

Twitter Thread by Killer Trader ■■

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What is orderflow trading and how to develop an edge using orderflow:

A thread ■

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#StockMarket

As the name suggests, orderflow is the flow of orders in a stock or index which are being executed in live market.

Normal candlestick shows the candle open, high, low and close but not the actual buyer and seller activity which is happening at every price point.

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Orderflow chart shows a deeper insight into a candle's price action by showing the volumes that are coming in at every price level.

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Why is this information important?

1. As a retail trader, we would like to follow the steps of large players and institutions and see whether they are more inclined towards longs or shorts.
2. OF data shows us the real time supply demand which is flowing into the market

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3. Having an insight into this real time supply demand activity can guide a trader to be on the right side of the market to a large extent.
4. Monitoring orderflow at important areas can help a trader assess whether the trend will continue or reverse.

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What does a orderflow chart contain? Read on to find out.

Before we understand orderflow, it is important to understand the kind of orders that are executed in the market and their impact on price.

There are two kind of orders: 1. Limit orders and 2. Market orders.

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1. Limit orders = Also called passive orders, these orders are placed at the max or min price levels a trader wants to get the fill at; meaning they are filled if the market comes to the price.

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2. Market orders = Orders that are placed at market price; meaning the trader wants to get the orders filled immediately at the first available price point.

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Limit orders do not drive the market as they are passive orders and are executed only when the price comes to the level but market orders move the market as they are executed immediately implying aggression.

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Does that mean that limit orders are useless? No. They provide liquidity to the market and are used to build positions by participants and also show absorption (probable end and/or reversal) of a move.

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Market orders that enter the market are matched to limit orders existing in the market.

Orderflow chart shows all these orders executed at market prices in live market providing a trader with a deeper insight into supply and demand activity.

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There are two sides to an orderflow chart. The bid side (red) and the ask side (green).

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In a stock orderbook where waiting limit orders are present, orders on bid side represent the buy orders waiting to be filled.

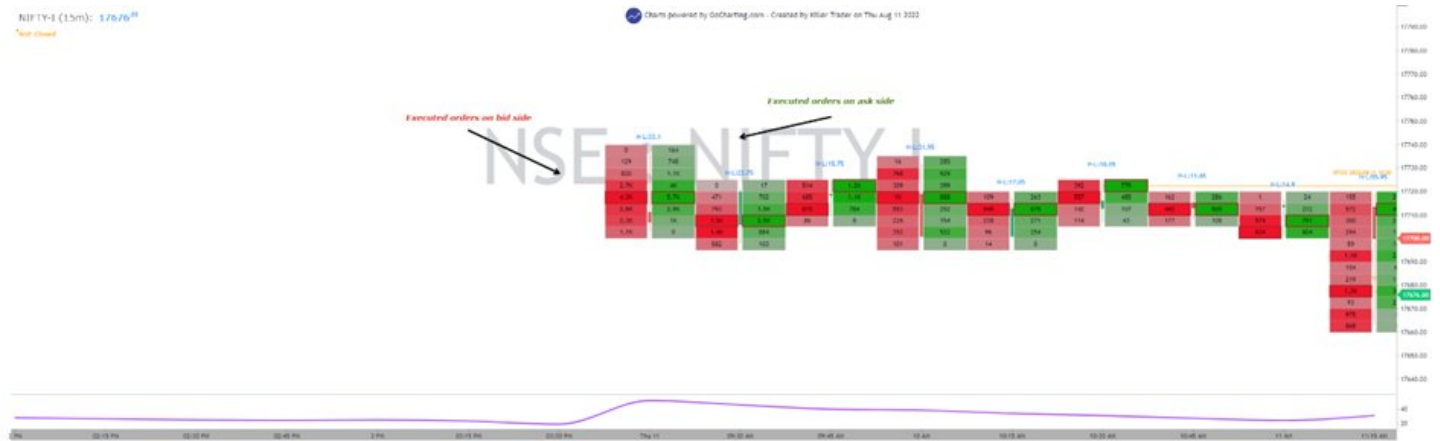
The orders on ask side represent sell orders waiting to be filled.

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As we discussed before, market orders are matched to limit orders.

As OF chart shows executed orders, the bid side shows the market sell orders executed and ask side shows market buy orders executed by matching to limit sell orders.

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How to read this information? Common mistake made by traders is to look at the bid side orders and ask side orders side by side at a price.

As market sell orders hit the bid and market buy orders lift the ask, the orders need to be matched diagonally (one block up).

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Below chart is configured to show OF data per every 10 points movement in Nifty.

In opening 15 mins candle (11-08), after we opened with a gap up, at 17740, large buyers started booking profits and passive selling can be seen.

(bid side > limit side, see black marked)

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This indicated that until we see fresh demand coming in, nifty can be sideways during the day. (why no downmove expectation - read on to find out)

5 mins OF chart of 4th aug. The downmove was stopped by big buyers stepping in to absorb the selling and change in trend.

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Don't you think this learning to read this kind of information will give you an edge?

There are primarily two kinds of orderflow charts.

1. Footprint charts
2. Imbalance charts.

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Footprint charts are the basic orderflow charts in their raw form (see above pics). It shows buying and selling information.

Imbalance charts shows the difference between buying and selling in a highlighted format.

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What is an imbalance chart? Imbalance chart shows the difference between bid and ask at a price point and can be configured to show a defined amount of imbalance a trader wishes to see.

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As traders, we want to know the imbalances between buying and selling as that shows how much buying pressure is more than selling pressure (or vice versa) at a price level.

Imbalance chart showing imbalances in yellow

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Important points while using orderflow:

Use with context - As buying and selling activity happens in the market from open to close, we cannot act on every order that comes in.

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Many successful traders using orderflow identify important price levels using methods like market profile, volume profile or pivots and look at orderflow at those important price locations.

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Learn to read orderflow charts to give yourself an edge in trading and add conviction to your trades.

What I have shared here is the basics of orderflow and there are much more in depth and advanced techniques to it.

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If you found the content useful and would want me to share more, follow me at [@killertrader_](#) ,like and re-tweet for max participation.

Check below tweet for a surprise offer!

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[@gocharting](#) provides easy access to orderflow charts at a nominal cost.

They are offering a 20% Independence day special discount on all their packages till 20th aug.

Use coupon code FREEDOM20 to avail the discount at <https://t.co/uypw6k5ALo>

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