PRECISION PIPS ACADEMY | TRADING FROM ZERO · LESSON 14

BUILDING YOUR FIRST COMPLETE ICT/SMC TRADING MODEL

Combining daily bias, liquidity sweeps, displacement, market structure shifts, FVGs and order blocks into a structured setup

Welcome Back, Fam

So far we studied market structure, liquidity, displacement, FVGs, OBs, premium and discount, sessions and daily bias. The hard part is fitting them into one plan: you may spot a sweep but enter early, find a beautiful FVG but trade against structure, or call the direction right and enter badly. A trading model gives your analysis a consistent sequence. Here we build a practical XAUUSD model to study, backtest and refine before risking real money. (Hypothetical prices; educational, not a guarantee of profit.)

1. What Is a Trading Model?

A trading model is a defined set of conditions that tells you which market conditions you want, where price must reach, what behaviour must occur before entry, where the setup becomes invalid, where you may take profit and how much capital you will risk. It must be specific enough that you can review history and decide whether the conditions were present. “Gold is bullish, so I am going to buy” says nothing about why, where, confirmation, invalidation or reward. A structured idea sets conditions instead of relying on a feeling, but even a well-defined model can lose trades and must be tested over a meaningful sample.

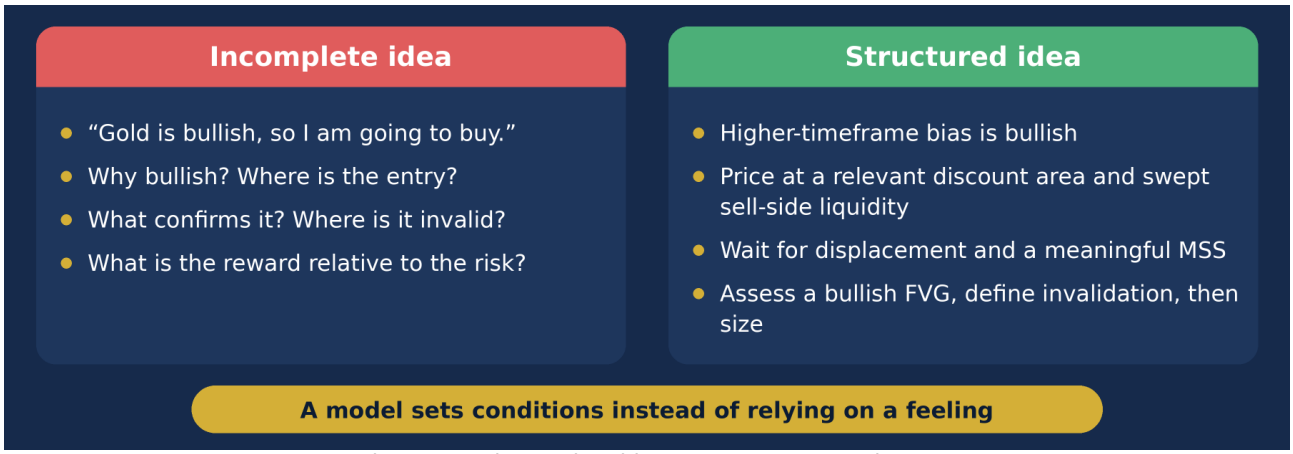


Figure 1: an incomplete idea versus a structured one.

2. The Six Building Blocks



Figure 2: higher-timeframe context, liquidity objective, sweep, displacement and shift, entry area, risk. Models differ between educators; the aim is one consistent framework to practise.

3. Step One: Higher-Timeframe Context

Zoom out. For intraday XAUUSD start with Daily and H4, then refine on H1 or M15. Ask whether structure is bullish, bearish or unclear, whether a meaningful swing was broken, whether strong displacement occurred, whether price is near a major point of interest and whether the market is trending or consolidating. A bullish backdrop makes you investigate buys rather than every sell; that does not mean every retracement must be bought. If Daily is bullish but H4 bearish, do not pretend the conflict does not exist: wait, narrow your focus or stay neutral. Your first job is to understand the environment, not predict the next candle.

4. Step Two: A Liquidity Objective

Identify meaningful levels: PDH, PDL, equal highs/lows, significant swings, session highs and lows, weekly extremes. Do not mark everything; prioritise what matters to the current structure. Keep two questions separate: **where might price go?** (target, draw on liquidity) and **where might I enter?** (setup, confirmation, invalidation, risk). Confusing them leads to entering simply because you expect a level to be reached.

5. Step Three: Wait for a Liquidity Sweep

A sweep is price trading beyond a relevant high or low; sometimes it reverses, sometimes it continues. Bullish model: in an upward H4 market, an intraday pullback falls below a meaningful short-term low. Do not buy just because a low was taken: did price return above the level, did bullish displacement develop, did it break a short-term swing high, did it create a bullish FVG or OB? Bearish model mirrors it. The sequence matters more than the sweep.

6. Step Four: Displacement

Displacement is a decisive move: large-bodied candles, strong movement away from an area, limited overlap, a break of meaningful short-term structure and often an FVG. No single trait proves a valid setup; evaluate the whole move. Without a meaningful response, the sweep may just be part of continued trading in the same direction. Waiting for confirmation can mean a later entry and a missed part of the move: that trade-off should be measured in backtesting.

7. Step Five: Confirm a Market Structure Shift

An MSS is a meaningful change in short-term structure that may suggest a change in directional behaviour; traders differ in how they label MSS and CHOCH, so choose one definition. Bullish example: short-term lower highs during a pullback, price takes a relevant low, rallies with displacement and breaks above the most recent meaningful lower high. Identify the swing that matters **before** the move occurs, or you may choose whichever level makes the analysis look right afterwards.

8. Step Six: A Potential Entry Area

After sweep, displacement and shift, assess an FVG or an OB as areas of interest, not guaranteed turning points. With a bullish FVG, wait for a retracement rather than buying after the whole displacement, and check the FVG came from the relevant displacement, the shift is meaningful, context supports it, the retrace fits the model and a sensible stop exists. A bullish OB is the last bearish candle before qualifying bullish displacement, if it is tied to the shift. Some setups contain both; a model must say whether one is sufficient. Do not keep adding conditions after the fact to justify a trade.

9. Step Seven: Premium and Discount as Context

With a range 4,000–4,100 (equilibrium 4,050), price at 4,025 is in discount; with bullish context that location may fit a model that prefers bullish entries in discount. Location creates no entry on its own. A model that demands discount for buys may miss some trend continuations; that is acceptable if the rule is deliberate and tested, and defined before looking at results.

10. A Complete Bullish XAUUSD Example

Assumptions: Daily and H4 bullish, price retracing toward discount, a meaningful intraday low below, an upside objective above; range 4,000–4,100.

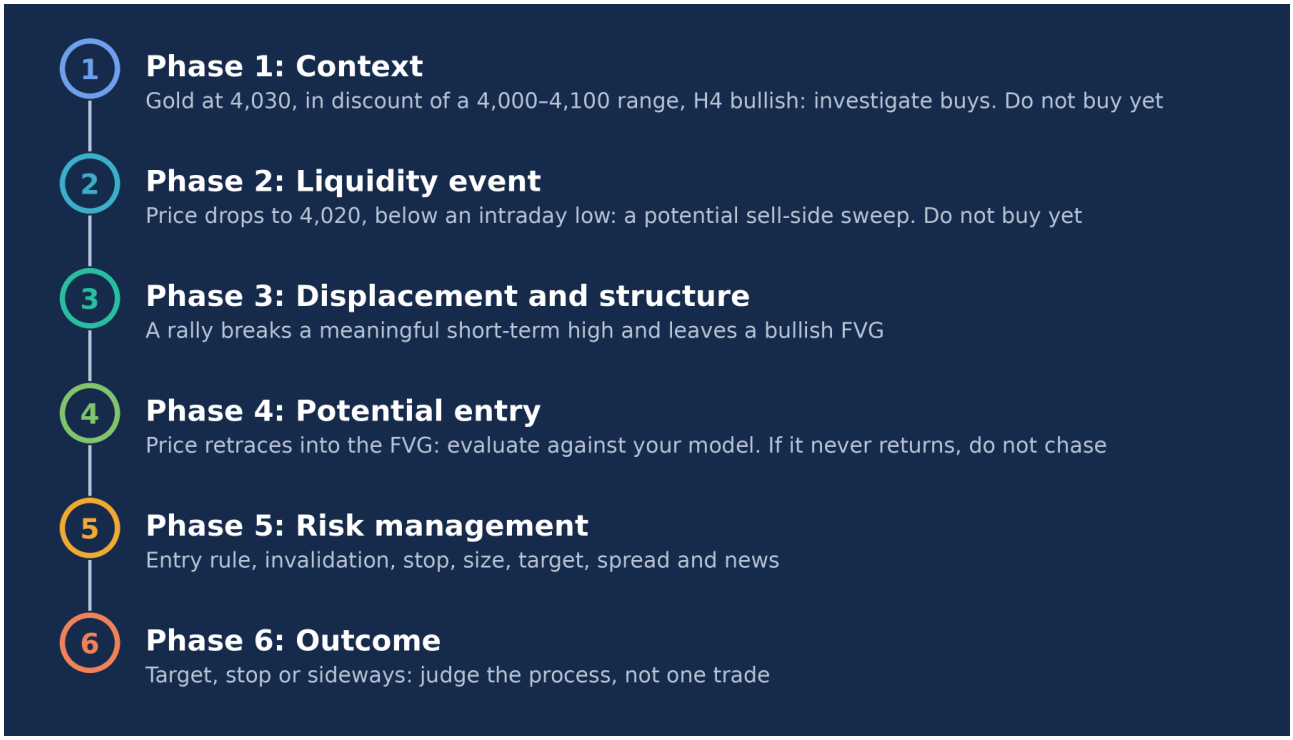


Figure 3: six phases of the bullish example.

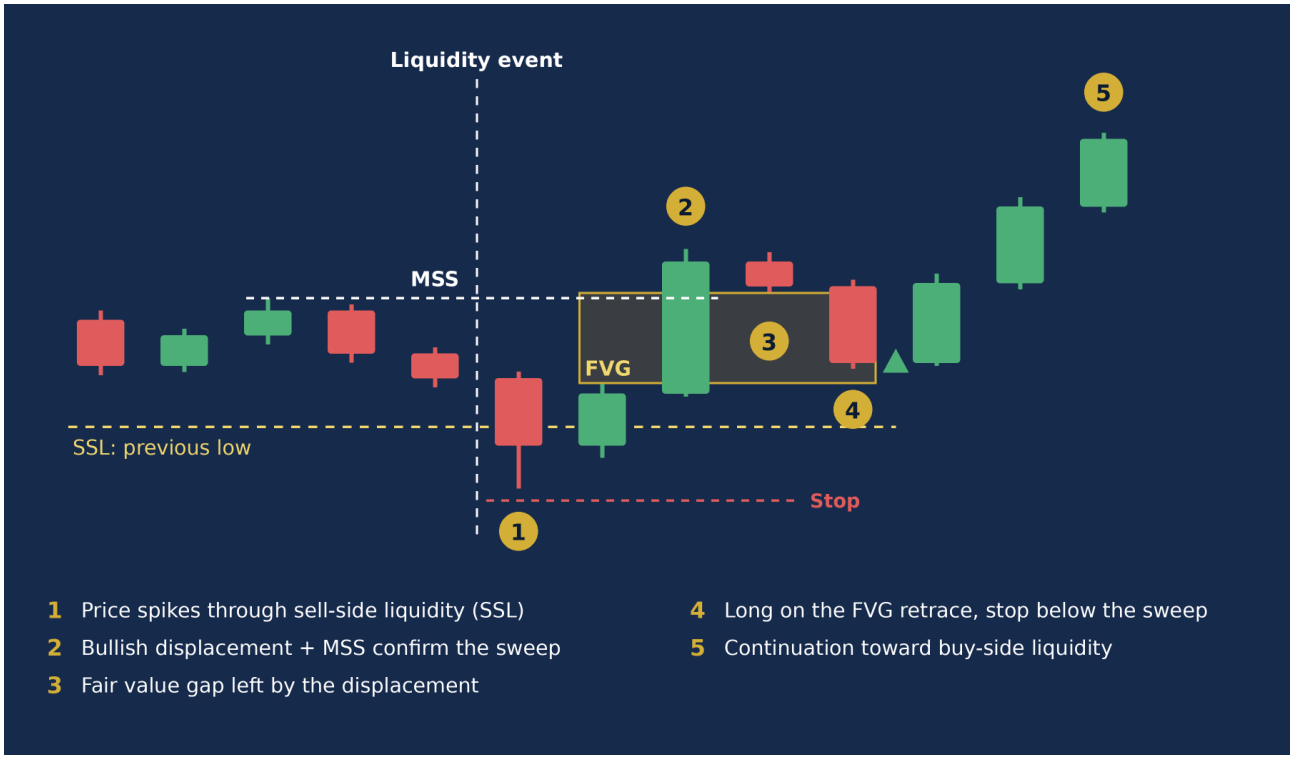


Figure 4: the bullish sequence on a chart (illustrative schematic).

11. A Complete Bearish XAUUSD Example

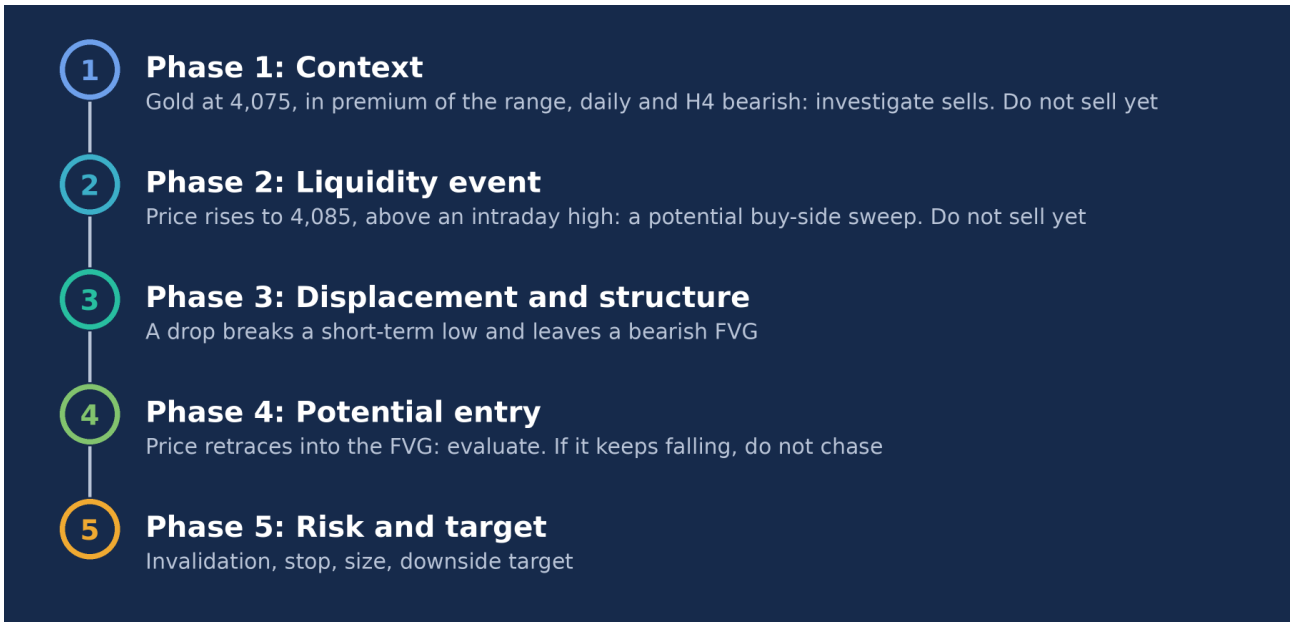


Figure 5: the bearish phases.

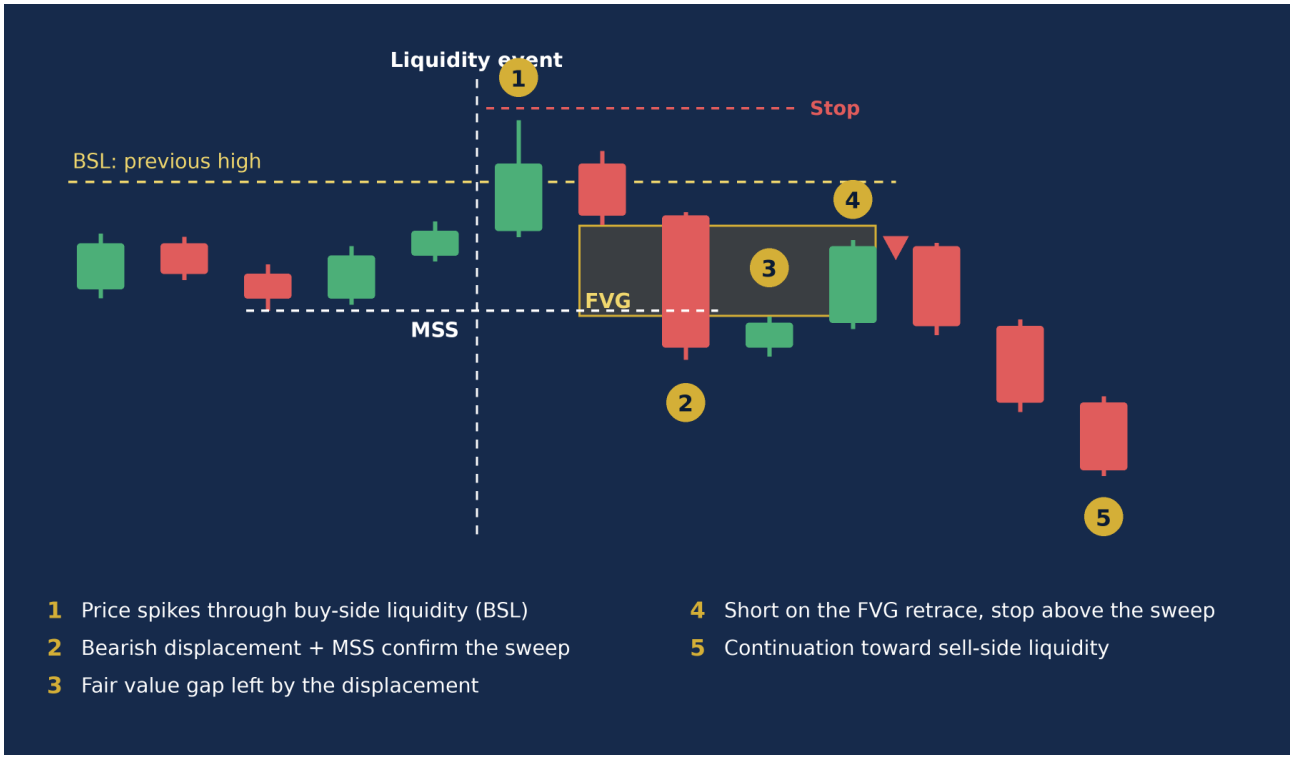


Figure 6: the bearish sequence on a chart (illustrative schematic).

12. How to Choose a Stop Loss and Target

A model must say where the idea is invalidated. A bullish stop sits beyond the relevant structural low or the area that invalidates the setup; a bearish stop beyond the structural high. Too tight and ordinary fluctuations hit it; too wide and you need a smaller position. Targets may be a previous high or low, equal highs/lows, PDH/PDL or a meaningful opposing liquidity pool; none is guaranteed. Example: entry 4,030, stop 4,020, target 4,060: risk 10, reward 30, a theoretical 3:1 before costs.

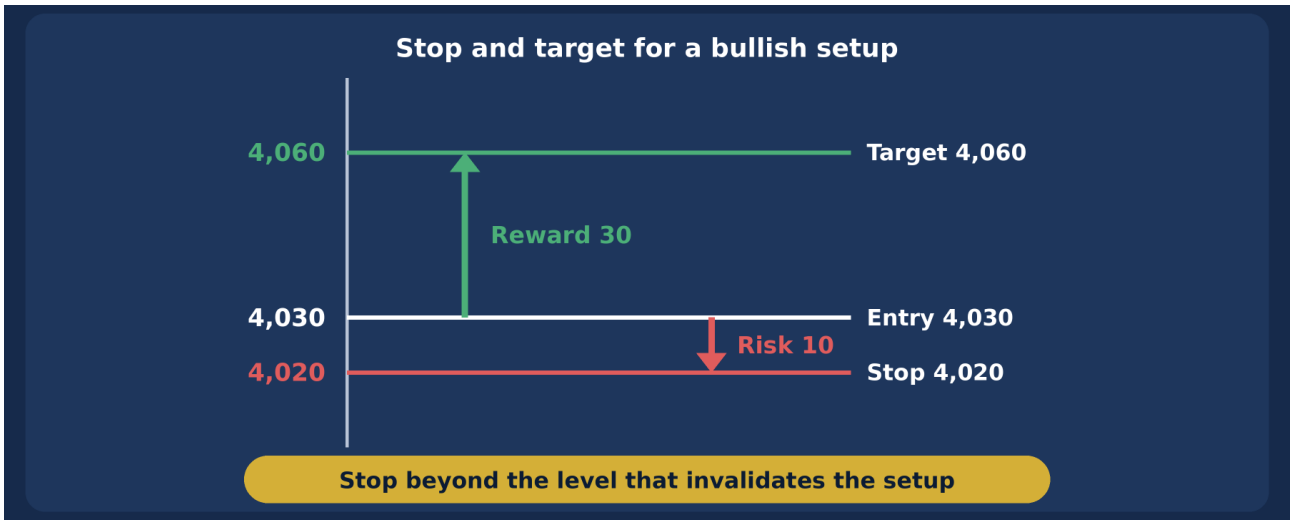


Figure 7: stop and target.



Figure 8: reward-to-risk.

13. Position Sizing

Demo balance $1,000 at 1% risk: $1,000 × 0.01 = $10 planned loss at the stop before extra costs. Size depends on stop distance and the instrument’s contract specification: check your broker’s contract size, tick value and minimum volume. If the required stop is too wide for acceptable risk, reduce size or skip; never move the stop closer to enlarge the position or raise risk because a setup looks exceptional.

14. When Should You Skip a Setup?

Skill is not measured by how many entries you find; it includes how well you reject poor opportunities.

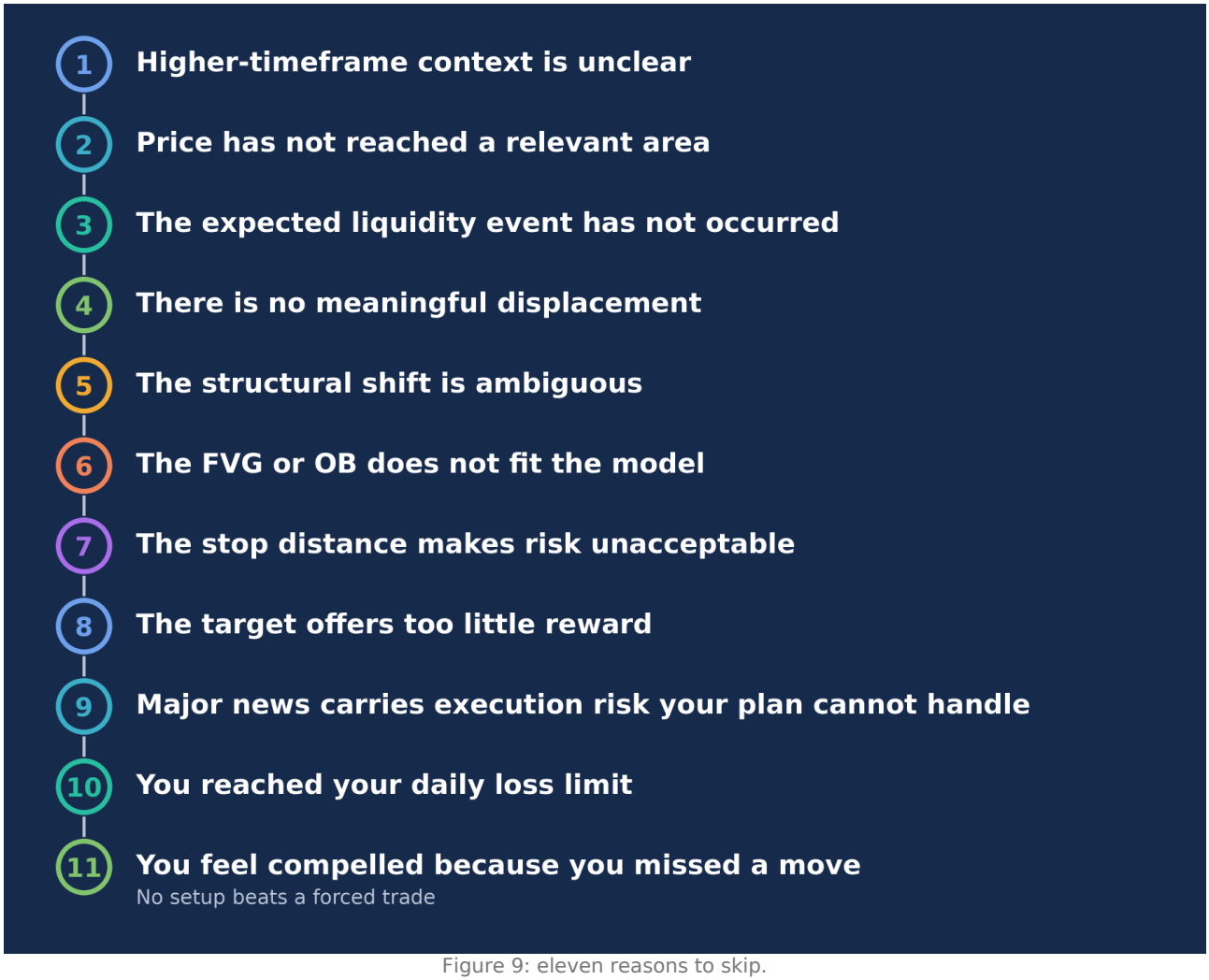


Figure 9: eleven reasons to skip.

15. Your Complete Model Checklist



Figure 10: if your model requires all of these, do not treat a partial checklist as a completed setup.

16. Backtesting Your Model

A convincing look on a few charts proves nothing. Choose one specific model, write every entry condition, define the session and timezone, choose the timeframe combination, define stop and target rules, review history candle by candle without looking ahead, record every valid setup including losses and missed trades, include realistic costs, review a meaningful sample and refine only when evidence justifies it. If you only save winners, you will misjudge performance.

Item	What to record
Date / session	Trading day and the window used
Bias	Bullish, bearish or neutral
Liquidity event	Which level was taken
Confirmation	Displacement and structural shift
Entry model	FVG, OB or the defined combination
Risk	Planned risk and stop distance
Outcome and result	Loss, scratch or profit; R-multiple after costs
Rule compliance	Were all required conditions met?

Figure 11: what to record.

Added: a setup scorecard

A simple scorecard can reduce impulsive judgement: give one point for each required element, and decide in advance the minimum score that qualifies. Decide the rule before reviewing charts so it cannot be bent to fit a trade you already want.

Added: setup scorecard	Score
Higher-timeframe context agrees	1
Relevant liquidity level identified and interacted with	1
Displacement present	1
Meaningful MSS present	1
Entry area fits predefined rules	1
Stop and target give acceptable reward ÷ risk	1
Decide the minimum score before reviewing charts: for example only 6 of 6 qualifies	

Figure 12: an optional scorecard.

Key Takeaways

- Context, liquidity objective, sweep, displacement and shift, entry area, risk.
- Do not enter because you see an FVG, sell because a high was swept or buy because price is in discount.

- Define the stop, size and target before entering; skip setups that do not qualify.
- Test your rules honestly before assuming they work.

Knowledge Check

Q: What is a trading model and why is it useful?
A: A defined set of conditions that makes decisions consistent and testable.

Q: Why set higher-timeframe context first?
A: It frames the environment before lower-timeframe entries.

Q: Liquidity target vs entry signal?
A: A target is where price might go; an entry needs confirmation, invalidation and risk.

Q: Why is a sweep alone insufficient?
A: Price can sweep and continue.

Q: Role of displacement?
A: Evidence of a decisive response after the sweep.

Q: How can an MSS support a trade idea?
A: It suggests a change in short-term structure.

Q: Why wait for a retrace into an FVG?
A: To avoid buying the whole move and to get a defined entry area.

Q: Does a bullish OB guarantee a rise?
A: No.

Q: How do you calculate reward-to-risk?
A: Reward distance ÷ risk distance.

Q: Stop too wide for acceptable risk?
A: Reduce size or skip.

Q: Why record losing trades?
A: To avoid cherry-picking and see the model’s real behaviour.

Q: Bullish bias invalidated before entry?
A: Update the analysis and do not enter.

Homework: Backtest Your First Complete Model

- Write the rules first: context, liquidity level, sweep, displacement, structure-shift requirement, entry model, stop, target, maximum risk, session and timezone.
- Review at least 20 historical opportunities as a practice sample, recording every item including losses; this is not enough to prove an edge.
- Review results: how many met all rules, why others were rejected, common reasons for losses, chasing, London vs New York, news effects, whether you changed rules midway.
- Complete the conclusion sentences.

Added: Glossary

Term	Meaning
Trading model	Defined conditions for entry, invalidation, target and risk.
MSS	Market structure shift.
R-multiple	Result divided by initial risk.
Backtest	Applying rules to historical data.

Next lesson
Lesson 15: Entry Models and Execution.

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