

# The Wisdom of Wyckoff

Presented by Thomas Hamilton  
Special Risk Capital Management, LLC

## Disclaimer:

The sole purpose of this presentation is to present possibilities and educate / entertain the audience. It is NOT intended to promote any strategy, indicator, technique or software. It is the responsibility of each investor / trader to research, evaluate and test ideas before incorporating them into their own trade plan. Neither Mr. Hamilton, or Special Risk Capital Management, LLC make any implied value as to the content herein. You and you alone are responsible for due diligence.



## What do You Think ?

*Optimist:*

“The Glass is Half Full”

*Pessimist:*

“The Glass is Half Empty”

*Engineer:*

“The Glass Is Twice As Big  
As It Needs To Be !”

*I am an Engineer.*

*I am a Technician.*

*I am a “Quant”.*



# Richard Wyckoff - The Man

- Born November 2, 1873; Died March 19, 1934
  - Married three times
- Trader and Educator through out early 1900's
- Editor of "The Magazine of Wall Street", founded 1907
- Researched Common Characteristics of Winning Stocks
- Provided Insight as to How & Why Professionals Invest
  - Emphasized Stop-Loss and Risk Control Techniques

# The Times of Wyckoff

- Studied & Worked with them all:  
Jesse Livermore, E.H. Harriman, James R. Keene,  
Otto Kahn, J.P. Morgan and many more.
- Exposed “Bucket Shops & How to Avoid Them”
  - Poor Phones; Telegraph method of choice
    - Stock Prices posted on Chalk Boards
    - Charts keep by Hand; No Computers

# What is Wyckoff Theory?

- A Method of Detecting Market Behavior by Analyzing Its Structure and the Actions of Major Market Participants.
  - *The role of the Composite Operator (CO) and their Activities*
- Early Identification of Trend Changes and when they are Just Corrections within a Trend.
- Helps to Indentify which Stocks are Strongest (*buy*) and Weakest (*sell / short*).
- It can Project (*via point & figure charting*) and Anticipate Change.

# What Isn't Wyckoff Theory !

- It Never Attempts to Predict Future Price Action.
- There is No Formula or Rigid Algorithm to follow.  
It *really* can't be “Computerized”, hence no back testing.
- Easy to Learn and Understand . . . “just read the book”.

# Helpful Wyckoff Techniques

## Presentation Goals:

- To Provide an Introduction & Show Application.
- To Show How Others Have Used The Wyckoff Theory.
- To Provide Some Ideas and Techniques to Use “Monday Morning”.

## By:

- Showing Schematics of Market Structure.
- Phases of the Structure- Low Risk Entry & Exit Points.
- Introduce- Reverse Trend Lines, Distribution & Re-Accumulation Price Structures.
- The Importance of- Relative Strength, Sector Strength, Volume And More . . . .

# The Three Laws

- 1) Supply and Demand - Why Prices Rise and Fall

When demand is greater than supply, prices will rise, and when supply is greater than demand, prices will fall. *Here the analyst studies the relationship between supply versus demand using price and volume over time as found on a bar chart.*

- 2) Effort vs. Results - Strength of a Move, by Bar and by Swing

Divergences and disharmonies between volume and price often presage a change in the direction of the price trend. *Volume Spread analysis & Comparative Relative Strength.*

- 3) Cause & Effect - Market Structure & Phases

In order to have an effect you must first have a cause and that effect will be in proportion to the cause. *This law's operation can be seen working as the force of accumulation or distribution within a trading range, working itself out in the subsequent move out of that trading range. Point and figure chart counts can be used to measure this cause and project the extent of its effect.*

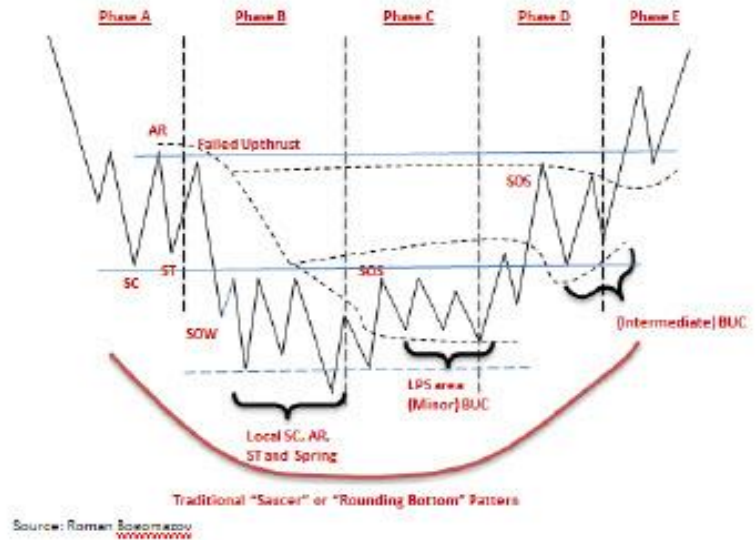
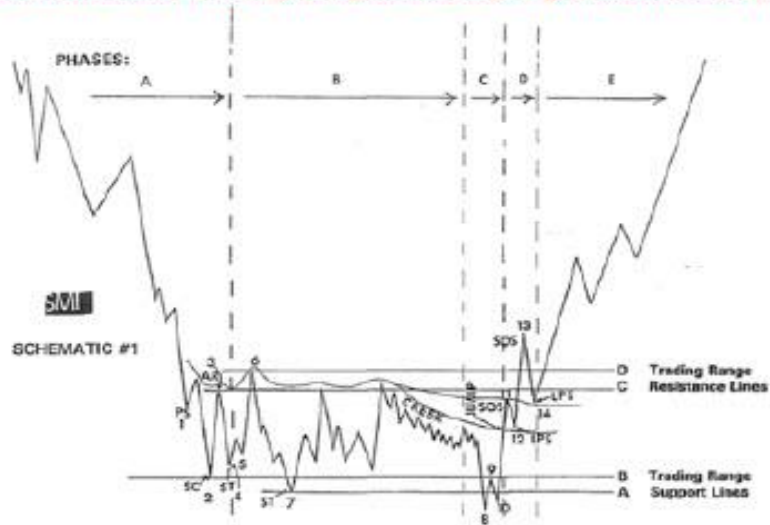


# Schematics of Accumulation

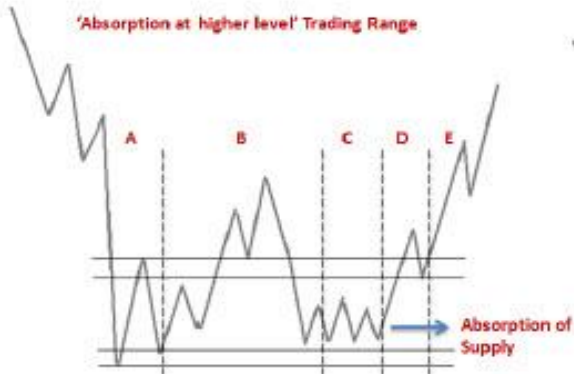
## SCHEMATICS OF ACCUMULATION WYCKOFF TRADING RANGE PHASES:

Source: Roman Bogomazov – Advanced Wyckoff Course

### 'Conventional' Trading Range with a Spring (Flat structure)



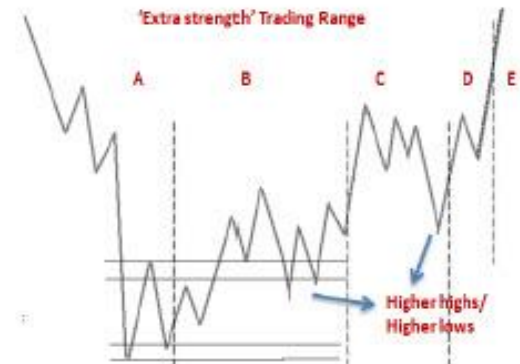
### 'Absorption at higher level' Trading Range



### 'Continuous Weakness' Trading Range



### 'Extra strength' Trading Range

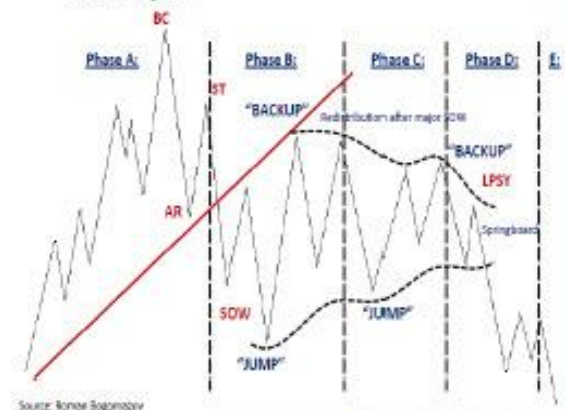
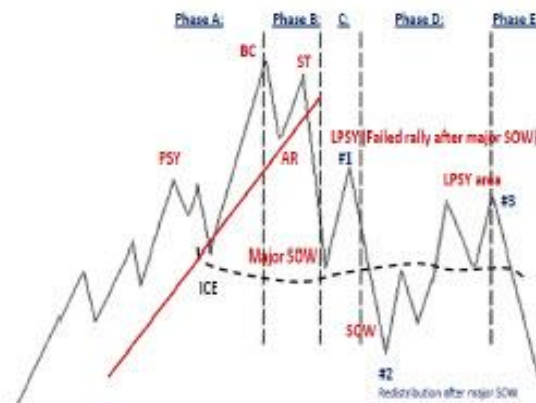
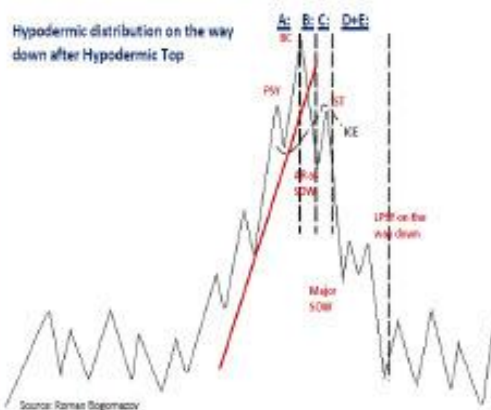
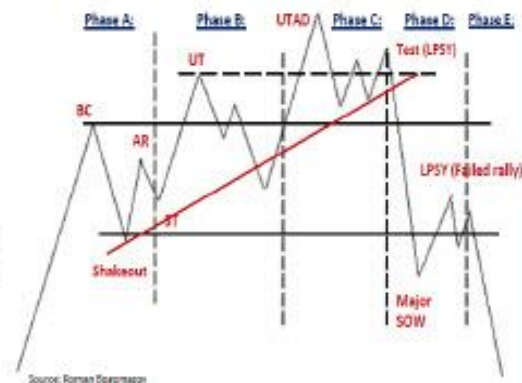
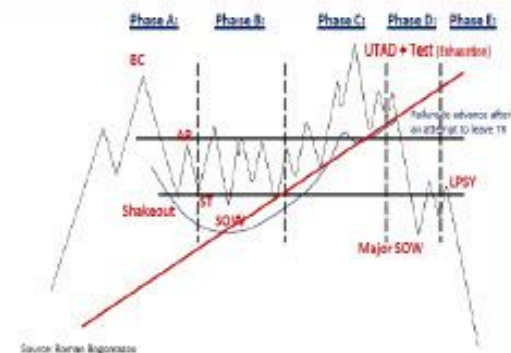
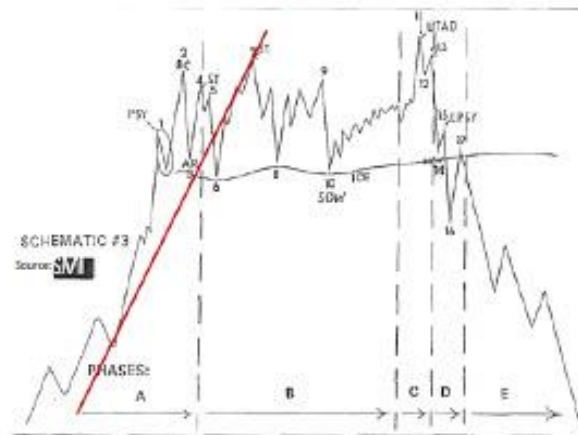
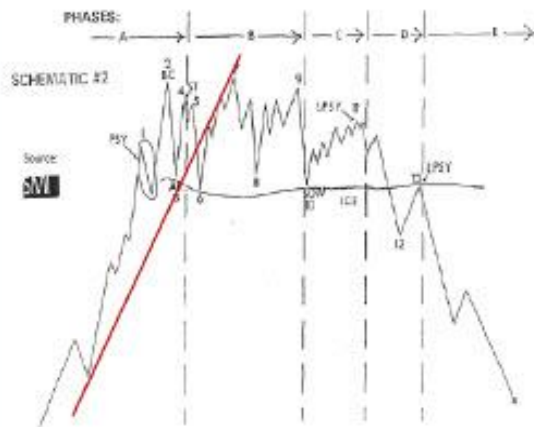


# Schematics of Distribution

## SCHEMATICS OF DISTRIBUTION WYCKOFF TRADING RANGE

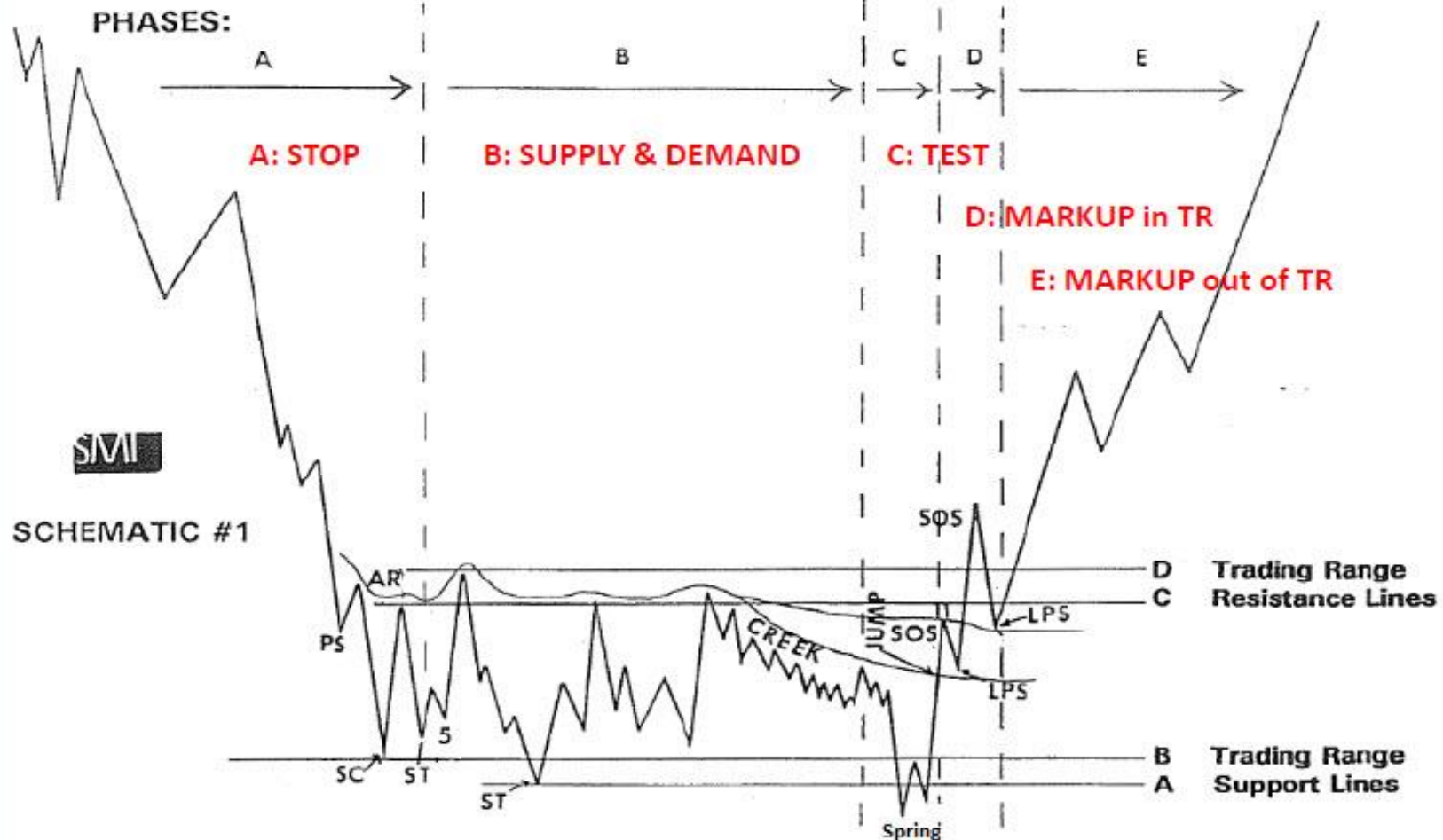
### PHASES:

Source: Roman Bogomazov – Advanced Wyckoff Course



# Phases Within the Structure

## CHEAT SHEET: INTENTIONS BEHIND PHASES (Accumulation)





# Reverse Trend Lines

Nasdaq Composite Index (2,863.89, 2,935.13, 2,818.19, 2,935.05, +42.6301)

Reverse Trend Lines  
drawn on NASDAQ Weekly

## Notes:

- dotted lines are the drawn lines
- solid lines are the parallel, projected lines
- alternate red & blue color for clarity
- recommend semi-log price scale

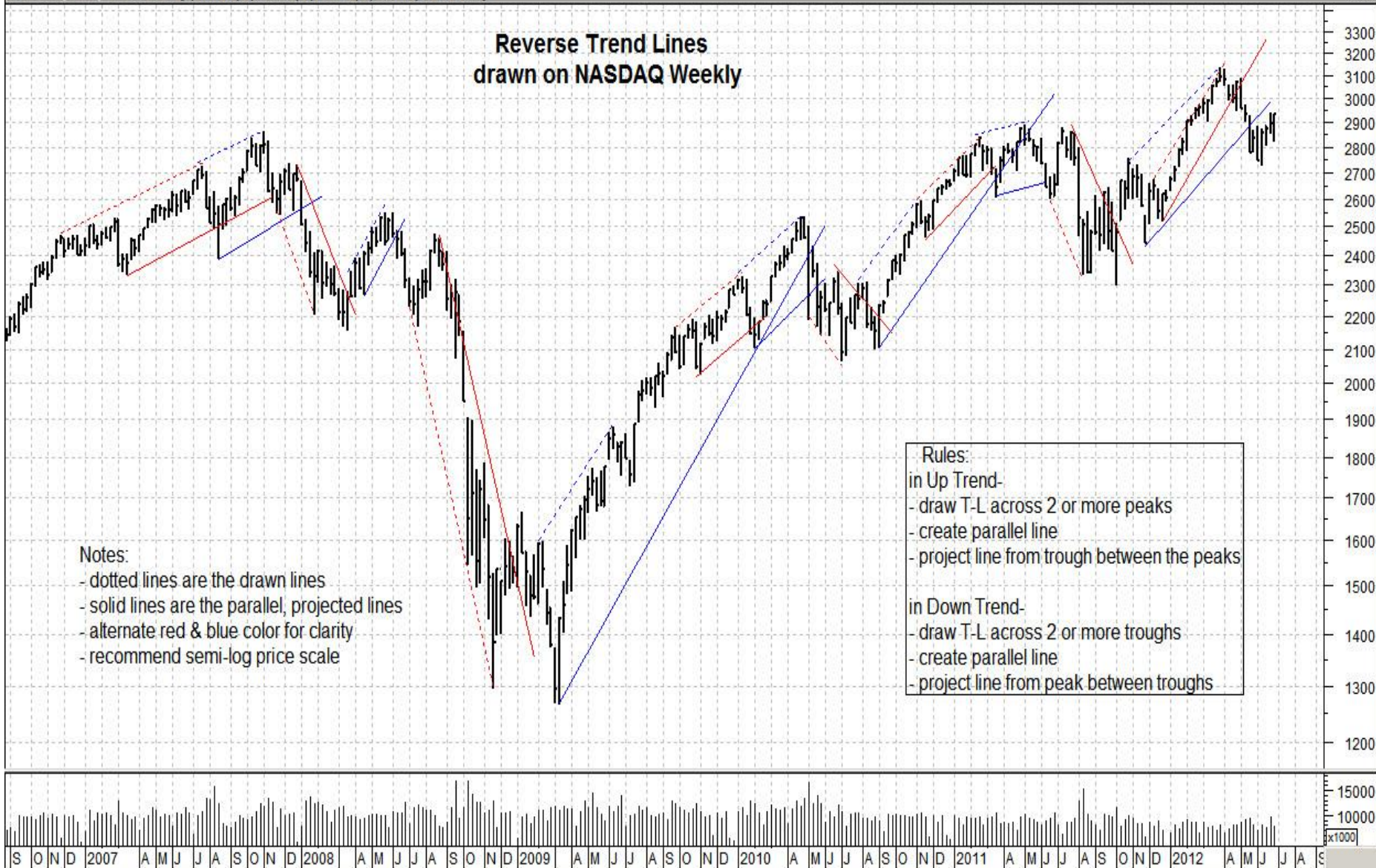
## Rules:

### in Up Trend-

- draw T-L across 2 or more peaks
- create parallel line
- project line from trough between the peaks

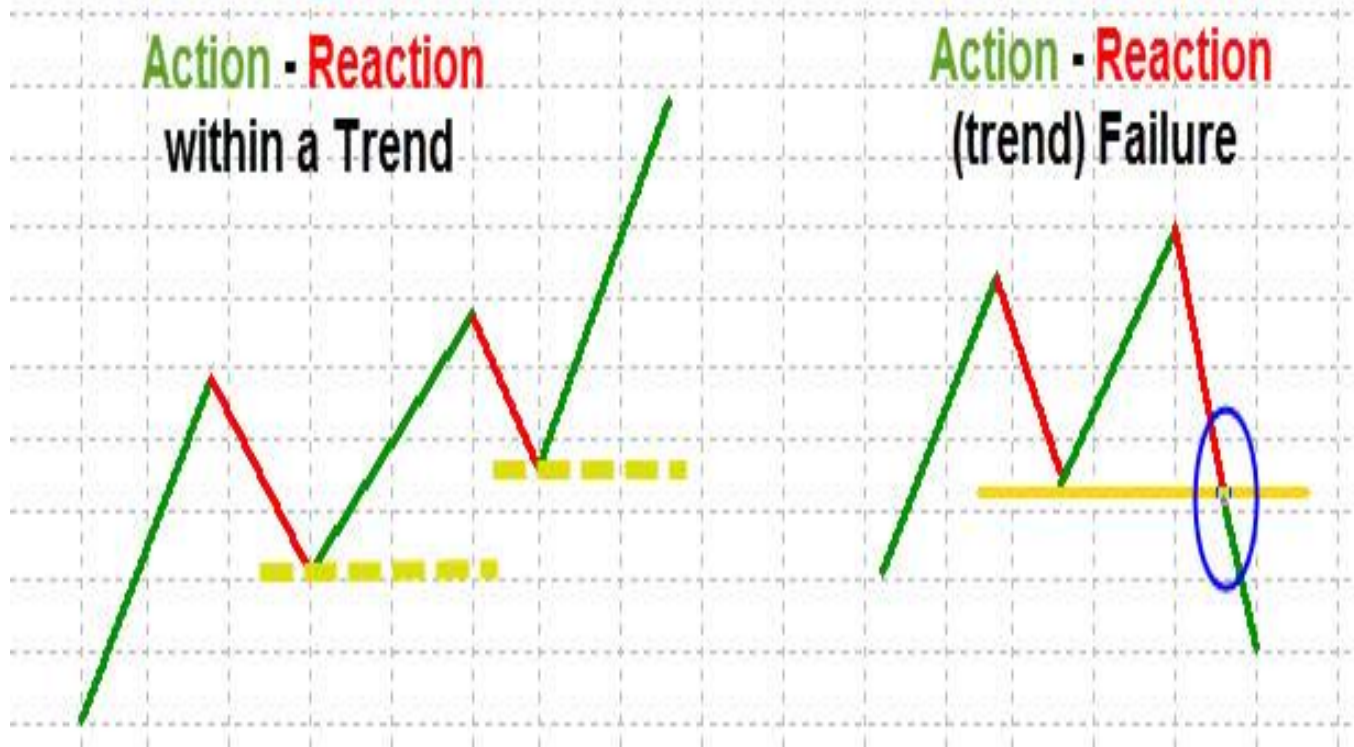
### in Down Trend-

- draw T-L across 2 or more troughs
- create parallel line
- project line from peak between troughs



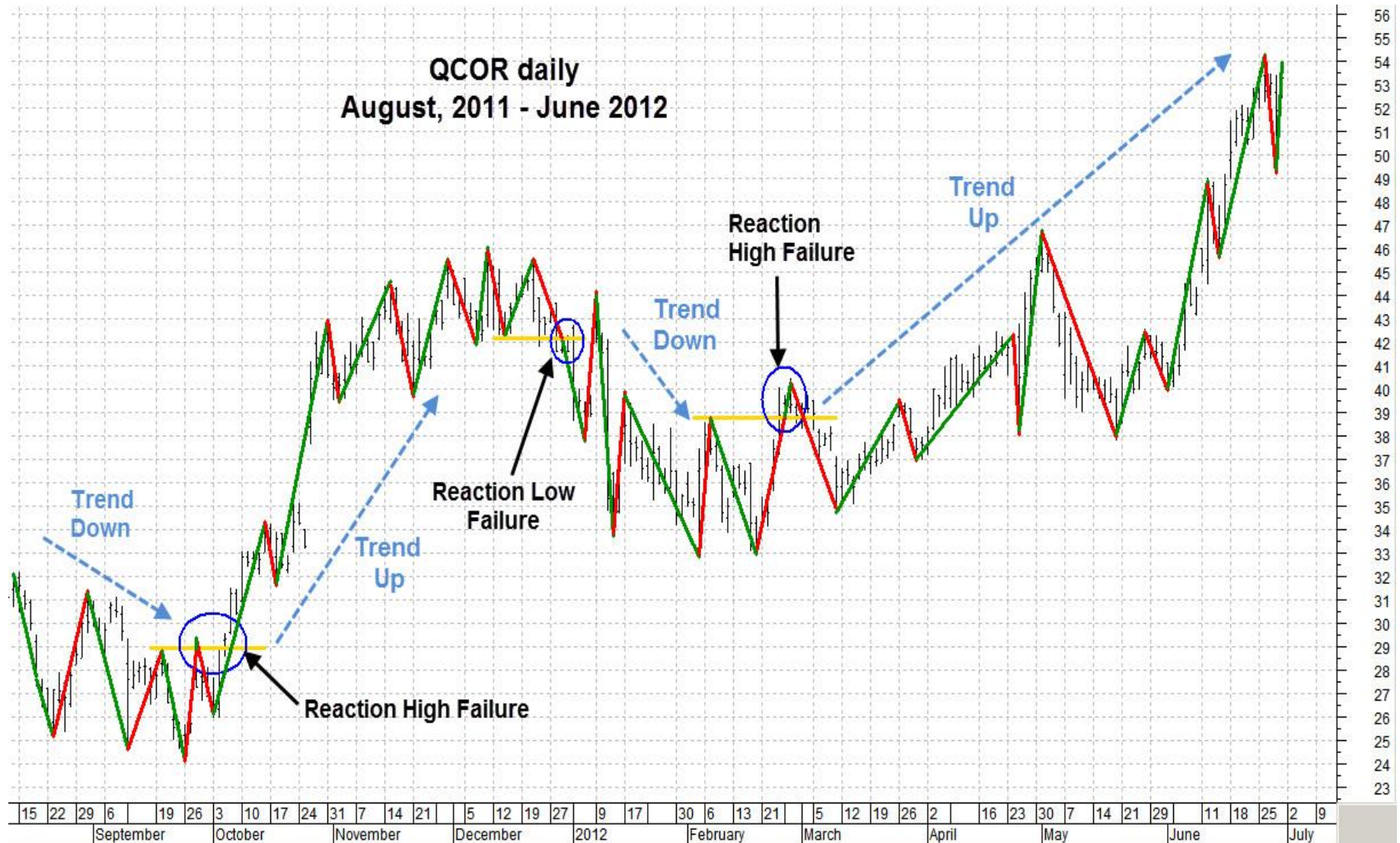
# Action, Reaction, Failure

The Concept :





# Action, Reaction, Failure – In Practice



# Action, Reaction, Failure – Big Picture



# Signs of Weakness & Strength

## SPREAD and VOLUME analysis - II

Source: Jerry Blythe, M.D., July 2, 1977

### INCREASING SPREAD

#### 1. INCREASING VOLUME

Gaining force in direction of movement

#### 2. DECREASING VOLUME

Moving easily but losing push.

#### 3. AVERAGE VOLUME

Normal trend action, somewhat aggressive

### DECREASING SPREAD

#### 4. INCREASING VOLUME

Meeting resistance; impending change trend reversal

#### 5. DECREASING VOLUME

Losing push or force, vulnerable to trend reversal

#### 6. AVERAGE VOLUME

Meeting some resistance

RVWV(D) - Weekly NASDAQ L=19.95 -0.25 -1.51% B=0.00 A=0.00 O=19.99 H=17.28 Lo=16.77 V=21,201,031



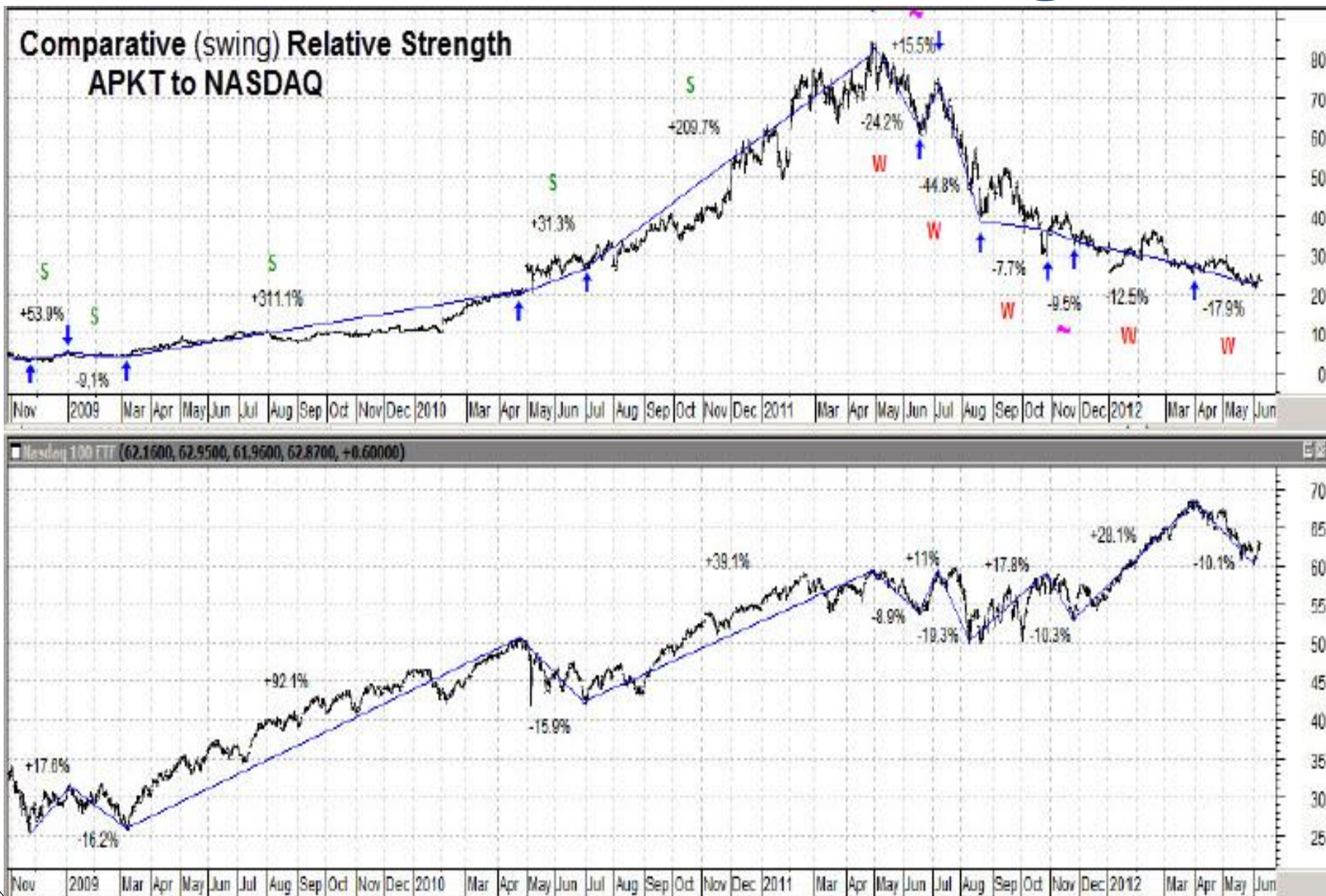
February 6, 2012

WYCKOFF II Online course

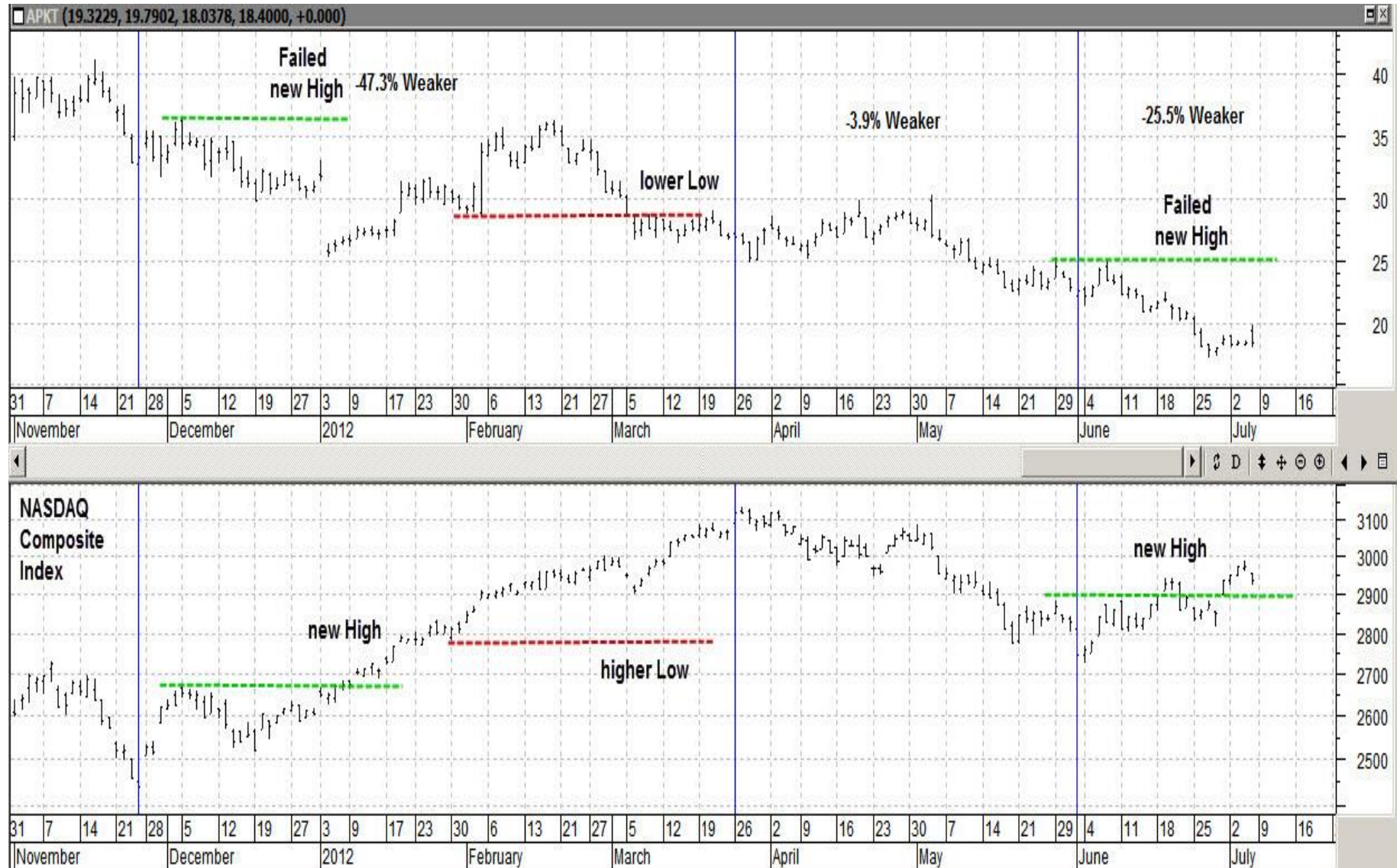
Prepared by Roman Bogomazov



# Comparative Relative Strength



# APKT: a Closer Look at Comparative Relative Strength



# Putting *(some of it)* Together

## Signs of a Trend Change:

- A Developing Structure of Accumulation or Distribution.
- Attention to the Phases of the Structure (phases C-E).
- Breaking of a Trend Line.
- Failed Low (*in accumulation*) ; Failed Rally (*in distribution*).
- Signs of Strength (*accumulation*) ; Signs of Weakness (*distribution*).
- Comparative Relative Strength confirmation.

# Ready to Move ?

## 1) Market Analysis:

- Is the market moving (or ready to) move in your favor?
- Low risk moves when you're in sync with the market.

## 2) Sector Analysis:

- Low risk moves when you select the strongest stock in the strongest sector.

## 3) Stock Analysis:

- Relative Strength.
- Price Structure.
- Is the stock ready to move?
- Defined Risk, use Stop Losses !

# Why Study Wyckoff ?

Market -

You gain confidence that you know what's happening and why (*market structure, not news*).

Stock -

You know the signs of the large market movers (*the "CO"*) and how they are trying to position themselves and when.



# What We Didn't Cover -

A lot !

- The Nine Buying and Selling Tests
- Price Structures and Phases in Detail
- Analysis in Multiple Time Frames (*i.e. daily – weekly*)
- Point & Figure Charting Techniques
- Price Projections
- Market & Sector Strength Analysis
- Identifying the Buying “Sweet Spot”
- Supply (*selling strength*) and Demand (*buying strength*)
- Additional Signs of Strength & Signs of Weakness (*SOS & SOW*)
- Trading Tactics - How to Enter and Exit a Trade

# Problems and Things to Consider . . .

- Most effective with Supply & Demand securities (stocks).
  - Stocks have finite amount of supply; Float Shares.
  - ETF's & Futures contracts are derivatives. Their value is derived from the underlining securities (cash) value; thus Demand Volume effects price, but Supply is not limited.
- Volume may not be accurate.
  - Off exchange, private sales and dark pool volume may not be reported.
- Volume May Not Reflect “Pure” Supply or Demand
  - Flash / Algorithmic Trading; short term computer driven & arbitrage cause temporary distortions.

# Thoughts for Further Study

- Ultra High or Low Volume, in the right background, can be an indicator of Large Composite Operators moving into or out of a security.
- Bullish: volume is increasing (*but not ultra high volume*) on an up bar and decreasing on a down bar, in an Up trend.
- Bearish: volume is increasing (*but not ultra high volume*) on a down bar and decreasing on an up bar, in a Down trend.
- Institutions take positions over time, many days, buying or selling, trying to have minimal effect on price.
- Ultra high volume often marks a significant top or bottom.
- Weakness starts to appear on Up bars. i.e. Up Thrust – ultra high volume, and No Demand – ultra low volume.
- Climatic Action: high volume on a very narrow or wide range bar (*after a significant up trend*) possible high level of distribution, demand = supply.  
Beware !



# Summary

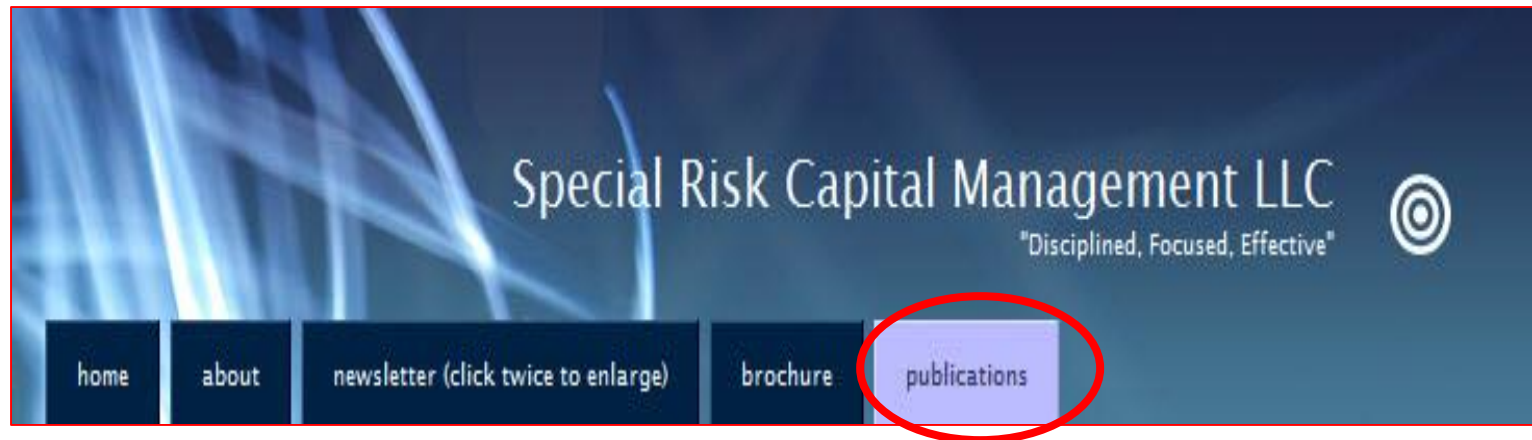
- Take the time to understand price structure and confirming volume.
- It's most effective when applied knowing the correct context and background, observe that it is dynamic (*not static*).
- The objective is to detect Accumulation at the Bottom as price begins to rise and Distribution at the Top just as price begins to fall.
- It can be applied in all time frames, it just takes practice.
- Can be applied to derivative securities, though the differences can be more subtle.

# Resources & Thanks

- [www.tradeguides.com/bestofwyckoff](http://www.tradeguides.com/bestofwyckoff)
- Stock Market Institute; [www.wyckoffstockmarketinstitute.com](http://www.wyckoffstockmarketinstitute.com)
- “The Three Skills of Top Trading”, by Prof. Hank Pruden  
(Behavioral Systems Building, Pattern Recognition & Mental State Management)
- “Charting the Stock Market”, edited by Jack Hutson
- “How I Trade and Invest in Stocks & Bonds”, et al, by Richard Wyckoff
- Golden Gate University, College of Finance  
Adjunct Professor Mr. Roman Bogomazov
- The importance of staying “in the now”: “The Power of Now”  
and “A New Earth”, by Eckhart Tolle
- *stock charts courtesy of MetaStock, used with permission*

# Information About SRCM and This Presentation

- ✓ Weekly Market Commentary at [www.Special-Risk.net](http://www.Special-Risk.net)  
also on this site:
- ✓ Monthly Client Newsletter
- ✓ This Presentation and Related articles



# A Final Thought

*(A saying in Hatha Yoga)*

On The Edge of Discomfort,  
is Where Change Happens.

*Explore*

# *Bonus Topic: Significant Bars*

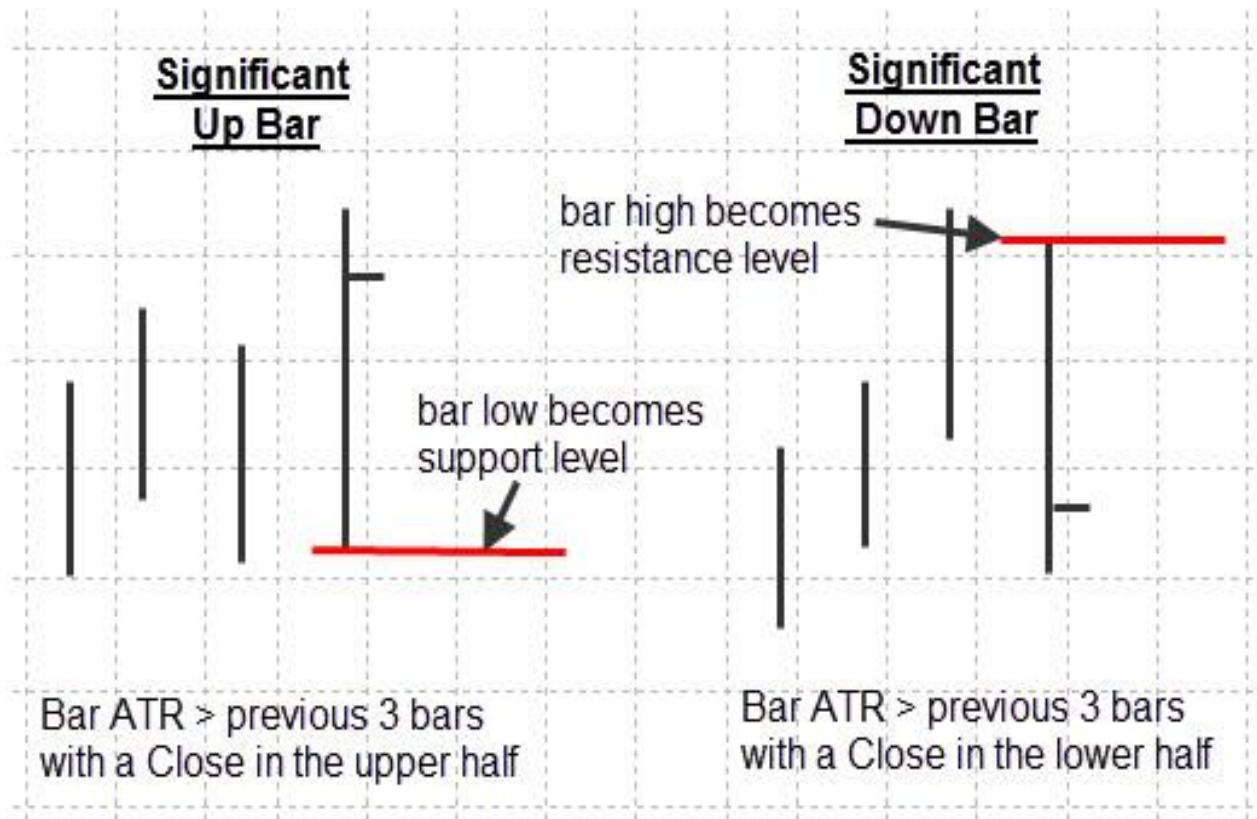
They Have Two Primary Characteristics –

- 1) A Wide Range Bar    *and*
- 2) Closes near the Top of the Range (Up bar) /  
Closes near the Low of the Range (Down bar)

## ***Important:***

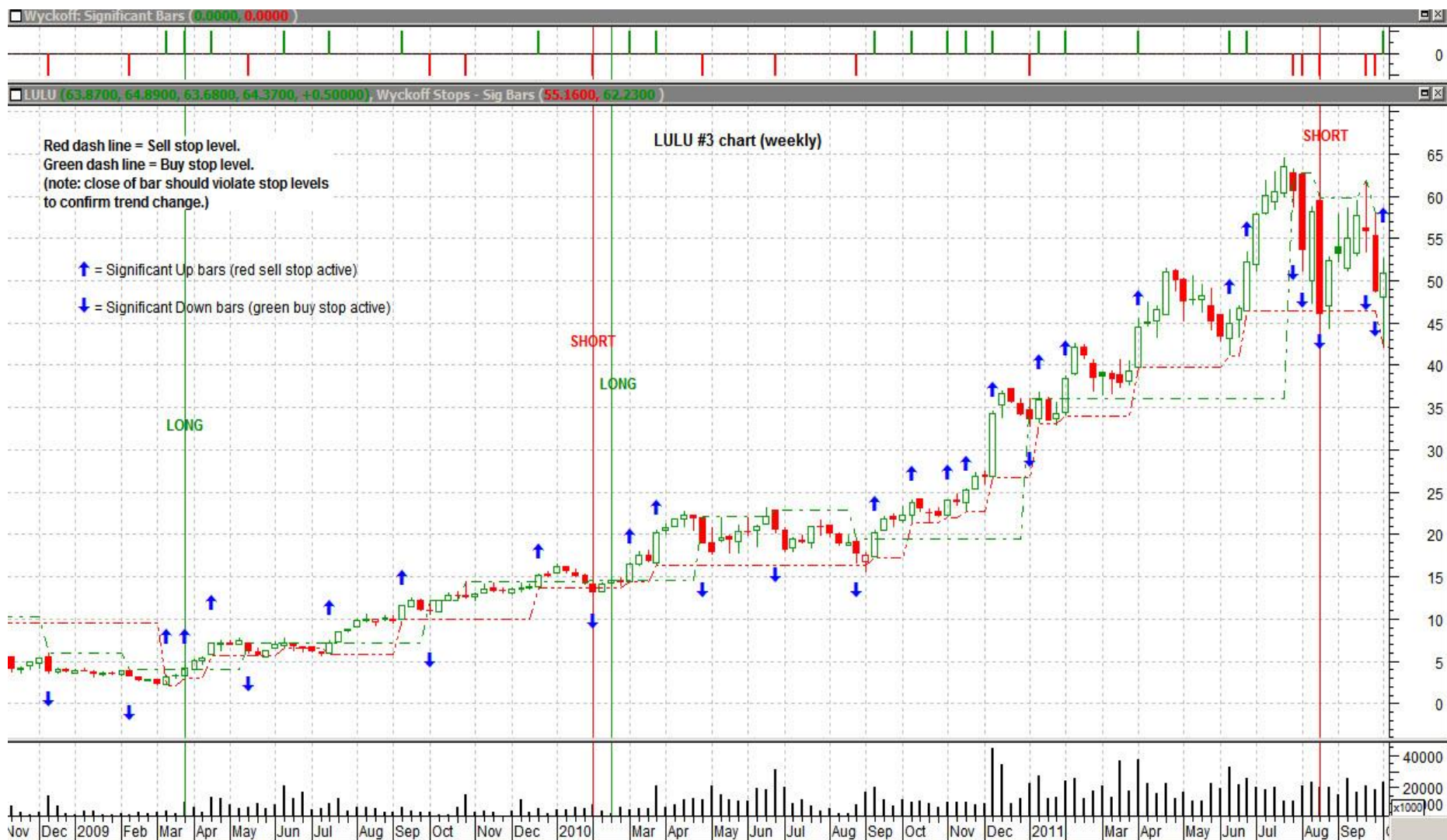
The Low of a Significant Up bar defines the Support Level &

The High of a Significant Down bar defines the Resistance Level



*Note:*

For a Position Change to be Valid, it **Must Close** Above the Resistance Level (Up) or Below the Support Level (Down)



## Thoughts:

- Works in all time frames, best on weekly for position traders.
- Need to use discretion during low volatility / congestion areas.
- It's not perfect, but does provide confirmation and guidance.