

The ABC's of VSA: Trading Cause & Effect

**By Lauren Snedeker &
special guest Steve Phillips**

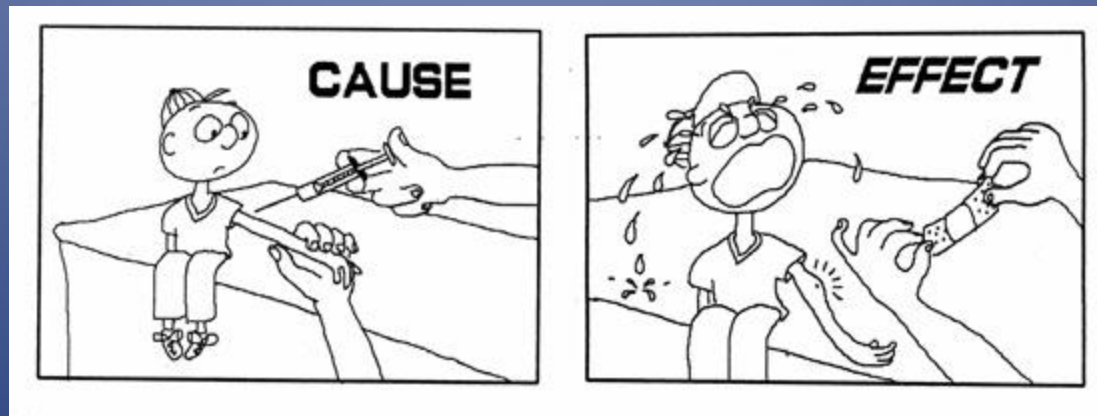


Today's Objectives

- Understand how Cause & Effect control the why and when of Trading
- Recognize the Selling of Supply during the Distribution Phase
- Recognize the Buying of Supply during the Accumulation Phase
- Read volume to predict trend changes

Theory of Cause & Effect

- For every action there is a reaction
- The universal theory and mystical law of Cause and Effect is that every person affects the change in their lives.



The Ripple Effect

- If you throw a stone into the water it creates a rippling effect.
- What energy and effort you exert will have a result.
- It may not always be the result or effect you had expected!



Bob believed in the ripple effect. Which was surprising, given that his own ripple didn't appear to be all that effective.

Trading with Cause & Effect

The Cause = the
Campaign of the
Smart Money

Accumulation or
Distribution
Phases

The Effect =
volume will change

trend will change

trade with trend

The Distribution Phase

What? The selling off by the Smart Money

When? Into a Rising Market

Why? So they can sell high

How? Climactic Action bars – wide spread, UHV

Supply Coming In, Buying Climax



The Accumulation Phase

What? The buying by the Smart Money

When? Into a falling market

Why? So they can buy low

How? Climactic Action bars – wide spread, UHV



Stopping Volume

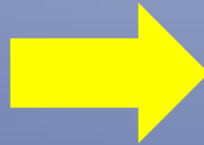
Strength Coming in

Selling Climax



Cause and Effect = Case Study

**Climactic
Action**



**The
Distribution
Phase**



Change in Volume

Change in Trend

Taking a Short Trade



**Checking how much
demand for higher
prices before bringing
the Market down =
Up Thrust, No Demand**

Cause = Distribution Phase



B = Potential Buying Climax

- Weakness in A (bkgd)
- B is an up bar
- Higher volume
- Next bar up, fails
- Why is C so massive?
(hint: news item)



Bar C = UpThrust

October 27, 2011

J.P. Morgan Achieves its Highest Ranking in Global Investor/ISF 2011 Equity Survey

J.P. Morgan Worldwide Securities Services today announced that it achieved its best ranking to date in the 2011 Equity Lending Survey conducted by Global Investor/ISF magazine.

**Wide Spread Up Bar
Gapped Up on this news Event
UHV, Closes on the Low**



D,E,F = 3 No Demands



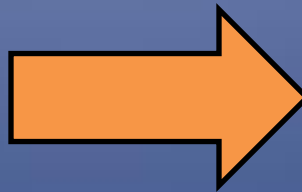
G & H = No Demands



Why Enter There?

- Your Cause = Distribution Phase
- A series of weak bars on lower volume
- G&H are No Demand on much lower volume
- Trend begins to change = Your Effect

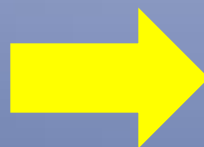
Selling by the SM into
Rising Prices



No Demand Bars
Lower Volume
Trend Change

Cause and Effect = Case Study

**Climactic
Action**



**The
Accumulation
Phase**



Change in Volume

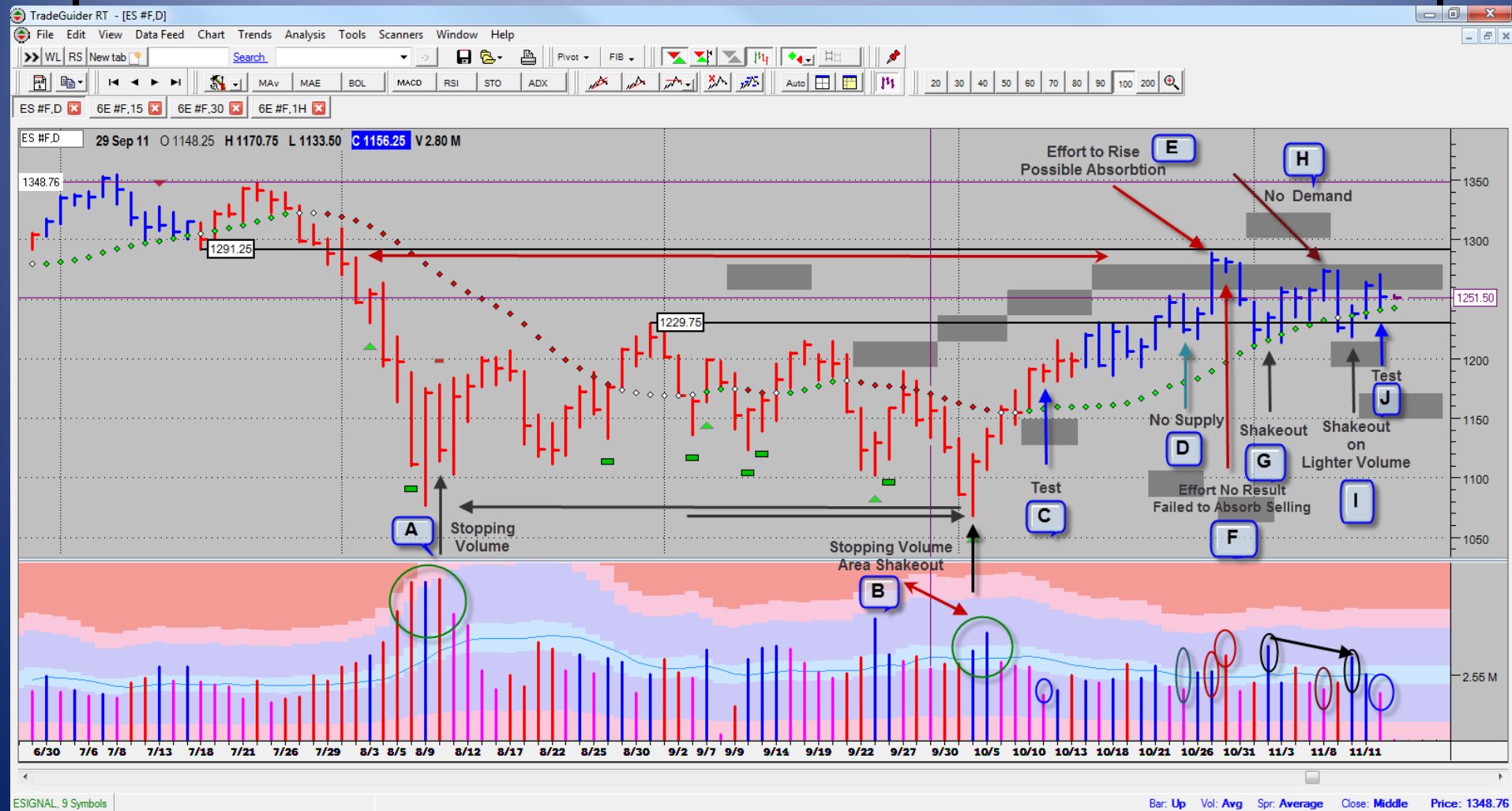
Change in Trend

Taking a Long Trade



**Testing the supply
before bringing the
Market Up =
Shakeout, Test, No
Supply**

The Cause = Accumulation

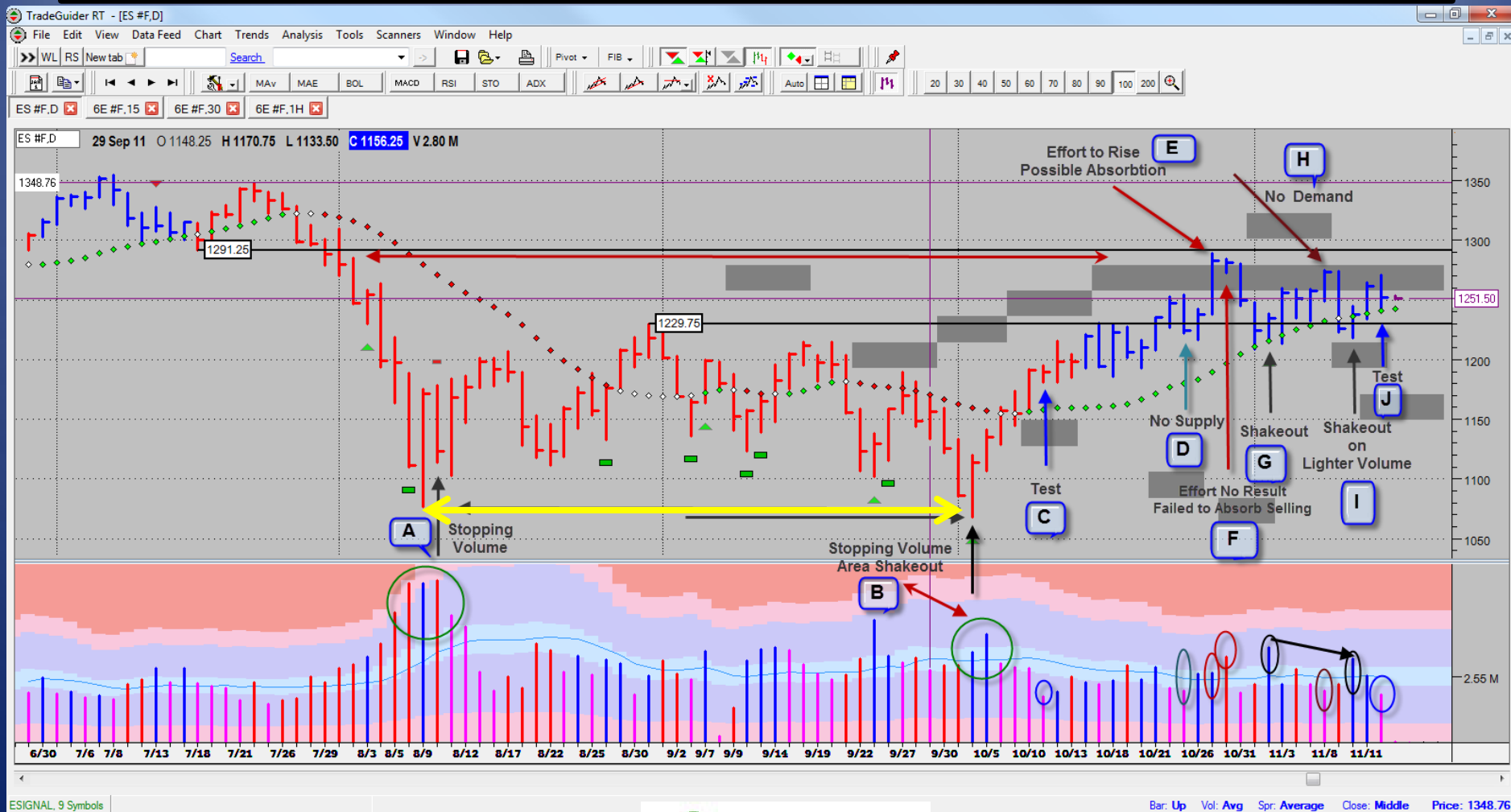


Point A = Stopping Volume

- ❖ The Volume is Ultra High over three bars
- ❖ The next bar closes up confirming A
- ❖ The price then rises but the volume wanes
- ❖ The continued high volume shows there is still more accumulation by the Smart Money

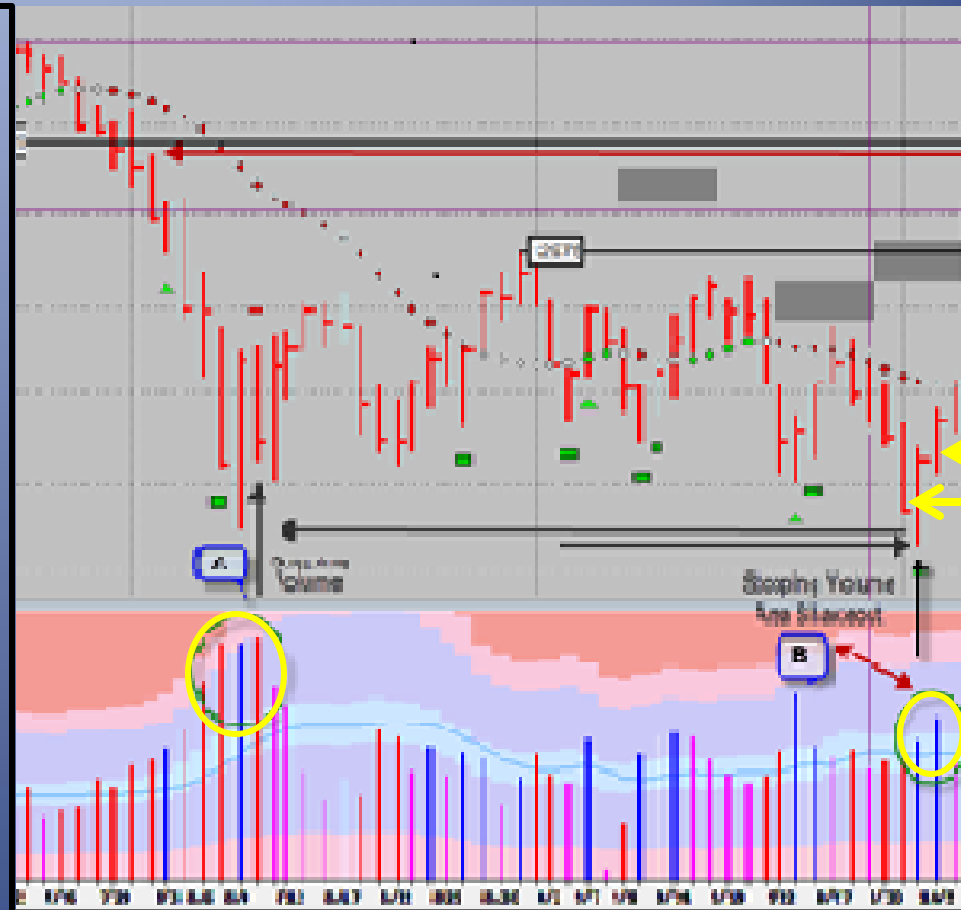


Stopping Volume Range

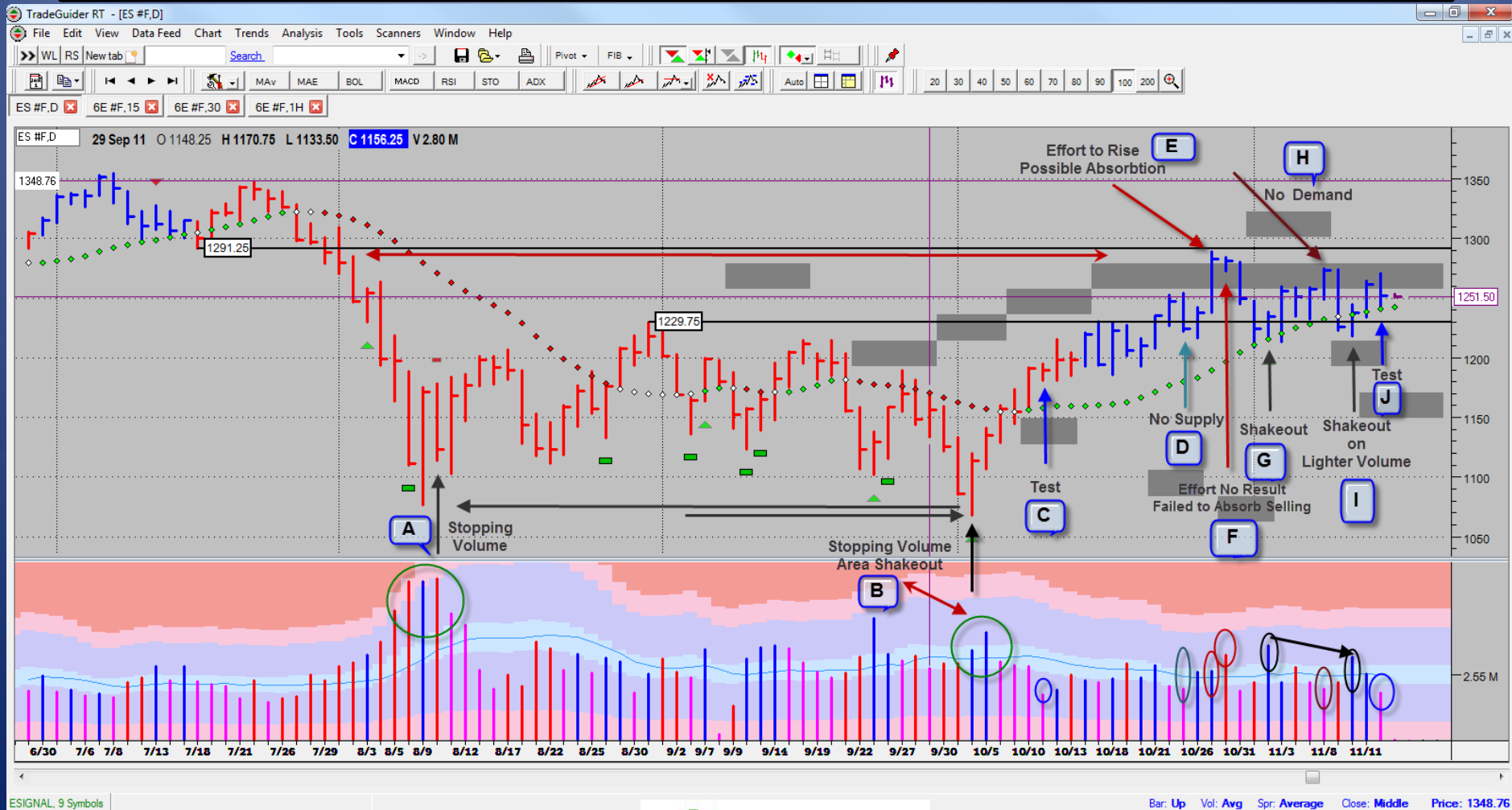


Point B = The Shakeout

- Market moves sideways until Point B
- Widespread down bar
- Closes on the high
- Next bar up confirms
- Goes back down to the area of Point A
- Volume is lower relative to Point A

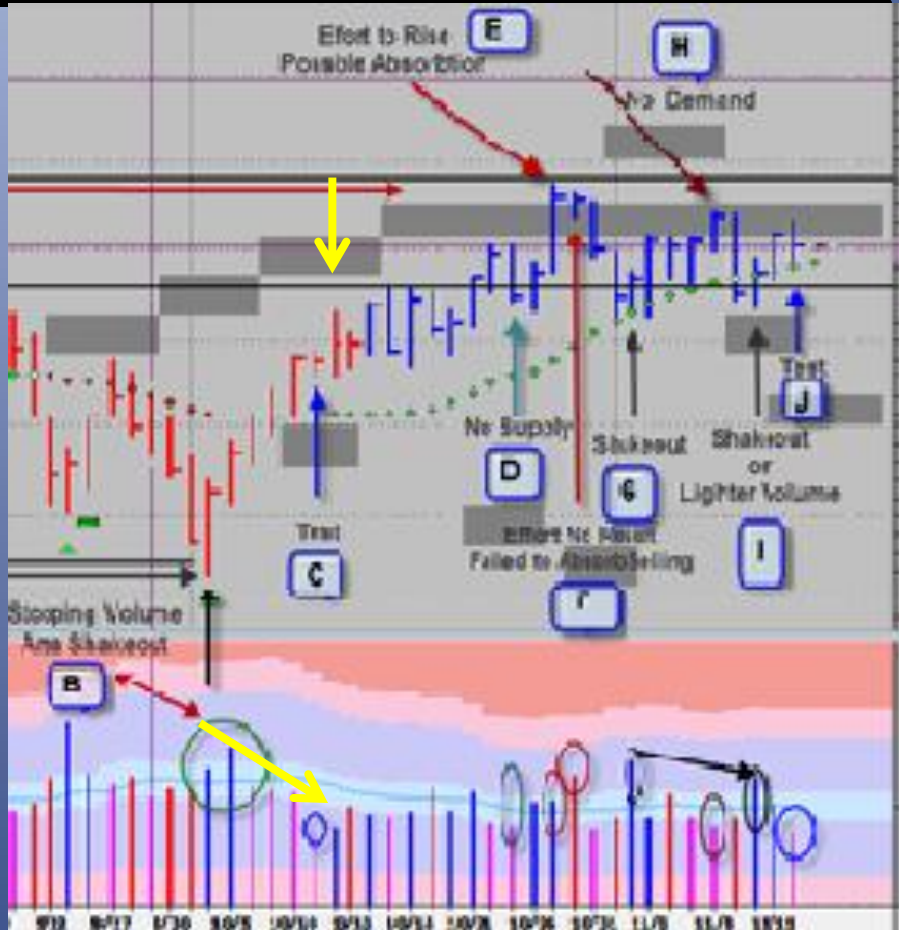


Testing Ground Begins



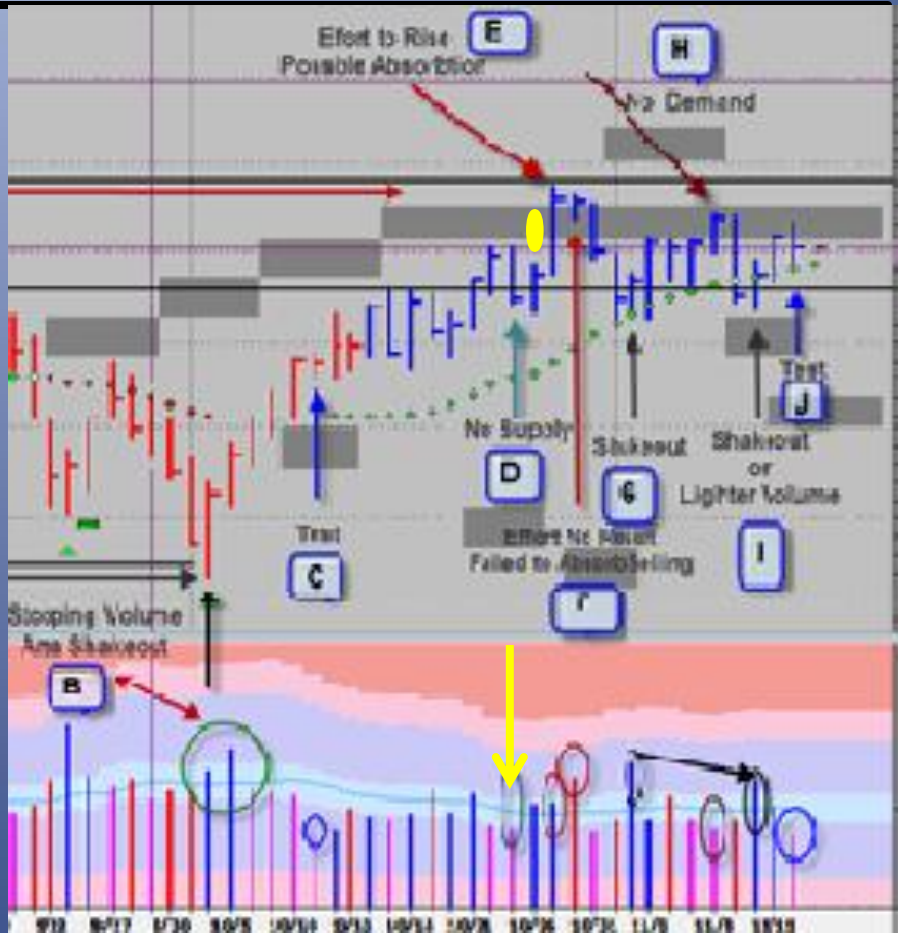
C = The Test

- C is a test on lower volume than B
- Next bar up confirms
- Does not break 1229 resistance area
- In an uptrend

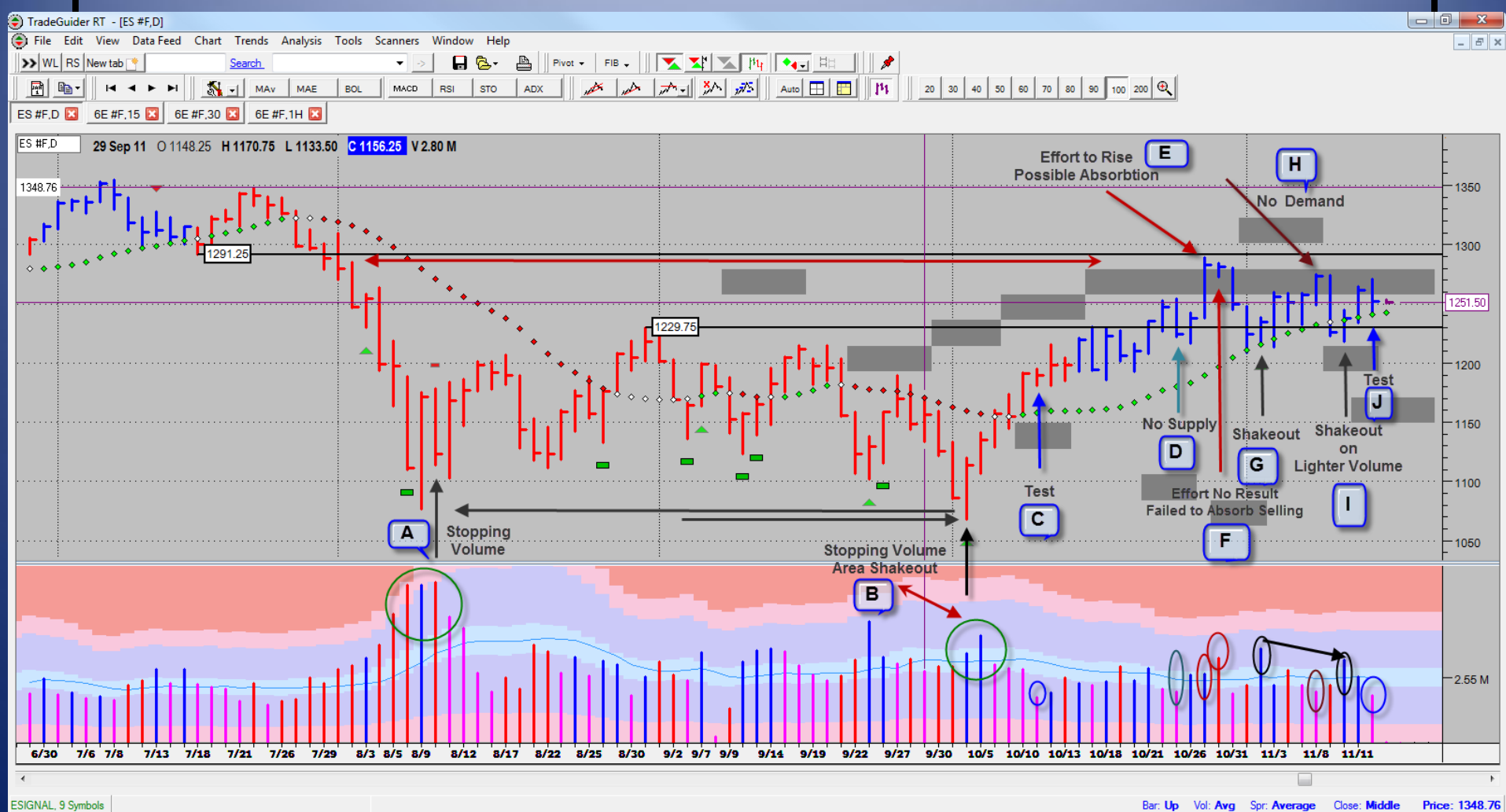


D = No Supply (Test #2)

- D is the best entry
- Low volume
- Two tests behind you
- Breaks the old area of Resistance
- Up trend
- Next bar shakeout



The Effect = Go Long after Testing



Summary

- **The Cause** = Climactic Action of Stopping Volume
- This led to the **Accumulation Phase** of buying in a down market
- A **Series of Tests**, back into old Resistance Ground
- The last effort to rise on lighter volume works

The Effect

Summary of key areas

- Watch for testing and efforts to push through 1291.25 level.
- On guard for weakness at 1291 level no demands/upthrust/end of a rising market.
- On Guard for Failed test at 1229 level.

Conclusion

- Understand the Cause – Accumulation or Distribution Phase by the Smart Money
- Anomalies of Supply & Demand alert you to a new Cause (Climactic Action) and help you enter a trade (Supply dries up)
- No Demands and Tests are key indicators for trend reversal

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Treats

- Email me for a **FREE** copy of Gavin's book:
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