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Craig's Corner Phase 2
The Micro View of Bank of America
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NOTE: For a better appreciation of the text of this article, the reader is encouraged to retrieve a fifteen minute intra-day chart covering the past ten days and a daily chart covering the past month at bigcharts.com

During the past ten to thirty days, short term traders in BAC could have been viewing the action and their trading opportunities from two very different perspectives depending upon how short term a view of the action they were taking. The Wyckoff trader viewing the short term action from the perspective of the fifteen minute vertical line chart (Call him Trader A) saw a potential jump and the possibility of an opportunity on the long side on the back up. The trader viewing the action from the somewhat broader perspective of the daily chart (Call him Trader B) for the past month saw the possibility of the jump, but then saw that possibility quickly deteriorate into a potential up thrust providing an immediate opportunity on the short side.

When the price began the potential jump on December 8 moving into new high ground on widening spread and increasing volume, Trader B was justified in defining an up trend on the daily chart using the lows on November 21 and December 5. His anticipation would have been that the potential jump would take the price into an over bought position relative to the newly defined up trend channel and that the back up would begin from that position. However, on December 9 there was no follow through to the up side. That action was inconsistent with the jump scenario. Trader B could have immediately concluded that the potential jump was more likely a potential up thrust of the high on November 28 and established a short position. The over bought condition that had existed on December 8 (Tec of 52.5) and the relatively over bought condition that still existed on December 9 (Tec of 48.1) provided a measure of confirmation that the action actually was a potential up thrust and not a jump. It is not normal for clearly over bought conditions to develop on the first day of a potential jump. Since the price traded lower on December 9 in a narrower price spread and on lower volume, the wisdom of acting so quickly might be questioned based on the possibility that the price might have resumed up side progress the next day in another wide spread and on increased volume. That was a possibility, but it was also a possibility that the price would respond to the potential up thrust with down side progress resulting in a much less favorable entry point. When it comes to short term trading, Wyckoff traders need to act immediately when a potential opportunity develops, protect the position and then see what happens. The short term trader who hesitates is likely to miss many and perhaps most opportunities.

When Trader B took his short position on December 9, the one point figure chart indicated that there was a four point down side potential for an objective of 14. On December 10, Trader B was rewarded with a wider price spread to the down side on reduced volume indicating a lack of demand. On December 11, he received an even bigger reward in the form of another wide spread to the down side on increased volume indicating that supply was entering the stock. Note that on this day, the price penetrated the demand line that had been defined off the November 21 low weakening the up trend. This was an important development for Trader B. If the action had successfully tested the demand line, his position would have been in jeopardy because the successful test could have been followed by a new rally in the up trend back to and through his entry point. On December 12, the demand line of the up trend was decisively broken and the anticipated objective was reached. Trader B should have closed his position and thanked the market very much for giving him most of a four point move on a seventeen dollar stock in less than a week. Some might wonder why Trader B would not have stayed with his position since the action was moving the price in his favor. He should have gotten out because the market had given him what he got in to get and there was no indication that there was any more to get. The short term trader who hesitates entering a position frequently misses opportunities and the short term trader who hesitates closing a position frequently misses out realizing the best profit.

Trader A who was only looking at the fifteen minute bar chart would not have seen the potential up thrust, but would have seen the potential jump. Wyckoff does not identify any trading opportunity as the jump is occurring. Therefore, Trader A needed to wait to see how the back up unfolded to consider an entry on the long side. A problem that Wyckoff traders in all time frames of market operation have is making a determination as to how far the price can back up after jumping a creek before it is too far. In this case, Trader A should have identified the zone between the high on December 5 and the low on December 8 as being the best area for the back up to be completed. If he had done this, he would have known on December 11, that an opportunity to enter on the long side was probably not going to develop because the price had traded through the creek on wide spread and increasing volume.

As of the open on December 15, both Trader A and Trader B are looking for new opportunities. Trader A can see on his fifteen minute chart that the action is correcting an over sold position that developed relative to the down trend defined off the high on December 9. The price has reentered the down trend channel and an opportunity on the short side may develop as the supply line of the down trend is tested. However, Trader A needs to remember that the stock closed in a clearly over sold condition on December 12 with a Tec reading of 38.2. Therefore, immediate trading activity is discouraged. Trader B is also looking for a new opportunity on the short side. In addition to knowing what Trader A knows, Trader B knows that the short term up thrust that provided his last opportunity will likely be tested. He also knows that the breaking of the up trend that he defined will likely be confirmed. The combination of both of these developments may provide a new entry point. However, Trader B like Trader A needs to pay attention to the condition of the stock so that a new position is not actively considered until the condition indicates that the price is vulnerable to another short term reaction.