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# Improving Returns While Controlling Risk: Integrating Wyckoff's Tools with CANSLIM Stocks

by J.C. Coppola, III

## Viewpoint

It is my contention that little has changed in the speculative nature of campaigns that take place on Wall Street. The simple reason for this is that human nature runs relatively constant through the boom and bust cycle. In the financial markets, a collective human bias renders a decision. This decision takes the form of price on an electronic quote machine, or at the post on the floor of a global exchange. Price influences other participants and then they make decisions according to prevailing market trends. Price, therefore, plays a profound role in shaping the future outcome for many events, be it in global stock markets, currency markets, or international credit and regulatory cycles. What academia and economic theory seems to miss is that price is always the residual of the collective *bias* presented by the financial community. This human sentiment, and the supply and demand that it creates, is what an investor applying technical analysis strives to exploit in his goal to make money in the financial markets.

"Market participants base their decisions not on objective conditions but on their interpretation of those conditions. When this process called 'reflexivity' takes place, the human bias becomes one of the fundamentals which shape the evolution of price."

George Soros, *The Alchemy of Finance*

## Introduction

In the following research, we supplemented William O'Neil's approach to growth stock investing by applying tools of technical analysis that Richard D. Wyckoff developed circa 1920. Our study is not trying to prove a causal effect or strict linkage between O'Neil and Wyckoff, but rather we are trying to provide the investor with some practical tools which are associated with the Wyckoff method of technical analysis. Our work will show you that Wyckoff's tools proved very helpful in timing decisions in many of the stocks that William O'Neil modeled in his study, *The Model Book of the Greatest Stock Market Winners*.

O'Neil's study modeled 515 of the best performing listed stocks from 1953–1983. Fortunately, O'Neil

found that the underlying factors and common characteristic of the most successful investments tended to be pretty much the same, stock by stock, cycle after cycle. Another interesting point gleaned from O'Neil's study was that "the vast majority of the price increases began emerging out of areas of a price consolidation pattern that had occurred over several months."

Just as William O'Neil had modeled the characteristics of the *greatest winning stocks*, 1953–1983, Richard D. Wyckoff had modeled the campaigns of some of the *greatest stock market operators*, 1889–1928. Wyckoff also found many common characteristics among successful investment campaigns. After modeling the action of Jesse Livermore, Edward Wasserman, James Keen, J.P. Morgan and many other big operators of his day, Wyckoff developed a paradigm which helped to explain the boom and bust cycle in stocks. He implemented this model and grew his account such that he eventually owned a mansion next door to the Alfred Sloan Estate in the Hamptons.

William O'Neil has developed an excellent system that lends itself extremely well to computerized stock screening. In overlaying Richard Wyckoff's model of an idealized trading range, it becomes apparent that we have increased insight into the timing of our buy and sell decisions. The Wyckoff method specifically aids us, stock by stock, in these "areas of a price consolidation pattern" that occur over several months prior to a historic mark-up. Hence, a very nice correspondence between the two methodologies is born.

In conducting our study of CANSLIM and Wyckoff, we critically surveyed a database of 78 William O'Neil CANSLIM stocks, applying Wyckoff's methods of technical analysis to those charts. We were attempting to ascertain if Wyckoff's model was congruent and helpful with the same stocks O'Neil modeled in his study.

In the following paper we will describe what was learned from CANSLIM and how the application of Wyckoff's system of technical analysis can aid the investor in improving returns and controlling risk.

## What Did We Learn From William O'Neil?

In his book, *How to Make Money in Stocks*, O'Neil introduced what he learned from his study *The Model Book of the Greatest Stock Market Winners* to the general public. In this book he coined the acronym, "CANSLIM" to summarize the characteristics of winning stocks. The characteristics that CANSLIM addresses are defined below:

### CANSLIM CHARACTERISTICS

#### The Basis for Stock Selection

**C**—*Current quarterly earnings per share.* A company should have large increases in current quarterly earnings per share. These are usually greater than 25% and/or have a recent acceleration in the rate of quarterly earnings per share.

**A**—*Annual earnings increases.* The annual earnings per share should show consistent growth over the past five years. This can be defined as a 5-year growth rate greater than 25%.

**N**—*Stands for new highs.* Buy when a stock is hitting new highs in price. Always be on the look out for companies with new products, new service, new management, or major improvement in industry conditions.

**S**—*Supply and demand.* The number of shares outstanding of the stocks under consideration should be under 30 million, preferably around five million.

**L**—*Leading stocks in leading industries.* Buying should be concentrated in leading stocks in one of the strongest groups.

**I**—*Institutional ownership.* You want at least one institution owning the stock you are considering buying.

**M**—*Stands for market direction.* Analyze the market. Is the Dow Jones Industrial Average above or below its 200-day moving average? How long has the 200-day moving average been in an up trend or downtrend? Analyze the daily Dow's price and volume movement every day. Equally as important, how are your individual stocks performing in the market environment.

Source: William O'Neil + Co.

After surveying the O'Neil basis for stock selection it becomes apparent that it is comprehensive. The first six characteristics of CANSLIM are directly attributable to the stock. These characteristics are consistently present in areas of price consolidation

that occur over several months prior to the mark-up phase beginning.

- C** — current earnings
- A** — five year earnings growth
- N** — new price highs
- S** — shares outstanding
- L** — leading stocks in leading industries
- I** — institutional ownership, and
- M** — market is studied independent of the stock

Interestingly, the "CANSLIM" variables lend themselves well to computerized searching. Therefore, after constructing a model based on these fundamental characteristics, we then need a technical system with the anchors necessary to filter out the many stocks that come up. This system must tell us precisely when to take a position and how to control our risk.

### What is Technical Analysis and Why Wyckoff?

Technical analysis is the study of supply/demand and psychological factors which aid a speculator in his/her quest to anticipate future price moves of individual stocks, sectors of the market and the stock market itself. A strong technical system empowers the investor with the keen power of observation, it is based upon sound principals that manifest stock market behavior and human nature, while always controlling risk. Therefore, a disciplined model in technical analysis should aid the investor immensely when implementing a trading philosophy which applies the CANSLIM computer searching potential.

As we all know, owning shares of a company is not the same as owning the company itself. Clearly, shares are bought and sold each day as a result of portfolio positioning, sector weighing, excessive cash reserve build up. Additionally, there may be a need for cash for other investments, or simply a manager may react to current stock market conditions. Also, each investor has a different perspective, time-frame and objective for the investment. Warren Buffet's methodology and time-frame may differ from Richard Driehaus, which could differ from Marty Schwartz which may differ from a specialist who has a position in a stock at any given moment in time. Nonetheless, each player is investing to maximize his or her utility. The players share the common goal of making money, but on any given day, the reason for buying or selling their shares may differ. Hence, supply and demand are always influencing share prices.

A good technical system could be considered the most integral part in the investment equation. It tells us *when* to actually make an investment and *how* to control our risk. Richard D. Wyckoff's system is very definitive. It is a system that is intermediate-term

in nature (3–18 months). It is built for those who try to buy long, or sell short, as close to the extremes in the trading range as possible. It is specific in controlling risk through the strict use of stop limits. Wyckoff money management overlay is guided by the principal of pyramiding one's position by scaling in one-third, one-third, one-third, while trading in harmony with the larger trend that is developing.

### Wyckoff's Solutions

CANSLIM's check list is excellent, however, it can be somewhat ambiguous and leaves an investor doubtful and hesitant to take action in a real time trading environment. Mr. Wyckoff's trading range model helps us refine and solidify the efforts of O'Neil.

The three concepts of Wyckoff that specifically add significant value in timing are:

1. The Idealized Cycle and Primary Market Phases
2. The Composite Operator
3. The Nine Buying Long and Selling Short Tests

These techniques enforce discipline in the process and force the investor to be systematic and consistent with his analysis and trading.

### Wyckoff's Idealized Cycle and Phases

The first area of Wyckoff that offers value added

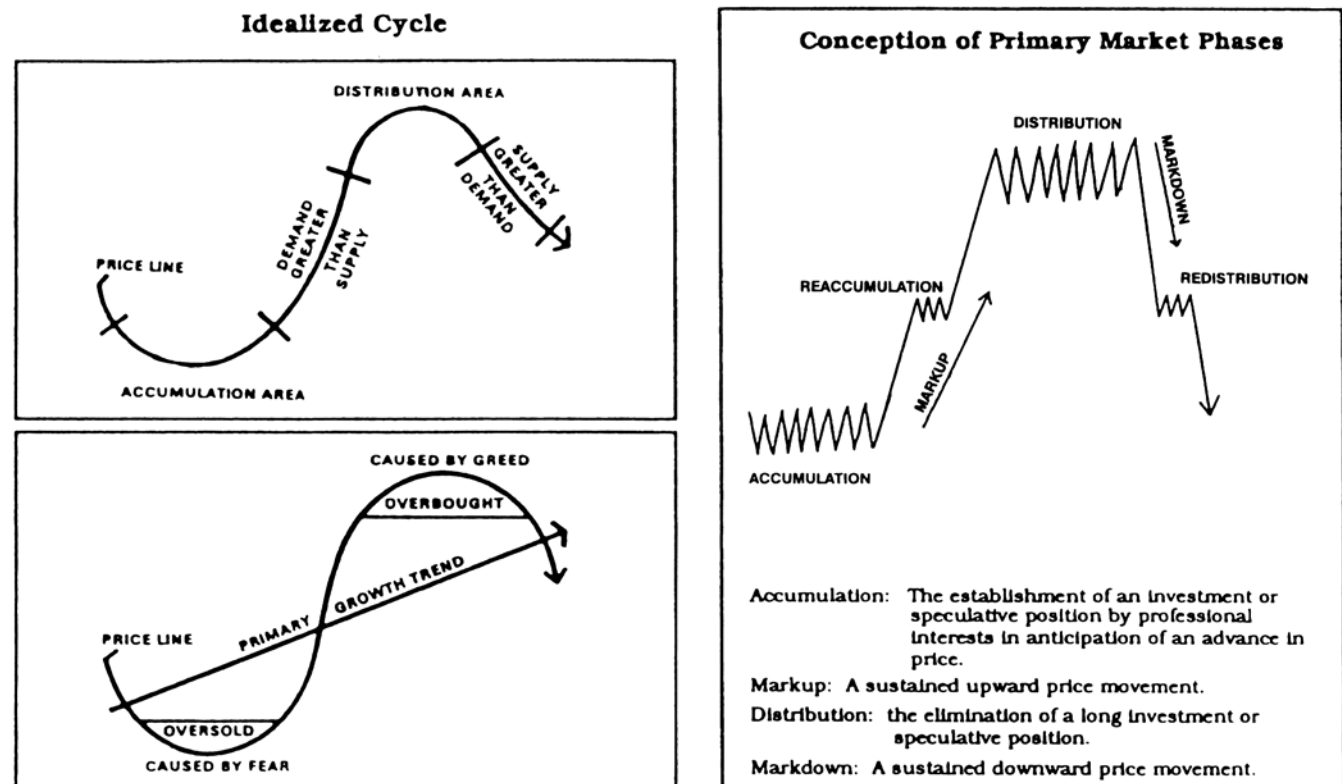
to CANSLIM is the concept of the Idealized Cycle and the Primary Market Phases (see *Figure 1*). This simple but effective tool serves as a basic starting point in our analysis of a stock's pricing cycle. Specifically, it helps us answer, "Where are we in the pricing cycle?" This concept was fully described in the *Market Technicians Association Journal* article by James Forte, entitled "Anatomy of a Trading Range."

### The Composite Operator

Wyckoff was thorough in his analysis of the trading range. Another invaluable 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.

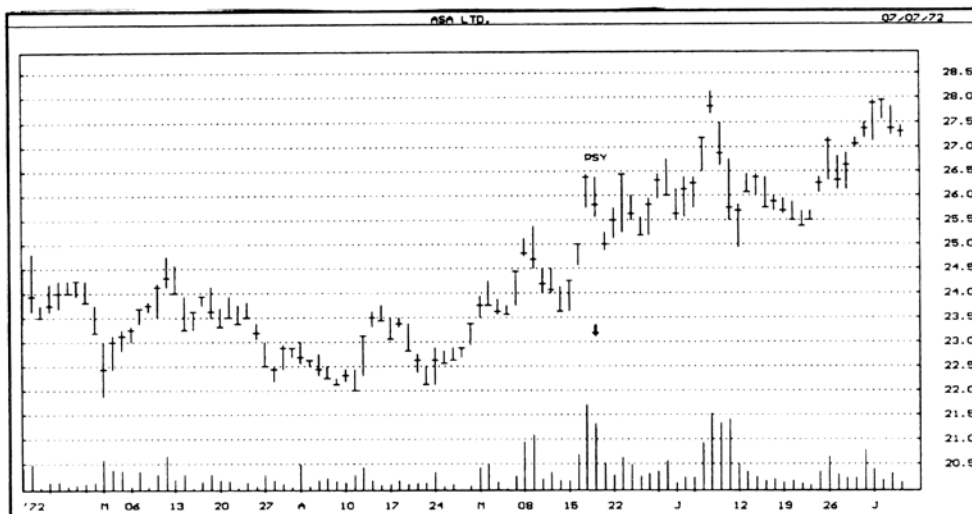
By implementing the concept of the Composite Operator, the investor is emulating positive trading behavior. Through Wyckoff's rigorous test of volume and price action, we are more in tune when following the clues of the tape while viewing them through the eyes of the Composite Operator. The following is

FIGURE 1



Source: James Forte, *MTA Journal*, Summer-Fall, 1994.

FIGURE 2



a verbal and graphical depiction of the entire cycle the Composite Operator follows from the distribution to accumulation phase.

*The Campaign*

As “Bid” and “Ask” spreads jump, and the differential between open and closing prices or “spread” widens positively, the Composite Operator is marking the market up, luring and tempting the less sophisticated players who are attracted by rising prices. At this stage, in the mark-up phase, demand has control over supply. Prices move easily on fairly low volume. Prices continue higher until the move is abruptly halted. Preliminary Supply (PSY) is reached, as the Composite Operator begins to unload a very heavy line of stock on the market. (See Figure 2.)

Nonetheless, the big fellow could never work off

his size in a single session, for it takes several weeks or often months. Therefore, this point of preliminary supply is only the beginning of the distributive process. Subsequently, the keen investor will begin to notice that the stock no longer moves easily nor has the vitality it once did. The Composite Operator is unloading on the way up. His supply dulls the strength of the market.

Heavy supply finally breaks the market as the Composite Operator throws his final line at the market’s top. A Buying Climax (BC) results as prices fall from their highs on the day/week and “spread” significantly widens. The Composite Operator sells on the way down as prices collapse violently and creating an Automatic Reaction (AR) to the Buying Climax (BC) results. (See Figure 3.)

The stock becomes heavy, reacting in dull fashion

FIGURE 3

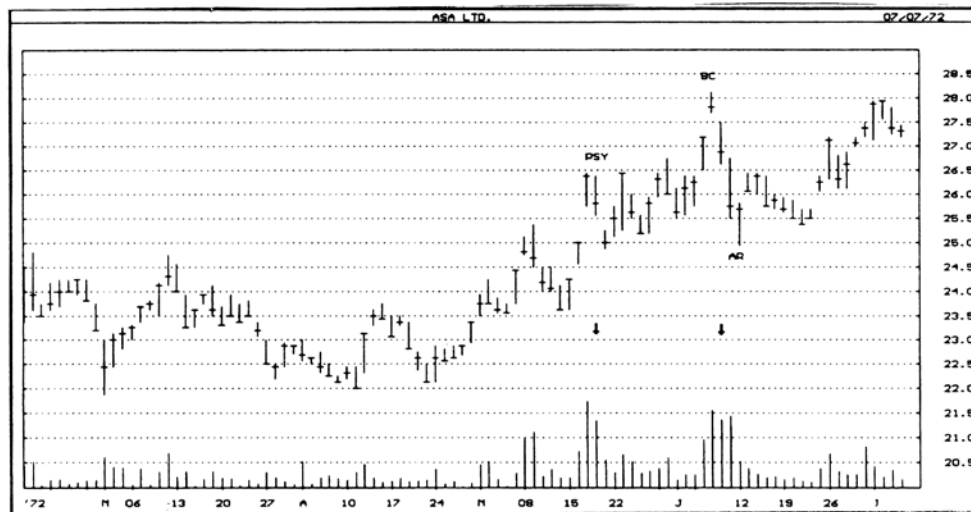


FIGURE 4

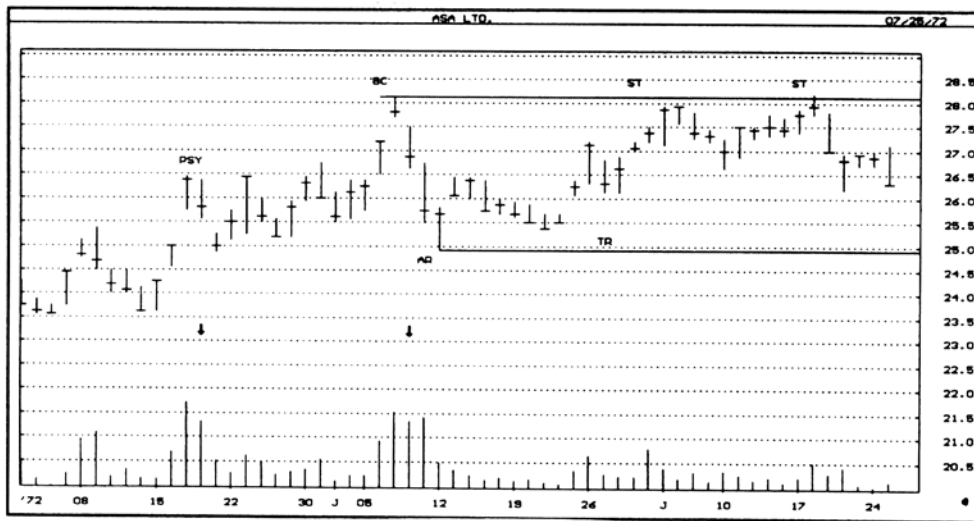


FIGURE 5

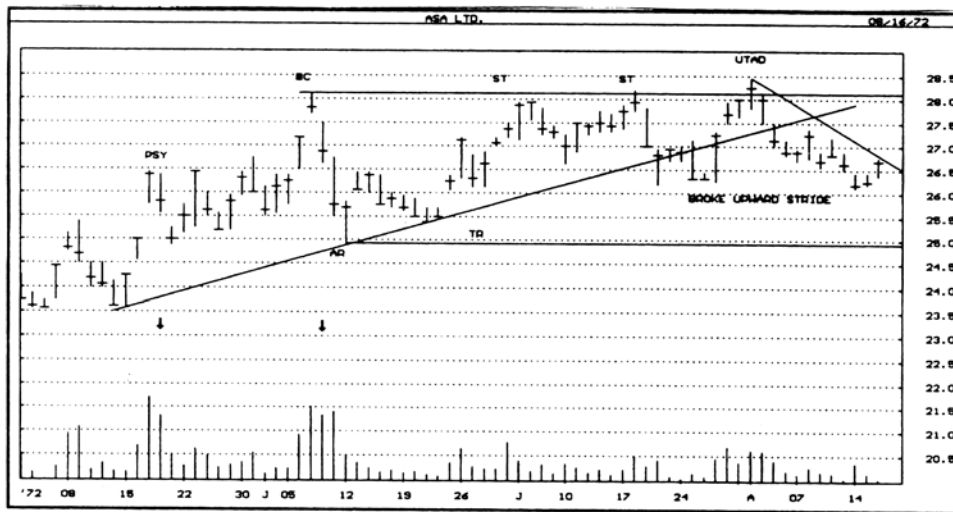
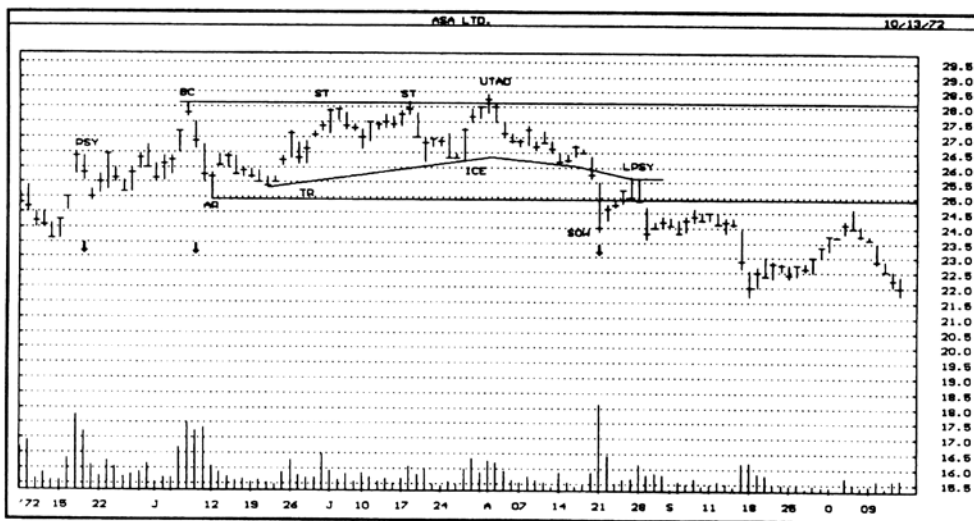


FIGURE 6



and even perversely to seemingly good news. The upward momentum slows as the public's buying effort shows little result. A Trading Range (TR) forms, and towards the top of it, the Composite Operator heavily supplies the market whenever large bids are available. Near the bottom, he holds the market and creates minor support. However, throughout this range, he is always a net seller of stock. He is in the final phase of accomplishing his upside objective and working off his position. As each week passes, he slowly distributes his entire line of stock. The stock seems heavier and heavier and his work in this range is almost done. The Composite Operator's net position is now zero. Nevertheless, this omnipotent operator will soon switch his gears. He begins using rallies to the top-end of the trading range to sell stock short. Prices swing as lower tops and lower supports are often experienced within the trading range. The stock runs up and tests the highs a second time. Wyckoff calls these a series of Secondary Tests (ST). Supply continues to overwhelm demand at the top the Trading Range (TR) as the stock makes little or no net progress to the upside. (See Figure 4.)

The Composite Operator sometimes even rallies the stock hard through the top of the trading range. This will be one last Upthrust After Distribution (UTAD) before prices fail quickly and the stock plunges back into the trading range. This final move tends to purge the weak short sellers and instills hope in the minds of the public who are long in the stock. Prices eventually fail, as the differential between open and closing prices or "spread" widens and the old upward stride/trend line is broken. Positive momentum is now clearly gone and a minor downtrend within the Trading Range (TR) is established. (See Figure 5.)

Supply quickly overwhelms demand and prices fall violently, thus piercing the bottom of the trading range. A Sign of Weakness (SOW) is experienced. When the market attempts to rally back, it runs into supply near the bottom of the old trading range. A Last Point of Supply (LPSY) results. Unfortunately, for those who are long in the stock, the highs have already been experienced. The SOW signifies important weakness and the barrier at the LPSY turns to ICE. This line of ICE, where old support becomes new resistance, will not be significantly penetrated by the bullish public until the Composite Operator is finished with his short sale campaign. Because the big fellow is no longer there to support the market, supply begins to control the market. The stock seems to sink of its own weight. (See Figure 6.)

The market continues its downtrend with "spreads" widening as prices are forced lower. (In severe mark-down phases, prices accelerate climactically as demoralization sets in.) At this point, it is clear that the stock will not see its old highs, soon. A disheartened public quickly rushes to unload the last of their holdings. Suddenly, substantial buying begins to provide pronounced support, Preliminary Support (PS) is experienced. (See Figure 7.)

Volume expands, spreads widen and prices begin to close stronger near the top for the day. The stock follows through and the public sees this strength as the last opportunity to liquidate. The Composite Operator covers his short position throughout, forcing prices higher. It is too early to buy, but he has accomplished his downside objective. The stock falls back to the low ground and climaxes as the Composite Operator covers the last of his line. High volume is apparent and the down move is stopped, as a Selling Climax (SC) is reached. The market reacts and

FIGURE 7

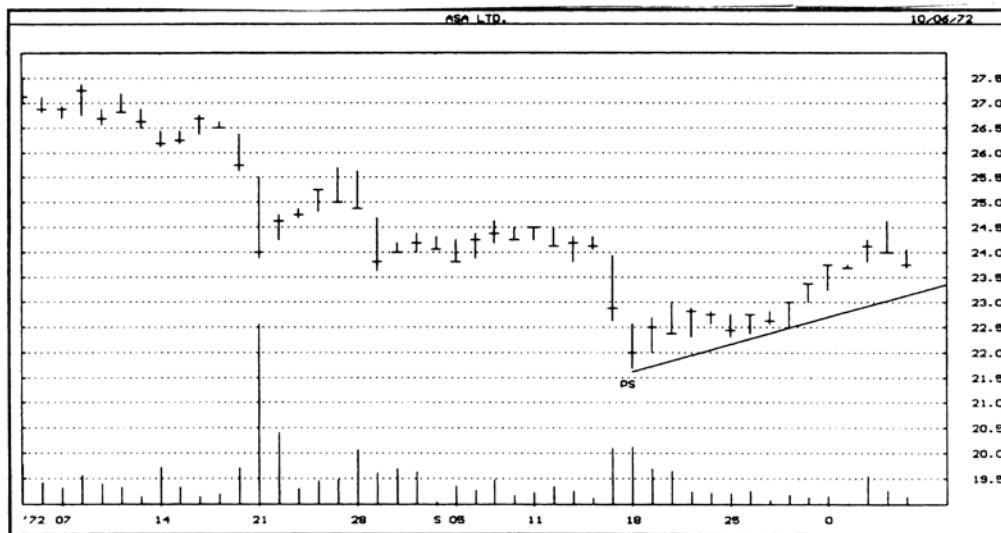
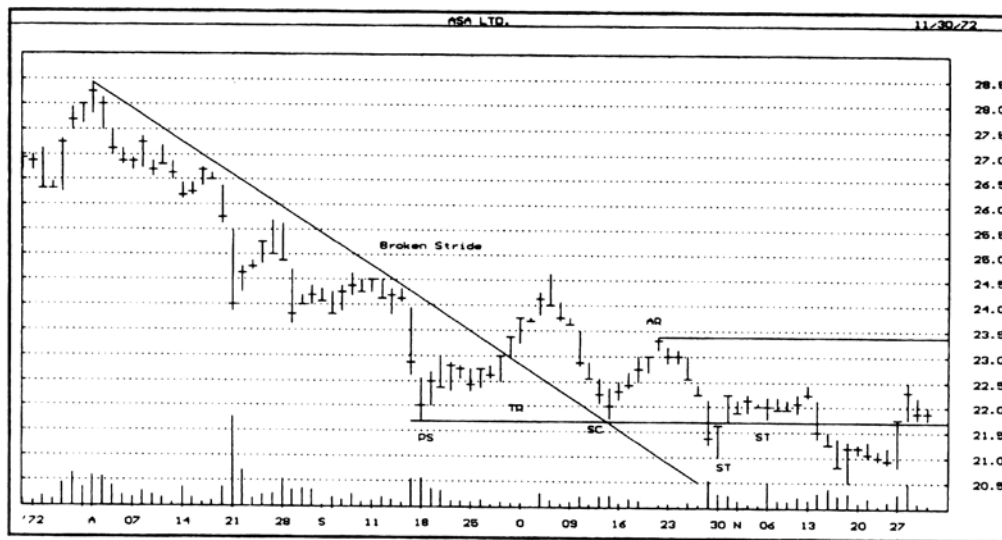


FIGURE 8



an Automatic Rally (AR) ensues. The Composite Operator's final short covering and initial buying forces the market upward quite easily. This results in the downward stride being broken. The Composite Operator lulls the market and works out all weak players as he accumulates his line near the bottom. Prices then fail for there is a lack of a concerted demand. At this point, short covering and minor demand are driving the market. The market undulates in a range as the stock backs and fills, testing for large sellers.

Throughout the early stages of this trading range, the Selling Climax (SC) area is again Tested (ST). The stock is almost dormant, trading dull and quietly for several sessions (sometimes weeks to months). As the stock trades in this tightening range, with the "spread" narrowing, the Trading Range (TR) continues to form. The floor traders get bored with the stock as the public loses interest and volume shrinks. Spreads narrow at the bottom of the Trading Range (TR) and the market begins to coil, tighter and tighter. (See Figure 8.)

Minor supports and higher tops form within the trading range as the Composite Operator continues his quiet buying. Several weeks (often months) pass since the old highs were reached. The Composite Operator's line is almost complete and the stock is prepared for its mark-up. He attempts to push the stock lower, but notices little stock offered. In fact, the bids are willing as the stock is tight and snaps back quickly. The longer the trading range exists, the more likely he will violate its bottom to purge the final weak holders. On each thrust to the bottom of the range, it becomes clearer to the big fellow that demand has control. Eventually, his buying becomes aggressive enough to force prices up very easily. (See Figure 9.)

Prices spring from this point and, often times, move upward quickly. Again, the stock pulls back but little stock is offered to the market. A Last Point of Support (LPS) is formed and a powerful thrust in volume occurs as a Sign of Strength (SOS) results. Another LPS forms on tight spread with volume contracting significantly. Price "spreads" are tight for several sessions until an enormous surge in volume takes place. This represents the Jump Across the Creek (JUMP) of floating supply. Every offer is hit at the market as prices move easily and another Sign of Strength (SOS) is experienced. A reaction or Back Up to the Edge of the Creek (BAC) then forms on shallow volume as demand takes control. (See Figure 10.)

The floor brokers and speculators notice the interest. Psychology begins to turn, news begins to look brighter and the sun begins to rise once again. Speculators trade on the way up causing interim reactions as the Composite Operator holds his line and forces prices steadily higher. The stock is in its mark-up phase, pausing intermittently, to re-accumulate as speculators take profits all the way up. Eventually, the public gets interested and psychology begins to turn more positive. Several months and quarters pass. Euphoria sets in. And, everybody must own the stock! Once again, the Composite Operator successfully played his campaign, round trip. (See Figure 11.)

### Nine Tests

In conjunction with accumulation and distribution, and viewing the market through the eyes of the Composite Operator, Wyckoff affords nine specific tests to apply to all trading ranges. These tests mesh well with CANSLIM and on the next page we list them. It's not the purpose of this article to teach the

FIGURE 9

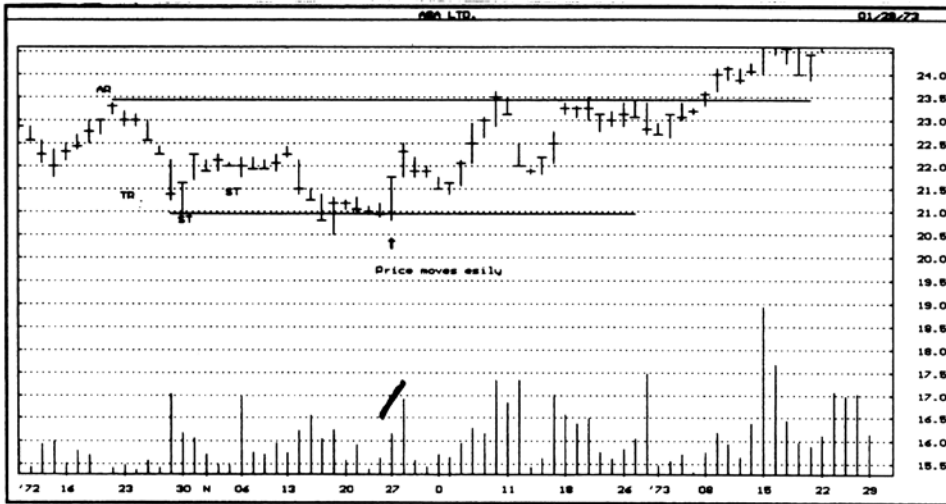


FIGURE 10

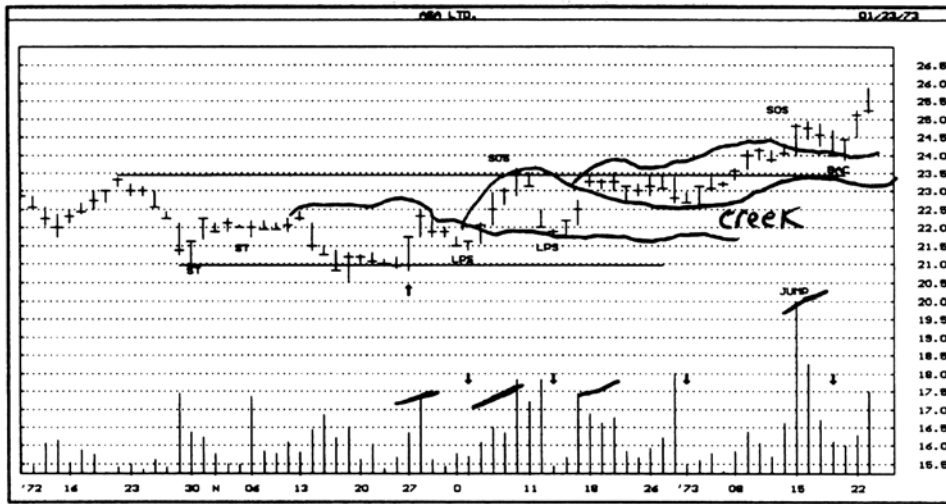
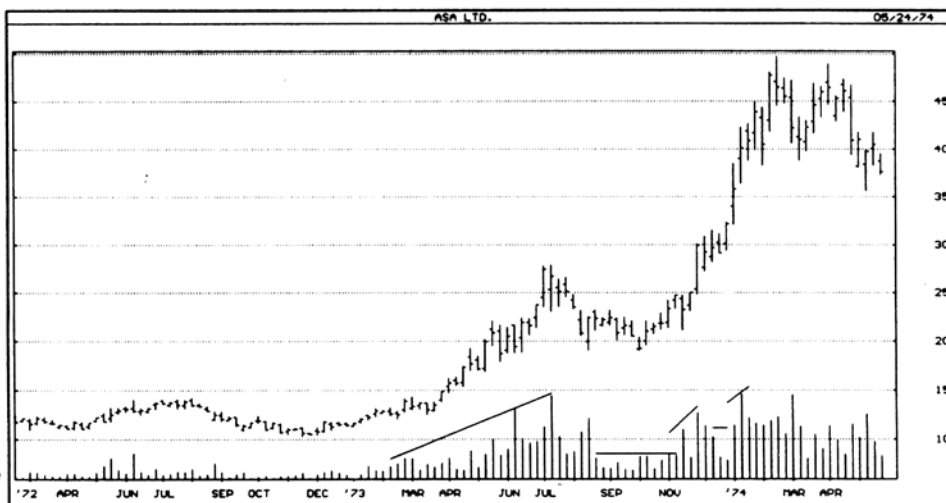


FIGURE 11



reader the technique of Wyckoff. He wrote many books that are still available through Fraser Publishing. Also, the Wyckoff/Stock Market Institute in Arizona and Golden Gate University, in California offer extensive course material based on his methodology. As a synopsis, here are the nine buying long and selling short tests. Later we will apply them to O'Neil's model studies to show you Wyckoff's tools in action.

Wyckoff developed nine tests to apply to all trading ranges prior to taking a position. By applying these tests, the investor is more consistent and disciplined when analyzing potential long and short candidates. The nine tests were specifically developed to control risk. (See Figures 12A and 12B.)

Figure 13 is a chart of Computer Associates. On this chart we have applied the Nine Buying Long

Tests to an area of price consolidation prior to a major period of mark-up.

### Methodology of the Study

William O'Neil + Co. provided us with the candidates, 1970-1983. Of these 273 stocks, we collected data for every stock which we could retrieve one year of reliable data prior to where O'Neil's idealized model would suggest that one could have bought, and one year after O'Neil's sell model could have signaled. Our study focused on the area where stocks emerged "out of areas of a price consolidation pattern that had occurred over several months." It was our belief that the annotated trading range that Wyckoff developed would fit nicely with this basing pattern that O'Neil evidenced.

**FIGURE 12A**

### 3a.) NINE BUYING LONG TESTS:

BUYING TESTS (Applied to an average or a stock after a decline):	
INDICATION:	DETERMINED FROM:
1.) Downside objective accomplished	Figure Chart
2.) Activity Bullish (volume increases on rallies and decreases on reactions)	Vertical Chart
3.) Preliminary Support & Selling Climax	Vertical and Figure Chart
4.) Average or stock stronger than market (i.e. more responsive on rallies and more resistant to reactions)	Compare Vertical Chart
5.) Downward Stride Broken (i.e. Supply line penetrated)	Vertical or Figure Chart
6.) Higher supports (daily lows)	Vertical or Figure Chart
7.) Higher Tops (daily high prices rising)	Vertical or Figure Chart
8.) Base forming (horizontal price line)	Figure Chart
9.) Estimated profit is at least three times the indicated risk (Vertical Chart for stop order placement)	Figure Chart for profit objective

Source: Richard D. Wyckoff

**FIGURE 12B**

### 3b.) NINE SELLING SHORT TESTS:

SELLING TESTS (Applied to an average or a stock after an advance):	
INDICATION:	DETERMINED FROM:
1.) Upside objective accomplished	Figure Chart
2.) Activity Bearish (volume decreases on rallies and increases on reactions)	Vertical Chart
3.) Preliminary Support & Buying Climax	Vertical and Figure Chart
4.) Average or stock weaker than market (i.e. more responsive on reactions and sluggish on rallies)	Compare Vertical Chart
5.) Upward Stride Broken (i.e. Support line penetrated)	Vertical or Figure Chart
6.) Lower supports (daily low prices falling)	Vertical or Figure Chart
7.) Lower Tops (daily high prices falling)	Vertical or Figure Chart
8.) Crown forming (lateral movement)	Figure Chart
9.) Estimated profit is at least three times the indicated risk (Vertical Chart for stop order placement)	Figure Chart for profit objective

Source: Richard D. Wyckoff



The data search resulted in 78 stocks which qualified. Each stock was then adjusted for splits. We utilized the *Financial Information Inc. Financial Stock Guide* for all accurate history on split adjustments. After returning the data on the 78 stocks back to its original form, pre-split, we then printed daily bar charts and 1x1 Point and Figure charts. Where necessary (i.e. lower priced stocks), smaller point and figure box sizes were used ( $\frac{1}{2} \times \frac{1}{2}$ ;  $\frac{1}{4} \times \frac{1}{4}$ ).

It must also be mentioned that during the time span sampled, 1970-83, we experienced 4 bull market phases, 3 bear market phases, as well as 3 trading range markets (one very prolonged). Thus, a diverse amount of market conditions were reflected in the time-frame of the charts studied. Additionally, it was our belief that these 78 charts reflected a random sample of the 273 stocks O'Neil utilized in the updated study, 1970-1983.

In the interest of brevity and for the *MTA Journal* a sample set of charts which represent the relationship that Wyckoff can have with CANSLIM stocks can be found in the appendix of the paper. If the reader is interested in surveying the entire study, it can be made available through the Golden Gate University library or the Market Technicians Association library. (See J.C. Coppola III, *Harmonizing Wyckoff and Canslim.*)

### Results & Observation of the Study

In order to score Wyckoff's Applicability, we weighted the Yes results to get a better idea of the degree of importance that Wyckoff Analysis had in the process. + Yes means extremely helpful in the long-term, 6-18 month, trading range that preceded the historic move, = Yes means very helpful in the 3-6 month base that formed prior to the move, and - Yes means marginally helpful in the minor consolidation that took place, a No response means that no consolidation took place and Wyckoff would have been of no value. Below are the results of the study.

WAS WYCKOFF APPLICABLE?			
+ YES	= YES	- YES	NO
36	35	7	0

Because the vast majority of CANSLIM stocks tend to emerge out of areas of a price consolidation that lasts several months, the results show that in 71 of the 78 charts Wyckoff proved very helpful.

DID WYCKOFF BUY AT LOWER RISK POINT IN THE TRADING RANGE?		
YES	SAME	NO
55	10	13

The second characteristic looked at was, did Wyckoff's model for the ideal trading range allow an investor to take a position? Specifically, "Did Wyckoff buy at a lower risk point in the trading range?"

What we learned was that in thirteen instances Wyckoff allowed a position, but at a higher risk point. However, in fifty-five instances, or seventy percent of the time, Wyckoff bought a CANSLIM idea at a lower risk point than CANSLIM.

To reconcile the past two questions, we turned to performance enhancement. How did the addition of Wyckoff's model aid performance? The statistics show that Wyckoff increased performance materially. In fact, 2,213% in total or 31.17% per position was added.

HOW DID THE ADDITION OF THE WYCKOFF MODEL AID PERFORMANCE?		
BETTER	EQUAL	WORSE
60	8	10
TOTAL PERFORMANCE GAINED BY EMPLOYING WYCKOFF:		2,213%
AVERAGE PER TRADE GAIN:		31.17%

We want to reiterate that both the O'Neil and Wyckoff models are paradigms. Both O'Neil and Wyckoff inspected past winners and looked for shared characteristics within these winners. The database of 273 stocks from 1970-1983 represents about 103,581% of performance. This turns a \$1 investment, compounding annually, to \$1,114,544,804.97 in three years. Now, we all know that this performance is not replicable in a portfolio, however because we are working on the high speed intersection principal. This principal states that, "if you play in traffic you are much more likely to get hit by an on coming car."

In our final analysis, the Wyckoff method of technical analysis, when applied to a database of CANSLIM stocks, produced:

1. An extremely congruent application and methodology
2. 84% of the time Wyckoff allowed us to take a position at the same or a lower risk point (70% actually lower), and
3. Wyckoff analysis when combined with CANSLIM materially aided performance.

For further descriptive value we have developed a legend for Wyckoff terms used during accumulation and distribution and an appendix of selected charts from our study. The Appendix can be found at the end of the article.

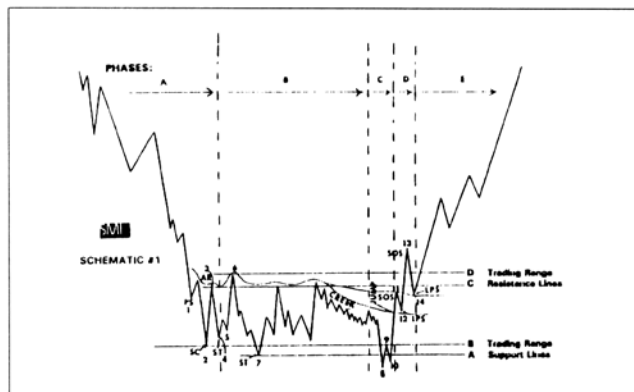
### Summary and Conclusion

O'Neil's CANSLIM approach lends itself well to computerized searching and filtering techniques to pinpoint the initial characteristics of a winning stock.

## APPENDIX

### Legend for Wyckoff Terms Used During Accumulation and Distribution

The best way to understand the concept of accumulation and distribution is through a visual depiction. Below we have provided the reader with the model Wyckoff developed some 80-years ago.



**ACCUMULATION SCHEMATIC**

1. (PS) Preliminary Support: substantial buying interest begins to provide support to stop the down move. Volume and spread widen and signal that the down-move may be approaching its end.

2. (SC) Selling Climax: panic sets in and the stock displays widening spread as selling pressure causes high volume. This culminates in climactic fashion. The final selling by the public is being absorbed by large professional interests.

3. (AR) Automatic Rally: the selling pressure is exhausted and buying in the stock easily moves prices up. Late comers to the short-side are also easily shaken and forced to cover fueling the move up.

(TR) Trading Range: prolonged range the stock will trade in while larger interests accumulate large positions towards the bottom half of the range. The public will become exhausted and bored with this process and eventually sell their interest prior to a major mark-up in the stock's price.

4. (ST) Secondary Test(s): this is the base building process. Retesting the bottom of the TR for supply where spread tightens towards the range where the SC took place.

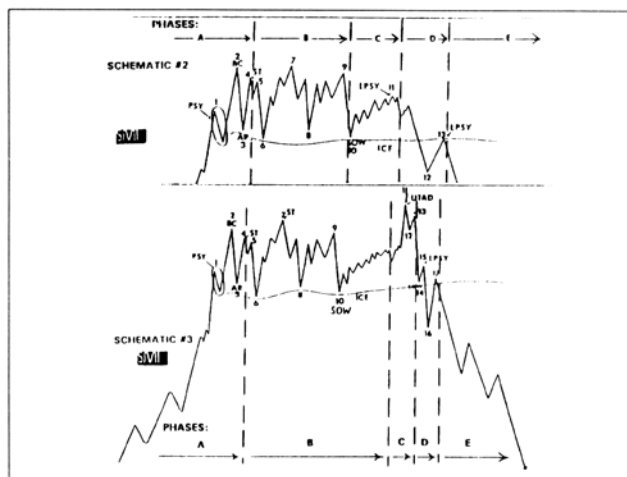
(CREEK) Creek: minor resistance that represents the floating supply in the upper edge of the Trading Range (TR). This supply must be absorbed before a meaningful move to the upside can ensue.

8 & 10. (Spring): occur later in the Trading Range (TR) and allows the large market operators to flush and shakeout the final supply which remains at the bottom. This testing process allows the larger operator to determine the stock's readiness for mark-up. If there is little or no stock available at the lower end or under-cut of the Trading Range (TR) then the large operator knows the stock is ready. Moderate volume signals that continued testing of the range is necessary before significant mark-up can result. Heavy supply at this zone signals a further prolonged range or lower lows.

(JUMP) Jump across the creek: finally the stock has been prepared for mark-up and in a strong thrust the large operator buys his final line and begins to advertise his mark-up campaign by painting the tape in obvious volume.

11. (SOS) Sign of Strength: the advance is under-way. Volume expands and spread is wide. The floor brokers as well as speculators become interested in the shares and start to bid prices up.

12 & 14 (LPS) or (BAC) Last Point of Support or Back Up to the Edge of Creek: LPSs and BACs are the final stages of the testing process. Pullbacks (LPSs) occur on low volume as the operators square their position and speculators cash in on small stock fluctuations. Note that a series of SOSs and LPSs is good evidence that a bottom is completed and the mark-up has begun.



**DISTRIBUTION SCHEMATIC**

1. (PSY) Preliminary Supply: is the point where heavy selling creates resistance and thwarts the up-move. Volume and spread widens and prices make little progress, this is the first sign that the up-move may be near finale.

2. (BC) Buying Climax: widening spread and a final thrust is accompanied by price failure signaling that the large operators have begun to throw shares of their line at the market. These orders are generally filled by the unsuspecting public interests at prices near the top.

3. (AR) Automatic Reaction: Public buying is quickly exhausted by this concentrated and intense selling as prices then fail miserably.

(TR) Trading Range: The range which the larger interests will work off the final shares of their position and begin to build a short interest in the stock.

4. (ST) Secondary Test(s): If a top is in place prices should fail at the top-end of the TR. As the larger interest work their line off, public demand pushes prices up briefly only to fail due to the lack of a concerted effort. Favorable news is used to lift prices as the larger operators liquidate their line.

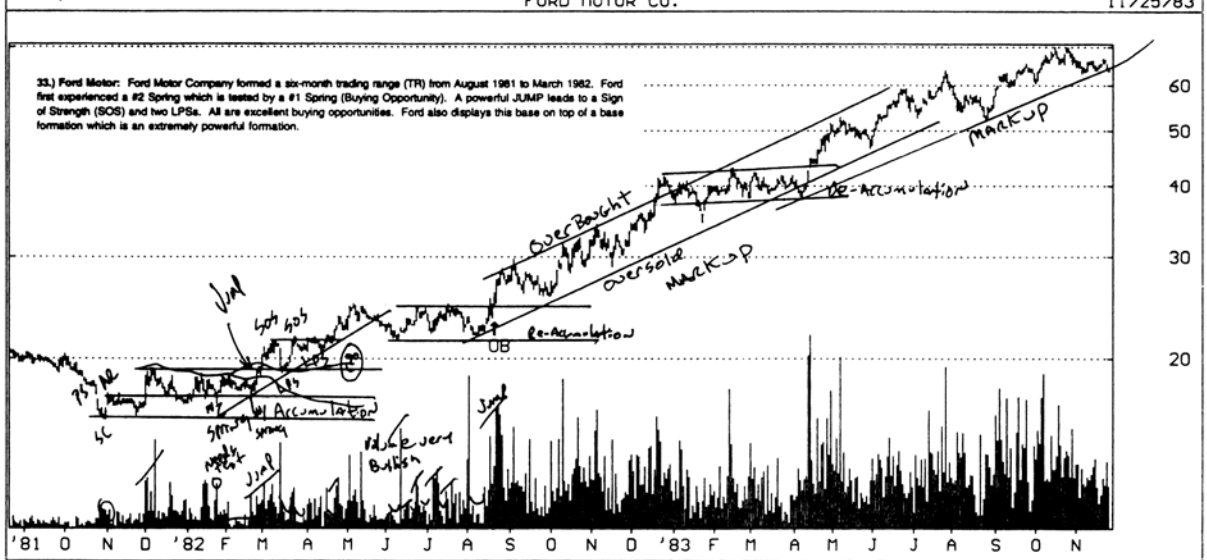
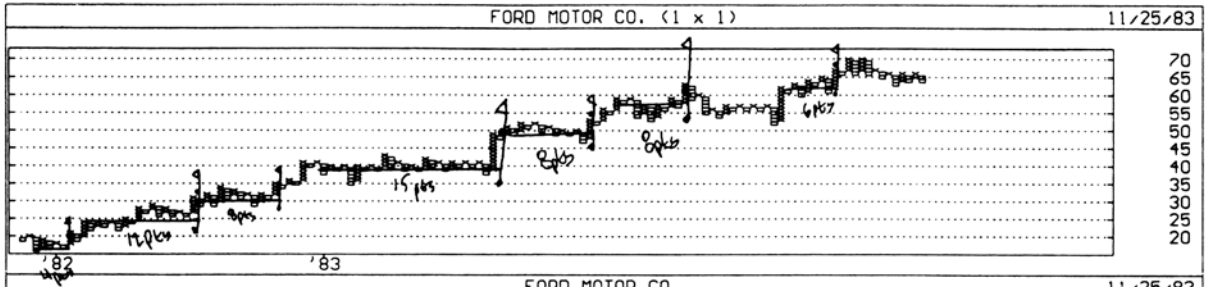
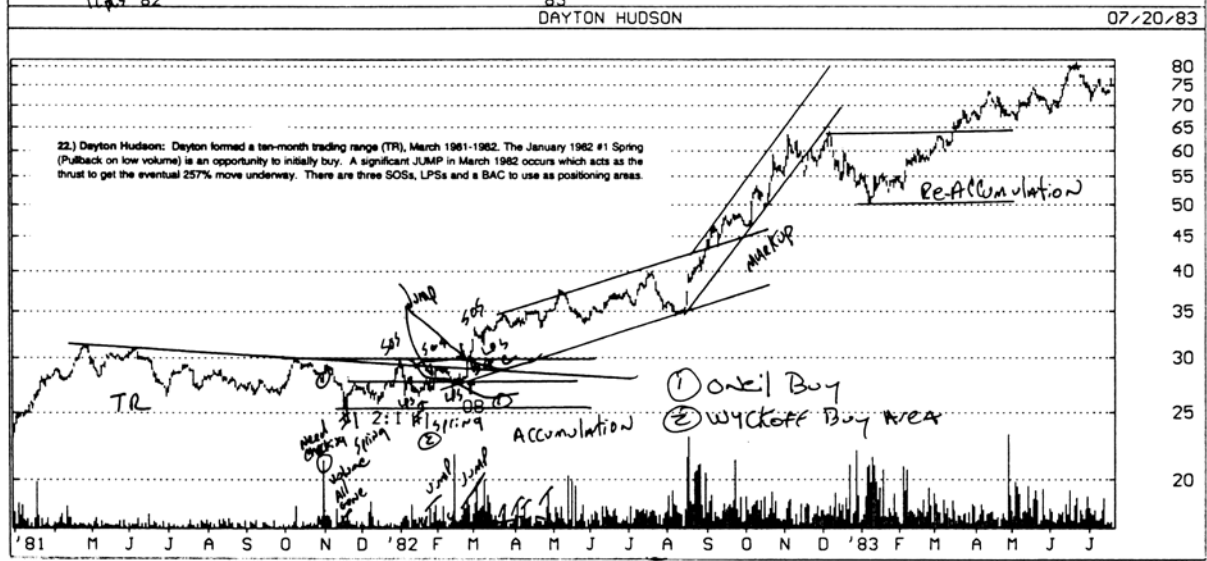
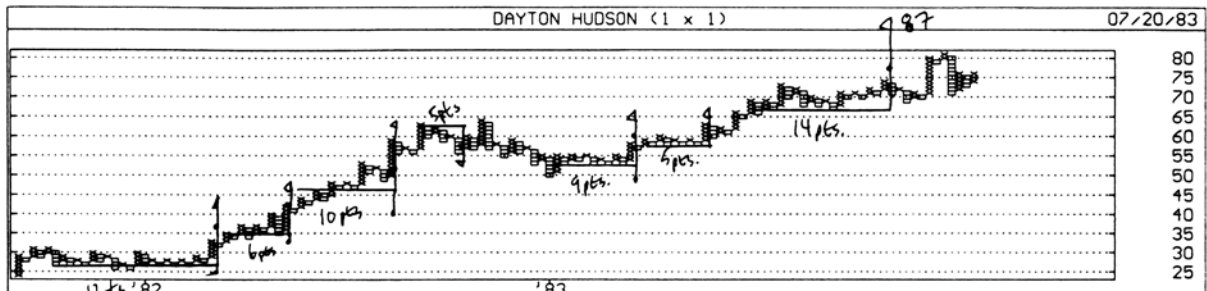
10. (SOW) Sign of Weakness and (ICE) The stock trades extremely heavy as supply shows its dominance and pushes the stock to the lower end of the Trading Range (TR). A line of demand exist at the bottom which forms the fragile ICE that holds the stock in the TR.

11 and 13. (LPSY) Last Point of Supply: The ICE gives the public a false sense of security as it is tested. Feeble rallies ensue and quickly fail. Demand is very weak as supply quickly depresses prices. This is the last chance for large operators to sell their final positions prior to the ICE giving-way.

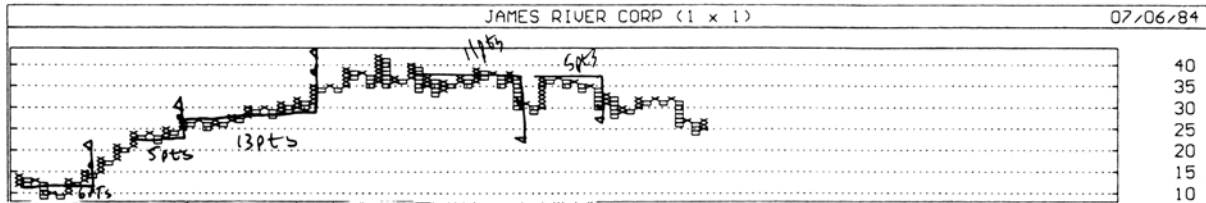
11. (UTAD) Up-Thrust After Distribution: Although not as often, this is the sister to the Spring and Shakeout in Accumulation. UTAD's are a final climactic rally which definitively tests the buying interest in the stock. They occur very late in the distribution phase and are often caused by weak short-sellers of a stock quickly looking for cover in what appears to be a resurgence of the mark-up phase. A UTAD will rally in vacuum-like fashion through the top of the TR but, prices will quickly fail at the top and we will immediately fall back into the TR. The UTADs signals that the final distribution is over.

The ICE eventually cracks as the public "drowns" on supply. When rallies attempt to break above the ICE it seems this range is frozen back over. The public cannot break its head back through the ICE. Eventually, they sink to the bottom in dismay.

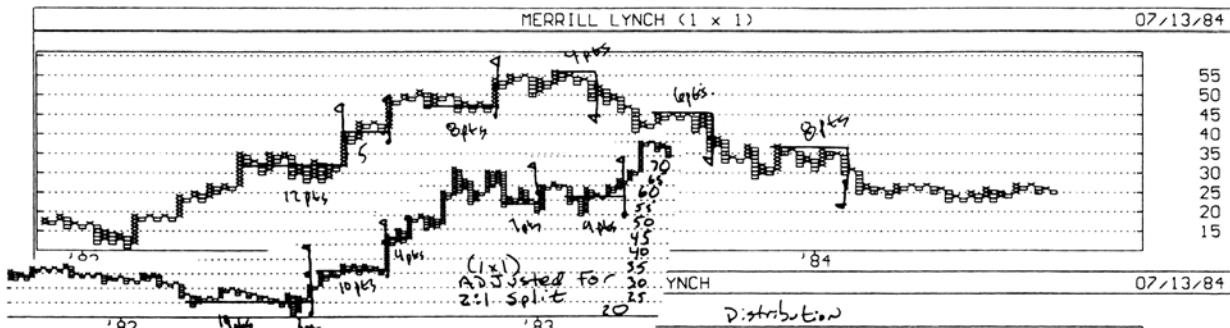
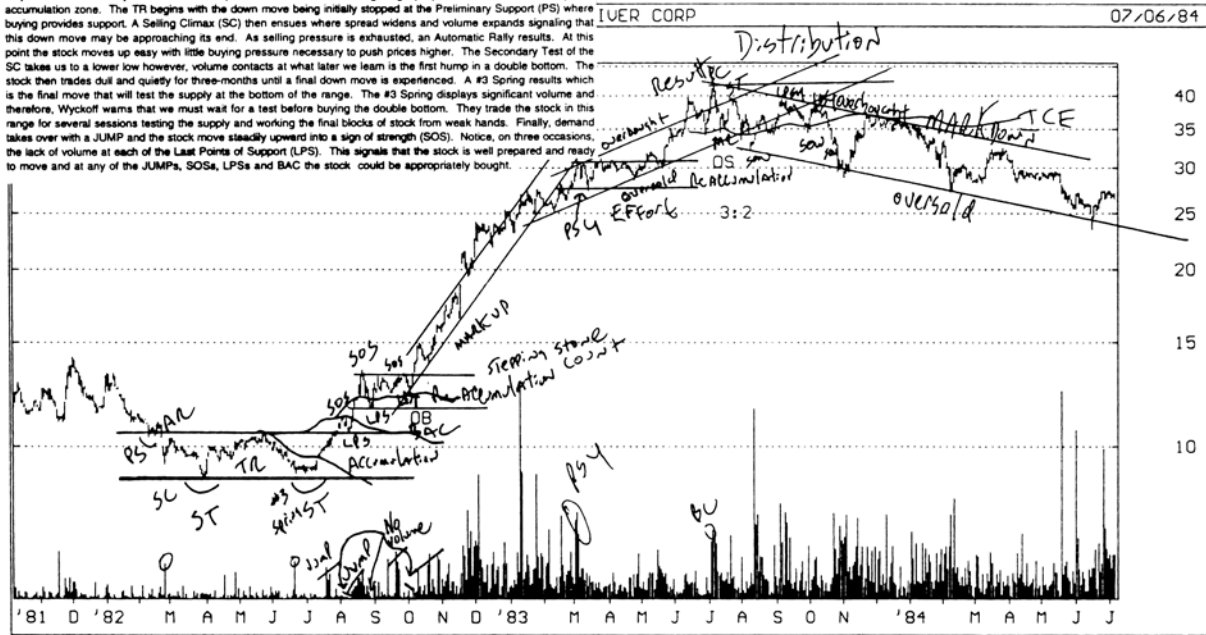




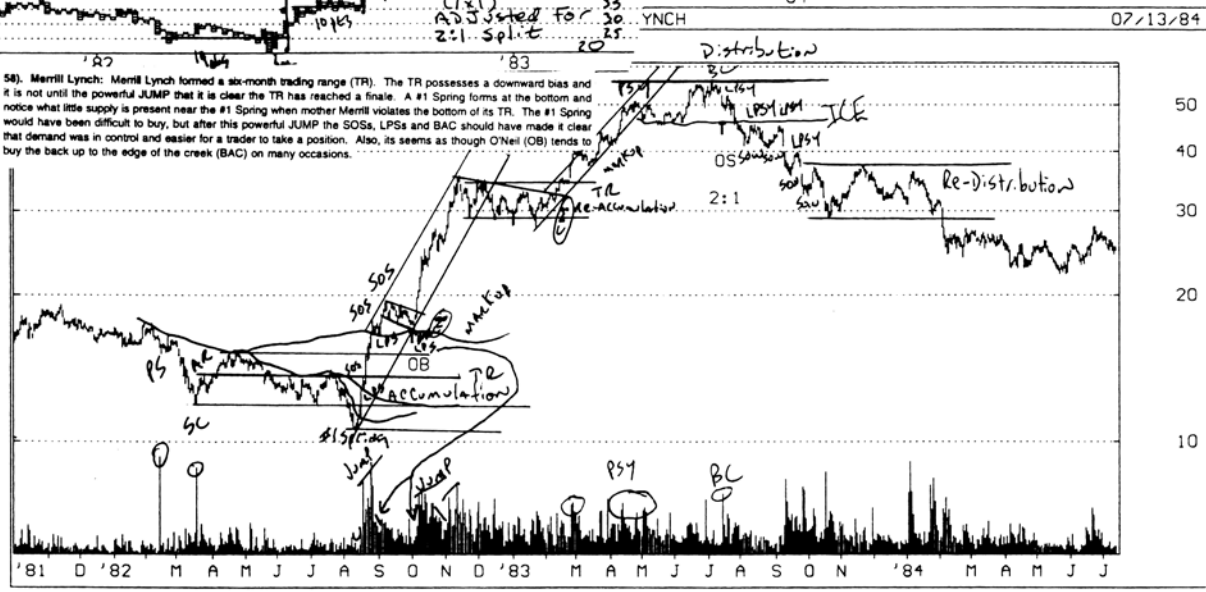


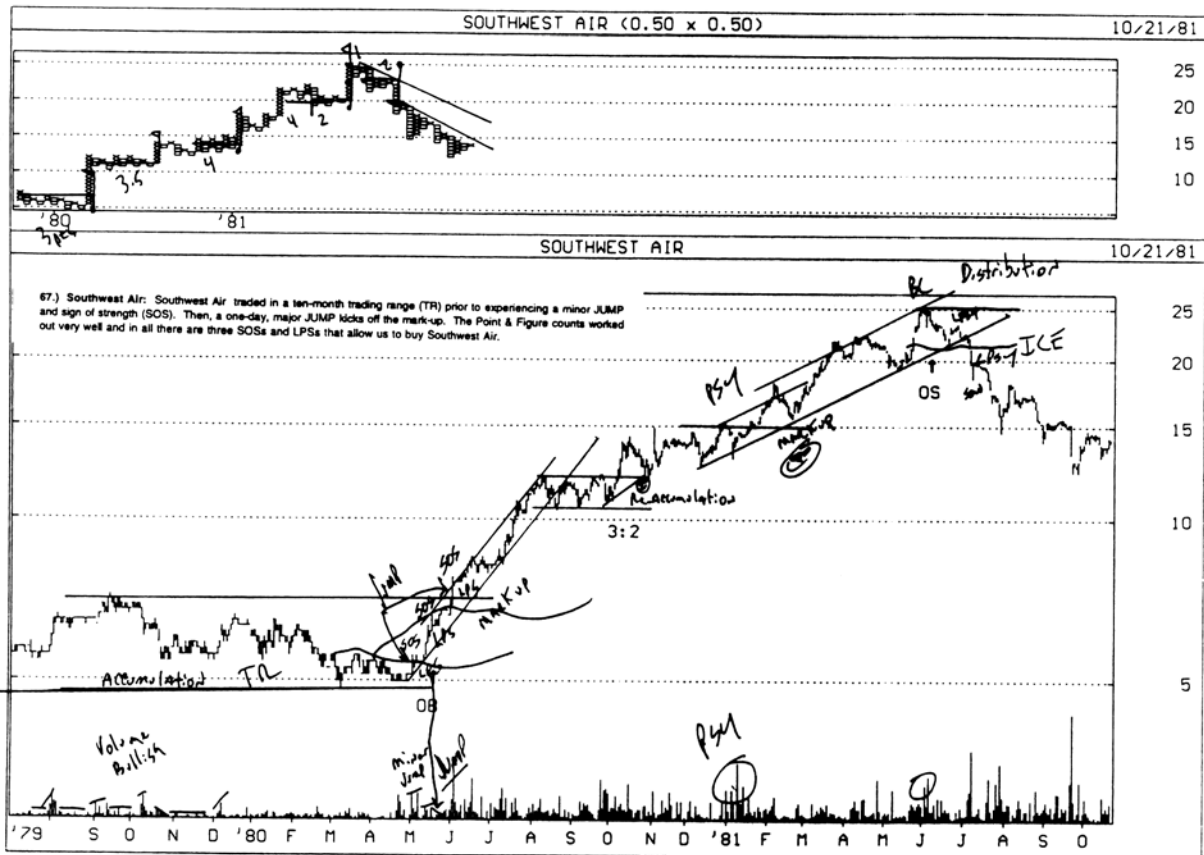
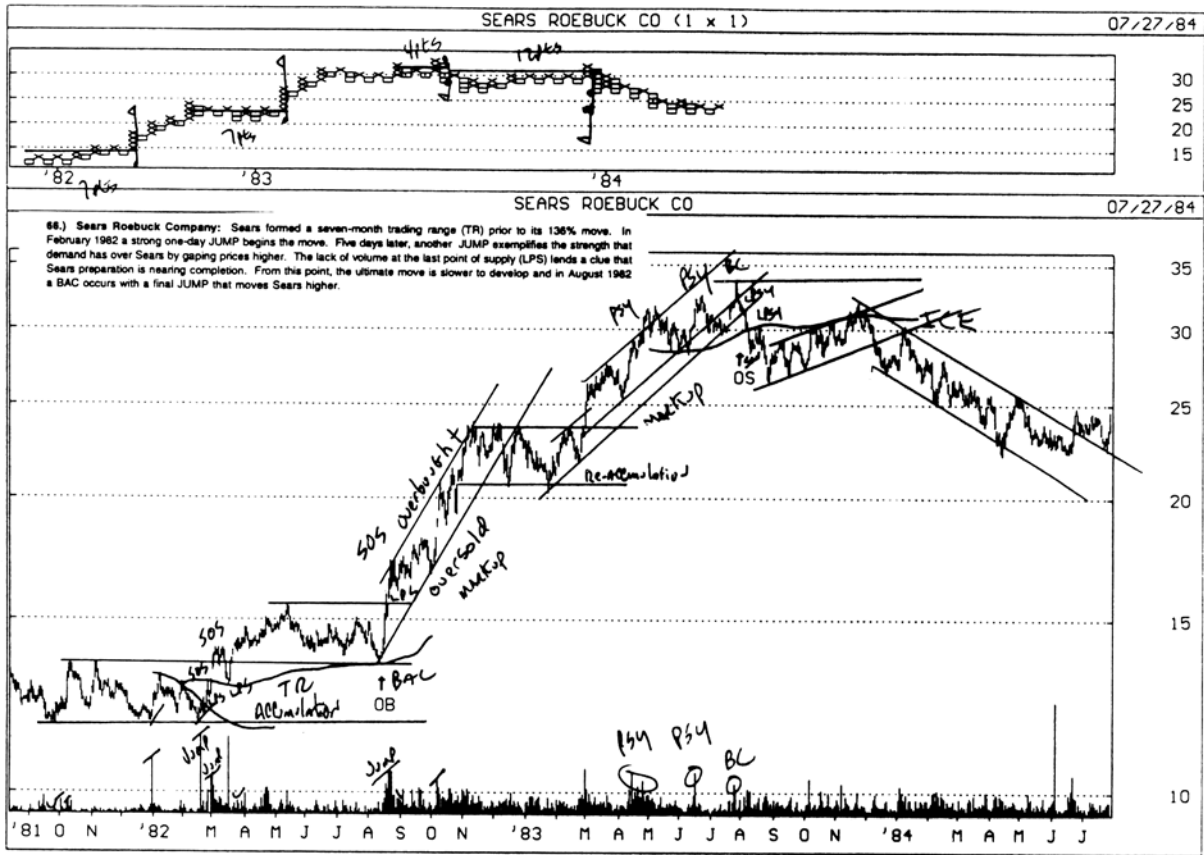


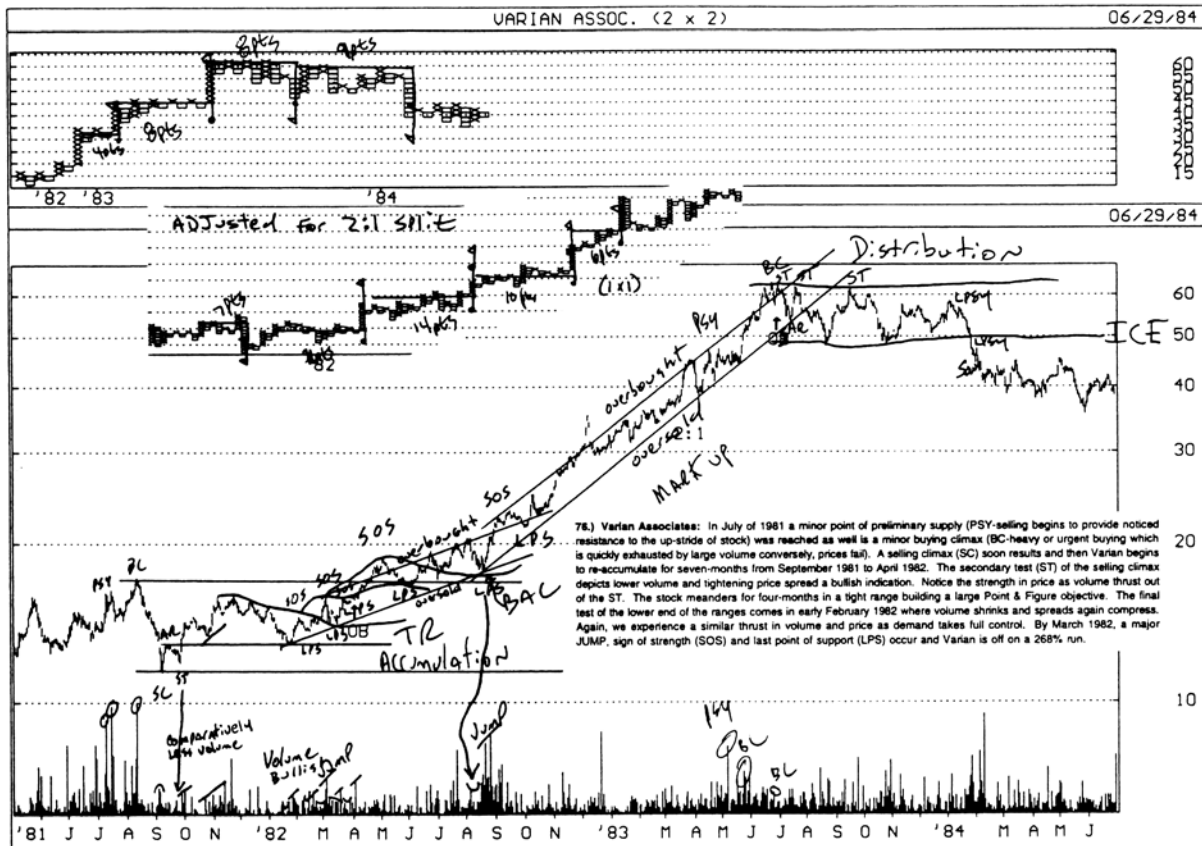
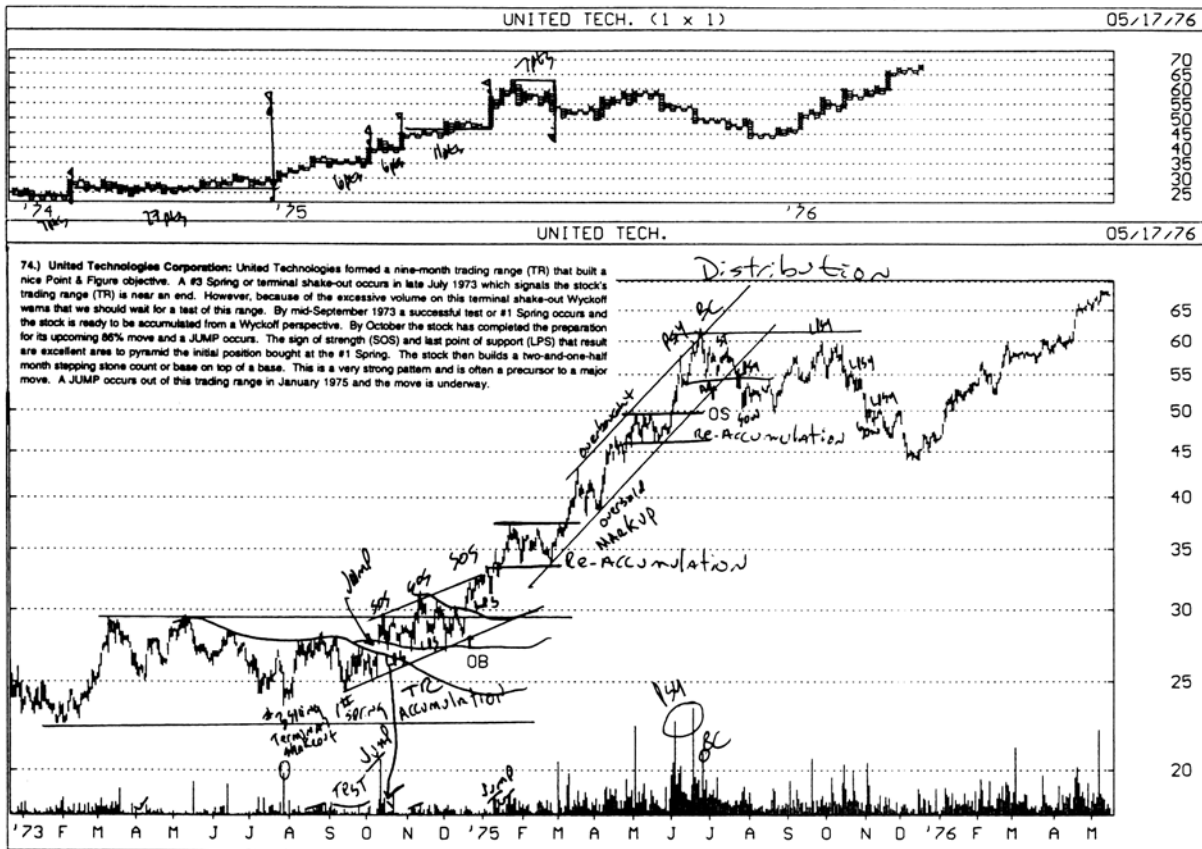
47.) James River Corp.: James River experiences a six-month trading range (TR) which forms a classic Wyckoff accumulation zone. The TR begins with the down move being initially stopped at the Preliminary Support (PS) where buying provides support. A Selling Climax (SC) then ensues where spread widens and volume expands signaling that this down move may be approaching its end. As selling pressure is exhausted, an Automatic Rally results. At this point the stock moves up easy with little buying pressure necessary to push prices higher. The Secondary Test of the SC takes us to a lower low however, volume contracts at what later we learn is the first hump in a double bottom. The stock then trades dull and quiet for three-months until a final down move is experienced. A #3 Spring results which is the final move that will test the supply at the bottom of the range. The #3 Spring displays significant volume and therefore, Wyckoff warns that we must wait for a test before buying the double bottom. They trade the stock in this range for several sessions testing the supply and working the final blocks of stock from weak hands. Finally, demand takes over with a JUMP and the stock move steadily upward into a sign of strength (SOS). Notice, on three occasions, the lack of volume at each of the Last Points of Support (LPS). This signals that the stock is well prepared and ready to move and at any of the JUMPs, SOSs, LPSs and BAC the stock could be appropriately bought.



58.) Merrill Lynch: Merrill Lynch formed a six-month trading range (TR). The TR possesses a downward bias and it is not until the powerful JUMP that it is clear the TR has reached a finale. A #1 Spring forms at the bottom and notice what little supply is present near the #1 Spring when mother Merrill violates the bottom of its TR. The #1 Spring would have been difficult to buy, but after this powerful JUMP the SOSs, LPSs and BAC should have made it clear that demand was in control and easier for a trader to take a position. Also, it seems as though O'Neil (OB) tends to buy the back up to the edge of the creek (BAC) on many occasions.







Wyckoff's method of technical analysis utilizes a judgmental approach which allows the investor to annotate the chart and develop a frame work to operate within. By combining both models, more clues are available as to when it is prudent to assume the risk of an investment. In all, CANSLIM gives us clues as to *where* to locate the greatest companies and Wyckoff specifically tells us *when* to buy and sell them.

Hence, combining CANSLIM and Wyckoff as a total system includes many of the elements we find necessary in stock market speculation.

Combining Wyckoff and O'Neil results in:

1. Quantifying those characteristics most common in winning stocks and campaigns
2. Interpreting the law of supply and demand through regimented chart analysis of the trading range
3. Defining cause to pinpoint price objectives and proportionality through the use of Point & Figure charts
4. The interpretation of effort and result through Wyckoff's descriptive chart annotations

CANSLIM surely identifies the *effects* that great new products, innovative new services, and new inventions have on a company's performance. Wyckoff's discipline of position-taking, holding, and selling allow us to identify the potential stock price appreciation. This happens, early on, before a historic run is quickly made, and all of the superior characteristics of the company are discounted in the marketplace.

The study further leads us to conclude that major moves generally are preceded by significant accumulation zones and, often, periods of re-accumulation occur on the way up. Interestingly, this concept of a big base investing runs parallel with much of the analysis done by William O'Neil + Co. and, additional works published in the *Market Technicians Association Journal*. Two journal articles on big base investing that come to mind are those published by William S. Doane and Tom Dowse.

In sum, we believe that a system utilizing O'Neil's searching capabilities and Wyckoff's judgmental analysis affords the investor a complete methodology for growth-stock investing. We hope, after reading this work we are all better prepared to profit from the opportunities presented by the "Greatest Future Winners in the Stock Market."

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