SCALPING MANUAL
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Introduction

Scalping is a form of trading intended for staying in the market as little as possible, trying to get even a small profit per trade and to control risk the best we can. It is an approach that favors the concentration on the present time in order to understand what the instrument we are trading is doing right now. The focus on the actual time tends to limit our tendency of making predictions on what the market will be doing in the future, which is something nobody knows.

Scalping does not mean necessarily to trade a lot because even a limited number of good trades can be sufficient for closing a work session with a decent profit and satisfaction. It means to find good trading opportunities that can have a high probability of success and repeat these trades whenever there is the chance to do it.

Reducing risk and controlling losses are the most difficult aspects of trading and scalping is no exception. Each time we enter the market, we should always remember that we may be wrong in the decision we made or the market, for whatever reasons, may behave differently than before. When we are involved in a trade, we can only adapt to what the market is doing. If, setting low-profit targets, we may have a high number of winners, we should never forget that, letting our losses run, with only one or few bad trades, we can wipe out all the profits we were able to make and we have to avoid, as much as we can, this situation from happening.

Trading and scalping are not about being right, but about making money. A big personal ego who, no matter what, thinks he cannot make mistakes and always wants to be correct can be detrimental to our trading performances. Confidence in our trading strategy and in our ability to be profitable in the markets, though, is an essential psychological element very much needed in trading as in any other activity. We should try to make the right trading decisions most of the time, but, as traders and persons, we will make many mistakes and we should try to reduce the effects of our errors so that they will not have a strong impact on our profits.

Trading is a practical activity that requires time to watch the markets and try out actions. It is not about doing complicated analyses or developing sophisticated theories.
on the behavior of the financial instruments. It is an activity we learn by doing and from both our successes and our failures.

Trading means assuming responsibility for our decisions and for the consequences of our acts. This is also the reason why it is better to always adjust trading ideas and strategies to our personal style so that they will become effectively our own. When we trade, we are alone confronting the markets. The possibility of being profitable depends only on our abilities to read the market correctly and react accurately to what is happening. If we fail, there is no one to blame, but ourselves.
DOM

We look at the markets through the data displayed on the DOM, which should include only the most relevant and essential information available, that is, prices, numbers of bids and offers, contracts sold and bought at market, and total number of contracts exchanged at each price level. We need a very reliable and efficient trading platform that can show a customizable DOM. Both Sierra Chart and Jigsaw Trading are good choices.

I suggest very simple DOMs that can offer the possibility to actually read the data shown, eliminating distractions from other, less relevant information. Volume, divided between contracts sold at market and contracts bought at market, can give an idea of the pressure from either buyers or sellers and this is an important factor in the trading decisions we make.

The DOM is the primary tool we use to read market data and we should spend some time personalizing it so that the information it presents will be easily comprehensible and conducive to our trading activity. We do not have to assume that the default settings of the trading platform we use or the data we see on other people’s workspaces are necessarily needed for our trading activity.
DOMs can show a variety of data like, for example, volume profile and orders pulled and we may add them, but only if they are useful for our trading choices and if we are actually able to use them. Customizing fonts and colors as well as highlights is also important in order to have DOMs that are easily readable, not distracting, and sufficiently pleasant to watch.

The DOM we use should have the option of deleting the volume data so that, when they are too many, they will not confuse and distract us. We concentrate our attention on the present moment and looking at data that may refer to several minutes ago may interfere with our understanding of what the market is doing right now, as older data may not be relevant anymore.
Charts

A short-term chart of the instrument we trade can give some reference in relation to levels and market direction. It is also a way to look at what other traders see and follow because charting is still widely used. Charts do not substitute the information visible on the DOM, though, but they may only increase our ability to evaluate market conditions. For equities, like E-mini S&P500 (ES), I suggest a chart with the interval of 1 minute. For slower markets, like bonds, a 5-minute chart is more appropriate. I prefer to have charts with no studies or indicators that may increase excessively the number of information we need to follow and, furthermore, do not always give the right signals.
Looking at charts, in combination with the data visible on the DOM, we may try to find trading opportunities using levels. For example, if we notice the breaking of a level and the DOM shows pressure from traders who are moving the market in the same direction of the break, we may decide to follow the movement.
In a different scenario, if the market reaches a level and, instead of seeing pressure from traders acting in the direction of the movement, we see strength from the opposite side, we may decide to fade the market and go against the current trend. This is a decision that implies more risk as we trade in the direction opposite to the present movement.
**Correlations**

In addition to the DOM and the short-term chart of the instrument we trade, DOMs of other markets that are either positively or negatively correlated to our market can be useful. For example, trading ES, the DOMs of NASDAQ (NQ) or Dow Jones (YM), which generally moves in the same direction of ES, and of the 30-Year Treasury Bond (ZB) that, on the contrary, has usually a negative correlation with equities, can add some information we may use before placing an order. If we want to go long on ES, but we see that NQ or YM continues to tick lower or ZB trades at the high of its range, we should pay extra attention and maybe wait before entering the market.

If correlations among markets can help us making trading decisions, we should never forget that they do not always work perfectly and, similarly to charts, can give inaccurate signals. Furthermore, we should also consider that all the data we add to our workspace may reduce our concentration on the DOM of the instrument we trade, which remains the primary tool to use.

Our workspace should be as simple as possible so that we will not have too much information to look at. Do not think that a plethora of data or a workstation with three or four monitors will give you any special advantage or will be necessary to trade...
professionally with success. Too many data may give conflicting information and moving our attention from one monitor to the others can reduce our concentration and our ability to read data and understand market conditions.

If correlated markets confuse us and charts distract our focus on the market we trade, it is absolutely fine not to use them. A workspace that shows only the DOM of our instrument can work just fine.
Direction

Looking at the DOM, the first thing we need to understand is the direction of the market we trade. Is it going up or down? It is safer to follow what the market is doing, which means going long, if we think our instrument is moving upwards, or going short, if the direction of the market is downwards. It is possible to fade the market, trading in the opposite direction compared to the one we have identified, and the reading of volume can help us making the right decision. It is riskier, though, because we are going against the major movement, but it can end up with some good results.

Charts and correlated markets can give some additional information on where our instrument is moving. For example, if it seems that ES is moving up, it is nice to see NQ also going upwards and ZB pushing down. On the other hand, if NQ is somehow weak and ZB is moving higher and it is following the direction of ES, we need to be more careful and think again whether our reading of the market is correct. Considering the correlation among markets, it is true that ES and NQ may not move exactly in the same way and that equities and bonds can show, at times, a positive correlation, but these occurrences are, in general, exceptions.
Value

It is the price or the area where, at a particular time, the majority of traders is in agreement to exchange contracts and where volume builds. Value is where we see large numbers of contracts bought and sold at market. Although, during a trading session, value changes continuously, we may use it because we know that at that price or area it would be easier to get filled and that the instrument we trade, after moving away even a few ticks, may return to those prices. Value can also give a confirmation of the direction of the market, especially when prices, after creating value, move and form another area of high volume either below or above the previous one.

The value price or area can be our profit target. Value is where the instrument we trade, which moved away, may return, because high volume indicates that a lot of traders, both buyers and sellers at market, agreed on exchanging contracts at those prices. If we decide to enter a long position, we may try to buy at a price lower that value, in order to exit where value is. Similarly, if we want to open a short position, we may try to sell at a price higher than value, to exit when our instrument returns to value.
Entries

We may find a variety of entry points, looking at charts, at value, and at correlated markets. Finding a good entry price is very important and we should be selective in our choices, but it is only one aspect of scalping. Managing correctly our trades and finding good exit prices, closing our trade with either a winner or a loser, is also extremely relevant.

Before placing our order, we need to know exactly how we will manage our trade. We can set a profit target at a certain number of ticks away from our entry or at a specific level or we can manage our trade looking at volume and remaining in the market as long as we see pressure in our favor or until traders, in the opposite direction, assume control of the market. We can manage a losing position in the same way and the rules we follow for closing a position can also determine whether the trade we want to initiate is appropriate. If, for example, we use the breaking of a level as the rule to close a losing position and the level we will be using is quite far from our possible entry price, it might be advisable not to initiate the trade because, in the event our stop is hit, we will have a lot of difficulty to recover our loss during the continuation of our trading session. When we are not too sure about our decisions or when the conditions for trading are not the ones we want, it is always good to stay out of the market. It is better to lose an opportunity than force a trade because there will be plenty of other opportunities in the future.

Reading volume and the number of contracts bought and sold at market, I prefer to place an order when I see some pressure from buyers, if I want to go long, or from sellers, if I want to go short. A limit order can be the best solution for a slow market like ZB or when a faster market, like ES, is not moving too much. In the case of a very fast market like NQ, it could be necessary to place market orders, if we want to get filled, except when prices have already moved away from our ideal entry point. If this happens, it would be better to stay out of the market altogether and wait for another opportunity.

Using the value price or area as an entry approach, after having identified the direction of the market and decided to place an order either long or short, we may try to open our position at the beginning of or lower than the value area, in the case of equities, to exit after three or four ticks, or, in the case of bonds, we may initiate a trade just one tick
away from value to close our position at value. One way to choose the price for our entry is to look where, during a retracement, traders, who may move the market in our favor, become stronger. For example, if we want to go long and to buy lower than value, when the instrument we trade leaves its value area and retraces downwards, we should see sellers showing strength. At a certain time, we may see, once again, high numbers of contracts bought at market and this could mean that buyers have regained control and our instrument may move back to value. The price where we see buyers stepping in could be our entry price.

To see better where to enter the market, either long or short, and where traders operating in the same direction as ours have gained strength, it could be useful to delete volume on the DOM or, even better, to delete just recent trades (called current trades in Jigsaw Trading), maintaining the main volume data. In order to use recent trades data as additional information, we should change the refreshing interval to a higher number than the default one, usually set at 2500 milliseconds, so that volume can accumulate until we decide to clear them. Both Sierra Chart and Jigsaw Trading offer this possibility.
**Exits**

Scalping is meant for taking just small profits. Depending on the market we trade, the profit target can range from one to four ticks. If we trade a slow market like ZB, getting one tick of profit, which has also a high value, can suffice to compensate commission costs and obtain a decent result. With ES, which moved faster, the profit target should be at least two ticks or higher, if the conditions allow, also considering that we may be forced to close a position with a loss that can be as large as several ticks. We should always think of the possibility to exit the market at breakeven with a scratch, if the instrument we are trading does not move in our favor quickly. It is better to lose commissions when what we have anticipated does not happen fairly fast, instead of maintaining a position that may never become a winner and that, in fact, can end up being a loser. We have to remember that each time we enter the market we may be wrong and that losing is always a real possibility.

As soon as we enter the market, it could be useful to delete the volume data of the instrument we trade in order to better understand whether buyers or sellers are in control. We can do this deleting just the recent trades and maintaining the data of current trades that will continue to display the value area or price we are interested in. If, for example, we entered a long position because we saw pressure from buyers and, after being filled and deleted the recent trades, we see that sellers are more aggressive than buyers, we may decide to close our trade as soon as possible. On the other hand, if we see high numbers of contracts bought at market, compared to contracts sold at market, we may be more confident that we could reach our profit target.
Management

Scalping requires to be careful and selective in choosing our entries. If we want to get just one or a few ticks of profit, we cannot afford to be offside many ticks because a large potential loss may always become a real one that might be very hard to compensate with our subsequent profits. No matter how cautious we are in the selection of our trades, though, there will be times when a trade does not move in our favor. It could happen that we did something wrong or the market may have changed. Independently from the reasons behind a losing trade, it is essential to know what to do in these situations and to act accordingly, reacting to the present conditions of the market and knowing that our eventual loss has to be somehow limited.

Using a hard stop is a way to manage a losing trade. We can set hard stops at a fixed amount of ticks or money away from our entry price or we can look at levels or value areas in order to decide at which point our trade is not valid anymore and we need to close it. Another way to manage a losing position is to look at volume, after we enter the market, to see whether buyers or sellers show more strength and, depending on the direction of our trade, whether the market is confirming or not our trading choice. For example, if we enter a short trade and, after being filled, we see more contracts bought at market, compared to contracts sold at market, we may infer that what we had anticipated, that is, a movement downwards, is not happening and may not happen, because buyers continue to be in control. In this case, it would be better to close our position, especially when we can scratch it or lose just a few ticks, even though the market may eventually move in the direction of our trade. What is important is to behave according to the information we have at our disposal and, if the data we see do not show that the instrument we are trading is moving in our favor, we need to respond to this situation without waiting or hoping that we will eventually obtain the profit we want. This may never happen and our loss may build up.
Conclusions

In trading, we need to be humble. We should approach the market with determination, confidence, and the clear objective of being profitable, but we always need to remember that each time we trade we may find ourselves dealing with a losing position and we must know what to do and behave in the best possible way to close our trade with a profit or, at most, with a limited loss. There is no certainty in trading and we need to accept whatever it may come, reacting to the situation we face the best we can.

We should know the instrument we trade and how it behaves during a trading session and we should be aware of the major economic data releases that can have a huge impact on the movements of the markets. When we trade, we can never relax or find ourselves unprepared to whatever may come. We have to stay always focused.

Trading requires patience and discipline. We should feel no pressure to trade when the conditions we are waiting for do not appear. We have to trade only when all the elements of our setup are present and when we feel confident in our trading decision.

We need to spend some time creating our own trading strategy. We may learn from others, but, at the end, we cannot just replicate another person’s way of trading and, through knowledge and experience, we have to construct our own personal rules to deal with the markets. We should know and feel that we are the ones who created the strategy we use because only in this way we could be really responsible for our actions.

Trading successfully is difficult. There are so many players involved in the markets and the situations we have to deal with can always be somehow different from the previous ones we encountered. Traders make up the market and their behaviors can be unpredictable and conflicting. Our best chance of staying afloat is to try to make as fewer predictions as possible and just react to the present conditions with a strong belief in our abilities and in the tools we use.