Looking left to trade right. In **V**olume **S**pread **A**nalysis we use the term *BACKGROUND*.

I am not going to argue over whether the background means multiple time frames or not. I will let the reader make up his or her own mind on that one. I will, however, say that I believe that *a* chart never lies. If *a* chart never lies, then we can say that *any* chart is telling the truth. Well if *any* chart is telling the truth, why do we need to look at more than one?

The Background.

Take a look at the chart on the left. What you do not see here is what was happening on CNBC. The CNBC anchors were all smiles as if the world was nothing but rainbows and lollipops because the S&P was up in the pre-market (prior to S&P cash open). Never mind that this is a zero sum game, which means that for every winner there is a loser. Never mind therefore that when the market is down, there are still people making money. Bill Williams is fond of saying, "CNBC stands for Can Never Be Correct". And as VSAers, we know to ignore the news. Bill and Tom have more in common than just a last name (more on that later).

I am going to talk about the trigger zones in another post, but for now I will say that I still hate lines on my charts but they do seem to help.

To begin our looking left to trade right, we are going to start with what happens in the After Hours/Pre-Market.

1. Ultra High Volume on an Ultra Wide Spread up bar that closes off its high. This bar comes after an uptrend and is a Buying Climax. If all that volume was bullish, then the close should not be off the high. Moreover, the next bar should not be down. This is a clear sign of weakness and it will set the scene for our understanding of what is going on.

Again, note that the Buying Climax is coming amid "bullish news". This will become important later.

2. We see a 2 Bar Inversion. The first bar is of particular import. It is an equal range bar on increasing volume. Now from the technical definition we know that any bar with increasing volume is either a green or squat bar. We are not interested in green or go bars, so for us, any bar with increasing volume is potentially a squat.

Did I just blow your mind? That Buying Climax takes on a whole new meaning. We can see that any **VSA** SOW or SOS that comes on an increasing volume bar is potentially a squat. Like I said, Bill and Tom have much more than a name in common.

Note that the close of this first bar is equal to the close of the Buying Climax, our trigger level (c).

3. This is a very interesting and subtle bar. It is a narrow range bar with an equal close that closes on the low of its range with volume less than the previous two intervals. It is No Demand. This interval does not make a higher high and closes equal rather than up. That makes it a bit hard to see. But look at the bar's construction. The only way this bar can be formed is for it to first trade up and then close to be pushed down to its low. In other words, supply would have to swamp demand on the upper portion of the bar and push price down to the low. It did not take a lot of supply because there was even less demand. Hence the volume remains low.

Note also that the high of this bar is no higher than the close of our Buying Climax.

Because of the time of day, this is not a good entry signal. Any other time of day it would be. Rather then telling us to get short, it is telling us that the market is weak.

4. Price did fall but has come back into the range of the Buying Climax and now we see the second of two Tests. This Test does prove to be valid as the next bar is equal and the bar after that is up and neither of those bars make a lower low than the Test bar.

The key here, however, is that the Supply on the Buying Climax doesn't just simply disappear. That is, the market is still being "ruled" by the weakness on that interval.

5. Another important Squat. Notice that this bar closes in the middle and the volume is greater than average. So whilst this bar is confirming the Test, it is show us that more supply is actually entering the market.

How can this be? What is going on here? Are you trying to play both
sides? No.

The Test has a purpose that will be fully evident once the cash market opens. For those paying attention to the background, we see weakness. We don't predict the market; we react to it. Our bias, however, is for further weakness.

Take a look at the next chart.

6. Okay, the news is bullish, and there seems to have been a good test. The herd hears the good news and is ready to jump aboard on the long side. Those that can read a chart but ignore the background see only a test and are ready to get long as well.

The opening bar is an outside bar. Meaning it makes a higher high and a lower low than the previous bar. These bars are a bit harder to read. But look at the close. We close in the middle of the range. Whilst we expect volume to increase on the RTH open, we know it can't all be bullish volume. Especially since the next bar is down. Also note that the high of this bar did not exceed the high of the Buying Climax. This is important. We can not be in an uptrend, if we are not making higher highs.

7. Wide Spread down bar that confirms the hidden selling on the first bar. So the BBs were selling into the artificial bullishness that was created by both the news and the test bar.

This bar again fails to make a higher high than the Buying Climax. But take a look at the low and the close. It not only trades lower than the Buying Climax, but it trades lower and closes lower than the two previous Test bars. Therefore, where there was once no sellers now there are. We might even call this bar a Trap Up Move. Since it is 2-5 intervals after the Test, it is also No Result From a Test. Simply put, it's weakness.

8. A narrow range up bar on volume less than the previous two bars. This is No Demand. Although the volume is still high, it is nevertheless, less than the previous two intervals. Unfortunately, this bar makes a lower low and not a higher high but it is still No Demand after we have seen weakness.

Upon father inspection, a few interesting things come into view. First, the close is equal to the High of our high volume trigger zone from yesterday's opening range (Initial Balance), and also equal to the low of the first Test bar. The high of the No Demand is equal to the close of that same Test bar.

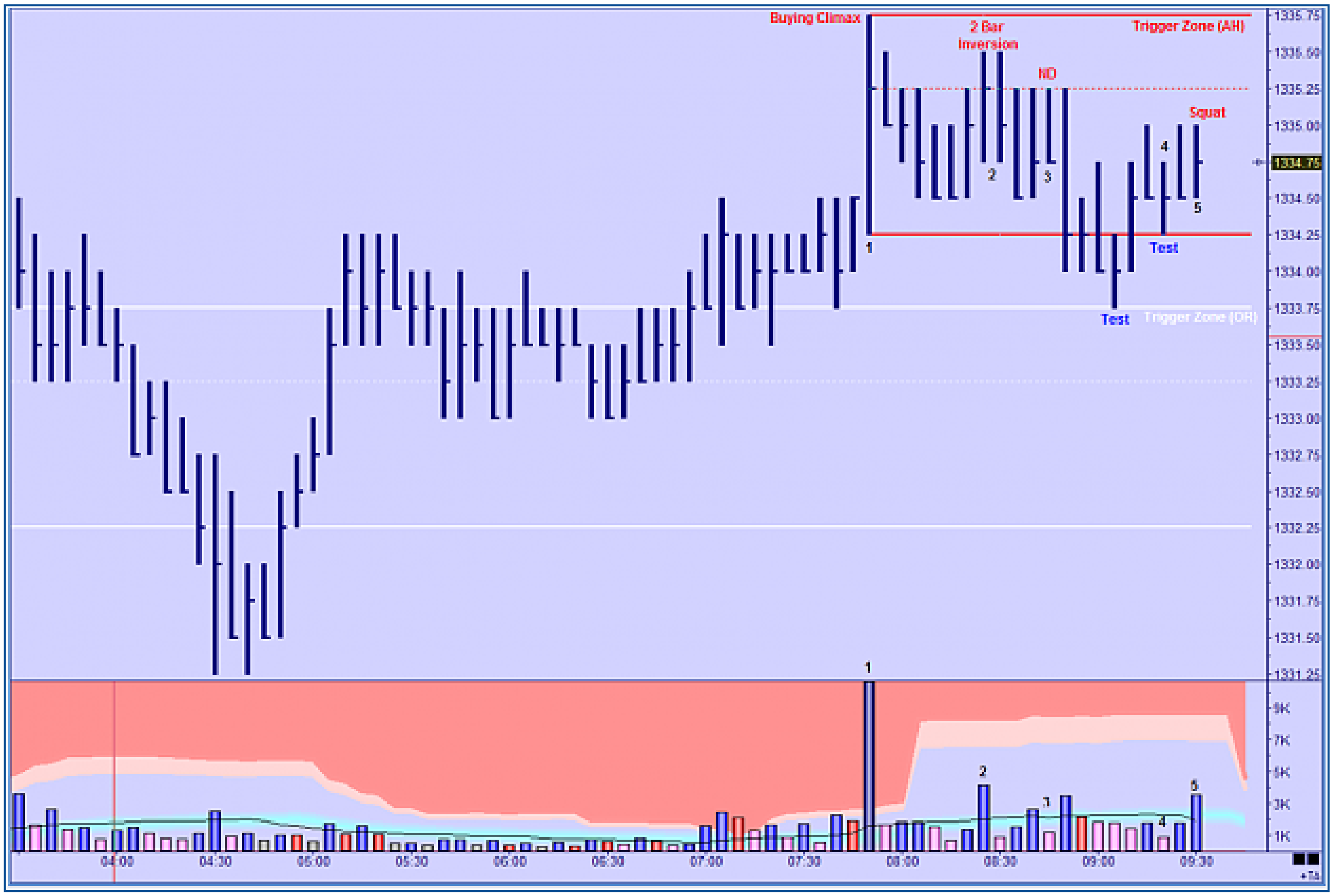
9&10. These two bars are interesting as the relate to the "2 Bar Entry Rule" concept of my last post. #9 is a nice narrow range up bar on volume less than the previous two bars. If you placed an entry just below the low of this bar, #10 does not bring you in. It closes equal to #9 confirming it as No Demand. However, #10 does make a higher high. It is not uncommon for No Demands to be preceded by Up Thrusts, so this should not be of much concern. Tests don't have as many Reverse Up Thrusts after them as No Demands have Up Thrusts. So when the interval after a Test trades lower, it may mean more than when the interval after a No Demand trades higher.

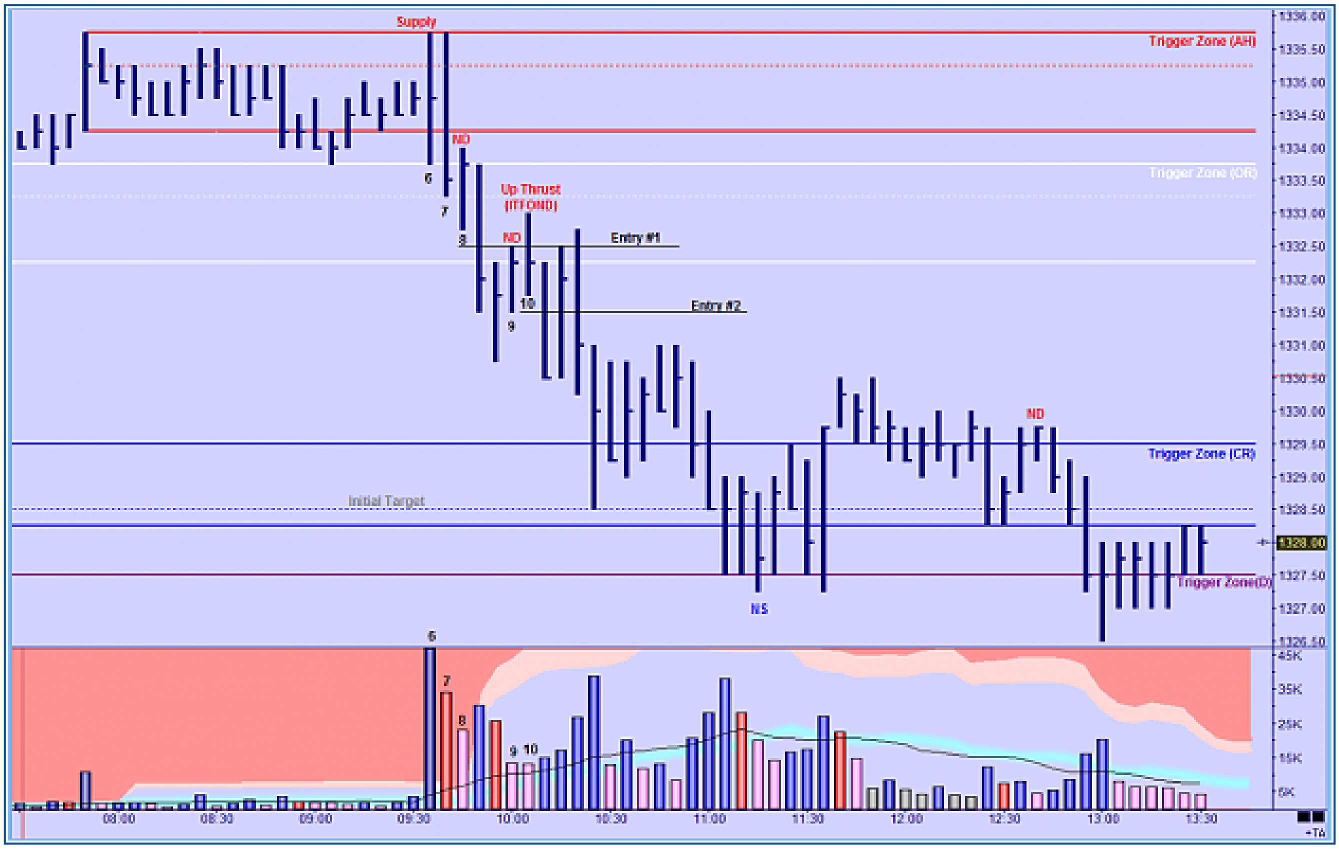
Ultimately, #10 did not do anything to change our opinion of the market. In fact, we can actually move our limit order up a bit and consider the next interval the first interval of 2. That next interval would bring us in.

The key to this whole thing is the weakness we saw on the Buying Climax. Amidst the Bullish reporting and the natural tendency for the market to move up, we were able to look at the background and detect the true intentions of the BBs. This market was not going up and if you had looked left to trade right, you would have known that.

It's all about the background.

Attached Images (click to enlarge)





Supply
Trigger Zone (AH)
Trigger Zone (OR)
ND
Up Thrust
(UTOND)
Entry #1
Entry #2
Trigger Zone (CR)
Initial Target
Trigger Zone(D)
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