Anna Coulling – A Complete Guide to Volume Price Analysis

Cliff-notes by @HowLn_

HowLn's Opening Remarks

To whomever is reading my cliff notes, let me tell you right now that this is an exceptional technical analysis book. An excellent addition for *any* level of trader that wants to improve their trading. However, for the sake of trimming my cliff-notes, I excluded a lot of extremely beginner concepts that she explains in some chapters which includes some real-life analogies that you didn't really need to know. As such, you will only find ideas from each chapter that I deemed important and any charts that Anna Coulling used to reinforce her points.

The main takeaways from this book are:

- Combining price action + volume
- Thinking like the insiders (market makers, smart money, institutions, etc.)
    - Anna Coulling puts in the perspective of an insider and tries to get you to do the opposite of what retail traders would do in certain situations.
    - Coulling often compares market makers to a retail store. They always seek to purchase goods at cheaply as possible (accumulate) and sell to the public at marked up prices (distribution). It's a never-ending cycle.
- Utilizing of Volume Price Analysis on Wyckoff Accumulation/Distribution
    - If you correctly understand the concepts of VPA (Volume Price Analysis), you will realize that smart money can't hide their actions simply b/c of volume. When we analyze both volume and price action, it's a powerful combination.
- If you have a basic understanding of Wyckoff accumulation/distribution, this book will indubitably reinforce your understanding of them due to the significance of volume/spread in certain phases of Wyckoff cycles.

Chapter 1 – There's Nothing New in Trading

- Volume confirms trends in price.
    - If price is moving on high or rising volume, then it is more likely to be a valid move.
    - If price continued moving in one direction, with the associated volume, then this was the signal of the start of a trend.
- Wyckoff believed that prices moved the basic economic principle of supply and demand, and that by observing price volume relationship, it was possible to forecast market direction.
- Wyckoff's three basic laws
    1. The Law of Supply and Demand
    2. The Law of Cause and Effect: To have an effect, you must first have a cause, and furthermore, the effect will be in direct proportion to the

cause. In other words, a small amount of volume activity will only result in a small amount of price action.
3. The Law of Effort VS Result: similar to Newton's third law of physics. Every action must have an equal and opposite reaction. In the other words, the price action on the chart must reflect the volume action below. The two should always be in harmony with one another, with the effort (which is the volume) seen as the result (which is the consequent price action). Wyckoff taught us to analyses each price bar, using a 'forensic approach', to discover whether this law has been maintained. If there is an anomaly, then we need to discover why just like a crime investigator, establish the reasons.

- Wyckoff referred to the ticker tape as "a method for forecasting from what appears on the tape now, what is likely to happen in the future."
    - Tape readings object is to determine whether stocks are being accumulated or distributed.
- Time between price changes, and low, above average, or high volume for an instrument are important factors.
- There is one activity that the insiders cannot hide and that is volume. Volume reveals activity. Volume reveals the truth behind the price action. Volume validates the price.
- Volume reveals market manipulation and order flow in stark detail.

Chapter Two – Why Volume?

- Volume is far from perfect. The market makers have even learnt over the decades how to avoid reporting large movements in stock, which are often reported in afterhours trading. However, it is the best tool we have tool which to see 'inside the market.'
- Volume applies to all markets and is equally valuable, whether or not there is market manipulation.
- Volume is the purest form of buying and selling reveals when the market is running out of steam. It reveals whether buying interest is rising or falling daily. It reveals all the subtleties of pull-backs and reversals. Volume is the fuel that drives the market. Without volume, nothing moves, and if it does move and the volume is not in agreement, then there is something wrong, and an alarm bell rings.
- Three major points on volume
    1. All volume is relative.
    2. Volume without price is meaningless.
    3. Time
- As investors/speculators, the whole reason why we study volume is to see what the insiders are doing. For the simple reason that whatever they are doing, we want to follow and so as well.
- When a market has moved sharply lower in a price waterfall and a bearish trend, supported by masses of volume, this is a buying climax. It is the wholesalers who are

buying and the retail traders who are panic selling. A buying climax for us represents an opportunity.

- Likewise, at the top of a bull trend, where we see sustained high volumes, then this is a selling climax. They wholesalers are selling to the retail traders who are buying on the expectation of the market going to the moon!
- Buying/Selling from a wholesaler's perspective is our goal.

Chapter Three – The Right Price

- *"No price is too low for a bear or too high for a bull"*
- Volume gives us our bearings, it allows us to triangulate the price action and to check the validity of our analysis.
- A price chart w/ no volume is only part of the story.
- VAP (Volume at Price), relationship between price and volume within the life of the candle.
- VPA (Volume Price Analysis) focuses in the 'linear relationship' between volume and price once the candle has closed.
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Chapter Four – Volume Price Analysis, First Principles

- Principle 1) Art not Science
    - Most of the analysis is subjective and thus can't be automated.
    - You are comparing and analyzing price behavior against the associated volume, looking for confirmations or anomalies, whilst at the same time, comparing volume to judge its strength or weakness in the context of volume history.
- Principle 2) Patience
    - The market never stops dead and reverses. IT always takes time for all the sellers/buyers to be 'mopped up' and it is this constant whipsawing which creates the sideways congestion price zones that we often see after an extended trend move, higher or lower.
    - Moral here is not to act immediately as soon as a signal appears. Any signal is merely a warning sign of an impending change. When a shower of rain stops, it doesn't stop suddenly, it gradually peters out, then stops.
- Principle 3) It's all relative
    - The analysis of volume is all relative.
- Principle 4) Practice Makes Perfect
- Principle 5) Technical Analysis
    - VPA is only part of the story, other techniques provide additional validation. The most important is support and resistance.
- Principle 6) Validation or Analysis
    - In using VPA as our analytical approach, we are only looking for two things. Whether the price has been validated by the volume, or whether there is an anomaly with the price.

- If the price is validated then that confirms a continuation of the price behavior. By contrast if there is an anomaly, then this is sending signal of potential change.
- Validation or anomaly. Nothing else.

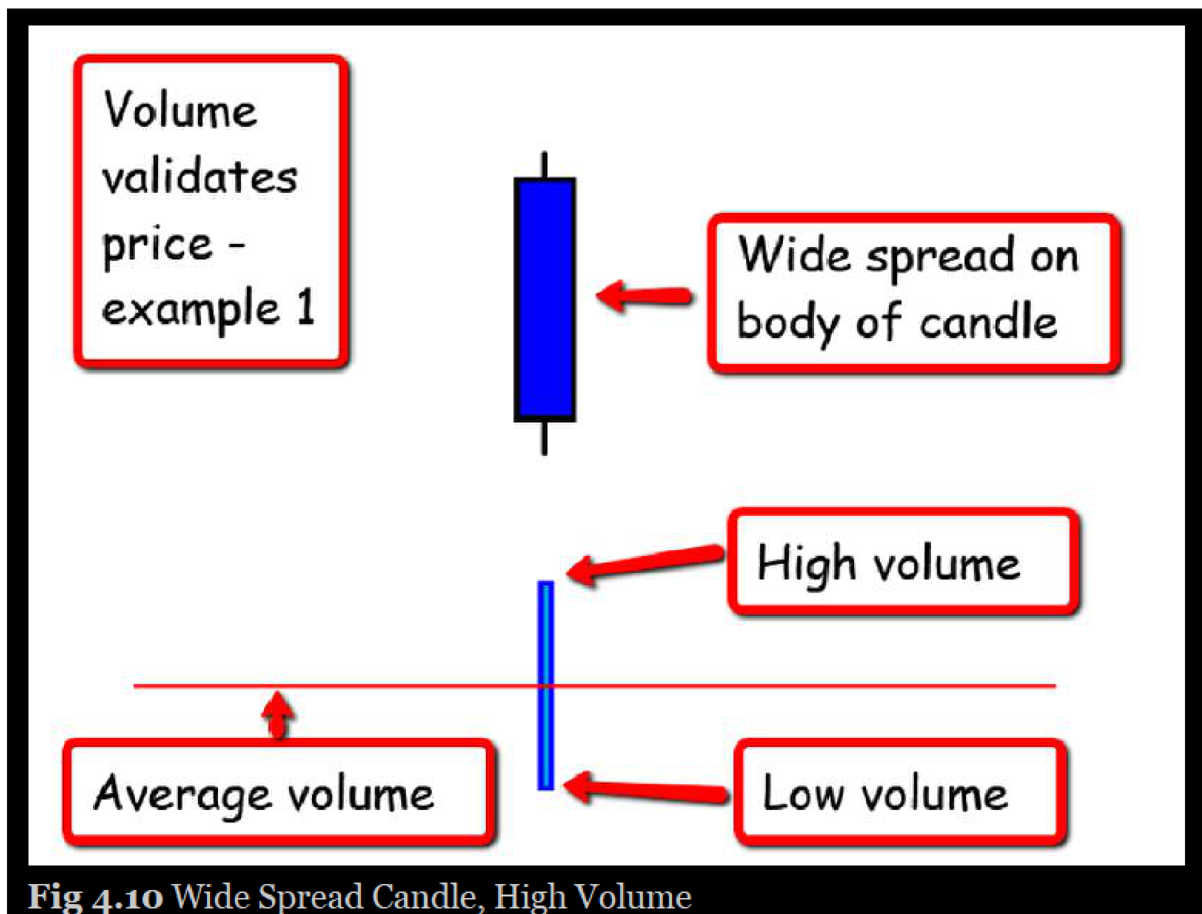


Fig 4.10 Wide Spread Candle, High Volume

Associated volume is well above average thus validating the price action

- Remember Wyckoff's third law of effort vs result. It takes effort for the market to rise and takes effort for the market to fall, so if there has been a large change in price in the session, then we expect to see this validated by a well above average volume bar. (which we saw in fig 4.10).
- We can assume two things in fig 4.10 which are that the price move is genuine, and has not been manipulated by market makers, and second, that for the time being, the market is bullish, and until we see an anomaly signaled, then we can continue to maintain any long position that we may have in the market.

Law of effort vs result validates fig 4.11

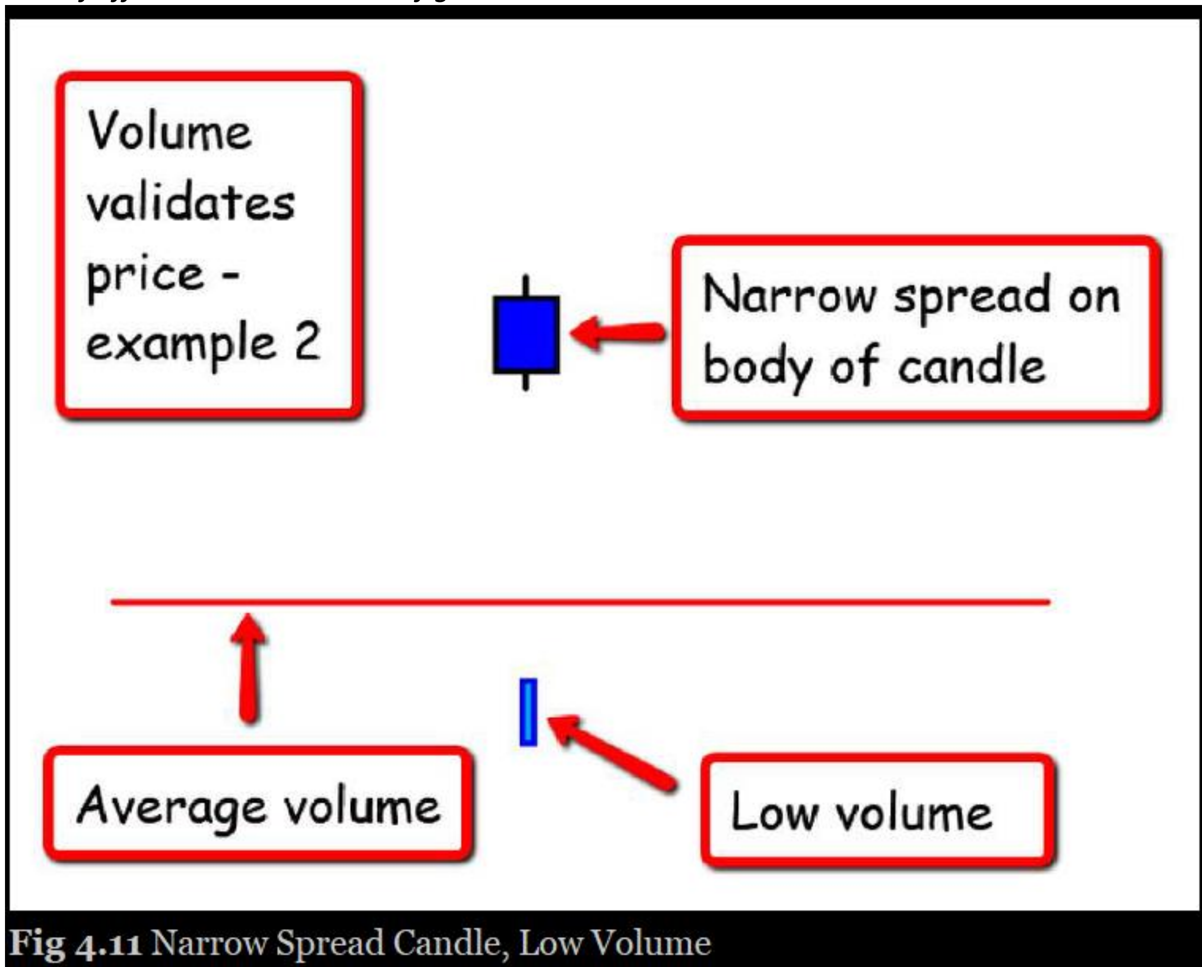


Fig 4.11 Narrow Spread Candle, Low Volume

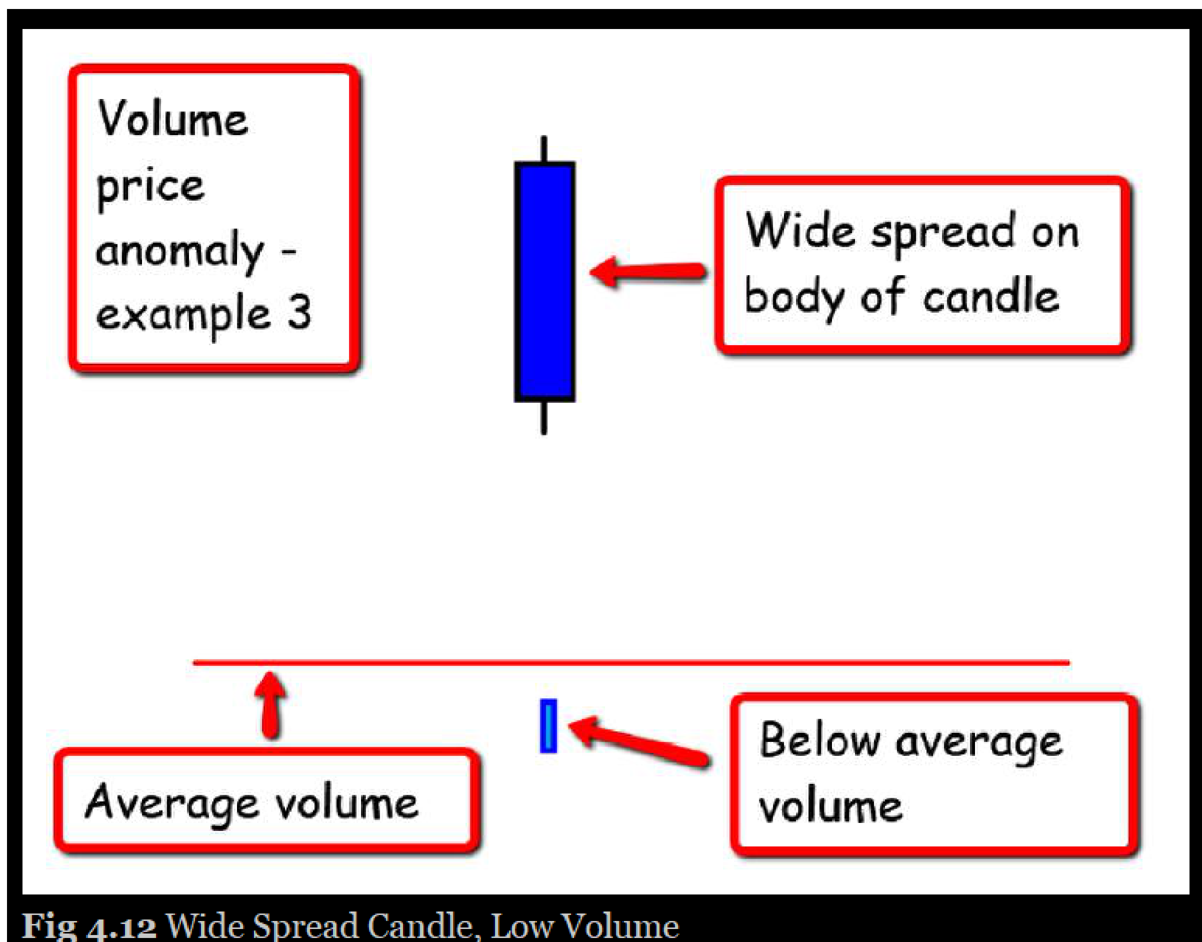


Fig 4.12 Wide Spread Candle, Low Volume

Fig 4.12 is an anomaly which can be explained via Wyckoff's third rule of effort vs result. A wide spread up candle, should be matched by an equal amount of effort. What we have instead is a big result, from little effort. This is an anomaly. Alarm bells should be ringing.

- When an anomaly is detected, it could mean several things such as:
  - A possible trap:
    - market makers could be 'feeling out' the sentiment in the market. Price could be pushed higher to test interest in the market from the buyers. If there is little or no buying interest, as here, then price will be marked back down, with further price testing.
    - Market makers are testing the levels of buying and selling interest, before setting the tone of the session, with an eye on any news release in the morning, which can always be used to further manipulate the markets, and never allow a 'serious crisis go to waste'
    - Market makers are testing before committing.
    - Common scenario could be: a fundamental item of news is released, and the market makers see an opportunity to take stops out of the market. The price jumps on the news, but the associated volume is low.

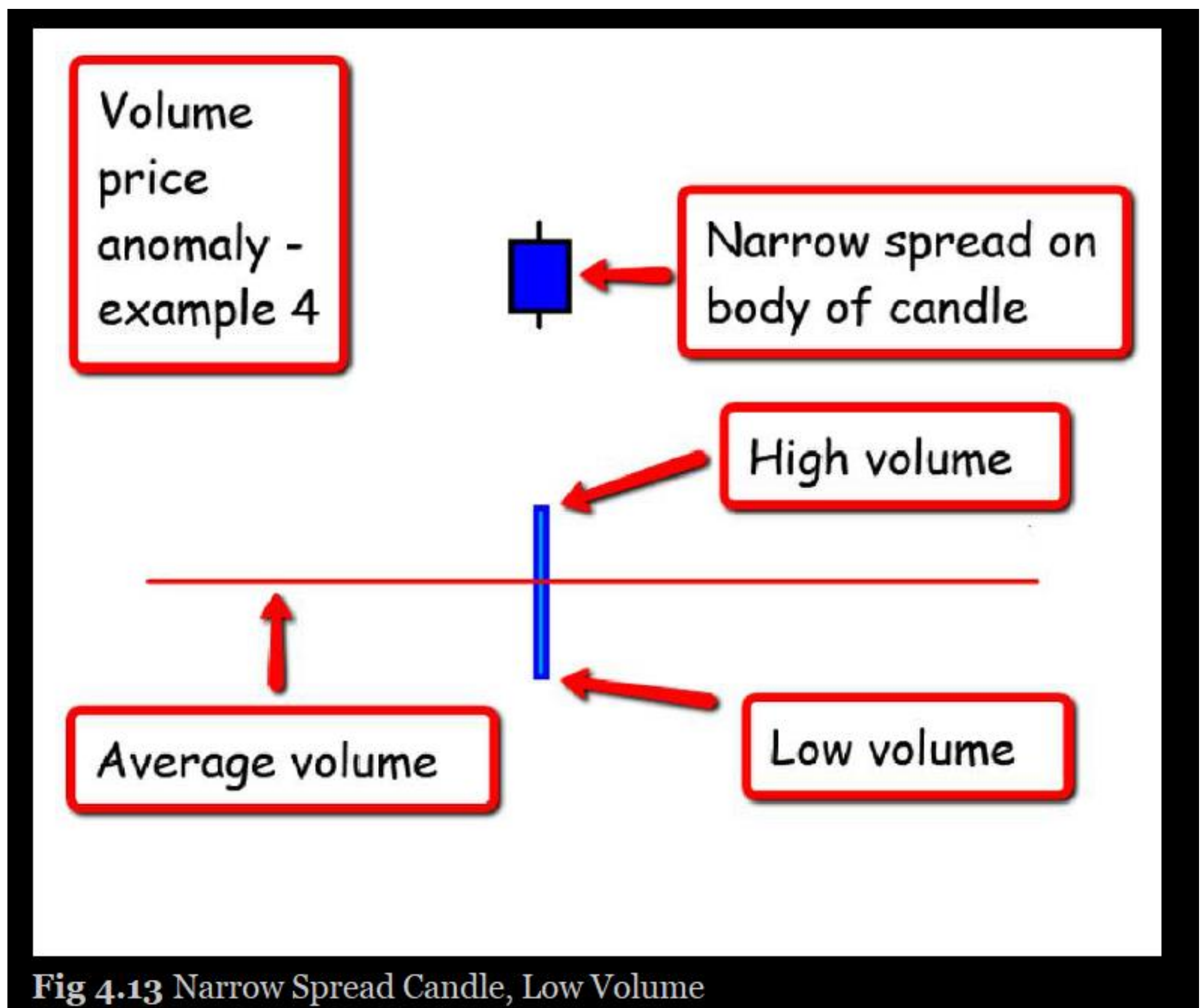


Fig 4.13 Narrow Spread Candle, Low Volume

- Fig 4.13 is a clear signal of a potential trap. The move higher is NOT a genuine move but a fake move, designed to suck traders into weak positions, and also take out stops, before reversing sharping and moving the opposite direction.
- Volume and price together reveal the truth behind market behavior in all its glory.
- The small price increase has been generated by a huge amount of volume, so clearly something is wrong. There is only one conclusion we can draw, the market is starting to look weak, and is typical of a candle pattern that starts to develop at the top of a bullish trend, or the bottom of a bearish trend.
- Specialists are struggling to clear their warehouse before moving the market lower, and faster. The market is not receptive to higher prices, but the specialists cannot move the market lower until they are ready, and so the stalemate continues. They maintain the price at the current level attracting more buyers in, who are hoping to jump into the trend, but the sellers keep selling, preventing any real rise in price.
- This is a classic relationship to look for on your charts. It is an early warning that the market is weak and struggling at this level, and therefore you should either be taking any profit off the table, if you have an existing position, or, preparing to take a position on any reversal in trend.
- However, it is important to remember that just as a candle can have a different significance, depending on where it appears in the trend, the same is true with VPA. When an anomaly occurs, and we will start looking at actual chart examples, the first

point of references is always where we are in the trend, which will also depend on the time frame.

- When you see an anomaly that sets the alarm bell ringing, the first step is to establish were we are in any trend. In other words, we get our bearings first. (I.e. we are at a possible bottom, where perhaps the market has been selling off for some time, but is now looking at a major reversal?) Or perhaps we are half way up or down a trend, and we are merely observing a minor pull back or reversal in the longer-term trend. Deciding where we are in the trend, is where we bring in some of our other analytical tools which then help to complement VPA and gives us the ‘triangulation’ we need.
- In judging where we are in the trend, and potential reversal points, we will always be looking at support and resistance, candle patterns, individual candles, and trend lines. All of this will help give us our ‘bearings’ and help to identify where we are in the price action of the chart. A perspective if you like, and a framework against which to judge the significance of our analysis of volume and price.

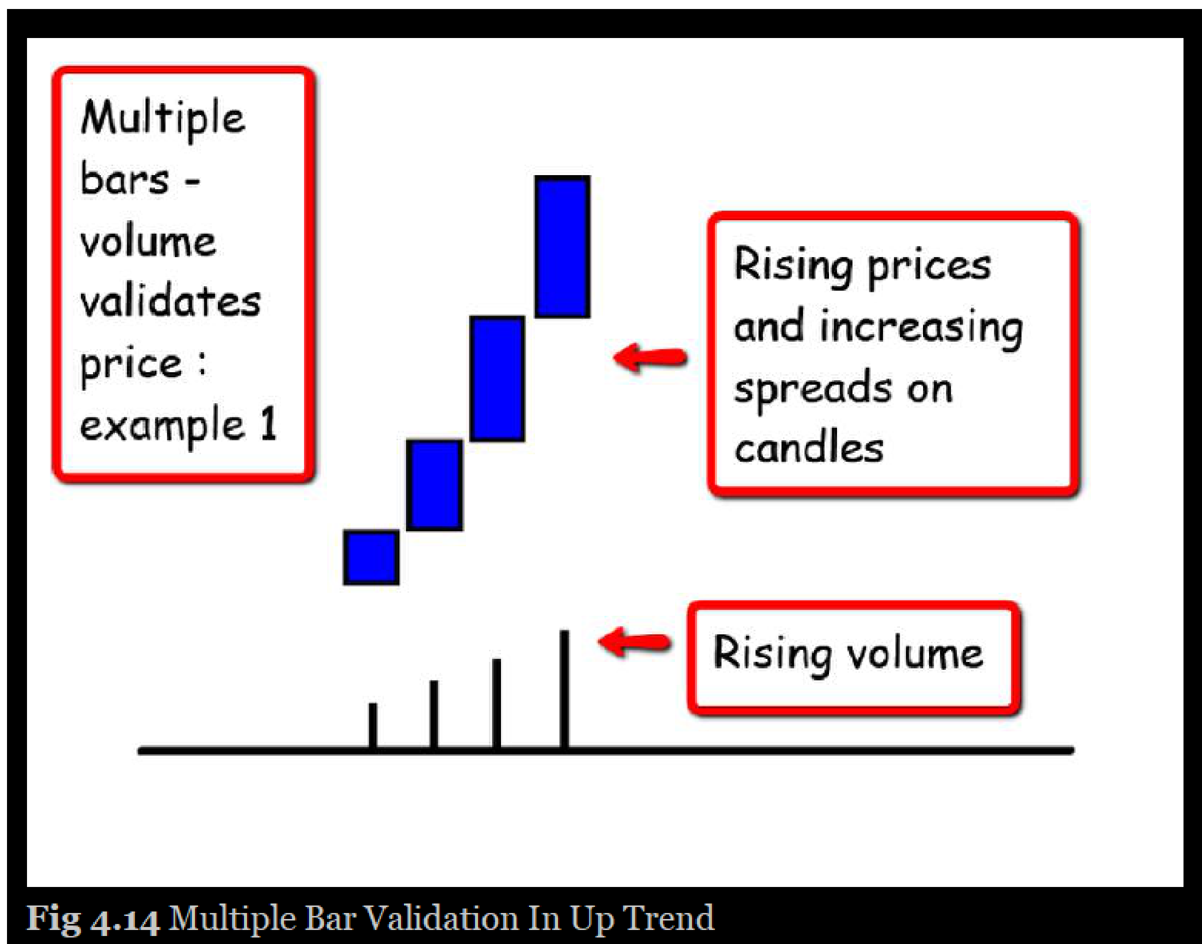


Fig 4.14 Multiple Bar Validation In Up Trend

- Two levels of validation (or anomaly):
  - First is based on the price/volume relationship of the candle itself.
  - Second is based on the collective price/volume relationship of a group of candles, which then start to define the trend. It is in the latter where Wyckoff's second law of cause of effect' can be applied. Here the extent of the effect (price changes in trend) will be related to the size of the cause (the volume and period over which it is applied – the time element)

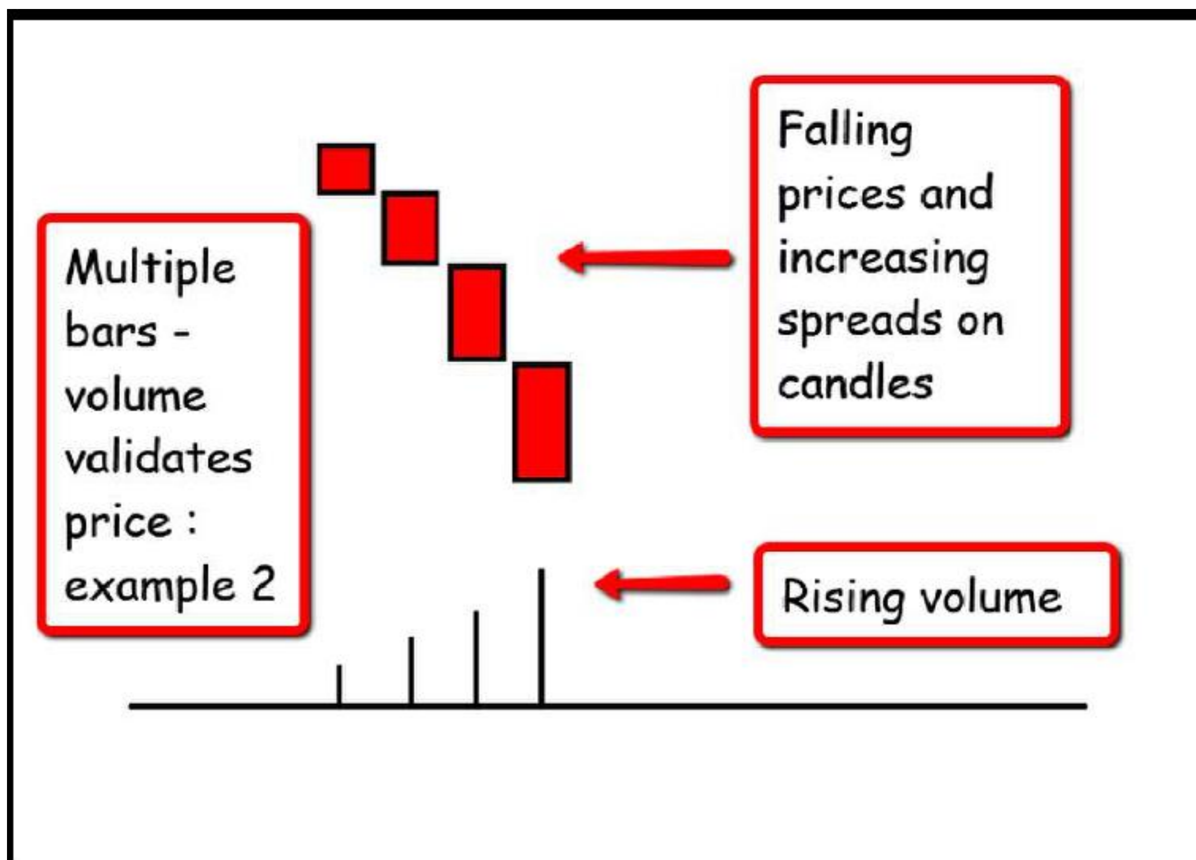


Fig 4.15 Multiple Bar Validation In Down Trend

- If the specialists are joining in the move, whether higher or lower, then this will be reflected in the volume bars. If they are joining a move higher, then the volume will be rising, and equally if they are joining a move lower, then the volume bars will also be rising in the same way.
- One question that hasn't been answered in either of these examples is this – is the volume buying or selling? And, this is the next question we ALWAYS ask ourselves as the market moves along.

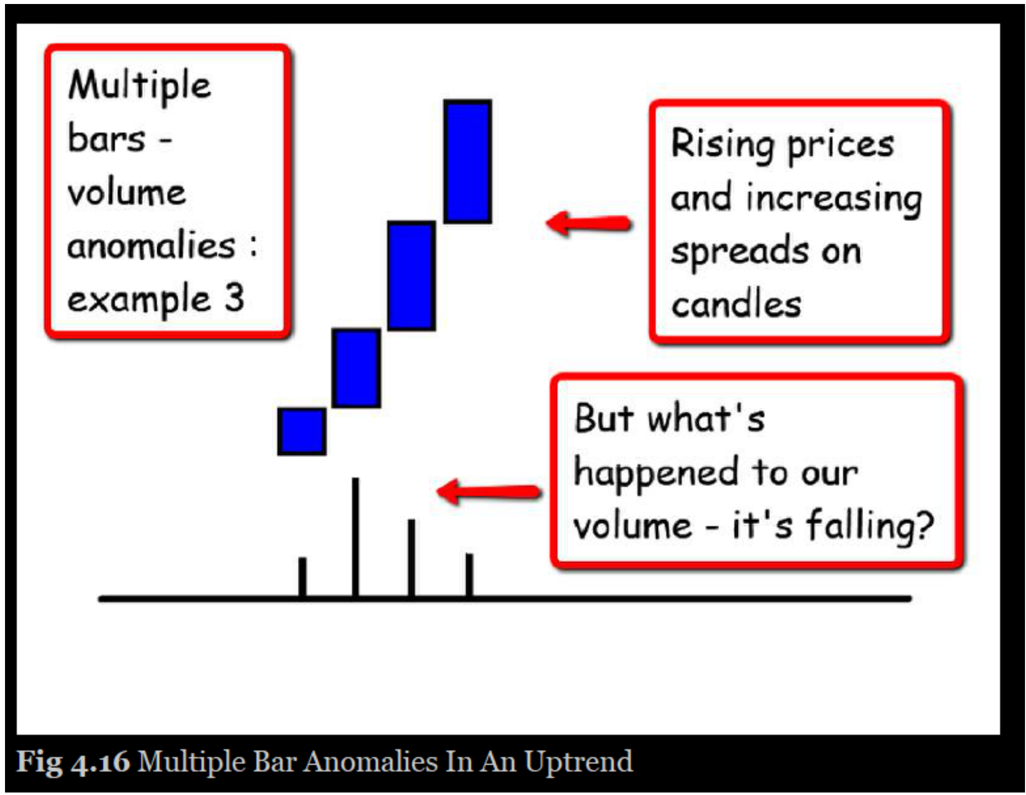


Fig 4.16 Multiple Bar Anomalies In An Uptrend

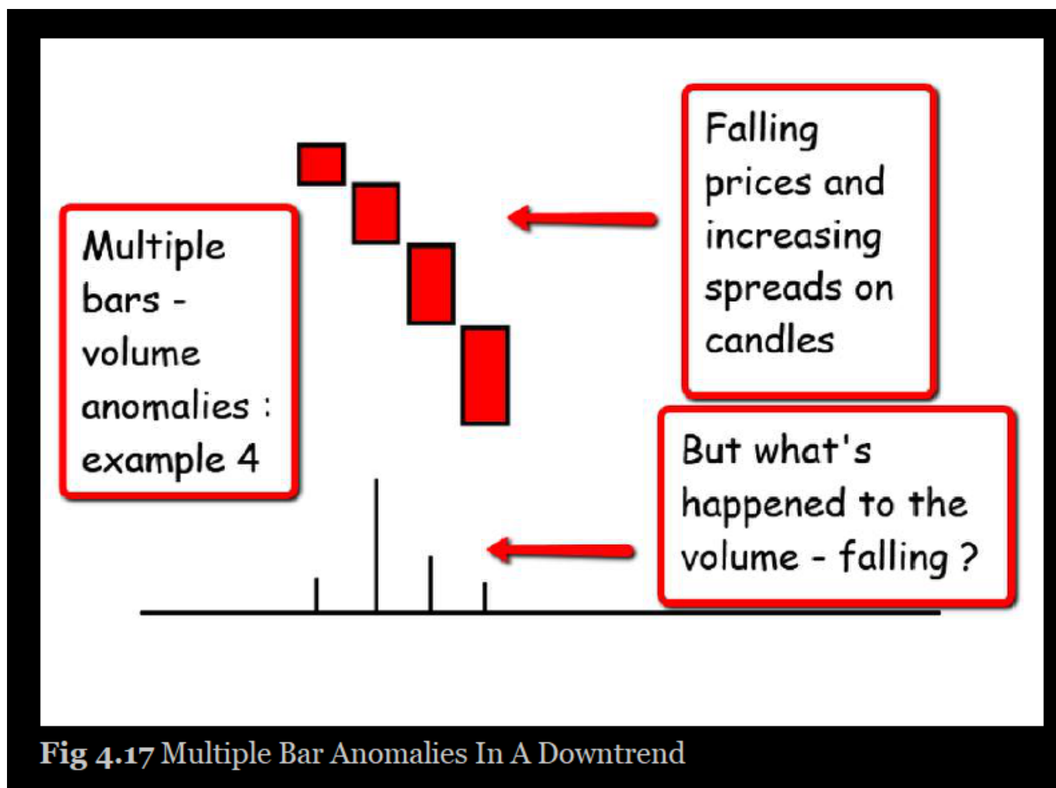


Fig 4.17 Multiple Bar Anomalies In A Downtrend

- With low spread but high volume, momentum slowing. Other side is starting to build position.
- With high spread but low volume, most likely a trap/stop run.
  In both these examples, we would now be ready and waiting for any further signals, to give us clues as to the likely extent of any reversal in trend, or whether this might simply be a minor pull back.
- The Process of VPA
    - Step 1 – Micro
        - Analyze each price candle as it arrives, and look for validation or anomaly using volume. You will quickly develop a view on what is low,

        - average, high or very high volume, just by considering the current bar against previous bars in the same time frame.
    - Step 2 – Macro
        - Analyze each price candle as it arrives against the context of the last few candles, and look for validation of minor trends or possible minor reversals.
    - Step 3 – Global
        - Analyze the complete chart. Have a picture of where price action is in terms of any longer-term trend. Is the price action at the possible top or bottom of a longer-term trend, or just in the middle? That's where support/resistance, trendlines, candle patterns all come into play.
    - In other words, we focus on one candle first, followed by the adjacent candles close by, and finally the entire chart. Zoom in, then gradually zoom out.
- A classic mistake is to assume that as soon as you saw a signal, the market would turn. You will get caught out repeatedly, getting in too early and being stopped out. Sometimes, you will receive several consecutive signals of a reversal, but it is never clear when a market will turn. However, the long period of consolidation, the more extended and reversal in trend is likely to be (Wyckoff law of cause and effect)

Chapter Five – Volume Price Analysis: Building the Picture

- Five concepts lie at the heart of VPA
    - 1) Accumulation
    - 2) Distribution
    - 3) Testing
    - 4) Selling Climax
    - 5) Buying Climax
- 1) Accumulation
    - Before the insiders can begin to do anything, they need to make sure they have enough stock, or inventory, to meet demand. This takes time and thus accumulation is a 'phase'. Insiders need to load up prior to launching a major campaign.

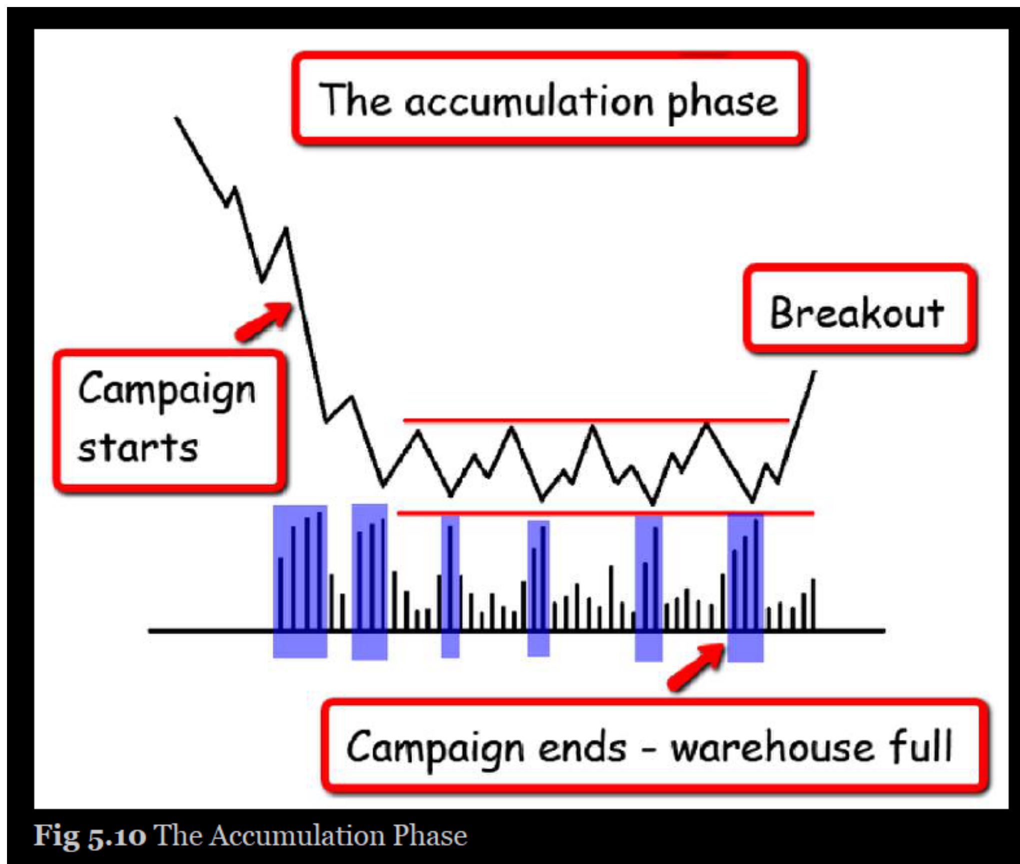


Fig 5.10 The Accumulation Phase

- 2) Distribution
  - Once insiders have built up market sentiment via news and marked up price to their target, it is at this point that the distribution phase starts in earnest, with insiders starting to clear their warehouses, as eager traders and investors jump in, FOMO.
  - The insiders now have a willing supply of victims to whom they happily sell to in ever increasing numbers, but careful never to sell the market too hard. Prices therefore trade in a narrow range, sucking in more buyers on each dip. Finally, the warehouse is empty, and the campaign is complete.

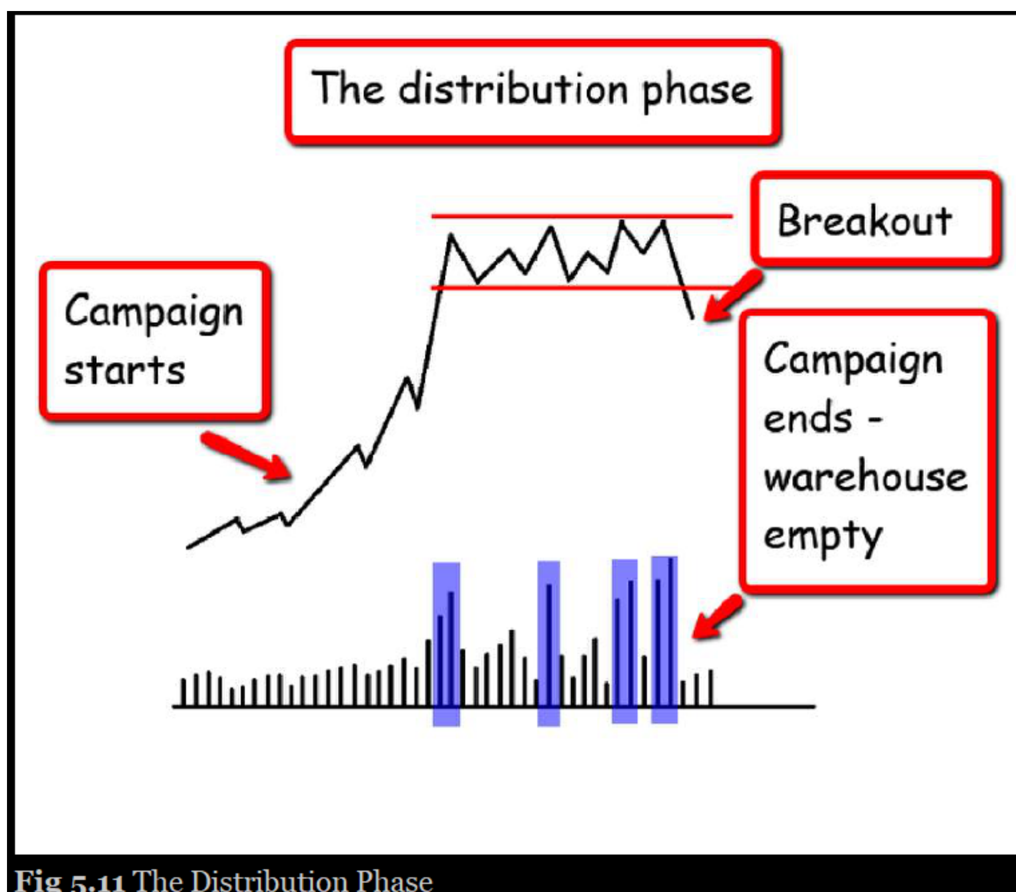


Fig 5.11 The Distribution Phase

- 3) Testing Supply
  - One of the biggest problems that insiders face when mounting any campaign is they can never be sure that all the selling has been absorbed, following an accumulation phase. The worst thing that could happen is they begin to move the market higher, only to be hit by waves of selling, which would drive the market lower, undoing all the hard work of shaking the sellers out of the market. How do they overcome this problem? They test.
  - A small test will be used to confirm if they have the correct price, and with the right test, they will begin to sell in volume.
  - At this point, they are generally moving price back into price regions which have only recently seen heaving selling, so they execute a test to gauge market reaction and heck that all the selling has been absorbed in the accumulation phase.

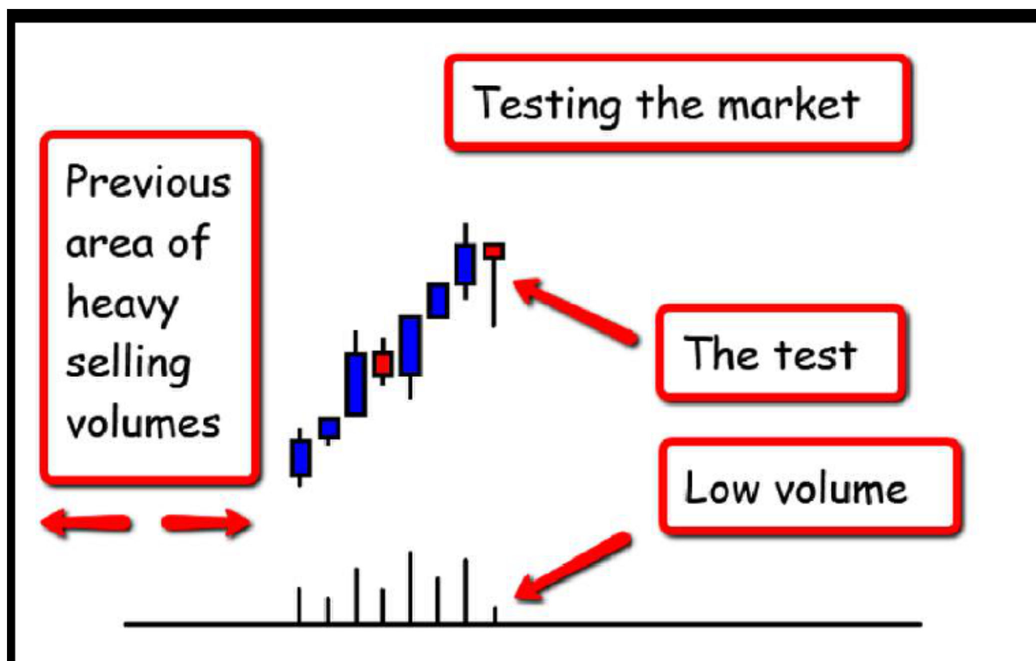


Fig 5.12 Low Volume Test – Good News!!

- This phase of price action we are looking at here follows the accumulation phase, and prior to this, the insiders will have freighted everyone into selling by moving prices down fast. Panic selling follows with high volumes in this area.
- The insiders then begin to shake out even the strongest holders before they slowly push the market from this region and to start the gentle upwards trend, which will ultimately develop into the distribution phase at the top of the bull trend.
- At this point, the insiders are moving the market back through an area of recent heavy selling, and the worst thing that could happen, is for this selling pressure to return. The answer is to execute a test in the risking market which is shown in the schematic.
- During the test, the market is marked lower, possibly on minor bad news, to test to see if this is likely to flush out any remaining sellers. If volume remains low, this instantly tells insiders that there are few sellers left, and that virtually all the selling has been absorbed in the accumulation phase of the campaign.
- After all, if there were still sellers, then the candle would have closed lower on above average volume.
- These low volume tests occur in all time frames and in all markets and is a simple way for the insiders to gauge the balance of supply in the market.

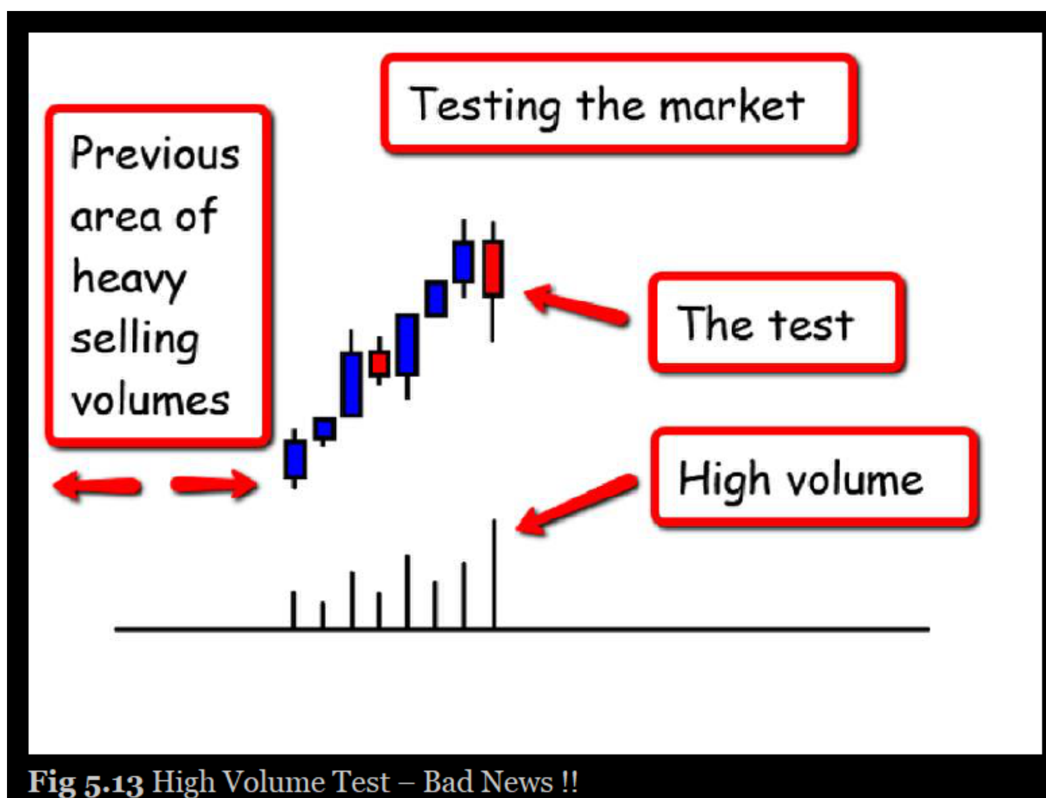


Fig 5.13 High Volume Test – Bad News !!

- However, if this test fails, and instead of low volume appearing there is high volume, that is a problem. Sellers have stepped in larger numbers and forced price lower.
- A failed test only means one thing. The insiders will have to take out the market back lower once again, and quickly, to shake these sellers out. The market is not ready to rise further, and the insiders therefore have more work to do before starting a new mark-up phase.

- The insiders will need to take the market down further and flush out more sellers before preparing to breakout again, with a further test.

- Testing Demand
    - Comes at the end of a distribution phase.
    - A test is employed to make sure that all buying (demand) pressure has been absorbed in the distribution phase, and this is done with a test of demand as the campaign gets under way.
    - In this case the distribution campaign has been in progress for some time. The insiders have moved the market from the wholesale price level, to their target level for retail prices, and are now happily selling on waves of bullish news. The investors and speculators are rushing in and buying, fearing that they are missing out on a golden opportunity, and motivated by greed.

    - Finally, when the campaign is complete, it's time to start the next phase of moving the market lower, and as the trend starts to develop, the price action moves back into areas which only recently had seen high volume buying. Once again, a test is required, this time to test demand. If the demand is low, then all the buying has been absorbed in the distribution phase as we can see in the schematic in Fig. 5.14.

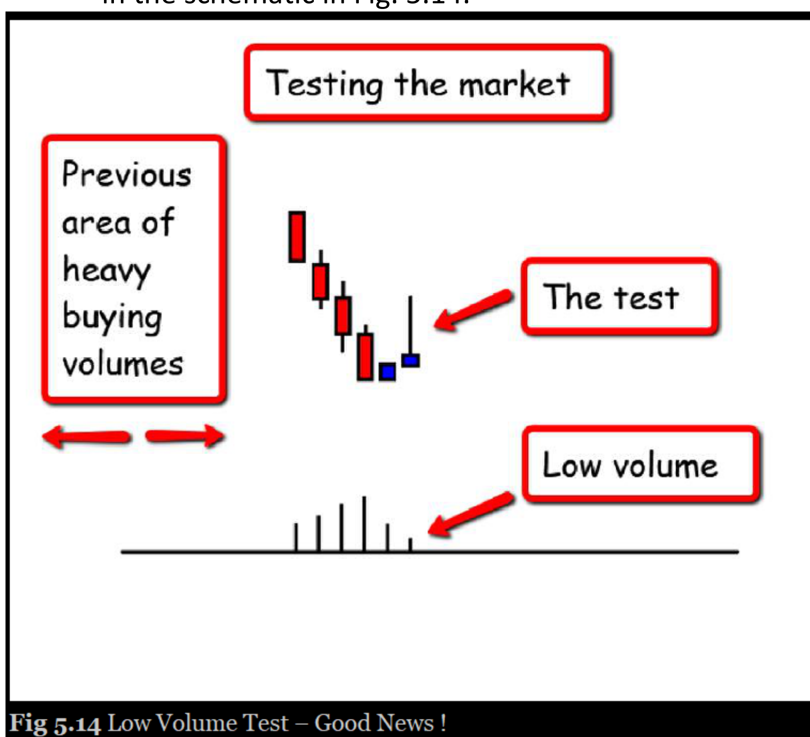
- 

Fig 5.14 Low Volume Test – Good News !
    - Here we have the end of the distribution phase. Insiders have sold most of their positions, and the next stage is a sharp move lower, to repeat the process and move into an accumulation phase once again.
    - As the distribution phase ends, the insiders want to make sure that there is no demand still remaining in price areas which, until recently, had seen strong buying during the entry into the distribution phase.

- Once again, they test. The market is marked higher using some news, and if there is no demand, closes back near the open, with very low volume. This is what the insiders want to see. No demand, as shown by the low volume. They are now safe to start moving the market lower, and fast, as they now need to replenish their warehouses again.

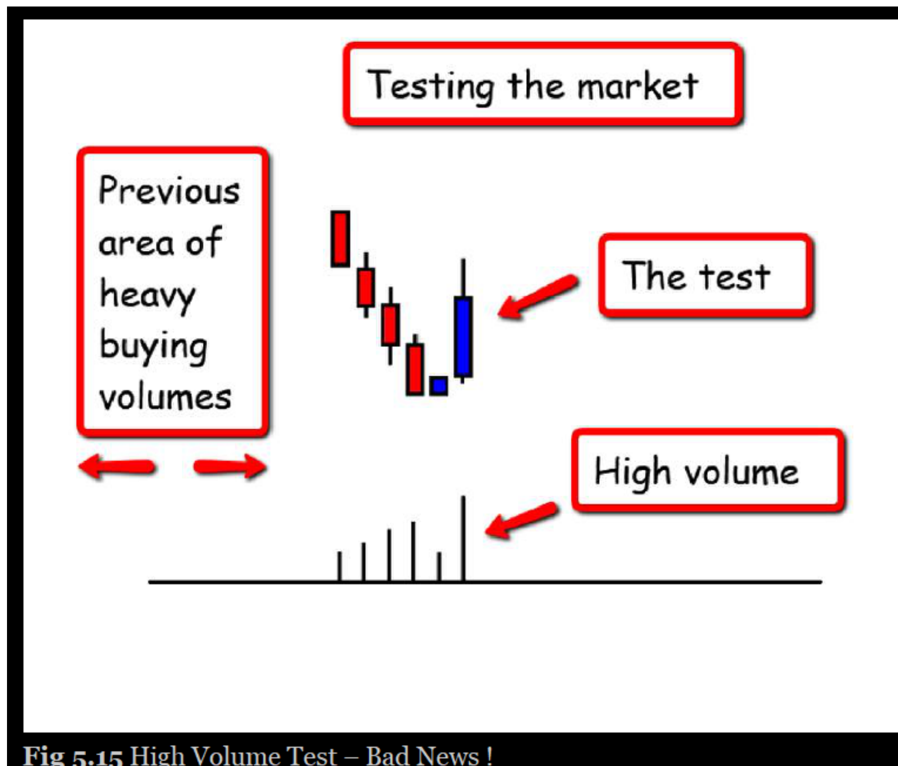


Fig 5.15 High Volume Test – Bad News !

- Fig 5.15 is definitely NOT what the insiders want to see as they prepare to move away from the distribution price region. The market is marked higher and the buyers flood in, thinking that the bullish trend is set to continue and move higher still.
- A failed test stops their plan to distribute, and the insiders have to move back into the distribution price area range, clear these buyers out of the market, and using the same processes as before. Once complete, then a further test is made, and if on low volume, then the trend lower will gather pace, and move quickly away from the distribution region, trapping traders into weak positions at this level.
- The strategy here is one of confidence building by taking the market higher slowly, and then gradually to move faster, generating the belief in the investor or speculators mind that this is a market with momentum, which is gathering pace all the time, and is an opportunity not to be missed to make some easy money.

- Selling Climax:
    - Most works written on this subject from a personal perspective (retail) but in this book, we shall go over things from the insider’s perspective.
    - In this case, we are discussing the phase during the distribution in which the insiders are selling.
    - Just to be clear, a selling climax appears at the top of the bullish trend, whilst the buying climax appears at the bottom of a bearish trend, and reflects the actions of the insiders, and NOT the public!
    - The selling climax is the 'last hurrah' before the insiders take the market lower. It is the culmination of all their efforts, and is the point at which the warehouse is almost empty and requires one last big effort to force the market higher, drawing in those nervous traders and speculators who have been waiting and waiting for the right time to jump in, and can finally wait no longer. They give in to the fear of missing out, and buy.
    - This happens two or three times on high volume with the market closing back at the open, and at the end of the distribution phase. Following the selling climax, the market then breaks lower, and fast. This tranche of buyers, along with all the others, is then trapped at this price level, as the insiders move the market away from this region.

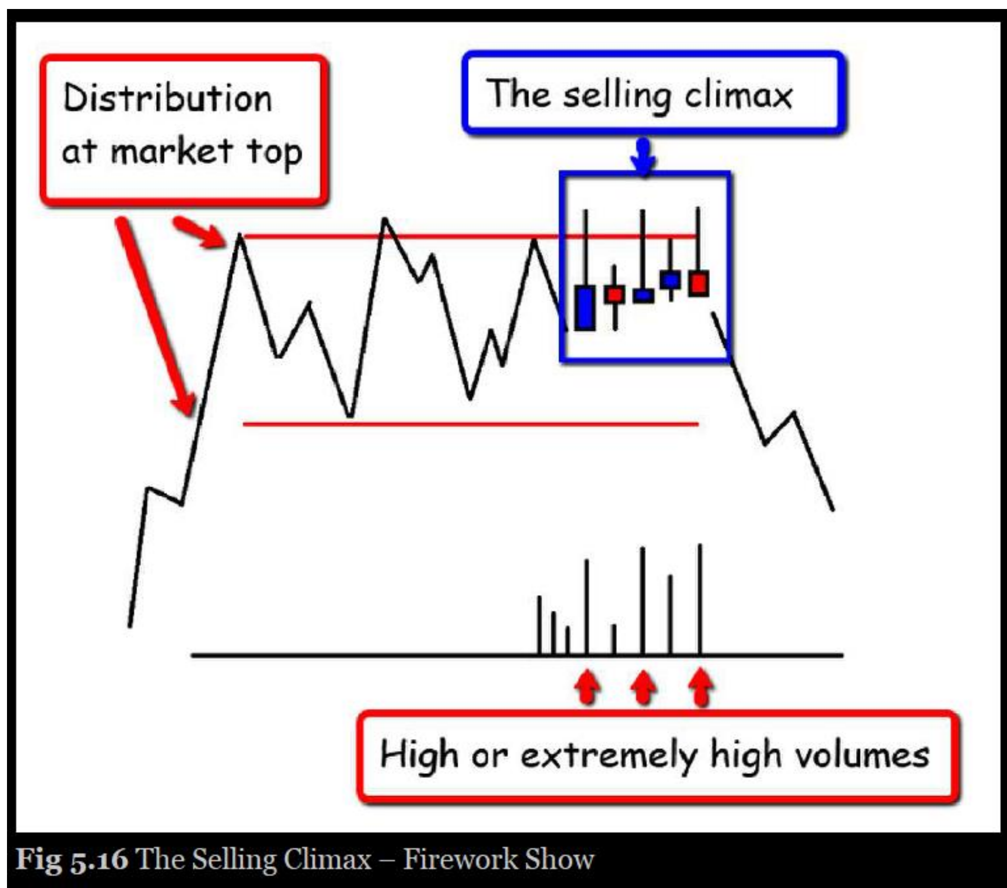


Fig 5.16 The Selling Climax – Firework Show

- *Fig 5.16 is simply a schematic of what to expect in the selling climax. Here the insiders have taken the market to their target level, at which they are selling inventory at retail prices, to happy buyers who believe that this market is going to the moon.*
- At this stage the price action becomes more volatile with surges higher followed by a close back to the open price, with increasing volumes of buyers flooding into the market, fearing they will miss out on the next leg up in the bullish trend. The next leg is in the opposite direction.
- Here we will see high volume coupled with a candlestick which has a deep upper wick and narrow body, and is one of the most powerful combinations of price action and volume we will ever see on a chart.
- These are the 'upper wick' candles that we looked at in chapter 3, and as I explained there, they are immensely powerful and reveal so much, particularly when combined with volume. Buyers flood in, taking the market higher, fearful of missing out, with high or ultra-high

volumes, before the insiders take the market lower to lock these traders into weak positions, helped lower by profit taking.

- This price action is repeated several times, with the insiders selling into the demand, each time the price is pushed higher, before closing the candle lower at or near the opening price, helped by profit takers closing out.
- The color of the body of the candle is unimportant. What is important, is the height of the wick, the repeated nature of this price action, and the associated high volumes. This is sending a clear signal that the market is ready to move fast, and as the warehouses are all empty, the reaction will be quick.

Buying Climax:

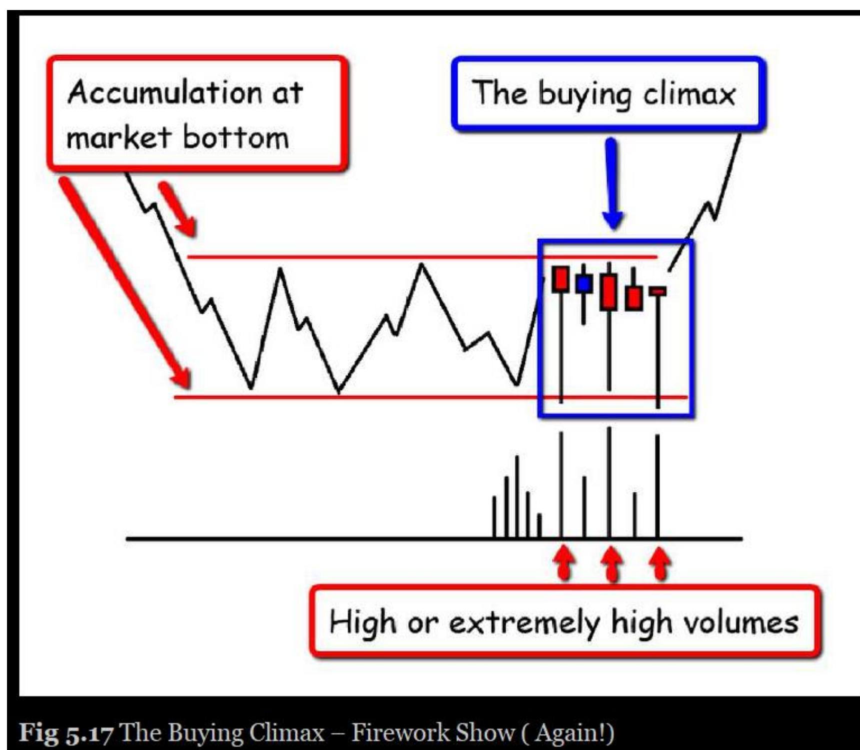


Fig 5.17 The Buying Climax – Firework Show (Again!)

- The buying climax is simply a selling climax in reverse. The insiders have taken the market lower, panic has been triggered and fearful sellers are closing positions.
- The insiders then move into the accumulation phase to restock the warehouse, and move prices back and forth in a tight range, to shake out any last remaining tenacious sellers.
- Towards the end of this phase, the insiders than mark prices down rapidly, flushing out more sellers, before moving the price higher later in the session to close somewhere near the opening price, helped higher by their own buying in the market, with bargain hunters also sensing that the market is 'over sold' at this level.
- This is repeated several times, with panic selling continuing as frightened investors and speculators can take no more. They capitulate and throw in the towel. This is the last hurrah.
- The insiders are now ready, with warehouses over flowing with stock, to start the march north, and begin the bullish trend higher, in nice easy steps, towards the target price for distribution.

On how insiders decide on target levels for accumulation and distribution:

- On any price chart, there are levels of price congestion that create the natural levels at which markets could be considered to be 'over sold' or 'over bought', terms which I introduced earlier in the chapter.
- First, they represent areas where the market is either likely to find support, or is equally likely to struggle. They define barriers, areas where the market has paused in the past, and either moved on or reversed from these regions. I will explain these in more detail shortly, but for the time being accept the fact they exist, and are created during the phases of accumulation and distribution, as the market moves into sideways consolidation.
- Now these 'phases' of price action appear all over our charts and in every time frame, and the insiders will be well aware of where these are and whether they are well developed areas, or simply minor areas where price in the past has perhaps paused before moving on. In preparing any campaign, the insiders therefore target these regions, as potential natural points for accumulation and distribution. This also explains the price action once we finally arrive at these areas.
- Let's start with the distribution phase and consider what is actually happening during the selling climax:
    - The market has risen higher and accelerated on bullish news, and has arrived at the target area, which is potentially one where the market can be considered to be 'over sold', in other words, potentially weak and/or exhausted. We know this because these are the areas that insiders target before a campaign starts. Following the bullish trend higher, which has been supported with positive news, and increasing numbers of buyers entering the market, the insiders now pause at this level, and begin the job of distribution.
    - The initial phase of the distribution is executed purely from the momentum already driven into the market by the insiders, so the volume here will be high but not excessive. On any 'up' candles the volumes here will represent 'natural' buying by investors and speculators. In other words, the insiders are not having to 'force' the market higher at this stage.
    - Any selling at this level, at this stage is again, 'natural' selling, as holders who have bought into the trend earlier, perceive that the market is perhaps struggling at this level, and decide to take their profits. The key point here is that the associated volumes during this phase are likely to be well above average but not excessive.
    - There will certainly be signals of weakness as we will see shortly, once we start to study the charts in detail, but this first phase of distribution, is what I call the 'natural' phase. This is the insiders simply meeting demand from greedy investors and speculators. Any selling is absorbed back into their inventory, and resold. The news is then used to move the market higher and lower in this range as the warehouse stock continues to dwindle.
    - The final phase is the selling climax, and this is where effort is required by the insiders. Now the market is very weak at this level. Perhaps the news is not quite so bullish as before, and the insiders are having to 'force' the price higher, using whatever news they can to pull in more buyers.

    - The insiders now have a real struggle on their hands, desperately trying to keep the market propped up, forcing it higher, desperately selling in large volume to buyers, but as the volumes of selling increase, this in turn leads to falling prices, adding downwards pressure on the market.
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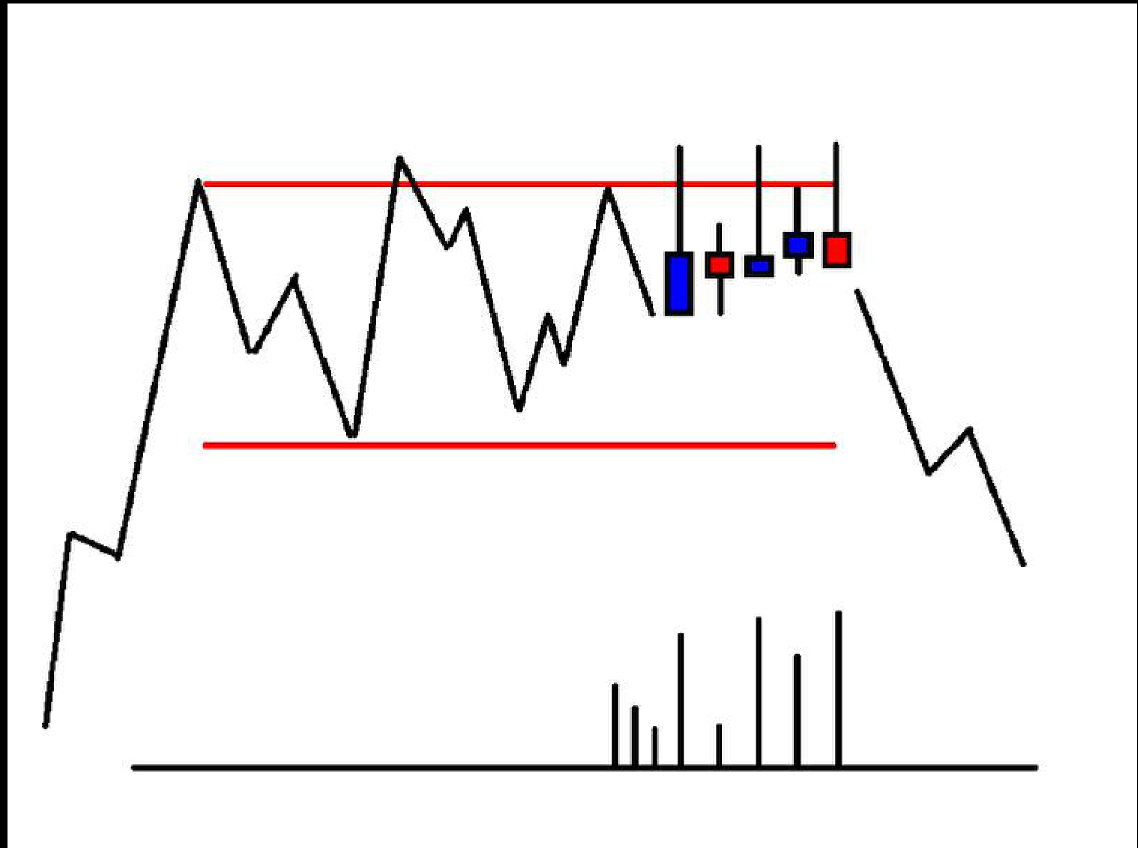
- 

  Fig 5.19 Selling Climax
  - Whenever large institutions have to sell large blocks of stock at the top of the market, they don't just place one order for the entire block. This would drive the price down and reduce the profit on the sale.
  - It has to be done over two, three or four, and is another reason why the distribution process, the selling climax and the buying climax have to be spread over a period. This was one of the issues I struggled with for some time when I first started, but I soon learnt we simply have to be patient, and wait for the climax to complete. Remember it takes time to sell large volumes quickly!
- The Buying Climax and the Accumulation Phase:
  - It is the same problem with the buying climax. It is the sheer scale of their own buying which results in the market price rising, coupled with short holders closing positions.

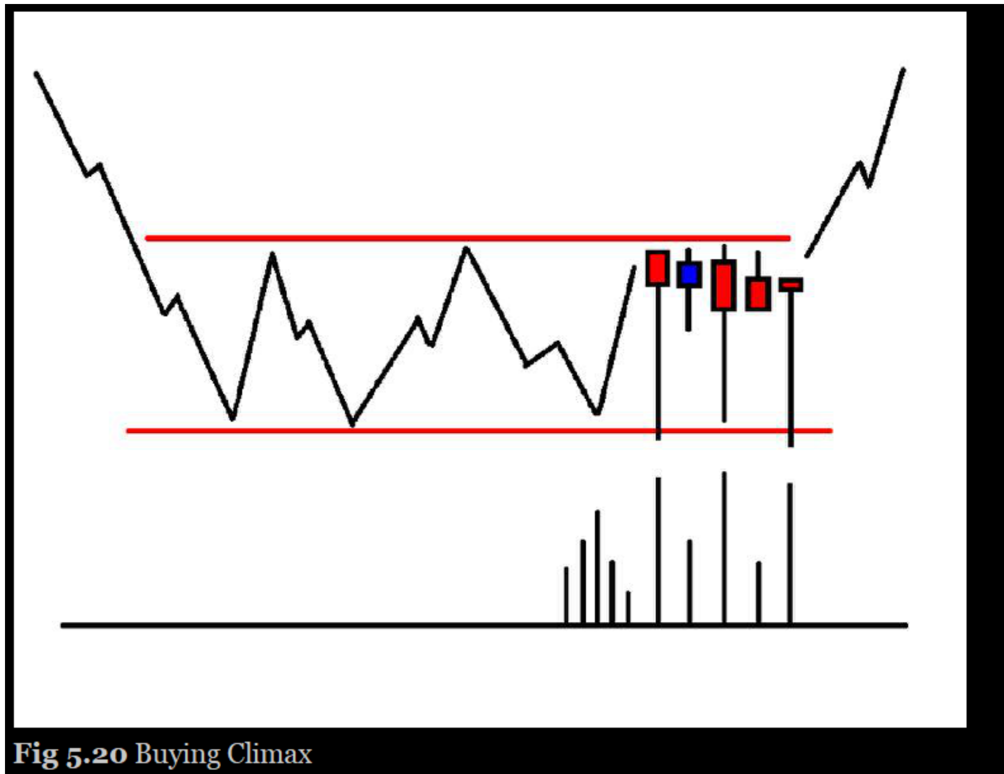


Fig 5.20 Buying Climax

- The market is still bearish, and the insiders are forcing the market lower with negative news, and then buying in volume to fill the warehouses which in turn is moving the market higher against them. The action is stopped and the market moves sideways, temporarily.
- More bad news is then used to send the market lower, where large volumes are bought once again, with the market rising on the insider buying. This is repeated until the warehouses are full.

Chapter Six – VPA – The Next Level

- Principle 1
    - The length of any wick, either to the top or bottom of the candle is ALWAYS the first point of focus because it instantly reveals, impending strength, weakness, and indecision, and more importantly, the extent of any associated market sentiment.
- Principle 2
    - If no wick is created, then this signals strong market sentiment in the direction of the closing price.
- Principle 3
    - A narrow body indicates weak market sentiment. A wide body represents strong market sentiment.
- Principle 4
    - A candle of the same type will have a completely different meaning depending on where it appears in a price trend. Always reference the candle to the location within the broader trend, or in the consolidation phase.
- Principle 5
    - Volume validates price. Start with the candle, then look for validation or anomalies of the price action by the volume bar.
- The Shooting Star Candle
    - Price action – weakness
    - The shooting star candle is one our three premier candles in VPA that we watch for in all time frames, and in all instruments and markets. The price action is revealing weakness, since the price has risen and then fallen to close near the opening price, with the sellers overwhelming the buyers in the session.
    - Shooting star candles appear in every trend, both bullish and bearish, and at every point within the trend. Their appearance DOES NOT signal an immediate reversal. Their appearance signals POTENTIAL WEAKNESS at that point in the price action. The candle will ONLY gain significance based on the associated volume.
    - The shooting star price action appears in every up and down trend. It is the classic signal of weakness, and it is only volume which can give a CLEAR signal as to the relative strength of this weakness, and consequently the extent of any reversal. The best way to understand these variants is with some examples.
    - As the trend develops further, this initial weakness may be confirmed further with additional shooting star candles, with average volumes. Once we have two candles of similar proportions in a trend, and in the same time frame, we can then compare volume between the two candles. If the first candle was an initial sign of weakness, then the second, with increased volume is confirming this weakness further. After all, if the volume on the second shooting star is higher than the first, so 'weakness' has increased as more selling is coming to the market and forcing prices lower in the session.

    - If we see one shooting star, this can be taken as a sign of weakness. If we see two consecutive shooting stars, or two relatively close to each other, this is increasing the bearish sentiment. If a third appears then this is adding yet more bearish sentiment. In other words, single candles are important, multiple appearances of the same candle, in the same price area, exponentially increase the level of bearish or bullish sentiment. And remember, this is JUST based on price action alone. Add in the volume aspect and this takes our analysis to another level.

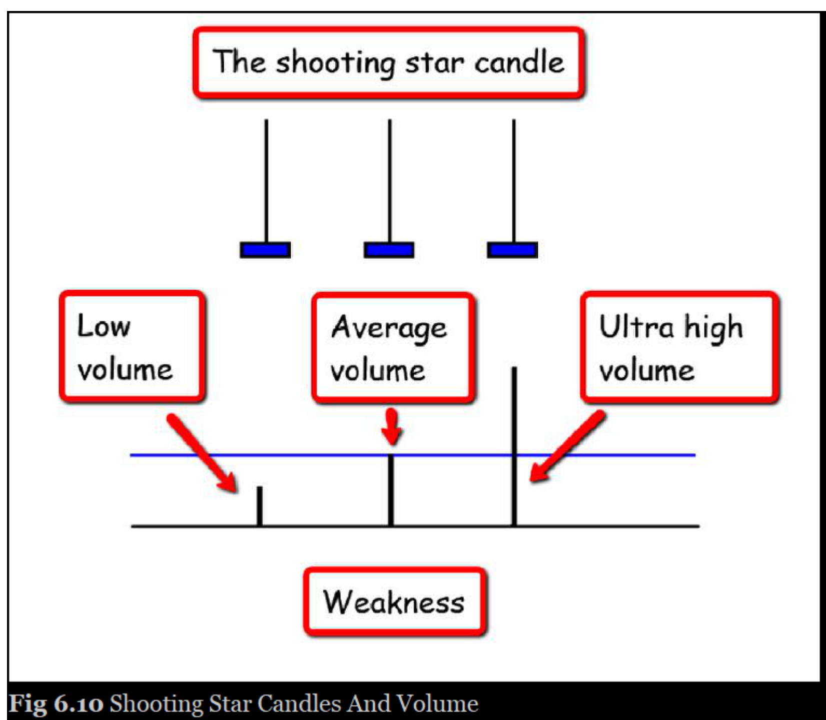


Fig 6.10 Shooting Star Candles And Volume

- If we took this price pattern, as shown in Fig 6.10, and imagine that these were in fact three simultaneous candles, each with increasing volume, then based on this combination of candle pattern and volume, do we think the market is likely to rise or fall?
- Clearly, the market is going to fall and the reason is very straightforward. First, we have seen three consecutive candles, whose high has failed at exactly the same price level, so there is weakness in this region. Second, we have three shooting stars, which we already know are signs of weakness, and finally we have volume. We have rising volume on three identical candles at the same price point on our chart. The market is really struggling at this level, and the last two could certainly be considered part of the selling climax.
- It is very easy with hindsight to look back and identify tops and bottoms. What is far more difficult is to try and identify major turning points in real time so I have created the schematic in Fig 6.11 to explain how this action plays out on a chart. It will also allow me to introduce other broader aspects of this methodology.

Fig 6.11 Typical Price Action And Shooting Star Candles

- If we take the left-hand side of the schematic first. The market has been trending higher, when a shooting star candle appears on the chart, perhaps it even has above average volume. Does the appearance of this candle signify a major reversal of trend or simply a minor pause and pullback? The answer is, based on this candle, we do not know.
- All we can say for sure, is that we have seen a bullish trend develop in the previous sessions, and now we have some weakness. We know that the signal has some validity, as it has appeared after the market has been rising for some time. In this case we had a nice bullish trend developing, when a shooting star candle appeared with above average volume. The chart now has our full attention. We wait for the next candle to form to see if it is confirming this weakness, perhaps some narrow spread up candles, followed by another shooting star. The appearance of the first shooting star is our cue to sit up and take note.
- In addition, if the price action has only recently broken out from an accumulation phase, then it is unlikely to be the start of any reversal lower, and once again this is a key point. To always consider where we are in the context of the trend and its relation to recent consolidation phases of price action during which the insiders would have been accumulating. After all, it is very unlikely that a new trend would have been started and then promptly reverse, particularly if a successful test had followed. So, the context of where the candle comes in relation to the 'bigger picture' is important and helps to answer the question.
- In addition, if the price action has only recently broken out from an accumulation phase, then it is unlikely to be the start of any reversal lower, and once again this is a key point. To always consider where we are in the context of the trend and its relation to recent consolidation phases of price action during which the insiders would have been accumulating. After all, it is very unlikely that a new trend would have been started and then promptly reverse, particularly if a successful test had followed. So, the context of where the candle comes in relation to the 'bigger picture' is important and helps to answer the question.
- The next step is to check the higher and lower time frames for a broader perspective on this signal and for context, as well as applying VPA to these timeframes.
    - For example, if this price action had appeared on a one-hour chart, and on checking the 15-minute chart, we could see two shooting star candles had formed in that time frame, both with above average volume, this gives confirmation that any reversal may be more

    significant. Furthermore, the 15-min chart may also have significant areas of price congestion which would also contribute to our analysis.
    - Using multiple time frames also gives us a view on the longer-term trend, and may also help to answer the question of whether the appearance of this shooting start candle is merely a minor reversal or the start of a longer-term change in trend. This is one of the many advantages of using multiple time frames for chart analysis.
    - Furthermore, using multiple time frames will give a perspective on how long we are likely to be holding any position. This makes perfect sense. After all, if the longer-term trend is bullish, and we are trading short on a faster time frame chart, then it's likely that we will only be holding this position for a limited period, as we are trading against the dominant trend for the session. Once again, this will help to answer the question of whether this is a trend reversal, or simply a minor pause and pull back.
- The shooting star may have been preceded with a narrow spread up candle on high volume, again classic signs of weakness, but they still do not answer the question of whether this is a minor pull back or a major reversal in trend. To do this we need help, and that help comes from using VPA in other time frames, along with the techniques which you will also discover later.
- One such technique is the depth and extent of any price congestion as the longer a market moves sideways at a particular level the more likely a breakout and reversal.
- Just to complete this commentary on the shooting star candle, not only do these appear in up trends, but they also appear in down trends, and here they act as confirmation of weakness, particularly if they appear shortly after the start of the move lower. The appearance of a shooting star candle in a downtrend which follows a selling climax could be a test of demand as the market moves lower.
- Furthermore, if the shooting star is accompanied by low volume, and the market had been in sideways congestion for a period following the selling climax, this also confirms the insiders testing demand as the market moves away from the distribution phase. The shooting star is a sign that the market has been pushed higher, but there is no demand so falls back to close, at or near the open.
- Shooting star candles may also appear at minor reversals deeper in the trend, as the downwards pressure pauses and pulls back higher. Here again, if the candle is accompanied with above average volume, it is only telling us one thing, namely the market is still weak, and we have not yet reached the buying climax at the bottom of the trend.
    - This pattern of price action is the insiders selling back to the market some of the inventory they have collected from panicked sellers who had bailed out earlier. This inventory in the warehouse has to be sold as the market moves lower. After all, the insiders don't like to buy anywhere other than at their target price, in other words, a wholesale price.
    - Some buyers will come in at these pull backs, thinking the market has bottomed out, and about to turn higher, whilst others continue to sell. This price action occurs all the time in a price waterfall, as the market moves lower and fast. The insiders have to stop the fall, pause, push the market higher using the media and sell into the created demand whilst also dealing with the ongoing selling that is continuing to arrive. The volume will therefore be above average or high, showing further weakness to come.
- The Hammer Candle
    - Price action: Strength
    - Classic candle of strength, for either temporary strength, or as a signal for longer term price reversal.
    - A hammer is formed when in a session, the price has fallen, only to reverse and recover to close back near the opening price. This is a sign of strength with the selling having been absorbed in sufficient strength for the buyers to overwhelm the sellers, allowing

the market to recover. The hammer is so called as it is 'hammering out a bottom', and just like the shooting star, is immensely powerful when combined with VPA.

- Once again, the five principles outlined at the beginning of the chapter apply to the hammer candle, and again it is very easy to become over excited as soon as you see this candle. It is so easy to jump into what we think is going to be a change in trend. If the market has been moving lower fast, which they generally do, it is unlikely that a reversal will take effect immediately. What is far more likely, is that the market will pause, mover higher, and then continue lower once again. In other words, posting a short squeeze.
- As we now know, the insiders must clear inventory which has been sold in the move lower, and the first signal of a pause is the hammer, as the insiders move in to buy, supporting the market temporarily.
- A price waterfall will always pause, pull back higher, before continuing lower. As always, volume holds the key, and if the volumes have been rising in the price waterfall lower, then this is a strong signal of further weakness to come. Therefore, a single hammer will simply not be enough to halt the move lower, even if the volume is above average. As always, the price action that follows is key, as is the price and volume in the associated time frames along with any price congestion in the vicinity.
- The power of the hammer candle, just like the shooting star, is revealed, once we see a sequence of two or three of these candles accompanied by high or extremely high volume. It is at this point we know, for sure that we are in the realms of a buying climax and must be patient and wait for the insiders to complete their task, before they begin to take the market higher.
- Furthermore, we also should remember that once the buying climax is completed, we are likely to see one or more tests using the hammer candle. These candles may be less pronounced than the true hammer, perhaps with relatively shallow wicks, but the principle will be the same. The open and close will be much the same, and there will always be a wick to the lower body.
- For a successful test, the volume needs to be low too, and there is also likely to be more than one test in this phase. These tests can appear both in the price congestion area of accumulation as well as in the initial phase of any breakout, as the price action moves back into an old area of heavy selling immediately above.
- A hammer with a low volume candle is indicating minor weakness, average volume suggests stronger signs of a possible reversal, whilst ultra-high signals the insiders buying heavily, as part of the buying climax. The volume is giving us clues on how far the market is likely to travel. An average volume bar with a hammer candle, may well give us an intraday scalping opportunity. And there is nothing wrong with that. A low volume hammer is simply telling us that any reversal is likely to be minor, as there is clearly little interest to the upside at this price level.

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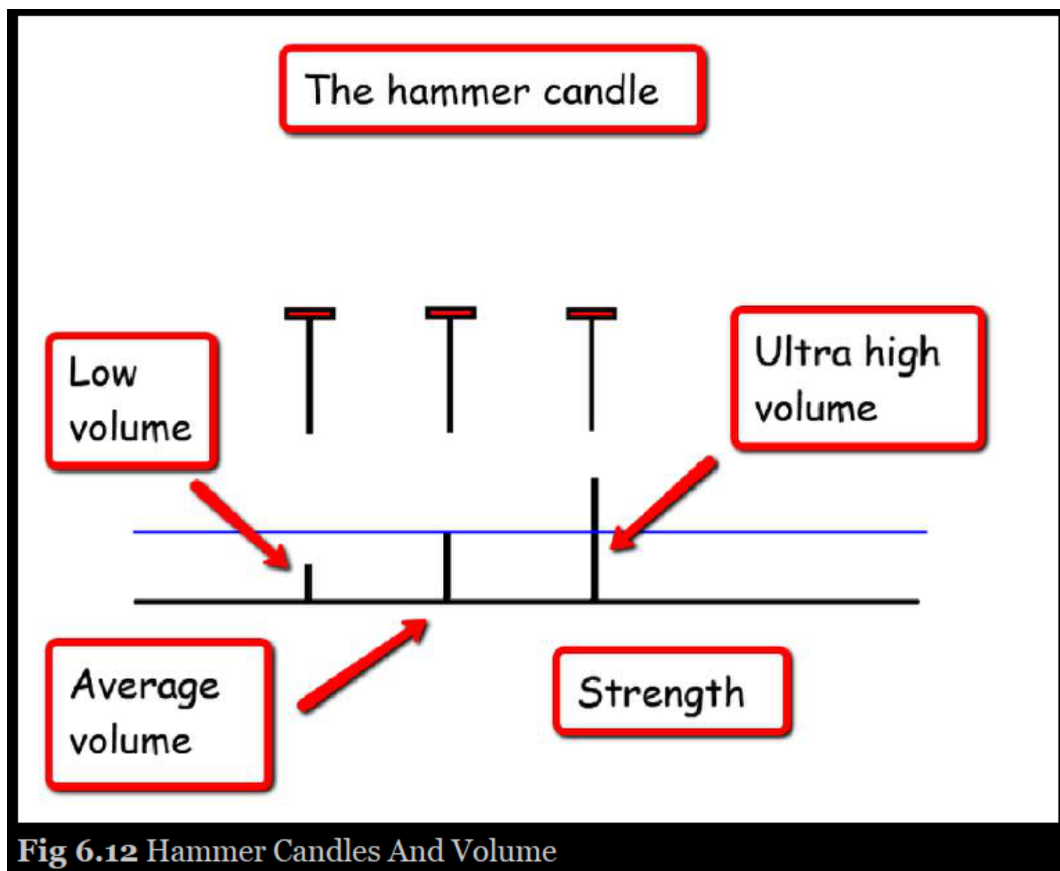


Fig 6.12 Hammer Candles And Volume

- The long legged doji candle
    - Price action – indecision
    - The key point about this type of doji candle, is that both the upper and lower wicks are long in comparison to the body, and should resemble what I used to call, a 'daddy long legs' – a small flying insect with very long legs!
    - The power of the candle lies in its predictive power as a potential signal of a reversal in trend. Just like the hammer and the shooting star, the price action alone gives us a firm signal, but when combined with volume, it becomes immensely powerful. The price action in the candle is sufficient to tell us visually that there is indecision. After all, if this were not the case, then the candle would be very different in construction.

  - Once again, the price action reveals the sentiment, which in this case is indecision and therefore a possible reversal. The long legged doji can signal a reversal from bearish to bullish, or bullish to bearish, and the change in direction depends on the preceding price action.

- However, unlike the shooting star and the hammer candle with the long legged doji candle, we can have an anomaly in volume.

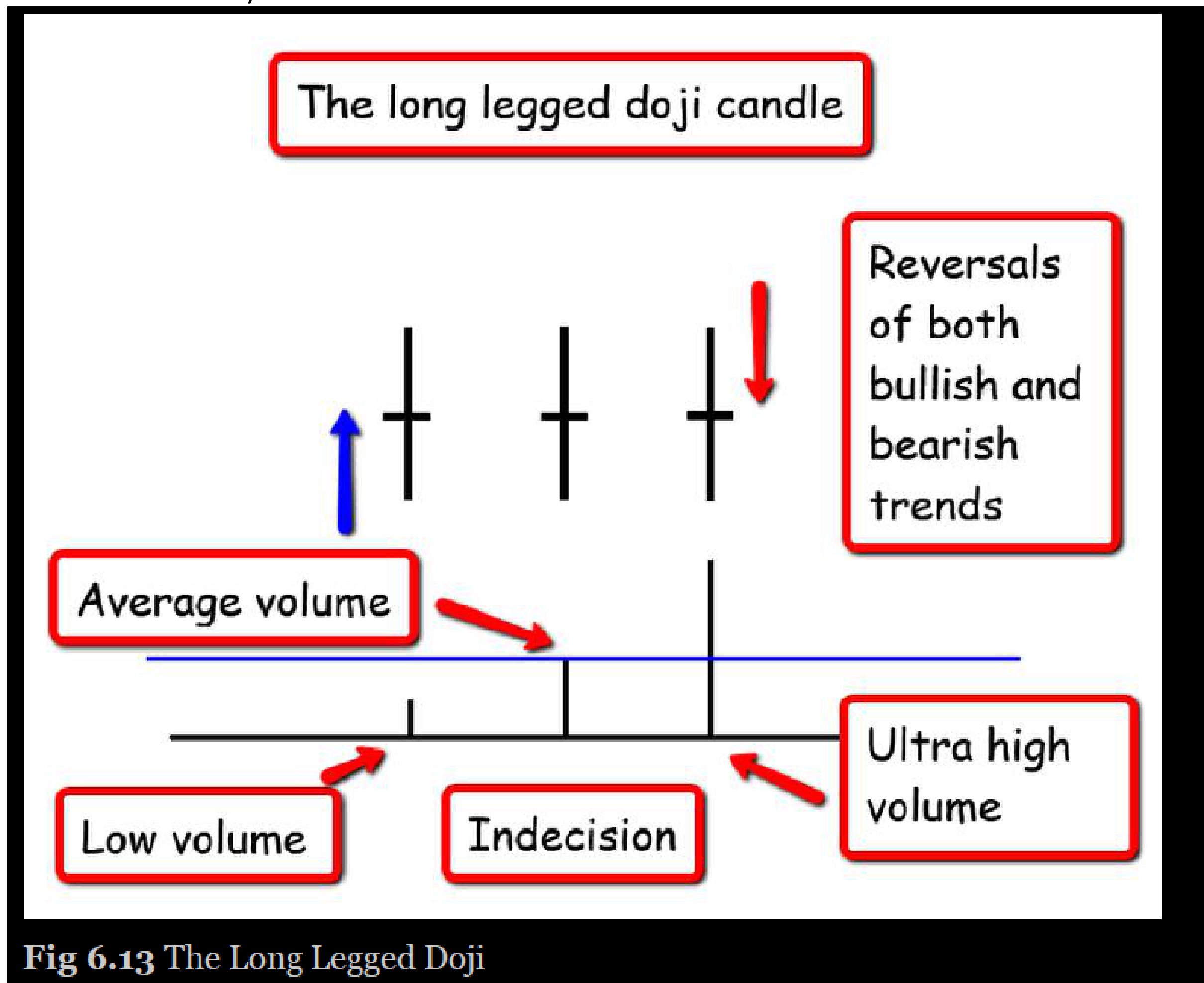


Fig 6.13 The Long Legged Doji

- Why is low volume on such a candle an anomaly? Well, let's think about this logically. The market has moved sharply in both directions and finally closed back or near the opening price. This price action is a sign of volatility in the market, as the market has swung back and forth in the session. If the market were not volatile, then we would see a very different type of candle. Therefore, if the market is volatile, why is there low volume?
- Volatile markets require effort and as we know effort and result go hand in hand. However, in this instance we have no effort (low volume) and a big result (wide price action). Clearly this is an anomaly, and the only logical answer is that the price is being moved by the insiders, who are simply not joining in now. The most common reason for this is stop hunting, where the market makers and insiders are moving prices violently, first one way and then the other, to shake traders out, and to take out stop and limit orders in the process. They are not buying or selling themselves, but simply 'racking' the price around, generally using a news release as the catalyst, and this brings me to an important point in the VPA story.

- And the reason we know this is happening is volume, or rather the lack of it. If the volume is low, then this is NOT a genuine move, but an ANOMALY. For the price to behave in this way takes

effort, and we are seeing this with no effort, as shown with low volume. The insiders are simply manipulating prices, and in this case, the long legged doji is NOT signaling a reversal, but something very different. Insider manipulation on a grand scale at this price level. It may well be that the market does reverse later, but at this stage, we stay out, and wait for further candles to unfold.

- A long legged doji candle, should always be validated by a minimum of average volume, and preferably high or ultra-high. If it is low, then it is an anomaly and therefore a trap set by the insiders. Those then are our trio of 'premier candles' that we watch for in all time frames. They are our cue to pay attention and start our VPA analysis. If we are not in a position, we are looking for confirmation of an entry, and if we are already in the market, we are looking for signals either to stay in, or exit.
- Wide Spread Candles
-

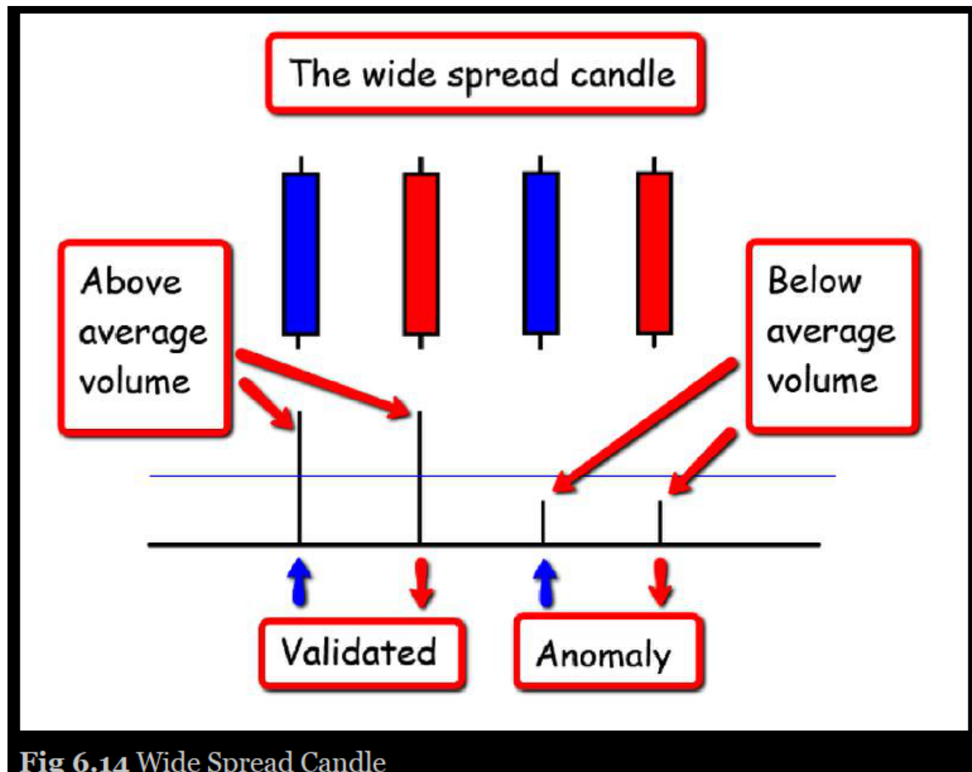


Fig 6.14 Wide Spread Candle

- Price action – strong market sentiment
- The price action of the wide spread candle is sending a clear signal with only ONE message. Sentiment for the session is strong. It is either strongly bullish or strongly bearish, but the word is STRONG. The price action has risen sharply higher or lower in the session and closed at or near the high of an up candle, or at or near the low of a down candle. The associated volume should therefore reflect this strong sentiment with 'strong' volume.
- As we can see in the example in Fig 6.14, if the volume is above average, then this is what we should expect to see as it validates the price. The insiders are joining the move higher and everything is as it should be.

- If the volume is below average or low, this is a warning signal. The price is being marked higher, but with little effort. The warning bells are now ringing. Many retail traders will be rushing to join the move higher or lower thinking this is a valid move by the market. But the volume reveals a very different story. If we are in a position, we look to exit. If we are not in a position we stay out, and wait for the next signal to see when and where the insiders are now taking this market.
- Narrow Spread Candles
    - Price action – weak market sentiment

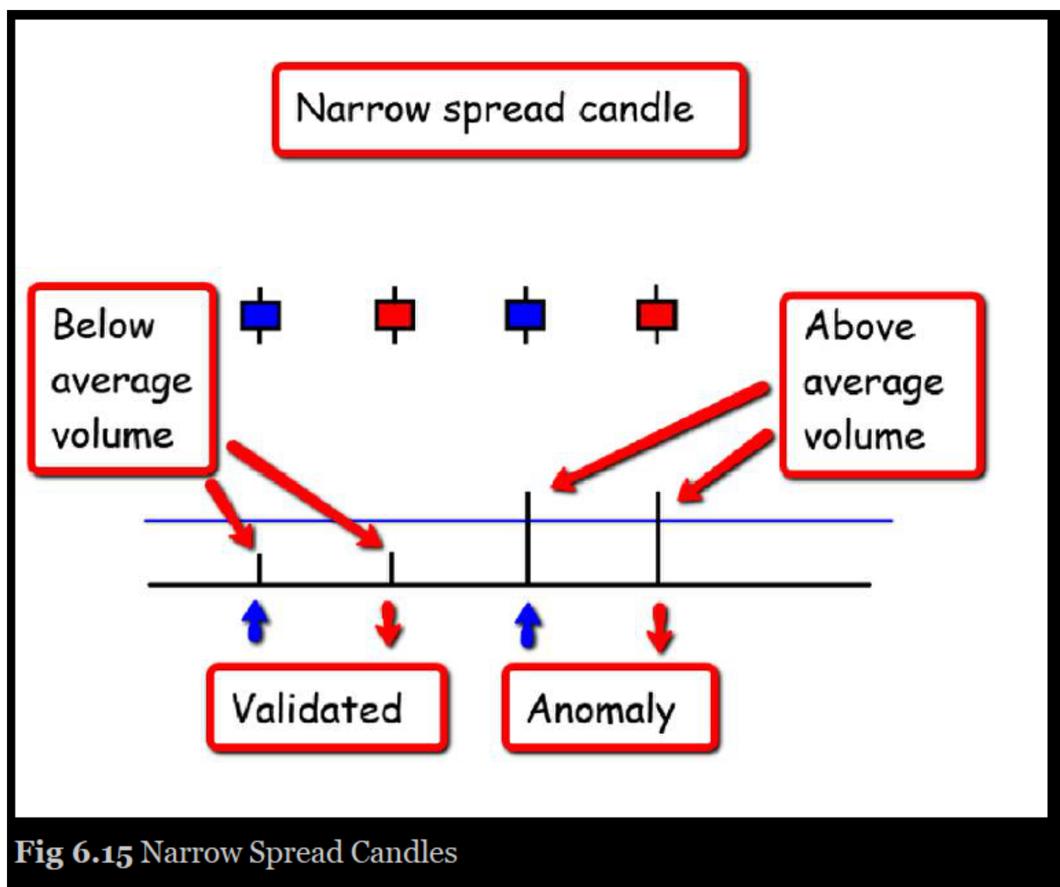


Fig 6.15 Narrow Spread Candles

- You may be wondering why we should be interested in a narrow-spread candle, which tells us when market sentiment is weak. After all, shouldn't we simply be interested when the insiders are in the market, to which the answer is, yes, of course. Narrow spread candles can be found everywhere and in quantity. But the reason we need to consider them is that, in general markets move higher slowly. Markets pause, consolidate and reverse, often on narrow spread candles. Therefore, the interesting ones are NOT those validated by volume, but the anomalies.
- A narrow-spread candle should have low volume – again effort vs result. These are of little interest to us. However, the ones that are of great interest are the anomalies, where we see above average, or high volume, on a narrow-spread candle. This should instantly alert us, and we should ask ourselves why

- The reason is very simple and can be seen in Fig 6.15. If we have an up candle with a narrow spread and relatively high volume, then the market is showing some signs of weakness. As we know high volume should result in a wide spread candle, not a narrow spread. Effort vs result again. The insiders are starting to struggle at this price level. The market is resistant to higher prices, and although it has moved a little way higher, is now proving resistant to any further progress, and the next candle could be a shooting star, which would then confirm this weakness further.
- Equally, if we see high volume on a down candle then the reverse applies. Here the insiders are starting to see signs of bullish sentiment enter the market. The price is narrow, with buyers (insiders) coming in, and supporting the market at this level. Again, this is the first sign of a potential reversal from bearish to bullish. Subsequent candles may confirm this and we would now be waiting for a hammer, or possibly a long legged doji to add further weight to the analysis.
- The Hanging man candle
    - Price action: potential weakness after bullish trend
    - When I first started using VPA and candles, I always used to assume that a hanging man appearing in a bullish trend was a sign of strength, and continuation of the trend, since to me this was the same action as the hammer candle. It isn't. It is in fact the opposite, and is a sign of weakness, provided it is associated with above average volume as shown in Fig 6.16.

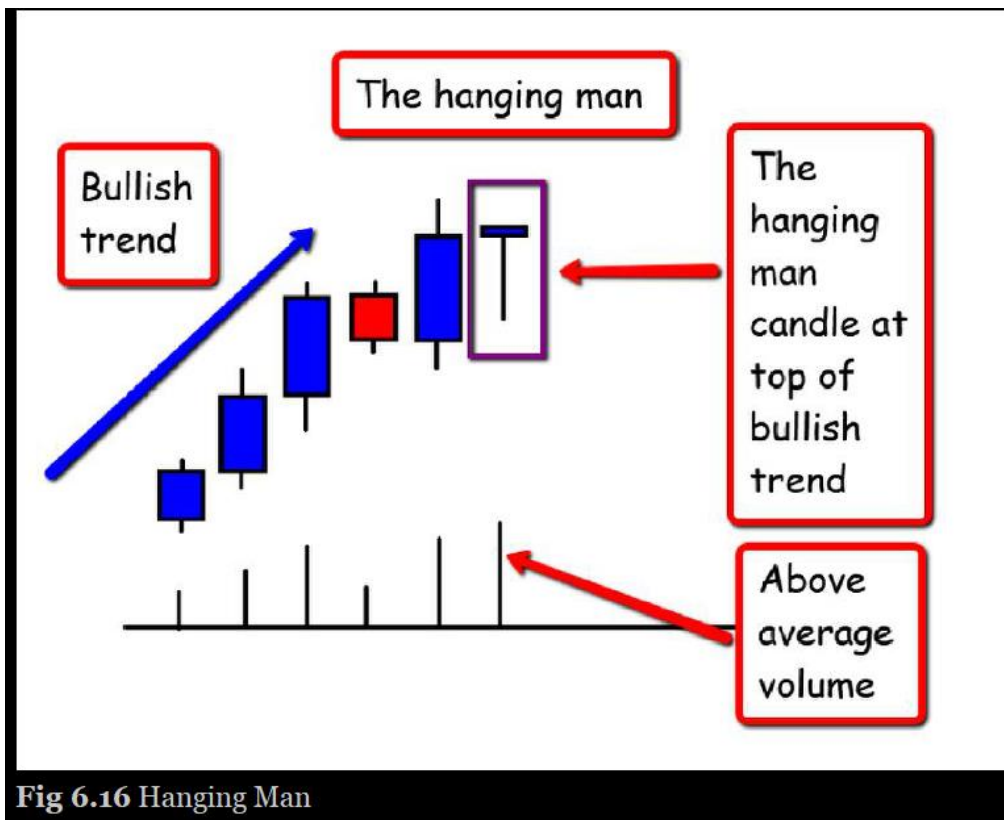


Fig 6.16 Hanging Man

- And the question is, why is it a sign of weakness? The answer is very simple. The market has been rising steadily on rising volume, when at some point in the bullish trend, the market sells off sharply, with the price moving lower in the session, only to recover and close at, or near the high of the session, creating the familiar 'hammer candle price action'. Except here

we now refer to this candle as the hanging man candle, as it is now at the top of a bullish trend.

- The reason this candle is bearish is that this is the first sign of selling pressure in the market. The insiders have been tested, and the buyers have supported the market, but this candle is sending a signal that the market is moving towards an oversold area. The body of the candle can be either red or blue, but the price needs to close at, or near the open.
- The price action is confirming the appearance of sustained selling pressure, which on this occasion has been supported by the buyers, but it is an early warning of a possible change. It is an early warning signal, and now we need to watch our charts for confirming signals.
- The insiders will have seen this weakness appearing too, and be starting to plan their next move. The hanging man is validated if it is followed by the appearance of a shooting star in the next few candles, particularly if associated with above average or high volume. The key here is validation. On its own it is not a strong signal, but merely gives us early warning of a possible change.
- For this candle to be validated and confirmed we need to see further signs of weakness at this level, or close to this level, which would then increase the significance of the candle. For example, a hanging man, immediately followed by a shooting star is an excellent combination and adds considerably to the strength of the initial signal. Even if the shooting star appears later in the candle sequence, this is still a strong confirming signal, provided it is associated with high volume.
- Stopping Volume
    - Price action – strength
    - This is what the price action looks like as the brakes are applied by the insiders, and is generally referred to as stopping volume. As I have said many times before, the market is like an oil tanker. It never reverses on a dime for many reasons, not least because just like a supertanker it has momentum, and therefore takes time to respond, once the brakes are applied.

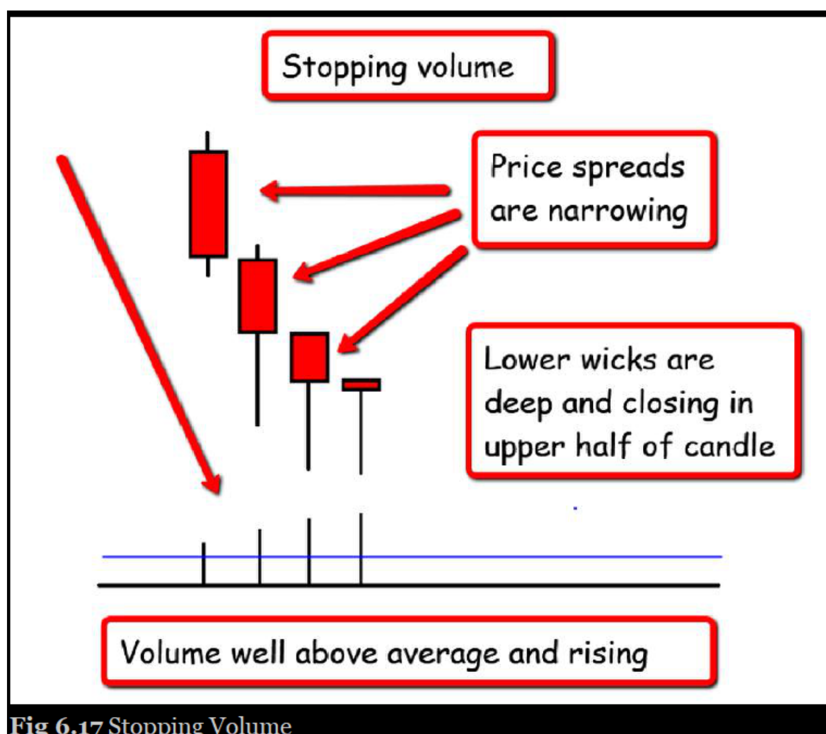


Fig 6.17 Stopping Volume \

- In Fig 6.17 we are in a strong down trend, the price waterfall has been in action and the market has been moving lower fast. However, the insiders now want to start slowing the rate of descent, so start to move in and begin the buying process. This buying is then seen in

subsequent candles with deep lower wicks, but generally with relatively deep bodies. However, for additional strength in the signal, the close of the candle should be in the upper half of the open and close price. This is not a hard and fast rule, but generally describes the candles as shown in Fig 6.17.

- What is happening, is that the weight of the selling pressure has become so great at this point, that even the insiders moving into the market have insufficient muscle to stop the market falling in one session. It takes two or three sessions for the brakes to be applied and is like our tanker.
- The insiders move in and manage to absorb some of this pressure with prices recovering in the session, to close well off the lows of session thereby creating the deep lower wick. The selling then continues into the next session, and the insiders come in again with higher volumes, driving the price back higher off the lows, and perhaps with a narrower body on the candle, signaling that the buying is now starting to absorb the selling. Next, we see another candle with a narrower body and a deep wick. Finally, we see our first hammer candle.
- The sequence of candles in Fig 6.17 is an almost perfect example, and if we do see this combination following a sharp move lower, then we would be on full alert for the forthcoming move higher.
- Stopping volume is exactly that. It is the volume of the insiders and professional money coming into the market and stopping it falling further. It is a great signal of impending strength, and a potential reversal in the bearish trend to a bullish trend. It is the precursor to the buying climax which should follow as the last remnants of selling pressure are mopped up, the warehouses are filled to over flowing, and the insiders are ready to go.
- Topping Out Volume
    - Price action – weakness
    - The clue is in the name! Just as stopping volume was stopping the market from falling further, so topping out volume is the market topping out after a bullish run higher.
    - Once again, the market does not simply stop and reverse, it has momentum, both in up trends and in down trends. The down trend pressure is certainly more intense as the market is generally moving faster. Nevertheless, in an uptrend we still have momentum generated by the insiders driving demand.
    - Traders and investors are jumping into the market, driven by greed and fear of missing out on easy profits. The volumes are high and rising, and the insiders are now selling into this demand, driving the market higher into this selling pressure, which is building. This is the price action we are seeing reflected in the deep upper wicks to each subsequent candle.
    - At this point it is becoming increasingly difficult for the insiders to keep the market momentum going, as they continue to sell at this level, with the candles creating the 'arcing pattern' as the spreads narrow and the price rise slows. Volumes are well above average and probably high or ultra-high.

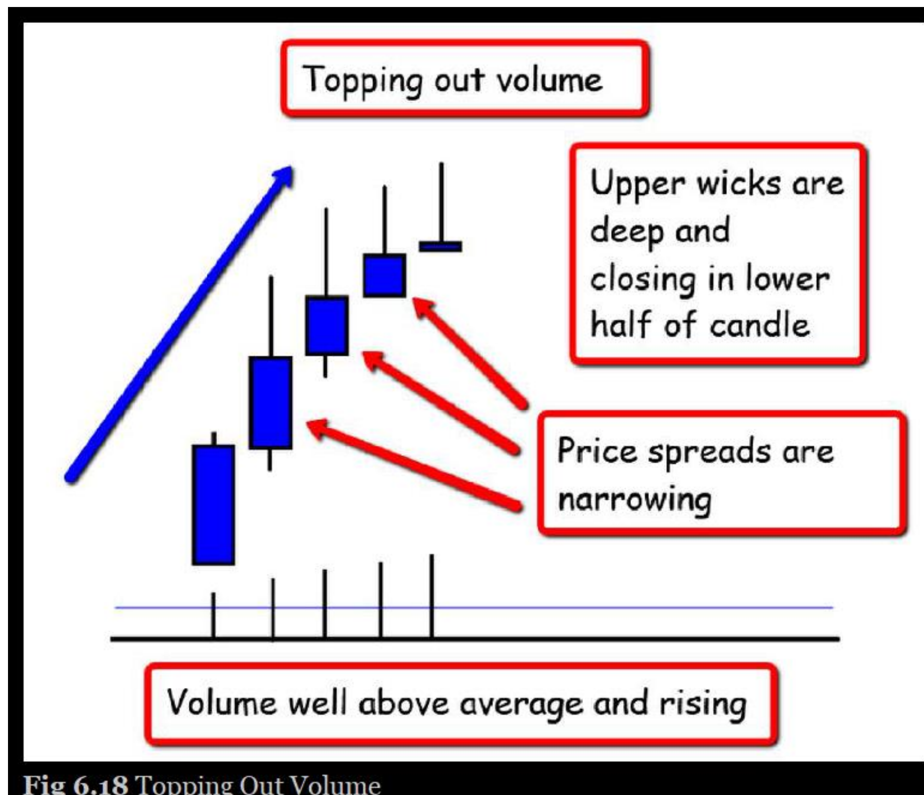


Fig 6.18 Topping Out Volume

- In Fig 6.18 the last candle in this 'perfect' schematic is our old friend, the shooting star. We are now looking at the distribution phase which then culminates in the selling climax, before moving off to the next phase of the market cycle.

Chapter Seven – Support and Resistance Explained

HowLn's Comments: "Ommitted a good bunch of this chapter as this is a concept that most traders should understand."

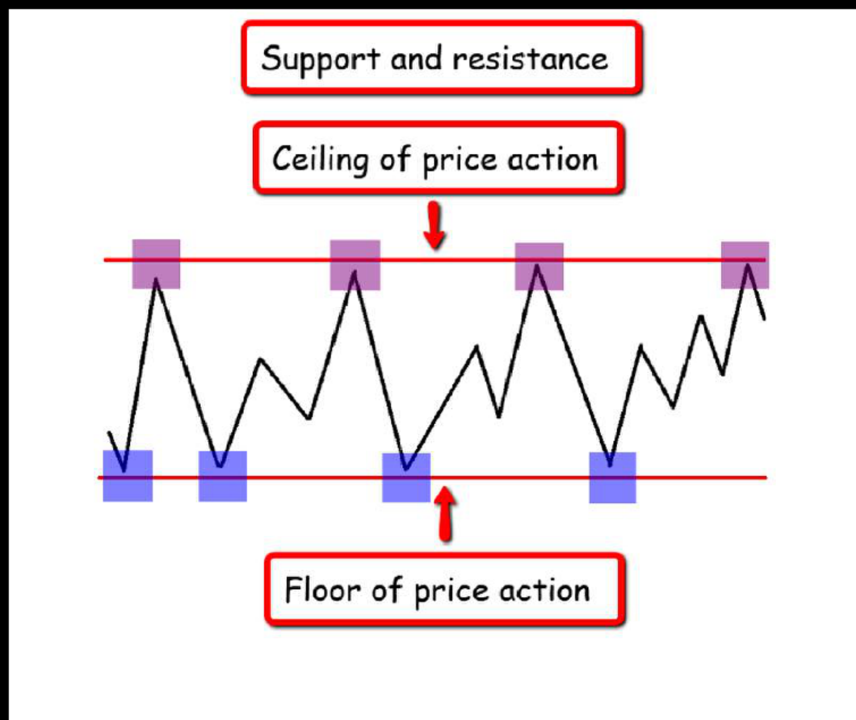


Fig 7.10 Support & Resistance

- However, before moving on there are several points I would like to examine and the first, and perhaps most obvious is, why is this price action so important. Therefore, let me try to address this issue here.
- Suppose for a moment that the price action in Fig 7.10 is taking place following a long bullish trend higher, but that this is NOT a selling climax. What is happening in this scenario?
- In fact, there is nothing magical about these price levels of the floor and the ceiling. They simply represent the 'extreme' psychological levels of fear and greed in that price region and time. We must always remember, price action is fueled by these two basic emotions, and it is in the price congestion phase of market behavior, that we see these emotions in their most basic form. At the top of the first wave, greed is the overriding emotion. By the time the market returns on the second wave, fear and relief are the overriding emotion for these traders.

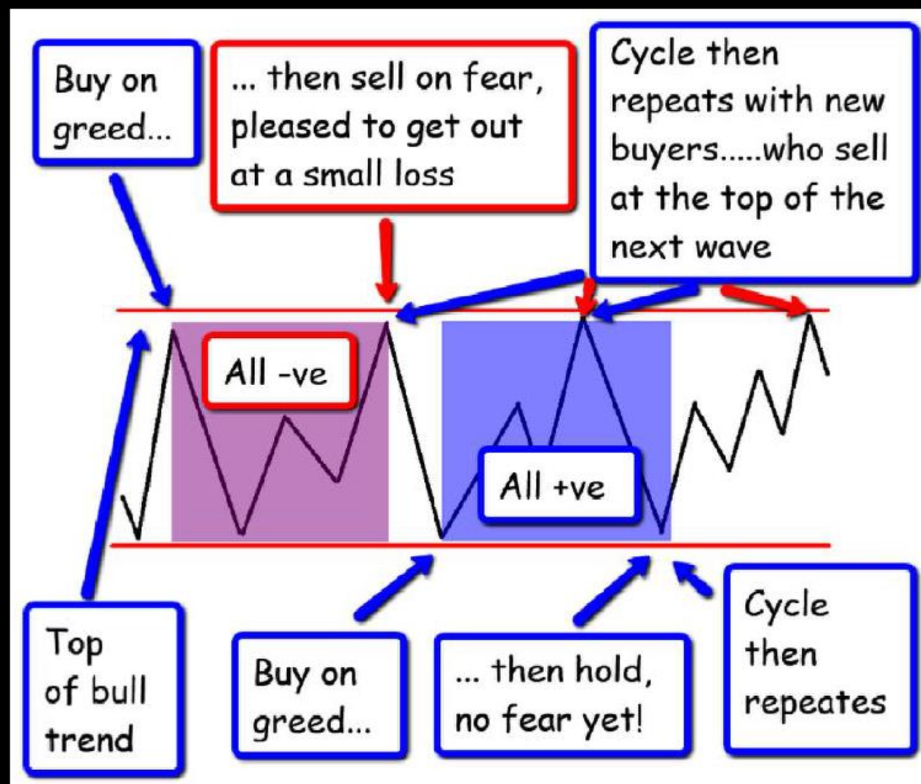
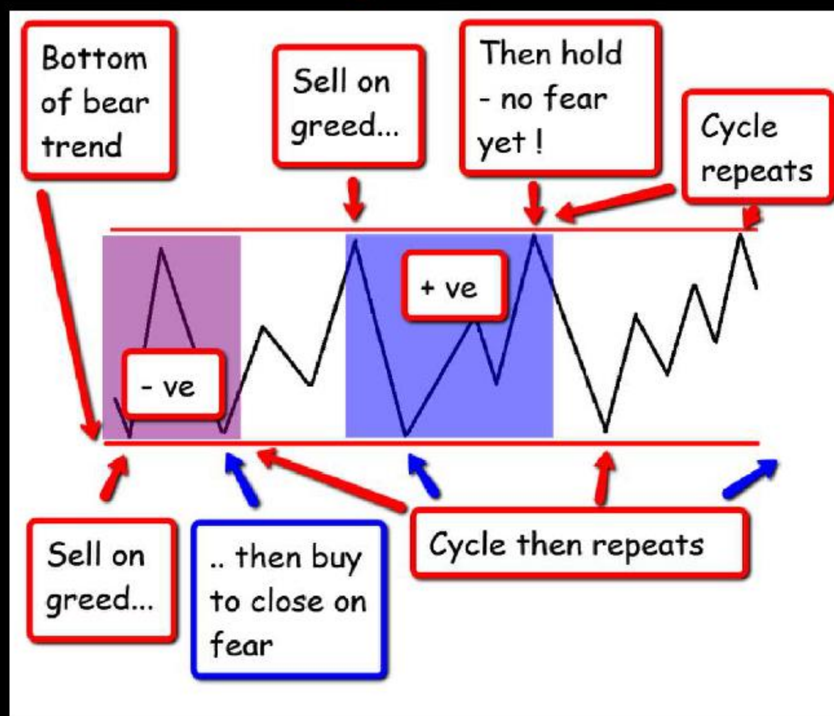


Fig 7.11 Fear & Greed : Bull Trend



- First principle
    - The lines we draw on our charts to define the ceiling and the floor of these price regions are NOT rods of steel. Consider them more as rubber, flexible bands.

Remember, technical analysis and VPA is an art, and NOT a science. Whilst these levels do constitute barriers and platforms, they are not solid walls, and on occasion you will see them broken, only for the market to then move back into the channel once again. Consider them to be 'elastic' with a little bit of 'give'.

- Second principle
    - Always remember Wyckoff's second law, the law of cause and effect. If the cause is large, then this will be reflected in the effect, which applies to support and resistance. The longer a market consolidates in a narrow range, then the more dramatic the resulting price action once the market moves away from this region. Naturally this is all relative, not least because a market that has been consolidating on a daily chart for several weeks is likely to trend for a similar period, whilst any breakout from a consolidation phase on a 5-minute chart may only be for an hour or so – it is all relative.
- Third Principle
    - The third principle is perhaps the one which perplexes most new traders and it is this – how do I know when the market is in congestion? After all, it's easy to look back in hindsight and see where the price action has been consolidating for some time, but when the market action is live, it is only 'after the event' that any consolidation phase becomes self-evident. This is where the concept of an isolated pivot high and an isolated pivot low become key signals, and whilst there are indicators available to create these automatically, they are simple to spot visually.
    - Isolated Pivots:

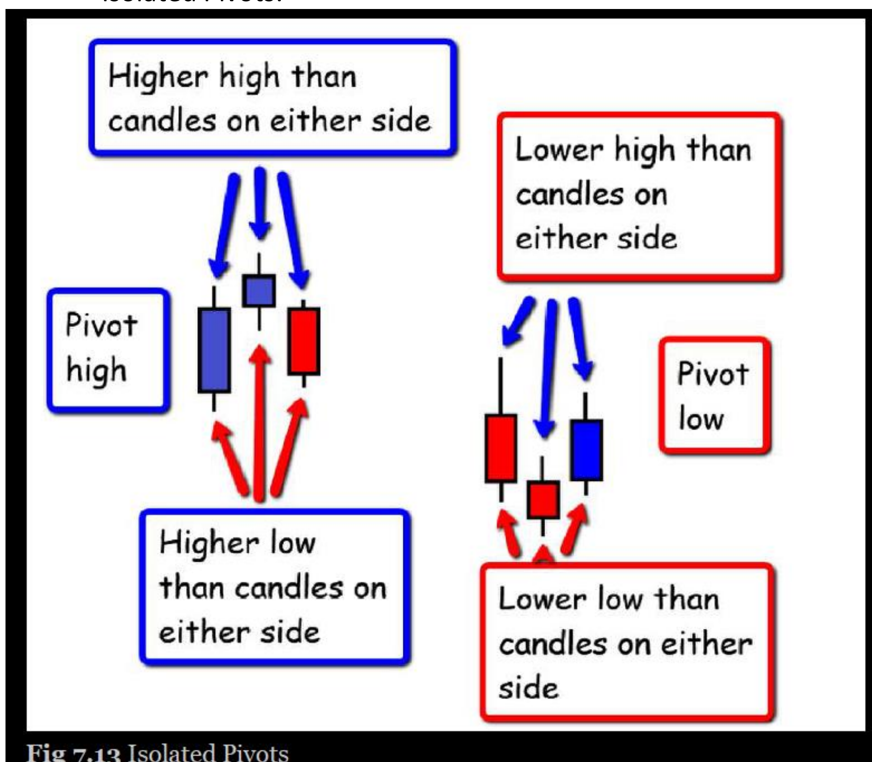


Fig 7.13 Isolated Pivots

- These are the defining points for the start of any congestion phase. And the easiest way to understand pivots is to suppose the market is moving higher in an uptrend, and we see an isolated pivot high formed on the chart. We have now seen the first sign of possible weakness in the market. These pivots are created by a three bar/candle reversal and as shown in Fig 7.13 above. To qualify as a three bar/candle reversal the candle in the center must post a higher high and a higher low, creating the pivot high pattern. The appearance of one pivot does not mean we are moving into a congestion phase at this point. All we can say at this stage is that we have a possible short-term reversal in prospect.

- Now we are waiting for our equivalent isolated pivot low to be created. This occurs when we have a three bar/candle pattern where the center candle has a lower low and a lower high than those on either side. Again, we have an example in Fig 7.13.
- Once this candle pattern appears on our chart, we can now draw the first two lines to define the ceiling and the floor of our congestion zone. The pivot high is the ceiling and the pivot low is the floor. These simple candle patterns not only define the start of any congestion phase, they also define the upper and lower levels as the market moves into a period of sideways price action. This is referred to as congestion entrance as we can see in Fig 7.14.

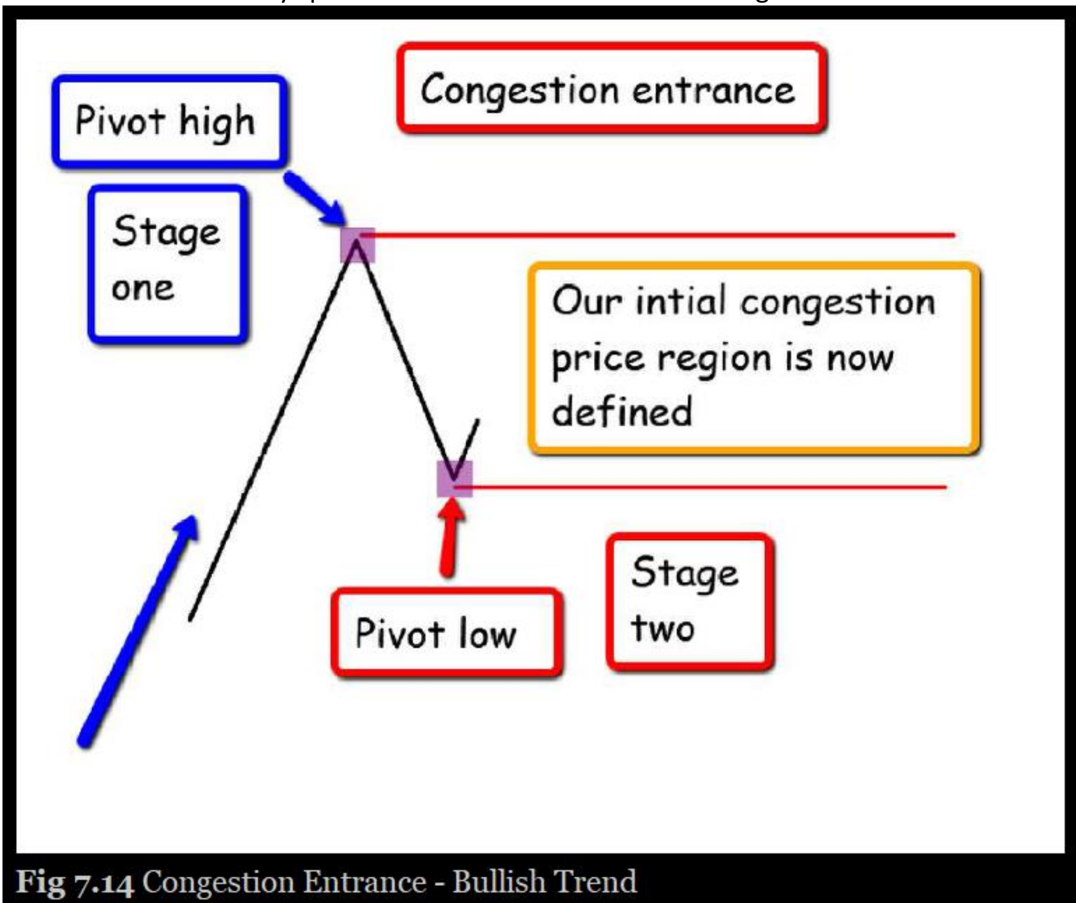


Fig 7.14 Congestion Entrance - Bullish Trend

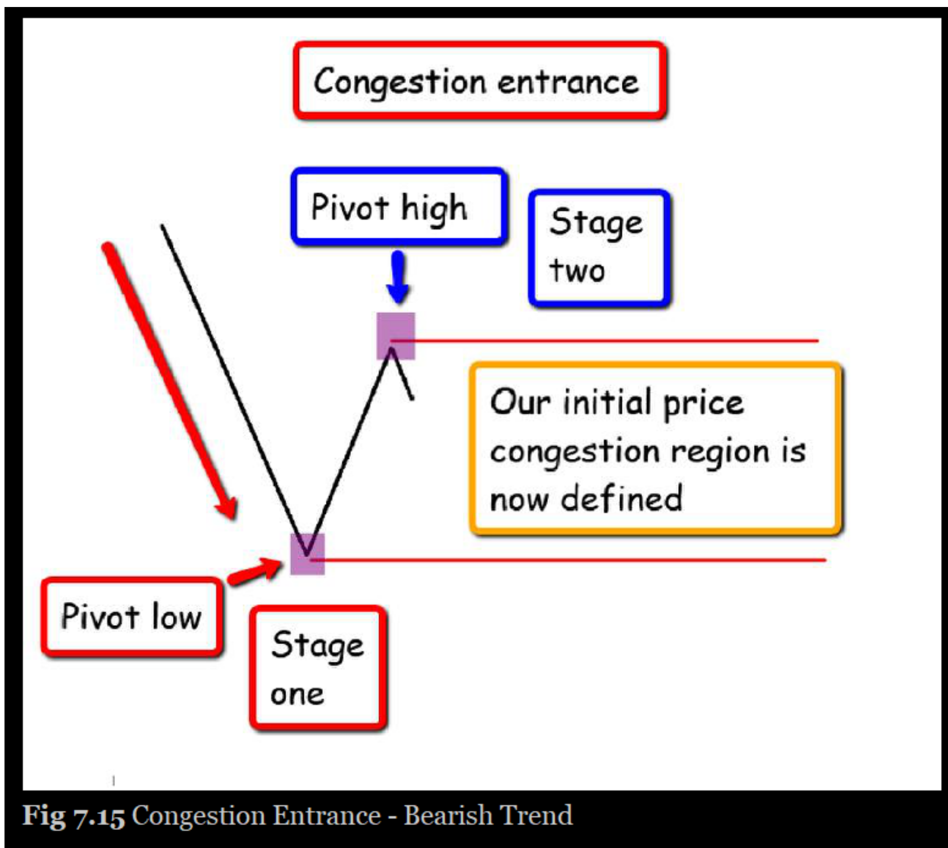


Fig 7.15 Congestion Entrance - Bearish Trend

- At this point we now have our ceilings and floors clearly defined, and as the market moves further into congestion, we see further pivot points to the upper and lower price levels, which adds further reinforcement to these areas. What happens next?
- At some point of course, the market finally breaks out from these regions, and this is the trigger that we have been waiting for, either to confirm the continuation of a current trend, or to signal a reversal.
- However, throughout the price congestion phase we are constantly looking for clues and signals using our VPA knowledge to confirm weakness or strength as the market moves sideways. Moreover, if the congestion phase has been created because of a buying or selling climax, then the signals will be very clear.
- But, the signal we are constantly watching for now, once we are in a congestion phase, is the volume associated with any breakout and consequent strong move away from this region. As we have already seen, congestion areas, are densely populated areas, with traders locked in a variety of weak positions, and therefore any break away from these areas requires volume, and generally lots of it. A break out from such a price area on low volume, is a classic trap move by the insiders, and is often referred to as a 'fake out'.
- The insiders are trying to trap traders on the wrong side of the market once again, and a break out from recent congestion is another classic strategy. Only VPA traders will be aware of such a false move, since the volume associated with any move higher or lower will be clearly visible. Therefore, these price regions are so important and they are important for three reasons:

- First, if we have a current position in the market, and we see a breakout validated in our direction, then this is a VERY clear signal of a continuation of the move, and therefore gives us confidence to hold the position.
- Second, if we do NOT have a current position, then this gives us an excellent entry signal, once the move away has been validated with volume.

- Third, if we have an existing position and the trend reverses against us, then we have been given a clear signal to exit.
- Finally, once the market has broken away from these regions, we then have clearly defined platforms of future price regions, which then come into play as both support and resistance. These are immensely powerful and helpful in giving us simple targets for managing and exiting positions, based on the price action on our charts. If you remember back to something I wrote earlier; getting in is easy, it's getting out that is always the hardest part, and this is where these areas can help, in providing a visual map of likely places where the market may struggle, reverse or find support. This helps us as traders to manage our positions more effectively.
- Let's start with breakouts and volume and what we should expect to see as the market pulls away from these congestion zones.
- Fig 7.16 is an ideal schematic of what we should expect to see, and in this case, we are seeing a bullish breakout. This could either be a continuation of a recent bullish trend higher, where the market has paused, before moving on once more, or this could be a reversal in trend. It doesn't really matter.

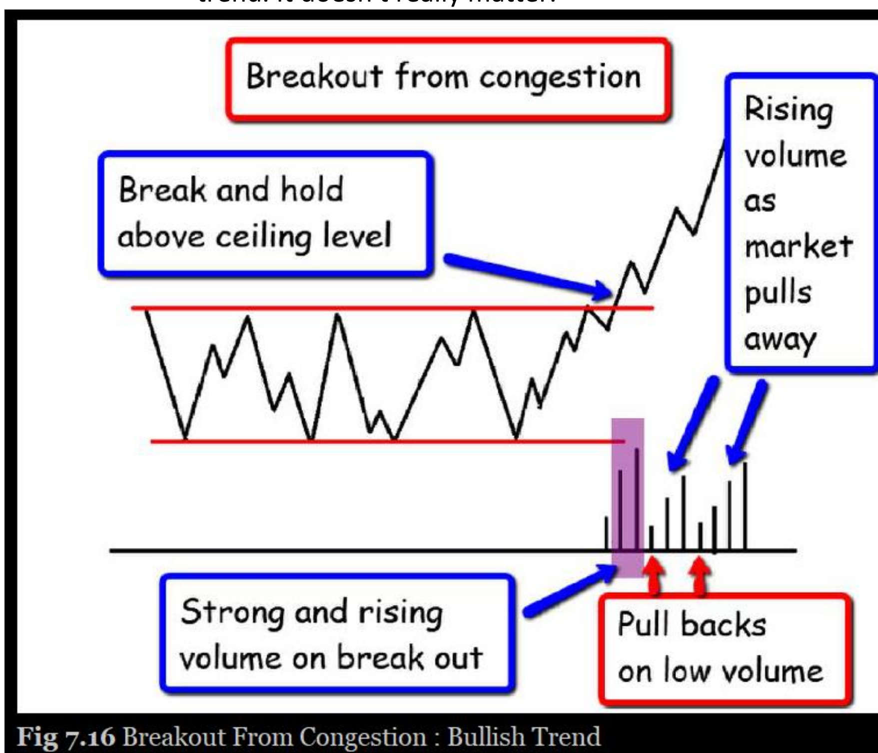


Fig 7.16 Breakout From Congestion : Bullish Trend

- First, for any break and hold out of congestion to be valid we need to see 'clear water' above the ceiling of price action. Remember what I said earlier. These lines are NOT rods of steel, they are pliable, rubber bands and we must treat then as such, so if the market ticks a few points above or below, this is NOT in itself a signal of a breakout. We need to see a clearly defined close above the ceiling. And one question I am always asked is how much is ‘clear water’. Unfortunately, there is no hard and fast rule. It all comes down to judgement, experience, and the market or instrument as each will have its own unique price behavior and risk profile. But there needs to be a 'clearly visible' gap in terms of the closing price of

the candle which finally breaches the ceiling level. This is the first signal that a breakout is in progress. The second is volume.

- As we can see in Fig 7.16 the initial move higher up and through the ceiling level, must be accompanied by strong and rising volume. It takes effort for the market to move away, rather like dragging someone out of quicksand or a bog. The same applies here, and you should see this reflected in the associated volume of the next few bars. If you DON'T see this, then you know it is either a trap up moves by the insiders, or there is simply no interest from market participants to take the market higher at this stage.
- If it is a valid move, then the volumes on the initial break will be well above average and rising, as the market finally throws off the shackles and starts to build a trend. At this stage, do not be surprised to see the market pull back to test the ceiling as it moves higher, but this should be accompanied with low or falling volume, since we are now developing a bullish trend higher and expect to see a rising market with rising volume, if this is a true move higher. Once clear, VPA then takes over and we are back to a candle by candle analysis of the price action as the trend unfolds.
- The same principles apply when the breakout is into a bearish trend (See Fig 7.17). Once again, it makes no difference whether this is a continuation of a bearish trend, or a reversal from bullish to bearish. The only difference is that this time we are breaking through the floor of price congestion, and not the ceiling.
- As before, this breakout should be clean and well developed, and accompanied by well above average volume to reflect the effort required to break away. Again, do not be surprised to see the market move back higher to test the floor area, but this should be on low volume, and as the market pulls away rising volume should reflect the downwards move. Remember, falling markets should ALSO see rising volume reflecting a genuine move lower.

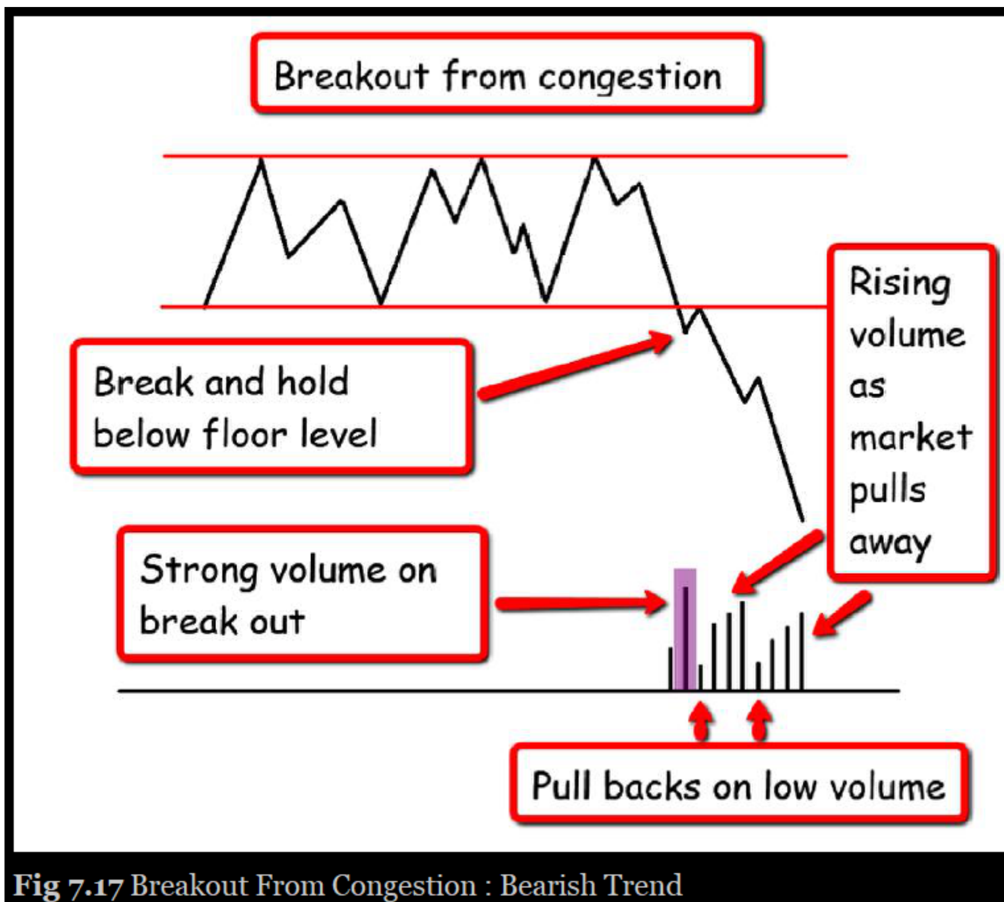
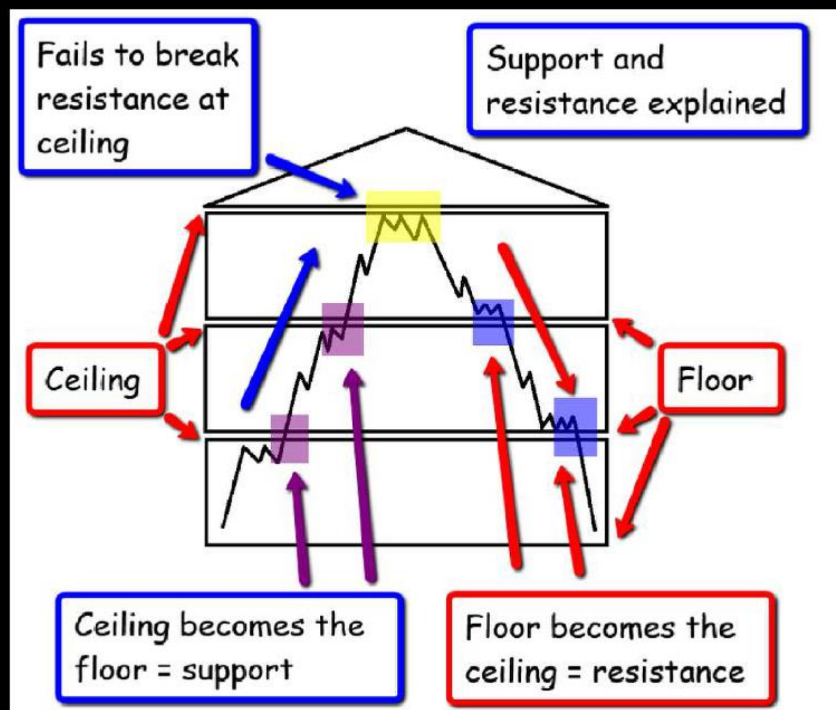


Fig 7.17 Breakout From Congestion : Bearish Trend

- I cannot stress too strongly the importance of price congestion regions. They are one of the foundations stones of price action, as they reveal so much, and give us so many trading opportunities. There are many traders around the world who only trade on breakouts, and nothing else.
- We can trade breakouts by defining congestion zones using pivots, then charting the price action using VPA, and finally when the breakout is validated by volume, enter any positions.
- At this point I cannot reiterate too strongly support and resistance is one of the foundation stones of price analysis. Every full-time trader I have ever spoken to, uses this concept in one way or another, and as you will see, now that we understand price congestion, it is a powerful and simple concept which can be applied in several ways.
- It can be used to identify entry positions; it can be used in managing positions, and finally it can also be used as a target for closing out positions. In simple terms, it is one of the most powerful techniques you can apply, and when combined with an understanding of VPA, will give you an insight into market behavior that few traders ever achieve. It is also the phase of price action where trends are borne. Many traders become frustrated when markets move into a congestion phase, but, this is one of the most exciting phases of market behavior, as it is just a question of being patient and waiting. When the market is ready, it will break out, and a new trend will then be established. And the extent of any trend will be dictated by the cause and effect rule!

- To round off this chapter, let me summarize the concept of support and resistance which builds on the knowledge we already have of price congestion, and the analogy I always use here, is that of a house! Which is why I have used the terms floor and ceiling to describe the upper and lower levels of price congestion.



- The market moves higher from the ground floor, and eventually reaches the ceiling, where it moves into sideways price congestion. At this point, the ceiling is providing an area of price resistance to any further move higher for the market. However, at some point the ceiling is breached and the market climbs through to the first-floor level. Now at this point, what was the ceiling of the ground floor, has now become the floor of the first floor. In other words, what was an area of price resistance, has now become an area of price support.
- Once again, the market continues higher until it reaches the ceiling of the first floor, where once again the price moves into a consolidation phase. Finally, it breaks out into the second-floor level. Now what was price resistance, as represented by the ceiling of the first floor, is now support as represented by the floor of the second floor.
- The market then moves lower, having reversed, back to the floor, where it consolidates, before breaking through and back down through the floor and past the ceiling of the first-floor level. Here we see the reverse in action. What was price support in terms of the floor, has now become price resistance in terms of the ceiling.
- This is repeated once again at the first-floor level, before the market finally breaks lower once more, with the floor of price support now becoming price resistance in the ceiling, and we are then back to square one again.
- The concept of support and resistance is important for a number of reasons. First, as we have already seen, a breakout from a consolidation phase can be validated with volume, and if confirmed, provides excellent trading opportunities. The so-called breakout trades.
- Second, and perhaps just as important, the reason that this trading approach is so popular is that it embraces in its strategy, the whole concept of support and resistance which is this – that in creating these regions, and using them as part of the trading strategy, you are in effect, using the markets own price behavior to provide you with protection on your positions. By this I mean that in trading using a breakout, the market has put in place its own natural barriers to protect you against any sudden changes in market direction as the trend develops.
- Returning to the price action in our ‘house’. As we approach the ceiling of the first floor we move into price congestion, pause, and then break through into the first-floor room above. We now have a 'natural floor' of price support in place, which is giving us protection if the

market pauses and perhaps moves back to test the price in this area. This floor is our natural protection, defined by the market for us. After all, we know from our VPA studies that to move back and through this area would take effort and volume, so we therefore have a natural area of support now working in our favor. Not only does the floor offer us protection should the market pull back, it also offers the market support to the continued move higher.

- It is a WIN/WIN. You have the comfort of knowing that once the market has broken through a ceiling of price resistance, not only does this become a floor of price support, it has also become a barrier of price protection in the event of any short-term re-test of this area. Any stop loss for example could then be placed in the lower regions of the price congestion. Therefore, breakout trading is so popular, and when backed with VPA validation becomes even more powerful.
- Nevertheless, as traders, this is a key level, and volume will give us all the clues we need to validate the subsequent price action. If this is in fact an old area of price congestion, at which level the market failed and reversed previously, then if it does succeed in breaching the ceiling on this occasion, then this adds greater significance to the move higher, and a strong platform of support would then be in place. Equally a failure would suggest an extremely weak market, and something we will look at when considering key price patterns.
- This is the power of support and resistance. It is the market signaling all those areas of price congestion which come into play constantly. They are the DNA of the market. Its history and life story rolled into one, and as you would expect works the same way regardless of whether markets are falling or rising. In this example the market reversed from resistance, but equally powerful is the concept of old support regions when a market is falling. These areas then provide natural platforms of support, to stop any further decline in the market, and just as in a rising market, if these areas are deep and wide, then they take on increased significance, which is further enhanced if there has been any major reversal at this level in the past.
- This is yet another reason for trading using multiple charts and time frames. Price congestion on a 5-minute chart will have less significance than on a 15 minute, than an hourly chart. In other words, the longer the time frame then the greater the significance, all other things being equal. Support and resistance is a powerful concept. Match it with VPA, and it will become another of the cornerstones of your trading methodology, based on volume and price.

Chapter Eight – Dynamic Trends and Trendlines

- "The loss was not bad luck. It was bad analysis." David Einhorn
- Let me start with some basic thoughts on trends, as I want to dispel some of the nonsense that has been written on the subject. And the first, and most important question is this - how do we know when a trend has started?
- Just as with support and resistance, the short answer is that we won't, until it's over. It's that simple. It was the same with our congestion phase. We must have some parameters to give us the clues as to whether a trend is beginning to develop in whatever time frame we are considering. As a trader, it is pointless to look back over an extended period, draw some lines on the chart, and then decide that this is a trend. By then you will have missed most, if not all the trend, and are probably just getting in, when the insiders are getting out.
- Therefore, VPA is so powerful. It validates the price action for us, and reveals where we are in the longer-term trend. After all, if we see a selling climax or a buying climax, then we

KNOW that a new trend is about to begin. We are in at the start, which is where we want to be, NOT at the end, which is where trend lines inevitably point to, particularly if you only rely on this technique. I must stress that I am not saying trend lines are not useful, they are, but only when used in the correct way which is what I am going to teach you in this chapter.

- Nevertheless, Dow's original and pioneering work gives us a hook on which to hang our hat. What is also interesting is that in developing his ideas of trend, he also introduced the concept of the three stages of a trend as follows:
    - The accumulation phases
    - The technical trend following stage
    - The distribution stages
- Now at this point we are going to diverge from standard trend analysis and look at it in slightly different terms, which I hope you will find marginally more useful when trading live, rather than the theoretical nonsense that appears in most books. The above introduction has given us the framework to move on, but at this stage most trend analysis would then present you with the schematic in Fig 8.10

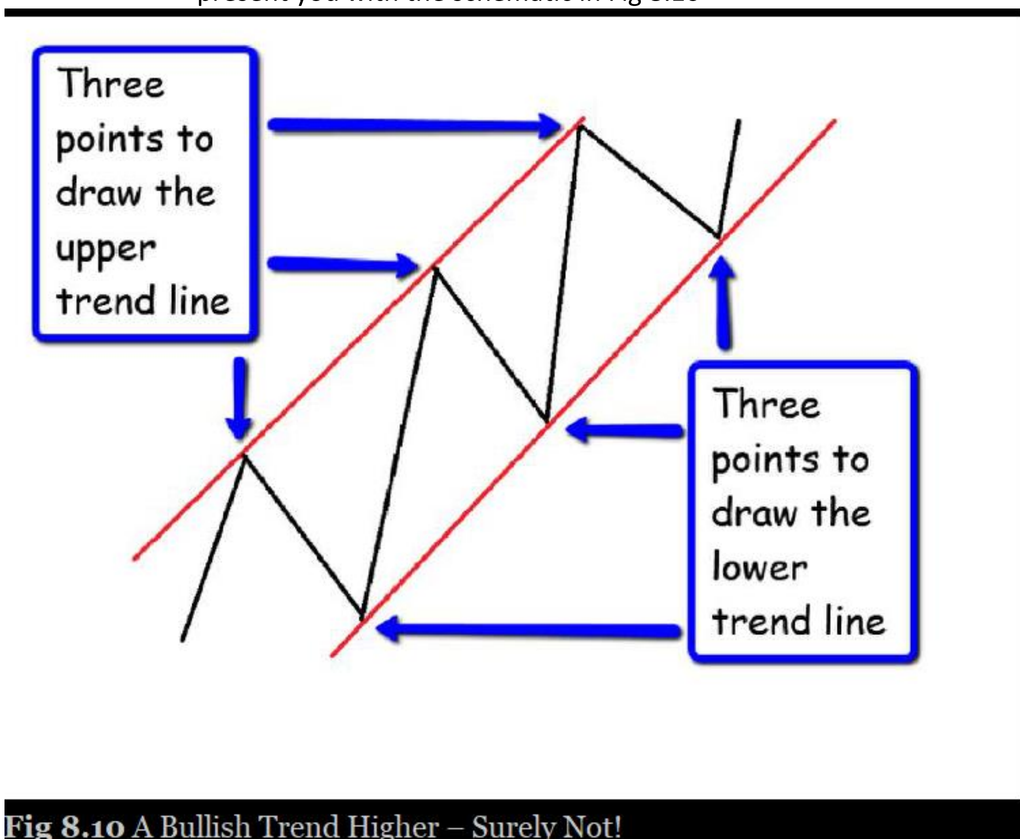


Fig 8.10 A Bullish Trend Higher – Surely Not!

- Here we have the traditional picture of a trend. The market has moved higher in a series of steps, and once we have three steps in place, we can draw our upper and lower trend lines, which define the channel clearly. Most text books will tell you that it is impossible to define a trend using two points, since the possibilities for interpretation are endless and ultimately meaningless, which is why we must wait for three points, before joining them up to create the trend lines themselves.
- These are the higher highs and higher lows which define the peaks and troughs as the market moves higher, and lower highs and lower lows as the market falls.
- Now we have a clear picture that a trend has been established, we are ready to enter the market, and wait for this trend to develop further. That is the theory, but unfortunately, by the time we have waited for our three higher highs and higher lows, the trend is already reaching a climax. We have already been through the technical trend following stage and we are about to buy, at the start of a distribution phase.

- But how do we know this? Because most likely you have been reading too many text books written by people who have never traded or invested in their lives. This is all theoretical and, as I said earlier, very easy to see in hindsight, and once the trend is this well developed, it is not of much use.
- Support and resistance is where trends are created, born and then propelled on their way. This is where trends reverse and change direction. This is where accumulation and distribution phases occur, along with selling and buying climaxes. It is the most important area of price behavior on any chart. These areas are like the spawning grounds at the head of a great river, to which the salmon ultimately return to spawn.
- This is where we start to answer the question that ALL traders, investors and speculators have at the forefront of their minds always. Is this the start of a trend, and if so, what is the strength of the trend and how far is it likely to run? These questions can only be answered by understanding support and resistance in the context of Volume Price Analysis.
- To attempt to do so in any other way is doomed to failure, and drawing a few lines on a chart, is a pointless and meaningless exercise. In my humble opinion. I do accept they may help to clarify the trend a little and may even be of limited use once the trend has started, but in terms of getting you into a strong position, they are of no value whatsoever.
- However, let's return to basics and revisit our congestion phase, where the market is moving sideways and creating the floors and ceilings of price support. The market is preparing to breakout, and all we need to do as traders, investors or speculators is to wait, be patient and then to validate the breakout using volume. How do we know the extent of the trend at this stage? The short answer is we don't, but we do have several clues which will allow us to make an educated guess at this stage.
- First, is the extent of the price congestion phase. Again, we must recall Wyckoff's cause and effect as this will dictate whether we can expect to see a primary, a secondary trend or a minor trend develop.
- This is one of the many reasons why trading using multiple charts is so powerful. It helps to frame the trend that we are trading. However, there is nothing wrong with taking a trade against the dominant trend in whatever time frame that may be. For example, the dominant trend in a stock market may be bullish on the index, but there may be a bearish opportunity in a stock. This is fine, if we recognize that we are trading against the 'dominant trend'. This type of trading is often referred to as 'counter trend trading', and there are two points that define this type of position.
- First, it is a higher risk position as we are trading 'against the market flow' – swimming against the tide if you like. Second, and following on from the first point, we are only likely to be holding such a position for a short period of time, since we are trading against the longer term dominant trend.
- Next, in any congestion phase as VPA traders we are always analyzing the volume from two standpoints. First the volume associated with the sideways price action to determine whether this is a major reversal evidenced by volume, as either a selling or a buying climax. Secondly, the volume and price action following any associated breakout, which will then provide us with additional clues as to the likely extent of the trend. In turn this will also be validated by considering the associated volume and price action on slower time frames along with analyzing potential support and resistance areas ahead, which might create pause points in any longer-term trend,
- Therefore, the first step is always the price action, immediately following a move away from the price congestion zone, and this is very similar to the way we identified our congestion entrance using the pivot high and the pivot low, to give us our levels. This gave us our bearings. The previous price action (whatever it may have been) has now paused and is taking a rest. Our pivots have alerted us to this pause, which may be an extended one, in which case the levels will be further reinforced with further pivots to the upper and lower

levels, or it may be a temporary one, with few pivot points. It may be a reversal, in which case we can expect to see some extensive VPA action, or a continuation of the previous trend. All this will be revealed as the price action in this area unfolds into our traditional congestion area, with our ceilings and floors in place. However, at some point, the market will break away, and this is where the pivots come into play once again, only this time to help us define the trend as it develops. Furthermore, it allows us to take advantage as soon as possible and NOT have to wait for the higher highs and higher lows (or lower highs and lower lows) to develop before entering a position.

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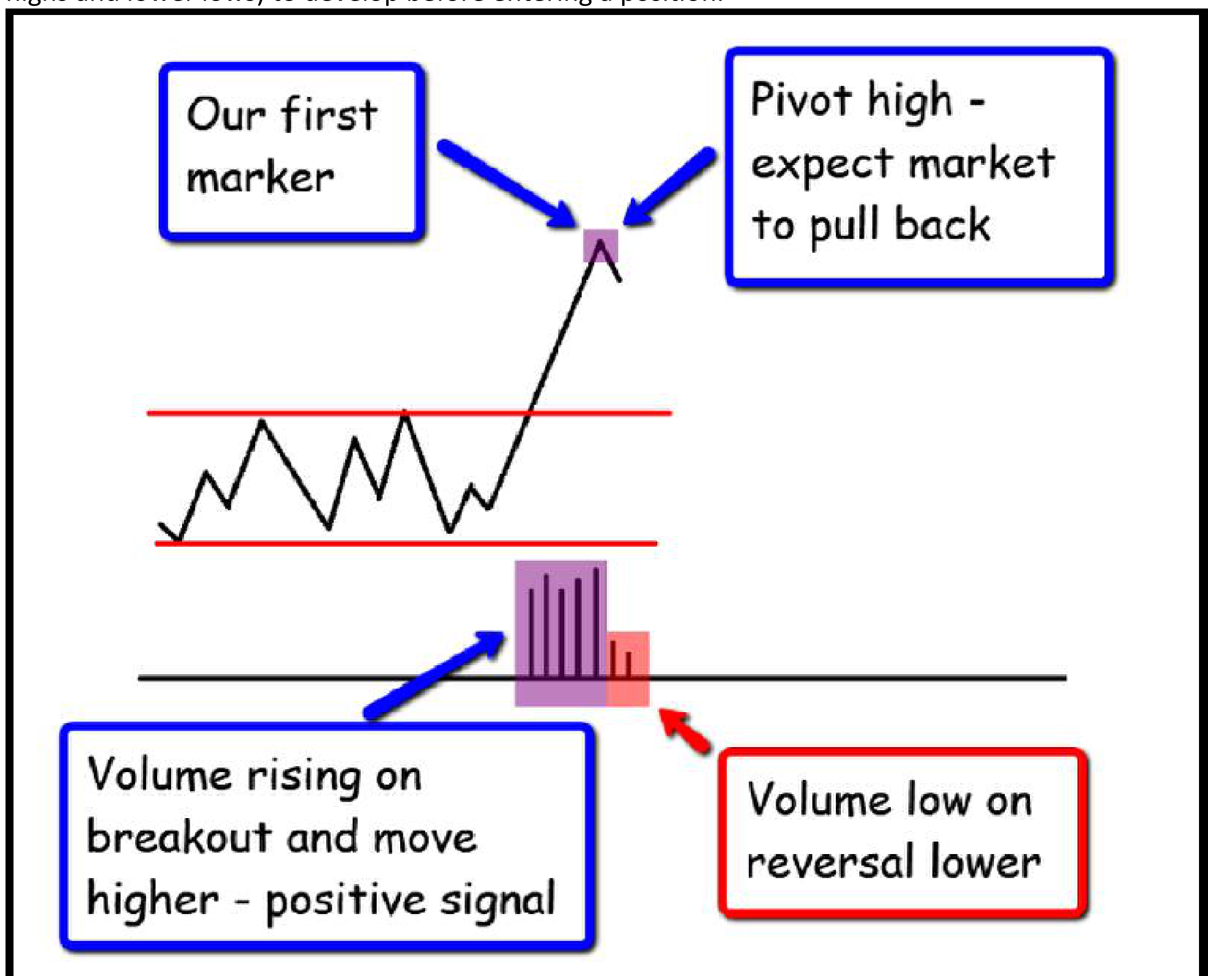


Fig 8.11 First Marker – Pivot High

- As we can see in Fig 8.11 the market has been in a consolidation phase and has broken out on robust volume. Our analysis signals that this is a valid move, and we are now looking for signs that a trend is likely to develop. The first signal we have is of a market that is rising on solid and generally rising volumes, and we take a position.
- What we are waiting for now is our first marker, which just as in the case of our congestion entrance in the previous chapter, is a pivot, and as we are in a bullish phase we are looking for a pivot high.

- As we know markets never go up or down in straight lines and this is the first sign of a reversal, which in turn may also define the upper region of our trend as we break away. Remember the pivot high and the pivot low are combinations of three candles as shown below in Fig 8.12

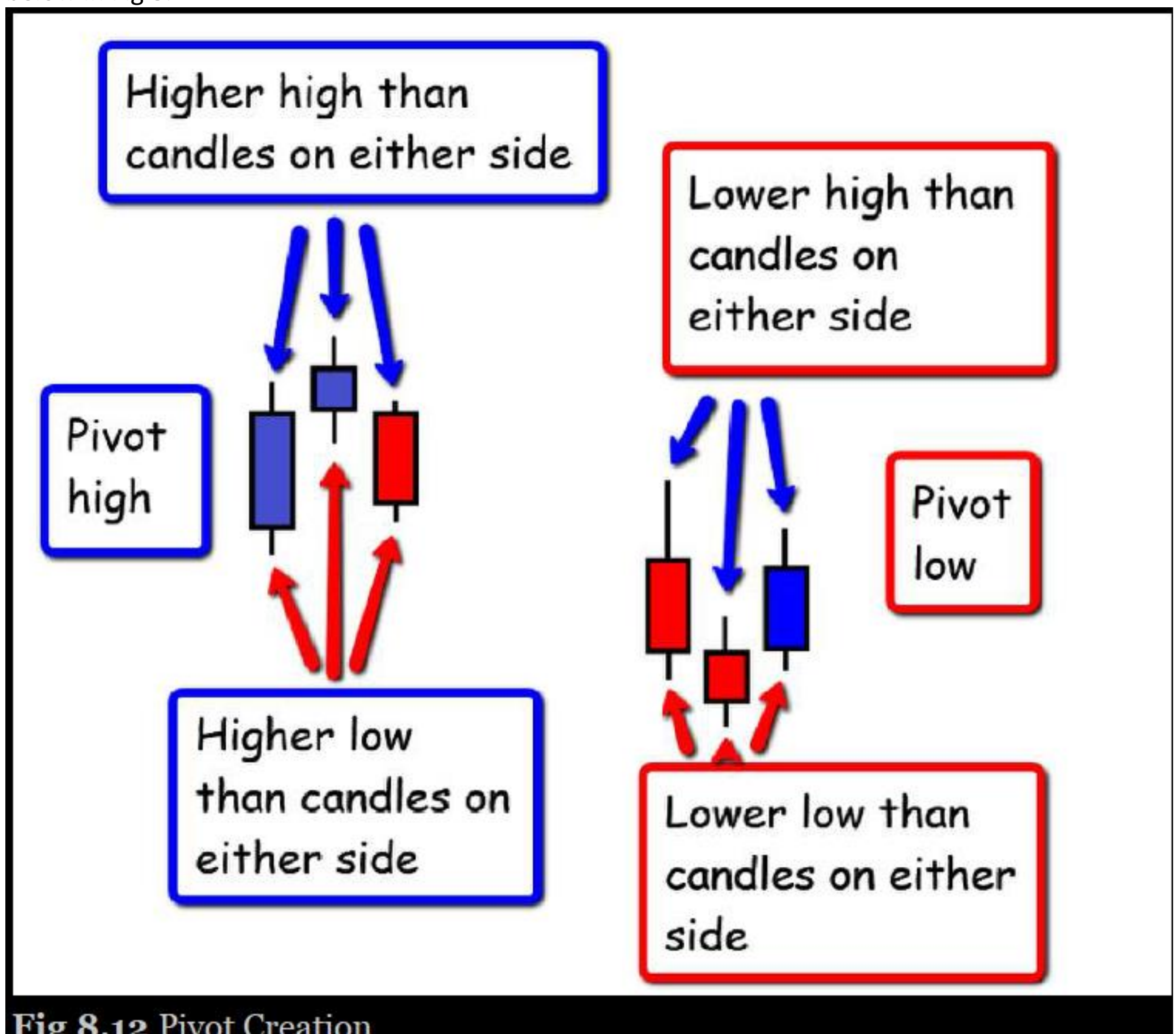


Fig 8.12 Pivot Creation

- We now have our first point of reference in the price move higher, and since we have a pivot high, we know that the market is going to reverse lower. This could be a major reversal, which is unlikely given the volume profile and the recent price congestion, but at this stage we are never sure and must be patient. The volume is falling, which a good sign, and in due course, the market stops, and reverses higher, posting a pivot low. We now have the second marker in our journey higher, as we can see in Fig 8.13.

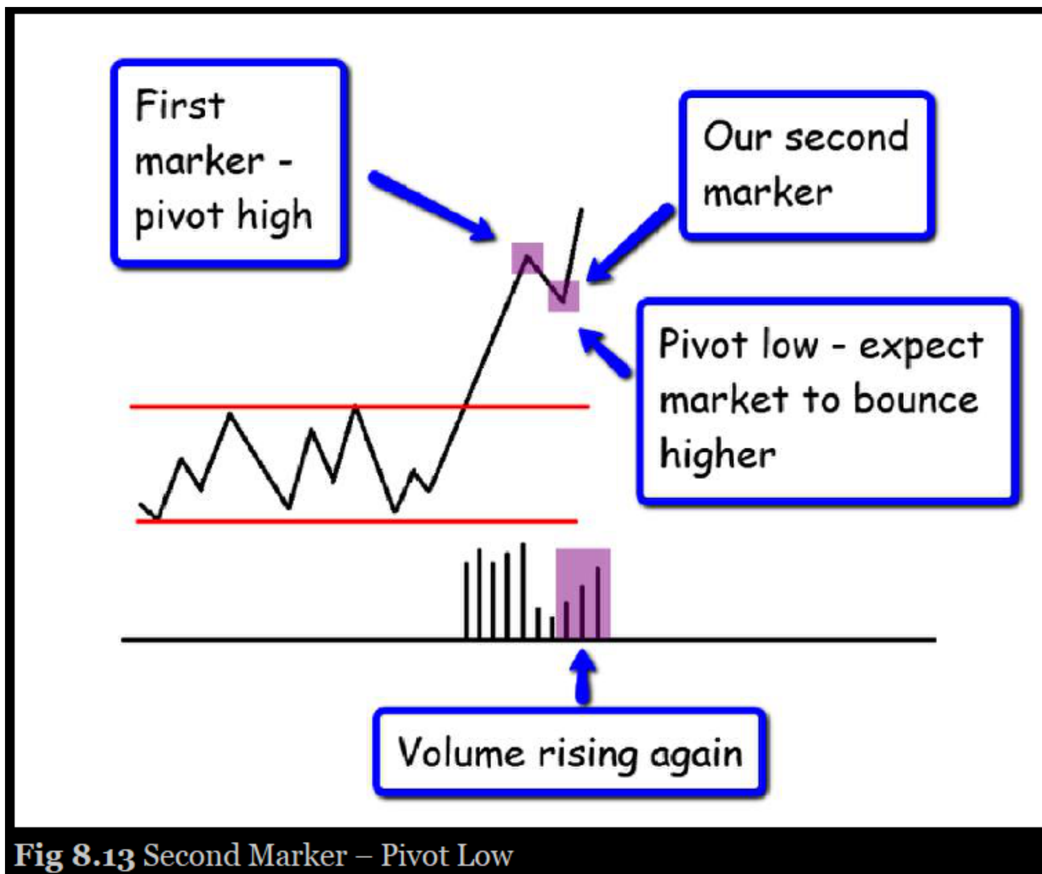


Fig 8.13 Second Marker – Pivot Low

- Now we are starting to build a picture of the price action. Remember we have a position in the market, and provided volume continues to confirm price, then all is well with the move higher.
- The pivot points which are now forming, are our markers to highlight the journey and define the boundaries of the trend. Unlike the trend lines which most people draw AFTER the event, these are dynamic and created during the price action, and provided they build in a series of higher and lower levels, then we know that the trend is developing and we stay in our position, provided the volume supports our analysis.
- Let me scroll forward now and add two more levels to the chart, and based on the same principle. From our current position, we are now looking for the market to push higher, off the pivot low, and the next target for us is a second pivot high, and PROVIDED this is above the previous pivot high, then we are in an upwards trend. Once this second pivot high has formed we are then expecting the market to pullback, but hopefully only in a minor way at this stage, and on low volume, at which point we are now looking for our second pivot low.
- This is duly posted, and provided it is higher than the previous pivot low, we stay in our position, as we are now expecting the market to push off this pivot low and develop the trend further.
- The market continues higher as expected, and now we are looking for our third pivot high, higher than the previous one, which will then define the upper region of our trend. If this is posted as expected then once again, and I'm sure you are getting the picture now, the market pulls back off this pivot high and moves lower, to post, another isolated pivot low. If this is higher than the previous pivot low, then we continue to hold and now have our third pivot low to define the lower region of the trend.
- This is how we build trend lines dynamically, whilst simultaneously holding a position in the market based on Volume Price Analysis and the fundamental principles of VPA breakouts from sideways congestion, as we can see in Fig 8.14.

- Whilst the result is the same, the journey in creating these trend lines is very different and allows you, as a trader to join the trend at the best point, which is the start, and not the end!! This is shown in Fig 8.14 below.

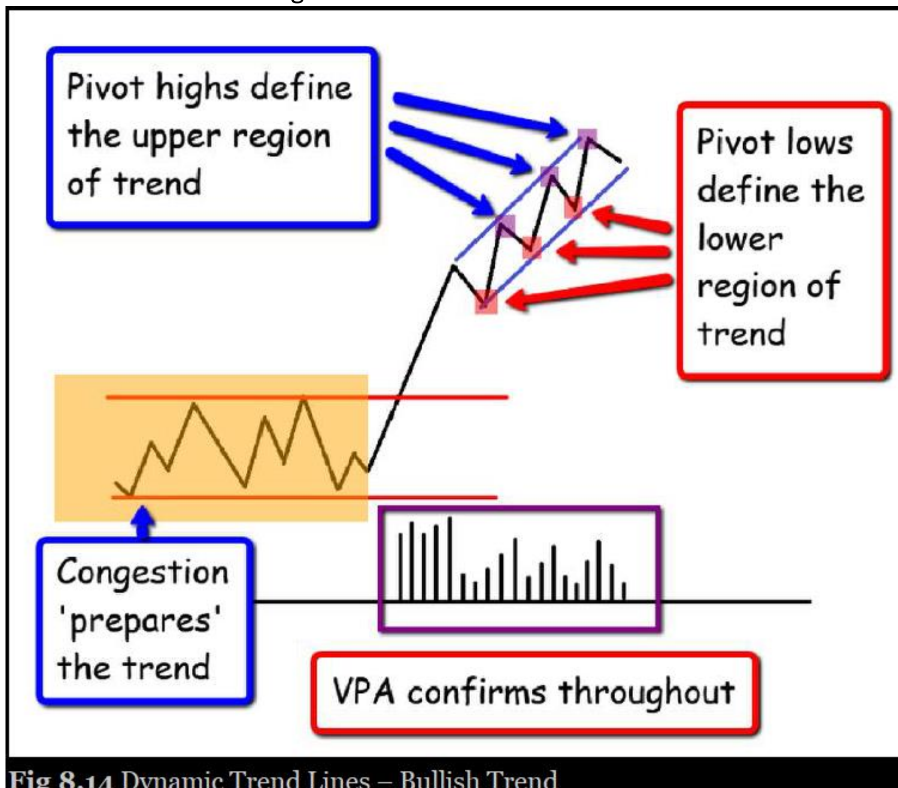


Fig 8.14 Dynamic Trend Lines – Bullish Trend

- We can imagine this whole process almost as one of 'scene setting'. The congestion phase sets the scene for the price action, which is then delivered and supported by the volume. The pivots highlight the journey – they are like the lights at the side of the road, giving us a clear view of where we are, whilst also giving us the confidence to hold our position in the market.
- Finally, at some point, we see a pivot high posted that is lower or perhaps at the same level as a previous pivot, and it is at this point that we are looking at a market that is perhaps moving into a secondary congestion phase, with a pivot low to follow. If this is at a similar level to a previous pivot low then we are in a second congestion phase and our analysis continues. Now we are looking for confirming signals with further pivots and finally a break out. Again, is this a trend reversal, or merely a trend pauses? If we break to the downside then it is a trend reversal, and we exit our position, but if it is a trend pause, and the trend continues a break higher, then we hold our position, and start the process of building our dynamic trend lines once again.
- Naturally, the above is a text book example of what we want to see on every breakout from a congestion phase, but trading life is rarely text book. Sometimes these pivots do not appear. For example, on a break higher, the pivot high may not appear, but the pivot low may do so in due course.

- At this point we must decide based on our VPA analysis, and judge whether the trend is developing as expected. However, this may be the first early warning signal that this is not a trend which has any sustained momentum. In general, we would expect to see the move away from congestion as having some momentum, supported by volume. As markets move quickly, so buyers and sellers move equally quickly, either to get in, or to get out creating the pivot points on the chart.

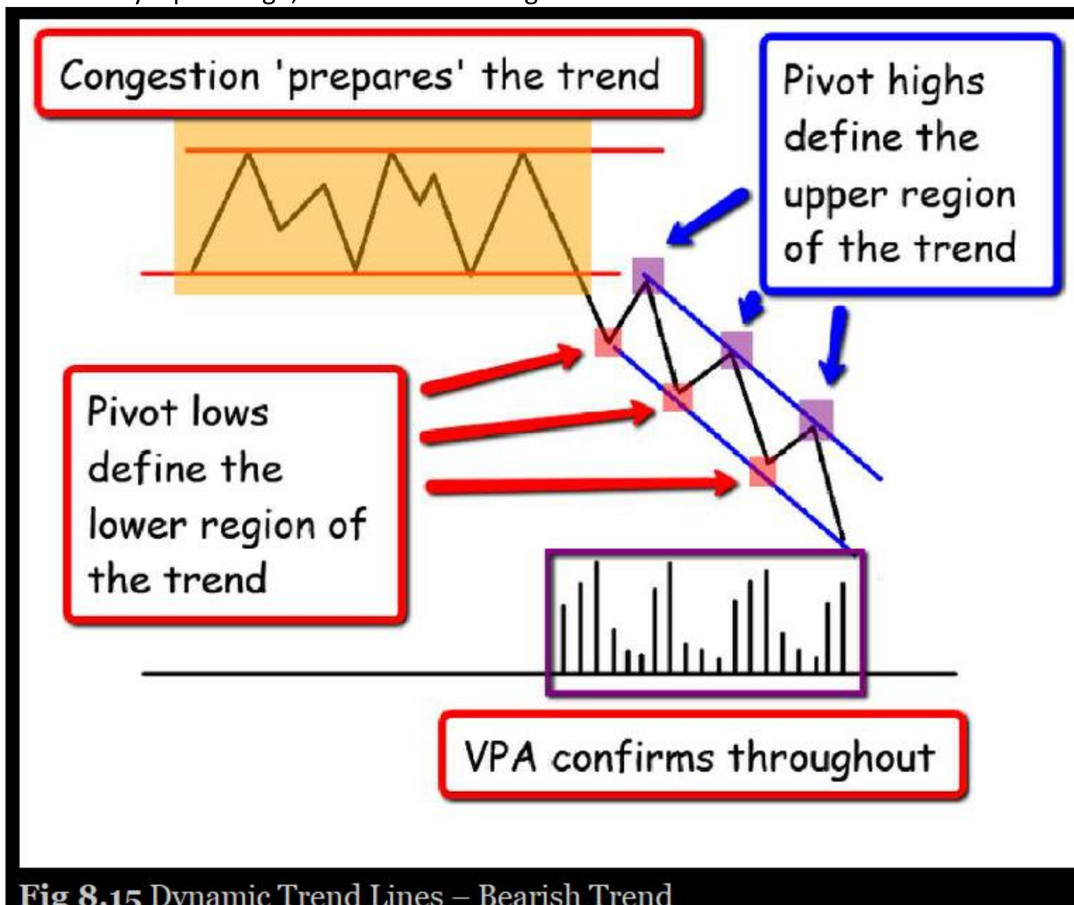
- If these are missing, for whatever reason, then this alone suggests a market which is potentially lacking in momentum which will always be evident from our volume analysis. If the market is moving higher, but the volume is average or below average then this is a trend lacking momentum. Buyers and sellers are simply not participating in the move higher, and the trend will therefore simply not develop. There is no energy, no activity, and this is reflected in the volume and associated price action.
- Therefore, don't expect to see the perfect scenario on each breakout. Everyone will be different, characterized by varying degrees of momentum and duration. What we must do is to look for the clues using VPA, and then wait for the pivots to appear as the price action unfolds. If they do not follow a logical pattern in the trend, then the market is potentially weak, and may simply revert into a period of congestion at a slightly higher level.
- The price action and associated pivots for a move lower away from a congestion phase are created in just the same way, but this time we are looking for a pivot low to form initially, followed by a pivot high, as we can see in Fig 8.15.
- 

Fig 8.15 Dynamic Trend Lines – Bearish Trend

- In summary, and to put all of this into context. There is nothing wrong with drawing what I call 'static' trend lines on a price chart, and in many ways, this is what we have done here. The difference however, is that the trend lines in this chapter have been created by the dynamic price action of the market. Obviously, this is hard to present in a book, and is best seen live in action as the market unfolds. Nevertheless, what I have tried to describe here is the process of analysis and price action which describes where we are in our trading journey, or perhaps more importantly where the market is in its trading journey.
- The pivots are formed dynamically, and as they are created, so the trend is built which we can then define using these points as our 'way points' on the journey. Nothing is ever perfect, but at least using VPA, and your understanding of the importance of price

congestion, should put you into a strong position, allowing you to identify a trend BEFORE it starts, and not after.

- As I have said before, many traders become frustrated when markets move into a congestion phase, which I find hard to understand. This is where the market is preparing the next trend. These areas are the breeding grounds for trends, and in many ways far more important than any existing trend, since this is a new trend, from which we can take advantage, early. It really is that simple. It may be a selling climax or a buying climax, it may be a pause in a longer-term trend. Whatever the reason, and whatever the timeframe, you can be sure of one thing. The market is preparing for a move away from this region, it is just building up strength and preparing to breakout, one way or the other. All we must do is be patient, wait, and then apply VPA to the consequent price action, coupled with our pivots which highlight the journey.

Chapter Nine – Volume at Price (VAP)

*Howl: "*Volume at price is pretty much VPVR (Visible Range on Trading View). This chapter is stressing how important how much volume traded at a particular level is important as that increases that level's strength as potential support/resistance. This ties back with her concepts regarding congestion phases. If you understand VPVR, you will understand VAP (Volume at Price) which is why I didn't take too many notes on this chapter."

- The way to use this methodology is as an enhancement to the classic VPA approach, and NOT to replace it in any way. As you will discover shortly, volume at price gives us a very different perspective, as it provides an insight into the concentrations of buying and selling areas, which to me means support and resistance. As we have already discovered how to identify these areas using price, and price action, VAP then gives us an additional tool to use, which gives us a visual representation of these areas on the chart. If you remember back to the previous chapter, I referred to support and resistance as invisible barriers, natural barriers if you like – well now, with volume at price, these barriers are revealed on our charts.
- However, we must remember, VAP is a supporting technique to VPA, NOT the other way around. Whilst VAP is powerful and gives us a three-dimensional view of the volume and price action, it does NOT replace traditional VPA, and never will in my view. So please use VAP as a tool with which to identify price congestion along with support and resistance zones, which you can then confirm with traditional analysis using VPA.

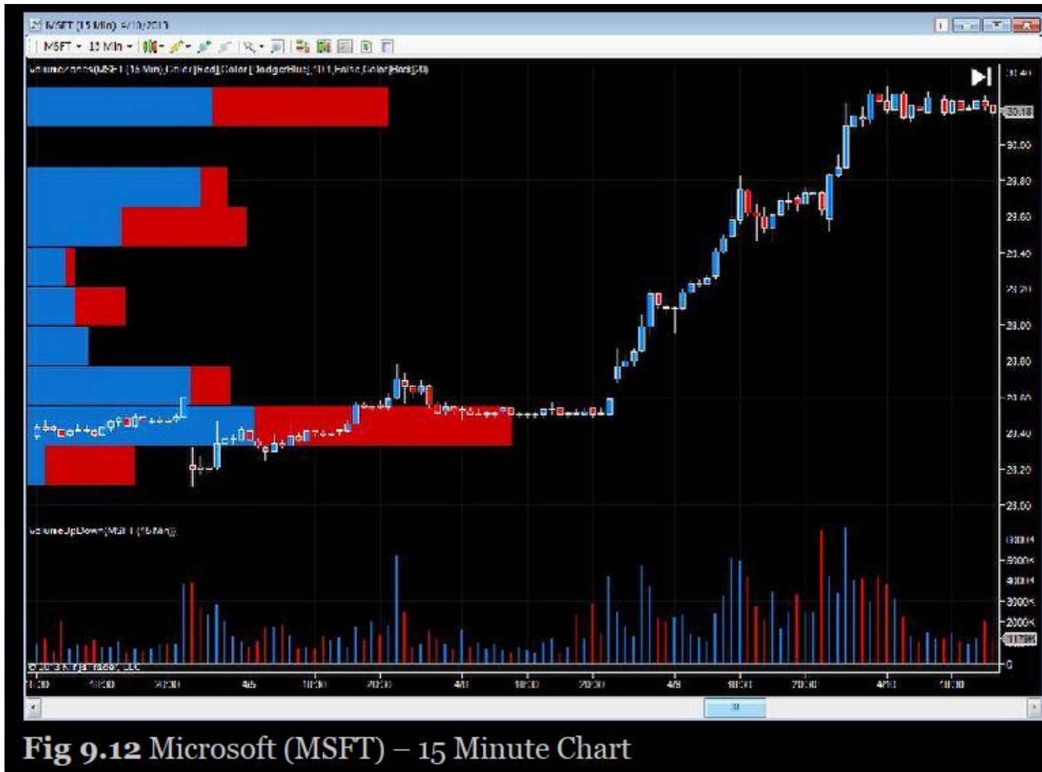
- 

Fig 9.12 Microsoft (MSFT) – 15 Minute Chart

Chapter Ten – Volume Price Analysis Examples

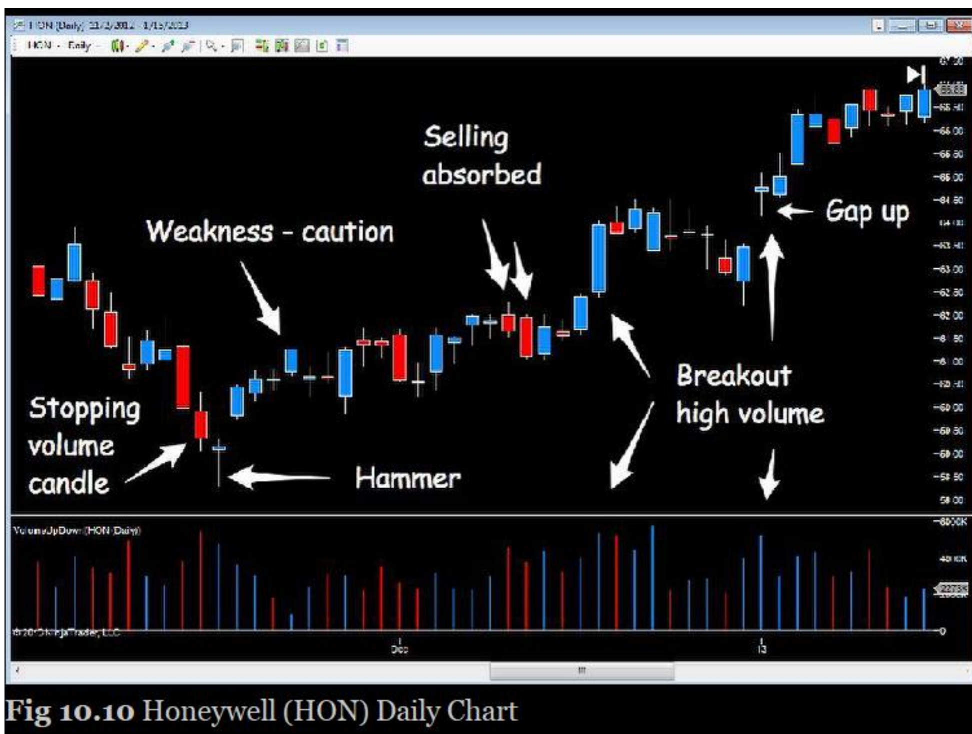
- 

Fig 10.10 Honeywell (HON) Daily Chart

- The stock sells off, moving lower, and initial weakness is signaled by the small shooting star candle, which is then confirmed with rising volume and a wide spread down candle. So, no anomaly here. This is then followed by a narrow spread down candle with higher volume than on the previous bar. This is an anomaly, and could be stopping volume. The following day, the market closes with a hammer candle, and high volume again. We are now looking

for this stock to pause at this level, perhaps move into a congestion phase, or perhaps see more accumulation before a breakout and move higher.

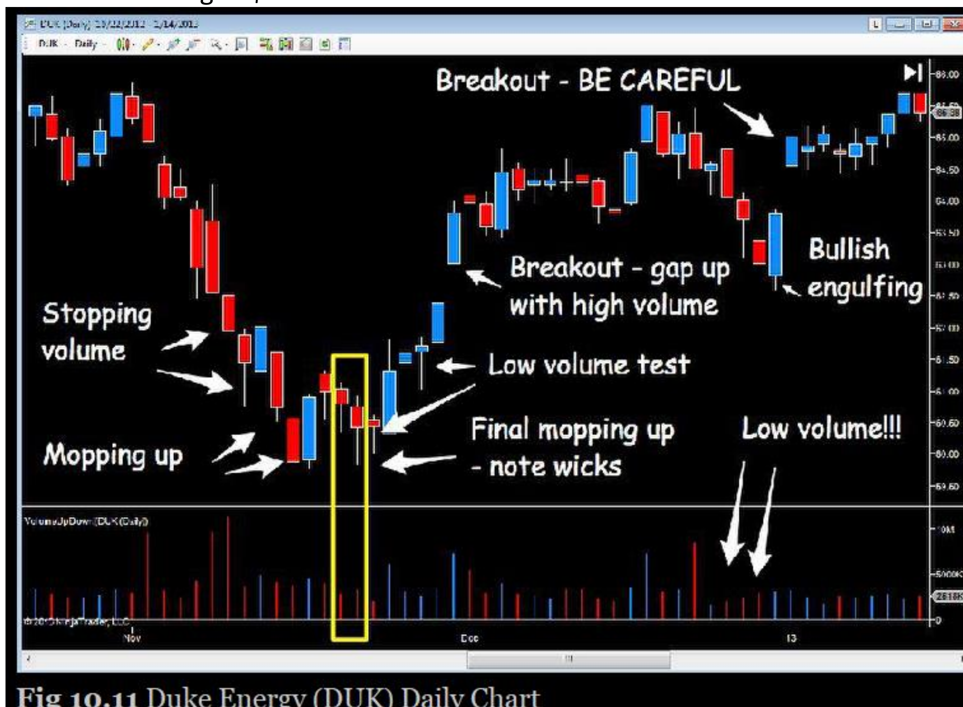
- In this case, Honeywell moves higher immediately on the following day with a gapped up open, but the volume is only average. The following day the price spread is narrow, and although higher on the day, the volume is falling away.
- This is not a good sign and suggests weakness. The stock is possibly not going to move too far, and does move into a congestion phase. However, towards the end of this phase we start to see daily selling pressure absorbed with a narrow spread down candle and high volume, again an anomaly. After all, if this was selling, then we would expect to see a wide spread candle, and we haven't. We have a narrow-spread candle, followed by another, three candles later.
- The selling is being absorbed, and we are now waiting for a potential break out from this region, which duly arrives. Rising volume with wide spread up candles. A positive signal that the market is bullish. We also have a nice platform of support below. The market then moves sideways again at the higher level for two weeks, sliding lower, but note the down candles. The selling volumes are falling all the time at this level, not a sign of a bearish market. If the stock were truly bearish then we would expect to see falling prices and RISING volume. We have falling volume. Remember, it takes effort to rise AND fall.
- Therefore, we are expecting to see buyers come into the market soon, which is precisely what happens next, and with attitude! The buyers come in with above average volume, and note the tail on this candle which is the last in the current congestion phase. This looks positive.
- The following day we get the breakout, with high volume. This is NOT a trap up move, but a genuine move higher. And we know it is genuine because VOLUME reveals everything. Not only have we seen a breakout, but this has been accompanied by a gapped up open as well. All signs of a bullish market, PROVIDED this is validated with volume. Three months later the stock was trading at $76.08.
- 

Fig 10.11 Duke Energy (DUK) Daily Chart
- Once again, there are several lessons to be learnt here, and the most valuable one is patience. If you recall what I said at the start of the book. When I first started trading using VPA I used to get very excited as soon as I saw a hammer candle, or stopping volume and would immediately take a position in the market. However, remember the oil tanker. It takes time to stop. Therefore, what can we learn from Duke Energy.

- First, at the extreme left of the chart we can see that the stock has been rising on relatively low volume. The volume on the last bull candle, a wide spread up candle, is only marginally higher than on the previous candle, which was half the price spread. Clearly there is an early sign of weakness ahead, which duly arrives two candles later. The stock attempts to rally before entering a price waterfall with falling prices and rising volumes, with stopping volume initially putting the brakes. At this point Duke Energy attempts to move higher, but with a wick to the upper body of the candle, this is not a strong response, and the stock price falls further, but on average volumes.
- In fact, the spreads on both candles is wide, and when compared to the equivalent spreads in the waterfall, the volumes should be MUCH higher, so clearly selling is being absorbed at this level. Duke Energy attempts to rally, this time with a bullish engulfing candle, but the volume is average once again, and clearly this is not a sign of strength just yet.
- The market then pulls back with two small hammers on low volume. Is this the final phase of mopping up the selling pressure? The answer is delivered on the next candle with a LOW VOLUME test. The insiders are preparing the ground. The selling has been absorbed, the market has been tested for further selling, and the low volume test signals success, Duke Energy is now primed and ready to move.
- The stock moves higher on good volume and is subsequently followed by a gap up day, supported with strong volume, not a trap up move but a genuine move higher. The insiders are joining in! Then we move into a congestion phase, followed by a further gap up and breakout on high volume, and from this move, the stock price then declines slowly lower, BUT note the volume. It is low! An anomaly! We can be pretty sure that the stock price is not going to fall far. After all, if it were, we would see high volume and this is certainly not the case with below average volumes.
- The final candle in this group was then followed by a bullish engulfing candle, and the following day, with a gapped up move higher. HOWEVER – note the volume on the gap up, it's LOW. Is this a trap up moved by the insiders? It certainly looks weak, and the volumes following the move higher are well below average. But note where we are in the overall price action. We are back where we started in terms of price, and this is therefore an area of potential price resistance given the earlier failure at this level. So, we should be DOUBLY on guard. A gap up moves on low volume, and resistance ahead.

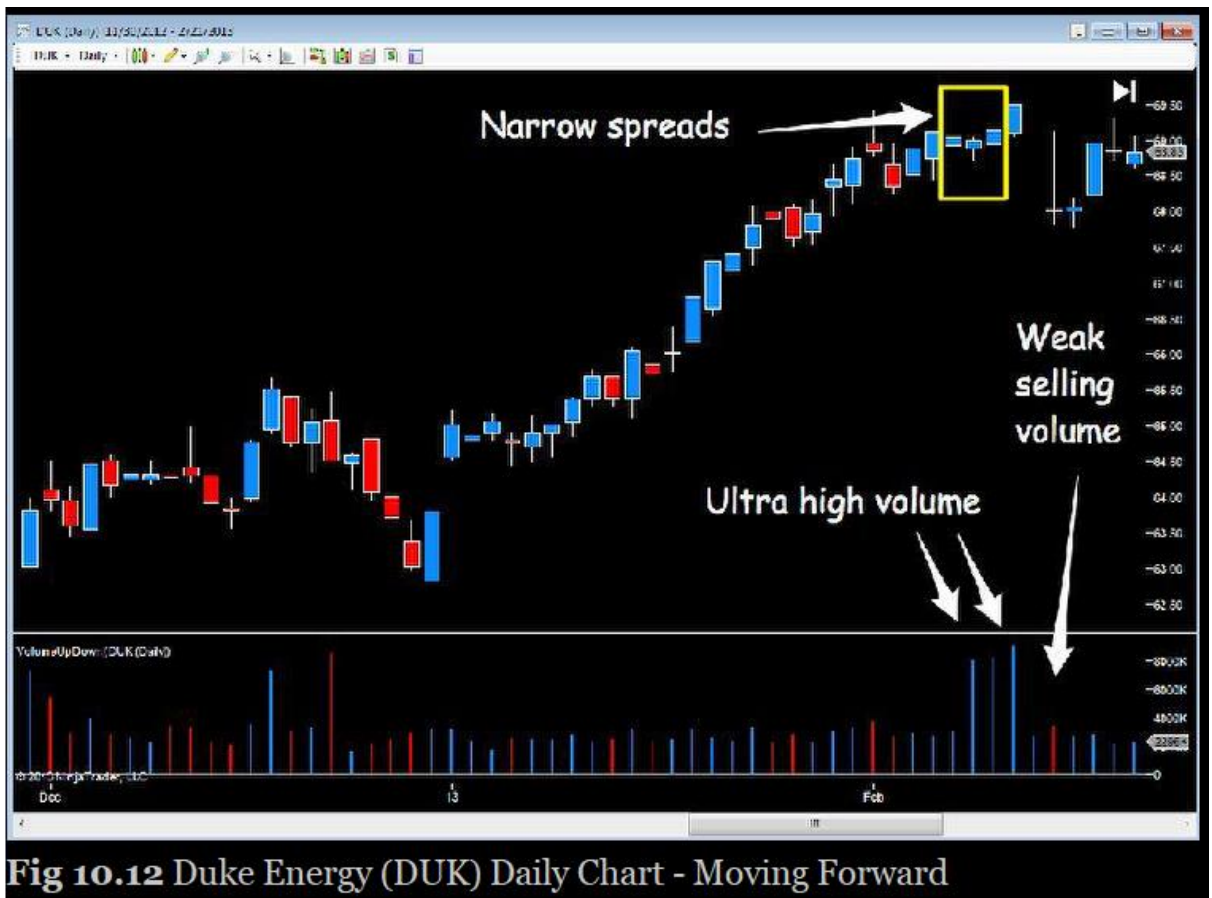


Fig 10.12 Duke Energy (DUK) Daily Chart - Moving Forward

- Duke Energy stayed at this price level price of $65.75 for several days, before finally breaking above the resistance area, and then moved steadily higher on steady volumes. Finally, the move runs out of steam, and volume as always tells the story. Right at the end of this trend we have three ultra-high-volume bars, beneath narrow spread candles. Is the market strong or weak? And the answer of course is weak, and we see the price fall sharply. But once again, the selling volumes are average, so clearly not a major turning point for Duke Energy which continued higher and remains bullish, for the time being. At time of writing Duke Energy is trading at $74.41.

Fig 10.13 SLV - ETF 5 Min Chart

- I now want to consider different markets and time frames and the first example is the SLV which is an ETF (Exchange Traded Fund) for silver. ETFs are a very popular way for many traders to enter the commodity markets, and the SLV is certainly one of the most popular. It is a straightforward ETF, un-leveraged and is backed by the physical metal. Here we have the 5-min chart, so perfect for an intraday, scalping strategy.
- As we can see from the chart, starting at the far left the SLV had been moving sideways, albeit with a bullish tone before starting to fall, breaking below the interim platform of support with 5 consecutive down candles, on rising volume. A signal that the price action was being validated by volume, which at this point is above average.
- The SLV then drifts sideways for a few bars before we see two narrow spread down candles, the first with above average volume, an anomaly, and the second with extremely high volume. This must be stopping volume and therefore buying, otherwise the candle would be wide. Instead it is narrow. This is followed by the hammer candle, on high volume, signaling more buying in the market. The response is muted with the up candle, which moves higher on low volume, not a sign of strength, but is followed on the next candle with rising volume and a wide spread candle, so an encouraging signal. The insiders then test on low volume, and move higher on solid volume, before weakness starts to appear with a wide spread up candle and a subsequent failure at the same level.
- What happened next was that SLV then drifted along at this level for some time, before selling off again the following day.
- In this example we are looking at this opportunity as a scalping trader. However, if you were an aggressive trader, then you may well have taken a position based on the hammer alone. After all, this looks like a strong signal. However, the following candle suggests weakness at this level. The volume is well below average, and at this point we would be wondering if this was a wise decision. Any stop loss by the way would be below the wick of the hammer, with the market setting this level for us. Assuming we continue to hold, the next candle is much more encouraging, a wide spread up candle with high volume, so a good sign. No reason to exit just yet.
- The next candle suggests weakness, a shooting star (although not at the top of a trend, weakness nevertheless with the deep upper wick) and above average volume. We are

expecting a reversal on the next bar, when in fact we see a positive signal – a low volume test which is followed by a wide spread up candle with above average volume once more, with a further pause before the final leg to the top of the move.

- At this point a more cautious trader would have seen the initial response to the hammer, and taken this as a sign of weakness, which it is, and decided, based on this signal to stay out of the market for the time being, and perhaps waited for the second candle, which IS a sign of strength, before entering a position. If so, in this case, this would probably have ended as a small profit, a small loss, or perhaps break even.

Fig 10.14 GLD - ETF 15 Min Chart

- Before starting, let me put the gold market into context for you. At the time of this chart, gold had been weak for some time, and in a low inflation environment with higher returns in risk markets, money flow in general at this point was away from safe havens. The longer-term trend for gold was therefore bearish. This is the context against which to view this intraday price action.
- The market opens gapped down on extremely high volume, a clear signal of weakness. We are starting with weakness which has been validated by volume. The next candle forms, a small hammer, again with ultra-high volume. Is this stopping volume – perhaps, and we wait for the next candle to form, a small candle with an upper wick, suggestive of further weakness, and coupled with high volume.
- Clearly not a positive response to the 'stopping' volume. The next two down candles suggest a modicum of buying on each, with the lower wicks showing some support, but the market continues lower on rising volume with the penultimate candle suggesting stopping volume once again. Finally, the last down candle in this price waterfall closes on average volume, followed by the first up candle of the session. A weak response if ever there was one, with a deep upper wick and narrow spread with above average volume. This is hardly a market that is preparing to reverse at this point. The next candle is perfectly valid, a narrow spread up candle with average volume – this looks fine.
- Then we see a repeat of the first candle in this sequence of up candles, but this time, look at the volume – it is extremely high. This is sending a LOUD signal that the market is VERY

WEAK. If this were buying volume then the market would be rising fast – it isn't, so it must be selling volume. Everyone is selling and trying to get out of the market before it collapses, with every attempt to rise knocked back by the pressure of selling. The next candle is even worse, sending an even stronger signal, if any were needed, that everyone is selling and the market is now incredibly weak.

- Here we have ultra-high volume and a market that is going nowhere. The price spread is narrow, and if the volume were buying, then the market would have risen. The insiders are propping the market up, selling stock accumulated in the price waterfall, before taking it lower.
- The next two candles give no clues, narrow spreads with low volume, then the market sells off sharply, as expected, and validated with ultra-high volume, as it lurches lower once again. The next candle hints at stopping volume once again with a narrow spread and deep wick on very high volume. The buyers are moving in at this level, and this is repeated on the next candle with high volume again on a narrow spread. Now we should see the market recover, but look at the next candle. The market attempts to rise, but falls back to close near the open on above average volume. Not a strong signal. A small hammer follows, on ultra-high volume so perhaps there are more buyers in the market, and based on the volume of the last few bars, perhaps a reversal is now in prospect?
- Three bullish candles then follow, each with a narrow spread, but the volume is flat, so we have a market rising on flat volume, and therefore unlikely to go very far. The market reverses from this level, and as it falls volumes are increasing signaling selling pressure once again. The final candle in this sequence is a very narrow spread doji candle, with high volume, and again we can assume that this is stopping volume with buyers coming in once more.
- This is confirmed with the next candle which is a wide spread up candle with above average volume, but as the market rises on the next two candles, volume is falling away. The insiders are not taking this market far. The market then drifts sideways for an extended period in the session with several attempts to rally all failing, and with volumes generally falling to low levels throughout this phase the market duly closes, looking very weak.

- **Fig 10.15** GLD - ETF 15 Min Chart - Next Day!

- Whilst the open was bad news for those traders bullish on gold, even worse was to follow, and candles five, six and seven were accompanied with volume which can only be described as extreme. Trading volumes on each candle were more than 6 million, with average volumes around 500,000. In other words, panic selling.
- Even the hammer candle and the associated volume was not sufficient to slow the market momentum and the solitary wide spread up candle on high volume, failed to follow through, with the market moving into a congestion phase before rising volumes on the four down candles at the end of the sequence signaled yet more bearish pressure and heavy selling.

Fig 10.16 AUD/USD - 15 Min Spot Forex Chart

- The currency pair had been rising nicely for a little while, volumes were average (as marked with the dotted white line) with no anomalies or signs of weakness at this stage. Then suddenly we see the blue candle form, with a wide body but also with an equally deep wick above.
- We are now paying attention as with this volume bar, the pair should have risen strongly, and clearly in the volume bar there is a large amount of selling, confirmed by the deep wick to the top of the candle.
- The pair manage to move higher for a couple of bars, but the warning has been flagged and sure enough five bars later we see a shooting star candle with high volume. The next candle is also weak, a narrow spread doji candle with high volume. A potential reversal awaits! The next candle confirms the weakness, another shooting star candle this time with higher volume still. And what is also important here, a lower high than the previous candle. This is the time and place to take a short position with a stop loss above the level of the wick of the first candle.
- The pair sell off and duly start to move lower, and one aspect that I want to highlight here is how volume helps you to stay in a strong position and hold it to maximize your profits from the trend.
- As we all know, markets never move in a straight line, they move lower, then pull back a little, before then moving lower again. Here we can see this in action perfectly illustrated, and the point I want to make is this.
- Four bars after the second shooting star, we have a wide spread down candle, and we are delighted. Our analysis has been proved correct, and we are now in a strong position. Then

the market begins to reverse against us. Is this a trend reversal, or merely a pause in the move lower?

- Well, the first candle appears. The spread is relatively narrow and the volume is above average, so this is an encouraging sign. In addition, we have not seen any evidence of stopping volume with narrowing spreads and rising volume, so this looks like a pause point. The next candle confirms this as does the third, and on the completion of this last candle we can see that we have a market attempting to rise on falling volume, and we know what that means!
- Equally, if you are long the market the same applies. In an uptrend the market will pull back against you. If the volume is falling on these pull backs then you KNOW this is simply a minor reversal lower and not a change in trend, particularly if you have seen no topping out volume.
- Finally, as we can see on the right-hand side of the chart, stopping volume finally appeared, with the market moving into a congestion phase with the selling pressure dropping away to below average. The pair completed this phase of its journey and we exit.
- Our entry, our management, and exit of this position have all been executed using one simple tool. VPA. Nothing else. Why more traders, speculators and investors don't pay attention to volume is beyond me, but there we are.

Fig 10.17 AUD/USD – Weekly Spot Forex Chart : Selling Climax

- The reason I’ve chosen the weekly chart for the AUD/USD is that not only is it a good example of a selling climax, it also gives us a perspective on how long this may last. As I have said several times in this book, we must be patient. Major changes in trend take time to come into effect, and this is an example. It also shows that VPA works in all time frames.
- Remember, here we are looking at a period of around 18 months, so long term trends with big profits to be made if you are patient, and believe in the power of VPA of course!
- As we can see from the chart the AUD/USD pair has been bullish, before moving into a congestion phase on average volume. Then we see our first anomaly. A narrow spread up candle with very high volume. The pair are struggling at this price point and the market is not responding. The next weekly candle arrives with ultra-high volume, and if this pair were going to sell off sharply, then we would expect this to be a wide spread down candle – it isn't. It's a narrow spread. The buyers must be supporting the market at this level. The next candle arrives, a hammer with a deep wick, and this confirms the previous candle. This is buying, and now we wait for any further signals, which arrive on the next candle, a low volume test on a smaller hammer candle. The high volume selling that we were seeing in the previous candle, which was absorbed by the buyers, has now dissipated and the forex market makers are ready to take this pair higher. And off it goes at a nice steady pace, marching higher on nice steady volume.
- The move higher extends over several months, but the point to note here, is the slow steady fall in volume over this period. It's not dramatic, just a steady fall, and then as we enter the yellow box on the chart – what do we see? Two wide bars, one after the other, but look at the volume. It has fallen away to almost nothing. This is a HUGE warning signal that this pair is becoming exhausted, and either running out of steam, or there is some alternative explanation. What is clear, is that the market makers are moving prices higher with NO volume, and have withdrawn from the market.
- Traders who have missed this long trend higher, are now jumping in on fear and greed. They fear missing out on a golden opportunity. After all, they have watched this market go up and up, and have finally caved in and bought, just when the market makers are leaving by the side door.
- Then the selling climax begins. The market makers are selling in huge volumes at this level, before finally after several weeks the pair break lower, and attempts to rally giving us signs of further weakness, before breaking lower again.
- Note the attempt to rally at the right-hand edge of the chart. Here we see narrow spread up candles on very high volume, and falling, another very strong signal of further weakness to come, which duly arrives.
- One point I do want to cover here in a little more detail is the whole issue of rising and falling volumes when associated with trends, because we do have to apply some flexibility to any analysis and interpretation here. After all, if the market moved higher for ten consecutive bars, and you wanted to apply the volume principle to the letter of the law, then you would have to see 10 volume bars each higher than the last. Clearly this would place a limit on how far any trend could go, since it is unreasonable to expect volumes to go up and up and up forever!
- The above example is a case in point. The first few candles on the up move are supported by good volume, which is up and down, but above, or just around, average. This is fine. After all, there are always going to be variations particularly when you begin to look at the longer-term timescales. There may be seasonal effects, days when the markets are thinly traded during holidays, and of course days when the markets close. This rarely happens in forex, but it does happen in other markets and affects the forex markets accordingly.
- Please be a little flexible in your approach when judging volume in trends, and allow a little bit of latitude in your analysis. Here we were waiting for an anomaly, and until the two low volume candles arrived, there was nothing to signal that any change in trend was imminent.

- I now want to consider the opposite, namely a buying climax and once again we have a nice example on the AUD/USD weekly chart in Fig 10.18 below.
- On this chart, we are looking at an eighteen-month period approximately, and we can see that the pair has topped out and rolled over into a nice price waterfall, all confirmed with nicely rising selling volumes, validating the move lower.
- Then a hammer candle arrives and we need to assess whether there is sufficient stopping volume? The next candle gives us the answer with a small shooting star on high volume.

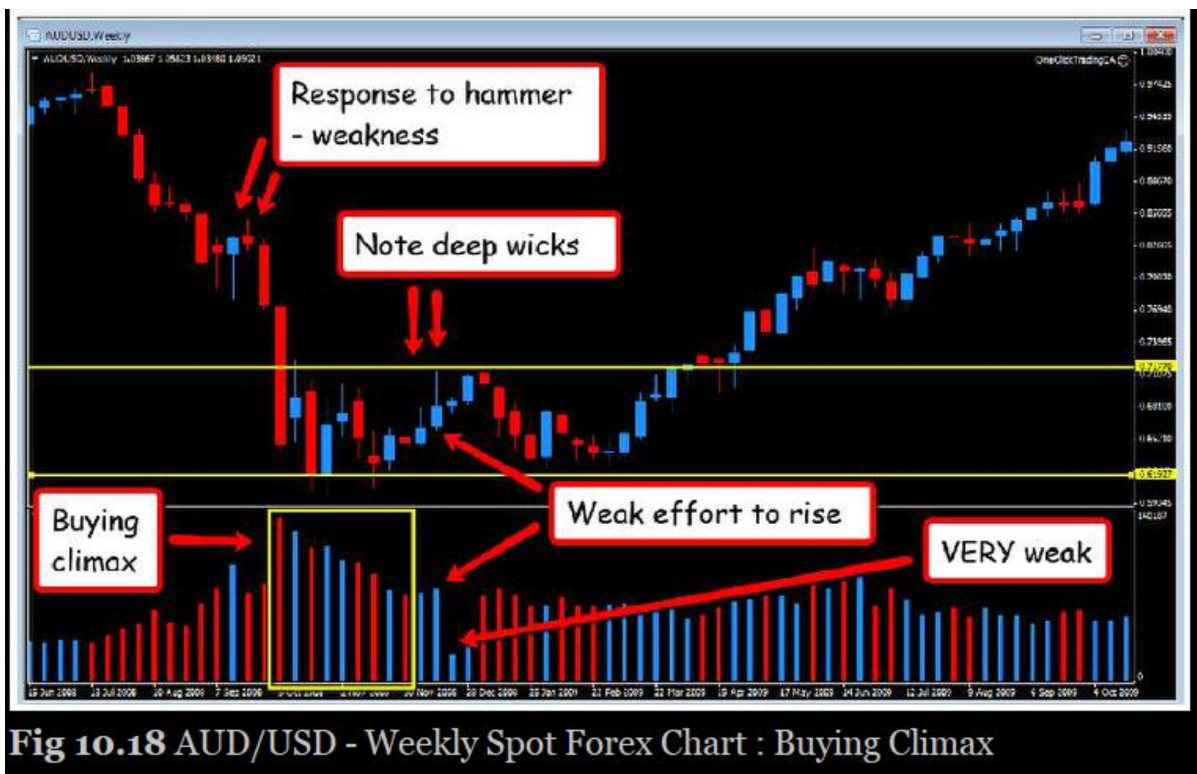


Fig 10.18 AUD/USD - Weekly Spot Forex Chart : Buying Climax

- Clearly the market is NOT ready to rise just yet and the selling pressure continues as we finally enter the buying climax phase. However, as the pair attempt to rally the first candle we see is a narrow spread up candle with a deep upper wick, hardly a sign of strength, on high volume. The pair are not ready to rise just yet, and the following two candles confirm this, with very low volume. The second of these is particularly significant with a wide spread and ultra-low volume.
- The AUD/USD pair then roll over again and back down into the congestion area, which I have marked on the chart with the two yellow lines, and this is the ceiling of resistance that we would now be monitoring, along with the floor of support below.
- Any break above through this resistance area would now need to be supported with good rising volume. It doesn't have to be 'explosive' volume, and in many ways, it is

better that it isn't – just steady and rising. If this were a gap up breakout, as we saw in earlier examples, then we do expect to see volumes well above average, and even ultra-high if the move is dramatic. But for normal breakouts through an area of resistance, then above average is fine.

Fig 10.20 ES E-mini 10 Min Chart

- Fig 10.20 is another very popular futures index for scalping traders, the ES E-mini which is a derivative of the S&P 500. However, it is extremely volatile and of all the indices, is the most manipulated by the big operators, which is what I wanted to show here. In this example we are looking at a 10-minute chart, and here we have a complete daily session, sandwiched between a day either side.
- Working from left to right, as the trading session comes to an end we can see the extremely high-volume bar in red, standing like a telegraph pole above all the others. The big operators are clearing out of the market preparing for the following day. This ultra-high volume is associated with a shooting star candle, a sure sign of selling, followed by an up candle with very high volume, which goes nowhere. The big operators are selling into the market and struggling to hold it at this level. Finally, the session ends with a small doji on average volume.
- The following day, the market opens at much the same level as the close of the night before, with a classic trap up move by the big operators, a wide spread up candle on low to average volume. Compare this volume with that of the up candle of the night before following the shooting star candle. The price spread is much the same, but the volume is substantially lower.
- This is a TRAP up move, and one that was prepared the night before. It is a classic move that happens all the time, particularly at the open of a session, and you will see this time and time again in the futures markets and the cash markets. The insiders, whether they are the operators or the market makers, love to trap traders into weak positions, and this is the easiest time to do it, when traders are waiting for the market to open, eager with anticipation, and jump in making emotional trading decisions, frightened to miss out on a nice move higher or lower. Then the selling starts, and down it goes! Easy really, and given the chance we would do the same! It goes without saying that volume is the ONLY way to see these tricks in action – watch out for them and you will see them ALL the time, in every market, and in every time frame.

- Finally, and just to prove the point, on the third day on our chart the market opens gapped up, but look at the volume – it's high, and well above the volume of the previous day, so this is a genuine move, and the big operators are buying into the bullish trend higher.

Fig 10.21 Coffee Futures - 80 Tick Chart

- Whatever the instrument we are trading, we must try to have an idea of what is high, low and average volume. So that when these extremes of volume do appear, they do not distort our view of what follows in the remainder of the trading session.

Fig 10.22 DJ30 - Weekly Chart

<u>Chapter Eleven – Putting it together</u>

- “The Market does not run on chance or luck. Like the battlefield, it runs on probabilities and odds.” David Derma

Fig 11.10 GBP/USD – 15m Chart

- The chart in Fig 11.10 really explains all we need to know about price congestion and how it relates to the volume breakout when it arrives. As we can see the chart covers an extensive period with 70 candles in this phase.
- The initial entry into the congestion phase is marked by a pivot low which gives us the floor of our price congestion, and two bars later a pivot high is posted with above average volume. The GBP/USD is weak and not ready to move higher with the pair then falling on declining volume, so weakness, but not a trend that will be sustained. And the reason should now be obvious - falling prices and falling volumes. Volumes then decline in general moving between buying and selling, and as the market moves sideways in the congestion phase, we see two further pivot highs posted, followed by a pivot low.
- These are followed by a whole series of pivots, both at the ceiling and the floor of the congestion, and as I explained earlier when we were examining this concept, you do have to think of these levels as rubber bands and not as rods of steel.
- We can see in this example that the pivot points (the little yellow arrows), are not all in a straight line. The market is not linear and technical analysis is an art and NOT a science, which is why volume software that attempts to predict changes in trend can be unreliable. This analysis must be done manually.
- At this stage, as the price continues to trade within the congestion, we are waiting for the catalyst, which will be the signal for any breakout. And on this occasion, was provided by an item of economic data in the UK. From memory I believe it was the RPI release. However, the actual release is unimportant. What is important is the reaction on the price chart.
- First, we have a breakout which moves firmly through our ceiling of resistance, which has now become...... support. And if you remember what I said in the chapter on breakouts – we MUST wait for a clear close well above the congestion phase, and the first candle here delivered this for us. A nice wide spread up candle. Second, we must check that this is a valid move, and the good news is the breakout has been validated by the volume.
- As this has been an extensive area of price congestion, any break away will require substantial effort which is what we have here with buyers taking the market firmly higher. Can we join the move here? This is what we have been waiting for. We have a market that has been in congestion, waiting, and gathering itself, when finally, the catalyst arrives and the market moves on high volume.
- Furthermore, we now have a deep area of natural price protection in place below, and our stop loss would be below the level of the last pivot low. Time has also played its part here, with cause and effect coming into play. Remember, this is a 15-minute chart, so an extended phase of consolidation and congestion, and therefore any consequent effect should reflect the time taken

in building the cause. In other words, the trend, when it breaks, should last for some time. We just must be patient, and wait!

- This is the power of the congestion phase – it is the spawning ground of trends and reversals. In this case the ceiling was breached, but it could equally have been the floor. The direction is irrelevant. All we wait for is confirmation of the breakout, validated with volume, and then trade accordingly.

Fig 11.11 GBP/USD – 1 Hour Chart

- Once again here let me explain the highlights and key points. As we can see the pair has been rising, but the market moves lower as shown by a wide spread down candle. This is followed by a narrow spread down candle with above average volume, and signaling possible buying on this reversal lower. The market pushes higher on the next candle, a wide spread up bar, and posts a pivot low as shown with the small yellow arrow. We are now looking for a possible pivot high which will start to define a potential period of congestion.
- This duly arrives two bars later, and the pivot high is now in place. Now we are watching for a potential congestion phase, and further pivots to define the trading range. However, on this occasion, the next candle breaks higher and moves firmly away from this area. The potential congestion phase we were expecting has not materialized, so we know this was simply a minor pause in the trend higher, as the pair move up on good volume.
- Two candles later, another pivot high is formed, and once again we are now looking for our pivot low to form and define our levels of any congestion phase. In this example the pair do indeed move into congestion, with low volume, and on each rally a pivot high is posted which gives us a nicely defined ceiling. However, there are no pivots defining the floor. Does this matter?
- And this is the reason I wanted to highlight this example to make the point, that in fact it doesn't.

A pivot is a unique combination of three candles which then create the pivot, and this helps to define the region for us visually. Pivots also help to give us our 'roadmap' signals of where we are in the price journey. But, sometimes one or other does not arrive, and we must rely on our eyes to define these levels. After all, a pivot is simply an indicator to make it easier for us to see these signals. In this case the pivot high forms, but there is no corresponding pivot low, so we are looking for a 'floor' to form.

- After four candles, the market moves higher again and posts a second pivot high, so we have our ceiling well defined, and this is now resistance. The next phase lower made up of three candles then stops at the same price level, before reversing higher again. We know this pair is not going

to fall far anyway, as we have a falling market and falling volume. Our floor of support is now well defined by the price action, and it is clear from the associated volume, that we are in a congestion phase at this level. And, my point is this.

- When using any analytical method in technical analysis, we always must apply a degree of leeway and common sense. Whenever a market moves into a region of price congestion, it will not always develop the perfect combinations of pivot highs and pivot lows, and we then must apply common sense as here, bolstered, of course, by our volume. At the start of this congestion phase, we have a very good idea that we are entering a congestion phase, simply from an assessment of the volume. The volume is all well below average (the white dotted line) therefore we already know that we are in a congestion phase, and the pivots are merely aids, to help define the price region for us. Therefore, whilst pivots are very important it is the volume which will also help to define the start of a congestion phase, and the pivot highs and lows are there to help to define the floors and ceilings of the trading range. If one or other is missing, then we simply revert to using our eyes and common sense.
- Ironically, here too, we have a phase which is once again marked by pivot highs, but no pivot lows. However, the volume and price action tell us exactly where we are in the price journey. We simply wait for the next phase to start, which it does, several hours later. Again, how do we know? Volume gives us the answer. The breakout has been associated with above average volume, which is what we expect to see, and off we go again.
- Reading a chart in this way is not difficult. Every market moves in this way. They trend for a little, then consolidate in a congestion phase, then continue the trend or reverse completely. If you understand the power of VPA and combine it with a knowledge of price congestion, then you are 90% of the way there. The rest is practice, practice and more practice, and it will come.

- This concept involves using multiple time frames to analyses price and volume. It allows us to qualify and quantify the risk of any trade, and assess the relative strength or weakness of any trade, and so its likely duration. In other words, multiple time frames will reveal the dominant trend and primary bias of the instrument under consideration.
- Fig 11.12 represents our three-time frames. Despite its size we can see both price and volume and this method of analysis is something I teach in my online and offline seminars.

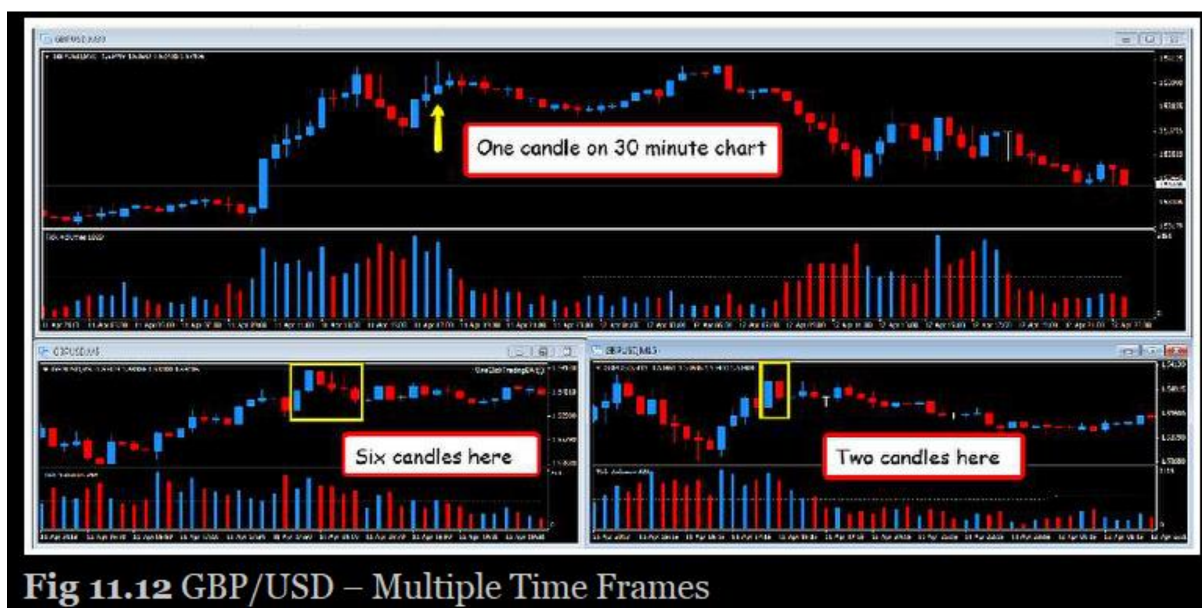


Fig 11.12 GBP/USD – Multiple Time Frames

- What we have in Fig 11.12 are three charts for cable (GBP/USD). The chart at the top of the image is the 30 minutes and is what I often refer to as our 'benchmark' chart. In this trio it is this chart which gives us our bias, and is the one against which we relate the other two. Bottom right is the 15 minutes, and the chart at bottom left is the 5 minutes. All the charts are taken from one of my favorite platforms for spot forex, namely MT4.
- The candle I have highlighted on the 30-minute chart is a shooting star, with ultra-high volume, sending a clear signal of weakness at this level. The shooting star was pre-ceded by a narrow-spread candle also with ultra-high volume, and which gave us our initial signal. But how does this appear on our faster time frames? On the 15-minute chart the shooting star is two candles, and on our 5-minute chart it is six candles.
- The 30-minute chart is there as our slower time frame, our dominant or benchmark time frame, which tells us where we are in the slower time frame trend. Imagine we are looking at price action using a telescope. This is where we are viewing from some way off, so we can see all the price action of the last few days.
- Then using our telescope, we start to zoom in, first onto the 15-minute chart, and then in fine detail to the 5-minute chart. By using the 15-minute chart we are seeing both sides of the price action if you. A slower time frame helps in gaining a perspective on where we are in the longer-term journey, and a faster time frame on the other side will give us the fine detail view of the related price action.

- What do we see here? First the shooting star sent a clear signal of weakness, and on our 15-minute chart this is reflected in two candles, with high volume on the up candle which is also topped with a deep wick to the upper body. And here the point is this. If we had seen this price action in isolation on the 15-minute chart, it may not have been immediately obvious what we were looking at here.
- It takes a mental leap to lay one candle over another and imagine what the result may be. The 30-minute chart does this for us, and in addition, and perhaps more importantly, if we had a position in the market, the 30-minute chart is instantly more recognizable as possible weakness than the 15 minutes. So, two benefits in one.
- If putting two candles together to create one is difficult, putting six candles together is almost impossible, and yet this is the same price action represented on the 5-minute chart. The market then moves into consolidation, which again is much easier to see on the slower time frame chart than the faster ones, and I have deliberately left the pivot points off these charts, so that the charts remain as clear as possible.
- The next point is this. In displaying a slower time frame above, this also gives us a perspective on the 'dominant' trend. If the dominant trend is bullish on the 30-minute chart, and we decide to take a position on our 15-minute chart which is bullish, then the risk on the trade is lower, since we are trading with the dominant trend. We are trading with the flow, and not against the flow. Swimming with the tide and not against it.
- If we take a position that is against the dominant trend in our slower time frame, then we are counter trend trading, and two conditions then apply. First, the risk on the trade is higher, since we are trading against the dominant trend of our lower time frame, and second, we are unlikely to be holding the position long, since the dominant trend is in the opposite direction.
- In other words, what we are trading here is a pull back or a reversal. There is nothing wrong with this, as everything in trading is relative. After all a reversal on a daily chart might last several days. It is all relative to the time frame.
- The third reason for using multiple charts is that this also gives us a perspective on changes in trend as they ripple through the market, this time in the opposite direction. The analogy I use here is of the ripples in a pond. When you throw a pebble into the center of a small

pond, as the pebble hits the water, the ripples move out and away before they eventually reach the edge of the pond. This is what happens with market price action.

- Any potential change in trend will be signaled on our fast time frame chart. This is where you will see sudden changes in price and volume appear first. If this is a true change, then the effect will then appear on the primary chart, which in this case is the 15 minute chart, before the change ultimately ripples through to our 30 minute chart, at which point this change is now being signaled on the dominant chart.