HiddenGap

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indulge me

1 Attachment(s)

Please indulge me, those expecting to be fed fish just scroll down. Those seeking to learn how to fish, read on.

Been looking a some old brilliant post from Seb Mamby on elitetrader....

Without further a dew, let's get to the chart. This is a 5 min ES chart.

1. As always, the place to start is with Very High to Ultra High Volume. This bar has Ultra High Volume on an up bar that closes off its high. We know markets do not like Ultra High Volume up bars, because they can contain hidden selling. If this bar was buying, then we should ask ourselves, "why is the close off the high?".
This bar will be our "trigger" bar. I have placed the trigger level on the high rather than the close, the reason will be explained later. But for now, assume the trigger level is the close.

2. The next bar is down. This confirms that there was selling on the first bar. So the first bar closes off its high and the next bar was down. No doubt that there was selling in bar (1). Bar (2) has volume less than the previous two so we know that the BBs are not ready to take the market down, but the first sign of weakness has made an appearance.

3. The market continues up and then we get a narrow range up bar that also closes off its high on increasing volume. This is a squat. Had this bar had ultra high volume on this spread, we would call it End of a Rising Market.

Bill Williams tells us that all trends end in a squat as one of the last 1-5 intervals. He goes on to tells us that while all trends end in a squat not all squats are the ends of trends.

Back to the pure VSA perspective. The close off the high tells us that there must be supply swamping demand on this interval.

4. This bar is down again its on volume less than the previous two bars. This is not strength with the weakness in the background. But the Smart Money is not yet ready to take the market down.

5. Interesting bar. The bar is wide and the volume is a bit above average. Normally, increasing volume on up bars in an up trend would be bullish. However, let's take a closer look. This bar is the fifth up bar (starting from (1)) taking us to a new high but the volume is actually the least of all the previous up bars. In other words, the market is moving up on decreasing volume. This is a sign of weakness.

The herd would like this type of bar and you would expect to see some herd buying on a bar like this.

6. The GOTTCHA bar. The BBs don't trade to make friends, they trade to make money. This wide spread down bar on high volume that closes on its low is designed to lock traders in the market that are long. Where as we might normally see a wide spread down bar on very high volume as strength, it is a sign of weakness in this case.

This bar has to change your view of the market if you were long biased.

7. Our old friend. Narrow range up bar on volume less than the previous two bars, No Demand. Note that this bar appears in the range of the "Gottcha bar"-there are no accidents.

Now this is actually your first place to get short.

8. A few bars later we have a "squat" type bar. Technically, a squat should have a narrower range than the previous bar and increased volume. This one has an equal range and increased volume. The concept remains the same. Volume is increasing as the range is being compressed. Every buy order is immediately being match with a sell order from the Smart Money. Thus resulting in a narrow range. Weakness.

Okay, Note that the high of this bar is equal to the high of the Trigger Level (H). You just have to be paying attention to catch this fact. This, however, is not the only reason to move the trigger from the close to the high.....

9. the next bar is a hidden Up thrust. The bar makes a higher high than the previous bar but closes lower and on its low. Supply is swamping demand on the high of the bar which causes the down close as the BBs gun for stops at this level. What's so special about this level? Well its the high of the initial sign of weakness. We would of liked it to be the close, but again, the underlying dynamics matters more than the pattern.

If you did not enter on (8), then you would most definitely want to enter on this bar. You have a weakness in the background and the market is making lower lows and not higher highs

10. Bar (10) is the second of two consecutive up bars. But the volume is less than the previous two, so you would not exit your short at this point.

The high volume down bar that appears a few intervals later is your alert to at leas be on the look out for an exit.

Doing exercises like this will get us to where we want to be rather than simply taking trades based off of Mal's calls. After all, what are we going to do when he buys his private island and denounces all technology?