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

Price and Volume Relationships

Wyckoff tells us that the most important thing that can be known about the action of a market or an issue is its trend. Step one of the Wyckoff Method indicates that the position of the action relative to the trend is also an important piece of knowledge. A third essential element in developing an analysis of the action is judging the character of the action. The character of the action is revealed by the relationship between the price action and the volume action. These relationships either make bullish statements or bearish statements. Each trading session makes one of these statements. Some are strongly bullish or bearish and some are more moderate. Occasionally, when the action is an especially sensitive point in its development, the character of the action on one particular day is seen as being so important in determining how developments are likely to unfold from that point forward that the day is frequently referred to as being a key day. However, most of the time, it is an accumulation of bullish or bearish statements over a succession of days that reveals wether a move in progress is likely to continue or if a change in direction is likely.

Each day, the price of the market or an issue is likely to move up or down on a close to close basis. It does so either in a price spread that is likely to be wider or narrower than the day before and volume that is likely to be either higher or lower than the day before. How these three variables group themselves together determines that character of the action for that day and whether it makes a bullish or bearish statement.

If the price spread for a day is wider to the up side leading to a strong close on increased volume, the advance is said to indicate demand entering. This action makes a bullish statement. If the same price action occurs on reduced volume, the advance is said to be the result of a lack of supply. This action also makes a bullish statement. If the price spread for a day is narrower to the up side, the action makes a bearish statement. If the narrower spread to the up side is combined with higher volume, the action is said to indicate the meeting of supply. If the volume is reduced, the action is said to indicate a lack of demand. Either combination tends to work against additional up side progress. That is why the statements made are considered to be bearish.

If the price spread for a day is wider to the down side leading to a poor close on increased volume, the decline is said to indicate supply entering. This action makes a bearish statement. The same price action on decreased volume is said to be the result of a lack of demand. It also makes a bearish statement. If the price spread for a day is narrower to the down side, it makes a bullish statement. If the narrower spread is combined with high volume, the action is said to indicate the meeting of demand. If the volume is lower, it is said to indicate a lack of supply. Either combination tends to work against additional down side progress. That is why it makes a bullish statement.

Sometimes there are days that start out as wide spreads to the up side, but end with poor closes. There can also be days that start out as wide spreads to the down side, but end up with strong closes. These days are said to include intra-day failures. These failures change the character of the action from what it might seem to be on the surface. A wider spread to the up side on increased volume makes a bullish statement because it indicates demand entering if the close is strong. However, if the close is poor, the indication is that the demand that was present initially was either withdrawn or overwhelmed by supply. In both cases,the intra-day failure changes the bullish statement to a bearish statement. However, being overwhelmed by supply is considered to be more bearish than is having demand withdrawn. Intra-day failures that occur to the down side on wide spreads and high volumes leading to strong closes change what would otherwise be bearish statements into bullish statements. In these cases, the indication is that either the supply was withdrawn or that supply was overwhelmed by demand. Demand overwhelming supply is said to be more bullish than having supply withdrawn. Trying to interpret the exact meaning of an intra-day failure can sometime be difficult if the action of the day is only looked at as a whole. Viewing the intra-day action can assist in determining where the bulk of the volume was present and that can help with the interpretation.

Knowing what statements the character of the action is making is especially important at and around primary buying and selling positions. Bullish statements tend to confirm the validity of buying positions while bearish statements tend to confirm the validity of selling positions. These confirmations help to reduce the emotional strain that frequently accompanies taking a position. Knowing whether the action is making bullish or bearish statements day to day after a position has been established and the price is moving in the desired direction helps the Wyckoff trader make a judgment as to whether the position is likely to continue moving in the desired direction and whether it should be held, exited or more securely defended.