

BOOKMAP CONTEST

April 2014

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"An Inside to Order Book Reading"

Bookmap Contest

IDENTIFYING BEST BOOK ORDER STRATEGIES AND PATTERNS

1- INTRODUCTION

We assume that Institutions drive the Market.

Their purpose is to Accumulate and Distribute stocks in a non-ending cycle.

Their aim is to Accumulate as much as they can at the lowest possible price. After marking up the price the Distribution process starts, so then, their aim is to sell all they have previously accumulated, at the highest possible price. In the Mark up phase they want to be alone (no retail traders).

The Accumulation/Distribution process is a Fractal one, we can find it in any timeframe.

Using bookmap we would like to identify where and when Institutions enter the market in real time, and where/when they have exit their positions, in other words, big areas of Liquidity or Supply. By using Bookmap we will try to anticipate the high probability areas where this could happen, early before the price reach there.

In the same sense, they will not perform it in a simple and plain way. Algorithms executions and trading machines, will use multiple strategies that despite are confusing we will detect using Bookmap.

2- Set Up: LIQUIDITY

Using bookmap we can see big areas of Supply and Demand (Limit Orders). Those areas with huge Liquidity, are Fair Prices to Institutions, so they have placed their Orders to Enter the Market.

Orders can also flow to the Market from the Time and Sales (Market Orders). In this particular case, we can see this action in the Profile located at the right side of the screen.

ANATOMY OF THE LIQUIDITY

As a traders, our work is to distinguish between Real Liquidity and Non-real or Fake Liquidity.

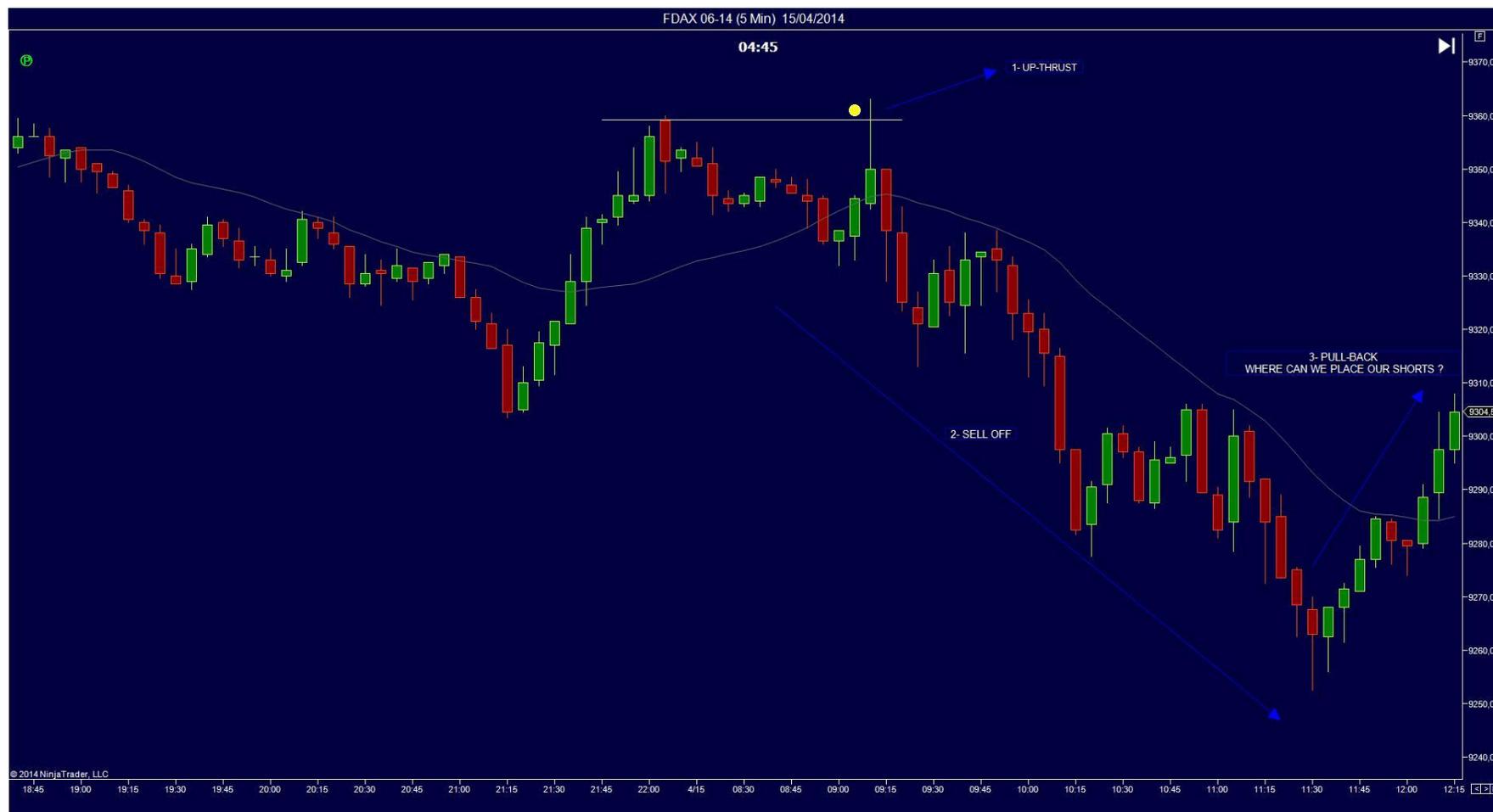
The criterions to do this task are:

- Time: Real Orders stay in the Book from the very beginning, they were there by the time price reach that level. In other words, Institutions place those big orders at the level they consider as fair just after the session starts, and do not Remove them for any reason.
- Behavior: Real Orders are stick to the Book order and are not only not removed but also they are left alone to be filled. Fake Orders are "last minute" orders they are removed as fast as they are placed, and in any case, they are never left to be filled.
- Range: Real Orders are placed in a Range, is not a single big order at a specific price but a group of big orders placed among a range of prices.
- Momentum: Due to Momentum, is quite often that price can cross over the range of Liquidity. It seems that Liquidity hasn't stopped the price, but the "die is cast". Smart money has already taken their positions.

CASE- 2.1: FDAX, April, 15th

After an Up-Thrust price has been doing a Sell-off all morning. We are willing to jump into this down move as soon a pullback will give us an opportunity. At 12.15 h CET there is a big amount of Liquidity at the level of 9310. This is our Short Entry Signal. If we hadn't been using Bookmap, we could never imagine which was the best place to enter.

SEE FULL PICTURE HERE: <http://screencast.com/t/ccvh0PegY>



Let's look at the previous chart using Bookmap. We can see big amount of liquidity at the level of 9310, and what is even more important, when price reach that level, those orders are not removed, are left to be filled. This is our Short Entry Signal.

SEE FULL PICTURE HERE: <http://screencast.com/t/JqfbaqnVOil>



You can see full video with entry here: <http://youtu.be/SKXsHuKOBKg> (3:40 min.)



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3- Set Up: THRUST & PUSH

We mention before that one of the weak point Institutions have is that they need to fill in a Large quantity of stocks. This is not easy to do, otherwise a single action of a big buy/sell order would move the price against them and far away from where price is at that moment, causing their order to be filled at an unwanted price.

The solution is to place Orders in the opposite direction to where they finally want to go, in other words, pushing the price with Fake orders to the level where they are waiting for it with the real big liquidity orders for a major swing move.

It's like a hunting dog that brings the hare to the hunter. Once the price has been market up, all this fake orders will disappear and let real liquidity orders to be filled at a reasonable price.

ANATOMY OF THE THRUST

- Previously, the Real Liquidity Order must be placed. This is the real order that Smart Money want to fill in.
- Once price is approaching this level Flash orders pushes the price against the Real Order. Those Flash Orders follow the price as in its way up
- Just after Real Order is filled in the Flash orders will disappear.

CASE- 3.1: FDAX, April, 14th. on High of DaySEE FULL PICTURE HERE: <http://screencast.com/t/PkOdnTYyS>

At the level of 9280 there is a large area of supply, that we know now it was the High of Day. Institutions main goal is that all the Sell orders place at that level since the beginning of the session will be filled (Red rectangle).

The best and only solution for them is to make everybody believe that price will keep on rising forever. Using Bookmap we can see that they have place an Algo (Green rectangle) sending orders in a row, whose only goal is to push the price into the supply area.

Once this is complete, the Algo (three red arrows) still keeps on pushing up the prices, that left some trapped traders in, at the top high of the day. Notice the symmetry in time of these pillars

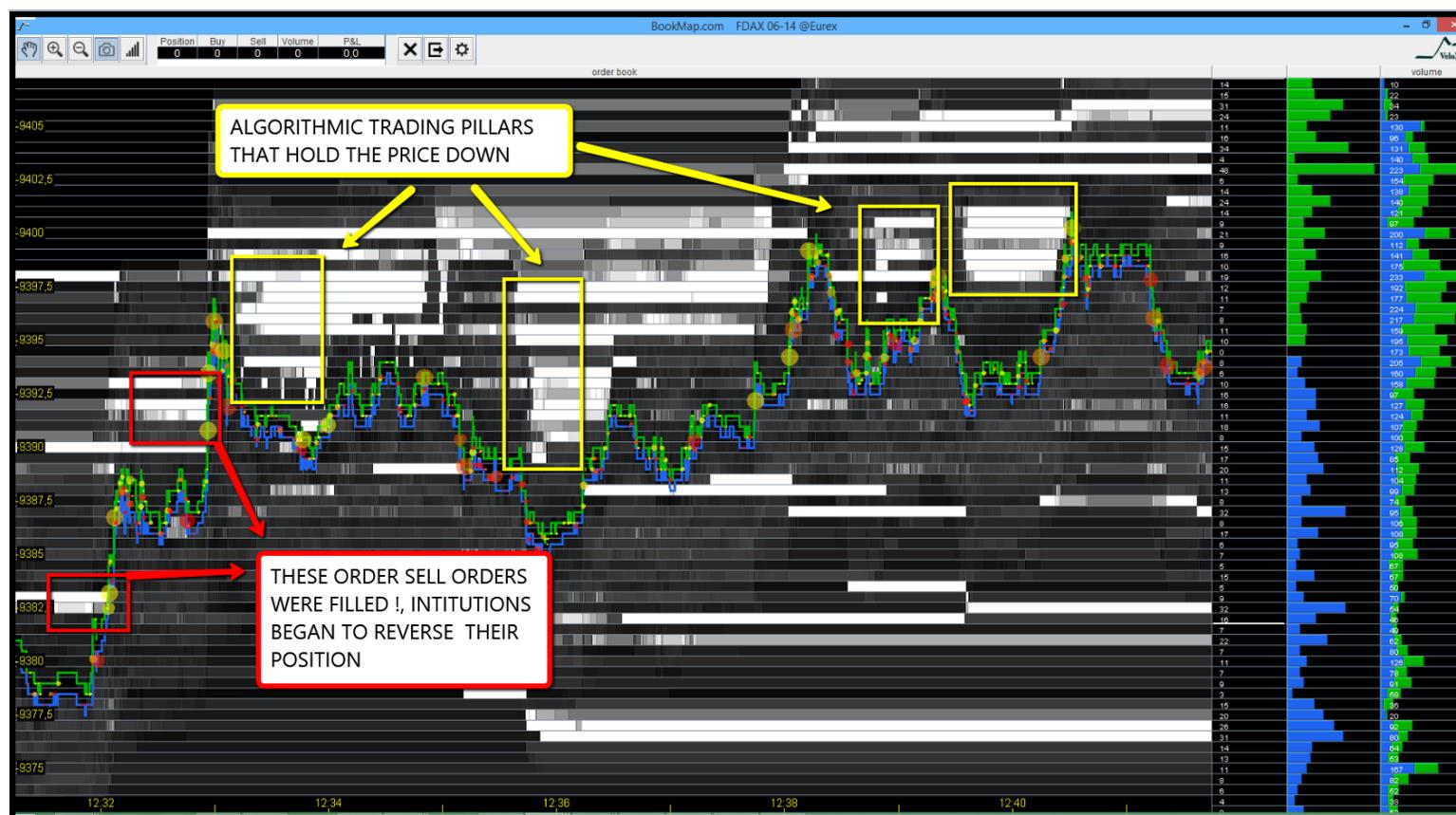


CASE- 3.2: FDAX, April, 17th. Up-Thrust

SEE FULL PICTURE HERE: <http://screencast.com/t/pl2YQBKyCY7>

Previous to US RTH Open, the DAX is working over previous swing high. At this hot spot we can find both, traders looking for a breakout of the level, the Stops of Traders going short fading the trend, etc...

We believe that this is an Up-Trust. Institutions have already reversed most of their positions and now are turning into shorts. As they have to defend their positions, their Algorithms are sending Flash Orders in a row to hold the price below that level. Those orders are not real as they are far away from the bid/ask line.



This is the Structure (Big Picture) of the price:

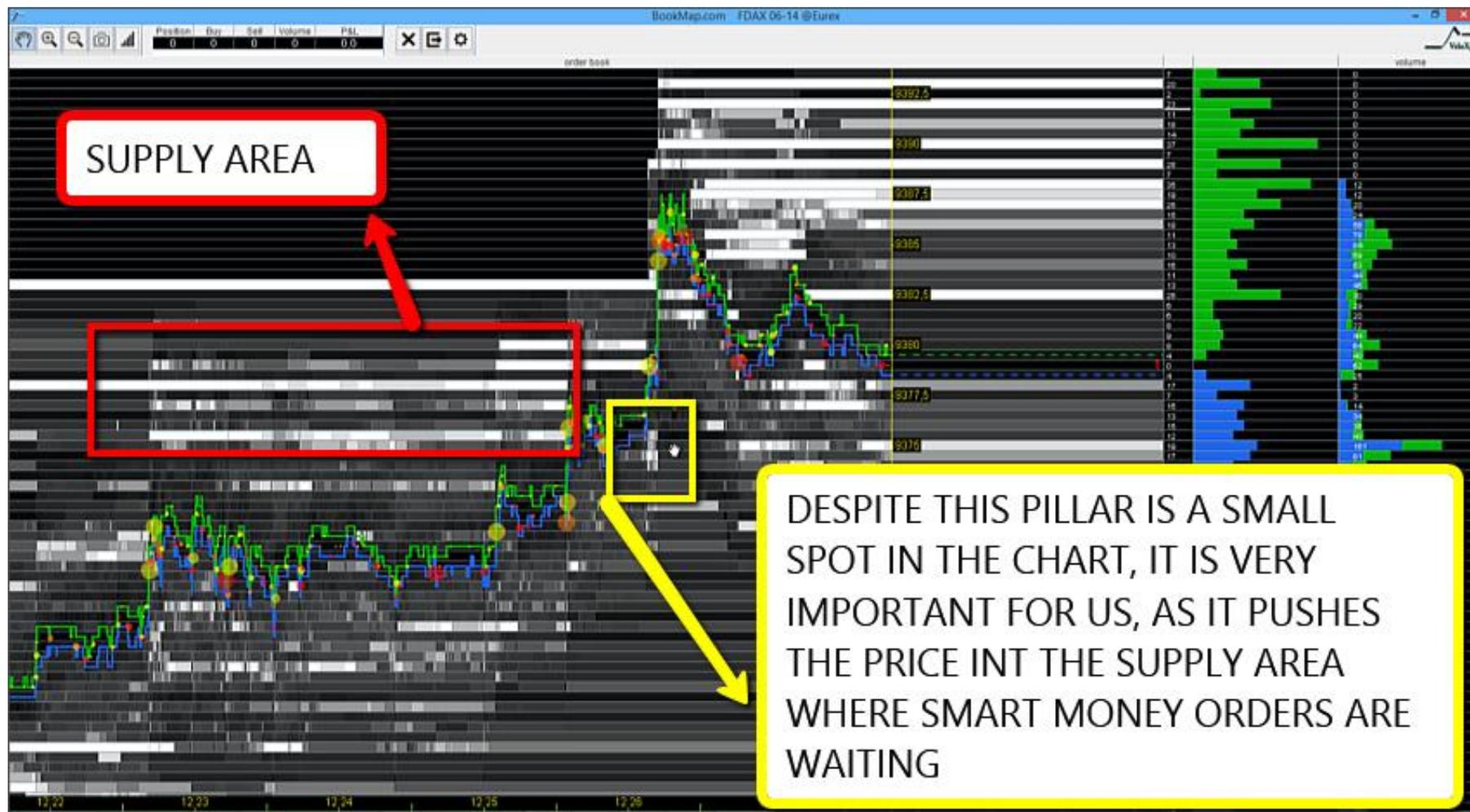
SEE FULL PICTURE HERE: <http://screencast.com/t/Qn6UkwPtA9p6>



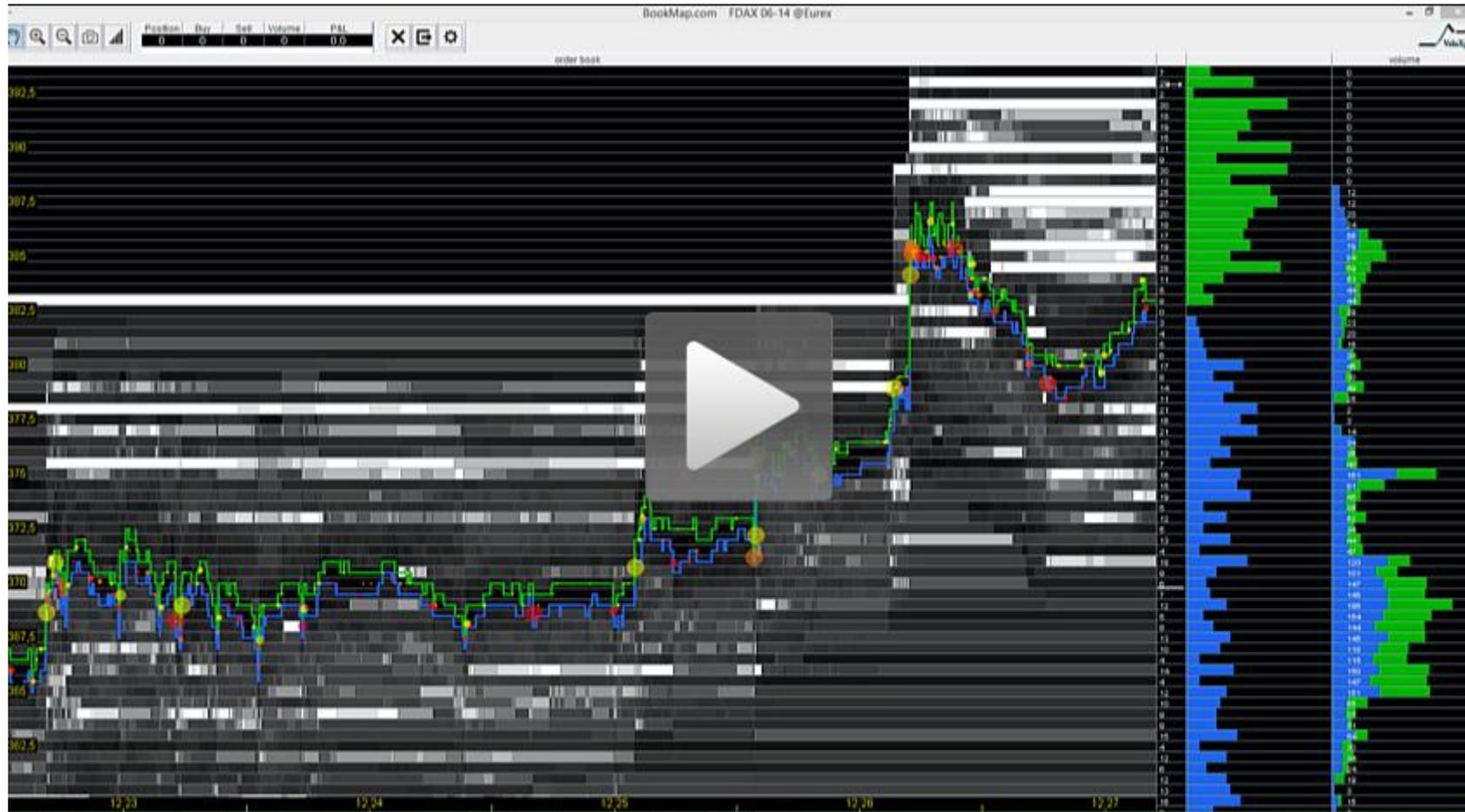
VERY IMPORTANT:

SEE FULL CHART HERE: <http://screencast.com/t/zOs8prV2T2e>

Notice as this Pillar Order, despite is just a small spot in the chart, is very important, as it pushes the price into the supply area where smart money orders are waiting to be filled.



[SEE FULL VIDEO HERE: http://youtu.be/GRXcdvlyvXM](http://youtu.be/GRXcdvlyvXM)



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4- Set Up: HOLDING THE PRICE

After a move, like for example a Rally, the price sometimes makes a pullback. Pullback is used by Institutions to Load more stock before let the price move up. During the pull back the price seems to have no action, moving in a tight range.

In this range, flash orders in a shape of pillars hold the price in a level without allowing the price to rise, so this let the Big Boys to load more quantity of the instrument. This behavior is done by fast Algo Trading Machines.

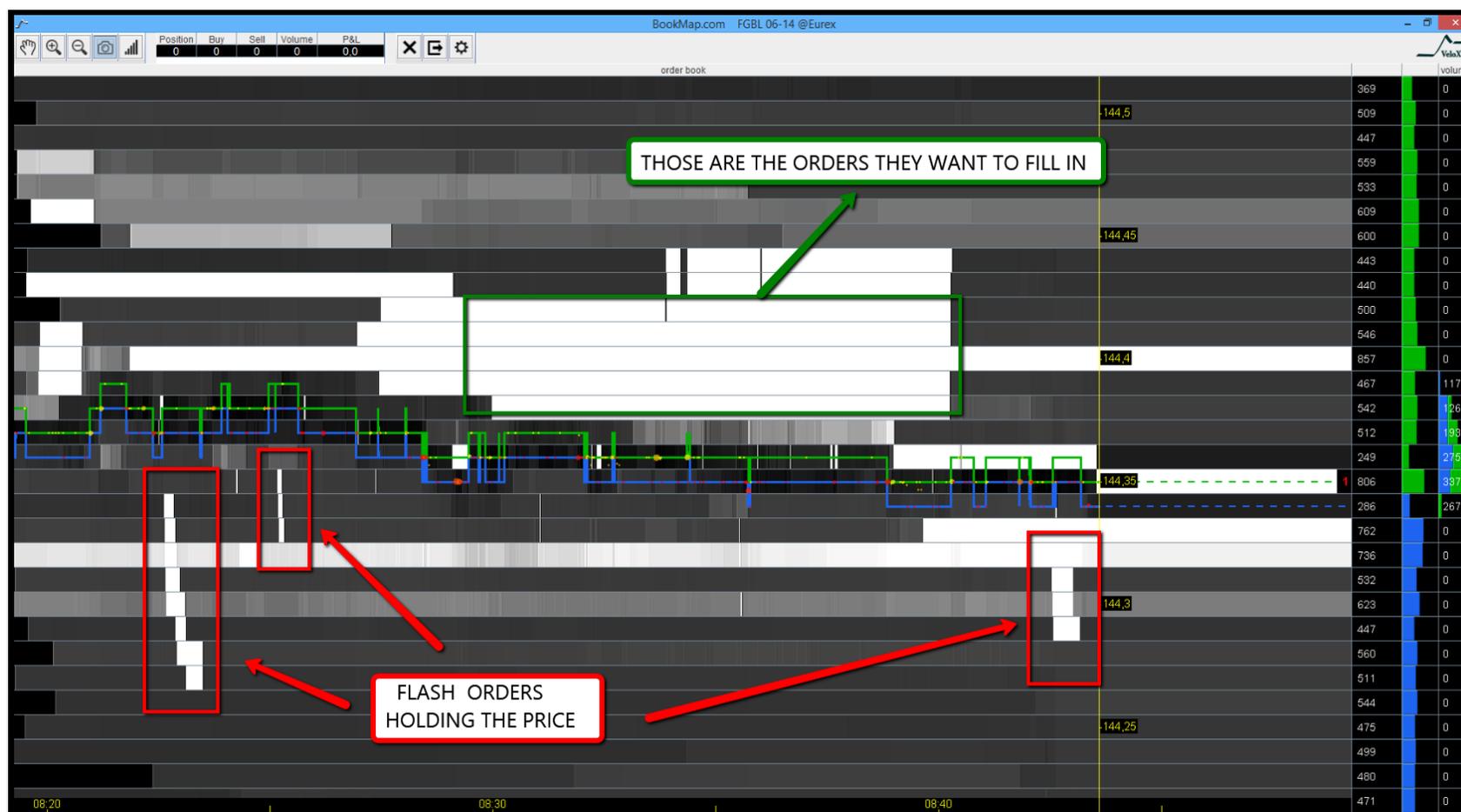
ANATOMY OF THE HOLDING SET UP

- Flash Pillar Orders are placed close to the price, and are moved following the price tick after tick.
- Time and Frequency: Flash Pillar Orders never come alone. They are placed in groups (usually three)-
- Just after the Flash Order stops the price performs a bounce into the pillar and until a new pillar appear.
- Just before let the price go and follow its way, a sell off order in the opposite way is placed. This makes retail traders mistaken believe that the price will escape and force them to "jump on board".

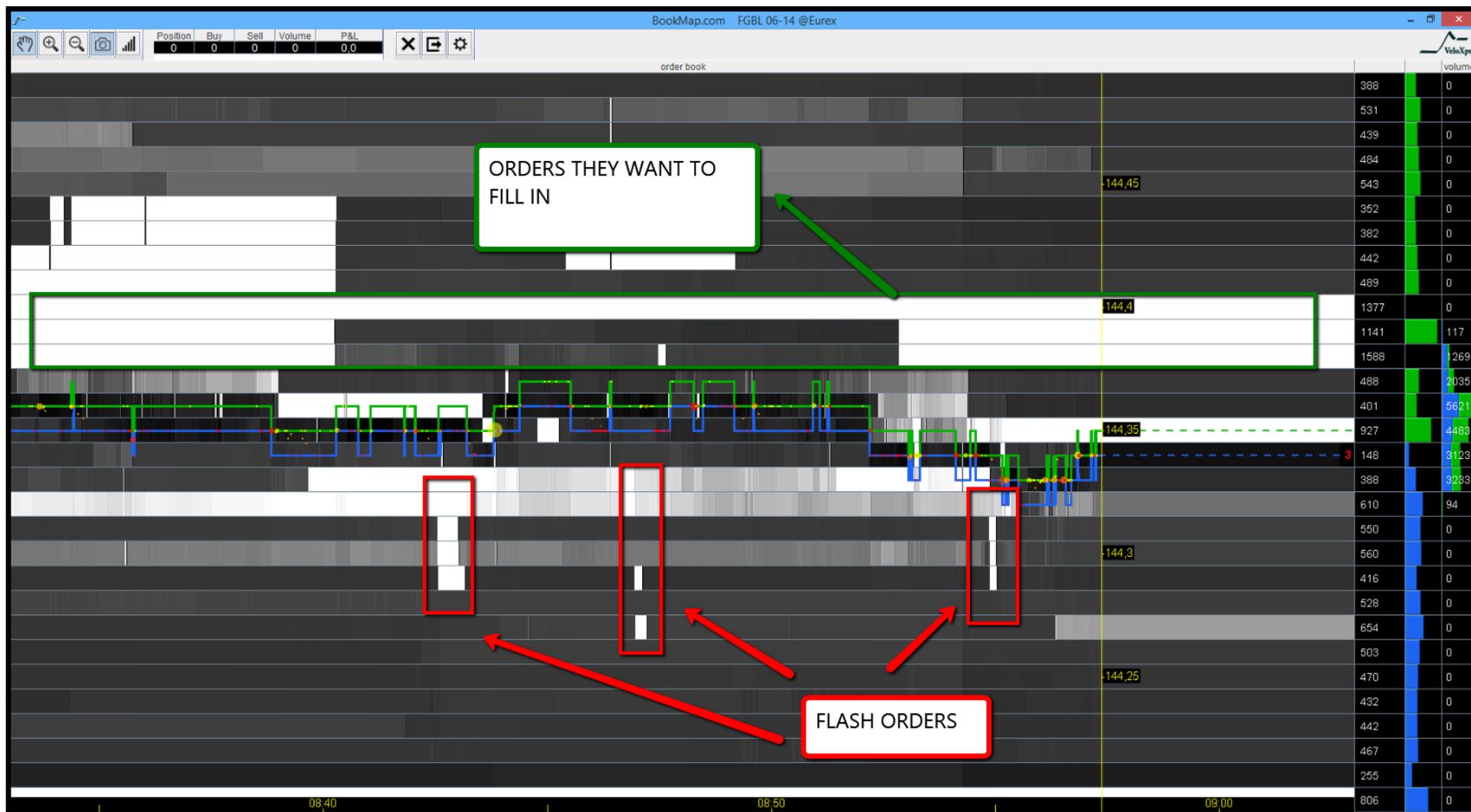
CASE- 4.1: BOND TREASURY- (Germany, FGBL, April, 17th. SEE FULL PICTURE HERE: <http://screencast.com/t/8jNWZ9kW1q>

For any reason, Smart Money, doesn't want a level to be broken (in this case a Support). So, every time price touch this area, a consecutive Flash Orders in a way of a Row, and in a perfect stacking manner stops and holds the price above the resistance.

The main reason, is probably that they still want to fill in some sell orders before the breakdown. As soon as they have loaded as much as they need, Flash Pillar Orders disappear so the price is ready to fall down.

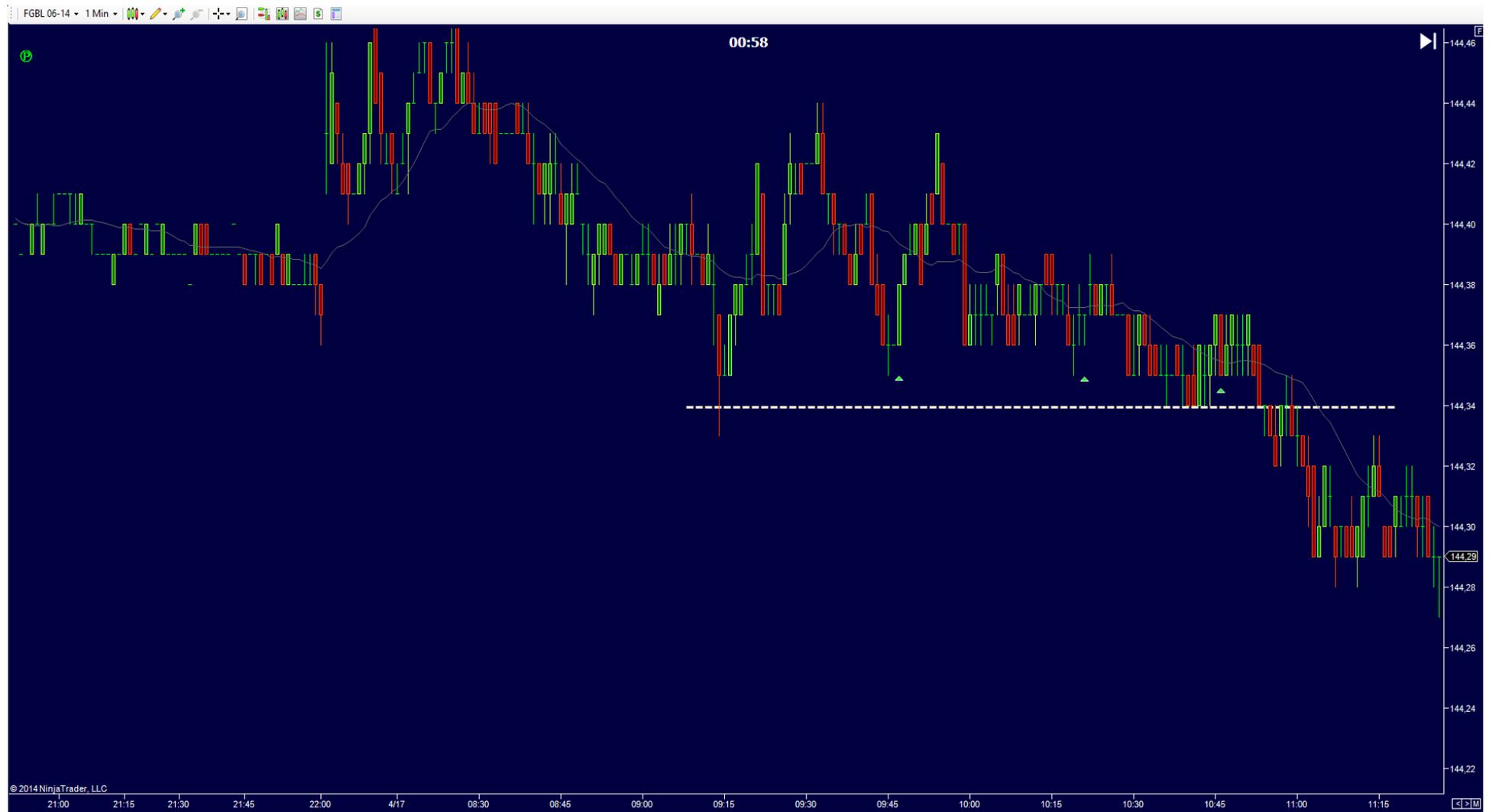


Few minutes later, the set up is working again:



SEE FULL PICTURE HERE: <http://screencast.com/t/BtrZisYS1>

As soon as the Flash Pillars disappears the price is read to fall down:



SEE FULL PICTURE HERE: <http://screencast.com/t/68DCEFWWm8a>

5- Set Up: LACK OF BARRIERS

Sometimes it is more important what you don't see, than what you see. Just after a big Accumulation/Distribution has been finished, most of the Orders in the Book are removed. In the case of a possible move down, and just after sell orders have already been filled, all sell orders are removed from the Book.

In other words, when Accumulation/Distribution is finished, all orders in the Book Order are removed, so at the eyes of a retail trader, the absence of Orders in the Book, might completely mistake to think that the price is free to keep on rising/falling because there are no orders in the book that could stop the move. Anyway, and looking at the left of the chart we know that the Rally has finished and a reverse is possible.

ANATOMY OF THE LACK OF BARRIERS

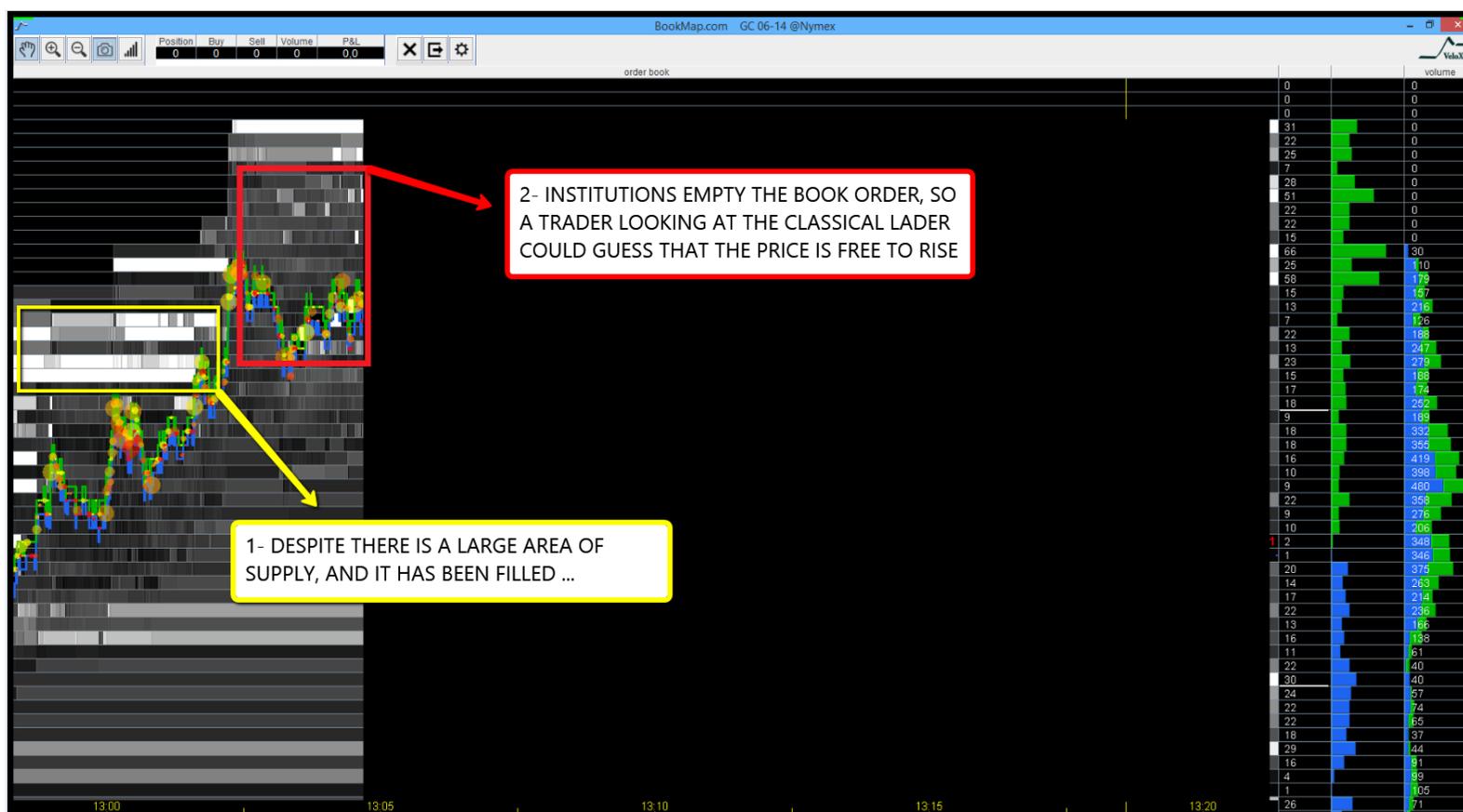
- Before this pattern is done a big amount of Buy/Sell Orders must be filled before.
- Just After that all Buy/Sell Orders are removed from the Book.
- It may look like an opening window that will let the price come in, but from other hand, any single trader that will try to pass through this path will be killed.

CASE- 5.1: GOLD- GC, April, 14th. on High of Day SEE FULL PICTURE HERE: <http://screencast.com/t/ph2XEva9MO>

Just after the big area of Sell Orders are being dully completed, Institutions left the Book Order empty without any other Sell Order. In case we were using the classical lader book order, we could imagine that there is no resistance above and that the price is free to keep on rising.

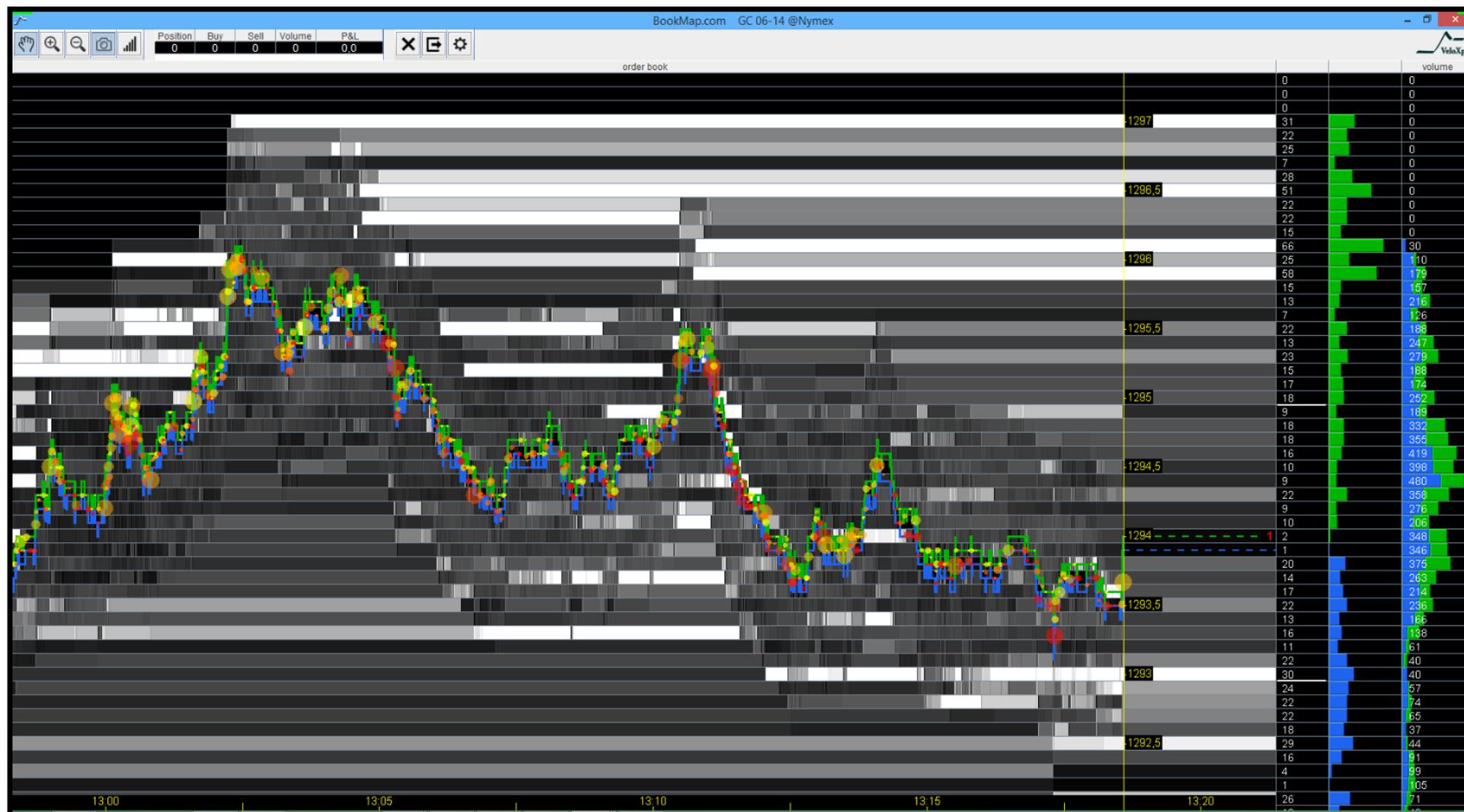
Smart Money use to do this kind of trap in order to trick some traders, that as soon as they will cover their longs, it will be fuel to the downtrend.

(We plotted a Black Rectangle in order to hide what happened latter)



This is what happened shortly after.

SEE FULL PICTURE HERE: <http://screencast.com/t/11nIF3kRJy>



6- Set Up: CAPITULATION

Markets moves by levels. From time to time there is a fight between buyers and sellers at a specific spot. In that spot buyers defend their long positions and sellers defend their short positions.

In the fight, there is a price level that is like a line in the sand. If price move beyond that level buyers/sellers will surrender. It's like crossing the creek, which means capitulation for one side of the market.

This kind of Support/Resistance has got nothing to do with the classical support/resistance like trend line, fibonacci, etc...

ANATOMY OF THE CAPITULATION

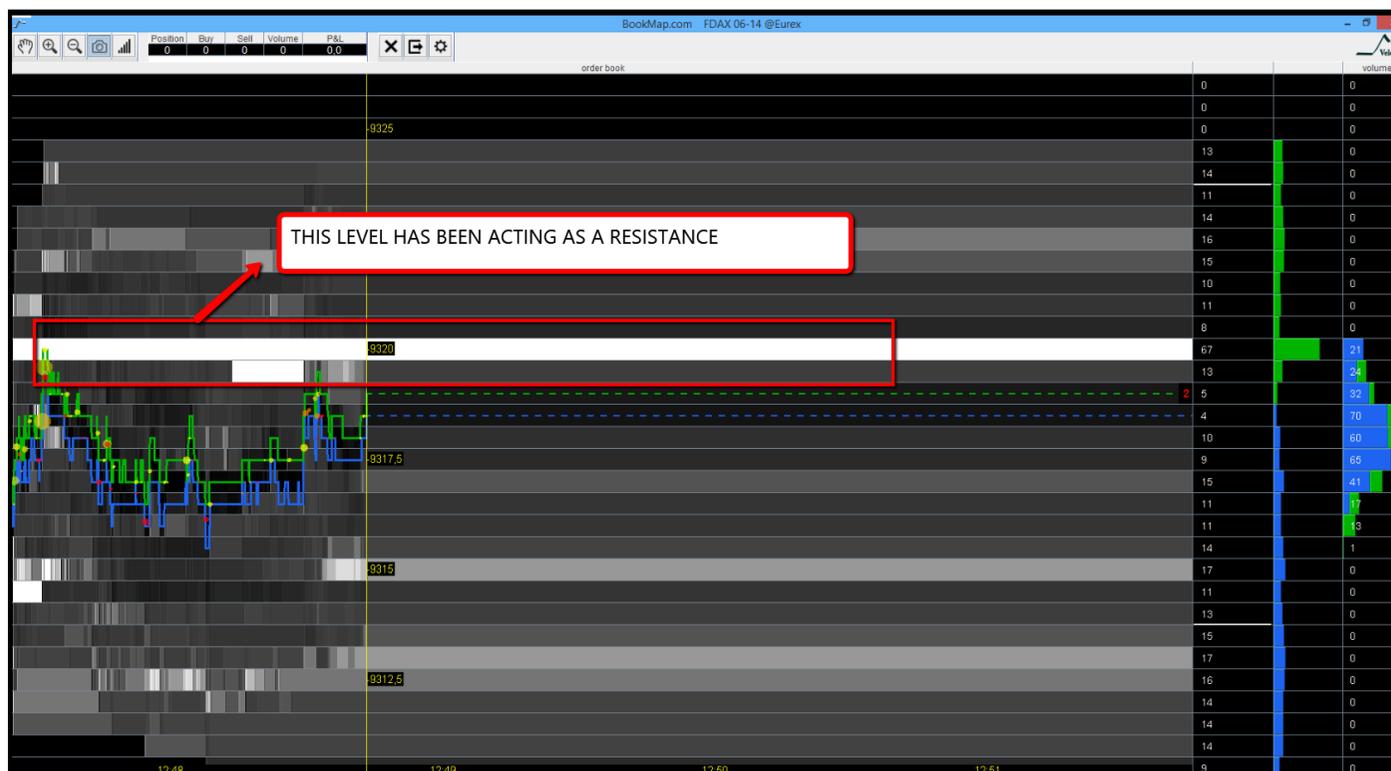
- This price level is seen in Bookmap in bright white, full of thick orders. So it could be considered as a Support/Resistance.
- Those orders will stop and pause the price, at least momentarily. So price will bounce on it.
- Just after this level is broken in an "Absorption" process, the price moves with high Volatility through it.
- As in the classical technical analysis a support becomes resistance in the future, we can place a sell order where there was before that support.

CASE- 6.1: FDAX, April, 14th.

As in the classical technical analysis, a Support becomes a Resistance when broken. Using bookmap we can see the same process, a price level of liquidity acting as a Support/Resistance when broken, becomes a reliable spot to place our orders in order to jump into the trend/breakout.

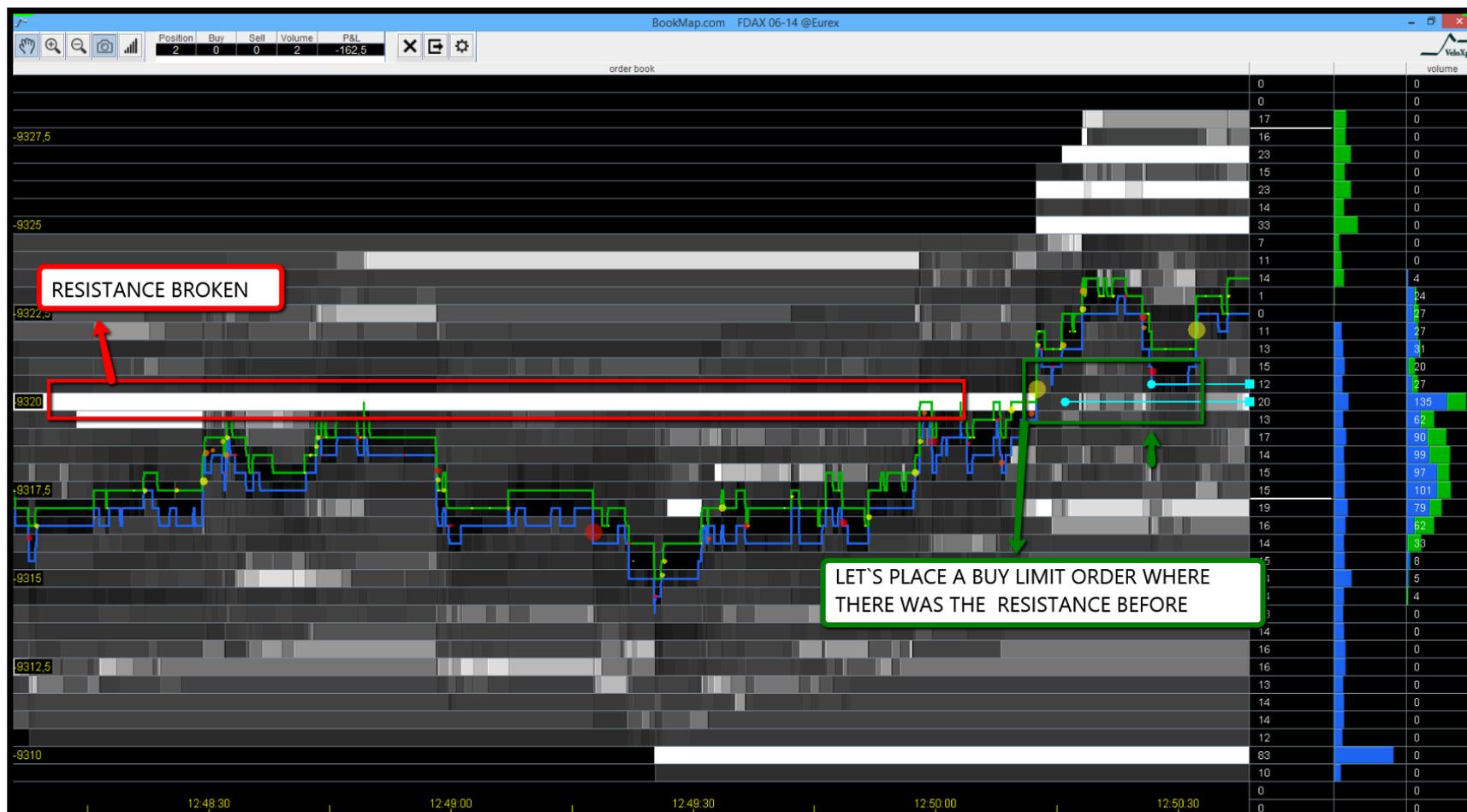
In case we were using a classical candlestick chart, nothing could be seen.

SEE FULL PICTURE HERE: <http://screencast.com/t/ZaIE5dgs3k>

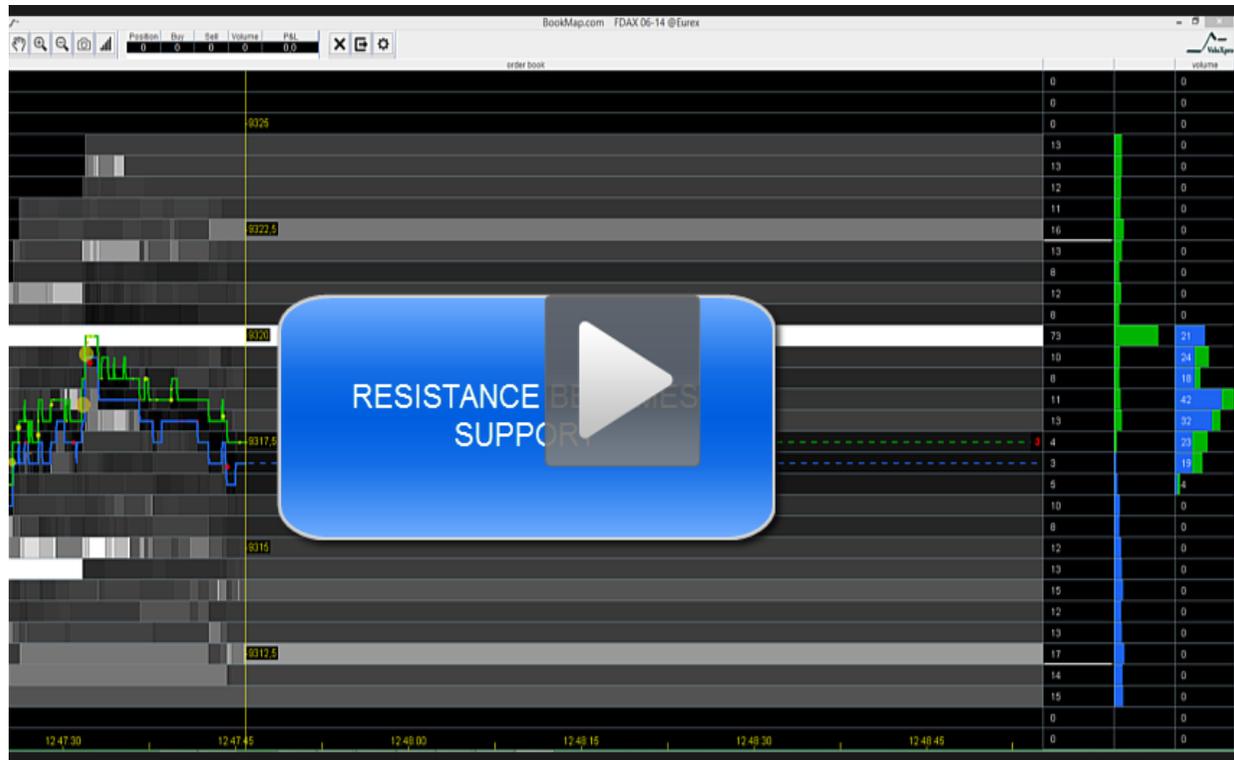


When this level is broken, and after the breakout, let's place a Buy/Sell Limit Order where there was before de Support /Resistance in order to jump into the trend.

[SEE FULL PICTURE HERE: http://screencast.com/t/nvxD9rbsXI](http://screencast.com/t/nvxD9rbsXI)



[SEE FULL VIDEO HERE: http://youtu.be/lag_DWbZkQI](http://youtu.be/lag_DWbZkQI) (2:30 min.)



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7- Set Up: MICRO FAKE BREAKOUT

It's said that most of the time price moves on a trading range. As this is a Fractal pattern, we can find it in the micro structure of the price. Using bookmap we can easily appreciate that just before a breakout of the range is done, the price use to make a fake breakout in the opposite direction.

In a range there is confusion, time is against traders patience. They don't want to see the price escaping without them, so at this move they use to react wrongly in a move like "jump on board". Just after they are in, the price moves in the opposite direction in order to do the right breakout.

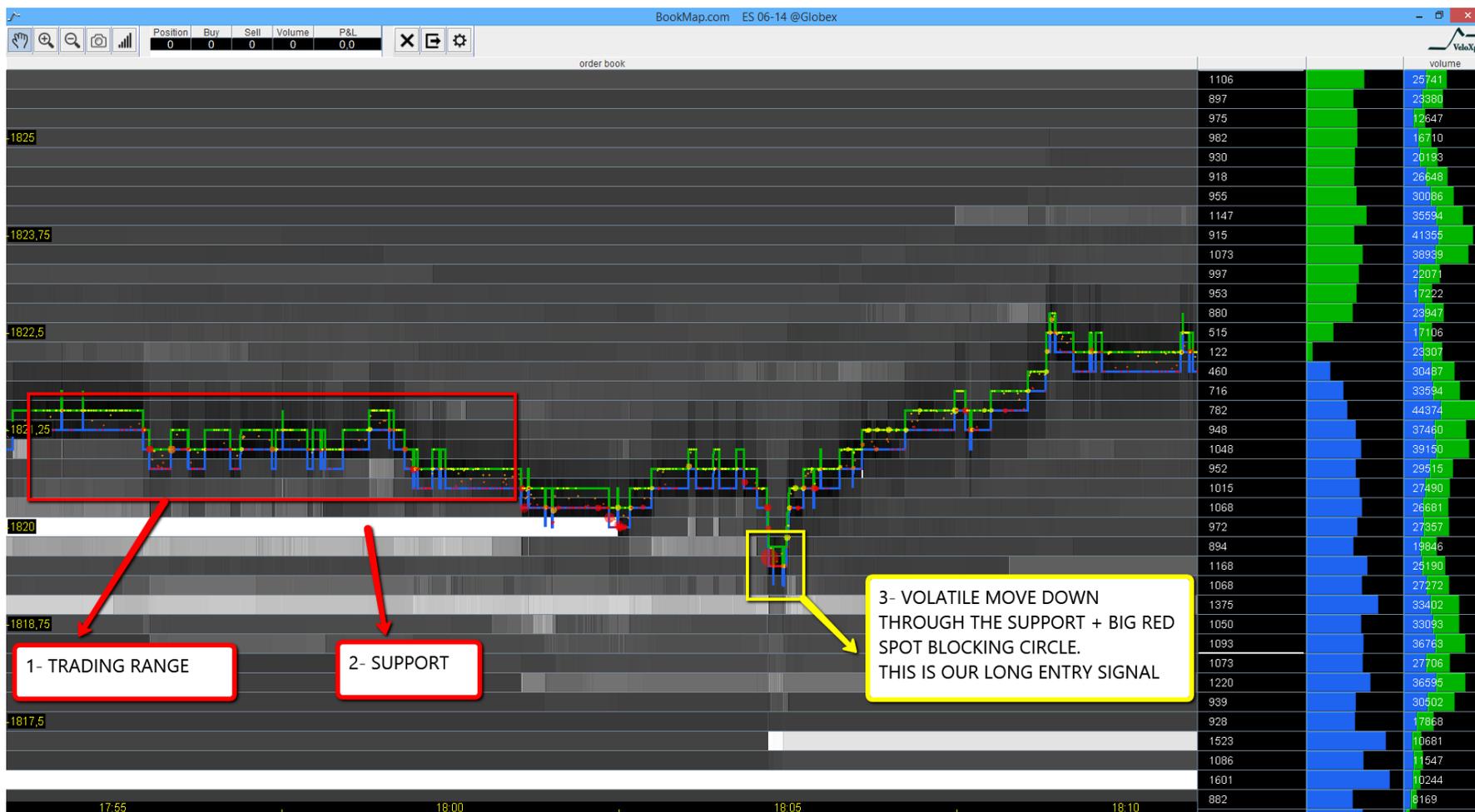
ANATOMY OF THE FAKE BREAKOUT

- After an acceleration the price begins to move in a trading range, bouncing to nowhere.
- Price can do this for quite a long time, so traders are confused after so many rotations.
- Suddenly, there is a big flow of volatile orders that moves the price away from the range and make the traders "jump on board". The price is collapsing.
- Those orders are blocked in Bookmap ("Red Big Circle").
- This is a Shake-Out, so the price is free to perform the real move up.

CASE- 7.1: ES, April, 14th.SEE FULL PICTURE HERE: <http://screencast.com/t/ZOj3fvcB>

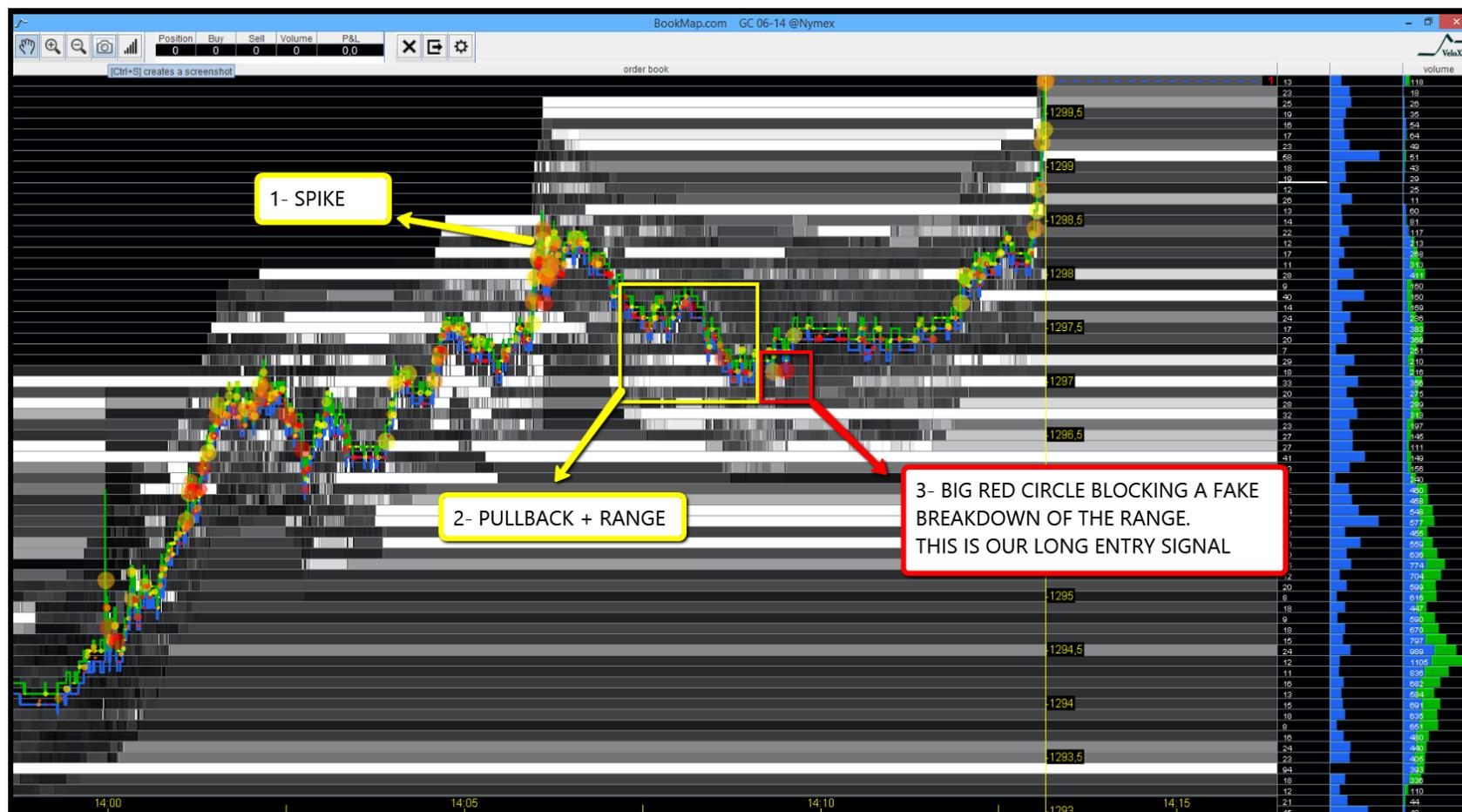
The price has been rising during all the morning, after while has enter in a Trading Range. We hope the price to keep on rising, so we are looking for a Long Entry Signal; but before doing that, suddenly, the price begins to fall down out of the range. This move made many traders mistaken believe that they had to "jump on board" on the down move.

Unexpectedly, Bookmap plot a big red circle that blocks that move down, and then, the price keeps on rising.



CASE- 7.2: GOLD-GC, April, 14th.SEE FULL PICTURE HERE: <http://screencast.com/t/3bD4xeAVuuR>

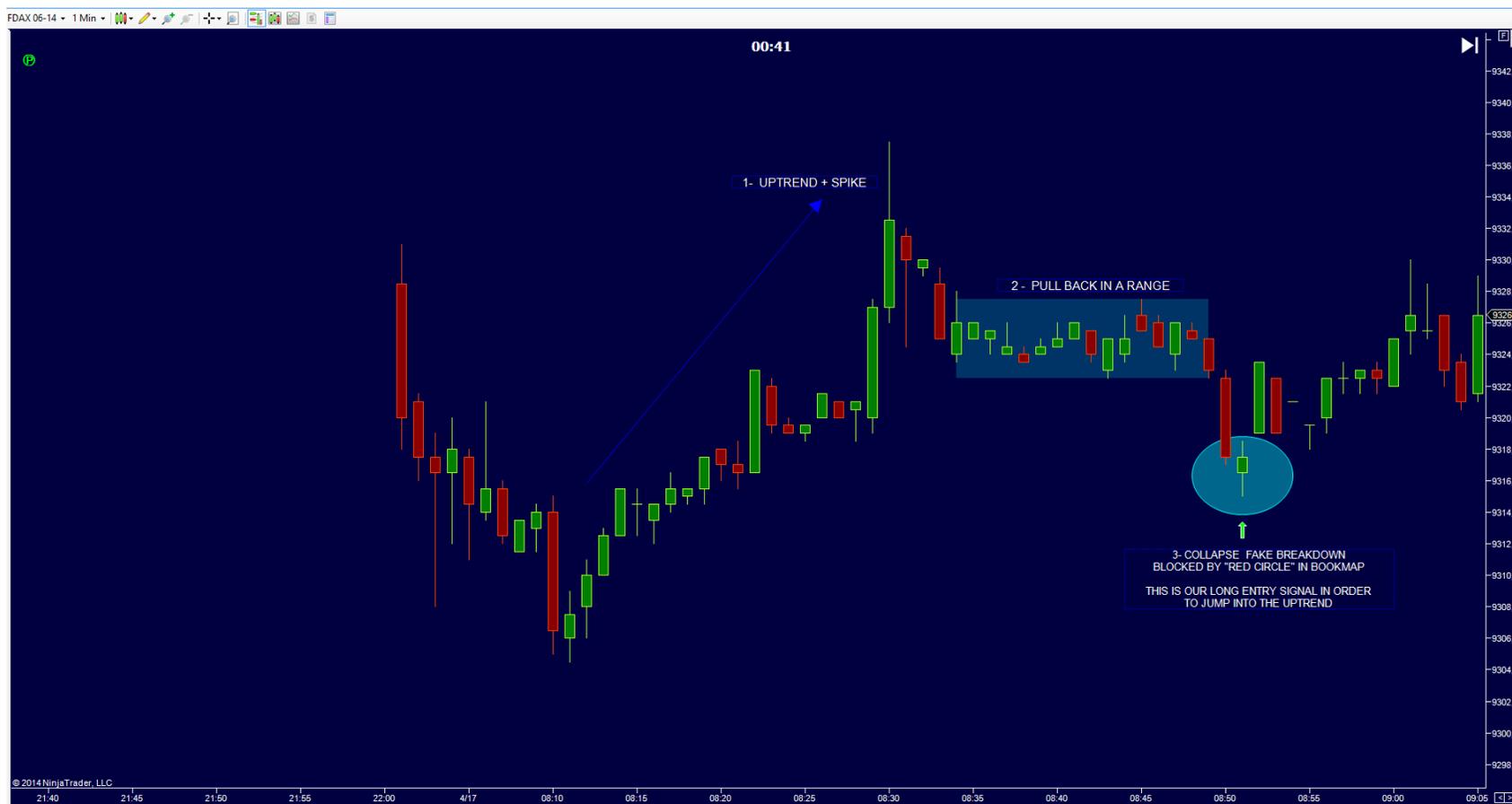
After a Spike, the price pullback into a trading range. At the end of the range and just before the price to Spike again, the price did a Micro-Breakdown of the mentioned range. This fake breakdown make many traders believe that price would do a major correction. But all this sellers were blocked as we can see in Bookmap as per the big red circle.



CASE- 7.2: FDAX, April, 17th.SEE FULL PICTURE HERE: <http://screencast.com/t/GzGGCjiMIDj>

Just after the open, the DAX was trying to close the Gap. It did a nice Spike, but the Gap was not close, so we looked for an opportunity to jump into the trend. After the Spike, the price left some Buyers trapped at the top, and then enter in Trading Range. Few minutes later the DAX Collapse Down breaking the Range. This not only made previous Longs cover their position, but also attract more sellers who wanted to participate in the reverse.

Using bookmap we saw a "Big Red Spot" over the Support that blocked this Fake Breakdown. This was our Long entry signal.



Let's see the same chart in Bookmap. Notice the how Bookmap gives us a perfect Buy Entry Signal:

SEE FULL PICTURE HERE: <http://screencast.com/t/hSe21B1DM1z>

