

PRICE MOVEMENT

The Who, What,
When, Why And How

By Ryan Litchfield



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Icebergs

- Beautiful
- Valuable
 - Fresh Water
- Dangerous
 - More than meets the eye



Price Movement

- A lot to it
- More than meets the eye
- Interpreted based on
 - Perception
 - Perspective
- What – Why – When – Who - How

Price vs. Value?

- Price is the market price right now
- Value is $\text{Price} \times \text{Shares}$
- Worth of a share is fickle and tentative
 - Earnings, news, rumor etc.
- Perception is reality

Price Movement Theories

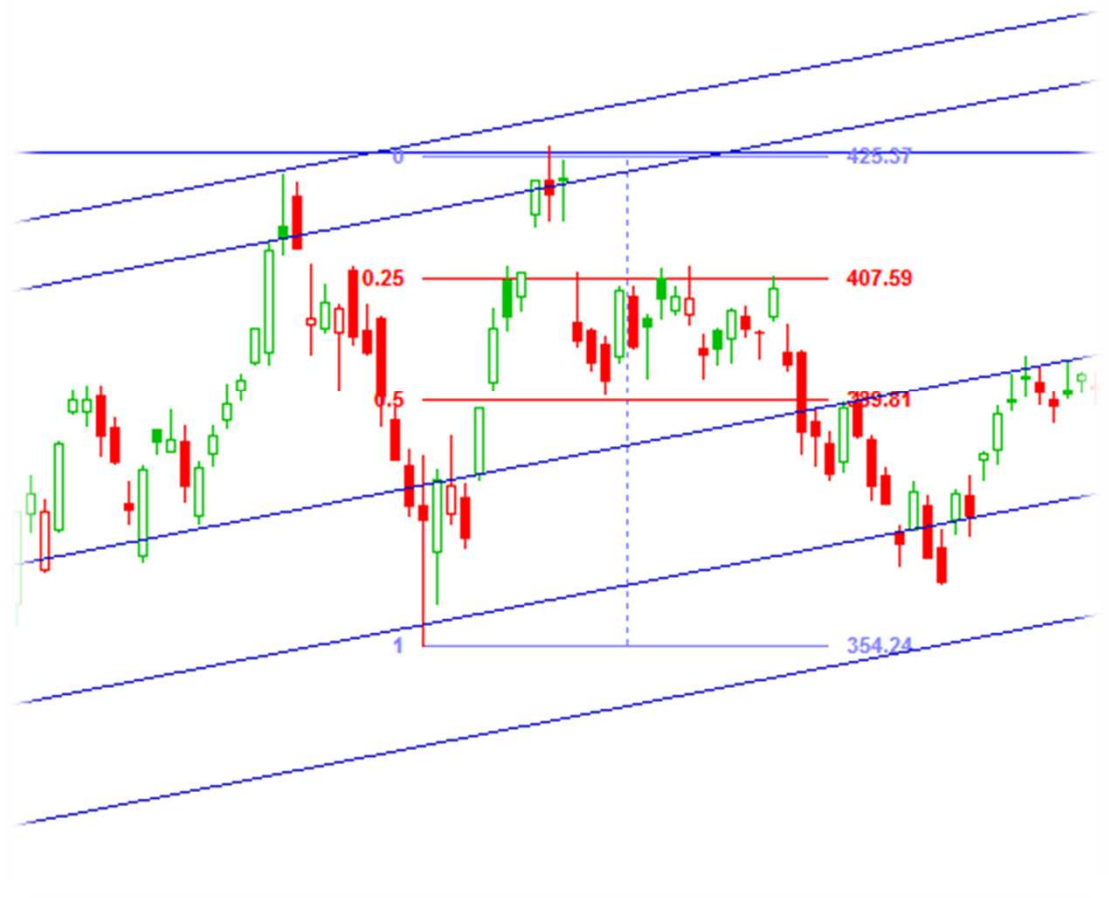
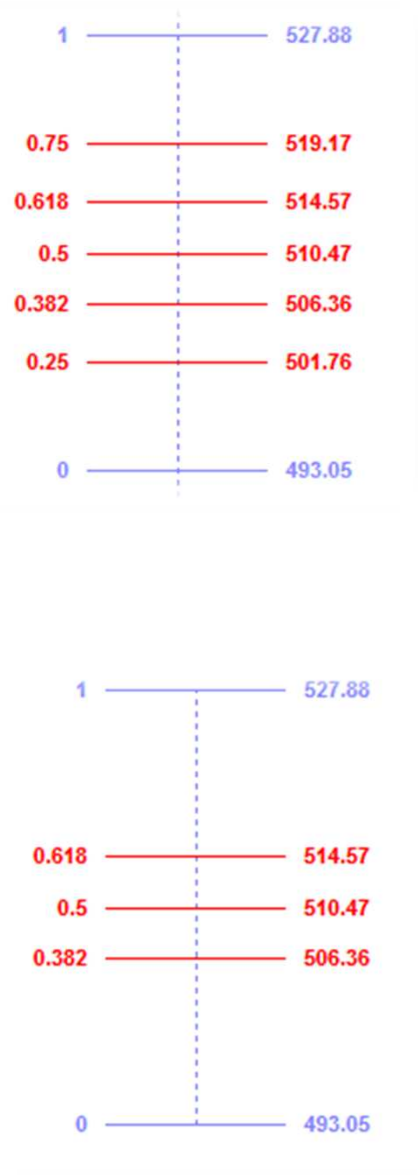
- Fundamental - Logical cause and effect
 - Facts and Logic - earnings, projections, share...
 - Why it should be at a certain price
- Technical – all relevant data is priced in
 - Patterns show reality and predict future moves
 - Pattern cycles 3-5 xs, Retrace 30-50%
- Random Walk – what ever...

Technical Theories

- Fibonacci
- Dow
- Elliott Wave

Fibonacci

- 1170-1240
- Summation Series
- After Egypt, 1202 – Liber Abaci
 - $1+1=2$; $2+1=3$; $3+2=5$; $5+3=8$; $8+5=13$; $13+8=21$; $21+13=34$; $34+21=55$; $55+34=89$; $89+55=144$
- The Golden Ratio / Proportion Phi (not Pi)
- Rabbits - Pyramids - Plants - Subatomic
- Why not price movement?

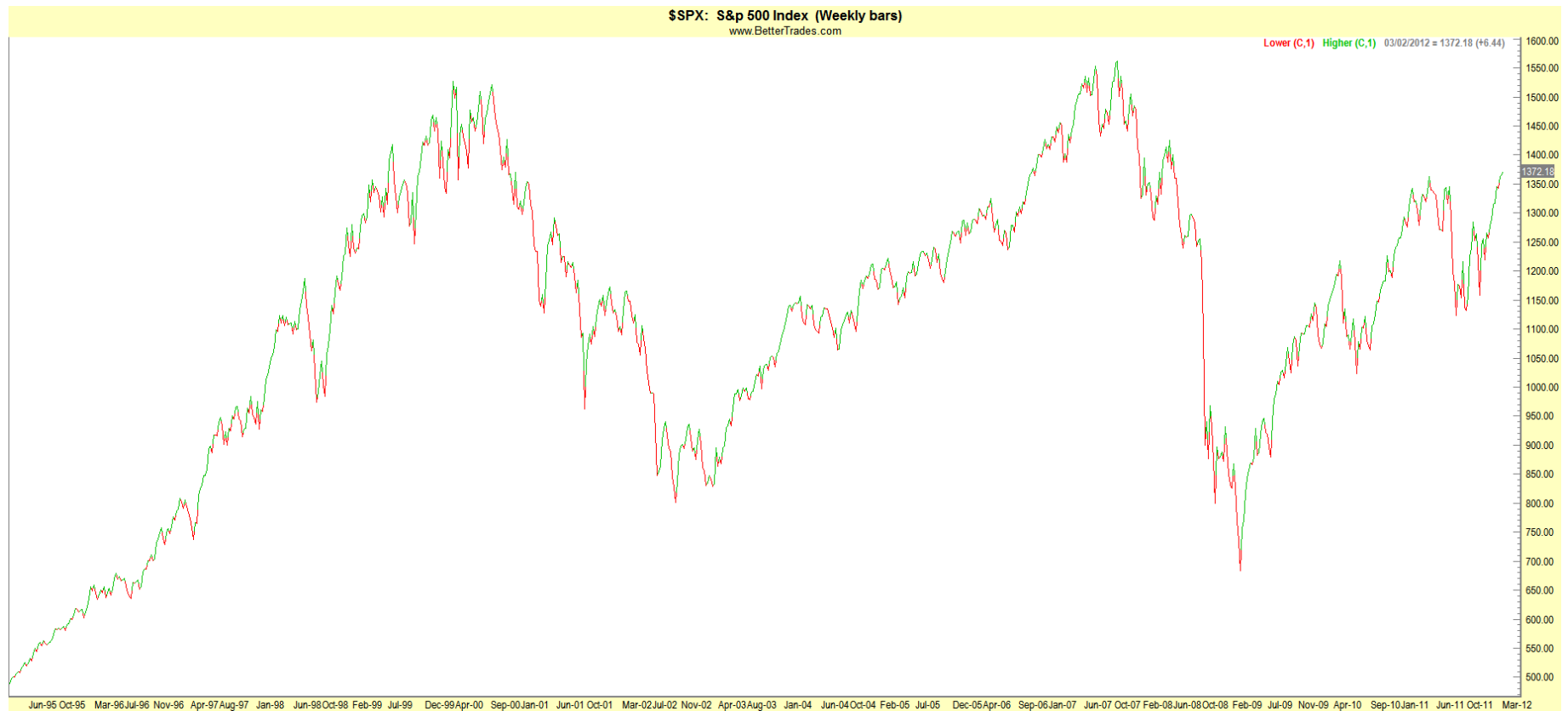


Charles H Dow

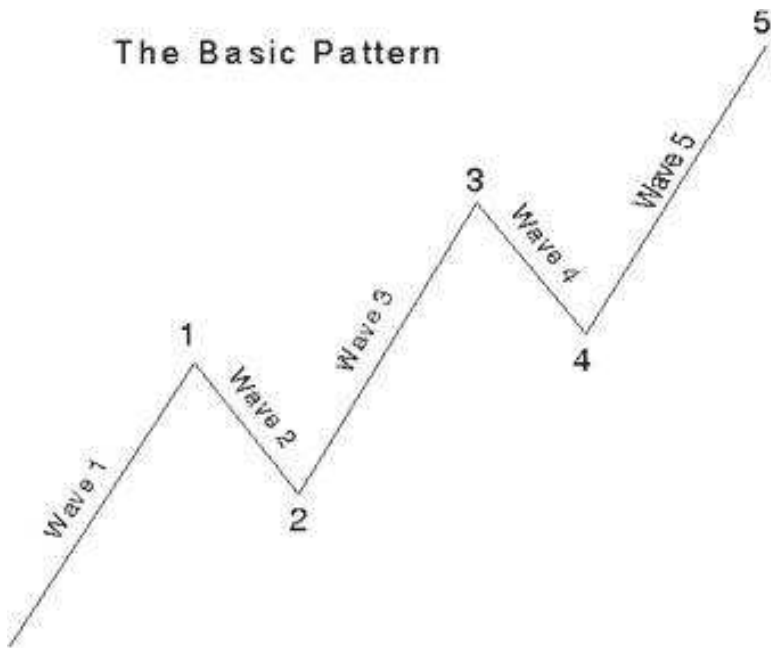
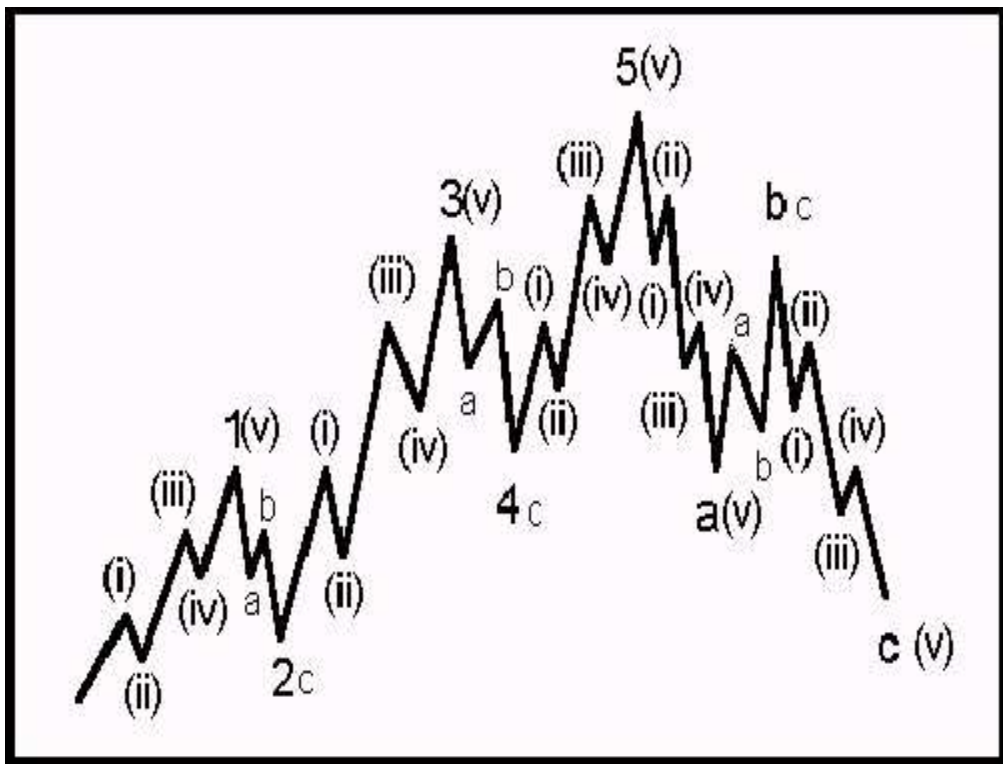
- First cycle guy... Patterns
- Dow Jones Corp
- Wall Street journal
- Dow Theory (Hamilton and Rhea)
- 3 simultaneous movements
 - Tides, waves, ripples
- Tide = trend (years)
- Waves = retracements / reversals (weeks)
- Ripples = spikes (irrelevant)

- Dow (3) Phases (Bullish)

- Oversold rebound – anticipate things will get better
- Second rise - as things get better
- Overextension – too much too far



R. N. Elliott



4 Phases of Rotation Cycles

- Equilibrium
 - Bullish Imbalance
 -
 - Equilibrium
 - Bearish imbalance
- Equilibrium
 - Neutral / Balance
 - Transitions
 - Balance
 - Vs
 - Ws
 - H&S

The Players

Professional side

- MM – Specialist
- Professional Institutions
 - Broker dealers
 - Traders (Prop and solos)
 - Fund managers
- Motive
 - Make Money \$\$\$\$\$

Non Professional

- Private
 - Active
 - Passive
- Motive
 - Make Money \$\$\$\$\$

Option Market Maker

- Motive – Make Money but...
- On the side of small trader
- Just trying to match up orders for the spread
- Not trying to manipulate price – just follow it
- Want you to make money so you will come back and trade more
- May be competition at times but not enemy

Stock Specialist or MM

- Motive – Make money
- Competitor
- Can be Mortal Enemy
- Mortal Combat
- Manipulate price to create opportunity
- A lot of gamesmanship (serious)

Supply and Demand

- Can there be more buyers than sellers?
 - Yes and no – sort of...
 - Yes – the public has more people trying to buy than sell – so?... Is there trading? Yes!!!
 - Who is selling? MM or Specialist
 - But the price moves to find equilibrium
 - At equilibrium price stays in a range
 - Volume may not have an effect if trade is balanced

How Trading Works

- MM – Specialist
 - Makes a market
 - Want to sell stuff
 - Buy to manipulate
 - Need outsiders to be the other side of the deal
 - Capitalize on human nature
- Public creates demand
 - Tend to buy to participate
 - Tend to sell in panic (even when claiming \$\$\$)

Think Like A MM / Specialist

- They buy into bottoms
- They sell into tops
- Watch for their activity – slowing / rounding bottoms
- Testing spikes / bottoming – topping tails

Inside The Game

DIA	97.46	+0.08	100	Vol	3420800
Open	96.66	Hi	97.55	Low	96.55
				Close	97.38
Bid	97.46 D	Ask	97.46	BVol	AVol 800
					PSE

CIN	97.46	700	TRIM	97.46	3	97.46 *100
PSE	97.46	1400	NAS	97.46	300	97.46 *600
Archip	97.46	1420	CAES	97.46	3	97.46 *100
Island	97.46	6300	Archip	97.48	4000	---12:59---
Island	97.45	13400	Island	97.48	3200	97.49 *200
CAES	97.45	64	INCA	97.48	27	
NAS	97.45	6400	PSE	97.48	4000	
INCA	97.45	64	CIN	97.48	3200	
Archip	97.45	14800	Archip	97.49	14200	
Instinet	97.45	32400	Instinet	97.49	7600	
Island	97.44	3100	Island	97.49	8300	
Archip	97.44	21600	BSE	97.50	1000	
Instinet	97.44	7100	CSE	97.50	1500	
Island	97.437	2500	Instinet	97.50	12000	
Island	97.43	200	Archip	97.50	2000	
NYS	97.43	20000	NYS	97.50	20000	
Instinet	97.43	4500	Island	97.501	2800	

Price	Volume	Stop Price	VolType
	100		Part
Route	Expiration	AccountType	ReserveAmount
ISI	Day	Margin	

Order Options

Bid/Offer

Short

PrefMMID

Buy 97.46 **Sell 97.46** **Short** **Cxl** **R** **P**

Public to sell			Public to buy		
BID			ASK		
CIN	97.46	700	TRIM	97.46	3
PSE	97.46	1400	NAS	97.46	300
Archip	97.46	1420	CAES	97.46	3
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Instinet	97.43	4500	Island	97.501	2800

Market willing to buy

Market willing to sell

Price Movement

- Accumulation and Distribution
- Price adjustment
- Rules
 - Size
 - Blocks
 - Minimum movement

Tools Of The Trade

- Bid Ask Spread
 - Allows a profit potential
 - Incentive to make market
 - Expand and contract
 - Regulator
- Flexible - responsive
 - Can reflect market conditions
- Shorting
 - Powerful emotional tool
 - Quick response
- Faint – head fake
 - Buying and or selling to control price movement
 - Test public sentiment
 - Juke each other

APPLICATION

- Creatures of habit
 - But motives and method can vary to fit the moment
- Expectation / Anticipation
- Patterns have a lot of variation so you need to grasp the motive of the market
- Don't lean too hard on the hand rail

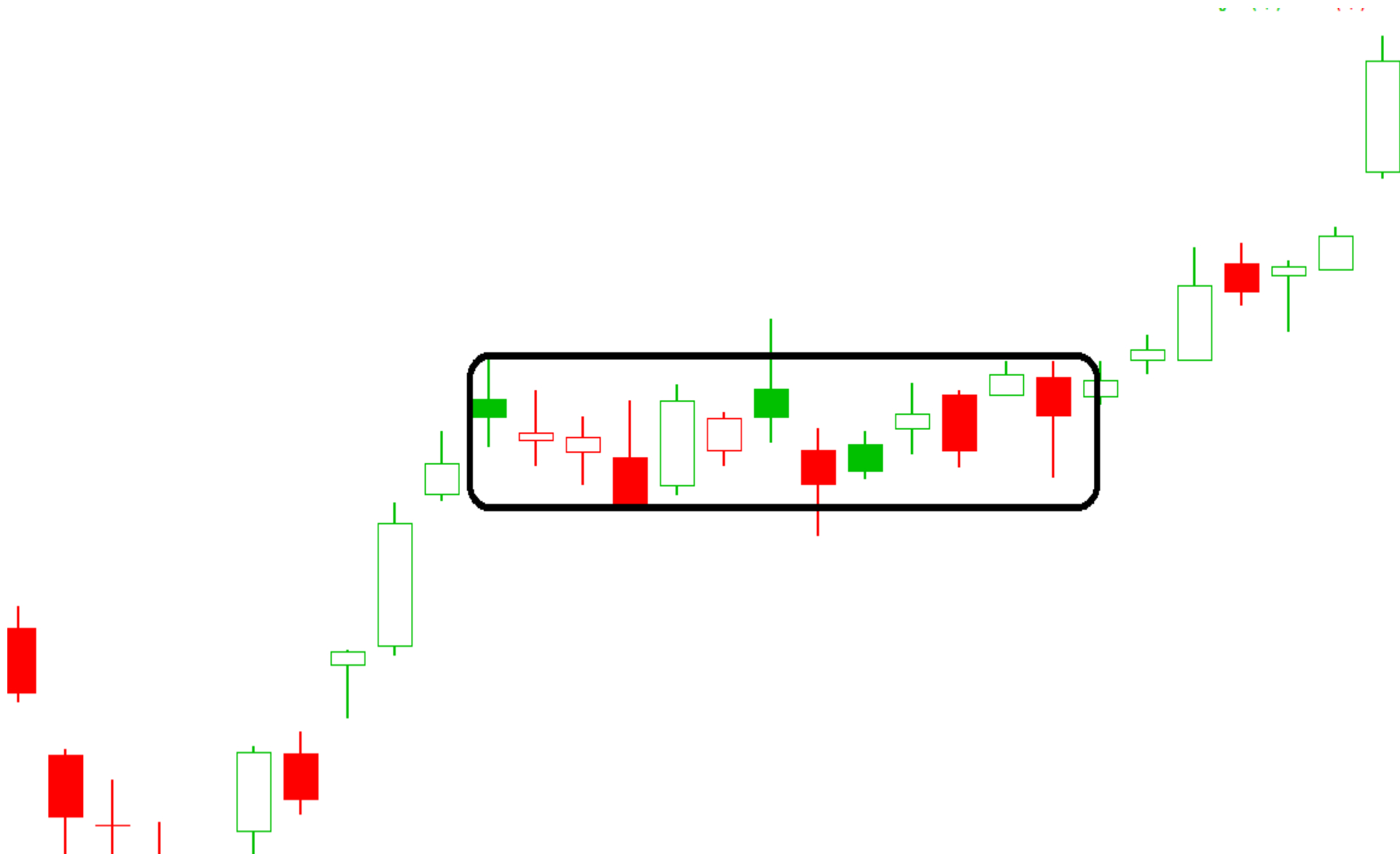
Past Is Prologue

- Best indicator of future is past but...
- Use checklist method to determine probability
- Can step into position to mitigate risk and avoid missing out
- At the fork in the road – you can take both

Balances

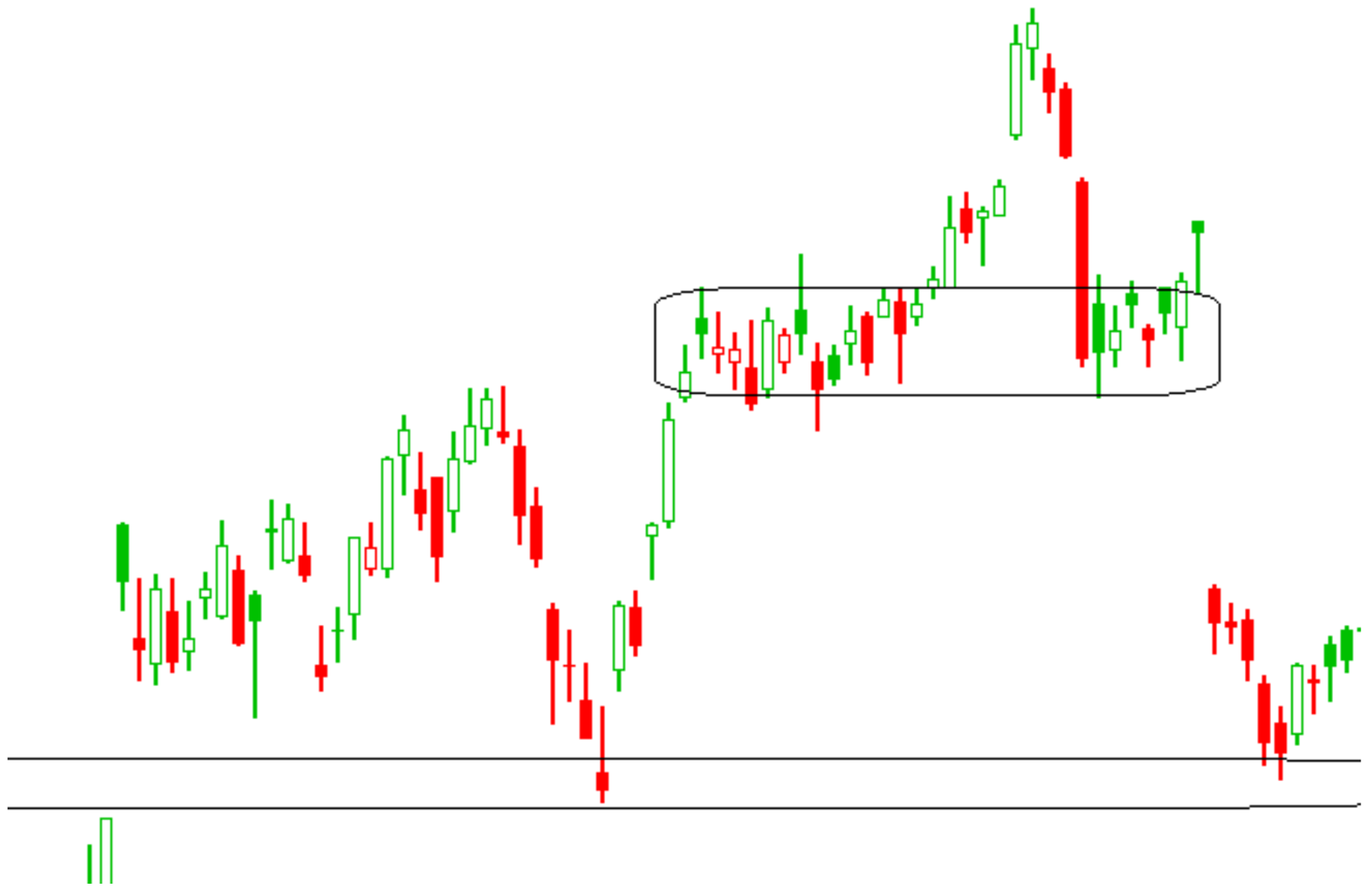
- Balanced order flow
 - Equilibrium
- Price ranging





Uncertainty vs. Certainty

- Balance
 - Comfortable?
 - Equilibrium
 - Accumulation / distribution
 - Fair price to trade around
 - Uncertain
 - Trading to exhaust one side
- Imbalance
 - Chasing to find the opposite response
 - Letting the imbalance run
 - Emptying the excess
 - MM letting the market over extend (helping)
 - Means to an end
 - Opportunity costs in a run
 - Market tend to give back
 - Earn or Burn on the turn



Voids



- Price Imbalance
- Pricing pressure (Buying or Selling)
- Fluid moves
- Seeking balance



MA: Mastercard Incorporated (Daily bars)

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Lower (C,1) Higher (C,1) 02/22/2012 = 406.83 (+7.28)



JOY: Joy Global Inc. (Daily bars)

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Lower (C,1) Higher (C,1) 3/1/12 10:56 = 88.02 (+1.06)



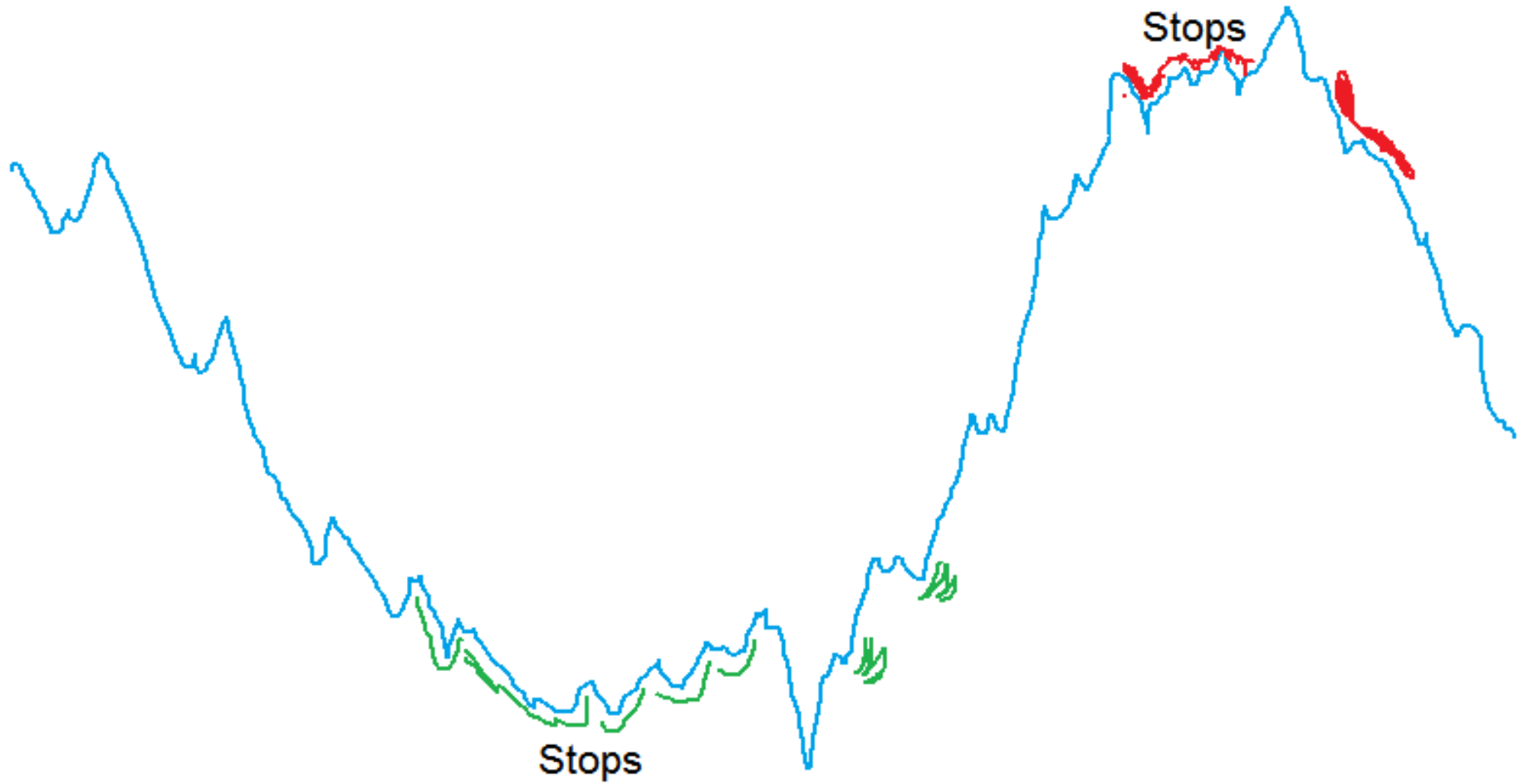
AMZN: Amazon.com, Inc. (Daily bars)

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Lower (C,1) Higher (C,1) 07/06/2011 = 214.19 (+1.00)



Gamesmanship



Public to sell

Public to buy

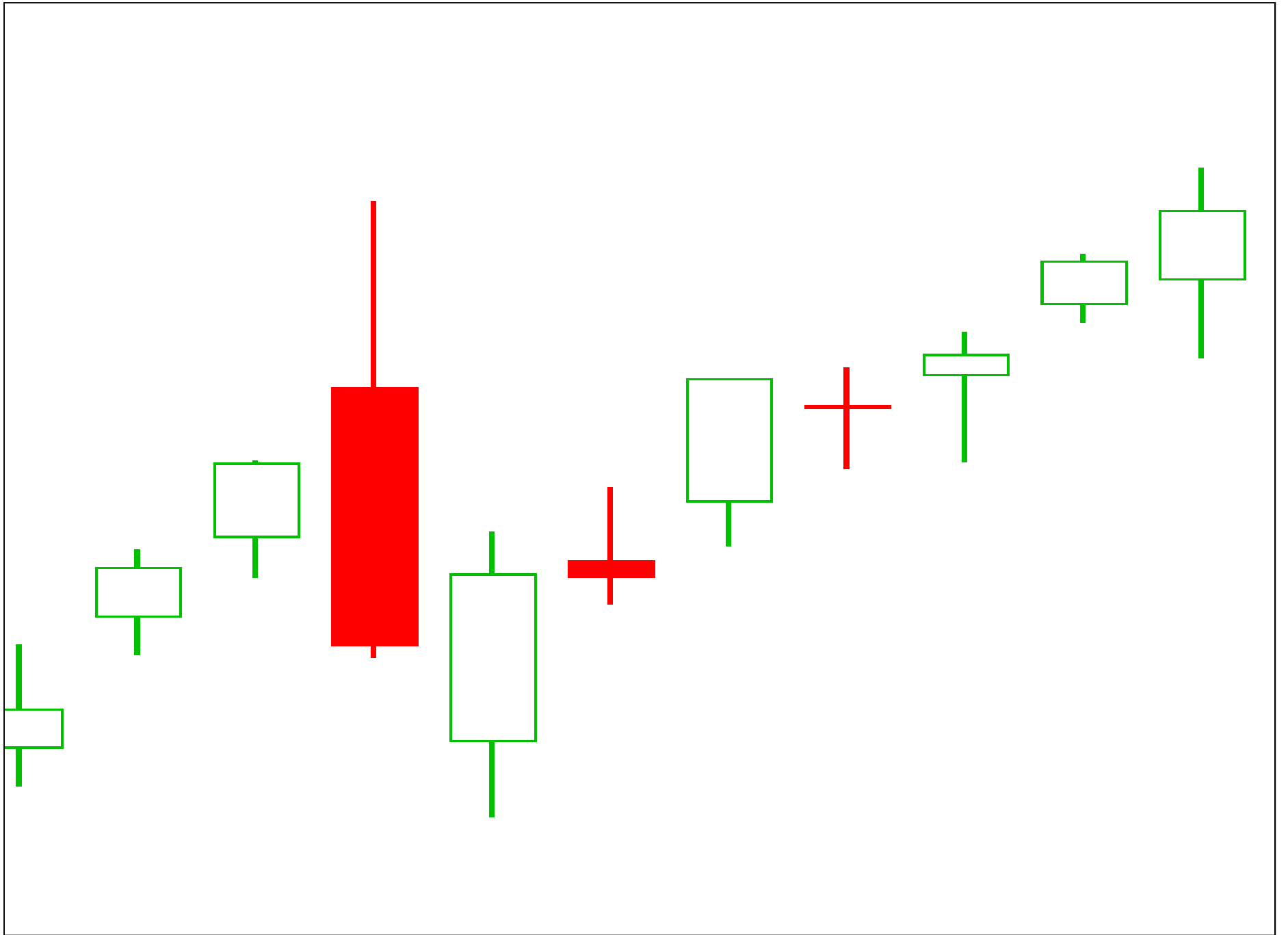
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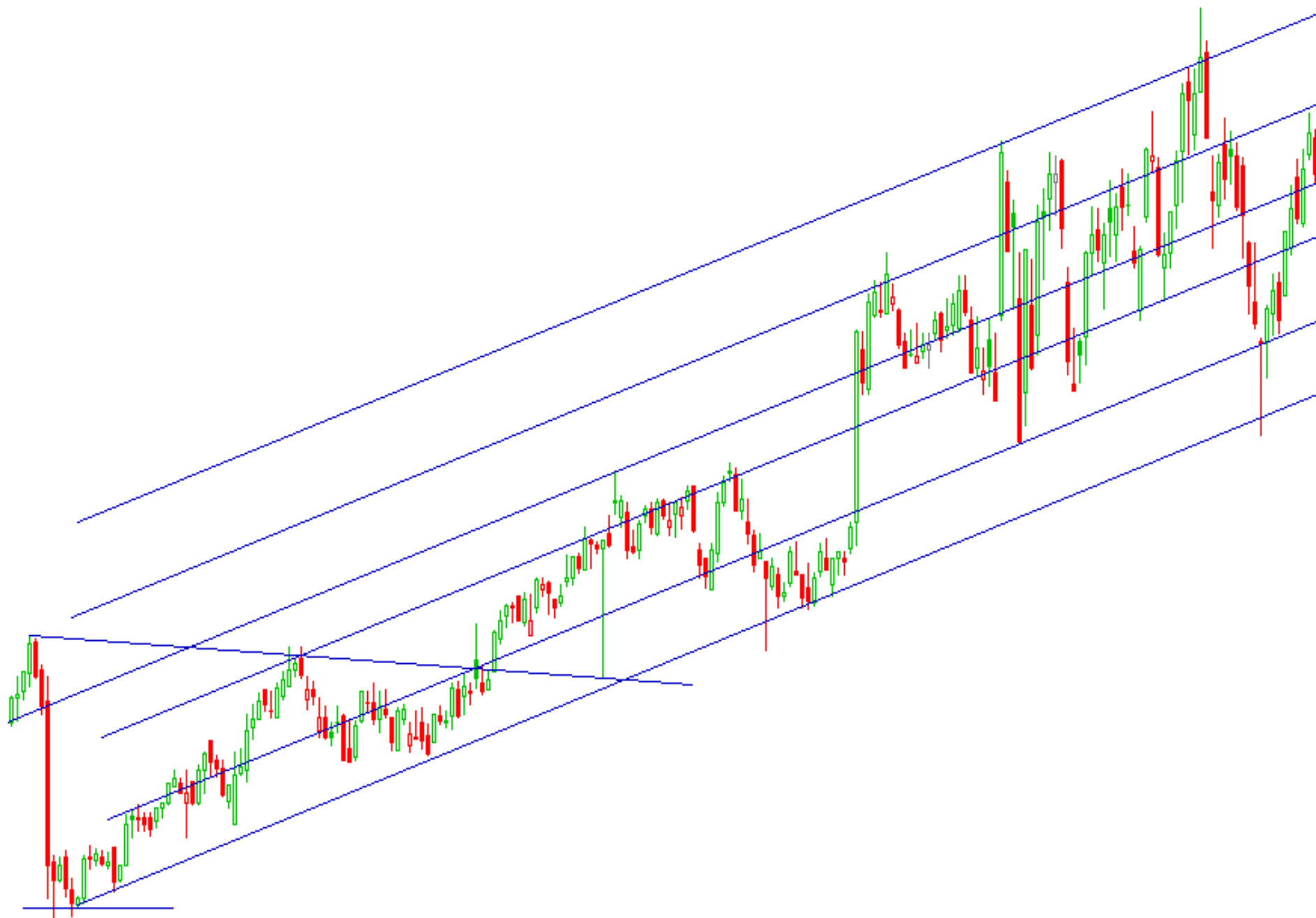
Market willing to sell

Flash Crash

- News driven – panic
- Manipulated for max effect
- Almost always ‘V’ turns
- The experienced
 - Know how to move fast
 - What to look for
 - When to jump back in
- Tend to reverse quickly



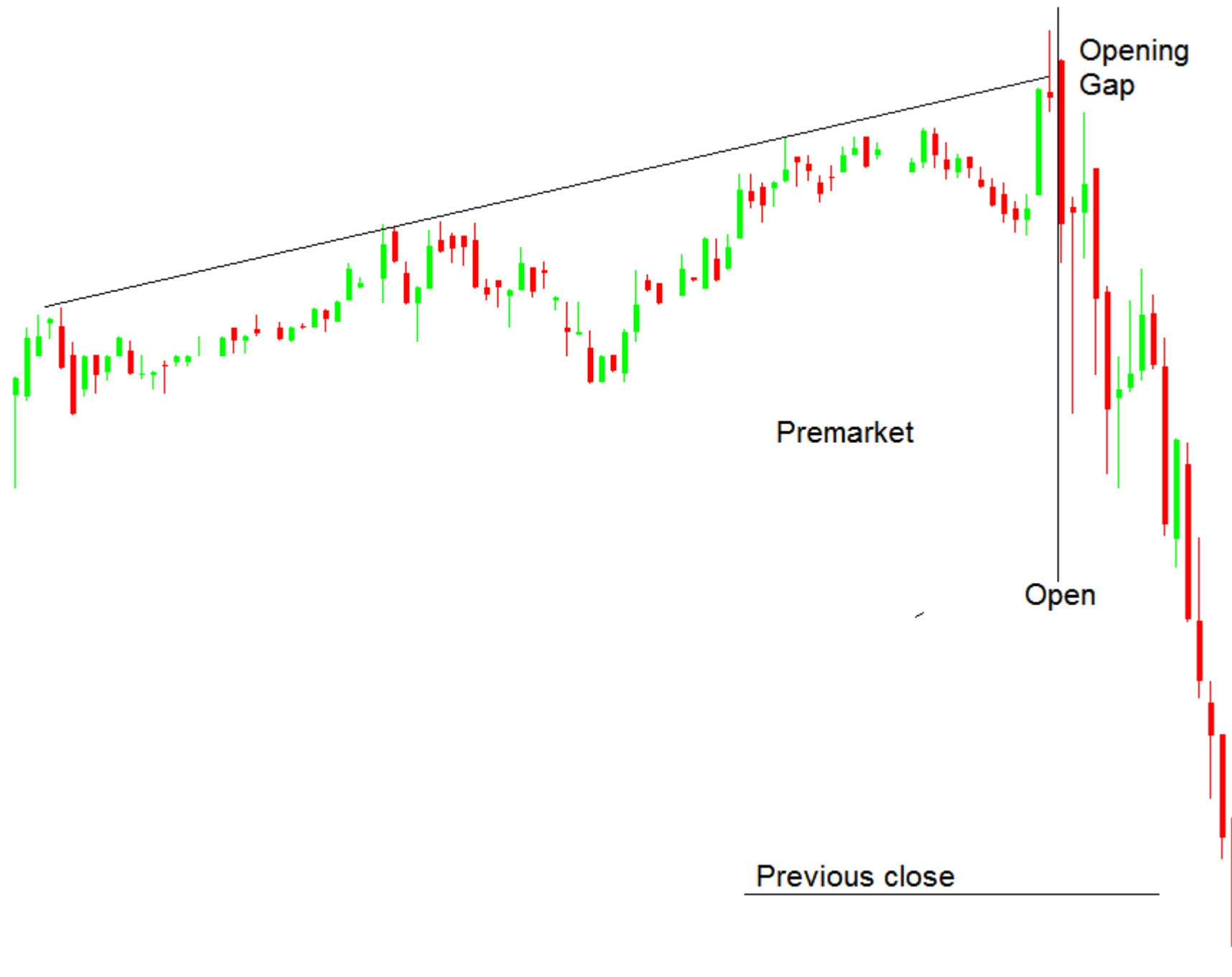




Gapping

- Gaps
 - Overnight
 - During market hours – rare – news driven
- Fast Market
 - High volatility and volume
 - Can't process orders fairly – bad fills – bad quotes
 - Stopping and Starting
 - Special rules for brokers
 - Market Brakes for slowing things down





Price Movement

- What?
- Why?
- When?
- Who?
- How?

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