How to Hunt Stops like a Professional

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Many years ago, as a runner on the Exchange trading floor, I would hand deliver orders to different pits for them to execute by members. Little did I know, these orders, or as traders called it "paper", was the locals meal ticket to feed off, especially those with STP at then end.

These stop loss orders would accumulate at certain price points, technicians would use for protection to manage risk and liquidate a position moving against them.

The advantage for those in the pit was, traders talk, and many knew where the stops were, knowing that when these stops hit, a burst of additional buying (buy stops, short covering) or selling (sell stops, liquidation) created the game "Stop Hunting", flush out weak longs and shorts.

In fact why not attempt to drive the market to trigger these orders, buying the market into buy stops and then a new burst of buying comes in, to sell into.

This is a common method, and the reason why you'll find yourself short in a trade, only to get stopped out and see the market continue in the direction you were going in the first place. For institutional traders it gives them a better entry on their short, flushes you out and they make money on the way up too.

I believe this happens electronically in the currency trading markets, with large commercial banks assuming the role of the floor traders.

How do we compete with big bankrolls like theirs, why not view your charts and diagnose significant highs and lows where conventional traders are placing their buy and sell stops, then attempt to position yourself in the direction of the stop hunt or wait for them to be elected and fade the price action. Now that John Q. Public is stopped out of his long or short position the market may resume the trend John Q. was positioned for without him.

Best of luck in becoming a Currency Trading Vulture yourself, better than being the prey.

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