CHART CODE ACADEMY

Decode The Market Code

Volume Analysis

The Hidden Confirmation Tool

Price without volume is **half the story**. Learn to test a move for **conviction**, judge **breakouts**, and spot the quiet **accumulation and distribution** that most traders miss.

A FREE STUDY RESOURCE BY CHART CODE

Chart Code Academy — Stock Market Training Institute
Deepak Kevadia — Founder & Mentor, BSE NISM Certified
Boisar · Palghar · Maharashtra, India
www.chartcode.in | +91-95121 00588 | chartcode.in@gmail.com

About This Guide

Volume analysis studies how many shares or contracts trade in each price bar to judge whether a move has real participation behind it. Rising price on rising volume is generally read as **confirmation**; rising price on falling volume is read as a **warning**. Volume is always judged against the stock's own recent average, and it shows **participation, not direction**.

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

- Read whether volume **confirms or warns against** a price move
- Judge a breakout as strong or weak using **relative volume**
- Recognise **volume dry-up, accumulation, climax volume** and effort versus result
- Use the volume average, **OBV, delivery percentage** and index-futures volume in Indian markets
- Combine volume with price, levels and risk management using a **five-point checklist**

Volume Analysis: The Hidden Confirmation Tool

A Chart Code Academy Guide

Intermediate Level • 9 min read • Updated 28 Sep 2026

Volume is the number of shares or contracts traded in a given period, shown as bars under the price chart. Price tells you *where* the market went. Volume tells you **how many participants were behind the move**, which is a rough measure of conviction.

Think of two people walking across a room. One is alone; the other is at the front of a crowd of a thousand. The position is the same, but you would trust the second one to keep going. Volume is that crowd.

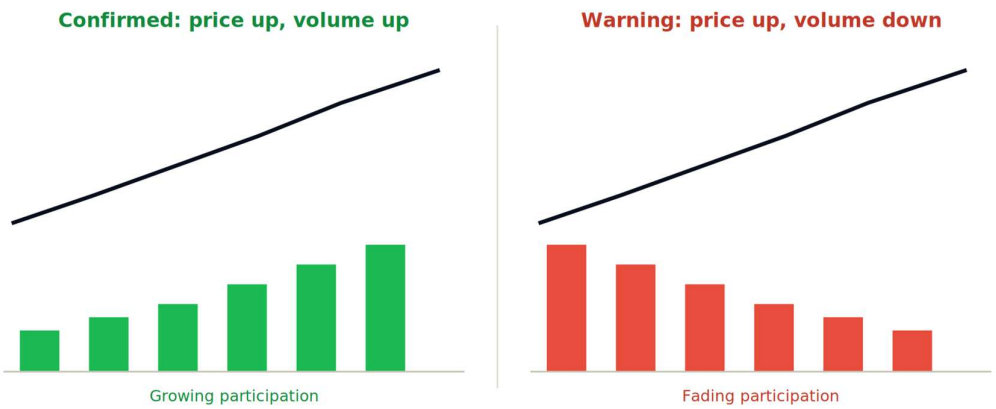
1. What Is Volume, and Why Does It Matter?

Volume is always **relative**. "High" only means high compared with that stock's own recent history, so most traders overlay a **20-period average** on the volume bars to judge each bar against its own norm.

> **ONE THING VOLUME DOES NOT TELL YOU**
>
> **Volume shows participation, not direction.** Every trade has a buyer *and* a seller, so a tall volume bar does not say who won. Direction comes from what **price** did on that volume: a strong close near the high on heavy volume reads very differently from a weak close near the low on the same volume.

2. Price and Volume Together: Confirmation vs Warning

The core idea is simple: **a healthy move is accompanied by growing participation**. When price and volume agree, the move is confirmed. When they disagree, treat it as a warning.



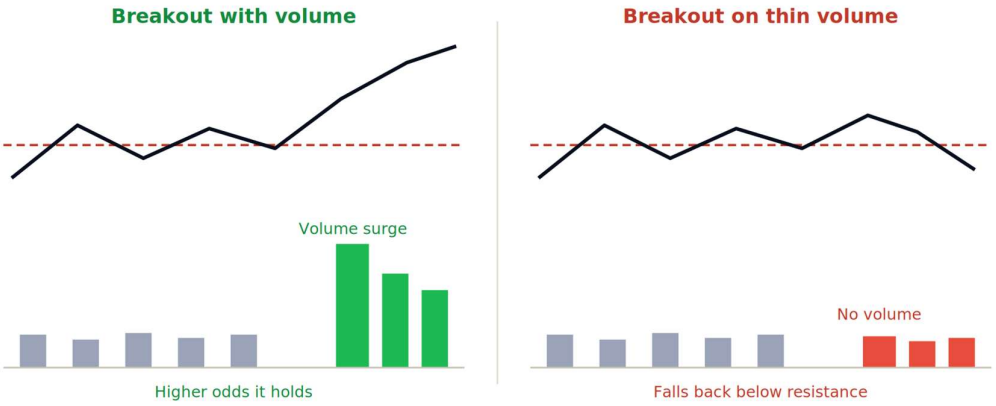
Visualising it: on the left price rises while volume rises, so buyers are joining. On the right price keeps rising but volume shrinks, so the move is running on fewer participants.

Price	Volume	Common reading
Rising	Rising	Healthy uptrend, buyers joining
Rising	Falling	Weakening rally, watch for exhaustion
Falling	Rising	Selling pressure, sellers in control
Falling	Falling	Sell-off losing steam, possible pause

These are **tendencies, not laws**. A rally on falling volume can keep going for a while, so use it as a reason for caution and tighter risk, not an automatic reversal signal.

3. Breakout Volume: Judging Whether It Is Real

A breakout above resistance is a bet that buyers now outweigh sellers at that level. Volume is the quickest way to test that claim. Breakouts backed by a **clear surge in volume**, well above the recent average, are generally more credible than breakouts that slip through on thin activity, which fail more often.



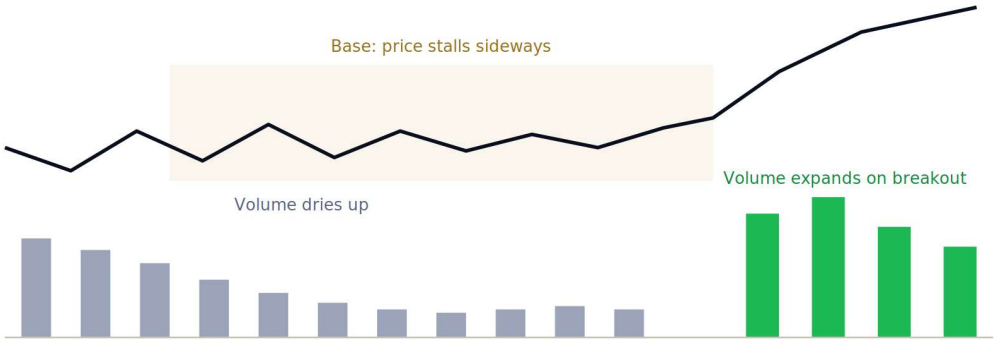
Visualising it: both prices clear the same resistance, but only the left one comes with a volume surge. The right one falls back below resistance.

Breakouts of ranges and patterns, and around key levels, are covered in our chart patterns and support and resistance guides. **Volume is the filter** that decides which of those breakouts deserve your capital. The same idea applies after a volatility squeeze, as explained in the Bollinger Bands guide.

4. Volume Dry-Up and Accumulation

Before big moves, markets often go quiet. During a base or consolidation, volume shrinks as sellers run out and nobody is in a hurry. This **dry-up** is normal and even healthy: it shows the supply that was pushing price down is exhausted.

When volume then expands on a rise out of the base, it suggests larger buyers are stepping in, often described as **accumulation**. The mirror image, heavy volume near highs with price stalling, is **distribution**.



Visualising it: price moves sideways while volume dries up, then volume expands as price breaks out of the base.

READING IT HONESTLY

Accumulation and distribution are interpretations, not facts. Nobody can confirm who is buying. Treat them as a **hypothesis** that needs price to agree, such as a breakout above the base, before you act.

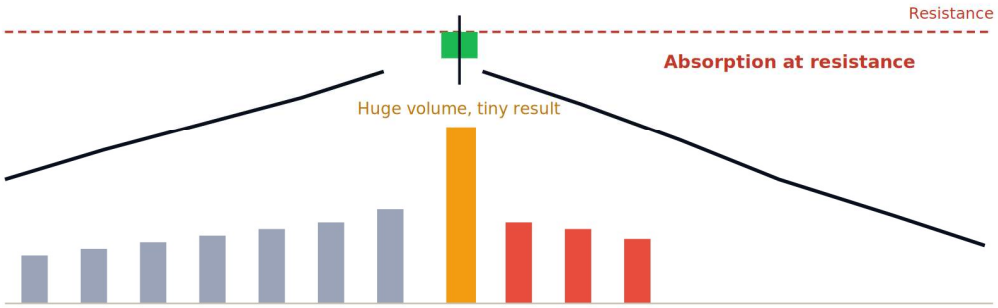
5. Climax Volume: When a Trend Runs Out of Room

After a long, steady move, a sudden burst of extreme volume can mark **exhaustion**. In a downtrend it can be a *selling climax*, where panic sellers dump into buyers who are willing to absorb them. In an uptrend it can be a *buying climax*, where late buyers rush in at the top. The tell is very heavy volume together with a big range, followed by price failing to make further progress in the same direction.

- Climax volume is **more meaningful after an extended move**, not in the middle of a range.
- It is a signal to **tighten risk or prepare**, not to reverse immediately. Trends can grind on after a climax.
- Confirmation usually comes from what follows: a **reversal candle, a break of structure, or a failed retest**.

6. Effort vs Result: When Heavy Volume Goes Nowhere

Volume is the **effort**; the distance price travels is the **result**. Usually they match: big volume, big move. When they do not, something is absorbing the pressure.



Visualising it: a huge volume bar with a small candle near resistance suggests supply is being absorbed, so upside progress is blocked.

The opposite case matters too: a big move on unusually **low** volume suggests the path is easy because few participants are contesting it, which is a reason to doubt its durability.

7. Volume Tools: Average, OBV and Delivery %

Tool	What it does	How to use it
Volume moving average	Plots the average volume (commonly 20 periods) over the bars	Judge whether a bar is truly high or low relative to normal
On-Balance Volume (OBV)	Running total: adds the bar's volume on up-closes, subtracts it on down-closes	Look for OBV rising ahead of or confirming price, or diverging from it
Delivery percentage	Share of traded quantity taken for delivery, published for NSE and BSE stocks	Supporting clue for genuine interest behind a move, not a signal by itself
Futures volume and open interest	Volume and outstanding contracts on index futures	The workable substitute for volume on Nifty and Bank Nifty

PRACTICAL NOTES FOR INDIAN MARKETS

The Nifty and Bank Nifty spot index has no traded volume. Use the futures or the constituent stocks. Volume also naturally spikes around the open, the close and expiry days, so compare a bar with the **same time of day** or a similar day, not with a random average.

To see where volume clusters across *prices* rather than across time, study Volume Profile. For an intraday volume-weighted level, study VWAP.

8. Combining Volume With Price and Other Indicators

Volume works best as the **second opinion** on a setup you already like from price. A breakout from a clean pattern, on rising volume, next to a level that has mattered before, is a far better trade than any single one of those alone. Momentum tools such as RSI and MACD add a further angle, and volume tells you whether that momentum has real participation behind it.

Reading volume together with structure, trend and momentum, instead of staring at bars in isolation, is covered hands-on in our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

9. Common Volume Analysis Mistakes

1. Assuming high volume means bullish: Heavy volume can be heavy selling. Direction comes from price and the close.

2. Judging volume in isolation: Calling a bar "high" without comparing it with the stock's own recent average.

3. Reading volume on the spot index: Looking for volume on Nifty or Bank Nifty spot, where there is none.

4. Ignoring the time of day: Treating the opening-hour spike as unusual when it happens every day.

5. Treating accumulation as fact: Assuming big players are buying because volume looks quiet, without price confirming.

6. No stop-loss on volume-led trades: Entering on a volume spike without a defined exit turns one failed breakout into an open-ended loss.

10. Your Volume Reading Checklist

Run this five-point check before acting on any volume-based setup:

- **Relative, not absolute —** Is this bar high or low compared with its own recent average, and the same time of day if intraday?
- **Price agrees —** Did price close in the direction the volume suggests, near the high for buying or near the low for selling?
- **Effort matches result —** Is the price progress proportionate to the volume, or is heavy volume being absorbed?
- **Context fits —** Is the volume happening at a meaningful level, pattern breakout or the end of an extended move?
- **Defined risk —** Do you know exactly where the idea is proven wrong, and is your stop placed there?

EDUCATIONAL CONTENT ONLY

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

11. Practice Exercises: Apply It on Real Charts

Reading a concept is not the same as spotting it live. Work through these on the daily chart of any Nifty 50 stock, and treat the results as practice, not proof.

1. Measure relative volume: Open a daily chart, add a 20-period volume average and mark the bars that clearly rise above it. Note whether price closed near the high or the low on each.

2. Test five past breakouts: Find five breakouts above clear resistance. Record whether volume surged, then whether each breakout held or failed over the next five sessions.

3. Find effort without result: Look for a heavy-volume bar with a small candle near resistance or support. Write down what price did in the following sessions.

4. Use futures for the index: Open Nifty or Bank Nifty futures instead of the spot index and compare volume and open interest with the price move.

12. Frequently Asked Questions

What does volume actually measure?

Volume is the number of shares or contracts that changed hands in a given period. Every trade has both a buyer and a seller, so volume shows how much participation and interest there was, not by itself whether buyers or sellers were stronger. Direction is read from what price did on that volume.

What counts as high or low volume?

Only relative to that stock's own recent history. Many traders compare each bar to a 20-period average of volume. Intraday, compare against the same time of day, because volume is naturally heaviest near the open and close.

Does a breakout always need high volume?

It is not a rule, but breakouts backed by a clear surge in volume are generally more credible than ones on thin volume, which fail more often. Volume is a confirmation layer, so it improves your odds without guaranteeing the outcome.

How do I use volume on Nifty and Bank Nifty?

The spot index has no traded volume of its own. Traders use the index futures for volume and open interest, or apply volume analysis to the individual stocks that make up the index.

What is delivery percentage and why does it matter?

Delivery percentage is the share of a stock's traded quantity that was actually taken for delivery rather than squared off the same day. A high delivery share on a strong up day can hint at genuine buying interest, while low delivery suggests mostly intraday activity. It is a supporting clue, not a signal by itself.

What is On-Balance Volume (OBV)?

OBV is a running total that adds a bar's volume when price closes up and subtracts it when price closes down. Rising OBV that agrees with price supports the trend, while OBV moving against price is a warning. Use it as supporting evidence, not as a standalone signal.

Get in Touch

CHART CODE ACADEMY

Website: www.chartcode.in

WhatsApp / Phone: +91-95121 00588

Email: chartcode.in@gmail.com

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