Wyckoff Stock Market Institute
P.O. Box 4130
Clifton Park, NY 12065
www.wyckoffstockmarketinstitute.com

Primary Buying Opportunities
Normal Corrections

Even after an issue or the market has left a trading range to the up side, jumped the creek and backed up, a Wyckoff trader may still be presented with one more type of primary buying opportunity. It or they depending on how the action unfolds develop on normal corrections in the up trend that follows the trading range. Most advances develop as a series of thrusts rather than one sustained push toward the indicated objective. After each thrust, a correction of that portion of the advance that has just been completed is likely. If the correction is normal and if the character of the action during the correction is bullish, a Wyckoff trader is provided with an opportunity to add to a position that was opened earlier at a lower level, or to take an initial position if the amount of remaining potential in the anticipated move is large enough to make the effort worthwhile.

What is a normal correction? A normal correction is one where the price retreats to the vicinity of the halfway point of the previous thrust to the up side. Over the years, the vicinity of the halfway point has come to be known as anything between the one third and two thirds point of the previous advance. If the upward thrust that is being corrected was large, the vicinity of the halfway point of the thrust is also going to be relatively large. Therefore, the Wyckoff trader should not mechanically preselect the point in the vicinity of the halfway point that will be the entry point. Using the one third point can be too high resulting in a position being stopped out just as it is about to turn and make the anticipated advance. Using the two thirds point can be too low resulting in potentially good trades being missed. Using the halfway point will usually result in a position being opened. However, even entering at this relatively safe point can represent an error in judgment if one critically important factor has not been considered.

The all important factor in determining where in the vicinity of the halfway point that a position should be considered is the character of the action. If the price is correcting the previous thrust on wide spread and high volume, it is best to not take a position no matter where the price is in the vicinity of the halfway point. This combination of price spread and volume is most likely to be bearish. Taking a long position during bearish action can easily lead to the position be quickly stopped out. The character of action that the Wyckoff trader wants to see in the vicinity of the halfway point is action that is most likely bullish. Bullish action is indicated by narrow spreads to the down side on relatively low or decreasing volume. There are no mechanical guide lines as to how narrow the spreads have to be or how low the volumes have to be for the action to be considered bullish. However, if the price is in the zone defined as the vicinity of the halfway point and the spreads are the narrowest they have been on average during the whole correction and if the volumes are the lowest they have been during the entire correction, it usually safe to conclude that the correction is nearing an end.

Another consideration that can be helpful in determining where in the vicinity of the halfway point to enter a position is the position of the price in the up trend. If the price is at or above the middle of the up trend channel, it is best to avoid a position. The closer the price is to the demand line of the up trend channel the more interesting it is for a new position. However, this assumes that the character of the action is bullish. Bearish action at the bottom of the up trend channel suggests that the trend is about to be weakened or broken. In these cases, it is best to look for another trade candidate,

If a position is established in the vicinity of the halfway point, selecting a price at which to place a protective stop order can be a challenge. Ideally, the initial stop should be placed below the bottom of the zone defined as the vicinity of the halfway point. However , this is frequently not possible do to the rule that Wyckoff traders should never risk more than one point for every three points of anticipated profit. Due to the fact that a portion of the initial up side potential has been consumed by the time these types of positions are entered, it may be necessary to place the protective stop within the zone of the halfway point. Since the entry point is also in this zone, there is a greater risk of being stopped out. Therefore, the trader must feel absolutely certain that the character of the action is bullish before the position is taken.

Most Wyckoff traders use the vicinity of the halfway point to add to an already wining position established at a lower level. Wyckoff traders should always strive to build winning positions rather than averaging in to losing positions. However, the halfway point can also be used if the trader has for some reason missed out on earlier opportunities. Another time when these types of positions can be helpful is when positions taken previously in early leaders in an advance have reached their objectives and funds become available to use for new positions. Sometimes an advance is large enough to allow for more than one normal correction of a previous advance. These later corrections of additional thrusts may provide additional entry points.