Trading in the Shadow of the Smart Money

Use VOLUME SPREAD ANALYSIS™
to Understand Market Manipulation
& Read Charts Like "SMART MONEY"

Gavin Holmes

Copyright, Legal Notice and Disclaimer:

© copyright
all rights reserved

Copyright 2011 By Gavin Holmes. All rights reserved.

This publication is protected under the US Copyright Act of 1976 and all other applicable international, federal, state and local laws, and all rights are reserved, including resale rights.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under section 107 or 108 of the US Copyright Act of 1976, without either the prior written permission of the publisher.
All charts herein are provided with the permission of TradeGuider Systems International (www.tradeguider.com)

Limit of Liability and Disclaimer of Warranty: The publisher has used its best efforts in preparing this book, and the information provided herein is provided for educational purposes only. The publisher makes no representation or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaims any implied warranties of merchantability or fitness for any particular purpose and shall in no event be liable for any loss of profit or any other commercial damage, including but not limited to special, incidental, consequential, or other damages.

Trading Stocks, Commodities, Futures, Options on Futures, and retail off-exchange foreign currency transactions involves substantial risk of loss and is not suitable for all investors. You should carefully consider whether trading is suitable for you in light of your circumstances, knowledge, and financial resources. You may lose all or more of your initial investment. Opinions, market data, and recommendations are subject to change at any time.

ISBN: 978-0-9836268-0-0

Trading
In The Shadow of the Smart Money

How To Understand Market Manipulation
And Become Profitable By Understanding
How To Read A Chart Like The "Smart Money"
By Using Volume Spread Analysis™

By Gavin Holmes

CONTENTS

ACKNOWLEDGEMENTS

So many people have helped me write this book, and by doing so have also helped me find my purpose in life! I could fill ten A4 pages with their names, but in order to keep this brief, I want to acknowledge and thank the following people:

Firstly, my heartfelt thanks goes out to everyone who pushed me into completing my book. The project eventually took over two years to complete, but was a very worthwhile venture indeed.

Broadly, I would like to thank all our TradeGuider customers and **VSA** Club members for their continued support and encouragement as we have nearly reached our tenth anniversary in business.

I want to especially thank and acknowledge TradeGuider customer, Eric Rivera, for helping us to program TradeGuider (v.3) with the scanner add-in that Eric worked so hard on. This was launched in 2008. My sincere gratitude is extended to TradeGuider customers, William Donelson and Malcolm Moos, who proof read the book and made some excellent suggestions and grammatical corrections that were incorporated into the book.

Thanks and acknowledgement goes to:

- **VSA** expert and fund manager, Philip Friston, for all his tireless work in helping Tom Williams write the new **VSA** dialogue boxes for the TradeGuider software, and for his contribution to the TradeGuider **VSA** Club.

- **VSA** expert Sebastian Manby, for contributing his interview for this book. ~Wyckoff experts Dr. Gary Dayton and David Weis for contributing their interviews, I appreciate your time and efforts to help give your expert opinions to assist the traders and investors who read my book.

- All the great traders and educators I have met who have worked with me in various projects and have also taught me a great deal, including Markus Heitkoetter, Todd Krueger, Roy Didlock, Rob Hoffman, Gary Fullet, Philip Friston, Dr. Gary Dayton, David Weis, Professor Hank Pruden, Bruce Frazier, Harvey Loomstein, Adrienne Toghraie, Brad Bedford-Brown, Bill Wermine, Martin Wong and Nick Radge.

- Paul Avins for inspiring me in the early days to take massive action and improve my life and the life of others!

- Big thanks to Richard Seegers, a dedicated customer of TradeGuider Systems. Richard was kind enough to take the time and patience to help thoroughly edit the content and grammar of the book, as well as add valuable insight to the list of the book topics. Thank you Richard for your input and expertise.

- A very special thank you to Jim Mooney and Jim Cagnina from Infinity Futures in Chicago, who have consistently supported TradeGuider and myself personally and as a result, have become great friends, and also thanks to all the brokers at Infinity for their support including my brokers Russ Carlson and Andy Delap. They are real first class guys to deal with and have always been there when you need them.

- Mike Panice, my broker at PFG Best for his support and helping get permission to re-print the interview with Tim Rayment.

- The entire TradeGuider team - these people are the backbone of the company and continually support the business for my partner and me in our venture. They are AJ Robinson, my brother Darren Holmes, Peter and Rita Offen, who are always there to help Tom, our new development team Josh Davidson and Michael Margolese, and our programmer Robert Harwood and all our **VSA** Club contributors. A very special thank you to our new team member, head of public relations and marketing for TradeGuider Systems International, Armi Matienzo, who has worked extremely hard to ensure the book was completed and compiled by a tight deadline- well done Armi.

- Dallas Badham, who is very much part of the TradeGuider team and has always taken care of me as she does Tom when I visit Tom's house in Worthing, England.
- Special thanks to my father-in-law, Ken Woodham, for keeping the finances in order.

- A great big thank you to my long time business partner and friend, Richard Bednall, who takes my hair brained ideas and makes them happen. Without Richard, there would be no websites or emails that get our message out day after day.

- A son's thanks to my special mum, Shirley, for being a wonderful mother, and to my brother Darren, for his unflinching support.

- I want to thank from the bottom of my heart two very special people who have had a big impact for the better in my life. Firstly, Tom Williams, the man who has inspired many thousands of traders and investors worldwide to better understand supply and demand and chart reading, using what he had learnt to make money. He has passed on that knowledge unselfishly and graciously. Tom is a true hero to many and we owe a great deal to the likes of Tom Williams, Richard Ney and Richard Wyckoff. Both had the same goal in mind, which was to help others.

- Special thanks to my very patient and understanding wife Laura, who pestered me as the deadline grew closer to get to my office and write the book, which I did. Thank you Laura, I love you very much, and to my lovely children Nathan, Olivia and Ryan, all little characters in their own way, but a real blessing that completes me.

FOREWARD

By Tom Williams (Inventor of Volume Spread Analysis and Author)

When I first met Gavin ten years ago and I explained to him how the financial markets operated, I remember his reaction of surprise and bewilderment. Gavin knew very little about trading or investing, but clearly he had an appetite to learn and was hungry for success. It what was for this reason I knew he had the potential to be a great trader.

When I wrote my first book, "*The Undeclared Secrets That Drive The Stock Market*", I had no idea how popular it would become, but as I have gotten older, I knew I needed to pass on my extensive knowledge to someone with the same passion for helping and teaching others as I have. Gavin fitted the bill perfectly, and despite having setbacks, he has always maintained a very positive attitude to life, and a willingness to let me teach him everything I knew about trading.

I explained to Gavin during one of the many times he has stayed with me at my home in Worthing, England, that writing my book was one of the most rewarding and satisfying things I have done and I suggested that Gavin seriously think about following in my footsteps and write a book. He has clearly learnt a great deal since I first met him, but I really didn't think he was going to sit down and actually write a book, as he is a bit of a live wire! So to see a 300 page book appear during May 2011 was wonderful.

When I had Gavin's book, "*Trading in the Shadow of the Smart Money*" read to me (I am now 83 and suffer from macular degeneration so have limited vision) I was very surprised at just how good the book is. He has explained in a clear and easy to understand manner how you can make money in the financial markets if you understand the underlying mechanics if you have a system and a plan.

I certainly recommend that you read this book and keep it as a reference at all times, as it gives great insight into how a trader enters the market as a winner.

Gavin has become an excellent trader in his own right, and I must say that it appears to me that potential traders who enter the market with no previous experience whatsoever seem to do very well and often far quicker than traders that have continually jumped from one system to the next, spending a lot of time and money in search of the elusive Holy Grail of trading so they end up with no system and no plan and as a result they fail. If there is a Holy Grail for traders, it is contained in the information in this book.

If a trader enters the market with an unpolluted mind, they will see clearly that the **VSA** principles are present in all markets and in all timeframes, and will recognize how they are working, in order to identify profitable trade set-ups. Those traders will then develop and grow their trading skills around this knowledge.

Most traders and investors don't understand volume implications and how important it is in their analysis of any of the markets in any timeframe. Basically, you have hundreds of thousands of traders constantly trading, some long, some short, some holding, some waiting to get into the market, some already in profitable positions, some in losing positions.

So how on earth can we possibly make sense of this? It's not as difficult as you might think because whenever a trade is entered into, the appropriate exchange registers this as volume on a continuous basis. So to us, volume represents activity.

Now, what is the exact amount of activity taking place in relation to the price bar on your chart? The activity must be the reason why the chart is behaving the way it is. You then need to realize that at least 80% or even more of that volume or activity will be professional money, or the "Smart Money", as Gavin refers to in the book. In other words, traders who are trading large amounts of money and contracts that are in fact large enough to alter the direction of a market.

For example, on your chart, if you see an up-bar that has moved into fresh high ground, but you see that the spread is narrow, and the volume is very high, it will produce an automatic '*sign of weakness'* in the TradeGuider **VSA** software that I invented. The reason for this is that professional money has to sell as the market is going up, *and the narrow spread up-bar is caused by them satisfying every buy order that comes into the market, i.e. capping the top end of the market. It is like putting a lid on it*. This produces a narrow spread on the up-bar and Gavin shows several excellent examples in his book of this price action. If the activity is very high then this can only tell you that professional money is taking their profits and the net effect of this is to make the market bearish, in other words, weak.

Very often it will be difficult for you to see this because inevitably the news will be good news, and it may be difficult for many to understand that you need to sell on good news. Most traders will, by their very nature, consider themselves to be quite intelligent, and maybe have previous success in life that will show this. So you have to ask yourself a question, why is it so difficult to predict market behavior? All your skills that have served you well during your life never seem to be quite good enough, so why is this? I would say the reason for this is that all the information, and I mean all, that's pouring into your mind cannot be the correct information, and it's this deluge of misinformation that is making it difficult to predict market behavior on a regular, reliable basis.

This book will go a long way to broaden and fulfill your understanding of exactly what's going on, and you can only benefit from this information - information that will be with you for the rest of your life.

-Tom Williams

INTRODUCTION

BACKGROUND TO VOLUME SPREAD ANALYSIS

TradeGuider is based on a methodology called *Volume Spread Analysis (**VSA**)*.

Following is a brief explanation of TradeGuider Systems software, and the use of its inherent presentation and process of *Volume Spread Analysis (**VSA**).* I aim also to explain the software's role in being able to assist traders to recognize market manipulation to make consistent and successful decisions. I will show you chart examples of how professional activity is clearly visible in all markets and all time frames - especially if you know what to look for.

Volume Spread Analysis (VSA) is a proprietary market analysis method conceived by Tom Williams (Chairperson of TradeGuider Systems). The **VSA** method works particularly well at highlighting the imbalances of Supply and Demand.
VSA is utilized in the TradeGuider software to analyze a market by observing the interrelationship between Volume, Price, and the Spread (i.e. range) of the price bar.

TradeGuider was previously known as *Wyckoff Volume Spread Analysis* and has been in existence for over 20 years. Driven by an artificial intelligence engine, TradeGuider **VSA** is unique and is capable of analyzing **any** liquid market in **any** time frame by extracting the information it needs in order to indicate imbalances of Supply and Demand evident in a chart. In doing so, TradeGuider is able to graphically exhibit the essential dynamics of market movement.

The software functions in Real-Time (RT) or End-of-Day (EOD) modes. It enables users to see when Professional Money, or what I will refer to as the '***Smart Money'*** (or ***Smart Money Professionals***), are entering, exiting, or abstaining from participating in the market being traded. This will empower clients to make intelligible and therefore informed trading decisions. The TradeGuider **VSA** method is a revolutionary concept that can be used on its own or in conjunction with other trading platforms. It makes an ideal choice for both adding value to data vendor platforms and as decision support. For any liquid market, this provides the best Supply and Demand Analysis in the business. The extensive Expert System is easy to use and has an innate understanding of market dynamics and volume.

The sophisticated Expert System is augmented by a novel set of proprietary tools that confirm trade set-ups as they appear in any time frame and in any market. The indicators are displayed automatically on the chart. There is no configuration, no setting of parameters, and no optimization. Our belief is that if a system requires optimization to make it work, then the basis of that particular methodology cannot have been sound in the first place. The process of optimization is used to cover up a whole range of flaws in the original analysis method(s). Instead, our concepts are robust and can be applied to any time frame with consistent results.

As mentioned earlier, this is not a new concept. Tom Williams, the inventor of **VSA**, is a former syndicate trader. He observed that the markets were being manipulated and that the key to unlocking the truth lay in the relationship between the Volume, the Spread of the bar, and the Closing Price. Tom spent many years studying the concepts of Richard Wyckoff, a renowned trader during the 1920's and 1930's. He wrote several books about trading the Markets, and he eventually created the Stock Market Institute in Phoenix, Arizona. At its core, Wyckoff's work is based on the analysis of trading ranges and determining when the stocks are in basing, markdown, distribution, or mark-up phases. Incorporated into these phases are ongoing shifts between 'weak hands', or public ownership, and 'the composite operator', now commonly known as 'Smart Money'.

When Tom Williams went back to Beverly Hills in the early 1980's, he began to investigate the possibility of computerizing the system he had learned as a syndicate trader- and so began the evolution of *Volume Spread Analysis (**VSA**).* With the assistance of an experienced computer programmer, Tom carefully studied thousands of charts to recognize the obvious patterns that were left when professional operators, or Smart Money, were active. This technique, although simple in concept, took several years to write and is now taught as a methodology in combination with software known as *TradeGuider*.

Volume Spread Analysis seeks to establish the cause of price movements. The 'cause', quite simply, is the imbalance between Supply and Demand, or Strength and Weakness in a liquid market. This is created by the activity of 'Smart Money'. If you use the TradeGuider software, you will notice that it does an excellent job of detecting these key imbalances for you, thereby taking the hard work out of reading the markets, and enabling you to fully concentrate on your trading.

To use a chart without volume is like buying a car without a gas tank. The significance and importance of Volume seems to be little understood by most non-professional traders. Perhaps this is due to the fact there is sparse information and very limited instruction available on this vital aspect of technical analysis.

For the correct analysis of Volume, one needs to realize that the recorded volume information contains only half of the knowledge required for a correct analysis. The other half of the meaning is found in the Price Spread. Volume always indicates the amount of activity going on, and the corresponding Price Spread shows the price movement on that volume. Most traders believe you can't analyze volume in the FOREX markets because that information is unavailable. That is not the sum truth of the matter. Later in this book, I will show you how TradeGuider's proprietary system does something that those traders thought impossible.

Some technical indicators attempt to combine both volume and price movements together, but this approach has its limitations. At times, the market will go up on high volume, but it can also go up on low volume! The obvious conclusion is that there are other factors in play.

Price and Volume are intimately linked, and their inter-relationship is a complex one, which is the main reason TradeGuider was developed. As mentioned previously, the system is capable of analyzing the markets in Real-Time (RT) or at the End of the Day (EOD), displaying any one of 400 indicators on the screen to show imbalances of Supply and Demand. *For more information, please visit www.tradeguider.com*

CHAPTER 1

THE MEETING THAT CHANGED MY LIFE

I remember the phone call well. It was an early Monday morning, and my Personal Assistant Anne came into my office to tell me that there was a gentleman from Yorkshire England on her phone. He had seen one of my e-marketing websites and had a proposition for me. I asked Anne to find out more before putting the call through. Apparently, this gentleman named Roy Didlock was involved in the development of a computerized trading program called *Wyckoff Volume Spread Analysis*. The inventor of the program, Tom Williams, a retired syndicate trader, wanted to partner with a marketing firm in order to bring his trading software to a wider audience.

I knew nothing about trading or investing at the time, but I was curious, so I took the call. On the other end of the line was a deep, but pleasant voice with a thick Yorkshire accent. Roy began to explain how Tom had started the company as a hobby. This implied that they had no marketing budget. Roy also explained that the company Tom had founded several years prior to promote the program, Genie Software Ltd., was interested in partnering with a marketing or advertising agency. The proposal was that the marketing arm would take a profit share in return for its services.

At the outset I was skeptical and somewhat intrigued by Roy's approach, so I asked him why he was interested in my company. Roy told me he picked about 60 companies he found on the Internet, and we were one of those companies that had suitable qualifications to suit their purposes. I then asked how many phone calls and visits he had made, and what type and level of response he had received. We were one of the last companies on his list. He had a dejected tone in his voice. I could sense that it was an issue to work without a marketing budget, and most likely, there had been little or no interest in the software.

At this point, a little voice in my head urged me to invite him to call on me at my office to find out more. In those days my office was in Beckenham, Kent, which is approximately 400 miles (530 km) from Yorkshire. I asked Roy if he had a business plan, and whether it was possible for him to come down from his base upcountry to visit me at my office in the south to discuss his proposal. I was a bit surprised by the obvious enthusiasm with which he jumped at my suggestion, and we et a meeting the following week. Roy informed me that he would be bringing along Tom Williams, the inventor of the program, to explain to me how the financial markets really work. I was fascinated, to say the least, so the next few days passed by very slowly as I eagerly anticipated the follow up meeting.

Roy and Tom arrived early and were asked to wait in the boardroom. The day was already hectic with my extremely busy exhibition design company and e-marketing business. I felt that I could give Roy and Tom 45 minutes out of my chaotic day for them to show me the business plan. That should be enough time, I thought. I would meet with them briefly now, take it away, and digest it's content later.

As I entered the boardroom, I noticed both men were very well dressed. Roy greeted me first and eagerly shook my hand. He struck me as being somewhat ill at ease, but went on to reveal that he used to work for Ernst and Young Cap Gemini, one of the world's largest management consulting, outsourcing, and professional services companies. Roy then quickly turned to introduce Tom Williams. Tom at first glance was an elderly gentleman that I estimated to be in his early 70's. He impressed me as highly alert and articulate.

This was going to be an interesting meeting!

Roy handed me their business plan. It was well prepared and highly organized. He then began his presentation. As I mentioned before, I knew very little about the financial markets at that time and unfortunately, after about 15 minutes, I ceased to have the faintest idea what Roy was talking about! I was about to call the meeting to an end since my day was already very busy, but Tom, on the other hand, would not let that happen. He had already noticed my body language during the presentation and as I was just about to speak, the distinguished gentleman held up his hand. With a glint in his eye and hand in the air, Tom said, "*Stop! Roy*." He then said, " Gavin- lets go back to the beginning, and let me explain to you how the markets *really* work!"

With no hesitation, Tom began to explain the markets to me. "All financial markets move on the universal law of Supply and Demand. When you say this to any trader or investor, they will nod in agreement and say 'Well that's obvious, tell me something *new!*' However, what they do **not** understand is how to correctly pull this information out of a price chart. I have developed, over many years, a computer program called *Wyckoff Volume Spread Analysis,* or *Wyckoff VSA,* that does exactly that. It extracts the Supply and Demand information on a chart to give clear signals when the big players, or what I call 'Smart Money', are very active or inactive, so the user can trade in harmony with their moves.

Tom continued, "You know, Gavin, the markets do not move by accident! They are not random as many traders and investors think. They are, however, *deliberately* manipulated to wrong-foot the unsuspecting herd, in other words, the uninformed traders. If you can read Supply and Demand by analyzing volume, you will give yourself a distinct trading advantage over the uninformed and unsuspecting herd, in order to position yourself where you too can trade in harmony with what's going on!"

"The markets are manipulated?" I gasped. "C'mon Tom," I said naively, "We have regulatory bodies here in England that prevent all that. I have friends in the city who trade and they would laugh if you told them that!"

Tom looked at me intensely and said, "If you don't believe me, let me show you on the charts. Your eyes will be opened to the many opportunities on offer if you can interpret the action of the manipulators."

I was spell bound. This fellow clearly knew something that I did not. So I let him continue with my next question being, "So how do you know all this?" (There was a reason why he was able to retire at 40 a very wealthy man, as I was to find out later.)

"Well Gavin, in the late 1950's, I decided I wanted to make money. Serious money. I was in my late twenties then and I had just sold my popular coffee bar, the Whisky Go-Go in Brighton. I was also a qualified registered nurse so I figured I would make my way to Beverly Hills, in California, since that was where the money was. And that's exactly what I did.

"When I arrived in the United States I was fortunate enough to register quickly in California as an RN (Registered Nurse) and joined an agency in Beverly Hills. One of my earliest assignments with this agency was working for the family of a very wealthy oil tycoon and trading syndicate member. The family was deeply worried about this individual, (who I will refer to as 'George') because he had a drug addiction needing to be controlled. The family believed that a full-time Registered Nurse was necessary to monitor his behavior. I interviewed for the position and was chosen shortly afterwards."

"George was the boss of an elite group of trading syndicates in the United States. During that time, they traded mostly their own money and some money for others in the stock market. They were successful, but they shunned publicity. That was their nature, which is probably why very few people even knew of their existence."

"Their basic strategy was to target company stocks and remove what they called *the Floating Supply* of that stock if any of it was available on the open market. This process could take months, sometimes even years, but eventually, the syndicate would be in majority control of that stock. This phase of buying is known as ***accumulation."***

"When general market conditions appear favorable, the syndicate can then mark up the price of the stock, which is surprisingly easy since they have removed all the Floating Supply and Resistance to higher prices. This means that the sellers of the stock have all but disappeared. It follows that there is thus very little stock left that can be sold once their price rally commences. At some time in the future, a point will be reached when the syndicate will take advantage of the higher prices obtained in the rally to take profits. This they do by beginning to sell the stock back to the uninformed traders/investors often called the 'Herd'. This is now called the ***distribution phase***. At this point, a handsome profit will be made for the syndicate and its members."

I asked Tom how the syndicate would get the 'Herd' to buy stock at much higher prices than what the syndicate had originally paid. Tom just gave me a big smile as he remembered the moment he was about to share with me.

“Well Gavin,” he said, “I can remember, very clearly actually, a particular U.S. stock which I believe is still around today. At that time, they were called Teledyne Technologies (TDY). Our syndicate had heavily accumulated them and it was time to take profits. To acquire this, any tricks are fair game. For example, we would target the annual general meetings and ask bullish questions that would often be reported to the media the next day. We would ‘create’ as much positive news as possible in order to get the crowd excited. True or not, it was irrelevant to us, as long as people were buying the now high-priced stock from the syndicate.

”This was very profitable business and is one of the basic reasons why there are Bull moves and Bear moves in the markets. Its Supply and Demand working in the longer term. Ironically, the directors of most companies barely have an idea of why their stocks move up or down. Most will often shrug their shoulders if asked why their stock had just fallen 10%. They will have no clue why their stock declined, especially when the company is in better shape now than the previous year. To them there appears to be no logical reason why these moves happen. However, the syndicates know better since they were actively involved in trading these stocks up and down!”

The more Tom explained the mechanics of how the financial markets operated, the more absorbed I became. The 45-minute turned pleasantly into an hour and 45 minutes, and before long, lunchtime was upon us. I instructed my Personal Assistant to cancel all my afternoon meetings because I had a feeling this could be something potentially very big. And now, as I write about this important event 9 years later in 2011, how right I was!

The TradeGuider journey had begun. Back then, little did I know it, but Tom was grooming me to be his protégé. I was to learn everything he knew and he would teach me to read the charts just like he did.

Tom went to Beverly Hills to find his fortune where he met George, gained his trust and confidence, and became an established member of a trading syndicate that understood and played the game only insiders truly understood. It wasn’t long before Tom was asked to start hand drawing the charts the syndicates would use to make their speculative attacks. On his own admission, Tom’s hand drawn charts were a work of art. It turns out that he was a natural when it came to drawing and detail.

The more Tom got involved with charting the various stocks hand-picked by the syndicate, the more inquisitive he became about what was going on with the price movement, the volume, and where the price closed. Tom constantly asked the traders in the syndicate for information, but they were far too busy making money. So finally, they decided to send Tom to the Wyckoff Chart Reading Course in Park Ridge, Illinois, just outside of Chicago. It was here that he finally got a grip on what was happening. Tom realized that all clues were in the charts if you knew how to read them correctly.

Tom spent twelve happy and prosperous years with the syndicate in Beverly Hills, and traveled all over the U.S. networking and meeting many interesting people. By the age of 40, Tom had made enough money to live the rest of his life very comfortably and decided it was time to move back to England. Then during his mid-forties, he purchased a facility for retired folk so he could continue his nursing and fulfill his passion for helping others. Tom continued to trade as well, but became consumed with all the knowledge he had learned from the syndicate and it's traders back in the United States. This was also the time when computers were beginning to become more readily available to the general public…

Tom had a brilliant idea, which he spent the rest of his life developing and improving. He wanted to computerize the *Wyckoff Method* and the knowledge he had gained from that study to produce automated trading signals that did not have to rely on human intervention.

Tom scoured locally in Torquay, Devon, UK, to find a programmer skilled enough to interpret his specific instructions. The computer would need to identify buy and sell setups using Volume Spread Analysis. This method of analyzing the market does not use past price formulas, which never seem to work.

Tom was only interested in:

- The **Volume** (i.e. activity),
- The **Spread** (i.e. range of the price bar)
- The **Close** (the point where the price closes on the current bar.)

It's the point where the bar closes that is the most important of the three key analysis factors.

Price closes either at the bottom, the middle, or the top of the current bar, and as such is considered extremely significant to the analysis.

By good fortune, Tom stumbled across a newspaper advertisement for programming services situated close to where he lived. He immediately arranged a meeting. Tom was still unsure about whether his ideas were able to be programmed, let alone give the accurate trade setups this methodology produced. It was agreed with the programmer, Robert Harwood that they would at least give it a try and see what would happen.

Within weeks, the first ten indicators were programmed in, and to their utter amazement, they worked! The indicators gave clear and accurate signals of imbalances of Supply and Demand as they appeared. As the weeks went on, the indicators grew in number and were refined many times over.

As the software progressed to the point of being a usable program, a rumor spread amongst Tom's trading friends about his new program and its astonishing accuracy. He began to sell the software for a small fee to his close friends and colleagues in the business. From these early seeds came the first version of *Wyckoff **VSA** Version 1* from Genie Software Ltd., and the latest incarnation aptly named, *TradeGuider Real Time and End-of-Day (EOD) software program.*

Tom's work was clearly ground breaking and had enhanced the excellent work of early 1900's trader Richard Demille Wyckoff. Amongst other things, this man recognized that tape reading was the key to becoming a successful, profitable trader. I decided that this was an opportunity not to be missed. Tom left the meeting on a somber note. He looked at me and said, "Gavin, always remember that the market has to have more losers than winners. It is devious. I have never heard the truth about the market through the media."

Let me give you Tom's example of this: the 9/11 attacks on the World Trade Centre. If you recall, the markets closed for a week. During that entire week, the news was horrific, especially the news about the future performance of the financial markets. Once the markets opened, they did indeed plummet and many media sources were predicting an inevitable Bear market. Grim-faced reporters looked at you from the television screens, telling you that billions of dollars were being wiped off the markets, and that a collapse was inevitable. On the surface, this news may have been partly true, but the general public will never be told the whole truth. It is highly likely that the self-regulated exchanges were only too aware that all their traders were frantically buying from the panicking sellers because a bargain was to be had. A more truthful media report should have said this:

"Good evening ladies and gentleman. As you know the markets have re-opened today and prices have fallen rapidly as President Bush and Prime Minister Blair have warned of further attacks. This is having a negative impact on stock prices even though on 10th September these companies were in the same shape as they were on 12th September, so this panic selling seems somewhat irrational.

"The good news however is that we have direct contact with the insiders and market specialists on the various exchange floors, and they have told us that their traders are busy buying everything that is being sold by the panic-stricken 'Herd'. You will see in a week or two that this market is not Bearish at all, but Bullish, and will rise rapidly as stocks and other instruments have passed from weak holders to strong holders.

"This will be clear from the massive volume to the downside. Note that the bar has closed in the middle, not on the low; this indicates that buying must be taking place, and therefore, contrary to what the news is implying, prices will go up, not down."

After this example, Tom said, "Gavin, this is an ongoing process in varying degrees of intensity. Remember, the chart never lies if you learn to read it correctly - and that is what I will teach you."

After that day, I contacted my business partner, Richard Bednall, and told him of this great opportunity. After some due diligence, and speaking with some of the city traders I knew, we were convinced that this was a most worthwhile venture that would help retail traders and investors to start to level the playing field, and give them the opportunity to make money in harmony with the "manipulators".

And so Tom did teach me, and my life changed. I began to see things I had never seen before. I began to read the chart as a musician would read music. I felt enlightened and open minded, seeing things for what they really were, and not how they are reported in the mainstream media. I promised Tom I would help him continue his work to show unenlightened traders how to find the truth and thereby become profitable in the markets.

So with that said, I hope you enjoy this book. I also hope you read it more than once truly to embrace the knowledge imparted within.

CHAPTER 2

THE GAME ON WALL STREET: MARKET MANIPULATION

On May 6th, 2010 something very strange happened in the financial markets. This day is now referred to as the *'Flash Crash'*. Even as I write about this more than 6 months after that eventful day, no credible explanation has been provided by the regulatory authorities as to exactly what caused the crash or who was responsible. In fact, many investors began to suspect that all was not what it seemed.

CBNC's 'Closing Bell' anchor Maria Bartiromo was reporting on the day the *'Flash Crash'* happened. Below is a transcript of fellow reporter Matt Nesto explaining to Bartiromo some unusual anomalies in a number of stocks, even though the mainstream media claimed that it was caused by a lone trader from a major banking institution hitting the wrong button. 'B' for billion was entered instead of an 'M' for million while trading the CME E-Mini S&P Futures! The conversation went as follows:

(The conversation is also available to view on Youtube.com. Type in 'Maria Bartiromo, Market Manipulation')

NESTO: "A person familiar with the Citi investigation said one focus of the trading probes were the futures contracts tied to the S&P 500 stock index known as the E-mini S&P 500 futures, and in particular, that two-minute window in which 16 billion of the futures were sold… Again, those sources are telling us that Citigroup's total E-mini volume for the entire day was only 9 billion, suggesting that the origin of the trades was elsewhere."

Nesto named eight stocks that were hit with the supposed computer error/bad trade that went all the way down to zero or one cent, including Exelon (NYSE:EXC), Accenture (NYSE:ACN), CenterPoint Energy (NYSE:CNP), Eagle Material (NYSE:EXP), Genpact Ltd (NYSE:G), ITC Holdings (NYSE:ITC), Brown & Brown (NYSE:BRO), Casey's General (NASDAQ:CASY) and Boston Beer (NYSE:SAM)

NESTO: "Now according to someone else close to Citigroup's own probe of the situation, the E-Minis trade on the CME. Now Maria, I want to add something else, just in terms of these erroneous trades that Duncan Niederauer; the NYSE CEO was just talking about. I mean, we've talked a lot about Accenture, ACN. This is a Dublin-based company. It's not in any of the indexes. If you look in the S&P 500, for example, I show at least two stocks that traded to zero or one cent – Exelon and CenterPoint. If you look in the Russell 1000, I show Eagle Materials, Genpact, ITC and Brown & Brown, also trading to zero or a penny, and also Casey's General Stores, as well as Boston Beer trading today, intraday, to zero or a penny. So those have at least eight names that they're going to have to track down on top of the Accenture trade, where we have the stock price intraday showing us at least, we'll assume, a bogus trade of zero."

When Matt Nesto called these trades 'bogus', host and CNBC veteran Maria Bartiromo looked shocked and a little angry and replied:

BARTIROMO: "That is ridiculous, I mean this really sounds like market manipulation to me. This is outrageous."

According to Nesto, these are frequent occurrences, at least at the NASDAQ exchange, and if you make a trade and lose money, there's no recourse.

NESTO: "It happens a lot, Maria. It really does. I mean, we could probably ask the NASDAQ, they may not want to say how often it happens, but it happens frequently. And they go back and they correct. And the thing that stinks is if you, in good faith, put in a trade and made money and then lost it, you lose it. And there's no recourse and there's no way to appeal."

When I called Tom Williams about what happened and I mentioned that CNBC had actually reported the trading activity that day as market manipulation, Tom laughed and said jokingly, "I bet there is a signal in our TradeGuider software program showing what we call a "*Shakeout*." To my amazement, I opened the program and there it was. The signal was a TradeGuider proprietary signal called 'Strength Number 87' and the software's onboard dialogue box explains the signal as follows:

SOS 87 SHAKEOUT

N**OTE:** None.

Bar Description: A '*Shakeout*' is a mark down on a wide spread closing up near the high to shake out weak holders. If volume is low, then supply has dried up. High volume suggests demand overcame the supply but remember this supply will hold back future upward progress. If the spread is narrow it will have less impact.

This particular signal is more general and does not need to close near the high of the bar. Exercise caution if the bar has gapped down as this can indicate hidden weakness. If volume is Ultra High, this can be climactic action and the start of accumulation.

Background: The background is extremely important. You should see strength in the background with stopping volume or a selling climax. Is there some minor SOW in an uptrend or has supply hit the market?

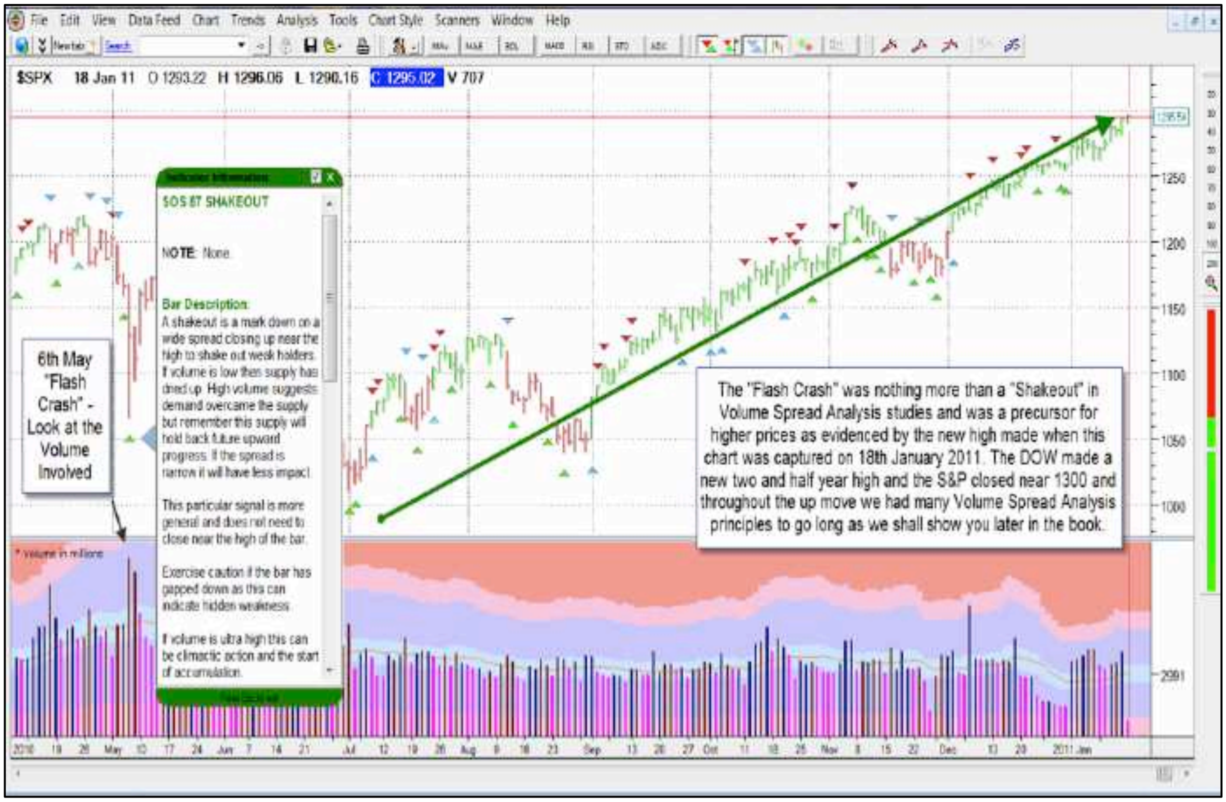
Future: A '*Shakeout*' on low volume is really a violent test and has the same effect. It shows supply has disappeared and you would then expect higher prices.

A '*Shakeout*' on high volume shows demand was prepared to absorb the supply on that bar but they will likely want to test that supply in the future. Any low volume testing back into the area of the Shakeout would be a strong SOS.

Be cautious if the '*Shakeout*' is followed by low volume up bars, or high volume up bars closing in the middle, especially on a narrow spread. If the market starts to whipsaw and goes sideways, it may be building a cause for the next up move. Remember, you need to look at the overall picture not just the individual bars.

copyright TradeGuider Systems, 2009

CHART VSA INTRO



What we witnessed on that May 6th was a giant *'Shakeout'* of the market. The 'Smart Money' operators were expecting higher prices and wanted to catch all the stops before moving the price up. They were bullish and stocks were going to rise, and of course, they wanted to buy at the best possible price. I mean, wouldn't you do the same - buy at the lowest price knowing you could sell it later for much more than what you bought it for? That's The Game on Wall Street: Buy low, Sell high. Be a predator, a clever predator that understands exactly how the prey think and act. It's like herding sheep, steering them, rounding them up, and then placing them in a pen.

Whether we admit it or not, human beings are conditioned to act as a herd and the media unwittingly play a key role in helping investors and traders form an opinion about traded instruments such as stocks, commodities, futures, or even Forex. Like a twisted version of mass hysteria, when media-induced opinions about traded instruments are wrong, and the majority of the uninformed Herd believe them, it will cost them dearly. 'Smart Money' players know how you will act as an investor or trader. They know how to steer you. They know the two most powerful human emotions are greed and fear, and those emotions are our worst enemies when it comes to making investment or trading decisions.

As Mark Twain once said, *"If you do not read the newspaper, you are uninformed, and if you do read the newspaper, you are misinformed."* Later in this book we will examine why markets tend to do the opposite of what any normal person would expect. We will look at why British Petroleum stock was a great buy on June 25th, 2010, when the oil spill crisis in the Gulf of Mexico was at its worst and the rumors of British Petroleum going out of business were rife. I will also show you how to identify professional buying (the *Smart Money*) on a price chart. You will be able to recognize and profit from buying at the right price, despite the bad news and rumors all around you, and when not to buy or go short when all the news is good. For an example, we will examine the U.S. stock, JP Morgan, by looking at great earnings reports and fundamentals, which would create public expectation of higher prices, and then show an immediate drop in the stock price, which in fact occurred!

So you may be asking, "Is *Market Manipulation* a good thing or a bad thing?" I feel that if you can read a chart correctly, then the volatility caused when markets are 'moved' is a very good thing because an educated chart reader can see with clarity the intentions of the manipulators, thus trading in harmony with what's happening.

You may also wonder, "Are the Market Manipulators evil beings intent on stealing your money?" I don't believe so. These are clever individuals who understand human nature and market structure. Like most who are successful in any endeavor, they view their activity as a game, and have acquired the knowledge and practiced skills required to win. Like successful poker players, they simply take advantage of opportunities that arise in certain situations. These individuals have the financial supremacy and understanding of the financial markets. They have an edge over the retail investor or trader, and they use this to their advantage to make profits and gain for their own accounts.

At this point you may be thinking, "Why is this chapter relevant to making money in the markets? Why can't we just go straight to the charts and all the setups?" Well, the reason it's vital and important to know this information is because in order to *win* the game, you must first accept it exists and understand it. The average retail trader who does not accept this reality calls to mind another poker maxim: "If you sit down at the table and don't know who the patsy is, you're the patsy." I did not initially accept this as reality when I first met Tom, but as I began to examine the financial markets closely, I noticed consistent patterns. The charts always appeared to be at odds with what was on television and what was reported in the financial press. Later, I will show you two things happened that both confirmed my thoughts and increased my interest in the teachings of Tom Williams and his methodology of Volume Spread Analysis.

On December 22nd, 2006 a video was produced and uploaded to www.youtube.com. It became very controversial. Many attempts were made to remove it from the public domain. This video was an interview with Jim Cramer, the host of CNBC's 'Mad Money'. Jim Cramer is a bestselling author and former Hedge Fund Manager, as well as being the co-founder and Chairperson of www.TheStreet.com. In this video, Cramer reveals how he was able to influence prices of several stocks, including Apple and Rimm. (of Blackberry fame) Below is a partial transcript of the interview. I have highlighted the parts that will be interesting for you to note. *The full interview is available on www.youtube.com. Search 'Jim Cramer, Market Manipulation.*

Verbatim (partial) transcript of Jim Cramer on Wall Street Confidential Dec. 22nd, 2006:

You know, a lot of times when I was short at my Hedge Fund—when I was positioned short, meaning I needed it down—I would create a level of activity beforehand that could drive the futures. It doesn't take much money. Similarly, if I were long, and I wanted to make things a little bit rosy, I would go in and take a bunch of stocks and make sure that they're higher. Maybe commit $5 million in capital, and I could affect it. What you're seeing now is maybe it's probably a bigger market. Maybe you need $10 million in capital to knock the stuff down.

<u>But it's a fun game, and it's a lucrative game.</u> You can move it up and then fade it—that often creates a very negative feel. So let's say you take a longer term view intraday, and you say, "Listen, I'm going to boost the futures, and the when the real sellers come in—the real market comes in—they're going to knock it down and that's going to create a negative view." That's a strategy very worth doing when you're valuing on a day-to-day basis. I would encourage anyone who's in the hedge fund game to do it… Because its legal and a very quick way to make money… and very satisfying.

<u>By the way, no one else in the world would ever admit that. But I don't care, and I'm not going to say that on TV.</u> In the next section of the interview, Cramer is discussing what struggling hedge funds do to improve their performances before the end of the year.

"It's really vital these next six days because of your payday, you've really got to control the market. You can't let it lift. When you get a Research in Motion, (RIMM) it's really important to use a lot of your firepower to knock that down, because it's the fulcrum of the market today. So, lets say I was short. What I would do is I would hit a lot of guys with RIMM.

<u>Now you can't 'foment'. That's a violation. You can't create an impression that a stock's down. But you do it anyway because the SEC doesn't understand it. That's the only sense that I would say is illegal. But a hedge fund that'd not up a lot really has to do a lot now to save itself.</u>

This is different from what I was talking about at the beginning where I was talking about buying the QQQs and stuff. This is actually blatantly illegal. But when you have six days and your company may be in doubt because you're down, I think it's really important to foment—if I were one of these guys—foment an impression that Research in Motion (RIMM) isn't any good because Research in Motion (RIMM) is the key today.

Cramer goes on to talk about the actual mechanics of what one would do to knock Research in Motion down. Then he continues:

If I wanted it to go higher, I would take and bid, take and bid, take and bid, and if I wanted it to go lower, I'd hit and offer, hit and offer, hit and offer. And I could get a stock like RIMM for maybe—that might cost me $15 to $20 million to knock RIM down—<u>but it would be fabulous because it would beleaguer all the moron longs who are also keying on Research in Motion.</u>

So we're seeing that. Again, when your company is in survival mode, it's really important to defeat Research in Motion, and get the Pisanis of the world and people talking about it as if there's something wrong with RIMM. <u>Then you would call the Journal and you would get the Bozo reporter on Research in Motion and you would feed that Palm's got a killer that's going to give away. These are all the things you must do in a day like today, and if you're not doing it, then maybe you shouldn't be in the game</u>.

Cramer talks for a while in considerable detail about how, if he were short Apple's stock today, he would knock Apple's stock down. Then he says:

<u>What's important when you're in that hedge fund mode is to not do anything remotely truthful… because truth is so against view that it's important to create a new truth to develop a fiction.</u>

A minute later, when talking about how company fundamentals don't matter, Cramer says:

<u>The great thing about the market is it has nothing to do with the actual stocks.</u> Now, maybe two weeks from now, the buyers will come to their senses and realize that everything that they heard was a lie, but then again, Fannie Mae lied about their earnings for $6 billion, so there's just fiction and fiction and fiction.

I think it's important for people to recognize that the way that the market really works is to have that nexus of: Hit the brokerage houses with a series of orders that can push it down, then leak it to the press, and then get it on CNBC—that's also very important. And then you have a kind of a vicious cycle down. It's a pretty good game. It can pay for a percentage or two". –END

On March 12th, 2009, Jim Cramer's YouTube video came back to haunt him as excerpts were finally played on national television. It wasn't on the financial networks as one would expect, but these excerpts were played on Comedy Central in an excellent interview on the Daily Show with Jon Stewart. Jon Stewart is well known in the United States for not mincing words and being a hard hitter.

JS is John Stewart, JC is Jim Cramer, and the word '*shenanigans'* is used to describe the manipulation. Call it by a different name, it's all the same thing! This transcript was taken from www.maholo.com and I would like to give credit to Darcy Logan for the effort to write the transcript:

JS: How the hell did we end up here, Mr. Cramer? What happened?

JC: I don't know. I don't know. Big fan of the show. Who's never said that?

JS: Well, many people. Let me just explain to you very quickly one thing that is somewhat misinterpreted. This was not directed at you, per say. I just want you to know that. We threw some banana cream pies at CNBC. Obviously, you got some schmutz on your jacket from it. Took exception.

JC: I think that everyone could come under criticism from it. I mean, we all should have seen it more. I mean, admittedly this is a terrible one. Everyone got it wrong. I got a lot of things wrong because I think it was kind of one in a million shot. But I don't think anyone should be spared in this environment.

JS: So, then, if I may, why were you mad at us? --Audience laughs--

JC: No.

JS: Because I was under the impression that you thought we were being unfair.

JC: No, you have my friend Joe Nasair and Joe called me and said, 'Jim, do I need to apologize to you?' and I said, No. We're fair game. We're big network. We've been out front. We've made mistakes. We have 17 hours of live TV a day to do. But I—

JS: Maybe you could cut down on that. --Audience laughs--

So let me tell you why I think this has caused some attention. It's the gap between what CNBC advertises itself as and what it is and the help that people need to discern this. Let me show you… This is the promo for your show.

JC: Okay.

--"In Cramer We Trust" promo"--

JS: Isn't that, you know, look—we are both snake oil salesmen to a certain extent--

JC: I'm not discerning…

JS: But we do label the show as snake oil here. Isn't there a problem with selling snake oil and labeling it as vitamin tonic and saying that it cures impetigo etc. etc. etc. Isn't that the difficulty here?

JC: I think that there are two kinds of people. People come out and make good calls and bad calls that are financial professionals and there are people who say they only make good calls and they are liars. I try really hard to make as many good calls as I can.

JS: I think the difference is not good call/bad call. The difference is real market and unreal market. Let me show you…this is…you ran a hedge fund.

JC: Yes I did.

--December 22, 2006 video of Jim Cramer--
" You know a lot of times when I was short at my hedge fund and I was position short, meaning I needed it down, I would create a level of activity beforehand that could drive the futures. It doesn't take much money." **--End Video--**

JS: What does that mean?

JC: Okay, this was a just a hyperbolic example of what people— You had a great piece about short selling earlier.

JS: Yes, I was—

JC: I have been trying to reign in short selling, trying to expose what really happens. This is what goes on, what I'm trying to say is, I didn't do this but I'm trying to explain to people this is the shenanigans that—

JS: Well, it sounded as if you were talking about that you had done it.

JC: Then I was inarticulate because I did-- I barely traded the futures. Let me say this: I am trying to expose this stuff. Exactly what you guys do and I am trying to get the regulators to look at it.

JS: That's very interesting because... roll 2:10!

--210 video-- (This is part of the YouTube video discussed earlier)
JC: I would encourage anyone who is in the hedge fund unit to 'do it' because it is legal. It is a very quick way to make money and very satisfying. By the way, no one else in the world would ever admit that but I don't care.
Other guy: That's right and you can say that here.
JC: Means I'm not going to say it on TV. **--End video--**

JC: It's on TV now.

JS: I want the Jim Cramer on CNBC to protect me from that Jim Cramer.

JC: I think that way you do that is to show—Okay, the regulators watch the tape they realize the shenanigans that go on, they can go after this. Now, they did catch Madoff, that's a shame.
JS: Now why when you talk about the regulators, why not the financial news networks? That is the whole point of this? CNBC could be an incredibly powerful tool of illumination for people that believe that there are two markets: One that has been sold to us as long term. Put your money in 401Ks. Put your money in pensions and just leave it there. Don't worry about it. It's all doing fine. Then, there's this other market; this real market that is occurring in the back room. Where giant piles of money are going in and out and people are trading them and it's transactional and it's fast. But it's dangerous, it's ethically dubious and it hurts the long-term market. So what it feels like to us—and I'm talking purely as a layman—it feels like we are capitalizing your adventure by our pension and our hard earned money. And that it is a game that you know. That you know is going on. But that you go on television as a financial network and pretend isn't happening.

JC: Okay. First, my first reaction is absolutely we could do better. Absolutely, there's shenanigans and we should call them out. Everyone should. I should do a better job at it. But my second thing is, I talk about the shorts every single night. I got people in Congress who I've been working with trying to get the uptick rule. It's a technical thing but it would cut down a lot of the games that you are talking about. I'm trying. I'm trying. Am I succeeding? I'm trying.

*JS: But the gentleman on that video is a sober rational individual. And the gentleman on Mad Money is throwing plastic cows through his legs and shouting, "Sell! Sell! Sell!" and then coming on two days later and going, "I was wrong. You should have bought like--I can't reconcile the brilliance and knowledge that you have of the intricacies of the market with the crazy bullsh** you do every night. That's English. That's treating people like adults.*

JC: How about if I try it?

JS: Try what?

JC: Try doing that. I'll try that.

JS: That would be great, but its not just you. It's larger forces at work. It is this idea that the financial news networks are not just guilty of a sin of omission but a sin of commission. That they are in bed with them.

JC: No, we're not in bed with them. Come on. I don't think that's fair. Honestly. I think that we try to report the news and I think that people—

JS: A couple of guys do. This guy Faber-

JC: He's fabulous, Faber.

JS: And maybe two other guys…

JC: He's fabulous and he's done some things that have really blown the cover off a lot of stuff.

JS: But this thing was ten years in the making.

JC: Right.

JS: And it's not going to be fixed tomorrow. But the idea that you could have on the guys from Bear Sterns and Merrill Lynch, and guys that had leveraged 35 to 1…

JC: I know.

JS: And then blame mortgage holders. I mean- that's insane.

JC: I never did that. --unintelligible—I'm sorry You're absolutely right. I always wish that people would swear themselves in before they came on the show. I've had a lot of CEO's lie to me on the show. It's very painful. I don't have subpoena power.

JS: But don't—You're pretending that you are a dew-eyed innocent. Watch. Roll. I mean, if I may… JC: It's your show for heaven's sake.

JS: Roll 2:12.

JC: No! Not 2:12!

--2:12 Plays You Tube Video On National TV —(This is the You Tube video discussed above, note Cramer is not very keen to have this shown on national TV!!).

JC: You know…

*JS: I gotta tell you. I understand that you want to make finance entertaining, but it's not a f***ing game. When I watch that I get, I can't tell you how angry it makes me because it says to me, "You all know." You all know what's going on. You can draw a straight line from those shenanigans to the stuff that was being pulled at Bear and at AIG and all this derivative market stuff that is this weird Wall Street side bet.*

JC: But Jon, don't you want guys like me that have been in it to show the shenanigans? What else can I do? I mean, last night's show---

JS: No, no, no, no, no. I want desperately for that, but I feel like that's not what we're getting. What we're getting is… Listen, you knew what the banks were doing and yet were touting it for months and months. The entire network was and so now to pretend that this was some sort of crazy, once-in-a-lifetime tsunami that nobody could have seen coming is disingenuous at best and criminal at worst.

JC: But Dick Fogle, who ran Lehman Brothers, called me in when the stock was at 40 because I thought that the stock was wrong, I thought that it was the wrong place for it to be. He brings me in, lies to me, lies to me, lies to me. I've known him for twenty years.

JS: The CEO of a company lied to you.

JC: Shocker stock trading.

JS: But isn't that financial reporting? What do you think is the role of CNBC?

JC: Look, I have called for star chambers—I want kangaroo courts for these guys. I have not seen any indictments. Where are the indictments? Where are the indictments for AIG? I told the Justice Department, "Here's the way you get the indictment."

*JS: It's very easy to get on this after the fact. The measure of the network, and the measure of mess. CNBC could act as—No one is asking them to be a regulatory agency, but can't—but whose side are they on? It feels like they have to reconcile as their audience the Wall Street traders that are doing this for constant profit on a day-to-day for short term. These guys companies were on a Sherman's March through their companies financed by our 401ks and all the incentives of their companies were for short-term profit. And they burned the f***ing house down with our money and walked away rich as hell and you guys knew that that was going on.*

JC: I have a wall of shame. Why do I have banana cream pies? Because I throw them at CEOs. Do you know how many times I have pantsed CEOs on my show?

JS: But this isn't, as Carly Simon would say, this song ain't about you.

JC: Okay. All right. You're right. I don't want to personalize it. I think we have reporters who try really hard. We're not always told the truth. But most importantly, the market was going up for a long time and our real sin I think was to believe that it was going to continue to go up a lot in the face of what you just described. A lot of borrowing. A lot of shenanigans and I know I did, I'll bring it up, I didn't think Bear Sterns was going to evaporate overnight. I didn't. I knew the people who ran it, I always thought they were honest. That was my mistake. I really did. I thought they were honest. Did I get taken in because I knew them from before? Maybe to some degree. The guy who came on from Wachovia was an old friend of mine who helped hire me.

JS: But honest or not, in what world is a 35 to 1 leverage position sane?

JC: The world that made you 30% year after year after year beginning from 1999 to 2007 and it became—

JS: But isn't that part of the problem? Selling this idea that you don't have to do anything. Anytime you sell people the idea that sit back and you'll get 10 to 20 percent on your money, don't you always know that its going to be a lie? When are we going to realize in this country that our wealth is work. That we're workers and by selling this idea that of "Hey man, I'll teach you how to be rich." How is that any different than an infomercial?

JC: Well, I think that your goal should always be to try to expose the fact that there is no easy money. I wish I had found Madoff.

JS: But there are literally shows called "Fast Money."

JC: I think that people… There's a market for it and you give it to them.

*JS: There's a market for cocaine and hookers. What is the responsibility of the people who cover Wall Street? Who are you responsible to? The people with the 401ks and the pensions and the general public or the Wall Street traders, and by the way this casts an aspersion on all of Wall Street when I know that's unfair as well. The majority of those guys are working their a***s off. They're really bright guys. I know a lot of them. They're just trying to do the right thing and they're getting f***ed in the ass, too.*

JC: True. True. I think as a network we produce a lot of interviews where I think that we have been—there have been people who have not told the truth. Should we have been constantly pointing out the mistakes that were made? Absolutely. I truly wish we had done more. I think that we have been very tough on the previous Treasury Secretary, very tough on the previous administration how they didn't get it, very tough on Ben Bernanke. But at the same time…

JS: But he's the guy who wrote the rule that allowed people to over-leverage.

JC: I trash him every night. I've called him a liar on TV. What am I going to do? Should we all call him liars? I'm a commentator. We have—and you can take issues with the fact that I throw bulls and bears and I can still be considered serious. I'm not Eric Sevareid. I'm not Edward R. Morrow. I'm a guy trying to do an entertainment show about business for people to watch. But its difficult to have a reporter to say I just came from an interview with Hank Wilson and he lied his darn fool head off. It's difficult. I think it challenges the boundaries.

JS: Yeah. I'm under the assumption, and maybe this is purely ridiculous, but I'm under the assumption that you don't just take their word for it at face value. That you actually then go around and try and figure it out. So, again, you now have become the face of this and that is incredibly unfortunate.

JC: I wish I had done a better job trying to figure out the 30 to 1 and whether it was going to blow up. It did. Once it did I was late it saying it was bad.

JS: So maybe we could remove the financial expert and the "In Cramer we Trust" and start getting back to fundamentals on reporting as well and I can go back to making fart noises and funny faces.

JC: I think we make that deal right here.

--End of Interview—

On November 28th, 2010 on MSNBC's online U.S. Business report, I read an article headlined '*Everyday Investors Wonder if Market is Rigged*.' This report was the most interesting article I have ever seen in mainstream media. It went on to say, "The Wall Street insider trading investigation may lead everyday investors – already rattled by a stock market meltdown, a one day Flash Crash, and the Madoff scandal – to finally conclude that the game is rigged. Virtually everyone on the Street believes there are significant improprieties, and I think there is an even more important point for the massive number of investors who are not Wall Street players," says former New York Governor Eliot Spitzer.

He was known as the 'Sheriff of Wall Street' when he aggressively prosecuted white-collar crime while State Attorney General. "And that is for most of us, you can't beat these guys at their own game. Some pros on Wall Street say hesitation by small investors is good news. It means that there's plenty of 'dry powder' to propel the market higher in the next few months when and if the little guy finally relents and joins in the rally." The record for hedge funds hasn't been so impressive, either. Since 2008, when the number of those funds hit 10,000, nearly 3,000 have gone out of business, according to Hedge Fund Research in Chicago.

"The edge is hugely exaggerated," says Richard Ferrari, an advocate of low-cost index funds and founder of the investment advisory firm, Portfolio Solutions, "If the small investor *"does the right thing"*, he can do 99 percent better than anyone else."
I totally agree with Mr. Ferrari. If the small investor *'does the right thing'* then there is a good chance that he or she can be successful. Doing the right thing, in my opinion, starts by learning what the game is, and then learning how to read Supply and Demand imbalances as they appear on the charts, along with following a few simple rules.

So are the retail traders and investors finally waking up to the true mechanics of the markets? And if so, can they take advantage of market manipulation? I would say that depends on the individual. By reading this book, you are already on your way to recognizing great trading and investing opportunities. We don't really need to be concerned about the whys, what, ifs, and buts of the market, but we do need to be thinking and acting in harmony with the *Smart Money.* To do so involves a little bit of research and effort on your part to act, think, and react like a predator, not the prey- and that is what I am going to teach you in this book.

There is public material readily available on the subject of Market Manipulation, so I wont dwell on that subject any longer. The markets have been the same for hundreds years and they are very unlikely to change in the future. Lots of information and useful tips are available at www.marketmanipulation.com.   This site condenses much of the public information on the Internet. I highly suggest you visit the site with an open mind and decide for yourself. We all have different belief systems, but I recommend you use your mind like a parachute – which is best used when you open it!

CHAPTER 3

THE 'SMART MONEY' AND THE 'NOT-SO-SMART MONEY'

In Chapter Two, we analyzed the mechanics of the financial markets, and now we are going to look at some of the common pitfalls experienced by many traders and investors of different skill levels that cause losses. Remember that 3,000 hedge funds went out of business in 2008-2009, so even the Big Players can get it wrong. However, when you can read the imbalances of Supply and Demand- in any time frame or market –money can be made when the market is moving up or down, although it can be a little more difficult to read when the market moves sideways, as I will show you.

In Tom Williams' two books, "*The Undeclared Secrets That Drive the Stock Market"* and "*Master the Markets"*, Tom refers to the '*Not-So-Smart Money*' as '*The Herd'.* Now lets examine the actual definition of what a herd is and how that can be applied to the financial markets.

Definition: herd – *noun*

- A large group of animals, especially hoofed mammals.
- Derogatory: a large group of people, typically with a shared characteristic:

Interestingly, the dictionary term shows a herd of people as derogatory, but in fact, as Tom explained to me, human beings often act as a herd. A great example that I have observed, not only in Chicago where I live, but also all over the world, is when a store has a markdown sale. As you may know, *Black Friday* in the USA is when retail stores offer the biggest discounts on the first Friday after Thanksgiving. Hundreds, sometimes thousands of people wait, even camp out for 2 days, just for stores to open at 5:00am or earlier. People go through this trouble just to get a bargain. Supposedly they want to feel good about saving money and making a great purchase!

So what happens when the doors open at 5:00am? Most often than not, the crowd stampedes like a herd to rush to the items they want, in fear that someone else may take the cherished items and there will be none left. In fact, in 2008 a Wal-Mart security guard was killed in a stampede on *Black Friday* in Long Island New York. The New York Times headline read, "Wal-Mart Worker Trampled to Death by Frenzied Black Friday Shoppers".

How does this apply to trading and investing? Simple - the very emotions experienced by those wanting to get the bargain prices are the same as those experienced by almost every human who trades the markets. However, the group we call the 'Smart Money' are very intelligent and fully understand the underlying reasons why people buy and sell at certain times, as well as what members of the 'Herd' base their decisions on. Whilst providing educational seminars and live trading events on my travels around the world, I have met thousands of retail traders and investors.

I find that there are 5 main analytic tools (and I use that term loosely) that 'The Herd' use to trade and make investments. I can assure you that these forms of analysis are the reason so few retail traders and investors make money in the markets. In no particular order:

- Technical analysis using back tested past price analysis and formulas
- Recommendations from television, newspapers, brokers etc.
- Fundamental analysis especially when expert analysts suggest an instrument will move a certain direction (we will examine this more closely in a moment)
- 'Black Box' software systems and trading robots that promise guarantees of riches by giving buy and sell signals. According to the advertising and marketing claims, they allegedly produce amazing results with guaranteed percentage returns
- Tips received through email, Facebook, Twitter, and other social media sources. Unless these are from a very trusted and proven source, beware!

There are two facts that I've learned early on as I began my journey as a **VSA** expert, which have served me well whenever I analyze the markets:

(1) The chart never lies.
(2) The past price does not move the future price.

In order to prove these two facts, we will examine the crude oil charts of 2008. Many of you will remember that the gas/petrol prices skyrocketed around the world and oil was supposedly in scarce supply. Some of the world's top oil analysts were predicting a price of $200 a barrel. *(Ironically, two years later, the BP spill happened causing many scientists to express their concern that if the oil well wasn't capped, it would gush indefinitely!)*

Now lets take a look at what actually happened. You can see for yourself just how influenced one becomes when you see and hear information that all points in one direction. In this case, oil was to go to $200 a barrel, and many traders, investors, and indeed, even airlines got caught on the wrong side of the oil market because they did not know what the chart was telling them. But as a soon-to-be **VSA** expert, you will know better in the future!

News Article 1: Story, L. (2008, May 21). An Oracle of Oil Predicts $200-a-Barrel Crude. *New York Times.* Retrieved May 1st, 2011. From http://www.nytimes.com/2008/05/21/business/21oil.html

An Oracle of Oil Predicts $200-a-barrel crude – May 21st, 2008 (exactly 3 weeks before supply/selling came in heavily, as we shall see) The Chart Never Lies – The WEEKLY Oil Futures Using TradeGuider RT Software with Volume Spread Analysis Signals

The New York Times

Business

Taking enough breaks?
Harvard Business Review
PHILIPS
Advertise on NYTimes.com

An Oracle of Oil Predicts $200-a-Barrel Crude

More Articles in Business »

By LOUISE STORY
Published: May 21, 2008

Arjun N. Murti remembers the pain of the oil shocks of the 1970s. But he is bracing for something far worse now: He foresees a "super spike" — a price surge that will soon drive crude oil to $200 a barrel.

SIGN IN TO RECOMMEND
SIGN IN TO E-MAIL OR SAVE THIS
PRINT
REPRINTS
SHARE

ARTICLE TOOLS SPONSORED BY

Multimedia

$200 a Barrel

Related

Times Topics: Oil (Petroleum) and Gasoline

Mr. Murti, who has a bit of a green streak, is not bothered much by the prospect of even higher oil prices, figuring it might finally prompt America to become more energy efficient.

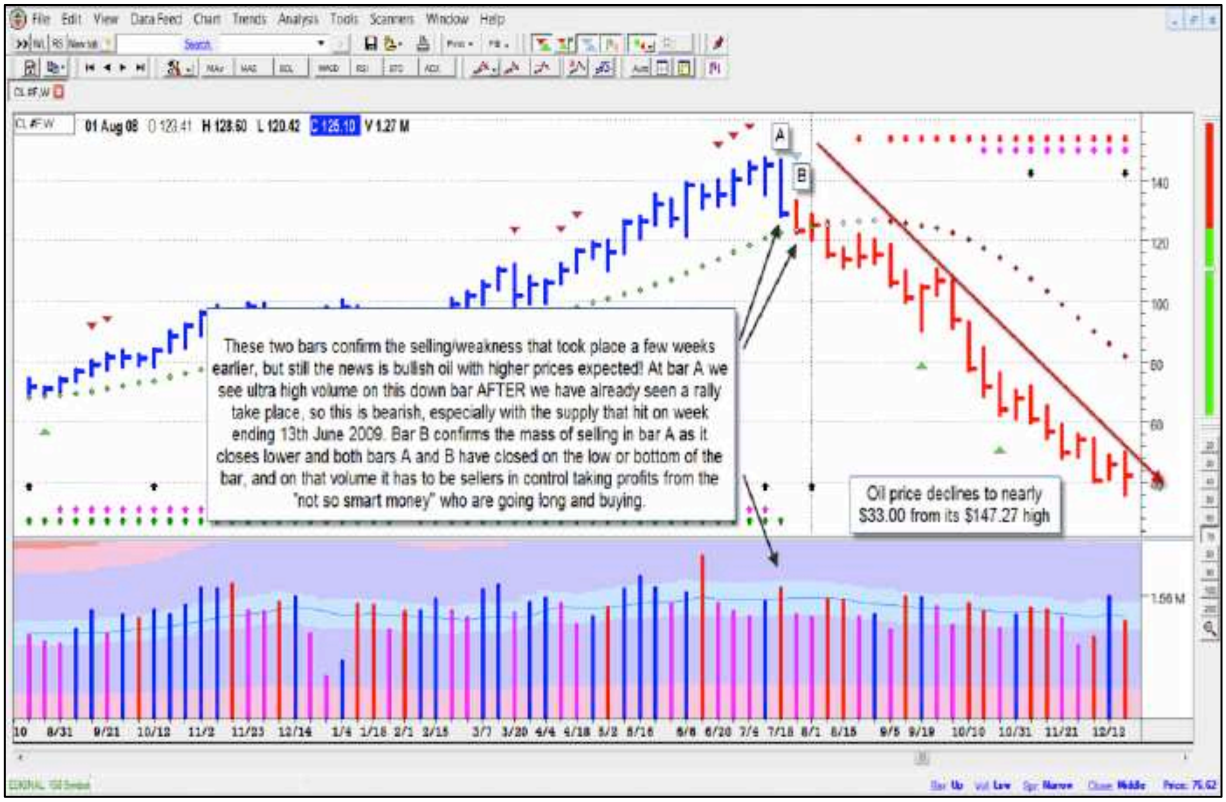
An analyst at Goldman Sachs, Mr. Murti has become the talk of the oil market by issuing one sensational forecast after another. A few years ago, rivals scoffed when he predicted oil would breach $100 a barrel. Few are laughing now. Oil shattered yet another record on Tuesday, touching $129.60 on the New York Mercantile Exchange. Gas at $4 a gallon is arriving just in time for

CHART VSA 1

Looking at the week ending June 13th, 2008, we can see that unusually high volume appears on the **Chart VSA 1** and the range or spread of the bar on that week is very narrow. On the daily chart (not shown), we had a signal appear called *The End of a Rising Market* in the TradeGuider software. Combined with the signals that appeared, the following three weeks convinced me that this market was being sold on all this bullish news. I decided to post my analysis on YouTube and I warned of the weakness and impending fall of oil (this is still viewable on YouTube. I also want to point out that this was posted in foresight, not hindsight). I received hundreds of abusive emails questioning my analysis, and criticized for not being a famous analyst as well as daring to question the mainstream media reports. I was ridiculed from many circles but I had faith in my chart reading skills and was subsequently vindicated as oil prices plummeted to around $34.00 a barrel.

On **VSA Chart 1**, examine the three bars with the Volume Spread Analysis signals (look at the red triangles shown at the top pointed out by three red arrows shown). Note that as the market prices are rising, the volume is falling week by week. Only one thing can cause this fall in volume, and that is the lack of interest in higher prices by the '*Smart Money*' players. *They had already started selling in the prior weeks!* The logic is that if they are not participating, we will see *Low Volume,* and in the TradeGuider software we refer to this scenario as '*No Demand at a Market Top*'

CHART VSA 2



At bars A and B on **Chart VSA 2**, we now see the true confirmation of the <u>*weakness*</u> that has appeared in the background. (*By background we mean the previous number of bars which indicate the market price action, which will either be bullish or bearish, which we refer to as weak or strong).* Due to the observed weakness, it's at this point we would start to consider shorting the market. It's imperative to remember that <u>we want to short when the downtrend is confirmed - not before</u>. The TradeGuider software has three very simple trending systems that show this (I will explain in detail in Chapter 11 – Some Basic Volume Spread Analysis Trade Setups Explained).

As you look at **Chart VSA 2**, you can see these trending systems where the downtrend is confirmed by the red bars, the red diamonds, and the red, pink, and black arrows above the bars (these are proprietary tools incorporated in the TradeGuider software). This example is the work of professional trader, Robert Hoffman. The tools are available as an add-on study within the TradeGuider portfolio of products.

If you had been using any type of technical analysis that examined past price in an attempt to predict the future price of the charts shown, you may as well have accepted that oil would be going to $200 a barrel. Past price analysis tools, which by their very nature are lagging not leading edge indicators, (e.g. MACD, Stochastics, & RSI) were giving multiple buying signals at $147.00 because the price was rising.

We had also exceeded many of the standard moving average periods (such as 20 day M/A), which made the trends bullish, and the news from the analysts confirmed everything you were seeing on the technical charts. However, once you are able to correctly read and analyze Supply and Demand from the charts, you can combine Volume Spread Analysis with your current technical and fundamental analysis. By doing so, you are giving yourself a trading edge which will enable you to make intelligent, informed, and (hopefully) profitable trading decisions due to the fact that its possible to observe the intent of the 'Smart Money'. Many of our most successful customers have combined **VSA** with their current trading style and methods of analysis. However, we have come to notice that there are many who have set aside much of what they have previously learned and begun to focus solely on the *Volume Spread Analysis* methodology.

It's important to remember, that when the 'Smart Money' players start selling, they will sell as price rises! This confuses many uninformed traders and investors that have been waiting on the sidelines, hearing the good news. What they do is jump onto the rising price 'bandwagon' (a.k.a. "suckers rally") only to get hammered by the effect of the 'Smart Money's' prior selling positions, which results in the price 'dropping off the cliff'. This causes embarrassed 'bandwagon' buyers to either get out of their trades at breakeven, or suffer the pain of losses as stops are hit. This is known as 'Stop Hunting'. This phase by its nature and intent effectively creates profits for the 'Smart Money', and marks the price back down and creates the scenario for more buying (if they are bullish) or heavy selling, as seen in the crude oil examples, which mark the market top.

Remember, that by its very nature, every bar contains a combination of buying <u>and</u> selling, and therefore the art of reading the chart becomes a combination of *individual bar volume analysis*, <u>as well as</u> the analysis of the 'background' bars, in order to come to the conclusion as to the intent of the parties involved in creating the current and background bars. It's this concept, which many traders find difficult to understand, but once grasped, your reward will be that the chart will come alive in front of your eyes!

Reading this book, absorbing its knowledge, and examining volume very closely by paying attention to *Ultra High* and *Ultra Low Volume*, you can become a 'Smart Money' trader and investor yourself, and can avoid the costly pitfalls experienced by the Not-So-Smart Money.

Do remember that chart reading is a skill that develops over time, much like learning to play golf or a musical instrument. What I found helpful was taking screenshots of an individual stock or commodity. When I saw news about that particular instrument, I would look for unusual volume. I would wait six months and revisit that chart and news story, only to be amazed. Most of the time, the instrument did the very opposite of what technical analysis was predicting and what the fundamental analysis was suggesting. The actions of the instrument indeed confirmed my gut instincts and what I had seen as a result of carefully studying the price (P), the spread (S), and the volume (V) picture.

After consistent findings with this 'experiment', I knew I had to write this book and follow in the footsteps of my great mentors, Richard Demille Wyckoff and Tom Williams.

I had to attempt to even the odds for the everyday trader and investor that wanted to succeed and make it in the markets.

You can make it in the markets and be successful, but you will need to embrace the paradigm shift of Volume Spread Analysis (**VSA**) in your thinking and trading toolset. We can provide plenty of tools that can help you make those necessary shifts in your belief system, but as I stated before, that is *only* if you are open minded and look at the evidence. It's all right in front of your eyes; all you need to do is read the chart!

CHAPTER 4

BEWARE OF THE NEWS

In Chapter Three we discussed 'Smart Money' and how they take full advantage of understanding crowd behavior. Now, let's look at two case studies. Both case studies will be explained in more details later in the book, but for now, we will focus on some very simple principles that everyone can understand.

"If you don't read the newspaper, you are uninformed, if you do read the newspaper, you are misinformed."

-Mark Twain

When I first met Tom, he described an incident in which the trading syndicate he worked for wanted to *accumulate,* or buy more shares in a particular stock they had been following. In order to do so, the syndicate needed to create a level of activity beforehand to convey the impression the stock had problems. (Now where have we heard that before? See Chapter 1.)

Tom and some members of the syndicate had been planted in the Annual General Meeting of Teledyne, the company in question. There were inquiries that gave a false impression that the stock might be in trouble. The rumors concerned a lost contract that never actually existed, but it was enough to start the snowball rolling. The day after the AGM the circulating news was negative and the syndicate sold just enough stock to cause a selling panic. As the stock began to fall they knew they would be getting a bargain. The stock was now at a very attractive price, so they began to buy at lower prices, and this is why the following two rules are VERY important in your learning.

Rule Number 1- Weakness appears on an Up Bar

In a rising market, or a market which has broken out of a sideways range, when **weakness** (selling *short* opportunity) appears on the chart, it will appear on an U*p Bar*, i.e. a price bar that has closed higher than the previous bar, and will be on unusually high volume by such comparison. TradeGuider will indicate this as *Ultra High* Volume. If the opposite occurs, namely unusually low volume, TradeGuider will show it as *Ultra Low Volume. (The spread could be telltale narrower than previous bars)*

At first glance that may appear as though I am contradicting myself by stating that weakness will appear on high (or preferably, *Ultra High)* volume, and then also on low (or *Ultra Low*) volume on up bars. The statement is factually correct! So, why is this?

The answer is simple: When the 'Smart Money' players begin to dump their holdings of whatever instrument is being traded (stocks, futures, FOREX, commodities etc.), their

SELL orders are all coming in one after another, and that creates the *Ultra High Volume*. This is what is called the *Distribution* phase, indicated by the mnemonic, *Supply-Overcoming-Demand*. An analogy of this is in the retail environment where manufacturers who have goods to sell, supply them to retail 'distributor'.

What's happening is that Sellers are overcoming buyers at a certain price level *or range* (this is often seen at previous resistance levels). Now after this activity has taken place, the market will often move sideways and not suddenly collapse because the 'Smart Money' need to ensure all their sell orders are being satisfied. This explains why the distribution phase can take time. Another indication of this lack of interest on the part of the 'Smart Money' is that it causes the price to peak and roll over in a characteristic 'mushroom' shape, which is easy to spot.

'Smart Money' ensures that the price is held at a certain level by buying some of it back to trap and encourage the uninformed traders/investors, or the 'Herd' to enter into or remain in long trades. They will often be lured into this, after seeing the frenzy of what they *think* is buying. They assume this is the case due to the high volume and rising prices, but it's the *exact opposite* of what is actually happening! I will prove this to you in **Chart VSA 1**. The time to short the market is when price starts confirming the lack of buying interest and begins to "rollover" and trend down. (I will show specific setups later that will amplify this principle in greater detail.)

CHART VSA 3

Looking at **Chart VSA 3**, notice that in the trend we see an unfolding pattern with up bar(s) (price bar(s) that close higher than the previous bar(s), with the volume on the up bar(s) extremely low, or at least, lower than the previous two bar(s).

As mentioned, notice by looking at the chart that as the trend pattern shows price progressing upwards, 'Smart Money' have withdrawn their interest because they have already sold and made a nice profit. This confirms that they have no intention of buying since prior bars confirm market weakness. This contradicts the strength, which the news media will be reporting.

By kind courtesy of TradeGuider Systems International, lets look closer at **Chart VSA 3**, which shows a strong Volume Spread Analysis principle that I will explain in detail a bit later. I will also show how the news will be influencing the 'Herd' that we discussed in chapter 3 to go long, when in fact they should be preparing to go short (sell) when the set up appears. As sure as day follows night the trading 'signs in the sky' are there, if you know what to look for!

Chart VSA 3 is a daily chart of U.S. stock, JP Morgan Chase, with an indicator signal that appears in the TradeGuider software program called '*End of a Rising Market'*. Note that the date of the signal is 14th of October 2009, which is very significant, as we shall see. This stock had been in a strong bull run since early March 2009. In fact on March 6th 2009, the stock was heavily *accumulated,* (bought) at the low of $15.52, which was the start of the uptrend.

On the 14th of October, the stock gaps up on *Ultra High Volume,* very narrow spread bar. *(The 'range' in this case is the price differential between the top and bottom of the bar, which we said in **Chart VSA 1**, is the daily bar. Price can also 'range' or 'channel' over a number of bars as we will see later)* Now, note that what I am going to show you works just as effectively on a one minute timeframe as it does on daily, weekly or monthly timeframes. On **Chart VSA 3**, viz. October 14th, 2009, this stock is getting heavily *'distributed'* (sold) by the Smart Money, who will have bought this stock at much lower prices. Remember, the 'end game' is PROFIT!

Looking at the October 14th bar, we make the following observations: The stock has gapped up, which is unusual activity in its own right, and closes at a new high of $46.90. We have now made new highs with no price action in the past at this level for at least 500 bars. We call this '*Fresh New Ground'*.

Take note of the following:

- Increased massive volume over previous bars
- The range of the bar is narrow, not wide (in fact the high of the daily bar on 14th October 2009 is at $47.20, the low is $46.37),
- The closing price - its close to the middle at $46.90.

If all that volume was 'Smart Money' buying at this level, you would expect a wider spread (range) on the bar and a close up or near the high of the bar(s), but this is not what we are seeing.

What we are actually seeing is *'The End of a Rising Market'* and there is a specific way to trade this. If we look closely at the simple logic of what is happening on this bar, then we must surely conclude:

- (V) Smart Money players clearly appear active as seen in the massive volume shown at the bottom of the chart, represented by the green bar. (There is no significance to the color of the bar for the purposes of this explanation so you can ignore the fact its green, in spite of the coloring being a proprietary element of the TradeGuider software program).
- (S) The spread of the bar is extremely narrow and the volume is high. Most likely, and more often than not, the 'Herd' will be rushing in and buying. The Smart Money will satisfy every buy order with a sell order and say "thanks very much you mugs" as they take in more profit having bought much lower!
- (P) The closing price is very important here, too. It closes near the middle of the bar on that narrow range.

So, we have an *Ultra High volume, narrow spread* bar closing in the middle, and we are into *"fresh high ground".* What could be causing this Ultra High volume? Well, both buyers and sellers are interacting at this level, and the buyers are 'The Herd', or the 'Not-So-Smart Money' and the sellers are the 'Smart Money'. The 'Smart Money' people have now made a tidy profit and unloaded their positions. They made this stock a weak stock with this tactic and they know it.

Why October 14th? Why not do the selling a week before or even two weeks before? Surely they would still have made a nice profit. Timing is everything and the Smart Money players know this. Plus, they have information that the retail traders and investors do not have. Look at the news about this stock on October 14th for a clue. We see in the news article 2 below that there is a very BULLISH earnings report.

News Article 2: Ellis, D. (2009, October 14). JPMorgan Scores Big in Latest Quarter. *CNNMoney.com.* Retrieved May 1st, 2011. From http://money.cnn.com/2009/10/14/news/companies/jpmorgan_chase/index.htm

"JP Morgan scores big in latest quarter" is the headline. The words "*strongest performance*" and "*towered above Wall Streets expectations*" are used directly below the headline. All the news is now bullish. The stock has been going up and up because its in an uptrend. All technical lagging indicator analysis tools will be firing off buy signals because they track past price to predict future price (and this example shows why that simply doesn't work, because the past price doesn't predict a move of the price in future, and it never will!)

It would appear to the 'Not-So-Smart' money that this is a great opportunity to buy this stock because everything they have learned appears to line up:

- The fundamentals look great! - *Tick the box*
- The stock is an uptrend, so if I go long and BUY, I am trading with the trend! - *Tick the box*
- The moving average, stochastic, MACD & RSI all give BUY signals. - *Tick the box*
- If I don't go into the market and BUY now I will miss the move! - *Tick the box*

OK, fine. BUY, BUY, BUY, but as you do that, the Smart Money will SELL, SELL, SELL.

Now the stock will plummet, as we can see in **Chart VSA 3**. The 'Not-So-Smart Money', who have now lost their money, rue the day, scratch their heads, throw their computer at the wall, and try to figure out what the hell just happened.

However, when you can read Volume, Supply and Demand, and the imbalances caused by *Ultra High and Ultra Low Volume,* you will become a 'Smart Money' trader for yourself and will be able to study the charts like a professional. You will trade and invest with newly found confidence and vigor because you can clearly see what the true intentions of the Smart Money are and be able will to trade in harmony with them, not against them.

Now, could history repeat itself and would the 'Smart Money' know that the 'Not-So Smart Money' would fall for exactly the same set up exactly six months later?

Similar news report, almost identical price level (which was acting as resistance) and the same result, the stock plummets, as you can see in **Chart VSA 4.**


CNNMoney.com
A Service of CNN, Fortune & Money

Symbol | Get Quote | Keyword | Search

- Subscribe to Fortune
- Find CNNMoney on Facebook
- Follow CNNMoney on Twitter

Home | Business News | Markets | Personal Finance | Retirement | Technology | Luxury | Small Business | Fortune | Video | My Preferences | CNN.com

JPMorgan Chase reports $3.3 billion profit

NOTE THE DATE OF THIS VERY BULLISH NEWS

By David Ellis, staff writer April 14, 2010: 12:24 PM ET

NEW YORK (CNNMoney.com) -- Profits at JPMorgan Chase jumped 55% from a year ago to $3.3 billion on the back of the bank's Wall Street business and an improvement in the overall economy.

The first of the nation's top banks to report first-quarter results, JPMorgan Chase said Wednesday it earned 74 cents a share during the first quarter, easily topping what investors were anticipating.

Facebook | Digg
Twitter | Buzz Up!
Email | Print
Comment on this story

Consensus estimates from analysts were for the New York City-based bank to record a profit of 64 cents a share, according to Thomson Reuters.

Right Now

Intelligence In Action.
VERINT.
Learn more here

Internet | Protected Mode: On

CHART VSA 4

The high on April 14th, 2010 was $47.93 and the high on October 14th, 2009 was $47.20. The low on April 14th, 2010 was $46.78, and the low on Ocotber14th, 2009 was $46.37. The close on April 14th, 2010 was $47.73 and the close on October 14th 2009 was $46.90. Is this is a coincidence that this stock did this exactly six months after the previous sell off? Well, you make up your mind, but you cannot fail to see that excessive volume on up bars, especially at previous resistance. Plus, when the news is good and encouraging you to go long, it's a sure sign for you to start looking for a short. Now you have knowledge that hundreds of thousands of traders and investors around the world do not know and may never know, unless of course they find this book or it finds them!! *(Please visit www.tradingintheshadow.com to see a video showing the same set up happening again in April 2011.)*

Rule Number 2- Strength Appears On A Down Bar

When **strength** (opportunity to buy) appears on a chart, it will appear on a *down* bar, which is a price bar that has closed lower than the bar(s) behind it, and will be on unusually high volume *(Ultra High)* or unusually low volume *(Ultra Low).*

As we saw in Rule number 1, at first glance that may appear as though I am contradicting myself by stating that strength will appear on down (or preferably, *Ultra High)* volume, and then also on low (or *Ultra Low*) volume (down) bars.

This statement is also factually correct! So, once again, why is this?

When the 'Smart Money' professionals begin buying whatever instrument is being traded (stocks, futures, FOREX, commodities etc.) their buy orders are all coming in one after another and that creates the Ultra High Volume. This is what we call the A*ccumulation* phase, or D*emand Overcoming Supply*.

Put simply, buyers are overcoming sellers at a certain price level (this is often seen at previous support levels). After this has taken place, the market will often move sideways and not suddenly rally immediately. This is because the 'Smart Money' need to ensure all their buy orders are being satisfied and they have exhausted all the sellers (Supply). This is the reason why the *accumulation* phase can take time. They ensure that the price is held at a certain level by selling back orders to encourage the uninformed traders/investors to get short which they often will when they have seen the frenzy of what they think is selling. This happens because the price falls, and the volume is very high and they incorrectly assume that the high volume MUST be selling.

Time To Buy The Market

The time to buy the market is when we begin to trend *up. (I will be showing specific set ups later that explains this principle in more detail)* As the trend begins, we see a down bar *(a price bar that has closed lower than the previous bar)* and this time the volume on the down bar is extremely low, or at least lower than the previous two bars. This tells us that there is no selling pressure or no Supply, (i.e. no more sellers) an obvious conclusion that the market is going to rally.

A word of advice here, even though it's possible to identify market tops and bottoms, don't try and trade them, because there are much lower risk entries that take a little more time to develop, so you have to be patient!

A good example is the U.S. stock, British Petroleum (BP). I picked this example for a number reasons. Tom Williams' signal called *"Potential Climactic Action"* (Sign of Strength 33) is one of the strongest indications that 'Smart Money' are buying. This signal came up in TradeGuider on June 9th, 2010. Tom called me and said, "Gav, I am watching the news and this is horrific… Are we sure that the volume is correct? It looks very much to me like the big players are piling in and buying BP stock, they must know something we don't - do you think they have already capped the well and are not telling us!!"

I had no idea what was going on, but I could read the chart… I was due to speak at the Massachusetts Institute of Technology (MIT) in Boston a few weeks after this signal had appeared, and I was able to use this as a live example. I had something to show them in foresight and not in hindsight.

When I commenced writing this book in January 2011, the current news then on BP was that their share price had increased, and at the time of writing, BP's stock price in the US is up from the June 25th 2010 low of $26.83 to a high as of January 6th 2011 of $46.60. BP's stock price has nearly doubled in value in 6 months! During that interim period, the news was so bad that when I spoke at MIT to The Boston Traders Group, (great people and great seafood!) they asked me which stock was a good buy at the time. When I said BP they all laughed, probably thinking it was my British sense of humor, but no one's laughing now! That was a big opportunity to make money alongside the 'Smart Money'.

You may be saying to yourself, "Well yes Gavin, it all looks good in hindsight, but what about in foresight? That's the wonderful thing about www.youtube.com, because I am able to post my analysis as it happens and it's also date stamped. When you get a minute, take a look at TradeGuiders channel on www.youtube.com and just type in TradeGuider. See what I said when the oil market was supposed to hit $200 a barrel in 2008, only to get to $147.27 and then plummet to $33.20 in just 6 months?

Beware of the news, because all the analysts, including well respected oil analyst, Arjun Murti of Goldman Sachs, had barely two months prior to the decline, warned of an impending oil spike to $200 a barrel!

I wonder who profited as the oil market plummeted, not the airlines, that's for sure, because they were expecting higher prices and therefore hedging accordingly!
The Chart NEVER LIES, as we shall now see on the BP charts.

CHART VSA 5

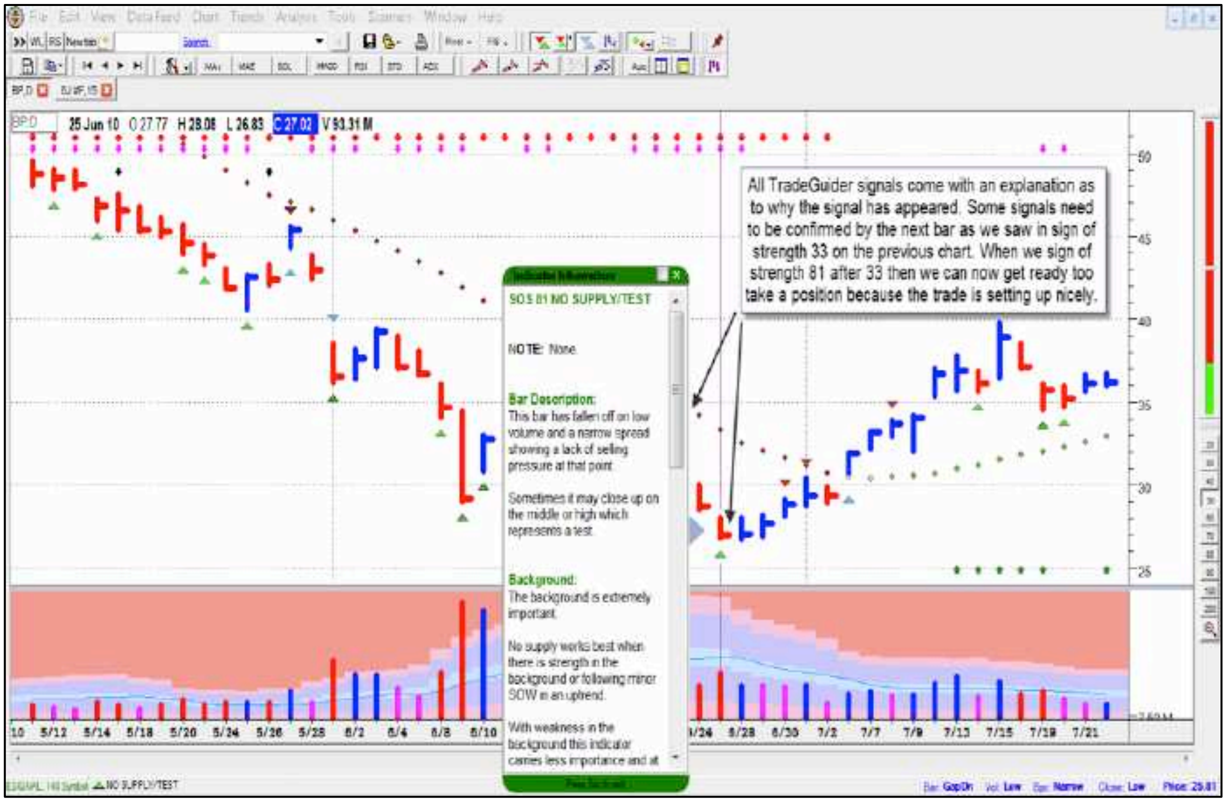
CHART VSA 6

If we look closely at **Chart VSA 5** and **Chart VSA 6** (BP Daily chart), the TradeGuider proprietary signal ‘Sign of Strength 33’ is a powerful indicator because when it appears, it’s a clear message from the ‘Smart Money’ announcing that they are buying everything from the panicking ‘Herd’ or ‘Not-So-Smart Money’.

We will discuss the actual place of when to take a long trade later, but even when I see this signal, I wait. I do not want to be too hasty since there is still Supply (selling) contained in that bar on June 9th, 2010 and that can drive the price lower.

The bar that formed on June 25th, 2010 is extremely significant and forms part 2 of a three-part trade set up.

CHART VSA 7



Now let's examine **Chart VSA 7** that bar which had formed on June 25th, 2010.

Firstly, we notice that the Volume is much less than we saw on the *9th and 10th of June 2010.* That is significant because it is showing the selling pressure is getting less and less. This is why the Supply (selling) is overcome by the Demand (buying) from the 'Smart Money'. What's more important, however, are the extremely narrow individual bar price spreads on the *25th and 26th of June 2010.*

If we were to turn the JP Morgan chart in **Chart VSA 3** upside down, it would look similar to what you seeing here. On the JP Morgan chart we observed Supply overcoming Demand (selling swamping the buying) and on the BP chart we see the opposite, Demand overcoming Supply (buying swamping the selling). This can only mean one outcome - the higher prices as we see in **Chart VSA 6**, because all charts and all markets work the same way, including stocks, commodities, futures, currencies and yes, even spot FOREX (but that's another subject for another book!).

CHART VSA 8

We then see, in **Chart VSA 8**, the result of the A*ccumulation,* namely that Demand has overcome Supply, and higher prices become inevitable. All the way throughout the up move, Smart Money sell some back to bring the price down again to *'test'* for Supply *(i.e. they want to flush out any remaining Supply in order to move the price up without having to absorb Supply that remains*).

If the *'test'* is successful, we can expect higher prices, especially if the test is on low volume and narrow spread down bar into the same area where you first saw the very high volume. This is a strong **BUY** signal.

However, the news that you hear will almost always be extremely bearish, negative, and fear mongering, which has the effect of blocking your entry into the market at the correct time.

Tom Williams taught me to trust in the chart and nothing else. He also told me that if he had his way, he would lock every retail investor and trader in a dark room - no TV, no newspaper, no outside information, or influences and just get them to trade the **VSA** principles as they appear.

As Tom says, "If you can read the chart and ignore your natural human instinct to follow the 'Herd', you can make a lot of money in the markets".

CHART VSA 9

Always look back on previous price action as far as you can, in order to see if there are any unusual Volume areas around Support and Resistance levels in the background. In **Chart VSA 9**, I looked back 10 years on the monthly BP chart. Stocks move in cycles -10 years is a cycle, and, as if by magic there it was: clear support around the $27.00 to $30.00 area, exactly where support was found during the Gulf Of Mexico oil well disaster.

Don't forget: *Beware of the news!* It is not necessarily that the media are lying; they are simply reporting what they hear and see. Although, I have yet to hear an explanation as to how BP's shares nearly doubled during the worst oil spill crisis America has ever seen, notably when rumors were abound that BP would go out of business and that Libya would take them over!

Remember, it's vital to have a contrarian mindset if you want to make money in the financial markets, even though it goes against your natural instincts! In fact, if your decision is against your natural instincts you will probably make a very good trading or investment decision!

Finally, just to hammer home the point:

Remember the financial crisis of 2008 when Lehman Brothers went out of business in late September. Also, during December 2008 and January 2009, the banking sector (we were told) was in shambles and the Government (as it was reported) was going to have to take over Goldman Sachs (although now I think its probably the other way round!)

CHART VSA 10

Well, let's look at the Weekly chart, **Chart VSA 10**, and examine the Volume and what actually happened to the Goldman Sachs share price. Let's see if the 'Smart Money' sent us a telegram then as they did with British Petroleum (BP).

We can see that just like BP, the *Accumulation* took place on bad news. After testing for *Supply* in December 2008 and January 2009, the stock took off because Demand had overcome Supply.

If you had switched on your TV or read the newspapers during December 2008 and January 2009, you would have been forgiven for thinking that the banks were finished and the TARP money meant the government would be in control making the banks shares worthless.

Of course that never happened, and some of the biggest bonuses ever paid were given out to the bankers in 2010, only two years after the crisis began. In the 1960's, Richard Ney's number plate of his Rolls Royce read "Wake Up", and if you take on board his subliminal message, you will not fail to make money in the financial markets.

Now let's look briefly at the inspiration for this book and the teachers that had an impact in their time in helping others to understand 'the game':

Richard Demille Wyckoff (November 2, 1873 – March 19, 1934) was a stock market authority, founder and onetime editor of the *Magazine of Wall Street* (founded in 1907), and editor of *Stock Market Technique*. www.richardwyckoff.org

"...Thousands of those who operate in the markets now recognize the fact that the market momentarily indicates its own immediate future, and that these indications are accurately recorded in the market transactions second by second, and therefore those who can interpret what transactions take place second by second or moment by moment have a distinct advantage over the general trading public...."

-Richard D Wyckoff, 1914

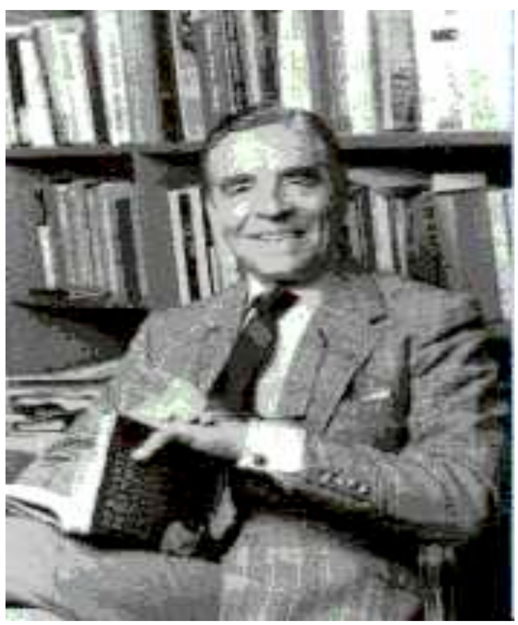
"Tape reading seems to us: The 'SCIENCE' of 'DETERMINING' from the 'TAPE' the immediate trend of prices. "

"It is a METHOD of FORECASTING, from what appears on the tape 'NOW', what is likely to appear in the future."

Richard D. Wyckoff
Studies In Tape Reading
Rollo Tape

Richard Ney's Rolls Royce – Examine the number plate closely, it says it all!

Richard Ney
Actor, Author, Investor, and Educator
(November 12, 1915 – July 18, 2004)



Tom Williams is a former professional syndicate trader and inventor of the methodology called Volume Spread Analysis that tracks market manipulation as it happens on a chart.

Now 82, Tom has written 2 books and still trades today when this book was written in early 2011.

Tom Williams, October 2010 – Statements:

"The market is devious and many times you will buy on good news only to lose money and sell on bad news only to see the price rise soon afterwards, and that is because "Smart Money" understand crowd behavior and take full advantage of 'The Herd'!!

"The market works because human beings have two powerful emotions that they have difficulty controlling, namely <u>FEAR AND GREED"</u>

"The market has to be fed losers. It is devious and what you hear will often not be the truth. I have never heard the truth about the stock market or any market on television. Just look at the news about the Oil market in May 2008. Greed at the top as many traders piled in because they were told oil had to go to $200 a barrel!! The chart never lies, and Gavin went on YouTube to show the TradeGuider proprietary signal, namely 'The End of a Rising Market'. Then look at the banking sector in 2008 during September. Fear set in and professional money began to BUY not SELL and that caused stocks like Goldman Sachs to Rally 400%. It was all in the chart if you know how to analyze SUPPLY AND DEMAND".

CHAPTER 5

HOW TO READ A CHART LIKE A PROFESSIONAL TRADER

When a trader or investor looks at a price chart of a particular instrument, they may not be aware of how valuable the information contained within the chart can be if you can read it correctly. Learning to read a price chart is like learning to read music in order to play a musical instrument. With the right instruction, practice, patience, and perseverance it is possible for virtually anyone to play a musical instrument. I remember taking piano lessons when I was eight years old. I did not enjoy learning to play the piano because I lacked in the three P's: practice, patience, and perseverance. Luckily, my teacher was very good and after 3 months I could read basic music and actually play a tune. Trading and investing is very similar, although there is a fourth P that you must have and that is a PLAN. You must develop a Volume Spread Analysis trading plan.

I truly believe that the majority of retail traders and investors of all experience levels can be successful and profitable in the financial markets if they are given the right instruction. Then to refine and develop their skills we just need to apply the four P's. In my travels, I have met thousands of traders and investors from all over the world. I quickly discovered that the top traders and consistently profitable fund managers all had certain qualities in common - they all understood 'the game' and were in and they knew how to win it! Most importantly, the vast majority was able to read a chart and used volume analysis as a key part of their trading and investment evaluation.

Timing is also a key part of investing, especially in the stock market. As I write this book during 2010 and 2011, many retail traders and investors have fled the stock market, only to watch it rally from the March 2010 low to make new two-year highs during February 2011. As the great investor Warren Buffet so wisely pointed out:

"Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well."

British Petroleum stock price nearly doubling during the oil spill crisis really proves the quote above to be true. In January 2011, we were seeing many investors and traders run to Gold, Silver and Bonds. I received an email from a long-standing customer of our company, TradeGuider Systems, which was entitled 'Gold, Stocks and the Dollar: The Rise and Fall of a Correlation' written by Peter Cohan on AOL Daily Finance on January 24th 2011.

In the article, Mr. Cohan describes the trend of ATM machines that deal in gold bullion beginning to dot the landscape of the USA, a trend that had also happened in Germany amongst other places. On December 2nd 2010 I posted a video on www.youtube.com (see TradeGuider channel) and I warned that there was a bubble forming, impending the fall of silver. Ironically, all the analysts were also bullish just as they were when they predicted oil going to $200 a barrel in 2008 as we have already seen. Looking at the chart, the Silver futures fell from the January 3rd high of $30.440 in the SLV futures down to a January 26th 2011 low of $26.30 but did not penetrate that very important level. As I explained in my You Tube video, that explained the short set up, and we never got permission for a short trade at that level, as you can see.

CHART VSA 11a

When we look closely at the chart a number of important points are in evidence. We can see at point A on **Chart VSA 11a** that on November 9th 2010 we see *Ultra High Volume*. The TradeGuider software detects this and has placed a red indicator above the bar. This shows a *Sign of Weakness* called a *'Hidden Up-thrust'* determined by the Volume Spread Analysis methodology. In the TradeGuider software, all the indicators have numbers and dialogue boxes that explain the condition that has triggered, along with the indicator with a description of what to look out for in the future. You will find a glossary of indicators by number and description at the back of this book. Note that the market tests the price level at point A and never begins to trend down, so this is a clear sign that higher prices are still likely, so don't short here.

It is very important to note that just because an indicator is red, it doesn't mean take a short position immediately; it's the same when a green indicator appears, it doesn't mean take a long position immediately. The Volume Spread Analysis methodology was developed to find imbalances in the supply/demand situation on any chart and in any timeframe, and these imbalances are happening every second the market is traded. In fact, they are happening tick by tick, which is why tick volume is extremely powerful to evaluate when used in the Volume Spread Analysis methodology, as we shall see later.

Volume Spread Analysis looks at three vital criteria to determine if a market is strong or weak. In a strong market we look for opportunities to buy or go long. In a weak market we look for opportunities to sell or to go short. We will identify specific Volume Spread Analysis trade setups later in this book.

The three criteria that are used to identify imbalances in the Supply/Demand situation are based on the three universal laws that control the markets. Rest assured, just like the law of gravity that determines human beings do not float off into space, these laws, when understood on the price chart make the difference between a gambler and a professional profitable trader/investor.

<u>The Three Laws Governing All Market Behavior Are:</u>

- The Law Of Supply And Demand
- The Law Of Cause And Effect
- The Law Of Effort Versus Result

There is a fourth law that does not relate to the charts but I believe is the most important law in determining success or failure, and I shall cover that in Chapter Nine.

So, Volume Spread Analysis looks at the following three criteria to determine supply and demand imbalances:

<u>Criterion 1.</u>

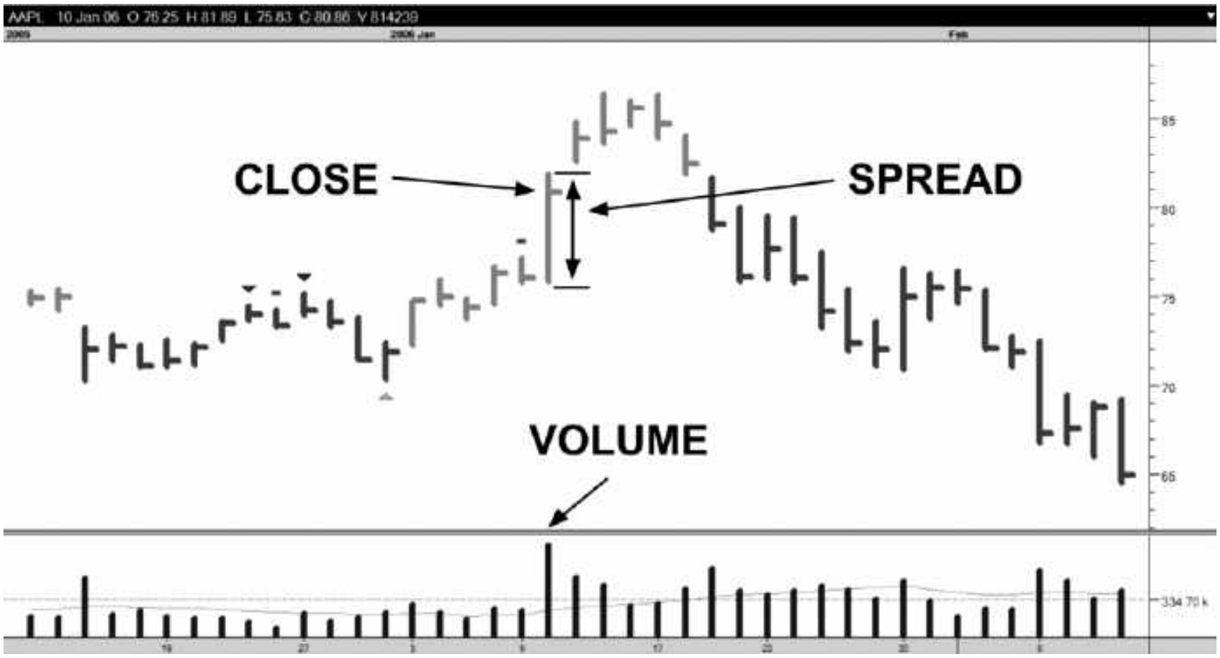
Volume (most often displayed at the bottom of the chart and available in most good charting software)

<u>Criterion 2.</u>

Price spread or range of price bar (The high and low of the price bar in any timeframe)

<u>Criterion 3.</u>

The closing price on the bar (Volume Spread Analysis does not use the open of the bar, because it does not show us the result of the activity on the bar).



Supply and Demand, Cause and Effect, and Effort vs. Result can be observed in the action on price and amount of market movement in any given timeframe.

Let’s look at an example:

CHART VSA 11b

In Chart **VSA 11b**, which is the U.S. stock AIG, we can see Ultra High volume coming in on the Daily chart at point A, which is an up bar. An up bar is a price bar that has closed higher than the close of the preceding bar with a wide spread (or range) price bar that closes off the high of the bar (about 20 per cent off the high). If we were observing an *effort for the price to rise* on that volume, only to then see that the very next bar, bar B, has closed lower, we can see that there must be selling in the *Ultra High Volume*.

It's an early warning that *Distribution (*selling) is beginning from one or more professional or institutional groups.

This is not a place to short.

Even though we have an early warning sign that *Distribution* is taking place, we are still in an UPTREND and we want to find the highest probability trades. *For shorting the market, those opportunities appear in downtrends.*

At point C and D, we see the stock attempt to go up. Volume on D is higher than C, but as a typical telltale sign, at the end of each bar, the price closes at or near the low of the price bar. This is *'no result from an effort to rally'* and can also be called an *Up-thrust,* which is a stop hunting move by the professionals. Both *'no-result from effort'* and *Up-thrusts* are very similar in nature. However, it is most important to keep in mind the following:

If In An Uptrend:

DO NOT short an *'Up-Thrust'* (*'No-Result-From Effort')* if you have *strength* (buying) in the background (like the BP example).

DO ALWAYS look for shorts when we have *weakness* in the background (like the JP Morgan example). When we see these indications in a bull market, it simply means that the market is not ready to move up just at that moment and you will often see the market rest or fall a little before the rally resumes, if in a bull run.

Technical analysts call this a 1-2-3 pattern. Another way to understand the price action dynamics is to think of climbing a mountain. The path to the top is usually a series of peaks and valleys, which the chartist calls 'retracements'.

If In A Downtrend:

It's a very powerful 'Sell' opportunity when we see this in a down trending market with a serious *Sign of Weakness* in the background! We would look to go short (or for selling opportunities) as the market rises (retraces).

If using a trend channel, we would look to sell the retracement at the top of the down trend channel using a **VSA** principle showing *selling or lack of buying/demand* from the 'Smart Money'.

In an *Uptrend*:

Always remember that we look to go long or for buying opportunities as the market falls (if using a trend channel, then at the **bottom** of the channel) using a **VSA** principle showing buying or lack of selling by the professionals.

In a *Downtrend*:

We look to go short, or for selling opportunities as the market rises, (if using a trend channel then at the **top** of the channel) using a **VSA** principle showing selling or lack of buying/demand from the professionals.

This is because as we have already said **Weakness appears on an Up bar** and **Strength appears on a Down bar,** which makes perfect sense when you consider that the 'Smart Money' need to sell at higher prices than their purchase price and buy at lower prices to make a profit when they sell. *"Buy low, sell high"* is the old adage, and it is evident in the chart when you can read it.

SCHEMATIC EXAMPLE SHOWING OVERBOUGHT/OVERSOLD AREAS IN A TREND DOES NOT MATTER WHETHER IT IS UP OR DOWN

Trend Channels and Trigger Numbers

In (e.g. an *Uptrend*), the use of a trend channel is very important to identify if you are in an overbought or oversold area of the trend. If you are long and enter an overbought area of a trend channel, you are vulnerable to profit taking from professional groups. This profit taking will result in a fall of prices back into the channel as shown in bars 1,2, and 3 in the schematic. It is the opposite if you are short and in a *Downtrend* and you enter an oversold area of a trend channel (which is the lower trend line of the channel). You are vulnerable to profit taking from professional groups. This profit taking will result in a fall of prices back into the channel as shown in bars 1,2, and 3 in the Schematic Example.

Drawing a Trend Channel to Identify Your Current Trading Zone

When Tom Williams was asked to join the trading syndicate in Beverly Hills, his main job was to construct the charts that the syndicate would use to analyze and make their trading decisions.

Since there were no computers in those days, Tom would use a 5-foot ruler (which he still has today) and have the chart laid out on a 9-foot table. One of the most important parts of Tom's chart drafting responsibility was to draw trend channels on the charts. Drawing a trend channel allows the trader or investor to see buying or selling opportunities as a market approaches either the top or bottom of the channel.

When drawing a Wyckoff Trend Channel, Tom followed some simple rules:

- Choose your timeframes. For example, if trading stocks and holding medium to long term (i.e. 3 months to 3 years or more) select 3 timeframes, such as Monthly, Weekly, and Daily. Start with the biggest timeframe first (the Monthly in this case) and put up 120 bars or 10 years of data (markets work in cycles and the 10 year cycle is widely recognized as a major cycle).
- If trading intraday, choose timeframes that work for your trading style, so if scalping the e-Mini S&P for 8 ticks, you will look at a 15 minute, 5 minute and 3 minute timeframe.
- If trading FOREX (currencies) and have a buy and hold strategy for hours or days, then you may want to try a 4 hour, 1 hour, and 15 minute chart. There is no right or wrong timeframe. I have found that my best timeframes have come from trial and error. Now take the largest timeframe chart first and put up at least 750 price bars. (The TradeGuider software allows 2000 bars if the data is available).

CHART VSA 12

In **Chart VSA 12** we will examine the continuous contract of the CME Group currency futures 6B #F, which is the futures contract of the US dollar versus UK pound. I have used a 240-minute timeframe, which means that each price bar is formed every four hours. This chart gives us a clear view of the bigger picture and we then look for the last active trend, which in this case is an uptrend that commenced in early January.

At point A on **Chart VSA 12**, we note the *Ultra High Volume* and start our trend channel by selecting the bottom of the bar at point A because we have made at least two higher lows previously. At point B, we again note the *Ultra High Volume* since the market pulls back and we select point B as our second low. The reason why we select B and not the two other pullbacks in this uptrend is because point B shows the highest volume.

TradeGuider software automatically selected point C because it is the intersecting high and the channel is now projected out and will remain on the chart until it is deleted or modified.

CHART VSA 13

We note on **Chart VSA 13** that the market hits serious resistance on November 4th 2010 and we see an Ultra High volume up bar with a wide spread that actually reverses the trend and results in a 949 tick down move. That price level will become a Volume Spread Analysis *trigger number* in the future as price re-approaches that level and will give an excellent Volume Spread Analysis trade set up.

CHART VSA 14

Chart VSA 14 shows the best place to buy an instrument that is in the oversold zone of an uptrend when a strong **VSA** principle appears. In this case we have a cluster of green indicators shown at D, E, and F. The first of the three green indicators is called *Stopping Volume*. This indicator is often seen in an uptrend as professionals mark the price down for more buying. If you had gone long at point D, you would not be in the oversold zone and would be under pressure as the price is marked down for more buying at point E, which is called a *Shakeout*.

A *Shakeout* is a much stronger indication of strength because we are into the oversold zone, bar E has Ultra High Volume but closes in the middle of the bar, showing that buying must be taking place causing it to close in the middle. But what makes this set up more powerful is what happens on bar F, which is the right next to bar E, and has the last green indicator present. This is called a '*Two Bar Reversal'*.

When a 'Two Bar Reversal' is seen after a '*Shakeout'*, it will be extremely bullish. The market retraces two bars after the reversal, but the volume on these bars is extremely low showing that there is no professional activity as the price falls. This is confirms the bullish bars at E and F. This is a strong BUY indication seen at the bottom of an uptrend channel.

The stop (highly recommended) should be placed at the last point of <u>Accumulation</u> (buying), which is at or near the bottom of the uptrend channel and is marked with a red arrow on **Chart VSA 14** (preferably on an odd number).

Stop placement varies from market to market and also depends on Risk/Reward ratios, loss tolerance, account size, and individual trading style. As a general rule, if I trade using a wider stop, I start by placing less contracts and then scale into the position as the trade moves in my favor.

When trading currencies or FOREX, a wider stop is often required especially when news events trigger massive moves. I try to avoid being in the currency market if a major news announcement is coming, such as FOMC meeting minutes or Unemployment numbers. I like to trade the reaction after the news is released. You will often find the market is marked up on the news to encourage traders to go long if the news is bullish, only to find that the market quickly turns against them as selling takes place into the surge of buying.

<u>Going Long at Support in an Uptrend</u>

When we use Volume Spread Analysis techniques to identify trade set ups, we are looking for the highest probability of success. Going long at the bottom of an uptrend channel when the market is in a clear uptrend gives a higher probability of success.

<u>Going Short at Resistance in an Downtrend</u>

The same goes for going short at the top of a downtrend channel when the market is in a clear downtrend when a clear Volume Spread Analysis principle appears.

If you jumped into a fast flowing river and attempted to swim against a current, you would use a lot of effort and you may make little or no progress if the current is forceful. This is similar to going short against an uptrend or going long against a downtrend.

However, when a **VSA** trigger number is hit there is opportunity to make money trading against the bigger trend (i.e. countertrend). Using the same example, the 6B #F currency futures contract, let us examine a set up to the short side against the bigger trend and we will analyze two other timeframes to identify a good entry.

<u>Multiple Time Frame Considerations:</u>

When going short against the trend, there are five important questions you should be able to answer 'yes ' to:

- Are you at a **VSA** trigger number showing resistance to higher prices?
- Are you at the top of one of the quadrants of the uptrend channel in the biggest timeframe, or even better, are you in an overbought zone?

*The quadrants are the 4 lines that break the trend channel into 4 parts as shown in **Chart VSA 14**. Point B is clearly right on the top of the center quadrant and Point C is approaching the center quadrant, but both points would attract interest because of the resistance seen at Point A.*

- Is there a clear **VSA** (Volume Spread Analysis) principle present?
- Is the market beginning to mushroom over, or top out and begin a downtrend *in the smaller timeframes?*
- Do you have any strength or obvious buying indications in the near background on the *largest timeframe*?

We have seen in **Chart VSA 14** that resistance to higher prices is seen at points A, B, and C at around the 1.6275 price area. When price re-approaches this area at 1.6275 we look for *signs of weakness* to appear since professionals try to catch the breakout traders. This is very profitable for the professionals because most uninformed traders see the high volume coming in and the price spiking through resistance. Most often and incorrectly, the uninformed traders believe that the high volume must be buying causing the price to rise.

However, as we have already demonstrated, professionals often take the opportunity to *sell* into the rising prices. We see the result of this selling as the price falls back into the channel at points A, B and C on **Chart VSA 14**. Now we must go down one or two timeframes to look for our optimum entry. In this case we will examine the SELL (shorting) opportunity shown at point B on **Chart VSA 14**.

Having seen the weakness appearing on the larger timeframe, we drop down to the Four Hour chart, the One Hour chart and lastly, the 15-minute chart, as shown in **Charts VSA 15 and 16**.

CHART VSA 15

Chart VSA 15 shows the Hourly Chart of the 6B #F contract, the same chart we saw in **Chart VSA 14** but this time we have moved down a timeframe.

At *Point A* we see an Ultra High Volume bar that has a very wide range/spread, but closes below the middle of the bar and the very next bar confirms the weakness as it closes below the base of bar A. There must have been selling into bar A and the start of distribution by professionals.

At *Point B*, we now have a Volume Spread Analysis signal called '*No Demand'* after *serious weakness.* Look at *Point B* and closely examine the volume and the price bar.

We note bar B attempts to go up into the body of bar A where the Ultra High Volume has been seen, but at bar B, we note that the volume is declining and is very low. Bar B is an up bar, a price bar that closes higher than the bar behind it. The volume on bar B is <u>*less*</u> than the previous two bars, so we have declining volume on what is an up bar.

The spread/range of the bar is very narrow, especially when compared with bar A.

Consider what's going on here.

Professionals have sold into bar A at the top of the larger timeframe trend channel at resistance. As the market goes back up at bar B, professionals withdraw their interest in higher prices because they have already sold at bar A and they now know the market is a weak market. The volume on bar B confirms their lack of interest because it is now low.

Could we take a short at point B or C?

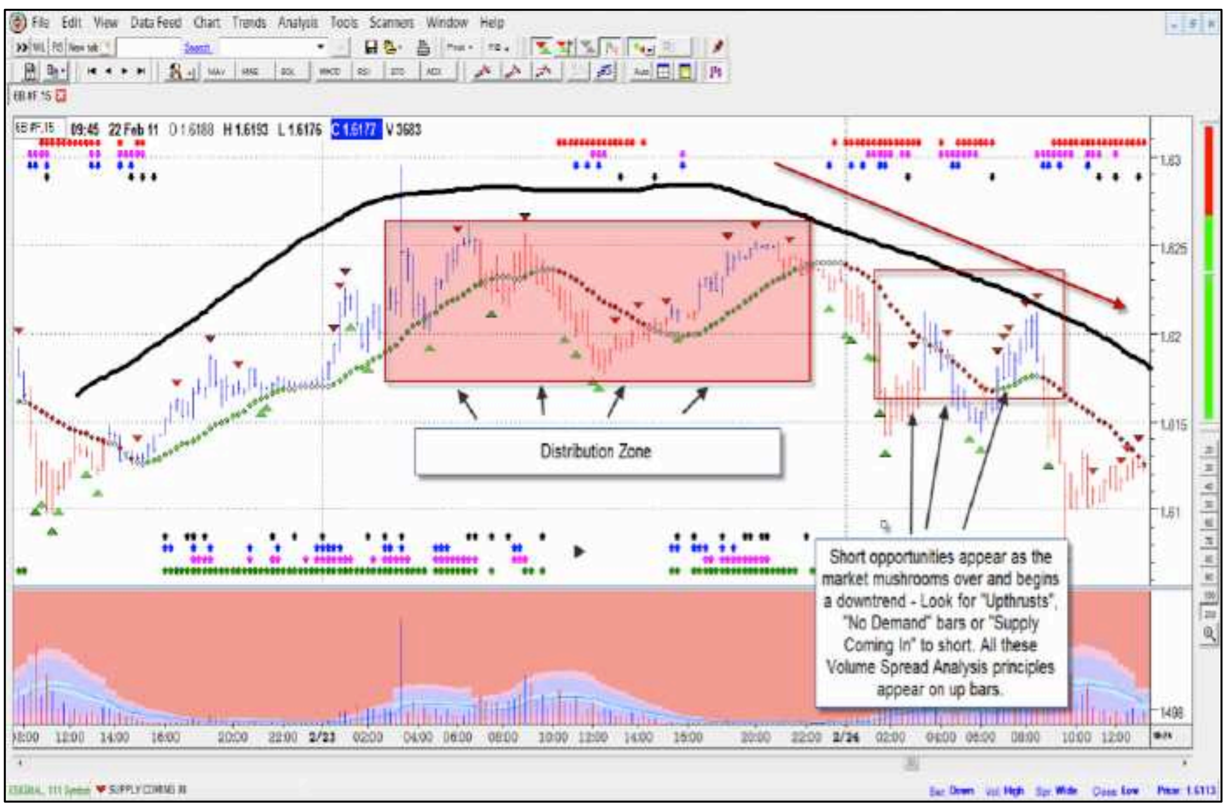
Well, it is more risky than at points D, E, and F and that's because the market is still in an uptrend on all the timeframes - from the 4-hour timeframe down to the 15-minute timeframe.

When I take a trade, I grade the trade from 1 to 3.

Grade 1 is a high probability trade with Grade 3 being more risky. If a short position was taken at point B or C, I would grade it a 3, but a short taken at D, E, and F would be a Grade 2 because the trend is moving into a short-term downtrend on 2 of the three timeframes. Why would I not grade it a 1, you may ask?

Its simply because the predominant trend is an Uptrend, and I am therefore counter-trend trading the larger timeframe. Grade 1 trades happen when all the trends align in your chosen timeframes and a Volume Spread Analysis principle appears.

CHART VSA 16



Let's look at the same information on a 15-minute timeframe on **Chart VSA 16**.

We are looking for evidence that the market is mushrooming over at the top. Only one thing causes the mushrooming over and that is professional selling or distribution. It will always appear first on the smallest timeframe you are using and then become apparent on the larger timeframe, which is why it is important to analyze multiple time frames.

After a serious '*Sign of Weakness*' appears, which in the 6B #F example was evident in all three timeframes chosen for analysis, look for the characteristic mushroom top price pattern begin to form on the *lower* timeframe. This is called the *distribution zone* and is where professionals are selling or withdrawing their interest in higher prices.

If we see *distribution* happening and the market is in a downtrend, this will offer great opportunities to short. If we see *accumulation* happening and the market is in an uptrend, then this will offer great opportunities to go long.

CHART VSA 17

Chart VSA 17 shows the *accumulation zone* on U.S. stock chart of British Petroleum (BP). After we see *accumulation,* we look for Volume Spread Analysis indicators of strength, such as '*Stopping Volume*', '*No Supply'* and a '*Test in a Rising Market*'. Note the Ultra High Volume on the down bar as *accumulation* begins.

SEE CHART VSA 18

Also note that on **Chart VSA 18** (the Weekly chart of British Petroleum) how we see the opposite of the mushrooming over when we see distribution. We now have a 'saucer' forming at the bottom as the price begins to rally after *accumulation* has been successful.

CHAPTER 6

The Key Principles of the Volume Spread Analysis Methodology Part 1: Weakness

In the last chapter I introduced some terms used in the Volume Spread Analysis methodology. In this chapter, we'll discuss what each of the terms and their meanings are on a chart. As per previous chapters of this book, I will continue the convention of referring to Volume Spread Analysis as ***VSA**, w*hich is how it is often referred to in many trading rooms and forums. **VSA** is based around the analysis of Supply and Demand as well as the imbalances of Supply and Demand, which when they happen, give trade setups to both the long and short side of the market.

VSA will identify signs of *'strength and weakness'* in the markets. The TradeGuider software and Add-On Studies for other trading software programs produces indicators that are categorized as either '*Signs of Strength'*- colored in green with an indicator number beginning with '*SOS',* and '*Signs of Weakness'*- colored in red with an indicator number beginning with '*SOW'*.

As opposed to being Buy or Sell signals, these indicators measure imbalances of Supply and Demand. Although, when certain indicators appear, they **can** be considered very high probability market turning points, especially when confirmed by a secondary indicator when price action reacts at or near the area where the initial indicator appeared.

VSA SIGNS OF WEAKNESS

The 'Up-thrust'

We'll first examine the key signs of weakness identified using **VSA***.* Its important to keep in mind that all the principles I will be showing you will appear on your charts in **different intensities.**

Also keep in mind that the principles of **VSA** work in **all timeframes,** so whether you are scalping the market for a few ticks, or investing long term in the stock market holding your positions for months, these principles can be used and adapted to your individual trading style and strategy.

Let's look at an example. We'll analyze two charts showing the same principle and how it moved the market. The first chart is a 15-minute e-mini S&P futures chart (*viz.* ***Chart VSA 19***). It shows two classic 'Up-thrusts' resulting in a fall in price. In fact, it's a nine-point fall from where the first 'Up-thrust' appeared at point B.

At point A, we have seen a very wide spread/range on the bar and the volume is Ultra High when compared with the previous bars.

I have been asked a few times, 'Does the spike in volume we see, when the markets open, get incorrectly analyzed by the TradeGuider software?' and the answer is 'no'.

The spike in volume is present because the 'Smart Money' players are actively trading as the market opens. (In the FOREX Spot markets, this is usually due to the fact that the banks trade amongst themselves over the weekend, and the retail market isn't privy to this currency pricing until the markets re-open after the weekend.)

The TradeGuider software will measure the volume correctly because the information is coming from the exchange, via the data feed provider. If the volume is very high and is on an up bar, then this will produce a *'Sign of Weakness'.* As Tom showed me, markets do not like excessively high volume on up bars. When you review your charts you will see that is often the case in the vast majority of charts you look at.

The only occasion where the market will not react negatively after Ultra High Volume on an up bar is present is if the 'Smart Money' is bullish and wants higher prices. In that case, you will see a *Sign of Strength* called a '*Test'* or '*No-Supply'* (More about that in the section on '*Signs of Strength').* We see at point A an extremely widespread bar on Ultra High Volume and the closing price on the bar is near the top of the bar.

If this Ultra High Volume had been more buying than selling, then surely the next bar would close higher- but it doesn't, as you can see. It closes nearly half way down the bar at point A and must therefore be considered a serious 'sign of weakness'. With this weakness now apparent, we are looking for confirmation of that weakness to take a trade to the short side of the market, i.e. to sell the market.

Could you short the market at point A? Yes, some of our customers do take that trade, but I personally don't - although Tom Williams would most likely also take the trade at that point.

The reason I don't take the short trade at point A is because we still have a strong up trend in place on all timeframes and I want to 'go with the flow' so to speak. This means I always seek to trade in *harmony* with the trend.

If I am going to go swimming in the Chicago River (which I have never done), I know it has a strong current, so I would make far more progress trying to swim *with* the current, as opposed to against the current. This is much like taking a short trade in a rising market. You can certainly make winning trades shorting in a rising market, especially if price action gets to the top of the uptrend channel when the market is vulnerable to 'Smart Money' profit taking.

Editors note: Many traders do this using Fibonacci retracement levels. But if we are going to look for high-probability lower-risk set ups to the short side, then they will appear in a downtrend.

In my day trading I like to use at least three timeframes to confirm the market is trending one way or the other, and the TradeGuider software and add-in studies have two extremely valuable proprietary trending systems.

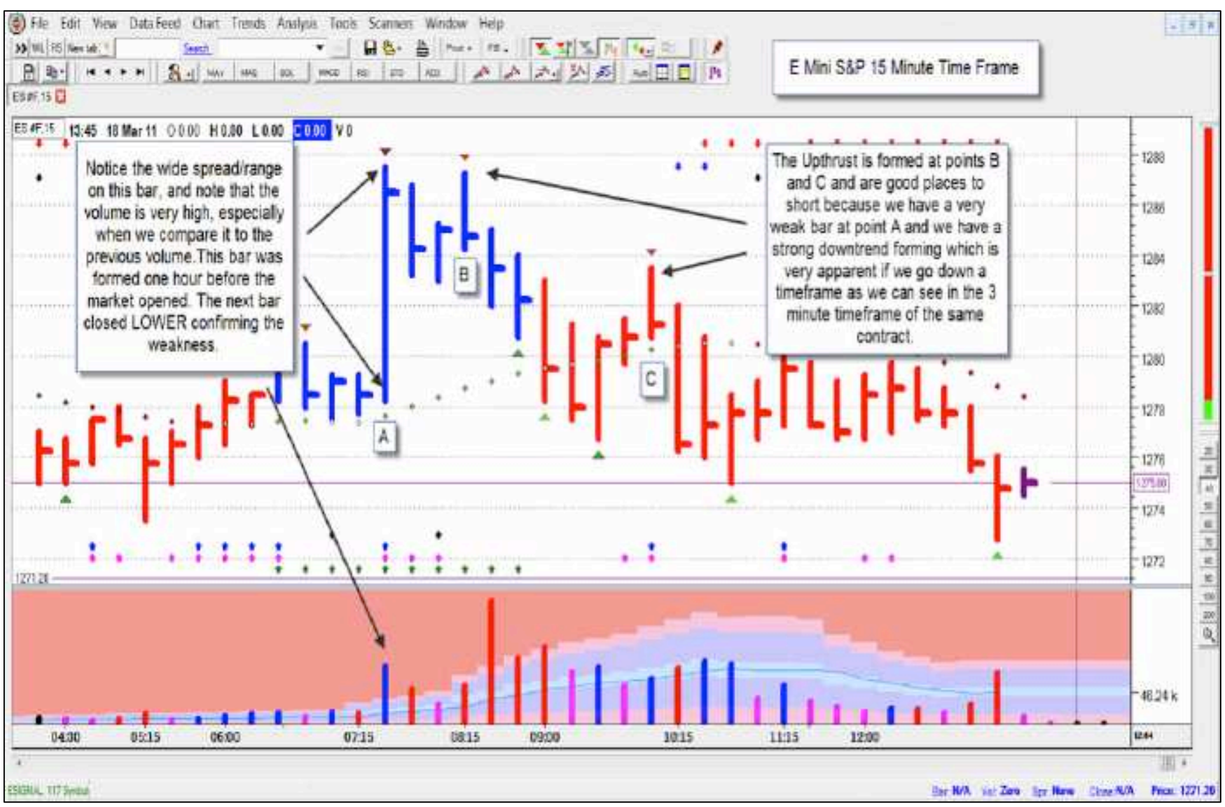
The Medium Term Trending System

The first trending system is called the *Medium Term Trending System* and colors the bars *blue* for an *uptrend* and *red* for a *downtrend* (colors are customizable).

The Diamond Trending System

The second trending system is called the *Diamond Trending System* and can produce a *green, white,* or *red* diamond on or near the price bar. This is a short-term trending system and is very good for scalping. The *green* diamonds show an *uptrend*, the *red* diamonds a *downtrend,* and the *white* diamonds show a potential *change of trend* coming. You can see these clearly in **Chart VSA 20. Chart VSA 20** is the 3-minute timeframe of the same information shown in **Chart VSA 19** (which is a 15 minute chart of the E-Mini S&P).

VSA CHART 19



VSA CHART 20

The *Up-thrust* can appear on Ultra High volume, high volume, average volume and low volume. The purpose of the Up-thrust is to catch stops of those that are short in a weak market, encourage buyers who see the price rising quickly and rush to get in. Often, breakout traders get caught by the Up-thrust because they often happen at pivot points or at resistance levels. The Up-thrust that has the highest probability of making you money will appear with the following rules, which should always be remembered:

- Before the '*Up-thrust'* has appeared you should see in the background a serious *Sign of Weakness*, such as a *Buying Climax*, *Supply Overcoming Demand*, *Supply Coming In,* or the *End of a Rising Market* (which I will show you). This will usually be apparent by looking back at 50 price bars.
- The market you are trading should be in a downtrend in at least 3 timeframes.
- Price action should be at, or near, the top of the downtrend channel in 2 timeframes.
- If using the TradeGuider system you should have at least 5 red diamonds on the shortest timeframe you are using. This is showing a short-term downtrend.
- If using the TradeGuider system you should have at least 3 red price bars on at least three timeframes, this is showing a medium term downtrend.

The highest probability trade set-up to the short side is when you see an Ultra High Volume '*Up-thrust'* after you have seen a serious sign of weakness such as a *Buying*

Climax. The *'Up-thrusts'* shown in **Chart VSA 19** are appearing on high volume, not Ultra High Volume. If these Up-thrusts were observed on Ultra High Volume the likelihood of a bigger downward move on price is greatly increased. When I describe a volume bar as being climactic, it simply means that the 'Smart Money' and the 'Herd' are all involved causing massive volume, which is identified by the TradeGuider program as *Ultra High Volume*.

When Ultra High Volume is seen on your charts it often marks the reversal point of a trend, or a pull back in the trend. This is why you should pay very close attention when you see Ultra High volume appearing because an opportunity to make money is presenting itself. The Smart Money leave footprints on your charts and all you need to do is recognize these footprints.

At point B on **Chart VSA 19** we have what is called a *Hidden Up-thrust*. Why is it hidden? Because if we examine the Up-thrust at point C, we can see that the entire Up-thrust bar is formed above the close of the previous bar. The Up-thrust formed at point B has closed below the close of the previous bar, as well as in the body of the previous bar, and is therefore called a *Hidden Up-thrust*. Both of these Up-thrusts are in the right place.

What do I mean by, 'in the right place'? In a rising market where you have signs of strength in the background, you will often see what looks like an '*Up-thrust'* appearing. The individual bars will look similar to the bars at point B and C on **Chart VSA 19**. However, if there are signs of strength or climactic buying signs have appeared and the market is going up, then the Up-thrust is in the wrong place. To take a short trade when an Up-thrust appears, you must see climactic selling in the background just like the example in **Chart VSA 19**.

It is much like going to arctic and seeing a polar bear on the ice. The polar bear is in the right place. However, if you are sunbathing on a beach in Hawaii and a polar bear walks right by you, then that polar bear is definitely in the wrong place - you better hope it escaped from the zoo, or else you're just hallucinating!

Remember, looking for '*Up-thrusts'* is like looking for polar bears in the arctic. Look for '*Up-thrusts'* that have appeared AFTER a serious sign of weakness, for less risky trade should be in a downtrend. (On a Point & Figure Chart, the presence of an *'Up-thrust' is graphically very obvious and therefore easier to see than on a conventional chart.)*

<u>The Buying Climax</u>

A '*Buying Climax'* is an extremely powerful *'sign of weakness'* and will often mark the top of a market. When *a 'Buying Climax'* is seen, it will come after a bull run has taken place, so it will appear in an uptrend. Whenever *'climactic action'* appears on your charts it will appear on High, or Ultra High, Volume. The higher the volume, the better. This shows that both the 'Smart Money' **and** the uninformed 'Herd' have become extremely active. The *'Buying Climax'* always appears on an up bar (a price bar that has closed higher than the preceding bar). The spread of the bar will be wide and the closing price will be near the middle of the bar.

The *'Buying Climax'* occurs because after a period of rising prices in a bull market, the 'Herd' is afraid they are going to miss out on the next move up. Usually, this will be accompanied by some type of 'great' news about the instrument that is being traded. In stocks, it's usually great earnings reports, or some sort of rumor about a *buy-out* or merger. As the price rallies, the 'Smart Money' sell into the rush of buy orders coming in, and due to the feverish activity, the spread of the bar widens.

Only one thing can cause the price to close in the middle of the bar when the volume is Ultra High, and that is **sell** orders satisfying the 'Herd's' buy orders from the 'Smart Money'. After you see this '*Sign of Weakness*', you will often see the market move sideways for 10 or 20 bars with additional *Signs of Weakness* appearing. The most common one is *'No Demand',* which we'll look at next. After I see a *'Buying Climax'*, I wait for the market to penetrate the low of the *'Buying Climax'* bar.

This usually happens within 25 bars, but note that sometimes:

- The market can turn quickly, in *<u>under 25 bars</u>*
- At other times it can take longer.

There is no exact science here. You must read the chart bar and watch as it forms and wait for the trend of price to move down away from the low of the *'Buying Climax'* bar. Once the market begins turning down and forming a downtrend, we now look for *'Up-thrusts', 'No-Demand'* bars, or *'Supply Coming In'.*

Remember, selling happens on up bars and so does lack of demand. When you see high or Ultra High Volume on up bars, the 'Smart Money' players are actively selling and that is causing the High/Ultra High volume. If you see low volume up bars in the same price area where you observed the High/Ultra High Volume, this **confirms** the weakness. This is because the low volume on the up bars shows that the 'Smart Money' are withdrawing their interest in higher prices.

They are not active, which can be seen on the chart by the low volume on the up bars. *Low volume* is low activity, and it is the activity of the 'Smart Money' we are interested in. If they are not interested in higher prices, then neither should you be. Why are they now *<u>not</u>* interested? They have seen the *'Buying Climax'* in the background.

'Buying Climaxes' appear in all markets and in all timeframes. If you observe a *'Buying Climax'* on a one minute futures chart the resultant move will be a lot less in terms of points than if you observe a *'Buying Climax'* on the weekly chart of the same instrument. The effect will be the same in that the market will fall, because selling has taken place in the *'Buying Climax'* bar. Since all markets work on the law of *Supply and Demand,* the **VSA** principles in this book will apply in any timeframe, even on tick charts. Whether you are

scalping the market or holding longer-term investment portfolios, Volume Spread Analysis can be applied to your style of trading and chart analysis.

Wyckoff discussed the market moving in *phases,* and if you observe the charts closely you will see he was absolutely correct. Knowing which phase of the market you are trading in is so important that I have dedicated a whole chapter to this very subject.

When a *'Buying Climax'* is observed, it is known as the beginning of the *'Distribution Phase'.* In order to distribute, the 'Herd' need to be buying at the new highs that are being made.

A genuine *'Buying Climax'* as described by Wyckoff, should be into fresh new ground, meaning that there is no price action in the same area for ***at least 500 bars or more*** in any timeframe. In Volume Spread Analysis we often see *'Buying Climaxes'* being identified by the TradeGuider computer program even though the Buying Climax has appeared within 500 bars of price action. These should not be ignored because they are still considered a powerful *'Sign of Weakness'*.

As with many Volume Spread Analysis trade set-ups, we must wait for *confirmation* before jumping in to the trade. This requires <u>patience</u>. After a *'Buying Climax'* has been observed, the market may go up further, even though selling has begun by the 'Smart Money'. This is due to *momentum*.

Let me give you an example of *momentum*:

> If a car is driving up a steep hill and the driver has his foot flat down on the gas peddle, the car will gain speed slowly until it meets the limit of the engine's capacity to go faster. But, if the driver removes his foot from the pedal, does the car coast to a halt instantly? Of course not! *Momentum carries him further forward!*

If the brakes aren't applied, and no more gas is pumped into the engine, the car will be propelled further up the hill by the momentum that was generated by the earlier application of gas. The car will eventually slow down to a crawl and then stop, and this is exactly what we see happening on a chart. The market simply runs out of energy to go further and it coasts slowly to a stop at new highs.

CHART VSA 21

At this point, the market doesn't suddenly collapse, but you will often see the market move sideways for a few bars with narrowing spreads on the bars. Then, as the downtrend begins, you will observe additional phases of *'distribution'*. But remember, these phases will appear on *up bars* as the market is trying to rally in a downtrend. This can be seen clearly in **Chart VSA 21**, a weekly chart of a UK stock. Note that after the *'Buying Climax'* at point A, the stock takes two months to begin the decline. Shorting opportunities, or places to buy puts, (for those who are options traders), are evident at points C, D, and E. We see examples of *'Up-thrust' s,* 'No Demand', and 'Supply Coming In', all of which are identified by proprietary indicators in the TradeGuider software.

Note that the bar at point B is **extremely** important because it is confirming the weakness. At point B we have a down bar with 'Average Volume', but the spread is very wide. Most importantly, we see this bar *after* the *'Buying Climax'* and this wide range bar takes out all the price action that had been acting as prior support for the previous 7 months or so. This is a gotcha! bar and it locks weak holders who are long into a bad trade.

If you see *'No Demand'* at this same level in the future, which we can clearly identify at point C on **Chart VSA 21** (where the red TradeGuider indicator is shown) and again highlighted by the two red arrows in **Chart VSA 22** below, then this now becomes a high probability trade to short this stock. Remember, this set up will appear in ALL markets, regardless of timeframe, so study it carefully.

CHART VSA 22

No Demand

There are 3 types of No Demand bars that will appear on a chart:

- No Demand in an uptrend
- No Demand in a downtrend
- No Demand at market tops

The best place to take a short when you see a *'No Demand'* bar is in a downtrend, especially after you have seen some sign of *'climactic action'* such as we just saw in the explanation of a *'Buying Climax'*. More aggressive traders who use Volume Spread Analysis, including Tom Williams, will immediately short a *'No Demand'* bar if it comes after a serious sign of weakness such as the *'Buying Climax'* or the End of a Rising Market (which we will look at next because it is my favorite indicator to go short on).

'No Demand' has a good probability of being a good short trade especially if it is at the same price level of the climactic bar because the market will not rally and breach the climactic bar on very low volume.

So what exactly does *'No Demand'* actually mean from a Volume Spread Analysis perspective?

It simply means that there is no interest in higher prices from the 'Smart Money' in the timeframe in which you see the indicator appear. Like many, but not all, TradeGuider indicators, 'No Demand' requires confirmation, and *'No Demand'* is confirmed when the next bar closes LOWER than the *'No Demand'* bar. However, here is where a lot of new traders learning Volume Spread Analysis get confused. As I have already mentioned, *'No Demand'* bars come in three types:

- *'No Demand'* in an uptrend,
- *'No Demand'* in a downtrend and
- *'No Demand'* at market tops.

Lets first examine a chart where we observe *'No Demand'* in an uptrend.

I highly recommend you DO NOT try to take shorts when you see *'No Demand'* in an uptrend because although the indicator will often cause the market to go down a few bars, it can quickly rebound upwards due to the trend of price and because *the uptrend will have been the result of some climactic action on down bars in the background,* it will make the market a <u>strong </u>market and not a weak one. Remember:

- *Climactic Buying* is the 'Smart Money' selling to the rush of buying from the 'Herd' and happens at market tops ***-it is bearish.***
- *Climactic Selling* is 'Smart Money' buying from the rush of selling from 'the Herd' and happens at market bottoms, often accompanied by very bad news - ***it is bullish.***

CHART VSA 23

'No Demand' **In An Uptrend – Is** ***Not BEARISH***

In **Chart VSA 23** we can see a clear example of *'No Demand'* in an uptrend after *climactic buying* has taken place. This is a 1-hour chart of the E-Mini S&P futures continuous contract. At point A, we see a wide spread down bar appear. The market fell from the prior day's high and the market opened and tried to move lower than the previous day's close. Ultra High Volume is seen at bar A, which is often evident when the major markets open around the world. That's simply because that is when the 'Smart Money' become extremely active.

Because the market goes lower than the previous day's close and the volume is Ultra High, many breakout traders go short, wrongly thinking that this feverish activity on a down bar is selling, but bar B confirms there must be more buying in bar A because it rallies away and closes above the entire spread of bar A.

This is called a *two bar reversal* and will be covered in the chapter on *signs of strength.* The result of these two bars is that the market becomes a strong market and begins to rally. At bar C, the TradeGuider software shows a red indicator. This is *'No Demand'* in an *uptrend*. The uptrend is clearly identified in TradeGuider by the software's two proprietary trending systems that show green diamonds and blue bars.

'No Demand' has the following characteristics:

- *'No Demand'* is seen on an up bar, a price bar that closes higher than the bar behind it.
- The spread of the bar is narrow.
- The closing price should be on the high of the bar, but we do see *'No Demand'* bars that close in the middle or on the low, the principle of *'No Demand'* in an uptrend is still valid as the long as the close of the current bar is higher than the close of the previous bar.
- The volume will be less than the previous two bars.

At point C on **Chart VSA 23**, the TradeGuider software causes a **VSA** indicator to appear. It is colored red and it is called *'No Demand'*

As you learn Volume Spread Analysis, you will observe that just 4 bars back there were two very strong signs of strength on High Volume. If you have the TradeGuider software, you will have a dialogue box that appears when you left mouse click, and it explains the situation that the indicator should appear in.

The text in this dialogue box will indicate that you should see WEAKNESS in the background, but in this example we have strength, and we are starting an uptrend. Also, to confirm a *'No Demand'* bar, the next bar should be down, but the next bar closes UP, so it is not confirmed (in other words, we have a polar bear in Hawaii - its in the wrong place!) therefore, we can ignore it.

If that indicator appeared in a downtrend after a *'Buying Climax'*, we would give that great attention, and place a sell order BELOW the bottom of the *'No Demand'* bar in order to let the market come to you- you do not sell at market on *'No Demand'.*

Why? Because a *'No Demand'* bar will often be followed by an 'Up-thrust' and that will put you under pressure, or stop you out.

If you see a *'No Demand'* bar and then it is followed by an 'Up-thrust', move your sell order to below the bottom of the 'Up-thrust' and again, wait for the market to come to you just as you would have done with the *'No Demand'* set up.

This should **always** be in a *downtrend!* (I cannot stress that enough).

At point D, we once again see an indicator that is identified as *'No Demand'* by the TradeGuider software, and in this case the next bar closes lower. Note that the lower closing bar never takes out the bottom of bar D and this is again in a strong uptrend - so ignore it.

'No Demand' short trades are higher probability in *downtrends.*

When I asked Tom why *'No Demand'* bars appear in *uptrends,* he said it was because the Smart Money have to buy on down bars at lower prices. So in an up move, they will withdraw interest at certain price levels because they want to buy at lower prices because they are bullish. That will, of course, result in low volume on the up bars; hence you will see the VSA *'Sign of Weakness'* in *uptrends* as well as *downtrends.* In *uptrends,* we want to pay close attention to *Signs of Strength,* not *Signs of Weakness.* That way, we are trading in harmony with 'Smart Money' and not against it.

'No Demand' **At Market Tops – Is BEARISH**

In an earlier chapter, we saw a very good example of *'No Demand'* at the top of the market on the weekly crude oil charts in 2008.

However, really good and obvious opportunities come when we see *'No Demand'* after we have seen *'climactic action'* at market tops, such as the *'Buying Climax'* or *'End of a Rising Market' indications.*

A 'No Demand' bar that appears subsequently within 5 bars of a serious sign of weakness, and into the new price action area, ***or*** *at an old resistance level, is validly considered 'No Demand', thereby confirming the Bearishness.*

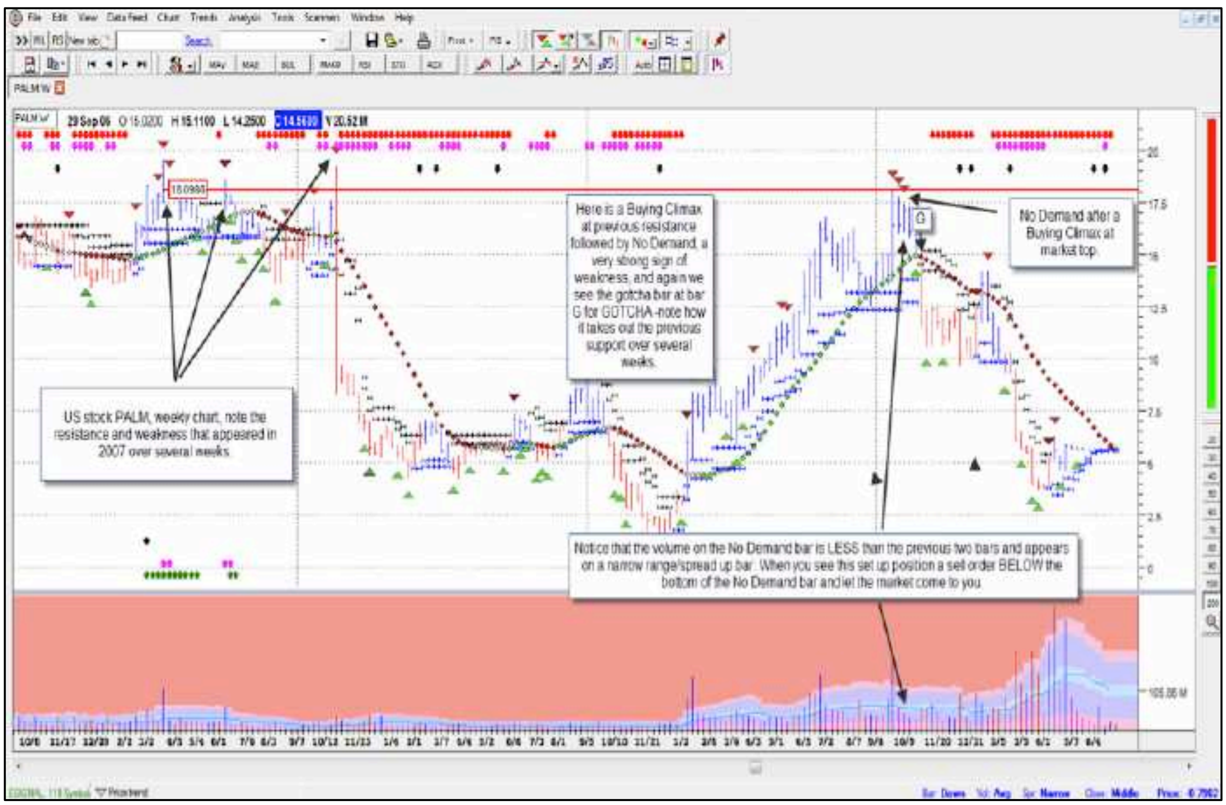
These set ups will often appear when news is good and can sometimes come after a bar that has "gapped up" which will excite the 'Herd' to buy at these tops.

If you do decide that you are going to sell the market on the *'No Demand'* indication, make sure you have a serious '*sign of weakness'* in the background, *usually within 25 bars,* and beware of an 'Up-thrust'. If you see 'Up-thrusts' after a serious *'sign of weakness'* it means these 'Up-thrusts' and also *'No Demand'* bars are CONFIRMING the weakness.

I used to get stopped out by these 'Up-thrusts' and Tom would encourage me to jump straight back into the market because he could now see the clear weakness appearing on the chart. There were times, even in the early days, where I would hesitate, only to watch the market plummet down after the 'Up-thrust' had stopped me out.

I consider trading these *'No Demand'* set-ups at market tops to be aggressive trading, but if you have all the indicators showing weakness ***appearing at previous resistance levels,*** then the probability of the trade working is greatly increased.

CHART VSA 24



On **Chart VSA 24**, which is the weekly chart of US stock PALM, we observe the resistance to the left of the chart. This stock fails to penetrate the $17.50 level at least 4 times over several weeks during 2007, then finally, we see a collapse in price of nearly $100.00 on a wide spread down bar closing near the low. At point G (for *Gotcha!*) on **Chart VSA 24**, we see a very good example of a bar that locks you into a poor trade if you had gone long on the *'Buying Climax'* bar. Many traders and investors are now totally confused about what is going on.

The stock had been in a rally for many weeks prior to the *'Buying Climax'.* Two bars after the *'Buying Climax'* we see *'No Demand'*. Here we see that *'No Demand'* is an UP BAR, which is a price bar that has closed higher than the previous bar, and the volume (i.e. the activity) is now LESS than the previous two bars, and its in the right place due to the *'Buying Climax'* in immediate proximity (*i.e. two bars prior*).

The *'No Demand'* is caused by the lack of buying from the 'Smart Money' because they sold two bars earlier, and evidently they are not interested in higher prices, the net result being that they withdraw their buying.

This causes the low volume seen on the *'No Demand'* bar.

CHART VSA 25

On **Chart VSA 25** we can clearly see the *'No Demand'* at point B. *(**Chart VSA 25** is the same chart as **Chart VSA 24**, just narrowed down to fewer bars).*

When we see this, we should be looking for confirmation of that weakness and we can see that we have a *two bar reversal* and a rejection of price at the low of the *'Buying Climax'* marked by the first red shaded area where a red *'sign of weakness'* has appeared. At point A we have an 'Up-thrust' immediately before the *'No Demand',* and that is very bad for higher prices.

***'No Demand'* In A Downtrend – VERY BEARISH**

When we see *'No Demand'* in a *downtrend,* especially after we have observed some sort of *'climactic action'* such as a *'Buying Climax'* or *'End of a Rising Market',* then these are going to be some of the best trade set ups to the short side.

When you see a *'No Demand'* bar in a downtrend do not immediately short at market, but place a sell stop a tick or two below the bottom of the *'No Demand'* bar. By doing this, you will avoid getting caught by Up-thrusts which will often follow a *'No Demand'* bar. Most traders who lose money in the markets chase the price, which means they are buying on up bars and selling on down bars, but professionals, the 'Smart Money', do not operate like that.

High volume means the 'Smart Money' are very active and low volume means the 'Smart Money' are inactive. In a downtrend, if 'Smart Money' professionals become inactive as the price rises, then they are sending a signal in the charts that lower prices are coming. That is what we call *'No Demand'* when we are using the Volume Spread Analysis methodology.

CHART VSA 26

On **Chart VSA 26**, we observe the stock HMV traded on the LSE attempting to rally at point A, but just look at the volume. There is *'No Demand'* where the red indicator is shown at point A, but the stock goes up for a few more days after the indicator appears and on each up bar the volume is lighter and lighter.

Had you placed a sell order at point A, where the *'No Demand'* indicator has been painted in by TradeGuider, and you placed your order as a sell order below the bottom of the bar as the stock gapped down six bars after the *'No Demand'* bar had appeared, you would have been in the trade to the short side. We have many of our customers who trade options that are using these set ups as well. In this instance, a put option taken where a ***VSA*** *'sign of weakness'* appears in this strong *downtrend* is going to put you in the money as the stock declines in price.

I highly recommend using a stop loss order and if you had entered a short trade at point A, the stop loss would be at the high of the previous point of supply, which is the top of the price bar where you see the Ultra High Volume coming in to the left of point A.

We have a secondary *'No Demand'* bar at point B and this is what I call a high quality *'No Demand'* bar - it is an up bar, the spread is very narrow, and the volume is clearly less than the previous two bars, and the next bar has closed lower *(which if you had entered a short here would take you into the trade).*

The trend is obviously down and you have this *'No Demand'* bar at point B re-approaching the area at point A where we saw our first *'No Demand'* bar. Also, where we had up bars on very, very light volume, telling us the 'Smart Money' were not interested in higher prices at this level previously. This up bar price action on low volume now is confirmed by *'No Demand'* at point B.

At point C, we have what I call a *high quality 'Up-thrust'* - its in a *downtrend* and into the area of *'No Demand'* at point B. The volume is Ultra High with the bar closing near its low and the next bar closes level confirming the selling taking place in the *'Up-thrust'* bar.

The 'Smart Money' are now actively selling at this level (hence the high volume on the *'Up-thrust')* because they know this stock is weak which is why they withdrew their interest to buy at points A and B respectively.

Always remember to look for confirmation. If you see *'No Demand'* before a massive *'Up-thrust'*, you can also place an order below the *'Up-thrust'*. You have confirmation of the weakness.

<u>The *'Two Bar Reversal' & 'Top Reversal'*</u>

A *'Two Bar Reversal'* or *'Top Reversal'* is seen on the action of two bars. Sometimes we see Top Reversals actually causing a change in trend after a strong uptrend. A *'Two Bar*

Reversal' that is observed at prior resistance areas is also a *'Sign of Weakness'* and again will often change any uptrend.

A *'Two Bar Reversal'* or *'Top Reversal'* is made out of an up bar (price bar closes higher than the previous bar) followed by a down bar on a wide spread closing at, or near, the low of the bar. If the volume on the first up bar is Ultra High, that means this is a very weak bar, so give more weight if the volume is Ultra High.

CHART VSA 27

The example shown in **Chart VSA 27** shows a *'Two Bar Reversal'* at previous resistance. In this example, the Ultra High Volume is on the down bar, and this is also to be considered a very weak bar. Note that when a *'Two Bar Reversal'* is formed, it doesn't matter whether the Ultra High Volume is on the first bar or the second bar because we can see that 'Smart Money' people have become active. When we see the close of the second bar happen **below** the low of the first bar, we have to conclude that there are more sellers contained in these two bars and that the Ultra High Volume is showing that supply being present.

As we have seen, the markets work on the principle of Supply and Demand, and if there is too much supply present, especially at areas of prior resistance to higher prices, then the shorting opportunities will become apparent.

Note that the Ultra High Volume down bar produces a red 'Sign of Weakness' in the TradeGuider software program. If *strength* appears on Ultra High Volume down bars, why does the TradeGuider software correctly identify this as Two Bar Reversal and a sign of weakness, resulting in a significant fall in price?

Well, that's the genius of Tom Williams***, because not every Ultra High Volume down bar is a sign of strength,*** and Tom has programmed in rules that filter the indicators based on parameters which include at what part of the trend the indicator should appear.

In this instance, this Ultra High Volume bar has appeared after an *uptrend* and at resistance, and the widespread down has wiped out the prior closing price support of the previous 20 bars.

If this Ultra High Volume down bar had appeared after a downtrend in prices, especially if at previous support, then this would very likely have produced a sign of strength, but in this instance it is shown as a weak bar because of its proximity to the trend and also because the indicator has seen the action of two bars. The second bar collapsing to close near the lows shows a very negative reaction to the *'effort to rise'* on the first bar.

That is not something you see in a strong market.

After I see a *'Two Bar Reversal'*, I like to wait for confirmation as the market once again approaches the low of the second reversal bar. As you can see in the example in **Chart VSA** 27, a red indicator appears fourteen bars after point A. Can you guess what that is?

'No Demand' after a *'Two Bar Reversal'* this is a great place to take a short in harmony with the trend and approaching the low of the second reversal bar, which will now act as resistance in the future, as you can see on **Chart VSA 27**.

A *'Top Reversal'* is seen quite rarely, but it's a ***very serious*** *'sign of weakness'* when it appears.

A *'Top Reversal'* happens after a long period of rising prices in a bull market. The volume on the first bar should be Ultra High as this adds to the weakness. The second bar will close ***lower*** than the bottom of the first bar. The markets work on universal laws and a *'Top Reversal'* shows that outcome when the effort to rally fails miserably, as observed on the close of the second bar of the reversal *(this demonstrates the 'Effort vs. Result' price dynamic).*

The *'Top Reversal'* shows heavy supply on the first bar, and when we observe the second bar closing on, or near its low, the result was a collapse in price on the second bar. 'Smart Money' had to be selling heavily in the high volume up bar to cause the collapse and lower close of the second bar.

The market will often fall quite rapidly after this principle is seen, so it's very important that you recognize this when it appears. The news will probably be good when this appears on your chart and you will probably feel bullish, but beware, your instincts about what you are hearing in the news and in the media will mislead you.

Let the chart be your guide and always remember that markets *just don't like Ultra High Volume coming in on up bars.* Go and check your charts for yourself and you will see this is true in the majority of cases.

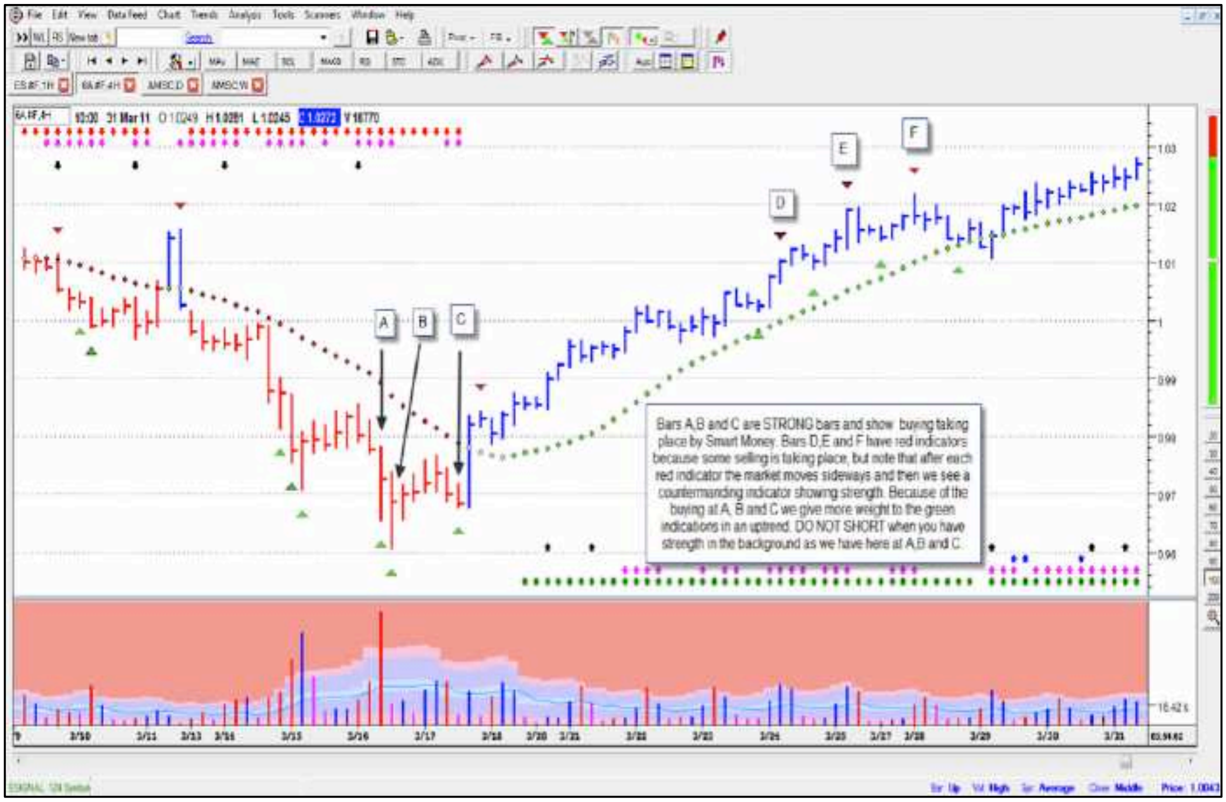
After you have seen a *'Top Reversal'* you can go short on any Ultra High Volume up bar that appears, or any very Low Volume up bar that appears as the downtrend begins.

Tom and I always laugh when we point this out because it sounds as though we are contradicting ourselves, namely, *shorting on high volume* ***up bars*** *and also low volume* ***up bars,*** but in fact its very logical. If the 'Smart Money' have been actively selling, then volume is Ultra High because volume is really activity. When a few bars later the market attempts to go up and the volume is now low, this tells us that there is now ***low activity*** and that is because 'Smart Money' have sold on the Ultra High Volume bar and are now withdrawing their interest as the price tries to rally. This is very evident in **Chart VSA 27**.

'Supply Coming In' & 'Supply Overcoming Demand'

In the TradeGuider software program this is one of the most common indicators to appear, and detects high and 'Ultra High Volume' on up bars (to reiterate, an up bar is one that closes ***higher*** than the preceding bar). If the spread (i.e. range) is wide and the very next bar closes *lower*, then it confirms that selling has taken place on the previous high or 'Ultra High Volume' bar.

CHART VSA 28



You'll see this indicator appear in *uptrends*, *downtrends*, and in *sideways moving markets*, but it is only a trade to the short side in a **downtrend**. Do not short this indicator if you see strength in the background *at least 50 bars back,* and the market is trending up. In **Chart VSA 28** we see 'Supply Coming In' in an uptrend with strength in the background at points A, B, and C *(we will be covering the **VSA** signs of strength in the next chapter)*.

When we see strength in the background and an uptrend is clearly in place, it is inadvisable to place short trades. We see at points D and E, *'Supply Coming In',* and the market (in this case the currency futures contract 6A which is the cross currency pair of the United States Dollar and the Australian Dollar) responds by moving sideways for a few bars but never penetrates the low of bars D and E. We then see what's called a *countermanding indicator,* that appears at the place where we have seen a *'Sign of Weakness',* which is almost immediately followed by a *'Sign of Strength'.*

Red Indicators In An Uptrend & Green Indicators In A Downtrend

The TradeGuider software is programmed to detect imbalances of Supply and Demand. That is why you will often see red indicators in an uptrend and green indicators in a downtrend. Since human beings are very visual we tend to see red as stop, or in the case of charts - sell, and green as go, or in the case of charts - buy. If using the TradeGuider software or our add-in studies, please remember that your best trades should be in harmony with the trend.

If you observe *'Supply Coming In',* the market is in an uptrend, and has signs of strong buying in the background, then watch to see if the market will subsequently ***'Test'***. If successful, a *'Test'* is a *'Sign of Strength'*. We shall see this in the next chapter. In **Chart VSA 28**, we see *'Supply Coming In'* at points D and E, and an Up-thrust at point F.

However, these are all "polar bears in Hawaii". If these *signs of weakness* appeared in a downtrend after some climactic action showing 'Smart Money' selling, then these would be great short trades. But here we have *'climactic buying'* by 'Smart Money' *within 50 bars* of these *signs of weakness* appearing and we have a clear **uptrend** in place. We also then see low volume down bars where the four green indicators are shown and this tells us that as the price falls, the volume is low showing **no selling pressure** from the 'Smart Money'. This means they are not active as the price falls because they are bullish having bought at points A and B and having seen a very successful *'Test'* at point C. There has been some selling at points D, E, and F and the TradeGuider software has correctly detected that, but because of the strength in the background and the clear uptrend, *these signs of weakness should not be a place to short.*

CHART VSA 29

Chart VSA 29 shows the best place to short *when 'Supply Coming In'* appears. Note that if you are using the TradeGuider software or add-in studies, by left clicking on the indicator, a dialogue box pops up giving detailed information about the indicator.

By reading these boxes *(which were written by Tom Williams with the assistance of UK Professional Trader and Fund Manager Philip Friston, who has been successfully investing using* ***VSA*** *for over 20 years),* you will greatly decrease the learning time to mastering chart reading using **VSA**. Note that the *'Supply coming In'* indicator is at the top of the downtrend channel of the chart, which is the daily chart of the UK FTSE 100 stock, Barclays. This indicator is confirmed because the very next bar closes lower than the indicator bar. It's a polar bear in the Arctic - it's in the right place! High or *Ultra High Volume* bars in a downtrend should get your attention, especially if they are at the top of a downtrend channel.

If you remember that 'Smart Money' sell into up bars – it'll serve you well whatever you trade.

When I see *'Supply Coming In',* as with many of the **VSA** signs of weakness, I want to see the market move below the low of the bar on which the weakness has appeared. If I see a sign of weakness, the market moves sideways, and we subsequently see *'No Supply'* or *'Test's*, then this is a sign that the market is not ready for a decline and may indeed have another leg up.

Tom taught me *that a trend in price often goes on a lot longer than you may think, that is why trading in harmony with the overall trend* ***on at least three timeframes*** *will often keep you out of poor trades.*

The '*End of a Rising Market*'

This is my favorite indicator. Although quite rare, when you see it, you know the bull move that will accompany this indicator is coming to an end and the selling by the 'Smart Money' is taking place aggressively. When this indicator appears on a weekly chart of a stock or commodity, the news that will accompany this indicator will be very good. Everyone will be bullish and looking to get into the market, when in fact, they should be looking to go short.

You will see this indicator on smaller timeframes, even a one-minute chart, and if you see *'No Demand'* after you have seen the *'End of a Rising Market',* this will confirm the weakness. Please see **Chart VSA 3**, JP Morgan for a good example.

The volume accompanying this set-up will be Ultra High and most importantly, the spread (range) of the price bar will be narrow. The price should close in the middle of the bar, and it will be an up bar, which will close higher than the preceding bar.

This bar should be into ***fresh new ground*.** What we mean by fresh new ground is that there should be *no price action within 500 bars minimum.* Also, there should be no old resistance levels because the chart has made new highs. Having said that, I have seen the '*End of a Rising Market'* indicator appear at old resistance levels and work extremely well to the short side.

The narrow range of the bar is caused by the mass of sell orders from the 'Smart Money' satisfying the rush of buy orders from the unsuspecting 'Herd'. As prices have risen day by day (or minute by minute depending on your chart and timeframe), the 'Herd' fear missing out on this never ending bull move, which they think is going on and on, so they buy at these market tops. This indicator often causes the market to move sideways for several bars, and then suddenly you will get what I call the *Gotcha!* Bar. This is a High Volume bar with a wide spread (range) that closes on the low (at the bottom of the bar) and takes out many of the previous support levels that were observed in the bullish move.

Since this set-up appears when everyone is bullish, it catches many, many traders and investors out and costs them a lot of money. Remember, the chart NEVER LIES, so do not trust your gut instinct, do not trust what you hear or read in the media, ignore the rumors and "hot" tips that will be coming at you from various quarters - simply **trust your chart.**

If we could chart the housing market in the United States in late 2009, we would have seen two very clear **VSA** principles - the *'End of a Rising Market'* followed by lots of *'No Demand'* and a collapse in prices. That's exactly how this works in the stock market, futures market, commodities market and even the **Forex** market. An 'Ultra High Volume' up bar on a **narrow spread into fresh new ground**, accompanied by very good news about the instrument being traded is a signal from the 'Smart Money', is an alert that they are selling what they bought previously at much lower prices. ***Ignore this signal at your peril!***

To short this, wait for the market to turn and look for the 'Gotcha' bar which confirms the weakness, then short on any *'No Demand'* bars or *'Up-thrusts*' that you identify. The TradeGuider software has a scanner that scans for **VSA** indicators of strength and weakness, so if you see a cluster of indicators at the right edge of the chart and one of them is the *'End of a Rising Market'*, you have a very profitable short opportunity awaiting you. As all around you are buying, you will be quietly smiling having this knowledge and just waiting for that 'Gotcha' bar, which will trigger the short trade set up.

CHAPTER 7

The Key Principles of the VSA Methodology Part 2: Strength

VSA SIGNS OF STRENGTH

The 'Shakeout'

A '*Shakeout*' does exactly what the indicator describes. It shakes out as many traders/investors as possible before a **bull** move then takes place. It is a powerful sign of strength. '*Shakeout*'s are used as an opportunity by 'Smart Money' to dislodge as many traders who are in a long position as possible and to trigger as many stops as possible.

The '*Shakeout*' will often mislead many traders who see the widespread down bar, often accompanied by bad news, as a sign of weakness, when in fact it is a sign of strength.

The biggest '*Shakeout*' we observed during 2010 was the May 6th flash crash, but what was interesting about this '*Shakeout*' is that it was **not** accompanied by any bad news on that day. In fact, as we have seen even the mainstream media had great difficulty trying to make sense of what happened as evidenced by the comments of Maria Bartiromo on CNBC that day. However, what we indeed witnessed on the 6th of May was a perfect example of a '*Shakeout*' accompanied by *'Ultra High Volume'*; in fact, the highest volume seen during 2010 was seen on 6th May flash crash day.

So how do we trade a '*Shakeout'?*

A '*Shakeout*' will often occur after an *accumulation* phase has begun. *Accumulation* is simply 'Smart Money' buying the underlying instrument at lower prices because they have seen an opportunity and are in fact bullish*. Accumulation* in any market will take time. An opportunity arises where the market can be marked down for buying and the 'Smart Money' will absorb any traders that are being shaken out and are selling. They will buy into the panic selling. The Ultra High Volume that accompanies a '*Shakeout'* is showing us that both the 'Smart Money' and the 'Herd' are active. This is creating the Ultra High Volume. Remember that whenever we see Ultra High Volume, whether it's on an up bar or a down bar, SUPPLY will still be present. This supply will need to be tested in the future *before the market begins the bull move.* Often after an initial '*Shakeout' the* market actually falls further, and we start to see *'Stopping Volume'* and then *'No Supply'*. I will cover these signs of strength next. If we look at the '*Shakeout*' in the DOW on May 6th we can observe these principles in action.

CHART VSA 30

In **Chart VSA 30**, which is a Weekly chart, we can clearly see that the Dow is in a strong weekly uptrend prior to the '*Shakeout'* at point A, which is the week of the Flash Crash. The area highlighted in green is very important because we see that after the '*Shakeout'* week, the market indeed falls, but as it falls over the next six weeks (*note the volume*) it is getting lighter and lighter as 'Smart Money' withdraw their interest in lower prices. That's because they have shaken out the market and they fully expect higher prices.

In fact, the Dow rallied nearly a thousand points within a year despite all the bad news about the economy and world troubles. In many of the webinars and live seminars I hold, the audience were polled and nearly all were bearish during this time. The 'Smart Money' players were bullish and they were buying at lower prices. Remember 'Smart Money' ***buy*** on down bars!

When you see a '*Shakeout*', its your early warning that the 'Smart Money' are active. '*Shakeout*s' work best if you are already in an *uptrend* since buying or *'accumulation'* has already taken place. I like to look at the trend on the larger timeframe that I am trading, and in stocks or indices I start with the Weekly trend and put a trend channel in place. On **Chart VSA 30** we see at point C a perfect entry to go long. It is a down bar on this Weekly chart, but this bar is very important because it meets the following criteria to buy:

- Price action is now above the high of the '*Shakeout'* at bar A (that's important because as price action penetrates the top of the '*Shakeout'* bar we can conclude that 'Smart Money' are now in control and are ready for higher prices.)
- The overall trend is UP
- Bar C is a down bar (a price bar that closed ***lower*** than the previous bar.)
- Bar C has a *narrow spread.*
- The volume is the lowest seen for several months (in fact it is ULTRA LOW because of the '*Shakeout'* in the background this now becomes very bullish. Volume is activity. This low activity is a tell tale sign that 'Smart Money' are not interested in lower prices.)
- The very next bar closes **up** (that is important. It is confirming the strength and the next bar is up on what I call *healthy volume*. It is high but not Ultra High, and seen after bar C, which is very bullish).

You will note that the **VSA** principle, which is *'No Supply',* appears on the Weekly chart in late November. Is there an entry on the daily chart that can give us a **buy** set-up a little earlier to increase our profit potential?

CHART VSA 31

In **Chart VSA 31**, we get a clear set of principles that give a great entry to go long at point F.

Lets go through each bar from point A, which is the 6th May "Flash Crash". We note that after the '*Shakeout'* the market continues to fall on both the Daily and Weekly chart. This is very common as sellers continue to sell or leave the market. They have been totally confused by their losses and sell what they have left. The 'Smart Money' continue to absorb this selling and at point B we have a *'Test'* after a '*Shakeout'*. The *'Test'* in this case, is on high volume, and because the volume is still high, the market falls another leg to point C. Again, the volume is fairly high on this day, but at point B we get a clear Low Volume *'Test'* of a '*Shakeout'*. This is what I am looking for - a Low Volume *'Test'*. It is confirmed because the next bar has closed as an up bar, a price bar that has closed *higher* than the Low Volume *'Test'*.

At this point, would this be the place to buy?

No, because we can see that the market is still trending down towards the bottom of the trend channel and we want to buy in an UPTREND, not when the trend is down. Do we have customers who take risk at these areas? Yes, we do, and as you get more experienced with Volume Spread Analysis, you may well want to take aggressive trades. But first, I want to teach you High Probability, Low Risk entries (which means you will have to be patient and wait for the principle to set up). At point E, we make a higher low and start to attempt to trend up, but we have not yet exceeded the high of the '*Shakeout'* at bar A.

I am often asked if you can mark the *closing price* of the '*Shakeout'* bar and wait for that to be tested in order to go long from there. The answer is yes, its just more aggressive. I like to wait for the market to move above the top of the '*Shakeout'* bar and then I look for a *'Test'* that is successful (the next bar must close ***up***), a *'No Supply'* bar, or a *'Test in a Rising Market'.* At bar F, we have everything that meets my criteria for a long trade. We have a test that is successful and above the high of the '*Shakeout'* bar.

Note that I also have at least 5 green diamonds and 5 green bars that show me the TradeGuider software is indicating that an uptrend is forming. With the '*Shakeout'* in the background, this makes it a very good entry to buy or go long. As you will see in **Chart VSA 33**, the same principle that I have shown in the futures market (JPY/USD) contract appear in the 4H timeframe of the **Spot Forex** chart. We see '*Shakeout'*s followed by *'No Supply'* very often in the major currency pairings and because these contracts are so liquid, the resulting moves can be very profitable.

At The Best of Wyckoff seminar that we held in Florida in June of 2010, I was already stating that I was bullish about the market because of the '*Shakeout'* and I fully expected higher prices. You can view the videos, including my presentation where I talk about the '*Shakeout'* in foresight (not hindsight), by visiting www.bestofwyckoff.com. I realize that many traders and investors often think it is easy to read charts in hindsight, but if the **VSA** principle is there in hindsight, it must have been there at the right edge of the chart. Unless you can read it, you become a little contrarian and therefore miss the opportunity.

Fortunately, we do live trading sessions and record all our presentations about the current market conditions in our **VSA** Club. Tom Williams and Fund Manager, Philip Friston run the **VSA Club.** We have regular guest speakers, including world-renowned Wyckoff experts, David Weis and Dr. Gary Dayton. In the Club, we call the market in foresight and we use our real trading accounts live with our members.

CHART VSA 32

A '*Shakeout'* can occur in any market and in any timeframe, including the Forex market where they are very common, as seen in **Chart VSA 32.** Remember, after you see a '*Shakeout'* wait and see how the market responds. If the market moves sideways and moves above the top of the '*Shakeout'* bar, then higher prices can be expected. A '*Shakeout'* on a high timeframe, such as a Weekly chart will have a dramatic effect on price we have observed after May 6th 2010's giant '*Shakeout'.*

'No Supply' & 'Test in a Rising Market'

'No Supply' and a 'Test in a Rising Market' are my favorite indicators to go long. There are some important criteria I apply before entering a trade:

- There must be a clear uptrend in place in at least three timeframes if trading intraday, and at least two timeframes if trading end of day. As a guide, I use the daily and weekly for stocks and commodities end of day, and if intraday trading FOREX, I use the 4-hour, the 1-hour, and 15 minute charts. For futures trading the e-Mini's, I use a 30 minute, 15 minute, and 5 minute for the e-Mini Dow and S&P, and a 15 minute, 9 minute, and 3 minute for the Nasdaq (because the Nasdaq often leads the market and moves quicker).

- There must be a clear sign of strength showing 'Smart Money' buying in the background. For background, I usually go back at least 50 price bars in my timeframes, paying the most attention to the largest timeframe first and looking for my entry on the smallest timeframe. If I see a *'Selling Climax'*, *'Bag Holding'*, or a violent '*Shakeout'* on Ultra High Volume, then this will add to the strength in the market.
- If using the TradeGuider software or add-in studies, then I want to see at least 5 green diamonds and bars in at least two timeframes *(note that you can change the color of the bars, I use blue bars in my TradeGuider RT program and green bars in my TradeGuider EOD program).*
- The market must have moved **above the top** of the *'climactic bar',* regardless of whether it's a '*Shakeout',* a *'Selling Climax',* or *'Bag Holding'*.
- The *'No Supply'* bar will be a down bar. The volume will be low (or even better, Ultra Low).
- The next bar will be an up bar, on an increase in volume either average or high (but not Ultra High). If the volume is Ultra High expect to see further testing before the market moves up.

I do not place a market order when I see a *'No Supply'* bar. I place a buy order a few ticks ABOVE the *'No Supply'* bar so I let the market come to me. It is actually the very opposite of shorting on *'No Demand'.* In fact you will observe that all the signs of strength are the inverse of the signs of weakness. If you observed a chart that was full of weak bars and turned it upside down, the weak bars would now look like strong bars using **VSA** principles. **Chart VSA 33** shows a clear *'No Supply'* bar that is in the right place.

CHART VSA 33

At point A, we have an Ultra High Volume '*Shakeout*'. The spread of the '*Shakeout*' is massive and the closing price is on the high of the '*Shakeout*' bar. There is **strength** on this bar that will need to be tested and as a result, the stock **'churns'** for four months. Churning is very common after an *Ultra High Volume* bar appears. The 'Smart Money' players bring the price back down into the range of the '*Shakeout*' bar for more buying to test the supply seen at point A and also on the bar immediately after point A (hence why we see some Ultra High Volume down bars and Low Volume down bars).

At point B, we have an Ultra High Volume down bar. The very next bar closes as an up bar, showing us there is more buying going on at bar B. At Bar C, we see a classic example of a *'No Supply'* bar. It is a down bar – (*a price bar that has closed **lower** than the bar behind it).* The spread of the bar is narrow. The bar closes on the low of the bar near the bottom of the bar. The volume is Ultra Low and most importantly, the volume is **less** than the previous two bars. The next bar closes higher on a healthy increase in volume, but not Ultra High Volume.

I have the TradeGuider diamond trending system and bar color trending system both green and meeting my criteria. This is a great trade set-up to buy the market and go long, but remember, when we see a *'No Supply'*, put an order a few ticks above the *'No Supply'* bar and let the market come to you.

This is now a Polar Bear in the Arctic because you have **strength** on the *'Shakeout'* bar. **The *'No Supply'* bar is in the right place.** The Apple stock rallied from this bar to a new high of $364.90 from the indicator bar, which was closed at $278.64. Remember that this principle is a high probability long trade when you have a serious sign of strength in the background.

Bag Holding

If you ever see this indicator appear, its a very powerful '*Sign of Strength'*, but is fairly rare. This is the exact opposite of the *'End of a Rising Market'*, which of course, is a '*sign of weakness'*. This indicator will appear after you have observed a bear market, or have had a dramatic fall in price in the instrument you are trading. There should be a very clear downtrend in place. If the market is gapped down when this indicator appears, then this just adds to the strength. The spread of the bar will be narrow and the price will close in the middle, or high of the bar. Some bad news will accompany this indicator if trading stocks or commodities. The volume will be Ultra High.

What is happening is that the *'Smart Money'* have seen a great opportunity, often news driven, to buy an instrument at prices that are now extremely attractive. The *'Herd'* will be panic selling due to the news and the *'Smart Money'* will be buying into all the selling, which caps the bottom of the market. This causes the narrow spread (range) on the bar, and the close being in the middle or on the highs.

For every sell order coming into the exchange, a buy order from *'Smart Money'* is satisfying that order. This is very bullish and will often result in an immediate *change in trend*. As a word of caution, on the majority of occasions I have seen *'No Supply'* or *'Testing'* follow subsequently.

If Tom Williams sees *'Bag Holding',* he would immediately go long, whereas I wait for a definite change in trend, followed by a *'No Supply'* bar, or a *'Test in a Rising Market'.*

Selling Climax

A *'Selling Climax'* is a very powerful '*Sign of Strength*'.

After a period of falling prices in a bear market, a point will be reached where the *'Herd'* can no longer stand being locked in as the price continues to fall. They now want to get out with minimum loss. The news will be bad, usually VERY bad. The market will plummet down quickly on all this negative news. Prices are now attractive to *'Smart Money'* and they begin to *accumulate (buy)* at these low levels.

Its called a *'Selling Climax'* because to initiate this, you have to have a mass of selling from traders or investors who are locked in at higher price levels where they bought the market and are now showing a loss.

We call these *Weak Holders*. It's interesting how we can observe crowd behavior by simply looking at the chart. It is uncanny that at certain price levels we see a clear exchange from *'Weak Holders'* to the *'Smart Money',* who become *'Strong Holders'.* As seen in the example in an earlier chapter using the British Petroleum **(BP)** chart, at the low that was observed in 2003, we again saw during the Gulf of Mexico oil spill disaster.

The *'Smart Money'* rushed in and bought at the 2003 *accumulation* level. This happened during the week the mainstream media told us that BP had failed to cap the well. This very bad news based on the rumor that BP may go out of business or be taken over by the Libyans, is enough to convince any trader or investor holding BP, to dump the stock even if it means taking a loss. This is exactly what the *'Smart Money'* are relying on.

Please refer back to the BP chart in the earlier chapter. This is a classic example of a *'Selling Climax'* and the news that surrounded this event is very well documented as is the result on the BP stock price after the *'Selling Climax'* was observed. The stock price rallied from its low of $26.83 to a high of $49.50 in just over six months. This proves that 'Smart Money' do indeed buy on bad news and thus when the chart gives you one of the set-ups that you are learning, you will need to ignore what you see and hear and just trust your chart. Your chart will not let you down if you learn to read it correctly.

Stopping Volume

'Stopping Volume' will appear very frequently on your charts, especially on your intraday charts. It does exactly what it says "on the tin" - it stops the market at the point you see it.

There are three different types of *'Stopping Volume'*:

- In an ***uptrend*** where buying has been observed in the background: this is ***bullish***.
- In a ***downtrend*** with where selling or weakness is in the background: this is ***bearish***.
- In a ***ranging market***, with subsequent price action stops the market falling to a certain support level, can be bullish, but it is more difficult to trade. I would say that this is ***neutral.***

Let's first look at *'Stopping Volume'* in a strong uptrend with strength in the background.

CHART VSA 34

'Stopping Volume' **In An** ***Uptrend***

As we can see on **Chart VSA 34**, we have two serious *Signs of Strength* at points A and B, which change the trend into an uptrend. At point C, we see an Ultra High Volume down bar with a narrow spread with the close in the middle. This is *'Stopping Volume'* in an uptrend where buying has been observed in the background. This is **bullish**. The next bar closes higher and the volume is Ultra High, which is why the stock falls back down into this area at point D, where we now have *'No Supply'.* If you had bought at point C and placed a buy order a few ticks above bar C, your trade would have been triggered and you would not have been stopped out. This is because the strength at points A and B - the strong uptrend in place and the stopping volume was confirmed when the next bar closed higher.

You have put the odds in your favor of a successful long trade by observing what the chart is telling you. Often, this will happen on some sort of negative news about the stock to fool you into thinking it is going to fall, but if all the volume had been selling volume on bar C, how could the next bar close higher?

If we look at the news on May 21st, 2010 (the day this indicator appeared) – it was not good. The Australian Government was proposing a super tax on the Australian resources sector. The press release even states, "This could put prosperity and employment prospects of all Australians at risk."

That is not good news at all and the stock gaps down on that day. However, when you can read the chart, you can clearly see the buying that happened at points A and B. Remember, beware of the news and be contrarian. I can assure you, it will make you money.

CHART VSA 35

<u>Stopping Volume In A Downtrend</u>

We will now look at *'Stopping Volume'* in a downtrend in **Chart VSA 35**, where selling or weakness is in the background. In any market where you are observing a strong downtrend in place, do not attempt to go long or buy the market. Just because a green indicator appears in the TradeGuider software or add-in study does not mean buy, **unless it is in the right place**.

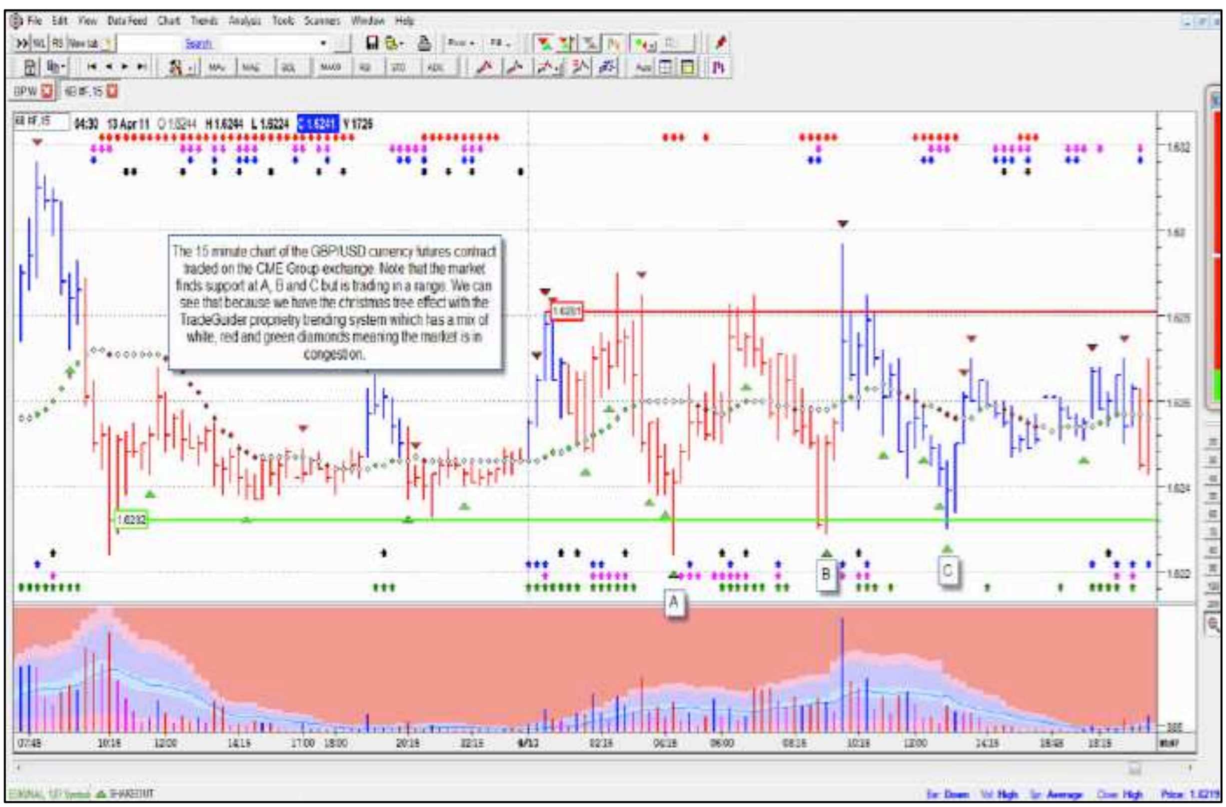
At point A, we see a green indicator that appears on an up bar, which is unusual. That is because this indicator is actually looking at 2 bars - the bar prior to bar A and bar A itself. This is *'Stopping Volume'* but it is also a polar bear in Hawaii; it's in the wrong place. There is a *'Climactic Action'* bar at the very left of the chart, and the **tests** that followed it have failed miserably, which of itself is a serious '*sign of weakness*'. The indicator at bar A results in the stock moving sideways for a few days. At bar C, we have a *'No Demand'* bar that is in the right place because we have serious weakness in the background. Here, we are in a strong downtrend on the Weekly and Daily charts, and each time the stock attempts to rally, we see *'No Demand'* bars, *'Up-thrusts',* and *'Supply Coming In'*, which is not good for higher prices.

At point B, further *'Stopping Volume'* appears and actually causes the stock to rally temporarily, but is ***countermanded*** by more weakness on bar D. This clearly shows that *supply is coming in.* In fact, that is a great set-up to short as we have previously seen in the signs of weakness.

'Stopping Volume' in a downtrend will often cause the market to go sideways for a few bars, or even go up for a few bars. But if you take a long position, you are swimming against the tide and I strongly advise against it. To make money in the markets, you must look for higher probability lower risk entries, and if you are patient, they will arrive as sure as night follows day.

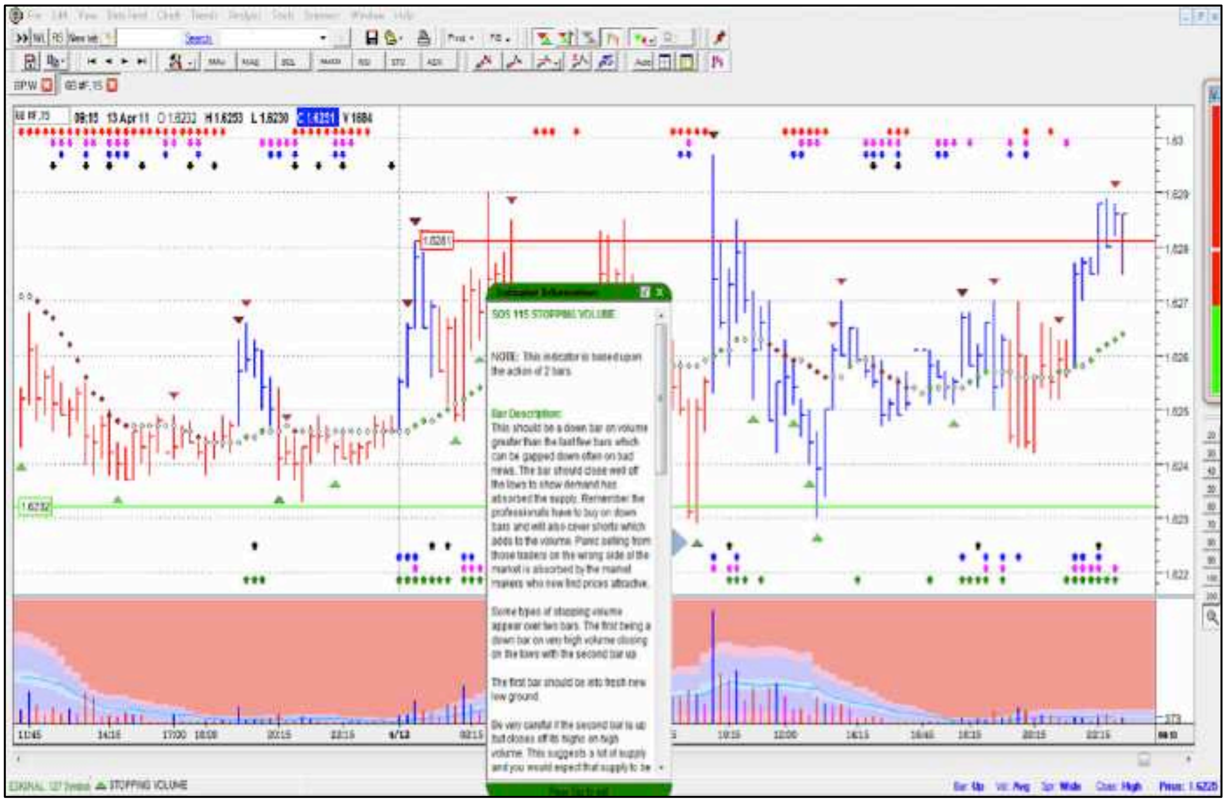
Finally, in this section on *'Stopping Volume'* we will look at *'Stopping Volume'* in a ranging market stopping the market falling at a certain support level.

CHART VSA 36



In **Chart VSA 36**, we can clearly see the market is bouncing off support marked at A, B, and C (the green support line) and being sold again (the red resistance line). At point A, we have a High Volume bar that closes on the highs, but is still a down bar (that is, a price bar that closes lower than the preceding bar). The next bar closes up showing the buying at bar A, which the TradeGuider software reads as a *'Shakeout'.* At bar B, we observe *'Stopping Volume'* over two bars. This is a two-bar indicator, and again, the market moves higher back up to resistance.

CHART VSA 37



These two bars look very similar to a *'Bottom Reversal',* but they are not at the bottom of a downtrend. They are correctly shown as *'Stopping Volume'* bars by the TradeGuider software program as shown in **Chart VSA 37**. At Bar C, we again find support and *'Strength Coming In'*, which is a very similar indicator to *'Stopping Volume'*. The bar at C closes in the middle and the volume is now Average. The next bar closes higher again on Average Volume and the market responds by going back up towards the resistance. It does not get there because of the Ultra High Volume wide spread up-bar closing in the middle between bars B and C. This is a serious *'Sign of Weakness'*.

Is going long at these support levels a high probability low risk trade? In my opinion, it is not, but we have a number of customers who trade these set-ups using tight stops just below the support line.

Tests

The following excerpt is taken from the weekly newsletter produced by Tom Williams in the **VSA** Club (www.vsaclub.com). Its an excellent introduction to '*Testing*', a principle of the **VSA** methodology that appears to be confusing initially because *'Tests'* can appear in various bar formations including down bar *'Tests'* and up bar *'Tests'*:

*"We have many requests to explain testing. The principle of a 'Test' is very simple. All markets move on Supply and Demand. Professional money will find it difficult to mark up an instrument that they are interested in until they are sure that during their mark up it will not be swamped by **supply** (selling) coming in which will cost them dearly. So one of the best ways to check this is to mark the market down which will normally encourage those that would want to sell, to sell. However, if the volume is low, especially when the spread is narrow, probably closing in the middle, it tells the professional operator that at that moment in time there is no selling to worry about. You see this testing very frequently and it can often give you a great opportunity to go long.*

Testing will always initially happen on a down bar.

*"It has to be on a **down bar** to tempt any trader that is going to sell, to sell. Saying that, you will see many 'Tests' on **up bars**. The reason is that initially on a smaller timeframe the 'Test' was in fact on a **down bar**, but as the professionals saw, there was no 'Supply Coming In', they jumped in on the trade going for higher prices.*

Now if you come along using a higher timeframe, then because of the surge of buying on the lower timeframe, the market has actually rallied up, giving the impression that the test is on an up bar, but even on an up bar it will have the characteristic signs of a 'Test'.

There is what we call a 'longer term test of supply'. You often see support coming into a market, which may be 'stopping volume', or 'climactic action'. The market rallies somewhat, arches over, and slowly drops back down into the area where the initial signs of strength seen as 'stopping volume', or 'climactic action' were seen. Now as the market falls back down into an area where to the left there was high volume, the volume is now low, which is clearly indicating that the supply has in fact been absorbed, and the market is now ready for a bull move. This is seen very frequently."

As Tom has stated above, *'Tests'* can occur on both down bars and also on up bars. I think Tom's explanation of the different timeframes explains exactly why this occurs.

What we are interested in knowing about a *'Test'* is:

- Whether it's a good place to go long; or
- A time not to trade at all; or
- If it fails, whether it a *'sign of weakness'.*

In order to do this, let's first look at the different types of *'Test'* that are used in the **VSA** methodology. They can be arranged into three categories:

- **Bullish**
  Test in a Rising Market
  Test after a Shakeout
  Test after Up-thrust
  Test after Strength in an Uptrend

- **<u>Bearish</u>**
  Failed Test
  Test after Weakness in a Downtrend

- **<u>Neutral</u>**
  Basic Test
  Test of Breakout
  Tests into Areas of High Supply
  Tests after Weakness in an Uptrend
  Tests after Strength in a Downtrend

Now that we've grouped these *'Tests'*, its very important to grasp the concept of a *'Test'*.

A *'Test'* is, of course, a trial, assessment, or examination of something. In the case of **VSA** it is the 'Smart Money' testing for *supply*. Remember, if there is too much *supply*, prices will fall. If the 'Smart Money' are bullish they will want to ensure that the *supply* has been removed or absorbed before commencing an up move.

Something you will see very often as a market bottoms out, ready for a change in trend from a downtrend to an uptrend, is an extremely Ultra High Volume **down** bar. For example, a *'Selling Climax'* that causes the market to stop and then start to rally up. After a few bars the market retraces and price action goes into the area where we have seen the *'Climactic Action'* bar. If the volume is still fairly high on this secondary down bar but the volume is actually **lower** than the volume on the Climactic bar then this can be seen as a High Volume Test.

CHART VSA 38

The Characteristic W Shape

The result is often another attempt to rally with yet another retracement back into the price action of the climactic bar, but this time we are looking for much lower volume than on the previous two retracements. This causes a characteristic "W" shape to the bottom of the chart. However, keep in mind that the market you are trading may retrace several times before it makes the up move as shown in **Chart VSA 38**. As long as each retracement is on Low Volume this is a good sign that higher prices are coming.

Chart VSA 38 shows *'Climactic Action'* at bar A and a *'Selling Climax'* at bar B on this Weekly chart of US stock APPLE. Bar C falls below bar B, but the volume is lower than at bars A and B. However, the volume is still quite high at bar C, so the market fails to rally. At point D, we get a clear indication that a bull move is setting up since we have a *'No Supply'* bar. However, we see two subsequent *signs of weakness.* That means that the stock is not ready to rally just yet and we must be patient. The stock falls into the same price action area as bars A, B, and C at point E, but now the volume is a lot lower than at points A, B *and* C. Now the rally begins.

The highest probability entry is at bar F, which is a *'Test'* in exactly the right place. Why is it in the right place and why is it a good entry to go long? Because it meets the following criteria:

- We have serious strength in the background on bars A and B, confirmed at bars D and E.
- The stock breaks the high of bar A, which was the start of the *'Climactic Action'* and now that the price action has moved above the top of bar A. We can infer that the buyers are now moving this stock upwards. (If the stock were weak it would hardly have the energy to move above bar A).
- We have at least 5 green diamonds and 5 blue bars showing that the stock is in an up-trend if using the TradeGuider system.
- We see a very good example of a *'Test'* at bar F. It's a **down bar**, the spread of the bar is narrow, and the **volume is low.**
- Most importantly the next bar after bar F closes higher on an increase in volume, but not excessive or Ultra High Volume. Due to the strength in the background and the up-trend now clearly in place, this is a high probability entry to buy this stock.
- Remember this trade set up applies to any market and any timeframe, even though I am showing this on a Weekly stock chart.

'Tests' are a great place to go long in any market if you see strong bars in the background as shown in **Chart VSA 38**. Always remember to place a buy order *above* the test bar a few ticks and **do not buy at market on a *'Test'***.

Why?

Because a *'Test'* can sometimes fail and if you had gone long at market on the *'Test'*, you would now be under pressure as the market falls. Furthermore, a *'Test'* is deemed successful when the next bar closes **higher** than the test bar, so by placing a buy order above the *'Test'* you are actually buying as the *'Test'* is confirming.

We will now examine a serious *'sign of weakness'* that gets tested and actually results in a bullish move. I covered this trade in great detail on my www.youtube.com channel (type 'TradeGuider' to find it). This was a *'No Demand'* of an *'Up-thrust'* in the Daily chart of Silver (SLV) on 9th November 2010. I was actually looking for a short trade set up but the trade never set up because the *'sign of weakness'* was tested and we were still in an uptrend. This is a good example of why some signs of weakness turn out not to be bearish if they are not confirmed.

CHART VSA 39

As Tom stated in his book "Master the Markets", trends go on a lot longer than you think they will. For a short trade in this market, I would have needed to see the *'Gotcha!' bar* I described earlier, followed by *'No Demand'* bars as the market fell through the low of bar A (shown on **Chart VSA 39** where I have drawn a red line). As the market re-approached that line on Low Volume up bars I would have seen that bar A has been confirmed as a very weak bar by the *'No Demand'* bars, but that never happened. In fact the market continued to move higher after we saw the initial 'Test' at bar B, which was on fairly high volume.

At bars C and D, I get confirmation that this market is not ready to fall and is setting up for another phase up to encourage more buyers. Bar D is testing the low of bar A to draw out any sellers. Note how low the volume is on bar D as the market approaches the low of Bar A. Remember, volume is **activity**, and on these down days the volume is low because 'Smart Money' are not actively selling into the falling price, but instead are seeing if there is any sellers at this level. If any of the large institutions, big banks etc. ('Smart Money') were actively selling here, we would see their footprints in the volume, and Low Volume on these down bars shows lack of supply (selling) where there was supply showing at Bar A.

At bar E we have our strongest 'Test' yet, and a clear indication that there is *'No Supply'* in this market as the market rallies away from the low of bar A and the volume we see at bar E is some of the lowest volume on the chart. Note the very narrow spread of the bar at point E and note that it is a **down bar**, and is confirmed when the next bar closes **up**. Since we did not see a complete reversal of trend after bar A and instead observed the market appearing to churn (move in a range) for several weeks and then come down and 'Test' several times, we can infer that this market is not ready for a sell-off and so we can look for long positions as the market rallies.

If you see a serious *'Sign of Weakness'* you must wait for the market to **confirm** that the weakness you have seen is causing a reaction to the downside. Do not just look at one bar in isolation, but also look at the complete picture as the market unfolds. If the market fails to change trend and is being constantly tested as it moves sideways after a *'Sign of Weakness'* has appeared, it means that 'Smart Money' see an opportunity for higher prices, and that will be good for them to sell at higher prices as they will have bought much lower down.

Test in a Rising Market

My favorite entry to go long is a '***Test in a Rising' Market*** - its one of the easiest to see. I have traded in a number of Trader's Challenges at various Traders' Expos around the USA. I remember the 2010 New York Traders Expo's challenge very well because I took a live trade using this exact principle trading the CME Group E-Mini Nasdaq.

Now, trading solo with 100% focus in your own environment is daunting enough for a trader, but trading in front of thousands of traders who are watching live, and online perhaps just waiting for you to make a stupid mistake, or lose money, is in my opinion the ultimate challenge for any trader, especially since we're trading with real money. It's little wonder they call it 'The Traders Challenge'!

When you become confident in your trade setups as I am, you'll know immediately when a high probability trade setup is in front of you. Tom has always taught me to be patient - at the New York Traders Expo 2010 in February I had to wait over an hour for the setup! Tom explained to me that you must wait for your bus to arrive before jumping on board. What he means by that is if you trust in your ***VSA*** analysis and principles, then very obvious high probability low risk entries will arrive. If I want to get to my destination and I know the bus number I want is a number 32, then I would be stupid to jump on a number 15 going in the wrong direction!

Many traders and investors don't want to wait for the right trade and so end up jumping on the wrong bus, and wonder why they are consistently losing money and blowing up their accounts. The principles you are learning from this book will appear in every market and in every timeframe where we can get **volume**, **spread** and **closing price** from the data and also, provided that we can get some historical data.

A *'Test in a Rising Market'* is a very good trade setup to go long, but it must meet the following criteria to be a high probability trade to the long side:

- There must be a clear ***uptrend*** in place in at least 3 timeframes (you'll learn more about timeframes in a later chapter about developing a **VSA** trading plan).
- There should be a clear sign of *climactic buying* in the larger timeframe, such as a *'Shakeout'*, '*Bag Holding'* or a *'Selling Climax'*.
- The '*Test In a Rising Market'* will be on a down bar, with a narrow spread and closing on the low of the bar.
- The open and body of the **test bar** should not penetrate the preceding bar.
- The volume should be Very Low, the lower the better. High Volume tests seen in rising markets often come back and get re-tested at the same level, so if you are long you may see a small rise in prices before the re-test of the high volume test: be aware of this.
- After a '*Test In a Rising Market',* the next bar should close ***higher*** than the **test bar**.
- If using the TradeGuider System you should have at least 5 medium term uptrend bars in at least two timeframes and 5 short-term diamond trending system diamonds in at least two timeframes.

CHART VSA 40

Chart VSA 40 shows a daily chart of US stock Amazon.

Although I am showing this setup on a daily stock chart, ***it works extremely well in small timeframes,*** *as do all the trade setups that are identified by* ***VSA****.*

Many traders and investors I meet have trouble with this concept. They say to me, "Gavin, how can a setup that is showing up on a Weekly chart be at all relevant for me to use when scalping the E-Mini S&P futures contract using a *three minute timeframe*?"

I had trouble with this concept myself, until I started trading the futures markets intraday. Tom had developed trade setups that he used as a stock trader years before computers were invented, and now I was trading live at the New York Traders Expo taking my favorite set-up to go long, and using *the 3 minute, 5 minute and 15 minute timeframes* to determine my optimal entry and exit trading the E-Mini Nasdaq.

The reason that **VSA** is so robust and will work in any timeframe is because the analysis is looking at principles that are based on the universal laws that drive the markets - all revolving around *Supply and Demand*. Imbalances of *Supply and Demand* are happening all the time, but the effect on price movement will vary greatly between an imbalance of *Supply and Demand* seen on a one-minute timeframe or an imbalance of *Supply and Demand* seen on a Daily or Weekly timeframe. Obviously, if a principle is observed on a higher timeframe like a Weekly chart or even a Monthly chart, the effect on the price movement is going to be greater.

A '*Test in a Rising Market'* is at its highest probability when it appears at the bottom of the uptrend channel. It is also high probability if you see a healthy but not excessive increase in volume on the up bars (close higher than the preceding bar). Increasing volume on up bars and decreasing volume on down bars after the market has seen a serious *'sign of strength'* (as observed in **Chart VSA 40**) is very bullish. If you observe Ultra High Volume coming in on the up move, this will represent supply entering the market, and you will then wait to see if that supply is tested.

Look at **Chart VSA 40.** We see this principle at work. At bar E we see an Ultra High Volume up bar as supply enters the market. The TradeGuider system will put a red indicator on the bar showing supply entering the market. The result of this supply appearing is that the stock falls and is initially tested at point F, but this ***'Test'*** fails and the stock is tested again at point G. Note the volume at point F and G is very low on these down bars and the stock is in an uptrend. After point G, we see a successful ***'Test'*** and the stock makes the next leg up.

CHART VSA 41

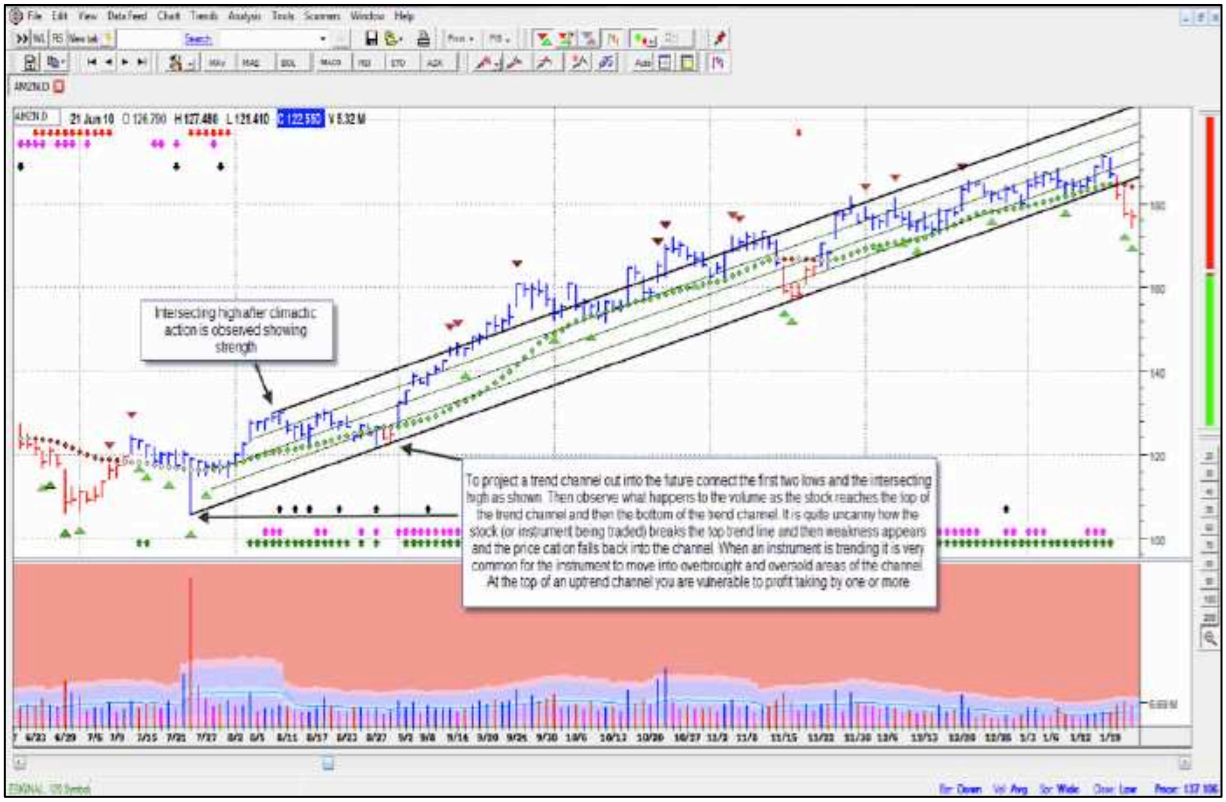


Chart VSA 41 is the same **Chart as VSA 40**, US stock Amazon, but this time we have drawn a trend channel from the first point of the *'Climactic Shakeout'* with the intersecting high and first low after the *'Shakeout'*. These trend lines are very useful as reference points as the stock or instrument being traded reaches either the top or bottom. At the bottom we look for *'Tests'*, '*No Supply'*, '*Reversal Bars'* or '*Strength Coming In'*. Again, it is important to reiterate that strength comes in on down bars (price closes ***lower*** than the preceding bar). That's because 'Smart Money' buy at lower price levels and sell at higher price levels - hence strength appearing on down bars and weakness appearing on up bars.

In summary, when going long after observing a ***'Test',*** it must be confirmed it is in the right place. This is much the same as when we observe *'No Supply'*. You should see some strength on a *'Climactic Action'* bar in the background. This will often be a '*Shakeout'* or *'Selling Climax'*. The result of this has been a clear uptrend forming after the climactic selling has taken place.

When I indicate that you should look at the background in your analysis, you need to be somewhat subjective. You will see in **Chart VSA 40** that the *'Climactic Shakeout'* at bar A is actually some 70 bars back from the right edge of the chart.

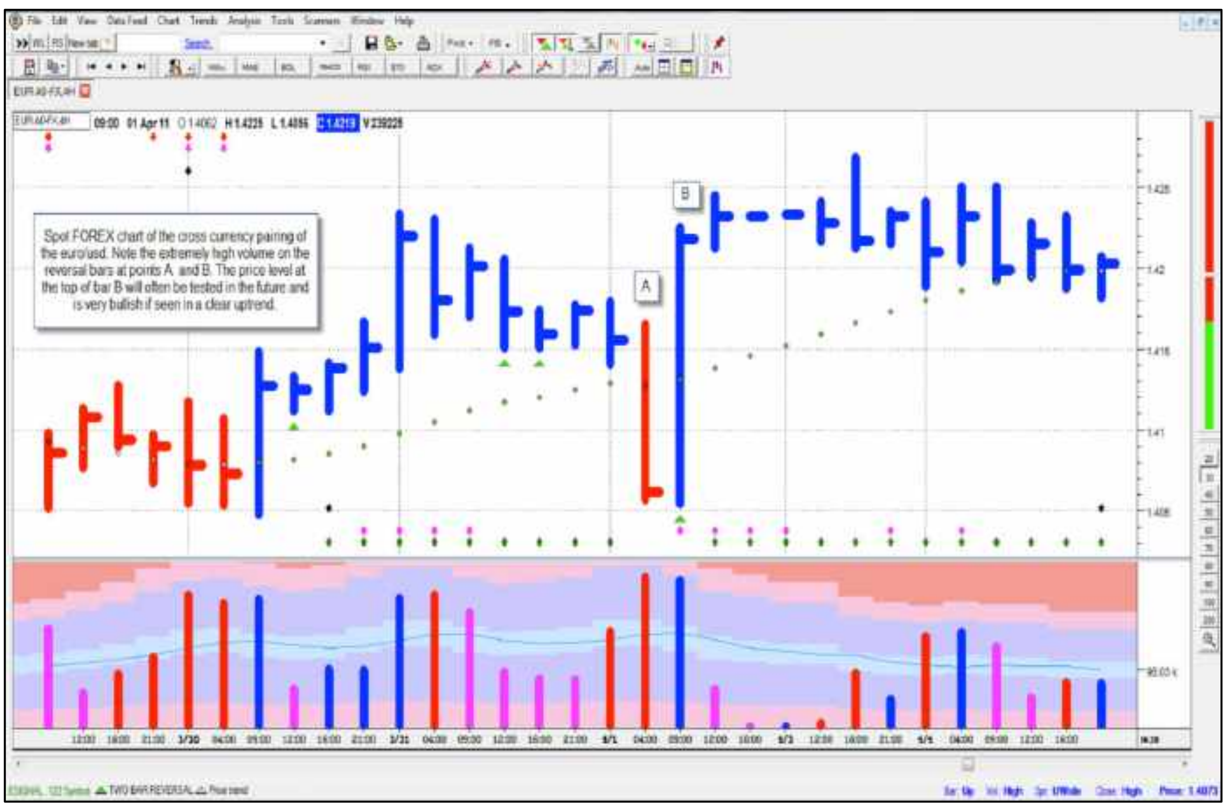
I have observed charts where the climactic selling has had an effect on the price movement for over 400 bars, and other charts where the market has what we call an opposing principle within a short period of time, say 100 bars.

What happens here is we see (for example) extremely high climactic selling as 'Smart Money' buy as the price falls. After the supply is removed, the trend begins up and then you see an equally Ultra High Volume bar. This time, it is a *Buying Climax* and 'Smart Money' players are now actively selling what they bought at lower prices.

Always pay attention to the last highest volume bar in your largest timeframe since it will have the greater effect on price movement. The markets will always move up, down, and sideways so there will always be opportunities to buy and sell.

What you want to learn to do is recognize the higher probability opportunities. I would then observe *background* information on the chart**. I am looking for the highest volume bars I can find either on the downside if I am looking to go long, or to the upside if I am looking to short.** Then I want to see confirmation of the strength or weakness. **VSA** analysis is not just about analyzing one bar, or indeed just one timeframe; it's about looking at the bigger picture and breaking down your analysis into the timeframes that suit your trading style and your lifestyle.

CHART VSA 42



Reversal Bars & Bottom Reversals

This is one of the of **VSA** indications of strength that analyzes two bars. The ***two bar reversal*** could also be described as a ***two bar shakeout***, because it has the same effect. Bar A is marked down on very high or *Ultra High Volume* closing on the low, often at previous support levels as observed in **Chart VSA 42.** Bar B completely reverses and closes above bar A. Even if bar B closes level then this is still a strong '*Sign of Strength*'. Due to the ultra high volume at bar B, you will often see the market move up a little and then sideways, before price action comes down into the body of bar B to test the very high/ultra high volume on bars A and B.

Bottom Reversals take place after a downtrend has been in place and will often cause a change in trend. You will frequently see in smaller timeframes **Bottom Reversals** appearing, but in the larger timeframe are actually shown as a *'Shakeout'* on one bar.

That's because in the smaller timeframe, (e.g. a 60-minute price bar, as the *'Shakeout'* begins, the price is marked down heavily on high volume. Over the next few hours the hourly price bars show the mark down and the mark back up, but when observed on a four-hour bar, for example, or even the Daily chart, *you will see all this activity on one bar as a* **climactic bar**. *That's why the smaller timeframe charts often lead to the big picture when it has appeared*. So if you see unusual volume coming in on the smaller timeframes, the **VSA** principles may appear as **reversal bars** or 'Strength Coming In', when in fact, the larger timeframe may show a *'Shakeout'* or similar principle.

When deciding to go long after seeing a **Reversal Over Two Bars** or a **Bottom Reversal** keep in mind the following:

- If the volume on bar B is ultra high, the market is very likely to come back and retest that area, and often this will begin an uptrend if seen after a **Bottom Reversal** or will be the start of the next leg up if seen during an existing uptrend.
- I like to draw a line above the top of bar B and wait for price action to penetrate it and then look for a *'Test'* of that price area. It's a safer entry.
- If you are in an uptrend and you see a reversal followed by a *'Test'* or '*No Supply*' then this is very bullish.
- If you have seen a downtrend and you observe a **Bottom Reversal**, especially if the volume is ultra high, this area will often need testing in the future so if you go long be aware of the re-test possibility and manage your position accordingly.

Remember that **reversal bars are** actually **shakeouts over two bars**. Why is the 'Smart Money' shaking the market out? It's because they want higher prices. In order to do this they hunt down stops, as observed on bar A in **Chart VSA 42**. On this chart they actually mark down to a prior support level almost to the tick, and I see this very often when trading the FOREX and currency futures markets. **Reversal bars**, like many **VSA** signs of strength, are bullish when confirmed.

Although, I have seen many reversals and the market has not even waited for the *'Test'*, so trade reversals act like a *'Shakeout'*.

Be aggressive - buy the top of the reversal at bar B, or be conservative and wait for the *'Test'* or '*No Supply'* with an order above the *'Test'* or the '*No Supply'* bar.

Absorption Volume/Pushing Through Supply

If you observe an old *point of supply* to the left hand side (price action), with *very high* or *Ultra High Volume* at the price level to the left of the chart, and the market is re-approaching that level, then, as we have seen in an earlier chapter using US stock JP Morgan as an example, the stock (or instrument) will often get ***gapped up*** on '*Ultra High Volume'* at these levels to trap unwary traders and investors that are (wrongly) buying these tops. We saw the result on the JP Morgan charts as they collapsed.

There are however, two **VSA** principles that are often seen as a bull market is developing or underway.

These are called *Absorption Volume* and *Pushing Through Supply*.

If a market is seen to have previous areas of supply that caused resistance by overcoming demand, then in order to move through this old area it will need effort.

Remember that one of the laws that drive the market is ***Effort versus Result***. If we see high or ultra high volume pushing through this resistance level followed by the next few bars showing *'No Demand'* evidenced by falling prices, we can see and conclude that there has been ***No Result From Effort***, a strongly bearish indication which will cause the market to fall or at the very least, to move sideways.

If, however, 'Smart Money' are bullish and therefore want higher prices, they will be prepared to absorb the sellers who have been locked in at price levels that the market is now re-approaching. As the market pushes through this old price level on high volume, we look for evidence that this is now 'Smart Money' absorbing the supply in the expectation they can mark the price up further without causing the previous weak holders to sell, since they are now seeing rising prices.

For this supply to be absorbed, the 'Smart Money' will almost immediately (or at least within 10 bars) test the market to flush out any sellers. Also, if the volume is very low on the test and the next bar is up, this is confirmation that the very high volume on bar A is absorbing the supply, so it is, in fact, bullish.

This is rarely seen in bearish markets and is a lot more frequent in bullish markets. The trend builds up from some type of *climactic action* on the down bars in a price action area where 'Smart Money' professionals have been actively *accumulating.*

CHART VSA 43

On **Chart VSA 43**, we can see this principle clearly. At points A, B, and C we observe prior resistance to higher prices despite three attempts to rally one on ultra high volume. At point D, we re-approach the same price level and we see a surge in volume on an up bar closing near the prior resistance level. The black line I have drawn at the bottom of bar D is very important.

If the weakness seen at bar D was enough to cause a serious fall in prices, I would expect the price to penetrate this level and then confirm the weakness by going back up to the black line marked on '*No Demand*'. What we see, however, is the opposite and we see signs of strength appearing and testing. This is a very important principle because many traders who are first introduced to **VSA** will assume that <u>*every*</u> '*Ultra High Volume'* up bar is a '*Sign of Weakness*' and that the market will then fall. Some traders I have met tell me that they short nearly all the *'Ultra High Volume'* up bars, some with greater success than others.

In this example, the price does fall after bar D has formed. So of course, as Tom tells me, the programmed indicator in the TradeGuider software that appears without human intervention, must be correct.

However, we subsequently see in this example, what is known as a ***countermanding*** indicator. After what looks like a serious '*Sign of Weakness*' at bar D, the stock is not behaving with lots of weak bars like one would expect, in fact quite the contrary. After this weakness you would expect to see *'Up-thrusts',* '*No Demand'* bars and further '*Supply Coming In'*, but we actually have '*Stopping Volume'* and '*Tests'*. Also note that if using the TradeGuider trending system, we never change to red bars and red diamonds, evidencing that this weakness did not change the trend.

In the next chapter, we will examine how to create a **VSA** trading plan now that you have become familiar with the overall concept of **Strength and Weakness revealing itself in the volume, spread (range), and closing price of the bar.**

As you can see, **VSA** works best when put into context with all the other bars in the prior price action background of the chart. Reading the chart is like reading a different language. Once you have learned this language, you need to put your strategy for making money in the markets into a plan so you can measure where your high probability money making trades are, or where, perhaps, you have made losing trades that you will need to learn from.

CHAPTER 8

Developing a Trading Plan for You, Using Volume Spread Analysis

FAIL TO PLAN – PLAN TO FAIL

Trading is a business, one of the biggest, if not the biggest business in the world. Millions of dollars exchange hands each trading day in the various financial markets across the world. Where there is money to be made, you can be sure there are professional operators at work, a.k.a. the 'Smart Money'.

As we have also discussed, with easy access to the financial markets and much reduced commission costs involved, the markets are accessible to anyone with a computer, an internet connection, and a brokerage account, so there are now many amateur and junior traders who do not know what they are getting in to.

In the many countries I have visited and the hundreds of seminars and webinars I have conducted, I have had the opportunity to speak to and meet with many retail traders and investors of all experience levels. One of the most striking things I have found is the vast majority of retail traders and investors have no trading plan *at all* - at worst, they are not trading the markets, they're **gambling!**

Most have been looking for the ***'Holy Grail'*** of trading, (i.e. the system that's always right and continually churns out profit after profit). They spend thousands, or even hundreds of thousands of dollars, in search of this mystical financial 'system' that will make them millionaires in a short time!

Good luck with your search if you are one of those traders or investors that are hunting for that "magic bullet"! You may spend time looking for a very long time, and waste a lot of money trying to find it.

Are there computerized systems in the markets today that have certain programmed systems that use high frequency trading techniques, amongst other tools, to gain an edge in the market?

Yes, there most certainly are, although you will rarely hear anything publicly about them. Attention was recently drawn to the use of computerized trading with the potential of moving markets on a grand scale. In 2009, Segey Aleynikov, a Russian programmer, was accused of stealing some computer code from a large institutional bank in the USA. The code was apparently capable of potentially large-scale market manipulation.

My personal opinion is that this was what actually caused the 6th May 2010 *Flash Crash*. Of course, it's only an opinion, and there isn't any hard evidence as to what precisely happened. However, the other explanations made publicly at the time, did not seem credible, and there were many subsequent explanations that didn't seem to make any sense at all.

VSA is a *discretionary system,* and requires you to use some common sense rules and observations as well as developing your individual skill as trader or investor. Just like learning to play a sport, to become good at it, you will need to plan your goals and then practice, practice and practice! In order to get on the right track from day one when using **VSA** analysis, you'll need to 'unlearn' any bad habits you may have picked up in the past.

The story of UK fund manager Philip Friston is a great example of this, and Philip's story will be of great comfort to those of you still struggling to be consistent and profitable. His interview in the following chapter is very revealing.

The first thing to look at when developing your plan is, in fact, yourself. You need to look inwards at what makes you tick, what drives you, and what type of personality you are. The other most important thing before going to the markets is to ask yourself this question, even if you don't like the answer:

"Can I afford to lose most or all of my risk capital trading the markets without affecting my current lifestyle or having to move my retirement?"

If the answer is no, then you should think carefully and probably consult a qualified financial adviser before making a decision to trade. If the answer is yes, then you are in a good place to develop your plan and begin the task of learning to trade and invest in the markets using **VSA**. Always keep in your mind that whenever you are in the market, your money is at ***risk***. We'll talk a bit about managing risk shortly, because among the great traders, fund managers and investors I have met, *all bar none*, have a great understanding of risk versus reward, and when to exit a losing trade and let a winning one run.

After your trader's self-analysis, and having asked yourself the foregoing questions, I suggest you write down the answers and start to decide which markets you would like to trade. Here are some of the other questions you need to answer to ascertain what is best for you:

- Do I currently have another job, full-time or part-time, that requires my attention?
- How much time can I dedicate to my analysis and trading each week?
- Am I going to trade longer-term positions using end-of-day charts, or am I going to trade during the intraday hours when the markets are open?
- Am I going to be conservative or aggressive in my trading or investing?
- Do I have difficulty being patient and maybe have attention deficit disorder? (Many losing traders I have met admit to me that ADD is their worst enemy, but this can be managed.)
- Do I understand the nature of risk?
- Do I currently have a system, or have committed to learn a system such as **VSA** analysis?

- If yes, do I *believe* in the system I am using to make my trading and investing decisions? (This is actually one of the most important questions and I will cover more on belief later in Chapter Nine)
- Do I understand the differences between trading futures, options, stocks, Forex etc.?
- Do I know the tick value for the instrument I am going to trade (for instance the E-Mini S&P futures contract traded on the CME Group has a $12.50 value for each quarter point tick, so one point is $50.00 for one contract traded.)
- Do I have a broker that I can trust and who can give me good advice? (If you are starting out having a great broker is vital.)

To assist you, the above questionnaire can be found at www.tradingintheshadow.com with some suggestions to point you in the right direction. The website has many resources to help you get started using **VSA** as your analysis methodology and is also helpful for more experienced **VSA** traders.

My good friend, a trading psychologist and **VSA** expert, Dr. Gary Dayton, put the questionnaire together. Gary specializes in helping traders understand what is right for their individual personality types. It will help you identify what resources you need, if any, and give some suggestions as to where to go to get that information.

Which Markets To Trade

Tom Williams made his fortune trading the stock market back in the 1950's and 1960's because there was very little choice of markets to trade. We are fortunate enough to have many to choose from today, but which market is best for you?

There are a number of factors determining which markets to trade, including how much time you have, and whether you want to take *a longer term view* of the markets direction, or be in and out quickly trading the live charts intraday.

Both trade timing scenarios have advantages for the trader or investor, but what is extremely important to emphasize here, is that if you are going to use **VSA**, or are already using **VSA,** it doesn't matter which market or which timeframe you use.

Depending on what **VSA** is telling me, I personally like to trade:

- Futures and FOREX intraday
- Stocks and commodities swing trading positions, holding for weeks and months.

Remember there are many countries that have different rules and regulations so you need to check your own country of residence in regard to legislation applicable to your financial trading activities.

For example, many countries have their own index made up of stocks within an index with regulations set by the country that the index is in. For example, if you are in

Malaysia (where we have a big following) you cannot short a stock, it is against the regulations and you cannot trade Forex at the time of writing this book, in 2011.

If you are very new to trading and investing, in my opinion, there are two quick and easy ways to learn the core **VSA** principles prior to developing your trading plan.

- The first is to invest longer term in the stock market analyzing Daily and Weekly charts. This means you can learn the principles.
- The second is, that if using the TradeGuider software, you be able to scan for stocks or commodities that are undergoing 'Smart Money' buying or selling.

Richard Wyckoff taught us to trade stocks that are acting in harmony with the parent index they are in. His rules were simple and if trading the stock market, stocks should be *part* of your trading plan.

Tom Williams followed these same rules, as do I, so look at them closely. The program-coded scanner in TradeGuider is based on the principles taught by Wyckoff over 100 years ago. Tom often jokes and says if Wyckoff had a computer, he would have done what Tom did, namely to program the principles into the software. That is why I believe Wyckoff, Williams, and I are connected in some way. We have the same desire- to educate an uninformed trading public!

Wyckoff's rules to buy or sell stocks:

- Wyckoff studied market action based on volume and price analysis.
- Wyckoff determined where risk and reward were optimal for trading.
- Wyckoff studied the psychology of trading and why 'Smart Money' buy and sell at a certain time. Wyckoff coined the term "*Composite Operator*" which is a synonym for 'Smart Money' – which simply means measuring through the activity on the ticker tape (i.e. the volume), which reflected the consensus of trading opinion amongst these big hitters.
- Confirm the trend and position within the trend of the market you are analyzing.
- Select stocks that are in harmony with the market direction, in a bull market stronger and in a bear market weaker.
- Identify stocks that have built a "cause" for a move up or down.
- Determine the stocks readiness to move (many Wyckoffians use Point and Figure charts to look for the nine buying and selling tests)
- Time your entry when there is a turn in the general market using the three laws that govern all financial market behavior:
    - *Supply Versus Demand*
    - *Cause Versus Effect*
    - *Effort Versus Result*

By following these rules, becoming contrarian, and studying the **VSA** principles closely, you will start to read the chart just like a professional trader and investor. It is very possible to achieve great success if you are prepared to put in a little effort at the beginning.

So one path you can follow is to learn by trading stocks. However, I learned a different way, which I will now explain.

I started my trading career trading the United States Futures and Forex markets, but I was lucky enough to be surrounded by some great traders and **VSA** experts who could teach me first hand. I also had no "baggage", bad habits, and useless analysis techniques because I had never traded before.

If you do not want to jump in at the deep end, then using **VSA** for end-of-day analysis (EOD), of stocks is a great place to start. The data is now very inexpensive (TradeGuider Systems International has just recently partnered with Thomson Reuters to give two months free data to all new TradeGuider (EOD) users, details at www.tradeguider.com) and all the **VSA** principles that are applicable to trading intraday can be successfully learned using the long-term timeframes, as I explained earlier.

I began by opening a Forex and Futures demo trading account. The benefit is that you can practice trading in live market conditions before funding a real account.

That's how I did it. I opened an account with a highly respected and reputable Futures brokerage firm in Chicago called Infinity Futures (www.infinityfutures.com) and was able to download their highly acclaimed Infinity AT charting platform and order execution DOM (depth of market) absolutely free, and start taking practice trades with no real money involved to refine my trade setups.

Things have progressed further today and Infinity now offers free charting software for 30 days, with the ability to add in the TradeGuider **VSA** Studies and Trending systems for a small ongoing monthly fee. You can also get similar charts using eSignal, and another brokerage firm I have an account with and also recommend is PFG Best (www.pfgbest.com).

Here is how I developed a plan that has served me well ever since, and should act as a guide for you to start your individual plan. Remember, each market has a 'personality' of its own, as Tom taught me. That's because there are specialists and market makers at work, as well as professional traders who have studied the markets they trade for many years.

In order to be successful, you should specialize in instruments that are liquid and volatile. Believe it or not, but volatility is a trader's best friend because volatility is created by the 'Smart Money'. So if they are active, then there is opportunity for the **VSA** trader. Tom's syndicate specialized in only twelve stocks, yes that's right, only twelve!!

The instruments that I like to trade are the E-Mini Dow, S&P, and Nasdaq, plus the currency futures contracts all traded on the CME Group. I also trade the Forex Spot Price markets as well. This is because order execution and management is simple to understand, you can trade these markets 24 hours a day, although I only trade the currency futures after normal market hours.

Many of you reading this book will already be trading and investing, but for those just beginning, download a demonstration platform and start looking at charts, because that is where your journey will begin.

Now we will look at the trading plan in more detail.

THE VSA TRADING PLAN

Selecting Multiple Timeframes For Your Charts

The markets move tick-by-tick, second-by-second, minute-by-minute, hour-by-hour, day-by-day, week-by-week, and so on.

Wyckoff said, *"Tape reading seems to us: The SCIENCE" of DETERMINING from the TAPE the immediate trend of prices. It is a METHOD of FORECASTING, from what appears on the tape NOW, what is likely to appear in the future.*

"...Thousands of those who operate in the markets now recognize the fact that the market momentarily indicates its own immediate future, and that these indications are accurately recorded in the market transactions second by second, and therefore those who can interpret what transactions take place second by second or moment by moment have a distinct advantage over the general trading public...."

So what does this mean? What Wyckoff is telling us is that the markets are an unfolding story. If one can read and interpret the data correctly using the ticker tape (*Volume and Price Action*), then the trader or investor that is correctly trained can have a distinct advantage over the general trading public (the 'Herd').

What is extraordinary, but confused me initially, is that all the principles seen on a 1-minute chart will work just as effectively on a daily or weekly chart. **Chart VSA 43** is a Weekly chart of PALM and shows that this statement to be accurate and correct. **Chart VSA 44a** and **VSA 44b** shows the same principle, but this time, however, it is on a 1-minute chart. **VSA 44a** and **VSA 44b** is a one-minute chart of the E-Mini S&P contract traded on the CME Group. Point G is actually my favorite setup. Note that there are two points of heavy *accumulation* at point A and B, that is why you must be cautious buying at bar A. Tom taught me to be cautious, so that is why I wait for the change in trend. Bars B and C were shorts in harmony with the trend.

CHARTS VSA 44a

CHARTS VSA 44b

In earlier chapters I have demonstrated that these principles work in the lower (shorter) timeframes, as well as the higher (longer) timeframes. Now it's time to decide what are the **best timeframes** to use.

The answer is:

You can **use any timeframe** *that suits your personality and trading style*. That is the wonderful thing about **VSA,** it works for scalping the market, as well as for investing in the market which is perfect since thousands of our customers are made up of a mix of every type of trader you could imagine. That is why it is dangerous to try to suggest that there is a one-approach-fits-all, because there simply is not. That is what the snake oil salesmen in our industry rely on; the suckers who see an advert or email saying:

"500% profit guaranteed - miraculous new trading system that churns out profits every day!"

I am sure if you are a trader or investor you are bombarded with this crap, and rest assured, it is crap! If you have been unfortunate enough to be the victim of these snakes, then I am sorry, but you have now found the truth. You can delete all the emails and ignore all the adverts falsely promising quick riches because that's all they are, false promises.

<u>You</u> are the best guide to what timeframes will suit ***<u>your</u>*** personality and style of trading. That is because *you are unique* in every way - don't ever forget that. Our best asset when we trade is our brain and our thought processes. Choosing the timeframes best suited to you will be trial and error, which is why I highly recommend trying things out on a simulated trading account first. You can download some for free at:

<u>www.tradingintheshadow.com</u>

The timeframes that I have found to be extremely effective for each market are as follows:

<u>End of Day Timeframes for Stocks, Commodities, etc.</u>

- Highest timeframe to start your analysis
- Monthly chart with 120 bars -10 years of data – look for prior areas of support and resistance and any *'Ultra High Volume'* as seen on the BP **Chart VSA 9**. These will identify ***trigger numbers*** where *'Smart Money'* will show their hand.
- Weekly Chart with 360 bars
- Daily Chart with 1080 bars
- If you are a swing trader, use also a 240-minute (4H) chart and a 60-minute (1 H) chart to spot early signs of heavy *distribution (selling) or accumulation (buying)*. (eSignal now provide delayed data for a fraction of the cost of Real-Time data so you can look at smaller timeframes in the TradeGuider RT software if you are a user or are going to become a user of the TradeGuider System).

<u>Intraday Timeframes for Futures</u>

- Highest timeframe to start your analysis.
- Daily chart with 500 bars and trend channel drawn in place and unusual volume activity from past bars projected out to the right edge of chart using a horizontal line placed at bottom, top and close of bar. If price approaches these areas during an intraday session, these areas will act as strong *support* and *resistance*. These are called ***trigger numbers***.
- 30-minute chart with trend lines in place and pivot numbers added (TradeGuider has a proprietary way of calculating these numbers based on a formula used by a London floor trader 15 years ago) but standard pivots applied are fine as well.
- 15-minute chart – looking for confluence of trend with 5 minute or unusually high or low volume.
- 5-minute chart – execute trades from this timeframe, in a fast moving market go down to a 3-minute chart.

<u>Scalping</u>

1-minute charts are fine for scalping but should be used with at least a 3-minute and 5-minute chart, as well. Even scalpers should pay attention to the daily chart to find '***Trigger Numbers'*** where your highest probability trades will come from.

Intraday Timeframes for Stock Trading

Note: If using the TradeGuider EOD software system it is prudent to do a stock scan and indicator scan at the end of each week to identify stocks that are acting stronger or weaker than the parent index or to find stocks that have climactic action signals at the right edge of the chart, this will help you narrow down considerably which stocks to trade intraday because these will be the stocks that will move fast.

- Highest timeframe to start your analysis
- Weekly chart with 360 bars with trend channel drawn in place and unusual volume activity from past bars projected out to right edge of chart using horizontal line placed at bottom, top and close of bar. If price approaches these areas during intraday session these areas will act as strong **support** and **resistance**. These are ***called "Trigger Numbers".***
- Daily Chart with 1080 bars looking for any unusual volume bars and projecting out the top, bottom and close of the bar by drawing horizontal line. If price action approaches these areas during intraday trading then these areas will act as strong support or resistance. Remember when projecting these lines out you only need to do this when you can clearly see that price action at the right edge of the chart is approaching these old levels, you do not need to go back and do this for every ultra high or ultra low volume bar.
- 240-minute (4H) chart with trend channel to find the last active short-term trend. If the Daily trend lines up with the 240-minute (4H) trend and the 60-minute lines up as well then any trade taken ***against*** this common trend is considered very risky.
- 60-minute chart with trend channel
- 15-minute chart - looking for early signs of unusual volume
- 5-minute chart - execute trades from this timeframe, in a fast moving market go down to a 3-minute chart.

Timeframes for Spot FOREX

It is now possible to get daily volume for Forex, but one of the biggest questions asked is, "How can volume be relevant for Spot Forex when there is no centralized exchange?" I want to show you something very powerful whether you are a Forex trader or not, because this proves that **volume is activity** and when the 'Smart Money' are active they leave a giant footprint. I will first explain why we are able to accurately analyze volume in the Spot Forex market. I actually use eSignal to get my data for the TradeGuider System, but tick volume data (or activity volume) is now widely available from many brokerage firms and data providers. Here is an excerpt from our Forex fact sheet available at www.tradeguider.com (although many people think that there is no volume in Forex, eSignal plus a large number of other data providers produce a volume histogram with their **Forex** data):

Q: Where does eSignal get the Forex data?

A: Forex data is from GTIS, an affiliate of FT Interactive Data, sister company to eSignal and the primary supplier of foreign exchange information used by traders, corporations and financial institutions for more than 20 years; Spot rates for more than 100 currencies, as well as precious metals, Cross rates, Forward rates with nearly 200 global bank and broker contributions (Asia/Pacific Rim, Russia, Europe and North America) –

Additional contributors: Garban Intercapital, the world's leading derivatives, securities and money broking business, and Tullett & Tokyo Liberty, one of the largest inter-dealer brokers in the world. Forex Market Depth with the ability to view the best bid/ask by Forex contributor, Foreign Currency Options (FCO) from the Philadelphia Stock Exchange (PHLX), the first organized stock exchange in the U.S. and one of North America's primary marketplaces.

Q: I'm seeing the volume histogram update on Forex issues in eSignal, what does that volume represent?

A: The volume histogram for Forex issues represents the number of transactions or ticks and not true "trade size" activity. It's much like most futures contracts, where the volume histogram reflects the volume of transactions or updates during each given interval. It is important to understand that TradeGuider does not need actual volume but relative volume compared to the previous bar to give a **VSA** indicator. Volume in Forex can be seen as activity, and it is this activity that TradeGuider picks up extremely well when using tick volume.

Here is an explanation from Tom Williams, the creator of **VSA,** and TradeGuider.

Q: How do the **VSA** principles work in Spot Forex and TradeGuider?

A: First of all you have to realize that the 'Smart Money', or Professional money, is very active in the Forex market. Professional Money as we shall refer to it here, can be trading syndicates, individual traders with huge capital, large financial institutions, certain funds such as 'The Quantum Fund' operated by George Soros, and large institutional banks.

See further information in this letter from The Derivatives Study Centre sent to The Commodity Futures Trading Commission in August 2000 by visiting the web page below:

http://www.financialpolicy.org/dsccftcletter.htm

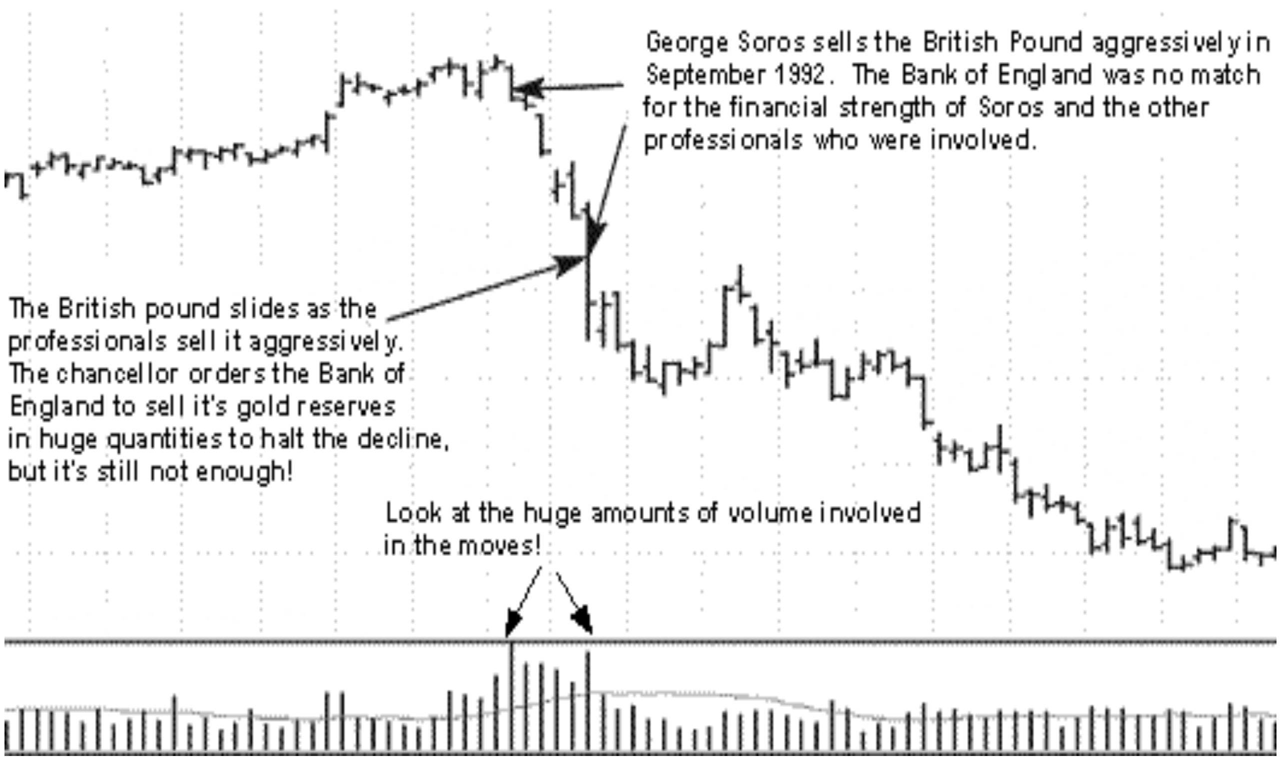
These individuals or organizations are very secret in their dealings because they do not want others to know what they are doing. The result of this is *no volume*. However, ***tick volume works***. ***Tick volume*** is added to the price movement on every price tick up or down, because one may deal in 5M while the very next trader only deals 500k, but we get one tick each dealer.

Bear in mind the number one principle - from the tick volume created, 90% will be from Professional Money and their dealers.

When these very large orders go through, they have a following, the same as the Futures pits; this automatically creates more ticks, hence higher volume. So TradeGuider will analyze the tick volume as if it were real volume, and will clearly show this Professional Money either participating, or just as importantly, not participating in the movement of a currency. When we hear of strength and weakness in a currency, this is nothing more than professional support or lack of it, and can be clearly seen on a TradeGuider Chart.

Remember when in 1992 George Soros massively shorted the British Pound forcing The Bank of England to eventually withdraw from the European Exchange Rate Mechanism? Well, this is one very well known example of Professional Money having a dramatic effect on a currency. This happens every day. You just need to know what to look for. Have a look at the chart and what the volume did in that famous move by George Soros:

BRITISH GOVERNMENT NO MATCH FOR GEORGE SOROS



In 1992, the British pound fell so sharply that Britain was forced to leave the Exchange Rate Mechanism (ERM). What do you think was behind this famous fall? Yes, you guessed it, Professional Money! The money in question was the Quantum Fund, run by the renowned speculator George Soros.

He and his analysts had spotted a potential weakness in the ERM. During the weeks before the massive sell-off of the British pound, George Soros was busy exchanging seven billion US dollars for German Deutsche Mark.

When the time was right he moved in fast, selling the British pound. As the pound fell the Deutsche Mark rose, creating huge profits for Soros. As soon as news of this got out the other professionals followed suit. The onslaught was overwhelming and too much for Norman Lamont, the then UK Chancellor of the Exchequer.

In an attempt to halt the slide, Lamont resorted to selling some of Britain's gold reserves. He put up interest rates three times in one day, but this was still no match for the professionals.

That was an excerpt from our FOREX fact sheet at www.tradeguider.com. So tick volume is as valuable as exchange traded volume in **VSA** because **VSA** is analyzing volume relative to the volume bars preceding the live bar when it has filled. What do I mean by 'relative' you may ask? What I mean is that I can compare just using my eyes whether a volume bar is ultra high or ultra low, or a range/spread of a bar is ultra high or ultra low, by just looking at the last 25 to 50 bars around it.

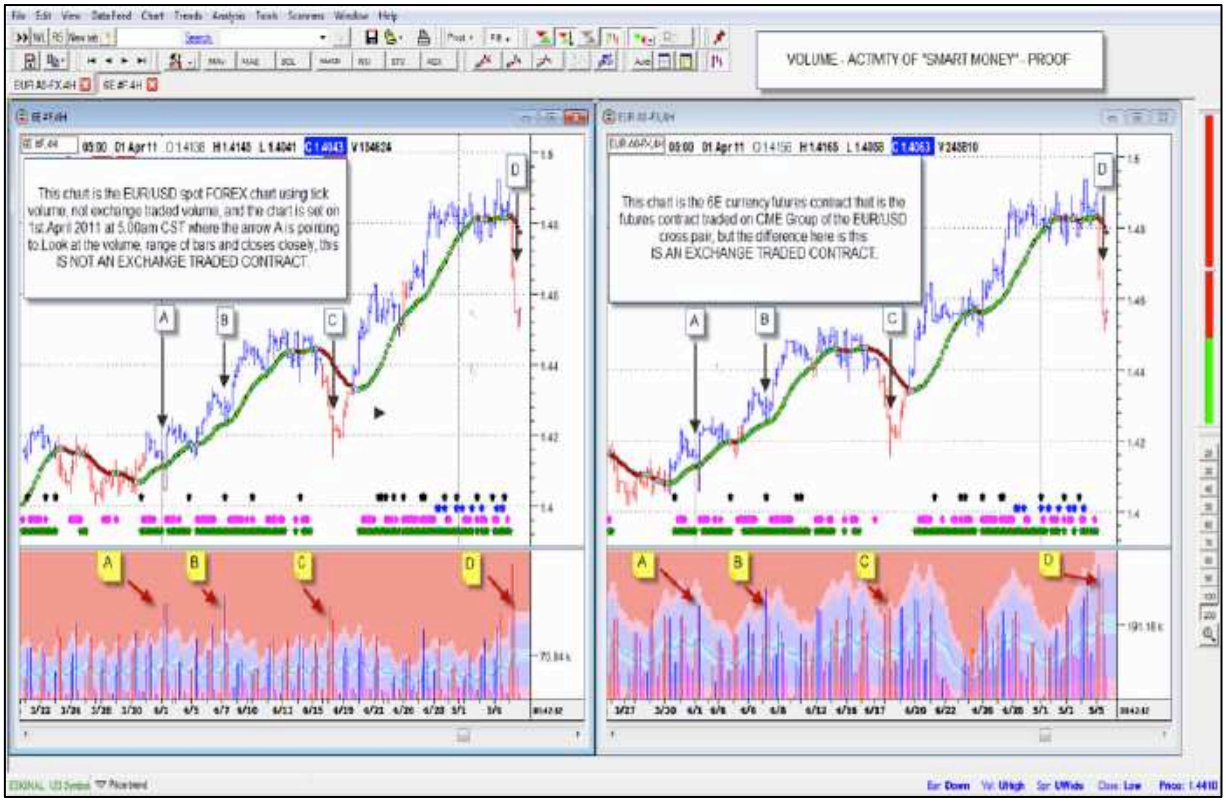
Let me give you an analogy:

Many of you who have heard my seminars or webinars are aware that I live right in the heart of downtown Chicago near the financial district. I'm British, but living here in the USA, I quickly learnt that basketball is extremely popular. One of the most recognized players in the NBA (in my opinion) is Yao Ming, a member of the Houston Rockets team. Now Yao is one of the tallest players, if not the tallest, in the NBA at seven foot six inches, he is well above average height. I am six foot two inches only slightly above average for a man. So in comparison, Yao is a considerably tall man (average height of an adult male in the USA is between 5'7"-6'0"). Let's put 50 people in a line-up and include Yao Ming and Gavin Holmes with a variety of other people (including my daughter who is only 3 feet high).

What if an alien landed from space and observed this line-up, having never seen a human before? The alien's observation about the height of a human would be to look at me and say I am quite tall, look at my daughter and say she is quite short (ultra short or ultra low), and the alien would see most others are in-between. But then it would observe Yao and see he is significantly taller than average (ultra tall or ultra high). When you apply this to volume on the bottom of your chart and you observe volume comparable to Yao Ming, or just as importantly very low volume (as represented in this analogy by my daughter), **both** are very significant on a chart. High volume is Smart Money activity and low volume is Smart Money inactivity.

Before I get to timeframes, let me now prove that volume is ***extremely*** valuable to you as a Forex trader, and if you are trading without it, you are trading in the dark!

CHART VSA 45



We will examine two charts side by side. The chart on the right of **Chart VSA 45** (which is a split screen) is a currency futures contract of the 6E currency futures contract. That is the cross currency pair of the EURO/USD traded on the CME Group. The chart on the left of **Chart VSA 45** is a spot FOREX contract that <u>is not</u> traded on any exchange. We can only use tick volume (activity volume), which in this case, I am getting from eSignal.

If we examine the volume at points A, B C and D marked in yellow post-it boxes with red arrows, and then look at the range and close of the bars at points A, B, C, and D marked with the white boxes and black arrows, you will observe that the two charts, apart from looking very close in shape, both have the ultra high volume at almost exactly the same place and time. Not only that, at all of points A, B, C and D the volume, price ranges and closing prices are almost identical. How can this be?

The chart on the left shows exchange-traded volume coming from CME Group and the chart on the right shows TICK volume from e-Signal. I have deliberately switched off the **VSA** indicators to make the charts clearer, but the **VSA** indicators are almost identical. Although the data comes from different sources, you will not always get exactly identical indicators, but many are uncannily exactly the same numbers. I have read numerous misleading articles and threads in forums such as www.FOREXfactory.com, which intimate that volume is unusable in analyzing spot FOREX. That statement is so far from the truth and so misleading that at times Tom and I have been convinced that misinformation is being posted into these forums to confuse the FOREX traders trying to make a living, or just a consistent profit trading spot FOREX. So for the record, here are the facts:

- Tick volume or activity volume CAN be used in **VSA** analysis and is used by many TradeGuider customers.
- When 'Smart Money" are active they are active in the cash markets and the futures markets at the same time, and sometimes the future will move a few seconds before the spot or cash market giving YOU advantage if you can read the chart. This applies to the main indexes like the S&P, DOW, FTSE, etc. as well.
- Whenever you hear a statement coming out from a large world bank advising they are going to intervene in their currency, look at the chart, because what they state they will do publicly will lost often have the opposite effect on the actual price movement initially to wrong foot you. The chart never lies!!
- One of our customers won the World Cup Trading Championship, trading real money in a live trading competition, not once, but twice by trading spot FOREX. Please read the article from SFO Magazine at the end of the book. We re-published with kind permission from SFO Magazine. TradeGuiders would like to give a special thanks to Tim Rayment for being gracious to acknowledge Tom Williams and TradeGuider.

So, now we will look at which are the optimal timeframes for trading the spot FOREX markets regardless of which pair you are trading. Starting with the larger timeframe first:

- 240-minute chart with trend channel with 500 bars to see overall major trend
- 60-minute chart with trend channel to find the last active short-term trend. If the 240-minute trend lines up with the 60-minute trend and the 15-minute lines up as well then any trade taken against this trend is considered very risky.
- 15-minute chart with trend channel and trigger numbers going back up 500 bars but 200 bars is often adequate - looking for early signs of unusual volume and the chart I usually execute trades from.
- 5-minute chart - execute trades from this timeframe in a fast moving market only.

The key to using all these timeframes in unison is to find moments when at least 75% of the timeframes are in the same trend. So, as an example, if the 5, 15 and 60-minute trend is moving up and the 240-minute is still trending down, then you can look for trades to the long side, always keeping in mind that it is highly likely that in a downtrend in the higher timeframe and what you are observing in the smaller timeframes is the beginning of the creation of a volume spike or ultra high volume bar. This will obviously show itself in the smaller timeframes as rising prices, because Smart Money sell into the rising price in an overall downtrend. Also, it is the complete opposite in an uptrend. Smart Money buy into a falling price, which is why if the biggest trend is an uptrend in say, the 240 minute timeframe, then you will get shorting opportunities in the smaller timeframes as the price falls to a level where Smart Money want to accumulate or re-accumulate.

CHART VSA 46

If all trends are the same in all timeframes that you are trading, then this is the perfect moment to trade. The scanner built into TradeGuider V4 you can easily and quickly see when that is happening in the live markets and can scan multiple charts in multiple timeframes. Please see the example of this at work by looking at **Chart VSA 46**, the e-Mini Dow one-minute chart in a downtrend on 5 timeframes, with great short trade set-ups when we see the volume spikes at point A and point B.

Practice, Practice, Practice

Of course the majority of traders or even investors I talk to say they just want to get into the live market. They want to experience the thrill of knowing their hard-earned cash is now at risk. Their adrenalin pumps, because they know if they're right, it's going to be profitable trade and if they're wrong, its back to the drawing board with losses and often a blown out account. I know it is an old saying, "practice makes perfect" and whilst practice will probably never make any trader perfect, without practicing you have no way of developing a STRATEGY FOR WINNING. How did Michael Jordan, Tiger Woods, David Beckham, Serena and Venus Williams, LeBron James, Michael Schumacher, just to name a few elite sports stars from various disciplines get to the top of their game – THEY PRACTICED, PRACTICED, PRACTICED, until it was second nature to them to be the best of the best.

If you want to trade and invest against some of the most experienced, intelligent, cunning and predatory traders and investors in the world, you better know the game you are getting into and you better practice so that you can hone your skills so you know exactly when to get in to a position, when a position is going wrong and to get out, and when to let a position ride. In Tom's book, "Master the Markets" Tom describes how soldiers train for battle so they can perfect their skills, so that in the heat of the battle itself, they act almost automatically without needing to think at all, because they are so highly trained.

As I am writing this book, the news announced that Osama Bin Laden had been shot and killed by a team of highly trained Navy Seals from the United States. I watched a program on television where a former Seal was interviewed and he described the rigorous training that is required to be a Seal. He specified that an operation is not just entered into, but planned and the practiced and practiced as many times as possible before the operation is launched.

This is what I recommend you do to find your own personal **VSA** trading plan. This is exactly what I did, and it works, and it only takes a few weeks to get right:

- Make sure you are fully familiar with the principles shown in this book
- Decide which market or markets to trade, initially I suggest pick one market so you don't get off track.
- Decide which timeframes you are going to use, and remember, these can be refined or changed as the plan evolves.
- Select a broker that offers a demonstration-trading platform that does not require a funded account initially. (Most brokers will give you their platforms to try for at least a month, regardless of which markets you have decided to trade and TradeGuider has partnered with some brokerage firms that offer free charts as well, such as www.infinitybrokerage.com)
- Decide how much virtual money is in the account. Do not just place trades with no logic or risk reward. For example, let us imagine you have got a $25,000 paper trading account. The first thing you must decide is what is an acceptable level of risk in any one position. I NEVER risk more than 2.5% of my capital in any position. So on a $20,000 account I will not want to lose any more than $500 if the trade goes wrong, then I am going to close the position or get stopped out. You must accept that there will be losses when you trade. Every trader takes losses at sometime in their career, even the very best traders and investors in the world take losses, the key is not to let a position run and run against you as you hope and pray that the market will turn back in your favor. Trust me, hope and prayer will not turn a loser that is going horribly wrong into a winner unless you get

extremely lucky. Cut your losses and do not let them run. That way, you will still have some skin in the game for the next trade!

- This next bit is very important. As you study the charts looking for a trade, write down or use a Dictaphone (which is what I used) to describe to yourself what you are looking for, what you are actually seeing, and if you end up finding a trade setting up, describe how you feel about the trade and what you are **thinking**. Yes, that's right, what you are thinking. As you record your thoughts or write it down, and go back after the trade is closed and review your decision making process, you will be amazed at what you are thinking as you scan for trades. You may be pleasantly surprised or horrified at what you find. As you enter a trade take a screenshot of the chart (I use Snagit from Techsmith- www.techsmith.com/snagit - they have a 30 day free trial and it is easy to use) and then annotate the chart at the end of the trade with what happened to the trade. The charts in this book are annotated for educational purposes using Snagit. When you start to read the bars in context with each other and the background it will all come together, and it does not take that long if you put a little effort in. Remember, whilst effort versus result is a universal law that I have applied to charts, it also applies to our lives, the more effort the better the results, and in trading and investing that could not be truer!

- Have a risk versus reward ratio before you enter the position. Risk reward ratios can vary from market to market but as a simple rule a three to one risk reward ratio is a good place to start. That means for every dollar you are putting at risk you are expecting a three-dollar return at a minimum. If your trade set up does not look like it will give that return because it is perhaps close to a prior level of support or resistance and let's say you want to take a long trade because the set up is there but you can see resistance a few ticks above, you then you are best to step aside and wait for the next opportunity.

- As you practice, try different positions for your protective stop. Always use a STOP LOSS when you trade, even if it is what we call an emergency stop loss which is well away from the price action because you are monitoring the trade but is there in case of a 'Black Swan' event, which will cause the market to crash. You have no guarantee of a fill, but at least you have an order at the exchange that can be triggered. Most retail traders lose consistently because their stops are always getting triggered. Most educators teach the retail trader to use a tight stop loss to prevent excessive losses, but that is simply wrong in my opinion. My suggestion is trade less contract size with a wider stop, placing your stop above the last point of supply if you are going short or at the last point of demand if going long. The last point of supply in a downtrend will be where you see the last ultra high volume spike in the background and will appear on an up bar, a price bar that has closed higher than the bar behind it. The last point of demand will be where you the last ultra high volume spike in an uptrend and will appear on a down bar, a price bar that has closed lower than the bar behind it.

- Each week take a few hours to review each chart and each trade and start putting these in a folder or file, which you can call your trading journal. Some of the best traders and investors I have had the privilege to meet still keep trading journals, and you can rest assured the large funds also have a track of everything they have done for review on a constant basis, which is the reason you should do the same.

- Finally, as part of your plan, you must ensure that the place where you make your trading decisions, such as your office, your home office or wherever you trade is conducive to clarity of thought. That will be different for everyone who reads this book, but it is important. To make effective trading decisions you must be IN THE ZONE. Mark Douglas wrote a great book about trading in the zone, and to make good decisions in anything we do in life we must have some clarity of thought, or we make mistakes.

So in summary, it is very important to have some sort of plan when you are trading or investing. The plan allows you to see where you are making good trading decisions and where you are making bad trading decisions. The plan can be adapted as you learn and move forward. A plan is really a guideline that you can measure against. All great businesses have a plan and trading is a business- it isn't a hobby, or a sport, nor is it gambling against the odds. Just like a card counter in Las Vegas is not welcome because he or she can start to even the odd's or change the odd's in their favor, you too have the power and ability to start to even the odd's and be successful as a trader or investor.

If you will just put in some time and effort, and the fact that you are at this stage of the book probably means you are ready for the next step, the power that will ensure you can make money is the power of BELIEF in your human ability to create abundance and wealth for yourself and hopefully others, by using your thoughts, actions, words and energy to have everything you want. It is attainable. I am living proof and have never been happier despite some very serious setbacks when I was in my thirties. From my troubles and strife, I found a very powerful force that can help all traders and investors. In order to learn about this force however, we must open our minds, like I had to do (in fact was forced to do, but that's another story and another book!!!).

Like I've said before, "Your mind is like a parachute, best used when you open it". So now let us examine what I believe is the most important part of this book. The power of BELIEF- the fourth universal law that can help you and, indeed if you apply it, could be a life-changing event for the better, for you.

CHAPTER 9

HOW TO USE BELIEF AND THE UNIVERSAL LAW OF ATTRACTION TO TRADE AND INVEST

In some ways this will be the most difficult and even most controversial chapter to write, but in other ways, for me, this was going to be the easiest. It would be fair to say that before 2006 I knew little or nothing about the importance of our belief systems and had never heard of the Law of Attraction or, in fact, had even considered that universal laws, apart from the law of gravity, were important in our lives or indeed had any real effect on our lives, and things that happen to us.

An event during 2006 led me to some information that had a profound effect on my life from the moment I discovered it. Whilst the event itself is unimportant, what I discovered is extremely important. What I discovered is that what we think about will have a great effect on what actually happens to us in our lives, good or bad. Now we all have thoughts, and we all have that inner voice that talks to us, but have you ever stopped to consider what that voice is and why it is there? I certainly never did until 2006, in fact, it meant little to me other than I had thoughts- some made me feel good, some made me feel very good, but some made me feel bad, some made me feel very bad.

So what is the 'Universal Law of Attraction'? There are many definitions of the Law of Attraction and indeed, there are many great books on the subject.

*The phrase "**Law of Attraction**", used widely by New Thought writers refers to the idea that thoughts influence chance. The Law of Attraction argues that thoughts (both conscious and unconscious) can affect things outside the head, not just through motivation, but by other means. The Law of Attraction simply stated is that like attracts like.*

Most recently, the claims of the Law of Attraction are seemingly being supported by a growing body of scientific evidence and opinion, leading to the conclusion that there remains much research needing to be carried out on this subject in order to enhance our understanding of the universe.

In 1910 Wallace Wattles wrote a book called "The Science of Getting Rich" (which was the inspiration for the bestselling book "The Secret" by Rhonda Byrne). This is one of the books in my recommended reading section at the end of the book and also listed in *www.tradingintheshadow.com*. Wallace Wattles stated:

*"The scientific use of thought consists in forming a clear and distinct mental image of what you want; in holding fast to the purpose to get what you want; and in realizing with **grateful faith** that you do get what you want."*

A consistent theme with Wallace Wattles and many other great luminaries of their time is "The insistence that by using our brains and our own thoughts in a harmonious manner with the positive aspects of the universe, we can bring about great and beneficial changes on our lives."

Wattles wrote, “Everything works under the same laws, yesterday, today and forever".

He was adamant that we create our own lives, and that does not happen if we sit on our backsides waiting to win the lottery or find some hidden treasure!!!

My definition of the <u>‘Universal Law Of Attraction’</u> is this:

The universe we inhabit as human beings is made up of energy forces that are only now starting to be understood by mankind.

One of the most fundamental universal forces that we accept as scientific fact began as an Aristotelian hypothesis, was rebutted by a more accurate experiment by Galileo, and finally successfully mathematically postulated and hypothesized by Isaac Newton. As a result, g*ravity came to be accepted as a* scientifically *proven natural law.*

In regard to the Law of Attraction, we all have the power of thought, and all creative things in human life start from a thought. Thoughts come into manifestation in our lives by us taking positive action on positive thoughts (and unfortunately you have the opposite, which is negative action taking on negative thoughts).

A manifestation is something that you have created that appears in your life as the result of your thoughts and actions. Many, if not all who read this book will have experienced the feeling of *déjà vu* – that moment in time when you experience a feeling and an emotion that makes you feel as though you have been in that very same moment before. Paying attention to your thoughts and your feelings and being aware of the power of your ability to create what you want, (and also what you don’t want!!) is the key to having an enjoyable and happy life.

In 1912, Charles Haanel wrote “The Master Key System” that gave practical techniques for using the Law of Attraction to manifest love, harmony, happiness, abundance and fulfillment from life. His book inspired further great works from Napoleon Hill (author of *Think and Grow Rich*) and Ernest Holmes (*The Science of Mind*).

The Law of Attraction has been discussed in many texts and books going back hundreds of years, but has recently become more main stream due to the work of Esther and Jerry Hicks, Rhonda Byrne, Michael Lossier, Dr. Joe Vitale (to name a few great authors), and Oprah Winfrey, who has featured the subject on her popular daytime talk show.

Like the Universal Law of Gravity, which took from the time of Aristotle till modern day to be scientifically proven, forward thinkers would regard the Law of Attraction as scientifically nascent. Scientists are getting closer and closer to discovering the true power of the human brain, and most importantly, the POWER OF THOUGHT.

The common perception even among the professionally trained community is that mind and brain are synonymous. However, in reality, the two entities are separate. The brain on the one hand is organically biochemical, and the mind is a psychic organ. Seemingly, the riddle to understanding the Law of Attraction lies in understanding the "glue" that joins both mind and body. Science is now beginning to show us that through the process of biochemical generation of electricity in the body, this electrical current joining body and mind must be capable of emitting a field of electrical energy which radiates from the body when activated by thought processes.

Just as light has recently been discovered to consist of sub-atomic particles called photons, it is not unreasonable to believe that thoughts could very soon be proven to consist of electromagnetic radiation, and therefore subject to known scientific laws.

Such a postulation and hypothesis, if proven, will move the Law of Attraction from the esoteric realm into that of scientifically proven fact.

The Law of Attraction would then make sense from such a basis in fact, and will be supported by other scientific laws like synchronicity and resonance, which would explain why "like attracts like" etc.

Taking the subject somewhat deeper, the brain consists of four main parts, but for the purposes of this discussion the largest part is of interest to us, namely the cerebrum. The neo cortex of the cerebrum is it's surface area, and it is in this neo cortex that science tells us is that there exists billions of neurons. It is believed that these neurons are constantly sending electrical energy not only to the rest of the cerebrum, but also to other parts of the brain, and therefore by didactic reasoning, to other parts of the body.

It is these scientific postulations and facts concerning the neuronal electrical activity that gives us a deeper look into, and understanding of the Law of Attraction when linked to our current scientific understanding of electro-magnetic radiation and the fields it produces.

Now, the interesting thing is that it is scientifically considered that the cerebrum is the area of the brain of the brain where thoughts originate. It's also the seat of our abilities to think, read, write, speak, mathematize, and create, e.g. musical compositions and works of art etc.

More importantly to the subject of the Law of Attraction, the cerebrum is the area responsible for cognitive thoughts, memory and intelligence, and psychic phenomena.

Hence, the Law of Attraction seemingly is a manifestation of a person's using the power of thought and feeling to influence circumstances that have a desirable outcome for you in your life by taking action on those positive thoughts and feelings so that the desired result can be attained. It also means that if negative thoughts come in, you learn to manage those thoughts and not take negative action that may, or probably will, have a negative result in your life

Therefore, on a level of cause and effect, it would seem reasonable to assume that the positive electro-magnetic radiations that we pulsate (positive thought) would seek to find resonance with similar radiations, and when found, produce the summation resonance which manifests the result as a positive outcome. In other words, goal achieved!

Interestingly, the theory of the effect of electromagnetic radiation seems to also have some basis for understanding in Chaos Theory. The theory argues that tiny local changes (e.g. your thoughts) can produce large changes in your circumstances through the electromagnetic radiation of your thoughts to produce by resonance, the object of your thoughts, which could be either positive or negative goals.

To try and explain Chaos Theory, the famous “butterfly effect” postulates that the beating of butterfly wings can lead to a hurricane by way of the minuscule turbulence it generates could predictably lead to a critical combination of air pressure changes, resulting in the hurricane. Whether that’s true or not is yet to be proven, but it’s an interesting thought!

The universe, as we know it, is too vast for the average human being to comprehend or even think about. Even our own planet is vast and when we start to think about our own lives on this vast planet we can feel inferior, insecure and unimportant, but that could not be further from the truth, as we are all equally important. The universe has been created by a higher power, a universal source of energy that means many things to many different people, depending on their upbringing, their country, their religion, and their belief system.

Whether you believe in God, or an existence of a higher being or power is, of course, a choice we all have and I can only speak from my own experience. I believe that we are all interconnected with that higher power, which I call God, and that at any time we can draw inspiration, ideas and assistance when we need it, if we are taught how.

If you examine the Chinese philosophy Yin Yang (or "yin *and* yang" as we call it in the western world), it is used to describe how polar or seemingly contrary forces are interconnected and interdependent in the natural world, and how they give rise to each other in turn.

Opposites will therefore only exist in relation to each other. Everything is in perfect balance, which is why we have good and bad things going on in the world at any time. Unfortunately there is no news in good news, so when we watch our televisions or read our newspapers, all we see is bad news and that makes us feel that the world is in a big mess, but it is not at all, it is an intelligent design that has created this and so surely we should work with that intelligence to create better lives for ourselves and those around us.

If we believe that the very base root of our creation consists of our physical bodies charged with electrical and spiritual energy, it makes sense that our thoughts will assist us to connect with the ultimate energy source. The energy that created the universe also created life as we know it. Imagine that you are a receiver and also an emitter of energy, and you have states of high energy and also states of low energy. Many people who are depressed or suffer from depression complain of having little or no energy. People who have high energy and who make people feel good when they are around them are said to give off a “good vibe”. The word vibe refers to vibrational energy and many books have suggested that human beings have different vibrational energy levels that can be attained and will attract like vibrational levels as the ones they are giving out.

It seems that *like would attract like – bringing us round circle back to the Law of Attraction!* The subject is both vast and interesting, but outside the scope of this book. So why has this concept been discussed in a book about **VSA** and chart reading, you may ask?

Well, because when you trade and invest, you are wanting to make money, hopefully lots of money, but in order to make money you must first attract that money by thinking positively and harmoniously with the universe. This will give you a greater chance of attaining your individual goals, be it financial or something else. By setting out your financial goals and focusing in on them with clarity of thought, expectation of results with realistic goals, and then using the Law of Attraction to help manifest them in your life, you will be well on your way to finding true contentment and happiness, and if I can do it as I have done, then anyone can achieve it.

Hopefully, by sharing my thoughts and research on the subject, it will go a long way in convincing you of the reasonably possible scientific basis of the Law.

The Power Of Visualization - An Example

In 1999 I had the good fortune to meet Paul Avins, who at the time had just started his own consultancy firm and now has gone on to be one of the UK’s leading business coaches. (www.paul-avins.com). Paul introduced me to the concept of visualizing success and he suggested I go with him to a seminar run by Tony Robbins, a well-known and well-respected teacher and author in the personal development field. (www.tonyrobbins.com).

I have to say I was extremely skeptical when I paid over $2000 to find out that part of this process was walking over hot coals shouting out “Cool moss!” as I did it, but the whole experience was an eye opener for me. Tony Robbins and Paul Avins explained that to make something positive happen in your life you must take MASSIVE ACTION. That what holds many human beings back - something called ‘self-limiting beliefs’. I want to thank Tony and Paul for their insights which have helped me write this book and decide to cover this subject to help enlighten the reader.

A self-limiting belief often starts with a word that begins a sentence you are telling yourself. Sentences may start with:

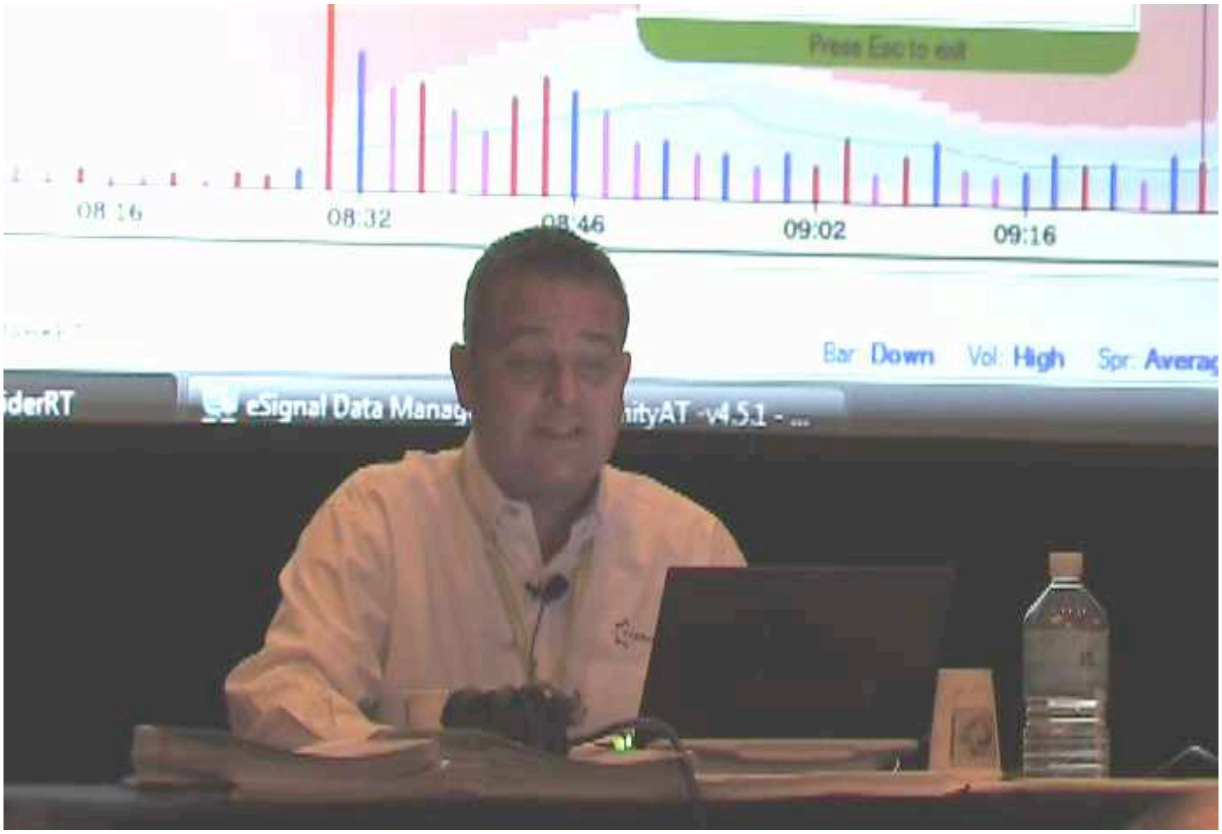
- I cannot
- I will not
- It does not
- I am not sure
- I doubt
- Maybe
- I don't know
- It is impossible
- I am afraid

The above are very common things that traders and investors think as they are about to pull the trigger.

Positive Belief Systems Result In Positive Manifestations

When you begin your day as I do, with making positive suggestions and thoughts, miraculous things happen. The feeling of *déjà vu* happened to me in a very strong way back in 2010 at the Traders Expo in New York. In 2007 I had a very powerful thought that at some point in the future, I would be trading live in front of a large audience and I would make a winning trade and explain all the **VSA** principles at work. As time went on I began to play out in my mind's eye exactly what I would be wearing, what the trade would look like and what would happen as I executed the trade. Then, I got a call in December 2009, and that is what happened!!

These pictures are of me trading live at the New York Trader's Expo at the Trader's Challenge, in 2010. I was able to successfully make a profitable trade when I identified one of my favorite set-ups, a 'Test In A Rising Market'. I took the trade based on a clear ***VSA*** *set-up that appeared on the five minute and three minute charts of the E-Mini NASDAQ*



Using positive sentences in your thoughts will result in positive outcomes, but what I noticed is it does not happen instantly, it comes over time the more you continue to think this way, until it almost becomes second nature. Visualize in your mind what you really want. I have heard many practitioners of the Law of Attraction produce a visual board made up of pictures and images that they would want in their life. These can be very helpful in focusing your thoughts in a positive direction.

Some positive belief statements that go with the positive visualization start with:

- I can
- I will
- I am a winner
- It is possible
- Yes
- I am sure
- Definitely

The second thing we now must have in order for success in the trading and investing world is BELIEF.

In the last chapter, we talked about the top sports men and woman practicing to be the best, but if you hear interviews with all these stars, the word 'belief' will pop up all the time. I know. I listen for it. Today as I write this, my soccer team Southampton, also known as The Saints (a team from the south coast of England), was promoted to a higher division. In recent interviews, the manager talked about the players' desires and beliefs to get promoted, and they got what they deserved today. Well done, Saints.

So is belief important if you are trading and investing? Well, I would like to acknowledge and thank TradeGuider customer Rakesh Kumar, who very kindly allowed me to use his writings from an e-mail he sent me on the November 18th, 2005. I have treasured it ever since and send it to our customers who are having lack of belief. The first part is the actual body of the e-mail Rakesh sent me, and the second part was the attachment, which was a word document. I hope this inspires you as it did me:

Hi, Gavin,

I once again looked at the chart of the week and thought I would bring to your notice a couple of crucial points.

1. Once again, like yesterday, the market was gapped up trapping and catching all those buy stop losses of those who were short overnight, this was followed by test of our patience to the limit during extended distribution period and than bang- prices marked down to lock in all the suckers. Look at the moves on DAX, 35-45pts ($800-1000) compared to just a few points on ES-mini. As I said this market is excellent for trading. Would be a good idea to have the last two days analyzed as charts of the week (buying climax) by Tom & Sebastian and then archived with the existing one.(Selling Climax)

2. Now in the present chart of the week, most would focus on the chart, however there are a few gems of comments by Tom on "Belief"
a) You have to believe these underlying principles
b) You have to believe that these markets work on supply and demand.
c) You have to believe that these markets reflect consensus of professional opinion at that time.

Also in his seminars many times he remarks "If you don't believe me check it out for yourself"

Now hardly anybody pays attention to these words, but I can assure you if you go through the interviews of super traders in Market Wizards, it will be become evident that a total belief in a particular strategy and having the discipline to implement that strategy and accepting the probability of the strategy with every cell in the body is at the heart of the success of these super traders.

These guys have stuck to simple strategies and their response have become automatic, there is no conflict in their mindset.

Just like driving, initially we have that fear of accidents coupled with the motivation to learn; hence the anxiety and stress. However, with practice, this conflict is resolved.

Trading which is the most unique profession in the world is off course in a different league. Humans are just not hard wired for trading, period. (to deal with uncertainty continuously)

3. Every trading strategy based around any indicator with say over 50% probability would work if a trader totally believed in it and applied it with discipline, however in 90% of the case this will not happen simply because that crucial transformation based on belief has just not happened, hence as soon as we are in front of the screen, anxiety, conflict sets in. With indicator-based strategy, we don't know "WHY" it is working and that causes conflict, deep down there is that nagging disbelief. Right from birth we have always been seeking answers to "WHY" and this is carried into the trading arena.

4. There is nothing like emotion free trading. The right belief structure has to be in place to resolve the conflict in the mind, uncertainty against total belief in our ability to read the market.

*5. This right belief structure can be gained by understanding **VSA** principles, which governs all the price patterns, price action and the derivative indicators thereof, i.e. that is the truth of the market. It provides the answer to "WHY" which is what the human mind seeks. Once that is fully accepted into the psyche, the conflict is resolved, emotions can be managed, (e.g. during driving, we still have emotions, we do not drive around like zombies, but we manage them, mind you nowadays this could be argued, with all that evidence of road rage on our streets) trading would then become like driving a Bentley, and this is the only software in the world which allows a trader to achieve that mindset. Mind you sometimes the charts do look cluttered up with all those "H" and diamonds and lines, however as Sebastian says you only need trend lines & volume and a couple of charts 60min, 15min, 3min to trade effectively.*

Excuse the lengthy email but if this helps anybody, it will be most satisfying. Have a look at the attached also.

Best,
Rakesh

--End of letter--

Now here is the attachment Rakesh sent me:

<u>Why you can't win at trading</u>. (10% do)

What sets the 90% apart from the 10%? Why is one person seemingly able to effortlessly take profits from the market almost on a daily basis and yet another person trading the same market at the same time will be suffering consistent losses?

Already even at this stage the 90% will be thinking that the 10% guys have better indicators or even a holy grail trading strategy. On close examination of the 10% however, it will ALWAYS be found that they often use the same software, the same data, the same indicators and often trade at exactly the same time.

If this is the case (and it is) then surely they must be gurus, they must have the 'Midas' touch, the golden key etc….

Well sorry to disappoint you, but once again this is simply not true, the 10% group consists of traders with many years experience trading as part of huge organizations and also the one man/woman in his home trading from a simple PC screen. In reality they are a pretty 'ordinary' lot.

They do have one consistent common factor however, which is usually revealed within 5 minutes of meeting them. <u>They are also more often than not the most genuine of people who take a genuine interest in other traders.</u>

<u>When one of the 90% meets one of the 10% the very first thing that happens is that the 90% guy wants to find out every technical detail, about every aspect of the 10% guys trading strategy, software etc. In doing this, the real essence of WHY the 10% guy is successful is almost always completely missed.</u>

This happens in much the same way as we miss huge parts of sales talks and yet we still buy the products. We almost always default to the comfort path of least resistance.

Television advertisers have for years used these methods to make us buy products we don't want or need. They *take the time to find out what we WANT to hear, what we WANT to be told. They discover if you like our comfort path and they sell to that path. This comfort path is the main reason why 90% of traders lose money.*

Just pause for a moment and ask yourself the following question, then consider your inner responses that you pick up on.

Do you think there is a mechanical /computerized/guru system that will continually give you profits? If you do, then ask yourself the following question: What would it mean to you to have this?

-Less stress trading?
-Better health?
-Zero emotions when trading?
-More free time?
-Self esteem?
-Power?
-Material goods?

Just play with this for a moment but REALLY focus internally on how the system would be good for you.

After you have done this you will have come a long way to discovering part of your comfort path. THIS is the path that you will evaluate any trading product on. THIS is how you will be sold the latest trading idea to come down the pipe.

The 10% guy on the other hand does not have a comfort path for trading; he has something far more reliable. Before we get to that, let's consider the points above and how these will affect your trading.

-Let's take 'less stress trading' and see how you could satisfy this. How about:
-The latest trading book?
-The latest software idea?
-A tell me what to do subscription?
-A guru's advice?
-A trading course to learn new skills?
-A gossip forum to pick up tips?

Now look back at the list and notice that ***any one of them*** *will 'help' with the earlier blue text areas.*

So…the losing 90% are the traders who ultimately believe in the idea that there is an EXTERNAL product/system/concept that will satisfy what they listed under the bulleted points above.

The 10% have no such notion of the above, in fact they will make money regardless of any product / system / concept they use.
The 10% have one thing that every single one of the 90% is looking for.
The 90% are not looking at the wrong product, the wrong system or the wrong concept. They are simply looking in the wrong place.

IT'S ALL ABOUT WHAT YOU BELIEVE TO BE TRUE RATHER THAT WHAT IS TRUE.

What is a belief? What do you believe to be true?

It might seem at first like this is an easy questions to answer and on the face of it, suppose it is, however once you start to question beliefs, things become not quite so easy to explain.

We can say at a simple level that "a belief is something you believe in".

But how do measure a belief? Are there different qualities of beliefs? What will these different beliefs mean to *you?*

To gain a better understanding you might try a simple exercise.

1. Think of a belief that you hold that we can validate as being 100% true. You MUST start with a belief something like this: The center of the sun is hot.

2. Now is the time to think deeply about this belief, best that you close your eyes and focus on this belief. As you focus on this belief become extremely sensitive to how the belief FEELS to you. You need to do this with the utmost commitment to REALLY monitoring how this belief is represented to the WHOLE of your very being. (You should spend about 3-5 minutes on this first part)

When finished take a pad and write down every physical feeling or sensory perception that you experienced.

3. Next think of another belief (As this is all about trading we will use the belief that you are a successful trader) Again… I cannot stress enough at this point that you need to do this with the utmost commitment to REALLY monitoring how this belief is represented to the WHOLE of your very being. (You should spend about 3-5 minutes on this second part)

When finished take a pad and write down every physical feeling or sensory perception that you experienced to do with this belief.

4. When you have completed steps 1-3 take both beliefs and compare them against EVERYTHING that you felt and experienced. If BOTH beliefs compare the same, i.e. your belief that you are a successful trader produced the same experiences that you felt with the belief that the center of the sun is hot then you are already one of the 10% who make vast sums from trading.

If you detect differences then you are almost certainly to be one of the 90%

<u>*I can tell you without doubt that the 10% believe in their ability to make money to the same degree that they believe the sun will rise in the morning.*</u>

<u>*I can further tell you that this is the ONLY difference between the successful and the unsuccessful.*</u>

Every successful trader I have ever met has an intrinsic belief / knowing that he/she IS successful.

On the other hand every trader I have ever met who is still searching for successful trading is still looking at:

The latest all singing all dancing software
The latest and greatest data feed
The latest chart pattern
The very best timeframe
The latest chart indicator (Some software has 1,000's of built in indicators that all work right!
The latest moving average setting
The latest guru's offerings
The latest 'tipster' offering
Is daily browsing huge trading forums looking for the 'blind' to lead them to wealth?

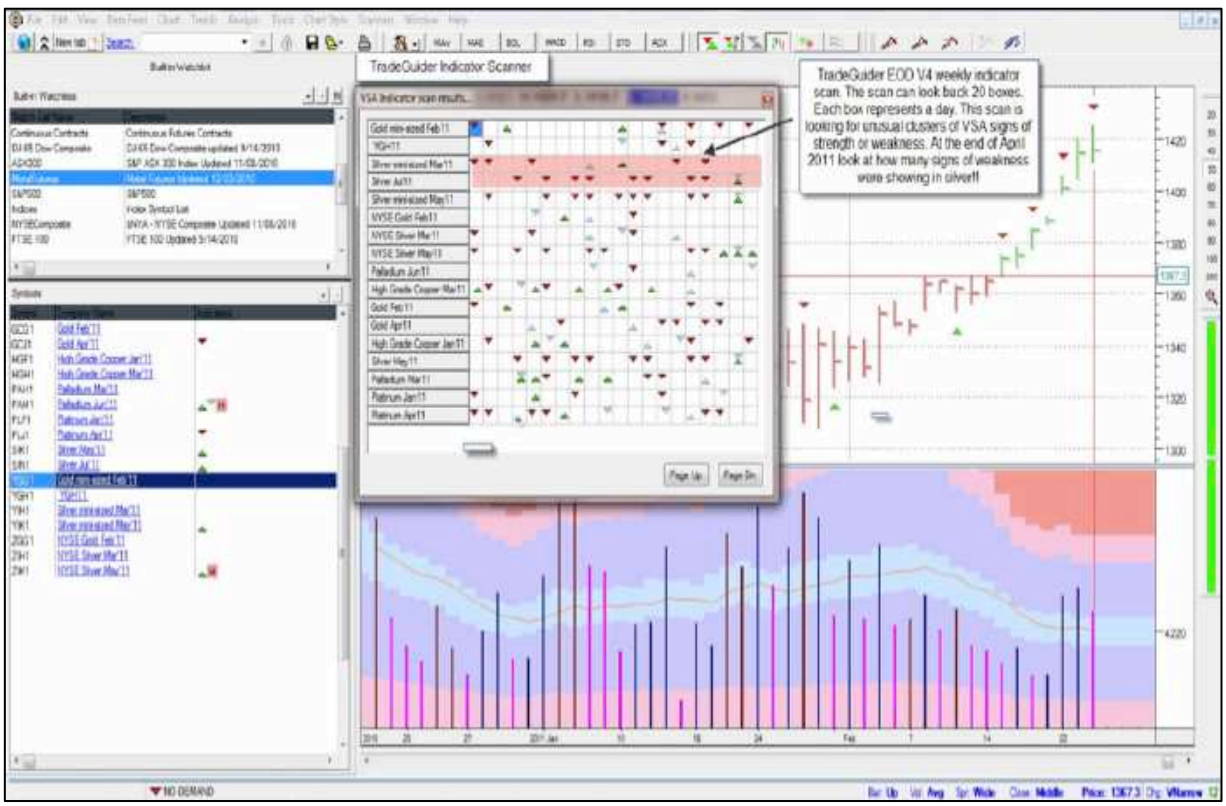
This list goes on and forever circles within the 90%

--End of email document—

I would again like to acknowledge and thank Rakesh for these words of wisdom, which during my trading and investing career I have come to realize are not only accurate, but also extremely wise. So belief, when we talk about **VSA**, means believing in your system. I have to admit that at the very beginning as I was learning **VSA**, I found some of the concepts difficult to grasp. For instance, Tom would say that weakness appears on ultra high volume up bars, then in the next sentence he would say that weakness also appears on low volume up bars. Surely he was contradicting himself. I soon learnt, however, that Tom was completely right and what he was saying was correct.

In the **VSA** Club (www.vsaclub.com), we do a weekly webinar called "The Closing Bell", in which fund manager Philip Friston and I find charts that are showing strong **VSA** principles of either strength or weakness. In late April I did a scan of the metals markets because for some months I had been warning that there would be a massive sell off in the silver market.

CHART VSA 47



All our webinars are archived so club members can go and check what the **VSA** principle was showing and what the market actually did. The results are uncannily accurate. The indicator scan that I did using TradeGuider EOD at the end of April 2011 showed some extremely unusual activity in the silver markets that caught my attention. As you can see in **Chart VSA 47**, when you see this in any market you should be alert to an opportunity to make money.

CHART VSA 48

Chart VSA 47 shows the results of the weekly scan of the metals markets. The scan shows several signs of weakness as silver approached $50.00, the same level, incidentally, as the collapse of silver prices in January 1980 when the Hunt brothers had cornered the silver market. Note that one of the two strongest signs of weakness appears a week BEFORE the collapse and also note the narrowing of the range/spread of the bars prior to the climactic bar shown at bar A on **Chart VSA 48**. You must believe in these principles because the **VSA** methodology really does "demystify the markets" to quote Tim Rayment, two-time winner of the World Cup Trading Championship. I have often heard customers who have read either of Tom's books tell me how finally, they have found a system that "lifted the fog" on the mechanics of the market, but here is where you will have trouble, initially anyway, believing in these principles.

If we take the silver market in May 2011 as an example, the news and reports about silver were extremely bullish. I actually received emails from a number of places encouraging me to get into the bullion market in April 2011. This is exactly the same situation we saw in the oil markets in 2008. If you see a buying climax, especially if it is confirmed by an Up-thrust followed by No Demand, then this is a set up that will appear in all markets and timeframes at some time, so BELIEVE in these principles. Once you have learned them, they will not let you down.

In summary, we are what we believe and our thoughts and actions govern our outcomes in life, and yes, this applies to being a trader or investor. If we believe we are successful traders and investors who make money by having an understanding of 'the game' we are playing and we apply the five P's described earlier in the book then, you really can put the odds in your favor in order to make well informed, intelligent, higher probability trading and investing decisions. You *really can* use universal laws to improve your life, your happiness, and your trading and investment performance, but first you must ***BELIEVE*.**

CHAPTER 10

WHY MANY RETAIL TRADERS AND INVESTORS LOSE MONEY AND WHY SOME MAKE MONEY

One of my most successful seminars that I have done was entitled *"10 Ways **VSA** Will Turn Losing Traders into Winning Traders - how "Smart Money" enabled trading can alert you to what is really happening in the market".* In this webinar I first listed the 10 reasons, in my opinion, that the average retail trader and investor loses money when trading or investing. Here are the reasons, in no particular order of importance:

Losing traders do not have a trading plan!
As I have stated earlier, it is vital to have a plan when you trade or invest. Without it, you have no measure of what you are doing right or wrong.

Losing traders do different things on different days, and are totally inconsistent.
What causes inconsistency? Doubt in your trading plan, now you are not following any plan, RESULT, LOSSES!!!

Losing traders have no BELIEF in their chosen strategy.
BELIEF in what you do is key to your financial reward. Computers do not think, they compute the inputted information and need NO financial reward. Your brain is a very powerful tool and when used correctly, will produce outstanding results.

Losing traders think and act like gamblers!
A card counter that goes to Vegas puts the odds in his (or her) favor, which is why card counters are banned if discovered! As a trader or investor, you can put the odds in your favor if you study for a few hours each week! Are you prepared to study and make MONEY??

Losing traders are always searching for the Holy Grail of trading, but it doesn't exist.
How many trading software packages have you got that consistently make you money? How many times have slick sales and marketing of a product prompted you to buy based on their claims of percentage accuracy? How many times have you been taken for a MUG (Mathematically Uneducated Gambler!) when you thought you had found the "Holy Grail"? How many times have you asked yourself "Am I getting mugged by 'Smart Money' that understands my underlying reasons to take a trade?" (The reason usually being greed for more money, or fear of further loss when losing money. Hey, welcome to the world of being a HUMAN BEING; its natural, so master your emotions!)

Losing traders often use too many systems and too many indicators, so they never know what the chart is really telling them. "The chart never lies, if you know how to read it correctly."

Have you ever suffered from 'analysis paralysis'? Are you looking at too many indicators and too many charts so that your brain becomes confused and clarity disappears? Keeping trading and investing as simple as possible using the tried and tested methods such as **VSA** and the Wyckoff method will help you read the market as it unfolds.

Losing traders are often under capitalized, taking large trades with poor risk/reward ratios, and no money management skills.
Winning traders are traders with discipline, belief, lack of fear, and knowledge of how the markets work. They also know they can never be 100% right, and they get out of losing positions quickly and see it as a small business loss, not a financial disaster. How do *you* treat losses?

Losing traders do not understand how markets work, often believing that price moves markets, but it does not. The forces of <u>supply</u> and <u>demand</u> and the trading of 'Smart Money' cause prices to move.
Winning Traders have studied how the markets truly operate and know how to win the game they are in.

Slick sales and marketing of trading systems that claim to have a high percentage of accuracy, confuse losing traders. So, they end up trying many systems that almost always result is losses.
Have you ever heard the sales guy tell you, "Our system is 80% accurate- it's so easy to trade with our system a seven year old can do it!! Just follow the three green lights and buy, three red lights and sell"? How many times HAVE YOU been burned?

Losing traders ALWAYS follow the herd, and get locked in to bad trades!
How can you prevent yourself being a HERD member and being led to the slaughter by 'Smart Money'? If you could truly understand HOW to read a price chart correctly how quickly could you become profitable?

It's all about DISCIPLINE
Fortunately, you don't have to be a genius to be a successful trader/investor. As Berkshire Hathaway chief and investor extraordinaire, Warren Buffett said in a 1999 interview with *Business Week*, "Success in investing doesn't correlate with IQ once you're above the level of 25. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing."

It's true that not everyone is gifted with Buffett's calm, cool demeanor. Challenging yourself to avoid your own worst instincts will help you reach your financial goals.

<u>Winning Traders And Investors Have The Following Characteristics</u>

- Belief
- Visualization – seeing the winners/cutting losers
- Contrarian – think as an individual
- Expert chart reading skills
- Highly Disciplined

- Spiritual
- Open minded and willing to help others.
- Expect to receive and do so graciously
- Excellent risk management strategies.
- Always able to stay in the game!!
- Take consistent and small profits – NOT GREEDY.
- Are always happy and *content*.

A great story recounted by futures broker Martin Wong in Malaysia discusses the similarities between trading and investing in the markets. The story is *'Ali Baba and the forty thieves'*. Ali Baba and his older brother Cassim are the sons of a merchant. After the death of their father, the greedy Cassim marries a wealthy woman and becomes well-to-do, building on their father's business—but Ali Baba marries a poor woman and settles into the trade of a woodcutter.

One day Ali Baba is at work collecting and cutting firewood in the forest, and he happens to overhear a group of forty thieves visiting their treasure store. The treasure is in a cave, the mouth of which is sealed by magic. It opens on the words "iftah ya simsim" (commonly written as "Open sesame" in English), and seals itself on the words "Close, simsim" ("Close sesame"). When the thieves are gone, Ali Baba enters the cave alone, and takes some of the treasure home.

Ali Baba borrows his sister-in-law's scales to weigh this new wealth of gold coins. Unbeknown to Ali, she puts a blob of wax in the scales to find out what Ali is using them for, as she is curious to know what kind of grain her impoverished brother-in-law needs to measure. To her shock, she finds a gold coin sticking to the scales and tells her husband, Ali Baba's rich and greedy brother Cassim. Under pressure from his brother, Ali Baba is forced to reveal the secret of the cave. Cassim goes to the cave and enters with the magic words, but in his **greed and excitement** over the treasures forgets the magic words to get back out again. The thieves find him there, and kill him.

It is easy to get into the market, you don't need magic words like "open sesame", just a computer, an internet connection, a brokerage account, and some charting tools, but knowing when to get out is the key. Greed and excitement as highlighted in the story of Ali Baba will cost you money, and in the unfortunate case of Cassim, it cost him his life in this famous story. Become the master of your emotions and each time you trade and invest, follow your plan with military precision, knowing exactly what you will do if anything goes wrong and the trade is not working.

Summary

- Each of us is unique. We have different account sizes, loss tolerance levels, experience levels, different ways of viewing things (two people can look at the same mountain from the same place and see entirely different perspectives), and different levels of self-discipline.

- These strategies are a guide but must be adapted to your style of trading and personality. Only YOU can do that for yourself.

- **VSA** principles apply to all markets where there is volume available and in all timeframes including Futures, Commodities, Stocks, Spot FOREX, etc.

- KISS – Keep It Simple, Stupid. Nothing here is rocket science. **VSA** is very logical and is based on principles that have been around for decades.

- Take a holistic approach to your chart analysis. By this I mean that you emphasize the importance of the whole, and the interdependence of its parts.

- Strength can appear on down bars.

- Weakness can appear on up bars.

- The background analysis of the chart is vital.

- Has the strength or weakness appeared at the top or bottom of a channel?

- Is this a major trend reversal or a retracement?

- Is the news good or bad?

- Is demand overcoming supply?

- Is supply overcoming demand?

- All patterns seen in the past will be there at the right edge of your chart, but they will come in different intensities.

- **VSA** is a discretionary methodology that still requires discipline and money management.

- **VSA** is much more effective when used with support and resistance (Used by Wyckoff).

- You must use more than one timeframe to see the bigger picture.

- If you listen to news, have a very contrarian view of the contents when taking a position.
- The chart never lies; rely on your charting skills.

- Become familiar with the “personality” of the instruments you trade.

- Always use a stop loss, you can never be 100% right.

- Always pay extra attention to ultra high / very low volume on the chart when it appears.

- Ask yourself, what the 'Smart Money' are doing here and why are they so active / not active.

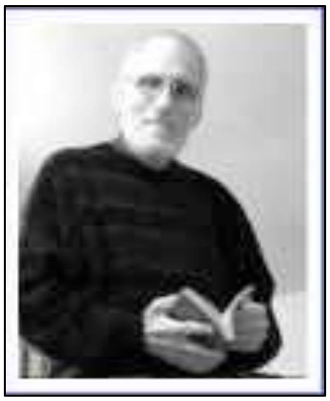
- Many **VSA** patterns require 2 or 3 bars for confirmation, like candlesticks, so don’t rush in.

- Volume is the key to the truth; ignore it at your peril.
- Learn how to trade with Point & Figure in order to see graphically the uncontaminated areas of supply and demand. Correlate and cross-reference P&F with **VSA** for even higher probability trades.

CHAPTER 11

INTERVIEWS WITH THE EXPERTS:
INTERVIEWS WITH 5 INTERNATIONAL WYCKOFF/VSA EXPERTS

Interview 1: David Weis (referred to as DW)



David Weis [DW] is a world-renowned Wyckoff expert and a contributor to www.richardwyckoff.org where he is going to be running a course on Point and Figure charting.

His book *Trades About to Happen: A Modern Adaptation of the Wyckoff Method* is due to be published in 2012.

GH: How did you get involved in trading and investing in the markets?

DW: I was working in Louisiana whilst studying for a PhD in English Literature (on 'black' dialect). One day I saw a graffito which gave me a sobering lesson in the law of supply and demand: *English teachers are a dime a dozen!* Although I had planned to stay in academic life, a visit to a friend in the research department of a commodity brokerage company in our hometown of Memphis, Tennessee, made me change my mind. I joined the technical research department, compiling charts by hand, and was soon making money; by the time the markets heated up in 1970 I had become a technical analyst, and carried on from there.

GH: That sounds very much like Tom Williams, who began as a chartist for a hedge fund in Beverly Hills. And how long have you been trading and investing?

DW: For 40 years, since 1971.

GH: Now you're an acknowledged expert in Wyckoff methodology, and Point and Figure charting. How did you come across the work of Wyckoff, and why is his work still so valuable to traders today?

DW: In those days people who knew about, and profited from, Wyckoff, tended to keep it to themselves. I learned about it from one of my accountants (by this time I was a broker as well as an analyst), who very kindly arranged, and paid, for my tuition. It did not take long for my new knowledge to pay me substantial dividends!

GH: Again, much like Tom Williams, who also studied Wyckoff. The thing about the Wyckoff method is that it's not a 'Black Box' approach. Can you describe, or summarize, the Wyckoff method of trading?

DW: In the Wyckoff method you're listening to what the market says about itself, and acting on market-generated information. There's no interaction with any mathematical information, the news, or any tips about the future: just *what the market says about itself*. The essence of the method is to develop an intuitive judgment based on close and prolonged study of market movements. Although Wyckoff lived in the days of ticker tape, when trading was confined mainly to stocks and commodities, his method is just as applicable to chart reading and the much greater range of tradable instruments that we have today.

GH: Why do you think the Wyckoff method becoming so popular again?

DW: I think there is now a greater understanding of the limitations of mathematically generated indicators. Such indicators try to predict the future by analyzing the past, but experience shows that they are far from infallible. The main problem with indicators such as MACD, Stochastics, and RSI, is that they are lagging indicators, and traders are now realizing that the key to success lies in learning what the market is telling you at the leading edge of the chart in order to predict with a high degree of certainty which way the market will move in the future.

GH: So, what are some of the things Wyckoff would encourage us to look at when analyzing the market?

DW: Essentially, Wyckoff was interested in the spread of the price bar, the position of the close, and the volume. Also of interest were the duration of moves and the interaction of the prices bars with trend lines, support and resistance lines, and channels.

GH: This is much the same as what **VSA** is about: the range (spread) of the bar, the volume, the closing price in relation to that volume, and analysis of the "background" and thus we get to certain support and resistance levels (what I call trigger numbers) where those levels form an area of high probability trading, because everything is lining up in your favor.

My next question is on Point and Figure charting, with which many readers may not be familiar. Can you tell us a bit about it, and why it can be relevant in today's markets?

DW: Point and figure seems to have fallen out of favor today, but Wyckoff, in his first course, says that this is the most important chart to maintain; if you study the course you will see just how much emphasis there is on Point and Figure.
A bar chart shows the price spread, and the open and close for the period in question, be it days, weeks or whatever. The point and figure chart, on the other hand, easily enables your to adjust your analysis by changing the box sizes and the reversal factor.

For example, Point & Figure charting is superb in its ability to reduce "market noise" by selecting e.g. a box size of 10pips x 3 boxes. This means that we plot three boxes only when the market has moved (10x3) =30 pips in either direction (up or down). This methodology eliminates market noise and enables the trader to get a better view of market dynamics. As a little bit of background on a very large subject, Point & Figure was plotted early in its history as depicting market price movement with a series of X's and O's. These days it is more popularly shown as different colored "boxes".

For those interested in the development history of P&F, Richard Wyckoff's book, ***Stock Market Techniques*** published in 1933, stated that the "one point figure chart" is the standard for stocks. (Wyckoff's book discusses Figure charts constructed with figures. This is not to be confused with Point & Figure charts, which followed later, as the idea developed)

To Wyckoff the most important thing about the Point and Figure chart were the horizontal areas, the lines of congestion, from which you can make a Point and Figure target projection of the extent of a move. Point and Figure charts give very reliable buy & sell signals, and perhaps more importantly indicate the breakout direction of the market above or below the congestion areas, in effect showing the trader exactly where the cause was being built for an effect.

You'd combine the use of a standard bar chart and volume to get additional confirmation of the future direction. Point & Figure charts also give reliable price targets, as well as show the **VSA** corroborative situation by virtue of the fact that a line of up boxes clearly shows demand and a line of down boxes indicates supply.

(In his earliest work Wyckoff did, in fact, devise some charts, which incorporated volume with Point and Figure; he obviously recognized how very helpful volume combined with point and figure oscillation could be.)

In summary, Point and Figure is measuring cause and potential: the strength of the lateral movement from which to project up or down.

GH: So, as far as it is going to help the trader, the Point and Figure chart is going to help him select a Point & Figure signal which will form the basis of where to eventually take profit, a point which may, indeed, be much further away than one chosen without the aid of Point and Figure.

We could conclude by saying that Point and Figure accurately depicts the precise price levels where price has reversed or risen, which in effect can therefore be regarded as graphically showing price activity volume.

It is this volume that can be correlated to the various trading signals that are given out by TradeGuider, based on the software's analysis of the volume at the chosen price level. The proper and combined use of Point & Figure with TradeGuider will lessen the amount of volume analysis needed to take high probability trades, and by implication will reduce even further the chances of making analytical mistakes or misinterpretations.

<u>Interview 2: Philip Friston (referred to as P)</u>

Philip Friston [PF] is a fund manager.

GH: How did you first become involved in the financial markets and what led you to Volume Spread Analysis (**VSA**)?

PF: I became interested in the late 1960s. My father ran an investment company and a friend was also interested in shares. I was too young to own shares directly so my father would buy shares and I would 'own' a portion of these. I didn't really know anything about the markets at that time - I just thought that it was better than putting money in the bank. It wasn't until 1973/4, when the market lost around 78% of its value in 18 months. It was then that I lost half of my savings, and came to realize that I had to learn what was going on. I applied myself to the study of the markets and got involved with technical analysis. After trying out various bits of software with only limited success, I was persuaded to try a program called *Genie Chartist* (the forerunner to *TradeGuider*). I liked what I saw: the program seemed straightforward in the sense that there was just a bar chart with volume activity displayed underneath. There were no indicators such as moving averages or stochastics. It was based upon supply and demand, which I understood from economics. I thought this could be the answer. As a result of attending Tom Williams' seminars I finally realized what was going on in the markets and decided to concentrate entirely on **VSA**.

GH: What do you think is the difference, if there is one, between standard technical analysis, which obviously looks at the price, and **VSA**?

PF: **VSA** tells you what is happening *in real time*; and if you analyse the background you should gain a picture of the general trend of the market. I know of no other system or method of technical analysis that will do that reliably.

GH: Until you found Tom Williams did you have any other mentors?

PF: No. In a business where it is notoriously difficult to find a really reliable system - the Holy Grail, if you will - I would say Tom was the first and only person whom I actually trusted. You have to accept that as an investor or trader you are going to make losses. Even the professionals do.

GH: How do you explain your success with **VSA** for over 20 years?

PF: I think it was when I ceased looking at bars in just one dimension. If I saw a down bar with very, very high volume I thought that it must mean that buying was coming in, especially if the bar closed off its low. But the most important point I was missing was that there would also be lots of selling on the same bar. I was tending to look at the bar in one dimension, not two. In fact, you shouldn't be buying on a bar like that because often there is too much selling present for prices to go up. The selling could swamp the buying and take prices lower still.

GH: So, a down bar such as you have described does not give a signal to buy instantly?

PF: No. You've got to be patient. And equally, if you reverse it and turn it upside down, you wouldn't go short on a very high volume up bar. In both cases you would wait for confirmation.

GH: Tom says that he doesn't look too much at fundamentals because the chart reveals what the professionals are thinking. I know that you look at what the market's doing and you look at news. Could you tell us how you use fundamental analysis in conjunction with **VSA** to confirm that the market is doing what you expect?

PF: I use fundamentals to weed out stocks that don't meet my criteria (for example, I would not consider a company with a high level of debt). It is the chart that will tell me whether a stock is good or bad. By using a top down approach, I try to reduce my risk to an acceptable level. (To place too much weight on fundamentals could be misleading: a stock might appear bad because the market hasn't yet caught up with what the chart is telling you.)

GH: Do you use any form of technical analysis to confirm **VSA** (or the other way round), and if you do, what do you use?

PF: Not really. The only one that I do use, the RSI, which is a momentum indicator, can be quite useful to confirm **VSA**. I only use it in limited circumstances, which I won't go into here, because I think that any such tool, if used all the time, won't work.

GH: What would be your favorite **VSA** signal, for example, to go long?

PF: My favorite is to see a down move in a particular stock. You see accumulation or buying taking place in the background; then you see the price move back down to that area where you had seen the previous buying; and then you see what we call a **Test**. *This is a down bar, preferably with a narrow spread, with relatively low volume compared to the* *accumulation area to the left.* What this is telling us is that as the price falls back down into the area of accumulation, any selling or supply that was present has now dried up.

GH: BP would be a good example of that. Perhaps we can discuss that stock in a little more detail. Prices plummeted for several weeks to an eight-year low - we even heard rumors that BP was going bust - and yet it was a great stock to buy. Most people would not believe that statement, but if we look at the chart, it doesn't lie. Describe what's going on here.

PF: According to the fundamentals, the company was quite solid, bullish, even. But the news put out was so bearish that it created an atmosphere of panic. The 'Herd' (the uninformed investors) were terrified of losing their money and were prepared to sell at any price. That is when the 'Smart Money' (the professionals) stepped in and said, 'Thank you very much. This looks like a good long-term stock. We've got the opportunity to buy it now at a very cheap price.'

GH: Can you tell us more about the relationship between the 'Herd' and the 'Smart Money'?

PF: To give you an example: during a bull market, as prices go up, more and more people will be sucked in. What is happening is that the 'Smart Money' is selling to the 'Herd' at ever rising prices in order to keep the bull market going. The 'Herd' keep buying because they believe the good news that is being spread around, and do not wish to miss out on a good thing. Eventually, there comes a point when prices get pushed up so high that they are completely overbought. At that point the professionals start selling. Then, later, when the market falls back to oversold levels, they begin to buy in again.

GH: And that's exactly what **VSA** determines? It sees when the professionals are buying or selling, and when the 'Herd' are involved? And is that what causes the very high volume? The interaction of the 'Herd' and the 'Smart Money'?

PF: It is. At the bottom of the market, it's the fear of losing money, causing the 'Herd' to sell every stock they've got to get their money back, that creates the high volume. At the top of the market, it's the opposite; it's greed, and the fear of missing out on further gains. We know that these gains won't materialize; however new people coming into the market don't know that.

GH: If you see a **VSA** signal like the one you have just described, namely, *a down bar with a wide spread, maybe with bad news, and a Test*, would you enter a trade every time, or are there times when you would wait?

PF: This is where experience tells. You learn to recognize certain situations where waiting is called for. However, in general, I would probably go in and buy (but not if I were trading, say, a future). After all, with the bank paying no interest on your deposit, it is worth buying a stock with a decent, and reasonably secure, return. Like that you get paid for owning the stock, and you might even earn some money on the investment as well. I would put my stop loss below the area of accumulation. If the stock then starts going up and we see *signs of weakness* coming in, I would probably sell half of the holding. Then if it comes back down to the bottom again and **tests**, I would buy that half back again. And then eventually, if the market goes up, I'm fully in.

The advantage of doing that is, if it goes up and down a couple of times like that, and then drops below the stop loss because perhaps the accumulation hasn't worked, and that can happen sometimes, hopefully the amount I have made on the gains would cover any losses I've made. So overall I wouldn't lose anything.

GH: Many traders and investors don't really understand what risk means. How do you understand the work 'risk' and what risk parameters do you use when you take a position?

PF: Risk is one of the most important factors in the market. You can pick good stocks and still lose money if you don't get the risk right. It's a question of looking at risk and reward in every purchase you make. You've got to get that right. I work on a certain level of risk that I'm prepared to accept. If I see a stock on which the risk is too high, I don't buy it.

GH: Let us say that your capital account was $100,000. How much would you be prepared to risk in any one position?

PF: From an investment point of view, I would probably want to invest in perhaps 40 stocks, which is 2.5% of your capital base per position. I feel this is a nice manageable position. Once you go too far above that, say if you are managing 80-100 stocks, it becomes a little bit too cumbersome.

GH: Tom mentioned 3%. I prefer 2.5%, like you. So you don't want to be exposing yourself to saying, as many traders do, that *'this is a golden opportunity, I got three tips that this is going up, my account is one hundred thousand. I'll tell you what, it's such a good tip, I'll put $50,000 in here'*… That's not good advice.

PF: That's too much risk going into one stock, because if you are wrong, then you are going to lose too much capital and it will affect your confidence.

GH: What is the worst loss that you can remember? Even if you can't remember exactly what the figure was, do you remember how you felt after that loss, and how do you deal with emotion when you invest?

PF: I do remember the loss, but not the amount or even the stock. It was in 1987 when the market dropped dramatically over two or three days. With hindsight, I can see why I shouldn't have been in certain stocks.

GH: The second half of my question:-

As a fund manager, how do you control your own emotions when you manage not only your own, but other people's money? Losses can make us depressed, angry and resentful, to name but a few emotions. You always seem to be very calm, collected and disciplined.

PF: It's no longer a problem. With investing, because I have been doing it for so long, a loss doesn't worry me, its just par for the course. I'm not afraid to admit that I do have losses, quite frequently in fact. But that's all part of it. And I've learned now, because I've been doing this for so long, that if I make a loss, I will make a profit later on. Perhaps I should emphasize that I am speaking from my experience (and confidence) as an <u>*investor*</u>; with <u>*trading*</u> it might be another matter!

GH: So you define trading and investing as two different things. In Tom's day, there was mainly the stock market and commodities; it was end-of-day with the ticker tape and no computers. He was telling a story of Teledyne where he was short and the ticker tape was going up but it turned out to be an up-thrust. There is a difference now because people can trade a one-minute chart, be in and out of the market, and make 500, 1000, 5000, 10000, 20000 dollars in minutes. Then, of course, you have the investment that can make the same amount of money but it takes six months. That means there's a big difference between investing and trading. Do you think **VSA** applies equally to both types of trading?

PF: Certainly. **VSA** can work equally well on a monthly, a 5-minute, and, if you have enough liquidity, even a one-minute chart. We've seen it on the E-mini S&P futures. The principles are exactly the same for charts of all timeframes.

GH: What do you think the general public's misconceptions are of the market? We have touched on market manipulation. I was very skeptical of that whole concept when Tom told me about it, but I know better now. How can you give the general public some advice to *wake up*, as Richard Ney put it, to what's going on?

PF: I think the biggest problem with the general public is that they tend to get into things too late. They are reading the financial press, they read all the general news, and thereby don't get into the market at the right time. It's very difficult; it goes against human instinct to buy a stock when the news is bad. Equally, it goes against human instinct to sell a stock when the news is very good. It's the total opposite to the way in which we are programmed, or conditioned, as human beings *and you almost have to re-program yourself in order to follow **VSA**!*

GH: That's almost exactly what Tom once said to me, 'If you do everything against your gut instinct when you're trading, you're going to make money!'

So, we've talked about **VSA**, and how it has helped you and your investing. Can you now give me **three simple rules** that you'd give a trader or investor just coming into the market - three simple trading rules that will keep people out of trouble and, hopefully, make them some money?

PF: Yes I can-

Number 1, **Risk management**: This is extremely important, because, if you haven't any risk management you're very likely, if not certain, to lose money however good you are or may be, at picking stocks.

Number 2, **Discipline**: You have to be disciplined to do your analysis thoroughly, to follow it, and not be influenced by other things around you, particularly the news.

Number 3, **Follow Volume Spread Analysis**.

GH: And read the chart!

PF: Yes, read the chart (that makes four!)

GH: Do you think chart reading is a language, like French or English or Spanish?

PF: I think it is. You can learn so much on your own, but to be really fluent, you need to go and live in the country concerned, in other words, to immerse yourself in **VSA**. There are many things you can do, including joining the **VSA** Club. You can get hold of lots of charts. Go back several hundred bars, say 500 (you can do this in TradeGuider).

Then pick a point way back and analyze the chart up to the right edge. Then move along a day at a time to see if you are correct. Re-analyze as you go. Don't look ahead first though. Every time you get it wrong, ask yourself why.

Practice. If you have question - and there is no such thing as a dumb question when it comes to **VSA**, you can post it in the **VSA** Club forum (most questions are answered within 24 hours).

GH: If everybody in the world who was a trader or investor had **VSA** and the TradeGuider software, would the market change or stay the same?

PF: It would change if they all understood it, but I think in reality that is never going to happen.

GH: I once asked Tom the same question and he said, 'There's so many different markets, so many different timeframes, so many different people, that even if it did happen, it would be applied at different times, and of course it wouldn't have an effect on the market *because the market is moved by* <u>*supply*</u> *and* <u>*demand*</u>.

Finally, just to wrap up, with your lifetime trading experience, what advice would you give to someone who has just started out, or has been losing money, using technical tools, using fundamentals, and just can't figure it out, and who wants to lift the fog off the market. What's that path moving forward?

PF: First of all they should join the **VSA** Club and learn from it. There's a lot of material in there, a lot of webinars they can look at. (Yes there is a monthly subscription, but you can't learn about the markets for free!) After all, it's a lot cheaper to join the **VSA** Club than it is to go into the markets blind and try to trade by yourself. You'll lose lots of money - thousands, or, in a few cases, millions.

If you wanted to set up a shop somewhere, you wouldn't just go and purchase the first shop you saw in the estate agent's window. You would want to do your homework. You would want to find out about the area and the particular business you're going into. You'd want to ask yourself, 'Are there any competitors, or there likely to be in the near future? If so, can I find a way of bettering those competitors and gain their custom?'

But on the other hand, with trading we tend to think we can open an account, start trading without any knowledge, and expect to make money. It cannot happen. You need to treat it as a business, do your homework and study it carefully, to make money.

GH: What you really need is a business plan as a trader. In fact 'Fail to plan, plan to fail!'

Interview 3: Dr. Gary Dayton (referred to as GD)

Dr. Gary Dayton [GD] is a professional trader as well as being a psychologist.

GH: How did you first get involved with trading and investing?

GD: Back in the late 90's I ordered a brochure from Ken Roberts, which really intrigued me; I stayed up all night reading it two or three times over. I just couldn't believe what he was describing. Of course, it took a lot more than just that kind of material for me to get good at it, but that was how I started.

GH: You are now recognized around the world as a Wyckoff expert and you have done several seminars on Volume Spread Analysis (**VSA**) techniques. How did you come across the teachings of Wyckoff, and also those of Tom Williams? And how do you account for the renewed interest in the Wyckoff method over the past 2 or 3 years?

GD: My trading wasn't at all successful at first. One day, when I was in a trading chat room run by Linda Raschke, she said, "If you really want to understand technical analysis, you need to read Wyckoff. Wyckoff covers about 90% of technical analysis." She had taken the Wyckoff course herself and uses a lot of Wyckoff methodology. That intrigued me; I've always been the kind of person who needs to know the reasons.

So began my quest to learn about Wyckoff. Being the 90's, there wasn't much information available on line, so I ordered the course from the Wyckoff Stock Market Institute and studied it. During my studies I came across Tom Williams book, *The Undeclared Secrets that Drive the Stock Market*. The £50 I spent on a copy was just about the best money that I ever spent on my trading education. I read and re-read that book many times and have actually rewritten it, including the charts, in my own words - not to take authorship, but just to have a better understanding of it.

Wyckoff's original course and Tom Williams' book are the foundation of my studies. I then met David Weis and I became his student. From David, a world-renowned Wyckoff expert, I learned of the awe in which the method was held when he was first mastering it.

As for your second question: Yes, it really is significant, and I think 'awesome' is a fair description. It tells us how the market works, based on the laws of supply and demand, and how it can be influenced by the actions of the larger players. Now, thanks to Wyckoff and Williams, Weis and a few others, we have a chance to interpret the tracks left by the big players, and to follow in their steps.

GH: Wyckoff uses the term ' The Composite Operator' in his books; could you explain what he meant by this?

GD: Wyckoff is conveying the idea that a good way to understand the market is to regard it as a single entity (even though we know, of course, that it is made up of multiple individuals). This hypothetical operator is managing the market in terms of supply and demand, building up a line of stock through accumulation, or selling it for distribution. If, for example, there has been panic selling as the market falls, perhaps for days, or even weeks on end, and then, suddenly, we see a large amount of activity and the market closes down, but on massively increased volume, this is a clue that the Composite Operator of the market has decided, 'Prices have fallen far enough, it is now time to support this market.' (BP is an excellent case in point).

GH: Do you think the Wyckoff method, formulated 100 years ago for stock trading, is only suitable for stock traders, or does it work in every market?

GD: It works in ALL markets, including futures, commodities and FOREX, in all timeframes. This is because Wyckoff shows us that the principles of market behavior are based on human behavior. He was really talking about human behavior in the context of freely traded markets - it doesn't matter what the market is trading - as reflected in the charts of those markets. As a psychologist, I know human behavior doesn't change materially over the centuries, or even millennia. Changes in human behavior are evolutionary, not revolutionary. Changes in information technology may be revolutionary, but the way we respond to them are evolutionary. That is why Wyckoff remains fresh and relevant today.

GH: How do you think **VSA** has enhanced Wyckoff's original work?

GD: I think Tom did a brilliant job, particularly in simplifying Wyckoff's sometimes-complex work. Mastering Wyckoff takes time and dedication - a bit like leaning to play chess to a high standard! Also, Tom makes it clear that the market, as described by Wyckoff, isn't just a transfer of stock from strong players to weak players, but it is also a transfer of *risk* - the strong players understand that when the market rallies to a certain level, it becomes too risky to hold on to their stock any longer, so they unload it. These professionals - the 'Smart Money' - look to unload in an active market, when the public -

the ‘Herd’ - get involved and are attracted by the high prices, their involvement being reflected in increased volume in the charts.

GH: How do you think Wyckoff would have interpreted the silver market in May 2011?

GD: I don’t know quite how dramatic he would have considered that move to be, but he certainly would have seen the potential for silver to move down after the public had been attracted into the market by ever rising prices. It was a perfect opportunity for the Composite Operator (the 'Smart Money') to unload all the silver that they had bought further down. You will recall that they unloaded their stock at $50 per once the same price that it had been in the 1980's.

Since 1973, the price had been forced up from $1.95 an ounce to a high of $54 by the Hunt brothers. They had accumulated half of the world's deliverable supply. Then the price plummeted to below $11, bankrupting the Hunts. This raises the question of why silver should have hit $50 and then plummeted on two occasions, despite inflation during the intervening 30 years. My explanation, as a psychologist, is that $50 is a psychologically significant level. Round numbers are often significant; consciously or unconsciously people 'anchor' to them and respond to them in their market behavior.

GH: I refer to those round numbers as trigger numbers in my book because that’s exactly what they are. If you see a price level going back to the same price area, and then you see an unusual swell of volume coming in as we saw last week with silver in the TradeGuider charts, what in fact you are seeing is a *buying climax*, followed two days later by *no demand*. This is quite interesting, and always confuses many traders. Can you explain why weakness appears with *very high or ultra high volume* up bars, and then appears again a few bars later with *low volume* up bars?

GD: It is confusing, and it can seem daunting for novice traders. Even though it sounds contradictory, my recommendation is to persevere because eventually they will understand. Professional traders (the 'Smart Money') need an active broad market to unload their stock (whatever it may be) And so the buying climax occurs when we have weaker holders (the 'Herd') rush into the market, tempted by rising prices and favorable news. The 'Smart Money' see the increasing volume caused by the entry of the 'Herd' into the market and sell into this active buying. We can identify the climax by the way in which the high up bar closes: it will usually close somewhere off the high, closer to the middle, or even down on the lows. The spread will be wide, indicating heavy activity. Most telling is that we’re going to see a very, very large volume (*or Ultra High Volume*, as **VSA** would indicate). That is how we know that the 'Smart Money' is unloading into an active market.

Remember however, that an up bar on high volume is not in itself a signal to sell. We need to see the complete package: high volume bars with a wide spread, closing mid range or lower, after a move has been underway for some time. At the beginning of a move, high volume is generally considered to be a positive sign, but negative at the end. Bear in mind that market reversals are not abrupt events; they are more of a process, part of which is a testing to make sure there is no further demand. Finally, once the market has reacted to the buying climax, it will rally. Wyckoff described this - a buying climax, a reaction, and a rally - as a topping process. To confirm to that there really was weakness coming into the market, and that the climax was, in fact, a buying climax, and that buying is exhausted, we want to see light volume and no demand, characterised by lack of volume and narrower spreads. At that point we can look for an opportunity to short the market.

GH: That's a perfect explanation. I have two more questions. First: How important is it for traders to have belief in their system to enable them to trade the markets successfully?

GD: I would say it's vitally important. If you don't believe - if you don't have confidence in your method, if you don't have confidence in yourself as a trader - you will find trading very difficult. For example, if the market isn't cooperating with your trade entry, you must have the confidence that you can manage your way out of the trade without having a huge loss. If you don't have belief in your method - whether it is Wyckoff/**VSA** or any other method, you're going to be lost as a trader.

That is because you are always going to be looking to fine-tune and improve your system. You'll likely always be checking the MACD, the RSI, or looking to some other indicator for your confidence. You'll do that because you really don't have confidence in your own abilities.

Also, when you do that, you'll start getting conflicting information. The MACD won't give you the same information as **VSA**, for example. Now you are left even more confused. It's like having more than one clock. Which clock is telling the right time? You don't really know, and that's going to cause further doubt. It'll create a vicious circle in your belief system. You are just not going to know, but you keep looking and looking. In that process of constantly looking, you are never going to gain confidence in your trading and your system.

You first need to test *what works for you*, MACD, **VSA**, Wyckoff or whatever. Once you have decided what works for you, discard the others. Then get to know your chosen method inside and out and become an expert in it. That is the hallmark of professional traders; they are true experts in their chosen method. As your expertise increases, your belief in your method, and your belief in yourself as a trader, is only going to grow to the point where you really do become a competent trader.

GH: And my last question: What would be the next step for someone who has just discovered the Wyckoff method and **VSA**?

GD: For sure, you would want to read both the Wyckoff course and Tom Williams' book, *The Undeclared Secrets that Drive the Stock Market*. You should also look at a book edited by Jack Hutson, *The Wyckoff Method: Charting the Stock Market*, where you will find a couple of chapters on trading bonds by David Weis. This is brilliant work. Also avail yourself of the great resources online: the **VSA** Club, through TradeGuider; is a terrific resource with excellent information on Wyckoff and the **VSA** method. My website, www.traderpsychologyedge.com, is another resource where I often post on the Wyckoff method.

In a few weeks, we will be launching a new website called www.richardwyckoff.org that has new software and educational materials on the Wyckoff method. I would encourage traders interested in Wyckoff to look at that. It's all there for traders to acquire and learn and integrate into their own trading. It's the best method that I've ever come across and I have studied an awful lot of stuff. Traders are lucky today; they have both Wyckoff and **VSA**, which complement one another so nicely. I don't know what else to say about it. It's the best there is.

Interview 4: Sebastian Manby (referred to as SB)

GH: When and why did you first get interested in trading and investing?

SB: It was in the 80s, before the '87 crash. I found a print-off of a stock portfolio in the street. It caught my interest and I studied it very closely. But, being only in my teens, I did not have the capital to trade stocks myself.

GH: How did you find out about Tom Williams and **VSA**?

SB: I used to buy the FT on a Saturday and read it through, mainly looking for direction for the following week. I realized later that journalists either don't know how the market works, and think it works off the news, or professional traders trying to trip up the public mislead them. Anyway, Tom had an advert in the paper, and I called him and requested the info, which he sent to me, and which I still have.

GH: What was it about **VSA** that made you study it in so much detail?

SB: The info that Tom sent me talked about floor traders and insiders. Well, I knew nothing about trading, but I had the common sense to know who was behind it all But most of all, I wanted to make money. The more money I lost, the more determined I was to succeed. I guess it became an obsession, rather than a hobby.

GH: You wrote an article, *Making Volume Work For You*. Why is volume so important on a price chart?

SB: Volume is the key to both the imbalances in traders' positions and also the psychology behind the market. You become a student of human behavior without realizing it. Volume is also very powerful for detecting professional activity, or the lack of it. For example, once the market had shaken out at a certain level, professional traders would then dump blocks of stock to flush out short sellers. If there was still sufficient demand, prices would not fall, because other professional traders being bullish would step in and buy, telling the originators of the selling that the market was still bullish, and that higher prices could be expected. We call this a *test of supply*, and this will usually be into the same price level as the shakeout.

GH: Why do you think **VSA** is not as popular as standard technical analysis tools such as MACD, moving averages and candles?

SB: There are several reasons. **VSA** is hard to learn and interpret. Most people give up before getting anywhere with it. It takes commitment, determination and patience to learn; you have to be committed, and have the drive to succeed. It takes many hundreds of hours of study; it is not something you can learn in an hour and then go out make money (not, at least, unless you are super smart!) *Most traders want someone to tell them what to buy or sell, and when; they don't want to do the work themselves.*

Even at the turn of the last century, Wyckoff found this in his brokerage: small lot traders would often buy on tips and rumors, very few could read the ticker tape and most would just pray that they would make a profit. The best traders could read the tape, and would often go into a trance-like state when doing so. They were the ones who made all the money, but they never taught anyone else how to do it. Even now, Wyckoff experts tend to keep themselves to themselves. And, since there are not many practitioners, it follows that there are not many good educators.

There is also a psychological reason. Most new traders forget everything they learned when in an actual trade. Their stress level increases, especially if they are talking a loss, and they go into survival mode, with gut instinct taking over. In such conditions easily learned candlesticks and mathematical indicators, often with automatic alarms, even if all of these are not fully understood, create a welcome comfort zone well away from the *intellectual rigor* of **VSA**.

When learning **VSA** you need to do it in stages: you start with one principle, and then progress to the next, and so on. The best way is to print charts and mark on them the principles you see. Eventually it will all come together, and with time you will make progress. That's how I did it, but it took years of study. I wonder how many would be as determined as I was!

GH: How long did it take before Tom acknowledged you as a **VSA** expert?

SB: It was a gradual progression through years of on/off study. After one break of a few weeks, it just seemed to click. It got very easy after that and I began to see things that I could not see before. It was as if someone had opened the floodgates; I just saw how the whole market worked.

GH: What is your favorite **VSA** trade set up to the long side?

SB: A secondary reaction at a higher low than the previous low which must be a shakeout or selling climax, or a spring.

Chart 1

GH: What is your favorite **VSA** trade set up to the short side?

SB: A hidden up-thrust after a buying climax has appeared in the background; I like to wait for a second lower high.

Chart 2

GH: Do you use any trading methods other than **VSA**?

SB: No. It took me a long time to master **VSA**. Why dump it and start on something else? If it works, why fix it?

GH: What advice would you give to a trader or investor who has just found **VSA** and wants to move to the next level of understanding?

SB: Work hard, study hard, never give up, ask lots of questions, go to the seminars and ask questions if you're bewildered. Be clean, smart, and hungry. Find all the available information. There are many groups studying Wyckoff. The **VSA** club is one of the best.

Following, is the article by Sebastian Manby, "Making Volume Work For You":

Making Volume Work For You

By Sebastian Manby

It is no secret that professional traders have one advantage over the private trader: they can read volume, but not only that, they have been known to hide volume from you for periods of time in order to have an advantage over you, large orders at certain levels above or below the market. These large banks and brokerage houses claim that in order to make a market, they need an edge over the rest of the crowd. Large orders that are processed do not appear on the tape as it would show up on the radar of other professional traders who would change their bid/offers or pull orders as large blocks go through the ticker tape showing strength or weakness appearing suddenly. The professional trader uses only the price and volume and usually no other indicator to read the true balance of supply and demand as Wyckoff preached at the turn of the century.

The study of price and volume and their relationship is vital to detect turning points in the market as professional operators have large amounts of capital and need to work this capital to make money. This cannot be done by buying at the market or limit orders as this would de-stable prices causing an unreadable situation, so whip sawing is used to shake out the crowd and catch stop losses, but the real reason is to process large orders while covering your strategy and not giving the game away at the same time. When the market starts to trend, then we say the large operators have control. These large operators know that there are not hundreds of stop losses, but thousands, and this gives them the opportunity to process large orders and conceal their true intentions as they attract other traders who can see their actions and act immediately to better their own accounts by reading volume.

The other advantage professional traders will have is the news. They will already have the news in advance and will position themselves to take advantage and wrong foot as many traders as possible. Again by using the news to gun for stop losses and mislead the crowd into thinking the opposite of the operators true intentions. Why is it that bad news always appears in the last two weeks of a bear market, and good news always at the top of a bull market? It is done to put you under pressure at the bottom, and give you the feel good factor and hunger to load up with stocks etc. at the top of a bull market. This allows the operators to unload large blocks of stock or futures contracts at the best possible prices and to re accumulate at the bottom to increase profits to the operator at usually a large loss to the crowd. The cycle is then repeated over and over, giving us bull markets and bear markets, thus the reason why you are bombarded day and night with news, earning, unemployment, payrolls etc. These operators know that three things in the market, Fear, Hope, and Greed rule you. Fear of missing out, hope that when you are losing, that prices will recover and you can close out break even, and greed that when you have a profitable position, you hang on for greater profits and often fail to see the tide coming in.

By studying volume and it's relationship to price, you can begin to detect subtle changes in supply and demand, and you will see when the large operators are active, and by observing the results of their actions, you should begin to see the path of least resistance building a picture of the on-going market unfolding before you in the trading session. If you were to be sitting in front of your computer one day and see a large amount of volume on an up bar, you would 'because you have been told' assume that strength always appears on up bars, and weakness always appears on down bars. Because you have read this in books and magazines, you would take this at face value and believe this to be true. In actual fact, up bars with excessive volume is weakness, as down bars with high volume shows strength. How can this be true? Well imagine you are an operator with a large block to dispose of, how can you do this without putting the price against you? This would mean marking up the price to bring in buyers. Rising prices create demand; demand does not create rising prices. If you see prices rising, you are more likely to buy than sell, as you would expect to make a profit as prices continue to rise, but if you cannot read volume; your image of these rising prices would distort the true picture as you would think it bullish, you would not see excessive volume indicating weakness.

Reading one bar in the chart does not give you the complete picture, it is also the result of this high volume that we would be very careful to observe, does the market top out? Do prices start to fall back? This would indicate that supply had swamped demand, capping the top of the market but this might only be the start of distribution, one high volume bar on it's own does not create a bear market, but usually marks the start of supply. So by reading the volume, we are able to detect that the large operators we active and that their opinions had changed and were probably turning bearish, but because you could not read volume, you would think the market would keep rising and maybe buying on the reactions. The operators would know that the crowd were soaking up all they could and will artificially hold prices up until all has been unloaded, this would be characterized by a low volume up bar (No demand). This would indicate to the large operators that the buying had dried up and the mark down can begin.

The opposite would be true when the operators have marked prices down far enough that they can cover at a large profit any short positions, usually a loss to the crowd who are now panicked in to selling out in fear of even lower prices, usually on bad news. Thus the cycle is repeated over and over. By reading the volume with price, you can learn to trade successfully in any time frame, as you will begin to know the real movements from the false. There are a lot of false drives in the market, which are deliberately done to trick you into losing money. This is how the professional operators stay in business, but by understanding the different intensities that appearing the market, you can make money too, all you have to do is follow the operators, when they move, you move too.

So all I have to do is sit back and wait for the operator to tell me when? Well it's not that simple, because volume is the powerhouse of the market, we have to observe the corresponding price action, is there an old trading area to the left? If you see low volume down bars with a narrow spread, then this would indicate that the professional operators were bullish and that they would be willing to absorb the supply as they reached the old top. However, if you see low volume on up bars as the market approaches the old top, then this would indicate that the market was weak and it would be fairly safe to short near this old top, this would also be true for trend lines. Trend lines are the railroad for prices when the market is trending strongly, and we would be looking for support or resistance as these trend lines are approached.

For example: if you see a wide spread on increased volume as it approaches an old trend line (or old top or bottom) we would expect this to be broken, but if we see no demand (weakness) or a test (strength) we know that it will not be broken and we can place our orders and make a profit as we can read the path of least resistance. Imagine the path of least resistance to be water running down a hill, it would not just run down in a straight line, it would twist and turn if obstacles were in the path, so the path of least resistance would be the easy path, not necessary the quickest one. This is how the operators mark prices round to find volume, if there are large orders at a certain price, the operator might avoid that price level as it would mean he would have to absorb this supply at higher levels, and a quick way to go broke. This is why we have shakeouts and whipsawing in the early stages of a rally, because it not cost effective to absorb ever-increasing supply at higher levels.

Volume is the key to the truth.

-Sebastian Manby

Photo by Jay L. Clendenin

The Solitary Trader
Tim Rayment

By Kira McCaffrey Brecht

In his own words, Tim Rayment, 49, describes his early years as "a childhood of just enough poverty to create ambition."

Indeed that ambition has taken Rayment far. Not only is he an accomplished and honored British journalist, but once he shifted his focus, energy and time to trading, he has chalked up substantial success and accolades in that arena as well.

Whopping 44 Percent Gain

Now a full-time currency trader, Rayment earned first place in the 2009 World Cup Trading Championships forex division.

In my one-hour phone interview with Rayment to his remote home in the United Kingdom countryside, I quickly learned that he is a person who does not rest on his laurels. Indeed, he shrugged off my congratulatory comments. "I was very disappointed with my performance in 2009. It should have been better. The average true range is 120 pips at this moment. That means that the euro moves 0.9 percent per day," Rayment says.

Hard Driving

His hard-driving work ethic is no doubt in part behind his success in the trading world. Rayment finds participating in the World Cup contest as helpful because "it gives you nowhere to hide. You can't pretend to yourself you are trading well if you are not.

"One of the things I like best about trading is it will find any weakness. There is no room for complacency. If you get a little lazy, the market will punish that laziness in an instant. It is a perpetual challenge. You are learning all the time," he says.

Writing Led to Trading

He earned an English degree at the University of Leeds in the U.K. In 1982, Rayment started his career as a cub newspaper journalist at a small local paper in a tiny fishing village called Grimsby.

Rayment recalls the morning routine at the office in which all the reporters spent the first half hour perusing national papers looking for a potential local tie-in to research and write about. Each morning Rayment gravitated to the Financial Times and Lloyd's List, a shipping paper.

"I would pick up Lloyd's List because Grimsby is a fishing port. I thought, I'm going to get some fishing stories from a shipping paper. And I knew instinctively it was important to understand economics to some extent."

Rayment quickly moved up the journalism ladder, and at age 24, he became the youngest reporter on The [London] Sunday Times. "Newspapers suit me because I'm the solitary type—sociable but capable of long periods of isolation," Rayment says.

Truth and Reality

He found similarities between his two careers. "Trading is like journalism. It gives you a connection to the world at large," Rayment says. Also, while working as a reporter, he found that "many stories, as told by governments or banks—whether they are economic, political or business in nature—are not quite as they first appear. The challenge is to be alert and to search for the underlying reality or truth."

The same could be said for the markets.

Dabbling in the Markets

It was not until nearly a decade later that Rayment began dabbling in the financial markets. He started following U.K. warrant prices in the newspaper. "I liked the volatility, and I thought I could make some money trading," he remembers.

During the next several years, while continuing his full-time work at the Times, Rayment tried trading bonds and index futures. "It wasn't based on anything really. All I can say is that I traded amateurishly."

However, Rayment tasted something that he liked: "It is probably the same for any retail trader who doesn't know what they are doing. You get a taste of something that is challenging and exciting," he says.

Early Mentor

In 1998, Rayment had the good fortune to connect with Tom Williams, the creator of Volume Spread Analysis. "I rang him, and he was very reluctant to sell me his software. He said, 'Trading is very difficult, you know.' I insisted and agreed that I would pay £5,000 in installments," Rayment says.

"These days if I'm asked by someone who is starting out in trading for advice, the first place I send them is the Trade Guider website. For me, it demystified the markets to a great extent," Rayment says.

Boulders in the Path

Rayment stumbled over his own personality traits in the early part of his trading career, but now finds this mindset helps him succeed.

WRITING ABOUT ROGUE TRADERS

Before earning accolades in the world of trading, Tim Rayment was the British Press Awards Feature Writer of the Year in 2001, which is the equivalent to a Pulitzer Prize in the U.S.

"Some of the Sunday Times work has been fast-moving and dangerous. Such a background is helpful for trading calmly under stress," Rayment says.

Read Rayment's story on Joseph Cassano, the multimillionaire trader accused of bringing down the insurance giant AIG and with it the world's economy in The Sunday Times.

TRADING & MURDER IN THE U.K. COUNTRYSIDE

Tim Rayment rented an isolated farm in the U.K. countryside for nine years. During that period, he completed intensive study of the Tom DeMark methodology, which he has incorporated into his current trading approach.

The farmhouse is quite well-known because a criminal plot to debase England's currency was carried out there in the 18th century,"
Rayment explains.

"I was studying DeMark in the former home of David Hartley, 'the King of the Coiners.' So, I was planning to take my clippings from the currency legally, in the same 12th-century farmhouse where he had planned to take his clippings illegally 200 years earlier," he says.

Rayment's predecessor in the building was executed for murdering the tax inspector sent from London to see what was going on. Read the story of the Yorkshire Coiners.

"I am an independent-minded person. In the early part of my trading career, that wasn't helpful because I didn't accept anything at face value. It wasn't until I proved that advice was sound by losing money [doing the opposite thing] that I would accept it," he says.

Now, "for a more experienced trader, an independent mind is a prerequisite. The best opportunities lie when you are the other way from the crowd," he explains.

Studying DeMark

The next step in his trading journey was to study the work of trader and analyst Tom DeMark. He now uses a methodology of his own creation that combines Volume Spread Analysis and DeMark's work and indicators.

"I did a lot of work on trading strategies when I lived on a farm that was very isolated. The only light you could see at night was the light on in my kitchen. It was a very good place for a trader to be," Rayment says.

"I work best when I work entirely alone," he continues.

Diving into Forex

In 2003 Rayment moved to the forex arena. "I chose currencies because, as the most liquid market on earth, the trading strategies can be scaled to any size," he says.

"Currencies are also difficult, which appeals to my need to be challenged—I don't like any endeavor to be easy," he adds.

Bottom line? Rayment says, "I think it's possible for a disciplined trader to achieve 35 percent a year without leverage from the currency markets."

His Method

In his trading, Rayment seeks to "identify moments where the crowded trade is wrong."

"I'm a genuine countertrend and reversal trader. I certainly don't try to pick tops and bottoms," he says.

He trades using a daily chart as an anchor and monitors 15 currency pairs for opportunities. His average holding time is one to three days.

Being Human

Trading, at its most unforgiving, forces one to face personal weaknesses. Rayment concludes that "you need a degree of introspection to balance your flaws as a human being."

Rayment has moved from the infamous farmhouse (see sidebar) to a converted mill. "I have two children. I am a parent. [But] I live and work alone," he says.

"The most important room is the one that has 10 screens in it," Rayment concludes. He is probably sitting there right now.

CHAPTER 12

SOME ADVICE FROM THE MASTER- TOM WILLIAMS

G: I'm here with Tom Williams, in Worthing, South of England, and we're going to talk about Volume Spread Analysis. More importantly Tom, what IS Volume Spread Analysis? So perhaps for the people here, you can explain what Volume Spread Analysis is.

T: Gavin, thank you. Well for short, we call it **VSA**. **V**olume. **S**pread. **A**nalysis. It's really self-explanatory. To analyze a chart you have to look at the volume, and on that volume, you will want to notice what has the price done on that volume. Has it moved up, down or gone sideways? Those two ingredients will give you the answer to the market, in most cases. It is always there in hindsight, so if you look back at price action, all these principles that we talk about are there, but if you don't see them at the live edge of the market, you obviously need to put some more study in. But if they are there in hindsight, they must be near at the live edge of the market.

If you were to be sitting in front of your computer one day and see a large amount of volume on an up bar, you would 'because you have been told' assume that strength always appears on up bars, and weakness always appears on down bars. Because you have read this in books and magazines, you would take this at face value and believe this to be true. In actual fact, up bars with excessive volume is weakness, as down bars with high volume shows strength. How can this be true? Well imagine you are an operator with a large block of stocks or shares to dispose of, how can you do this without putting the price against you?

This would mean marking up the price to bring in buyers. Rising prices create demand; *demand does not create rising prices*. If you see prices rising, you are more likely to buy than sell, as you would expect to make a profit as prices continue to rise, but if you cannot read volume, your image of these rising prices would distort the true picture as you would think it bullish, you would not see excessive volume indicating weakness.

Now what people have to realize is, that this is not using any mathematical formulae at all. It's just purely looking at the supply and demand from the 'professional side' of the market. It's very reliable, and it works, and we can prove it works, because we have software that comes up with signals of what I call, 'uncanny accuracy'. They only appear automatically on a live feed without the intervention of human beings, if you get the logic right. Many traders out there have some good ideas, but when they test them, they're lucky they work 40% of the time. You will notice that the indicators generated by using **VSA**, are approximately 90% accurate.

You might think that 90% accuracy is wonderful, but you can't forget that there are two sides of making money in the market.

First, you need to be able to analyze the market, which you find is very tricky in a way. We'll explain why, but the other skill - you must be a good trader, a trader in your own right. You need to be able to pull that information and put it to some good use to turn it into money.

Now volume is the most important ingredient. Keep in mind that the average bank in the city of London will fill two telephone directories per day with their orders- and that's just one bank, one merchant bank, so that's just to give you an idea of the volume that's involved here. And what you're looking at, is a consensus of opinion from the professional side of the market. Not all these professionals communicate with each other, *they all work in isolation*. But one thing is for sure - if they are making a bad trade, they will close out very quickly and switch their positions. So volume is extremely important.

Now when you see the varying amounts of volume; it may be high, it may be very high, it may even be average, or it can be low - it all means something very, very important. But that only gives you half the information. The other half of the information is in the price movements, or the price 'spread'.

G: Or the 'range'. In other countries like America, they call it the range of the bar.

T: The 'range' of the bar- yes, that's what it is called in America.

G: Yes, let's be clear, we've talked about the volume, but the range or spread of the bar is the 'high' or the 'low' of the price bar, in any time frame - it doesn't matter what it is, but it gets to a high point and it gets to a low point before it closes, but then eventually it closes. You can look at a 1-minute bar or a daily bar; all the principles are the same.

T: The close is very important; we don't even use the open. Openings are usually used by people who are using mathematical formulae. Mathematical formulae have been around for nearly 30 years - now, I'm not going to belittle them, but if you are an expert in any of those fields, what you could do is, use **VSA** and if **VSA** is backing up what your expertise formula is telling you, then you're probably right. If it's not backing up, perhaps you will want to tread cautiously, and trade only one or two contracts if you usually trade 10 or more. So it definitely is a super way in backing up any other systems.

You can even back up newspaper reports with it. Just see when a newspaper is telling the truth or not. Of course newspapers use fundamentals, and sometimes they're right, sometimes they're wrong, but there is a sure way to tell you if they're correct or not.

G: Tom, may I ask you another question? Many traders I talk to are using technical analysis, which you said is based on mathematical formulae. There are many, many ways to analyze charts based on technicals. I know there are thousands of books on it. And many of the tools available, I know, will look back on the past of the price movement, to analyze and try to predict the future price movement. In fact, most of the retail traders I talk to use some form of technical analysis, because that's what almost everybody teaches, to consider what they *think* is high probability trade set-ups. But often - from what I hear, the system will give them a green or red indicator based on the past price. And as they enter that position, the market moves heavily against them. Its almost always at the top, they will come in and buy at the top, or they're going to sell at the bottom.

Now, can you explain to us why you developed Volume Spread Analysis? And how is it so different from a standard technical analysis indicator?

T: Well, my story was that I went to the United States in my late 20's. I really didn't have money at all to speak of, so naturally I went looking for a job. I was lucky enough to fall in with somebody who happened to be a part of a charter trading syndicate. These are groups of people who get together, who have large sums of money at their disposal, and they would also trade other peoples' money. And they would accumulate/distribute the underlying stocks. It's very, very profitable. And it's this accumulation/distribution of the underlying stocks that is actually causing the bull moves and the bear moves.

I was really good at technical drawing. I use to draw these charts for them. They were huge charts, it would cover a desk, and you would put the high, low, close, and the volume. But I really had no idea of what it was about for at least two years. But then one of them suggested, the owner suggested, that I take the Wyckoff course. They also paid for it. It was even $500 dollars in those days, and it was located out in Park Ridge, right by Chicago. I studied the course for about a year, and then it all slowly started to fall into shape. Don't forget there were no computers around, no futures; it was all stocks and shares, commodities, and options. That's how I got started. Well I did very, very well and retired at 40, and went back to England. Computers were just coming out at that time. I believe IBM just had their first desktop they were promoting because this was when Bill Gates got involved.

Now I didn't know the first thing about computers, I'm still no good at it. So I wondered if the information and knowledge I had learned from the syndicate could be computerized, and the reason why I thought that was because I was sure if a computer could do it, it would remove the emotional factor from trading. The computer has no emotions, it can't feel or see emotions, so the logic you put into the computer is either right or not right, it is as simple as that. That's how I started, and then I employed a programmer to do this, which was and is very expensive.

Low and behold, I gave the info to the programmer and luckily, he was able to reproduce what I was telling him into a form and series of signals. That's how **VSA** started.

G: To recap, this program is completely unique to TradeGuider, and you had the good fortune of spending so many years with the syndicate, learning how they traded. Now I remember you telling me a story of how the market, or markets, can be somewhat manipulated and you get misinformation. However, the 'Smart Money' cannot hide their intentions in volume. So the misinformation is what causes the emotional decision making process for each individual trader, which causes them to lose money because in affect what a market is doing is giving you information. You hear information about the market from many places, the TV, newspapers, friends, your broker, etc. There's so much information for the trader, it's almost impossible to decide.

But the two things that you told me that have stuck with me are:

(1) - You said the chart never lies if you know how to read it correctly.
(2) - Many of the retail traders are losing money, and that many of them can be successful if they do one thing, namely the opposite of what they're doing now.

Now that comes tongue-in-cheek, but can you elaborate on those two points ? Why the charts never lie and why is the retail public consistently losing money? And since **VSA** is here to help them, please elaborate on those two points.

T: It's well known that 85% of all options never exercise. Well that means 85% of all options must be losing. It's also fairly well known in circles that 50% of all stock traders lose money. You only hear the good things, you don't hear about the 50% that lose money trading stocks and shares. Now the futures are horrendous, 90% or more of futures traders lose money. And of course, the markets do not want you there; they do not want you to make money. So they do everything conceivable to put you off.

G: Who is '*they*', Tom, you mention '*they*'? Who are '*they*'?

T: Who are '*they*'? Well the Professional Money, or 'Smart Money'. What they do if they see an opportunity is manipulate the market, and take full advantage of anything that happens to *distribute (sell) or accumulate (buy)* the market they are trading.

G: I just want to be clear - your methodology works in all markets, whether it's stocks, foreign exchange, SPOT FX… I just want to be clear here, **VSA**, the methodology, the TradeGuider software works in ALL markets where there is available volume, is that correct?

T: That's right. This is because it's traded by human beings, and you will find human beings will trade markets in certain ways. Different intensities, yes, but they all basically trade the same way. They have to accumulate a line, they have to mark it up and resell it. If you think about it, any business on the planet works that way. If you're a shopkeeper, you have to buy wholesale, then you have to present it nicely, mark it up, then you have to resell it. That's how you run a business. That's how you do it in the stock market. Huge amounts of money are in the stock market purely because they want to trade it and make profits from it.

G: Not just the stock market, its all markets. Markets are made up of traders, individuals, banks, large institutions and syndicates. You were a member of one of those syndicates, which is why **VSA** was created - for the retail trader, but I often get asked, why did you blow the whistle on what's going on? What made you decide to give to the general public your knowledge? You were given very privileged knowledge being invited into a syndicate? You didn't have to retire, you could have made your own syndicate and made millions - what was your reasoning behind that?

T: The main reason was the advent of the computer. Without these computers, without the Internet, you really couldn't go far at all. But with the advent of the computer and Internet, it made things far easier. Don't forget when I was doing it, I had to draw all the charts by hand. You could only realistically track 10-12 instruments; cattle or corn, or a stock. So that was the reason. And I also had been retired; I was only 40 and still very, very active. Naturally, I still thought the subject was so fascinating, I decided to computerize it. Now the reason I wrote 'The Undeclared Secrets that Drive the Markets'- (gets interrupted)

G: Now called '***Master the Markets'***

T: Yes, '***Master the Markets'***, the reason I wrote that book, was so that people who bought the software could read the book in a day or so and have an extremely good idea of what it's all about and what they would be looking at. And the thing is, you can rely on it. It's very accurate. The volume is showing you the amount of activity that's actually taking place amongst the professional money operators.

G: To end this particular session, many people will listen to this recording or read the transcript and some traders will be experienced yet still be losing money, some experienced traders will be gaining money, or some will be new and just starting, like I was 9 years ago when we first met. What would be your advice to anyone wanting to make money in the markets? What would you advise them to do?

T: I would advise first of all, how treacherous and dangerous the market really is. That's the first thing you need to understand. The market does not like you, it does not want you there, and you're there for one reason only - to be one of the losers. For the market to work, you need to have far more losers than winners. It's like a pyramid. It won't work if everybody is a winner. It can't work. That's what drives the stock market. The nature and how the markets work to put you off.

The single reason for that is the professional money. The professional market has to sell into up bars, which immediately deters people, and then to buy on down bars, which again, deters people. When the professional money buy on a down bar, the news is most likely guaranteed to be bad. So the would-be trader thinks, "Oh I can't buy on this, despite what that Tom Williams said… No, no, its falling, the news is all bad, no, no, no…" But that is professional money stepping into the market buying against the bad news. And the same is true for the top. The news will always deter you from a perfect trade.

G: It's almost like people who read or hear this will have to re-evaluate their thinking. Because by natural instinct, if you see good news, hear good news, and the market rises, you want to buy, and the same for if you see or hear bad news, and the market falls, you want to sell. However, with **VSA**, it's the other way around. And actually, it's the truth.

So Tom, thank you. It will make sense to people who read this, but the secret is to look at the charts, then discern the reasons why. Look at where you lost money, look at where you got stopped out, and then look at why.

The great thing about charts is that they leave patterns and they tell you a story. If you can read those patterns, you can tell the story in the future. And that means if you're live into the market, you will SEE these patterns, and then you will understand by reading Tom's book and using the TradeGuider software that actually when you think you should be buying, you should be selling. And if you think about selling, you should be buying. And that's the way the markets work.

Thank you, Tom.

Isn't it time that YOU joined the "Smart Money"?

For free educational resources visit my website

<u>WWW.TRADINGINTHESHADOW.COM</u>

I wish you good trading, constant profits and belief that you can have anything you want if you take massive action now.

-Gavin Holmes

GAVIN@TRADINGINTHESHADOW.COM

Trading in the Shadow of the Smart Money

Gavin Holmes

In 2002 Gavin Holmes had the good fortune to meet Tom Williams, a former syndicate trader who in his early years had traded with one of the largest stock trading funds in America at that time.

Tom subsequently wrote two books, "The Undeclared Secrets that Drive the Stock Market" and "Master the Markets", which are read by more than 100,000 traders and investors worldwide.

Gavin was introduced to the books author, and at their first meeting Tom explained that the markets were being manipulated on a daily basis by the "Smart Money".

Tom Williams had been a "Smart Money" insider, and later developed trading system software to discern the activity of the "Smart Money" manipulation of the markets. www.tradeguider.com

Gavin later became a Williams protégé and since 2001 has become recognized as a leading expert in market manipulation and the Volume Spread Analysis methodology. His passion is to enlighten those traders and investors who have no idea of the inner workings of the markets. He has also built upon the pioneering work of Richard Demille Wyckoff, Richard Ney, and Tom Williams.