

# Wyckoff Stock Market Institute

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## **Stock Market Trading Strategies Step Two of the Wyckoff Method**

Step two of the Wyckoff method is very simple, but yet so very important in achieving consistent success in the market.

Wyckoff teaches us to always trade stocks that are in harmony with the market. The trend of the market as indicated by the Wyckoff Wave indicates the line of least resistance. It reflects the direction in which most of the individual issues are moving. Traders who take positions that are in harmony with the line of least resistance are more likely to experience positive results than are traders who try to fight the trend.

It is always better to have the market working for you than against you. There are always individual issues that make huge moves against the trend, but these are relatively rare.

The odds of finding one of these counter trend wonders are much smaller than are the odds of selecting an issue that is going to perform as well or better than the trend of the market.

Trading in harmony with the market means taking long positions when the market as measured by the Wyckoff Wave is in a defined up trend channel. It means taking short positions when the market is in a defined down trend channel. When the defined trend is neutral or a trading range, trading in harmony with the market can mean standing aside and let the bulls and bears battle for control of the action, or consider opportunities on both sides of the market.

However, Wyckoff discourages being in positions on both sides of the market at the same time. Theoretically, trading both sides at once while the market is in a trading range is possible, but it is emotionally difficult. Whenever emotions enter the picture, the odds of making costly mistakes increases. To avoid these errors make a commitment to never be long and short at the same time.

Just because the trend of the market and that of an individual issue are pointed in the same direction does not mean that the trader automatically has a green light to take a long position if the trends are pointed upward or a short position if the trends are pointed downward.

Remember what Wyckoff teaches in step one of the Wyckoff method. Knowing the position of the price in the trend is as important as knowing the direction of the trend. Situation where the market and an individual issue under consideration for a long position are both located near the top of their up trend channels should be avoided in favor of those where the positions are near the bottom of the trend channels. When short positions are being considered in down trends, it is best to locate those situations where both the market and the individual issue are positioned near the top of their down trend channels. If trading ranges are going to be traded, look for those

instances where both the general market and the individual issue are positioned near the very top or the very bottom of their trading ranges.

An important concept in applying step two of the Wyckoff method is relative strength and/or weakness. Although most individual issues will be in the same trend as the general market and many of them will even be in the same position in their trends as the market, not all of these are the best candidates for new positions. All up trends and down trends are the result of a series of thrusts in the direction of the trend separated by corrections. Some individual issues that are in harmony with the market from the stand point of the direction in which their trends are pointed will make relatively larger thrusts and experience relatively smaller corrections than the market as a whole.

These are the issues that are most likely to have the best potential to produce a profitable trade. Relative strength or weakness can be measured as soon as the first thrust in a trend has been completed. This will likely be even before the trend channel has been clearly defined. Those issues that have made larger thrusts than the market are the ones that should be watched closely as the prices make their first correction. The issues that have made the largest thrusts relative to that made by the market and that then make the smallest corrections relative to the market are most likely to perform well on the next thrust in the direction of the trend. These are the stocks that deserve the most consideration for new positions. This technique can also be used later in the development of an advance or decline when there are additional thrusts and corrections to consider. Those issues that most consistently out perform the market are most likely to produce a profitable trade.

The concept of relative strength and weakness can be helpful in locating trade candidates when the market is in a defined trading range. If the market is in a trading range, most individual issues will also be in trading ranges. However, some will be in up trends and some will be in down trends. Those that are trending up or down are relatively stronger or weaker than the market. These are the issues to consider first when looking for new positions. However, consideration must always be given to the position of the market in its trading range and the individual issue in its up or down trend. If both positions do not favor the likelihood of a rally or reaction, opening a position in that individual issue is discouraged. After the stocks that are trending up or down, attention can be directed to those that like the market are also in trading ranges. Here again, the positions of both the market and the stock are important issues to consider before opening a position.

The merits of trading in harmony with the market may seem obvious. However, most traders are exposed to a stream of market noise from brokers, friends, relatives, co-workers and the media. This bombardment of frequently conflicting information and misinformation can cause a trader to get distracted from those things that are really important. Step two of the Wyckoff method is one of those really important things. It along with the other four steps of the method are the best foundation on which to build a successful market operation.

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