The thread was started by Carnegie:

View Single Post **Thread:** Order Flow - Finding cluster of stops on chart

Jan 1, 2011 20:54 #1

Carnegie
Started when I was 18.. Now 19.

Member Since Feb 2010
297 Posts

Order Flow - Finding cluster of stops on chart

Hi guys,

I have been reading allot of Darkstars posts and found this order flow stuff very interesting.
So I have been looking around the net for Order flow info and just found things about "tape reading" and level 2 orderbooks etc but here is my take on it:

Since the FX market is OTC, there is no "center" orderbook or whatever I should call it. What we have is FXCMs orderbook, OANDAs orderbook etc. which wont help at all because no big banks or big indivduals trade their order thru these small retail brokers.

Now, the second thing is that the FX market moves so god damn fast, how would ANYONE be able to process all that fast moving info and reading a fake hand on bid/offers to take a counter trade?

What this boils down to is really my question, is there any way of localizing where the orders MOST LIKELY will be **ON A CHART.**

I´ll give you an example, as a rookie: I think as a FX loser. And this was once portrayed to me by the market in a way that made me think "what the FUCK are you doing".

This is what happened:
The market trended down strongly, then was in a consolidating or congestion, easily drawn by two horizontal lines.

Fair enough I thought, I put up an upper and lower horizontal lines which also created my boundaries.
As smart as I am, I put up breakout orders BOTH directions (I know, I'm a sharp, greedy little kid.. Trying to catch both movements!!)

So how does the market humiliate me? Well it trades up and hits my order so I'm positioned LONG. Up a couple of pips and then moves waaay down and hits my stop-loss at the bottom boundary (remember the two horizontal lines?).

What does that tell me?
That tells me that I am STUPID. That tells me that my entry was someone elses short and my stop-loss was someone elses take profit. It almost feels like someone took my girlfriend really.

So this made me think, I have seen allot of traders using order flow in the stock market (obviously because it's easier since it's centralized) and almost all other markets but not the FX.
Let's say it's impossible to use a order book in FX: how would we then go about order flow? Is there any possible way of "thinking" about where the orders may lie?

The first thing that hits my mind is that there should most likely be stop-loss order below a consolidation range. And also there should be some market orders SHORT.
And reversed, there should be long order above the range, trying to catch a breakout.

But this can't be it, can't it? There has to be something more! (Ofcourse I understand that there is no way of knowing 100% where all the orders are).
So this is my take on what I have found on order flow and I am looking for more, it sounds extremely interesting!

And hope you guys (n' gals) can help me out here, how to "think" where the orders should be and perhaps point me to the direction of getting more info about order flow.

Thank you and hope you all had a great new year celebration!
PS. Sorry for my English, if you do not understand what I mean I will happily try to explain it more.

Quote

Jan 3, 2011 1:44 #6

Carnegie
Started when I was 18.. Now 19.

Member Since Feb 2010
297 Posts

Quote:

> Originally Posted by **Intensity**
> *Your thinking process seems right to me :*
> *- you studied the chart and found a trend ;*
> *- you used previous experience to create an analysis that can have an edge ;*
> *- you invested based on all that, you lost and now you're trying to understand why and move forward.*
> *The progress will be slow but at least you might become a profitable trader that way later on.*
>
> *Hint : in my opinion, going the way of market orders/indicator signals isn't really profitable.*
>
> *I didn't see the third post you are talking about....*

Hmm interesting thing you stated there, that the progress was slow. Are you of the idea that there is a smarter (and therefore a faster) way to go about the learning process? If so, please tell me!

Ah, yes, maybe I read it in a wrong thread never mind that.
Yes, you are very correct in this, being it's OTC and we'll never have good access to data unless we're a big market maker. But this is my point!!!
Is there any other way to go about order flow if not by Market Depth or Level 2 order book?

My idea was that you most likely should be able to see inefficiencies and a misbalance in supply and demand just by looking at the chart.. But the question is how to go about this

Thank you for the link on the blog, but as I stated above I already know about futures and well aware that there may be correlation but the way I see it is that if others can see it on FX Spot, I should be able to do it also if I study properly.

The way I'm seeing this is all about price, and the chart trends and consolidates as a function of a 'war' if you like to call it. If demand wins the war against supply there is a inbalance and we have a trend until they meet at another area to fight on (consolidation). Now this is really economics course 1 and I need to study more, because there is no way this can be applied to trading.. Not in this simplicity.
Thank you guys.

Here's the first pill from Unnamed, "pool size":

Jan 4, 2011 0:09 #7

UnnamedPlayr
Game on: Buy low sell high.

Member Since Aug 2010
50 Posts

There are lot of different stop hunting pattern because the participants act different in handling their weak positions if they are trapped.
You will never know where stops are and how far it needs to drive the price to liquidate that pool.

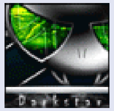
Stops get triggered all the time, that's nothing new.

It happens like you've said under or above consolidation pattern and even in that range.
But without statistical edge in knowing how big that pool is, it's an dangerous undertaking.
You're playing the breakout and suddenly you will become the prey.
A lot of traders call it false or "fake" breakouts.

So it's essential to know the size of that pool and how it could be hunted depending on the market condition.
Furthermore you have to identify which market participant is trapped and who is in control.

It seems like Carnegie was on the right path:

Jan 4, 2011 2:48 #8



Darkstar
All your stop are belong to us!

Member Since Nov 2005
1,099 Posts

Carnegie my friend, you are wise beyond your years. That is EXACTLY how you find the orderflow. Nice work.

The Order Flow Trading book is almost finished. Wish me luck!

Quote

I think Darkstar was referring to this:

"My idea was that you most likely should be able to see inefficiencies and a misbalance in supply and demand just by looking at the chart.."

About the importance to know WHY things happen (here's the picture Carnegie talks about PIC):

Jan 10, 2011 11:48 #35

Carnegie
Started when I was 18.. Now 19.

Member Since Feb 2010
298 Posts

Quote:

> Originally Posted by **shiva**
> *I do like the language style you present your thoughts in, your English is quite fine.*
>
> *Just out of curiosity do I ask this... Why do you think your thought process needs to be changed? Just because one of your stops was taken?*

The thought of process needs to be changed because I understood that I have not a single clue about WHY things are happening. Why did it fail? How was my counterpart thinking?

Now, I have attached a picture to let you all know how I am going about all this.
This is EURUSD 1HR recent price action. Let's say we shorted on the break of the pinbar. We are in big profit at the consolidation I have marked on the chart, with a blue and black horizontal line.

When this consolidation happens, there is a phase of accumulation/distribution. We don't take any position inside the consolidation, we just wait and see which way price will break out and this is how we do it:
Since we're already short we place our Stop-Loss just ABOVE the consolidation. You may ask why?
If the price would break out on the LONG side of the consolidation, most likely the downmove is over, and our stop-loss in this case is a order for closing our SHORT trade which results in our broker seeing this as we are going LONG.

Likewise, techincal traders anticipating a move up here since it is a Support and Resistance area have their stops (MOST LIKELY, NOT GUARANTEED) just below the consoldation area, and if price moves down there their stops will result in SHORT orders and price will cascade down.

The idea is that there are technical traders trying to catch a long BREAKOUT from the consolidation by setting up orders above the consoldation price action. Equally, there are breakout traders trying to catch a short movement (i.e. having stops below consolidation) and there are those with stop-losses below consoldation.

See what I mean? In each case (up or down) price should cascade in the direction. BUT IT DIDN'T. And I have to know why, I just can't live with the idea that something happens 95% of the time and 5% not. I have to atleast know **WHY.**

Quote:

> Originally Posted by **scott89**
> *So you mean that you cannot see it on a simple candlesticks chart? That's what I'm trying to do.*
> *I know, market structure understanding is needed, otherwise it's like playinga tetris game without knowing what you have to do...*

Hey Scott,

In all honesty, I would be lying if I told you yes or no. I will from now on spend my time reading until I understand all of this, because as of right now, I don't have a single clue.
I do believe though, that it should be possible to do it from a candlestick chart, and the only way to know this is continue to study and PRACTICE all of your ideas on the market to see if it works or not!

Yes, I agree with you on that one. Knowledge of the market structure is needed because that will most likely give answers to allot of the questions Technical Anlysis cannot answer to us. But that is another discussion.

Thank you all for contributing. Take care and happy trading.

A post by Trizzle that I think is of great value:

Jan 10, 2011 22:45 #42

xXTrizzleXx
Riddim Driven

Member Since Aug 2010
24 Posts

Hello **Carnegie**,

Here's my humble view on an attempt to propose a possible explanation for what may be occuring. Looking at the move before the consolidation, it was a bold downwards move. This indicates that there was an imbalance of buy orders and sell orders, the latter significantly outweighing the former, and thus pushing price down as liquidity is consumed to match these sell orders. To enable the sell orders to be transacted, someone must have been on the other end of the transaction, with an accompanying buy order, whether it be a limit buy (which tends to be the case with institutions of size) or market buys.

We know that the great majority of transactions in the spot forex market are of a speculative nature, and so we can conclude that most positions taken would not be for the delivery of the currency, but for speculatory purposes. Individuals and institutions would like to trade for speculative gains, but because capital is limited, stop-loss orders must be placed **out of necessity.**

I seem to think that the individuals on the buying end of a downtrend, are of two types; the weak longs and the short longs. The weak longs are those of limited capital, who are in essence trying to catch falling knives, and are inadequately capitalized to remain viable on that side of the market. The strong longs are the institutions of size, who can withstand the pressure of the prolonged downtrend, and are capitalized to manipulate the spot rate to some degree.

In a strong downwards move, we can thus imagine the the buy-stops of short participants to be trailing downwards and accumulating, while, lagging behind the price action, as it plummets further and further. The down-move is propelled by participants transacting short orders into available liquidity, as well as the execution of the sell-stop orders of the weak longs, pushing price downwards.

Insitutions of size will then be able to transact orders in the opposite direction, overwhelming the imbalance of sell orders, bringing price back upwards, until it exceeds their average position price which they have accumulated. Viewed as the exhaustion of the downtrend; a reversal, this move may be speedy, since it is facilitated by the execution of the buy-stops of the participants who were short and riding the downtrend, as well as the buy orders of other participants who believe this is the start of a new, genuine move. The buy-stops of the short participants, **are guaranteed orders, which will add upward pressure to price discovery; they must be placed otherwise these participants stand to meet financial peril.**

Upon surpassing their average position price, the institutions of size will then begin to distribute their accumulated long position. Liquidation of this long position will be facilitated by the new market orders coming in from participants jumping on the move.

When the position is offloaded, new short positions can then be established, and by giving price a slight nudge downwards, into the sell-stops of the market participants who have jumped on this move, price finds itself cascading downwards as these sell-stops are executed. Other participants jump in on the new downwards move, further exacerbating it, in a manner of positive feedback, similar to the way an impulse travels down a neuron. I believe this is a repetitive cycle, with large institutions constantly trading places between buying and selling, and profitting from those individuals who end up whip-sawed.

Note how indicators would do a lovely job of detecting the pseudo-up and pseudo-down moves as profit-taking occurs. Perhaps that is why whipsaw is so pervasive in systems based upon them?

But as is more likely than not, it's possible that my views are completely incorrect, and I would love to hear different points of view, as that is the only way I will be able to suceed at improving my **order flow mindset**.

PS. Essentially as DarkStar succintly summarises it, if one can form an educated guess as to where the stops are located, by rationalizing the situation from the point of view of the participants, then joining the fading move into these stops, is a high probability scenario.

Quote

Here’s how Scotty entered the discussion:

Jan 12, 2011 23:04 #49

Scotty B
Cherry Picker

Member Since Dec 2007
10+y 1,310 Posts

Quote:

> Originally Posted by **Carnegie**
> *Hmm.. Interesting that is what you wrote there, it seems as if liquidity really does play a major part in the order flow mindset.*
> *Now my idea from this is that maybe there is liquidity at a certain place, maybe a support area or something, then major banks will trade to that area in order to execute their order there.. Would this be possible?*
>
> *So in reality, we are looking for where the most likely "order-flow" area is, and trading toward that direction? But what happens when we're there??*
>
> *Anyway I have another question that has been bugging...*

Hi Carnegie,

As you know, there is no true order information available for spot fx aside from the market depth or level ll on the interbank. Unless you're a bank or a big player, you're not going to get access to this information.

I would agree from a microstructure standpoint that a sideways market is highly liquid zone. As trade moves sideways, more players take a side and those who are wrong are inevitably squeezed out. This is a fine idea in theory, but you need to find a way to test your premise, see what the numbers really are.

My views continue to adjust as I learn more. If a trader has a chart pattern that is profitable over the long term, he/she is an orderflow trader in a certain sense, that is he/she can successfully predict future orders in some way.

My only advice would be to figure out a systematic way that quantifies your idea. For example, how do you define market compression? How do you define an entry and an exit? I would be careful not to rely on a manual/visual approach. I'd suggest looking at something like a simple standard deviation indi in your tests--what better to see compression?

What is this all about? To me, everything is about "Orderflow mindset" and "Future orders". Anticipation of the outcome of a disequilibrium:

Jan 14, 2011 1:31 #69

Darkstar
All your stop are belong to us!

Member Since Nov 2005
10+v 1,099 Posts

Knowing how it ends I know exactly what piece your missing, so I'll give you a hint:

Think about how price change and the distribution of liquidity interact. Your looking for a disequilibrium in that distribution which should give you a highly predictable outcome. Trade with the anticipation of that outcome and you have the makings of a high probability system.

Jan 15, 2011 12:46 #94

UnnamedPlayr
Game on: Buy low sell high.

Member Since Aug 2010
3v 50 Posts

If you can crack that code you will be able - with some practice - to "read" the intentions of the big players before price will move in that direction.
Triggering some stops is then just a byproduct.

Identifying the imbalance before the outcome occurs puts you in the first best seat.
It's also a kind of front running.

Quote

But we still didn't get it. This is what Carnegie wrote, but it's exactly what I was thinking too:

Jan 15, 2011 14:25 #96

Carnegie
Started when I was 18.. Now 19.

Member Since Feb 2010
3v 298 Posts

Quote:

> Originally Posted by **UnnamedPlayr**
> *If you can crack that code you will be able - with some practice - to "read" the intentions of the big players before price will move in that direction.*
> *Triggering some stops is then just a byproduct.*
>
> *Identifying the imbalance before the outcome occurs puts you in the first best seat.*
> *It's also a kind of front running.*

I see what you're saying but I have no single idea how to get there. Darkstars hint + your hint gave me some ideas about the stop hunting thing, but I think I need to study a little bit more before I present them.. but I am actually quite sure about them.

It is the identifying of the imbalance I am on the quest for, I really want to understand what it is. But I really don't know what to start with and **what to look for.**

A very interesting post by Sergiu:

Jan 18, 2011 20:45 (41 hr ago) #138

Member Since May 2006
438 Posts

sergiu
Least Qualified Poster

My girlfriend occasionally glances at my computer screens while I trade/analyze the markets. Sometimes she asks me questions about it, and I try and explain things to her about what I do and how I do it. The other night, she looked at my screens and said: "How in the world are you able to make money doing this, it just seems so incredibly complicated". And I told her, that the reason I am able to make money is exactly because it is complicated. If it was easy and simple, everyone would be able to make money, and there would be no one to lose it to them. Essentially, no one would make money. I think this is the reason, why figuring out this 'Order Flow' thing is so complicated. In my opinion it is the best may to make money in trading, because it is the only type of trading where the trader knows with a high degree of probability, why something happens before the fact.

Now, I do not trade with 'Order Flow' information. I found a different way to be profitable, and for the time being I am happy with it. I have been consistently profitable for long enough to know that my method works. But I am aware of the fact that I am like a blind person. Even though I am profitable, more often than not I have no clue what happens behind the scene that makes the price do this or that. And the only thing that can answer that is knowledge about 'Order Flow'.

Like other people in this thread, I have spent a lot of time researching and thinking about this. And I arrived at the conclusion, that for me right now will be very difficult if not impossible to figure this thing out. The reason for that is MONEY. Order flow information cannot be found on a price chart. You may be able to find patterns on the chart that may give you a clue about the order flow, but only in hindsight. By the time you see this patterns, more often than not it will be too late to act on it. You need the information about order flow, before the pattern shows up on the chart, and actually be one of the contributors to its creation. And to have access to that kind of information, you need money. At the very least enough money to get a prime broker (currenex/EBS) account. You would also need a solid paid news service such as IFR, for information/rumors about option barriers and such. Knowing someone on the inside of a large bank or brokerage also will not hurt. This is all sources of information, and it is that information that is at the core of a trading strategy using order flow.

But even having the above is not enough. It is also necessary to have a deep understanding of how the market works, who are the big market participants, what their goals are and how they go about fulfilling them. The T & E book is a great source for learning that. Armed with that knowledge and having access to he information described above, the next step would be to watch how the price reacts around certain levels. These levels can be option barriers, stops that can be faded, pockets of open interest etc. Most of the time this will be just rumors, so you need to know what to look for, to determine if the rumors will materialize. There needs to be some sort of reaction at this levels that would suggest the information is valid and good to act on. After that one can start to formulate a strategy, around these observations.

This thread, like so many others on FF, is looking for an answer. An answer that can be put in a post. That's why many of the threads looking at order flow have died out. How to trade with order flow, cannot be found in a theoretical debate, because it is not very scientific in its nature. It is more of an art, a way of thinking and viewing the market. And that can only come after having the proper mindset, knowledge, information and experience. I am willing to bet money, that if Darkstar, or anyone else who trades using order flow would come out and spill the whole thing out, would not make most people reading it, profitable. It will still require hard work studying, analyzing and putting that information into a usable strategy.

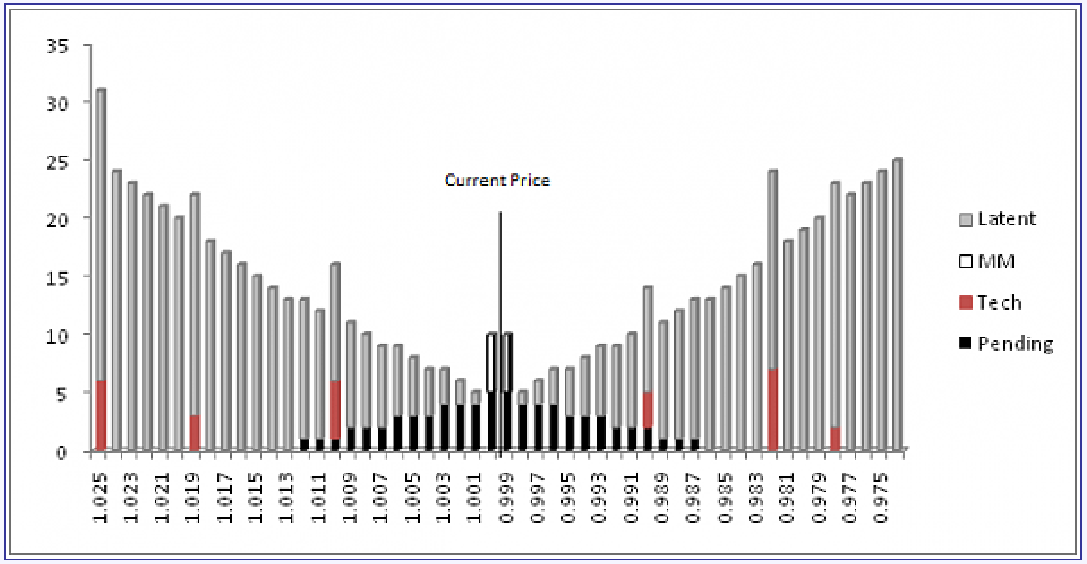
As for me, I am leveraging the crap out of my abilities at the moment, while patiently watching my account grow. Hopefully in a couple of years, I will have enough money to gain access to the information needed to trade with order flow. At that point it will have a more practical meaning for me. And in the mean time, I will enjoy studying the theory behind it, and trade my way towards it.

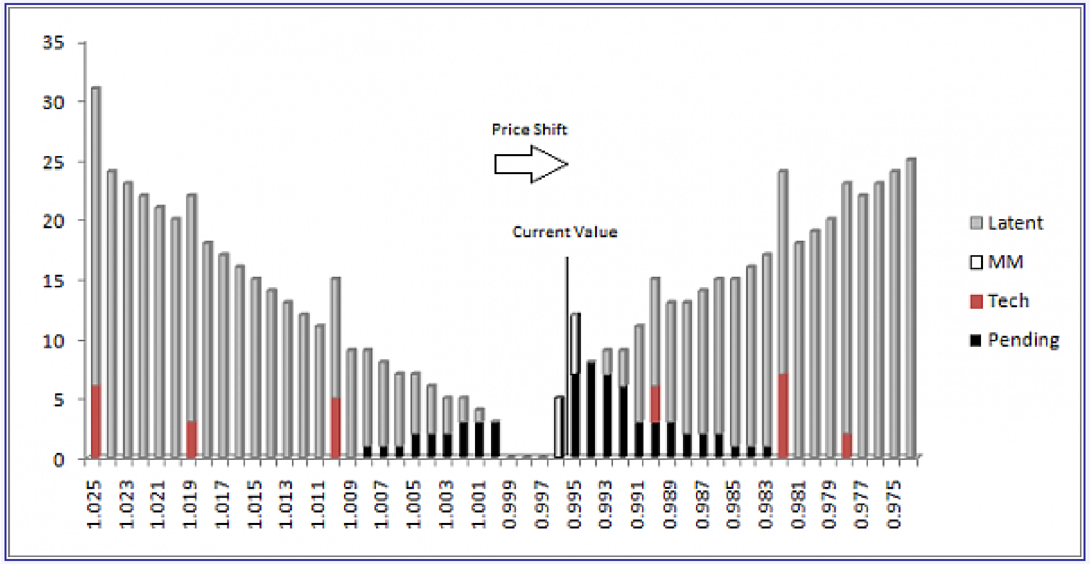
Sorry for the long ramble.

Stubbornly persistent

Quote

Some more insights by Darkstar, the 2 pictures with some notes:





NOTE:// Think about how price and liquidity interact across time.

NOTE2:// I'm not putting this up here for the hell of it. I really need you guys to talk about it so I can make sure I explain it adequately in the book...

And then we get spoon fed hehehe =P

Jan 19, 2011 1:11 (37 hr ago) #150

Darkstar
All your stop are belong to us!

Member Since Nov 2005
1,099 Posts

Quote:

> Originally Posted by **eurotrash**
> *The market was where it was, then price moved. In the first image the liquidity was made of the dealer's liquidity at market, and liquidity from orders placed at and beyond the market. When price moved, all the liquidity from the orders between the original price and the new price were consumed. If price moves further in the same direction, there is liquidity from orders which have not yet been filled plus the dealer. If price falls back there is only liquidity from the dealer, and unlike the pending orders which will fully absorb any "demand"...*

Good. Now what is the implication?

BTW... did you notice the shift of latent demand to pending?

Jan 19, 2011 1:30 (37 hr ago) #155

Darkstar
All your stop are belong to us!

Member Since Nov 2005
1,099 Posts

Quote:

> Originally Posted by **eurotrash**
> *I did, but I can't say I understand what it is. I'm aware of what latent demand is but I can't see it being that due to the linear distribution - you can't possibly know its distribution, can you?*

Depends... Who does the latent demand represent? It isn't tech because they are already represented.

Quote:

> Originally Posted by **seagreen**
> *Good illustration but it's nothing new to me. The only implication i come up with is that fading is the best strategy.*

Seems like a pretty important implication to me. Why so quick to disqualify that answer?

Quote:

> Originally Posted by **seagreen**
> *I dont think red (tech) orders are stops, they are limits adding to the liquidity.*

Yeah in hindsight, red was probably not the best color. You have it correct.

Jan 19, 2011 1:37 (37 hr ago) #159

Darkstar
All your stop are belong to us!

Member Since Nov 2005
1,099 Posts

Quote:

> Originally Posted by **auxesis**
> *In the first pic price was at a state of equilibrium, as price shorts, latent interest becomes market orders, (either by short pending order increase or manipulation of price as to attract interest) price is then attracted to the new order buildup in that direction until it finds a new equilibrium point.*
>
> *As price moves away **it leaves a vacuum**, latent interest is already building behind the move.*
>
> *???????????????*

Close enough... latent becomes both market AND limit orders, but the bold was what I was looking for.

Thanks kids.

BTW- you should now have everything you need to work out the liquidity disequilibrium problem.

Jan 19, 2011 1:53 (36 hr ago) #162

Darkstar
All your stop are belong to us!

Member Since Nov 2005
1,099 Posts

Quote:

> Originally Posted by **eurotrash**
> *A function of orders and time? The further way a given price is from the market, the more time for orders to be added there. Close to the market that potential is smaller, though some of it has turned into actual orders placed.*

hmmm.. sorta... since you've all been very helpful, i'll give you some insight.

Quote:

> Originally Posted by **The Book**
> *Latent order interest is simply an accounting of participants who can/will trade if price were to move to a specific price level, but due to the costs associated with managing orders, remain on the sidelines until it does so.*
>
> *To give you an example of how this manifests itself in the real world; imagine that you are a fundamental trader with an analysis which shows security A to be with 1.000. If price is currently hovering around 1.000, you likely have very little interest in participating in the market. However, if price suddenly moves down to .500 without a change in the underlying fundamentals, you're going to have a great deal of interest in buying. In this example your desire to trade at .500 would be latent interest.*
>
> *Latent order interest is predominantly comprised of fundamental traders so it tends to remain constant as long as the information related to fundamental value remains unchanged. When new information becomes available, this curve will shift up or down to reflect the aggregate opinion of what that new information means for fundamental value.*
>
> *As a general rule however, the opinions formed by fundamental traders are slow to materialize. It may take a number of hours or even days for this new information to become properly digested. In the interim, the latent demand will curve will become somewhat wider and flatter due to the variability of interpretations regarding the data.*

Some useful insights by grkfx:

Jan 19, 2011 6:37 (32 hr ago) #173

grkfx
Member

Member Since Apr 2006
161 Posts

Quote:

> Originally Posted by **CindyXXXX**
> *A change in fundermental factors will casue a shift OF the entire curve (supply or demand or both) meaning that as fundemental factors change it will actually change the size of the number of willing buyers or number of willing sellers in any given market. This is representeted by the latent supply and demand. Ceteris Paribis chuckle chuckle*
>
> *So.. using DS example of the move down in price this will of course casue the quantity demanded to increase as is dislayed by the latent bars increasing away from price... If a change in price happens...*

Lets take this example: Market was at equilibrium. Now, lets say there is a shift in fundamental values to being more bullish.

What are the implications for the market and order flow and liquidity?

1. The Latent orders that Darkstar talks about, become market orders and limit orders.

2. Some market participants judge the fundamental shift to be imminent and great, resulting in execution of huge market orders into the market

3. Some market participants judge the fundamental shift to be fairly imminent, and decently sized, resulting in a smaller batch of market orders hitting the market.

4. Some market participants who were short and realize the fundamental shift need to cover, either through market orders, or waiting for a small retracement limit orders. This further reinforces the surge of market orders, and reinforces the bids at the support levels.

5. Other market participants who think there is a fundamental shift, but are not willing to commit market orders yet. Lets say they had bids which were 500 pips away, but now pull their bids higher to 100-200 pips below market. This reinforces bids at the key retracement points and support levels.

6. Other market participants who are oblivious to the fundamental shift place trades which are lower probability than what they realized(but are oblivious to it), and cause above average losses to their systems. They turn into uninformed traders and provide liquidity to the informed traders who correctly saw the change in fundamental values.

7. Market participants who correctly saw a fundamental change in values, but are not willing to commit market orders just yet or limit orders, but instead want price to go up to validate their analysis and then will generate market orders. This is where the buy stops accumulate above the key resistance points.

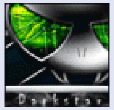
8. Other market participants who were already heavily long, and correctly saw a further change in fundamental values reinforces their conviction in their trade. These market participants who would have normally had take profit sell orders now decide to pull those sell orders, and reset them higher up, or decide to reduce the size of their standing limit sell orders. Results in a general thinning of the offers in the market, further adding fuel to the bullishness as buyers search for enough liquidity to place decently sized trades.

Now I hope you guys get the idea. I can probably add another 100 things to that list, but it is up to you to make sense of it and harmonize it with your personality. I can't do that. I can just stimulate thought.

Now the other question is how do you determine change in fundamental value? Or how do you determine when fundamental values will quickly reverse? Or have been falsely interpreted? Or grossly misinterpreted?

That is for you to figure out. It will make you a far superior trader if you figure it out yourself.

Jan 19, 2011 7:09 (31 hr ago) #175



Darkstar
All your stop are belong to us!

Member Since Nov 2005
10+v 1,099 Posts

Quote:

> Originally Posted by **grkfx**
> *Lets take this example: Market was at equilibrium. Now, lets say there is a shift in fundamental values to being more bullish.*
>
> *What are the implications for the market and order flow and liquidity?*
> ...

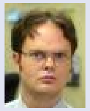
And thats just one factor that can be analyzed with this model. Think about how a large order hitting the book would alter the profile... or what happens pre/post news events.. or how a fast price change would interact with the slow conversion of latent interest to pending orders... or what happens when a central bank steps in to defend a price.. or how market makers act to maintain a balanced book... or or or... the list is endless.

In short, this is an extremly powerful tool for modeling the interaction between price and liquidity. Use your imagination and the ideas should start flowingin short order.

OK.. night all.

An important coment by Scotty on Darkstar's pictures:

Jan 19, 2011 20:21 (18 hr ago) #198



Scotty B
Cherry Picker

Member Since Dec 2007
10+v 1,310 Posts

Quote:

> Originally Posted by **smjones**
> *[i]"Louie*
> *Or, if one pays attention to the price action via the longer wicks in...*

I'd say that is certainly one aspect of it. This has a lot to do with the mechanics behind pin bar situations as opposed to clean trending markets. Basically, is there real time support or resistance behind a move or does the move fall on it's face? A strongly trending market (sharp slope) with small pullbacks indicate a strong bid re-population, while a strong move that collapses on itself shows no professional interest. Large traders have to average in anyways, so if values are shifting, the pros will have robots that quickly enter bids or asks throughout the move. I believe this is what creates the almost surgically straight trend lines seen on certain smaller time frames.

I can see someone started reading hehe (here's the USDCHF chart CHART)

Jan 20, 2011 1:28 (13 hr ago) #211

Carnegie
Started when I was 18.. Now 19.

Member Since Feb 2010
298 Posts

If that's an inefficiency.. then this is also

SMJones post was quite illuminating now that I understand.

I have attached yet another picture, and if jones picture was to describe inefficiency.. then I have found another one that was 5 hours later

If you look at the USDCHF 5 min chart you will see that the moves look more or less like eachother but reversed:

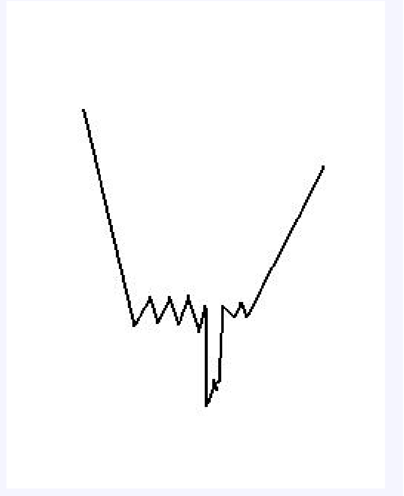
The first one with the big yellow box spiked up and fell down right where it came from, and I would short on the red line.

The second box basically spikes down and retraces fully and I would have bought at the green line.
Is this what these efficiencies look like?

I have drawn a picture in paint. It appears to me as if inefficiencies look this way, the market moves sideways (or has an agreed value) and then it spikes causing imbalance and if someone fades it then it will most likely move up (in this case). But it cannot be this simple.. impossible

> Quote:
>
> Originally Posted by **Trading & Exchanges page 79**
> *Stop orders accelerate price changes.* ***Price often changes because traders on one side of the market demand more liquidity than is available.*** *When these price changes activate stop orders, the stop orders unfortunately contribute to the one-sided demand for liquidity. Stop orders accelerate price changes by adding buying pressure when prices are rising and selling pressure when prices are falling. They demand liquidity when it is least available.*
> *Ttraders say that stop order add momentum to the market*

My question here is really.. WHY ARE WE FADING IT? Why not let the price cascade to next area of liqudity? Isn't that also stop-hunting?



Some infos about Darkstar's book :D This has nothing to do with the topic, but to me is of great value for one's life.

Jan 19, 2011 5:18 (33 hr ago) #168

Darkstar
All your stop are belong to us!

Member Since Nov 2005
10+y 1,099 Posts

Quote:

> Originally Posted by **seagreen**
> *Important it is. I didn't say its not important, I said it's nothing new, I always fade (thanks to your valuable posts btw . The trick is that fading alone is not a strategy, you need to know when and where to fade. Fading the stops is a good way to trade, which again brings back the subject of the post.*

All things in due time my friend.

Look, I know you guys are trying to figure this stuff out and I have to say, I'm really impressed with how far you have gotten. I'm sure it would make an untold number of people happy if I would just come out and give you all the answers, but I don't know that I could even if I wanted to.

To be honest, I "finished" my book like a month ago. After something like 8 months of diligent work, I managed to write down everything I understood about the markets. It explained in detail how to hunt stops and exploit market inefficiencies, how to read the order flow and how to view the market in the mindset of an order flow trader.

When I sat down and read it start to finish, I have to admit, I gave myself a pat on the back for how clean and concise it all was. I genuinely felt that it was a work of art.

Then I gave it to my girlfriend.

After just 20 pages, she was so hopelessly lost that giving up was the only option.

Now I'm not going to pretend that she is any master trader; she isn't. But she has read all of baby pips and a few random trading books. I think I can safely say that she has about as decent an understanding of trading as the average forum member. And if she couldn't understand it, I would inevitably be disappointing large groups of people by releasing it.

The question is, why is it so complicated? After all, I understood it perfectly?

Well, after a great deal of thought, I had an epiphany about what it truly means to understand something. I don't know if anyone cares or not, but I'm going to share it because I think it will help put some things in context...

Learning any complex subject requires an enormous amount of filtering. I think I've personally read ~50 books on trading, another 20-30 on economics, tens of thousands forum posts, and hundreds of articles on theoretical finance. For the life of me I can't tell you what even 1% of those documents said. But that doesn't mean that all that time was wasted.

Every little thing I read made its way into my brain as an idea.

Ideas are the general premises behind the things we learn. Everything in a complex subject has a connection to the larger body of knowledge. A good example of this is the idea of a moon. If you want to understand the moon, you have to know what a moon is, how it works, why it's important, etc. If you know exactly what you're looking for, understanding the moon and its relationship to the universe can be pretty easy, but seldom do you know what's important at the outset. You have to learn a ton of useless shit to get to the meat of what is important for you to know.

Of course even when you know what you need to know about the moon, you realize that you only have a sliver of the knowledge it takes to understand the universe.
To understand the universe you need to study a bewildering quantity of ideas. From suns and starts, to gravity, and physics; complex math, string theory, planets, solar systems... the list goes on and on.

Unfortunately, humans (no matter how intelligent they may be) just cannot actively retain all this information at once. In an effort to avoid overloading the brain, our subconscious mind has this miraculous ability to distill and index what we know into a simple concept.

A concept is a unified understanding of how a number of ideas fit together. Once you have one, you can look at another body of ideas and figure out how those ideas relate to the concept you have already learned. That in turn leads to another concept. Moons orbit around an object, that object is large and orbits around the sun. The body of ideas related to an object that orbits around the sun is a planet.

To bring this point home; notice how you knew exactly what I was talking about when I used the term moon. But if you really think about it, planets, asteroids and moons all have very similar component ideas, yet we can clearly distinguish what they are from each other.

At some point in this process we find that as the concepts we work with grow more complex, we seldom utilize the miscellaneous information we used to form our earlier concepts.

We still know what a moon is, but recalling the circumference of earth's moon, or the quantity of moons in our solar system finds hard and harder to recall. The more we learn, the more details we forget.

The point of all this is to say that understanding order flow trading is like understanding the universe. In order to establish the order flow concept in my mind I had to analyze and synthesize enormous quantities of data and the only way to achieve the level of understanding I have was to work with progressively higher level concepts. Somewhere along the way I lost the ability to tie many of the concepts I now utilize back to the concepts that aspiring traders deal with day to day.

So when I try to explain order flow, it's like trying to explain what the universe is to a 2 year old. That child has no idea what a moon is, or a sun, or galaxies… I can say that it is everything in the heavens, and that may give the child some idea of what it is, but does that child "understand" the universe? No. Can they predict how some aspect of the universe is likely to form? No. How could they?

And that's the problem with threads like this. I can tell you how to hunt stops, but in and of itself, stop hunting is just a concept. To do it effectively, you need to know how liquidity works, you need to understand how price change works, you need to understand how to read order flow, gauge sentiment, exploit the information other traders are forced to divulge. And each one of those components is made up of an untold number of subcomponents that are required for what, when, how, and why those things are the way they are.

Now I will say that I'm making great headway in doing this within the book, but the book is over 200 pages and it still isn't at the point where someone like my girlfriend can understand it. How on earth am I going to cobble all that information into a few posts on a forum?

Why am I telling you all this? I don't know... I guess I just want you all to understand that I'm not being cryptic on purpose; I genuinely try to explain things as I understand them. The disconnect is in the gross differences between the concepts I work with every day and the concepts most people here are starting from. Things like liquidity disequilibrium are well formed ideas in my head, but that concept has no reference point for anyone else. Putting the transitory pieces back in place after all this time is proving to be particularly hard. I'm sincerely make an effort to do so, but it's going to take time. It's probably also going to require reading the book when it's done.

When will that be?

Soon.

No, in all seriousness, when my girlfriend can sit down and read me book, understand how what she read can be used to earn a profit, and explain to me why…. That's when it will be done.

Anyway.. this post is a book in itself so I'll leave it there.

Luck be with you

PS: I know this is somewhat disjointed and rambling. I'd take the time to clean it up, but already spend way too much time writing. Your just gonna have to deal. :P