CHART CODE ACADEMY

Decode The Market Code

VWAP Explained

How Institutions Use It

Learn why big players **anchor their execution to VWAP**, how the line is built, and how retail traders can use the same level intraday for **bias, pullbacks and stretched moves**. Plus **VWAP bands and anchored VWAP**, and how VWAP differs from a moving average.

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About This Guide

VWAP (Volume Weighted Average Price) is a single line on the chart that starts at the open and updates with every candle, showing the volume-weighted average price of the session. Large institutions use it as a **benchmark for execution quality**, and retail traders can use the same level intraday.

This guide covers how VWAP is calculated, why institutions care about it, and how to use it as a **bias filter**, for **pullback entries** and for **stretched moves**, plus VWAP bands, anchored VWAP and how VWAP differs from a moving average.

It closes with the most common mistakes traders make with VWAP, and a five-point checklist to run through before acting on any signal.

VWAP Explained: How Institutions Use It

A Chart Code Academy Guide

Quick Answer: What Is VWAP and How Do Institutions Use It?

VWAP (Volume Weighted Average Price) is a single line on the chart that starts at the open and updates with every candle, showing the volume-weighted average price of the session. These terms cover most of what you need to know:

Term	What it means
VWAP	Volume Weighted Average Price is the average price traded during the session, weighted by volume, so it approximates the average price paid by everyone trading today.
Calculation	Cumulative (typical price × volume) divided by cumulative volume from the session open, where typical price is (High + Low + Close) ÷ 3.
Institutional benchmark	Large orders are split through the day, and a buyer filling below the day's VWAP (or a seller filling above it) is generally seen to have executed well.
VWAP bias	Price holding above VWAP gives a mild bullish bias, below gives a mild bearish bias, and repeated crossing often signals a choppy, range-bound session.
Pullback entry	In a trending session VWAP often acts as a support or resistance zone, so traders watch pullbacks to it for signs that buyers or sellers are stepping back in.
Stretched move	In a balanced session price far from VWAP often drifts back toward it, but on a strong trend day it can stay far away all day, so never fade it just because it looks far.
VWAP bands and anchored VWAP	Bands show how stretched price is in standard deviations from VWAP, and anchored VWAP starts from a chosen point such as a swing low, gap or results day instead of the session open.

What you will learn

- What VWAP is and how it is calculated
- Why institutions benchmark their execution to VWAP
- How to use VWAP as a bias filter and for pullback entries
- When mean reversion to VWAP works, and when it fails
- How VWAP bands and anchored VWAP work, and how VWAP differs from a moving average

1. What Is VWAP?

VWAP (Volume Weighted Average Price) is the average price at which a stock or contract has traded during the session, **weighted by volume**. A simple average treats every price equally. VWAP gives more importance to prices where more shares actually changed hands, so it approximates the *average price paid by everyone trading today*.

On the chart it appears as a single line that starts at the open and updates with every candle. Three things make it different from an ordinary moving average:

- **It uses volume**, not just price, so heavy-traded prices pull the line harder.
- **It is cumulative** from the session open, so it does not drop old data the way a 20-period average does.
- **It resets every day**, which makes it an intraday reference, not a long-term trend line.



Visualising it: price (dark) swings around VWAP (gold). VWAP moves more slowly because it carries the whole session's volume-weighted history.

2. How Is VWAP Calculated?

1. **Typical price** of each candle = (High + Low + Close) ÷ 3.
2. **Price × Volume** for that candle = typical price × the candle's volume.
3. **Add up** the Price × Volume values from the session open to now, and add up the volume from the open to now.
4. **VWAP** = cumulative (Price × Volume) ÷ cumulative Volume.

Candle	Typical price	Volume	Running VWAP
1	100	1,000	100.00
2	102	3,000	101.50
3	101	1,000	101.40

Look at candle 2: it traded at 102 on triple the volume, so it drags VWAP most of the way there. A simple average of 100 and 102 would give 101, but VWAP gives 101.50 because the higher price carried more volume. Your platform does this maths automatically, but knowing it explains why VWAP resists a single sharp spike on thin volume.

IMPORTANT FOR INDIAN TRADERS

The Nifty and Bank Nifty **spot index has no traded volume**, so a true VWAP cannot be calculated on it. Plot VWAP on the index *futures* contract, or on individual stocks, where real volume exists.

3. Why Do Institutions Care About VWAP?

A mutual fund or large institution cannot buy a very large quantity in a single order without pushing the price against itself. So orders are usually split into many small pieces and worked through the day. The natural question is: *how do you judge whether that execution was good?* VWAP is the common yardstick.

- **As a benchmark:** a buyer who fills below the day's VWAP is generally seen to have done well, and a seller who fills above it likewise.
- **As an execution style:** many execution algorithms are built to trade in proportion to expected volume through the day, aiming to finish close to VWAP.
- **As a reference for value:** traders often treat VWAP as a "fair price" for that session, with price far above it seen as expensive and far below as cheap.

A CAUTION ON THE STORY

It is common to hear that "institutions defend VWAP". That is a useful simplification, not a rule. VWAP is a widely watched level, so price often reacts near it, but it does not hold every time. Treat it as a reference point with a probability edge, never a guarantee.

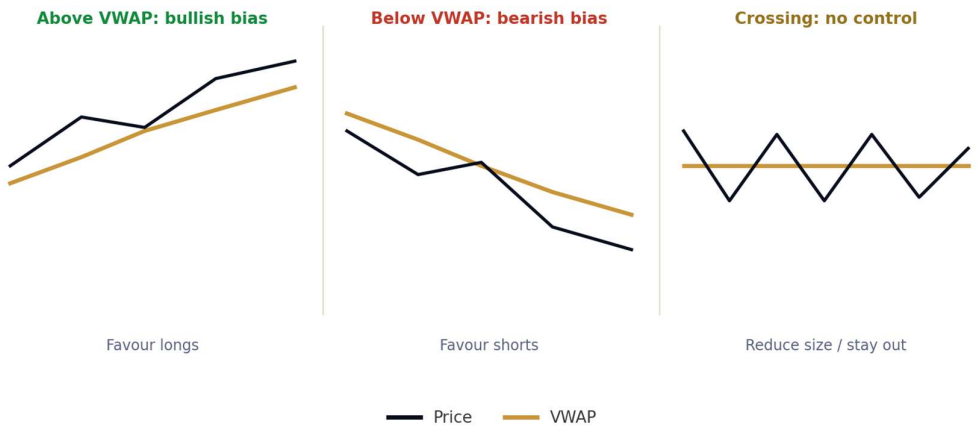
To see who the large players actually are, read our guide on market participants, and for a deeper look at where volume clusters across prices, see our Volume Profile guide.

4. How Do You Use VWAP as a Bias Filter?

The simplest use is as a filter for direction on the day:

- **Price holding above VWAP:** on average, today's buyers are in profit, which gives a mild bullish bias. Many intraday traders look for long setups only.
- **Price holding below VWAP:** on average, today's buyers are underwater, giving a mild bearish bias, so shorts are preferred.

- **Price crossing back and forth:** no clear control, often a sign of a choppy, range-bound session where trend trades tend to fail.



Visualising it: the same line gives three different reads depending on where price spends its time.

5. How Do VWAP Pullback Entries Work?

In a trending session, VWAP often acts like a magnet and a support (or resistance) zone. A common setup is to wait for price to pull back to VWAP in a trend and look for a sign that buyers (or sellers) are stepping back in.



Visualising it: price trends above VWAP, dips to touch it, forms a rejection candle, and resumes. The stop sits just under VWAP.

1. **Confirm the day's bias:** price has spent most of the session on one side of VWAP.
2. **Wait for a pullback** to VWAP rather than chasing the extended move.
3. **Look for a rejection:** a wick, a small-bodied candle, or a strong close back away from VWAP.
4. **Place the stop beyond VWAP,** and size the trade so a loss is small.

If price slices through VWAP on a strong candle and holds on the other side, the bias has likely flipped and the pullback idea is invalid. That is exactly where the stop should be.

6. What Are Stretched Moves and Mean Reversion?

In a range-bound session, price that stretches far from VWAP often drifts back toward it. Traders use this to fade extremes, but it is the riskier side of VWAP, because **a strong trend day can stay far from VWAP all day**. Reversion works when the market is balanced and fails when there is a genuine one-sided move.

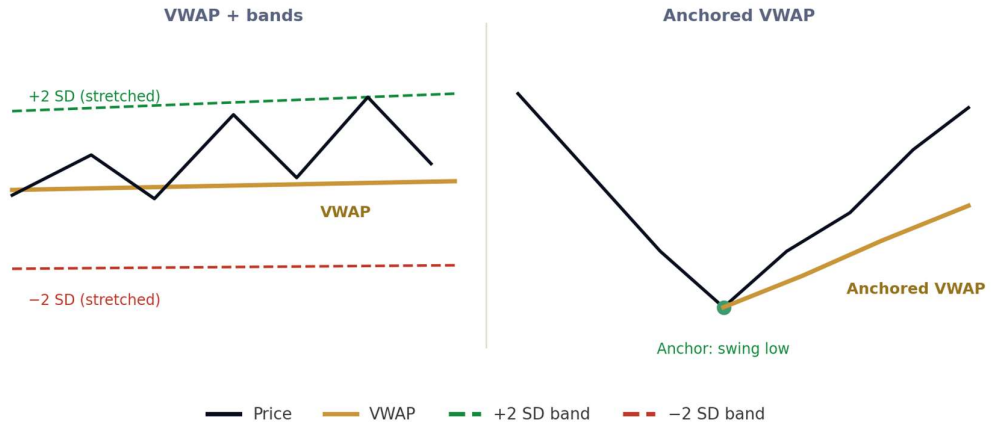
TREND DAY WARNING

Never fade a stretched move just because it is "far from VWAP". If price is making higher highs on strong volume and pullbacks are shallow, distance from VWAP is a sign of strength, not an opportunity to short.

7. What Are VWAP Bands and Anchored VWAP?

Two extensions make VWAP more flexible:

- **VWAP bands** are lines drawn a set number of standard deviations above and below VWAP. They show how stretched price is relative to the day's average, with the outer bands marking unusually extended moves.
- **Anchored VWAP** starts the calculation from a point you choose, such as a major swing low, a gap, or a results day, instead of the session open. It shows the average price paid by everyone who traded since that event, and works on daily charts too.



Visualising it: left, bands frame how far price has stretched from VWAP. Right, an anchored VWAP starts at a swing low and acts as a dynamic support.

Bands are a stretch gauge, not a reversal signal: price can walk along an outer band in a strong trend, just as it can along a Bollinger Band.

8. How Does VWAP Differ from a Moving Average?

Aspect	VWAP	EMA / SMA
Uses volume?	Yes, volume-weighted	No, price only
Data window	Cumulative from session open	Fixed number of recent candles
Resets?	Every session (unless anchored)	No, runs continuously
Best timeframe	Intraday	Any timeframe
Main use	Fair-value reference and intraday bias	Trend direction and dynamic support

They complement each other: a moving average shows the trend across days, while VWAP shows who is winning *today*. The early part of the session is the least reliable for VWAP because it rests on very little data, so many traders wait for the opening volatility to settle before trusting it.

Combining VWAP with trend, volume and price structure, instead of trading line touches blindly, is exactly the layered skill we build hands-on in our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

9. Common VWAP Mistakes

1. Using VWAP on the spot index: Reading a "VWAP" on Nifty or Bank Nifty spot, where there is no real volume behind it.

2. Trusting it in the first minutes: Acting on the line while it rests on only a few candles and is still very unstable.

3. Fading every stretch from VWAP: Shorting strength on a trend day because price looks far from the average.

4. Treating VWAP as a hard wall: Assuming price must bounce at VWAP, with no plan for when it slices through.

5. Using it on daily charts: Applying a session VWAP to higher timeframes instead of using an anchored VWAP.

6. No stop-loss on VWAP trades: Entering a pullback without a defined exit, so one failed bounce becomes an open-ended loss.

10. Your VWAP Reading Checklist

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

- **Real volume? —** Are you plotting VWAP on a futures contract or stock with genuine traded volume?
- **Enough data —** Has the opening volatility settled so the line rests on a meaningful number of candles?
- **Trend day or range day? —** Does price spend its time on one side (favour pullbacks) or cross often (favour caution)?
- **Confirmation present —** Is there a rejection candle, volume, or a nearby support or resistance level that agrees?
- **Defined risk —** Do you know exactly where the idea is proven wrong, and is your stop placed there?

EDUCATIONAL CONTENT ONLY

This guide is for education and is not investment advice or a recommendation to buy or sell any security. VWAP-based setups can fail, especially on strong trend days. Intraday trading carries significant risk, and many retail traders lose money. Always use a predefined stop-loss and risk only what you can afford to lose.

11. Frequently Asked Questions

What does VWAP stand for and how is it calculated?

VWAP stands for Volume Weighted Average Price. It is calculated by multiplying each period's typical price (high + low + close, divided by 3) by that period's volume, adding these up from the session open, and dividing by the total volume so far. Because it is cumulative, it starts fresh each trading day.

Why do institutions care about VWAP?

Large funds often need to buy or sell far more shares than the market can absorb at once. VWAP is a common benchmark for judging execution: buying below the day's VWAP, or selling above it, is generally seen as a good fill. Many execution algorithms are designed to trade in line with VWAP for this reason.

Can I use VWAP on daily or weekly charts?

The standard VWAP resets every session, so it is an intraday tool. On higher timeframes traders use anchored VWAP instead, which starts the calculation from a chosen swing high, swing low or event and keeps running from there.

Can I apply VWAP directly to the Nifty or Bank Nifty index?

The spot index has no traded volume of its own, so a true VWAP cannot be calculated on it. Traders normally plot VWAP on the index futures contract (or on individual stocks), where real volume exists, and read levels from there.

Is price above VWAP always bullish?

No. Price above VWAP only tells you that, on average, buyers today have paid less than the current price, which is a mild bullish bias. It works best when combined with trend, structure and volume, and it can flip quickly in choppy sessions.

Is there a trading course in Boisar, Dahanu and Palghar?

Yes. Chart Code, mentored by Deepak Kevadia, runs a structured stock market and trading course with in-person classes at its Boisar centre (208, Yash Padma Arcade, Boisar Tarapur Road) and live online classes, so students from Dahanu, Palghar and the rest of India can also join.

Can I learn trading online with Deepak Kevadia?

Yes. Live online sessions are available alongside the classroom course, so you can learn from anywhere in India. Check the Courses page on chartcode.in for current batches or message Chart Code on WhatsApp at +91 95121 00588.

Get in Touch

This guide is part of the free learning library from **Chart Code**, founded and mentored by **Deepak Kevadia** (BSE NISM Certified). Understanding what VWAP shows is step one; reading bias and pullbacks on live intraday charts with a mentor is step two. Classes run in person at Boisar and live online, so students from Boisar, Dahanu and Palghar, and anywhere in India, can join.

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