

HIGH-PROBABILITY TRADES

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For me, a successful trading strategy relies on trading from support/resistance (S/R) levels using Wyckoff candle volume analysis (WCVA) patterns.

I realize numerous benefits from my trading plan when trading from valid support/resistance levels. By waiting for the trade to come to me, I eliminate the essential hallmark of the losing trader: overtrading. These S/R levels also allow me to accurately identify where to place my protective stop loss and usually keep me on the right side of the order flow.

BACKGROUND

WCVA is a zero-lag methodology that is used to identify price strength/weakness when it appears on the chart. A synergistic trading strategy is created when you combine S/R levels with WCVA patterns. [See the January 2009 article "Follow the Smart \$\$"]

Technical analysis provides you with a multitude of methods to find valid S/R levels. The method I illustrate here occurs when an old area of price support is broken. You know that old support, once broken, becomes new resistance. See Figure 1 and note the red line drawn from the candle that created the initial support. To the right are circled areas where price respected the support line. Once price penetrates this level, you should wait patiently for it to rise as you monitor for signs of weakness using WCVA.

FIGURE 1: 30-minute American Express Chart



Because you expect price weakness at a resistance level, your market timing will be impeccable. At the arrow on the chart, note the candle formation and the greatly reduced trading volume. In WCVA terminology, this is known as a doji, or a demand-drying-up candle. It confirms that the smart money is withdrawing as the price moves up to this resistance level. Big traders are not buying, and without their buying support, the price will fall.

GETTING IN

Enter this short trade when price breaks 1 cent below the low of the doji. The placement of the stop loss is set just a few cents above the resistance line. In this example, the low of the doji is \$19.12 and resistance is at \$19.39, so your entry would be at \$19.11 and your stop approximately at \$19.41. By combining support/resistance levels with WCVA, you can use extremely tight stops with high-probability outcomes.

GETTING OUT

Scale out of 50 percent of your position at the first expected area of chart support, which is designated by the blue dashed line in Figure 1 around \$18.42. Once this is hit, you will move the stop on your remaining positions to just above the closing price of the doji candle and keep trailing the stop as price moves down, maximizing your profit.