

Chart reading using Volume Spread Analysis

Provided below are some illustrious charts for learning Volume Spread Analysis(**VSA**). A free ebook is available on the subject of VSA – **Master the Markets (Tom Williams, TradeGuider Systems)**. This ebook(PDF) can be downloaded from [here](#). Before trying to read the below charts, please study the section 1, 2 and 3 from the ebook.

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CHART 1: BREAKOUT ON HIGH VOLUMES AND SUPPLY TESTING



[File: GSPL-BREAKOUT-BACKUP-RALLY-SUPPLY-TESTING.PNG]

In the above chart, a closing above resistance(R) accompanied by high volume is seen at point 1. Such a surge in volume also means that there does exist supply at that price which can act as resistance of the seller decides to sell his stock at that level. So we need to find out if that big seller interested in selling the shares(supply) or does he want to hold them for higher prices? To find this, other professionals markdown the prices to see if volume increases(selling increases) in markdown. Its this markdown that is shown at point 2. Note the lower volume on point 2 as compared to point 1. This means that the professionals are not selling it as they are *bullish* on the stock. This is a **strong buy signal**. The strength of this buy signal is evident on the next session itself where it has gained more than 7% in a single session!

CHART 2: LOW VOLUME RETRACEMENT IN A DOWNTREND



File: herohonda-low-volume-retracement-in-downtrend.png

In the above chart, observe that in the pink-shaded area, volume is decreasing whereas price is increasing. Such a picture shows *lack of demand* from professionals. Within a couple of days, the stock fell by over 7%.

CHART 3: PUSHING UP THROUGH SUPPLY BY RAPID GAPPING WITH HIGH VOLUME NEAR RESISTANCE WHEN PROFESSIONALS ARE BULLISH

ROLTA -5.65 (-3.41 %)



File: rolta-rapid-gapping-high-volume.png

In the above chart, a strong resistance zone at 140-150 can be seen. The professionals are *bullish* but passing through the resistance zone can be difficult as the locked-in traders could try to sell. In order to encourage the locked-in traders not to sell, the prices are marked up rapidly. Another observation is the high volume under bars which represent “extra effort”.

CHART 4: NO EFFORT TO BREAK ABOVE THE RESISTANCE

UNITECH -2.75 (-3.23 %)



File: unitech-no-effort-near-resistance.png

In physics, to change the direction of motion, force is required. Similarly, to break above a resistance, high volumes are required. Absence of higher volumes near resistance mean that the resistance will hold good. In the above chart, a resistance can be identified near 95. When the price again heads towards between Aug 11 and 19, volumes weren't noticeably higher and the

resistance was not breached. This is precisely why its said that *genuine breakout are coupled with very high volumes*.

CHART 5: FAILED TEST OF SUPPLY RESULTING IN A DOUBLE TOP PATTERN



File: gvkpil-failed-supply-test-double-top.png

The above chart shows many things at the same time – Double top, rectangular channel, pullback, bearish falling three methods, abandoned ascending triangle and also a failed test of supply!

The retracement at (1) signifies that there are locked-in traders. They may create resistance for the bullish operator by adding to the supply. At (2), the bullish operator, fully aware of the locked-in traders at 46 levels, decides to test if the locked-in traders will sell or hold for higher prices. Hence, while the trading session is in progress he marks-up the price. As soon as the price is marked-up, the locked in traders sell off their shares and the operator withdraws from further marking-up the prices. However, the sellers are not done yet and the resulting selling pressure causes the price to tank. The volume surge confirms this.

CHART 6: ANOTHER ILLUSTRATION OF A FAILED TEST OF SUPPLY



File: ptc-failed-test-of-supply.png

The above also illustrated a failed test of supply. Observe how the price is marked-up exactly into the retracement area!

CHART 6: BUYING CLIMAX FOLLOWED BY A WEAK RALLY – MAJOR SIGNS OF PROFITABLE WEAKNESS



File: ifci-buying-climax-weak-rally.png

“A buying climax marks the end of a bull market. It is hallmarked by rapid price rises after a substantial bull market has already taken place. The volume is always high: The higher the volume, the more likely it is to be a buying climax. The spreads will be very wide, closing higher than previous bars, and the ‘news’ will be good. If prices are into all-time new high ground, this will mark the top of the market.” – Tom Williams, Master The Markets, Tradeguider Systems.

The above chart, at (1) fulfils almost all conditions for a buying climax! Buying climax is a sign of weakness. **Extreme volumes** are required for a buying climax. It is followed by a small rally at (2) – but the volume under those rally bars is low! This signifies lack of demand from big pocket professional operators, without which the price will soon tank – and it does really tank – over 15% down in the next two sessions!

CHART 7: POTENTIALLY DISASTROUS AND FIERCE BREAKOUT FOR SHORT TRADERS



File: bharatforg-back-to-back-rally.png

In the pink highlighted area in the above chart, one will easily identify the buying climax(discussed above). On the two candles following it, the prices closes higher with lower volumes – indicating that going short would be profitable. Indeed it was profitable but only till the next session. Within two sessions then, the price exploded and **if the short was not covered duly, it could destroy the trading account.**

For a casual observer, it would have been very difficult to trade this chart!

Was there any warning sign to cover the short and instead go long?

If one observes the candle marked at (3), it is a “test of supply”^[Pl. See note 1 below]. This test of supply was carried out by **marking down** the prices during the session. Yet, at EOD the volume did not increase above the previous two bars. Also, the price recovered from its low to close in the middle of the spread. This is indicative of some serious buying in the background.

The next candle(4) closes higher on lower volume. Considered in isolation, it implies “bearish volume”. But that would have been a very expensive mistake! Such kind of “bearish volume” which is actually bullish is often seen after a successful test of supply. Infact such a volume could add to authenticity of the test of supply because given the setup, it could be interpreted as *“The professionals have accumulated most of the floating stock.”*

Note 1: In the previous illustrations(Chart 5 & 6), the test of supply was carried out by marking the prices **up**, whereas here, the same have been carried by marking the prices **down!** But note that Master the Markets does not say anything about marking up the prices to test demand.

CHART 8: GREEN SHOOTS AFTER REDUCED SELLING PRESSURE

BALAJITELE -1.40 (-2.32 %)



File: balaji-tele-reducing-selling-pressure-green-shots.png

The price action has reversed within (1). However, with every lower close, the volume also reduces – which means that less sellers have been detected. While this is a good news for the trader, it is not a buy signal itself because we are yet to see commitment of professional buying. Without professional buying, the stock could simply move in a very narrow range.

There are signs of professionals buying at (2) – the price recovers from its low to close near middle of the range for the next two sessions. But have a look at the volume! The volume do not show any easily noticeable professional activity. Given the setup, this could add to the authenticity of reduced selling pressure because it could be interpreted as “*There is no much floating stock at this price anymore!*” – This ignites the rally!