

Signs of Weakness - SOW

SOW – Principle 1

Up-bar on a narrow spread, close middle or low, volume very high or low. Weakness always appears on an up-bar because professional selling has to sell into a surge of buying. The narrow spread indicates supply. Something has capped the top end of the market. Selling, or lack of demand from professional money are the only two things that can do this. If the volume is high plus this will show supply. If the volume is low this will show lack of demand. Check for old resistance levels to the left.

SOW – Principle 2

Markets are constantly being traded. A sudden down move will lock many traders into poor positions as they wait and hope for a rally to get out with little or no loss. If after a reaction the market then starts to go up, then any old resistant level will require effort to go up and through these old highs because they have to overcome the selling from these locked in traders. To approach an old high on low volume and narrow spreads indicates that the old highs are not going to be penetrated because there is no demand. If the market is not going to go up then it is going to go down.

SOW – Principle 3

This is known as effort versus Result. Any indication of strength you should expect a strong market. If the next bar is down on a wide spread closing on the lows and the low and the close is lower than the previous bar this is a countermanding signal. You do not fight the market but you have to assume that there has been no result from the SOS therefore the market must be weak. If the original indication was genuine SOS then professional money would immediately move into the market giving higher prices not lower.

SOW – Principle 4

The Up-Thrust. Up-thrusts are there for a very good reason and that is to trigger stops in a weak market. However, many chart patterns look like Up-Thrusts but fail to live up their promises. The Up-Thrust has to look right. It has to be in the right place. Many are created in a strong market by gapping up at the opening then falling off for a rest only to carry on up. The genuine ones are easy to see. Basically you should have SOW in the background not SOS.

SOW-Principle 5

Up bar on volume less than the 2 previous bars. This indicates lack of demand from professional money. This comes into its own on short time frames.

SOW - Principle 6

A down bar on a wide spread plus closing on the low pushing down and through a previous support level.

SOW - Principle 7

Strength appears on down bars especially if the bar has closed in the middle. Here this is discounted because the high is higher than the previous bar. This is a hidden up-thrust and a SOW. This principle arrives in a variety of disguises.

SOW - Principle 8

A surge in option volume. Up bar after a rally and the option volume is very high. Professional traders will have a very good idea when a top has been reached and will enter the option market to hedge their positions. Seems to be clearer on a top than a low of a market.SOS

SOW - Principle 9

Buying climax. Up bar with wide spreads closing middle or low on ultra high volume. Very powerful SOW if there are no old tops to the left. As a market keeps on going up day after day a point will be reached at some time when many traders that have sold prematurely or those that are not in the market cannot stand the constant higher prices and frenzy gives the trading syndicates and market makers a golden opportunity to unload large amounts of stock at a high price without their activity resulting in lower prices. This marks the high point of the market.

SOW - Principle 10

Top reversal. This is a common sign of weakness. The first bar is marked up rapidly, closing on the highs (usually on good news). The volume can be high (supply swamping demand) or low (no demand). The next bar rapidly reverses down, on a wide spread, closing on the lows. If the low and the close is lower than the first bar this adds to the weakness. As with all these indications, it is important to read the following bars for confirmation of continued weakness.

Signs of Strength - SOS

SOS – Principle 1

Bottom reversal. A wide spread plus down bar closing on the low. The low and the close is lower than the previous four bars. Followed by an up bar on a wide plus spread closing on the highs. This arrives in a variety of versions but basically the first down bar is a shake-out usually on so called bad news. The second bar is rapidly marked up to lock traders in (if you shorted) or out of the market if you wanted to buy the market. (people hesitate buying because it now appears expensive to the earlier price.

SOS – Principle 2

Stopping volume. To stop a down move demand has to overcome the supply. The odd way supply and demand is evident here. As a market falls day after day a point will be reached when the herd cannot stand the losses so they all tend to panic at a similar time. If the price levels reached are now attractive to professional money they will step in and start buying. This activity causes a surge in volume as they buy and cover their short positions.

SOS – Principle 3

The Test. This is a very common SOS frequently seen just before an up move. Is also seen in a rising market after a minor SOW and indicates higher prices.

SOS – Principle 4

Down bars closing in the middle on reduced volume seen after any SOW indicates higher prices. This is a strong SOS in an up-trend after a SOW because there is no continuation of the weakness. If there is no continuation expect higher prices.

SOS – Principle 5

A wide spread up bar closing on the highs pushing up and through an old top to the left. This is demand and an effort to go up. After this event the market usually rests or starts to react, you are now looking for indications of strength to confirm the strength.

SOS – Principle 6

This is a very powerful indication of strength. First you see stopping volume (see principle 2). The market has a short rally only to fall again back down into the same area as the first high volume seen

during the stopping volume. The volume is low. If the spread is narrow and or closing on the highs this is a strong indication of strength.

SOS – Principle 7

This is a variation of stopping volume which has arrived on 2 bars rather than on 1 bar. On the first bar supply was so heavy that professional money was unable to absorb all the stock dumped onto the market. This allows the market to fall on the next bar usually on so called ‘bad news’. This can be gapped down on the opening causing the panic. However, to close in the middle or highs indicates demand has overcome the supply.

SOS – Principle 8

The hidden ‘test’. This is a variation of the bottom reversal. If the market low has fallen below the previous 4 bars on a wide spread down closing on the lows and the next bar is up on a wide spread closing on the highs then this has the hallmark of a low bottom reversal and a sign of strength. However, if the low of the second bar is lower than the previous bar this adds to the strength on the assumption that the market had been marked down on the opening only to find that there was absolutely no supply, so the market quickly reversed on a wide spread closing on the high. If there is no selling at the lower levels then expect higher prices.

SOS – Principle 9

Selling climax. Wide spread down closing in the middle or high after a substantial down move has already taken place. The volume is ultra high. As a market falls day after day a point will be reached when traders will start to panic and encouraged by bad news will start to dump stock onto the market. If the market closes in the middle or high then professional money must have decided that the lower prices now looked attractive and will start to buy into the panic selling. The activity will cause the volume to be ultra high. This marks the low point of the market.