THAT WAS THE WEEK THAT WAS

Welcome to our Newsletter for Friday 31st December 2010

A very interesting question from Marcovth appeared in the VSA Club forum last week, and after the Christmas period we were able to answer it, and thought it would be good to include it in this week's Newsletter.

The question was as follows:-

"I have noticed that TradeGuider uses E-signal for data feeds.

I don't use TradeGuider (yet), and I don't use E-signal, but I have coding experience with MultiCharts and IQFeed.

With those two I can see the up/down volume per minute, hour or day bar.

I would be really surprised if E-signal wouldn't provide up/down volume as well.

In general, couldn't the up/down volume ratio's make the TradeGuider VSA signals much more reliable?

I understand that a second up bar confirms buying into a wide-spread down bar closing in the high or middle, but if you would use the up/down volume ratio's with this first bar, you would have seen that already.

There are plenty more examples you could think off.

Is there any reason why TradeGuider doesn't use/show the up/down volume ratio's."

Tom Williams' response to Marcovth's question follows:-

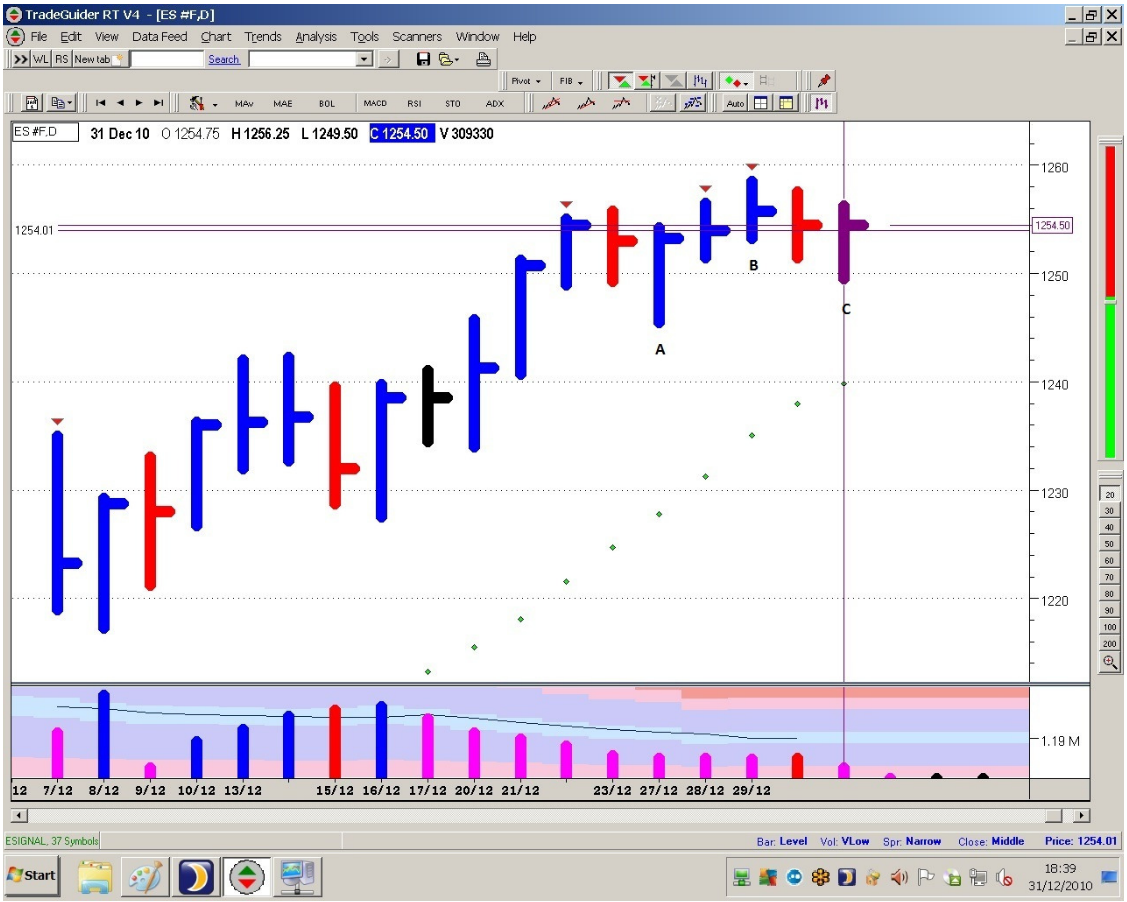
"Hello Marcovth,

Thank you for your observations regarding volume on the upside and downside. When you first hear of this you feel rather excited because you feel you may have stumbled across something perhaps other people have not noticed. I must say we had this provision of upside and downside volume at least 5 or 6 years ago built into a programme that we used called Omniview. I sat down and studied this when it first appeared on the scene for several weeks and all I can say to you is "beware of Greeks bearing gifts" (remember the gift of the Trojan horse). It appears that very rarely you are given information in or about the stock market that is there truly to help the trader. Our analysis is yes, based on volume, but the key to the analysis is that on that volume that occurred on any particular bar you are following, how and what did the market do or respond to that amount of volume. If, for example, you hear one day as you switch on you TV news bulletin that the market has shot up today on very high volume, they assume that because the volume is high and the market has shot up that that volume must represent buying. But as far as we are concerned, yes, the market may have shot up, but exactly what was the price spread during that timeframe you are following. For example, if the market has been gapped up at the opening and the end of the session the spread is narrow and it is on an up-bar, and the volume is ultra-high, then we know this is professional selling into the buying from outsiders. If it has gapped up into fresh or high new ground, then this is, without question, professionals selling into the buying. It's this selling into every buy order that arises in the market that causes a narrow spread on an up-bar - something has put a lid on the top end of that price range and this is caused through all the buy orders that have been sucked into the market, usually on good News, rumours, falsities, misleading statements. We know it is a serious sign of weakness and in most cases will produce an automatic signal of weakness in the software.

What can now confuse the would-be analyst is the market could do exactly the same but on very low volume. This sounds as if we are telling you that the high volume is probably not correct, but with the low volume what is happening is the market has been gapped up because the professional traders know the market is weak, have probably sold out their holdings previously, and now this is what we call no demand. It also has to be on an up-bar.

Conversely, as the market falls, eventually professional money will see an opportunity where they can enter the market and create a rally of some sort. so here, the exact opposite happens at the bottom of the market as to the top. You get high volume on a down-bar but the key observation is the price spread narrow, and the market has declined making the market vulnerable to business opportunities from professional money. Most of these lows are seen on narrow spreads indicating although the volume may be high on the down-bar, that the market has been supported, creating a narrow spread on a down-bar. This in most cases will produce a signal of strength appearing automatically. You may often see also a similar type of down-bar where the volume is very low. If the spread is narrow on the down-bar then the market has got no sellers in there, and that is a sign of strength so the path of least resistance must then be up.

To sum up you must realise that it is the total volume that is the amount of activity that has taken place on any one timeframe you are following. And on that activity, what did the market actually do. We know that at least 80% of that activity is the activity of professional traders. It is their activity that switches the balance of supply and demand which then the market just follows as the path of least resistance until another force enters the market which we can usually observe. It is good to hear you have got coding experience. I recommend people with ideas go to the trouble of testing their theories in a live market, especially if you can compare your results with the VSA programme. I would highly recommend you read the book written by Tom Williams "The Undeclared Secrets That Drive The Stock Market". You can get it at www.geniechartist.com



MINI S&P FUTURE DAILY CHART

Point A

Monday. This is a test. Any down-bar closed on the highs and the volume is less than the previous two, is a clear test, and you would expect higher prices. Not only is it a test, but it doubles up as a small shakeout.

Point B

Here we have a sign of weakness. The automatic signal tells us it is no demand. The market then drops off to Point C.

Point C

This looks like a test. If the chart remains looking like this you would expect higher prices. Trends always run longer than you think they will. So proceed with caution.

NEWS

On behalf of the VSA Club team we wish all our Club members a very happy and prosperous New Year 2011.

Our next Newsletter will appear next Saturday 8th January 2011.

Tom Williams