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Decode The Market Code

SMC Market Structure

BOS, CHoCH & Liquidity Explained

Swing points, **Break of Structure**, **Change of Character**, liquidity sweeps, displacement and the AMD cycle: how Smart Money Concepts define trend, and how to build entries around **genuine structure shifts** instead of candle noise.

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About This Guide

SMC market structure is the map of a chart's swing highs and swing lows, read to decide whether the trend is bullish, bearish or ranging. Smart Money Concepts adds Break of Structure and Change of Character to describe when that map is confirmed or challenged. These terms cover most of what you need to know:

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

- Read swing points to tell bullish, bearish and ranging structure apart
- Tell a Break of Structure from a Change of Character, and why CHoCH is only a warning
- Judge how liquidity sweeps, equal highs and lows, and displacement change the quality of a break
- See how internal and external structure, MSS and the AMD cycle fit together
- Map structure top-down across timeframes, and avoid the common mistakes

SMC Market Structure: BOS & CHoCH Explained

A Chart Code Academy Guide

Beginner to Advanced • 31 min read • 12 concepts • Updated 28 Sep 2026

Key Terms at a Glance

Term	What it means
Swing highs and swing lows	The visible peaks and troughs left by each rally and pullback. They are the reference points for all structure signals.
Trend structure	Bullish structure is a sequence of higher highs and higher lows, bearish structure is lower highs and lower lows, and ranging structure is neither.
Break of Structure (BOS)	A close beyond a prior swing point in the direction of the trend, confirming that the trend is continuing.
Change of Character (CHoCH)	The first close beyond a prior swing point against the existing trend. It is an early warning of a possible reversal, not a confirmed one.
Liquidity sweep	A wick through equal highs or lows that triggers resting stop-losses, often just before the real structural move begins.
Displacement	A strong, momentum-driven move through a swing point, often leaving a Fair Value Gap. A break with displacement is treated as more reliable than a slow, overlapping one.
Internal vs external structure and MSS	External structure is the larger, higher-timeframe swing framework and internal structure is the smaller swings inside it. Educators use CHoCH and MSS differently, so focus on timeframe and confirmation quality rather than the label.
AMD cycle and top-down mapping	Accumulation, Manipulation and Distribution describes a tight range, a sweep against the real move, then the genuine move. Top-down mapping sets bias on a higher timeframe and times entries on a lower one.

Why Market Structure Matters

Market structure is the map of a chart's swing highs and swing lows — the visible skeleton left behind by every rally and every pullback. Smart Money Concepts (SMC) puts this map at the centre of every decision: before marking an order block, a Fair Value Gap or a liquidity pool, an SMC trader first asks one question — what is structure telling me right now? Every other tool in the SMC toolbox is a refinement layered on top of this one answer, which is exactly why structure is taught first, and why traders who skip it tend to misuse everything that comes after.

That question has a simple answer once you know what to look for. Structure is either **bullish** (a sequence of higher highs and higher lows), **bearish** (a sequence of lower highs and lower lows), or **ranging** (neither, with price oscillating between similar highs and lows). Everything else in SMC — Break of Structure, Change of Character, order blocks, liquidity — is built on top of correctly reading this one foundation first.

There is also a deeper reason structure gets so much attention in Smart Money Concepts specifically, beyond it simply being "step one." SMC treats the market as a place where large participants need liquidity — a big enough pool of opposing orders — to fill sizeable positions without moving price against themselves too quickly. Retail stop-losses and breakout orders tend to cluster around obvious swing points, which is exactly where structure is drawn. Reading structure correctly is therefore not just about spotting a trend; it is about anticipating where the next pocket of resting liquidity sits, and which side of the market is more likely to have it swept before the real move develops. This guide builds from the basic vocabulary (swing points, BOS, CHoCH) toward these more advanced ideas — liquidity sweeps, displacement, the AMD cycle and multi-timeframe mapping — so that by the end you can read a chart the way an experienced SMC trader does, not just recite the definitions.

How to Actually Read Structure (Before You Trade It)

The most common beginner mistake with SMC is marking swing points on one chart, at one zoom level, and treating every wiggle as meaningful. A "break of structure" on a 1-minute chart in the middle of a strong daily uptrend is usually just noise, not a genuine shift.

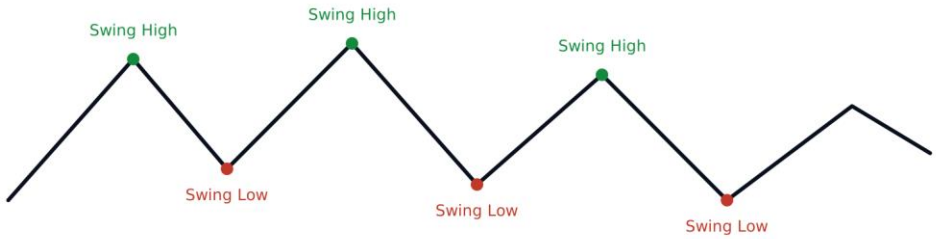
Before acting on any structure signal in this guide, run it through three quick filters: **What does the higher timeframe say?** — a lower-timeframe CHoCH against a strong higher-timeframe trend deserves far more suspicion than one aligned with it. **Is the swing point actually significant?** — a swing formed by a single sharp wick surrounded by noise carries less weight than a clean, obvious turning point most chart-readers would agree on. **Has price actually closed beyond the level?** — a candle that briefly pokes through a prior swing high or low and closes back inside it has not broken structure, it has only wicked through it.

A fourth filter becomes important once you move past the basics: **how did price get through the level?** A break made of one large, decisive candle that closes well beyond the prior swing — what this guide later calls displacement — carries far more conviction than a break made of several small, indecisive candles that barely crawl past it. Two BOS signals can look identical on a quick glance and still deserve very different levels of trust once you look at the quality of the break itself, which is exactly why

experienced structure-readers slow down and read the candles around the break, not just the break itself.

CONCEPT 01 · CORE CONCEPT

1. Swing Highs & Swing Lows



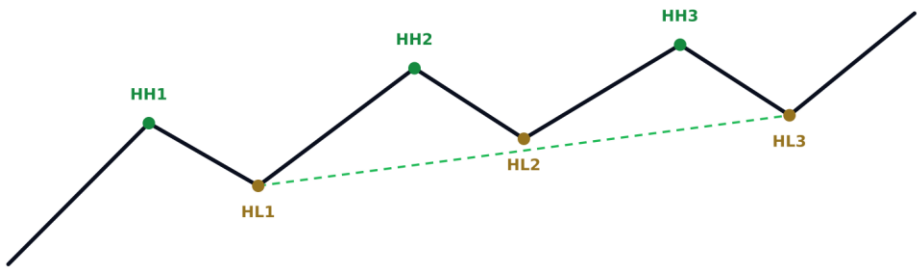
A swing high is any point where price turns down, with lower price action visible on both sides of it. A swing low is the mirror image — a point where price turns up, with higher price action on both sides. Together, this alternating sequence of highs and lows is the alphabet market structure is written in — everything else in this guide is built by comparing one swing point to the next.

Swing points are also **fractal** — a swing high on a weekly chart is usually made up of several smaller swing highs and lows on a daily chart, which are themselves made up of even smaller ones on an hourly chart. This is not a flaw in the concept; it is exactly why the same market structure vocabulary — HH, HL, LH, LL, BOS, CHoCH — applies equally to a five-minute scalp and a multi-month investment trend. The only thing that changes across timeframes is the size and significance of the swing, never the logic used to read it.

> **HOW TO READ IT**
> Pick one timeframe and stay consistent — swing points marked on a 15-minute chart won't line up with swing points on a daily chart, and mixing the two is the single biggest source of confusing, contradictory structure signals.

CONCEPT 02 · BULLISH STRUCTURE

2. Uptrend Structure (HH & HL)



An uptrend, in SMC terms, is nothing more than a repeating pattern of **higher highs (HH)** and **higher lows (HL)** — each rally pushes past the previous peak, and each pullback holds above the previous trough. As long as that rhythm continues, the structure is read as bullish, regardless of how sharp or gentle the individual moves look.

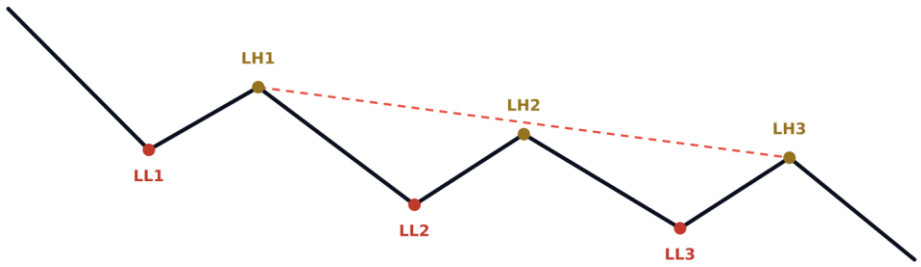
Not every higher low needs to look identical for the trend to remain healthy. Some higher lows are shallow, barely retracing before the next push higher; others are deep, testing well back into the previous rally before holding. What matters for structure is not the depth of the pullback but whether the low itself holds above the prior one — a trend that keeps forming progressively shallower higher lows is often read as accelerating, while one that keeps forming deeper, slower higher lows is often read as losing momentum even before any actual break occurs.

HOW TO READ IT

The rising trendline connecting the higher lows is the real health check — the uptrend is considered structurally intact only for as long as each new higher low holds above the last one.

CONCEPT 03 · BEARISH STRUCTURE

3. Downtrend Structure (LH & LL)



The mirror image of an uptrend: a repeating pattern of **lower highs (LH)** and **lower lows (LL)**. Every rally fails below the previous peak, and every decline pushes below the previous trough. This is read as sellers remaining in control, with buyers unable to reclaim lost ground.

Downtrends in Indian index and stock charts often move faster than the uptrends that preceded them, since fear-driven selling tends to be sharper than greed-driven buying — a pattern visible on Nifty and Bank Nifty charts during most sharp corrections. This asymmetry is worth remembering when sizing positions in a confirmed downtrend structure: the same percentage move can arrive in a fraction of the time it took to build the preceding rally, which changes how quickly stop-losses and targets need to be managed.

HOW TO READ IT

The falling trendline connecting the lower highs marks the ceiling sellers keep defending — a rally that finally closes above that line is usually the first sign the downtrend's grip is loosening.

CONCEPT 04 · TREND CONTINUATION

4. Break of Structure (BOS)



A Break of Structure happens when price closes beyond a prior significant swing point *in the direction of the existing trend* — in an uptrend, that means a decisive close above the last swing high. A BOS is read as confirmation that the trend remains intact and the same directional bias can continue to be trusted.

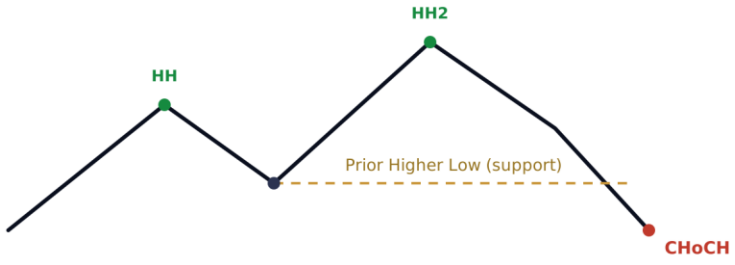
Not every BOS carries equal weight. A break that clears the prior swing high by a wide margin, on strong volume and with a large-bodied candle, is generally read as a much stronger continuation signal than a break that barely edges past the level by a few ticks before stalling. The size and conviction of the breaking candle — a concept this guide expands on later under displacement — is often a better filter for BOS quality than the break itself.

HOW TO TRADE IT

Many traders don't enter on the BOS candle itself — instead, they wait for price to pull back toward the broken level (now acting as support) and look for an entry on that retest, which tends to offer a tighter, better-defined stop-loss.

CONCEPT 05 · TREND REVERSAL WARNING

5. Change of Character (CHoCH)



A Change of Character is the mirror opposite of a BOS — it's a close beyond a prior swing point *against* the existing trend. In an uptrend, that means price fails to make a new higher high and instead closes below the last higher low. It's the earliest visible crack in the trend's structure, which is why SMC traders treat it as a warning flag rather than random noise.

It helps to think of a CHoCH as a change in *who is currently more aggressive*, not a guarantee of a full

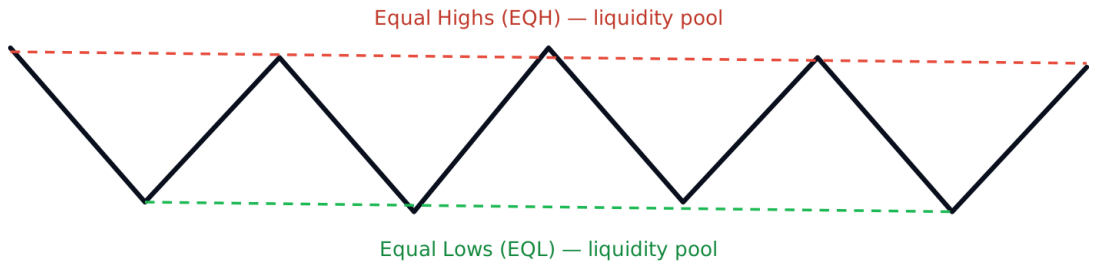
trend reversal. Up to the point of the CHoCH, buyers were willing to defend every higher low; the moment one higher low fails, sellers have shown, for the first time, that they can push price further than buyers were willing to let it go. What happens next — a quick recovery back into the old range, or a genuine follow-through with a new lower high and lower low — is what separates a shallow, temporary CHoCH from the start of an actual trend reversal.

HOW TO TRADE IT

A single CHoCH is a caution sign, not proof of a reversal — many traders wait for the follow-through (a confirmed lower high, then a lower low) before treating the trend change as real, since price sometimes recovers after just one broken higher low.

CONCEPT 06 · NEUTRAL / CONSOLIDATION

6. Equal Highs / Equal Lows & Range Structure



When price repeatedly tests a similar high without a clean HH/LH sequence, and a similar low without a clean HL/LL sequence, structure is neither bullish nor bearish — it's ranging. In SMC, these repeated equal highs and equal lows are treated as resting pools of liquidity, since the stop-losses and breakout orders of traders on both sides tend to cluster just beyond them.

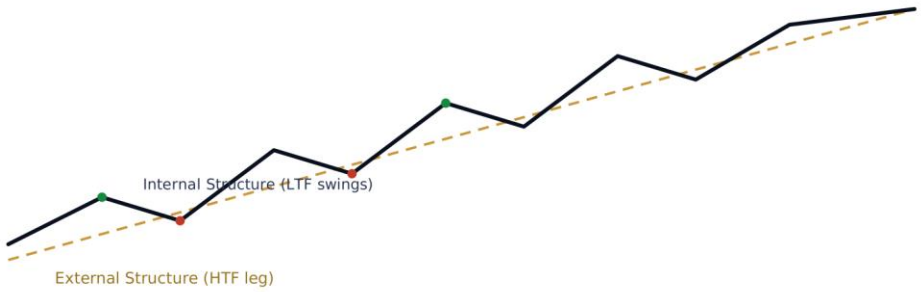
The longer a range persists and the more times a level is tested without breaking, the larger the pool of orders resting just beyond it tends to become — every failed breakout attempt adds fresh stop-losses and fresh breakout orders to the same shelf. This is part of why ranges that have held for many sessions often produce a sharper move once they finally break: there is simply more liquidity sitting on the other side of the level to fuel that first push.

HOW TO READ IT

A break out of a range carries more weight when it also sweeps through one of these equal-high or equal-low levels first — that sweep is often read as the market clearing out liquidity before making its real directional move.

CONCEPT 07 · CORE CONCEPT

7. Internal vs External Structure



A single external swing on a higher timeframe — say, one leg of a daily uptrend — is rarely a straight line. Zoom into it on a lower timeframe and it's made up of many smaller internal swing highs and lows of its own. External structure sets the dominant bias; internal structure is where the finer-grained BOS and CHoCH signals used for entry timing actually live.

This relationship is genuinely nested, not just a two-level split — a daily external swing contains 4-hour internal structure, which itself has 15-minute internal structure inside it, which has 5-minute internal structure inside that. There is no fixed rule for how many layers to use; most traders settle on three (a bias timeframe, a context timeframe and an entry timeframe), which is exactly the framework covered later in this guide under multi-timeframe top-down mapping.

HOW TO TRADE IT

The highest-confidence setups tend to appear when an internal CHoCH lines up with the direction of the external trend — for example, a lower-timeframe reversal signal inside a pullback that's still part of a larger daily uptrend.

CONCEPT 08 · ADVANCED CONCEPT

8. Liquidity Sweeps & Stop Hunts



A liquidity sweep happens when price pushes briefly beyond an obvious swing point — often an equal-high or equal-low level where many stop-losses and breakout orders are known to rest — only to reverse sharply and move the other way. SMC treats this as more than a random wick: it's read as the market deliberately reaching into a pool of resting orders to fill large positions before continuing in the

opposite, "real" direction.

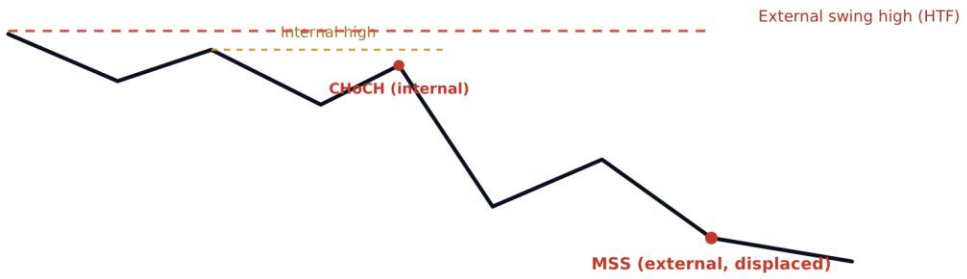
This is why an experienced structure-reader often waits *after* an obvious level finally breaks, rather than jumping in immediately. A break of an equal-low that has been tested three or four times looks, in the moment, exactly like the start of a fresh downtrend. Whether it turns out to be a genuine breakdown or a sweep followed by a sharp reversal usually depends on what happens in the next few candles — a genuine breakdown continues with follow-through selling, while a sweep snaps back above the level quickly, often with a strong, wide-ranging candle.

HOW TO READ IT

A sweep is far more convincing when it lines up with the higher-timeframe bias — a sweep of a low inside a strong daily uptrend is a much stronger long signal than the same sweep occurring inside a strong daily downtrend, where continuation is still the higher-probability outcome.

CONCEPT 09 · ADVANCED TERMINOLOGY

9. Market Structure Shift (MSS) vs CHoCH



Different educators use "CHoCH" and "MSS" differently, and this is one of the more genuinely confusing corners of SMC vocabulary. A widely used convention is to reserve **CHoCH** for the first break against *internal* (lower-timeframe) structure, and use **MSS** for a break against the *external* (higher-timeframe) structure — typically one confirmed by a strong displacement candle rather than a slow grind through the level.

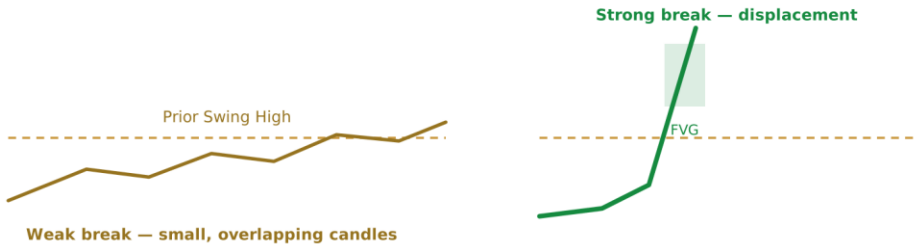
Under this convention, several internal CHoCHs can come and go inside a single external swing without changing the higher-timeframe trend at all — they simply mark shifts in the lower-timeframe rhythm. An MSS is treated as the more serious event, since it implies the dominant, higher-timeframe bias itself may be turning, not just a short-term wobble inside it. In practice, do not get stuck on the label — focus on which timeframe the break occurred on and how strong the confirmation was, since that is what actually determines how much weight the signal deserves.

HOW TO READ IT

If a course, video or forum uses these two terms interchangeably, that is fine too — just check whether they are describing an internal-timeframe break or a higher-timeframe one, since that distinction matters more than which word is used for it.

CONCEPT 10 · CONFIRMATION FILTER

10. Displacement & Break Quality



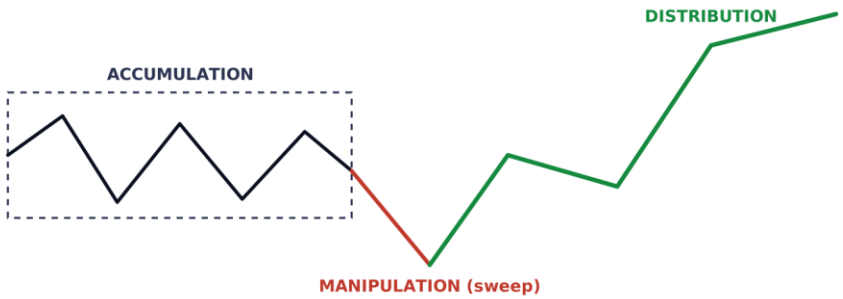
Displacement is a strong, momentum-driven candle — or a short run of them — that moves price quickly and decisively through a swing point, often leaving a small imbalance (a Fair Value Gap) behind it where price traded through so fast that one side of the order book barely got filled. It is the clearest visible sign that aggressive, one-directional participation has entered the market at that moment.

Comparing the two breaks in the diagram above illustrates why break quality matters as much as the break itself. The break on the left technically satisfies the definition of a BOS — price did close beyond the prior swing high — but it did so slowly, through several small, overlapping candles, which usually signals hesitant, two-sided participation rather than genuine conviction. The break on the right clears the same type of level in a single strong candle, leaving a gap behind it. In practice, the second kind of break is treated as significantly more reliable, and many SMC traders will pass on a structurally valid BOS if it lacks this kind of confirming displacement.

> **HOW TO TRADE IT**
> When a break comes with displacement, the Fair Value Gap it leaves behind is often used as the very entry zone for a retest trade — a pullback into the gap, rather than all the way back to the broken swing point, is treated as a higher-probability continuation entry.

CONCEPT 11 · ADVANCED FRAMEWORK

11. Accumulation – Manipulation – Distribution (AMD)



AMD is a three-phase model many SMC and ICT-style traders use to describe how price often behaves within a single session, or across one leg of a larger move. **Accumulation** is a tight range where

structure looks like little more than equal highs and equal lows — a period where large positions are quietly built without moving price too far in either direction. **Manipulation** is a liquidity sweep beyond that range, usually in the opposite direction of the eventual real move, designed to trap breakout traders and trigger stop-losses. **Distribution** is the genuine directional move that follows — typically confirmed by a Break of Structure back through the range and beyond it — where the accumulated position is unwound in the real intended direction.

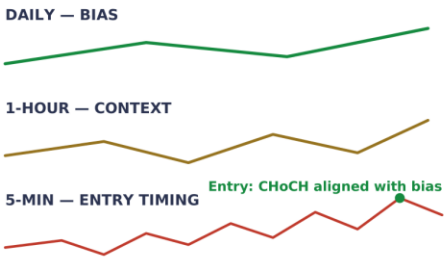
This framework is popular for reading intraday index charts precisely because ranges, sweeps and directional expansions repeat in a recognisable rhythm around session opens and key data events. It should be treated as a lens for organising what you already see in structure — the range, the sweep, the BOS — rather than as a rigid, guaranteed sequence that plays out identically every single day. Not every range resolves with a clean sweep before distributing; some simply break directly, without ever manipulating the opposite side first.

HOW TO TRADE IT

Traders who use AMD generally avoid taking positions during the accumulation phase itself, wait for a clear manipulation sweep of one side of the range, and only look for entries once distribution is confirmed by a BOS back through the range in the opposite direction of the sweep.

CONCEPT 12 · ADVANCED FRAMEWORK

12. Multi-Timeframe Top-Down Structure Mapping



Reading structure well in practice means moving through three nested timeframes in a fixed order, rather than jumping straight to a five-minute chart and guessing. Start on the **bias timeframe** (often daily or 4-hour) to establish whether the dominant structure is bullish, bearish or ranging. Move to the **context timeframe** (often 1-hour) to see how the current pullback or rally within that bias is behaving — is it a shallow, healthy retracement, or does it already show early signs of a deeper reversal? Finally, drop to the **entry timeframe** (often 5-minute or 15-minute) purely to time the actual entry once the higher timeframes already agree on direction.

The discipline this method enforces is what makes it valuable: a five-minute CHoCH is treated as a legitimate, tradeable signal when it appears inside a pullback that the daily and hourly charts both still classify as part of a larger uptrend, but the very same five-minute CHoCH is treated with much greater suspicion — or ignored entirely — when the daily chart is already in a strong, confirmed downtrend. The signal looks identical on the entry chart in both cases; only the top-down context tells you which one deserves a position.

HOW TO TRADE IT

Write your bias down before dropping to the entry chart — literally noting "daily: bullish, hourly: pulling back" before you even open the five-minute chart — so that an exciting-looking lower-timeframe signal doesn't quietly override a higher-timeframe bias you had already established more carefully.

Common Market Structure Mistakes to Avoid

1. Confusing a pullback with a CHoCH: A normal, healthy retracement inside a strong trend can look like the first broken swing point — check whether the deeper trend context actually supports a reversal before acting.

2. Marking swings on too small a timeframe: Every tiny wiggle on a 1-minute chart isn't a meaningful swing point — over-marking structure on ultra-low timeframes produces constant, low-quality signals.

3. Ignoring the higher-timeframe bias: A lower-timeframe CHoCH taken against a powerful daily or weekly trend is a much lower-probability trade than one that agrees with the bigger picture.

4. Trading a BOS without any confirmation: Entering the instant a level breaks, without waiting for a retest or a confirmed close, tends to produce far worse entries than a little patience would.

5. Treating every broken level as significant: Not every swing point carries equal weight — a level tested and respected multiple times matters more than a minor, barely-visible wiggle.

6. Trading the wick, not the close: A candle briefly poking through a swing high or low intraday is not the same as a confirmed close beyond it — wait for the candle to actually close there.

7. Reacting to every sweep as a guaranteed reversal: Not every wick beyond an equal-high or equal-low is a manipulation sweep — some are the start of a genuine breakout. Wait for a BOS back through the range before treating a sweep as confirmed.

8. Ignoring break quality (no displacement): Treating a slow, grinding break the same as a break confirmed by a strong momentum candle and a Fair Value Gap leads to far more false signals than necessary.

NEXT STEP

Reading structure correctly is the foundation. Layering order blocks, liquidity and Fair Value Gaps on top of it is the next skill we build hands-on in our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

Your Structure Confirmation Checklist

Before acting on any BOS or CHoCH signal in this guide, run through this seven-point check:

- **Higher-Timeframe Context** — Does the signal agree with the dominant bias on a higher timeframe, or is it working against a strong prevailing trend?
- **Correct, Consistent Timeframe** — Were the swing points that formed this signal marked on the

same timeframe throughout, rather than mixed across charts?

- **Significant Swing Point** — Is the broken level a clean, obvious swing most chart-readers would agree on — not a minor wiggle buried in noise?
- **Confirmed Close** — Has price actually closed beyond the swing point, rather than just wicking through it intraday?
- **No Recent Unconfirmed Sweep** — Did price just sweep an equal-high or equal-low nearby? If so, has a genuine BOS back through the range confirmed the move, rather than assuming the sweep itself is the signal?
- **Displacement Present** — Did the break happen through a strong, momentum candle (ideally leaving a Fair Value Gap), rather than a slow grind through the level?
- **Defined Risk** — Do you know exactly where you'd be proven wrong, and have you placed a stop-loss there before entering?

EDUCATIONAL DISCLAIMER

This guide is for education only. It is **not investment advice** or a recommendation to buy or sell any security. Smart Money Concepts is an interpretive framework used by some traders, structure labels involve judgement, and no setup works every time. 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.

Frequently Asked Questions

What is the difference between BOS and CHoCH?

A Break of Structure (BOS) is a close beyond a prior swing point in the direction of the existing trend, confirming that trend is continuing. A Change of Character (CHoCH) is a close beyond a prior swing point against the existing trend — the first structural break in the opposite direction — and is treated as an early warning that the trend may be reversing, not a confirmed reversal by itself.

Is SMC market structure the same as classic technical analysis trend structure?

The underlying idea is the same one Dow Theory described over a century ago — trends are sequences of higher highs and higher lows, or lower highs and lower lows. Smart Money Concepts mostly adds vocabulary (BOS, CHoCH, internal versus external structure, liquidity) and a sharper focus on exactly which swing points matter, rather than inventing a new definition of trend.

Which timeframe should I use to mark market structure?

Start with a higher timeframe (daily or 4-hour) to establish the dominant bias, then drop to a lower timeframe (15-minute or 5-minute) to time entries around structure shifts in that direction. Marking structure on a single very low timeframe in isolation tends to produce excessive, low-quality signals.

Does a CHoCH always mean the trend has reversed?

No. A CHoCH is a warning sign, not a guarantee — price sometimes breaks one prior swing low inside an uptrend and then resumes higher, especially on lower timeframes. Traders typically wait for a follow-

through break (a new lower high followed by a new lower low) before treating the reversal as confirmed.

Do I need order blocks and Fair Value Gaps to trade market structure alone?

No. Market structure — trend direction, BOS and CHoCH — can be traded on its own using basic trendline and breakout entries. Order blocks and Fair Value Gaps are refinements that many SMC traders layer on top of structure to fine-tune entry price and risk, but they are optional additions, not a requirement to read structure correctly.

What is the difference between CHoCH and MSS (Market Structure Shift)?

Different educators use these terms differently, which causes a lot of confusion. A common convention is to use CHoCH for the first break against the prevailing internal (lower-timeframe) structure, and reserve MSS for a break against the external (higher-timeframe) structure, usually one confirmed by a strong displacement candle. Treat both as the same underlying idea — the first structural break against a trend — and focus on the timeframe and confirmation quality rather than the label.

What is displacement in SMC and why does it matter for structure?

Displacement is a strong, momentum-driven candle or short sequence of candles that moves price quickly and decisively through a swing point, usually leaving a Fair Value Gap (imbalance) behind it. A structure break with clear displacement is treated as far more reliable than a slow break made of small, overlapping candles, because it signals aggressive, one-sided participation rather than a level simply drifting through.

What is the Accumulation-Manipulation-Distribution (AMD) cycle?

AMD is a three-phase model used to describe how price often behaves within a session or swing: Accumulation is a tight range where structure looks like equal highs and equal lows; Manipulation is a liquidity sweep beyond that range in the opposite direction of the real move, trapping breakout traders; Distribution is the genuine directional move, usually confirmed by a Break of Structure back through the range, that follows the sweep.

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