JIGSAW TRADING

Practical Application of Order Flow – Part 1

Peter Davies – Jigsaw Trading

Objectives

- We now have an understanding of the premise/theory behind order flow
  - Liquidity above & below (ceilings & floors) prevents price from moving. Market orders eat the ceilings & floors and price moves.
  - As price moves in one direction, it leaves a relative vacuum of liquidity in it's wake and this makes retraces inevitable.
  - Reversals occur with a combination of absorption, traders give up, countertrend traders step in
- How Liquidity shapes price action
- Scalping vs Position Day Trading

Liquidity, Price Action and Pre-empting changes in behavior

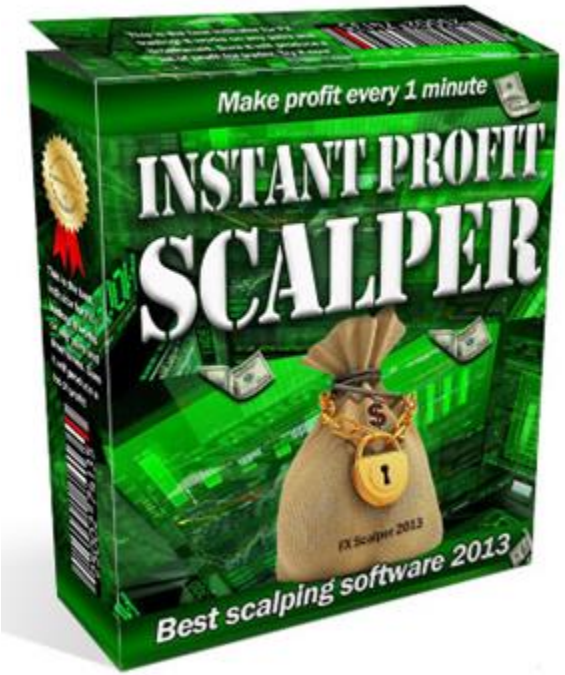
Liquidity & Price Action/Volatility

- Ever had your favorite market behave unreasonably/out of character for a while?
- Are you trading the market or a particular liquidity profile that causes that price action?
- Liquidity Changes
  - Liquidity in any given Market will often change for days or weeks at a time
  - Markets thin out before news releases
  - Markets get thicker on the offer at swing highs/high of day
  - Markets get thicker on the bid at swing lows/low of day
  - Markets will also just change the liquidity picture for days or weeks at a time
  - Balanced markets will be thicker, lots of 2 sided trading
  - Uncertain markets will be thinner
  - VIX driving HFT Participation?
- When the liquidity picture changes, should you learn how to trade the new reality or move to a market that now has the volatility you prefer. For example – if ES becomes illiquid, then the Treasuries will too and they will act more like the ES than the ES does!

Liquidity & Price Action/Volatility

Scalping - Why & Where

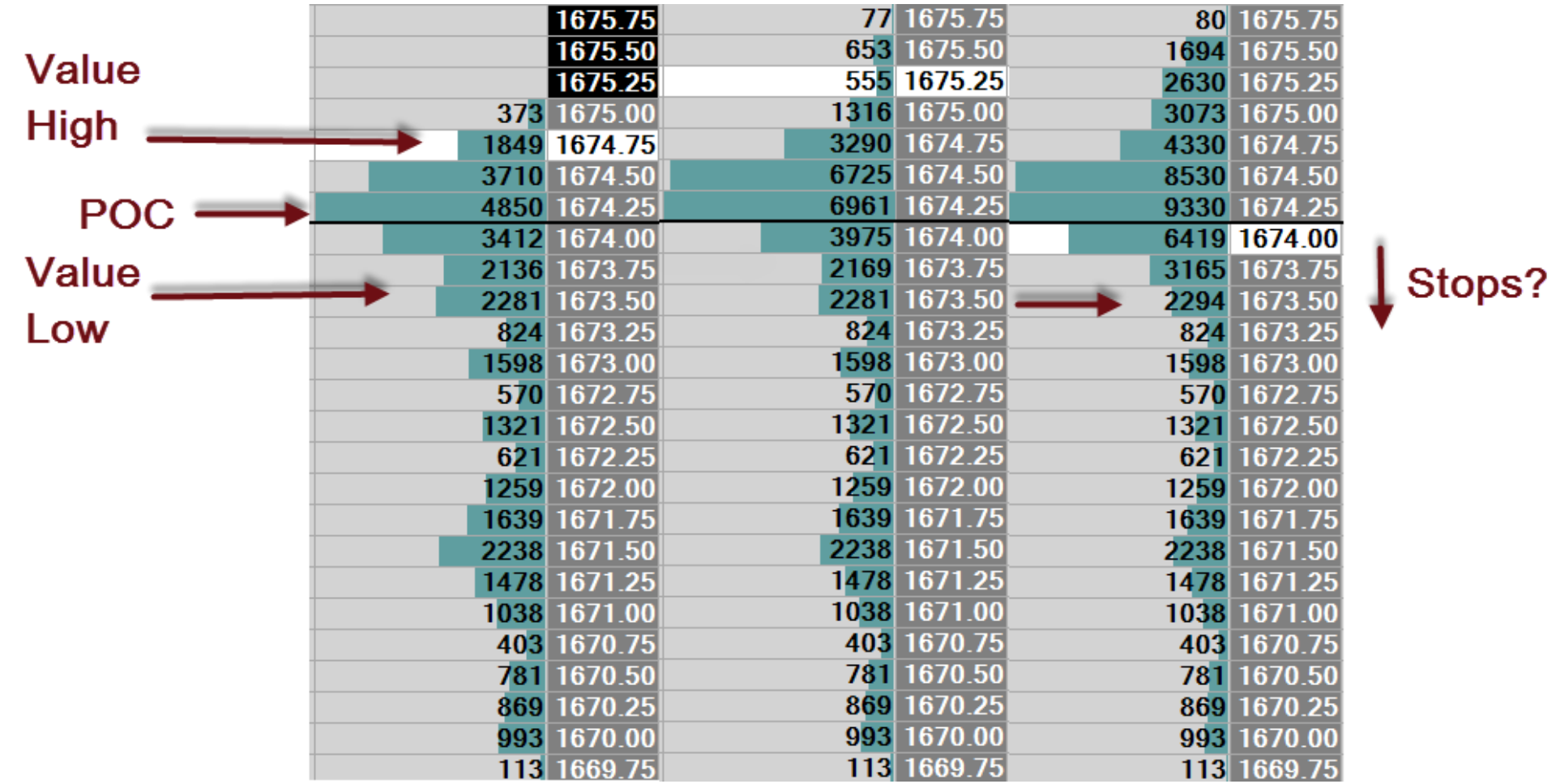
Scalping First



- Scalping? Must be real easy if I have to try that first….
- Or do you just lose your shirt faster that way?

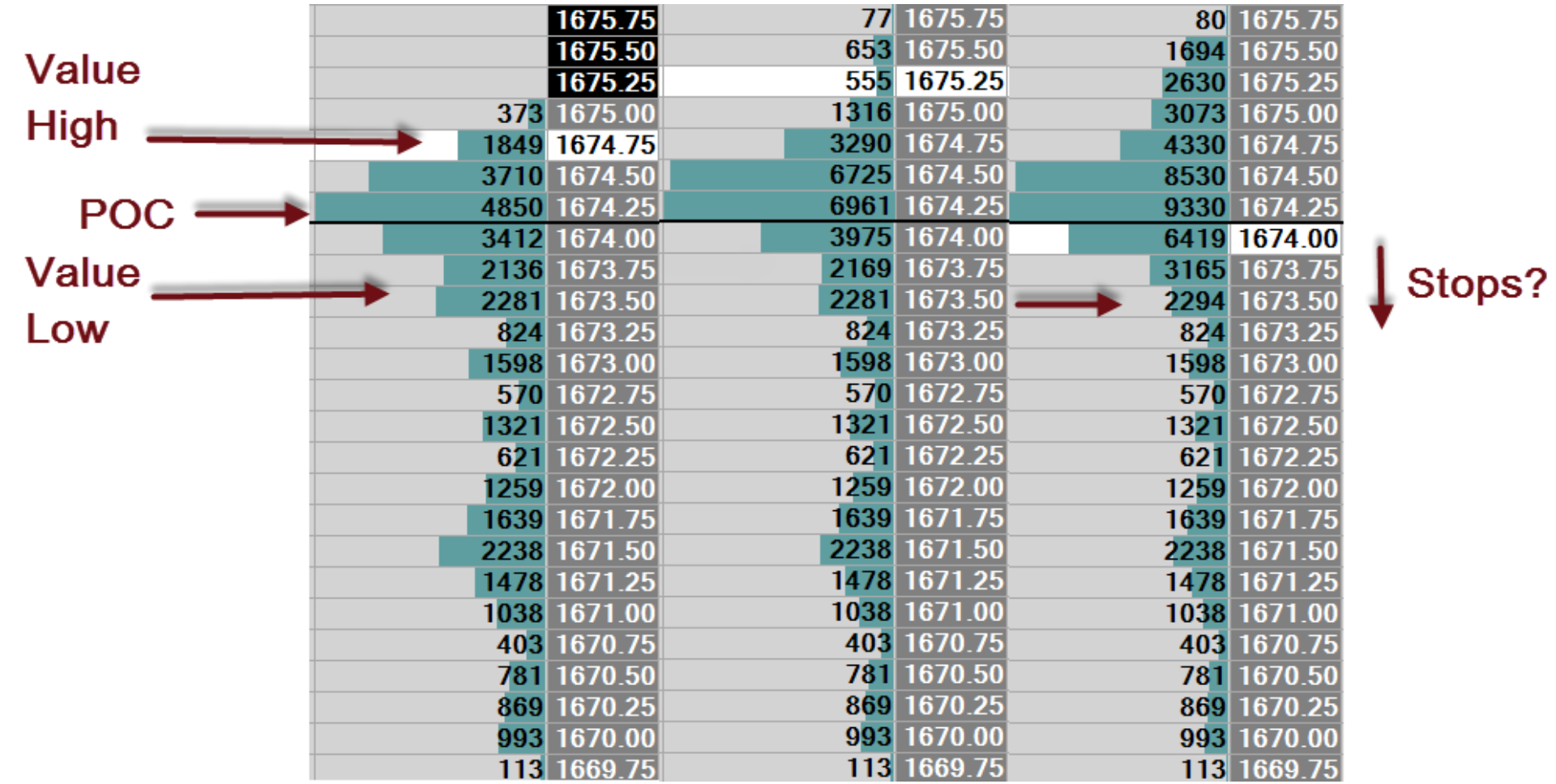
- The scalpers that I know all look at order flow but within the context of good trade location, which often means an ‘extreme’ of one form or another.
- But surely there must be more to extremes than the days high & low…
  - Temporary Value
  - Stop Runs
  - Return to area that will be defended
  - Liquidity Vacuums

‘Temporary’ Value



http://dubaiproptrader.wordpress.com/2013/01/27/scalping-the-order-book-sigh/

Trading Into Stops

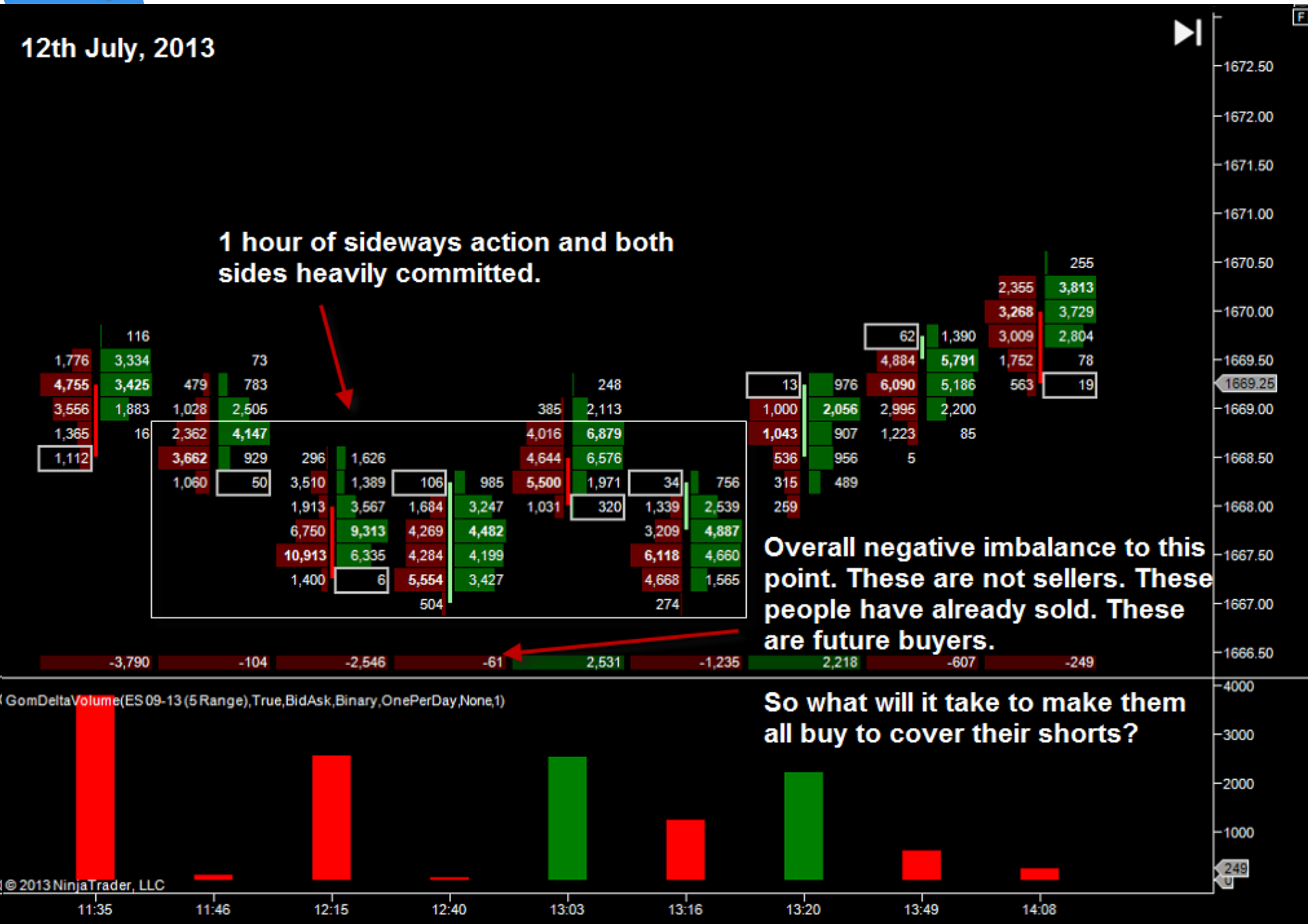


	1675.75	77	1675.75	80	1675.75
	1675.50	653	1675.50	1694	1675.50
	1675.25	555	1675.25	2630	1675.25
373	1675.00	1316	1675.00	3073	1675.00
1849	1674.75	3290	1674.75	4330	1674.75
3710	1674.50	6725	1674.50	8530	1674.50
4850	1674.25	6961	1674.25	9330	1674.25
3412	1674.00	3975	1674.00	6419	1674.00
2136	1673.75	2169	1673.75	3165	1673.75
2281	1673.50	2281	1673.50	2294	1673.50
824	1673.25	824	1673.25	824	1673.25
1598	1673.00	1598	1673.00	1598	1673.00
570	1672.75	570	1672.75	570	1672.75
1321	1672.50	1321	1672.50	1321	1672.50
621	1672.25	621	1672.25	621	1672.25
1259	1672.00	1259	1672.00	1259	1672.00
1639	1671.75	1639	1671.75	1639	1671.75
2238	1671.50	2238	1671.50	2238	1671.50
1478	1671.25	1478	1671.25	1478	1671.25
1038	1671.00	1038	1671.00	1038	1671.00
403	1670.75	403	1670.75	403	1670.75
781	1670.50	781	1670.50	781	1670.50
869	1670.25	869	1670.25	869	1670.25
993	1670.00	993	1670.00	993	1670.00
113	1669.75	113	1669.75	113	1669.75

Stop Locations

Stops Either Side.
Reversal or price acceptance/balance?
Play the range or look for the breakout?

How about buying the bottom, scaling close to the top and holding for an upside breakout?


12th July, 2013
1 hour of sideways action and both sides heavily committed.
Overall negative imbalance to this point. These are not sellers. These people have already sold. These are future buyers.
So what will it take to make them all buy to cover their shorts?
-3,790
-104
-2,546
-61
2,531
-1,235
2,218
-607
-249
GomDeltaVolume(ES 09-13 (5 Range),True,BidAsk,Binary,OnePerDay,None,1)
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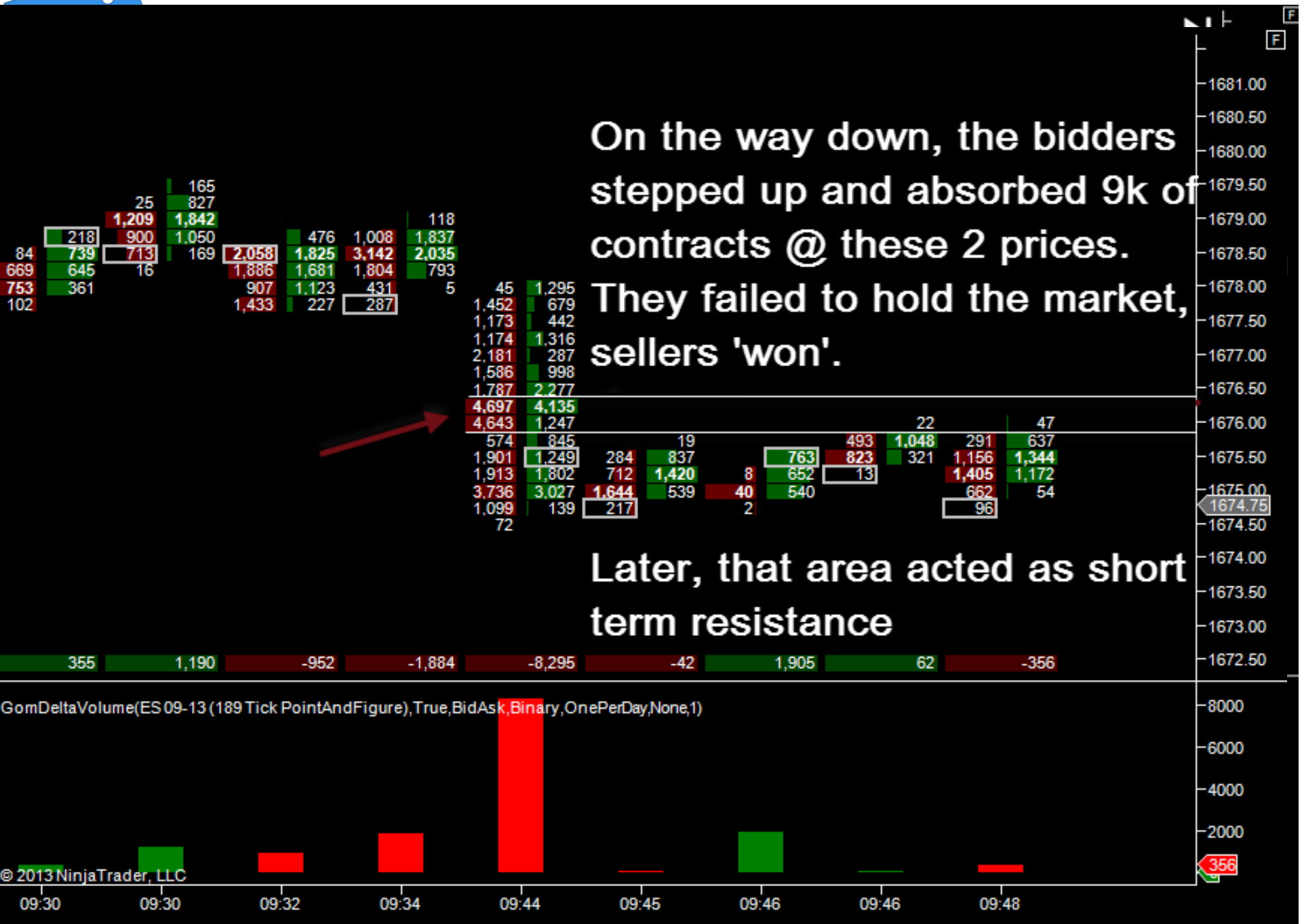
1672.50
1672.00
1671.50
1671.00
1670.50
1670.00
1669.50
1669.25
1669.00
1668.50
1668.00
1667.50
1667.00
1666.50
4000
3000
2000
1000
249
11:35
11:46
12:15
12:40
13:03
13:16
13:20
13:49
14:08


On the way down, the bidders stepped up and absorbed 9k of contracts @ these 2 prices. They failed to hold the market, sellers 'won'.
Later, that area acted as short term resistance
GomDeltaVolume(ES 09-13 (189 Tick PointAndFigure),True,BidAsk,Binary,OnePerDay,None,1)
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09:30
09:30
09:32
09:34
09:44
09:45
09:46
09:46
09:48

Liquidity Vacuum

- In a one way market price will often be “sucked back” against the flow 2-3 ticks.
- Often this is accompanied by very little depth supporting the ‘trend’.
- You can watch for the depth to disappear and trade into the vacuum or wait for it to be sucked back and stop, then trade to the overall trend.

Q&A

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