

# Trading in the Shadow of the Smart Money

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Use VOLUME SPREAD ANALYSIS™  
to Understand Market Manipulation  
& Read Charts Like "SMART MONEY"

Gavin Holmes

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# **Trading In The Shadow of the Smart Money**

*How To Understand Market Manipulation  
And Become Profitable By Understanding  
How To Read A Chart Like The “Smart Money”  
By Using Volume Spread Analysis™*

**By Gavin Holmes**

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## FOREWARD

*By Tom Williams (Inventor of Volume Spread Analysis and Author)*

When I first met Gavin ten years ago and I explained to him how the financial markets operated, I remember his reaction of surprise and bewilderment. Gavin knew very little about trading or investing, but clearly he had an appetite to learn and was hungry for success. It was for this reason I knew he had the potential to be a great trader.

When I wrote my first book, "*The Undeclared Secrets That Drive The Stock Market*", I had no idea how popular it would become, but as I have gotten older, I knew I needed to pass on my extensive knowledge to someone with the same passion for helping and teaching others as I have. Gavin fitted the bill perfectly, and despite having setbacks, he has always maintained a very positive attitude to life, and a willingness to let me teach him everything I knew about trading.

I explained to Gavin during one of the many times he has stayed with me at my home in Worthing, England, that writing my book was one of the most rewarding and satisfying things I have done and I suggested that Gavin seriously think about following in my footsteps and write a book. He has clearly learnt a great deal since I first met him, but I really didn't think he was going to sit down and actually write a book, as he is a bit of a live wire! So to see a 300 page book appear during May 2011 was wonderful.

When I had Gavin's book, "*Trading in the Shadow of the Smart Money*" read to me (I am now 83 and suffer from macular degeneration so have limited vision) I was very surprised at just how good the book is. He has explained in a clear and easy to understand manner how you can make money in the financial markets if you understand the underlying mechanics if you have a system and a plan.

I certainly recommend that you read this book and keep it as a reference at all times, as it gives great insight into how a trader enters the market as a winner.

Gavin has become an excellent trader in his own right, and I must say that it appears to me that potential traders who enter the market with no previous experience whatsoever seem to do very well and often far quicker than traders that have continually jumped from one system to the next, spending a lot of time and money in search of the elusive Holy Grail of trading so they end up with no system and no plan and as a result they fail. If there is a Holy Grail for traders, it is contained in the information in this book.

If a trader enters the market with an unpolluted mind, they will see clearly that the **VSA** principles are present in all markets and in all timeframes, and will recognize how they are working, in order to identify profitable trade set-ups. Those traders will then develop and grow their trading skills around this knowledge.

Most traders and investors don't understand volume implications and how important it is in their analysis of any of the markets in any timeframe. Basically, you have hundreds of thousands of traders constantly trading, some long, some short, some holding, some waiting to get into the market, some already in profitable positions, some in losing positions.

So how on earth can we possibly make sense of this? It's not as difficult as you might think because whenever a trade is entered into, the appropriate exchange registers this as volume on a continuous basis. So to us, volume represents activity.

Now, what is the exact amount of activity taking place in relation to the price bar on your chart? The activity must be the reason why the chart is behaving the way it is. You then need to realize that at least 80% or even more of that volume or activity will be professional money, or the "Smart Money", as Gavin refers to in the book. In other words, traders who are trading large amounts of money and contracts that are in fact large enough to alter the direction of a market.

For example, on your chart, if you see an up-bar that has moved into fresh high ground, but you see that the spread is narrow, and the volume is very high, it will produce an automatic '*sign of weakness*' in the TradeGuider **VSA** software that I invented. The reason for this is that professional money has to sell as the market is going up, *and the narrow spread up-bar is caused by them satisfying every buy order that comes into the market, i.e. capping the top end of the market. It is like putting a lid on it.* This produces a narrow spread on the up-bar and Gavin shows several excellent examples in his book of this price action. If the activity is very high then this can only tell you that professional money is taking their profits and the net effect of this is to make the market bearish, in other words, weak.

Very often it will be difficult for you to see this because inevitably the news will be good news, and it may be difficult for many to understand that you need to sell on good news. Most traders will, by their very nature, consider themselves to be quite intelligent, and maybe have previous success in life that will show this. So you have to ask yourself a question, why is it so difficult to predict market behavior? All your skills that have served you well during your life never seem to be quite good enough, so why is this? I would say the reason for this is that all the information, and I mean all, that's pouring into your mind cannot be the correct information, and it's this deluge of misinformation that is making it difficult to predict market behavior on a regular, reliable basis.

This book will go a long way to broaden and fulfill your understanding of exactly what's going on, and you can only benefit from this information - information that will be with you for the rest of your life.

-Tom Williams

## INTRODUCTION

### BACKGROUND TO VOLUME SPREAD ANALYSIS

TradeGuider is based on a methodology called *Volume Spread Analysis (VSA)*.

Following is a brief explanation of TradeGuider Systems software, and the use of its inherent presentation and process of *Volume Spread Analysis (VSA)*. I aim also to explain the software's role in being able to assist traders to recognize market manipulation to make consistent and successful decisions. I will show you chart examples of how professional activity is clearly visible in all markets and all time frames - especially if you know what to look for.

**Volume Spread Analysis (VSA)** is a proprietary market analysis method conceived by Tom Williams (Chairperson of TradeGuider Systems). The **VSA** method works particularly well at highlighting the imbalances of Supply and Demand. **VSA** is utilized in the TradeGuider software to analyze a market by observing the interrelationship between Volume, Price, and the Spread (i.e. range) of the price bar.

TradeGuider was previously known as *Wyckoff Volume Spread Analysis* and has been in existence for over 20 years. Driven by an artificial intelligence engine, TradeGuider **VSA** is unique and is capable of analyzing **any** liquid market in **any** time frame by extracting the information it needs in order to indicate imbalances of Supply and Demand evident in a chart. In doing so, TradeGuider is able to graphically exhibit the essential dynamics of market movement.

The software functions in Real-Time (RT) or End-of-Day (EOD) modes. It enables users to see when Professional Money, or what I will refer to as the '**Smart Money**' (or **Smart Money Professionals**), are entering, exiting, or abstaining from participating in the market being traded. This will empower clients to make intelligible and therefore informed trading decisions. The TradeGuider **VSA** method is a revolutionary concept that can be used on its own or in conjunction with other trading platforms. It makes an ideal choice for both adding value to data vendor platforms and as decision support. For any liquid market, this provides the best Supply and Demand Analysis in the business. The extensive Expert System is easy to use and has an innate understanding of market dynamics and volume.

The sophisticated Expert System is augmented by a novel set of proprietary tools that confirm trade set-ups as they appear in any time frame and in any market. The indicators are displayed automatically on the chart. There is no configuration, no setting of parameters, and no optimization. Our belief is that if a system requires optimization to make it work, then the basis of that particular methodology cannot have been sound in the first place. The process of optimization is used to cover up a whole range of flaws in

the original analysis method(s). Instead, our concepts are robust and can be applied to any time frame with consistent results.

As mentioned earlier, this is not a new concept. Tom Williams, the inventor of **VSA**, is a former syndicate trader. He observed that the markets were being manipulated and that the key to unlocking the truth lay in the relationship between the Volume, the Spread of the bar, and the Closing Price. Tom spent many years studying the concepts of Richard Wyckoff, a renowned trader during the 1920's and 1930's. He wrote several books about trading the Markets, and he eventually created the Stock Market Institute in Phoenix, Arizona. At its core, Wyckoff's work is based on the analysis of trading ranges and determining when the stocks are in basing, markdown, distribution, or mark-up phases. Incorporated into these phases are ongoing shifts between 'weak hands', or public ownership, and 'the composite operator', now commonly known as 'Smart Money'.

When Tom Williams went back to Beverly Hills in the early 1980's, he began to investigate the possibility of computerizing the system he had learned as a syndicate trader- and so began the evolution of *Volume Spread Analysis (VSA)*. With the assistance of an experienced computer programmer, Tom carefully studied thousands of charts to recognize the obvious patterns that were left when professional operators, or Smart Money, were active. This technique, although simple in concept, took several years to write and is now taught as a methodology in combination with software known as *TradeGuider*.

*Volume Spread Analysis* seeks to establish the cause of price movements. The 'cause', quite simply, is the imbalance between Supply and Demand, or Strength and Weakness in a liquid market. This is created by the activity of 'Smart Money'. If you use the TradeGuider software, you will notice that it does an excellent job of detecting these key imbalances for you, thereby taking the hard work out of reading the markets, and enabling you to fully concentrate on your trading.

To use a chart without volume is like buying a car without a gas tank. The significance and importance of Volume seems to be little understood by most non-professional traders. Perhaps this is due to the fact there is sparse information and very limited instruction available on this vital aspect of technical analysis.

For the correct analysis of Volume, one needs to realize that the recorded volume information contains only half of the knowledge required for a correct analysis. The other half of the meaning is found in the Price Spread. Volume always indicates the amount of activity going on, and the corresponding Price Spread shows the price movement on that volume. Most traders believe you can't analyze volume in the FOREX markets because that information is unavailable. That is not the sum truth of the matter. Later in this book, I will show you how TradeGuider's proprietary system does something that those traders thought impossible.

Some technical indicators attempt to combine both volume and price movements together, but this approach has its limitations. At times, the market will go up on high

volume, but it can also go up on low volume! The obvious conclusion is that there are other factors in play.

Price and Volume are intimately linked, and their inter-relationship is a complex one, which is the main reason TradeGuider was developed. As mentioned previously, the system is capable of analyzing the markets in Real-Time (RT) or at the End of the Day (EOD), displaying any one of 400 indicators on the screen to show imbalances of Supply and Demand. *For more information, please visit [www.tradeguider.com](http://www.tradeguider.com).*

# Can you make money using the TradeGuider VSA Software System?

*Don't take MY word for it. Read what Tim Rayment, the winner of the World Cup Trading Championship, has to say. He didn't win once, but he won TWICE, trading real money in real-time using Volume Spread Analysis.*





# The Solitary Trader

## Tim Rayment

Photo by Jay L. Clendenin

By Kira McCaffrey Brecht

In his own words, Tim Rayment, 49, describes his early years as “a childhood of just enough poverty to create ambition.”

Indeed that ambition has taken Rayment far. Not only is he an accomplished and honored British journalist, but once he shifted his focus, energy and time to trading, he has chalked up substantial success and accolades in that arena as well.

### **Whopping 44 Percent Gain**

Now a full-time currency trader, Rayment earned first place in the 2009 World Cup Trading Championships forex division.

In my one-hour phone interview with Rayment to his remote home in the United Kingdom countryside, I quickly learned that he is a person who does not

rest on his laurels. Indeed, he shrugged off my congratulatory comments. “I was very disappointed with my performance in 2009. It should have been better. The average true range is 120 pips at this moment. That means that the euro moves 0.9 percent per day,” Rayment says.

### **Hard Driving**

His hard-driving work ethic is no doubt in part behind his success in the trading world. Rayment finds participating in the World Cup contest as helpful because “it gives you nowhere to hide. You can’t pretend to yourself you are trading well if you are not.

“One of the things I like best about trading is it will find any weakness. There is no room for complacency. If you get a little lazy, the market will punish that

laziness in an instant. It is a perpetual challenge. You are learning all the time," he says.

### Writing Led to Trading

He earned an English degree at the University of Leeds in the U.K. In 1982, Rayment started his career as a cub newspaper journalist at a small local paper in a tiny fishing village called Grimsby.

Rayment recalls the morning routine at the office in which all the reporters spent the first half hour perusing national papers looking for a potential local tie-in to research and write about. Each morning Rayment gravitated to the Financial Times and Lloyd's List, a shipping paper.

"I would pick up Lloyd's List because Grimsby is a fishing port. I thought, I'm going to get some fishing stories from a shipping paper. And I knew instinctively it was important to understand economics to some extent."

Rayment quickly moved up the journalism ladder, and at age 24, he became the youngest reporter on The [London] Sunday Times. "Newspapers suit me because I'm the solitary type—sociable but capable of long periods of isolation," Rayment says.

### Truth and Reality

He found similarities between his two careers. "Trading is like journalism. It gives you a connection to the world at large," Rayment says. Also, while working as a reporter, he found that "many stories, as told by governments or banks—whether they are economic, political or business in nature—are not quite as they first appear. The challenge is to be alert and to search for the underlying reality or truth."

The same could be said for the markets.

### Dabbling in the Markets

It was not until nearly a decade later that Rayment began dabbling in the financial markets. He started following U.K. warrant prices in the newspaper. "I liked the volatility, and I thought I could make some money trading," he remembers.

During the next several years, while continuing his full-time work at the Times, Rayment

tried trading bonds and index futures. "It wasn't based on anything really. All I can say is that I traded amateurishly."

However, Rayment tasted something that he liked: "It is probably the same for any retail trader who doesn't know what they are doing. You get a taste of something that is challenging and exciting," he says.

### Early Mentor

In 1998, Rayment had the good fortune to connect with Tom Williams, the creator of Volume Spread Analysis. "I rang him, and he was very reluctant to sell me his software. He said, 'Trading is very difficult, you know.' I insisted and agreed that I would pay £5,000 in installments," Rayment says.

"These days if I'm asked by someone who is starting out in trading for advice, the first place I send them is the Trade Guider website. For me, it demystified the markets to a great extent," Rayment says.

### Boulders in the Path

Rayment stumbled over his own personality traits in the early part of his trading career, but now finds this mindset helps him succeed.

## WRITING ABOUT ROGUE TRADERS

Before earning accolades in the world of trading, Tim Rayment was the British Press Awards Feature Writer of the Year in 2001, which is the equivalent to a Pulitzer Prize in the U.S.

"Some of the Sunday Times work has been fast-moving and dangerous. Such a background is helpful for trading calmly under stress," Rayment says.

Read Rayment's story on Joseph Cassano, the multimillionaire trader accused of bringing down the insurance giant AIG and with it the world's economy in The Sunday Times.

# TRADING & MURDER IN THE U.K. COUNTRYSIDE

Tim Rayment rented an isolated farm in the U.K. countryside for nine years. During that period, he completed intensive study of the Tom DeMark methodology, which he has incorporated into his current trading approach.

The farmhouse is quite well-known because a criminal plot to debase England's currency was carried out there in the 18th century," Rayment explains.

"I was studying DeMark in the former home of David Hartley, 'the King of the Coiners.' So, I was planning to take my clippings from the currency legally, in the same 12th-century farmhouse where he had planned to take his clippings illegally 200 years earlier," he says.

Rayment's predecessor in the building was executed for murdering the tax inspector sent from London to see what was going on. Read the story of the Yorkshire Coiners.

"I am an independent-minded person. In the early part of my trading career, that wasn't helpful because I didn't accept anything at face value. It wasn't until I proved that advice was sound by losing money [doing the opposite thing] that I would accept it," he says.

Now, "for a more experienced trader, an independent mind is a prerequisite. The best opportunities lie when you are the other way from the crowd," he explains.

## Studying DeMark

The next step in his trading journey was to study the work of trader and analyst Tom DeMark. He now uses a methodology of his own creation that combines Volume Spread Analysis and DeMark's work and indicators.

"I did a lot of work on trading strategies when I lived on a farm that was very isolated. The only light you could see at night was the light on in my kitchen. It was a very good place for a trader to be," Rayment says.

"I work best when I work entirely alone," he continues.

## Diving into Forex

In 2003 Rayment moved to the forex arena. "I chose currencies because, as the most liquid market on earth, the trading strategies can be scaled to any size," he says.

"Currencies are also difficult, which appeals to my need to be challenged—I don't like any endeavor to be easy," he adds.

Bottom line? Rayment says, "I think it's possible for a disciplined trader to achieve 35 percent a year without leverage from the currency markets."

## His Method

In his trading, Rayment seeks to "identify moments where the crowded trade is wrong."

"I'm a genuine countertrend and reversal trader. I certainly don't try to pick tops and bottoms," he says.

He trades using a daily chart as an anchor and monitors 15 currency pairs for opportunities. His average holding time is one to three days.

## Being Human

Trading, at its most unforgiving, forces one to face personal weaknesses. Rayment concludes that "you need a degree of introspection to balance your flaws as a human being."

Rayment has moved from the infamous farmhouse (see sidebar) to a converted mill. "I have two children. I am a parent. [But] I live and work alone," he says.

"The most important room is the one that has 10 screens in it," Rayment concludes. He is probably sitting there right now.

## CHAPTER 1

### **THE MEETING THAT CHANGED MY LIFE**

I remember the phone call well. It was an early Monday morning, and my Personal Assistant Anne came into my office to tell me that there was a gentleman from Yorkshire England on her phone. He had seen one of my e-marketing websites and had a proposition for me. I asked Anne to find out more before putting the call through. Apparently, this gentleman named Roy Didlock was involved in the development of a computerized trading program called *Wyckoff Volume Spread Analysis*. The inventor of the program, Tom Williams, a retired syndicate trader, wanted to partner with a marketing firm in order to bring his trading software to a wider audience.

I knew nothing about trading or investing at the time, but I was curious, so I took the call. On the other end of the line was a deep, but pleasant voice with a thick Yorkshire accent. Roy began to explain how Tom had started the company as a hobby. This implied that they had no marketing budget. Roy also explained that the company Tom had founded several years prior to promote the program, Genie Software Ltd., was interested in partnering with a marketing or advertising agency. The proposal was that the marketing arm would take a profit share in return for its services.

At the outset I was skeptical and somewhat intrigued by Roy's approach, so I asked him why he was interested in my company. Roy told me he picked about 60 companies he found on the Internet, and we were one of those companies that had suitable qualifications to suit their purposes. I then asked how many phone calls and visits he had made, and what type and level of response he had received. We were one of the last companies on his list. He had a dejected tone in his voice. I could sense that it was an issue to work without a marketing budget, and most likely, there had been little or no interest in the software.

At this point, a little voice in my head urged me to invite him to call on me at my office to find out more. In those days my office was in Beckenham, Kent, which is approximately 400 miles (530 km) from Yorkshire. I asked Roy if he had a business plan, and whether it was possible for him to come down from his base upcountry to visit me at my office in the south to discuss his proposal. I was a bit surprised by the obvious enthusiasm with which he jumped at my suggestion, and we set a meeting the following week. Roy informed me that he would be bringing along Tom Williams, the inventor of the program, to explain to me how the financial markets really work. I was fascinated, to say the least, so the next few days passed by very slowly as I eagerly anticipated the follow up meeting.

Roy and Tom arrived early and were asked to wait in the boardroom. The day was already hectic with my extremely busy exhibition design company and e-marketing business. I felt that I could give Roy and Tom 45 minutes out of my chaotic day for them



to show me the business plan. That should be enough time, I thought. I would meet with them briefly now, take it away, and digest it's content later.

As I entered the boardroom, I noticed both men were very well dressed. Roy greeted me first and eagerly shook my hand. He struck me as being somewhat ill at ease, but went on to reveal that he used to work for Ernst and Young Cap Gemini, one of the world's largest management consulting, outsourcing, and professional services companies. Roy then quickly turned to introduce Tom Williams. Tom at first glance was an elderly gentleman that I estimated to be in his early 70's. He impressed me as highly alert and articulate.

This was going to be an interesting meeting!

Roy handed me their business plan. It was well prepared and highly organized. He then began his presentation. As I mentioned before, I knew very little about the financial markets at that time and unfortunately, after about 15 minutes, I ceased to have the faintest idea what Roy was talking about! I was about to call the meeting to an end since my day was already very busy, but Tom, on the other hand, would not let that happen. He had already noticed my body language during the presentation and as I was just about to speak, the distinguished gentleman held up his hand. With a glint in his eye and hand in the air, Tom said, "*Stop! Roy.*" He then said, "Gavin- lets go back to the beginning, and let me explain to you how the markets *really* work!"

With no hesitation, Tom began to explain the markets to me. "All financial markets move on the universal law of Supply and Demand. When you say this to any trader or investor, they will nod in agreement and say 'Well that's obvious, tell me something *new!*' However, what they do **not** understand is how to correctly pull this information out of a price chart. I have developed, over many years, a computer program called *Wyckoff Volume Spread Analysis*, or *Wyckoff VSA*, that does exactly that. It extracts the Supply and Demand information on a chart to give clear signals when the big players, or what I call 'Smart Money', are very active or inactive, so the user can trade in harmony with their moves.

Tom continued, "You know, Gavin, the markets do not move by accident! They are not random as many traders and investors think. They are, however, *deliberately* manipulated to wrong-foot the unsuspecting herd, in other words, the uninformed traders. If you can read Supply and Demand by analyzing volume, you will give yourself a distinct trading advantage over the uninformed and unsuspecting herd, in order to position yourself where you too can trade in harmony with what's going on!"

"The markets are manipulated?" I gasped. "C'mon Tom," I said naively, "We have regulatory bodies here in England that prevent all that. I have friends in the city who trade and they would laugh if you told them that!"

Tom looked at me intensely and said, "If you don't believe me, let me show you on the charts. Your eyes will be opened to the many opportunities on offer if you can interpret the action of the manipulators."

I was spell bound. This fellow clearly knew something that I did not. So I let him continue with my next question being, "So how do you know all this?" (There was a reason why he was able to retire at 40 a very wealthy man, as I was to find out later.)

"Well Gavin, in the late 1950's, I decided I wanted to make money. Serious money. I was in my late twenties then and I had just sold my popular coffee bar, the Whisky Go-Go in Brighton. I was also a qualified registered nurse so I figured I would make my way to Beverly Hills, in California, since that was where the money was. And that's exactly what I did.

"When I arrived in the United States I was fortunate enough to register quickly in California as an RN (Registered Nurse) and joined an agency in Beverly Hills. One of my earliest assignments with this agency was working for the family of a very wealthy oil tycoon and trading syndicate member. The family was deeply worried about this individual, (who I will refer to as 'George') because he had a drug addiction needing to be controlled. The family believed that a full-time Registered Nurse was necessary to monitor his behavior. I interviewed for the position and was chosen shortly afterwards."

"George was the boss of an elite group of trading syndicates in the United States. During that time, they traded mostly their own money and some money for others in the stock market. They were successful, but they shunned publicity. That was their nature, which is probably why very few people even knew of their existence."

"Their basic strategy was to target company stocks and remove what they called *the Floating Supply* of that stock if any of it was available on the open market. This process could take months, sometimes even years, but eventually, the syndicate would be in majority control of that stock. This phase of buying is known as **accumulation**."

"When general market conditions appear favorable, the syndicate can then mark up the price of the stock, which is surprisingly easy since they have removed all the Floating Supply and Resistance to higher prices. This means that the sellers of the stock have all but disappeared. It follows that there is thus very little stock left that can be sold once their price rally commences. At some time in the future, a point will be reached when the syndicate will take advantage of the higher prices obtained in the rally to take profits. This they do by beginning to sell the stock back to the uninformed traders/investors often called the 'Herd'. This is now called the **distribution phase**. At this point, a handsome profit will be made for the syndicate and its members."

I asked Tom how the syndicate would get the 'Herd' to buy stock at much higher prices than what the syndicate had originally paid. Tom just gave me a big smile as he remembered the moment he was about to share with me.

“Well Gavin,” he said, “I can remember, very clearly actually, a particular U.S. stock which I believe is still around today. At that time, they were called Teledyne Technologies (TDY). Our syndicate had heavily accumulated them and it was time to take profits. To acquire this, any tricks are fair game. For example, we would target the annual general meetings and ask bullish questions that would often be reported to the media the next day. We would ‘create’ as much positive news as possible in order to get the crowd excited. True or not, it was irrelevant to us, as long as people were buying the now high-priced stock from the syndicate.

”This was very profitable business and is one of the basic reasons why there are Bull moves and Bear moves in the markets. Its Supply and Demand working in the longer term. Ironically, the directors of most companies barely have an idea of why their stocks move up or down. Most will often shrug their shoulders if asked why their stock had just fallen 10%. They will have no clue why their stock declined, especially when the company is in better shape now than the previous year. To them there appears to be no logical reason why these moves happen. However, the syndicates know better since they were actively involved in trading these stocks up and down!”

The more Tom explained the mechanics of how the financial markets operated, the more absorbed I became. The 45-minute turned pleasantly into an hour and 45 minutes, and before long, lunchtime was upon us. I instructed my Personal Assistant to cancel all my afternoon meetings because I had a feeling this could be something potentially very big. And now, as I write about this important event 9 years later in 2011, how right I was!

The TradeGuider journey had begun. Back then, little did I know it, but Tom was grooming me to be his protégé. I was to learn everything he knew and he would teach me to read the charts just like he did.

Tom went to Beverly Hills to find his fortune where he met George, gained his trust and confidence, and became an established member of a trading syndicate that understood and played the game only insiders truly understood. It wasn't long before Tom was asked to start hand drawing the charts the syndicates would use to make their speculative attacks. On his own admission, Tom's hand drawn charts were a work of art. It turns out that he was a natural when it came to drawing and detail.

The more Tom got involved with charting the various stocks hand-picked by the syndicate, the more inquisitive he became about what was going on with the price movement, the volume, and where the price closed. Tom constantly asked the traders in the syndicate for information, but they were far too busy making money. So finally, they decided to send Tom to the Wyckoff Chart Reading Course in Park Ridge, Illinois, just outside of Chicago. It was here that he finally got a grip on what was happening. Tom realized that all clues were in the charts if you knew how to read them correctly.

Tom spent twelve happy and prosperous years with the syndicate in Beverly Hills, and traveled all over the U.S. networking and meeting many interesting people. By the age of 40, Tom had made enough money to live the rest of his life very comfortably and decided

it was time to move back to England. Then during his mid-forties, he purchased a facility for retired folk so he could continue his nursing and fulfill his passion for helping others. Tom continued to trade as well, but became consumed with all the knowledge he had learned from the syndicate and its traders back in the United States. This was also the time when computers were beginning to become more readily available to the general public...

Tom had a brilliant idea, which he spent the rest of his life developing and improving. He wanted to computerize the *Wyckoff Method* and the knowledge he had gained from that study to produce automated trading signals that did not have to rely on human intervention.

Tom scoured locally in Torquay, Devon, UK, to find a programmer skilled enough to interpret his specific instructions. The computer would need to identify buy and sell setups using Volume Spread Analysis. This method of analyzing the market does not use past price formulas, which never seem to work.

Tom was only interested in:

- The **Volume** (i.e. activity),
- The **Spread** (i.e. range of the price bar)
- The **Close** (the point where the price closes on the current bar.)

*It's the point where the bar closes that is the most important of the three key analysis factors.*

Price closes either at the bottom, the middle, or the top of the current bar, and as such is considered extremely significant to the analysis.

By good fortune, Tom stumbled across a newspaper advertisement for programming services situated close to where he lived. He immediately arranged a meeting. Tom was still unsure about whether his ideas were able to be programmed, let alone give the accurate trade setups this methodology produced. It was agreed with the programmer, Robert Harwood that they would at least give it a try and see what would happen.

Within weeks, the first ten indicators were programmed in, and to their utter amazement, they worked! The indicators gave clear and accurate signals of imbalances of Supply and Demand as they appeared. As the weeks went on, the indicators grew in number and were refined many times over.

As the software progressed to the point of being a usable program, a rumor spread amongst Tom's trading friends about his new program and its astonishing accuracy. He began to sell the software for a small fee to his close friends and colleagues in the business. From these early seeds came the first version of *Wyckoff VSA Version 1* from Genie Software Ltd., and the latest incarnation aptly named, *TradeGuider Real Time and End-of-Day (EOD) software program*.



Tom's work was clearly ground breaking and had enhanced the excellent work of early 1900's trader Richard Demille Wyckoff. Amongst other things, this man recognized that tape reading was the key to becoming a successful, profitable trader. I decided that this was an opportunity not to be missed. Tom left the meeting on a somber note. He looked at me and said, "Gavin, always remember that the market has to have more losers than winners. It is devious. I have never heard the truth about the market through the media."

Let me give you Tom's example of this: the 9/11 attacks on the World Trade Centre. If you recall, the markets closed for a week. During that entire week, the news was horrific, especially the news about the future performance of the financial markets. Once the markets opened, they did indeed plummet and many media sources were predicting an inevitable Bear market. Grim-faced reporters looked at you from the television screens, telling you that billions of dollars were being wiped off the markets, and that a collapse was inevitable. On the surface, this news may have been partly true, but the general public will never be told the whole truth. It is highly likely that the self-regulated exchanges were only too aware that all their traders were frantically buying from the panicking sellers because a bargain was to be had. A more truthful media report should have said this:

"Good evening ladies and gentleman. As you know the markets have re-opened today and prices have fallen rapidly as President Bush and Prime Minister Blair have warned of further attacks. This is having a negative impact on stock prices even though on 10<sup>th</sup> September these companies were in the same shape as they were on 12<sup>th</sup> September, so this panic selling seems somewhat irrational.

"The good news however is that we have direct contact with the insiders and market specialists on the various exchange floors, and they have told us that their traders are busy buying everything that is being sold by the panic-stricken 'Herd'. You will see in a week or two that this market is not Bearish at all, but Bullish, and will rise rapidly as stocks and other instruments have passed from weak holders to strong holders.

"This will be clear from the massive volume to the downside. Note that the bar has closed in the middle, not on the low; this indicates that buying must be taking place, and therefore, contrary to what the news is implying, prices will go up, not down."

After this example, Tom said, "Gavin, this is an ongoing process in varying degrees of intensity. Remember, the chart never lies if you learn to read it correctly - and that is what I will teach you."

After that day, I contacted my business partner, Richard Bednall, and told him of this great opportunity. After some due diligence, and speaking with some of the city traders I knew, we were convinced that this was a most worthwhile venture that would help retail traders and investors to start to level the playing field, and give them the opportunity to make money in harmony with the "manipulators".

And so Tom did teach me, and my life changed. I began to see things I had never seen before. I began to read the chart as a musician would read music. I felt enlightened and open minded, seeing things for what they really were, and not how they are reported in the mainstream media. I promised Tom I would help him continue his work to show unenlightened traders how to find the truth and thereby become profitable in the markets.

So with that said, I hope you enjoy this book. I also hope you read it more than once truly to embrace the knowledge imparted within.

## CHAPTER 2

### **THE GAME ON WALL STREET: MARKET MANIPULATION**

On May 6<sup>th</sup>, 2010 something very strange happened in the financial markets. This day is now referred to as the *'Flash Crash'*. Even as I write about this more than 6 months after that eventful day, no credible explanation has been provided by the regulatory authorities as to exactly what caused the crash or who was responsible. In fact, many investors began to suspect that all was not what it seemed.

CBNC's 'Closing Bell' anchor Maria Bartiromo was reporting on the day the *'Flash Crash'* happened. Below is a transcript of fellow reporter Matt Nesto explaining to Bartiromo some unusual anomalies in a number of stocks, even though the mainstream media claimed that it was caused by a lone trader from a major banking institution hitting the wrong button. 'B' for billion was entered instead of an 'M' for million while trading the CME E-Mini S&P Futures! The conversation went as follows:

(The conversation is also available to view on Youtube.com. Type in 'Maria Bartiromo, Market Manipulation')

*NESTO: "A person familiar with the Citi investigation said one focus of the trading probes were the futures contracts tied to the S&P 500 stock index known as the E-mini S&P 500 futures, and in particular, that two-minute window in which 16 billion of the futures were sold... Again, those sources are telling us that Citigroup's total E-mini volume for the entire day was only 9 billion, suggesting that the origin of the trades was elsewhere."*

Nesto named eight stocks that were hit with the supposed computer error/bad trade that went all the way down to zero or one cent, including Exelon (NYSE:EXC), Accenture (NYSE:ACN), CenterPoint Energy (NYSE:CNP), Eagle Material (NYSE:EXP), Genpact Ltd (NYSE:G), ITC Holdings (NYSE:ITC), Brown & Brown (NYSE:BRO), Casey's General (NASDAQ:CASY) and Boston Beer (NYSE:SAM)

*NESTO: "Now according to someone else close to Citigroup's own probe of the situation, the E-Minis trade on the CME. Now Maria, I want to add something else, just in terms of these erroneous trades that Duncan Niederauer; the NYSE CEO was just talking about. I mean, we've talked a lot about Accenture, ACN. This is a Dublin-based company. It's not in any of the indexes. If you look in the S&P 500, for example, I show at least two stocks that traded to zero or one cent - Exelon and CenterPoint. If you look in the Russell 1000, I show Eagle Materials, Genpact, ITC and Brown & Brown, also trading to zero or a penny, and also Casey's General Stores, as well as Boston Beer trading today, intraday, to zero or a penny. So those have at least eight names that they're going to have to track down on top of the Accenture trade, where we have the stock price intraday showing us at least, we'll assume, a bogus trade of zero."*

When Matt Nesto called these trades 'bogus', host and CNBC veteran Maria Bartiromo looked shocked and a little angry and replied:

*BARTIROMO: "That is ridiculous, I mean this really sounds like market manipulation to me. This is outrageous."*

According to Nesto, these are frequent occurrences, at least at the NASDAQ exchange, and if you make a trade and lose money, there's no recourse.

*NESTO: "It happens a lot, Maria. It really does. I mean, we could probably ask the NASDAQ, they may not want to say how often it happens, but it happens frequently. And they go back and they correct. And the thing that stinks is if you, in good faith, put in a trade and made money and then lost it, you lose it. And there's no recourse and there's no way to appeal."*

When I called Tom Williams about what happened and I mentioned that CNBC had actually reported the trading activity that day as market manipulation, Tom laughed and said jokingly, "I bet there is a signal in our TradeGuider software program showing what we call a "Shakeout." To my amazement, I opened the program and there it was. The signal was a TradeGuider proprietary signal called 'Strength Number 87' and the software's onboard dialogue box explains the signal as follows:

### **SOS 87 SHAKEOUT**

**NOTE:** None.

**Bar Description:** A 'Shakeout' is a mark down on a wide spread closing up near the high to shake out weak holders. If volume is low, then supply has dried up. High volume suggests demand overcame the supply but remember this supply will hold back future upward progress. If the spread is narrow it will have less impact.

This particular signal is more general and does not need to close near the high of the bar. Exercise caution if the bar has gapped down as this can indicate hidden weakness. If volume is Ultra High, this can be climactic action and the start of accumulation.

**Background:** The background is extremely important. You should see strength in the background with stopping volume or a selling climax. Is there some minor SOW in an uptrend or has supply hit the market?

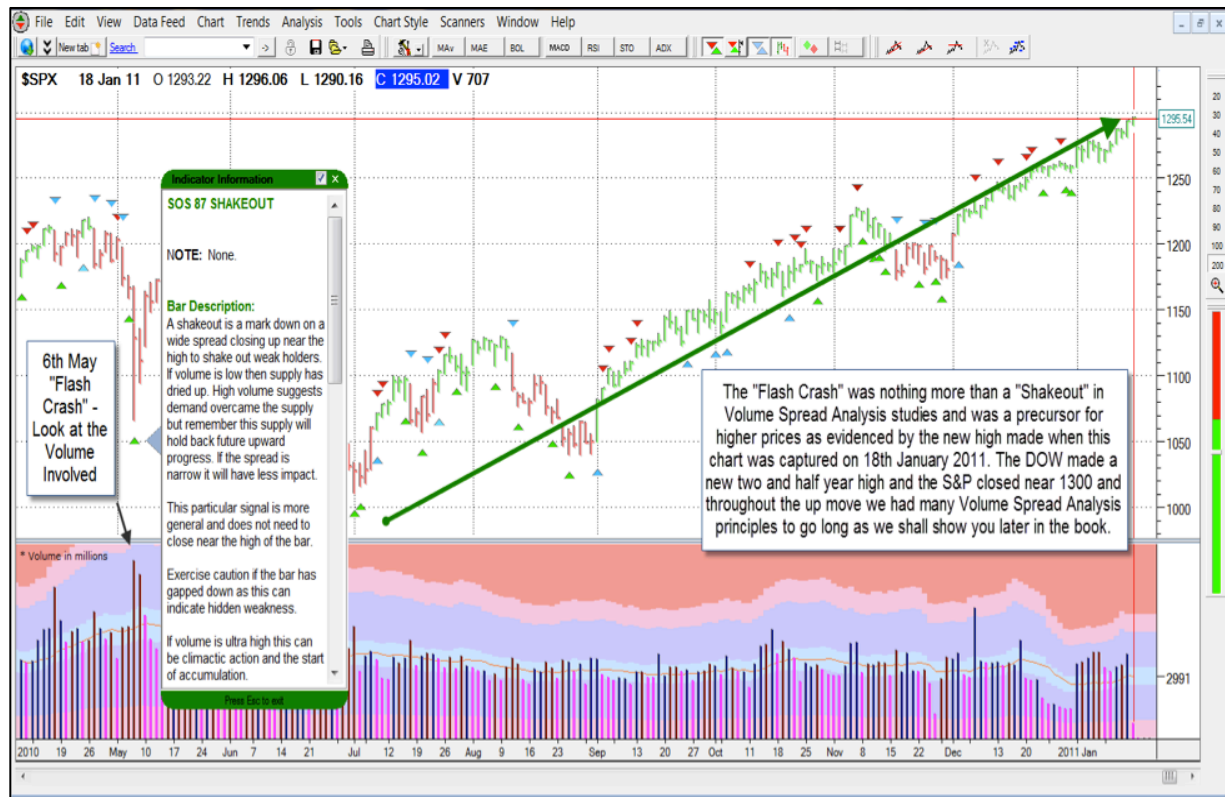
**Future:** A 'Shakeout' on low volume is really a violent test and has the same effect. It shows supply has disappeared and you would then expect higher prices.

A 'Shakeout' on high volume shows demand was prepared to absorb the supply on that bar but they will likely want to test that supply in the future. Any low volume testing back into the area of the Shakeout would be a strong SOS.

Be cautious if the 'Shakeout' is followed by low volume up bars, or high volume up bars closing in the middle, especially on a narrow spread. If the market starts to whipsaw and goes sideways, it may be building a cause for the next up move. Remember, you need to look at the overall picture not just the individual bars.

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## CHART VSA INTRO



What we witnessed on that May 6<sup>th</sup> was a giant 'Shakeout' of the market. The 'Smart Money' operators were expecting higher prices and wanted to catch all the stops before moving the price up. They were bullish and stocks were going to rise, and of course, they wanted to buy at the best possible price. I mean, wouldn't you do the same - buy at the lowest price knowing you could sell it later for much more than what you bought it for? That's The Game on Wall Street: Buy low, Sell high. Be a predator, a clever predator that understands exactly how the prey think and act. It's like herding sheep, steering them, rounding them up, and then placing them in a pen.

Whether we admit it or not, human beings are conditioned to act as a herd and the media unwittingly play a key role in helping investors and traders form an opinion about traded instruments such as stocks, commodities, futures, or even Forex. Like a twisted version of mass hysteria, when media-induced opinions about traded instruments are wrong, and the majority of the uninformed Herd believe them, it will cost them dearly. 'Smart Money' players know how you will act as an investor or trader. They know how to steer you. They know the two most powerful human emotions are greed and fear, and those emotions are our worst enemies when it comes to making investment or trading decisions.

As Mark Twain once said, "If you do not read the newspaper, you are uninformed, and if you do read the newspaper, you are misinformed." Later in this book we will examine why markets tend to do the opposite of what any normal person would expect. We will look

at why British Petroleum stock was a great buy on June 25<sup>th</sup>, 2010, when the oil spill crisis in the Gulf of Mexico was at its worst and the rumors of British Petroleum going out of business were rife. I will also show you how to identify professional buying (the *Smart Money*) on a price chart. You will be able to recognize and profit from buying at the right price, despite the bad news and rumors all around you, and when not to buy or go short when all the news is good. For an example, we will examine the U.S. stock, JP Morgan, by looking at great earnings reports and fundamentals, which would create public expectation of higher prices, and then show an immediate drop in the stock price, which in fact occurred!

So you may be asking, “Is *Market Manipulation* a good thing or a bad thing?” I feel that if you can read a chart correctly, then the volatility caused when markets are ‘moved’ is a very good thing because an educated chart reader can see with clarity the intentions of the manipulators, thus trading in harmony with what’s happening.

You may also wonder, “Are the Market Manipulators evil beings intent on stealing your money?” I don’t believe so. These are clever individuals who understand human nature and market structure. Like most who are successful in any endeavor, they view their activity as a game, and have acquired the knowledge and practiced skills required to win. Like successful poker players, they simply take advantage of opportunities that arise in certain situations. These individuals have the financial supremacy and understanding of the financial markets. They have an edge over the retail investor or trader, and they use this to their advantage to make profits and gain for their own accounts.

At this point you may be thinking, “Why is this chapter relevant to making money in the markets? Why can’t we just go straight to the charts and all the setups?” Well, the reason it’s vital and important to know this information is because in order to *win* the game, you must first accept it exists and understand it. The average retail trader who does not accept this reality calls to mind another poker maxim: “If you sit down at the table and don’t know who the patsy is, you’re the patsy.” I did not initially accept this as reality when I first met Tom, but as I began to examine the financial markets closely, I noticed consistent patterns. The charts always appeared to be at odds with what was on television and what was reported in the financial press. Later, I will show you two things happened that both confirmed my thoughts and increased my interest in the teachings of Tom Williams and his methodology of Volume Spread Analysis.

On December 22<sup>nd</sup>, 2006 a video was produced and uploaded to [www.youtube.com](http://www.youtube.com). It became very controversial. Many attempts were made to remove it from the public domain. This video was an interview with Jim Cramer, the host of CNBC’s ‘Mad Money’. Jim Cramer is a bestselling author and former Hedge Fund Manager, as well as being the co-founder and Chairperson of [www.TheStreet.com](http://www.TheStreet.com). In this video, Cramer reveals how he was able to influence prices of several stocks, including Apple and Rimm. (of Blackberry fame) Below is a partial transcript of the interview. I have highlighted the parts that will be interesting for you to note. *The full interview is available on [www.youtube.com](http://www.youtube.com). Search ‘Jim Cramer, Market Manipulation.*

## Verbatim (partial) transcript of Jim Cramer on Wall Street Confidential Dec. 22<sup>nd</sup>, 2006:

*You know, a lot of times when I was short at my Hedge Fund—when I was positioned short, meaning I needed it down—I would create a level of activity beforehand that could drive the futures. It doesn't take much money. Similarly, if I were long, and I wanted to make things a little bit rosy, I would go in and take a bunch of stocks and make sure that they're higher. Maybe commit \$5 million in capital, and I could affect it. What you're seeing now is maybe it's probably a bigger market. Maybe you need \$10 million in capital to knock the stuff down.*

*But it's a fun game, and it's a lucrative game. You can move it up and then fade it—that often creates a very negative feel. So let's say you take a longer term view intraday, and you say, "Listen, I'm going to boost the futures, and then when the real sellers come in—the real market comes in—they're going to knock it down and that's going to create a negative view." That's a strategy very worth doing when you're valuing on a day-to-day basis. I would encourage anyone who's in the hedge fund game to do it... Because it's legal and a very quick way to make money... and very satisfying.*

*By the way, no one else in the world would ever admit that. But I don't care, and I'm not going to say that on TV. In the next section of the interview, Cramer is discussing what struggling hedge funds do to improve their performances before the end of the year.*

*"It's really vital these next six days because of your payday, you've really got to control the market. You can't let it lift. When you get a Research in Motion, (RIMM) it's really important to use a lot of your firepower to knock that down, because it's the fulcrum of the market today. So, let's say I was short. What I would do is I would hit a lot of guys with RIMM.*

*Now you can't 'foment'. That's a violation. You can't create an impression that a stock's down. But you do it anyway because the SEC doesn't understand it. That's the only sense that I would say is illegal. But a hedge fund that'd not up a lot really has to do a lot now to save itself.*

*This is different from what I was talking about at the beginning where I was talking about buying the QQQs and stuff. This is actually blatantly illegal. But when you have six days and your company may be in doubt because you're down, I think it's really important to foment—if I were one of these guys—foment an impression that Research in Motion (RIMM) isn't any good because Research in Motion (RIMM) is the key today.*

Cramer goes on to talk about the actual mechanics of what one would do to knock Research in Motion down. Then he continues:

*If I wanted it to go higher, I would take and bid, take and bid, take and bid, and if I wanted it to go lower, I'd hit and offer, hit and offer, hit and offer. And I could get a stock like RIMM for maybe—that might cost me \$15 to \$20 million to knock RIM down—but it would be fabulous because it would beleaguer all the moron longs who are also keying on Research in Motion.*

*So we're seeing that. Again, when your company is in survival mode, it's really important to defeat Research in Motion, and get the Pisanis of the world and people talking about it as if there's something wrong with RIMM. Then you would call the Journal and you would get the Bozo reporter on Research in Motion and you would feed that Palm's got a killer that's going to give away. These are all the things you must do in a day like today, and if you're not doing it, then maybe you shouldn't be in the game.*

Cramer talks for a while in considerable detail about how, if he were short Apple's stock today, he would knock Apple's stock down. Then he says:

What's important when you're in that hedge fund mode is to not do anything remotely truthful... because truth is so against view that it's important to create a new truth to develop a fiction.

A minute later, when talking about how company fundamentals don't matter, Cramer says:

*The great thing about the market is it has nothing to do with the actual stocks. Now, maybe two weeks from now, the buyers will come to their senses and realize that everything that they heard was a lie, but then again, Fannie Mae lied about their earnings for \$6 billion, so there's just fiction and fiction and fiction.*

*I think it's important for people to recognize that the way that the market really works is to have that nexus of: Hit the brokerage houses with a series of orders that can push it down, then leak it to the press, and then get it on CNBC—that's also very important. And then you have a kind of a vicious cycle down. It's a pretty good game. It can pay for a percentage or two". -END*

On March 12<sup>th</sup>, 2009, Jim Cramer's YouTube video came back to haunt him as excerpts were finally played on national television. It wasn't on the financial networks as one would expect, but these excerpts were played on Comedy Central in an excellent interview on the Daily Show with Jon Stewart. Jon Stewart is well known in the United States for not mincing words and being a hard hitter.

JS is John Stewart, JC is Jim Cramer, and the word 'shenanigans' is used to describe the manipulation. Call it by a different name, it's all the same thing! This transcript was taken from [www.maholo.com](http://www.maholo.com) and I would like to give credit to Darcy Logan for the effort to write the transcript:

*JS: How the hell did we end up here, Mr. Cramer? What happened?*

*JC: I don't know. I don't know. Big fan of the show. Who's never said that?*

*JS: Well, many people. Let me just explain to you very quickly one thing that is somewhat misinterpreted. This was not directed at you, per say. I just want you to know that. We threw some banana cream pies at CNBC. Obviously, you got some schmutz on your jacket from it. Took exception.*

*JC: I think that everyone could come under criticism from it. I mean, we all should have seen it more. I mean, admittedly this is a terrible one. Everyone got it wrong. I got a lot of things wrong because I think it was kind of one in a million shot. But I don't think anyone should be spared in this environment.*

*JS: So, then, if I may, why were you mad at us? --Audience laughs--*

*JC: No.*

*JS: Because I was under the impression that you thought we were being unfair.*

*JC: No, you have my friend Joe Nasair and Joe called me and said, 'Jim, do I need to apologize to you?' and I said, No. We're fair game. We're big network. We've been out front. We've made mistakes. We have 17 hours of live TV a day to do. But I—*

*JS: Maybe you could cut down on that. --Audience laughs--*



*So let me tell you why I think this has caused some attention. It's the gap between what CNBC advertises itself as and what it is and the help that people need to discern this. Let me show you... This is the promo for your show.*

*JC: Okay.*

**--"In Cramer We Trust" promo--**

*JS: Isn't that, you know, look—we are both snake oil salesmen to a certain extent--*

*JC: I'm not discerning...*

*JS: But we do label the show as snake oil here. Isn't there a problem with selling snake oil and labeling it as vitamin tonic and saying that it cures impetigo etc. etc. etc. Isn't that the difficulty here?*

*JC: I think that there are two kinds of people. People come out and make good calls and bad calls that are financial professionals and there are people who say they only make good calls and they are liars. I try really hard to make as many good calls as I can.*

*JS: I think the difference is not good call/bad call. The difference is real market and unreal market. Let me show you...this is...you ran a hedge fund.*

*JC: Yes I did.*

**--December 22, 2006 video of Jim Cramer--**

*" You know a lot of times when I was short at my hedge fund and I was position short, meaning I needed it down, I would create a level of activity beforehand that could drive the futures. It doesn't take much money." --End Video--*

*JS: What does that mean?*

*JC: Okay, this was a just a hyperbolic example of what people— You had a great piece about short selling earlier.*

*JS: Yes, I was—*

*JC: I have been trying to reign in short selling, trying to expose what really happens. This is what goes on, what I'm trying to say is, I didn't do this but I'm trying to explain to people this is the shenanigans that—*

*JS: Well, it sounded as if you were talking about that you had done it.*

*JC: Then I was inarticulate because I did-- I barely traded the futures. Let me say this: I am trying to expose this stuff. Exactly what you guys do and I am trying to get the regulators to look at it.*

*JS: That's very interesting because... roll 2:10!*

**--210 video-- (This is part of the YouTube video discussed earlier)**

*JC: I would encourage anyone who is in the hedge fund unit to 'do it' because it is legal. It is a very quick way to make money and very satisfying. By the way, no one else in the world would ever admit that but I don't care.*

*Other guy: That's right and you can say that here.*

*JC: Means I'm not going to say it on TV. --End video--*

*JC: It's on TV now.*

*JS: I want the Jim Cramer on CNBC to protect me from that Jim Cramer.*

*JC: I think that way you do that is to show—Okay, the regulators watch the tape they realize the shenanigans that go on, they can go after this. Now, they did catch Madoff, that's a shame.*

*JS: Now why when you talk about the regulators, why not the financial news networks? That is the whole point of this? CNBC could be an incredibly powerful tool of illumination for people that believe that there are two markets: One that has been sold to us as long term. Put your money in 401Ks. Put your money in pensions and just leave it there. Don't worry about it. It's all doing fine. Then, there's this other market; this real market that is occurring in the back room. Where giant piles of money are going in and out and people are trading them and it's transactional and it's fast. But it's dangerous, it's ethically dubious and it hurts the long-term market. So what it feels like to us—and I'm talking purely as a layman—it feels like we are capitalizing your adventure by our pension and our hard earned money. And that it is a game that you know. That you know is going on. But that you go on television as a financial network and pretend isn't happening.*

*JC: Okay. First, my first reaction is absolutely we could do better. Absolutely, there's shenanigans and we should call them out. Everyone should. I should do a better job at it. But my second thing is, I talk about the shorts every single night. I got people in Congress who I've been working with trying to get the uptick rule. It's a technical thing but it would cut down a lot of the games that you are talking about. I'm trying. I'm trying. Am I succeeding? I'm trying.*

*JS: But the gentleman on that video is a sober rational individual. And the gentleman on Mad Money is throwing plastic cows through his legs and shouting, "Sell! Sell! Sell!" and then coming on two days later and going, "I was wrong. You should have bought like--I can't reconcile the brilliance and knowledge that you have of the intricacies of the market with the crazy bullsh\*\* you do every night. That's English. That's treating people like adults.*

*JC: How about if I try it?*

*JS: Try what?*

*JC: Try doing that. I'll try that.*

*JS: That would be great, but its not just you. It's larger forces at work. It is this idea that the financial news networks are not just guilty of a sin of omission but a sin of commission. That they are in bed with them.*

*JC: No, we're not in bed with them. Come on. I don't think that's fair. Honestly. I think that we try to report the news and I think that people—*

*JS: A couple of guys do. This guy Faber-*

*JC: He's fabulous, Faber.*

*JS: And maybe two other guys...*

*JC: He's fabulous and he's done some things that have really blown the cover off a lot of stuff.*

*JS: But this thing was ten years in the making.*

*JC: Right.*

*JS: And it's not going to be fixed tomorrow. But the idea that you could have on the guys from Bear Sterns and Merrill Lynch, and guys that had leveraged 35 to 1...*

*JC: I know.*

*JS: And then blame mortgage holders. I mean- that's insane.*

*JC: I never did that. --unintelligible—I'm sorry You're absolutely right. I always wish that people would swear themselves in before they came on the show. I've had a lot of CEO's lie to me on the show. It's very painful. I don't have subpoena power.*

*JS: But don't—You're pretending that you are a dew-eyed innocent. Watch. Roll. I mean, if I may... JC: It's your show for heaven's sake.*

*JS: Roll 2:12.*

*JC: No! Not 2:12!*

**--2:12 Plays You Tube Video On National TV —(This is the You Tube video discussed above, note Cramer is not very keen to have this shown on national TV!!).**

*JC: You know...*

*JS: I gotta tell you. I understand that you want to make finance entertaining, but it's not a f\*\*\*ing game. When I watch that I get, I can't tell you how angry it makes me because it says to me, "You all know." You all know what's going on. You can draw a straight line from those shenanigans to the stuff that was being pulled at Bear and at AIG and all this derivative market stuff that is this weird Wall Street side bet.*

*JC: But Jon, don't you want guys like me that have been in it to show the shenanigans? What else can I do? I mean, last night's show---*

*JS: No, no, no, no, no. I want desperately for that, but I feel like that's not what we're getting. What we're getting is... Listen, you knew what the banks were doing and yet were touting it for months and months. The entire network was and so now to pretend that this was some sort of crazy, once-in-a-lifetime tsunami that nobody could have seen coming is disingenuous at best and criminal at worst.*

*JC: But Dick Fogle, who ran Lehman Brothers, called me in when the stock was at 40 because I thought that the stock was wrong, I thought that it was the wrong place for it to be. He brings me in, lies to me, lies to me, lies to me. I've known him for twenty years.*

*JS: The CEO of a company lied to you.*

*JC: Shocker stock trading.*

*JS: But isn't that financial reporting? What do you think is the role of CNBC?*

*JC: Look, I have called for star chambers—I want kangaroo courts for these guys. I have not seen any indictments. Where are the indictments? Where are the indictments for AIG? I told the Justice Department, "Here's the way you get the indictment."*

*JS: It's very easy to get on this after the fact. The measure of the network, and the measure of mess. CNBC could act as—No one is asking them to be a regulatory agency, but can't—but whose side are they on? It feels like they have to reconcile as their audience the Wall Street traders that are doing this for constant profit on a day-to-day for short term. These guys companies were on a Sherman's March through their companies financed by our 401ks and all the incentives of their companies were for short-term profit. And they burned the f\*\*\*ing house down with our money and walked away rich as hell and you guys knew that that was going on.*

JC: I have a wall of shame. Why do I have banana cream pies? Because I throw them at CEOs. Do you know how many times I have pantsed CEOs on my show?

JS: But this isn't, as Carly Simon would say, this song ain't about you.

JC: Okay. All right. You're right. I don't want to personalize it. I think we have reporters who try really hard. We're not always told the truth. But most importantly, the market was going up for a long time and our real sin I think was to believe that it was going to continue to go up a lot in the face of what you just described. A lot of borrowing. A lot of shenanigans and I know I did, I'll bring it up, I didn't think Bear Sterns was going to evaporate overnight. I didn't. I knew the people who ran it, I always thought they were honest. That was my mistake. I really did. I thought they were honest. Did I get taken in because I knew them from before? Maybe to some degree. The guy who came on from Wachovia was an old friend of mine who helped hire me.

JS: But honest or not, in what world is a 35 to 1 leverage position sane?

JC: The world that made you 30% year after year after year beginning from 1999 to 2007 and it became—

JS: But isn't that part of the problem? Selling this idea that you don't have to do anything. Anytime you sell people the idea that sit back and you'll get 10 to 20 percent on your money, don't you always know that its going to be a lie? When are we going to realize in this country that our wealth is work. That we're workers and by selling this idea that of "Hey man, I'll teach you how to be rich." How is that any different than an infomercial?

JC: Well, I think that your goal should always be to try to expose the fact that there is no easy money. I wish I had found Madoff.

JS: But there are literally shows called "Fast Money."

JC: I think that people... There's a market for it and you give it to them.

JS: There's a market for cocaine and hookers. What is the responsibility of the people who cover Wall Street? Who are you responsible to? The people with the 401ks and the pensions and the general public or the Wall Street traders, and by the way this casts an aspersion on all of Wall Street when I know that's unfair as well. The majority of those guys are working their a\*\*s off. They're really bright guys. I know a lot of them. They're just trying to do the right thing and they're getting f\*\*ed in the ass, too.

JC: True. True. I think as a network we produce a lot of interviews where I think that we have been—there have been people who have not told the truth. Should we have been constantly pointing out the mistakes that were made? Absolutely. I truly wish we had done more. I think that we have been very tough on the previous Treasury Secretary, very tough on the previous administration how they didn't get it, very tough on Ben Bernanke. But at the same time...

JS: But he's the guy who wrote the rule that allowed people to over-leverage.

JC: I trash him every night. I've called him a liar on TV. What am I going to do? Should we all call him liars? I'm a commentator. We have—and you can take issues with the fact that I throw bulls and bears and I can still be considered serious. I'm not Eric Sevareid. I'm not Edward R. Morrow. I'm a guy trying to do an entertainment show about business for people to watch. But its difficult to have a reporter to say I just came from an interview with Hank Wilson and he lied his darn fool head off. It's difficult. I think it challenges the boundaries.

JS: Yeah. I'm under the assumption, and maybe this is purely ridiculous, but I'm under the assumption that you don't just take their word for it at face value. That you actually then go around and try and figure it out. So, again, you now have become the face of this and that is incredibly unfortunate.

JC: I wish I had done a better job trying to figure out the 30 to 1 and whether it was going to blow up. It did. Once it did I was late in saying it was bad.

JS: So maybe we could remove the financial expert and the "In Cramer we Trust" and start getting back to fundamentals on reporting as well and I can go back to making fart noises and funny faces.

JC: I think we make that deal right here.

--End of Interview--

On November 28<sup>th</sup>, 2010 on MSNBC's online U.S. Business report, I read an article headlined '*Everyday Investors Wonder if Market is Rigged.*' This report was the most interesting article I have ever seen in mainstream media. It went on to say, "The Wall Street insider trading investigation may lead everyday investors – already rattled by a stock market meltdown, a one day Flash Crash, and the Madoff scandal – to finally conclude that the game is rigged. Virtually everyone on the Street believes there are significant improprieties, and I think there is an even more important point for the massive number of investors who are not Wall Street players," says former New York Governor Eliot Spitzer.

He was known as the 'Sheriff of Wall Street' when he aggressively prosecuted white-collar crime while State Attorney General. "And that is for most of us, you can't beat these guys at their own game. Some pros on Wall Street say hesitation by small investors is good news. It means that there's plenty of 'dry powder' to propel the market higher in the next few months when and if the little guy finally relents and joins in the rally." The record for hedge funds hasn't been so impressive, either. Since 2008, when the number of those funds hit 10,000, nearly 3,000 have gone out of business, according to Hedge Fund Research in Chicago.

"The edge is hugely exaggerated," says Richard Ferrari, an advocate of low-cost index funds and founder of the investment advisory firm, Portfolio Solutions, "If the small investor *does the right thing*", he can do 99 percent better than anyone else."

I totally agree with Mr. Ferrari. If the small investor *does the right thing* then there is a good chance that he or she can be successful. Doing the right thing, in my opinion, starts by learning what the game is, and then learning how to read Supply and Demand imbalances as they appear on the charts, along with following a few simple rules.

So are the retail traders and investors finally waking up to the true mechanics of the markets? And if so, can they take advantage of market manipulation? I would say that depends on the individual. By reading this book, you are already on your way to recognizing great trading and investing opportunities. We don't really need to be concerned about the whys, what, ifs, and buts of the market, but we do need to be thinking and acting in harmony with the *Smart Money*. To do so involves a little bit of research and effort on your part to act, think, and react like a predator, not the prey- and that is what I am going to teach you in this book.

There is public material readily available on the subject of Market Manipulation, so I wont dwell on that subject any longer. The markets have been the same for hundreds years and they are very unlikely to change in the future. Lots of information and useful tips are available at [www.marketmanipulation.com](http://www.marketmanipulation.com). This site condenses much of the public information on the Internet. I highly suggest you visit the site with an open mind and decide for yourself. We all have different belief systems, but I recommend you use your mind like a parachute – which is best used when you open it!

## CHAPTER 3

### THE 'SMART MONEY' AND THE 'NOT-SO-SMART MONEY'

In Chapter Two, we analyzed the mechanics of the financial markets, and now we are going to look at some of the common pitfalls experienced by many traders and investors of different skill levels that cause losses. Remember that 3,000 hedge funds went out of business in 2008-2009, so even the Big Players can get it wrong. However, when you can read the imbalances of Supply and Demand- in any time frame or market -money can be made when the market is moving up or down, although it can be a little more difficult to read when the market moves sideways, as I will show you.

In Tom Williams' two books, "*The Undeclared Secrets That Drive the Stock Market*" and "*Master the Markets*", Tom refers to the 'Not-So-Smart Money' as '*The Herd*'. Now lets examine the actual definition of what a herd is and how that can be applied to the financial markets.

**Definition: herd - noun**

- A large group of animals, especially hooved mammals.
- Derogatory: a large group of people, typically with a shared characteristic:

Interestingly, the dictionary term shows a herd of people as derogatory, but in fact, as Tom explained to me, human beings often act as a herd. A great example that I have observed, not only in Chicago where I live, but also all over the world, is when a store has a markdown sale. As you may know, *Black Friday* in the USA is when retail stores offer the biggest discounts on the first Friday after Thanksgiving. Hundreds, sometimes thousands of people wait, even camp out for 2 days, just for stores to open at 5:00am or earlier. People go through this trouble just to get a bargain. Supposedly they want to feel good about saving money and making a great purchase!

So what happens when the doors open at 5:00am? Most often than not, the crowd stampedes like a herd to rush to the items they want, in fear that someone else may take the cherished items and there will be none left. In fact, in 2008 a Wal-Mart security guard was killed in a stampede on *Black Friday* in Long Island New York. The New York Times headline read, "Wal-Mart Worker Trampled to Death by Frenzied Black Friday Shoppers".

How does this apply to trading and investing? Simple - the very emotions experienced by those wanting to get the bargain prices are the same as those experienced by almost every human who trades the markets. However, the group we call the 'Smart Money' are very intelligent and fully understand the underlying reasons why people buy and sell at certain times, as well as what members of the 'Herd' base their decisions on. Whilst

providing educational seminars and live trading events on my travels around the world, I have met thousands of retail traders and investors.

I find that there are 5 main analytic tools (and I use that term loosely) that 'The Herd' use to trade and make investments. I can assure you that these forms of analysis are the reason so few retail traders and investors make money in the markets. In no particular order:

- Technical analysis using back tested past price analysis and formulas
- Recommendations from television, newspapers, brokers etc.
- Fundamental analysis especially when expert analysts suggest an instrument will move a certain direction (we will examine this more closely in a moment)
- 'Black Box' software systems and trading robots that promise guarantees of riches by giving buy and sell signals. According to the advertising and marketing claims, they allegedly produce amazing results with guaranteed percentage returns
- Tips received through email, Facebook, Twitter, and other social media sources. Unless these are from a very trusted and proven source, beware!

There are two facts that I've learned early on as I began my journey as a **VSA** expert, which have served me well whenever I analyze the markets:

- (1) The chart never lies.
- (2) The past price does not move the future price.

In order to prove these two facts, we will examine the crude oil charts of 2008. Many of you will remember that the gas/petrol prices skyrocketed around the world and oil was supposedly in scarce supply. Some of the world's top oil analysts were predicting a price of \$200 a barrel. *(Ironically, two years later, the BP spill happened causing many scientists to express their concern that if the oil well wasn't capped, it would gush indefinitely!)*

Now lets take a look at what actually happened. You can see for yourself just how influenced one becomes when you see and hear information that all points in one direction. In this case, oil was to go to \$200 a barrel, and many traders, investors, and indeed, even airlines got caught on the wrong side of the oil market because they did not know what the chart was telling them. But as a soon-to-be **VSA** expert, you will know better in the future!

**News Article 1:** Story, L. (2008, May 21). An Oracle of Oil Predicts \$200-a-Barrel Crude. *New York Times*. Retrieved May 1<sup>st</sup>, 2011. From <http://www.nytimes.com/2008/05/21/business/21oil.html>

An Oracle of Oil Predicts \$200-a-barrel crude – May 21<sup>st</sup>, 2008 (exactly 3 weeks before supply/selling came in heavily, as we shall see) The Chart Never Lies – The WEEKLY Oil Futures Using TradeGuider RT Software with Volume Spread Analysis Signals



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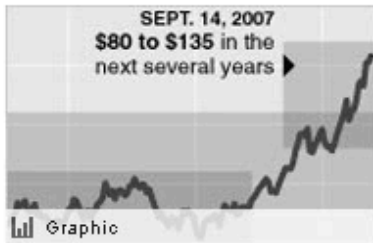
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By LOUISE STORY  
Published: May 21, 2008

Arjun N. Murti remembers the pain of the oil shocks of the 1970s. But he is bracing for something far worse now: He foresees a “super spike” — a price surge that will soon drive crude oil to \$200 a barrel.

#### Multimedia



\$200 a Barrel

#### Related

Times Topics: Oil (Petroleum) and Gasoline

Mr. Murti, who has a bit of a green streak, is not bothered much by the prospect of even higher oil prices, figuring it might finally prompt America to become more energy efficient.

An analyst at Goldman Sachs, Mr. Murti has become the talk of the oil market by issuing one sensational forecast after another. A few years ago, rivals scoffed when he predicted oil would breach \$100 a barrel. Few are laughing now. Oil shattered yet another record on Tuesday, touching \$129.60 on the New York Mercantile Exchange. Gas at \$4 a gallon is arriving just in time for

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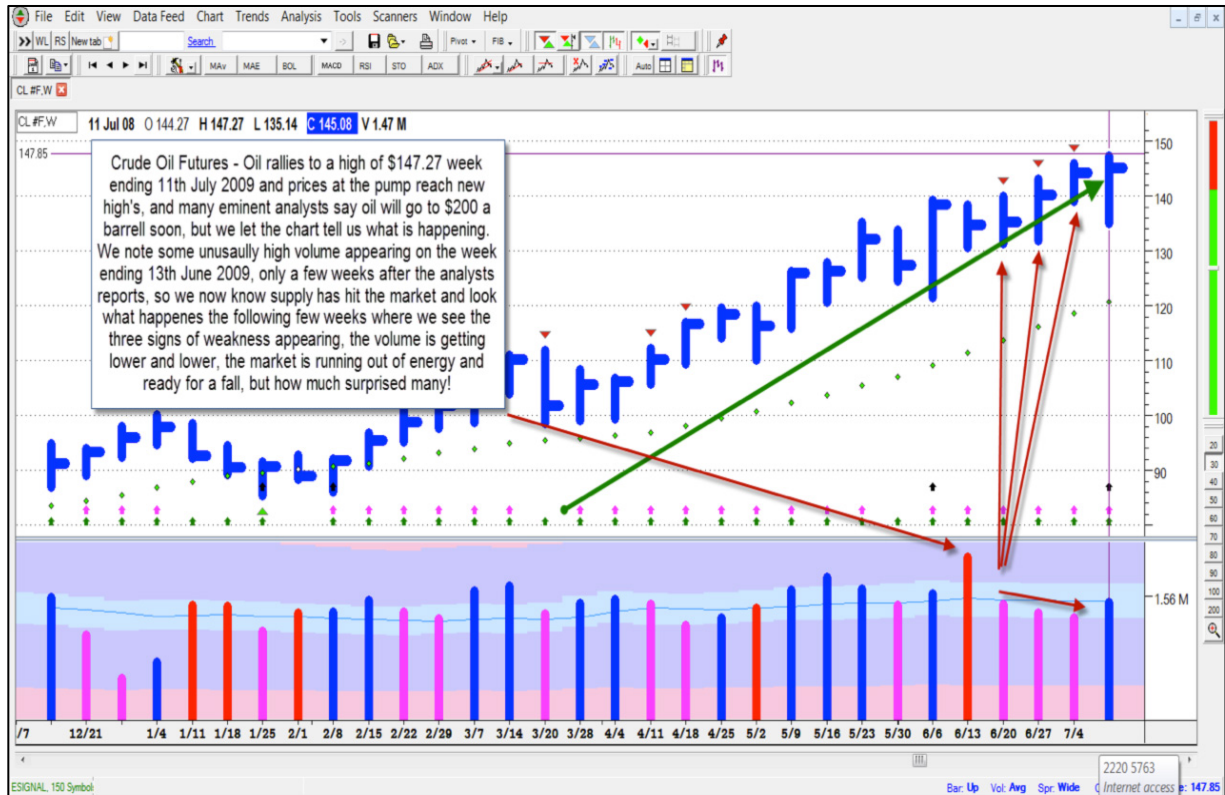
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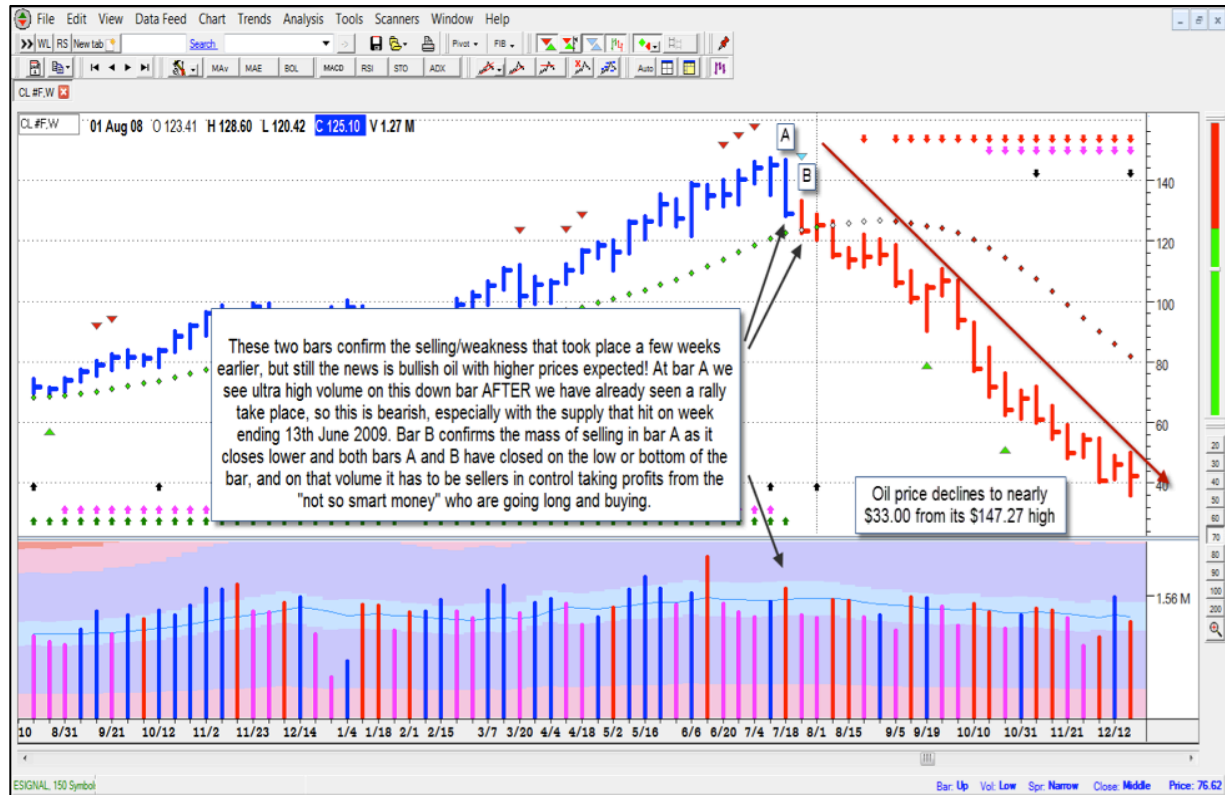
## CHART VSA 1



Looking at the week ending June 13<sup>th</sup>, 2008, we can see that unusually high volume appears on the **Chart VSA 1** and the range or spread of the bar on that week is very narrow. On the daily chart (not shown), we had a signal appear called *The End of a Rising Market* in the TradeGuider software. Combined with the signals that appeared, the following three weeks convinced me that this market was being sold on all this bullish news. I decided to post my analysis on YouTube and I warned of the weakness and impending fall of oil (this is still viewable on YouTube. I also want to point out that this was posted in foresight, not hindsight). I received hundreds of abusive emails questioning my analysis, and criticized for not being a famous analyst as well as daring to question the mainstream media reports. I was ridiculed from many circles but I had faith in my chart reading skills and was subsequently vindicated as oil prices plummeted to around \$34.00 a barrel.

On **VSA Chart 1**, examine the three bars with the Volume Spread Analysis signals (look at the red triangles shown at the top pointed out by three red arrows shown). Note that as the market prices are rising, the volume is falling week by week. Only one thing can cause this fall in volume, and that is the lack of interest in higher prices by the 'Smart Money' players. *They had already started selling in the prior weeks!* The logic is that if they are not participating, we will see *Low Volume*, and in the TradeGuider software we refer to this scenario as 'No Demand at a Market Top'

## CHART VSA 2



At bars A and B on **Chart VSA 2**, we now see the true confirmation of the *weakness* that has appeared in the background. (*By background we mean the previous number of bars which indicate the market price action, which will either be bullish or bearish, which we refer to as weak or strong*). Due to the observed weakness, it's at this point we would start to consider shorting the market. It's imperative to remember that we want to short when the downtrend is confirmed - not before. The TradeGuider software has three very simple trending systems that show this (I will explain in detail in Chapter 11 – Some Basic Volume Spread Analysis Trade Setups Explained).

As you look at **Chart VSA 2**, you can see these trending systems where the downtrend is confirmed by the red bars, the red diamonds, and the red, pink, and black arrows above the bars (these are proprietary tools incorporated in the TradeGuider software). This example is the work of professional trader, Robert Hoffman. The tools are available as an add-on study within the TradeGuider portfolio of products.

If you had been using any type of technical analysis that examined past price in an attempt to predict the future price of the charts shown, you may as well have accepted that oil would be going to \$200 a barrel. Past price analysis tools, which by their very nature are lagging not leading edge indicators, (e.g. MACD, Stochastics, & RSI) were giving multiple buying signals at \$147.00 because the price was rising.

We had also exceeded many of the standard moving average periods (such as 20 day M/A), which made the trends bullish, and the news from the analysts confirmed everything you were seeing on the technical charts. However, once you are able to correctly read and analyze Supply and Demand from the charts, you can combine Volume Spread Analysis with your current technical and fundamental analysis. By doing so, you are giving yourself a trading edge which will enable you to make intelligent, informed, and (hopefully) profitable trading decisions due to the fact that its possible to observe the intent of the 'Smart Money'. Many of our most successful customers have combined **VSA** with their current trading style and methods of analysis. However, we have come to notice that there are many who have set aside much of what they have previously learned and begun to focus solely on the *Volume Spread Analysis* methodology.

It's important to remember, that when the 'Smart Money' players start selling, they will sell as price rises! This confuses many uninformed traders and investors that have been waiting on the sidelines, hearing the good news. What they do is jump onto the rising price 'bandwagon' (a.k.a. "suckers rally") only to get hammered by the effect of the 'Smart Money's' prior selling positions, which results in the price 'dropping off the cliff'. This causes embarrassed 'bandwagon' buyers to either get out of their trades at breakeven, or suffer the pain of losses as stops are hit. This is known as 'Stop Hunting'. This phase by its nature and intent effectively creates profits for the 'Smart Money', and marks the price back down and creates the scenario for more buying (if they are bullish) or heavy selling, as seen in the crude oil examples, which mark the market top.

Remember, that by its very nature, every bar contains a combination of buying and selling, and therefore the art of reading the chart becomes a combination of *individual bar volume analysis*, as well as the analysis of the 'background' bars, in order to come to the conclusion as to the intent of the parties involved in creating the current and background bars. It's this concept, which many traders find difficult to understand, but once grasped, your reward will be that the chart will come alive in front of your eyes!

Reading this book, absorbing its knowledge, and examining volume very closely by paying attention to *Ultra High* and *Ultra Low Volume*, you can become a 'Smart Money' trader and investor yourself, and can avoid the costly pitfalls experienced by the Not-So-Smart Money.

Do remember that chart reading is a skill that develops over time, much like learning to play golf or a musical instrument. What I found helpful was taking screenshots of an individual stock or commodity. When I saw news about that particular instrument, I would look for unusual volume. I would wait six months and revisit that chart and news story, only to be amazed. Most of the time, the instrument did the very opposite of what technical analysis was predicting and what the fundamental analysis was suggesting. The actions of the instrument indeed confirmed my gut instincts and what I had seen as a result of carefully studying the price (P), the spread (S), and the volume (V) picture.

After consistent findings with this 'experiment', I knew I had to write this book and follow in the footsteps of my great mentors, Richard Demille Wyckoff and Tom Williams.

I had to attempt to even the odds for the everyday trader and investor that wanted to succeed and make it in the markets.

You can make it in the markets and be successful, but you will need to embrace the paradigm shift of Volume Spread Analysis (**VSA**) in your thinking and trading toolset. We can provide plenty of tools that can help you make those necessary shifts in your belief system, but as I stated before, that is *only* if you are open minded and look at the evidence. It's all right in front of your eyes; all you need to do is read the chart!

## CHAPTER 4

### BEWARE OF THE NEWS

In Chapter Three we discussed 'Smart Money' and how they take full advantage of understanding crowd behavior. Now, let's look at two case studies. Both case studies will be explained in more details later in the book, but for now, we will focus on some very simple principles that everyone can understand.

"If you don't read the newspaper, you are uninformed, if you do read the newspaper, you are misinformed."

-Mark Twain

When I first met Tom, he described an incident in which the trading syndicate he worked for wanted to *accumulate*, or buy more shares in a particular stock they had been following. In order to do so, the syndicate needed to create a level of activity beforehand to convey the impression the stock had problems. (Now where have we heard that before? See Chapter 1.)

Tom and some members of the syndicate had been planted in the Annual General Meeting of Teledyne, the company in question. There were inquiries that gave a false impression that the stock might be in trouble. The rumors concerned a lost contract that never actually existed, but it was enough to start the snowball rolling. The day after the AGM the circulating news was negative and the syndicate sold just enough stock to cause a selling panic. As the stock began to fall they knew they would be getting a bargain. The stock was now at a very attractive price, so they began to buy at lower prices, and this is why the following two rules are VERY important in your learning.

#### **Rule Number 1- Weakness appears on an Up Bar**

In a rising market, or a market which has broken out of a sideways range, when **weakness** (selling *short* opportunity) appears on the chart, it will appear on an *Up Bar*, i.e. a price bar that has closed higher than the previous bar, and will be on unusually high volume by such comparison. TradeGuider will indicate this as *Ultra High* Volume. If the opposite occurs, namely unusually low volume, TradeGuider will show it as *Ultra Low* Volume. (*The spread could be telltale narrower than previous bars*)

At first glance that may appear as though I am contradicting myself by stating that weakness will appear on high (or preferably, *Ultra High*) volume, and then also on low (or *Ultra Low*) volume on up bars. The statement is factually correct! So, why is this?

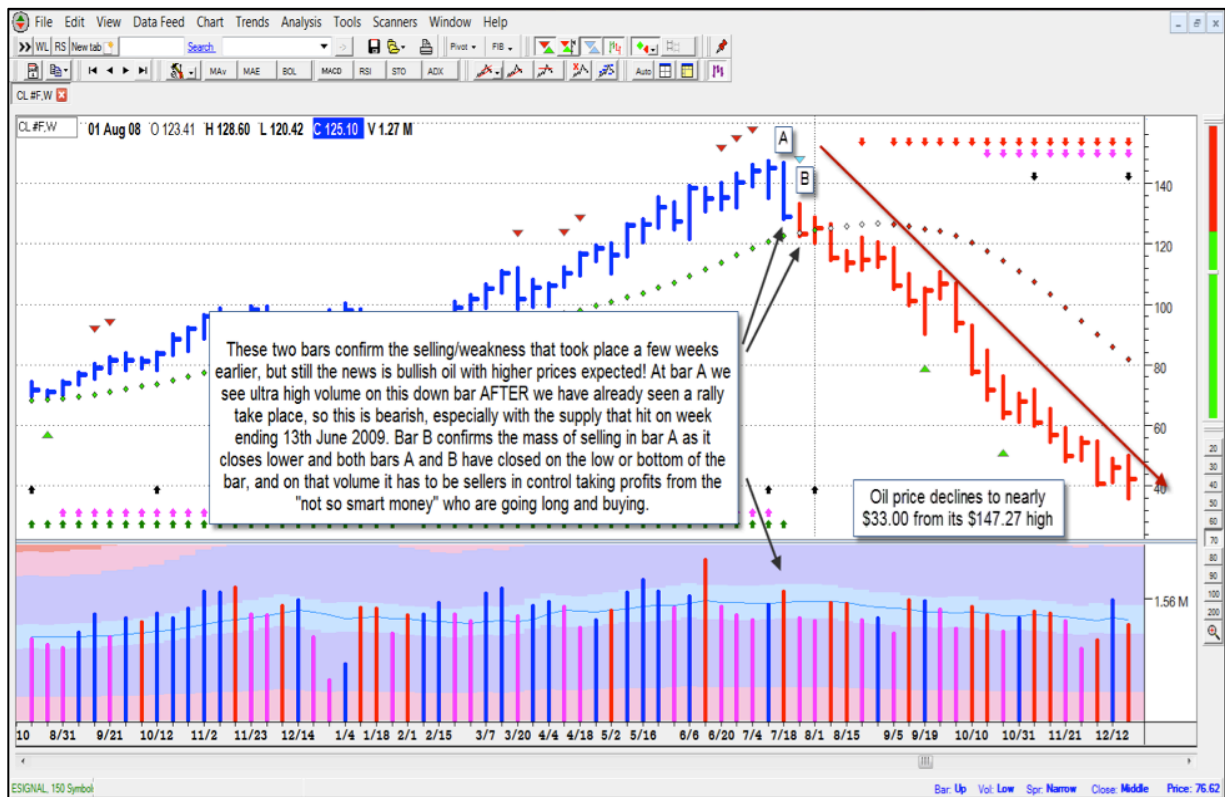
The answer is simple: When the 'Smart Money' players begin to dump their holdings of whatever instrument is being traded (stocks, futures, FOREX, commodities etc.), their

SELL orders are all coming in one after another, and that creates the *Ultra High Volume*. This is what is called the *Distribution* phase, indicated by the mnemonic, *Supply-Overcoming-Demand*. An analogy of this is in the retail environment where manufacturers who have goods to sell, supply them to retail 'distributor'.

What's happening is that Sellers are overcoming buyers at a certain price level *or range* (this is often seen at previous resistance levels). Now after this activity has taken place, the market will often move sideways and not suddenly collapse because the 'Smart Money' need to ensure all their sell orders are being satisfied. This explains why the distribution phase can take time. Another indication of this lack of interest on the part of the 'Smart Money' is that it causes the price to peak and roll over in a characteristic 'mushroom' shape, which is easy to spot.

'Smart Money' ensures that the price is held at a certain level by buying some of it back to trap and encourage the uninformed traders/investors, or the 'Herd' to enter into or remain in long trades. They will often be lured into this, after seeing the frenzy of what they *think* is buying. They assume this is the case due to the high volume and rising prices, but it's the *exact opposite* of what is actually happening! I will prove this to you in **Chart VSA 1**. The time to short the market is when price starts confirming the lack of buying interest and begins to "rollover" and trend down. (I will show specific setups later that will amplify this principle in greater detail.)

**CHART VSA 3**



Looking at **Chart VSA 3**, notice that in the trend we see an unfolding pattern with up bar(s) (price bar(s) that close higher than the previous bar(s), with the volume on the up bar(s) extremely low, or at least, lower than the previous two bar(s).

As mentioned, notice by looking at the chart that as the trend pattern shows price progressing upwards, 'Smart Money' have withdrawn their interest because they have already sold and made a nice profit. This confirms that they have no intention of buying since prior bars confirm market weakness. This contradicts the strength, which the news media will be reporting.

By kind courtesy of TradeGuider Systems International, let's look closer at **Chart VSA 3**, which shows a strong Volume Spread Analysis principle that I will explain in detail a bit later. I will also show how the news will be influencing the 'Herd' that we discussed in chapter 3 to go long, when in fact they should be preparing to go short (sell) when the set up appears. As sure as day follows night the trading 'signs in the sky' are there, if you know what to look for!

**Chart VSA 3** is a daily chart of U.S. stock, JP Morgan Chase, with an indicator signal that appears in the TradeGuider software program called '*End of a Rising Market*'. Note that the date of the signal is 14<sup>th</sup> of October 2009, which is very significant, as we shall see. This stock had been in a strong bull run since early March 2009. In fact on March 6<sup>th</sup> 2009, the stock was heavily *accumulated*, (bought) at the low of \$15.52, which was the start of the uptrend.

On the 14<sup>th</sup> of October, the stock gaps up on *Ultra High Volume*, very narrow spread bar. (*The 'range' in this case is the price differential between the top and bottom of the bar, which we said in Chart VSA 1, is the daily bar. Price can also 'range' or 'channel' over a number of bars as we will see later*) Now, note that what I am going to show you works just as effectively on a one minute timeframe as it does on daily, weekly or monthly timeframes. On **Chart VSA 1**, viz. October 14<sup>th</sup>, 2009, this stock is getting heavily '*distributed*' (sold) by the Smart Money, who will have bought this stock at much lower prices. Remember, the 'end game' is PROFIT!

Looking at the October 14<sup>th</sup> bar, we make the following observations: The stock has gapped up, which is unusual activity in its own right, and closes at a new high of \$46.90. We have now made new highs with no price action in the past at this level for at least 500 bars. We call this '*Fresh New Ground*'.

Take note of the following:

- Increased massive volume over previous bars
- The range of the bar is narrow, not wide (in fact the high of the daily bar on 14<sup>th</sup> October 2009 is at \$47.20, the low is \$46.37),
- The closing price - its close to the middle at \$46.90.



If all that volume was 'Smart Money' buying at this level, you would expect a wider spread (range) on the bar and a close up or near the high of the bar(s), but this is not what we are seeing.

What we are actually seeing is *'The End of a Rising Market'* and there is a specific way to trade this. If we look closely at the simple logic of what is happening on this bar, then we must surely conclude:

- (V) Smart Money players clearly appear active as seen in the massive volume shown at the bottom of the chart, represented by the green bar. (There is no significance to the color of the bar for the purposes of this explanation so you can ignore the fact its green, in spite of the coloring being a proprietary element of the TradeGuider software program).
- (S) The spread of the bar is extremely narrow and the volume is high. Most likely, and more often than not, the 'Herd' will be rushing in and buying. The Smart Money will satisfy every buy order with a sell order and say "thanks very much you mugs" as they take in more profit having bought much lower!
- (P) The closing price is very important here, too. It closes near the middle of the bar on that narrow range.

So, we have an *Ultra High volume, narrow spread* bar closing in the middle, and we are into *"fresh high ground"*. What could be causing this Ultra High volume? Well, both buyers and sellers are interacting at this level, and the buyers are 'The Herd', or the 'Not-So-Smart Money' and the sellers are the 'Smart Money'. The 'Smart Money' people have now made a tidy profit and unloaded their positions. They made this stock a weak stock with this tactic and they know it.

Why October 14<sup>th</sup>? Why not do the selling a week before or even two weeks before? Surely they would still have made a nice profit. Timing is everything and the Smart Money players know this. Plus, they have information that the retail traders and investors do not have. Look at the news about this stock on October 14<sup>th</sup> for a clue. We see in the news article 2 below that there is a very BULLISH earnings report.

**News Article 2:** Ellis, D. (2009, October 14). JPMorgan Scores Big in Latest Quarter. *CNNMoney.com*. Retrieved May 1<sup>st</sup>, 2011. From [http://money.cnn.com/2009/10/14/news/companies/jpmorgan\\_chase/index.htm](http://money.cnn.com/2009/10/14/news/companies/jpmorgan_chase/index.htm)

"JP Morgan scores big in latest quarter" is the headline. The words *"strongest performance"* and *"towered above Wall Streets expectations"* are used directly below the headline. All the news is now bullish. The stock has been going up and up because its in an uptrend. All technical lagging indicator analysis tools will be firing off buy signals because they track past price to predict future price (and this example shows why that simply doesn't work, because the past price doesn't predict a move of the price in future, and it never will!)

It would appear to the 'Not-So-Smart' money that this is a great opportunity to buy this stock because everything they have learned appears to line up:

- The fundamentals look great! - *Tick the box*
- The stock is an uptrend, so if I go long and BUY, I am trading with the trend! - *Tick the box*
- The moving average, stochastic, MACD & RSI all give BUY signals. - *Tick the box*
- If I don't go into the market and BUY now I will miss the move! - *Tick the box*

OK, fine. BUY, BUY, BUY, but as you do that, the Smart Money will SELL, SELL, SELL.

Now the stock will plummet, as we can see in **Chart VSA 3**. The 'Not-So-Smart Money', who have now lost their money, rue the day, scratch their heads, throw their computer at the wall, and try to figure out what the hell just happened.

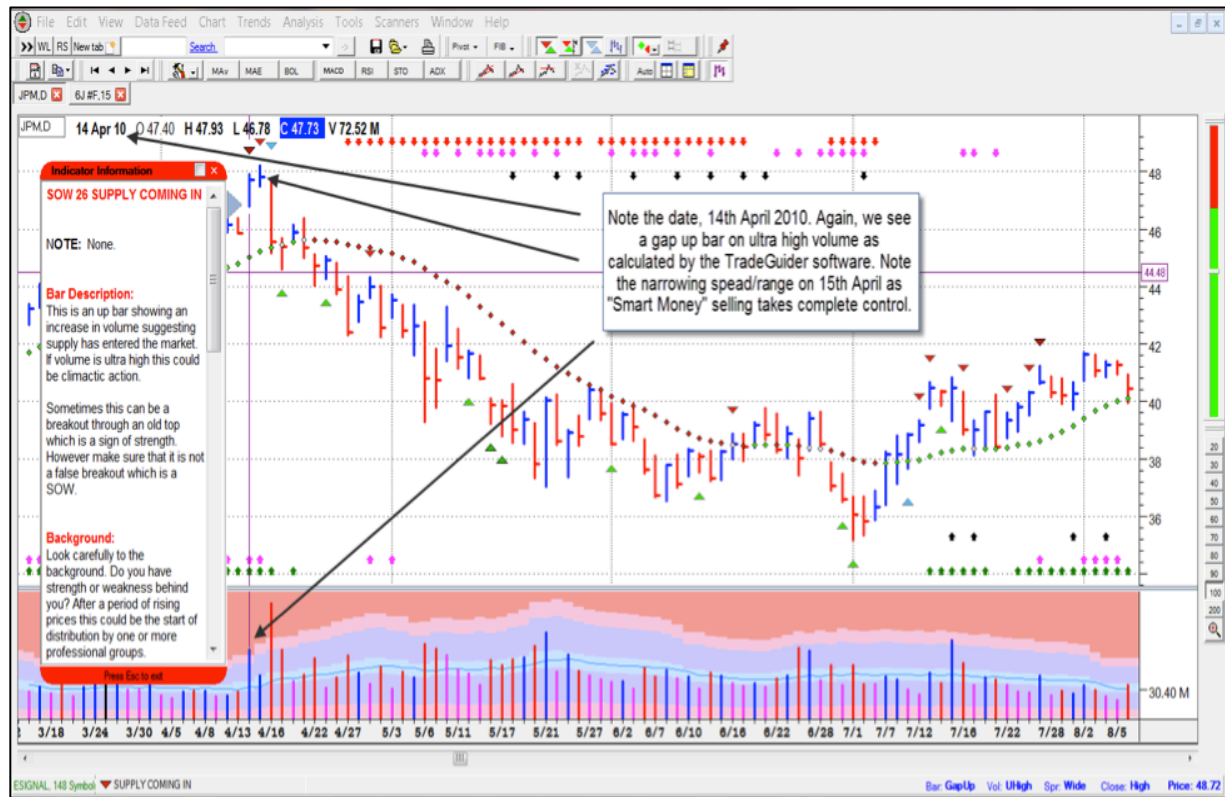
However, when you can read Volume, Supply and Demand, and the imbalances caused by *Ultra High and Ultra Low Volume*, you will become a 'Smart Money' trader for yourself and will be able to study the charts like a professional. You will trade and invest with newly found confidence and vigor because you can clearly see what the true intentions of the Smart Money are and be able will to trade in harmony with them, not against them.

Now, could history repeat itself and would the 'Smart Money' know that the 'Not-So Smart Money' would fall for exactly the same set up exactly six months later?

Similar news report, almost identical price level (which was acting as resistance) and the same result, the stock plummets, as you can see in **Chart VSA 4**.

The screenshot shows a CNN Money article from April 14, 2010. The headline is "JPMorgan Chase reports \$3.3 billion profit" with a "Right Now" badge. A callout box with an arrow pointing to the date "April 14, 2010" contains the text "NOTE THE DATE OF THIS VERY BULLISH NEWS". The article text states that profits jumped 55% from a year ago to \$3.3 billion. A sidebar on the right features a Verint advertisement with the text "Intelligence In Action" and "VERINT". The page footer includes "Internet | Protected Mode: On".

## CHART VSA 4



The high on April 14<sup>th</sup>, 2010 was \$47.93 and the high on October 14<sup>th</sup>, 2009 was \$47.20. The low on April 14<sup>th</sup>, 2010 was \$46.78, and the low on October 14<sup>th</sup>, 2009 was \$46.37. The close on April 14<sup>th</sup>, 2010 was \$47.73 and the close on October 14<sup>th</sup>, 2009 was \$46.90. Is this a coincidence that this stock did this exactly six months after the previous sell off? Well, you make up your mind, but you cannot fail to see that excessive volume on up bars, especially at previous resistance. Plus, when the news is good and encouraging you to go long, it's a sure sign for you to start looking for a short. Now you have knowledge that hundreds of thousands of traders and investors around the world do not know and may never know, unless of course they find this book or it finds them!!

### **Rule Number 2- Strength Appears On A Down Bar**

When **strength** (opportunity to buy) appears on a chart, it will appear on a *down* bar, which is a price bar that has closed lower than the bar(s) behind it, and will be on unusually high volume (*Ultra High*) or unusually low volume (*Ultra Low*).

As we saw in Rule number 1, at first glance that may appear as though I am contradicting myself by stating that strength will appear on down (or preferably, *Ultra High*) volume, and then also on low (or *Ultra Low*) volume (down) bars.

This statement is also factually correct! So, once again, why is this?

When the 'Smart Money' professionals begin buying whatever instrument is being traded (stocks, futures, FOREX, commodities etc.) their buy orders are all coming in one after another and that creates the Ultra High Volume. This is what we call the *Accumulation* phase, or *Demand Overcoming Supply*.

Put simply, buyers are overcoming sellers at a certain price level (this is often seen at previous support levels). After this has taken place, the market will often move sideways and not suddenly rally immediately. This is because the 'Smart Money' need to ensure all their buy orders are being satisfied and they have exhausted all the sellers (Supply). This is the reason why the *accumulation* phase can take time. They ensure that the price is held at a certain level by selling back orders to encourage the uninformed traders/investors to get short which they often will when they have seen the frenzy of what they think is selling. This happens because the price falls, and the volume is very high and they incorrectly assume that the high volume MUST be selling.

### **Time To Buy The Market**

The time to buy the market is when we begin to trend *up*. (*I will be showing specific set ups later that explains this principle in more detail*) As the trend begins, we see a down bar (*a price bar that has closed lower than the previous bar*) and this time the volume on the down bar is extremely low, or at least lower than the previous two bars. This tells us that there is no selling pressure or no Supply, (i.e. no more sellers) an obvious conclusion that the market is going to rally.

A word of advice here, even though it's possible to identify market tops and bottoms, don't try and trade them, because there are much lower risk entries that take a little more time to develop, so you have to be patient!

A good example is the U.S. stock, British Petroleum (BP). I picked this example for a number reasons. Tom Williams' signal called "*Potential Climactic Action*" (Sign of Strength 33) is one of the strongest indications that 'Smart Money' are buying. This signal came up in TradeGuider on June 9<sup>th</sup>, 2010. Tom called me and said, "Gav, I am watching the news and this is horrific... Are we sure that the volume is correct? It looks very much to me like the big players are piling in and buying BP stock, they must know something we don't - do you think they have already capped the well and are not telling us!!"

I had no idea what was going on, but I could read the chart... I was due to speak at the Massachusetts Institute of Technology (MIT) in Boston a few weeks after this signal had appeared, and I was able to use this as a live example. I had something to show them in foresight and not in hindsight.

When I commenced writing this book in January 2011, the current news then on BP was that their share price had increased, and at the time of writing, BP's stock price in the US is up from the June 25<sup>th</sup> 2010 low of \$26.83 to a high as of January 6<sup>th</sup> 2011 of \$46.60.

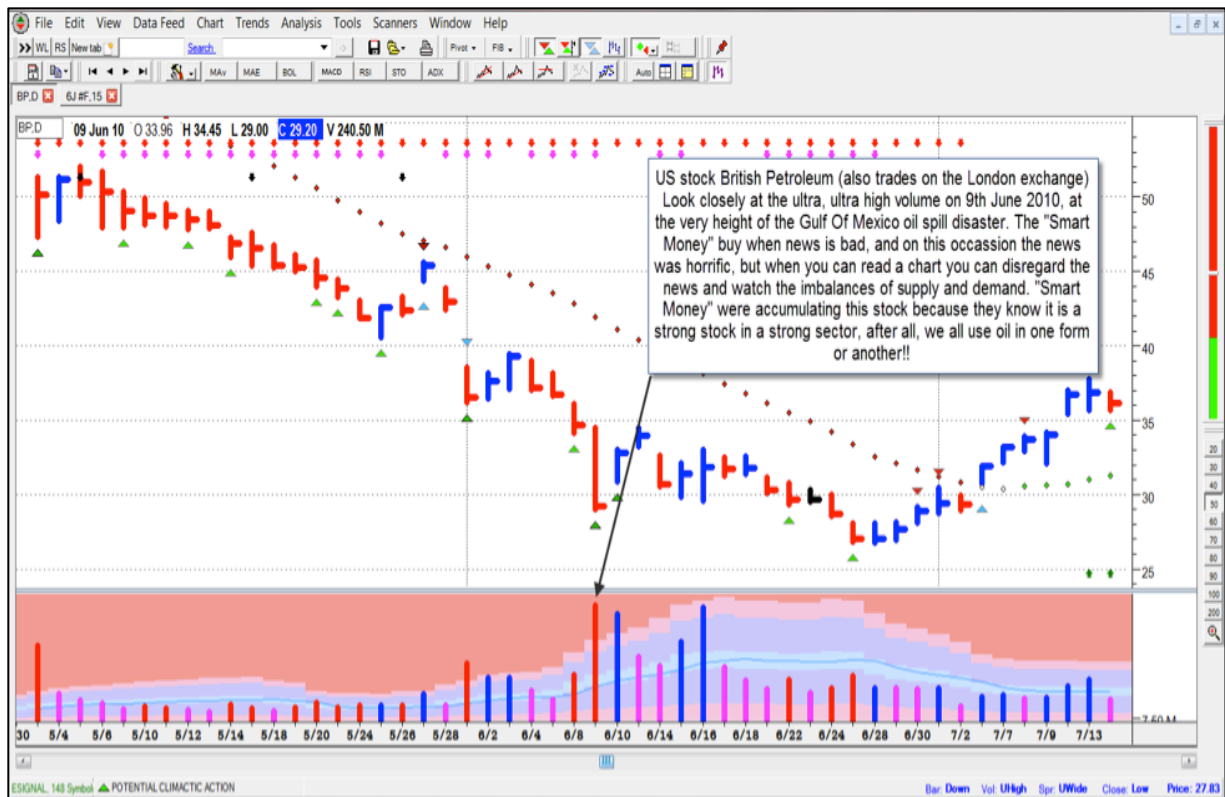
BP's stock price has nearly doubled in value in 6 months! During that interim period, the news was so bad that when I spoke at MIT to The Boston Traders Group, (great people and great seafood!) they asked me which stock was a good buy at the time. When I said BP they all laughed, probably thinking it was my British sense of humor, but no one's laughing now! That was a big opportunity to make money alongside the 'Smart Money'.

You may be saying to yourself, "Well yes Gavin, it all looks good in hindsight, but what about in foresight? That's the wonderful thing about [www.youtube.com](http://www.youtube.com), because I am able to post my analysis as it happens and it's also date stamped. When you get a minute, take a look at TradeGuiders channel on [www.youtube.com](http://www.youtube.com) and just type in TradeGuider. See what I said when the oil market was supposed to hit \$200 a barrel in 2008, only to get to \$147.27 and then plummet to \$33.20 in just 6 months?

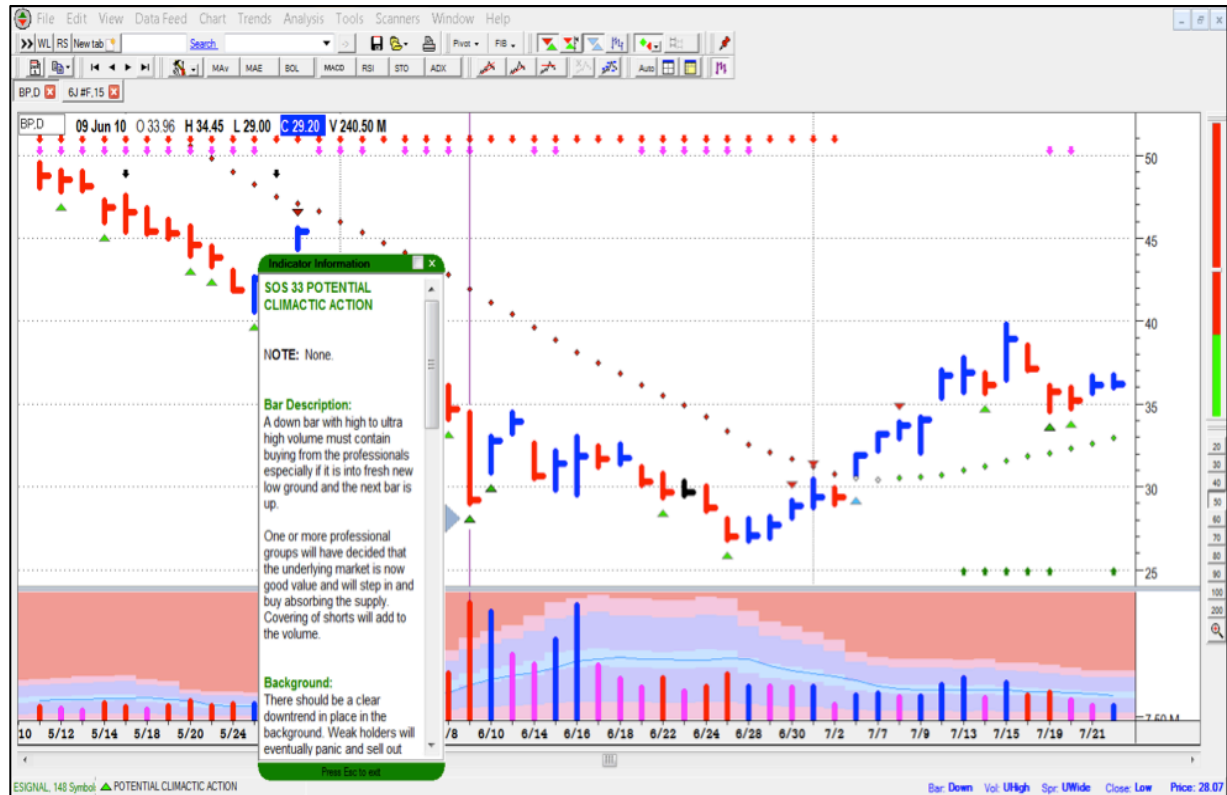
Beware of the news, because all the analysts, including well respected oil analyst, Arjun Murti of Goldman Sachs, had barely two months prior to the decline, warned of an impending oil spike to \$200 a barrel!

I wonder who profited as the oil market plummeted, not the airlines, that's for sure, because they were expecting higher prices and therefore hedging accordingly! The Chart NEVER LIES, as we shall now see on the BP charts.

### CHART VSA 5



## CHART VSA 6

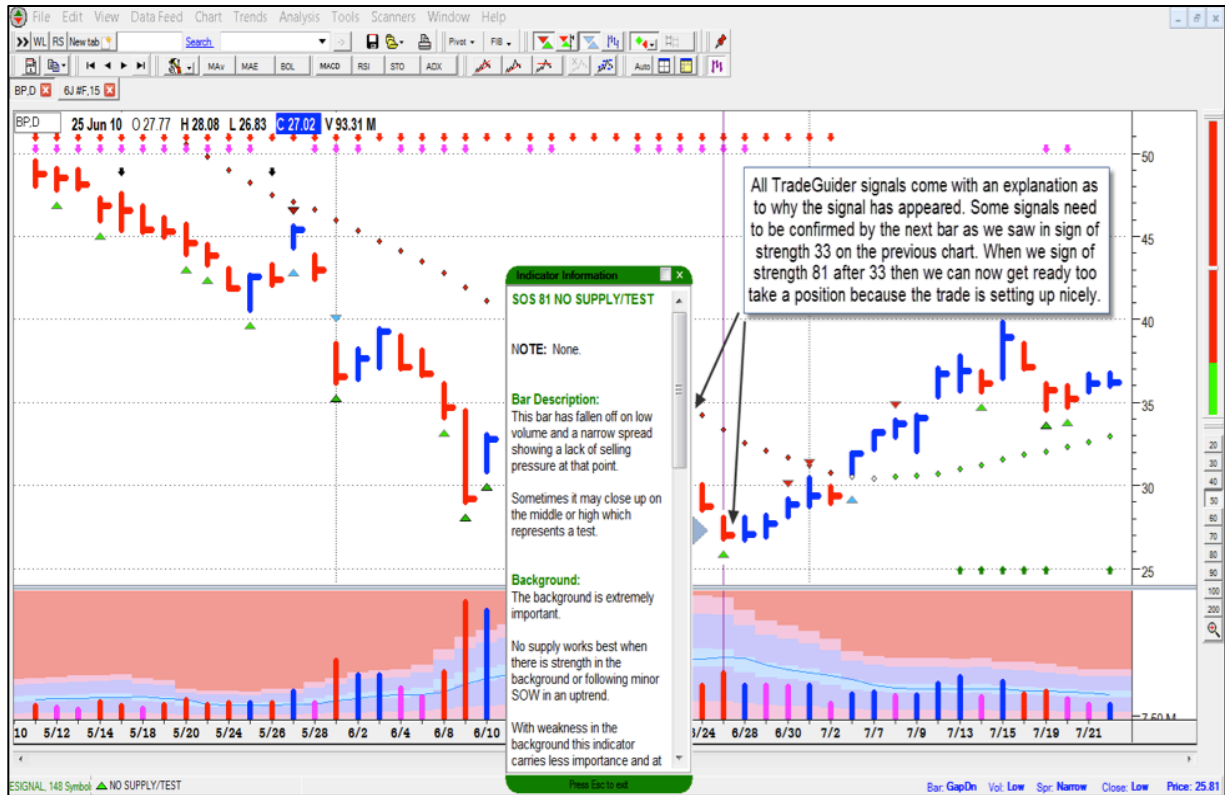


If we look closely at **Chart VSA 5** and **Chart VSA 6** (BP Daily chart), the TradeGuider proprietary signal 'Sign of Strength 33' is a powerful indicator because when it appears, it's a clear message from the 'Smart Money' announcing that they are buying everything from the panicking 'Herd' or 'Not-So-Smart Money'.

We will discuss the actual place of when to take a long trade later, but even when I see this signal, I wait. I do not want to be too hasty since there is still Supply (selling) contained in that bar on June 9<sup>th</sup>, 2010 and that can drive the price lower.

*The bar that formed on June 25<sup>th</sup>, 2010 is extremely significant and forms part 2 of a three-part trade set up.*

## CHART VSA 7



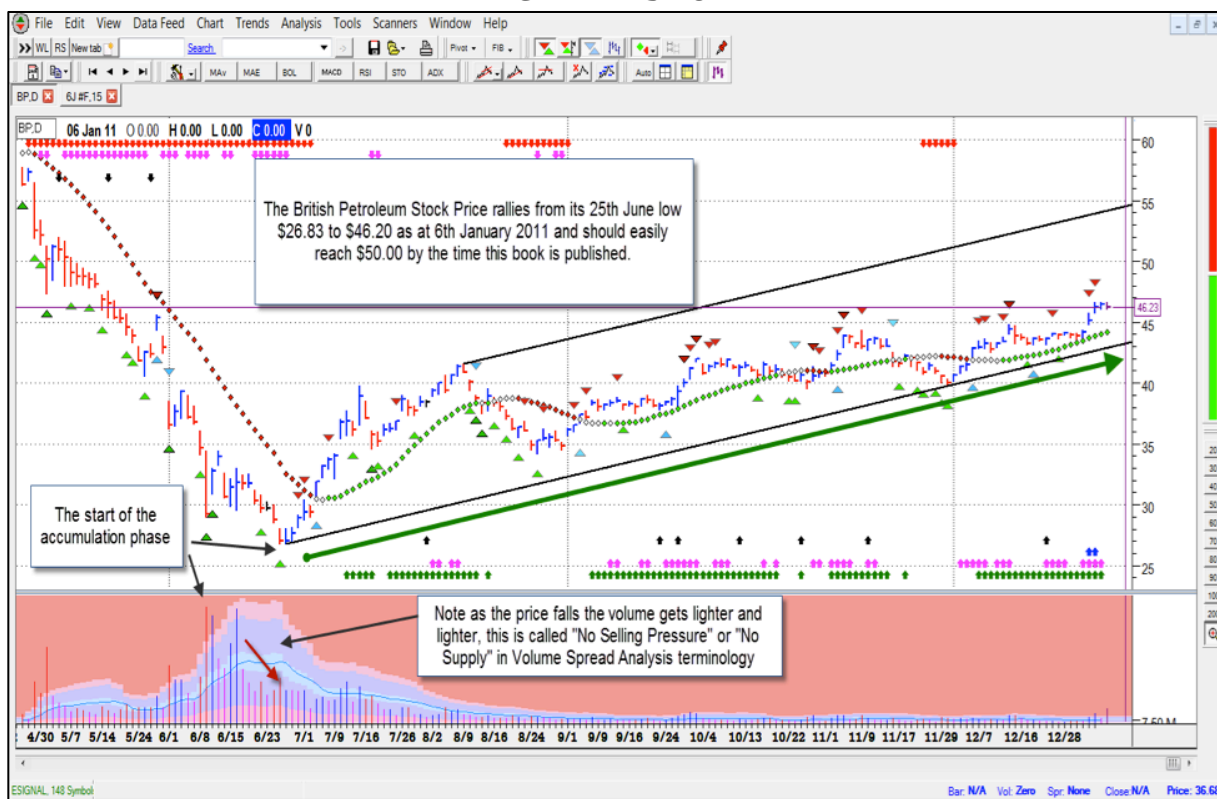
Now let's examine **Chart VSA 7** that bar which had formed on June 25<sup>th</sup>, 2010.

Firstly, we notice that the Volume is much less than we saw on the 9<sup>th</sup> and 10<sup>th</sup> of June 2010. That is significant because it is showing the selling pressure is getting less and less. This is why the Supply (selling) is overcome by the Demand (buying) from the 'Smart Money'. What's more important, however, are the extremely narrow individual bar price spreads on the 25<sup>th</sup> and 26<sup>th</sup> of June 2010.

If we were to turn the JP Morgan chart in **Chart VSA 3** upside down, it would look similar to what you see here. On the JP Morgan chart we observed Supply overcoming Demand (selling swamping the buying) and on the BP chart we see the opposite, Demand overcoming Supply (buying swamping the selling). This can only mean one outcome - the higher prices as we see in **Chart VSA 6**, because all charts and all markets work the same way, including stocks, commodities, futures, currencies and yes, even spot FOREX (but that's another subject for another book!).



## CHART VSA 8



We then see, in **Chart VSA 8**, the result of the *Accumulation*, namely that Demand has overcome Supply, and higher prices become inevitable. All the way throughout the up move, Smart Money sell some back to bring the price down again to ‘test’ for Supply (*i.e. they want to flush out any remaining Supply in order to move the price up without having to absorb Supply that remains*).

If the ‘test’ is successful, we can expect higher prices, especially if the test is on low volume and narrow spread down bar into the same area where you first saw the very high volume. This is a strong **BUY** signal.

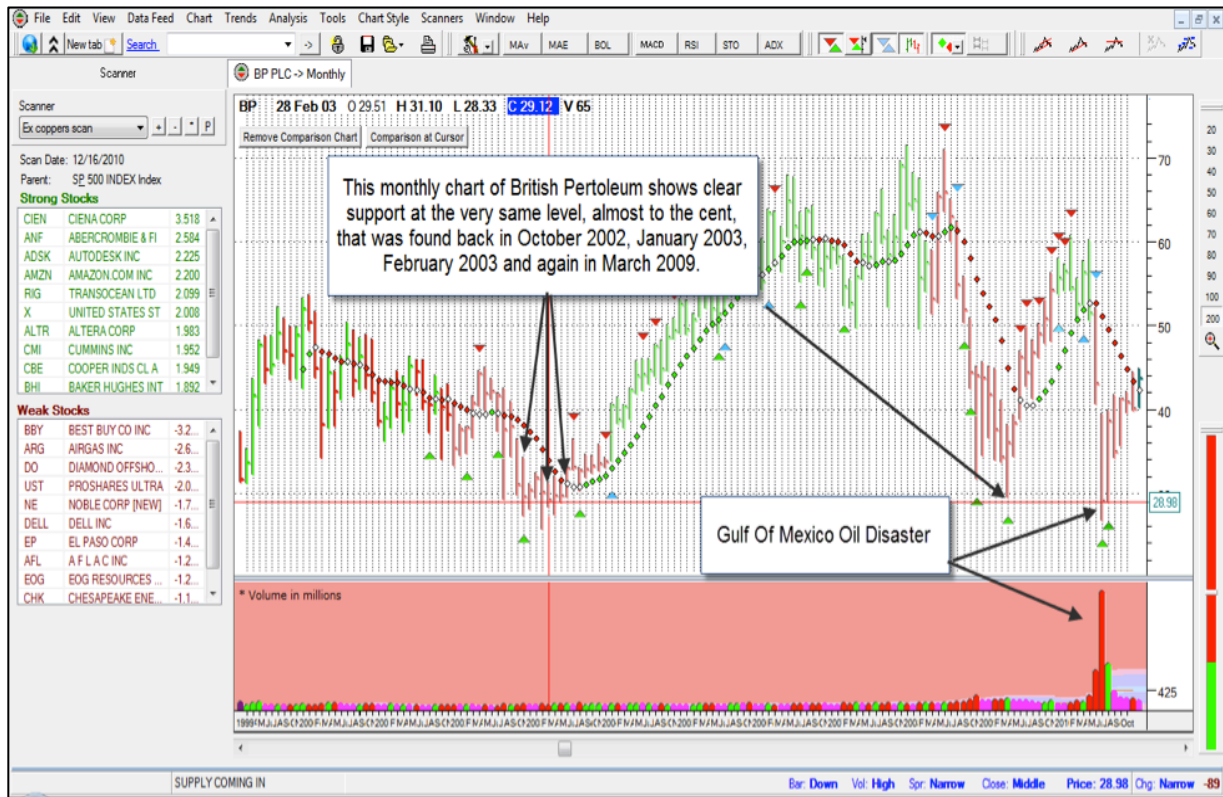
However, the news that you hear will almost always be extremely bearish, negative, and fear mongering, which has the effect of blocking your entry into the market at the correct time.

Tom Williams taught me to trust in the chart and nothing else. He also told me that if he had his way, he would lock every retail investor and trader in a dark room - no TV, no newspaper, no outside information, or influences and just get them to trade the **VSA** principles as they appear.

As Tom says, “If you can read the chart and ignore your natural human instinct to follow the ‘Herd’, you can make a lot of money in the markets”.



## CHART VSA 9



Always look back on previous price action as far as you can, in order to see if there are any unusual Volume areas around Support and Resistance levels in the background. In **Chart VSA 9**, I looked back 10 years on the monthly BP chart. Stocks move in cycles -10 years is a cycle, and, as if by magic there it was: clear support around the \$27.00 to \$30.00 area, exactly where support was found during the Gulf Of Mexico oil well disaster.

Don't forget: *Beware of the news!* It is not necessarily that the media are lying; they are simply reporting what they hear and see. Although, I have yet to hear an explanation as to how BP's shares nearly doubled during the worst oil spill crisis America has ever seen, notably when rumors were about that BP would go out of business and that Libya would take them over!

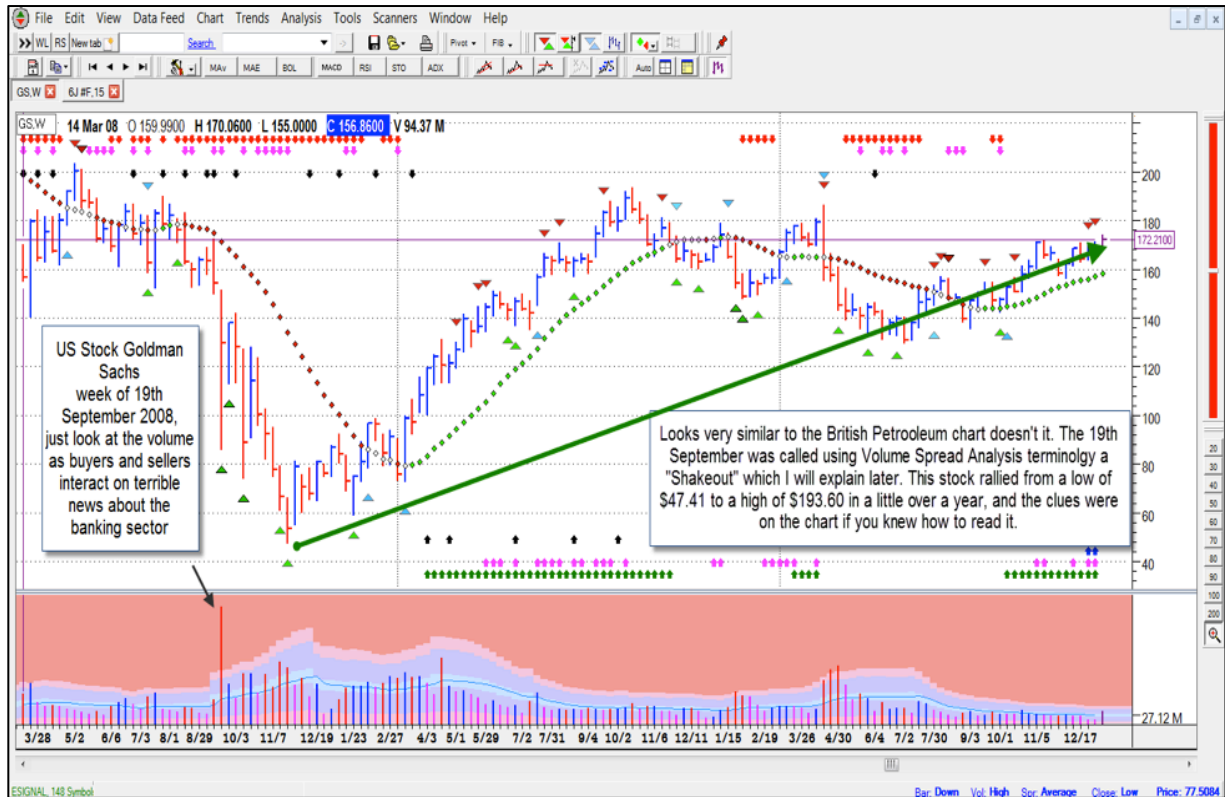
Remember, it's vital to have a contrarian mindset if you want to make money in the financial markets, even though it goes against your natural instincts! In fact, if your decision is against your natural instincts you will probably make a very good trading or investment decision!

Finally, just to hammer home the point:

Remember the financial crisis of 2008 when Lehman Brothers went out of business in late September. Also, during December 2008 and January 2009, the banking sector (we

were told) was in shambles and the Government (as it was reported) was going to have to take over Goldman Sachs (although now I think its probably the other way round!)

**CHART VSA 10**



Well, let's look at the Weekly chart, **Chart VSA 10**, and examine the Volume and what actually happened to the Goldman Sachs share price. Let's see if the 'Smart Money' sent us a telegram then as they did with British Petroleum (BP).

We can see that just like BP, the *Accumulation* took place on bad news. After testing for *Supply* in December 2008 and January 2009, the stock took off because Demand had overcome Supply.

If you had switched on your TV or read the newspapers during December 2008 and January 2009, you would have been forgiven for thinking that the banks were finished and the TARP money meant the government would be in control making the banks shares worthless.

Of course that never happened, and some of the biggest bonuses ever paid were given out to the bankers in 2010, only two years after the crisis began. In the 1960's, Richard Ney's number plate of his Rolls Royce read "Wake Up", and if you take on board his subliminal message, you will not fail to make money in the financial markets.

*Now let's look briefly at the inspiration for this book and the teachers that had an impact in their time in helping others to understand 'the game':*

Richard Demille Wyckoff (November 2, 1873 – March 19, 1934) was a stock market authority, founder and onetime editor of the *Magazine of Wall Street* (founded in 1907), and editor of *Stock Market Technique*. [www.richardwyckoff.org](http://www.richardwyckoff.org)



*"...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**

*"Tape reading seems to us: The 'SCIENCE' of 'DETERMINING' from the 'TAPE' the immediate trend of prices. "*

*"It is a METHOD of FORECASTING, from what appears on the tape 'NOW', what is likely to appear in the future."*

**Richard D. Wyckoff  
Studies In Tape Reading  
Rollo Tape**

Richard Ney's Rolls Royce – Examine the number plate closely, it says it all!



**Richard Ney**

Actor, Author, Investor, and Educator  
(November 12, 1915 – July 18, 2004)



Tom Williams is a former professional syndicate trader and inventor of the methodology called Volume Spread Analysis that tracks market manipulation as it happens on a chart.



Now 82, Tom has written 2 books and still trades today when this book was written in early 2011.



**Tom Williams, October 2010 – Statements:**

*“The market is devious and many times you will buy on good news only to lose money and sell on bad news only to see the price rise soon afterwards, and that is because “Smart Money” understand crowd behavior and take full advantage of “The Herd”!!*

*“The market works because human beings have two powerful emotions that they have difficulty controlling, namely FEAR AND GREED”*

*“The market has to be fed losers. It is devious and what you hear will often not be the truth. I have never heard the truth about the stock market or any market on television. Just look at the news about the Oil market in May 2008. Greed at the top as many traders piled in because they were told oil had to go to \$200 a barrel!! The chart never lies, and Gavin went on YouTube to show the TradeGuider proprietary signal, namely ‘The End of a Rising Market’. Then look at the banking sector in 2008 during September. Fear set in and professional money began to BUY not SELL and that caused stocks like Goldman Sachs to Rally 400%. It was all in the chart if you know how to analyze SUPPLY AND DEMAND”.*



# LIKE WHAT YOU HAVE READ SO FAR?

*You should read the rest of the book! The remaining chapters cover:*

## **Chapter 5: How To Read a Chart Like a Professional Trader**

This chapter examines professional chart reading skills all retail traders and investors need to make money and includes trend channels, trigger numbers and core principles.

## **Chapter 6: The Key Principles of the VSA Methodology: Weakness**

This chapter introduces trade set ups looking for weakness in all markets

## **Chapter 7: The Key Principles of the VSA Methodology: Strength**

This chapter introduces trade set ups looking for strength in all markets

## **Chapter 8: Developing a Trading Plan Using Volume Spread Analysis**

Starting to put the other chapters together to form a cohesive trading plan with multiple timeframes and which markets to trade.

## **Chapter 9: The Power Of Belief In Your Trading Plan And System**

Introducing the law of attraction and belief in your trading plan and system

## **Chapter 10: Why Retail Traders And Investors Lose Money And Some Make Money**

A discussion as to why so many retail traders and investors are often on the wrong side of the market with some practical tips and solutions to getting profitable and consistent

## **Chapter 11: Interviews With Four International VSA Experts And Fund Managers**

Gavin interviews Dr Gary Dayton, a Wyckoff and VSA expert who is a well respected educator and trader; Malaysian fund manager from Phillips Capital, Bill Wermine; VSA expert also taught personally by Tom; Sebastian Manby and Professional Fund Manager from the UK Philip Friston who has used Volume Spread Analysis to successfully buy and sell stocks for the last 23 years.

## **Chapter 12: Some Advice From The Master - Tom Williams**

An interview with Tom Williams with practical advice to take everything learnt from the book and make money with it.

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*"I wish you good trading, constant profits, and belief that you can have anything you want if you take massive action now."*

**-Gavin Holmes**

***GAVIN@TRADINGINTHESHADOW.COM***



# Trading in the Shadow of the Smart Money



Gavin Holmes

In 2002 Gavin Holmes had the good fortune to meet Tom Williams, a former syndicate trader who in his early years had traded with one of the largest stock trading funds in America at that time.

Tom subsequently wrote two books, "The Undeclared Secrets that Drive the Stock Market" and "Master the Markets", which are read by more than 100,000 traders and investors worldwide.

Gavin was introduced to the books author, and at their first meeting Tom explained that the markets were being manipulated on a daily basis by the "Smart Money".

Tom Williams had been a "Smart Money" insider, and later developed trading system software to discern the activity of the "Smart Money" manipulation of the markets. [www.tradeguider.com](http://www.tradeguider.com)

Gavin later became a Williams protégé and since 2001 has become recognized as a leading expert in market manipulation and the Volume Spread Analysis methodology. His passion is to enlighten those traders and investors who have no idea of the inner workings of the markets. He has also built upon the pioneering work of Richard Demille Wyckoff, Richard Ney, and Tom Williams.