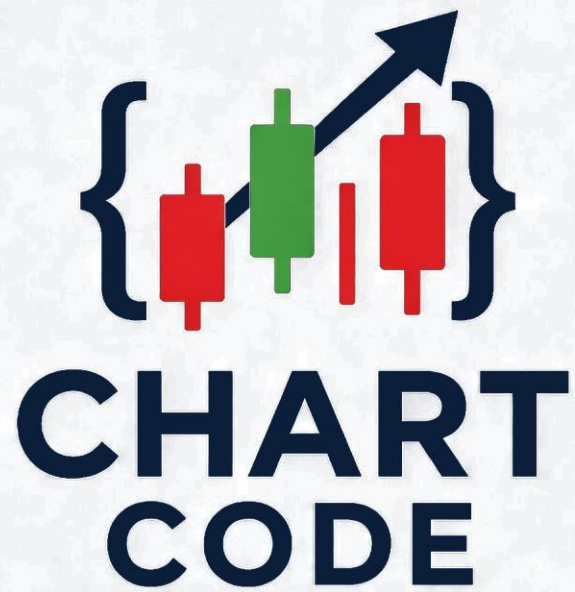




DECODE THE MARKET CODE

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# Smart Money Concepts (SMC)

Smart Money Concepts reframes price action around how large institutions actually trade — market structure, liquidity, order blocks, and imbalances — rather than relying on traditional retail indicators alone.

## 1. Introduction — What Is Smart Money Concepts (SMC)?

Smart Money Concepts, often abbreviated SMC, is a price-action-based trading framework built on a simple premise: large institutional players — banks, hedge funds, and market makers, sometimes collectively called 'smart money' — move enough capital that their footprints are visible on a price chart, if you know exactly what to look for.

Rather than relying primarily on indicators like RSI or MACD, SMC focuses on reading raw price action: how structure shifts, where large orders likely rest, and where inefficient, one-sided price moves have left gaps that tend to get revisited.

### KEY

SMC is not a magic system for predicting the future — it is a structured way of reading order flow and market psychology directly from price. Every concept in this module builds on ideas you have already studied in this course: support & resistance, candlestick patterns, and trend structure, viewed through a more institutional lens.

This module covers the complete SMC toolkit: market structure and its shifts (BOS/CHoCH), liquidity and liquidity sweeps, order blocks, fair value gaps, and how supply & demand zones fit into this framework — finishing with a simple, practical trade framework that ties everything together.

## 2. The Core Idea — Trading Like Institutions, Not Retail

Retail traders are often taught to buy at obvious support and sell at obvious resistance. The core insight behind SMC is that institutions — who need to fill very large orders without moving the price too much against themselves — often need retail liquidity (the stop-losses and pending orders clustered at those same 'obvious' levels) to fill their own massive positions.

### □ Real-Life Analogy

Imagine trying to buy 10,000 mangoes at the local market without causing the price to spike. You would not announce your intention loudly — you would quietly buy in smaller batches, perhaps even letting the price dip first so more sellers appear, before accumulating your full order. SMC assumes institutions behave similarly with orders far too large to fill at one single, obvious price level.

This is why SMC pays close attention to areas where retail stop-losses are likely clustered (liquidity), because price often moves toward those areas first, before reversing in the direction institutions actually intend to trade.

## 3. Market Structure

Market structure is the sequence of swing highs and swing lows that defines the current trend — the same basic concept from technical analysis, but described with SMC-specific terminology.

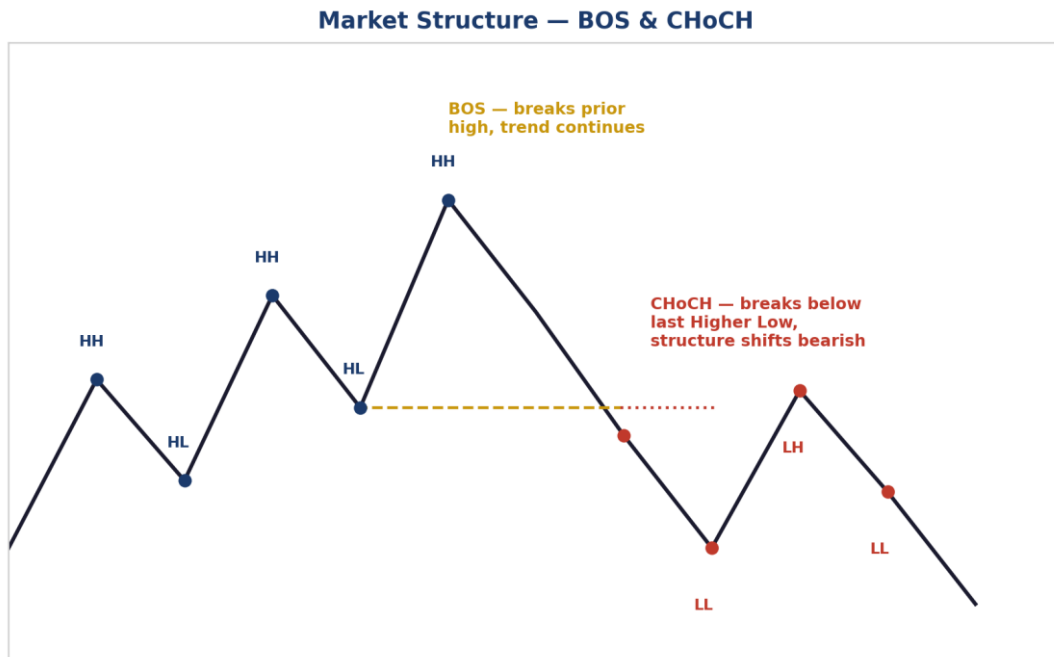


Fig 3.1 — Market structure: Higher Highs/Higher Lows in an uptrend, a Break of Structure (BOS), and a Change of Character (CHoCH) signalling a shift to a downtrend.

### 3.1 Higher Highs/Higher Lows and Lower Highs/Lower Lows

An uptrend is defined by a sequence of Higher Highs (HH) and Higher Lows (HL) — each swing high and swing low sits above the previous one. A downtrend is the mirror image: a sequence of Lower Highs (LH) and Lower Lows (LL).

### 3.2 Break of Structure (BOS)

A Break of Structure occurs when price breaks beyond the most recent swing high (in an uptrend) or swing low (in a downtrend), confirming that the existing trend is continuing. A BOS is a continuation signal — it tells you the current trend remains intact and in control.

### 3.3 Change of Character (CHoCH)

A Change of Character occurs when price breaks the opposite way — for example, breaking below the most recent Higher Low during an uptrend. This is the first structural clue that the trend may be reversing, and is generally treated as an early warning rather than immediate confirmation of a full reversal.

#### KEY

BOS confirms the current trend is continuing. CHoCH warns that the current trend may be ending. Confusing the two is one of the most common mistakes beginners make when first learning SMC.

## 4. Liquidity

In SMC, 'liquidity' refers to areas on the chart where a large number of pending orders — particularly stop-losses — are likely resting, because many traders have placed orders around the same obvious price levels.

## 4.1 Buy-Side and Sell-Side Liquidity

- Buy-Side Liquidity: Rests above recent swing highs (or equal highs), where short-sellers' stop-losses and breakout buyers' pending orders cluster.
- Sell-Side Liquidity: Rests below recent swing lows (or equal lows), where long traders' stop-losses and breakout sellers' pending orders cluster.

## 4.2 Liquidity Sweeps (Stop Hunts)

A liquidity sweep occurs when price briefly spikes beyond an obvious swing high or low — just far enough to trigger the stop-losses and pending orders resting there — before sharply reversing in the opposite direction. This behaviour is exactly why SMC traders are often cautious about entering right at an 'obvious' support or resistance level, since price sweeping through it first is a common occurrence.



Fig 4.1 — A liquidity sweep: price spikes above equal highs to trigger stop-losses, then reverses sharply.

### □ Concrete Example

Suppose Bank Nifty has tested 49,000 as resistance three times, forming a cluster of equal highs. Many short-sellers place their stop-losses just above 49,000. Price spikes to 49,080 — triggering those stops and pulling in fresh buyers — before reversing sharply back down to 48,600. That sharp spike and reversal is a textbook liquidity sweep.

## 5. Order Blocks

An order block is the last opposing candle before a strong, decisive price move — the theory being that this candle marks the area where large institutional orders were likely placed just before the move began.

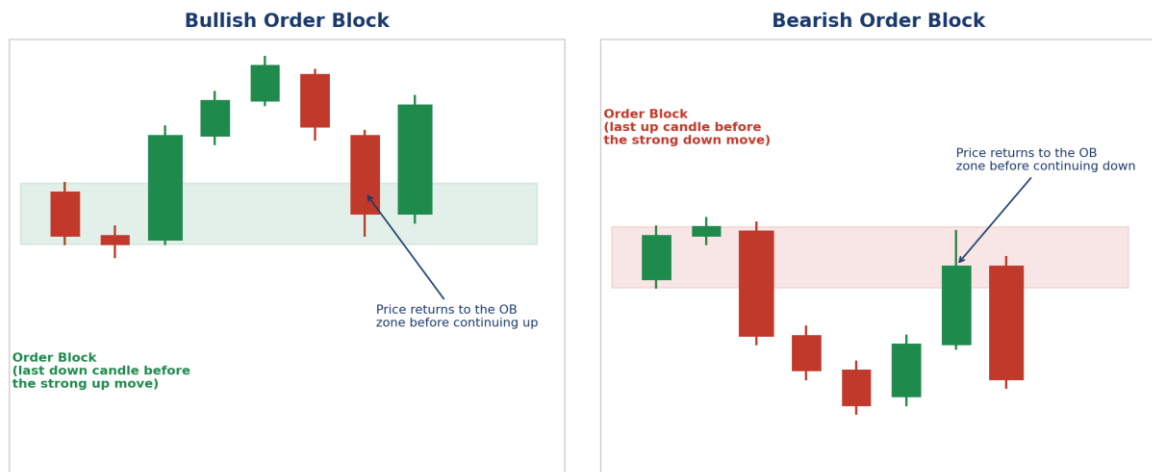


Fig 5.1 — A Bullish Order Block (last down candle before a strong rally) and a Bearish Order Block (last up candle before a strong decline).

### 5.1 Bullish Order Block

The last bearish (down) candle immediately before a strong, impulsive rally. SMC traders watch for price to pull back into this zone before expecting the uptrend to resume, treating it similarly to a fresh support zone.

### 5.2 Bearish Order Block

The last bullish (up) candle immediately before a strong, impulsive decline. Price pulling back up into this zone is often viewed as an opportunity to join the downtrend, treating it similarly to a fresh resistance zone.

#### TIP

Not every prior candle qualifies as a meaningful order block — look specifically for the candle right before a strong, high-volume, high-momentum move, ideally one that also breaks a nearby structure level (a BOS). A weak, low-momentum move afterward makes the order block far less reliable.

## 6. Fair Value Gaps (FVG) / Imbalance

A Fair Value Gap, also called an imbalance, forms when price moves so quickly in one direction that it leaves a visible 'gap' between candles — specifically, a gap between the high of one candle and the low of a candle two periods later, with almost no overlap in between.

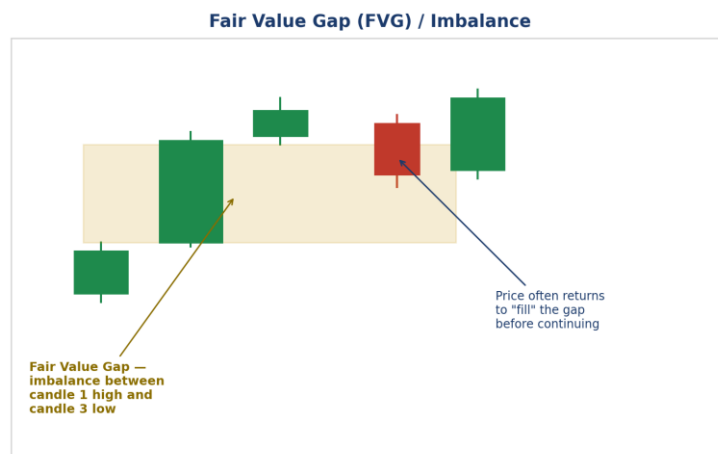


Fig 6.1 — A Fair Value Gap: an imbalance left behind by a fast, impulsive price move, which price often revisits later.

The theory behind FVGs is that such a rapid, one-sided move leaves behind an area where trading was genuinely inefficient — not enough two-way order flow occurred at those prices. Price frequently returns to 'fill' this gap at some later point, partially or fully, before continuing in its original direction, making the FVG a commonly watched area for a potential entry on a pullback.

#### □ Real-Life Analogy

Think of a Fair Value Gap like a queue at a ticket counter that suddenly rushes forward when a gate opens unexpectedly — a few people (candles) leap ahead so fast that a visible empty space is left in the queue behind them. Eventually, the queue often shuffles back to fill that gap in before moving forward again.

## 7. Supply and Demand Zones

Supply and demand zones in SMC are conceptually similar to support and resistance from traditional technical analysis, but are drawn around the origin of a strong price move rather than just a price level that was tested multiple times.

- Demand Zone: The price area where a strong upward move originated — treated as an area buyers are likely to defend again if price returns there.
- Supply Zone: The price area where a strong downward move originated — treated as an area sellers are likely to defend again if price returns there.

In practice, supply and demand zones overlap heavily with order blocks — both are trying to identify the same underlying idea: where large, decisive orders likely originated. Many SMC traders use the two terms almost interchangeably.

## 8. Putting It Together — A Simple SMC Trade Framework

A basic SMC-based trade idea typically combines several of the concepts above into a single sequence, rather than using any one concept in isolation:

1. Identify the higher-timeframe market structure (uptrend, downtrend, or range) to establish overall bias.
2. Watch for a liquidity sweep — price spiking beyond an obvious swing high/low and reversing — in the direction that aligns with your higher-timeframe bias.
3. Look for a Change of Character (CHoCH) on a lower timeframe immediately after the sweep, suggesting a genuine shift in short-term direction.
4. Identify the order block or fair value gap left behind by the resulting impulsive move.
5. Enter on a pullback into that order block or FVG zone, with a stop-loss placed just beyond the recent swing point, and a target at the next major liquidity level or structural high/low.

#### CAUTION

SMC concepts are best used to add precision to a trade idea you already have from broader context — trend, support & resistance, or a chart pattern — not as a completely standalone system to be traded blindly. Like any framework, it works best when combined with sound risk management and a clear higher-timeframe bias.

## 9. Common Mistakes

- Marking every candle as an order block: Treating every minor pullback candle as a valid order block, rather than reserving the label for candles preceding genuinely strong, impulsive moves.
- Confusing BOS and CHoCH: Treating a Break of Structure (trend continuation) as if it were a Change of Character (potential reversal), leading to trades taken in the wrong direction.
- Trading every liquidity sweep: Not every spike beyond a swing high or low is followed by a sharp reversal — some are genuine breakouts that continue in the sweep's direction.
- Ignoring the higher timeframe: Taking SMC setups on a 1-minute or 5-minute chart with no regard for the dominant daily or weekly trend, resulting in low-probability, counter-trend trades.
- Overcomplicating the chart: Marking so many order blocks, FVGs, and liquidity zones on one chart that it becomes impossible to identify a clean, high-conviction setup.

## 10. Quick Reference — SMC Glossary

| Term                           | What It Means                                                                                    |
|--------------------------------|--------------------------------------------------------------------------------------------------|
| Market Structure               | The sequence of swing highs/lows that defines the current trend direction                        |
| BOS (Break of Structure)       | Price breaks the most recent swing high/low, confirming trend continuation                       |
| CHoCH (Change of Character)    | Price breaks structure in the opposite direction, an early warning of a possible reversal        |
| Buy-Side / Sell-Side Liquidity | Clusters of pending stop-losses above swing highs / below swing lows                             |
| Liquidity Sweep                | Price briefly spikes beyond a swing high/low to trigger stops, then reverses                     |
| Order Block                    | The last opposing candle before a strong, impulsive move — a likely zone of institutional orders |
| Fair Value Gap (FVG)           | A visible imbalance/gap left behind by a fast, one-sided price move, often revisited later       |
| Supply / Demand Zone           | The origin area of a strong down/up move, conceptually similar to resistance/support             |

## 11. Chapter Summary

Here is everything you learned in this module in one concise recap:

- SMC reads price action through the lens of how large institutions likely trade, rather than relying primarily on indicators.
- Market structure — HH/HL for uptrends, LH/LL for downtrends — with BOS confirming continuation and CHoCH warning of a possible reversal.
- Liquidity clusters (stop-losses) rest above swing highs and below swing lows, and price often sweeps through these levels before reversing.
- Order blocks mark the last opposing candle before a strong impulsive move, treated as a zone likely to be defended on a pullback.

- Fair Value Gaps are imbalances left by fast, one-sided moves, and price frequently returns to partially or fully fill them.
- Supply and demand zones are conceptually similar to order blocks, marking the origin of a strong move.
- A complete SMC trade idea combines higher-timeframe bias, a liquidity sweep, a CHoCH, and an entry at an order block or FVG — not any single concept in isolation.