

Trading Volume: The Stock Market's Other Dimension



Chapter I

A Short Introduction To Trading

1. Trading is not retirement planning.
2. The money that you trade should be no more than 2% of your retirement portfolio.
3. Volume is recognized as being important trading indicator, but volume analysis tools are few and far between.
4. The Adaptive Price Channel System (APC System) provides charts that help you visualize what's happening in the market, as well as signals that can tell you exactly when to buy.

Chapter II

An Introduction To Volume Analysis

1. Tom Williams came to the U.S. and worked first as a nurse.
2. He later became interested in trading and got a job as a professional trader. In this role, he learned much of the folklore and many tricks still used today by traders.
3. As Tom Williams puts it in his book: "Without doubt, it is possible to predict the movements of the financial markets, and as technology advances, we will become better at it."
4. Tom Williams book is available on the internet in PDF format at this location:
http://www.tradeguides.com/mtm_251058.pdf
5. There are a number of YouTube videos that show Tom Williams' software in use.
6. Our APC Charts are heavily motivated by the ideas in Tom William's book, but the charts are based on a new technology that is more reminiscent of the popular ADX indicator than of the software that Tom Williams created.

Chapter III

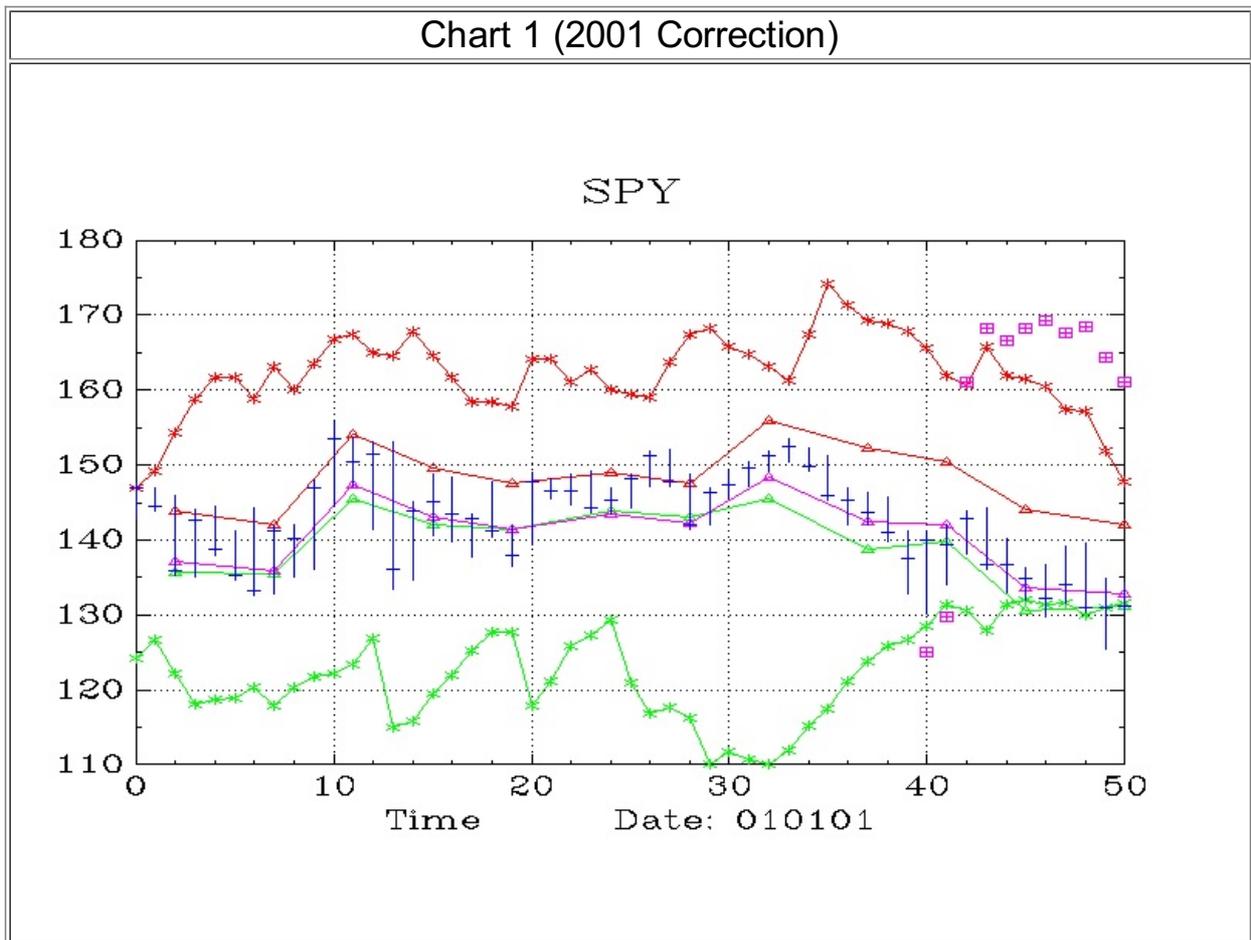
Anticipating Market Corrections

We generate what we call Adaptive Price Channel charts, or APC charts, and we find that we can derive a great deal of information from these charts. We can generate intraday charts (90 minute, 60 minute, 45 minute, etc.), as well as daily, weekly and monthly charts. We find that it can be quite helpful to overlay different time frequencies on top of each other. This first chart is an example of that. It's a weekly chart, which means that each tick represents

one week of market activity. The chart shows both the Monthly APC Channel (with triangles on it), and the Weekly APC Channel (with asterisks on it). This means that the Monthly APC channel has been overlaid on top of the weekly price chart and on top of the weekly APC channel. The security being charted is SPY, or "Spyders." This is an ETF (a mutual fund), which mimics the behavior of the S&P 500. At any given time, the value of this ETF is approximately the value of the S&P 500 divided by 10.

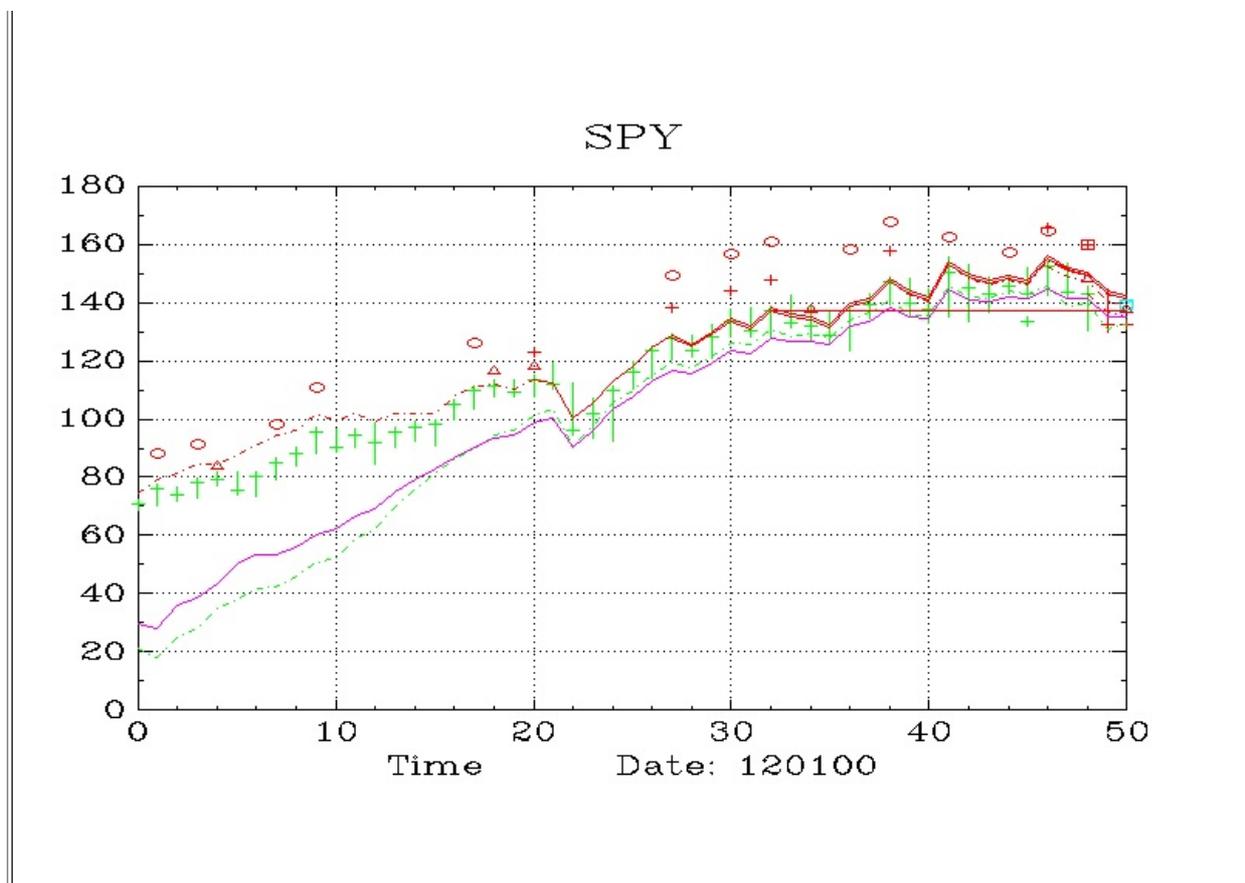
Notice that the price ticks push above the monthly upper channel at ticks 10, 16, and 17. This seems to be an excellent indication that price will soon correct downward on the weekly chart (and all other charts too). Notice also that the monthly APC channel is much narrower than the weekly APC channel. This means that the correction will be quite severe. In fact, this will be not merely a correction, but it will be the beginning of a bear market. The fact that price falls below the monthly channel at ticks 12, 13, 14, 17 and 19 does not seem to be particularly relevant. It simply emphasizes the fact that the monthly channel is very narrow.

This first chart shows the end of the .com bull market and the beginning of the 2001 bear market.



Let's now take a look at that same period of time, using another chart that we generate, the Support and Resistance Chart:

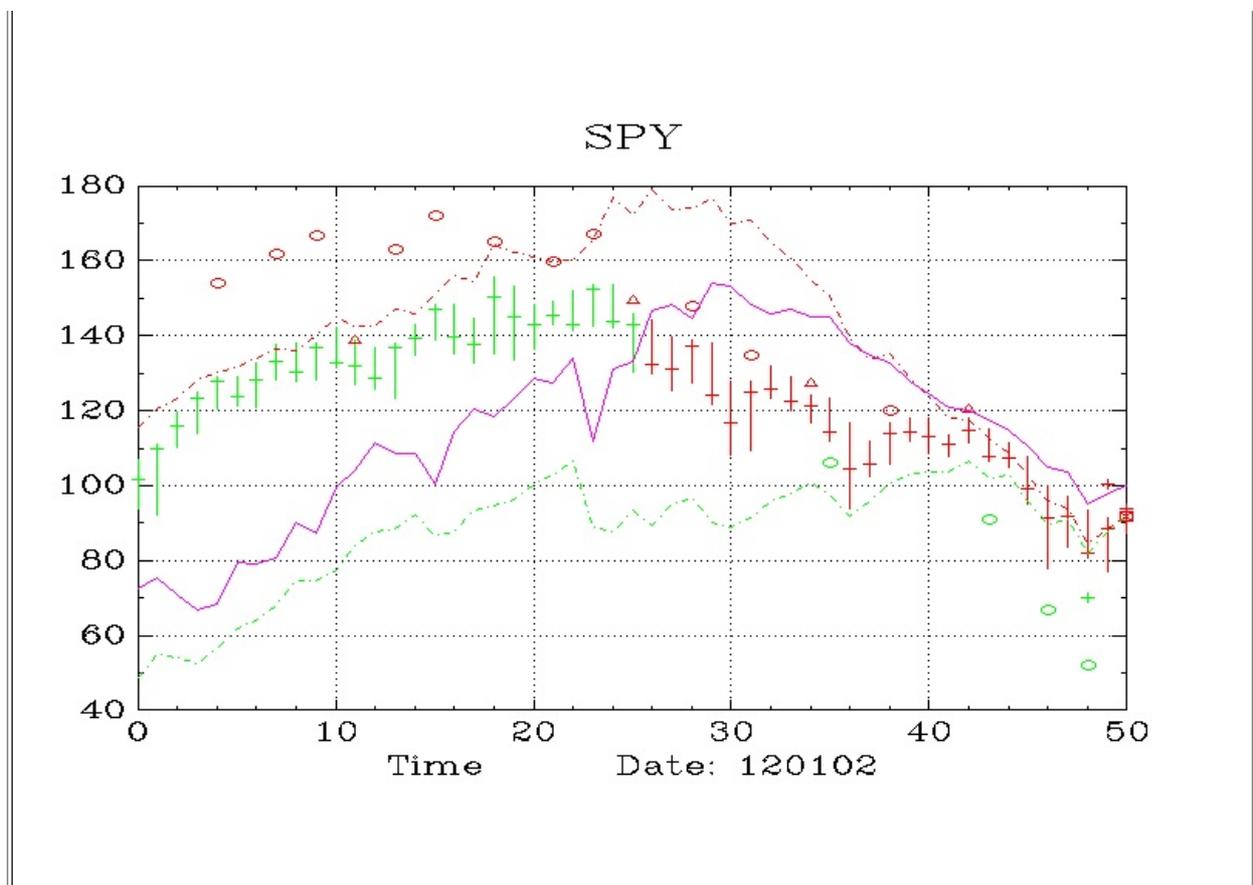
SPY -- S+P 500 (Monthly)		
SPY Support and Resistance Levels for Monthly	Profit Potential	Reversal Indicator
Fan Signal: McGuffin Signal:		
The Beginning of a Bear Market	0	-100



There's a great deal of information contained in this chart, and this is not the right place to discuss it all. The most important thing to notice here is that the Reversal Indicator is -100. The corresponding bar graph is solid red. As far as we know, every time that the Support and Resistance Chart has displayed a reversal indicator of -100 on the Daily, Weekly and Monthly charts, there has always been a significant downward correction after a 1 to 6 tick bounce. Often, the bounce is very short, just one tick. Since the chart we're looking at is a Monthly chart, the "significant downward correction" is actually a bear market. The Fan Signal for this chart is a red and yellow pinwheel. This tells you that this is the first month of a downtrend on the monthly chart. One would be wise when seeing this chart, to convert some of your stock investments in your retirement account, into bonds, Certificates of Deposit, or other safe investments. In the world of stock market indicators and investment software, no system is perfect, including the APC System. But we are steadily building more and more confidence in the ability of the APC System to anticipate market corrections.

Now let's look at that same chart, two years later:

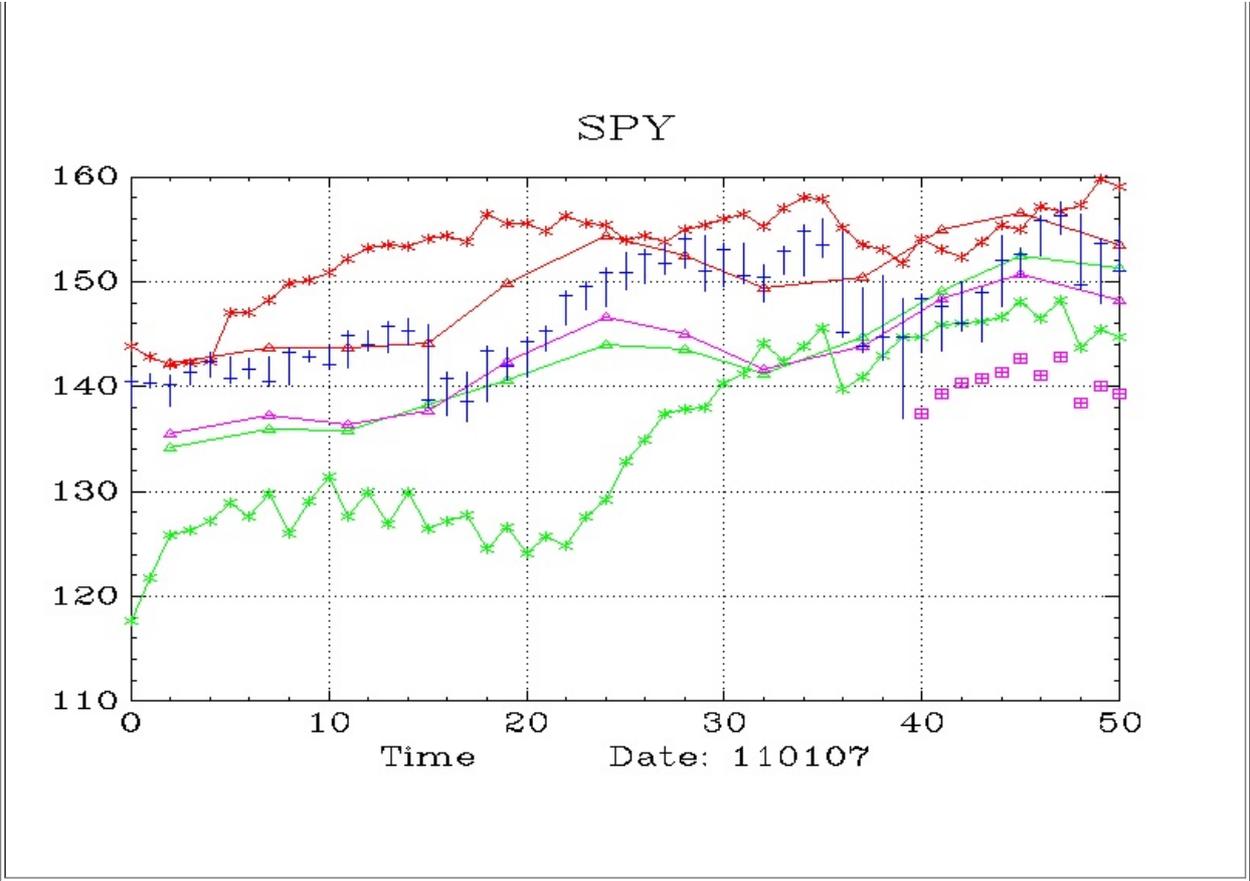
SPY -- S+P 500 (Monthly)		
SPY Support and Resistance Levels for Monthly	Profit Potential	Reversal Indicator
Fan Signal: ■ McGuffin Signal: ▣		
Presumably the End of a Bear Market	0	0



The red Fan Signal means that a monthly downward trend is underway. But because the Profit Potential Indicator is showing 0, this is not a good time to establish a short position. In other words, this is not a good time to establish a position that increases in value when the S&P 500 goes down. Typically, you would do that only when the Fan Signal is a red and yellow pinwheel. Since the correction on the monthly chart seems to have come to an end, this is a good time to look for green and yellow Fan Signals on the Daily and Weekly charts. By the way, these Support and Resistance charts for 2000 and 2002 were generated retroactively. We did not have these charts back then, because the APC System had not yet been developed.

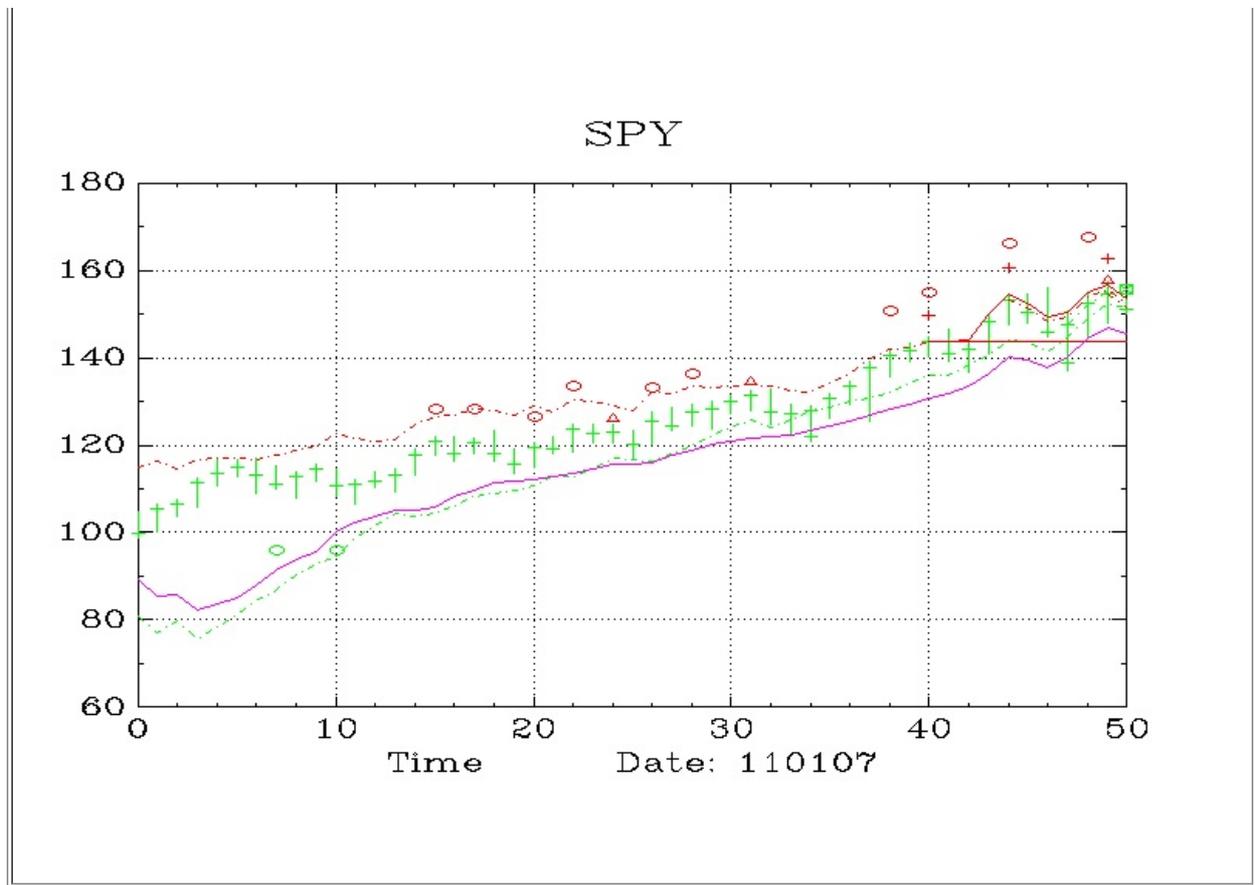
Moving on now to the correction of 2007. Chart 4 shows that once again in 2007, the monthly APC channel is noticeably narrower than the weekly APC channel. So when price pushes above the monthly chart at ticks 28 through 36 and 47, the ensuing correction will in fact be a bear market. We all recall that this bear market climaxed in 2008 with the failing of the Lehman Brothers and Bear Stearns investment banks.

Chart 4 (2007 Correction)



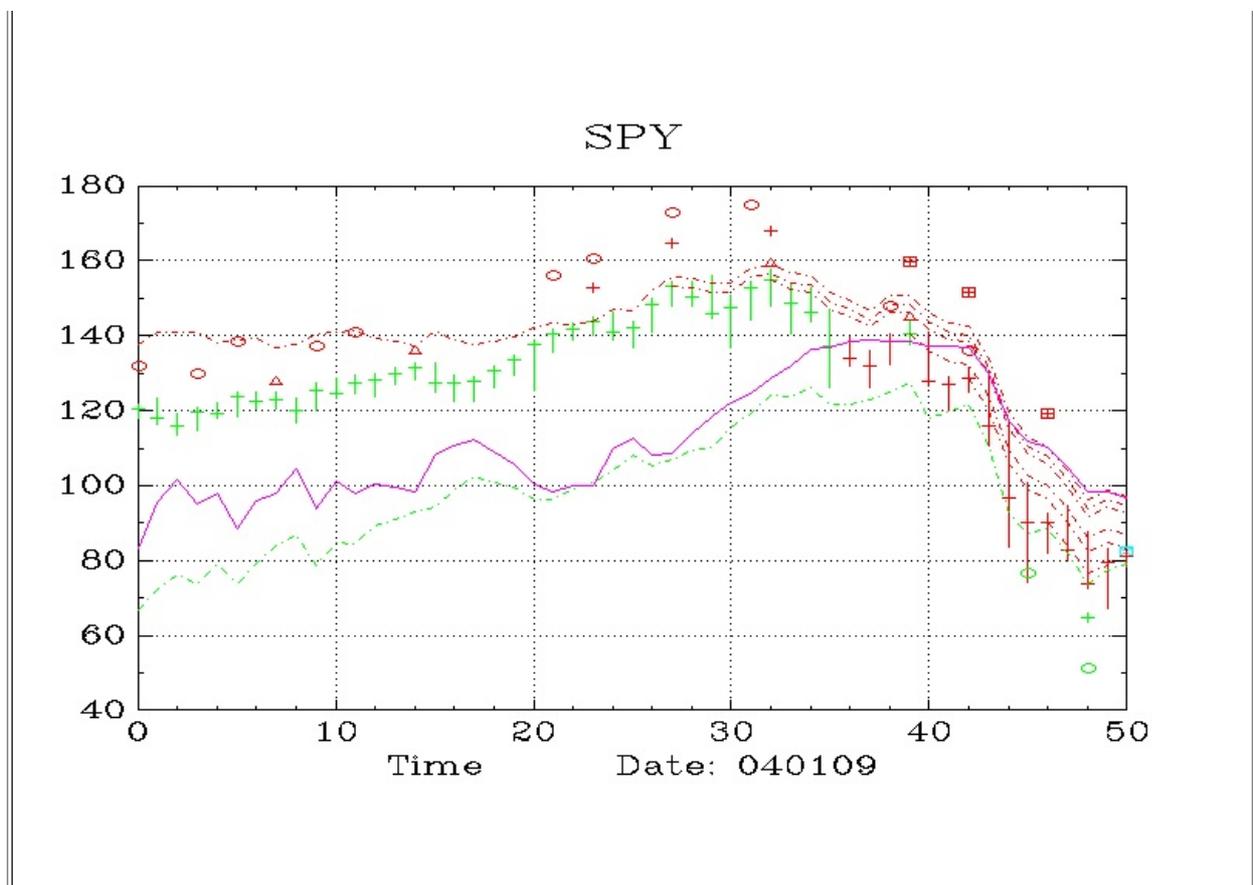
Now let's look at the monthly Support and Resistance Chart for that same time period.

SPY -- S+P 500 (Monthly)		
SPY Support and Resistance Levels for Monthly	Profit Potential	Reversal Indicator
Fan Signal: ■ McGuffin Signal: ■	■	■
The Beginning of a Bear Market	100	-100



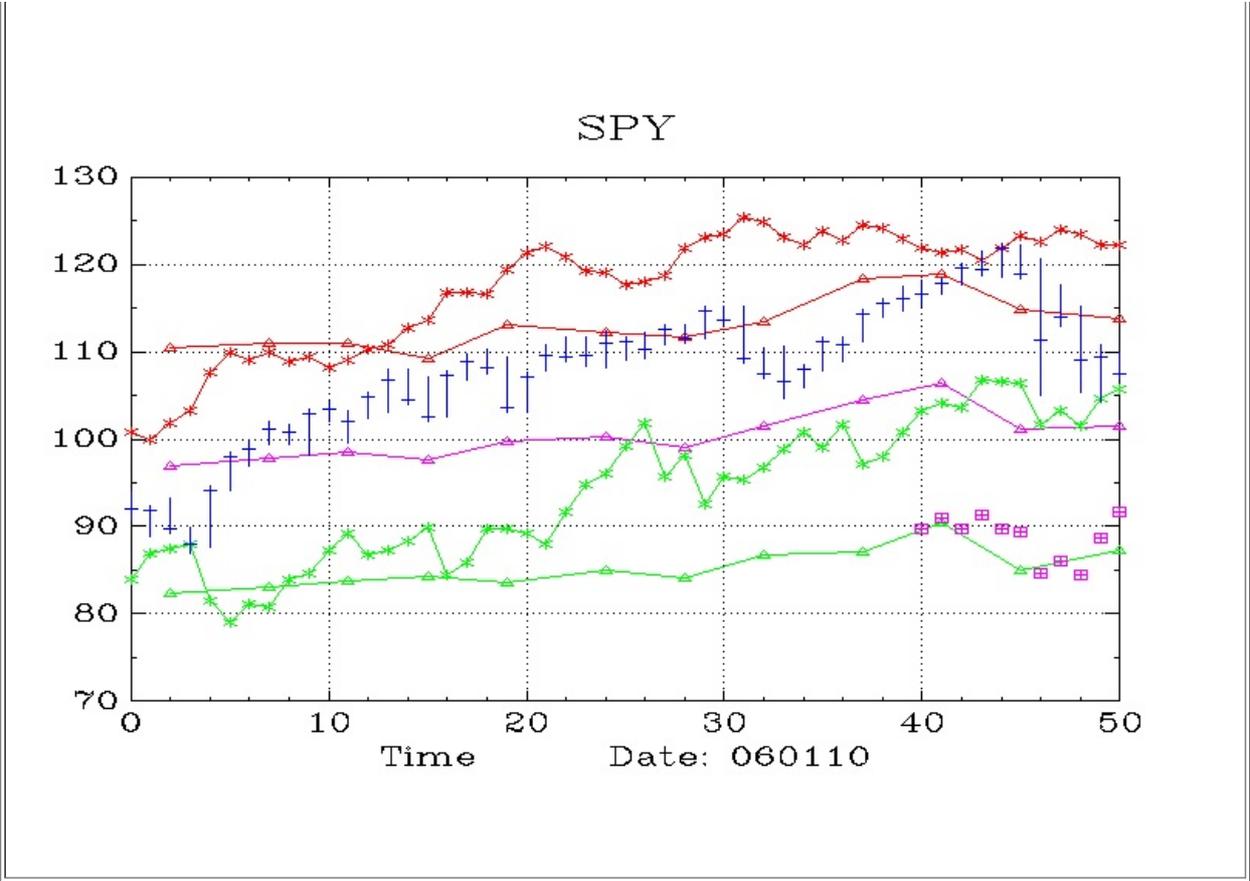
Again, the Reversal Indicator reading of -100 means that a bear market is either underway, or else will begin in just a few ticks. The Fan Signal, the McGuffin Signal, and the Profit Potential are all green, but they are all overridden when the Reversal Indicator is -100 (or very near -100). In April of 2009, the monthly Support and Resistance Chart looked like this:

SPY -- S+P 500 (Monthly)		
SPY Support and Resistance Levels for Monthly	Profit Potential	Reversal Indicator
Fan Signal: ■ McGuffin Signal: ■	■	■
Presumably the End of a Bear Market	0	0



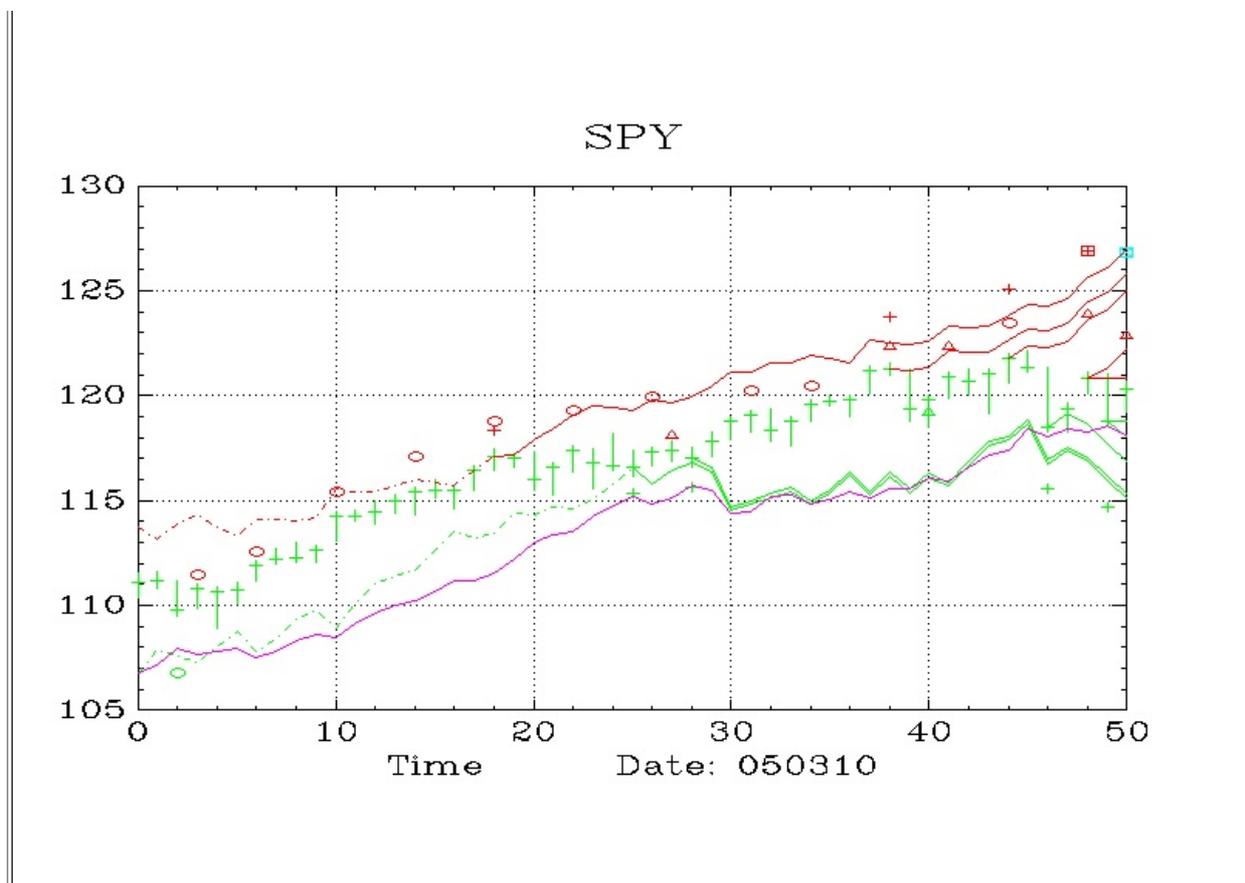
Now let's look at some smaller corrections. The correction of 2010 was a medium sized (approximately 8 week) correction during a bull market. Because it was not the start of a bear market, the width of the monthly channel is a bit greater than the width of the weekly channel. Chart 3 shows this correction, and like most weekly corrections, it begins with one or more places where price exceeds the upper edge of the monthly channel. This happens at ticks 29, 30, 42, 43, 44 and 45. Typically, when the weekly price ticks break through the upper edge of the monthly chart, the price will then turn down and continue down until the price collides with the lower edge of the weekly APC Chart.

Chart 7 (2010 Correction)



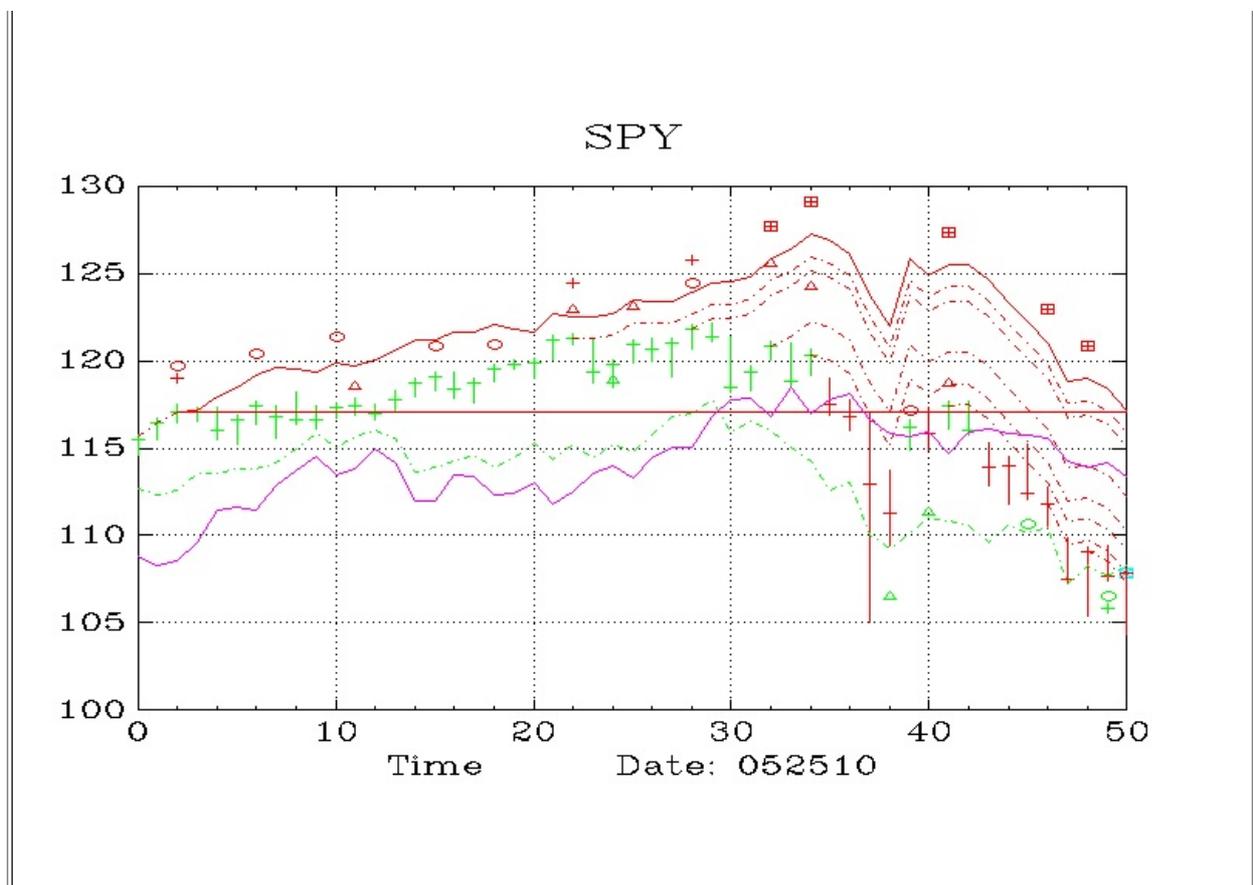
At the market high (approximately tick 43 of Chart 7), the daily chart looked like this:

SPY -- S+P 500 (Daily)		
SPY Support and Resistance Levels for Daily	Profit Potential	Reversal Indicator
Fan Signal: McGuffin Signal: 		
The disappearing McGuffin suggests a downtrend.	0	-46



On this day, May 3rd, the McGuffin Signal turned from green to yellow. The McGuffin Signal is either green, yellow, or red. Green means that a strong trend is underway, and it's safe to hold a long investment until the McGuffin Signal turns yellow. Similarly, a red McGuffin Signal means that a strong downtrend is underway, and short investments can be held until the McGuffin Signal turns yellow. A green McGuffin is represented by a green box at tick 50 above the APC Chart. A red McGuffin is represented by a red box below the chart, and a yellow McGuffin is shown as a aqua box somewhere in the interior of the chart. (The color yellow is not available in the graphics package that we use to generate the charts.) When the McGuffin changes from green to yellow, it's time to start looking for intraday downtrends. If an intraday downtrend begins and it gradually creates a daily downtrend, this is what we would call bootstrapping, and it means you can hold onto your short position until the daily downtrend ends.

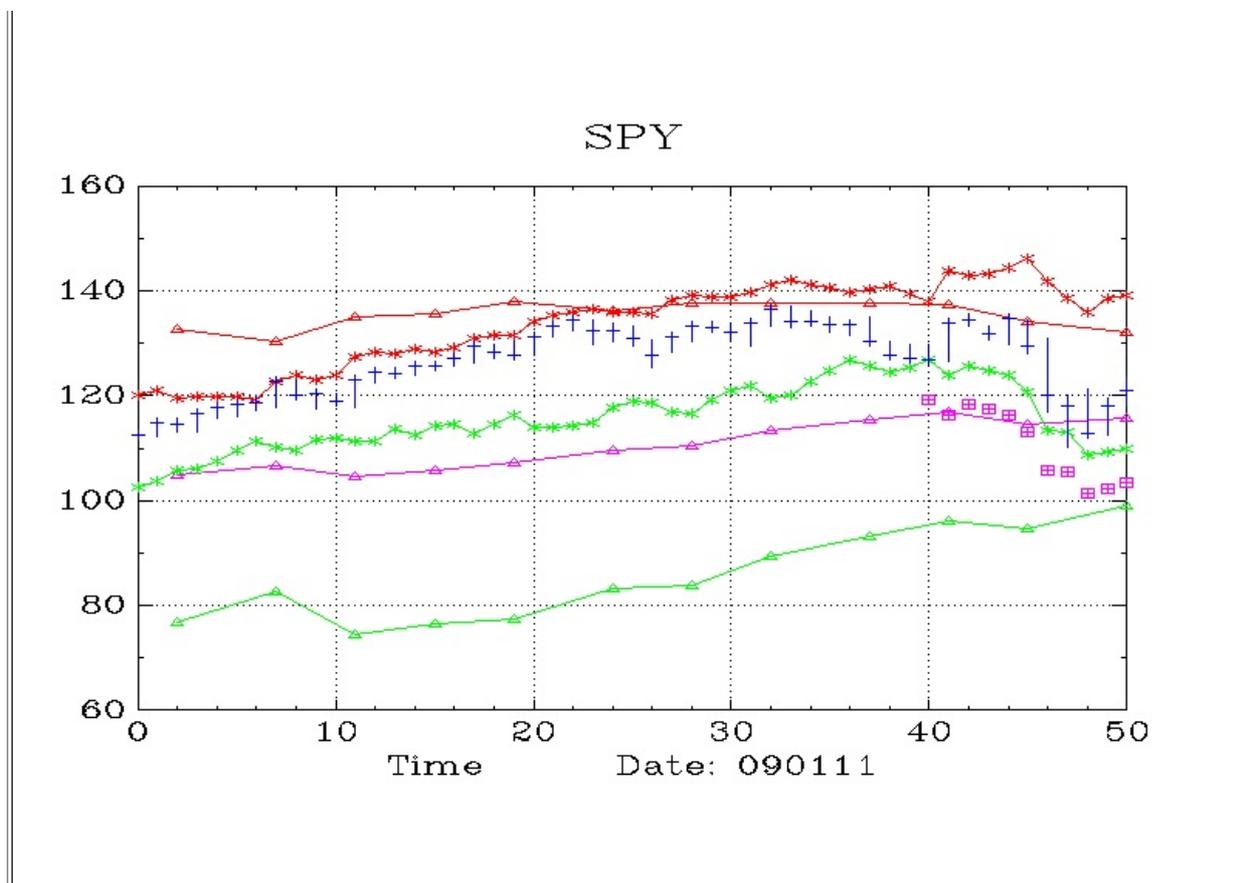
SPY -- S+P 500 (Daily)		
SPY Support and Resistance Levels for Daily	Profit Potential	Reversal Indicator
Fan Signal: ■ McGuffin Signal: ■		
Presumably the End of a daily downtrend.	0	0



At the moment, we're unable to generate intraday charts retroactively, but presumably a downtrend would have begun on the 90 minute or 60 minute chart at about tick 35 on the chart above. This downtrend would have ended on the day after the "Flash Crash", tick 38. Then a new intraday down trend would have begun approximately at tick 42, and that downtrend would have been bootstrapped into a daily downtrend at tick 44. (The daily downtrend began at tick 44, where the purple line crossed above the red dotted resistance line, but this is also indicated by the Fan Signal, so no-one needs to be able to interpret the charts at that level.)

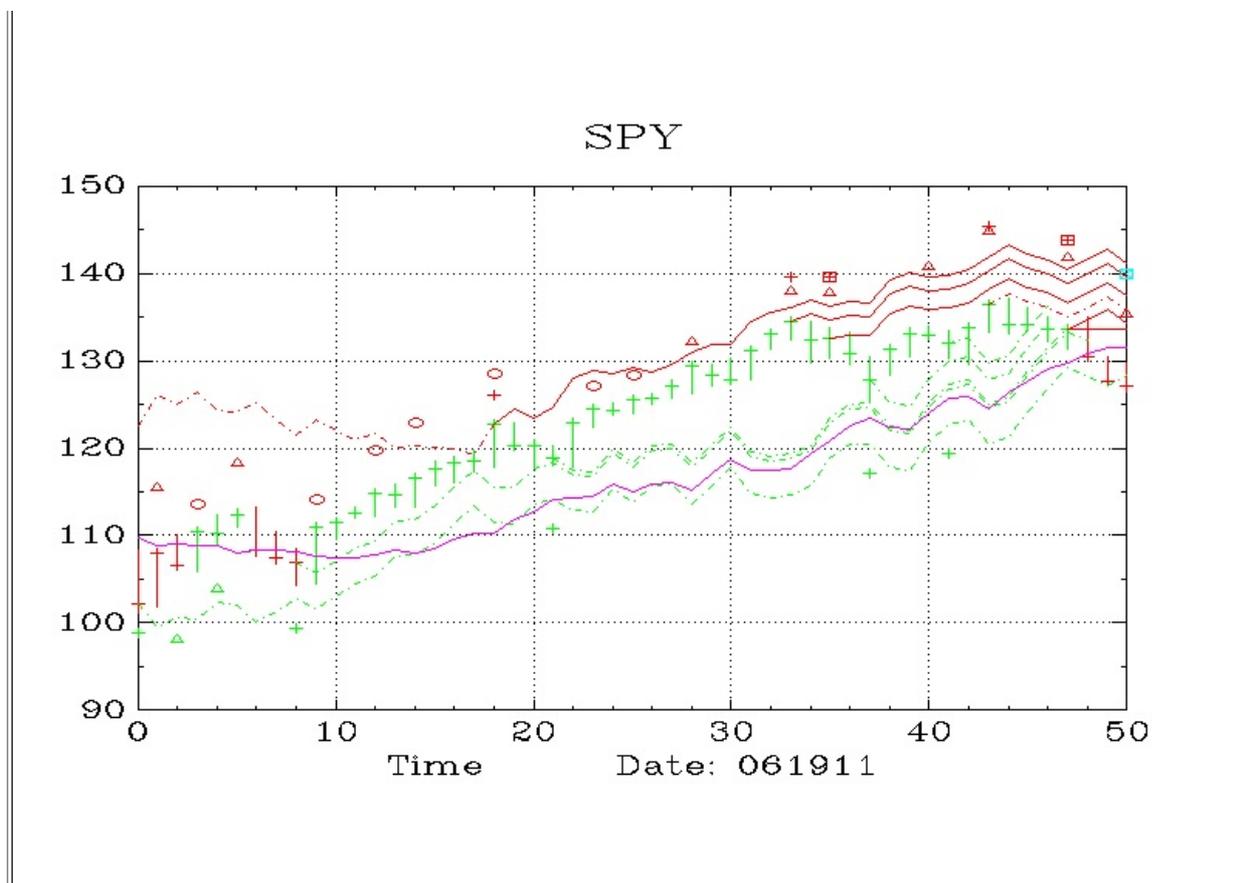
Now let's look at the correction of 2011. Here again, the hallmark of a correction on the weekly chart, is that it touches and sometimes exceeds the upper edge of the monthly APC channel. Chart 10 shows this collision. At ticks 32 and 44, the monthly APC channel is violated. In 2011, the bull market was in full swing, so the weekly APC channel was quite a bit narrower than the monthly APC channel.

Chart 10 (2011 Correction)



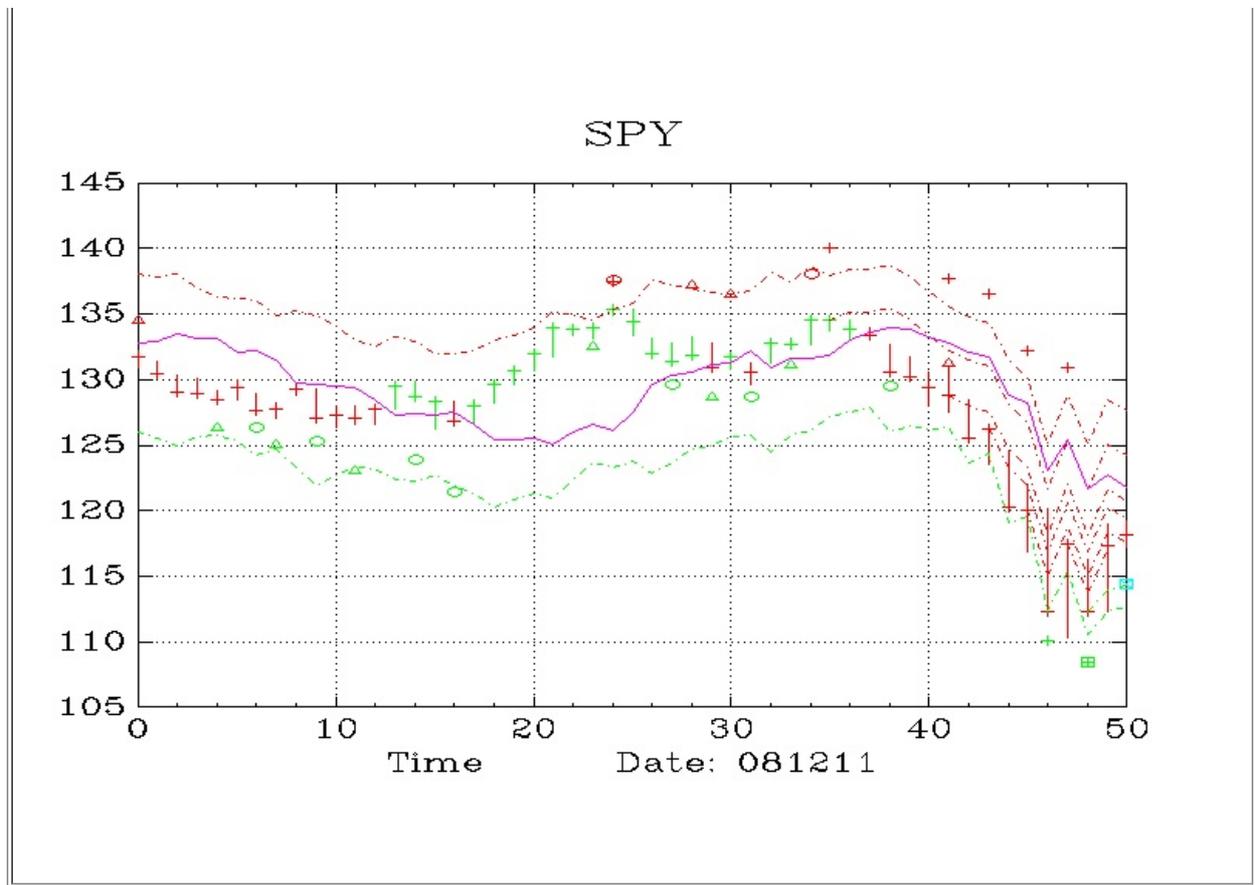
It's remarkable how the market behaves in such predictable ways. After the price collided with the upper edge of the monthly APC Chart, it then travelled down until it collided with the lower edge of the weekly APC Chart. This happens time and time again, and it happened twice on this particular chart. The correction of 2011 was a long time in coming, and it's not surprizing that the weekly Support and Resistance chart shows a large number of resistance curves "holding down" the price:

SPY -- S+P 500 (Weekly)		
SPY Support and Resistance Levels for Weekly	Profit Potential	Reversal Indicator
Fan Signal: ■ McGuffin Signal: ■	■	■
The Beginning of a Downtrend on the Weekly Chart.	0	-100



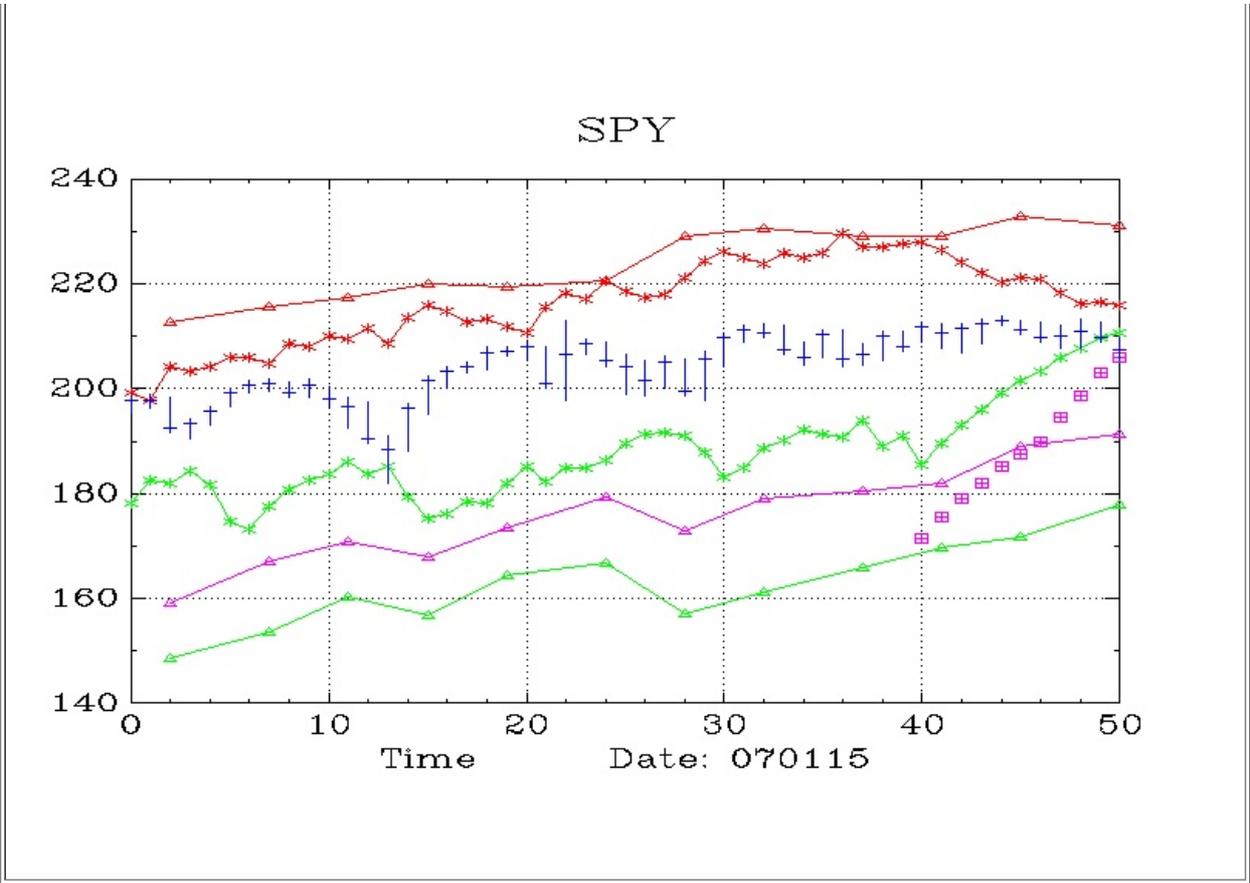
Keep in mind that this is a weekly chart, not a monthly chart. So the reading of -100 on the Reversal Indicator does signal an upcoming correction, but it will not be a full blown bear market. On the chart above, tick 50 corresponds roughly with tick 40 on Chart 10. Both of these charts are weekly charts, but they're scaled differently. When we get a reversal signal, the reversal (or correction) may not be immediate. There is often a bounce that can last from 1 to 6 ticks. In this case, the bounce lasted 4 ticks. Here's how the daily chart looked a few weeks later:

SPY -- S+P 500 (Daily)		
SPY Support and Resistance Levels for Daily	Profit Potential	Reversal Indicator
Fan Signal: ■ McGuffin Signal: ■	■ ■	■
The End of a Downtrend on the Daily Chart.	-33	0



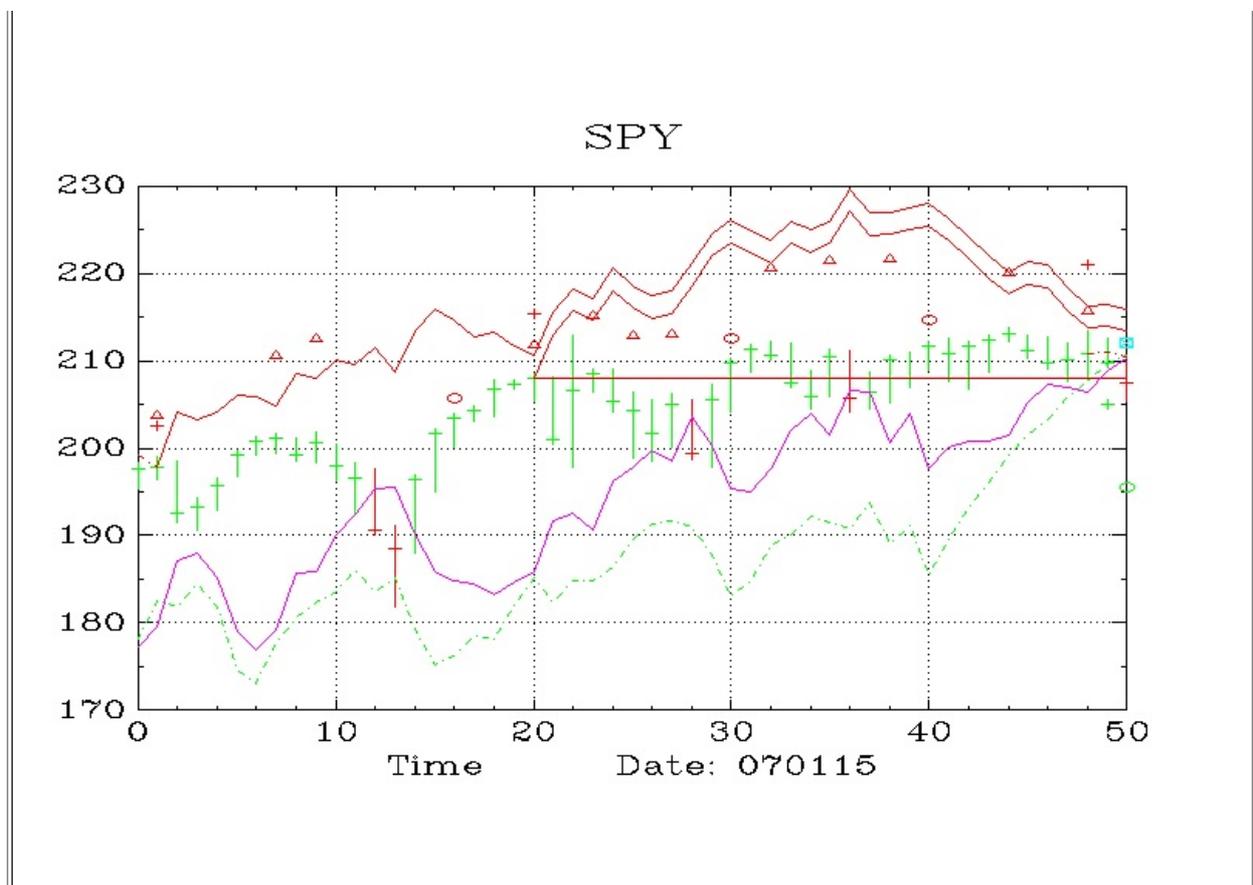
Finally, let's look at the correction of 2015. Chart 13 shows that the bull market was healthy, because the width of the weekly APC channel was narrower than the width of the monthly APC channel. The weekly price ticks were clearly moving up, but they had not yet collided with the upper edge of the monthly APC channel.

Chart 13 (2015 Correction)



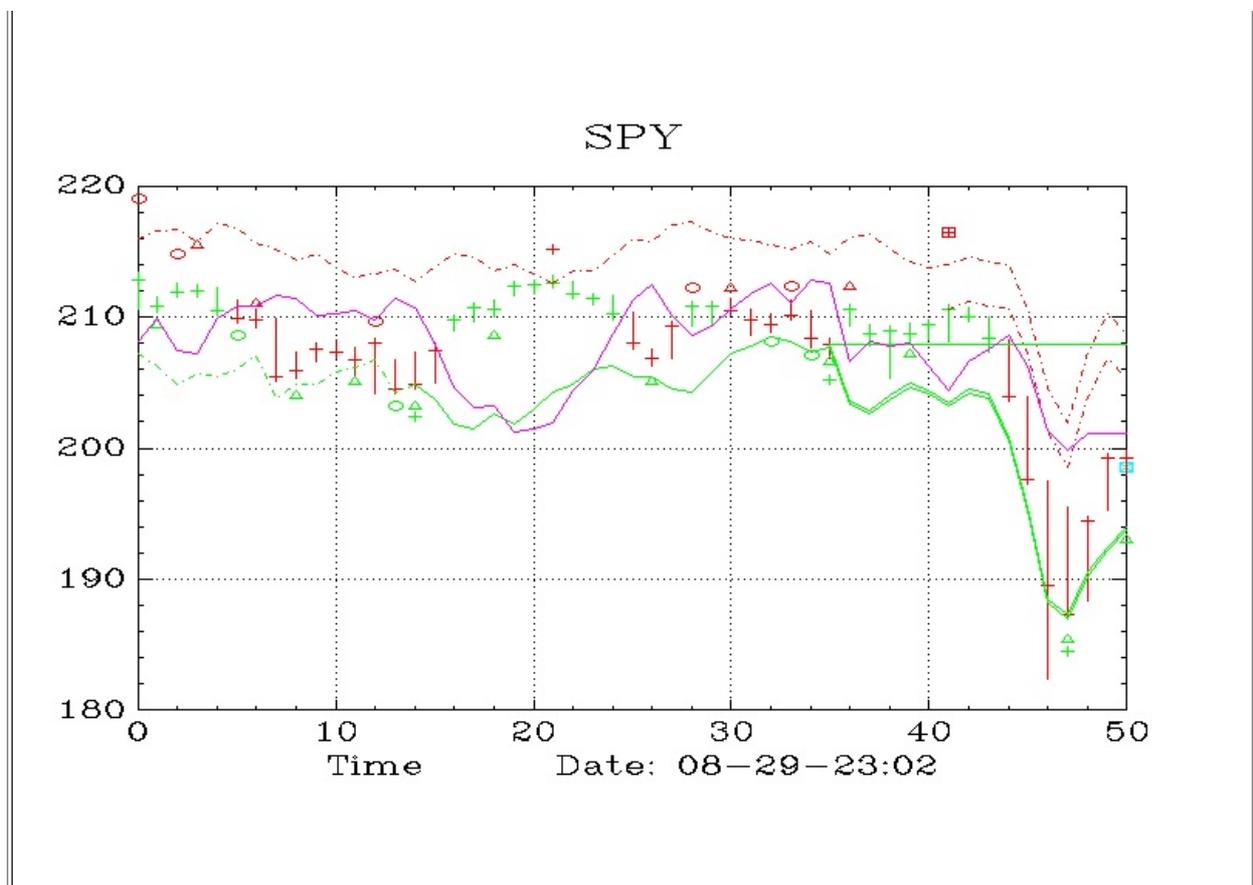
The correction of 2015 is an example of a correction that happened purely as a result of exhaustion of the trend. There was no collision of price with the upper edge of the monthly APC Chart, but there was a Reversal Signal of -100:

SPY -- S+P 500 (Weekly)		
SPY Support and Resistance Levels for Weekly	Profit Potential	Reversal Indicator
Fan Signal: ■ McGuffin Signal: ■	■	■
The Beginning of a Downtrend on the Weekly Chart.	0	-100



The bounce that followed the initial signal lasted four weeks. When the correction finally began in earnest, it started on the intraday charts and was bootstrapped to a daily downtrend on the daily chart below.

SPY -- S+P 500 (Daily)		
SPY Support and Resistance Levels for Daily	Profit Potential	Reversal Indicator
Fan Signal: McGuffin Signal: 		
The End of a Downtrend on the Daily Chart.	0	37



As of this writing, the weekly chart still seems to be in a fairly strong down trend. This leads us to believe that after the current bounce on the daily chart has ended, the price of the S&P 500 could possibly reach a new low for this correction.

Chapter IV

Trading with the APC System

1. Entering the trade. Make sure that the profit potential is significant enough.
2. Exiting the trade.
3. Bootstrapping
4. Buying on margin and pyramiding