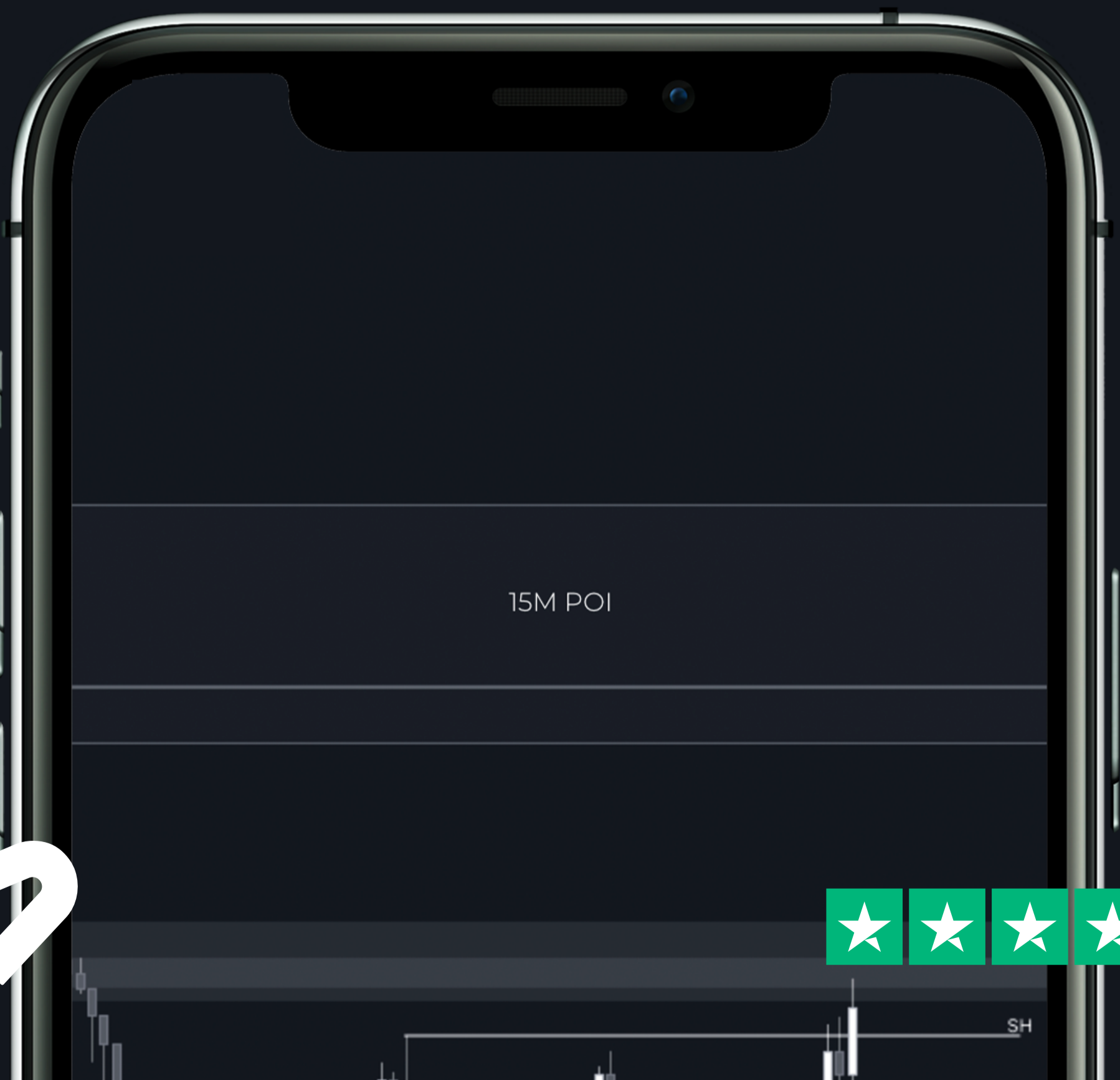# Introduction to trading

# S M C

15M POI

SH

# Introduction

Welcome to the Sonarlab SMC guide. This book is a step by step complete guide to trading institutional order blocks with precision accuracy using the Sonarlab SMC Indicator.

In this book you will gain a full understanding of how and why we use order blocks as the main component of our trading strategy and how it allows us to achieve trade entries with extreme accuracy. You will learn how to read the indicator and what each feature does. You will also gain a deeper understanding that not all zones that are printed can be entered from and that you will need to create your own system around the concepts.

Learning a new skill takes time. But hey, at the end it's all worth the effort. Give yourself the time to develop the skill and make sure you will absorb and learn as much as you can.

Get ready to gain a new understanding of how the financial markets operate and prepare to level up your trading.

Team Sonarlab

# 1. What are order blocks?

Institutional money enters the market algorithmically at key levels in increments known as order blocks. Rather than entering hundreds of millions in currency into the market at once, institutional orders are broken up into multiple entries creating tight consolidations that we see right before an impulsive movement in the market. This method leaves an institutional footprint on a chart that can be identified and capitalized on.

**It is categorized into two types**

Bullish order block
Bearish order block

We get a lot of questions if order blocks and SMC stays working for a period of time but will stop working eventually.

Well, we're here to tell you that they will continue working as long as there are big financial institutions trading them. In the end, they want to make big money off it and they will not concern themselves with small traders like us.

# Sonarlab Solutions

To help you finding high probability order blocks in the market you can use one of our softwares for tradingview.

## 1 - Free order block indicator



https://www.tradingview.com/script/x1krAh2y-Order-Blocks-with-signals/

## 2 - SMC Premium



https://www.sonarlab.io/purchase/smart-money-concepts-b

# 1.1 Supply and demand (POI's)

Order blocks are the same as supply and demand zones and POI's (Point of Interests).

**Demand zones**: we expect price to go long

**Supply zones:** we expect price to go short

Demand zone

Volume profile (TV Indicator)

Supply zone

EQH

# 1.2 Valid orderblocks

**Break of structure:**

In order to make an order block valid we need a break of structure in the market (read more about this later in the e-book). If there is not break of structure, there is no valid order block. This is the main reason we connected structure to the order blocks, so our system automatically does this for you.

Sp the SMC Indicator will draw the zones for you and take in consider market structure. Cool. So the amount of order blocks and the quality of the orderblocks really depends on your settings. In the SMC Indicator we have 2 different types of order blocks

1. Swing Order blocks
2. Internal Order blocks

This simply means that the order blocks are connected to the swing and internal structure. After every BOS in the market, our system will look for high volume area's where an order block is located. This means if when you change the swing and internal structure settings, the order blocks will change with it. It's important to play around with this and test out which zones you prefer.

**Quality of an orderblock**

We will come back on this topic later in the e-book, because we first want to go over all the topics so you fully understand the concepts. #clifhanger

# 2. Market Structure

The market is not moving in circles, triangles or rectangles - it is waving. As an SMC trader you want to ride those waves like Gabriel Medina (pro surfer). We need to wait for the perfect moment to jump in. Some waves are swamped by others and some just don't have enough power to give you that perfect ride. You are not going to jump on every wave you see. That's why we are combining everything together.

Ok, enough bullshit - just come to the point and be clear on this. So basically what I tried to say above is that the market moves in waves like in the image below. We got or high and low and we expect the next low to be liquidated in order to continue the trend (BOS).

Strong SH

BOS

SL

Ok, so before moving on I will put down a short list with the meanings of the terms we are using, to get you familiar with the slang we are using when reading market structure and you don't get more confused.

**Range**

A high and a low connected where you can trade in.

**SL: Swing Low**

A swing low will be the low of a range you will be trading in.

**SH (Swing high)**

A swing high will be the high of a range you will be trading in.

**Strong SL or SH**

This high or low we expect to hold.

**BOS = Break of structure**

When a low or high gets liquidated (gets broken), we will use the term BOS. BOS supply and demand are more saver to trade since you are going with the trend.

**CHoCH = Change of character**

This is basically the same as a BOS, but it is there to label a change in trend. A bos is a trend continuation.

## 2.1 Swing Structure

As a trader you always need to look which highs or lows are going to be liquidated next. The swing structure will give you a range to work with, where you can look which high or low are going to be liquidated next.



*It is important to play around with the settings and see what works the best for you.*

## 2.1.1 Premium/ Discount Pricing

So you probably noticed the yellow line in the middle. It's not there because it looks cool, no - it has a purpose. Like we all do have in this world. The yellow line with the 50% marked, we call the EQL (equilibrium). Wikipedia: "a state in which opposing forces or influences are balanced." We use this to spot if price is in premium or in discount.

The logic behind this is that we want to buy from the best price as possible. We can take this with for example our orderblocks, where we want to locate them from. If we are searching for longs and our orderblocks are in premium area, we are not going to take the trade.

* This isn't always the case,  it's more for an extra probability gainer.

**Premium**: we sell in premium

**Discount:** we buy in discount

## 2.2 Price is fractal

A pullback on a higher timeframe is a trend on a lower timeframe. And within that trend on the lower timeframe there are multiple trends also. And no this isn't some endless loop or some matrix stuff. We need to approach this with some logic.



*We can see that XAUUSD is here clearly on a downtrend on the M15, however on the M1 (next page).*

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*We can see that XAUUSD is here clearly on a downtrend on the M15, however on the M1 (next page).*

We have in mind that the M15 is in a downtrend. But we understand that price moves in waves and can make pullbacks. So we cached a beautiful long position from the printed demand zone by the SMC Indicator.

What I tried to show you in the example above is that every higher timeframe move will start on the lower timeframe first. Every pullback on a higher timeframe is a trend on a lower timeframe. Price is fractal and so is SMC. It works on latterly every timeframe.

## 2.2 Internal/ candle stick structure

The internal structure is different from the swing structure. This structure is more sensitive and spots direction faster, since it's using candle stick movements as his structure. As you can see this is structure within the swing structure. That's why we called it internal structure :)

# 3. Liquidity

Market liquidity is an overlooked topic when it comes to trading. The definition of liquidity is; "the availability of liquid assets to a market or company". In the simplest way possible, Liquidity is a measure of the ease of ability to enter and exit a market at the desired price based on the number of buyers (bids) and sellers (asks/offers) in that market.

Taking liquidity within your trading plan is a big probability gainer. How often did you got that you your bias was on point, but you got stopped out by a wick? Also know as: stop hunt or liquidity grab. This happens systematically - over and over again. are the main reason as to why common retail trading methods such as trend lines and chart patterns (double tops/bottoms, head and shoulders, flags, wedges etc..) rarely work. If 95% of retail traders are utilizing these methods, then of course institutional algorithms will be programmed to purge stop losses surrounding these chart formations.

So when trading SMC we look at the market from a different perspective. We are not trading like the big institutions, but we simply follow them. If we know that for every buyer we need a seller, liquidity serves as fuel for the market maker. If there is liquidity forming before a POI, this will tell us that there is a point where price can heavily react from.
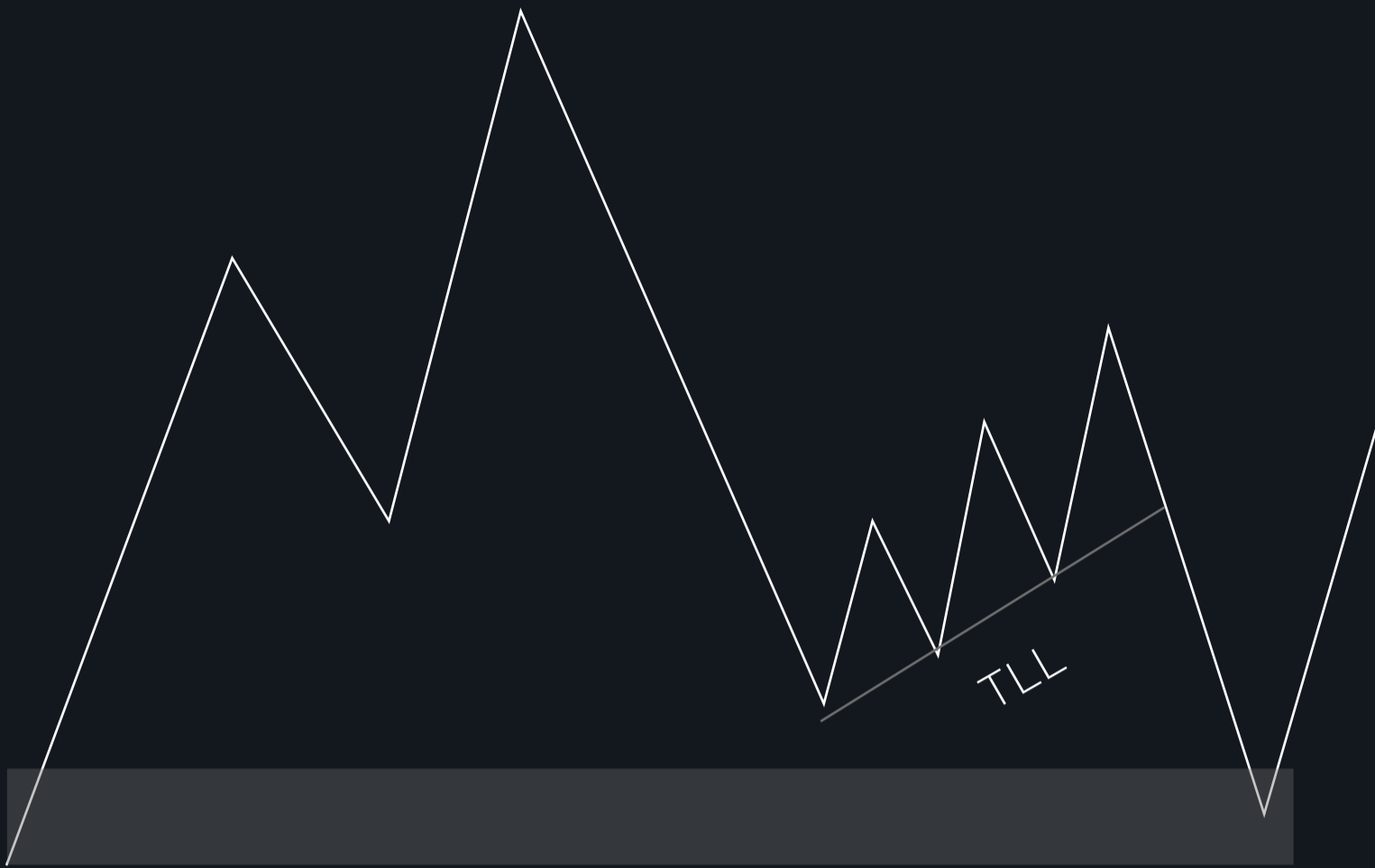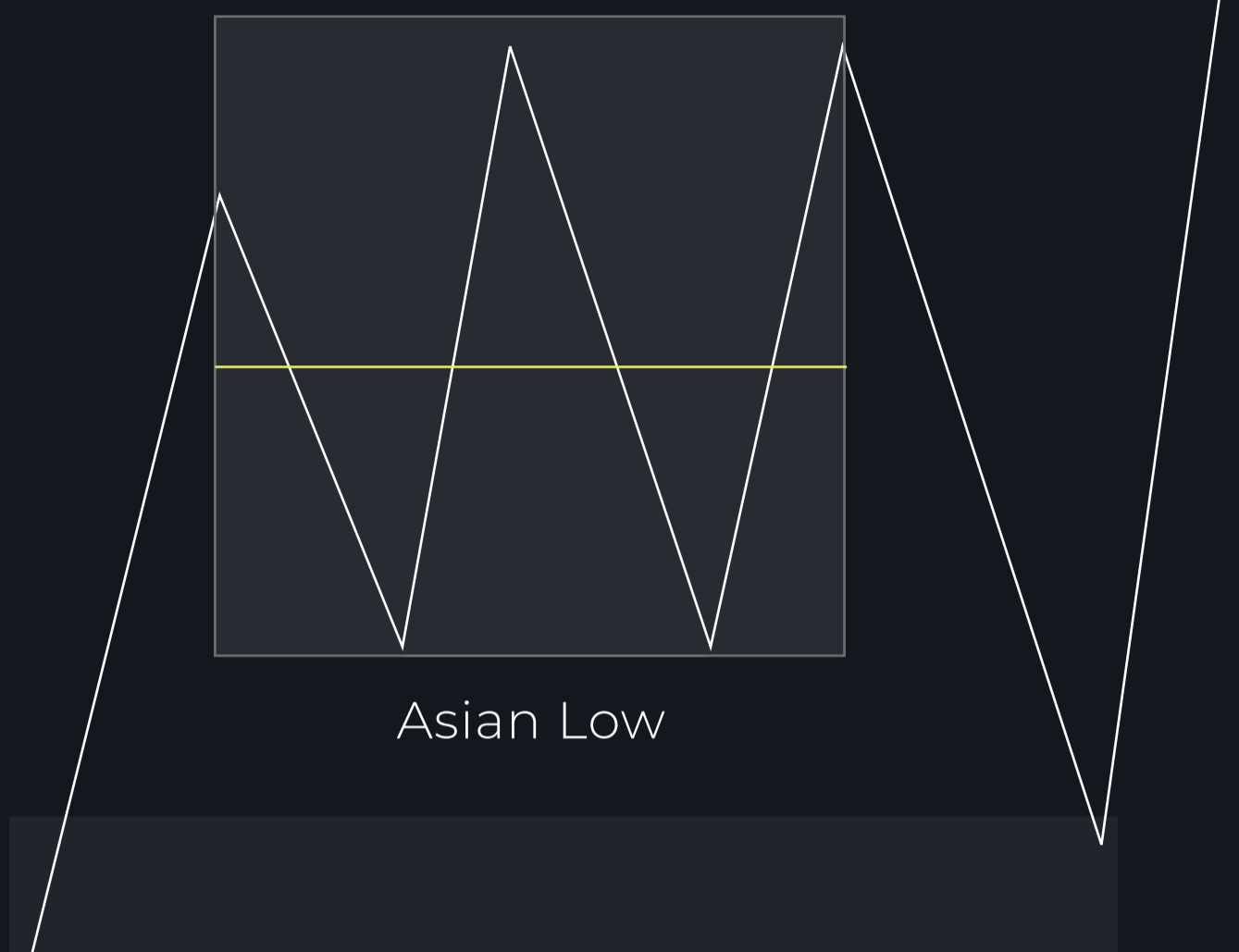
**TLL ( trend line liquidity)**

**EQH (Equal Highs)**

# EQL (Equal Lows)

EQL

# Support and resistance
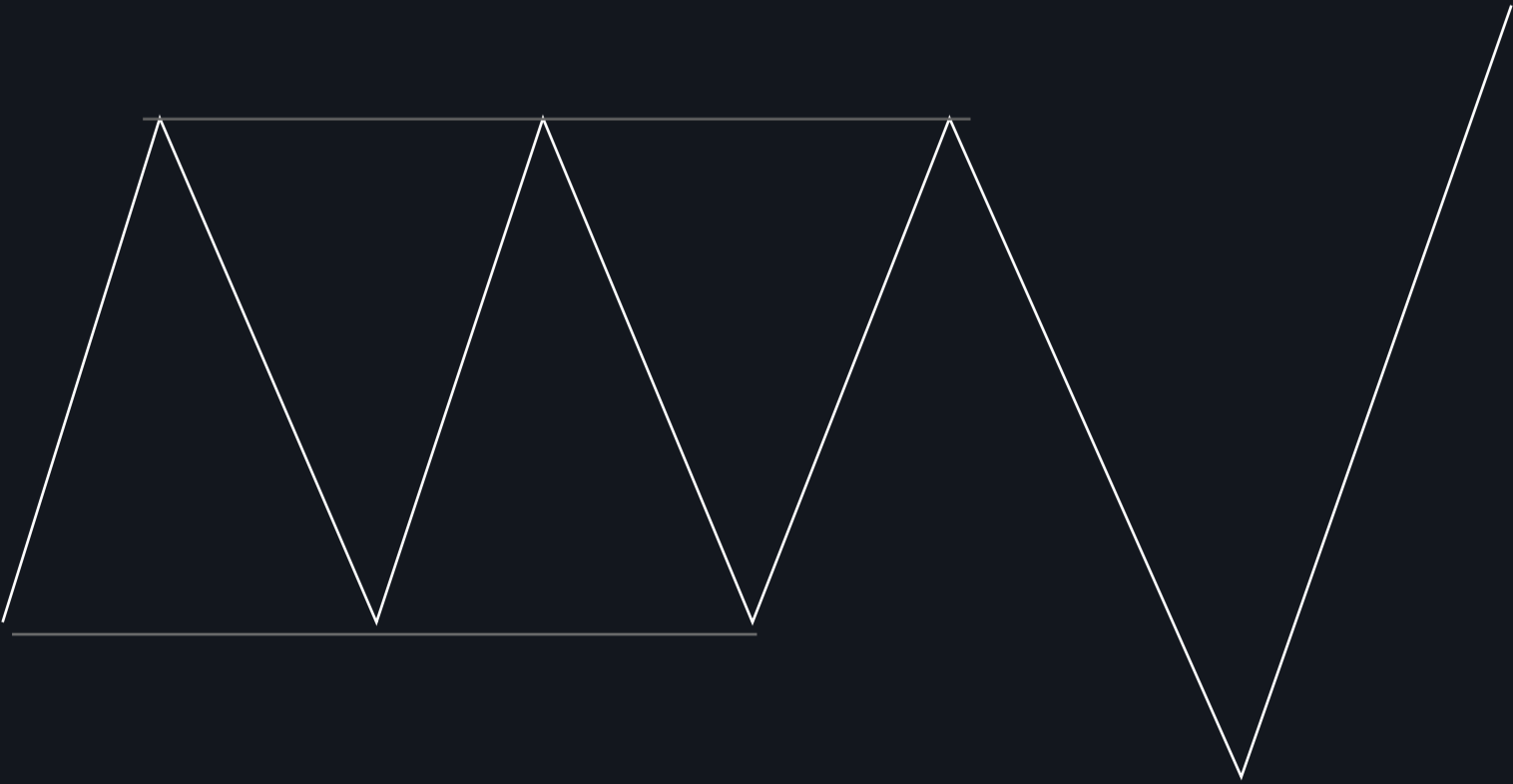
## Asian highs/ lows



Asian Low

This not always happen, but If you see a asian low or high before your POI, you can take this as liquidity.

# 4. Imbalance/ FVG

An other confluence we can add to our trades are imbalance. Some say that an order block needs to leave an imbalance in order to make the order block valid. This depends on your rules, but you can for sure add this to your list.

An imbalance is created when the order block creates such impulsive volume in the market that it throws off the equilibrium between buyers and sellers, forming a gap. This is referred to as imbalance or FVG. These gaps act as a magnet for price to retrace to, in order to correct the disturbance in market equilibrium.



Imbalance/ FVG

Demand zone

*See how price left an order block, with imbalance. It came back and perfectly filled the imbalance and mitigate the refined order block (order block on the M15).*

# 5. Entries

## 5.1 Quality of an order block

As promised I would come back on this topic later in the e-book. You currently have a good understanding of the concepts, so now we can combine them. The quality of an order block is very important, since entering from every order block will blow your account eventually. You will need to filter out the bad once yourself and find your way in this. We will use these concepts in order to increase the probability of our zone.

**To increase probability:**
-  There is Imbalance created by the order block
- There is liquidity created before your POI (TLL, EQH, EQL)
- The order block is in premium or discount

## 5.2 Entry types

Our Sonarlab Community members are posting a lot of setups In the discord, we even have our public journal where I post the most beautiful set-ups so we can learn from each other. Make sure you check them out both. There are so many different set-ups and almost every set-up is identical. But share the same characteristic.

# 5.2.1 Risk entry

The risk entry is when we identify an order block, refine it and then place a limit order at the desired level. This entry style can achieve great results but overall has a lower win rate. Try to always use the probability gainers beside it.

**Example 1**



*Price made an M15 BOS, so we simply followed the bias. We saw an equal high (EQH) forming (liquidity), before the M5 supply zone. Price induced the EQH into our M5 supply and took off. The funny thing is that we get right after the risk entry a confirmation entry in our supply zone. So there are always more opportunities.*

# Example 2
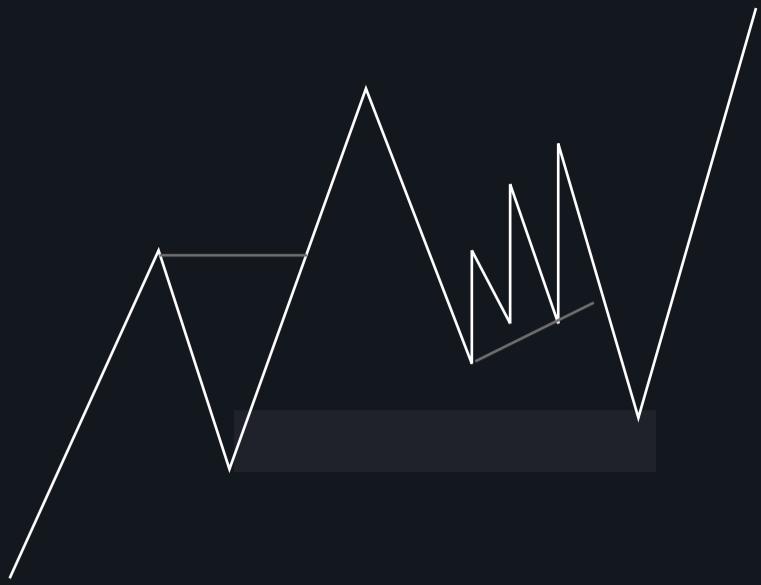


*We have two zones to choose from. We can already see that the first one is mitigated already, if you are still have your doubts you can see that trend line liquidity is building before our POI. This can give you more confidence that the first POI is going to hold.*

*We were also valid to look for shorts in this area, however that one did not worked out. Sometimes positioning yourself at both sides of the market will give you an extra edge.*

# Example 3



Strong SH

GAP/ Imbalance

Asian

x

Liquidity resting under Asian and Support area

0.5

tp 1

Liquidity resting under asian low

Asian

tp 2

First demand zone where price
could react from

SL

*On top here is a more advanced way of combining all the concepts together into one beautiful counter trend trade to fill all the resting liquidity to the down side. The asian low with the support and imbalance gap shows us with confidence price is willing to fill these area's. We enter from the supply zone given by the SMC Indicator and we hit both targets with almost no drawdown.*

**Indicators used:**
*The session indicator: Sonarlab Sessions*
*Candle sticks: MTF Candle Stick Indicator*

# 5.2.2 Confirmation entry

## Example 1



HTF



LTF



HTF
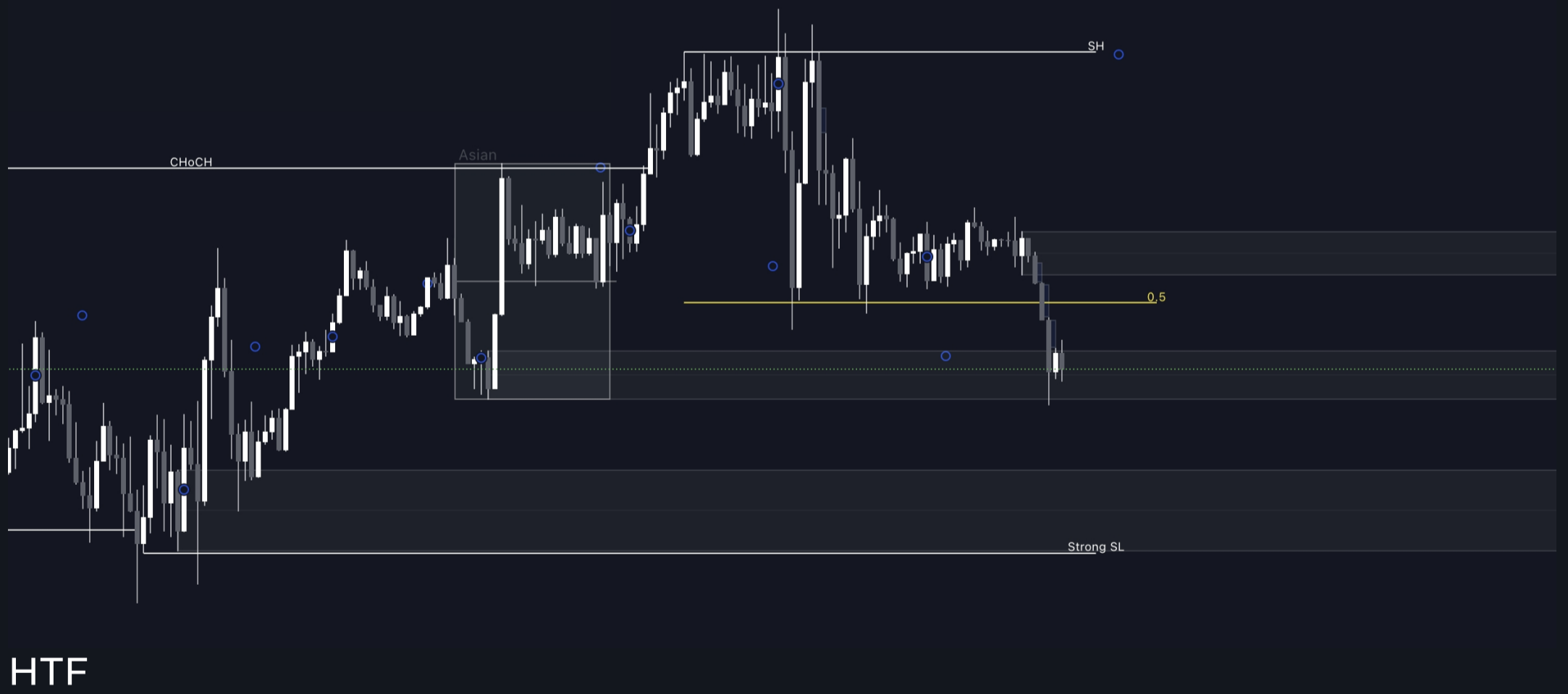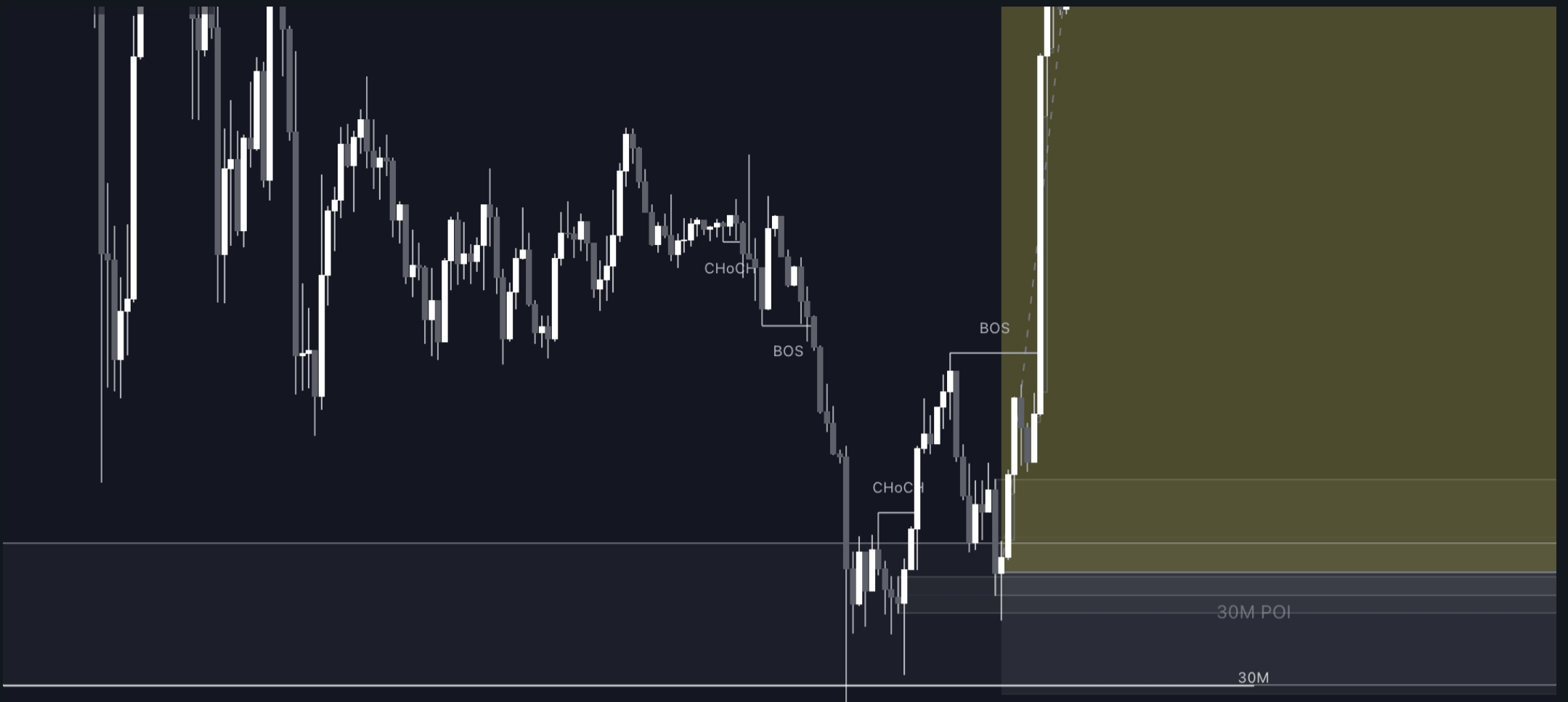
## LTF

*Price made an M15 BOS, so we simply followed the bias. We saw a beautiful POI near to the previous Asian Low, which got liquidated and make our confirmation. The SMC indicator printed a new demand zone on the M1, where we entred from.*

## Example 2



## HTF

## LTF

*We can clearly see that price is bullish on the M15. Price missed the order block with a few pips. And that doesn't matter, because this can happen. If we see confirmation we are good., From that moment I've shifted to the lower timeframe to see If I can spot some nice area to buy from. We pulled our Volume profile from the low to the high to look where the most volume is resting (POC). The POC was matching a hidden base, which is demand on a lower timeframe. As we can also see is that price was building up some kind of Trend Line Liquidity before our demand zone. This gave me the signal that it was a perfect demand zone to take a long from to the next high.*

**< /** Try out Sonarlab

# TODAY

15M POI

SH