

How to Find Plays

This section describes how to find any potential plays. Once you have finished building potential plays you will cut them down using patterns and levels discussed later. Remember a scanner is a tool and does not have human discretion. Every ticker showing up a scan is not a good or even decent potential play.

Night Before

Inside day

This is one of my favorite ways of creating a list of stocks in strong consolidation and probably the apex of a squeeze. An inside bar is a setup on the daily where the current days high and low is within the previous days high and low.

These are normally good triangle patterns or squeezes on the hourly chart which leads to large moves possibly the next day.

How to find these plays?

You can either manually check the dailys of your master watchlist.

Or you scan using the scanner below through your master watchlist.

<http://tos.mx/2RMNURZ>

What does an Inside day ideally look like before a the move?



Inside Day Possible Trade

NVDA - Daily Night of 8/6/2020



NVDA - Intraday 8/7/2020 15m

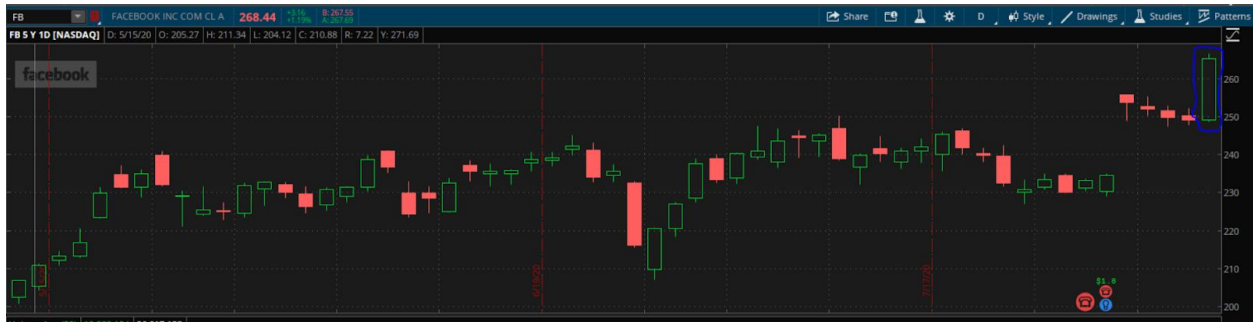


Although the breakout didn't hold this illustrates how inside days are large consolidation periods which lead to decent moves.

Continuation

These are plays where the previous day the stock ran extremely strong or dumped extremely weak and closed near or at the previous high/low. These plays can lead to some of the most consistent movers compared to normal range breakouts. The previous day should be a strong move or a breakout of a key range.

What does a potential next day continuation runner look like?



How do you find these plays the previous night?

The best way is to sort your watchlist in terms of percent gainers and losers. Check all gainers above 3% and all losers below 3% for possible setups. Sort using what is indicated below.

Symbol	Last	Net Chng	Bid	Ask	%Ch...
ESLR	72.93	+8.47	73.06	73.19	+13.14%
JPS	156.90	+11.43	156.61	157...	+7.86%
FDX	183.53	+11.29	180.28	183...	+6.55%
WFC	25.07	+83	25.05	25.08	+3.42%
MGM	19.03	+57	18.95	19.22	+3.09%
TTD	493.20	+12.45	491.00	493...	+2.59%
BAC	26.11	+64	26.08	26.11	+2.51%
C	52.12	+1.23	52.12	52.23	+2.42%
PM	99.38	+2.14	99.22	99.44	+2.20%
WM	112.72	+2.35	110.80	113...	+2.13%
TGT	131.75	+2.74	131.87	131...	+2.12%
GS	208.27	+4.02	207.81	208...	+1.97%
RCL	52.10	+1.00	52.00	52.10	+1.96%
MS	50.35	+90	50.30	50.35	+1.82%
NVAX	170.29	+2.79	171.00	171...	+1.67%
ROKU	156.39	+2.52	156.50	156...	+1.64%
NKE	101.86	+1.41	101.65	101...	+1.40%
YR	82.82	+1.11	82.50	83.08	+1.36%
FT	58.53	+70	58.43	58.55	+1.31%

Continuation Trade Example

FB 8/7/2020 Daily



Continuation of 8/6 strong move and rally into mid day.
 FB 8/7/2020 15m



The first day is the initial run up. This is the blue rectangle. The second run and continuation which is circled in red. These trades often can be extended so you must be careful.

Premarket

Gappers

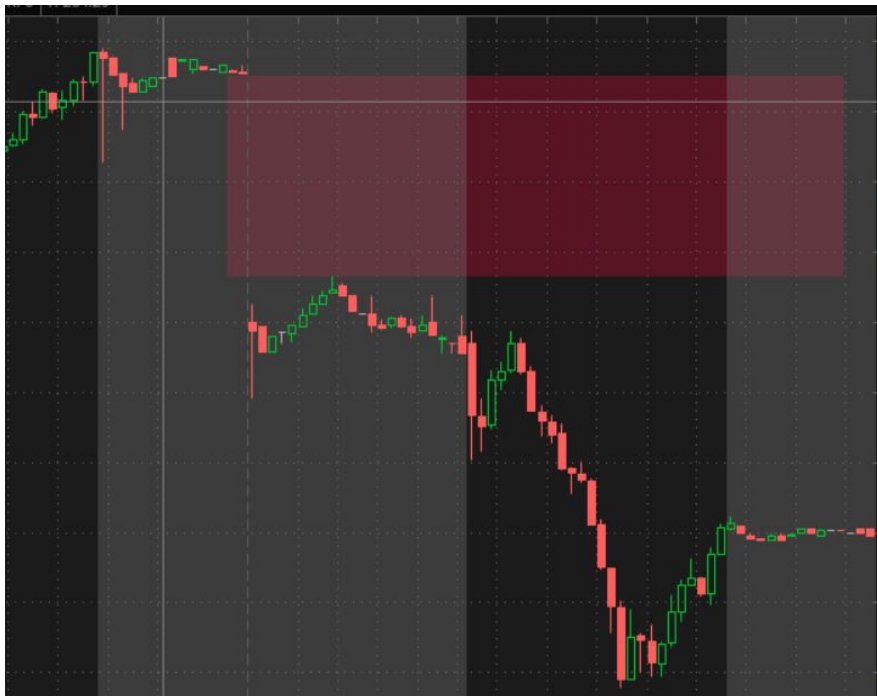
Gappers are stocks that have moved up or down more than at least 2% between the previous close and next open. These stocks often have strong catalysts and potential shock value causing squeezes and strong moves.

What a gapper looks like?

Daily chart of Gapper



15 m of a Gapper



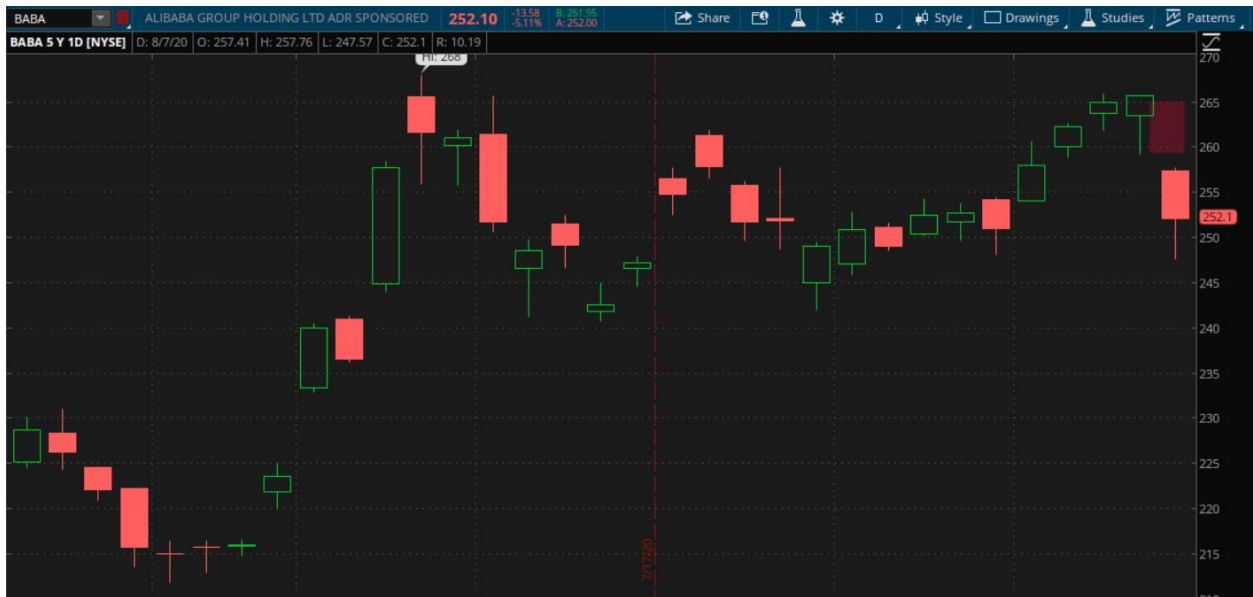
How to find gappers during premarket?

I use a think or swim scanner that finds gappers greater than 2%. This is the most effective way to find gappers. The scanner is attached below.

<http://tos.mx/AUSjD4s>

Gap Trade example?

Daily on BABA 8/7 gap down



BABA 8/7 15 min Gap down



These plays can make huge moves if entered on downside momentum off the 15 min or off a pattern break to the downside. On these plays it is important to wait for confirmation and not just short on the open.

Intraday

Momentum 15 min

Momentum plays are plays with strong bars closing near the high or low in either direction. The positions of these bars are very important to taking the trade. This method intersects with all other methods of finding plays and when momentum shows up in one of the previous types of plays these plays are often pristine.

What momentum looks like?



Single strong bars with buying or selling tails that are above average size.

How to find momentum during the trading session?

There are a number of momentum scanners that exist but most are paid. Because of that I took on the challenge to develop my own. In the end I created a free scanner on TOS that finds any bar on the current 15 min bar that exceeds average size and is within a certain percentage of the high or low of the candle making it a breakout candle.

Long Scanner: <http://tos.mx/8Uw7O9x>

Short Scanner: <http://tos.mx/ilCVAf5>

These are default set to 30% of the candle high or low and greater than average size.

What is an example of a momentum scanner based play?

Target 8/7/2020 15 min Momo

General Info

Combination of Play Types

Often good plays end up being a combination of multiple different types of plays. For example an inside bar from the previous night will gap up on open. More often than not the momentum scanner will show stocks you are already watching from your premarket and previous night watchlist building.

Watchlist Management

Master Watchlist

A lot of traders over time build a list of stocks that are previous runners and frequently traded by other traders. Instead of scanning in all stocks they will scan in this watchlist to stick to a bucket of stocks they are more comfortable with and know other traders are watching. This practice limits your plays to enough to manage instead of the scanner endlessly spitting out names and decreasing efficiency. Below I have attached my master watchlist which I constantly add to.

<http://tos.mx/fOJapZK>

Active Watchlist

This is a list that is a combination of your previous night, premarket and intraday scans that gets reset every night other than possible continuation plays (discussed above). Post scanning, as a trader you must check each chart and with experience within a minute or two you can tell whether the trade has potential or not. This is where comfortability comes in.

Comfortability

If you are comfortable or sure about a trade you enter immediately or set an alert for your entry if the play looks good but hasn't triggered yet. If you're not comfortable with a breakout or move but think it has potential for a move what you do is keep it on your watch and look for a pattern formation on the 5 min after the initial move. The key here is if you're comfortable you execute as your plan states and if not you watch for a pattern after the move you thought would happen, but you weren't sure about. This allows you to catch moves without having to take setups that you're not sure about.

Patterns

Patterns and levels when first learning technical analysis seem very complex and as if endless patterns existed. However as a daytrader there are a few common patterns that when identified on multiple timeframes and combined with other analysis will lead to strong moves.

Symmetrical Triangle

What does a symmetrical triangle before breakout look like?



A **symmetrical triangle** chart pattern represents a period of consolidation before the price is forced to breakout or breakdown. A breakdown from the lower trendline marks the start of a new bearish trend, while a breakout from the upper trendline indicates the start of a new bullish trend. These patterns often lead to strong breakouts and are often long consolidations with multiple tests of both trendlines. A strong close above either trendline shows a high chance of a continuation in that direction.

What does a symmetrical triangle after breakout look like?



After the breakout, the stock will often make a strong move in the direction of the break and then have pullbacks or consolidations and continue. As day traders our goal is to identify these patterns on multiple timeframes and execute.

Ascending and Descending Triangles

What does an ascending or descending triangle look like before a breakout ?



An **ascending triangle** is a chart pattern used in technical analysis. It is created by price moves that allow for a horizontal line to be drawn along the swing highs, and a rising trendline to be drawn along the swing lows. The two lines form a triangle. Traders often watch for breakouts from triangle patterns. This pattern shows increasing buying pressure with sellers at the top who weaken each time they are tested.

A **descending triangle** is a bearish chart pattern used in technical analysis that is created by drawing one trend line that connects a series of lower highs and a second horizontal trend line that connects a series of lows]

What does an ascending or descending triangle look like after a breakout ?



The breakout often will retest the clear upper or lower flat level. The hold off the level confirms that sentiment is clearly in one direction

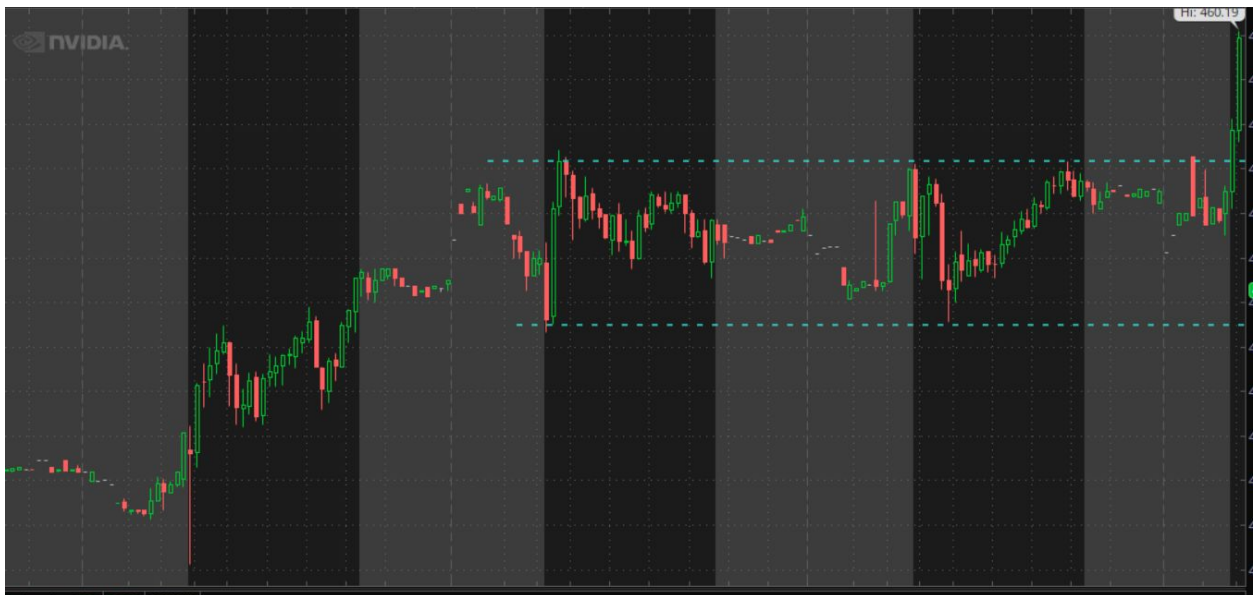
Rectangles

What does a rectangular pattern look like before breakout?



A horizontal rectangle is a consolidation setup that happens between two key levels. One support and one resistance level. These setups are normally non-directional however based on their position on the chart they could have a higher probability of moving one way versus the other.

What does a horizontal rectangle look like after a breakout?



After a breakout of a horizontal rectangle often a retest of the upper or lower level will happen. If the level fails to hold then the stock will often return into consolidation. If the pressure exists in the direction of the breakout a huge move can happen.

Channels

What does a channel look like before a breakout?



A trading channel is drawn using parallel trendlines to connect a security's support and resistance levels within which it currently trades. A trading channel may also be known as a price channel.

What does a channel look like after a breakout?



A channel is similar to a horizontal consolidation but is either going up or down. The breakout is often stronger when the breakout happens in the opposite direction of the channel. If it happens on the same side the move often becomes over extended and not as strong.

Continuation patterns: Rising/Falling Wedges, Channels, Flags and Pennants

What is common between all these patterns?

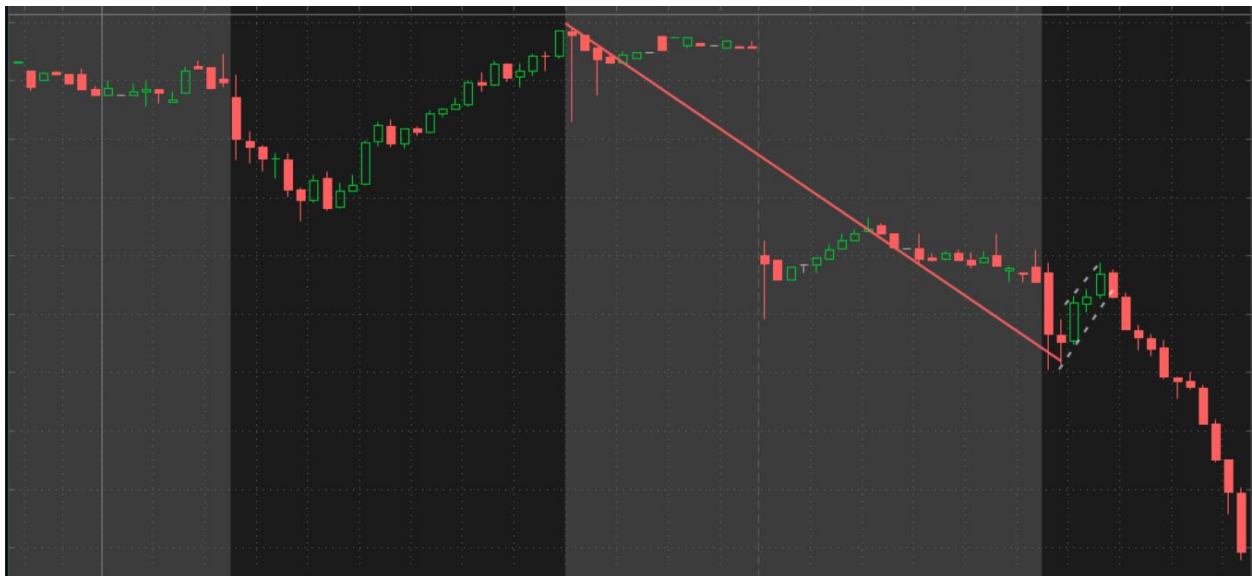
All these patterns are continuation patterns in either direction. These patterns form often after a strong initial move. The importance here must be given to understanding that a symmetrical triangle on a smaller time frame can be a pennant on a larger time frame etc. This will be discussed more later.

What is an example of a continuation pattern before breakout?



This is an example of a rising channel. The stock makes a strong move down and then forms a slow moving upward channel. If the channel breaks and holds this can lead to a strong continuation.

What does a continuation pattern breakout look like?



The breakouts can lead to huge continuation moves if the larger and smaller time frame setups are correct. This above example shows the first strong move was there which allowed for the continuation.

How we use patterns as traders

Trading is all probability. Patterns increase the chance of us being right about the direction of a move. A pattern is one of many factors that we look for before taking a trade. That is why in this chapter I went through pattern recognition and not how to execute trades based on patterns. Always remember just because u identify a pattern, and the pattern is breaking out that is NOT a reason to take a trade.

A trade must encompass a number of factors. Each factor increases the chance of the trade working out in your favor. In the following chapters we will be discussing other factors we look for in taking a trade as well as how to execute when multiple factors confirm one another. For now working on memorizing these patterns and being able to identify them rapidly and in the moment.

Levels

Critical Levels

Trendlines

Supply and Demand Areas

Evaluating the Market

Market Bias

Relative Strength and Weakness

Days to be cautious on

Indicators/ Oscillators

EMAs(intraday)

MA's (larger time frame)

Stochastic Slow

TTM_Squeeze

My Custom Momo Algo

Volume

Volume Basics

The mystery of volume

Many new and even intermediate traders underestimate the importance of volume. It seems rather simple, a histogram indicating the amount of transactions going through. However, volume is much much more complex than that. Volume is the only thing in trading considered a leading indicator. Standard indicators and oscillators only provide confirmation of price action and volume and therefore are called lagging indicators. Volume can show when a move is likely to happen before it happens. Volume can show where buyers and sellers are. When price action and volume are put together high probability trades can be found. If you ever find yourself talking to a consistently profitable trader, ask "What do you use for confirmation". Eight out of ten times the answer will be volume and the tape. Whether your day trading, scalping, swinging or even position trading volume is essential. If you ever wondered, who else is taking the trade along with you or who else is watching the level. The answer lies in volume.

Smart money

As traders we all aspire to be like institutions and hedge funds who seem to be getting into moves before we even know the stock is relevant and are selling out of moves as we are just starting to buy in. A common phrase among traders is follow the smart money. The question is how do we follow the smart money. Sadly institutions don't post on twitter or stocktwits when they are getting in or getting out. However volume can help us in this aspect. It's essential to understand that retail traders (all traders that aren't institutional) do not create the bulk of the volume. Actually retail traders are 5% or less of the volume in the market. The bulk is institutions. This means that with careful analysis of volume we can understand where institutions are getting in and getting out. Let me clarify, this does not mean that any volume spike is large money taking a position. Following smart money is key to avoiding fake outs or small moves that aren't profitable. Looking to where smart money is buying and selling can help traders get out at the top and buy near the bottom.

What really is volume from a technical standpoint?

One of the most common questions I hear from a trader is "Does volume show the amount of people buying or the amount of people selling.". This misconception is detrimental to understanding how volume works. Some brokers and studies show volume as green and red but truly volume is neither buying or selling. . Volume is truly just the number of transactions going through during a said period of time. Each bar marked with a specific time stamp on your chart is the amount of shares that have "switched hands" during that period. Volume that is shown in green and red is just an illustration based on how the price moved during that period of time.

Breakout/igniting Volume
Climatic/Ending
Volume Abnormalities
Volume Trend

Putting These 6 things together - Multi Timeframe - Trade examples

Time of Day - Importance in target and stop

Entry Execution

Stop out Execution

Take Profit Execution

The red flags of (fakeouts, chop and spikes)

Picking Contracts

Trade Review and Documentation

Reading The Tape

Many aspiring-to-be consistently profitable traders hear about the glorification of “reading the tape”. If they could just read the tape, they would be consistently profitable, if they could just understand, identify and interpret the information on the tape, they could be sitting on a throne of cash! Right? Well, not really. The hard truth is tape reading nor the tape itself isn’t exactly the holy grail everyone makes it out to be. Why? Well, to be honest there is no “holy grail” in trading so for me to even allude to the possibility of there being one would just be plain false. However, this doesn’t mean that the tape is completely useless, I mean some would consider it one of the best tools for intraday traders, and more specifically very short term traders or “scalpers”. So, what is the tape? The tape can be broken into two distinct parts, one being the Level II Data and the other being the Time and Sales data, together these make up the “Tape” I say together because often times they are used in conjunction for maximum efficiency, as well as the data is directly linked to one another, and using one without the other would almost be selling yourself short (no pun intended) or only using one of the side mirrors on your car, but not the other. I often like to think of the tape as the data form of candlesticks, as the data routed through the tape is used to create what you see as the candlesticks on your chart.

Level II

Let’s start with the Level II Data or what I’ll be referring to as L2 from now on. Most brokers charge a fee to gain access to real-time Level II as it is seen as a tier of advanced information to gain access. Now you might be asking, if there’s a Level II, what about Level I Data? Level I is data already provided by your broker which gives you a surface level idea about the current stock price and the current BEST quoted BID-ASK prices while L2 gives you a more indepth look at ALL the quoted BID-ASK prices along with the order size ranked from different exchanges for the underlying. Order sizes on the L2 are only accounted for mainly in one round lot, or 100 shares minimum which means you typically won’t see less than 100 shares on the feed, however this is different when looking at the Time and Sales data. On the L2, this would be displayed as a “1” as the number shown under the size should be multiplied by 100 to understand the actual number of shares trying to be bought or sold. For example, a “50” on the BID size would mean there are 5,000 shares that someone is looking to buy, and the same would apply to the ASK size. If we look at the L2 layout, we can see that there are two sides, the BID side and the ASK side. The BID side contains all of the unfilled limit orders (BIDS) placed to buy the underlying. The ASK side contains all of the unfilled limit orders (offers) placed to sell the underlying. From the market maker’s perspective, they are REQUIRED to quote the best BID and ASK prices for the market, meaning that for buyers, this means the lowest price someone is willing to sell at and for sellers, this means the highest price someone is willing to buy at. Together this quoted price creates the “BID-ASK” spread, or the difference between the two. (The Market Makers profit the difference in the spread) In order to be considered the best BID or ASK price (top row on the L2), you have to be the highest bidder or the lowest offer for at least 100 shares. All of the rows of quoted prices underneath the top row (the best BID and ASK prices) are simply limit orders waiting to become the best BID and ASK price. Remember, Level

I data would not show this information. The actual price of the underlying is usually somewhere between the BID-ASK spread, since the bidders want to buy under “market value” and the offers want to sell above market value.

The Auction, Supply and Demand and the Ultimate Conviction

When we look at the stock market as an auction using supply and demand, we know that the more demand for something, the higher priced it will be, and the more supply, the lesser priced it will be. For example if Umar is selling three oranges, but everyone wants to buy them, the price will be more expensive because there is more demand and not enough supply until it is too expensive and there is no one that wants to buy. On the flip side if Umar has 100 oranges, there is plenty to go around and not enough demand so the price will be cheaper until it is so cheap, there is a high demand. In order for the price to increase, there has to be an increase in demand, and in order for the price to drop, there has to be an increase in supply.

Demand on the L2

An increase in demand can be defined as there are simply no more sellers to buy from at a specific level, causing the market maker to quote the next available best asking price, which is ultimately higher than the asking last price (remember, it used to be below the top level, the previous best offer, since it was more expensive to buy because the market maker has to quote the best price for the buyers, (it WAS considered a worse value, but now it is considered the best value) meaning the underlying moves with it and increases in value. In order for the underlying to increase, all of the sellers at that specific level have to be bought from, if there are still sellers left over but not enough buyers, this signifies low demand and we can see price start to head in the other direction. The reason price moves in the other direction is because eventually buyers thought that the price of the underlying was too high to buy and sellers thought it was high enough to sell, thus supply was created at that specific level. Since L2 allows us to see all of the BID prices at all levels of the stock price, we can see where areas of demand might be to help us better plan our trades.

Supply on the L2

An increase in supply can be seen as there are no more buyers to sell to at a specific level, causing the market maker to quote the next available BID price, which is ultimately lower than the last BID price (remember, it used to be below the top level, the previous best BID, since it was cheaper to sell to because the market maker has to quote the best price for the sellers it was considered a worse value, but now it is considered the best value) meaning the underlying moves with it and decrease in value. In order for the underlying to decrease all of the buyers at the specific level have to be sold into, and if there are still buyers left at any given

level but not enough sellers, this signifies excess supply and we can see price start to head in the other direction. The reason price moves in the other direction is because eventually buyers thought that the new low price of the underlying was a good deal to buy and sellers thought it was too cheap to sell and thus demand was created at that specific level. Since L2 allows us to see all of the ASK prices at all levels of the stock price, we can see where areas of supply might be to help us better plan our trades.

The Ultimate Conviction

Let me make one thing clear, in order for price to move higher, all of the supply has to be taken out on the offer, and in order for price to move lower, all of the demand has to be taken out on the BID side. The reason this is necessary is because this is simply how an auction works. With a certain amount of available shares available to trade, there are only so many to go around for people who want to buy and or sell. This act of moving the stock price higher is known as buying at the ASK and the act of moving the stock price lower is known as selling at the BID. Remember before how I was talking about the quoted limit orders to buy and sell? Well, when you buy at the ASK, you actually meet the price the seller wanted to sell the underlying for, and when you sell at the BID you meet the price the buyer wanted to buy the underlying for. Now you might be wondering, why would someone WANT to buy the BID, or above market value? And why would someone want to sell the BID or below market value? Shouldn't they try to get the best possible price? You would be right to think that, and everyone most certainly wants the best possible price but sometimes you can't always get it if the stock price is moving too fast in one direction. To avoid the uncertainty of not getting the best possible price and potentially missing out on entry, you can "opt" out of this and almost guarantee your entry by simply buying a little bit above or a little bit below market value, or the BID and ASK prices. The reason this works instantly is because there is already someone there willing to sell to you, and already someone there willing to buy from you. This is because, if you remember, the market maker is required to quote the best BID and ASK prices from other market participants.

The buyer or seller willing to buy at the ASK or sell at the BID price is willing to do so above or below market value because they are anticipating a larger move of the underlying that even with the more expensive price they paid for the stock, they will be able to achieve a desirable outcome. Since the buyer is anticipating a larger move up of the underlying, it would be risky to try and get the best possible price, since if they miss it, they will probably end up paying an even higher price if they decide they want to enter, when they could have just bought or sold the original ASK or BID price. The risk of the buyer trying to place a limit order could also cause them to miss out on the entire move. For sellers since they are anticipating a larger move down it would be risky to try and get the best possible sell price, since if they miss it, they would probably end up selling at an even lower price when they decide to sell, when they could have just sold the original BID price. The risk of the seller trying to place a limit order could cause them to get caught in a tumbling stock price with lower and lower prices to sell at. In addition to this, sellers should have a risk management plan in place to only allow

them to lose a certain amount per trade percentage wise, and attempting to place a limit order on a tumbling stock price increases the chances of losing more than the desired amount.

How to use the Level II for effective trading

Now that you know the basics of how the L2 works, it's time to discuss how this can actually be helpful in your trading and what some examples of real world situations would look like during market hours. Personally (and I think most traders would agree) that the L2 is most effective when used in conjunction with the stock near critical support and resistance levels. What I mean by this is for momentum, breakout and reversal trading we want to see what the stock will do at these areas of interest (charted support and resistance levels). Looking at the tape when the stock is approaching these areas of interest helps us to get an idea of what to do next depending on our specific strategy. Since we know the stock market is an auction, the most buyers and sellers are going to be at support and resistance levels, which are the areas we want to be watching for the highest probability plays. Otherwise, we shouldn't care about the "noise" that happens in between these levels because this creates a lower probability for success.

Breaking out of Resistance

When a stock is approaching a resistance level and we are looking to go long or buy call options, we want to make sure that we use the level II in conjunction with the Time and Sales to help set us up for the highest probability of success. By doing this, we are waiting for confirmation to show us that the stock has a higher chance of possibly doing what we believe it will do based on our analysis. If you remember, since this is a resistance level, there should be an excess of supply, meaning that in order for us to break through this level, we are going to need the buyers to create demand by buying all of the available sell orders at this price level, to move the price higher. What we can look for on the Level II will be large ASK size (anything larger than 20 is considered on the larger side), showing us that there is most definitely resistance at this area we have to break through if we want to go long or buy call options. If you think of it like a wall, the more ASK size there is at the price level, the harder it will be for buyers to break through and these numbers can be as high as 100,000 shares. Once we have identified that there are significant orders at this level, we want to see these orders begin to disappear, and the numbers of orders to decrease and clear. What this means is that the buyers actually believe the stock is worth paying over market value for, and in return are "hitting the ASK" in order to get into the stock, expecting a bigger move to the upside. If done successfully, the price of the underlying should increase and buyers will be immediately met with more sellers at the next price level to buy into. We'll know if buyers are hitting the asking price and clearing the sell orders simply by looking at the Time and Sales. Here we should see individual orders being executed at the ASK price, with large size, typically these orders will show up as green prints on most brokers.

Holding on the L2 above Resistance

But, we're not done yet. It is now the role of the buyers to keep up the buying momentum and keep the pressure strong to completely have control. If buyers cannot fulfil these next new orders and hold above the area they broke out of, price will be rejected and head in the other direction, ultimately losing control. If we think of this as a two step process in order for a move to be complete and for us to go long, buyers not only must BREAK out of the level, but they must

be able to HOLD the level. This means that once they are above the level, we should start to see an increase of size on the BID side, to show us that these buyers are stacking up, and in turn making it harder for sellers to break back through. If the wall is thick enough, it forms a strong support base for price to keep continuing in an upwards direction. Only then when this occurs, we would have a buy signal in order to get into the stock. If we had bought without the follow-up from the buyers holding the level, we may have been caught in a fakeout that resulted in us taking a losing trade. If we had bought before the level had broken initially, we may have been caught in a “fade” or rejection of the level. In this situation it is always best to wait for confirmation using the level II and Time and Sales for the best possible high probability trade.

Breaking out of Support

When a stock is approaching a support level and we are looking to go short or buy put options, we want to make sure that we use the level II in conjunction with the Time and Sales to help set us up for the highest probability of success. By doing this, we are waiting for confirmation to show us that the stock has a higher chance of possibly doing what we believe it will do based on our analysis. If you remember, since this is a support level, there should be an excess of demand, meaning that in order for us to break through this level, we are going to need the sellers to create excess supply by selling into all of the available sell orders at this price level, to move the price lower. What we can look for on the Level II will be large BID size (anything larger than 20 is considered on the larger side), showing us that there is most definitely support in this area we have to break through if we want to go short or buy put options. If you think of it like a wall, the more BID size there is at the price level, the harder it will be for sellers to break through and these numbers can be as high as 100,000 shares. Once we have identified that there are significant orders at this level, we want to see these orders begin to disappear, and the numbers of orders to decrease and clear. What this means is that the sellers desperately want to get out of the stock or their position, and in return are “hitting the BID” in order to get out of the stock rapidly or into their short position, expecting a bigger move to the downside. If done successfully, the price of the underlying should decrease and sellers will be immediately met with more buyers at the next price level to sell into. We’ll know if sellers are hitting the bidding price and clearing the buy orders simply by looking at the Time and Sales. Here we should see individual orders being executed at the BID price, with large size, typically these orders will show up as red prints on most brokers.

Holding on the L2 below Support

If you remember from the section about holding above resistance, you know we're not done yet. It is now the role of the sellers to keep up the selling momentum and keep the pressure strong to completely have control. If sellers cannot fulfil these next new buy orders and hold below the area they broke out of, price will bounce and head in the other direction, ultimately losing control. If we think of this again as a two step process in order for a move to be complete and for us to go short or buy put options, buyers not only must BREAK through the support level, but they must be able to HOLD below the level. This means that once they are below the level, we should start to see an increase of size on the ASK side, to show us that

these sellers are stacking up, and in turn making it harder for buyers to break back through the upside. If the wall is thick enough, it forms a strong resistance for price to keep continuing in a downwards direction. Only then when this occurs, we would have our signal in order to get short or buy put options. If we had bought in without the follow-up from the sellers holding below the level, we may have been caught in a fakeout that resulted in us taking a losing trade. If we had bought before the level had broken initially, we may have been caught in a “bounce” or rejection of the level. In this situation it is always best to wait for confirmation using the level II and Time and Sales for the best possible high probability trade.

Validating levels

The L2 can be used to confirm and validate levels that you may have already charted on your broker. This can be done by simply observing the level II data and seeing what levels of price have the most order sizes sitting at waiting to be filled. For example, if you wanted to see the validity of a resistance level, you would look at the ASK side and see if there are any orders with size sitting at the price level that correlates to the level you drew on your chart. This would be an example of stacked “sellers” On the flip side, if you wanted to see the validity of a support level you would look at the BID side to see if there are any orders with size sitting at the price level that correlates to the level you drew on your chart. This would be an example of stacked “buyers”. What this ultimately does for you is allows you to understand the areas of interest actually correlate to what you deemed to be a major support or resistance level.

Congratulations, your charting was on point!

Time and Sales

The Time and Sales data is a real-time stream of data of every order transaction on the market happening as the orders are filled. A typical time and sales data layout, or T/S as I’ll be referring to it as from here on out, consists of the Time, Price and Size. Additionally you can add the current BID and current ASK, as well as the exchange.

Time - *When the transaction took place (real time)*

Price - *The price the transaction took place at on the underlying*

Size - *The amount of shares on the transaction (Size displayed may not be divided by 100, check your broker settings to see if there is an option for this and choose based on your preference)*

Most people typically like to use the Time, Price and Size layout, as the BID and ASK may not be helpful or necessary for some traders. Most people believe that seeing green on the time and sales is a “buy” and seeing red on the time and sales is a “sell” however that is not the case. With every transaction there is always both a buyer and a seller. Instead what this means is that green is moving price higher because that transaction took place on or above the ASK side, meaning the buyer hit the ask and paid above market value to get into the trade. Seeing red on

the T/S means that a transaction took place on or below the BID meaning that the seller sold below market value to get out of the trade. You'll also see white prints on the feed as well, this means that a transaction took place in between the BID-ASK spread. I wouldn't worry about this too much as it doesn't have much of an effect on price, but it is good to notice and understand. Some brokers, such as Thinkorswim use the green and red color correlations as "higher than the last price" and "lower than the last price" respectively (Thinkorswim also does not use white transactions because of this). This can be problematic because it does not mean that a transaction necessarily took place on the ASK or the BID. To combat this issue, traders would enable the BID and ASK columns on the time and sales customization settings to allow them to see if the price column matches either the bid or ask column. You can also filter your time and sales for specific order sizes through the T/S customization settings. I personally like to use 100 shares as a minimum, as order sizes below that are not typically the ones actually moving the price.

How to use the Time and Sales for effective trading

In order to use the Time and Sales for effective trading, it should be used in conjunction with the level II data. If you think of it like an assembly line, the data on the L2 is routed to the time and sales feed after the orders have been processed. Looking at the time and sales data feed can be intimidating at first, but training your eyes to understand what is going on will help you get accustomed to it in the long run. The first thing we want to notice that will stand out to us is "blocks" of red and green. These are easy to spot and identify and can usually give us an idea of a short term price movement. It is important to look at the size correlated with these blocks to ensure that there is enough volume to create momentum to the upside or downside. Another thing we want to notice is the speed of the tape. If the tape is printing orders faster than normal, this means that orders are coming through faster and there is significant interest at this level. A good way to use T/S is to notice green or red prints, large size and increasing speed of the tape.

\$XYZ Long / CALL example using Time and Sales

If we are looking to trade Stock XYZ we want to look at the time and sales to determine short term price movement. If stock XYZ is approaching a resistance level and we are looking to go long or buy a call option, we want to make sure what we see is confirmed by using T/S. For this, we want to see the tape speed increase to show orders are coming through faster, meaning more people are interested. We also want to see green prints "flood" the feed. This means more people are hitting the ASK than normal, showing an increase of demand to get into stock XYZ. In addition to this, we want to make sure we are seeing size on the prints as well. Typically anything over 100 shares is good, and more is better. Some red flags to indicate that price may not make it over the resistance level would be an influx of orders hitting the bid, meaning red prints would immediately flood the feed and the tape would begin to slow down, losing buying pressure/momentum. Also, a lack of size could be a red flag and lead to a higher probability of a fakeout.

\$XYZ Short / PUT Example using Time and Sales

If we are looking to trade Stock XYZ we want to look at the time and sales to determine short term price movement. If stock XYZ is approaching a support level and we are looking to go short or a put option, we want to make sure what we see is confirmed by using T/S. For this, we want to see the tape speed increase to show orders are coming through faster, meaning more people are interested. We also want to see red prints “flood” the feed. This means more people are hitting the BID than normal, showing an increase of supply to get out of stock XYZ. In addition to this, we want to make sure we are seeing size on the prints as well. Typically anything over 100 shares is good, and more is better. Some red flags to indicate that price may not make it below the support level would be an influx of orders hitting the ASK, meaning green prints would immediately flood the feed and the tape would begin to slow down, losing buying pressure/momentum. Also, a lack of size could be a red flag and lead to a higher probability of a fakeout.

The Rest

Dark Pools

Hidden Orders

Ice Berg orders

Red Flags on L2 an T/S