

Spotting Trades In Any Market: Finding The Money Flows

MARCH 5, 2022 ([HTTPS://OPTIONPIT.COM/SPOTTING-TRADES-IN-ANY-MARKET-FINDING-THE-MONEY-FLOWS/](https://optionpit.com/spotting-trades-in-any-market-finding-the-money-flows/)) BY MARK SEBASTIAN ([HTTPS://OPTIONPIT.COM/AUTHOR/MARK-SEBASTIAN-2/](https://optionpit.com/author/mark-sebastian-2/))

Hey Traders,

Even an encouraging jobs report wasn't enough to pull the markets out of their funk on Friday.

I know a lot of investors take a look at the S&P 500 (Ticker: SPX) or the Cboe Volatility Index (Ticker: VIX) and are tempted to take their ball and go home.

But here is the thing ... if you aren't trading right now, and you're sitting in cash, you're basically losing 10% of your capital to inflation.

For doing nothing!

Plus, a down market is (usually) a terrible time to sell assets.

Like we talked about last week (<https://optionpit.com/bear-proof-your-trading/>), you don't lock in a loss until you sell.

Plus, for example, if your investments are solid, you'll want to be holding onto them when things turn around.

"But why not sell now and buy lower?"

Because you can't time the market. Yes, you might get lucky, but it's almost impossible to exactly time a bottom or a top. Even with options, we aren't trying to precisely time our trades. That's how winners turn into losers. And if that's your strategy, it's very likely you're going to miss.

So where do you find trades when the market is down?

There is a reason so many traders are obsessed with "unusual volume" trades, or "whale trades."

Whatever you want to call them, gigantic trades crossing the tape usually means something.

And following those money flows is one of my top ways to trade in a down market (<https://options.clickfunnels.com/big-money-flow-launch>) (or an up market, for that matter).

Traders who have hundreds of thousands, or millions of dollars to throw down on a trade aren't usually gambling blindly.

A lot of times, these are trades made by huge institutional investors, which means they've got teams of researchers and traders, experts, and expensive trading tools all working together to spot pockets of value in the market.

And if we can spot these trades ... it's basically like we're using all of their expensive resources for our own benefit!

But it's crucial you do your due diligence before hopping aboard ...

So here's how I look for quality Big Money flows in the market.

1. Pump Up The Volume!

First, you have to spot these big volume trades!

It's not uncommon to see articles or Twitter feeds tracking high volume stock and options trades, so that can give you a starting point ... but as always, proceed with caution.

There's also a variety of tools out there – some of them free, some of them not – that you can use to spot unusual volume yourself.

Personally, I use LiveVol Pro, which lets me scan for high-volume trades both in the market as a whole, and for individual equities.

For example, here's some of the highest volume trades that crossed the tape on Friday ...



TIME ▼	SYMBOL ▼	OPTION	▼ QTY	▼ PRICE
13:18:01.732	GLD	GLD Sep16 255.00 C	75,000	1.29
13:18:01.732	GLD	GLD Sep16 235.00 C	75,000	2.08
10:15:27.628	EFA	EFA Apr14 45.00 P	72,238	0.24
14:02:57.465	EFA	EFA Mar18 67.00 P	61,940	1.46
14:02:57.465	EFA	EFA Mar18 70.00 P	61,940	2.61
9:44:21.872	XLF	XLF Mar18 34.00 P	60,000	0.31
9:44:21.872	XLF	XLF Mar18 35.00 P	60,000	0.46
14:41:28.602	ET	ET Mar18 11.50 C	40,000	0.03

Or I can filter by symbol ...

TIME ▼	SYMBOL ▼	OPTION	▼ QTY	▼ PRICE
14:06:18.517	LCID	LCID Mar18 45.00 C	5,000	0.03
14:06:18.516	LCID	LCID Mar18 45.00 P	5,000	22.50
14:06:18.516	LCID	LCID Apr14 40.00 C	5,000	0.15
14:06:18.516	LCID	LCID Apr14 40.00 P	5,000	17.82
13:26:41.541	LCID	LCID Mar18 40.00 P	2,500	17.63
13:26:41.541	LCID	LCID Mar18 40.00 C	2,500	0.03

As you can see, LiveVol makes scanning for high-volume trades rather easy ... but it's not exactly cheap, so if you're on a tight budget, you may want to seek out other options. (*But in my opinion, LiveVol is worth it!*)

2. Do Your Due Diligence

Spotting the trade is the easy part.

The hard part is *verifying* and *confirming* the trade.

Why do you need to confirm the trade?

Because if you accept the trade at face value, there is a very good chance you may be getting the wrong message, and basing your own trade on wrong information!

Let's look at an example of potential pitfalls ...

Here's some of the Big Money trade on Lucid Group (Ticker: LCID) that crossed the tape on Friday.

TIME ▼	SYMBOL ▼	OPTION	▼ QTY	▼ PRICE
14:06:18.517	LCID	LCID Mar18 45.00 C	5,000	0.03
14:06:18.516	LCID	LCID Mar18 45.00 P	5,000	22.50
14:06:18.516	LCID	LCID Apr14 40.00 C	5,000	0.15
14:06:18.516	LCID	LCID Apr14 40.00 P	5,000	17.82

Now, the first issue some traders encounter is maybe they only see part of the trade.

So let's say you only saw the March 45-strike calls ... you'd think someone is buying 5,000 March 45-strike calls, so maybe *you* should buy some March 45-strike calls.

Or you might only see the March 45-strike calls and March 45-strike puts. If you only look at this part, you might think this trader is opening a risk reversal, where they are essentially creating a synthetic long.

But actually, this trader isn't opening a risk-reversal at all.

Instead, they are rolling a collar out and down.

They are closing their March-dated collar and re-opening their position in the April term at the 40-strike.

Now, if you aren't familiar with a collar spread, you might see someone buying a put and selling a call, and assume they are bearish.

In reality, collars are often used to hedge long positions, so this is likely a trader rolling their hedge ... so they are long-term bullish on LCID, though concerned about near-term turbulence.

Confused? I don't blame you ... this takes practice, and a pretty deep familiarity with spreads, and it helps to know how institutional traders think and trade.

Let's look at another example.

Here's a trade on Ericsson Telephone (Ticker: ERIC) ...

TIME ▼	SYMBOL ▼	OPTION	▼ QTY	▼ PRICE
11:09:05.339	ERIC	ERIC Oct21 12.00 C	10,000	0.12
11:09:05.339	ERIC	ERIC Oct21 9.00 C	10,000	0.68

Now, the first thing we want to do is check and see if any other large trades crossed around the same time:



TIME	SYMBOL	OPTION	QTY	PRICE
11:09:05.339	ERIC	ERIC Oct21 12.00 C	10,000	0.12
11:09:05.339	ERIC	ERIC Oct21 9.00 C	10,000	0.68
11:02:36.928	ERIC	ERIC Mar18 8.00 C	1,000	0.50
11:02:13.094	ERIC	ERIC Mar18 8.00 P	400	0.36
11:02:50.728	ERIC	ERIC Mar18 8.00 P	338	0.36
13:23:54.413	ERIC	ERIC Mar18 8.00 P	206	0.33
13:23:54.413	ERIC	ERIC Mar18 8.00 P	176	0.33

As you can see, the two blocks of 10,000 calls were by far the largest trades that crossed the tape in ERIC's pits on Friday.

Next, we want to check and see if this volume was opening or closing.

To do this, I look at the current open interest. If the number of contracts being traded is higher than the current open interest, it's safe to assume the trade was opened.

In this case, it is:

cOI	c...	c...	cMID...	cBID	cASK	STRIKE
2,342	10,110	0.44	41.67	0.63	0.72	ERIC Oct21 9.00
106		0.31	42.14	0.40	0.51	ERIC Oct21 10.00
63	1	0.23	41.30	0.16	0.33	ERIC Oct21 11.00
3	10,086	0.16	40.76	0.12	0.19	ERIC Oct21 12.00

However, if the number of contracts being traded is less than the current open interest, the trade could be either opening or closing – we won't know until we get updated open interest the next morning.

For example, you can see that the open interest in the LCID March 45-strike calls and puts is much higher than the volume ... so you can not assume the trade was opened (and as we saw above, it was actually closed).

cOI	c...	c...	cMID...	cBID	cASK	STRIKE	pBID	pASK	pMID...	p...	p...	pOI
31,227	5,042	0.01	147.80	0.02	0.03	LCID Mar18 45.00	22.30	22.65	169.28	0.98	5,018	29,609

Okay, so in our ERIC example, we've seen the two blocks of 10,000 calls weren't done as part of a larger trade, and we can safely assume that this trade was opening, not closing.

Next, we need to figure out what is going on.

TIME	SYMBOL	OPTION	QTY	PRICE	EXCHANGE	CONDITION	MARKET
11:09:05.339	ERIC	ERIC Oct21 12.00 C	10,000	0.12	PHLX	StkOptCross	0.12 x 0.25
11:09:05.339	ERIC	ERIC Oct21 9.00 C	10,000	0.68	PHLX	StkOptCross	0.64 x 0.69

You can see that the 12-strike calls are red, indicating that the transaction took place at the bid. While you can't know for sure, in this case, it is safe to assume that the 12-strike calls were sold-to-open.

And looking at the 9-strike calls, you'll see they were nearly on the ask ... so it is likely they were bought-to-open.

That means we're looking at a bull call spread.

But we're not done yet!

Next, we want to look and see if any large stock positions crossed near the same time ... and wouldn't you know it:

TIME	SYMBOL	Q...	PRICE
11:10:01.098	ERIC	290,000	8.1300

What does this mean?

Well, if this trade was closer to 1,000,000 shares – which is how many shares are represented by the 10,000 call spreads this trader opened – then I might think that the bull call spread is actually hedging a short stock position.

But that is not the case.

Instead, this trader is probably trying to reduce their delta, and get the trade closer to delta neutral (<https://optionpit.com/when-being-neutral-is-the-best-trading-policy/>).

The delta of the 12-strike calls is 0.154, or a total of 154,000 (0.154 * 100 shares per contract * 10,000 contracts). Since they were sold, this is actually a *negative delta*.

Delta: 0.435

The delta of the 9-strike calls is 0.435, or 435,000. This means the delta of this trade is 281,000.

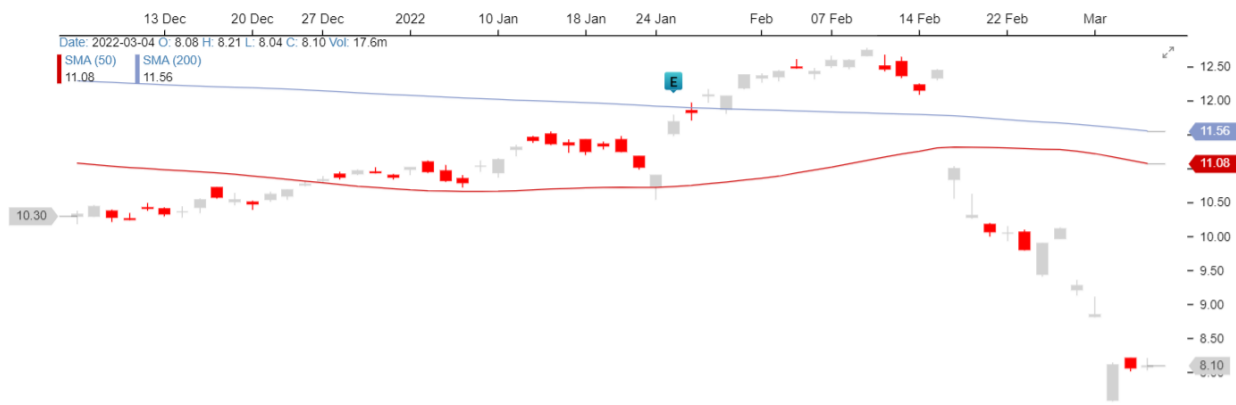
So the block of 290,000 shares was likely done by the same trader to neutralize the delta of this position, which helps give them a cushion against near-term price fluctuations, or perhaps they are looking to profit off of ERIC's volatility instead.

As you can see, there is a lot more to “interpreting” unusual volume trades other than spotting the trade, or even spotting the spread.

3. Find the “why?”

It always helps if you can find the “why?” behind the trade, although that isn’t always possible. (Sometimes Big Money has other motivations for their trades, or they’ve got information and expertise that isn’t widely available yet.)

For example, ERIC shares right now are facing some major headwinds, with the Department of Justice currently investigating the company for potentially accepting payments and doing business with ISIS.



That could definitely be the catalyst this trader is taking into consideration ...

Especially given that they’ve given their trade a pretty good amount of time to play out, they may be expecting the DOJ hubbub to blow over, and for ERIC shares to rebound by the fall.

Notice that this trader bought the 9-strike calls and sold the 12-strike calls ... and the \$12 mark just happens to be right about even with the top of ERIC’s mid-February gap lower, and the \$9 mark happens to be where the shares gapped down most recently.

Quite interesting, don’t you think?

4. Think For Yourself

One thing about Big Money is ...

Sometimes they make bad trades.

I don’t mean losing trades based on bad intel (but yes, they do make those, too).

I mean they don’t make the *most optimized trades possible*.

Why?

They don’t have to.

First of all, they’re not trading their money. So while they do want to profit ... they don’t necessarily care if they’re bringing in the maximum profit possible.

After all, when you’re making millions off of a single trade ... is there really that much of a difference between \$4,000,000 and \$4,500,000?

However, I do care about maximizing my returns ... because it’s my money!

Plus, a lot of institutional investors may not have quite the level of options expertise it takes to pick out “the best trade possible.”

They’re fine with “good enough” as long as they get to make their trade, make their trade *now*, and make their money.

But I don’t want to make trades that are “good enough.” If I can find a better trade, why would I not make the better trade?

That’s exactly what I do in **my Big Money Flow program**. (<https://options.clickfunnels.com/big-money-flow-launch>)

Twice every week, we go through the biggest money flows on the market in a special live session, and follow the steps I just outlined here.

And sometimes we make the same trade as Big Money ... but often, we make our own version of the trade, where we’re matching their directionality, but giving ourselves an even more optimal risk/reward profile.

For example, on February 18, I noticed some strange paper going up in Boston Scientific’s (Ticker: BSX) pits ...

Someone bought 7,400 of the March 47-strike calls for \$0.21. That was pretty significant volume for BSX, so it warranted a second look.

I decided I liked the trade, and I noticed that I could buy the 44-strike calls for about \$0.72 ... which to me was a screaming deal, compared to paying \$0.21 for a strike \$3 further out of the money!

So that’s what I did ... and a week later, I closed out with 134% gains.

Boom!

Would I have found that BSX trade by myself? Not likely. There wasn’t anything else about the stock that was really exceptional enough to catch my interest.



But following Big Money flows showed me where I needed to be ... and I was able to trade their same sentiment, but with my own more-optimized trade.

For this weekend only, I'm offering discounted Big Money Flow memberships to new members. (<https://options.clickfunnels.com/big-money-flow-launch>)

So if you like the sound of following Big Money ... and you'd like to see the steps above in action, **you can get in right here.** (<https://options.clickfunnels.com/big-money-flow-launch>)

Remember, in times where the market is in turmoil ... follow the Big Money!

Your Only Option,

Mark Sebastian

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