SMC TRADING STRATEGY BEGINNERS GUIDE PDF

Topics

SMC Trading Strategy Beginners Guide

Introduction:

Trading, in general, requires a lot of techniques, experience, and expertise, as there are several factors that lead to successful trades, these factors range from technical analysis to the market fundamentals, to traders' sentiments and economic conditions.

Most traders are therefore overwhelmed on many occasions while trading the market that they fail to cope with the market noise as they are unable to filter this noise out but rather get carried away by the endless buzzing sounds of charts, price movements, and so on that they end up losing themselves first before losing their equity.

This is one of the major reasons why we give in-depth articles here on Dipprofit to help guide traders on their journey and provide them with as much information and knowledge as they need, so as to make their trading journey easier, more focused, and more successful.

In this article, we would be looking at one of the best trading strategies every trader should know about and it is called the SMC trading strategy. The full meaning of SMC is Smart Money Concept, the SMC trading strategy is in a way similar to the supply and demand zones trading strategy we have also written about in one of our articles here because it helps the trader to easily determine the entry and exit positions of the big boys' trades. By big boys, I mean institutional traders, hedge funds, and banks.

Understanding where these sets of traders take positions is one of the key factors to taking a successful trade and that is why the SMC trading strategy is revered amongst many other trading strategies.

So the questions that I guess should already be in your minds are: What really is SMC trading strategy? How can I apply the SMC trading strategy to my trade and how profitable would I become using the SMC trading strategy? All these questions will be answered in this article, so grab a cup of coffee, your notepad, and your mt4/mt5 interface, as we begin.

What is SMC Trading Strategy?

SMC trading strategy is a straightforward and traditional trading approach that relies on basic concepts like supply and demand, price action trading strategies, and support and resistance techniques to properly analyze entry and exit trade positions.

It is a process in which traders pay more attention to the actions of market makers (institutional traders, hedge funds, banks, etc) while analyzing the market structure. Through the use of the SMC trading strategy, traders can gain an edge in the Forex market.

While this trading strategy might seem unfamiliar at first, Smart Money Concept as it is mostly called is built upon traditional trading concepts such as supply and demand, price patterns, and support and resistance. The difference lies in its unique terminology which the SMC traders call them, SMC traders use concepts like "liquidity grabs" "market structure" and "mitigation blocks" while using the SMC trading strategy.

Despite this seemingly novel approach, SMC is, at its core, a more conventional trading method than you might expect. Rather than relying on complicated algorithms or advanced technical analysis, SMC's trading strategy is founded upon a simple philosophy about how markets operate.

SMC asserts that market makers, entities such as banks, and hedge funds are manipulative by nature and that they actively work against retail traders, which seems to be true from my years of trading experience. As an SMC trader, you should therefore base your trading strategy on the actions of these "smart money" that is the money the market makers bring in and take from the market.

Essentially, the idea is to mirror the trades of market makers. By analyzing supply and demand zones, and market structure, you can gain insight into how these entities are trading and make informed decisions about your own trades.

In summary, while SMC may sound foreign due to its unique terminology, it is in fact a very simple and easy-to-understand strategy.

Now that we understand what SMC trading strategy is, we will be looking at how we can apply the SMC trading strategy to our trading, as I will be sharing valuable insights and techniques that will help you identify the best entry and exit points in the financial market using the SMC trading strategy and reducing risk exposure.

Before we learn how to trade using the SMC trading strategy, we would also need to understand some of the terms that SMC traders use, as we would be using them a lot in this article:

See Also: The Best Forex Brokers in USA 2023

Basic Terms Used in SMC Trading Strategy

- **Change of Character (CHOCH):** Change of character means, the market has changed its trend or order flow over a period of time.

- **Break of Structure (BOS):** “break of structure” is used to describe a significant price movement that surpasses a crucial level of support or resistance on a chart. This level is usually predetermined by institutional traders or other significant investors, who establish it as a critical threshold for market movement.

- **Unmitigated Demand Zone:** In the context of SMC trading strategy, “unmitigated demand zones” refer to price levels in a market where there is a high level of buying interest without significant selling pressure.

- **Unmitigated Supply Zone:** Unmitigated supply zones are the opposite as they refer to price levels in a market where there is a high level of selling interest without any significant buying pressure. To further understand how to identify demand and supply zones, you can read my article on that.

- **Order Blocks:** This is a trading block or a trading zone/point, that has massive buy or sell orders, they are what make up demand and supply zones. These order blocks are created by institutional traders and large investors and they form a significant point in the market.

- **Liquidity in SMC Trading:** “What does liquidity mean in SMC Forex? Liquidity signifies the degree to which an asset can be rapidly bought and sold, maintaining stable prices and facilitating its conversion into cash. It essentially represents the speed and cost associated with selling an asset, whether it’s a financial instrument like a stock or a tangible asset like a commercial property.”

How to Trade Using the SMC Trading Strategy:

We would learn Smart money entry patterns and methods such as:

- SMC Reversal Entries
- How to identify valid CHOCH.
- Major and Minor change of character (CHOCH)
- Aggressive Entry setup

See Also: Common Terms in Forex: Spread, Pip, Lot size and Leverage

Entry Methods:

Firstly let us examine the entry method we can use in the SMC trading strategy. Smc entry methods are divided into two major subcategories namely:

1. The reversal entry method
2. The continuation entry method

The **reversal entry** method can further be divided into two namely:

1. Change of character (CHOCH) or change of market structure.
2. Flip entry setup.

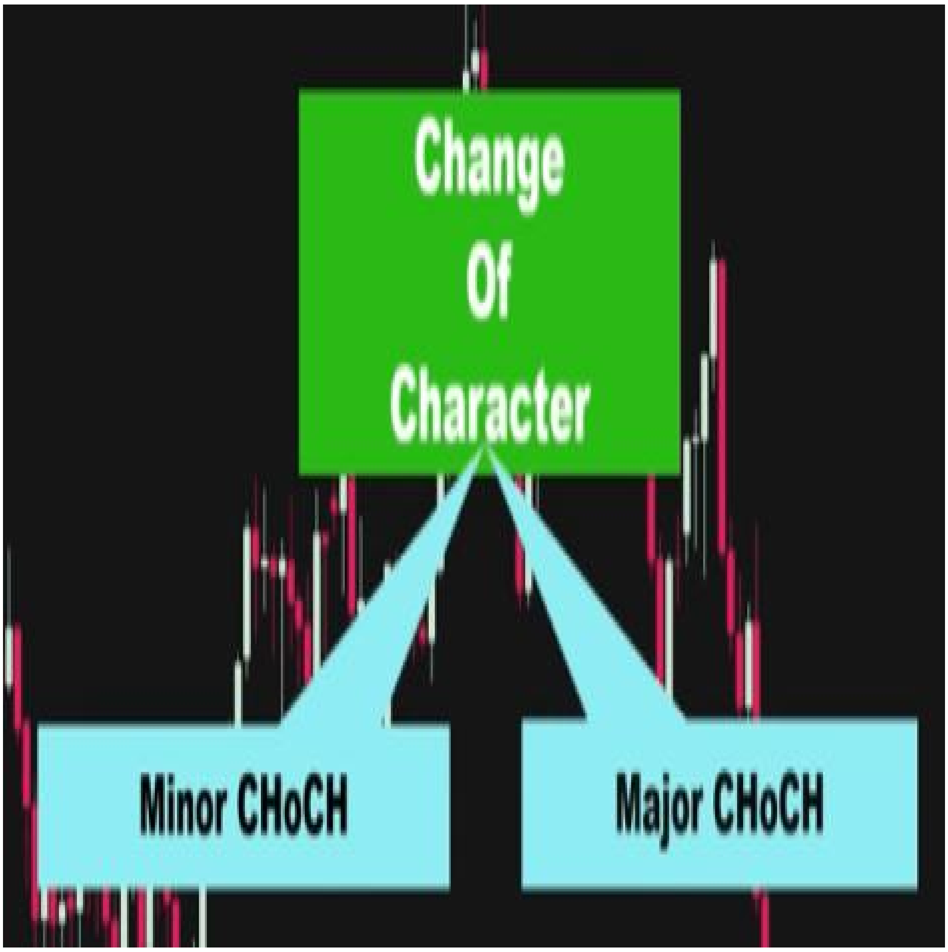
In this article, I will use the **reversal entry** method to illustrate how to use the SMC trading strategy, and under the reversal method, we will be using the **change of character** (CHOCH) method, as it is easier to understand and is the one I am most familiar with.

It is important to note before we continue that this entry method should only be used in the higher timeframes demand and supply zones because these areas are seen to have high probability due to the sponsorship of the higher timeframe anything outside these zones immediately increases risk exposure.

Now let's look at the reversal entry method using the Change of character (CHOCH) or market structure shift as it is called in the conventional trading.

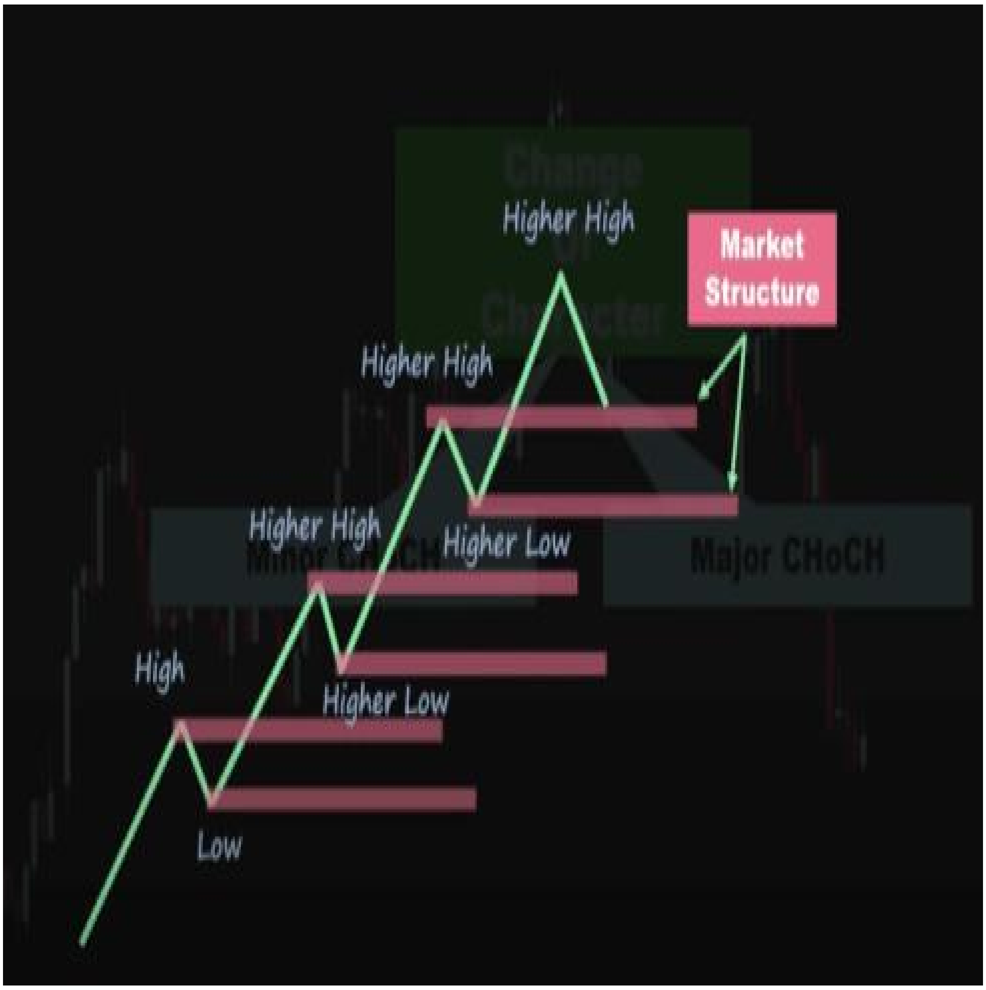
What is the meaning of Change of character (CHOCH)

Change of character means the market has changed its trend or order flow over a period of time. Change of character can be further divided into two types namely:



- Minor CHOCH
- Major CHOCH.

Identifying a valid change of character is a must-have for smart money traders as you would incur some losses if you fail to identify a valid CHOCH.



Let's assume we have a bullish market, the price makes a series of higher highs and higher lows, as the diagram above, in this case, each high and low is the market structure level.

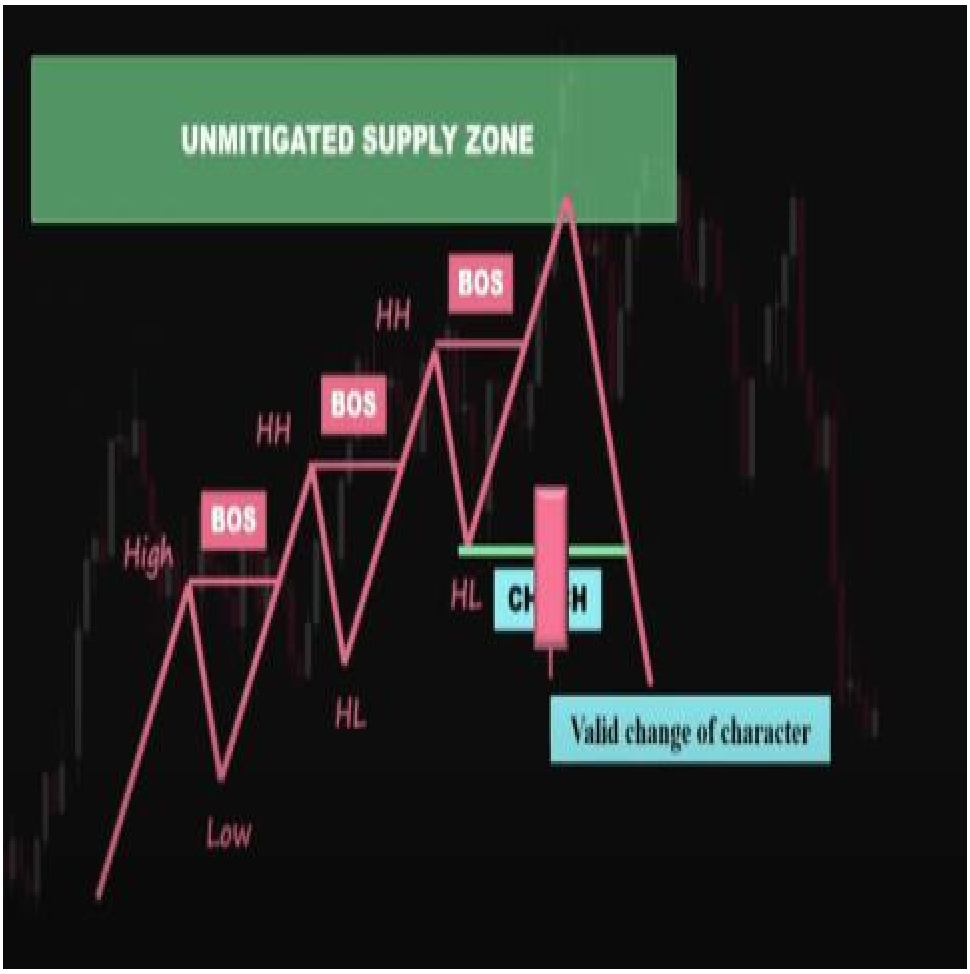
Looking at the diagram above, the most recent higher high and higher low is the one we monitor, when the price breaks the most recent high and low to the downward side, it means the price wants to start going downwards and wants to change its primary direction which has been the upside previously, this is what we consider a change of character.

The key point is this, for it to be considered a valid change of character (CHOCH), we need price to break and close a candle below the previous market structure level with a full body candlestick as shown in the diagram above.

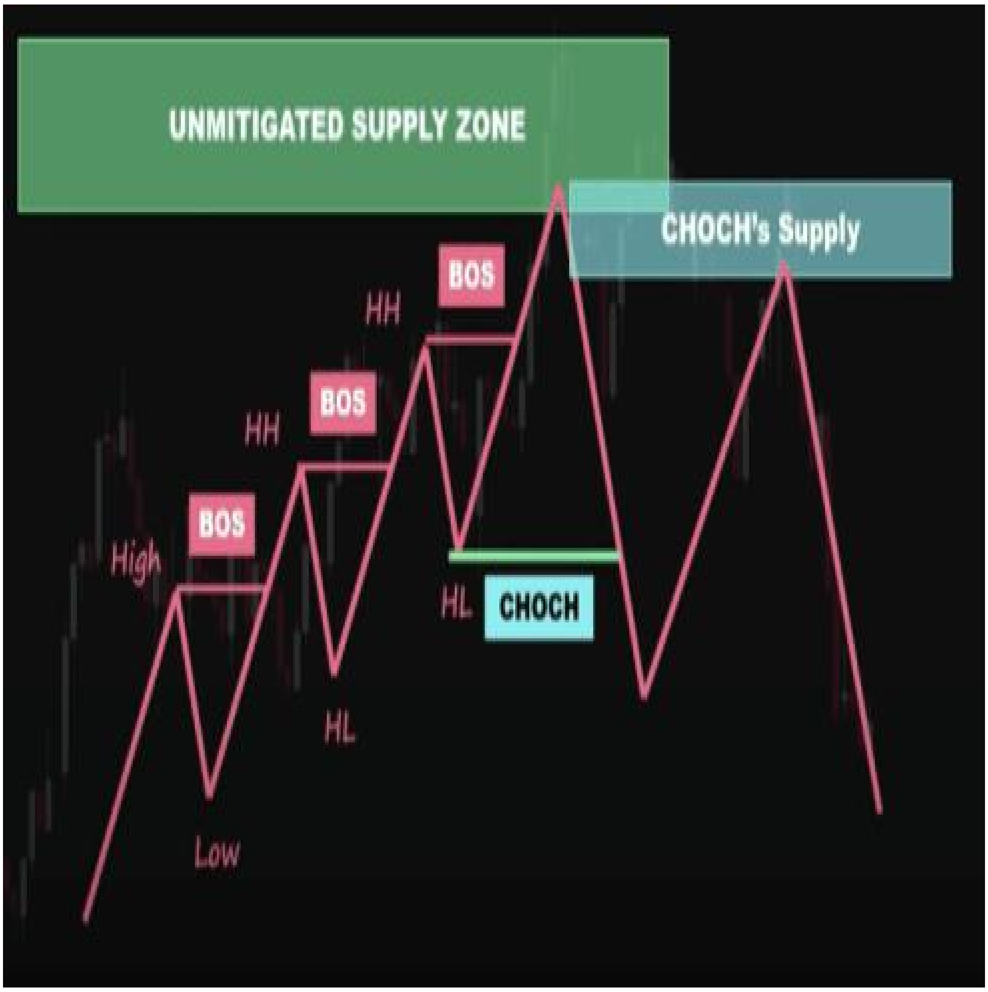
If price breaks the most recent structure with a shadow, and closes in the most recent structures range, this means the change of character is invalid as shown in the diagram above. The same concept applies to the bearish scenerio.

Pro Tip: You should always remember that, in the SMC trading strategy, Change of character (Choch) is valid only on one condition, that price reversed and came from a supply or demand zone, before breaking the recent structure and creating the CHOCH.

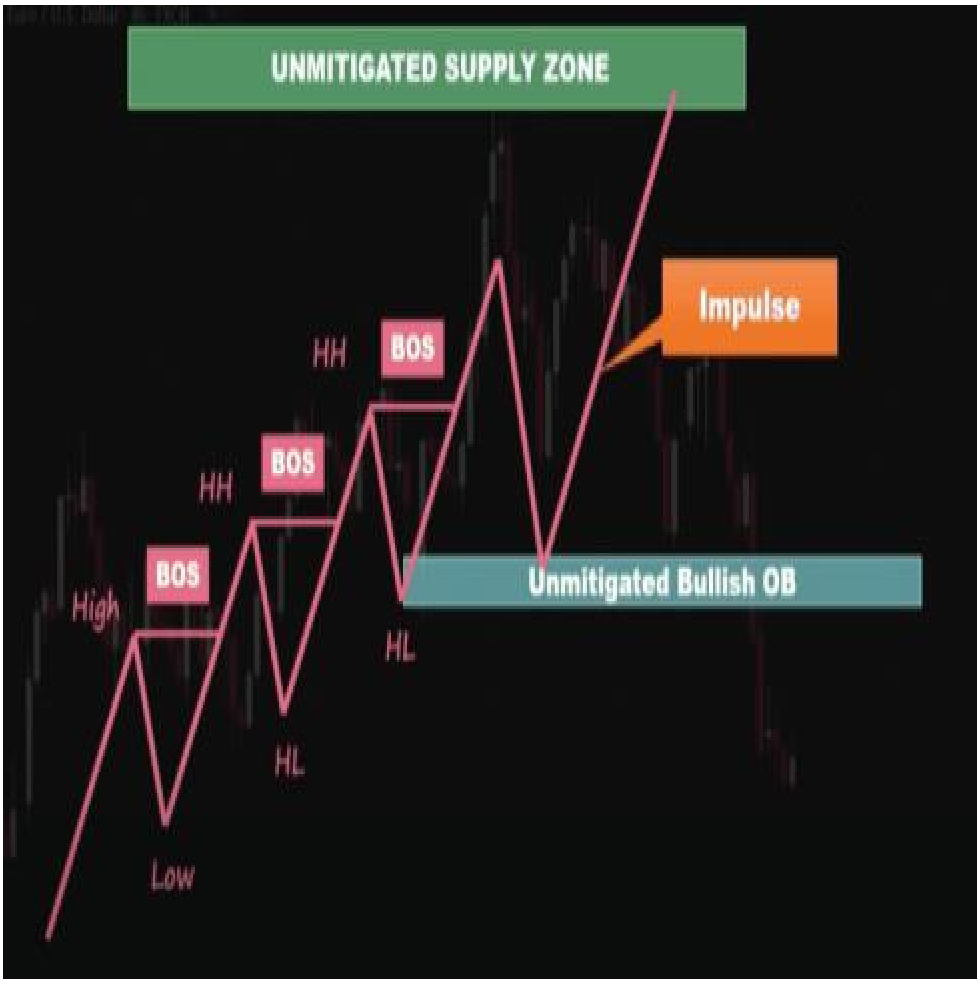
If price, without mitigating a supply or demand zone creates a change of character even with a valid candlestick pattern, we cannot consider it a valid change of character(CHOCH).



For example, in the diagram above, we have a bullish market, where price makes its higher highs and higher lows, we can also see in the diagram that price created a change of structure (CHOCH) after it mitigated the higher timeframe supply zone, after confirming that price mitigated a supply or demand zone, the next thing to look at is the candlestick, we would see if the candlestick closes below the last higher low in the diagram above with the body of a bearish candle and not the wick.

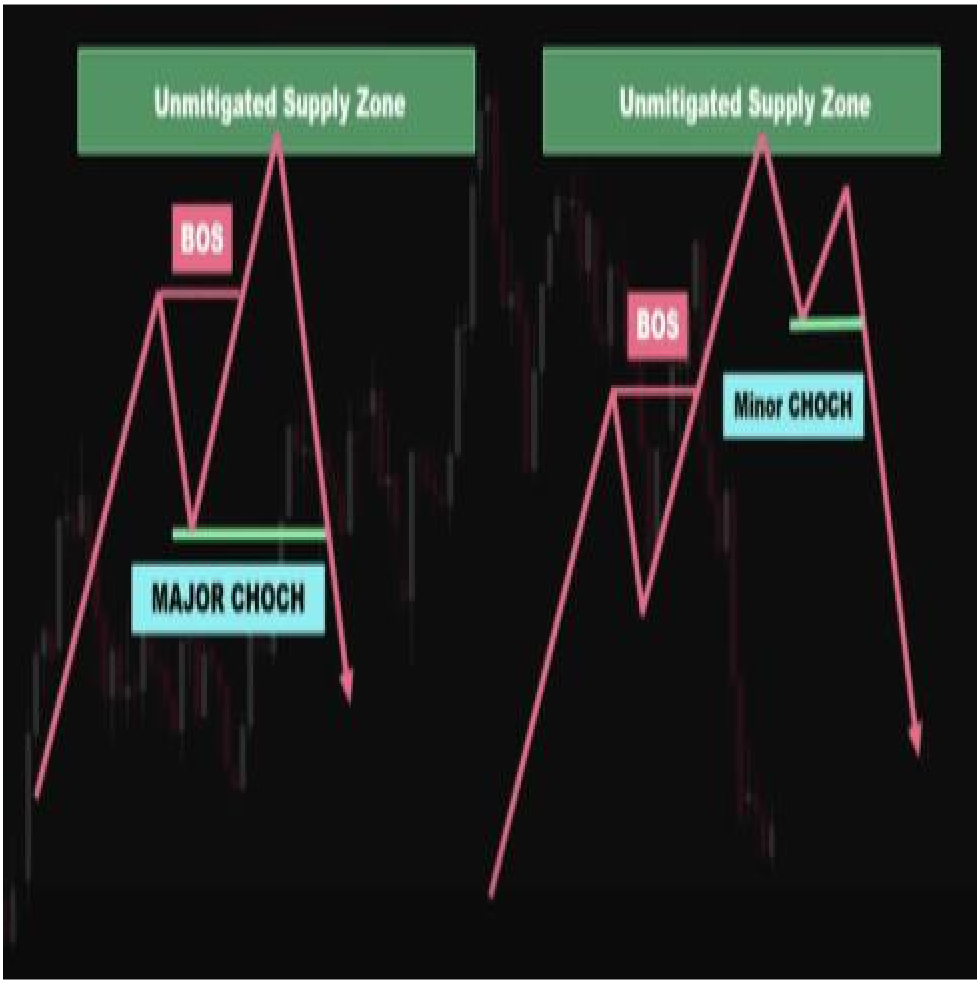


If the candlestick pattern is valid, then we can assume that price wants to change its direction and the change of character is safe to trade, as shown in the diagram above.

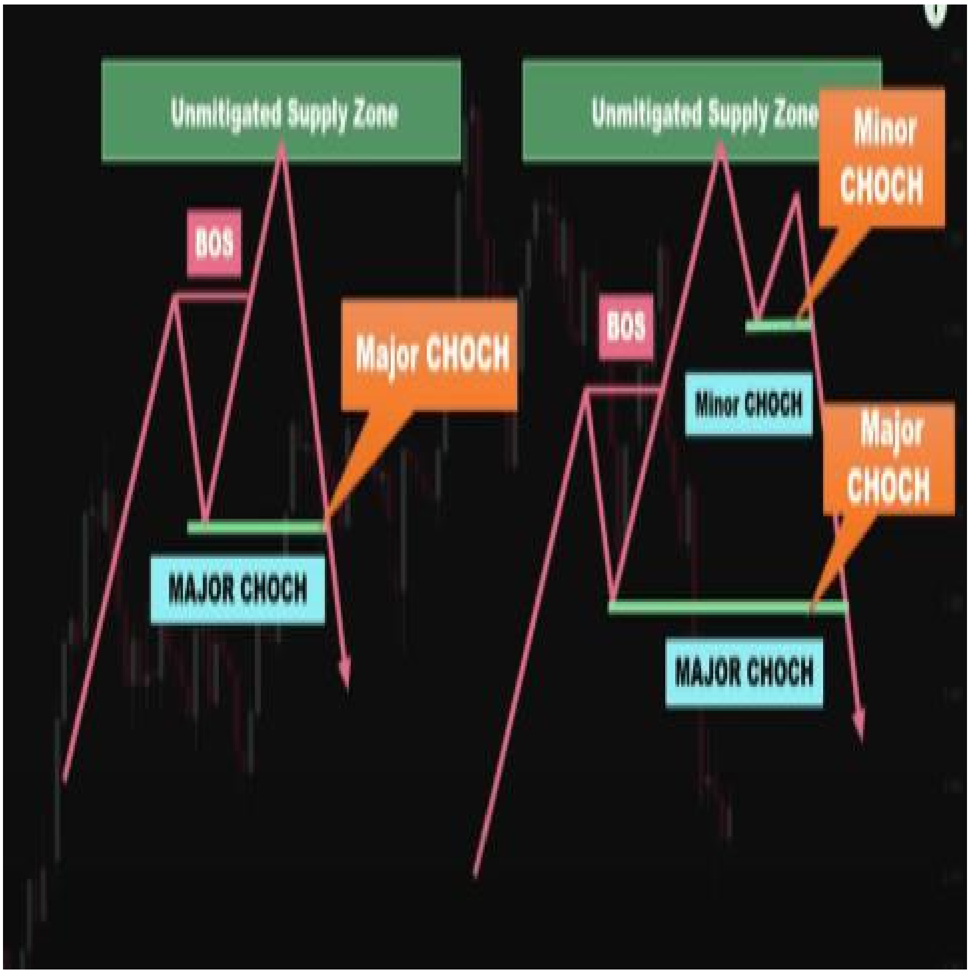


However, if price did not mitigate the upper-level supply zone, we would have a structure like shown in the diagram above. In this case, if price gets to a higher low level, it would be rejected when it gets to the unmitigated order block and start a fresh impulsive wave to the upside instead of changing direction.

As I have mentioned earlier, the change of character in SMC trading strategy occurs in two ways which are minor and major character changes. Let’s take a look at what the minor and major CHOCH are.



Looking at the structures above, on the left side of the diagram, we have the figure of the major CHOCH, and on the right corner, we have the figure of the minor CHOCH. The next thing that comes to our mind is, what is the difference between them?



The major change of structure occurs when price breaks a structure that has created a BOS. As you can see in the chart above, the price has broken down below the structure, which already creates a BOS, on the other side as you can see, price has broken the minor structure, but that cannot be called a BOS, as price needs to break the major structure just below the minor structure before we can confirm price is about to change directions.

Why I had to illustrate this, is because I have seen many SMC traders eagerly or nervously consider a minor change of character a valid change of character, and end up losing their trades.

Now that we have a basic knowledge of the change of structure technique in the SMC trading strategy, let’s move to some practical examples using real-time charts and applying the principles we have learned.

So in the above diagram, we are on a 15 mins timeframe for the **Eur/Usd** pair on the charts. As you can see price created a series of BOS to the downside until it got to the unmitigated demand zone which was created in a higher timeframe and then reverse to the upside.

In the next diagram above, we can see that price has broken out of the structure to the upside in the diagram above, so we spot a CHOCH, but before taking action, we have to ask ourselves a question, can we consider this Change of character a sign of a valid market shift? The answer is No because price has broken out of a structure that couldn't create a BOS.

Therefore, we cannot be sure that a market shift is going to happen, as what we spotted in the diagram above is a minor CHOCH, so we need to wait for price to make a major change of character (CHOCH).

In other to have a major change of character (CHOCH), the market needs to close above the market structure which has created a bearish BOS as indicated by the green line in the diagram above with a full body bullish candlestick.

Now as we can see from the diagram above, we have a major CHOCH here that indicates the downtrend is over and the market structure shift is going to happen.

There is a crucial point I want to draw your attention to, as you can see in the above diagram, price has changed its direction to the opposite after creating a CHOCH, but did price respect the minor CHOCH demand zone which is indicated by the lower **Order Block** (OB) in the diagram above, or did it respect the major CHOCH demand zone indicated by the upper **Order Block** (OB).

It is obvious that price did not respect the minor change of character demand zone, and if you had a buy order in the minor CHOCH demand zone, you would have missed out on such a great opportunity, because price always has more tendency to respect the major change of characters instead of the minor CHOCH.

Let's move on to the second example:

Looking at the chart above, we can also see that we are in a strong downtrend with price creating several BOS, we can see from the chart above that price has touched the higher timeframe demand zone, reacted to it, and went to the upside.

In the following price movement, we can see that price has broken the market structure with a little body candlestick at the green line and created a minor CHOCH, because the last lower high couldn't make a BOS to the downside.

Most SMC traders consider this movement in the above chart diagram a market structure shift, they expect to price to change its direction to the upside so that they would place their buy order at the highest point of the area which is created by the CHOCH.

But as you can see in the diagram above, a market shift did not happen, as price did not respect the demand area, and **STOP LOSS** of traders who have entered the market for a **buy** would be hit by the price movement making them end up with some losses.

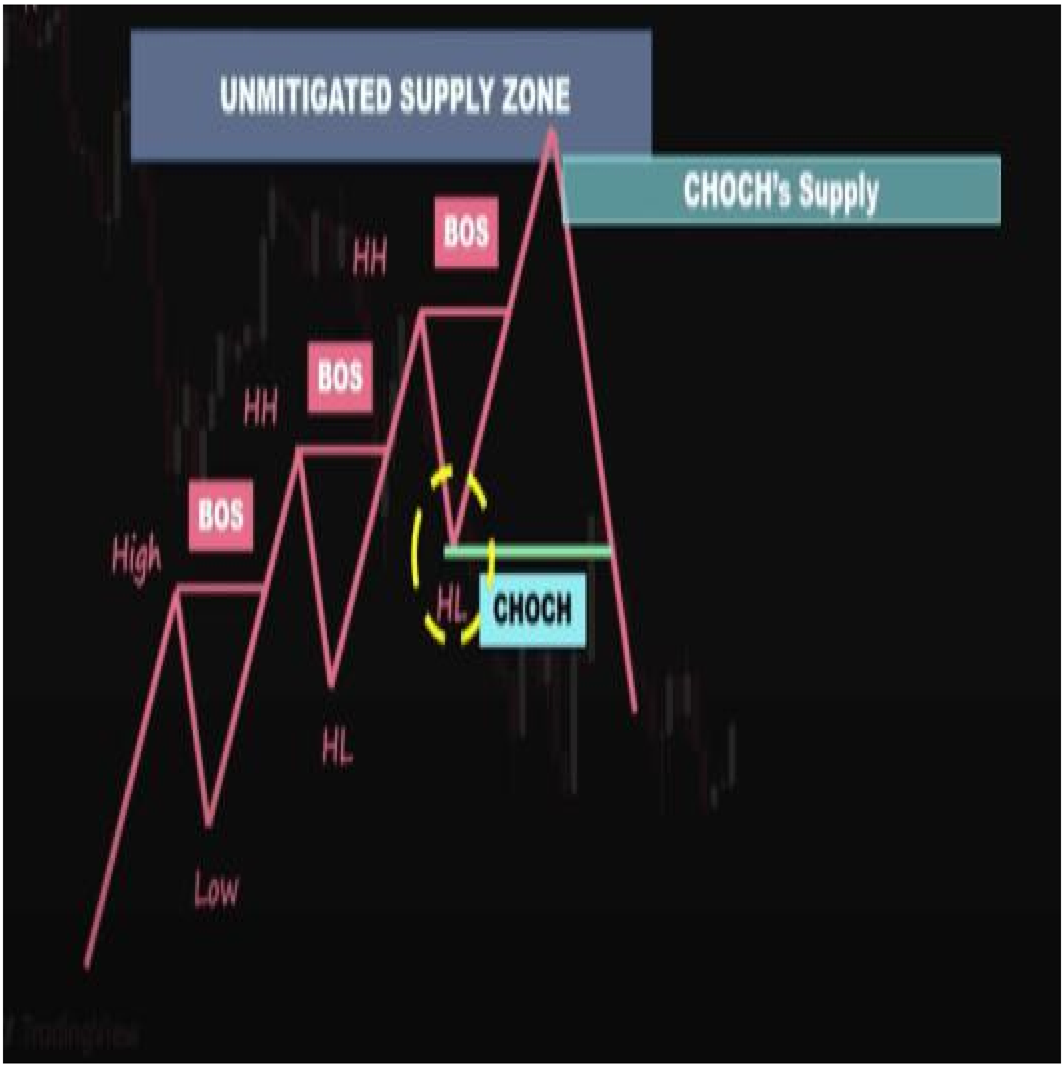
In summary, this change of character analysis increases your chances of getting more successful trades instead of just taking any trades without confirmation.

Now that we have seen how the change of character works, we will examine how we can use the change of character patterns to enter and exit trades with great risk-to-reward ratios.

Change of Character (CHOCH) Entry Setups:

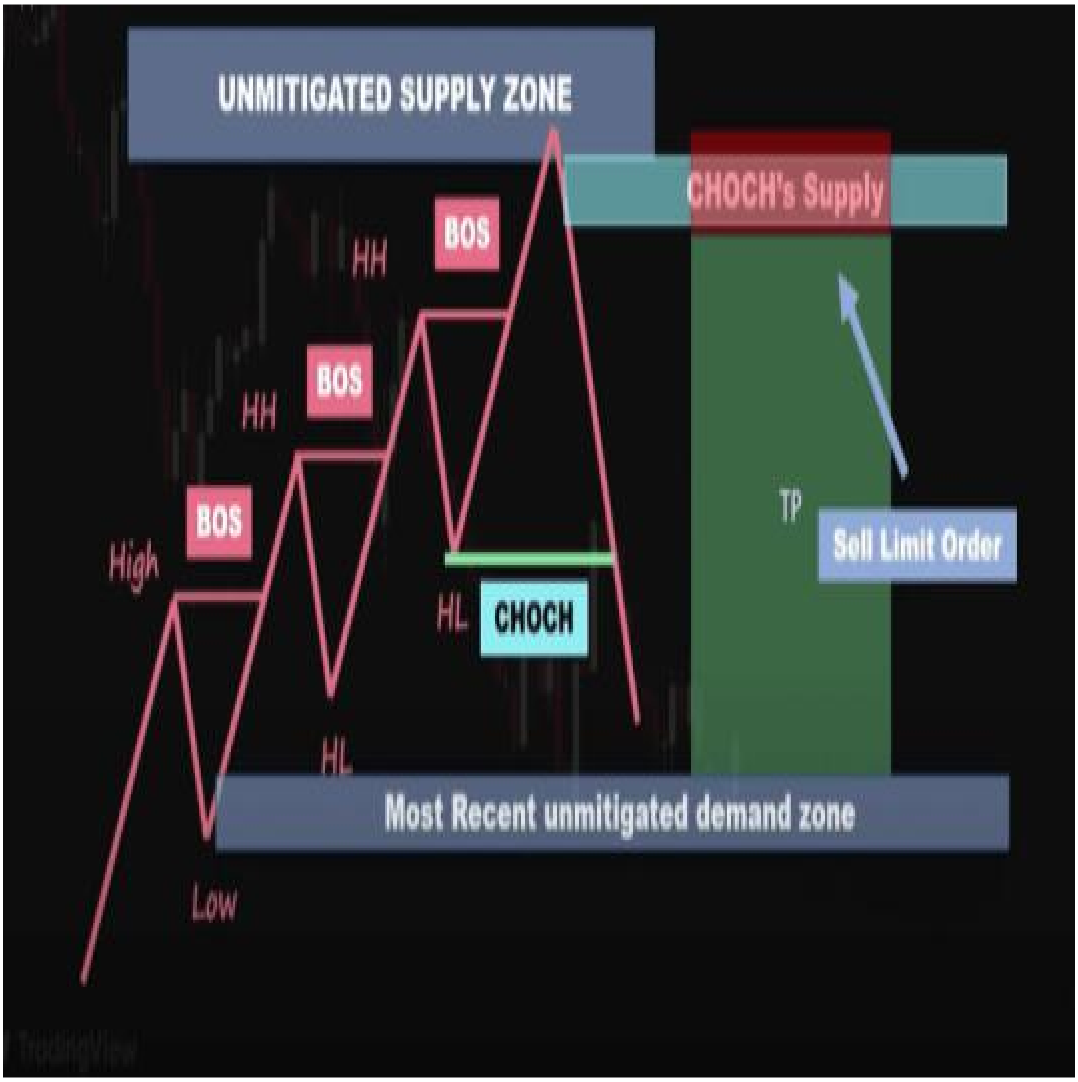
There are two different types of entry you can make use of while using the CHOCH entry setup namely: Aggressive Entry and Conservative Entry.

I would only be using the Aggressive entry in my illustration as that is what I use in my trading, as I stated earlier in this article.



Let's imagine price has created a bullish pattern to the upside, as shown in the diagram above, after reaching the higher timeframe supply zone, price is then rejected downwards and forms a major CHOCH by breaking and closing below the structure, i.e below the green line in the above chart, which has created a bullish BOS.

So using the Aggressive entry method in the SMC trading strategy, the next step would be to set a sell limit order at the lowest point of the supply zone, which is created by the CHOCH wave to the downside, as shown in the diagram above.



We should then place our STOP LOSS a couple of pips above the supply zone, then target the most recent unmitigated demand to place our TAKE PROFIT point. You can see the illustration in the above diagram.

This is the general idea of using the aggressive entry for CHOCH in the SMC trading strategy.

Read Also: [7 Candlestick Patterns Every Trader Should Know]

Frequently Asked Questions (FAQ) on SMC Trading Strategy

Which time frame is best for SMC trading?

The most suitable timeframe for SMC trading strategy might vary due to several factors, but the general opinion from several SMC traders is that "The SMC trading strategy works better when employing a longer time frame (4 hours) for technical analysis and a shorter time frame (15 minutes) to get your entry points, this timeframe has the potential to enhance the precision of trading decisions.

Who is the founder of the SMC trading strategy?

SMC trading strategy is alleged to be the creative brainchild of Michael J. Huddleston the founder of the ICT Program, a program he uses to teach the Smart Money Concepts strategy to a large community.

Does SMC work in Crypto?

SMC means Smart Money Concept and it is a trading strategy that can be used across the financial market, as long as it involves the use of charts and technical analysis. Therefore, when trading crypto futures or spot markets, SMC strategy can be very helpful in determining key zones as well as entry and exit points.

What are the best indicators for the smart money concept?

SMC Structures, Supply and Demand zones, and the FVG indicator are very good indicators when used for SMC trading strategy. FVG means Fair Money Gap and in my other article on Smart money concept trading, I was able to display how to use the fair money gap indicator effectively when using the SMC strategy.

Conclusion:

Something else to note is there are several ways in which SMC traders trade using the Smart Money Concept, and the pattern I used is just one of them, which relies mainly on the Change of character (CHOCH) and the market structure.

Another point to take note of is that this way of using the SMC trading strategy relies heavily on using the sell limit, buy stop, sell stop, and buy limit, as you cannot instantly execute a trade except you are sure of the valid CHOCH and also confirmed a BOS.

Finally, as there are several strategies lots of traders use for themselves, but it is important to understand that the SMC trading strategy is one of the few that stands out, as it is able to cover several aspects of the market, with its dynamic styles that encompass, lots of price action strategies, making its analysis, more accurate and clear.

I hope you have been able to learn something from this article, and that you now have a basic knowledge of what the smart money concept is in trading. Please do well to leave a comment and a like, and you can also help share this article to enlighten more traders.