

The World of Supply and Demand Trading

Boring Definitions of Supply and Demand on a Price Chart

Supply on a price chart occurs when sellers overwhelm buyers. The selling is identified as one or more large candles descending dramatically from an area of consolidation.

Demand occurs on a price chart when buyers overwhelm sellers. The buying is identified as one or more large candles ascending dramatically from an area of consolidation.

The more dramatic the descent in supply the stronger the supply may be considered.

The more dramatic the ascension in demand the stronger the demand may be considered.

The less dramatic the descent in supply the weaker the supply may be considered.

The less dramatic the ascent in demand the weaker the demand.

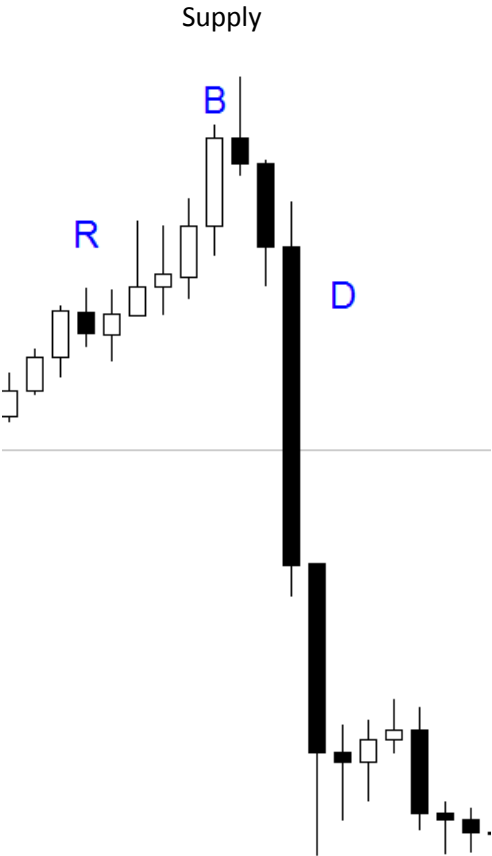
Caution: No matter how strong or weak the demand or supply area appears each one can be broken or respected. Never assume that a supply or demand area will react as you expect.

RBD, DBD, DBR, RBR Identifying Supply and Demand On the Price Chart

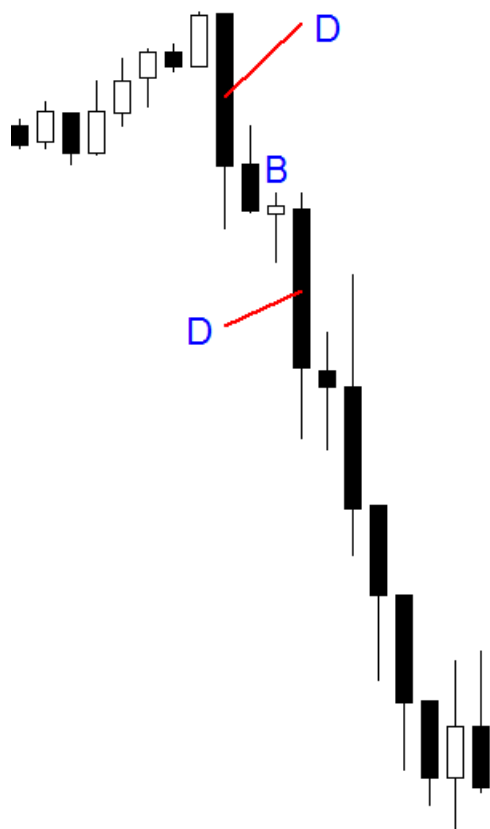
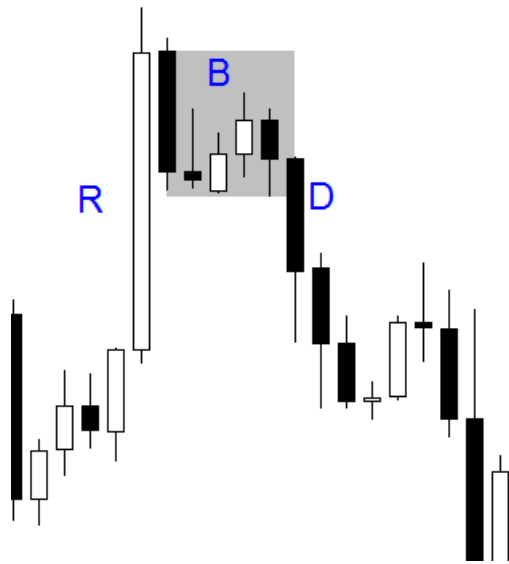
Supply: RBD (Rally-Base-Drop) and DBD (Drop-Base-Drop)

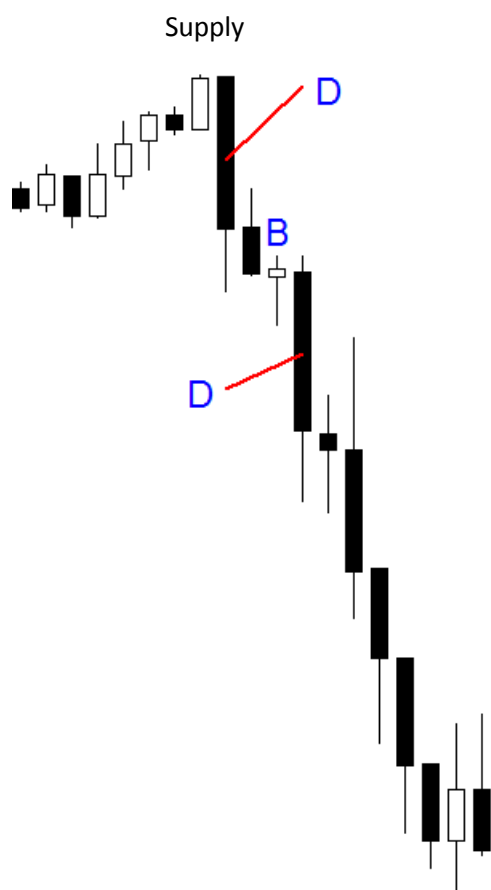
Demand: DBR (Drop-Base-Rally) and RBR (Rally-Base-Rally)

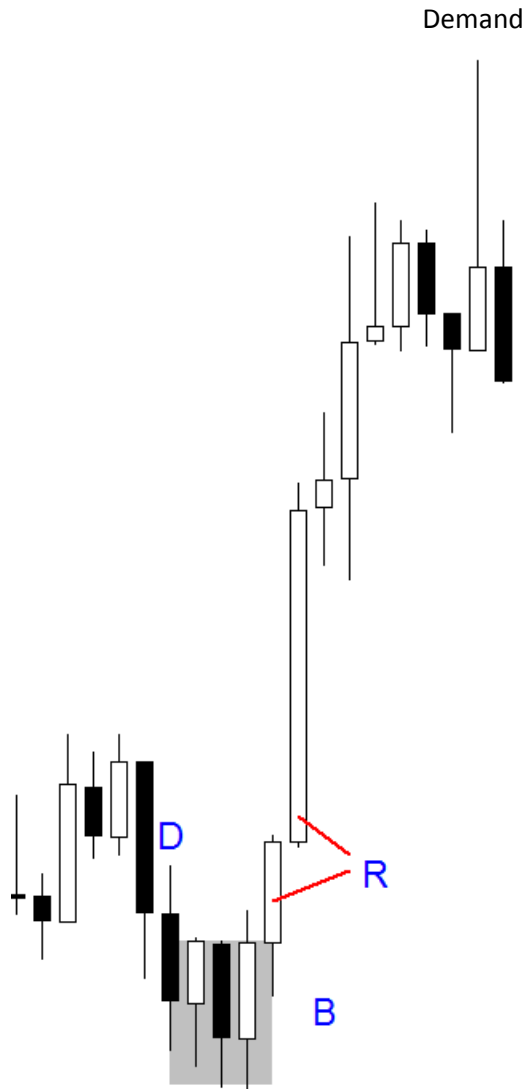
Examples:



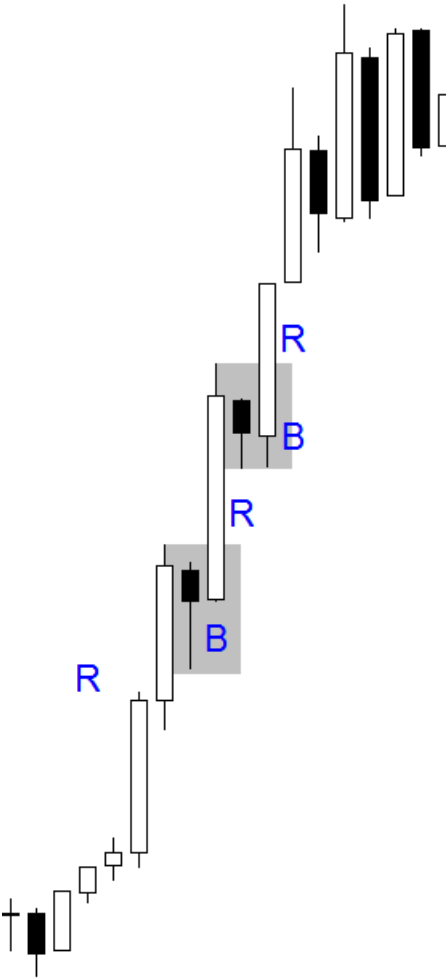
Supply



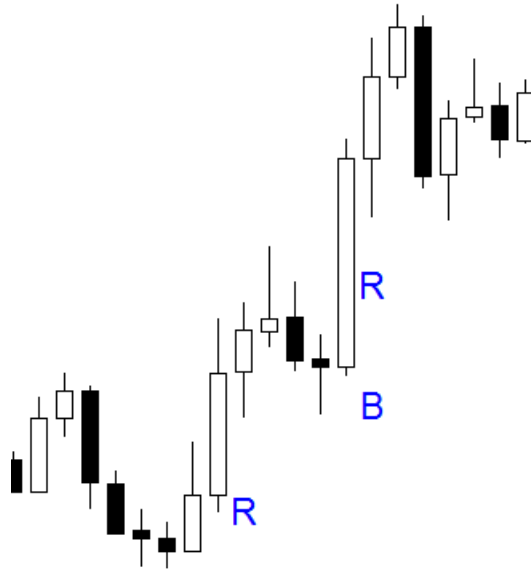




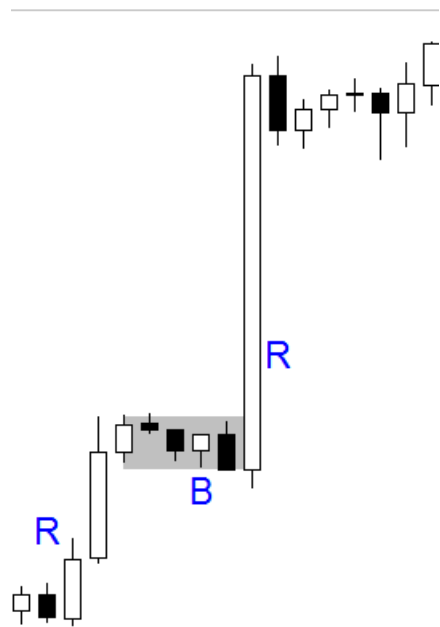
A series of RBR demand



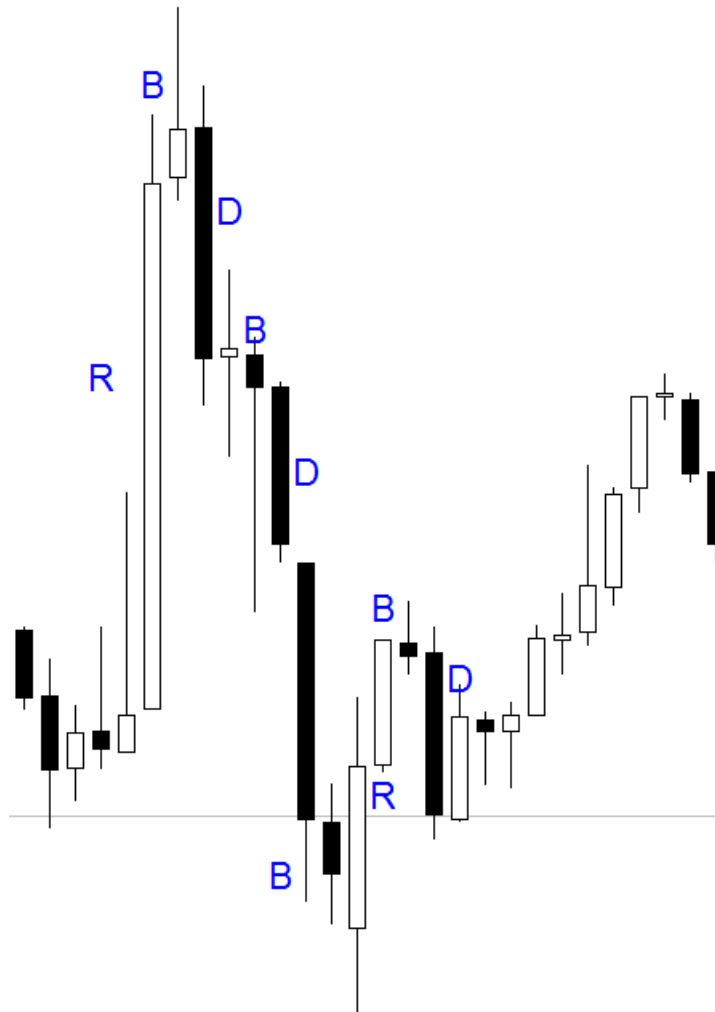
Demand



Demand



A series showing how price constantly creates areas of supply and demand.



Identifying areas of supply and demand on a price chart is the most basic concept to learning to trade using supply and demand concepts. In review and perhaps to simplify a bit:

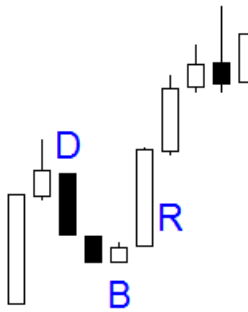
Supply occurs where there is selling. This is bearish activity on the price chart.

Demand occurs where there is buying. This is bullish activity on the price chart.

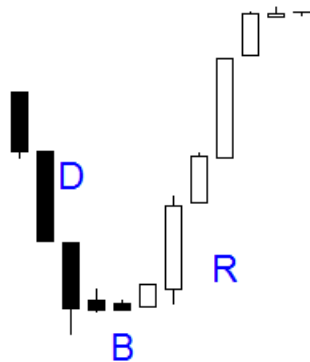
Clean vs Messy

The cleaner the departure from the area of consolidation the more identifiable the zone becomes. In other words as price leaves an area of consolidation price should make few or no candle wicks back towards the area of consolidation.

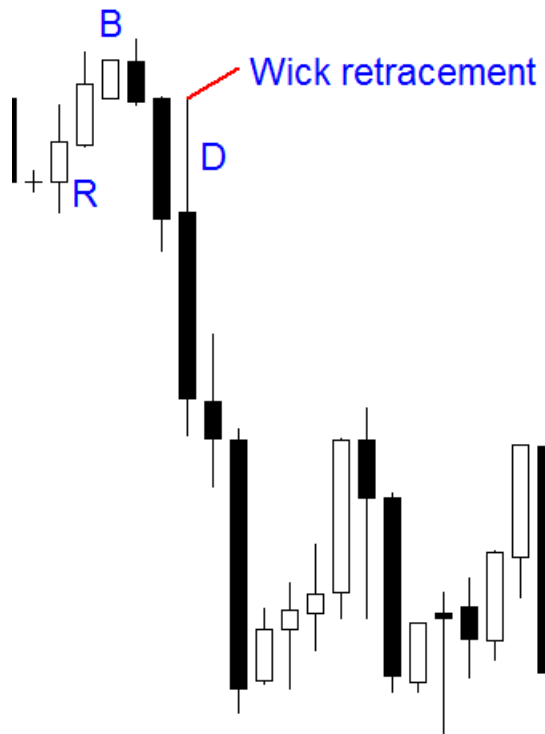
Area of demand with clean move away from consolidation. No candle wick spiking down as price ascends. Suggests strong demand area.



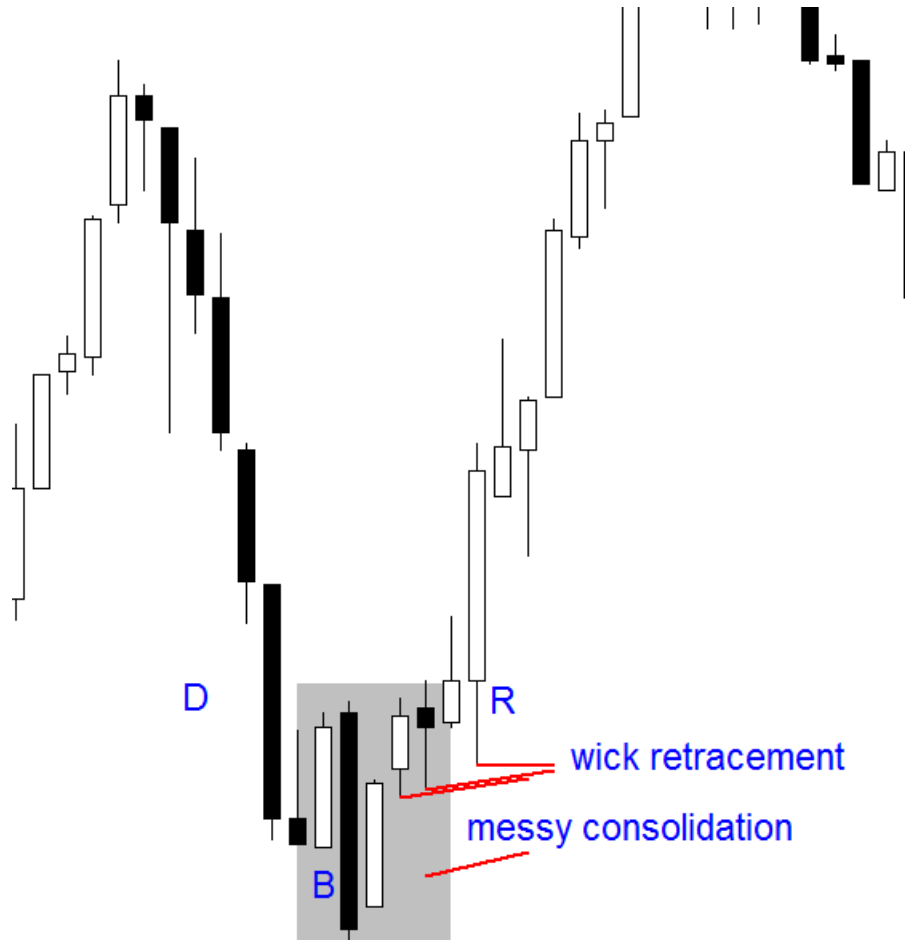
Area of demand with pretty clean move away from consolidation. There is a small wick spike but this is still what might be considered strong demand.



Supply area with wick spiking back towards the consolidation area. Suggests some supply has been depleted.



Demand area with poorly defined consolidation and spiking of wicks as price ascends.



So now we have reviewed how to identify supply and demand areas through RBD, DBD, DBR and RBR.

We have also have shown that clean looking areas of supply and demand might tend to be stronger vs those where the area of consolidation is messy and price departure is accompanied by candle wick spiking back.

Caution: No matter how clean the supply or demand area it can be violated. No matter how messy the supply or demand area it can be respected. These comments will become more clear as we explore how these areas of supply and demand can be exploited.

Supply and Demand Zones