Introducing Order Flow Analysis
To YOUR Trading

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Objectives

• Look at how to introduce order flow to your trading.
• Consider where you are with trading and which ‘signals’ would get you to profit fastest.
• Consider your immediate plan as well as your long-term plans – not a single destination
• Gameplay and Crowding
Setting expectations

• Cake = Trade Location
• Icing = Order Flow
• Do you really have the cake already? Or is this a lipstick on a pig scenario?
• Do you even know if you have the cake?
  – Historical track record, proper logging?
• If you don’t have cake – why not?
  – Are you looking in the right places for the information?
  – Are you switching methods every few weeks because ‘nothing works’?
  – Are you using something that passes the BS test?
• Is Order Flow just going to be the next 2 week adventure?
• If you have the cake already, you should be moderately successful, at least break-even.

“There are people out there right now that know MUCH LESS than you about trading but that are making money trading most days. They do not know any secrets. The fact you think they know secrets and you keep looking for them is half the problem”
Performance Tracking

• Are you having a bad day?
• How do you know it’s a bad day?
  – Compared to what?
  – What is a good day?
• How many setups do you have?
  – Do they have names?
  – Do they have guidelines for execution?
• How is each setup performing?
  – When you follow your plan to the letter...
  – When you half follow the plan
  – When you completely shoot from the hip
  – When volatility changes? On different day types?
Order Flow as Cake & Icing

• Smaller targets
• With funding, this is not an issue, it’s only an issue if you try to make a living from $5k
• You need to be able to cut trades aggressively.
• You need to focus more on setups:
  – www.nobsdaytrading.com
• You are looking for a level to “Lean On” and for signs of Gameplay but still within context
• Highs/Lows (yesterday/globex) are still key, as are ‘steps’ on the volume profile and key levels (52 wk high etc.). Know where they are.
• Requires a higher level of Order Flow Skill but there are many setups per day. Elapsed time is less.
• You still need to sit on your hands a lot.
Order Flow as Icing

- Cake = Position Day Trading
- Confirmation can be pre-trade and/or post trade
  - With maybe initial focus on post trade flow.
  - Analyzing price AND order flow together post entry.
- Takes a lot longer to perfect — there is only 1 day per day. You need to experience a lot of days.
- Larger Targets and more wiggle room needed
  - Wiggle room also depends on crowding & gaming
- Setups/Games are important but more focus on the overall flow, like watching a tide turning.
- Change from looking at levels to looking at zones.
Order Flow as Icing
Major Minor

• Major reversals vs Minor Reversals
  – Crowding & Confirmation
  – My advice – initially, stay away from major reversal trades UNLESS this is a range day.

• Use longer term order flow to keep you onside
  – e.g. as long as order flow is predominantly long, ignore shorts
  – Cumulative delta is best for this on the ES for me.
  – Be aware of range days and shakeouts on one way days

• Volume – is this a busy day, an average day, a slow day? – ranges, reversals, pullbacks
Getting Stopped & level breaks

- You should be actively working to get stopped out less frequently.
- Wait for a level break for entry
- You should be closing out before you get to your stop loss
- The first few minutes of a trade are crucial. Keep your eye on the order flow like a hawk.
- It is much easier to read order flow when you have a position on. Many people I talk to say it is easier to tell when a position is going against you that to read the market with no position on.
- When you have some cushion, then you can start to ignore the flow a little.
- Wait for a level break for your stop
Icebergs

- In vogue in the retail trading industry right now.
- Simply an order that gets refreshed OVER TIME. Plenty of orders get refreshed instantly when a level becomes ‘inside’.
- Someone wants to buy/sell without tipping the hands of other traders.

**Index Arbitrage trading & icebergs**

- Choppy, directionless markets will have lots of icebergs.
- An iceberg on its own will not stop a roaring market. It is a sign of absorption.
  - If you tick up on 1000 contracts per level and you get 1200 contract iceberg – it’s irrelevant.
  - If you get up to an area you expect a reversal
- Icebergs are excellent for jumping onto a trend day/pullbacks
- Icebergs are more significant if there is spoofing on the opposite side.
Flip - Accumulation

Note – total at bid, difference in depth, actual trades vs initial bid, stacked offers. Market moves down a tick but the play continues.
Flip – Reversal

Note – Offers have shrunk, trades @ offer vs bid, absorption on offer. Cumulative Delta shift
Stop Runs

- Are they out to get you?
- Do you go out of your way to get a better deal?
- Buy stops – people holding a short position who will buy at a higher price.
- Does this not give sellers a disincentive to sell at current prices?
- On the other hand, will the market move through 5000 contracts of sell limit orders to get to your 3 contract sell stop?
  - Only if you put your stops where everyone else does....
  - So don’t take it personally!
Stop Runs
Stop Cascade
Avoiding Negative Impact

• Any change in your trading has the potential to impact it negatively
• Order Flow will inevitably keep you out of some good trades, when price hits your level & sellers just jump in with no warning
• The overall impact on your trading should be positive
• Do not ignore your current method, if order flow says one thing but trade location says another – stay out.
• You need to be selective and it is a good idea to have a ‘tune in’ time – no trades for the first 5-10 mins of watching the order flow, getting a feel for the size going through.
• The best opportunities are usually pretty obvious. Good location, good order flow setup. If you jump on every half-decent order flow opportunity, you might be in a short when the long “trade of the day” sets up.
• If the range is too small, commissions will kill you.
• If the range doesn’t kill you, then hope sure will.
Q&A

Example trade video

https://www.youtube.com/watch?v=hGcNJvq5fjs

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