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Advanced Order Flow Trading
Module 5
Order Flow Relationships

Michael Valtos – Orderflows.com

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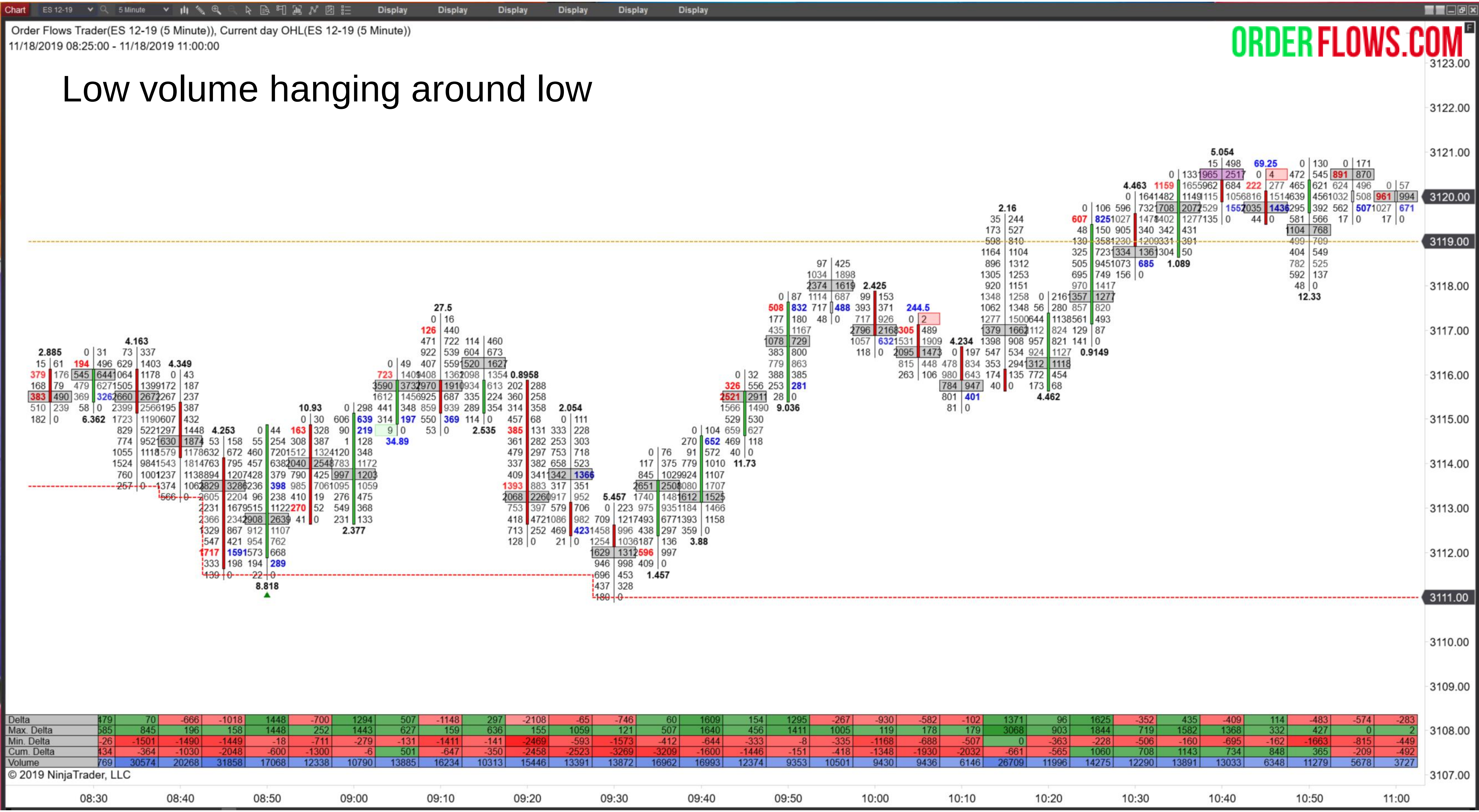
The market does not move in a vacuum. The market moves up and down based on trader participation which results in volume. When the market participation at a level is high, volume increases. When traders lose interest in the market volume tends to contract.

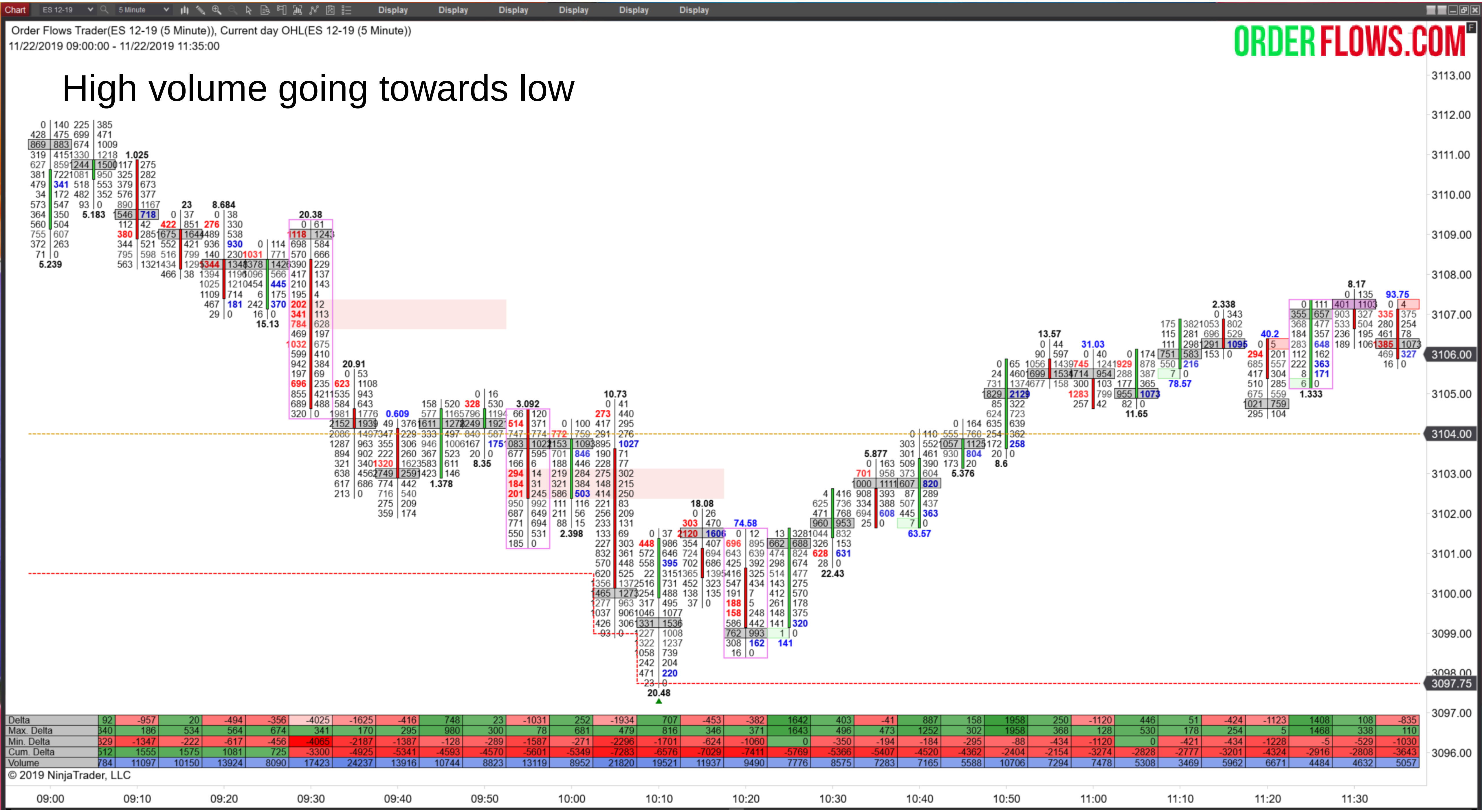
Volume is the fuel to market movement. The more fuel you add the more the market movement. The less fuel, the slower the movement. Just like your car or your stove.

When you add volume to what is happening in the market, you are able to see better potential changes in price direction. It is through volume that you can see the intensity and conviction of buying and selling.

Low volume hanging around low



High volume going towards low



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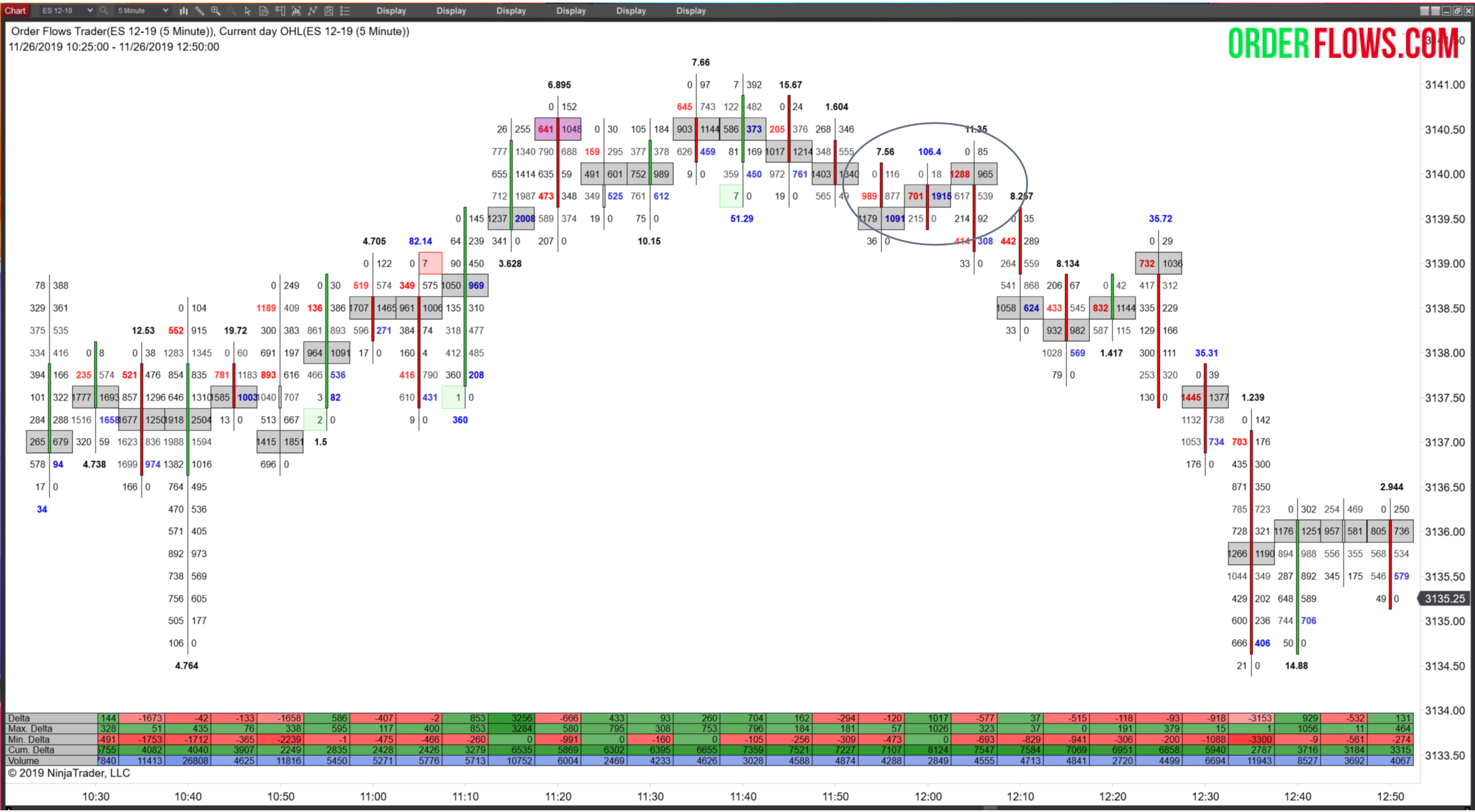
It has been proven time and again how volume acts as support or resistance. To reiterate it here would be pointless.

We have all seen the charts where volume peaks at highs and low.

Price reached a high level where sellers were attracted to the market and offered extra supply. Or price got so low that buyers were attracted to the market and demand came in.

But there are other important ways to use volume.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11/26/2019 10:25:00 - 11/26/2019 12:50:00
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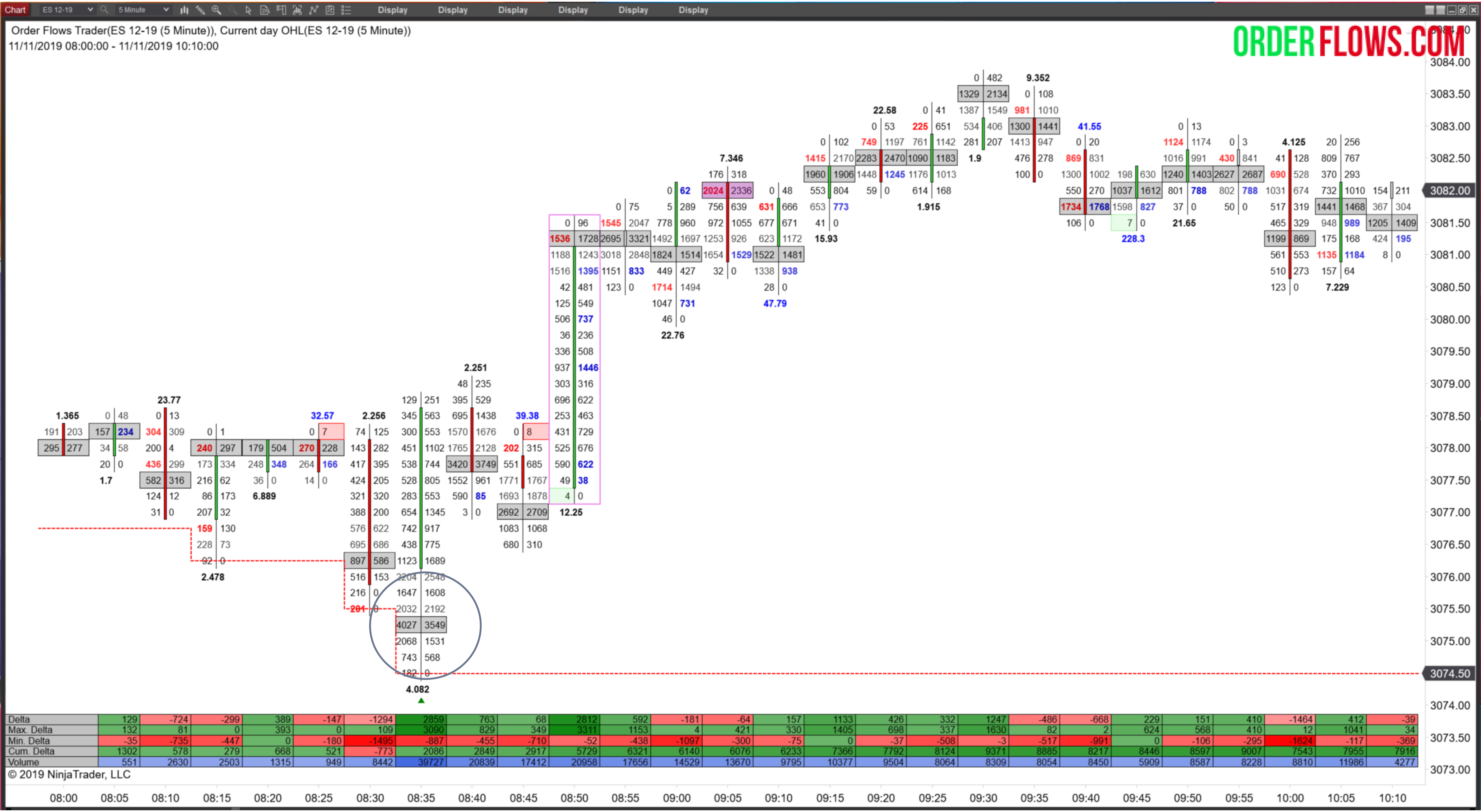
Order Flows Trader(ES 12-19 (5 Minute)), Current day OHL(ES 12-19 (5 Minute))
11/11/2019 08:00:00 - 11/11/2019 10:10:00
ORDER FLOWS.COM
Delta 129 -724 -299 389 -147 -1294 2859 763 68 2812 592 -181 -64 157 1133 426 332 1247 -486 -668 229 151 410 -1464 412 -39
Max. Delta 132 81 0 393 0 109 3090 829 349 3311 1153 4 421 330 1405 698 337 1630 82 2 624 568 410 12 1041 34
Min. Delta -35 -735 -447 0 -180 -1495 -887 -455 -710 -52 -438 -1097 -300 -75 0 -37 -508 -3 -517 -991 0 -106 -295 -1624 -117 -369
Cum. Delta 1302 578 279 668 521 -773 2086 2849 2917 5729 6321 6140 6076 6233 7366 7792 8124 9371 8885 8217 8446 8597 9007 7543 7955 7916
Volume 551 2630 2503 1315 949 8442 39727 20839 17412 20958 17656 14529 13670 9795 10377 9504 8064 8309 8054 8450 5909 8587 8228 8810 11986 4277
© 2019 NinjaTrader, LLC
08:00 08:05 08:10 08:15 08:20 08:25 08:30 08:35 08:40 08:45 08:50 08:55 09:00 09:05 09:10 09:15 09:20 09:25 09:30 09:35 09:40 09:45 09:50 09:55 10:00 10:05 10:10

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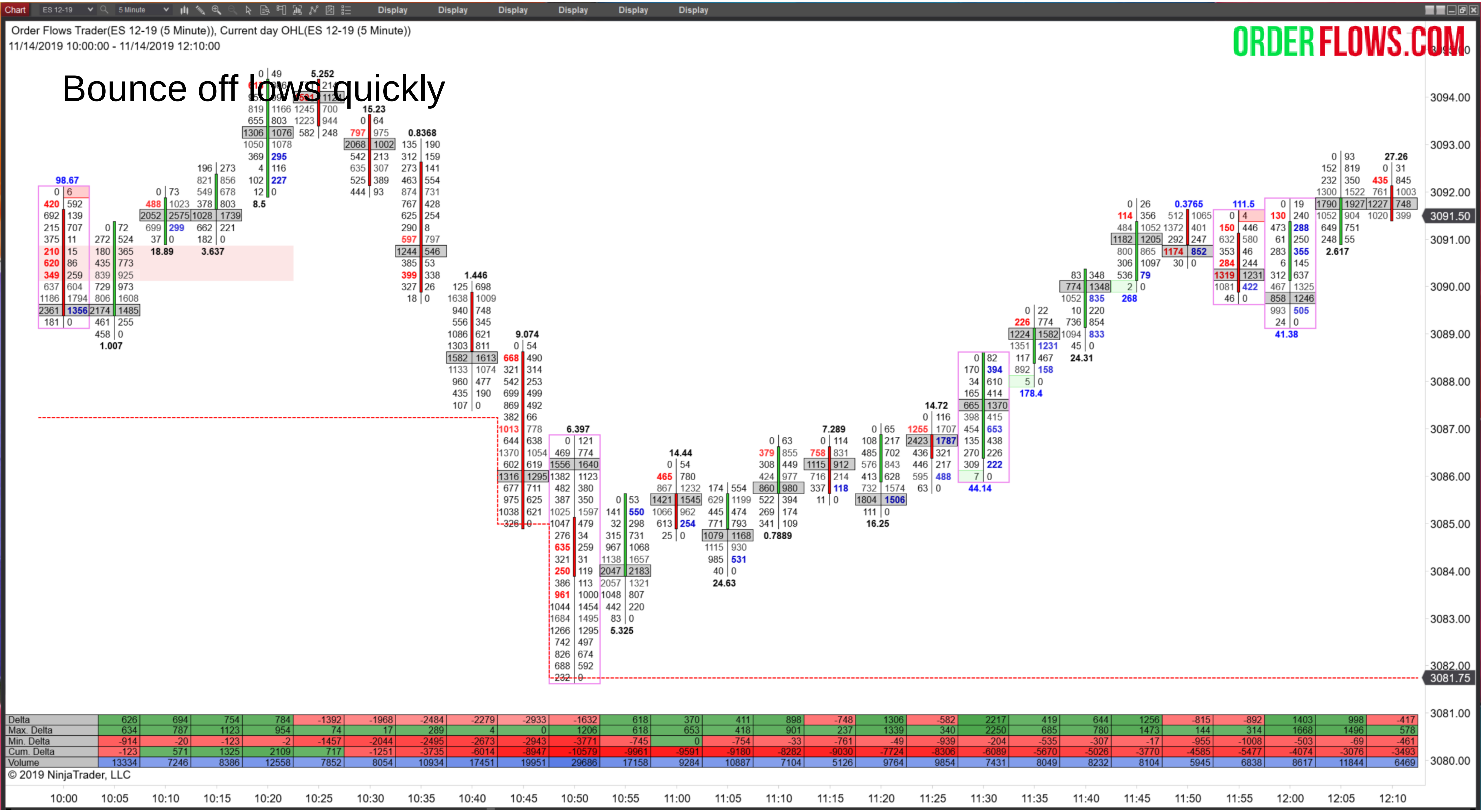
The market doesn’t always spend a lot of time at highs and low where volume can be very clear. It can move pretty quick, so you have to know what is above average volume.

Instead a markets movement may be as such: up, down, sideways, down, down, sideways, up, etc. and trying to analyze the volume in those moves can have you scratching your head.

Honestly, there are so many different combinations of market movement over time that it would be difficult to try and predict it. There are moves within moves.

Bounce off lows quickly



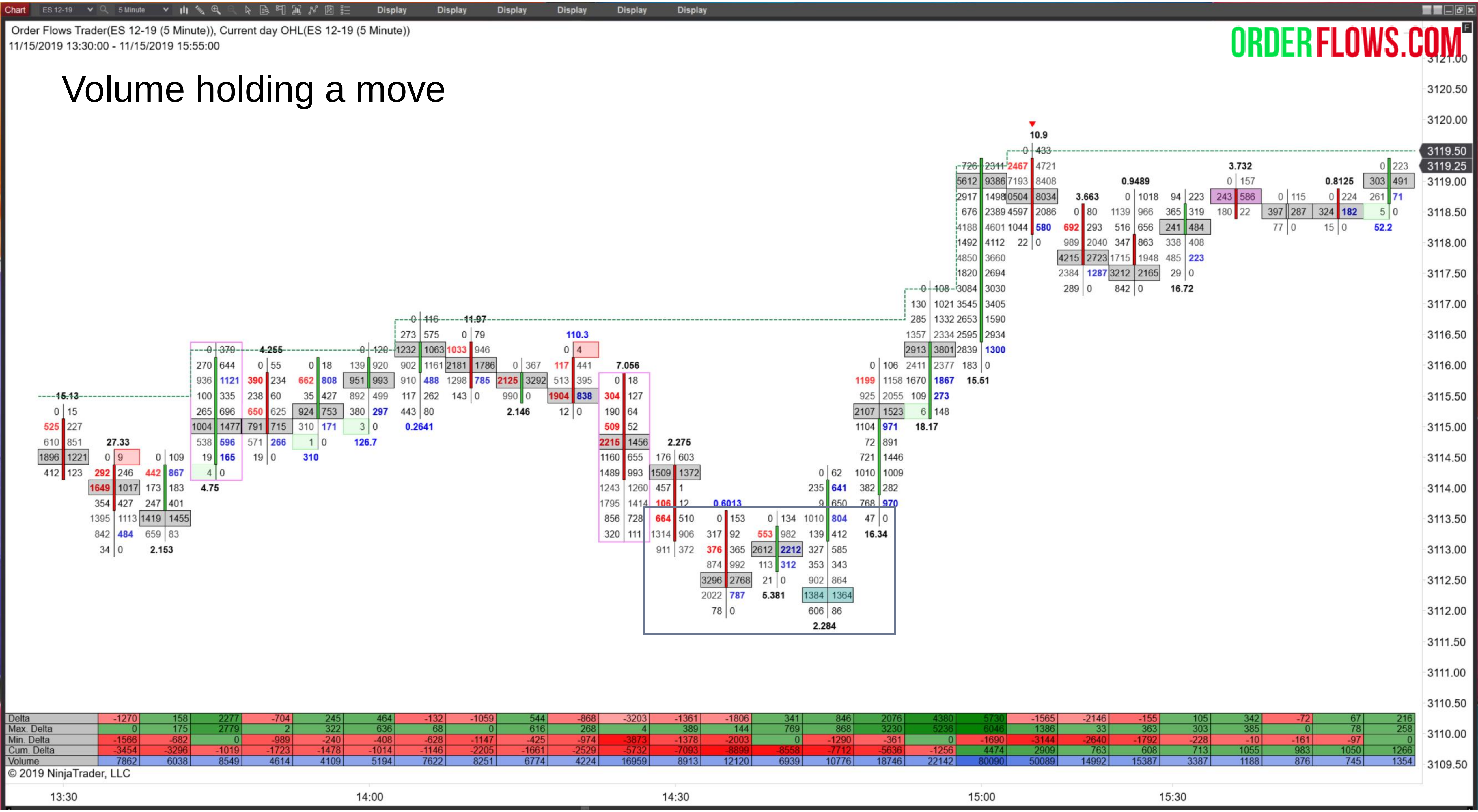
Volume reveals to us when large traders are active in the market.

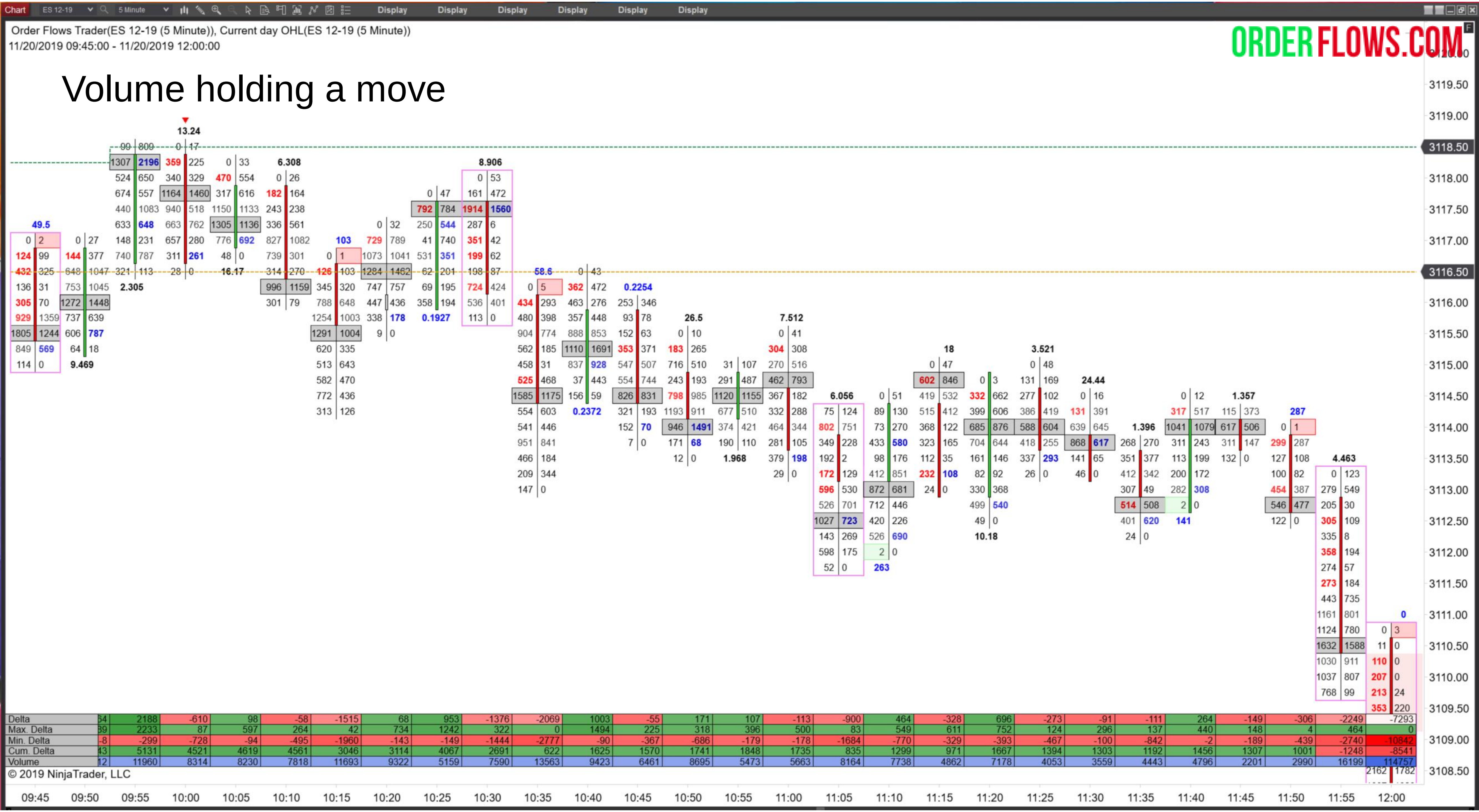
While volume is a great tool to assist a trader it fails in one aspect – telling us if the volume is the result of a new long or new short. That would be gold.

That is why a trader has to take what is happening in the market and put it in context and make the best possible guess. Because without context you would just be taking a shot in the dark.

When volume is put in context with price and market structure, a trader can then determine market direction, strength and to a degree, the beginning of a trend or the possible end of a trend.

Volume holding a move




Order Flows Trader(ES 12-19 (5 Minute)), Current day OHL(ES 12-19 (5 Minute))
11/20/2019 09:45:00 - 11/20/2019 12:00:00
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Volume holding a move
Delta
Max. Delta
Min. Delta
Cum. Delta
Volume
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09:45
09:50
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12:00

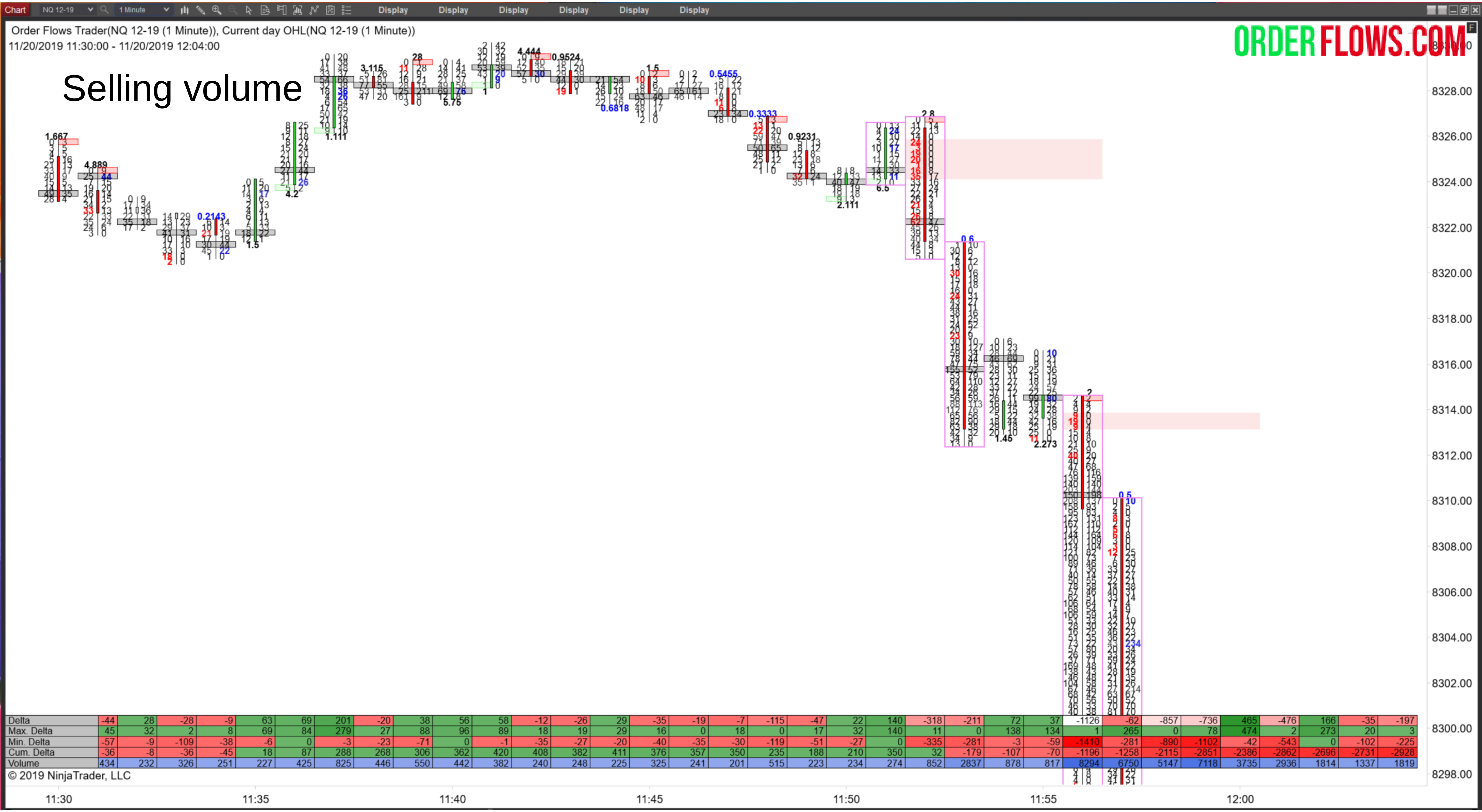
Volume spikes in downtrends occur more often than in uptrends. When the market is selling off, it is typically more emotion behind the move than in an uptrend.

Steadily increasing volume in a downtrend is ideal. That is bearish.

When the volume spikes it can signal capitulation and not new selling which is what is needed for the move to continue down.

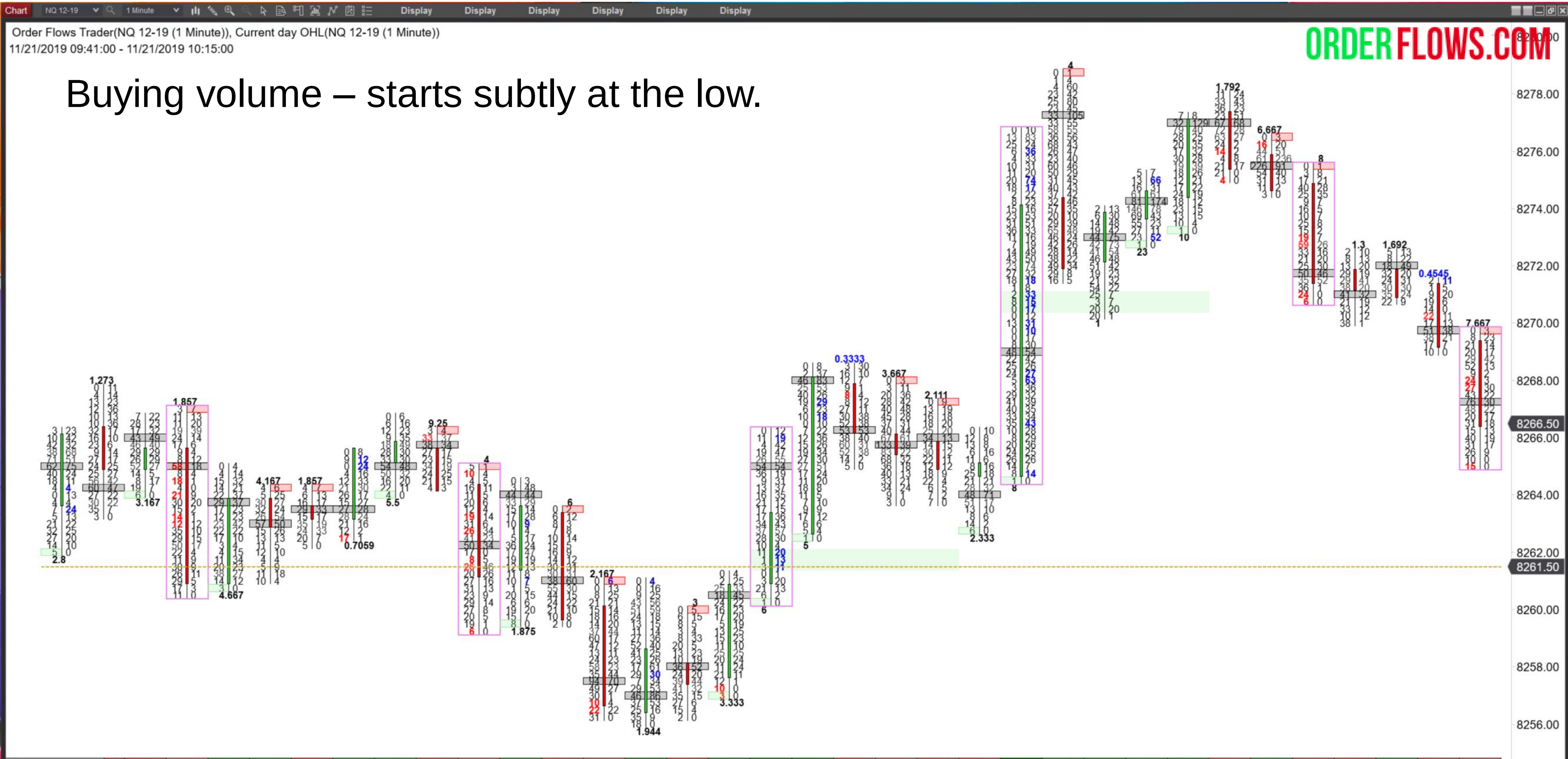
But not just pure volume, you also need to look at spikes in delta volume and imbalances.

Selling volume



Delta	-44	28	-28	-9	63	69	201	-20	38	56	58	-12	-26	29	-35	-19	-7	-115	-47	22	140	-318	-211	72	37	-1126	-62	-857	-736	465	-476	166	-35	-197
Max. Delta	45	32	2	8	69	84	279	27	88	96	89	18	19	29	16	0	18	0	17	32	140	11	0	138	134	1	265	0	78	474	2	273	20	3
Min. Delta	-57	-9	-109	-38	-6	0	-3	-23	-71	0	-1	-35	-27	-20	-40	-35	-30	-119	-51	-27	0	-335	-281	-3	-59	-1410	-281	-890	-1102	-42	-543	0	-102	-225
Cum. Delta	-36	-8	-36	-45	18	87	288	268	306	362	420	408	382	411	376	357	350	235	188	210	350	32	-179	-107	-70	-1196	-1258	-2115	-2851	-2386	-2862	-2696	-2731	-2928
Volume	434	232	326	251	227	425	825	446	550	442	382	240	248	225	325	241	201	515	223	234	274	852	2837	878	817	8294	6750	5147	7118	3735	2936	1814	1337	1819

Buying volume – starts subtly at the low.



Delta	-27	-15	-277	112	40	-8	46	48	-38	-208	65	-58	-173	139	-5	86	230
Max. Delta	85	51	28	114	48	17	46	50	3	0	75	4	39	165	39	91	255
Min. Delta	-72	-26	-277	-6	-23	-11	-29	-17	-39	-226	-27	-65	-180	-42	-32	0	-10
Cum. Delta	746	-761	-1038	-926	-886	-894	-848	-800	-838	-1046	-981	-1039	-1212	-1073	-1078	-992	-762
Volume	805	575	807	648	510	300	430	552	376	788	669	602	999	1213	569	582	1026

Delta	227	-72	-245	-75	-23	740	127	110	49	102	-100	10	-148	-63	24	-68	-231
Max. Delta	240	27	41	26	21	751	338	110	88	126	36	25	13	20	41	21	9
Min. Delta	-5	-99	-246	-83	-68	-1	0	-49	-20	-14	-110	-104	-187	-77	-3	-83	-261
Cum. Delta	-535	-607	-852	-927	-950	-210	-83	27	76	178	78	88	-60	-123	-99	-167	-398
Volume	941	702	1193	413	505	2366	2171	964	1043	838	686	902	788	461	372	332	859

09:45 09:50 09:55 10:00 10:05 10:10 10:15

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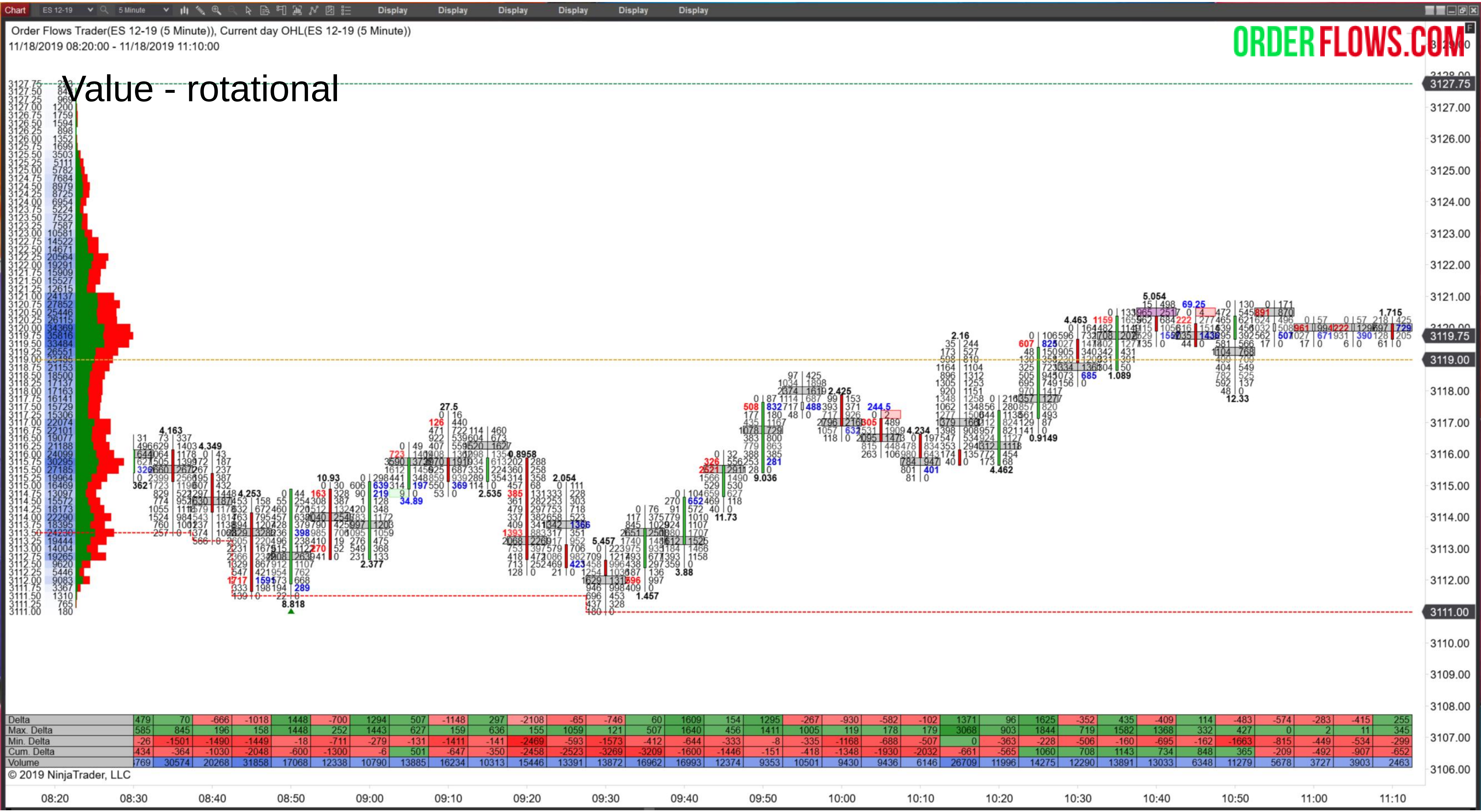
Understanding the relationship between price and value is an advanced step for a trader to understand and apply in their trading.

In a trending market price leads value as price is searching for the level where trade can be facilitated between both sides.

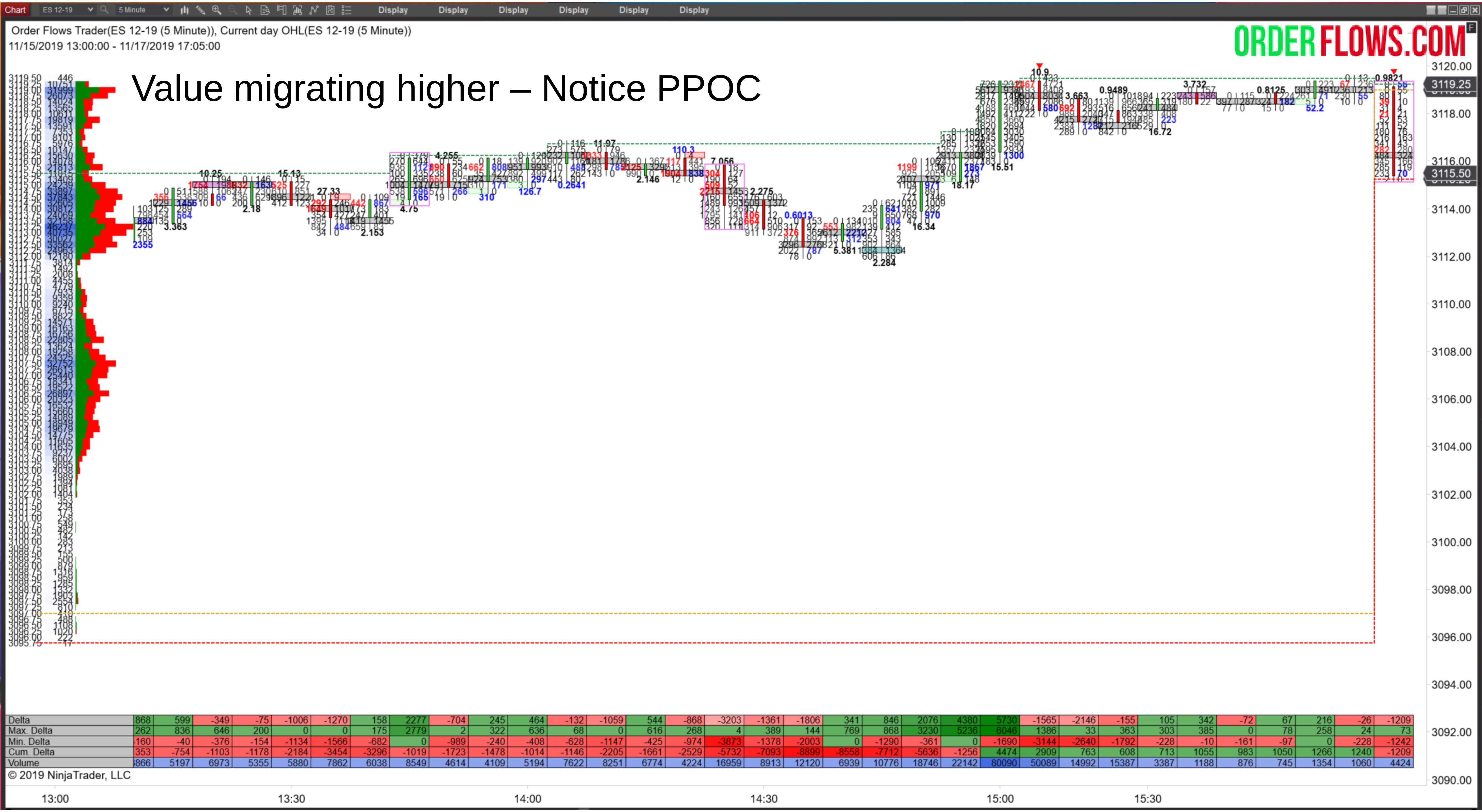
In a rotational market, value contains price. When price moves away from value, it rotates back into value.

When value is migrating higher, you now have insight and perspective on how to trade the next bar.

Value - rotational



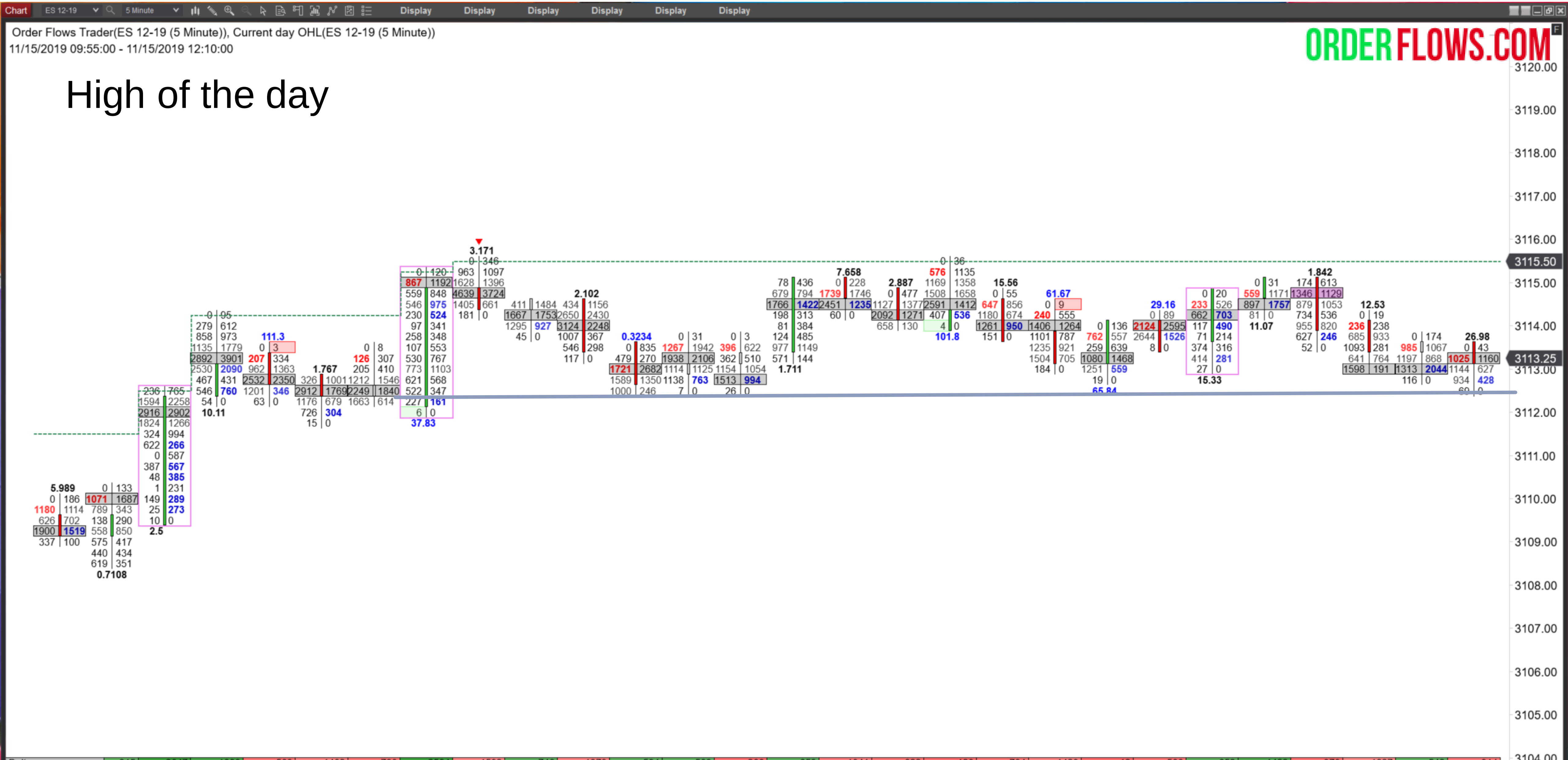
Value migrating higher – Notice PPOC



There is a difference between price and value. The market is a two-way auction, price is used for negotiation. When you shop for something, the first thing you do is look at the price and then you decide if what you are buying is a good value. If you can bargain the price you will.

What is a good price though? Right now something may seem expensive, but two days from now you might wish you had bought it a couple of days ago.

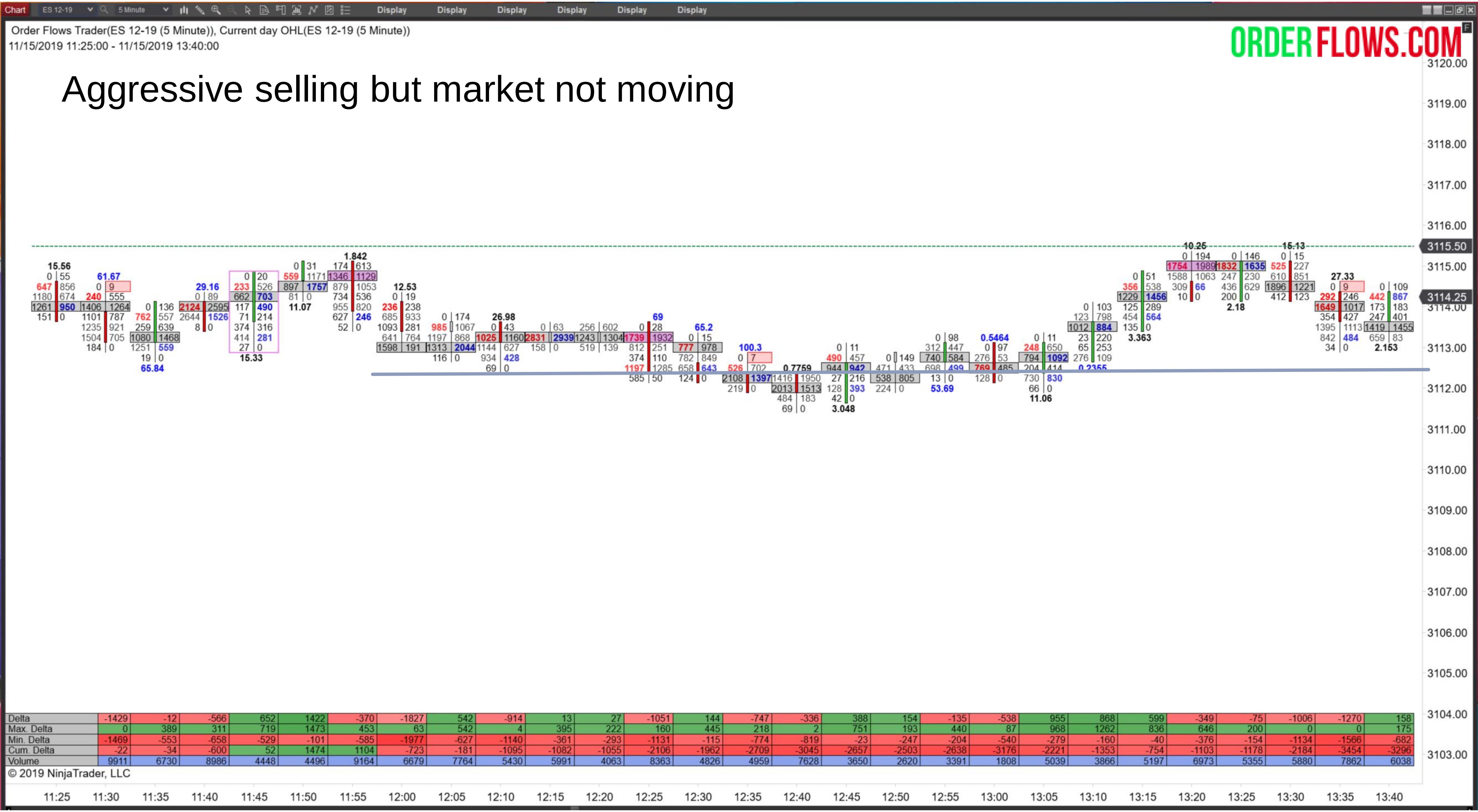
High of the day



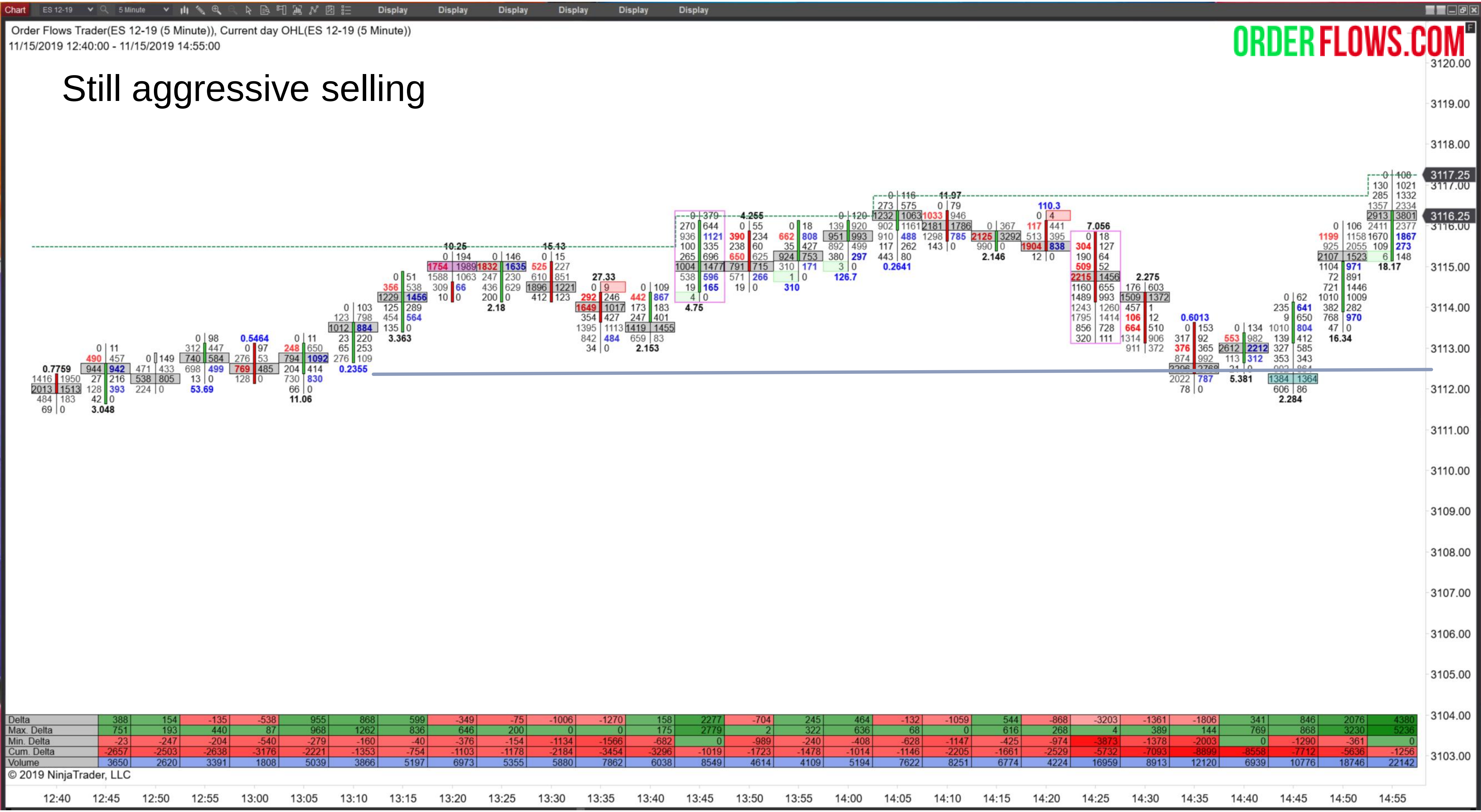
Delta	315	2647	1880	-569	-1402	-730	2504	-1592	746	-1379	594	503	-268	653	-1041	-622	-120	-704	-1429	-12	-566	652	1422	-370	-1827	542	-914
Max. Delta	740	3779	2877	58	10	346	3151	318	751	279	766	996	131	898	149	272	1767	183	0	389	311	719	1473	453	63	542	4
Min. Delta	-626	-1	0	-704	-1448	-745	-155	-1622	-449	-1470	-380	-158	-728	-567	-1559	-661	-223	-739	-1469	-553	-658	-529	-101	-585	-1977	-627	-1140
Cum. Delta	307	2954	4834	4265	2863	2133	4637	3045	3791	2412	3006	3509	3241	3894	2853	2231	2111	1407	-22	-34	-600	52	1474	1104	-723	-181	-1095
Volume	8695	18919	19402	9361	8908	10180	13190	16040	7582	14377	10172	11431	6634	9601	7459	7132	12390	5774	9911	6730	8986	4448	4496	9164	6679	7764	5430

09:55 10:00 10:05 10:10 10:15 10:20 10:25 10:30 10:35 10:40 10:45 10:50 10:55 11:00 11:05 11:10 11:15 11:20 11:25 11:30 11:35 11:40 11:45 11:50 11:55 12:00 12:05 12:10

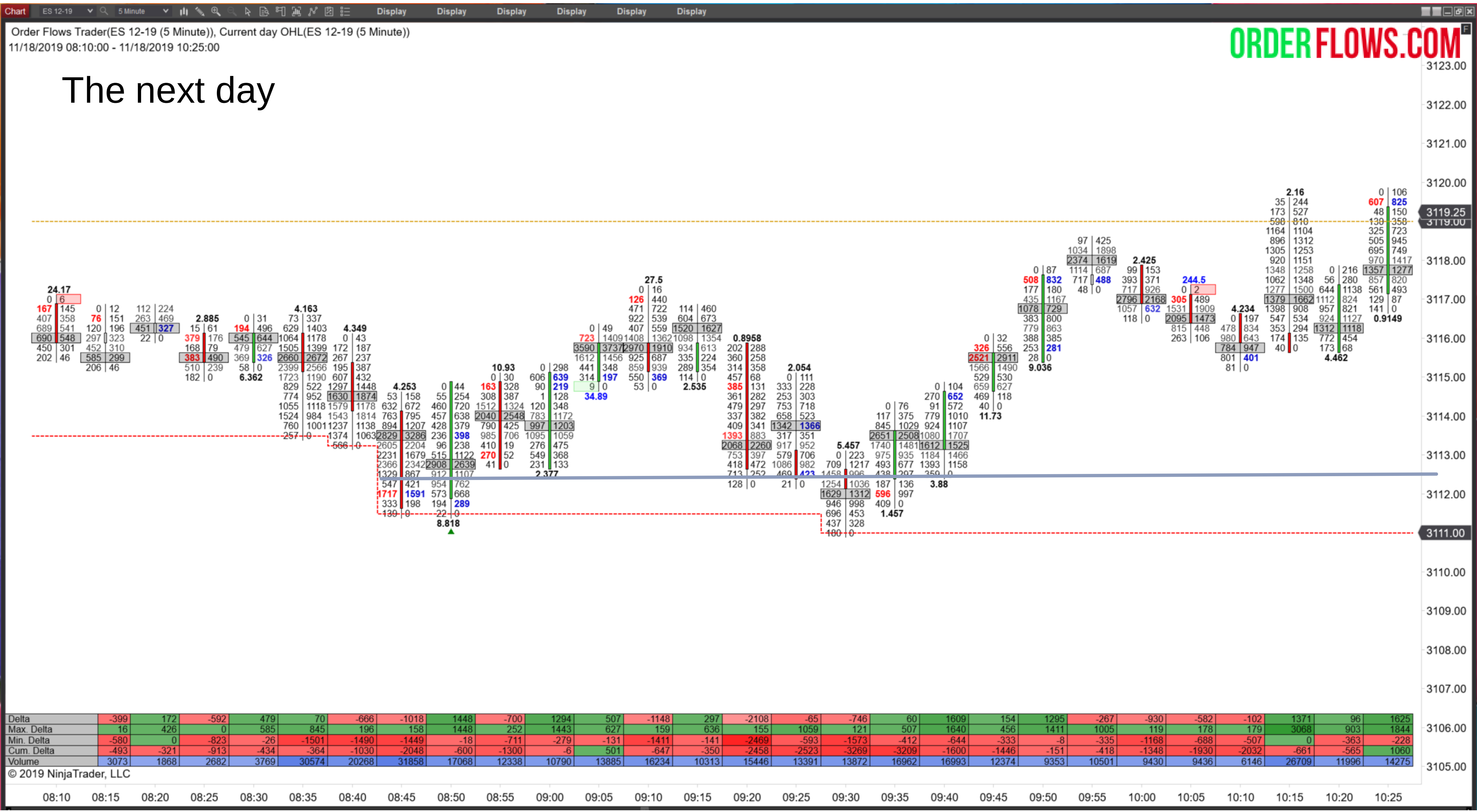
Aggressive selling but market not moving



Still aggressive selling



The next day


Order Flows Trader(ES 12-19 (5 Minute)), Current day OHL(ES 12-19 (5 Minute))
11/18/2019 08:10:00 - 11/18/2019 10:25:00
ORDERFLOWS.COM
Delta -399 172 -592 479 70 -666 -1018 1448 -700 1294 507 -1148 297 -2108 -65 -746 60 1609 154 1295 -267 -930 -582 -102 1371 96 1625
Max. Delta 16 426 0 585 845 196 158 1448 252 1443 627 159 636 155 1059 121 507 1640 456 1411 1005 119 178 179 3068 903 1844
Min. Delta -580 0 -823 -26 -1501 -1490 -1449 -18 -711 -279 -131 -1411 -141 -2469 -593 -1573 -412 -644 -333 -8 -335 -1168 -688 -507 0 -363 -228
Cum. Delta -493 -321 -913 -434 -364 -1030 -2048 -600 -1300 -6 501 -647 -350 -2458 -2523 -3269 -3209 -1600 -1446 -151 -418 -1348 -1930 -2032 -661 -565 1060
Volume 3073 1868 2682 3769 30574 20268 31858 17068 12338 10790 13885 16234 10313 15446 13391 13872 16962 16993 12374 9353 10501 9430 9436 6146 26709 11996 14275
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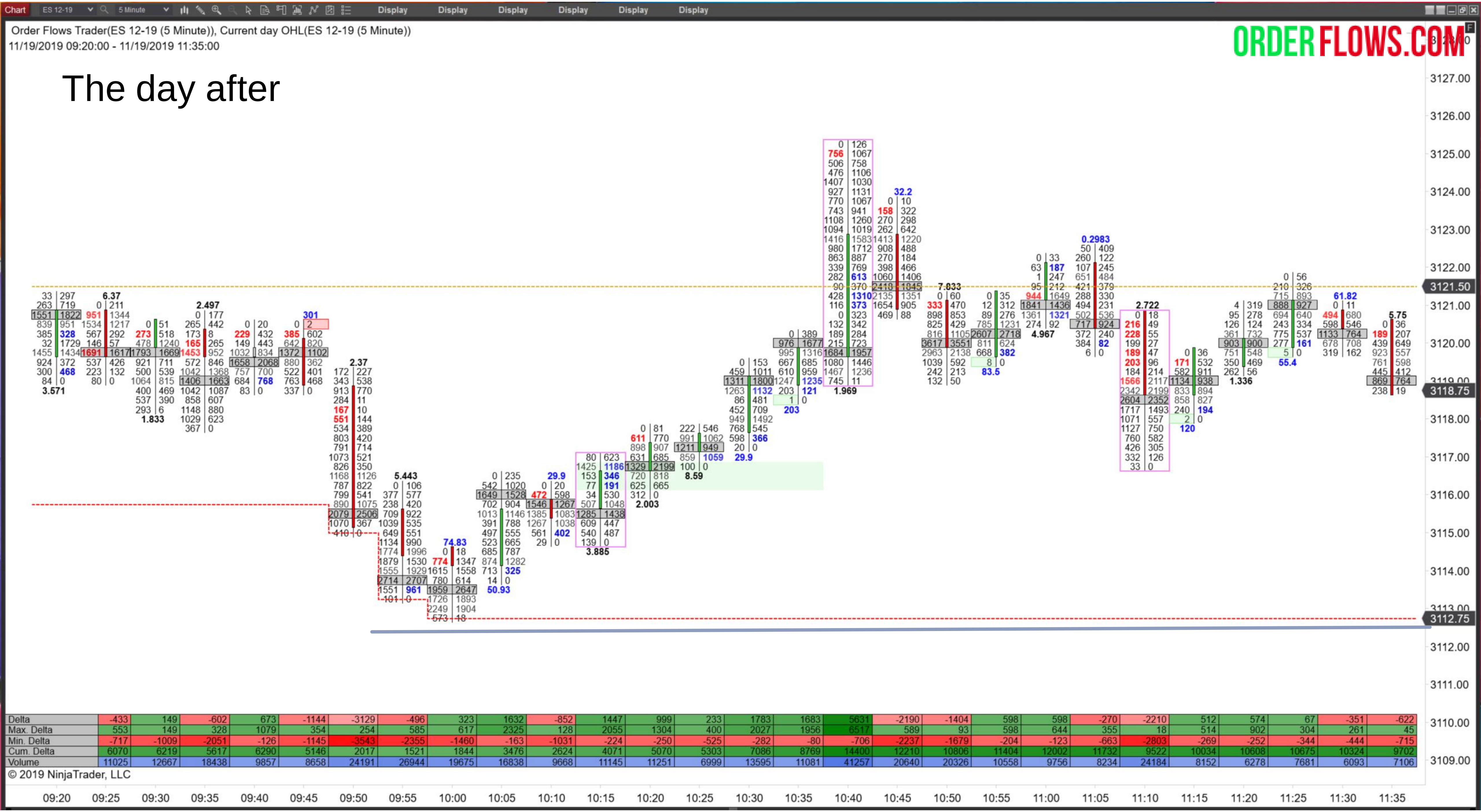
08:10 08:15 08:20 08:25 08:30 08:35 08:40 08:45 08:50 08:55 09:00 09:05 09:10 09:15 09:20 09:25 09:30 09:35 09:40 09:45 09:50 09:55 10:00 10:05 10:10 10:15 10:20 10:25
3123.00 3122.00 3121.00 3120.00 3119.25 3118.00 3117.00 3116.00 3115.00 3114.00 3113.00 3112.00 3111.00 3110.00 3109.00 3108.00 3107.00 3106.00 3105.00


Order Flows Trader(ES 12-19 (5 Minute)), Current day OHL(ES 12-19 (5 Minute))
11/19/2019 09:20:00 - 11/19/2019 11:35:00
The day after
ORDER FLOWS.COM
Delta
Max. Delta
Min. Delta
Cum. Delta
Volume
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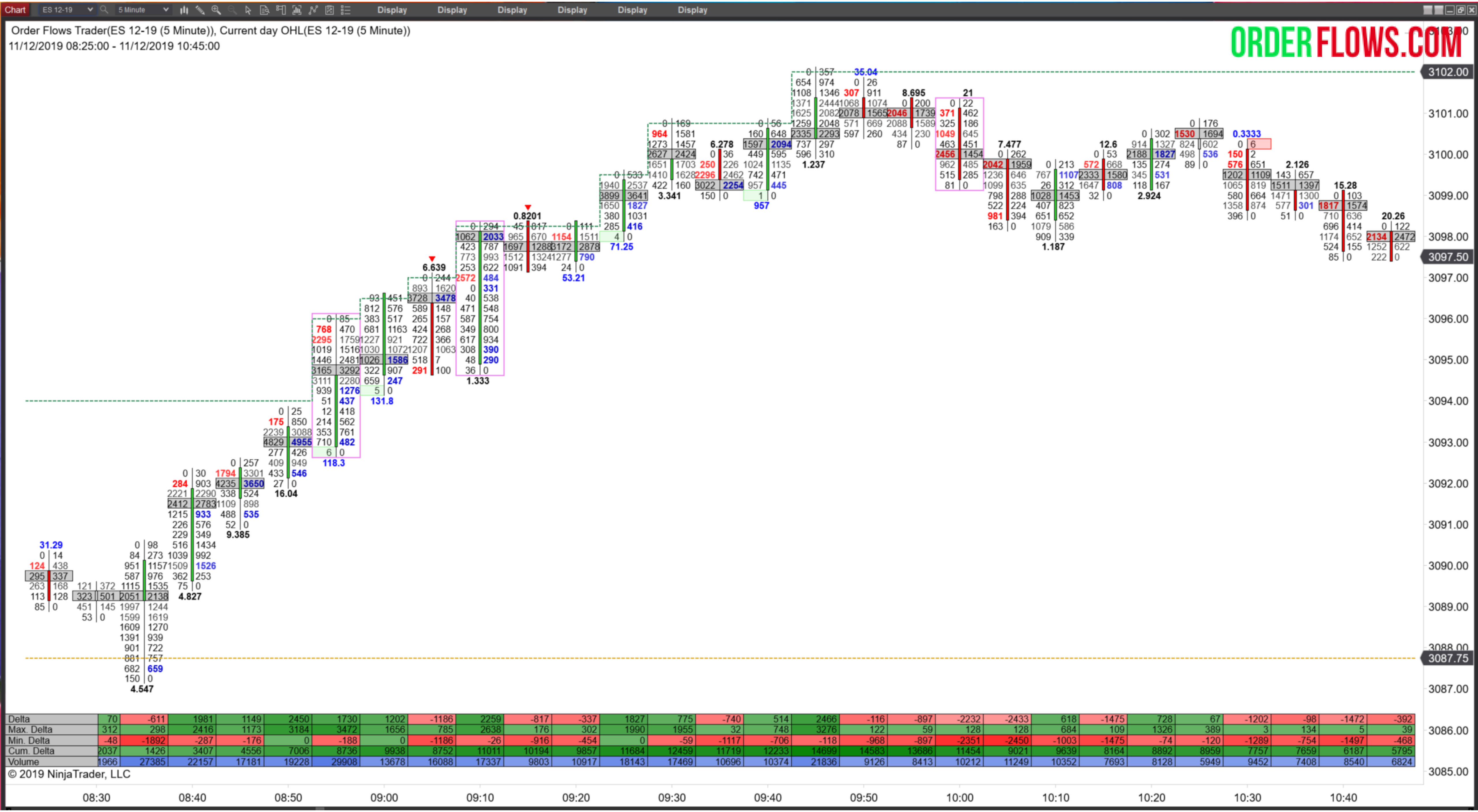
Identifying a trend day. When a market is rallying, the expected reaction is for sellers to be attracted to the market the keep the market from going to the moon. Many traders see this as an opportunity to get short on a mean reversion trade. On normal rotational days that is what happens.

On trend days, when the market is screaming higher, what happens is instead of attracting sellers, more buyers are attracted, you see more bids coming in.

Getting short here is dangerous. Don’t get short when bids are getting stronger, you get long.

On a market moving down the opposite is true. When lower prices are not stopping aggressive selling, but instead attracting more selling. It is time to get short. A trend could be underway.


Order Flows Trader(ES 12-19 (5 Minute)), Current day OHL(ES 12-19 (5 Minute))
11/12/2019 08:25:00 - 11/12/2019 10:45:00
ORDER FLOWS.COM
Delta | 70 | -611 | 1981 | 1149 | 2450 | 1730 | 1202 | -1186 | 2259 | -817 | -337 | 1827 | 775 | -740 | 514 | 2466 | -116 | -897 | -2232 | -2433 | 618 | -1475 | 728 | 67 | -1202 | -98 | -1472 | -392
Max. Delta | 312 | 298 | 2416 | 1173 | 3184 | 3472 | 1656 | 785 | 2638 | 176 | 302 | 1990 | 1955 | 32 | 748 | 3276 | 122 | 59 | 128 | 128 | 684 | 109 | 1326 | 389 | 3 | 134 | 5 | 39
Min. Delta | -48 | -1892 | -287 | -176 | 0 | -188 | 0 | -1186 | -26 | -916 | -454 | 0 | -59 | -1117 | -706 | -118 | -968 | -897 | -2351 | -2450 | -1003 | -1475 | -74 | -120 | -1289 | -754 | -1497 | -468
Cum. Delta | 2037 | 1426 | 3407 | 4556 | 7006 | 8736 | 9938 | 8752 | 11011 | 10194 | 9857 | 11684 | 12459 | 11719 | 12233 | 14699 | 14583 | 13686 | 11454 | 9021 | 9639 | 8164 | 8892 | 8959 | 7757 | 7659 | 6187 | 5795
Volume | 1966 | 27385 | 22157 | 17181 | 19228 | 29908 | 13678 | 16088 | 17337 | 9803 | 10917 | 18143 | 17469 | 10696 | 10374 | 21836 | 9126 | 8413 | 10212 | 11249 | 10352 | 7693 | 8128 | 5949 | 9452 | 7408 | 8540 | 6824
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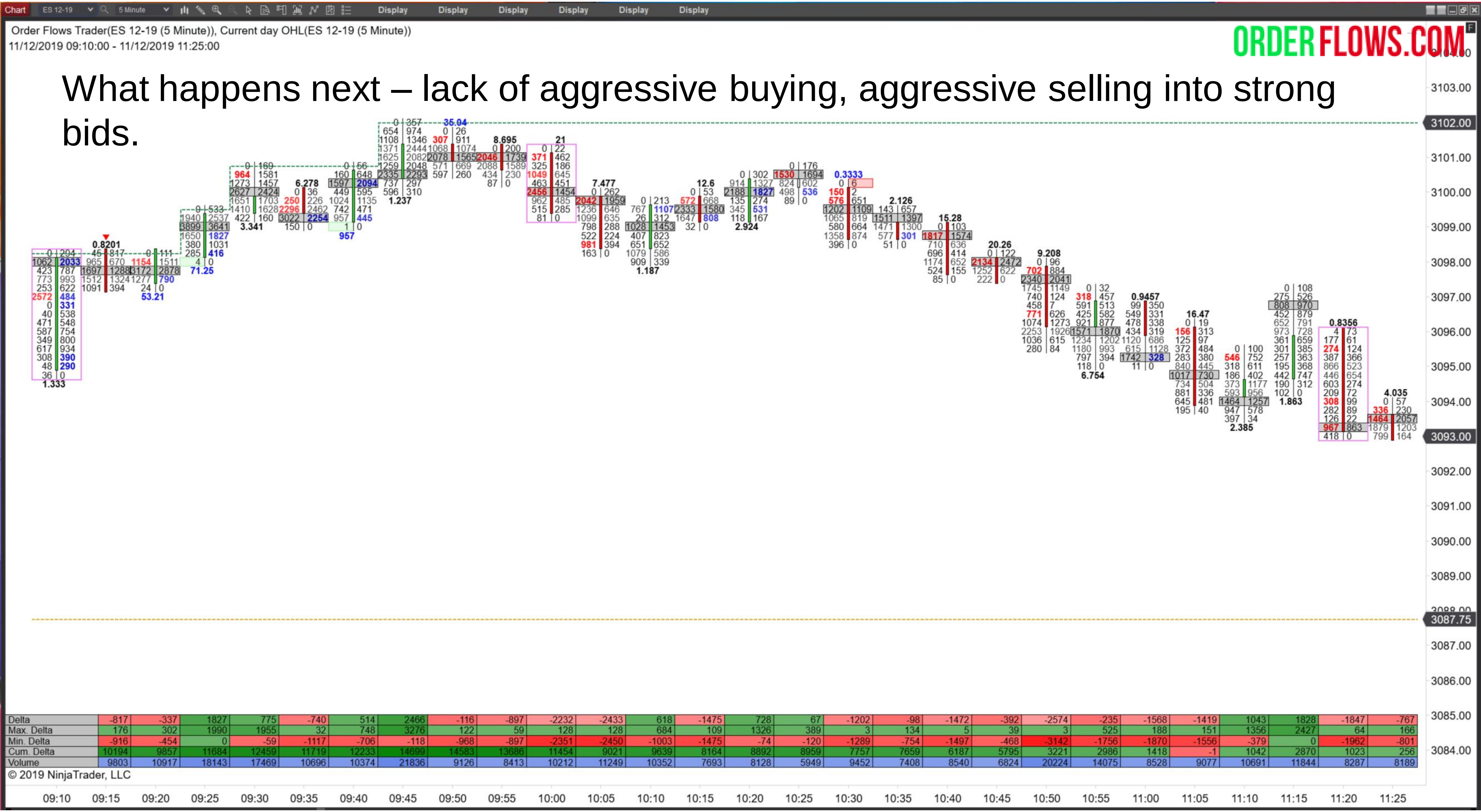
08:30 08:40 08:50 09:00 09:10 09:20 09:30 09:40 09:50 10:00 10:10 10:20 10:30 10:40

When a break is a combination of long liquidation and new money selling the chances are that the move will continue.

If a break is mostly long liquidation, but no new selling, the move will likely reverse.

What happens next – lack of aggressive buying, aggressive selling into strong bids.



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Understanding the type of trading that is occurring.
Is the trading done by short-term traders or long-term traders who are active?

Short-term traders tend to be more technical and mechanical in nature. They tend to get in and out of trades at exact levels which are usually very obvious and visual on a chart.

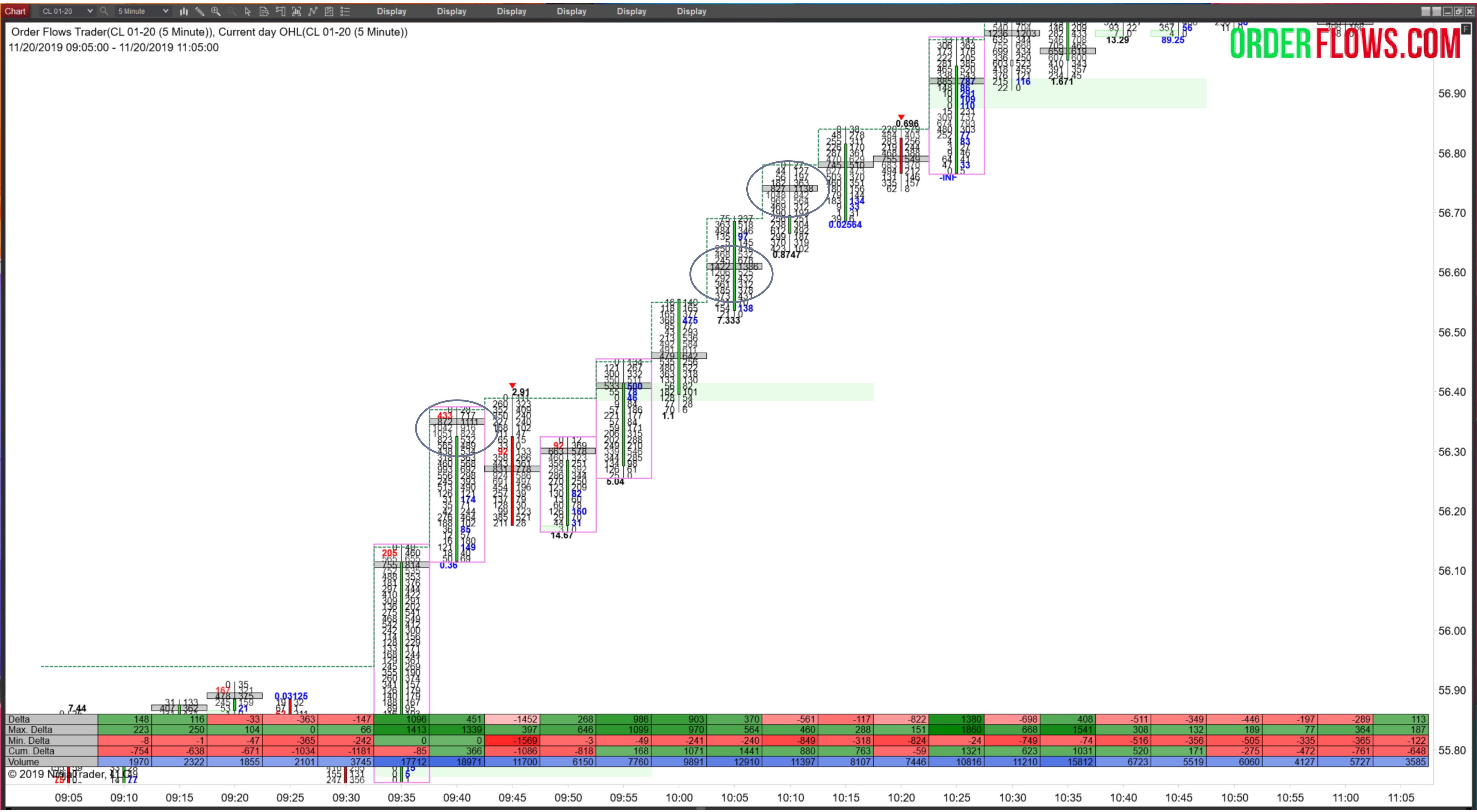
Short-term traders tend to be more emotional and tend to pile into their positions which causes moves to be over extended.

Longer-term traders are harder to identify because they can slowly build up a position. However, their position is stronger, in that they are not easily shaken out if they face some heat on the trade.

Longer-term traders hold positions longer (obviously) so they are generally not entering at a specific price or level. This is due in part to their trade size being too big to execute at a specific price or level which is easily recognized.

Where do you usually see their activity? Bids or offers.

The position size that can be put on at a specific level or defined level is very limited. Longer-term traders enter the market with large size orders



Order Flows Trader(CL 01-20 (5 Minute)), Current day OHL(CL 01-20 (5 Minute))
11/20/2019 09:05:00 - 11/20/2019 11:05:00
ORDER FLOWS.COM
Delta
Max. Delta
Min. Delta
Cum. Delta
Volume
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Short covering rallies, P formation, often give a nice short opportunity.
When a market is experiencing short covering there is buying pressure present and once the buying pressure is done, what is left to support the market? Nothing the market is weak again.

This why you see the market keep making new lows after bounces. What are you looking for in the order flow? Watch the delta after the low has been made. Is it getting stronger or weaker?

What makes a short covering rally such a great short opportunity is when the professional traders start selling into the rally.

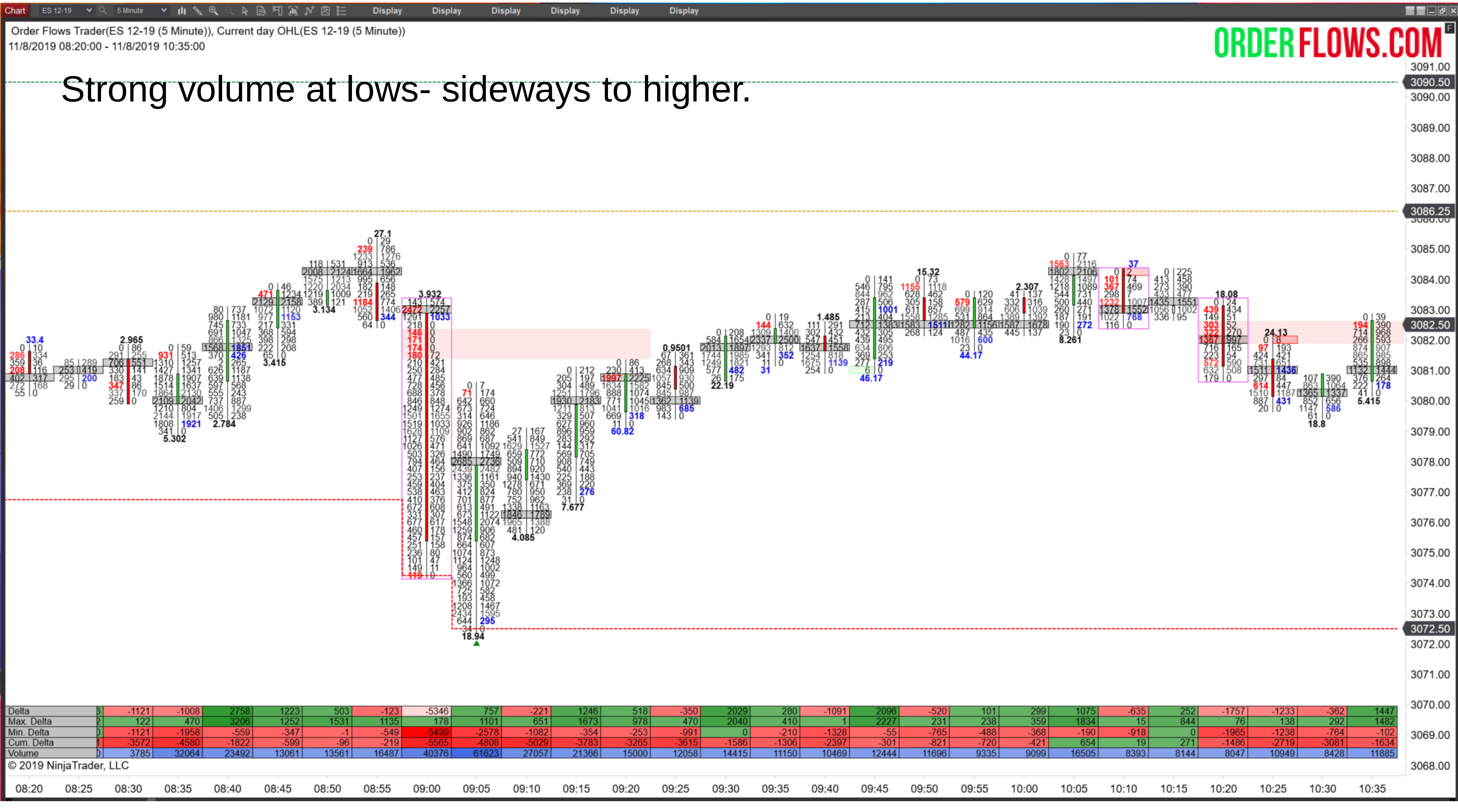
How to tell when supply and demand is balanced?

No clear trend.

Easily identifiable support and resistance.

Weak buy signals and weak sell signals.

When a market is balancing, neither supply or demand is in control.


Order Flows Trader(ES 12-19 (5 Minute)), Current day OHL(ES 12-19 (5 Minute))
11/8/2019 08:20:00 - 11/8/2019 10:35:00
ORDERFLOWS.COM
Strong volume at lows- sideways to higher.
Delta
Max. Delta
Min. Delta
Cum. Delta
Volume
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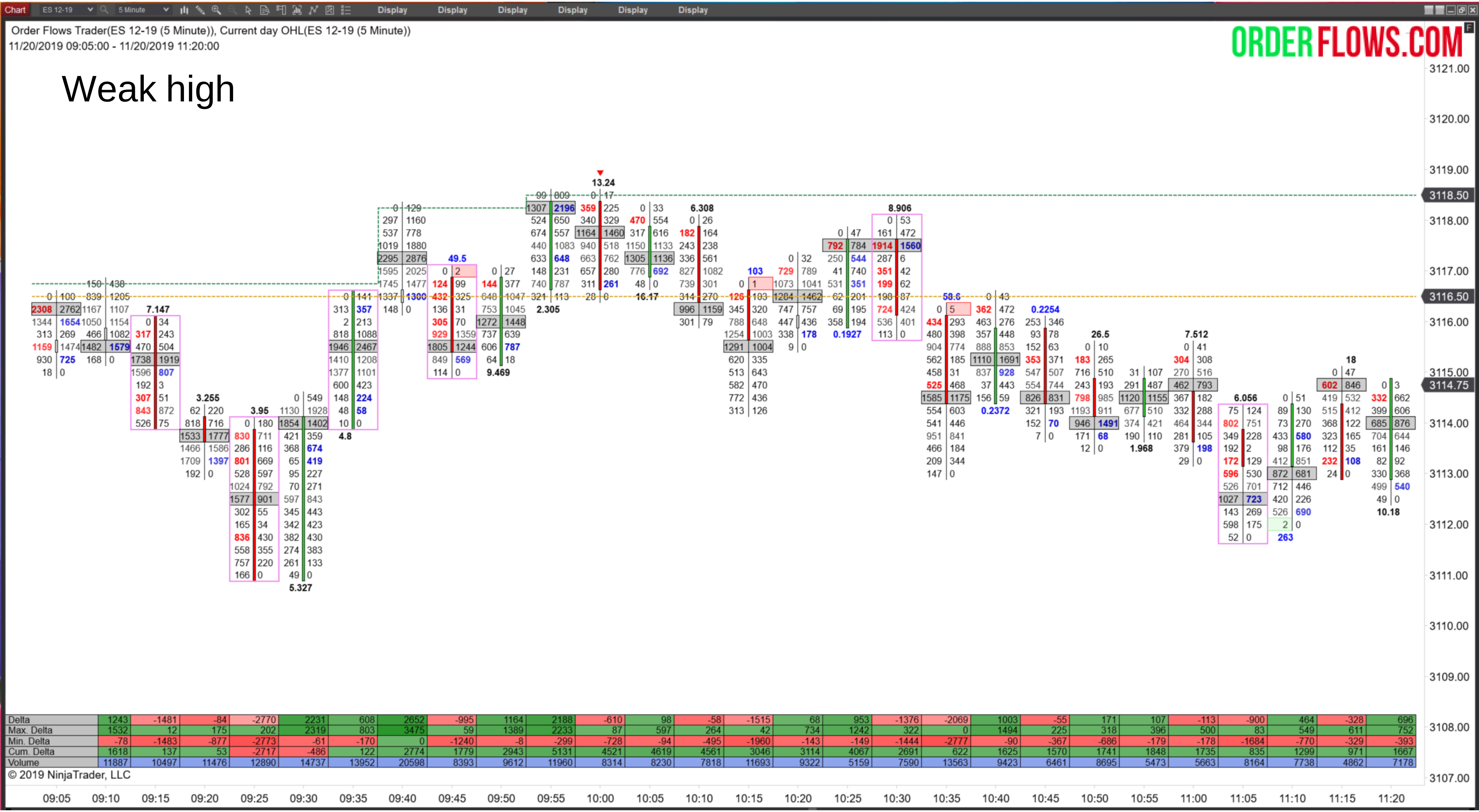
Weak high



Order Flows Trader(ES 12-19 (5 Minute)), Current day OHL(ES 12-19 (5 Minute))
11/20/2019 09:05:00 - 11/20/2019 11:20:00
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Traders need a way to know when supply and demand are out of balance. When a market is transitioning from supply to demand or from demand to supply that is when a trader has a great opportunity. Being able to find these supply and demand changes is what gives an order flow trader an edge over other traders.

The easiest way to see when a market is transitioning is by watching the delta.

Order Flows Trader(ES 12-19 (5 Minute)), Current day OHL(ES 12-19 (5 Minute))
11/19/2019 09:05:00 - 11/19/2019 11:20:00
Low risk buying opportunity.
ORDERFLOWS.COM
Delta
Max. Delta
Min. Delta
Cum. Delta
Volume
© 2019 NinjaTrader, LLC
09:05 09:10 09:15 09:20 09:25 09:30 09:35 09:40 09:45 09:50 09:55 10:00 10:05 10:10 10:15 10:20 10:25 10:30 10:35 10:40 10:45 10:50 10:55 11:00 11:05 11:10 11:15 11:20
3127.00 3126.00 3125.00 3124.00 3123.00 3122.00 3121.50 3121.00 3120.00 3119.00 3118.00 3117.00 3116.00 3115.00 3114.00 3112.75 3112.00 3111.00 3110.00 3109.00

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You have reached the end of Module 5. In Module 6 I will discuss order flow nuances.