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TRADES ABOUT TO HAPPEN

A MODERN ADAPTATION
OF THE
WYCKOFF METHOD

DAVID H. WEIS

FOREWORD BY DR. ALEXANDER ELDER

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TRADES ABOUT TO HAPPEN

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Foreword by Dr. Alexander Elder

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*This book is dedicated to my wife, Karen,
and to the memory of my parents.*

For the gods perceive things in the future;
Ordinary people things in the present;
But the wise perceive things about to happen.

—**Philostratos**, *Life of Apollonios of Tyana*

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FOREWORD

“When you go fishin’ in a lake, you don’t just row out to the middle and throw a line in the water. You go where the fish live—around the edges and near the sunken trees. Same way, you enter trades near the edges of congestion zones, where bulls or bears are so exhausted that a small amount of pressure can reverse a trend.”

I’ve often heard these and other pronouncements, delivered in David’s Southern drawl, in my Traders’ Camps. Now it is a pleasure to see them in his book, available to you even if you can’t travel to a week-long Camp and study with David in person.

David is a quiet man who spends day after day in solitude in his trading room, but he has played a large role in the development of many serious traders. When discussing markets with friends, I often hear: “This is where David would draw a line.” His way of reading charts has been taken up by hundreds of his students.

Expanding on classical works of Richard Wyckoff, written almost a century ago, David has built a modern superstructure of market analysis. The changing heights of price bars, accompanied by rising or falling bars of volume are the basic irreducible elements from which David builds his market analysis. He uses these patterns to read the behavior of crowds across all markets and timeframes—and then to place his orders.

All trades leave indelible tracks on price and volume charts. David focuses on them—and these charts speak to him. Now, in this book, he teaches you to read their language.

David’s sharp focus on price/volume behavior reminds me of a teacher I had in medical school. She was shy and a little deaf, and usually stood in

the back during grand rounds. We knew that she was so observant and so attuned to patients' body language that when professors disagreed about a diagnosis, they'd ask for her opinion. A person who watches intently, on the basis of a great deal of experience and without any hidden agenda can see deeper than most.

A careful reading of this book will open your eyes to the huge importance of false breakouts—what David calls springs (when they point down) and upthrusts (when they point up). He promises: “once you become attuned to the behavior of a spring and upthrust your eyes will be opened to an action signal that works in all time periods. The spring can provide the impetus for a short-term pop playable by day-traders or serve as the catalyst for long-term capital gains.”

Having sat for hours in the back of the room while David was lecturing and showing trade examples, false breakouts have become one of my key patterns to trade. Now you can be guided through dozens of charts by David, moving forward bar by bar, as you learn to read their messages and anticipate trend reversals.

The chapter on absorption will teach you to gauge the strength of the current trend. Is that trend moving forward like “the Greek phalanx marching in step across the Plain of Troy” as David puts it—or is its advance being absorbed by growing supply, which precedes a reversal? Now, as your eyes move across David's charts, you'll see how their price and volume patterns reveal their secret weaknesses or strengths.

Do not rush as you read this book. To fully benefit from it you need to let its many messages sink in. Be sure to apply David's concepts to current charts, watch them open up to you and become more meaningful before returning to the book and studying another dozen pages. This isn't a quickie book—it took David years to write, and the more attention you give it, the deeper will be your benefit.

Happy reading and happy trading!

Dr. Alexander Elder
www.elder.com
New York City, 2013

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TRADES ABOUT TO HAPPEN



Introduction

Richard Wyckoff came to Wall Street in 1888. The details of his 40-year career are chronicled in his autobiography, *Wall Street Ventures and Adventures* (1930). The tales of the large operators he observed and the inside story of their manipulative campaigns make interesting reading. But his search to develop a “trained judgment” for trading offers the most compelling and inspiring story. Describing his progress as of 1905, Wyckoff wrote:

I had now spent the greater part of seventeen years in Wall Street—as a boy, clerk, silent partner and managing partner in Stock Exchange houses. But with all I had seen, studied, and observed, I had yet no well-defined plan or method for money-making in the stock market, either for my clients or for myself.¹

Up to this point in his career, two threads wind through his experiences. First, big traders spend hours studying stock transactions as they appear on the ticker tape. Second, he saw the need for a college or educational service to teach the “inner workings of the stock market.” He wanted to show how the public was repeatedly bilked by the large manipulators in the market. In late 1907, as Wall Street suffered from the aftershock of another panic, Wyckoff decided to write an educational publication—a monthly magazine called *The Ticker*—consisting of articles about the stock market. The bulk of the writing rested on Wyckoff’s shoulders, and the pressure to

¹ Richard D. Wyckoff, *Wall Street Ventures and Adventures* (New York: Greenwood Press, 1968), 134.

find new material led him into many facets of the stock, bond, and commodity markets. He tested mechanical trading methods based on statistics and numerous theories presented to him by readers. While he ultimately moved in a different direction, he realized that charts provided a better record of price history than pure statistics. As his study of charts and stock market techniques progressed, he turned to the ticker tape. "I saw more and more that the action of stocks reflected the plans and purposes of those who dominated them. I began to see possibilities of judging from the very tape what these master minds were doing."² Under the guidance of a former floor trader at the stock exchange, Wyckoff began a serious study of tape reading. His observations became the impetus for a series of tape reading articles in *The Ticker* and his readers clamored for more. This original series of articles provided the material for Wyckoff's first book, *Studies in Tape Reading*, published in 1910 under the pseudonym Rollo Tape. About this book, Wyckoff later wrote in his autobiography:

The purpose of the self-training and the continued application of the methods suggested in *Studies in Tape Reading* was to develop an intuitive judgment, which would be the natural outcome of spending twenty-seven hours a week at the ticker over many months and years.³

In the next few years, the price swings in stocks became larger, and Wyckoff applied his tape reading methods to the broader movements of the market. The public demanded more frequent trading recommendations with less emphasis on the analysis. This spawned his *Trend Letter*, a weekly one-page sheet containing a list of trades. It grew in popularity until its following became too large and unwieldy causing Wyckoff to seek privacy. He ended the publication in 1917 after achieving the largest following of any individual on Wall Street since the 1890s.

Wyckoff did not drift into obscurity. He wrote several more books. *The Ticker* was transformed into the *Magazine of Wall Street*, with which he was heavily involved until declining health forced his retirement in 1926. In the final years of his life, Wyckoff returned to the idea of educating the public and conceived a Wall Street College. His health dictated a less monumental effort. In 1932, he turned his attention to a course explaining his method of trading in stocks. The original course was divided into two divisions: Division One, A

² Ibid., 168.

³ Ibid., 176.

Course of Instruction in Stock Market Science and Technique; and Division Two, *A Course of Instruction in Tape Reading and Active Trading*. Wyckoff died in 1934.

Since 1934, the “Wyckoff course,” as it is known, has preserved Wyckoff’s place in the pantheon of market masters. Thousands of traders and investors have taken the course, which is still offered today by the Stock Market Institute in Phoenix, Arizona. Over the past 80 years, the course has been modified and updated to accommodate changes in market conditions without disturbing Wyckoff’s original work. It contains the specific details of Wyckoff’s trading/analytical methods. His chapter on “Determining the Trend of the Market by the Vertical Bar Chart of the NY Times Average of 50 Stocks” captures the essence of his work and provides the guiding light for my book.

Many students who take the Wyckoff course today focus on the models of accumulation and distribution. Wyckoff never devised such an interpretation of accumulation and distribution. They were added after his death. He certainly discussed some of the features of market behavior that were incorporated into these models. Accumulation and distribution are taught today as behavior revealed on bar charts with volume. Yet, when Wyckoff mentioned these terms, it was mostly in regard to point-and-figure charts and never with specific components. It is my opinion that these models were created by his former associates to add specificity to the course. As expressed in his autobiography, Wyckoff wanted to teach students how to develop a trader’s feel—intuition. Specificity sells better than intuition; it’s more tangible. I believe there is too much dependency on recognizing patterns of behavior rather than on the art of reading bar charts. These patterns can quickly become cookie prints, like geometric formations, into which price movement is stuffed by those looking for a quick, no-think fix. They lead to rigid rather than creative thinking. They often frustrate the new student of Wyckoff analysis who might not realize the world of chart reading is gray, not black or white. One has to have an open mind rather than being fixed on a preconceived ideal. While the metaphors created by Bob Evans, a famous teacher of the Wyckoff course, describing springs, up-thrusts, ice lines, and so on, are colorful and instructive, Wyckoff never used such terminology; however, that does not make them forbidden or useless. On the contrary, they are very helpful. Wyckoff was first and foremost a tape reader. As the markets grew more robust and volatile, he applied his tape reading skills to bar chart reading, where emphasis is placed on price range, position of the close, and volume. Wyckoff obviously knew the importance of trend lines, channels, and support/resistance lines; however, they are given greater coverage in the modern course.

I have borrowed from Wyckoff's original writings as well as the concepts of Bob Evans. My approach, which incorporates price range, close, and volume, also utilizes what I call "the story of the lines," that is, the story of the price/volume behavior as framed and interconnected by lines drawn on charts. The lines bring the price movement into focus and guide one toward the behavior that prompts action in the market. Thus, I am trying to find trades on charts rather than figuring out if accumulation or distribution is taking place. A real gold mine of information lies in Wyckoff's method of reading bar charts. It has become a lost art.

The purpose of my book is to show how one can logically interpret bar charts and wave charts to find trades about to happen. By studying the chart examples in this book, I believe the reader will gain tremendous insight into reading what markets say about themselves. It may seem tedious at first, but, through practice and repetition (repetition is the mother of wisdom!), it will become second nature. It will give you the ability to locate turning points of different degrees.

In the studies that appear throughout this book, we will:

- Compare effort of the buying or selling with the reward (i.e., volume versus upward or downward progress).
- Watch for ease of movement or lack of movement (i.e., wide price bars versus narrow price bars).
- Consider the meaning of the close within the range of a price bar.
- Watch for shortening of upward or downward thrust.
- Watch for follow-through or lack of follow-through after penetrations of support/resistance (this includes the notion of springs and upthrusts).
- Watch for tests of high-volume or "vertical" areas where price accelerated upward or downward.
- Consider the interaction of price with trend lines, channels, and support/resistance lines, which often highlight the price/volume story.

In the second half of this book, I will introduce adaptations I have made to Wyckoff's original tape-reading tools, which are better suited for the enormous volatility of today's stock and futures markets. These can be applied to intraday and daily price movement, and software has been created for use in

real time. To find trades on any type of chart, we will be guided by the following statement, made long ago by Richard Wyckoff:

Successful tape reading [chart reading] is a study of Force. It requires ability to judge which side has the greatest pulling power and one must have the courage to go with that side. There are critical points which occur in each swing just as in the life of a business or of an individual. At these junctures it seems as though a feather's weight on either side would determine the immediate trend. Any one who can spot these points has much to win and little to lose.⁴

After reading this book, I guarantee you will never go back to the previous way you viewed charts. I have no secrets and will teach all I know about Wyckoff and price/volume behavior. Confucius said: "A true teacher is one who knows (and makes known) the New, by revitalizing the Old."

⁴Rollo Tape [pseud.], *Studies in Tape Reading* (Burlington, VT: Fraser, 1910), 95.