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Stock Market Trading Strategies

Step One of the Wyckoff Method

In the Wyckoff Course, Wyckoff teaches that the most important thing anyone can know about a market or an individual issue is its trend and the position that it occupies in the trend. The trend is the line of least resistance. It indicates the direction in which the price wants to move. Profits are more likely to be realized when positions are established that are in harmony with the direction in which the price has already indicated it wants to move.

Once a trend has been established, the future trend is likely to be the same as the current trend until the price reaches a position in that trend or exhibits price and volume action that indicates that a change in the direction of the trend should be anticipated.

Wyckoff classifies trends by the direction in which they point and by the duration for which they endure. From the standpoint of direction, trends are either up, down or neutral also known as a trading range. Up trends are best suited for long positions. Down trends are best suited for short positions. Trading ranges lend themselves to both long positions and short positions depending upon the position of the price in the trend. Trends come in a wide range of sizes. Trends can emerge and run their course within the period of one trading session, or they can last for years. A market or an individual issue will be in more than one trend at any one time.

For trading purposes, Wyckoff identifies four trends that matter most. There is the immediate trend, the short term trend, the intermediate trend and the long term trend. When these four trends are all pointed in the same direction, the price is likely to experience its most dynamic movement. However, profitable trading can consistently be realized even if all four trends are not pointed in the same direction.

The key to success is to have the trend that is being traded clearly and correctly defined and to know at all times where the price is in that trend. Knowing how the other trends are defined and what the position of the price is in those trends can be helpful because the position of the price in a trend not being traded can have an influence on the action in the trend that is being traded. However, positions should be opened, held and closed based solely on developments in the trend being traded. Wyckoff would frown on the idea of using the fact that the long term trend is up to justify taking a short term position on the long side, or any other combination of using the direction of one trend to justify a trade in a different trend.

To be used effectively, trends must be defined correctly. Wyckoff tells us that trends are defined by two consecutive support points or resistance points of equal importance. An up trend traditionally is defined by two support points. Down trends are defined by two supply points. Trading ranges may be defined by support points or resistance points depending whether they develop after the completion of an advance or the completion of a decline. Support points combine to form demand line for up trends. Resistance points combine to form supply line for down trends. In trading ranges, the support points combine to form support levels and the resistance points combine to form resistance levels. Trend channels develop when parallel lines are constructed through the appropriate points. The parallel line to a demand line in an up trend is the over bought line. The parallel line to a supply line in a down trend is the over sold line. In trading ranges, the parallel line to a support level is a resistance level and the parallel line to a resistance level is a support level.

Not every position in an up trend is suitable for establishing a long position. It is also true that not every position in a down trend is suitable for establishing a short position. Trading ranges may be used to establish either long positions or short positions. Here again, the position in the trend channel determines whether long or short positions are appropriate. There is one position in all trend channels that is generally considered inappropriate for establishing positions.

The Wyckoff Course instructs students how to identify what are called primary trading positions. These are those areas in the various trend channels where the taking of positions is most advised so as to best limit the possibility of a loss and to best enhance the likelihood of realizing the maximum profit possible. By limiting trading to these key areas, the Wyckoff trader can remain true to the duel goals of preserving capital and making a profit.