What is tape reading? Why do day traders read the tape?

• Tape Reading is the study of raw price action as it comes across your time & sales window, and is considered by most to be the 'purest form of the market.'

• The term tape comes from ticker tape; print out by the ticker tape machines available since 1870s which reports the latest trade/bid/ask update information.

How it's used:

• Predict short term price changes by examining price and volume information as it comes across the ticker tape.
• Most effectively used at potential turning points in the market to gauge overall market sentiment and help determine the future direction of price.
• Traders use this to see confirmation of a potential trade set-up, or a heads-up that a set-up should be avoided.
• Also used as an indicator of when momentum has dried up, signaling a trader to take profits or to limit his/her risk on a position.

Benefit to the trader:

• Filter out the highest percentage set-ups
• Confidence in your entries
• Know when to exit a trade
• Maximize profits on each trade
• Limit the risk on each trade

What to watch:

• Speed of the orders
• Size of the orders
• Order Condition

Learning to read the tape is a vital part to becoming a successful trader in the long term, and understanding how to learn this skill can be difficult if you don't know what to look for.

First, know what you're looking for…

Find a pivot point

A pivot point is nothing more than a specific price level for the market you are trading, and we will use this price point as a reference.

The most common pivot points for this would be the open, high or low of day, and previous close levels. We use these specific levels in the market to watch how price action reacts in and around these areas.

If we see that price action shows bullish patterns around the high of day, that will tell us we should expect to see the market try to rally through the highs of the day. In other words, this tells us the overall market sentiment at these levels.

Reaction to Price Moves

Successful traders always trade the reaction, rather than the move, and reading the tape allows them to really tune-into what really drives these moves.

For example, if price is trading in a specific sideways trading range and then breaks out of this to the up-side, the experienced trader knows to stay away from getting involved on the initial move up, but rather pays close attention to how the tape reacts to this move.

Using simple price patterns at these extremes, the trader can get a better feel for the sentiment in the market, and make educated trading decisions based on this reaction to the increase in price.

Conviction in the market

- Are buyers met with equal amount of sellers?
- Are the sellers having a hard time keeping up with the buy orders?
- Is price forcefully moving through levels of support or resistance?
- Is price flirting with support and resistance levels, only to be swatted back and forth like a paper napkin?

Price patterns on the tape solidify conviction in the market and give the trader more confidence getting involved with the current short-term trend.

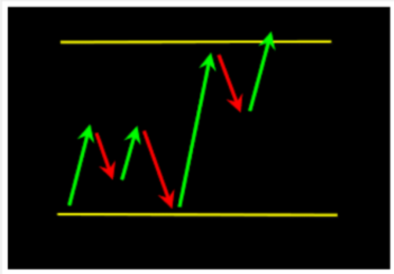
On the opposite side, conviction on the tape can also give the trader an indication that the current move has ended, and they need to be prepared to see a potential reversal

Second, use simple patterns to identify these opportunities

As traders we use predictable and dependable patterns on the tape to make educated trading decisions. These patterns are easy to see on your time & sales window if you know what to look for.

Use these simple patterns to develop your skills:

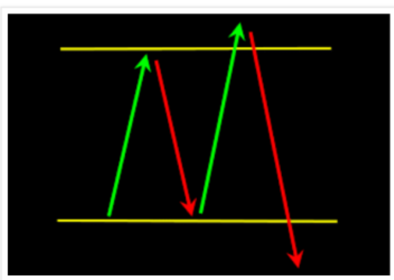
Pattern #1: The Lift-Off!



Characterized by a breakout of range-bound price action, this move up is quick, and on increasing volume, followed by a small pullback down, only to be taken up again by increased momentum on the buy-side.

In this example, you could use this pattern as confirmation for a LONG entry in the market, or as an indication that you should be covering a short position.

Pattern #2: Got-Ya!

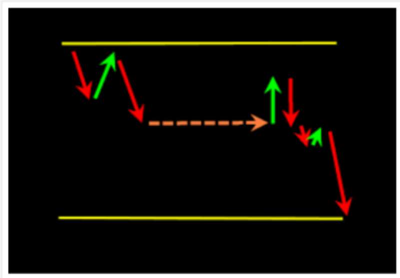


Characterized by a sharp move out of its trading range, usually on low volume by small retail traders in the market, and is met with great resistance from larger-sized traders who quickly take advantage of this opportunity to get into the market at a great price, and the retail traders pay the premium on it.

In this example, this pattern shows little confirmation, which is an easy give-away for traders to stay away from the up-side b/c the buyers didn't bring enough conviction to the market and the sellers are ready to make them pay.

Don't get fooled into a long position on this, wait for the conviction to show you where to go, and in this example, you would want to short this jump up in price once you see the sellers take control.

Pattern #3: Confusion



The most common pattern we see, this pattern shows no concrete direction, no conviction, and no volume in any given direction. Traders who can see this pattern know to wait for more conviction in the price action as to where the market is headed.

In this example, the experienced trader waits patiently to see a pattern develop, knowing that this lack of conviction in the market increases the risk on a potential trade exponentially.

"If you can't see a pattern on the tape it's most likely the confusion pattern, and in any case, you need to avoid it…"

Third, use this knowledge to make educated trading decisions…

Professional traders use the tape to better-understand the overall sentiment in the market participants, and we use that knowledge to make educated trading decisions in our trading.

• Execute with Confidence:

o Reading the tape increases your confidence to pull the trigger on your trades by giving you the ability to know what the other traders are thinking.
o Wish you had the ability to speak with the other traders in the pit? You do when you read the tape!

• Know when to hold 'em, and when to fold'em:

o Know when to exit your position, or when to let it run using the information you gather from reading the tape.
o Using specific 'pivot points' as a reference, you will better understand what other traders are thinking as price moves in your direction, and you can use this information to know whether you need to exit your position or stick around for the ride!

• Understand your stops and targets:

o Ever wonder why you got stopped out of a trade?
o Ever wonder why you get some targets filled and some do not?
o The answer lies in the tape, and your ability to read and understand it.
o Using the tape, you'll know more about why a trade didn't work out, or why you barely missed a profit target, or even when to move that target closer to price to ensure you get filled.
o Remember, the markets are anything but random, and price always moves with purpose, it's your job to interpret the tape to understand why.

https://youtu.be/lZW9LSPJ4h8
YouTube
SOTFuturesTrading
Tape Reading Lesson; Looking for Patterns on the Time & Sales Window SchoolOfTrade.com

Think Like A Pit Trader

You are standing in the bond pit. The Inside Market is 12 13 (traders are willing to buy at 12 (the Inside Bid) and willing to sell at 13 (the Inside Ask)). You are of the opinion the market will go down so you sell (short) 200 lots at 12. Over the next several trades you notice a total of 1000 lots have hit the Bid 12 and the market has not gone down. You need the market to go to 11 to scalp a tick. During the same time a total of 300 lots have hit the Ask 13. The market has not moved at all – it is trading at 12 Bid and 13 Ask. More size hits the Bid for a total now of 1500 lots. Size on the Ask now totals 500 lots. You continue to notice that although three times more size has hit the Bid than has hit the Ask the market refuses to go down to 11.

The market has not moved and you have a decision to make. Why? Precisely because the market has not moved. No matter how much size hits the Bid one or more big players will not let the market go down. They appear to be prepared to absorb any amount of size at 12. This is a problem. You are short 12 with a clearly diminishing probability that the market will ever get to 11 and is more likely to go to 14. The longer you do nothing the more likely you are going to have a loser on your hands. You have three choices and need to act **now**: 1) you can do nothing and just watch the market go up to 13 14 – something you can pretty well predict at this point in time since no amount of size on Bid 12 is able to push it down to 11, 2) lock in a 1 tick loser by buying 13 before you get handed a 2 or 3 tick loser when the market inevitably moves higher, or 3) try to scratch the trade by buying 12 along with the players holding 12 long in which case you have lost 0 ticks to the market and are only out fees.

You opt to scratch the trade by buying 12 along side the players holding 12 long. You are able to cover 100 lots at 12 (0 loss) and 100 lots at 13 (1 tick loss). By watching the market's reaction to traded size **you were able to limit your losses to 0 or 1 tick**. **You predicted the probable future price action before the market moved at all.** You continue to note size on the Bid holds long instead of pushing short so you buy 200 lots at 13 before the market moves to 14. The market ultimately moves to 16 and you cover the 1 tick loss and then some – all based on reacting to traded volume BEFORE the market moved a single tick. You traded the PROBABILITY that the market would not go down simply based on the fact that players bigger than you would not let the market go down. Better to trade WITH them than against them.

Think Like a Time & Sales Tape Reader

You are trading the ~~bond~~ **stock** and see a lot of size hitting the Bid at 12. The T&S is lit up red. Blocks are hitting 12. Clearly there is a ton of pressure now on 12 which will surely force the market down. You go short 12 before you miss the move. Before you can react the market goes up instead of down. Now the T&S is lit up green. You cover for another small loser before your stop loss gets hit for an even bigger loser.

Think Like a DOM Trader

You are trading the ~~bond~~ **stock** using the DOM (Depth of Market) screen. The Inside Market is 12 13 with 500 size (limit orders) waiting to buy at 12 and 3000 size (limit orders) waiting to sell at 13. Clearly there is much more size on the Inside Ask that surely will prevent the market from going up and only a relatively small amount of size on the Inside Bid to prevent the market from going down. You sell 12 because with all that size above the market and little below there is no way the market will can go up right?

You note that since you took your position way more than 500 size has traded on the Bid and the market did not go down. In fact 1000 have traded on the Bid which still shows only 500 size waiting to buy 12. There is still 3,000 size waiting to sell 13 but the 500 size on the Bid keeps refreshing. This does not look right. Why is the obvious pressure on the Ask and small size on the bid not making the market go down? Now 1,500 has traded and the Bid 12, the market never did get to 11 and the 3,000 sitting on the Ask 13 is now only 200. Most of the 3,000 orders resting on the Ask have been pulled. What happened? You have been 'spoofed'. Someone was putting a fake amount of size on the Ask that they never intended to sell – this to make it look like the market surely cannot go up. At the same time someone, probably the same trader(s), only showed 500 size on the Bid when they were clearly willing to buy 1,000s because they bought 1,500. How can that be? Is that legal? (Yes it is, see details below).

The market trades up to 16 before you can cover your short. Another loser. You have been had by the professionals again.

Think Like an Indicator Trader

You are trading the bond. Your latest and greatest magic-get-rick-quick indicator says the market will do down. You sell 12 with a 10 tick Stop Loss. The market is not going down however you have given it lots of room to trade (10 ticks based on prior losses when the market pulled back) so you are not concerned as it is only at 16 and you have 6 more ticks before your stop gets hit. Your new indicator still indicates the market should go down so you are not worried as you were told the indicator works and paid good money for it. Wait. Now the indicator is indicating the market will go up. What should you do? Too late. Your stop is hit. Another loser. After blowing up your account yet again you conclude that your new indicator did not work as promised. Clearly you need to find another get-rich-quick solution and buy a better magic indicator. Or are you trading the wrong market using the wrong method? No, can't be that. Everyone trades this market this way right? Although they do all lose money. Hmm.

Think!!!

The message here is clear. And thankfully is **based entirely upon YOUR common sense** and not on more mass-marketed nonsense.

"To <u>consistently</u> trade a market with low entry risk and a high degree of winning probability then your <u>clear and only option</u> is to trade based solely on <u>the market's reaction to traded volume.</u>"

Traded volume not only **precedes** price action it **<u>determines</u>** price action. Therefore if you wait for price action to make a decision you will always be late and often on the wrong side of the market.

The above concept is so basic and yet so critically important to your trading success that if you do not 'get it' then there is no point to reading further on this site.

Never traded before? Even better! I have taken more than on user to profitability in less than 4 weeks. Getting experienced traders to drop old habits and misconceptions is much much harder.

If you cannot clearly see Market Control in the market(s) you are trading then you are clearly trading the wrong market(s). The ES and CL for instance are two of the worst choices and yet are the most popular markets being traded today. The lack of Market Control is why most markets require large stops. And the large stops are why they trade small size. And yet traders keep chasing the wrong markets with 1 lot and a 10 tick stop using the latest and greatest indicator/method. Could this be why 98% of traders lose money? **Where is Common Sense?** Is it not better to consistently risk 0-1 tick on entry to make 10 ticks than to consistently risk 10 ticks on entry to make 10 ticks? Do the math. Over time. If you still think you can trade the ES and/or CL for a living with small size and 10 or even 5 tick stops you should quit trading entirely before you become homeless. Or, buy stock like Warren Buffet and hold it for 40 years. Point being – how many times do you need to blow up your account before your change your method? your market? your mindset? Another indicator is not the answer. A radical shift in how you perceive the market is.

Spoofing

The point of placing a Hidden Quantity Order is to be able to buy/sell as much quantity as possible before the market moves away. At the same time why not place a very large order in the opposite direction to keep the market from moving away while you fill your Hidden Quantity Order? For example, you want to buy 5,000 at 12 so you place a Hidden Quantity Order showing 500 on the Bid. At the same time you place a 3,000 lot order on the Ask to induce traders to NOT buy and instead sell into your Hidden Order. Once the selling stops and you have all you think you are going to get you pull (cancel) the 3,000 on the Ask and sure enough the market goes up. Why? Because you will not let it go down by absorbing all sells on the Bid and you are no longer faking out the market with the larger sell order. Simple. Legal. And employed constantly.

The Order Book/DOM Fantasy

If you think you are getting accurate let alone useful information from the DOM then you are sorely mistaken and fair game for the professionals controlling the market.

Professionals cannot place orders showing the total size they are actually prepared to trade without moving, and therefore ruining, the market they are controlling (manipulating). So instead of placing a 5,000 lot order that would move the market resulting in a less desirable entry price they place a 500 lot order at their desired price and legally hide the other 4,500.

Exchanges allow professionals to only show a portion of their intended size thereby hiding the rest.

HIDDEN QUANTITY ORDER (ICEBERG)

An order which displays only a small portion of the total order to the marketplace. When the displayed quantity has been filled, another portion of the order will then be displayed to the marketplace.

Yes Hidden Quantity Orders are legal!!

@everyone i originally wanted to find some videos that would be a useful addition to these lessons, but instead I ended up finding this article tonight. I think this does a 10x better job than any video I'd be able to post for you guys to cover some of these topics so that's what we'll go with for now. Too many times when you're truly trying to learn about something related to trading, these guys tend to just waste our time for 99% of the video and never seem to really get to the point. My hope is that I'm helping us all cut to the chase and see

what's really important to improve our trading and make ourselves some money