Hidden Gap

Breaking Down Tests

Link

The Smart Money is always testing; They're testing when the Market is going **UP** and they're testing when the Market is going **DOWN.** When the Market is going **UP**, a successful test tends to imply further strength, and when the Market is going **DOWN** a failed test tends to imply further weakness. This is why failed tests in a downtrend can be as telling as successful tests in an uptrend.

So what is a "test"?

The base definition of a test is a (1) narrow range **DOWN** bar that (2) closes on or near its high (3) on volume less than the previous two bars. Again, this is just the base definition. In the real world, not all tests adhere to these three elements. You will, for example, see tests that close **UP** from the previous bar.

So what is being "tested"?

Ultimately, the Smart Money employs testing to determine the presence, or absence, of **SUPPLY** (or Selling). The Smart Money believes in the general principle that selling begets more selling. Accordingly, once there is evidence of the presence of sellers (SUPPLY), the Smart Money wants to determine if there are more sellers (**Supply**) out there that could cause the Market to move down, which would mean the Smart Money (who are long) would have to pay more to absorb the selling (**Supply**).

Take a look at the chart (s) below.

Attached Image (click to enlarge)

Attached Image (click to enlarge)

At point #1, we see a widespread **DOWN** bar that closes well off its lows on increasing volume that is greater than average. According to **V**olume **S**pread **A**nalysis **(VSA)**, this is stopping volume and it is a sign of strength. Why is it a bar of strength? (1) it closed well off its lows and (2) the next bar us **UP**. If this was a weak bar, why would it close off its lows and why would the next bar be **UP**?

But we must also understand the underlying market principle: for every buyer, there is a seller. That is a transaction cannot happen until a buyer and a seller agree upon a price to transact. Therefore, there are sellers present on his bar. More importantly, volume represents activity. So some of this increased activity must be from sellers. The question thus becomes, has everybody that wanted to sell sold on this interval, or has the appearance of the sellers in this interval emboldened more sellers to come into the Market? In other words, is selling going to beget more selling?

Let's jump ahead to #3 (the Test)

Notice that this is a narrow range **DOWN** bar that closes on or near its high with volume less than the previous two intervals. Additionally, note that this interval is within the range of our stopping volume interval (#1). In other words, in an area where the sellers really showed themselves, we see a **DOWN** bar with decreasing volume. New sellers are not enticed to enter the market in this area where previous sellers entered. Many traders buy highs and sell lows, which is why a test bar usually has a lower low than the previous bar. But again, this "move down" fails to attract more selling.

The next interval is **UP**, which confirms the test and the Market takes off from there.

Take a look at #2

In **VSA** terms this bar is either No Supply or No Selling Pressure. Either way, it is a **DOWN** bar that closes near its low on volume less than the previous two bars. Despite the reality that every transaction is two-sided, we tend to think of this interval as having few to no sellers. This begs the question if there are few to no sellers present, why is the Market falling? This brings us back to #3. If there is an absence of willing sellers, then nobody should be enticed to sell upon seeing price make a lower low than the previous interval.

So the Test at #3 shows the two times tests typically appear:

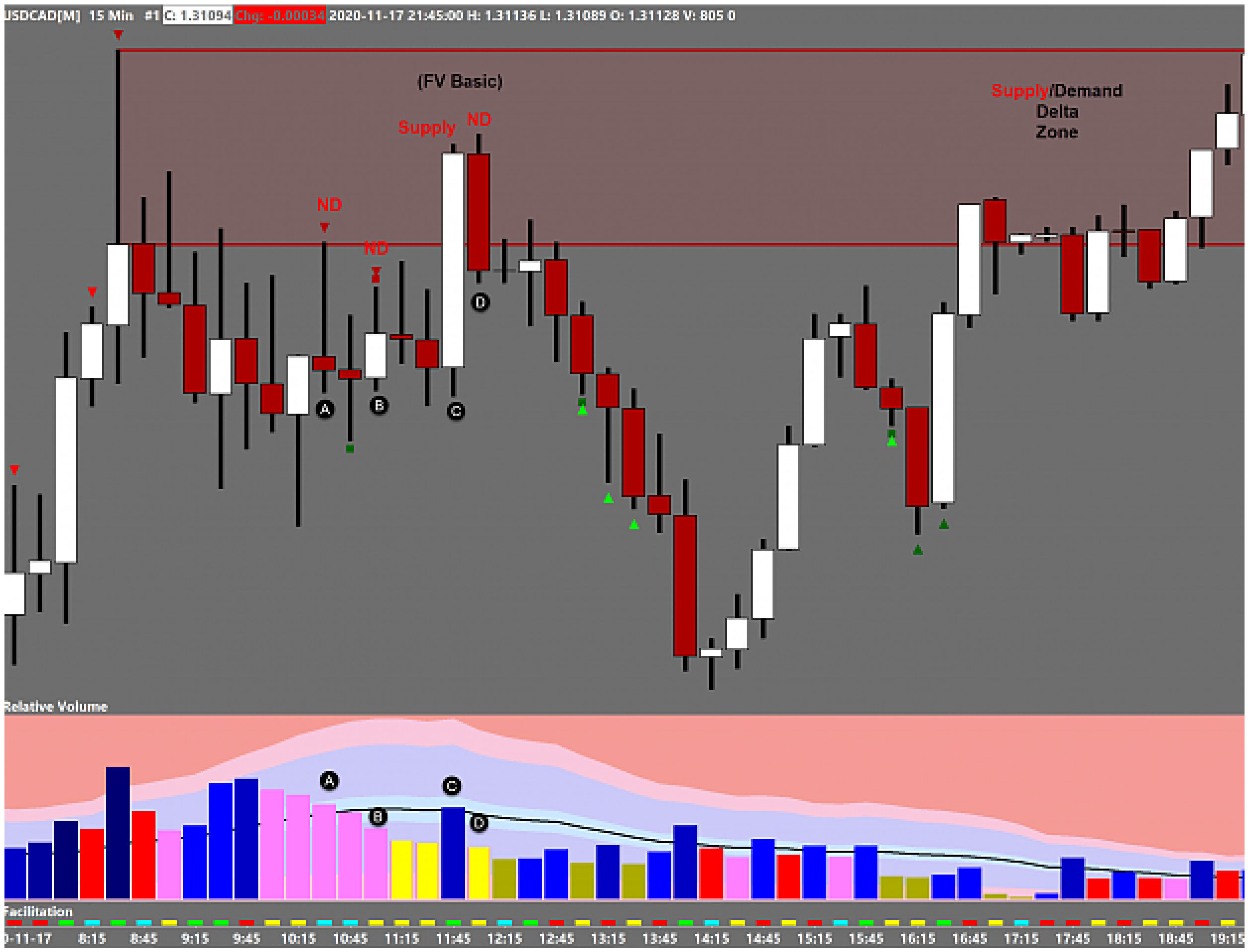
(1) when there is the presence of selling as evidenced by HIGH VOLUME
(2) when there is an absence of selling as evidenced by LOW VOLUME

Using Climactic Volume as a guide:

On Entry:

I find myself struggling with this one, but in general, most traders should start with a High, Ultra-High, or Climactic volume bar as part of their entry signal sequence.

Take a look at the picture below.



I've updated it. Price moved from the **Supply/Demand Delta Zone** back into the **Supply/Demand Delta Zone** and then price fell through the **Demand Zone** rendering it closed. Which is why it is no longer shown on the chart.

But I've also updated the Relative volume indicator. Note that the volume bar (**C**) is a darker shade of blue. This alerts me that the volume is high. Which is defined as the largest amount of volume in the last 5 intervals. The reason to look for High, Ultra-High, or Climactic volume is that they represent intervals where the Smart Money is most active. They leave their footprints in the volume.

So I would argue that **C** is the place to start to look for a trade. Check out what happens on the very next interval (**D**). The volume is yellow alerting me that the volume is less than the previous 10 intervals. So the Smart Money became active and then their interest drop off precipitously.

Backing up for a second, It's a good idea, when looking to go short, to look for evidence of selling (**Supply**), followed by evidence of a lack of buying (**Demand**). Intervals **C&D** meet that notion.

Some might say, "HiddenGAP, the Zone was created on Climactic Volume (the volume bar is the darkest blue). Therefore the No Demand should be an entry based on what you've said."

My response is, you're technically correct and I probably would have entered there if I had not moved on to another chart when it occurred. I would have likely been stopped out and had to get back in. Therefore A could be an entry, but B can't because neither it nor its confirmation interval is not sharing a tick with the **Supply Zone**

But it is generally better to see a High, Ultra-High, or Climactic volume bar leading into the established Zone rather than using the High, Ultra-High, or Climactic volume of the **WRB** interval that creates the Zone.

VSA Faux Pas re: Climactic Volume

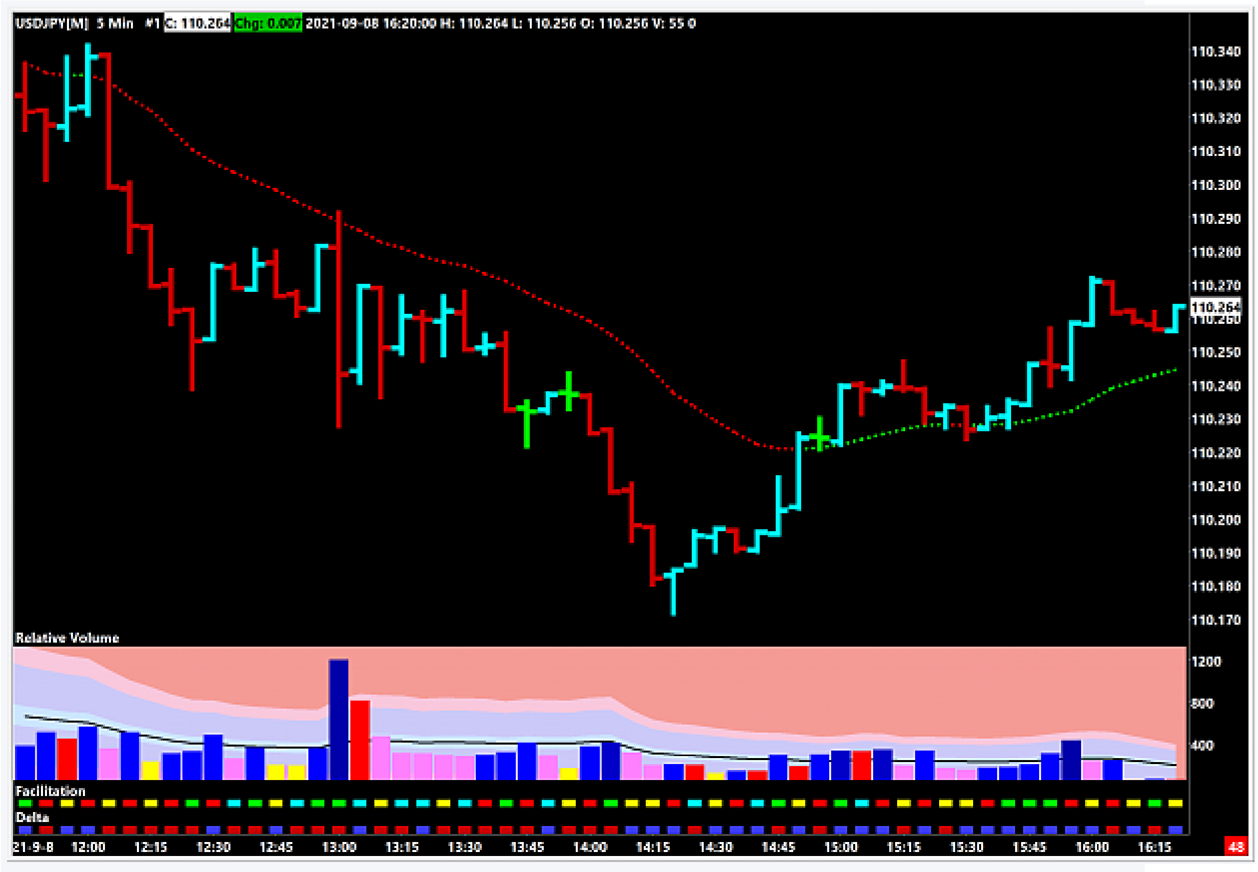
This is one of the largest reasons that people who look at **V**olume **S**pread **A**nalysis (**VSA**) fail.

Traders see a widespread **DOWN** bar on Ultra High volume (tick or actual) and they start looking to get long. They reason, correctly, that Strength when it appears, usually appears on **DOWN** bars. Especially when the next bar is **UP**.

They ignore the Current TREND and they don't wait to see any change in behavior.

Take a look at the first chart.

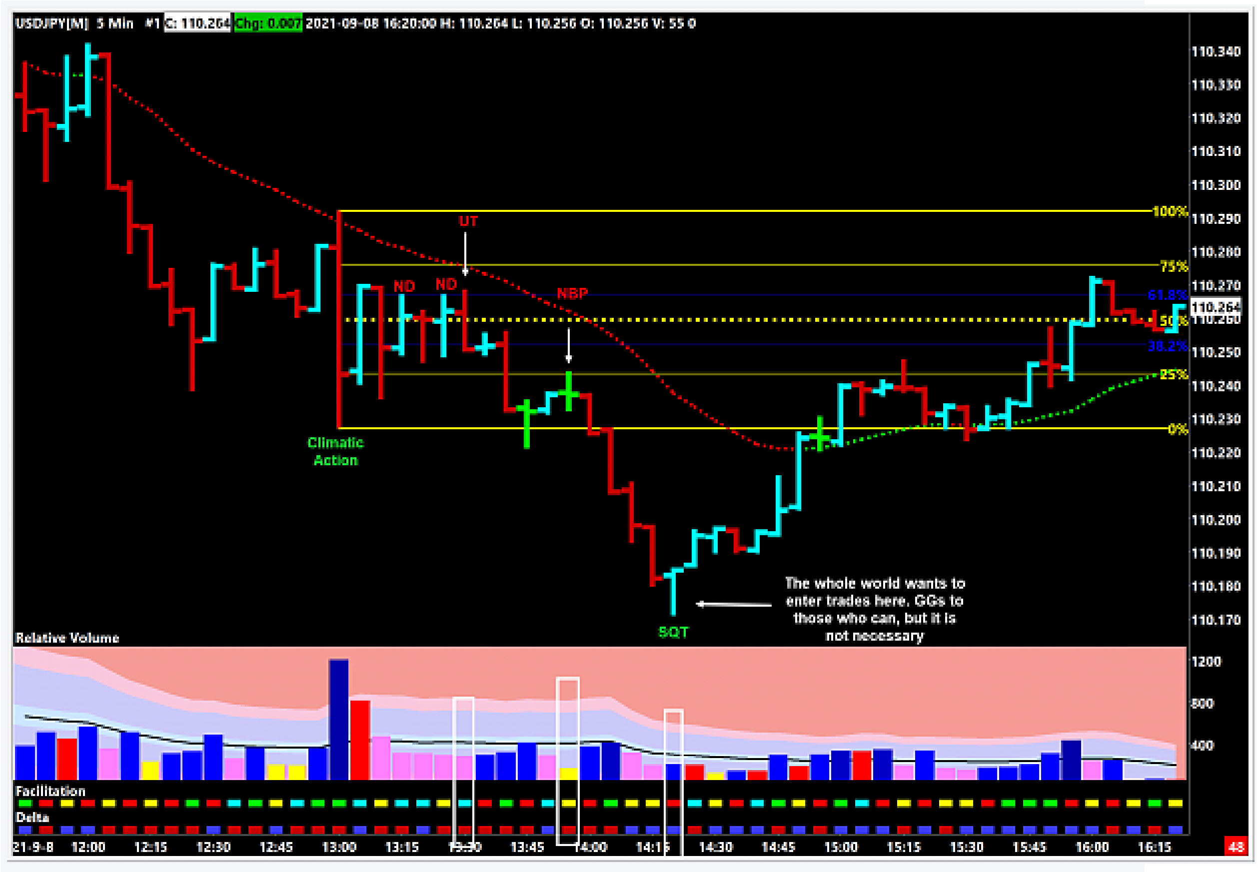
Attached Image (click to enlarge)



The widespread **DOWN** bar on Ultra High Volume appears. The close is off the lows and the next interval confirms the strength. Strength means that BUYERS entered the market. Of course, for any trade to occur, there must be both a buyer and a seller. But **VSA** would state that BUYERS entered or began their buying campaign. This makes perfect sense. What doesn't make sense is trying to get long when price is in a downtrend. How do we know? Simply because price is below the 20 period EMA.

Once this bar has been identified, a useful technique is to **FIB** this bar to create what the TradeGuider team calls "trigger numbers". When you **FIB** this **H**igh **V**olume **Z**one (**HVZ**) things become clear.

Attached Image (click to enlarge)



You don't want to be long if price is closing below **HB** (50%). Except for the interval immediately following the High volume bar, the other bars that do close above **HB** turn out to be **No Demand**.

The second **No Demand** confirms and is followed by an **UpThrust**. **No Demands** and **Up Thrusts** in a downtrend. That's what the **VSAer** is looking for.

So we have the option of getting short with the trend. "In hindsight" one might say, strength entered but only managed to move price sideways. I contend that could have been seen in real-time, but just as importantly price never closed above the MA and you would have absolutely seen that at the time.

Therefore, you are either taking shorts or waiting to get long after a change in behavior. What you don't do is get long based simply on the appearance of Ultra High Volume.

Avoiding Premature/Counter-Trend Entries

Forget about **V**olume **S**pread **A**nalysis (**VSA**).

Okay, not really. That was the "clickbait" headline. **VSA** or some type of volume analysis should be an integral part of your market analysis. But I do want you to leave the **VSA** aside for a moment and focus on the following: **TREND.**

You have two MAs on your chart. The dotted one I will call "fast", and the solid one I will call "slow".

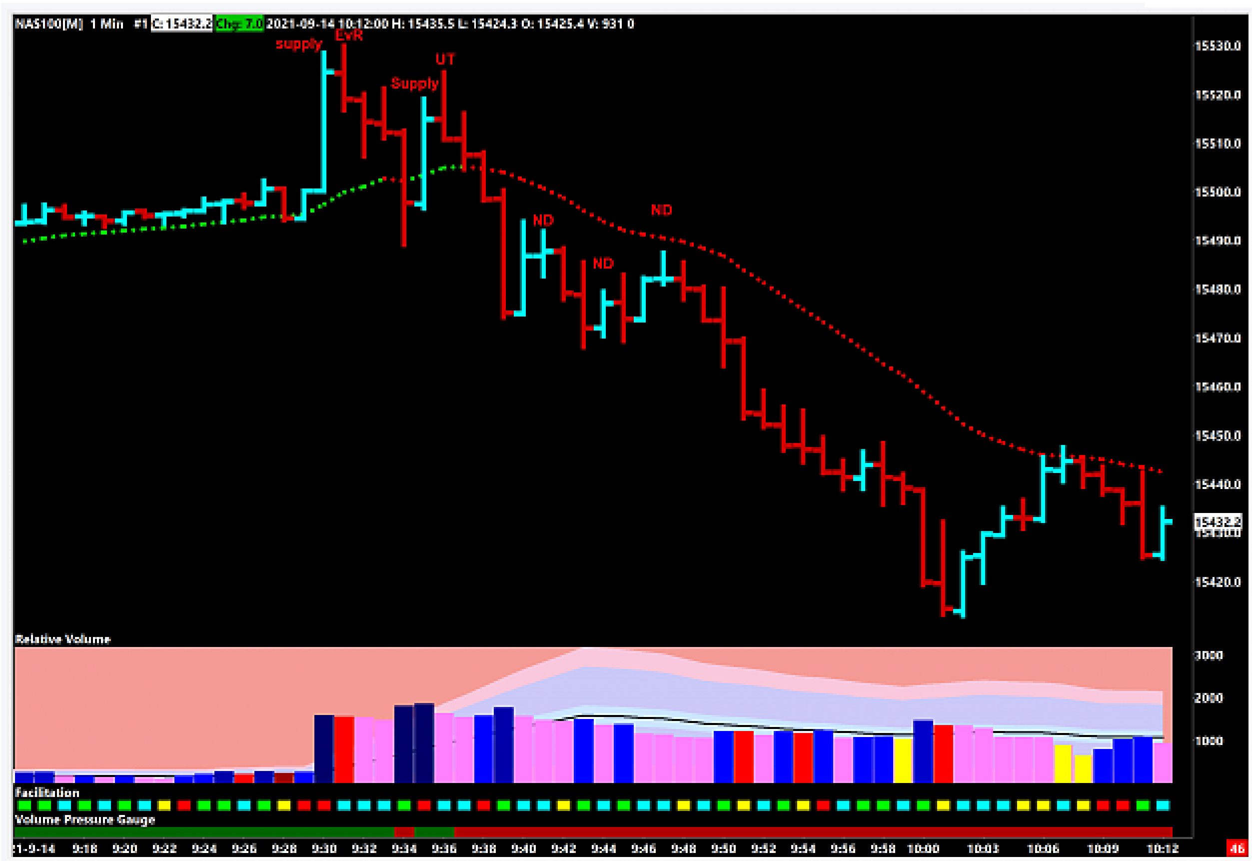
When the fast is <u>below</u> the slow, the trend is DOWN and you should only be looking to take shorts.
When the fast is <u>above</u> the slow, the trend is UP and you should only be looking to take longs.

That is what these duel-moving averages tell you. If you don't like that, why are they on your chart?

The first thing I noticed when I looked at this chart was that the fast MA never moved above the slow MA. Even as price moved above the fast MA, the fast MA remained below the slow MA. That tells me that strength came into the market, but not enough to change the TREND. Therefore, the path of least resistance is still down.

Okay, let's bring back the **VSA** while keeping the above in mind. My chart is a bit different than yours and I will jump between them, I hope it doesn't get too confusing.

Attached Image (click to enlarge)



The best place to start looking for a trade with VSA is when you see **ULTRA HIGH or CLIMACTIC VOLUME**. On your chart, this comes on a Widespread **UP** bar that closes off its high with the next bar **DOWN**. This is **Supply**. My chart shows the same interval, but it turns out not to be the highest as larger volume bars appear later. Nevertheless, this is Climactic Volume and represents the start of distribution.

We then see another **Supply** bar followed by an **UpTrust** (in the form of **No Demand**).

On my chart, price moves below the 20 period EMA and then there are three possible entries on **No Demand bars**.

On your chart, the fast MA is still above the slow MA when the first two **No Demands** appear. Thus, these would/should not be seen as possible short entries. When the third **No Demand** appears, the fast has crossed the slow and a short trade would be in alignment with the TREND.

You went long here. Why are you using MAs if you're going to simply trade against them? Additionally, there is obvious weakness in the background.

Trying to catch tops and bottoms is a fool's errand. Many would-be traders fail because they think they're smarter than price. They are not.

There is a reason that almost every **VSA** teacher out there preaches Trend trading.

Stepping Away from WRBs a bit

I once was a big advocate of WRB analysis for determining the most accurate market derived support and resistance levels. They work very well. I noticed that I missed a lot of good set ups and focusing on whether or not a particular candle was a key change in supply as determined by WRB analysis took me away from the VSA implications of the candle.

So while I believe in the power of the SD zones created by a significant WRB, I am not really looking at them currently. Which means I am not looking at ANY form of S/R except one.

The best place to take your trade is shown on the chart below. The candle marked entry #2 is ideal because:

1. It is a test (a high volume test, but a test nonetheless).
2. Price makes a lower low than the previous bar and dips below the Balance Point Line but closes above it. The movement down and then the rejection back up is a sign of bullishness.
3. In this case the Balance Point Line is essentially acting as a support line.

I put in Entry #1 because some traders would take it. I do not like it however and I will tell you why. And it has nothing to do with results.

a. It has a narrower range than the previous candle but not the candle before that. In other words, its range is less than the candle before it but not the one before that.
b. It does not make a lower low than the previous candle and therefore is not the lowest low of the last three candles.
c. The volume, while less than the previous two, is not less than average.

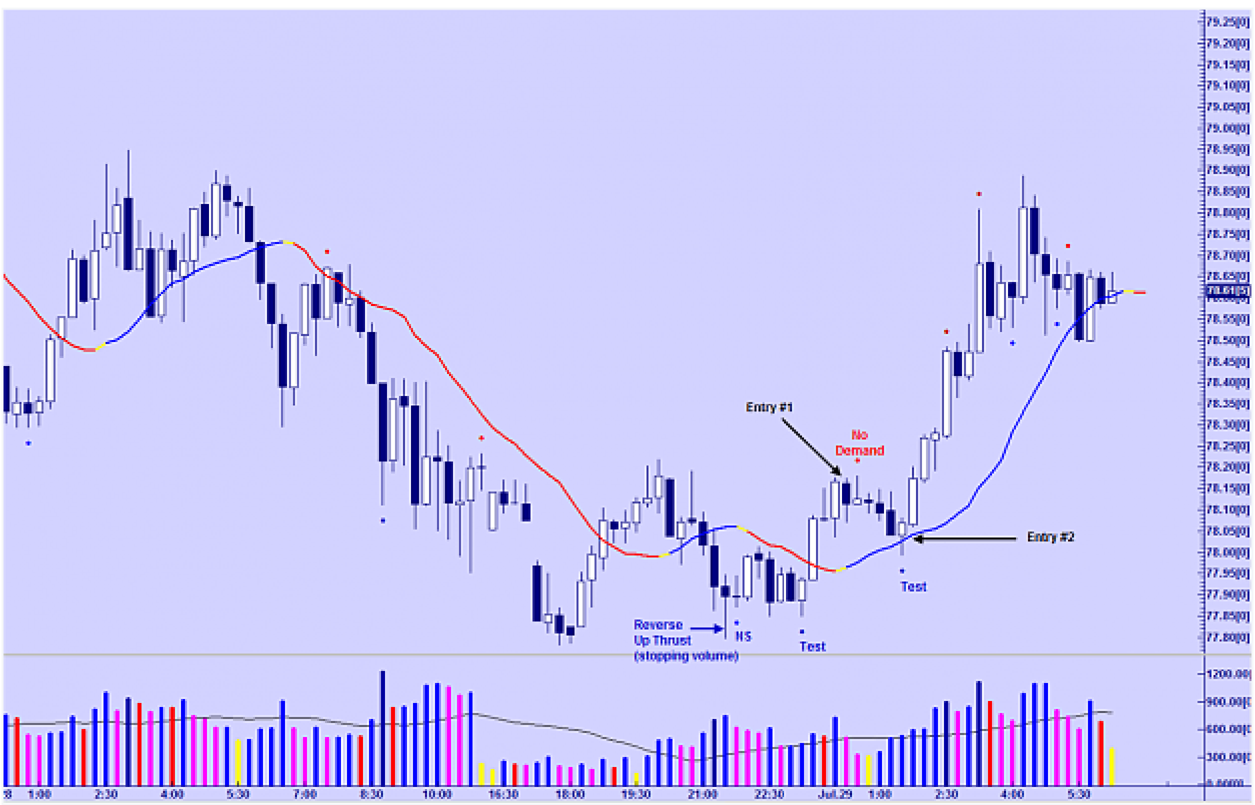
I prefer a candle that has a narrower range than the previous candle but a wider range than the candle before that to at least be making a lower low than the both the previous two candles and for the volume to be less than average.

If you entered at #1 two things come into focus. How you manage a trade. And your ability to admit you are wrong, get out and then the willingness to re-enter in the same direction a few minutes (intervals) later. Neither of these two things are "VSA elements" but they are basic trading elements.

Because this is a hindsight chart I put that entry there. But I would not be looking at it.

Now if I am remembering your chart correctly, Enter #1 is near your resistance line. This would not be a reason for me not to take it as I would not know about the S/R line. But when you are approaching an SR line you would want your VSA bars/candles to be more ideal in nature.

Attached Image (click to enlarge)



The volume on the KRB in this case is less than the previous two candles and less than average. In VSA terms it is a Hidden Test. Again note the action is around the Dynamic Balance Point Line, which is acting as support.

Now check out the Test. While it does not have a low lower than the last two candles, its range is at least less than the previous three candles. Making it at least a NR4.

Now look at the No Supply after the low volume shake out. Certainly not a narrow range. But not that it does have a lower low than the previous two candles and the volume is less than average. It is an aggressive entry as it is on the wrong side of the DBPL but some would take it.

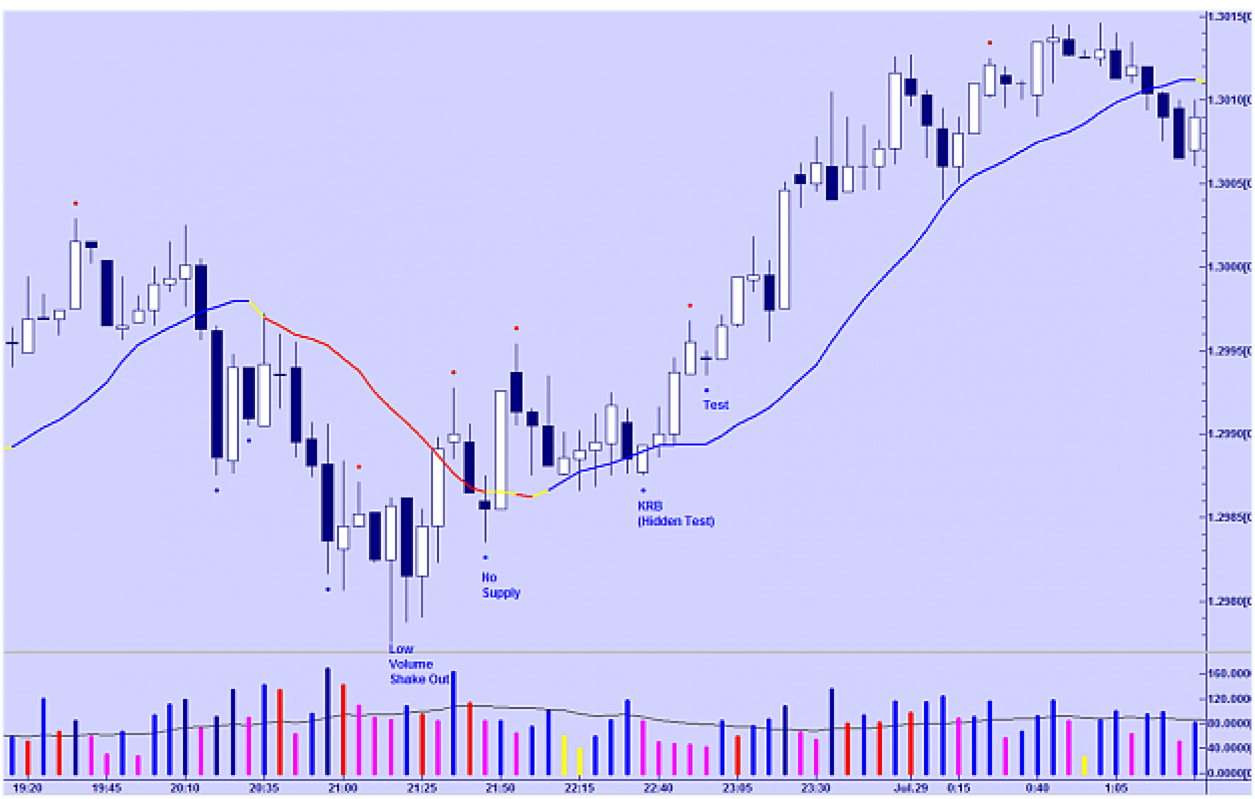
I also wanted to mention a couple more things about S/R. I certainly do not advocate not using S/R. In my case, I just believe that there are those far smarter than me with a lot more money that know where the true S/R areas are. I figure if I can determine their actions, then I don't need to know where the areas are myself.

It's funny how things work sometimes. I just watched an old TG webinar at PFG. On Gavin's chart the market stops almost to the tick at S2 and again at the pivot. Gavin mentions that his S2 and Pivot are not the same as most traders who use floor pivots. The fact is the market didn't stop at these lines/areas because the market knew they were on Gavin's chart (or yours or mine), the market stopped because the SM stopped it.

By all means use some sort of S/R. Use Murrey Math or WRBs or whatever. But S/R is not a trade signal. S/R is about seeing what you want to see (an entry signal) where you want to see it.

Sorry, I haven't posted in a couple of days so I'm just rambling. lol

Attached Image (click to enlarge)



Answering Questions

Question 1a: Why aren't we shorting the close of the No Demand?

Answer: Take a look at the chart. Ignore the fact that the No Demand is on the wrong side of the DBPL for now. Many times after a No Demand we will see either a Trap Up Move or an UpThrust. Either of these types of bars/candles put immediate pressure on you and can get you stopped out prematurely. Therefore, it is recommended to place an order at the low and get in there.

Question 1b: You don't actually know if it is No Demand when you enter correctly?

Answer: Correct. You know it is an up bar/candle on volume less than the previous two bars/candles. You also know its range relative to the previous few candles. If you are paying attention to the background, like you should be, then you know whether or not there is weakness in the background. An up bar/candle with strength in the background shows momentary inactivity of the Smart Money. Maybe a big deal, maybe not. An up-bar/candle with weakness in the background shows not only inactivity of the Smart Money, but also a disinterest in (or resistance to) higher prices. Price always trades in the path of least resistance. If the BBs are resistant to higher prices, then price will fall.

But if you want to wait for confirmation, there is no law that says you can't.

Question 2: Where do you place your stops?

Answer: I don't like to talk about stops because they are a personal issue. Every trader has to find his or her own comfort level in this area. But I will say a few things about them and show an example.

The market does not care about your Risk Reward Ratio. There is always an ideal place to put your stop and it is based on what the market is telling you, not the size of your account. Again, the ideal stop may not be prudent based on one's own account size and comfort levels, but it remains ideal nonetheless because it is MARKET GENERATED.

In the chart below the best place to put a stop is a tick or two above the Trap Up Move after entering on the close of that same bar/candle. Yes we are entering on a down bar/candle but this is one of the exceptions to the rule. At the close of this bar/candle we have no idea how far the market will move in our direction (let alone that it will). So I am not sure how one can truly figure out Risk/Reward ratios at this point.

What I do know is that if price moves back into that area were there was a No Demand and a manipulated move to catch stops, it is not likely to be real. Yet as soon as price trades high enough to get me out, I know I am on the wrong side at the moment. Even if price reverses again and drops like a stone.

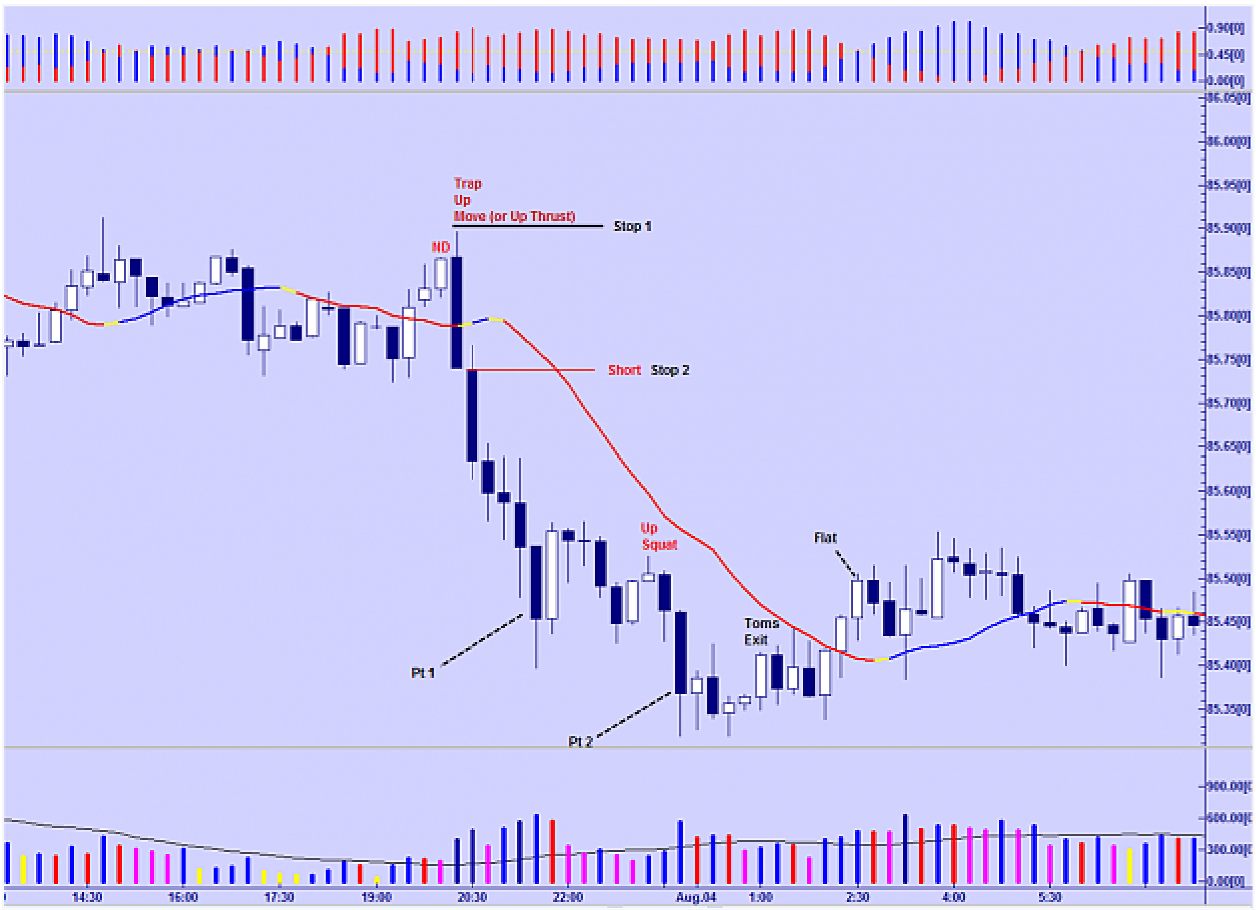
The next issue is to move your stop to break even as soon as possible. Stop 2 on the chart is that place. I would move to Stop 2 after Pt 1. Pt 1 is a dark WRB. Pt 2 is the next dark WRB that is LOWER than the previous Pt WRB.

We have talked about Tom's exit strategy in the previous thread. Basically he would look to get out after 2 or 3 consecutive up closes (if short). I think 3 works a bit better than 2. In this chart, the Up Squat comes as the second consecutive up close. But it is a sign of further weakness. No it doesn't always work this way, but it does seem 3 is a bit better. So the exit marked Tom's exit is after three (3) consecutive up close.

I am flat after three (3) consecutive up closes where 2 are above the DBPL and after I have reached Pt 2.

Personally I am interested in hearing Mal's and Intel's views on stops and profit targets.........

Attached Image (click to enlarge)

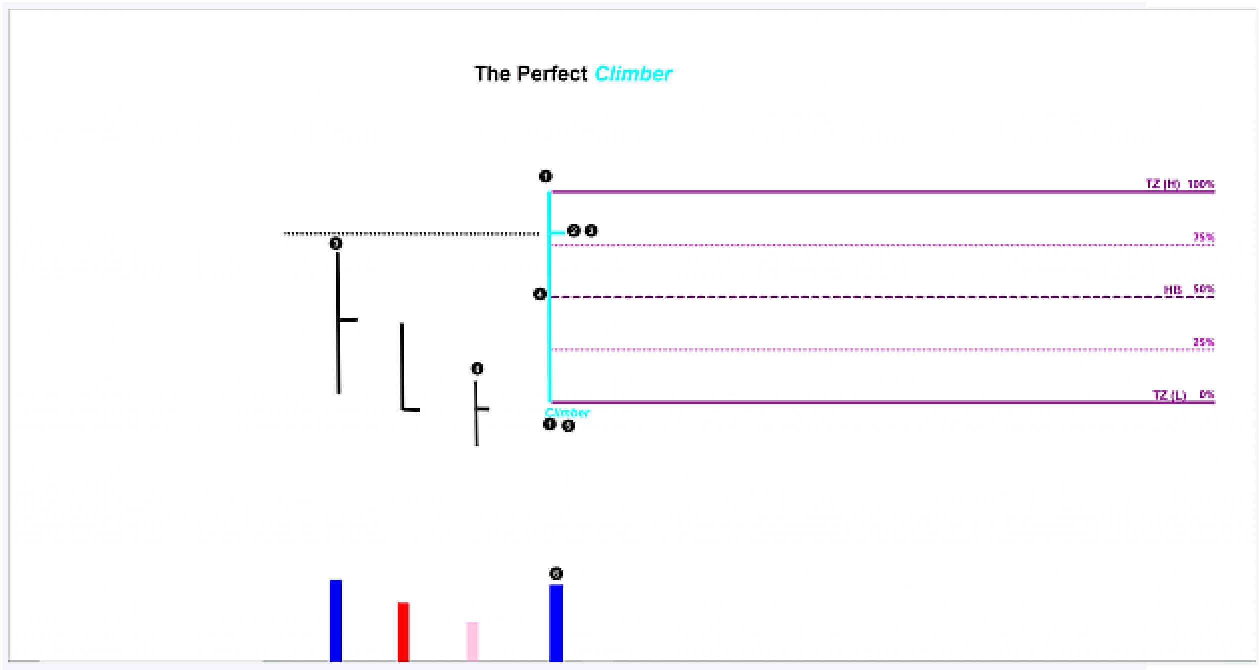


The Perfect Climber

Visualizing OrderFlow.

These bars are not magic.

Attached Image (click to enlarge)



(1) A **W**ide **R**ange **B**ar (**WRB)**. This is defined as a Range (H-L) greater than the ranges of the previous three intervals. Note, even if you employ candles, the "B" refers to the bar's range and not the candle's body.

(2) The Close is in the upper quarter of the range. Which is to say the close cannot retrace further than 75% of the range. *** new information follows:**** In recent posts, I have only shown the main **FIB** levels for clarity's sake. But recall that Gavin will at times use the close of the bar for a trigger number. Well in two cases, I have a trigger level automatically at the close: a. when the close equals the high and b. when the close is at the retracement threshold.

We also have a definition of closing on or near the high of the range. This is one definition used in the rule-set of Tradeguider. For example, a basic **Test** is a decreasing range bar that closes **DOWN** and closes at or above the 75% retracement level on volume less than the previous two bars.

(3) A BreakOut interval. This is defined as a Close Higher than the Highs of the previous three intervals.

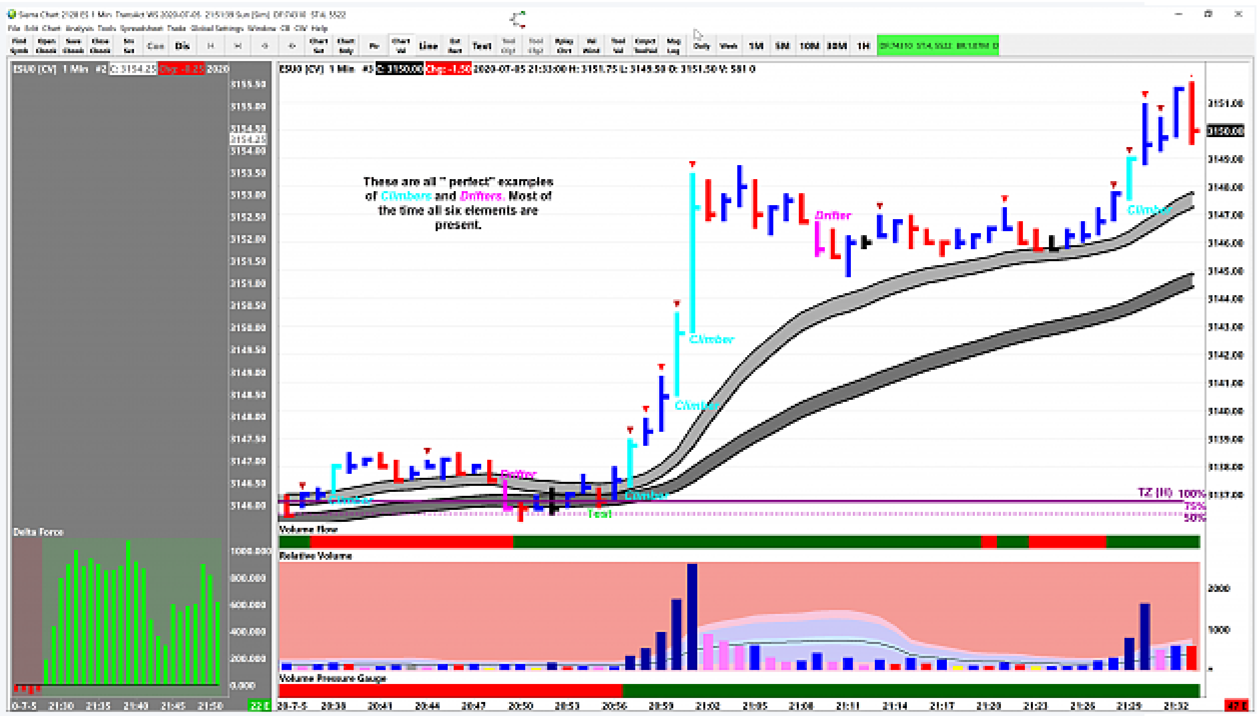
The above three are musts. The next three are ideal.

(4) The midpoint of the range (HB) must be greater than or equal to the high of the previous interval.

(5) The Low of the interval is greater than or equal to the Low of the previous interval.

(6) Volume is increasing. Again, this is not a requirement but we would rather see this, and most do have it. We are going to **FIB** the most recent ***AGGRESSION*** **BAR** with Climatic Action. But the real reason we would like to see increasing volume is because bullish volume is increasing volume (although not excessive) on **UP** bars.

Attached Image (click to enlarge)



Explaining Sharp Shooter

First Mention

SHARP SHOOTER is a powerful way to trade, but there is no need to spend any money to use it.

You can go to Youtube and watch every video on SHARP SHOOTER there for free. You can even download the strategy from the Tradeguider website for free.

AND you can read this thread. Many trades shown here are based on the SHARP SHOOTER strategy.

Anyone can "find" a SHARP SHOOTER trade with a little study and patience.

Take a look at the chart below.

The **black** arrow points to the highest volume bar of the day at that time. We know that weakness, when it appears, usually appears on UP bars. We also know that markets do not like high volume UP bars. The volume bar is painted **black** alerting us to the fact that this is volume greater than the previous 38 bars, which we consider to be climatic. If this bar is truly weak, then we want to place a line at the low of this bar. This will become our trigger number (or trigger line). I placed a green line at the low.

In order to take a short trade, we want to see price trade DOWN through the line and then attempt to move back UP towards the line. Preferably on volume less then the previous two bars-No Demand. And there is one more vital thing we want: **Trend Alignment**. **Trend and Trend Alignment** are so crucial, that I use the term Chart Mode to emphasize their importance. So when Chart Mode I is red, I do not want to trade against it. The indicator itself is not magic. You can employ the trend indicator of your choice. What matters is that you should not be using it to make trades, but you should not be trading against it either. Ditto for Chart Mode II.

Okay, back to our story. Price moved below the Trigger Line, and then attempts to move back above. E1 points to the two intervals where Price is moving UP towards the Trigger Line from below. Price is also below our Dynamic Support and Resistance Line, also known as a moving average. Again, what moving average is used is a personal choice. I use the Cycle of TimeLine, but it is not magic. Find what works best for you. In order to place a trade at E1, there should be **Trend Alignment**. On my chart, Chart Mode II is still green, therefore this is not a valid entry for me. But if you used faster indicators, maybe you could enter here.

E2. This is what you really want to see. Price moves UP on volume less than the previous two bars-No Demand. No Demand in an UP trend is a powerful signal to get short.

That's it. That's SHARP SHOOTER in a nutshell. Save the money for your account. Watch the videos on YouTube, and read (more than once) every post by Malcolmb and Pres, and the other skilled **VSA** traders.

Attached Image (click to enlarge)

Second Post

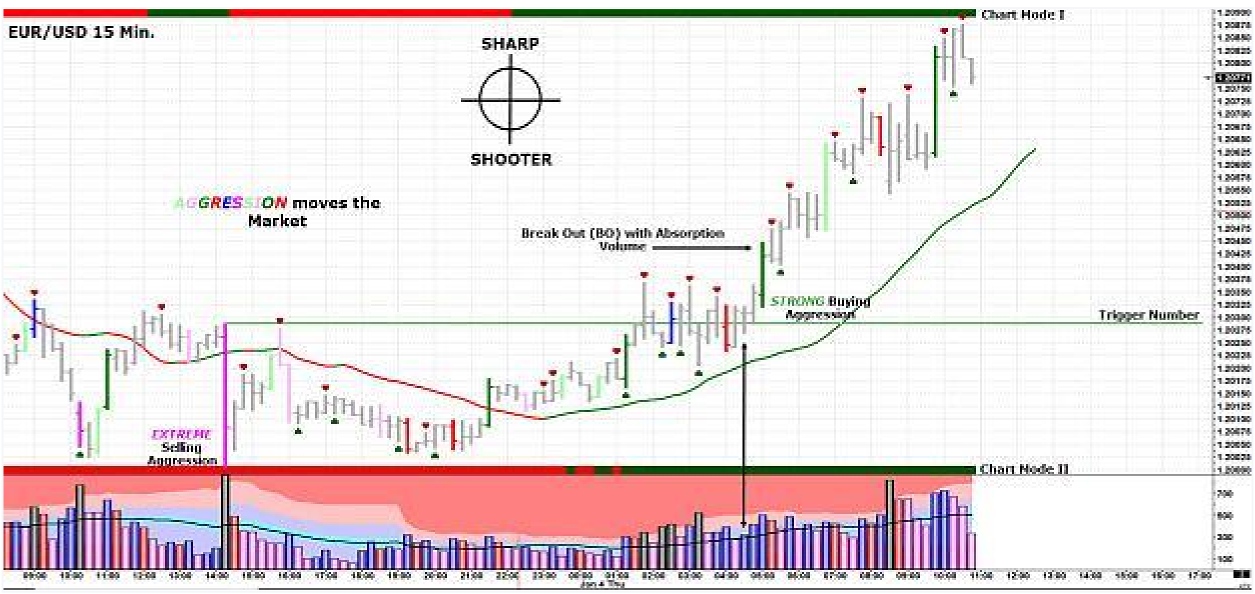
[SHARP SHOOTER TRADE]()

Honestly, I was going to post the Trigger Line (or Number) last night, but got busy. No matter. I challenge anybody to show me where the rules that have been stated countless times in this thread are broken.

SHARP SHOOTER (and **VSA** in general) is about high probability trade setups. Not predictions. Anyone could have seen the wide range **Down** bar on ultra high volume that closed off its low as strength. Once this bar is identified, a Trigger Line (or Number) is placed at its high. ***IF*** price changes behavior and trades through the Trigger Line, and then pulls back towards it, then get long on a **VSA** sign of strength (typically No Supply or a Test).

I have noted the BreakOut Level 2 ***BUYING*** Aggression bar. This is for those aggressive traders who trade BOs. From a **VSA** perspective, you need to wait two intervals to see that it is Absorption volume. Which is strength. Because **VSA** teaches us that weakness, when it appears, usually appears on **Up** bars.

Attached Image (click to enlarge)



Homage to Pres78

As far as I am concerned, what follows is both the **SHARP SHOOTER** strategy and **V**olume **S**pread **A**nalysis (**VSA**). Pres78 calls it Volume Zone Analysis (VZA), but it is really nothing more than his brilliant take on what would eventually become the core of all current TradeGuider strategies.

I recently remarked that high probability trades occur at the extremes. The extremes referring to the High and Low of a particular volume bar. When you reach a semblance of Pres78's level, you know how to bring in the midpoint, or 50%, of the range as well. As I am nowhere near that level, I will be focusing on the extreme of the range.

The first thing we want to do is find our high volume bar. This is where his first bit of brilliance shows up. "Today's zone=Tomorrow's opportunity". We want to start off by looking at a 1 hour chart. We will use the standard Forex definition of a day-Sydney open to New York close (1800-1700).

Once we find the highest volume bar, regardless of spread, we can mark the **HVZ** (**H**igh **V**olume **Z**one) with a line at the High and a line at the Low. Now we have our key zone for the next day. More exactly, we have our Trigger line (Long) and our Trigger Line (Short) for tomorrow. We are then going to do something Gavin has echoed, but Pres78 said first, and look to take Shorts after price trades below the Trigger Line and then attempt to retrace upwards as a SOW appears. And vice versa for Longs.

Take a look at the chart below.

Attached Image (click to enlarge)

At the beginning of the London Session, our Zone is already set. We quickly trade above the Trigger Line (Long). Supply enters but price remains above the line and above the BPL. We then see a narrow range DOWN bar on volume less than the previous two bars. No Supply. But we do not have trend alignment, so no trade is taken. The interval also fails to confirm with the next bar UP.

Things get interesting as price moved back into the Zone and down to the Trigger Line (Short). We see a Test. This Test does confirm with the next bar UP. But the confirming interval is a Test in its own right. And this new Test does not confirm as the next bar closes DOWN.

1: Bingo. We've just closed below the Trigger Line (Short) as a Pres78 2 Bar Reversal has formed. The second bar of this Pres78 2BR happens to also be a Trap Up Move. Knowing the power of the Pres78 2BR, this is an aggressive, but understandable, place to get Short.

2: Another Trap Up Move that can be used to enter the market.

A1 & A2: A1 and A2 are the "retracement" type entries on low volume. If you placed an order at the low (one tick below), you might not have been brought in on the next interval. If you placed an order at the low of this second interval, you definitely would not have been brought in, as the next bar does not make an equal or lower low.

Again, here we are trading in harmony with the Smart Money.

Read all posts by Pres78, and then read them again. I can't promise you'll be a millionaire by Tuesday, but your account will thank you for it.

Malcolm

SOW during uptrends are normal

What new people fail to understand is that in any UP trend there will be SOW.... like ND or UHV bars closing off high ... but overall trend is up and once we get a wide spread bar (wider than prior bars) you mark top and bottom and those are your triggers . You look for breakouts and tests of those WITH THE TREND.

Tops and bottoms are also easy to trade but they require a very specific set up.

in gold for example upthrust on a 30 min work 90 percent of the time ... once you see one look for further sow to confirm.

On indexes I like to use shake outs or testing after a shake out for entry on a 30 min chart. Last week there were some sexy ones on the open of Dax

Candle Whisperer

ND confirmation bar nuance

If the volume is less than the previous two and closes down, you may have No Supply. But you would have to wait for the next bar to find out. If the close is in the middle or high, it could be a test. Thus, what we would like to see is volume that is higher than the No Demand bar. That means it at least can't be No Supply. It can still be a test, but a test on increasing volume usually is not bullish.

As for range, here too things can be a bit tricky. If the range is large and the close near the low, a personal decision needs to be made. That is, price may have moved beyond one's entry tolarence.

So while the bar confirms (completes) the No Demand it may close too low to be a valid entry point. The level where a down close is too low for entry is personal. But many will find those times when a No Demand completes at the same time a short entry is invalidated

Jj response

Candle, one thing I'd like to point out in the way I trade VSA is that if there's weakness in the background, especially if it's proven, that I discount low volume downbars. I don't do the whole bar by bar thing. That method isn't really tradable to me. What I look for is strength or weakness and then try and pinpoint my entry with a signal such as a no demand. Have you ever notices that the completion bar of a no demand reversal is almost always low in volume? This happens because it's an area where people don't really know if it's going up or going down because it's moving so slow in both directions. So at that point downward pressure doesn't really exist even though we know that it will because of our background. Then the volume will usually pick up on the bar after the completion bar.

But the way you're reading it is technically correct and if you were emulating Sebastians technique then you'd probably be spot on. I'm jsut pointing out how I read it and make it easier on myself.

Anotan

Stop Placement & When to Exit

An easy starting point for stops is finding trapped buyers if you're short or trapped sellers if you're long. And Climatic volume is a great starting point for exiting trades.

I don't have any hard and fast rule for stops or targets, a lot of it has to do with how confident I am with the trade. Trades I'm less confident about, I tend to put tighter stops.

I do trade HVCs, so I expect that the HVC is going to act as hard resistance and once price starts moving away from my entry then I start protecting myself by moving stops down.

Here is a trade for today... I shorted Yesterday's HVC from the Asia session and my initial stop was just above the trapped buyers, if price is bearish its very unlikely price will return to previous buying. As price starts falling I'll bring stops down and start adding to my position.

This trade is pretty straight forward as price reaches the lows I'll start dumping positions, but one thing about multi entries is you can scale out of a position. If you see climatic volume you can dump 1/2 your position or whatever you like and let the rest ride if you think there is a chance price could keep going your way.

JjTheTrader

NML trades (Advanced)

When trading in the 'middle of nowhere' your support is the background strength. Background strength with a nice test on a subsequent rally is a good place to go long even though it's not on support. In that case your support is lack of selling after a climax.

Probabilities on your side

On a trading note, you never know what a trade is going to do. You take the high probability ones and even the perfect looking setup can fail. Buying a pullback in a rally with strength in the background is high probability.

You've got to find an entry and a test is your best bet.

Choosing one VSA setup only

My advice is to find one VSA setup. Learn it, know when it's valid and when it's not, find out how to enter on such a setup and once it's made you rich you can add a second setup. Master just one. That's all you need to make money. They happen all day everday on different timeframes.

my number one is no demand just like CandleWisperer pointed out. There's a few reasons for this.

1. You can flip the whole setup upside down for long positions. Now you're playing both sides of the market with one setup.

2. The narrow spread affords you a tighter stop on the other side of that no demand.

3. They're alway showing up after a couple signs of weakness so they're easier to confirm.

Upthrusts are cool but I'll be trading the no demand that follows them. I'm not saying what I do is right, I'm just saying it's what I do.

Identifying trends

Trend is pretty easy actually. Don't get yourself confused with too many timeframes first off all. They'll alll be pointing in different directions and confuse you.

First, what timeframe do you like to trade? Personally I trade the 3min. I don't ever look at a chart higher than 30min. I'm not a swing trader so it doesn't really impact my trade. I'm trading off 'mini' supply and demand pockets. A 30 min chart will tell you the story of the bigger picture to if you need it.

Just look at the timeframe you like to trade off of. Are the bars forming higher highs and higher lows? When we have a run up are the pullbacks shallower than the advance? If so we're in an uptrend.

If we're in an uptrend then it's good to be able to tell if there's strength in the background. The uptrend will last much longer if there is.

Yes you could use a trend channel to tell you the trend but depending on the timeframe you trade, this could really lag.

Bottom line, look for bars to form higher highs and higher lows and for each swing low to be higher than the previous. That's the simplest way I think. It's a great subject and I'd like to hear from others as well.

Eiger

Polar Bears in Hawaii

Focus first on the volume rather than the price bars. VSA is areally more about volume than price. VSA sees volume as the key indicator for professional activity. It's only the pros that have enough 'power' to turn the trend.

So, when looking at a chart, always look for the swelling of volume or volume spikes. These are big clues that important activity is taking place. Then look at the price bars on that volume. Did they close in the middle or on the exteme (e.g. closing on the highs at the end of a down trend). This would tell us that pros are stepping in and attempting to change the trend. We then, of course, look for a low volume test or no demand for confirmation.

Once we see the the high volume, we know the background is potenially changing. The character of the subsequent volume and bars--especailly the low volume test or no demand--gives confirmation.

If that is our background, and we've now gone from a downtrend to strength in the background, then any No Demand that shows up is out of place and can be ignored. A single bar will not alter all the heavy effort that was demonstrated in the background (i.e., all the high volume effort changing the trend).

Wyckoff talked about this as well. He understood that volume is one of the keys to detecting shifts in trend. He talked about the swelling of volume that nearly always occurs as the trend shifts from up to down or down to up. His little book, Studies in Tape Reading is a great read regarding this kind of stuff.

It helps to know your market, as well. How much volume is typically required to change a trend on a light volume day? What about a normal day? And, a trend day? Knowing these will help keep you from seeing stopping volume and climactic action at every minor turn.

It is always better odds when you see volume come in and there is nearby support or resistance.

One other thing to say is that the shift in trend from down to up seems more difficult to discern than the shift from up to down. I don't know exactly why this is so. I guess it takes a little more time for accumulation or maybe fear takes a little longer to recede in minds of traders. I'm not sure. But typically, the 'accumulation' phase takes a little longer than the 'distrubution' phase. So, you might see more polar bears (or palm trees, whichever is the right association) as the market is trying to change from down to up. It's just something to keep in the back of your mind.

Try to remember that background is the crucial thing to watch for. The easy 'tell' is swelling of volume. After it has been confirmed, single bars (that are definate keys in the context of other backgrounds) can safely be ignored

High Probability Springs

Springs are one of my favoirte trades. I have studied and traded them for a long time and have a pretty good grasp on their characteristics. Because of that, I usually don't wait for a test for confirmation. Many times springs will just take off like it did here.

So, how would you know whether a spring has high odds or not. Your chart has all the characteristics I look for in a spring:

First, the background. Here, the market is in an uptrend. It has made higher highs and higher lows. Springs do not work well in a downtrend. I never take a spring when the trend is down unless a clear SOS and a base (cause) have occured. When I see an uptrend in place, I start thinking pullbacks and springs. Note that once again, the all-important background is always the first consideration.

What is particularly nice about this spring is that there was a reaction back to support on relatively light volume. This is a choice setup; I really like this look. It is described in the Wyckoff texts as a Jump Across the Creek, and then a Back Up to the the Edge of the Creek. The creek represents supply and the jump across the creek indicates a sign of strength. The market will frequently come back to the edge of the creek and test, as it did here. Testing in this context means not on a single bar as in VSA, but coming back into the area of supply (red curved line) aand testing it to make sure no additional supply is there which would thwart an up move. Volume on the reaction was lighter than the rally.

The bar before the Sping was telling. That bar looked ominous, closing on its low and closing lower than the closes of the last four bars. Volume did not increase substantially, however, and the spring bar dipped lower, turned around, closed on its highs, and volume came in. If you were watching this bar develop real time, you would have seen the volume come in as the bar rallied up - this is demand off the bottom. The spring bar is also a bottom reversal in VSA terms, so it had that going for it, too.

The final piece to this is that the spring bar was powerful enough to come right up to the minor supply line of the reaction. Any further advance in price would take out this line, which occured shortly thereafter.

Regarding switching how the chart displays the bars to look for confirmation -- I personally wouldn't do that. This is akin to committing "confirmation bias," or looking for indications you normally don't look at to support a decision. It is better to either study springs until you are completely confident in trading them without a test for confirmation or specifying that a spring must be confirmed by a test and if a test does not occur, just let the trade pass. Either is perfectly fine.

If your criteria includes a test and a test does not occur, so what. A trade was missed. No big deal. There is always another good trade coming just around the next corner. If you note on the chart after rallying aggressively off the spring, the market moved up above the last high (HH) making another new high, rested, held its gains, and gave a nice VSA Test for entry (green arrow http://www.traderslaboratory.com/forums/uploads/monthly_2009_05/5aa70ece3834d_SpringMay509.png.0dbd2c11e9f6ee7623da0ccd720be0e7.png

Anticipate instead of Predict

I have to remind myself when trading not to try to predict the market. It really limits me. I consciously try to use "anticipate." When I see, for example, a sign of weakness, I then anticipate no demand. If that occurs, I then anticipate an upthrust. If that occurs, I can take the trade. Thinking this way helps me be more patient -- something I am always working on.

I remember reading from Mike Douglas that in the markets, "anything can happen." Sometimes, it seems, that anything does happen. When I am predicting, I start to narrow my mind and filter out contradictory information. I am not open to what the market is telling me. The "anything can happen" seems to occur more frequently when I am predicting, because I'm not in tune with the market. I can't tell you how many times I have taken a short, the market goes down a bit, and then paints a low volume, narrow range bar with a decent close. Because I was predicting, I ignored this signal that the market was likely going to attempt a rally. When I am trading well and anticipating, I can "see" the market better and I am out of the short on the next open.

This was such a problem for me for so long, I started keeping a journal just on this. I called it, "The Predictor Speaks," and recorded every time I did this. Slowly, I began to realize that predicting the market was feeding my ego. Every time I predicted and the market did as I predicted (mind you, I was never in those trades!) I felt self-satisfied. In reality, was fooling myself that I really "knew" the market and "understood" it. I came to learn that for me, prediction = ego, and getting my ego involved is a stupid way to trade.

I found that predicting limits my trading. I don't see alternatives, I have more losses, and I miss opportunities. Thanks for that post: Anticipating is such a better mindset.

Response to post saying probabilities are predictions

In my book, there is nothing wrong about predicting an outcome based on odds. In fact, if traders thought more in terms of probabilities, they would have better results. And you're right, it's really about not getting attached to an outcome. Well said.

Besides being a trader, I am also a psychologist, so I apply a lot of psychological science to my trading (and I work with a few other traders, as well). There is an awful lot about the markets that you cannot control. VSA and Wyckoff help us to read the markets pretty darn well, but even with these skills, outcomes are never guaranteed. There is only one thing a trader can control, and that's himself or herself. Having a probablistic mindset, remaining unattached to outcomes (which I do via anticipation), and keeping one's mind-in-the-moment to be able to effectively use VSA are some of the psychological keys needed for good trading. These are the things a trader can control, or bring under control with a little effort.

Response to DB

http://www.traderslaboratory.com/forums/topic/2134-vsa-volume-spread-analysis-part-ii/?do=findComment&comment=28430

the outcome of any particular trade is not knowable (M. Douglas). Unfortunately, many traders do try to predict. I am sure you did in your early days. I certainly did. In the 1970s, Dave Mathys, former head of training at Wyckoff Associates/Stock Market Institute (as it was then called), thought so much of this matter that he devoted an entire series of weekly tapes (13 in all, I think) to the idea of anticipation vs prediction. It is, as you say, very much in line with Wyckoff. Wyckoff, Evans, Andrews, King, and Mathys all were concerned that the trader not use, for example, the P&F chart objectives as firm targets, only as points to "stop, look, and listen" to what the market is saying. Prediction vs anticipation is an important part of the discussion. It always has been.

Let's take an example. Let's say you are trading the S&P E-mini on an intraday basis. Yesterday afternoon, the market was down. It made a new low after 3:00. Today, the first bar (on your time frame) is widespread up on heavy volume. It is a gap up from yesterday's close, but the bar's close is well off the highs. Probably weakness. Next bar is an upthrust -- it has run up above the previous bar's high, but closes near it's open and within the previous bar's spread. The volume is very heavy. This seems to be a confirmation of weakness and a short is taken (I certainly would). At this point, one can PREDICT a retest of of the lower end of the gap, if not yesterday afternoon's lows, maybe lower.

The next bar is a down bar on narrow spread and light volume. It closes near the open. What do you do? So many times in the past I would ignore this bar and volume, despite knowing better because I was PREDICTING it would go lower. A bar like this suggests distribution may not be complete, and the large interests are likely to take it higher to potentially sell more.

If I were ANTICIPATING lower prices but AWARE that other possibilities exist, or I knew that this trade had a certain PROBABILITY of working, but also a probability of not working, I could take appropriate action on that bar. If I were simply PREDICTING lower prices, I have no chance. The big money will own my trade shortly. That is all I was saying.

Labeling Bars Individually

One thing I found helpful which I do is to do a quick annotation of each bar on a separate sheet of paper I have set up just for this. I write down stuff like this for each bar:

- Volume - high/low/ave

- Bar - up/down/level
- Spread - wide/narrow/ave
- Close - highs/lows/middle
- Significance/meaning - see below

In significance or meaning, I jot things like higher high/higher low, no demand, test, up thrust, whatever seems meaningful at the moment etc.

I do this for a couple of reasons. First, it really improves concentration. Our minds naturally wander and we start thinking about all kinds of extraneous stuff during the day, so this brings you back to the market and makes you focus (I am a psychologist, too, so I think about these things!). Second, it's a good way to see where you are missing things. If I miss a move, I go back to the log and see how I was reading the market at that time. It is a good learning tool in that way.

I basically made a blank table in MS Word and fill it in for the 5 min chart during the day.

Storytelling in Wyckoff & VSA

I was lucky enough to be mentored by a Wyckoff expert. He always stressed what he called "The Wyckoff story." In other words, you want to line up a few of the Wyckoff principles before taking a trade. So, for example, you see climactic action occur at a previous support area, it gets tested, and then comes back down one more time and gives a spring, you have a nice Wyckoff story. You do the same thing in VSA -- weakness in the background via wide spread up bars closing off the highs on heavy volume, no demand, then an upthrust, etc.

It is really a question of identifying the alignment of principles. Williams uses terms like weakness in the background, no demand, upthrust, etc.; Wyckoff talked about buying & selling climaxes, secondary tests, shortening of thrust, etc. The prinicples come in a certain order which sets up a high probability trade.

If this seems new to you, you can get a few of Bob Evans's classic old tapes from SMI. Evans was probably the best teacher of Wyckoff, and expanded the course quite a bit. Starting in the late 1940s, he made weekly tapes of the then current market action and how Wyckoff applied. Evans always stressed principles and created stories around these principles to help traders learn them. Things like the boy scout jumping across the creek, the fall through the ice, the shell diver's tragedty, and the spring story are all classic Evans. They are just as useful today as they were "back then," and are just as useful in thinking through trades when using VSA (IMHO).

Tom Williams also stresses the use of principles, and says they will arrive "in varying intensities." The market doesn't give you the same exact "look" each time, but because VSA and Wyckoff are really based on mass human psychology as readable in the chart, the principles never change.

When to enter after strength

Where do we enter after strength comes in?

There is a nice progression of a bottom being formed that we like to see in VSA. This is a 3 min so you may want to add the bars together to see a larger timeframe.

Strength first enters and we get an automatic reaction. We see a couple of those no demands that Winnie described. We know not to be looking short here.

They retest the lows and push a bit to fool people into shorting the low. Again we're long biased already. So we get a nice little rally off that false move. There was no real testing going on at this point so I'd rather wait and buy higher if I had to.

Then we get Eigers favorite, a spring (or shake-out). On the way up out of the spring we get a test of the initial high volume bars low. I had an order sitting above the high of that first low volume downbar marked and then moved it down to just above the high of the second low volume downbar (no supply). It picked up my second order and away we went. I had a 10 tick stop to put me just under the low of the test.
http://www.traderslaboratory.com/forums/uploads/monthly_2008_10/5aa70e9554b4b_forwinnie.jpg.a63a9920fd9c31c7ca41055beac6e132.jpg

How to get good at VSA

- Get Tom Williams's book, the "Boot Camp Chart Reading" CDs, and, if you can, the Symposium DVDs. Study these well.
- Try to really understand the roles of the Professional Money and the Herd. Understand how risk is transferred at the top and bottom of the waves and how to spot the signs of the transfer.
- Look up Sebastian Manby's charts on T2W, Elite Trader and here. Study these well. This is how you begin to understand how to apply VSA.
- Annotate your charts every night -- keep looking to understand where weakness/strength comes in and what to look for as confirmation and in setting up a trade.
- Once you begin to understand things like UpThrusts, Bottom Reversals, Tests, Stopping Volume, No Demand, etc, start to look for them on higher time frames than your trading time frame.
- Keep running, higher time frame charts so you understand the structure of the market and you can begin to think ahead into how the market is likely to trade the next morning and where important support and resistance may develop.
- Write (yes, write) a draft VSA trading plan.

- Test you knowledge, ability, and your trading plan with Bar Replay with several months of data (for the 5-min time frame) and record every "trade." Note where you should put your stops and how much "heat" is typical on a trade. Note also your average profit per trade and what it looks like when the market starts to turn.
- Revise your VSA trading plan.
- Paper trade this real time until you are quite comfortable with your knowledge, skills, and abilities in trading VSA.
- Refine your VSA trading plan based on your real time paper trading.
- Finally, start small with real money and gradually build up your position size slowly

Persistence and VSA

I think that if you study VSA, annotate your charts every night, practice trade it for a while, and keep an eye on what different timeframes are doing, you can do quite well with VSA. Not every day has so many indications as today, but pretty much every day has at least a few very good trades

Internalizing uncertainty

My trading methodology is based on probabilities and there is an important paradox in trade outcome that I must manage psychologically. The paradox is this:

With a large sample size, the probability of a trade set-up can be determined, but the outcome of any individual trade is not able to be known in advance. This means that the outcome of an individual trade meeting all the criteria of my trade set-up is always uncertain; it may or may not result in a win. However, over a series of trades meeting the criteria of my trade set-up there is a definable winning edge.

Thus, I must operate within the paradox that the market is relatively uncertain and unpredictable in the context of an individual trade; but over a large sample of trades, it is certain and predictable. This means that when I put on a trade, I do not have to know what is going to happen next in order to make money. What I do know is that over time with a large number of trades, the higher probabilities associated with my edge will prevail and I will make money.

Therefore, it is always important to remember that being right about a trade has no meaning in my trading. Further, holding onto a bias about market direction is also meaningless. Maintaining an open mind and patiently waiting for my trade set-ups is the productive way to operate in the market. Winning trades are always in front of me. I know this because of my trading edge. It is never painful to take a small loss, and it is never a Mistake if the loss occurs as a result of a trade taken because it met my trade set-up criteria; it is just a cost of doing business.

Perseverance and avoiding low probability trades

V-spike reversals happen only about 12-15% of the time (a little more in volitile periods like now). They are a low probability events and not worth trying to trade (in my experience and opinion). I see them and say, "Oh well. Better opportunities are right around the corner."

Hindsight always seems clearer than real time - this is true for everyone. But, it is about experience and, moreso, dedicated practice. Are you practicing VSA every day? Are you marking up charts each night? This is what will get you to the place of being able to read the real time chart well. Nothing else. You must practice. It is like becoming a good tennis or soccer player. You don't just walk onto the tennis court or soccer field and expect to play well. It takes a serious commitment to practice before you start to see and can act on this stuff in real time. But, anyone who really practices, will get good at this. There is no doubt about that.

Strength and weakness vs tops and bottoms

We all think this is the best thing to do, but it really isn't. Rather than focusing on the tops and bottoms, focus on strength and weakness. You really do not have to pick a top or bottom to make good money in trading. In fact, i would say that a focus on tops and bottoms will do you more harm than good.

I personally think a better focus is building the VSA/Wyckoff Story that i outlined in an earlier post. Look for the clear evidence of a trend change. These usually come slowly with lots of clues. Entries needn't be at the top or bottom - there is usually more than one opportunity to get a good entry. It becomes much higher odds when the evidence based on VSA is overwhelmingly clear. This is what Wyckoff did - he looked for a clear sequence of events to take place. Like trading on a very small time frame, tops and bottoms are much more illusory - we tend to see more than is there in the chart.

Combining time frames

I keep a running account in a notebook and on an annotated chart of the VSA indications on the 60 & 30-minute charts. I think it is a useful practice and helps me keep track of the structure of the market and what we might expect next. This analysis compliments and gives more refinement to the daily and weekly chart analysis that I posted earlier, along with the figure chart. Keeping this current throughout the day will help you see a change in trend, which you can then look to shorter time frames (10, 5, & 3-min charts) for trades

I like to keep an eye on the higher time frames during the day. Even though I don't trade off them (because the stops would be too wide), they can often give a good indication about what might be coming later in the day or tomorrow. Strength or weakness on these time frames tend to continue for a while.

Today's 60 & 30 minute charts in the ES gave a nice clue about the sell off. The 60-min showed weakness during the first hour (A), and then had an UpThrust (B). The 30-minute chart showed the first hour weakness even more clearly (1 & 2), and showed continued weakness as the volume fell off on the rally to retest the highs at 2. The 30-minute chart then gave a Top Reversal at 3, with the high higher than the previous bar and a close below the low of that bar. From that point, weak bars on the lower time frames could be shorted with added confidence
http://www.traderslaboratory.com/forums/uploads/monthly_2008_06/5aa70e7095ef9_June308ESM86030-min.png.d410259a1490b82599e7d09416ab1a0d.png

Part 2

Using multiple time frames is quite helpful. My analysis of the weekly and daily charts is for two purposes: 1) intermediate term trades (several days to several weeks), and 2) to understand the general line of least resistance/trend. Knowing the general trend on the daily & weekly lets me know that intraday moves in the same direction will often run for a while. Knowing this, I can hold trades a bit longer.

During the day, I watch the 30, 15, 5, & 3-min charts. All are used for indications, but my trading time frame is on the 5 & 3-min. I don't take a trade off the 30 or 15-min chart, but I use them for set-ups. Here is an example from the other day showing how i use the combination of the 15 & 5-min charts where the inital indications are a bit clearer on the higher time frame:

On the 15-min chart at A, high volume resulted in an UpThrust. One bar later on the 5-min, there was a No Demand. Another 15-min UpThrust at B with a slight increase in volume (supply), then a bar later on the 5-min, No Demand. At C, a No Demand on the 15-min coming into the Supply Line, and No Demand on the 5-min as the 15-min bar closes (i.e., both bars close at 1:00 PM). The market falls after C and the 15-min chart shows clear supply. The 5-min then shows a very weak rally with No Demand.

The No Demand up bars are good bars for entry when there is weakness in the background, as there is in these charts in every case. The big clue here is to use the higher time frame chart to find weakness or strength and then use the trading time frame for the entry.

Part 3

I find it very helpful to watch higher time frames during the trading day, even though my trades are taken mostly off the 5 & 3-min charts. If I saw a Test on the 30 or 60-min chart, for example, and there were other indications of higher time frame strength in the backrgound, it would give me more confidence to take a long trade on the 5-min chart (say a Test in a Rising Market) and then trail the stop and play for a larger gain than if I were trading solely off the lower time frame. Usually, if i am trading off the lower time frame, I will play to the next level of resistance. If there were good indications on the 60-min chart, though, I would generally be encouraged to hold at least part of the position on a trailing stop.

LTT Analysis w/ Monthly/Weekly/Daily

You asked about CMED and the bar on 8-13-08. It was a down bar, ultra high volume, and closing near its lows. I marked this bar and its volume on the daily chart with red arrows. The next bar was up. You asked if this is a strong bar.

In a word, the answer is No. This market is not showing strength here, but weakness. I'll try to explain why from a VSA/Wyckoff perspective.

Let's first take a look at the monthly chart. It is always a good idea when trading anything to look at a couple of time frames higher than the trading time frame. In my trading of the 5-minute ES, I look to the 30-minute and even the 60-minute charts first, to see what the larger background, trend, and S/R areas are. I want to be taking trades in line with the larger background, or, if I chose to go counter the background, I know I will not be able to hold the trade for very long. When trading off the daily chart, you can start with the monthly, then go to the weekly.

Monthly Chart

So, the monthly is interesting. From mid-2006 or so, it was in an uptrend. The high was reached in February 2008 at 1. Note the close is near the lows and below the prior month's bar – bearish. If you look at all the other monthly bars in the uptrend you see this has the widest spread compared to any other bar. It is also the first bar since the rally beginning in 2007 to close poorly. Volume was high, but not ultra high. That bar told you that there is weakness in this stock.

The market reacts, then rallies on a very wide spread up bar on high volume at 2. The volume would lead us to question this bar (markets don't like high volume on up bars), but the spread is wide and the close is good. Next bar is down on reduced volume – no significant selling pressure, so expect higher prices.

The market doesn't go very far, however. At 3 we have a repeat of 1, but this time on more volume. Bar 3 is an UpThrust on ultra high volume. It is saying that the weakness or supply seen at 1 is now dominate. Selling is swamping demand. So, from the monthly chart, weakness is apparent.
http://www.traderslaboratory.com/forums/uploads/monthly_2018_03/5aa70e86b15d0_CMEDMonthly9-11-08.thumb.png.6845f215475f77ed83e09200abecb5d1.png

Weekly Chart

On the Weekly, the picture becomes clearer. The areas of 1 and 3 from the monthly are carried over. On the weekly, bar 1 is the largest down bar with the greatest volume since the mid-2006 rally. This was a clear SOW where supply was swamping demand. On the rally from June 2008, note that the up bars labeled A are No Demand – volume is low as the market tries to rally. Compare these with the up bars in the rally from June 2007 – for the most part, up bars in this rally were on increased volume, on down bars, the volume dried right up. Not true on this rally. The down bars at B and 3 had increased volume, especially at 3. At 3 you have a 2-bar UpThrust/Top Reversal. This is decidedly bearish. Two bars later is a No Demand confirmation of the weakness.

So there is weakness starting at the high for this market at 1, and it carries over through the recent weeks at A, B, and 3. In VSA, we know weakness in the background doesn't just go away. There is nothing bullish on this chart that I see. Further, the November 2005 high (marked C) had been penetrated (March – June 2008). This should have acted as support and the market rallied away from this area if it were bullish. Instead, we are now penetrating it again.

Finally on the weekly, we have a potential trading range forming between the points at 1 and 4. We are in the middle of the trading range and not the best place to take a trade. Odds favor at least a test of the lower end of the TR at 4 by this analysis.
http://www.traderslaboratory.com/forums/uploads/monthly_2018_03/5aa70e86bd7e7_CMEDWeekly9-11-08.thumb.png.04719ffbc2122b6bf909c40a50a5d917.png

Daily Chart

On the Daily chart, there is an Island Reversal at D – not VSA or Wyckoff, but this market gapped up on a narrow spread into the old top and supply area of 3, then gaps down the next day on an increase in volume and wide spread – very bearish. The heavy volume on 8-13 was not stopping volume – the bar closed on its low. You want to see the bar on ultra high volume like this close mid range or better to cbe considering stopping volume. The next bar was an up bar but still on very high volume. Markets do not like high volume on up bars – it was just mostly selling to anyone who would buy at that point. The market drifts lower.

Note the red dashed line. This is called an Axis Line. Markets tend to trade and rotate around these lines – you see them on all time frames and markets. This one is around the 41 level. It began with the demand at E, traded back down thru it, and then at F the market was held here to absorb supply for a brief time, and rallied above it. But it fell back through, and at G, was repelled once again until a month later it rallied back above it. It served as support again at H, and now we are at the 41 axis once again. It may give a small bounce here for a short period of time, but with all the weakness in the background, I would expect the axis line to eventually be broken and the market trade lower.

Well, this has been a study in multi-time frame chart reading and how to frame a current market. As you can see it is pretty logical. You can learn how to do this for yourself by a serious study of the Undeclared Secrets that Drive the Stock Market (T. Williams) and the Wyckoff Course, especially Wyckoff's analysis of the late 1930-1931 market.
http://www.traderslaboratory.com/forums/uploads/monthly_2018_03/5aa70e86cac35_CMEDDaily9-11-08.thumb.png.29b161b8d2a19305d95ae7dd46391960.png

Accounting for Background in Trades

Sometimes do the same thing (forget to widen the view). We can get so excited at seeing an indication, we just want to jump in :)

One thing that helped me with this, was to make a simple rule before taking a trade. When I saw what I thought was a set-up, instead of jumping right in I told myself to Stop, Look left (and also to the higher time frame), and then Decide. (Stop, Look, Decide). It sounds corny, but making this into a little rule helped me quite a bit. In a fairly short period of time, I basically trained myself to follow this little procedure every time before taking a trade.

You see athletes do this all the time. A tennis player will adjust the strings after a point or bounce the ball a few times before the serve. These little rituals aren't just strange quirks. They are done purposefully as a quick way to help them focus and prepare to play the next point. We can do the same thing in trading with little cues like Stop, Look, Decide.

Part 2

Background is vitally important, no matter whether we are trading on a 5-minute chart or the daily. When you see high volume come in, don't automatically assume the trend is going to change. Look at the background. Assess the larger time frame trend. Check for nearby S/R levels. Assess the stride. Anaylze the spread and close. Wait for confirmation.

Part 3

Most of us do. It is easy to fall prey to looking for the countertrend trade. In my trading, I look for the obvious support and resistance areas. Yesterday's high & low, and the 45-min or 60-min support/resistance areas. It also helps to identify any trend channels on the 45/60-min time frame.

Then watch to see how price trades around those levels. This will help you set up the background. If price approaches higher time frame support and starts to have wider spread and heavy volume in this area, odds are good for a reversal or at least a bounce. Then look for Tests, Bottom Reversals, Hidden Tests, etc.

Rather than focusing only on No Demand and Tests/No Supply, try to build a VSA/Wyckoff "Story" about the market. For Example, look at the attached chart showing 10/22 and 10/23 on the 5-minute ES market:

A Mistake Many Newbies Make

Tom Williams laid out the steps for anayzing a market in his outstanding book, The Undeclared Secrets of the Stock Market, as follows:

- Determine the phase of the market
- Assess the relative volume
- Assess the activity on that volume
- Determine the direction and movement of the current price action

Note that the very first step in market analysis is evaluating the phase of the market. This is what we call the "background" in VSA, or market context. Those who seem to consistently fail to understand VSA consistently miss this step. They go right to the price action (which is not even the second step!) Always look first at the background and phase. Here we have a bullish mark-up phase and a low volume reaction within that phase in July. The next logical movement we can expect would be a drive to higher prices. We can see that unfold next with higher volume, wide spread up bars closing on their highs, moving price up, through and above the old tops in April & May.

Identifying Trends

Just because there is a support level and price hits it and bounces from it does not mean we are now in an uptrend. It also does not mean that price will travel from that support area to the next overhead resistance area, especially in a downtrend.

A simple, but effective rule of thumb for a downtrend is to see a series of lower highs and lower lows. Once you see a lower high followed by a lower low, you should be thinking short, watching for low volume, narrow spreads, and looking for no demand and upthrusts on the next rally.

Tom Williams makes a clear point in his book: As a trader, you really want the market to tell you what to do. During the last two days, it was saying you wanted to be short. If you take a long trade at support in this kind of environment because you see a little demand come in, that's OK, but it is best to trade this as scalp only, until we have an uptrend or a clear indication that good demand is coming into the market and the trend is likely to change. You can't expect bigger moves on long trades in a down trend. In any event, most trades over the last two days were best taken on the short side.

Part 2

Winnie asked about identifying the trend. As a VSA trader, it is really helpful to have a mental map of the market. By mental map, I mean a cenceptual sense about how a market moves. We know many things about the market and how it moves. For example:

- Higher high and higher lows help define an uptrend
- A move above the last rally high after a downtrend that occurs with good ease of movement, typically indicates at least another swing up
- Impulse waves up on good spread and volume, followed by narrower spreads and receding volume indicates higher prices
- What had been resisitance on an earlier swing often becomes support on the current reaction.
- Momentum typically preceeds price
- A period of low volitility preceeds a trend
- The larger & longer the sideways line, the bigger the move out of the congestion area (often the start of a new trend)
- Markets move from congestion to trending and back again repeatedly
- Trends often last longer than we think they will
- VSA indications are excellent in identifying turning points and the start and continuations of trends
- and much more ...

Add your own observations to this list. Create you own list. Hand draw a line chart of your mental model of a trend and annotate it with the things that occur over and over. Think also in terms of trends on higher time frames and how the lower time frame trends interact with the higher time frame. Think about and identify where you expect to find trades and highlight these areas on your drawing.

Do the same thing for trading ranges

Anticipating PA during retests

I place the most emphasis on the daily highs and lows. The market will trade around these areas quite a bit. I don't really think too much about how many times price has hit a specific level in terms of weighting it more or less important (though obviously, major congestion areas are unlikely to be penetrated on the first try). Instead, I focus more on the tape action as price comes into one of these areas. I do not try to get the high or low tick if I am looking to sell resistance or buy support. I am more interested in taking a trade with confirmation than getting the very best price, so I am happy to wait for that confirmation. Usually, if I am focused on getting the very best price, I am ignoring something else that is important, and I always seem to pay a price for that.

What I do think about is when price breaks through a given level. Support and resistance are opposition. When price breaks through the opposition, the odds are very good that it will continue in the direction of the break through. I am then looking for weak rallies or reactions to take a trade in the direction of the break through. Those are high odds trades. And, if the market gods are favoring me that day, price will come back to test the opposition area :).

Wyckoff originally talked about this using the analogy of dams. He said that engineers don't build dams right next to one another. So when the dam breaks, there isn't another dam right behind it to hold back the water. Same with price. Once it breaks through the opposition, you can anticipate continuation

Legitimizing Entry Bars

[For a bearish entry bar] to be meaningful, you would need to see supply hit the market. Once you see supply, then you look for No Demand. You have an up trend on this chart. With the overall background bullish, this particular bar has no real meaning. If you are in need of a resource on this, the TG Boot Camp DVD set goes into this in great detail, and is quite worthwhile to study if you are interested in learning more on how to use these signals and when they are meaningful.

Support and Resistance is all you need

When I look at support and resistance, I look for the obvious. I don't use Fibonacci numbers, pivots, MP value areas, etc. Some people seem to use these well, but I personally just keep it simple and think about nearby daily highs and lows and the hourly highs and lows, if relevant. If the day before had an especially active area (volume), I will note this too, as it may be tested today or tomorrow (and this is probably like MP). That's about all I do for S&R.

I also think about S&R as magnets. Traders will go and test these areas all the time. If I am short and there is an obvious support area nearby (like this AM), I look for a test of that support. The more obvious it is, the more confident I am about the target. If everyone can see it, they will usually go for it. Of course, I will buy support and sell resistance when it is appropriate to do so with confirmation whenever possible.

This is what I do for Support and Resistance. I do the same thing on the daily and weekly charts. I update them every night, and keep the hourly on the screen all the time. It is part of VSA. Tom Williams in his book, the Undeclared Secrets, says us day traders would be well served by paying attention to the daily and weekly charts. Can you see the structure of the market and how the prior resistance at the 1336.50 area has become support and has acted like a magnet for this market today? I don't know if we will actually touch it, since volatility has dropped so low, but we are within a point or so of it. When you start to frame out the market like this, you will begin to see how much we trade around the daily highs and lows, and how the hourly and even weekly S & R become so important.

Use the higher time frames to give you a picture of the market in terms of trend, support & resistance. Then confirm your picture with the 30, 10 or 15 and 5 min charts. When something sets up, use the 5 or 3 min to trigger the trade.

Taking a trade because it looks attractive on the 3-min chart when everything else is going in the opposite direction is not generally a good idea. Our first job as traders is to protect our account so we can come back tomorrow and trade. So, look to take trades with the wind at your back; try not to fight the overall trend and tone of the market.

Volume is Relative

Thinking that "... there should be a big volume" will get you into trouble quickly. Volume should expand on up waves and taper off on reactions in an up trending move as it does in the referenced chart. However, excessive volume on up bars is always suspect. Excessive volume is very often a tell or sign that the professional traders are transfering stocks or contracts to the public, and that, therefore, the market is about to change direction.

With a little study, you can determine what is healthy expansion vs. excessive volume in the market you trade. Keep in mind that on a quiet, low volatility day, excessive volume will be of a much lesser intensity than on a high volatility day like a trend day or a day following a trend day. In other words, it will take much less volume to turn the market on a quiet day than on a very active day. This is what I think Tom Williams means when he says that VSA indications come in different intensities. Thus, it pays to study volume characteristics on quiet and active days and to have a way to determine early in the day whether the current day is going to be more quiet or more active. (One simple way to do this is to compare the volume over the fist hour or so of the current trading day with the first hour volumes over the last 2-3 weeks. You can also make similar comparisons in the futures indices with ticks, trin, breadth, look at intermarket relationships (more complex), etc).

Limitations are Great

Unlike most people, when a pro athlete discovers a limitation in her game, she's ecstatic. Why? Because now she has something concrete to work on to improve her game. Otherwise, she never knows, and never gets better. And she knows the discovery of limitations is more important than virtually anything else she can imagine. Once she identifies a current limitation, she can put together a plan to overcome that limitation. Believe me, if she is a serious athlete, she is out there every single day on whatever field she is playing on with her sincere intention to overcome her limitations, and working very, very hard at it. It takes great effort, but she knows that overcoming her limitations will give her a new asset in her game. This is why discovering her limitations is more vital than anything else. She knows it's the only way to improve her competitiveness and win more events.

Trading is a performance activity just like sport, it just doesn't include the physical. The more we learn about our limitations and develop a plan backed by sincere intentions, the more we can improve and overcome whatever challenge we face. Never call a limitation a weakness; it isn't. Never view a limitation as a critical comment about yourself; whatever limitation you have in trading has nothing to do with you as a person. Instead, view it with excitement, because now you can do something for yourself and get better

Price rising on ND

Take the attached chart as an example. Prices rise all afternoon. Note that the volume is generally expanding with the increasing prices. Demand is pushing prices higher. It then rests a bit, and then rises again. Price then reacts (note the increased volume on the reaction). But then price starts to rise again. Is there demand for higher prices? No. Look at the spreads and look at the volume. As price rises to 1, volume retreats. The same thing occurs on bar 2, volume retreats and also the spread narrows. This is quite different from the rally on the previous afternoon where demand was evident. Price has risen on 1 & 2, but it does so on No Demand. This is why even though it goes a tick or two higher on 3, it quickly falls. There was No Demand at that level for higher prices.

You see this all the time in the markets and with weakness in the background, an excellent place to take a short. Word games won't change this characteristic of the market.

http://www.traderslaboratory.com/forums/uploads/monthly_2008_05/5aa70e608649a_May14Nodemand10Min.png.378cf99d95cd7d4bb7ce47bbe66fe992.png

Drilling down on the STT for entries

Here is the 10-min chart I posted last night along with the "faster" 3-minute chart. The circled areas on the 3-min are where the high odds trade locations took place. When you study the 3-min, you will see a VSA principle that serves as a trigger for the trade. So the 10-min or 15-min is the chart I watch

for the set-up, and the 3-min or 5-min is the trigger. Also, because the set-up occurs on the higher time frame, you can hold the trade for more than just a scalp.
http://www.traderslaboratory.com/forums/uploads/monthly_2008_04/5aa70e56c68dd_April14200810-min.png.f686f479bc8cc20c52d8e9425858c217.png
http://www.traderslaboratory.com/forums/uploads/monthly_2008_04/5aa70e56d976c_April1420083-min.png.437a2737391f3abfcfdcacce265f85f0.png

Springs/Shakeouts

Unless volume is well below average on a Spring, it is best to be patient and wait for a Test of the Spring.

Shakeouts

The attached chart is the 15-min ES with three Shake-Outs. It is important to remember that these come in "varying intensities." The first Shake-Out comes after a fall in the market. It occurs on the open. Note that the volume is less than the earlier down wave (though definately still high), and that the bar closes on its highs. The market then goes sideways for a day, before beginning a mark-up. Whatever stops (and there were thousands) were under the lows of the previous two days are now in the inventory of the professional traders, which they are happy to sell back to the herd at higher prices, thank-you very much!

Note that a severe drop like this would cause bears to jump onto the downside and sell into it, if there was supply in the market. It would be an opportunity for selling to take control and bring the market down. But, it didn't happen. Thus, it is a Shake-Out.

The second Shake-Out occurs at the end of the trading range, just before the market rallies. The Shake-Out closes on its lows and looks as if it will casue the market to fall (in real time), but the bears do not join into the selling. You can see this by the low volume. It is a way for the professional traders to know whether or not there is still supply in the market, which would swamp them as they tried to take prices higher. The next bar is up and the market rallies.

The third Shake-Out is similar. A fairly wide spread down, closing on the lows. The lower volume, and the next bar being up, closing on its highs, indicates that this is a Shake-Out. Selling did not materialize when it had the opporutinity to take control and bring the market down. So instead, it risies.
http://www.traderslaboratory.com/forums/uploads/monthly_2008_06/5aa70e72ea478_ShakeOutExamples.png.e96473a07c6058f9dbf7e46145f756de.png

Seeing Absorption

Question in blue

There's a noticeable dry-up in volume after a peak. So is this

(a) professional money sold into that peak and is now waiting to short?

(b) there's no one around to sell and this can go up because there's no selling pressure. There's not much buying either.

These kinds of situations always confuse me... if anyone could clear this up - once and for all - I'd be most grateful.

These situations can be confusing. What you are seeing here is absorption. Unfortunately, you can't really see it with the 2-min chart.

I've attached a 5-min chart of the past few days. The area you outlined is boxed in blue. It actually was a little larger than what you have drawn, and the 5-min chart shows this more clearly. The absorption area is highlighted by the green box.

VSA teaches that previous resistance areas and areas of active trading will still have locked in traders - traders with poor positions under pressure looking to get out at break even. Sometimes, big money will rocket price through these areas via wide spreads or gaps. Other times, they will absorb the offerings.

Yesterday was a trend day down. As a general rule in the S&Ps, the afternoon high (red circle) of any trend day down will be resistance the next day if price comes back into that area. We saw that today at about 11:30, though price did not (and this was a clue that the opposition formed by the resistance would be broken) react very far.

On the FOMC day, there was also a fair amount of trading activity in this same area, both before and after the announcement (red oval).

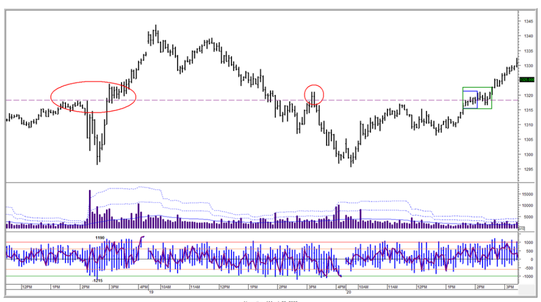
The dashed line highlights the area, and if you go back a little farther, you will see that price traded in this general area on previous days.

As price came back up into this area again, whatever was offered by traders was absorbed by the CM or big money.

How to tell it is absorption? Resistance on the left side of the chart needs to be there. You noticed the declining volume. That is one good clue. You also see rising supports or higher lows as the absorption area progresses. A third clue is that price holds it gains well. Price was holding well (on top of the support of the 11:30 highs), and did not have much of a reaction. Anytime price did dip within that range, it did not draw out any supply (increased volume), so no one was interested in taking price lower. Sometimes, you will see a slight increase in volume at the very end of the absorption area. This didn't happen today, but when that does happen, it usually occurs on the last few bars and those bars typically close mid-range or higher and their lows are almost always higher.

At the very end of this absorption range, there was a little shake-out, seen by a wider spread down bar with almost no appreciable increase in volume. It was then followed by a nice reversal bar that indicated absorption was completed.

Sometimes you will see absorption before breaking out of a Supply Line. There is always some form of resistance.



http://www.traderslaboratory.com/forums/uploads/monthly_2008_03/5aa70e483d003_March202008Absorption.png.17691210115daeaccd8a90a30d8a2c13.png

Playing Probabilities

Now, a quick note on "real time" calls and hindsight analysis. Clamoring for as well as making predictions is a fool's game, in my judgment. What is much more constructive is to follow the market and try to apply logical analysis to it, but always remembering that this is still a game of probabilities. As Mark Douglas has said, "Anything can happen," and it often does.

Thinking in terms of probabilities and what is likely to happen next, what we need to see to confirm that likelihood, and what might disconfirm it is a much more useful practice than trying to make predictions, however appealing that may seem. Approaching the market in this way doesn't mean we shy away from pulling the trigger. Rather, this approach helps us to better analyze the markets so we know when to initiate high odds trades. And, maybe more importantly, this approach also trains us to better manage trades while in the heat of the moment. By trade management, I mean that we look for confirmations and also disconfirmations to our position while our trade is live, and take appropriate action. We learn to do this proactively, in part, by studying the market in this way as we go along. We can also learn much from so-called hindsight analysis. After all, if we didn't have hindsight analysis, we wouldn't have our beloved Wyckoff texts, or the VSA material – all of which was written and is studied in hindsight. So, please give hindsight analysis the respect and attention it deserves. Over time, it can definitely serve you well :)

Gary

Importance of background over individual bars

When Tom and Sebastian discuss this, they always emphasize the background. The individual bars are important, but not until you have the strength or weakness come in. If you don't have strength or weakness in the background, then you are making low probability trades. I see that in some of these posts - "well, here's a no demand and it didn't work." Of course it won't work if you have strength in the background. The background trumps the individual bars, but the individual bars that are consistent with the background are what you want to think about when making trades. It really is pretty logical stuff.

DbPhoenix

Watching S&R Levels

People hate it when I suggest they go read something, but for five days I posted my prep and my post-analysis to my Blog. Perhaps all of that will help you. Otherwise, I determine potential S&R beforehand, then I watch how traders behave when those levels are approached. Is price driven down rapidly to support where it then makes a single print and bounces violently? Does it glide in to support and bounce gently along? Does it hammer away at it again and again as if trying to break through a door? And what's the TICKQ doing all this time? What's going on with volume? Is there a classic decline on the retest, if any? Do buyers pile in as expected, or do we begin a search for a new equilibrium (or "value") level? And sometimes, nobody shows his hand, and the only thing to do is wait until somebody does, then look for an opportunity to enter, usually that first pause after the excitement begins (which one will likely miss if he's looking at a too-large bar interval

Part II

I probably don't understand what you're asking since I can't think of anything to add to what I said above. If support is not found where I expected it to be found, then I wait for the market to tell me where it is. But rarely is it in a much different place than I thought it would be.

As for the "classic VSA signals", assuming you mean VSA rather than TG-VSA, whatever has to do with a bar is not all that important to me, much less where it closes. Once one gets into all that, he may as well trade candle patterns and save everybody a lot of time. Nor do I buy into the conspiracy-manipulation attitude. That can easily put one into a self-defeating mindset in which every aggressive move may be a trap of some sort, and by the time he figures it out, the opportunity is past.

Buying pressure and selling pressure -- or demand and supply, if you will -- are continuous. The balance between them is dynamic and never-ending. One can partition all of this into bars and try to determine where the imbalances between buying pressure and selling pressure lie within a particular bar, or even a series of bars, but so what? What is important is the flow, the waves of buying and selling pressure, the waves of rising and falling support and resistance. I could try to copy out some of what Wyckoff says about all of this from his tape reading course, but really the best way to understand it is to create a chart with no more than a 1m interval and just watch it as it moves back and forth between support and resistance. And by "just watch it", I mean just that. Don't worry about what you're going to do about whatever it is you're looking at. Don't worry about where you'd enter or where you'd exit or how much money you'd make or whether you'd have been right or wrong to do whatever. Just watch. Like fish in an aquarium. If that seems only slightly less exciting than watching concrete harden, then collect the data and replay it later at five or ten times normal speed. You can do an entire day in little more than half an hour.

None of which may have anything to do with "classic VSA", of course, but I didn't want to ignore your question. On the other hand, if one wants to understand the "background" and whether it signals strength or weakness, I can't think of a better way of doing it. And it won't cost you anything.

And one more thing. Learning while doing, if "doing" means doing with real money is not an absolute good. If you don't have a consistently profitable strategy and you're not limiting yourself to the setups within that strategy, then you're not trading, you're gambling, and the longer you "work" this way, the longer it will take. If you don't have all of this yet, then stop. Put your money back in your pants and learn your business. There's plenty of time. The market will be there long after you're dead

Markets melting up

Price reigns. If "professional" money is buying, price will rise. Eventually. If it's selling, price will fall. The amount of trading activity (volume) can be irrelevant. For example, if price hits support or retests support after what appears to be a selling climax, volume can be huge and price doesn't fall, or volume can be slight and price doesn't fall. What matters is that price doesn't fall, i.e., selling pressure isn't there, or it's countered by a more-or-less equal amount of buying pressure.

"Volume" bars can actually be a distraction if one attaches too much importance to them. At best they are a measure of participation. What is more important is the behavior of price. If this presents what appears to be an insurmountable obstacle, take volume off your charts for a while. Forex traders, after all, have to do without it entirely.

Intel

Minor Retracements vs Trade Reversal

I have found this reversal or retracement thing very difficult myself. I don't think I have cracked it now and there's a good reason for this.

I have had trouble and lost money because I thought it was a reversal but it turned out to be a retrace. However, It's only now that I realise that I was losing trades not because I had 'picked' the wrong 'R' but because I so desperately WANTED to be right.

I was finding that the 'kick' I got from the one trade which I predicted correctly made me forget about the 5 which I got wrong.

It was only when I accepted this to be true that I could change the way I trade. My trading has changed now, I don't really care if it's a retrace or reversal.

I just trade what I see in front of me.

If I see a turning point, I enter when the setup shows itself. When I see signs that the move may no longer be profitable, I exit. Whether it's for 10 pips or 1000 pips.

I have said many times that I am hopeless at predicting targets for moves. So I no longer try to.

For me, trying to predict what will come has been a real killer. I am happy with the way I trade right now, I just want to get better at it.

If you are getting caught up looking for reversals try this (demo obviously!) -

Next time you trade, look at the chart of your choice. If you see positive signs of a turning point (retrace or reversal), wait for the entry setup.

If you don't see any signs of a turning point, jump straight in right there and then in the direction of the prevailing trend. Once you're in, don't exit until you see a turning point setup (not just the signs of one).

You'll find 2 things happen -

1. You'll get better at identifying true setups.

2. Having entered with the trend, you won't be in such a rush to find a turning point!!