PSEDYS | TECHNICAL REFERENCE MANUAL V3.0

Supply & Demand Zones — Supply & Demand Zones

Technical Reference Manual v1.0

PSEDYS | Complete Edition
Zone Identification · Impulse Bases · Freshness · Retesting · Strength vs Weakness · MTF · PSEDYS

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1. What are Supply & Demand Zones? Concept

Supply & Demand Zones are **price areas where a massive imbalance between buyers and sellers** has generated an impulsive move. These zones reflect institutional presence (funds, market makers) that have left unfilled orders at that level.

Philosophy: Institutions cannot fill the entire position in a single transaction — they leave resting orders at specific levels. When the price returns to those levels, the resting orders are executed → the zone "holds."

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Demand Zone: The area where buyers (institutional) intervened massively → impulsive bullish move.

Supply Zone: The area where sellers (institutional) intervened massively → impulsive bearish move.

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2. Zone Identification

2.1 Demand Zone

```
Pattern: Bullish impulse bases
  - Price "stagnates" for a few bars (consolidation — "base")
  - Followed by a strong bullish move (impulse) originating from the base
  - Zone = the bar or bars of consolidation from which the impulse originated

Types:
  RBR (Rally-Base-Rally): bullish impulse → consolidation → bullish impulse
  DBR (Drop-Base-Rally): bearish impulse → consolidation → bullish impulse ← stronger
```

Zone Drawing:

```
Top_Demand   = High of the base bar
Bottom_Demand = Low of the base bar (or Open if the base bar is bullish)
```

2.2 Supply Zone

```
Pattern: Bearish impulse bases
  RBD (Rally-Base-Drop): bullish impulse → consolidation → bearish impulse ← stronger
  DBD (Drop-Base-Drop): bearish impulse → consolidation → bearish impulse

Zone = the bar/bars of consolidation from which the bearish impulse originated
  Top_Supply    = High of the base bar
  Bottom_Supply = Low of the base bar (or Close if the bar is bearish)
```

2.3 Identification Rules

```
1. Base bar: 1-3 bars of small range (doji or inside bars)
2. Impulse bar: large range, close at extreme, increased volume
3. Impulse must be > 2× the base range
4. Zone = HIGH and LOW of the base bar/bars
5. The stronger and faster the impulse, the stronger the zone
```

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3. Zone Quality — Freshness and Strength

Freshness:

```
Fresh (unvisited): the zone has not been retested → institutional orders intact
Tested once: the zone has been retested once → part of the orders consumed
Tested multiple: weak zone → low bounce probability → skip
```

Strength:

```
High score (strong zone):
  ✓ Large impulse (> 3× base range)
  ✓ Volume spike at creation
  ✓ DBR/RBD (previous contrary move → reversal zone)
  ✓ On a large timeframe (4H, 1D)
  ✓ Unretested zone (fresh)

Low score (weak zone):
  ✗ Small impulse
  ✗ Normal volume
  ✗ RBR/DBD (continuation)
  ✗ Much time passed (> 6 months) — market has changed
  ✗ Retested multiple times
```

4. Zone Retesting

```
Ideal retest:
  1. Price returns to the zone (enters between Bottom and Top)
  2. Forms 1-3 reaction bars (doji, pin bar, engulfing)
  3. Price exits the zone in the direction of the original impulse
  4. Entry at exit from the zone or at 50% of the zone

Aggressive retest: entry at zone entry (Top_Demand for Long)
Conservative retest: entry at confirmation bar after retest
```

Zone Invalidation:

```
Price "passes through" the zone (Close > Top_Supply or < Bottom_Demand) without bounce
→ Zone consumed or insufficiently strong
→ Next zone further as target
```

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5. Trading Signals

5.1 Bounce at Demand Zone

```
Price returns to Demand Zone (fresh, strong):
  1. Close enters the zone (< Top_Demand)
  2. RSI < 45 (confirmed pullback)
  3. CHOP 4H < 55 (not in choppy market)
  4. Entry Long at Top_Demand or at confirmation bar
  5. SL below Bottom_Demand (or below zone with −0.5×ATR)
  6. TP at last High or nearest Supply Zone
```

5.2 Bounce at Supply Zone

```
Price retests Supply Zone (fresh):
  1. Close enters the zone (> Bottom_Supply)
  2. RSI > 55
  3. Entry Short at Bottom_Supply or at bearish confirmation bar
  4. SL above Top_Supply
  5. TP at last Low or nearest Demand Zone
```

5.3 Invalidated Zones

```
Invalidated Demand Zone: Close < Bottom_Demand with bearish bar + volume
→ Institutions have folded → no longer holds
→ Look for Demand Zone lower

Invalidated Supply Zone: Close > Top_Supply
→ Breakout → look for Supply Zone higher
```

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5.4 Combined Filters

```
# Demand zone score
def demand_zone_strength(zone, impulse_move, base_range, volume, timeframe, tests):
    score = 0
    if impulse_move > base_range * 3: score += 30
    elif impulse_move > base_range * 2: score += 15
    if zone_type == 'DBR': score += 20  # Drop-Base-Rally (reversal)
    if volume > vol_avg * 1.5: score += 20
    if timeframe in ['4H', '1D']: score += 20
    if tests == 0: score += 10  # fresh
    return score  # > 60 = high probability

# Entry filter
entry_long = (
    demand_strength > 60 and
    price_in_demand_zone and
    bullish_reversal_candle and
    trend_4h_bullish
)
```

6. Supply/Demand vs Classic Support/Resistance

Aspect	Supply & Demand	Classic Support/Resistance
Basis	Institutional imbalance (base + impulse)	Horizontal level tested multiple times
Zone	Range (High-Low base)	Line or narrow zone
Freshness	Critical (fresh = stronger)	Contrary: more tested = stronger
Strength	Increases with rarity of tests	Increases with number of tests
Volume	Confirmatory at creation	Optional
Identification	Price that left impulsively	Multiple touch horizontal levels

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7. MTF

```
1D zone: the strongest (major institutional orders)
4H zone: strong — main for swing trading
1H zone: moderate — intraday
15M zone: weak — scalp only
5M zone: noisy — avoid

MTF Rule:
  1D Demand Zone + 4H Demand Zone in the same area = extreme confluence
  Entry on 1H or 15M at entry into confluence
```

8. PSEDYS — S/D as Entry Levels

```
# Precalculated and stored zones
demand_zones_4h = detect_demand_zones(highs, lows, closes, volumes, tf='4H')
supply_zones_4h = detect_supply_zones(highs, lows, closes, volumes, tf='4H')

# Monitoring price proximity
for zone in demand_zones_4h:
    if zone['fresh'] and close <= zone['top'] and close >= zone['bottom']:
        trigger_demand_zone_alert(zone)
```

9. Practical Exercises

Exercise 1: Fresh DBR Demand Zone on 4H

Situation: BTC. On 4H, identify a DBR (Drop-Base-Rally) zone at 61000-62000. Fresh (unvisited). Price returns to 62200. ADX = 19 (slightly below threshold).

Response: Aggressive Long entry or wait for confirmation. DBR = reversal → strong zone. Fresh → institutional orders intact. Zone 62000 = Top_Demand. Aggressive entry: at 62100 with SL below 61000 = SL of 1100 pts. Conservative entry: wait for bullish confirmation bar (close above 62500) with SL below zone. ADX = 19 = weak trend but zone makes intrinsic sense.

Exercise 2: Supply Zone retested 3 times

Situation: ETH. Supply Zone at 3200-3250 retested 3 times (each time with small bounce). Now price approaches again.

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Response: Skip or very reduced sizing. Zone retested 3 times = institutional orders largely consumed. Weak zone. On the 4th test, low probability of holding. High risk of breakout. Wait for bounce confirmation with volume and RSI > 65 or skip completely.

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10. Cheat Sheet — Quick Summary

Concept	Rule
Demand Zone	Base area from which a bullish impulse originated
Supply Zone	Base area from which a bearish impulse originated
DBR	Drop-Base-Rally = Demand reversal (strong)
RBD	Rally-Base-Drop = Supply reversal (strong)
RBR	Rally-Base-Rally = Demand continuation (moderate)
DBD	Drop-Base-Drop = Supply continuation (moderate)
Fresh	Unretested → orders intact → stronger
Tested 3+	Weak → low probability
Qualified Impulse	> 2× base range + increased volume
SL Long	Below Bottom_Demand
SL Short	Above Top_Supply
Invalidation	Close through zone without bounce
MTF confluence	1D + 4H overlapping zones = strongest setup
vs Classic S/R	S/D: more tested = weaker; S/R: more tested = stronger

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