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Volume Analysis and Trading Volume

Price tells you what happened. Volume tells you how much conviction was behind it. This chapter covers how to read volume properly — the single most under-used tool on most traders' charts.

1. Introduction — Why Volume Matters

Every pattern, indicator, and signal covered so far in this course — chart patterns, candlesticks, support & resistance, RSI/MACD — becomes meaningfully more reliable when confirmed by volume. Yet volume is often the most overlooked piece of information on a beginner's chart, sitting quietly at the bottom while all the attention goes to price.

Volume simply measures how many shares (or contracts) changed hands during a given period. On its own, that number means little — but compared against recent history, and read alongside price action, volume tells you how much genuine conviction is behind any given move.

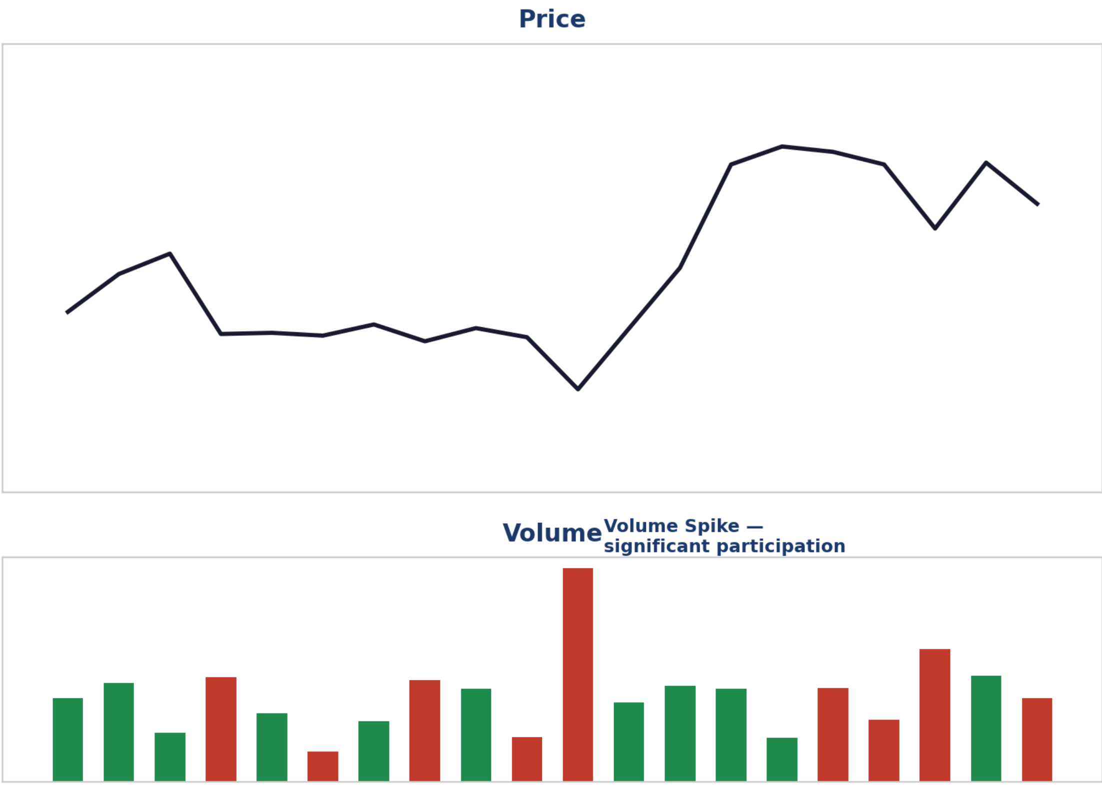

Fig 1.1 — Price with volume bars below: a volume spike highlights a period of unusually high participation.

KEY	Price shows you what happened. Volume shows you how many people were involved in making it happen. A big price move on low volume is a whisper; the same move on high volume is a shout.

This chapter covers how to use volume to confirm trends and breakouts, spot warning signs through divergence, recognise climax and dry-up volume patterns, and use On-Balance Volume (OBV) as a simple, effective volume-based indicator.

2. What Is Trading Volume?

Volume is simply the total number of shares (for a stock) or contracts (for futures/options) traded during a specific period — a single day, an hour, or even a single minute, depending on your chart's timeframe. It is almost always displayed as a series of vertical bars beneath the price chart, with taller bars representing higher trading activity.

Volume is typically colour-coded to match the price move during that period — green (or a similar colour) if the price closed higher than it opened, and red if it closed lower — making it easy to see at a glance whether high-volume periods aligned with buying or selling pressure.

3. Volume as a Confirmation Tool

The single most important use of volume is confirmation — checking whether the volume behind a price move supports the story that price alone seems to be telling.

3.1 Volume Confirms Trend Health

In a genuinely healthy uptrend, volume should generally expand on up-days and contract on down-days, showing that buyers are consistently more motivated than sellers. The reverse is true for a healthy downtrend.

3.2 Volume Confirms Breakouts

As covered throughout this course — from chart patterns to support & resistance — a breakout on strong, above-average volume is far more likely to hold than one on weak, below-average volume. Volume is the single best filter for separating genuine breakouts from false ones.

3.3 Volume Divergence — An Early Warning Sign

When price makes a new high (or low) but volume fails to expand alongside it — or even contracts — this is called volume divergence, and it often signals that the move is running out of genuine participation, even while price is still technically extending.

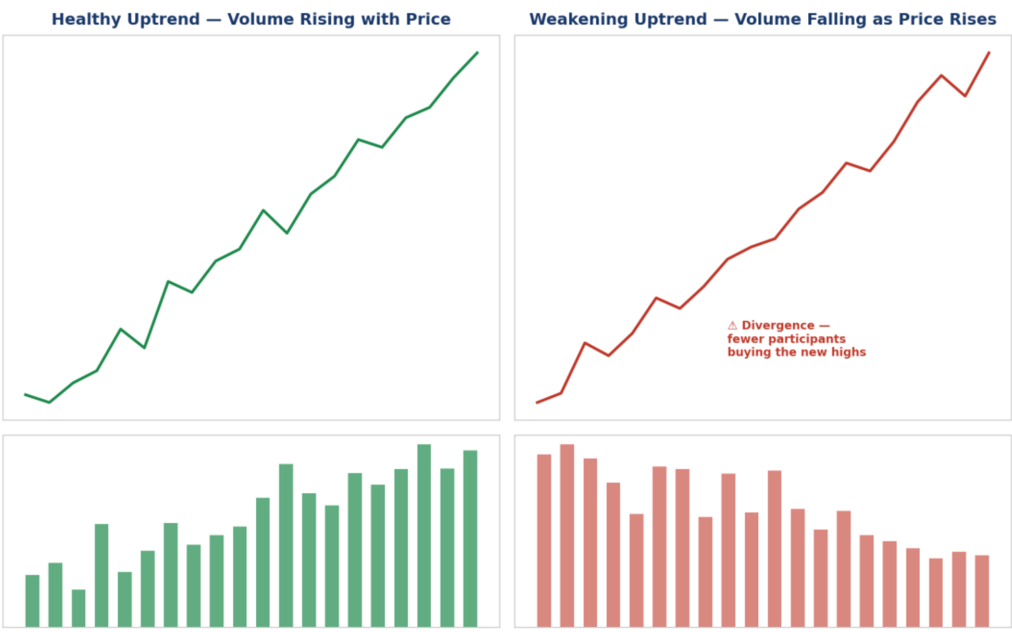

Fig 3.1 — A healthy uptrend with rising volume (left) compared to a weakening uptrend with falling volume — a divergence warning sign (right).

Concrete Example

Suppose a stock rallies from ₹500 to ₹550 over three weeks on strong, steadily rising volume, then continues from ₹550 to ₹570 over the next week — but on noticeably shrinking volume each day. Even though the price is still making new highs, the shrinking volume suggests fewer buyers are willing to chase it further, a classic early warning that the rally's momentum is fading.

4. Volume Patterns

Beyond simple confirmation, a few specific volume patterns recur often enough to be worth learning by name.

4.1 Climax Volume (Buying or Selling Climax)

A climax occurs when an extended trend ends in one final, dramatic burst of extremely high volume — often the highest volume seen in months — as the last wave of buyers (or panicked sellers) rushes in all at once. This is frequently followed by a sharp reversal, since the climax typically represents the point where the very last available buyers (or sellers) have already acted, leaving no one left to push the move further.

4.2 Volume Dry-Up

The opposite pattern: volume shrinks steadily during a consolidation or pullback, often to the lowest levels seen in weeks. This reflects a lack of selling interest during the pause (in an uptrend) or a lack of buying interest (in a downtrend), and is frequently followed by a renewed, high-volume move in the direction of the original trend once the consolidation resolves.

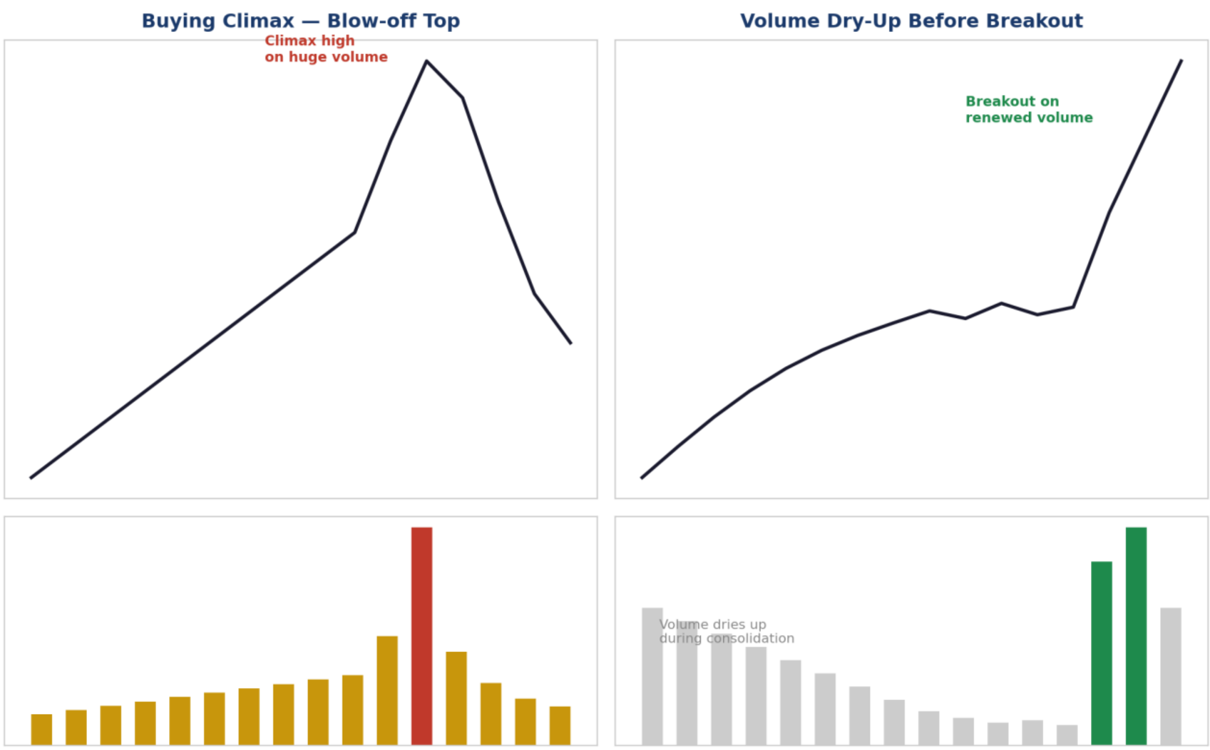

Fig 4.1 — A buying climax (blow-off top on extreme volume) compared with volume drying up before a breakout.

TIP Climax volume and volume dry-up are almost opposite signals that both matter: a climax often marks the end of a move, while a dry-up often marks a healthy pause before the move continues. Confusing the two — or spotting one without the surrounding trend context — is a common source of error.

4.3 Volume Spikes on Reversal Candles

As covered in our candlestick chapter, patterns like Bullish/Bearish Engulfing carry much more weight when the reversal candle itself occurs on unusually high volume, confirming that a real shift in control — not just a quiet, low-conviction session — is taking place.

5. On-Balance Volume (OBV)

On-Balance Volume is a simple running total: on an up day, that day's volume is added to a cumulative total; on a down day, it is subtracted. The result is a single line that reflects the net cumulative flow of volume into or out of a stock over time.

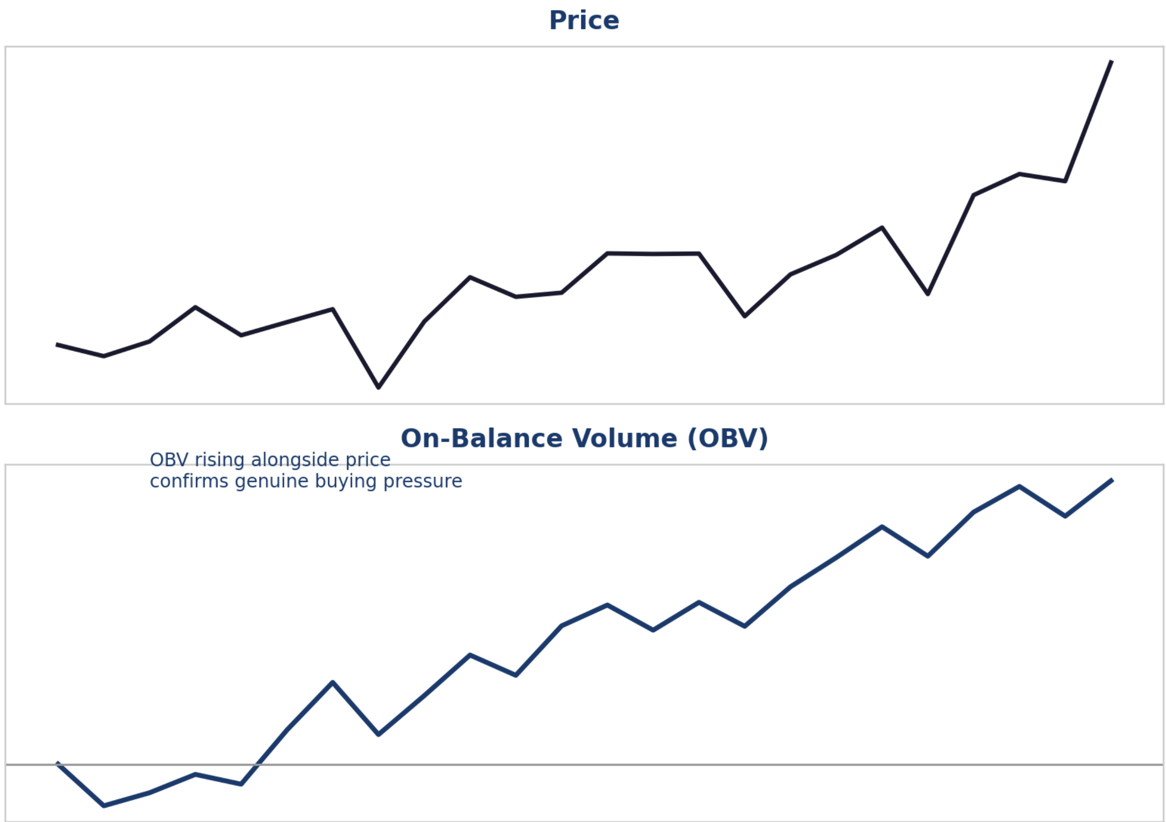

Fig 5.1 — On-Balance Volume (OBV): a rising OBV line alongside rising price confirms genuine buying pressure.

The most useful way to read OBV is by comparing its direction to price's direction, looking for confirmation or divergence exactly as described in Section 3 — if OBV is rising alongside price, the trend has genuine volume support; if OBV flattens or falls while price keeps rising, that is a volume-based divergence warning worth taking seriously.

6. Volume in Different Contexts

Volume analysis is not a standalone system — its real value comes from strengthening the tools you have already learned throughout this course.

Context	What to Look For
Chart Patterns (Triangles, Flags, H&S)	Volume contracting during formation, expanding sharply on the breakout
Candlestick Reversals	A key reversal candle (Engulfing, Hammer) occurring on above-average volume
Support & Resistance	A genuine breakout level holding on strong volume; a weak, low-volume break is more likely to fail
Gaps	Breakaway and Exhaustion Gaps both typically show high volume — context (trend stage) tells them apart
RSI/MACD Divergence	Volume divergence often appears alongside indicator divergence, adding further confirmation

7. Common Mistakes

- Ignoring volume entirely: Focusing solely on price shape and treating every breakout or reversal signal as equally reliable, regardless of the volume behind it.
- Misreading a climax as continued strength: Chasing a stock into a dramatic, high-volume final push, mistaking the climax for the start of an even bigger move.
- Ignoring absolute volume levels: Comparing volume only to the previous single day rather than a longer average (e.g. the 20-day average volume), which can be misleading around holidays or unusual one-off events.
- Treating all volume spikes the same: Not distinguishing between a spike that confirms a breakout and a spike that signals exhaustion — context (where the move sits in its trend) is what tells them apart.
- Using OBV in isolation: Treating OBV divergence as a standalone trading signal, without combining it with price action, trend, or other confirming tools.

8. Quick Reference — Volume Signals Cheat Sheet

Signal	What It Suggests
Rising price + rising volume	Healthy, well-supported trend
Rising price + falling volume	Divergence — trend losing momentum, caution warranted
Breakout + high volume	Higher-probability, more reliable breakout
Breakout + low volume	Lower-probability, higher risk of a false breakout
Extreme volume spike after a long trend	Possible climax — trend may be near exhaustion
Volume drying up during consolidation	Possible healthy pause before the trend resumes
OBV diverging from price	Underlying buying/selling pressure may be shifting

9. Chapter Summary

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

- Volume measures how many shares or contracts traded in a period, and reflects the level of genuine conviction behind a price move.
- Volume should expand in the direction of a healthy trend and expand sharply on genuine breakouts.
- Volume divergence — price making new highs/lows while volume shrinks — is an early warning that a move may be losing steam.
- A climax is a dramatic, high-volume final push often followed by a reversal; a volume dry-up is a quiet pause often followed by continuation.
- On-Balance Volume (OBV) is a simple cumulative running total of volume that helps visualise buying/selling pressure and spot divergence.
- Volume analysis strengthens nearly every other tool in this course — chart patterns, candlesticks, support & resistance, gaps, and indicator divergence — rather than functioning as a standalone system.

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