



# CONFLUENCE REFERENCE

**Markets move through structure, liquidity, and imbalance. Confluence is not a signal – it is alignment.**

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## PREFACE —

*This is not a signal service. This is not a prediction model. This is a framework for interpreting market conditions and understanding how high-probability conditions are formed.*

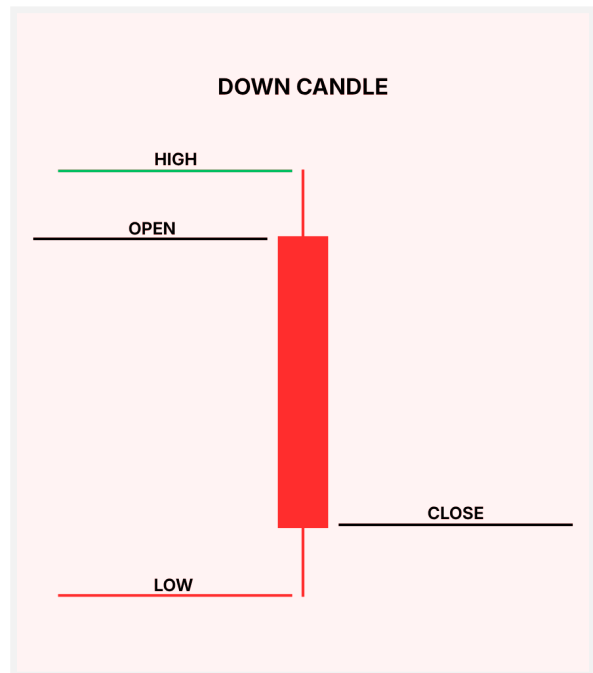
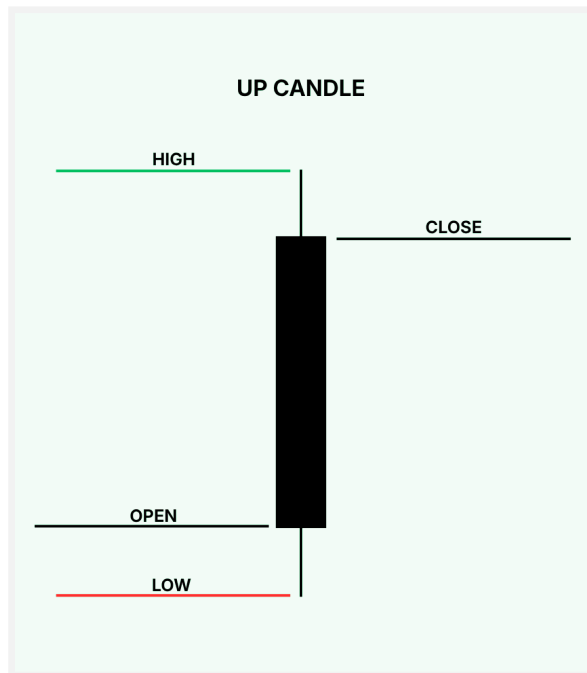
# SECTION 1: TECHNICAL BASICS

## Candle structure –

Every candle has four components. Those components act as important data points for traders.

Candle Structure:

- Open
- High
- Low
- Close



**NOTE:** This is the same no matter the timeframe. Traders can use this information to help formulate ideas for future price action.

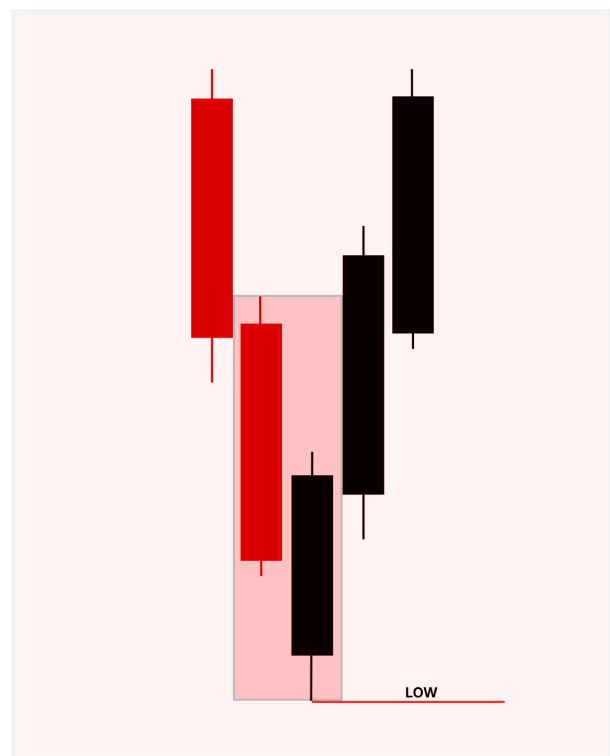
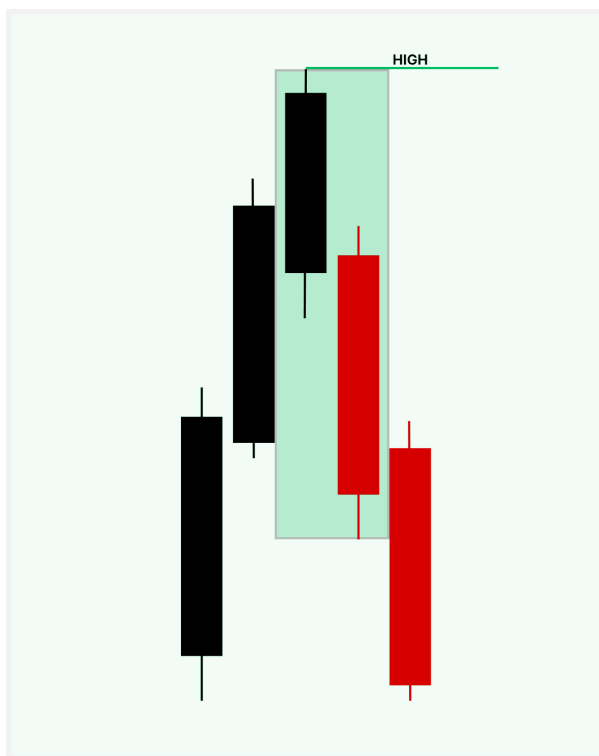
## Candle Patterns –

There are really only three candle patterns that transcend all models. Mostly because they are elementary concepts for higher time frame market structure.

- Highs
- Lows
- Imbalance

### Highs and Lows:

These are easily identifiable 2 candle patterns. You will see them everywhere but **swing** highs/lows are the ones you really care about.



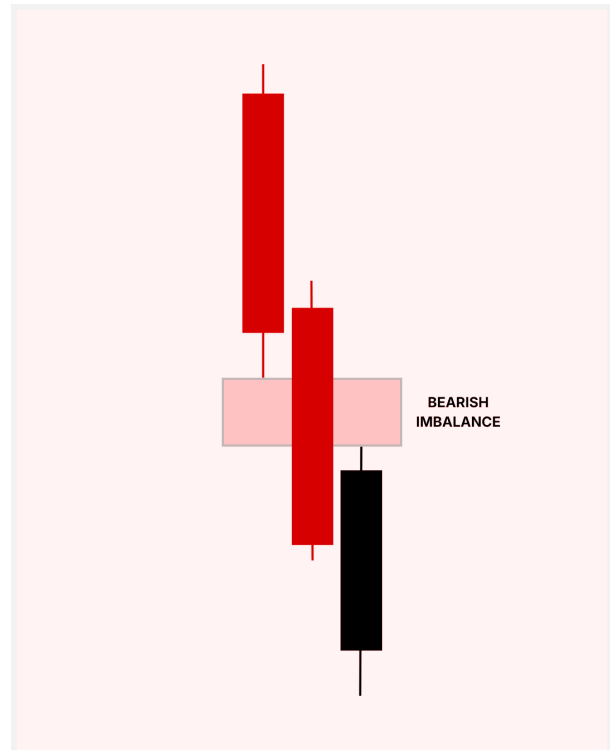
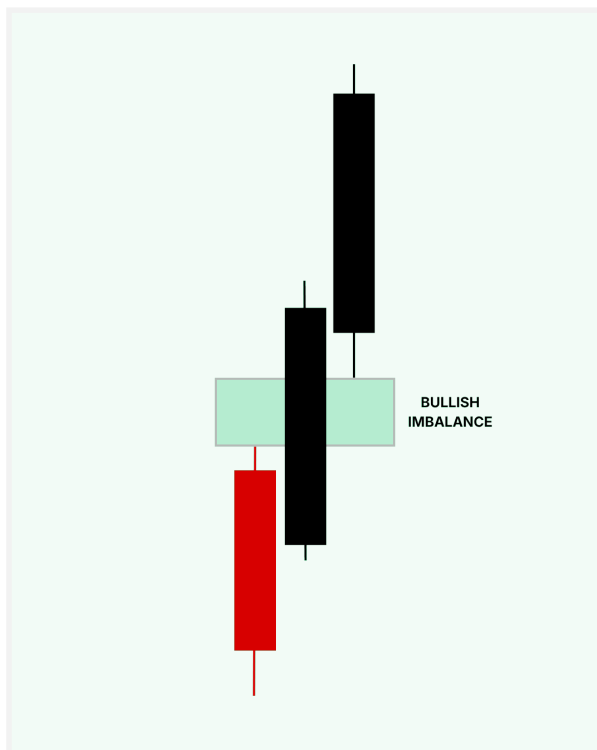
A **HIGH** is an *up candle* followed by a *down candle* taking the highest point of the two, including the wicks.

A **LOW** is a *down candle* followed by an *up candle* taking the lowest point of the two, including the wicks.

## Imbalance:

Imbalance is represented by a 3 candle pattern. There is both Bullish and Bearish imbalance which is the result of strong buying or selling in the respective direction. You can see this occur when orders stack heavily on one side of the order book.

The pattern exists when you have 3 candles where the middle candle's body represents the imbalance.



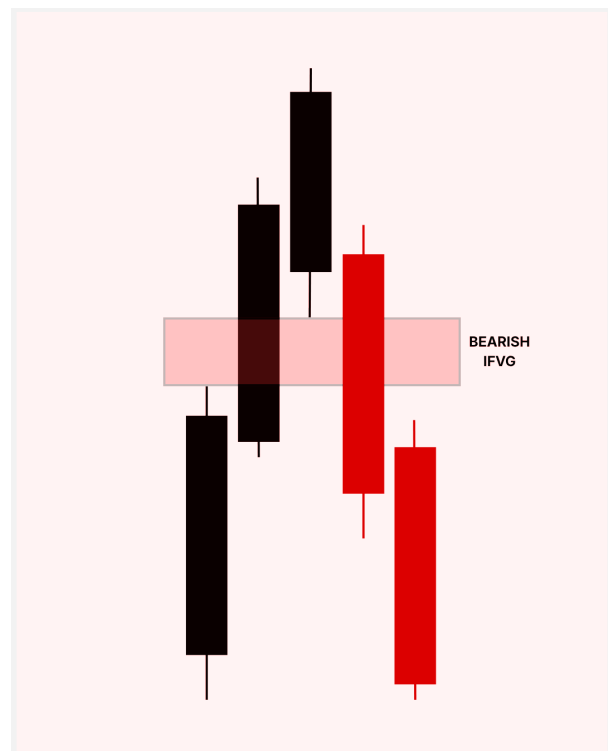
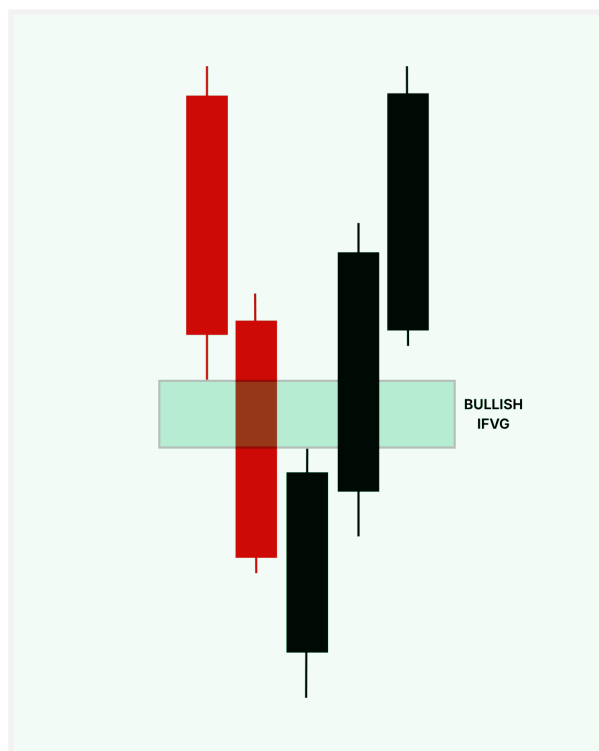
When the outer two candle's bodies or wicks fully cover the middle candle's body there is **NO** imbalance.

The last candle pattern is a bonus. It has become quite popular in recent years and functions as a HFTA (High Frequency Trading Algorithm) signature when you see them.

## Inverse Fair Value Gaps:

Fair Value Gaps or FVGs are nothing more than a fancy term for imbalance. You may hear “buy side” or “sell side” inefficiency used as well. The simplest term is imbalance and means exactly what you think it does.

So with that in mind, an Inverse Fair Value Gap or IFVG is formed when an imbalance gets inverted. This typically occurs around swing highs and swing lows before market structure switches up.



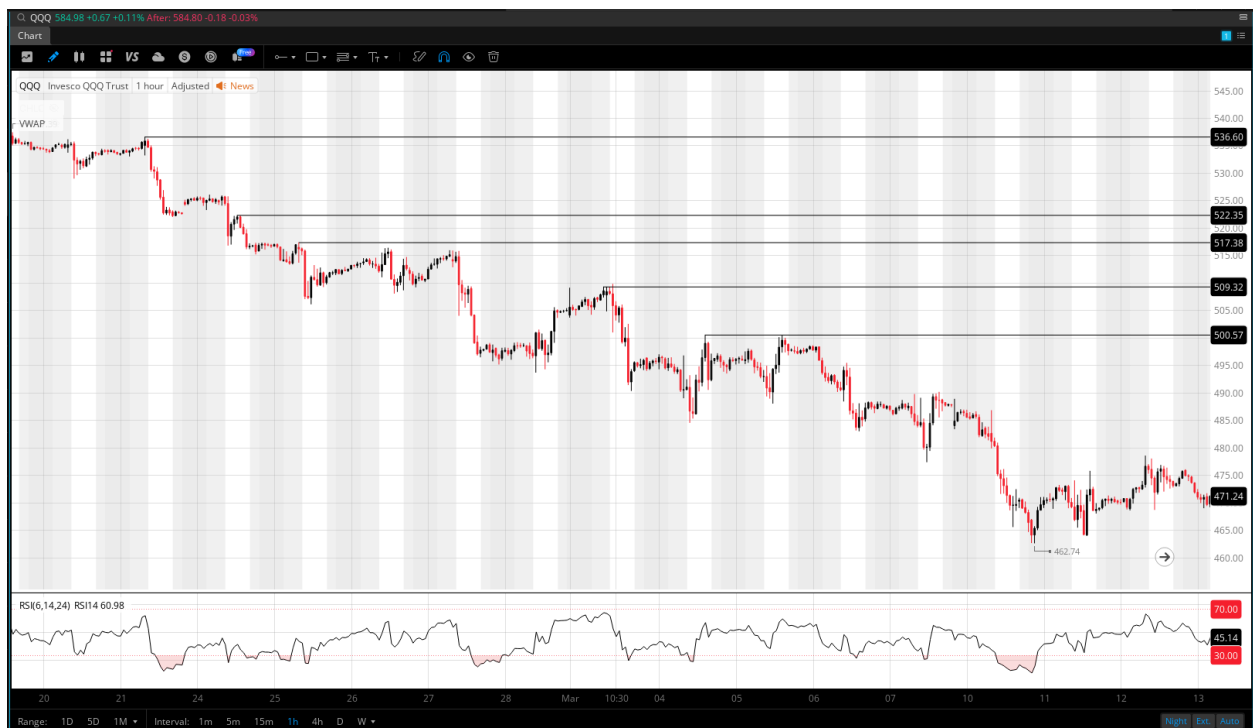
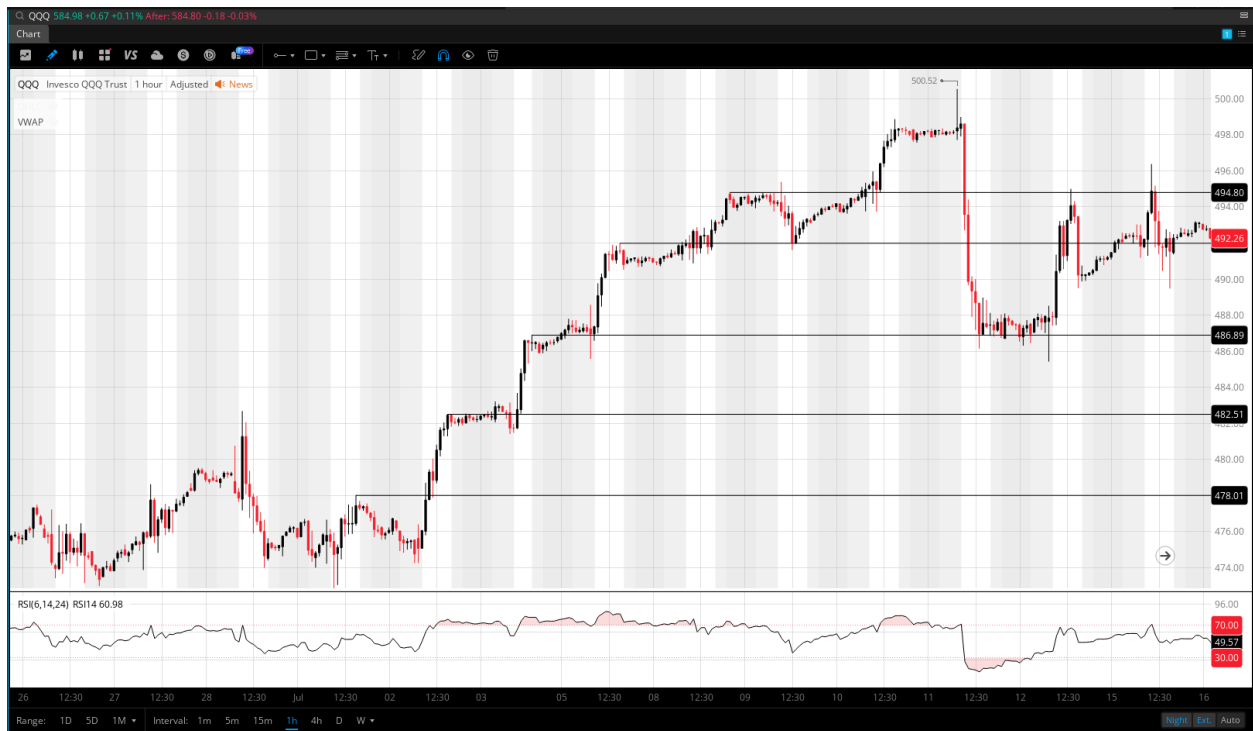
## Market Structure –

No reason to overcomplicate things here. The market trends or ranges.

Under trending conditions you get:

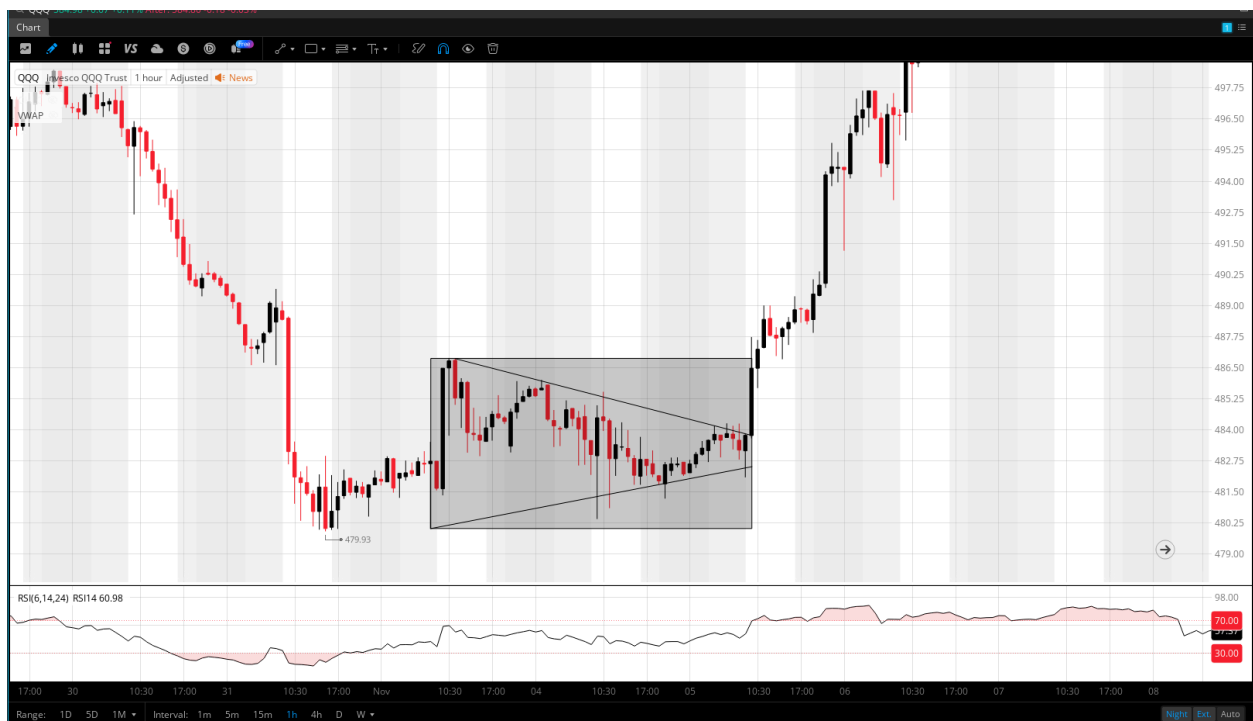
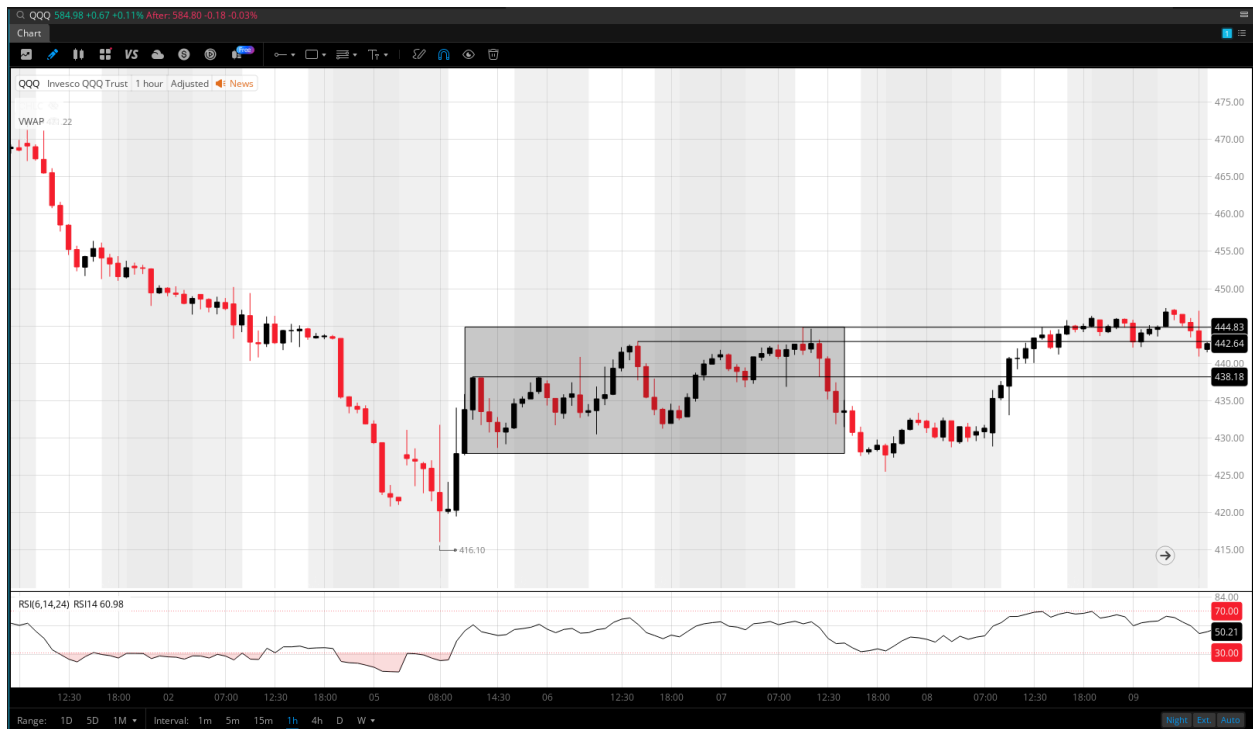
- Uptrend
- Downtrend

During an **uptrend** price action will print higher highs and higher lows. Conversely, a **downtrend** consists of lower highs and lower lows.

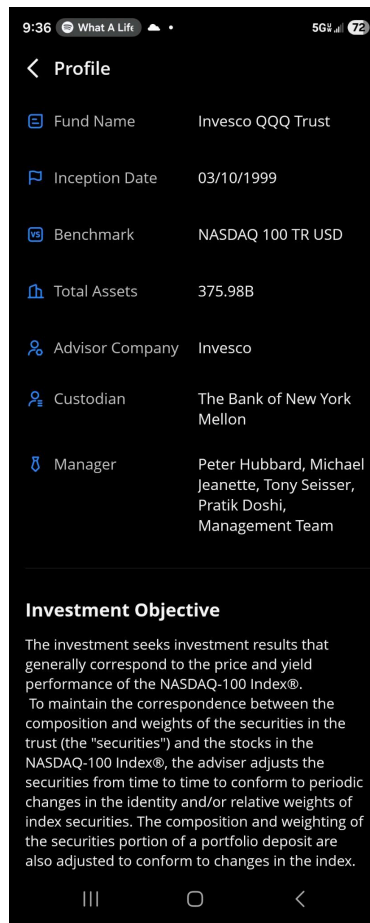
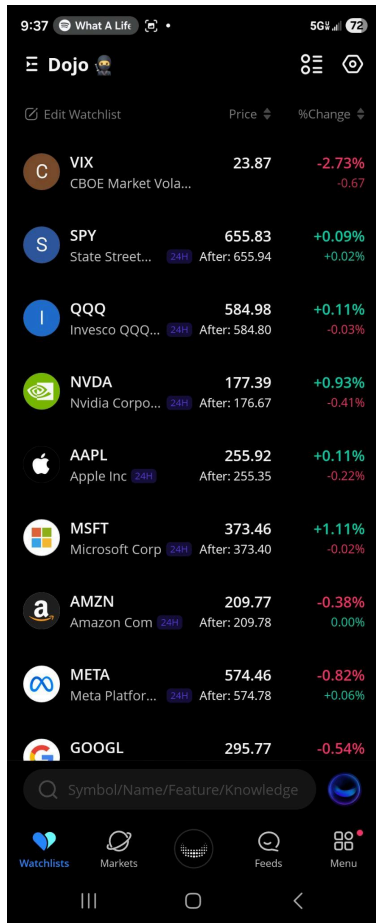


Under ranging conditions you get **expansion** or **consolidation**.

During an expanding range price will print tight swings that slowly move in the upward or downward direction. During a consolidating range price will print weaker and weaker swings before moving aggressively in one direction.



## SECTION 2: FINANCIAL INSTRUMENT



Obviously, one of the most important things a trader can do is research the financial instrument they plan to trade. To give you an idea of how to approach this and what information would be important to include here is an example for QQQ.

The Nasdaq-100 ETF (QQQ) provides exposure to a concentrated basket of large-cap technology and growth companies, making it highly responsive to:

- Liquidity shifts
- Interest rate expectations
- Institutional positioning



QQQ is heavily weighted toward a small group of **dominant** companies.

As a result:

- Index movement is often led by a handful of names
- Broader participation may not reflect index direction
- Strength or weakness can be concentrated

Not all movement is equal — leadership matters.

QQQ is commonly traded through:

- Shares (equity)
- **Options** (leverage-based execution)

Options introduce:

- Increased sensitivity to price movement
- Time-based decay
- Volatility exposure

This means precision in timing and structure becomes critical when using leverage.

**NOTE:** Understanding behavior is more important than predicting direction.

## **Summary –**

QQQ offers a unique combination of:

- Liquidity
- Volatility
- Technical clarity

This makes it ideal for:

- Intraday execution
- Structured trade planning
- Confluence-based decision making

## SECTION 3: MACRO ENVIRONMENT

### Economic Timing –

Market conditions are shaped by economic data and central bank policy.

Key data releases — such as inflation, employment, and interest rate decisions — occur at **scheduled dates and times**, often acting as catalysts for volatility and directional movement.

### Federal Reserve Influence –

The Federal Reserve adjusts policy based on incoming data.

Changes in expectations around:

- Interest rates
- Inflation
- Liquidity

can **rapidly** shift market behavior.

Tracking a structured **Economic Calendar** provides a critical advantage:

- Anticipate volatility before it arrives
- Avoid trading during high-risk uncertainty
- Align with periods of increased participation

Date	Time (ET)	Event	Type	Impact	Actual	Forecast	Previous
WEDNESDAY 4/1/2026 +							
THURSDAY 4/2/2026 +							
FRIDAY 4/3/2026 <b>TODAY</b> +							
MONDAY 4/6/2026 -							
4/6/2026	10:00 AM	ISM Services Employment Index	Growth	MEDIUM	-	-	51.8
4/6/2026	10:00 AM	ISM Services New Orders Index	Growth	MEDIUM	-	-	58.6
4/6/2026	10:00 AM	ISM Services PMI	Growth	HIGH	-	-	56.1
4/6/2026	10:00 AM	ISM Services Prices Paid	Growth	MEDIUM	-	-	63
TUESDAY 4/7/2026 +							

## SECTION 4: NARRATIVE

Markets **do not** move based on a single variable. They move through the interaction of structure, liquidity, participation, perception and expectation. Which is where narratives come in.

Narrative is formed through:

- Headlines
- Earnings
- Economic data
- Global events

These elements shape how participants **interpret** the market. Every session you have 4 types of participants. Old money buyers and sellers from the previous session and new money buyers and sellers stepping into the new session. All with their own perception of the **same information**.

Price reacts not just to information, but to how that information compares to expectations.

- Aligned expectations → continuation
- Broken expectations → volatility

### Strategic Role –

Narrative provides data for directional bias, but not execution.

It answers:

- *Where attention is likely to flow*
- *When volatility may increase*

It does **not** determine entries or exits. A good thing to keep in mind is that the Narrative sets the stage, structure determines the trade.

## SECTION 5: INDICATORS

Indicators are tools used to provide additional context to price action. They do not generate signals on their own. Instead they help measure momentum, identify positioning, and confirm conditions.

Indicators **support** decision making — they do not replace it.

### Volume Weighted Average Price (VWAP) –

Represents the average price of an asset, weighted by volume, throughout the trading session.

#### Purpose:

Used to identify intraday value and institutional positioning. Price above VWAP suggests strength and acceptance, while price below suggests weakness and rejection.

VWAP is not a signal — it is a line of control. The **reaction** to VWAP matters more than its position.



## Relative Strength Index (RSI) –

A momentum oscillator that measures the speed and magnitude of price movements.

### Purpose:

Used to assess momentum conditions. RSI reflects strength or weakness in price movement, not simply overbought or oversold levels.

RSI does not mark reversal — it reflects pressure.

Strong trends stay extended. Weak moves fade quickly. Read momentum, not extremes.



## Volume Profile (VP) –

Represents the number of shares or contracts traded over a given period.

### Purpose:

Used to confirm participation behind price movement. Higher volume suggests conviction, while lower volume may indicate weaker moves.

Price moves. Volume validates.

Without participation, movement lacks conviction. Strong moves are supported — weak moves are exposed.



## Volatility Index (VIX) –

Measures market expectations of future volatility based on **options** pricing.

### Purpose:

Used to gauge market sentiment and risk. Rising VIX indicates increased uncertainty, while declining VIX suggests stability.

VIX is the emotional state of the market.

Rising volatility brings expansion. Falling volatility brings compression. Direction matters — but environment matters more.



## Average True Range (ATR)

### Definition:

Average True Range (ATR) measures the average price movement of an asset over a specified period. It reflects how much price typically moves, regardless of direction.

### Purpose:

ATR is used to understand **volatility conditions** and set realistic expectations for price movement within a given session.

ATR defines the battlefield's range — not where price will go, but how far it can travel.





## SECTION 6: CONFLUENCE DEFINITION

Confluence is the alignment of multiple factors within a single area or moment in time. Markets do not move based on a single variable, but rather through the interaction of structure, liquidity, imbalance, narrative, and confirmation tools. Each element provides a piece of context, and when those pieces begin to align, a clearer picture of opportunity begins to form.

Discretionary trading is not about certainty—it is about stacking probability. No setup guarantees an outcome, but the presence of multiple aligned factors increases the likelihood of a favorable result. The objective is not to predict what the market will do, but to operate in environments where conditions are most favorable.

### Confluence Components –

Confluence does not guarantee outcomes — it improves conditions. High-probability conditions are typically supported by:

- Clear price structure
- Defined liquidity levels
- Presence of imbalance
- Aligned narrative or macro context
- Supporting confirmation tools (VWAP, RSI, VIX, Etc...)

The market rewards those who wait for alignment, not those who act on assumption.

