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Primary Selling Opportunities - Part 4
Normal Corrective Rallies

The last type of primary selling opportunity that the market or an issue will present to a Wyckoff trader is a normal corrective rally. When the price of a trading vehicle leaves a trading range to the down side, it may move to the indicated down side objective in one sustained decline. However, these situations are the exception to the rule. Most of the time, the path from trading range to down side objective is accomplished by way of a series of thrusts and corrective rallies. The corrective rallies can provide additional entry points on the short side if they are normal and if the anticipated objective is far enough below the entry price to justify the trade.

Wyckoff identified a normal corrective rally as one that ends in the vicinity of the halfway point of the previous thrust to the down side. Over the years, the vicinity of the halfway point has come to be known as anywhere from a one third correction to a two thirds correction. Those corrective rallies that are completed below the halfway point are seen as being more desirable for taking a position because they suggest a greater level of continuing weakness than do the corrective rallies that end above the halfway point. All positions should immediately be protected with a stop order. If a position is being established below the halfway point, the initial stop needs to be placed above the halfway point. If it can be placed just above the two thirds point, that is seen as being more desirable because the stop is less likely to be caught. If the a short position is being established above the halfway point, the initial stop should be placed above the two thirds point. Wyckoff traders are reminded to never risk more than one point for every three points of anticipated profit when placing a stop order. Also remember that stops that are placed unusually close to an entry price in an effort to minimize the risk are more vulnerable to being caught.

Selecting a price within the zone identified as the vicinity of the halfway point at which to open a position should be based on an assessment of the character of the action during the corrective rally and on any indication that may be provided by the figure chart. Sometimes, the price will hesitate at the bottom of a downward thrust long enough to build a short term potential on the figure chart that provides an indication as to where the corrective rally is likely to be completed. These indications should not be viewed as being automatic selling points. They are indications only and require confirming price and volume action before a position is actually taken.

In those cases where the figure chart does not provide an indication as to where the corrective rally is likely to be completed, the Wyckoff trader must relay on making a judgment as to the character of the price and volume. The trader is looking for that place during the corrective rally that the price and volume action indicates a withdrawal of demand or the meeting of supply. These indications are normally provided over a series of days rather than on one key day. Therefore, hesitating for a few days after the first indication is seen before taking a position is frequently a good idea because it can provide a better entry price. There is a potential down side to this hesitation, however, in that it may result in missing the opportunity should the price suddenly resume down side progress. In these cases, it is best to look for another opportunity rather than to chase a price lower.

A withdrawal of demand or the meeting of supply can both be indicated by narrowing price spreads to the up side when the price is in the vicinity of the halfway point. The difference between the two indications is provided by the level of volume. Narrowing price spreads to the up side on declining volumes indicate a withdrawal of demand. Narrowing spreads to the up side on increasing volume indicate the meeting of supply.
Sometimes, a Wyckoff trader can conclude that a withdrawal of demand or the meeting of supply is indicated at the top of a corrective rally if the price spread is wide. These indications requires that the close be at or near the low price of the day. In these cases, low volume suggests that demand has been exhausted and high volume indicates that demand has been overwhelmed by supply.

Some down trends will have only one normal corrective rally and others may have several. There is no way to know in advance how many there will be. However, each is a potential entry point for the short seller providing the anticipated profit meets the traders requirements and the amount of funds put into that one trading vehicle is not more than the one third of total funds that Wyckoff suggests be used as a guideline.