

SIGNS OF STRENGTH

Do not contemplate going short if there are SOS in the background

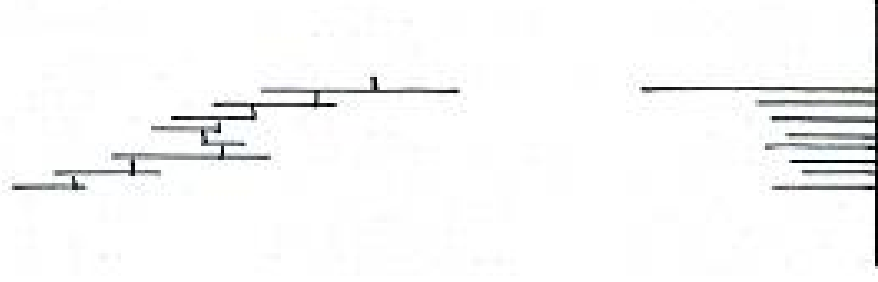
Principle one. SOS

Bottom reversal. A wide spread plus down bar closing on the low. The low and the close is lower than the previous four bars. Followed by an up bar on a wide plus spread closing on the highs. This arrives in a variety of versions but basically the first down bar is a shake-out usually on so called bad news. The second bar is rapidly marked up to lock traders in (if you shorted) or out of the market if you wanted to buy the market. (people hesitate buying because it now appears expensive to the earlier price).



Principle two SOS

Stopping volume. To stop a down move demand has to overcome the supply. The odd way supply and demand works is evident here. As a market falls day after day a point will be reached when the herd cannot stand the losses so they all tend to panic at a similar time. If the price levels reached are now attractive to professional money they will step in and start buying. This activity causes a surge in volume as they buy and cover their short positions.



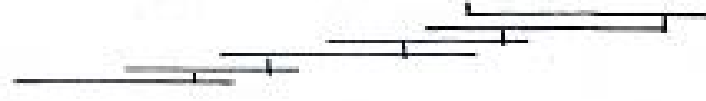
Principle seven. SOS

This is a variation of stopping volume which has arrived on two bars rather than one bar. On the first bar supply was so heavy that professional money was unable to absorb all the stock dumped onto the market. This allows the market to fall on the next bar usually on so called 'bad news' This can be gapped down on the opening causing the panic. However, to close in the middle or highs indicates demand has overcome the supply.



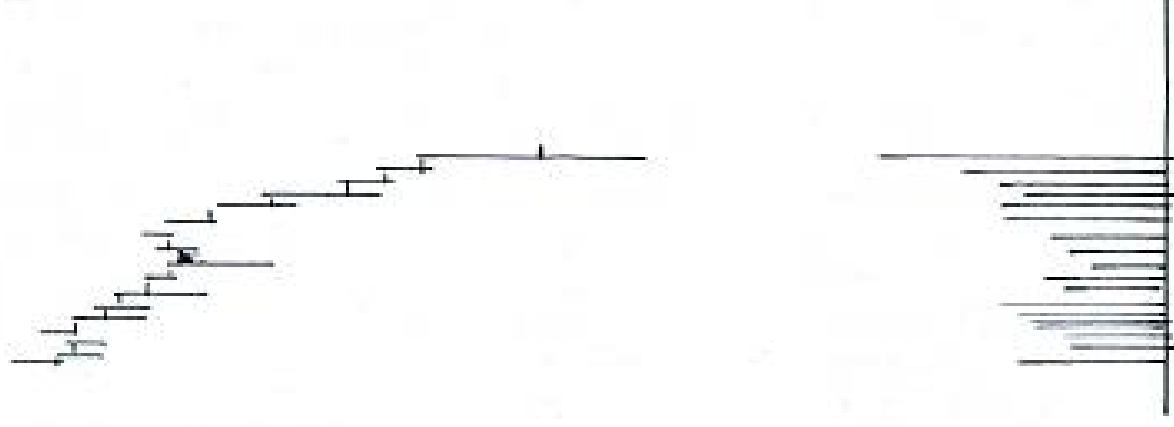
Principle eight. SOS

The hidden 'test' This is a variation of the bottom reversal. If the market low has fallen below the previous 4 bars on a wide spread closing on the lows and the next bar is up on a wide spread closing on the highs then this has the hallmark of a bottom reversal and a sign of strength. However, if the low of the second bar is lower then the previous bar this adds to the strength on the assumption that the market had been marked down on the opening only to find that there was absolutely no supply, so the market quickly reversed on a wide spread, closing on the high. If there is no selling at the lower levels then expect higher prices.



Principle nine. SOS

Selling Climax. Wide spread down closing in the middle or high after a substantial down move has already taken place. The volume is ultra high. As a market falls day after day a point will be reached when traders will start to panic and encouraged by bad news will start to dump stock onto the market. If the market closes in the middle or high then professional money must have decided that the lower prices now looked attractive and will start to buy into the panic selling. This activity will cause the volume to be ultra high. This marks the low point of the market.

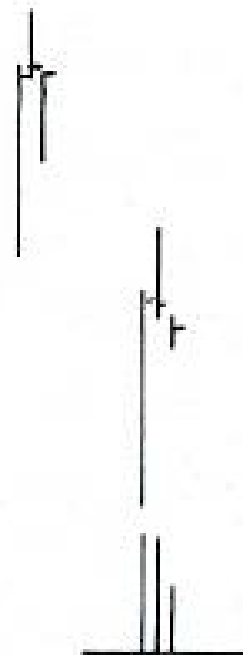
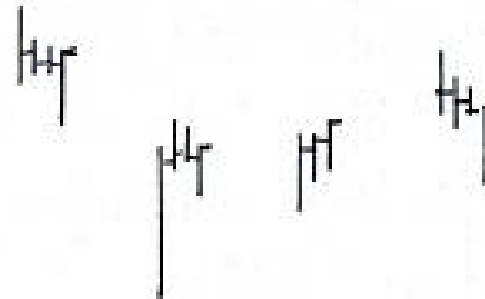


Principle three. SOS

The Test. This is a very common SOS frequently seen just before an up move. Is also seen in a rising market after a minor SOW and indicates higher prices.

Principle four. SOS

Down bars closing in the middle on reduced volume seen after any SOW indicates higher prices. This is a strong SOS in an up-trend after a SOW because there is no continuation of the weakness. If there is no continuation expect higher prices.

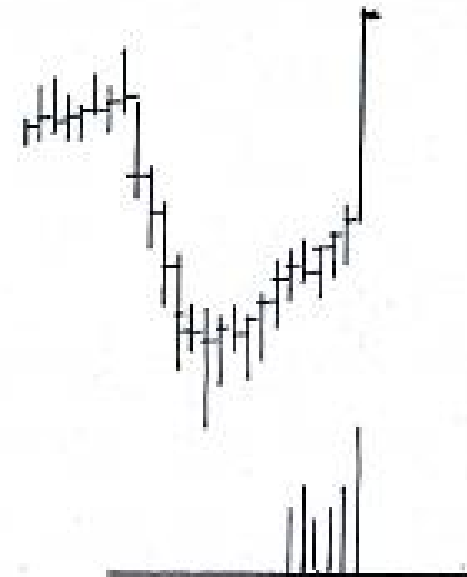


Principle five. SOS

A wide spread up bar closing on the highs pushing up and through an old top to the left. This is demand and an effort to go up. After this event the market usually rests or starts to react. You are now looking for indications of strength to confirm the strength.

Principle six. SOS

This is a very powerful indication of strength. First you see stopping volume (see principle two) The market has a short rally only to fall again back down into the same area as the first high volume seen during the stopping volume. The volume is low. If the spread is narrow and or closing on the highs this is a strong indication of strength.

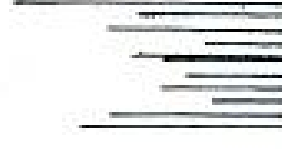


Do not contemplate going long in any market with SOW in the near background.

SOW can be quickly overwritten by indications of strength if the market is still basically strong. Go by the very last indications. If not clear to you be guided by the trend.

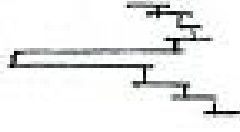
Principle One SOW.

Up-bar on a narrow spread, close middle or low, volume very high or low. Weakness always appears on an up-bar because professional selling has to sell into a surge of buying. The narrow spread indicates supply. Something has capped the top end of the market. Selling or lack of demand from professional money are the only two things that can do this. If the volume is high plus this will show supply. If the volume is low this shows lack of demand. Check for old resistant levels to the left



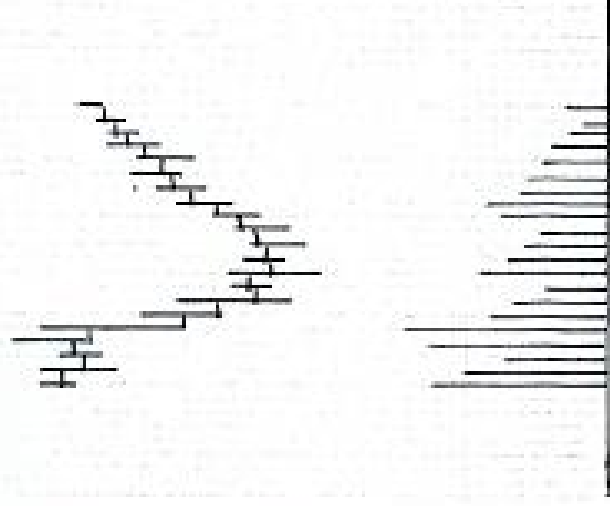
Principle ten SOW

Top reversal. This is a common sign of weakness. The first bar is marked up rapidly, closing on the highs (usually on good news). The volume can be high (supply swamping demand) or low (no demand). The next bar rapidly reverses down, on a wide spread, closing on the lows. If the low and the close is lower than the first bar this adds to the weakness. As with all these indications it is important to read the following bars for confirmation of continued weakness.



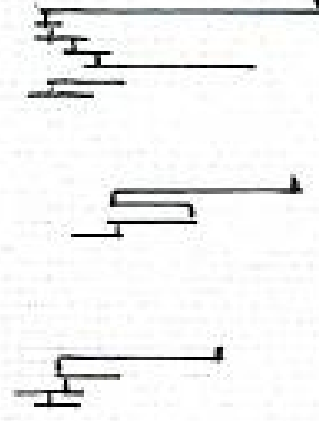
Principle Two. SOW.

Markets are constantly being traded. A sudden down move will lock many traders into poor positions as they wait and hope for a rally to get out with little or no loss. If after a reaction the market then starts to go up, then any old resistant level will require effort to go up and through these old highs because they have to overcome the selling from these locked in traders. To approach an **old high on low volume and narrow spreads** indicates that the old highs are not going to be penetrated because there is no demand. If the market is not going to go up then it is going to go down.



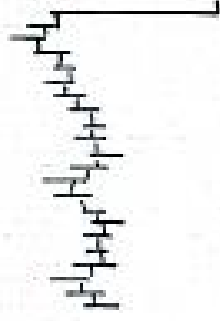
Principle Three SOW

This is known as effort verses Result. Any indication of strength you should expect a strong market. If the next bar is down on a wide spread closing on the lows and the low and the close is lower than the previous bar this is a countermanning signal. You do not fight the market but you have to assume that there has been no result from the SOS therefore the market must be weak. If the original indication was a genuine SOS then professional money would immediately move into the market giving higher prices not lower.



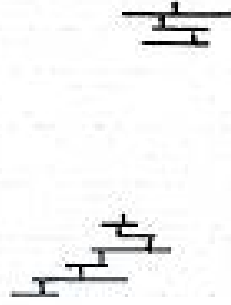
Principle Six SOW

A down bar on a wide spread plus closing on the low pushing down and through a previous support level.



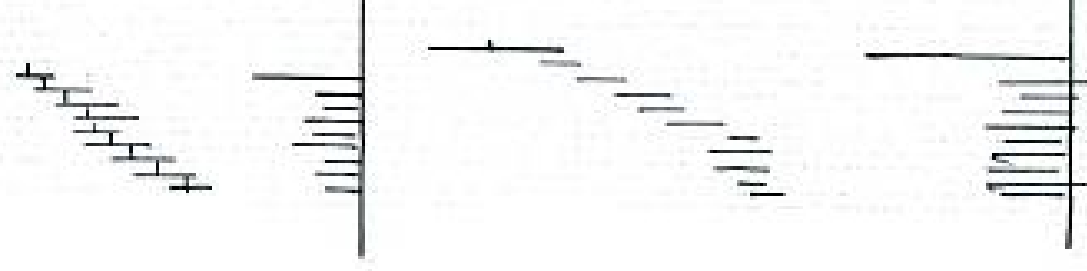
Principle Seven SOW

Strength appears on down bars especially if the bar has closed in the middle. Here this is discounted because the high is higher than the previous bar. This is a hidden up-thrust and a SOW. This principle arrives in a variety of disguises.



Principle eight. SOW. A surge in option volume.

Up bar after a rally and the option volume is very high. Professional traders will have a very good idea when a top has been reached and will enter the option market to hedge their positions. Seems to be more clear on a top than a low of a market.



Principle nine. SOW

Buying Climax. Up bar with wide spreads closing middle or low on ultra high volume. Very powerful SOW if there are no old tops to the left. As a market keeps on going up day after day a point will be reached at some time when many traders that have sold prematurely or those that are not in the market cannot stand the constant higher prices and will rush in and buy before missing out. This buying frenzy gives the trading syndicates and market makers a golden opportunity to unload large amounts of stock at a high price without their activity resulting in lower prices. This marks the high point of the market.