Next Level Order Flow
Module 10:
The Process

Disclaimer

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The Process

The problem many traders face is the lack of a process. They think they can have a method or system or indicator to trade the market and be successful. However, having a method or a system or indicator are just the parts of the process.

The Process

When you have a process, you can swap out the pieces that no longer work and add in pieces that do work. Your system may one day not be productive anymore. So, you go ahead and change it, you don’t have to abandon everything else in your trading. Because that system is only a piece of the process.

The Process

The mistake most beginning traders make is they don’t understand the process. They think buying an indicator is the process. Its not. And when it no longer works in the current market conditions, they abandon it all together. What they fail to understand is the indicator is just one step in the process.

Building a trading plan

What you need is the proper foundation. There is a basic level of trading intelligence that you need to have and build from.

Trading path - Mimicking

When people think they can become a successful trader by copying exactly, its just not going to happen. Everyone has a different risk profile, emotional makeup, view things differently. Don’t fall into the trap of trying to mimic exactly how another trader trades. Everyone is different. Two traders can have the same view of the market, but get in at very different levels and get out at very different levels.

Trading path - Mimicking

You can’t just copy a trader in the sense of trying to become a clone of that trader. Think of it like fishing. You see some guy catching a lot of fish and think I just need his spot and I will catch a lot of fish too. It doesn’t work that way. The guy may have a special bait or knows a specific time of day the fish feed. It may have taken him time in trial and error to know how to catch fish at that spot.

Trading path - mimicking

Don’t try to mimic another trader because it often won’t work. You have to develop an understanding of what is happening in the market through your own eyes and experience. Then you can develop your own unique approach to the market as that is what will give you an edge. If you don’t develop your own unique approach and you do have an edge it probably isn’t going to be very powerful for you in the long run.

Building a trading plan

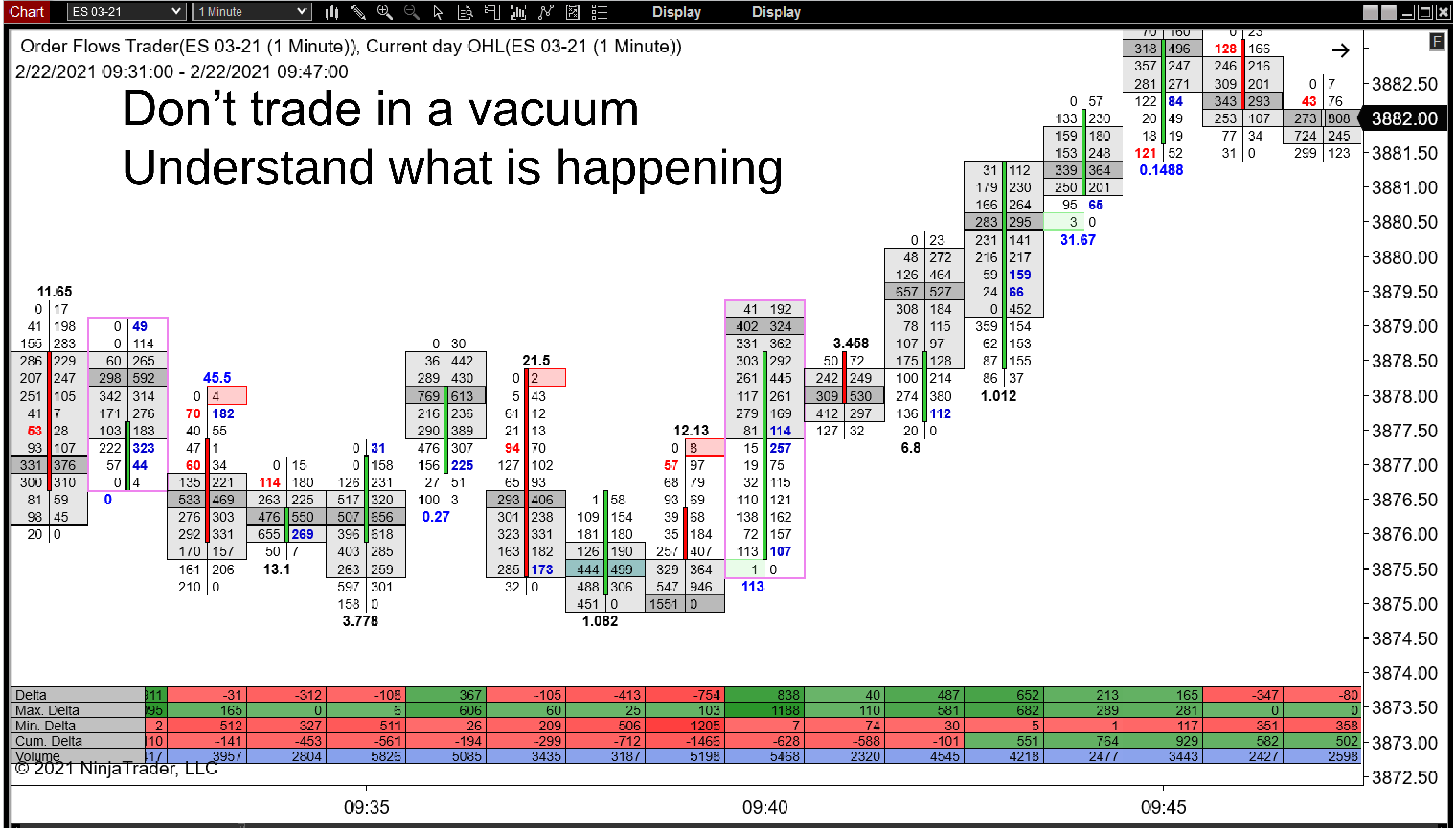
Traders don’t become successful by finding one thing that works in the market. Successful traders take different pieces from other successful traders and then build their own strategies that make sense to them.

Building a trading plan

Delta
Imbalance
POC & Prominent POC
Value
Order Flow Sequencing
Market Exhaustion
Absorption
Etc.

Don’t trade in a vacuum

Understand what is happening



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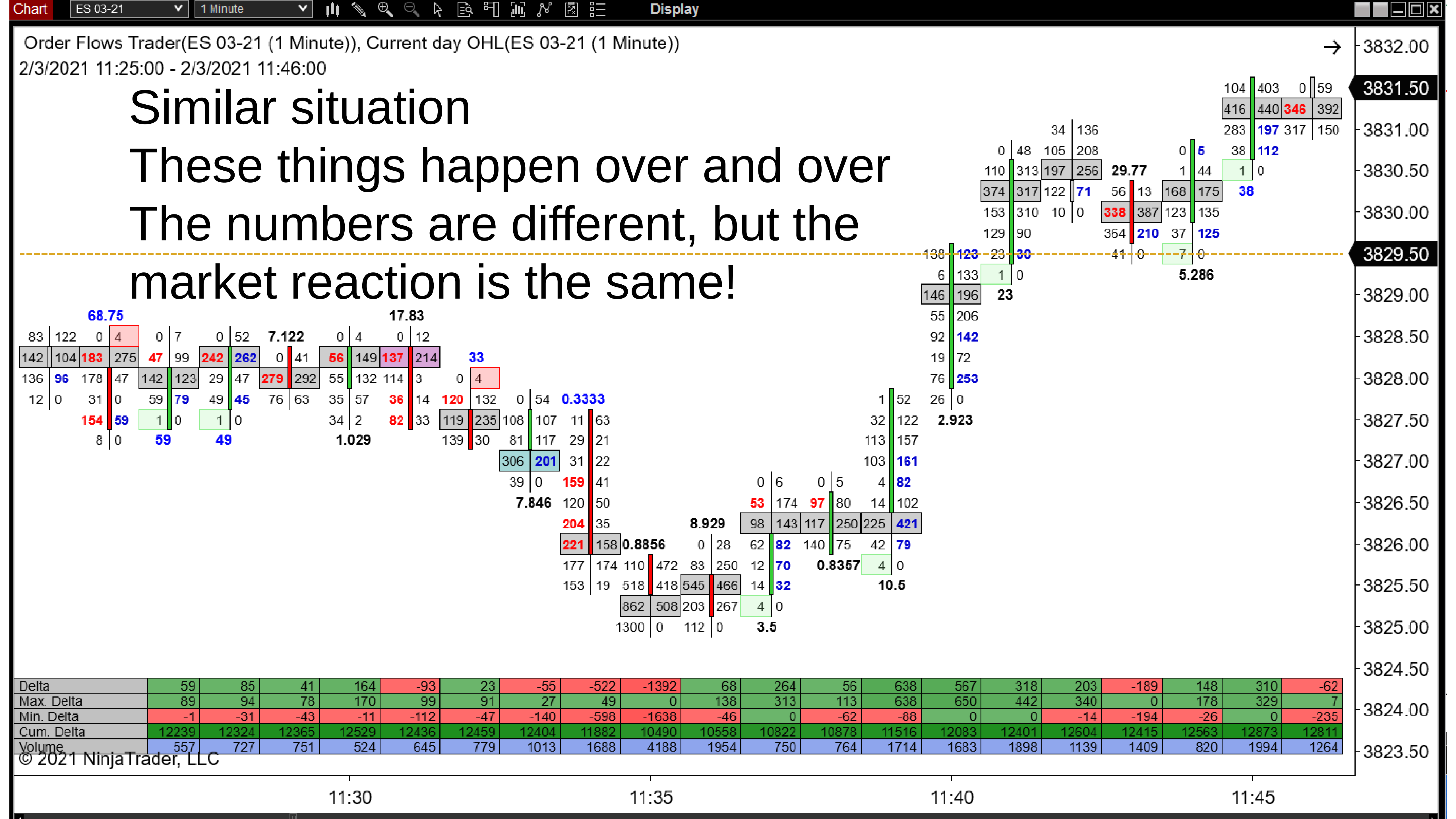
Chart
ES 03-21
1 Minute
Display
Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))
2/3/2021 11:25:00 - 2/3/2021 11:46:00
Similar situation
These things happen over and over
The numbers are different, but the
market reaction is the same!
Delta 59 85 41 164 -93 23 -55 -522 -1392 68 264 56 638 567 318 203 -189 148 310 -62
Max. Delta 89 94 78 170 99 91 27 49 0 138 313 113 638 650 442 340 0 178 329 7
Min. Delta -1 -31 -43 -11 -112 -47 -140 -598 -1638 -46 0 -62 -88 0 0 -14 -194 -26 0 -235
Cum. Delta 12239 12324 12365 12529 12436 12459 12404 11882 10490 10558 10822 10878 11516 12083 12401 12604 12415 12563 12873 12811
Volume 557 727 751 524 645 779 1013 1688 4188 1954 750 764 1714 1683 1898 1139 1409 820 1994 1264
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11:30
11:35
11:40
11:45

We don’t need no stinking trading plan? Really!?

Everyone says, “you have to have a trading plan.” Well, yeah of course. They say you have to make so much per day. They say you have to have one or two setups to rely on. The problem is if you are going to trade in the long term, you know it takes more than one or two setups to survive because the market has a life of its own and trades in many different ways. You have to be ready for different conditions. A standard one size fits all will not suffice.

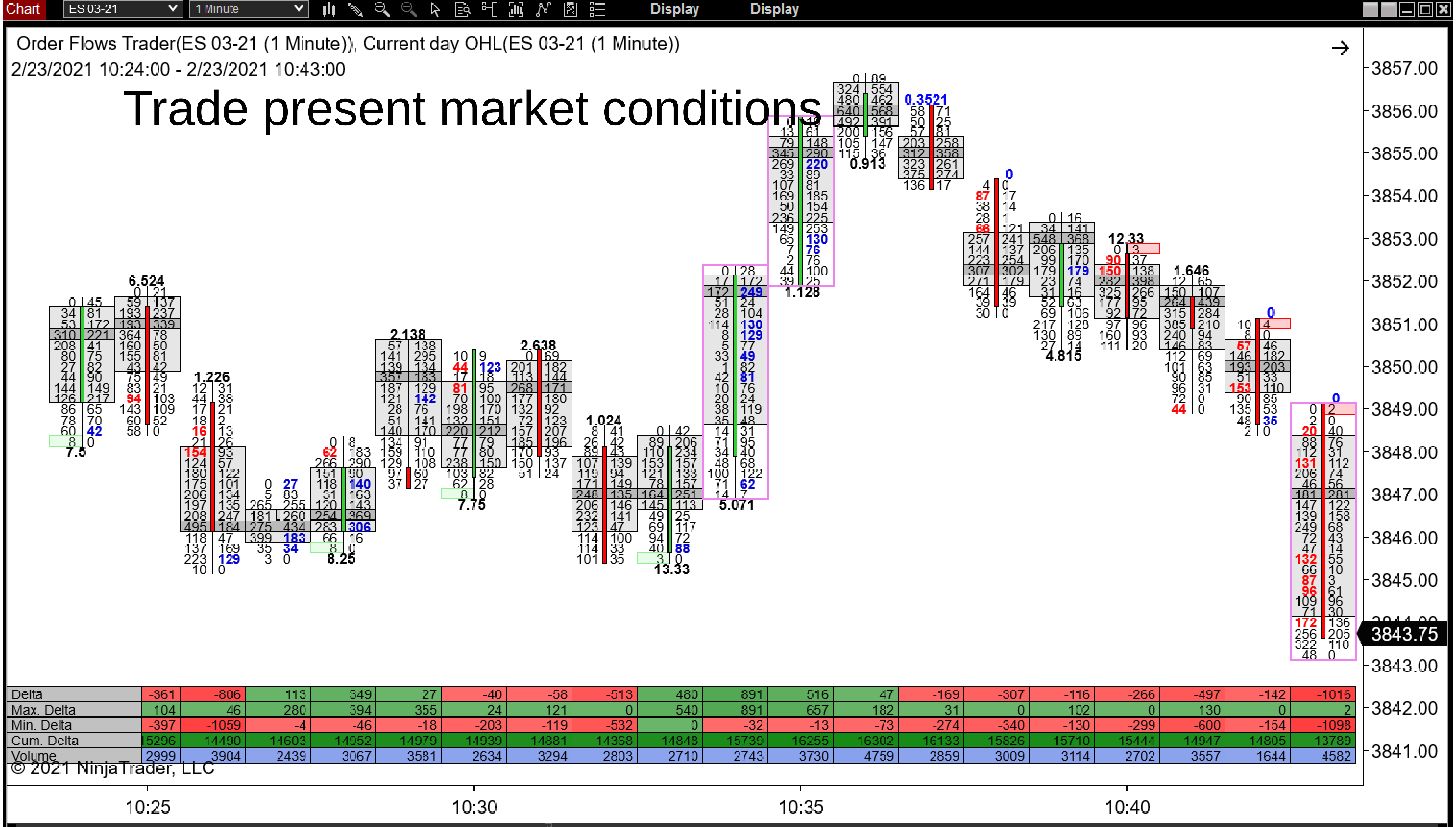
Trading plan

The market doesn’t give you the same opportunities every day. There are going to be days that are average, days where everything goes right, and your trades and profits are what you want to post on social media and then are going to be days where everything goes wrong. So don’t expect trading days to always go according to plan or get too excited about a trade. The market has a way of bringing you back to reality really quick.

Trading plan

You always want to be analyzing the present conditions of the market. What is happening now and how you can react to it. You have to be able to adjust to change and the market is always changing. You have to be flexible. Don’t get trapped in your trading plan that you give up the flexibility of being able to adjust to changes in the market. What makes order flow so special is precisely that you can really see and understand what is happening in the market right now.

Trade present market conditions



Delta	-361	-806	113	349	27	-40	-58	-513	480	891	516	47	-169	-307	-116	-266	-497	-142	-1016
Max. Delta	104	46	280	394	355	24	121	0	540	891	657	182	31	0	102	0	130	0	2
Min. Delta	-397	-1059	-4	-46	-18	-203	-119	-532	0	-32	-13	-73	-274	-340	-130	-299	-600	-154	-1098
Cum. Delta	15296	14490	14603	14952	14979	14939	14881	14368	14848	15739	16255	16302	16133	15826	15710	15444	14947	14805	13789
Volume	2999	3904	2439	3067	3581	2634	3294	2803	2710	2743	3730	4759	2859	3009	3114	2702	3557	1644	4582

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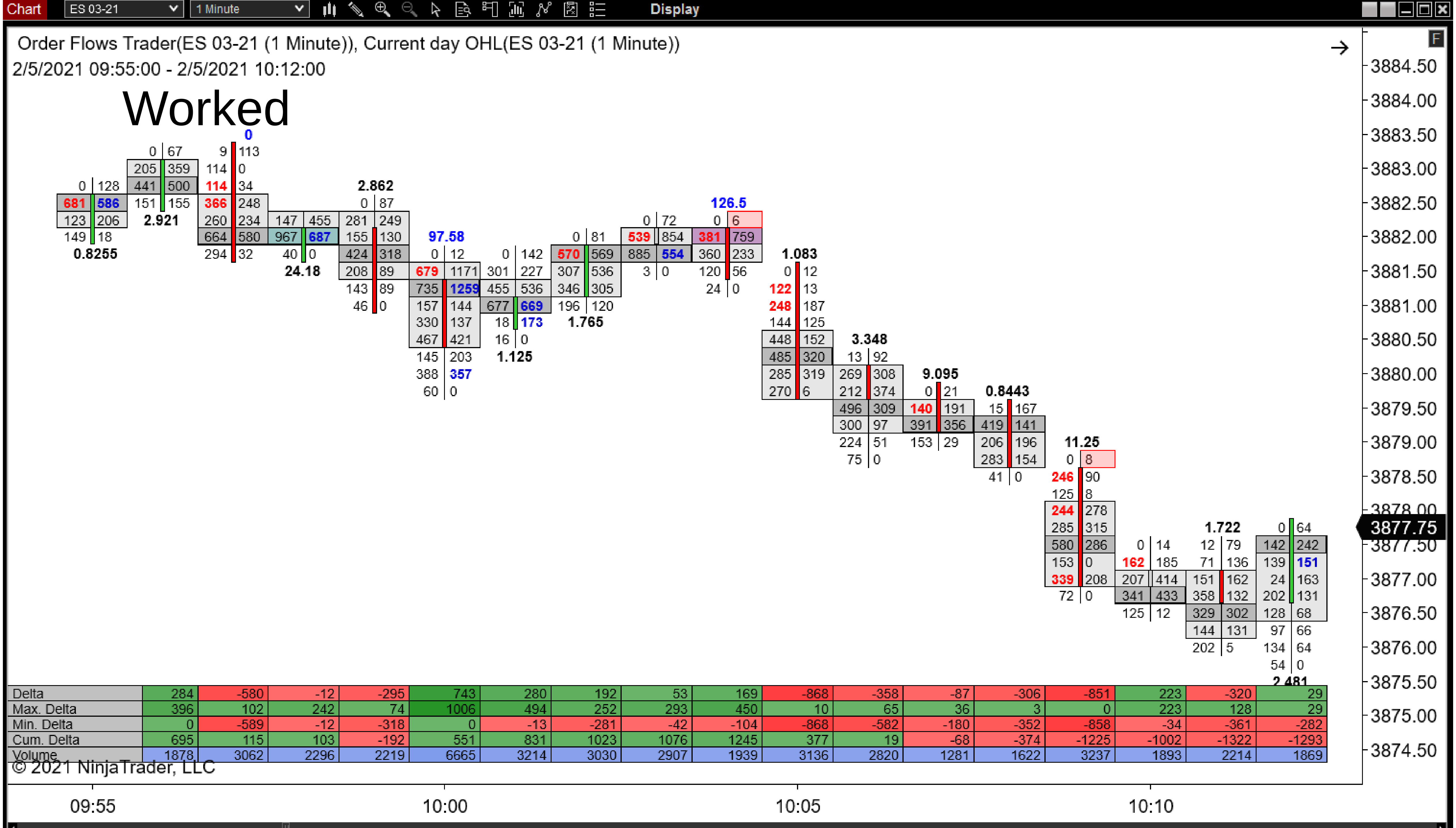
Strategies

Throughout this course I discuss many strategies to apply the order flow to your trading. But remember, you don’t need too many strategies because you might get confused at first. Take the strategies that you understand and are easy to see and master that.



Delta	284	-580	-12	-295	743	280	192	53	169	-868	-358	-87	-306	-851	223	-320	29
Max. Delta	396	102	242	74	1006	494	252	293	450	10	65	36	3	0	223	128	29
Min. Delta	0	-589	-12	-318	0	-13	-281	-42	-104	-868	-582	-180	-352	-858	-34	-361	-282
Cum. Delta	695	115	103	-192	551	831	1023	1076	1245	377	19	-68	-374	-1225	-1002	-1322	-1293
Volume	1878	3062	2296	2219	6665	3214	3030	2907	1939	3136	2820	1281	1622	3237	1893	2214	1869

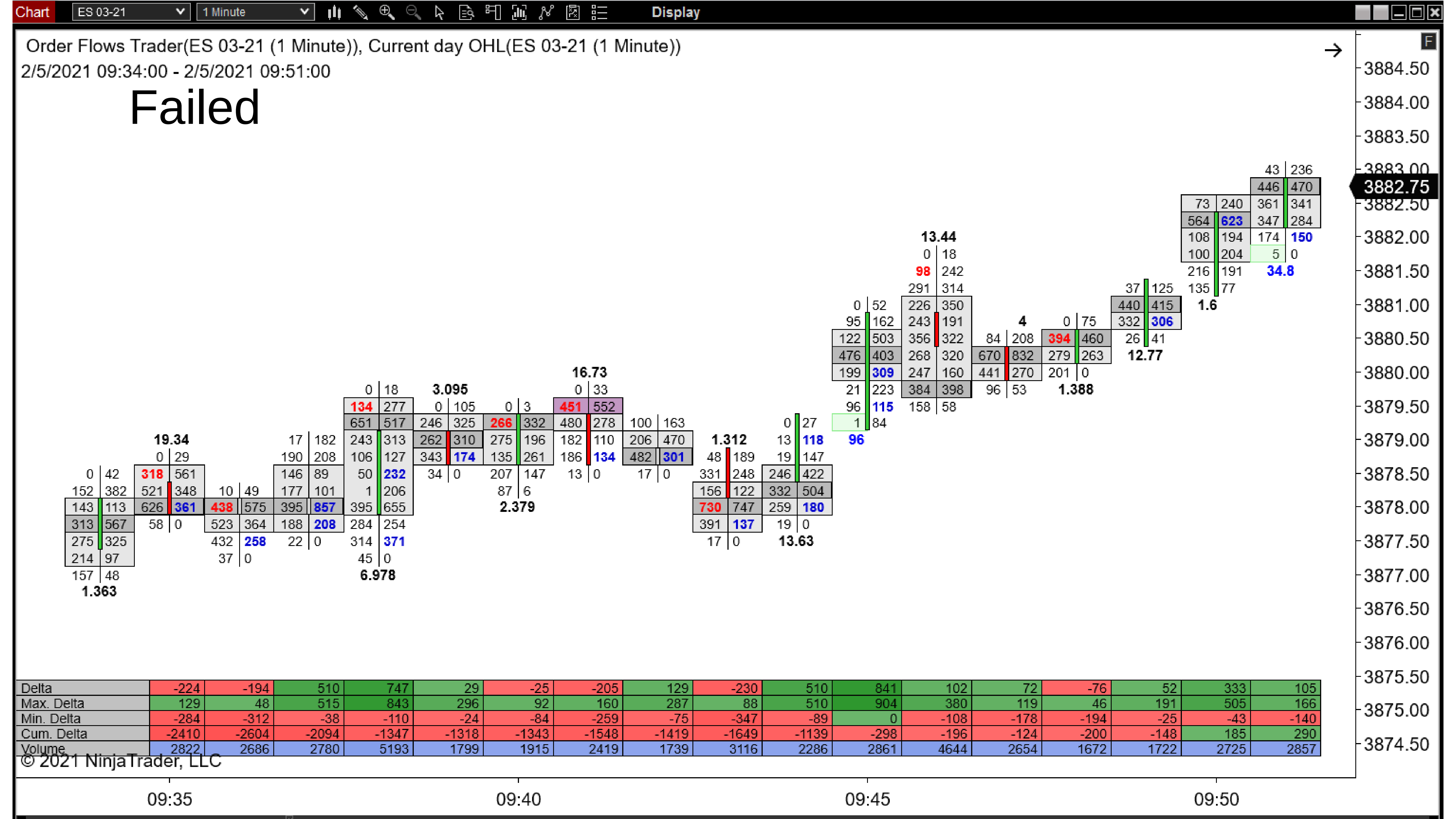


Chart
ES 03-21
1 Minute
Display
Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))
2/5/2021 09:34:00 - 2/5/2021 09:51:00
Failed
3882.75
Delta -224 -194 510 747 29 -25 -205 129 -230 510 841 102 72 -76 52 333 105
Max. Delta 129 48 515 843 296 92 160 287 88 510 904 380 119 46 191 505 166
Min. Delta -284 -312 -38 -110 -24 -84 -259 -75 -347 -89 0 -108 -178 -194 -25 -43 -140
Cum. Delta -2410 -2604 -2094 -1347 -1318 -1343 -1548 -1419 -1649 -1139 -298 -196 -124 -200 -148 185 290
Volume 2822 2686 2780 5193 1799 1915 2419 1739 3116 2286 2861 4644 2654 1672 1722 2725 2857
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09:35
09:40
09:45
09:50

Strategy

A trading plan and strategy are not the same thing. A plan is part of a strategy. Its an important part. But you plan must include a trading strategy. A strategy will help keep your emotions under control. If you don’t have a strategy your emotions will take over. You will get out of winning trades too soon and take on too much risk on losing trades. A strategy will help you keep your risk under control.

There is no one strategy that will work in all markets. In other words, there is no one size fits all because traders face different market conditions daily. You need different strategies for different market conditions. Think of it as being in sync with the market. But you have to be able to read what is happening in the market to understand what conditions the market is exhibiting. Be able to determine if a market is trending or not.

In order to be successful at trading you need understanding of what the other traders, traders you are competing with, are doing. There will be times you want to trade along side with them and there will be times you want to trade against them.

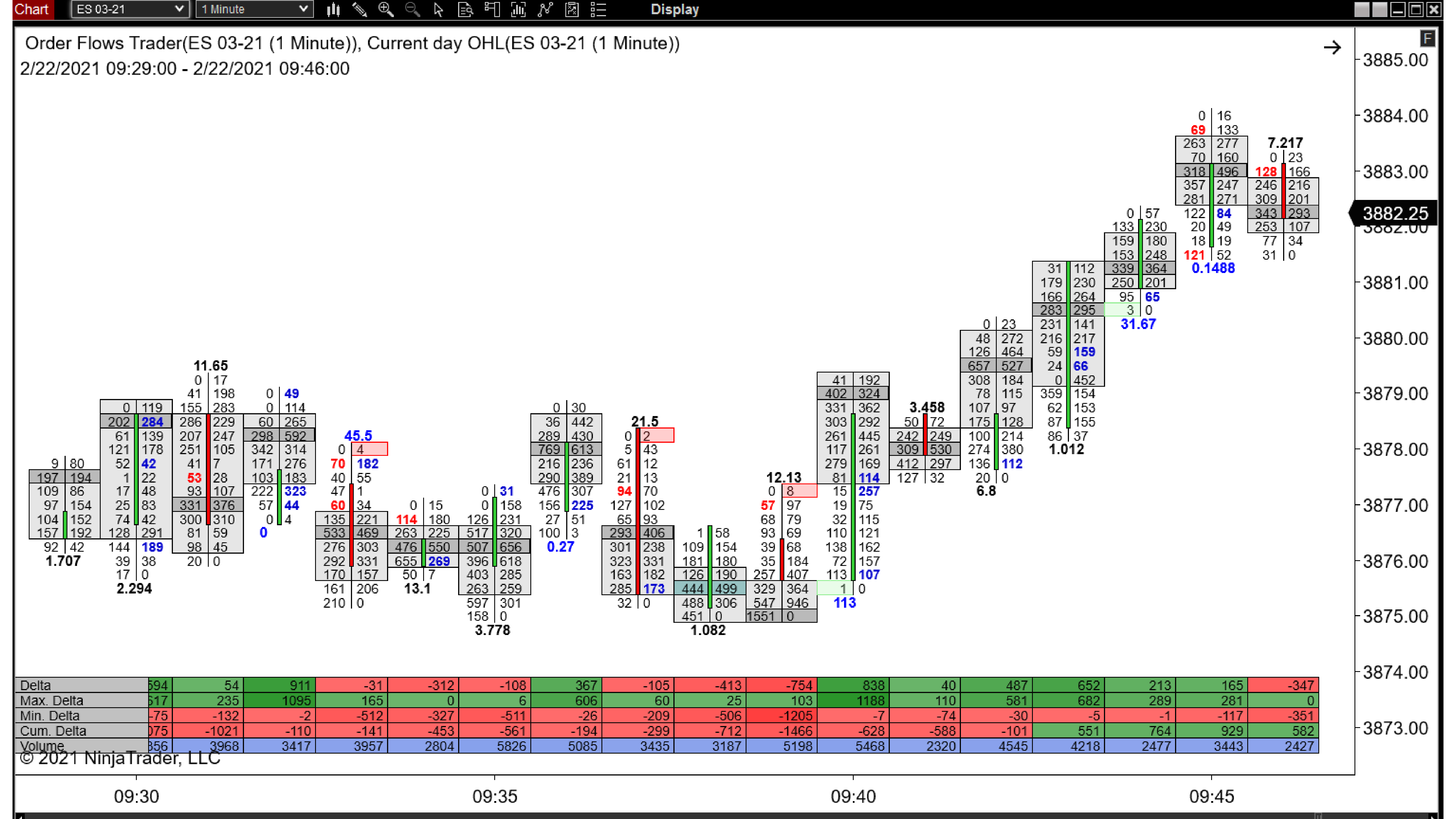
Chart
ES 03-21
1 Minute
Display
Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))
2/22/2021 09:29:00 - 2/22/2021 09:46:00
3885.00
3884.00
3883.00
3882.25
3881.00
3880.00
3879.00
3878.00
3877.00
3876.00
3875.00
3874.00
3873.00
Delta 594 54 911 -31 -312 -108 367 -105 -413 -754 838 40 487 652 213 165 -347
Max. Delta 517 235 1095 165 0 6 606 60 25 103 1188 110 581 682 289 281 0
Min. Delta -75 -132 -2 -512 -327 -511 -26 -209 -506 -1205 -7 -74 -30 -5 -1 -117 -351
Cum. Delta 075 -1021 -110 -141 -453 -561 -194 -299 -712 -1466 -628 -588 -101 551 764 929 582
Volume 356 3968 3417 3957 2804 5826 5085 3435 3187 5198 5468 2320 4545 4218 2477 3443 2427
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New information is always coming into the market and causes traders to react by buying, selling or doing nothing. The result is trading occurs. By comparing this new order flow to the order flow that just happened you can see if the new trading, the new order flow has a positive effect or negative effect on price.

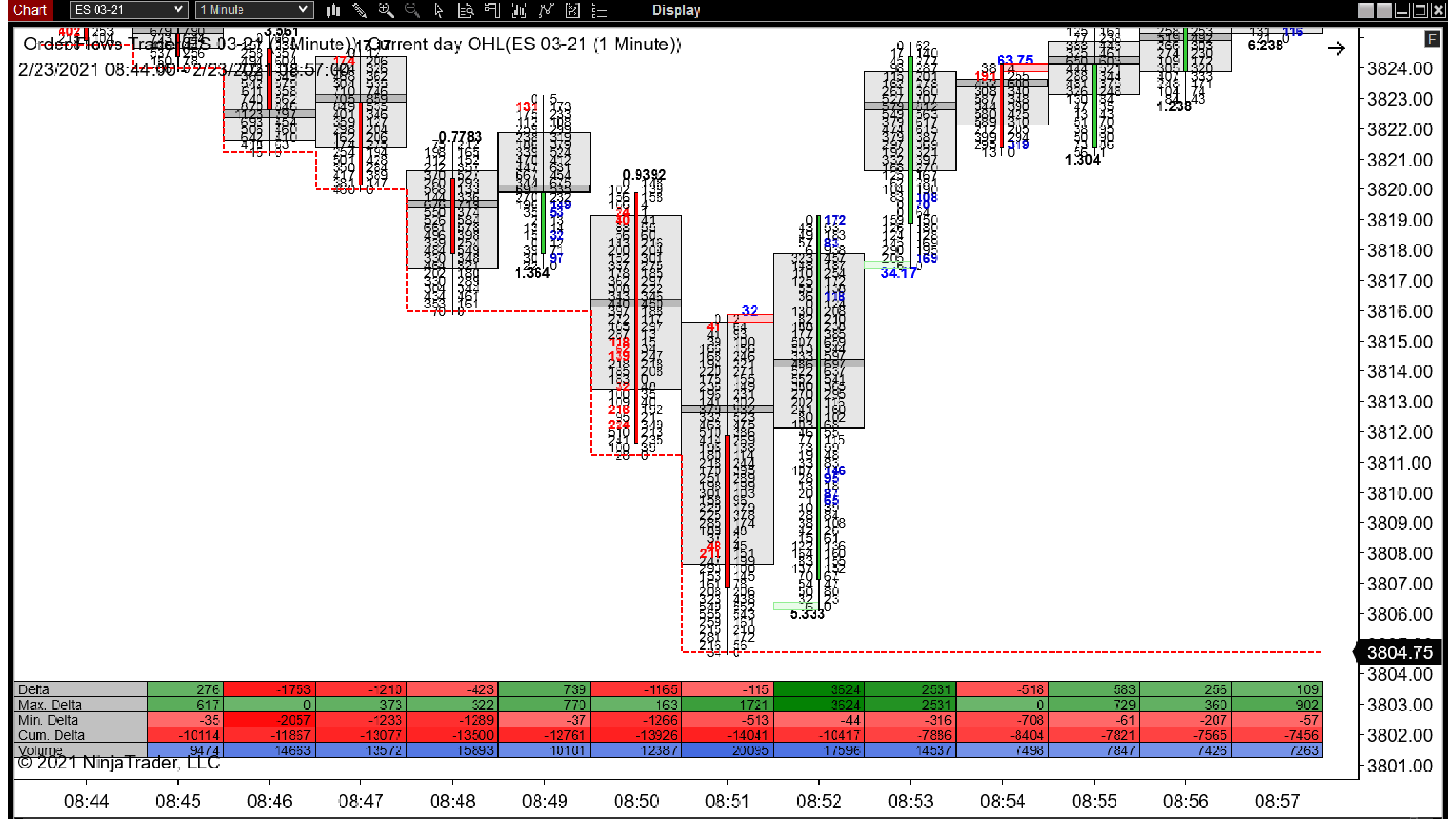

Chart
ES 03-21
1 Minute
Display
OrderFlows Trader(ES 03-21 (1 Minute)) Current day OHL(ES 03-21 (1 Minute))
2/23/2021 08:44:00 - 2/23/2021 08:57:00
3824.00
3823.00
3822.00
3821.00
3820.00
3819.00
3818.00
3817.00
3816.00
3815.00
3814.00
3813.00
3812.00
3811.00
3810.00
3809.00
3808.00
3807.00
3806.00
3804.75
3804.00
3803.00
3802.00
3801.00
Delta 276 -1753 -1210 -423 739 -1165 -115 3624 2531 -518 583 256 109
Max. Delta 617 0 373 322 770 163 1721 3624 2531 0 729 360 902
Min. Delta -35 -2057 -1233 -1289 -37 -1266 -513 -44 -316 -708 -61 -207 -57
Cum. Delta -10114 -11867 -13077 -13500 -12761 -13926 -14041 -10417 -7886 -8404 -7821 -7565 -7456
Volume 9474 14663 13572 15893 10101 12387 20095 17596 14537 7498 7847 7426 7263
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08:44
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As a trader you are just trying to make money. Don't think you always have to hit home runs. Just get a base hit and go from there. Where traders get lost is in trying to trade based on what happened in the past. The past is not always indicative of the future. You need to concentrate on the present, what is happening in the present is going to be a lot more helpful to determine what is going to happen next.

Growing as a trader. Upping size

When should you up your size? A problem I see is traders will have a spreadsheet where it shows their gradual progression in size. After they make x amount they go from 1 to 2 lots, then 2 to 4, etc. But often they suffer because they are not ready for the size jump especially if they suffer 1 or 2 losing trades out of the gate.

Growing as a trader. Upping size

How I grew as a trader was when I am having a good day, where I really feel in sync with the market, when the next trade comes along, I bump up the size. A mistake traders make is setting an arbitrary level to up their size when mentally they are not ready to just start trading bigger. They haven’t experienced the bigger size and they are not used to it.

Growing as a trader. Upping size

CME Micros vs. “Prop” Trading Firms.

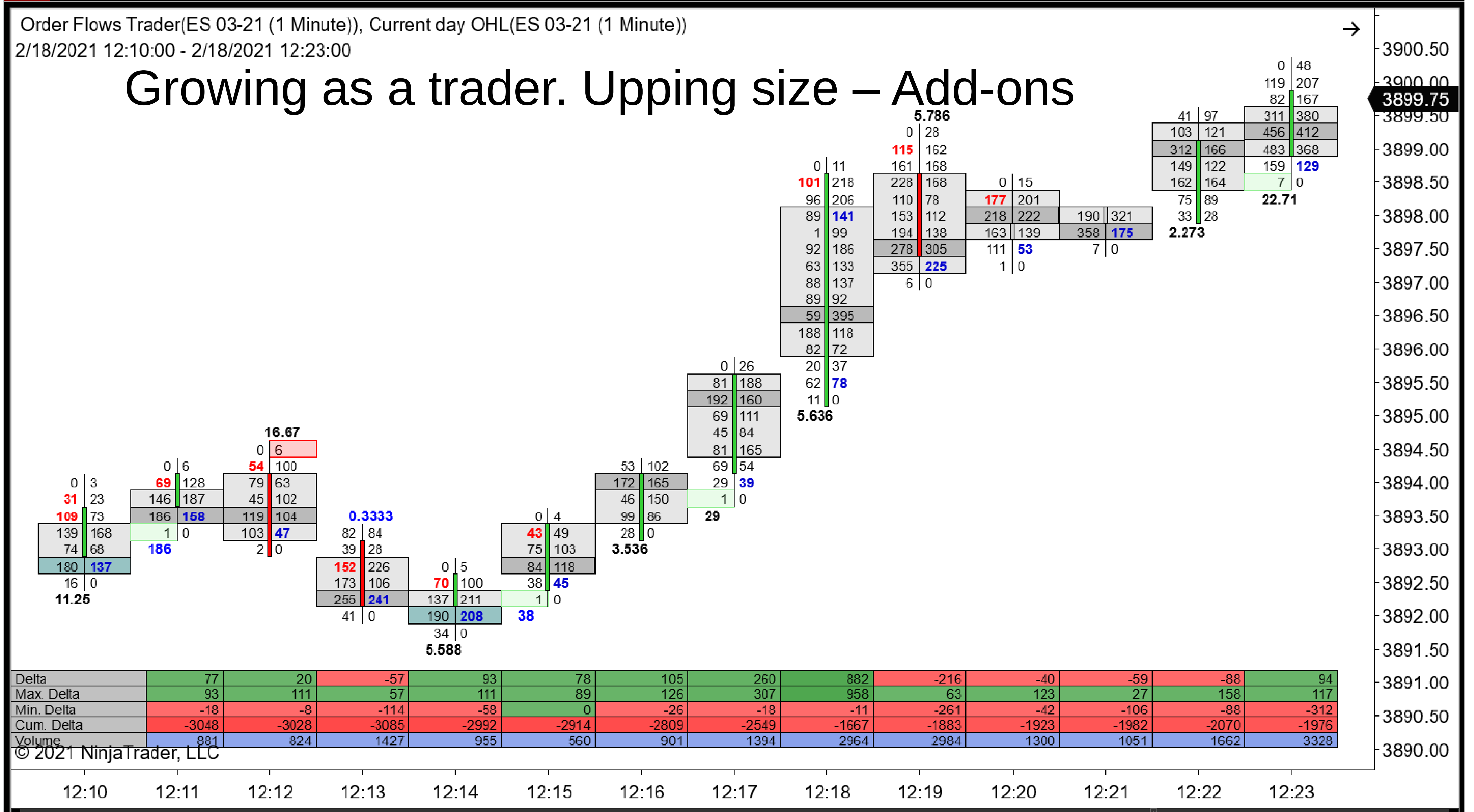
Amount to fund a CME micro account ~$500.

These trade with other people’s money programs make their money from testing you how to trade. It can be gamed.

Growing as a trader. Upping size

A way to get used to bigger size is adding on the existing positions that are already working for you. Trades that are in the money. When you are in a trade and it is moving methodically to your take profit, try adding another one. Or throw in a bid to buy a dip or an offer to sell a rally to get another contract on to experience it. You have to get used to the bigger size.

Growing as a trader. Upping size – Add-ons



Growing as a trader. Upping size

Trying to work through a predetermined trading plan that says go from 1 to 2, 2 to 4, 4 to 6 or 4 to 8 could be too emotional for a lot of traders. Get yourself used to the bigger size. You know why? Because you may find yourself moving up and back down your scale. You work your way up to 8 contracts, but you are having a rough day, you scale down to 2 or 3 contracts until you get your head right and then you can scale back up.

Trading path

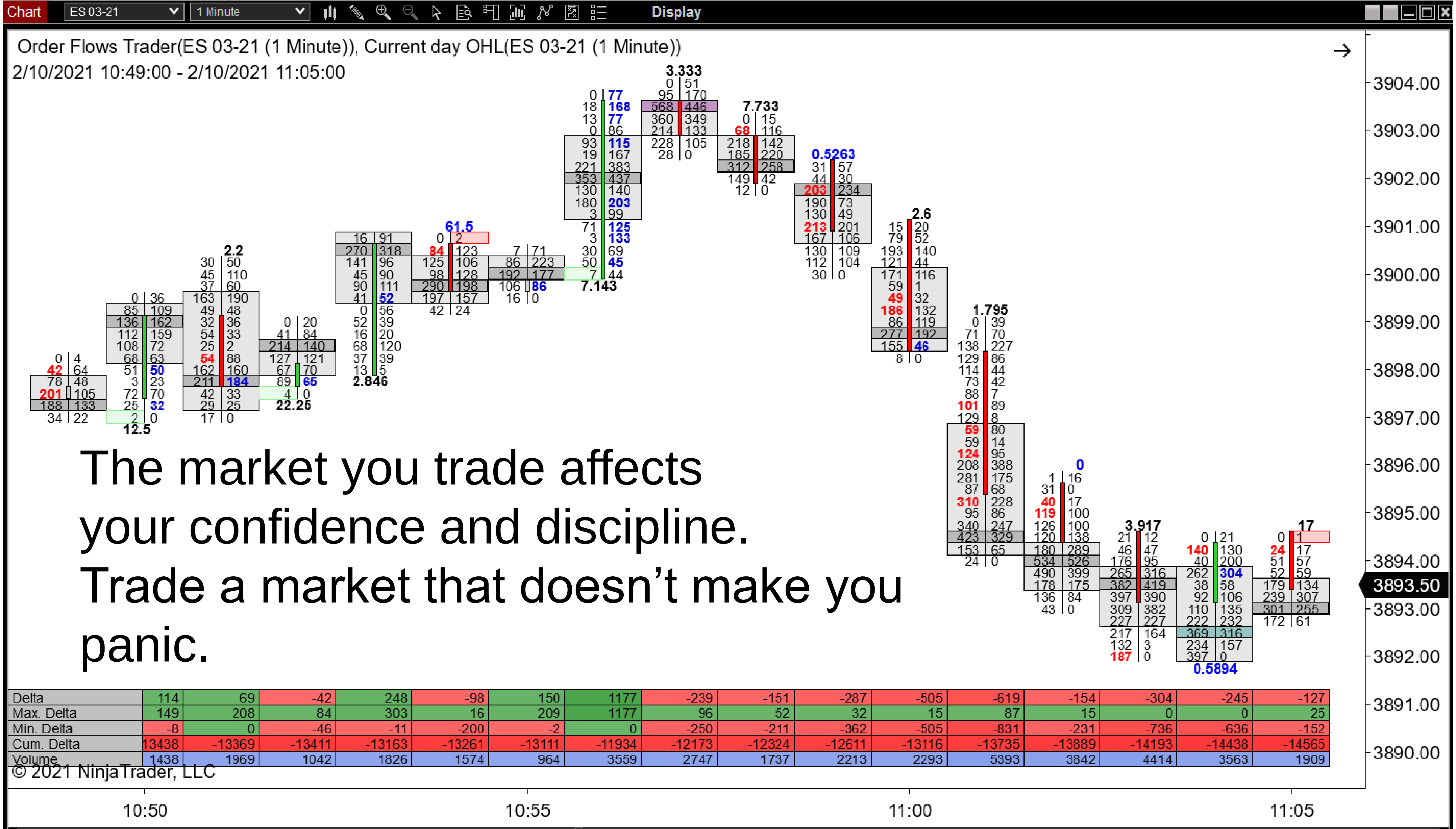
You have to go through as many different types of trading styles and setups as you can. Try different things. Trade small size and see what works and what doesn’t, but more importantly what you are comfortable with. You have to figure out what works for you and your personality.

Trading path

You should think of the market as an opportunity machine. Not a cash machine. If you are afraid of the market or a market makes you nervous then you are not looking at the market as an opportunity machine.

Confidence

You hear a lot of people say, “in order to be successful in trading, you need discipline.” Discipline comes form confidence. If you have confidence in what you are doing, then you will have discipline. Where does confidence come from? It comes from having a trading strategy that works.



The market you trade affects your confidence and discipline. Trade a market that doesn't make you panic.

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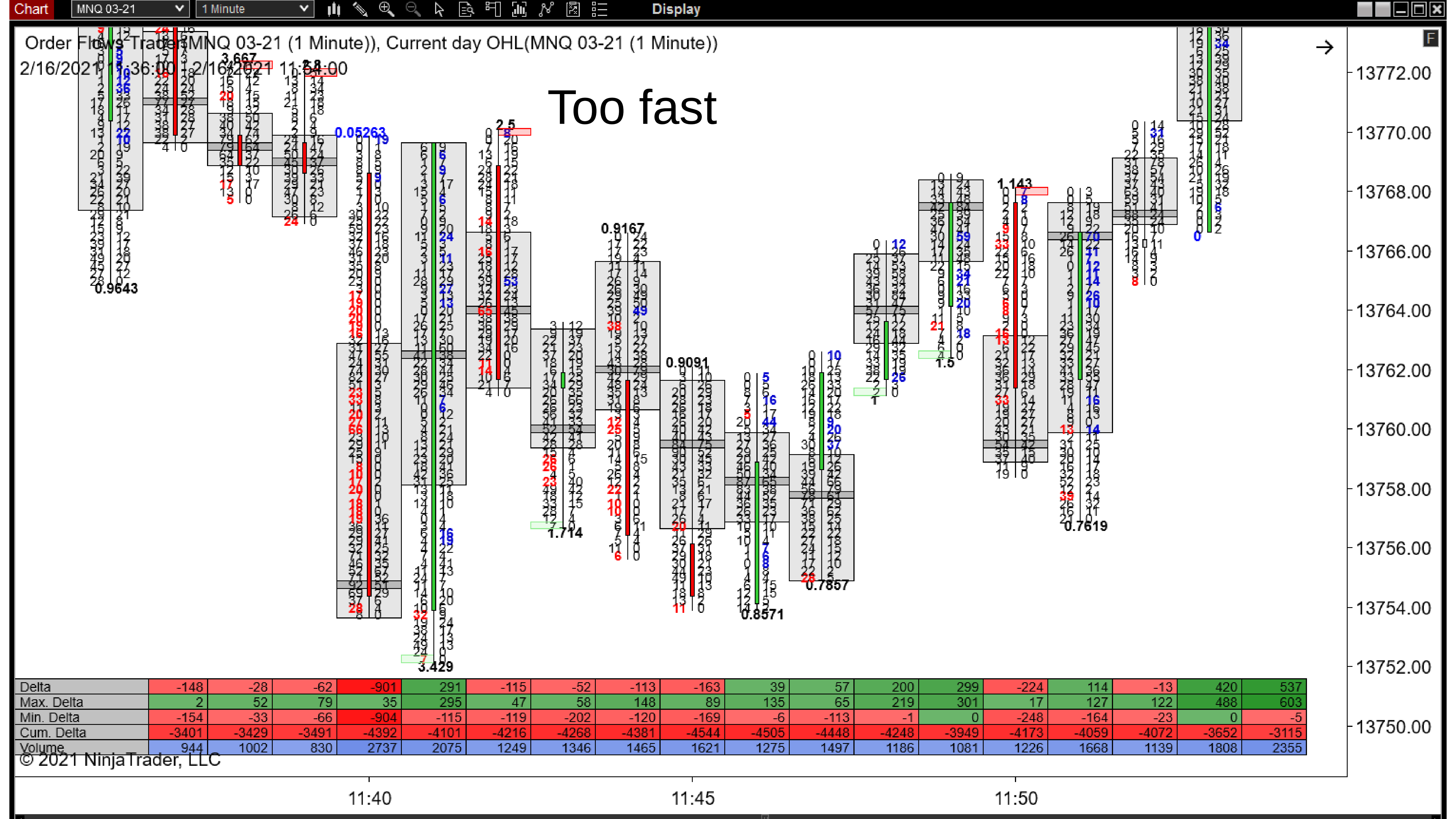


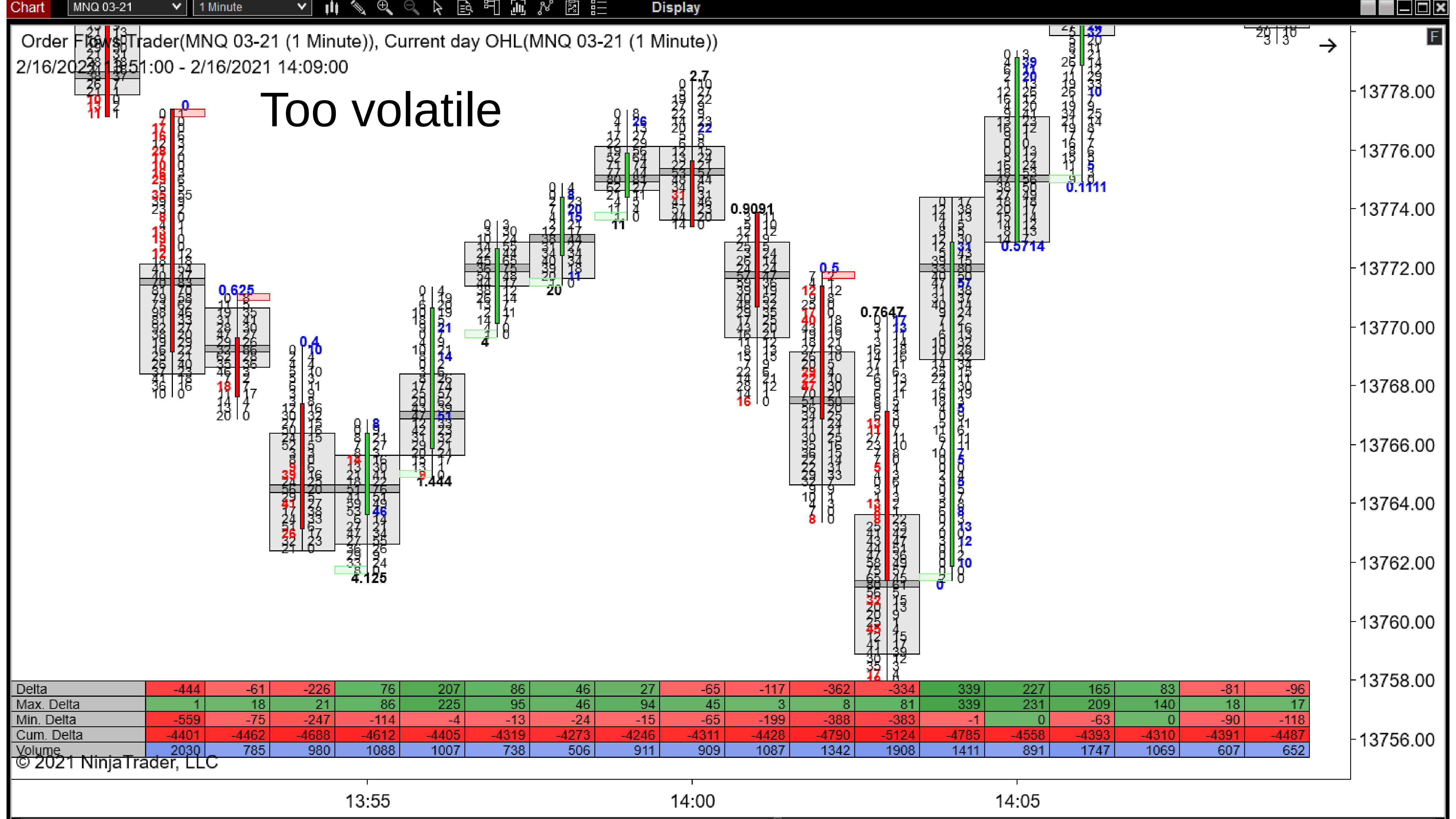
Delta	-148	-28	-62	-901	291	-115	-52	-113	-163	39	57	200	299	-224	114	-13	420	537
Max. Delta	2	52	79	35	295	47	58	148	89	135	65	219	301	17	127	122	488	603
Min. Delta	-154	-33	-66	-904	-115	-119	-202	-120	-169	-6	-113	-1	0	-248	-164	-23	0	-5
Cum. Delta	-3401	-3429	-3491	-4392	-4101	-4216	-4268	-4381	-4544	-4505	-4448	-4248	-3949	-4173	-4059	-4072	-3652	-3115
Volume	944	1002	830	2737	2075	1249	1346	1465	1621	1275	1497	1186	1081	1226	1668	1139	1808	2355

Confidence

When you develop a good trading strategy and plan, you will develop confidence. Once you have confidence then you will develop discipline. When you have discipline, you make more money. When you make more money, you have more confidence. It feeds on itself, but it all starts with having a good strategy. A strategy that makes money. If your strategy doesn’t make money, that loses money, you won’t have confidence and I guarantee you won’t have discipline.

Trading path

You may have a trading style that makes very good money, but you are very stressed all the time, that style might not be for you. You might be better suited to doesn’t make as much money, but you are in a better place emotionally. Don’t let trading ruin your life.



Delta	-444	-61	-226	76	207	86	46	27	-65	-117	-362	-334	339	227	165	83	-81	-96
Max. Delta	1	18	21	86	225	95	46	94	45	3	8	81	339	231	209	140	18	17
Min. Delta	-559	-75	-247	-114	-4	-13	-24	-15	-65	-199	-388	-383	-1	0	-63	0	-90	-118
Cum. Delta	-4401	-4462	-4688	-4612	-4405	-4319	-4273	-4246	-4311	-4428	-4790	-5124	-4785	-4558	-4393	-4310	-4391	-4487
Volume	2030	785	980	1088	1007	738	506	911	909	1087	1342	1908	1411	891	1747	1069	607	652

Trading path

That’s really where the confidence to trade comes from. It comes from a familiarity with the market you are trading. You know it. You know how it acts. You trust it. You know you can make money from that market.

Psychology

It is not easy for people to actually sit down and develop their own trading philosophy. We all like to talk about it and we often think we have one. But a trader really needs to sit down and understand who they are, how they trade and what their own trading philosophy is. Understand your own trading style. Your own trading personality.

Psychology

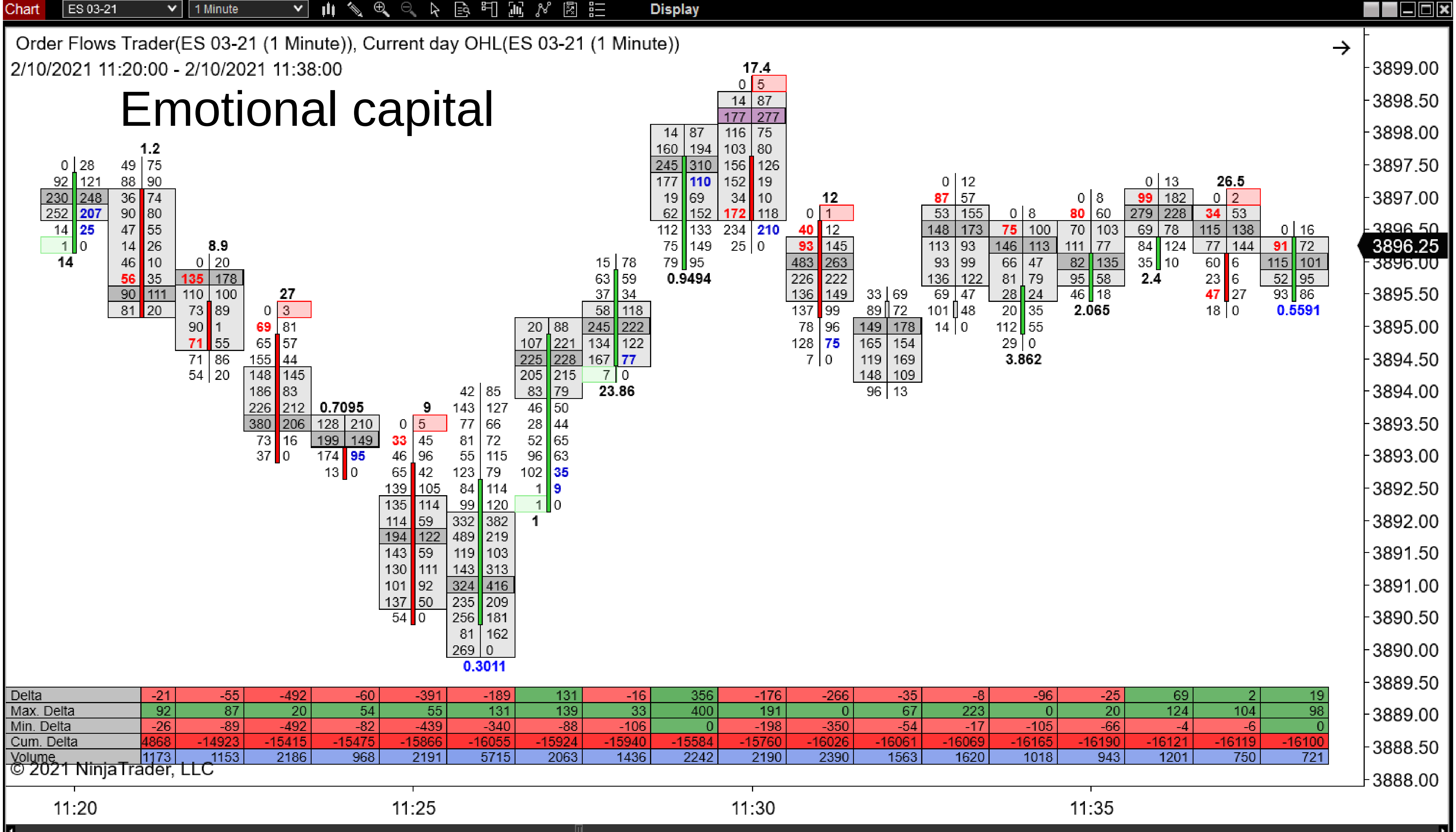
You need to be in control of yourself. You cannot control the market.

Psychology

Overtrading leads to ruin. It causes financial ruin and emotional ruin. You must understand how many trades a day are suitable for your trading personality. Some traders are comfortable taking only 2-5 trades a day, while others are comfortable taking more than 10 trades a day. What is your comfort level? One of the ways to know your comfort level is to keep records of your trades. The more you trade how are your results?

Emotions

What is more important than trading capital? Emotional capital. When you start losing emotional capital it is worse than trading capital because you lose confidence. When you lose confidence, you lose discipline which leads to self-destruction. The market doesn’t crush you. You do it to yourself. You revenge trade, you make terrible trading decisions.



Delta	-21	-55	-492	-60	-391	-189	131	-16	356	-176	-266	-35	-8	-96	-25	69	2	19
Max. Delta	92	87	20	54	55	131	139	33	400	191	0	67	223	0	20	124	104	98
Min. Delta	-26	-89	-492	-82	-439	-340	-88	-106	0	-198	-350	-54	-17	-105	-66	-4	-6	0
Cum. Delta	4868	-14923	-15415	-15475	-15866	-16055	-15924	-15940	-15584	-15760	-16026	-16061	-16069	-16165	-16190	-16121	-16119	-16100
Volume	1173	1153	2186	968	2191	5715	2063	1436	2242	2190	2390	1563	1620	1018	943	1201	750	721

Emotions

Being prepared. When a trader is better prepared coming into the trading day, it makes thinking easier. Once the market opens and trading up and down, a lot is happening it is difficult to think clearly, and this causes traders to become more emotional. When traders become more emotional, they start to worry and make poor decisions.

Talk about being prepared. Homework?

Emotional levels

Emotional levels in the market create great opportunities for traders because once the emotional trading is done, price often reverts right back through them. Emotional buyers try to buy every break or dip.

Many traders struggle to advance their trading careers because they really don’t know how to understand the market and what to look for in the market. They just don’t know how to observe the market. Order flow allows a trader to understand the difference between price and value, the market conditions, is the market flow driven or technical driven, who the participants are.

This concludes the Module 10: The Process.

In the next module we will discuss using order flow to aid in your risk management.