

Module 05 · Printable reference

Smart Money Concepts

Key concepts, worked examples and risk reminders. Use alongside the full free course.

051 SMC foundations

SMC is a family of price-action interpretations involving structure and liquidity, not direct observation of institutions.

Example: A break above 110 followed by a retracement can be labeled in several ways.

Check: What extra evidence is needed to identify actual institutional orders?

Answer: Suitable order-level evidence; OHLC patterns alone do not identify participants.

Caution: OHLC data cannot identify institutional intent.

052 Liquidity pools

Traders use this term for areas hypothesized to contain clustered orders.

Example: Repeated highs near 120 may attract stop or breakout orders.

Check: Can you infer exact resting stop quantity from two similar highs?

Answer: No; prices alone do not reveal hidden or conditional orders.

Caution: Actual resting orders are not observable from candles alone.

053 Buy-side liquidity

SMC often refers to possible buy orders above visible highs.

Example: Short stops and breakout buys could sit above 120.

Check: If price crosses a prior high, is a bearish reversal automatic?

Answer: No; price may continue upward or reverse.

Caution: The quantity and identity of orders are unknown.

054 Sell-side liquidity

SMC often refers to possible sell orders below visible lows.

Example: Long stops and breakout sells could sit below 100.

Check: Can an old low have no meaningful stop cluster?

Answer: Yes; actual order placement is unknown.

Caution: A low is not evidence of a planned hunt.

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055 Liquidity sweep

A sweep is commonly defined as a level breach followed by reclaim.

Example: Price reaches 122 above 120 then closes 118.

Check: Price reaches 122 above 120 but closes at 121. Is this a same-bar upper sweep?

Answer: No; the close is still above the reference.

Caution: A reclaim may fail on the following bar.

056 Equal highs

Similar highs provide a visible reference area.

Example: Highs 120 and 120.2 can be grouped under a 0.3 tolerance.

Check: Highs 120 and 120.2 differ by how much?

Answer: 0.2; they qualify under a 0.3 inclusive tolerance.

Caution: Choose tolerance relative to tick size or volatility.

057 Equal lows

Similar lows provide a visible reference area.

Example: Lows 99.9 and 100.1 form a candidate zone.

Check: Lows 99.9 and 100.1 meet a tolerance of 0.1?

Answer: No; their difference is 0.2.

Caution: Repeated tests can precede either bounce or breakdown.

058 Order blocks

An order block is a practitioner-defined candle or zone before a directional displacement.

Example: A bearish candle at 100–103 precedes a move above 110.

Check: Can the pre-displacement candle be labeled a confirmed block before the move?

Answer: No under that definition; the confirming move is not yet observed.

Caution: The label does not prove institutional orders exist there.

059 Bullish order block

A common convention marks the last down candle before a strong upward move.

Example: A down candle 105 to 102 precedes a close at 114.

Check: Why does the original down candle alone not qualify?

Answer: The subsequent upward displacement is part of the rule.

Caution: Specify zone boundaries and invalidation in advance.

060 Bearish order block

A common convention marks the last up candle before a strong downward move.

Example: An up candle 110 to 113 precedes a close at 101.

Check: What does a close above a bearish zone's upper boundary mean under a close-based invalidation rule?

Answer: The candidate zone is invalidated.

Caution: Retests can break through the zone.

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061 Fair value gaps

A three-candle imbalance is often defined by non-overlap of first and third wicks.

Example: First high 105 and third low 108 create a bullish zone 105–108.

Check: If high(A)=105 and low(C)=108, what are the boundaries and width?

Answer: 105–108, width 3.

Caution: This is not a guarantee that price will revisit the area.

062 Bearish fair value gaps

A bearish three-candle imbalance occurs when third high is below first low.

Example: First low 110 and third high 106 define 106–110.

Check: First low 110, third high 106: what is the midpoint?

Answer: 108.

Caution: The area can remain unfilled indefinitely.

063 Displacement

Displacement is a relatively large directional movement compared with recent bars.

Example: A body of 8 when recent median body is 2 may qualify.

Check: Body 8 and prior median 2 gives what ratio?

Answer: 4 times the prior median.

Caution: Set a quantitative threshold rather than judging after the event.

064 Mitigation

Practitioners describe a return to a previously marked zone as mitigation.

Example: Price revisits a 105–108 gap after rising to 118.

Check: Does a return to a gap prove that institutions closed inventory?

Answer: No; it establishes only a price interaction.

Caution: A revisit is observable; the reason for it is not.

065 Breaker blocks

Some SMC methods relabel a failed order block as a possible opposite-side zone.

Example: A former bullish zone 100–103 breaks and is revisited from below.

Check: When can a failed zone be relabeled under a breaker convention?

Answer: After its predefined invalidation, not before.

Caution: Definitions vary and no causal institutional inference is justified.

066 Premium and discount

A range midpoint divides its upper and lower halves in SMC terminology.

Example: Range 100–140 has equilibrium 120; 110 is below midpoint.

Check: For 100–140, where does 110 sit as a fraction of the range?

Answer: 25%, in the lower half.

Caution: Cheap relative to a range is not fundamental undervaluation.

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067 Inducement

Practitioners use inducement for a local level believed to attract orders before a larger move.

Example: A minor high 110 sits below a major high 120.

Check: Can a minor high prove that someone deliberately lured traders?

Answer: No; a price chart cannot establish intent.

Caution: Intent cannot be established from a chart pattern.

068 Session context

Session boundaries affect activity and may frame intraday hypotheses.

Example: Compare opening-range behavior with midday behavior on Indian market data.

Check: Why compare opening events with other openings rather than midday observations?

Answer: Liquidity and volatility often vary systematically with time of day.

Caution: Do not assume overseas session rules transfer to India.

069 SMC confluence

Combine pre-defined conditions instead of relying on one label.

Example: Test a sweep, confirmed structure break and retest as separate conditions.

Check: If a filter improves 4 trades out of 5, is that reliable proof?

Answer: No; a tiny sample is highly uncertain.

Caution: Adding filters can overfit small samples.

070 SMC research plan

Translate discretionary labels into reproducible rules and test out of sample.

Example: Record every qualifying sweep with entry, exit and costs.

Check: What must a research plan record besides winners?

Answer: Every qualifying event, losses, missed fills, costs and the timing of decisions.

Caution: Do not select only successful chart examples.

Further reading

SEBI investor education: investor.sebi.gov.in · NSE: nseindia.com. References for background only; no endorsement or independent validation is implied.

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