



Tick Charts – 5 Compelling Reasons You Should Use Tick Charts

Don't you want to see what the Professionals are up to?

This tick charts article is long overdue. From time to time I get questions about tick charts. Yesterday's email from Ken was typical:

"I've been scouring the Internet for information on tick charts and their in's and out's – but have found nothing useful. Can you please point me to a good source of information with a decent explanation?"

Well, here goes.

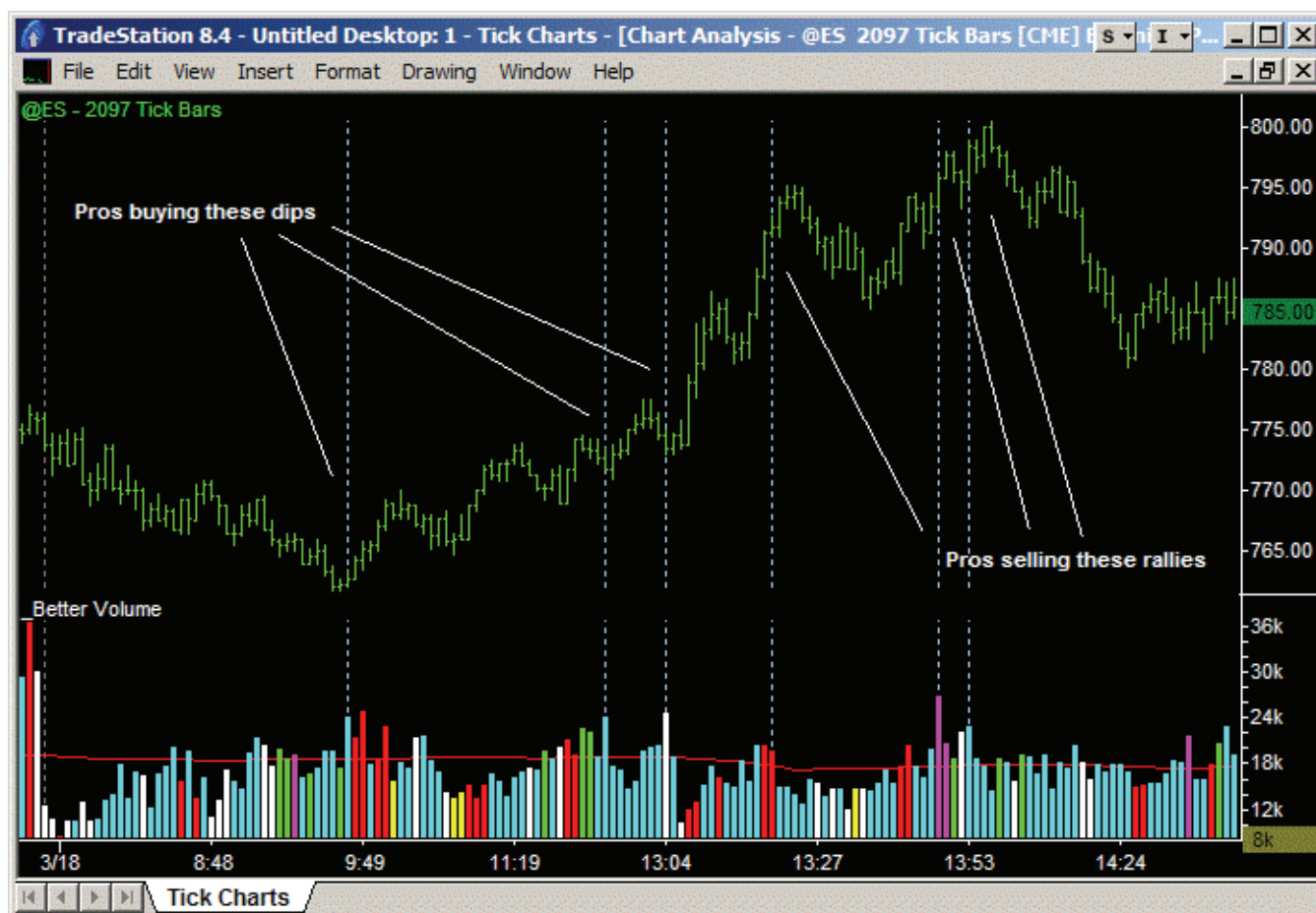
What Are Tick Charts?

Conventional (i.e. time-based) charts draw a new bar after a set period of time, for example after every 5 minutes. Tick charts draw a new bar after a set number of trades, for example after every 1,000 trades.

Don't get confused with the NYSE TICK Index (or \$TICK in many charting programs). The NYSE TICK Index is a totally different thing. It measures the number of stock issues trading on an up tick versus a down tick. A tick, by contrast, is just a trade and 1 tick = 1 trade.

I much prefer tick charts over conventional, time-based charts. Here are my 5 reasons:

1. Tick Charts Allow You To Follow The Professionals



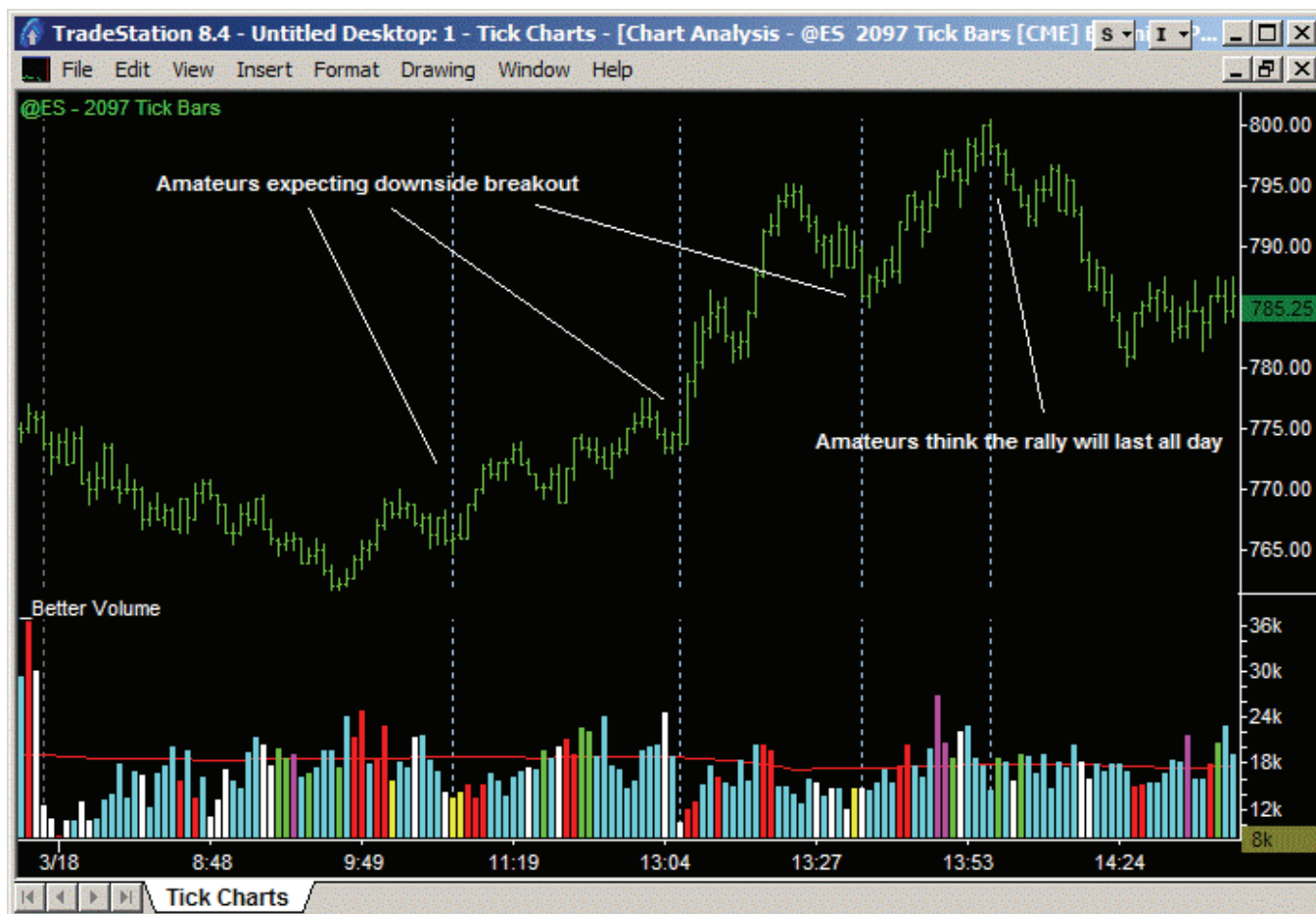
Tick Charts: Large Volume = Professionals

The Emini is a perfect trading vehicle because we know the number of contracts in each individual trade. So on a tick chart when we plot volume we see the total number of contracts traded during those last say 100 trades. The relative size of the volume histogram shows us the average trade size. Let's take an example.

If during the last 100 trades the average number of contracts in each individual trade was 2, the volume histogram would show a value of 200. However, if during the last 100 trades the average number of contracts in each individual trade was 25, then the volume histogram would show a value of 2,500. So if the volume histogram is low we are seeing Amateurs trading and if the volume histogram is high we are seeing Professionals trading.

The 2,097 tick chart above has some of the high value bars highlighted – these show large average trade sizes or Professionals. As you can see, you want to follow the Professionals. They were buying the dips and shorting the rallies.

2. Tick Charts Allow You To Fade The Amateurs

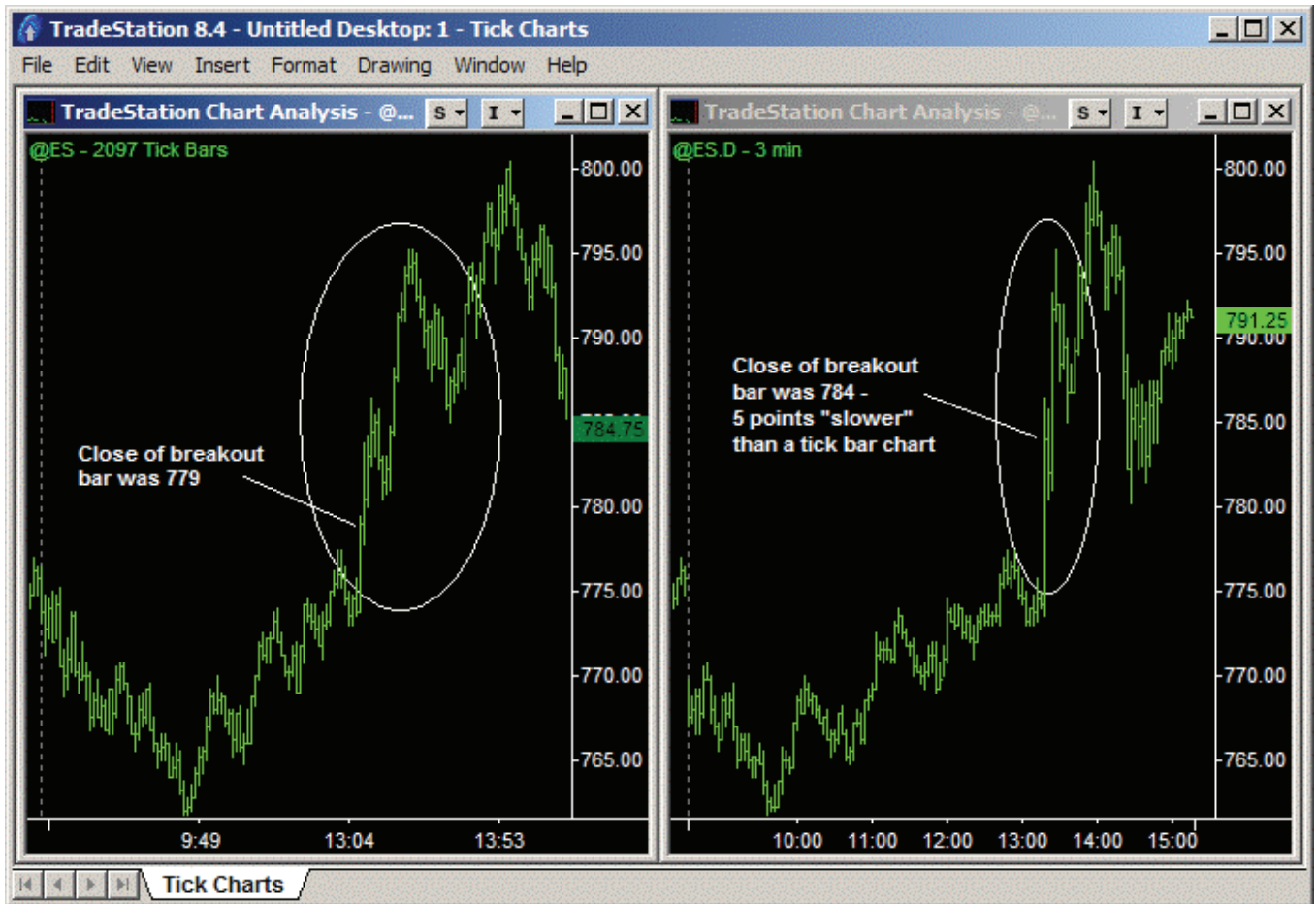


Tick Charts: Small Volume = Amateurs

Similarly, looking out for low value bars allows you to identify what the Amateurs are doing. The 2,097 tick chart above is exactly the same as the previous chart but with some of the low value bars highlighted. These show small average trade sizes or Amateurs. As you can see, you want to fade (i.e. do the opposite of) the Amateurs. They were shorting the dips and buying late into the rallies.

Now I think that information alone would be reason enough to use tick charts, but ...

3. Tick Charts Let You Get A Jump On Breakouts



Tick Charts: Quicker Into Breakouts

If you're waiting for the close of a bar to enter a trade, say a breakout, tick charts will get you in earlier. The chart above from yesterday's Emini trading activity illustrates the point. The Emini spiked up on FOMC-related news. Using a tick chart you could see the surge in activity and enter at the bar's close – say 779. With say a 3 minute chart the entry on close would have got you in closer to 784 – or 5 points worse off.

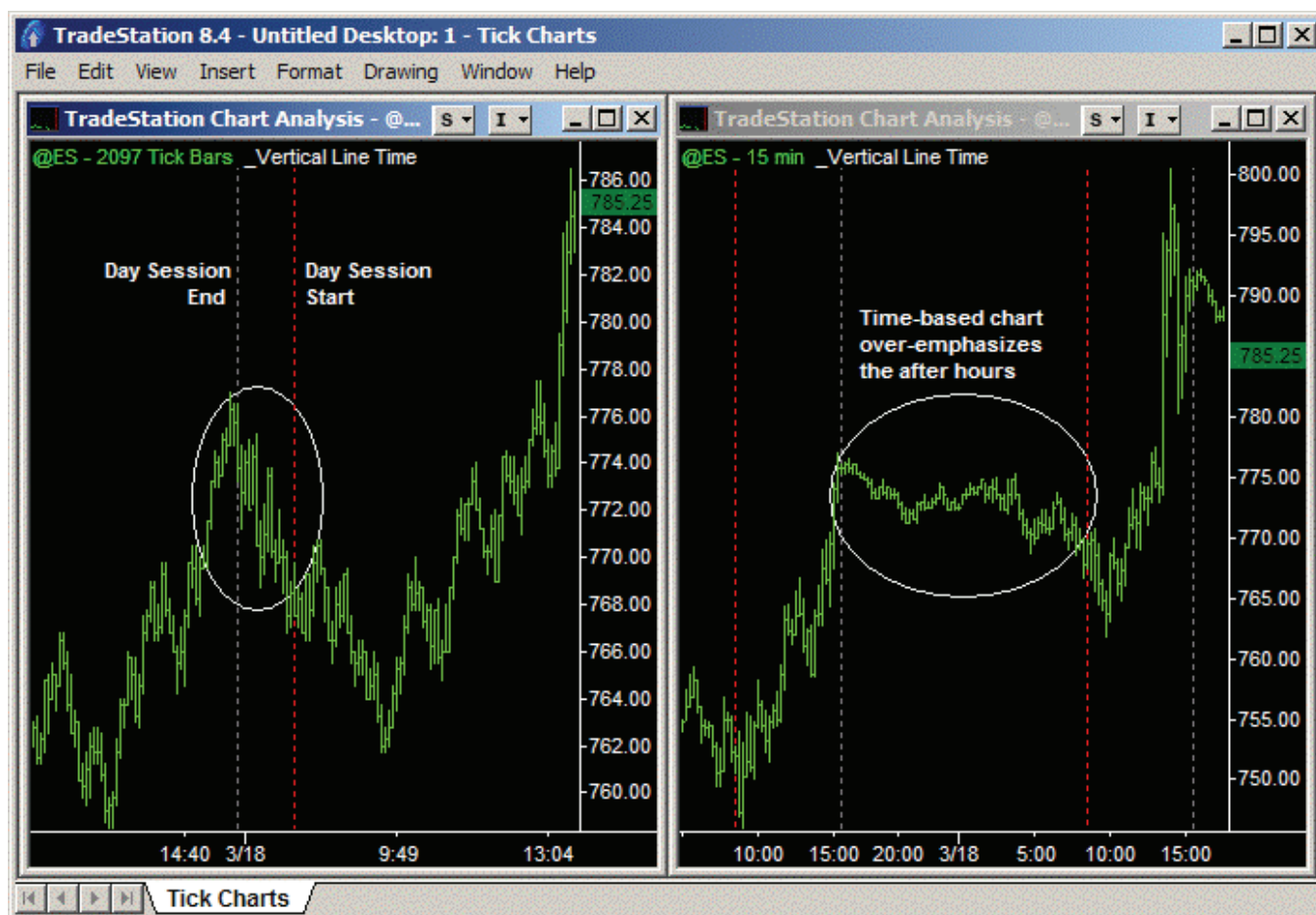
4. Tick Charts Let You "See" More Cyclical Information



Tick Charts: More Cycle Information

Tick charts also allow you to "see" more trade information and work particularly well with cycle analysis. In the example above, the Better Sine Wave, my preferred cycle analysis tool, was able to pick out a Pull Back long entry point in the 2,097 tick chart. However, with the 3 minute chart the Pull Back was completely missed.

5. Tick Charts Compress Low Activity Periods and Avoid Whipsaws



Tick Charts: Compress Low Activity Periods

Lastly, tick charts compress low activity periods, like lunch time and after-hours. This allows more "continuous" analysis between days, with trades setting-up pre-open on a tick chart. Or fewer false break-out trades during lunch time.

Tick Charts and Forex

A note about Forex tick charts. With Forex we only know the number of trades during a period of time and not the number of contracts traded. So on a tick chart when we plot volume there is no trade volume size. If you want volume information on a Forex chart you'll have to stick with conventional time-based charts and plot tick count as a proxy.

Alternatively, instead of plotting a "traditional" cash market Forex chart you could use the corresponding futures market traded on the CME. These contracts have grown quickly and are now representative of what happens in the Forex cash market. The advantage of these contracts is that complete volume data is available from the CME.

Tick Charts and TradeStation

I get a lot of emails from traders asking why their volume indicators don't look right on tick charts in TradeStation. For example, volume histograms that are all the same height. This is easily fixed.

Right click on the chart > select Format Symbol > go to the Settings tab > under For Volume Use you'll see a pull-down menu > change the setting from Tick Count to Trade Vol. Now the volume indicator on your tick chart will reference the trade volume data instead of the tick count data.

Tick Charts and Interactive Brokers (IB) Data

The IB data feed available via their Trader Workstation Software (TWS) is not a true tick-by-tick data feed. IB provides snapshots of the trade data several times a second with an aggregate of the trades that took place during that interval. As a result time-based charts (e.g. 5 minute charts) will be correct, however, tick charts will not.

Update October 2009 – Changes to Tick Chart Settings

The CME made some changes to their Emini data feed in October 2009. As a result I've changed my multiple time frame tick charts settings from: 233, 699 and 2,097 ticks to: 500, 1,500 and 4,500 ticks. You can read more about the [CME and tick chart changes here](#).

For the mini-Nasdaq (NQ) I suggest using: 150, 450 and 1,350 tick charts. For the mini-Dow (YM) and the mini-Russell (TF, formerly known as the ER2) I suggest using: 100, 300 and 900 tick charts.

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