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CHAPTER 4

SCALPING STRATEGIES

# TRADING STRATEGIES

FROM BEGINNER TO PROFESSIONAL

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## Scalping Strategies

*Scalping is like being a hummingbird in the trading world: fast, precise, and constant movements. It's the most intense form of trading, where every second counts, and precision is absolutely critical.*

### The Scalper's Mindset

Before diving into specific strategies, it's crucial to understand that scalping requires a unique mindset:

- **Paradoxical Patience:** Although trades are quick, you must patiently wait for perfect setups.
- **Laser Focus:** Ability to concentrate intensely for hours.
- **Iron Discipline:** No excuses or "just this once."
- **Superior Emotional Management:** Losses and gains come quickly.

### Strategy 1: Scalping with Order Flow

**Revolutionary Concept:** Order flow allows you to see the market's real "intention," beyond what traditional charts show. It's like having X-ray vision of the market.

#### Components of Order Flow:

- **Volume Profile:** Shows where the most volume has been traded historically:
- **POC (Point of Control):** Price with the highest volume.
- **Value Area:** Zone where 70% of the volume was traded.
- **VAH/VAL:** Value Area High/Low.
  
- **Market Profile:** Distribution of time and price:
  - Bell shape: Balanced market.
  - Irregular shape: Imbalanced market (opportunities).
  
- **Footprint Charts:** Show buying vs. selling at each price level:
  - Green: More buying than selling.
  - Red: More selling than buying.
  - Imbalances: Zones with strong imbalance.

## Setup for Scalping with Order Flow:

### Optimal Instruments:

- **ES (E-mini S&P 500)**: Highly liquid, tight spreads.
- **NQ (E-mini Nasdaq)**: High intraday volatility.
- **EUR/USD**: Most liquid forex pair.
- **Crude Oil (CL)**: Predictable volatility.

### Timeframes:

- **Tick charts**: 144 ticks, 233 ticks.
- **Range bars**: 4 points, 6 points.
- **Time-based**: 1-minute maximum.

## Step-by-Step Trading Process:

1. **Pre-Market Analysis (30 minutes before opening):**
  - Identify key levels from the previous day.
  - Review overnight inventory (open positions).
  - Assess macro context (news, sentiment).
2. **Identifying Value Zones:**
  - Mark the previous day's POC.
  - Identify Value Area High/Low.
  - Look for single prints (zones of low acceptance).
3. **Real-Time Reading:**
  - Observe how the price reacts at key zones.
  - Identify absorption (high volume without price movement).
  - Detect stopping volume (end of movement).

## Practical Example - ES Scalping:

**Setup:** ES at 9:45 AM, trading near the previous POC.

**Observation:** Price reaches 4,150 (previous POC).

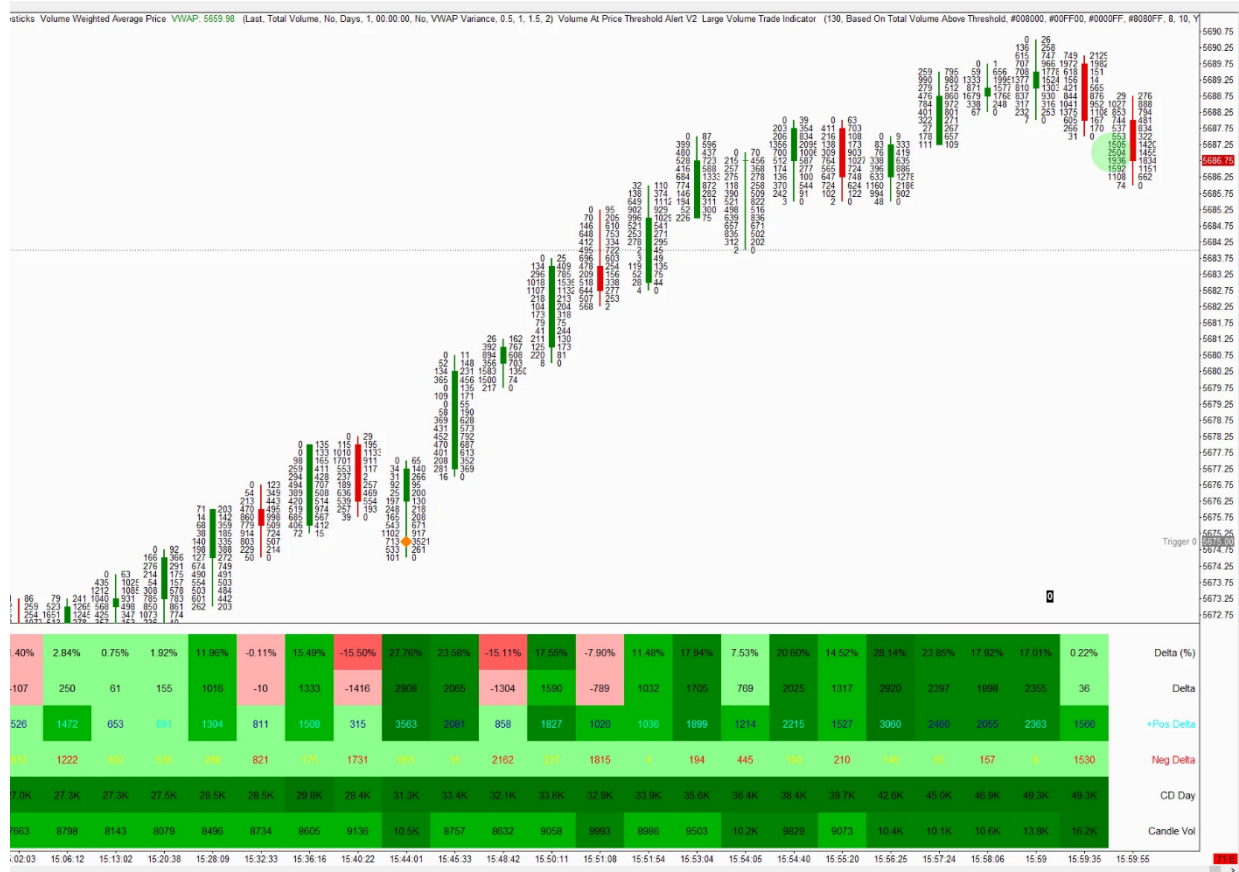
**Order Flow:** Footprint shows absorption—high selling volume, but the price doesn't drop.

**Interpretation:** Buyers are absorbing all the selling.

**Signal:** When massive selling stops, go long.

**Entry:** 4,151.25. **Stop:** 4,149.75 (1.5 points).

**Target:** 4,154.00 (2.75 points) – Ratio 1:1.8.



## Strategy 2: Rapid Mean Reversion

**Core Concept:** Prices tend to return to their mean in the short term. This strategy capitalizes on temporary excessive extensions to capture the return to normal.

### Key Tools:

#### 1. Bollinger Bands (Specific Setup):

- Period: 20.
- Deviation: 2.0.
- Interpretation: Price touching the outer band = excessive extension.

#### 2. 2-Period RSI:

- Setup: RSI(2).
- Levels: 95 (extreme overbought), 5 (extreme oversold).
- Use: Confirms excessive extension.

### 3. **8 EMA (Exponential Moving Average):**

- Function: Reference line for mean reversion.
- Rule: Price must return to this mean.

### **Complete Mean Reversion Setup:**

#### **Long Entry Conditions:**

1. Price touches the lower Bollinger Band.
2. RSI(2) below 10.
3. Reversal candle (hammer, doji, engulfing).
4. Price at least 0.2% below the 8 EMA.

#### **Short Entry Conditions:**

1. Price touches the upper Bollinger Band.
2. RSI(2) above 90.
3. Bearish reversal candle.
4. Price at least 0.2% above the 8 EMA.

#### **Ultra-Precise Management: Entry:**

- Enter at the close of the reversal candle.
- Position size: 2% of capital at risk.

#### **Stop Loss:**

- 2 ticks below/above the reversal candle's extreme.
- Never more than 0.3% of capital.

#### **Take Profit:**

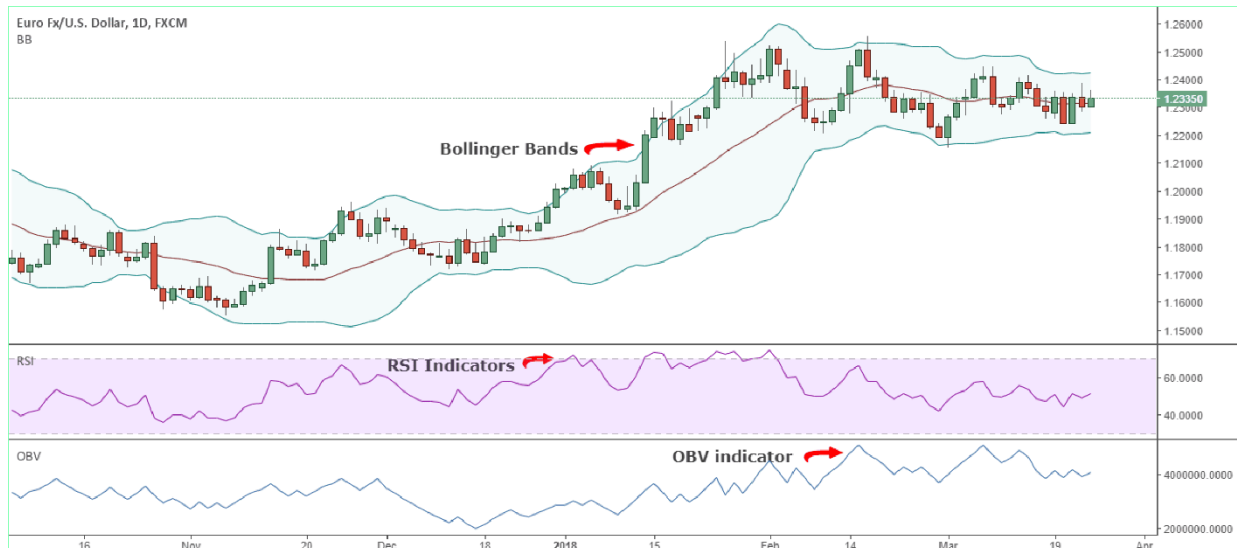
- Target 1: 8 EMA – close 70% of the position.
- Target 2: Opposite Bollinger Band – close remaining 30%.

#### **Example in EUR/USD (1-Minute Chart):**

**Situation:** EUR/USD at 1.1845, touches the lower band. **RSI(2):** Shows 8 (extreme oversold). **Candle:** Hammer with a long lower shadow. **8 EMA:** At 1.1853 (price 8 pips below).

## Execution:

- **Entry:** 1.1846 (hammer close).
- **Stop:** 1.1843 (3 pips).
- **Target 1:** 1.1853 (EMA) – 7 pips, R:R 1:2.3.
- **Target 2:** 1.1858 (upper band) – 12 pips, R:R 1:4.



## Strategy 3: Micro-Range Breakout

**Advanced Concept:** During certain times of the day, markets consolidate into very small ranges. When these micro-ranges break, the movement is often explosive and fast.

### Identifying Micro-Ranges:

#### Ideal Micro-Range Characteristics:

- **Duration:** 15–45 minutes.
- **Amplitude:** 0.15%–0.25% of the asset’s price.
- **Volume:** Decreasing during formation.
- **Touches:** Minimum 3 touches at each extreme.

### Optimal Times:

- 10:15–11:00 AM EST: After the initial thrust.
- 1:00–2:00 PM EST: During the lunch session.
- 2:45–3:15 PM EST: Before the European close.

## Identification and Execution Process:

### Phase 1:

#### Micro-Range Detection

- **Visual Setup:** Use a 1-minute chart with horizontal lines.
- **Technical Criteria:**
  - Maximum 15 pips amplitude (for EUR/USD).
  - Price must touch both extremes at least 3 times.
  - Volume must progressively decrease.
- **Confirmation:** The range must hold for at least 15 minutes.

### Phase 2: Preparing for the Breakout

1. **Pending Orders:**
  - Buy-stop 1 pip above the range high.
  - Sell-stop 1 pip below the range low.
2. **Position Sizing:**
  - Risk: 1% of capital.
  - Stop: At the opposite extreme of the range.
  - Size = Risk / Distance to stop.

### Phase 3: Execution and Management

1. **Breakout Confirmation:**
  - Complete candle outside the range.
  - Volume increase (minimum 150% of average).
  - No immediate return to the range.
2. **Active Management:**
  - Target 1: Range amplitude projected (1:1).
  - Target 2: 1.5 times the range amplitude.
  - Trailing Stop: 50% of profit when Target 1 is reached.

### Detailed Case Study - GBP/USD:

**Scenario:** 10:30 AM, GBP/USD forms a micro-range.

**Range:** 1.2735–1.2750 (15 pips). **Duration:** 25 minutes.

**Volume:** Decreasing every 5 minutes.

**Touches:** 4 touches at resistance, 3 at support.

#### Preparation:

- Buy-stop: 1.2751.
- Sell-stop: 1.2734.
- Risk: \$100 (1% of \$10,000).
- Position size:  $\$100 \div 15 \text{ pips} = 0.67$  standard lots.

#### Execution:

- **Breakout:** Bullish at 1.2751 with 2x volume.
- **Confirmation:** Candle closes at 1.2754.
- **Target 1:** 1.2765 (15 pips) – Reached in 8 minutes.
- **Target 2:** 1.2772 (22 pips) – Final profit.



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