
Orderflows Delta Scalper

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It has often been said that volume precedes price.

Why is volume more important than price? When institutional traders are moving size in the market, they try to hide their size (volume) and not price. When you see price trade you form an opinion of the market but when you see the volume, you see the facts of the market.

What most traders fail to see is that there is more to volume than meets the eye. Volume is made up of buyers and sellers. Yes, for every buyer there is a seller. But not every buyer and seller is trading for the same reason. There are long term traders, there are swing traders, there are short term traders and there are scalpers.

What if you could measure the true strength of the buyers and sellers in the market and make profitable trades based of that information? Orderflows Delta Scalper does just that.

But rather than just measuring the strength of the buyers and sellers, what I want to do is highlight the areas where the buyers overwhelm the sellers or where the sellers overwhelm the buyers.

Who would you rather be?



I would rather be the guy speeding alongside in the same direction of the ocean liner rather than the guy in the row boat about to get run over by the freighter. It's the same way in the markets.

Before I explain how it works let me explain first about Delta.

Delta is calculated by taking the volume traded on the offer side minus the volume traded on the bid side. If Delta is positive there are more aggressive buyers, traders who are buying the offer price. If Delta is negative, there are more aggressive sellers, traders who are selling at the bid price. Delta measures the strength of the market's auction process.

For a trade to occur in the market there has to be a buyer and seller. At every traded price there will be a buyer and a seller. When price moves higher people will often say there are more buyers than sellers. That is impossible. Price moves higher when buyers become aggressive and think the current price is cheap. Think about it. Wouldn't you rather buy something now for \$25 when you know later you can sell it for \$30?

When prices start to move, the reason it moves is because of a series of aggressive buying or selling which will show up in the Delta of a bar.

The most important component of Delta is volume. Volume must be understood in context of the market. When the volume is expanding positively or negatively, a trader must watch its strength to fully comprehend the shift in supply and demand. It is important to note that Delta does not take into account price.

Delta Scalper allows you to see the positive or negative expansion between buyers and sellers so that you can make predictable and exploitable positions in the market.

What drives price movements in the market? Difference of opinion. When a market is trading as per normal, at equilibrium so to speak, the delta should be relatively low or not changing much. Supply and demand at that point is about equal. The problem is no one knows where this level of equilibrium is, it constantly changes. Delta Scalper measures the difference of opinion and, more importantly, how it is changing.

I created the Orderflows Delta Scalper to show me when the buyers overwhelm sellers or sellers overwhelm buyers. It may not be just one big buyer or seller. It can usually be a few big buyers or sellers coming into the market at the same time. Unfortunately you don't know their intentions, there could be numerous reasons they are all piling into the market at once. What is important is their activity.

There are five scenarios when it comes to Delta in a bar:

1. Extremely positive Delta number – indicates aggressive buyers have dominated the bar. Buyers are buying all the available supply offered by sellers moving the market higher.
2. Average positive Delta number – indicates aggressive buyers outnumber aggressive sellers, but not overwhelmingly. This can be a sign of accumulation when a series of average positive Delta bars is put together.
3. Small positive or negative Delta number close to zero – indicates aggressive buyers and aggressive sellers are pretty much evenly matched. Price is at an equilibrium where both buyers and sellers are happy to trade at.
4. Average negative Delta number – indicates aggressive sellers outnumber aggressive buyers, but not overwhelmingly. This can be a sign of steady reduction of positions or shorts building up.
5. Extremely negative Delta number – indicates aggressive sellers have dominated the bar. Sellers are hitting every bid as they dump their excess supply in expectation of lower prices.

What Delta Scalper does is look at the relationships between the different Delta numbers as they come in and analyse them. Delta Scalper then generates buy or sell signals in real time as they occur allowing you to get in at the earliest possible time.

The ratio of buyers to sellers is what determines the market direction at any given time.

Many traders struggle to grasp the importance of Delta analysis. They have difficulty understanding that there is a "strong hand" in the market because after all there is a buyer for every seller. What Delta Scalper does is alert you who are in control of the market.

Delta Scalper alerts you to areas in the market where buyers are drying up and sellers are getting stronger (up moves) and also where sellers are getting less and buyers are starting to dominate (down moves).

When Negative Delta increases as prices rise, what are the longs doing? They are taking profits, selling out their long positions. What are the shorts doing? They are covering, buying back and taking their losses.

When Negative Delta increases as price falls it is a sign of liquidation and aggressive selling.

When Positive Delta increases as price increases, buyers are taking control of the market from the sellers. This is an aggressive action.

When Positive Delta increases as price decline it is a sign of a bottom forming. Longs are starting to accumulate a position.

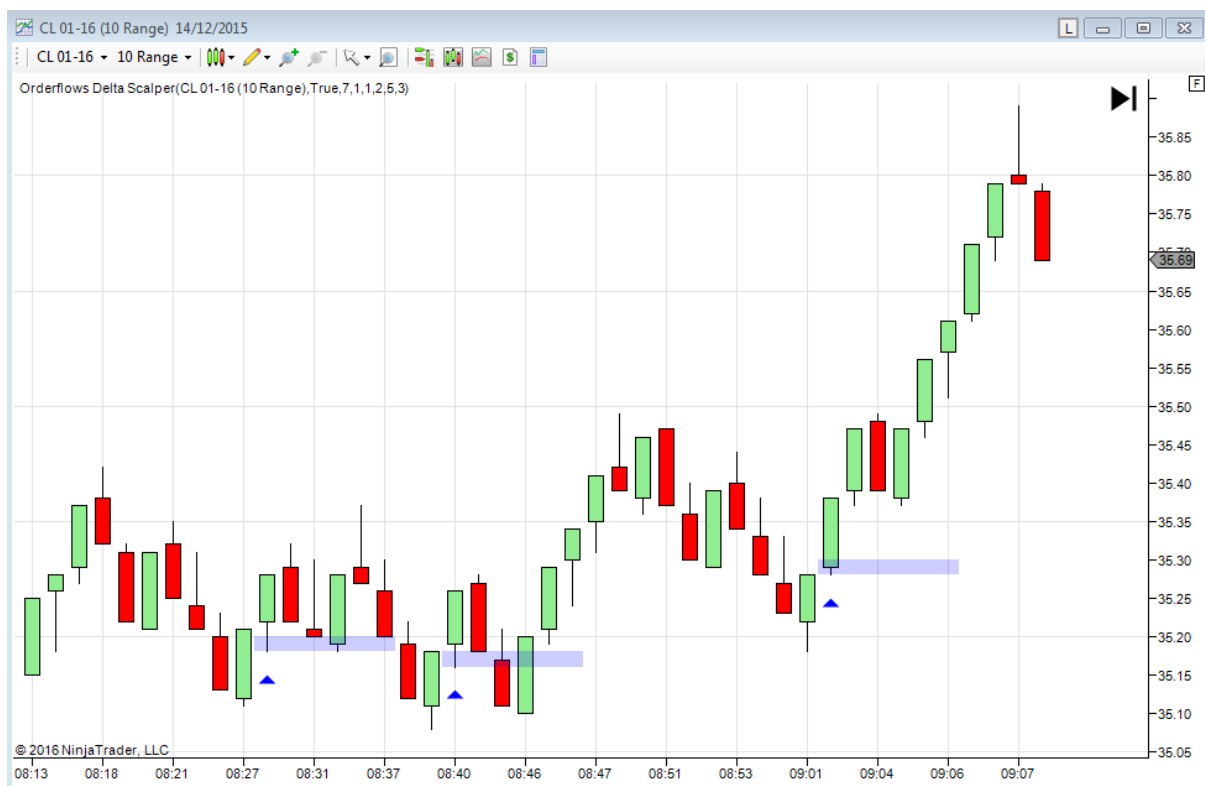
The Orderflows Delta Scalper was designed to run on any type of chart – candlestick chart, bar chart or Orderflows Trader chart.

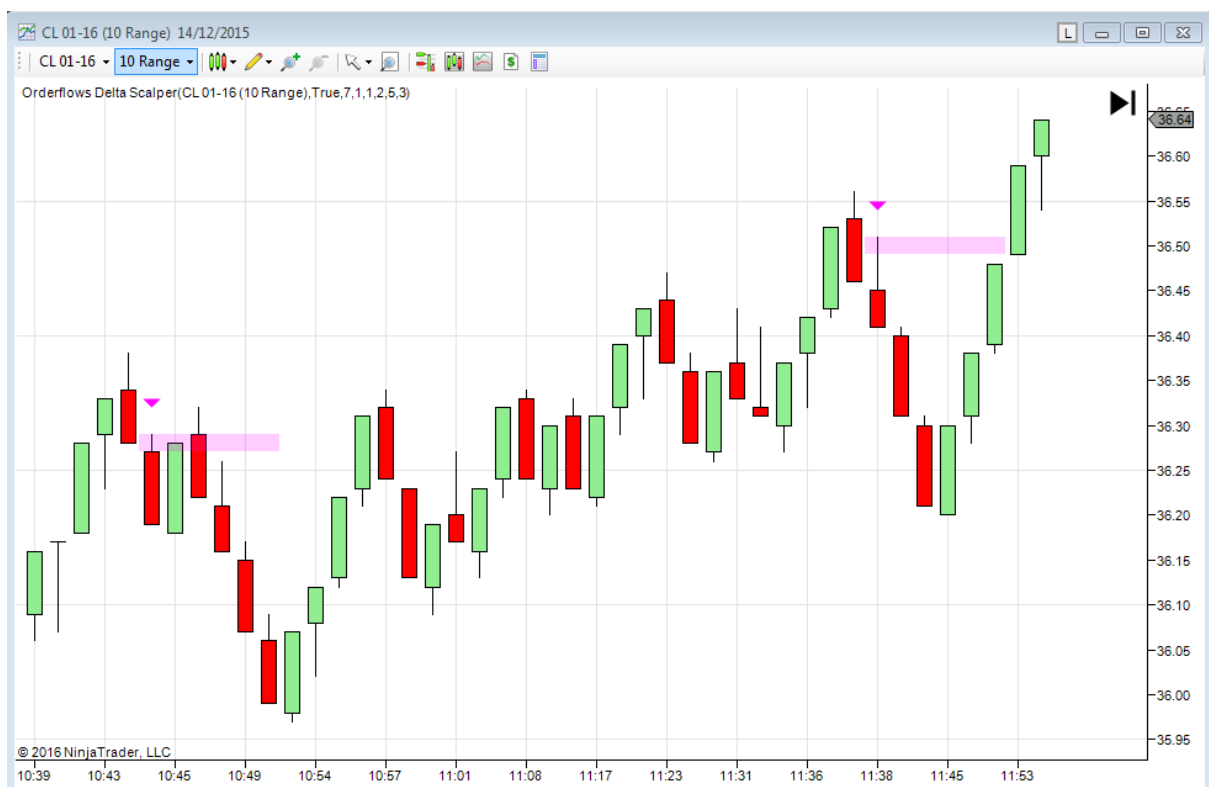
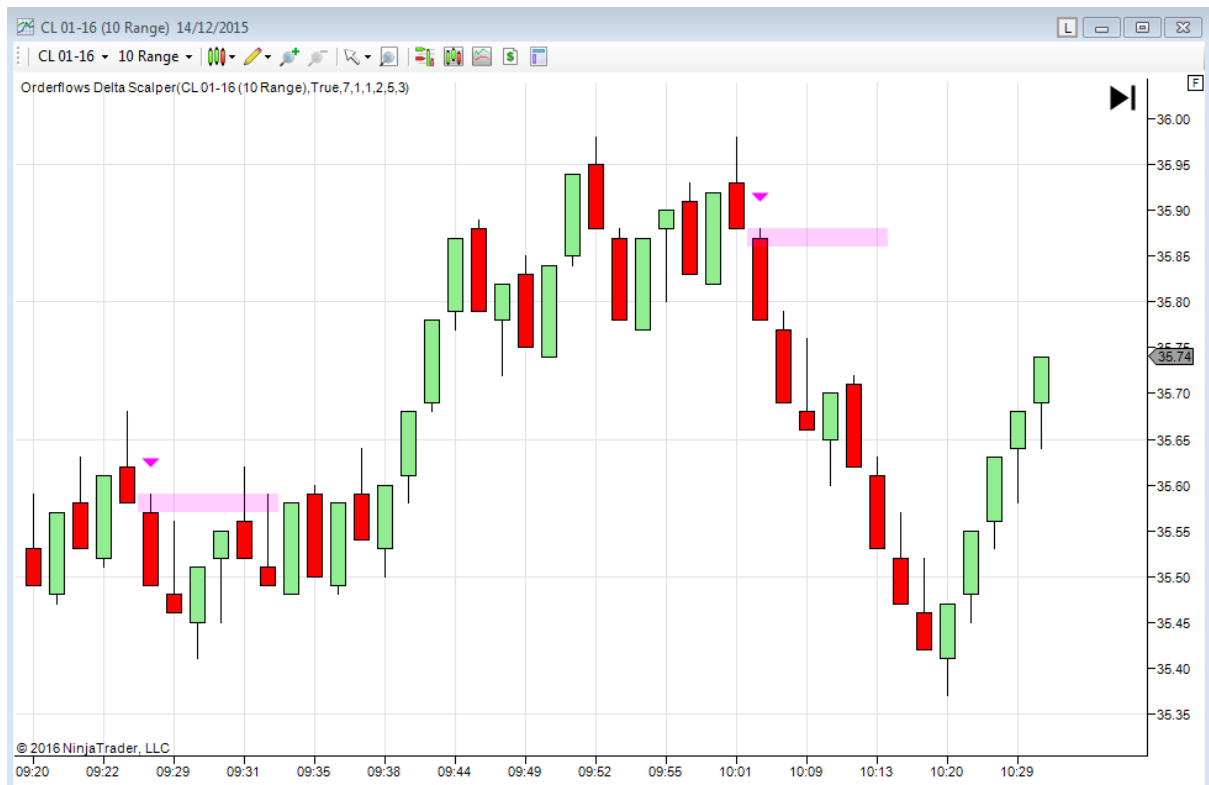
When there is a buy signal there will be a blue arrow and a blue zone drawn out on the chart.

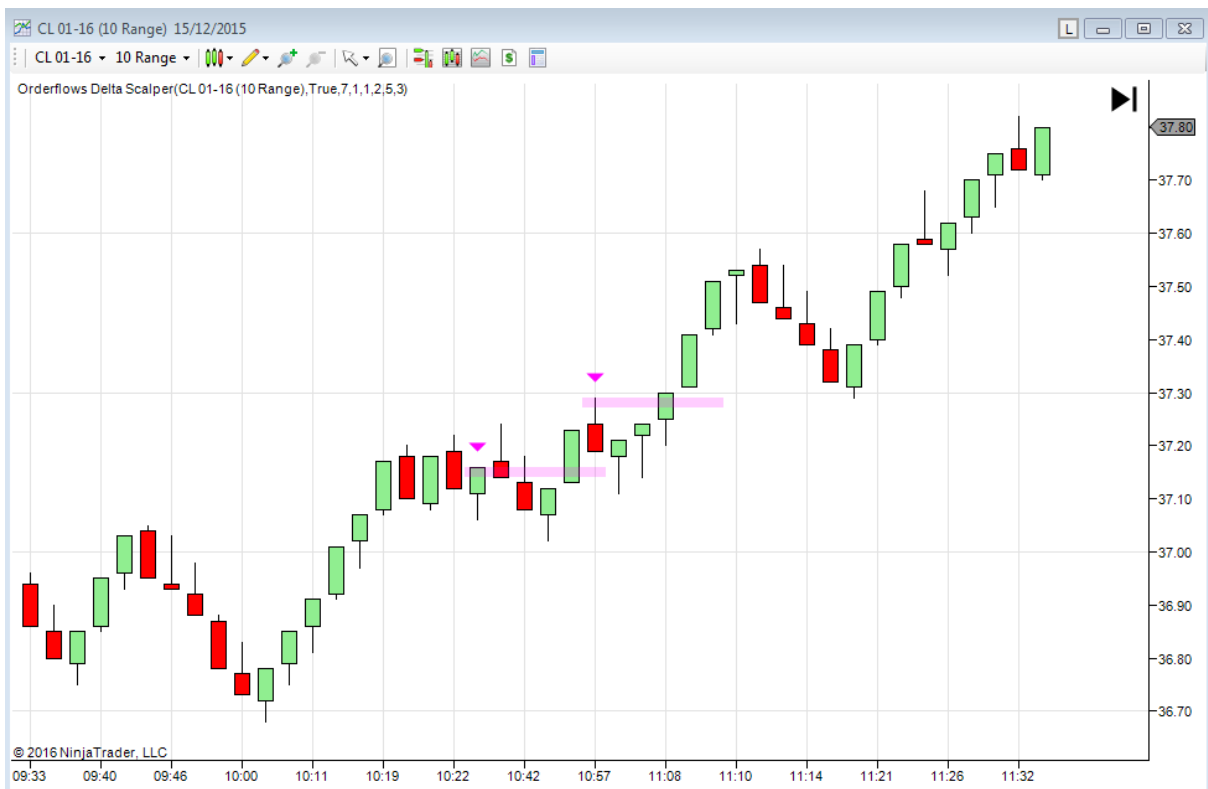
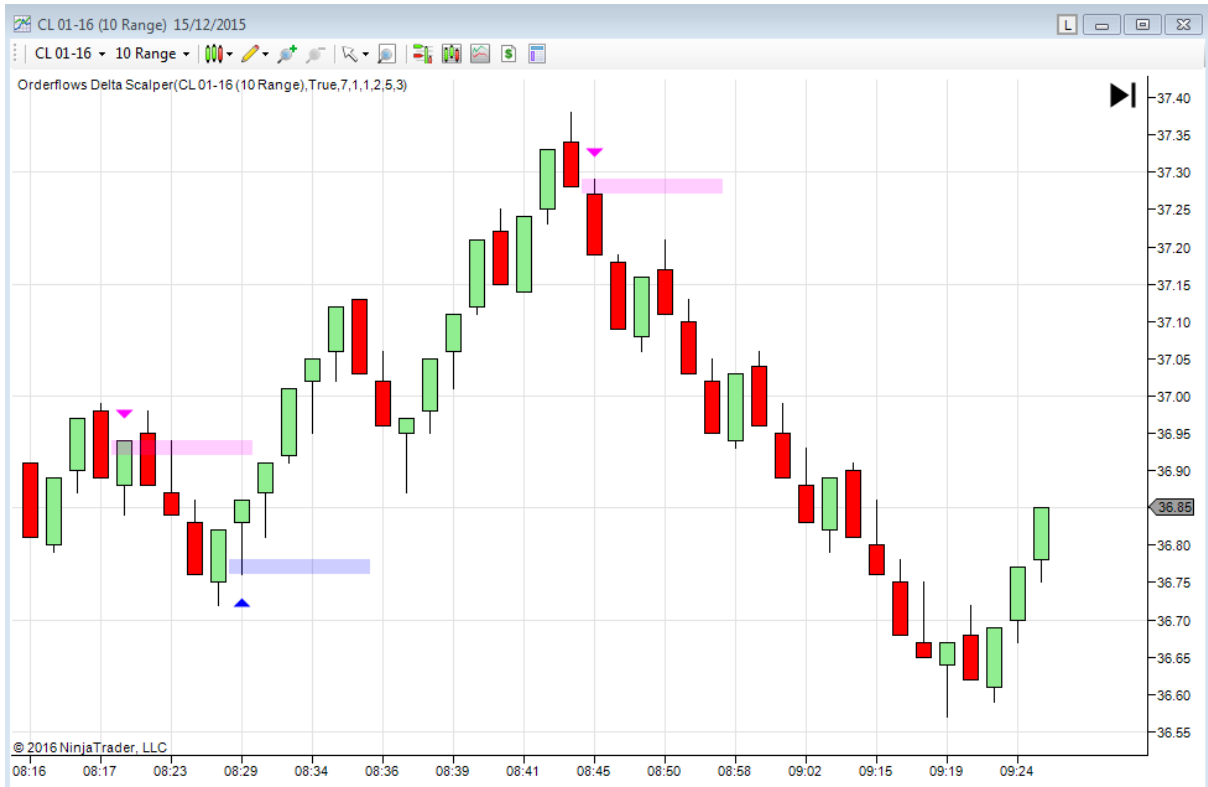
When there is a sell signal there will be a fuchsia (pink) down arrow and a fuchsia (pink) zone drawn out on the chart.

I set my zones to 5 bars because if the market doesn't react the way it is supposed to rather quickly then I am no longer interested in the signal after a certain time period. The length of the zone can be adjusted by you if you want to make it longer or shorter.

Let's look at some charts ...







How Does One Trade Delta Scalper Signals?

There are basically 3 ways to enter the market when the Orderflows Delta Scalper gives a signal.

1. Aggressive – Get in ASAP and look for the market to pop. Use a market order.



2. Mild – Get in on a pull-back just above the zone or within the zone. Use a limit order.



3. Low Risk – Get in above the zone for a short. Get in below the zone for a long. Use a limit order.



Why are there 3 different ways to get into the market? I am always looking for optimal entry.

My preferred way to enter the market is the Low Risk entry because it gives me the best profit potential. However it severely limits the amount of trades I make. Sometimes I might get only 1 trade a day or even none and you can miss a lot of moves. The beauty is you can have tight stops.

With the Aggressive entry you need deeper pockets because there will be times you take a lot of heat on a trade as it can go against you as soon as you get in. Of course there will also be times when you will get in early on some monster moves. With the Aggressive entry you are getting in no matter what.

With the Mild entry you can get into more trades than the Low Risk entry but less than the Aggressive entry as you will need a pull-back to happen in order to get into the market.

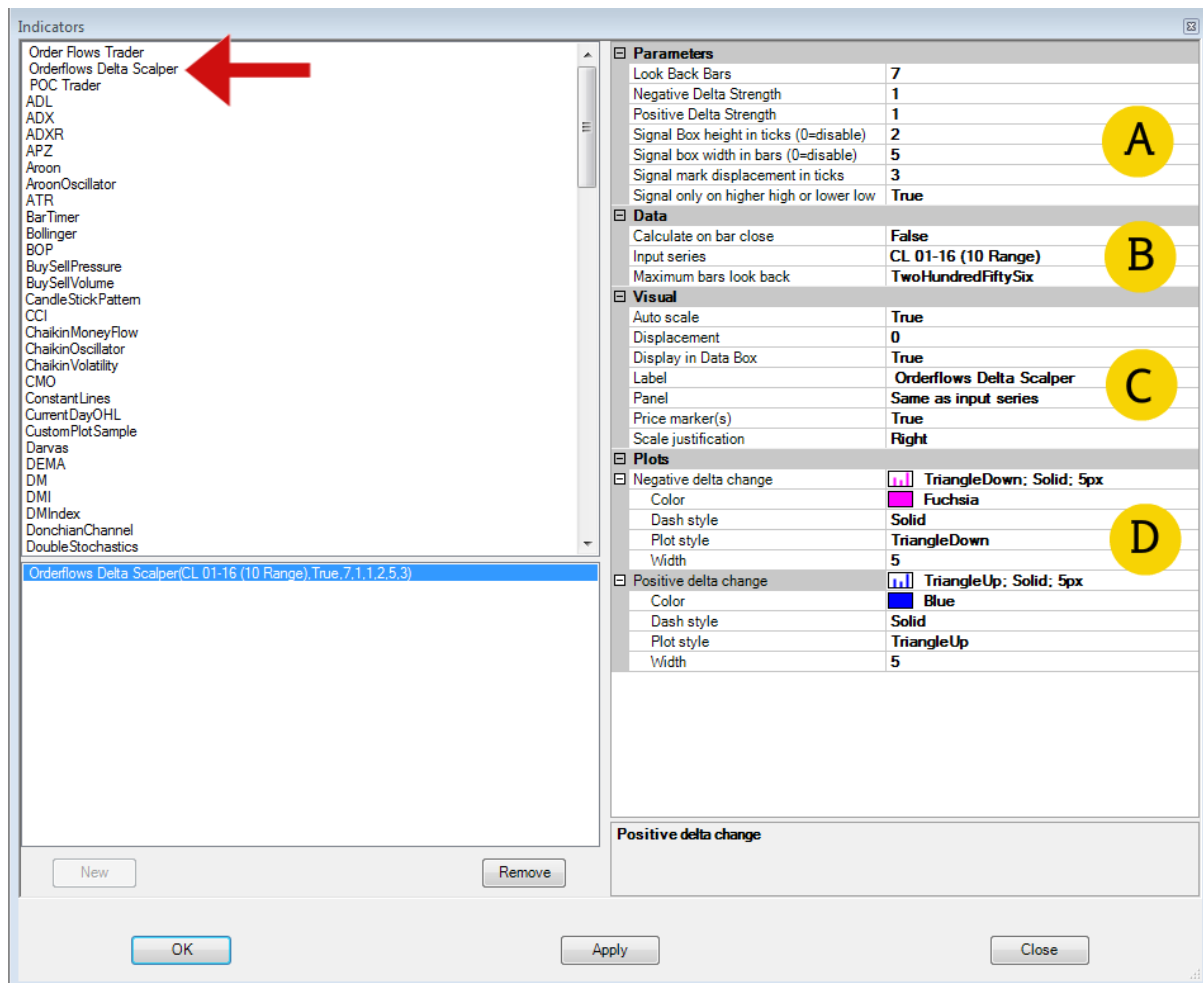
With the above said it depends on the market I am trading. If it is a slower moving market with a lot of liquidity like ES or ZB I prefer the Low Risk Entry. With fast moving markets where moves can start in the blink of an eye I prefer the Aggressive entry.

An idea to scale into the market would be a combination of all three entry methods. By using all three entries you guarantee you catch the move by getting in with the Aggressive entry and with the Mild and Low Risk entries your average trade entry price is better and you can pick up some extra ticks profit. However the problem with this entry method is you face more losing trades and need to manage your trades more closely.

So where do you place your stop? You place your stop on the other side of the zone. It will depend on the market what levels you want to use as well as the type of entry you are using.

Where do you take profit? That is where reading the order flow comes in. If you don't read order flow and just want a hard target, you can use a 3:1 reward to risk ratio.

Let's look at the settings:



Once you have imported the indicator into NinjaTrader you just need to open it. In the indicator list it is called Orderflows Delta Scalper.

*** Please Note *** Orderflows Delta Scalper is a real time indicator that reads the Orderflows Delta as it comes in to the market. It will not work on a historical chart. However you can run NinjaTrader in Market Replay Mode test it how it worked on previous days (if you have saved your data).

There are 4 areas in the settings: Parameters, Data, Visual, Plots. You only need to concern yourself with Parameters and Plots. There is no need to adjust Data and Visual settings.

A - Parameters

Look Back Bars – This is how many bars are looked back on to help determine the entry signal. I have it set to 7 bars. The more bars you set it to the more bars it takes into account. I also like to use a setting of 10. I don't like to go more than 10 as by that point the data is not really current.

Negative Delta Strength – A setting of 1 is when sellers overwhelm the buyers. You can adjust the strength up for extremely stronger signals, but 1 is the level where the Delta strength is very strong.

Positive Delta Strength – A setting of 1 is when buyers overwhelm the sellers. You can adjust the strength up for extremely stronger signals, but 1 is the level where the Delta strength is very strong.

Signal Box Height In Ticks – How thick you want to zone box to be drawn. This is relative because if you want to buy in the zone or on the other side of zones it will determine how thick your zone is. Default is set to 2, but you can use 3, 4 or 5. It depends on you.

Signal Box Width In Bars – How many bars out you want the zone drawn. I set it to 5 because I feel the market should pull back into the relatively soon, ie 5 bars. If it doesn't happen soon I don't want to take the trade. I find 5 is a good number for me. You may prefer a slightly longer duration say 7 bar or shorter duration, like 3.

Signal Mark Displacement In Ticks – How far above or below the signal bar you want the arrow drawn.

Signal Only On Higher High Or Lower Low – Set to True so that the signal will occur around a higher high or lower low. You can set it to False, but

B – Data

You don't need to adjust these settings.

C – Visual

You don't need to adjust these settings.

D – Plots

Negative Delta Change – You can adjust the color, dash style, plot style and width.

Positive Delta Change – You can adjust the color, dash style, plot style and width.

For more information email mike@orderflows.com