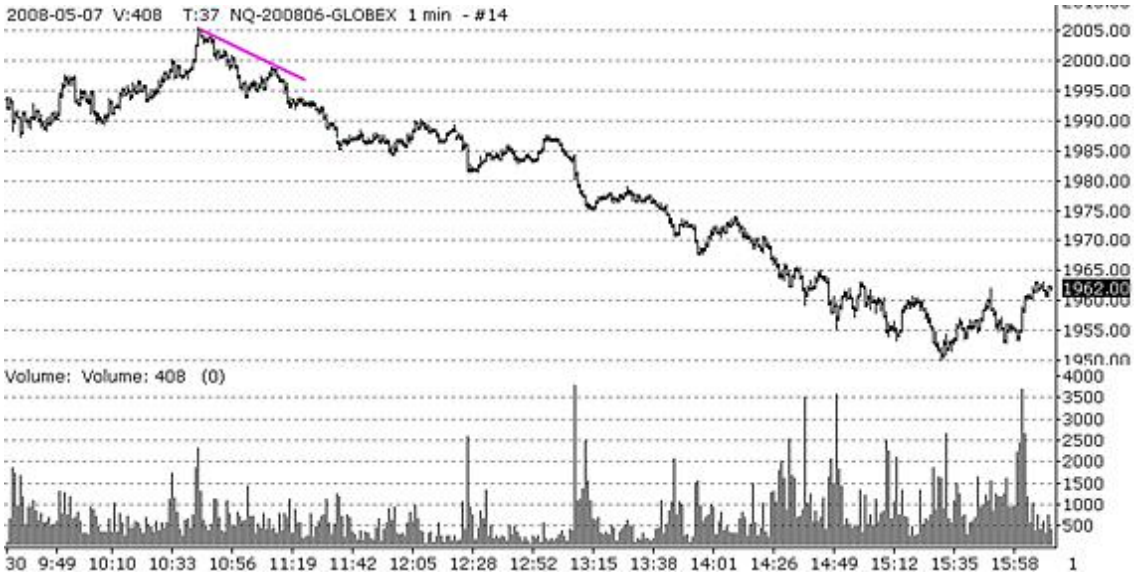
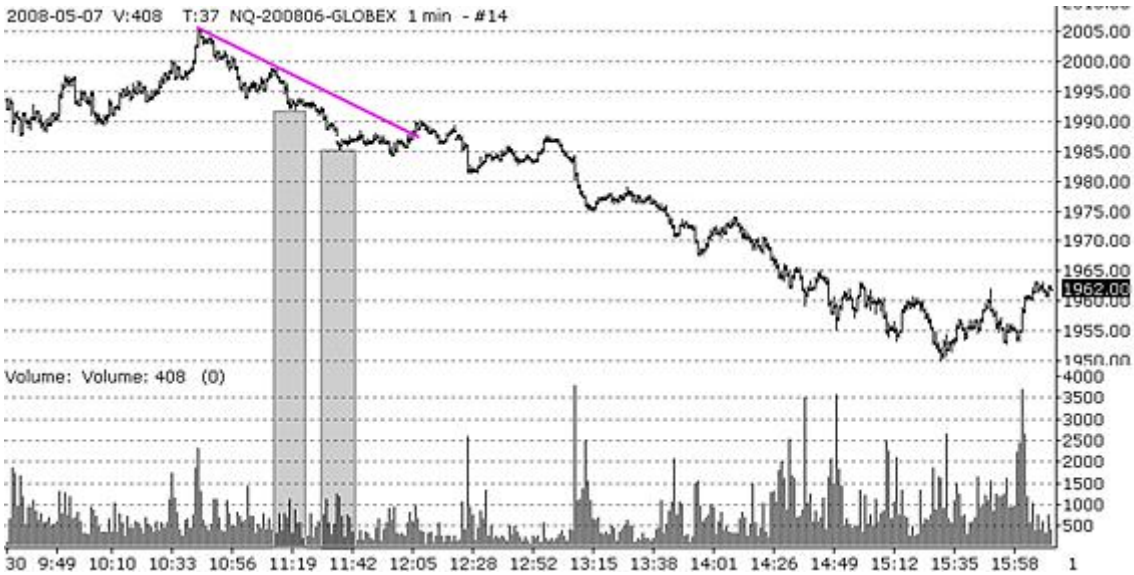
Managing a Trend Day

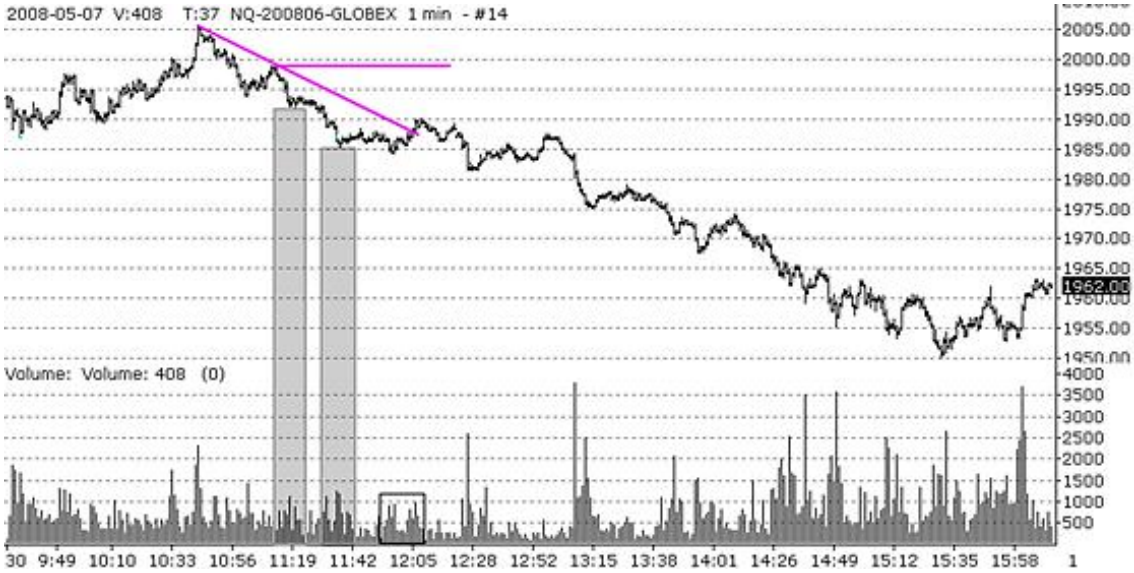
Once one has taken the short (you have, of course, taken the short: 1997 was resistance, then price made a lower high after rejecting 2005, hence the short), there's no need to do anything else other than wait for a test of support, unless of course the short is stopped out, but that is not the subject here. Volume can be ignored because without any sort of test, it's irrelevant. Once price resumes its decline and makes a lower low after making the lower high, a supply line can be drawn:



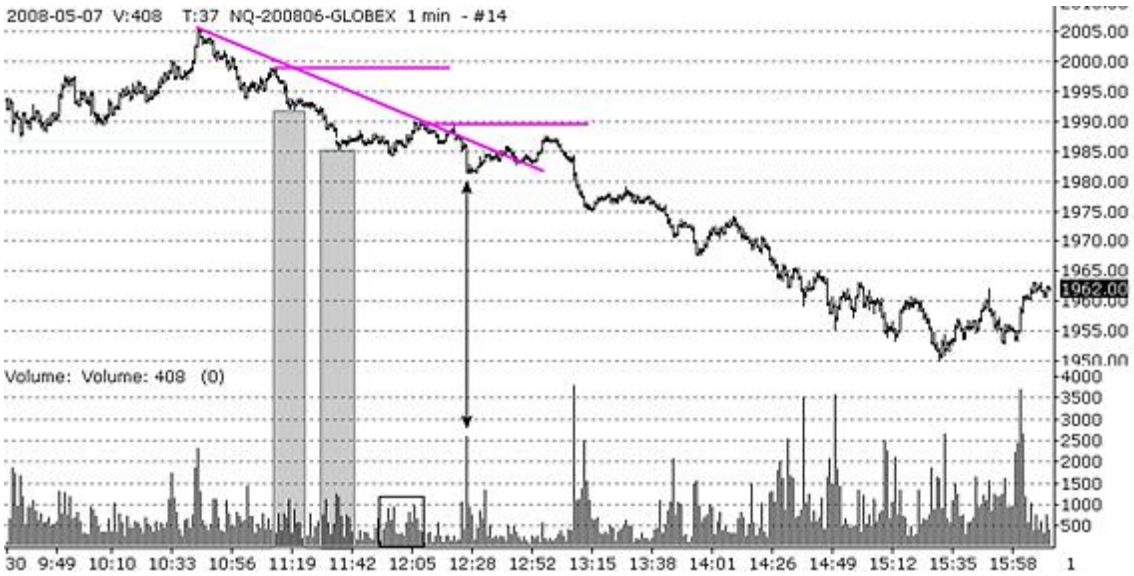
When price is past all that, volume rises on the downmoves, but even when the first level of potential support is reached, the volume doesn't even approach climactic. In the meantime, the supply line can be extended:



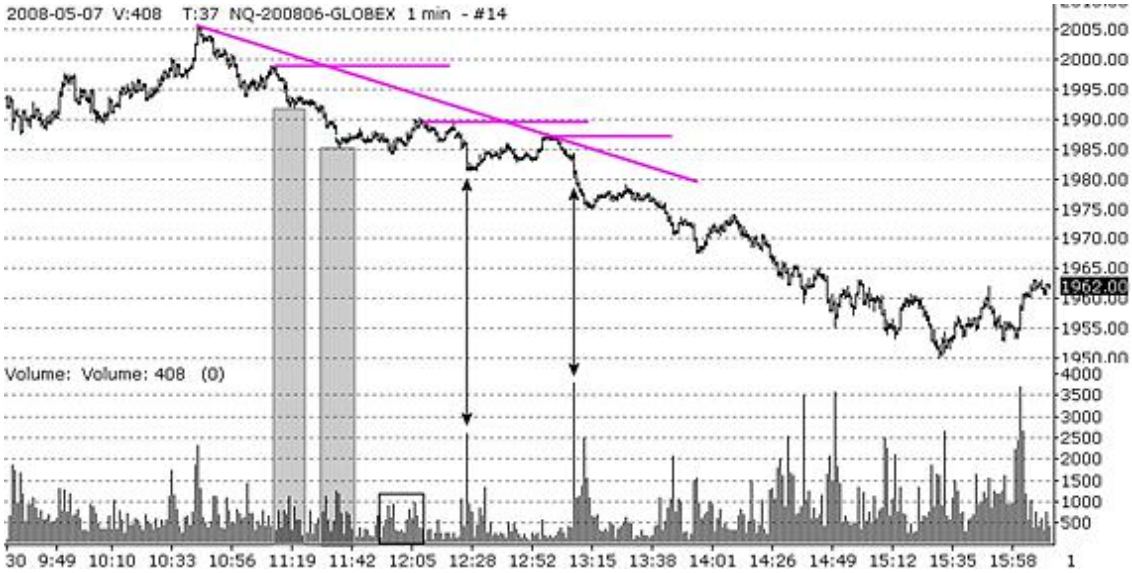
Price eventually breaks the supply line, but there's nothing remarkable about the volume, and price doesn't come anywhere near approaching the previous swing high, much less breaking it:



Price then resumes its decline and volume becomes climactic. However, even though price breaks the newly-extended supply line, it does not break the previous swing high. All of this constitutes continued weakness.

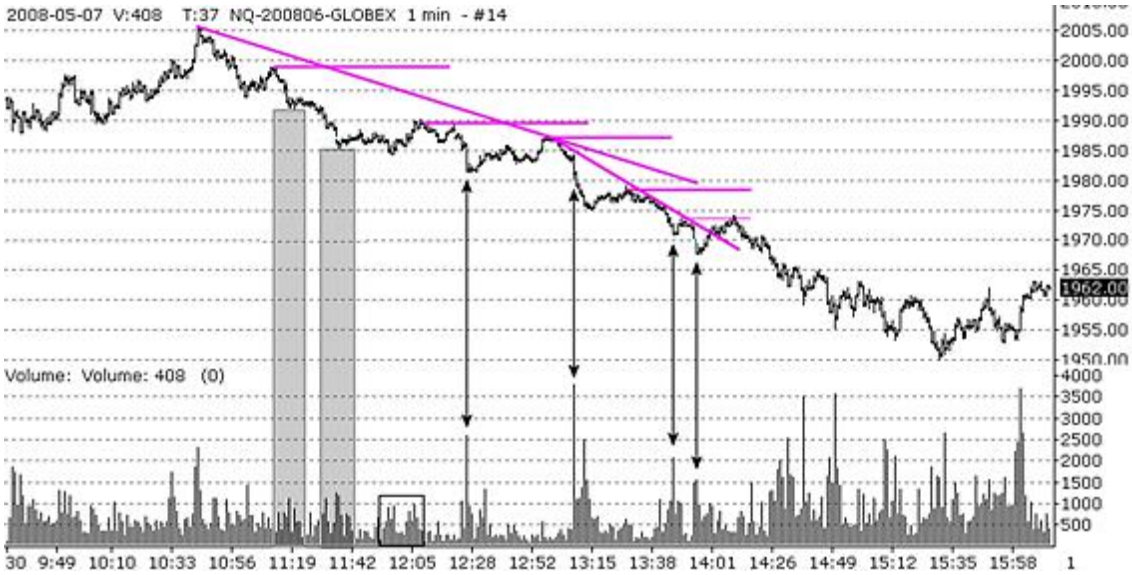


Price continues its decline and volume is again "climactic". Even more so. But, again, price doesn't even come near the previous swing point, though it does test the supply line:

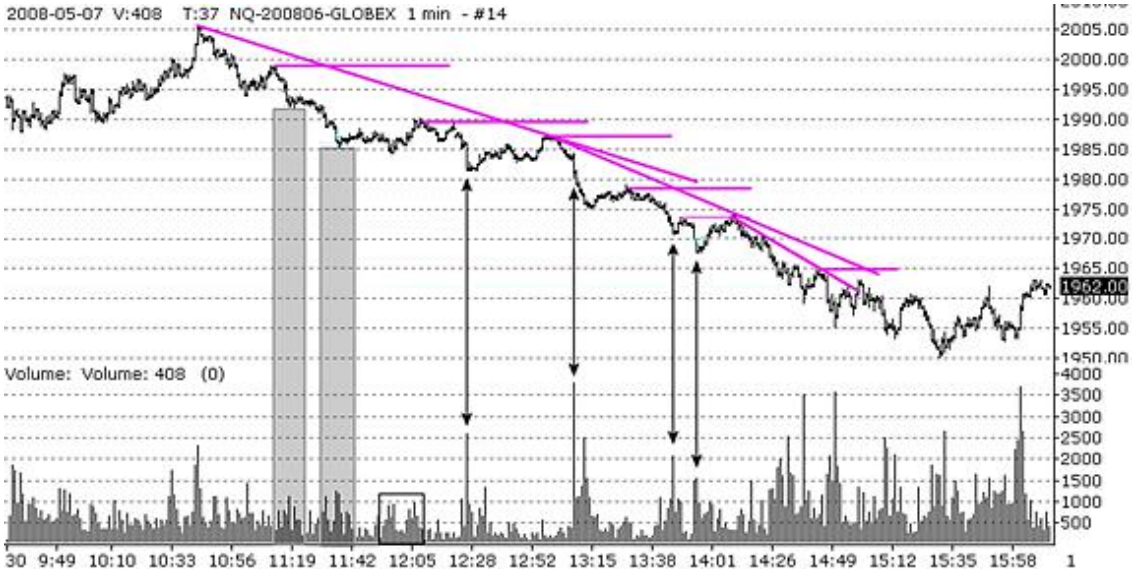


Since the angle of decline is greater, an additional, more form-fitting supply line is drawn. Volume is again "climactic" and the "test" is on lighter volume, a seeming classic buy signal.

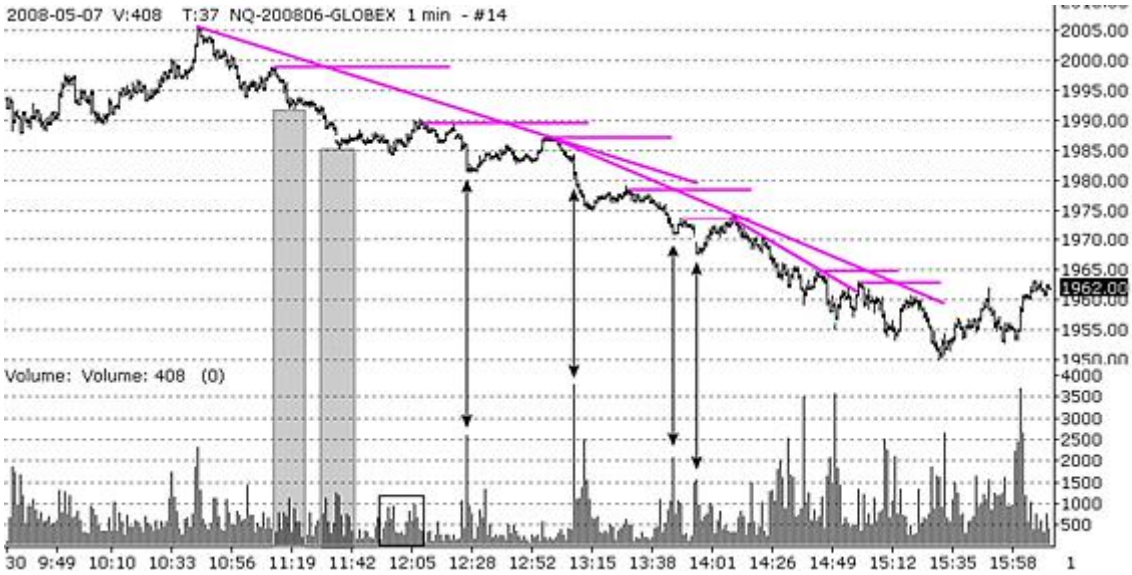
However, even though price breaks this new supply line, it breaches the previous, minor swing high by only a couple of ticks, and there's no "bullish push", much less a higher low. So no reason, yet, to exit the short.



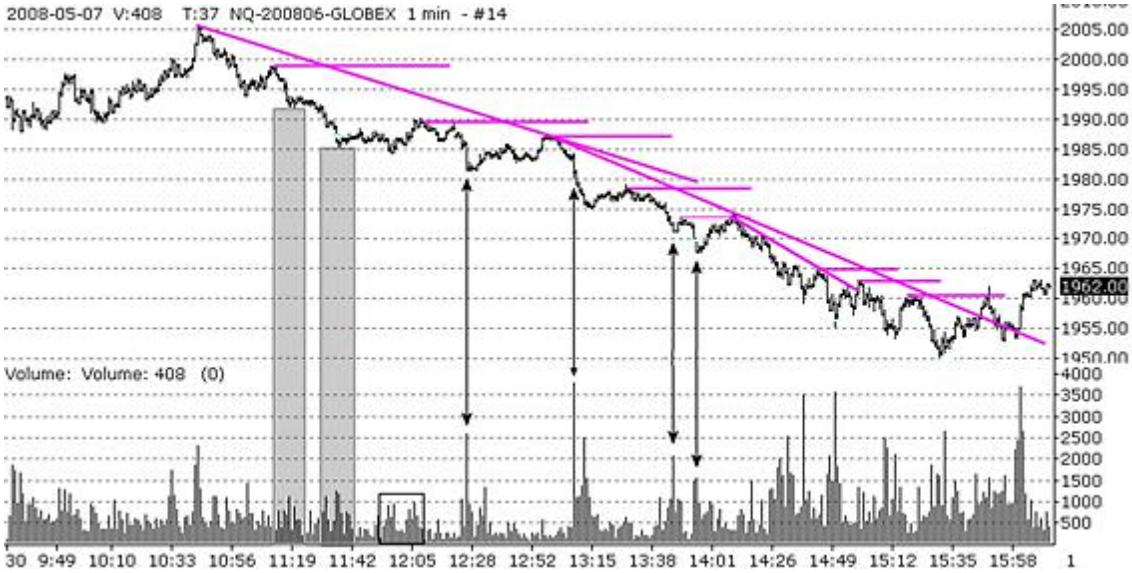
Now the angle of decline increases again and a new supply line is drawn (the experienced trader knows that as these angles become more acute, the probability of their being broken increases), but even though volume becomes increasingly "climactic", price doesn't break the supply line, much less reach the previous swing high. A new element is a general increase in volume throughout: big-money buyers are coming in to support the price.



We now get to the next level of potential support, and volume is again "climactic". But even though price breaks the newest supply line, it does not reach the previous swing high, nor does it break the prior supply line. The effort becomes a new -- though not higher -- swing high and the previous supply line is extended. Price continues its decline.



Price hits 1950, again on "climactic" volume, breaks the supply line and breaches the previous swing high. This attempt fails, but, this time, price makes a higher low, tries again, and holds above the previous swing high.



Whether a trader goes long at the test of 1950, at the break of the supply line, at the breach of the previous swing high, at the higher low, at the second breach of the previous swing high, or anywhere else inbetween is not Wyckoff's problem. It's up to the trader to decide based on his sensitivity to and analysis of market forces, on his risk tolerance, and on his skill.

In any case, this is how we begin the following day. As for now, it's after 1600. Time for martinis, extra dry.

Scaling Out

There need to be criteria for exits. But the nearly universal problem that beginning traders have with regard to exits is a desire to trade all in then all out. Add to that the fact that they are nearly always trading with one contract or one lot, and you have a doomed setup.

The solution to exits is a simple one: trade as if you were trading five contracts or five lots and abandon the idea of being able to exit with all of them at the exact top or bottom. The goal is to make money, not to prove to oneself what a superior trader one is.

Then determine in advance where each of those contracts will be sold. For example, if one is trading support and resistance, sell the first contract at one or the other. Sell the second contract, for example, at the lower high or the break of the trendline, whichever comes first. Sell the third at whatever you didn't sell at for the second. Sell the fourth, for example, at a breach of the last swing low. Leave the fifth, for example, at breakeven.

Then sell the first contract at whatever point you predetermined and paper trade the other four. Do this for several months. When it becomes second nature, carry the second contract for real. Sell the first and second contracts at your predetermined points. Paper trade the remaining three.

And so on.

Simple.

No wringing of the hands, no thumb-twiddling, no head banging.

For example:

Note that (as stated on the chart) this particular sequence is used for those situations where R is indeterminate. If R has instead been determined, the remainder of the trade is exited at the target. Then preparations are made for the next trade, either a continuation into a new range or a reversal back into the old one.

For an example where R is more easily pre-determined . . .

First, we back up to the longer timeframe:

Beginning with the first swing high at 1440, we see that traders back away from it, bust through it, then settle back onto it. They then tease their way below it slightly, temporarily, just below the halfway level of the upmove from 1340, then rally 55pts above 1440. They then drop 50pts below 1440. For whatever reason, 1440 appears to be important to them. Why? Who cares? This is the hand that's being dealt.

Extending these levels into a shorter timeframe, we see that 1403 might also be important,
that 20 may be important as well, and that 25 is making its own contribution. We can see the thrust that was made thru 20 (the arrow). All of this serves to narrow one's focus considerably (constant-volume price bars are plotted here to save space).

And then the games begin. Here we see the same thrust just to the left of the numeral "1", only on a 1m chart. All the previously-plotted S/R lines have been brought forward. One could short at several places during or after the thrust, including a drop below 18. Or one could just sit and wait and do nothing until price hits the expected low at or about 1403. The only problem with that scenario is that price might just decide that it likes the way things look down there and take itself a road trip further south, oblivious of your expectations that it turn and proceed upwards. It is wise, therefore, to take the short, just in case. Shorting the weakness at 20 is a sound move, and price dropping below the low of that tight range from the previous afternoon is a good sign (noted by "2"; sharp readers will note that there is an undrawn supply line from "1" across that swing high just below "2", left out to avoid clutter and which is fanned after the tentative swing point at "3" is confirmed by a lower low). If scaling out, that first swing point at "2" would be a good choice, as would be the next swing point at "3", particularly as it coincides with the

overnight swing low at 1403. Caution uber alles.

Now price makes a lower low, confirming the swing high at "3". But then it begins to move sideways, not unheard of at century numbers like 1400, sideways enough so that it breaks the supply line. Is this enough to cash in the rest of one's shares/contracts? That's a tough decision, aided possibly by the shakeout at 1005, an indication, due to the volume, that somebody who has the money to make it happen is setting things up for a reversal. But if the trader isn't convinced, he can unload some of what he has and wait and see. So he waits and he sees that the swing high at "3" is breached. And not only is it breached, but price forms a springboard. All of this together suggests that good things are in store for longs, but those who are short will miss out. So we unburden ourselves and prepare to go long if and when price launches itself off that springboard (if it doesn't, we prepare to re-enter the short).

If the trader does go long, then his target becomes 1440. But there are also obvious places to scale out on the long, if one worked out the S/R in advance.

(and I should probably point out here to those who consider anything less than a 5m bar interval to be "noise" that most of this can't be seen on a 5m bar chart)

Note here that price chokes at 20, 25, and 38. Surprise, surprise. Even at the first test of 38, however, one needn't exit his position entirely, assuming he has more than one contract left. The trendline isn't broken, and the last swing low at 35 has not been breached. So if he wanted to try to squeeze out a few extra points, why not? The risk is clearly determined (one or more ticks below 35 or a break of the trendline).

One can then be satisfied and quit, or hang around and hope for another trade. I suppose that depends in large part on the weather.