PRECISION PIPS | ICT / SMC SERIES

SMT DIVERGENCE

Why it is a confirmation (Step 5), not a trigger (Step 1)

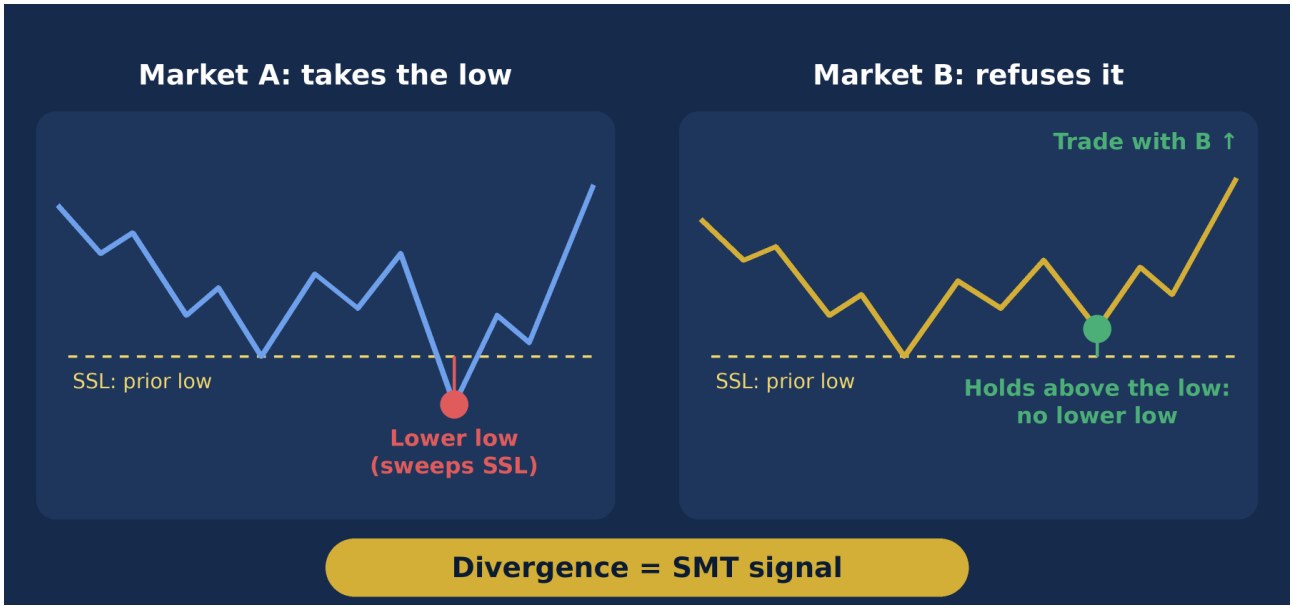


Figure 1: Market A takes the low, Market B refuses it. That split is the SMT signal.

The Problem

You spot a divergence, enter straight away, get stopped out, and then watch price reverse exactly where you expected. Your direction was right; your timing was not. The reason is simple: SMT is the **last confirmation** in a chain of events, not the first.

This guide covers what SMT really measures, the three conditions that make it valid, how bullish and bearish versions look, and where it belongs in a complete trade plan.

> **The core idea**
> SMT confirms a setup that already exists. It does not create one.

1. What SMT Actually Measures

Set the textbook definition aside. SMT answers one practical question: **when two correlated markets reach the same liquidity level, do they react the same way?**

If both react alike, there is nothing special to read. If one pushes through the level and the other refuses to follow, that split is information. In the smart-money framework, the market that takes the level is the *vehicle* for the stop run, while the market that holds back shows where price is more likely to go.

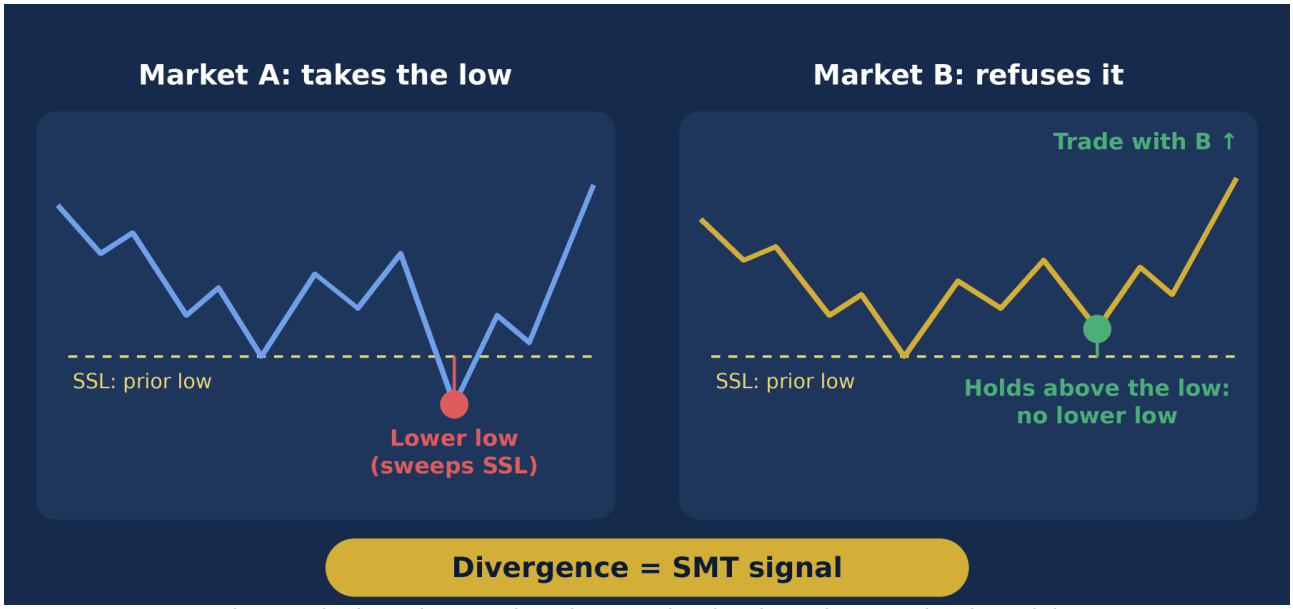


Figure 2: both markets run into the same level; only Market A trades through it.

> **Rule of thumb**
> Trade in the direction of the market that refused, not the one that "broke out".

Keep in mind: this is a framework for interpreting price, not a guarantee. Divergences can fail, so pair them with structure and risk management.

2. The Pairs That Matter Most

SMT only works between markets that are genuinely linked. Three pairs cover most of what gold and index traders need:

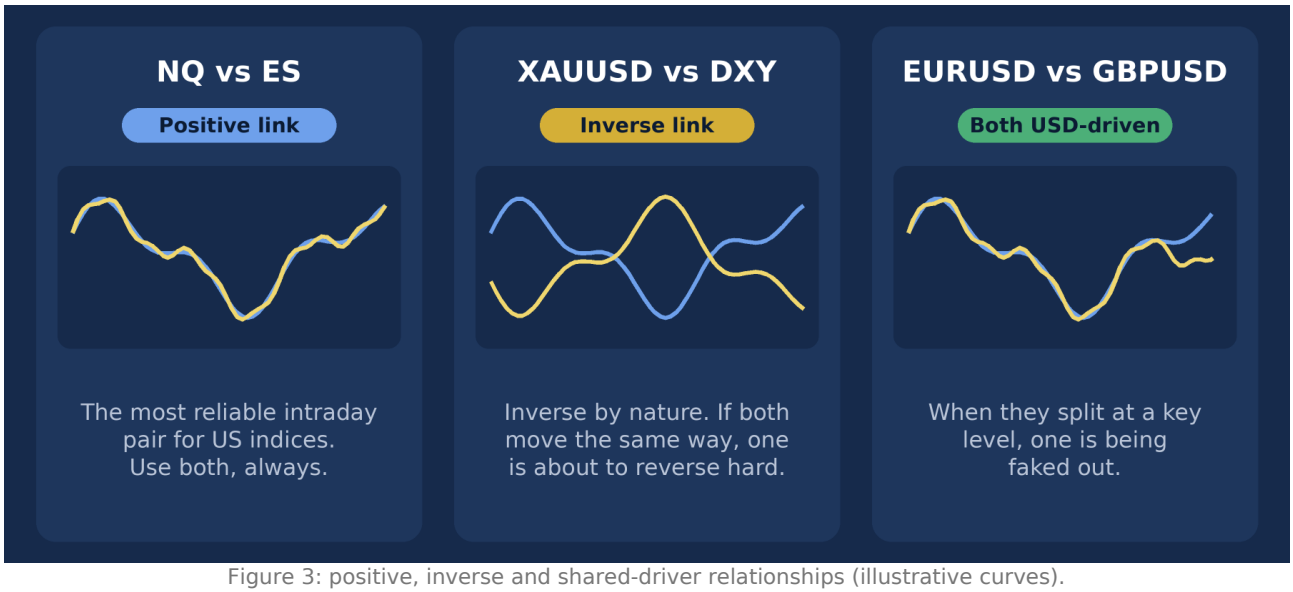


Figure 3: positive, inverse and shared-driver relationships (illustrative curves).

- **NQ vs ES**: the most reliable intraday pair for US indices. Watch both, always.
- **XAUUSD vs DXY**: inverse by nature. If gold and the dollar start moving in the same direction, one of them is about to reverse hard.
- **EURUSD vs GBPUSD**: both are dollar-driven. A split at a key level suggests one of them is being faked out.

Reading inverse pairs
Because gold and DXY normally move opposite ways, flip your reading. If DXY takes a high but gold fails to take the matching low, gold is the market that refused.

3. The 3 Conditions

There are only two valid SMT setups, bullish and bearish. Each needs **all three** conditions before it counts for anything.

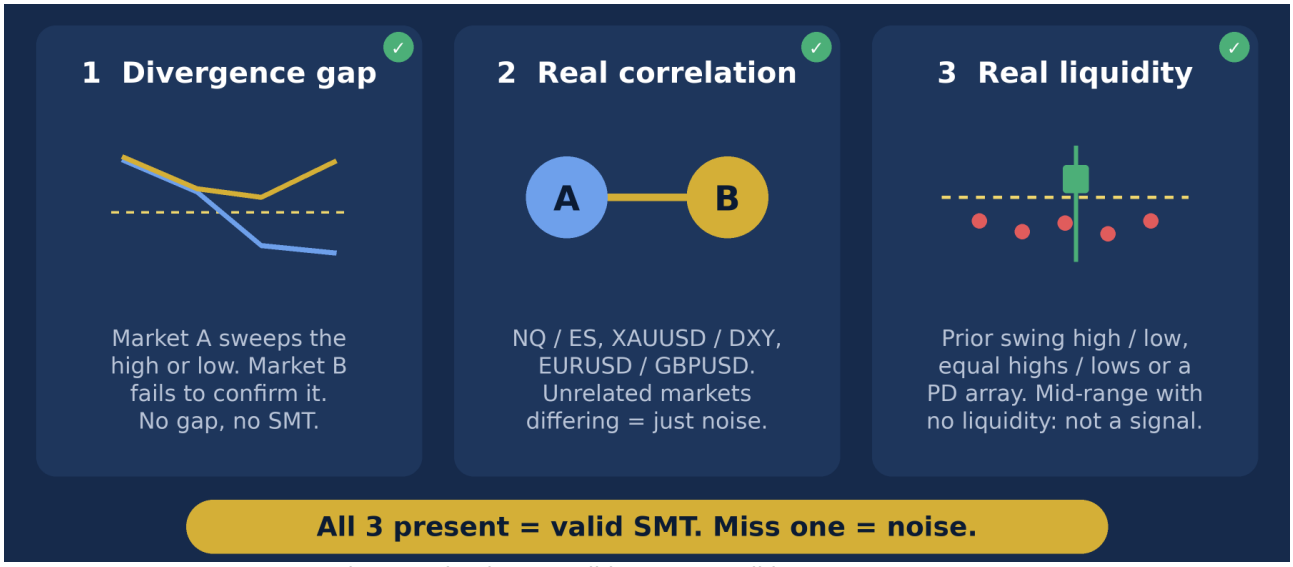


Figure 4: the three conditions every valid SMT must meet.

Condition	What it means	If it is missing
1. Divergence gap	Market A sweeps a high or low; Market B fails to confirm it.	No gap, no SMT.
2. Real correlation	The two markets are naturally linked (NQ/ES, XAUUSD/DXY, EURUSD/GBPUSD).	Unrelated markets behaving differently is just noise.
3. Real liquidity	It happens at a prior swing high/low, equal highs/lows or a PD array.	Mid-range with no liquidity there is not a signal. Stop marking it.

4. Bullish and Bearish SMT

Bullish SMT: Market A makes a lower low, Market B holds with no lower low, and it happens at an SSL (sell-side liquidity) level.

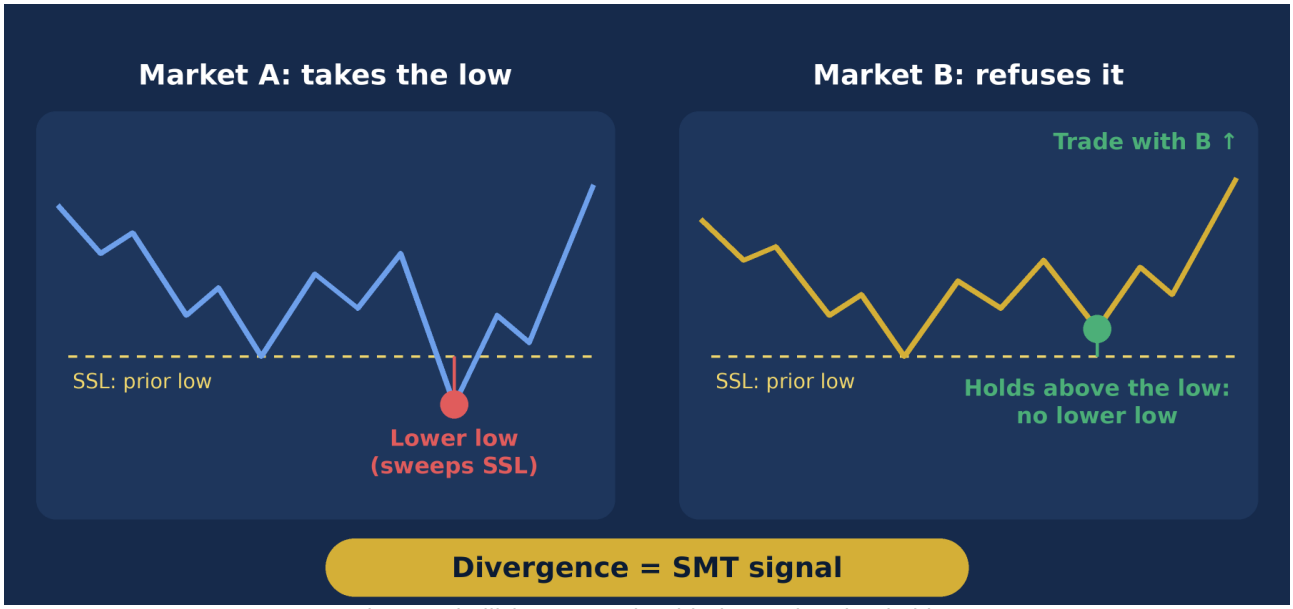


Figure 5: bullish SMT. Trade with the market that held.

Bearish SMT: Market A makes a higher high, Market B stalls with no higher high, and it happens at a BSL (buy-side liquidity) level.

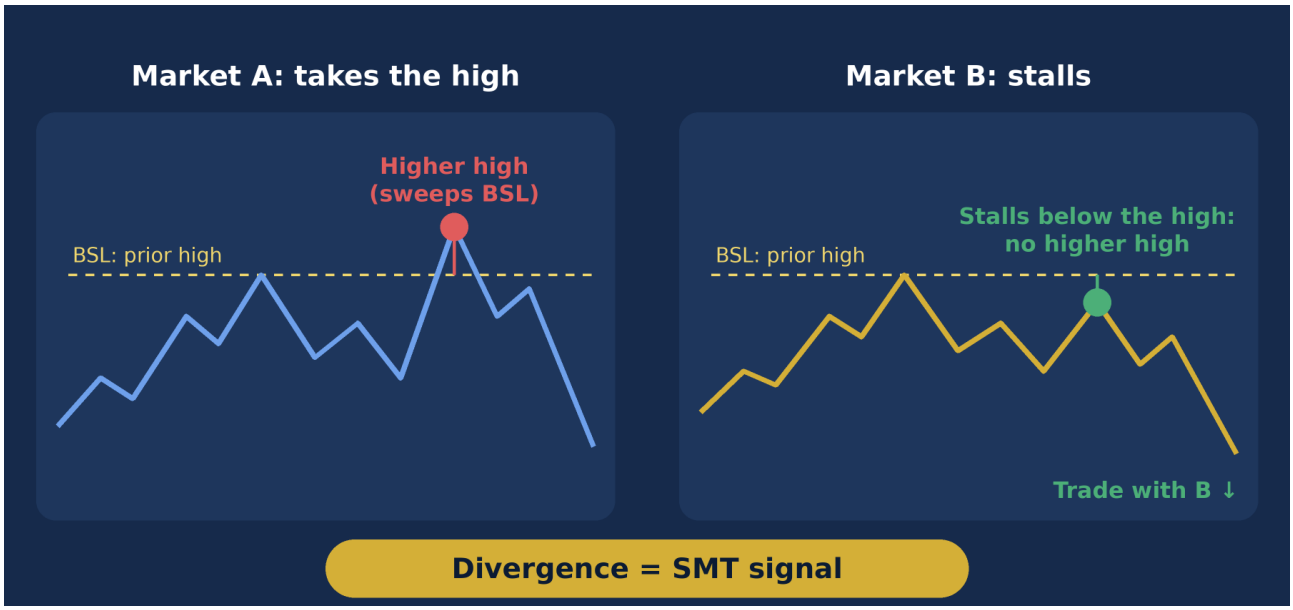


Figure 6: bearish SMT. Trade with the market that stalled.

5. Where SMT Fits: The 6-Layer Checklist

When all six layers line up, you are no longer guessing. Walk through them before every trade; if a box is empty, you have a feeling, not a setup.

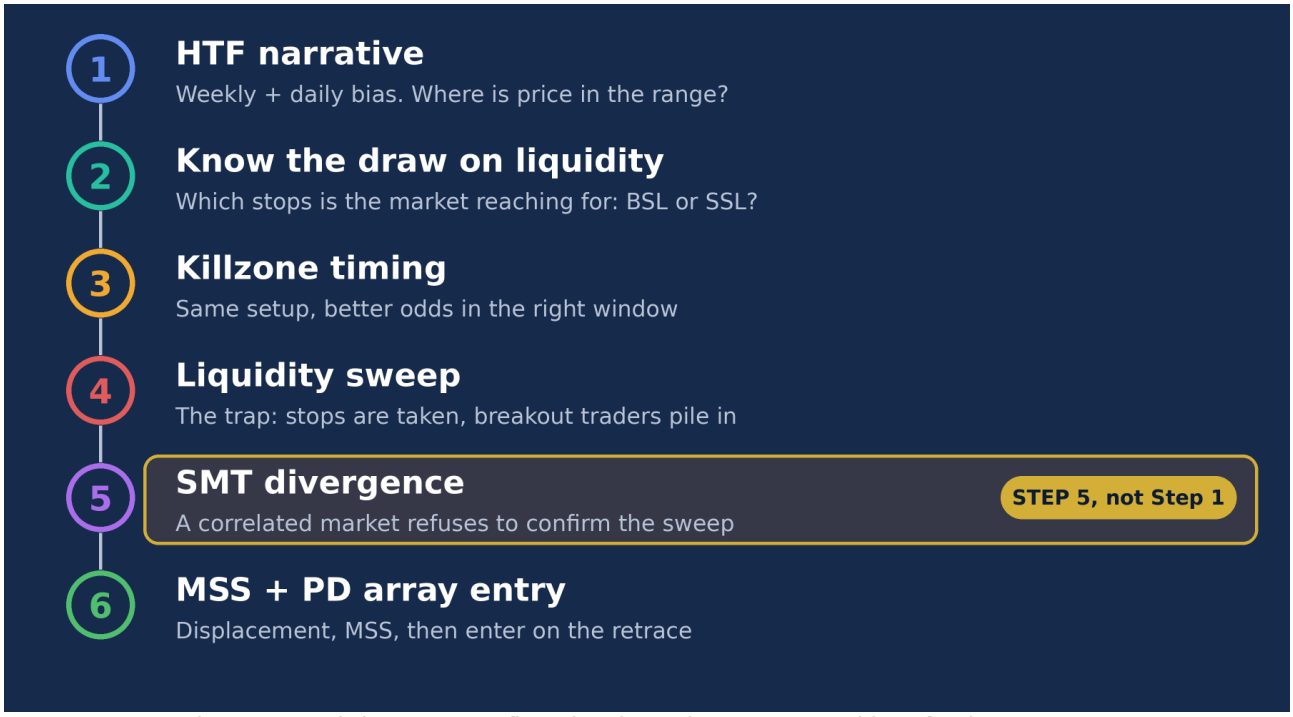


Figure 7: SMT is layer 5, a confirmation that only means something after layers 1 to 4.

Layer	What to check
1. HTF narrative	Start with weekly and daily. Where is price in the 20-day dealing range: premium, discount or equilibrium? Lock your bias before dropping to lower timeframes.
2. Know the draw	Which liquidity is the market targeting: BSL above or SSL below? Mark it the night before, not while price is already moving.
3. Killzone	London KZ 1-5 AM, New York KZ 7-10 AM, London Close 10 AM-12 PM (all EST). The same setup outside these windows has lower probability.
4. Liquidity sweep	Price moves the "wrong" way, triggers stops and pulls in breakout traders. No sweep yet means the setup has not started. Wait.
5. SMT divergence	Now check the correlated market: does it confirm the sweep or hold back? A divergence after the sweep, inside a killzone and aligned with HTF bias is the footprint that counts.
6. MSS + PD array	Displacement forms after the sweep; an MSS breaks the short-term structure made during the manipulation. Enter on the retrace into the FVG, order block or breaker it left behind, not before.

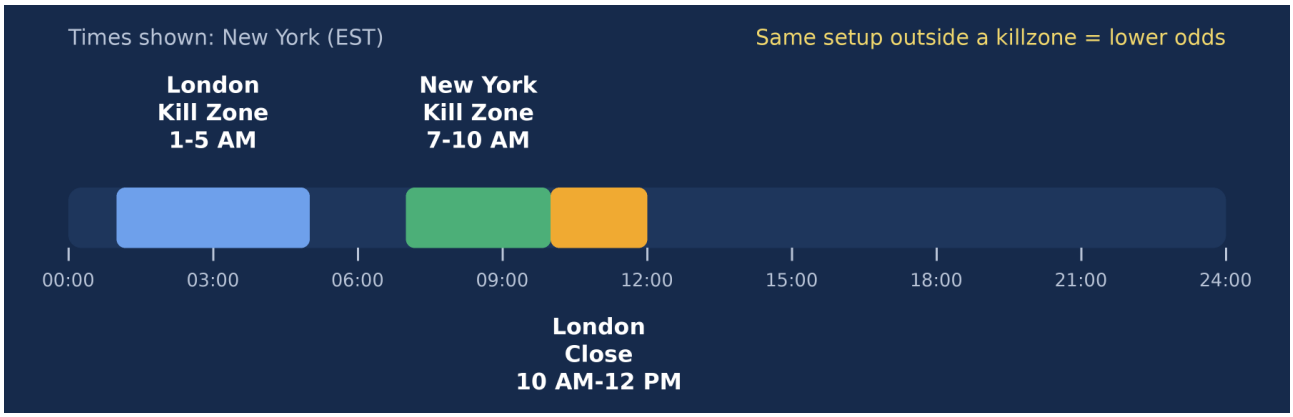


Figure 8: the killzone windows from layer 3, shown on a 24-hour New York clock.

6. The Mistake

You see the divergence. You enter. Your stop is hit. Price then reverses exactly where you said it would. You called the direction right and identified the SMT correctly, and still lost the trade.

Here is why: SMT is not a trigger. At the moment the divergence prints, the market may still be in the manipulation phase and has confirmed nothing yet. Entering then is still too early.

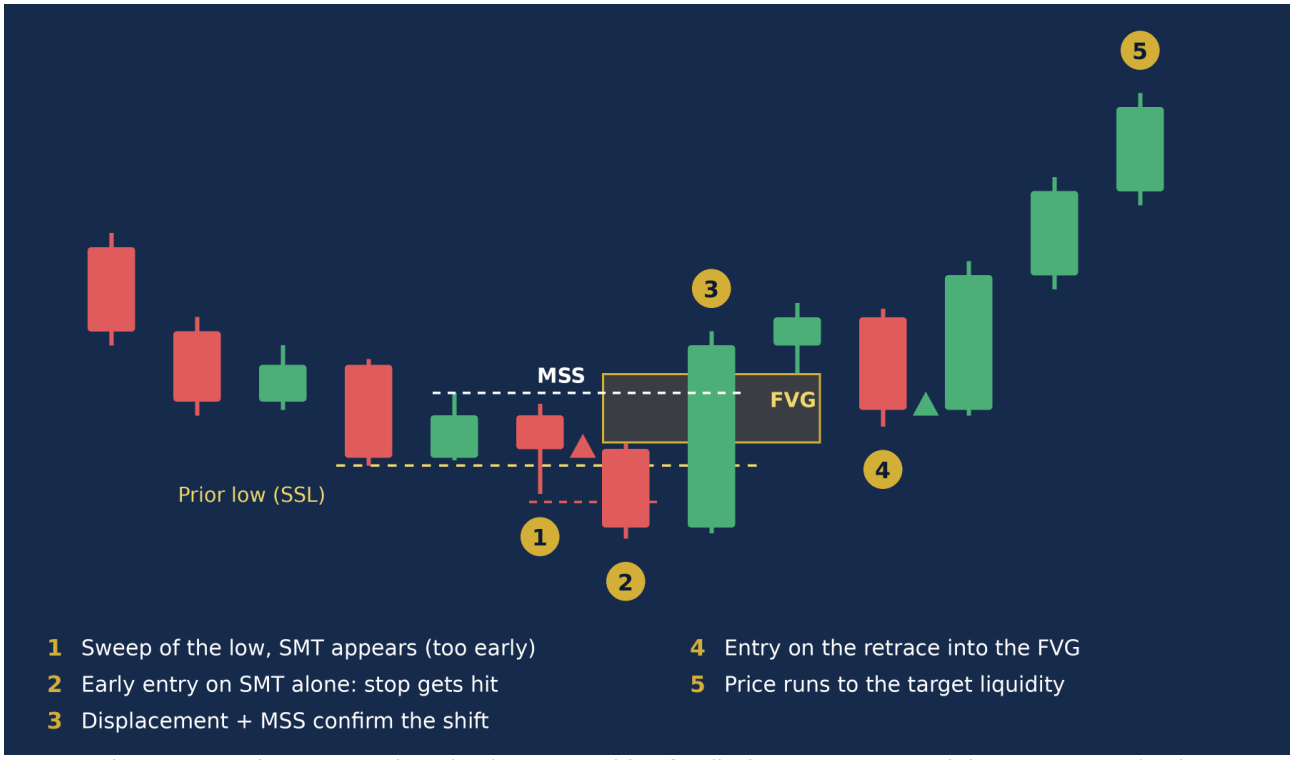


Figure 9: entering on SMT alone (1-2) versus waiting for displacement, MSS and the FVG retrace (3-5).

Real talk
Entering on a divergence with no liquidity sweep beneath it, no displacement and no MSS means using the confirmation before the setup is even built.

7. Before SMT Means Anything

Four things must exist first:

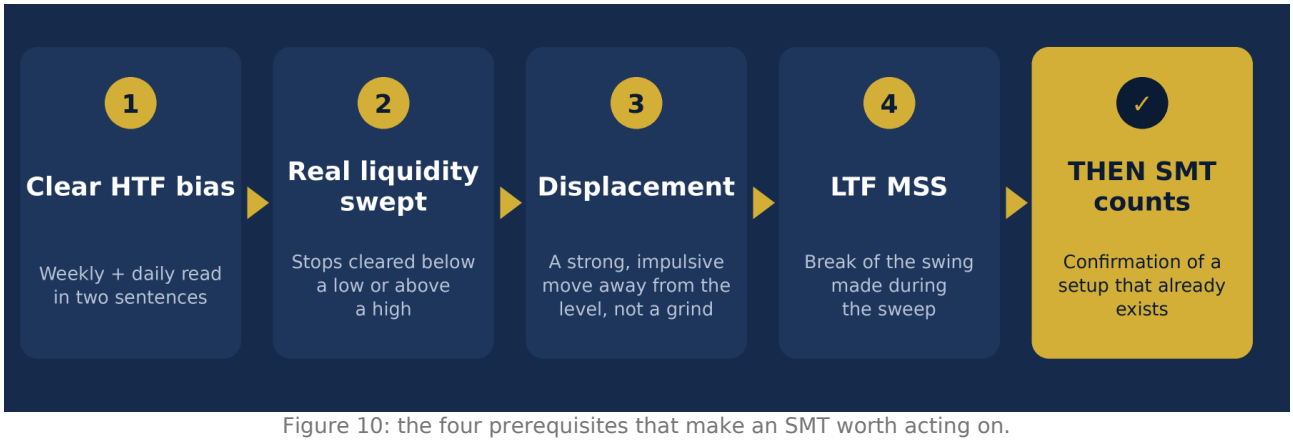


Figure 10: the four prerequisites that make an SMT worth acting on.

- **Clear HTF bias**: if you cannot explain your weekly and daily read in two sentences, you are not ready to execute.
- **A real liquidity level swept**: actual stop clusters below a prior low or above a prior high, not just any move.
- **Displacement**: a strong impulsive move away from the swept level, not a slow grind.
- **An MSS on the lower timeframe**: price breaks the opposing swing created during the manipulation. That is your structural confirmation.

8. Pre-Trade Checklist

☐ HTF bias locked (weekly + daily explained in two sentences)

☐ Draw on liquidity identified (BSL / SSL) before the session

☐ Inside a killzone

☐ Real liquidity swept, not just any move

☐ Correlated pair chosen properly (NQ/ES, XAUUSD/DXY, EURUSD/GBPUSD)

☐ SMT appears at a real liquidity pool after the sweep (all 3 conditions)

☐ Displacement followed the sweep

☐ Lower-timeframe MSS confirmed

☐ Entry planned on the retrace into FVG / OB / Breaker

☐ Stop and risk defined before entering

Glossary

Term	Meaning
SMT	Divergence between correlated markets at a liquidity level.
SSL / BSL	Sell-side liquidity (stops below lows) / buy-side liquidity (stops above highs).
HTF / LTF	Higher timeframe / lower timeframe.
MSS	Market structure shift: a break of the short-term swing that signals a change in direction.
FVG	Fair value gap: an imbalance left by an impulsive move.
PD array	Premium/discount zones where entries are sought (FVG, order block, breaker).
Displacement	A strong, impulsive move away from a level.
Killzone	A time window with higher-probability activity.

Educational content only. Not financial advice. No setup is guaranteed and trading involves substantial risk. Figures are original schematic illustrations, not real market data. This lesson is adapted from a trading thread on SMT divergence.