CHART CODE ACADEMY

Decode The Market Code

Liquidity Trading

Where Stops Get Hunted & Why

See where resting orders build up above and below the chart. Learn how **liquidity sweeps** differ from a **genuine breakout**, and how to confirm the difference before you act.

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About This Guide

Liquidity is the cluster of resting orders, mainly stop-losses and pending buy or sell orders, sitting at a price level. Many traders read sudden spikes through obvious levels as price collecting those orders before the real move begins. This guide covers the liquidity vocabulary on its own: where resting orders build up, how a sweep differs from a breakout, and how to confirm the difference before acting.

By the end of this guide you will know:

- How buy-side and sell-side liquidity form above old highs and below old lows
- Why equal highs, equal lows and trendlines attract the most resting orders
- How a liquidity sweep or stop hunt looks on a chart
- How to tell a sweep from a genuine breakout, and the mistakes to avoid
- A five-point confirmation checklist you can use before acting on a move

Liquidity Trading

Where Stops Get Hunted & Why

Quick Answer: What Is Liquidity in Trading?

These terms cover most of what you need to know. Each is explained in full, with a diagram, later in the guide.

Term	Meaning
Liquidity	Resting stop-losses and pending orders at a price level. Large players are drawn to thick pools because a big order can be filled there without moving price too far against them.
Buy-side liquidity (BSL)	Liquidity above old highs, made up of short-sellers' stop-losses and breakout buy orders.
Sell-side liquidity (SSL)	Liquidity below old lows, made up of long traders' stop-losses and breakout sell orders.
Equal highs and equal lows	Levels tested more than once. Each test draws more stops and breakout orders to the same obvious price, building a thicker pool.
Trendline liquidity	Stop-losses that cluster along a diagonal trendline rather than at a flat horizontal level.
Liquidity sweep or stop hunt	A sharp move that pierces a level to trigger the resting orders behind it, then reverses back inside the prior range.
Sweep vs genuine breakout	A sweep closes back inside the range with weakening momentum. A genuine breakout closes firmly beyond the level, holds on a retest and keeps moving.

1. Why Liquidity Matters

Every open position eventually needs to close, and every stop-loss sits waiting at some exact price. Zoom out far enough and a chart isn't just a record of price. It is a map of where thousands of orders are quietly resting, waiting to be triggered. That map is what traders mean by "liquidity," and reading it is

central to understanding why price sometimes makes a sudden, sharp move that seems to serve no purpose other than triggering stops.

Large participants need real volume to fill sizeable orders without moving price too far against themselves. Areas where many resting orders are clustered (obvious swing highs, obvious swing lows, round numbers) are the areas offering that volume. Understanding where liquidity is likely to be resting is what allows a trader to anticipate these moves instead of being caught by them.

If you also want the market-structure side, read the *ICT Market Structure* guide next.

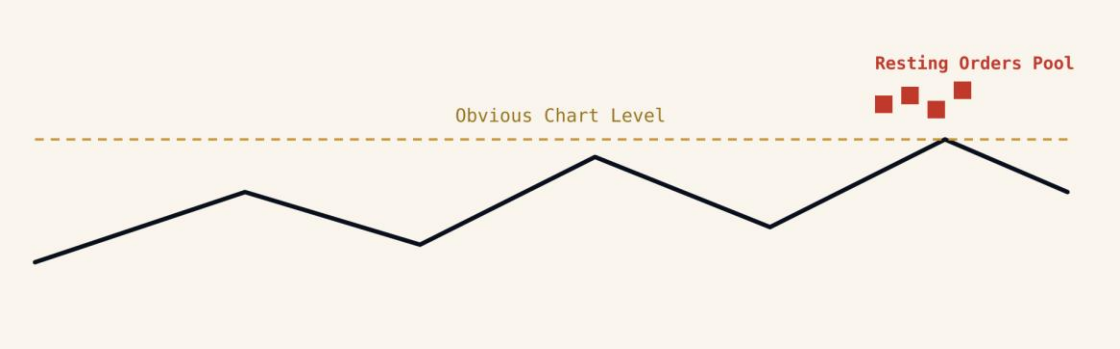
2. How to Actually Read Liquidity (Before You Trade It)

The most common beginner mistake with liquidity concepts is assuming every sharp wick is a deliberate "hunt," when plenty of wicks are just ordinary volatility. Reading liquidity well means being selective about which levels genuinely matter. Before treating any level as a meaningful liquidity target, run it through three quick filters:

- **Is the level obvious?** A level most chart-readers would circle on sight (a clean old high, a repeated equal low) attracts far more resting orders than a barely-visible wiggle.
- **Has it been tested before?** A level tested two or three times without breaking usually has more liquidity built up behind it than one tested only once.
- **What happens after the level is pierced?** A genuine sweep tends to reverse quickly with weakening momentum, while a real breakout tends to hold and continue.

3. What Is Liquidity in Trading?

Core Concept



Visualising it: a price level with a cluster of small order markers resting just beyond it, a pool of stop-loss and pending orders.

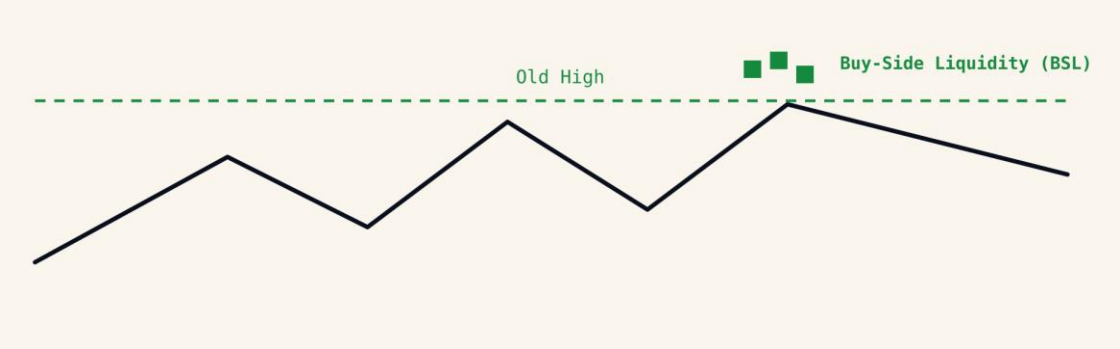
Liquidity is simply the cluster of resting orders (stop-losses, pending buy or sell orders, breakout entries) sitting at a given price level. The more traders who have placed orders at roughly the same spot, the "thicker" that pool of liquidity is, and the more attractive that level becomes to a large player who needs real volume to fill a sizeable position.

HOW TO READ IT

Not every price level holds meaningful liquidity. Obvious, widely-watched levels (old highs and lows, round numbers, repeated tests) are where resting orders genuinely concentrate, not every minor swing in between.

4. Buy-Side Liquidity (BSL)

Above Old Highs



Visualising it: a swing high with a pool of resting buy stops and short-seller stop-losses marked just above it.

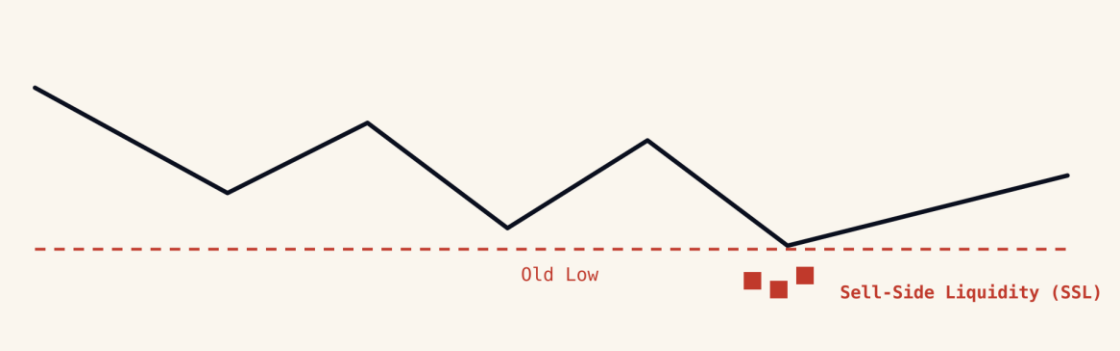
Buy-side liquidity sits just above a swing high, and it is made up of two overlapping groups: short-sellers with stop-losses placed above the high to protect against price moving against them, and breakout buyers with pending buy orders waiting for price to close above it. Both groups' orders resolve the same way, as buying pressure, if price trades up through the level.

HOW TO READ IT

The more times a high has been tested without breaking, the more buy-side liquidity is likely to have built up above it, since each failed test adds another round of short-sellers placing fresh stops.

5. Sell-Side Liquidity (SSL)

Below Old Lows



Visualising it: a swing low with a pool of resting sell stops and long-trader stop-losses marked just below it.

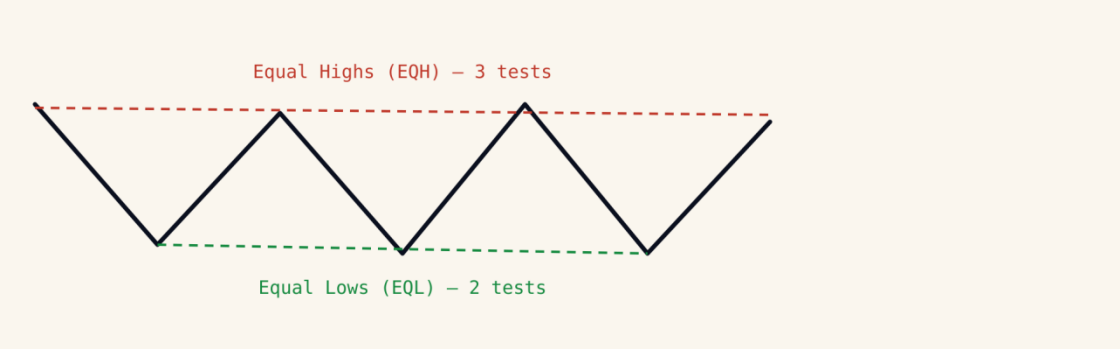
Sell-side liquidity is the mirror image, sitting just below a swing low: long traders' stop-losses protecting their positions, and breakout sellers' pending short orders waiting for a close below the level. Both resolve as selling pressure if price trades down through it.

HOW TO READ IT

A low that has held multiple times tends to accumulate deeper sell-side liquidity beneath it, for the same reason a repeatedly-tested high accumulates buy-side liquidity above it.

6. Equal Highs & Equal Lows

Obvious Liquidity Pools



Visualising it: price tests the same resistance three times and the same support twice, marking both as concentrated liquidity pools.

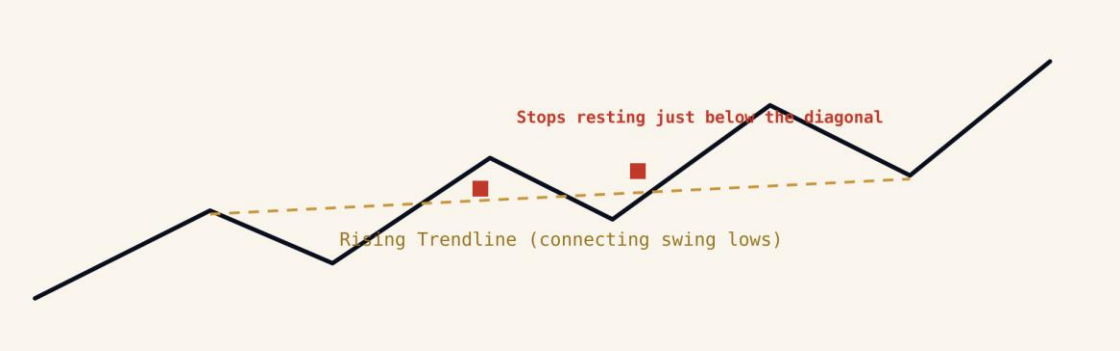
When price tests the same high or low more than once instead of forming a clean new swing, it leaves behind equal highs (EQH) or equal lows (EQL), one of the most visible, most heavily-referenced liquidity signals on any chart. Because so many traders can see the same repeated level, it tends to attract an especially concentrated pool of stops and breakout orders.

HOW TO READ IT

The more times a level is tested, the more obvious (and the more liquidity-rich) it becomes. A level tested three or four times is usually a stronger magnet than one tested only twice.

7. Trendline Liquidity

Diagonal Liquidity



Visualising it: rising swing lows connected by a diagonal trendline, with resting stop-losses clustered just below the line.

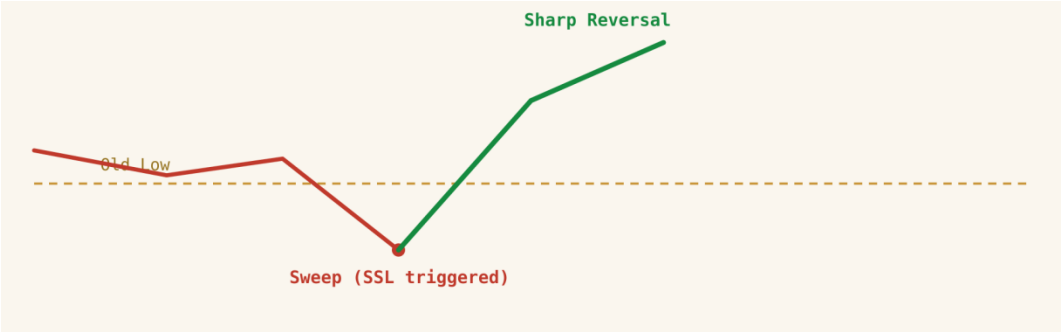
Not all liquidity sits at a flat horizontal level. When a series of rising swing lows (or falling swing highs) forms a clean diagonal trendline, traders commonly place stop-losses just beyond that diagonal too, creating a pool of resting orders that runs along the slope of the line rather than sitting at one fixed price.

HOW TO READ IT

A trendline that has been respected by price several times, with each touch bouncing cleanly, is more likely to carry meaningful liquidity beneath it than a trendline drawn loosely through only two points.

8. Liquidity Sweep / Stop Hunt

The Purge Before Reversal



Visualising it: price pierces briefly below an old low to trigger resting sell-side liquidity, then reverses sharply back above the range.

A liquidity sweep, sometimes called a stop hunt or a liquidity grab, is a sharp move that briefly pierces a known liquidity level (an old low, an equal high, a trendline) just far enough to trigger the resting orders there, before quickly reversing in the opposite direction. The triggered stop-losses and breakout orders provide exactly the volume needed to fuel that reversal.

HOW TO TRADE IT

A sweep followed by a sharp reversal candle back inside the prior range, on rising volume, is read as a stronger reversal signal than a slow, indecisive drift back inside the level.

9. Liquidity Sweep vs Genuine Breakout

Telling Them Apart



Visualising it: on the left a sweep pierces the level and snaps back; on the right a genuine breakout closes beyond the level and continues with momentum.

Both a sweep and a genuine breakout begin the same way: price trading through a known level. The difference shows up in what happens next. A sweep pierces the level briefly and snaps back inside the prior range, often on a long wick with a weak close, while a genuine breakout closes firmly beyond the level and continues in that direction with sustained follow-through.

HOW TO TRADE IT

Waiting for the candle to close, rather than reacting to the wick as it happens, and watching whether a retest of the level holds or fails, is the simplest way to avoid mistaking a sweep for a breakout in real time.

10. Common Liquidity Trading Mistakes to Avoid

1. **Calling every wick a "stop hunt":** Ordinary volatility produces wicks too. Reserve the label for moves that pierce genuinely obvious levels and then sharply reverse.
2. **Placing stops at the exact obvious level:** A stop-loss sitting right at a round number or a widely-visible swing point is more likely to sit inside a thick liquidity pool that gets targeted.
3. **Entering the instant a level is pierced:** Reacting before the candle closes means risking entry directly into what turns out to be a sweep, not a genuine breakout.
4. **Ignoring how many times a level was tested:** A level tested only once carries far less resting liquidity than one tested repeatedly. Treating them as equally significant is a common error.
5. **Forgetting trendline liquidity exists:** Focusing only on flat horizontal levels and ignoring diagonal trendline liquidity means missing a large share of where stops actually rest.
6. **Trading the sweep, not the reversal that follows:** Chasing price in the direction of the initial piercing move, rather than waiting for confirmation of the reversal, usually means trading exactly the trap the sweep was designed to set.

NEXT STEP

Spotting where liquidity is resting is the foundation. Combining it with market structure and proper risk management is the next skill we build hands-on in our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

11. Your Liquidity Confirmation Checklist

Before treating any move as a meaningful liquidity sweep or breakout, run through this five-point check:

- **Level Is Obvious** — Is this a level most chart-readers would circle on sight: a clean old high/low, a round number, or a repeated equal high/low?
- **Prior Tests** — Has this level been tested before, suggesting deeper resting liquidity has had time to build up around it?
- **Confirmed Close** — Did price actually close beyond the level, or did it only wick through it intraday?
- **Follow-Through Check** — Did the move continue with sustained momentum afterward, or snap straight back inside the prior range?
- **Defined Risk** — Do you know exactly where you'd be proven wrong, and have you placed a stop-loss there, away from the obvious level, before entering?

EDUCATIONAL CONTENT ONLY

This guide is for education only. It is not investment advice or a recommendation to buy or sell any security. The idea that large participants deliberately hunt stop-losses is a widely used trading interpretation, not a proven or universally accepted market mechanism, and liquidity levels describe tendencies rather than guarantees. Trading involves risk of loss, and many retail traders lose money, so always use a predefined stop-loss and risk only what you can afford to lose.

12. Frequently Asked Questions

What is liquidity in trading, in simple terms?

Liquidity is the cluster of resting orders (stop-losses, pending buy or sell orders) sitting at a price level. Levels with a lot of resting orders are attractive to large players because a big order can be filled there without moving price too far against them.

What is the difference between buy-side and sell-side liquidity?

Buy-side liquidity sits above old highs, made up of short-sellers' stop-losses and breakout buy orders. Sell-side liquidity sits below old lows, made up of long traders' stop-losses and breakout sell orders. Price is often drawn toward whichever side has built up the larger, more obvious pool.

Why do equal highs and equal lows attract stop hunts?

When price tests the same high or low more than once, more traders place stop-losses and breakout orders at that exact, obvious level, which builds a thicker, more attractive pool of liquidity than a single, less obvious swing point would.

How do I know if a break of a level is a real breakout or a stop hunt?

A liquidity sweep typically pierces the level briefly, on a sharp move, and then closes back inside the prior range with weakening momentum. A genuine breakout tends to close firmly beyond the level, hold above or below it on a retest, and continue with sustained momentum rather than snapping straight back.

Is it possible to avoid having my own stop-loss hunted?

Not entirely, but placing stops at the exact same obvious level as many other traders, right at a round number or a widely-visible swing point, makes a stop more likely to sit inside a liquidity pool. Leaving a small buffer beyond the obvious level, based on volatility rather than a fixed guess, is a common way to reduce (not eliminate) this risk.

What is a liquidity sweep or stop hunt?

A liquidity sweep, often called a stop hunt, is a sharp move that pierces an obvious level such as an old high, an old low or equal highs and lows, triggering the resting stop-losses and pending orders behind it before price reverses. Many traders read it as large participants collecting the orders they need before the next real move, though this is an interpretation that a chart cannot prove.

What is trendline liquidity?

Trendline liquidity is the cluster of stop-losses and breakout orders that builds along a diagonal trendline instead of a flat horizontal level. Because many traders place stops just beyond a well-known trendline, a move through it can trigger a burst of orders, and price sometimes reverses back through the line afterwards.

Does price always sweep liquidity before reversing?

No. Liquidity concepts describe tendencies, not guarantees. A level with many resting orders can attract price, but it can also break and keep going, which is why this guide pairs each idea with checks such as a confirmed close, follow-through and a predefined stop-loss.

Get in Touch

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