Absolutely. That is a clear signal to get long. We would love that bar to have made a lower low and not a higher high but this is not bad. The thing to recognize is that the bar closes down (when strength appears it usually appears on down bars), but the close is above the midpoint of the bar whilst the range is narrowing and the volume increasing. The fact that it made a higher high and came off does show some supply but the close tells us it was swamp by demand.

Once again our mantra is "what we want to see, where we want to see it".

Well let's generalize a bit and not talk about the trigger level per se but the inflection point that line represents. The wide spread up bar on increasing volume is bullish and what we expect to see as resistance/support is taken out. Once it is taken out, we would expect there to be a "Test" or No Supply. Both of these would be low volume signs of strength. This would be the basic level of entry. This is the level Gavin teaches in his webinars.

We are able to take it up a notch here, however. We realize that a high volume bar (squat) can be just as effective as an entry when seen in the right place. Why? Because we understand the underlying dynamics of the supply/demand relationship that manifests itself in the bar.

Remember, squats appear all over the charts based on the two definitions. (1) MFI decreasing and Volume increasing or (2) "short hand": narrow range on increasing volume. Bill Williams did not talk about the close of the bar (up, down or level) or the relationship of the close within their range when speaking of squats. These things, however, are important to us as Volume Spread Analysis (VSA) traders.

The squats we like to see will show us that supply is swamping demand or that demand is swamping supply. So our "Up" squats will have closes in the 50% or lower portion of the bar's range. While our "Down" Squats will have closes in the 50% or greater portion of the bar's range.

Okay, now let's take a look at the chart below.

Before we get started, please understand that these are not necessarily trade signals. The purpose here is to understand the language of the market.

Let's start at the very left hand side of the chart.

Although the first squat is equal in range to the previous bar we note that volume has increased and that the bar has closed in the lower 1/3 of its range. From the perspective of the range, we are getting the same result on increased effort. This is negative (negative does not mean bearish). The close is up but in the bottom portion of the range. Supply must have been present on the bar otherwise the close would be higher in the range. What we want to focus on here, however, is what happens on the next interval. It does close up, but it is a narrow range bar on volume less than the previous two bars. It is our old friend No Demand.

If supply just swamped demand on the previous interval, it would be natural to see the BBs withdraw if price rose again. After all, supply is resistance to any up move. The market does indeed fall.

Okay, let's move to the next squat. This type of squat has not yet been discussed fully. This squat is on an increasing range bar. The MFI on this bar (range/volume) is lower than the previous interval while the volume is increasing-the technical definition of a squat. Note that the close is down but the close is in the middle of the bar's range. As VSAers, we know what a close in the middle of the range means.

So after this bar where demand swamped supply the market does not immediately go up. What it does do is Test. Again this has to make sense to us. Demand swamped supply on one interval, but before the BBs move in to the upside, they want to "test" for sellers. The Test fails as the next bar closes level (and the bar after that closes down below the close of the Test bar). Note that the first bar was supply swamping demand as the bar closed well of its high on increasing volume.

Let's skip the next squat and move to the one after that. No here we have a squat that makes a lower low but closes up and closes on its high. Clearly, demand swamped supply as the interval started and caused the close to be on the high. Surprisingly (or maybe not), the next bar is a down bar on volume less than the previous two bars-a Test. As it turns out, this Test fails also. I hope you are starting to see why Tests happen and what they are testing for.

The next squat is another one of those increasing range technical squats. It is a Shake Out or Reverse Up Thrust typebar.

I am not going to say much about the next squat, except that it is followed by a 2 bar inversion.

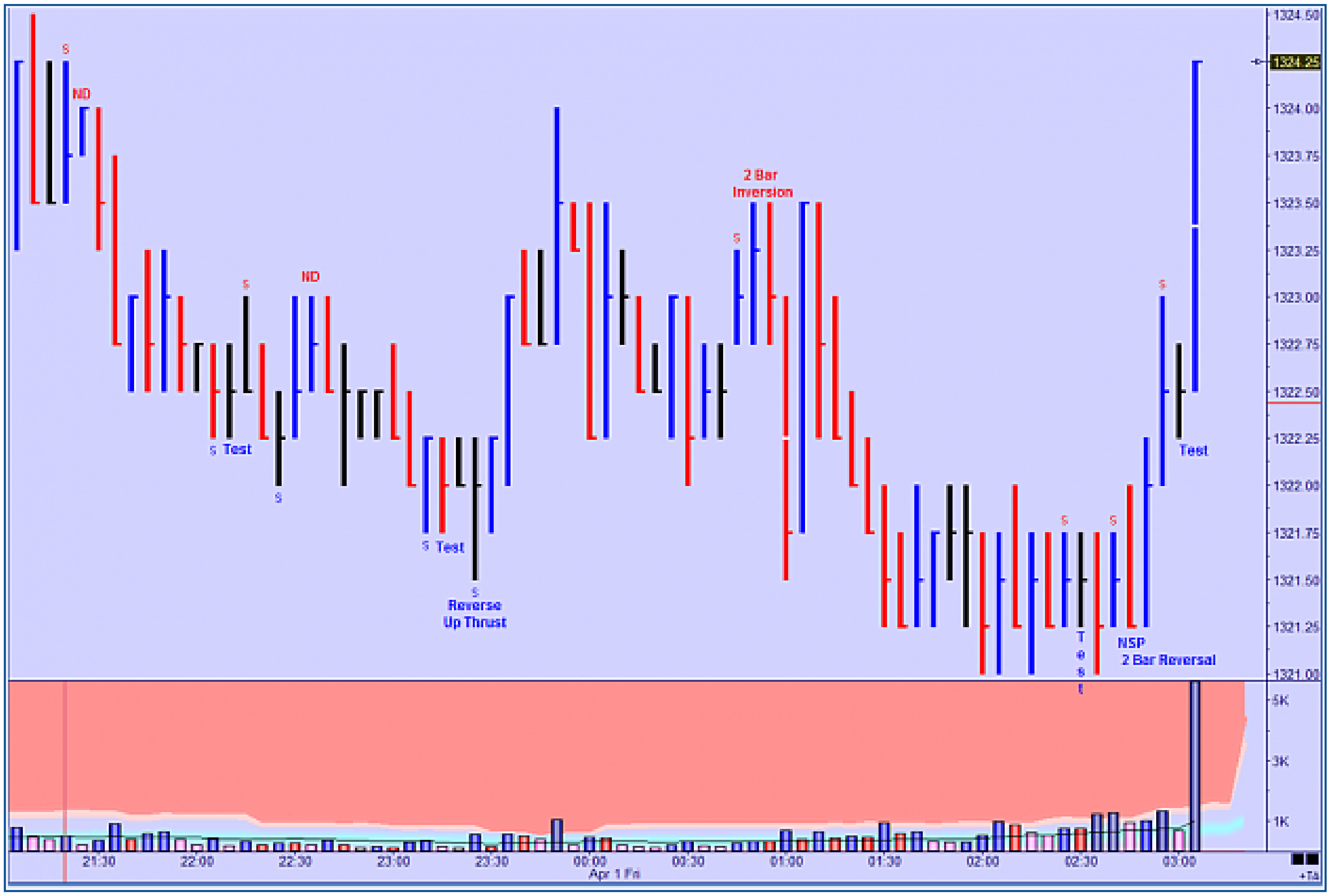
The next squat is an equal range up bar that closes in the middle of its range. This bar is weakness. One the very next bar the market is tested. This test fails as the next bar is down. But that next bar has increasing volume and closes off its lows. There must be some demand (buyers) in this bar. We know there had to be some buyers because the next bar is up. And that up bar turns out to be another squat where we see supply swamping demand giving us a close in the middle of the range.

The proceeding bar is not a test for once, LOL. It is a wide spread bar that closes lower and closes on its low on volume less than the previous two bars. It is No Selling Pressure. So there was some SM traders willing to step in and push price down on the squat bar. But the move down on the next bar did not bring in any new sellers. Thus we've learned what we would have learned from a test.

Our last squat is a shows more supply swamping demand. Why doesn't the market fall? Because they market is tested on the very next bar. Sound familiar?

If you're still reading this, thank you. I hope you have a better understanding of the notes that make up the music of the market.

Attached Image (click to enlarge)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