Bullish & Bearish Order Blocks

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Tags	

What are order blocks?

Is the **final candle** before an impulsive move that leads to a break in market structure. This basically means the most recent HH gets taken out, or the most recent LL gets taken out. If a HH or LL is **not** made, and price proceeds towards the up/downside, then that final candle is not considered a valid OB. Price must break structure to be valid.

When we take a look at supply and demand, or bullish and bearish OBs, the **newer** is **usually** the better. So what I mean by this is an untested supply or demand zone, or an untested OB is more likely to give us the expected reaction that we are looking for with price, as opposed to one that price has already come into before, to mitigate.

A quick rule of thumb: The 50% equilibrium point of a particular OB can act as a strong level where price likes to mitigate to, before continuing in that overall direction. What I have found to be true in my own testing is, if price comes up to fill **50%** of the OB, the we can now classify that OB as **mitigated**, and **completed**, and for no reason to look at that area for future interest.

The timeframe you are trading, and the market structure you are currently seeing is important, meaning: Are you seeing bullish market structure? If you are, then it would make more sense to be looking for long trades at demand zones and bullish OBs, rather than looking for supply zones and shorting bearish OBs. Obviously the same concepts apply if you are seeing bearish market structure.

Usually speaking, the HTF, the more significance the zones, or OBs will have. Meaning they can be more realiable. Example: Taking a long from a 4h OB that

led to a $5000+ move, could give more of a reaction from taking a long from a 15m OB that led to only a $500 move in price.

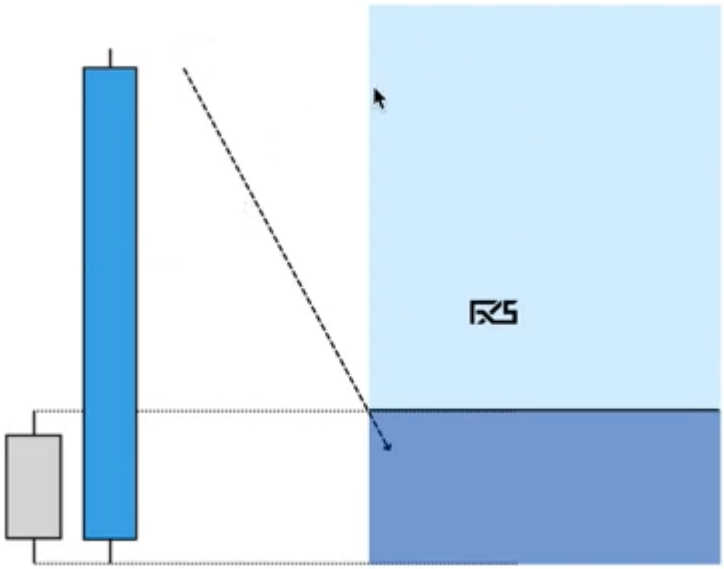
Bullish Order Blocks:

A bullish order block is the **last down** candle before a bullish, **impulsive move** to the upside that breaks structure. We will see large momentum to the upside, which usually leaves behind some price imbalance.

Order Blocks are just a fancy word for **supply and demand** levels, where large institutions have placed big orders at this areas in the market. The theory, is that price will eventually gravitate back towards this order blocks, to re-balance price; fill any liquidity; and for more orders to be placed.

Once we get these OBs form, they normally leaves behind imbalance. So price needs to return back and make price **efficient** before continuing up.

We can identify a clear entry, and stop loss with OBs. Entry at the top of the OB with a stop loss at, or just below the OB.



If we look to this diagram here, this is a bullish OB. So this candle is the actual OB, because the momentum came in on this next candle here. And this with a BOS as well.

So price gravitate towards this OBs to rebalance any of this liquidity or imbalance left, to more orders to be placed to continue to the upside.

What we can do with this OBs is we can set an entry, so once we impulsively move away we can set and entry at the top of the OB. Our stop loss can be at low, of the OB or we can put it just below if we have some wicks or if we wanna just account for us a bit of spike in, we can put it a couple pips below.

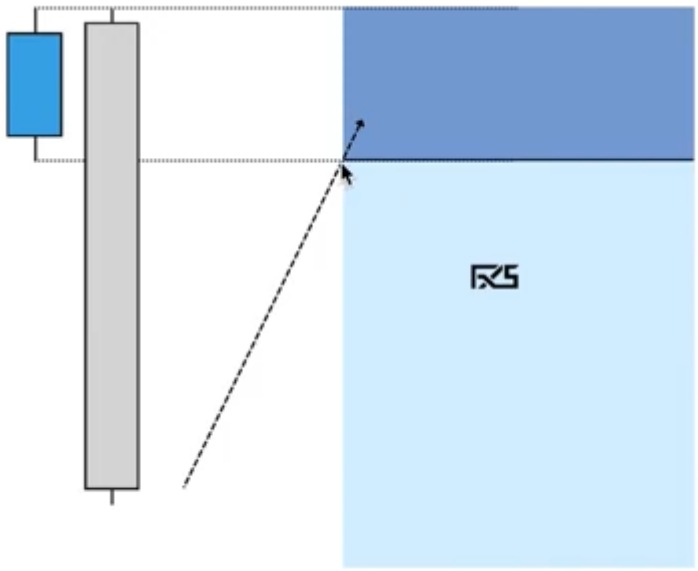
Bearish Order Blocks:

A bearish order block is the **last up** candle before a bearish, **impulsive move** to the downside that breaks structure. We will see large momentum to the downside, which usually leaves behind some price imbalance.

Large institutions have placed big orders at these areas in the market. The theory, is that price will eventually gravitate back towards these OBs, to rebalance price; fill any liquidity, and more orders to be placed.

Once we get these OBs form, they normally leaves behind imbalance. So price needs to return back and make price **efficient** before continuing down.

We can identify a clear entry, and stop loss with OBs. Entry at the top of the OB with a stop loss at, or just below the OB.

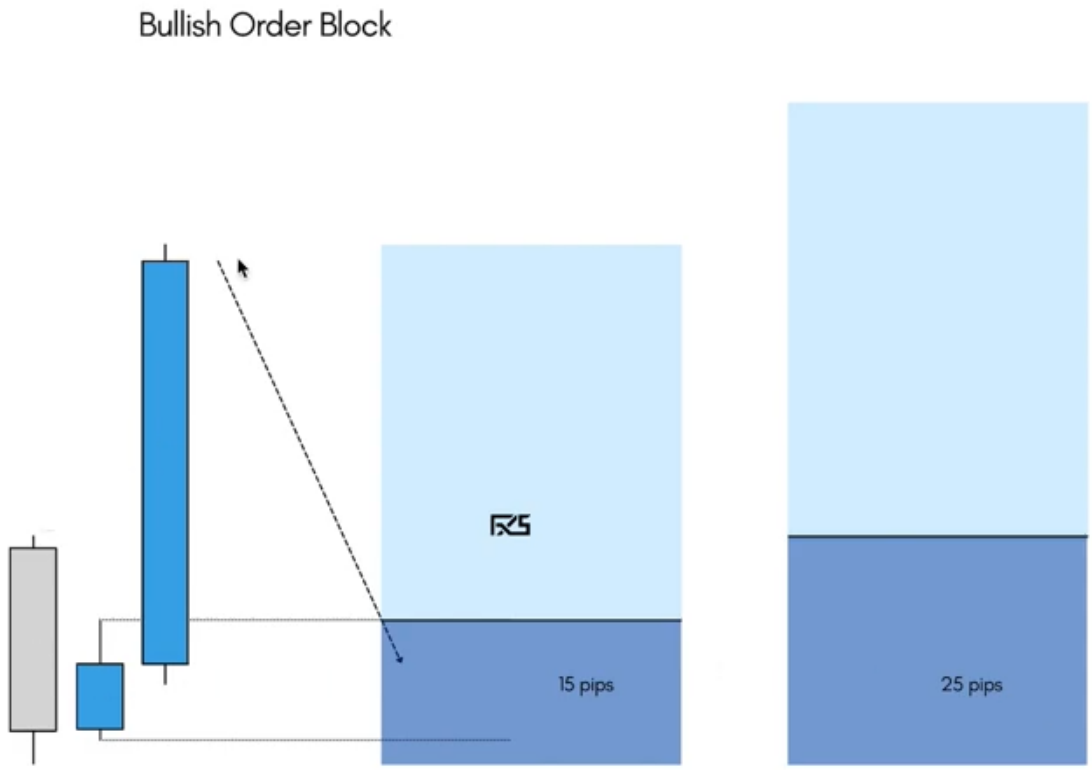


> Now one thing we can do with all the OBs is we can refine it down and see where that momentum has come into the market. Now what I mean by this is, if we had this as our OB, but we had a candle that followed this one and it didn´t engulf the actual OB. What we can do is refine it down to that bullish or bearish candle, rather than the last down or up move.

> ## Order Block Refinement:

So one thing that we can do with OBs, is we can actually refine them down if possible. So its important for us to note where the large momentum has come into the market. Example: where the institutions have got in. Because essentially what happen is, where ever that momentum started, price will need to come back to that area, and then we can see price continue its move.

The reason why refining our OBs down is beneficial to us is because it tighens our AOI, meaning we can get in more precise with a tighter stop loss, and usually decrease our drawdown on our trade. It will also give us the chance to increase our RR on our trade so we can get a better return. The examples below show an OB refinement. So we can see the bullish OB gave us a last down move, followed by a small bullish candle which didnt engulf the OB, or show us any momentum towards the upside. It was in fact the candle after that showed the momentum. So we can refine our OB down to this bullish candle. We have the exact same example with the bearish OB on the right.

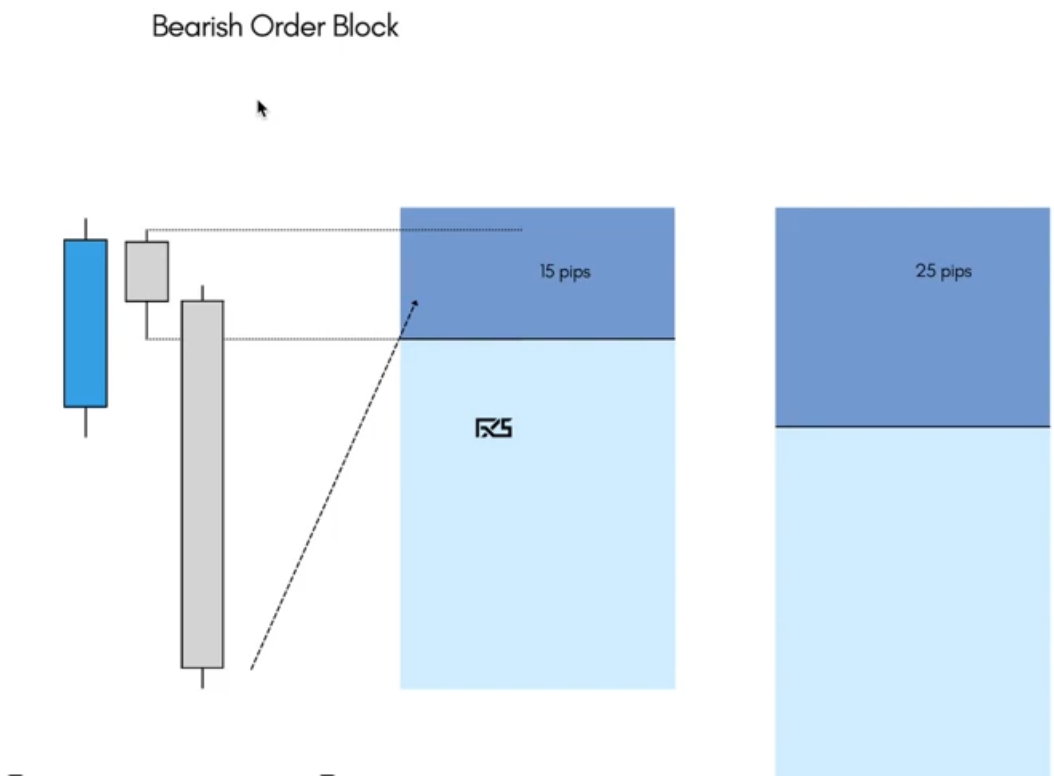


So here what we have got is the last down move before the up move. So this would be our OB, but we can see the candle we got that followed this one is

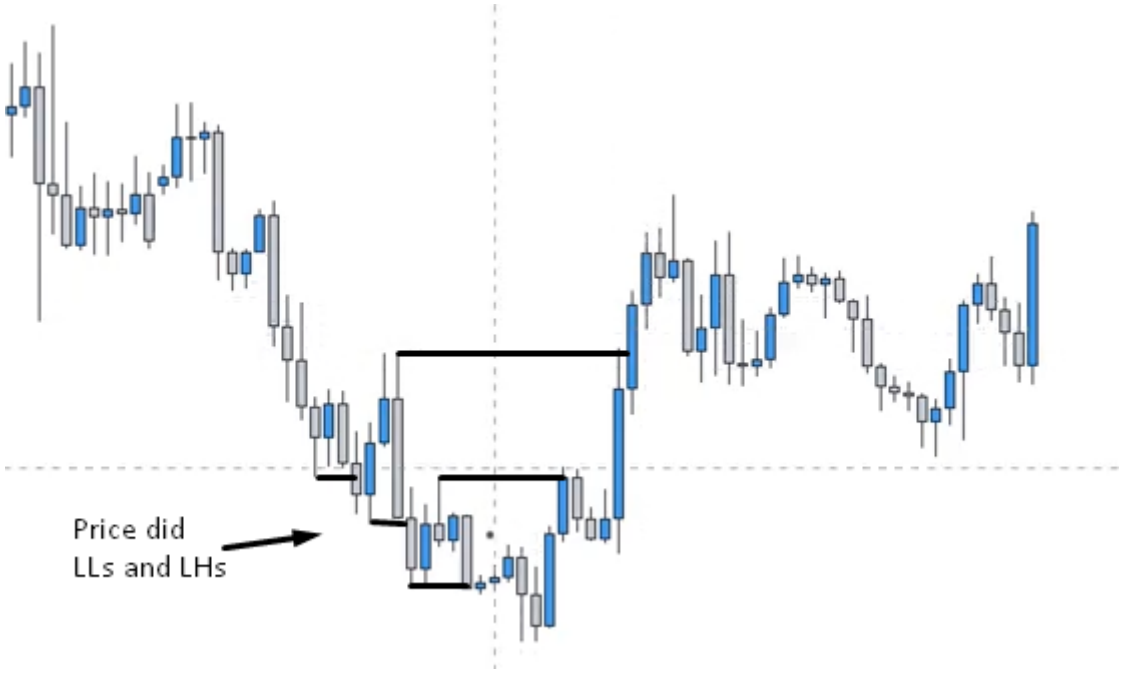
here, and its a bullish candle but notice how its not showing any momentum or we know any progression in the market.

It hasn´t engulfed this OB, meaning it hasn´t closing above showing that momentum. It was in fact the next candle that showed that momentum engulfed this candle, so what we can do is we can take our OB which is here, so this is the last down move, but we can actually take this as our OB.

So the RR on this candle is 15 pips, whereas if we would have kept to this OB this is what we are looking at 25 pips. So we are able to decrease our AOI by -10pips, so thats what gonna do is basically get us in at a better price a tighter stop loss and less drawdown, and more RR on our trades.



So here we have a bearish OB, which is exactly the same thing. This is our bearish OB, but the candle after didn´t show any momentum or it didn´t engulf the OB. So we can take this as our OB. Refine it down to this, so this is now our OB, because its the counter before that momentum came in. As we can see this is large momentum. So with refine we have 15 pips stop loss, which is including the wick, and the original OB is 25 pips. So is good leave some space for price breath putting stop loss above wick or in wick.



So now we are gonna go through some examples of OBs and refinement. We are on 1h at EU, so is we look at price action we see we was previously in this downtrend, so we was putting in LLs and LHs, its clear to see.

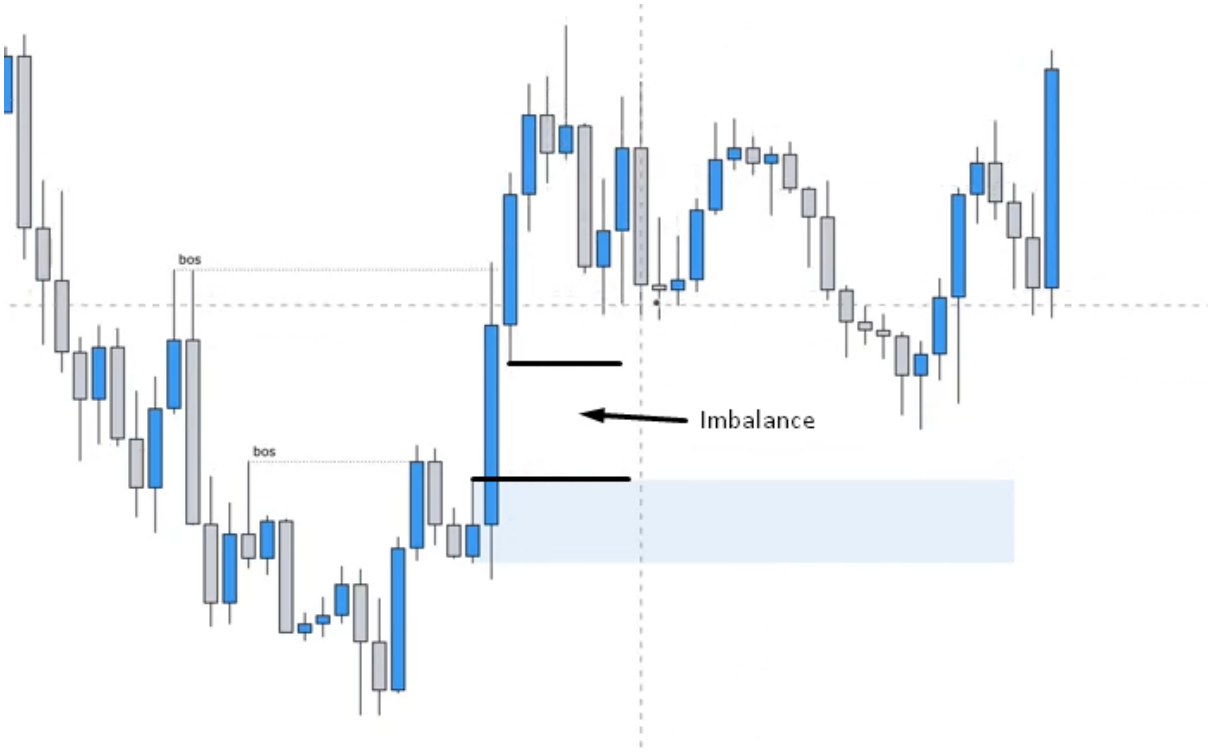
Now we BOS to the upside, and then pullback, impulse start breaking this high, so we can see a change in market structure. Its clear to see we are now bullish, so we are looking now put in HHs and HLs.

So once we have BOS to the upside, we are looking for potential longs.



So if we look to see where the OB would be, so we pushed up, BOS, pulled back, this is the last down move before the impulsive move up the BOS. So this is the OB, but we can refine this down. So the candle after this OB is here, and it hasn´t engulfed this candle, meaning it hasn´t shown momentum.

So we can actually refine it down, and when we refine down OB, it won´t always mean that the AOI is tighter, it means we can be more precise. Usually it will be tighter, but it won´t always be tighter, because in this example here we have a large wick, so this is our OB.



Price left some imbalance in price, now basically what imbalance is when buyers or sellers take control and we know sellers or buyers haven´t got a chance to get involved.

Now we can see the imbalance would be from this wick to this wick, because they are not meeting. So everything in here within this wicks is buying power and zero sellers.

So what that means is price will in the future come back to fill this imbalance that was left, before potentially continuing to the upside.



Now as we can see once we impulsively moved away, price started to correct, actually had EQL on a LTF, we swept the liquidity from EQL, and we can see price didn´t come back into our OB. But what did it do? Will it come down to mitigate the majority, not all but the majority of this imbalance, before continuing.

Now this will hapen from time to time, we won´t get a tap into the OB, but the reason being is because its usually just rebalancing any liquidity or imbalance from just above the OB.



So we didn´t get tapped in so we know we could have had an order here, order would have been set at the top of the refined OB, stop loss at the base of the OB or below the wick.

So we have got a 12 pip stop loss, and we can set this entry as soon as we have broken structure.

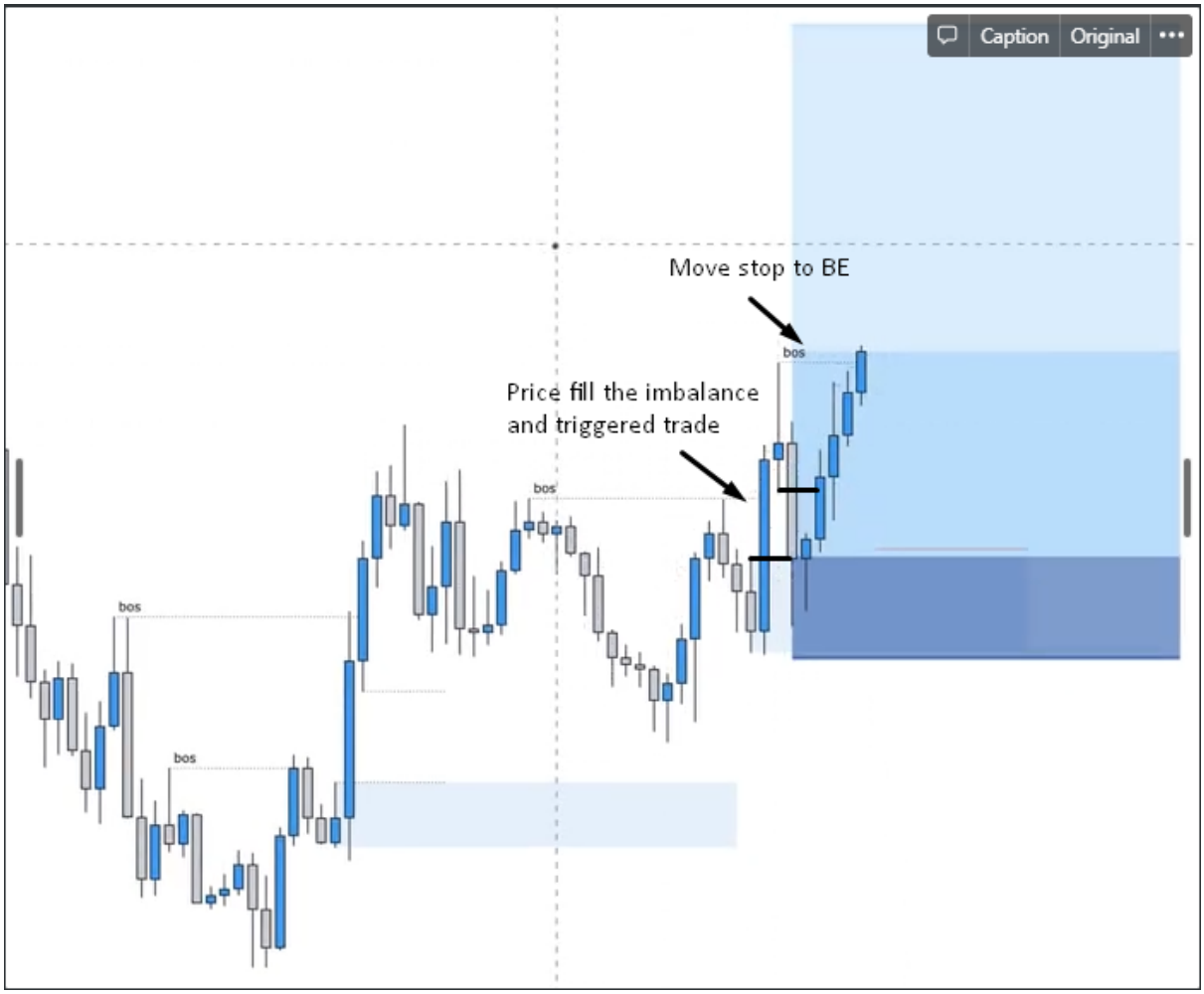
Now once price BOS this structure here we can take off our trade, because is unlikely price returning back, because we have filled imbalance.



Well now we know that we have pushed off from here, this move up hasn´t broken any structure, we just wicked sort of this high, forming this EQH, so we have liquidity above this EQH.

So now price BOS this EQH, and leave an OB. Now this is our OB, so what we can do is place on an entry, now we can´t refine that down because this is the last down move, and the candle after is when the momentum came in. So we can´t actually refine it down like we did here.

So we have got a large stop loss, but what we can do in this example is actually drop to a LTF and look to see if we can refine it down.



Now the price pulling back, rebalancing the inefficiency left on this move up, which we can see more clearly on a LTF, but we have mitigated, meaning a close of the sell positions stacking more buy positions, so the expectation now is for price to continue making HHs.

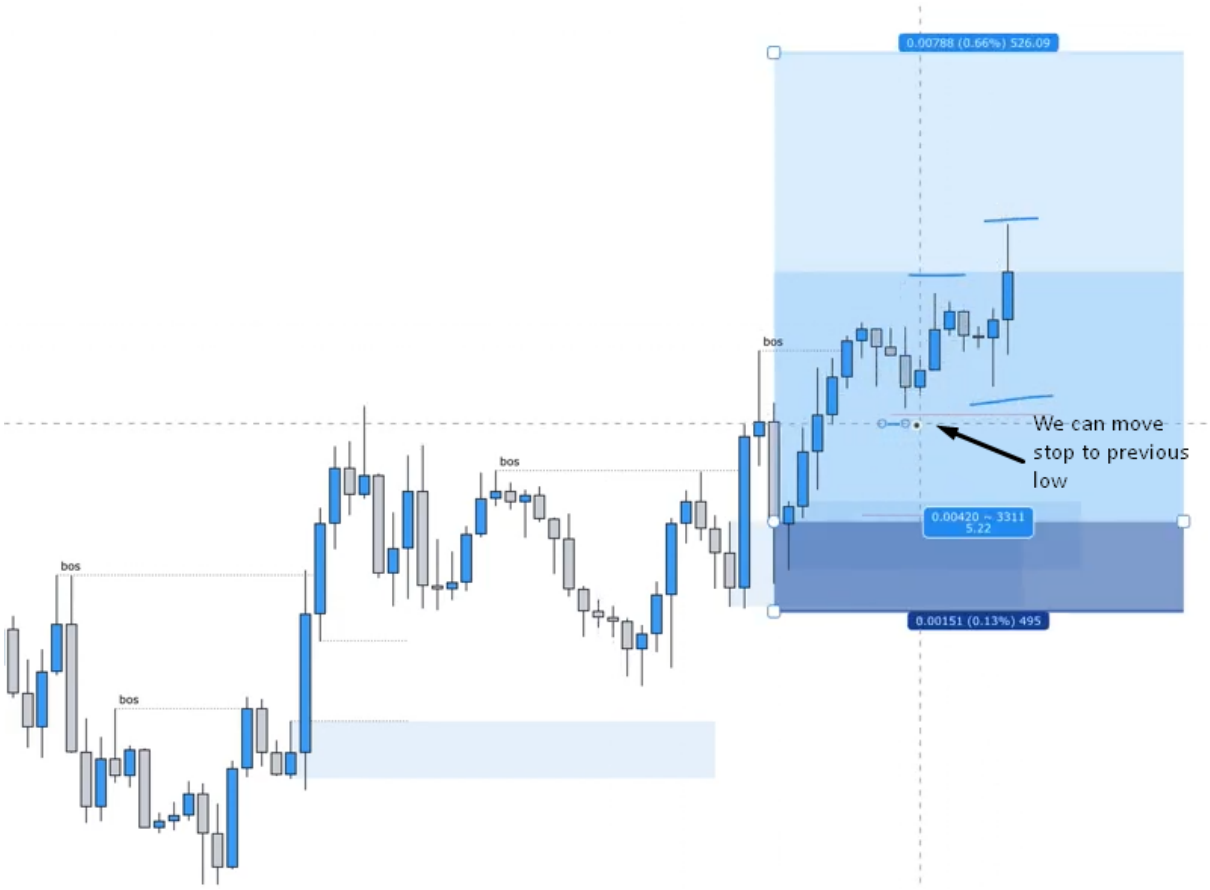
So we got tapped in, we have got triggered into the trade here, stop loss below this wick, and this is our trade.

Now price made new BOS, and what we can do at this point is we can place our stop loss at BE.



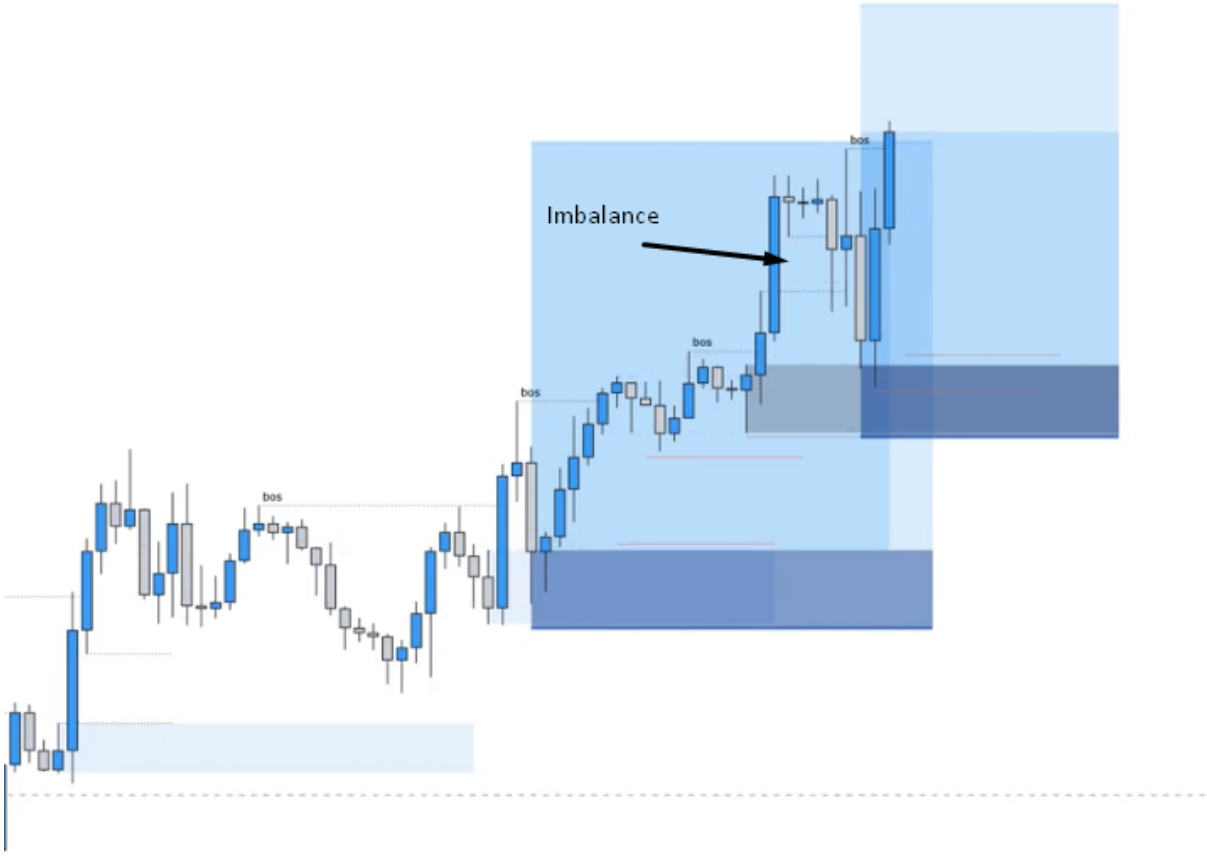
Now as we have BOS would I be looking at this down move that triggered trade, is now an OB but is very large, so we can refine to this candle, and for me in this example, I would use this candle, as these candles do show a bit of momentum, not really so we have got a bit of wicks, but we did push off BOS.

And this show me effiency price action, price doesn´t really need to come back down to mitigate, because its already efficient, so price could just pull back from here and go. So for that reason, I wouldn´t be looking to get involved in a trade or look at this as an OB.



If we was in this first trade, we can look to lock in more profit at this low here, because we have broken a higher, so we can manage under this low and lock in some profit, and we then push up so that this is what we was expecting, so we are now puttin in this HHs and this HLs.

So price is correcting and efficient, so I wouldn´t be looking to get involved in any sort of scaling trades.



So now price made BOS again to the upside, and left an OB which is this candle here. So we put a limit order at the base and stop loss below it.

Now price made imbalance, so what we could see is price pullback to rebalance this imbalance, and then continue to the upside.

So first we have mitigate this imbalance and next we triggered our trade

When we have a similar scenario like the example below, where we have two areas of interest to buy from. The lower one would be considered more high probability (dependant on the trade) because of liquidity that needs to be cleared first. What we will usually see if price comes down past the first order block, to see the liquidity before price is actually able to move to the upside. when we can see clear liquidity areas, then it is important to know that price is likely to target there before we see a committed move to the upside.

Quick tip: the markets will A L W A Y S target the liquidity. Don't be the liquidity.

Instagram page - @fx.simplified

