



Supply and Demand Zones

Supply/Demand | INTERMEDIATE | Timeframes: 15M, 30M (context: 1H, 4H)

STATUS: TESTING

1313 backtested trades | win rate 33.2% | profit factor 0.89 | worst drawdown 35.6% | avg RR 1:2

Past results do not guarantee future results. Educational use only.

What it is

A demand zone is the small base (a few narrow candles) before a strong move up; a supply zone is the base before a strong move down. When price returns to a fresh zone, this strategy looks for a reaction and trades from the zone with the stop beyond it.

In simple words

Sometimes price leaves an area very quickly. That suggests lots of orders were waiting there. When price comes back for the first time, it may react again, so we plan a trade there with the stop on the far side.

Why it may work

A fast departure from a base suggests an imbalance between buyers and sellers; unfilled orders may remain at the base and be triggered when price returns. Once the zone has been tested, those orders are used up, so fresh zones are preferred. This is a hypothesis about order flow, not a certainty.

Example chart



A supply zone: a small base, then a fast drop. Price returns to the base, an engulfing candle forms, and the sell has its stop above the zone. (Illustrative diagram drawn by Bahari Academy. It is not real market data and not a prediction.)

Best market conditions

- A zone created by a strong, fast impulse that breaks structure
- The zone is fresh (not yet revisited)
- The zone agrees with the higher-timeframe trend
- Price approaches the zone calmly rather than with a spike

When NOT to trade it

- The zone has already been tested
- The move away from the zone was slow
- You are trading against a strong higher-timeframe trend
- The zone is so wide that the stop is too large

Timeframes

Entry: 15M, 30M. Context: 1H, 4H. Draw zones on the higher timeframe and refine the entry on the 15M or 5M chart.

Step-by-step setup

1. Find a strong impulse that broke a swing high or low
2. Mark the base candles before the impulse as a zone
3. Check the zone is fresh and agrees with the higher-timeframe trend
4. Wait for price to return to the zone
5. Look for a reaction candle (engulfing or rejection)
6. Enter with the stop beyond the zone and a 1:2 target

Entry rules

- Price returns to a fresh zone
- A reaction candle closes away from the zone
- The higher-timeframe bias agrees

Stop loss

Beyond the far edge of the zone with a small buffer. If price closes through the zone, the idea is invalid.

Take profit

The nearest opposite zone or structure level, or a fixed 2R.

Risk / reward

At least 1:2. Narrow zones give the best ratio; skip very wide zones.

Confirmation

- Rejection or engulfing candle at the zone
- A lower-timeframe structure shift after the touch
- A fair value gap left by the original impulse

Invalidation

- A close beyond the far edge of the zone
- The zone is retested and broken

Common mistakes

- Marking zones after the fact
- Using zones that have been tested several times
- Entering without a reaction
- Placing the stop inside the zone

How this strategy performed in our own backtests

Backtested on 1313 trades but not verified: 6 of 9 checks not met (win rate above 50%; profit factor at least).

Tested on 2026-10-03 with engine bahari-bt-1.0.0. Fresh supply/demand zone with an engulfing reaction, in the direction of the trend, stop beyond the zone, 1:2 target.

Markets: BTCUSDT, ETHUSDT, SOLUSDT. Timeframes: 15m, 30m, 5m. Conditions with enough trades: 3 profitable of 9.

To be VERIFIED a strategy needs at least 300 trades, a win rate above 50%, a profit factor of 1.2+ and drawdown under 25%, across several markets and timeframes and both halves of the history.

- [pass] Sample size of at least 300 trades: 1313 trades
- [not met] Win rate above 50%: 33.2%
- [not met] Profit factor at least 1.2: 0.89
- [not met] Average result per trade above 0.05R after costs: -0.076R
- [not met] Worst max drawdown at most 25%: 35.6%
- [pass] Average planned reward:risk at least 1:1: 1:2
- [pass] Tested in at least 4 market/timeframe conditions (2+ markets, 2+ timeframes): 9 conditions, 3 markets, 3 timeframes
- [not met] Profitable in at least 67% of the conditions: 3 of 9
- [not met] Profitable in BOTH halves of the history (profit factor at least 1 in each): first 0.84, second 0.94

Quiz

1. A supply zone is usually found:

- A) At the base before a strong move down
- B) At the lowest low
- C) Anywhere on the chart
- D) Only on the daily chart

Answer: A. A fast drop away from a base suggests sellers were active there.

2. Why do traders prefer fresh zones?

- A) They are prettier
- B) The resting orders have not been used up by earlier tests
- C) They are required
- D) They never fail

Answer: B. Each test uses up some of the orders that made the zone interesting.

3. A slow, grinding departure from a base means the zone is:

- A) Stronger
- B) Weaker, because there was no clear imbalance
- C) Perfect
- D) Invalid always

Answer: B. Zones come from strong, fast impulses.

4. Where does the stop go for a sell from a supply zone?

- A) Inside the zone
- B) Beyond the far (upper) edge of the zone
- C) At the entry
- D) No stop

Answer: B. A close above the zone shows sellers failed to defend it.

Practical challenge

Plan a limit order at a fresh zone in a pending-order challenge and see whether price comes to it. Open Challenges on bahari-academy.netlify.app to practise with the future candles hidden.

Important

Trading involves risk, and you can lose money, including all of the capital you risk. This lesson is for education only and is not financial advice. Nothing here guarantees profit, and backtested results do not guarantee future results.