

Next Level Order Flow

Module 11:

Risk Management

Disclaimer

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Risk management? I prefer the term trading.

What you care most about is where am I going to risk my money that will give me the least amount of risk with the highest amount of reward.

The easiest way to do that is trade along with the market.

Trade monitoring

Traders often get too caught up in looking for the ideal entry or even exit. The one thing that differentiates and changes traders from average to excellent is the ability to monitor a trade for continuation or lack of continuation. Once a trader is able to monitor for continuation, they have more confidence in their trading. They are not afraid of a trade.

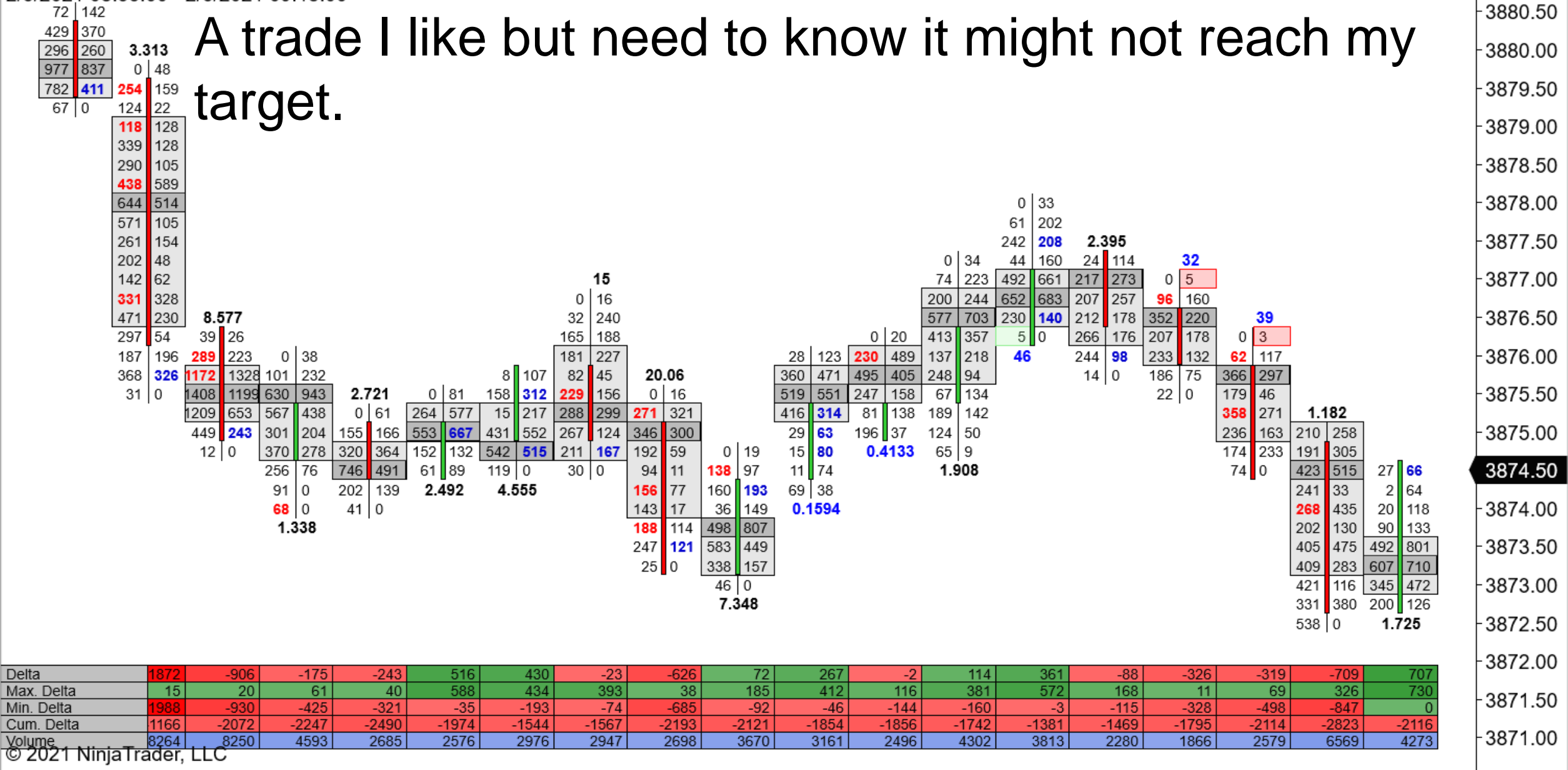
Trade monitoring

We can control risk of a trade, but we can't control the reward. We monitor trades to help control our risk. But what we can't control is how far a trade can really go. We can always move our stops to control the risk. But our take profits level is out of our hands in a way. We want to maximize every trade whenever possible. That is why it is important to monitor a trade, to look for continuation.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/5/2021 08:55:00 - 2/5/2021 09:13:00

A trade I like but need to know it might not reach my target.



Trade Entry

You don't need just an opinion on the market. You need a good location to act on your opinion. That has to be built into your set up and strategy. Think of where you will be getting long (short) and where you are going to be wrong. You should always know where you are wrong.

By finding a good location to get into a trade I don't mean analyzing every single tick that comes through. What I mean is if you are bullish you want to see bullish order flow. If you are bearish you want to see bearish order flow.

Beginning traders often ask, “can you just tell me where to buy or sell and where to place my stop.”

But what they are missing and not asking is “is the order flow showing continuation?” Is the move that is expected to be happening, happening.

Orderflows Flowscalper(ES 03-21 (30 Second))

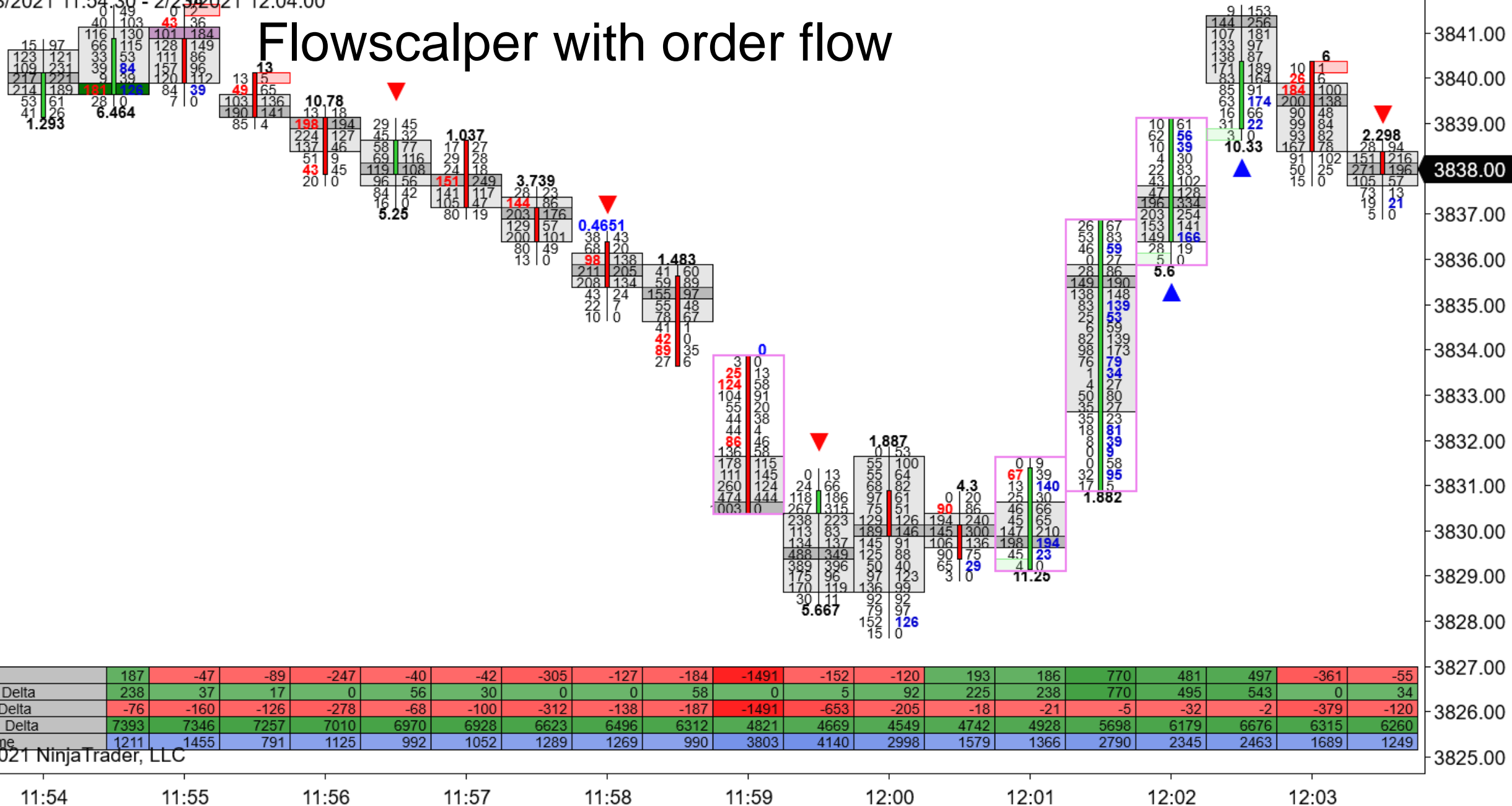
2/23/2021 07:48:30 - 2/23/2021 09:59:00

Flowscalper



2/23/2021 11:54:30 - 2/23/2021 12:04:00

Flowscalper with order flow



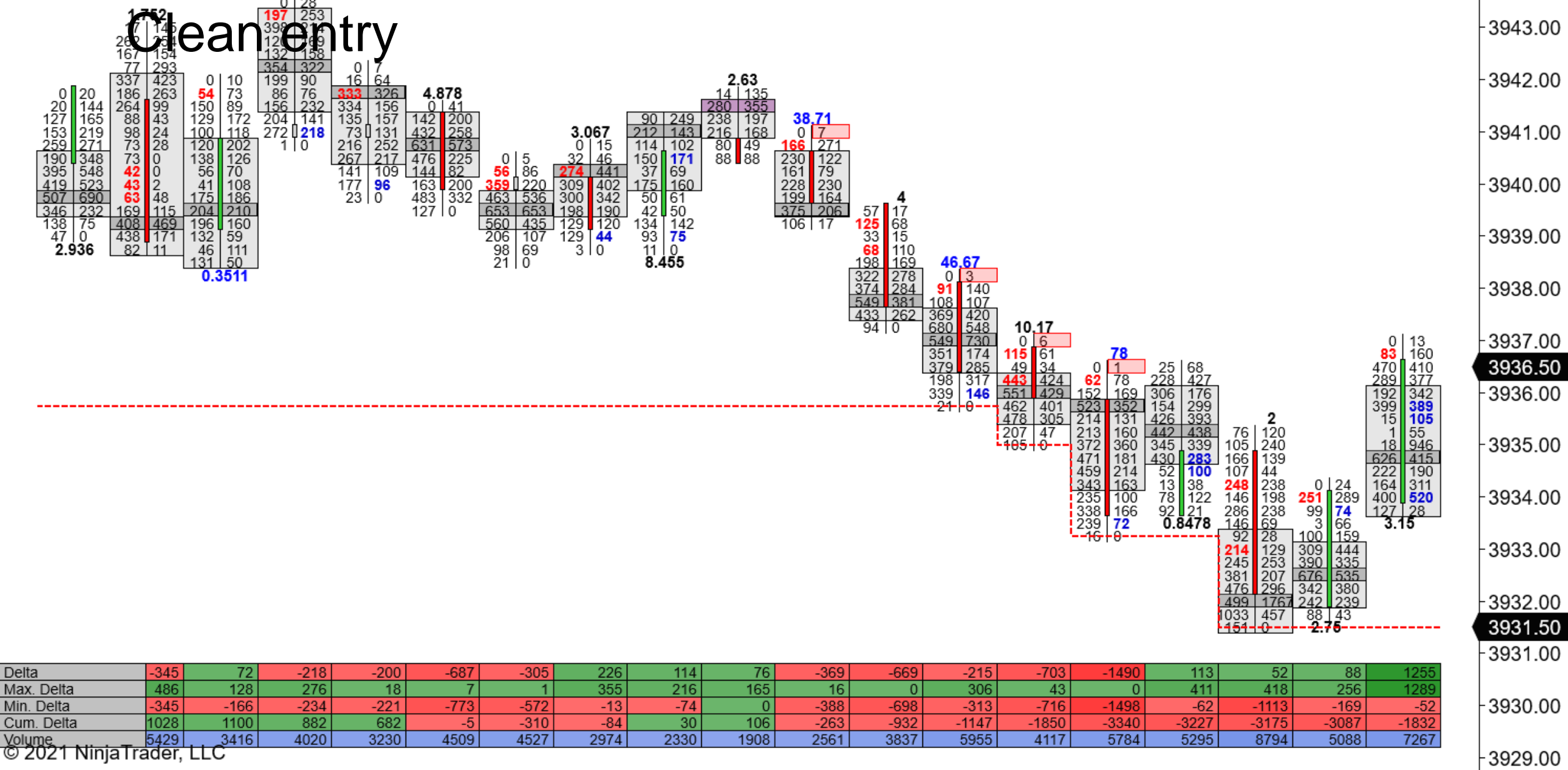
| | | | | | | | | | | | | | | | | | | | |
|------------|------|------|------|------|------|------|------|------|------|-------|------|------|------|------|------|------|------|------|------|
| Delta | 187 | -47 | -89 | -247 | -40 | -42 | -305 | -127 | -184 | -1491 | -152 | -120 | 193 | 186 | 770 | 481 | 497 | -361 | -55 |
| Max. Delta | 238 | 37 | 17 | 0 | 56 | 30 | 0 | 0 | 58 | 0 | 5 | 92 | 225 | 238 | 770 | 495 | 543 | 0 | 34 |
| Min. Delta | -76 | -160 | -126 | -278 | -68 | -100 | -312 | -138 | -187 | -1491 | -653 | -205 | -18 | -21 | -5 | -32 | -2 | -379 | -120 |
| Cum. Delta | 7393 | 7346 | 7257 | 7010 | 6970 | 6928 | 6623 | 6496 | 6312 | 4821 | 4669 | 4549 | 4742 | 4928 | 5698 | 6179 | 6676 | 6315 | 6260 |
| Volume | 1211 | 1455 | 791 | 1125 | 992 | 1052 | 1289 | 1269 | 990 | 3803 | 4140 | 2998 | 1579 | 1366 | 2790 | 2345 | 2463 | 1689 | 1249 |

Entries – A problem traders have with entry is they often try to find the perfect price level for entry, and they miss the move.

A trend is a change in market perception, and as a result key levels are over forgotten or overrun. As a trader you have to also forget about those levels, at least for now.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

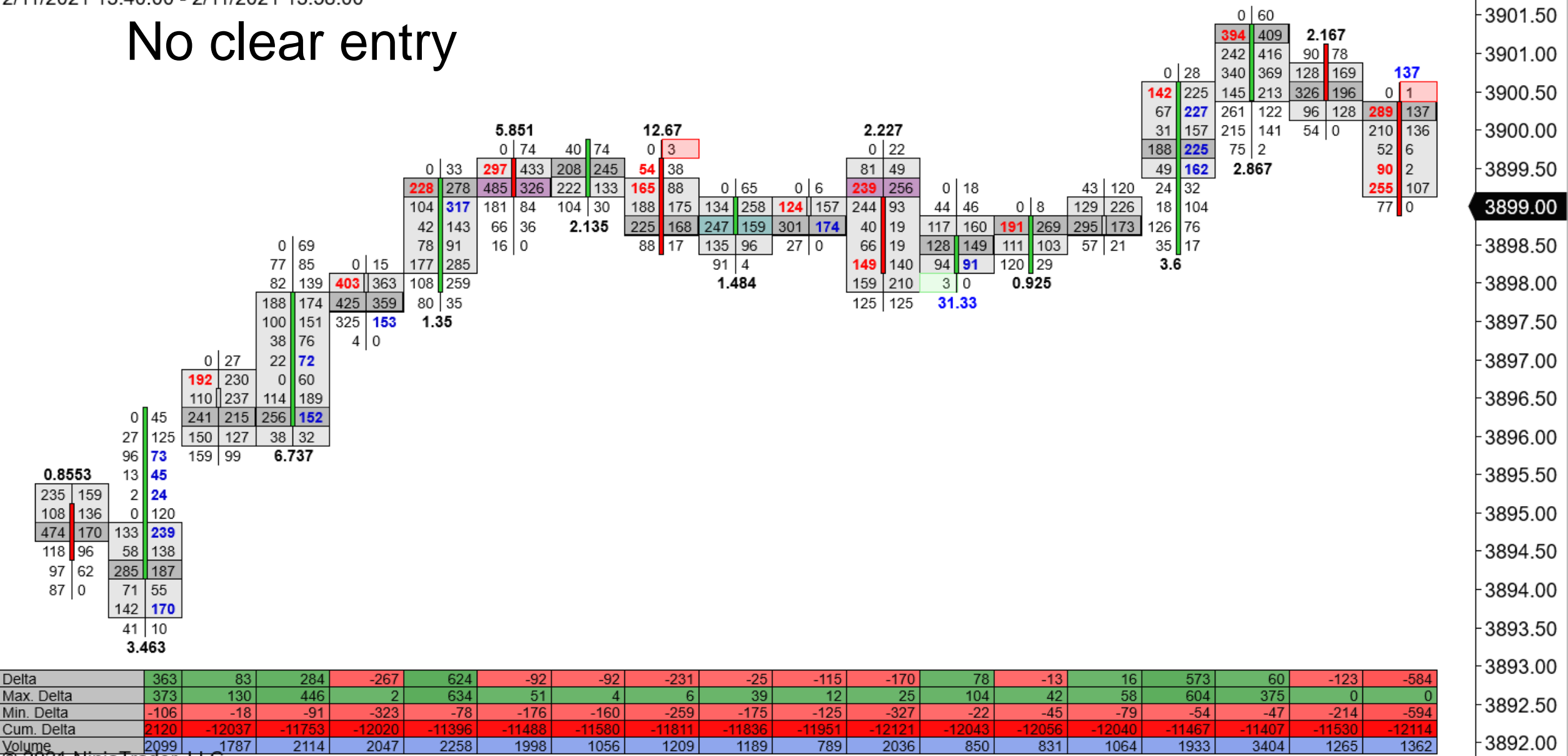
2/16/2021 09:01:00 - 2/16/2021 09:19:00



Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/11/2021 13:40:00 - 2/11/2021 13:58:00

No clear entry



Entries – It is important to talk about trade entries for a moment. There is a lot of talk on getting out of trades, but often little about how to get into trades.

There are three types of orders to get into a trade. Market order, limit order, stop order.

Entries – Market orders are the simplest to execute, but the price is sometimes the worst possible.

You cross the two-way auction.

There is a lag between the price on your screen and what you trade at. A market order can be filled at a worse price than you think you are getting. You are not guaranteed the current offer because it could trade out and you get the next offer.

Entries – Limit order give you a better entry, but you run the risk of not getting filled.

The drawback with a limit order (other than not getting filled) is you are trading contrary to market direction.

If the market is moving up and you enter a limit order to buy, the market must pull back to your bid level, trade all the contracts in front of you and then fill you and then resume in the direction you expected it to go.

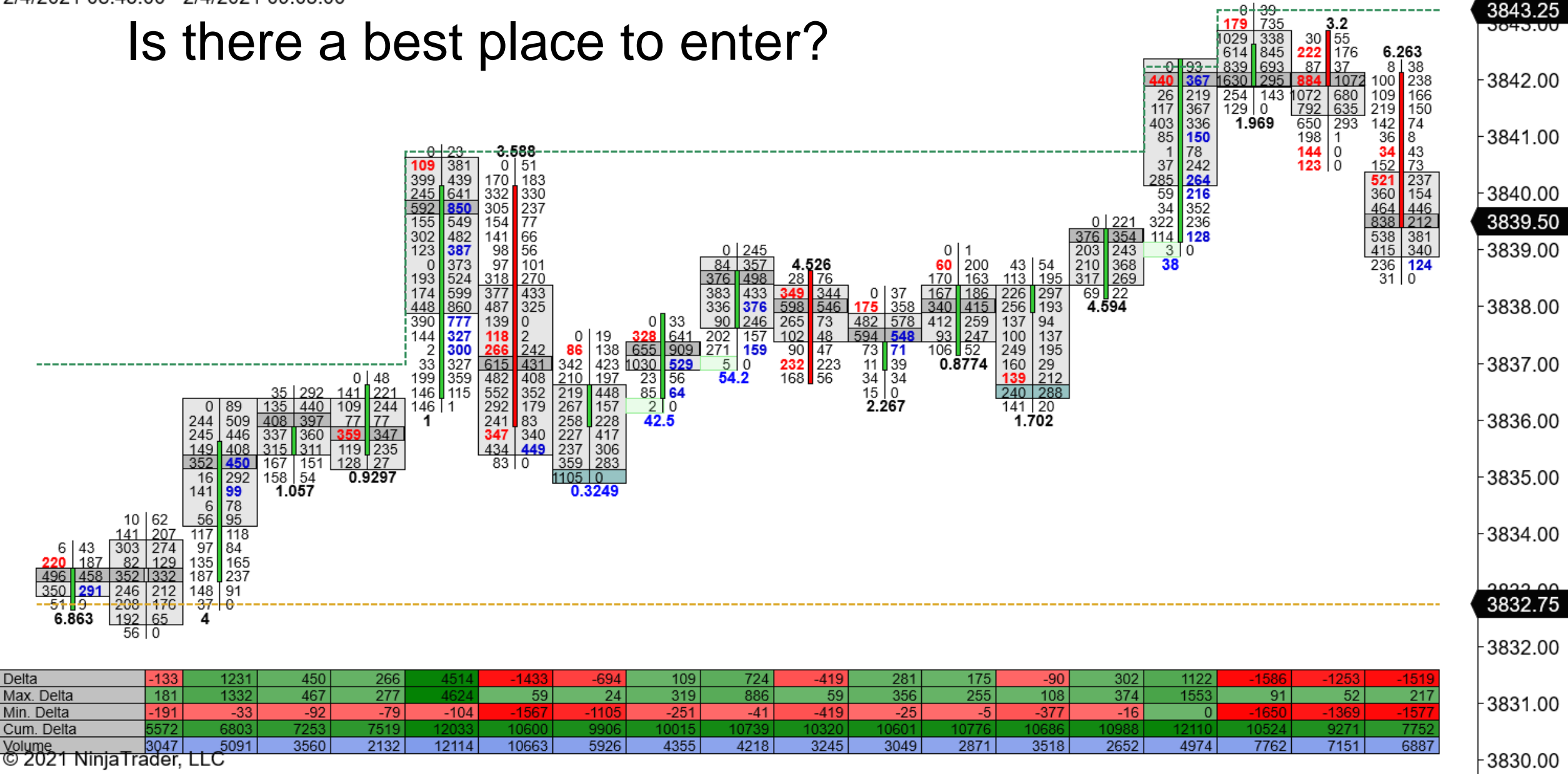
Entries – Limit order if you miss out on getting filled you may find yourself chasing the market to get into the position. If you are looking for a rally and through a bid in to buy and then the offers start getting lifted, your order to buy at 4 is unfilled and the market is now trading 8. You just missed your trade.

Entries – There is no perfect way to enter the market where you are going to get the optimal fill possible. With limits you can miss the market, with market orders you can get in but can find your entry filled at worse price than you expected. With a stop order you can also experience slippage but at least the market start to move in your direction.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/4/2021 08:45:00 - 2/4/2021 09:03:00

Is there a best place to enter?



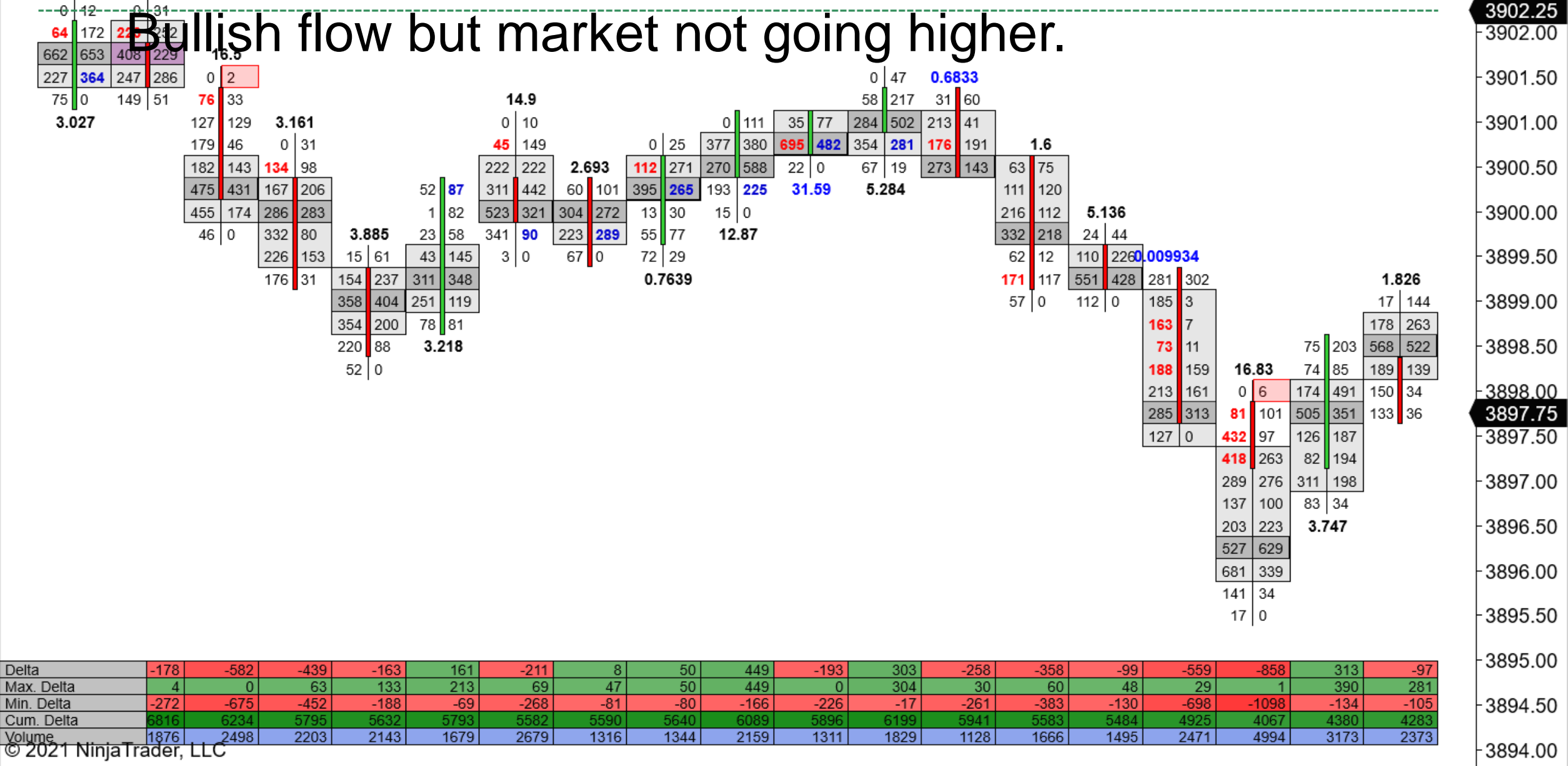
Trade entry

If you see bullish order flow but the market doesn't go up what does that tell you?

Same with bearish order flow that can't move the market down.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

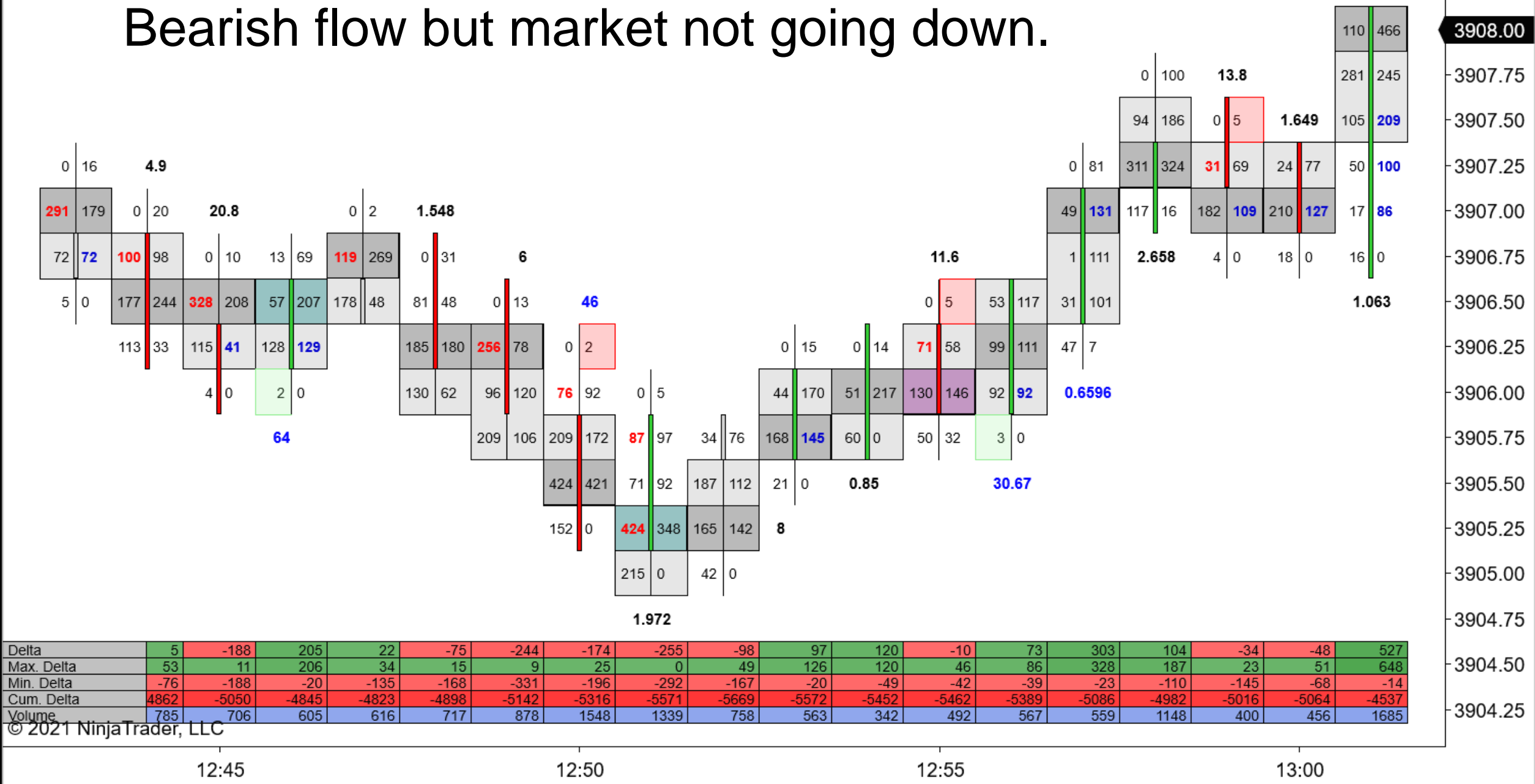
2/8/2021 09:10:00 - 2/8/2021 09:28:00



Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/9/2021 12:43:00 - 2/9/2021 13:01:00

Bearish flow but market not going down.



Trade entry

Too often, traders want to have a green light, red light trading system. Just tell me where to buy and sell. But think about it for a moment. When you are on the sidewalk and you get to an intersection and the don't walk sign is lit up, you stop. But when it changes to walk, do you immediately walk, or do you check to the left and right before starting to walk across the street? You take the signal in context. You check for other cars before crossing.

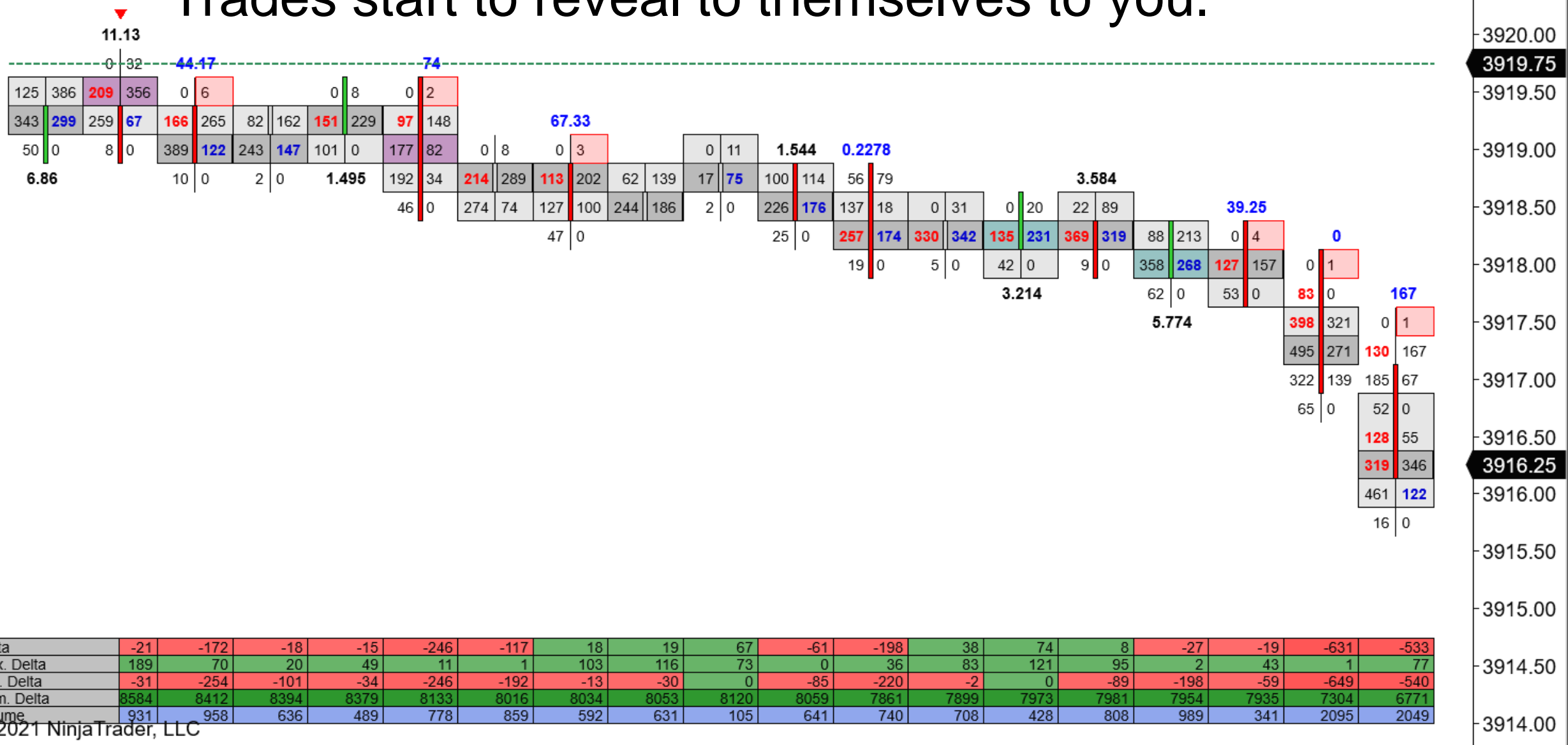
Risk

The best trading opportunities reveal themselves to you in the order flow. A lot of traders will say “of course I look for trades, doesn’t everyone?” But that is the difference between traders who are in sync with the market and those who are not. When you are in sync with the market, what is happening in the market becomes clear and you see trades start to develop and you know the trade opportunity.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/12/2021 11:03:00 - 2/12/2021 11:21:00

Trades start to reveal to themselves to you.



Monitoring The Market – Most traders think that they only need to monitor the market once they are in a trade. While you should always monitor a trade for the follow through order flow. You should always be monitoring the market at important levels, OHL, S/R, etc.

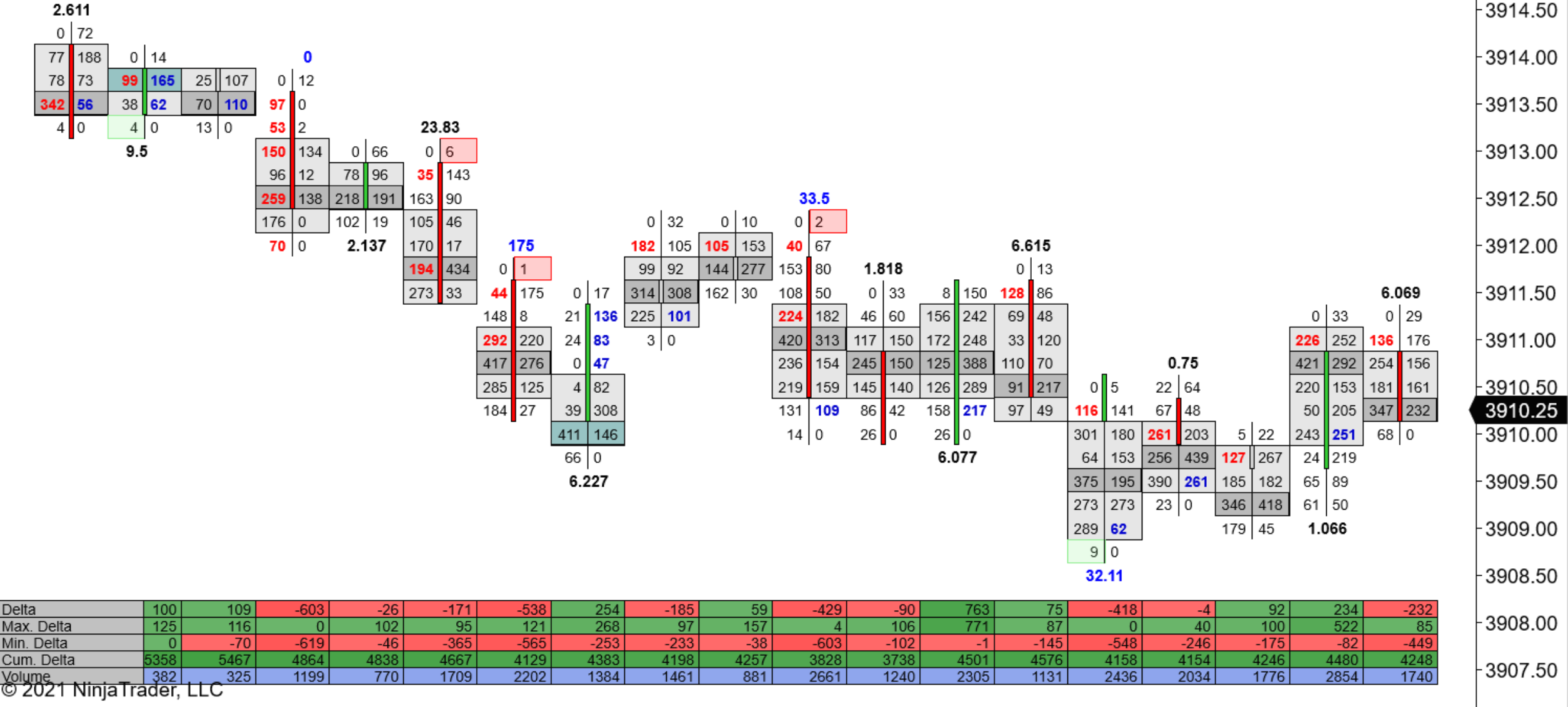
This will help you to understand what the market is doing in terms of structure and development.

Monitoring The Market keeps you involved and engaged in the market. You will not only be monitoring for continuation, but when the continuation stops you will be among the first to see the reversal.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/12/2021 12:51:00 - 2/12/2021 13:09:00

Recognize when a trade doesn't work.



12:55

13:00

13:05

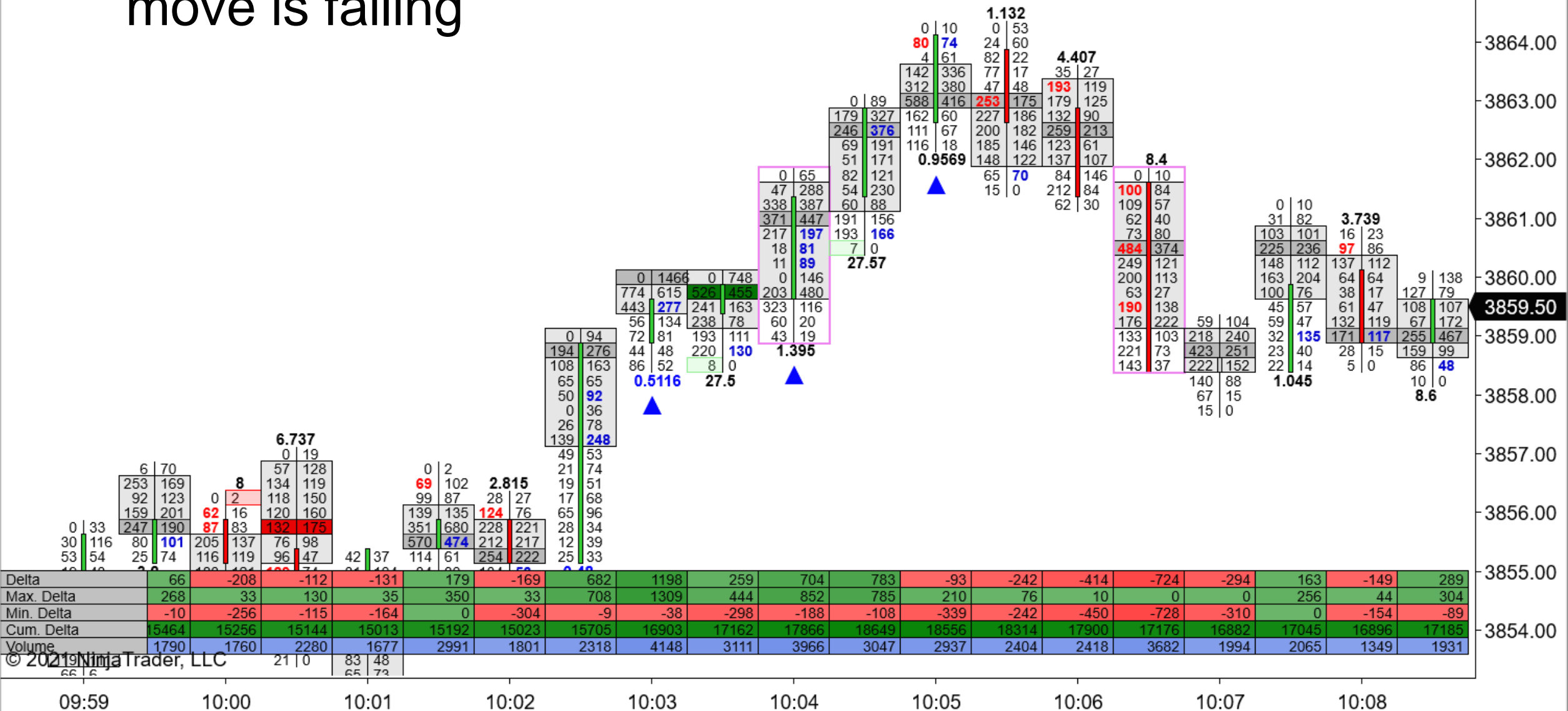
Monitoring The Market – The market, while sometimes seems to move in a mechanical fashion, it is dynamic and constantly in a state of motion.

Having an attitude of just “tell me where to buy, put my stop and take my profit” will leave you with something to be desired in your trading. You will not be maximizing the market information available to you.

Order Flows Trader(ES 03-21 (30 Second)), Current day OHL(ES 03-21 (30 Second)), Orderflows Flowscalper(ES 03-21 (30 Second))

2/23/2021 09:59:00 - 2/23/2021 10:08:30

Watching order flow helps you understand when a move is failing



Monitoring The Trade – POC and Value should be migrating in the direction of the trade. Delta and imbalances should be in the direction of the trade.

Overall, the delta, imbalances and POC should be going in the direction of the market.

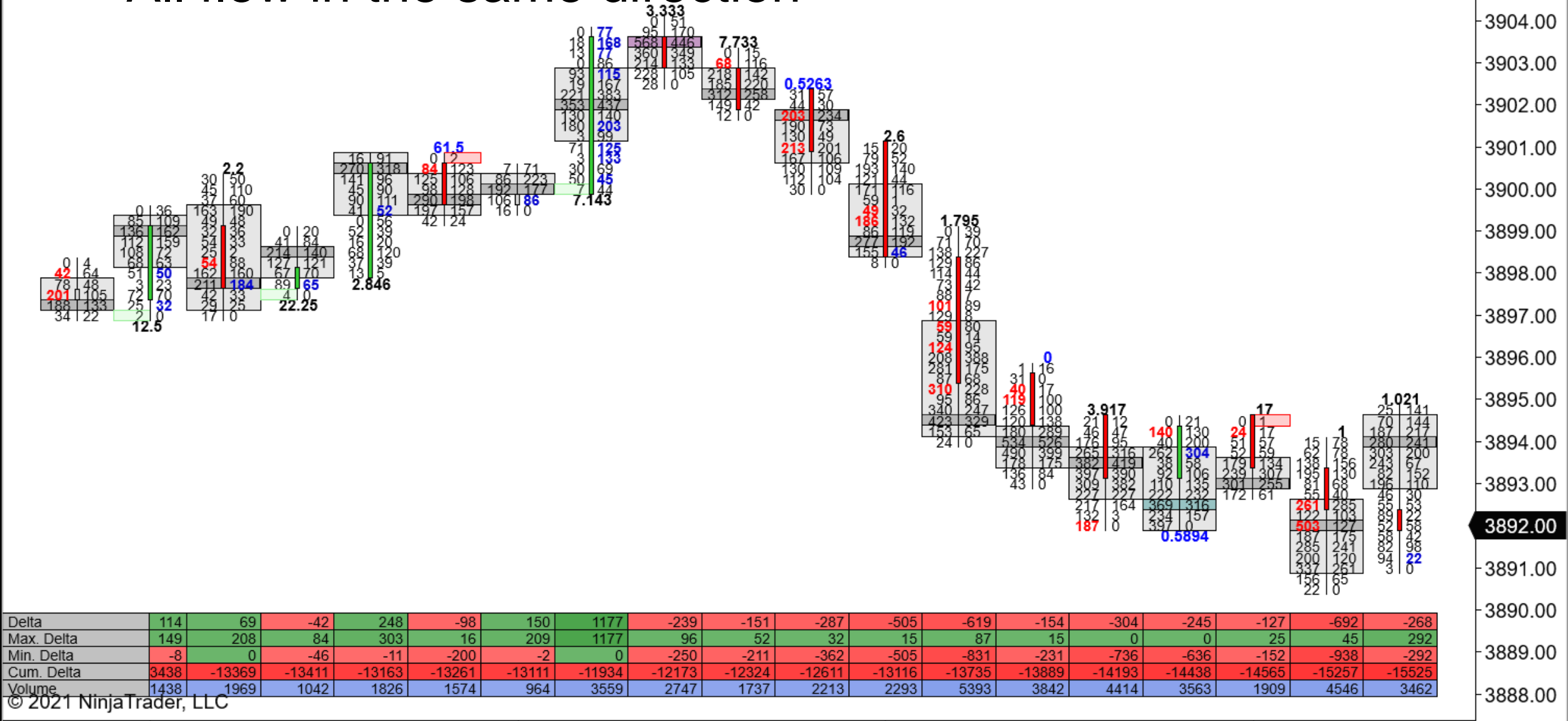
Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/10/2021 10:49:00 - 2/10/2021 11:07:00

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All flow in the same direction



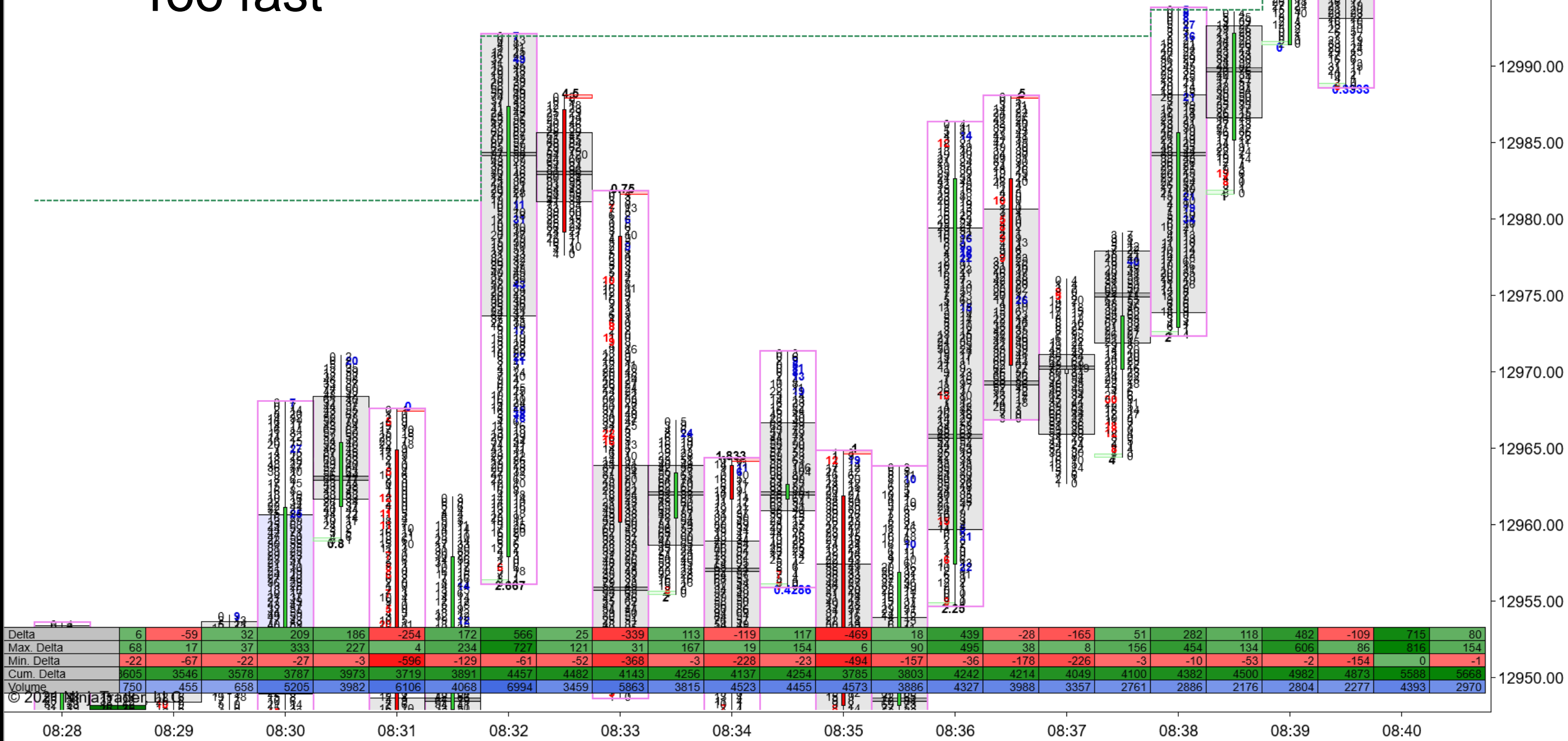
Trade monitoring

If a market is too hard for you to monitor for continuation, then stop trading that market. There are plenty of other markets to trade that better suit your personality. I see a lot of traders fail in NQ and the reason being it is too hard because it moves too fast for them to get a handle on and understand what is happening.

Order Flows Trader(MNQ 03-21 (30 Second)), Current day OHL(MNQ 03-21 (30 Second))

2/26/2021 08:28:30 - 2/26/2021 08:41:00

Too fast



Risk Management

Order flow is extremely helpful for risk management because it will show you when a trade has been invalidated.

Risk and stops

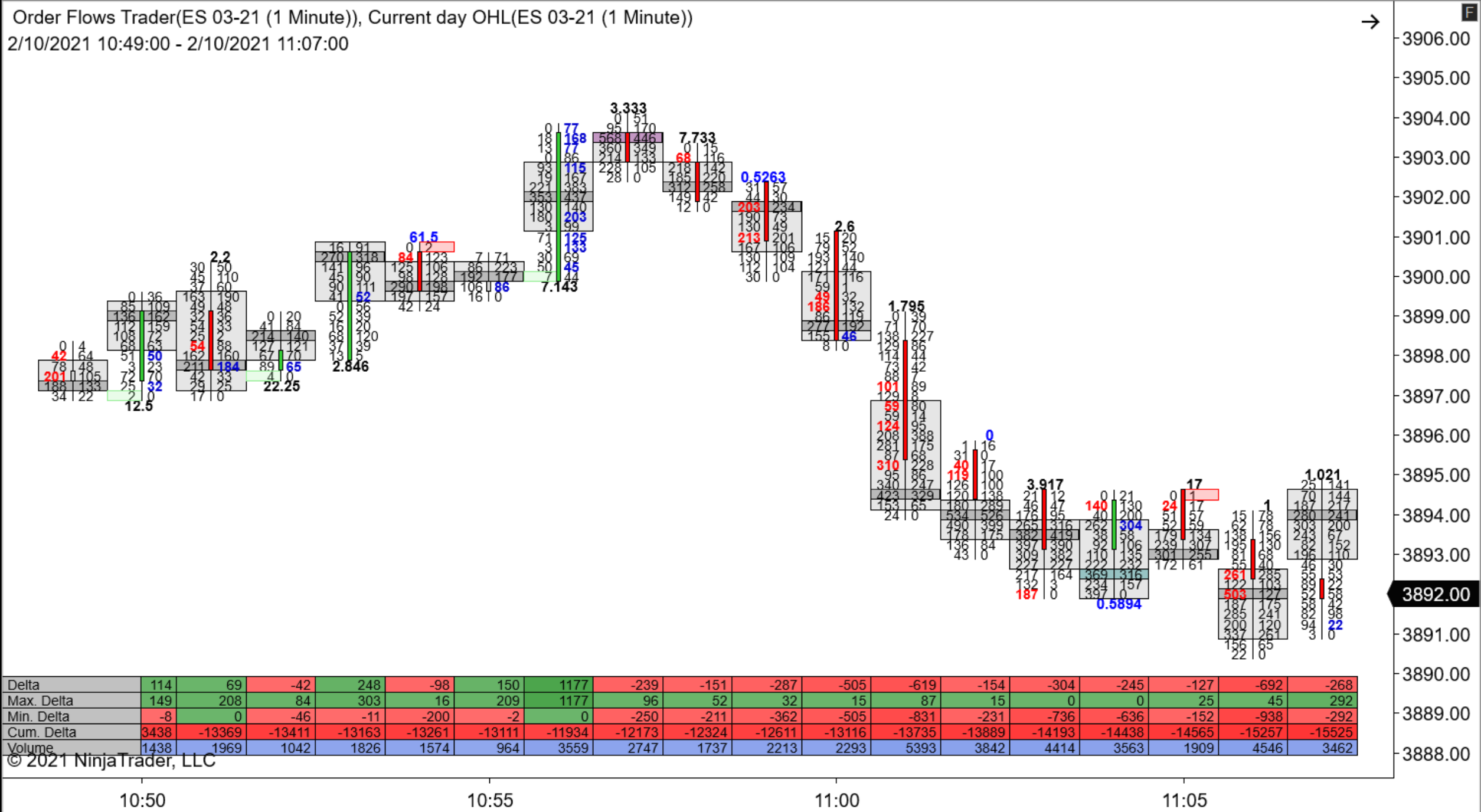
Trade management is stop management and is important. The best place to put your stop is where a trade is invalidated. You don't want to get in the habit of placing your stop based on an arbitrary dollar amount based on an average movement. That is where order flow helps you where and when a trade become invalidated.

Entries – Stop orders. There are two types of stop orders. Stop, market and stop, limit.

Stop orders are often associated with getting out of trades, often losing trades. But stops can be used to get into trades.

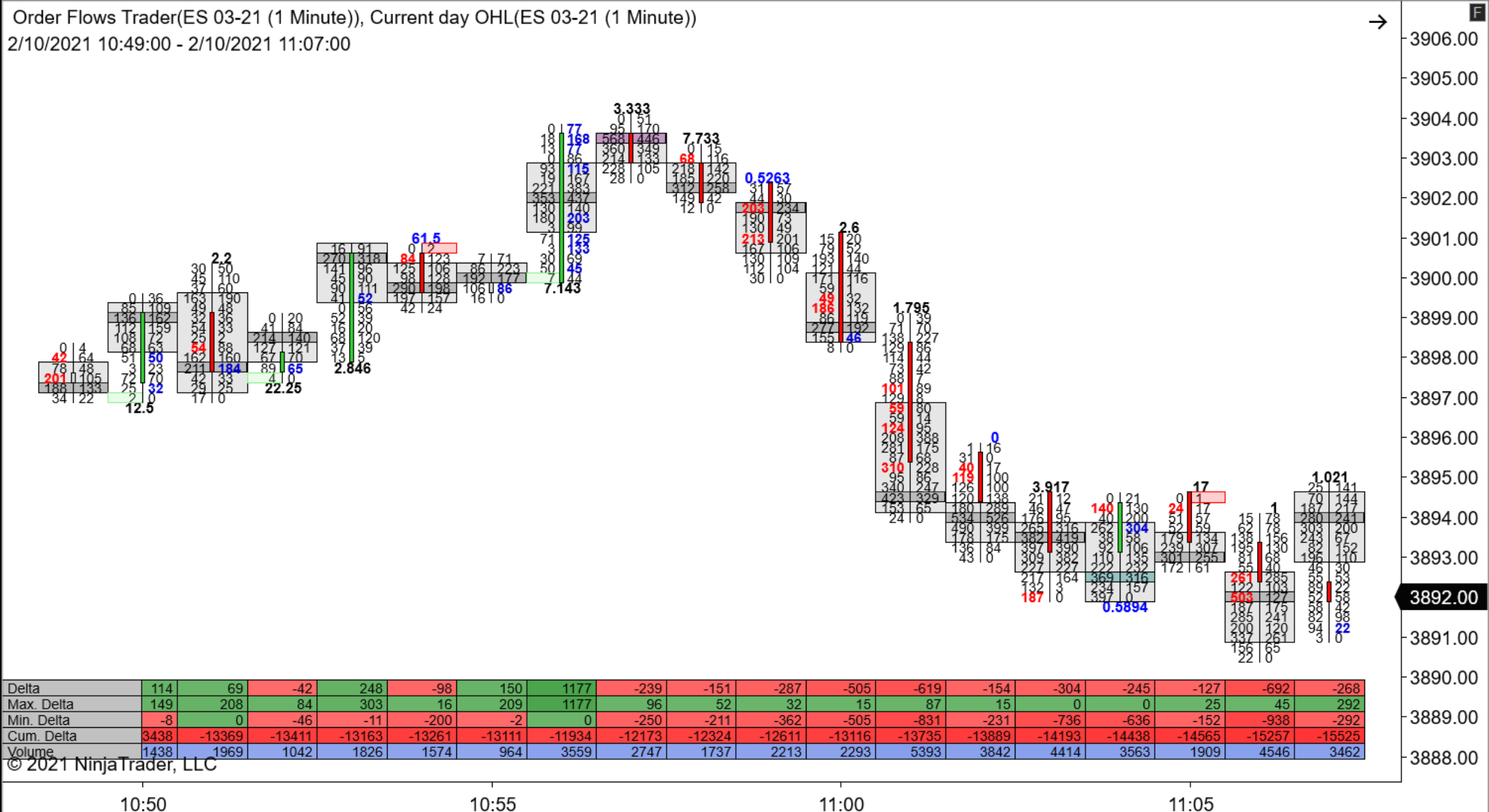
Entries – Stop entries are a good way to trade order flow as the market will be moving in the direction of the order flow to get you into the market.

For a trade to be successful the market needs to exhibit follow through order flow. If after entering into a trade, the order flow is complimentary to your position the trade will probably succeed.



Stops

Even though your trading set up may have a 75%-win rate, the chances the trade you just got into will work is still 50%-50%. So, deciding where to place your stop is still important. You want to put your stop where the reason for being in the trade is no longer valid and/or a place where the market must work to get to. Don't put your stop where it is easy to get elected.

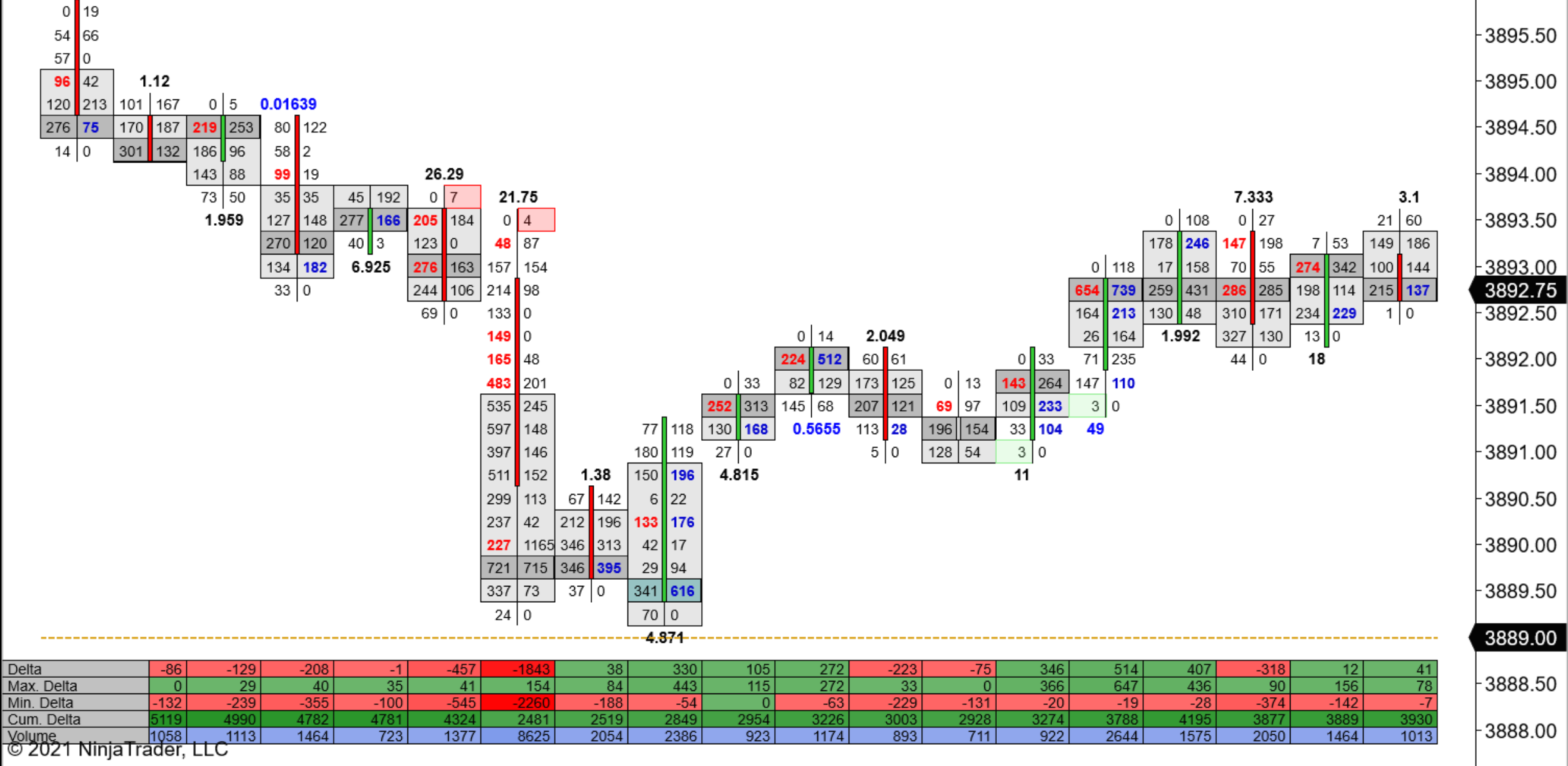


Stops

A good place to have your stop is an area the market has to work hard to get to. It could be an area based on volume, an area where there is consolidation. Ideally your stop should be in an area where the market structure supports the trade and if the trade starts to fail the market structure would need to collapse.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/8/2021 12:48:00 - 2/8/2021 13:06:00



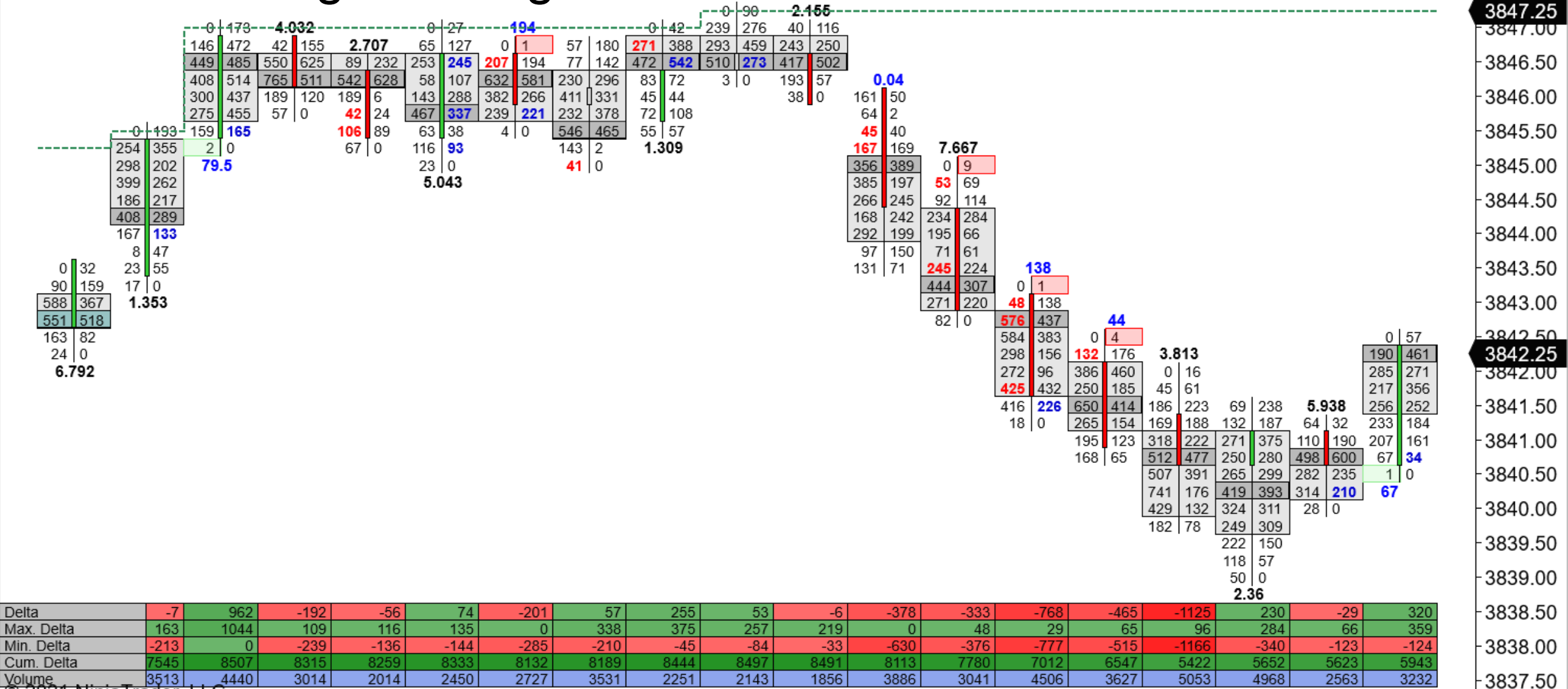
Stops

What does it mean “the market has to work hard to get to my stop?” It would have to work hard to get through support / resistance or a POC or Prominent Point of Control an area of resting liquidity. Putting a stop a recent high or low is an area that traders look to take a market to. A recent high or low is not necessarily support or resistance.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/4/2021 09:15:00 - 2/4/2021 09:33:00

Hard to get through



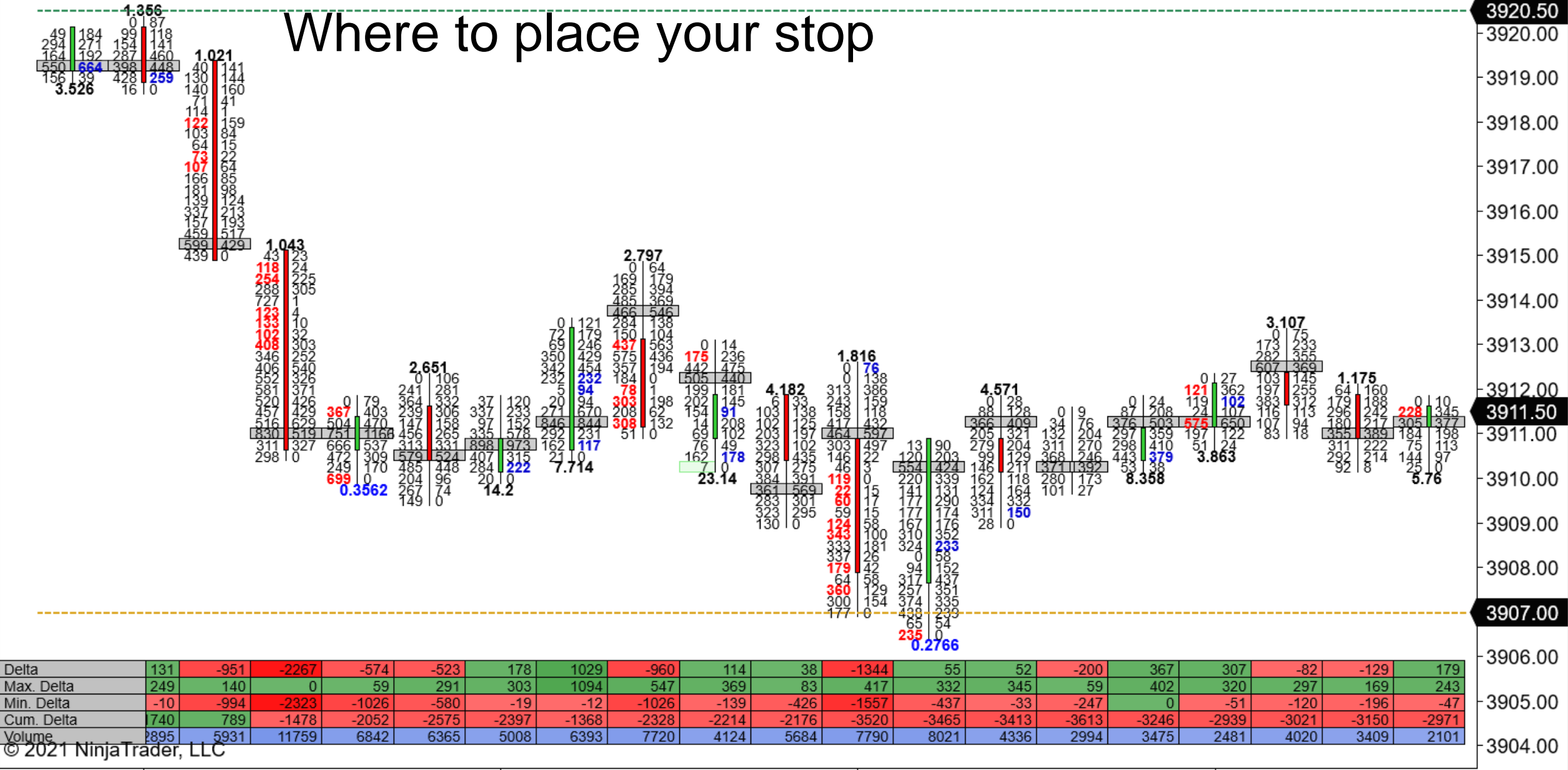
Stops

Where do you (easily) place your stops? Place them at the low (high) of the entry bar. If things change in the market and prices revert back to the low (high) of the entry bar it means something has changed in the market conditions. It doesn't mean the strategy is bad or you read the market incorrectly and that you should throw order flow away. That is the nature of the market. Something could have happened in the world and the market is reacting to it. There is unpredictability in the market at times that you can't always avoid.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/11/2021 08:49:00 - 2/11/2021 09:08:00

Where to place your stop



Risk

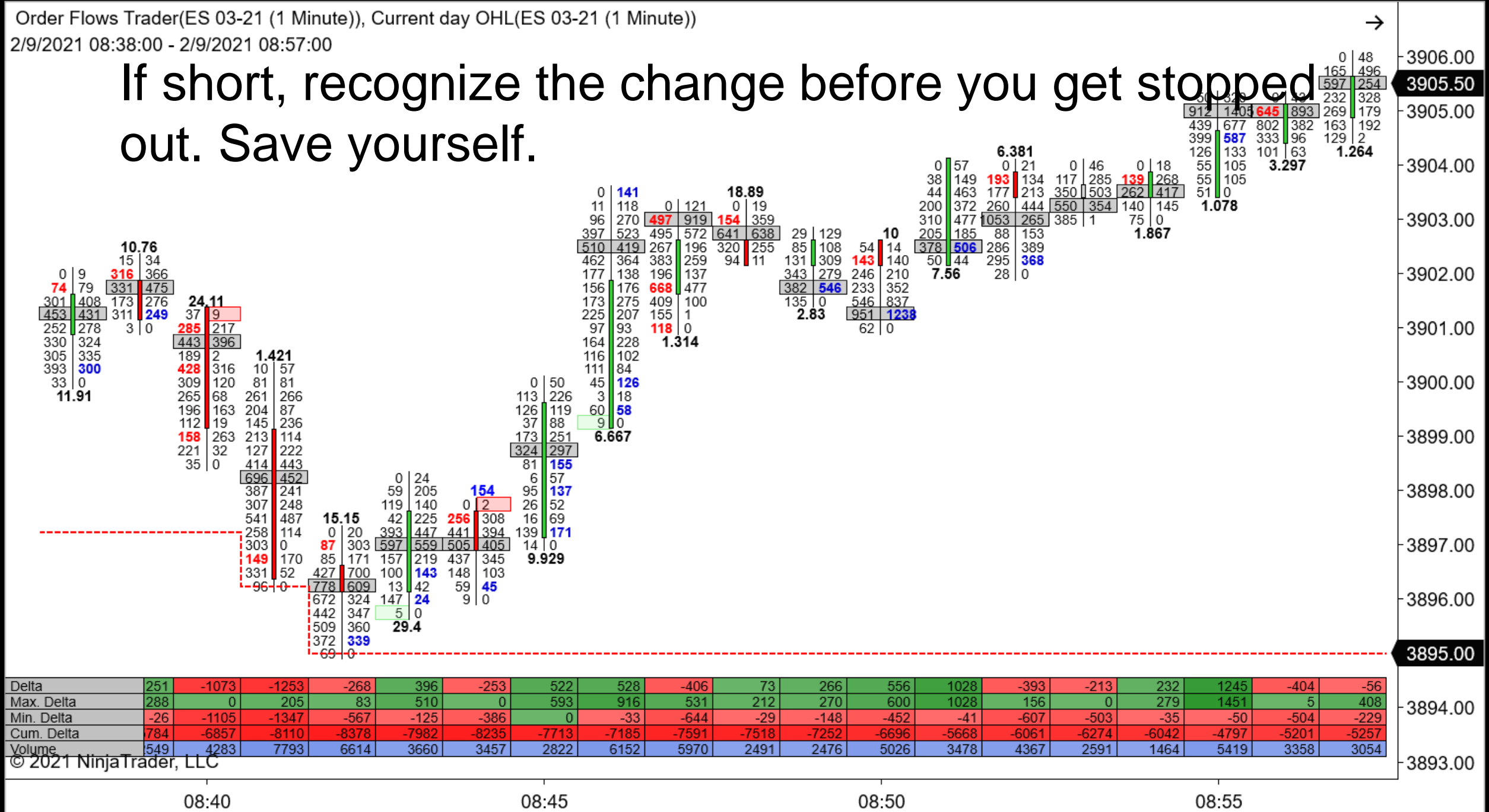
The hardest thing for a trader to do is hit the close button to exit at a loss. Being forced to admit you were wrong. When you follow the order flow and can see that the market flow is shifting being knowing you are caught offside and then exiting the trade at a smaller loss is liberating. You have reached a higher level in your trading that allows you to have more control and confidence.

Risk

One of the differences between successful traders and unsuccessful traders is the successful traders don't get out of the trade until the market proves them wrong. What that means is they stay in trades until the market conditions change from their view. If they are bullish, they stay bullish until the market shows them bearish information.

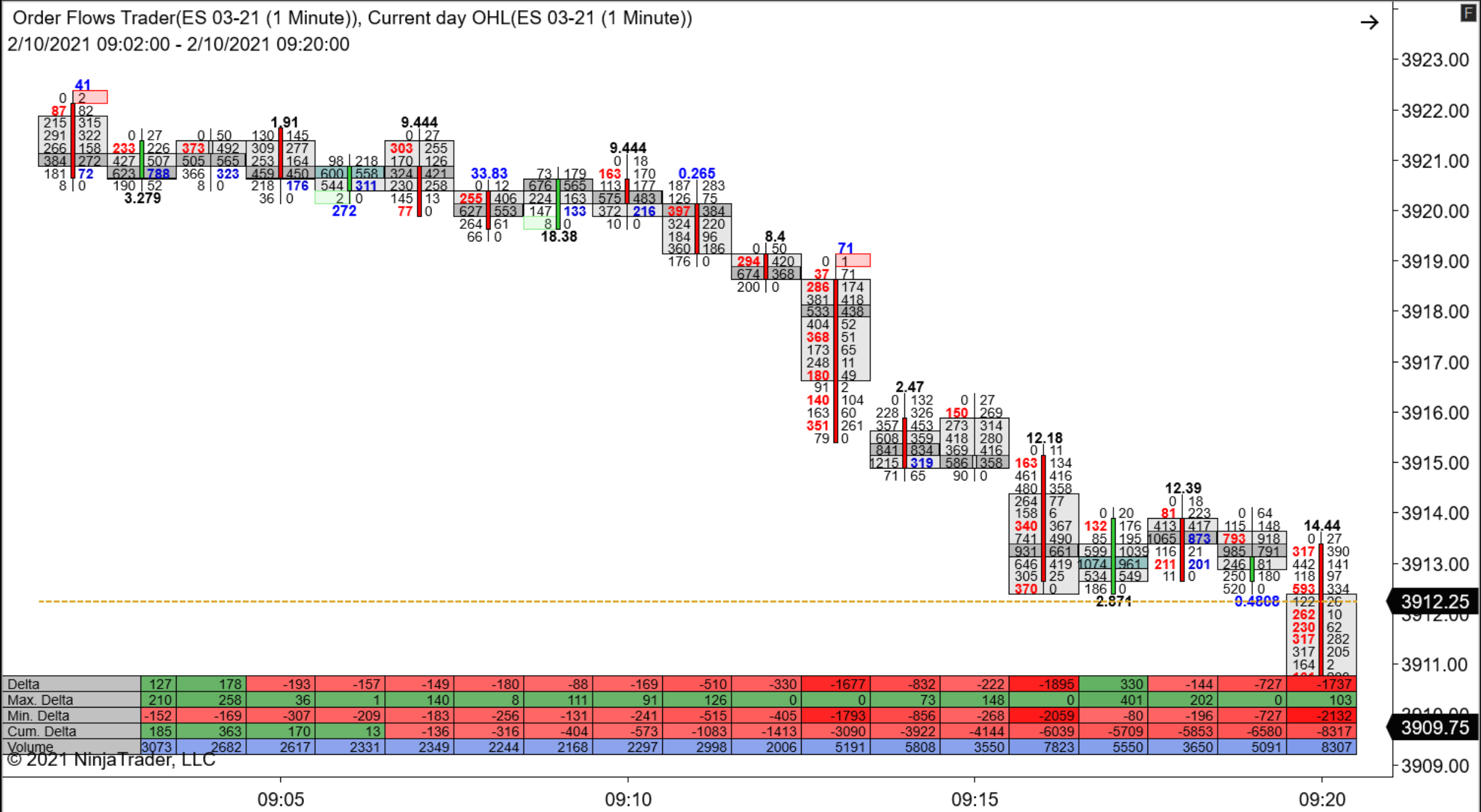
Risk

Becoming a successful trader isn't about how much money you make on each winning trade. Being a successful trader is about being able to stop losing more money than you should on bad trades. Traders that consistently struggle are always trying to dig themselves out of deeper holes than they should be in.



Trade awareness

You got into a trade based on something, for example, aggressive buying imbalances. You need to keep two things in your mind, 1, you don't want it to go against you right away and 2, you want it to move in your favor sooner rather than later. If you are stuck in a trade for 10-15 minutes barely breaking even or even underwater, what is really going on with your trade?



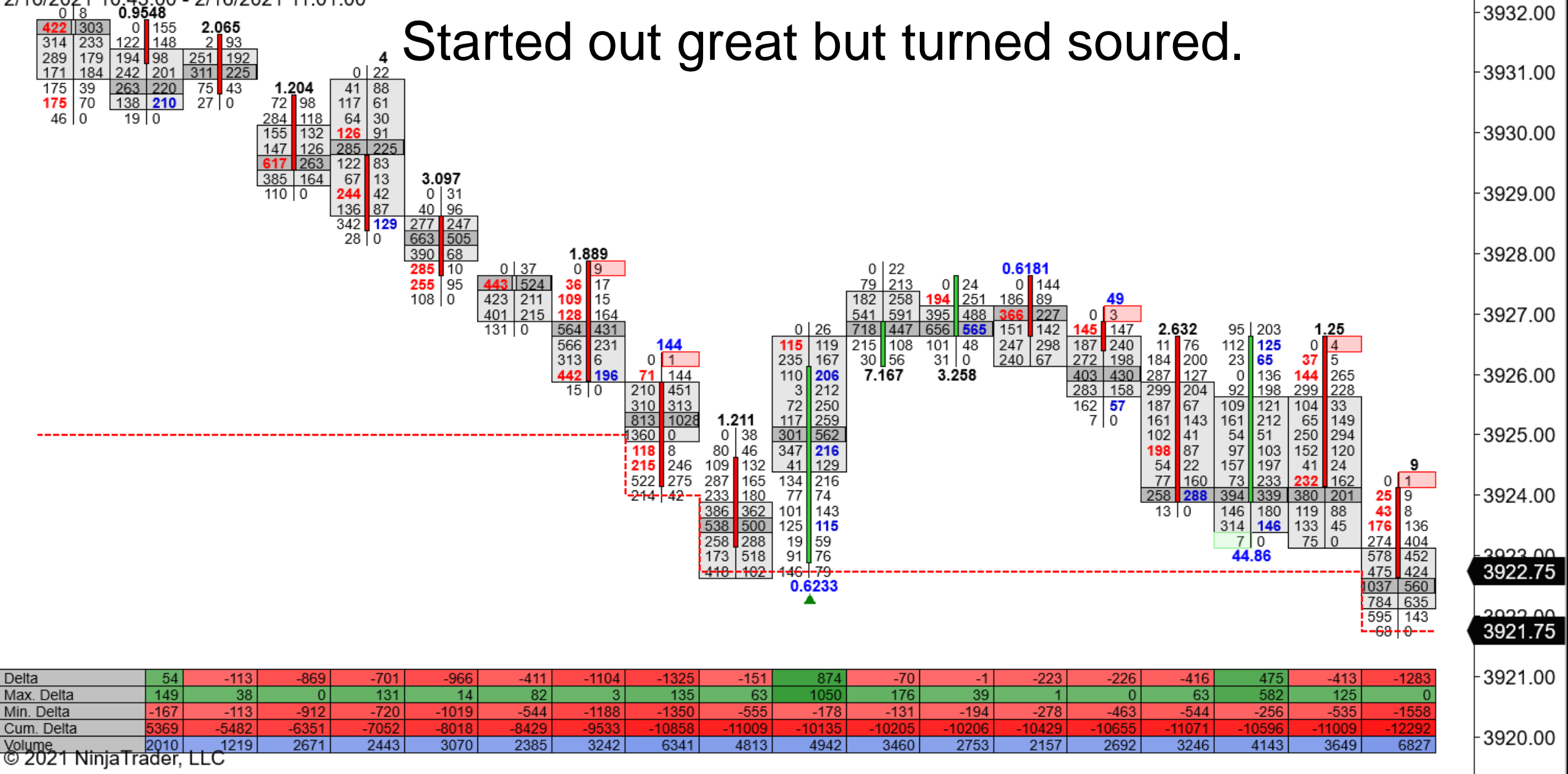
Risk

There is always a risk in a trade. Any trade at any random time may not work. You have to accept that as a trader. That is the reality of the market.

Order Flows Trader(ES 03-21 (1 Minute)), Current day OHL(ES 03-21 (1 Minute))

2/16/2021 10:43:00 - 2/16/2021 11:01:00

Started out great but turned soured.



Risk

What really is risk? Everyone uses the terms, but what is it? To me risk is the point where my trade is invalidated. So as a trader what do we want to do? We want to reduce risk. How can we do that? Better trade entry, better in the sense that we know quickly whether we are right or wrong.

Risk

There are two types of losses, smart loss and stupid loss. A smart loss is when you do everything you were supposed to do and the trade didn't work. The stupid loss is when you didn't do what you were supposed to do and you lost money. There are stupid wins, but you just don't want to do stupid trades to begin with.

Risk

You have all heard this before “Most successful traders are dispassionate.” They are not emotionally attached to a trade. It’s almost as if they don’t care about making money. Have you ever got emotional about a trade and moved your stop and taken a bigger loss? The reality is that many traders are emotional. I can be emotional at times. Maybe if its not your money it is easier to not be emotionally attached to a trade.

Risk management

How many losing trades in a row can you suffer financially and mentally? For many traders, going through 4 or 5 consecutive trades is very tough on them mentally. They run out of patience, sometimes money and they want to stop trading their setups and trading plan. You should not be trading in such size that 5 consecutive losses have you reassessing your trading career.

Risk

There is often less risk getting in a little late to a trade because the trade is now starting to work. All too often what I see is a market gets over extended and traders start looking for a reason to short instead of having a reason for getting short. For example, 10 consecutive higher POCs. They think it can't go any higher. They start thinking the market can't go higher instead of seeing the order flow come in and tell them the market is not going higher.

Risk

Better to be a little late to a trade than too early. You may be trying to fade a move that is not quite over yet.

Many traders often go looking for trades, they are too impatient (early). They should be more patient and let the trade come to them instead (late).

Risk

Being in a bad trade not only keeps you out of good trades, but also affects you mentally.

Getting out of a bad trade is a good trade you can make. Overstaying in a bad trade is damaging to your emotional capital and trading capital.

Order Flows Trader(ES 03-21 (20 Range)), Current day OHL(ES 03-21 (20 Range))

2/23/2021 09:12:13.413 - 2/23/2021 09:54:34.722

Bad trades keep you out of good trades



Risk

The longer it takes for a trade to go to target, the more impatient you get with the trade. You become uncomfortable and anxious, and you start thinking more of getting out of it because you see other traders getting out.

Risk

Trades that have the potential for greater reward often have less confirmation, at least initially and that is to be expected. As a trader, the more experience you gain the more you see how these trades develop early and are able to give you the bigger reward.

This concludes the Module 11: Risk Management.

In the next module we wrap everything up.