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Putting It All Together
Part One - New Positions

Each Wyckoff concept by itself is relatively simple and easy to understand. If concepts developed in the market one at a time and isolated from all the others, applying the Wyckoff method would be very easy and all Wyckoff traders would realize a profit from every trade. Unfortunately, concepts do not develop one at a time and isolated from all the others. There are always multiple variables to consider that make applying the Wyckoff approach more complicated than many would like. Managing the potential complexity can be accomplished by developing a step by step plan and then faithfully following the plan. The plan should begin with making some choices as to such things as to what general market index to use, what universe of individual issues to follow, when and how often to review the action of the market and individual issues and what steps to follow when those reviews are made.

The Wyckoff approach begins with the trader determining the trend and position of the general market. Therefore, a Wyckoff trader must regularly monitor the action of a general market index. There is no need to follow more than one market index. Trying to monitor multiple indexes limits the amount of time that can be spent studying and understanding any one of them. This can lead to failing to consider important factors. Confusion and uncertainty are also possibilities if multiple indexes are monitored since they all are seldom saying exactly the same thing at exactly the same time. This can lead to trading paralysis or to over trading if the trader jumps from index to index in an effort to maintain a high level of trading activity.

Wyckoff traders tend to experience their best trading results when they limit the number of issues that they follow on a regular basis. Developing an understanding of how each issue behaves especially as they approach potential trading opportunities takes time. Therefore, monitoring many issues will leave relatively little time to devote to each one. This can lead to oversights or snap judgments either of which can lead to costly trading mistakes. If a narrowly defined general market index such as the Wyckoff Wave or the Dow Jones Industrials is used, it is a good idea to consider limiting the universe of potential trade candidates to the components of that index. The reason is simple. An index can only move from point A to point B based on the action of its components. If a narrowly defined index is used and judgments concerning its action are made correctly, the trader has a good chance of finding the individual issues that are most likely to be the biggest participants in the move anticipated in the index if only the components of that index are considered. If a trader chooses to use a broadly defined index such as the S&P 500, it is unwise to attempt to examine all five hundred components each time the action is reviewed. Consider dividing them into relatively small segments and reviewing those segments on a rotating basis. A computer program that filters out issues based on certain parameters might be used to limit the number of issues that need to be considered in greater detail. If this is done, care must be given to make sure that the parameters used for the filtering process are consistent with Wyckoff concepts.

Every Wyckoff trader should designate a time and a place for reviewing the action of the market. Most traders are busy individuals with numerous responsibilities and interests competing for a portion of their discretionary time. A judgment must be made as to where market analysis fits into those responsibilities and interests. Once that judgment is made, a block of time should be set aside each day and a set location should be selected at which to study the market. Developing discipline is an important part of being successful in the market. Making these decisions as to when and where to study the action of the market is part of that discipline.

When a Wyckoff trader sits down at the appointed time and in the appointed location to make an assessment of the action of the market and individual issues, there are only a few things that are needed to make a credible examination of the action. One thing that is needed is a group of vertical line and figure charts that provide a picture of the action that is consistent with the time frame of the traders market operation. Adding additional charts to the group on an occasional basis to provide a picture of other time frames can be helpful especially when a trade is about to be opened or closed.

The only other things a Wyckoff trader really needs is a list of the five steps of the Wyckoff method and a list of the buying and selling tests. Using these and these alone will result in an orderly and disciplined analysis of the action. It is suggested that traders begin their analysis with the action of the general market. Traders need to look at the action from two perspectives. One is the perspective of whether to take new positions. The other perspective of what if anything needs to be done to properly manage existing positions.

If there are no existing positions, step one of the Wyckoff method will indicate what type of new positions might be considered and whether those positions should be considered immediately or if additional developments are needed first. If the position in the trend justifies considering immediate action and the universe potential trade candidates is limited to trading vehicles derived from the index being analyzed, the trader can skip step two of the method and go to step three. The trader who is considering positions in individual issues must make a stop at step two.

Whether the market is indicating a trading opportunity on the long side or the short side will determine how the trader seeking positions in individual issues will apply step two. Wyckoff tells us to buy relative strength on reactions and to sell relative weakness on rallies. If the market is indicating an opportunity on the long side, only those issued that have overall been stronger than the market and that are currently making a reaction should be considered. If an opportunity on the short side is indicated, only those issues that have overall been weaker than the market and that are currently making a rally should be considered.

At step three, both the index trader and the issue trader need to determine that the potential that has been developed meets a predetermined requirement. If the requirement is a ten percent potential and the potential in place is only five percent, the trading opportunity should be considered unacceptable and the analysis can stop. If the required potential is in place, both traders can continue to step four. Generally speaking, index traders can accept a smaller requirement as to the amount of potential that is in place to justify a trade due to the nature of the trading vehicles involved than individual issues traders. It should be noted that the individual issue trader needs to have a requirement as to the amount of potential that is in place for both the market and the individual issue and those requirements can be different.

At step four, the index trader considers the indexes readiness to move based on the character of the price and volume action. This involves determining whether the statements made by the price and volume action during the days leading up to the potential opportunity are consistent with that opportunity. If the action on a day to day basis has been making bearish statements, but a long position is being considered, the trader should step back. The index is not indicating a readiness to move in the desired direction. A similar consideration should be made by the individual issue trader to those issues that have survived the analysis to this point. Those that are not indicating a readiness to move in the desired direction should be set aside. The individual issue trader should also look for primary trading positions among those candidates still in the running. These together with the character of the action will determine a readiness to move.

The index trader is ready to take a position when step four has been completed. However, before actually taking the position, the trader should consider the Price/O.P. relationship and any indications provided by the Technometer and Force. The trader is looking for indications from these indicators that confirm the wisdom of actually taking the position. If these indicators provide non-confirming indications, the trader should step back and at least postpone taking the position. If the O.P., Tec and Force provide neutral indications, the trader may still choose to go ahead with the trade, but should realize that there is an element of uncertainty that is involved. The individual issue trader must insist that the confirming indicators for the general market are actually providing confirmation. Step five tells the individual issue trader to time trades to anticipated turns in the general market. Confirmation from the Pice/O.P. relationship, and the Tec and Force are an important part in justifying the anticipation of a turn. If these indicators are available for the individual issues as will as for the general market, the individual issue trader wants them to be confirming the wisdom of the trade as well.

Each time either the index trader or the individual issue trader completes one of the five steps, the appropriate list of buying tests or selling tests should be reviewed and any of the tests that have been passed at that point should be noted. By the time the trader gets to step five of the Wyckoff method, the number of buying or selling tests that have been passed and which have been passed must meet predetermined requirements. The position should at least be postponed.

It might seem that it could take hours to work through all the procedures listed above, but that is not so. Each step flows easily and quickly into the next. Often just a glance at a chart that has the appropriate markings on it will indicate that several steps have been completed favorably or not. If a Wyckoff trader finds that it is taking more than an hour to work through the process something is wrong. If the trader is an individual issue trader, the problem may be that the universe of trade candidates it too large. However, it more likely will indicate an unacceptable level of doubt resulting from a lack of experience, a lack of knowledge or both. In these cases, any trades under consideration should be limited to practice trades. The exercise will add experience and knowledge so that the next time an analysis is done there may be no doubt.