



Richard D. Wyckoff

“...all the fluctuations in the market and in all the various stocks should be studied as if they were the result of one man’s operations. Let us call him the Composite Man, who, in theory, sits behind the scenes and manipulates the stocks to your disadvantage if you do not understand the game as he plays it; and to your great profit if you do understand it.”

(The Richard D. Wyckoff Course in Stock Market Science and Technique, section 9, p. 1-2)

“...වෙළඳපොළේ සහ සියලුම විවිධ කොටස්වල උච්චාවචනයන් එක් මිනිසෙකුගේ මෙහෙයුම්වල ප්‍රතිඵලයක් ලෙස අධීයනය කළ යුතුය. අපි ඔහුව සංයුක්ත මිනිසා ලෙස හඳුන්වමු, ඔහු නියායාත්මකව, තීරය පිටුපස ඉදගෙන, ඔහු ක්‍රීඩා කරන විට ඔබට එය නොතේරෙන්නේ නම්, ඔබට අවාසිදායක ලෙස කොටස් හසුරුවයි; ඔබ එය තේරුම් ගන්නේ නම් ඔබට විශාල ලාභයක් ලැබෙනු ඇත.”

Richard Wyckoff developed a trading methodology after his experience as a broker. He was able to analyze how large traders behaved by observing their footprints in the chart and tape. His personal success with the method transformed him into a Wall Street superstar at the time.

The Logical Step for the retail trader is to trade with the well-informed traders rather than against them. The Wyckoff Method can empower the retail trader to do just that using a logical approach to read the market.

There are three type of market Scenarios

UPTREND

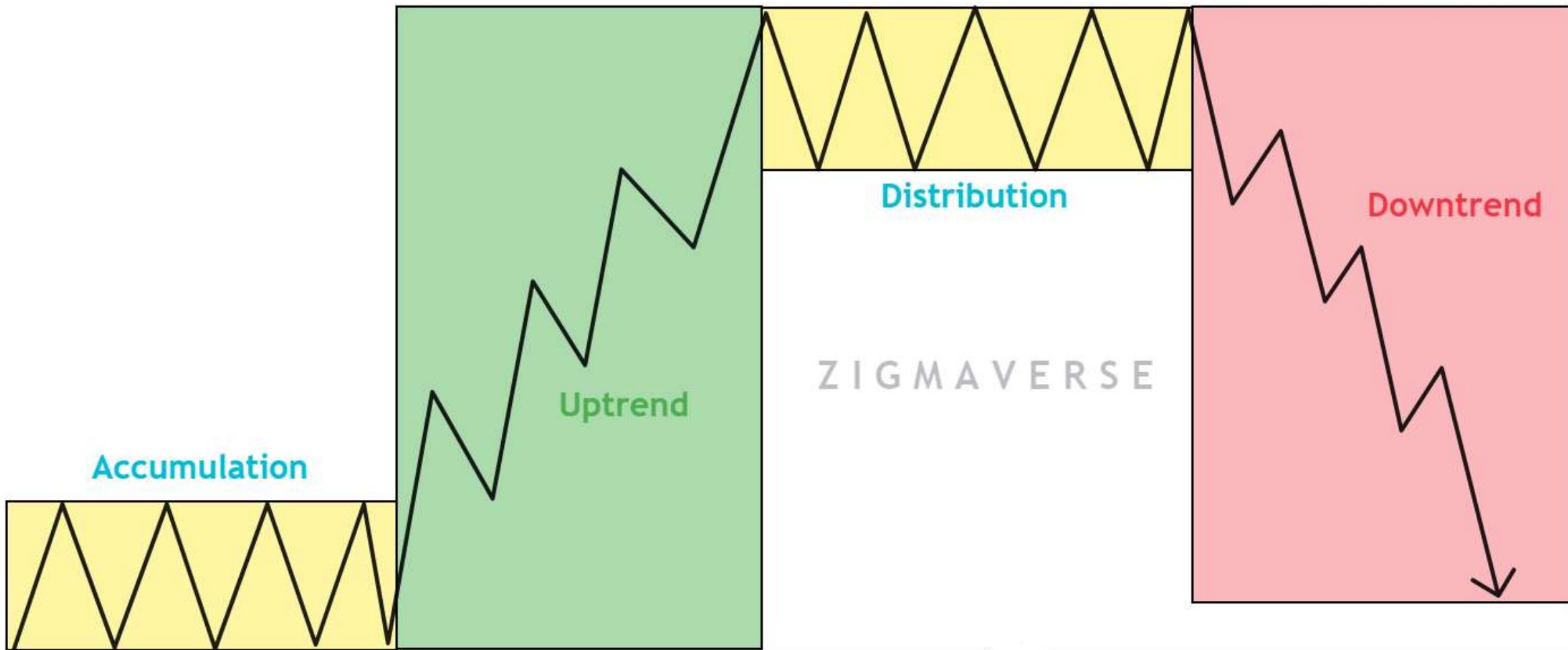
DOWNTREND

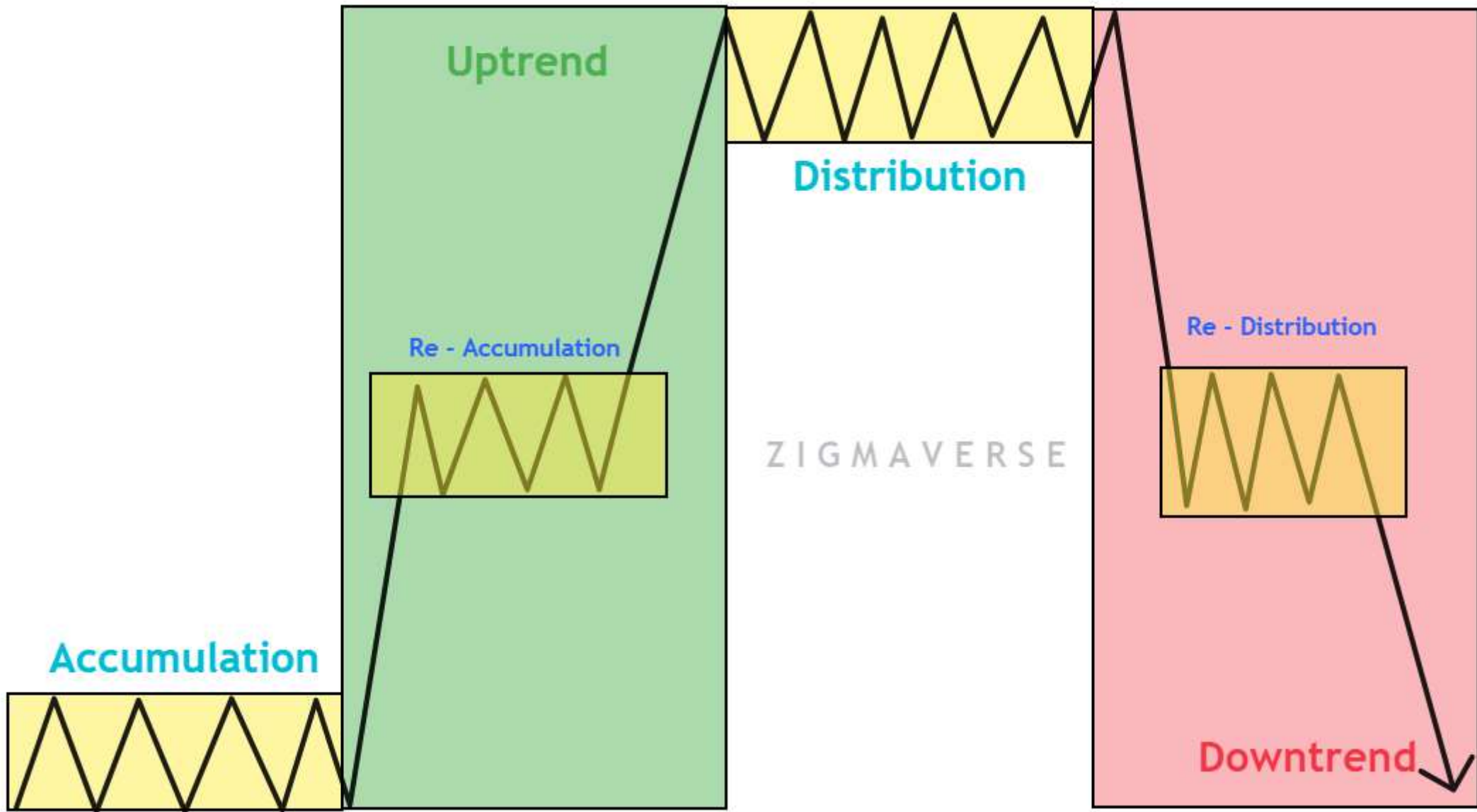
SIDEWAYS

ZIGMAVERSE

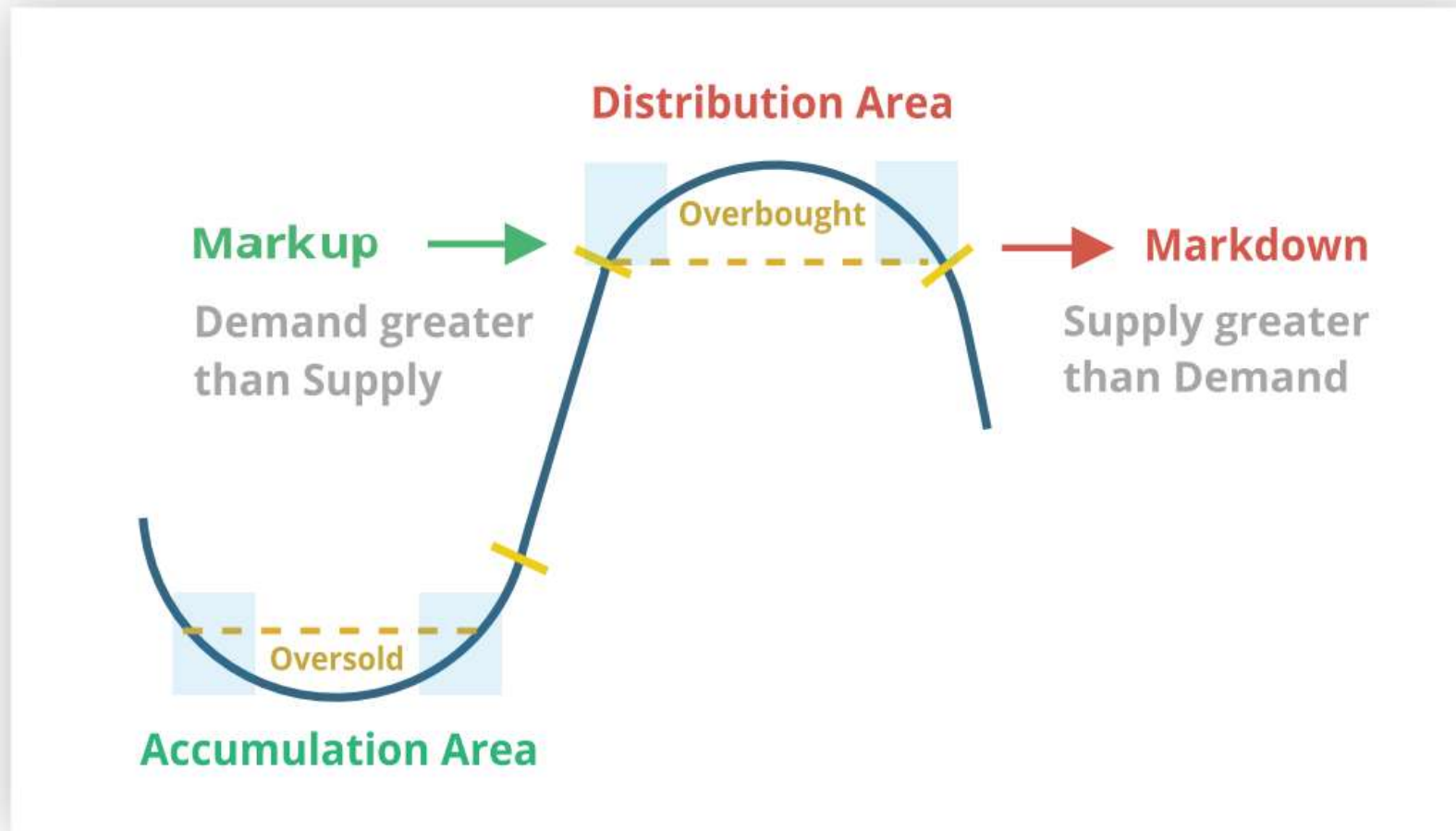
Four Phases of price Action





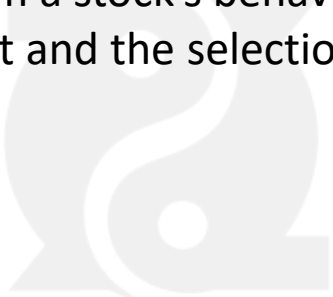


Wyckoff Price Cycle



Fundamental Laws of Wyckoff

Wyckoff's chart-based methodology rests on three fundamental “laws” that affect many aspects of analysis. These include determining the market's and individual stocks' current and potential future directional bias, selecting the best stocks to trade long or short, identifying the readiness of a stock to leave a trading range and projecting price targets in a trend from a stock’s behaviour in a trading range. These laws inform the analysis of every chart and the selection of every stock to trade.

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- 1 - Law of Supply and Demand
 - 2 - Law of cause and effect
 - 3 - Law of effort versus result

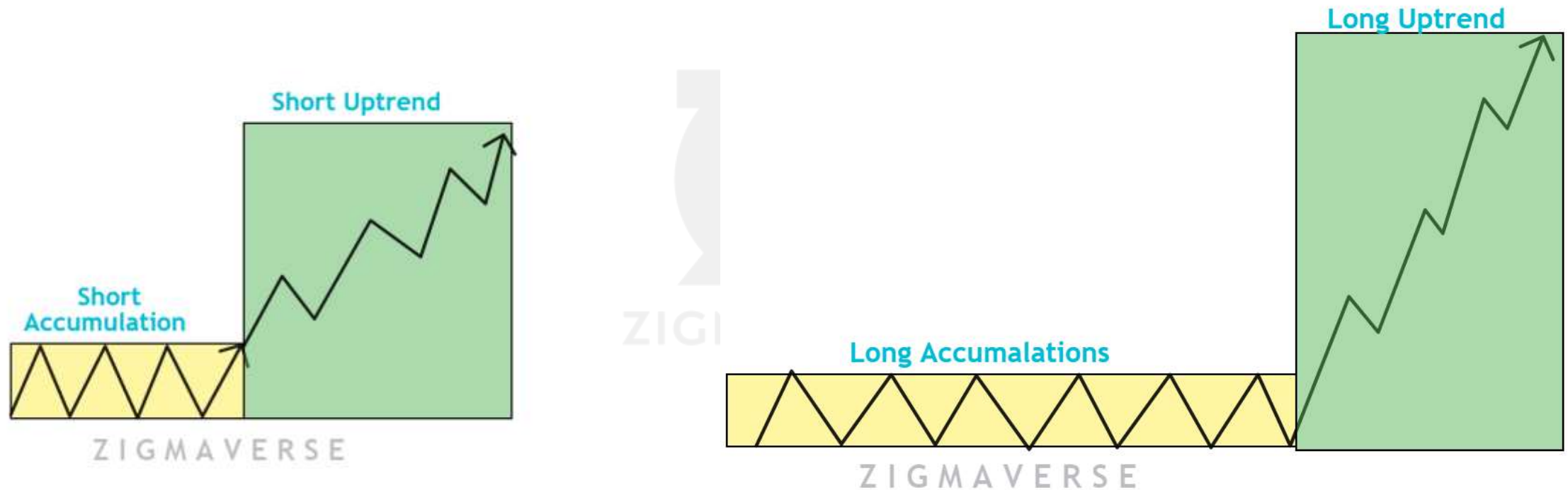
1 - Law of Supply and Demand

determines the price direction. This principle is central to Wyckoff's method of trading and investing. When demand is greater than supply, prices rise, and when supply is greater than demand, prices fall. The trader/analyst can study the balance between supply and demand by comparing price and volume bars, as well as rallies and reactions, over time. This law is deceptively simple; learning to accurately evaluate supply and demand on bar charts and to understand the implications of supply and demand patterns takes considerable practice

2 - Law of cause and effect

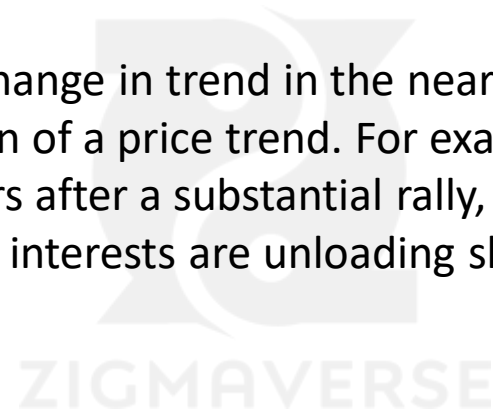
helps the trader and investor set price objectives by gauging the potential extent of a trend emerging from a trading range. Wyckoff's "cause" can be measured by the horizontal point count in a Point-and-Figure chart, while the "effect" is the distance price moves corresponding to the point count. This law's operation can be seen as the force of accumulation or distribution within a trading range, as well as how this force works itself out in a subsequent trend or movement up or down. Point-and-Figure chart counts are used to measure a cause and project the extent of its potential effect. (See "Point-and-Figure Count Guide" below for an illustration of this law.)

- Short Accumulation causes short Uptrend & Long Accumulation causes long Uptrend
- Short Distribution causes short downtrend & long distribution causes Long Downtrend



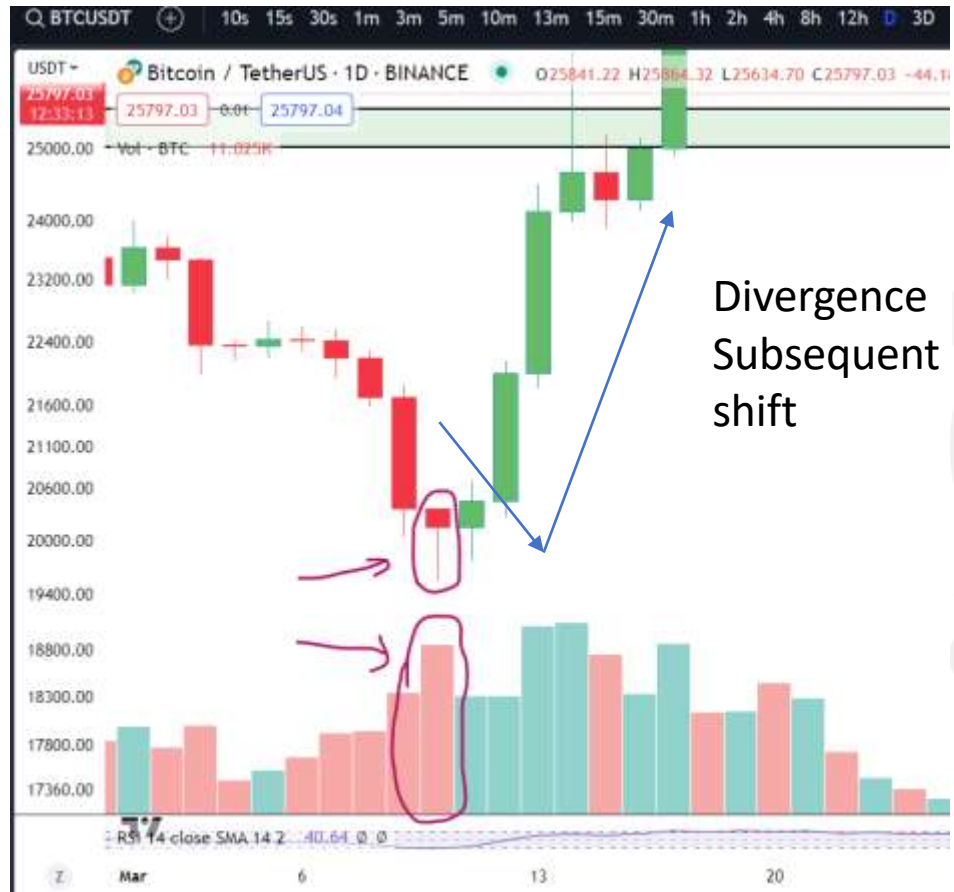
3 - Law of effort versus result

provides an early warning of a possible change in trend in the near future. Divergences between volume and price often signal a change in the direction of a price trend. For example, when there are several high-volume (large effort) but narrow-range price bars after a substantial rally, with the price failing to make a new high (little or no result), this suggests that big interests are unloading shares in anticipation of a change in trend.



Volume Spread Analysis (VSA)

Volume (Effort)	Price (Result)	Interpretation
High Volume	Wide Range Candle	Harmony / Convergence
Low Volume	Narrow Range Candle	Harmony / Convergence
Low Volume	Wide Range Candle	Divergence
High Volume	Narrow Range Candle	Divergence



Divergence
Subsequent
shift

HV + NRC = Divergence

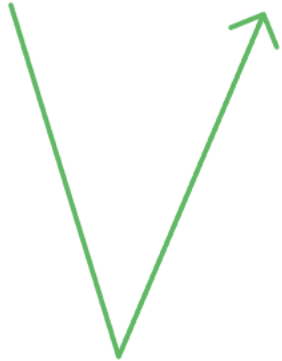


Harmonic
Subsequent
shift

HV + WRC = Harmony / Convergence

Fast Reversal Patterns

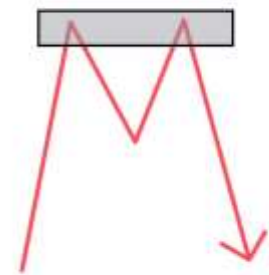
- Climax
- Double Top/ Bottom
 - Pullback
 - Bull/Bear trap



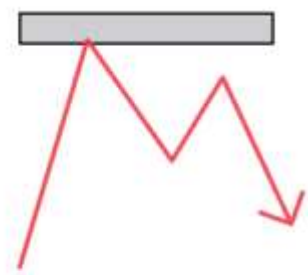
Climax



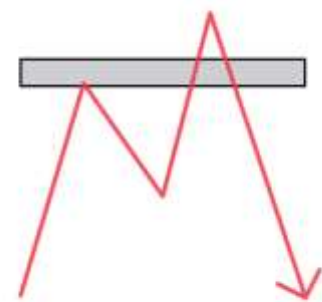
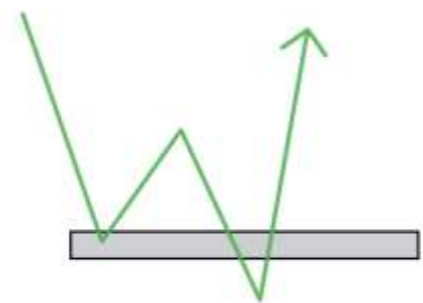
Double Top / Bottom



Pullback

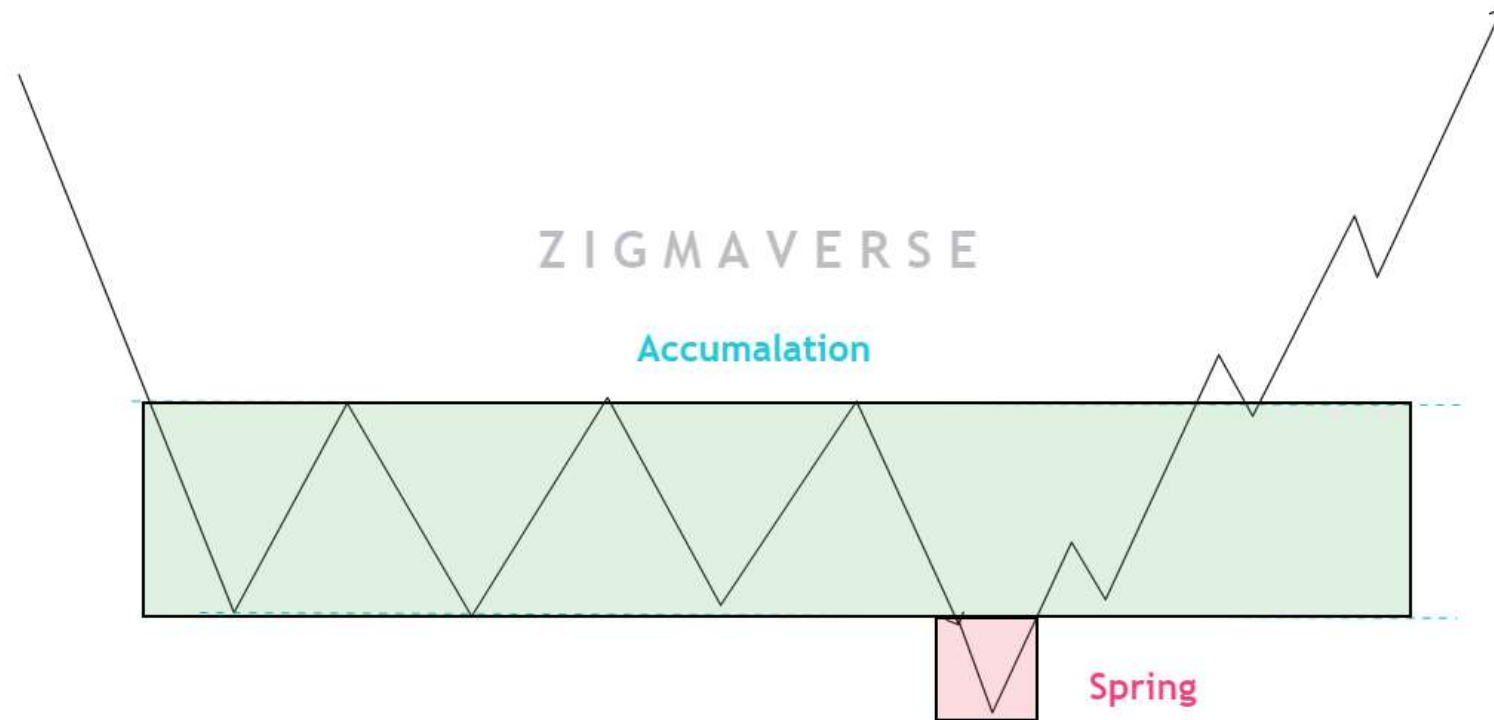


Bull/Bear trap



Accumulation & Spring

The accumulation is a ranging market that precedes an uptrend. Well-Informed traders will absorb supply in order to create a path of least resistance to the upside.

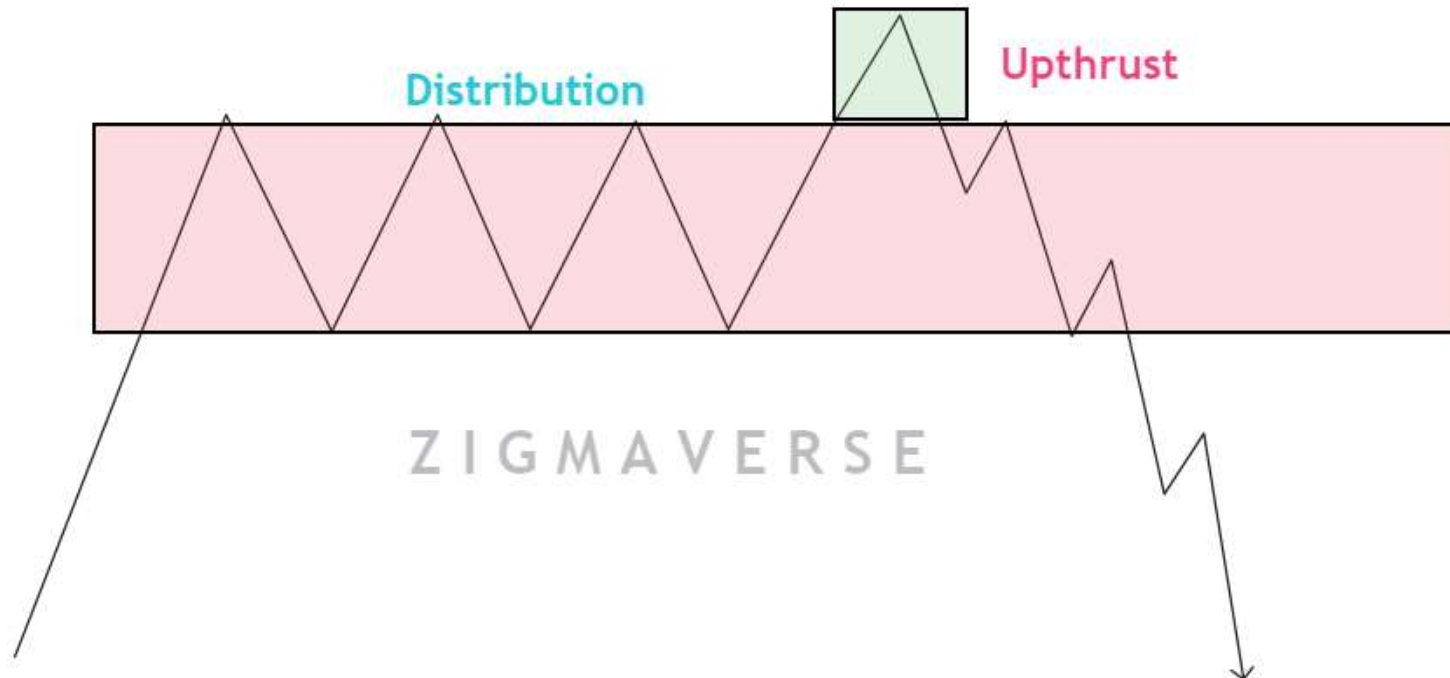


Accumulation Characteristics

- As the accumulation develops, **volume and volatility** tend to decline.
- **Volume will increase** before price breaks out of the accumulation.
- Well-Informed traders will create a **Spring (Bear Trap)** in order to **induce** Uninformed traders to the **downside**. The real intention is to create a liquidity zone for Well-Informed traders to buy below the lower limit of the accumulation.
- **Bullish candles** tend to be **wider** than bearish candles.
- Minor higher highs and higher lows tend to form in the final stages of an accumulation.
- When selling interest is very low, a path of least resistance to the upside is created.

Distribution & Upthrust

The distribution is a ranging market that precedes a downtrend. Well-Informed traders will absorb demand in order to create a path of least resistance to the downside.



Distribution Characteristics

- As the distribution develops, **volume and volatility** tend to **decline**.
- Volume will increase before price breaks out of the distribution.
- Well-Informed traders will create an '**upthrust (Bull Trap)**' in order to induce Uninformed traders to the upside. The real intention is to create a liquidity zone for Well-Informed traders to sell above the upper limit of the distribution.
- **Bearish candles** tend to be **wider** than bullish candles. Minor higher highs and higher lows tend to form in the final stages of an accumulation.
- Minor lower highs and lower lows tend to form in the final stages of a distribution.
- When buying interest is very low, a path of least resistance to the downside is created.

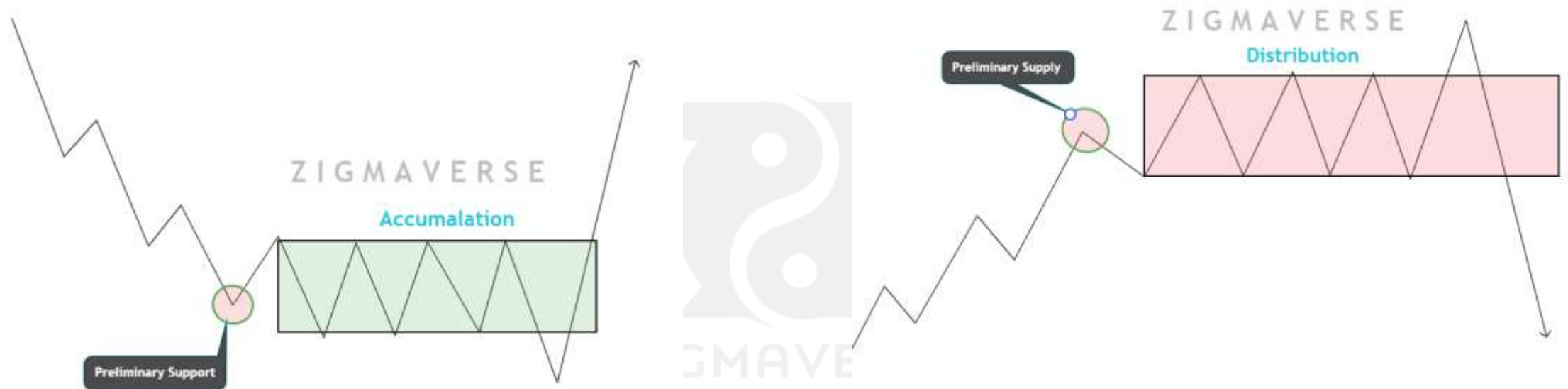
7 Logical Events

The logical events allow the trader to know what to expect in each market scenario, which helps reduce some of the uncertainty of trading.

1. Preliminary Stop
2. Climax
3. Reaction
4. Secondary Test
5. False Breakout
6. Breakout
7. Confirmation

Preliminary Stop –PS (Preliminary Support [A] , Preliminary Supply[D])

It's The First Entrance of large well-informed traders against the main trend. It's the first sign that a trend might be near its end. There might be multiple PSs too



We can see NRC + Constant High Volume or Large Shadow + High volume

Uses of the Preliminary Stop

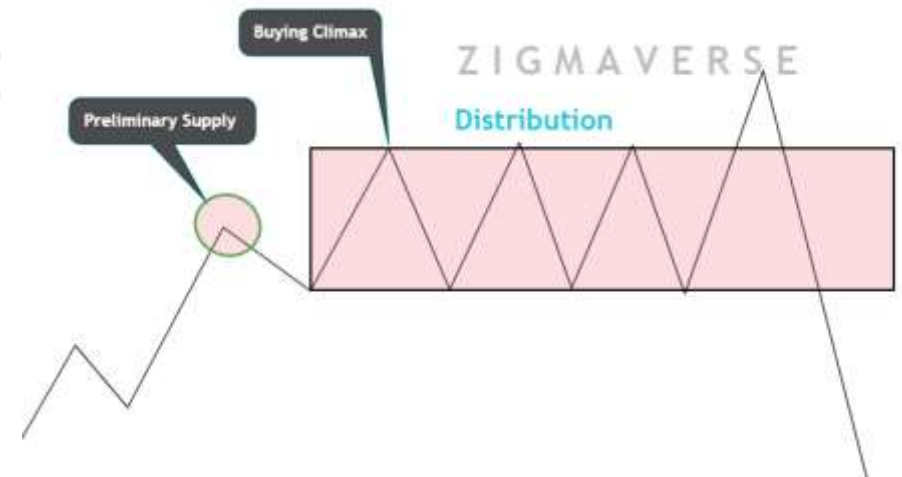
- 1) It's an Indication that trading in the main trend direction is no longer a good idea.
- 2) The Current market level might be a good place to take profit from a trend trade, assuming there was one

Climax (Selling Climax [A] ,Buying Climax[D])

- It's usually the **highest high before a distribution** or **lowest low before and accumulation**. It's usually marked by a **WRC with climatic volume**
- A trend doesn't necessarily end with climatic volume. In that case, instead of a climax, there will be an exhaustion.
- An exhaustion is marked by progressively lower peaks in volume (Divergence relationship between effort and result as seen previously).
- The confirmation for the climax can only come from events 3 and 4.

Uses Of the Climax

- It's an indication that trading in the main trend direction is no longer a good idea.
- The current market level might be the last place to take profit from a trend trade, assuming there was one.

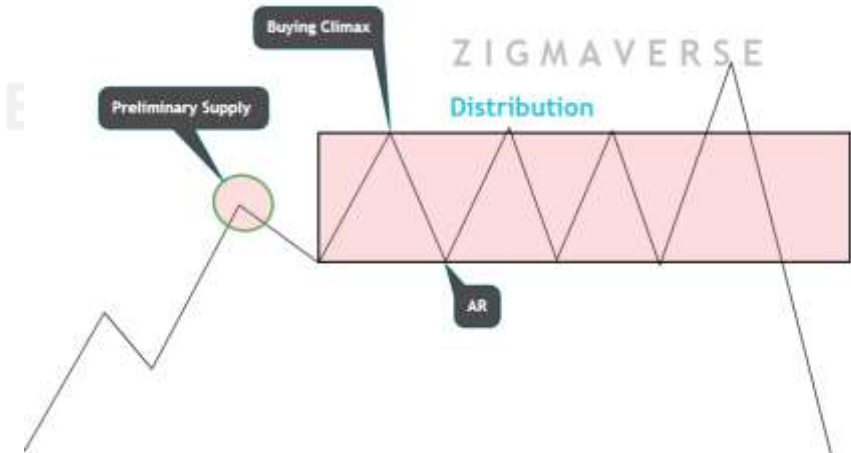
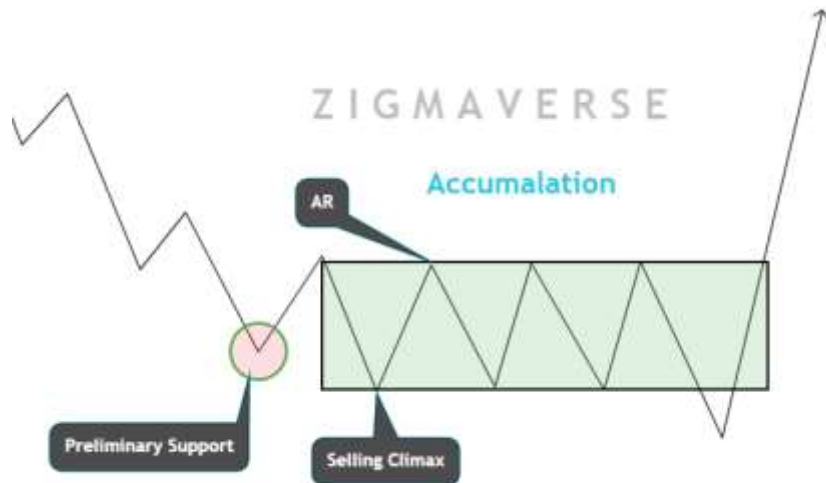


Reaction (Automatic Rally [A] Automatic Reaction [D])

- The Reaction is a **sharp Movement** in the opposite direction of the climax. It's seen as a confirmation of the climax
- The reaction represents what is called **change of character (ChoCh)** in the Wyckoff method, Meaning a change from trend to sideways market. This change of character must be confirmed by the next logical event.

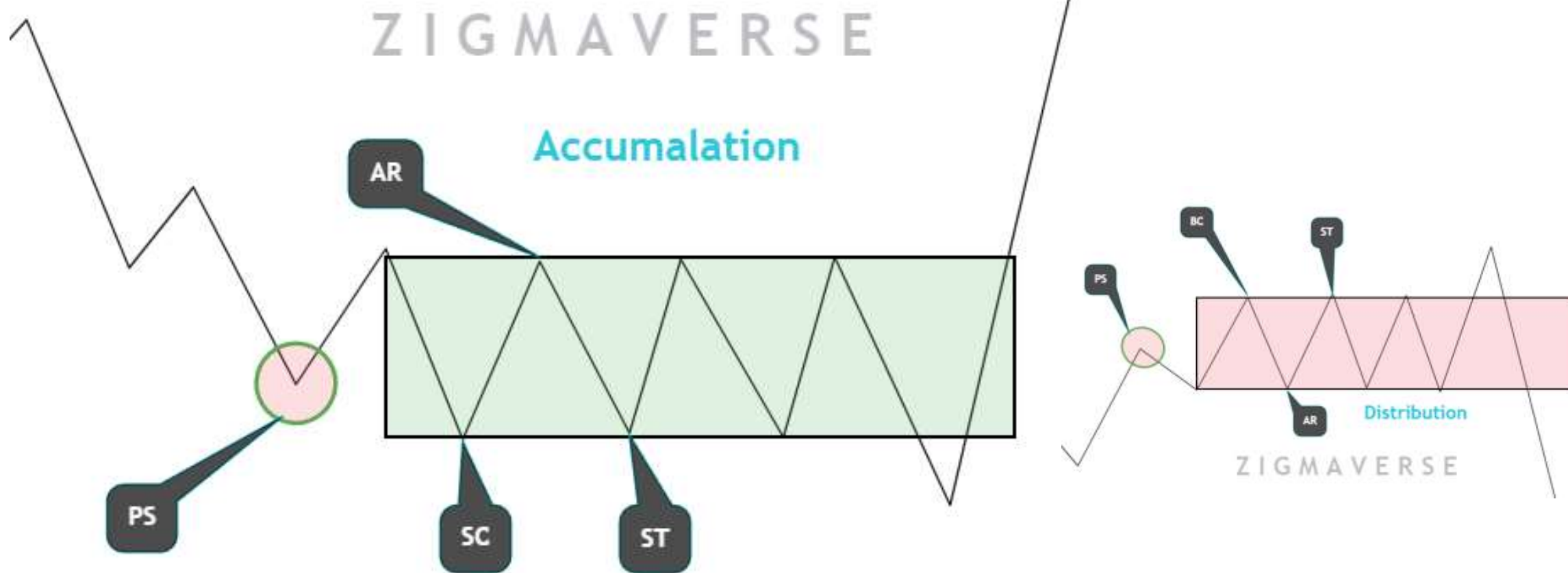
Uses Of the AR

- It sets **one of the boundaries of the sideways market**. In an accumulation, the Automatic Rally sets the upper limit of the range, and in a distribution, the Automatic Reaction sets the lower limit of the range.
- **It confirms the climax**. The Automatic Rally confirms a Selling Climax, and the Automatic Reaction confirms a Buying Climax.
- It serves as context. By observing a reaction, not only the climax is confirmed, but now traders can expect a test of the climax.



Secondary Test (Automatic Rally [A] Automatic Reaction [D])

- A price movement aiming to test the level of the climax, but with lower volume and narrower candle ranges



False Breakout (Spring [A] Upthrust [D])

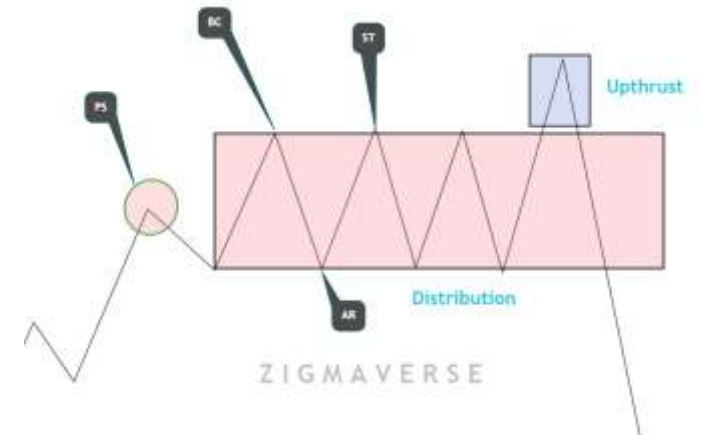
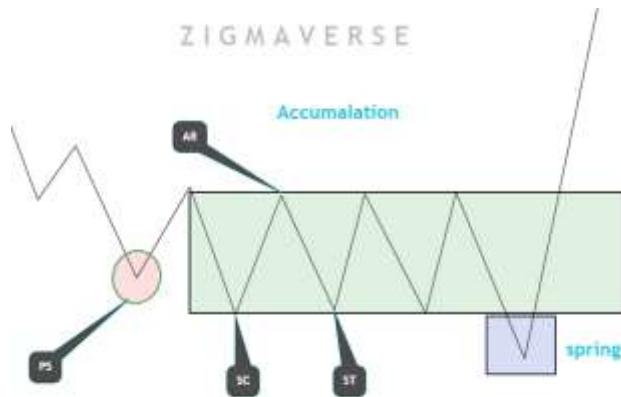
- It's the ultimate point of the manipulation maneuver, and therefore , the point with the greatest risk/reward ratio opportunity.
- The false breakout is the end of the **cause(sideways market)** and **the beginning of the effect (trend)**
- In the false breakout , well - informed traders will **induce uninformed traders to the wrong side** of the market in order to create **liquidity zone**.

Uses of the False Breakout

- The main use of the False Breakout is to use breakout traders as a liquidity source.
- Trigger additional stop loss orders that happen to be in the liquidity zone.
- Trigger the stop loss orders of traders who anticipated the trend reversal, but entered the market too soon.

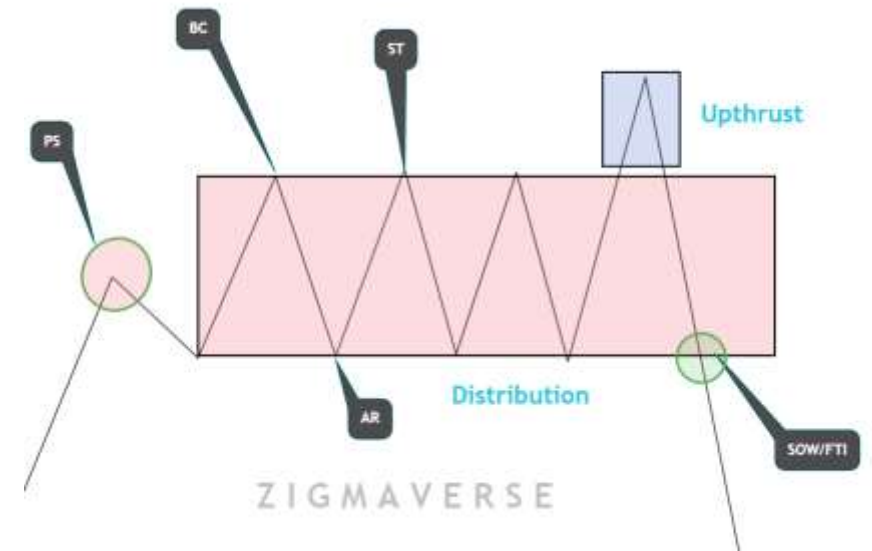
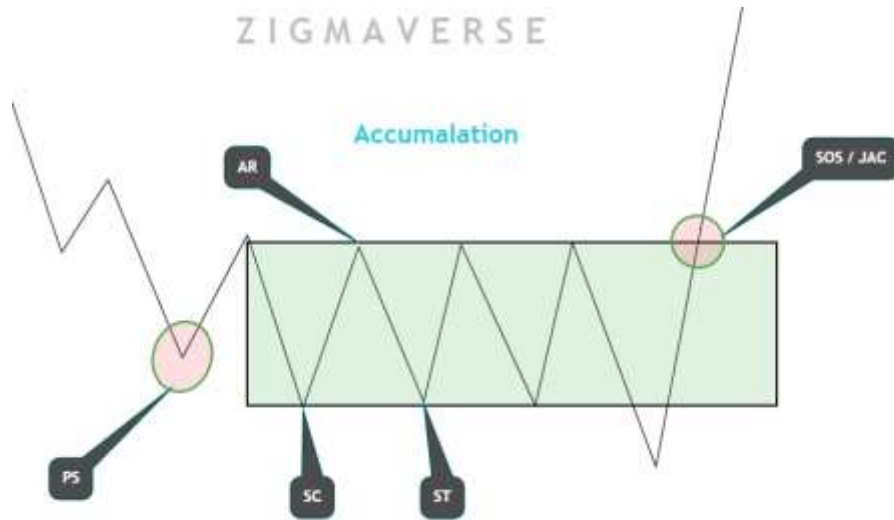
Signs Before a False Breakout

- Prior events must develop in a certain proportion according to the method.
- The absence of a False Breakout on the other direction.



Breakout (SOS/JAC [A] SOW/FTI [D])

- The breakout is the **second change of character** (ChoCh), meaning a change from sideways market to trending market.
- In an accumulation, the Breakout is called **Sign of Strength (SOS) or Jump Across the Creek (JAC)**
- In a distribution, the Breakout is called **Sign of weakness (SOW) or Fall Through the Ice (FTI)**
- The harmonic relationship between Effort and Result is expected in the Breakout.



Confirmation (LPS[A] / LPSY[D])

- The seventh event is the confirmation of the breakout. The final sign that the market is now trending.
- In an accumulation, the Confirmation is called **Last Point of Support (LPS)**
- In a distribution, the Confirmation is called **Last Point of Supply (LPSY)**
- The harmonic relationship **between Effort and Result** is expected at the Confirmation.

Keep in mind that in real markets
there is a lot of variability in the way these events occur.

Phases

- The seven logical events give rise to FIVE market phases. The identification of these phases has the purpose of providing context to the analysis.

Phase A	The stop of the previous trend.
Phase B	Construction of the cause
Phase C	The test
Phase D	Trend inside the range
Phase E	Trend outside the range

Phase A

Phase A is composed by the first four logical events

- Preliminary Stop
- Climax
- Reaction
- Secondary test
- The trader is not supposed to look for opportunities in Phase A.
- The trader must only observe the market at this point.
- It is a good place to take profits from the prior trend.
- It means that the market is transitioning from trending mode to ranging mode.
- It can only be established after the Secondary Test.

Signs of Phase A

- Look for signs of climatic volume in the Preliminary Stop and the Climax. That's a footprint of the well-informed traders.
- The reaction event will be qualitatively different than the prior countertrend moves.
- What ultimately confirms Phase A is Phase B.

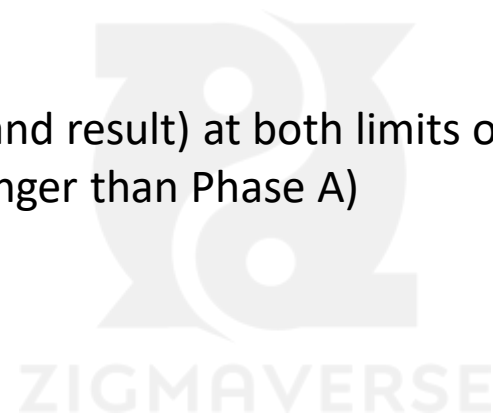
Phase B

Phase B is composed by secondary tests at both limits of the range. The key element in Phase B is time. Ideally, Phase B should be longer than Phase A.

By waiting for phase B to be longer than Phase A, the trader will avoid entering the market too soon.

Two Keys in Phase B

1. Careful analysis of volume and price (effort and result) at both limits of the range
2. The time duration of phase B (It should be longer than Phase A)



Phase C

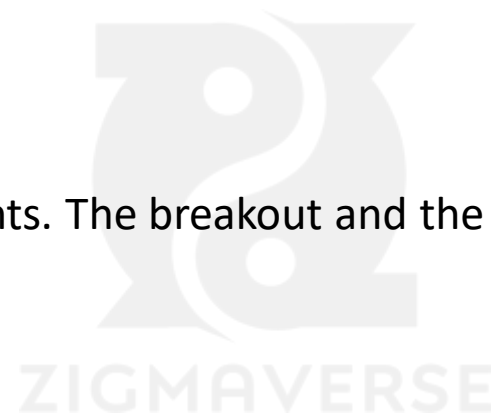
Phase C is composed by the False Breakout event. This is where the well-informed traders will attempt to induce uninformed traders to the wrong side of the market in order to generate liquidity.

Phase D

Phase D is composed by the last two logical events. The breakout and the confirmation.

Phase E

Phase E occurs when the price is indeed trending outside the range. The harmonic relationship between effort and result is expected.



Sloping Structures

1. Sloping structures display the same logical events and phases of horizontal structures.
2. 2. Upsloping structures mean that buyers have more strength than sellers, and downsloping structures mean that sellers have more power than buyers.

Types of sloping structures

1. Upsloping Accumulation
2. Downsloping Accumulation
3. Upsloping Distribution
4. Downsloping Distribution



Final Important Notices

Method Flexibility

It's important to realize that, a lot of the times, the market will not develop the textbook phases and events. We can still use the method by the understanding of supply and demand and volume spread analysis.

Structural Failure

It's possible to have a ranging market without a Spring or UTAD. When the market to reach one side of the range, and then produces a breakout on the other side, we are facing a structural failure.

There is no guaranteed way of differentiating an accumulation and distribution in real time, but there are many signs we can look for.

Volume Patterns During the Cause

A decrease in volume is more common during accumulation structures. Constant or unusual volume patterns are more common during distribution structures.

Where to look for trade opportunities?

- According to Wyckoff, the trader should only look for trade opportunities in Phases C, D and E.
- The highest quality trade is in Phase C because of its risk/reward potential.

Two Possibilities in Phase C

- Enter at the Spring or UTAD
- Enter at the test right after the Spring or UT using Divergence

Entries in Phase D

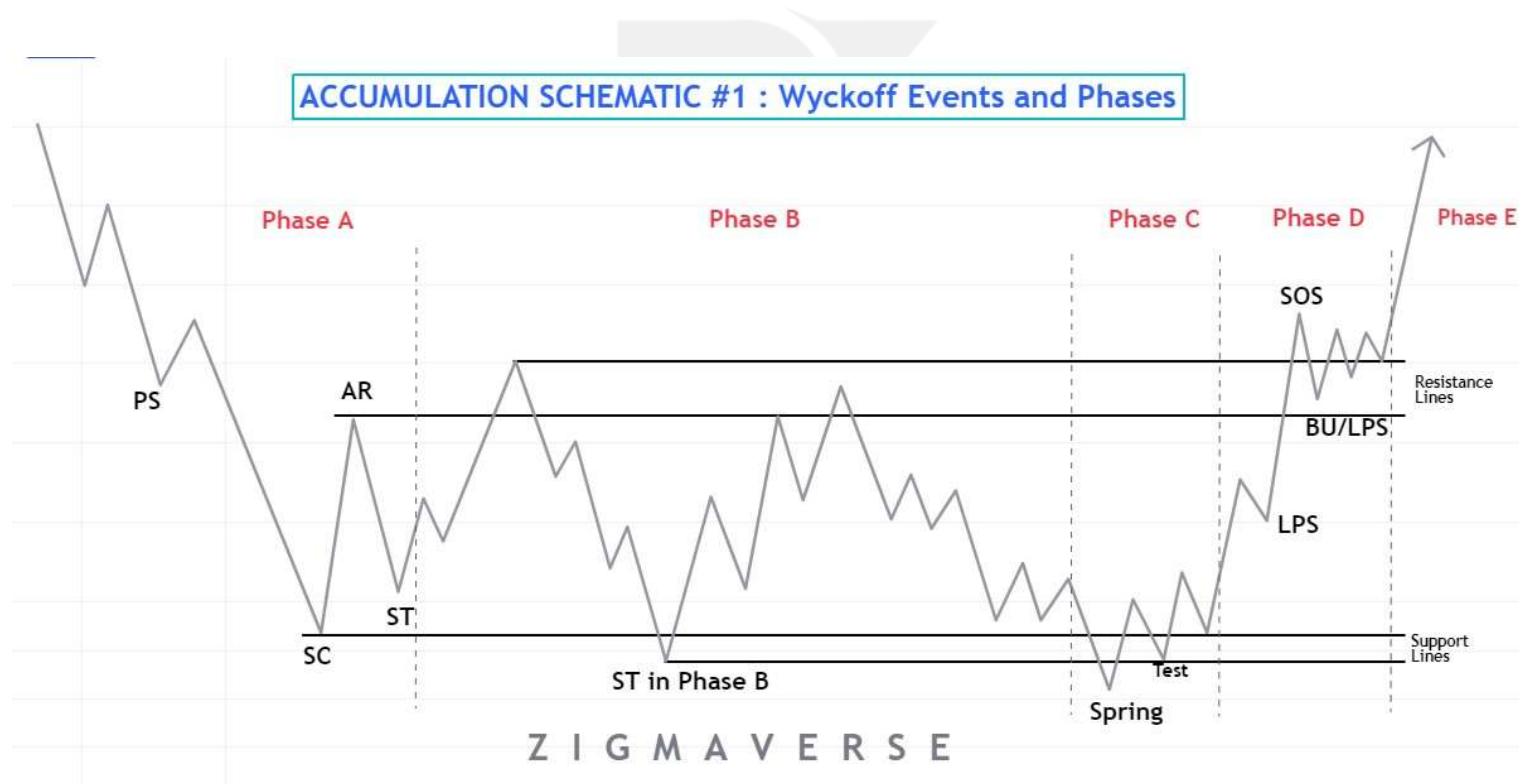
- In the trend movement inside the range.
- In the last logical event (the test), right after price breaks out of the range.

Entries in Phase E

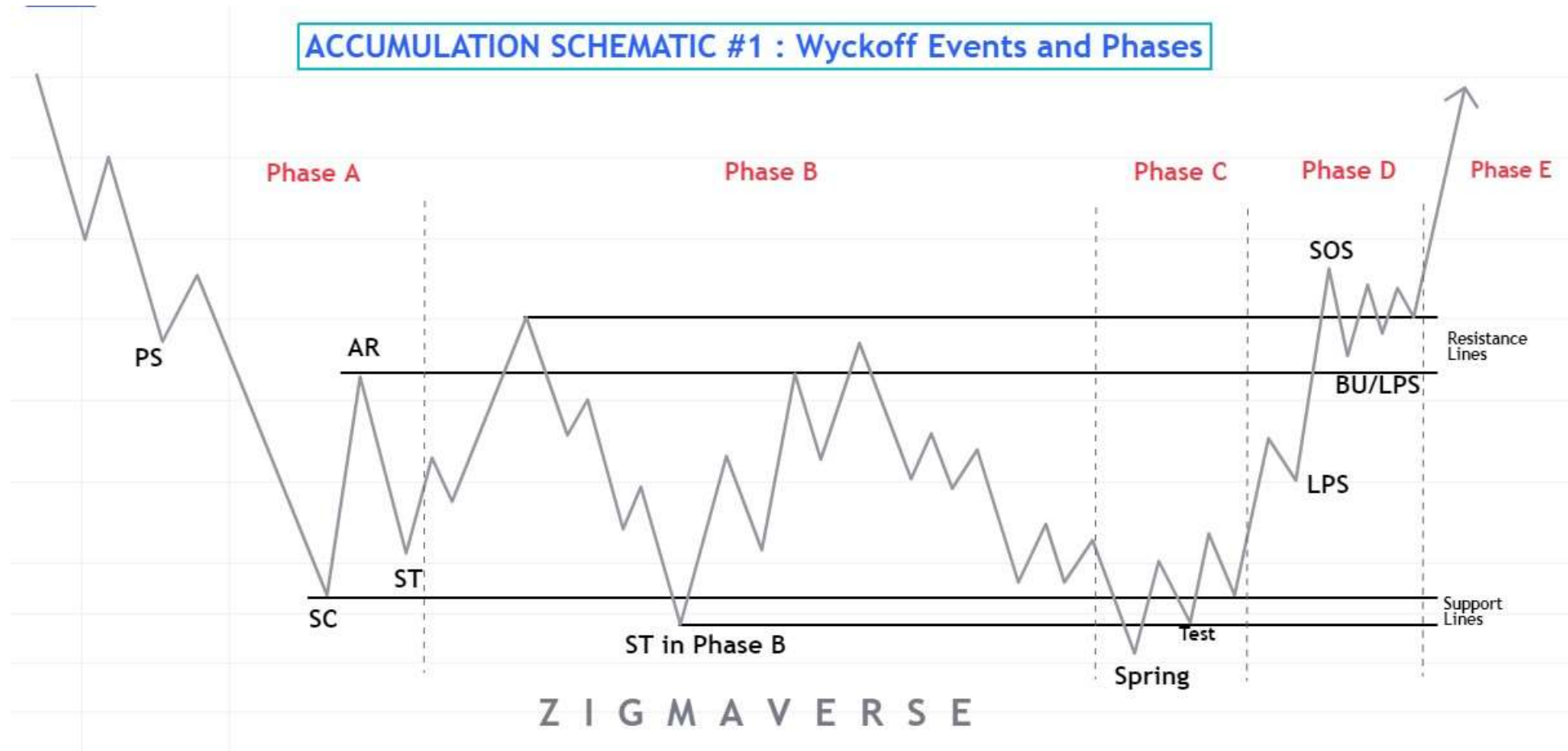
- The entries in Phase E work in the same way as the entries in Phase D, but with a worse risk/reward ratio potential since the trend has developed to some degree.

Money Management

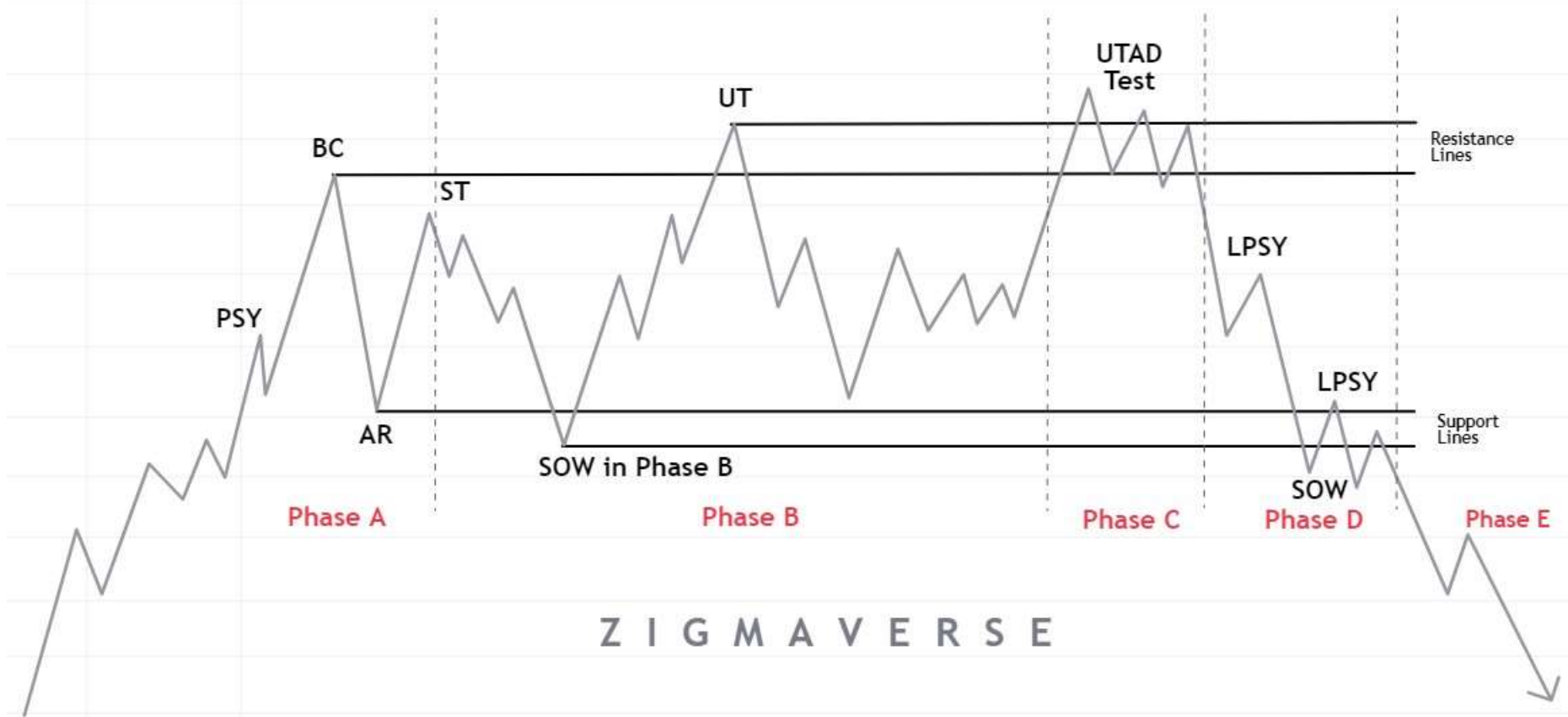
- Entry triggers usually occur with a SOW/SOS candle after a high/low. The stop loss order can be placed just above/below these extremes.
- The Idea is to ride as much of the trend as it is possible , so the trader should begin to take profits when preliminary stops begin to appear



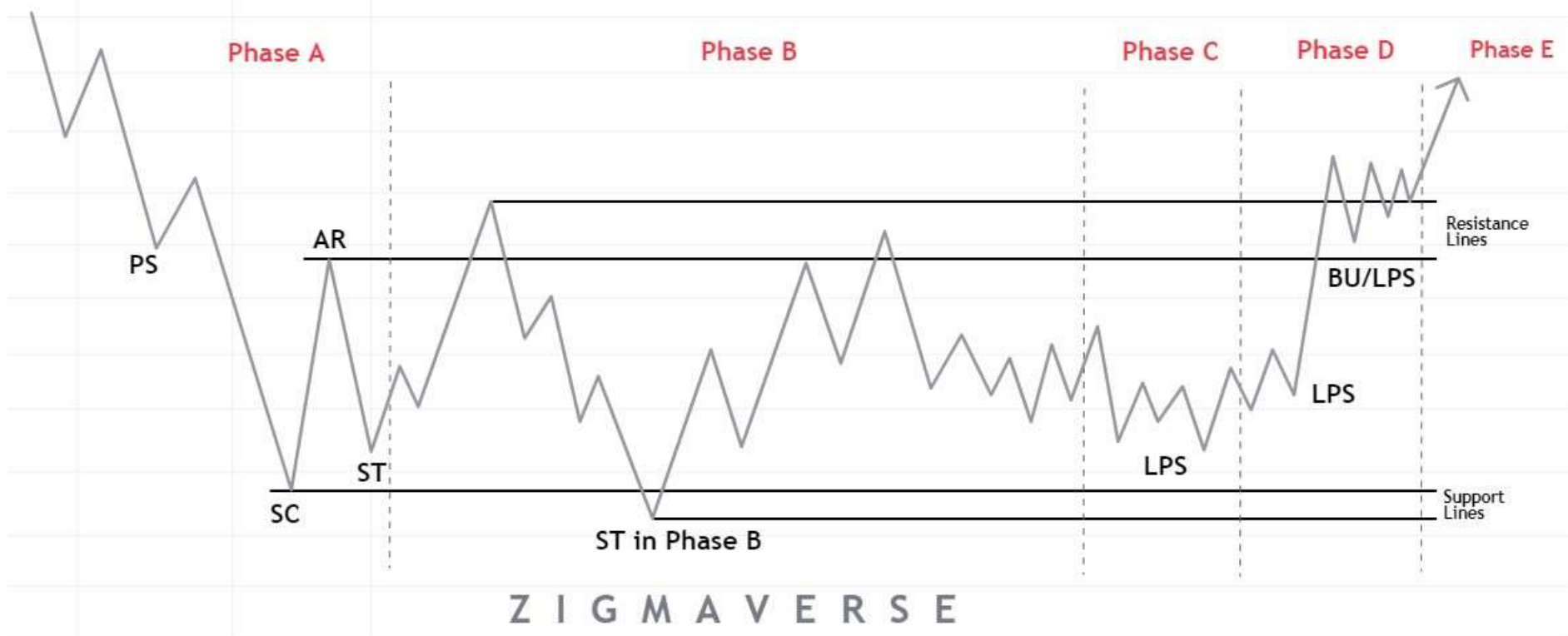
ACCUMULATION SCHEMATIC #1 : Wyckoff Events and Phases



DISTRIBUTION SCHEMATIC #1 : Wyckoff Events and Phases



ACCUMULATION SCHEMATIC #2 : Wyckoff Events and Phases



DISTRIBUTION SCHEMATIC #2 : Wyckoff Events and Phases

