Free Ebook on the Logic behind Market Movements

Introduction

This free ebook aims to help you have a better understanding of the **logic behind market movements**. Most of the traders do not have a deep understanding of the market because no one has ever taught them how to read it correctly. Most of the mentors explain a strategy but they do not explain the logic that there is behind it. Why do they do it? There are two possible reasons: either the strategy itself is based on **incorrect confluences** and the mentor is aware of it (he just wants to sell a product) or not even the mentor is aware of what logic the strategy is based on. How do you understand if your strategy is based on incorrect confluences? Just ask yourself if what you are doing makes sense from the **liquidity point of view**. If you are not able to explain the logic of your strategy in liquidity terms congratulations, you have just discovered why you are not yet a profitable trader and now you can fix it.

At the basis of any change in the price of any asset, there is an introduction or removal of liquidity in the market. **Liquidity is the fuel** of the market, without it no impulse can happen and no move can be created. **Liquidity works like a magnet** for price. Price is more attracted to reach **zones that have a lot of liquidity**. From a practical point of view, liquidity is nothing more than **stop loss**, **breakeven trades and orders**. So, the price is attracted to reach the zone where the vast majority of the traders place their stop losses, their breakeven and their orders.

We can say that there are two kinds of participants in the market: **institutions** and **retail traders**. The retail traders, often referred to as individual traders, buy or sell securities for personal accounts. On the other hand, institutional traders buy and sell securities for accounts they manage for a group or institution. The second one trades **larger size** and has **a lot of advantages**; they are the ones who have the power to "move" the market in the desired direction. But to be able to execute large market orders (millions or billions of dollars) they **need liquidity to be taken** from most market participants, leading them into trading in the wrong direction. For this reason, **95%** of the retail traders lose their money while **98%** of the institutions close the year in profit.

To be part of the **5% you must understand how liquidity works**; you must understand when the institutions already took out enough liquidity to push the market in the desired direction and when they are still collecting it trapping retail traders. Now I want you to ask yourself “Am I able to understand in which part of the liquidity cycle we are? Have institutions already collected enough money or are they trying to trap me?” **If you cannot understand how liquidity works and where it is**, **you will become liquidity**.

You can’t be profitable with just a positive hedge if you don’t understand the logic behind it. If you don't understand math and the only thing you do is repeat a series of mechanical operations without fully understanding them you will never get high grades; the same reasoning can be done with trading. If you use a mechanical model to trade but you are not able to understand it or explain its logic based on liquidity, you will never be a profitable trader.
So if 95% of traders lose money because institutions need to take their liquidity to place their orders, wouldn’t it be useful to understand **how the vast majority of people trade the markets**? If you can understand where liquidity is sitting, you will have a by far better understanding of the real market’s intentions avoiding having the same trade ideas of those traders who constantly lose money.

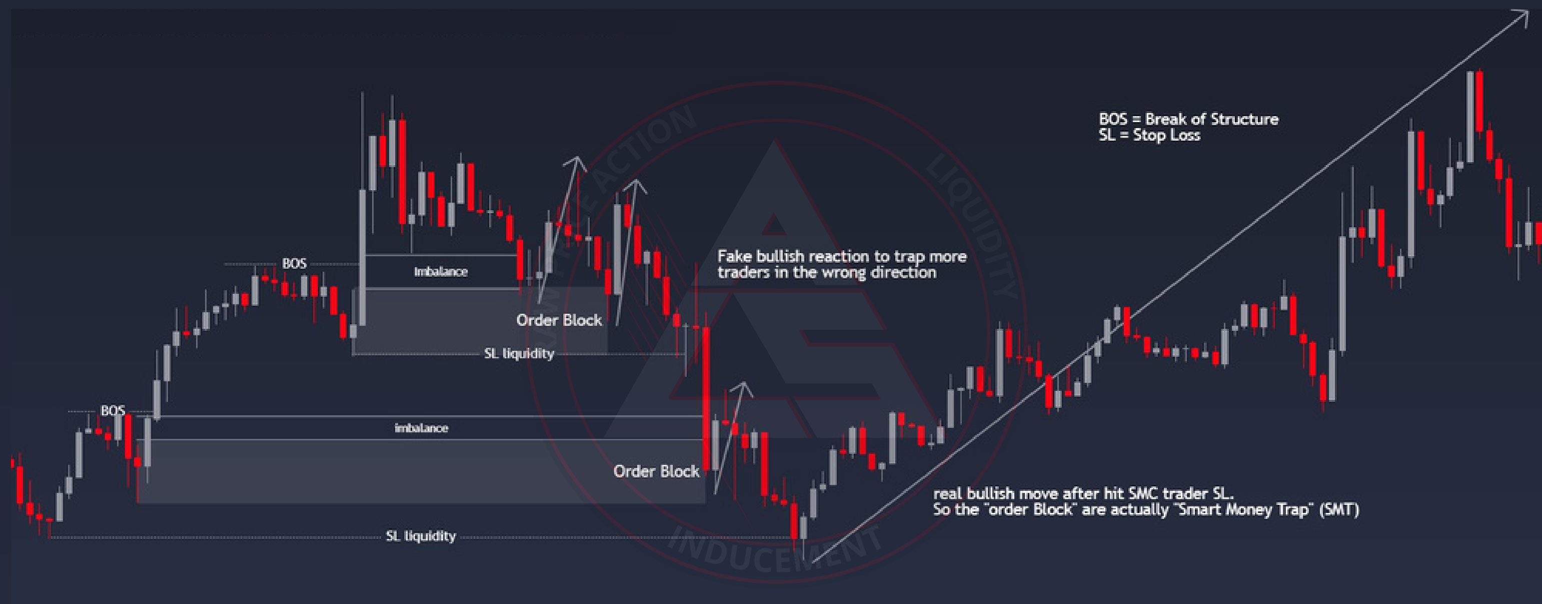
So in this free ebook, I’m going to show you a small part of the content I teach in my **1 to 1 mentorship** to help you understand how the markets really work.
The vast majority of traders are part of one of these groups:

- **SMC** traders (Smart Money Concepts)
- **Supply** and **Demand** traders
- **Support** and **resistance** traders
- **Trendline** traders
- **Break out** and **retest** traders
- **RSI** traders

For each operativity I will bring a specific example and then another one in common with all the operativity

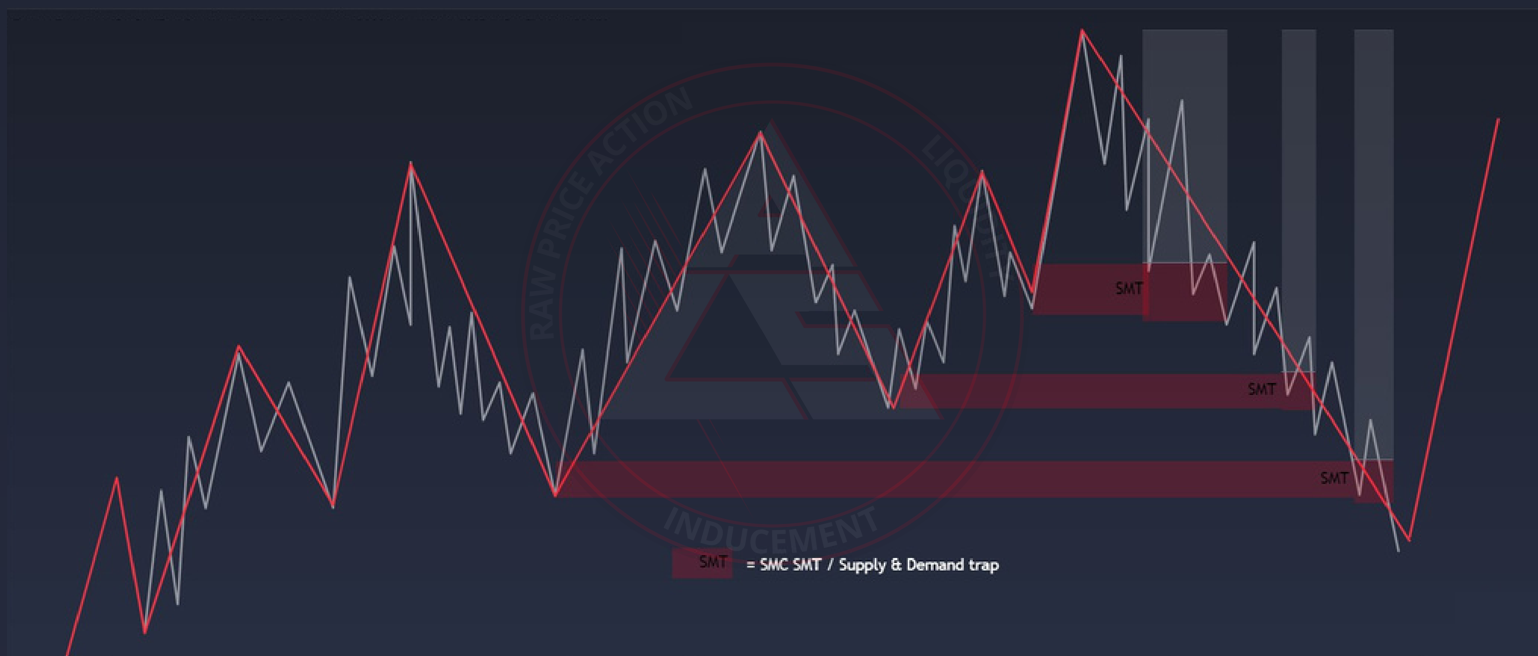
1. SMC and Supply and Demand traders

This kind of trader does not have a clear understanding of the markets because they are more focused on **OB** & **structure** than on liquidity. **SMC** traders need (for example) a structure bullish like the one in the picture and they mark a zone with an **imbalance** (the so-called **Order Block**) while expecting a bullish reaction from that zone. Most of the time the zone that they choose is the one that causes a bullish break of structure. Most of the time, the price will also give a **fake reaction** from that zone to induce more people into **trading in the wrong direction** and then take their liquidity by hitting the SMC **stop loss**.
Supply and **Demand** traders face a similar scenario because their operativity is similar to SMC traders. The main difference is that they are not interested in having an imbalance to validate an interesting area in which to take a trade.



Too many people use this kind of operativity in 2024 and this led to the creation of a **big amount of liquidity** below these Order Blocks and for this reason, price is more likely going to take out that liquidity.

As you can see in the picture, the three zones I marked are the ones that cause a bullish break of structure and when the price approaches them again before violating them, it gives a **fake move to the upside**, inducing people to buy and creating **more liquidity below the lows**.



So, **does every Order Block work**? No, some of them work and I personally use them too. But to choose them I use **objective liquidity logics** that are completely different from the meaningless ones used by Smart Money traders. In my **mentorship** I explain how to identify the valid Point of Interest (POI).

2. Support and resistence traders

This kind of trader does not use any liquidity concepts in their strategy. They simply look at certain **levels where the price reacted in the past** in a bullish or bearish way and think that price is going to react again in that zone. They call these zone support and resistance levels.

The reason why this strategy does not work anymore is that it is one of the first strategies ever developed when trading from a laptop started to spread. On these support and resistance level too many people put their orders and this led to the creation of a **vast amount of liquidity** and as we know price is attracted from liquidity zones.

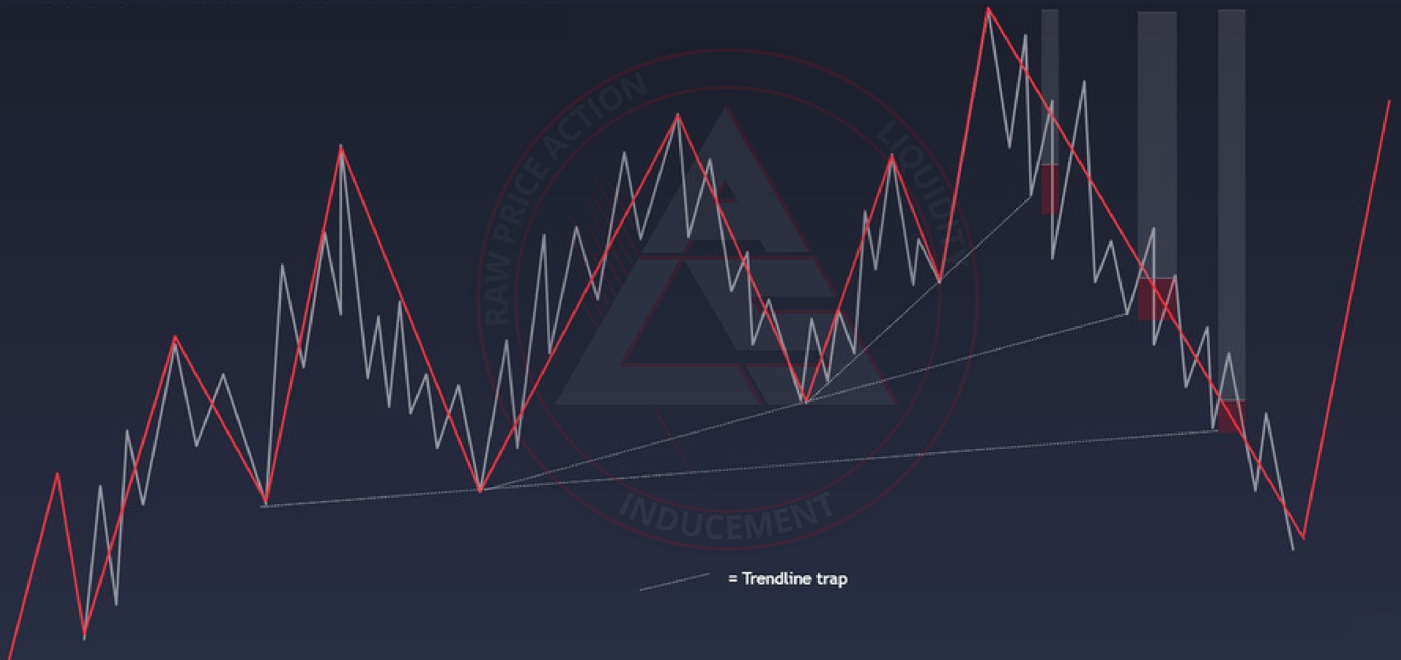
As you can see in the picture, when price approaches the support and resistance level again, it most of the time gives a **fake reaction** In order to grab more liquidity from the **SL below the lows**.

3. Trendline traders

This kind of trader looks at the **main trend** of an asset, and later, they draw one or more lines expecting the price to react from that zone in order to allow the price to keep pushing in the main direction. These levels will be manipulated, probably giving a **fake reaction** and inducing trendline traders to buy or sell.

It is important to remember that **the fake reaction is an important part** that happens most of the time because the **institutions need a lot of liquidity to place their orders**; and in order to have a big amount of liquidity available to execute that order, they need to collect a lot of liquidity from the retail traders, inducing them into opening positions in the wrong direction.

The trendline strategy (together with the support and resistance) is one of the **oldest and most used strategies** in the world. For this reason, it is used by a vast amount of traders and so below the lows in the picture, there is a lot of liquidity that institutions need to collect to place their orders.



4. RSI traders

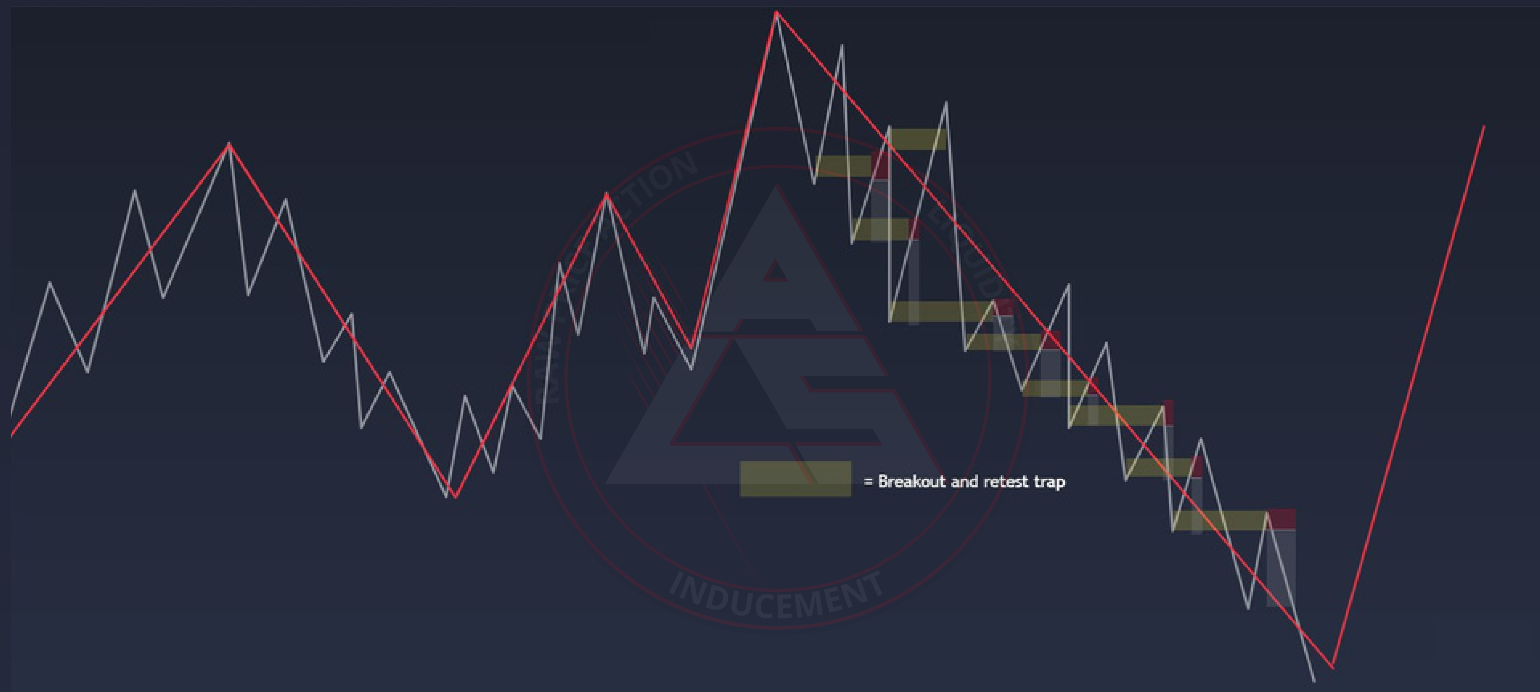
These traders use an indicator called RSI that shows when price is **overbought** or **oversold**. The RSI indicator can have a value between 0 and 100. Below 30 that particular asset is oversold and so they would look for a buy position. Above 70 that particular asset is overbought and so they would look for a short position.
The main problem with this indicator is that it suggests you buy after price heavily drops and sell when price has a big rally, and the vast majority of traders do the same reasoning. **People have been tricked by social media and cheap free videos** into thinking that an asset, after a strong momentum in one direction, needs to correct in the opposite direction mitigating the previous inefficiencies. When (for example) the price collapses dramatically downwards, an **incorrect trigger** is activated for 99% of traders: "The price of the asset has collapsed, there will be an impulse in the opposite direction". I bet that even you who are reading this ebook unconsciously or consciously make this reasoning. But **if everyone thinks like this**, **how will the market respond**? We now know that liquidity is like a magnet that attracts the price; and if the liquidity is the stop loss of the traders and 99% of them start to buy after a strong downside impulse, where will the SLs be positioned? Where will most of the liquidity be found? It will be below the lows. So **the price of the asset will continue to fall**. THE FACT THAT AN ASSET **MUST MAKE A CORRECTION** IN THE OPPOSITE DIRECTION OF AN IMPULSE IS A **FALSE COGNITIVE BIAS**. **Think differently** from the majority and you will start to approach the small slice of profitable traders.

So, coming back to the RSI strategy; it is based on buying after price falls a lot and selling after price has a rally. The reasoning I made previously is why this strategy doesn't work.

5. Break out and retest traders

The strategy of these traders is based on a similar **wrong bias**. After the price of an asset creates (for example) a bearish Break of Structure, they are induced into thinking that the price needs to come back efficient in the range of the previous leg before it keeps going bearish. So also **this strategy is based on the false knowledge that price needs to be efficient**.
THE PRICE OF AN ASSET WILL ALWAYS SEEK TO BE **EFFICIENT**, BUT IT DOESN'T NEED TO BE AND WON'T ALWAYS BE. Just look at the chart and you will see how many times the price action is inefficient or how many times it comes to a deep efficiency hitting the SL of this kind of trader.
So **we have four possible scenarios**:

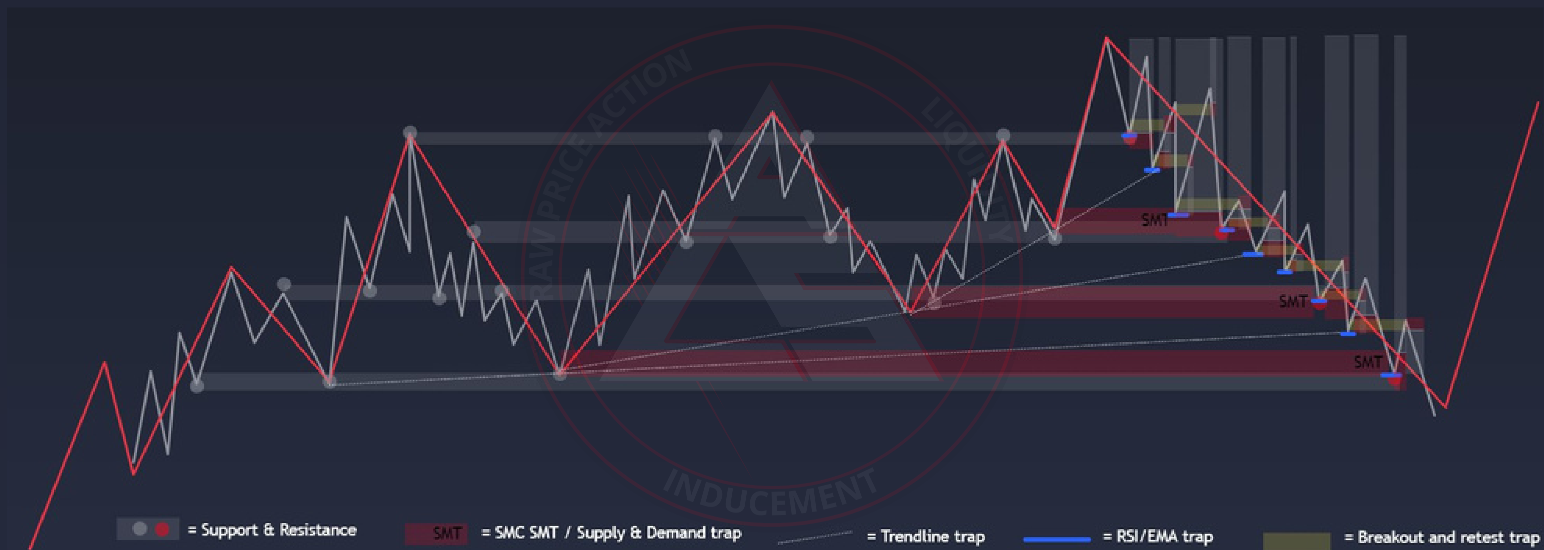
- The price does **not mitigate** the BOS and reacts
- The price does **mitigate** the BOS and reacts
- The price mitigates the BOS **too deeply** hitting the SL and reacts
- The price gives a **reversal** (ChoCH) hitting the SL



In the end in the long term, like every strategy I explained before based on wrong confluences/bias, you will have a **negative equity curve**.

Conclusions

Now let's put all the pieces together and let's analyze step by step the example that I have brought in common for all five types of trading operativity.



Raw PA | Liquidity | Inducement

1. In order to have a clearer vision let's go on the 4H timeframe instead of Daily

2. Here the price gives a fake reaction from a support&resistence level in order to trap more traders in thinking that price is going to keep going bullish

3. But as you can see also RSI traders would try to buy on that level, this because the asset is oversold (RSI below 30) and there are also imbalances above

4. This led to the formation of a big amoun of SL liquidity (also thanks to the fake upside move) and then price start going downside (real move)

5. Then, after the BOS, Breakout and Retest traders were interested in selling. After fake bearish reactions (red arrows), the price starts a bullish correction hitting their SL and then keep going bearish

imbalance

imbalance

imbalance

SL liquidity

BOS

SL liquidity

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1. The price approaches a major trendline and gives a fake bullish reaction to collect more SL liquidity below the low

2. Then price approaches a Daily demand zone and also the RSI is below 30. As always, the price gives a fake bullish reaction and then keep going downside hitting the retail SL. As you can see we have multiple bullish fake reaction from the SMT; doing this the institutions can collect more liquidity for a future big bullish move

3. After the bearish BOS in the picture, Breakout and Retest traders were looking for a sell and their SL got hitten due to a too deep mitigation

imbalance

SL liquidity

BOS

trendline SL liquidity

RSI SL liquidity

SMT

SMC SL liquidity

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1. The price reacted from a support level and also RSI traders start buying (RSI below 30). As always the asset give us a fake bullish reaction to trap more traders in the wrong direction

2. After the Daily BOS, the Breakout and Retest traders were looking for a sell, and after a fake bearish impulse, also their SL got hit

3. Here we have a fake strong bullish reaction, after the price approached a trendline. Also the RSI is below 30. Traders get induced into taking buy positions

4. After the BOS, the asset approaches a demand zone and a support level. We can clearly see a fake bullish reaction to collect more liquidity below the low. Also the RSI traders are interested in buying because the asset is oversold (RSI below 30)

5. For the first time we see a winning trade. Breakout and retest traders were looking for a sell on that zone and the price reacted bearish without hitting their SL

6. Breakout and Retest traders were looking for a sell there after the bearish BOS; the price hit their SL after giving a fake bearish reaction and then keep going bearish

imbalance

SMT

BOS

RSI SL liquidity

support SL liquidity

Breakout and Retest SL liquidity

imbalance

imbalance

imbalance

BOS

Trendline and RSI SL liquidity

SMT

Breakout SL liquidity

BOS

RSI and Support SL liquidity

SMC SL liquidity

You are now able to understand how the market works. You are now able to understand that **most retail traders must lose money** for any market impulse to occur. In my **1 to 1 mentorship** program I will explain how liquidity works in a more **detailed** way and also how to **practically** apply everything I know to the market. In this free ebook, I limited myself to explaining **only 2%** of all the topics I cover in my mentorship.

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