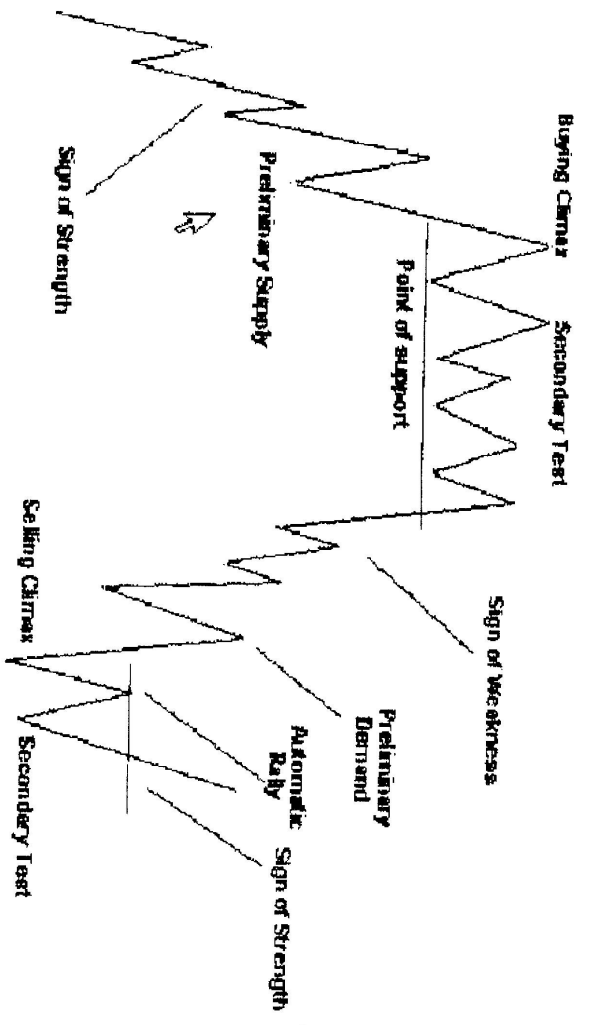


Questions by DBPhoenix & Answers from Studied Materials

What is "preliminary demand"?

As I understand it is the first phase of accumulation by the Composite Operator that is primarily used to halt the decline. The term "Preliminary Demand" was first used by a student of Wyckoff named Evans. Evans, a farmer, is the one that drew the chart below to understand the teachings of Wyckoff. I can not remember where I got this chart from. Print it out it is a great reference.



What is "Wyckoff's only retracement level"?

The retracement was mentioned at least two times in Wyckoff's book. This in itself implies importance to the level. As you can see he stated "about" and also two thirds was mentioned, however since half was mentioned at least twice as illustrated in the photo text attached. I think it can be assumed that this was his choice area.

In a bull market he expects a drop of 10 points to be followed by a recovery of about half the decline, and if the rise is to continue, all of the drop and more will be recovered. If a stock or the market refuses to rally naturally, he knows that the trouble has not been overcome, and therefore looks for a further decline.

His second loss was made on a trade which involved one of the finest points in the art of Tape Reading -- *that of distinguishing a rally from a change in trend*. A good way to do this successfully is to figure where a stock is due to come after it makes an upturn, allowing that a normal rally is from one-half to two-thirds of the decline.

That is, when a stock declines two and a half points we can look for at least a point and a quarter rally unless the pressure is still on. In case the decline is not over, the rally will fall short.

Why would one expect a reaction to occur there?

There is the area of the "Secondary Test" which I understand that Wyckoff wanted for an action and a test before considering a course of action. My personal thoughts are that he was not an aggressive trader, but wanted to shift the probabilities as much in his favor as possible.

See the Evans diagram.

Why have you designated the secondary test so late?

The best answer for that is a quote by Wyckoff himself.

It will not as a rule pay the Tape Reader to attempt scalping fractions out of the leaders in a dull market. Commissions, taxes and the invisible eighth, in addition to frequent losses, form too great a handicap. There must be wide swings if profits are to exceed losses. and the thing to do is wait for good opportunities.

"The market is always with us" is an old and true saying. We are not compelled to trade and results do not depend on how often we trade, but on how much money we make.

Why multiply by a factor of three?

This I understand to be the minimum that Wyckoff wanted as a profit target to risk.

Wyckoff Money Management

The remainder if this article is devoted to bringing together and spelling out the elements of the Wyckoff Method of risk control and money management. Within the Wyckoff elements of risk control and money management can be found the rudiments of "bet sizing" or the amount of capital to invest in any given stock and of "portfolio protection" via a stop-loss order policy, as illustrated above is the case of Mayor Brown.

The Wyckoff Method champions active money management. Yet at all times the use of "passive" risk control via the stop-loss order is a key component of the Wyckoff way. However, rather than waiting for stop-loss orders to be elected by the market, the follower of the Wyckoff Method is counseled to monitor the market and monitor her/his stock positions to detect signals that call for an exit strategy. Then when such a signal is detected, the investor/trader should take responsibility for his

portfolio and initiate the order to exit the market. These active money management approaches were spelled out under the headings of Exit Strategy 1 and Exit Strategy 2 which will appear in the *ATAA Journal* (July-August 2001).

The *3-1 Rule* and the *1/3, 1/3, 1/3 Rule* inform the Wyckoff oriented trader or investor about how to approach entering a position. Applying these rules requires active participation by the trader or investor.

The Rules of “3”

Two critical ratios revolve around the use of the number “3”: these are the “3-1 Reward to Risk Rule” and the “1/3, 1/3, 1/3 Commitment of Capital Rule.” One *Rule of 3* is the *3-1 Rule* designed for controlling risk. The ratio measures a reward-to-risk threshold that must be met before any capital can be invested in a stock. The reward numerator part of the ratio is calculated by measuring the extent of the potential built up in a base of accumulation. According to the Wyckoff Method this measurement of potential is best done with a point-and-figure chart. The risk denominator in the “3-1 Reward to Risk Rule” ratio is measured by the distance between the entry price and the proposed stop-out exit price. Hence, a base count of 30 points could justify a stop order 10 points away from entry. Over repeated trials a ratio of less than 3-1 was observed by Wyckoff and his associates as being too risky.

The other *Rule of 3* is the *1/3, 1/3, 1/3 Rule* for money management. This is a rule for allocating capital in tranches. When a desirable 3-1 Reward to Risk ratio has been identified, the trader should commit 1/3 of her/his available capital in a first purchase. Consequently, should this initial position be stopped out, the expected loss would be minimized. The stop-loss would limit the loss and the capital risk exposure would truncate the loss because no more than 1/3 of capital would have been exposed.

If and when the first 1/3 of capital committed showed a profit and another Wyckoff buying juncture appeared, then a second 1/3 of capital could be invested. Concurrently the initial stop order would be raised to the level of the stop on the second position so that the total risk exposure on two-thirds capital would not be much more than the risk exposure that existed on the original one-third investment.

After the first two positions had shown a profit, the third and final position could be added and the stop on the first two positions raised to a high enough level that even if the total position were stopped out a profit would still result. Afterward, as the trend evolved stops would be adjusted upward (downward) behind the entire “3/3” position.

Active monitoring of the position would be required by the trader. A rhythm of detached overview-monitoring to allow the trend to run its course should alternate with more intense detailed-monitoring as the trader periodically zoomed in to look more closely at the market for an appraisal of the quality of the trend.

Finally, the Wyckoff Method calls for active money management by the trader/investor as signals to take profits or abort a losing position occur (Exit Strategies 1 and 2). A “passive” stop-loss strategy always exists as a backup (Exit Strategy 3). But as a priority under the Wyckoff Method, the investor or trader is responsible for actively executing orders to take profits or cut losses.

Why use a vertical chart to do so?

Again that follows the rules that are for taking positions either short or long and the method to accomplish the task. However in my case, the markets I trade & the platform does not offer P&F charting. Nor do my markets have volume so I have had to find an alternative way to see the information. (photos attached)

THE NINE BUYING TESTS

BUYING TESTS (Applied to an average or a stock after decline)

Indication:

1. Downside objective accomplished
2. Activity bullish (volume increases on rallies and decreases on reactions)
3. Preliminary support
4. Average or stock stronger than market (i.e., more responsive on rallies and more resistance to reactions)
5. Downward stride broken (i.e., supply line penetrated)
6. Higher supports (daily low)
7. Higher tops (daily high prices rising)
8. Base forming (horizontal price line)
9. Estimated profit is at least three times the indicated risk
Vertical Chart for stop order placement

Determined From:

Figure Chart

Vertical Chart

Vertical and Figure

Vertical Chart

Vertical or Figure

Vertical or Figure

Vertical or Figure

Figure Chart

Figure Chart for profit objective

THE NINE SELLING TESTS**SELLING TESTS (Applied to an average or a stock after advance)****Indication:**

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

Determined From:

Figure Chart

Vertical Chart

Vertical and Figure
Vertical Chart

Vertical or Figure

Vertical or Figure

Vertical or Figure

Figure Chart

Figure Chart for profit
objective

Source: Stock Market Institute

Why determine a profit target (I'm assuming that you would exit at the target)?

No, I would not exit at the target unless I saw a reaction there that I did not like. However this is the minimum target that a trader IMO should set for themselves per the rule of money management listed above.

I have added one more photo that other traders might like to analyze and see how they interpret the price action. This according to Hank Pruden is the chart that Wyckoff used in his training. Hank Pruden used it in a talk at a TAG conference where twelve attendees chose the direction aloud. Four got it right!

Have a Go at It for Yourself!

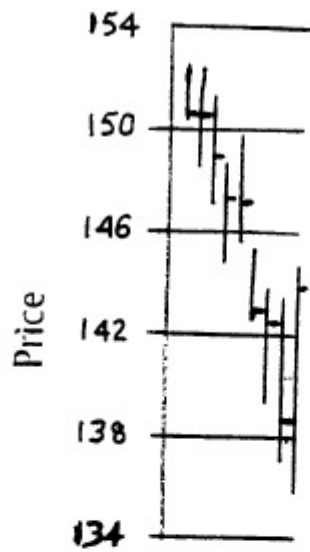
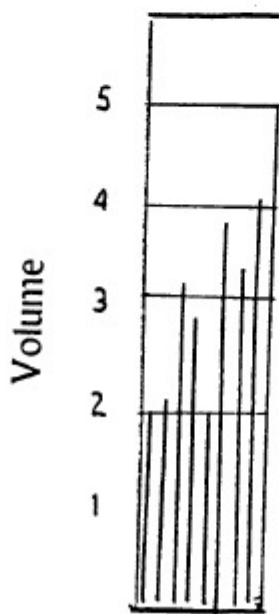


EXHIBIT 15

INTERPRETING SUPPLY and DEMAND



1. Redraw the chart on transparency paper in your hand so as to get a feel for the price and volume action. (Verbalize to yourself, in Wyckoff terms and principles, your observations.)

2. Interpret the relationship between supply and demand. What is the present position and probable future trend of the market?
