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MARKET PROFILE
ORDER FLOW

NEXT GENERATION OF DAYTRADING

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Johannes Forthmann is a German economist with more than 20 years of experience in the Futures markets. He worked for a Swiss commodity and asset management company.

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Table of Contents

1. Introduction

The year 2020 has called into question the validity of medium and long-term forecasts. If a hundred experts were to be asked where the journey in the financial markets is heading, the answers would probably be equally controversial. This year, situations could be observed there that had not occurred together in a whole century before.

In view of this, many may be interested in thinking more short-term and acting independently. No doubt it is easier to predict whether it will rain today than in three weeks' time. In the "short range" you can find two forms of trading, day trading and swing trading. Both are independent of the respective market direction. A day trader holds his position for a few minutes or until the end of the day.

A swing trader works with a larger time window. His expectation horizon is several days, weeks or months. However, he has to pay for the advantage of an "overarching view" by being exposed to significantly more future imponderables. He is a prisoner of his longer time horizon.

This book was written for day traders searching for new ways. However, it is also suitable for beginners with basic knowledge. Countless promises on the internet make it difficult for especially beginning, ambitious traders to find their way through a maze of courses. These often leave the impression that all you have to do to succeed is to follow a crossover of two lines, a few chart patterns, indicators and money management rules.

For some time now, market and volume profiles as well as order flow analysis have been the talk of the town. In my opinion, these belong together logically and in terms of content. I was all the more surprised that until today there is no book available in either the German or English-speaking world that combines these useful forms of analysis and also explains how to use them effectively in day trading.

Classical Technical Analysis, as taught in hundreds of books has proved to be unprofitable for retail traders in most cases. Otherwise, the loss rate of technically oriented traders would not be so extremely high. One first reason is the fact that Technical Analysis was developed many decades ago under market conditions that have ceased to exist long ago. Initially developed as a pseudo-science and successfully used by a few advanced traders, it has become increasingly popular as a science that makes the dubious claim of predicting future price movements based on historical series of numbers or simple geometric shapes and lines.

However, a look at today's globally networked markets shows that many things have changed fundamentally. Probably the most important change is the dominance of a few large market participants, who handle about 80% of the total global trading volume. Their decisions are based only to a small extent on technical chart criteria. They spend a great deal of time and effort on fundamental research, which private traders can never compete with. However, as they have very large resources at their disposal, they cannot easily build or reduce their positions in a single process. In many cases they first have to create "space" and prepare their operations undetected.

This leads to movements that do not fit into the picture of technically oriented traders. Whereas in earlier times we had to deal more with breakouts from known chart formations or trading ranges, today we see a multitude of false breakouts. These mostly take place in so-called liquidity zones. These are areas where either pending orders of small traders are located or are placed more frequently.

If a false outbreak then occurs, many positions are stopped or closed and thus fall into the hands of strong market participants who pursue other objectives. In the eyes of Technical Analysis, this is an upside down world. Being extremely well known by the trading public makes it easy for market makers to deceive. If you look at the whole thing a little more realistically, you may well ask yourself

Why should large market participants who invest hundreds of millions in fundamental research in the 21st century be guided by the figures of an Italian mathematician who lived in the 13th century (Fibonacci)? And which every trader knows.

What is different about Profile and Order Flow Analysis?

The main difference to other forms of analysis is that there is no guessing involved. Instead, the activities of major market participants are observed in the here and now. In this sense, we are by no means dealing with the false gods of Technical Analysis.

The market profile related to the volume profile has been known for over 40 years. The market profile is based on the thesis that significant price shifts are only possible if large market participants with a higher investment horizon become active. It also determines the price level at which prices have spent both the longest and the shortest time in a given period.

Some of the principles of market profile analysis from that time have lost their validity as the markets have changed. However, the progressive development of chart software has led to a renaissance of two central principles of this form of analysis in particular. By integrating them into a chart, market profile analysis can give traders a quick overview of who is in control of the market. A further current aspect is that the largest liquidity zones can be identified more clearly and precisely. Given that today's markets are characterized by a myriad of false outbreaks, this can offer significant advantages to a day trader.

Volume profile analysis follows a similar pattern, but focuses on the price level at which the largest turnover took place in a given period. It can thus provide important information about the price zones in which major market participants have built positions. However, there is no need for these to be identical to classic support and resistance zones. In my view, it makes sense to combine market and volume profiles because they complement each other with two essential pieces of information. You can also project them next to each other and thus have all the important information at a glance.

In a way, you can compare the volume profile to a search system that locates zones where institutional traders were active. In many cases they resume their activities where they started out. However, only order flow analysis can provide final confirmation of this. It can be used for fine-tuning and allows a chart to be "flipped open" to provide information on the activities of the market forces that set the direction. This cannot be provided by a normal chart.

So how was this book written?

Since more than 20 years I am dedicated to the topic of day trading. From 2003 -2006 I completed an apprenticeship with a well-known US Futures Trader (Joe Ross). During that time I learned a few things that I had seen differently as an economist. Price actions on markets do not necessarily correspond to an efficient market theory. At some point I had read all trading books under the sun and realized that what former super traders wrote in books only reflected past periods of time.

I refrained from indicators. Instead, I integrated real existing short term interrelationships of individual trading instruments into my charts. These provide approximations even today and clearly reduce the loser rate, but the limitations of charting techniques remain omnipresent.

A few years ago, I noticed new chart software programs that displayed executed orders horizontally on a corresponding price level. I had the impression that the volume and also market profiles of certain zones provided more precise information than classic support and resistance lines.

After that I started looking for material for day traders, but all I found was the market profile classic "Mind over Markets" with profiles from the 80 ies and a book about volume profiles for Forex Swing trading (see appendix). These books provide some basic information, but are not suitable for the time levels I work with intraday. Day trading and swing trading are completely different worlds. Finally I followed a few presentations from US Prop traders. These came closer to my perspectives, because they also talked about order flow on small time scales. A normal chart for them was just the outer garment for something that was hidden behind it.

After trying out some order flow software I started to develop strategies that complemented my existing methods for E-minis, Euro, Dax, Bunds, Crude oil and Gold. From 2018 on I also tested them on the Asian futures Mini Hang Seng and Mini Nikkei. I found out that these futures react similarly, sometimes even better. A few recorded examples from this time can be found in this book.

A large part of Technical Analysis is heavily overrated by traders. Perhaps that is precisely why it is significant, albeit in a completely different sense. Many false outbreaks and stuffing maneuvers take place at key charting points. Moreover, considering that the markets tend to move sideways for around 70%, it is very beneficial to mark trading ranges as precisely as possible. By combining these aspects with profile and order flow analysis, you are often able to look a little further into the fog of the future than a normal chart trader who blindly trades formations known to everyone.

As there is still no special literature about profile and order flow analysis for day traders, I finally decided to write my own book. When I started writing it, I had no idea that the year 2020 would usher in a new era of volatility. Fluctuations that used to occur in a week can now happen within a day. This requires day traders not only to take a more flexible view than in previous years, but also to use analysis tools that look behind the scenes. More than 40 current examples will demonstrate this in detail.

The approaches shown here are not a system which is used like an indicator. Accordingly, they cannot guarantee success. Combined with basic charting knowledge and contextual thinking, however, they can provide traders with highly effective tools to navigate the markets with much greater confidence and less stress.

This book has been produced with great care. Chart Software used was Atas, Sierrachart and Tradeview. Nevertheless, the book can only provide a limited insight into the many possibilities offered by these forms of analysis.

Thanks to Markus Amstutz, CEO Future Trade AG, Switzerland, who took the trouble to review this book?

I wish you an interesting read. Perhaps you will see markets with slightly different eyes afterwards.

November 2020

2. The Advantages of Futures

Futures markets (futures exchanges) are among the oldest markets in the western world. In Amsterdam already in the 17th century in the form of option trading, futures exchanges were founded in a regulated form in the pioneering days of the United States. They gave farmers the opportunity to sell their future harvests in advance at a fixed price and thus secure their income. This was then taken over by other sectors as industrialization developed. Mining companies, which secured income from their future production. International producers of goods who needed to protect themselves against exchange rate fluctuations. Airlines that need to protect themselves against rising paraffin prices, etc. Who bears the risk? Speculators, who take over the other side of the trade until the contract terms expire, thus guaranteeing companies a fixed purchase price of products.

In the USA day trading with individual shares seems to be a big topic. This requires an initial capital of at least 25 - 30k USD. A day trader who buys or sells a single share must use a substantial part of it to achieve a daily profit. In the futures a day trader only needs to deposit a margin, which is fixed per contract. Day trading margins range from $40 for micro contracts to around $2300 for a contract of crude oil. A day trader can therefore operate leveraged on the largest regulated futures exchanges in Europe, the USA or Asia with a lower capital outlay. He is dealing with guaranteed liquidity, gets fair executions and can limit his risk with stop-loss orders.

This cannot be said of other non-transparent products, which are not subject to uniform control, especially in Europe, and are offered in an unmanageable number of substitute products. Nevertheless, there is also a residual risk when trading in futures. If there are strong distortions, this can lead to delayed execution (slippage) or trading stops. For this reason, a market that is in an extreme situation should not be entered at all. In contrast to trading with shares, a futures or forex trader does not need a stock scanner and does not have to deal with earnings, analyses, rankings, comments, balance sheets, key figures, takeover rumors and other company reports. He has "his" market, which he scrutinizes. However, he has to pay attention to important news concerning this market: Central bank decisions, economic data such as NFP, CPI, GDP, oil stocks, key speeches, and geopolitical events. Upcoming economic data can be found on many financial sites and is marked with 1-3 symbols according to the expected impact. A day trader has no opinion of his own. He cares less about the content of news, which is mostly priced in anyway (old news). His task is rather to analyze and use the reaction of the market.

Trading Instruments

For a day trader only the absolutely most liquid stock index, interest rate, commodity and currency markets are considered. Only these can guarantee good order execution and thus keep losses as low as possible. The huge Forex interbank market is priced exactly according to the futures exchanges, but it is a deregulated market without exact volume data.

While futures only trade in standardized contracts, forex trading is possible with high leverage in any size. A day trader with very small initial capital can, for example, can trade instruments such as EURUSD or gold, use the real volume data of the futures exchange for analysis and then act through a forex broker in any trading size. CFD's of stock indices are also a reasonable option if you are not a scalper. Futures can also be traded in very small sizes. Since about 2 years micro contracts of stock indices, Forex Majors and Gold have been offered here.

The most important trading instruments for day traders are

- Mini contracts S&P 500, Dow Jones, Nasdaq 100, Dax, Hang Seng, Nikkei 225
- EURUSD
- JPYUSD Future (=USDJPY forex pair inverse)
- German Bund
- Crude Oil
- Gold
- 10 y T - Notes

More on the characteristics of individual trading instruments can be found in Chapter 15

3. The Market Participants

In order to better understand the profile and order flow analysis, it is advisable to first take a closer look at the participating groups in the markets

The Institutional Sector

It is estimated that institutional trading is responsible for 70 to 90% of the total volume of markets. These include a dozen investment banks with well-known names and a few pension and hedge funds operating in any time frame. Throughout this book, institutional traders are referred to as "other time frame traders" (OTF traders) because their expectation horizon is at a higher time level than day trading. This ranges from a few days to several weeks. OTF's can have different reasons to act on the market. Short or long-term investments, hedging of commodity prices and security portfolios, implementation of interest rate and currency policy decisions, etc.

The large market participants addressed here dispose of massive financial resources, which they constantly use in the markets for specific purposes. They are largely guided by fundamental analysis and spend large sums on research. If they were to act in isolation, prices would shoot to the moon or fall like a stone. In order to build up their positions piece by piece, they work as undetected as possible, mostly in intraday trading ranges. Once they have built up their positions and are "ready to go", they act aggressively and move the market as quickly as possible in the direction they want.

The behavior of OTF's seldom matches the expectations of retail traders. Their strategies require them to take a long position when the price has fallen sharply and is now below value. Similarly, they will usually take a short position when they feel the price is too high (above value).

Other time frame traders are also behind sudden movements that many traders find difficult to assess. These are short-term actions in which positions are reduced for various reasons without aiming for a change of trend. This is called "short covering" or "long liquidation". So much for the group of institutional market participants.

Retail Trader

On the other side of the market, there are countless small traders who trade electronically via the brokers' trading platforms. Their decisions are largely based on technical analysis. These are called Retail Brokers and Retail Traders in this book. Retail means as much as retail trade, but in this context it probably sounds a bit strange in German. Retail traders are made up of day traders, swing traders, hybrids or individual position traders whose view is based on a daily basis. They will never have the fundamental information of OTF traders.

There are two groups in the day trading sector. The first group consists of so-called scalpers. Their goal is to execute as many trades as possible during a trading day, with the shortest possible duration and small profits. They are fighting against the algorithms of the market makers at second intervals day in, day out. This puts them on a level somewhere in no man's land between OTF buyers and sellers. This book does not deal with this type of day trading.

The strategies described in this book deal less with this type of day trading. They focus more on locating the start of clear intraday price segments exactly and then following the tracks of large market participants for as long as possible. Although such a procedure requires a little more patience and contextual thinking, it is much less stressful than scalping and in many cases more successful in the long run.

While volatility has been at record lows for most of the last decade, a new era is looming in 2020. Important intraday reversals are now taking place much faster. This does not necessarily mean that the target group of this book should take the perspective of a scalper. But the new situation requires in some cases an entry in minimal time frames to avoid increased risks.

On the other hand, under certain circumstances it can also make sense to turn a day trade into a position trade rather than following a stereotypical pigeonhole thinking, once you have exactly located the beginning of a trend. Such an example can be found in the bonus chapter.

Every major trend begins with micro inflection points.

The Role of the Day Trader

Institutional traders are undoubtedly the determining forces in any significant price action. Accordingly, changes always take place when they perceive the current price to be too high or too low. In order to implement their plans, OTF traders inevitably need to enter the market temporarily at intraday level. This turns them into day traders.

The role of a day trader is somewhat different. While an OTF trader follows a predetermined opinion and market direction, a day trader must first try to interpret it at the macro level. He must ask himself: Where is the market heading? Who is in control? Are there large buyers or sellers?

The next task of a day trader is to determine when exactly OTF traders become active at the micro level. This is where more detailed analysis at a smaller time level comes into play. These combine market and volume profiles, important chart points and order flow. Only a combination of these components enables a day trader to execute a preferably low-risk trade

In general it is said that you always have to follow the trend. This is taught in hundreds of books. However, if you look at the reality of an extremely high loser rate of retail traders mentioned at the beginning, then doubts arise. For a day trader the best opportunities always arise when the mass of traders is wrong, the price reverses and dramatic movements take place in the opposite direction. The larger the number of market participants of all time frames acting at important reference zones, the stronger the movement that results.

Accordingly, a day trader's attention should always be primarily focused on these liquidity zones, because in case of rejection, a chain reaction occurs here, which can be very profitable. On the one hand, a large number of retail traders are stopped out or cover their positions as soon as they realize that no follow through is taking place. On the other hand, a great deal of momentum is generated by OTFs, which now move the market in the opposite direction.

If you integrate volume and market profiles into your analyses, there is no "one" method. In this book many different starting situations are presented. Another important concept consists in putting yourself in the mindset of other retail traders. To follow a herd blindly is not a good idea, not only in day trading.

4. Market Profile - A Brief Overview

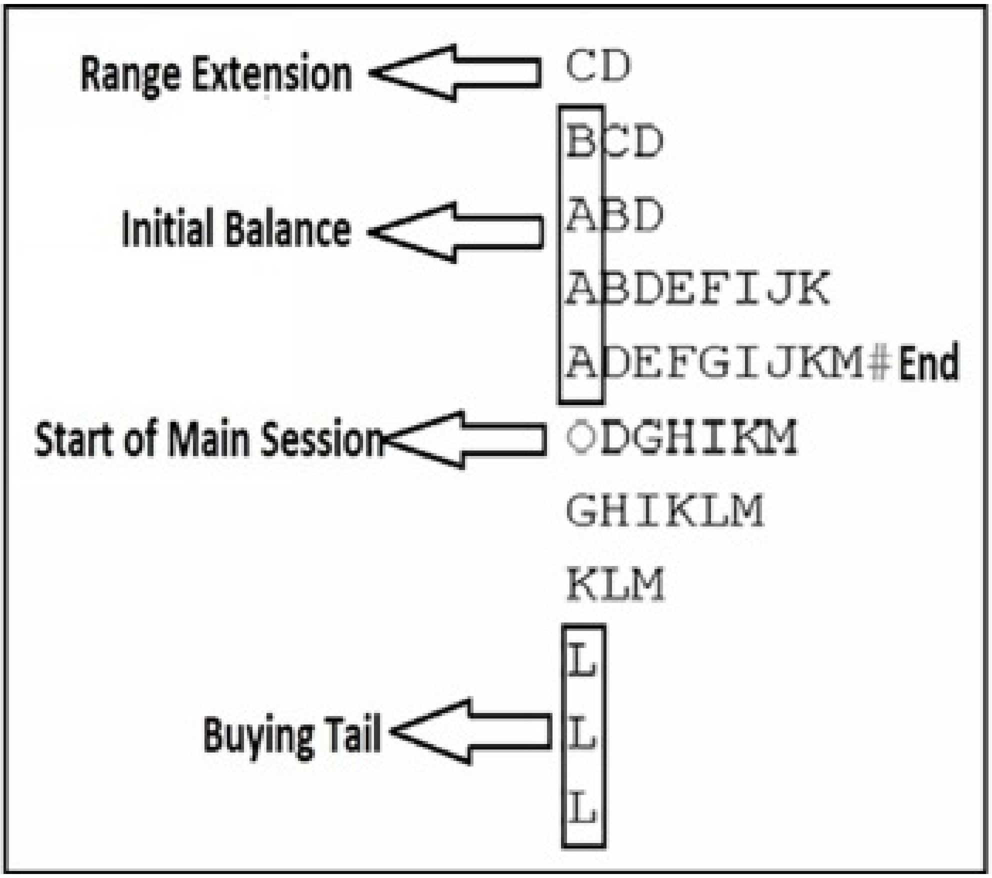
The market profile is also known as TPO and combines time, volume and price. TPO is an abbreviation for Time Price Opportunity. It has a bell-shaped structure. The traditional approach extends over one trading day. 30 minute time periods are shown here in letter form on a vertical plane. Its external appearance is similar to the volume profile but there is a significant difference.

The market profile determines the length of time a trading instrument remains at a certain level. The longer the price stays at a particular level, the more support and resistance is formed. But these are also zones that are susceptible to stop-running maneuvers, as liquidity has accumulated there. Horizontal support and resistance lines can be drawn at different levels but in conventional chart technique it is always left to the individual assessment of the observer to determine which zone is of the greatest importance. This problem does not apply to the market profile, as there is only one fixed maximum level. In the course of the book, it becomes evident that the maximum zones determined by the market profile can provide precise reference points which can then be checked with a view to a trading decision on the further direction of the market.

Momentum and Follow through are the engines of any significant price action. In this process he time factor plays a decisive role. Here, the market profile can provide useful information as well. In the first chapters the structure of the market was described. Only large market participants can move the market. The less time the price stays at a level, the greater the activity of large market participants. Due to the simple visual structure of the market profile, it is possible to determine at a glance in which zones large market participants have operated aggressively. Accordingly, you can consider which group of OTFs has control over the market.

The market profile theoretically distinguishes between different daily structures. The most important of these will be incorporated in the course of the book coupled with typical examples. According to theory, the market profile is used to determine the course of the day after the first hour of trading. However, this older approach should not be taken too closely, especially today. But there are a few constellations that allow conclusions to be drawn. I prefer to plot the market profile using a simple block system. For the sake of overall understanding, however, I will briefly explain how the market profile works.

Figure 1: TPO (Market profile) in the course of a day



The letters A and B represent the first two first 30 minute periods of the institutional trading day. This period is also known as the initial balance. The start of trading is indicated by a zero and the end by a hash. The duration of the Initial Balance is not set in stone. Depending on the general market situation, it may be shorter.

Any extension of the Initial Balance up or down is called Range Extension. In this case the price left the Initial Balance first upwards (C), then downwards (D). Then there was a stagnation (E, F, G, H, I, J, K) before the price moved down and formed a tail (L). This is a single-column row and indicates the presence of large market participants (other time frame traders). They bought because they perceived the price as "below value".

To speak of a tail, you should see at least two single-column rows at the edges of a market profile. In this case you see a "buying tail" with three single-column rows, which led to an upward movement in the last trading phase. At the end of the Main Session the price is again "in balance" (#). It is the widest point of the profile. This is where the price had spent the longest time.

As followed a few aspects

- The closer the Initial Balance (AB) at the beginning of a day compared to previous days, the higher the probability of an intraday trend.

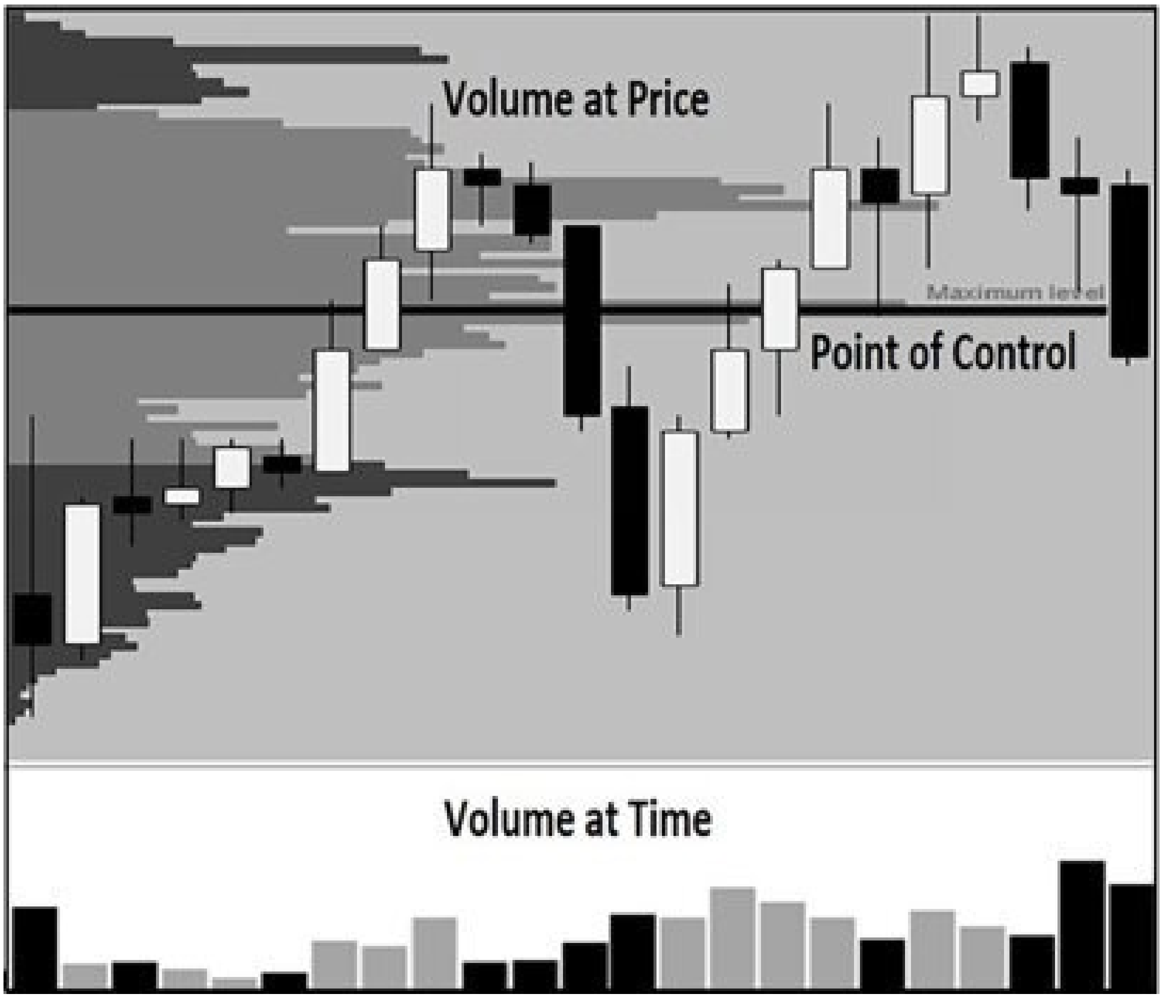
- Trend days should never have more than four parallel rows or blocks of letters during the course of the day. They have a narrow and long (high) day profile. There are multiple range extensions in the same direction

- Single-column rows show an increased activity of OTFs. If they appear in the middle part of a market profile, they are called "single prints.

More on the market profile will be found in the course of the book.

5. What is a Volume Profile?

Figure 2: Volume Profile

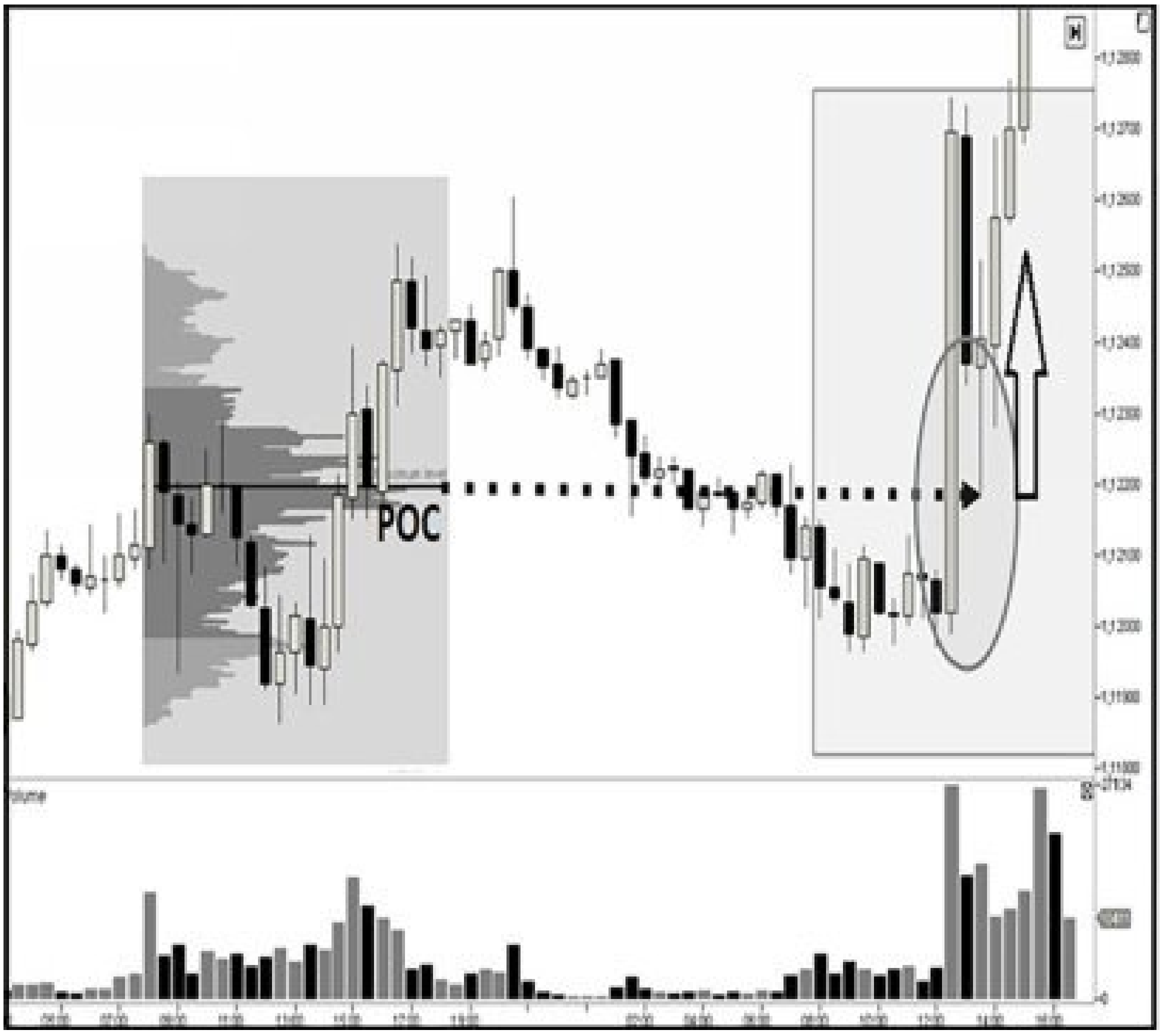


On the time axis in the sub chart, the x-axis shows the conventional time-based representation of the volume in vertical form. This only contains a totalized turnover figure (contracts) for a specific time period. However, it is not known at what price the largest volume was traded.

The price level at which the largest number of transactions took place is called Point of Control (VPOC). This price is considered to be fair. Otherwise, most transactions would not take place there. Prices tend to return to the point of control after testing higher or lower levels. A rising or falling Point of Control (VPOC), on the other hand, reflects a change in the market situation. If it changes, a higher or lower price is accepted.

The following chart is intended to clarify why heavily traded volume zones of the past can help to make the most accurate trading decisions.

Figure 3: EURUSD June 2020 (30 min. chart MEZ, CET)



In the run-up to an ECB meeting (right), the volume profile of the previous day's institutional trading signaled strong buying activity by major market participants. These buying zones can be seen on a distinct bell-shaped volume cluster on the left side of the chart. This is the point of control (POC). In the right window I have marked the beginning of the new (European) trading day of EUR/USD. Based on my criteria, it starts at 8.00 CET.

With the publication of the session result EURUSD rose strongly. Afterwards a pullback took place, which lasted for about 60 minutes. This pullback exactly reached the strongest buy zone (POC) of the previous day. This can be seen here by the extended dotted line.

Institutional traders defended their position exactly where they had extended it the day before. On this chart we are dealing with a 30 minute chart, which gave a day trader the big picture. An entry would be on a smaller time level with more filters

It does not necessarily have to be the POC from which the course bounces. Other pronounced volume zones and their peripheral parts are also good support or resistance zones.

- The horizontal representation of volume by means of a histogram in the main chart is called a volume profile.

- The point of control of the volume profile is also called VPOC. This is the price zone in which the most transactions have taken place.

- Pronounced volume clusters are called high volume areas. These indicate price zones in which large market participants were active.

- If prices return to these zones, the probability that they will be defended increases

- The strongest zones are always formed when classic support and resistance zones and volume profiles match

The following chart situation should further illustrate this

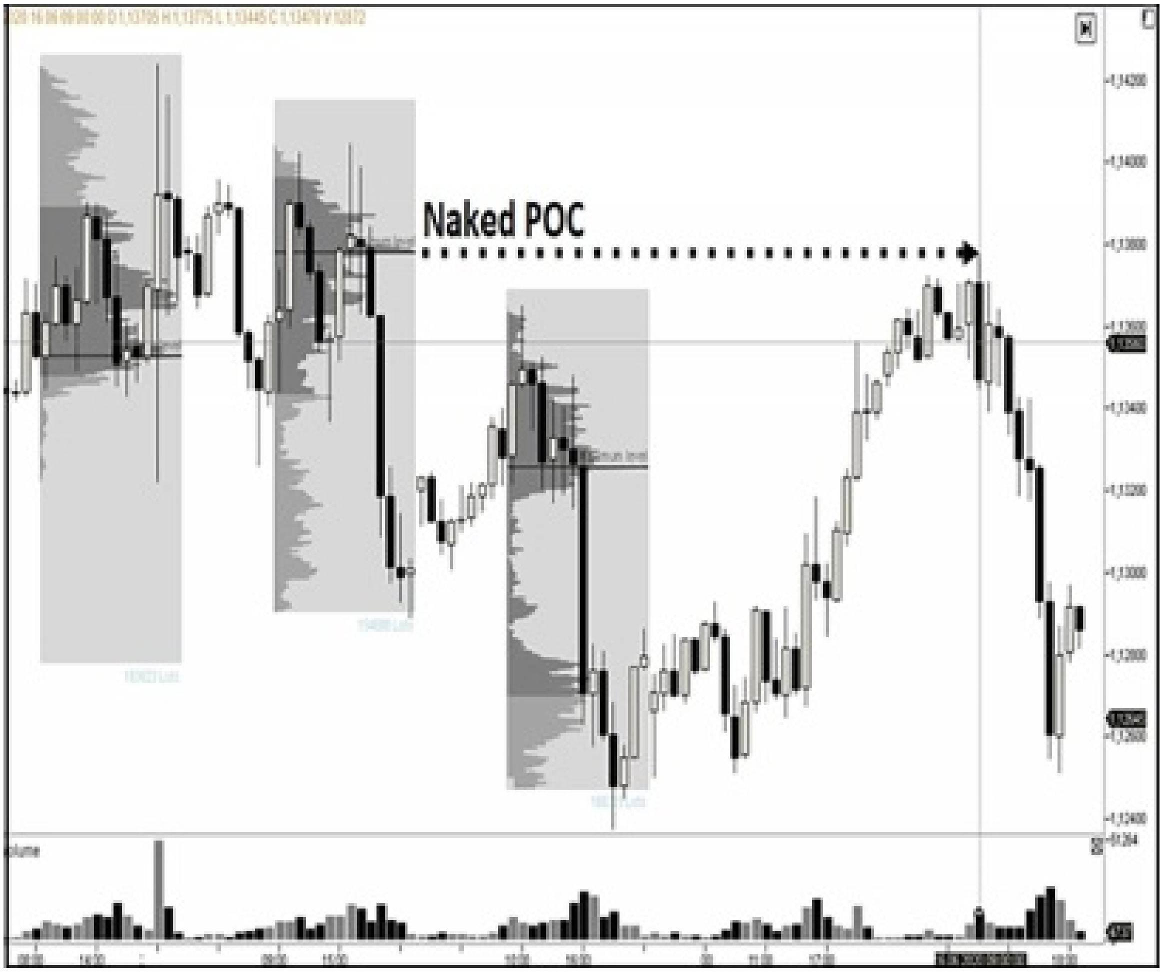
Figure 4: FDAX June 2020 (15 min. chart, CET, CET)

Here the price bounces back at the beginning of the new trading day from a strong volume cluster formed during the previous day's institutional trading hours. The chaotic movement in the low volume off-hours time has no meaning.

Naked POC

The most important point of a past period is the so-called Naked POC. This is a point of control that was not touched the following day. This point attracts particular attention. If it is reached again the day after next or afterwards, very promising trading situations can arise

Figure 5: EURUSD June 2020, (60 min. chart CET, CET)



This is only an hourly chart, but even this one shows exactly the level of reversal. This would have been difficult to see from resistance lines on a normal chart as well. All these are not coincidences. A day trader would switch back to a small time frame when this point is reached and look for a short trade with a low initial risk. After reversing at this important point, EURUSD fell about 100 pips over the course of the day.

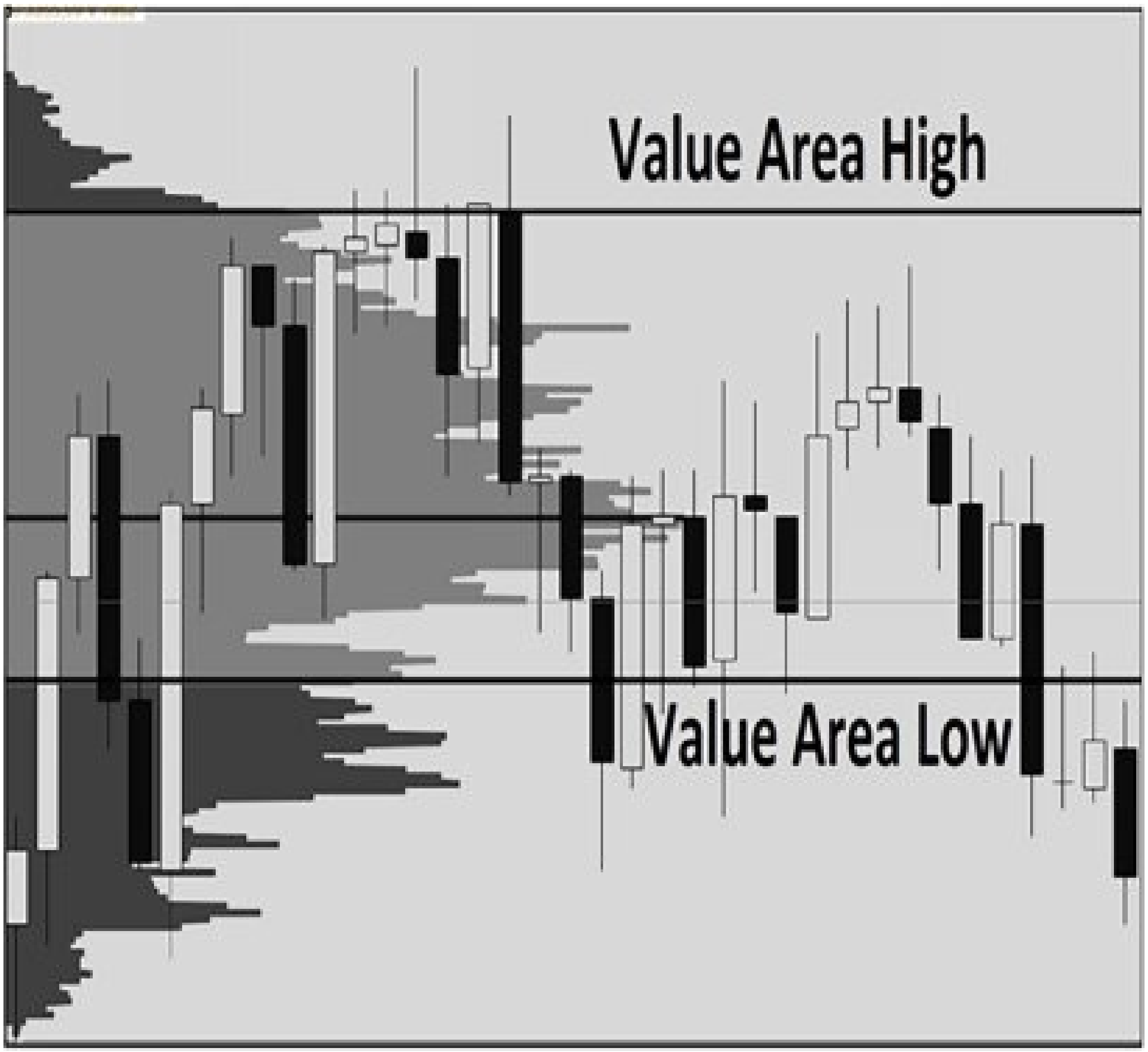
More terms

Thin Profiles are zones where the price is proceeding particularly fast. These always occur when OTF buyers or sellers are operating aggressively. Strong indentations are called **low volume nodes.** These are often located on the edge of high volume areas and can be starting points for reversals. In the case of high volume areas, these are often located on the edge of high volume areas and can be starting points for reversals. In the market profile chapter, these zones were named **"single prints"** . In volume profiles, the term **imbalance** has become commonplace.

The memory function of prices to pass through these zones fast can be a good support for a day trader when planning a trade. If prices have left thin profiles in an elapsed period of time, they will progress more quickly if this zone is reached again. Accordingly, it is not advisable to have the high volume areas of the previous day in front of you. Trades have the best chance of winning when the path of least resistance lies ahead.

6. Value Area

Figure 6 : Value Area



The Value Area is the centerpiece of the volume profile. It characterizes the area in which 70% of the total trading activities of a selected period have taken place. Value Area High and Value Area Low can be represented by lines or also by a color differentiation within the volume profile as in this graph. At the beginning of the new trading day the Value Area of the previous day can help to answer some basic questions.

These are:

- Did the market open above/below yesterday's Value Area today?

- Did it stay there after the opening phase or did it fall back into the value area of the previous day?

The following example shows a situation where the value area of the previous day was left at the beginning of the new trading day.

Figure 7: E-Mini S&P July 2020 (15 min. chart, CET)

In the opening phase of the Main US Session, E-Mini left the range of the previous trading day upwards. This was followed by a retest of the previous day's Value Area High (arrow). At this point it was decided whether the market was ready to accept higher prices. With the appearance of the candle marked with the arrow, a daytrader would have considered a long position after further examination

A trendless day is characterised by the fact that the price does not manage to leave the value area of the previous day during the important opening phase. In this case, a daytrader can trade on a smaller intraday time frame after further analytical steps, even without considering the superior market direction. Value Area High and Low as well as further extreme points of the previous day can serve as reference points. A first target point would be to regain the POC of the previous day.

Older theories say that in such a situation there is an 80% probability that the value area high or low of the other side will be reached again. However, like all theories, this should be treated with caution and weighed up on a case-by-case basis.

7. Forms and Shapes of Profiles

In terms of volume and market profile, a distinction is made between various shapes, which visually correspond approximately to the letters p, b and D. So much for the theory. In practice, however, mixed profiles are often found and it is more appropriate to try to evaluate the respective context.

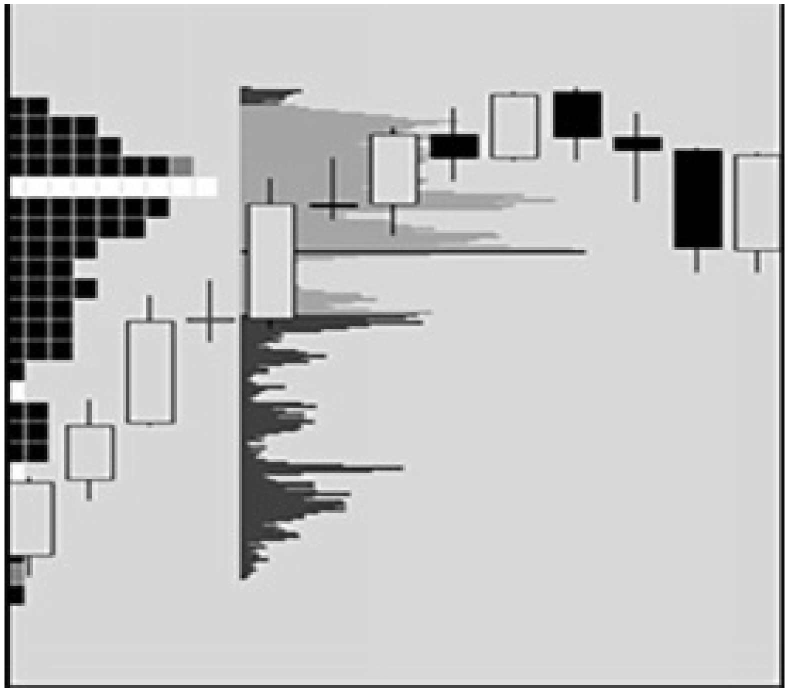
P profiles are theoretically associated with a bullish scenario. This view is understandable, because if prices are rejected and a strong increase in the form of fast imbalance zones has occurred, the momentum will weaken. There will be a sideways movement as a volume cluster before a new trend phase can begin.

However, if the market has already gone through a long upward phase, P profiles can signal a reversal. As a result, P profiles have their greatest significance when they appear at the beginning of a trend.

P profiles can also be formed when the market is in an established downtrend and then a quick reversal takes place.

But also short interruptions within a strong downward trend can produce P Profiles on a smaller time scale. A special setup of P Profiles can be found in chapter 17. The following diagram shows a market and volume profile in P form

Figure 8: P Profile



On the left side you can see the market profile, next to it the volume profile of the same time period. Profiles are similar, but have different points of control. The dynamics of the price action is shown in the market profile by a buying tail. The white spots in the lower area mark single print zones. This is where rapid price advances occurred. You can also see deviating points of control.

It should not be difficult to imagine the opposite case when a **b profile** appears. A b profile is therefore bearish especially at the beginning of a downtrend, bullish at the beginning of a bottom formation. On a smaller time scale it can signal a short interruption of a strong uptrend (long liquidation).

From a chart technical point of view, a **D profile** is a sideways day, in many cases also an "inside day", whose entire price range lies within the fluctuation range of the previous day. The market is "in balance". Buyer and seller have found a balance. Neither side feels the need to move the market aggressively. This is particularly evident in the now more bell-shaped formation of the volume or market profile. The market profile shown in figure 1 represents a D structure.

Double Distribution Profiles occur relatively frequently. Day traders who specialize in these profiles have good chances of success. This is a two-part profile. Initially the price spent some time in one zone. Then there is a sudden rejection in form of an imbalance before a new strongly traded price zone is formed. If such an event has taken place, then a daytrader should check the development of the next day, but also the further intraday course. Once such an event has taken place, a daytrader should take a close look at the development of the next day or the day after next, sometimes even the final phase of the same day.

Figure 9: Market Profile Double Distribution Day

There are many mixed forms of profiles that can take on a meaning of their own depending on the situation. In chapter 4 on the market profile it was said that trend days have a narrow and high profile. There is no question that trend days are the most profitable opportunities. In practice, however, a trend rarely extends evenly throughout the day. It is not uncommon for strong trends to begin when significant liquidity zones are triggered in the first trading period and the price then immediately moves in the opposite direction. This will also be illustrated by many detailed examples in this book.

8. How to display the Profiles?

Market and volume profiles can be displayed in different ways. In this chapter you will see a few useful ways how to display the profiles when day trading. There are traders who display individual daily profiles over a longer period of time and wait for certain zones to be reached again. I do not follow this view, because I do not want to litter my screen with horizontal lines from old zones. Especially today it is not advisable to rely on large market players maintaining their intentions over a longer period of time. I prefer to focus on the past 2-3 days and the current day.

8.1 Fixed profiles

Graphs 3, 4, 5 and 7 show volume profiles of the institutional trading time of the respective previous day. These can provide important reference points for the newly commencing trading day. For stock index futures such as E-Mini and Dax these are the Main Sessions. In my EURUSD projections I start plotting the Volume profile at 8.00 CET. This is when Asian banks evaluate their day. Institutional trading ends at 18.00 CET when the London Banks close. The highest volume is formed in the European afternoon, when European and US banks are equally active. The crude oil market has its highest volume during the traditional pit hours from 15.00 - 20.30 CET.

To get a basic overview you should also display market and volume profiles of a 24 h period of the last 2 - 3 days. In my presentations, however, these time periods are not simply categorized by calendar days. **They start with the opening of the previous day's Main Session (or the time with the highest volume) and end with the beginning of the Main Session of the current day.**

1 trading day 24h = peak trading time plus off-hours

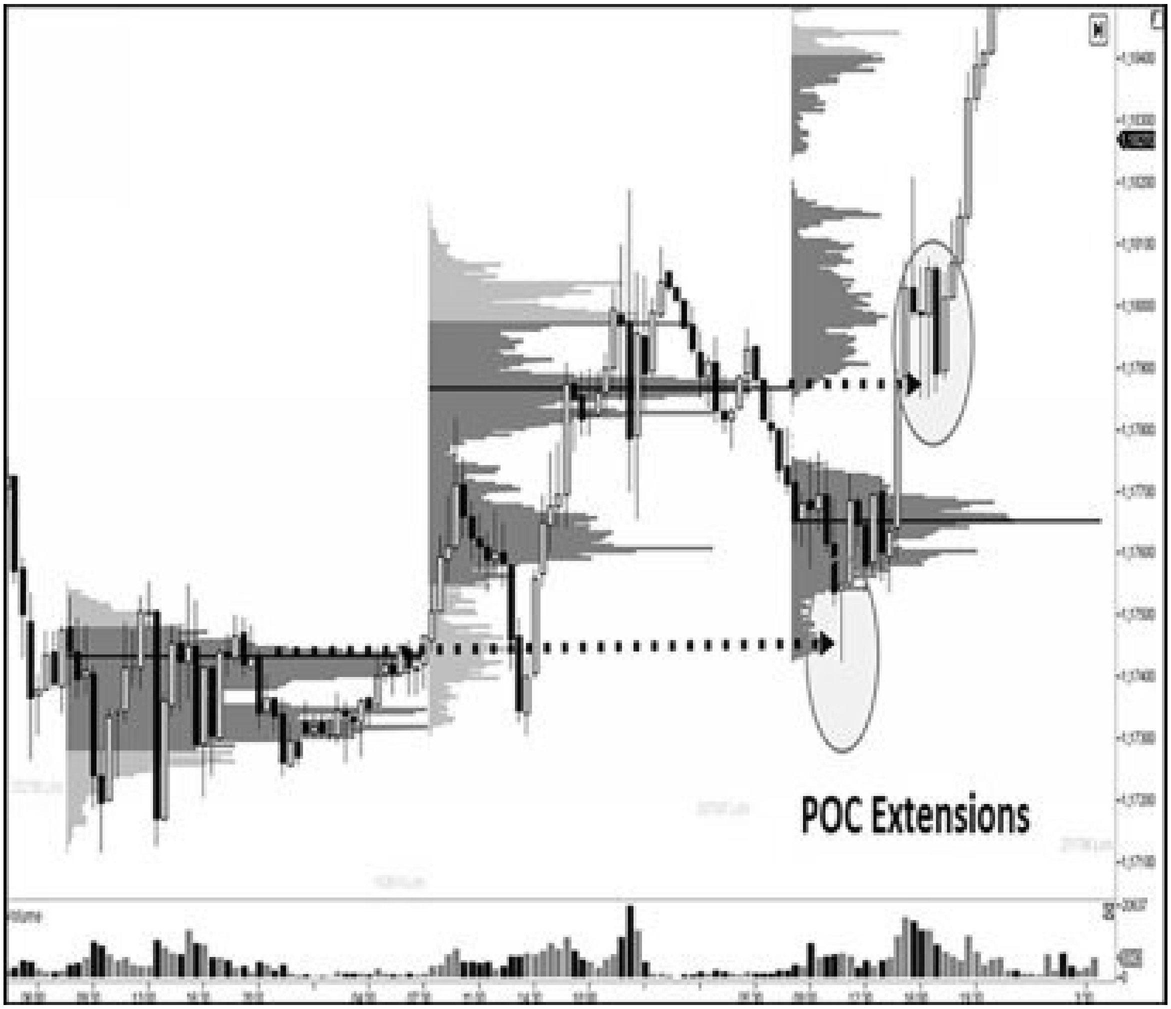
This way, each trading instrument is analyzed according to the same criteria and no profiles of completed trading periods are mixed up with the profile of a new Main Session. The following chart shows a 24 hour profile for the E-Mini S&P.

Figure 10: E-Mini S&P, September 2020, (30 min. chart CET)

The 24 h profiles of day 2 and 3 have been hidden on this chart for better understanding. On the left you can see the 24h market profile, next to it the volume profile. It starts at the beginning of the US Main session and ends just before the beginning of the next Main session. The market profile shows a buying tail (arrow), which indicates a bullish overall situation. The point of control of both 24h profiles is identical. At the beginning of main session of day 4 the E-Mini bounces off this reference zone shortly after the US opening. A strong intraday trend followed.

Volume profiles of this type are called fixed volume profiles. I use them to get a basic overview of the last 3 days and possibly get some good reference points for the current session. All further analysis is done with flexible profiles. The following chart shows a 24 hour volume profile of EURUSD.

Figure 11: EURUSD 24h profiles July 2020 (30 min. chart, CET)



It is not difficult to see that on day 3, significant price movements began after important reference points of day 1 and 2 were reached. A day trader would now try again to find low risk entry points in these zones on a smaller time frame. The right profile would of course not have been available at that time.

Another signal for a possible trade appeared on day 2 (bottom centre chart). There the price bounced off a strong high volume area from day 1. Day 1 was a double distribution day

Note:

Volume Profiles of main trading hours in some cases may differ from 24 hour profiles. At the beginning of a new trading day, it is advisable to always first look at the volume profiles of the last peak trading hours, as this is where institutional market participants are particularly active. Clusters that have formed in the peak trading hours are the most meaningful.

The Weekly Profile

To take a further look into the past you can use a fixed feature which is available in my software (Atas). There you can choose to display the profiles of the past week or the past month. I have plotted an example from July 2020, which offered a very great opportunity, which was not difficult to spot. Consequently, it was clear that you had a strong momentum behind you and that you were not just dealing with a grasshopper. This would have given a day trader a completely different motivation to stick with this trade till the end of the trading day

Figure 12: E-Mini S&P July 2020 (15 min. chart, GMT)

It can be very profitable to wait for such situations and then analyze the market in a systematic order in a few minutes. In the section 19 with complete examples you will find another trade of this kind.

Tip: Always analyze by expired trading periods or trading days, never by calendar days

8.2 Flexible profiles

Flexible volume profiles have proven to be irreplaceable for the way I work. Ultimately, this is about combining the large image with the small one. For the current day I only use flexible volume profiles with the beginning of the main trading hours.

The big advantage of flexible volume profiles is that you can use them not only as an aid for current trading decisions. You can also use them to take a closer look at individual situations of the past days in isolation. Some basic knowledge of charts is required here, but I do not mean this in the sense of individual candlestick patterns or other chart technical formations. These change anyway in every time frame.

The following chart shows a situation where a 5 day flex profile of EURUSD provided strong support. The strongest reference zones of a continuous trading phase always occur when traditional support and resistance zones complement each other with volume profiles.

Figure 13: EURUSD May 2020 (60 min. chart, CET)

On this chart a downswing was marked with a flexible VP over its entire length. This downswing extended for a period of five days. Arrow 1 shows the start of trading in Tokyo about 2 days after the downward movement was completed. Asian markets in some cases respond well to important reference points in the volume profile. Arrow 2 shows an upswing immediately after the release of some kind of economic news. However, this was associated with increased risk. Arrow 3, on the other hand, indicated an optimal day trade, as London banks open at 10.00 CET. A more than 100 pip intraday followed. A more than 100 pip trade in intraday followed. It is sometimes worth waiting. Even as a day trader you do not have to trade every da

Flexible Volume Profiles in Sideways Markets

Sideways markets are treated like a stepchild in the trading literature. The term trend is a myth for many traders, as it associates home runs, success and periods that require little activity. Many traders have the illusion that you can only make money with trends.

However, there are realistic estimates that say that sideways phases take up about 70% of the total daily movement. This is particularly evident in the case of individual shares, where large gaps "all over the place" can present themselves like a minefield on a daily chart. Not much happens during current trading.

In the volume profile analysis it is important to focus on sideways zones. One of the problems of trend traders, according to my observations, is that they do not realize in time that they are in a consolidation zone. They hope for too long that a trend will continue. This inevitably develops from an increased trend based thinking.

The next chart is intended to demonstrate once again how useful it can be to combine flexible profiles with some important chart technical knowledge. First and foremost, it is important to localize trading ranges correctly from the beginning.

To show the perhaps most important function of the market profile, I have illustrated it next to the volume profile as a block. Both profiles usually do not show any major external deviations. It is more the different points of control that can sometimes provide essential information.

These are based on the different view of both profiles. The volume profile does not necessarily have to be identical with classic support and resistance lines, because it only shows where the largest sales have taken place. Significant price movements can also originate from zones that offer little technical support or resistance. However, the market profile shows the time a trading instrument remains at different price levels.

Figure 14: E-Mini Nasdaq 100 Future July 2020 (30 min. chart, CET)

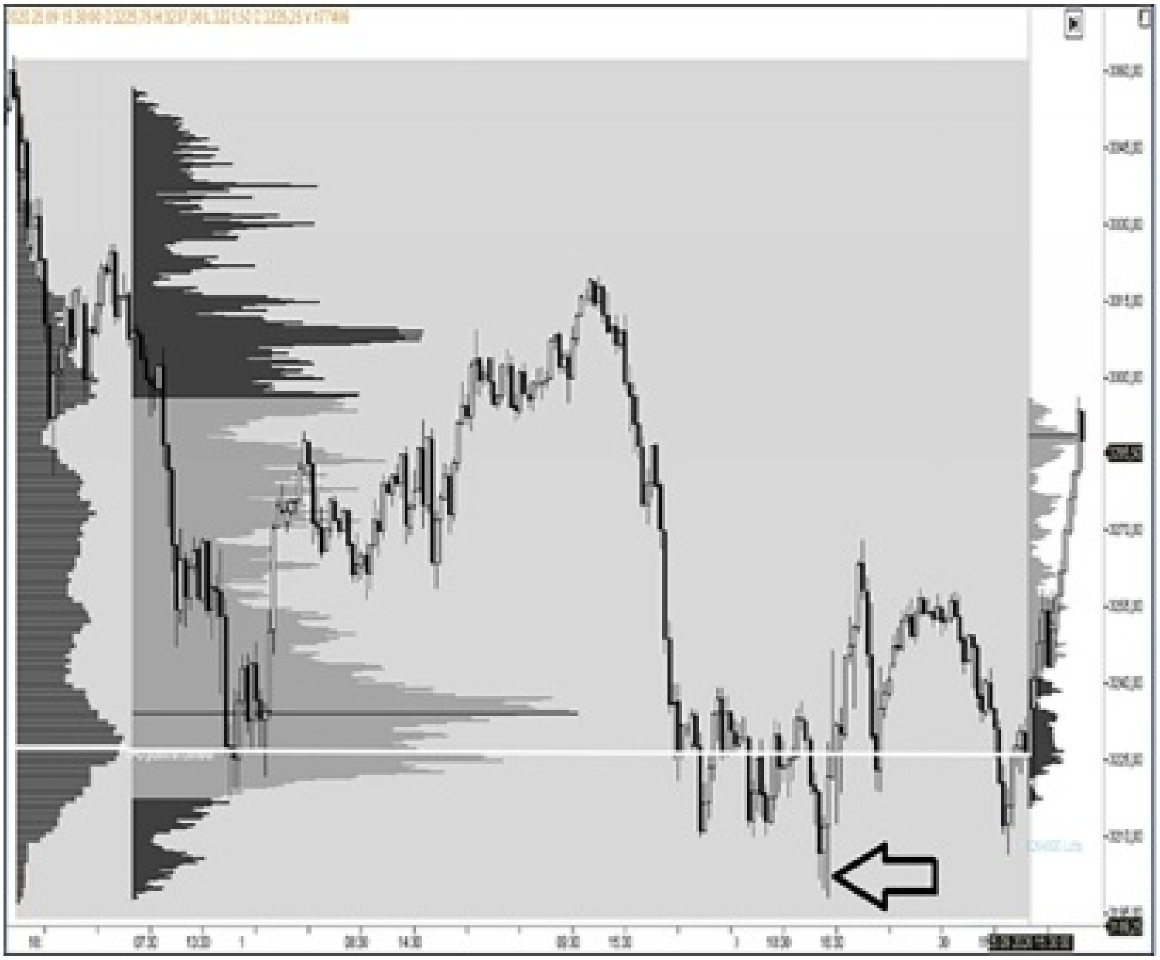
In July 2020 a trading range developed here, which extended over 2 days. The Trading Range was drawn after 2 fixed points became visible at the top and bottom (black rectangle) On the third day a breakout occurred during the European trading period.

This breakout brought many European trend traders on board, who hoped for an immediate continuation of the overall trend and took long positions at the breakout. However, it was a false breakout, as the price slumped sharply after the opening of US trading. A volume trader now would be looking for support, as it was likely that a ricochet could be imminent.

If you now look at the market and volume profile for the entire period (full 24-hour profiles until the start of the new trading day), you will see similar profiles that provided good support. However, the POC of the market profile was considerably lower. I have extended this here. There, all stops all stops of those traders were triggered who had taken long positions the day before due to classic support lines. Only after this zone was cleared by market makers the upward trend resumed. A day trader who had displayed both profiles here thus had precise information that would have made his trading decision regarding a long position much easier.

Again, the following chart shows a situation where the market and volume profiles complemented each other perfectly. Here you can see a downward period that extended over a period of 5 trading days. However, the course is very unsteady. You could also have mapped a Trading Range. The entire period was captured with a flexible profile. This ends immediately before the opening of the Main Session of day 6.

Figure 15: E-Mini S&P September 2020 (30 min. chart, CET)



During day 5 a bottom finally began to develop. How could you see this? The S&P first broke out with a bottom squeeze upwards (Arrow) Squeeze Patterns are explained chapter 22.4. On this day, both the volume profile and the market profile formed a strong base. However, the point of control of the market profile is located slightly below the point of control of the volume profile.

A pullback occurred in Asian and European trading hours. Now we are waiting for the opening of the US Main Session. After about 45 minutes of trading, the price fell below the point of control of the market profile. Afterwards a quick reversal took place. A perfect complete trend day started. The volume profile of this day is shown on the far right. It is narrow and high.

A day trader who would have studied the overall situation long before the US opening could calmly develop a trading plan and implement it stress-free after opening. The E-Mini rose by 60 points until the end of the trading session. There was no reason to close out his long position too early. The small trend profile on the right shows that continuous advances (range extensions) in the same direction took place throughout the entire trading day.

I leave it to the reader to think about whether one tries to scalp a highly volatile overall market day by day hoping to make a small profit or to concentrate on really promising opportunities without stress. The latter would not exactly increase the turnover of a broker.

Furthermore, something became clear here which I mentioned in the chapter 7 about the shapes of profiles. b - Profiles are not always bearish as in theory, but bullish when they appear at the end of a downward movement.

Reversals are the best opportunities for a day trader. Every trend begins with micro inflection points.

The small Time Frame

As you could see in the last example, profile and order flow trading should not always be done according to the same scheme. It is always a puzzle that you have to put together yourself. Chart technical considerations can be of advantage.

But there are also market situations in which one does not get enough indications from the big picture. For example, when a market is in a strong upward or downward trend and you cannot find reference points from previous periods. Or after a fast but very dominant intraday price change has taken place. Here, the flexible volume profile can also be used in small time frames to find important reference points that were generated the same day in the main trading hours. The procedure remains the same.

The next chart shows a situation in May 2020, where a large sell-off took place in the first trading phase. This was mapped entirely with a flexible volume profile and is shown on the following chart on the left-hand side.

Figure 16: Nasdaq Future May 2020 (1 min. chart, CET)

The final phase of the Main Session saw a re-test of the strongest volume profile zones that had formed during the sell off in the first half of trading. These re-tests opened up 2 opportunities for short entries. Again, a simple 1 minute chart offered a good risk / return ratio.

With Intraday Flex VP's, bounce backs do not always have to bounce exactly against reference zones. Frequently, it is also the outer edges of these zones.

POC Shifts

In order to demonstrate the great advantage of Flex VP's in concrete terms with further examples, I will now show a current example in principle "before - after". The following method I have called POC Shift. This combination of words is not too complicated and gets to the heart of the matter.

First of all, a few basic remarks, which refer to both the market profile and the volume profile. The POC reflects the fairest price. A large market participant (OTF) will always try to buy at a fair price or below. This leads to an increase in the POC. If he is still willing to make further purchases after this, he must have a lot of conviction. He takes the risk to buy "above value". If it is an OTF seller, then in the same case you would say: sell short in the hole. A repeated buy/sell is therefore an important event, because it underpins the intention of an OTF.

Finally, the price that is considered fair also changes again. However, all this must be assessed in context. For example, if the market is in a general sideways movement on a daily basis and somewhere within the previous day's price range, then a POC shift should be considered less important. Even in the case of short covering and long liquidation, there is no great market-determining conviction on the part of the OTFs, as this is more of a temporary action.

However, if a POC shift takes place near important reference areas, it should be given more attention. Another marginal factor is whether the market has opened "out of balance" or not. An out of balance opening is an opening of the main session above or below the value area high or low of the previous day and is a particular challenge for a day trader. In this case he has to deal with a new market situation. This means higher chances with increased risk at the same time.

This brings us to the most important factor of every price action. This will be addressed even more often in this book: Follow Through. If a POC shift takes place, then day trader and OTF's have the same interests for a day segment

- OTF's plan to move the market based on their fundamental knowledge

- A day trader can only make a profit following the smart money as quickly as possible

This is where the tires touch the ground. This is where another important factor comes into play: time (timing). The purpose of VP and order flow analysis is not guessing nor following any trends, assumptions or "gut feelings", but to enter the market as soon as possible after OTF's have done so.

Figure 17: Fdax June 2020 (15 min. chart, CET)

On this graph, you can see a clear downward movement of the Fdax on the left side. Big players had built up short positions during the institutional trading hours of the previous day. Hence, I extended the POC of this zone into the next day. This is done automatically with my software. The next day, the price bounced off exactly there and thus gave a short signal on the 15 min chart level. Immediately afterwards, the Fdax fell, but then made a pullback to the upside. This aroused the suspicion that a trading range could now form, because the targeted market direction of the big picture was short.

If one had missed this first rebound or had made a profit, one could start to draw a flexible volume profile in order to follow the situation more closely. There is not always a second rebound at the same level.

In the last chapter it was mentioned that basic knowledge of trading ranges is an advantage. By this I also mean developing a feeling for anticipating trading ranges. One way to do this is to draw a boundary as soon as you see three parts of an M or W. A little trick is to look out for overlong candles. These often announce a trading range. In this case this was the long candle on the left side of the flexible profile.

Now you just wait and see if the right leg of an M is formed. In order to better understand the situation that now follows, one can simply think away from the following development on the right outside the window. This Flex VP will now be further adapted to the current market situation in every further development. Normally you simply set another empty area for the flexible volume profile or move it back and forth for a second every now and then to see changes. What happened shortly afterwards?

Figure 18: FDAX June 2020 (15 min. chart, CET)

45 minutes later (3 candles of 15 minutes each) and 15 minutes after the US opening, the POC suddenly moved down by about 70 points, signaling that all trading activity had shifted downwards. This could only happen because big players had become active and took further short positions. Before that, however, they had faked a final rise to the upside in order to take the stops from traders who had been right with their assessment (short) but had placed their stops above the peak of the bearish zigzag in the middle of the window. They were stopped now after having been in profit for a short period of time.

Now that the POC shift down had taken place, you could look for an entry in a small time frame to reduce your risk significantly. This would have included order flow signals as further confirmation. Perhaps a final observation on this situation can be made here. This replicates what was said at the beginning about low volume areas.

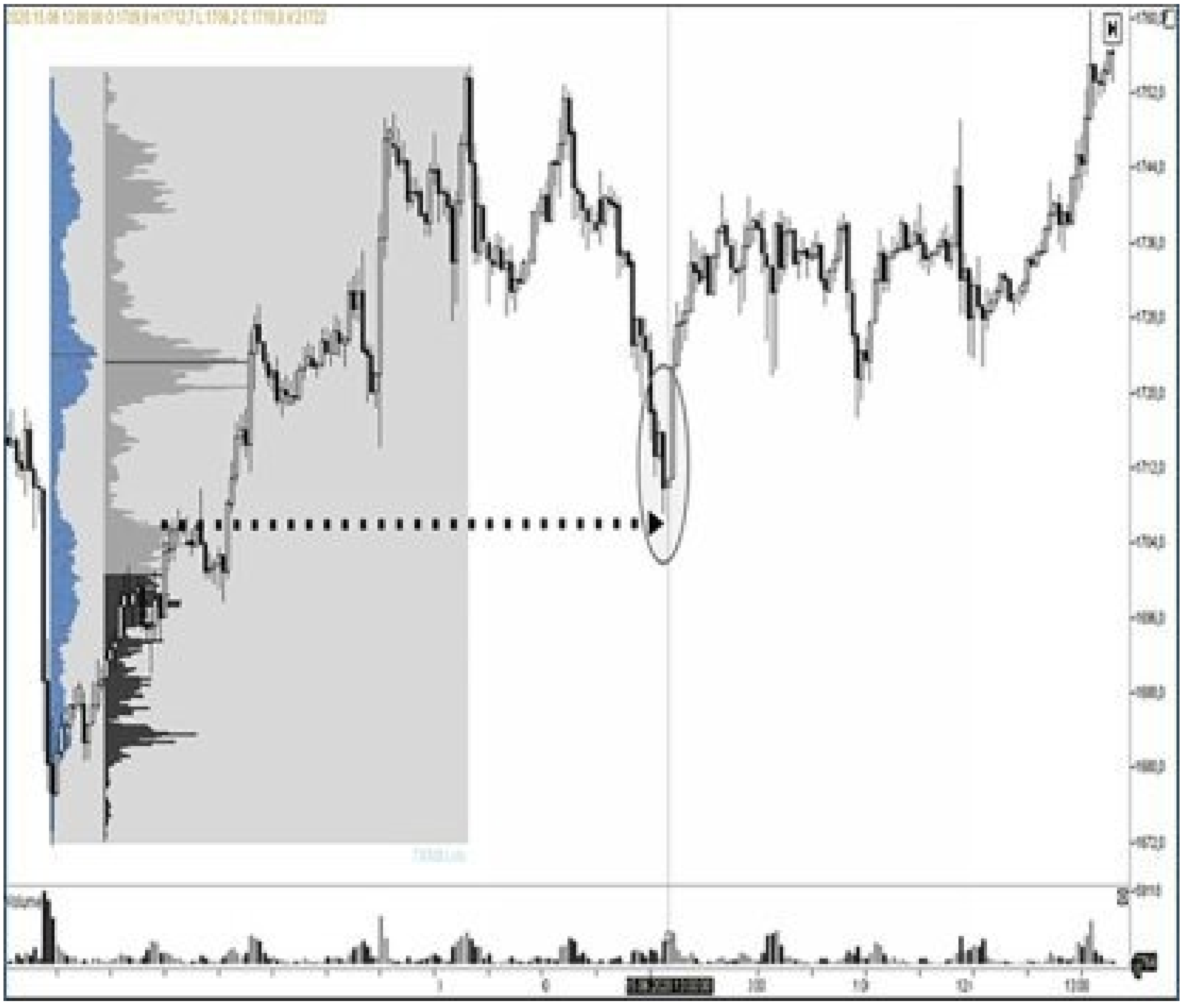
After the short entry signal was generated the flexible volume profile of the current day and the last day indicated low volume areas in the planned trading direction. There were no resistance zones to the south. This should be noted as it provides facilitation for the important follow through.

The small picture of the flexible volume profile was integrated into the large picture of the previous day (fixed volume profile). The Value Area shifted downwards in the following movement and confirmed that the market was ready to accept low prices. When a trend begins, the value area should follow the POC, not the POC of the value area as in sideways phases. Different laws apply there.

The Flexible Volume Profile as a Trend Signal

Flexible volume profiles can also be used to find promising trades in trend markets. Gold has been in a bull market for over a year. Every trend takes a break. The following example shows a situation where the profile analysis provided important clues for an imminent new trend segment. The following chart shows that the price bounces off the upper edge of a strong volume zone

Figure 19: Gold, June 2020 (60 min. chart, GMT - 1)



On the far left you can see the market profile of the overall upward trend. It is narrow and high. This is typical for trends. Next to it I have shown the volume profile. In this case, after an accumulation phase in the middle part of the volume profile, aggressive additional buying was carried out. Otherwise there would not have been a large imbalance with a very thin volume profile. The extended line of this high volume area represented a strong resistance, which pointed to a type 2 bounce back (chapter 9).

Once you have located such points, further steps follow to find an exact entry point in a small time frame. Here again I only want to show how the flexible volume profile can be used.

9. Bounce Backs

With regard to the reaction of the price in important zones of volume and market profile, a few basic situations should be distinguished.

Type 1

First of all, a simple principle comes into play, which is known from the classical chart technique: support and resistance. However, these zones are not always clearly defined.

Figure 20: EURUSD April 2020 (30 min. chart, CET)

On this chart you can see structures of support or resistance lines. Around the volumetric profile, they could be seen as a kind of buffer zone, where the momentum weakens once reached. Here the market made an upward movement. , which is marked by the grey profile on the left side.

Afterwards, downturns followed, which were absorbed by the strongest volume zones of the entire upward movement. Near the extended points of the high volume areas there are further smaller support zones which are less precise. The arrows indicate possible entry points in liquid trading hours.

Type 2

Figure 21: Nasdaq June 2020 (1 min. chart, CET)

Here we see a similar situation. In the first phase of the US Main Session there was a big sell off. This can be seen on the far left. After that, however, strong buyers (Group A) took action and now looked at the price "below value", forcing an intraday trend reversal. The subsequent upward movement was again captured here with a volume profile (grey field). In the middle area you can see a high volume area. During the upward movement, strong buying had taken place there, which left a thin profile zone. This was called an imbalance zone. Here I have filled it with a circle.

Afterwards the upward movement started to slow down. Now another group (B) of large market participants felt that the price was too high (above value) and began to sell. Finally the price came back near the lower circle. The author of market profile classic "Mind over Markets" compares this situation with a balloon inflated. When it is squeezed, it bounces back quickly (2).

Group B has now made a partial profit by bringing the price back a good distance. However, they do not want to risk a fight with group A and liquidate their position just before reaching the starting point of the Imbalance Zone. They realize that the resistance will be too strong.

This reaction seems to be the most likely and has been marked here with a grey bar. For a day trader it would have made sense to look for a long position in this zone, because he knew that strong buying had started there and that group A would not simply give up. Sometimes prices even reverse in the area of the thinnest profile zone. This depends on the strength of the trend and can be narrowed down using methods that are shown later in the book

Type 3

A fight ensues. Group A gives up. The balloon bursts. This can happen, for example, if a starting situation has changed rapidly, an unexpected message hits the market, etc. Now group B will try to defend the newly won territory. The same game starts in reverse. However, it is relatively uncertain whether the classic rules of a pullback to the "breakout zone" will always apply. There are also situations in which former zones are not reached again. Markets do not function according to the modular principle

10. General Set ups

This chapter briefly explains the setups that occur with each type of price movement. In principle, they remain the same, but can form different variants. Afterwards the reader has a sound basis to better understand and use the Order Flow Tools. Using order flow tools without reference points is not recommended.

10.1 Accumulation and Follow-up

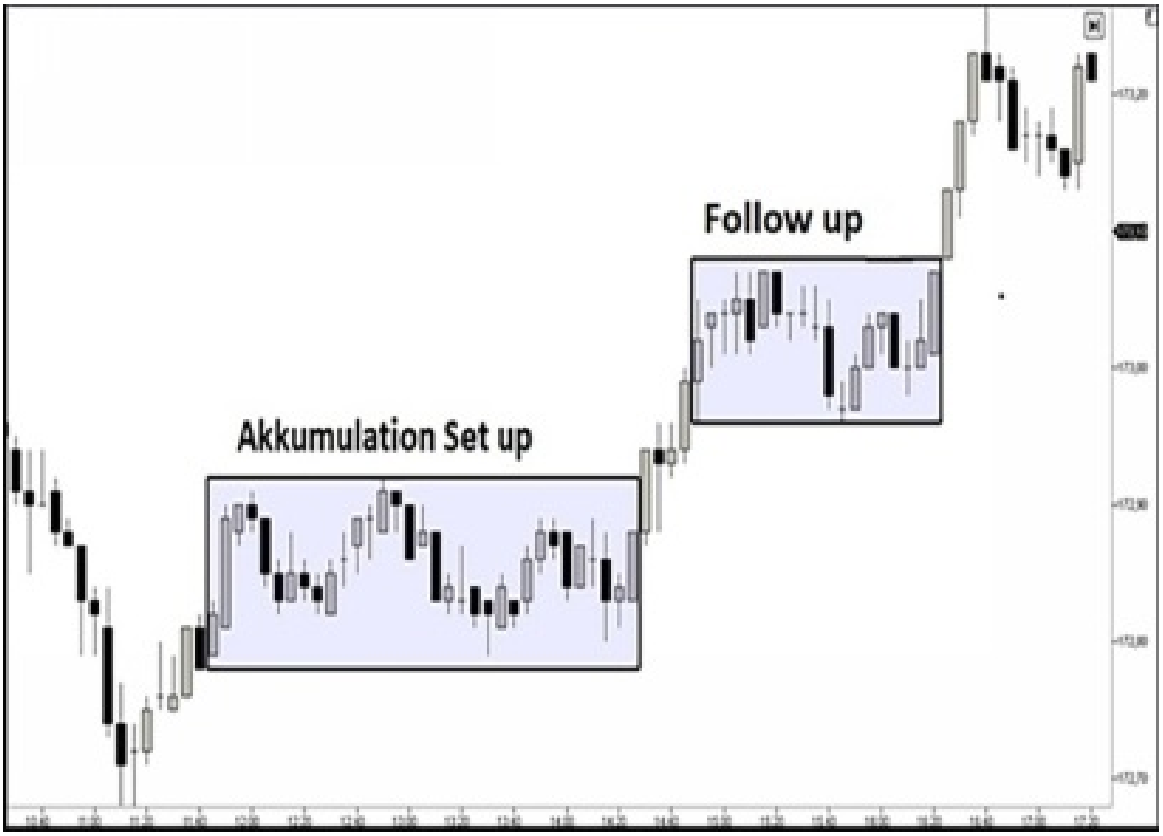
It has been said so far that significant movements always occur when OTF's act aggressively. Previously they "accumulate" positions either on the short or long side. In normal stock trading, a sideways phase with a subsequent downward movement would be called "distribution". Accumulation occurs in sideways phases rotating around a POC similar to trading ranges. Here the market is "in balance".

You should not think that the bounce backs mentioned in chapter 9 only consist of 2-3 candles. They were shown in the previous charts to understand the big picture in larger time frames. Accumulation patterns also form in small time frames. This is even very helpful, because it gives a day trader enough time to develop his trading plan. This is shown in detail in later chapters.

An accumulation setup occurs at the beginning of a significant movement, but often it also appears in the middle of a trend. This can be observed very often with the E-Mini S&P. An accumulation setup typically shows at least 5 more or less parallel (single) swings. This corresponds to approx. 3 rotations near the POC and is a good rule of thumb to get an indication that an accumulation could possibly take place here.

The following chart shows the two most important setups. If an accumulation has taken place, then a follow up setup is likely.

Figure 22: Bund May 2020 (5 min. chart, CET)



This accumulation was a beginning SHS pattern that was not completed. As soon as you see a rotation with more than 5 swings you can display a flexible volume profile and wait for order flow signals. This is especially useful if the higher-level analysis at the beginning of the trading period has identified important reference zones.

The **Follow up set-up** is much shorter. Once OTF traders have started to move the market aggressively, they often only take a short break. This follow up setup is a bearish Zigzag pattern, which was not completed downwards, just like the SHS pattern before during the accumulation setup.

In this case, no pullbacks took place, which went back to the patterns. The time of the setup also plays a role. Both setups took place in the afternoon. Institutional traders therefore did not have much time left, as institutional Eurex trading closes at 17.30 with a Eurex closing auction.

It was both setups that aroused the suspicion that an immediate aggression of smart money would take place, as they were well- known patterns that caused many traders without context thinking to take short positions. Big players therefore did not need to stage a false outbreak, but only "serve" the positions of retail traders who went short.

The Bund Future is a good instrument for beginners who want to gain experience. Although it gives fewer signals, it is far more predictable than the capricious and illiquid Dax.

10.2 Reversals

In the case of reversals it is important to distinguish between weak and strong reversals. Typical for aggressive reversals is first and foremost a fast sequence. It should therefore not consist of too many candles. The actual candle pattern does not matter, because this looks different in every time frame.

Strong Highs and Lows

An aggressive reversal offers a day trader the best chances if it takes place at important reference points. On the following chart you can see a strong high and a strong low in the E-Mini. In my apprenticeship we always practiced this on the E-mini. It was called "Take out early morning stops" and I have simply kept this name. Today it is easier to handle, because you can also use additional tools that you didn't know at that time

Figure 23: E-Mini S&P 500, August 2020 (3 min. chart, CET)

20 minutes after the opening of the US Main Session there was once again an opening phase with stop running. VP and Order flow Tools can be used to look for additional confirmations that make a fake breakout more likely. For a day trader who specializes in this field, this can be a lucrative area, as there are far more fake breakouts today than in the past. Not only during the opening phase. But to learn this you should not start with the Dax.

Early morning stops take outs are increasingly seen on EURUSD, as many Asian amateur traders trade this pair of forex during the European night time.

Weak Highs

Figure 24: EURUSD March 2020 (15 min. chart, CET)

Weak highs are characterized by a mixture of inside and outside candles, narrow bars (candles) and dojis. The arrangement or order is irrelevant. These patterns indicate a half-hearted reversal. In my experience, from a charting point of view, they also symbolize a situation in which a market hesitates to continue on its present course. Accordingly, such constellations are increasingly found at the end of temporary highs or lows.

After the weak high had formed on this chart, there was a fake breakout of a well-developed SHS pattern further to the right. OTF traders took over enough contracts from the opposite side to produce a strong up move. Once they have planned a direction, they want to have as few companions around them as possible.

Another form of a weak high or low is called an **unfinished auction** and looks similar or identical to the weak high shown here. In this situation no clear high or low is formed because two extreme points are at the same price level. This does not always have to be exactly the same to a tick. If no clear buyer or seller can be determined at a price auction, the probability increases that this stalemate situation will be solved by crossing the highs or lows again. Weak highs and lows have been observed more frequently in recent years, as the markets have been characterized by very low volatility. But they do occur and I have integrated them into two examples in this book. They can provide important information ahead of a trading decision. An example of this is given later.

11. Hardware, Software and Data Feed

Hardware

The trading strategies in this book do not require an armada of screens, order books and charts. Great importance is put on a clear presentation, which allows a simple and quick overview. A day trader rarely observes more than two markets simultaneously, depending on the market situation. For this reason a laptop should be sufficient. A large screen or a second screen is an advantage if you use other useful pre-filters such as chart overlays.

Software

Unfortunately, it is not possible to follow the tracks of large market participants with a free-of-charge broker software. For a professional charting software with profiles and order flow you have to calculate between 50 and 80 E. per month depending on the agreed usage time. This is kept within limits when you consider that about 15 years ago a day trader had to spend ten times or more for a professional software, data feed and fast internet connections.

After trying out some order flow software in the last few years I finally stayed with Atas. The name means "Advanced Times and Sales". Basically it has to be said that there is no perfect chart software for everything. It's hard enough to find one that covers most of the key aspects of my preferred way of working

The reasons that speak for Atas are

- Professional chart software with integrated MP, VP and Order Flow features

- Relatively good user-friendliness

- Intelligent shortcuts

- Good Skype support in different languages

- Favorable price - performance ratio in comparison

Further information can be found at www.atas.net

Other order flow software includes Ninja Trader, Volfix, Sierrachart, Multicharts, Jigsaw daytradr. Ninja Trader offers all kinds of technical indicators. However, after I had pretty much the worst Indicator / Return Ratio in the world in my early years, I basically do without 98% of all indicators. The Order Flow Suite of Ninja is only available in the Premium Version. This is only worth the price if you work with standard indicators of technical analysis.

Volfix does not correspond to my analysis methods. Multicharts advanced is a good software, but a bit cumbersome. Jigsaw Daytradr is specialized in order book scalping and not an all in one software. Traders use it as a plugin for other charting software. Sierrachart allows you to trade the European and US markets as well as the Asian mini futures. However, it is not easy to deal with the extensive manual in technical English.

It is said that Volume Profile is available for MT4 Chart Software. I was never interested in this because I only use original data from the Futures exchanges and a real day trader cannot do without order flow tools. They are essential timing instruments. If you want to be successful in day trading, you should at least be technically on the same level as professional traders.

Data Feed

Now to the data feed. For the VP and Order Flow analysis you need either Level 2 or Level 1 Top of the Book Data - Feed from the original futures exchanges in the USA, Europe or Asia. Forex trading is a decentralized market. Forex brokers do offer volume data. However, day traders need accurate data from the original futures exchanges. What is the difference to the normal data feed?

Level 2 data feeds also include the market depth (limit order) and the price at which each order was executed. Level 1 Top of the book data provides all recently executed market orders with price and time. They are sufficient for the examples shown in this book. Top of the Book Data feed is available at very competitive prices from major US brokers.

A bundle (all US futures markets) with high quality data feed (CQG, Rhythmic, Continuum) costs only about 4 US dollars per month for the US markets with my US broker, but for Europe and Asia you still need Level 2 data feed.

Level 2 data feeds are also available from some US brokers. For all important US Futures Exchanges together there is a bundle. As a beginner, you will be quickly overrun by expensive data feed providers or order individually what you can have in a bundle. Data feed for Eurex or Asian futures exchanges are also available at low prices. Below are a few monthly prices for data feeds for your orientation without guarantee

- Level 1 US Bundle All CME Markets 4 USD

(Dow, S&P 500, Nasdaq, EURUSD, Yen, Gold, Oil, US Treasuries)

- Level 2 US Bundle All CME Markets 31 USD
- Level 2 Eurex (Bund, Dax) 20 Euro
- Level 2 Osaka Futures Exchange (Mini Nikkei) 29 USD
- Level 2 Hong Kong Futures Exchange (Mini Hang Seng) 15 US

12. Order Flow Analysis

The order flow analysis is an important enhancement of the volume profile analysis. It provides more detailed information on the activities of market participants. It can be sub-divided into three main areas

- DOM (= Depth of Market)

- Footprint Chart

- Delta

12.1 Order book - DOM

The order book is also known as the DOM. It includes all factors that move the price. Limit orders represent the liquidity of a market, but cannot move a market on their own. Price movements can never occur without the appearance of market orders.

Figure 25: DOM Ladder E-Mini S&P

The limit orders of the sellers are shown here on the right in red, the limit orders of the buyers on the left in blue (contract numbers for futures, quantities for individual shares...) In the middle you can see the most recently executed trades on the Bid (buyer) and Ask (seller) side. The last traded price is shown in the outer columns.

How do price movements occur?

The price always increases when a market buy order meets the closest sell limit order(right) and the number of contracts is greater than the number of contracts offered there. In this case, this is called "lift the ask".

The price always falls when a market sell order meets the closest buy limit order (left) and the number of contracts to be sold is greater than the limit order on the buyer's side (closest). In this case, the term "hit the bid" is used.

There are Day traders who work exclusively with DOM ladders. However, this can cause problems, as this is where manipulation takes place. This is known as "spoofing". These are deceptive maneuvers that take place on the DOM ladder itself. Large limit orders are placed in the market to generate a magnetic attraction. This tempts retail traders to stand in front of the market in the hope that the market will turn up if, for example, a large buy limit order appears on the left side of the ladder and the market has not yet reached it.

Shortly before reaching this level, however, the limit order suddenly disappears. This is also where Algos come in. There are voices talking about the "golden age of the order book", when there were "only real" limit orders. By this they mean the time before 2010. I cannot judge this. But I can remember conversations with professional Frankfurt traders in 2006. Even then, they complained vehemently about fake limit orders.

As a day trader you should decide for you if you want to follow the constantly up and down flickering numbers of the DOM ladder or if you prefer to concentrate on some other meaningful things. There are voices talking about the "golden age of the order book", when there were "only real" limit orders. By this they mean the time before 2010. I cannot judge this. But I can remember conversations with professional Frankfurt traders in 2006. Even then, they complained vehemently about fake limit orders.

Atas software offers features to help decipher the limit order confusion on the DOM board. There is a system called Smart tape. This tries to break Limit into certain orders of magnitude to locate iceberg order. This is a fragmented limit order, which is placed in the market by OTF's to disguise their intentions. But even if these are localized, you still do not know when a significant price movement will occur. In addition, other soft wares have been introduced recently. These show changes in limit orders. However, this does not change the fact that limit orders can suddenly disappear. My method to locate iceberg orders and their resolution can be found in chapter 12.3.1

There are also other functions. With the Order Flow Indicator you can have colored balloons with the numbers of the executed market orders flying over the screen, project the VWAP or have possible support and resistance zones displayed automatically. However, these are often located where I would not draw them.

I only use a few functions of the order flow tools that I consider useful. These are shown and explained in the following graphics. Apart from that I state clearly that it is not the number of tools that bring success. It is impossible to concentrate on everything. Trading will not get better by this. The only important thing is that you know a few tools that have hand and foot and that you can master them.

A simple alternative is just integrating the limit order into the chart window. As a further supplement, you can, for example, activate a "Big Trade" function or optionally other features that indicate when larger contract numbers are being traded.

The following chart is from my Trade Archive. Here you can see an integrated DOM histogram and the order mask.

Figure 26: integrated DOM and order mask

On the right side you can see the order mask and the Buy and Sell Limit Orders of the DOM board separated by color in form of a histogram in my chart window. In this case they replaced the DOM board. For this trade I had additionally switched on the Big Trade function, which is explained in the next section. This flickered up at the end of the first long downward candle as a red circle. It confirmed in this case that immediately after my short entry, large sales came into the market. Now I could immediately put the trade on break-even, because I had enough downward momentum behind me.

In my opinion, the most important function of the DOM ladder is the increased speed of the order flow when large market orders are given by OTF traders who aggressively move the market. In this example my short entry was given after a rebound on the horizontal line visible above. This corresponded to the criteria shown several times in this book. Only a few minutes later, DOM showed a sharp increase of activity. The aggressiveness of the sellers can also be seen in the sub chart. There the great predominance of sell market orders is visible as a heavily falling delta. OTF traders had started to move the market aggressively via market orders.

DOM ladders may be useful for scalpers. However, there are other ways to determine whether the speed of a market is increasing if you have problems seeing it on the chart itself.

Features - Big Trades and Speed of Tape

The Atas software contains extra features that are constantly being expanded. In this section I would like to show the features I like. The Big Trade feature is a useful help. It shows simultaneously when an increased number of market orders are coming into the market.

The colors green and red represent buy and sell orders that have been executed. It does not depend very much on individual colors. Unless they start in the middle section of a swing or trade. In this case the color should already indicate the correct "direction of travel" as you may see in the last graph. There a red circle was flashing up, which coincided with my trade direction. At the end of a swing, both colors can be seen, because this is where many market participants come together for a variety of reasons.

Figure 27: EURUSD Big Trades September 2020 (5 min. chart, CET)

If these alerts occur more frequently towards the end of a swing, as shown here at the bottom middle of the chart, then you should either liquidate a position that is running in profit or look for a potentially promising trend reversal.

Speed of Tape

The Speed of Tape function can measure order flow speed on the DOM ladder. This can be a pre-warning when the market is approaching a turning point. While the Big Trade function will display circles, the Speed of Tape function will change the color of individual candles as the order flow accelerates. In the following example I have illustrated a typical situation. You can also use this function to get first hints for stop running or the imminent end of swings.

Figure 28: E-Mini S&P September 2020, (1 min. chart, CET)

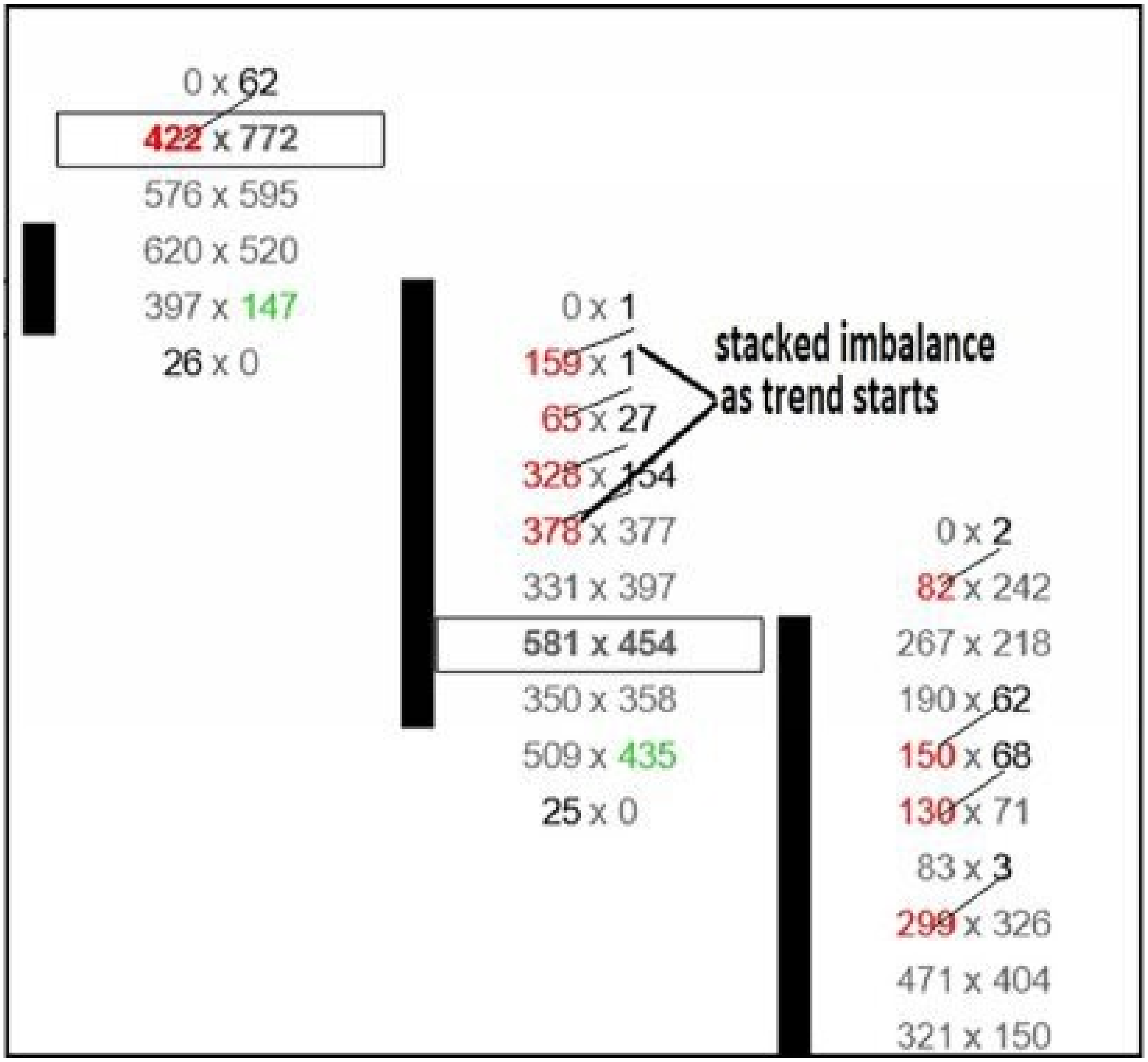
In this case there was a clear stop running setup of the E-Minis, which was easy to locate on a 1 minute chart. The white bar showed a considerable acceleration of the order flow. The volume chart in the sub chart shows a spike. Once the Speed of Tape function is switched on, there is no need to look at the DOM and you can immediately look for further order flow confirmations. These will be presented in the next chapters.

12.2 Footprints - Inside the Chart

Footprint Charts, as the name suggests, show the tracks of institutional traders (OTF traders). With this order flow tool it is possible to determine if and when these have actually entered the market and when they switch. If this is not the case, then a trade should definitely not be made from the very beginning, even if the chart looks promising.

Prices can rise temporarily even in illiquid market situations and create the impression that there is a clear movement. Consequently, looking at a single candle or indicator on the normal chart in isolation cannot tell whether OTF traders are actually at work here and how much overweight they have. Footprint charts allow you to "open" the chart and take a look inside. Here you can see all traded contracts on the Bid and Ask side in an orderly fashion.

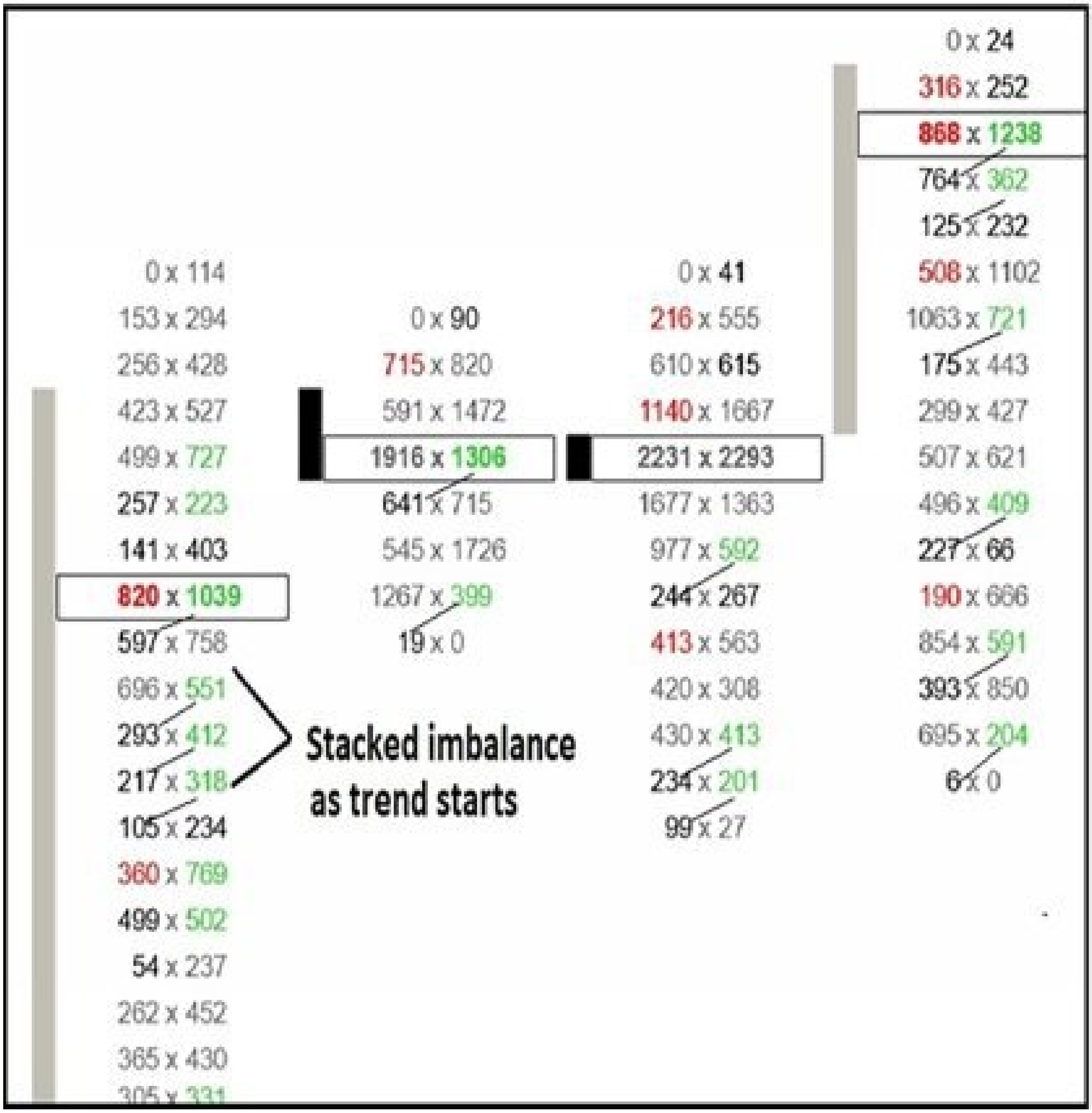
Figure 29: E-Mini S&P May 2020 (5 min. chart, CET)



This footprint chart shows a reversal of the E Mini. The Bid side has been "hit" more often. Footprint Charts can be read diagonally from top right to bottom left in a falling market. In this case you can see a red number on the next lower floor. This number is only displayed by the Order Flow software if the number of sell market orders is at least twice as high as the limit orders on the buyer's side (hit the bid).

Conversely, for aggressive buyers (lift the ask) a green number is displayed on the right side. This is then read from the bottom left to the top right until the next upper level. The amount of overweight can be adjusted with a multiplier as you like. Here you should experiment a little bit, depending on the market you choose. The number of market orders should be about twice the value or more.

Figure 30: Footprint E- Mini S&P July 2020 (5 min. chart, CET)



A "stacked imbalance" (stacked order) occurs when several imbalances are lined up on one side. This can only happen if big players act aggressively via market orders. Retail traders could never trade the contract numbers visible here. Large market orders from institutional investors can only be partially executed. This way blocks are created. They reveal the presence of institutional traders. These are then visible in the form of a green chain on the right side for OTF buyers (lift the ask) and a red chain on the left side (hit the bid)

It is not so much individual numbers that you should pay attention to, but rather the imbalance that becomes visible and the immediate succession. This can also be interrupted once and it does not always have to be three or more imbalances in a row. It makes little sense just to look at Footprints and act as soon as you see a stacked imbalance.

OTF traders often work in several phases. In case of short covering, long liquidation or stop running, the imbalances may occur in opposite directions. This is explained in complete examples in the back part.

Footprint and Delta are timing tools that in some cases make it possible to time an entry to the minute. This is very important because the volatility of today's markets makes this necessary. If you haven't done the groundwork, the Footprint can't guarantee an exact decision. Beware of opening a position on suspicion just because a chart pattern looks good and then wait for something to happen on the Footprint.

A day trader should always pay attention to Follow Through. He should be aware that the longer he has been in the market without profit, the higher the risk. We are no longer on slower markets of the last decade, where a trade "eventually" finds its way back.

After you have received a hint via a stacked imbalance, you wait for a pullback. This often leads to the exact area where OTF traders have started to trade aggressively. This pullback does not need to be in accordance with charting criteria. Each individual candle also has its POC. This can be marked by a window. You can see this in the last charts.

This way you get mini support zones, which you can use for orientation. If large numbers of candles point in the expected direction and the candles are not too long, then they are good zones for a first entry. It is an advantage if you get a trade in the initial phase of a clear movement and start from the right foot, because after that doubts will come up. This is due to a situation known by the abbreviation FOMO:

- FOMO = Fear of missing out

This creates a feeling of having missed something and then suddenly acting in haste. It leads to hesitation and is exploited by market makers. When the market starts to move upwards, this pattern is called "long up, long down". It can also be seen as a set-up and will be briefly explained here.

A day trader misses an entry due to hesitation or other reasons. The actually planned trade starts well. Now he enters too late. Immediately after the entry the trade comes back with a big impulse, as if someone had observed this. All traders who entered too late are taken out of the market.

This is all about "market psychology", which a day trader needs to know when planning an entry. **This should be done either immediately or on a pullback, but never too expensive.** Alternatively, one can immediately risk a partial position and then expand it in case of a setback.

With day trading you have never missed the chance of a lifetime. In my statistics, about 12 good setups in a 6-week period from September to mid-October 2020 appeared in crude oil alone. By this I do not mean scalp trades. Two of them even took place in one day and can be found in chapter 19. If you add other instruments, with a little patience you can find a promising opportunity almost every day. Provided you want to trade every day. So what? Figure

31: German Bund Imbalance Zones (5 min. chart)

Here you can see a stacked negative market order on the left. A large imbalance on the next lower level on the bid side (left) is also visible here without any color difference (red-green). This indicates a strong tendency to sell. The price comes back a little bit afterwards, but the POC's of the next candles do not rise above the high of the first Imbalance candle on the left. Then a second impulse occurs. The POC's fall. Large sellers become visible (circle). Now you can think of a short entry.

The higher the relative difference within an imbalance, the better

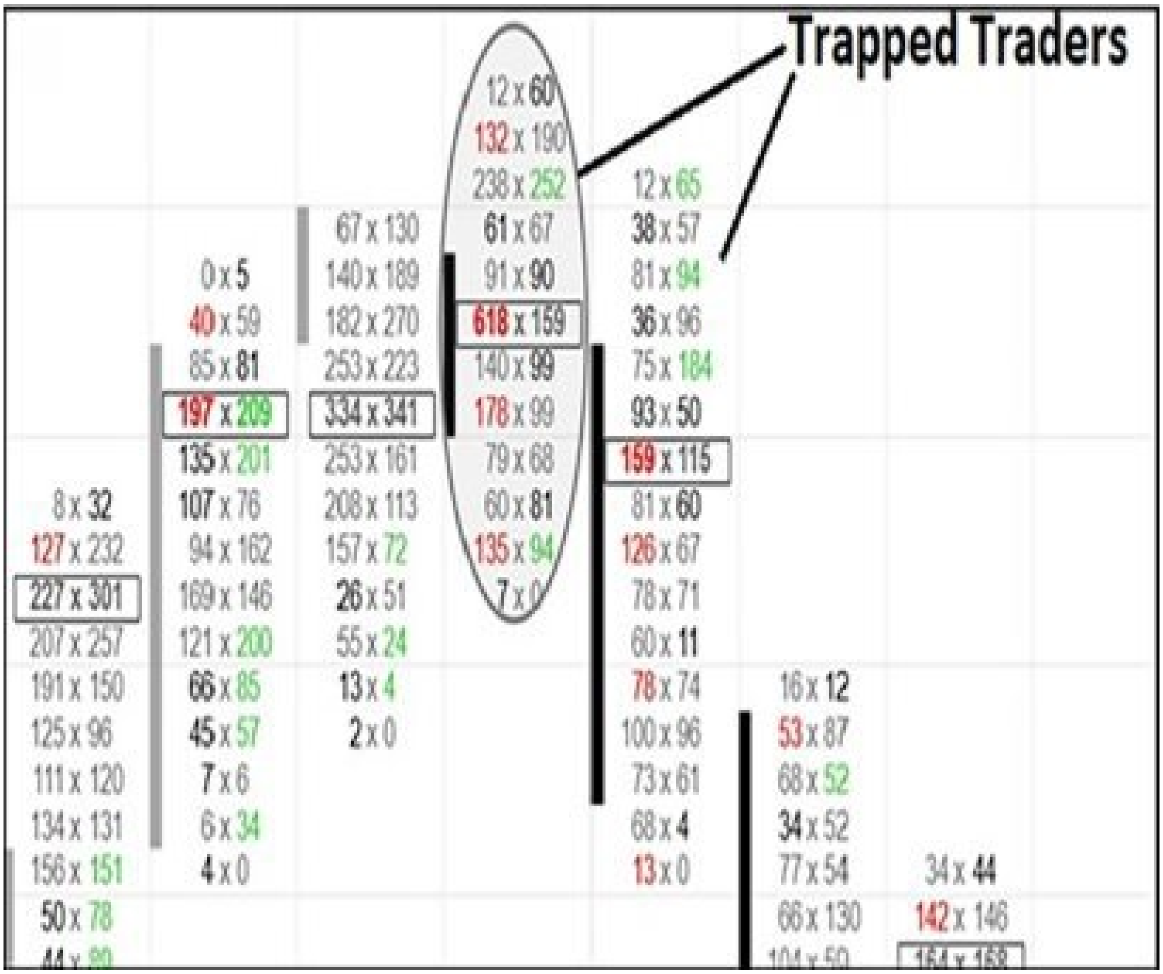
If you ask a normal thinking person why prices are rising, he will answer: "If more is bought than sold, the price rises and vice versa". On the futures markets, every long position is followed by a short position. A large market player who appears as a seller does not necessarily expect the price to fall. He can also do this to close a long position that he had taken profitably (long liquidation).

For this reason, one should not overestimate individual large numbers on the Footprint, unless they appear repeatedly in certain areas. Sometimes, for example, OTF's start selling even before a top is reached. This was also shown in the Big Trade feature chart. They are warning signals.

In the case of an ongoing trade, you should always find sufficient "color" confirmation on the Footprint Chart to encourage you to hold the trade. This is another advantage of Footprint Charts. It can motivate a day trader to hold a trade as long as possible. For example, once you have started a short trade, you want to see as many imbalances or red numbers as you see on the next chart. It is also important that the POC's of the individual candles move in the desired direction.

It is not always stacked imbalances that can be important. If you see one or more green numbers in the top of a mainstream high or up leg that are wedged in and immediately countered by high red sell orders, then these are trapped traders. In such a case more haste is required.

Figure 32: E- Mini S&P September 2020 (1 min. chart, CET)



At the top of this Footprint Chart you can see a large sell order (618 contracts). Extremely large orders at the suspected end of a swing are often a good signal if the speed of trading activity increases at the same time. In all cases it is important that no new high or low is reached. Of course, here again the context plays a decisive role. Is it a reference zone or liquidity zone? I would not trade any reversal without VP, MP or chart technical indications.

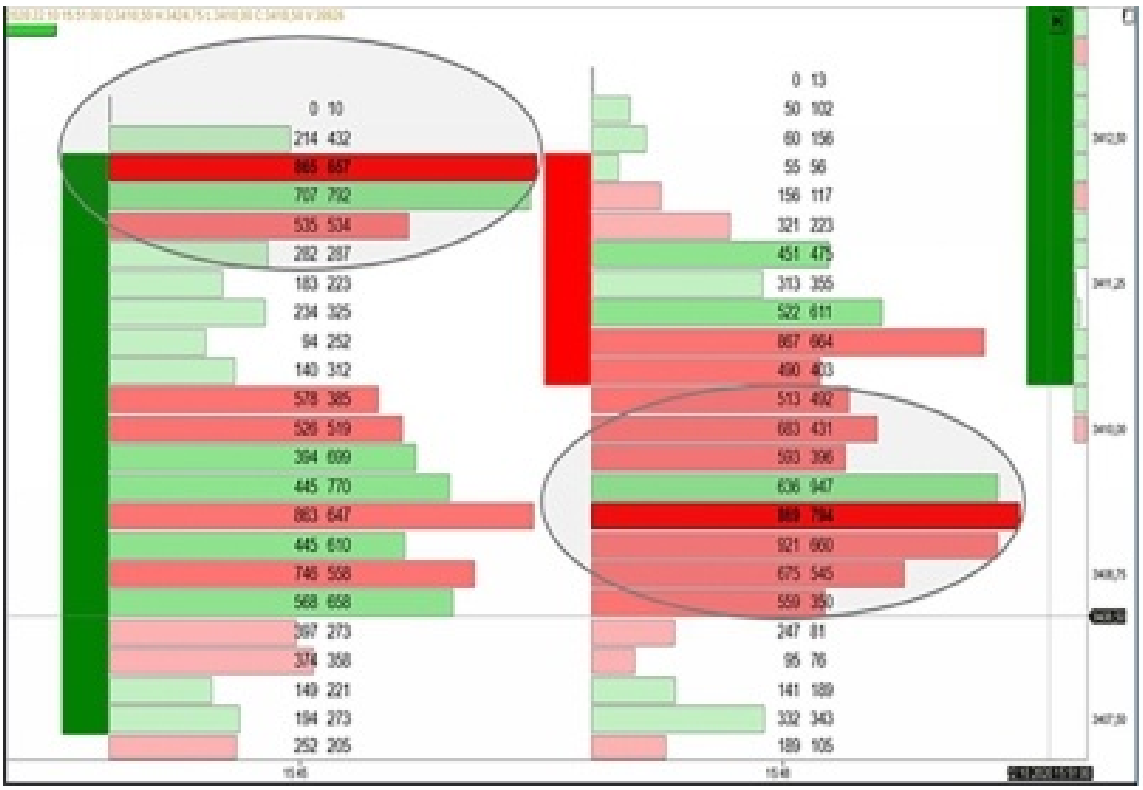
Some volume traders have problems to interpret imbalances. This is understandable if you look for them in the wrong places or consider them in isolation. Especially before reaching a liquidity zone, imbalances often occur in the "reverse" direction to push through zones and trigger stop orders. Then, if a rejection occurs, it is important to be alert.

The construction of a candle of a footprint chart should always be completed before considering a trading decision. This applies to all chart constellations regardless of VP and order flow analysis. A typical mistake is to trade outbreaks or reversals without knowing how a candle closes. However, there are also borderline cases. These fall more into the realm of an experienced day trader and will not be explained further here.

Footprint Chart with Volume Profile

Footprint Charts can also be displayed with volume profile. This way, a visual assessment of the nearer situation can be made quickly.

Figure 33: E- Mini S&P Oktober 2020 (3 min. chart, MEZ)



This situation occurred 20 minutes after the opening of the Main Session. On the left you can see a profile pattern, which was explained in chapter 7 as a double distribution. After the upper cluster of the DD pattern had formed, seller tried to bring the price down. They were stopped at the lower part of the double distribution pattern. . This way E-Mini was not able to break through this zone. The right candle, although red, closes higher. Everything took place in an important zone on the chart. This situation marked the beginning of an intraday uptrend that lasted until the end of trading.

It is much more informative to watch events like these on the Footprint and Delta charts than to follow the order book.

12.3 Delta

Delta is in my opinion the most important order flow tool, because it can provide information on whether accumulation is taking place in conjunction with deception and much more. There is another reason why I like to work with Delta. **It is always market orders who move the market.**

Retail traders work mostly with market orders. OTF traders mostly work with limit orders to build up their positions undetected. Then they switch to market orders and move the market. This is not always exactly the same, but an order flow day trader can often focus on this transition phase, because that is where the sweet spot is. If he waits too long, he will miss the movement or an important part. If he enters the market too early, the risk of being on the wrong side increases. The action cycle of a day trader should always be like this:

Delta represents the difference between contracts bought and sold during a selected time period and can be displayed in an order flow software in various ways

- In the main chart in the form of numbers, which lie inside the individual candles like footprint charts.

- In the sub chart in the form of a histogram or in cumulative form

- As positive or negative number in a lower horizontal bar

Many traders see Delta primarily as a confirmation of their trading decisions. Accordingly, it is expected that price and delta will move in the same direction. This is only true to a certain extent, as it applies to normal price movements. However, it is precisely these turning points that become interesting for a day trader, because this is where deception often takes place.

From this point of view, it is especially the deviations that should be considered. On the following chart the Delta Histogram shows strong positive deltas. The price should rise, but it falls. Such situations do not occur continuously, but often at the beginning of decisive movements.

A day trader who looks at possible turning points in reference zones on delta constellations is much better off than analyzing limit orders on the DOM ladder. The actually executed order (market order) and the actual reaction of the market are the best indicators for a future movement.

Figure 34: E-Mini S&P September 2020 and Delta Bars (3 min. chart)

Here you can see that the delta is making new highs in the sub chart. However, the market is not able to create a new high despite high buying activity by retail traders. It is held by strong participants.

12.3.1 Absorption

Absorption is the most common form of market manipulation. It often takes place in connection with iceberg orders. Iceberg orders are split OTF orders. As the name suggests, they are the tip of an iceberg. For example, if an OTF wants to buy 2000 contracts, then it is not possible to make this publicly visible in the order book. In this case it would immediately attract the attention of other market participants. These would

- recognize the intentions of the big players and take the same market direction

- prices would immediately show a great imbalance resulting in extremely poor course executions

Accordingly, Iceberg Orders are dormant in the market as limit orders in smaller quantities. These are often placed in zones that are preferred by market participants. If the limit orders are hit, they are automatically converted into market orders. As a result are no price changes will occur. All market orders of the opposing side are "absorbed" by iceberg orders.

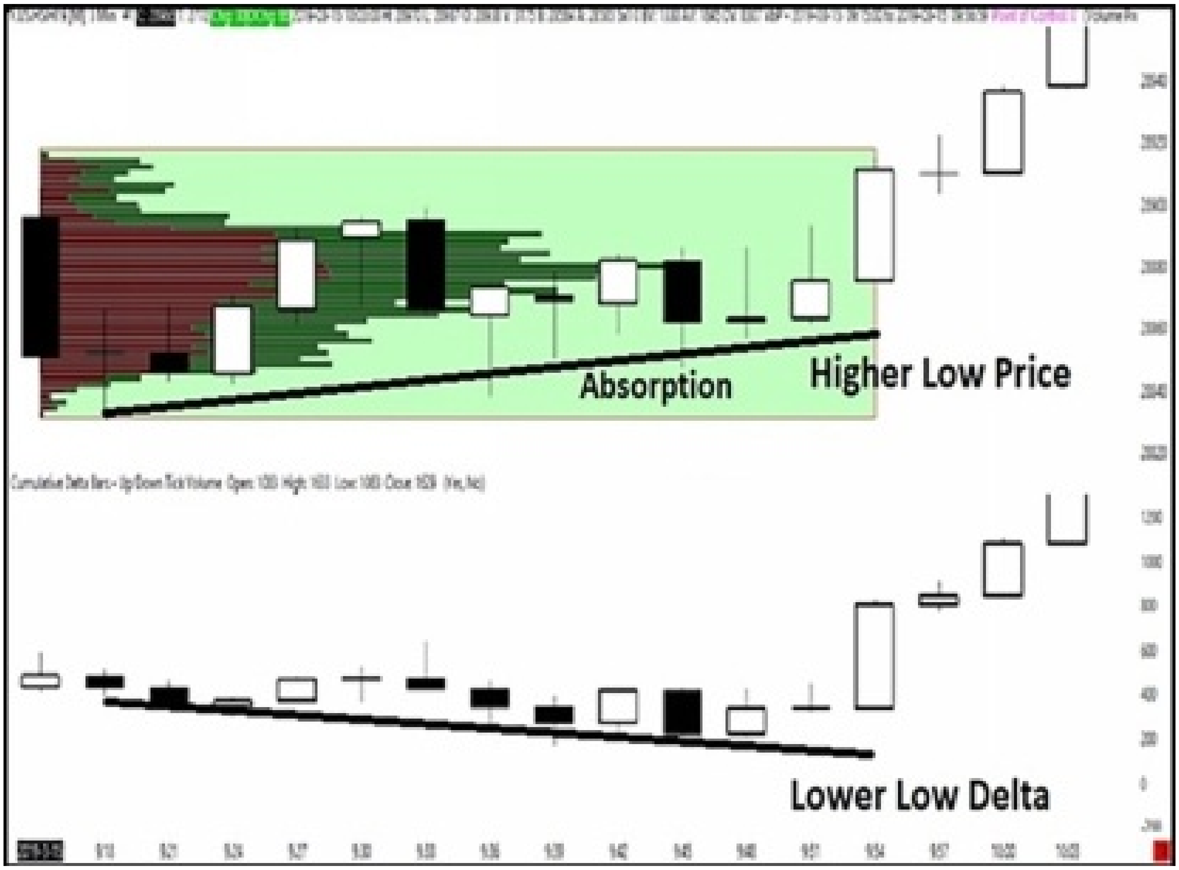
This can take place in any time frame. Absorption often is easier to localize with a summed (cumulated) delta curve. The following graph should clarify this.

Figure 35: E-Mini Nasdaq July 2020 (5 min. chart, CET)

Here, retail traders sold strongly in the expectation that the downward trend that has now begun would continue. They started selling when a new low was reached. This can be seen on the declining line in the Delta sub chart. Delta reaches a record low. The number of contracts sold is far higher than the number of contracts bought. But what happened to the Nasdaq future on the main chart at the same time? It clearly bucked this trend and even rose slightly. This was only possible through OTF buy limit orders. Retail traders without order flow software could not see that all their sell orders were running against a wall of buy limit orders. OTF's had managed to keep the market up the market up unnoticed. The market orders were absorbed as the OTF buy limit orders crept into market orders. Shortly after a stacked imbalance appeared on the Footprint and the upward movement began.

In my opinion this is the safest method. To make a trading decision I prefer Delta Tools in conjunction with the Footprint Chart clearly to the order book. To demonstrate that my VP and Order Flow setups work in all liquid markets, I would like to show another trade from my archive, which Asian readers of this book should take a good look at. Order flow analysis is unknown in China. This opens up great opportunities for advanced retail
traders.

Figure 36: Mini Hang Seng March 2019 (3 min. chart, local Hong Kong time)



30 minutes after the start of institutional trading, an accumulation setup appeared here, which I had mapped out in a few minutes with a flexible volume profile. In this normally highly active phase, accumulation setups (rotations) have a special meaning. Why? They form a tight initial balance. In chapter 4 it was explained that a tight initial balance increases the probability of a significant price movement. In this case, this was 20 points which is nothing compared to an index level of 28,000 points.

But even if such favorable conditions show up in the form of a tight initial balance at the beginning of trading, a day trader still faces the central question in which direction the market will go. There is nothing worse than being on the wrong side of the market on a trend day. Delta can help decisively in determining both the market direction and the right time to enter the market.

The cumulative delta shown in the sub chart showed a falling trend. This meant that retail traders had entered more sell market orders and were targeting a downward movement. The price on the main chart did not confirm this at all. All sell market orders from retail traders were absorbed by buy limit orders from market makers! The price was held despite an overhang of sell market orders. With the resolution of this delta divergence, the Mini Hang Seng clearly crossed the VPOC upwards and did not turn back afterwards.

The Mini Hang Seng is a top index for day traders who are based in Asia and really only want to be active for about 90 minutes a day. Profitable movements mostly take place in the first 60 minutes after the opening of institutional trading. Another advantage is that it opens only a few hours after the US market closes. Thus, especially in the opening phase there are tendencies with regard to market direction.

The following chart shows what happened in the following 60 minutes.

Figure 37: Same chart ca. 60 min. later (plus 400 points)

As you can see from this example, there is no need to spend the whole day in front of the computer. Furthermore, it is not always the most complicated methods that bring the greatest success.

Tip: Concentrate on a few order flow methods, but master them.

12.3.2 Variants

There are also divergences that take a different form. In the next example you can see a falling delta while the price is still rising. Delta takes on a kind of leading function here. The difference to the last chart is that OTF´s intervene in the market earlier and operate with sell market orders while the price is still rising. This is especially the case with fast reversals. But there are also mixed forms. This will perhaps become clearer in the following chart

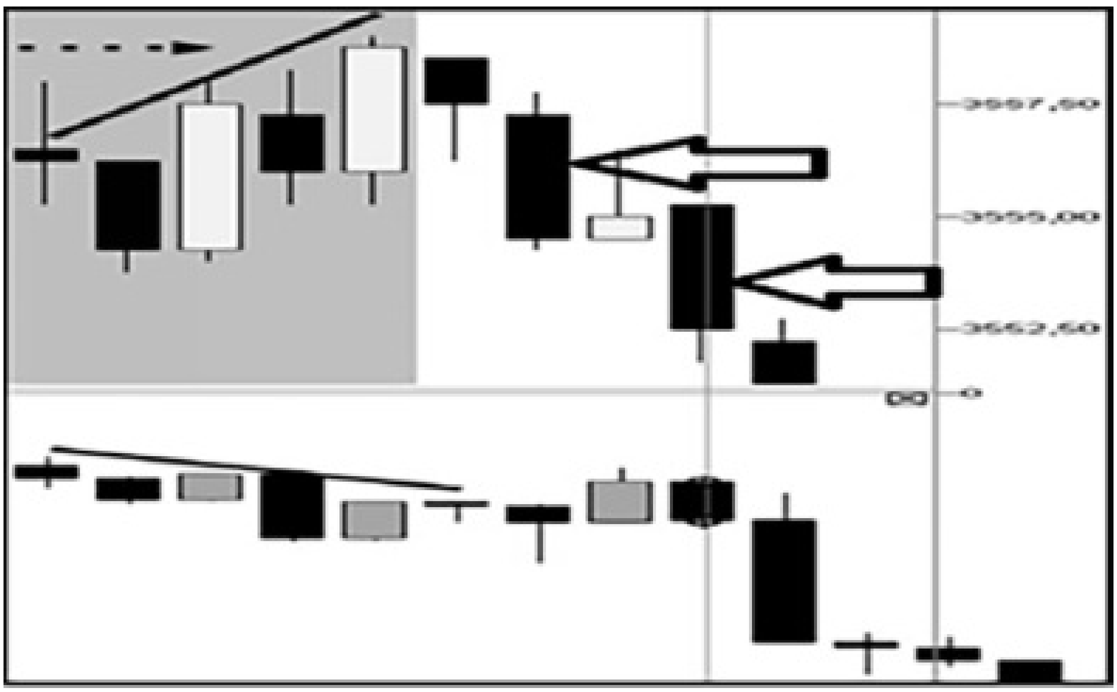
Figure 38: E-Mini S&P September 2020 (1 min. chart, CET)

This is the E-Mini at the beginning of a pitch black day in September. The overall trend was short. The market had formed a trading range after about 20 minutes. A flexible Intraday VP could be plotted. 15 minutes after the opening, however, Delta had already formed a new high, which was not confirmed by the index. This can be seen in the middle of the Flex VP window. Iceberg orders were placed here, which absorbed all Buy Market orders. It was a first warning signal.

Now OTF sellers sold clearly into the still slightly rising market. This can be seen from the Delta divergence. The penultimate candle in the profile showed a stacked imbalance of sellers, the first candle outside the profile as well. Then a POC shift down took place. But before that the POC of this flexible volume profile had provided a very good reference zone for a ricochet, as shown in the form of the extended POC line (arrow). All in all a bundle of short signals

If you pay close attention to this delta divergence you will notice that there was one more final deception. Before the strong downward movement started Delta rose a little bit. But the price fell. That again was absorption. There are also mixed forms that are particularly interesting. Exactly here was the sweet spot for the whole following movement. The price hurried Delta downwards. For a better understanding, I will show this situation again in close-up.

Figure 39: E-mini at the time of the beginning of the trend



It is often the price that anticipates the start of decisive movements, not Delta as many traders assume. If such rather complex delta situations occur in the opening phase of a market, special attention should be paid. Let us briefly summarize this example again.

- Approx. 20 min. after the opening, Delta made a new high, but the price not. This means a clear absorption. The Opening high got rejected!

- After that, Delta fell, but the price rose slightly (direct divergence)

- 30 min. after opening new absorption...a raid started

What has become of this situation can be seen on the following chart. This is reminiscent of the dynamics of the Hong Kong Chart. A similar constellation existed there at the start of trading. On the following chart the discussed opening range is hardly visible.

Figure 40: E-Mini S&P 90 min. later (1 min. chart)

For this trade too, there was no need to look at the order book. Besides, I doubt very much whether anything at all would have been seen there in the midst of raging numbers during the opening phase.

There are many variations of absorption. They are part of everyday market life. Delta can help to find them. In my online course I will present other important Delta setups. One way to work effectively is to focus on price action and cum delta curve when important zones are reached or the structure of a trading range is established. This requires a little practice. You should also remember what I said about accumulation setups in chapter 10.1. They are usually created in 3 swings surrounding the POC. Observation is important here.

In the last example, first of all the superior situation and a flexible Intraday VP gave a good idea for a possible short trade. Then a delta divergence appeared. The next step was to unfold the chart and look for OTF sellers on the footprint chart. This gives the final confirmation in a three step analysis chain that a day trader can easily handle in a few minutes. Speed of Tape and Big Trades can always be left switched on as an early warning system. But they are actually not absolutely necessary.

This example showed once again that one minute time frames on charts in many of today's situations are not only useful for scalping.

- Pay attention to whether a market forms a range in the first half hour

- Note delta divergences, where the price is leading

- Intraday movements are no coincidence. Every trend begins with turning points at micro level.

Unfortunately there are also market phases in which cum delta takes a completely inverse course to the trading instrument. This is especially the case for currencies at times. I don't know exactly why this is the case. Perhaps it is because large market participants are increasingly operating a cyclically or because the trading crowd is sometimes really completely wrong, as studies have shown. Nevertheless, delta divergences or hybrids can provide very helpful information BEFORE anything happens.

In chapter 11 I mentioned that there is no perfect software that meets my analytical requirements. Unfortunately with Atas you cannot always adjust the cum delta curve as precisely as with Sierra Chart. Probably they do not fully recognize the great benefit of the view shown here. But I hope they will be able to improve the software. It is not all about constantly developing new features. Effective trading methods are characterized by the fact that they are visually relatively easy to implement.

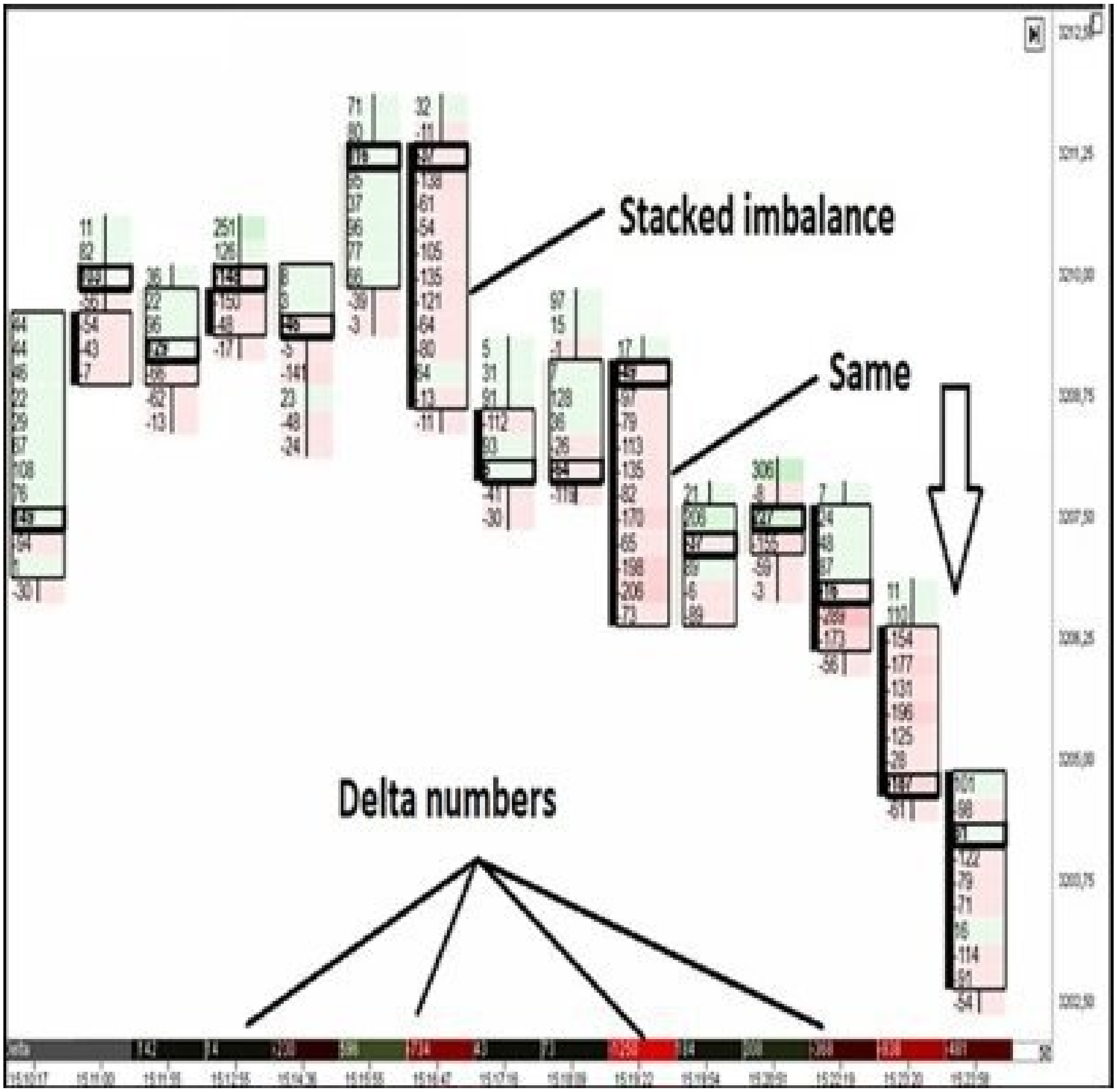
Figure 41: EURUSD August 2020 (5 min. chart, CET)

This is another of my favorite setups. In this example you first saw an absorption and delta divergence. Retail traders sold, but the price did not confirm this. Then the price took control again in the main chart. In both cases, it led the way. Reality prevailed over the expectations of many market participants. Note the long momentum candle that appeared afterwards. This formed exactly when the stop-loss orders of all traders who had taken a short position were triggered.

This is known as a short squeeze. A day trader who has previously taken a Long position in this case will get a perfect confirmation of the correctness of his trading decision at this point.

12.3.3 Delta Numbers and Profiles

Figure 42: Delta chart E-Mini S&P June 2020 (5 min. chart)



In the lower bar of this chart you can see the summed delta difference of a candle in the form of a colored positive or negative number. In the main chart you can see again the black windows with POC's of the single candles. They are very important, because rising or falling POC's are the basic requirement of every trade. The candle with the name "Same" shows strong negative characters for the second time. Here a change has taken place. Afterwards a risk-free entry was only possible on the following three candles.

Delta Profiles

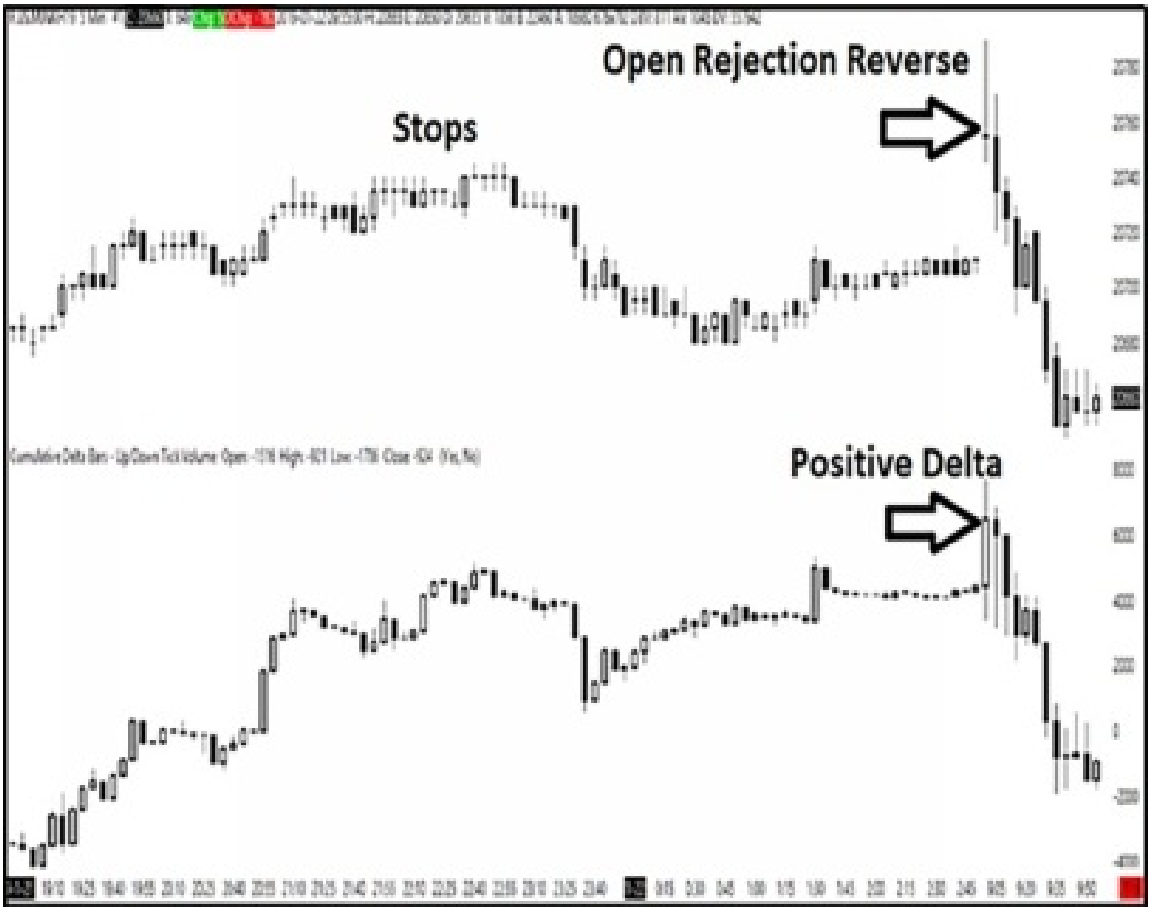
Delta can also be displayed using a volume profile chart. On the following chart the triggering of a daily high takes place. High positive deltas indicate that many traders have been trapped here.

Figure 43: E-Mini S&P, November 2020 (1 min. chart)

At the top you can see an extremely high number of executed buy market orders. But the price immediately closes significantly lower. This is a rejection in combination with absorption. All breakout traders were trapped here. Order Flow combined with an important chart technical situation gave decisive indications. The situation occurred 70 minutes before the end of trading. E-Mini fell by 12 points.

Some traders only use volume profiles to get information about important potential entry zones. I have also handled this in the same way after I started working with this form of analysis a few years ago. However, if you really want to follow the tracks of smart money, a combined order flow analysis is essential. For Asian traders, I enclose here an example from my archive showing an open reverse trade of the Mini Nikkei Future, which could be seen immediately with Delta.

Figure 44: Mini Nikkei Future Osaka January 2019 (5 min. chart, CET)



Many retail traders bought here immediately after the opening. This can be seen on the positive delta in the sub chart. However, the price did exactly the opposite. Only early morning stops were triggered. This was followed by a profitable downward movement.

13. The Preparation

Preparing for a trading day is very important, although it does not take too much time. It should begin with a brief overview of the last trading day. Investing.com is a good example of this. This website can be set up in different languages and time zones. If you click on News (most popular) and "Top 5 Things to know in the Market", you will get all the important news that are moving the markets. As a day trader should not have a ready-made opinion, he is not primarily interested in that. But by a few headlines he sometimes gets important hints on which markets the interest of the financial world is currently directed to. The content of the news is rather obstructive for day trading, because it is proven that when something appears as a headline, the actual event has been priced in for a long time. Often a headline signals the end of a trend.

Volatility Check

Secondly, the price board showing the CBOE Volatility Index (VIX) is displayed. This index indicates the short-term fluctuation intensity (implied volatility) expected by the market using option prices on the S&P 500 in percentage points. A high value indicates an unsettled market, low values indicate a development without strong price fluctuations. The VIX is therefore also known as the "Fear Index" and forms an inverse correlation to the S&P 500. This is also useful for day trading. At investing.com you can also project the Intraday VIX Chart by clicking on it. This can be important if turbulence occurs during the trading day and volatility gets out of control.

Figure 45: Vix Index 2020

S&P 500 Futures	3,115.62	-13.38	-0.43%
Nasdaq Futures	10,328.88	-26.87	-0.26%
Dow Jones	25,827.36	+92.39	+0.36%
S&P 500	3,130.01	+14.15	+0.45%
Nasdaq	10,207.63	+0.00	+0.00%
S&P 500 VIX	27.68	0.00	0.00%
Dollar Index	97.175	-0.126	-0.13%

Figure 46: CBOE Volatility Index July 2020 (daily chart)

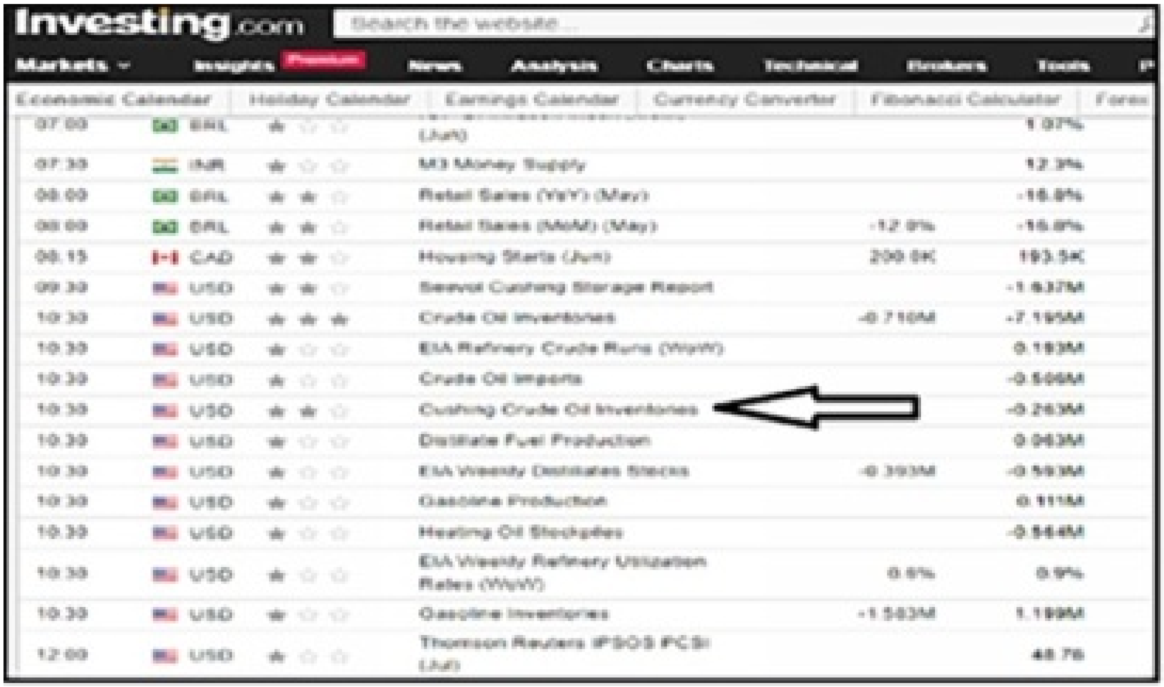
My experience in recent years shows that the probability of profitable price movements on the stock markets increases considerably when the Vix Index reaches values above 18. Above a limit of 36, one should no longer enter the market because the Fear Factor becomes too large.

It is also striking that volatility can no longer be predicted with highly popular indicators such as ATR. This indicator is not useful for day traders as it is lagging like all indicators. The months from April 2020 onwards show that volatility levels can change dramatically not only from day to day, but also within the intraday range. This opens up the biggest chances for those day traders with good timing tools, as long as you follow a few rules.

Economic Data

After the volatility check, you call up the economic calendar and note down clock times, which are marked with three symbols. The economic calendar can also be set in all languages and time zones. The following is an example in Eastern Time. Here the oil inventories are marked with 3 stars. If you trade oil on this day, you should close your position at least 5 minutes before the figures are published.

Figure 47: Economic Calendar (Eastern Time)



The pipelines of oil produced in the Gulf of Mexico end in Cushing, Oklahoma. It is the main deposit. From there it is transported all over the world.

With oil, there are often considerable movements ahead of the inventories news. These take occur on the same day or the day before, because insiders always have more information than retail traders. Once the news has been published, there are often no more major movements (old news) or very frantic movements. Children's traders from Tokyo to New York like to shoot at anything that moves when business news is published. Many of them believe that the faster you press the button the better the result will be. Institutional traders, on the other hand, often use this to unwind positions profitably.

I can remember a situation from 2016 or 2017. The highest inventory levels which have ever been statistically determined were reported. For the oil price this was the worst news you could have imagined, but the price then made a huge spike upward. The subsequent news said that the oil price had risen "because the market had realized that such a negative situation was unlikely to recur". For a day trader it is not the best idea trying to draw conclusions from news and act.

Some economic data is published one hour before the start of trading. This can give you the opportunity to see how the market is reacting. When it comes to interest rate decisions, it is best to wait for the end of the following press conference.

The Preparation of the Screen

After reviewing the economic calendar, we complete the volume profiles and wait for the opening of the market.

What data should be entered and/or observed?

- Closing price last main session (not so important, more for the Asian follow-up trade of a US Main Session)

- Day high and day low last main session

- Where are the early morning and non- institutional High/ Lows?

- POC Market and Volume Profile

- Extension of yesterday's Value Area Highs and Lows. (Automatic option)

- Is a trend apparent? If so, how long has it been going on? Are there reference zones?

- Where have major market participants been active during the last three days? Strong high volume areas, imbalances, tails, single prints can be identified quickly

- In which direction did the market go afterwards or last? (Main session)

After the opening of the Institutional trading, you wait half 15 min. until all resting orders are executed. Then you can make a first analysis. You ask yourself the following questions

- Did the market open above or below yesterday's upper/lower value area?

- If so, did he stay there?

- What was the fluctuation range of the first 15 minutes compared to the previous days?

- Were there any imbalances (buying or selling tails) after the opening?

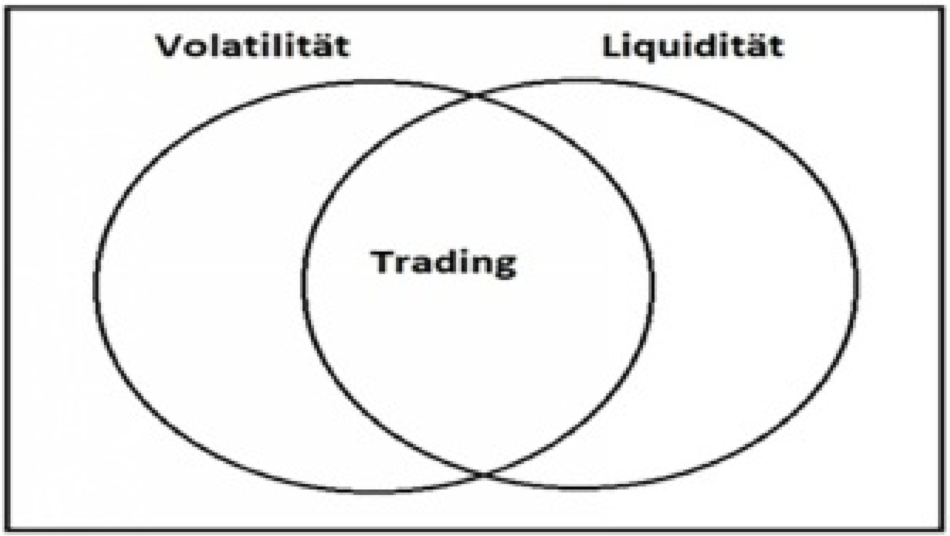
If you have done good groundwork and developed a trading plan, then in a positive case you can consider a trade after half an hour. Several examples presented so far show this.

Unscheduled News

Tracking news sources during trading is a great danger for day traders. It is distracting and tempts you to be influenced unconsciously. If you have worked out a trading plan, then you should implement it if it becomes current. Many traders fail because of this. Nevertheless, there are situations which should be paid attention to. If a market suddenly becomes volatile beyond the expected news, you should turn on a streaming news channel and see if anything unexpected has happened. This is especially true if you are in a trade.

14. Liquidity and Volatility - An Important Pair

Figure 48: L and V Optimum



Many mistakes in day trading result from a wrong interpretation of volatility. It can be assumed that there are many daytraders who have had to pay an expensive price this year. They only know the sentence: "Volatility is the trader's friend". Half-knowledge can be expensive if you misinterpret situations.

If you talk about volatility, you should not forget the aspect of liquidity. It is like a marriage. If it is harmoniously balanced, then happiness and contentment prevail. If limits are crossed, then one partner withdraws. If the volatility becomes too high, panic ensues. The liquidity leaves the market.

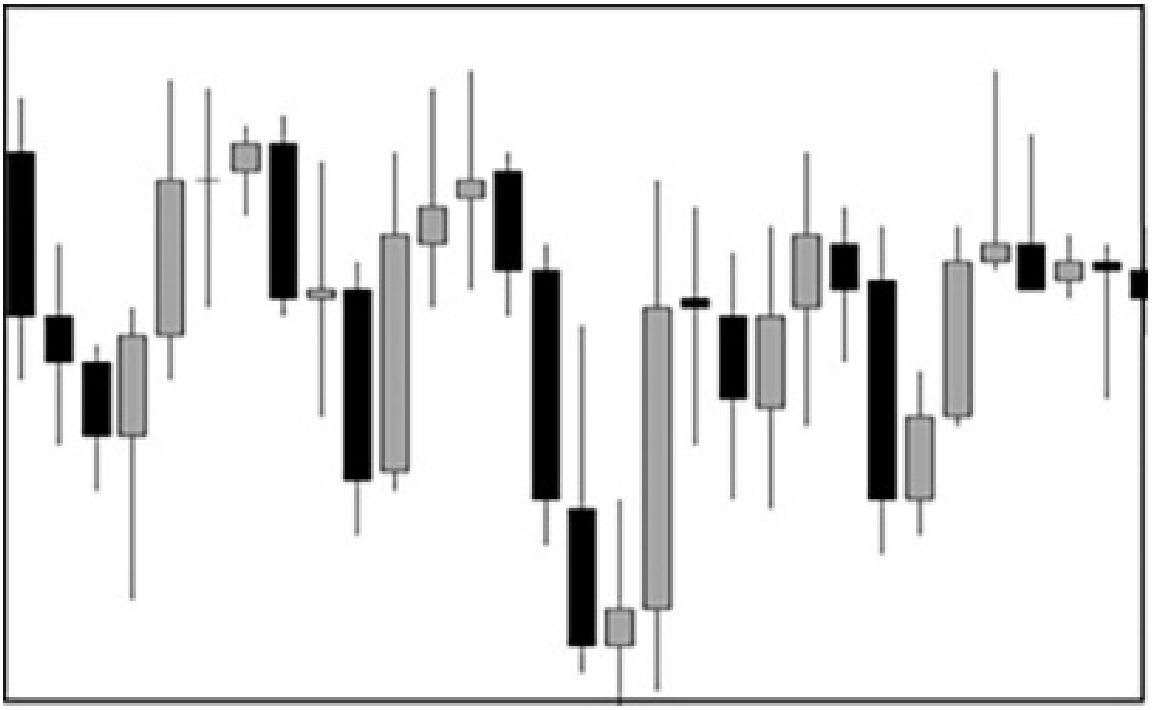
Liquidity consists of limit orders that originate from large market participants. They ensure an orderly execution of buy and sell orders hitting the market. If big players leave the market, liquidity dries up. Prices move totally chaotically and adventurous order executions occur. Inexperienced day traders then run into a fire, because they do not know the following sentence

"Never trade a scared market"

Many day traders have never experienced situations where liquidity dries up completely. As a daytrader I experienced the financial crisis of 2008 first hand. The volatility of March/April 2020 exceeded it by far. With stock indices one could easily get a bloody nose as a daytrader. But the solution was to switch to other trading instruments like EURUSD or Bund. At the same time, day traders had much better trading opportunities than in previous years, when volatility was at its lowest. I can still remember when the euro did not have a bandwidth of more than 300 or so pips in 2 years!

Both extremes lead to an unfavourable situation for traders, but a middle range as shown in the Vix chart above is optimal. Every trading instrument has liquid and illiquid trading phases. Markets constantly oscillate between order and chaos. It is relatively easy to check this. If you look at a 15 minute chart like the following during peak trading hours, you should not enter a market at all.

Figure 49: destructive chart structure (15 min. chart)



The characteristics of a chaotic market phase can easily be seen in the chart and also in the structure of the candles. Long wicks (spider legs), many dojis. In this case it was a mixture of high volatility and extremely weak liquidity. There is no follow through. After a short time it became clear that the market was in a trading range. Trading Ranges are always characterized by declining volume. But it is not a trading range comparable to the examples shown so far.

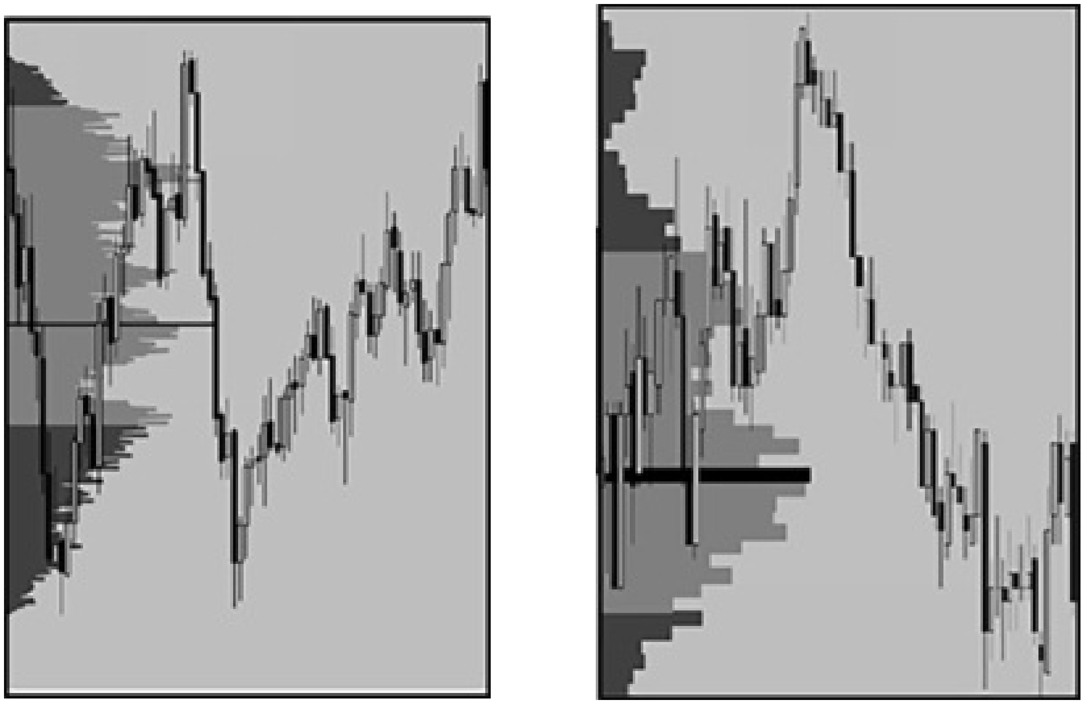
If this chart had been mapped to a smaller time frame, you would have seen a non - directional chart structure with edgy (boxy) shapes and a lot of overlapping during almost the entire main trading period. Of course, every trading range dissolves at some point and forms a chart structure with better filled candles. This was not foreseeable in this market phase.

For this reason it is important to locate a Trading Range as soon as possible. In this situation a day trader has no choice but to stand on the sidelines and give preference to observing other trading instruments.

"When in doubt, stay out."

The structure of the volume profile can also show whether it is advisable to trade. The following volume profiles are taken from the months April 2019 and April 2020. I presented them once for comparison because they show completely different basic market situations that are hardly recognizable based on the chart course alone. They show the E-Mini S&P in a 5 minute time frame.

Figure 50: Volume Profile E-Mini S&P April 2019 and April 2019 (5 min. chart, CET)



On this graphs you can study two extremes. While volatility was at record lows for many years (left), from mid-March 2020 it took on a dimension never seen before. The profile on the left lingers longer at each price level and forms significantly wider bars on the histogram. A year later, it seems to be unstoppable in its activity. The countless spikes reflect nervousness and lack of liquidity.

The difference becomes particularly clear when comparing the strength of both POC's. Although the chart shows a certain structure on a 5 minute time level in retrospect, all price action was characterized by extreme fluctuations. Normal trading got out of control and was stopped several times. The drying up of liquidity drove volatility like a bush fire and brought it to ever new heights.

15. Characteristics of Individual Trading Instruments

One may wonder why the list of trade instruments (chapter 3) does not include the British pound, the Canadian dollar and the Australian dollar. In my opinion, these markets are not as suitable for intraday trading as the two major pairs EURUSD and JPYUSD. But there are also traders who trade Cable (GBPUSD), Loonie (CADUSD) and Aussie (AUDUSD) on a day trading basis.

Large markets like EURUSD or E-Mini S&P are not easy to move. Substantial intraday movements are only possible if large institutional market participants become really active. The more volume, the more information can be expected from VP and Order flow.

Each instrument has its typical behavior. The Dax moves fast, but capriciously. This is because this index has very low liquidity compared to US futures. In the afternoon it has no life of its own and is more or less dominated by the course of the US markets. Sometimes conclusions can be drawn from this, especially in case of changes of direction. If you are trading the Dax, you should read through the chapter Fake Moves carefully, because here deception and stuffing is taking place without end. But this also offers chances, if you are prepared for it

The Bund Future moves less restlessly, but offers fewer set ups. Mini Hang Seng is the favorite in the Far East. For Asian readers another example of a China trade can be found in the bonus chapter.

JPYUSD sometimes moves more dynamically than EUR/USD and can deliver fast rallies but can also be slippery. This is partly because it is the most liquid pair after EUR/USD. On the other hand, this pair reflects a very wide range of macroeconomic influences. It can even be used as a filter for the stock market. Another advantage is that trading in the Yen Future has three peak periods. On reversals we have been seeing a second higher peak, or a second lower bottom for years.

Figure 51: Typical reversal USDJPY Forex

EURUSD offers opportunities in the morning as shown and is more difficult to trade in the afternoon as forex options are settled daily (New York Cut). Unlike in the past, EURUSD can also provide trends during Asian trading hours, based on previous day's volume profile zones.

Gold rarely gives clear signals at small time levels because the footprint chart is less informative. However, this seems to be slowly improving. Gold occasionally gives very good bottom squeeze signals as shown. In chapter 19 you can find another current example and more information. Traders studying gold should know that the December contract of the gold futures has been the most important and liquid for years from the second half of the year. This is due to seasonal reasons.

Besides the profile and order flow analysis, there are also basic fundamental constellations which, when made visible on the chart, can serve as a pre-filter for individual trading instruments. For example, there are clear interrelationships between the euro and dollar index, Dax and Nasdaq, S&P and yen futures, gold and T- Bonds, Hang Seng and China 50 Future, oil and dollar etc.

If each of these interrelationships shows strong deviations over a 60-minute time frame, then the probability of larger price moves or turning points increases. This way, it is possible to obtain rough clues to keep a particular instrument under special scrutiny. It is always advantageous to have some basic fundamental relations behind you. All this is explained in my online course and would go too far here.

A few years ago, I spent some time observing the positions of the large institutional traders (commercials). These are announced once a week with a three-day delay (COT = Commitment of Traders Report). I found that they are very rarely helpful for day trading strategies. My professional Swiss colleagues use COT reports on a long-term basis for hedging purposes.

Crude oil is a very dynamic market that can move 10 - 20 ticks or more in a few seconds (1 tick = $10, example 37.50, 37.51, 37.52...) The dynamics of the crude oil market results from the fact that there are fewer institutional traders. Banks only play a limited role here with long only certificates. Many oil companies have their own trading departments that hedge physical stocks. Beside you find large private speculators.

If hedges are then liquidated, this can lead to rapid upward movements. In general, you can say that crude oil has more to do with "real" classic chart patterns than other futures markets. The next difference with crude oil is that the futures contract expires each month around the 20th. At least 4 days before this date, oil should no longer be traded, because then the volume of the expiring contract will decrease rapidly.

In the case of oil, only the full contract is generally suitable for day trading. The Crude Oil Mini contract, unlike other popular minis, has very little liquidity. You shouldn't be fooled into trading something like this just because it requires half the margin. Beginners may not be told this. Until last year this was similar with the micro contracts of gold, S&P, Dow, Yen etc.

For a day trader with limited resources it is advisable to trade oil only if the chart shows well filled candles even on a 1 minute time frame, whose average intraday length at the beginning of a trade does not exceed 10 ticks. A few examples can be found in the final chapter 19. After appropriate training, Crude Oil is at times a good market for day traders. This small overview is intended to help beginners to avoid a few basic mistakes.

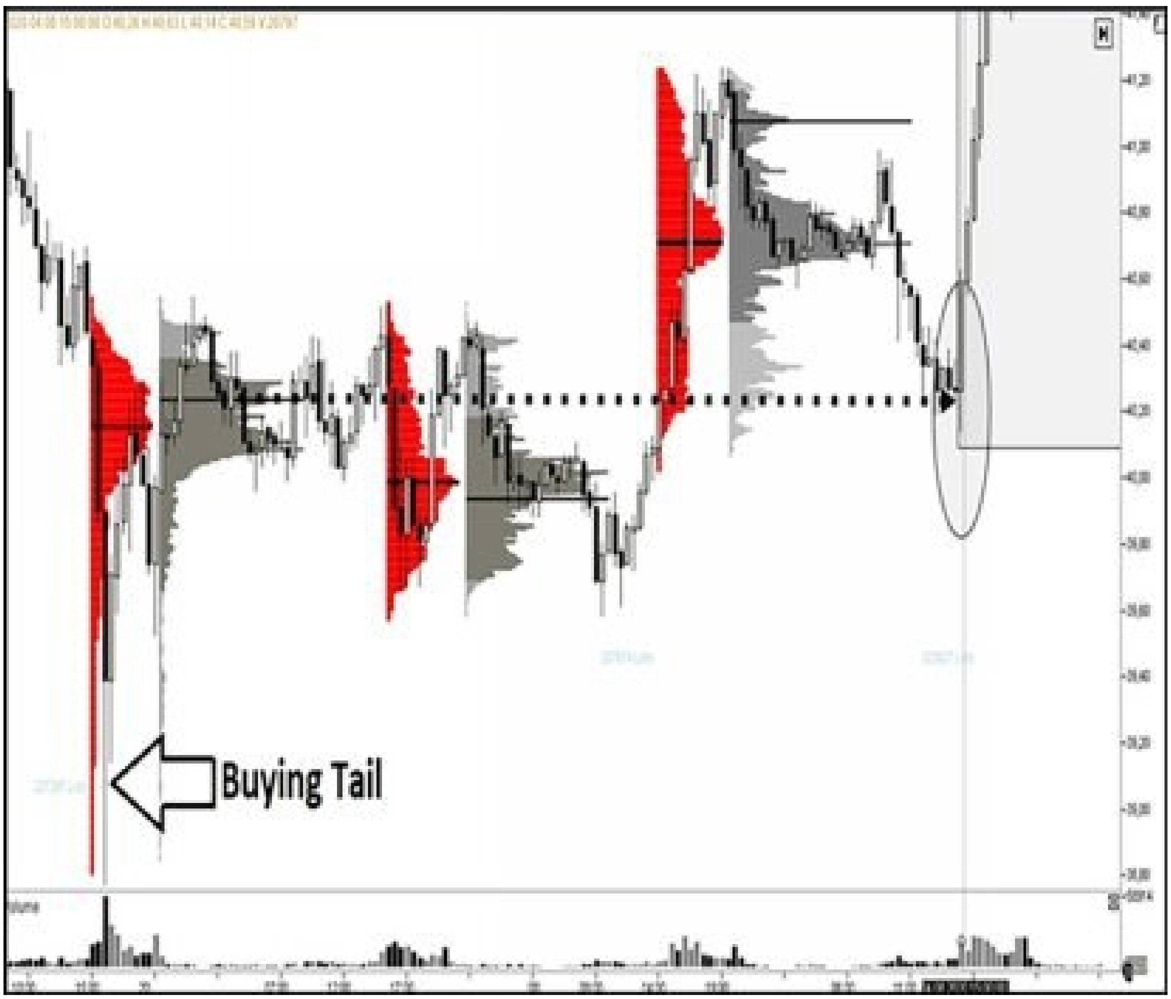
Every little mistake due to ignorance costs money and is avoidable

16. More on Market Profile

This book has already explained what single print zones and imbalances are. These are called buying and selling tails in the market profile analysis. In the following I will give another example of a combined presentation of volume and market profile. You can also replace the representation of the letters of the market profile with a block system.

A Market Profile Interpretation

Figure 52: Light Sweet Crude August 2020 (30 min. chart, CET)



Here you can see a buying tail on the left. OTF buyers entered the market on day 1, because the sharp drop in price appeared "below value" to them. Their intentions became even clearer when you consider the length of the buying tail by which they brought the market under control. On the following days they showed no intention to leave the market. How do you see this? Day 2 was a balanced D profile day, which is neutral.

Day 3 started again with OTF buying activity in shape of a buying tail. At the upper end of the market profile there was no more selling tail. It is an **unfinished auction** (chapter 10.2) This indicates that OTF sellers no longer had the conviction to really move the price down. The subsequent downward movement on day 3 only occurred during the low volume off-exchange hours. You might remember that I said, that you primarily should observe what happened in the last main session, when analyzing a market at the beginning of a new main session. This is something you should be aware of, especially with oil. This indicated that OTF sellers were still in control of the overall situation.

The extended POC of the volume profile of day 1 (left) signalled a possible entry zone for a long position in crude oil on day 4 (right) at the start of trading. It is worth noting that the extended POC of the market profile provided an additional signal that was more accurate than that of the volume profile. Oil stop-running is almost normal before major price moves. The correct entry point was just below the extended VPOC of day 1 and was not marked here with a horizontal line.

With regard to the assessment of the market context, a review of the last 3 days seems most important to me. I believe that the significance of zones decreases the longer they are in the past, epecially today. Your working screen should not look like a zebra crossing.

I hope that this example can show that the market profile can help to give a realistic insight into whether OTF buyers or sellers are in control of the whole process. A daytrader who would have included the approach shown here in his considerations would not have been surprised at all when the strong upward movement began at the beginning of day 4. He would have been prepared for this situation.

When concrete indications of reference points from day 1 came, he would have tried with conviction to find a low risk entry point on a small time frame. And it is not only that. It would have given him the mental strength to hold this trade as long as possible and not just scalp a few pips (Are you with me?).

Opening Phases

Interpreting opening phases is a special topic. Here the experience and knowledge of an instrument plays a role. In some cases they require quick decisions. The market profile distinguishes between different opening phases

Open Drive

The market opens above yesterday's range and immediately continues in the same direction. The whole day is marked by continuous range extensions in one direction. A trend day.

Open Drive with Re -Test

The same situation, but the market falls back briefly to an important reference point. This can be the high/low or the value area high/low, the upper/lower limit of the previous day's range or yesterday's high or low. As the name suggests, in this case the initiators of the open drive test whether important zones are holding.

Open Rejection Reverse

The market opens outside yesterday's range, is rejected and immediately shoots in the opposite direction as shown several times in this book. Such a situation offers day traders the best opportunities. But he should know what he is doing, because this requires a quick mind.

Acceptance

The market opens outside yesterday's value area, but remains within yesterday's range at higher or lower levels. A new price level is accepted, but there is no big movement (Inside or D-Day). In this case you can try to trade in both directions.

Rejection of Value area

The market opens within yesterday's value area, but soon leaves it in one direction. Then it leaves the old daily range. If this takes place about 30 minutes after opening, then one can assume that the market situation has changed and should move in the same direction.

All this contains a lot of theory, but sometimes it can give you ideas if you try to put these situations into the overall context. Of course, a realistic way of thinking also helps here. For example, if the market is in an excessive phase after several days of upward movement, an open drive is less serious than after a consolidation phase.

Open rejection reverses open up better opportunities if, for example, the overall context is bearish and the market appears temporarily strong during the opening phase. If you are in an established downtrend on a daily basis, then you should look for more profitable set-ups. However, these are not the best method for traders who are only fixed on one trend. Today, trend changes can happen faster than you think. This is shown in chapter 19.5 for crude oil. There was a good opportunity to trade with the trend during one day, but an even better opportunity with the reversal.

Further Aspects of the Market Profile

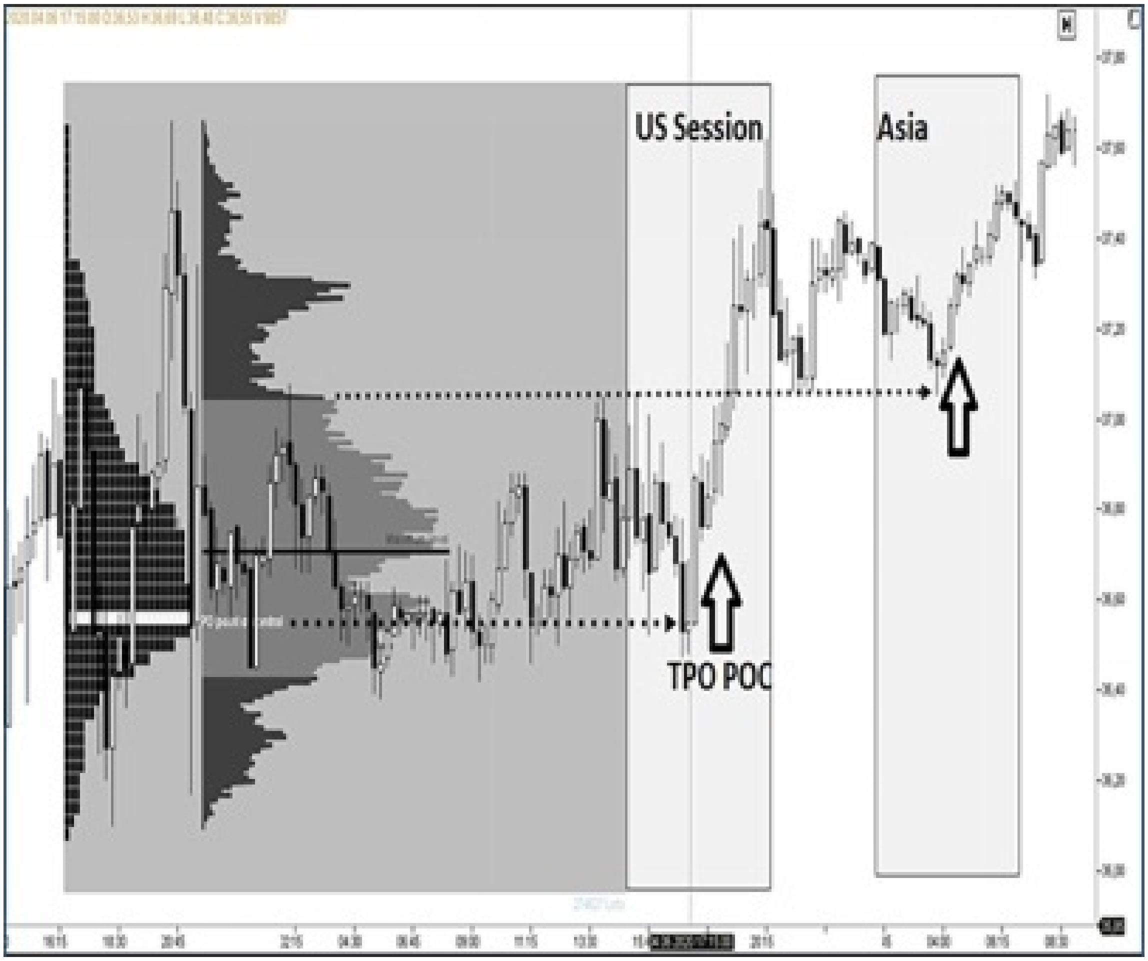
- Market profiles are very suitable for creating a flexible profile of several days, if the situation on the chart gives a first indication. If, for example, you display a market profile of the last 3 days and the next day you get an intraday entry signal somewhere in the middle, the OTF is often missing. The probability is high that the price will not develop a trend. The same applies to the volume profile

- If you plan a long position and see selling tails in at least two individual market profiles of the last few days, then the starting position is not optimal, because you know there have been OTFs active in the market that are oriented in the opposite direction.

- The longer a tail, the stronger the presence of a higher time frame trader (chart 74) However, you get similarly important information even if you do not see any tails.In a generally rising trend market, this means that OTF`s are less interested in turning the market around . This again falls into the area of market logic.

- In case of an imminent breakout, VPOC and MPOC should be identical. If they are not, then the probability increases that the POC of the market profile will be targeted again by market makers to call stops.

Figure 53: Light sweet crude June 2020 (15 min. chart, CET)



A flexible market and volume profile was displayed on this chart after it became apparent that it was a trading range (D profile). This profile ends with the start of the Main US Session. You can see both the zone with the highest turnover (VPOC) and the zone with the longest dwell time (M POC). Both POC's differ from each other.

At the beginning of the Main US Session of the new day, the price initially moved towards the zone where the prices had stayed the longest (MPOC). There had been many small transactions, especially during the Asian and European trading period. Before a large upward trend began, as many traders as possible were brought in to cover their long positions too early. On the right side of the chart you can see that during Asian trading hours important reference zones are often accepted. In this case it was the Value Area High of the flexible volume profile that provided a second rebound as the market had shown a bullish tendency towards the end of the US trading.

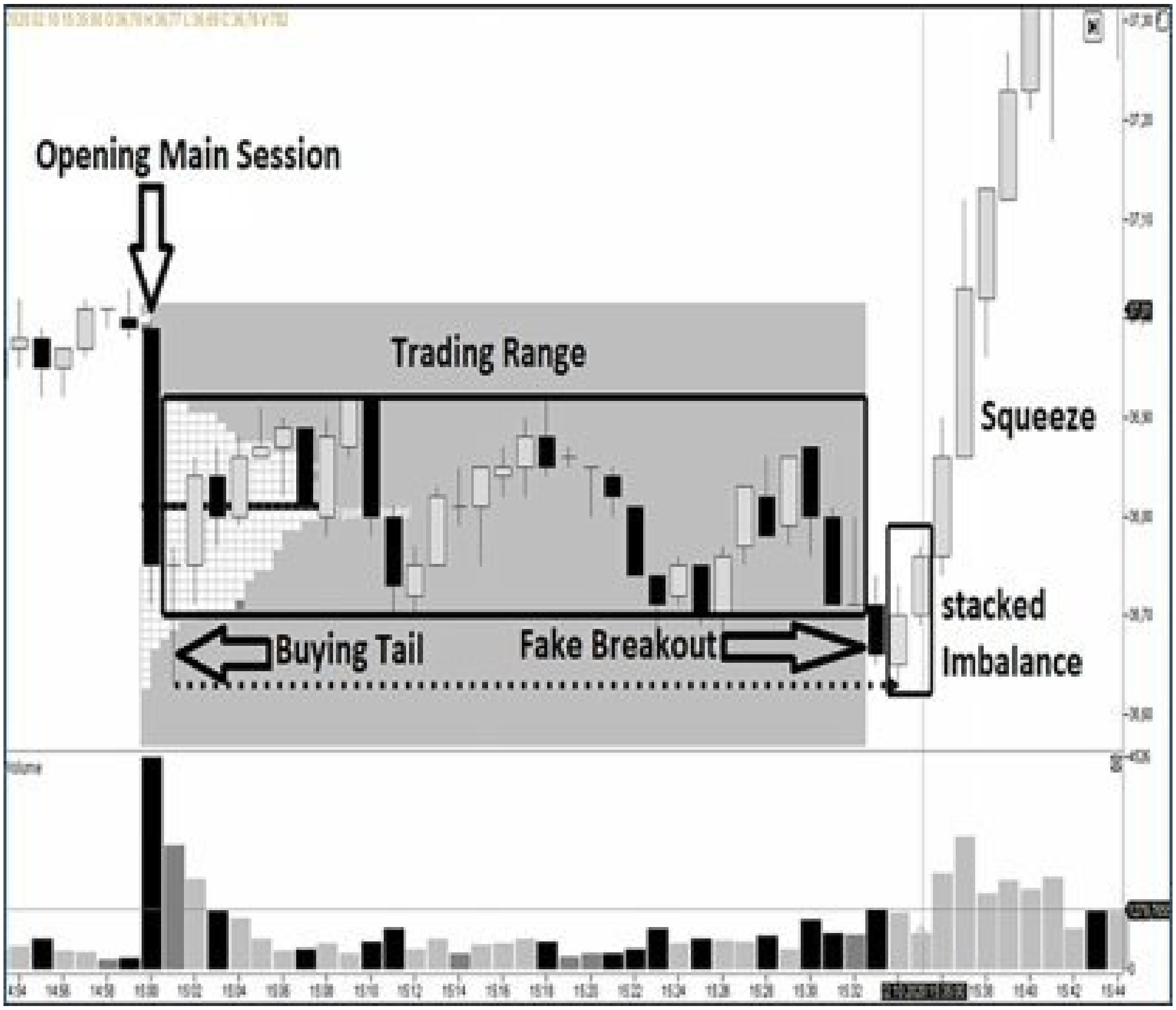
The Market Profile on a Small Time Frame

A day trader will not find a favorable starting situation if a large part of a movement has already taken place. So it makes sense to use the market profile on a smaller time frame to get information about a changing market situation. As with the flexible volume profile, the focus is always on determining as quickly as possible whether the situation changes in favor of an OTF buyer or seller. This can also involve market profiles of individual intraday segments. The assessment of the initial phase plays a special role here.

To illustrate this, I am adding two more examples to this chapter on market profile. The next example is again about identifying and assessing a trading range as quickly as possible. Especially important for a day trader is the opening phase. This should not be judged according to the older views of market profile theory and initial balance. Everything happens much faster today.

The following chart shows a trade that did not require a lot of preliminary work, but arose from an intraday situation. The following chart shows a trade that did not require a lot of preparation, but arose from the intraday situation.

Figure 54: Light Sweet Crude Oil October 2020 (1 min chart, CET)

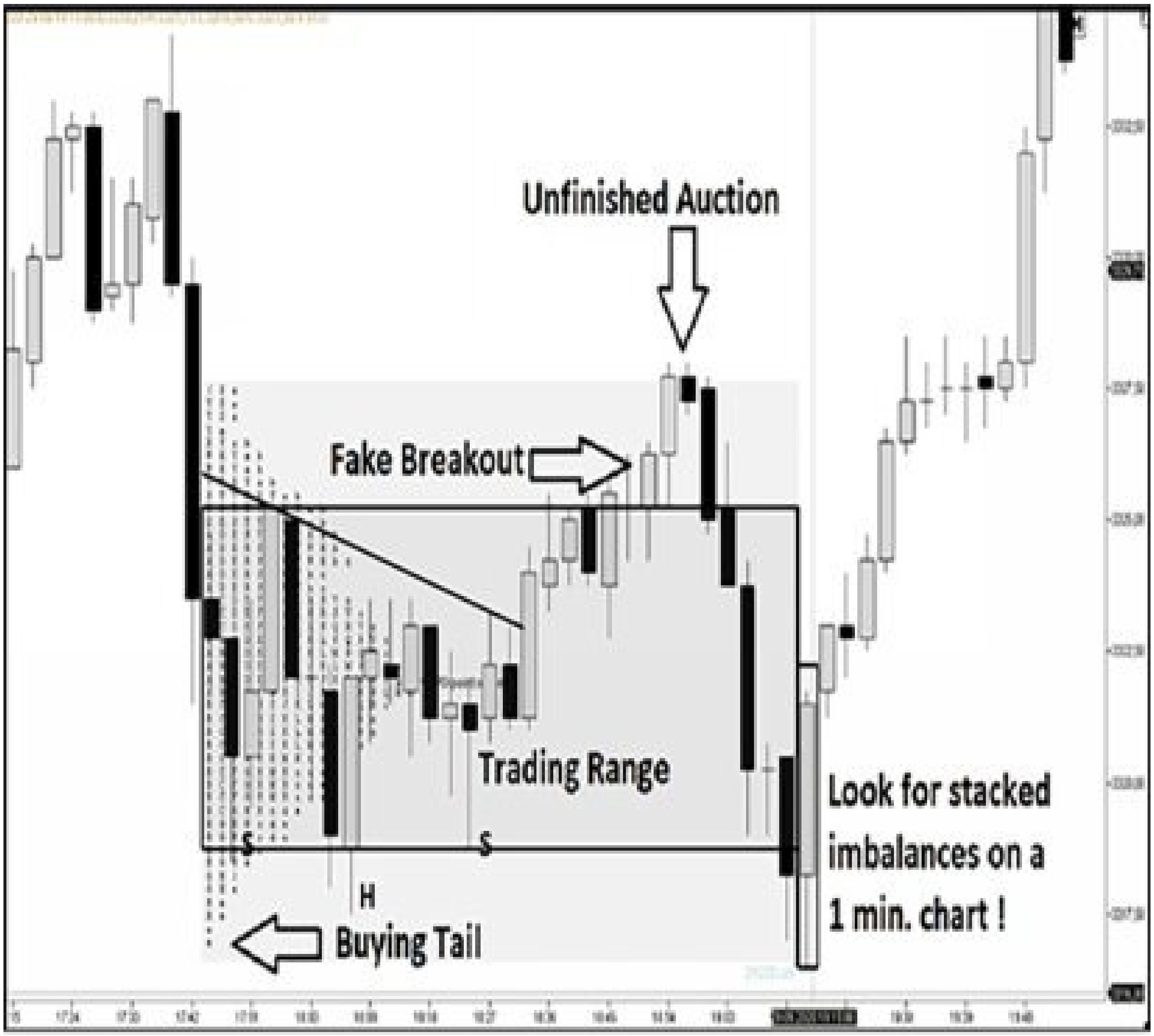


On this slide we see the beginning of the Main Session. Again, I mean "the busiest time" for crude oil, which results from the traditional pit trading hours. This can also be seen from the volume spikes at 15.00 CET. After a long opening candle a trading range is evolved. This could be drawn in after about 20 minutes.

At the same time you can see an accumulation pattern as it has been described more often now. On the market profile a D profile was formed. After 32 minutes you could see a false breakout downwards. This reached exactly to the buying tail of the TPO on the left side. This contains 4 single column rows. Ok, there was a pin bar to see which led to this. But the view of the market profile is more compelling especially for less practiced eyes. Now you can search for stacked imbalances and find them exactly where I marked it.

In addition to key technical chart zones and reference zones, the end points of a market profile can also provide helpful information. Such a case is shown in the following example

Figure 55: E-Mini S&P September 2020 (3 min. chart. CET)



Once again a long candle announced a trading range. This was drawn exactly after 4 visible swings. During the US lunchtime a short-lived breakout from an inverse SHS pattern in the left half of the trading range occurred. Afterwards the trading range was left upwards. It was a false breakout. Then the price was brought back down.

At the upper end of the market profile you do not see a selling tail. This was an indication that this downward movement was supported by little OTF conviction. Furthermore, after the breakout you see a weak high of an **unfinished auction** , which I marked with the arrow (chapter 10.2).

When the price fell below the lower limit of the trading range, the buying tail, which was formed in the first third of the trading range, offered visible support.

Now all you had to do was look for a low risk entry on a 1 minute chart. Exactly there you will find the stacked imbalance, which signals the beginning of an intraday trend. There were several arguments to look for a stacked imbalance, which resulted from the context. Only the spot marked here offered enough reasons to look for an imbalance as a starting point of a potential trade. The market profile helped to locate the beginning of an excellent intraday trend.

17. Filtering the Ledge

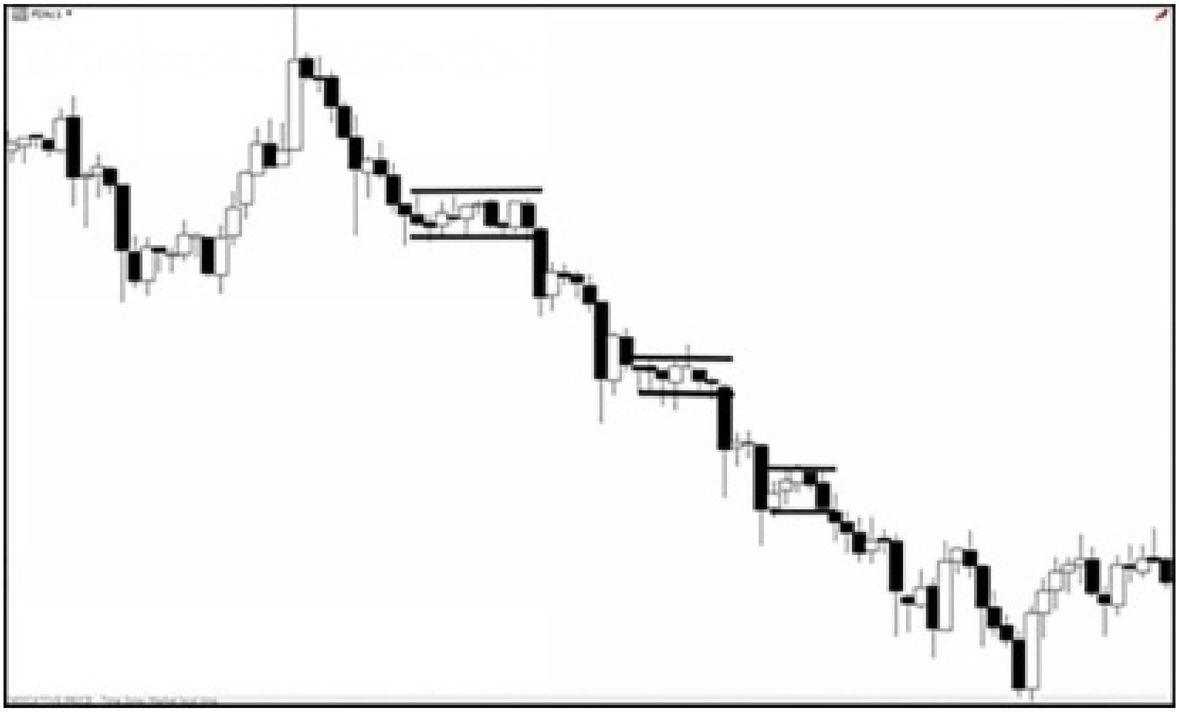
Strong trends require the special attention of a day trader. In this chapter I would like to briefly present a volume profile set-up that I have developed for current market phases. It can be used from time to time in case of very strong intraday trends. This Flex VP Setup has been developed out of one of my older chart technical working methods which I learned a long time ago. The prerequisite for this technique is, however, that you have previously localized the beginning of a significant movement on a higher time frame using the tools explained in the previous chapters. I don't like to use the word trend, because in day trading it can change faster than you think. First of all, here are a few brief explanations.

Ross Hooks are called the temporary end points of a trend section. They were named after my mentor and always arise when profit-taking occurs within a strong trend (short covering in downtrends or long liquidation in uptrends). If the trend is then resumed, a Ross Hook must inevitably be taken out. This was called "Take out of the Hook" in my apprenticeship. None of this should be difficult to understand, because it is based on normal price action of an intact trend.

Ledges are parallel mini-congestion zones that form in strong trend sections when the trend comes to a break. In my experience a Ledge should not have more than 8 candles (usually 4-6). If you have a little practice, you can quickly draw them in by connecting two absolute highs or lows or even candle bodies with each other. One tick is not important. A single candle can also have a completely different length within a ledge.

With Ledges you should distinguish 2 types. With direct ledges, there is no real hook because it does not interrupt the trend much. Hanging ledges are the better ones, because they can only be created after a hook has become clearly visible. They have more price potential if the trend is resumed. The following intraday chart shows some direct ledges on the Fdax in a strong intraday trend.

Figure 56: Direct Ledges Fdax



You can trade breakouts from a direct ledge, but that is not what I prefer. The next chart shows two ledges hanging back in a strong trend on a 1 minute chart on a volatile day of the Nasdaq 100 Future. I filtered these with flexible volume profiles. In this case, the beginning of the trend could be localized on a 15 minute chart beforehand.

Only a year ago, a 1 minute time frame would not have been considered here. But the volatility in the year 2020 makes it possible for day traders to trade in this time frame with regard to an intraday trend or significant price segment. In general, however, it should be known that downtrends are much faster than uptrends. You can choose a one-minute time frame as long as the chart does not form any angular, boxy shapes or many spider legs. This was not the case on the following Nasdaq chart.

Figure 57: Hanging Ledge Mini Nasdaq Future September 2020, (1 min. chart, CET)

P profiles are normally bullish. However, in chapter 7 it was said that P profiles are also found at the end of temporary upward movements. This is the case here, if you look only at the small zones with the flexible volume profiles. These were drawn in after a hanging ledge was "in the making". Finally, a strong trend had begun and it was suggested that this might be a short counter-trend movement, which would have to be reversed in a strong trend. But who knows that in advance? At least the resulting P profile suggested that the short covering process could soon be over. With breakout of the Ledge to the downside, the POC of the Flex VP is undercut. Exactly at this point it is a good idea to enter a trade in trend direction, unless you were already positioned at the beginning of the trend. There is not "the" one method, but always a more aggressive or defensive behavior of a trader.

If in a strong intraday trend you see a Ross Hook followed by a trailing Ledge plus P profile (b profile in an uptrend), then there is a high probability that the trend has resumed before the Hook is taken out. A starting point is always a drop below the Flex VP POC.

In the past, I used to try to deal with these situations from time to time as well. But you always had to act more or less blindly. In the end, you can never be sure whether a trend will really continue if you just have a normal chart available. The trend is your friend till it ends. However, if a P profile is formed together with the breakout from a trailing ledge in the trend direction, the situation is different. In such a case, OTF's (other time frame traders) step on the gas again after taking a short break.

All this can be additionally secured with order flow signals, but it is not necessary with P and b ledges on a 1 minute chart. In this case you had six indications for a low risk entry.

- Established trend

- Hook

- Hanging ledge

- P Profile

- Passing below the POC

- Order Flow confirm if required

Ledge No. 1 on the left side of this chart scored 120 points or more, Ledge No. 2 more than 70 points. After entry, there was no reason to end the trade earlier.

Now you could say that you could have seen this with an optimized moving average, a Keltner channel, an indicator, Bollinger bands or "just like that" and so on. The problem with all these indicators, however, is that they only prove to be correct in retrospect. If you are honest with yourself, you have experienced many situations where a hoped-for trend came to a halt exactly after you entered it. For this reason there will never be trading systems that work, because they only work with past values. In this case, however, you will receive hints from the present. A P-profile indicated short covering, a drop below the Flex POC plus order flow signaled a clear action of the OTF's in the here and now. This is the exact difference between this form of analysis and indicators. Indicators always lag behind.

The maximum risk on both trades was 15 Nasdaq points. This setup has to go into profit immediately as soon as the POC with closing price is breached and the breakout of the ledge occurs. The stop is immediately moved to break even if a follow through takes place, because the entire trading plan was based on a strong trend. If there had not been an immediate follow through, this plan would have become obsolete in a few seconds. Now one can ask if this has anything to do with scalping. In my opinion no, because everything was based on the imminent expectation of a new trend section. Scalpers do not go for 100 points on the Nasdaq. It was just a 1 minute time frame, which was optimal under the given volatility conditions. Even in this time frame clear and well filled candles were formed, but a situation that was easy to interpret. In chapter 19.7 you find some more examples.

These special setups do not appear often. But they can sometimes present real gifts to a day trader who knows how to handle them.

18. Broadening Tops - a Warning Signal

Broadening tops are classic patterns which even today still have a significance that should not be underestimated. They rarely occur and characterise situations in which large market participants are beginning to leave the market or have already done so. This results in chaotic-looking oscillations that are difficult to interpret. Broadening tops occur at the end of long upward movements. They are characterised by five diverging oscillations that are difficult for traders to interpret. A retracement follows afterwards, which in most cases makes up 40 - 60% of the last downswing.

This pattern was first described in detail by Richard M. Schabacker. He is regarded as the real father of Technical Analysis. In his work "Technical Analysis and Stock Market Profits"(annex) he gives examples from 1928 to 1936 and explained the fundamental background. Broadening Tops always occur when liquidity is depleted and large market participants leave the market. There are no bottoms in the opposite sense to other chart patterns.

The following chart caught my attention in the afternoon of 20.2.20 Broadening tops are sometimes called "megaphones" but it is not necessarily the same. A real Broadening Top is only created when both the high and low of each swing form a new extreme. BT's are easiest to locate if you number the beginning of each swing with numbers from 1 - 5

Figure 58: E-Mini S&P 20.2.20 (60 min. chart, CET)

With every new low/high the next number begins. The pattern is complete when there is a downswing from point 5 which reaches below the low of point 4. I have marked this with a horizontal line. Normally the closing price of the last downswing must be below point 4. But the last part of Downswing No.5 was so violent in this case, that it became obvious that something special had happened here.

Afterwards the already mentioned retracement followed. This reaches in most cases 40 - 60% of the price fluctuation from point 4 to point 5. Often you can see two last upswings which form the retracement. In this case it was a bearish zigzag. In the following days the S&P experienced a sell off in a way not seen before. By the end of the following week it had lost almost 600 points.

Grafik 59: E-Mini S&P end of February 2020 (60 min. chart, CET)

In this book, possibilities were shown how to work with flexible volume profiles and keep an eye on the big picture. An order flow day trader, who takes just a few important things of chart technique into consideration, did not need to know anything about Broadening Tops. All he had to do was plot a trading range plus volume profile, note the false breakout upwards and extend the POC of the flexible volume profile before the start of the following main session. Although a ricochet only occurred here at the end of the main trading session, he would have had a very good idea about the direction of the next few days, as we were dealing with a 60 minute chart.

Figure 60: E-Mini S&P end of February 2020, (60 min. chart, CET)

After the fake breakout OTF Sellers acted highly aggressive. The time volume spike in the sub chart shows this. Now the Broadening Top was completed. I have taken this example to show how helpful flexible volume profiles can be in combination with some technical knowledge. Again I mean trading ranges. They are extremely important. This is where the potential for future movements is created. If you know how to plot and interpret them, you can get signals that are very important. And it was the same here. The extended POC of the volume profile indicated the beginning of one of the sharpest corrections in the history of the stock markets. This example once again underlines the main theses of this book.

Every major trend begins with turning points on a small time frame (Got it now?)

If you observe the false breakout from the trading range shown in the last chart more closely, then you will also see a broadening top here, which would have been very visible at a smaller time frame. This would have provided further confirmation.

A beginning trend is always the best starting point for a day trader, but this is true for everything. When your neighbor starts to talk about something, the trend is already old. In chapter 13 volatility thresholds were shown, which in my experience seem to make sense. On this day a volatility phase started, which forms the V and L optimum shown at the beginning of this chapter. Only more than 14 days later the upper limit of the volatility threshold was reached. At this point, day traders ran into the fire of an exuberant volatility, which was fueled like a bush fire by the dried up liquidity.

19. Complete Examples

The high volatility of the markets in 2020 makes it more difficult to find reference zones resulting from past days. The overall trend is often not clearly defined and can change quickly. Therefore, this book also presented methods to use volume profiles highly flexibly within intraday segments.

At the end of the main part of my book, I would like to present a few current examples, which contain all the elements described in this book. A daytrader should never act spontaneously or prematurely, but always take as many probabilities as possible on his side before he considers a trade.

He must always find a story that is made up of a puzzle and patiently wait for promising situations. The art is to constantly switch between time frames and profiles. It would be too easy if you always assumed a fixed 30-60 minute profile based on the 5/4/3/2/1 previous days and then constantly expected meaningful reference points for the current day. But even with that there are good opportunities as you could see over large parts of the book

All the following examples were analysed without DOM Ladder, Smart Tape, Heatmap, VWAP, Multi Trading Screens, Tick charts, Range charts, Big Trades, Speed of Tape, Betha xyz systems or other feature. In order to localise the promising situations shown here, no colourful basket of analysis tools was needed, but a few important basic knowledges of charts, volume and market profile, delta and footprints. However, this does not mean that everything was super easy.

If you go to a forest to pick mushrooms, you don't need to know all the varieties. Only the poisonous ones!

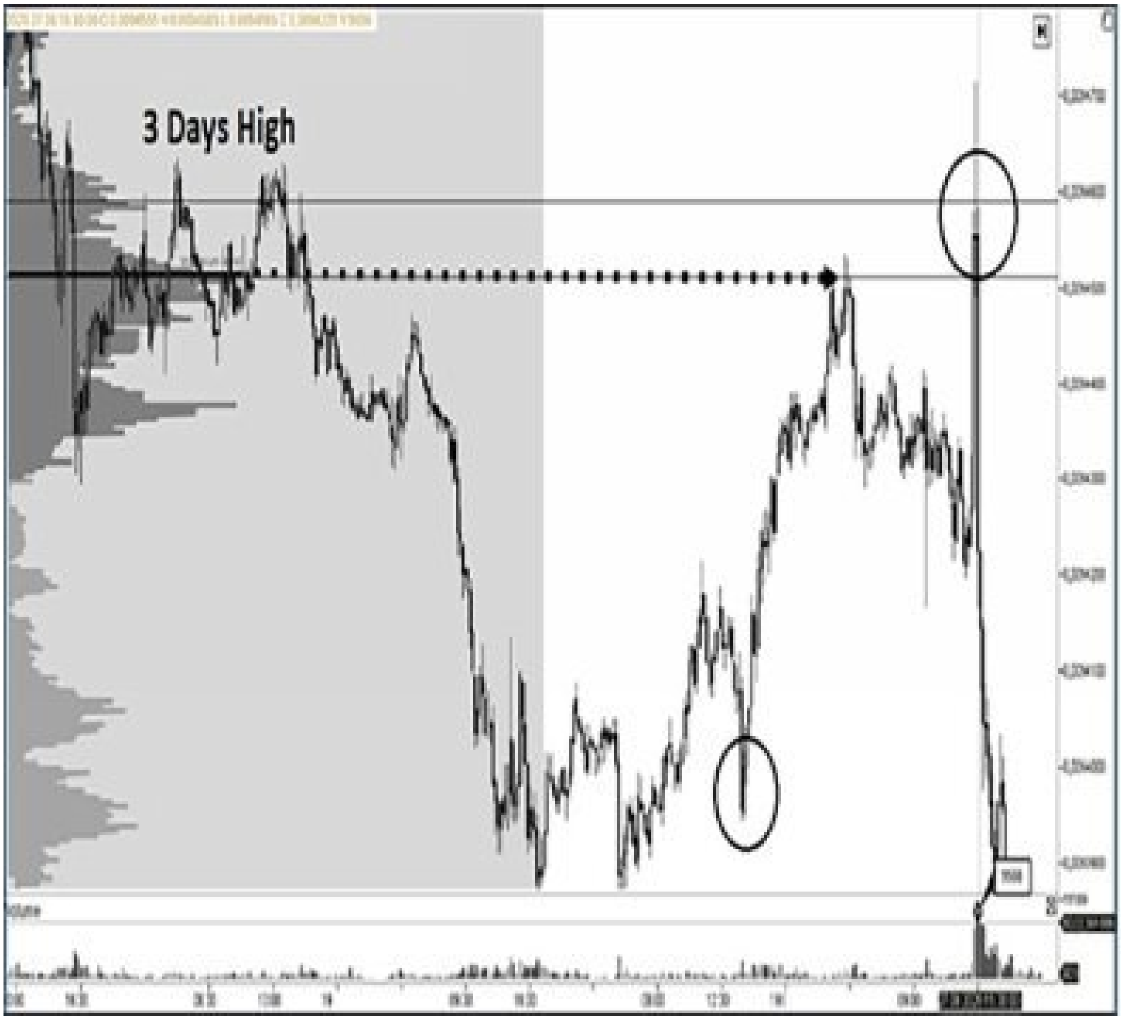
The focus should always be on an orderly approach, which includes as many marginal factors as possible and tries to classify them. Everything should be kept as simple as possible.

19.1 Yen

We will now come to a special form of reversal. This is a clash between two major market participants. I have chosen the yen future as an example. It corresponds to the JPY/USD currency pair. In forex trading, this is usually shown in reverse as USD/JPY. The yen future requires a little experience and is not a popular trading instrument for many traders, but at times it delivers more dynamic movements than EUR/USD. It can also be used to judge the authenticity of movements in the stock market. The yen has a reputation as a crisis currency, but this is based more on its carry trade function, another issue. In the chapter on the characteristics of individual trading instruments, I forgot to mention that this currency pair also reacts strongly at times to changes in the US interest rate structure.

The following example is not for weak-nerve traders, but it was clearly and safely calculable. The yen future had made a downswing at the end of August, which was completely covered on the next chart with a flexible volume profile on a 15 minute chart. The extended POC of this profile showed a "normal" rebound movement after the opening of Asian trading.

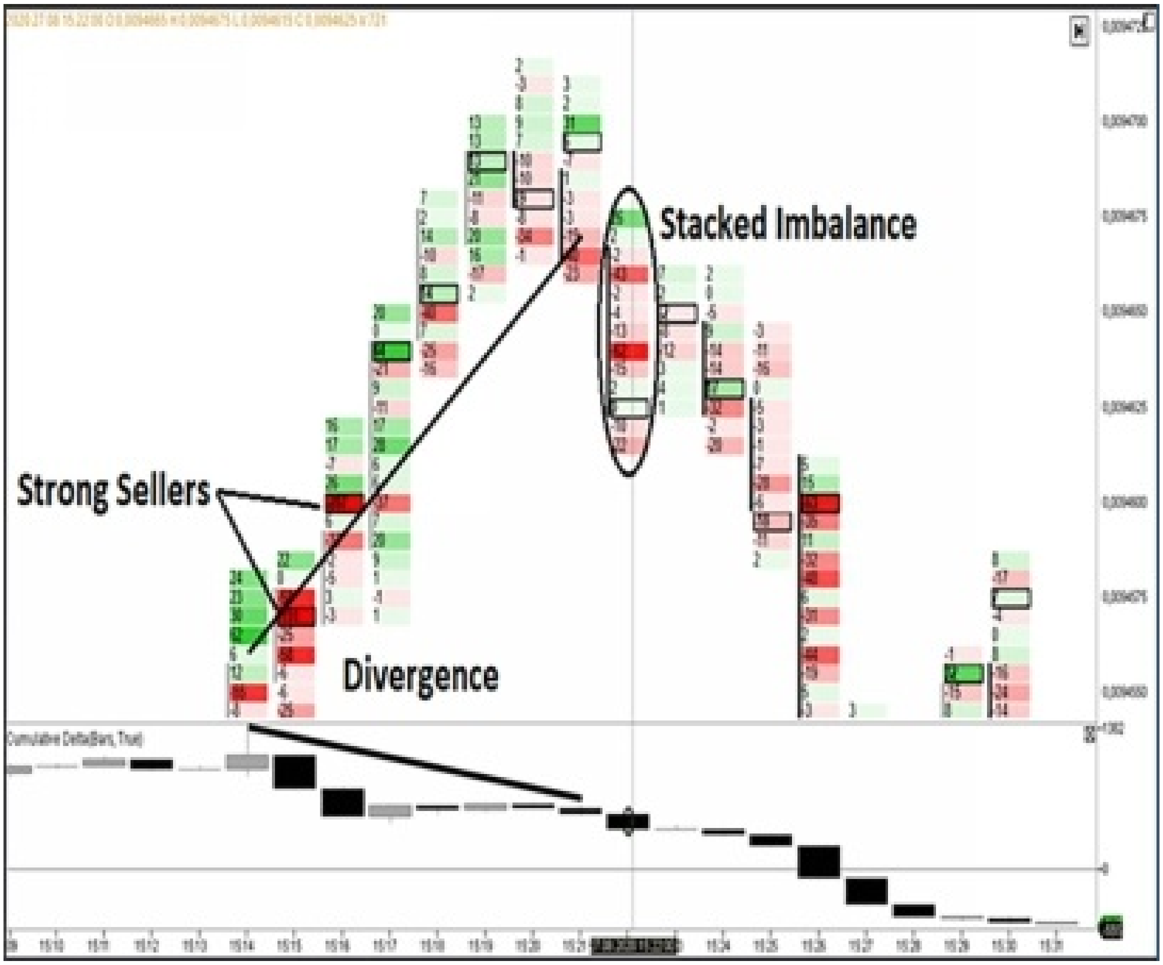
Figure 61: Yen Future August 2020 (15 minute chart, CET)



The rebound movement visible here through the arrow offered a good opportunity for day traders based in Asia to take up a profitable short position. The day before had already provided an opportunity when the Yen Future made a quick recovery rally after bouncing off the lower high volume cluster of the profile. The Yen Future is not a trading instrument for every day, but provides dynamic movements every now and then

On the new trading day on the right side of the chart, there was a sudden sharp rise half an hour before US main trading hours. However, this stopped near the 3 day high. The resistance of the high volume area in the upper left part of the chart was also only broken halfheartedly. A daytrader who has an eye on the yen would have immediately switched to a 1 minute time frame now. In this case I now show the Delta numbers, but it could also be the Footprint.

Figure 62: Yen Future August 2020 (1 min. Chart, CET, CET)



Here you can see strong institutional sales during the rise on the left. OTF sellers sold into the rising market. However, other OTFs must have bought. A clash of interests. A divergence formed on the Delta chart. In such a situation it is important that this divergence is resolved.This happened in the marked area (ellipse and cursor) At exactly this time the POC (black window in the marked area) also fell and many red delta numbers appeared on the main chart. On the Footprintchart you would see a stacked imbalance at the same time. OTF's started to sell aggressively. In such situations, an immediate short entry should be made which is automatically linked to a stop-loss order (bracket order). However, you should first switch on a news ticker and check whether there is any "unscheduled news". You had about 20 minutes time for this. The economic calendar did not show any publication of important data. In this situation you had several factors behind you

- The resistance at the VP AND the 3 day high could not be broken.

- Footprint and Deltachart showed aggressive sellers

- Falling POC

- Resolution of a delta divergence

Such trades are not for beginners, but also not too difficult if you have a timetable and do not react hectically. You had enough time to analyse the situation. I show this example because there are different types of traders and this book is also read by trading colleagues in Asia who trade USDJPY. Every trader has to find a style and trading Instrument that suits him or her best. More about this can be found in the bonus chapter.

Again, a trader would not have committed a risk violation because he would have checked the situation and would have been able to control it with a stoploss when entering. The Yen is also tradable as a micro contract. However, only the most liquid market phases are considered for this. But it is a good trading instrument that can provide quick intraday trends from time to time, if you know it sufficiently. I do not want to advocate the yen, but it is an instrument which offers 3 peak trading times during a 24h period, good for asian based traders.

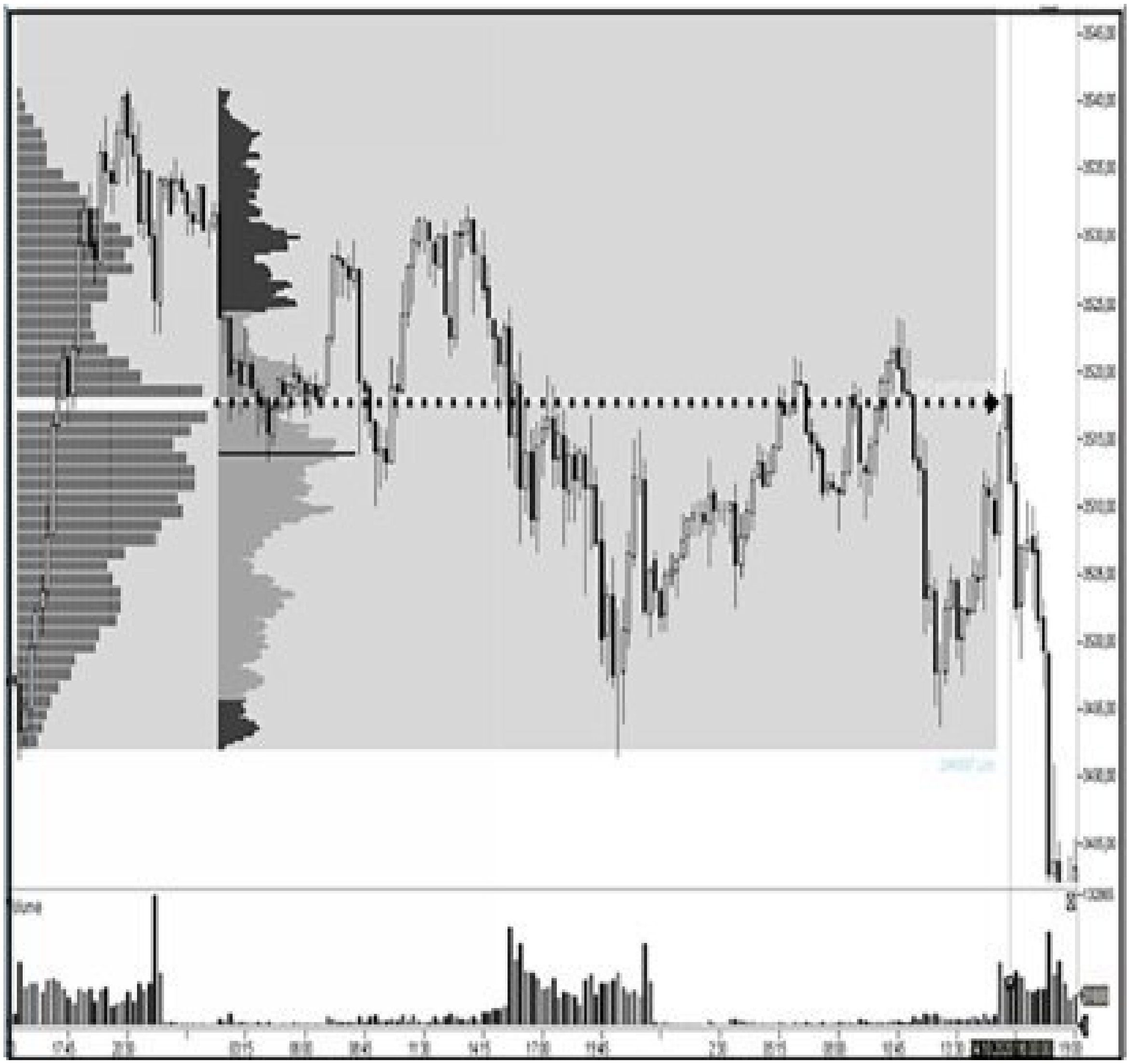
19.2 E-Mini S&P

This example is somewhat easier to understand. On the following chart, a trading range was once again formed, which was mapped out with MP and VP. The use of the market profile is always very useful when dealing with a situation in which mainly sideways movements occur. OTF's are increasingly building up positions in trading ranges.

Tip:

The most important task of a day trader is to locate the end of a trading range

Figure 63: E-Mini S&P October 2020 (15 min. chart, CET)

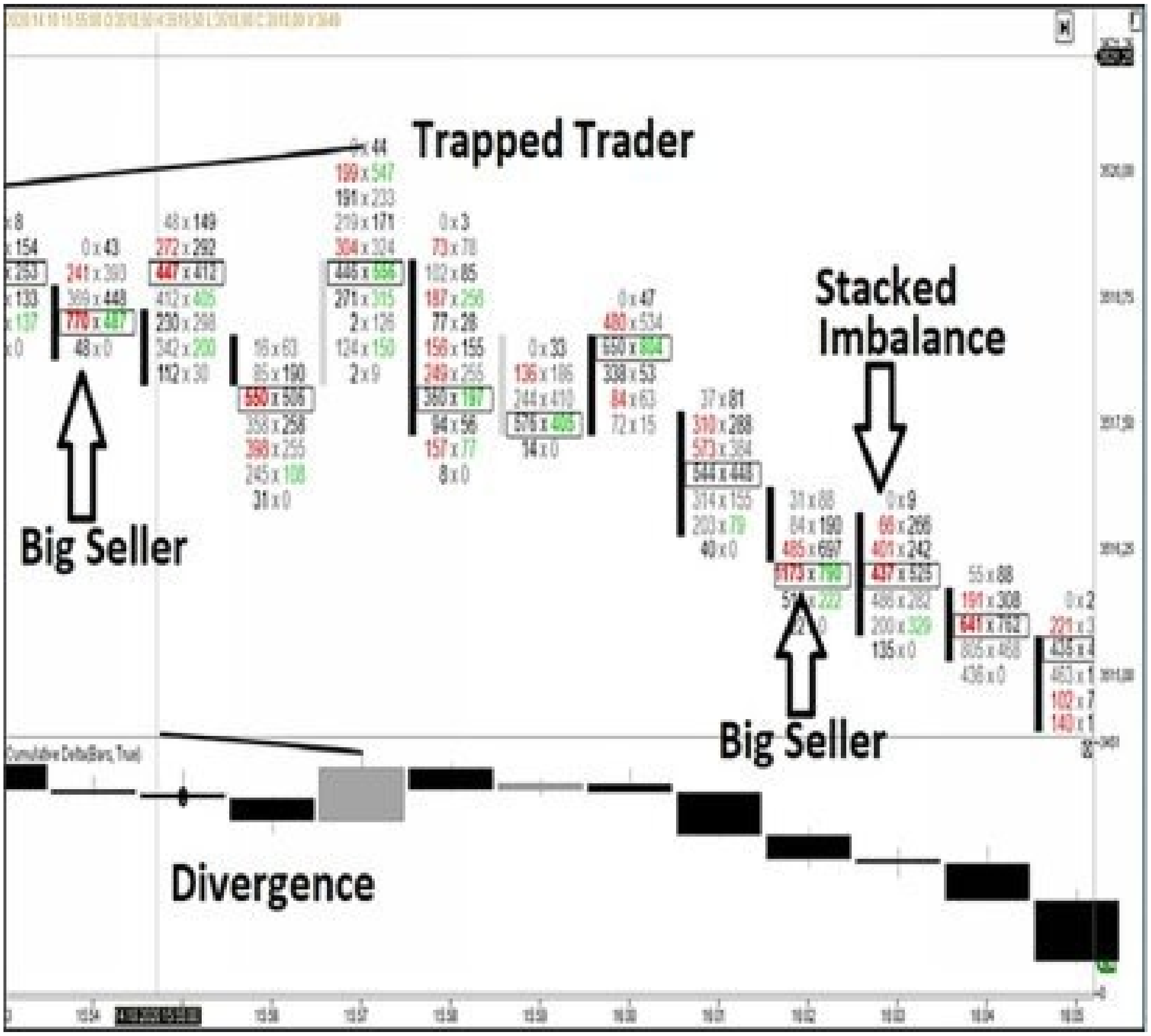


In the first phase of the new trading day the price reached a high volume area. This is situated at the POC of the market profile. This means that OTFs found plenty of liquidity here to call stops and initiate a countermovement if necessary. This was not known at that time. But the market profile gave an indication that should be followed. So you switch to the smallest time frame, which shows clearly recognisable charts, to observe the situation closel

Figure 64: E-Mini October 2020. (1 min. chart, CET)

Here, 20 minutes after the opening of the Main Session, a direct Delta Divergence began to form. This meant that strong market participants were selling into the rising market. While the mass of trend traders welcomed a new high, OTF's sellers were ready to turn around the market. When the divergence started to dissolve (grey circle), it was time to take a look at the Footprint Chart, because just looking on the charts there was no confirmation that OTF's were really active.

Figure 65: E-Mini October 2020, (1 min. chart, CET)



Here the assumption was confirmed. On the left side you can see a large OTF selling into the rising market. 5 minutes after the false high was formed, the large seller appeared again, this time massively (1173 contracts). Traders who had bought the new high were now trapped. A stacked imbalance is immediately seen afterwards. This was the safest point for a daytrader to take a low risk short position.

- The large picture indicated the presence of Other Time Frame Sellers

- Approximately 20 minutes after opening, an important resistance zone (POC of the long-term market profile) was reached

- A delta divergence appeared on the 1 min. chart

- The Footprint Chart showed exactly when big players were beginning to move the market aggressively.

This chart is not "cherrypicked". I just saw it by chance when I wrote this chapter. A smart daytrader needed only a few minutes to plan this trade. But he must have a method, work (and think) in an organised way and develop "his" working routine. He doesn't have to sit in front of the computer all day or look at DOM's until he gets a headache. He must try to understand what the market is telling him, and not blindly follow chart patterns that he has learned in his books. If the scenario he expects does not come true, he will not act. And even if a trade turns out to be a loser after entry, he has nothing to blame himself for because he

- implemented its plan

- limited his risk

19.3 Fdax

In this example, the Fdax had made another leg down the day before after a consolidation phase in a downward trend. The previous day's market profile formed a selling tail, indicating that institutional traders were still interested in holding short positions and bringing the market down a bit more.

I have projected the market profile here once again with letters. Actually you only need to remember the letters A and B. But the single prints (imbalances) and the initial balance can be displayed in colour on the block system.

Figure 66: FDAX July 2020 (15 min. chart, CET)

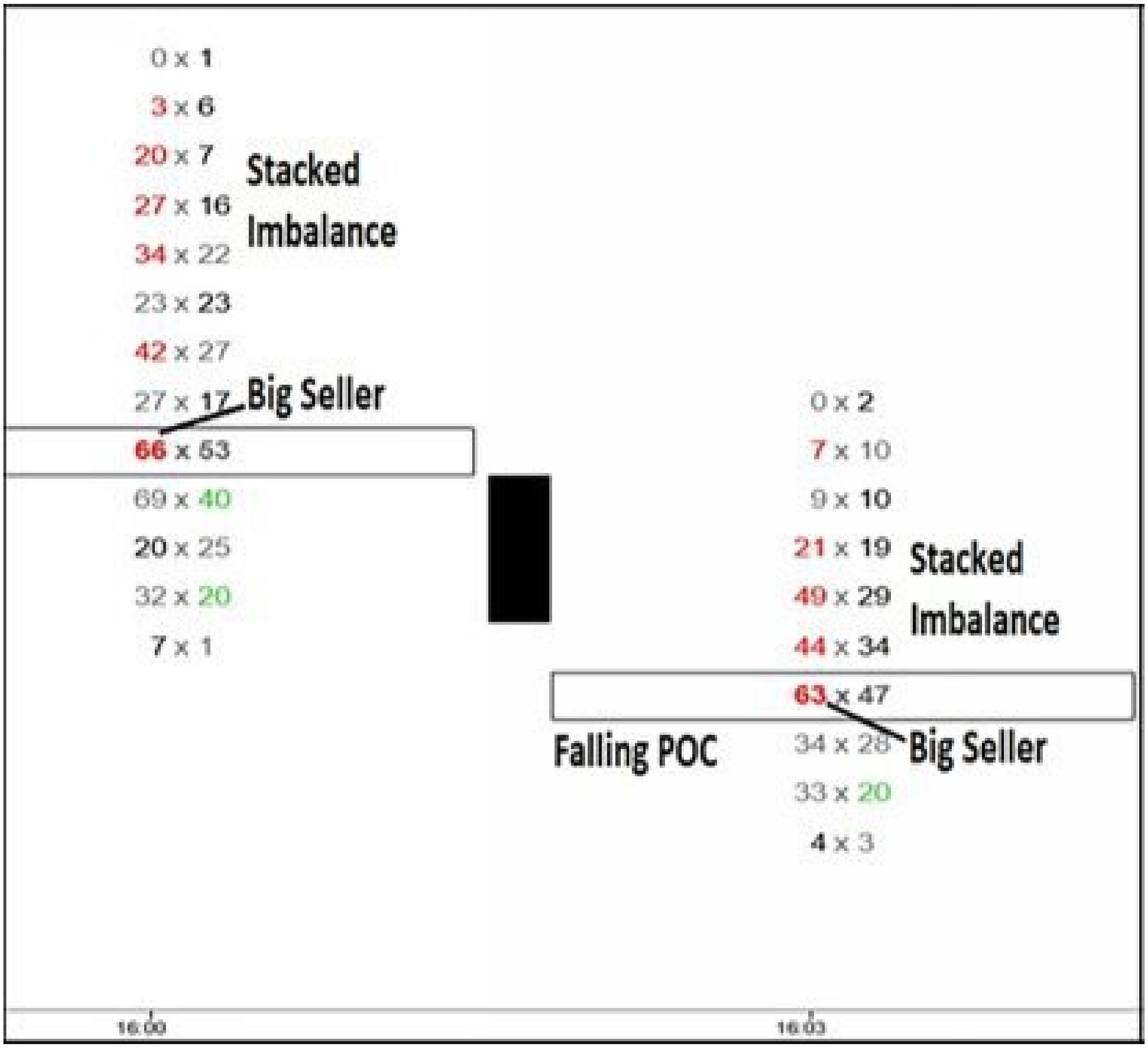
After the opening of institutional trading at 9.00 CET, the FDAX remained within the previous day's value area. Now, yesterday's VPOC is being extended, because a short trade in the sense of a ricochet would perhaps be a good idea there. At 10.45 the price reached this zone for the first time. The index was not able to overcome this resistance. However, a review at a smaller time frame did not provide any signals on the Footprint chart or the Delta chart Order Flow that clearly supported a short trade. Now we can wait for a second bounceback. This became visible 15 minutes after the opening of US trading. Again a smaller time frame is switched on to look for a low risk short trade.

Figure 67: FDAX end of July 2020 (3 min. chart, CET)

On the 3 minute chart you can see an accumulation set-up. Shortly before the hoped for second bounceback took place you can see a delta divergence near the zero line. For the Dax the cum Delta zero line plays a preferred role. Smart money started selling just before the US opening, but at the same time staged a false breakout from the trading range upwards to catch the stops at the round 12,500 barrier. This is not uncommon with the Dax, as it is the most "optioned" index in the world, with thousands of warrants that are knocked out when important levels are crossed. This kind of procedures can trigger unpredictable fluctuations (not so “unpredictable” for the sellers of knock out products…lol). This is what foreigners (I am German) who like to trade the Dax should know, because it is a different situation compared to other main indices. Apart from this the later afternoon the index no longer has a life of its own.

With the opening of the US market the Fdax. US Opening phases are usually volatile. OTF`s sold immediateley after the POC of the previous day war reached again. It was a good indication that this zone had held. What else could be observed? The POC of the flexible volume profile did not even start to rise when the price made a false breakout before the US opening. OTF sellers were still in control. After the volatility had eased, two candles were seen near the arrow that could be considered for a trade. Now take a look at the Footprint Chart, as further confirmation is needed.

Figure 68: Footprint FDax (3 min. chart, CET)



The double-digit numbers of sold contracts show how little liquidity this future really has compared to the E-Minis or Hang Seng.

On the small time frame, the Footprint showed stacked imbalances for both eligible candles and afterwards one larger seller for each. The POC of the second candle fell (black window). This pointed to further weakness. Now nothing hindered a trade entry. All criteria had pointed to a profitable trade. The initial risk was 20 points, the profit about 200 points, because the order flow tools gave no reason to exit earlier. It is worth waiting for this type of trade. You do not have to trade every day. To much trading is a big problem for many daytraders. In this situation, a given scenario had been worked out, which had bee planned before. If this would not have happened, one would not have acted at all.

- The big picture had indicated the market direction

- The small picture had confirmed this
- Orderflow tools confirmed that Other Time Frame Sellers were still in control

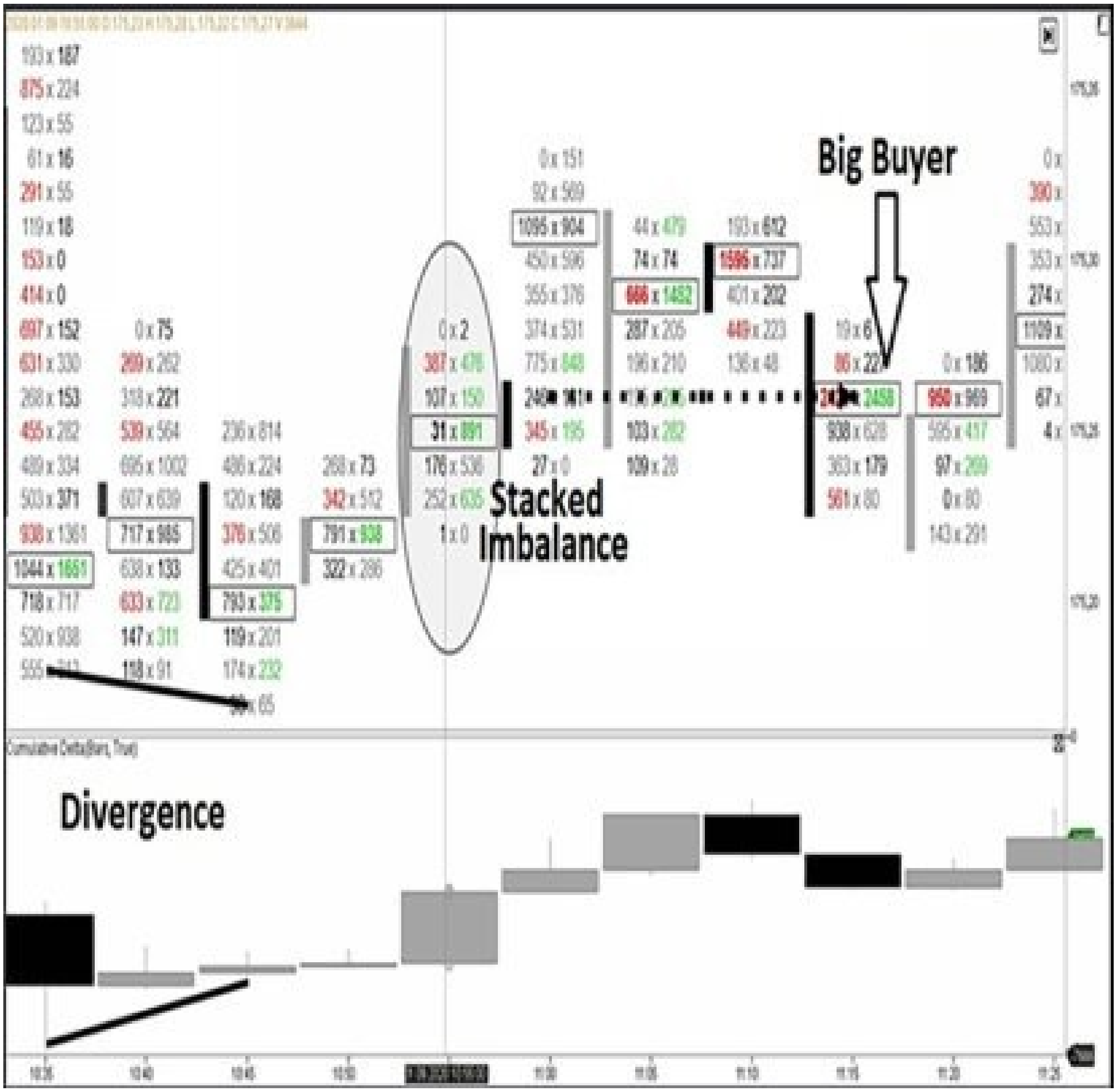
19.4 Bund Future

In this book you could learn that after 1 - 2 long candles you should think about a possible trading range. This is exactly what you see here at the Bund Future. The trading range extended over three days. This is a crucial point, when it comes to assess the further situation. In the morning of September 1st you looked at the 30 min. chart with a triple bottom exactly two hours after the opening. Enough time to evaluate the situation and think about a trading plan.

Figure 69: German Bund August / September 2020 (30 min. chart, MEZ)

As always you would switch to a smaller time frame now. As Bund Future is a slower market a 5 min. Time frame would serve.

Figure 70: Footprint German Bund August / September (5 min. chart, CET)



At 10.55 CET (CET) the 5 minute Footprint Chart showed a clear stacked imbalance. By this I mean that it was precisely in this zone that buyers outperformed sellers by far more than three times (lift the ask). Prior to this, a delta divergence can be seen, which dissolved at exactly the time when the imbalance emerged. You can also see that the POC had now risen (ellipse). 15 minutes later a very large OTF buyer appeared. An upward trend began, which continued until the end of trading. In the afternoon there was another opportunity in the form of a follow-up set-up (chapter 10.1)

19.5 A Day with Crude Oil

Figure 71: Light Sweet Crude September 2020 (1 min. chart, MEZ)

The liquidity of oil improved in the second week of September. A downward trend became stronger. On the 8th of september 20 a new down move took place in morning of US trading. This was recorded with a Flex VP on an intraday basis. In chapter 8.2 it was explained that flexible volume profiles should be used especially if you do not get indications from the big picture of the previous days. For example, when the market is in a strong downtrend like here.

If you see coherent chart structures on the small intraday time frame, which are generated on the same day during the main trade, then you map them out with volume profiles. In this case it was another continuous downward movement during the first hour of trading in a bearish environment.

In the centre of this profile you can see a double distribution profile pattern.

The balloon on the left is the buffer zone. In chapter 9 it was said that with double distribution patterns the price does not always have to come back completely to a high volume cluster where the balloon was inflated firstly. It depends on the respective trend strength. It was also said that the strongest movements logically take place in thin profile zones. With oil in particular, you should remember to draw in the thinest profile zones as well. These were called **"low volume nodes"** in chapter 5 and were marked here with a horizontal line. A first rebound took place exactly there.

It is always important to put yourself in the situation and thinking of the mass of chart traders. What could be observed here? At the lowest point in the middle of the chart, retail traders initially saw a break in the trend line (or a "channel") to the upside. Now it seemed that the downtrend had come to an end. Subsequently many of them took a long position. Afterwards a textbook inverse SKS pattern formed, which lured other chart traders into a long position. In order to sharpen your awareness for such situations you should read the chapter about fake moves in the bonus chapter. It was no surprise that the hoped-for upward movement came to a halt. On the Delta Chart, a divergence with absorption now formed. A possible short trade became visible. It was confirmed by a stacked imbalance on the footprint chart.

Afterwards the market made a smooth profitable downward movement. 40 ticks of oil on a 1 minute chart with an initial risk of less than 10 ticks and a total trading time of 15 minutes is more than satisfactory. The following chart shows this on the left side. However, this trading day offered a second opportunity.

Chart 72: Light sweet crude September 2020 (1 min. chart, CET)

On the left side you can see the course of Trade 1. As this was a new continuous movement, the profile of this part of the day is shown here as well. The POC of the volume profile in the lower area gave an indication of an exit of Trade 1, as a strong support had now formed here.

With the recent excessive down move left (Trade 1), the market had apparently gone too far. It initially went into a sideways phase. This is normal. The extended POC indicated a possible second trade about 60 minutes later. When the potential entry zone on the right side was reached, a setup of the usual kind (delta divergence, stacked imbalance, big buyer) formed again. I marked this zone with the circle

Graph 73: Light sweet crude September (1 min. chart, CET)

But here you had to be a bit more aggressive as a day trader. The market had accumulated a lot of potential for recovery and when the divergence dissolved, a really big buyer stepped in. He bought 98 contracts initially and 138 contracts after a stacked imbalance.

A day like this can offer a day trader enough for a whole week or much longer. Oil had now fallen for several days. Large buyers entered the market. Everything was clearly visible to a VP and Order Flow day trader. Normal support lines would not have provided any concrete indications. The market rose by 50 ticks in the following 10 minutes. The initial risk was below 10 ticks. 50 ticks means $500 per contract.

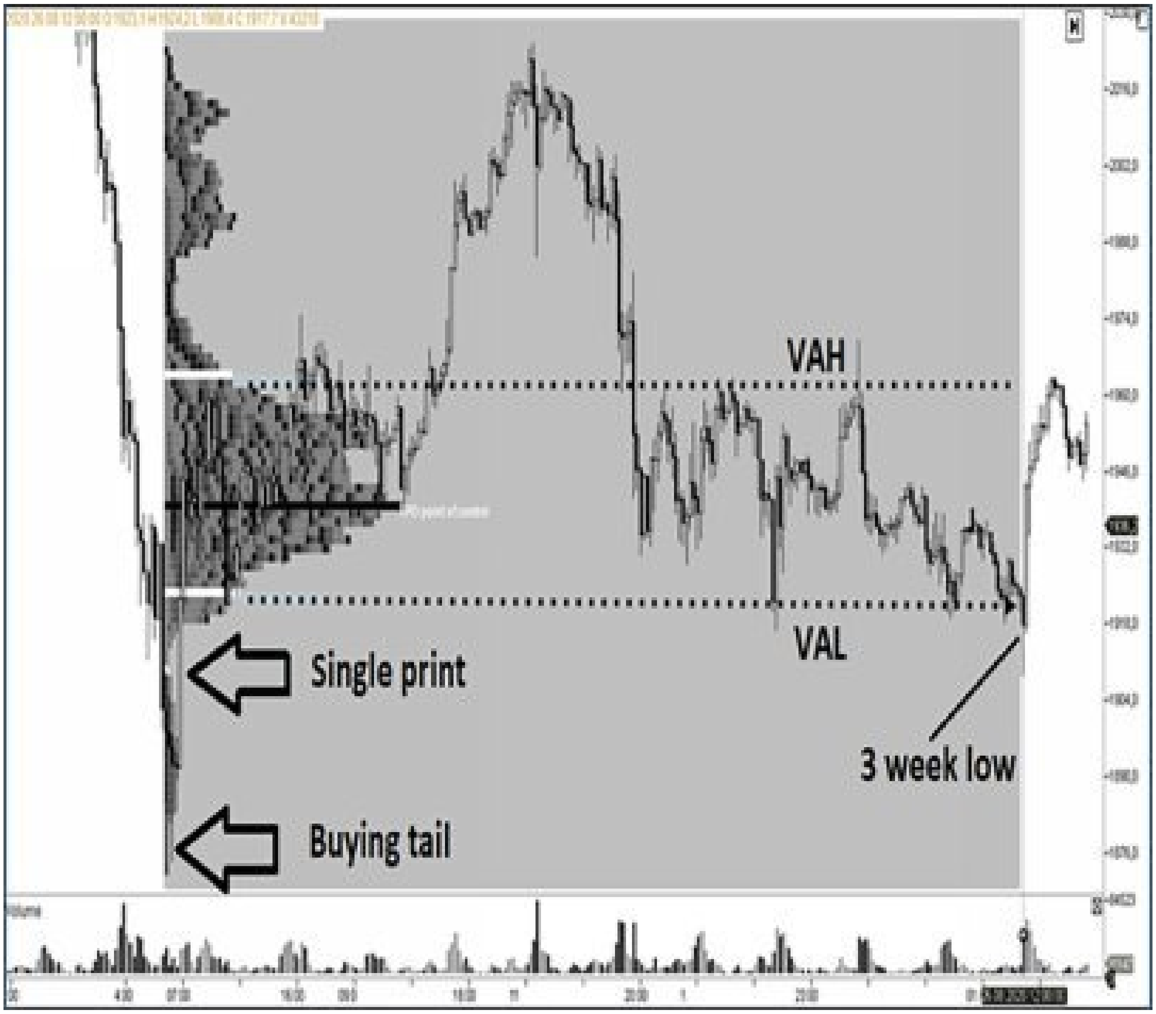
19.6 Gold

Among commodities, crude oil and gold are the main trading instruments. Unfortunately, the popular product silver is not as well tradable as gold as a future because it has insufficient liquidity.

There are good filters for precious metals that can be displayed in charts in an uncomplicated way. In the case of precious metals, it may also be a good idea to buy first-class mining shares via CFD and keep them longer if situations arise that point to a resumption of the trend. Gold is also traded as a forex pair.

On 26th of August 20 gold made a new bottom squeeze similar to the one described in chapter 8.2 (Fig.19) Here the strongly traded December contract was used as a basis.

Figure 74: Gold August 2020 (60 min. chart, UTC-1)

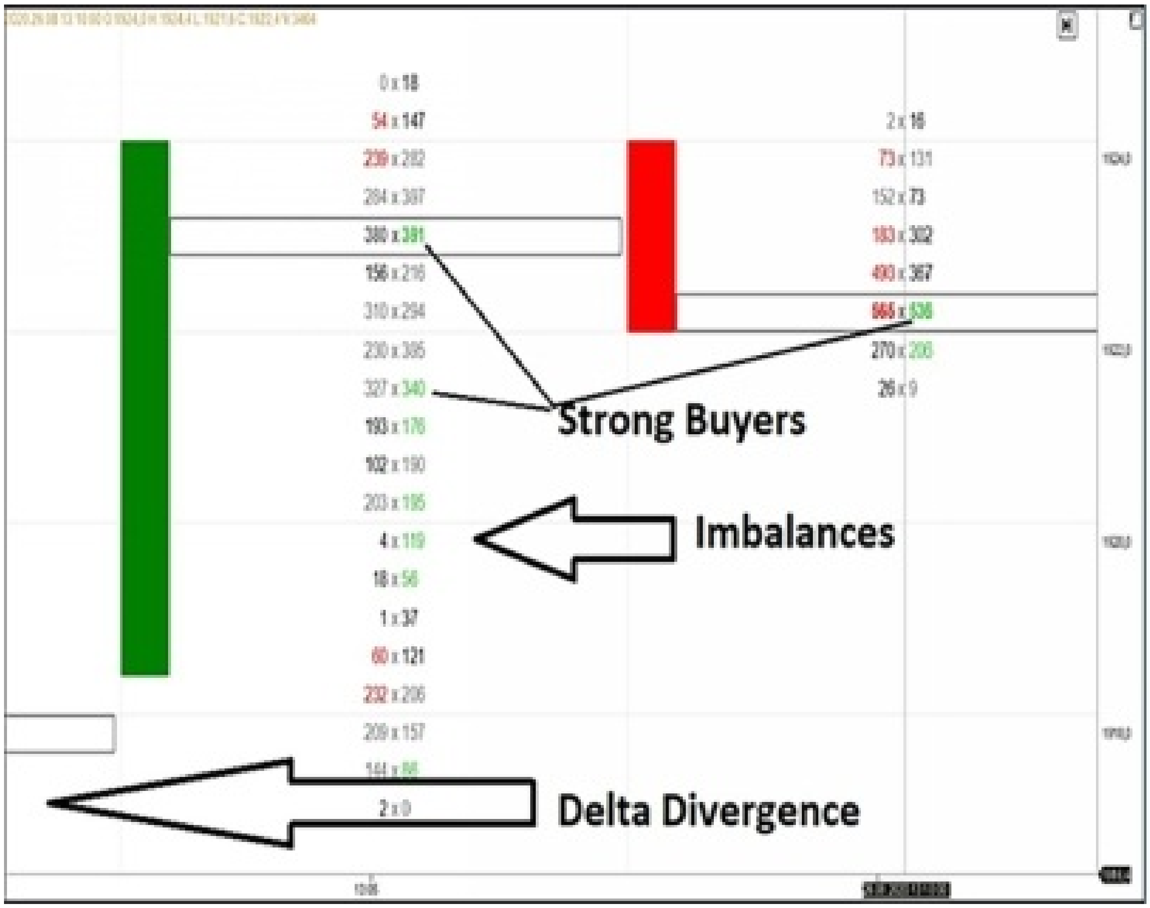


After an all-time high at the beginning of the month, gold made its usual sharp correction. The market profile showed a buying tail and a single print zone pointing to OTF buyers. These initially pushed the price upwards. Gold then went into a seasonal summer break. A D profile was formed. Its significance was discussed several times. Here you can see alternating bounce backs of value area high and low. At the end of August a 3-week low was triggered. A bottom squeeze pattern is also characterized by falling highs but no lows. This was roughly the case here before the start of Comex main trading hours on 26.8. Chartists now saw a descending triangle, which according to the theory of classical technical analysis is a bearish signal. Now that the false breakout occurred, the following picture is presented on a small time frame.

Figure 75: Gold August 2020 (5 min. chart)

Here a situation arose which I have tried to describe in more detail in the important chapter 12.3.2. Power Delta Setups with absorption are the best signals in Bottom Squeezes, because here many trend followers are trapped before. How do you see this in this situation? The price is already making new highs, but Delta's willingness to buy is hanging back. As always, we are looking for a final confirmation on the Footprint, the last link in the chain!Figure

76: Gold August 2020, 5 min. Footprint



After the delta divergence had resolved at 15.00 CET, a stacked imbalance (window) can be seen. Shortly afterwards a strong buyer entered the market. Gold moved in only one direction on this trading day and posted a gain of $36. Almost too much for a daytrader.

19.7 Broadening Top and Ledge Filter

This book also mentioned Broadening Tops and one of my filters for strong trends. The following examples show situations where these special setups provided important information. On 23.9.20 you could see at the E-mini S&P that a Broadening Top had developed in a smaller time frame. The following graphic first shows the overall picture of this day.

Figure 77: E-mini S&P September 2020 (5 min. chart, CET)

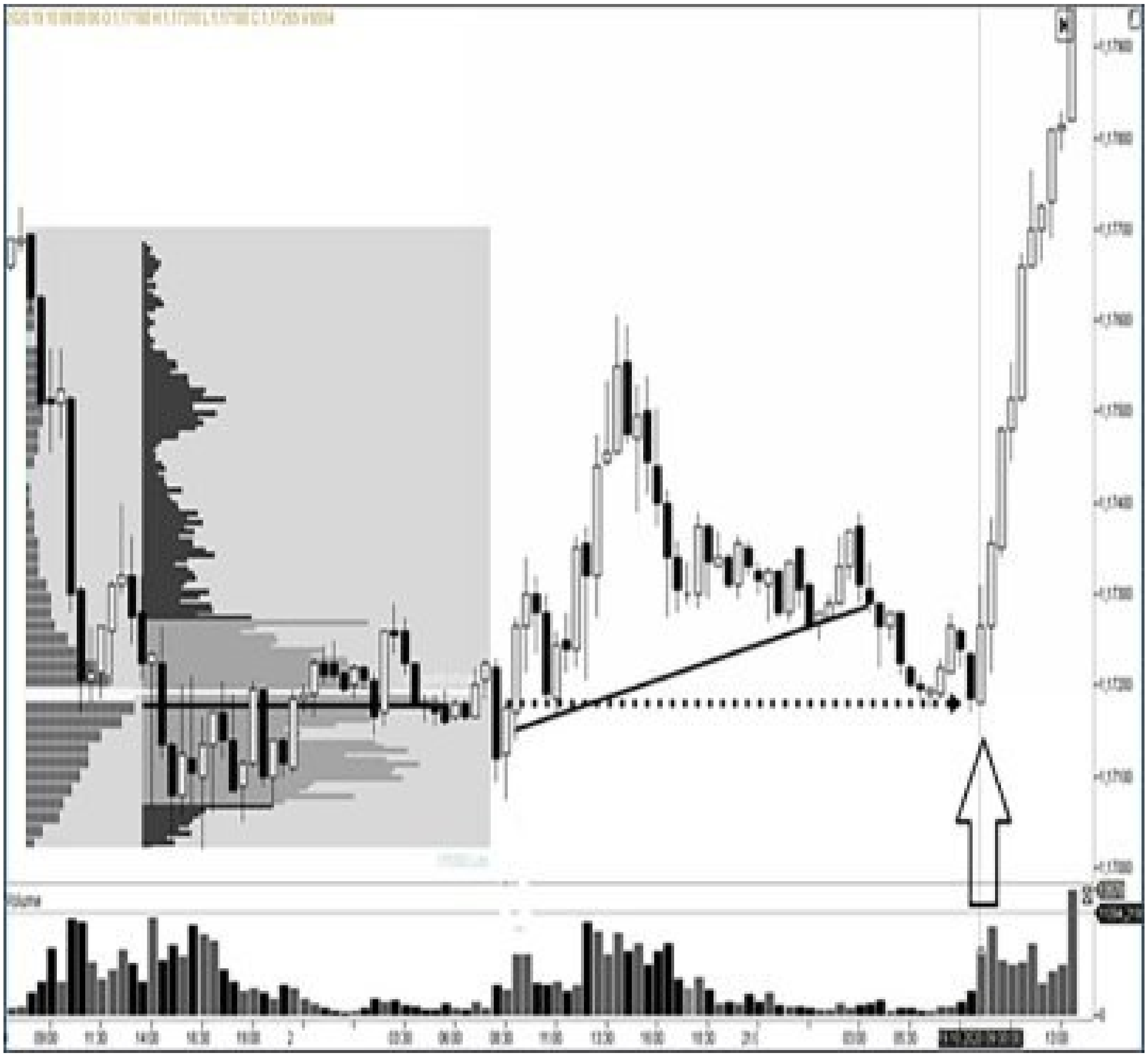
After a strong intraday downtrend had developed, a long liquidation with a Ledge and P Profile took place. With the breakout from the Ledge the downtrend continued. We also see a strong trend on the next chart. After a Ross Hook had formed, a flexible volume profile could be drawn with a Ledge. A follow up trade was possible to improve the result.

Grafik 78: E-Mini S&P October 2020 (1 min. Chart, MEZ)

19.8 EURUSD

The following chart shows a current example of a typical EURUSD setup as shown in the first part of this book.

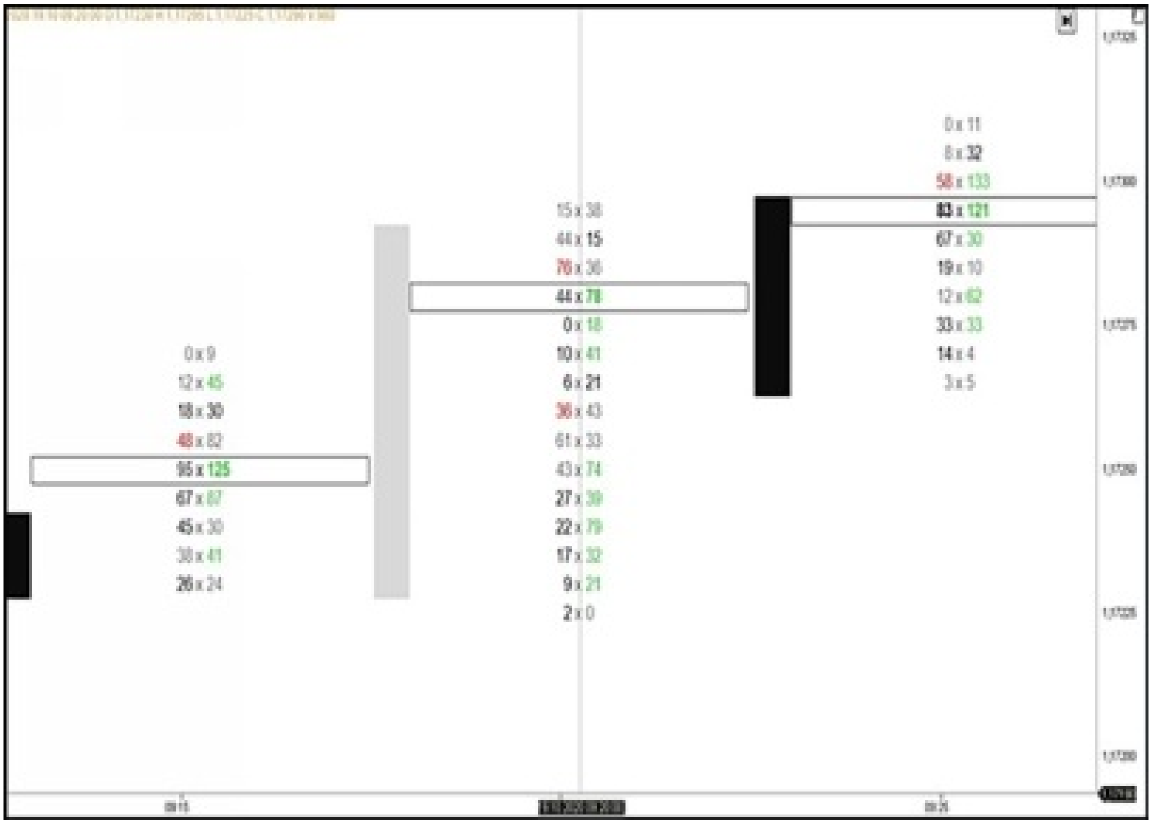
Figure 79: EURUSD October 2020 (30 Min. Chart, CET)



In October, EURUSD bottomed out over a period of two days. No new low was reached. At the beginning of day 3 there was a second bounce back. MPOC and VPOC were briefly undercut at the start of trading. An SHS pattern was faked. Delta gave a long signal. On the Footprint, from 9.15 onwards, you could see imbalances and large buyers, a simple trade.

Do not get stressed in day trading, just wait for these opportunities.

Figure 80: Footprint 3 min. chart



19.9 Weekly Profiles

In chapter 8 I mentioned the importance of weekly and monthly profiles. This set-up provided a very profitable opportunity for crude oil on 21.10.20. All other filters described in this book gave further signals

Figure 81: Light sweet crude October 2020 (5 min. chart, CET)

20. Summary

So much for this overview of the many possibilities that profile and order flow analysis can offer. I hope that the last chapter in particular will help you understand why you cannot and should not always follow the same pattern. All approaches shown here require a thinking trader who does not shoot from the hip like the mass of day traders. The big advantage of the methods described here is that you follow a step-by-step plan. Although this is day trading, in all cases you have enough time to eliminate as many risk factors as possible and not to trade blindly. It is the secret of this book.

All other forms of investment always have excuses when it comes to justifying erroneous assessments in retrospect. Experts in particular tend to be reluctant to admit a mistake and always have excuses at hand. They would only have made a mistake at the time, something unforeseen had come up or they would have made a mistake but "for the right reasons". They are often blinded by their brilliance (Kahnemann, annex).

The methods described here leave less room for excuses, because you do nothing without a concrete confirmation. Furthermore, you find out the result of your efforts after only a few minutes. Your own opinion does not count, because it is not the retail trader who determines the direction of the market. Of course, prediction errors will also occur with the methods described here, because the world is anything but predictable. However, a subjectively colored opinion when trading is far more dangerous. It is not an indicator of correctness. Unsystematically accumulated knowledge leads to wrong decisions. It tempts people to get an increased illusion of abilities, which can easily lead to overestimation.

Perhaps for this reason the loser rate of academics who try trading is disproportionately high. They want precise reasons for everything and tend to put their opinions in the first place. Day trading is not a science in which you always work according to the same pattern. It is an art of relating certain situations to the right time frame. There is no generally valid pattern, because markets are constantly changing.

As a trader today you are confronted with a task that traders of past years or even generations hardly had. In 2020 volatility has returned to the markets and I see no reason why this should change now. What used to happen in a month can now happen in a day. There is no doubt that the entire financial system is heading for change at some point. Nobody knows what is coming.

Looking at the history of evolution, it has always been the small and most adaptable species that have survived. Day traders, who master their craft will be among them. Day trading is one of the very few possibilities to adapt to all market conditions in a highly flexible way.

In this book I discussed the weak points of Technical Analysis. However, this is not meant negatively and I will continue to substantiate this in the bonus chapter with excerpts from my trading library. It is an undeniable fact that no method is able to work forever and ever when fundamental factors have changed. You can't steer a car if you just look in the rear-view mirror.

If you follow the approaches shown here then you should definitely adapt them to your personal style. This is also discussed in the bonus chapter. This makes you independent of a stereotypical mass of retail trader’s right from the start. Without VP and order flow analysis, day traders will always dig like a mole in the dark. If you apply them, you will at least avoid trades that do not provide OTF confirmations and thus reduce your potential loss rate. This brings you closer to an essential basic idea of trading. All good traders distinguish themselves by putting as many probabilities (odds) as possible on their side in their trading decisions. Only this enables them to be successful in the long run.

And this leads to the most important point that applies to trading yesterday and today in general. If you can't find a method that gives you an edge over others, you can act with motivation and discipline. You will bleed out. I mention this point because you keep hearing voices that claim: "Everything is just money management and mindset". If this were really the case, the percentage of losers would be significantly smaller. There are also many absolutely disciplined traders who have no money management or mindset problems. They simply cannot find a constant path to success.

In principle, VP and Order Flow offer an advantage from the start, because they reveal the traces of dominant market participants. Only those players move the market. In bonus chapter 23.1 I tried to explain why the myth of self-fulfilling prophecies has long been dead. It is the main reason for the high loser rate among technically oriented amateur traders. How do you know if big traders have really entered the market or are about to let the mass of traders run into a wall? And how else do you know whether you are dealing with a real or fake breakout? With VP and Order Flow you will always have an objective advantage.

Recently, other terms such as VWAP and Heat map have been making the rounds. I don't use them, because they either generalize too much (VWAP), are not very tangible (Limit Order) and distract from the actual event. It is not the mass of tools that produces success. The strategies described in this book are largely based on a rather simple principle

If something is supposed to happen according to all known methods of analysis, but does not happen, then opportunities arise.

Also the way in which you design your analysis offers enough variation to find strategies that best suit your personal style. For example, I work a lot with flexible volume profiles and Delta If I don't see opportunities that match my view, I simply don't act. That's it! Accordingly, you don't need to spend money on level 2 data - feed of the US markets.

No matter what individual approach you take to profile and order flow trading, it doesn't change the fact that you look at the market from a different angle than the mass of traders. But the most perfect method only works if it is adapted to the respective market situation. This book clearly shows that a correct interpretation of context can make a decisive contribution here.

Order flow trading also offers the possibility of specialization: Absorption, false outbreaks, trading ranges, double distribution profiles, weekly profiles, monthly profiles, liquidity zones, top and bottom squeezes, fake moves, individual markets, specific trading hours, different time frames, etc. It is you who decides for how long you are willing to pay attention to the market.

Do you really want to trade every day or would you rather wait for good opportunities? Do you prefer to trade more aggressively, or are you a very defensive type? Or do you do both depending on the situation. With which trading size do you feel most comfortable? How many sub-positions do you prefer to work with? It can also be about simple things like: Can I concentrate better in the evening or in the morning? When am I undisturbed? All this may sound complicated for a beginner.

But if you are able to experiment and make a few notes, you should be able to find out if day trading is the right thing for you. There are free trial subscriptions available on every charting software. Once a prospective trader has understood the basic principle and knows his instruments, he will have to go his own way from a certain time onwards. This alone gives him the necessary self-confidence and the strength to implement a trading plan. In the bonus chapter you will find a bad examples of this. I learn it the hard way! At that time there was no one I could look over the shoulder of.

There are day traders who sit down in front of the computer in the morning, have no plan and do things that just come into their heads. Let's see what the day brings. In addition they also run news channels with "daily outlooks" or consult with others. Then they spend the whole day in front of the screen and if they fail, they say: "I should have done this and that. I knew it." The next day they make the same mistakes. They sabotage themselves. They save on software and don't know that in the end they lose much more money with free tools because they don't look any deeper.

It is therefore impossible for me to answer question No. 1: "How much can I earn with it? It is better to ask yourself questions like:

-Am I able to understand and learn certain things and follow a few rules?

-Do I manage to free myself from assessments that are presented non-stop on news channels by beautiful faces and smart tie-wearing people?

- Why are there successful traders and why are there losers? Trading is a business. Why do enterprises fail? Because they do not have the right concept, do not have sufficient knowledge, do not do research, do not have ideas and visions, are inflexible and much more.

You can also fail with other things. And today this happens faster than you think. The same rules apply to day trading. If you are seriously interested in this field, you have to decide for yourself whether you spend a lot of time learning outdated theories.

The work on this book took several months with interruptions, because I wanted to document various stages of the important year 2020 and present as many highly topical examples as possible. At the end of this main part, you might wonder whether the methods described here would at some point become more widely known.

This is not to be expected. This book is completely insignificant in view of the hundreds of thousands of retail traders who follow trustfully chart patterns that are beyond an old age. The human brain tends to follow "tried and tested" methods and behaviors, even if they lack a logical foundation. Gustave Le Bon wrote in his well- known book about crowd psychology (annex)

“It takes a long time until theories get implemented in the heads of a crowd. But even longer to disappear.”

In addition to this, it is a fact that the actions of retail traders are by no means directional when compared to the total volume.

The year 2020 is now slowly coming to an end. Also in the day trading sector it brought big changes that were not visible when I started writing this book.

Nevertheless, I have tried to adapt all strategies to a new reality and to develop some additional ones that take into account the current situation.

If you have read this book so far, thank you for your attention. I hope it could give you an insight into how a day trader works, integrating MP, VP and Order Flow Analysis into his work. It is not always the most complicated methods that lead to success. But also not the easiest!

Questions can be directed to

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You cannot learn professional trading from books. For readers who are interested in acquiring further knowledge, I offer an affordable online course. For further information, please visit

www.vmo-trading.coachy.net

My best wishes to all readers of this book.

Bonus Chapters

21. Questions that could be asked

If you consider day trading, there are many unanswered questions. Day trading is certainly the best of all professions if you love independence and can find a method that works. But you also have to have certain prerequisites that are not present in every person. The following three complexes should help to give answers to perhaps the most important questions that beginners ask themselves.

Is it possible to do day trading as a working person?

It depends on which time zone you live in and how you can organize your time.

If you live and work in Europe, you can regularly watch the last 120 minutes of the US markets. If you live in the American time zone, then you will not have any opportunity in the evening, unless you are interested in Asian markets. In Asia you have European markets at noon and US markets in the evening. The greater the choice, the more selective you can work. The number 1 location for part-time and full-time day traders.

It is often said that swing trading is ideal for working traders. Whoever analyses and trades over 20 currency pairs and stock indices on 4h charts with an expectation horizon of several weeks or months must be aware that the uncertainty factor increases. Prop traders would never do this. Nobel Prize winner Daniel Kahnemann clearly proved that the significance of forecasts changes fundamentally in relation to the forecast period.

I have made the same experience and would never consider swing trading as a single discipline. What looks comfortable superficially can be the most difficult. Securing existing portfolios is a completely different and very appropriate matter. But in this case I am talking about trading.

How much money do I need to get started?

A motivated trader can start with a trading account of 10,000 USD and initially trade the smallest possible units in the form of micro futures. This book is not about scalping. Accordingly, you can also trade CFD's that offer transparent matching.

There is no need to emphasize that especially beginners should only trade with money that is not needed. In view of the current economic crises this is difficult for many. Most traders fail due to undercapitalization. But even if you can raise this capital, the first thing you should do is to check yourself if your knowledge is sufficient. A great number of losses is caused by avoidable beginner's mistakes. Simulation training can help here. At least it can give you a feeling for a trading instrument and risks. You should also make sure that you do not get a drawdown of more than 25%, because then the risk of wanting to get everything back with one trade increases.

You may hear from time to time of day trading wonder kids who multiply their account in a year, but this has nothing to do with healthy risk management.

So what should I know?

You can get tons of free information about the leverage of futures and CFD's, tick sizes, order types, margins etc. from any broker, financial sites or stock exchanges. The purpose of this book is not to give an introduction to basic knowledge, which can be acquired and free of charge in a few days almost everywhere. Do not listen to information telling you about day trading other metals than precious metals. Same applies for sugar, coffee, meat,... If you really want to day trade liquid markets, stay away from Krypto Currencies as well. May be one day, who knows the future?

With regard to the duration of a learning phase it depends on how motivated you are and what kind of perceptiveness you have. Technical analysts learn over several years. A large part is not needed as a volume trader. Prop Trading companies train professional traders for about 2 months. My online course contains things that go beyond that, because they have matured in 20 years of experience.

Is Day trading the right thing for me?

On the Internet, day trading is associated with the illusion of fast money. If you do not do your homework you will fail for sure. The actual trading is only a small part. By far the biggest part is to make preparations, carry out error analysis and develop a systematic working routine. If you manage this, it is the best job in the world.

If you are interested in financial markets in general, then you first have to decide whether you want to spend your time with TV-rounds of stockbrokers and their "wisdom" or not. In my early days I sat in front of the TV every day and CNBC commentators were more familiar to me than my acquaintances. But if you do day trading, it is a waste of time. Another option is to entrust your money to others. The last stock market scandal in Germany, however, showed that many renowned asset managers shone with incompetence. It has become cozy out there.

In my early days I thought that people who work on the stock exchange were smarter. I made friends with professional Frankfurt stock exchange traders who also carried out proprietary trading. I soon found out that they were not. Once I had a conversation with a US floor trader. He was a very nice guy who told me that he had built himself a technical system that worked. But since he was also working on the floor, he was exposed to the chatter of colleagues every day.

Again and again he was tempted to follow tips and failed.

If you are interested in day trading, you should also ask yourself why you would like to become a trader. There are many good reasons. However, if you only do it for fun or for a change, then you have not understood something basic: Trading is a profession and a business. Every successful business requires commitment and passion.

You should also be aware that you will always remain an individualist. It is not easy to find the right personal environment. A qualified exchange with experienced traders offers advantages, social trading in my opinion none at all. You have to recognize mistakes yourself. Only this way you can learn. In your circle of acquaintances, you should not even talk about it when you start day trading. Most people associate day trading with reckless gambling and betting without knowing that the real gamblers are sitting on completely different floors.

22. Fake Moves

In this book, situations have repeatedly occurred in which classic chart patterns have been reversed. Such setups are called Fake Moves. In view of the described fundamental change of the markets, fake moves in the shape of false breakouts are part of everyday life today and turn many traders into losers following classic breakout strategies or trend systems described in thousands of books. Stop running is another big problem, which causes many traders not to set stop losses anymore. I generally advise against this.

Fake moves often take place in advance of clear movements. This chapter is intended to illustrate why it can be very useful to put yourself in the mindset of the vast majority of retail traders and then use VP and order flow tools to check whether this is a fake. If this proves to be the case, then you are faced with very promising opportunities. From this point of view, technical chart knowledge can be used to find important reference points, albeit in a contradictory sense.

22.1 The Dying Myth of Self-fulfilling Prophecies

The golden age of Technical Analysis lasted until the end of the 1980s. At that time the markets were populated by a large number of different groups. For example, there were many individual brokerage firms that received orders from their commercial or private clients and passed them on by telephone directly to the Open Outcry Pit. Electronic commerce and globalization was in its infancy. Futures markets were relatively isolated and difficult for small traders to access due to high margin requirements. Intraday charts were hardly known. The trading volume was negligible compared to today. Seasonal influences were much more important for traders than today. In other words, activity in the markets was made up of a large number of parties, often on an equal footing.

Chart patterns were less popular but were gratefully accepted and some traders even drew them by hand. Progressive traders who dealt with charts recognized an advantage early on. They could easily identify important zones before the mainstream became interested. If a breakout occurred, it was then carried by the majority of market participants and took its course. After that, trends developed that lasted weeks and months and brought great success to some technically oriented traders of commodity and currency futures.

They traded real breakouts from trading zones using daily and weekly charts, moving averages, Donchian channels, and later Bollinger Bands. Indicators came into fashion. One particular pioneer was George Lane, the founder of the Stochastic Indicator. As a simple man from the Midwest, he traveled across the country like a preacher and convincingly substantiated his theories of three runs to the top when others knew nothing more than double tops. Traders who followed his indicator were successful. It was the golden age of technical analysis.

At the end of the 80's a change took place. The financial industry became the leading sector. Everything became more and more centralized and fell into the hands of a few large institutions. This development has continued until today. The legitimacy of Technical Analysis is often justified by self-fulfilling prophecies.

However, self-fulfilling prophecies can only be increasingly fulfilled if a multitude of smaller market participants are actually able to move the market.

This is no longer the case today. The myth of self-fulfilling prophecies has long been dead. If classical patterns appear in a textbook form that is recognizable to everyone, then many traders are often lured into a trap. This does not always happen, of course. Even classic chart traders have their sunshine hours. Casino visitors do not lose every time.

The only way to check if breakouts are real or fake is to use order flow analysis. The most important fake patterns often consist of a few basic elements that occur again and again. If you don't want to be a loser right from the start, it makes sense to ask yourself in certain situations:

Who is winning, who is losing?

22.2 Backfire Pattern

A common type of fake breakouts I have called "Backfire" patterns for simplicity's sake, This Fake Pattern is based on the fallacy that double tops or - bottoms are reliable formations. Even the fathers of Technical Analysis seriously doubted this.

“Double Tops and double bottoms are of but little value in forecasting the price movements and have proved to be deceptive more often than not. In summary, it may be said that “double top” and “double bottoms” have not the significance which nine out of 10 speculators give them.”

Robert Rhea, 1932

„Neither Double Tops nor Double Bottoms are as reliable in forecasting major reversal of trend as the surface authorities might let us to believe. Probably not more than a third of them signaled reversals.”

Richard M. Schabacker, 1936

The great pioneers of Technical Analysis were quite right. A test is easy to perform. If you simply cover the right side of each trading range afterwards, you would get similar results.

And finally, it was John Bollinger who once wrote that there are well over 30 forms of so-called M and W patterns. Nevertheless, the term double top and bottom became the epitome of many mainstream analysts and retail traders. The first fake pattern simply means that in many cases a faked DT or DB pattern is seen before large movements. These patterns appear in several variations, but the basic principle always remains the same.

Figure 82: EURUSD July 2020 (5 min. chart, CET)

At the beginning of this downward movement, several groups of traders were deceived. I numbered them in the order of their failure. Group 1 consists of traders who suspect that the upward trend channel visible here will be broken and left downwards. The trend channel widened in the last third. This is seen by technical traders as a signal for an imminent end. Group 2 now saw a double top and also took short positions. This type of trader usually places their stop loss orders above the top of the suspected double top. Now we have two groups that expected a price decline and were positioned accordingly. Group #3 consists of breakout traders who saw a consolidation in the uptrend and took long positions because a new high was reached. This group consists of two subgroups. The organized traders who entered a buy stop order above the range and automatically went long when the breakout occurred. They are joined by traders who had seen the breakout and now excitedly pressed the Buy Market button to not "miss" another trend section. Group 4 includes traders with a long position who were trapped and hesitating. They were hoping that the trade would move in their direction after all.

What all these groups did not know was that in this situation an eagle eye was watching over them, watching their actions closely and gladly serving their stop loss orders, buy stop and market orders over and over again. After the trend line and double top traders (short group) were stopped first, they were followed by long traders on the losing side. Every long position must be liquidated with a short position. This group thus became the involuntary helper of large market participants, who in this situation pursued a short scenario in ice-cold fashion. Only big players can clearly move a market like the Mini S&P. Their raid had been worthwhile. All four groups of traders described here had been pushed out of the market with a single stroke and the positions of the long traders had even been used as a tool to provide additional momentum (long coverage = short momentum).

For beginners I can only advise to think through these and similar situations again and again, because they occur constantly in all markets and are the daily bread of a thinking day trader. If institutional traders are planning to steer the market in one direction, they will do everything to lure small traders in the wrong direction and force them to cover their positions this is the only way they can build large positions. That's where chart technicians come in handy, because everyone knows what they see and expect.

But it gets even worse. Large market participants have systems that provide them with precise information about where and how many stop loss orders from small traders are in the market and whether it is worth triggering them with a fake move. Institutional traders are not charity organizers. If they have a certain market direction in mind, they want to see as few other market participants as possible, because this would reduce their profit. In this case, it was the short traders who were right in their assessment of the market direction, but were pushed out of the market by OTF´s before the actual movement began. The long traders even provided them with a tailwind liquidating their positions.

Furthermore, there is another group here that is worth mentioning. This is a group that could be called a **reverse trader** . Every day trader has perhaps gone through something like this before. Double top traders who were stopped here may have thought: "I'm wrong. The market is breaking up. So I am making up for my loss by switching to long now." But they were wrong for the second time in a row. After this the start losing control. Such Blackout phases fall more into the area of scalping.

Variant 2

Now we have look at the second Backfire Pattern variation. In the following example, traders who follow diagonal trend lines and double tops were caught on the wrong foot.

Figure 83: Fdax Future September 2020 (5min. chart, CET)

If you look at the left side of the chart, you will first see another well-known chart formation that did not come true. This was a picture-perfect bearish zigzag formation, which is considered by many traders and chart technicians to be a significant reversal formation. A trend line can also be drawn on this chart, which in combination with an incipient double top looked enticingly like a short position for followers of typical chart patterns. And not only the broken trend line and the beginning double top gave confidence to chart traders. Shortly before the double top was completed, another descending zigzag pattern appeared. If you now look at the candle I marked with the arrow, you can see that it gained excess length exactly when the two peaks of the suspected double top were crossed. This is exactly where the traders' stop loss orders were triggered. This type of momentum candlestick is a good confirmation that many traders were involved.

Now let's look at the pairs of candles that started the counter movements on this chart (circle). In both cases these were so-called Inside Ranges. In this type of combination the last candle is inside the previous one. Inside Ranges have no meaning in isolation? However, if they occur in situations like this, they indicate that the market is hesitant to follow its previous direction. The inside candle on the left at the beginning of the trend line is a doji. Dojis have a similar meaning when they become visible at the end of a movement.

However, these combinations should not be given a general meaning. This is a 5 minute chart. If you would switch it to a smaller time frame, you would see a different pattern. Then it would be an ascending Zigzag pattern. This would also have been acceptable here. In this case it was trend line, double top and zigzag traders who were on the wrong side.

The more groups of retail traders there are who are fooled, the greater the subsequent movement.

22.3 SHS Fakes

The shoulder - head - shoulder pattern is, along with double tops and bottoms, the best known reversal formation in chart technique. Just like double tops and bottoms, this formation was already defined 100 years ago. In the following decades it became so extremely popular that some traders still try to get a meaning out of it even if it is similar to a Hydra. This is often subject to a purely subjective perception and can lead to adventurous trading decisions.

The high degree of popularity also often makes this chart pattern the plaything of large market participants. In principle, the interests of smart money do not necessarily need to differ from those of retail traders with regard to the future direction of the market. In such a case, they simply try to throw as many competitors out of the race as possible. For many traders this leads to highly frustrating experiences, which sound something like this: "I knew that the market would fall. If only I had put my stop a little further!"

Now next time the trader tries to "give his trade more room" and is wrong again, because the situation in this case may be completely different and the trade may turn out to be a smooth mistake from the beginning. This topic is discussed in the bonus chapter. Frustrated again, he now turns to a fashion indicator like the ATR, which "calculates" where to place his stop, independent of the specific trading situation.

In doing so, he neutralizes the superior ability of the human brain to link connections in a contextual way and transfers the responsibility to a system that can only count trees but cannot see the forest.

Variant 1 - Hunchback Pattern

Similar to the Backfire Pattern, traders of SHS patterns tend to place their stop loss points above/below the last shoulder tip. Often this is stopped out, only to return shortly afterwards to the direction that was expected when the original pattern appeared. In this way a hump is created visually on the chart.

Figure 84: Fdax Oktober 2020 (5 min. chart, CET)

After formation of the right shoulder many amateur traders went short they "suspect" the formation of an SHS pattern. Market makers observe this on their systems. If there are enough traders, then they create a second shoulder that is higher. Now chart traders are snooped out, because they usually put their stop loss over the right shoulder.

Grafik 85: EURUSD, September 2020 (5 min. chart, CET)

Here you can see a SHS pattern running diagonally upwards. This variant is very popular with supporters of this chart formation, because it allows an early entry. However, afterwards a second higher shoulder was formed. This ended with an inverted candle and was enough to scare off traders who believed in an SHS pattern. The following black long momentum candle emerged at the exact moment when traders panicked to cover because "their" pattern seemed to be destroyed.

Now a clear trend line break to the downside occurred. Again the joy did not last long. With the beginning of the institutional trading, the tables were cleared once again. This became visible on the order flow in the form of a clear rejection with stacked imbalance. Once again, several groups of traders were involved, who took different entry points. SHS traders, trend line traders who saw a break in the trend line downwards, but also double bottom traders who suspected an end of the correction.

The repeatedly appearing strong momentum candles when breaking typical stop loss points prove that there are surprisingly many traders who apply chart patterns in isolation.

Variant 2

Figure 86: Gold September 2020 (5 min chart, CET)

In this case, market makers initially faked a breakout, but immediately went aggressively in the opposite direction. Such patterns are very common and can offer very good opportunities to day traders looking for fake patterns confirmed by VP and order flow. If SHS patterns appear particularly easily recognizable in textbook style and do not show a follow through, then you can think of the opposite direction when you see candles pointing to a reversal. Again you can see an Inside Range. Added to this is the fact that millions of retail traders prefer to follow trend lines. The combination of a broken trend line and SKS pattern made this situation particularly attractive for a large mass of retail traders.

The clearer an SKS formation, the greater the probability of a fake

22.4 Bottom- and Top squeeze

The most significant and therefore most profitable opportunities for traders always occur when a final movement reaches a new mainstream high or low and a trend continuation is faked. Bottom squeezes are particularly interesting in bull markets, because in this cases you have a big fundamental factor in your back from the start. In a bull market, you should always pay attention when significant corrections take place.

Gold has seen increasing trading liquidity over the last 18 months. Significant movements occurred not only during the main Comex trade, but also with the beginning of the European and especially Asian trading period.

Oil is also a typical market for bottom squeezes. However, this has a completely different fundamental reason. While in gold, increased demand was the main reason for a price increase, in oil many hedgers liquidate their short positions when their objectives of hedging against a price decline are achieved.

Figure 87: Bottom Squeeze Comex Gold June 2020 (60 min. chart, CET)

A bottom squeeze pattern is characterized by the fact that a series of downward movements initially occurs. Then it looks as if the market has found a bottom. Suddenly a new sharp and surprisingly rapid downward movement occurs without fundamental reasons or news. A new mainstream low forms. In this case, we were dealing with a correction of $100. Here all lows of a 5 week period were triggered. At the same time a large and clear SHS pattern did not continue. Technical analysts usually "project" the length of a movement after breakout to be twice the length of the entire pattern.

Even as a short term oriented trader it is sometimes worth looking a little further left on the chart to find good reference zones (long-term resistance).

Bottom squeezes are not only to be found at higher time levels. They also occur in smaller time frames during European and Asian trading hours. Let us now look at other recent examples of bottom squeezes that go into more detail.

Grafik 88: Gold Future October 2020, 5 min. chart (MEZ)

Here we see a squeeze pattern at the beginning of the European institutional trade. A similar pattern can be found at the beginning of Asian trade. Only a few years ago squeezes in gold could not be observed in this frequency.

Grafik 89: Gold October 2020 (5 min. chart, MEZ)

Here we see a clear SHS fake pattern shortly after the beginning of the Asian trading period, which also leads to a typical bottom squeeze. The most powerful bottom squeezes in stockmarket history consisted of failed SHS patterns like this. That´s why I show them here. This pattern is worth to keep in mind, when looking for a Bottom Squeeze Trade

Power Bottom

A Power Bottom occurs when there is a truly explosive and profitable movement. This can be caused by a cover of hedges or by a fundamental demand. In the following example monetary policy reasons could also play a role, but this is irrelevant for a day trader, as long as he does not trade at the same time as the publication of news.

Figure 90: Gold (15 min. chart, CET)

Here, a particularly well defined zigzag pattern stands out, which led many market technicians to take short positions. As the stop loss points of these traders were exceeded, great momentum candles were formed. Again 3 components come together here.

- Traders trading a breakout down

- Traders who follow a well-known chart pattern

- Price has fallen below a low point of the previous day

Top Squeeze Pattern

Top Squeeze Patterns are the most spectacular Fake Patterns, because downward movements often occur many times faster than upward movements. Many normal traders are overwhelmed with the timing of such patterns. This has several reasons.

- Top squeeze patterns require good timing

- Research shows that 90% of all traders have never traded on the short side.

- Most textbooks and even "stock market wisdom" say that you should never try to get the top or the bottom of a movement.

A day trader who specializes in fake moves is not well off with these advices. Top squeezes require great attention and excellent timing, as in many cases they are not as easy to spot as bottom squeezes, which are less explosive. Like all current examples shown in this chapter, top squeezes in particular are preceded by classic chart patterns that deceive the mass of traders.

Figure 91: E-Mini S&P September 2020 (15 min. chart, CET)

This chart is particularly suitable for showing the unreliability of trend lines. In this case we were dealing with a big top squeeze where all the stops were taken. First of all, you can see here an exactly pronounced tend-channel, which had developed in the off-peak period (1). This is where the roots were laid for the traps, which then snapped shut during the main session.

Around the low volume European midday a new daily high was formed, which then changed into a clearly visible SHS pattern on a higher 15 minute time frame (2). After this pattern broke downwards as expected by many traders, a breakout from the trend channel followed, which brought more traders on board to take short positions. With the opening of the US markets this expectation was disappointed. But there was another hope. At the weak US lunchtime a new SHS pattern was forming on a larger scale.

Again, many traders went short when this pattern was broken and were wrong, because a few sharp movements in the opposite direction immediately followed. Last but not least, there were traders who saw a breakout from a trend line (3) and went long. A several day high was quickly reached and drove all traders holding short positions out of the market. A single rapid upward thrust had driven them out of the market. Afterwards the longs of no. 3 were the last victims of their trend line theories

Typical for Top Squeezes is the speed of the final movement before changing direction.

Again, in this case, it was several classic patterns that failed in advance and provided clear indications that many traders were on the wrong side of the market. The false breakout to a new high about 90 minutes before the close of institutional trading.

Highs or lows lasting several days or even weeks are the zones where most market participants meet. In the golden age of technical analysis, these were points where more breakouts occurred. Today, however, these are points that can also develop a strong momentum in the opposite direction. Regardless of this, it does not fit well into the concept of dominant market participants buying "above value” at extreme points.

Each of the situations shown here has its own history. What they all have in common, however, is that they were identified by fake moves and occurred in important liquidity zones. The following large picture shows another situation of a top squeeze.

Figure 92: Euro FX Future, September 2020 (30 min. chart, CET)

The large picture here showed a new multi-day high in the early European morning. This gave a day trader enough time to analyze this situation and to consult the profiles and order flow. Do not forget to plot the market profile in these cases.

22.5 Natural Support and Resistance Fakes

Another rule that every prospective trader learns is to place stop loss points near "natural" zones. On the following chart you can see such a situation.

Figure 93: German Bund, September 2020 (15 min. chart, CET)

Here a SHS pattern was formed, which for friends of this pattern could hardly have looked nicer. At first a breakout downwards was faked. Institutional traders had placed themselves long. Brave day traders could have followed them and would have been in the market with a stop loss below the absolute low of this deception. Look at the momentum candle which formed when the SHS Pattern became invalid

22.6 Trend line Fakes

Trend line fakes are another way to lure retail traders into a trap. As you have seen, they usually occur in combination with many of the fake patterns shown here. Furthermore, trend lines bear a great psychological danger for a trader. If they do not meet the expectations of a trader, then they are simply adapted to the new circumstances. If this does not fit either, then you simply look for another fix point. The same applies to so-called trend channels. Depending on the current situation, they simply slip on one side, a dilettante way of manipulating yourself.

After all, trend lines are drawn by most retail traders. It is so simple and sounds logical to connect three points and then conclude that a trend has formed. And then, breaches of the trend line are traded. If these take place and have no follow through, then you wait for a pullback. If this does not take place either, then the position is abandoned.

Double Trend line Fakes

On the next chart everybody has being fooled, who draw “something”. I have used this example to show that market makers also like to use geometric shapes such as triangles, pennants, wedges and flags to fool as many traders as possible who think they can use a ruler to predict the future direction of the market. This was an SHS pattern, a triangle and trend lines. None of them brought success. But what was the only pattern which worked after the tip of the triangle had been reached?

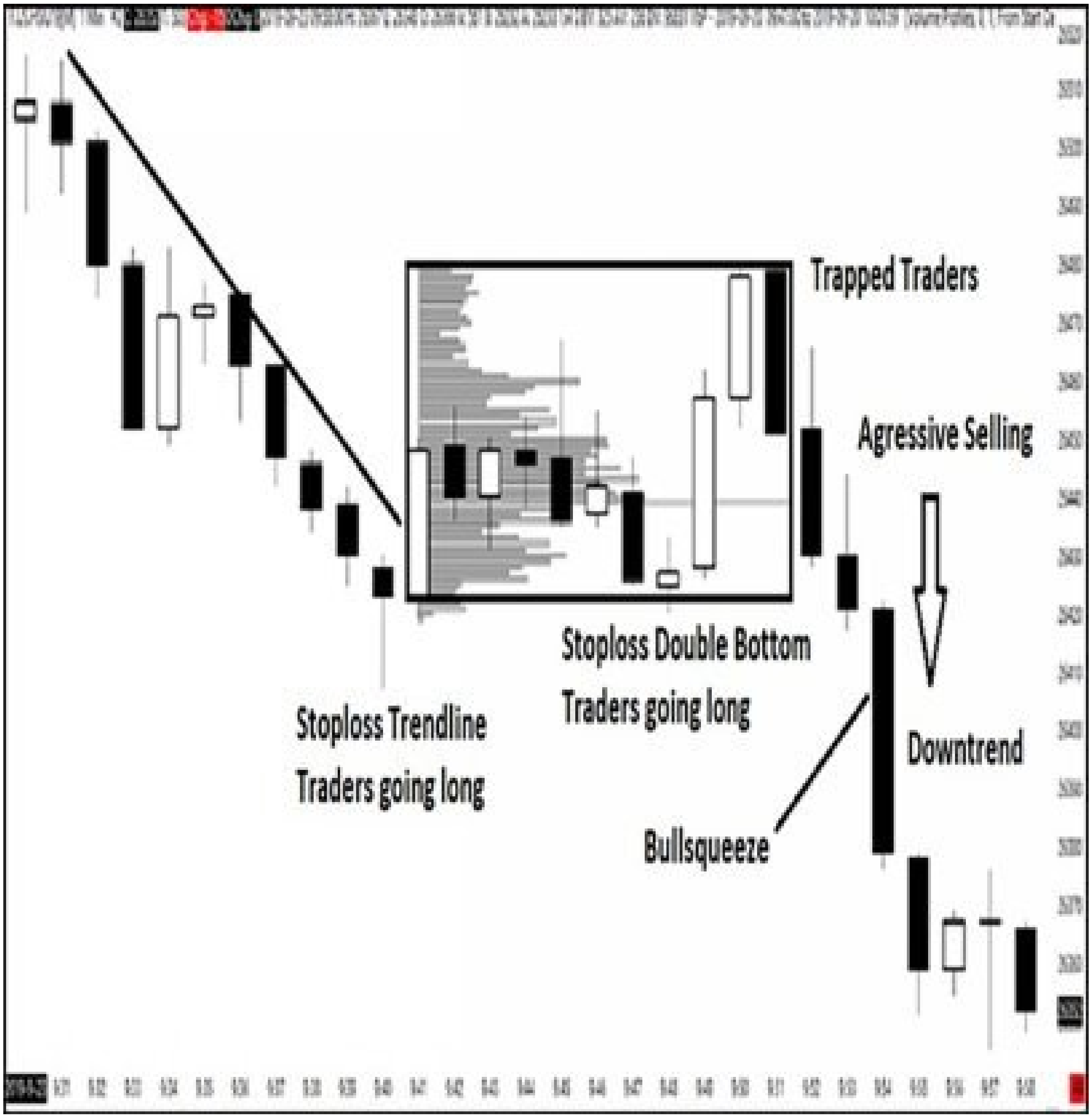
(Tip: Chapter 18)

Graph 94: E-Mini Nasdaq (5 min. chart, CET)

A Day trade in Asia

Just like other patterns, trend line fakes occur in all time frames. To show this, I have taken a day trade from my Asian trade archive, which I made in 2019. This is the Mini Hang Seng Index Future. This index is my favorite among all stock index futures, because it has good liquidity and offers excellent day trading opportunities in its first trading hour, if you follow a few rules. If you have understood the example shown so far, my illustration should be almost self-explanatory.

Figure 95: Mini Hang Seng (1min. chart, local Hong Kong time)



Here too, at the best trading time, several groups of day traders who were wrong in their assessment were forced to cover. The first group seemed to have drawn a trend line on the left side of the chart and had gone long on its break. They had placed their stop loss under a pin bar, which appeared just before the break of the trend line to the top. Pin bars are described in countless books as reversal signals at the end of swings.

However, if they do not appear in a suitable context, as here, they have no meaning as do candlestick patterns. Another group of traders had afterwards seen a double bottom pattern or an ascending zigzag pattern with doji. As usual the double bottom traders set their stop loss just below the two bottoms.

The double bottom was now completed, but the market stopped after only 40 points afterwards. A black reversal candle became visible. At the same time this candle formed an outside range. A fast short entry with only 30 points stop loss was possible. A Momentum candle also appeared shortly afterwards. I have called this candle "Bull Squeeze". This formed exactly when the "wrong" pin bar was undercut.

This was no coincidence, but a further confirmation that many traders had set their stop loss here. In this case, you could set your stop loss to break even just 3 minutes after entering, because it was clear that a bull trap had been snapped shut. As a result the Mini Hang Seng lost 300 points in about 20 minutes. Trading does not need not be complicated.

22.7 Fake Breakouts

The well-known stop fishing zones are:

-Daily Highs / Lows

-Previous day Highs / Lows

-Multi-day Highs / Lows

These have already been shown in the main part. There is also another zone that is the preferred target.

Non institutional Highs / Lows

This refers to the highs and lows that have been formed since the end of the previous day's institutional trading. In Europe these would be the zones formed during the evenings and the Asian trading period. At the beginning of US trade, zones formed during European trade should also be considered. In Asia, the situation is somewhat different. Here, important zones of the US Main Session are often respected and used by professional traders as starting points for trades.

Stop running of liquidity zones is more common in relatively thinly traded futures such as the Dax. Beginners or traders who are not smart enough should avoid this index. As a day trader, you should specialize in stop running and close all your books on the Dax.

Figure 96: Dax Future September 2020 (15 min. chart, CET)

Here we see on day 2 that at the beginning of institutional trading all stop loss points of the non-institutional trading hours of the previous day and night were triggered. Once again a "promising" SHS Fake Pattern appeared first. Afterwards a daily rally of about 200 points developed. On day 3 you see the same game with reversed signs. Now all stops from 17.30 of the previous day are cleared and the market moves down 200 points without interruption. Who were the victims? Amateur traders who have no knowledge of appropriate trading hours and who had gone short either because they saw a double top or long because they suspected a breakout to the top.

Figure 97: Dow Jones September 2020 (15 min. chart, MEZ)

As almost always, a trend line fake (upwards) preceded the event here. But this did not bring any loss. Afterwards all stops of non-institutional trading were cleared in one go. The Mini - Dow Jones Future fell by about 500 points during the course of the day.

Take out Yesterday's High / Low - the Classic

This is the classic among the Stop Runners and appears in every index. The following also contains a mixture of Backfire, Hunchback and Trend line Fake

Figure 98: Nasdaq 100 Future September 2020 (15 min. chart, CET)

Summary:

Fake moves are a wide area. Markets can at times present themselves in a chaotic shape. But there are also market phases in which classic chart patterns or breakouts from key zones can be seen, which in combination attract a large number of retail traders. In these cases you should definitely take a closer look at the overall context and look for further indications in the Profiles and Order Flow. A day trader who specializes in such situations does not need to be active every day. However, every now and then he gets the best of the best presented. A further advantage is that he gets an immediate answer on the correctness of his actions, because stop running maneuvers are characterized by an increased speed and sharp reversals. A Momentum candle gives quick confirmation in all cases and can offer a second chance to traders who prefer a more defensive style

23. What is a Trend?

Trend is the favorite word of traders, but also of investors. The definitions of a trend are numerous. Diagonal lines with three points of contact, channel, moving averages with crossovers depending on the point of view, double tops/bottoms, broken SHS neck line, breakout from a trading range, zigzagging, primary trend, secondary trend, test of top, test of bottom, confirmed, unconfirmed...

What can a day trader do with it? Very little. Even if one of these definitions reveals itself as a trend, it is by no means in the realm of any human being to predict what will happen next. Why should a reality-oriented day trader deal with the ballast of calculations and projections of all kinds if nobody can predict the future anyway? Is it not difficult enough to recognize deception?

William Dunnigan was one of the outstanding spirits of the Golden Age of Technical Analysis. During his long creative period he was in contact with the greatest analytical minds of his time. (Livermore, Jackson, Schabacker, Rhea…) His book "One - Way Formula for Trading in Stocks & Commodities"(10) was published in 1957 and is considered one of the shining examples of the technical view of price fluctuations.

After decades of trying to find trend definitions such as the always controversial Dow Theory tried, Dunnigan came up with an amazingly simple definition of a trend in his last work, which he regarded as universal for all markets. He believed that you shouldn't make a mountain out of a molehill and defined the possibility of a beginning trend in two ways. He left it up to the market to decide which of his two main options it would take when starting a new trend and gave equal importance to both.

- A market makes a rising bottom from and closes above the top of the last secondary movement. He called this ASC = Ascending Bottom. The trend is valid unless ASC gets nullified. With a top reversal this would be a descending top (DES = Descending Top).

- A market penetrates two previous peaks from a mainstream low and closes above them. He called this P2T = penetration of 2 tops (bottom reversal). A possible top reversal is defined when the market penetrates two previous bottoms from a mainstream high and closes below. How this ultimately looks like on the chart is completely irrelevant.

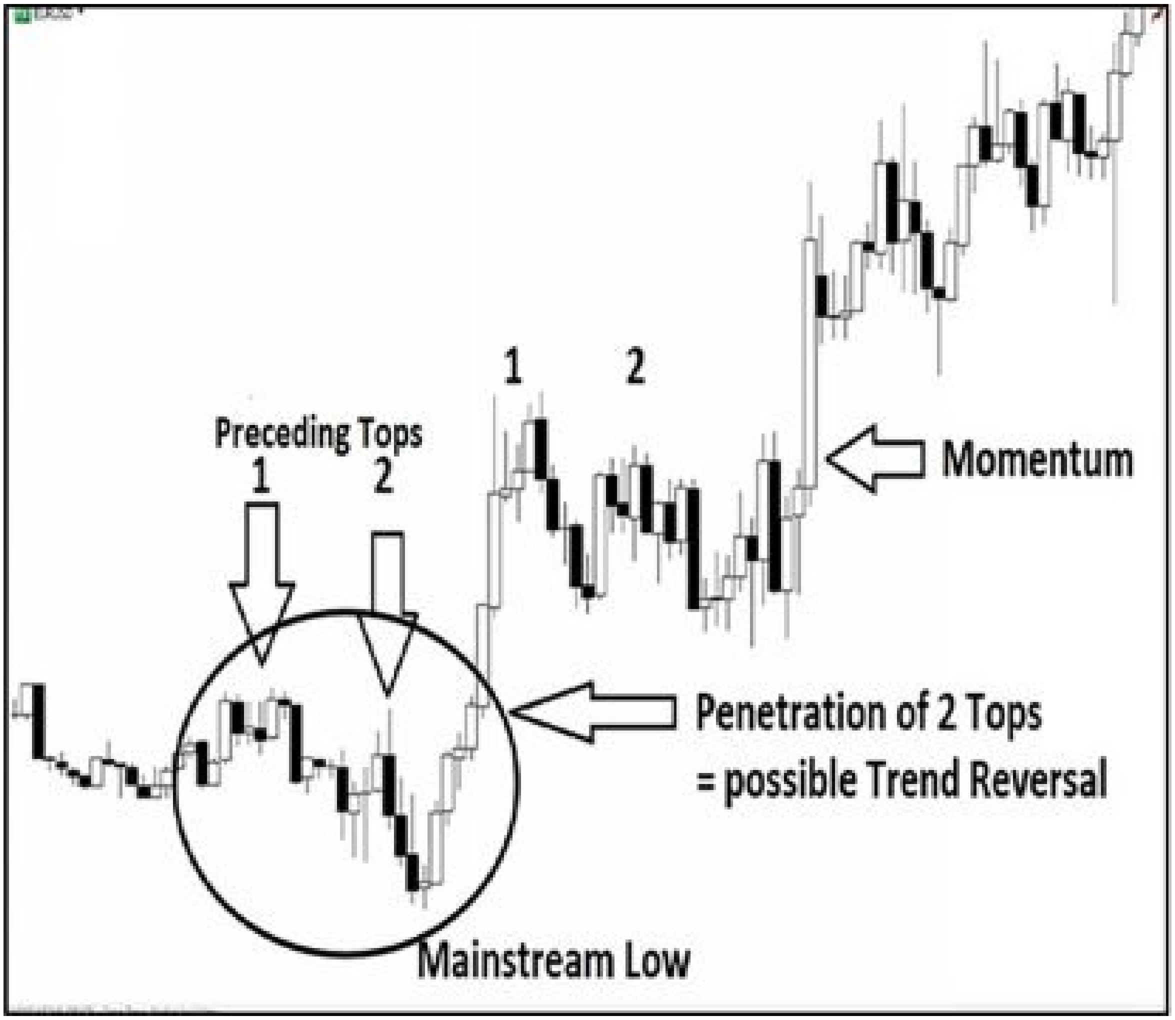
Dunnigan implemented his ideas with weekly charts and only used HLC bar charts (High, Low, Close). For him the law of inertia (= momentum) was the most important thing. He was absolutely right, because without Follow Through any form of clear price action is impossible. Considering the fact that the trading volumes at that time were negligible compared to today, Dunnigan's principles based on HLC weekly charts can easily be transferred to today's intraday charts.

I will save myself showing **variation A** here, because this is a common ascending or descending zigzag pattern that appears at the end of a movement. My mentor also shared this idea. He asked for another correction to confirm a trend.

Actually, this idea of a beginning of a trend in the shape of zigzags originates from Robert Rhea, who was the most prominent representative of the second Dow Theory generation. He referred to the Dow Jones Industrial and believed that the probability of a reversal was highest in the case of a lower second peak (top) and vice versa (rising bottom).

If you follow this trend definition, it was always a problem for me to decide whether to trade a simple zigzag formation or to wait for another confirmation in form of a mini correction as my mentor suggested. If you wait for all kinds of confirmation on a chart, you quickly lose track of the market participants you want to follow. Now to Variant B

Figure 99: Variant B



This is a beginning intraday trend of EURUSD on a 5 minute chart. Of particular interest on this chart is the fact that each time the momentum develops its greatest strength when the last two tops of a previous movement are crossed to the upside. In the lower part, trend traders cover in panic, creating additional momentum, when the two tops were taken out. Regardless of this, this common example also shows that over 70% of the total price action takes place in sideways zones. It is just interrupted by two powerful moves.

Similar situations can be observed on countless charts in this book. In some examples I have called this situation a squeeze. If it occurs, you can speak of a power bottom or power top, which is confirmed by the increase in momentum when the marked tops are penetrated. These are the stop losses of those traders who are wrong and get stopped out. In many cases they give the momentum an extra boost as seen in the middle of this chart.

Dunnigan referred to follow up trades as **"repeat signals".** These occurred when a price, after overcoming new resistance, made a correction that did not close below the starting point. His operational plan comprised two parts. Fund L (longer term profits) remained in the market until a trend was nullified by regaining an ASC, DES or mainstream High (Low). Fund S was used variably for repeat signals and liquidated when small profits were available.

When I read this book about 15 years ago I switched my day trading charts to HLC bar charts for a while. I found out that results with simple HLC Bar charts where the same if not better. Hence I never felt any need to learn about the special meaning of all these exotic names of isolated candlestick formations. I only use candlesticks anyway because they are simpler to understand when looking at a chart.

I once talked to a younger trader who enthusiastically followed candlestick formations. He explained a pattern to me, which he had recently learned. To me it looked like a simple rounding bottom, but he called it “Frying pan pattern.” I did not dare to ask him why it wasn´t called “inverted cucumber formation.”

The concept discussed here are not applicable to every situation like everything else in trading. But it should give you a fairly good idea about evolving trends. Dunnigan's ideas from 70 years ago will still exist in another 70 years from here.

24. Trade- and Risk Management

There are many theories about trade- and risk management. These are more reminiscent of the story of the hunter who sells the fur of a bear before killing it. Of course, when trading futures, you should only ever use a very small part of your trading account. This should never exceed 2%. Legends such as Larry Williams and Richard Dennis, the founder of the Turtle Trader, used 25% or more of their trading capital for a single trade. These times are past and would ruin any trading account in a very short time.

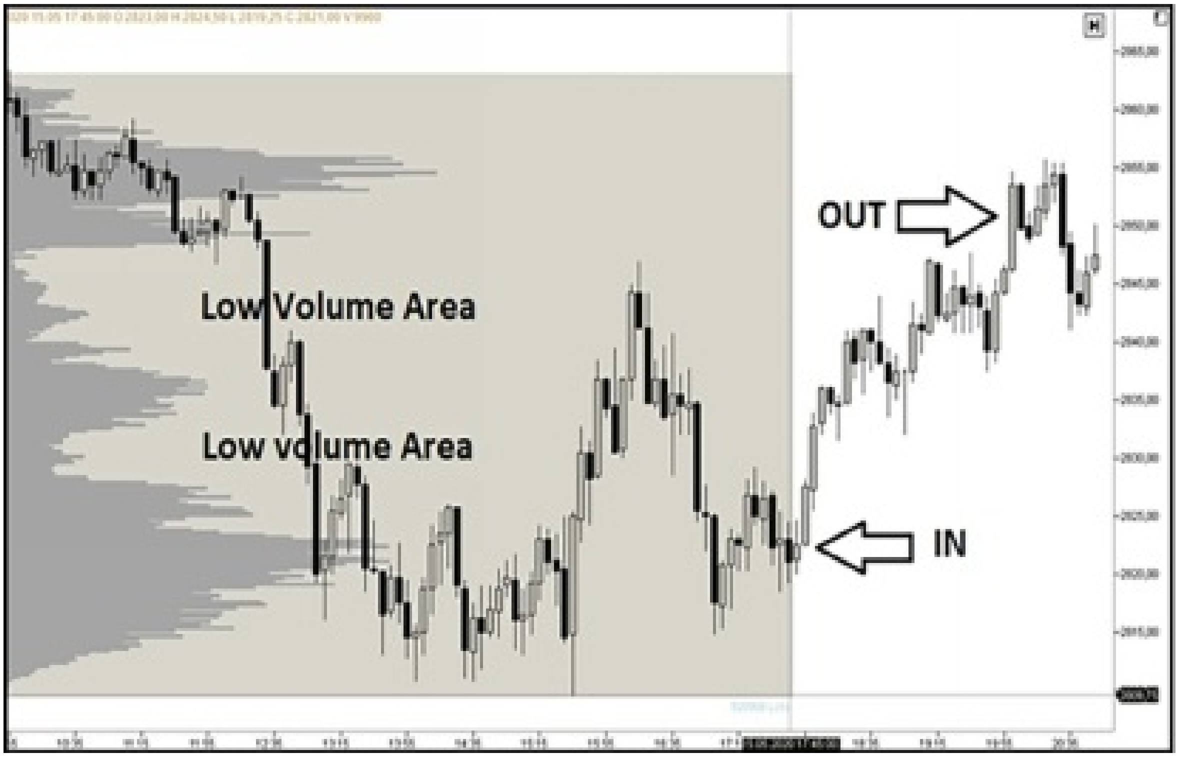
But if you follow today's theories, you quickly get the impression that every success is based solely on trade management and psychology. Apart from that, it is basically irrelevant which methods are used. Yes, there is the endowment effect, disposition effect, loss aversion and other problems. Every trader suffers from some kind of weakness, some of which is even innate. But these are not the only factors that determine success or failure.

A trader needs a method which enables him to be absolutely convinced that what he is doing has a hand and foot. This is the only way he gets the ability to intuitively recognize promising situations. Good traders know after a short time whether a trade will bring success or whether it will remain a pipe burst.

Take Profit

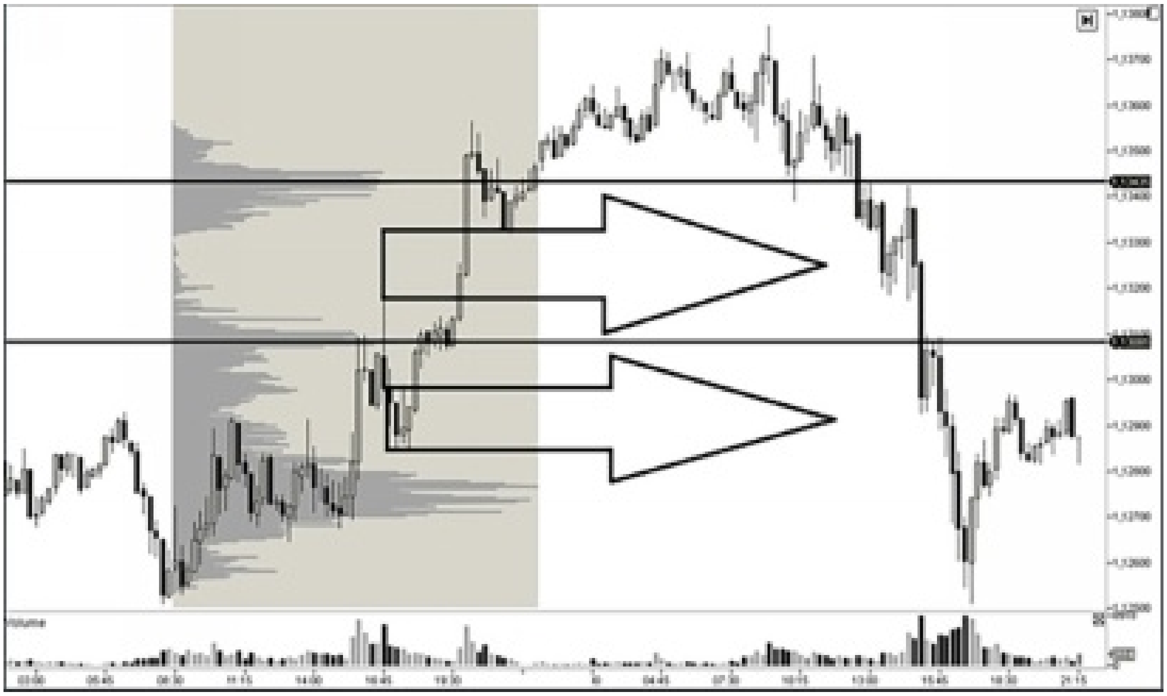
In this context, I would like to touch briefly on the take profit issue. Instead of the clumsy CRV air formulas of classical analytical thinking. Flexible volume profiles offer an intelligent help here. In this book it was explained that volume clusters are important support and resistance zones. Low Volume Zones (Thin Profiles) are therefore the zones of accelerated movement. After passing through these zones the momentum will automatically decrease. A take profit order should be placed there. The following slides should give you an idea about this.

Figure 100: ES May 2020 (5 min. chart)



In this respect, it must be said that there are instruments that at times react less well to previous low volume clusters. The reason is that stock markets in particular often change direction several times during the course of the day. Beginners are recommended to enter a take profit target with three times the initial risk. If you have a trained eye, you can judge whether a trade is gaining momentum right after it has started. It is especially important to reach the zones where retail traders are increasingly stopped out. If you see in these zones that a follow through with a simultaneous increase in volatility is taking place, then you should try to trail or build a trade. The following charts should give you some more ideas. In this respect, it must be said that there are instruments which at times react less well to previous low volume clusters

Figure 101: EUR USD low volume areas May 2020 (15 min. chart)



The low volume areas on the right side of the chart were quickly crossed downwards after two typical ricochets.

The 3 most important Rules of Risk Management

Some day traders believe that it is not important where you start a trade. This may all have been right in times when prices have moved at a snail's pace as with few interruptions until 2020. Here the carriage is harnessed to the horse. Especially in view of today’s generally increased volatility, it makes a big difference whether you are 50 points or more off the Dax or whether you start from the right foot. The longer an initiated trade remains without follow through, the higher the risk becomes. The main focus should always be to keep losses as small as possible, but also not to choke off a trade (see next chapter). For this purpose you need a trading plan with an entry as exact as possible. When it comes to timing, order flow strategies offer an irreplaceable help.

Every day trader also makes bad trades. However, if he recognizes this as soon as possible, then he is a winner! He has traded completely correctly. Day trading is not an investment. I will gladly pass on the three most important rules of day trading free of charge. They are not mine anyway, but from Market Wizard Ed Seykota:

1. Cut loss

2. Cut loss

3. Cut loss

- If you start a long position and the price makes a higher low but not a higher high, you should become suspicious

- If you start a short position and the price makes a lower high, but not a lower low, then you should also become suspicious

Where to put a Stop Loss?

One of the most frequent questions regarding trade management relates to the stop loss. This is where complicated calculations are put into practice. The ATR indicator has become an absolute fashionable term. Once again, the fundamental error in thinking consists in the fact that traders assume that they can calculate the future behavior of the market with formulas from the past. In this book a first answer was given. A stop loss should definitely not be set where most retail traders set it, based on known chart constellations.

Intraday volatility changes several times a day, especially today. Just think of the "fast and slow zones" of the volume profile (high / low volume areas). In other words: volatility is relative. It cannot be pre-programmed, at most it can be made visible. This is shown in my online course. The task of a day trader is to enter into phases of "relatively" low intraday volatility and to leave the market after volatility has increased significantly thereafter.

Another possibility is to set the stop loss just above / below the price level of the POC located near the entry point. POC's can be identified by a window at each individual candle as shown in this book. This feature is called "maximum volume level" in the Atas software.

There is no point wasting time brooding over stop loss points or trying to calculate them using indicator formulas. It is often forgotten that every decision should be based on a well elaborated strategy. For a day trader this begins with a trading plan. This must be coordinated in such a way that a trade moves quickly in the desired direction after entry. In this book many setups were shown. Each setup required a stop loss, which was adapted to the respective situation.

Setting a stop loss is only a secondary process that is automatically derived from a good trading plan.

There are many traders who let a trade that has been started drift around. This book does not contain strategies that accept such a way of thinking. A simple method is to first set an initial Stop Loss in order to completely hedge against a significant loss. Then you set yourself a time stop. This could be: "If this trade does not show a follow through after 3 more candles, then I skip it, no matter if with a small loss or profit". This forces a correct trading decision from the beginning. If a trade does not work out according to your trading plan within a fixed period of time, then…**Bye, Bye**

You can also practice something like this outside of trading. It saves a lot of frustration.

Trailing Stops

Here again there are many theories that have little to do with reality. Of course, trades with a quick follow through without pullback are best, but unfortunately it is not always the case. I only trail my stop after a clear movement in the planned direction or as squeeze has taken place. I have tried to explain this in various sections of this book. It often happens that even a good trade snaps back, especially in the early stages. This has been particularly visible for years on EURUSD with the start of European trading. Whoever trades this instrument knows what I am talking about.

If, on the other hand, I see that a trade is just "fiddling around", then I prefer to leave the market immediately, whether with a small profit or loss. Once you have developed a feeling for an instrument, you will no longer want to become a slave to mechanical systems that only serve the broker. In trading, nothing is as good as the human brain. If a trade shows no more power, you get out or close a partial position. There will never be an optimal solution.

25. Short Term Trading - A Trade Example

Day trading as defined at the beginning of this book requires the closing of a position on the same day. Swing trading is generally understood to consist of holding a position overnight. In general, a 4-hour time frame is used here.

From this point of view, short term trading is a hybrid that corresponds to both trading styles to some extent, but can be used more effectively depending on the situation. For example, a day trade started in a short time frame with minimal entry risk can, under optimal conditions, turn into a forex position trade, which then runs over several days. In such cases, currency pairs or non-European stock indices, which are traded around the clock with sufficient liquidity and thus guarantee better risk management with regard to stop losses, are a suitable option.

In order to describe the aspects mentioned here more clearly, I would like to show here a real trade that I made in February 2017. This trade does not fit into either of the two drawers mentioned above. But in certain way it undermines one of the main aspects of this book

Every trend starts with micro inflection points

The following EURUSD trade was started in a 3 minute time frame with 5 pips risk. This was held for about 3 days and then ended with a dreamlike risk /return of 16 : 1 (average value of all 3 partial positions). The entry points of three partial positions have been marked here.

Fig. 102: EURUSD on 17 th of February 2017 (3 min. chart, CET)

On the top we see a pattern, which I have called **Backfire Pattern** , on the left side 3 or 4 double tops that fail one after the other. On the right side you can see that this trade was decided long before the European institutional trade started. For this reason, I also project EURUSD in volume profiles generally from 8.00 CET. This trade was made in 2017, but situations of this kind have arisen in the same way ever since the euro was introduced 20 years ago. At some point I thought that this would stop, but it hasn't. Each trading instrument has its own characteristics (chapter 15)

The further Course

On the following hourly chart I have shown the entire three-day trade process.

Figure 103: EURUSD from 17.2. - 21.2.17 (60 min. chart, CET)

Perhaps real day traders have done the beginning of this trade on day 1 in a similar way, and thus have booked a nice daily profit. However, the second day of this trend would have presented them with the first big problems, as it was only characterized by a whipsaws. In the best case it would have resulted in a small daily profit for day traders.

A European day trader would have completely missed the biggest part of this overall movement on day 3, because it was already initiated at the beginning of the Asian trading hours and completed with the beginning of the European trading hours. Swing traders use larger time frames by definition. However, if momentum suddenly increases, these can be an eternity and cost valuable time before any entry is made. They also would have been severely disadvantaged.

A position trader who only trades on daily charts would have had to stay in the market for months to achieve a similar net result if the chart had been exactly related to his time frame. However, for a professional short term trader such a time horizon is light years away.

A final word

A day trader, as described in this book, does not need to fear Algos or the hyenas of the markets, which take a tick off in a fraction of a second with high frequency trading systems. He trades like a leopard. This animal is known as a loner. A leopard can compete with any other animal at its speed. But it is patient and only acts when it is sure of its prey.

Welcome to the Jungle

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Chart Software:

- Atas
- Sierrachart
- Tradeview