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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Friday, June 29, 2012

Self Feeding Loops

While I was in primary School , one day our science teacher showed us an experiment. When a burning candle was covered with a glass tumbler, the candle burned for a short while and the flame died out. She explained to us that it was because of non availability of Oxygen.

Then I was wondering how the gun powder packed tightly inside the Diwali cracker is getting Oxygen to burn. I was afraid to ask her. Later, I could learn that Gun powder releases Oxygen while burning and this is used to continue the chemical process. It is a self feeding mechanism.

Markets, especially the Futures, move in self feeding loops. Order flow is the Oxygen that provides energy for the Market to move. When order flow dries up, Market will cease to exist. Like any other living organism, the first priority of the Market is to ensure its own survival.

The beauty of the Futures Market is that nobody can close an existing position without taking an opposite action against their own position. So every fresh order creates a future opposite order. Sooner or later Market is going to trap those who trade the current move. Market will force them to create order flow in the opposite direction.

Your success as a trader will depend upon your ability to accurately anticipate where the Market is going to do this, and to take decisive action without hesitation.

Posted by [SMART Trader](#) at 8:17 PM



2 comments:



[oru_indian](#) June 29, 2012 at 9:04 PM

Dear ST,

Very true. I was observing continuously the volume ticks during last two days and I could see that at some points the nifty volumes are very minimal and taking pauses for seconds for a transaction to take place and at some points it is a fight between buyers and sellers to show their supremacy. But suddenly some significantly large orders just thrust up or hammer down with full power. DPs have a higher probability of huge order flow in either direction. You just have to anticipate correctly and flow with the wind. But it is easier said than done.

rgds-Ajith

Reply



[SMART Trader](#) June 29, 2012 at 9:29 PM

Ajith

With some accumulated experience, we will be able to do this. Then you may need to bet big on higher probability setups. We must learn to vary the position size as per the quality of the setup.

ST

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 - ▼ [June](#) (33)
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- [April](#) (27)
- [March](#) (31)
- [February](#) (42)
- [January](#) (3)