




Stock Markets Guides

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# Tape Reading Trading Strategies



When there were no computers in the 19<sup>th</sup> and early 20<sup>th</sup> centuries, trading on the stock market was not nearly as simple. Today, you can open your brokerage



account or go to Yahoo Finance and see all the information about a particular stock in real-time.

Whether it is the trading volume you are interested in or the [company's financial reports](#) from last year, all this information can be obtained with a click of a button.

Things weren't always so easy. Between 1860 and 1960, stock prices and volumes were communicated to traders via telegraph lines on ticker tapes.

The art of analyzing these tapes and identifying trading opportunities is called tape reading.

This post discusses what tape trading is, how it is relevant in today's world, and how you can trade using tape reading.

## **What is Tape Reading?**

Put very simply, as mentioned earlier, tape reading was the art of reading ticker tapes that contained the name of the company, the current share price, and the volume of the shares being traded at any given point in time.

Because a lot of information was being transmitted, the full name of the companies was not written, and instead, an [abbreviation](#) was allotted to them. This practice has continued even after internet-based trading replaced ticker tapes, and

companies getting listed on the stock exchange are still allotted a ticker. For example, Apple's ticker is \$AAPL.

In the past, several famous traders had made their name by perfecting the art of tape reading and using it to make profitable trades. In the modern context, with all price and volume information available instantaneously, tape reading involves a different approach.



The first question that needs to be asked in this context is whether or not tape reading has an advantage over other forms of analysis, such as technical analysis.

## Is Tape Reading a Profitable Trading Strategy?


Tape readers actually have an advantage over technical analysis because they can interpret data from intraday trading in real-time. This is done by filtering pages of data into a prediction of the stock price movements, which is often surprisingly more accurate than technical analysis predictions.

Tape reading can also be used to maximize the profitability of longer-term [trading strategies](#) by identifying the right time to enter and exit trades. Technical traders look at price charts and try to identify where prices will go next; however, they do not know why the prices are moving the way they are.

In tape reading, you can see every trade that has been executed, along with the execution price, volume, and time. This provides you with more background information and takes away one of the biggest limitations of trading through technical analysis.

An advantage that tape reading has over other forms of analysis is the time required to learn how to read tapes. The basics of tape reading can be learned in merely a few minutes instead of technical analysis, which often takes weeks to understand properly.

However, tape reading does take years to master because the market is constantly changing, forcing traders to continually update their skill sets to remain relevant and profitable in the market. In addition to this, tape readers are also forced to look at various factors that might be affecting the market at any given time.



[Stock prices](#) can be affected by anything from a change in government policy to a natural disaster in another country, and tape readers have to keep all this in mind while analyzing tapes.

## **Tape Reading Tutorial**

The modern-day equivalent of tape reading is to look at electronic order books.

These order books (also called “time and sales” or Level-II) list every trade that has gone through in the past, along with the price and volume at which it was executed. This provides a more real-time idea of how the prices will move and can subsequently be used to set up trading strategies.

Due to technological advancements, most brokers also allow you to view limit orders that have been set, which is a handy tool in establishing support and resistance levels for a stock price while trading. A limit order is a currently non-executed order that will go through when the price crosses a certain point.

For example, a limit buy order at \$5 will only be executed if the share is available for \$5 or under. This is different from a market order which is filled at whatever the current market price is.




Limit orders can prove extremely useful to you as a trader as they provide you with [high probability trading opportunities](#).

For example, suppose you see that a large limit sell order has been placed at a particular price level; this could indicate that the price level will act as a resistance and signify a reversal in the trend.

Similarly, a large limit buy order would signify a support level and indicate that the stock price will change trend and start moving upwards after touching that particular level.

Major market players, such as banks, hedge funds, and other institutions, often buy and sell shares in such large quantities that their orders can result in significant



price adjustments; therefore, it is a good idea to keep an eye out for these trades that will help you identify support and resistance levels for trading.

## **Techniques of Tape Reading**

Tape reading is a trading and analysis tool used by traders in several ways, depending on their own trading strategies, risk appetites, and the amount of capital they have to trade with.


It can be used as a primary or secondary strategy, independently or in conjunction with other strategies. Some of the commonly used strategies have been discussed below.

### **Size Filter Trading**

In this strategy, the order book is the only indicator used. It is quite similar to a pivot point trading strategy or a general [support and resistance strategy](#).

In this, large limit orders are used to identify support and resistance levels. These are levels at which limit orders have been placed opposite the general market trend.

For example, if the stock is in a general downwards trend, then the support will be the level at which a large buy order has been placed. This limit order signifies that



at that price level, the trend will reverse, and the opposite side (the bulls in this instance) will come into power again.

Traders trading with this strategy trade on the bounces between support and resistance. They study the order book, identify the support and resistance levels, and trade between them. They ride on the tide of the bigger institutions and market movers and gain some profit alongside them.

However, it is important to set a stop loss while trading on this strategy, as there is always the chance for a breakout in case the support and resistance levels do not hold.


### **Price Action Trading**

This is another commonly used method of trading using ticker tapes.

With this method, tape reading is used in conjunction with other trading strategies. For example, suppose a moving averages trading strategy indicates that you should buy the stock. If the order book also indicates that the stock is at a support level, then this is a secondary confirmation, increasing the probability of your trades being profitable in general.

Since tape reading incorporates all the price information and future limit orders and technical analysis looks at previous patterns and market psychology, the





combination of the two forms of analysis is often considered the most profitable form of trading.

However, trading in this manner is far from easy and requires a lot of practice, dedication, and discipline. It takes traders years to master the art of combining analysis from tapes and charts to create the perfect trading setup.

## **Tape Reading Indicator**

The time and sales window, also called the tape, can drastically increase your odds of having a [successful trading strategy](#).

Numerous indicators whose occurrence on the tape signify a good trading opportunity that has high odds of yielding a good profit, which has been discussed below.

### **Size of the Orders**

The size of the orders is one of the most straightforward indicators that traders of the tape use.

They normally look for orders over 200-300 shares; however, this is not a hard and fast rule. The general idea is that if there is a major reversal in the stock price, you will see many orders going through 200-300 shares.



## **Speed of the Orders**

In addition to the size of the orders, the speed at which orders are getting executed is also an important consideration to be taken into account.

Generally, if there is a reversal or bounce back in the support and resistance levels, then the reversal point will be characterized by an increasing frequency of orders being placed. An increase in the speed of the orders signifies a greater interest in the stock and is, therefore, a good indicator to base your trading strategies on.

## **Type of the Orders**

The type of orders you will primarily look at will depend on the trade you plan to open.

If you are planning to go long on the stock, you will only look at the section of the order book that deals with the [ask price](#) to understand what orders are being filled at ask.

Similarly, when you plan to short a stock, you will normally look at the orders being filled at the bid price. This gives you a good indication of how the stock price is moving and which side holds power in the market currently.

## Tape Reading Books

If you're looking to get started on tape reading, then the best thing to do would be to get all the theoretical knowledge you need from a book. Then, you can read tapes on the market and gain practical knowledge from executing trades.

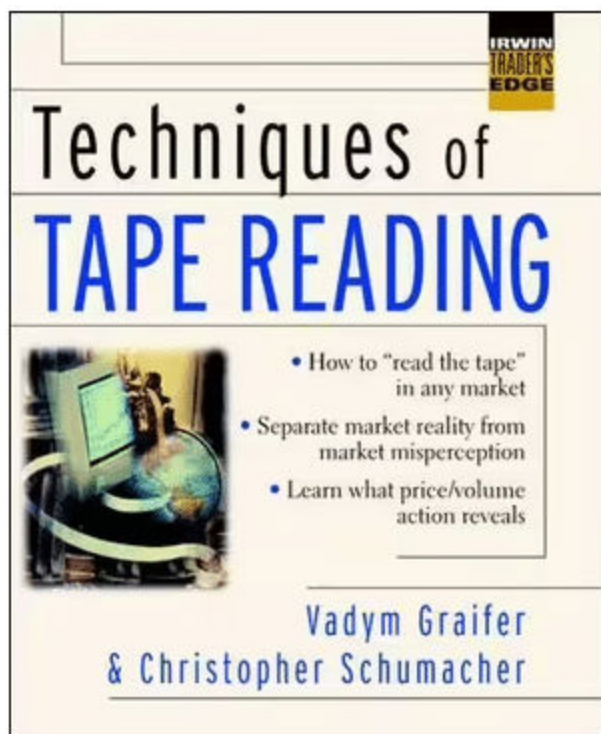
In general, every [stock](#) behaves differently, and the best solution before opening a trade would be to first study the tape for that particular stock for a few minutes and only then open a trade.

Alternatively, some traders only choose to trade on a particular selection of stocks, and hence they get familiar with the tapes of those stocks over time.

The most common and famous book on tape reading is “*Market Tactics* and *Reminiscences of a Stock Operator*,” written by Richard Wykoff and Edwin Lefèvre.

This book, written about Jesse Livermore, one of the first and most famous tape readers, provides an insight into his trading strategies which you can adapt and use for your own purposes.

Another, more recent book is “*Techniques of Tape Reading*” by Vadym Graifer and Christopher Schumacher, which details the theory of tapes and an insight into how you can combine your knowledge of tapes with the price action in any market.



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