

WYCKOFF'S BUY/SELL TESTS APPLIED TO THE MALAYSIAN STOCK MARKET & DOW JONES INDEX

By

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Wyckoff is a name with celebrity status in the world of Technical Analysis and Trading. Richard D. Wyckoff, the man, worked in New York City, U.S.A. during the “golden age” for technical analysis that existed during the early decades of the 20th Century. Wyckoff was a contemporary of Edwin Lefevré who wrote The Reminiscences of A Stock Operator. The Wyckoff Method is essentially a codicil of the best practices reported in Reminiscences. Like Lefevré, Wyckoff was a keen observer and reporter who codified the best practices of the celebrated stock and commodity operators of that era. The results of Richard Wyckoff’s effort became known as the Wyckoff Method of Technical Analysis and Stock Speculation.

Wyckoff is a practical, straight forward bar chart and point-and-figure chart pattern recognition method that, since the founding of the Wyckoff and Associates educational enterprise in the early 1930’s, has stood the test of time.

Around 1985, after ten years of trial-and-error with a variety of technical analysis systems and approaches, the Wyckoff Method became the mainstay of The Graduate Certificate in Technical Market Analysis at Golden Gate University in San Francisco, California, U.S.A.

During the past two decades dozens of Golden Gate graduates have successfully applied the Wyckoff Method to futures, equities, fixed income and foreign exchange markets using a range of time frames. Then in 2002 Mr. David Penn, in a Technical Analysis of Stocks and Commodities magazine article, named Richard D. Wyckoff as one of the five “Titans of Technical Analysis.”

The Wyckoff Method is a school of thought in technical Market analysis that necessitates judgment. Although the Wyckoff Method is not a mechanical system *per se*, nevertheless high reward/low risk opportunities can be routinely and systematically based on what Wyckoff identified as the Nine Basic Buying Tests or Nine Basic Selling Tests.

THE NINE CLASSIC BUY/SELL TESTS OF THE WYCKOFF METHOD

The classic set of “Nine Buying Tests” and “Nine Selling Tests” were designed to diagnose significant reversal formations. The “Nine Classic Buying Tests” define the emergence of a new bull trend (See Table #1). A new bull trend emerges out of a base that forms after a significant price decline. The “Nine Selling Tests” help define the onset of a bear trend out of top formation following a significant advance (See Table #2). These nine classic tests of Wyckoff are logical, timetested, and reliable. Each test represents a principle of the Wyckoff Method.

Table #1
Wyckoff Buying Tests: Nine Classic Tests for Accumulation
 Nine Buying Tests (applied to an average or a stock after a decline)*

Indication:	Determined From:
1) Downside price objective accomplished	Figure Chart
2) Preliminary support, selling climax, secondary test	Vertical and Figure
3) Activity bullish (volume increases on rallies and	Vertical
4) Downward stride broken (i.e., supply line penetrated)	Vertical or Figure
5) Higher supports	Vertical or Figure
6) Higher tops	Vertical or Figure
7) Stock stronger than the market (i.e., stock more responsive on rallies and more resistant to reactions than the market index)	Vertical Chart
8) Base forming (horizontal price line)	Figure Chart
9) Estimated upside profit potential is at least three times the loss if protective stop is hit	Figure Chart for Profit Objective

* Adapted with modifications from Jack K. Hutson, Editor, *Charting the Market: The Wyckoff Method* (Technical Analysis, Inc., Seattle, Washington, 1986), page 87.

As the reader approaches this case of "Nine Classic Buying Tests," he/she ought to keep in mind the following admonitions from the Reminiscences of a Stock Operator:

"The average ticker hound - or, as they used to call him, tapeworm - goes wrong, I suspect, as much from overspecialization as from anything else. It means a highly expensive inelasticity. After all, the game of speculation isn't all mathematics or set rules, however rigid the main laws may be. Even in my tape reading something enters that is more than mere arithmetic. There is what I call the behavior of a stock, actions that enable you to judge whether or not it is going to proceed in accordance with the precedents that your observation has noted. If a stock doesn't act right don't touch it; because, being unable to tell precisely what is wrong, you cannot tell which way it is going. No diagnosis, no prognosis. No prognosis, no profit.

"This experience has been the experience of so many traders so many times that I can give this rule: In a narrow market, when prices are not getting anywhere to speak of but move within a narrow range, there is no sense in trying to anticipate what the next big movement is going to be - up or down. The thing to do is to watch the market, read the tape to determine the limits of the get-nowhere prices, and make up your mind that you will not take an interest until the price breaks through the limit in either direction. A speculator must concern himself with making money out of the market and not with insisting that the tape must agree with him.

"Therefore, the thing to determine is the speculative line of least resistance at the moment of trading; and what he should wait for is the moment when that line defines itself, because that is his signal to get busy."

EXAMPLES: COMMERZ and APLAND.

Point #3 on the charts identifies the juncture when all Nine Wyckoff Buying Tests or Selling Tests were passed. The passage of all nine tests confirmed that an uptrending or markup phase had begun or a downtrending/markdown phase had begun (see Figure 1).

The passage of all Nine Tests determined that the speculative line of least resistance was to the upside or to the downside.

Table #2

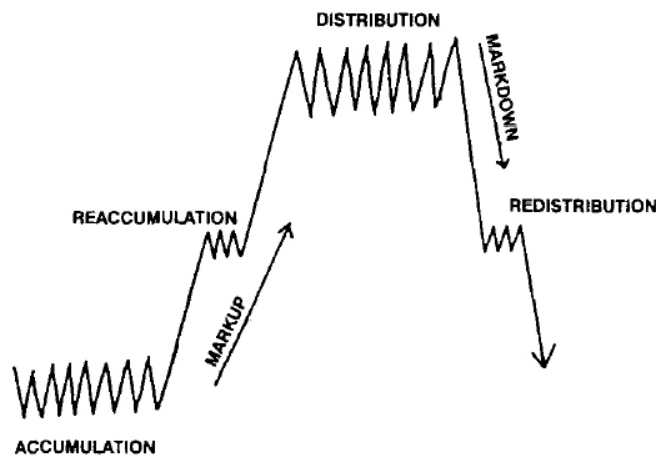
Wyckoff Selling Tests: Nine Classic Tests for Distribution

Nine Selling Tests (applied to an average or a stock after an advance)*

Indication:	Determined From:
1) Upside objective accomplished	Figure Chart
2) Activity bearish (volume decreases on rallies and increases on reactions)	Vertical Chart
3) Preliminary supply, buying climax	Vertical and Figure
4) Average or stock weaker than market (i.e., more responsive on reactions and sluggish on rallies)	Vertical Chart
5) Upward stride broken (i.e., support line penetrated)	Vertical or Figure
6) Lower tops	Vertical or Figure
7) Lower supports	Vertical or Figure
8) Crown forming (lateral movement)	Figure Chart
9) Estimated profit is at least three times the indicated risk	Figure Chart for Profit Objective
Vertical Chart for stop order placement	

* Adapted with modifications from Jack K. Hutson, Editor, *Charting the Market: The Wyckoff Method* (Technical Analysis, Inc., Seattle, Washington, 1986), page 87.

Figure #1
Wyckoff's Conception of Primary Market Phases



Accumulation: The establishment of an investment or speculative position by professional interests in anticipation of an advance in price.

Markup: A sustained upward price movement.

Distribution: the elimination of a long investment or speculative position.

Markdown: A sustained downward price movement.

**APPLICATION OF THE 9 WYCKOFF BUYING TESTS:
 COMMERZ-WEEKLY, 1997-1999**

WYCKOFF TEST:

COMMENTARY:

#1, Downside price objective accomplished?

Yes. The distribution top formed during the 1997 created a point-and-figure (horizontal) chart count that gave a downside price projections that were met in the vicinity of the 1997-98 market lows.

#2, Preliminary support, selling climax, secondary?

Yes. This sequence of price-and-volume actions signaled that the downtrend from 1997 had been stopped. Note the high volume on the early "big money" buying during mid-to-late 1997. The sharp price rise on expanded volume during early 1998 indicated heavy demand overcoming weakening supply. This bullish action was confirmed on the subsequent secondary test that occurred in late 1998. Although price fell below the level of the previous selling climax low, the volume was demonstrably less. Then at the very end of 1998 prices rallied off the bottom on a relative increase

in volume... a bullish sign!

#3, Activity bullish (volume increases on rallies and decreases on reactions)?

Yes. Noted expansions in volume during late 1998 and into 1999 as compared to the earlier lower level of volume while prices drifted lower in 1998.

#4, Downward stride broken (i.e., supply line penetrated)?

Yes. Downward sloping supply-line S-S was penetrated in early 1998 (note how the old supply S-S switched from acting as resistance to becoming support as price drifted lower during 1998).

#5, Higher supports?

Yes. A series of ascending lows were registered during late 1998 and early 1999.

#6, Higher tops?

Yes. A series of advancing price peaks were registered during late 1998 and early 1999.

#7, Stock stronger than the market?

Yes. Relative to the group which Commerz represented.

#8, Base forming (horizontal price line)?

Yes. A complex inverse-head-and-shoulders bullish reversal formation is/was discernable under the dashed horizontal price resistance line.

#9, Estimated upside profit potential is at least three times the loss if protective stop is hit?

Yes. If purchase was made on the pullback to the neckline of the inverse-H+S pattern after the high volume advance during second quarter 1999, then the price stop below support would have been Y and the price objective > risk ratio equal to 3 > 1.

* "Commerz upside price objectives: The original 1996-97 base generated a count to the upside that was exceeded in 1999-2000. It appears that another accumulation base formed during 2001-2003. A count taken along that 3.40 base line generated 5.1 points for an upside target range of 7.5 to 8.5. (Note that before taking the count, the point and figure chart for Commerz was adjusted so that no less than two entries appeared in any column)." The Commerz point-and-figure chart is not included in this article.

**APPLICATION OF THE 9 WYCKOFF SELLING TESTS:
APLAND-WEEKLY, 1999-2000**

WYCKOFF TEST:

COMMENTARY:

- | | |
|---|---|
| #1, Upside price objective accomplished? | Yes, The price objective generated during the previous accumulation was reached around the price highs of year 2000. |
| #2, Activity bearish (volume decreases on rallies and increases on reactions)? | Yes, The dominances of sell side volume over demand was evident during the third quarter of 1999 and the first quarter of the year 2000. |
| #3, Preliminary supply, buying climax? | Yes, High volume stopping of the uptred (reversals in price) were registered in 1999. The buying climax at the price peak was particularly pronounced. |
| #4, Average or stock weaker than market (i.e., more responsive on rallies and sluggish on rallies)? | Yes, weaker than the relevant group. |
| #5, Upward stride broken (i.e., support line penetrated)? | Yes, Demand line D-D was definitively penetrated during the final quarter of 1999. |
| #6, Lower tops? | Yes, A series of triple descending price peaks from the high to the top of the pullback rally in the third quarter of 2000. |
| #7, Lower supports? | Yes, Lower supports registered immediately after the buying climax and upon the breaking of horizontal support line MM. |
| #8, Crown forming (lateral move)? | Yes, A large, classical pattern of distribution that was characterized by descending price peaks took place over almost four quarters during 1999-2000 between 2.0 price and 1.2 price. |
| #9, Estimated profit is at least three times the indicated risk for stop order placement? | Yes, With a "Short Sale" at the pull back of 1.2 and a profit potential 1.1, and a stop loss order placed at 1.5, the reward-risk ratio was a comfortable 3.67. |

WYCKOFF LOOKS TO THE FUTURE

Malaysian Stock Index

The Malaysian Composite Index remains in a bull market trend. The upside price target from the inverse head-and-shoulders bottom of 1998-1999 at about the 530 level gives 1250 (the count from the very low was reached around the 1000 level, then the correction set in). A re-accumulation count at the 770 level during 2000-2004 confirms the original upside count with a target objective of 1280. OBV clearly supports the continuation of the bull market. Also the recent pattern of ascending bottoms (like ascending triangle) is bullish and may hint of a resumption of the advance soon.

WYCKOFF "STEPPING STONE COUNT" CONFIRMS DJIA 14,400

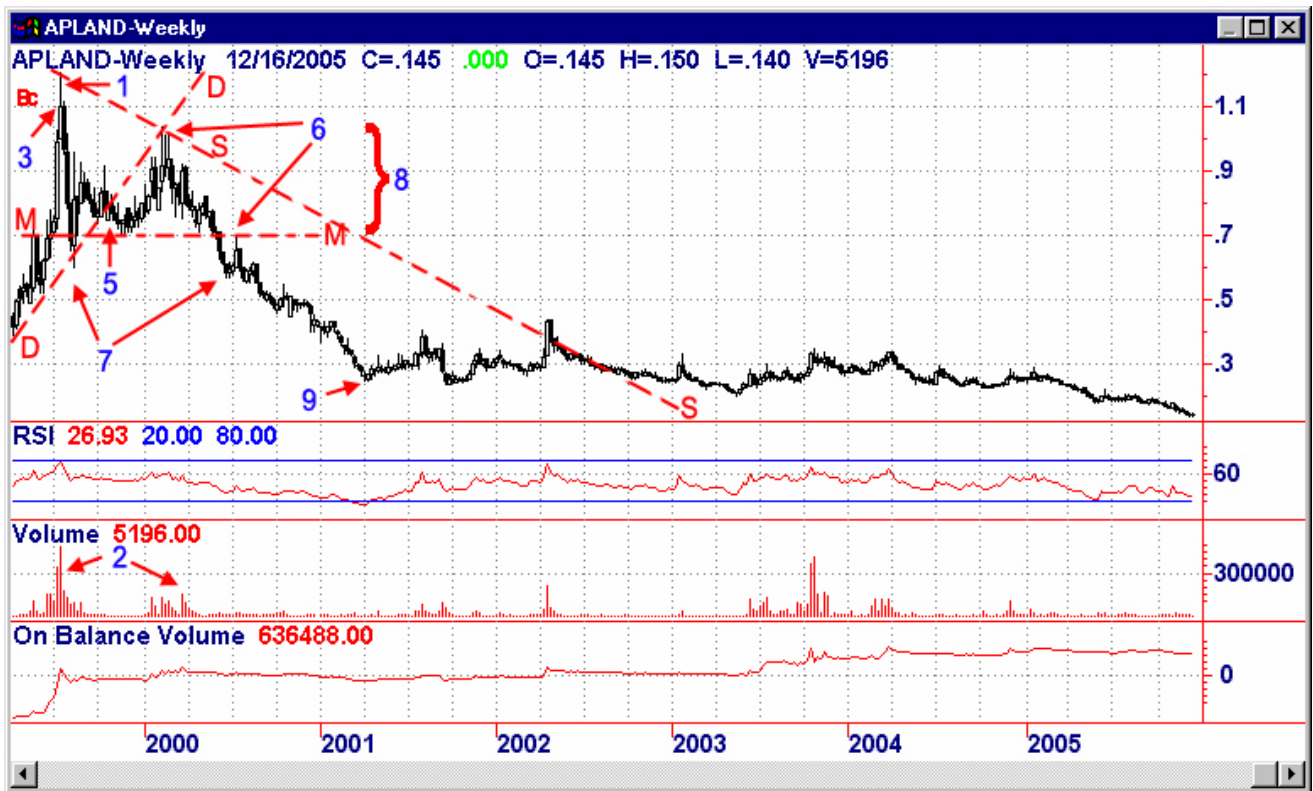
When the DJIA broke out above the top of its 8-month trading range in November 2005, a unique and powerful market-timing principle was at work. The Wyckoff Method's concept of the "Stepping Stone Confirming Count" states that when sufficient point-and-figure count has been collected during a lateral consolidation pattern to project an upward price target equal to what had been generated during the original base of accumulation, then an immediate resumption of the upward bull market trend would begin. Both the base and the re-accumulation counts are measured horizontally on point-and-figure charts.

The behavior of the DJIA during 2005 was a case study in support of the Wyckoff Method's "stepping Stone Confirming Count" concept. During the sideways market from March to November 2005, the DJIA was creating a substantial figure chart count. Then, just when this re-accumulation count became sufficient to confirm the original upward price objective of 14,400, taken from the 2002-03 inverse-head-and-shoulders bottom, the bull market uptrend resumed.

The "Stepping Stone Confirming Count" price projection to DJIA 14,000 -14,450 is shown on the 50-point figure chart of the DJIA, presented below. The counting of this re-accumulation started at the Wyckoff "Last Point of Support Following a Sign of Strength" which occurred at the 10,500 price level in November 2005. Counting backward from right to left along the 10,500 level until the beginning of the rectangular price formation in March 2005 revealed an accumulation of 79 boxes. Thus 79 at 50 points per box produced a total count of 3,950 points potential. When this reaccumulation build up of 3,950 points was added to the bottom of the rectangular consolidation (DJIA 10,050) and added to the count line itself (DJIA 10,500) an upward price target zone of 14,000-14,450 ensued.

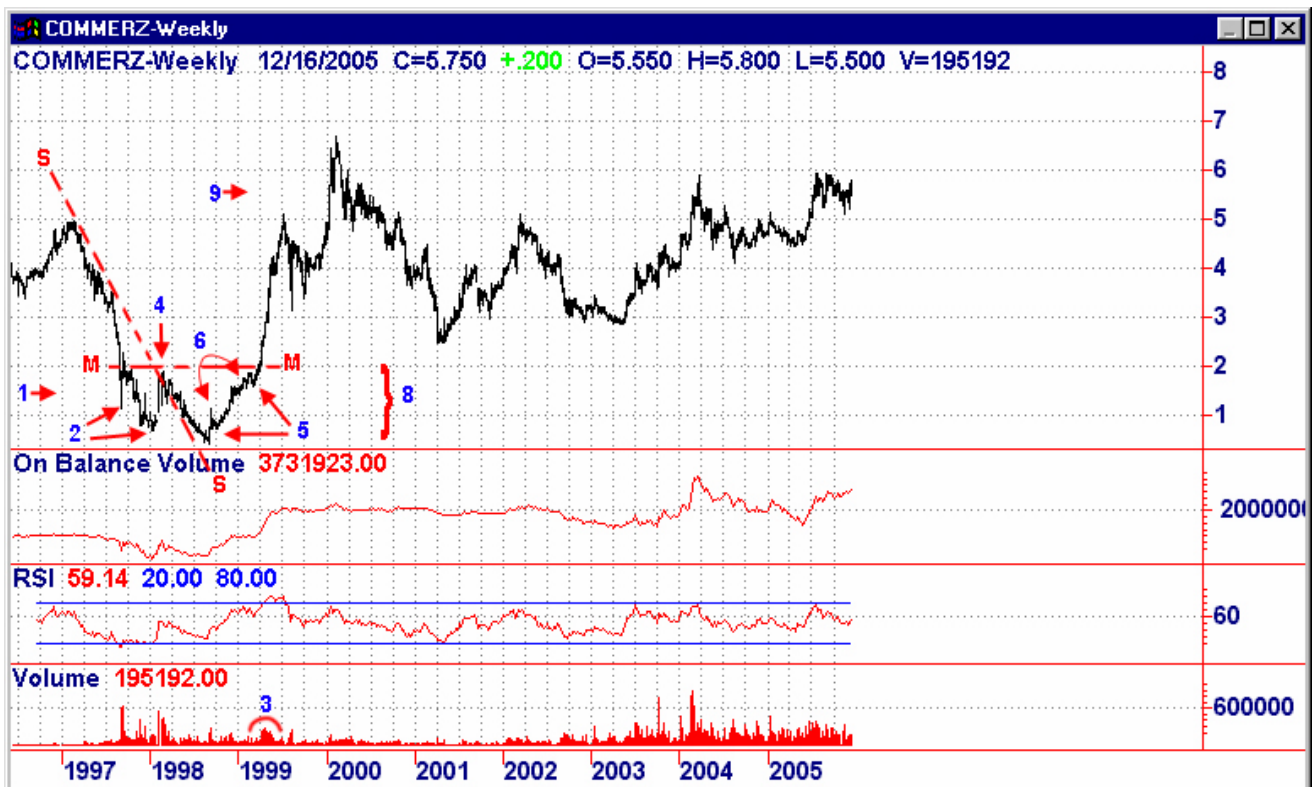
Since the original 2002-03 base of accumulation had an upside projection to DJIA 14,400, this zone of re-accumulation reached a spot in November 2005 where the points collected during 2005 created a projection (14,450) that matched, hence confirmed, the original upward objective of 14,400. Then suddenly in a unique and almost mysterious fashion, the DJIA adhered to the "stepping Stone Confirming Count's timing rule" by immediately breaking upward out of the trading range.

Dr. Pruden and Mr. Tam invite all students of Technical Market Analysis to join them for two days of intensive study and skill building with the Wyckoff Method on June 10-11, 2006 at the Renaissance Kuala Lumpur Hotel. Reservations can be made online at www.picapital.com.my or with Reena at +603-21455877.



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Accumulation: Nine Buying Tests Passed



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