

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**Too much Demand,
prices go up**



**Too much Supply,
prices go down**



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The law of demand states that, if all other factors remain equal, the higher the price of a good, the less people will demand that good.



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The Poised Professional Trader vs. The Nervous Novice Trader

Professional Trader Sells to
Nervous Novice Trader

Professional Trader Buys
from Nervous Novice

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**Three critical components to any trade:
High Probability, High Profit Margin, Low Risk**



It's all in the methodical, systematic PROCESS !

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Buying Low

All “**Long**” positions must be bought lower than when they are sold in order to profit

- ✓ Where do we buy low?
- ✓ What can give us a high probability of prices going higher?
- ✓ How can we lower our risk if we are wrong?
- ✓ How can we determine when to sell?

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Buying Low

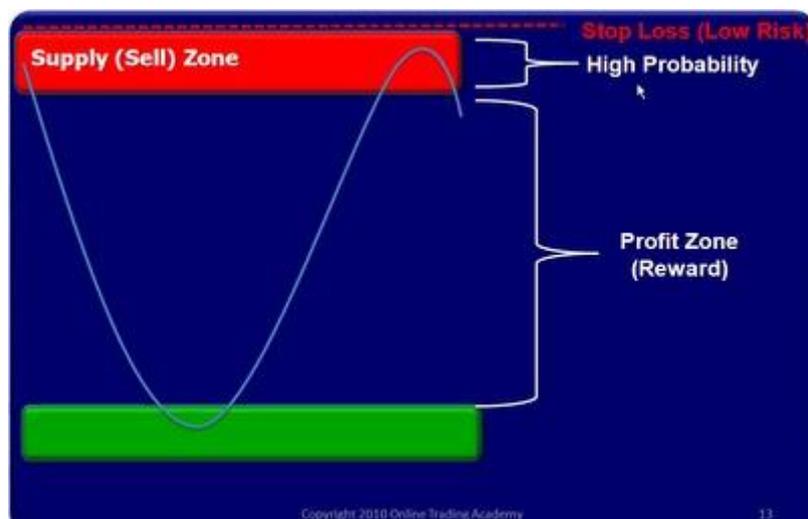
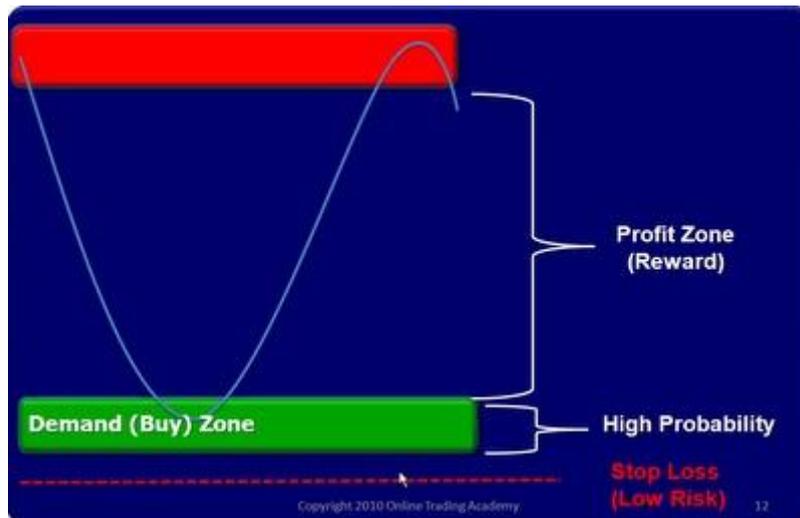
DEMAND:

is where traders are willing to buy a stock aggressively because the supply/demand balance has shifted to the demand side where the buyers are dominant and the sellers are weak.



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Sell High

All "Short" positions must be sold higher than when they are covered in order to profit

- ✓ Where do we sell high?
- ✓ What can give us a high probability of prices going lower?
- ✓ How can we lower our risk if we are wrong?
- ✓ How can we determine when to cover?

Selling High

SUPPLY:

is where traders are willing to sell a stock aggressively because the supply/demand balance has shifted to the supply side where the sellers are dominate and the buyers are weak.



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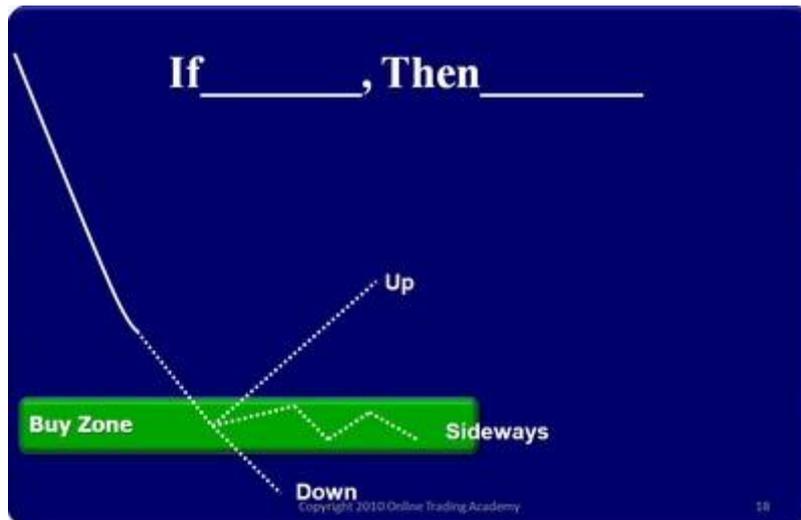
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Entries & Exits



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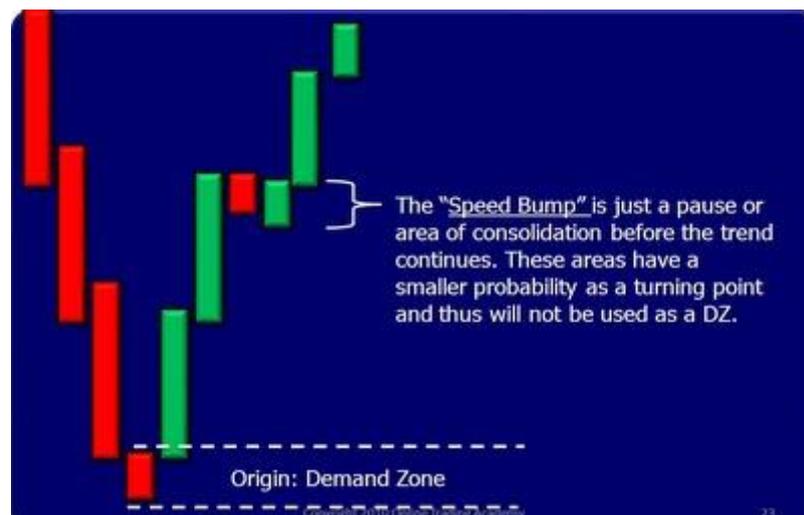
- ## Areas that have "Demand"
- 1) A Drop-Base-Rally "Demand Zone"
 - 2) Previous Resistance
 - 3) Gap Fill
 - 4) Previous Days High, Low, Open & Close
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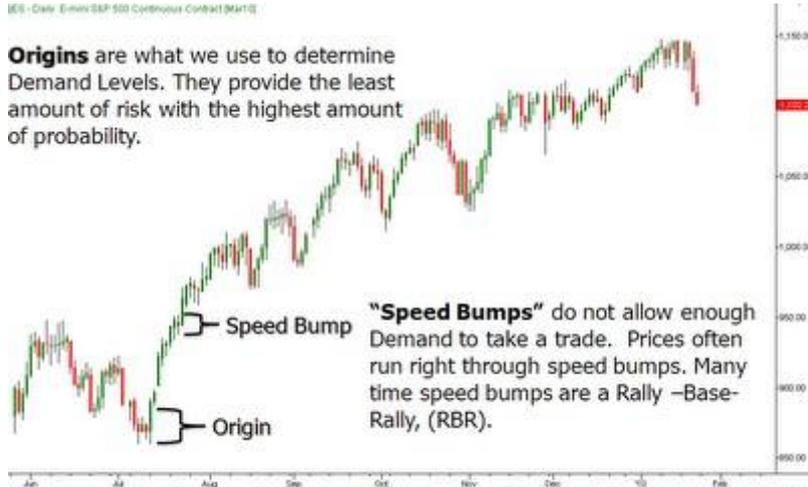
- ✓ Origins
- ✓ Speed Bump
- ✓ Level vs. Speed Bump
- ✓ Pockets of Nothing
- ✓ Unfilled Gap
- ✓ Fresh Level
- ✓ RBD vs RBR
- ✓ DBD vs DBR
- ✓ Limit Entry
- ✓ Confirmation Entry
- ✓ Line Placement
- ✓ Targets

The Origin of the move is what we first look at in order to determine if a trade has a good level of probability.

In this example the Origin had a nice strong move upward, so we would use this as our next area of Demand



Origins are what we use to determine Demand Levels. They provide the least amount of risk with the highest amount of probability.



"Speed Bumps" do not allow enough Demand to take a trade. Prices often run right through speed bumps. Many time speed bumps are a Rally -Base-Rally, (RBR).

A "fresh level" is an area of Demand that has not yet been touched.



Prices have already dropped to this level so it is no longer "fresh"

Prices have yet to drop to this level, so this is considered a "Fresh" level



The more times a level is tested the weaker it becomes

Break of support (demand) level

Drop Base Rally vs Rally Base Rally

Drop-Base-Rally (DBR)

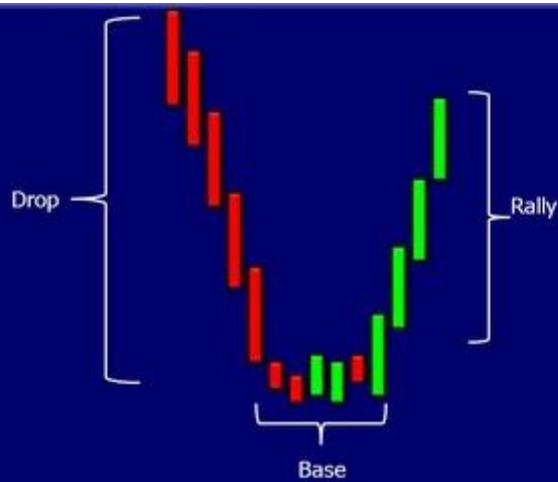
A drop in price where price consolidates (base) then rally's higher in price

Rally-Base-Rally (RBR)

A rally in price where price consolidates (bases) then rally's higher in price

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Rally Base Drop vs Drop Base Drop

Rally-Base-Drop (RBD)

A rally in price, then price consolidates (bases) then drops lower in price

Drop-Base-Drop (DBD)

A drop in price, then price consolidates (base) then drops lower in price

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How do we find Demand Zones on any stock/ETF or market?

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- 1) First we must identify current price
- 2) Look down and to the left until you find a big strong aggressive move up
- 3) Find the origin of that big strong aggressive move up
- 4) Draw lines above & below the origin of that move

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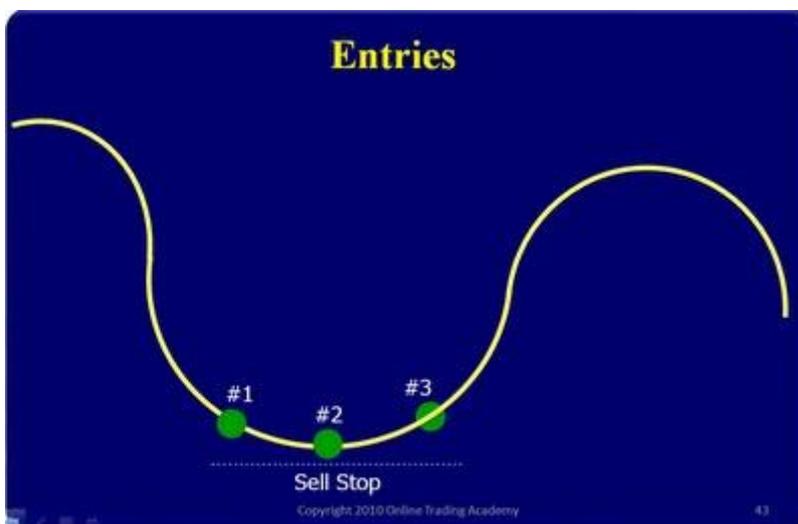
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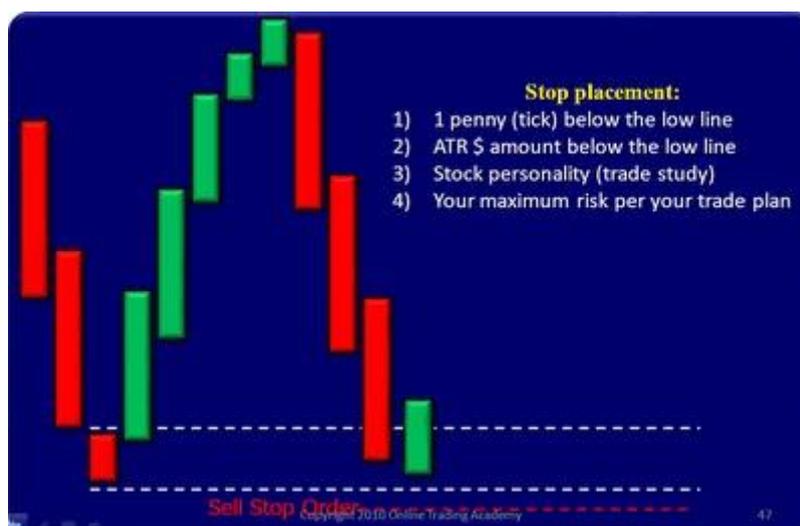


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Demand Zone (+DZ)

The Set up:

- A stock drops in a fast manner into a Rally Base Drop Demand Zone (DZ)

Time Frame Used:

- Weekly, Daily, 60 min, 15 min & 5 min

Rules:

- Stock must be in a #1, #2 or #3 stage on Daily Chart
- Multiple level touches (Stage # 1 or 3) may be taken, however it must be considered a Fresh level
- Stock must drop 3 or more candles with lower highs
- Must have at least one ERC in last drop
- Stock must be in a DBR Demand Zone

Odds Enhancers:

- Strength
- Reward-to-Risk
- Big Picture Uptrend (Stage # 1, 2, or 3)
- Retracement
- Time at Level
- Arrival

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How do we find Supply Zones
on any stock/ETF or market?

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Line Placement:
 The High line is placed at the high of the base of the Supply Zone.

 The Low Line is placed at the low of the Base of the Supply Zone.

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Entries



A short limit order (#4 entry) is placed when price reaches the low line with a buy stop just above the high line

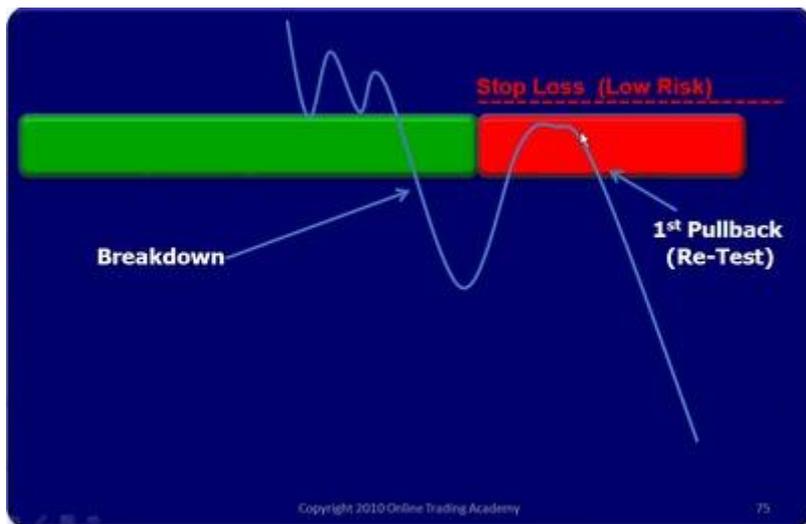
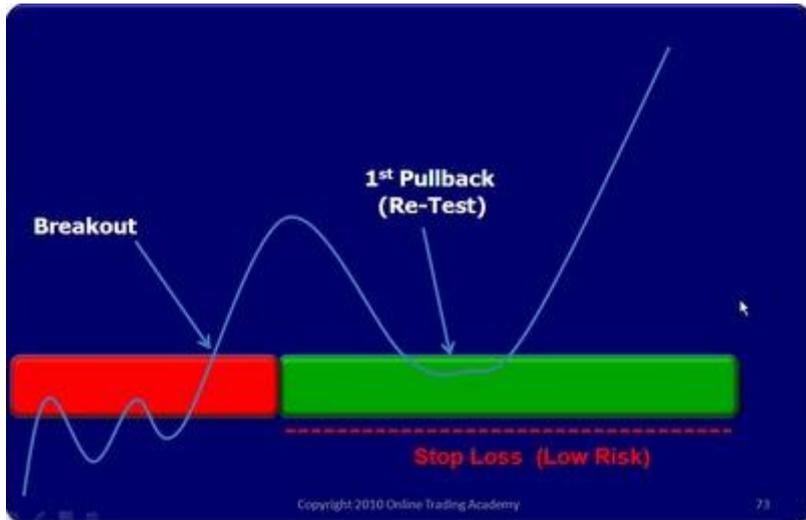


A short market order (#5 entry) is placed when price is anywhere inside the SZ











Review Quiz:

- 1) How do you identify turning points in the markets?
- 2) How do you place buy & sell orders in areas of high probability, high reward & low risk?
- 3) How do you use Supply & Demand to find trading opportunities?
- 4) How do you enter long and short positions in area of demand and supply?

