Technical Analysis Workshop Series

Volume Spread Analysis (VSA)

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Profile

- Year 2 Business Administration
- Started trading since 2012
- FX Pipsology – fxpipsology.com
- Written blog articles for eToro
- Open to learn and connect
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Outline

1. Introduction
2. Market Makers
3. Effort vs Results
4. Sign of Weakness / Strength
5. Trade Examples
Wyckoff Logic

The Four Market Phases
Accumulation
Mark Up
Distribution
Mark Down

Distribution (Cause)
Buying Climax
Failed Rally
Low Volume Rally
Break The Ice

Accumulation (Cause)
(Effect) Mark Up
Jump The Creek

Selling Climax
(Effect) Test
Low Volume Failed Sell Off

Volume
Introduction

Price Spread
the highest and
lowest of the candle
bar.

Support & Resistance
whole SR refer to the x.xx00 level.
1/2 SR refer to the x.xx50 level.
for example, 1.3200 refers to
the whole SR; while 1.3150 refers to
the 1/2 SR.

General TP targets
RD1 RDH - daily high/low range.
RWL RWH - weekly high/low range.

Volume indicator
the colour is simply for easier visual.
green and blue bars are for up-bars;
and the red and purple bars are for
down-bars.
Who are the Market Makers?
Demand & Supply

Who are the Market Makers?
Support & Resistance
The market manipulation benefit the bears MMs by:

1. Drawing in retail buyers by putting a bullish PA;
2. The demand from the buyers pushes prices higher;
3. MMs now able to sell their orders to these buyers without causing prices to fall;
4. This is the distribution phase where the bears MMs are selling to the buyers.
The market manipulation benefit the bears MMs by:

1. Catching orders and stop losses (SL) of retail traders by whipsawing prices;
2. MMs first push prices down to trigger the short orders from retail traders;
3. Then whipsaw prices up to hit on the SL* of these short trades;
4. And trigger the long orders at the top;
5. MMs can now sell their orders to these retail traders.

*SL of a short trade is equivalent to buying into the market.
Effort vs Results

- Volume indicator -> trading activities -> ‘Effort’
- Price action -> ‘Results’ of the effort
- Buying effort will result price to increase
- Selling effort will result price to decrease
When there is an **Effort** to move, there should be a **Result**.
Effort vs Results
Effort to go up

- Wide spread up-bar
- Closing on the highs with increased volume
- Volume not excessive
What if Effort doesn’t show Results?
The high volume must have contained more Selling than Buying. This is a Sign of Weakness (SOW).
Prices manage to hit new high on high volume, but subsequently move sideways.

This is an indication of weakness.
How do we know if it is **SOW** or **SOS**?
- Up-trend -> look for SOW
- Down-trend -> look for SOS
Sign of Weakness / Strength
Sign of Weakness / Strength

Very high volume up-bar, but price closed in the middle. Subsequent bar didn't result in higher prices.

This shows market weakness.

Low volume small spread bars. MMFs are testing the market.
When to enter the market?
Lack of Demand (No Demand)

- Narrow spread up-bar with low volume
- MMs have no interest buying into the market
- Indicates temporary weakness
No Selling Pressure

- Opposite of no demand
- Prices close down with narrow spread
- Declining volume
- Indicates temporary strength
No selling pressure. Prices went down with low volume and narrow spread.

Indication of no demand. Prices went up with low volume and narrow spread.
- No demand -> weakness -> **SELL**?
- No selling pressure -> strength -> **BUY**?
Wait for a **SUCCESSFUL** test of confirmation.
Test of Confirmation

- Up-trend -> look for SOW -> no demand
- Down-trend -> look for SOS -> no selling pressure
Market Scenario

- Rallies will meet resistance when there is supply
- Floating supply needs to be removed
- Rapidly mark prices down to test sellers
High Volume Mark Down

- Supply is present
- Usually results in a temporary up-move
- Subject to a re-test
- Forms a ‘W’ shape or a ‘Double Bottom’
Low Volume Mark Down

- Little selling / low supply
- Catch any SL below the market
- Buying at still lower prices (springboard)
- Successful test of supply
- Market ready to rally
The first test of supply was with high volume. MMs ran a second test and we can see the volume of the second test was lower.
Wyckoff Logic

**Effort vs Results**
MMs

- MMs will choose the path of least resistance
- Demand & supply often act as resistance
- Accumulation phase to reduce supply
- Distribution phase to reduce demand
Up-trend

- Look for SOW -> effort doesn’t show results
- No demand -> buying decreased on up-move
- Market will want to fall
Down-trend

- Look for SOS -> effort doesn’t show results
- No supply -> selling decreased on down-move
- Market will want to rise
Market Movement

- Low volume -> reduced trading
- Little interest in that direction
- Path of least resistance is generally the opposite direction
Volume Spread Analysis

- Conceptual market analysis
- Understanding the market movement
- Complimentary with other strategies
To be a **competent** trader and **make money** is a **skill** you can **learn**.

- Michael Marcus