Support resistance….Rule of thumb dictates, sell a double, buy a triple on tops, and buy a double sell a triple on bottoms..

Here's my take of VSA in a nutshell.

I consider myself a VSA trader first and foremost. When I trade large size it's with VSA not AMT. My limited knowledge of AMT only allows me to use it for confluence of entry and trade management once I'm in a trade.

I'm gonna keep this pretty basic, as I'm leaving for campus in about 10 minutes.

1) Institutions trade in such large size, that they have to take positions while price is dropping. When you see a wide spread up or wide spread down bar (WSU or WSD) that closes off of its lows, and on ultra high volume (UHV) you can be sure of one thing: **the professional side of the market is active during this bar**. This is your first sign of strength/weakness (SOS/SOW). If you see this at the end of a rally, it is called a buying climax (BC), and at the end of a sell off it is stopping volume.

2) Following this you will see an up thrust (UT) following a buying climax, or a shake out (SO) following stopping volume. UTs look like pin bars, and should be on volume greater than the previous two bars and into fresh high ground (or low ground). This is the next SOS/SOW

3) Only after the first two have taken place, you can look for entries. The entries I prefer:

- No supply/No demand - narrow range down (NS)/narrow range up (ND) bar with volume less than the previous two bars
- Test - bar with volume less than the previous two, that breaks the low of the previous two bars, and closes on its highs
- Squat (not necessarily VSA but it takes volume and spread into account so you could consider it VSA. This bar isn't covered by Tom Williams, creater of VSA, it is talked about by Bill Williams, and he includes other things in the definition) for our purposes, it is a narrow range bar (narrower than previous bar, but I like it to be narrow than previous 2 bars) with increasing volume

The only other thing I add to this anlysis is the hull moving average. I personally like my entry to be across the 15m (21 period) hull and I like the 5m hull color to have already changed in my direction prior to entry.

Shake outs and up thrusts can be 2 and sometimes three bars, this is super important

I am not going to argue over whether the background means multiple time frames or not. I will let the reader make up his or her own mind on that one. I will, however, say that I believe that *a* chart never lies. If *a* chart never lies, then we can say that *any* chart is telling the truth. Well if *any* chart is telling the truth, why do we need to look at more than one?

The Background.

Take a look at the chart on the left. What you do not see here is what was happening on CNBC. The CNBC anchors were all smiles as if the world was nothing but rainbows and lollipops because the S&P was up in the pre-market (prior to S&P cash open). Never mind that this is a zero sum game, which means that for every winner there is a loser. Never mind therefore that when the market is down, there are still people making money. Bill Williams is fond of saying, "CNBC stands for Can Never Be Correct". And as VSAers, we know to ignore the news. Bill and Tom have more in common than just a last name (more on that later).

I am going to talk about the trigger zones in another post, but for now I will say that I still hate lines on my charts but they do seem to help.

To begin our looking left to trade right, we are going to start with what happens in the After Hours/Pre-Market.

1. Ultra High Volume on an Ultra Wide Spread up bar that closes off its high. This bar comes after an uptrend and is a Buying Climax. If all that volume was bullish, then the close should not be off the high. Moreover, the next bar should not be down. This is a clear sign of weakness and it will set the scene for our understanding of what is going on.

Again, note that the Buying Climax is coming amid "bullish news". This will become important later.

2. We see a 2 Bar Inversion. The first bar is of particular import. It is an equal range bar on increasing volume. Now from the technical definition we know that any bar with increasing volume is either a green or squat bar. We are not interested in green or go bars, so for us, any bar with increasing volume is potentially a squat.

Did I just blow your mind? That Buying Climax takes on a whole new meaning. We can see that any **VSA** SOW or SOS that comes on an increasing volume bar is potentially a squat. Like I said, Bill and Tom have much more than a name in common.

Note that the close of this first bar is equal to the close of the Buying Climax, our trigger level (c).

3. This is a very interesting and subtle bar. It is a narrow range bar with an equal close that closes on the low of its range with volume less than the previous two intervals. It is No Demand. This interval does not make a higher high and closes equal rather than up. That makes it a bit hard to see. But look at the bar's construction. The only way this bar can be formed is for it to first trade up and then close to be pushed down to its low. In other words, supply would have to swamp demand on the upper portion of the bar and push price down to the low. It did not take a lot of supply because there was even less demand. Hence the volume remains low.

Note also that the high of this bar is no higher than the close of our Buying Climax.

Because of the time of day, this is not a good entry signal. Any other time of day it would be. Rather then telling us to get short, it is telling us that the market is weak.

4. Price did fall but has come back into the range of the Buying Climax and now we see the second of two Tests. This Test does prove to be valid as the next bar is equal and the bar after that is up and neither of those bars make a lower low than the Test bar.

The key here, however, is that the Supply on the Buying Climax doesn't just simply disappear. That is, the market is still being "ruled" by the weakness on that interval.

5. Another important Squat. Notice that this bar closes in the middle and the volume is greater than average. So whilst this bar is confirming the Test, it is show us that more supply is actually entering the market.

How can this be? What is going on here? Are you trying to play both
sides? No.

The Test has a purpose that will be fully evident once the cash market opens. For those paying attention to the background, we see weakness. We don't predict the market; we react to it. Our bias, however, is for further weakness.

Take a look at the next chart.

6. Okay, the news is bullish, and there seems to have been a good test. The herd hears the good news and is ready to jump aboard on the long side. Those that can read a chart but ignore the background see only a test and are ready to get long as well.

The opening bar is an outside bar. Meaning it makes a higher high and a lower low than the previous bar. These bars are a bit harder to read. But look at the close. We close in the middle of the range. Whilst we expect volume to increase on the RTH open, we know it can't all be bullish volume. Especially since the next bar is down. Also note that the high of this bar did not exceed the high of the Buying Climax. This is important. We can not be in an uptrend, if we are not making higher highs.

7. Wide Spread down bar that confirms the hidden selling on the first bar. So the BBs were selling into the artificial bullishness that was created by both the news and the test bar.

This bar again fails to make a higher high than the Buying Climax. But take a look at the low and the close. It not only trades lower than the Buying Climax, but it trades lower and closes lower than the two previous Test bars. Therefore, where there was once no sellers now there are. We might even call this bar a Trap Up Move. Since it is 2-5 intervals after the Test, it is also No Result From a Test. Simply put, it's weakness.

8. A narrow range up bar on volume less than the previous two bars. This is No Demand. Although the volume is still high, it is nevertheless, less than the previous two intervals. Unfortunately, this bar makes a lower low and not a higher high but it is still No Demand after we have seen weakness.

Upon father inspection, a few interesting things come into view. First, the close is equal to the High of our high volume trigger zone from yesterday's opening range (Initial Balance), and also equal to the low of the first Test bar. The high of the No Demand is equal to the close of that same Test bar.

9&10. These two bars are interesting as the relate to the "2 Bar Entry Rule" concept of my last post. #9 is a nice narrow range up bar on volume less than the previous two bars. If you placed an entry just below the low of this bar, #10 does not bring you in. It closes equal to #9 confirming it as No Demand. However, #10 does make a higher high. It is not uncommon for No Demands to be preceded by Up Thrusts, so this should not be of much concern. Tests don't have as many Reverse Up Thrusts after them as No Demands have Up Thrusts. So when the interval after a Test trades lower, it may mean more than when the interval after a No Demand trades higher.

Ultimately, #10 did not do anything to change our opinion of the market. In fact, we can actually move our limit order up a bit and consider the next interval the first interval of 2.

That next interval would bring us in.

The key to this whole thing is the weakness we saw on the Buying Climax. Amidst the Bullish reporting and the natural tendency for the market to move up, we were able to look at the background and detect the true intentions of the BBs. This market was not going up and if you had looked left to trade right, you would have known that.

It's all about the background.
Attached Thumbnails

Two Interval Entry "Rule". Well, I don't know if it is a rule or not but it definitely has some merit. I only wish I practiced the nuances correctly today.

Take a look at the chart below.

After seeing some obvious signs of demand enter the market, price began to move up. The move up, however, was on decreasing volume....

1. Price moves up and closes on the close of a trigger zone on volume less than the previous two bars. This is a No Demand. No Demand is not uncommon at the nascent part of an up trend. But the BBs nevertheless will often test immediately after seeing it. They did.

I saw where we were and I saw the test. I place a limit order to get long on tick above the high of the test bar.

The next interval did not bring me into the market. More importantly, it did not close higher than the test and made a lower low. This means the test has failed. Unfortunately, I was thinking "2 Interval Rule" so I kept my order in place and waited to see what would happen on the next interval. This was my mistake. Waiting 2 intervals is fine, but when the first interval negates the SOW or SOS, then it's time to bail and re-evaluate.

2. This bar brought me into the market.

Looking closer at this bar, we see that this is an Up Thrust In The Form Of No Demand. Whatever amount of demand was present was clearly swamped by demand as the close is near the low on this up bar.
Now, If I had not stayed for the second bar trying to get long, I would be placing a Sell Limit below the low of this Bar.

2a. Note that this bar does not bring you into the market on the short side. However, unlike before, this bar closes down thus confirming the Up Thrust. And it does not make a higher high which is even better. Therefore, in this case, waiting for the second interval makes sense as the current interval does not negate the SOW.

2b. This next interval does trade lower and would bring you into the market on the short side.

Because I was intent on getting long, I missed the sign of weakness in the form of a failed test. The Up Thrust brought me into the market and I was under pressure from the get-go. Rather than fight the tape and stay long, I should have exited. Had I been listening to the nuances of the market, I should have never been long and been looking to get short.

Many of you may already know these subtleties, but I did not (or at least I did not pay attention to them) and I wanted to put them down on virtual paper for my own benefit.
Attached Thumbnails

We don't talk a lot about the mental side of trading in this thread, but I thought I would throw these out there for anyone who is interested. These come from Mohan of Daytradersaction.

1. " As a trader, I establish a straight mental and neurological path to continuous perfectly executed and managed trades. Each trade is an education towards perfecting the trading art, releasing tension and achieving youth and vigor".

2. " I totally understand that consistency is more important than being 'right'. Having the desire to be 'right' is for amateurs and making money constantly is what the real professionals do. I am striving to be a real pro everyday by focusing on what is proven to really work-- a method that produces steady profits while protecting me if I am wrong".

3. "I allow myself to access my intuition by releasing myself from the desire to be 'right' in the markets, and instead focus on what the market is telling me now in relation to my position and my clear analysis -- no matter what my position is."
It's no secret that I don't like a lot of lines on my charts, So my natural inclination is to get rid of them as soon as possible. There are some special circumstances but for the most part I get rid of them when:

* Another trigger bar forms
* They have triggered an entry
* End of Day

Take a look at the chart below.

We can "walk" through the process. The first trigger is created at the close of the Herd bar. Three intervals later, there is another Herd bar that forms so we move the trigger level up to the close of this bar. If you caught the NS entry for the long then the trigger 1 would have been "nullified". Although it makes a good stop level.

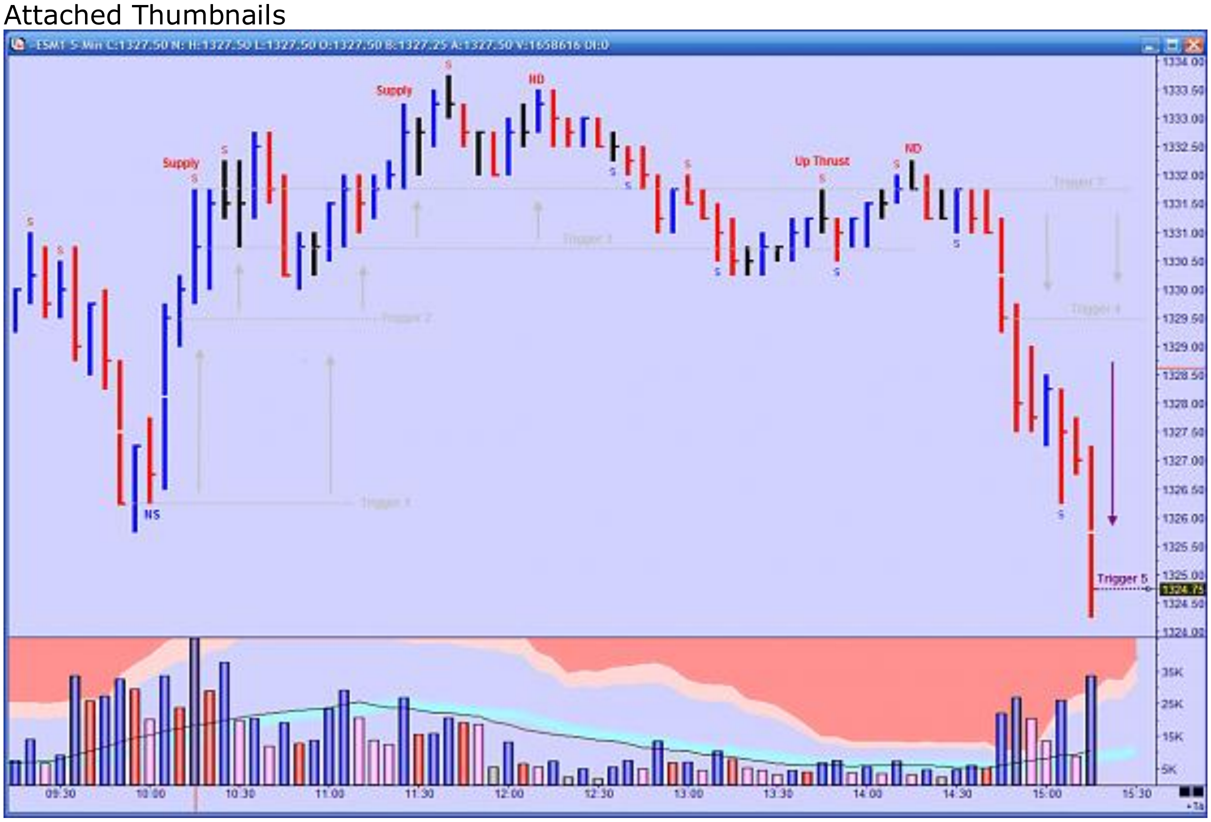
So now trigger 2 is the only trigger line on the chart. Two intervals later we get an Ultra High Volume bar that closes in the middle of its range. This is supply and sets up our new trigger (3) level. As it turns out, the true trigger level is going to be the high of this bar (trigger 3'), not the close.

A simple thing to do is place the trigger on the close as we assume this to be the key level. If price is trading near the high or above it, place another trigger line at that level. So you basically have two triggers for the bar in place- trigger 3 and trigger 3'.

The trigger level will then be moved to trigger 4 after it appears. If you got into a short then it would have already disappeared. But again, you could still use that level for stops.

I used purple for the current trigger level and grey for the others to emphasize that at the right edge of the chart, there is actually only 1 line on the chart.

This is how I do it, but I await Gavin's book for more details on the proper way to do so.
Attached Thumbnails



Tom Williams, the father of VSA, has said that testing is the most important of all the low volume indications in VSA. I, like Seb M, go one step further and say tests are the most prevalent of all the low volume indications in VSA. Rather than indications, however, they should be thought of as actions. Simply put, the market is always testing. It is testing in an up trend. It is testing in a sideways market. And it is testing in a down trend.

In a down trend, these test will usually fail (after all the trend is down). Sometimes they will not fail but we will see no result from a test-weakness. Still other times, they will be successful and result in slight up moves that serves to bring in more sellers.

Most people fail to understand this concept, yet it is so important.

"The squat is the last battle of the bears and the bulls, with lots of buying and selling but little price movement. There is an almost equal division between the number and enthusiasm of both bears and bulls..." Bill Williams, Trading Chaos, p93.

Bill Williams has correctly identified the importance of the squat bar, but to truly understand what is going on, one needs to move into the realm of Volume Spread Analysis.

The technical definition of a squat is a bar with increasing volume and decreasing MFI (Market Facilitation Index). The "short hand" definition is a narrow range bar (narrower than the previous bar) with increasing volume over the previous bar. The second definition is an equal range bar with greater volume than the previous.

Let's focus on the second definition first. Assume we have a bar that has a spread of 10 ticks. The amount of contracts trades for the interval was 5. The next interval also has a spread of 10 ticks from high to low but the contracts traded was 10. What does this tell us? Well, in the first bar, for 1 contract of "effort" we got a result of 2 ticks. On the second interval, for every 1 contract (volume) of "effort" we are only getting 1 tick of result. Effort vs. Result is a key VSA concept.

The question becomes, why is it taking more effort on the second interval? The reason is that there is something compressing the range-either supply or demand depending on the bar. This is where VSA is more apt at describing what is going on. Every buy order, for example, is immediately being matched by a sell order. The range is being kept narrow because those that can see both sides of the market, see that there is a mass of sell orders above. This effect done countless times over the period keeps the range narrow as all Demand (buying) is swamped by Selling (supply). This is the main thing we want to keep in mind- Supply swamping Demand or conversely Demand swamping Supply. It is our understanding of this underlying dynamic that makes squats a useful component in our reading of Price.

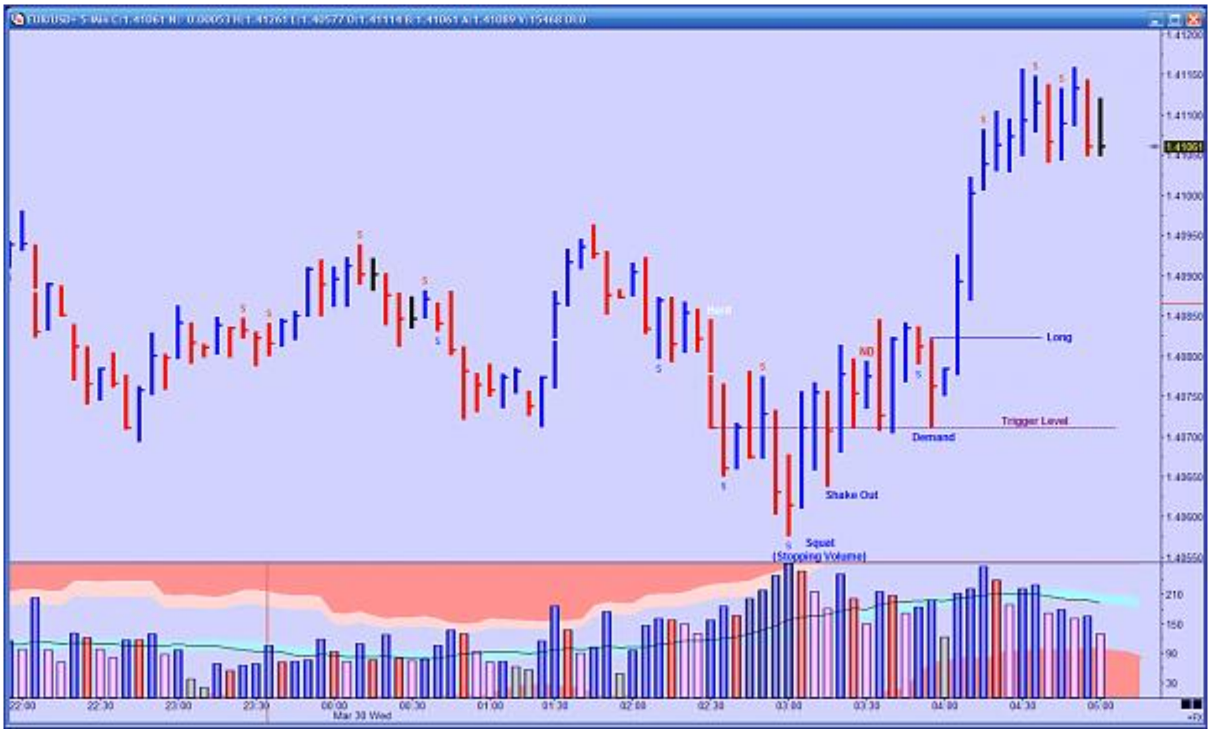
"Virtually all moves end with a squat as the high/low bar plus or minus one bar of the same time period. Another way to stating this is that all significant trends end with a squat on one of the three top or bottom bars... While all trends end in a squat, all squats are not the end of trends". Williams, p93. Simply put, squats come in different intensities and at times are better viewed in context of background strength or weakness. At other times, they *are* the background strength or weakness.

Take a look at the chart below.

Not all squats are marked. You can see that most of the Up squats result in a move down on the next bar or two. And most of the Down squats result in a move up on the next bar or two. One should not just be trying to take every squat in that fashion. The Key squat comes in the form of Stopping Volume. The Ultra High Volume on an decreasing range tells us that demand must be swamping supply here. The next squat to pay attention to is the one right before the bar labeled "Demand". Much like we use Tests, a Squat in the direction of the trend offers an excellent opportunity to get into the market.

With strength in the background, we see a narrow range down bar closing in the middle of its range. We could enter long on a breach of the high of this bar. Looking closer at the bar, we can see that something is keeping the range narrow and the bar is closing in the middle of the range. That can only be demand swamping supply. The next interval is down, but this interval again shows demand swamping supply. This interval just happens to have a wider range so it is not a squat.

So in this case the Squat can be used in the same way as a No Supply or Test. The major difference is that with a No Supply the market is telling us that there are no sellers underneath. With a Squat the market is telling us that buyers are willing to step in below and support price.
Attached Thumbnails



I'm not going to get into herd bars in this post.

As far as the trigger level goes, the original level was at the close of the bar. However, we noticed that the closing prices of the proceeding bars were actually being supported at the herd bar's low. Once price broke to the downside, we expected that support would become resistance. That is a basic idea of support and resistance and has nothing to do with trigger levels/number or VSA in general.

Now, we would have liked for price to trade up to the close of the herd bar but again we did expect the low to be important. So we "shifted" the trigger level from the close down to the low. As it turns out, the market moved above the low but closed on the low on volume less than the previous two-No Demand. In truth, the text book example would have been for the No Demand's high to not get above the new trigger level (the herd bar's low).

Up until now we have kept it pretty simple- look at the close for the trigger level. However, there are actually 4 points that are important:

1. The Close
2. The High
3. The Low
4. The Midpoint

The way to handle it is to assume the level is the close while being cognizant of what happens at the other levels.

The basic definition of a successful test is that the next interval closes higher than the close of the test bar.

Todd K. says it is a successful test if the next interval or the one after that (2 intervals later) is higher than the close of the test.

I use the basic definition, but what I *like* to see is a mix of both.

I like for the next interval to close higher than the close of the test bar and not make a lower low than the test bar on increasing volume. If the next interval is equal, then I like to see the proceeding interval close higher than the test and for neither of the two intervals after the test to have made a low lower than the low of the test.

Note that the basic definition does not include increasing volume. Decreasing volume on the next interval would, however, mean at best a lack of BB activity, and at worst, no interest in higher prices.

Very often after a No Demand you will get an Up Thrust. This is one reason that you don't enter on the close of the No Demand (that's in the right place), but rather wait for the low to be taken out.

The confirmation comes when the next interval closes lower than the No Demand.