

The
No B.S.
Guide To
Order-Flow
Trading

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Today, I'm going to give you some inside details.
This is probably the single-most important topic in Forex trading:
Order-Flow Trading.

Order-Flow trading is the topic that completely changed my trading (for the better) and took me from being an inconsistent beginner to becoming a consistent, profitable trader.

Order-Flow trading is, without a doubt, the elusive holy grail of Forex.
This is not hyperbole!

Order-Flow trading is absolutely the toughest aspect of all trading to wrap your head around.
Once you "get it" everything changes.

You will begin to see the Forex market for what it really is:
A collection of groups buying and selling for their own intents and purposes:
Profit!

You will see:
The core focus of Order-Flow Trading is:
the **understanding of other traders.**

Have you noticed:
How everyone always focuses on price in Forex?

“What's price doing right now: rising or falling?”
“Is it about to burst through a support level?”
“Where is it on the price chart?”

Price is important, no doubt, but what is going on behind the scenes?
What is creating the price action everyone can see? This is even more important!

Simply put; and this might pee some people off,

You can't predict price using price; it's impossible!

A supply and demand zone won't make price reverse. It's just a box on the chart!
It's what traders, and especially the banks, DO at the zone that causes it to reverse!

The zone represents a point where they bought or sold.
So, the banks may decide to buy or sell again depending on their situation.

It's what the banks decide to do at the zone which determines whether price reverses or not.
It is NOT the zone itself.

SO: we should always think about the actions and decisions of other traders.

And that, ladies and gentlemen,
friends, traders and all you smart VIPs reading this,
is what Order-Flow trading is all about:

Predicting and anticipating the actions of other traders.

NOW, Order-Flow trading is a tough topic. You won't pick it up in a day, that's for sure.
It takes time, experience, and intuition to understand how different groups of traders think and make decisions.
And even then, you still won't "get it" fully. People are complicated, after all.

Today, in this monster guide,
I'm going to explain Order-Flow trading,
in understandable language,
so you can unlock its secrets and start using it in your trading.

Here's what we'll look at:

What Is Order-Flow trading And How Does It Work?
Why "Real" Order-Flow trading Is NOT Possible In Forex, And
Why that Doesn't Matter," and
The Role Of Liquidity In Order Flow, and
How Liquidity Creates The Movement We see.

We will be going deep into:

The 3 Order Types And Their Affect On Liquidity, and
How To Get The Order-Flow Mindset, and
How to Start Using Order Flow In Your Trading, and
Why Losing Traders Generate Most Price Movement and
How to Take Advantage.

Then we will see how the other side works:

How to gauge what the banks will or will not do
by understanding the banks' limitations, and
the reason Stop Hunts are so important in Order Flow and
How to predict Stop Hunts in advance.

This is a biggie!

I would suggest something warm in a cup, soft under your butt and open in your mind.

You are about to challenge:

your preconceived notions of the market,
your understanding of banking institutions and
your ability to hold several incongruous ideas in your mind at the same time.

So, are you ready to get into this guide?

Let's jump in and learn what **Order-Flow Trading** is all about...

What Is Order-Flow Trading

And How Does It Work?

Order-Flow trading is a method of analysis where,
rather than only concentrating on price, by price action,
you analyze the actions and decisions of other traders.

Think poker but apply it to Forex.

The idea is this:

Price moves as a result of traders buying and selling.

We all know that's obvious.

So, why limit yourself by concentrating only on price?

Price is NOT the cause!

Price is the result of the decisions made by traders in the market.

Price IS the RESULT!

Therefore; not only should we concentrate on, and analyze the price, we also need to look at other traders.
We should concentrate and analyze their actions: the taking of profits, closing of trades, placing of trades.
These actions are what create the price action we see in the first place.

In a nutshell, that is what Order-Flow trading is all about:

Anticipating and Predicting the actions of other traders.

Think of it like poker.

In poker, you win by anticipating the other players.

Are they bluffing?

Do they have a winning hand?

With Order-Flow trading, we do the same but ask different questions.

Where have traders placed their stops?

Who is currently making or losing money?

If price moves here, will it cause a large group of traders to liquidate (close)?

These actions, along with many more, create order flow which causes price to change.

So, if we anticipate what traders will do, we can predict price changes in advance.

This will give us a dominant edge in the market.

The Role Of Liquidity In Order Flow,

How Liquidity Creates The Movement We see.

All talk about order flow is only complete with the mentioning of liquidity.

It is one of the most important concepts.

Liquidity is a subject we must get a handle on to understand what Order-Flow trading is all about.

So, what is it then, smarty pants?

I hope you're sitting down; this could take some explaining.

Liquidity is a measure of how difficult it is to buy or sell a currency:

without impacting the price to a large degree.

So, remember how you always get told to trade the majors?

YEH, that's because of liquidity.

The majors are the most *liquid* currencies; because, they have the highest level of liquidity.

Buying and selling the majors is extremely easy, meaning they have a high level of liquidity.

Plenty of buyers and sellers are ready and willing to buy or sell at the prices you want.

Take the EUR/USD, for instance.

Finding a seller when buying EUR/USD is easy;

because, everyone, and their dog, is trading it!

The opposite is true for the minors.

The minors are highly *illiquid*.

The minors have a low level of liquidity.

Finding opposing buyers and sellers is tougher because not many people trade or use the currency.

Buyers and sellers exist, but not in substantial numbers.

This makes it difficult to buy and sell at the prices you desire.

SO, liquidity is determined by how many people (traders, businesses, etc) use the currency,

which is determined by how popular the currency is around the world.

For example:

EUR/USD is highly liquid (high liquidity).

It represents the USA and the EU, two of the planet's largest economies,

consisting of many countries, or states, that use the currency every day.

As a result, the pair is extremely liquid; buying and selling is a breeze.

Many people and businesses, both national and foreign, need the currency.
This creates an abundance of buyers and sellers to transact with one another.

With the minor pairs, this isn't the case.
USD/NOK is highly *illiquid*.

The NOK represents Norway, a tiny country, and Norway is the only place the currency is used.
Incidentally, This is a big part of why the spreads are so high.
This illiquidity makes it difficult to buy and sell because there are fewer buyers and sellers.

Liquidity And Order-Flow Trading

Generally, currencies are considered either liquid or illiquid.

However, ALL currencies fluctuate!

All currencies fluctuate between periods of low liquidity and high liquidity due to changes in the market regime.

Or, in other words:

There are times when it's easy to buy or sell (high liquidity);

There are times when it's difficult to buy/sell (low liquidity).

Key Fact:

All **price fluctuations**, big and small, ONLY take place when a **lack of liquidity exists**.

There is always an imbalance behind price movement,

on one side of the market, or the other:

either the sell-side or buy-side.

When buy-side liquidity falls, price rises.

The buy orders are too small to match sell orders.

When sell-side liquidity falls, price falls.

The sell orders are too small to match buy orders.

Liquidity is the ability to buy or sell without causing a large price change.

A lack of liquidity means price MUST move in the opposite direction.

More opposing orders are required, but they don't exist.

For example:

When the price falls, the sellers are selling too much for the buyers to handle.

So price falls until more buy orders come in and balance out the sellers.

Everybody loves a bargain.

Sound confusing?
Here a quick example:

Johan's Journey

Let's say little Johan wants to buy one-hundred lots of EUR/USD:

But, there's a problem!

There are only twenty lots currently being sold, resulting in a lack of sell-side liquidity.

Traders are not selling enough for the whole buy order (one-hundred lots) to be placed.

If Johan buys now, what do you think will happen?

Does price start rising?

Stay where it is?

Or begin falling?

If you said "price starts rising"... *you are right, congratulations!*

Price will begin rising. It has to.

Johan's one-hundred lots **MUST** be filled.

Sellers need to come in and take the other side.

SO, price will rise until those remaining sellers are found.

Everybody loves to make money!

Price won't stop until there are no more orders to fill!

His first twenty contracts, they aren't a problem.

Twenty lots are being sold at the current price, they get matched with his twenty lots. Johan is able to buy twenty lots at the current price, the price he wants; because, enough lots are being sold (twenty).

Therefore, they get matched together.

But, what about the remaining eighty lots?

Well, these get placed at ever-increasing prices.

As price rises, more sellers come in,
fulfilling the eighty lots, in chunks,
until the entire one-hundred-lot order is filled,
at which point the market balances out,
or reverses if the sell orders become bigger than the buys.

In Order-Flow trading, this process is called **slippage**, and it's behind almost ALL movement in the market.

See for yourself...



Sharp rises:

These happen when buy orders enter the market that are significantly bigger than the sell orders coming into the market.
(The rise is NOT necessarily from traders placing trades)

Being much larger means the sell orders can't match the buy orders, resulting in slippage.
Price must rise to find more sellers (and by extension sell orders) to match with the buys.

Then, once enough sellers and sell orders are found, the market will balance out.
Price will consolidate or stall, or it may even reverse if the sells become bigger than the buys.

How far will price rise?

The answer to that question is based on:
The size of the buy orders coming in, and
The size of the sell orders that come in as price rises.

No sellers = no sell orders to match with the buy orders, causing a sudden rise.
If fewer traders believe price should move lower, only a few sell orders will come in.
This will lead to a sharp rise in price.
The buyers are trying to entice sellers to part with their money by raising the price.

This is also the reason price drops like a rock during crashes and other large-scale events.
Everything is bad; no-one wants to buy.
The sellers are trying to entice buyers to part with their money by lowering the price.

No buyers = no buy orders to match with the sell orders, causing a crash.

We can extend this idea:

When price rises and herds of sellers believe price should move lower, such as during a strong downtrend, the price will rise slowly, in a gradual fashion.

Piles of sell orders are coming in due to the downtrend. This creates liquidity. More liquidity means it takes bigger buy orders to overwhelm the sell orders and push price higher. So, it is slow going.

This is where strong Supply & Demand zones form!
And it's not after a sharp move away, *like the guru's say*.

This **STRONG ZONE** happens after a prolonged preceding move!
It takes more force to push price the other way because everyone's following the trend.

If price is falling for a prolonged period of time before a demand zone is formed, most traders are selling. And they will want to sell even as price rises. The sellers will view the rise as a chance to get into the down-move at a better price. This means it takes much bigger piles of buy orders to make price rise. This is what creates a strong demand zone. A strong Demand Zone has to overwhelm the down trend.

Does this make sense?
Good, take a break.

Understanding The 3 Order Types

And Their Affect On Liquidity:

Market, Limit, Stop

Liquidity is determined by changes in the market.

What causes changes in liquidity?

Naturally, it is due to **traders buying and selling**.

Think about it again; go one step further.

How do traders interact with the market?

How do they buy and sell?

The answer:

Orders: Three of them to be precise.

See, it's not the trades which cause changes in liquidity via their actions.

It's the **types of orders** they use to conduct those actions.

Markets orders, limit orders, and stop orders (which are really limit orders):

It is the orders which affect liquidity in different ways.

Orders affect the market, either by adding or removing liquidity from one side of the market.

This leads to low liquidity or high liquidity conditions.

The resulting liquidity expresses in:

sharp price changes or

slow, gradual price changes.

Let's look at the three orders and their effect on liquidity.

Starting with... Market Orders:

Market Orders (Remove Liquidity)

For most of us, market orders are the go-to order type.

They allow you to enter the market instantly,
at, or close to, the current price,
which makes them insanely flexible.

But get this:

Market orders REMOVE liquidity from one side of the market.

They make it more difficult to buy or sell.

When you use a market order, what are you doing?

What does the order enable you to do?

A market order will either buy or sell almost instantly at, or near, the current market price.

IN SHORT:

You're saying: "I want to buy, or sell, right **NOW**; find me a buyer, or a seller **NOW**!"

This is regardless of whether one is available."

That demand, "find me a buyer, or seller, NOW,"

REMOVES liquidity from the corresponding, opposite side of the market.

You are demanding an opposing order, which puts more pressure on the other side,
increasing the probability price will move in that direction.

There are now fewer orders in the market.

If sellers are available (assuming you are buying) and those sellers are selling more than your order size,
your order will execute. Your currency will get bought, NOW.

And that goes for whether you bought via placing a trade, taking a profit, or closing a trade.

All of these actions require sellers, remember!

Now, what if sellers are available but selling LESS than your market order size;

What happens then?

Simple:

Your trade will only partially execute.

In other words, you will have slippage.

Price will then rise until more sell orders are found.

Your order will spread out and be placed at ever-increasing prices.

This is just like what happened with Johan in our example.
He tried to buy more than the sellers were selling, A TON more.

The result?
A sharp rise.

Nobody wanted to sell, so price jumped higher,
until sellers found the price high enough to make them decide to sell.

Limit Orders (Add Liquidity)

Market orders might be the go-to order type for most traders; but, limit orders, or pending orders, are also popular and affect the market in a unique way, different than market orders.

As you know, limit orders allow you to buy or sell once the market reaches a certain price.

You place the order and wait for price to reach the trigger price.
If it does, your order executes, and you buy, or sell.

Simple stuff, but here is where it gets interesting:

A limit order *guarantees* a buyer or seller exists at a price.
For as long as the order exists without being triggered,
the buyer or seller is ready and willing to buy or sell at that price.

That is what the limit order represents;
A buyer or seller is waiting for an opposing order to match with their own.
At that matching point both orders execute.

Why is this important?
Because it means unlike market orders, **limit orders ADD liquidity to the market.**
A limit order makes it easier for traders to buy or sell, not harder.

If an order to buy, or sell, exists at a price,
someone is automatically ready to buy, or sell, once that price is reached.
The order can be matched with opposing orders, adding liquidity to the market.

NOW, for us, this isn't a big deal.
We don't buy or sell in large quantities.
Liquidity is not an issue.
Our puny, little orders can easily be matched due to their tiny size.

For large-cap traders, however, liquidity is a MAJOR problem.
Their buy and sell orders are so massive that finding enough opposing orders is next to impossible.
So, they will often push price to points where a large bunch of limit orders have built up.
This gets more of their positions placed.

Take, for example, big round numbers, prices ending in 00, 000, 0000.
Many limit orders accumulate at these prices due to their significance in the market.

The banks, of course, know this and push price to BRNs (big round numbers)
so they can purposely trigger the limit orders and help place their own trades.

This is why so many big reversals originate at, or close to, big round number prices.
Open any chart, and you will see this yourself.
It's clear as day!

SO:

Limit orders ADD liquidity to the market.

They make it easier for traders to buy, or sell, not harder.

Keep this in mind, and always try to figure out where stacks of limit orders may have built up.

Big round numbers are the most obvious and well-known location.
Also consider specific technical points, like major support and resistance levels.
Some singular prices have a lot of significance, like the 1.300 level on CHF back in the day, and
are also a magnet for limit orders, making them key points to monitor.

Stop Orders (Add & Remove Liquidity)

Of the three orders, stop orders are probably the most interesting type.

Stop Orders act as a limit order (when placed) and
a market order (when executed), meaning:

They both **add and remove liquidity** from the market.

In trading, the characteristic of adding and removing liquidity has two major implications.

#1 Implication of Stop Orders:

Triggered stops can cause sharp price moves: (*aka stop cascades*).

Since a stop becomes a market order once it is triggered,
it removes liquidity from one side of the market.

The person holding the market order is demanding an opposing buyer/seller to exit.

When this happens in large enough numbers, it can often result in a stop cascade.

A stop cascade is defined as:
a sharp price move in the opposing direction.



You will usually see this where a collection of prominent swing highs or lows appear. These are points where traders typically place their stops. The swings form near one another and get broken, as you see above.

Price breached the first low, triggering the stop orders.

That caused a mini stop cascade, which pushed price below the next low.

Another stop cascade then began,
resulting in price punching below the last low,
triggering another cascade.

Together, each mini cascade sets off the next cascade.

The cumulative result is a sharp drop below all the lows. This cascade effect takes place in a matter of minutes.

So, if you see a bunch of swing highs or lows develop close to one another, be on guard. A stop cascade could be in the works.

#2 Implication of Stop Orders:

Stop Hunts:

The Banks Use Stops To Help Place Their Own Positions

Remember what I said about limit orders?

The banks push price to points where limit orders accumulate, like big round numbers, to help place their own orders?

Well, stop orders work EXACTLY the same way.

The banks purposely trigger build-ups of stops to help place their own orders.

Since they become limit orders once placed, the banks often target bundles of stops.

They can use the limit orders to match with their own orders.

In Forex, this practice has a name:

Stop hunts.

And you have probably seen or been on the receiving end of a stop hunt without realizing.

Tell me...

How many times have you seen price spike a low or high and take you out of your trade?

Annoying as hell, right?

The reason that happened, probably, was because the banks purposely spiked the stops, because those stops built up around the low or high, to get their own orders executed.

The large-cap traders decided to run the stops to trigger those orders, and use them for their own devices, causing you to lose in the process.

Stop hunts are a big focus in Order-Flow trading.

Later, I'll show you how to predict when and where they might occur so you can use them yourself.

Quick Recap:

Before we move on, here is a review of the key points from this section.
Write these down and go over them again, and again
to really get a handle on what order flow trading is all about.

“Repimutishun is the key to Edumucashun!”

Order-Flow Trading Is Basically Poker Applied To Forex

At its core, order flow trading is about predicting the actions of other traders.
It’s just like a poker table.

Everybody analyzes the market through the same lens (price charts),
but rather than focus on price, like most traders,
we go one step further and try to determine the actions of other traders.

It is **PEOPLE** who move markets.

Price does not move on its own.

Therefore:

We should concentrate on understanding how other traders think and make decisions.
If we do that, we can predict what price will do in advance.

We will know what to expect long before any ‘price-based’ traders realize something is happening.
This gives us a clear advantage in trading the market.

But how do we get a sense of what other traders will do?
What method can we use?

FIRST:

We figure out the underlying regime of the market.
This is the understanding of liquidity and how orders work.
This understanding tells us HOW other traders’ actions will affect price.

THEN:

We ask ourselves questions about other traders.
This forces us to think about their actions and what affect they will have on the market.

We ask questions like:

How many traders are losing right now?

What will happen when they close?

Where have traders placed their stop-loss orders?

What action can the banks take to harvest the current crop of orders?

These actions have a big effect which shows up in the market.

As Order-Flow traders, it is up to us to determine when these effects will take place and what affect they will have on the moves the market will make.

We can use this information to aid us in our own trading.

How are you doing so far?

It's time for another break.

How to Get into the Order-Flow Mindset

Start using Order Flow in Your Trading

Order-Flow trading takes a lot of lateral thinking.

Order Flow uses more intuition than something like price-action trading.

Order Flow forces you to draw conclusions from data which cannot be confirmed or checked in any way.

Order Flow is all about recognizing the actions of other traders!

We're not waiting for indicators to crossover or send a signal.

We're not watching the news for "muppet-speak journalists."

We are watching what other TRADERS are doing.

We are watching the same things the banks are watching.

We want to know when the next crop of retail traders is ready to be harvested.

SO:

How do you start thinking like an Order-Flow trader?

What do you need to do?

Well, you need to start thinking about the sheep.

Stay awake here, or is it "awoke?"

Yes, **SHEEP!**

Fluffy, plump, tender SHEEP!

Ready to be harvested!

The sheep, the herd, the little fish, the noobs:

Call them whatever you want; they're all the same: lowly, inexperienced retail traders.

The sheep are the emotional traders, the traders who jump into trades without much thought.

They make rash decisions rather than using logical analysis.

Reactionary Traders are SHEEP!

They react to news, crossing lines and pretty pictures on their charts.

In Order-Flow trading, the sheep are the key for two important reasons:

1. The sheepish orders drive most of the movement we see:
specifically, from closing losing trades.
2. The banks, the real BIG, BAD WOLVES, use (and need) the sheep for their own actions:
placing trades, taking profits, etc.

Take the rise in the following chart, for example; what caused price to rise here?



You might think “traders are buying”, and you would be right: traders are buying:
But **why**?

Are they:

Buying to place buy trades?

Closing losing sell trades?

Taking profits off open longs?

The answer: **CLOSING LOSING SELL TRADES.**

One of the biggest logic errors traders make in Forex, which I made myself for a long time, is assuming all price movement is generated via traders buying or selling to place trades. It is NOT!!

Any action that puts orders into the market causes price movement.

In reality: most price movement comes from traders **CLOSING LOSING TRADES!**

Price movement is not generally caused by placing trades, *although that does cause some movement.* Price movement is mostly caused by traders closing out losing positions.

How do you close a losing trade?
What must you do?

A losing trader must take the opposite action, e.g., to close a sell trade, you must buy back what you bought.
And what are most retail traders (sheep) doing in Forex?
That's right: THEY'RE LOSING!!

So, that's one of the key areas on which to focus in Order-Flow trading:
When will losing traders close their trades?

But it's not the only area to analyze, *far from it*.
There are multiple aspects to Order-Flow trading,
all of which you need to consider
to get into the **Order-Flow mindset**.

We haven't got time to discuss them all today.
This information is to be found throughout my books.
The books will help immensely by filling in any blanks which may occur in your understanding.

Here are the **three key areas** on which to focus when viewing the market in terms of Order Flow:

Why Losing Traders Generate Most Price Movement And How To Take The Advantage

A big part of Order-Flow trading is thinking about:

1. **who** constitutes a force in the market,
2. **what** group could potentially cause a price change through their actions, and
3. **when** are these actions likely to take place.

Get a good grasp on these points and...
You can make some BIG money!

In Forex, multiple forces exist:
the banks,
the sheep, and
other large-cap traders.

The actions of these forces almost always depend on the actions of one, or both, of the other groups.
They can't function without each other.

It's a beautiful symbiotic relationship!

For example...

If the banks want to take profits off a buy trade, they need to sell, so they need the sheep to be buying.

The banks need to sell what they bought, which they can only do if others are buying.

This is why price retraces or pauses after most sharp rises/declines.

The banks are taking profits using the orders coming in from the sheep who are late to the party.

When the banks buy, the sheep need to be selling.

When the banks sell, the sheep need to be buying.

Now, the big corollary, the inescapable conclusion:

We need the banks to make a profit.

We can't move the market!

The only way for us to profit is to piggy-back on the bank's trades by getting the direction right.

This is the reason it is so important to learn how the banks operate.

Naturally, the banks are the biggest force in the market.

They have the deepest pockets, after all.

BUT, retail traders, sheep, by losing their trades, are also a major force.

These sheep can cause SIGNIFICANT price movement when they close their positions.

In fact, this is what creates much of the movement we see.

The sheep get pushed into a corner

where they cannot hold their losing positions any longer and

they must liquidate their trades at a loss.

They do this by using the opposite action:

A losing short trader must buy back what they sold: putting a buy order into the market.

A losing long trader must sell what they bought: putting a sell order into the market.

So, whenever someone closes a position, the opposing order enters the market.

A buyer exits and a sell gets put in.

Imagine the effect on price action when tens of thousands close at similar times!

Price goes NUTS!!

In fact, it usually looks a lot like the following...

Euro / U.S. Dollar · 1h · OANDA

1.21481 1.0 1.21491



Almost ALL the movement during this rise is from losing short traders closing their trades. They sold at the bottom of the last down-move, thinking the trend would continue. When price rises, their trades go underwater; they start closing en-masse to escape. AND, the farther price rises, the more trades they close as their losses increase.

So, always ask yourself:

Where are the losing traders?

How many will lose if price rises/falls?

And, try to understand what will happen to price when they close.

If price SHOOTS higher, short traders will close sooner.

This is kind of like the frog being dropped into a pot of boiling water; he will jump out immediately! The sheep will panic and close their losing positions, which increases the rate the price rises, and creates even more panic liquidation.

It's a vicious cycle!

That's what happened in the example above;

price jumped higher, spooking the losers into closing quickly.

The opposite is also true:

If price CRAWLS higher, fewer shorts will close.

The gradual increase will give them a sense that price could still move back in their expected direction, so they stay in longer.

This is kind of like the frog being gently set into a pot of water and THEN turning on the heat slowly; froggy will slowly simmer to death.

Try to factor in how many traders could lose.

This knowledge will give you a sense of
the type of movement you will see if price moves in the other direction.
If price has been in a long downtrend, and
the market is extremely bearish, it makes sense that most traders are short.

So, what will happen if price reverses?
All those short traders will close, potentially generating a large reversal:
Longer downtrend = more traders short = bigger reversal.

You often see this when price reverses sharply after trending for a long time.
The sharp reversal is from all the losing traders closing their losing trades.

How To Gauge What The Banks Will Or Won't Do

By Understanding Their Limitations

The banks rely on other traders, the sheep, to carry out their actions:
placing trades, taking profits, closing trades.

Whatever action it is, doesn't matter.

The banks ALWAYS require the sheep to be heavily on the opposite side of the market AT THE SAME TIME,
in quantities large enough for the banks to act.

Only a few sheep selling?
The banks can't place buy trades or take profits off their sell trades;
there are not enough sell orders.

Only a few sheep buying?
The banks can't place sell trades or take profits off their buy trades;
there are not enough sheep buying.

With this in mind, one of the key goals of Order-Flow trading is getting a handle on what action the banks can
initiate with the current crop of orders, and what impact that action will have on the market.

So ask yourself:
Can the banks place trades, take profits, or close trades; and if so, in what amount?

Again, to do this, we think about the sheep.
How many sheep are buying or selling right now?

Since the banks depend on the sheep to operate, understanding how the sheep think and make decisions helps us understand what the banks are going to do in advance.

Basically, this is what order flow is all about!

Then, we use that information to our advantage in placing trades and managing our positions.

Here's a quick example...



On AUD/JPY, price has risen strongly.
The market is looking VERY bullish right now.
Needless to say, most sheep are currently long.

The recent sharp rise coupled with price rising beforehand leads the sheep to think price will keep rising forever.
“It’s going to the moon,” they tell themselves.

With so many sheep buying,
we know the banks have a STACK of buy orders available.

What will the banks do with all-of-these buy orders?

Well, think about it; only **3 actions require buyers**:

1. **Taking profits** off long trades.

The banks must sell what they have bought, which requires buyers,

2. **Closing open long trades**,

for the same reasons as above,

3. Or **placing sell trades**,

again, you need buyers to sell.

NOW, we don't know which of those actions it will be.

And really, it's impossible to know for sure.

However, we can look at the market, assess the probability and come up with a good insight.



Look at the move again.

When was the last substantial retracement or consolidation?

Price hasn't retraced or consolidated in almost 6 days.

That's a lifetime in market terms!!

And the market has moved over three-hundred pips too!

The banks must be getting sweaty.

Imagine sitting on a three-hundred-pip profit, and trading at their size!!

All this points to the one conclusion:

The banks may soon take profits.

The banks might take profits off their trades,
resulting in a retracement or consolidation.
They can't hold them open forever;
they need to secure that three-hundred-pip profit!

So, that's

Scenario 1: profit taking!

The banks take profits, and we see a retracement or consolidation.

But what about

Scenario 2?

The banks place sell trades to make price reverse?
Isn't that a possible outcome?
FOR SURE!

The banks could easily decide to sell by using the current crop of orders.
Maybe that's why they haven't taken profits?

However, and this is super important to know,
if the banks decide to sell,
we'll see price base for a while and
form multiple swing highs before reversing.

Here's why.

The banks can never place all their trades in one go!
They never have enough orders!

So, to compensate, they split them up by placing them at similar prices.

On a chart, that process looks like:
multiple swing highs/lows
forming at similar prices.

This appears in the following example:



Each low is a piece of the bank's overall trade.

The banks split the trade into small chunks to lower the orders needed.

The swings form at similar prices;

because, the bank attempts to replicate placing one trade at a single price.

This is their ideal scenario if enough orders are available.

NOW, we don't know if the banks will place sell trades and make price reverse.

What we DO know is:

if they decide to sell,

we WILL SEE multiple highs form at similar prices.

That is the only way they can get large trades placed into the market.

Scenario 3:

The banks close trades.

This is the same as scenario 1.

Same result for the same reason.

The banks closing trades would result in a retracement or consolidation.

So we treat profit taking & closing trades the same.

It's impossible to tell which is really going on, and even so, the result would be identical.

For that reason, we consider them the same.

Let's flip back to the example, see who was right...



Did anyone say taking profits?

In this case, price reversed from the banks taking profits off their buy trades!

How do we know?

Because, price eventually reversed, and the uptrend resumed.



Taking profits allowed the banks to take profits (Duh); but, also shake out the late longs of the sheep.

This shake-out caused a large decline,

which the banks used to place more buy trades at a better price and re-position themselves for the continuation of the up-trend.

Why Stop Hunts Are So Important In Order Flow

How To Predict Them In Advance

Earlier, I explained how stop losses are both limit orders AND market orders.
This depends on whether they've been placed (limit order) or executed (market order).

As limit orders, they add liquidity to the market.

A stop guarantees someone is ready and willing to transact at a specific price: the stop price.

The order will be matched with an opposing buy or sell and a trader will get their order placed at that price.

Getting orders placed isn't a big problem for us retail traders.

"Our puny trades are easy to match, be they sells or buys."

However, for the banks and other large-cap traders, placing orders is a MAJOR issue.

Their massive orders require tens of thousands of opposing orders so they can execute those orders.

This makes it extremely tough to place trades, close trades, or take profits.

There are never enough orders available!

To avoid this, **the banks often push price into a large build-up of orders.**

The banks use these stacks of orders to place their own orders at competitive prices.

Big round numbers are one such location.

However, they also use the significant build-up of stop orders: being limit orders.

These built-up orders act as a "counterparty," executing the bank's orders at the stop price.

Ever place your stop below a swing low only to see price spike it before reversing?

YEH - that wasn't random... *it was the banks.*

The banks know traders like to place their stops below swing lows and highs.

It's written in every trading book!

So, they use their power to push price to these locations and purposely spike the stops to place their own orders.

This practice has its own name: ***stop hunting***.

You probably don't need me to explain how annoying it is to be caught in a stop hunt. Chances are, you've experienced it dozens of times yourself.

But, here's the thing:

if you understand order flow,
you can actually predict stop hunts,
and piggy-back on the movement they generate!

Crazy, right?

So, how do we find stop orders?

What do we need to do?

Again, we need to think about those poor, well-intentioned, highly-guru'ed, domesticated 'sheep!'

When you first started trading, where did you get told to always place your stop?

My guess is you were repeatedly told the same thing I was told;

"place your stop loss above a recent swing high or below a recent swing low."

Am I right?

So, where do you think the sheep, the lowly retail traders, tend to place their stops?

Yep, you guessed it: ABOVE prominent swing highs, and
BELOW obvious swing lows.

See for yourself...



The two swing lows and one swing high in this segment of price action got spiked before price moved in the opposite direction!

Coincidence?

NO, it was the banks!

The banks spiked the stops, taking out the retail traders (including me, on the third). This was done so the banks could place their own orders and trigger each reversal.

I guess the question now is,

How do you predict this in advance?

FIRST:

Only monitor the recent swing lows or highs.

Forget old highs/lows; they won't work.

Stops only accumulate at recent highs/lows.

Once price moves away, traders either lose or move their stops to more recent swing lows or highs to lock in profits.

SECOND:

Only watch OBVIOUS highs/lows AFTER price bottoms or tops out.

A big one this one...

The banks will only initiate a stop run if an enormous number of stops build up below a swing low or above a swing high.

For this to happen, two conditions must be met:

The low/high must be noticeable and stand out from the surrounding Price Action.

Price must bottom or top out and consolidate for a while near the low/high.

Again, this comes back to the central core of Order-Flow trading:

Understanding how other traders think and make decisions.

If price bottoms out after a large down-move and a noticeable swing low forms, a TON of stops will accumulate from reversal traders.

They will think price is reversing and jump in long.

And where will they place their stops?

That's right: at the most obvious swing low.

That's where all the books, gurus, and YouTube experts tell them it's safe.

Then the banks will come in,

Execute their orders,

And price will reverse.

You can watch the Price Action that appears during the stop run to enter your trade
by using the new low created by the stop run as the point to place your own stop loss.

And now we're as sneaky as the banks!

The extension of this idea is also true:

If the low or high isn't clear, chances are you won't see a stop run.
e.g. it's a tiny wick, and other similar length wicks are nearby,
It's not worth it for the banks.

If only a few traders have put their stops below the low when the Price Action is confusing and
multiple lows (or highs) form, it's not worth it for the banks.

The result of inconclusive price action is a small build-up of orders.
There are not enough orders for the banks to use for their own purposes.

So, to figure out when and where a stop run could take place:

- 1. Only look at recent swing lows and highs;**
stops don't build at old highs/lows.
- 2. Find the noticeable lows/highs:**
aka the ones that stick out like a sore thumb
- 3. Expect a spike after price has bottomed or topped out:**
i.e consolidated near the swing for a while.

Once price breaches the swing and triggers the stops,
keep your eye out for price action signals:
Engulfing candles, big pin bars, sharp moves.
That is when **WE** get into the reversal.

It's not an easy setup to trade.
When you do get it right you can get into some gigantic reversals.

At this point you will be known as:
"Your Royal Highness of Risk/Reward Ratios."
And you can have your own YouTube channel.

Summary

Phew, that was some heavy stuff, wasn't it?

We might need a drink or two after that one.

This is why institutional traders don't trade after lunch.

I hope this has given you an insight into what Order-Flow trading is and how it works.

Order Flow is a core component of how I trade and view the market.

Obviously, it's not the easiest thing to take in, what with its focus on orders, liquidity, and how traders think. However, stick at it and start asking questions.

Where have traders placed stops?

What are the losers doing?

When will they liquidate?

How can the banks act given the current orders/situation?

You'll soon get a real handle on the Order Flow and how to use it in a practical sense.

If you want to supercharge your order-flow education, consider my [VIP membership](#).

Most of the key order-flow concepts I learned, and now use, are discussed in detail throughout all of my books and VIP posts. These ideas will open up a new avenue into the many ways order flow can be used in your trading.

Concepts like understanding the banks, how the market works and how traders think will improve your existing strategies. Or, you can use Order Flow as standalone a trading strategy, like hunting for stop hunts.

Many of my free articles are under-pinned with my understanding of order flow, so check them out. You will want to start learning how to use order flow in your own trading.

Will it replace your current strategy?

Not necessarily, but it will enhance your understanding.

You will understand WHY great looking pins often fail.

You will see why strong supply and demand zones are defined by the move prior to their formation.

It is all due to Order Flow and how other traders (mainly the banks) trade and make decisions.

This is why, to me, Order Flow is the Holy Grail everyone claims to need, to have, but never quite grasp. Order Flow answers the questions you always ask.

You will improve your trading with Order Flow!

PAN