CHART CODE ACADEMY

Decode The Market Code

Premium & Discount Zones

Equilibrium & Optimal Trade Entry

Is price **cheap or expensive** inside its range? Learn the **50% equilibrium**, **premium and discount** halves and **OTE**, and how to combine them with structure.

A FREE STUDY RESOURCE BY CHART CODE

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About This Guide

Premium and discount zones split any dealing range at its 50% equilibrium into an expensive upper half and a cheap lower half. They give you a repeatable answer to one question: relative to where this range has recently traded, is price cheap or expensive? The idea is a filter layered on top of an existing bias, not a standalone trading system.

By the end of this guide you will be able to:

- Define a dealing range and anchor it to genuinely significant swings
- Use the 50% equilibrium to split a range into premium and discount
- Refine entries with Optimal Trade Entry (OTE), the 61.8% to 79% retracement band
- Combine zones with order blocks, Fair Value Gaps and structure
- Recognise the common mistakes and run a five-point checklist

Premium & Discount Zones: Equilibrium & OTE

1. Why Range Position Matters

QUICK ANSWER

Premium and discount zones split any **dealing range** at its **50% equilibrium** into an expensive upper half and a cheap lower half, giving a repeatable answer to whether price is cheap or expensive relative to where the range has recently traded.

Two traders can look at the exact same uptrend, agree on the exact same bias, and still end up with very different outcomes: one buying near the bottom of a recent range, the other chasing price near the top. Premium and discount thinking is a structured way to make sure that decision is not left to chance.

Term	Meaning
Dealing range	A defined stretch of price anchored between a significant swing high and swing low, giving a fixed reference for calling price cheap or expensive
Equilibrium	The 50% level of the dealing range, the dividing line between the upper premium half and the lower discount half
Premium zone	The upper half of the range, where price is relatively expensive compared with where the range has recently traded
Discount zone	The lower half of the range, where price is relatively cheap; the idea is to prefer buying in discount and selling in premium
Optimal Trade Entry (OTE)	The zone between the 61.8% and 79% Fibonacci retracement of the most recent swing, a deeper and more refined pullback area than simply anywhere below 50%
Confluence	OTE is treated as stronger when an order block or Fair Value Gap overlaps the 61.8% to 79% band; being in discount is one piece of evidence, not a complete trade idea

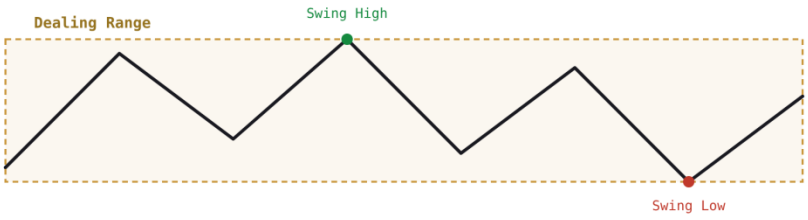
2. How to Read Premium & Discount Before You Trade It

The most common beginner mistake is treating premium and discount as a blind "buy low, sell high" rule, applied to any range regardless of context. It is a filter on top of an existing bias. Before acting on any range position, run it through three quick filters:

- **Is the range itself meaningful?** It should be anchored between a genuine, significant swing high and swing low, not two arbitrary points.
- **Does the wider trend support this side of the range?** A discount-zone buy still needs a bullish bias behind it to make sense.
- **Is anything else lining up here?** An order block, a Fair Value Gap or a swept liquidity level inside the same zone adds real weight to the entry.

3. What Is a Dealing Range?

A dealing range is a defined stretch of price, anchored between a significant swing high and swing low. It is the container everything else in this guide is measured against. Without first drawing a clear range, there is no fixed reference point to call any price "cheap" or "expensive".

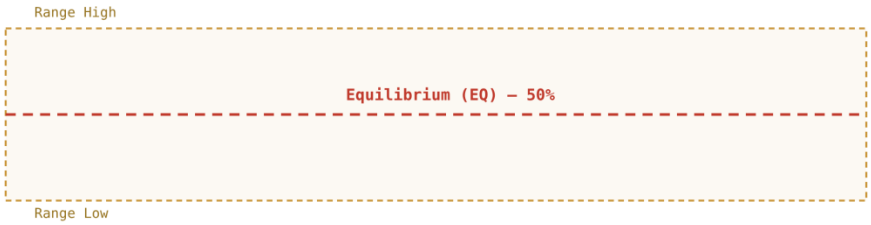


How to Read It

The two anchor points should be genuinely significant swings, an obvious and widely recognisable high and low, rather than two arbitrary or minor points picked to force a convenient-looking range.

4. Equilibrium (EQ): The 50% Midpoint

Equilibrium is the exact midpoint of a dealing range, the price that sits precisely halfway between the range's high and low. It functions as the dividing line: everything above it is the premium half of the range, everything below it is the discount half.

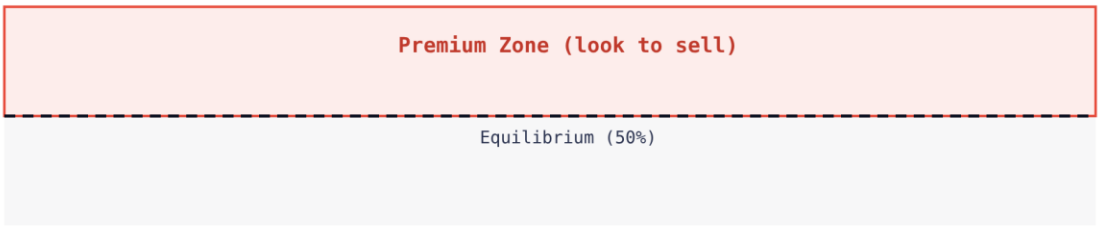


How to Read It

Equilibrium is specific to whichever range it is measured on. A price can sit in premium relative to one range while sitting in discount relative to a different, more recent range at the same time.

5. Premium Zone

The premium zone is the upper half of a dealing range, everything priced above equilibrium. It is generally treated as expensive relative to the range's own recent history, and traders using this framework tend to look for selling opportunities here rather than buying ones.

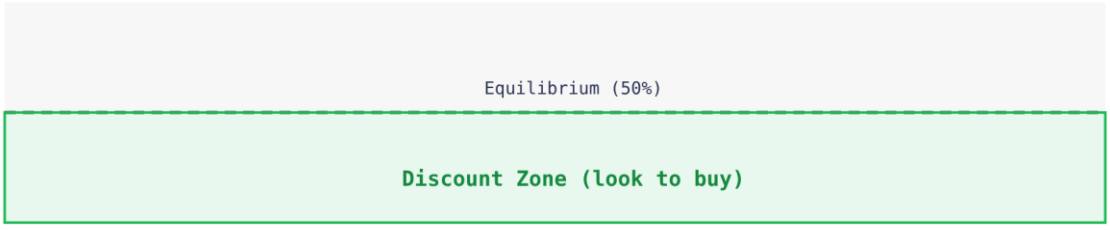


How to Read It

Buying inside a premium zone is not automatically wrong, but it works against the logic of the range. Entries there generally need extra justification from other confluence to make sense.

6. Discount Zone

The discount zone is the mirror image: the lower half of the range, below equilibrium. It is treated as cheap relative to the range's own recent history, and the framework points traders toward buying opportunities here rather than selling ones.

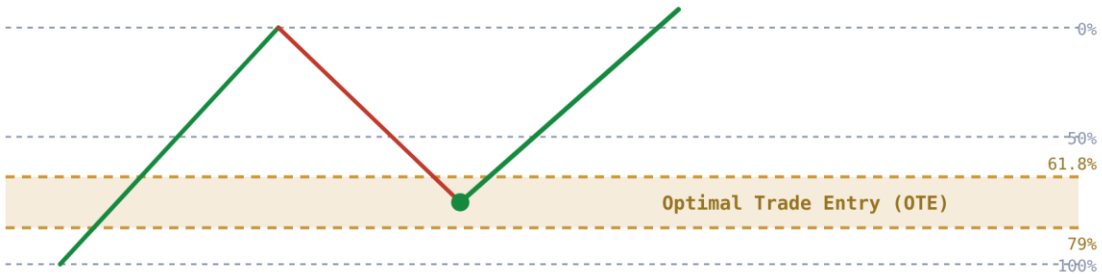


How to Read It

The deeper into the discount zone a pullback goes, generally the more favourable the entry is considered to be, provided the wider bias still supports buying at all.

7. Optimal Trade Entry (OTE)

Optimal Trade Entry (OTE) narrows the discount (or premium) idea down further, using a Fibonacci retracement of the most recent swing. The zone between the **61.8% and 79%** retracement levels is treated as the OTE, a deeper and more refined pullback area than simply "anywhere below 50%".



Visualising it: the shaded band between the 61.8% and 79% levels is the OTE zone of the most recent swing. Schematic illustration.

How to Trade It

OTE is most often combined with another zone sitting in the same area. An order block or Fair Value Gap overlapping the 61.8% to 79% band is treated as a stronger signal than the Fibonacci levels alone.

8. Why Range Position Matters for Entry Timing

Entering an uptrend from the discount zone means the stop-loss sits relatively close to the entry (near the range low), while the target, back toward the range high, remains distant. That produces a favourable risk-to-reward ratio. Chasing the same uptrend from inside the premium zone flips that relationship: the entry sits close to the target, leaving little room for reward relative to the risk taken.



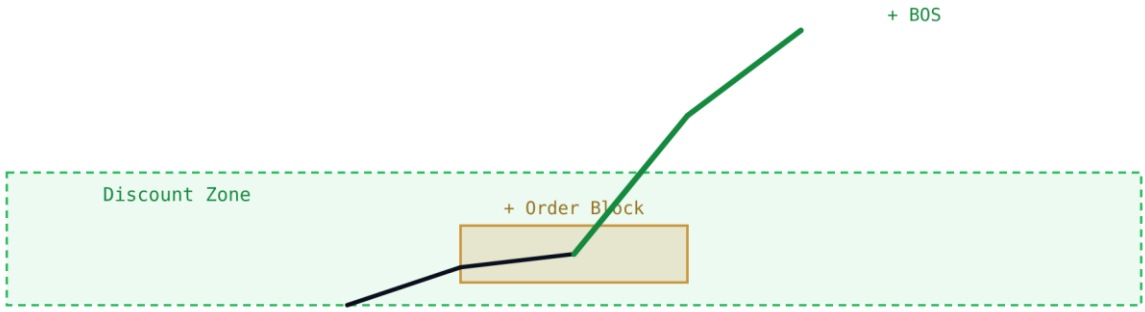
Visualising it: a discount entry has a short stop and a long path to the target; a premium entry has the reverse. Schematic illustration.

How to Read It

This is the core reason the concept exists. It is less about predicting direction and more about making sure the reward on offer actually justifies the risk being taken for a given entry.

9. Combining Premium/Discount with Structure & Liquidity

Range position alone is a useful filter, but it is rarely used in isolation. The strongest setups typically stack several ideas together: an entry inside the discount zone, at OTE, overlapping a genuine order block, that also results in a confirmed break of structure (BOS) once price turns back higher.



Visualising it: an order block inside the discount zone, followed by a break of structure, adds confluence. Schematic illustration.

How to Trade It

Treat "in discount" as one piece of evidence among several, not a complete trade idea on its own. The more of these pieces line up in the same zone, the more confidence the setup generally deserves.

10. Common Premium & Discount Mistakes to Avoid

1. **Anchoring the range to arbitrary points:** Drawing a dealing range between two minor, insignificant swings rather than a genuine high and low makes the whole framework meaningless.
2. **Treating it as a standalone strategy:**"Buy in discount, sell in premium" is a filter to apply on top of an existing bias, not a complete trading system by itself.
3. **Ignoring the wider trend:** A discount-zone buy against a strong, established downtrend does not automatically become a good trade just because of its range position.
4. **Redrawing the range to fit the trade:** Shifting the range's high or low after the fact, just to force price into "discount", defeats the purpose of using a fixed, objective reference.
5. **Entering the instant price touches equilibrium:** Crossing 50% alone is not a signal. Waiting for the deeper OTE zone, or a reaction there, is generally treated as more reliable.
6. **Chasing price already deep into premium:** Entering a buy after price has already rallied well into the premium zone gives up most of the favourable risk-to-reward the framework is meant to provide.

Knowing whether price is cheap or expensive is the foundation. Combining it with structure, liquidity and order blocks 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 Premium & Discount Confirmation Checklist

Before trading any range position in this guide, run through this five-point check:

- **Genuine range anchors** — Is the range drawn between a truly significant swing high and swing low, not two arbitrary points?
- **Trend alignment** — Does the wider bias actually support buying in this discount (or selling in this premium)?
- **Depth into the zone** — Has price pulled back far enough, ideally into the OTE band, rather than just barely crossing equilibrium?
- **Additional confluence** — Does an order block, Fair Value Gap or swept liquidity level overlap this same zone?
- **Defined risk** — Do you know exactly where you would be proven wrong, and have you placed a stop-loss there before entering?

EDUCATIONAL CONTENT ONLY

This guide explains a chart-reading framework and is not investment advice or a recommendation to buy or sell any security. No framework predicts the future. Trading involves risk of loss; always use a defined stop-loss and sensible position sizing.

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