tradeguider

TopBot Professional

for VSA SMART Center Pro

Wyckoff / Volume Spread Analysis

Counter-Trend Trading Strategy

Preview Version

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<u>The Wyckoff / VSA TopBot Strategy For Stocks, Futures, FOREX, Commodities and Cryptocurrencies.</u>

Background

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

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

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

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

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

For further details on the Volume Spread Analysis methodology go to Appendix one.

This trading system would intuitively trade alongside and in harmony with the “Smart Money” players who move and manipulated all markets.

For further details on Market Manipulation and the “Smart Money” go to Appendix two.

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

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

At the launch of SMART Center Pro, live at The CME Group Headquarters (Chicago Mercantile Exchange) in downtown Chicago in October 2016, we were able to demonstrate live trading using the system using timeframes starting with weekly charts, daily charts, four hour charts, hourly charts, fifteen, five and one minute charts.

This was by far the most successful launch of any TradeGuider software product in the 18 years since we started the business.

The new Topbot strategy for Smart Center Pro was developed based on a conversation I had with one of our long standing and very valued customers, Mr Nick Cowen, Managing Director of The Gibraltar Stock exchange.

As I write this The Gibraltar Stock Exchange has launched The Crypto Harbour, which is already a world leading token sale platform and cryptocurrency exchange. During a conversation with Nick about Wyckoff/VSA analysis for cryptocurrencies I had an *aha* moment.

(For details on The Crypto Harbour and to view Nicks interview with Bloomberg please visit https://gbx.gi/). For details on Nick please click here

Nick was one of the first users of the Smart Center Pro trading platform and discovered the most important VSA signals include *The End of a Rising Market* (Sign of Weakness) and *Bag Holding* (Sign of Strength).

Before Tom passed away in 2016 he gave me a list of all the counter trend VSA principles and indicators that would mark a major trend change or turning point on multiple timeframes.

When these very important high probability indicators appear on the chart they are the footprint left by "Smart Money" as they begin to accumulate or distribute to the herd and they all have massive or ultra-high volume associated with them which we call "Climactic Action" or as Wyckoff referred to them as Hypodermic price bars.

Unlike our SuperScalper, SharpShooter and Prism strategies which are all *trend* strategies, TopBot is *counter-trend.* The only confirmation needed is on the close of the bar following the appearance of one of the indicators as described below.

TopBot - The Trading Concept

This trading strategy is built on Tradeguider's core indicators identifying professional accumulation and distribution. The VSA System will:

- Identify trading opportunities by finding unusually high volume on a chart (climactic action) and alert the trader when they happen in the timeframes being monitored.
- Show change of trend in the smaller timeframes using the VSA proprietary volume thermometer and short-term diamond (dot) trending system.
- Alert the trader when a major VSA principle has been found in any timeframe being monitored by the system.
- Allow a trader to monitor and scan hundreds of charts at one time so the system is "sniffing" out trading opportunities for the trader to then analyse on the charts.
- Provide visual, audible and email alerts in when trade set up located.
- Bar information window for bar by bar VSA analysis.
- Provide a detailed explanation for each indicator, including the market conditions causing the signal

The Time-frames

While any timeframe can be monitored for signals, TradeGuider recommends monitoring the following 10 timeframes. Generally, you can expect a bigger move in an instrument when a signal appears on a higher-timeframe chart versus a lower timeframe.

Time-frames not available to view in this Strategy Preview document

The VSA Indicators

Signs of Weakness giving short opportunities – 9 VSA Principles 19 VSA Set Ups

VSA indicators not available to view in this Strategy Preview document

Signs of Strength giving long opportunities 5 VSA Principles 9 VSA Set Ups

Time-frames not available to view in this Strategy Preview document

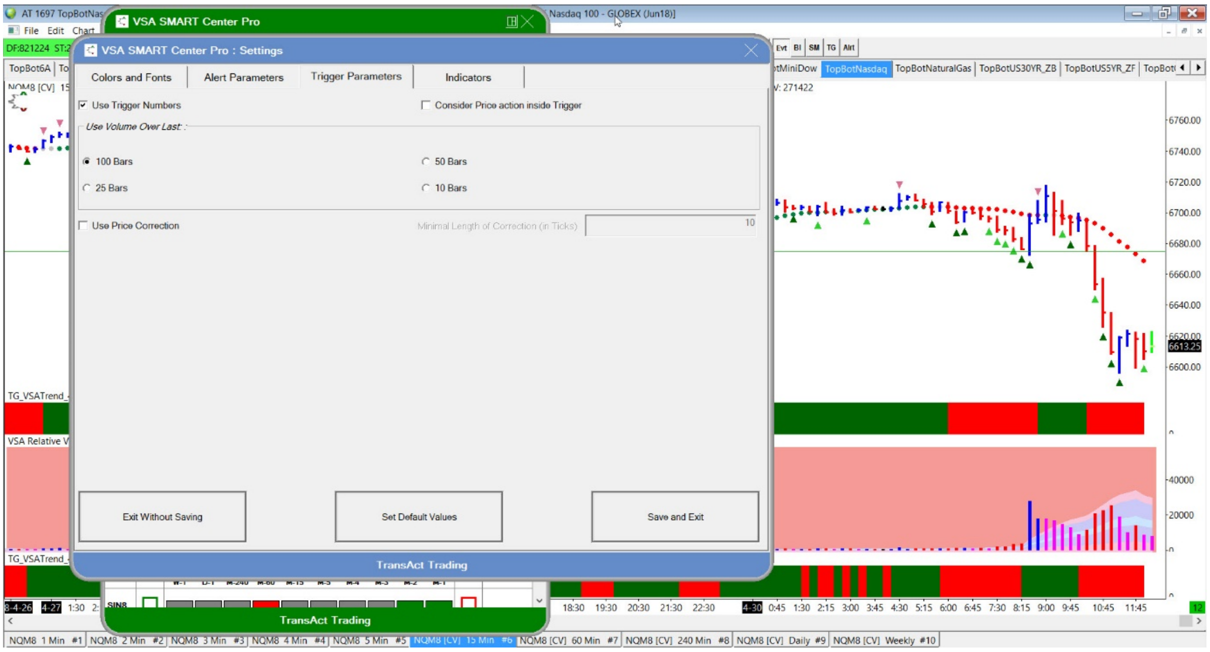
TopBot - Configuration

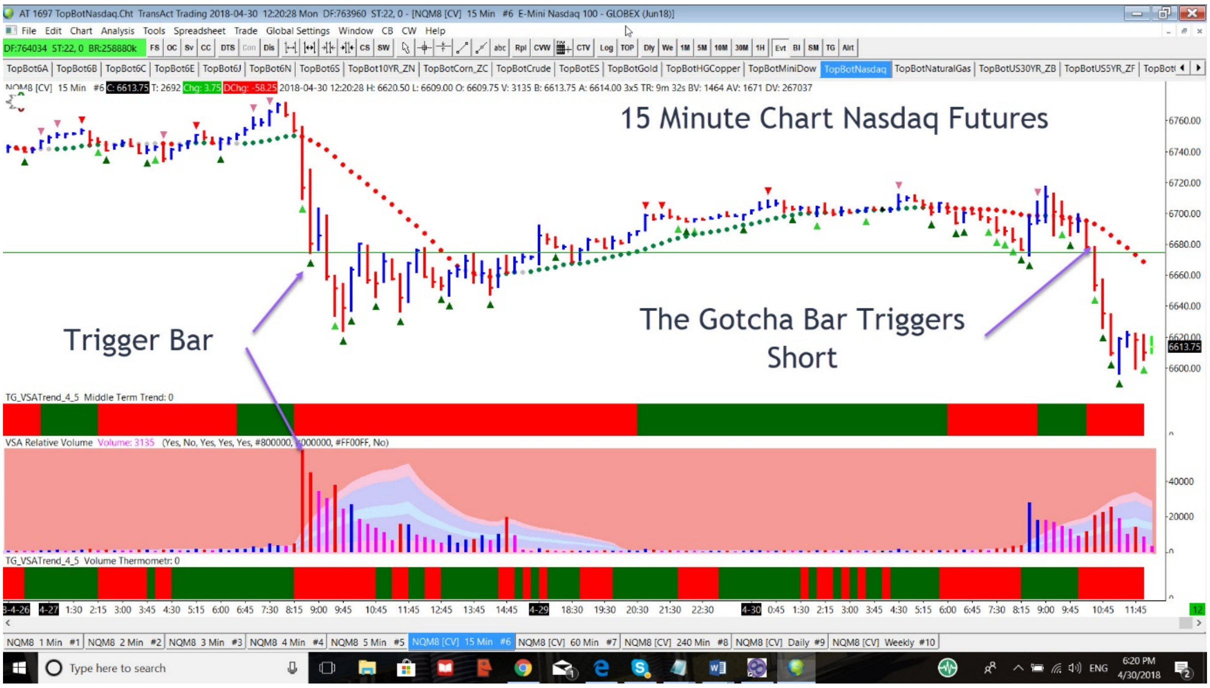
Please refer to the TopBot setup document for instructions on how to configure the indicators, Smart Center Pro, and the time frames required for the TopBot strategy.

You will find this document in the Software section of the TradeGuider website for the TopBot product.

Trigger Numbers are climactic bars in the background that when price action reaches the same level in the future become extremely important, especially when price action breaks the low of the climactic bar (short opportunity) or high of climactic bar (long opportunity).

SMART Center Pro automatically searches for these bars. Please read SMART Center Pro instruction manual for settings. Suggested settings for trigger numbers shown below.





Example of climactic trigger bar penetrated in the future. This line now acts as resistance to higher prices.

TopBot Strategy Trading Rules

STEP 1

Make sure that the email system in the trading platform that you are using for TopBot is configured correctly and working. This information is provided in the TopBot Setup document and on our solutions pages.

STEP 2

Start your trading platform and ensure that SMART Center Pro is running.

STEP 3

Wait for an email or audible alert when the VSA indicators have been detected by TopBot and go to the chart.

Rule 1

Look to the Volume Thermometer, it must be *red* to *short* after a major *sign of weakness* or *green* to go *long* after a major *sign of strength* has appeared. Then check the volume thermometer of……

Further rule information not available to view in this Strategy Preview document

STEP 4

Wait for a clear change of trend / market behaviour. Wait for the market to:

If going long, the market must make…..

Further rule information not available to view in this Strategy Preview document

If going short, the market must make….

Further rule information not available to view in this Strategy Preview document

Rule 2.

For a short trade: The Diamond / Dot trending system must have at least….

Further rule information not available to view in this Strategy Preview document

For a long trade: The Diamond / Dot trending system must have at least ….

Further rule information not available to view in this Strategy Preview document

STEP 5

Take the trade

Rule 3.

NEVER RISK MORE THAN 2.5% OF YOUR RISK CAPITAL IN ANY ONE TRADE AND MAXIMUM 6% IF IN MORE THAN ONE TRADE.

Rule 4.

LOW or VERY LOW VOLUME BARS

Pay particular attention in your analysis to any LOW or VERY LOW VOLUME bars at or near to the same price level as the ULTRA HIGH VOLUME bars. This can cause price direction to change quickly so be aware of low volume bars as the market moves in your favour.

Further rule information not available to view in this Strategy Preview document

STEP 6

Move stop loss to break even after you observe a surge in volume and price in the direction of your trade. Manage the trade to profitable conclusion.

MY STOP LOSS STRATEGY IS ONE TICK ABOVE SIGNAL BAR THEN MOVED TO BREAK EVEN WHEN A WIDE SPREAD BAR MOVING IN THE DIRECTION OF THE TRADE IS OBVSERVED, OFTEN CALLED A GOTCHA BAR.

Rule 5.

MANAGE YOUR MONEY

Managing your money. Sounds simple doesn't it, but when it comes to managing and growing a trading or investment account this is one of the most important and often least understood topics for a trader and investor, especially if you are just starting out. There is more information about money management in Appendix 3 and Appendix 6 below.

Rule 6.

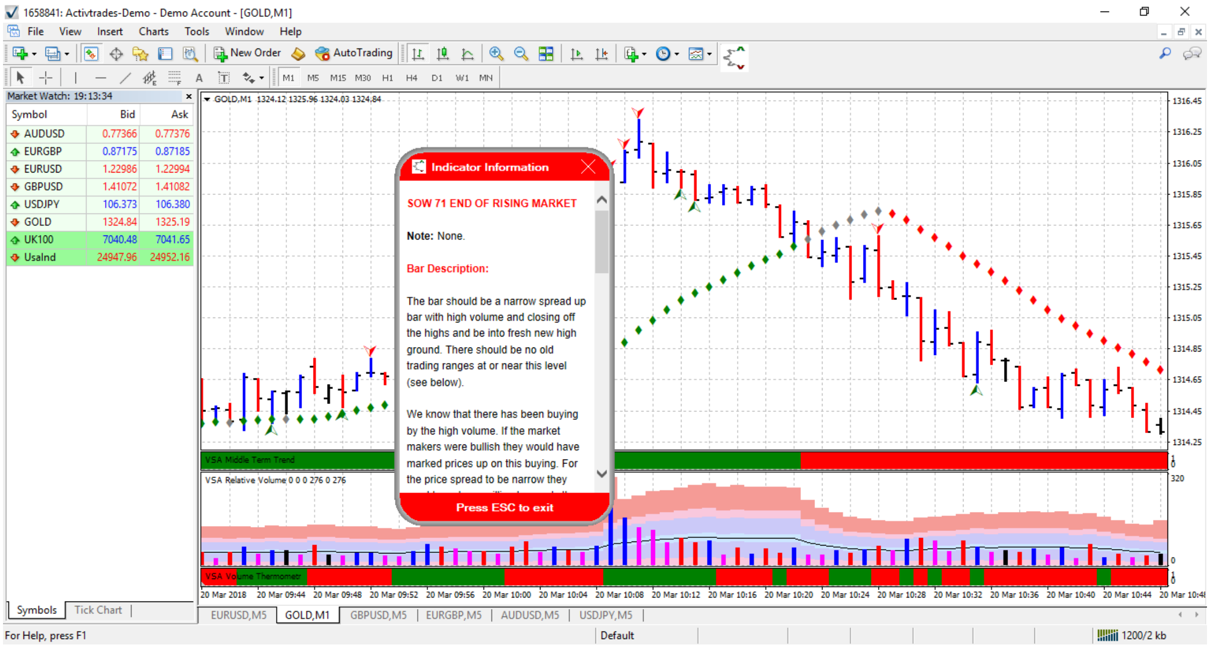
Live Accounts

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

Appendix 1 – Example Entries

Example A Short:

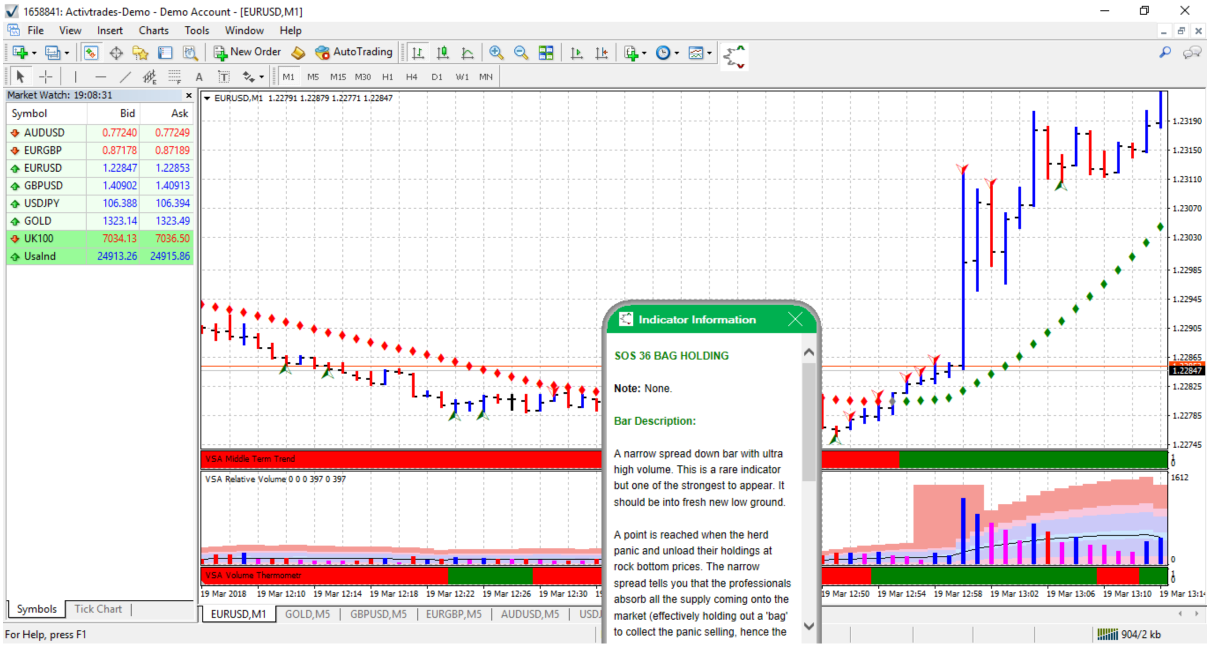
End of a Rising Market appears on the 240 minute chart.



Further information not available to view in this Strategy Preview document

Example B Long:

Bag Holding appears on 5 minute chart.



Further information not available to view in this Strategy Preview document

Appendix 2 – Volume Facts

VOLUME IS ACTIVITY

Volume is the activity of "Smart Money". Massive volume at a price then followed by low volume in the future at the same price is a massive signal from the Professional "Smart Money" players. Wyckoff recognised it as vitally important, Williams recognised it as vitally important and TopBot has been developed to find these key areas of professional activity and alert you to the opportunities available at these levels. With End of a Rising Market and Bag Holding the market often turns immediately and no low volume bars are seen until the trend develops, but remember the two rules.

Weakness appears on Up Bars, which is defined as a price bar that has CLOSED higher than the CLOSE of the previous bar.

Strength appears on Down Bars, which is defined as a price bar that has CLOSED lower than the CLOSE of the previous bar.

Appendix 3: Managing your Money

Money management is the process of budgeting, saving, investing, spending or otherwise in overseeing the cash usage of an individual or group.
When you fund your trading and investment account one of the first things you must understand is the nature of RISK.

I could write a whole book on this subject but fortunately an excellent book on this very subject, called "Against The Gods – The Remarkable Story of Risk" by Peter L Bernstein is where I learnt much of what I apply to our Hedge Fund today, as well the remarkable knowledge imparted to me by the late, Tom Williams, Inventor of Volume Spread Analysis and a former syndicate trader.

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

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

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

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

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

APPENDIX 4 – VSA Explained

<u>General Background to the Wyckoff Method and Volume Spread Analysis</u>

I would like to dedicate this trading strategy to the Master's & Creators of the Wyckoff Method & Volume Spread Analysis

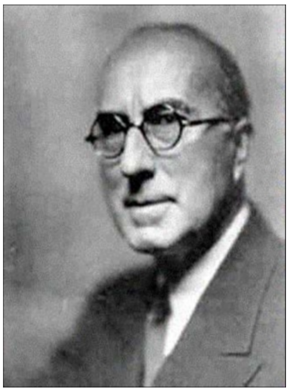
Inventor VSA - Tom George Williams - January 4th 1929 – November 7th 2016

" If you can read a chart correctly, you will understand the markets do not move randomly but are moved by the "Smart Money" and you can see their intention at support and resistance levels by looking for the tell, tale footprints hidden in the volume and price, and you have a chance to profit by following their footsteps.

Volume is vital in your analysis, which is why the self regulated exchanges around the world will not release true volume figures until the day after trading took place!!

Tom Williams, 2016

Richard Demille Wyckoff (November 2, 1873 – March 19, 1934)



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

Richard D Wyckoff, 1914

This is a brief explanation of the underlying methodology of Volume Spread Analysis. We will be showing examples of how professional activity is clearly visible in all markets and in all timeframes, if you know what you are looking for.

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

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

Richard Wyckoff was a trader during the 1920 and 30’s. He wrote several books on the Market, and eventually set up the "Stock Market Institute" in Pheonix. Richard D Wyckoff (born November 2, 1873; died March 19, 1934) was a stock market authority, founder and onetime editor of the *Magazine of Wall Street* (founding it in 1907), and editor of *Stock Market Technique*.

Wyckoff implemented his methods in the financial markets, and grew his account such that he eventually owned nine and a half acres and a mansion next door to the General Motors Industrialist, Alfred Sloane Estate, in Great Neck, New York (Hamptons).

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

Continuing as a trader and educator in the stock, commodity and bond markets throughout the early 1900s, Wyckoff was curious about the logic behind market action. Through conversations, interviews and research of the successful traders of his time, Wyckoff augmented and documented the methodology he traded and taught. Wyckoff worked with and studied them all, himself, Jesse Livermore, E. H. Harriman, James R. Keene, Otto Kahn, J.P. Morgan, and many other large operators of the day.

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

Wyckoff was thorough in his analysis of the trading range. One tool that Wyckoff provides is the concept of the “Composite Operator.” Simply, Wyckoff felt that an experienced judge of the market should regard the whole story that appears on the tape as though it were the expression of a single mind. He felt that it was an important psychological and tactical advantage to stay in harmony with this omnipotent player. By striving to follow his foot prints, Wyckoff felt we are better prepared to grow our portfolios and net-worth.

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

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

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

Volume Spread Analysis seeks to establish the cause of price movements. The ‘cause’ is quite simply the imbalance between Supply and Demand or strength and weakness in any liquid market, which is created by the activity of professional operators or “Smart Money”.

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

For the correct analysis of volume, one needs to realize that the recorded volume information contains only half of the meaning required to arrive at a correct analysis. The other half of the meaning is found in the price spread. Volume always indicates the amount of activity going on, the corresponding price spread shows the price movement on that volume. Many traders believe you cannot analyze volume is the FOREX markets because it is unavailable, but we will show during this seminar that is not true.

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

Further information available at www.volumespreadanalysis.com

Appendix 5 – Market Manipulation and the “Smart Money” Manipulators

Who is the “Smart Money”?

First of all you have to realize and accept that the “Smart Money”, “Composite Operator” or ”Professional money” are very active in all the financial markets.
“Smart Money” as we shall refer to it here, can be trading syndicates, individual traders with huge capital, large financial institutions, certain funds such as ‘The Quantum Fund’ operated by George Soros, and large institutional banks.

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

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

All financial markets are dominated by the big professional players

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

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

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

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

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

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

By using and understanding TradeGuider and the Volume Spread Analysis methodology you will learn:

- How to identify profitable situations when massive volume spikes appear followed by low volume.
- How to read any market like a professional.
- How to tell if a market is strong or weak.
- How you are manipulated by the professionals to make the wrong decisions.
- What you should consider to become a full time trader.
- Powerful trading tips to improve your performance and boost your profits.
- How to react to news driven events.
- How to avoid “Herd” mentality.

Appendix 6 – Gavin’s Money Management regime

<u>Money Management</u>

I will not risk more than 2.5% of my capital in any one account in any one trade

I will not risk more than 6% of my capital in any one account in multiple trades.

I will close a losing trade quickly and treat it as a cost of doing business in the market.

I will never take a loss personally.

I will never get angry because a trade went against me.

I will learn from the losing trade but will not dwell on it.

If I make three consecutive losing trades I will cease trading and re-examine my plan.

I will never revenge trade.

I will allow a winning position to run using the chandelier stops and H stops in TopBot on 5 minute chart.

My key objective is to get my stop to break even then small profit without getting stopped out.

I will use a minimum of a 2:1 risk reward ratio

I will evaluate my trades every Saturday and will identify high probability set ups for the following week.