Coordinating vertical and figure charts for more effective forecasting

Wyckoff method of trading stocks part 7

by Jack K. Hutson

Vertical charts, alone, are a detailed source of information for the Richard D. Wyckoff analysis of individual stocks groups and the market. But when the analyst combines vertical charts with figure charts, even better results are possible.

Vertical charts with their price-volume information point out where trends are headed, while the price information in figure charts shows just how far the trends should go. The vertical figure chart duo, therefore, makes for more complete diagnosis and more effective forecasts.

Typically, a Wyckoff analyst will be comparing vertical charts of a composite average and group averages, searching for groups that promise to move farther and faster in the same direction as a composite average. A figure chart of a promising group assists in the evaluation by revealing how far a group average should be expected to move.

But even if a group's potential gain isn't enough to get the adrenalin running, there's always the chance some of its stocks have the wherewithal to move decisively and farther than their average. Typically, the Wyckoff analyst keeps figure charts of individual stocks and scans individual volumes in the newspaper each day, on the lookout for volume surges that indicate interest in the stock. In a persistently advancing market, especially, large operators are certain to be searching out laggard stocks and grooming their favorites for distribution to the public. It's these made-to-order opportunities that chart analysis should reveal.

Vertical Charts

What is Recorded	Deductions Therefrom	Indication
Price Movement highest, lowest, closing, and opening if desired]	Supply and Demand. Points of Resistance and Support. Marking Up and Marking Down. Lines of Supply and Support. Changes of Stride and Progess of Movement. Comparative Strength and Weakness.	THE TREND, i.e., the direction of the price movement.
Volume	Intensity of Trading. Increasing or Diminishing Pressure of Supply and Demand. Buying and Selling Climaxes.	WHEN to BUY. WHEN to SELL. WHEN to CLOSE OUT.
Time	Speed of Advances and Declines. Duration of Accumulation or Distribution.	WHERE to place Stop Orders.
Closing Prices	Net Gain or Loss. Changes in Pressure Up or Down.	

By keeping a backlog of individual price and volume statistics from the newspaper, the analyst can quickly pull together a stock's vertical chart or update an existing one when the figure chart seems to have a strong horizontal base that needs confirmation or denial. The individual vertical chart can then be compared to the group and composite charts.

In this vein, however, it also behooves an analyst to be familiar with a particular stock's history. Unlike averages, individual stocks have personalities all their own. Recognizing their peculiarities will go a long way toward correct chart interpretation. The figure and vertical charts, after all, not only point out the most promising individual stocks in a group, but continue to guide the analyst's timing of trades and placement of stop orders.

Figure Charts

Price Movement	Supply and Demand. Points of Resistance and Support. Marking Up and Marking Down.	The best opportunities.
General Formations	Accumulation or Distribution. Lines of Supply and Support. Marking Up and Marking Down.	Probable DISTANCE a stock, or a group, or the market should move.
Horizontal Formations	Probable Extent or Importance of Accumulation or Distribution.	

Wave Chart of Tape Reading

Price Movement of the Market— Using Sensitive Leaders as an Index.	Supply and Demand. Sentiment of Important Interests Toward the Market. Critical Points of Resistance and Support. Development of Accumulation and Distribution Areas.	BEHAVIOR of the market at CRITICAL points in the Minor, INTERMEDIATE, and MAJOR Trends.
Volume of Trading on Alternate Buying and Selling Waves.	Changes in Pressure Up or Down. Quality and Urgency of Supply and Demand [by comparing Volume with Activity and Time].	
Activity or Intensity of Trading	Ability of Bull or Bear Forces to Attract Following on Advances and Declines, Rallies and Reactions.	TURNING POINTS in the Minor, INTERMEDIATE, and MAJOR Trends.
Time or Duration of Small Buying and Selling Waves.	Speed of Advances and Declines, Rallies and Reactions. Character of Supply and Demand, Whether Urgent, Leisurely, Timid or Aggressive.	RESPONSIVENESS of the Market to Buying and Selling Impulses.
Price Changes from Wave to Wave.	Net Gain or Loss. Changes in Pressure Up or Down.	

Unusual activity is what attracts attention to a particular stock. In a bull market, a stock that shows relatively large volume and small net price change after a number of weeks of dullness would certainly warrant closer inspection. Further signals that a worthwhile advance is in the making include narrow price swings and persistent support at the bottom of a broadening trading zone even in the face of market reactions, small daily volumes, and a time period long enough to tire out weak holders.

At this point, though, it probably wouldn't hurt to wait a bit to make sure the flurry of activity wasn't started by insiders who want to shake off followers and will let the stock react and quiet down again. There is no good financial reason to have trading capital hung up in a stock that may not be ready to move for days or weeks.

If prices fail to move appreciably upward on new rallies, the supply obviously isn't scarce enough to begin an upswing. The vertical chart will tell whether volume increased on the rallies before they were checked and whether price fell back to its previous lows or bullishly set higher supporting points. Without evidence of consistent or sustained demand, however, there would be little hope for a real breakthrough.

Price that bobs up easily on comparatively light volume is a sign that supply is becoming scarce at the low prices. If operators are about to begin their marking-up phase to lock out potential buyers and trap short interests, the stock price should continue to push aggressively past its earlier resistance point or at least not react all the way back to its starting point.

A long order at this point would include a stop close above the resistance point since a breakout of a long-lived trading range would put the stock on a springboard and the order would still be close to the bottom price of a prolonged rally. However, if price should fall back and, confirm that the flurry was simply a buying climax, the trader would still be free to wait for new developments.

An interesting stock in an uninviting group also may demonstrate its potential with a history of refusing to break its supporting points when the market drops. The long horizontal formation this support creates in the figure chart implies a major potential for price appreciation.

The sit-up-and-take-notice signal in this case comes when the stock rallies, dies back, and then the price range narrows to fractions as volume shrinks decidedly. A purchase at this point with a stop placed little more than one point below the support point sets up little chance for damage should the forecast of an upswing be wrong or premature. In view of the figure chart's wide horizontal formation, the size of the potential move would undoubtedly put the odds in the trader's favor.

A sharp, ensuing price rise and expanding volume would seem to confirm the accuracy of the forecast; a wider price spread than in previous upthrusts would put price increase in proportion to volume increase and herald the start of a markup. The springboard comes at the advance of the resistance point. At this time, the price range may narrow as volume expands because the stock's operators are absorbing offerings near the resistance point.

This clear indication of the springboard opens up another buying opportunity and would allow the stop to be placed about two points below the resistance point. As the stock advances, the stop would be successively moved a point or so under new supporting levels or under "resting" periods of narrow price range and tapering volume that follow quick upthrusts.

Calculations from the figure chart indicate just how far the rise could go. Nearing this estimate, the analyst looks carefully for signs of a reversal, a bearish turn. When a price near its ultimate target dips and then creeps up slowly with light volume behind it, the indication is that selling pressure has lifted. A succeeding and sudden rush of volume, especially when price is near its previous tops, would cause the Wyckoff analyst to be more suspicious than jubilant. Distribution is probably complete and the next upwave would be the right time to sell out or consider going short even though the stock hadn't reached its target price.

The wisdom here is not to stick to one indication, such as the price target, to the exclusion of every other factor. Continual comparisons with groups and composite averages put individual stocks into perspective; vertical and figure chart comparisons confirm or deny their separate indications. And, when it's apparent a stock isn't going to behave exactly as planned, the smart trader gets out and cuts losses or takes profits that can still be sizable if not as large as projected.

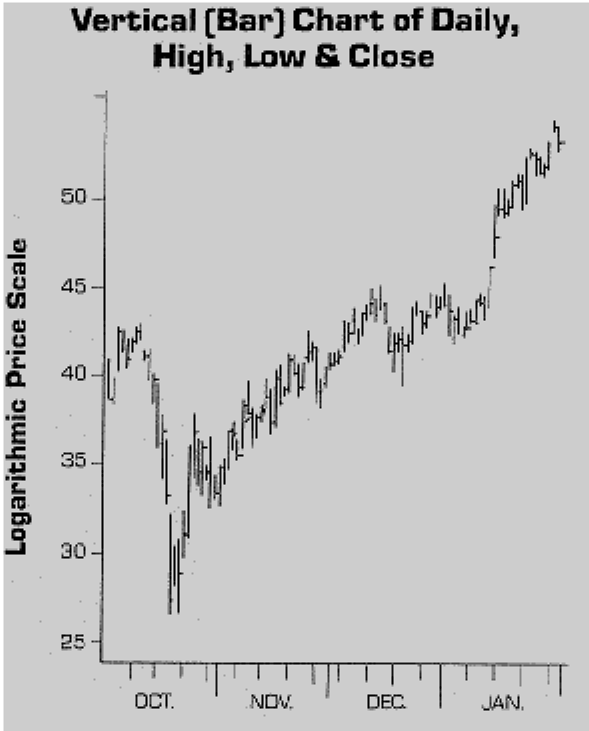
Vertical (Bar) Chart of Daily,
High, Low & Close
Logarithmic Price Scale
50
45
40
35
30
25
OCT.
NOV.
DEC.
JAN.

FIGURE 1:

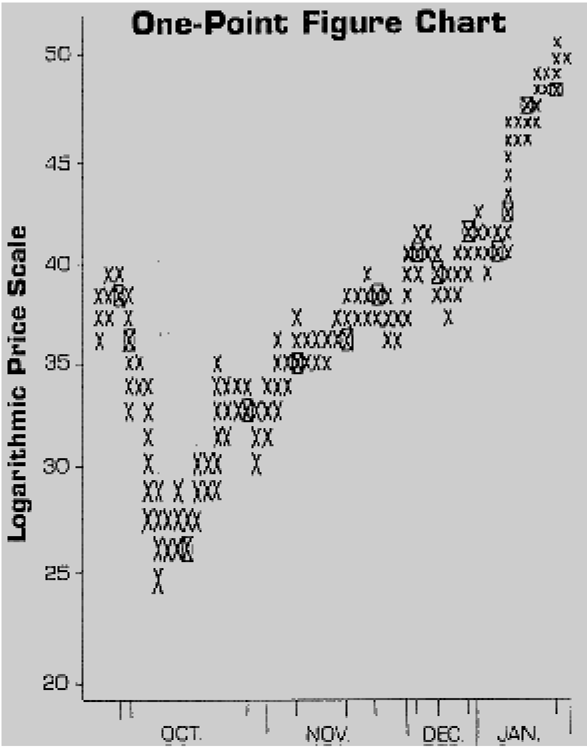
One-Point Figure Chart
Logarithmic Price Scale
50
45
40
35
30
25
20
OCT.
NOV.
DEC.
JAN.

FIGURE 2:

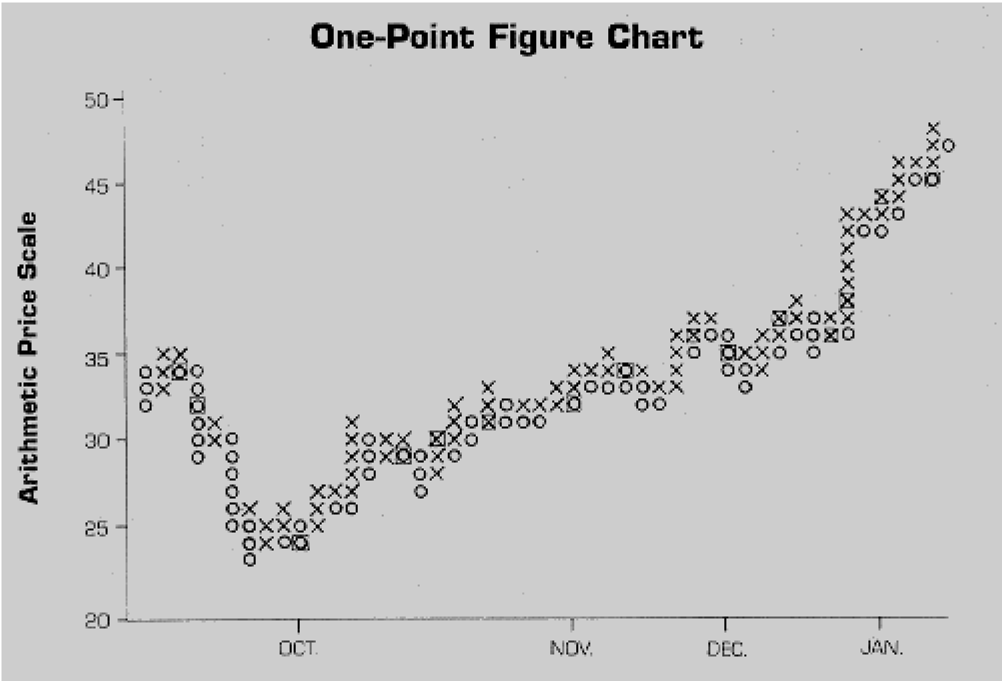
One-Point Figure Chart
Arithmetic Price Scale
50
45
40
35
30
25
20
OCT.
NOV.
DEC.
JAN.

FIGURE 3: