Orderflows Absorption Tool

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CFTC Required Disclaimer: Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under– or over–compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation in being made that any account will or is likely to achieve profits or losses similar to those shown.

The Orderflows Absorption Tool is like a Swiss Army Knife in detecting absorption in the order flow. It is built around seven (7) different scenarios of absorption. Why so many you might ask. There are different types of absorption in different market conditions.

VERY IMPORTANT – Just because there are 7 different absorption scenarios, does not mean you will run all 7 at once. That is NOT ADVISABLE and NOT RECOMMENDED.

What is recommended is to run the setups that align with your trading. Are you a momentum trader/trend trader or are you a reversal trader?

The market is constantly in a state of fluctuation. Trying to trade momentum and break outs when the market is range bound will chop you up with many false signals. Conversely, trying to trade reversals in a trending market you will find yourself getting stopped out regularly.

There is no one way to approach the market. A trader needs to be nimble and quick to understand what is happening in the market in order to trade it. Determine if the market is range trading or trend trading.

Most non-traders will think “wow, that’s a lot of work,” but really that is your job as a trader. The first step is to look at a chart. Where are we relative to the day’s high and low? The second step is to look at today’s range relative to yesterday’s range. Are we inside of yesterday’s range or outside of it.

If we are inside yesterday’s range there is a good chance the trading day may be an inside day which is usually a nice range day, good for reversals.

If the market is trading outside yesterday’s range, there is a good chance the trading day can be a trending day. But it does depend on the direction the market is trading. Is the market trading in a direction away from yesterday’s high/low, which can signal a potential trend day. Or is the market trading back into yesterday’s range which can signal a big trend day (ie engulfing pattern) or a potential range day depending on what is happening in the order flow. The market may simply rotate around the yesterday’s high (low) and or yesterday’s value area or Point of Control. There are really many different scenarios that can occur.

You don’t know what is going to happen until it happens. All you can do as a trader is trade what you expect to happen. For example, when the market

is trading above yesterday's high but starts to trade back into yesterday's range. What is the first level that the market can stop? The first level I would be looking for is the Point of Control.

There are many different situations that a trader can use absorption. The Orderflows Absorption Tool allows you to choose the situations that you want to look for.

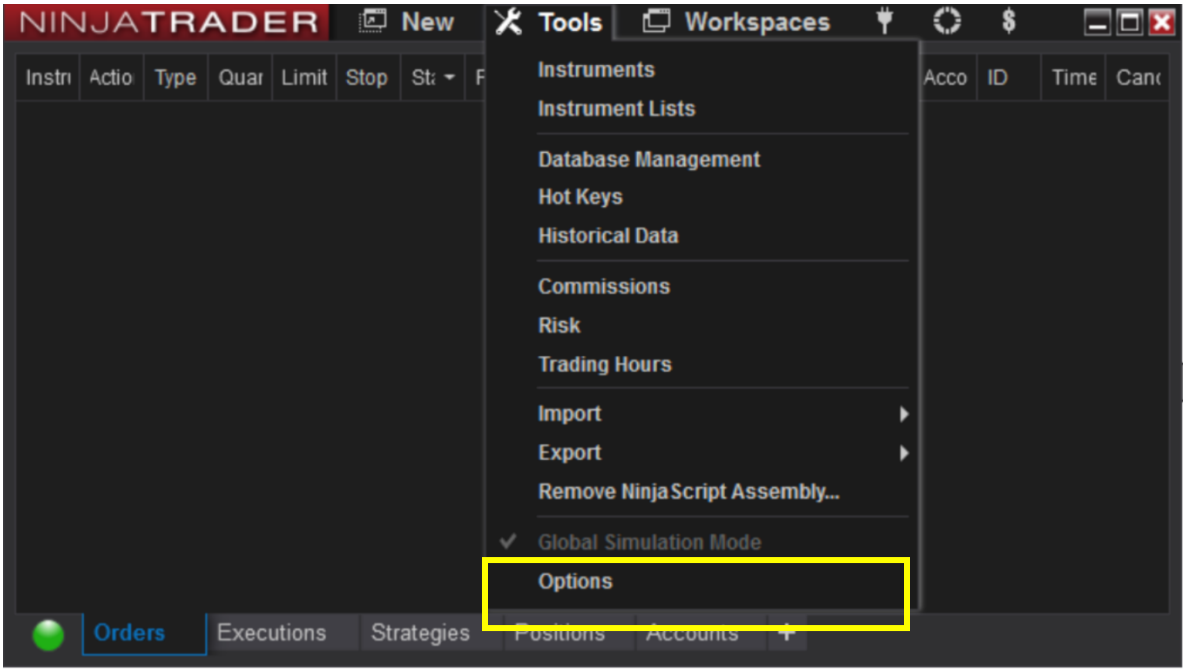
I could have broken out this indicator into seven different indicators. But I felt it was best to keep it as its own tool and let you decide what you want to use.

In the next section, I will explain how to set up the indicator on NinjaTrader 8 and explain the different settings.

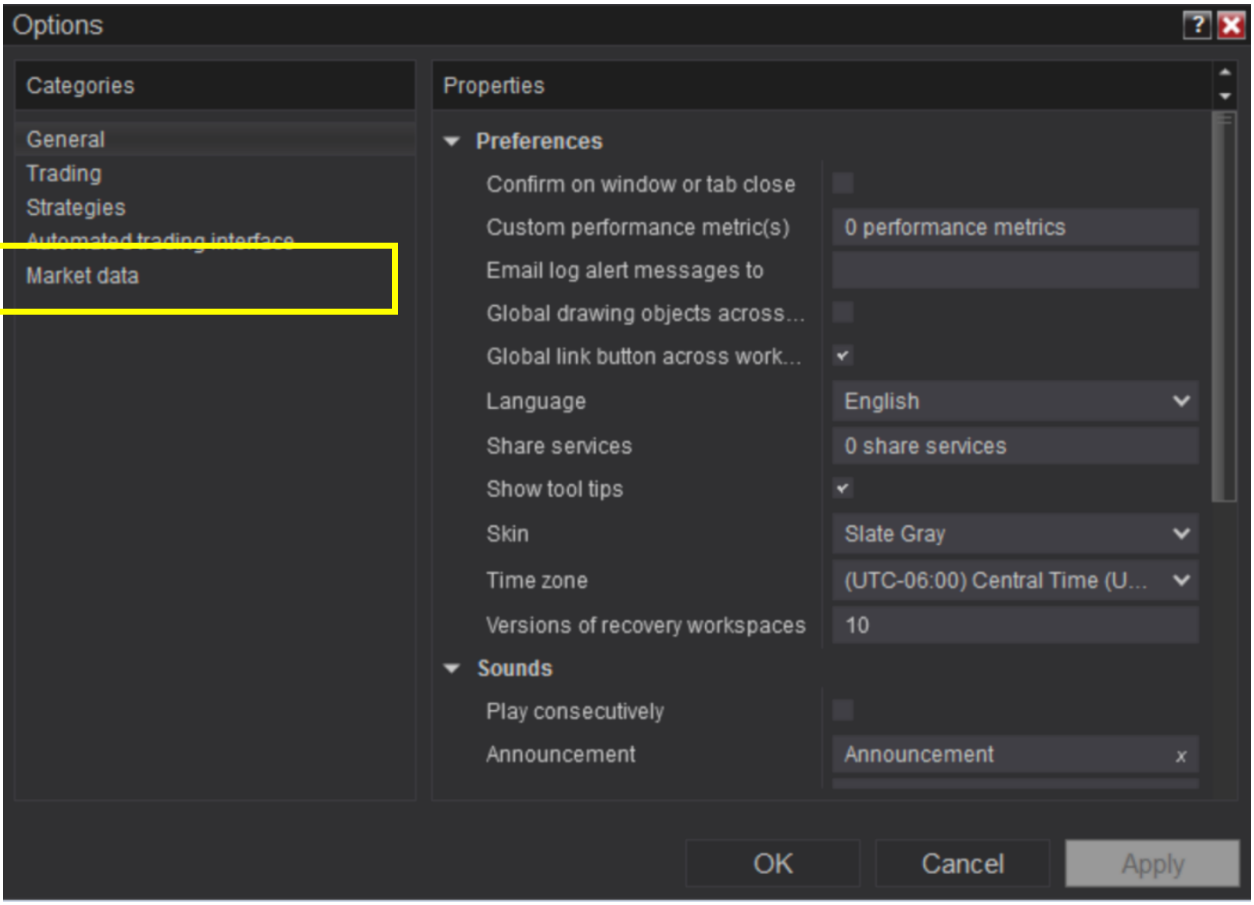
Once you read and understand the settings, in the section after that I will explain suggested settings and why. Keep in mind, what I will be suggesting is what I use. You are free to change them as you deem necessary.

This is probably the most important and easily overlooked aspect of using an Orderflows Tool. Making sure tick replay is enabled. If it is not enabled, the indicator will not work.

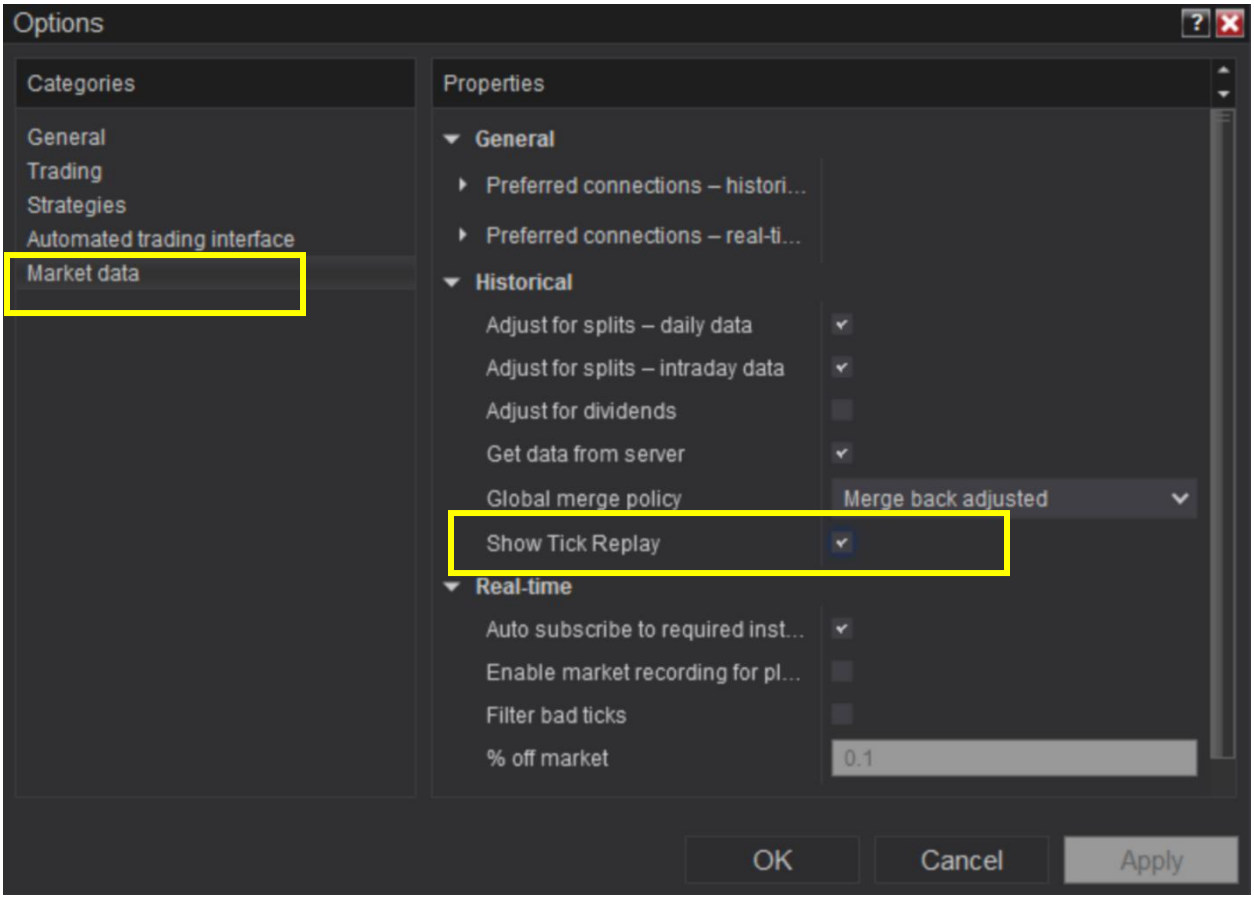
Step 1. Go to the NinjaTrader control panel and click on Tools and select Options.



Step 2. Click on Market Data



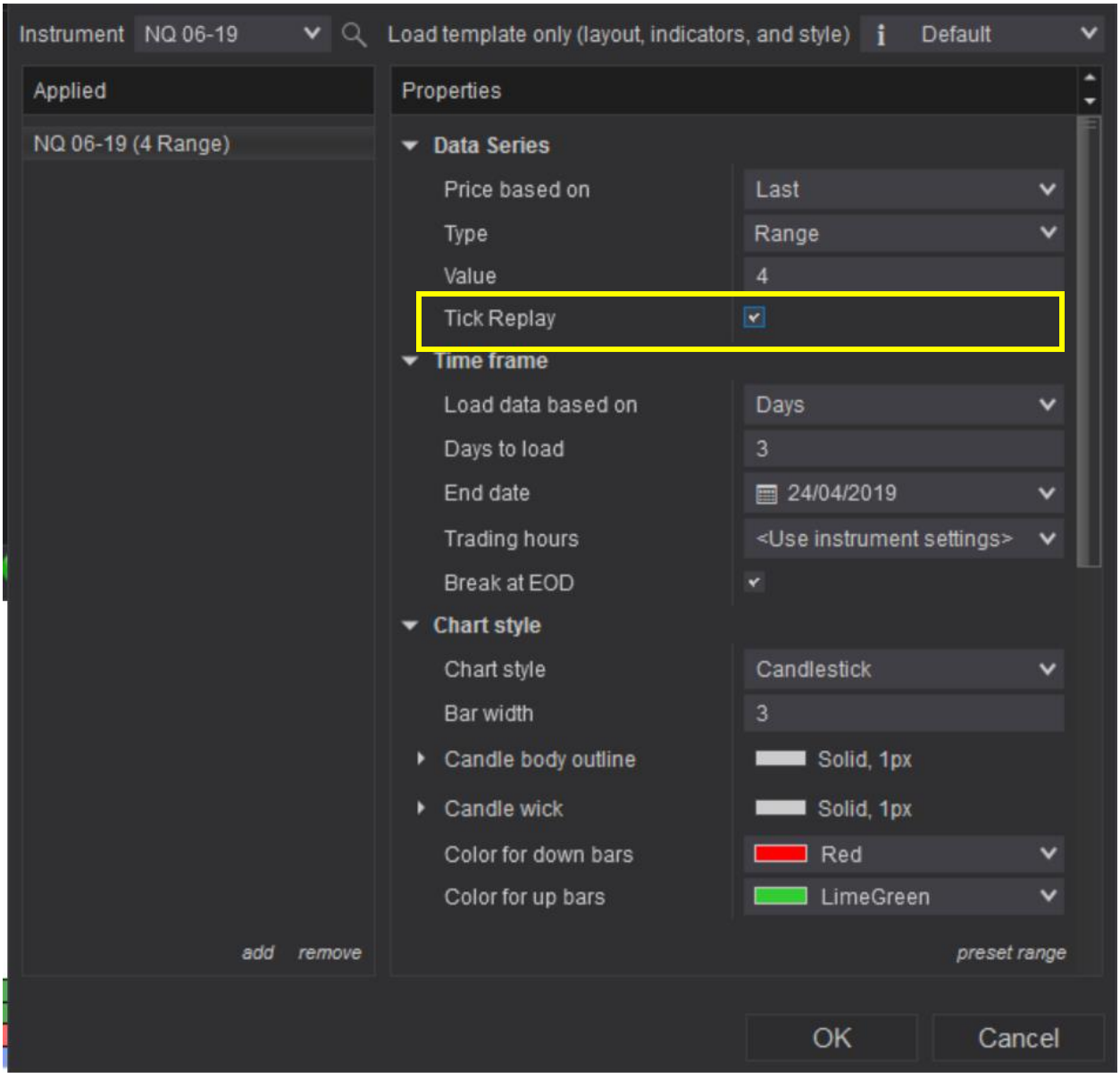
Step 3. Click on Show Tick Replay within the Market Data Properties



Step 4. When you open a new chart, make sure you enable Tick Replay.

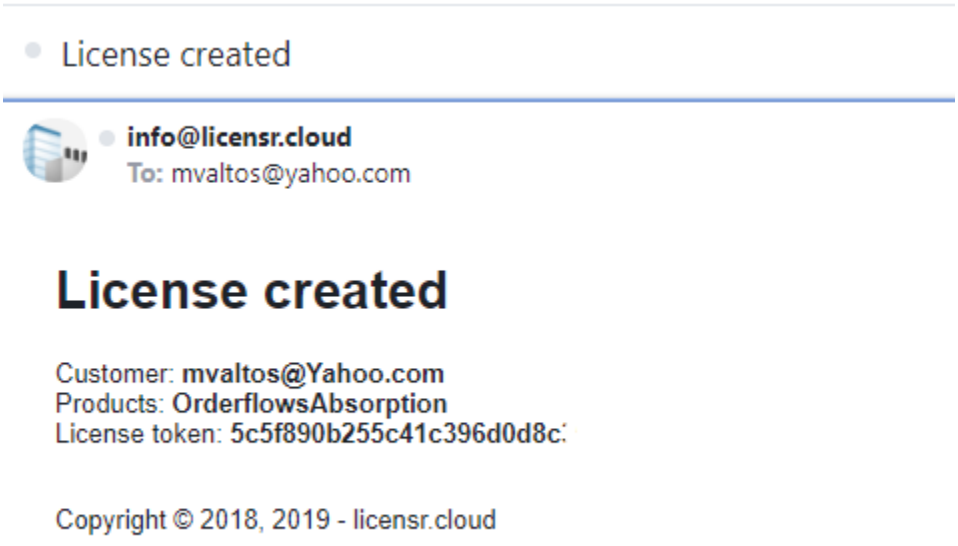
If this box does not appear then you have not set up the Tick Replay Feature.

If you do not enable this box, then the indicator will not show up on historical data.



Before I get into the different scenarios and settings, first you will need to enter you License Token.

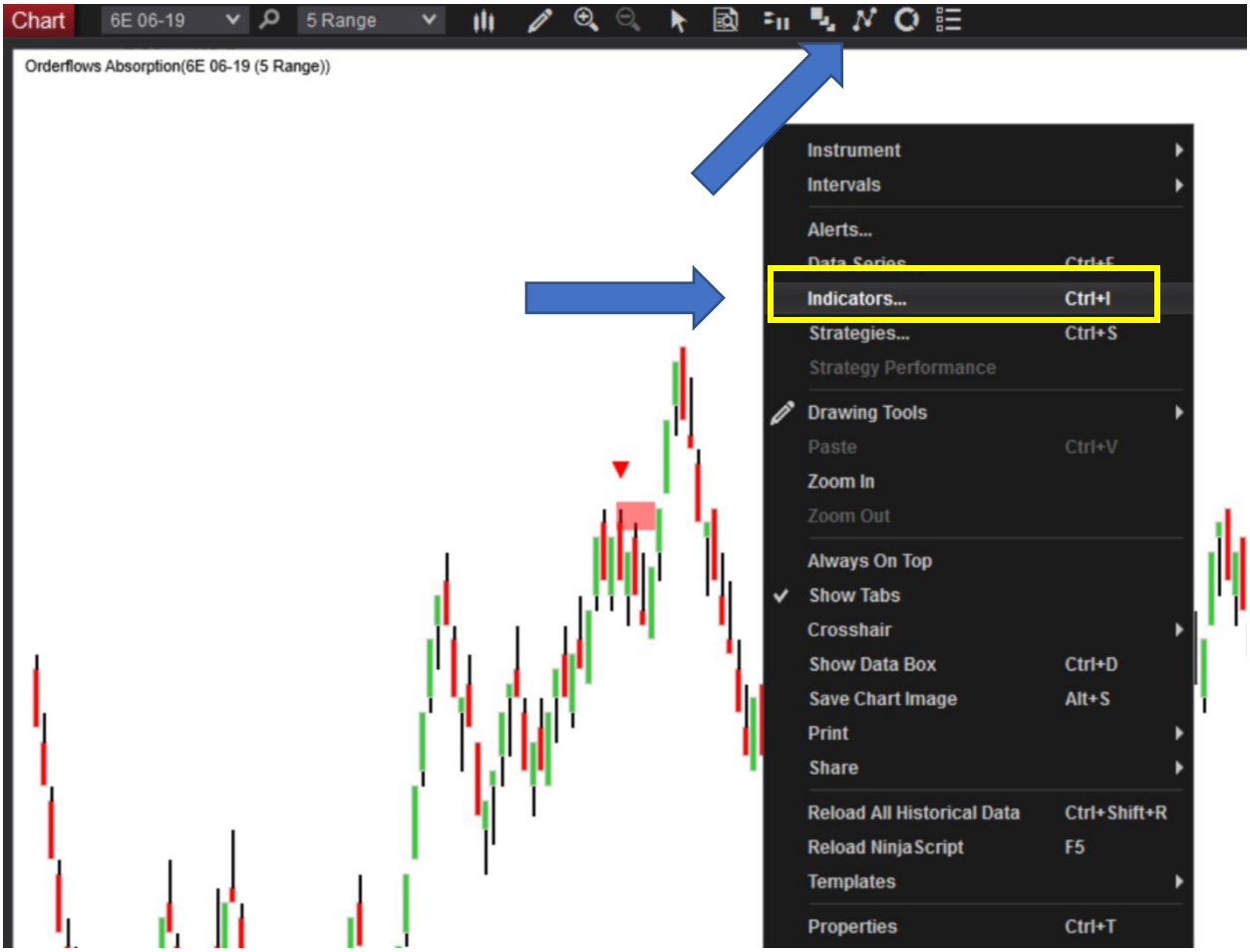
You will be emailed you License Token and the email will look like this:



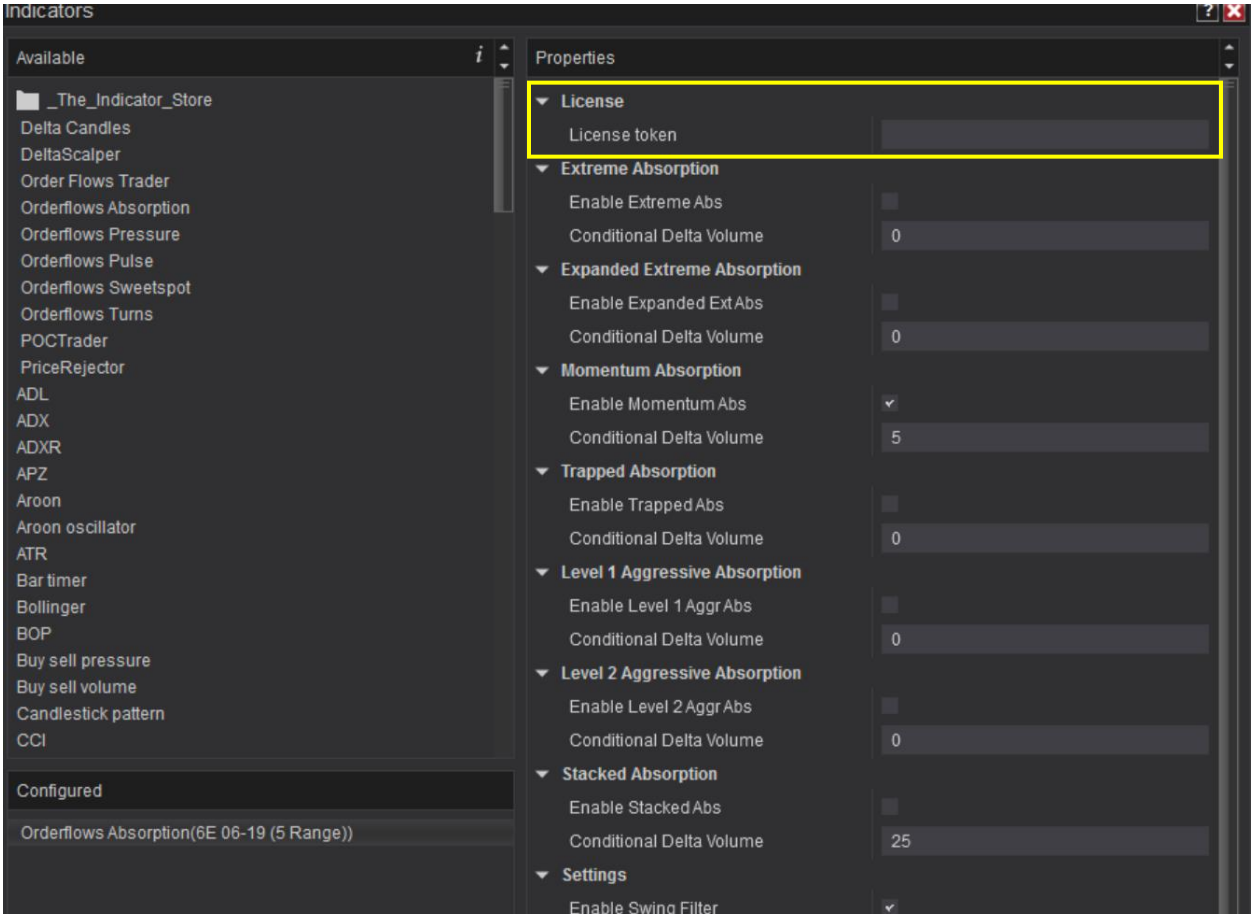
Please note that the license token email will come from the email info@licensr.cloud and not an orderflows.com email. It is also included in your welcome email with the download instructions for the software that I send to you from my orderflows.com email.

Once you have installed the Orderflows Absorption Indicator, you will need to open the indicator settings and manually enter the License Token in the first section called License in the field labeled License token.

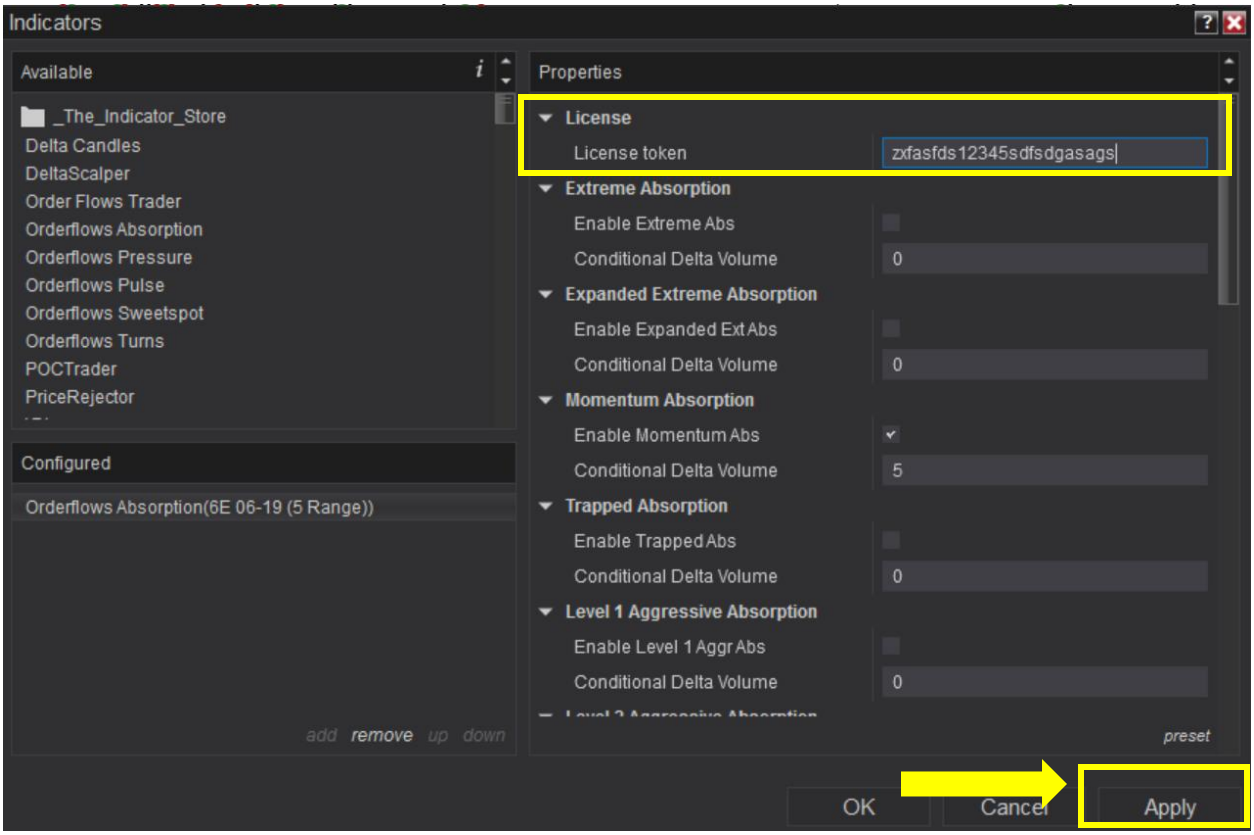
There are three ways to open the indicator settings, press Ctrl+I or click on the zigzag on top of the chart of right click on the screen to open the settings up.



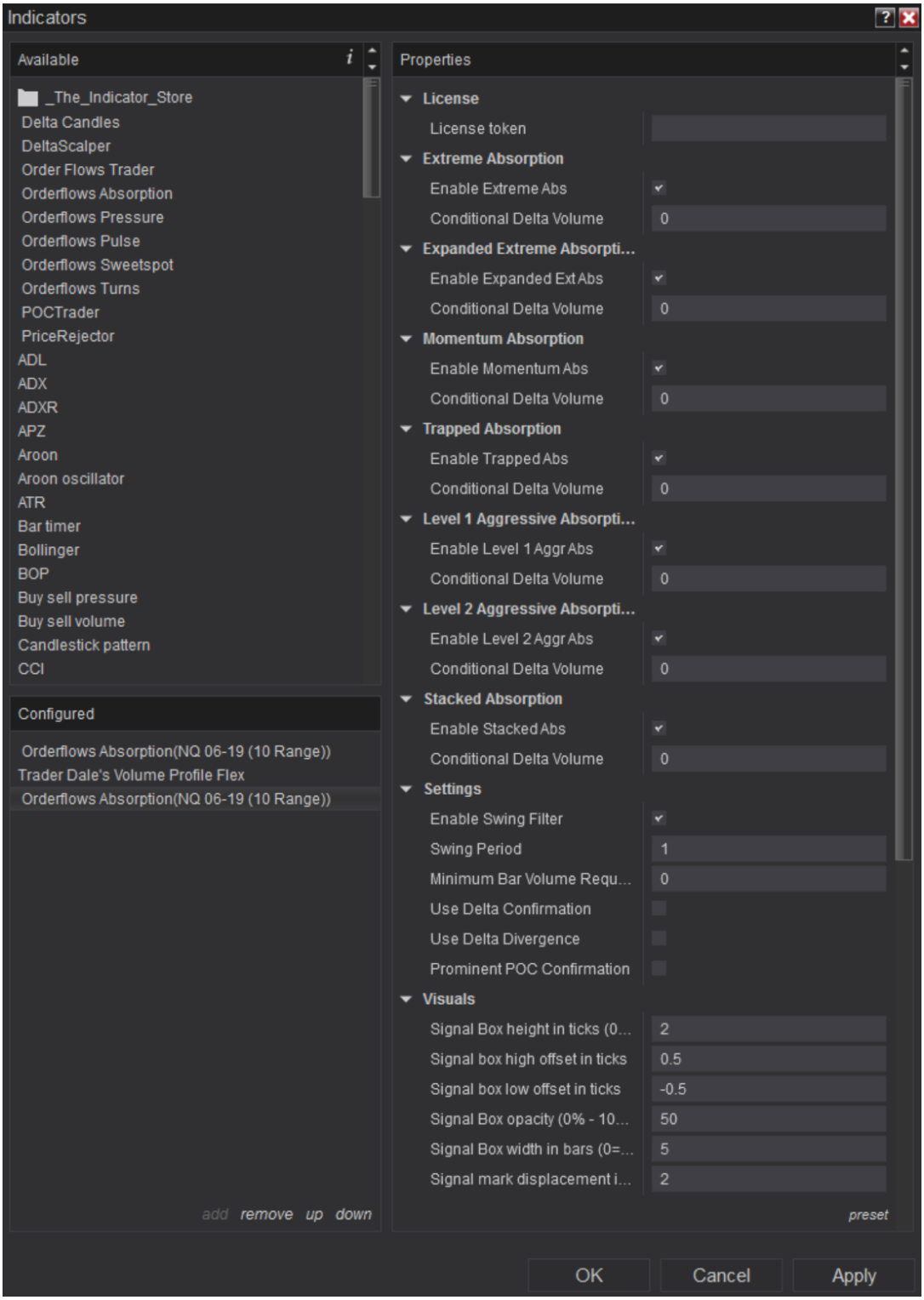
Once you have opened up the Indicators settings, click on Orderflows Absorption from the left-hand side and load the indicator. On the right-hand side you will see the first field, License. In the field labeled License token copy and paste your License token there.



Once you have entered your License token, click Apply on the bottom right-hand side of the Indicators settings.



The Orderflows Absorption Tool has 7 different absorption scenarios:



1) Extreme Absorption.
2) Expanded Extreme Absorption
3) Momentum Absorption
4) Trapped Absorption
5) Level 1 Aggressive Absorption
6) Level 2 Aggressive Absorption
7) Stacked Absorption

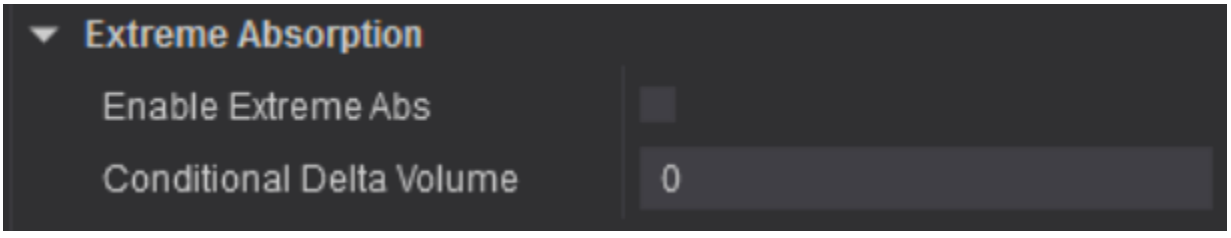
Each scenario can be enabled or disabled, depending on your trade plan. Additionally, within each scenario, the user can select a conditional delta volume.

There are also general settings which the user can adjust:

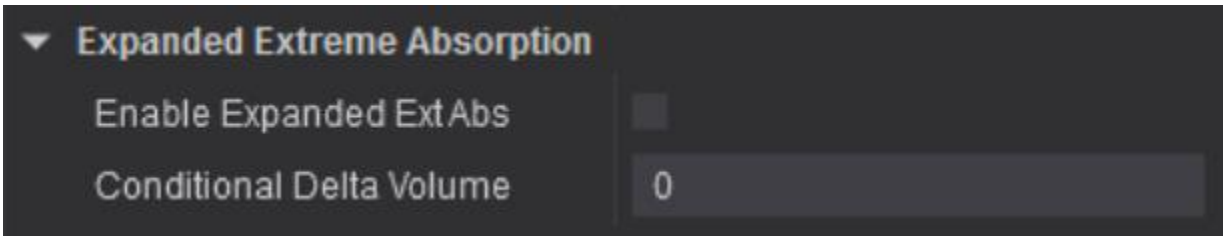
1) Enable Swing Filter
2) Swing Period
3) Minimum Bar Volume Required
4) Use Delta Confirmation
5) Use Delta Divergence
6) Prominent POC (Point of Control) Confirmation)

Explanation of The 7 Different Absorption Settings

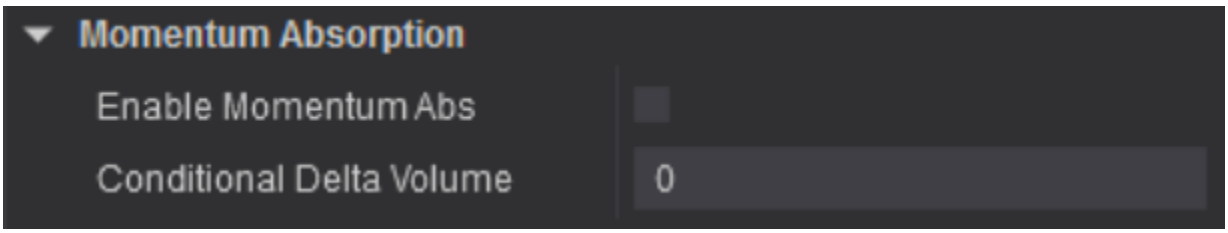
Extreme Absorption – A reversal signal. This scenario occurs when there is absorption at the extreme of a bar. Can be used on any bar type, short term and long term.



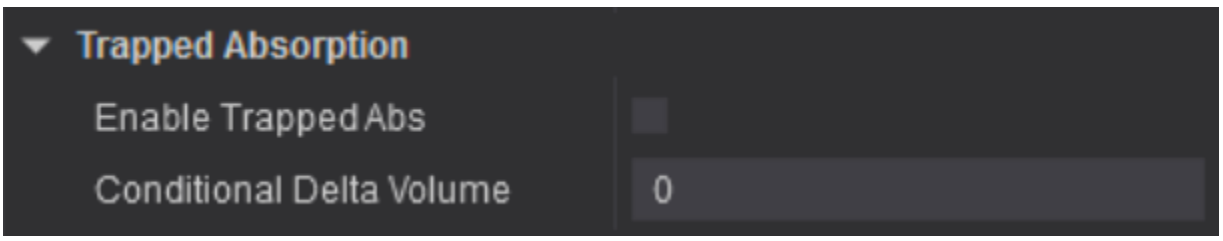
Expanded Extreme Absorption – A reversal signal. This scenario occurs when there is absorption near the extreme of a bar. Should be used in conjunction with Extreme Absorption on longer bar periods. For example, 5-minute charts or 10 range bars. Expanded Extreme Absorption looks at additional price levels in determining absorption in a bar. That is why it is recommended to use on longer range bars or bars that cover more price levels.



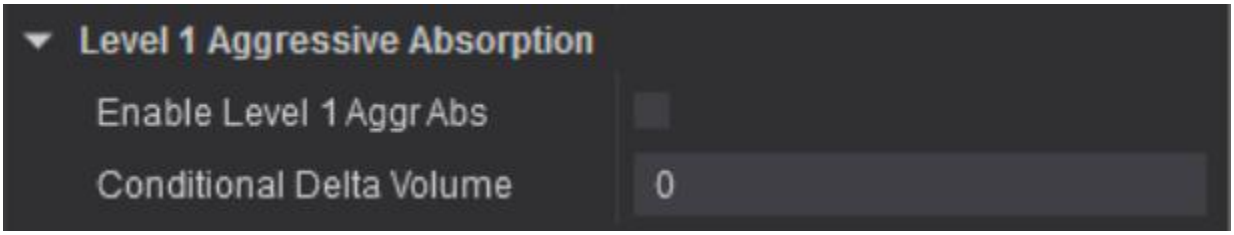
Momentum Absorption – A continuation signal. When a market is trending or moving quickly in one direction there can be signs of absorptive buying if the market is moving higher or absorptive selling if the market is moving lower. What that means is there is supportive buying on the way up in the sense that there were buyers who were lifting heavy offers. Or on the market moving lower, sellers hitting big bids. Usually the offers and bids are hidden because of the traders hide their size through the use of iceberg orders.



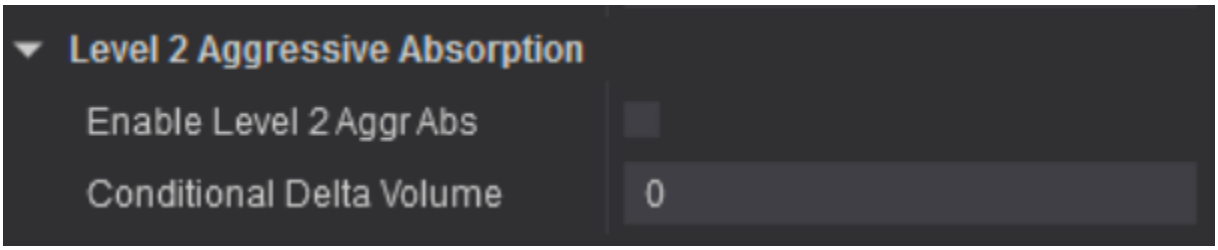
Trapped Absorption – A reversal signal often seen in a pull back, but trapped absorption can occur at a pure reversal or in a move. These are areas where traders are potentially trapped in the market.



Level 1 Aggressive Absorption – A combination of Extreme Absorption and Momentum Absorption. It detects areas where there is absorption of both the bid and offer when the market is not moving.



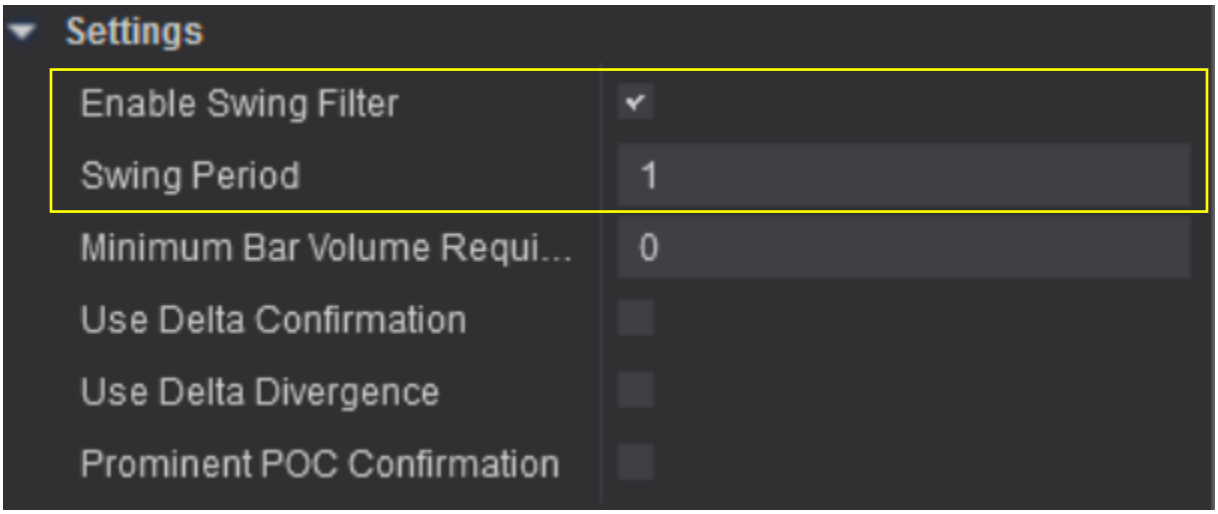
Level 2 Aggressive Absorption – A combination of Expanded Extreme Absorption and Momentum Absorption. It detects areas where there is absorption of both the bid and offer when the market is not moving but expands the analysis window further.



Stacked Absorption – Combines both Extreme Absorption and Expanded Extreme Absorption but treats it as one level.

In the General Settings:

Enable Swing Filter & Swing Period

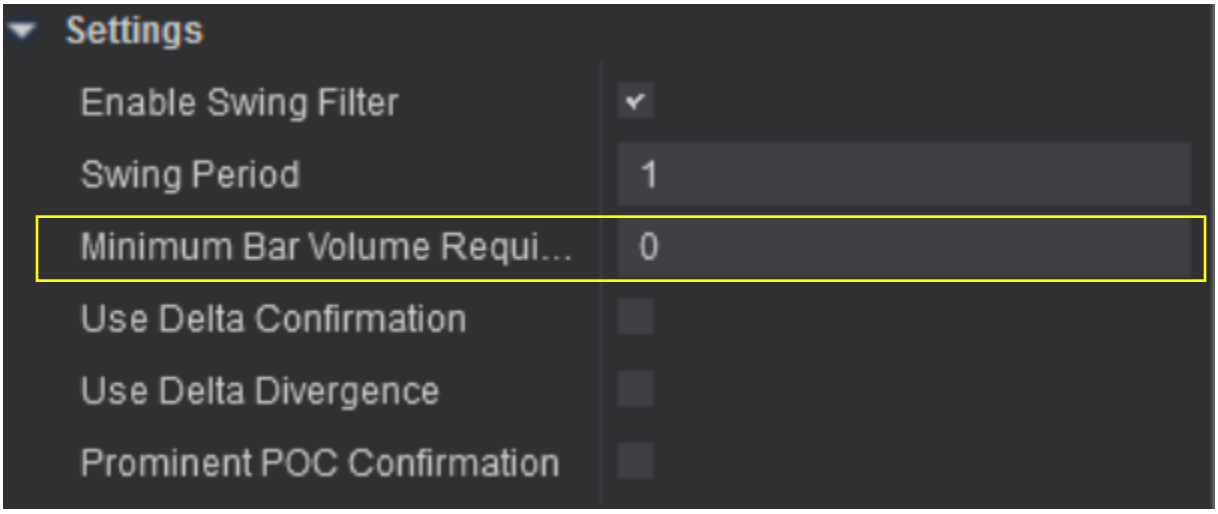


These are used together. If you want to have signals at swing highs or swing lows, you would put a check in the box next to Enable Swing Filter. Next you would need to enter a number for the period you want to look for swings for (the default is 1). For example, if you want to see signals where the bar is either the swing high or low for the last 9 bars, you would enter a value of 9.

If you are trading reversal trading, you will need a move to reverse. So, you would want to enable the Swing Filter and set a Swing Period.

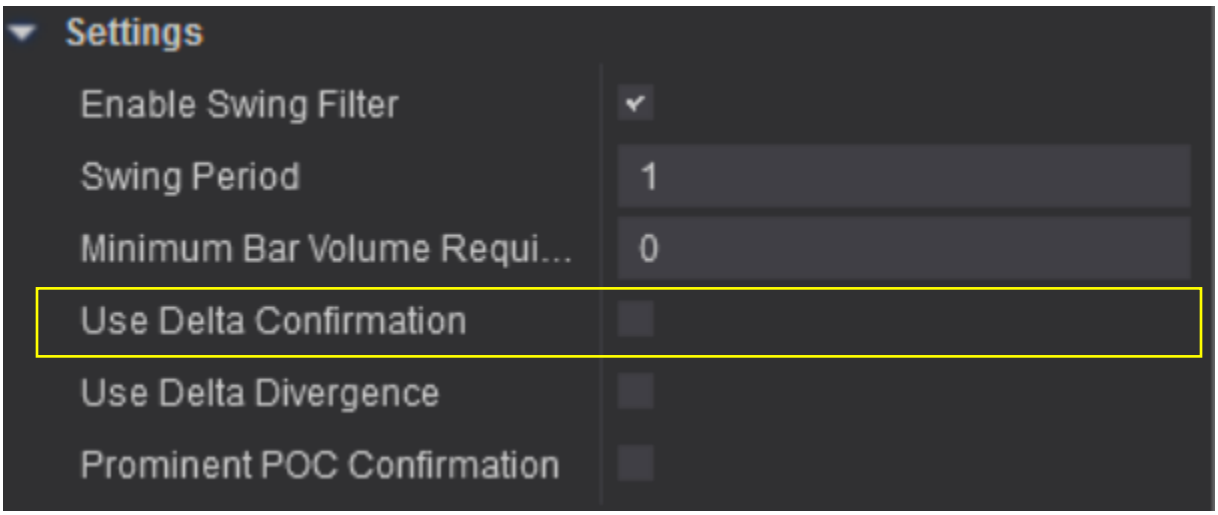
If you are trading momentum, you will not enable the Swing Filter. If the Swing Filter is not enabled, then it won't recognize the value in the Swing Period field.

Minimum Bar Volume Requirement –

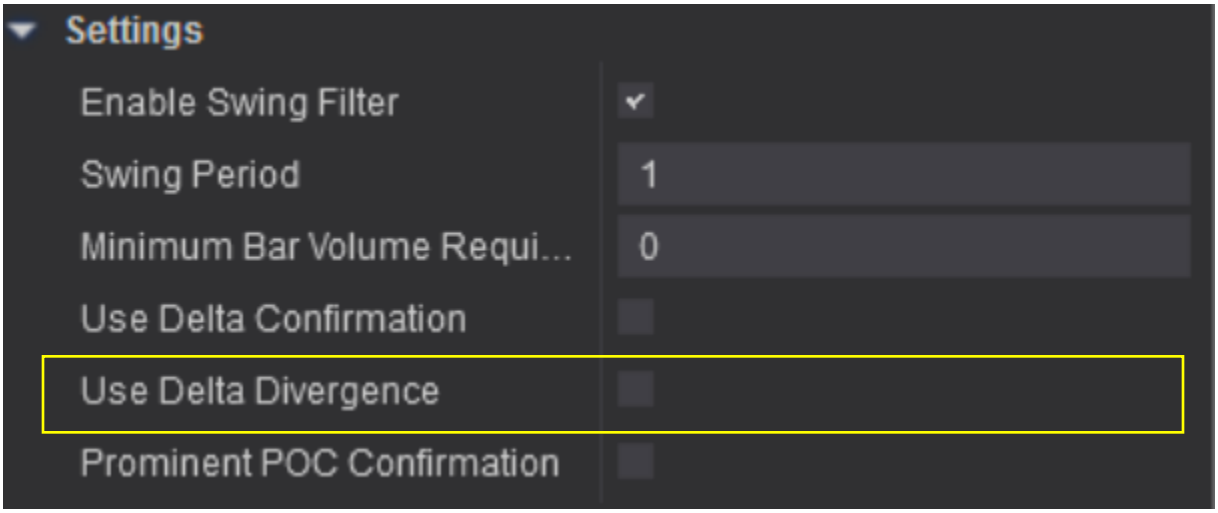


This setting allows a user to set a minimum bar volume required for analysis. Most of the time, you can set the volume to 0 as most bars during the day session have enough volume. However, if you are trading during the evening session or a market with less volume, you may need to set a minimum bar volume requirement which will depend on the market you are trading. For example, if you are trading 1-minute NQ futures in the evening session, you might want to set the Minimum Bar Volume Requirement to 100. Bars that have a volume of less than 100 will not be analyzed.

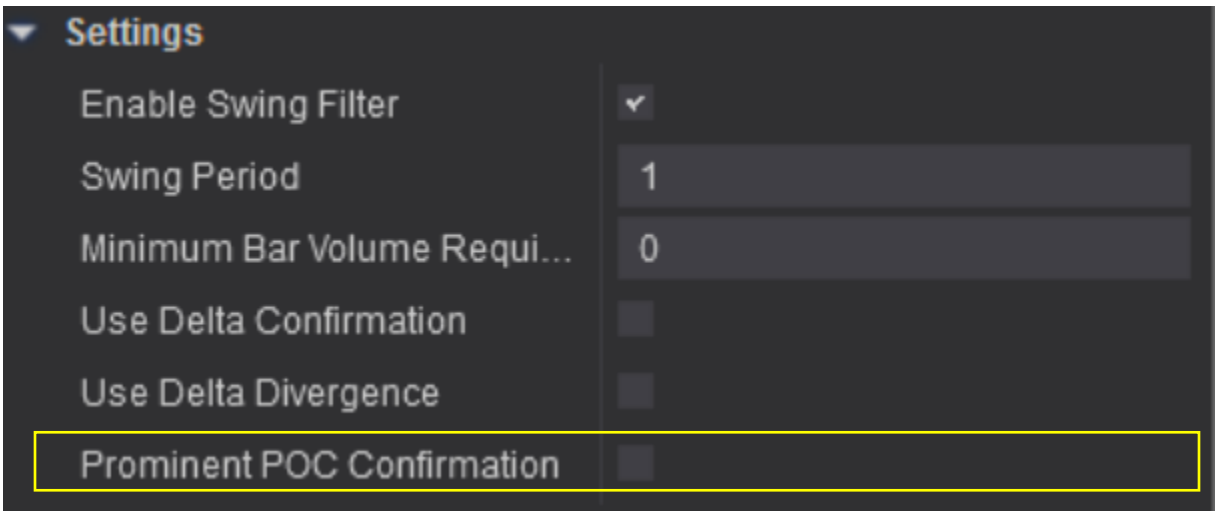
Use Delta Confirmation – When this setting is enabled, it will allow the trader to filter signals where the bar delta confirms the price action. For buy signals, bar delta needs to be positive. For sell signals, bar delta needs to be negative.



Use Delta Divergence – When this setting is enabled, it will allow the trader to filter signals when there is a divergence between the delta and the price action. For buy signals, the delta needs to be negative. For sell signals, the delta needs to be positive. This is important because on bars of supportive volume, there is often negative delta.



Prominent POC Confirmation – When this setting is enabled, it will allow the trader to filter for signals in bars with a Prominent POC. (Point of Control). A Prominent POC (Point of Control) is one in which the POC often acts as support or resistance and can signal a potential reversal. Every bar has a POC, but not all POCs matter. The Orderflows Absorption Tool has the ability to filter out the signals that occur with or without a Prominent Point of Control.



In the Visuals Settings:

Explanation of Visuals

Signal Box height in ticks is set to 2. This is how tall the zone appears on the chart.

Signal box high offset in ticks in set to 0.5. This is how much into the bar you want the zone to appear.

Signal box low offset in ticks is set to -0.5. This is how much below the bar you want the zone to appear in a buy and how much above the bar you want the zone to appear in a sell.

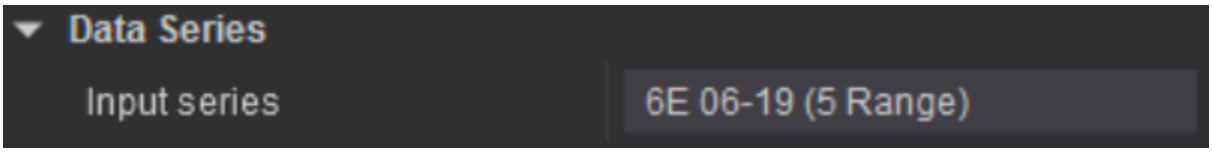
Signal box opacity is set to 50. This is a percentage of how dark you want the zone to appear. If you set to 100 is will be solid blue for a buy or solid red for a sell. It is set to 50, which is 50% so that you can see through the zone if you are watching a footprint chart.

Signal Box width in bars is set to 5. This is the number of bars you want the zone to print forward. If it was set to 15 it would print forward for the next 15 bars. If you are a support/resistance trader, you may want to set it out 20 bars or so.

Signal mark displacement is set to 2. This is the distance, in ticks, how far below a buy bar the signal plot (see below, default is a triangle) appears. Or how far above a sell bar the signal plot (see below, default is a triangle) appears.

In the Data Series Settings:

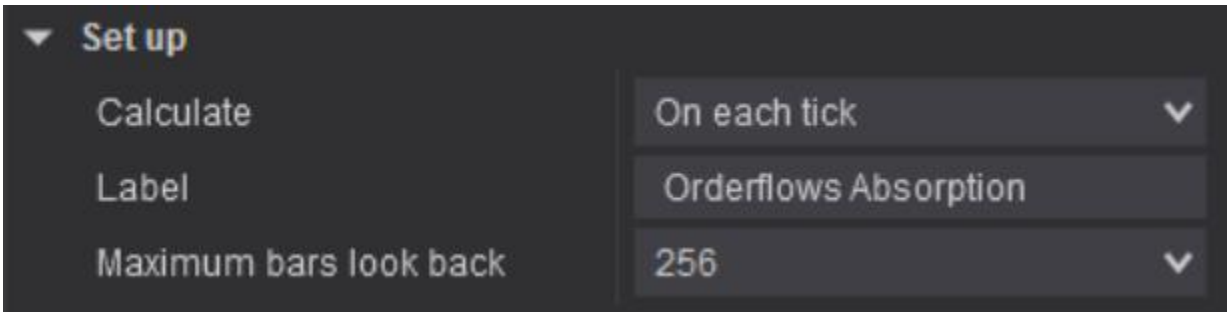
Explanation of Data Series



YOU DO NOT NEED TO CHANGE THIS. This is the data series the chart is looking at. When you load the Orderflows Absorption indicator on a chart, it automatically puts in the Input series for you. AGAIN, DO NOT TOUCH THIS.

In the Set Up Settings:

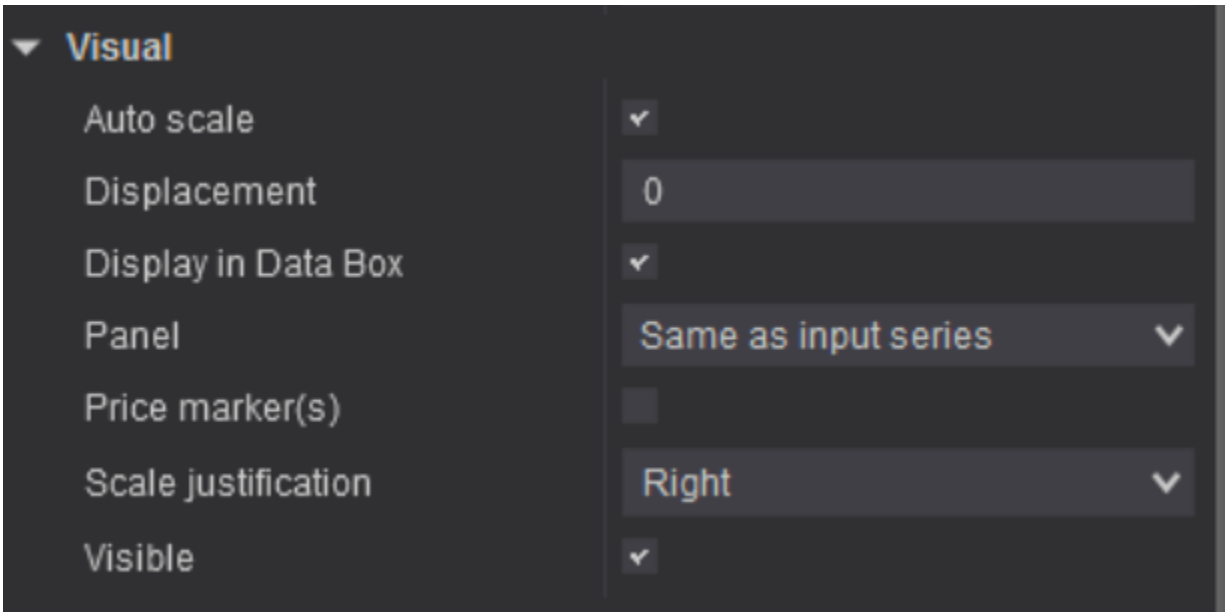
Explanation of Set Up



YOU DO NOT NEED TO CHANGE THIS. This is the how the data is read, the label of the indicator and the Maximum bars look back. When you load the Orderflows Absorption indicator on a chart, it automatically puts in the Setup information for you. AGAIN, DO NOT TOUCH THIS.

In the Visual Settings:

Explanation of Visual



YOU DO NOT NEED TO CHANGE THIS. These setting deal with how the Orderflows Absorption Indicator plots on the main chart. If you start changing any of these settings, you will get multiple panels of the same chart on your screen. AGAIN, DO NOT TOUCH THIS.

In the Plot Settings:

Explanation of Plots

You may have to expand the Buy signal and Sell Signal by clicking on the down triangle.

In the Plot settings you can change the Color for the signals, the Dash style, the Plot style and the Width for buy signals and sell signals. I prefer these default settings, but you are free to change how you want them to appear on your chart. For example, you may already have an indicator that plots in blue and red for buys and sells, so you may want to change the buys to green and the sells to pink.

Suggested Settings For The Different Scenarios

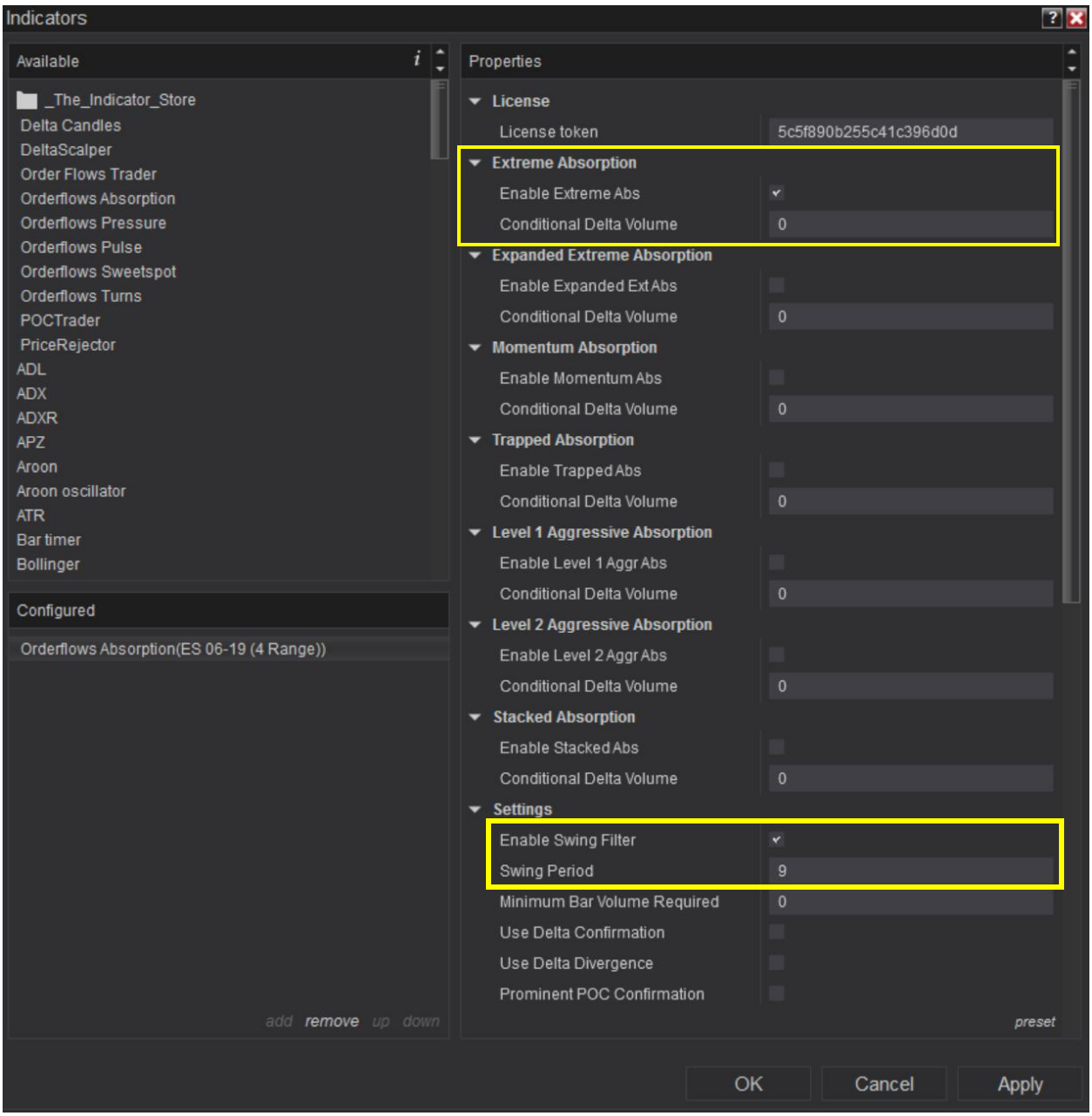
Please remember that these are suggested setting. There are many different markets, time frames, chart types and what I suggest may or may not work well in your market.

It would be impossible for me to show you every possible combination of settings and I don’t want to curve fit the results. I am a firm believer that a way of trading should transfer between different markets and time frames.

For simplicity purposes, I will use an ES 4 range chart to explain suggested settings and why

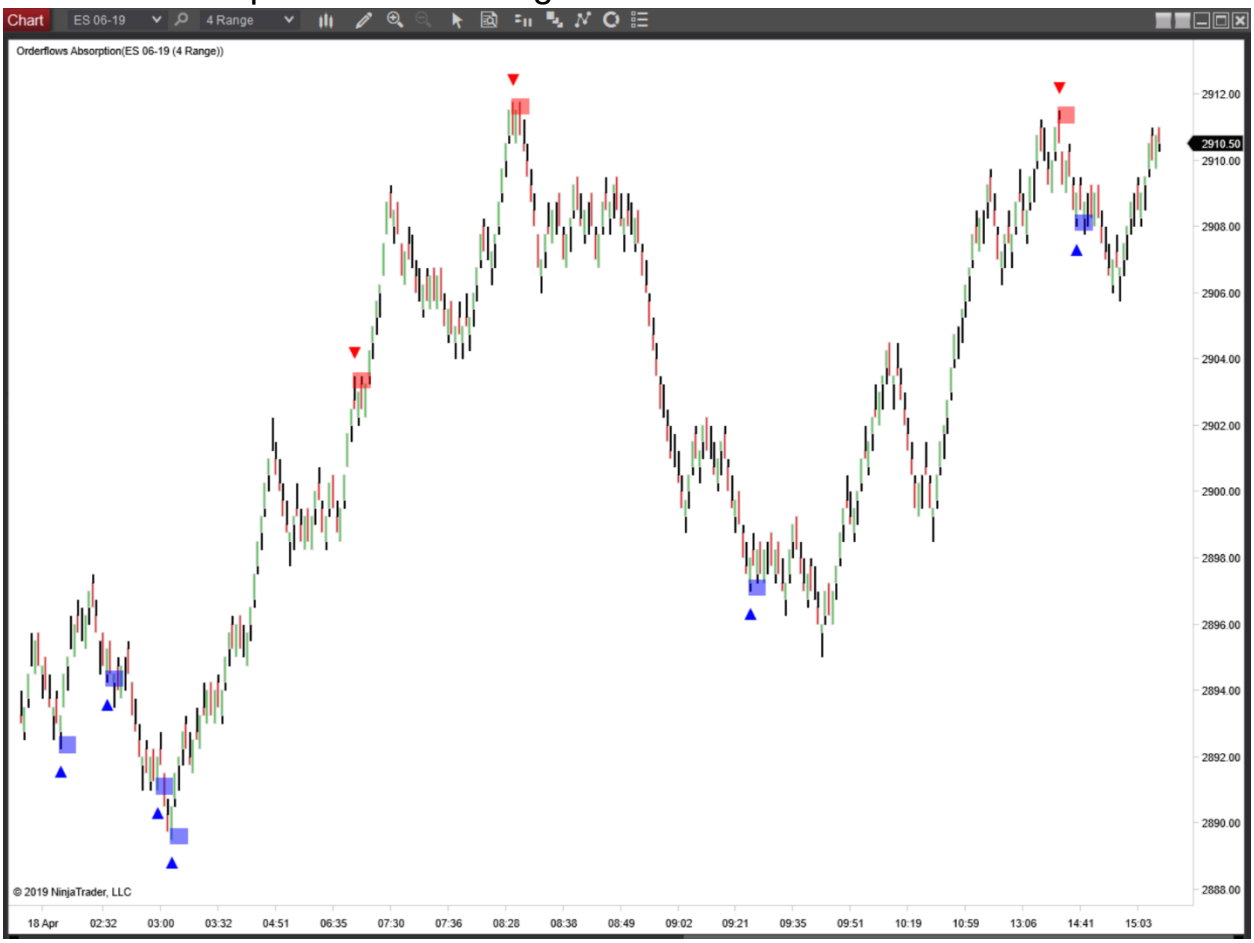
Take these suggested settings as a starting point for your own trading plan.

Extreme Absorption – as this is a reversal set up, I would use the following setup:

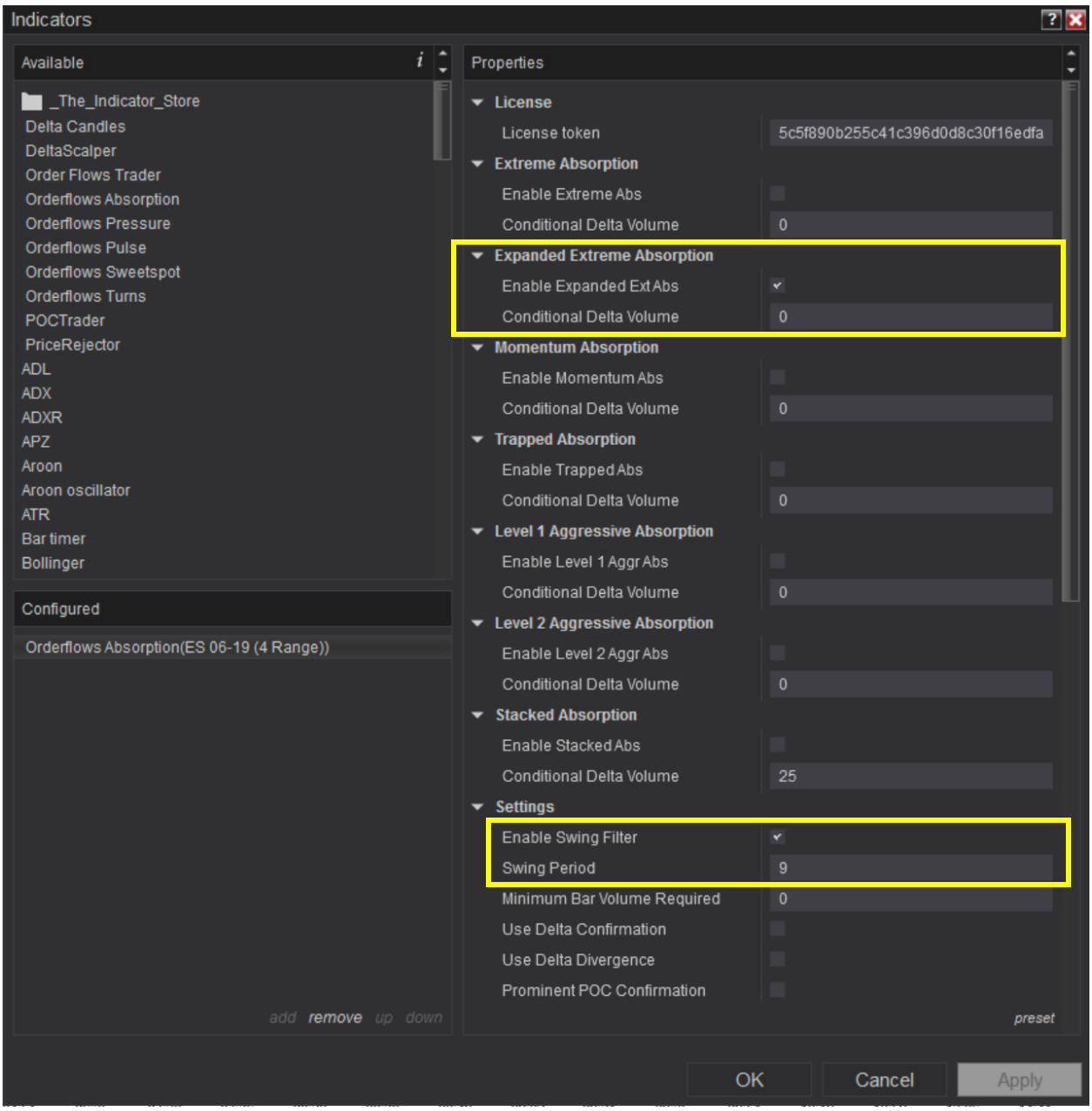


Enable Extreme Absorption, Enable Swing Filter, Swing Period of 9. This will allow me to look for absorption after a move has occurred.

Extreme Absorption – ES 4 Range Chart

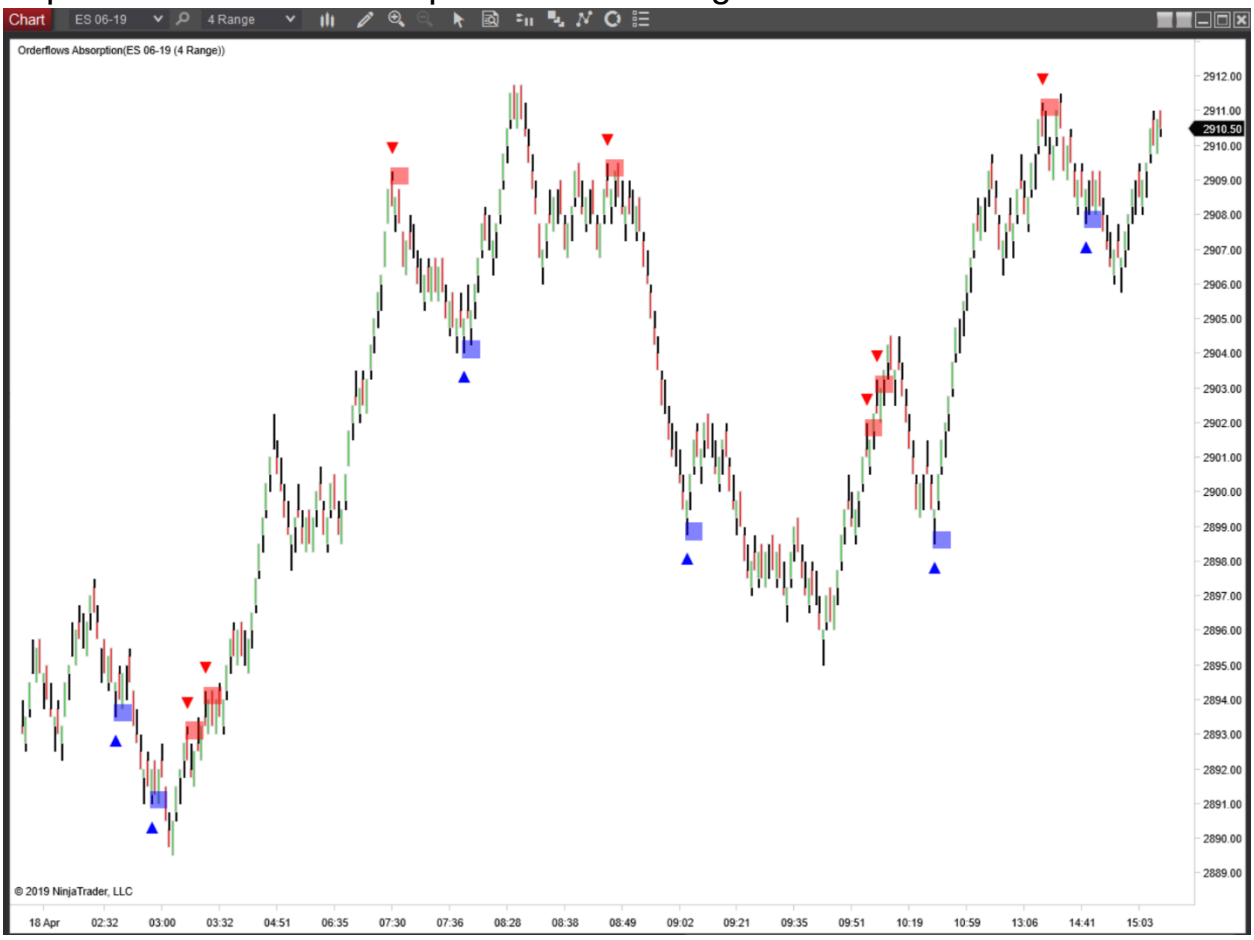


Expanded Extreme Absorption – Similar to Extreme Absorption, Expanded Extreme Absorption is a reversal indicator. I would use the same setup as Extreme Absorption. You can keep the Plot colors the same or change the colors if you are running both Extreme and Expanded Extreme Absorption.



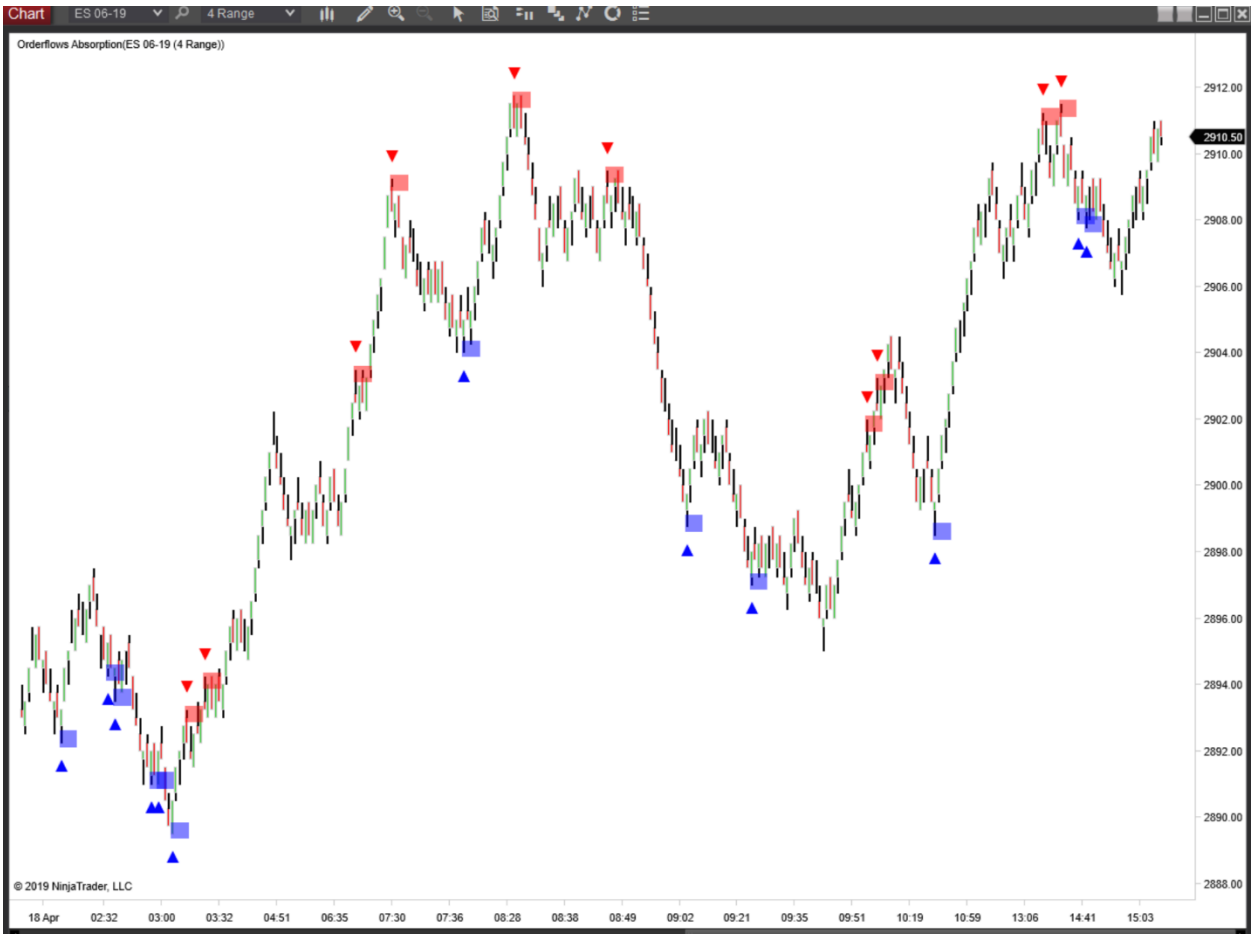
Enable Expanded Extreme Absorption, Enable Swing Filter, Swing Period of 9. This will allow me to look for absorption after a move has occurred.

Expanded Extreme Absorption – ES 4 Range Chart

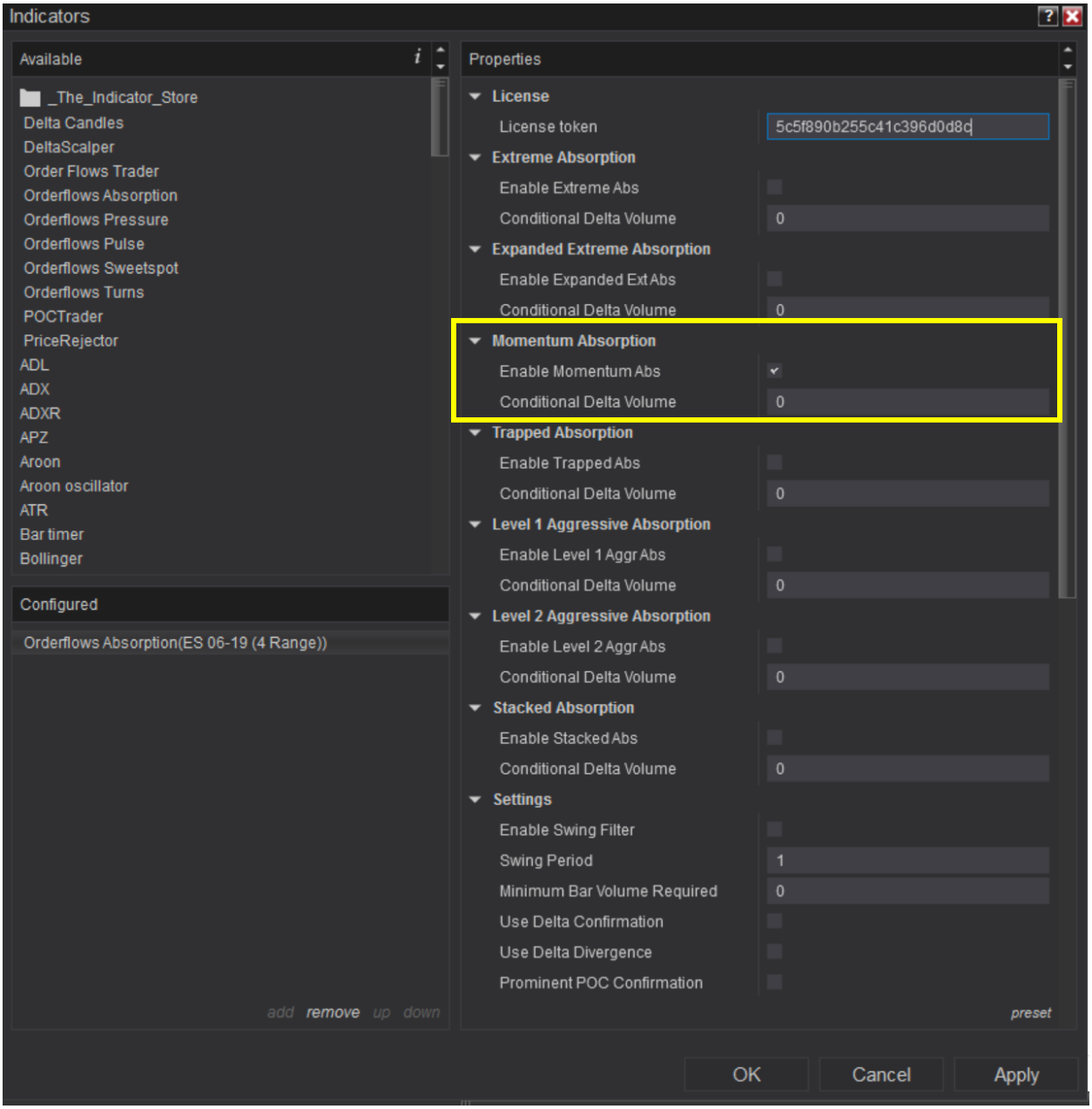


You can use both Extreme Absorption and Expanded Extreme Absorption on the same chart. However, bear in mind that depending on the market and chart type you might get a lot of signals especially if the market is volatile.

Extreme Absorption and Expanded Extreme Absorption– ES 4 Range Chart



Momentum Absorption – When I am looking for momentum in the market, I know it can come anywhere. So, I disable the Swing Filter so that when ever the basic conditions are met, a signal will be generated.



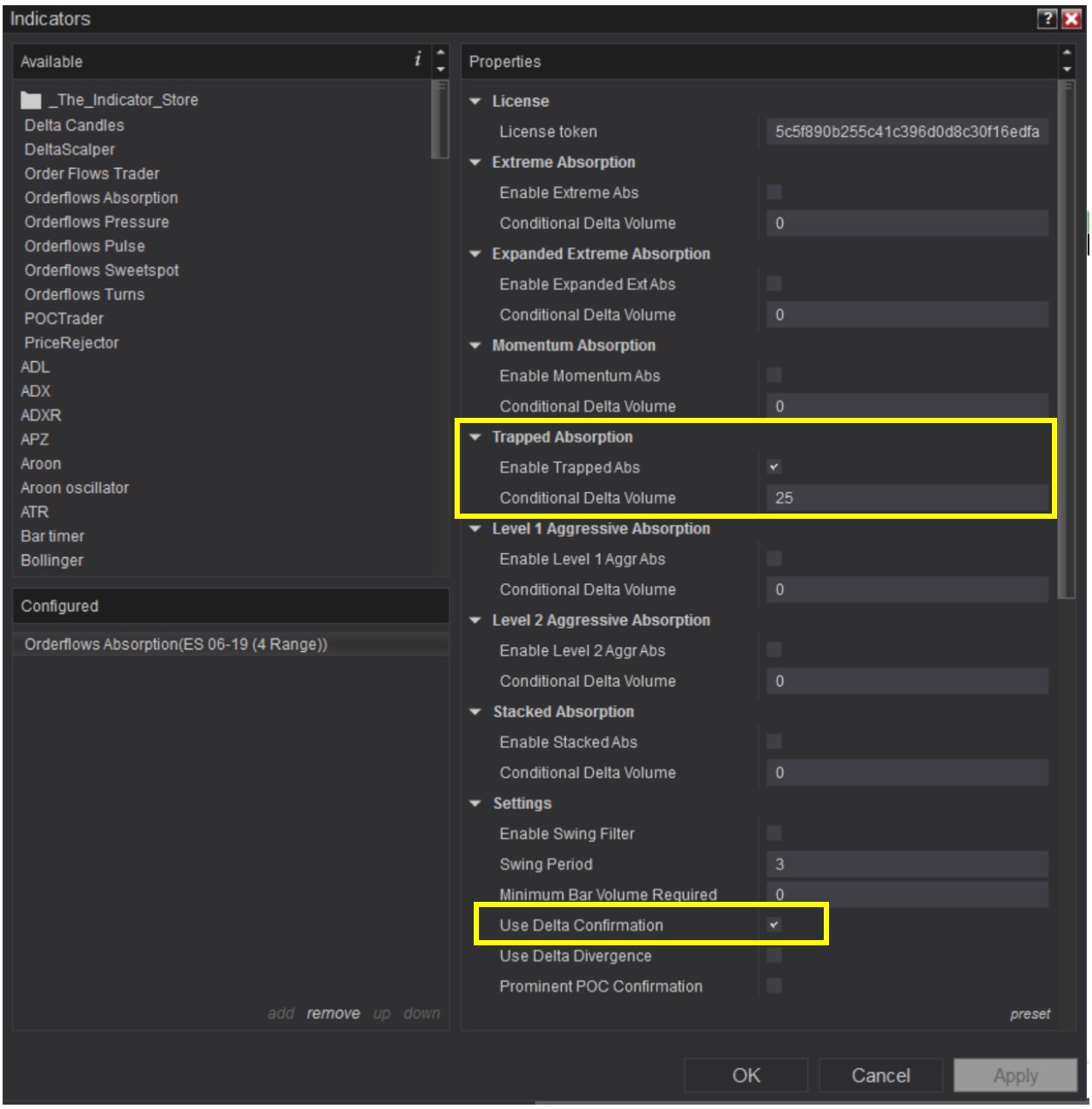
Enable Momentum Absorption. I don’t use any other filters.

Momentum Absorption – ES 4 Range Chart

The thing with momentum in general is when the market has big move it can set up for big trades. On the chart above, with only a few winning trades and about an equal amount of losing trades. But on the day before when momentum was stronger, there were some moster trades.

Momentum Absorption – ES 4 Range Chart Day Before Previous Chart

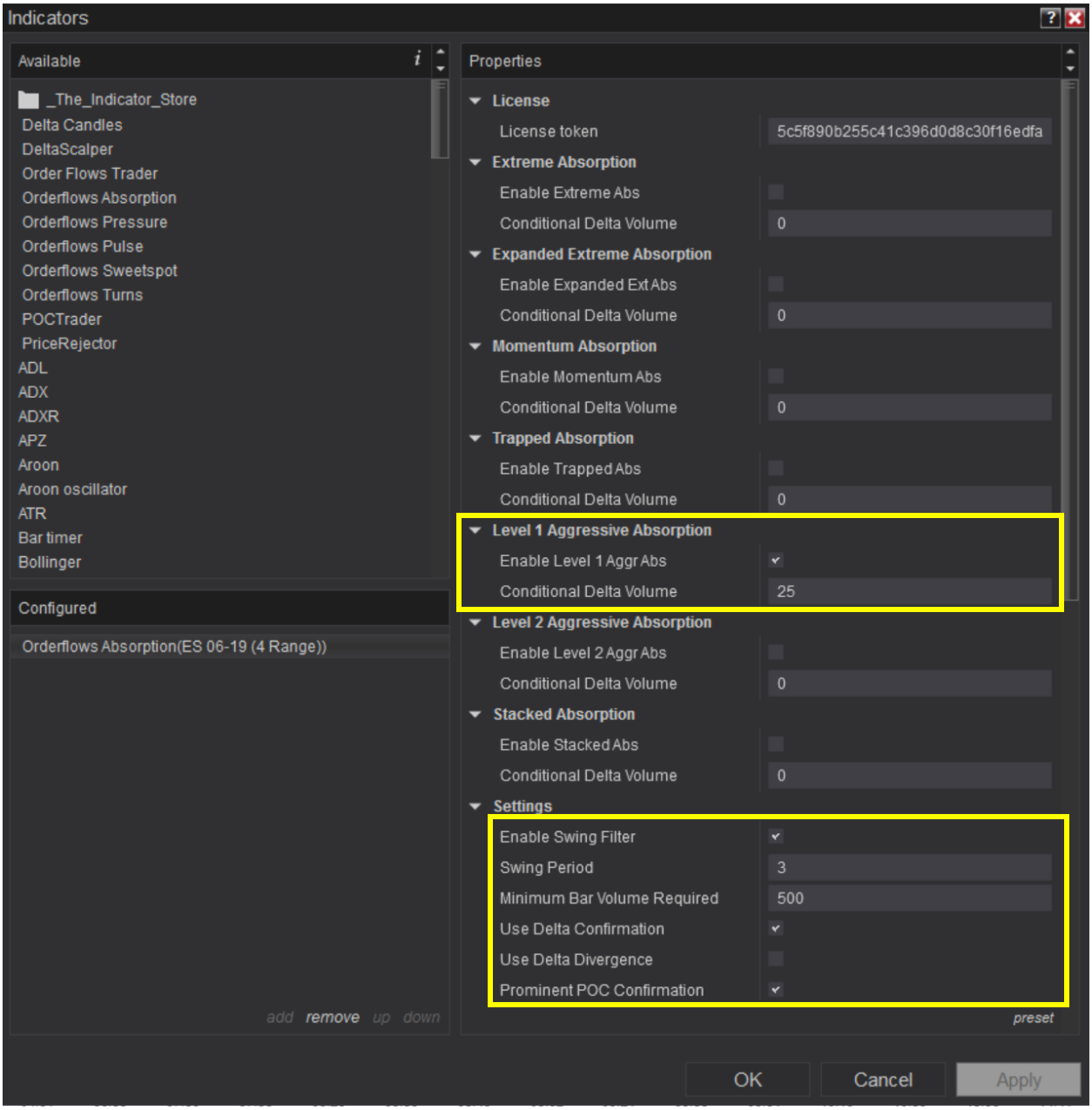
Trapped Absorption – This is one of my favorite setups and I am a little refined on it. I use Conditional Delta Volume and use Delta Confirmation.



The reason I put in the Conditional Delta Volume is specifically for this scenario. With a Conditional Delta Volume of 25 and Delta Confirmation on, if the delta volume in the bar was -10, a negative number, but the bar was green, then a buy would still show up.

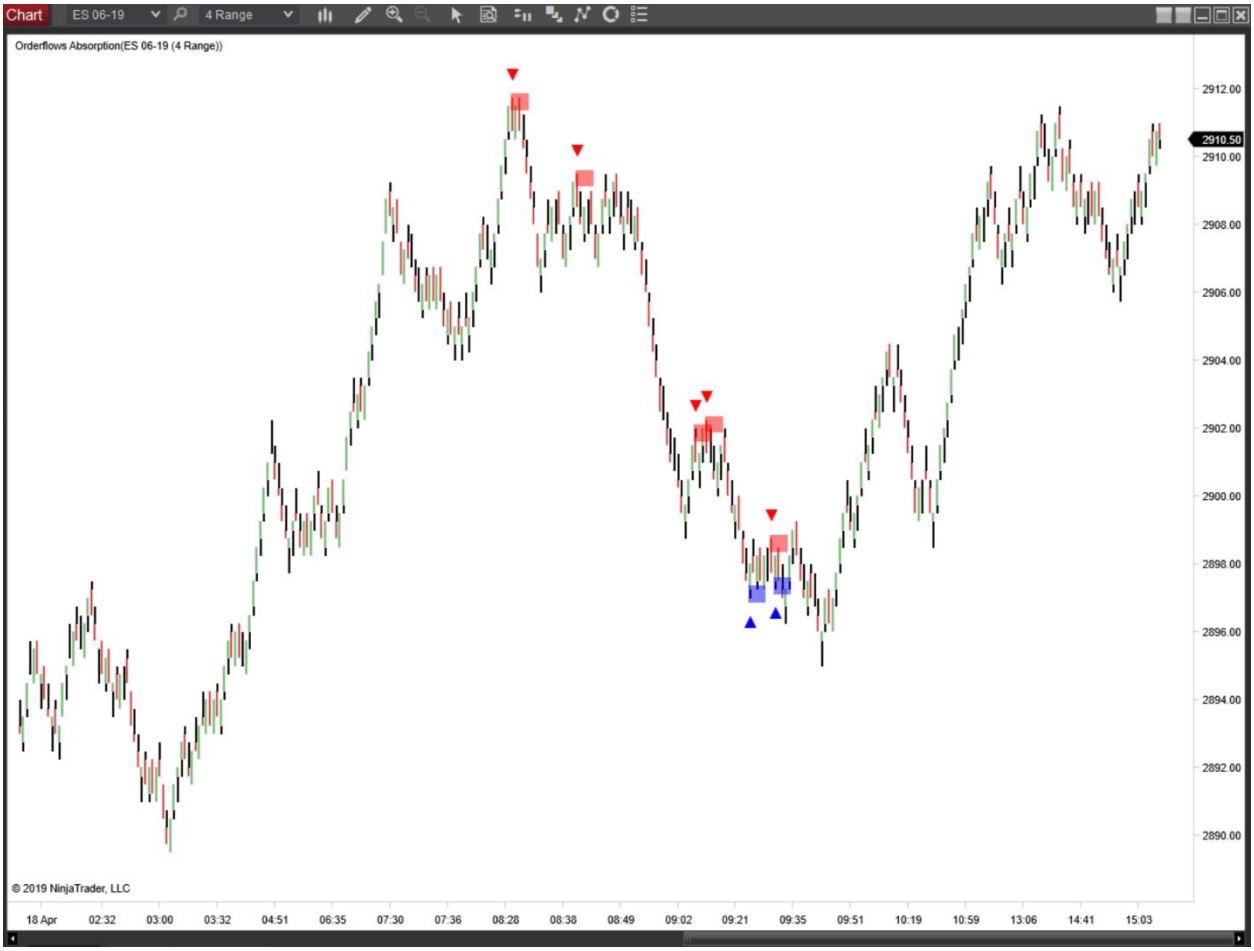
Trapped Absorption – ES 4 Range Chart

Level 1 Aggressive Absorption – Level 1 Aggressive Absorption measures absorption in across different levels. I am a little more nuanced in with this scenario and I use Swing Filter, Bar volume as well as Delta and POC.

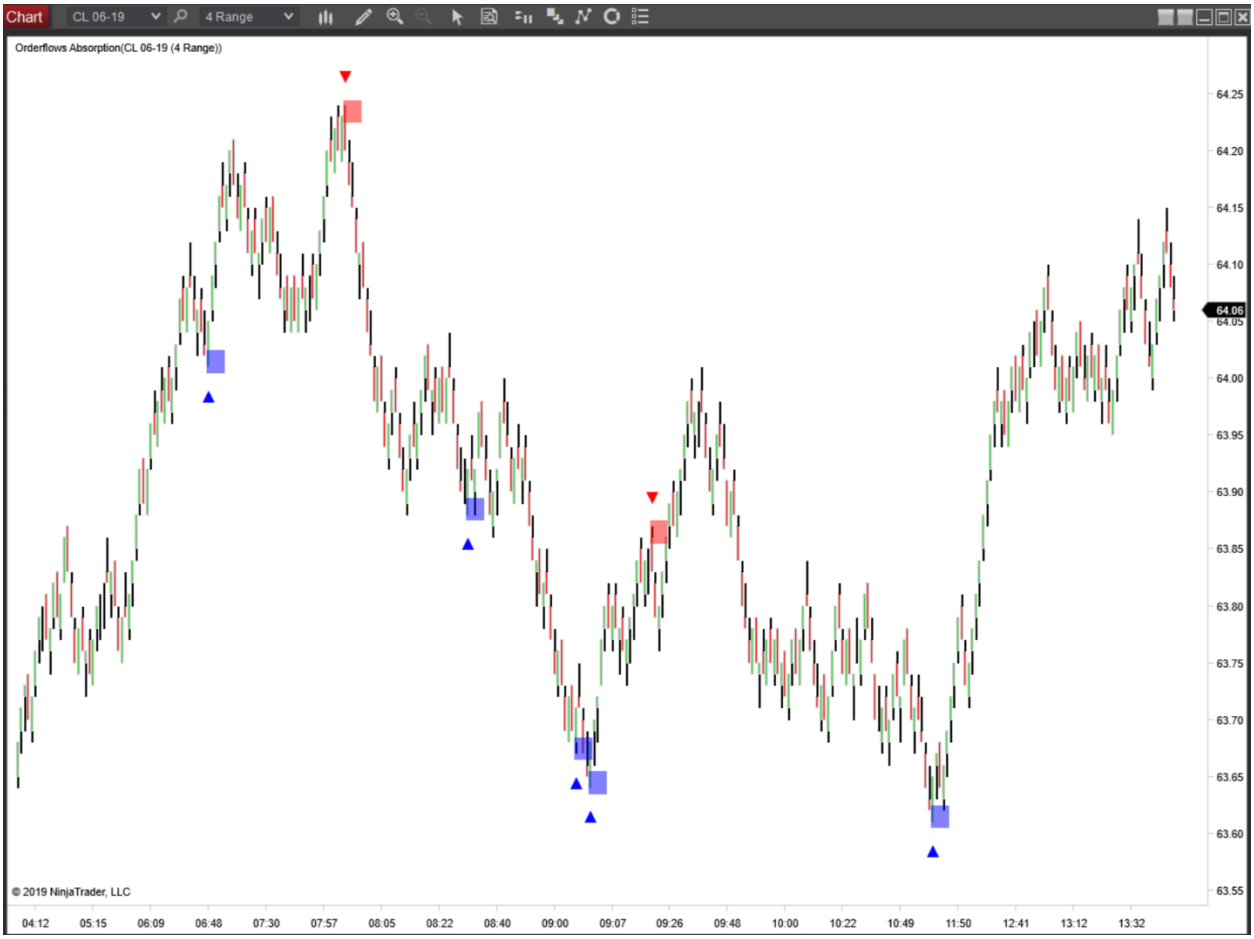


The reason I use many settings is because Level 1 Aggressive Absorption looks for certain traits in the order flow, which occur often by itself. Now in case you think I am curve fitting this scenario based on what worked in one market. I have included charts in other markets with the exact same settings.

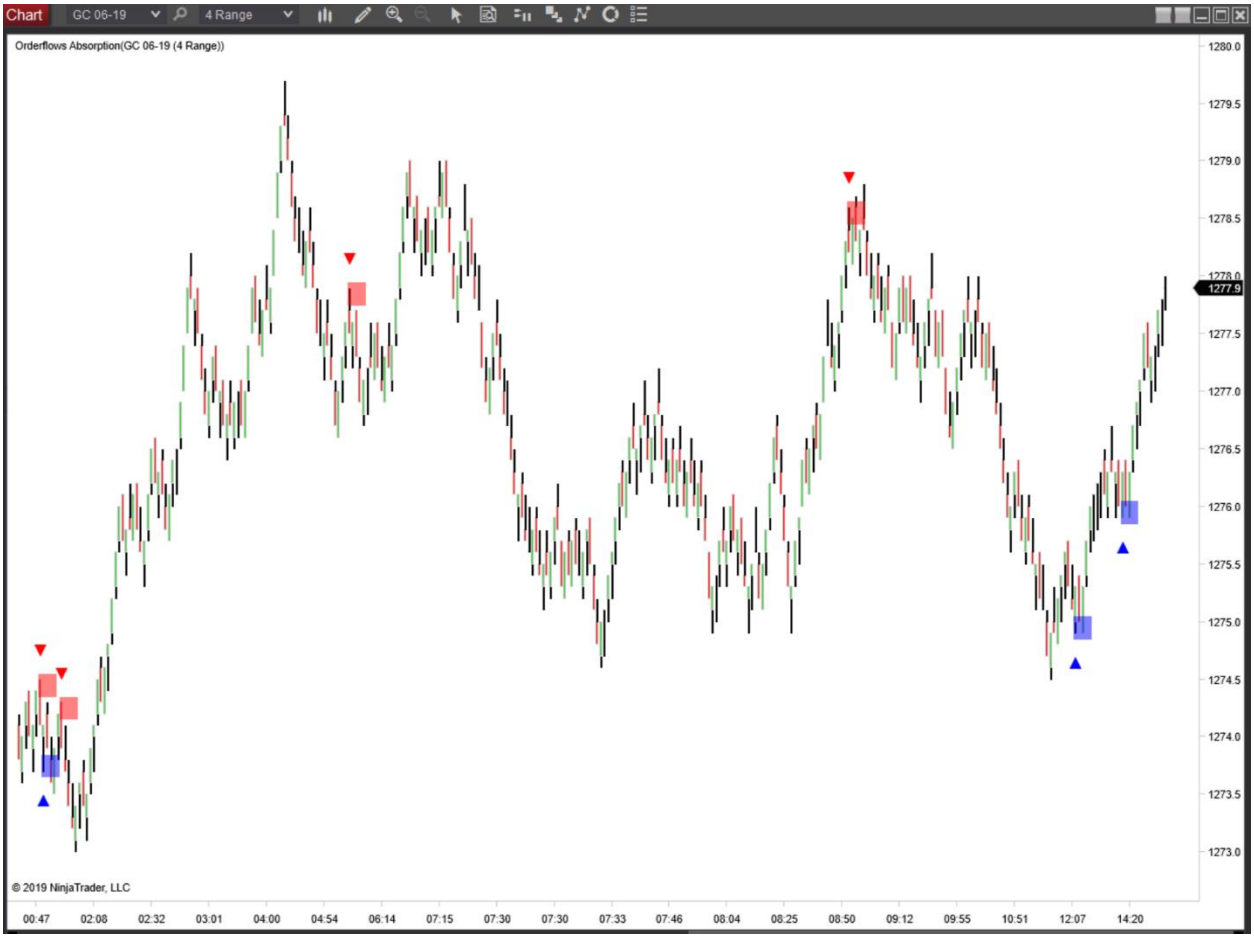
Level 1 Aggressive Absorption – ES 4 Range Chart



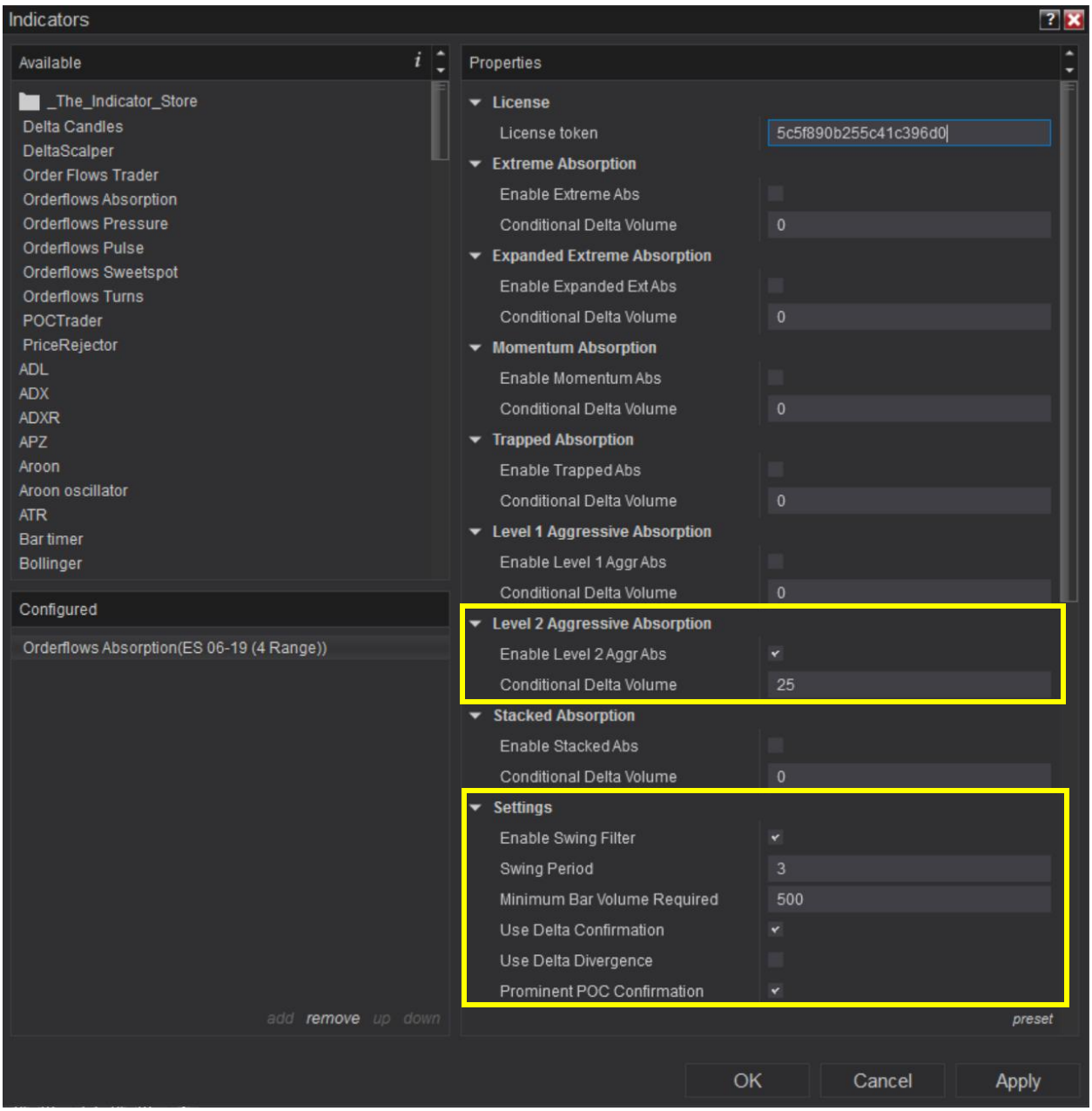
Level 1 Aggressive Absorption – CL 4 Range Chart



Level 1 Aggressive Absorption – GC 4 Range Chart



Level 2 Aggressive Absorption - Level 2 Aggressive Absorption measures absorption in across different levels and different levels that the Level 1 Aggressive Absorption. I keep the same settings with this scenario as I do with Level 1 and I use Swing Filter, Bar volume as well as Delta and POC.



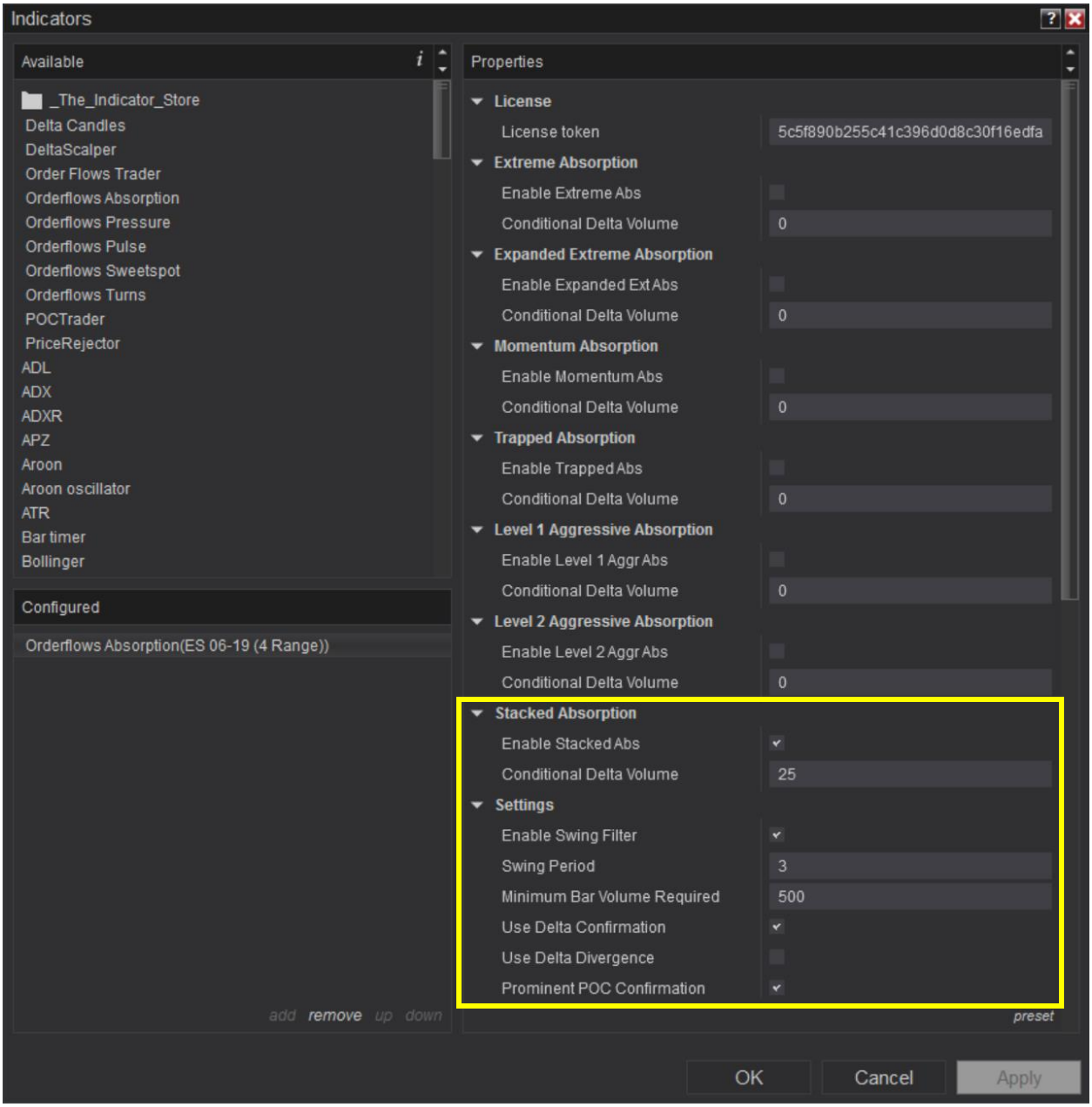
The reason I use many settings is because Level 2 Aggressive Absorption, like Level 1, looks for certain traits in the order flow, which occur often by itself. Now in case you think I am curve fitting this scenario based on what worked in one market. I have included charts in other markets with the exact same settings.

Level 2 Aggressive Absorption – ES 4 Range Chart

Now, I am sure you are wondering, can you combine Level 1 Aggressive Absorption and Level 2 Aggressive Absorption. The answer is yes.

Level 1 Aggressive Absorption & Level 2 Aggressive Absorption – ES 4 Range Chart

Stacked Absorption – Stacked Absorption occurs when there are absorption levels stacked on each other in a bar. Often times it will give off signals similar price levels on the chart to when you combine Level 1 and Level 2 Aggressive Absorption. The reasons for the signals are different. But the settings are similar. I use Swing Filter, Bar volume as well as Delta and POC. Conditional Delta is uses as well.



Stacked Absorption – ES 4 Range Chart

That sums it up for the Orderflows Absorption Tool. I have given you the starting points for you to create your own trading plan around the settings you are comfortable with.

Happy Trading.

Mike