THE SWISS TECHNICAL ANALYSIS JOURNAL

The Swiss Association of Market Technicians

GENÈVE • LUGANO • ZÜRICH
prefACE

DNA was first isolated by the Swiss physician Friedrich Miescher in 1869. In 1953, James Watson and Francis Crick suggested what is now accepted as the first correct double helix model of DNA structure.

A Metaphor is a figure of speech that describes a subject by asserting that it is, on some point of comparison, the same as another otherwise unrelated object. (Wikipedia)

The following series of visuals were inspired by the theme of the iFtA 2014 Conference in London: “Unraveling the DNA of the Market.” I found the topic particularly appealing because for years in both active trading for my own account or in teaching classes at Golden Gate University, I had found synergy in combining the Wyckoff Method with the Elliott Wave Principle. The two approaches working together created something that was greater than the sum of their two respective parts.

I believe that Wyckoff and Elliott represent “ever more” basic structural components of the market. I further believe that the double-helix framework of DNA is a very useful metaphor for combining Wyckoff and Elliott for better, more profitable market timing decisions.

So DNA, which is in itself a kind of metaphor, is one more, and perhaps the ultimate, way to consider how markets possess a kind of life of their own. This is useful in encouraging the analyst to identify ever more basic structural components, how they interact, and ultimately to predict outcomes...

—Robert Miltner, Scientist, Chemist and Entrepreneur, Larkspur, California

Figure #1: The Double Helix Framework

Figure #2: The Wyckoff Method Strand

Figure #3: Schematic of the Wyckoff Wave

Figure #4A: Illustration of Wyckoff Applied

Table #1: Distinctive Characteristics of the Wyckoff Method

Wyckoff is a straight-forward price and volume method for analyzing the present technical position and probable future trend of price behavior in stocks, bonds and commodities. The method is a collection of the best practices and concrete experiences of the old time pool operators observed and recorded by Mr. Richard D. Wyckoff. Mr. Wyckoff gave primary emphasis to price and volume behavior reflected on the ticker tape and shown on charts. Mass behavior (the public) was generally on the other side of the trades from the “smart money” operators. Mr. Wyckoff condensed the “smart money” into a construct he named the Composite Man.

The Wyckoff Method is a judgmental approach to interpreting the behavior of the market. Mr. Wyckoff and his associates condensed the patterns of market behavior they observed into three laws, nine tests and several schematics, plus additional principles and procedures.

It was a bottom up approach based upon the best practices of actual traders and not a top down set of hypotheses deduced from a grand theory.

Figure #3 is a schematic of the Wyckoff Cycle. It is a drawing of the price action depicting the Key Wyckoff Stages of Accumulation, Markup, Distribution, and Markdown.

Figure #4 is an idealized illustration of the Wyckoff Method applied to the stock market behavior using the vertical or bar chart.

Source: September 1998, Technical Analysis of Stocks & Commodities magazine, P. 77

Table #1: Distinctive Characteristics of the Wyckoff Method

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulation</td>
<td>The first stage of the Wyckoff Cycle where the market is building strength and preparing for a significant move.</td>
</tr>
<tr>
<td>Reaccumulation</td>
<td>A period of consolidation after a significant move or after a decline.</td>
</tr>
<tr>
<td>Distribution</td>
<td>The stage where the market is in the process of making a significant move.</td>
</tr>
<tr>
<td>Redistribution</td>
<td>A period of consolidation after a significant move or after a decline.</td>
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<tr>
<td>Markup</td>
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<td>Markdown</td>
<td>A period of consolidation after a significant move or after a decline.</td>
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Wyckoff Theory

Vertical (Bar) Chart

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**Figure #2:** The Wyckoff Method Strand

**Wyckoff Theory**

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</tr>
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<td>Reaccumulation</td>
<td>Occurs when smart money is accumulating enough of a stock to start a new uptrend.</td>
</tr>
<tr>
<td>Distribution</td>
<td>Selling of stock by the smart money</td>
</tr>
<tr>
<td>Redistribution</td>
<td>Occurs when smart money sells at or near the highs of a market cycle.</td>
</tr>
<tr>
<td>Markdown</td>
<td>Occurs when a stock experiences a price drop.</td>
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<tr>
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Figure #3 is a schematic of the Wyckoff Cycle. It is a drawing of the price action depicting the Key Wyckoff Stages of Accumulation, Markup, Distribution, and Markdown.
Figure #4B: Illustration of Wyckoff Applied

Figure #4 continues the idealized illustration of Wyckoff applied using a figure or point and figure chart.

Source: September 1998, Technical Analysis of Stocks & Commodities magazine, P. 77

Figure #5: The Elliott Wave Principle Strand

Elliott Wave Principle

The Elliott Wave Principle is a form of technical analysis that some traders use to analyze financial market cycles and forecast market trends by identifying extremes in investor psychology, highs and lows in prices, and other collective factors. Ralph Nelson Elliott (1871–1948), a professional accountant, discovered the underlying social principles and developed the analytical tools in the 1930s. He proposed that market prices unfold in specific patterns, which practitioners today call Elliott waves, or simply waves. Elliott published his theory of market behavior in the book The Wave Principle in 1938, summarized it in a series of articles in Financial World magazine in 1939, and covered it most comprehensively in his final major work, Nature’s Laws: The Secret of the Universe in 1948. Elliott stated that “because man is subject to rhythmic procedure, calculations having to do with his activities can be projected far into the future with a justification and certainty heretofore unattainable.”

Table #3: Wyckoff and Elliott: Partners in Command

A TRADE IN THE DJIA ILLUSTRATES THE POWER OF WYCKOFF plus ELLIOTT

 Please see Chart 1 for a Wyckoff Analysis and Chart 2 for an Elliott Wave Analysis of the June 12, 2008 DJIA. The analyses of these charts presume that the reader has a reasonable familiarity with the rudiments of both the Wyckoff Method and the Elliott Wave Principle to follow the interpretations in Figures 7 and 8.
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Table #2: Distinctive Characteristics of the Elliott Wave Principle

Source: Wikipedia, the free encyclopedia

Figure #6: Schematics of the Elliott Wave Principle

Figure #6 is an assembly of Elliott Wave Principle cycles in three different degrees of refinement, thus wave 1 in the first level, top schematic that is the first of five waves found in a bull market. Wave 1 in turn is composed by another five smaller wave bull movement, illustrated immediately below it. The third level schematic is in turn sub divisible into 21 sub waves that reflect the five wave bull movement of the immediate higher degree.

Table #3: Wyckoff and Elliott: Partners in Command

PARTNERS IN COMMAND (New York, The Penguin Press, 2007) was written by Mark Perry to review the remarkable relationship forged between U.S. Army Generals George Marshall and Dwight Eisenhower. That partnership in command helped lead the Allied Forces to victory during WWII. In this acclaimed book, “Perry shows that Marshall and Eisenhower were remarkably close colleagues who brilliantly combined strengths and offset each other’s weaknesses in their strategic planning, on the battlefields, and in their mutual struggle to overcome bungling, political sniping and careerism of both British and American Commanders that infected nearly every battle and campaign”[1]. Marshall and Eisenhower were titans in war and peace.

In a loosely parallel fashion, the teachings of Richard D. Wyckoff and Ralph N. Elliott can be brought closer together to benefit the analyst-trader. Wyckoff and Elliott can combine strengths and offset each other’s weaknesses. As David Penn had written in the Technical Analysis of Stock and Commodities magazine [2], both Wyckoff and Elliott were titans of technical market Analysis. Then in a more recent TSAA REVIEW article [3], I wrote about the ways Wyckoff and Elliott were sufficiently independent, yet complementary. They are powers. When used together, Wyckoff plus Elliott generate synergy or the famous 2+2=5 formula.

A TRADE IN THE DJIA ILLUSTRATES THE POWEr OF WYCKOFF plus ELLIOTT

Please see Chart 1 for a Wyckoff Analysis and Chart 2 for an Elliott Wave Analysis of the June 12, 2008 DJIA. The analyses of these charts presume that the reader has a reasonable familiarity with the rudiments of both the Wyckoff Method and the Elliott Wave Principle to follow the interpretations in Figures 7 and 8.
The one-minute bar chart of the DJIA showed a classic Wyckoff sign of weakness breakdown and a pullback rally to a last-point of supply set-up around 12:45-1:00 PM at DJIA 12,225 on June 12, 2008. A put or a short ETF position could have been entered. The DJIA then systematically and steadily worked its way downward until about 3:10 P.M. That steady decline ended with a vertical plunge to the level of prior support at 12,074. That plunge appeared climactic and also created an oversold condition by overshooting the supporting parallel line of the down channel. The DJIA entered a Wyckoff oversold condition that made it vulnerable to a rally. A bear-trader would have been alerted to exit for the day. But, the real clincher for exiting was given by Elliott on the next and final rally of the day.

Figure #7: Wyckoff Analysis:
Chart 1

Figure #8 is the Elliott Wave Principle revealed a clear five-stage C-wave down to the low at 12,074. Furthermore, the fifth wave itself revealed a 5-wave pattern with a classic tiny triangle in the fourth wave. Elliott was flashing warning signs to get out. Finally, the Elliott pattern was reinforcing the forgoing Wyckoff interpretation. Together Wyckoff and Elliott were saying “get out” to the trader near the bottom of the day. The final rally of the day was a 5-wave upward impulse wave that broke the downtrend line in Chart #1 while recovering 100% of the preceding down wave. This powerful bullish indication warned the trader that more strength would follow; this bullish impulse wave was warning the trader not to carry her short sale position overnight. In conclusion, Wyckoff and Elliott conducted a command performance for the astute trader on 6/12/08. We are partners in command!

Figure #8: Elliott Analysis:
Chart 2

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CONCLUSION
This article presented the technical analyst and technical trader with the metaphor of the double helix framework for grasping a more profound look into a basic DNA structure of the stock market.

The double helix structure can be used to combine the independent powers of the Wyckoff Method and Elliott Wave Principle. Together Wyckoff and Elliott forge a partnership that combines their strengths and offsets each other’s weaknesses.

That powerful synergy of Wyckoff and Elliott was illustrated with the case study of an intraday analysis of a trade depicted and explained first with the Wyckoff Method, and then the Elliott Wave Principle.

In a subsequent article, I propose to offer a further refinement of the DNA metaphor combining Wyckoff and Elliott. To that will be added a more detailed application that shows the Wyckoff Method and the Elliott Wave Principle at work together over a bull bear market cycle.

ACKNOWLEDGEMENTS
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-Hank Pruden

For additional information about Henry (Hank) O. Pruden, Ph.D., go to www.hankpruden.com
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Henry O. (Hank) Pruden, Ph.D., is a Professor of Business and Director of the Technical Market Analysis Program at Golden Gate University, San Francisco, CA, USA. He is also a Chairman of the Technical Securities Analysts Association of San Francisco (TSAASF). Hank is an honorary member of SAMT.