

My Top 3 Order Flow Trade Set Ups

Every trader should have set ups that they are on the lookout for each and every trading day. I have several setups I am always scanning the market for. When you trade with order flow you constantly see the market developing and presenting you opportunities.

If you are trading only using indicators you don't get setups, you get strict rules to follow on when to take a trade even if it makes no sense to take a trade. For example, if you trade using MACD, you take a trade when the MACD line crosses zero on the histogram. Besides lagging the market, by the time the MACD line crosses zero the market may have already made its major move and by the time you get in to the market it's too late you are just picking up the table scraps left of the move. But you have no choice you have to take the trade because your setup is when the MACD crossing the zero line. You don't take into account what the market is doing. That's not trading.

Order flow trading allows me to see setups that are invisible to probably 99.5% of traders because they are only using bar charts or candlestick charts. Those traders are completely missing the market dynamics that are occurring.

I created the Orderflows Trader in order to help me see more these trade setups more easily. The problem with most order flow trading software out there is that they complicate things by taking a clean beautiful chart and drawing lots of arrows, dots, circles, etc. that confuses the trader. When you understand what moves the market you don't need all sorts of flashing lights on your screen. Keep it clean and simple.

Here are my top 3 trade setups that I look for every trading day. These setups can only be seen on an order flow chart. You won't see them in a traditional bar or candlestick chart and that's what makes them more powerful. You are seeing things in the market that 99.5% of the other traders are not watching. They are all busy looking at their squiggly MACD or RSI lines and forgetting that the market is made up of real people buying and selling.

Some days there may be more than one set up, other days there might be none. By having several setups your chances of having a profitable trading day are higher.

SETUP #1

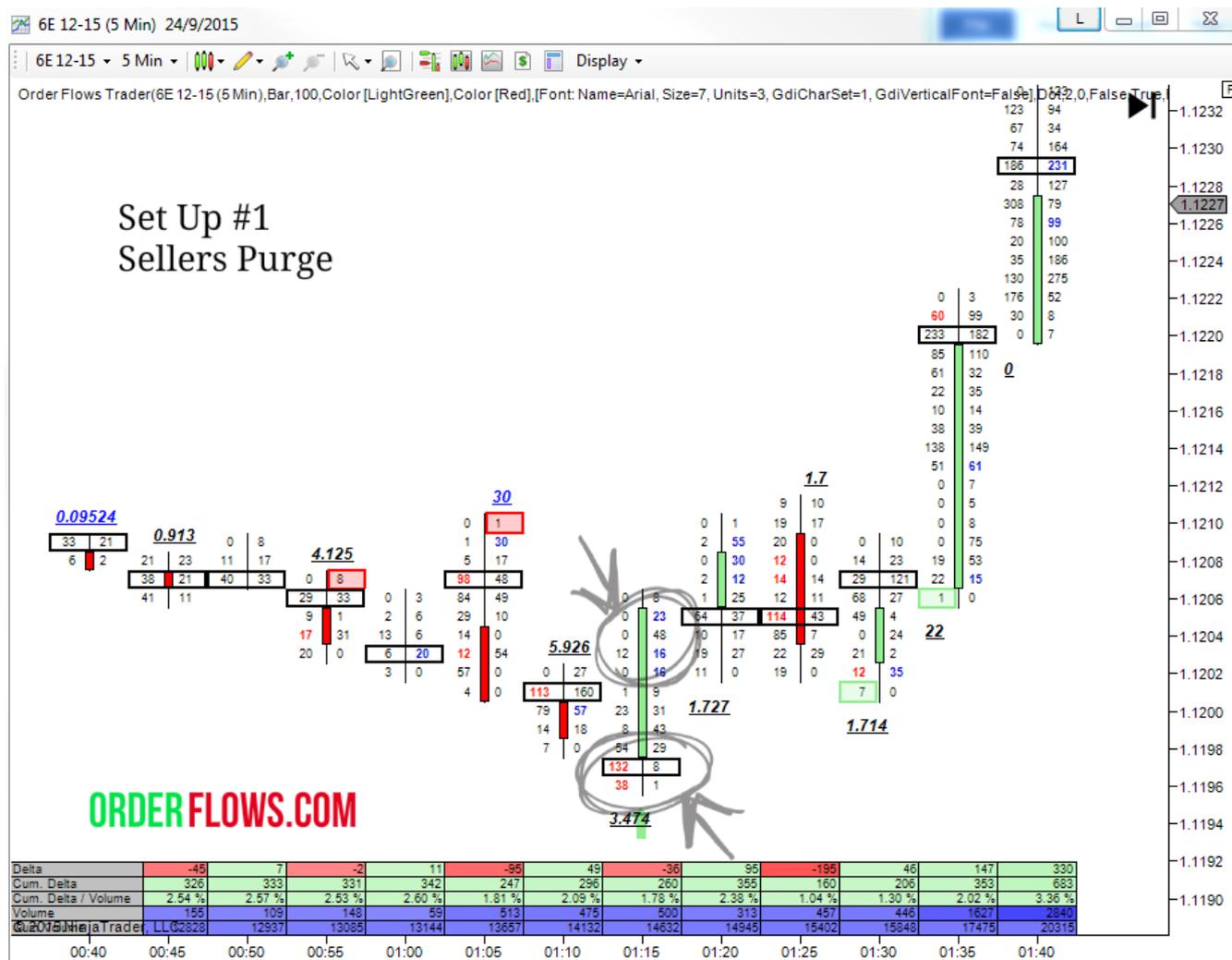
My first set up is called a “Purge”. There are two types of purges, there is a **Sellers Purge** which occurs when the market has reached a low and there is a **Buyers Purge** which occurs when the market reaches a high.

Purges are caused when there are multiple stacked buying and selling imbalances in a bar that reverses.

For a **Sellers Purge** the market should be trading near a low (it can be a swing low) and at the bottom of the bar there should be at least 2 selling imbalances at the bottom. Structurally, the bar then needs to close higher than it opened which is caused by buying and there should then be at least 2 buying imbalances on the way up. What is occurring is traders are thinking the market is going to break out to new lows so they begin selling the market aggressively causing the selling imbalances on the low. These sellers are met with passive institutional buyers who are supporting the market. Once the market cannot go any lower it starts to bounce up, the sellers who sold at the low have no choice but to cover their sales by buying back aggressively causing prices to go higher. These sellers have been purged from the market and they are left to lick their wounds.

In a falling market, you expect to see selling imbalances occurring on the bottoms of the bars and the bars closing lower than their open. However, at some point the market will reverse and bounce off a low. This often occurs when there is a Sellers Purge. One of the signs is the market closing higher than where it opened after sellers tried to push it lower to no avail and then start to cover their sales.

Let's take a look at a chart so it is easier to understand.

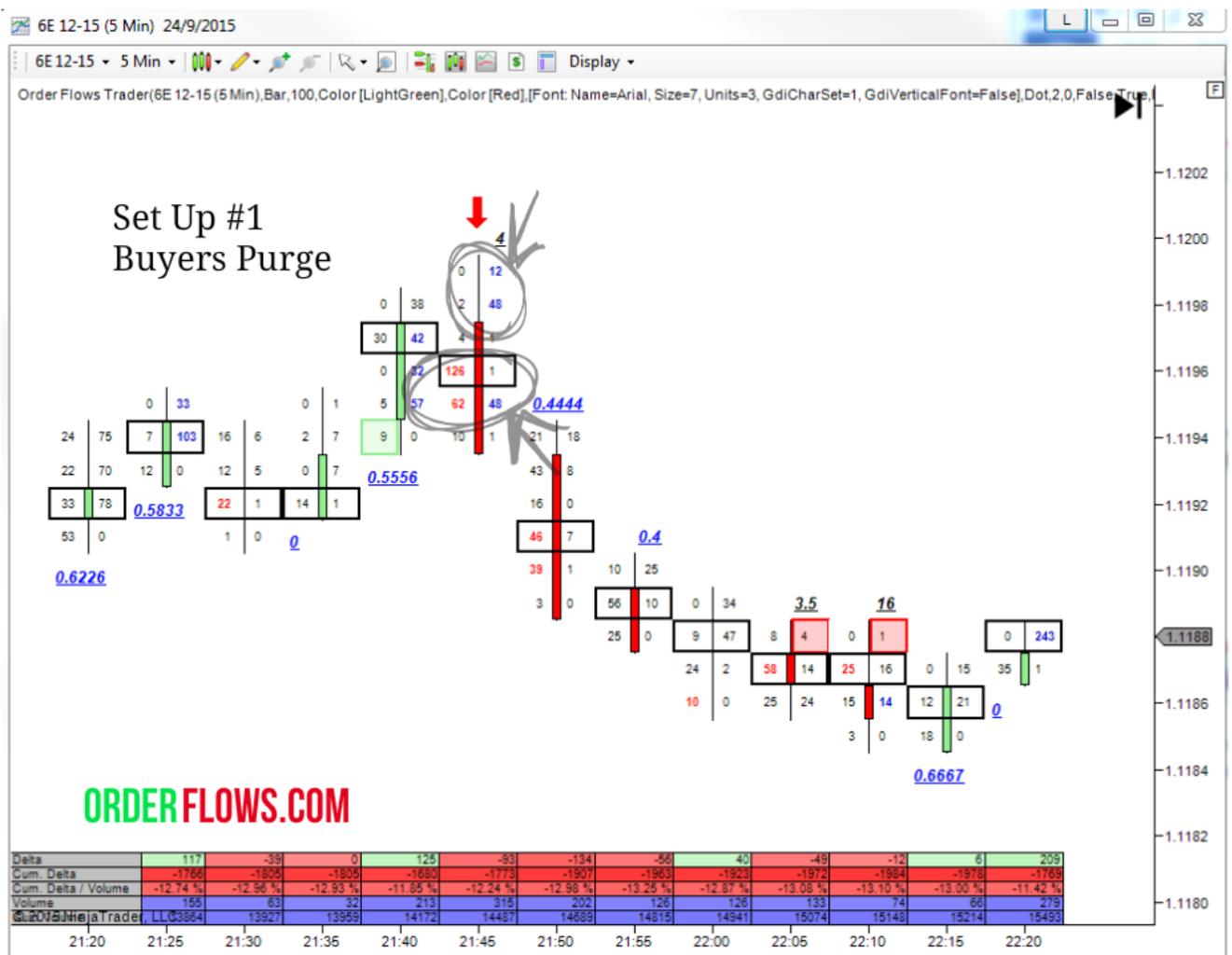


Here you see the purge occurring at the bottom at 1.1196 and 1.1197. There are 132 and 38 lots sold at the low before the market turned around a rallied in the same bar. Just by eyeballing it you can see that 132 lots is the highest volume that traded on the bid side. Once the market got past that level another 38 lots traded before the market turned and went higher. Once traders realized the market was not going any lower they started to scramble and aggressively buy what was on the offer and it even spilled over into the next bar. The result was a nice trade of about 30 ticks. The stop placement would go right below the low of 1.1196 at 1.1195. Your entry would be on the bar immediately after at around 1.1204 – 1.1205. You are risking 10 ticks. But in reality the trade only went against you about 4 ticks.

The opposite is true when the setup happens at a high. For a **Buyers Purge** the market should be trading at or near a high (it can be a swing high) and at the

top of the bar there should be at least 2 buying imbalances. Structurally, the bar then needs to close lower than it opened which is caused by selling imbalances and there should then be at least 2 selling imbalances on the way down. What is occurring is traders are thinking the market is going to break out to new highs so they begin buying the market aggressively causing the buying imbalances at the high. These sellers are met with passive institutional sellers who are capping the market. Once the market cannot go any higher it starts to trade lower, the buyers who bought at the high have no choice but to cover their buys by selling back aggressively causing prices to go lower. These buyers have been purged from the market and left to wonder what just happened to them.

So let's see a Buyers Purge in action:



In the example above the market reached a weak high. But let's analyse what happened in the bar and the bars leading up to this high. You will notice there

were plenty of buying imbalances on the way up and at the high there were buying imbalances of 12 and 48 lots, but the market just couldn't sustain its upward momentum and dropped, but when it dropped there was some support at 1.1196 and 1.1195 to the tune of 126 lots and 62 lots which the market just blew through. Clearly there was a bigger outside force willing to sell the market through about 200 lots which is more volume than normal. The buyers at the high were Purged out of the market and were forced to cover their longs in order to not lose more money.

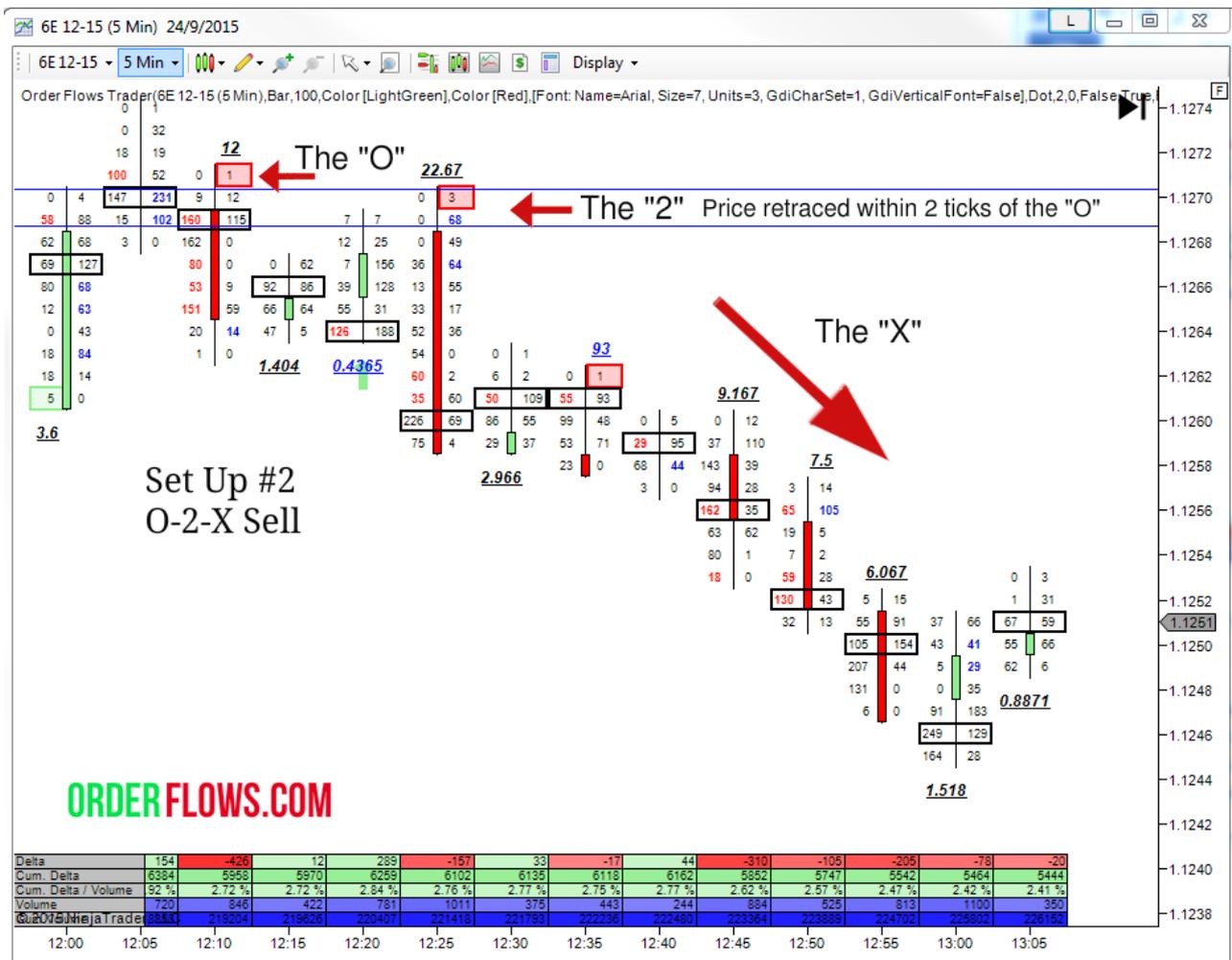
Basically with a purge you have 2 opposing forces in the period in the market at extreme ends of each other. One side is inherently stronger and will cause the market to move in that direction.

SETUP #2

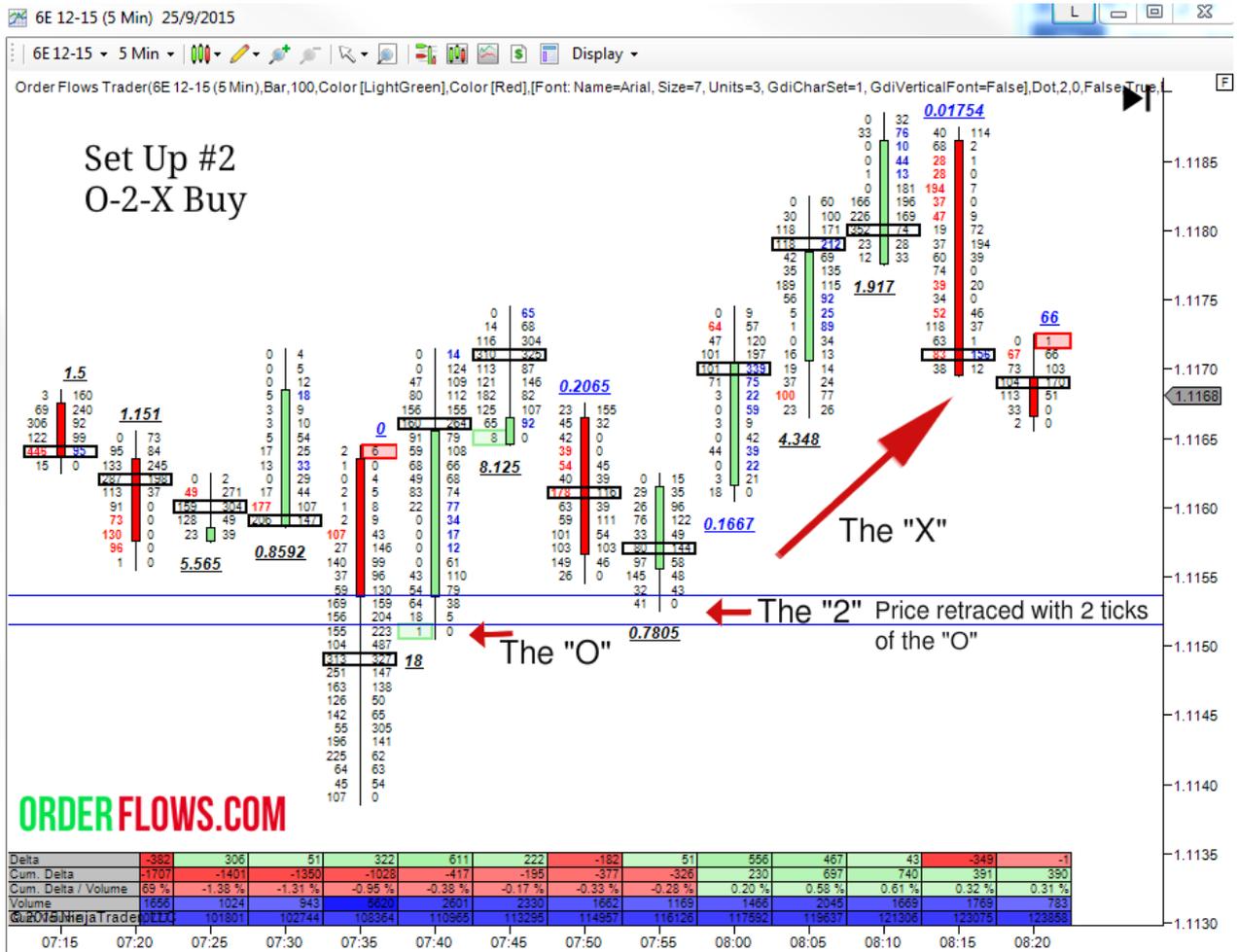
My second setup is called the **O-2-X** and it occurs when there is a small print at or near a high (low) and the market retraces back to it within 2 ticks before moving in its original direction.

Let me break it down for you. For an **O-2-X Sell** there needs to be a small print (the O) needs to occur at a high or just off a high, then look for the market to retrace back towards it within 2 ticks (the 2), then move in the opposite direction (the X). The beauty of this trade is that you can use extremely tight stops of 3 ticks with profit targets of 10x the risk.

Let's look at a few examples:

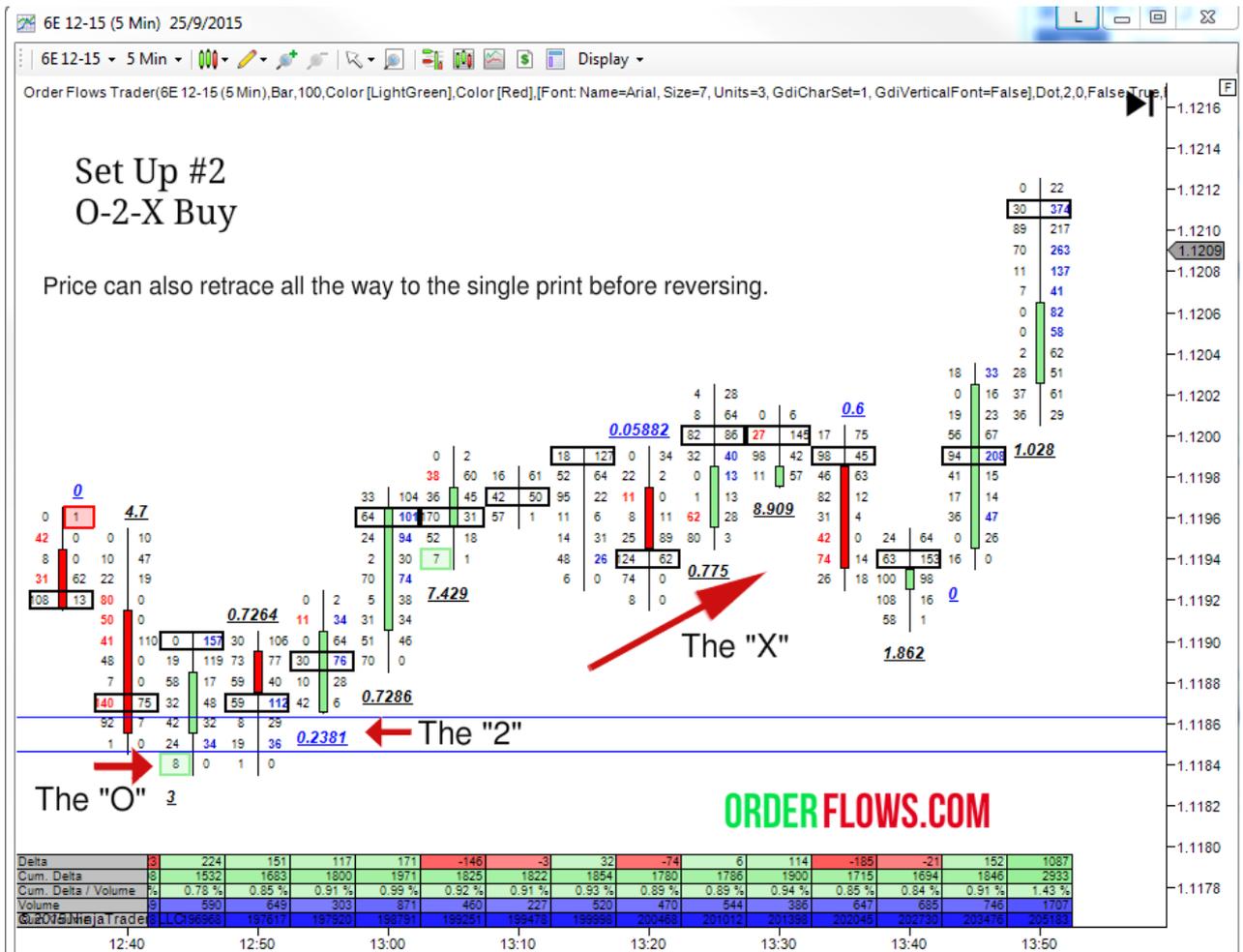


For an **O-2-X Buy** setup, there needs to be a small print (the O) needs to occur at a low or just off a low, then look for the market to retrace back towards it within 2 ticks (the 2), then move in the opposite direction (the X).



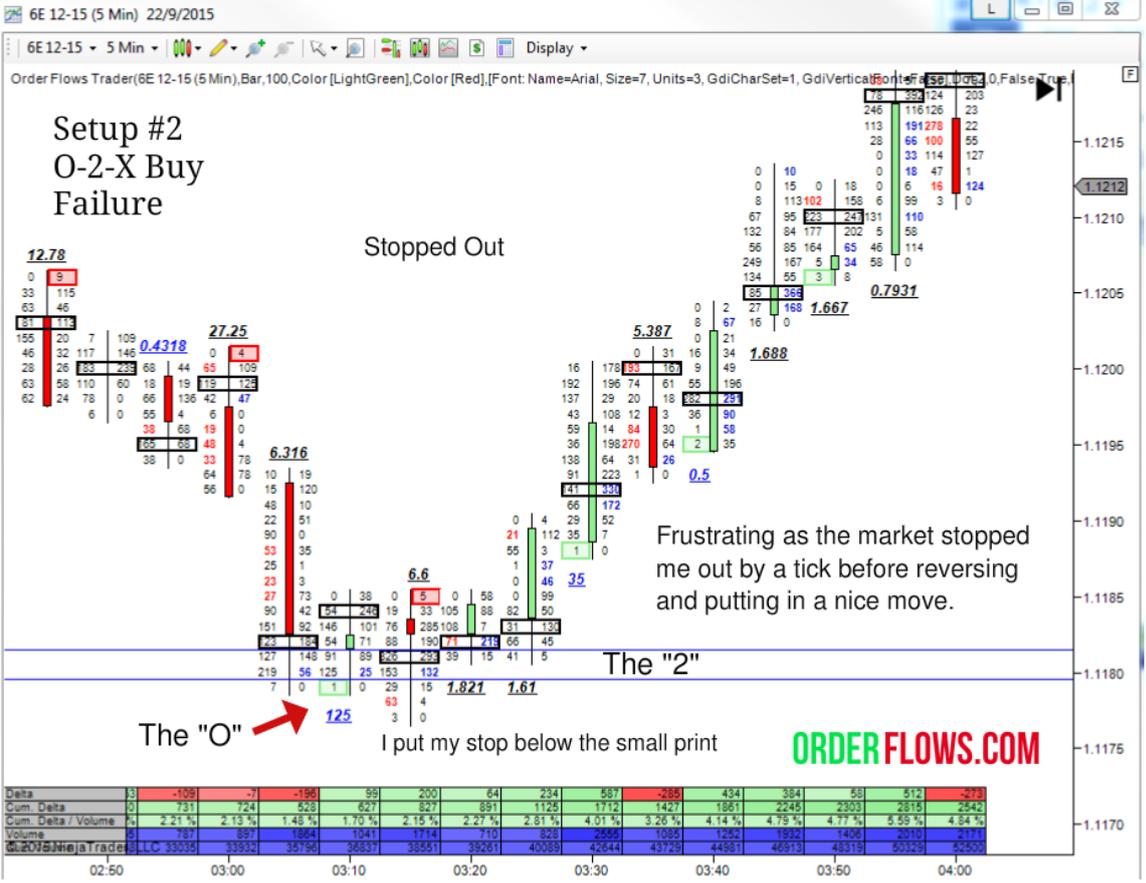
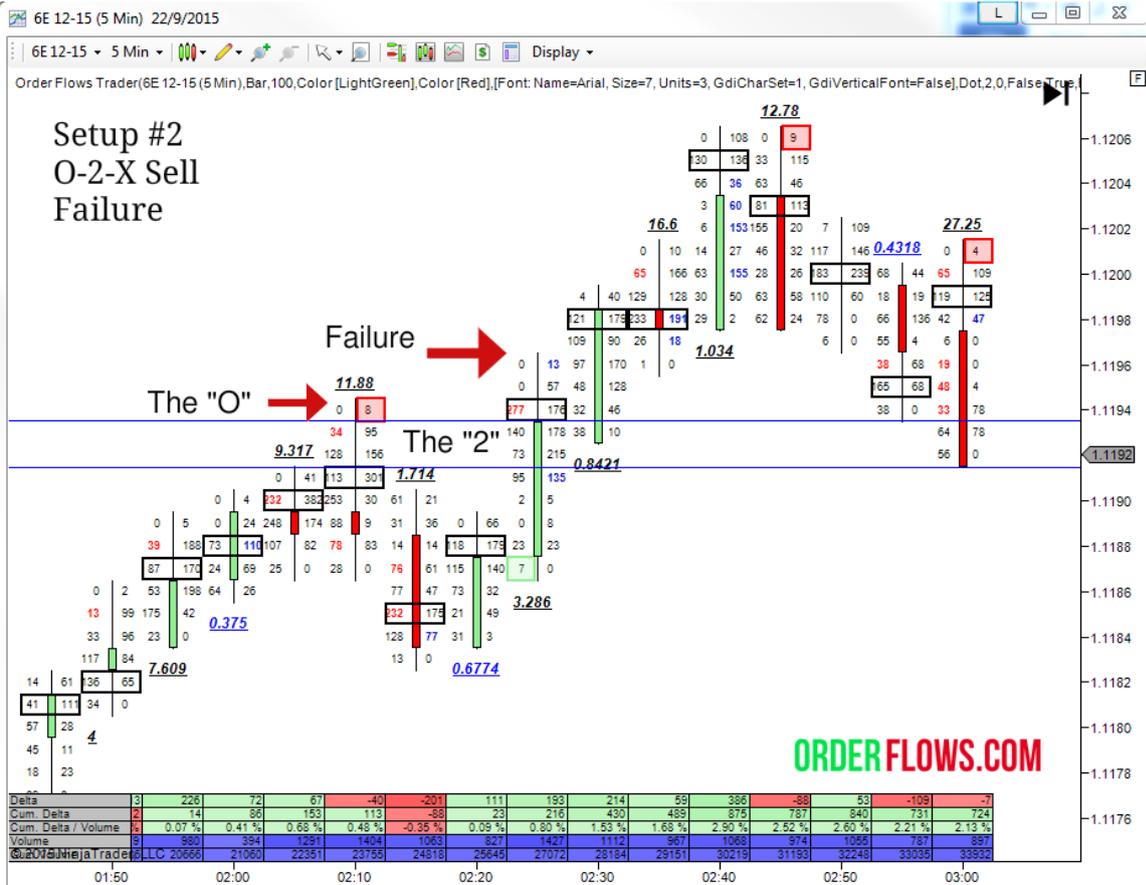
There will times that you miss the entry by a tick or a few ticks and there will be times when the market retraces past the small print by just 1 tick before continuing on to its original direction.

I like to place my stop not at the level of the small print, but 1 tick past it. There are times when the market will retrace exactly to the price level of the small print before reverse. The whole concept behind the small print is that the last buyer/seller has bought/sold and that level saw no more follow through so technically if the market trades to that level again there is a fair chance it will be rejected again.



So how long should you wait for the market to retrace to the small print? I usually use 5 or 6 bars. I saw 5 or 6 because if on the fifth bar it is kind of close I give it a little more time to develop.

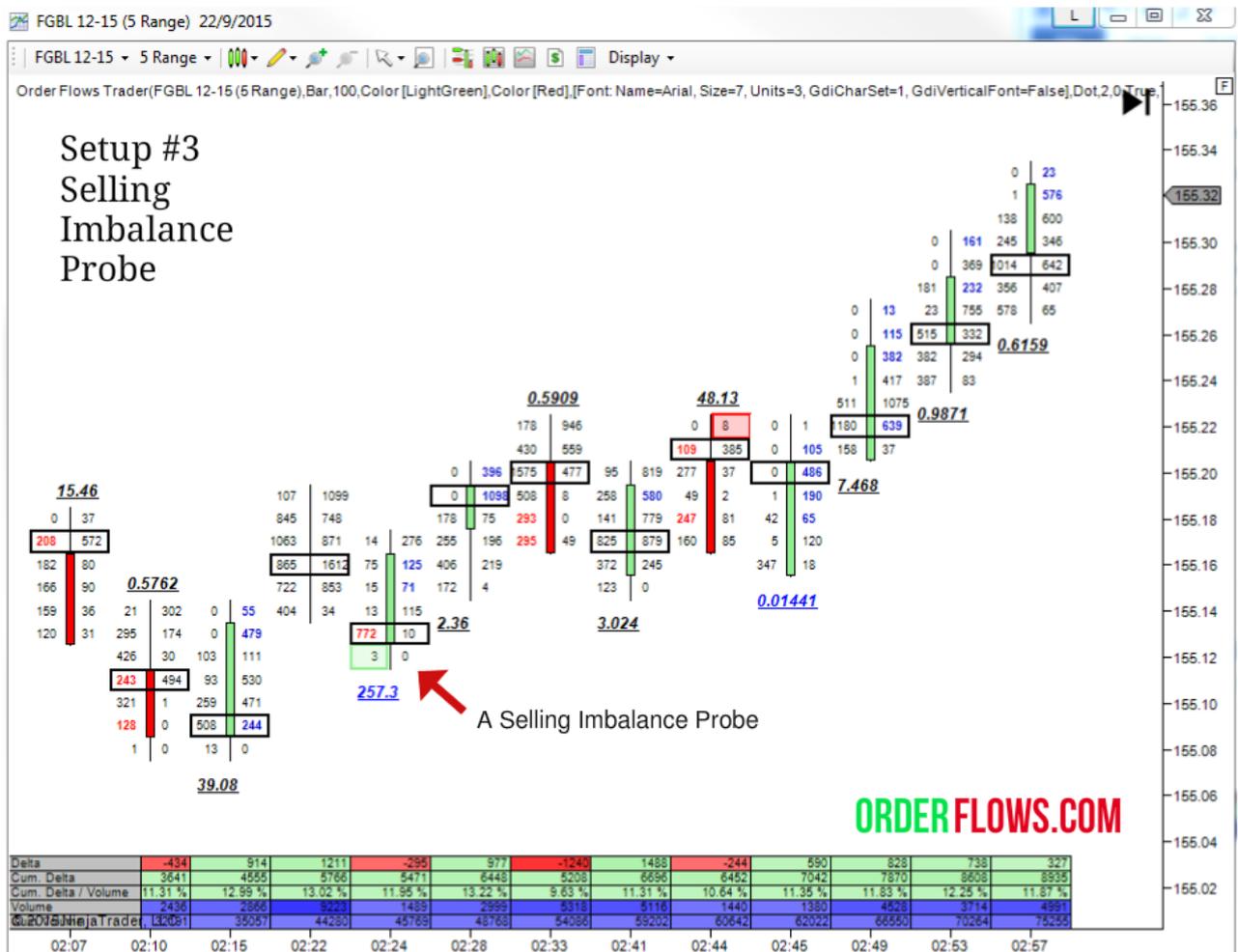
Not all the trades are winners. There are losers, but when risking just a few ticks that's fine. Its expected when trading with tight stops. But the winners more than offset the losers.



Setup #3

My third top trading setup is called the **Imbalance Probe**. It occurs on both the buy side and the sell side. This setup occurs probably the least amount of times out of the 3 setups presented here. But I find it to be probably the most potent.

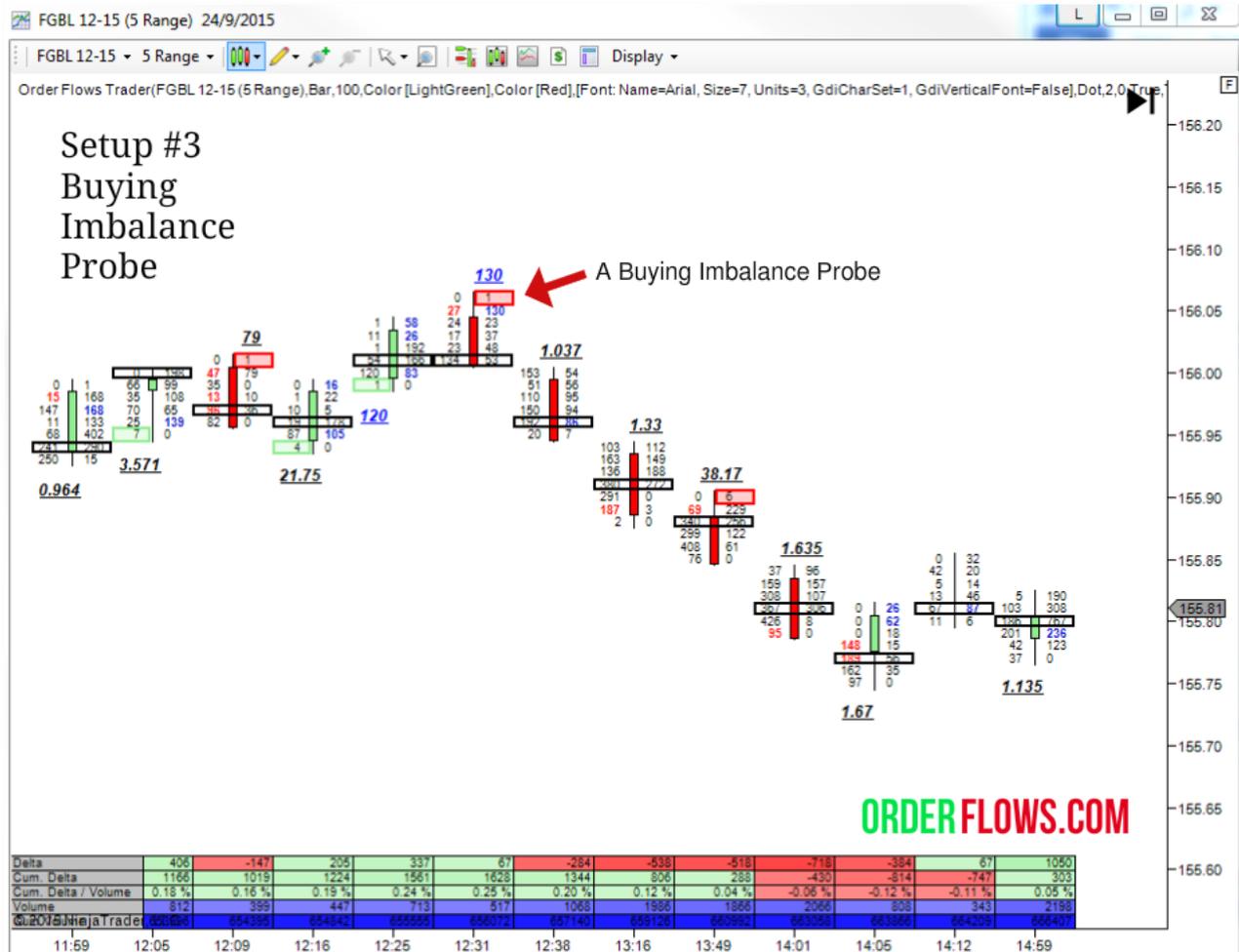
A **Selling Imbalance Probe** give you a buy setup. It happens when there is an up bar with a small print at the bottom and the print above it is a selling imbalance.



The importance of this setup is that it occurs after a significant amount of volume traded, usually in an iceberg order. In the Selling Imbalance Probe there was a bid, most likely being hidden with an iceberg, that traders kept selling into. What happens sometimes with iceberg orders it that during the time the order is being refreshed 1 or 2 lots may trade just through it causing the small print. There is a big passive buyer that doesn't want to show his

hand, so he is trying to hide the size of his order with an iceberg order. But with order flow, you can see exactly how much was bought and sold.

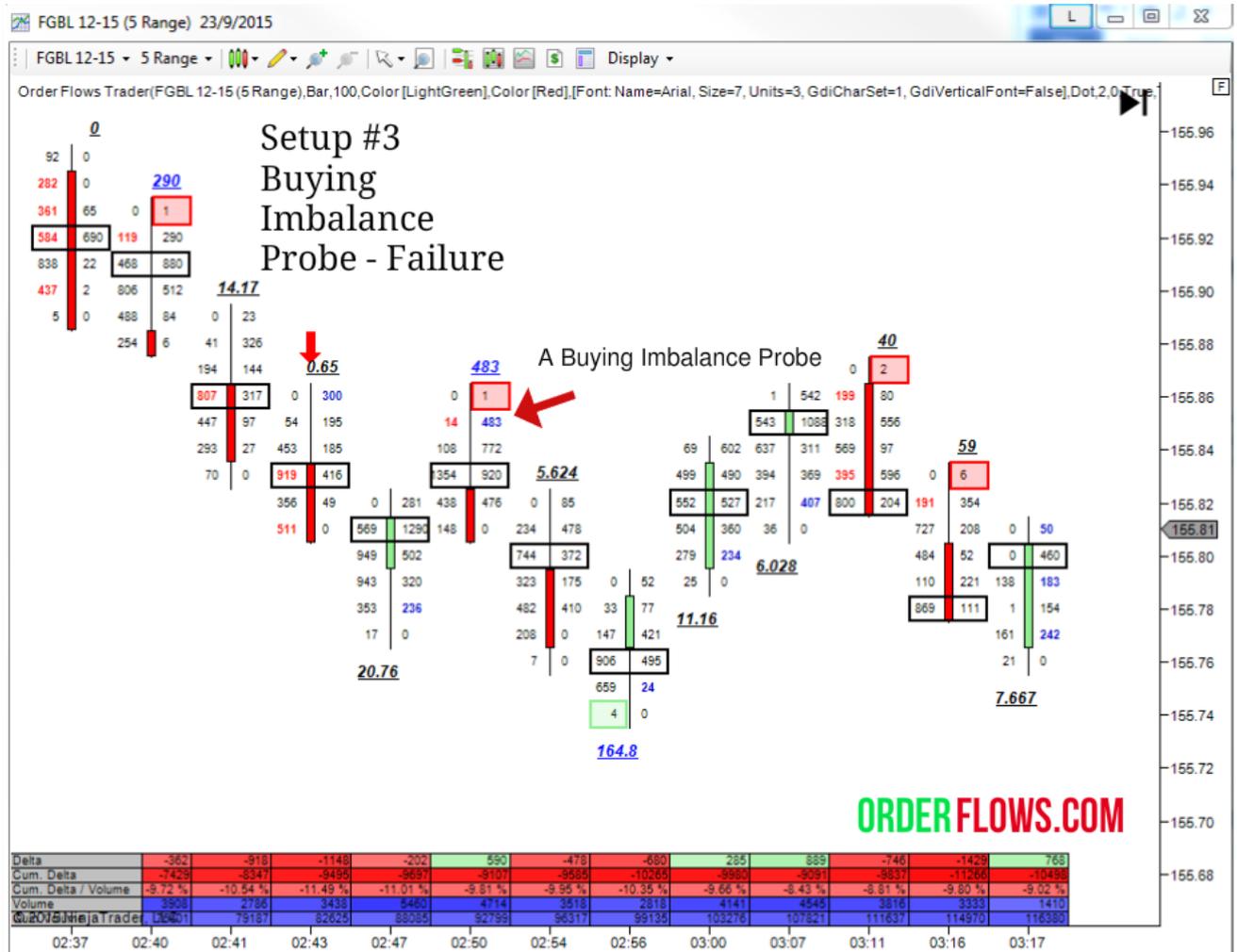
A **Buying Imbalance Probe** gives you a sell setup. It happens when there is a down bar with a small print at the top and the print below it is a buying imbalance.



I prefer to see buy setups near a low or swing low and sell setups near a high or swing high. When I see sell setups after a move down, I am a bit hesitant to take them. The same is true with buy setups after the market has moved up. It's all about catching the move, when you are buying you want to do it when price is low not high. The same is true about sells, you want to sell at higher prices rather than lower prices.

The next example highlights the importance of taking sell setups near a high and buy setups near a low. The market was in a clear down trend then bounced and gave a signal. I find when the setup occurs like that it is not that

strong. As you can see the market did go down initially but then just sort of range traded afterwards.



The example above is not so much a failure as it is a weak set up. It is a sell setup occurring at the end of a sell off. At the end of a sell off I am looking for buy setups not more sells.

Wrap Up

The beauty of trading with order flow is that you are able to see inside the bar or candlestick to see what is actually happening and see why the market is moving.

These 3 trade setups can only be seen and traded by trader who use order flow. None of these trades can be seen using traditional bar or candlestick charts.

Being a successful trader is about managing risk and keeping loses to a minimum. These 3 setups have tight stop placements, with setup #2 having a 1 or 2 tick stop placement. How many systems have you seen with a 1 tick stop placement? The answer is NONE. Why risk 10 ticks to make 10 ticks when you can risk 1 or 2 ticks to make 20 ticks?

Happy Trading.

Mike Valtos
Founder – Orderflows Trading

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