

How to Identify High Frequency Trader Activity - List Provided to Recognize Their Candlestick Patterns

Understand how High Frequency Traders and the HFT candlestick patterns work to makes it easier to enter ahead of the HFT action and avoid chasing them.

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New Stock Chart Patterns Unveiled to
Help Retail Traders Navigate High
Frequency Trading

3 Stock Chart Patterns That Reveal High Frequency Trading

Stock trading can be a daunting and unpredictable world, especially for retail traders. With the rise of high frequency trading, the stock market has become even more volatile and difficult to navigate. However, there is hope for retail traders as modern [Technical Analysis](#) principles have revealed three stock chart patterns that can aid in identifying smarter entries and more profitable exits.

The algorithms used by High Frequency Trader (HFT) activity search out order flow anomalies to automatically trigger thousands of orders on the millisecond scale. This behavior creates distinct patterns in a stock chart that technical traders of all types can use to make more prudent choices.

High Frequency Trading activity causes substantial but unsustainable Volume and [Candlestick Patterns](#). So, it is the market participants who the HFTs are looking for that traders should learn to follow.

Professional Traders follow the Giant Institutional accumulation and rotation patterns, aka Dark Pool "footprints," in order to buy or sell short as soon as they recognize the liquidity draw. This





The stock market is filled with individuals who know the price of everything, but the value of nothing.”

Phillip Fisher

gives them a huge advantage because they enter ahead of the [High Frequency Traders](#) who chase Dark Pool activity.

High Frequency Trading Patterns include:

1. Large Gaps in the Stock Price, Up or Down

Large gaps up or down are the results of the deluge of rapid-fire orders placed ahead of all the market orders waiting to be filled when the stock market opens. This occurs when a news event elicits a widespread response, such as a high-profile company's earnings report.

*See the stock chart example provided to show the Professional Trader patterns ahead of the huge HFT gap up. Those Pro Traders followed the Dark Pool footprints that preceded the event by several weeks.

This can happen in either direction. Ahead of a gap down, we'll see Professional Traders selling short ahead of the High Frequency Trading gap. Both the High Frequency Traders and the Professional Traders buy to cover on the gap down day and shortly thereafter. For a gap up, they take profits on the gap day or shortly after.

Smaller Funds, who use Volume Weighted Average Price (VWAP) to trigger orders, enter late into the stock, thereby chasing High Frequency Traders or Professional Traders. Entering the stock late is also a common mistake of Retail Traders using red-light/green-light “trading systems,” “MACD crossover entries” or other outdated “trading strategies.” Entering late means that Retail Traders and Smaller Funds often buy or sell against the large-lot Professional Traders, and this is a primary cause of whipsaw trades.

2. A Huge Candlestick on the Daily Timeframe

Another candlestick pattern that reveals High Frequency Trading is a huge one-day run, either up or down. These huge price moves are unsustainable. An extreme move in the stock price risks profit-taking from the Professional Traders.

3. Extreme Volume Spikes

Another signal of HFT activity is the huge spike of daily volume that is caused by their thousands of orders that are followed by a rush of orders from the Small Funds or Retail Traders. This tends to occur on the day of the huge gap or very long candlestick. *See the chart example above.

One rule Retail Traders must adhere to is NEVER truncate stock Volume. To identify each Stock Market Participant Group, the number of shares traded, aka Volume, needs to be studied in full

so the extremes caused by HFTs can be identified easily.

Principles of modern Technical Analysis, which TechniTrader calls Relational Technical Analysis™, include Large-Lot vs. Small-Lot Indicators and other Hybrid Indicators in addition to Western Candlestick Patterns™. Certain combinations of technical patterns studied relationally can reveal when each market participant group is buying or selling a stock.

In conclusion, the High Frequency Trading Firms design algorithms to search through news and identify anomalies in order flow from either Retail Traders and Small Funds or the liquidity draw from Institutional accumulation or rotation. Then, with the ability to send thousands of orders to buy or sell, the HFTs are able to jump ahead on the market queues by adjusting their entry price by a penny or half penny. So, the HFT orders fill first since the best Price takes priority, one step ahead of the Time the order was submitted.

Understanding how High Frequency Trading works and the technical patterns created by this powerful market participant group, as well as others, can help day traders, swing traders and position traders make better decisions. The goal should be to enter ahead of the HFT action and to avoid chasing them.

Professional Technical Traders use Technical Analysis for their decisions, along with a healthy helping of Risk Analysis. These are the expert traders that retail traders should learn to follow. Their patterns of buying and selling make sense on a technical level. They also tend to buy or sell for several days in a row ahead of a significant move in a stock's price, which is ideal for Retail Traders using Swing Trading Styles.

To learn more about modern Technical Analysis techniques based on how the stock market participant cycle works, TechniTrader offers introductory educational materials that anyone can sample.

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