



JIGSAW TRADING

# Confirming Day Trading Levels with Order Flow

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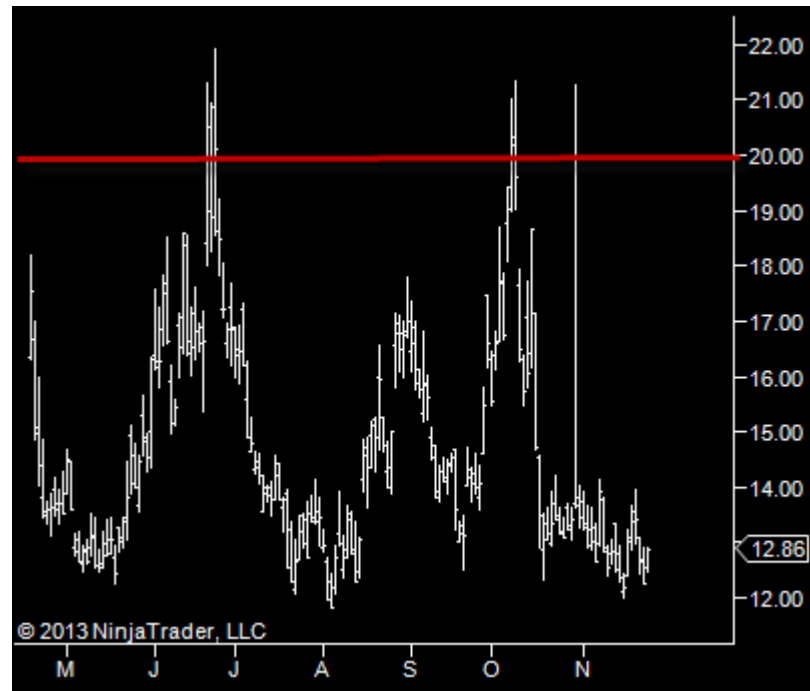
# Presumptions & Objectives

- Presume you already understand order flow conceptually.
  - <http://www.jigsawtrading.com/blog/fridays-webinar-introduction-to-order-flow-topstep-trader/>
  - <http://www.jigsawtrading.com/blog/friday-18th-january-webinar-practical-application-of-order-flow/>
- Dive into specific things to look for and why.
  - Gauging volatility, trade confirmation, post entry confirmation.
- Lots of Q&A
- This is in the context of looking at JPs value based approach to trading which focuses on reversals rather than momentum



# Average Depth

- Depth dictates price volatility
- Depth can change intra day – watch prior to a news release
- Depth changes drastically when the VIX spikes





# Reversals

- Basic components of a reversal (long to short)
  1. Absorption. Bids stay firm in the face of continued selling. Often this is with an iceberg, often this absorption/accumulation occurs across many prices. The more they can absorb the better. Delta will continue to increase but price will not. **Easy to spot in the order flow.**
  2. Sellers fade away. Sellers simply stop selling. Quite often they will return to the same spot several times and just not hit it. This is more significant when the offer is small. **Easy to spot in the order flow but the market does pause all the time.**
  3. Buyers come in and start buying. AKA “The Roll” there is not so much a fade in selling as much as the buyers just appear ‘out of nowhere’. **Hard to spot anywhere in a timely manner.**

These are not mutually exclusive!



# Second Chances

- The ES has a tendency to give us second chances
- Very thick markets like US Treasuries tend to turn and not come back. It takes a lot to make them turn around
- Thin markets like CL also tend to give us second chances
- That means we often have a second chance to enter and a second chance to get out
- Being right does not necessarily mean hitting in at your first suspicion a turn is occurring
- Being wrong does not necessarily mean getting out at a loss. Not if you take the second chance to exit.



# Absorption – DOM

- Large qty of volume trading at or near the level.
- Looking for 3x the regular volume @ a level
- Market will often move through this area 2-4 ticks after the volume has printed. Volume should fade over that next 2-4 ticks.
- Market will often move through your level 2-4 ticks and print volume on the way back
- Market will often pullback to this area of high volume and hold.
- Aggressive trade is to trade when you see the volume but only in context of the area you expect a turn. Fading all absorption will fail.
- Less aggressive trade (short to long)
  - If market prints volume and pushes down 2-4 ticks with weakening volume @ price, enter on the way back thru
  - If the market prints volume and pushes straight up from there, wait for the re-test
  - The market may launch off high volume, push up and print another high volume cluster 4-6 ticks higher. In that case, this is where you look for a re-test



# Absorption – Tape

- Tape – “current trades”, “Recon Tape”, Strength Meters”
- When you see absorption, you might just be looking at one half of a stat arb trade.
- If you see absorption at a low and you still see aggressive, fast paced selling on the tape – wait for them to burn themselves out.
- They may eat through the liquidity at the low (which may be stat arb) or they may give up.
- You do not want to see large orders selling into your level UNLESS those traders get stuck. You very often see a couple of 900-1200 lot orders sell into a low and the price can’t make even a tick past the level they sold. Their exits help fuel the move back up.
- Every trade is a buy & sell, so the whole point about absorption is that **one side will be trapped whichever way it goes.**
- When the absorption level gets revisited, it should be much easier to read the tape at that level. You usually won’t see more absorption but usually people simply not wanting to see at that point.
- Reset your ‘tape’ as you move back for the second chance



# Sellers Fade – DOM

- This requires you to be a bit faster on the button. Absorption takes time, seller fade is a little faster.

929	1805.50		118		357
1140	1805.25		27	113	270
820	1805.00		169		236
1176	1804.75		148	27	217
1595	1804.50		142	3	206
877	1804.25		101	2	442
686	1804.00		172		133
1188	1803.75	42		94	
611	1803.50	152	66	209	
1441	1803.25	154	20	25	
519	1803.00	278		329	
653	1802.75	261	435	218	
708	1802.50	262	189	18	
1668	1802.25	291		155	
6053	1802.00	231	135	97	
3311	1801.75	287	64	8	
1477	1801.50	380		10	
1252	1801.25	2338		132	
251	1801.00		30		

This low is a typical seller fade.

In this case it occurred after absorption. We can see only 251 contracts printed 1801.

They just weren't interested down there.

- This seller fade usually involves multiple hits into a price. At 1801 above, we can see 251 traded but current trades showing 30 contracts. So it hit multiple times. We can also see the fade is gradual. That is not always the case.
- Let it go back a few times and show there's really no sellers there. Just one hit with low volume is not a good fade trade.
- Don't worry about trying to get the low + 1 tick. Let it confirm.





# Sellers Fade – Tape

- Should be pretty obvious whichever tape you are using.
- You might have large sell orders 1 tick above the price no-one wants to trade. Don't let them scare you off. They are actually getting trapped and adding fuel to your trade.
- The market does pause all the time, so again you can't take this trade just anywhere and you do need to give it time to confirm.
- You will never know 100% that this is a momentary pause or a genuine reversal until you see size/momentum come in on the other side.
- The longer the level doesn't get hit, the better. The other side will smell blood. 3-4 minutes and you really should see the other side step in.
- Be aware that if we aren't hitting a level but we are building volume in the prices above, we may be building a trading range.



# Buyers Jump in - DOM

- This is the hardest to spot in a timely manner for entry. But Order Flow is not just about entering.
- Sometimes you get to a level and without warning buyers jump in.
- If you are not in at that point, remember the second chance.
- Look for volume on the volume profile build on the way up to act as a backstop.
- If there is no backstop, you look for either a retrace to the low or a measured move back.
- Jumping in after an 8 tick move off the low after aggressive buying is just about the worse way to play it.
  - Just because you missed the turn, don't let that feeling of missing out put you in @ a crappy price.



# Buyers Jump in - Tape

- Helps if you clear your tape into the level.
- You want to see the action overall being fairly one-sided. Buys 1.5->2x the sells.
- Large trades on your side is a plus.
- Signs of impatience, market moving up 6-12 ticks off the low quickly is good.
- As the market retraces back down – you do not want to see large sellers (unless they get trapped), fast pace, or sellers way outnumbering buyers.
- If buyers jump in with size and you go back to the low, then you should expect large buyers to jump in again. This is a good time to enter.



# Level Break

- With these techniques on the ES, you probably can't get in with a limit order – unless you join when you see absorption.
- So next best thing is to wait for a level break. This is a fairly easy skill to acquire.
- Attempt to buy into the offer just before it leaves.
- If market is bid 300 and offer 1500 and I want to buy, I will wait for the offer to reduce before I enter. If the offer is low but refreshing, I will wait till they stop refreshing.
- I often will be poised to buy a level break only to see price tick down 2-3 more ticks. This technique alone is a money saver.
- Snapshot strength meter is excellent for timing a level break because it will whip up blue when on a short-long reversal.
- **This is also something you should do when you stop out!**



# Staying in the trade (long)

- Analyze post trade flow. Auto clear/center
- Price vs Flow
  - Price moves down with low participation
  - Ratio of trades @ bid vs @ offer
  - Buyers getting stuck
  - Stuck at a price, (onside or offside) just can't push any higher after multiple attempts – other side will SMELL BLOOD
  - Don't forget the second chance
- Depth
  - 'Decent' Bids following you up?
  - Massive Bids below you?
  - Thick Offers @coming into highs?
- Large Traders
- Snapshot meter behavior
- Volume Profile behavior – volume clusters
- How long to keep watching the order flow closely?



# Q&A

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