

THE WYCKOFF STRUCTURAL SCANNING BLOG

By: John Colucci, Jr.
Scan Well, Trade Better!

Where's the Structure!

Welcome back fellow Wyckoffians! We have cast our net into the sea of tradeable securities and pulled back a considerable haul of over 200 SP500 stocks that meet our criteria. We even looked at a stock to see if our scan is yielding proper results. Now we will look at Allegan, plc (AGN) in more detail for the brass ring of Wyckoffian Structural Scanning: a developed Wyckoff structure that (a) gives us a clue about the present movement of institutional money, and (b) provides a reasonable basis as to the direction of future price.

1. *Wyckoffian Structure: The Ultra Short Course.*

When we discuss Wyckoff Structural Price Movement, we are referring to the Wyckoff method of stock analysis. **At its core, the Wyckoff system looks for institutional accumulation and/or distribution of stocks that can lead to large price movements to the upside or downside.** In a very real sense, we are looking for chart action that betrays the actions of a highly skilled, big money, sophisticated trader, known as a Composite Operator. We fondly refer to this class of market participants as a "CO".

Wyckoff structures can be divided into two (2) basic categories: accumulation and distribution. Google tells us that accumulation means "the acquisition or gradual gathering of something." Distribution on the other hands means "the action of sharing something out among a number of recipients." (Courtesy of Google Dictionary).

When a stock is under accumulation in Wyckoffian terms, it generally means that strong, well-funded, market participants are buying shares to hold for potentially long periods in order to accomplish their profit objectives. Conversely, when a stock is under distribution, the CO will sell (facetiously, "share") stock out among several recipients to either take profit or initiate a short position.

The CO will rarely, if ever, let you know their intentions and will be more than pleased to let you (and your greed) chase them into a long position or stand ready with open arms and wallets to catch your shares when you (and your fear) have had enough and capitulated to the market forces at hand.

You may even feel the CO knows where your stops and targets are and is out for your shares. Perhaps you ascribe an "evil" motive to the CO (out to get your shares cheap or sell you overpriced stock on a breakout). Neither is generally the case. For Wyckoffian purposes, the CO is highly skilled, not nefarious. There is another way to look at the matter: would you prefer that your money be managed with the skill and foresight we attribute to the CO? **Certainly!**

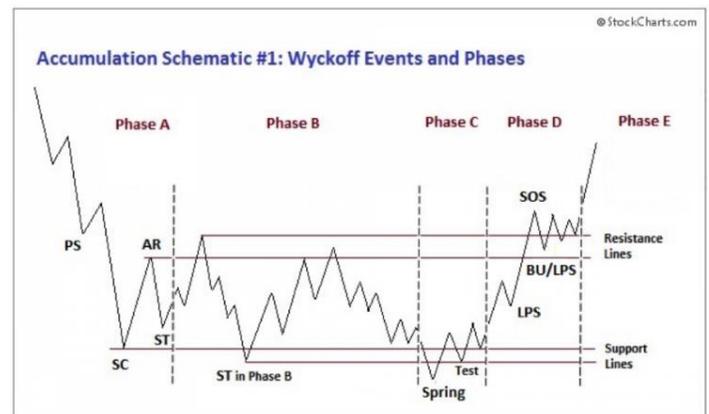
You might as well accept early on that if you are following the elephants in the room, you could get stepped on. But remember, there is a third leg to our Wyckoffian Trading Thesis to help us here: only reasonable and justifiable losses to trading capital should be permitted.

In order to understand our Wyckoffian Trading Thesis, in all its aspects, you have some homework. Stockcharts.com has a Wyckoff primer: great start. Professor Bruce Fraser's Stockcharts.com Blog ("Wyckoff Power Charting") and Power Charting Videos are mandatory (and free). Once you have covered these materials, you are ready for Professor Bogomazov's course: Wyckoff Trading Course ("WTC") and Wyckoff Trading Practicum Course ("WTPC"). There are also key written works, including: Dr. Henry Pruden's classic, The Three Skills of Top Trading, (Wiley 2007) and David Weiss', Trades About to Happen (Wiley 2013).

There is no easy journey to Wyckoff mastery, but take comfort in the large number successful Wyckoffians over the last 100 years who have mastered the subject.

2. *A Quick Look at Accumulation.*

Accumulation is the gradual acquisition of large positions and is a hallmark of CO long term operations, referred to as a "campaign." The following is a schematic of one variation of "accumulation" depicting CO market operations:



In future blogs, we will get into the "nitty gritty" of this Accumulation Schematic (Type 1), but for now, let's look at what price has done during this formation:

- **Price moved down,**
- **Price stopped going down,**
- **Price went sideways,**
- **Price briefly fell under support, and**
- **Price then moved up and out above resistance.**

Coming up.

In the next installment of the Wyckoff Structural Scanning Blog, we will look at the sneaky (and opposite) twin of accumulation—distribution.

See you next time.

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Take a minute and conduct a visual inventory of the Accumulation Schematic (Type 1) and only look at the big picture elements, save the details for later.

Now let's look at AGN again, but this time with a few lines and arrows to help guide our eyes:



Look familiar? Looks a lot like “accumulation”, but don't bet the farm yet. We have a long way to go.

Now we have run our first scan, reviewed and organized our results, looked at our first chart and even reviewed a Wyckoff Schematic as well as marked up a chart! Wow, enough to make your head spin.

These are the just basics.

From here out, we will look at a distribution schematic and begin thinking in terms of Wyckoffian price movement, up or down. Determining how to scan for those unique Wyckoffian aspects of price will become a focus. **When you think like a Wyckoffian you can scan like a Wyckoffian: the Wyckoffian equivalent of “cogito ergo sum”.**



John Colucci, Jr. has been involved in stock market and financial analysis for over 30 years

From the early days as a corporate bankruptcy and insolvency attorney, Mr. Colucci poured over financial statements, budgets and cashflow projections to determine the feasibility of financial plans presented to creditors. After early training in forensic financial analysis and fraud detection, Mr. Colucci took an interest in stock market investing from a fundamental perspective. After a series of hard taught lessons beginning in 1987, technical analysis became a bigger focus for investment analysis. After working through the quasi fundamental/technical system developed by William J. O'Neil, Mr. Colucci's Wyckoffian journey began with the search for meaning in the phrase, “the stock is under accumulation.” After numerous books, blog articles, courses and special events with many of the great Wyckoffian's of our time, Mr. Colucci is primarily a long/short technical stock and futures trader using Wyckoffian principles—with an occasional financial statement sojourn to celebrate old times. Scanning and filtering are particular passions.