CHART CODE ACADEMY

Decode The Market Code

SMC/ICT Cheat Sheet

Order Blocks, FVG & Liquidity

A shared vocabulary for reading charts: **structure**, **liquidity**, **order blocks**, **fair value gaps** and **premium and discount**, with the framework's limits stated honestly.

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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 Cheat Sheet

SMC (Smart Money Concepts) and ICT (Inner Circle Trader) are chart-reading frameworks that describe price in terms of market structure, liquidity, order blocks, fair value gaps and premium and discount zones. This cheat sheet gives each concept a plain definition, a diagram and a validity checklist, and stays honest about the framework's limits.

By the end of this cheat sheet you will be able to:

- Define BOS, CHoCH, liquidity, order blocks, fair value gaps and premium and discount in plain words
- Match each SMC/ICT term to its classic equivalent
- Read a liquidity sweep, an order block with a fair value gap, and a discount entry on a chart
- Adapt the kill-zone idea to the NSE session instead of copying forex times
- Follow a six-step entry sequence, and know the framework's limits and common mistakes

SMC/ICT Cheat Sheet: Order Blocks, FVG & Liquidity

1. What Is SMC/ICT?

QUICK ANSWER

SMC (Smart Money Concepts) and ICT (Inner Circle Trader) are chart-reading frameworks that describe price in terms of **market structure** (BOS and CHoCH), **liquidity** (stop clusters that price sweeps), **order blocks** (the last opposite candle before a strong move), **fair value gaps** (three-candle imbalances) and **premium and discount zones**. The core idea is that large participants leave footprints that retail traders can read.

This cheat sheet gives each concept a plain definition, a diagram and a validity checklist. It stays honest about the framework's limits: the terms are trader-defined and subjective, and many map to older ideas such as supply and demand zones, stop clusters and gaps. Use it as a shared vocabulary for reading charts, then test what works on your own data.

2. Cheat Sheet: Core SMC/ICT Terms at a Glance

Term	Meaning	Classic equivalent
Market structure	The pattern of swing highs and lows: higher highs and higher lows (up), lower highs and lower lows (down)	Dow Theory trend
BOS (Break of Structure)	A close beyond the previous swing in the trend's direction; continuation	Trend continuation breakout
CHoCH / MSS	The first close beyond the last swing against the trend; possible reversal	Trend change signal

Term	Meaning	Classic equivalent
Liquidity (BSL / SSL)	Resting stops and breakout orders above highs (buy-side) and below lows (sell-side)	Stop clusters, support and resistance
Liquidity sweep	Price trades through a liquidity level, then reverses	Stop run, false breakout, spring or upthrust
Order block (OB)	Last opposite candle before a strong, structure-breaking move	Supply and demand zone
Fair value gap (FVG)	Three-candle gap where candle 1 and candle 3 do not overlap	Price gap, imbalance
Premium / discount	Upper half / lower half of a swing range, split at 50% equilibrium	Fibonacci 50% level
Displacement	Strong, large-bodied, one-directional move that leaves imbalance	Momentum candle
Mitigation	Price returning to an order block or gap	Retest
Kill zone	A time window of higher activity in which setups are sought	Session opening and closing hours

3. What Are BOS and CHoCH?

Everything starts with structure. In an uptrend, each rally makes a higher high (HH) and each pullback holds above the last low, a higher low (HL). A **break of structure (BOS)** confirms the trend when price closes above the previous swing high. A **change of character (CHoCH)**, also called a market structure shift, is the first close below the last higher low, the earliest sign the trend may be turning.



Visualising it: the uptrend keeps making HH and HL, price confirms it with a BOS, and then breaks the last HL to signal a change of character. Green candles are up, red are down. Constructed example for teaching, not a live chart.

1. **BOS:** price closes above the previous swing high (gold line), so the uptrend continues.
2. **CHoCH:** price closes below the last higher low (red dashed line), the first break against the trend.

Use closes, not wicks, and decide in advance which timeframe defines your structure. A CHoCH is a warning, not a reversal by itself; many turn out to be pullbacks inside a larger trend.

4. What Is Liquidity and a Liquidity Sweep?

In this framework, liquidity is where orders are resting. Stop-losses of buyers sit below swing lows and equal lows (**sell-side liquidity**), and stop-losses of sellers plus breakout orders sit above swing highs and equal highs (**buy-side liquidity**). Levels that price has touched two or three times, such as equal highs (EQH) or equal lows (EQL), are seen as the most obvious pools. A **sweep** is a quick move through such a level that triggers those orders, followed by a reversal.



Visualising it: three lows form at the same level. One candle wicks through them, closes back above, and price runs to the buy-side liquidity above the range. Constructed example for teaching, not a live chart.

1. **Equal lows (EQL):** an obvious pool of stop orders below 100.
2. **Sweep:** the wick trades through the lows, then the candle closes back above them.
3. **Reversal:** price leaves the swept level and targets the range highs (BSL).

WORTH REMEMBERING

The idea that large players deliberately hunt stops cannot be verified from public data. The pattern itself is real and well known as a false breakout: a level breaks, fails and reverses. Wait for the close back inside the range before treating it as a sweep.

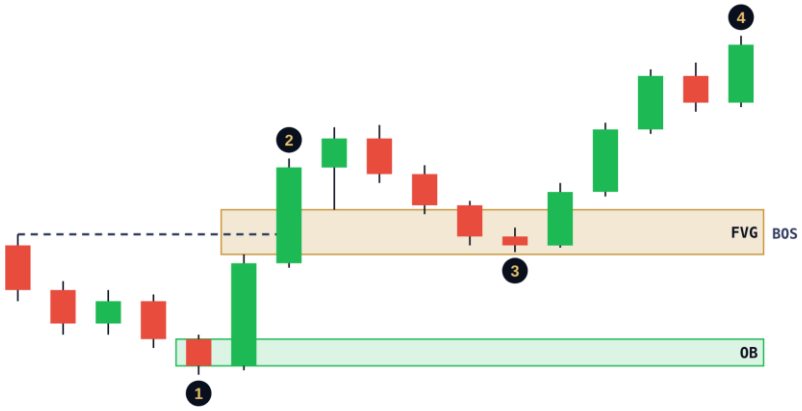
5. What Are Order Blocks and Fair Value Gaps?

Order block (OB)

A bullish order block is the last down candle before a strong up move that breaks structure; a bearish order block is the last up candle before a strong fall. Traders mark the candle's body (or full range) and watch for price to return to it. A stronger order block caused displacement, broke structure and is unmitigated (price has not returned yet).

Fair value gap (FVG)

A fair value gap forms when the middle candle of a strong move is so large that candle 1's high and candle 3's low do not overlap. That empty band is the imbalance. Price often returns to it, and many traders watch its midpoint (called consequent encroachment).



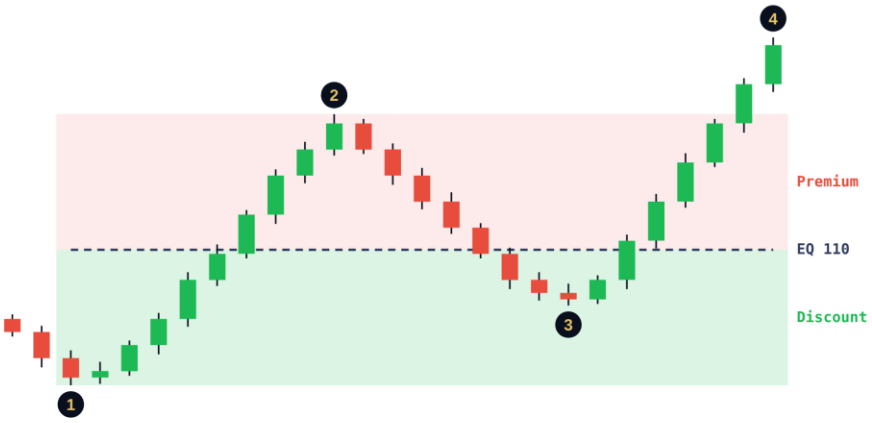
Visualising it: the last down candle becomes the order block. The impulse leaves a fair value gap, price returns to tap it, and the trend continues. Constructed example for teaching, not a live chart.

1. **Order block:** the last down candle before the impulse (green zone).
2. **Displacement and BOS:** three strong candles break the prior high and leave a gap (gold zone) between candle 1's high and candle 3's low.
3. **Mitigation:** price pulls back and taps the top of the gap.
4. **Continuation:** the trend resumes from the gap.

Quality check: prefer zones that come after a liquidity sweep, that produced a clear BOS or CHoCH, and that sit in the correct half of the range (discount for buys, premium for sells). Marking every candle as an order block is the most common way traders fool themselves.

6. What Are Premium and Discount Zones?

Take the swing range that created your bias, from the swing low to the swing high. The halfway point is **equilibrium**. Price above it is in **premium** (expensive), and price below it is in **discount** (cheap). The principle: buy from discount in an uptrend and sell from premium in a downtrend, so your entry is on the better side of the range. It is the same 50% level covered in our Fibonacci Cheat Sheet.



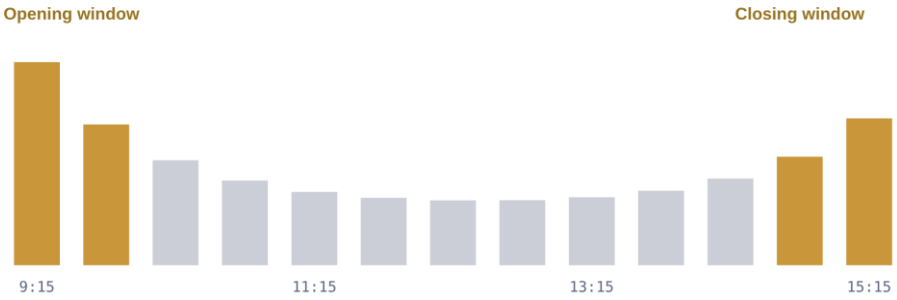
Visualising it: the rally sets the range. The pullback drops into the discount half, and the uptrend then continues. Green candles are up, red are down. Constructed example for teaching, not a live chart.

1. **Swing low:** the start of the range.
2. **Swing high:** the end of the range; equilibrium is the midpoint.
3. **Pullback into discount:** the better-priced area for a long.
4. **Continuation:** price breaks the range high and moves on.

7. What Are Kill Zones, and How Do They Apply to the NSE?

A kill zone is a time window in which price tends to move more and setups are considered higher quality. ICT material defines them around the London and New York sessions, which suits forex and US index futures. Those clock times do not map to the NSE, and definitions vary between sources.

On the NSE (9:15 am to 3:30 pm IST), the busiest periods are typically the opening hour and the closing hour, following the well-known U-shaped volume pattern. Many NSE traders adapt the idea by looking for setups in those windows and avoiding the quieter middle of the day.



Treat time windows as a filter, not a signal, and check them against your own trade log. Volume behaviour is explained in our Volume Analysis guide.

8. How Do the Pieces Fit Into an Entry Model?

One commonly taught sequence, shown for study and not as a recommendation:

1. **Set the bias.** Read higher-timeframe structure and where price sits in the range (premium or discount).
2. **Mark the liquidity.** Note equal highs and lows and obvious swing points near price.
3. **Wait for the sweep.** Let price take liquidity against your bias.
4. **Confirm the shift.** Look for a CHoCH with displacement on a lower timeframe.
5. **Enter on the retrace.** Use the order block or fair value gap the displacement created.
6. **Place the stop and target.** Stop beyond the sweep extreme or the block; target the next liquidity pool. Aim for reward comfortably larger than risk.

If price never retraces, you have no entry, and chasing is what the model tries to avoid. For candle-level confirmation see our Candlestick Charts guide.

9. What Are the Limits of SMC/ICT?

- **It is subjective.** Two traders can mark different swings, blocks and gaps on the same chart. Write objective rules for what qualifies.
- **Hindsight bias.** Almost any chart can be labelled with order blocks after the move. Judge the method only on rules fixed before the trade.
- **Not every gap or block holds.** Zones fail often; the stop-loss is what keeps a failed zone small.
- **The cause is unproven.** Retail traders cannot see institutional orders, so claims about what smart money is doing are inference.
- **Test before trading.** Backtest or paper-trade your exact rules across enough trades and market conditions.

10. Common SMC/ICT Mistakes

1. **Marking every candle as an order block:** Only blocks that caused displacement and broke structure count. Be strict.
2. **Ignoring higher-timeframe bias:** A lower-timeframe CHoCH against a strong higher-timeframe trend is often just a pullback.
3. **Trading every fair value gap:** Many gaps are ignored or never filled. A gap is a level to watch, not a signal.
4. **Entering at the first touch:** Wait for a reaction and confirmation, and always place a stop beyond the zone.
5. **Labelling charts in hindsight:** Marking patterns after the move proves nothing. Mark zones before price gets there.
6. **Copying forex kill zones onto the NSE:** The times do not carry over. Adapt to NSE hours and test them.

Market structure, liquidity and risk management are taught hands-on in the SMC module of our Apex Trader course at Chart Code, offline in Boisar or live online anywhere in India. New to charts? Start with our Candlestick Charts guide.

11. Your SMC/ICT Checklist

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

- **Bias** — Does higher-timeframe structure agree, and are you buying in discount or selling in premium?
- **Liquidity target** — Which pool has been swept, and which pool is your target?
- **Shift confirmed** — Did a CHoCH or BOS with displacement close beyond the level?
- **Zone quality** — Is the block or gap unmitigated, did it cause the move, and does it sit in the right half of the range?

- **Risk and session** — Is the stop placed, is the reward larger than the risk, and is the timing sensible for the NSE?

EDUCATIONAL CONTENT ONLY

This framework is subjective. SMC/ICT terms are defined by traders, not by an official standard, and independent evidence that they give an edge is limited. This guide is an independent educational summary, not affiliated with or endorsed by ICT or its originator, and not investment advice. The diagrams are constructed examples chosen to show each pattern; real charts are messier. SEBI studies have found that a large majority of individual derivatives traders incur net losses. Never risk money you cannot afford to lose.

12. Frequently Asked Questions

What is SMC/ICT trading?

SMC (Smart Money Concepts) and ICT (Inner Circle Trader) are chart-reading frameworks built on the idea that large participants leave footprints in price: liquidity pools, order blocks and imbalances. Traders use these terms to describe market structure and to plan entries and stops. The terms are trader-defined and subjective rather than a formal or proven system.

What is an order block and how do you mark one?

An order block is the last opposite-coloured candle before a strong impulsive move that breaks structure. A bullish order block is the last down candle before a strong rally, and a bearish order block is the last up candle before a strong fall. Traders mark its body or range and watch for price to return to it, especially if it has not been revisited.

What is a fair value gap and does price always fill it?

A fair value gap is a three-candle imbalance in which the first candle's high and the third candle's low do not overlap, leaving a gap in a strong move. Price often returns to fill part of it, but not always. Many gaps are never revisited or are ignored, so a gap alone is not a trade signal.

What is the difference between BOS and CHoCH?

A break of structure (BOS) is a close beyond the previous swing high in an uptrend, or swing low in a downtrend, and shows the trend continuing. A change of character (CHoCH) is the first break in the opposite direction, such as a close below the last higher low, and is treated as an early sign of reversal.

What is liquidity in SMC?

Liquidity means clusters of resting orders, mainly stop-losses and breakout orders. Buy-side liquidity sits above swing highs and equal highs, and sell-side liquidity sits below swing lows and equal lows. The framework argues large players need these orders to fill big positions, so price often sweeps them before reversing. This is a theory and cannot be verified from public data.

Do SMC/ICT concepts work on the Indian market?

Structure, liquidity, order blocks and gaps can be drawn on any liquid chart, including Nifty, Bank Nifty and large-cap stocks. However, much SMC material is built around forex and US index futures, and its kill-zone times do not map directly to the NSE session. Adapt the timing, and test every concept on your own data before risking money.

Get in Touch

CHART CODE ACADEMY
Website: www.chartcode.in
WhatsApp / Phone: +91-95121 00588
Email: chartcode.in@gmail.com
In person: Boisar, Palghar, Maharashtra 401501 · India
Online: live sessions from anywhere in India

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