

# Price Action & Order Flow Deep Dive

## Beyond Candlesticks: Reading Institutional Intent

### Introduction

Most traders read candlesticks. Professionals read order flow.

Candlesticks show you what happened. Order flow shows you why it happened and who made it happen. This guide bridges traditional price action with institutional order flow concepts.

### Part 1: The Limitations of Candlesticks

#### What Candlesticks Don't Tell You

A candlestick only shows four prices: Open, High, Low, Close.

**Missing information:** - How many trades occurred? - Were buyers or sellers more aggressive? - Did large orders absorb smaller ones? - Was volume front-loaded or back-loaded? - What happened inside the bar?

#### Example: Two Identical Candles, Different Reality

**Candle A and Candle B look identical:** - Both green - Same open, high, low, close - Same body size

**But internally:** - Candle A: Steady buying all bar - Candle B: Selling early, panic buying at close

Same candle, completely different story.

## Part 2: Order Flow Fundamentals

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### How Orders Work

Every trade has a **maker** and a **taker**:

| MAKER          | TAKER             |
|----------------|-------------------|
| Adds liquidity | Removes liquidity |
| Limit order    | Market order      |
| Gets filled    | Fills against     |
| Patient        | Aggressive        |

**Price moves when takers overwhelm makers.**

### The Bid-Ask Spread

```
Ask $100.10 — Where sellers wait (offers)
|
|   ← Spread (market maker profit zone)
|
Bid $100.05 — Where buyers wait (bids)
```

**Crossing the spread:** - Buy market order hits ask → price upticks - Sell market order hits bid → price downticks

### Who Moves Price?

**Aggressive buyers** (market buy orders) hit the ask → price up **Aggressive sellers** (market sell orders) hit the bid → price down

Limit orders don't move price. Market orders do.

## Part 3: Reading the Order Book

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### Level 2 / Depth of Market (DOM)

| Price    | Bid Size | Ask Size              |
|----------|----------|-----------------------|
| \$100.15 |          | 500                   |
| \$100.10 |          | 200                   |
| \$100.05 | 300      |                       |
| \$100.00 | 800      | ← Large bid (support) |
| \$99.95  | 150      |                       |

### What to Look For

**Large orders (icebergs):** - Visible size that regenerates when hit - Institution hiding true size - Strong support/resistance

**Order imbalance:** - Heavy bids, light asks = bullish - Heavy asks, light bids = bearish

**Spoofing (illegal but common):** - Large orders that disappear when approached - Don't rely on visible size alone

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## Part 4: Time & Sales (The Tape)

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### Reading the Tape

Time & Sales shows every executed trade:

| Time     | Price  | Size | Side                 |
|----------|--------|------|----------------------|
| 09:31:45 | 100.10 | 150  | Buy                  |
| 09:31:44 | 100.05 | 50   | Sell                 |
| 09:31:43 | 100.10 | 300  | Buy ← Large buy      |
| 09:31:42 | 100.05 | 25   | Sell                 |
| 09:31:41 | 100.00 | 1000 | Buy ← Very large buy |

## What Tape Reading Reveals

| PATTERN             | MEANING                |
|---------------------|------------------------|
| Large prints at ask | Aggressive buying      |
| Large prints at bid | Aggressive selling     |
| Rapid small prints  | Retail activity        |
| Slow large prints   | Institutional activity |
| Size at one level   | Absorption             |

## Tape Reading Tips

1. **Speed matters** — Fast tape = high participation
2. **Size matters** — Large prints > small prints
3. **Side matters** — At bid vs. at ask
4. **Persistence matters** — One large print vs. sustained

## Part 5: Footprint Charts

### What Is a Footprint Chart?

A footprint shows volume traded at each price within a candle.

Standard Candle:



Footprint:

[Bid x Ask]

| 10 x 50 ← More selling  
| 30 x 25  
| 45 x 40  
| 60 x 20 ← More buying  
| 25 x 15

## Reading Footprint Patterns

### Absorption:

|          |  |           |                           |
|----------|--|-----------|---------------------------|
| Price    |  | Bid × Ask |                           |
| \$100.10 |  | 50 × 200  | ← Sellers hitting bids    |
| \$100.05 |  | 45 × 180  | ← But price not moving    |
| \$100.00 |  | 40 × 150  | ← Someone absorbing sells |

Result: Likely to reverse up (buyers absorbing)

### Initiative:

|          |  |           |                     |
|----------|--|-----------|---------------------|
| Price    |  | Bid × Ask |                     |
| \$100.20 |  | 80 × 30   | ← Aggressive buyers |
| \$100.15 |  | 90 × 25   | ← Hitting asks      |
| \$100.10 |  | 100 × 20  | ← Taking liquidity  |

Result: Price likely continues up

## Key Footprint Metrics

| METRIC    | CALCULATION        | USE                 |
|-----------|--------------------|---------------------|
| Delta     | Ask Vol - Bid Vol  | Direction bias      |
| Imbalance | One side >3x other | Aggressive activity |
| CVD       | Cumulative Delta   | Trend health        |

## Part 6: Volume Delta Analysis

### Cumulative Volume Delta (CVD)

CVD is the running total of delta:

```
Bar 1: Delta +100 → CVD: +100
Bar 2: Delta -50 → CVD: +50
Bar 3: Delta +200 → CVD: +250
Bar 4: Delta -100 → CVD: +150
```

## CVD Patterns

### Healthy Uptrend:

```
Price: ↗ ↗ ↗ ↗
CVD:   ↗ ↗ ↗ ↗ (rising)
= Confirmed, continue trading
```

### Divergence Warning:

```
Price: ↗ ↗ ↗ ↗ (higher high)
CVD:   ↗ → ↘ ↘ (lower high)
= Buyers exhausting, reversal possible
```

### Accumulation:

```
Price: → → → → (flat/down)
CVD:   ↗ ↗ ↗ ↗ (rising)
= Smart money buying quietly
```

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## Part 7: Institutional Order Flow Concepts

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### How Institutions Trade

Institutions can't buy 1M shares at once. They:

1. **Split orders** — Many small chunks
2. **Use algorithms** — TWAP, VWAP, POV
3. **Hide size** — Icebergs, dark pools

#### 4. Accumulate/distribute — Over hours/days

### Spotting Institutional Activity

| SIGN                         | WHAT IT MEANS                    |
|------------------------------|----------------------------------|
| Sustained one-sided delta    | Persistent buying/selling        |
| Absorption at levels         | Defending a price                |
| Unusual volume at key levels | Institutional interest           |
| CVD divergence               | Hidden accumulation/distribution |
| Large prints on tape         | Block trades                     |

### Institutional Tactics

**Accumulation:** - Buy on dips - Absorb selling at support - Slowly build position - Break out when loaded

**Distribution:** - Sell into rallies - Absorb buying at resistance - Slowly exit position - Break down when unloaded

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## Part 8: Market Structure Through Order Flow

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### Support as Demand Zone

Traditional view: "Price bounced here before." Order flow view: "Buyers defend this level with size."

```
Price approaches support
↓
Tape shows large bids
↓
Sellers absorbed (footprint imbalance)
↓
CVD stays positive despite down move
↓
SUPPORT VALID
```

## Resistance as Supply Zone

Traditional view: "Price rejected here before." Order flow view: "Sellers defend this level with size."

```
Price approaches resistance
↓
Tape shows large offers
↓
Buyers absorbed (footprint imbalance)
↓
CVD stays negative despite up move
↓
RESISTANCE VALID
```

## Breakout Validation

**Valid Breakout:** - Delta confirms direction - CVD expanding - Tape shows aggressive hitting  
- No absorption against move

**Failed Breakout:** - Delta diverges - CVD doesn't expand - Tape shows absorption - Size defending level

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## Part 9: Combining Price Action & Order Flow

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### Enhanced Candlestick Reading

**Hammer + Order Flow:**



Hammer candle appears

Check:

- Was there absorption at low? (bullish)
- Did CVD diverge? (bullish)
- Large bid prints on tape? (bullish)
- Or just low volume bounce? (weak)

## Engulfing + Order Flow:

Bullish engulfing appears

Check:

- Delta strongly positive? (confirmed)
- Volume higher than prior bars? (confirmed)
- Sustained buying on tape? (confirmed)
- Or one large print then nothing? (weak)

## Order Flow Signals

| SETUP              | CONFIRMATION                      |
|--------------------|-----------------------------------|
| Hammer at support  | Absorption + positive delta       |
| Breakout           | Delta expansion + tape aggression |
| Trend continuation | CVD confirming + sustained delta  |
| Reversal           | CVD divergence + absorption       |

## Part 10: Practical Application

### Pre-Trade Checklist

- [ ] What does CVD say about trend health?
- [ ] Any divergence between price and CVD?

- [ ] What's happening at key levels (absorption)?
- [ ] Is the tape aggressive in my direction?
- [ ] Does footprint show initiative or response?

## Trade Management with Order Flow

**Entry:** - Wait for delta confirmation - Enter after absorption completes - Size into aggression

**Stop:** - Beyond absorption zone - Where delta shifts against you - Invalidation of order flow thesis

**Exit:** - Delta divergence against position - Absorption at target - CVD flattening or reversing

## Part 11: Tools Required

### For Order Flow Analysis

| TOOL             | PURPOSE                | PLATFORM           |
|------------------|------------------------|--------------------|
| Footprint charts | See inside candles     | Sierra Chart, ATAS |
| CVD indicator    | Track cumulative delta | Most platforms     |
| DOM/Level 2      | See order book         | Broker platforms   |
| Time & Sales     | Read the tape          | Any platform       |
| Plutus Flow      | Integrated delta       | TradingView/SP     |

### Simplified Approach

If you can't access full order flow tools: - Use Plutus Flow for delta - Watch volume on candles  
 - Note candle context (where, not just what) - Study absorption through wicks

## Part 12: Integration with Signal Pilot

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### Pentarch + Order Flow

| SIGNAL | ORDER FLOW CONFIRMATION            |
|--------|------------------------------------|
| TD     | CVD divergence, absorption at lows |
| IGN    | Delta expansion, aggressive tape   |
| WRN    | CVD divergence, initiative fading  |
| CAP    | Delta exhaustion, climax volume    |
| BDN    | Delta collapse, selling tape       |

### Janus + Order Flow

| JANUS SIGNAL | ORDER FLOW CONFIRMATION   |
|--------------|---------------------------|
| Sweep        | Absorption at sweep level |
| Reclaim      | Delta shift after sweep   |

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## Part 13: Summary

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### Key Principles

- 1. Candlesticks are summaries** — Order flow is the detail
- 2. Aggressive orders move price** — Makers set; takers take
- 3. Delta reveals conviction** — Who's winning right now
- 4. CVD shows trend health** — Confirmation or divergence
- 5. Absorption is critical** — Size defending levels
- 6. Tape tells the story** — Watch real-time flow

## 7. Context matters most — Same print means different things

### Order Flow Hierarchy

```
Level 1: Volume (participation)
Level 2: Delta (direction bias)
Level 3: CVD (cumulative conviction)
Level 4: Absorption (defense/offense)
Level 5: Tape reading (real-time intent)
```

### Learning Path

1. Master volume analysis first
2. Add delta to your analysis
3. Study CVD patterns
4. Learn to spot absorption
5. Practice tape reading (futures recommended)

Order flow is a deep skill. It takes months to develop intuition. Start simple, add complexity gradually.

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