Module 06 · Printable reference

Supply and Demand

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

071 Supply zones

A supply zone is a region from which price previously declined sharply.

Example: A base near 120–123 precedes a decline to 110.

Check: Why is a supply zone not proof of unsold institutional inventory?

Answer: The chart shows prices, not the quantity or identity of outstanding orders.

Caution: Prior selling does not establish remaining sell orders.

072 Demand zones

A demand zone is a region from which price previously rose sharply.

Example: A base near 95–98 precedes a rise to 110.

Check: When is a demand zone identifiable under the impulse rule?

Answer: After the required upward move is observed.

Caution: Historical demand may not persist.

073 Rally-base-rally

This pattern labels a pause between two upward moves.

Example: Price rises 100 to 110, pauses 109–111, then reaches 120.

Check: At the base, is the second rally already known?

Answer: No; it is a future condition until observed.

Caution: A base can break downward instead.

074 Drop-base-drop

A pause between two downward moves can be labeled DBD.

Example: Price falls 120 to 110, pauses 109–111, then reaches 100.

Check: What separates a candidate base from a completed DBD pattern?

Answer: A qualifying second downward leg.

Caution: The label is descriptive rather than predictive.

075 Rally-base-drop

A pause between an advance and decline may identify a candidate supply area.

Example: Price rises to 120, pauses, then falls to 108.

Check: Why not trade the historical base using the later decline as confirmation?

Answer: It would introduce future information into the earlier decision.

Caution: The reversal is visible only after the decline occurs.

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076 Drop-base-rally

A pause between a decline and advance may identify a candidate demand area.

Example: Price falls to 100, pauses, then reaches 115.

Check: Is a base that never rallies a completed DBR?

Answer: No; the rally is part of the sequence.

Caution: Avoid treating the future rally as known at the base.

077 Zone boundaries

Define proximal and distal edges using a reproducible candle rule.

Example: Mark a base spanning 100–104 and document whether wicks count.

Check: A demand zone is 100–104 with price above it. Which edge is nearer?

Answer: 104, the proximal edge under that convention.

Caution: Inconsistent edges make results incomparable.

078 Freshness and revisits

Some traders classify zones by number of revisits.

Example: A zone touched once differs from one revisited five times.

Check: Why count distinct visits instead of each bar inside a zone?

Answer: Several adjacent bars may belong to a single interaction.

Caution: Freshness is a hypothesis, not verified remaining inventory.

079 Zone invalidation

A predefined breach or close can invalidate a zone.

Example: A demand zone 100–104 fails under a close-below-100 rule.

Check: A demand zone 100–104 closes at 99. Does a close-below-100 rule invalidate it?

Answer: Yes.

Caution: Gaps may create losses beyond planned exit.

080 Zone testing

Evaluate zone rules across many observations with realistic execution.

Example: Compare first-touch results with later-touch results using the same exit rule.

Check: Why include zones never revisited?

Answer: Excluding them distorts the frequency and practical usability of signals.

Caution: Control for volatility and sample selection.

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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