

Wyckoff Stock Market Institute

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Putting It All Together Part 2 - Existing Positions

Wyckoff traders are always looking for their next potentially profitable trading opportunity. However, there is nothing more important than the management of existing positions. Part of putting it all together involves regularly and objectively reviewing the status of every open position. Regular reviews are easy to do. Objective reviews can be more difficult, however. Every trader wants to believe that each open position is developing as planned and that the full measure of profit anticipated will be realized. That is not always the case. Each trading session provides new information. Sometimes, the new information confirms the trader's expectations and sometimes it does not. Either way, it may be desirable to make adjustments to existing positions or to the expectations regarding those positions. The best way to make an objective evaluation of existing positions is to use the five steps of the Wyckoff method and the buying and selling tests.

The trend and position of the general market are as important in reviewing an existing position as they are in considering a new position. Although each individual issue can do its own thing independent of the market, it is always best to have the market working in favor of an existing position and not against it. If a position was established based in part on the fact that the market was in an up trend or down trend, the Wyckoff trader wants to see that trend continue. The same is true of the trend of the individual issue. If either the market or the issue violates a trend line of an established trend channel, the trader may want to take a defensive action to better protect the funds at risk in that position. This is especially true if it is the issue that violates its trend line. If both the market and the individual issue violate a trend line, the need for some type of defensive adjustment should be seen as being more urgent. Failure to act in these situations can result in more paper profits being returned to the market than necessary. Failure to act can even result in a profitable position going into negative territory.

When an existing position was established, part of the reasons for making the trade was that the issue be traded was as strong or stronger than the market if it was a long position, or as weak or weaker than the market if it was a short position. At some point, the relationship between the market and the issue will change. When a long position is no longer in an issue that is as strong or stronger than the market, it is time to consider a defensive adjustment. The same is true of a short position in an issue that is no longer as weak or weaker than the market.

Every existing position has an anticipated objective. Many times, individual issues have several potential objectives as a result of phases in their counts. The reaching of any objective is potentially the end of the move. Therefore, if an objective is reached, consideration of a defensive adjustment to the position is in order. Sometimes, a situation may be encountered where the general market reaches an indicated objective, but the issue in which a position is held

does not. In these cases, the Wyckoff trader may choose to make no defensive adjustment. This is especially true if both the market and the issue remain in trends that are friendly to the existing position. If a defensive adjustment is made, it may be a milder form of adjustment that allows the position to perform in a profitable manner as opposed to a more radical adjustment that could limit profits.

In step four of the Wyckoff method, the trader determines an issues readiness to move. This step is critically important when it comes to existing positions especially if the issue is ready to move in the wrong direction. What does this mean? If a long position is held in an issue that is in an over bought position relative to an up trend that is being traded, it is ready to move in the wrong direction. If a long position is held and the price moves into an up thrust position, it is ready to move in the wrong direction. If the price is in a potential spring position and a short position is held, the position is ready to move in the wrong direction. These are just a few situations that can develop where the Wyckoff trader should consider a defensive adjustment to an existing position. There will also be times when an issue is ready to move in the direction that favors an existing position. Obviously, these are the most desirable situations. Even in these situations the Wyckoff trader may want to consider an adjustment. When the issue starts to move in the direction indicated, the trader may want to protect a measure of profit already realized.

Finally, the Wyckoff trader wants to time trades in individual issues with anticipated turns in the market. If the expected turn in the market has the potential to damage a position in an individual issue, this is a time to strongly consider a defensive adjustment. While this may be the only time that a trader may want to enter a new position, it should be remembered that it is not the only time that defensive adjustments should be considered.

When a trader takes a position, part of the decision to enter the trade is based on the passing of some or all of the buying and selling tests. If not all of the tests have passed when the trade is opened, it is important that the remaining tests are passed as the action unfolds. It is even more important that the action does not start to pass selling tests if a long position is held or buying tests start to be passed if a short position is held.

What is a defensive adjustment? There are several that can be considered. Some are more radical than others and some are milder. The degree of defensiveness taken needs to fit the situation and the personality of the trader. If a trend that is being traded is decisively broken or an equally important opposing trend is defined, the Wyckoff trader will likely consider a radical adjustment. However, if only a normal correction is anticipated or one has just been completed, the trader will likely consider a milder adjustment.

The most radical defensive adjustment is to close the position. If the trader feels an uncomfortable level of uncertainty, this is the best thing to do. Other defensive adjustments include closing a portion of a trade and maintaining the rest of it. Moving stop orders so as to reduce the amount of exposure to an unanticipated price move in the wrong direction is another defensive adjustment that can be made. Never adjust a stop in such a way that the level of risk is increased. That is reckless not defensive. There are also option strategies that can be used to make an adjustment. Except when the most radical defense is chosen, a Wyckoff trader may want to consider a combination of defensive adjustments. The most important thing is that when

defensive action is indicated that some adjustment is made.

Existing positions can be reviewed at the same time as new trade candidates are considered. If this does not feel comfortable, make the review of the action a two step process. If this is the procedure that is followed, it is suggested that existing positions be reviewed first. These are the funds that are at risk. They deserve top priority