

NOTE: This is not a trader's Business Plan. This document has been put together to act as a guideline for trading the L2ST Way during Balanced\Imbalanced phases.

Risk Management:

A %Risk Management Model must be utilised to minimise risk, at no more than 1% of account at risk per trade. For new traders it is recommended that you risk less at around 0.5% per trade. Never Risk more than 3% per day as a proven consistently profitable trader, and as a newbie trader risk NO MORE than 2% per day. Every market is different so know your market well, and understand what is realistic and suitable for that market and your time frame for stop placement. Avoid using very tight stops to reduce risk, if the market is too expensive for you to trade with your account capital choose another or raise more capital.

NEVER trade undercapitalised.

NEVER trade without a daily risk limit set with your broker or Risk Desk.

THE FIRST QUESTION EVERY TRADER SHOULD ASK BEFORE TRADING ANY DAY OR ANY TRADE:

"Is the market Balanced or Imbalanced OR is it attempting to become Balanced or Imbalanced?"

The answer to this fundamental question will help you choose the right strategy at the right time.

TRADING BALANCED\ROTATIONAL MARKETS

A Balanced Market is established when the market has already found Value within a sideways\rotational range. All markets spend most of their time in this phase, as it fulfils the purpose of the market to facilitate trade most efficiently and effectively. Market will in general be balanced over 80% of the time.

Characteristics:

- Most of the Volume traded is within the middle\centre of the range.
- Symmetrical Volume at Price Distribution (See Figure 1 Below)
- Less Volume traded, and therefore rejection at the highs\lows of the range.
- Flat VWAP and 1st standard deviation bands.
- Price is attracted back to the middle of the range (VPOC\VWAP) as it tries to move away outside of value areas range.
- 100-80% retracements in Price swings. Extensions may occur above and below value up to around the 127-161.8% Fibonacci Retracement Extensions of the range's high-low or low-high.
- Market will usually find Buyers below \sellers above Value for up to 3-4 swings before an attempt for a move away from value. 1st\2nd Swing\Test Provide highest probability trades.

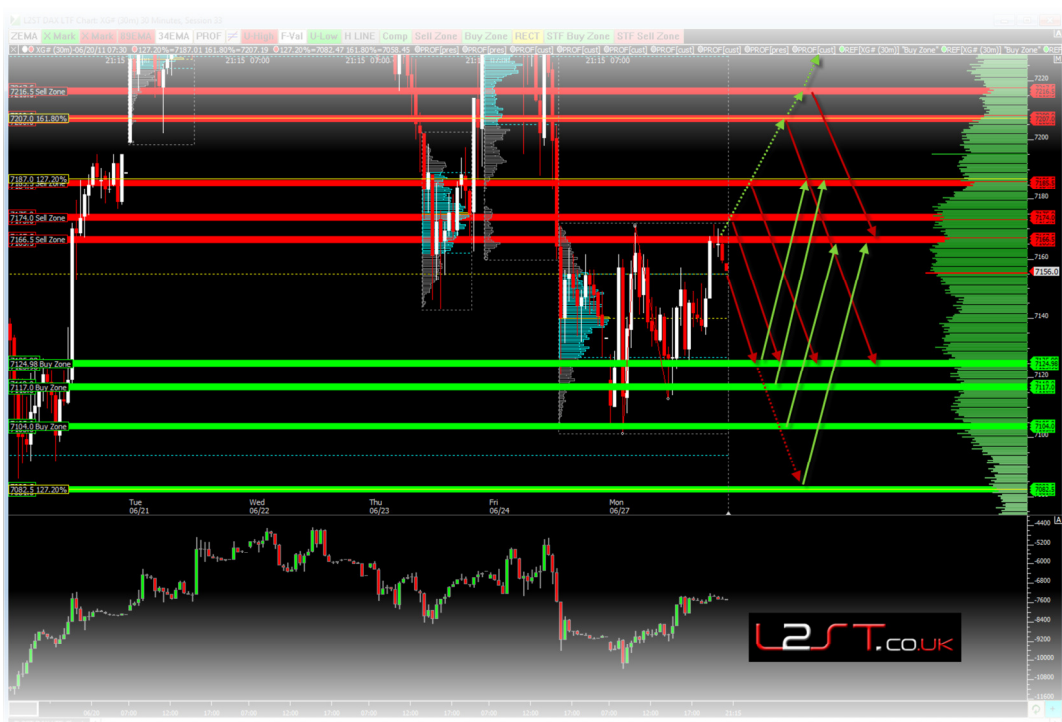
Figure 1: Balanced Market Profile, VWAP and Price Action Example.



Identify Opportunities:

- Identify prior areas of Rejection (For example LVN's (Low Volume Nodes) or Low Volume Areas) above and below the area you perceive to be of value for the current markets auction (This may be today's developing value area, a prior\developing value area on your Longer Time Frame Perspective Change i.e. 30-60 minute chart). NOTE: A lot of this should be done before the market opens as Pre-Market Analysis like in Figure 2 below. As posted online by L2ST daily at: http://chart.ly/users/L2ST_Traders
- Use the Longer Time Frame and Shorter time frame Composite Profiles to find areas of interest and confluence.
- Aim to Short LVN's above Value for targets within and below value.
- Aim to Buy LVN's below value for targets within and above value.

Figure 2: Example Pre-Market Analysis



Trade Execution:

- Simply use Price Bars for execution on a time frame that you are comfortable with. Range, Renko or Heiken Ashi Bars are recommended. For Longs, a Close above the high of the low bar, for shorts a close below the low of the high bar. Heiken-Ashi execution setup example in Figure 3 below.
- Closing Bar Delta Signals (Using Ask\Bid Traded and Up\Down tick volume VB), as shown below in Figure 4.
- For those that are more advanced you may use the L2ST Order Flow Execution methods taught in the courses. For Example using MarketDelta Footprints, Time & sales and DOM information, please refer to the course material, as the options available for execution is far too involved to list here. For those that do not have the full course and are interested in trading order flow, you should seriously consider the full course here: http://www.l2st.co.uk/products/traders_online.php or at least the Trade Execution and Management Seminars here: http://www.l2st.co.uk/products/l2stprecision_tradeexecution.php.

Figure 3: Heiken Ashi Execution setups

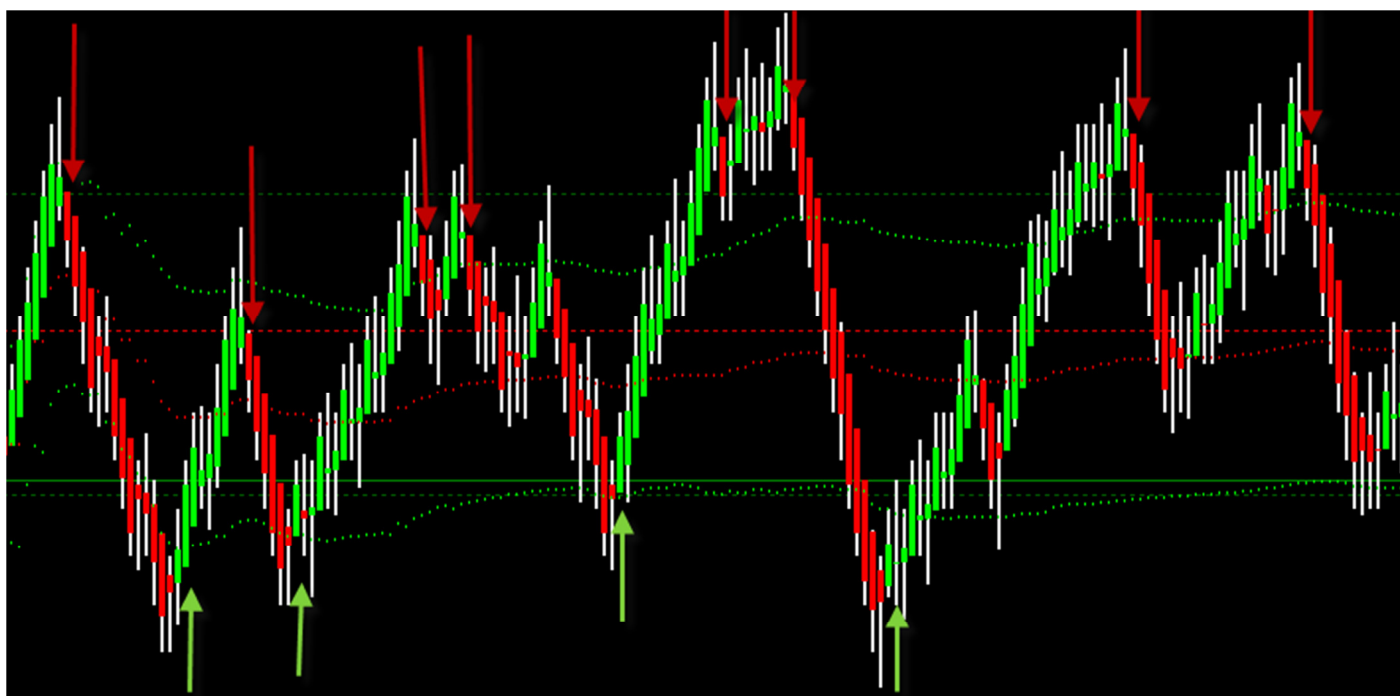
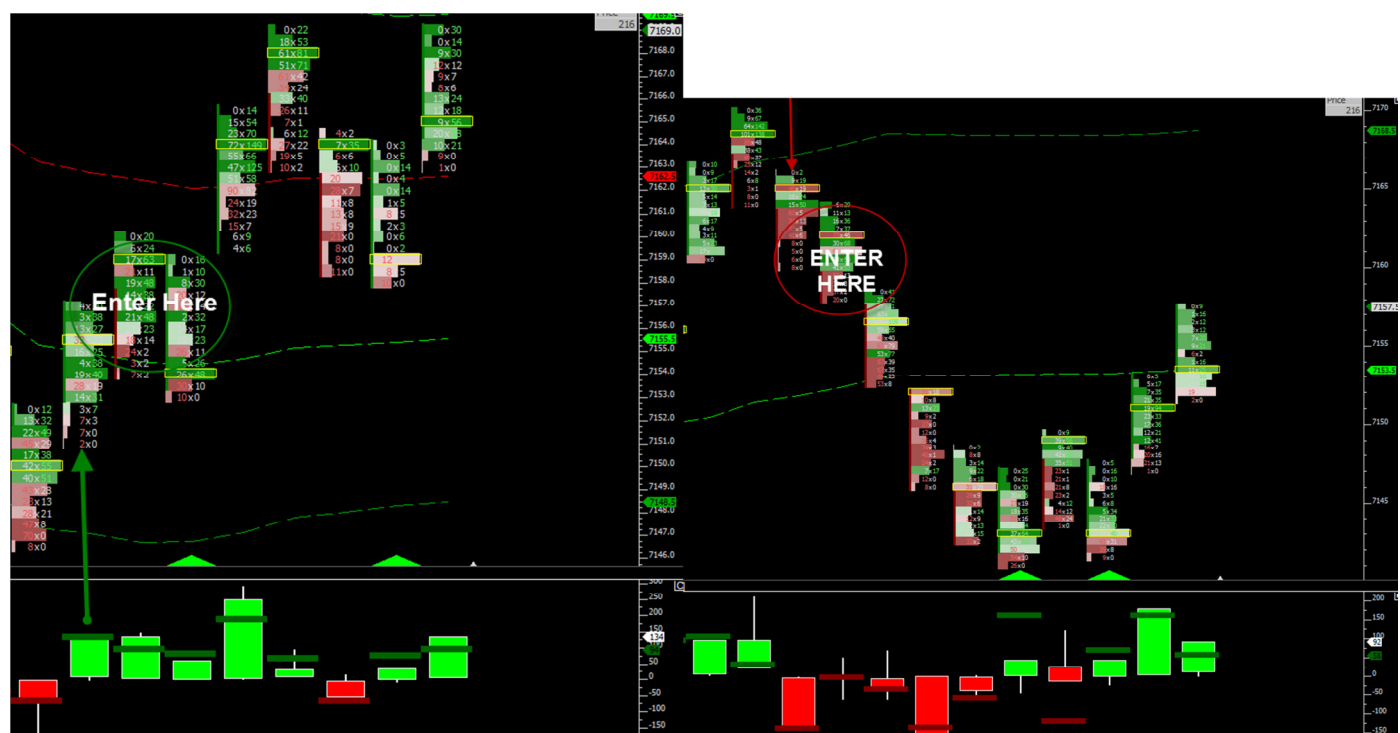


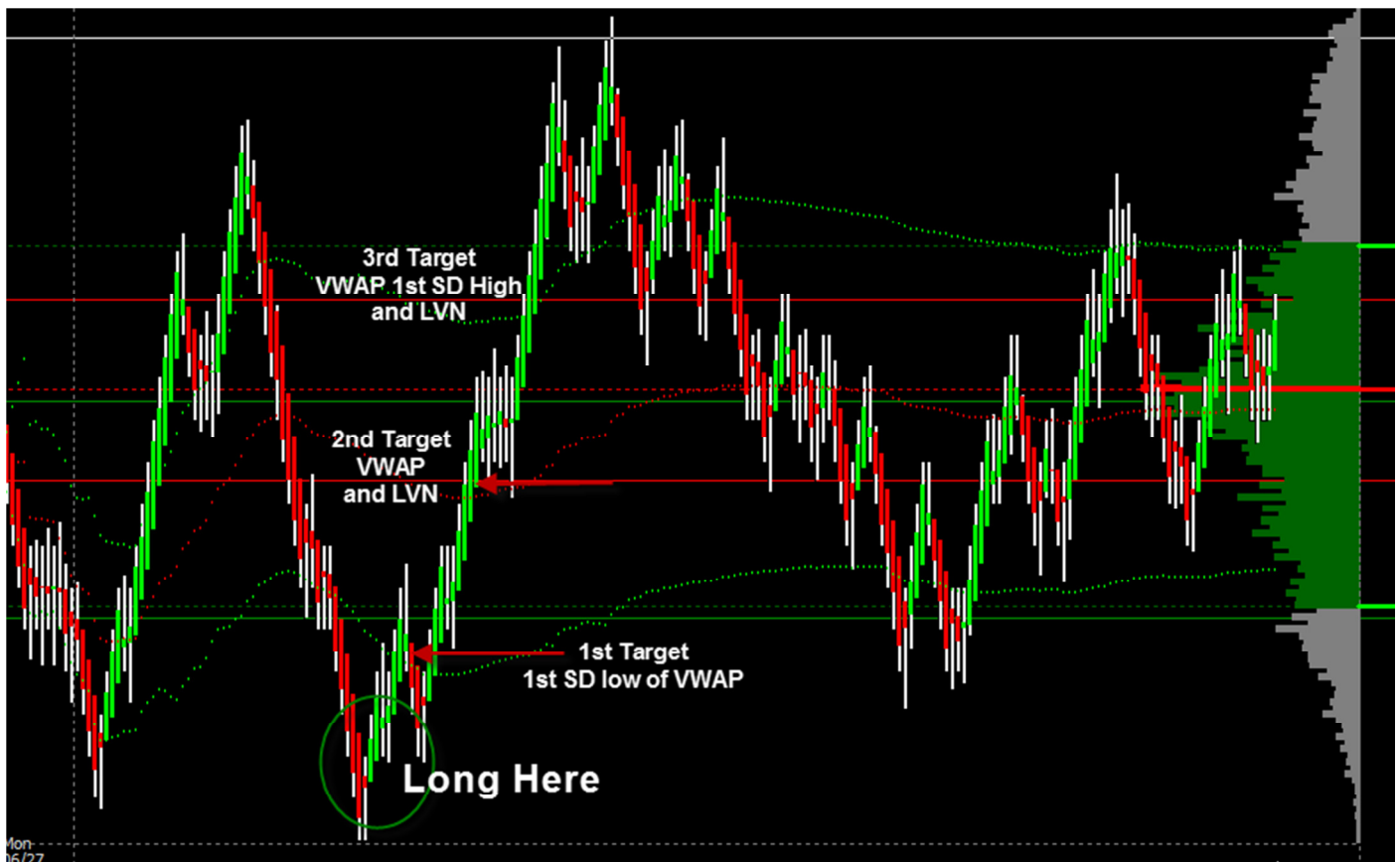
Figure 4: Delta Buy and Sell Signals



Trade Management:

- Highlight your targets before you get into the trade and stick with the predefined levels for exits and scale outs.
- Newbie traders may use set profit target in points\ticks to start with. For example +10 ticks for a 1st target followed by a +20-30 tick 2nd target.
- More Advanced traders should highlight logical VWAP, Volume Profile Based targets, utilising a common sense approach to maximising profits. An illustrative example is below in figure 5. (NOTE: that the way you scale out depends on how many contracts you are trading. And the approach should vary to ensure that you maximise the profits for the size that you trade, if you are not sure how to best trade your account size please ask for assistance from L2ST).
- Whatever your account\trade size, you should only take those trades that can offer you at least 1:1 risk reward on a trade and ideally at least 2:1. Most importantly you should do whatever you can to maximise the profits in any trade, whilst avoiding the temptations to snatch at profits.
- Eat like an Elephant and poop like a Bird, DO NOT Eat like a Bird and poop like an Elephant!

Figure 5: Example targets for a 3 lot long trade below value



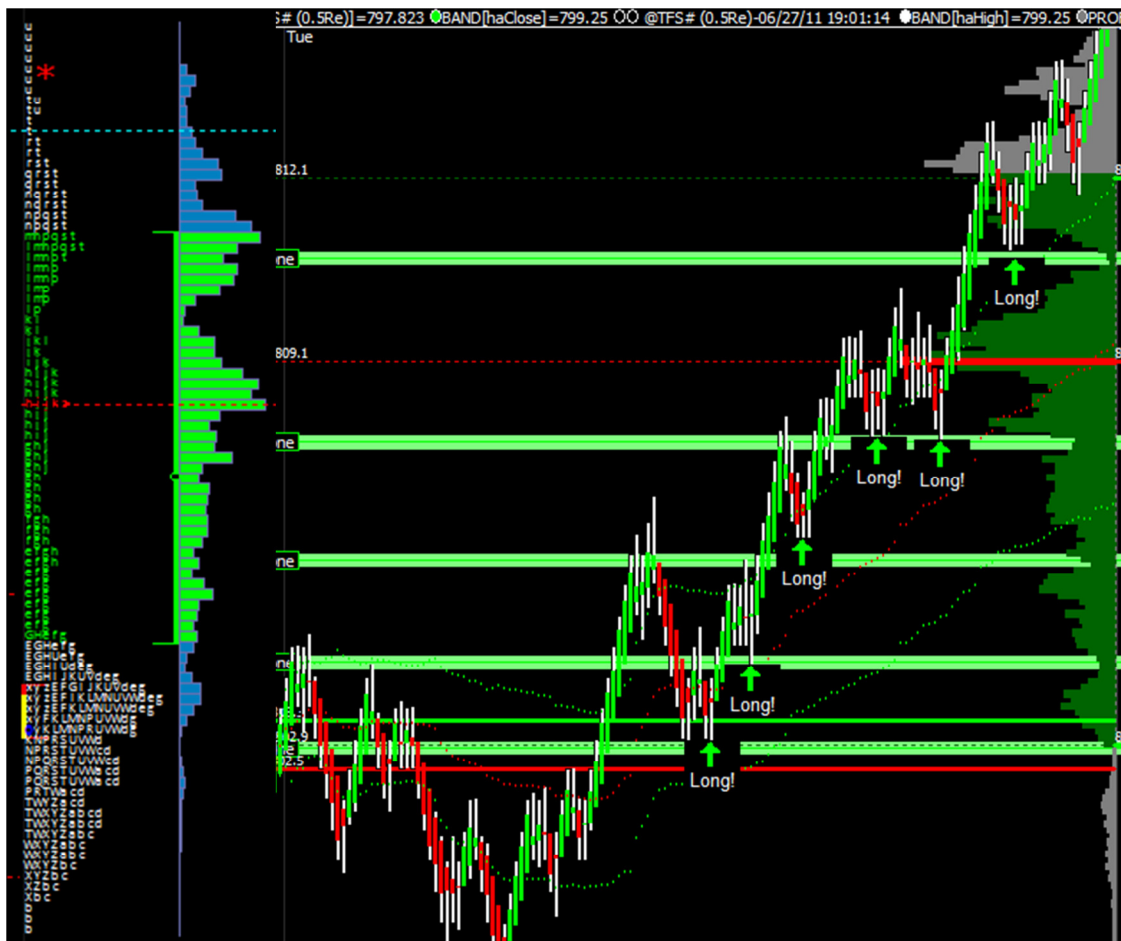
TRADING IMBALANCED TRENDING MARKETS

An Imbalanced Market is established when the market participants perception of Value has changed and they are willing to accept prices above\below value. This causes the market to move directionally in search of a new area of Value. The market will Balance again, it's just a case of when. Whilst the market is imbalanced and is seeking value, your job as a trader is to GO-WITH the imbalance and NOT fight it. Markets are imbalanced less than 20% of time.

Characteristics:

- Most of the recent Volume traded is falling outside of prior value.
- Asymmetrical Volume at Price Distributions starting to occur, usually you will see 2-3 new distributions outside of a prior key area of value, with market not spend much time in each new distribution (usually less than 1.5 hours). (See Figure 6 Below)
- More Volume will trade into new highs\lows as the market continues its attempts into new highs\lows.
- The market will retrace and test DEVELOPING LVN's in today's profile and find new trade that will initiate further movement in the direction of the Trend (see Figure 6 Below).
- Trending VWAP and 1st standard deviation bands (turning up\down). Market will commonly retrace back to its 1st SD High of VWAP in an uptrend, and to its 1st SD Low in a down trend. At times it will also pull-back\bounce as far as the VWAP.
- Price is pulling away from to the middle of the prior value areas range and fairest VPOC prices. The developing VPOC may start to shift in the direction of the markets movement.
- 25-60% retracements in Price swings are possible and the market may still sustain its trend.
- The prior value areas 127.2-161.8% Fibonacci extensions start to break with momentum and volume at price acceptance.

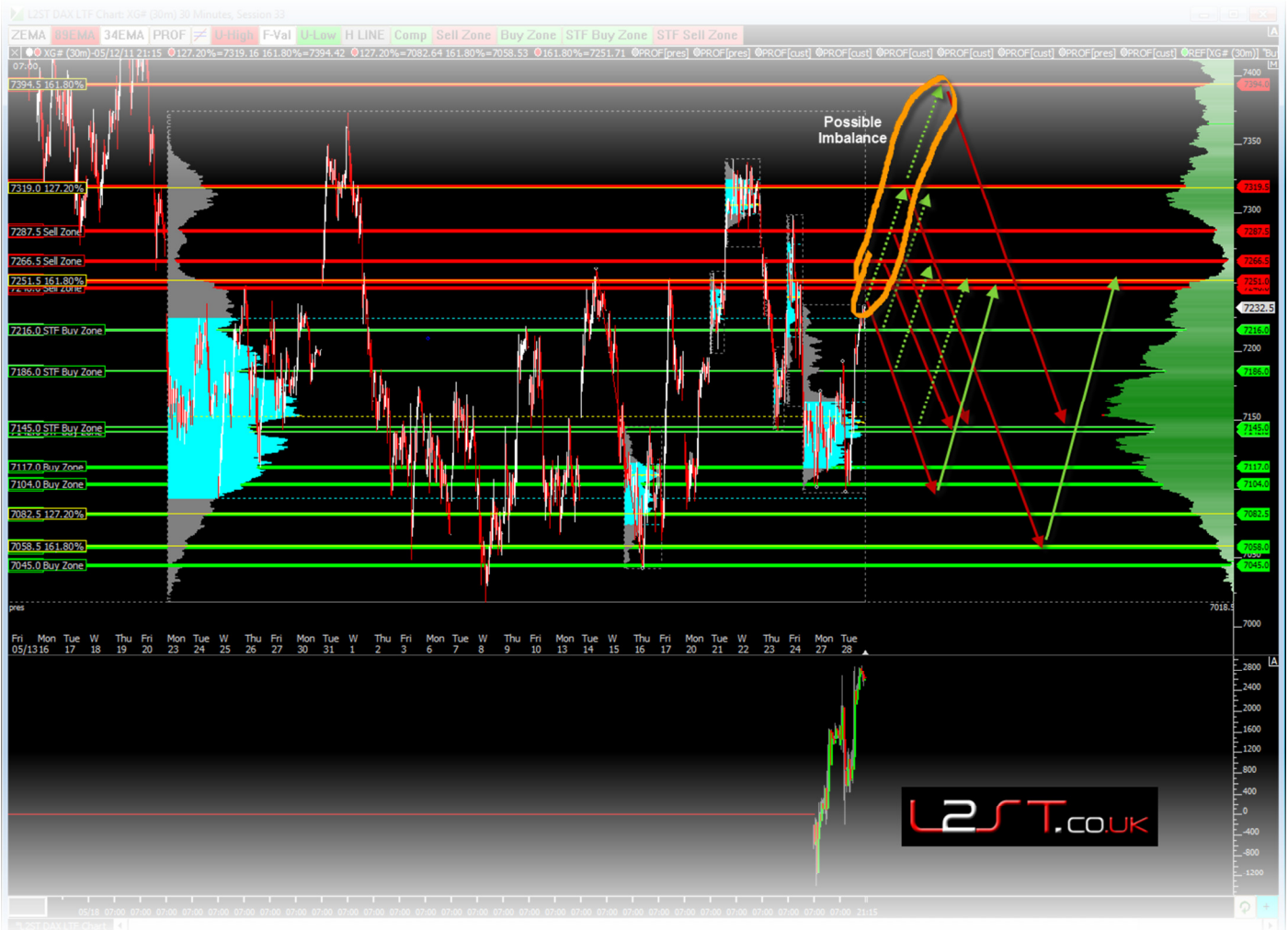
Figure 6: Imbalanced Market Profile, VWAP and Price Action Example.



Identifying Opportunities:

- Try to Envision where this market is attempting to go as in-line with any expected Initiative Activity in Pre-Market Analysis. Commit to that vision and destination for the trade.
- Aim to Short bounces to Developing LVN's in a market that is Imbalanced lower, in-line with longer time frame vision.
- Aim to Buy pullbacks to Developing LVN's in a market that is imbalanced higher, in-line with longer time frame vision.
- Developing LVN's are higher probability support\resistance if in confluence with Composite Profile Levels.

Figure 7: Example Pre-Market Analysis - Possible Imbalance Vision\Scenario



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Figure 8: Example targets for a 4 lot long trade with Imbalance occurring above value.

