



Warrior Trading

CHAPTER 10. LEVEL 2 AND HOT KEYS



Today you will Learn

- How to read Level 2, Time & Sales, and how to use Hot Keys



Why Is This Important?

- As a day trader you will have a huge advantage if you are able to read the level 2 and time & sales windows.
- These skills may not be necessary for swing traders and longer term day traders, but it's absolutely critical for short term day traders and scalp trading
- It's also extremely important to understand how to read Level 2 so you can make good decisions as you enter and exit trades



Learning to Read Level 2

We're going to briefly go over a few things we discussed in the first class just to make sure we're all on the same page!

Remember that we're ONLY looking at the Level 2 on stocks worth trading. The type of patterns and bullish/bearish indicators seen on Level 2 are meaningless on stocks that don't have high relative volume.

The Level 2 and the 5min/1min chart are the two things that all the traders involved in an active stock are focused on. So learning to read the subtle queues will give you an advantage.

The most important time to watch Level 2 is when you are about to buy, especially when the entry is a BREAKOUT spot.



Bid and Ask



Every stock has a Bid and an Ask. You can place trades at either the Bid price, the Ask price, or between the “spread”.

The Bid is where Buyers can place orders and wait for somebody to sell them shares.

The Ask is where Sellers can place orders and wait for somebody to buy shares. As a seller, to get the best price, we want to force somebody to buy our shares at the ask price. However, we can always sell to one of the buyers on the Bid. This will be for a lower price.



Level 1



Level 1 is the first depth of the market. This is the Bid and Ask. The Bid Ask above shows the ECN that is holding the shares, the Price, and the Number of shares available. $155 = 15,500$ (add 2 zeroes)

In this case if you want to buy share of this stock, there are 300 available at 2.31. You could sit and wait with an order at 2.30, or you could buy immediately from a seller at 2.31.

I buy shares on the Ask price so I can get in immediately.



Level 2

Level 2 is very important because it shows you the Market Depth. This shows you the Bid and Ask, but also how many buyers are lined up just below the bid and just above the ask. This tells us if there are big buyers/sellers close by.



What do I look for in Level 2



What do I look for in the Level 2?

Level 2 is always moving so the things I'm looking for on most stocks is the spread, and big bids.

I look at the Spread

I look for the number of Market Makers

I look for big bids

I look to see how close together the market depth levels are.



Number of Market Makers



What do I look for in the Level 2?

In this example you can see the spread is 1 cent. Some stocks will trade with 3-5 cent spreads, other trades with 10-20 cent spreads, and some are even bigger! A big spread indicates a stock can quickly make big moves, but it's also indicative of a thinly traded stock. If you buy at the top of the spread, you are instantly down if you sell at the bottom of the spread.

On the other hand, thickly traded stocks have 1 cent spreads, so a small spread is okay.



Number of Market Makers



What do I look for in the Level 2?

I look to see how many ECN/Market Makers are lined up at the current price. Stocks that are thickly traded will move slowly. So if a stock has 10 market makers sitting at 2.31, it's not as desirable as if there is only 1.



Number of Market Makers



What do I look for in the Level 2?

Looking for big bids and big asks will tell us if somebody is holding down a stock, or propping it up. These can provide psychological support. However, anyone with a large account can place a large order, and cancel it before it starts to get filled. So be mindful that there can be some manipulation there.

Big Bids encourage me to jump in to long side knowing we have a level of support at the large bid.



Number of Market Makers



What do I look for in the Level 2?

The spread between the intervals of depth is important to notice as well. If there is a bid of 2.31, but the next ask isn't until 2.45, that tells me when 2.30 breaks the stock could quickly rip. That is typical of thinly traded stocks.





Time & Sales

Next to the Level 2 window is our Time and Sales window. This shows us each order as it's placed. Red orders occur on the Bid price, Green orders on the Ask Price, and white orders are in between the spread.

Learning to read the Time & Sales is very important, especially at key breakout spots.





Time & Sales

Remember, this is a zero sum market, every transaction is both a buy and sell. At the end of the day, the same number of shares are available as the beginning of the day. They just changed hands.





Time & Sales

I choose to look just at the size and price, I remove the other columns. You could choose to look at the Route and the Time, but I don't find those helpful.

The screenshot shows a trading application's Time & Sales window for the stock EDGX. The main area displays a grid of trade data with columns for Price, Qty, and Exch. The interface includes various buttons and dropdown menus for filtering and displaying market data.

Price	Qty	Exch
2.3	100	EDGX
2.3001	200	FADF
2.3001	240	FADF
2.3001	100	FADF
2.3	240	EDGX
2.3	100	BATS
2.3	200	NASD
2.3001	163	FADF
2.3	163	NASD
2.3	100	EDGX
2.3	100	EDGX
2.3	2000	EDGX
2.3	900	EDGX
2.3	100	NASD
2.3	5934	EDGX
2.3	66	EDGA
2.3001	100	FADF
2.3	200	EDGX

What I look for at the breakout point



Right as a stock is approaching a breakout spot there are few things I'm looking for on the Level 2 and Time & Sales. What I'm looking for is any indication that the stock is going to breakout. I often buy in anticipation, so getting any of those subtle queues will help me decide to jump in.

I want to see: Lots of Buy Orders going through in GREEN (at the ask price). I'll see these flowing through the Time & Sales Window.

If there is a heavy seller at the breakout price, that indicates some resistance. That is okay because breakout points are almost always resistance AND triggers. So what I want to see is if there is a heavy seller of 10k shares, I want to see that dropping down to 9, 8, 7, 6, 5, etc, as we see the buy orders flow through on the Time & Sales. This tells me we are getting a volume spike at the breakout spot.

Remember, VOLUME CONFIRMS the breakout.



Transaction Sizes

Market Makers (ECN's) typically move shares in 100 share blocks. If I see a lot of 100 share orders going through, I'm not going to think much of it. Retail traders buy in larger lots, 1k shares, 2k, shares, etc.



You want to jump in, but how to I place an Order?

Lets go over some of the order types we discussed in our first class





Order Types

There are three basic types of orders you can send to buy or sell shares.

Market Orders: A market order to buy or sell will give you shares at “market price”. This is your way of telling the broker to give you shares, and you don’t care what price. This typically isn’t a good method for day traders because the price we pay will directly impact how profitable the trade will be.

Limit Orders: In contrast to a Market Order, a Limit order requires you to put in a price, which is the MOST you are willing to pay, or the LEAST you are willing to sell for. This is the type of order I use.

Stop Orders: These types of orders are triggered when a stock crosses a certain price. These are typically used as Stop Loss orders, to sell your position at a loss if a certain threshold has been crossed. These can be sent as Market or Limit orders.



Order Routing Methods

Think of the market as an island. On this island all the buyers and sellers meet to exchange shares. This is where everyone goes to buy and sell.

There are dozens of bridges to get to this island.

When you send an order from your broker, they will automatically choose which bridge they think is fastest, using a Smart Routing system.

Alternatively, you can choose to directly route through the electronic communications network (ECN) that you prefer. Like bridges, ECN's charges "tolls" or fees for their use. These are in addition to commissions.

Some brokers won't allow you to choose which route you use, and in exchange, won't charge you ECN fees. The problem is that they may choose slow routes and you can't do anything about it.



Order Routing Methods

LIMIT
MARKET
STOP
BATDL
BATDM
XDRKIL
XDRKIM
HPPOL
HPPOM
SPDRKL
SPDRKM
HELIXL
HELIXM
ARCAL
ARCAM
INTEL
INETM
INETP
EDGAL
EDGAM
EDGXL
EDGXW
EDGXP
ITGIL
ITGIM
JPCCL
JPCCM
MDPTL
NSXL
NSXM
POSTL
POSTM
XALL
XALLM
XDAGL
XDAGM
ONYXL
ONYXM
LYNXL
LYNXM
NYSEL
NYSEM
NASDL
NASDM
MARKET
Pref
SHRT
CXL
RPL
BUY

You can use the Smart Routing "Limit", or you can direct route, with any of the ECN's listed here with Speedtrader.

I generally choose 1 ECN that has low fees and use that one. I find the orders are typically a little faster than using the Smart Routing.

You can ask your broker to give you a list of the ECN fees and then choose a route that isn't too expensive.

Typical fees will be .0015 or \$1.50 x 1k shares

-- 0 SPDR S&P ... PCL192 A
Vol : 0.00000
VWAP: 0.00000
Display Price TMP ?
SHRT CXL RPL BUY

SPEEDTRADER
A division of Stock USA Execution Services, Inc.

Home | About SpeedTrader | Trading Platforms | Prices | Info & Forms | Customer Service

Routing Fees

+ Prices
+ Commission Fees
+ Account Fees
+ Software Fees
+ Routing Fees
+ Margin Fees

Venue	Add Liquidity	Take Liquidity	Outbound Shares
SPTD SMART	\$0.0015	\$0.0015	\$0.0015
ARCA	(\$0.002)	\$0.003	\$0.0035
CCMX	\$0.003	\$0.003	\$0.003
EDGA (Routable)	(\$0.0006)	\$0.003	\$0.003
EDGA (Non-Routable)	(\$0.0006)	\$0.003	\$0.003
EDGX	(\$0.002)	\$0.0029	\$0.0029
INET	(\$0.002)	\$0.003	\$0.003
ITG	\$0.0015	\$0.0015	\$0.0015
JPCC	\$0.0015	\$0.0015	\$0.0015
QUIK	\$0.005	\$0.005	\$0.005
LQPT	\$0.0015	\$0.0015	\$0.0015
NASDAQ	(\$0.002)	\$0.003	\$0.003
NIX	0.003	\$0.003	N/A



Limit Order

I Use a Limit Orders for all my trades. I set the Limit Price by Default to 5 cents above the ask. I'm willing to pay a little more in order to get into the trade, but not more than 5 cents. This for me is safer than using a Market Order, but still lets me get into trades quickly.

I may adjust this up or down depending on the particular stock and my stop limit.



Routing

I Route my Orders through Direct Access to specific market makers. This gives me the best price and the fastest execution.

I prefer to use ARCA for fast orders. I can also use the standard Smart Limit order by Speedtrader, which is cheaper.

If you use Etrade they will route your orders within their own system and it will slow down the executions.

As breakout traders, we need best price and fast orders!



Dark Pools

Dark Pools are where institutional traders place their transactions

These “pools” of shares are not available to retail traders

This means when a retail traders places a buy or sell order, we won’t get access to those shares.

Some Brokers allow Dark Pool Routing



Prepare Order

I prepare my order and all I need to do is click “BUY” when I’m ready to send it. There is no additional confirmation needed, this order will be live.

99% of my buy orders are going to be on the Ask as a Marketable Limit order. This is because I’m trying to buy at the apex when a ton of other buyers are also coming in.



Canceling Orders

If my order is not immediately filled, if the price moves up and skips my order, I cancel it by pressing the escape button on my key board. This is a hot key setting.



Scaling out of Trades

When I'm scaling out of Trades, whether it's a winner or a loser, I try to sell my shares on the ask to get the best price.

Selling on the ask forces buyers to come to you. This increases the strength of the momentum. This means even though you are selling, it won't show as a red on the Time & Sales. It will still be green because the transaction occurred on the ASK when somebody bought your shares

You aren't feeding the bids and indicating weakness.

If I have to bail out of a trade because it's not working I'll sell on the bid, but otherwise I sell on the ask.



How to Hide Shares

Using ARCA and other Direct Routes, you have to display a min of 10% of your actual size. If you have 100k shares you can show 10k.

If you are selling a thinly traded stock, you may want to hide your shares to not scare away buyers. If you are buying a stock that shows a 10k seller on the ask and even after 10k of buying it still shows 10k shares, there is probably a hidden seller.

I typically don't hide shares because it's inconvenient. You can't display odd lots, which means you have to show 100, 200, 300, etc. You can't show an odd lot like 330. Because I use hot keys that automatically calculate my position and then sell $\frac{1}{2}$ or $\frac{1}{4}$, the calculations would frequently result in odd lots and rejected orders.

Adding / Removing Liquidity



Adding Liquidity to the Market means you are adding shares that can be bought or sold. This would be any order that is not immediately “marketable” or filled when it’s placed

By Adding Liquidity to the Market, many Market Makers will give you ECN Rebates

When you Remove Liquidity you may get charged an ECN Fee.

At the end of the day, ECN fees and rebates aren’t a big deal, and they aren’t something you would want to design your trading strategy around. They are just something to be aware of.



Adding Liquidity

Adding Liquidity to the Market means you are improving market liquidity by adding shares.

This would be considered ANY order that is not immediately Marketable.

When you Add Liquidity, you get PAID ECN rebates. ARCA pays .002
This means if I sell 10k shares on the Ask ARCA will pay me \$20.00



Removing Liquidity

When you place a market order, you are taking liquidity away from the market.

Some brokers will charge you an ECN fee for this. It may be anywhere from .0025-.01

This can be costly, but is the price to get fast executions with direct market routing



VIDEO Case Studies



WARRIOR
TRADING

\$CPXX 100k Seller

100k seller

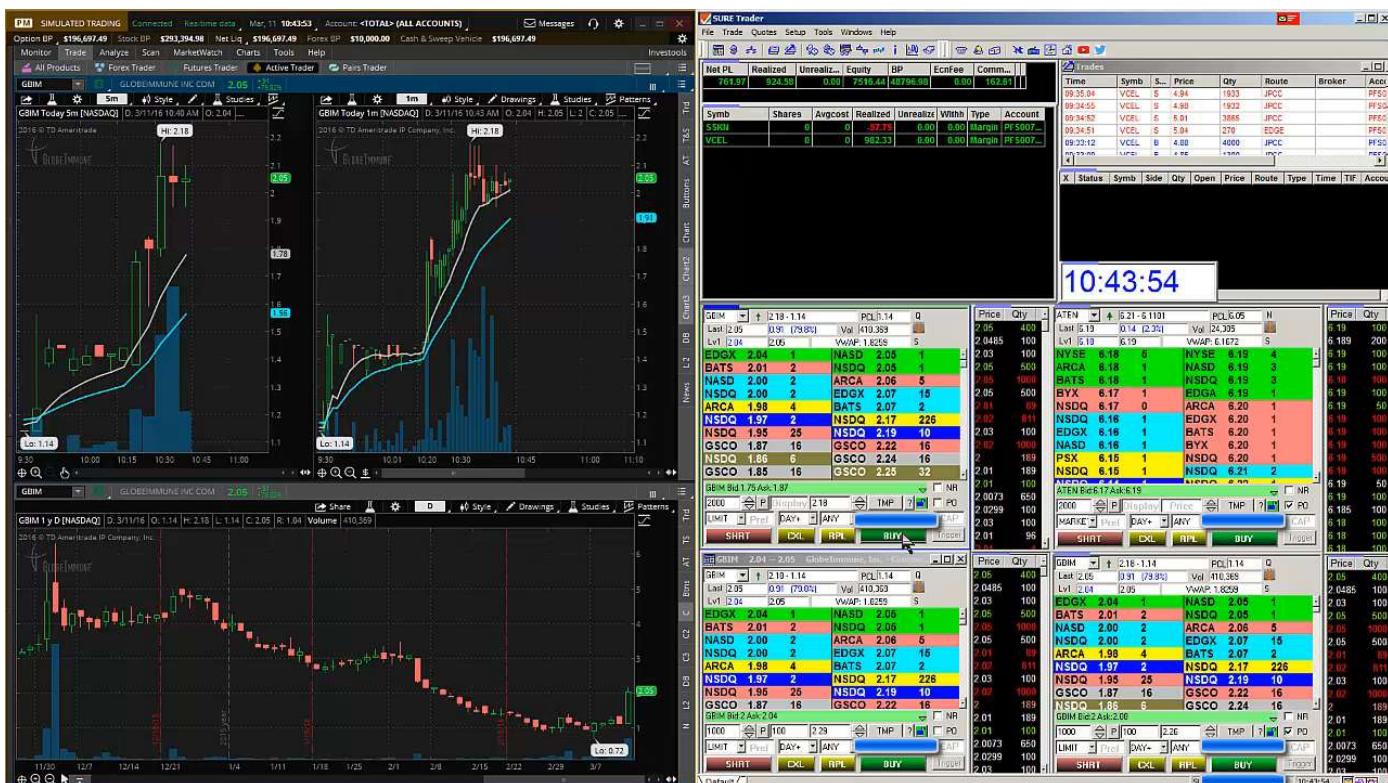




WARRIOR
TRADING

\$GBIM Level2

In this case
the 17k
seller
moved, and
offered a
quick 10
cent pop

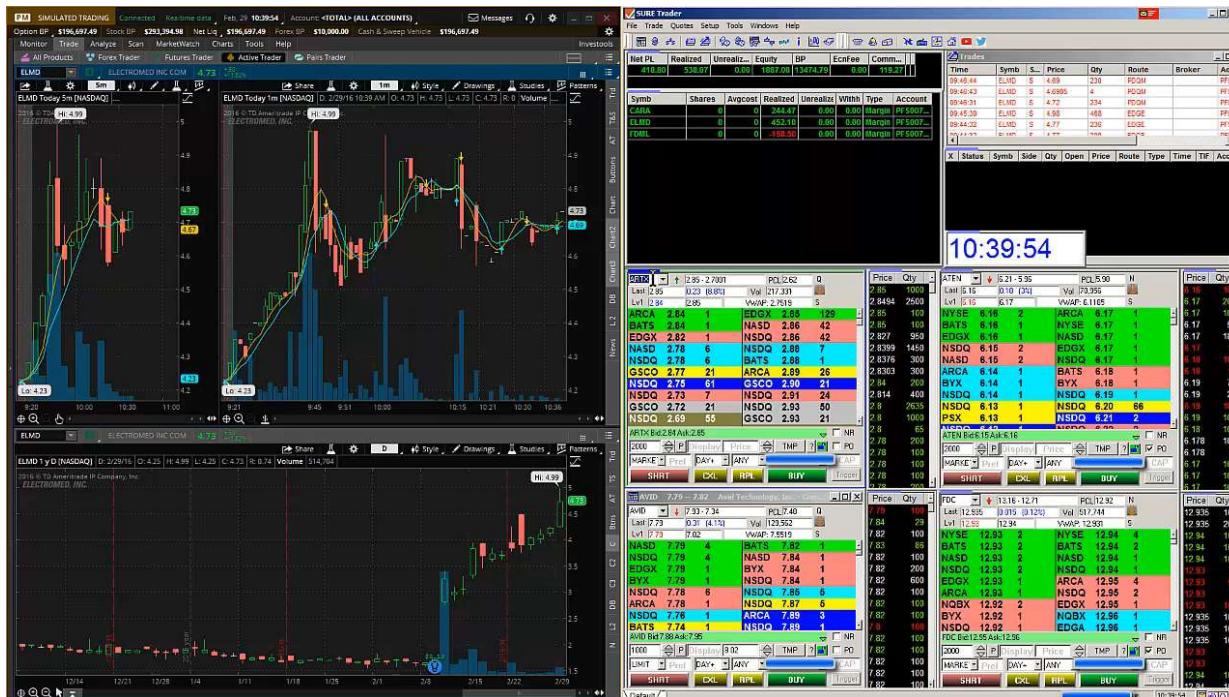




WARRIOR
TRADING

\$ARTX Stacked Level

Heavy Seller holding it back



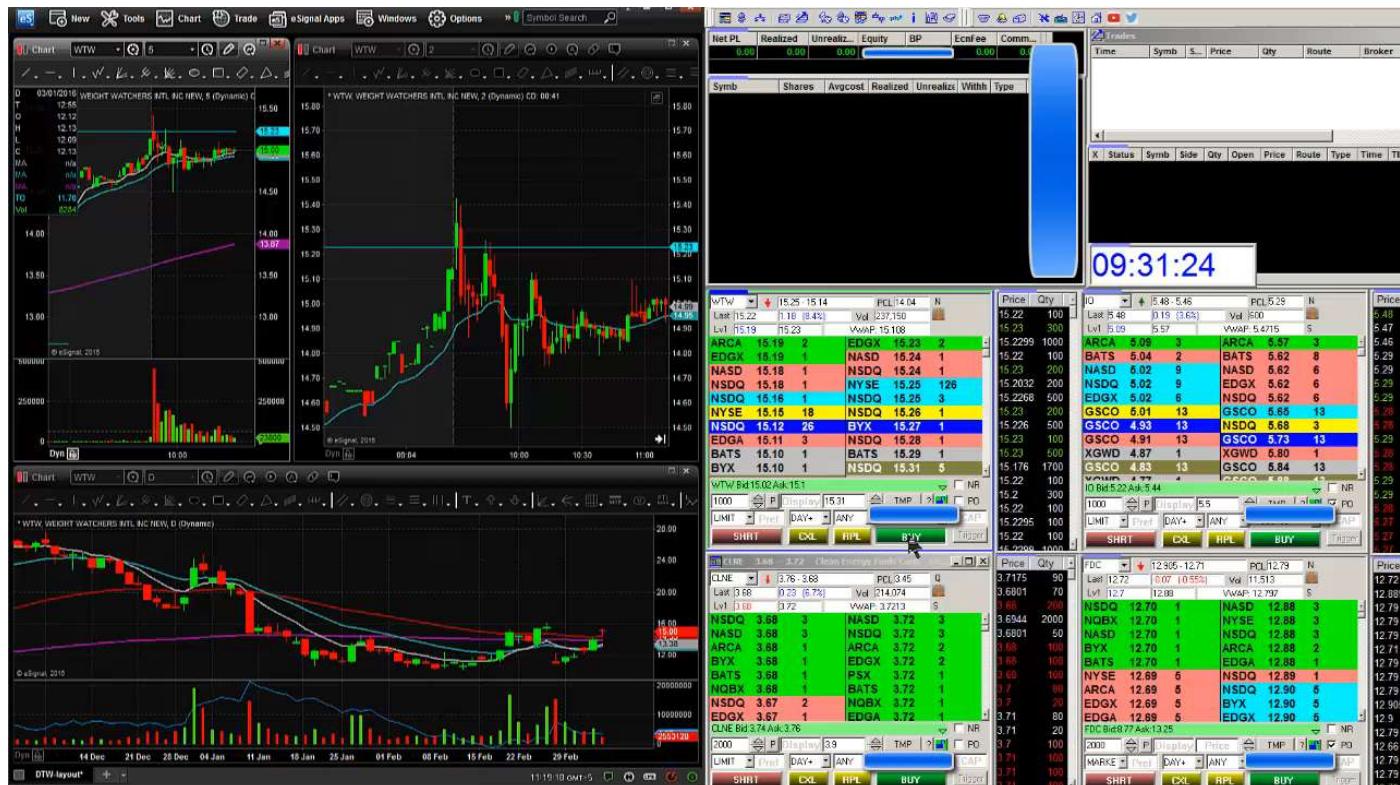


WARRIOR
TRADING

Level2 Studies on \$WTW \$ERII

Once the 25k seller moved on \$WTW we got a nice 15 cent pop.

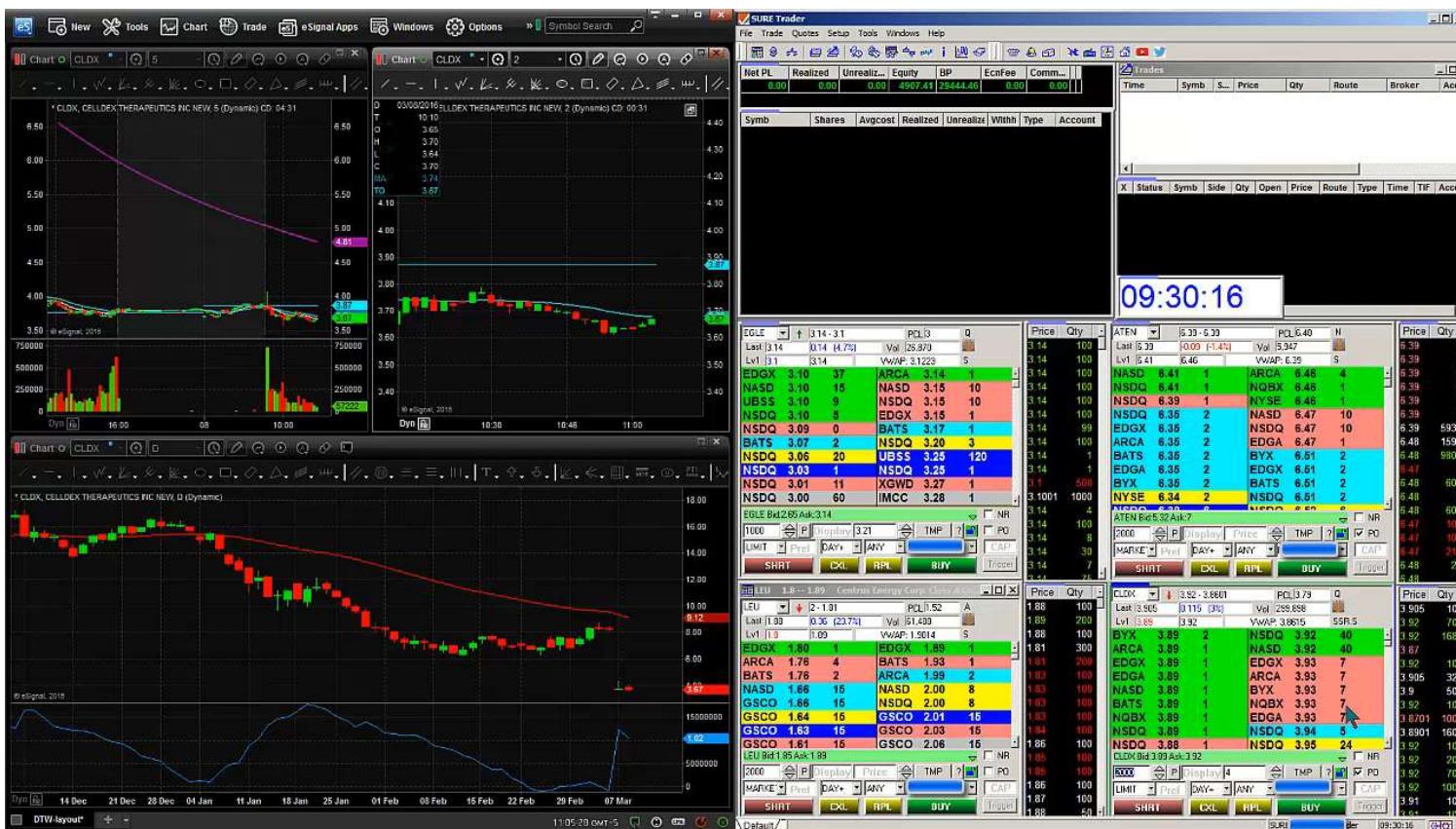
On \$ERII as soon as I saw the 300k seller, I bailed. Too big of a wall to break through.





WARRIOR
TRADING

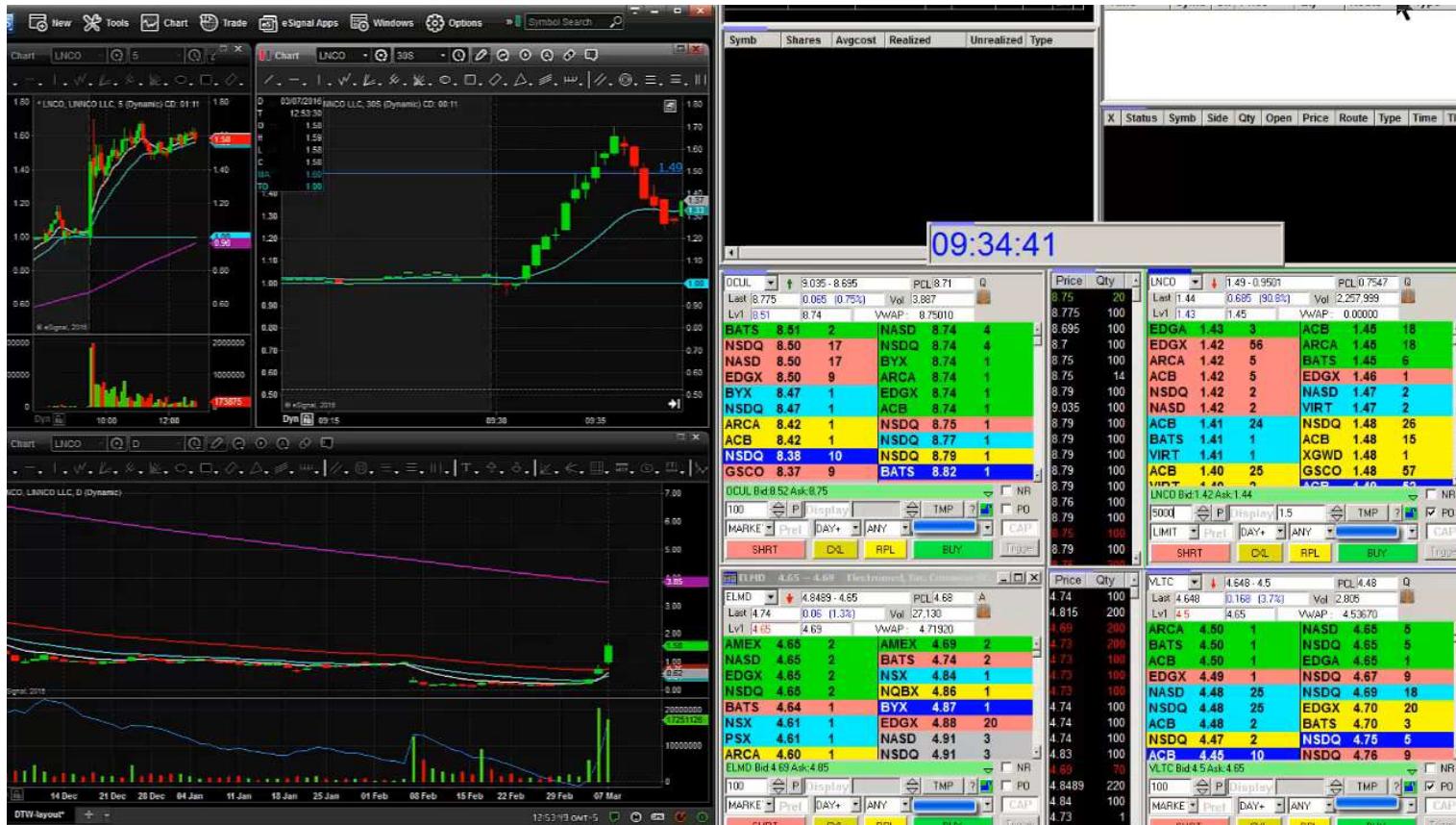
\$CLDX Heavy Level2





WARRIOR
TRADING

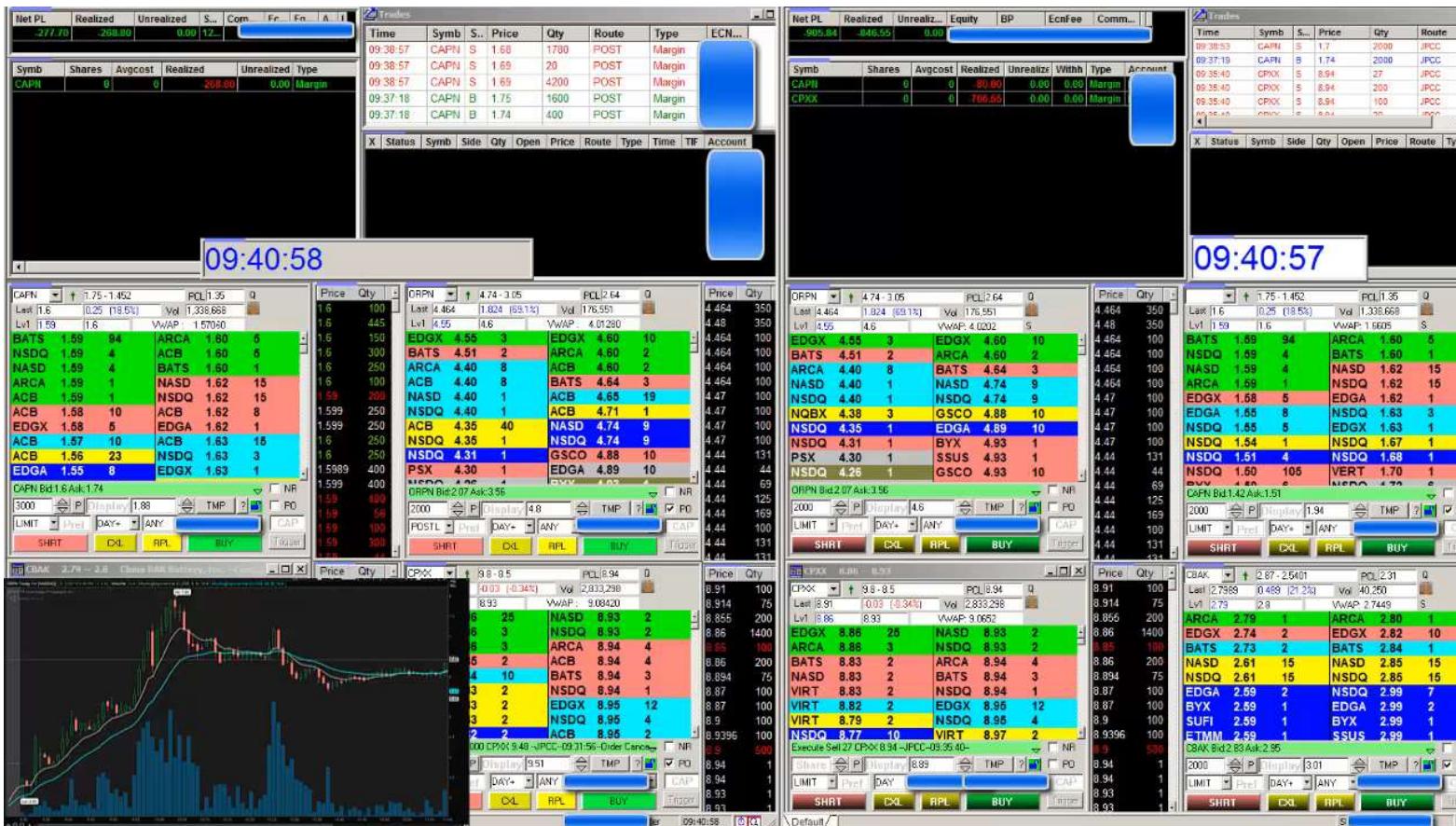
\$LNCO ½ dollar break



\$ORPN Gap and Go, 1st Pullback (big bids level2 Parabolic Squeeze)



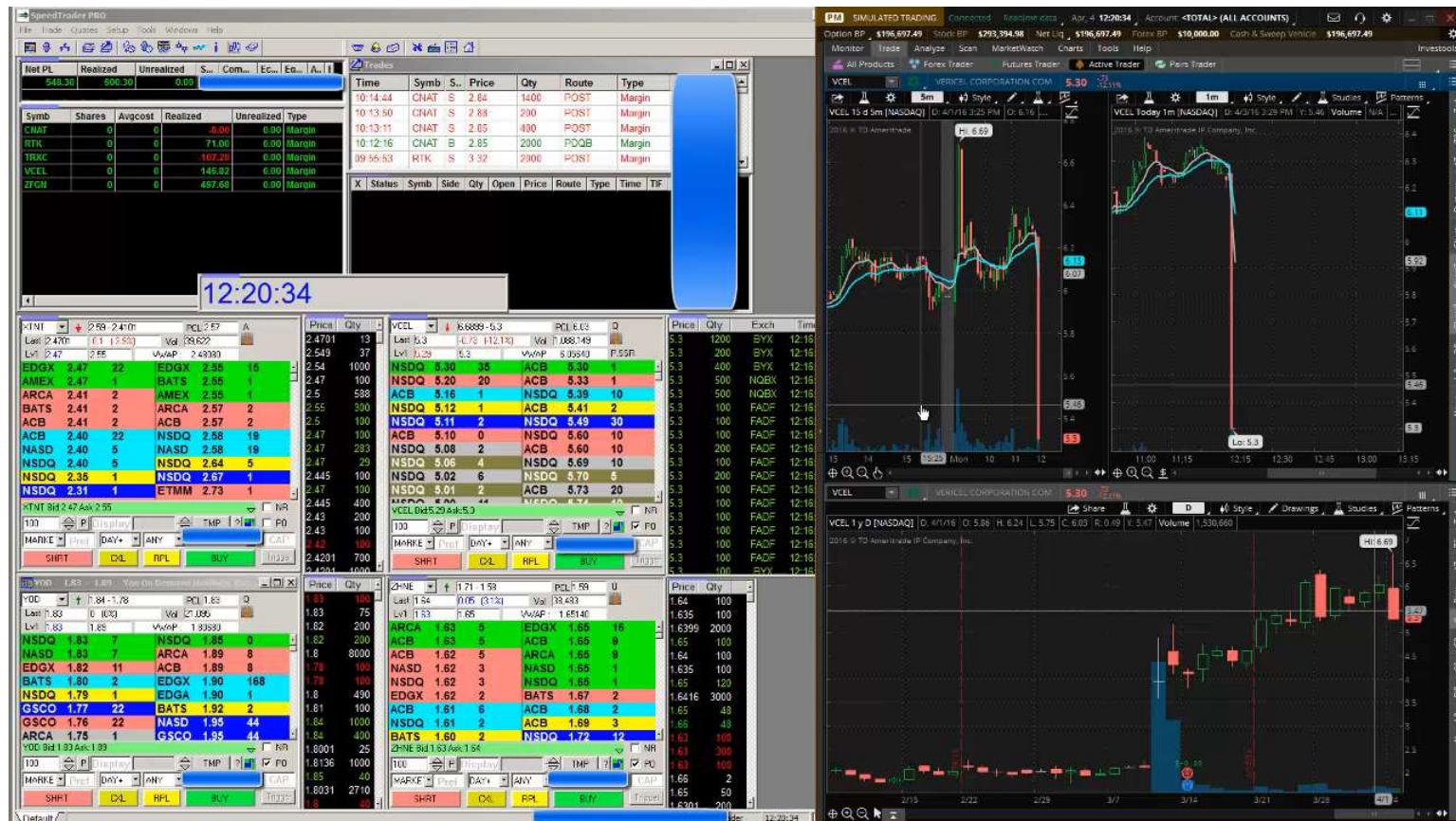
WARRIOR
TRADING





WARRIOR
TRADING

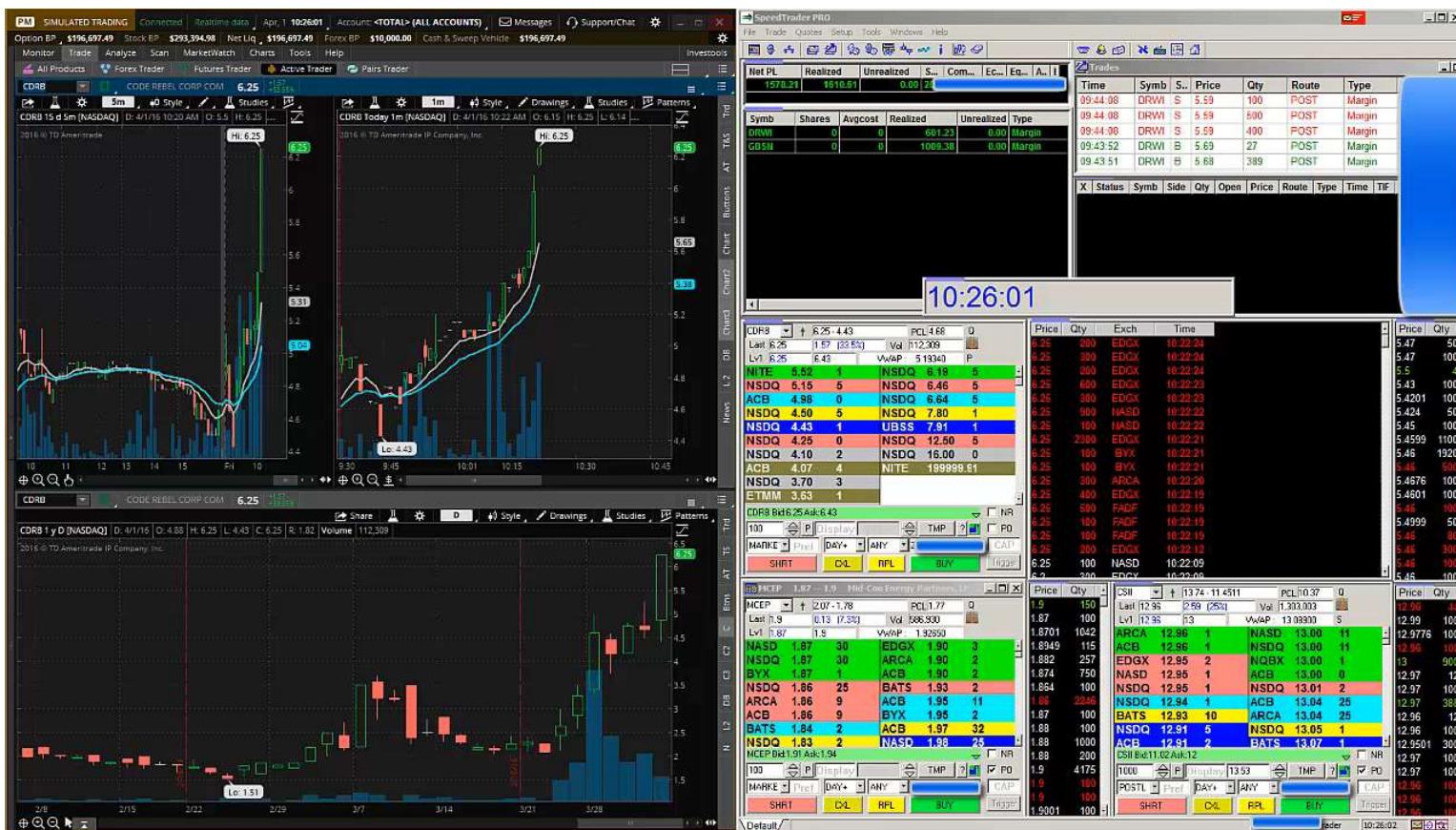
Pinned Level 2 (Stock About to be Halted)





**WARRIOR
TRADING**

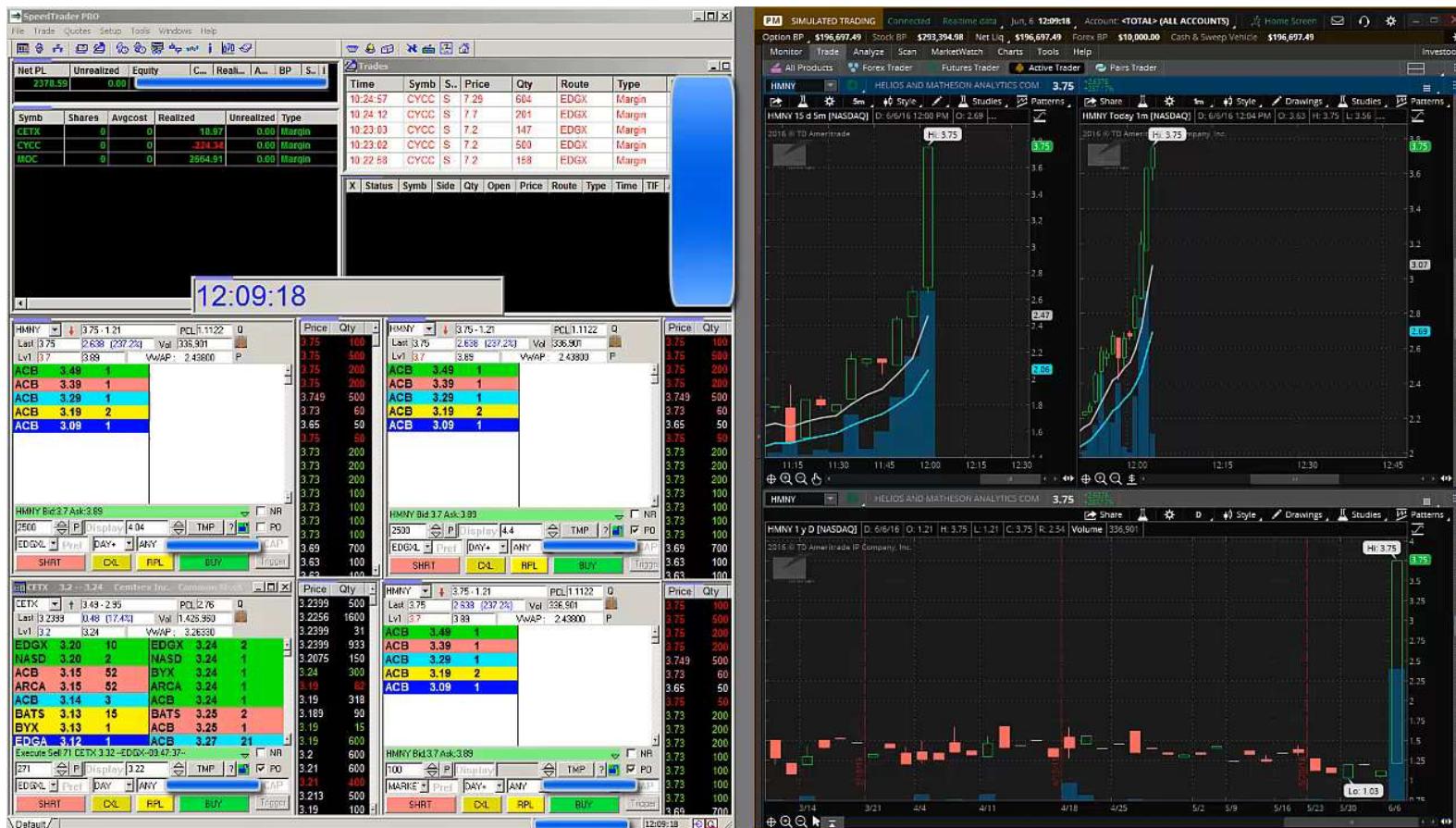
Pinned Level 2 (Stock About to be Halted)



\$HMNY Breaking News & Halt (acquisition/merger)



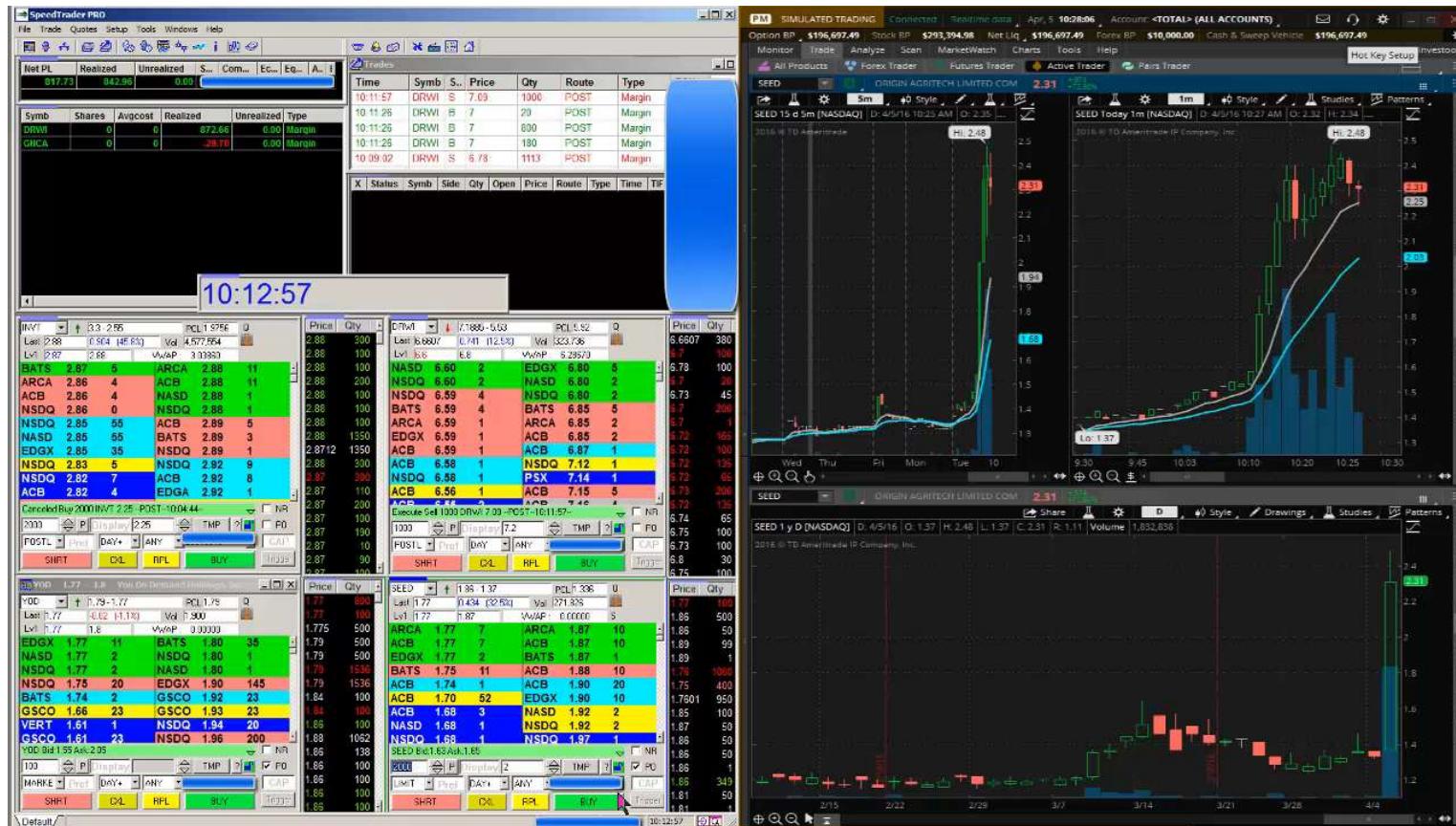
**WARRIOR
TRADING**



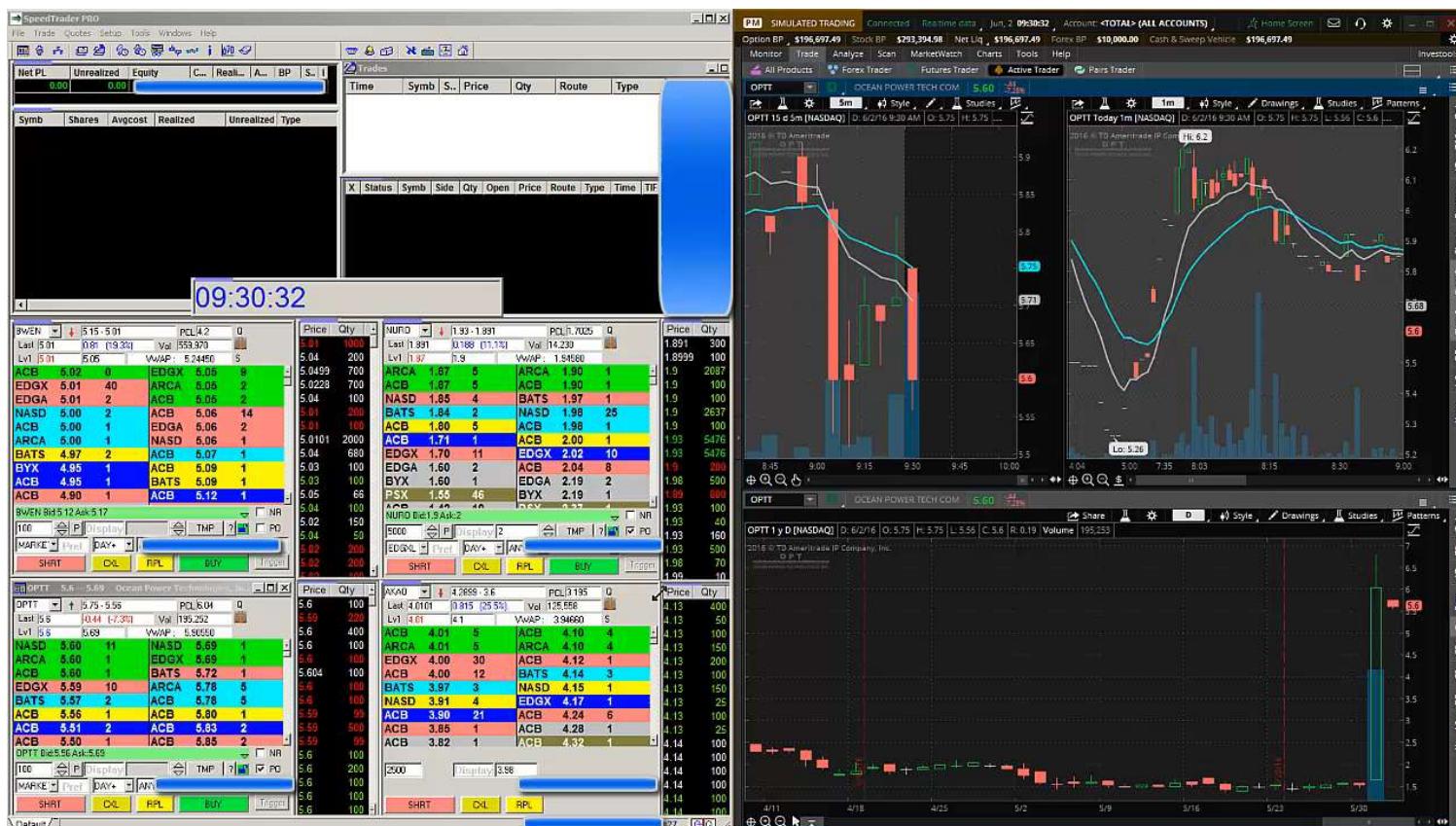


WARRIOR
TRADING

Breaking News & Halt



Video: AKAO break of pre-market highs and HALT





Hot Key Settings

Using Hot Keys I can prepare my orders AND send my orders. Hot keys help avoid wasting time typing up our orders, thinking about the math and amounts, and avoids the risk of irritating typos.

I have two different types of Hot Keys

- Hot Keys that send live orders
- Hot Keys that prepare orders and make changes on my order entry window



Using Hot Keys

Using Hot Keys allows very quick orders.

Most Brokers provide Hot Key configurations that you may be able to customize for your preference

Direct Access Software used by Speedtrader provides great Hot Key functionality.

Sterling and Lightspeed Pro also have good Hot Key settings



Hotkey Buying Orders

Hotkey Configuration

NAME	KEY	Command(s)
Cover Short - Limit - 1/1 Position		Route=POSTL; Share=Pos; TogSShare=; Price=Ask+.05; NoRR=N; BUY; TIF=DAY
Cover Short - Limit - 1/2		Route=POSTL; Share=Pos*.5; TogSShare=; Price=Ask+.10; NoRR=N; BUY; TIF=DAY
Cover Short - Limit - 1/4		Route=POSTL; Share=Pos*.25; TogSShare=; Price=Ask+.10; NoRR=N; BUY; TIF=DAY
Share Size -100 Shares	,	Share=Share-100
Share Size +100 Shares	.	Share=Share+100
Share Size -1000 Shares	Ctrl+,	Share=Share-1000
Share Size +1000 Shares	Ctrl+,	Share=Share+1000
10 cent stop	Ctrl+1	ROUTE=STOP;StopType=Market;StopPrice=Bid-.10;Share=Pos;TIF=DAY; ACCOUNT= ; SELL=Send
20 cent stop	Ctrl+2	ROUTE=STOP;StopType=Market;StopPrice=Bid-.20;Share=Pos;TIF=DAY; ACCOUNT= ; SELL=Send
SELL Ask - 1/4 Position	Ctrl+;	Route=LIMIT; Share=Pos*.25; TogSShare=; Price=Ask; NoRR=N; TIF=DAY; ACCOUNT= ; SELL=Send
- .1	Ctrl+KeyDown	Price=Price-0.1
Stop Breakeven (LONG)	Ctrl+B	ROUTE=STOP;StopType=Market;StopPrice=AvgCost;Share=Pos; TIF=DAY; ACCOUNT= SELL=Send
SELL Bid - 1/4 Position = Ball Out	Ctrl+C	Route=LIMIT; Share=Pos*.25; TogSShare=; Price=Bid-0.05; NoRR=N; TIF=DAY; SELL=Send
Route = POST Copy	Ctrl+I	Route=LIMIT
SELL Ask - 1/1 Position	Ctrl+K	Route=LIMIT; Share=Pos; TogSShare=; Price=Ask; NoRR=N; TIF=DAY; ACCOUNT= ; SELL=Send
SELL Ask - 1/2 Position	Ctrl+L	Route=LIMIT; Share=Pos*.5; TogSShare=; Price=Ask; NoRR=N; TIF=DAY; ACCOUNT= SELL=Send
Route = POST	Ctrl+P	Route=LIMIT
Cancel all	Ctrl+Q	CXL ALLSYMB
Focus Share	Ctrl+S	FOCUS Share
Trailing Stop	Ctrl+T	ROUTE=STOP;StopType=Trailing;Share=Pos;TIF=DAY;BUY
SELL Bid - 1/2 Position = Ball Out	Ctrl+U	ROUTE=LIMIT; Share=Pos*.5; TogSShare=; Price=Bid-.05; NoRR=N; TIF=DAY; ACCOUNT= SELL=Send
SELL Bid - 1/1 Position = Ball Out	Ctrl+Z	Route=LIMIT; Share=Pos; TogSShare=; Price=Bid-.05; NoRR=N; TIF=DAY; ACCOUNT= SELL=Send
+ .01	KeyUp	Price=Price+0.01
+ .1	Ctrl+KeyUp	Price=Price+0.1
- .01	KeyDown	Price=Price-0.01
Switch Windows	TAB	SwitchTVInd
10 cent stop (SHORT)	Alt+1	ROUTE=STOP;StopType=Market;StopPrice=Ask+.10;Share=Pos;TIF=DAY; ACCOUNT= BUY=Send
20 cent stop (SHORT) Copy	Alt+2	ROUTE=STOP;StopType=Market;StopPrice=Ask+.20;Share=Pos;TIF=DAY;BUY
Cover Short Bid - 1/4 Position	Alt+;	Route=LIMIT; Share=Pos*.25; TogSShare=; Price=Bid; NoRR=N; TIF=DAY; ACCOUNT= BUY=Send
Stop Breakeven (SHORT)	Alt+B	ROUTE=STOP;StopType=Market;StopPrice=AvgCost;Share=Pos;TIF=DAY; ACCOUNT= BUY=Send
Cover Short Position 1/4	Alt+C	ROUTE=STOP;StopType=Market;StopPrice=Ask+.05;Share=Pos*.25; TogSShare=; ACCOUNT= ;TIF=DAY;BUY
Cover Short Bid - 1/1 Position Copy	Alt+K	Route=LIMIT; Share=Pos; TogSShare=; Price=Bid; NoRR=N; TIF=DAY; ACCOUNT= BUY=Send
Cover Short Bid - 1/2 Position	Alt+L	Route=LIMIT; Share=Pos*.5; TogSShare=; Price=Bid; NoRR=N; TIF=DAY; ACCOUNT= ;BUY=Send
Cover Short Position 1/2	Alt+x	ROUTE=LIMIT; Price=Ask+.05;Share=Pos*.50; TogSShare=; ACCOUNT= TIF=DAY;BUY
Cover Short Position	Alt+z	ROUTE=LIMIT; Price=Ask+.05;Share=Pos; TogSShare=; ACCOUNT= TIF=DAY;BUY
Buy Max BP	Shift+1	ROUTE=LIMIT;Price=Ask+.05;Share=BP*.90;ACCOUNT= TIF=DAY;BUY=Send

HotKey File:



Extras & Links

Email me with questions ross@warriortrading.com