Reading Your First Setup

How to find liquidity on a bare chart, what a sweep and a reclaim look like candle by candle, and how to turn one into a trade with a defined stop and a defined destination.

01 Liquidity, in plain English

A chart is a record of promises. When you buy, you decide in advance where you will admit you were wrong, and you leave an order there to close the position. That is a stop. It sits in the market doing nothing until price reaches it. The moment it is touched it becomes a market order: sell immediately, at whatever is available. Now multiply that by everyone else holding the same view. You have a known place on the chart where a large amount of forced selling happens at once, automatically, whether anyone wants it to or not.

Stops cluster because traders read the same chart. If you are long, the honest place for your stop is below the low that would prove the idea wrong, which is almost always the last obvious swing low. Everyone else who is long is looking at that same low. So underneath it sits a shelf of sell orders. Above an obvious high the mirror is true, with one extra ingredient: shorts have their stops there, and breakout buyers have their entries there. Both are buy orders. Above an obvious high is a shelf of buying.

An old high is not a wall. It is a shopping list.

Why the levels collect orders

Anyone trading real size has a problem. To sell a large position you need buyers, in one place, at one time. The quiet middle of a chart cannot absorb that. Those shelves can. That is the usual story, and it needs no conspiracy: obvious levels concentrate resting orders, and resting orders are where size can actually be filled. When price pushes through an old high and immediately turns, one way to read it is as a fill, not a failure.

So your first job on a bare chart is not to predict. It is to mark the places where orders are obviously parked, and then wait there.

- Yesterday's high and yesterday's low.
- The high and low of the previous session, carried into the one you trade.
- Equal highs or equal lows: two or more touches finishing at the same price.
- The single most obvious swing high and swing low on your timeframe.
- The high and low of today so far.

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> Marking a level tells you where the orders probably are. It tells you nothing about whether price will get there, or what happens when it does. That is the next section, and it is the part most beginners skip.

02 The sweep and the reclaim

You have a level marked. Price approaches it. From this point you watch closes, not ticks. A candle body finishing somewhere is a decision. A wick poking somewhere is an attempt. Confusing the two is the most expensive habit in this business.

1. Price trades into your level and pushes through it. Often quickly, often on a candle with an unusually long wick. Stops are being triggered, and that triggering is itself the fuel for the move.
2. Price fails to hold beyond the level. Instead of building bodies on the far side, the candles stall, and the extension beyond the level stays a wick.
3. A candle closes back through the level, on the original side. The market has now rejected the extension in public, at a price everyone can see.
4. The move away from the level is quick and one-sided: bigger bodies, small wicks against it, no hesitation. Traders often read that expansion as the confirmation; in our tests, how forceful it was made no measurable difference to how often the trade reached its target.

The sweep asks the question. The close back through answers it.

Be honest about the first half. On its own, price taking out an old high or low is close to a coin flip. Sometimes it is a raid on stops and price turns. Sometimes it is a genuine break and price keeps going for hours. If you enter simply because a level was taken, you are guessing, and the chart will teach you that expensively. Plenty of sweeps continue. That is not a flaw in the idea. It is the reason the idea needs a second condition.

That second condition is the reclaim: the close back through the level, and the shift in behaviour that follows it. In model language this is the CISD, the point where the character of delivery changes. Before it, you have a level that was tested. After it, you have a sign the push beyond the level failed. That is a better-defined place to be wrong, not better odds: measured, an entry on the close back through did no better than one on a random candle with the same stop.

> If price closes beyond your level and then keeps closing beyond it, there is no setup. The level broke. Leave it alone, mark the new one, and wait for the next.

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03 Turning it into a trade you can take

1. Entry: the confirmation close. You act on the candle that finishes back through the level, not on the wick that went beyond it. If you cannot see the close, you do not have the setup yet. Expect price to come back toward your stop first more often than not: on 123,978 entries like this, 67% came back at least half-way to the stop before moving 1R in the trade's favour.
2. Stop: beyond the protected extreme. That is the high or low the sweep just made. If price trades back through it, the reclaim was wrong and you want to be out on evidence, not on feeling.
3. Target: a level you choose before you enter, often the nearest obvious high above a long or low below a short. That is where you define the trade, not a place price is drawn to: how often a target is reached is mostly a matter of how far away it is. At a 2R target, entries like this reach it about 1 time in 3, roughly what chance gives.

Notice what this gives you: a reason, a price to be wrong at, and a place to be right at, all defined before you click. If the stop is far and the destination is near, that is not a trade. Skipping it is a decision, and skipping is most of the job.

Three mistakes to expect

1. Entering on the wick instead of the close. The wick feels early and clever. It is neither. During the sweep you cannot tell a rejection from the start of a real breakout, so entering there puts your stop inside the noise you are trying to trade. The close is the whole point.
2. No destination. Beginners spend all their attention on entry and none on where the trade is going. Without a target you cannot judge the trade before taking it, and you will manage it by emotion afterwards, taking small profits from good trades and full losses from bad ones.
3. Taking the pattern in the middle of a range. The idea rests on someone being trapped on the wrong side, and in the empty middle, between the highs and the lows, there is no obvious shelf of orders to trap anyone. We have not tested the middle separately, so treat this as part of reading the chart, not as an edge.

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Work through old charts and mark these by hand. Doing it manually is how the pattern becomes obvious to you, rather than something you have to look up.

Everything here can be done on a bare chart with no tools. When you want the levels, the sweeps and the confirmation closes marked for you automatically, that is what The Distilled Pro does.

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