**Volume-Price Analysis**

Volume, the often neglected sibling of price, is fairly important in the world of investment and trading. It tells a story for those who know how to read it. An analogy is that if price determines the storyline, volume determines the plot – it represents how exciting the story would be. A good plot (high volume) will keep readers engaged and excited, while a lousy skimpy plot (low volume) will probably gather a “meh” at best.

The function of volume is quite simple; it basically substantiates the price action. A large volume at different price levels will reveal to us the sentiment of the buyer and sellers at those price levels, large upswing with high volume representing a strong buying sentiment, and the reverse too applies. Volume also acts as the fuel of the market, where high volume buys or sells will help to set the price moving. Trader Billy Williams said, “Volume is literally the fuel for stock values. Like the space shuttle when it is laughed into space, the majority of the fuel is spent just to get to orbit. This explosive force of energy to propel the space shuttle into space or new heights requires an above average reserve of the fuel…” Similar to trading, volume is the fuel that will propel the price upwards (or down)!

In this article, we will be discussing how volume and candlestick/OHLC charting complement each other, how volume should act in trends or chart patterns, and lastly, a brief discussion on a special charting method – Equivolume charting.

**Volume & OHLC/Candlestick**

Moving on, analyzing price and volume bar by bar can reveal sentiments behind the actual price action, and there are 4 basic phases of closing price bar analysis which can be summarized in this following table:

*Decoding Price with Volume:*

<table>
<thead>
<tr>
<th>Stock closing up</th>
<th>Volume higher</th>
<th>Building demand</th>
<th>Bullish</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock closing up</td>
<td>Volume lower</td>
<td>Diminishing demand</td>
<td>Bearish</td>
</tr>
<tr>
<td>Stock closing down</td>
<td>Volume higher</td>
<td>Increasing supply</td>
<td>Bearish</td>
</tr>
<tr>
<td>Stock closing down</td>
<td>Volume lower</td>
<td>Drying supply</td>
<td>Bullish</td>
</tr>
</tbody>
</table>

In addition, when volume and OHLC/candlestick charts are combined, it may show a good potential to enter into a position. Some examples of a potential good trade are shown below.
The above showed some examples of how volume can complement OHLC/candlestick patterns to produce high probability trades.

Based on conventional reversal candlestick patterns, the chart as shown beside suggests that buyers step in to buy when the prices spiked down, and buyers supported the prices till market closed. At higher-than-normal volumes, this may show strong buyer sentiment, and thus, a high probability bullish trade.

Another bullish example would be gap ups. If volume was neglected, one will not be able to determine if the gap up is supported by large amount of buyers or not. With volume and price analysis, this spike in volume and a gap up suggests that prices has a higher probability to rally on strong demand.
In the following paragraphs, we will be discussing on how volume should act in trends or chart patterns. Basically, we know (or not) that market moves because there is an imbalance between demand and supply, and when one side is stronger, prices will moving in its direction (high demand = up, vice versa). Crudely speaking, the market can be said to make up of 2 major groups of people – the strong hand, and the weak hand. The strong hands are people, or institutions, that have a huge buying power to move prices on high volume, and are not easily shaken out of position unless some significant activity happens. The weak hands are the majority of the other people, like retail investors and small time traders, who often lack the capitalization and power to move markets significantly. By analyzing volume and price movements, we can take a glimpse at the market players, whether its institutions (or the rich) that are buying up shares, or the normal investors are the one playing up the prices.

**Volume in trends & patterns**

From the price and volume action, we can notice that the market has been in a significant downtrend, and with increasing volume (very bearish). Although the breakout was done on huge volume, subsequent volume has failed to support the rally. This is perceived as weak demand, and highly probable that normal retail investors/traders (weak hands) are buying in, not institutions.

By conventional technical analysis, volume should increase as prices increase. Any deviation could signify a possible weakening in buying sentiment, and there might be an impending price fall. Following the initial analogy like a book with good plot, the good plot should last till the end. Abruptly ending the plot with some rubbish will perhaps put people off, and lose interest in reading further, just like how the market works. In simple equation, higher volume = more buying/selling interest.
Volume behavior not only supports price action in trends, but they do signal whether a chart pattern is successful or not. In the following 2 examples, volume supports the story that price is trying to make.

Very obvious, the rally in prices is not supported by a higher volume. This divergence in price and volume does warrant some attention. Caution should be made when trying to join the uptrend. Unless the market rallies and breaks the volume downtrend with a significant spike, proceed with caution!

Price broke down the triangle pattern with huge volume, signifying a very bearish sentiment. The follow days rally were done with weak volume, and hence a quick recovery was not expected. Using normal triangle breakout targets and resistance levels, one can determine direction and the profit level with higher accuracy.
With the examples above, we now can better understand the relationship between price and volume, learnt how to make use of volume to help enhance and fine tune our trading techniques, and to increase probabilities of successful trades.

However, one must find that having to constantly look at the volume and prices might be too troublesome. Why not combine the two? Fortunately, there is a charting method that combines both price and volume – Equivolume Charting. However, only the basics of Equivolume charting will be presented here.

Equivolume Charting

Equivolume charts tell us a clear picture about the conviction of traders/investors in an easier method. By looking at the size of the box, we know relatively how big the volume is compared to other days. Strategies can be put in place to catch high probability setups as they develop, which the following few examples will demonstrate how equivolume charts can be used to determine the strength of a trade.
Technical traders/investors will often look for a change in trend before investing, and some may make use of breakout trades based on falling wedges, channels, or whatever patterns. However, volume is important here to confirm the validity of the breakout, lest it becomes a false breakout. In the above example, the breakout from the down channel has a significantly larger box (which means a higher volume) compared to other days. This signifies that the breakout may be a successful one, and one should use proper money management to prevent huge losses if the breakout fails. As prices near resistance levels (shaded in orange), volume dipped significantly (the tiny red box). This tiny red box tells us that the sellers that were once at those levels (the resistance), is weak. This calls for another bullish rise when buyers decide to step in again, and this time too, on higher than normal volume. With the size of the box increasing the next day, clearing the upper resistance level, this means buyers have overpowered sellers at that upper level resistance too, and thus, sets a course for a protracted bullish run.
This following chart is yet another clear example of how Equivolume charting can be helpful to chartists. A reversal on high volume will definitely increase the chances of a successful reversal, which the stock has proved.

Having touched on a few clear examples of how volume is important and how volume can help you enhance your trading, readers should be warned that volume analysis is not easy. It requires considerable experience and exposure to read the volume in depth. In addition, with the increasing use of high frequency trading (HFT) and dark pools, volume can actually be much distorted in this modern era. Volume analysis should hence be done with the various considerations such as significant dark pool activity or HFT on particular stocks (if possible). Readers should attempt to read up on volume analysis or equivolume charting to find out other possible techniques and information that is not presented exhaustively here.

Samuel Bay
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