

Orderflows Delta Trading Course

Lesson 1 – Delta Explained

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What causes the markets to move?

The constant activity of buying and selling by the different participants.

There are never more buyers than sellers or more sellers than buyers.

In order flow analysis there is a piece of information that is very valuable to a trader and that is order flow delta. Not to be confused with options delta, order flow delta is a measure of aggressive buying and selling going on in a bar.

Delta tells a story of what is going on in a specific bar and the market in general.

How clearer can it be?

But unfortunately its not always like this.



Delta	-183	76	289	54	-149	-17	-163	186	-103	-88	-58	24	100	167	205	151	487	352	-411	-287	-169	-101	52	54	113	357	358	191	551	-197	-418	-242	-395
Max. Delta	36	84	389	104	63	88	0	372	25	0	100	47	127	170	216	160	495	352	53	11	36	114	52	104	119	357	358	191	597	16	0	58	26
Min. Delta	248	-59	0	-152	-305	-86	-340	0	-120	-367	-58	-53	-34	0	-105	-167	0	0	-413	-285	-160	-101	-27	-64	-61	0	-2	0	0	-198	-418	-242	-395
Veritas/BitMEX/BitTrader, LLC	515	1610	2741	2626	2009	2139	1711	2688	1019	1866	840	670	724	447	2707	2757	1887	2238	3343	2697	1331	2105	420	2292	1093	895	1302	1313	6255	989	2436	2996	2023

To understand what delta is you have to first understand the different types of buyers and sellers in the market.

- Passive buyers.
- Passive sellers.
- Aggressive buyers.
- Aggressive sellers.

Passive buyers are traders that work bids in the order book.

Passive sellers are traders that work offers in the order book.



Passive buyers and passive sellers let the market come to them.

Aggressive buyers are traders who buy at the market / lift the offer.

Aggressive sellers are traders who sell at the market / hit the bid.

Aggressive buyers and aggressive sellers want to get filled immediately.

An aggressive buyer buys from a passive seller.

An aggressive seller sells to a passive buyer.



For a trade to take place someone has to be aggressive.

Delta is the difference between the number of aggressive buyers and aggressive sellers in a bar.



Delta is important because there are times when one side, either aggressive buyers or aggressive sellers are really showing their hand in the market and knowing when it is happening gives you an edge over other traders who don't know what is going on.

I say generally because when it doesn't there is often a reason and the reason is important and potentially a great trading opportunity. I will explain that in the later lessons.

Why is delta important?

It can reveal

- Areas of supportive buying or resistant selling.
- Shifts in supply and demand.
- Accumulation and distribution.

How delta reveals areas of support and resistance.

When you look at delta you see who is in control of the market.

A strong positive delta indicates aggressive buyers are in control.

A strong negative delta indicates aggressive sellers are in control.

Earlier I talked about aggressive buyers and aggressive sellers, but I want to take a moment and talk about aggressive or covert actions by traders.

Aggressive or covert actions are best described as traders who are trying to disguise what they are doing in the market. The best example would be an iceberg order. A trader has a large quantity to execute but wants to hide what he is trying to do to the trading public.



Iceberg Order is a form of aggressive covert trader behavior.

These aggressive and covert actions by traders can offer support or resistance to the market. For example, a trader has to buy 800 lots of crude oil futures, he won't just buy 800 at the market. He will iceberg his order and manage it from there. But once it trades it shows up in the order flow and can be interpreted in the delta. This is why you will often see and wonder why the market is rising on negative delta. He is not an aggressive trader per se, rather his trading action is covert in the sense that he wants to trade without moving the market.

But what does it mean when you have strong positive delta and the market sells off? How can that be? More importantly what does it mean to you as a trader???

Think about how a bar is formed. There is a beginning (the opening), the middle (the trading period) and the end (the close).

An individual bar can tell a story. There may have been a lot of early buying, maybe it was met with supply, then the market trading sideways, before the market sold off as the supply overwhelmed the buying. Examples like this happen every day, but more importantly they happen intraday as well. This is where delta comes in.

Delta allows you to see shifts in supply and demand that may otherwise go unnoticed.

Under the law of supply and demand the prices go higher when demand is strong and supply is weak. Prices go lower when supply is strong and demand is weak. Economics 101.

Take that concept and applying it to the markets.

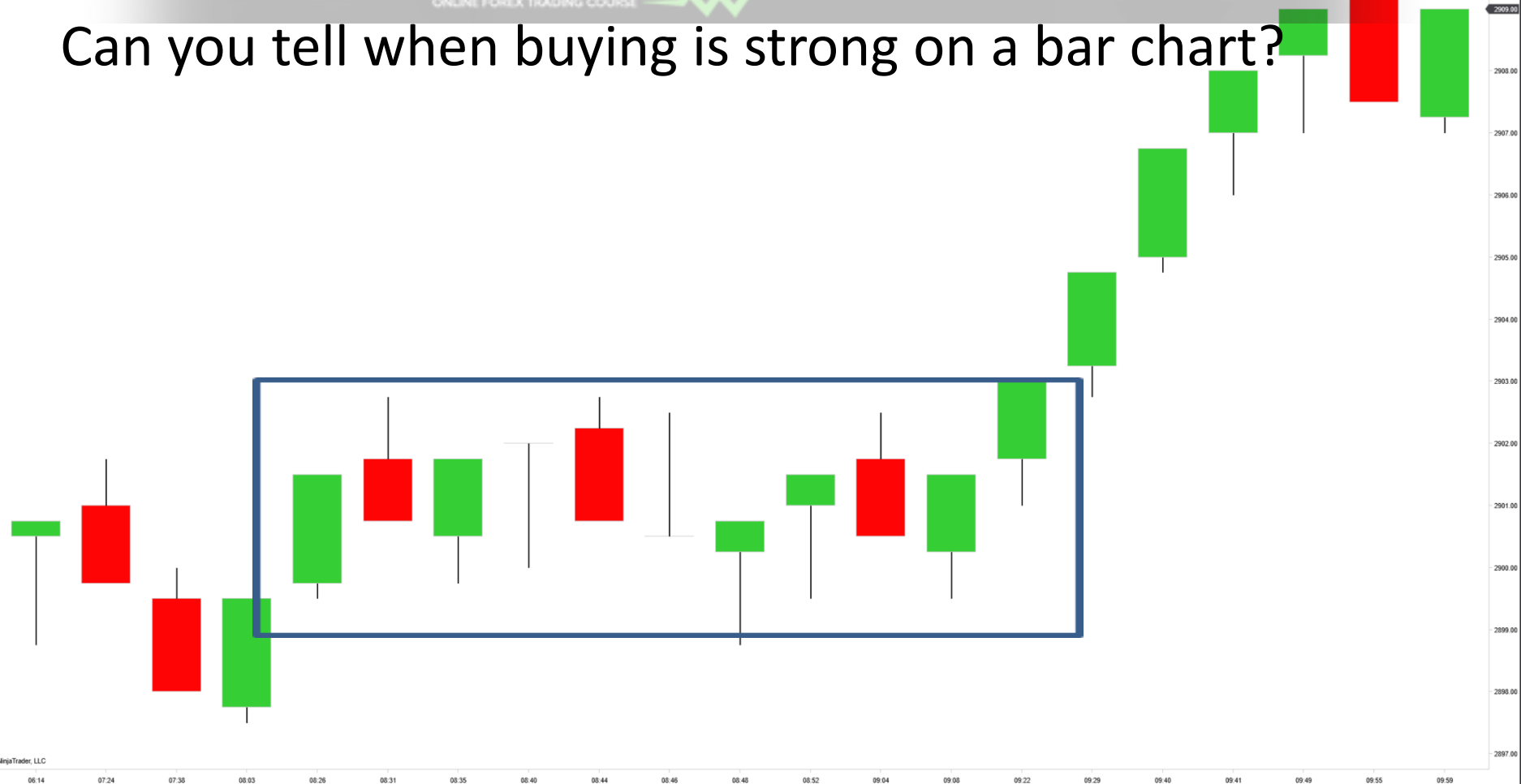
Demand = buying

Supply = selling

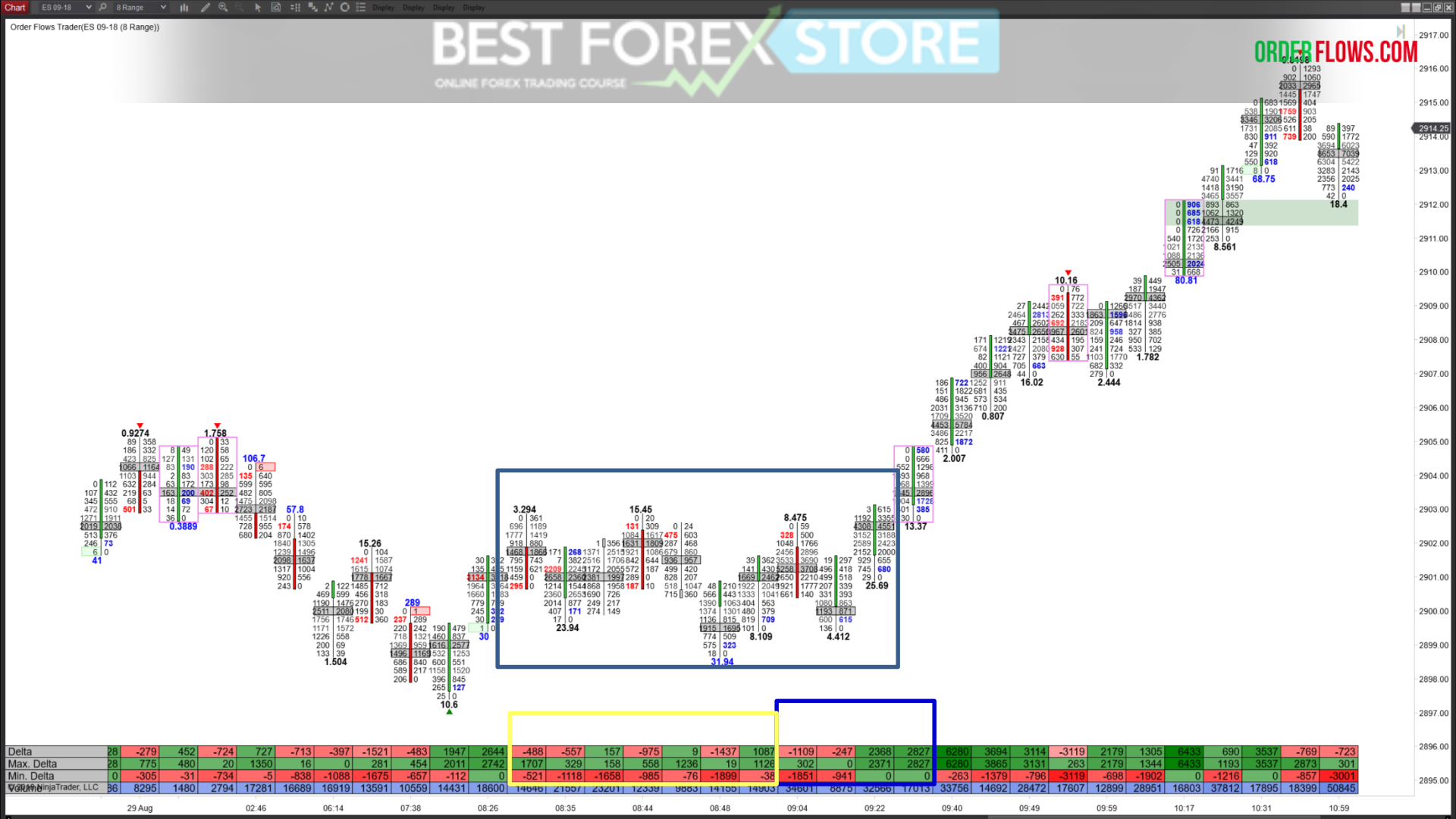
Prices go higher when buying (demand) is stronger than the selling (supply).

Price go lower when the selling (supply) is stronger than the demand (buying).

Can you tell when buying is strong on a bar chart?

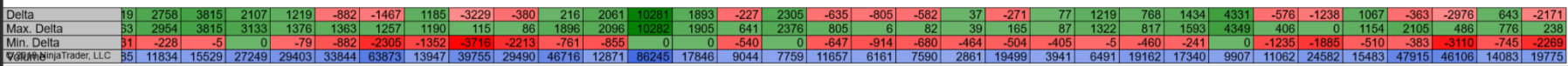


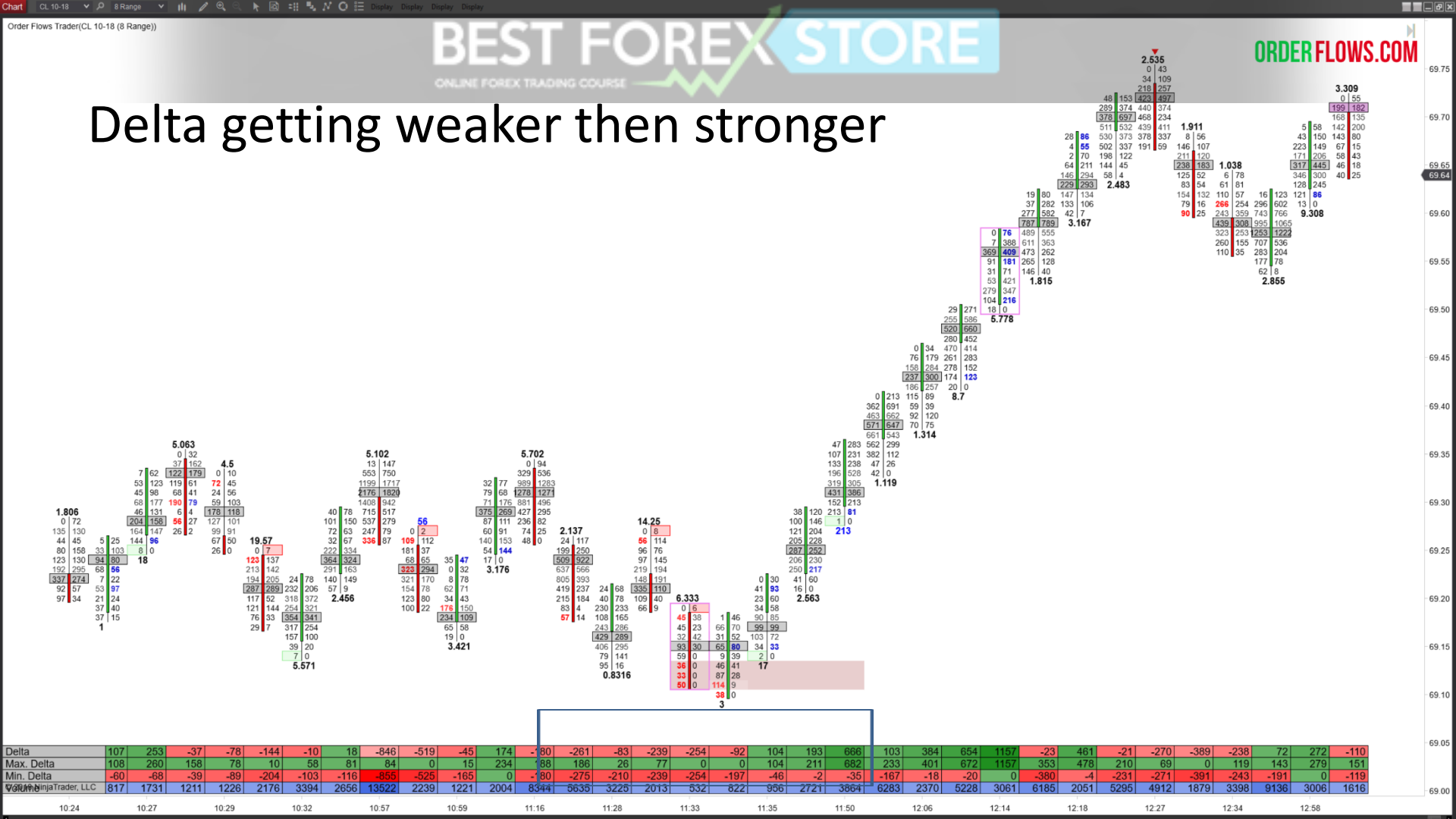
You can tell by looking at the delta on an order flow chart.



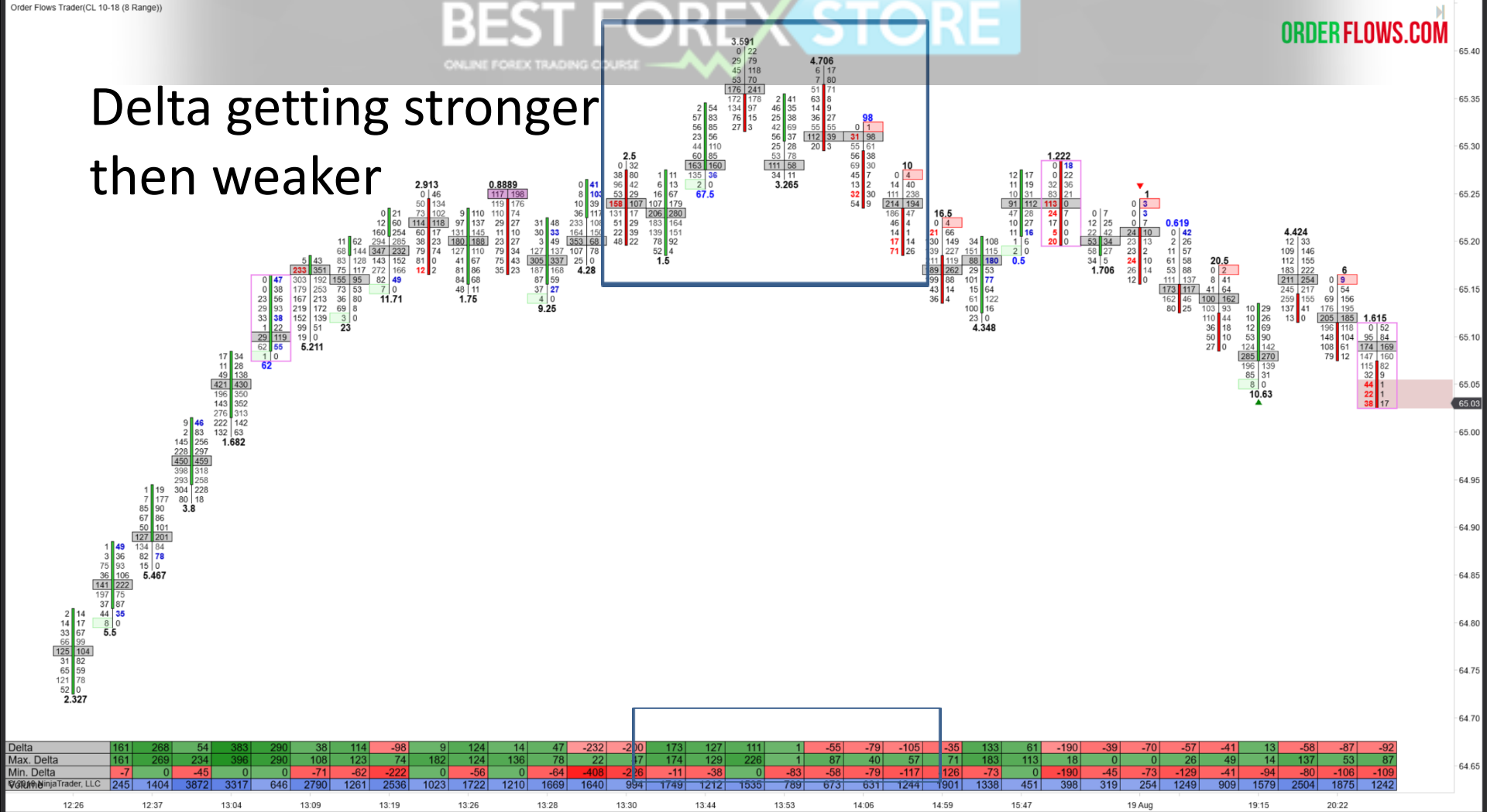


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Delta getting stronger
then weaker



What is accumulation and distribution?

Think in terms of inventory. If you run a business you know there are times when you need to buy inventory and there are times when you have too much inventory that you need to start distributing your inventory out, in other words sell it.

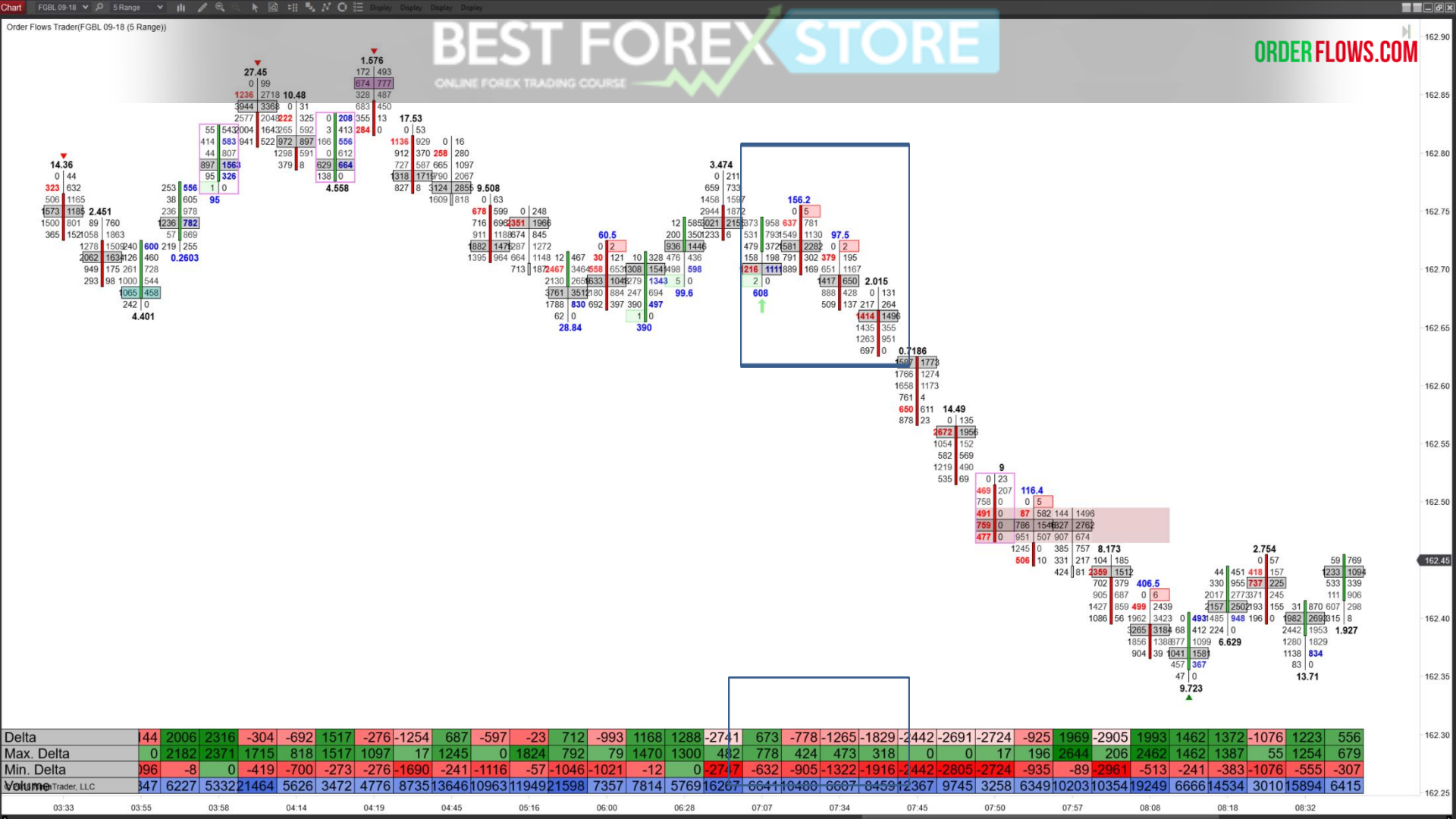
For institutional traders, their positions are their inventory.

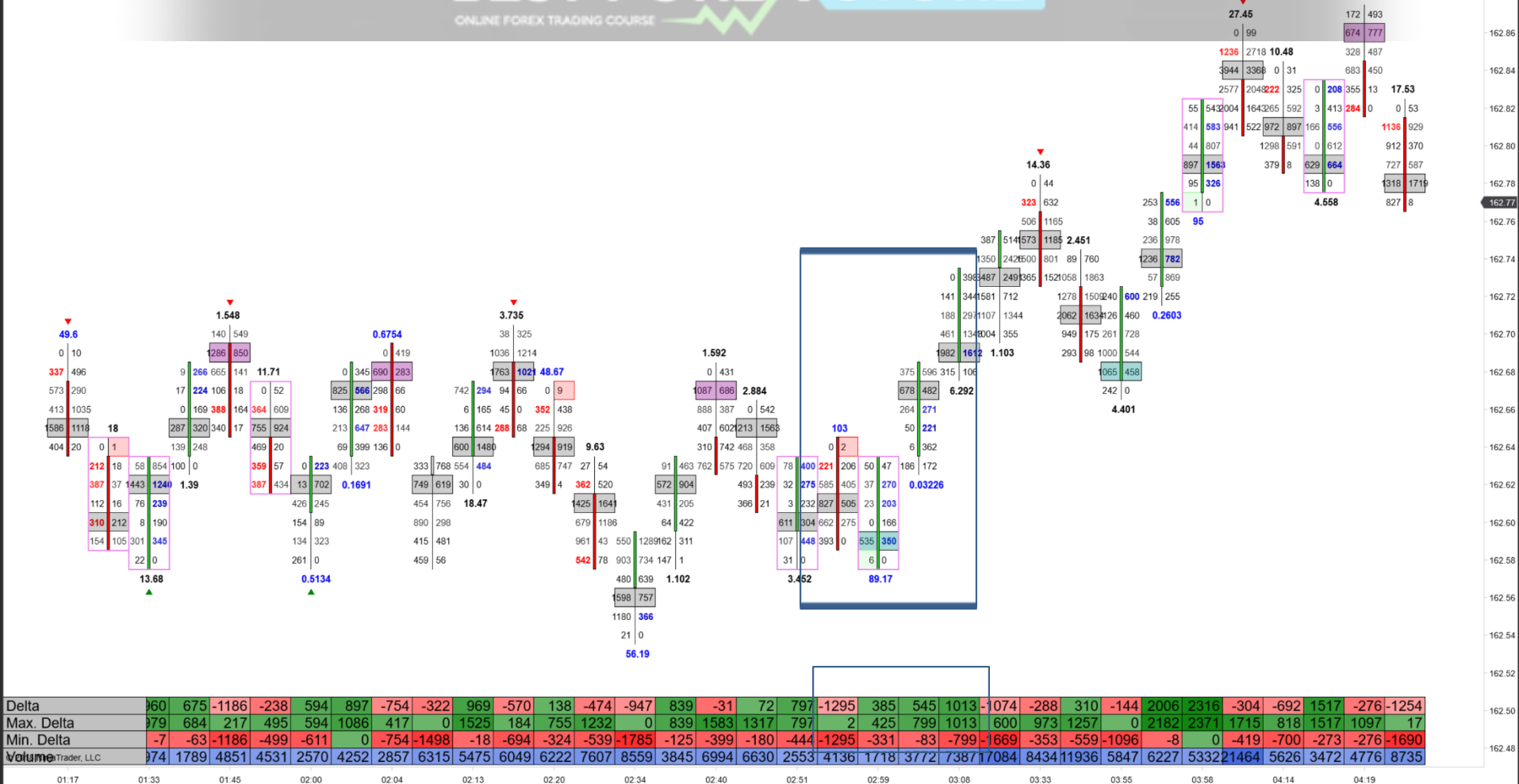
Put yourself in the shoes of a portfolio manager. You think Apple stock is a great buy right now and you have allocated \$100 million for the position. Now you have to go into accumulation mode. Now its two years later and you made \$300 million on the position but you want to close it out. So now you go into distribution mode.

The same thing happens in Futures and Forex as well.

Basically traders want to enter or exit a position with as little market impact as possible.

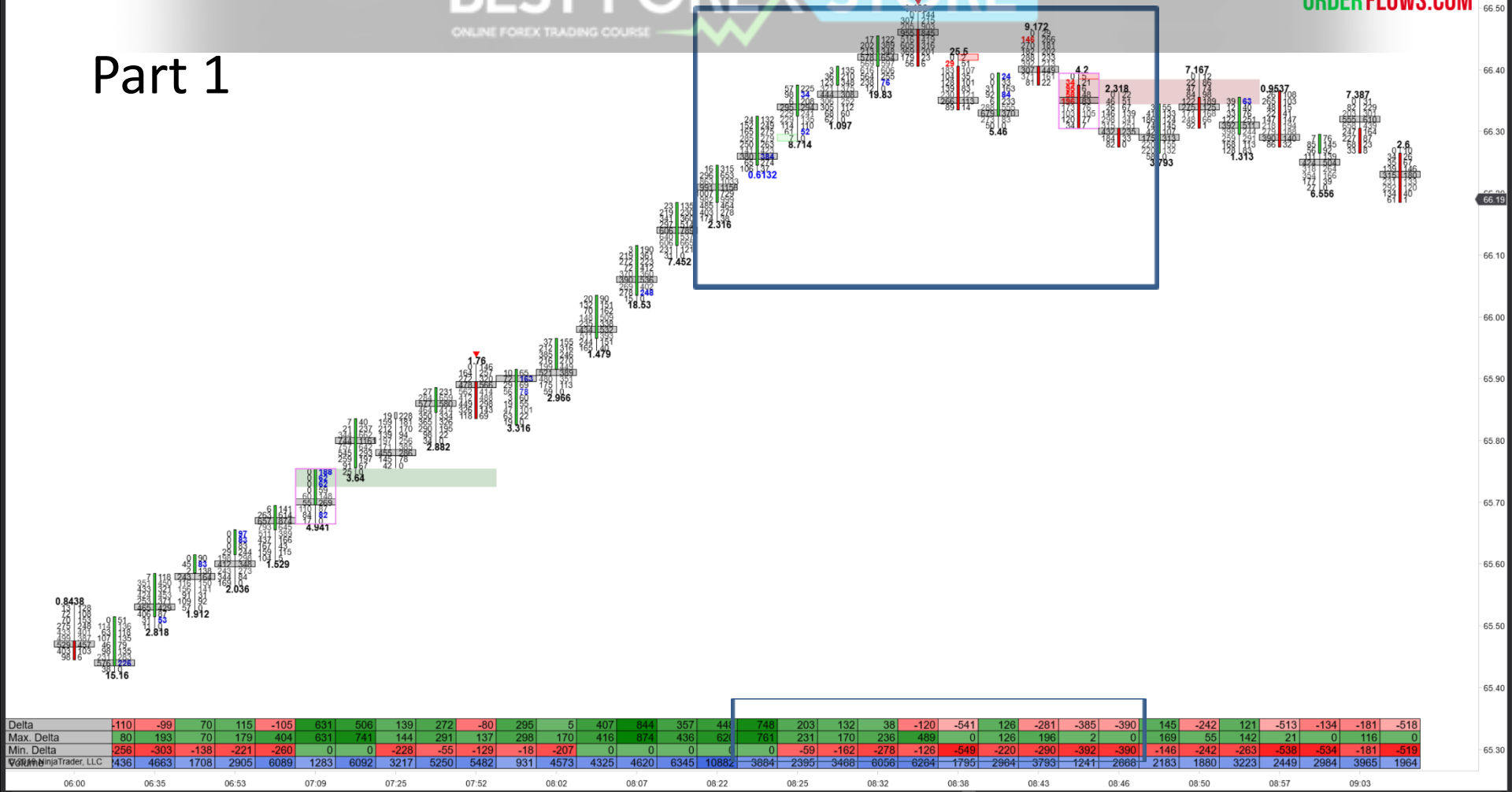
It will show up in the delta when price is not moving much but delta is growing either in a positive or negative sense. Over a few bars this become very evident and you can take advantage of the ensuing break out.





Delta can also indicate to you when a market is dominated by aggressive traders.

Part 1



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Delta	390	145	-242	121	-513	-134	-181	-518	259	-578	-295	-96	-298	-233	-343	187	458	-4	107	-19	-348	49	-8	-79	-361	-44	-159	-478	84	404	-51	137	-53
Max. Delta	0	169	55	142	21	0	116	0	282	34	0	174	3	79	0	188	458	304	114	263	0	132	0	206	0	62	181	0	92	416	272	164	23
Min. Delta	390	-146	-242	-263	-538	-534	-181	-519	-41	-626	-539	-119	-309	-233	-426	-54	-7	-50	-141	-63	-374	-37	-206	-82	-362	-335	-214	-658	-119	0	-54	-292	-141
Vol. InjiaTrader, LLC	668	2183	1880	3223	2449	2984	3965	1964	3659	3090	3771	2158	1654	2105	4507	1151	2766	3352	1333	4587	1230	2407	1388	2767	945	7132	2847	6570	1912	1064	5121	2765	1781

This is the end of lesson 1. In lesson 2 we will discuss how to read delta so you can understand what you are looking at.