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Market Chameleon

Stock Volume Bursts

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Stock Volume Burst

What is a volume burst

How do we detect volume bursts

How can we analyze volume bursts

What can it indicate

Examples how to screen, analyze and strategize

What is a stock volume burst

A stock volume burst occurs when trading volume is unusually high within a short period.

In this webinar, we focus on 1-minute intervals where volume exceeds 2.8 standard deviations based on the stock's volume profile at that specific time of day.

Importance of tracking stock volume bursts

Objective:

- To categorize and analyze trading activity.
- Determine who is trading (retail vs. institutional) and why.

Benefits:

- Gain insights into market behavior.
- Identify potential market movers and reactions.

Methodology

Volume Profile:

- Compare volume bursts to the typical volume at specific times (e.g., 9:30 AM vs. 12:00 PM).

Statistical Measure:

- Use 2.8 standard deviations as the threshold for identifying bursts.

Categorizing The Trade Volume

Retail vs. Institutional:

- Retail trades: Smaller, numerous trades.
- Institutional trades: Larger, fewer trades.

Preparing Data For Analysis & Tools:

If you can categorize who may be driving the trading the volume, the next question is why

Analyzing Volume Bursts

Key Questions:

- Why did the volume burst occur?
- Was there a significant event (e.g., Fed meeting, news)?
- Were there large option trades influencing the need for hedging?
- Examine news, social media, upgrades, and downgrades for retail activity.
- Look for patterns indicating institutional or program trades.

Price and Volume Action Post-Burst

Indicators:

- How does the stock price move after a burst?
- Does volume continue or taper off?

Scenarios:

- Price reversal with no further volume bursts. (Can indicate a large trader liquidated, closed position or has been totally filled “cleaned up”)
- Continuous volume bursts indicating persistent liquidity takers. (Can indicate a build-up of a position)

Historical Pattern and Trends

Pattern Recognition:

- Identify if there are more buy bursts than sell bursts over multiple days.

Trend Analysis:

- Examine 5-10 day periods for consistent trading behaviors.

Implications For Options Trading

Options Reaction:

- How do volume bursts in the underlying stock affect options?
- Potential for larger moves not yet reflected in option premiums.

Strategies:

- Monitor volume bursts to anticipate option market reactions.

Application

Trading Strategy Development:

- Use volume burst analysis to inform trading decisions.

Risk Management:

- Identify potential market movers and manage positions accordingly.

Examples

Screening for stock volume bursts

Analyzing volume bursts

Potential strategies around volume bursts