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The Yin and the Yang of Markets

I am reading a fantastic book on trading, first published in 1924, by Richard D. Wyckoff, titled "How I Trade and Invest in Stocks & Bonds". Although most of the examples in the book pertain to stocks, the insights into the nature of trading are relevant no matter what instrument you choose to trade.

I am particularly drawn to the authors' appreciation of the ebb and flow nature of markets and how this perspective can be used to great effect.

It is difficult to over-emphasize the importance of studying the technical position, particularly when making a speculative commitment. Many people may say, What is a weak or a strong technical position? My reply is, in brief, that a stock is in a weak technical position on the bull side when it has been purchased and is held by a large number of outside speculators; when most of these are looking for a profit; when the price of the stock has advanced to a point where no further buying can be stimulated for the time being. It stands to reason that when buying power is exhausted a stock must decline, no matter how strong its finances, management or earning power.

On the other hand, a stock is in a weak technical position on the short side when the bears have exhausted their ammunition by selling all they can afford and when the buying power of investment and speculative purchasers is such that it resists the pressure of the bears; in other words, when demand overcomes supply. The weakness in such a position is found in the fact that all those who are short are potential bulls; they must, sooner or later, cover their commitments in order to close their trades.

They do not wish to remain short indefinitely.. Bears, after they have sold short are an element of strength, not of weakness.

Perhaps the nature of all markets is best described by the Chinese Yin Yang symbol:



In every bull move, and in every bear decline, are the seeds of their own destruction.

Malcolm Robinson

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