EXPERT

TRADER

93 TRADING LESSONS OF RICHARD WYCKOFF

FRANK MARSHALL

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Expert Trader: 93 Trading Lessons of Richard Wyckoff

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Dedication

To Hermann Hesse,
for helping me follow my vision.

Introduction

After writing *The Best Trading Lessons of Jesse Livermore*, a friend who read the book and liked it asked: “Why don’t you write a similar book about Wyckoff?” He had a point.

Richard Wyckoff (1873-1934) was an immensely successful trader (‘stock operator’) speculating in the early 1900s. What made him different was not just his unprecedented success, but his ability to understand and explain the complex nature of the markets in a way that made sense. If he saw farther than others, it was because he ‘standing on the shoulders of giants’. Wyckoff built on the work of Livermore, Keene, Morgan, and other wealthy speculators.

Fortunately, Wyckoff was not stingy in sharing his insights. He had much to say about expert trading, as he devoted the latter part of his life to writing and lecturing. The present volume summarizes his best lessons. As are the insights of Jesse Livermore, Wyckoff’s wisdom is timeless. While reading and thinking about Wyckoff’s trading approach, one gets the distinct impression that he was the real deal, that he ‘got it’. His wealth confirmed that.

Wyckoff put much emphasis on ‘tape reading’. By that, Wyckoff meant what we mean today by watching ‘price action’, the fluctuations of prices up and down, combined with paying attention to the order flow (level 2).

In case you do not get to read the whole book, I have put the most crucial lessons at the beginning. How did Wyckoff operate? What approach worked for him? How did he trade? What does it mean to be an expert?

I have focussed on Wyckoff’s practical trading advice as opposed his more theoretical views that are outlined elsewhere (‘composite operator’…etc.). It is hard to imagine not having one’s trading enriched by practical insights and tips of one of the best traders of all time.

Frank Marshall

West Palm Beach, July 2014

Other Books by Frank Marshall

The Best Trading Lessons of Jesse Livermore - 75 trading lessons from the greatest speculator of all time. Contains the most crucial trading lessons of the *Reminiscences of a Stock Operator* in one place, extracted and labelled for convenience, with a brief discussion following each lesson.

Trading Essentials: How to Cut Your Learning Curve - Most traders blow their account and quit in disgust. It doesn't have to be that way. *Trading Essentials* reveals 20 key lessons from my trading experience, and gives helpful suggestions on what it takes to succeed in the ultra competitive field of trading. Regardless whether you trade stock, forex, bonds, futures, or options, you will find many useful pointers that can cut your learning curve significantly.

The Essence of Trading

"Trading seems to us: The science of determining from the tape ***the immediate trend of prices****. It is judging from what appears on the tape now, what is likely to be shown in five minutes or more. It bears no relation to clairvoyance and we do not believe that spirits of departed friends could be of assistance to students.*

Tape Reading is rapid-fire horse sense. Its object is to determine whether Union Pacific, which is now 159, will sell at 160 before 158, or vice versa; ***to make deductions*** *from each succeeding transaction — every shift of the market kaleidoscope; to grasp a new situation, force it lightning-like through the weighing machine of the brain, and to reach a decision which can be acted upon with coolness and precision —* ***all within the space of a few seconds****.*

It is gauging the momentary supply and demand in particular stocks and in the whole market, comparing the forces behind each and their relationship, each to the other and to all."

Discussion: Wyckoff is clear that trading is about determining the present trend through a series of deductions. Deduction means reasoning from particulars to reach a single conclusion (such as 'trend is up', 'trend is down', or 'the market is in a range').

Wyckoff's reference to a decision window of only 'a few seconds' suggests that he was a day trader.

How to Find an Edge

"A trader is like the manager of a department store ; into his office are poured hundreds of reports of sales made by the various departments. He notes the general trend of business, whether demand is heavy or light throughout the store, but ***lends special attention to the lines in which demand is abnormally strong or weak****. When he finds difficulty in keeping his shelves full in a certain department, he instructs his buyers, and they increase their buying orders; when certain goods do not move he knows there is little demand (market) for them, therefore, he lowers his prices — offers inducements to possible purchasers."*

Discussion: How does one find an edge? Wyckoff hints that special attention must be paid to situations where one or more elements are 'abnormally strong or weak'.

All edges are based on imbalances. When the market forces are out of balance and not in equilibrium, there are edges present. Recognizing those times is what profitable trading is all about.

Look for Minimum Risk Points

"The market is a tug-o'-war. Successful tape reading requires ability to judge which side has the greatest pulling power and one must have the courage to go with that side. There are critical points which occur in each swing, just as in the life of a business or of an individual. At these junctures it seems as though a feather's weight on either side would determine the immediate trend. ***Any one who can spot these points has everything to win and little to lose, for he can always play with a stop placed close behind the turning point or point of resistance.****"*

Discussion: Professional traders focus on minimizing risk. One of the best ways to do that is to enter at 'turning points', placing the stop just beyond them.

In practice, that means entering pullbacks in trends. A pullback is a special type of a turning point. When a pullback ends, the trend resumes, offering a low risk opportunity for entry. We will see how Wyckoff traded pullbacks later.

Is There a Trading Formula?

“If trading were an exact science, one would simply have to assemble the factors, carry out the operations indicated, and trade accordingly. But ***the factors influencing the market are infinite in their number and character, as well as in their effect upon the market, and to attempt the construction of a trading formula would seem to be futile.*** *However, something of the kind (in the rough) may develop as we progress in this investigation, so let us preserve open minds.”*

Discussion: Wyckoff did not feel that trading can be reduced to an exact formula, due to the fact that there are simply too many variables to consider (‘infinite in their number’ is an exaggeration on his part, but gets the point across).

He does say, however, that some trading guidelines should be in place. Trading does not have to be wholly mechanical or discretionary. Wyckoff aimed for balance, but put more emphasis on the discretionary approach.

Why Trading Cannot Be Reduced to Simple Rules

"But real trading takes everything into account — every little character which appears on the tape plays its part in forming one of the endless series of 'moving pictures.' ***In many years' study of the tape, I do not remember having seen two of these 'pictures' which were duplicates. One can realize from this how impossible it would be to formulate a simple set of rules to fit every case or even the majority of them, as each day's session produces hundreds of situations, which, so far as memory serves, are never repeated.***

The subject of trading is therefore practically inexhaustible, which makes it all the more interesting to the man who has acquired the 'study habit.'"

Discussion: No situation repeats itself *exactly*. So when you create a simple set of rules based on the past, they are likely not to fit future situations. Wyckoff does not recall a market situation ever repeating 100%. There are always new subtleties and nuances. The market evolves. Every day is new. This is the strength of a discretionary approach. Purely mechanical system cannot take that into account with a limited set of simple rules.

Wyckoff had great respect for the complexity of the markets, and his trading approach reflected that.

How to Develop Competence

*“**A trader absorbs information and follows a definite and thoroughly tested plan, which after months and years of practice becomes second nature to him.** His mind forms habits which operate automatically in guiding his market ventures.*

No intelligent human need be told that when the sky darkens and the thunder rolls there’s likely to be a shower. He unconsciously notes the preliminary signs, dons a raincoat and takes an umbrella.

Long practice will make the trader just as proficient in forecasting stock market events, but his intuition will be reinforced by logic, reason, and analysis.”

Discussion: If there is no exact winning formula, how is success possible?

Wyckoff outlines his recipe for developing competence:

Information + Plan + Experience + Analysis = Expertise

Without information, your trading is blind.

Without plan, your trading is inconsistent.

Without experience, your trading has no edge.

Without analysis, your trading is lost.

Miss any component and your trading will be ineffective.

First Requirement of Success

"First, he must be ***absolutely self-reliant****. A dependent person whose judgement hangs upon that of others will find himself swayed by a thousand outside influences. At critical points his judgement will be useless. He must be able to say: 'The facts are — ; the resulting indications are — ; therefore I will do so and so.'"*

Discussion: Absolute self-reliance means doing one's own thinking, based on facts (price / order flow). It is good to be a member of a trading community, but ultimately one must think for oneself and make one's own trading decisions. Nobody can hold your hand. Trading is an independent endeavor.

Second Requirement of Success

"Next he must be familiar with the technicalities of the market, so that every little incident affecting prices will be given due weight. He should know the history, earnings and financial condition of the companies in whose stock he is trading; the ways of the manipulators; ***the different kinds of markets****; be able to measure the effect of news and rumors;* ***know when and in what stocks it is best to trade; measure the forces behind them; know when to cut a loss and take a profit****. He must study the various swings and know where the market and his stock stand; must recognize the inherent weakness or strength of the market;* ***understand the basis or logic of movements****. He should study the fundamentals and sift the wheat from the chaff;* ***recognize the turning points of the market; see in his mind's eye what is happening on the floor. He must have the nerve to stand a series of losses; persistence to keep him at the work during adverse periods; self-control to avoid overtrading and a phlegmatic disposition to balance him at all times.****"*

Discussion: There is so much to master as a trader. Wyckoff summarizes many technical and psychological aspects. Trading is a complex task that requires a development of mastery in numerous areas.

Notice Wyckoff does not say that 'trading is simple', as is popular nowadays with many trading coaches and authors. There is no idea of "find a good setup, trade it, and become a millionaire."

If only.

Questions to Ask Yourself

"Success is only for the few, and the problem is to ascertain, with the minimum expenditure of time and money, whether you are fitted for the work. ***These, in a nutshell, are the vital questions****:*

1. Do you have technical knowledge of the market and the factors which move it?

2. Do you have sufficient capital which you can afford to lose in an effort to demonstrate your trading ability?

3. Can you devote your entire time and attention to the study and the practice of this science?

4. Are you so fixed financially that you are not dependent upon your possible profits, and so that you will not suffer if none are forthcoming now or later?"

Discussion: Wyckoff bids you to task: are your technical skills, capital, commitment, and financial stability up to par?

Notice the last question implies that a trader must be ok with failure. Is Wyckoff being negative? Not at all. You must be ok with losing money, otherwise you won't be able to manage your open positions properly.

The question also suggests detachment from profits. Trading is easier when it is not money focussed. The professional is focussed on doing the right thing. Money takes care of itself. It is not the immediate goal, but the outcome of good trading.

Trading Method Outline

"This is one great advantage the trader has over other operators who do not employ market science. By a process of elimination he decides which side of the market and which stock affords the best opportunity. ***He either gets in at the inception of a movement or waits for the first reaction after the move has started. He knows just about where his stock will come on the reaction and judges by the way it then acts whether his first impression is confirmed or nullified.*** *After he gets in it must come up to expectations or he should abandon the trade.* ***If it is a bull move, the volume must increase*** *and the rest of the market offer some support or at least not oppose it.* ***The reactions must show a smaller volume than the advances****, indicating light pressure, and each upward swing must be of longer duration and reach a new high level, or it will mean that the rise has spent its force either temporarily or finally."*

Discussion: Wyckoff outlines the essentials of his trading method here.

The components are:

1. Enter on a breakout or a pullback.
2. Keep the trade on if it is meeting the expectations.
3. Look for increasing volume when it's a long trade.
4. Look for light volume on reactions.

All four are solid ideas, that have stood the test of time.

Wyckoff's Trade Management

*"**I buy and sell when I get my indications. In going into a trade I do not know whether it will show a profit or a loss, or how much. I try to trade at a point where I can secure protection with a stop… so that my risk is limited. If the trade goes in my favor I push the stop up as soon as possible, to a point where there can be no loss.***

*I do not let profits run blindly but only so long as there appears no indication on which to close. No matter where my stop order stands, I am always on the watch for danger signals. Sometimes I get them way in advance of the time a trade should be closed; **in other instances my 'get out' will flash onto the tape as suddenly and as clearly defined as a streak of lightning against a black sky.***

When the tape says 'get out' I never stop to reckon how much profit or loss I have or whether I am ahead or behind on the day. I strive for an increasing average profit but I do not keep my eye so much on the fractions or points made or lost, so much as on myself."

Discussion: Wyckoff outlines the principles of his trade management. The reading of order flow as a signal to get out is worth noting. Most traders today do not bother with order flow (level 2), as it seems to be too much work. To a professional, there is no such thing as 'too much work' if it helps him. There are great rewards at stake. When the stakes are high, it is crucial to get every advantage.

Take a Free Position

*“**My stop was moved down so there couldn’t be a loss, and soon a slight rally and another break gave me a new stop which insured a profit, come what might… I strongly advocate this method of profit insuring. The scientific elimination of loss is one of the most important factors in the art**, and the operator who fails to properly protect his paper profits will find that many a point which he thought he had cinched has slipped away from him.*

When you push a stop close behind a rise or a decline, you leave the way open for a further profit; but when you close the trade of your own volition, you shut off all such chances.

This whole plan of using stops is a sort of squeezing out the last drop of profit from each trade and never losing any part that can possibly be retained.”

Discussion: Wyckoff would take a free position using swing lows and highs as the trade went in his favor. He never used fixed targets with inflexible profit / loss ratios. He gunned for absolute returns.

Selective Day Trading

*"**Many opportunities for profit develop from each day's movements; only the very choicest should be acted upon.** There should be no haste. The market will be there tomorrow in case today's opportunities do not meet requirements."*

Discussion: Wyckoff was a day trader, but a selective one at that. You don't have to take every signal you see. If you think of trading as playing poker, imagine having the ability to play only if you have the aces. Most traders do not take enough advantage of selectivity.

Wait for Wide Swings

*"**There must be wide swings if profits are to exceed losses, and the thing to do is, wait for good opportunities. 'The market is always with us' is an old and a true saying.** We are not compelled to trade and results do not depend on how often we trade, but on how much money we make."*

Discussion: It is a good reminder that the market is not going anywhere. It will still be here tomorrow. There is no need to push action where there isn't any.

Distinguishing Pullbacks from a Change in Trend

*"…**one of the finest points in the art of trading is that of distinguishing a pullback from a change in trend. A good way to do this successfully is to figure where a stock is due to come after it makes an upturn, allowing that a normal pullback is from one-half to two-thirds of the decline.** That is, when a stock declines two and a half points we can look for at least a point and a quarter rally unless the pressure is still on. In case the decline is not over, the rally will fall short."*

Discussion: Wyckoff's rule for a 'normal' pullback is a retracement of 50% to 66%. This rule works quite well even today.

Look at the chart of your favorite instrument. How deep are normal pullbacks?

One Man's Meat

"The results which are attainable depend solely upon the individual. ***Each must work out his own method of trading, based on suggestions derived from these studies or from other sources.*** *It will doubtless be found that what is one man's meat is another's poison, and that no amount of book learning will avail if the student does not put his knowledge to an actual test in the market."*

Discussion: Find your own way. You cannot trade somebody else's system. It has to be your own.

Pitfalls

*"**Anxiety to make a record, to avoid losses, to secure a certain profit for the day or period will greatly warp the judgement, and lead to a low percentage of profits.***

Trading is a good deal like laying eggs. If the hen is not left to pick up the necessary foods and retire in peace to her nest, she will not produce properly. If she is worried by dogs and small boys, or tries to lay seven eggs out of material for six, the net proceeds may look like an omelet.

The trader's profits should develop naturally. He should buy or sell because it is the thing to do — not because he wants to make a profit or fears to make a loss.*"*

Discussion: One of the most common problems day traders face psychologically is wanting to book a winning day, *every day*. Of course, that is a losing proposition, as the market simply does not give you opportunities to make money every single day.

The Sixth Sense in Trading

"By proper mental equipment we do not mean the mere ability to take a loss, define the trend, or to execute some other move characteristic of the professional trader. We refer to the active or dormant qualities in his make-up. ***The power to drill himself into the right mental attitude; to stifle his emotion, fear, anxiety, elation, recklessness, to train his mind into obedience so that it recognizes but one master — the tape*** *— these, if possessed, would be as valuable in shaping the result as natural ability, or what is called the sixth sense in trading."*

Discussion: Wyckoff equates the 'sixth' sense in trading with the ability to master one's internal world in such a way that all trading is determined strictly by technical considerations. It amounts to mastery of the technical side as well as control of oneself.

The Power of Commitment

“Some people are born musicians, others seemingly void of musical taste, develop themselves into virtuosos. ***It is the amount of I WILL in a man which makes him mediocre or pre-eminent*** *— in Wall Street parlance, a dub or a big trader.”*

Discussion: The most powerful factor in achieving success is commitment. Talent is not nearly enough.

The Prince of Floor Traders

"Those who knew 'Jakey' when he began his Wall Street career, were impressed by ***his ability to read the tape, and follow the trend****. His talent for this work was doubtless born in him; time and experience have intensified it until now he is considered by the majority of his fellows, the Prince of Floor Traders."*

Discussion: Wyckoff is describing one of the best traders he knew. The three qualities he admires in this man are reading price action ('tape'), following the trend, and experience.

Keene

"Whatever laurels Mr. Keene has won as an operator or syndicate manager, do not detract from his reputation as a trader. ***His scrutiny of the tape is so intense that he appears to be in a trance while his mental processes are being worked out. He seems to analyze prices, volumes, and fluctuations down to the finest imaginable point****, then telephones to the floor to ascertain the character of the buying or selling in certain active stocks. With this auxiliary information he completes his judgement and makes his commitments.*

Mr. Keene stands to-day on the pinnacle of fame as a trader, and his daily presence at the ticker is sufficient evidence that the work pays and pays well."

Discussion: James R. Keene (1838-1913) was a shrewd speculator who managed funds for both Morgan and Rockefeller. Admired both by Wyckoff and Livermore, Keene was indeed a sharp student of the markets and price action. Wyckoff especially admired his close scrutiny of price action and understanding of volume.

How Success Happens

*"**Success in this field usually results from years of painstaking effort and absolute concentration upon the subject. It requires that one devote his whole time and attention to the tape.** He should have no other business or profession.*

'A man cannot serve two masters,' and the tape is a tyrant."

Discussion: Wyckoff iterates that success is a matter of making a major commitment, to the point where it becomes one's chief occupation. He does not feel that taking partial interest will lead to success.

Full Time Learning from Mistakes

"One cannot become a trader by giving the ticker absent treatment; nor by running into his broker's office after lunch, or seeing 'how the market closed' from his evening newspaper. He cannot study this art from the far end of a telegraph or telephone wire. ***He should spend twenty-seven hours a week at the ticker, and many more hours away from it studying his mistakes and finding the 'why' of his losses.****"*

Discussion: One's mistakes provide the best learning opportunities. Every trade should be followed by a 'post mortem' session, a dissection of what went wrong if the trade was a loser.

Curiously, Wyckoff does not mention studying one's winners. Winning takes care of itself; it is losing that must be learned from.

What Trading is Not

"Trading is not merely looking at the tape to ascertain how prices are running. It is not reading the news and then buying or selling 'if the stock acts right.' It is not trading on tips, opinions, or information. ***It is not buying 'because they are going up,' or selling 'because they look weak.' It is not trading on chart indications or by other mechanical methods. It is not 'buying on dips and selling on bulges.' Nor is it any of the hundred other foolish things practised by the millions of people without method, forethought, or calculation.****"*

Discussion: To learn what something is, it is good to know what it is not. Trading requires a tested method and careful thought. It is not a matter of acting on a whim or an impulse.

Inertia

"The market is like a slowly revolving wheel. Whether the wheel will continue to revolve in the same direction, stand still or reverse depends entirely upon the forces which come in contact with its hub and tread. ***Even when the contact is broken, and nothing remains to affect its course, the wheel retains a certain impulse from the most recent dominating force, and revolves until it comes to a standstill or is subjected to other influences.****"*

Discussion: The market has a tendency to keep doing what it has doing recently, unless other things interfere. This is an old and an important principle of speculation.

Manipulation Not a Problem

"The element of manipulation need not discourage any one. Manipulators are giant traders, wearing seven-leagued boots. The trained ear can detect the steady 'clump, clump,' as they progress, and ***the footprints are recognized in enormous quantities of stock appearing on the tape****. Little fellows are at liberty to tiptoe wherever the footprints lead, but they must be wary that the giants do not turn quickly and crush them."*

Discussion: In today's age of HFT (High Frequency Trading), co-location, and flash crashes, many traders worry about manipulation.

But manipulation was always present, even in Wyckoff's day. And it is volume that reveals it. Nothing can hide huge volumes, which shows that big traders have sprung to action. Pay attention to volume patterns.

Advantage Over Big Traders

"The trader has many advantages over the long swing operator. He never ventures far from shore; that is, he plays with a close stop, never laying himself open to a large loss. Accidents or catastrophes cannot seriously injure him because ***he can reverse his position in an instant****, and follow the new-formed stream from source to mouth. As his position on either the long or short side is confirmed and emphasized, he increases his line, thus following up and cumulating the advantage gained."*

Discussion: Wyckoff points out the advantages of trading on a 'shoe string'. It is easy to get out of a position when trading small. Large traders simply do not have this option as their trading moves the market.

The Trading Objective

"This is the objective point of the trader — to make an average profit. In a month's operations he may make $3,500 and lose $3,000 — a net profit of $500 to show for his work. If he can keep this average up, trading in 100-share lots, throughout a year, he has only to increase his unit to 200, 300, and 500 shares or more, and ***the results will be tremendous****."*

Discussion: Trade small and be patient. If you can win with consistency, you can increase your trading size.

Before, During, and After the Trade

"The trader evolves himself into an automaton which takes note of a situation, weighs it, decides upon a course and gives an order. There is no quickening of the pulse, no nerves, no hopes or fears. The result produces neither elation nor depression. ***There is equanimity before, during, and after the trade.****"*

Discussion: Emotional state of a trader should not fluctuate. Trading decisions are to be made rationally and no emotionality should be present at any time.

The Ideal Work Environment

"For perfect concentration as a protection from the tips, gossip and other influences which abound in a broker's office, he should, if possible, seclude himself. A tiny room with a ticker, a desk and private telephone connection with his broker's office are all the facilities required. The work requires such delicate balance of the faculties that the slightest influence either way may throw the result against the trader. He may say: 'Nothing influences me,' but unconsciously it does affect his judgement to know that another man is bearish at a point where he thinks stocks should be

bought. The mere thought, "He may be right," has a deterring influence upon him; he hesitate ; the opportunity is lost. No matter how the market goes from that point, he has missed a cog and his

mental machinery is thrown out of gear. ***Silence is a much needed lubricant to the trader's mind.*** *The advisability of having even a news ticker in the room, is a subject for discussion. The tape tells the present and future of the market."*

Discussion: Trading decisions are delicate, and thus require the proper environment. Eliminate distractions. Wyckoff recommended silence as the ideal work environment.

In today's context, that would mean not just quiet in your trading room, but also no contact with the others via email, facebook…etc.

When you trade, just trade. Be present and mindful to everything that is taking place in front of you.

How Money is Made

*"**Money is made in trading by anticipating what is coming** — not by waiting till it happens and going with the crowd."*

Discussion: Going with the crowd often means entering too late.

A good trader sees the move as it is starting, having anticipated it in his analysis. That usually means entering on the breakout, or the first pullback.

Trading Driven by Psychological Needs

"The trader of slight experience suffers mental anguish if the stock does not instantly go his way; he is afraid of a large loss, hence his judgement becomes warped, and he ***closes the trade in order to secure mental relief****. As these are all symptoms of inexperience, they cannot be overcome by avoiding the issue. The brave and the business-like thing to do is to wade right into the game and learn to play it under conditions which are to be met and conquered before success can be attained."*

Discussion: How many trading decisions do you make in order to secure mental relief ('to feel better')?

Wyckoff gives an example of a trader closing his position in order to experience a more comfortable psychological state. Of course, it does not have to be an exit. Some traders enter in order to relieve an inner tension. Needlessly to say, trading to make oneself comfortable is the wrong and the expensive thing to do. It is good idea to see which of your trading decisions are based purely on unmet psychological needs.

Start with Minimum Size

“After a complete absorption of every available piece of educational writing bearing upon trading, it is best to commence trading in ten share lots, so as to acquire genuine trading experience. This may not suit some people with a propensity for gambling, who look upon the ten-share trader as a piker. The average lamb with $10,000 wants to commence with 100 to 500-share lots — he wishes to start at the top and work down. It is only a question of time when he will have to trade in ten-share lots.

To us it seems better to start at the bottom with ten shares. ***There is plenty of time in which to increase the unit if you are successful.*** *If success is not eventually realized you will be many dollars better off for having ventured the minimum quantity… Think of a baby, just learning to walk, being entered in a race with professional sprinters!“*

Discussion: There is no rush to trade big, if you are just starting out. Prove yourself by trading small first. You can always scale big later, after you have demonstrated your edge and expertise.

Start Right or Not at All

"Trading is hard work, hence those who are mentally lazy need not apply.

Nor should anyone to whom it will mean worry as to where his bread and butter is coming from. ***Money-worry is not conducive to clear-headedness. Over-anxiety upsets the equilibrium of a trader more than anything else. So if you cannot afford the time and money, and have not the necessary supply of patience, better wait. Start right or not at all.****"*

Discussion: It is an old saying that scared money loses. You cannot be concerned about money and act in an objective, detached way. Greed clouds your judgement and makes your trading weak and hesitant when it needs to be strong and decisive. It is hard to do the right thing when you are thinking about money.

Entering at the Right Time

"For the trader there is a psychological moment when he must open or close his trade. His orders must therefore be 'at the market.' Haggling over fractions will make him lose the thread of the tape, upset his poise and interrupt the workings of his mental machinery."

Discussion: Wyckoff believed in entering at the market ('jumping in') at the right moment. Enter your position when your conviction has reached its apex.

Get On!

“…as the trader generally goes with the trend it is a case of ‘get on or get left.’ By all means ‘get on.’”

Discussion: Wyckoff believed in entering trends when they begin. Though sometimes he waited for pullbacks, he also traded breakouts when he felt the evidence was sufficient to pull the trigger.

Specialize

*“**It is better for a trader to trade in one stock than two or more.** Stocks have habits and characteristics which are as distinct as those of human beings or animals. By a close study the trader becomes intimately acquainted with these habits and is able to anticipate the stock’s action under given circumstances. A stock may be stubborn, sensitive, irresponsive, complaisant, aggressive; it may dominate the tape or trail along behind the rest; it is whimsical and coquettish; it may whisper, babble like a brook or roar like a cataract. Its moods must be studied if you would know it and bend it to your will.*

Study implies concentration. A person who trades in a dozen stocks at a time cannot concentrate on one…

Better to concentrate on one or two stocks and study them exhaustively. You will find that what applies to one does not always fit the other: each must be judged on its own merits. The varying price levels, volumes, percentage of floating supply, investment values, the manipulation and other factors, all tend to produce a different combination in each particular case. ”

Discussion: Specialize in what you trade. It is better to be a master of one instrument than a jack of all.

What to Trade

*“**The trader must endeavor to operate in that stock which combines the widest swings with the broadest market**; he may therefore frequently find it to his advantage to switch temporarily into other issues which seem to offer the quickest and surest profits. It is necessary for us to become familiar with the characteristics of the principal speculative mediums that we may judge their advantages in this respect, as well as their weight and bearing upon a given market situation.”*

Discussion: By ‘widest swings’, Wyckoff meant trading what moves. If it doesn’t move, you cannot make money. This principle is iterated by all great traders.

Interdependence

"The various stocks in the market are like a gigantic fleet of boats, all hitched together and being towed by the tugs 'Money Situation,' and 'Business Conditions'… The leaders are first to feel the impulse; the others follow in turn. Should the tugs halt, the fleet will run along for awhile under its own momentum, and there will be a certain amount of bumping, backing and filling. In case the direction of the tugs is changed abruptly, the bumping is apt to be severe. Obviously, those in the rear cannot gain and hold the leadership without an all-around re-adjustment."

Discussion: Instruments move in tandem. This is true for stocks, but there are also strong correlations between different markets and the instruments within each market. The nature of the beast is interdependence.

On Break Even Trades

"…the trader's problem is not only to eliminate losses, but to cover his expenses as quickly as may be. If he has a couple of points profit in a long trade, there is no reason why he should let the stock run back below his net buying price. ***Here circumstances seem to call for a stop order, so that no matter what happens, he will not be compelled to pay out money. This stop should not be thrust in when net cost is too close to the market price. Reactions must be allowed for.****"*

Discussion: Wyckoff strongly believed in taking a free position, once the market has moved a distance that allowed for a reaction.

Expert

“A trader is essentially one who follows the immediate trend. ***An expert can readily distinguish between a change of trend and a reaction.*** *When his mental barometer indicates a change he does not wait for a stop order to be hit, but cleans house or reverses his position in a twinkling. The stop order at net cost is, therefore, of advantage only in case of a reversal which is sudden, pronounced, and with no forewarning.”*

Discussion: One of the hardest things in trading is telling the difference between a reaction and a change of trend. Indeed, in Wyckoff’s thinking, that is what distinguishes an expert from the rest. Spotting a change of trend, an expert does not wait for his stop to be hit. He closes the position, possibly reversing it. Thus a breakeven stop is useful to an expert only in cases of sudden or unexpected market moves (‘spikes’).

Always Have a Stop

*“I know a trader who once bought 500 shares of Sugar and then went out to lunch. He paid 25 cents for what he ate, but **on returning to the tape he found the total cost of that lunch was $5,000.25**. He had left no stop order, Sugar was down ten points…”*

Discussion: Wyckoff believed in always having a stop. Without a stop, you expose yourself to the possibility of making an infinite loss. Not a good idea for your account.

Trailing Stops

“A closer stop may be obtained by noting the ‘points of resistance’ — the levels at which the market turns after a reaction. For example, if you are short at 130 and the stock breaks to 128, rallies to 129, and then turns down again, the point of resistance is 129. In case of temporary absence or interruption to the service, a good stop would be above 129.

If the operator wishes to use an automatic stop, a very good method is this: Suppose the initial trade is made with a one-point stop. For every one eight the stock moves in your favor, change the stop to correspond, so that the stop is never more nor less than one point away from the extreme market price. This gradually and automatically reduces the risk, and if the trader be at all skilful, his profits must exceed losses. ***As soon as the stop is thus raised to cover commissions, it would seem best not to make it automatic thereafter, but let the market develop its own stop or signal to get out.****”*

Discussion: Wyckoff used trailing stops. He indicates that an automatic trailing stop was acceptable until you take a free position. After that, it is a good idea to allow the market to determine where to place the trailing stop, according to recent swing highs or lows.

How to Manage an Open Trade

"Fear, hesitation, and uncertainty are deadly enemies of the trader… Therefore commitments should be no greater than can be borne by one's susceptibility in this respect. Hesitation must be overcome by self training. To observe a positive indication and not act upon it is fatal — more so in closing than in opening a trade. ***The appearance of a definite indication should be immediately followed by an order. Seconds are often more valuable than minutes.*** *The trader is not the captain — he is but the engineer who controls the machinery. The tape is the pilot and the engineer must obey orders with promptness and precision. Uncertainty may be reduced by the use of stops, or by closing a trade whenever one's course is not entirely clear."*

Discussion: The ideal mental state is one in which an observation corresponds closely to action. Having eliminated hesitation, an expert trader acts instantly executing his decisions.

The Importance of Immediate Trend

"We have defined a trader as one who follows the immediate trend. This means that he pursues the line of least resistance. ***He goes with the market — he does not buck it. The operator who opposes the immediate trend pits his judgement and his hundred or more shares against the world's supply or demand and the weight of its millions of shares. Armed with a broom, he is trying to stay the incoming tide.***

When he goes with the trend, the forces of supply, demand and manipulation are working for and with him."

Discussion: Wyckoff believed in going with the trend. In fact, making profit presupposes a trend: price must move in the direction of one's position in order to get out ahead.

Going with the trend means that the temporary supply / demand imbalance is on one's side, adding strength to the move, decreasing the probability of the stop being hit.

Stay Out of Quiet Markets

*"**A market which swings within a couple of points cannot be said to have a trend, and is a good one for the trader to avoid.** The reason is: unless he catches the extremes of the little swings, he cannot pay commissions, take occasional losses and come out ahead. No yacht can win in a dead calm. As it costs him nearly half a point to trade, each risk should contain a probable two to five points profit, or it is not justified."*

Discussion: If the market does not have large enough swings, it is hard to pay the commissions and cover the occasional losses. Make sure that there is sufficient volatility to potentiate significant moves before you trade.

Strong, High Momentum Moves

“A mechanical engineer, given the weight of an object, the force of the blow which strikes it, and the element through which it must pass, can figure approximately how far the object will be driven. So the trader, by gauging the impetus or the energy with which a stock starts and sustains a movement, decides whether it is likely to travel far enough to warrant his going with it — whether it will pay its expenses and remunerate him for his boldness.

The ordinary tip-trading speculator gulps a point or two profit and disdains a loss, unless it is big enough to strangle him. The trader must do the opposite — he must cut out every possible eighth loss and search for chances to make three, five and ten points. He does not have to grasp everything that looks like an opportunity. It is not necessary for him to be in the market continuously. ***He chooses only the best of what the tape offers.****”*

Discussion: One of the greatest advantages that a retail trader has is the ability not to trade, to stay out, and wait only for the best opportunities. Unfortunately, few new traders use this advantage.

Never Move Your Stop

"If the operator is shaken out of his holdings immediately after entering the trade, it does not prove his judgement is in error. Some accident may have happened, some untoward development in a particular issue, of sufficient weight to affect the rest of the list. It is these unknown quantities that make the limitation of losses most important. In such a case it would be folly to change the stop so that the risk is increased. This, while customary with the public, is something a trader seldom does.

Each trade is made on its own basis, and for certain definite reasons. At the outset the amount of risk should be decided upon, and, except in very rare instances, should not be changed, except on the side of profit. The trader must eliminate, not enhance, his risk."

Discussion: On the side of profit, Wyckoff used trailing stops placed just beyond a recent major swing high or low. On the side of losses, he used stops, which he never moved, and which were intended to take him out of the market when the improbable occurred.

Trade management is always about minimizing, not increasing risk.

Never Average a Loser

"Averaging does not come within the province of the trader. ***Averaging is groping for the top or bottom. The trader must not grope.*** *He must see and know, or he should not act."*

Discussion: Another way of saying that is, never add to a losing position. Never buy on the way down, or sell on the way up.

Gun for Absolute Profits

“It is impossible to fix a rule governing the amount of profit the operator should accept. In a general way, ***there should be no limit set as to the profits****. A deal, when entered, may look as though it would yield three or four points, but if the strength increases with the advance it may run ten points before there is any sign of a halt.”*

Discussion: Wyckoff did not believe in taking profits at fixed ratios. One must read the market and then decide where to exit. Of course, such active trade management requires lot of experience and strong mental makeup.

Four Reasons to Close a Trade

"Trader must close a trade:

(1) when the tape tells him to close

(2) when his stop is hit

(3) when his position is not clear

(4) when he has a large or satisfactory profit"

Discussion: They are all good reasons to close a trade. When price action indicates a reversal, when your stop is hit (assuming there is no automatic close order), when things are unclear ('range'), or when the profit is quite large, are all important conditions to consider when actively managing your position.

Volume As a Crucial Indicator

*"**The hand of the dominant power**, whether it be an insider, an outside manipulator or the public, **is shown in … volumes.** The reason is simple. These big fellows cannot put their stocks up or down without trading in enormous amounts."*

Discussion: Do not ignore volume. It shows the hand of large traders. When a move has strong participation, it is more likely to carry through.

How to Evaluate Volume

*“**Volumes must be valued in proportion to the activity of the market, as well as the relative activity of that particular issue. No set rule can be established.** I have seen a trader make money following the lead of a 1000-share lot of Northwest which someone took at a fraction above the last sale. Ordinarily Northwest is a sluggish investment stock, and this size lot appeared as the forerunner of an active speculative demand.”*

Discussion: Volume must evaluated on a relative basis, with respect to the broad market and its usual levels. For instance, if an instrument shows volume levels that are double of normal, this is an indication that something unusual is taking place. Money is made when such imbalances are present.

Price Factors Everything

"So far as the trader is concerned, he does not care whether the move is made by a manipulator, a group of floor traders, the public or a combination of all.

The figures on the tape represent the consensus of opinion, the effect of manipulation and the supply and demand, all combined into concrete units. That is why tape indications are more reliable than what anyone hears, knows or thinks."

Discussion: It is a tenet of Dow theory that price discounts everything. Wyckoff points out the reason for its reliability: it factors in all influences, seen and unseen.

Strength and Volume

“The comparative activity of the market on bulges and breaks is a guide to the technical condition of the market. For instance, during a decline, if the ticker is very active and the volume of sales large, voluntary or compulsory liquidation is indicated. This is emphasized if, on the subsequent rally, the tape moves sluggishly and only small lots appear. ***In an active bull market the ticker appears to be choked with the volume of sales poured through it on the advances, but on reactions the quantities and the number of impressions decrease until, like the ocean at ebb tide, the market is almost lifeless.****”*

Discussion: If a strong trend is under way, volume should be larger on the moves with the trend, than on the reactions.

Don’t Enter after Prolonged Moves

“Of course, these things are mere guide posts, as the trader’s actual trading is done only on the most positive and promising indications; but they are valuable in teaching him what

to avoid. For instance, he would be wary about making an initial short sale of Smelters after a 15-point break, even if his indications were clear. ***There might be several points more on the short side, but he would realize that every point further decline would bring him closer to the turning point, and after such a violent break the safest money was on the long side.****”*

Discussion: To put it simply, do not buy after lot of buying, and do not sell after lot of selling. The market does not move in a straight line. Do not enter after prolonged moves.

Chances Decrease as Move Continues

"It is seldom that the market runs more than three or four consecutive days in one direction without a reaction, hence the trader must realize that his chances decrease as the swing is prolonged."

Discussion: Same point as above. Even in strong trends, the market does not move in one direction indefinitely.

Day Trading Is Fine, But…

"The daily movements offer his best opportunities; but ***he must keep in stocks which swing wide enough to enable him to grab a profit.****"*

Discussion: Again, you cannot make profit if the market's trading range is too narrow.

The Use of Market Cycles in Wyckoff's Day

"It is an astonishing fact, and one which we have never before seen in print, that there is a market cycle which runs almost exactly one hour.

Watch it for yourself when next at the ticker, and you will find that if an upward movement culminates at 10:25, the reaction usually will last till 10:55, and the apex of the next up swing will occur about thirty minutes later. I have actually stood watch in hand, having decided what to do, waiting for the high or low moment on which to sell or buy, and have often hit within a fraction of the best obtainable figure. Why this is I do not attempt to explain, but it happens very often.

I have frequently used this idea as a test of the market's strength or weakness, in this way: If a decline ended a certain moment and the subsequent rally only lasted ten minutes, instead of the normal half hour, I would consider it an indication of weakness and would look for a further decline."

Discussion: In his day, Wyckoff spotted a daily pattern of price behavior. While this particular pattern obviously no longer works after 80 years, it gives us a precedent. How does your favorite instrument act on a typical day? When does it usually turn? When do the main moves happen? What typically happens at 10 am? At 11 am? At noon? At 2 pm?

Getting to the Bottom of Things

*“**He studies, figures, analyzes, and deduces. He knows exactly where he stands, what he is doing and why.***

Few people are willing to go to the very bottom of things. Is it any wonder that success is for the few?”

Discussion: An expert knows what he is doing. Of course, this is a truism and it would be trivial, if it weren’t for many traders who simply gamble, instead of knowing exactly what their edge is and how to milk it.

No One Knows

*"When a market is in the midst of a big move, **no one can tell how long or how far it will run**."*

Discussion: Strong trends run farther than anyone imagines.

Find a recent strong trend on the chart of your favorite instrument. Did you think it was going to go *that far*? And what does that say about profit taking strategies in big moves?

How to Anticipate Big Moves

"When a dull market shows its inability to hold rallies, or when it does not respond to bullish news, it is technically weak, and unless something comes along to change the situation, the next swing will be downward.

On the other hand, when there is a gradual hardening in prices; when bear raids fail to dislodge considerable quantities of stock; when stocks do not decline upon unfavorable news, we may look for an advancing market in the near future.

No one can tell when a dull market will merge into a very active one; therefore the trader must be constantly on the watch. It is foolish for him to say: 'The market is dead dull. No use going downtown today. The leaders only swung less than a point yesterday. Nothing in such a market.' Such reasoning is apt to make one miss ***the very choicest opportunities, i.e. those of getting in on the ground floor of a big move.****"*

Discussion: Big moves start from dull markets, not from active ones. When the market is 'going nowhere', pay close attention, and wait for a strong move that is certain to eventually happen.

Scalping

"There are other ways in which a trader may employ himself during dull periods. One is to keep tab on the points of resistance in the leaders and play on them for fractional profits.

This, we admit, is a rather precarious occupation, as the operating expenses constitute an extremely heavy percentage against the player*, especially when the leading stocks only swing a point or so per day…*

We cannot recommend it. It will not as a rule pay the trader to attempt scalping fractions out of the leaders in a dull market. Commissions, tax stamps and the invisible eighth, in addition to frequent losses, form too great a handicap."

Discussion: Wyckoff did not recommend scalping. The math is against it, as the commissions constitute a significant percentage of possible profits. The vig will eat you alive. Wait for strong moves with wide swings.

Developing Subconscious Competence

"The trader operates on what the price shows now. He is not wedded to any particular instrument, and, if he chooses, can work without pencil, paper or memoranda of any sort. ***He also has his code of rules — less clearly defined than those of the chartist. So many different situations present themselves that his rules gradually become intuitive*** *— a sort of second nature is evolved by self-training and experience."*

Discussion: Wyckoff spoke of unconscious competence before the term became fashionable. He explains the making of a discretionary, 'intuitive' trader. His guiding rules eventually evolve into a form of intuition, through long observation and experience.

Discretionary Trading

"A friend to whom I have given some points in trading once asked if I had my rules all down so fine that I knew just which to use at certain moments. I answered him thus: When you cross a street where the traffic is heavy, do you stop to consult a set of rules showing when to run ahead of a trolley car or when not to dodge a wagon? No. You take a look both ways and at the proper moment you walk across. Your mind may be on something else or you may be reading your newspaper while crossing — ***your judgement tells you when to start and how fast to walk. That is the attitude of the trained trader.****"*

Discussion: Great elucidation! As a master trader, Wyckoff used his judgement and discretion honed through thousands of hours of observation and experience. It isn't that he had no rules; he clearly did. But they have evolved into a 'trading sense', which told him which action was the best at any time.

Charting and Hindsight Bias

*"**Now if charts were an infallible guide no one would have to learn anything more than its correct interpretation in order to make big money.** Our correspondent says, 'after a thorough trial of the chart I find that I could have made a very considerable sum if I had followed the indications shown.' But he would not have followed the indications shown. **He is fooling himself. It is easy to look over the chart afterwards and see where he could have made correct plays, but I venture to say he never tested the plan under proper conditions.***

Let anyone who thinks he can make money following a chart have a friend prepare it, keeping secret the name of the stock and the period covered. Then put down on paper a positive set of rules which are to be strictly adhered to, so that there can be no guesswork. Each situation will then call for a certain play and no deviation is to be allowed. Cover up with a sheet of paper all but the beginning of the test chart, gradually sliding the paper to the right as you progress. Record each order and execution just as if actually trading. Put me down as coppering every trade and when done send me a check for what you have lost.

I have yet to meet the man who has made money trading on a figure chart over an extended period. Any kind of a chart will show some profits at times, but the test is: How much money will it make during several months' operations?"

Discussion: Sobering words. If making money was simply about recognizing a few chart patterns, there would be many more trading millionaires. He proposes a manual system testing. Will the trading rules make money over a period of many months?

Wyckoff points out the hindsight fallacy: it seems easy to trade looking back at the chart at the end of the day. But things are harder in real time.

Proper Use of Charts

"The chart gives the direction of coming moves; ***the tape says 'when.'****"*

Discussion: Wyckoff recommends using order flow ('Level 2') in order to pin point entry.

Wide Vision

"The trader sees everything that is going on; the chart player's vision is limited to one instrument. Both aim to get in right and go with the trend, but ***the eye that comprehends the market as a whole is the one which can read trends most accurately****."*

Discussion: Don't ignore the trend context. What is the market doing as a whole? Is your instrument the only one trending? Or is there wide participation?

Local Trends vs. General Trends

“If one wishes a mechanical trend indicator as a supplement and a guide to his trading, he had best keep a chart composed of the average daily high and low of eight or ten leading stocks.

Such a composite chart is of no value to the trader who scalps and closes out everything daily. But it should benefit those who read the tape for the purpose of catching the important five or ten point moves. Such a trader will make no commitments not in accordance with the trend, as shown by this chart. ***His reason is that even a well planned bull campaign in a stock will not usually be pushed to completion in the face of a down trend in the general market.*** *Therefore he waits until the trend conforms to his indication.”*

Discussion: What is the trend of the general market? ‘Local’ trends have less chance of persisting than ‘general’ trends that have multi-market participation.

Identifying Trend, Range, Accumulation, and Distribution

*"**It seems hardly necessary to say that an up trend in any chart is indicated by consecutive higher tops and bottoms, like stairs going up, and the reverse by repeated steps toward a lower level.** A series of tops or bottoms at the same level shows resistance. A protracted zig-zag within a short radius accompanied by very small volume means lifelessness, but with normal or abnormally large volume, accumulation or distribution is more or less evidenced."*

Discussion: Distinguishing trends from ranges is the most basic skill that a trader must acquire in order to be successful.

Discard All Mechanical Helps

*“**The proficient trader will doubtless prefer to discard all mechanical helps, because they interfere with his sensing the trend…** We advise students to stand free of mechanical helps so far as it is possible.”*

Discussion: Wyckoff was not a fan of blindly following mechanical rules. A trained eye can spot trends better.

Watching One Market Insufficient

"Our correspondent in saying 'a chart is but a copy of the tape' doubtless refers to the chart of one stock. The full tape cannot possibly be charted. The tape does tell the story, but ***charting one or two stocks is like recording the actions of one individual as exemplifying the actions of a very large family****."*

Discussion: Trade in context. In other words, be aware of how your trade fits into the whole market picture.

Market Absorption

"Just now I took a small triangular piece of blotting paper three-eighths of an inch at its widest, and stuck it on the end of a pin. I then threw a blot of ink on a paper and put the blotter into contact. The ink fairly jumped up into the blotter, leaving the paper comparatively dry.

This is exactly how the market acts on the tape when its absorptive powers are greater than the supply — large quantities are taken at the offered prices and at the higher levels. Prices leap forward. The demand seems insatiable.

After two or three blots had thus been absorbed, the blotter would take no more. It was thoroughly saturated. Its demands were satisfied. Just in this way the market comes to a standstill at the top of a rise and hangs there. Supply and demand are equalized at the new price level.

Then I filled my pen with ink, and let the fluid run off the point and onto the blotter. (This illustrated the distribution of stocks in the market) Beyond a certain point the blotter would take no more. A drop formed and fell to the paper. (Supply exceeded demand.) The more I put on the blotter the faster fell the drops. (Liquidation—market seeking a lower level.)

This is a simple way of fixing in our minds the principal opposing forces that are constantly operating in the market — absorption and distribution, demand and supply, support and pressure. The more adept a trader becomes in weighing and measuring these elements, the more successful he will be*."*

Discussion: A fitting analogy of how the market absorbs orders.

Range Does Not Mean Reversal

*"**When a stock holds steady within a half point radius it does not signify a reversal of trend, but rather a halting place from which a new move in either direction may begin**."*

Discussion: It should be pointed out that when price pauses and forms a temporary range, it is more likely to resume moving in the direction of the previous trend than against it.

Document All Trades

“A good way to watch the progress of an account is to keep a book showing dates, quantities, prices, profits and losses, also commission, tax and interest charges. Beside each trade should

be entered the number of points net profit or loss, together with a running total showing just how many points the account is ahead or behind.

A chart of these latter figures will prevent anyone fooling himself as to his progress. ***People are too apt to remember their profits and forget their losses.****”*

Discussion: Of course, nowadays, software keeps the score for you. Yet, it is a good exercise to record the trades yourself, examining the technical and the mental factors that went into your trading decisions.

Professional Losses Are Tiny

*"**The losses taken by an expert trader are so small that he can trade in much larger units** than one who is away from the tape or who is trading with an arbitrary stop. The trader will seldom take over half a point to a point loss for the reason that he will generally buy or sell at, or close to, the pivotal point or the line of resistance."*

Discussion: If there is one thing that professionals are very good at, it is minimizing risk. They enter at price points that allow them to use tight stops.

Big Swings and Large Volumes

"The big money in trading is made during very active markets. ***Big swings and large volumes*** *produce unmistakable indications and a harvest for the experienced operator."*

Discussion: Wyckoff gives a recipe for ideal market conditions, which means big swings and large volumes. Such moves are apt to go far.

What is the 'Best' Trading Style?

"If his make-up is such that he can closely follow the small swings with profit, gradually becoming more expert and steadily increasing his commitments, he will shortly 'arrive' by that route. If his disposition is such that he cannot trade in and out actively, but is content to wait for big opportunities and patient enough to hold on for large profits, he will also 'get there.' ***It is impossible to say which style of trading would produce the best average results, because it depends altogether upon individual qualifications.****"*

Discussion: There is no such thing as the 'best' universal style of trading, because 'the best' depends on one's technical skills and mental makeup. The key is finding a trading style that caters to your strengths.

Trading As a Profession

"Trading is essentially a profession for the man who is mentally active and flexible, capable of making quick and accurate decisions and keenly sensitive to the most minute indications…

Speculation is a business. ***It must be learned.****"*

Discussion: Wyckoff did not believe traders are born. They are made. Trading is a business, just like any other.

Day Trading vs. Swing Trading

"… a trader might find it both difficult and less profitable to operate solely for the long swings. In the first place, he would be obliged to let twenty or thirty opportunities pass by to every one that he would accept. The small swings of one to three points greatly outnumber the five and ten point movements, and there would be a considerable percentage of losing trades no matter how he operated."

Discussion: Wyckoff felt that day trading for smaller moves was ok, as there are many tradable moves. Waiting solely for very large moves means missing out on many medium ones. Be picky, but not too picky. **It is a game of selectivity, but not a game of perfection.**

Can’t Tell How Far

“Recent trading observations and experiments have convinced me that ***it is impracticable and almost impossible to gauge the extent of a movement by its initial fluctuations****. Many important swings begin in the most modest way. The top of an important decline may present nothing more than a light volume and a drifting tendency toward lower prices, subsequently developing into a heavy, slumpy market, and ending in a violent downward plunge.”*

Discussion: Big moves begin in small ways. And no one has any idea how far they will go.

Wait for a Breakout

"…the operator should aim to catch every important swing in the leading active stock. To do this ***he must act promptly when a stock goes into a new field*** *or otherwise gives an indication, and he must be ready to follow wherever it leads. If it has been moving within a three-point radius and suddenly takes on new life and activity, bursting through its former bounds, he must go with it."*

Discussion: This theme is common to Wyckoff, as it was to Livermore. Wait for a breakout. Take no interest until then.

Re-enter On a Pullback

*"**If the stock rises three points and then reverses one or one and a half points on light volume, he must look upon it as a perfectly natural reaction and not a change of trend.** The expert operator will not ordinarily let all of three points get away from him. He will keep pushing his stop up behind until the first good reaction puts him out at close to the high figure. This leaves him in a position to **repurchase on the reaction**, provided no better opportunity presents itself. **Having purchased at such a time, he will sell out again as the price once more approaches the high figure, unless indications point to its forging through to a new high level.**"*

Discussion: After being taken out, re-enter on a pullback, and then exit on strength. So for example in an up trend channel, buy on a pullback in the bottom part of the channel. Exit in the upper half of the channel.

Use Volume on Breakout

"The more we study volumes, the better we appreciate their value in trading. It frequently occurs that a stock will work within a three-point range for days at a time without giving one a chance for a respectable-sized scalp. Without going out of these boundaries, it suddenly begins coming out on the tape in thousands instead of hundreds. This is evidence that a new movement has started, but not necessarily in the direction which is first indicated ***. The trader must immediately go with the trend, but until it is clearly defined and the stock breaks through its former limits with large and increasing volumes, he must exercise great caution.*** *"*

Discussion: A sudden increase in volume is a sign that the trader should pay close attention and be ready to trade in the direction of the trend.

How to Move Your Stop

"Suppose the operator sells a stock short at 53 and it breaks to 51. He is foolish not to bring his stop down to 51 1/4 unless the market is ripe for a heavy decline. With his stop at this point he has two chances out of three that the result will be satisfactory: (1) The price may go lower and yield a further profit ; (2) The normal rally to 52 will catch his stop and enable him to put the stock out again at that price. The third contingency is that it will rally to about 51 1/4, catch his stop and then go lower. He can scarcely mourn over the loss of a further profit in such a case."

Discussion: Wyckoff's tight trailing stop might give us a pause. However, if he is taken out, he is ready to re-enter the market on a pullback, so losing his position (while taking significant profits off the table!) is not a problem.

Playing Dominoes

“Mental poise is an indispensable factor in trading. The mind should be absolutely free to concentrate upon the work ; there should be no feeling that certain things are to be accomplished within a given time; no fear, anxiety, or ambition.

When a trader has his emotions well in hand, he will play as though the game were dominoes. *When anything interferes with this attitude it should be eliminated. If, for example, there be an unusual series of losses, the trader had better suspend operations until he discovers the cause.”*

Discussion: The comfort levels while trading should be the same as when paying dominoes, in other words, it should be a comfortable and a relaxed experience.

No Trend, No Trade

*“**The market may be unsuited to trading operations.** When prices drift up and down without trend, like a ship without a rudder, and few positive indications develop, the percentage of losing trades is apt to be high. When this condition continues it is well to hold off until the character of the market changes.”*

Discussion: When in doubt, stay out.

Directionless markets result in whipsaws, not profits.

Impaired Trading

"…the trader should be careful to trade only in such amounts as will not interfere with his judgement. ***If he finds that a series of losses upsets him it is an easy matter to reduce the number of shares one-half or a quarter of the regular amount****, or even to ten shares so that the dollars involved are no longer a factor. This gives him a chance for a little self-examination."*

Discussion: Trade the size that is comfortable, that does not impair your judgement. You cannot stay objective when you feel uncomfortable, as you will be prone to base your decisions on your feelings.

Tired, Hungry, Horny, or Upset

*"**If a person is in poor physical condition or his mental alertness below par for any reason, he may be unable to stand the excitement attending the work.** Loss of sleep, for example, may render one unfit to carry all the quotations in his head, or to plan and execute his moves quickly and accurately. When anything of this kind occurs which prevents the free play of all the faculties it is best to bring the day's work to a close."*

Discussion: Trade rested, not tired. It is also not a good idea to trade hungry, horny, or upset.

The Foundation of Strong Trading Psychology

"I endeavor to perfect myself in clearheadedness, quickness of thought, accuracy of judgement, promptness in planning and executing my plays, foresight, intuition, courage, and initiative. ***Masterful control of myself in these respects will produce a winning average*** *— it is merely a question of practice."*

Discussion: The foundation of strong trading psychology is self-mastery.

Self-mastery means two things:

1. Preferring long-term consequences to short-term gratification.

and

2. The ability to do the 'hard' thing, if it is required.

Think about your trading, and your life. Where have you demonstrated these? How can you increase and improve your self-mastery?

One Idea into a Method

"To be sure it is possible for a person to take a number of the 'tricks of the trade' herein mentioned and trade successfully on these alone. ***Even one idea which forms part of the whole subject may be worked and elaborated upon until it becomes a method in itself.*** *There are endless possibilities in this direction."*

Discussion: While Wyckoff recommends a thorough study of the markets and trading, he also says that you can take a single idea and evolve it into your own trading method.

To be successful, you need one good idea and make it your own.

On Trading "Teachers"

"Frequent requests are made for the name of someone who will teach the Art of Trading. ***I do not know of anyone able to read the tape with profit who is willing to become an instructor. The reason is very simple. Profits from the tape far exceed anything that might be earned in tuition fees****."*

Discussion: It is naive to think that a professional will disclose all his tricks. That's not to say that there isn't lot of good, trading wisdom out there. But to expect somebody to give you all his secrets is silly.

Nothing but your own mind can make you a success.

Forming a Trading Character

"…even those who get pretty well along in the subject will be scared to death at a string of losses and quit just when they should dig in harder.

*For in addition to learning the art they must **form a sort of trading character**, which no amount of reverses can discourage nor turn back and which constantly strives to eliminate its own weak points such as fear, greed, anxiety, nervousness and the many other mental factors which go to make or unmake the profit column."*

Discussion: While working on your trading, you are working on yourself. This is one of the advantages of being a trader. You evolve and develop as a person. Trading isn't disconnected from who you are or from the rest of your life.

Conclusion - The Final Lesson

Unlike Jesse Livermore, Richard Wyckoff kept his wealth til the end of his life. And so he left us with the final lesson: once you become successful, pay yourself first. Protect what you have made. Do not risk all your profits trading. Wyckoff didn't. **He took the money off the table and took a 'free position' in life, enjoying the fruits of his labors.**

Markets change, and there is no guarantee of continued success. Many traders who made their fortunes retire. You cannot step into the same river twice. After making his millions, Wyckoff focussed on trading education. Trading takes its toll. There is time for hard work, but also for happy times. Life has so much more to offer. By all means, enjoy the game, but be smart about it.

Happy Trading and Good Luck. :)

PS If you got something out of this book, please post a review on Amazon. You may also enjoy my other books.

“The game of speculation is the most uniformly fascinating game in the world. But it is not a game for the stupid, the mentally lazy, the person of inferior emotional balance, or the get-rich-quick adventurer. They will die poor.”