

TAG XIX LAS VEGAS 1997

The Wyckoff Method—

Analyzing the Price and Volume Movement of a Market or a Tradable Item According to the Principles of Mass Psychology

HANK PRUDEN



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This workshop will provide you with a unique opportunity to learn the principles of the Wyckoff Method of technical analysis and trading. You will learn to combine the technical tools you already use with an entirely new perspective on market behavior, enhancing both your technical trading skills and your ability to judge critical trading situations.

You will learn to concentrate your analysis on three essential factors: tick-volume or volume (the intensity of trading); the relationship between price movement and volume; and the time required for all the movements to run their respective courses. The information derived by using a volume or tick-volume approach can directly influence your day-to-day decision making process. It will enhance your awareness of the market's real strength or weakness.

Hank will provide numerous examples, including foreign exchange and fixed interest using Dow Jones TradeStation™ charts. You will also be provided with some *EasyLanguage*™ code to use either on your Dow Jones TradeStation™ or as a guide for translating your idea(s) to other platforms.

* * *

Hank Pruden is a professor in the School of Business at Golden Gate University in San Francisco, where he has been teaching for twenty years. Hank is more than a theoretician. *He has actively traded his own account for the past twenty years. His personal involvement in the market ensures that what he teaches is practical for the trader and NOT just abstract academic theory.* He is the executive director of the Institute of Technical Market Analysis (ITMA). At Golden Gate he developed the accredited courses in technical market analysis in 1976. Since then the curriculum has expanded to include advanced topics in technical analysis and trading. In his courses Hank emphasizes the psychology of trading as well as the use of technical analysis methods. He has published extensively in both areas.

Hank has coached institutional traders in the field of technical analysis for many years. He is presently on the Board of Directors of the Technical Securities Analysts Association of San Francisco and is a past president of that association. Hank also sits on the Board of Directors of the Market Technicians Association (MTA). The MTA is the world's leading association for the dissemination of technical analysis information. The MTA's sister organization, the IFTA (International Federation of Technical Analysts), certifies analysts worldwide. Hank is the editor of *The Market Technicians Association Journal*, the premier publication of technical analysts. From 1982 until 1993 he was a member of the Board of Trustees of Golden Gate University.

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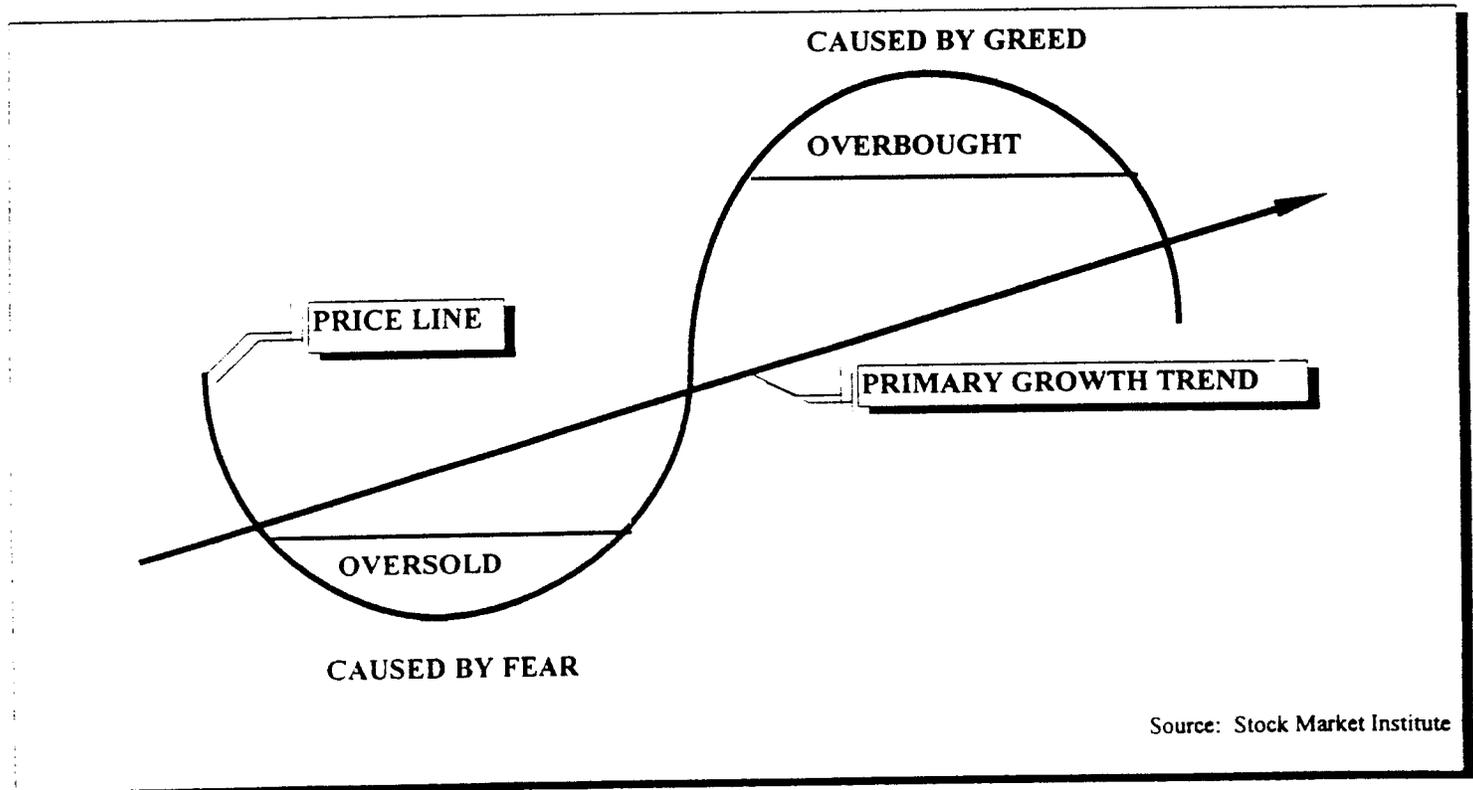
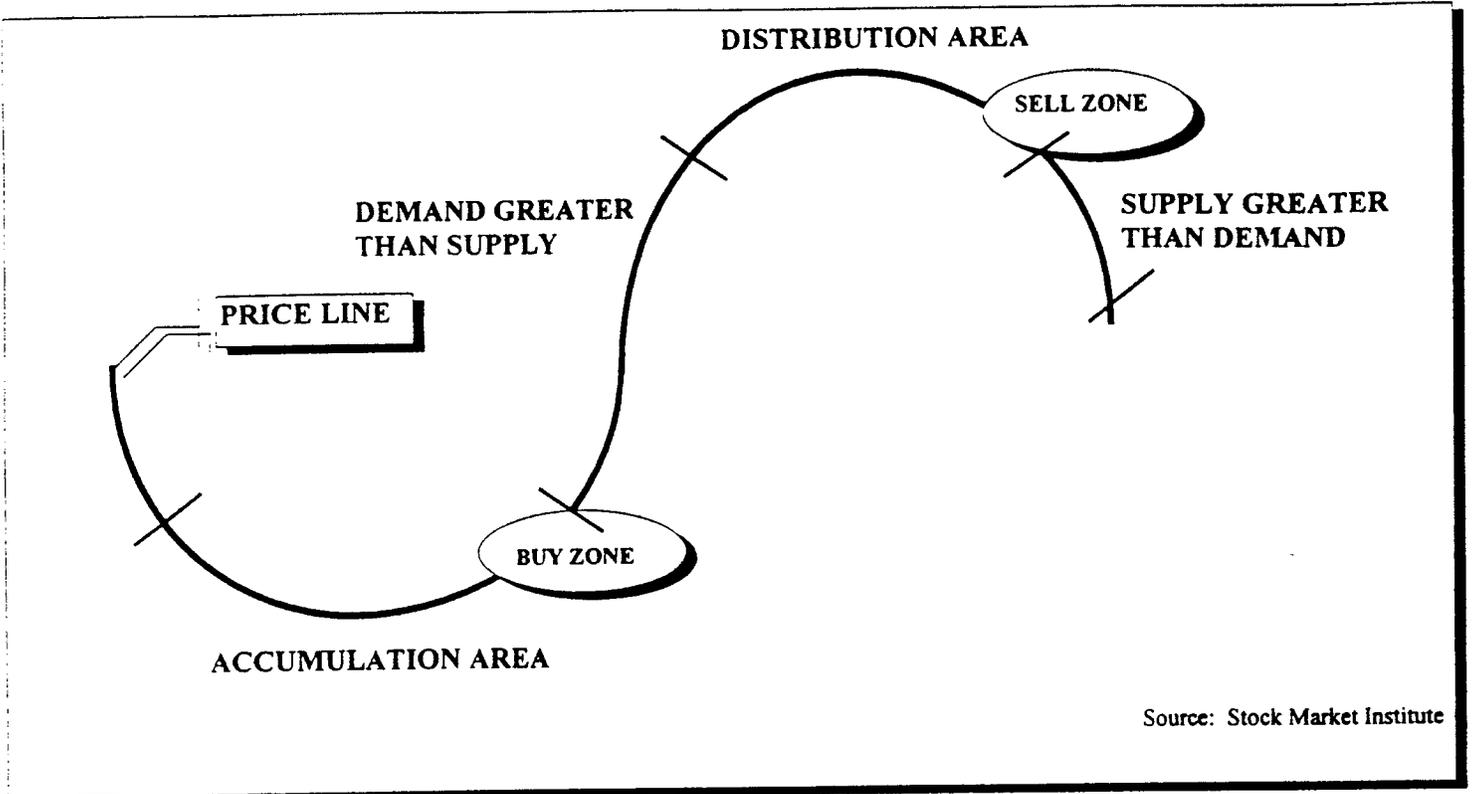
THE WYCKOFF METHOD: PROFIT AND SURVIVAL TECHNIQUES USED BY LEGENDARY OPERATORS

- ◆ Study advanced techniques in supply-demand analysis and charting.
- ◆ Discover such methodologies as the “Three Wyckoff Laws” and the “Nine Buying and Selling Tests”.
- ◆ Learn to judge the phases of a trading range.
- ◆ Gain skill! at finding low risk money making opportunities.
- ◆ Identify and gain confidence with the three low-risk trading opportunities.
- ◆ Acquire a disciplined operational approach for riding winners, cutting losers, and managing risk.

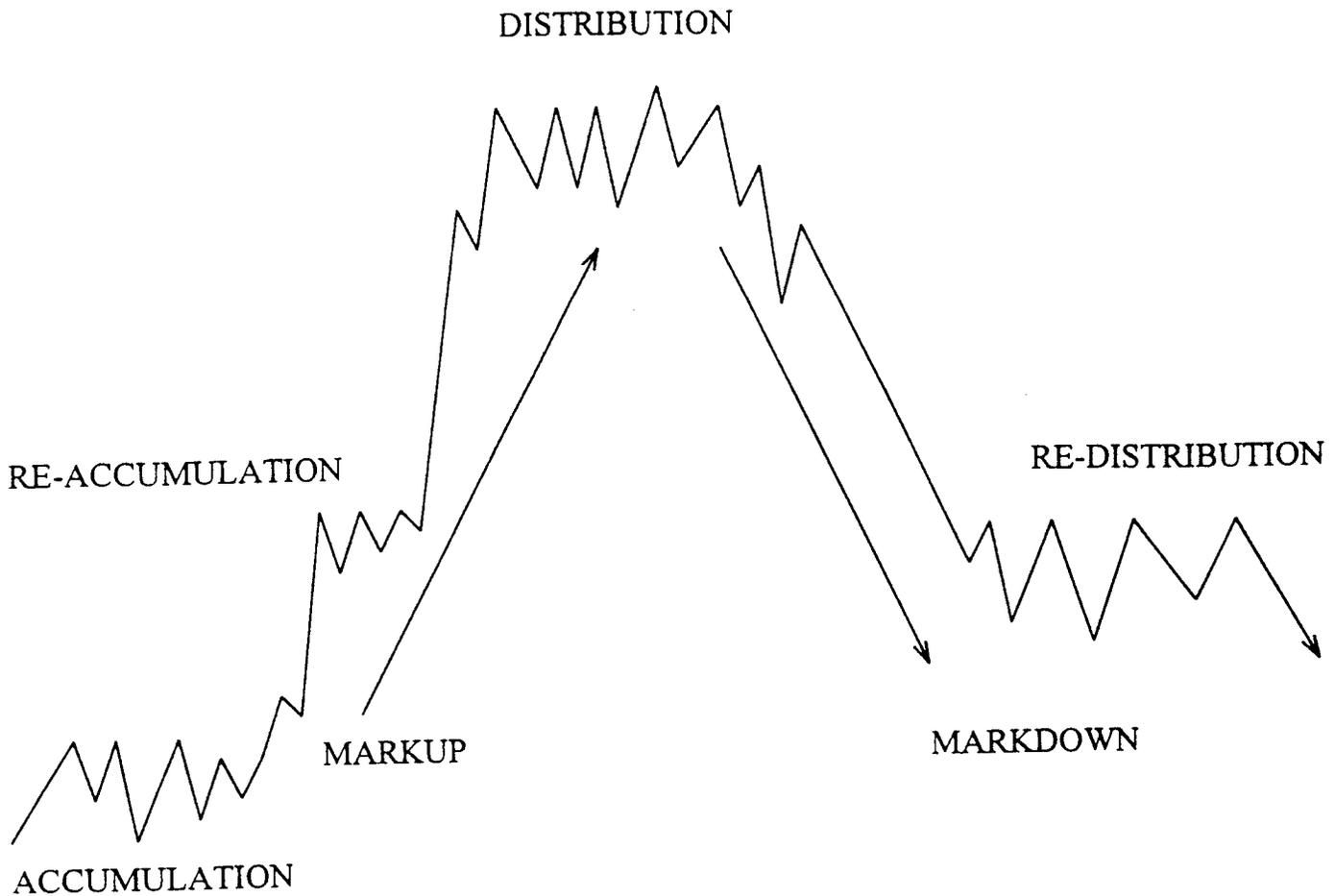
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WYCKOFF SUPPLY AND DEMAND

Idealized Cycle



Conception of Primary Market Phases



- | | |
|------------------|--|
| Accumulation: | The establishment of an investment or speculative position by professional interests in anticipation of an advance in price. |
| Markup: | A sustained upward price movement. |
| Re-Accumulation: | Momentary stopping or pausing points in the up-trend. |
| Distribution: | The elimination of a long investment or speculative position. |
| Re-distribution: | Momentary stopping or pausing points in the down-trend. |
| Markdown | A sustained downward price movement. |

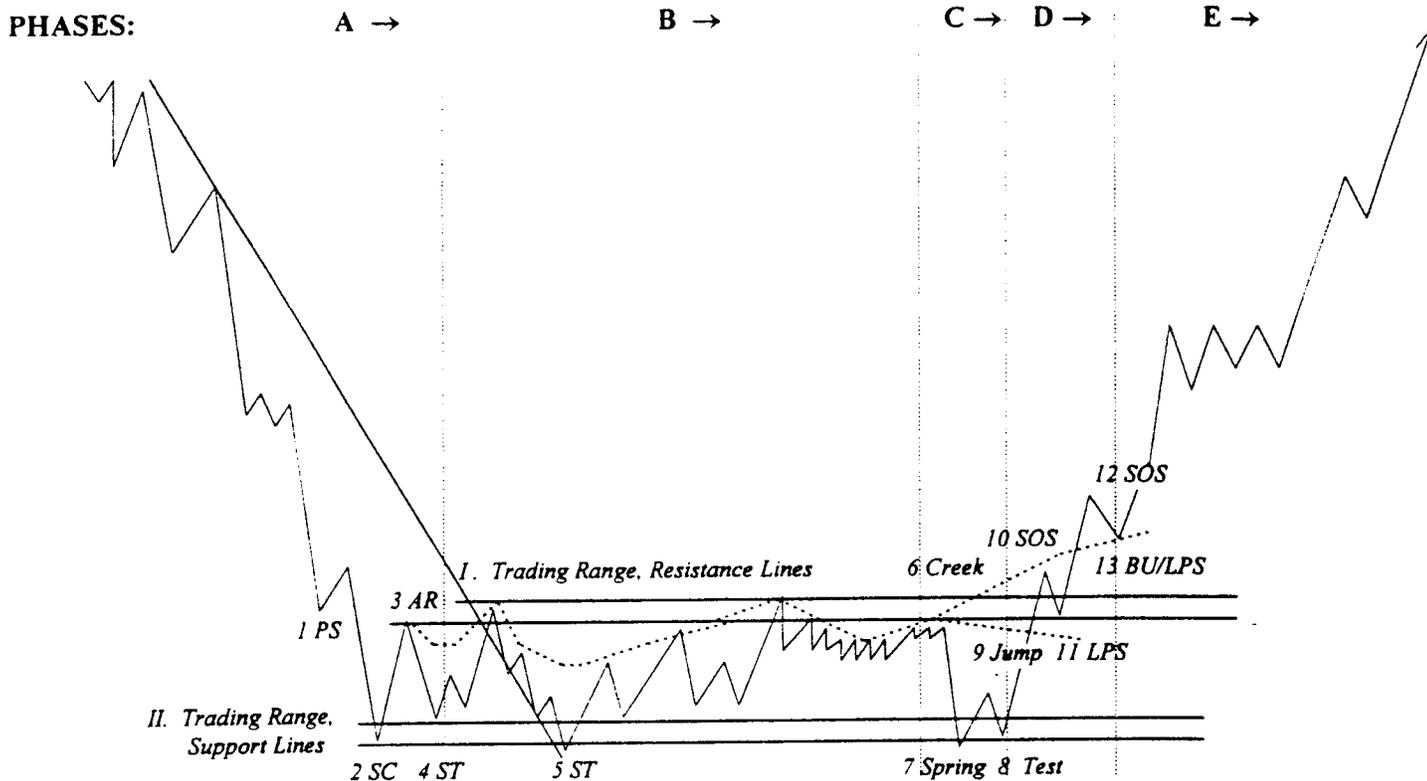
THE THREE WYCKOFF LAWS

1. LAW OF SUPPLY AND DEMAND
2. LAW OF CAUSE AND EFFECT
3. LAW OF EFFORT vs. RESULT

The Law of Supply and Demand: “When demand is greater than supply, price will rise and when supply is greater than demand, price will fall.”

Source: Stock Market Institute

ACCUMULATION



Source: Stock Market Institute

Schematic 1 Accumulation

Phases A through E: Phases through which the Trading Range passes as conceptualized by the Wyckoff method and explained in the text.

- I. Trading Range Support define support in the range.
- II. Trading Range Resistar e...define resistance in the range.

1 (PS) Preliminary Support is where substantial buying begins to provide pronounced support after a prolonged down move. Volume and spread widens and provides a signal that the down move may be approaching its end.

2 (SC) Selling Climax...the point at which widening spread and selling pressure usually climaxes and heavy or panicky selling by the public is being absorbed by larger professional interests at prices near a bottom.

3 (AR) Automatic Rally...selling pressure has been pretty much exhausted. A wave of buying can now easily push up prices. This is further fueled by short covering. The high of this rally will help define the top of the trading range.

4, 5 (STs)Secondary Test(s)...revisit the area of the Selling Climax to test the supply-demand balance at these price levels. If a bottom is to be confirmed, significant supply should not resurface, and volume and price spread should be significantly diminished as the market approaches support in the area of the SC.

6 The "Creek" is an analogy to a wavy line of resistance and floating supply drawn loosely across rally peaks within the trading range. There are, of course, minor lines of resistance and more significant ones that will have to be crossed before the market's journey can continue onward and upward.

7, 8 Springs, Shakeouts and Tests usually occur late within the trading range and allow the market and its dominant players to make a definitive test of available supply before a markup campaign will unfold. If the amount of supply that surfaces on a break of support is very light (low volume), it will be an indication that the way is clear for a sustained advance. Heavy supply here will usually mean a renewed decline. Moderate volume here may mean more testing of support and to proceed with caution. The spring or shakeout also serves the purpose of providing dominant interests with additional supply from weak holders at low prices. Springs and shakeouts are often times ar- accompanied by a Test.

9 (JUMP) Jump Across the Creek is a continuation of the creek analogy. The markets jumps resistance very deliberately. In a JUMP, it is a good sign if it is done on good spread and volume, thus, depicting- a sign of strength (SOS).

10, 12(SOS) Sign of Strength...an advance on good (increasing) spread and volume. The Market moves very easily upward.

11, 13 (LPS) Last Point of Support and (BU) Back Up to the Edge of the Creek a pull back to support (that was resistance) on diminished spread and volume after a SOS. This is a good place to initiate long positions or pyramid profitable ones positions bought at the spring, the test or on the SOS.

Note: A series of SOS's and LPS's is good evidence that a bottom is in place and Price Markup has begun. Therefore, these are good points at which to build a position and/or pyramid winning lines.

Source: MTA Journal Summer - Fall 1994

ACCLAIM ENTERTAINMENT (AKLM) Daily

Charts provided by TT Chartbook, Technical Tools.

LONG TERM ACCUMULATION

EXHIBIT 6

PHASE A: Shows us the Preliminary Support (PS) and a Selling Climax (SC) with the exhaustion of supply as the steep downtrend is broken. The Automatic Reaction (AR) and Secondant Test (ST) set the boundaries of the Trading Range that follows.

PHASE B: In the early stage, we see a wide swing and higher volume, and the first sign of demand asserting its dominance, as professional absorb supply. Late in Phase B, low volume shows supply has dwindled at the Trading Range lows.

PHASE C: Gives us a final and unconvincing test and break of the Trading Range lows on extremely light volume. This is followed by a Sign of Strength (SOS) on dramatically increased volume.

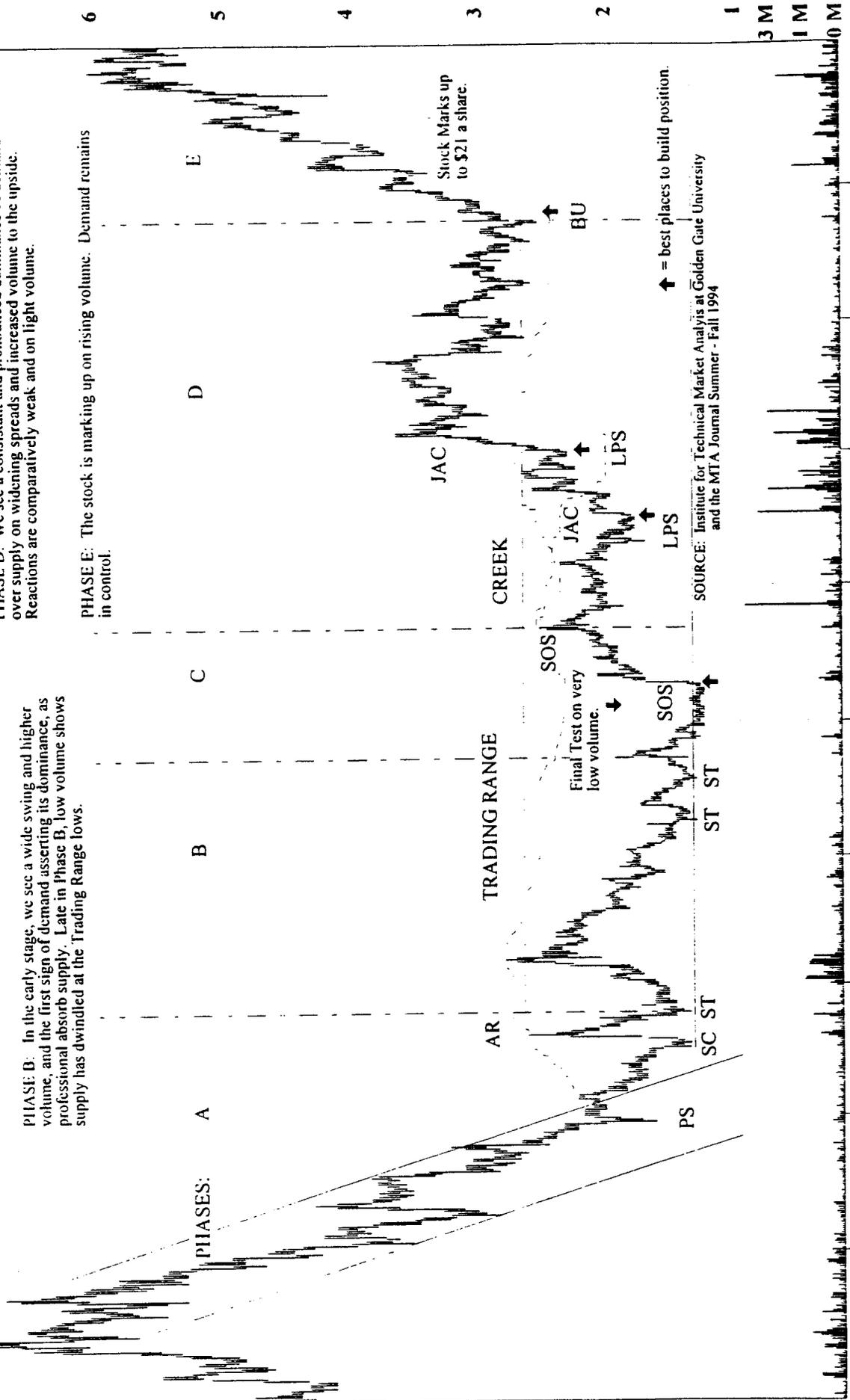
PHASE D: We see a consistent and pronounced dominance of demand over supply on widening spreads and increased volume to the upside. Reactions are comparatively weak and on light volume.

PHASE E: The stock is marking up on rising volume. Demand remains in control.

Stock Marks up to \$21 a share.

↑ = best places to build position.

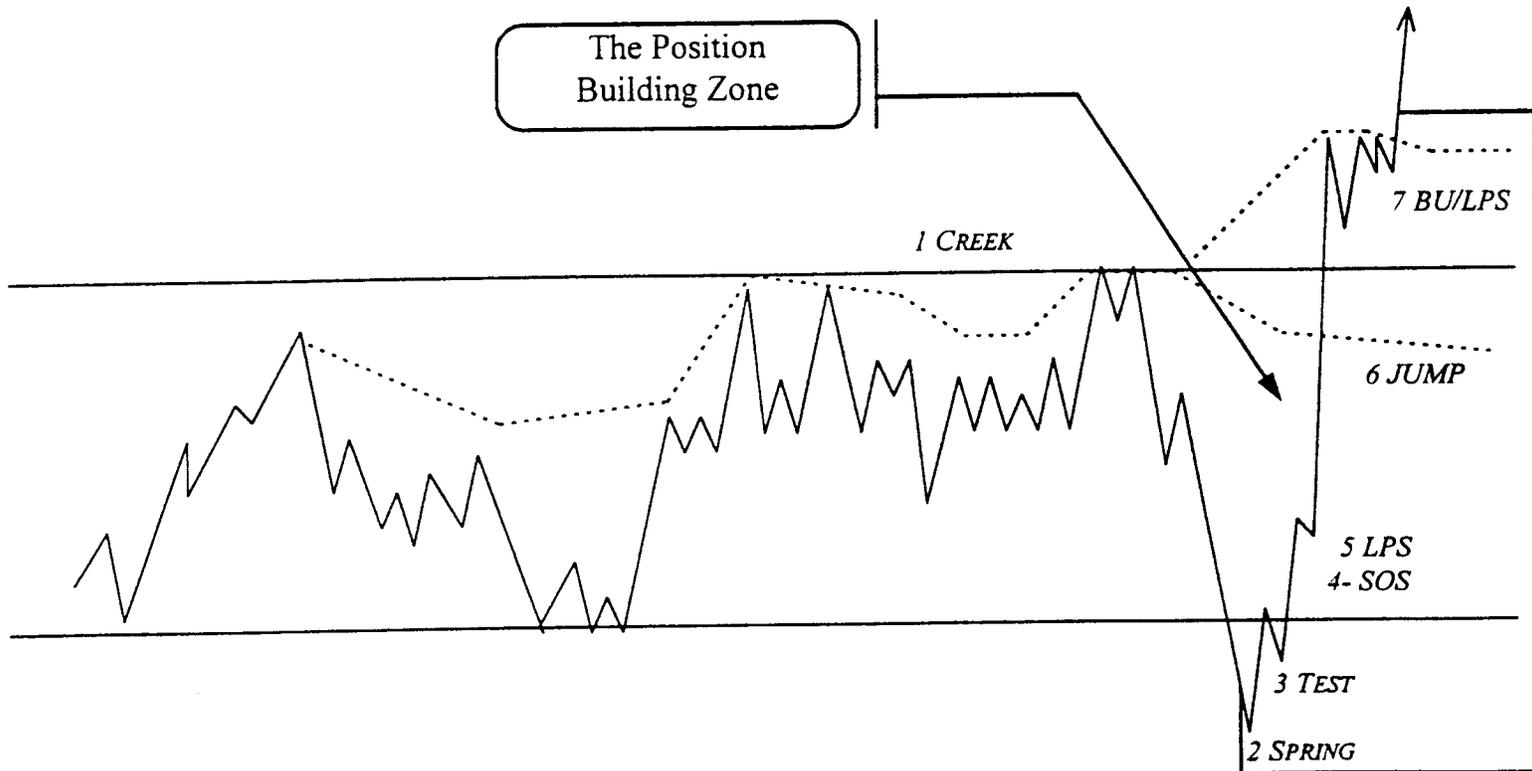
SOURCE: Institute for Technical Market Analysis at Golden Gate University and the MTA Journal Summer - Fall 1994



WYCKOFF TECHNIQUES
FOR STUDYING SUPPLY AND DEMAND:

TAKING ACTION

- PHASES OF TESTING
- THE READINESS TO MOVE



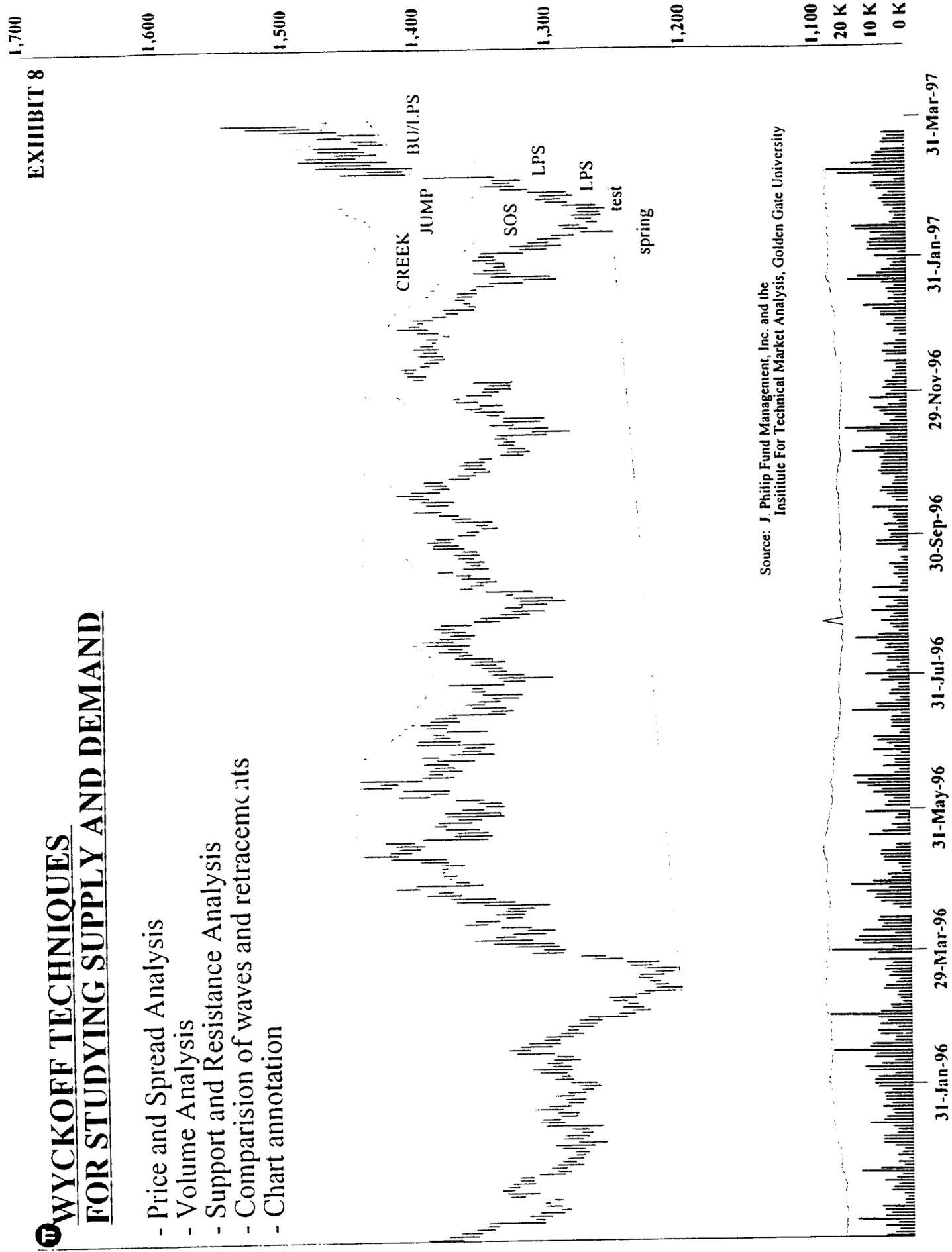
Source: J. Philip Fund Management, Inc. and the
Institute for Technical Market Analysis at Golden Gate University

Cocoa (CC) TTSplice™ Chart Daily

EXHIBIT 8

WYCKOFF TECHNIQUES FOR STUDYING SUPPLY AND DEMAND

- Price and Spread Analysis
- Volume Analysis
- Support and Resistance Analysis
- Comparison of waves and retracements
- Chart annotation

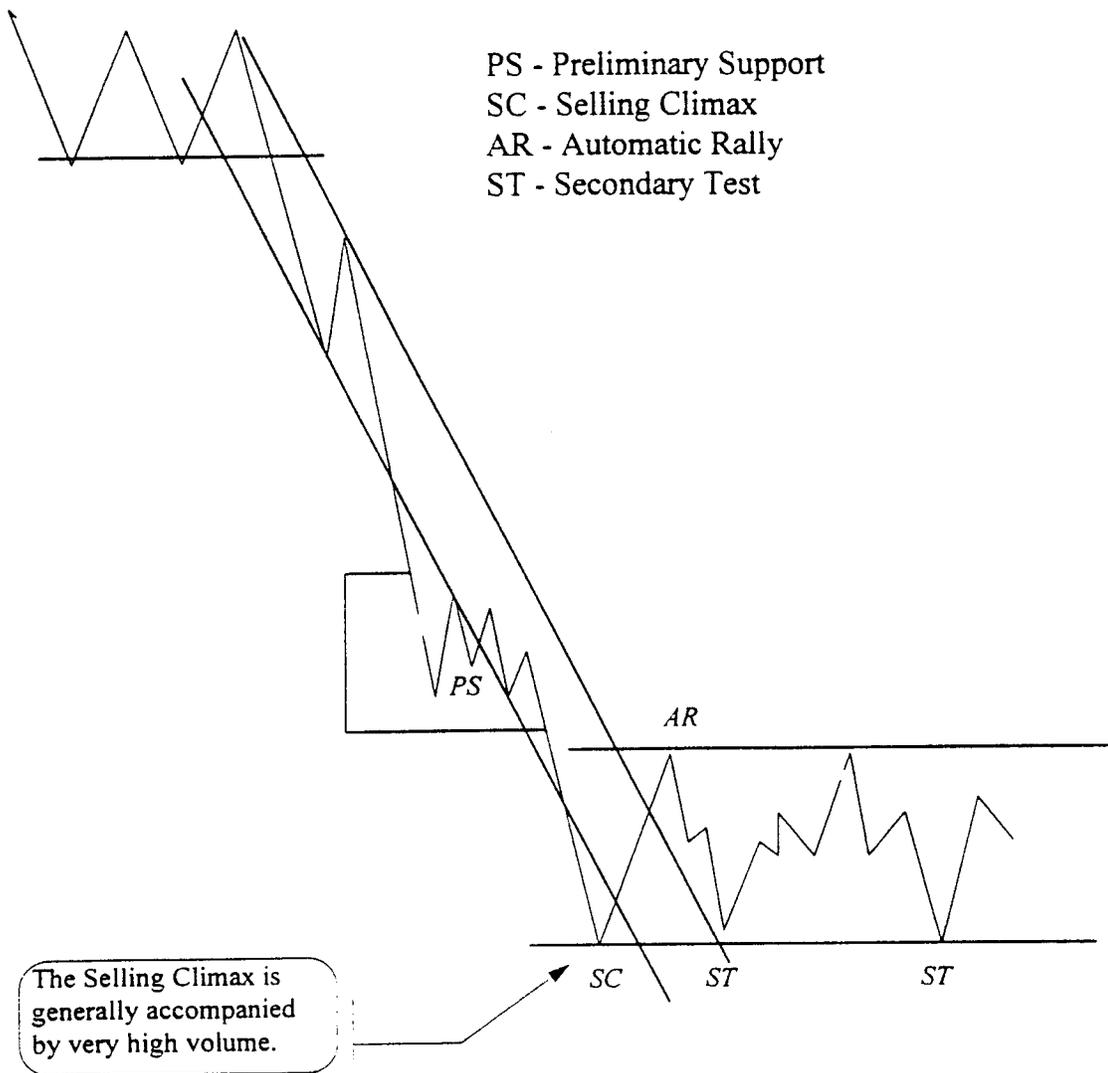


Source: J. Philip Fund Management, Inc. and the Institute For Technical Market Analysis, Golden Gate University

EXHIBIT 9

WYCKOFF TECHNIQUES
FOR STUDYING SUPPLY AND DEMAND:

THE STOPPING OF A PRIOR TREND



Source: Stock Market Institute

US T-Bonds 30 Yr Combined (US) TTSplice™ Chart Daily

120

EXHIBIT 10

115

110

105

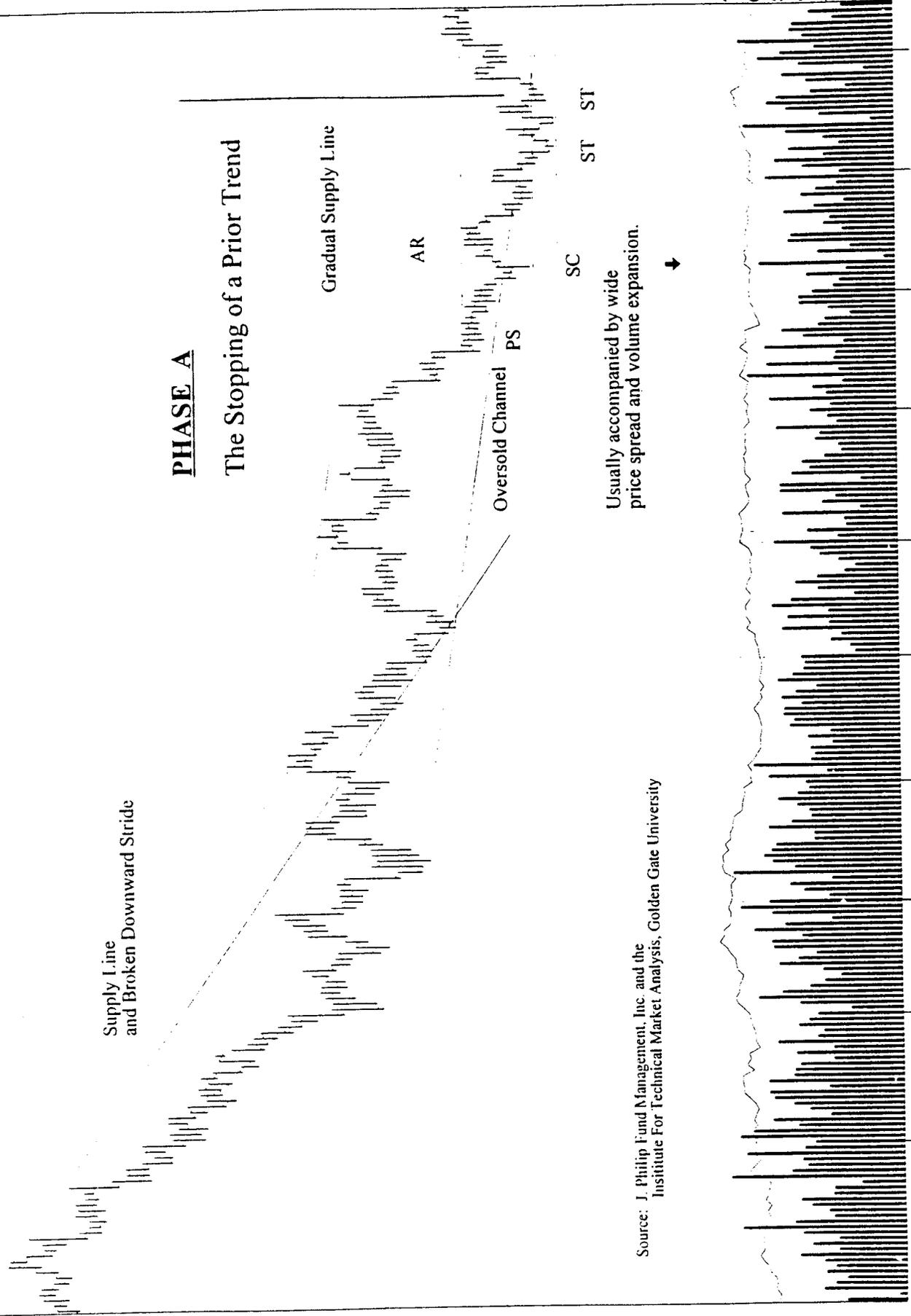
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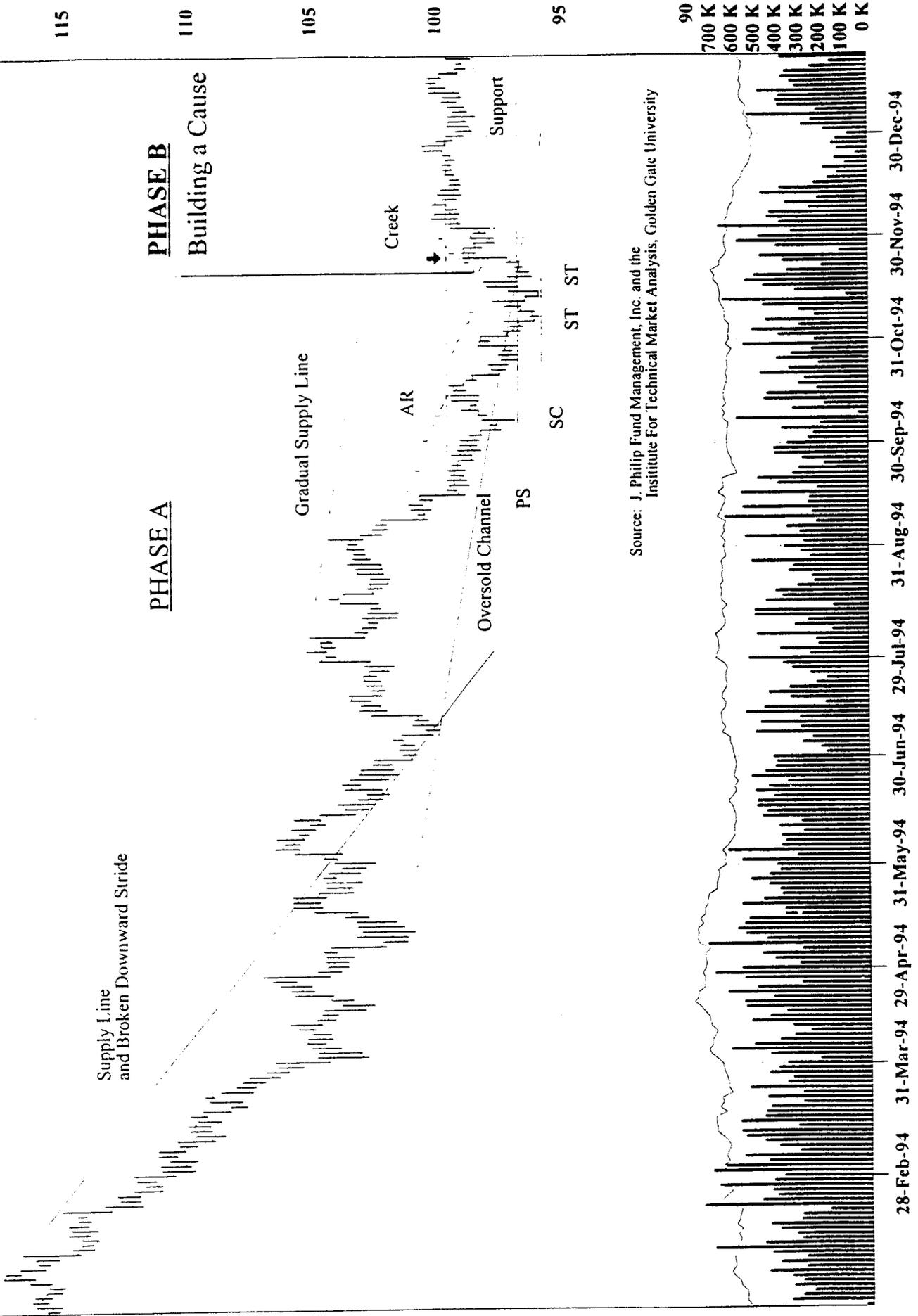
28-Feb-94 31-Mar-94 29-Apr-94 31-May-94 30-Jun-94 29-Jul-94 31-Aug-94 30-Sep-94 31-Oct-94 30-Nov-94

Source: J. Philip Fund Management, Inc. and the Institute For Technical Market Analysis, Golden Gate University

US T-Bonds 30 Yr Combined (US) TTSplice™ Chart Daily

120

EXHIBIT 11

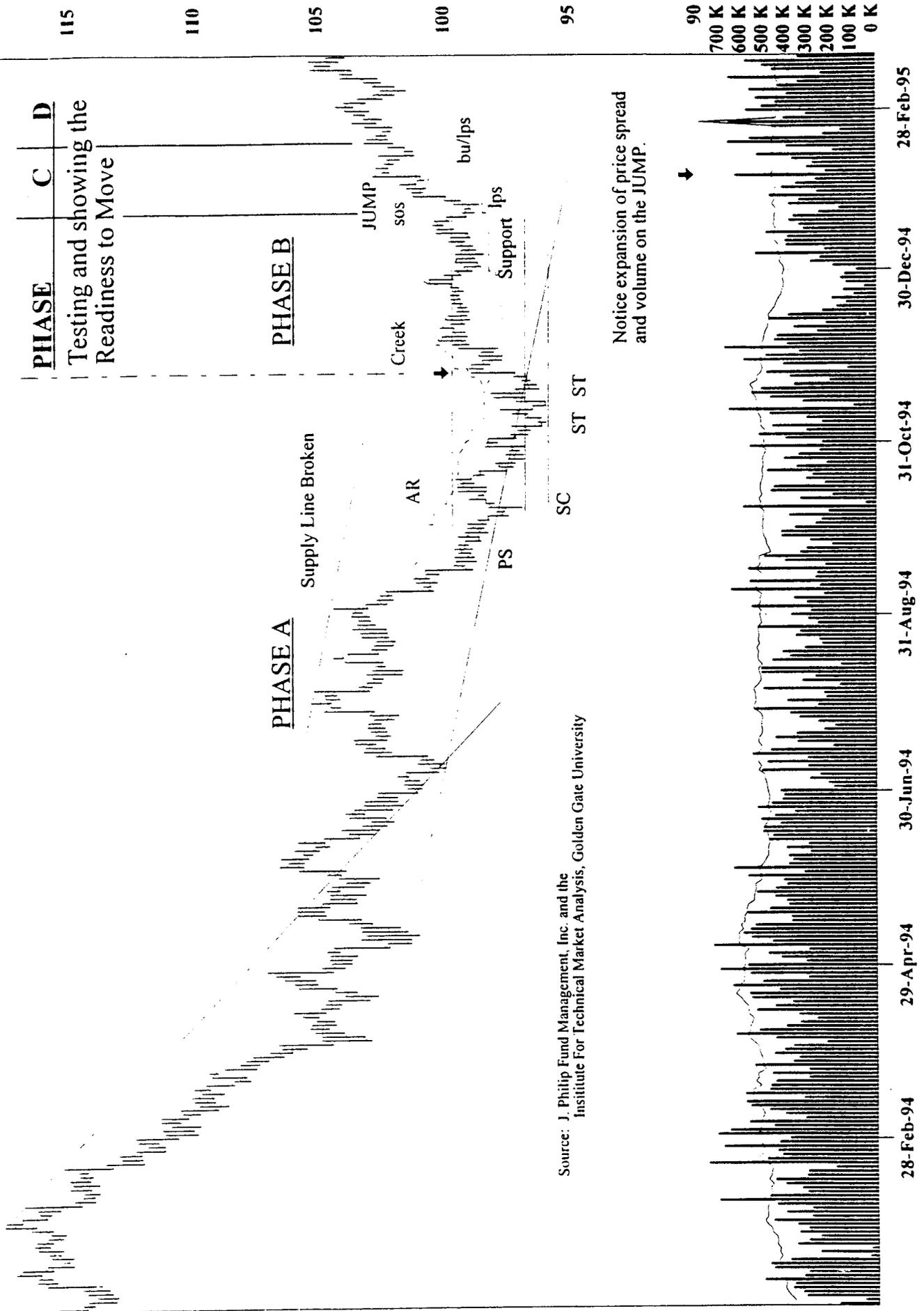


Source: J. Philip Fund Management, Inc. and the Institute For Technical Market Analysis, Golden Gate University

US T-Bonds 30 Yr Combined (US) TTSplice™ Chart Daily

120

EXHIBIT 12

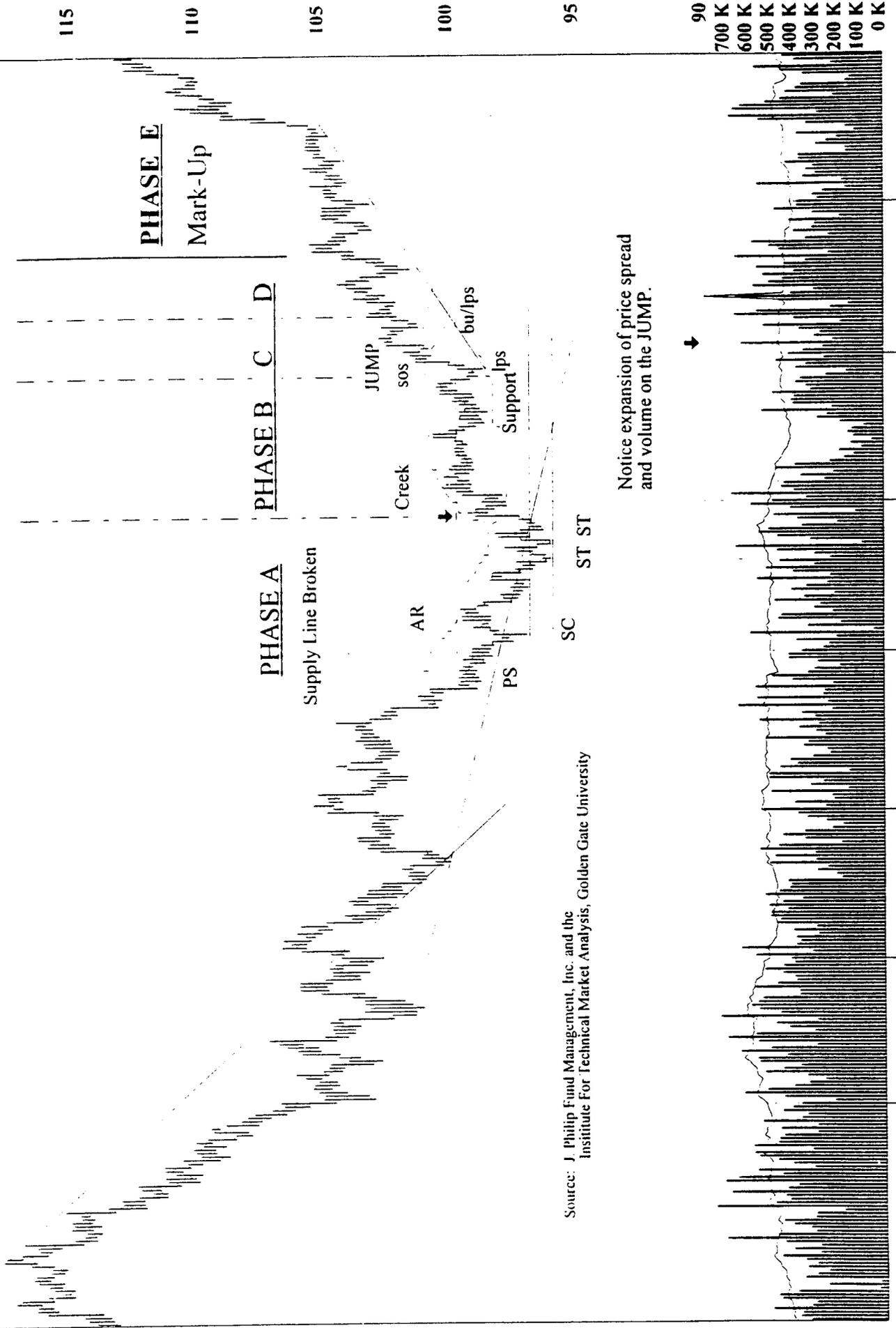


Source: J. Philip Fund Management, Inc. and the Institute For Technical Market Analysis, Golden Gate University

US T-Bonds 30 Yr Combined (US) TTSplice™ Chart Daily

120

EXHIBIT 13



115

PHASE E

Mark-Up

110

PHASE B C D

PHASE A

Supply Line Broken

AR

PS

Creek

JUMP

Support

bu/lps

ST ST

Source: J. Philip Fund Management, Inc. and the Institute For Technical Market Analysis, Golden Gate University

SC

ST ST

95

Notice expansion of price spread and volume on the JUMP.

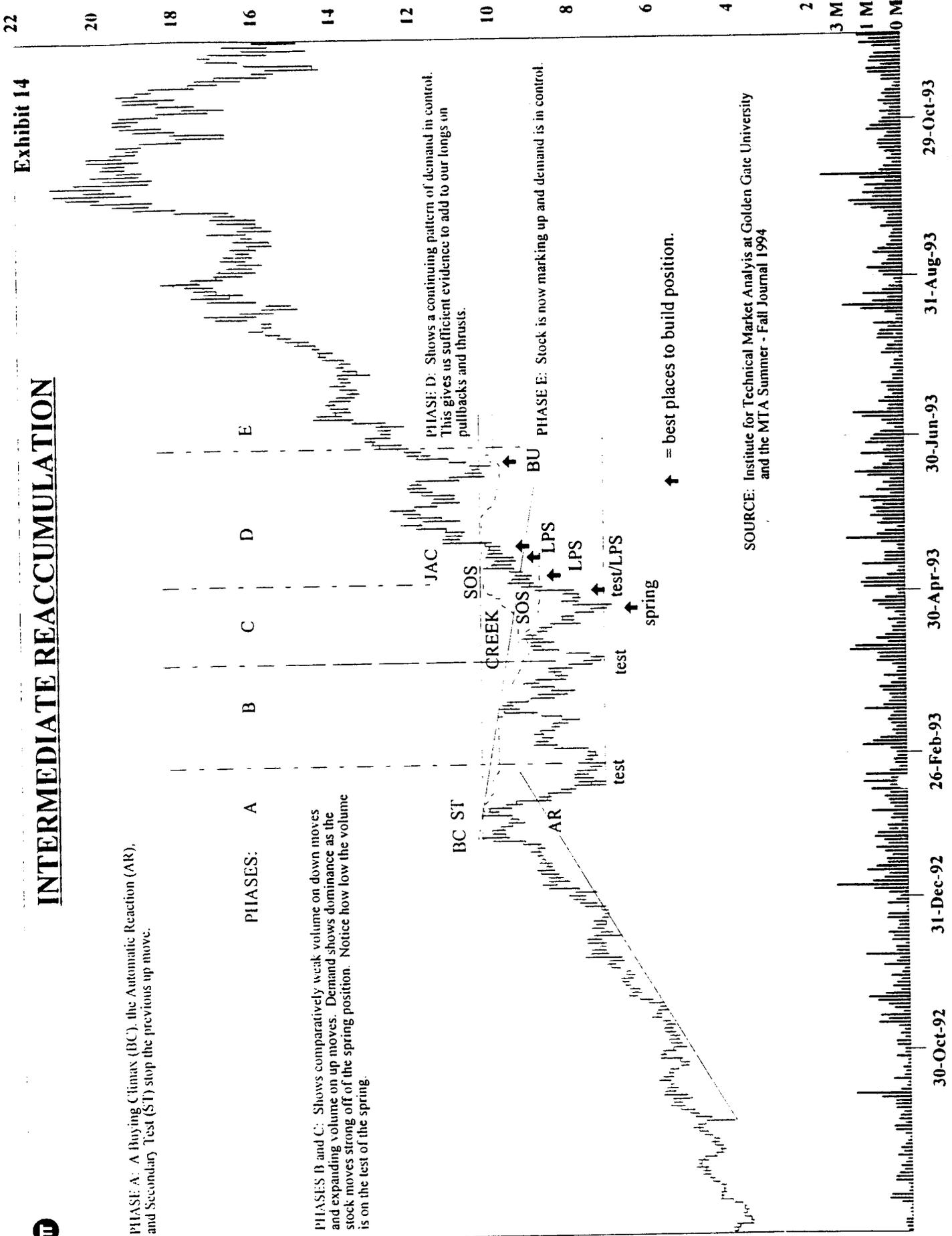
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31-Mar-94 31-May-94 29-Jul-94 30-Sep-94 30-Nov-94 31-Jan-95 31-Mar-95

ACCLAIM ENTERTAINMENT (AKLM) Daily

Exhibit 14

INTERMEDIATE REACCUMULATION



PHASE A: A Buying Climax (BC), the Automatic Reaction (AR), and Secondary Test (ST) stop the previous up move.

PHASES B and C: Shows comparatively weak volume on down moves and expanding volume on up moves. Demand shows dominance as the stock moves strong off of the spring position. Notice how low the volume is on the test of the spring.

PHASE D: Shows a continuing pattern of demand in control. This gives us sufficient evidence to add to our longs on pullbacks and thrusts.

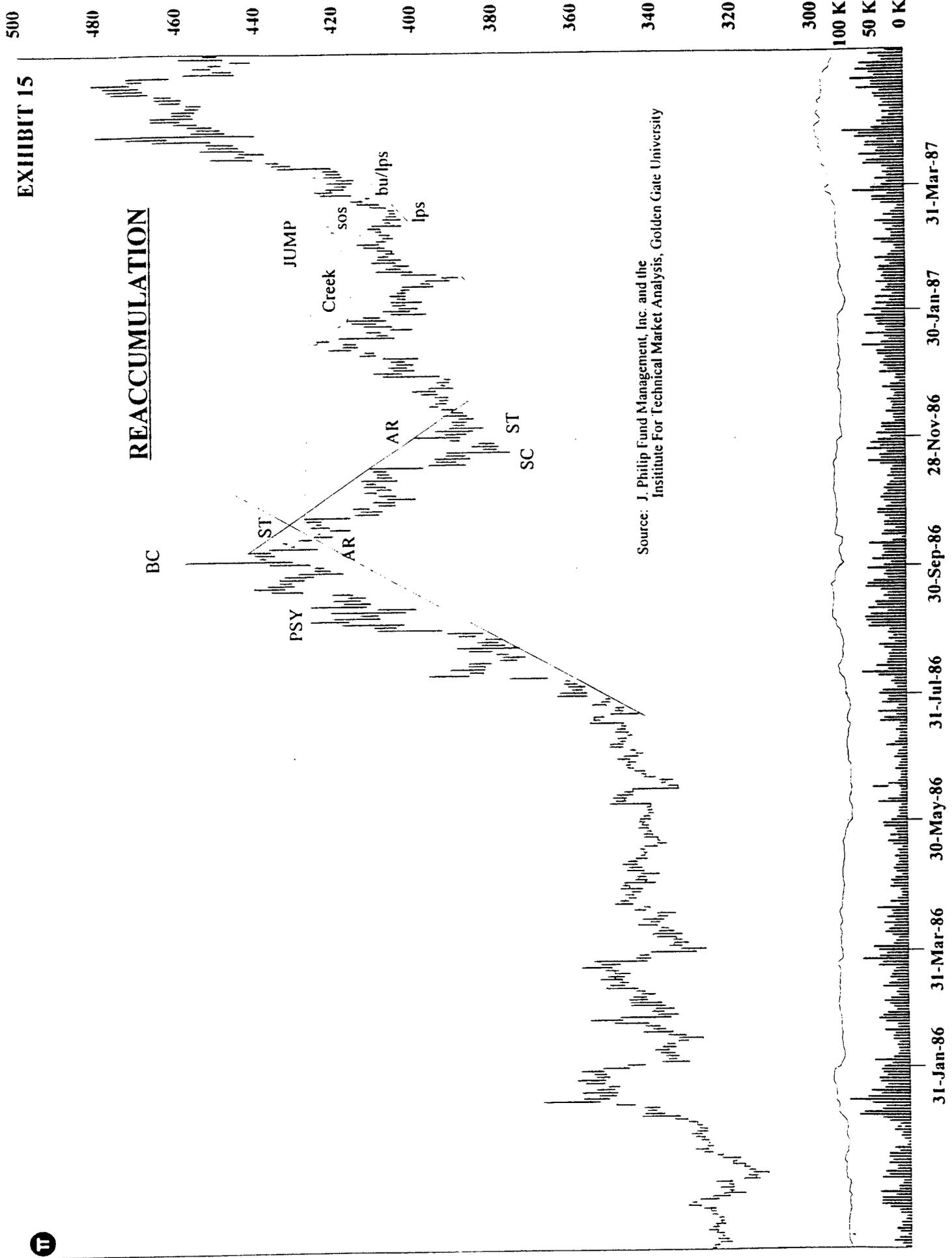
PHASE E: Stock is now marking up and demand is in control.

↑ = best places to build position.

SOURCE: Institute for Technical Market Analysis at Golden Gate University and the MTA Summer - Fall Journal 1994

30-Oct-92 31-Dec-92 26-Feb-93 30-Apr-93 30-Jun-93 31-Aug-93 29-Oct-93

Gold RTH (GC) TTSplice™ Chart Daily



Distribution Schematics

Schematics 2 and 3 show us two model variations of a distribution Trading Range.

Phases A through E... phases through which the Trading Range (TR) passes as conceptualized by the Wyckoff method and explained in the text.

(PSY) Preliminary Supply... is where substantial selling begins to provide pronounced resistance after an upmove. Volume and spread widen and provide a signal that the upmove may be approaching its end.

(BC) Buying Climax... is the point at which widening spread and the force of buying climaxes, and heavy or urgent buying by the public is being filled by larger professional interests at prices near a top.

(AR) Automatic Reaction... with buying pretty much exhausted and heavy supply continuing, an AR follows the BC. The low of this selloff will help define the bottom of the Trading Range (TR).

(ST) Secondary Test(s)... revisit the area of the Buying Climax to test the demand/supply balance at these price levels. If a top is to be confirmed, supply will outweigh demand and volume and spread should be diminished as the market approaches the resistance area of the BC.

(UT) Upthrust Minor penetration of the preceding highs or Buying Climax area that is immediately overcome by supply as prices fall back into the trading range.

(SOW) Sign of Weakness... will usually occur on increased spread and volume as compared to the rally to point 9 on schematic 2. Supply is showing its dominance in this phase of the distribution. Our first "fall through the ICE" holds and the market tries to get up and forge ahead.

The ICE... is an analogy to a wavy line of support drawn loosely under reaction lows of the Trading Range. A break through the ICE will likely be followed by attempts to get back above it. A failure to get back above firm support may mean a "drowning" for the market.

(LPSY) Last Point of Supply... (See Schematic 2/ Point 11) after we test the ICE and prior support becomes resistance, a SOW is confirmed. These feeble rally attempts, on narrow spread, show us the difficulty the market is having in making a further rise. Volume may be light or heavy, showing weak demand or substantial supply.. It is at these LPSY's that the last waves of distribution are occurring. It is now not long until the markdown is to begin.

Schematic 2/Point 11 and 13: after a break through the ICE, a rally attempt is thwarted at the ICE's surface (now resistance). The rally meets a last wave of supply before markdown ensures.

LPSY's are good place to initiate a short position or to pyramid on profitable lines.

(UTAD) Upthrust or Upthrust after Distribution... (See Schematic 3 Point 11). Similar to the *Spring and Terminal Shakeout* in the range of Accumulation, a UTAD may occur in a TR of distribution. It is a more definitive test of new demand after a breakout above the resistance line of the trading range to new high ground. A UTAD usually occurs in the latter stages of a trading range (SEE schematic 3 point 11). Where as an UT usually occurs earlier in the trading range SEE schematic 3 point 7).

If this breakout occurs on light volume with no follow through, or on heavy volume with a breakdown back into the middle of the old trading range, then this is more evidence that the trading range was distribution and we are soon headed for mark-down.

This UTAD usually results in weak holders of short positions giving them up to more dominant interests. Also, distribution is taking place to real, less informed, buyers before the mark down will ensue.

MEDTRONIC INC (MDT) Daily

28

DISTRIBUTION

PHASE A: We see the up-move stopped as heavy volume comes into the market at the Preliminary Supply (PSY). A Buying Climax (BC) and Automatic Reaction (AR) is then experienced on continued volume.

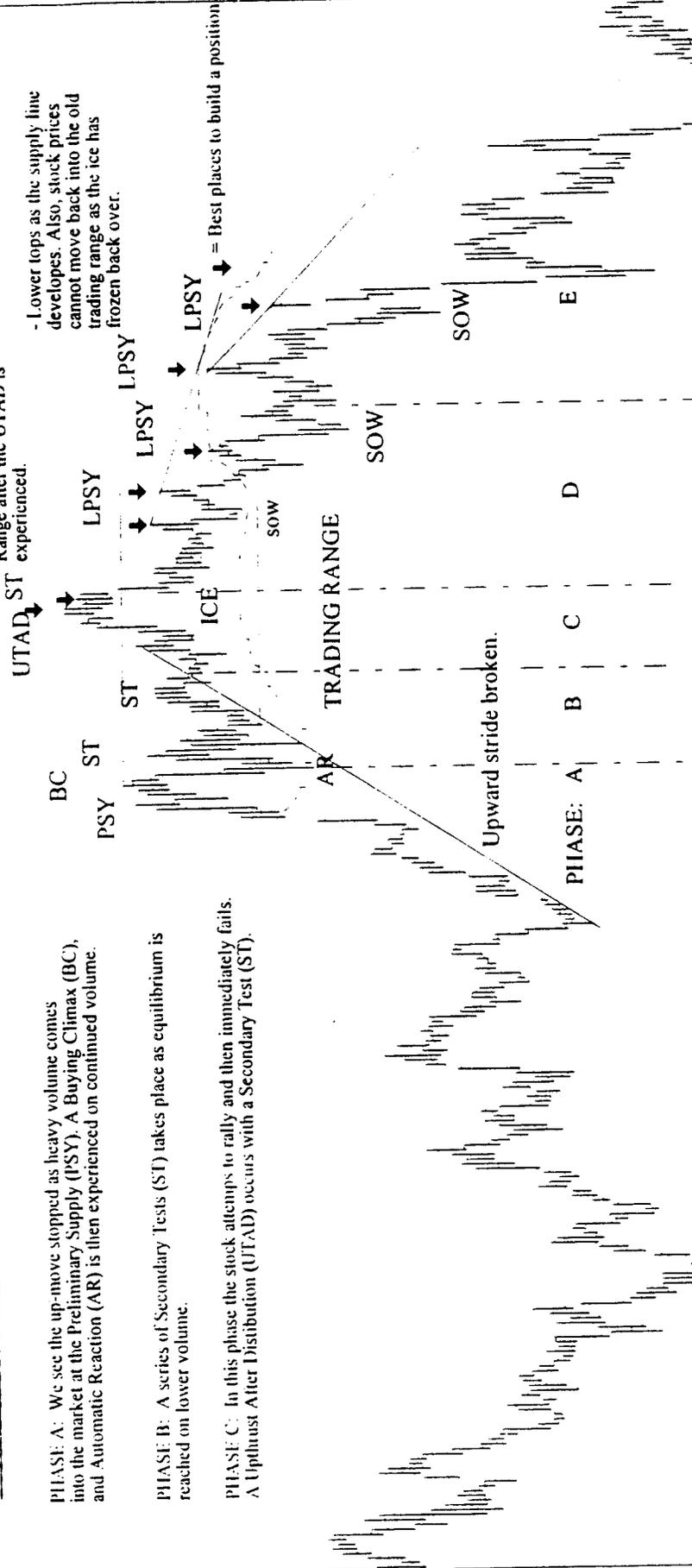
PHASE B: A series of Secondary Tests (ST) takes place as equilibrium is reached on lower volume.

PHASE C: In this phase the stock attempts to rally and then immediately fails. A Uprush After Distribution (UTAD) occurs with a Secondary Test (ST).

EXHIBIT 18

- Stock prices quickly fall back into the middle of the Trading Range after the UTAD is experienced.

- Lower tops as the supply line develops. Also, stock prices cannot move back into the old trading range as the ice has frozen back over.



PHASE D: Shows penetration at the lower end of the Trading Range. Minor penetrations occur at the ICE setting up a series of minor and major Signs of Weakness (SOW) and Last Points of Supply (LPSY). A supply line is also formed.

PHASE E: Our final rally back fails at the ICE, setting up another Sign of Weakness (SOW) and Last Point of Supply (LPSY) as the mark-down accelerates.

Heavy volume with little price progress.

SOURCE: Institute for Technical Market Analysis at Golden Gate University and the MTA Journal Summer - Fall 1994

12
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31-Mar-92 29-May-92 31-Jul-92 30-Sep-92 30-Nov-92 29-Jan-93 31-Mar-93

ADVANCED MICRO DEVICES INC (AMD) Daily

EXHIBIT 19

-The Buying Climax (BC) occurs as demand and volume tapers off.

-The Secondary Test (ST) and Upthrust (UT) show prices failing at the new highs. Notice on the Upthrust how prices fail and four sessions later prices begin to accelerate back into the Trading Range.

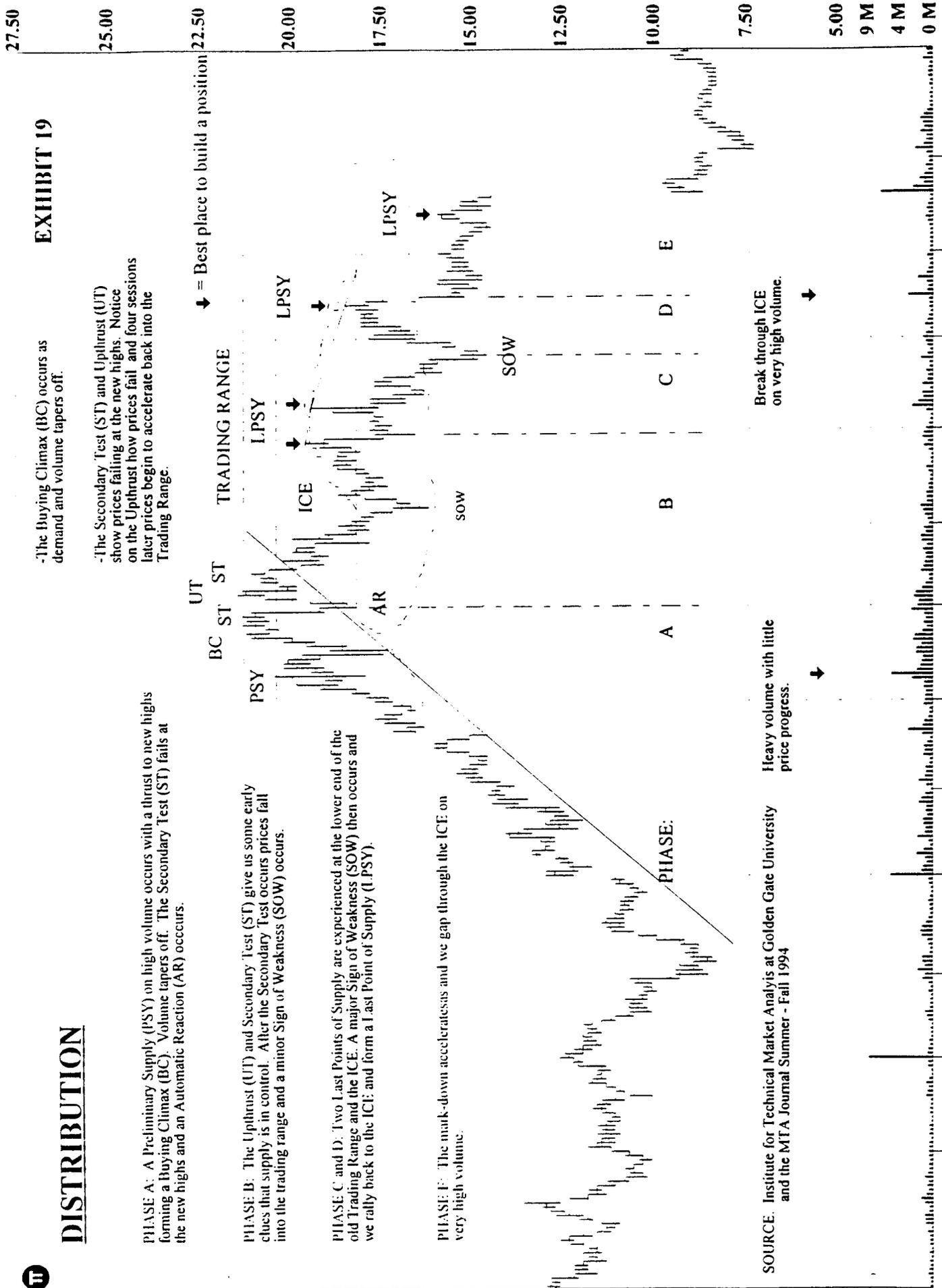
PHASE A: A Preliminary Supply (PSY) on high volume occurs with a thrust to new highs forming a Buying Climax (BC). Volume tapers off. The Secondary Test (ST) fails at the new highs and an Automatic Reaction (AR) occurs.

PHASE B: The Upthrust (UT) and Secondary Test (ST) give us some early clues that supply is in control. After the Secondary Test occurs prices fall into the trading range and a minor Sign of Weakness (SOW) occurs.

PHASE C and D: Two Last Points of Supply are experienced at the lower end of the old Trading Range and the ICE. A major Sign of Weakness (SOW) then occurs and we rally back to the ICE and form a Last Point of Supply (LPSY).

PHASE E: The mark-down accelerates and we gap through the ICE on very high volume.

SOURCE: Institute for Technical Market Analysis at Golden Gate University and the MTA Journal Summer - Fall 1994



DISTRIBUTION

↓ = Best place to build a position

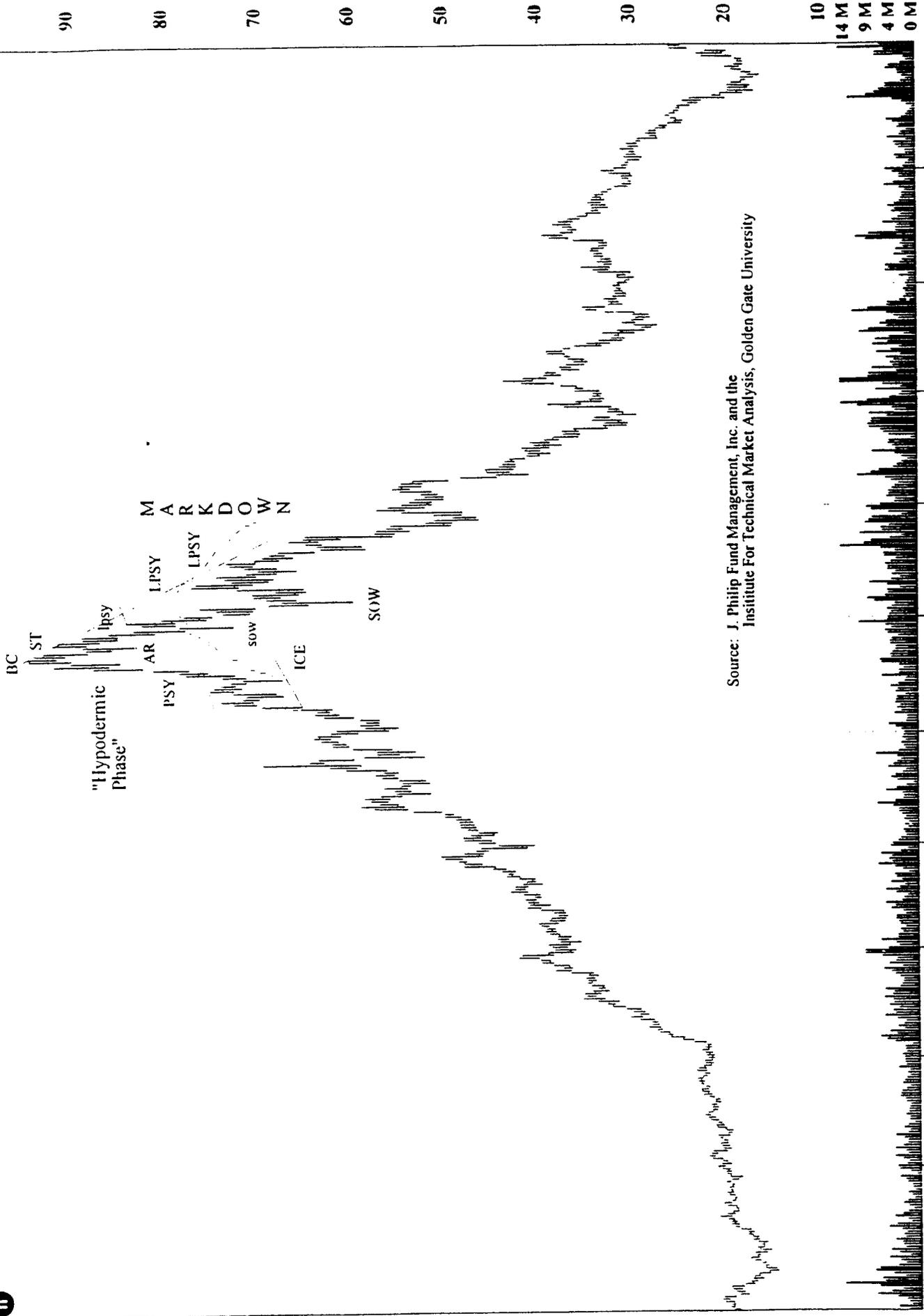
Break through ICE on very high volume.

Heavy volume with little price progress.

MICRON TECH INC (MU) Daily

EXHIBIT 20

****TEEPER FORMATION****



Source: J. Philip Fund Management, Inc. and the Institute For Technical Market Analysis, Golden Gate University

THE NINE BUYING TESTS

BUYING TESTS (Applied to an average or a stock after decline)

Indication:

1. Downside objective accomplished
2. Activity bullish (volume increases on rallies and decreases on reactions)
3. Preliminary support
4. Average or stock stronger than market (i.e., more responsive on rallies and more resistance to reactions)
5. Downward stride broken (i.e., supply line penetrated)
6. Higher supports (daily low)
7. Higher tops (daily high prices rising)
8. Base forming (horizontal price line)
9. Estimated profit is at least three times the indicated risk

Determined From:

Figure Chart

Vertical Chart

Vertical and Figure

Vertical Chart

Vertical or Figure

Vertical or Figure

Vertical or Figure

Figure Chart

Figure Chart for profit objective

Source: Stock Market Institute

THE NINE SELLING TESTS

SELLING TESTS (Applied to an average or a stock after advance)

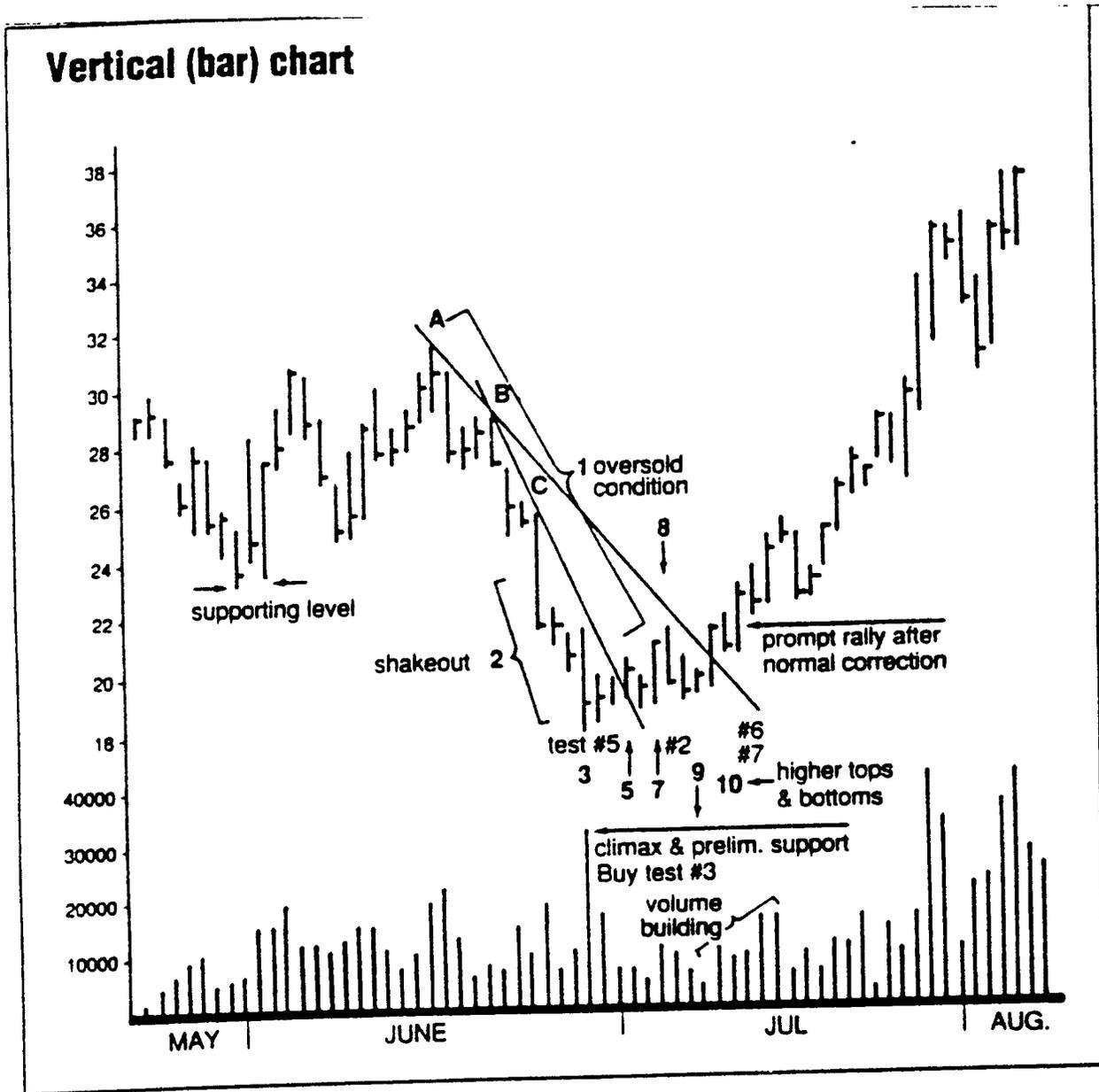
Indication:

1. Upside objective accomplished
2. Activity bearish (volume decreases on rallies and increases on reactions)
3. Preliminary supply
4. Average or stock weaker than market (i.e., more responsive on reactions and sluggish on rallies)
5. Upward stride broken (i.e., supply line penetrated)
6. Lower tops (daily high prices falling)
7. Lower supports (daily low prices falling)
8. Crown forming (lateral movement)
9. Estimated profit is at least three times the indicated risk Vertical Chart for stop order placement

Determined From:

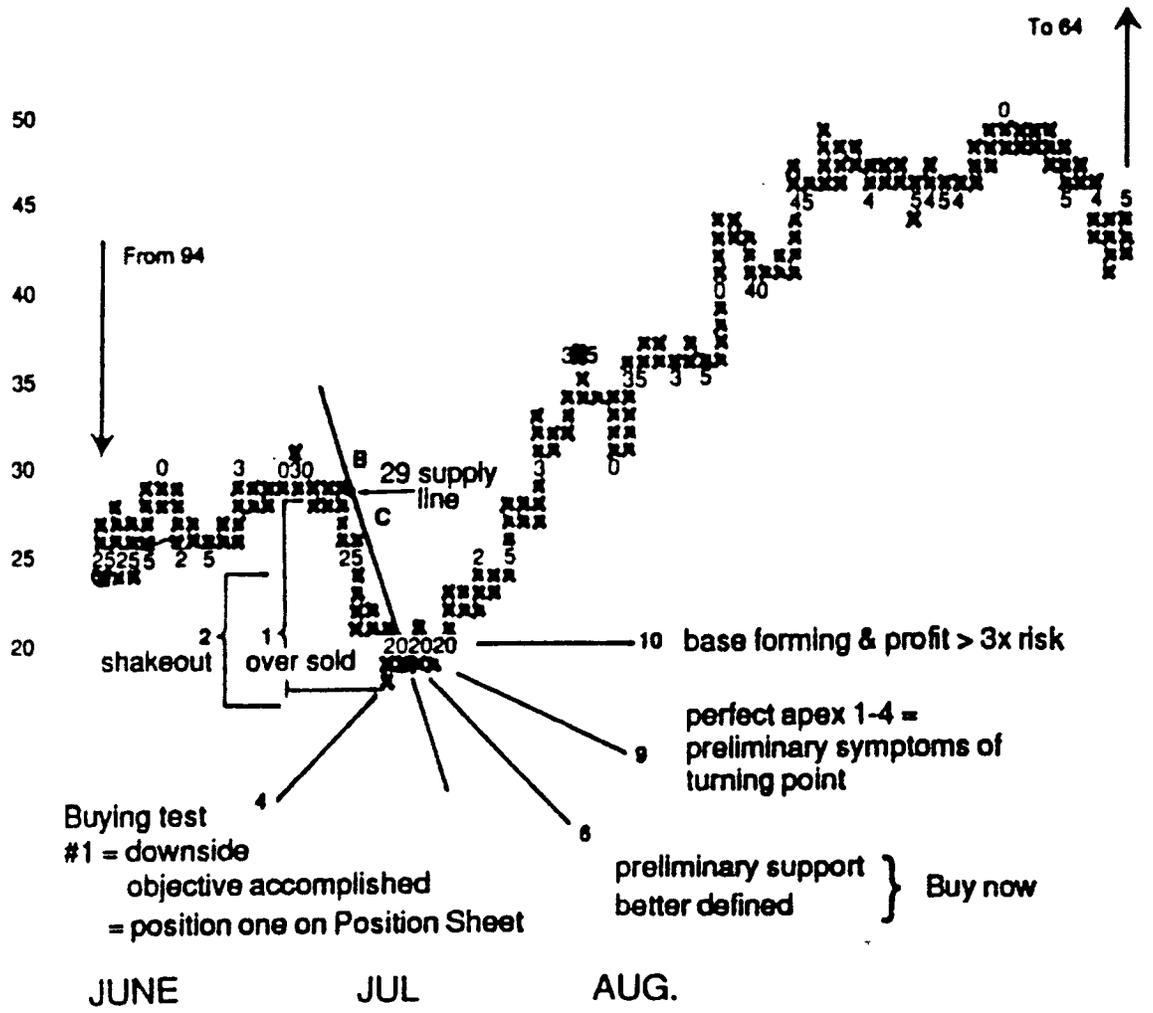
- Figure Chart
Vertical Chart
- Vertical and Figure
Vertical Chart
- Vertical or Figure
Vertical or Figure
Vertical or Figure
Figure Chart
Figure Chart for profit
objective

Source: Stock Market Institute



SOURCE: THE WYCKOFF METHOD, BY JACK K. HUTSON.

Hypothetical, Inc.
One-point figure chart



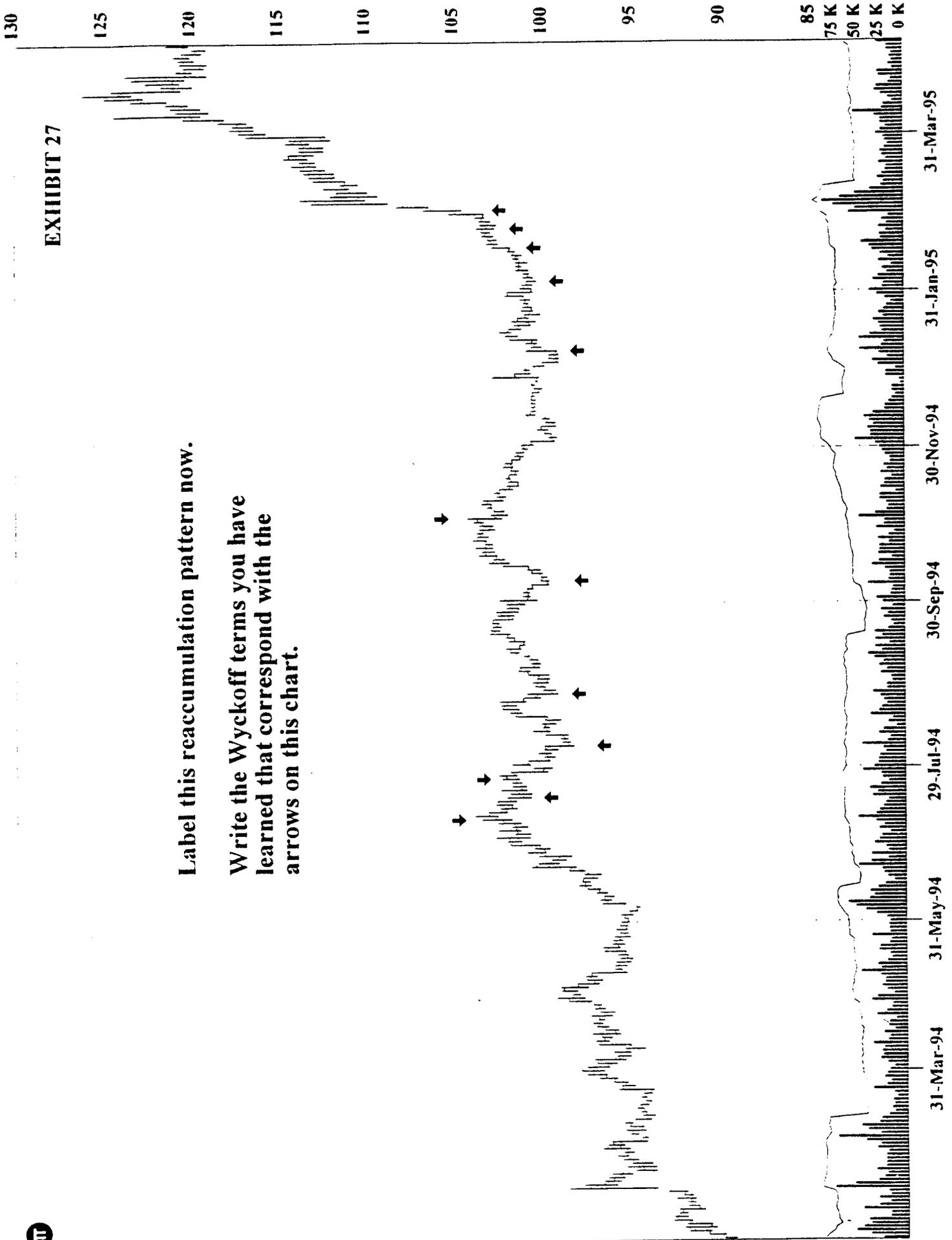
SOURCE: THE WYCKOFF METHOD, BY JACK K. HUTSON..

Japanese Yen Combined (JYC) TTSplice™ Chart Daily

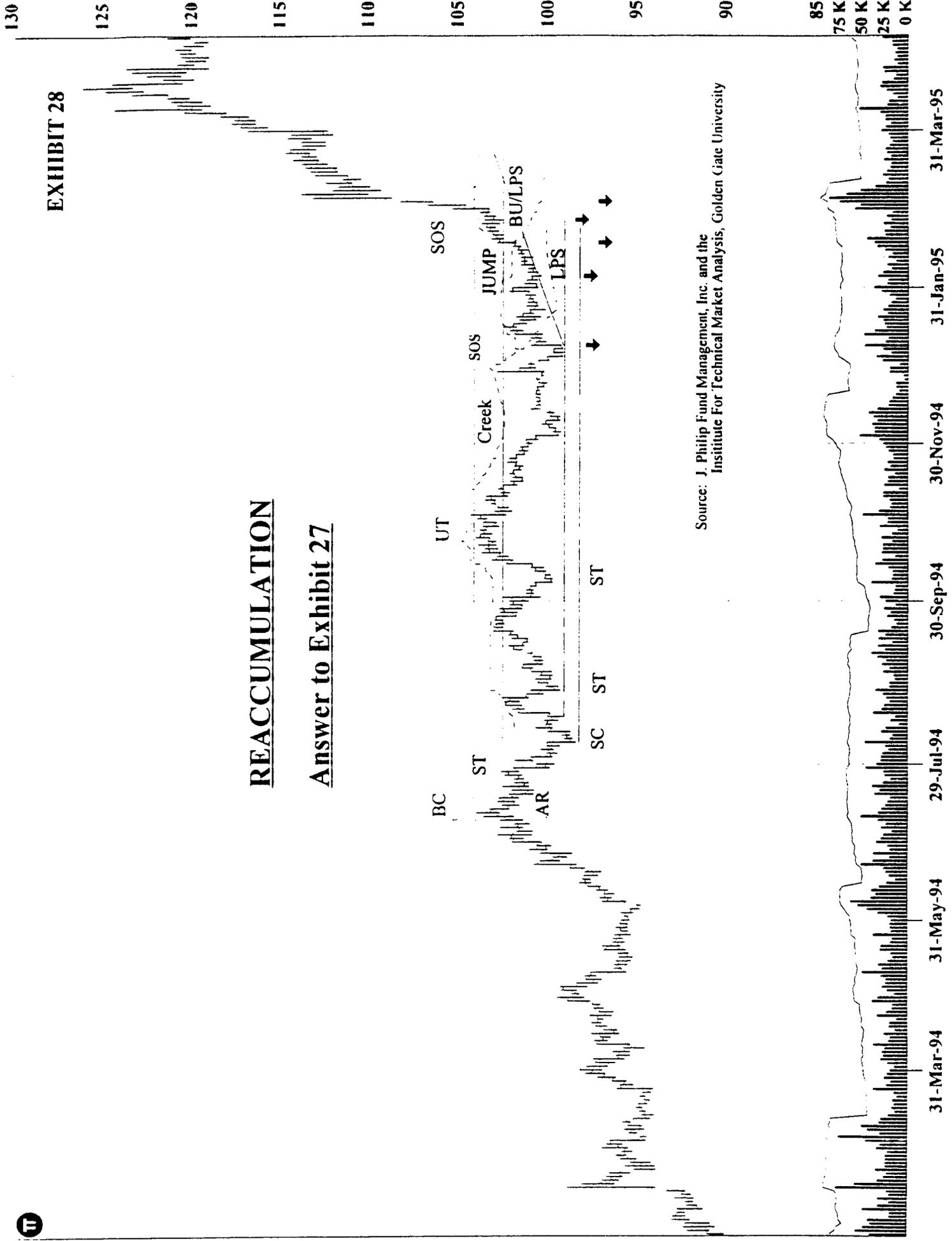
EXHIBIT 27

Label this reaccumulation pattern now.

Write the Wyckoff terms you have learned that correspond with the arrows on this chart.



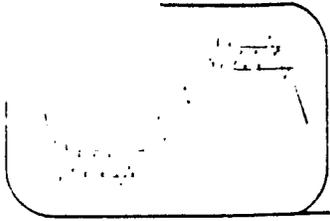
Japanese Yen Combined (JYC) TTSplice™ Chart Daily



REACCUMULATION

Answer to Exhibit 27

Source: J. Philip Fund Management, Inc. and the
Institute For Technical Market Analysis, Golden Gate University



Wyckoff/Stock Market Institute

Founded in 1931

13601 N. 19th Avenue, Suite 1, Phoenix, AZ 85029
(602) 942-5581

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The Wyckoff approach to technical analysis focuses on the law of supply and demand, the law of cause and effect and the law of effort vs. result. The market's own action reveals these three basic truths at work, which are interpreted with a combination of vertical line charts and point and figure charts. The Wyckoff students learn how to interpret day to day market action and how to convert interpretation into trading and investing decisions.

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For more information on custom programs and educational opportunities for technical analysis at the Institute for Technical Market Analysis at Golden Gate University, contact:

Henry O. Pruden, Ph.D. or J.C. Coppola III at:

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Institute for Technical Market Analysis
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TEL: 415-442-6583 • FAX: 415-442-6579
EMAIL: coppola@jphilipfund.com**

For further information:

**Wyckoff/Stock Market Institute
The Richard D. Wyckoff Course In Stock Market Science And Technique**

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