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Why I Trade the Wyckoff Wave

For a few years now, I have only traded 8 stocks. The ones that make up the Wyckoff Wave.

Why, you say? Actually it's easy. Subscribing to the Pulse of the Market and trading the wave stocks gives me a tool kit that substantially increases my profitability. While I certainly have made some mistakes and all my trades have not been successful, 2007 has been a very successful trading year.

By using each stock's Optimism - Pessimism index, (which charts volume) and the Technometer and Force indicators, I am able to identity, turning points as well as entry and exit points. By focusing on eight stocks, I also seem to better understand each stocks individual characteristics. This fact alone, has saved me from making several bad trades.

In his article Trade the Wave in 2008, Craig Schroeder identified 18 times a Wyckoff Wave stock made a 20% or greater move. While I didn't participate in all 18, I did catch a few and some smaller moves, rewarded me with some nice profits. These profits would not have been possible without my comfort level with these eight stocks and the Pulse of the Market data I receive, by e-mail, every business day. Here are a few examples:

Exxon-Mobile
In August, XOM sprung a trading range created at the 80 ½ level. A little over a week later, it tested the spring and created a good entry point. A Figure Chart count along the $79.00 level produced an objective of 92. Five weeks later, XOM reached 94 and eventually reached 95 1/4. I actually closed my position at 91 /7/8 and was able to pocket a nice profit.

IBM
In 207, IBM presented both long and short trading opportunities. In February, IBM climaxed at 88 ½ and developed a trading range. There was no spring, but IBM did "jump the creek" and back up to an LPS (last point of support) at 93. There was a positive divergence with the buying climax that practically screamed, buy me. The figure chart presented an objective of 109. IBM became overbought and created a negative Optimism - Pessimism divergence at 108 and the position was closed at 107 ½.. The 14 point gain produced another nice profit a little over a month. I am not a long term trader, but the indicators from the Pulse of the Market data would have enabled a longer term trader to ride IBM all the way to it's June high of 118. That's a 25 point move. I could not find a good entry point and did not participate.

An opportunity to short IBM came about in mid-October. After reaching the high described above, IBM reacted strongly to 102 ½. In hind site, there was a trading opportunity, but by the time I figured it out, IBM had reacted sharply and it was to late. It then rallied to 119 and created a new trading range. The range was up thrusted in October and immediately tested 3 days later. It then reacted sharply and I missed another one. However, a down channel was created and on Halloween IBM reached an overbought position and condition. In addition, there was a major negative divergence. I took a short position at 115. This trade would not have been possible without the Pulse of the Market data. The figure chart showed an objective of 101. A week and a half later IBM climaxed at 99 3/8. I closed my position at 101 and added to my 2007 profits.

Merrill Lynch
If you are a bear, Merrill Lynch was the year's biggest winner and certainly put some money in my pocket.

As an aside, a study of Merrill Lynch is a classic example of why the Wyckoff method is so successful. As it was flirting with the $100.00 mark, MER was touted as part of that bullish financial sector. However, Wyckoff students saw the buying climax and developing trading range. Them MER reacted to 51. As it was climaxing, the bad news about the sub-prime mortgages and the resignation of the CEO hit the street. Of course, by then the smart money had already taken profits and left the building. As usual, when the bad news hits, the reaction is usually over.

I took a short position in MER at 94. MER had upthrusted the trading range earlier and the Pulse of the Market data showed MER to be oversold and having a negative divergence. The fugue chart presented an objective of 82. MER then fell through the creek and presented an 2nd objective of 70. MER moved to 70 and I closed my position. It then moved sideways and created another trading range. It then fell through the ice and I took a position on the rally to the ice or a LPSY (last point of supply). The objective was 51. I closed out my position at 54. I thought it was on climatic action, but it turned out to be Preliminary Support. The buying climax came later at 51, right at the original objective.

As you can see, I am a big proponent of just trading a few stocks and using the Pulse of the Market tools to create some substantial profits. I spend 2-3 hours each day charting (I draw every chart by hand) and analyzing the Wyckoff Wave and the associated stocks. I write down a daily commentary on the wave and each stock. If I had to always be looking for new opportunities, my analysis time would be reduced and I strongly believe my judgment would not be as good as with a smaller consistent number.