

# Wyckoff Stock Market Institute

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## **Stock Market Trading Strategies Step 5 of the Wyckoff Method**

The final step of the Wyckoff method is the one that actually results in a position being established. Wyckoff tells us to time trades in individual issues to anticipated trends in the general market. While it is true that there are always individual issues that make substantial moves in the opposite direction of the general market, most move with the market to some degree.

By identifying a point in the general markets action from which it is likely to turn in the direction of an established trend or begin the development of a new trend and taking a position in an individual issue at that time, the Wyckoff trader has a better chance of realizing a profit from that position and realizing a better profit than if the position is established in a more random manner.

The market is most likely to make a turn that can benefit a position in an individual issue if it located near but not below the demand line of an up trend, near but not above the supply line of a down trend, or near the support level or resistance level of a trading range.

It is not necessary that the individual issue in which a position is being considered be in the same position as the general market. It is necessary that the positions of both the individual issue and the general market compliment each other. For example, the general market may be in a trading range and positioned in a potential spring from which an immediate response to the up side is anticipated. If the individual issue under consideration is also in a trading range but is testing an earlier spring, the two positions compliment each other and a position in that individual issue is likely to perform better than it might otherwise perform because of the anticipated turn in the general market.

The general market and the individual issue do not have to be in the same trend to compliment each other. For example, the general market may be in a trading range and testing an earlier spring position. The test assuming it has been constructive is a position from which the market is likely to make an immediate turn.

At the same time, an individual issue that has already begun to trend higher by jumping the resistance level of a trading range may be backing up toward the former resistance. As the general market begins to respond to its bullish position, it is likely to help the individual issue complete its back up and resume up side progress possibly moving into new high ground.

The above examples are both cases in which the individual issue is ahead of the market in the development of a bullish scenario. These situations should be considered first. The second set

of situations that should be considered are those where the market and the issue are in the same position that is likely to produce an immediate move at the same time.

The third set of situations that should be considered are those where the general market is ahead of the individual issue in the development of its bullish or bearish scenario. In the above examples, the positions of the market and the issue could be reversed and establishing a position in the individual issue could be justified because the market's position suggests an immediate turn.

Wyckoff traders have three tools that can assist them in judging whether a turn in the market should be anticipated. These tools are the O. P. Index, the Technometer and the Force. The O. P. Index when used in combination with the Wyckoff Wave indicates whether the result indicated by the Wave is in harmony with the effort indicated by the O.P. If they are and the market is in a position from which an immediate turn can be anticipated, the harmony between effort and result is likely to help a position in an individual issue perform as anticipated.

However, a lack of harmony between the Wyckoff Wave and the O.P. Index can be even more helpful in assisting the market to make an anticipated turn. For example, consider the situation where the Wyckoff Wave has previously been in a spring position and is now testing the spring with a higher potential bottom. If at the same time the O.P. is making a lower low than it did when the Wave was in spring position, a bullish divergence is in place. The indication is that there has been too much downside effort for the result. This situation leaves the Wyckoff Wave more vulnerable to making a turn than one where the Wave and O.P. are in harmony.

Divergences should be used to confirm indications provided by the position of the market. Divergences that develop when the Wyckoff Wave is not in a position from which an immediate turn may be anticipated are interesting, but they do not provide a reason to establish a position in an individual issue.

The Technometer and the Force are like the Wyckoff Wave/O.P. relationship in that they are intended to confirm an indication of an impending turn by the Wave. If the Wave is in a primary buying position, it is most likely to make an immediate response out of that position if the Technometer is indicating an oversold condition at the same time. These situations are when trades on the long side in individual issues are more attractive. The same is true if there is a bullish relationship between the Wyckoff Wave and the Force.

Divergences between the Wave and the Force develop in a manner similar to the divergences that develop between the Wave and O.P. Primary buying or selling positions in the Wave that develop in conjunction with bullish or bearish divergences between the Wave and the Force are more likely to result in an immediate turn in the general market than those that develop without such divergences. The ultimate confirmation that there is likely to be an immediate turn in the market is when it is in a primary trading position and all three of the confirmations mentioned are in place. At that point, a position in an individual issue can be established with the greatest degree of confidence that it will yield a profit.

