 **PRISM Strategy**
for trading & investing

For medium / longer term investment

For the Wyckoff Williams VSA Investing Club



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The Wyckoff VSA Prism Strategy for Trading and Investing Stocks

by Gavin Holmes

This trading strategy is dedicated to the masters & creators of the Wyckoff Method & Volume Spread Analysis. (More information in [Appendix 1.](#))

Background

When I first met Tom Williams in the year 2000 and began to take an interest in the financial markets, Tom made a statement I will never forget.

He said, 'Gav, the fact that you know absolutely nothing about trading and investing and have no preconceived ideas will make you an excellent student for me to teach and one day you will be a great success in this business'.

Looking back, it has been a great journey and it continues to be so, but before Tom passed away in 2016 he had a wish.

He said, 'The biggest danger to a human being trading and investing in the markets is actually themselves. We need to create an automated trading system that takes much of the analysis away from the human being and let the computer do the work. A computer does not have flaws in its logic'.

Tom was describing to me what was in his mind: an automated Volume Spread Analysis trading system that found trade setups based on the key principles of Wyckoff and computerized by Tom.

For further details on the Volume Spread Analysis methodology go to [Appendix 1.](#)

This trading system would intuitively trade alongside and in harmony with the smart money players who move and manipulated all markets.

For further details on market manipulation and the smart money go to [Appendix 2.](#)

It was during 2016 that our Head of Technology, Grigory Margolin, showed me the latest development of a product to be used in our hedge fund called SMART Center Pro.

The concept was simple. Find trade setups based on Wyckoff Volume Spread Analysis that are in harmony with the trend of multiple time frames using the proprietary tools in the TradeGuider software toolset.

At the launch of SMART Center Pro live at The CME Group Headquarters (Chicago Mercantile Exchange) in downtown Chicago in October 2016, we were able to demonstrate live trading using the system using time frames starting with weekly charts, daily charts, 4- hour charts, hourly charts, 15- 5- and 1-minute charts.

This was by far the most successful launch of any TradeGuider software product since we started the business.

This Prism strategy document was developed following that launch and has been created by our team was based on feedback from customers, many of whom traded or invested stocks.

Before Going Any Further

1. Ensure you have one of the following intraday trading platforms installed with intraday data for stocks:
 - a. NinjaTrader
 - b. Sierra Chart
 - c. Tradestation
2. Ensure you have the SMART Center or SMART Center Pro trading software installed on the trading platform you have chosen.

Don't have it installed yet?

Once the purchase is made, go to the Tradeguided website at www.tradeguided.com/index.asp and log in to the Customer Area using the Login tab on the menu bar. The installation guide and software download is available there.

Set your package to scan in these time frames:

- 15-minute chart
- 60-minute chart
- 240-minute chart
- Daily chart
- Weekly chart
- Monthly chart

The Trading Process

The Prism strategy process consists of 2 stages:

- Stock selection
- Prism trading process

For each stage there are key rules and steps.

Overview of the VSA Sector Scanning Process

Once you have decided what markets to focus on, the next stage is to select the stocks you wish to monitor for trade setups.

There are 2 ways of doing this:

1. Use your own existing stock selection process.
2. Use a stocks selection service such as the Tradeguided Stock Scanning service which provides daily and weekly scans on stocks in many of the major indexes worldwide via 3 different scans. It scans over 40,000 stocks each day.
 - a. The Index Scan looks for the 10 stocks out-performing the index and the 10 stocks most under-performing the index.
 - b. The Sector Scan (US markets only) looks for the top 10 over- and under-performing stocks in a sector.
 - c. The VSA Indicator scan looks for Climactic Action indicators on all the scanned stocks.

Go to www.tradeguided.com/stock_scanners.asp for more details

Once you have selected your stocks you can begin the Prism trading process

Rules and Steps for the Prism Trading Process

Rule 1: Live Accounts

Do not trade a live account until you have made 100 successful trades on a trading simulator, recorded the results and taken screenshots of each trade with risk amount, profit target and actual results achieved.

Step 1: Stock Selection

Input the stocks that you have selected into your chosen charting software supported by Prism (TradeStation, Sierra Chart, Ninjatrader). The example below shows TradeStation.

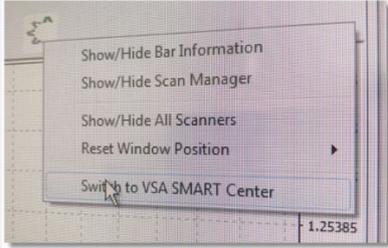


Step 2: Scan

Start up your software and right click the TG icon:



Select **Switch to VSA SMART Center** whether you're using Smart Center or Smart Center Pro:



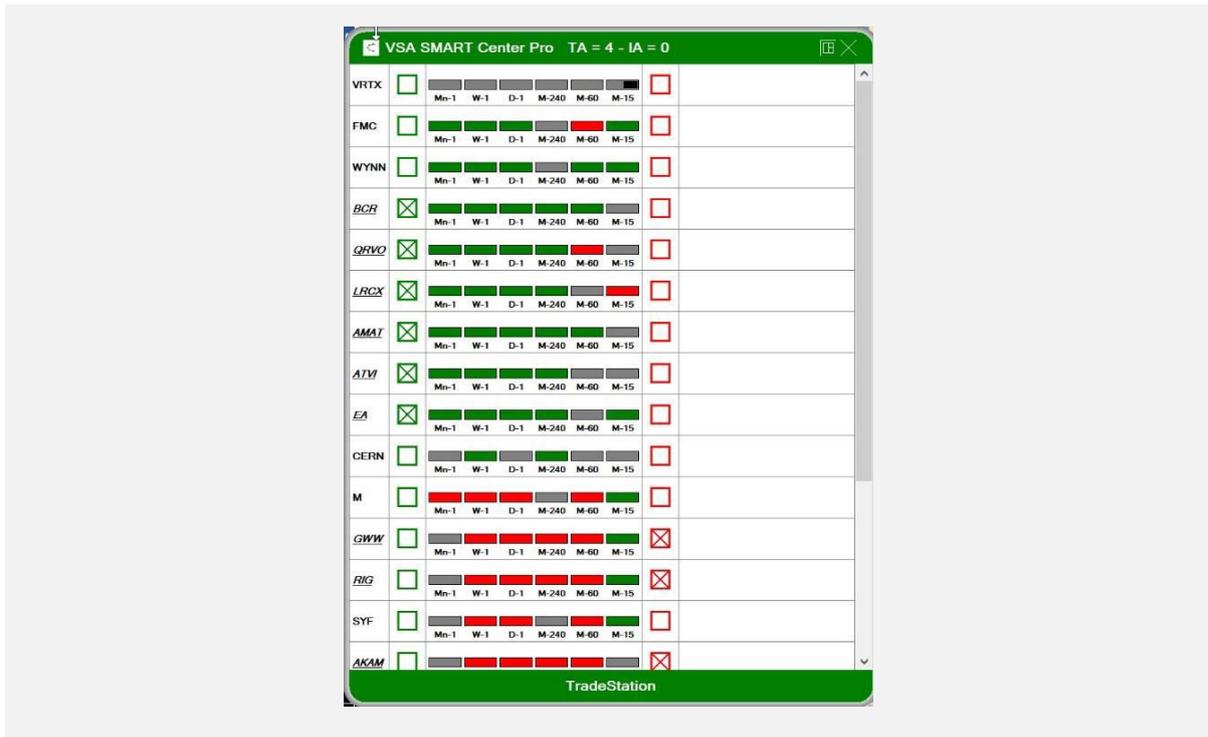
The display window will appear.

Then wait until you get an audible alert saying 'Trend alignment to the up/down side has arrived'.

Remember the ideal candidate to trade has trend alignment in all the time frames being scanned.



Now you have received a trend alignment alert the system will begin flashing **black** to show trend alignment has been detected in at least 4 of the 6 time frames being monitored. Click in the center of the flashing black box and Prism immediately begins scanning for Wyckoff VSA trade setups as you will see by the automatic placement of a cross in either the green box (now scanning for Signs of Strength) or the red box (now scanning for Signs of Weakness).



Rule 2: The Trend is Your Friend

This strategy is optimized for trend alignment in multiple time frames that are set for investment trades, swing trade positions or longer-term trading strategies.

The strategy identifies the beginning of big Accumulation and big Distribution caused by the smart money or flat trading and congestion (designated by grey boxes in the scanner), when no trades should be taken.

Note that the Sharp Shooter strategy is finding trend trades not market turning points. However the 8 key principles that will mark a market top or a bottom are included in this strategy and you should pay attention when these signals appear:

Signs of Weakness

- End of a Rising Market
- Buying Climax
- Trap Upmove
- Possible Hidden Selling

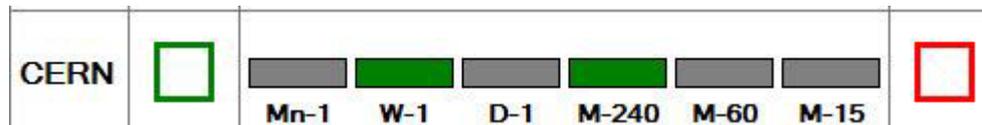
Signs of Strength

- Bag Holding
- Shakeout
- Demand Overcoming Supply
- Potential Professional Buying

Rule 3: Dealing with Congestion

As a rule you should avoid trading in congested chart areas.

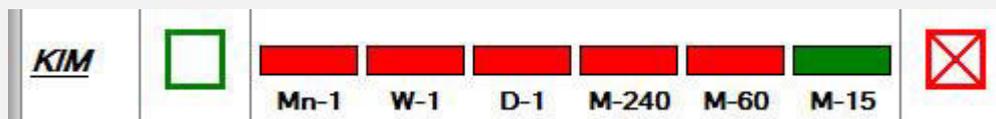
When the scanner is showing grey boxes or a mix of green and red boxes it indicates congestion so there is no trade as we have no alignment. Ensure that as many of the boxes as possible are the same colour and not as shown below which indicates no trade yet.



Step 3: Confirm

For a Short Trade

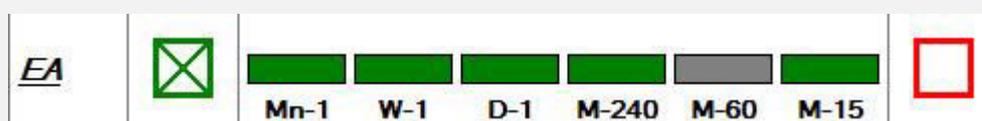
Wait for a VSA confirmation signal alert. You will get an audible message saying **Sign of Weakness has arrived**. The SMART Center Pro box will be flashing pink with an audible alert confirming a VSA indicator has appeared in the trend. This should now be considered a serious trading opportunity.



The confirmation signal will be below the particular time frame bar. Go to the chart the confirmation signal has appeared in to confirm it is clearly down.

For a Long Trade

Wait for a VSA confirmation signal alert. You will get an audible message saying **Sign of Strength has arrived**. The SMART Center Pro box will be flashing pink with an audible alert confirming a VSA indicator has appeared in the trend. This should now be considered a serious trading opportunity.



The confirmation signal will be above a particular time frame bar. Go to the chart the confirmation signal has appeared in to confirm.

Note the trend is clearly up.

Rule 4: The Bigger the Time Frame the VSA Signal Appears in, the Bigger the Move is Likely To Be

For a Signs of Weakness signal to be confirmed, the next bar needs to close below the close of the bar on which the signal has appeared.

For a Signs of Strength signal to be confirmed, the next bar needs to close above the close of the bar on which the signal has appeared.

- If it is not confirmed the setup has not been triggered and you need to look for the next trade.
- If it is confirmed you can place your trade.

Rule 5: Ultra-High Volume Bars

Pay particular attention to your analysis to any **Ultra-High Volume bars**.

Start with a 15-minute time frame and use 200 price bars. Visually identify the top, bottom and closing price on these bars and **when the price action reaches these same areas as you are trading now or in the future watch how the market reacts. Remember, ultra-high volume represents the activity of the smart money.** Ignore these past areas of price action at your peril (the very same advice Tom gave me when he was teaching me).

Rule 6: Low or Very Low Volume Bars

Pay particular attention to your analysis to any **low or very low volume bars** at or near to the same price level as the Ultra-High Volume bars. This can cause price direction to change and be a trigger for Prism as it moves.

This may sound contradictory to the rule itself but it is the most important lesson I **ever learned** from Tom. Volume is the activity of smart money. If you see massive volume at a certain price which is then followed by low volume in the future at the same price, it is a massive signal from the professional smart money players. In the first instance they are active. In the second instance they are clearly not – hence the low volume.

Low volume bars are a sign that the professionals aren't active. Wyckoff recognised it as vitally important, Williams recognised it as vitally important and Prism has been developed to find these key areas of professional activity and alert you to the opportunities available at these levels.

Remember: if the professionals are not active then you shouldn't be either.

Step 4

Take the trade following all of the rules in this strategy.

Rule 7: Manage Your Money

When it comes to managing and growing a trading or investment account this is one of the most important and often least understood topics for a trader and investor, especially if you are just starting out.

Note: Trading involves risk of loss as detailed at the beginning – below are the rules that I follow but you must adapt to the account size you trade.

When you fund your trading and investment account one of the first things you must understand is the nature of risk.

I could write a whole book on this subject but fortunately an excellent book on the topic already exists called 'Against The Gods – The Remarkable Story of Risk' by Peter L Bernstein. This is where I learnt much of what I apply to our hedge fund today. In addition of course to the remarkable knowledge imparted to me by the late Tom Williams, inventor of Volume Spread Analysis and a former syndicate trader.

One of the key takeaways from Bernstein's bestselling book is that in today's modern world there are some exceptional tools available to us all which can help us mitigate risk to the best of our ability.

So when I am asked by a new trader or investor to summarize what I mean by money management, I tell them that this is simply the preservation of your capital investment in the market or markets you are trading or investing in. It is to be supported by a written trading plan, a strategy or strategies that have been tested in simulation mode and a detailed analysis of each trade or investment.

Keeping a track of your equity curve and knowing when things are working well and when they are not allows you to adjust to market conditions and to diversify if required.

A written and committed trading plan is vital in my opinion and in the thousands of online and live seminars I have hosted I always ask who has a written trading plan. I am always surprised how few people have taken the time to write one.

Trading is a business not a hobby. Fail to plan and you're planning to fail. You are going to be participating in one of the biggest businesses in the world, trading and investing, so be prepared.

Rule 8: Stop Losses

Use a stop loss and remember there is no guarantee that the stop loss you put in will get filled especially during very volatile market conditions. Speak to your broker about this if you have any concerns.

The strategy does not suggest exact stop placement because of the many markets it is capable of analyzing and the wide variation in attitudes to risk amongst the traders that use it.

Neither does the strategy focus on take profit or risk/reward ratios as these decisions are for individual traders bearing in mind their trading plans, account sizes and attitude to risk.

Rule 9: Managing the Trade

Suggested Stop Loss Management Strategy

For Long Trades

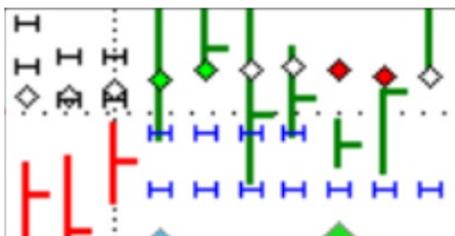
On the first spike of high volume move the stop to the bottom of the price bar and repeat until you get stopped out.

For Short Trades

On the first spike of high volume move the stop to the top of the price bar and repeat until you get stopped out.

The software has two important tools to assist you in the placement of stops.

1. The first tool is the H-Stops which are switched off in the default settings when you install the software. You can see more about them here: youtu.be/sqbs5Zbk9A4. To set them to show on your charts, follow the instructions in your installation manual.

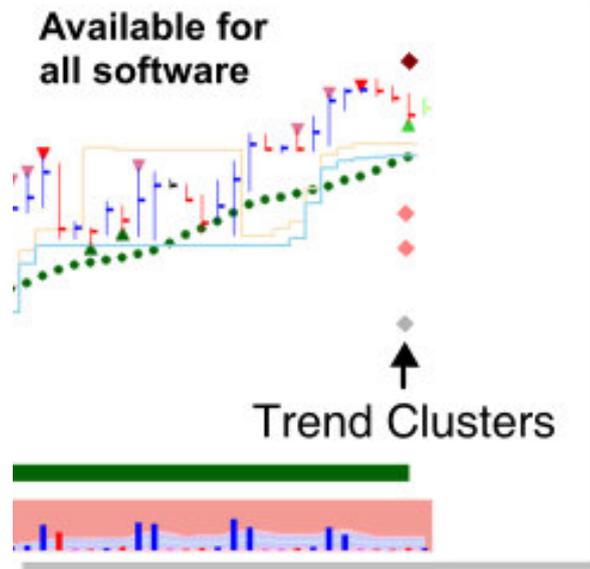


The H-Stop system follows price up or down depending on whether you are long or short. There are 2 levels on each bar – either above the bar for short trades or below for long trades. If the stops straddle the bar then the chart is in congestion.

The stop furthest from the bar is more conservative and has less risk than the H-Stop nearest the bar. The H-Stop system is very effective when used on a 5-minute chart.

Note: The H-Stop tool can only be used if its lines are above (for the short) or below (for the long) the order open price. H-Stops cannot be used to set up the initial stop – employ your trade management skills for this – but can be used for subsequent stops.

2. The second tool which utilizes previous support and resistance is called Trend Clusters, which display the historic levels of support and resistance as indicators on the chart.

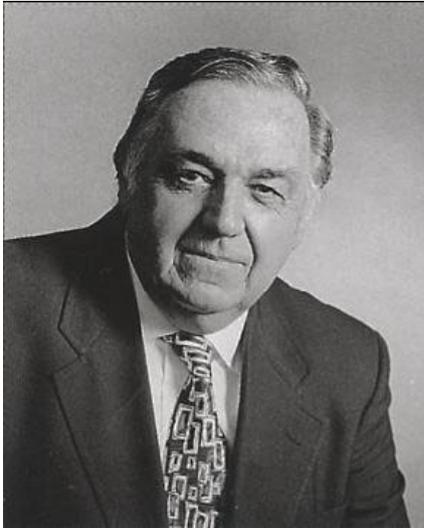


When these appear the software has picked up intersecting trend lines and channels either above the price action (showing resistance to higher prices), below price action (which shows support below price action) or straddling above and below price action (which often indicates congestion as price bounces off both the upper and lower Trend Clusters). On the right edge of the chart you will see a maximum of 10 Clusters on with up to 3 different severity levels.

The 'Trading Wyckoff VSA with SMART Trend Clusters Support and Resistance' video on Tradeguided's YouTube channel has more information on these: www.youtube.com/watch?v=uDGKISnZe3U

Appendix 1 – VSA Explained

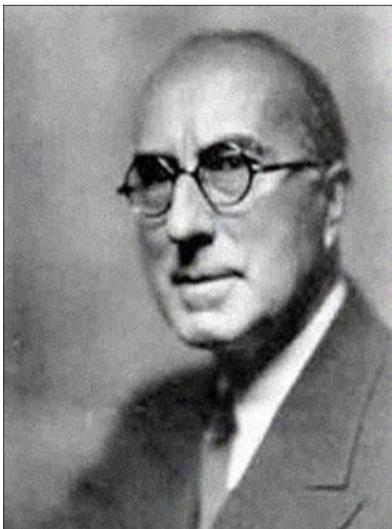
a - General Background to the Wyckoff Method and Volume Spread Analysis Inventor, VSA: Tom George Williams (January 4th, 1929 – November 7th, 2016)



'If you can read a chart correctly, you will understand the markets do not move randomly but are moved by the smart money and you can see their intention at support and resistance levels by looking for the tell-tale footprints hidden in the volume and price, and you have a chance to profit by following their footsteps. Volume is vital in your analysis, which is why the self-regulated exchanges around the world will not release true volume figures until the day after trading took place!!'

- Tom Williams, 2016

Inventor: Wyckoff Methodology: Richard Demille Wyckoff (November 2nd, 1873 – March 19th, 1934)



'...Thousands of those who operate in the markets now recognize the fact that the market momentarily indicates its own immediate future, and that these indications are accurately recorded in the market transactions second by second, and therefore those who can interpret what transactions take place second by second or moment by moment have a distinct advantage over the general trading public....'

- Richard D Wyckoff, 1914

b – The Connection Between the Wyckoff and the Underlying VSA Methodologies

We will be showing examples of how professional activity is clearly visible in all markets and in all time frames, if you know what you are looking for.

Volume Spread Analysis (VSA) is a proprietary market analysis method which was conceived by the late Tom Williams (Chairman of TradeGuider Systems). VSA is used to analyze any liquid market by observing the interrelationship between volume, price and spread of the price bar (often known as the range of a price bar). This method is particularly good at highlighting imbalances of supply and demand.

Despite the fact that few retail traders and investors are aware of this analysis method this is not a new concept, and Tom Williams, who invented VSA, was once himself a professional syndicate trader who could see that the markets were being manipulated and that the key to unlocking the truth lay in the relationship between the volume, the range or spread of the bar and the closing price. Tom himself spent many years studying the concepts of Richard Wyckoff.

Wyckoff was a trader during the 1920s and 30s. He wrote several books on the market, and eventually set up the Stock Market Institute in Pheonix, Arizona. Born November 2, 1873 and deceased March 19, 1934, he was, founder and onetime editor of 'The Magazine of Wall Street' (founding it in 1907), and editor of 'Stock Market Technique'. He worked and studied with all the large operators of the day: Jesse Livermore, E. H. Harriman, James R. Keene, Otto Kahn, J.P. Morgan and many others.

Wyckoff implemented his methods in the financial markets, and grew his account such that he eventually owned a substantial estate in the Hamptons, New York, where his neighbours were the great business magnates of 19th and 20th century America.

As Wyckoff became wealthier, he also became more altruistic about the public's Wall Street experience. He turned his attention and passion to education and in publishing exposés such as 'Bucket Shops and How to Avoid Them', which were run in New York's 'The Saturday Evening Post' starting in 1922.

Continuing as a trader and educator in the stock, commodity and bond markets throughout the early 1900s, Wyckoff was curious about the logic behind market action. Through conversations, interviews and research of the successful traders of his time, Wyckoff augmented and documented the methodology he traded and taught.

Wyckoff's research identified many common characteristics among the greatest winning stocks and market campaigners of the time. He analyzed these market operators and their operations, and determined where risk and reward were optimal for trading. He emphasized the placement of stop losses at all times, the importance of controlling the risk of any particular trade, and he demonstrated techniques used to campaign within the large trend (bullish and bearish). The Wyckoff technique may provide some insight as to how and why professional interests buy and sell securities, while evolving and scaling their market campaigns with concepts such as the composite operator.

Wyckoff was thorough in his analysis of the trading range. Wyckoff's concept of the Composite Operator is a useful tool. Simply, Wyckoff felt that an experienced judge of the market should regard the whole story that appears on the ticker tape as though it were the expression of a single mind. He felt that it was an important psychological and tactical advantage to stay in harmony with this

omnipotent player. By striving to follow its foot prints, Wyckoff felt we are better prepared to grow our portfolios and net worth.

At its core, Wyckoff's work is based on the analysis of trading ranges, and determining when stocks are in 'basing', 'markdown', 'distribution', or 'markup' phases. Incorporated into these phases are the ongoing shifts between 'weak hands' (public ownership) and 'composite operators', now commonly known as smart money.

For more about Richard Wyckoff, see these books: 'How I Trade and Invest in Stocks and Bonds' and Stock Market Technique, No. 2 both by Richard D Wyckoff.

Tom Williams came back from Beverley hills in the early 1980s and began to investigate whether it was possible to computerize the system he had learnt as a syndicate trader. So began the evolution of Volume Spread Analysis. Together with an experienced computer programmer Tom carefully studied many thousands of charts to recognize the obvious patterns that were left when professional or smart money was active. This methodology, although simple in concept, took many years to compile and is now taught as a methodology combined with the software called TradeGuider.

Volume Spread Analysis seeks to establish the cause of price movements. The cause is quite simply the imbalance between supply and demand or strength and weakness in any liquid market, which is created by the activity of professional operators or smart money.

The significance and importance of volume appears little understood by most non-professional traders. Perhaps this is because there is very little information and limited teaching available on this vital part of technical analysis. To use a chart without volume is similar to buying an automobile without a gasoline tank.

For the correct analysis of volume, one needs to realize that the recorded volume information contains only half of the meaning required to arrive at a correct analysis. The other half of the meaning is found in the price spread. Volume always indicates the amount of activity going on, the corresponding price spread shows the price movement on that volume.

Many traders believe you cannot analyze volume in the FOREX markets because it is unavailable. But actually we can still use tick volume and because we are using relative volume – the volume on one bar compared to the next – we don't need to see the total volume. We know that typically 90% of all volume is smart money activity. When you compare a spot FOREX chart with the same currency futures chart, there is a strong correlation between the two.

Some technical indicators attempt to combine volume and price movements together. This approach has limitations, because at times the market will go up on high volume, but can do exactly the same thing on low volume. Prices can suddenly go sideways, or even fall off, on exactly the same volume! So, there are obviously other factors at work.

Further information is available at www.volumespreadanalysis.com.

Appendix 2 – Market Manipulation and the Smart Money Manipulators

Who is the smart money? First of all you have to realize and accept that smart money, composite operator or professional money are very active in all the financial markets. Smart money as we refer to it here, can be trading syndicates, individual traders with huge capital, large financial institutions, certain funds such as The Quantum Fund operated by George Soros, and large institutional banks.

These individuals or organizations are very secret in their dealings, as they do not want others to know what they are doing.

Remember when in 1992 George Soros massively shorted the British pound forcing the Bank of England to eventually withdraw from the European Exchange Rate Mechanism? Well, this is one very well-known example of professional money having a dramatic effect on a particular market, in this case the FOREX market. This type of activity happens every day, with differing degrees of intensity. You just need to know what to look for.

All financial markets are dominated by the big professional players.

The banks, institutions, syndicates and the specialists have all the financial resources to move prices up or down. Trillions of dollars are exchanged daily across the world's stock, currency and commodity markets. Hundreds of millions are spent analyzing crop reports, business sectors and economic figures. All other activity, including the combined trades of thousands of individuals like you and me, represents only a tiny fraction of the money and resources flowing in and out of the market on a daily basis. You may think that's pretty obvious. But ... ***markets don't react to professional activity the way you expect them to.***

In every market, there's an undeclared understanding amongst professional traders. It alerts them to what the big money is doing. It's based around observations surrounding volume activity and the effect this has on the price and the spread.

To us outside observers this activity normally goes unnoticed - an insignificant and unexplainable blip lost amongst the 'noise' of the markets. If you've ever watched the ASX, Dow, FTSE, S&P, Nasdaq or an individual stock price over any period of time, you'll know that prices can fluctuate wildly. But there is logic behind all this chaos and the professionals know exactly how to profit from it.

They know what the volume signals mean, yet only a tiny minority of non-professionals know what's really going on.

Knowing how to read the market will allow you to take the professionals' lead and boost your profits. Understanding professional moves will allow you to uncover the true market sentiment. It will give you a clear indication of which markets you should hold positions in - whether buying or selling stocks, or going long or short on futures or trading currencies, FOREX or commodities.

The professionals can never hide their true intentions if you can learn to analyze a chart like they do. They may be leading the market, but they leave tell-tale signs for anyone with the right knowledge to follow. The only truly important consideration for you is what the professional money is doing - that is the only thing that matters, and then you follow in their footsteps.

Further information is available at www.marketmanipulation.org.

Summary of My Money Management Guidelines

- I will not risk more than 2.5% of my capital in any one account in any one trade.
- I will not risk more than 6% of my capital in any one account in multiple trades.
- I will close a losing trade quickly and treat it as a cost of doing business in the market.
- I will never take a loss personally.
- I will never get angry because a trade went against me.
- I will learn from the losing trade but will not dwell on it.
- If I make three consecutive losing trades I will pause trading and re-examine my plan.
- I will never revenge trade.
- I will allow a winning position to run using the chandelier stops or H-Stops in Prism on the 5-minute chart.
- My key objective is to get my stop to break even then a small profit without getting stopped out.
- I will use a minimum of a 2:1 risk reward ratio.
- I will evaluate my trades every Saturday and will identify high-probability setups for the following week.

Appendix 4 – Checklist for Going Long and Short

Checklist for Longs

- Give more weight to the bigger time frame. If seen on a 4-hour, daily or weekly chart this is a very significant VSA signal.
- Has price gone above the high of the Ultra-High Volume bar (the Trigger Number)?
- Is the Volume Thermometer bullish on the biggest time frame?
- Is the volume bullish (increasing volume on up bars and decreasing volume on down bars)?
- If you have taken a position and you observe three consecutive down bars in the time frame that is in the middle of those being monitored, (for example a 4- hour, daily and weekly chart) use the daily chart to monitor up or down bars. If you see three down bars in a row then close the trade. The market is being marked down.
- Is the price action making the highs higher on the biggest time frame you are analyzing?
- Are there any successful Tests present?
- Do you have a SOW 30 (Test in a Rising Market) signal present in any time frame? This is a very powerful type of test if seen in a clear uptrend.
- Are there any clear support or resistance levels formed by Trend Clusters and pivots close to the entry point?
- Any No Supply, Two Bar Reversal or successful Test signals with low volume should trigger a trade if the trend is up on the biggest time frame.
- Give special attention to Ultra High-Volume down bars (a down bar is a price bar that has closed lower than the close of the previous bar) with a very narrow spread and with the next bar closing higher in any time frame. This indicates buying. Look for an up move followed by a clear No Supply or Test to go long.

Checklist for Shorts

- Give more weight to the bigger time frames. If seen on a 4- hour, daily or weekly chart the signals have more weight.
- Is there an Ultra-High Volume bar in the background near this price level?
- Has the price gone below the low of the Ultra-High Volume bar? (Trigger Number)
- Is the Volume Thermometer bearish on the biggest time frame?
- Is the volume bearish (increasing volume on down bars and decreasing volume on up bars)?
- If you have taken a position and you observe three consecutive up bars in the time frame that is in the middle of those being monitored, (for example a 15-minute, 60-minute and 240-minute chart) use the 15-minute chart to monitor up or down bars. If you see three up bars in a row then close the trade. The market is being marked up.
- Is the price action making the lows lower on the biggest time frame you are analyzing?
- Do you see a SOW 126 signal on any time frame? This is a Two Bar Reversal and is a serious sign of a weak market.
- Are there any clear support or resistance levels formed by the Trend Clusters and pivots close to the entry point?
- Any Upthrust, Two Bar Reversal or Trap Upmove with ultra-high volume should trigger a trade if the trend is down on the biggest time frame.

- Give special attention to ultra-high volume bars with a very narrow spread where the next bar closes lower in any time frame. This indicates selling. Look for a down move followed by a clear No Demand bar to go short.
- After a Trap Move (SOW 58) signal, look for a No Demand bar. If a Trap Upmove is identified on a large time frame such 240 minutes or 60 minutes, go to the smaller time frames for confirmation indicators such as No Demand and Upthrusts.