

# POC Trader User Guide



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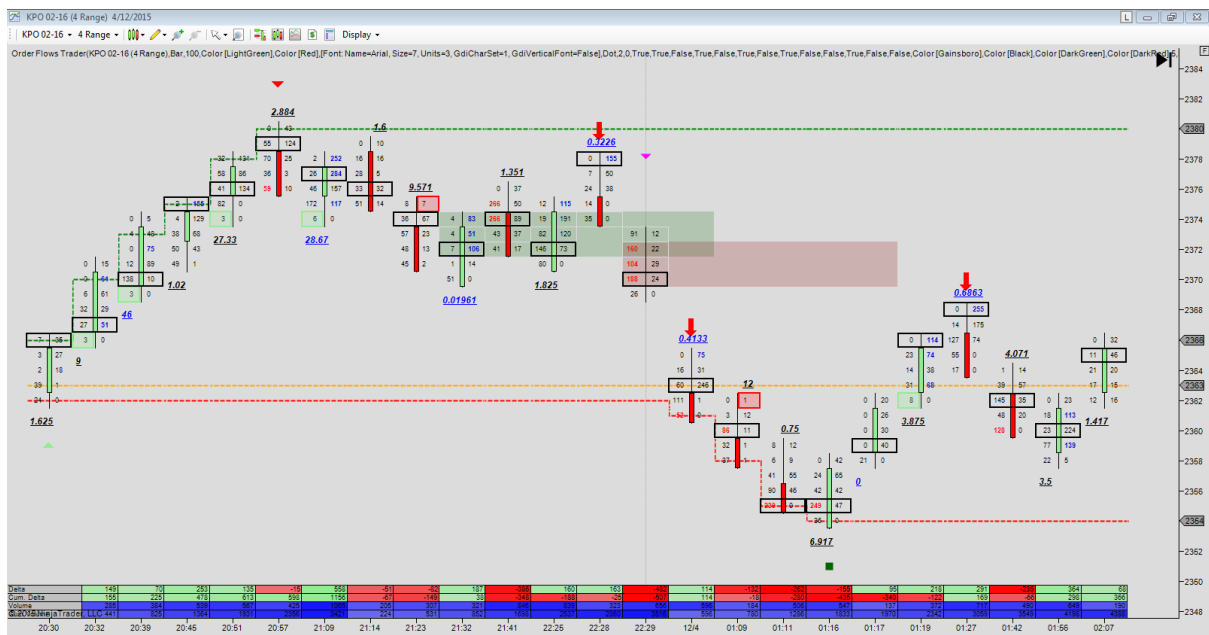


POC Trader works to highlight important POC's in a bar.

The POC, Point Of Control, is the price level with the highest volume in a bar. The best way to think of POC is in terms of value. We all know what value, we think about it everyday and don't even realize it. Whether you are buying vegetables at the grocery market or buying the latest Samsung mobile phone we either accept price or reject it. The markets act the same way with the main difference being that prices are being accepted or rejected much faster and multiple times a day.

You have often heard me talk about how the POC can act as support or resistance in the next bar in a sustained move. However, where the POC appears in a bar is important from a market structure stand point.

What you are looking for is prominent POCs.



POC at the top of down bars (red candlesticks) are signs of the market being capped with resistance.

POC at the bottom of up bars (green candlesticks) are signs of the market being supported.

It is an especially nice trade when you get a buying imbalance at the high of a red candle with a POC near the top or a selling imbalance at the bottom of a green candle with a POC near the bottom.

It becomes clearer when you take it in context of the market. For a market to find support it should preferably come after a move. To find resistance, the market should have made a move higher.

What the POC trader does is highlight those bars with prominent POCs. I know what you are thinking? Why do I need software to highlight a POC at the top of a bar? I can see that with my own eyes. Yes, you can see it with your own eyes, but then you have to determine if it is coming after a

move. A bar with the POC at the high in the middle of congestion won't have the same impact as a bar with the POC at the high after a move up.

Now let's take it a step further. When you think of value in the market, you know it is the area where most of the day's volume occurs. The price level in the value area with the most volume is the POC. By definition the POC is the center of value.

The purpose of the market is to facilitate trade, but how does it happen? The market seeks out value and moves from value area to value area. In the case of individual bars, it moves from POC to POC.

When market participants accept price, they continue to trade and a POC in a bar is formed. When market participants disagree on price, they reject it and the market looks for the next level of price acceptance.

Going back to the prominent POC discussion, what the POC trader does is show you the levels after a move up when you are seeing prices being capped which is telling you that the market found a level of price acceptance but then rejected it.

You are probably wondering "what? Why would the market move to a level of price acceptance then reject it?" The market moves to a level based on the perception of value of different time frame traders. Short term traders have different ideas of what value is compared to long term traders. When the POC occurs at the extreme of a bar after a

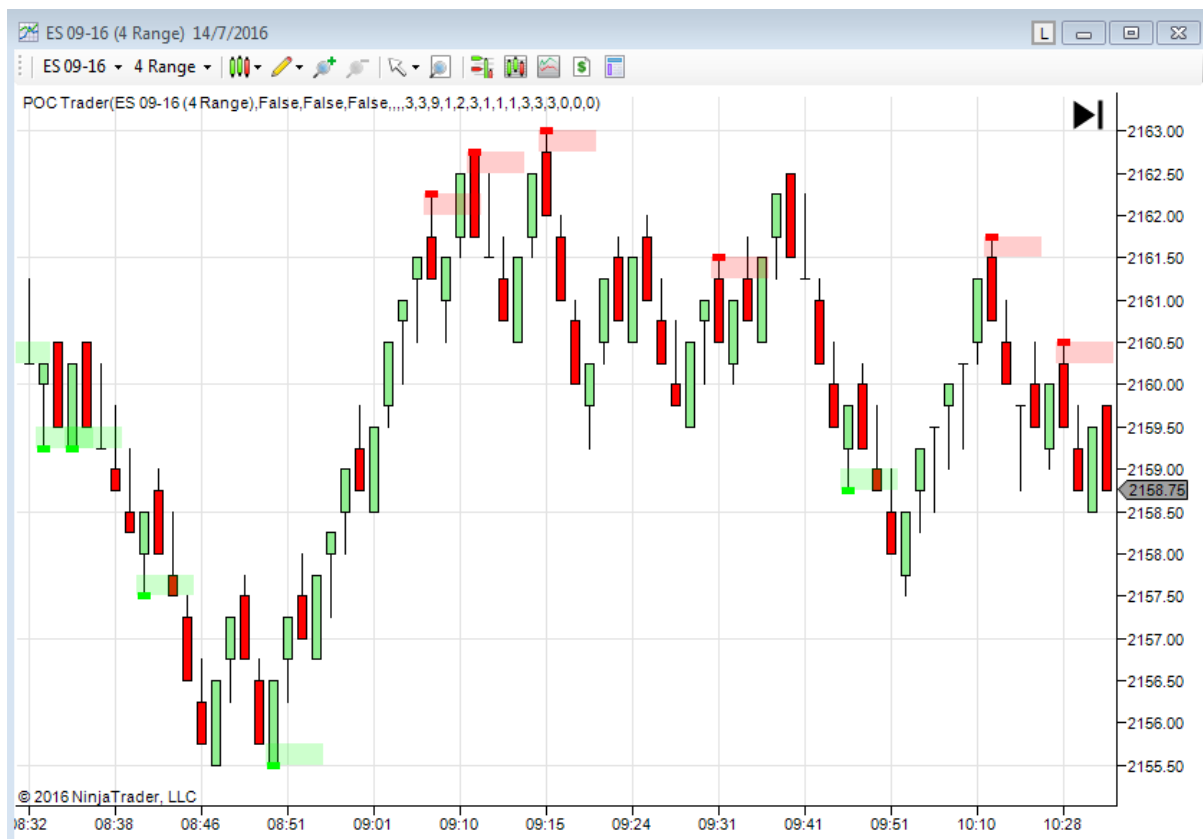
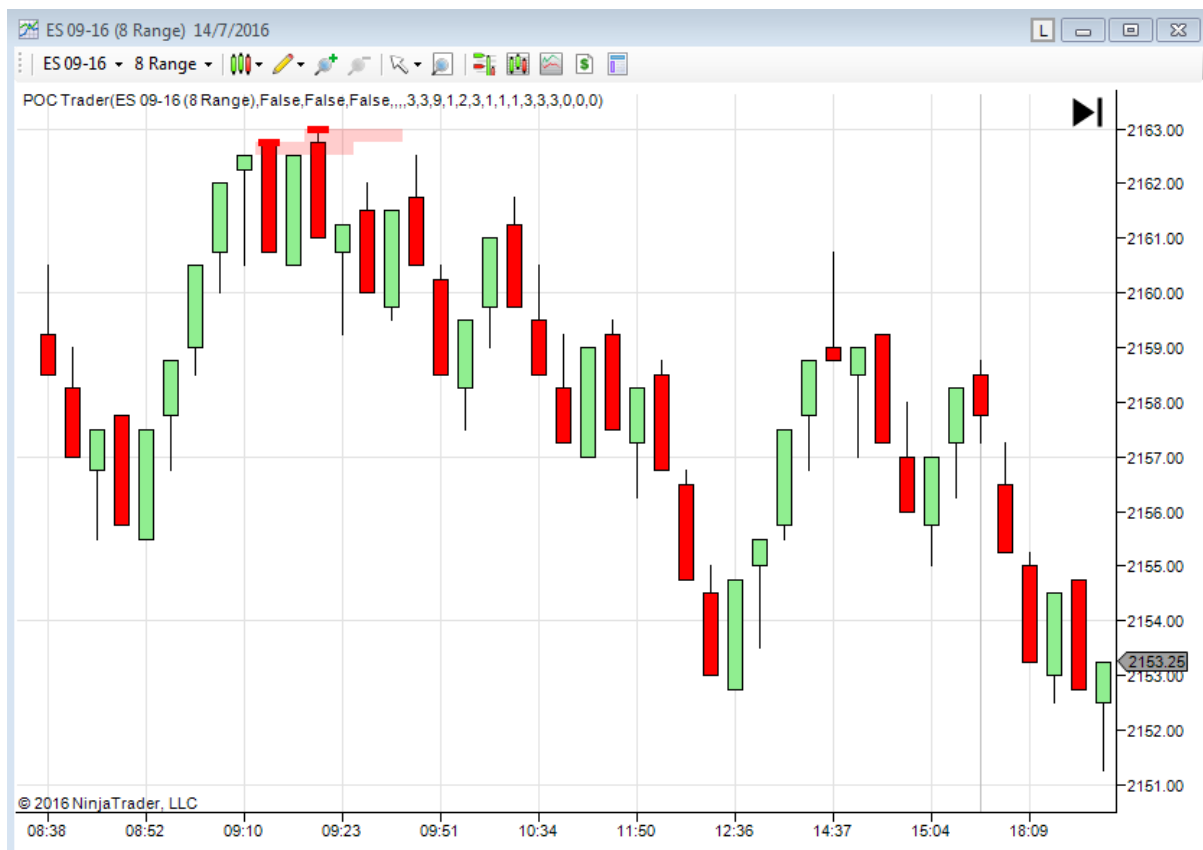
move, that is where the long term traders take over in the short term.

When analysing POC, short term charts aren't the best to look at for a couple of reasons. 1) The bar is too short either in length if you are using a range chart and 2) The volume trading might not be meaningful. What that means is if the bar doesn't put in much volume relative to how it should normally trade in terms of volume, the POC will have less meaning.

I prefer slightly longer time frames with POC analysis. 8 range or 10 range in the ES and 5 minute to 15 minutes as opposed to 30 seconds to 1 minute. I find the results more effective with average and above average volume.

The POC trader allows you to highlight 3 POC levels. I want to be notified when the POC is at the top 3 price levels of a down bar (red candlestick) and the bottom 3 price levels of an up bar (green candlestick). When trading with a 5 range chart, the 3<sup>rd</sup> level from the top and the 3<sup>rd</sup> level from the bottom is not very effective compared to 8 range bar because that 3<sup>rd</sup> level on a 5 range chart is in the middle of the bar. Whereas on a 8 range bar its in the top 3<sup>rd</sup>.

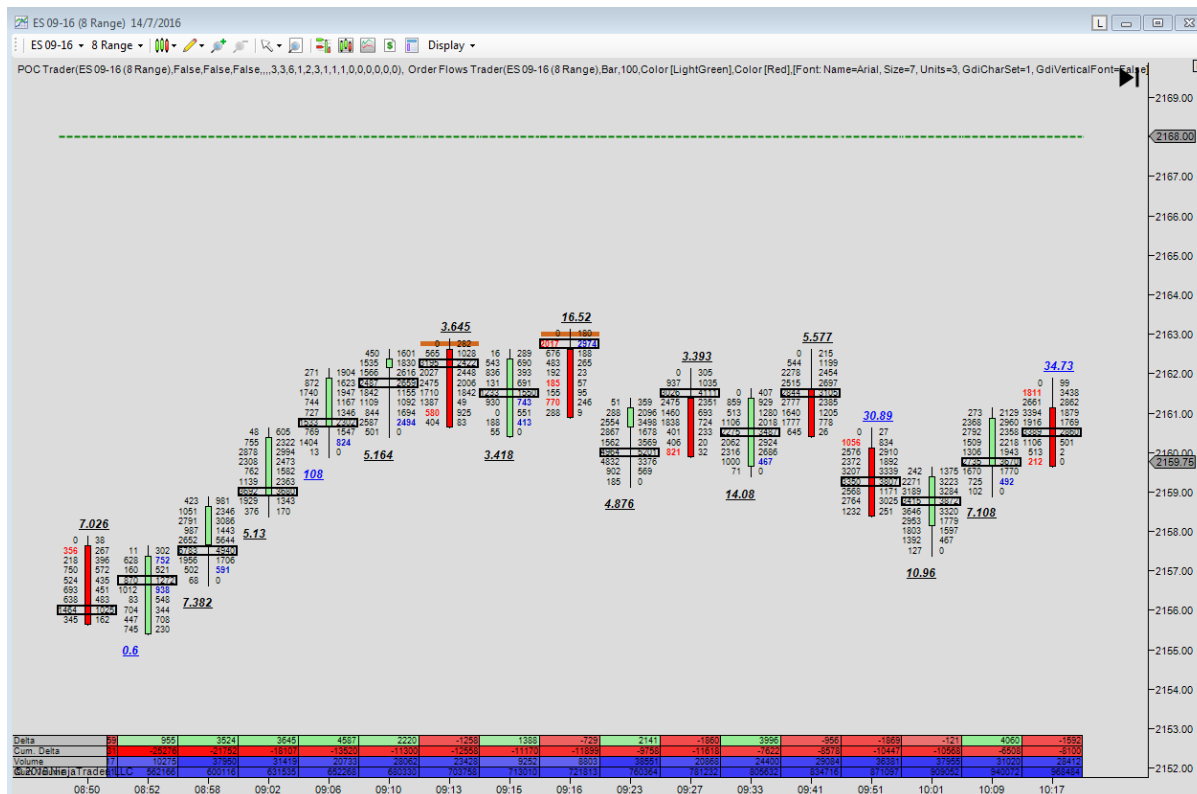
For example here is an 8 range ES chart compared to a 4 range ES chart. You can see you get more accurate signals with a longer time frame chart.



You can see on the 4 range chart you get many more signals with the same settings. You can always turn off the 3<sup>rd</sup> level

from the high/low to filter it out a bit and just look at the top 2 POC or the bottom 2 POC.

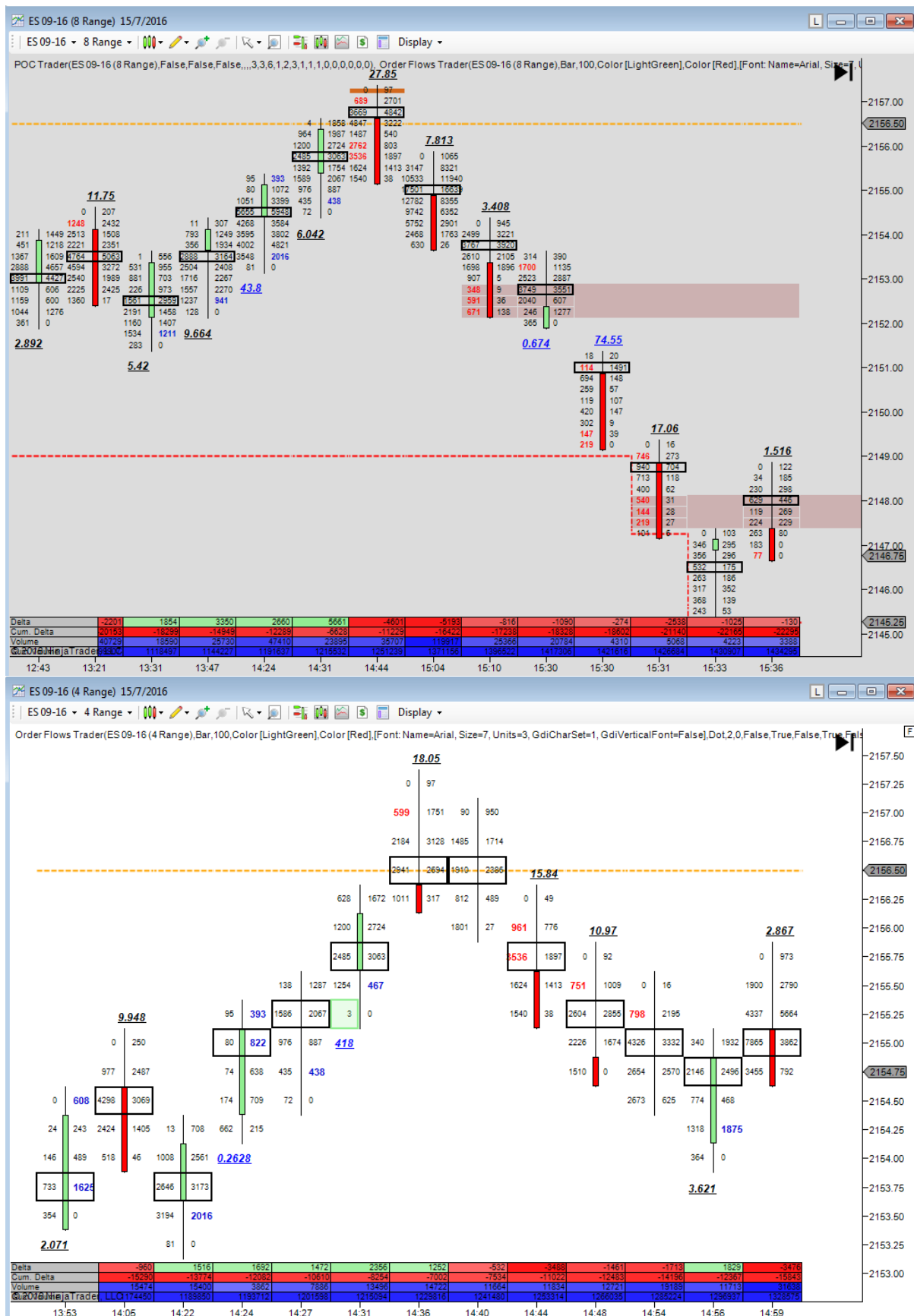
Here is how the footprint chart looked:



Here is another example of 4 range versus 8 range in the ES:

Things to note on the 4 range chart is that you get a lot more signals because your bar is shorter in size, since its 4 range price can rotate pretty quick. Also with the 4 range there your POC can be at a different location than the 8 range chart because the bar is split and you have different volume trading between 2 bars. You would think that a 4 range chart is just half an 8 range chart and it is but the dynamics are different as you can see here. The 4 range chart has multiple signals since it is a smaller time frame, while the 8 range is cleaner and has a more accurate signal.





The settings of the POC trader can be adjusted to suit your needs. Here is a screen of my settings. The settings I use and the default that the software comes with differs. If you want my settings please copy what you see below:

The screenshot shows the 'Indicators' window in a trading software. On the left is a list of indicators, with 'POC Trader' selected. The main area displays the settings for 'POC Trader(ES 09-16 (4 Range),False,False,False,...,3,3,9,1,2,3,1,1,1,3,3,3,0,0)'. The settings are organized into sections: Level 1 Parameters, Level 2 Parameters, Level 3 Parameters, Data, Visual, and Plots. Six yellow callout boxes with numbers 1 through 6 point to specific settings: 1 points to 'Signal box height in ticks' in Level 1; 2 points to 'Signal box height in ticks' in Level 2; 3 points to 'Maximum POC distance from low' in Level 3; 4 points to 'Input series' in the Data section; 5 points to 'Label' in the Visual section; and 6 points to 'Color' in the Bottom reversal Level 1 of the Plots section.

Section	Parameter	Value
Level 1 Parameters	Checking delta in signals	False
	Look Back Bars	3
	Maximum POC distance from low	1
	Signal box height in ticks	1
	Signal box width in ticks	3
	Signal mark displacement in ticks	0
Level 2 Parameters	Checking delta in signals	False
	Look Back Bars	3
	Maximum POC distance from low	2
	Signal box height in ticks	1
	Signal box width in ticks	3
	Signal mark displacement in ticks	0
Level 3 Parameters	Checking delta in signals	False
	Look Back Bars	9
	Maximum POC distance from low	3
	Signal box height in ticks	1
	Signal box width in ticks	3
	Signal mark displacement in ticks	0
Data	Calculate on bar close	True
	Input series	ES 09-16 (4 Range)
	Maximum bars look back	TwoHundredFiftySix
Visual	Auto scale	True
	Displacement	0
	Display in Data Box	True
	Label	POC Trader
	Panel	Same as input series
	Scale justification	Right
Plots	Bottom reversal Level 1	Hash; Solid; 5px
	Color	Lime
	Dash style	Solid
	Plot style	Hash
	Width	5
	Bottom reversal Level 2	Hash; Solid; 5px
	Bottom reversal Level 3	Hash; Solid; 5px
	Top reversal Level 1	Hash; Solid; 5px
	Top reversal Level 2	Hash; Solid; 5px
	Top reversal Level 3	Hash; Solid; 5px
	Color	Red
	Dash style	Solid
	Plot style	Hash
	Width	5

## **I will walk you through the settings:**

1, 2 & 3 are the settings for the different POC to look for.

**Setting 1** - Level 1 Parameters is for the first POC. This is the POC that appears at the very top of a down bar (red candlestick) or the very bottom of an up bar (green candlestick).

Checking delta in signals. I have set to false. If you set to true the delta would need to confirm the bar, meaning for a sell signal you would need to have negative delta and for a buy signal you would need to have positive delta. If you want to use delta as a filter this is how you would do it. Personally I am mixed on using delta as a filter on this one, for example, because if the POC is at the top of the bar and I get a sell signal, that often means there was strong buying early and if the market gets slammed, then there might not be enough volume on the bid side on the way down for aggressive sellers to hit and you would end up with a small positive delta.

Look Back Bars which is set to 3. How the look back bars work in this indicator is the current bar that is being analysed has to be a higher or equal high than any of the last 3 bars for a sell signal to be considered. Or a lower or equal low than any of the previous 3 bars. This will help determine that the market has been rallying or declining. I use 3 for a POC at the extreme edge of the bar. If you change this setting to a higher number you will be reducing the amount of signals since the requirement will be higher.

Maximum POC distance from low or high is the location of the POC in the bar. A setting of 1 would be the top or bottom of the bar. **Keep this setting at 1.**

Signal box height in ticks. I have set to 1. It's the height or thickness of the signal being printed on the chart.

Signal box width in tick. I use two different settings. For a footprint chart I use 1. For a bar chart I use 3. This is the setting if you want to draw a zone out, similar to stacked imbalances. Personally I don't need a zone drawn out. But on a bar chart I set to 3 because it's easier to see.

Signal mark displacement in ticks. I set to 0 so that the hash marking will show exactly on the last price level. If you want it to print the signal 1 tick away, set to 1. 2 ticks away set to 2, etc.

**Setting 2** - Level 2 Parameters is for the second POC. This is the POC that appears one price level below the top of a down bar (red candlestick) or one price level above the very bottom of an up bar (green candlestick).

Look back bars I keep the same as Level 1.

Maximum POC distance from low or high is set to 2 to highlight the POC in the 2<sup>nd</sup> price level. **Keep this setting at 2.**

Signal box height in ticks I keep the same as Level 1.

Signal box width in ticks I keep the same as Level 1.

Signal mark displacement in ticks I keep the same as Level 1.

**Setting 3** - Level 3 Parameters is for the third POC. This is the POC that appears in the third price level below the top of a down bar (red candlestick) or in the third price level above the very bottom of an up bar (green candlestick).

Look back bars I have different than Level 1 of 3 bars. For this POC, which appears in the 3<sup>rd</sup> price level, I use a look back of 9 bars for longer moves.

Maximum POC distance from low or high is set to 3 to highlight the POC in the 3rd price level. **Keep this setting at 3.**

Signal box height in ticks I keep the same as Level 1.

Signal box width in ticks I keep the same as Level 1.

Signal mark displacement in ticks I keep the same as Level 1.

**Setting 4** – Data. No need to make any changes here. This is the standard for my indicators.

**Setting 5** – Visual. No need to make any changes here. This is the standard for my indicators.

**Setting 6** – Plots. This is where you can set how the signals plot on the chart. There are 3 buys and 3 sells. They correspond to the Level 1, Level 2 and Level 3 parameters. For me I keep it simple and keep it uniform.

Color – I use red for buys and green for sells.

Dash style – I use solid.

Plot Style – I use Hash.

Width – I use 5.

Please note that if you are using the POC Trader with other indicators you will want to make sure that the Plots don't get mixed up with any other indicator's plots.

I experimented with using different colors for the Plots for different POC levels, but didn't find it very useful and instead found it confusing. What I did use for a while was making the width bigger for Level 1 for example a setting of 7. For Level 2 a setting of 5 and for Level 3 a setting of 3. I did this because I always put more emphasis on a POC at the extreme of the bar. For a shorter term chart it is more useful if I don't want to take into account the Level 3 POC.

If you only want to look at one POC, the POC at extremes of the bar. The way you would do it is set the Level 2 and Level 3 parameters the same as Level 1. Originally when coding this indicator, the intention was to look at one POC only. I expanded it to look at up to 3 POC at a time. Instead of having to load the indicator 3 times.

**How I use the POC Trader** - I use it as a stand alone indicator for the instances where the POC is at the extreme top or bottom of a bar. When the POC is in the 2<sup>nd</sup> or 3<sup>rd</sup> price level I prefer to have something in the order flow confirm the trade, for example a ratio bounds low or large print. If we are at a high of day and there is large volume transacting and price can't seem to go higher and you end up with the POC near the top that makes for a nice short setup. You can think of those traders as trapped traders.

My suggestion for users who haven't yet added POC analysis to their trading is to watch it for a while and get used to it.

The indicator will print while the bar is forming and if POC shifts late in the bar, it can disappear. Keep that in mind.

I welcome any suggestions this indicator as well as any others. Feel free to email me at [mike@orderflows.com](mailto:mike@orderflows.com)

Happy Trading,

Mike Valtos