

# APPLYING VOLUME SPREAD ANALYSIS TO THE ANALYSIS OF STOCK PRICE SPREAD ON HO CHI MINH CITY STOCK EXCHANGE

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*The instabilities of the world economy have greatly affected the Vietnamese stock market. Changes in macroeconomic policies, effects of the tight-money policy, banking bad debts, flows of credits to brokers, and regression in realty market bring concerns rather than expectations to investing community. These issues considerably influenced transactions in the Vietnamese stock market in the first quarter of the year and caused falls in VN-Index. On May 25, 2011 VN-Index was down to a record low of 386.36 points in the first two quarters. This has profoundly influenced the mentality of investors and increased herding behavior on the market transactions.*

Keywords: volume spread analysis, stock price manipulation, professional traders

## 1. Insight into Volume Spread Analysis (VSA)

Most traders are aware of the two widely known approaches used to analyze a market, fundamental analysis and technical analysis. Many different methods can be used in each approach, but generally speaking fundamental analysis is concerned with the question of why something in the market will happen, and technical analysis attempts to answer the question of when something will happen. VSA is a study that focuses on volume and stock price spread. With different trends in price spread, a combination of candlestick-shape analysis and volume analysis may help investors judge price spread better and partly understand the behavior of other participants in the market. Thereby, it enables investors to improve judgment on stock price spread, especially in the event that stock prices show signs of being manipulated.

VSA analyzes volume and price spread in order to examine their mutual influences in smart money differencing. (Smart money is activity of professional operators and market

planners within a company, and brokers. They can foresee the possible supply and demand, and determine the potential of the current market. In this case, they have legitimate rights to make profits from trading their accounts). In this research, VSA focuses on analyzing the amount of smart money as a part of the volume, which can affect results of market guidance in forecasting market trends.

VSA reveals that the view of the market being pushed and pulled by “Big Boys”, a.k.a. “Market Makers,” is increasingly convincing. How do “Big Boys” accumulate, mark up, and distribute? Where are their traces? How can we cooperate with them? Therefore:

VSA is to study the market forces of supply and demand, and the manipulation of those forces through the psychology of herding behavior. When one has some knowledge of supply-demand relationship and herding behavior in transactions, one will find that prices are not accidental. In its last step, VSA uses three components on the chart to determine the balance of supply and demand as well as the probable near term direction of the market. These components are

the amount of volume affecting the price, the price spread or range of the price (not the bid/ask spread), and closing price transactions. VSA requires that the market infrastructure be precise.

VSA is the modification of the original research by Richard D. Wyckoff, who started his first sessions on VSA in 1931. In fact, the Wyckoff method is offered as part of the graduate level curriculum at the Golden Gate University in San Francisco. Tom Williams, a former syndicate trader (professional operator in the stock market) for 15 years in the 1960s-1970s, enhanced the work started by Wyckoff. Williams further developed the importance of the price spread and its relationship with the volume – Volume Spread Analysis. VSA is considered as the newest approach of technical analysis worldwide.

## 2. Approaches to VSA

By studying fluctuations in volume and price, investors can have better judgment on the movements in price trends, particularly in the event that stock prices show signs of being manipulated. Here are the steps to learn more about VSA:

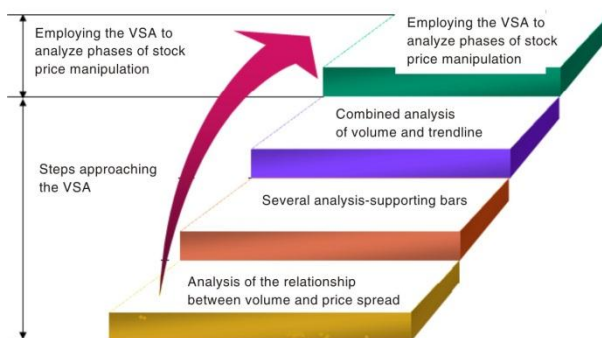
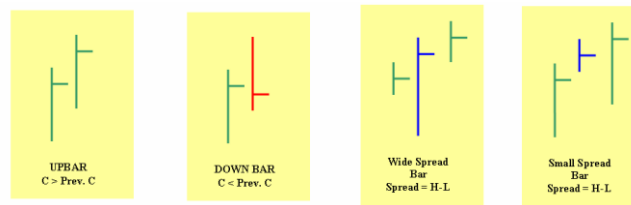


Figure 1: Steps approaching the VSA

**Step 1:** Analyze the relationship between volume and price spread. This allows investors to better understand trading volume and factors other than supply and demand forces and know how to explain movements in the market through the analysis of volume and price spread.

**Step 2:** Analyze some bars prevalent in VSA. This gives an understanding of the important bars common in VSA and their meanings.



- Up bar: closing price near a high price – High has a rising limit (Upper 30% of the Bar)
- Down bar: closing price near a low price – Low has a falling limit (Lower 30% of the Bar)

**Step 3:** Analyze both volume and trend lines: This gives an understanding of what a trend line is, how it forms and is broken, and how to forecast the perforation of future trend lines.

After studying VSA, traders can analyze the stages of stock price manipulation using this method. In this case, traders are analyzing volume, trends, and some special bars to examine each stage.

### a. Analysis of volume – price spread relationship:

Volume is a major indicator to professional investors. It is almost impossible to use an analytical chart without volume data. Volume plays the main role besides basic principles of supply and demand. This requires relating volume with price action.

The price spread is the difference between the highest and lowest trading points reached during the timeframe one is looking at, which may be weekly, daily, hourly, or whatever other timeframe you choose.

Volume shows the activity of trading during a specific period. If the volume is taken in isolation and looked at in relative terms, it is easy to see if today's volume is high, low or average compared to the volume seen during the past thirty days. To see if the market is going up or down, it is necessary to look at the price spread and price action in relation to the volume.

Most of the instruments in technical analysis tend to look at a certain area of the chart, but not at the business itself, as technical analysis has to

use technical tools to process data. This method can make the observer overlook some changes in data flow as well as the real relationship between volume and price action. However, the art of reading the market is to take an overall view, not to concentrate on individual bars. For example, once a market has finished distributing, the Market Makers– Big Boys (MMs-BBs) will want to trap one into thinking that the market is going up. So, near the end of a distribution phase one may, but not always, see either an up-thrust or low volume up-bars. Both of these observations mean little on their own. However, because there is weakness in the background, these signs now become very significant signs of weakness, and the perfect place to take a short position.

## ***b. Evaluation of pricing power based on bar chart and volume:***

We are going to present some situations in which MMs-BBs usually employ to manipulate stock prices to the detriment of other traders. Most of the situations are clearly reflected on bars. Hence, we will analyze volume, price spread, and the signs of the bars:

- + Upthrust bar
- + Reverse upthrust bar
- + Shake- out
- + Falling pressure
- + And some other bars such as no demand bar, stooping volume bar and no supply bar.

### **- Upthrust bar:**

- An upthrust bar is a wide range bar with high volume and closing down. It indicates that the prices were marked up during the day (for simplicity we use day, it is equally applicable on all timeframes), the trading activity was high as indicated by the high volume and the prices dropped to near the low (or to the low) towards the closing hours.

Up-thrusts are usually seen after a rise in the market, where the market has now become overbought and there is weakness in the background. They are also frequently seen after a period of selling, just before a down-move.

### **- Reverse upthrust bar:**

+ This action is very similar to a selling climax but is less intense – the reverse up-thrust can be thought of as a mini 'Selling Climax'. There will still be a wide spread down-day, often driving down into recent or new low ground, and then closing at or near the highs, on high volume. Note that this indicator is more reliable when the day is gapped down and the following day is gapped up – add more bullishness if the news is bad. Any down-day on low volume (no selling) after this event, especially if it closes on the high of the day, is a strong indication of market strength.

+ This professional buying (absorption of the supply) will usually stop the down-move. The more liquid the market, the more buying will be required to stop the down-move.

### **- Shake-out:**

Shake-out is a situation in which many investors exit their positions, often at a loss, because of uncertainty or recent bad news circulating around a particular security or industry. It can also be defined as a sudden wide spread down, usually on bad news. It is engineered to create panic selling, thus helping the transfer of stock back to the professional traders. This is usually seen after a bull move has been running for some time. You would expect higher prices after this event. A true selling climax looks the same as this shake-out does; the big difference is that on a selling climax you will have a bear market behind you.

### **- Falling pressure:**

Falling pressure indicates that there are few sellers detected as the market goes down, shown by a wide spread down on low volume, closing on the low. This is not a buy indication on its own, but shows a lack of determined selling pressure as the market falls, and is an indication that the market is unlikely to decline very much further. If the professional money were still bearish, there would be an increase in selling on the down side, not a decrease. This indication can become a buy signal if it closes on the high of the day and the lower price level has penetrated into an old previous support.

## - Some other basic bars:

*No bar demand* is a narrow spread upbar with low volume that closes in the lower half. It shows that there is no support from the smart money (SM). It is used for finding weakness in an uptrend.

*Stopping volume* is a downbar during a bearish period closing towards the top accompanied by high volume. It normally indicates that smart money is absorbing the supply which is an indication that they are bullish on the market. Hence we can expect a reversal in the down trend.

*No supply bar* is another narrow spread downbar with low volume. It closes in the lower half. It is used to find strength in a downtrend and an important step taken by MMs – BBs before moving from accumulation to mark-up.

## c. Analyzing volume and trend lines in stock market analysis:

In this section, we will analyze actions that may occur at the most sensitive point of a trend channel in combination with analysis of bars to identify the real signs of the market. Here are the procedures:

**Step 1:** Present information about a trend line, comprising what it is, why to identify it and how to build a trend channel.

**Step 2:** This step is important as it shows what to do to price movements. It also indicates the stage at which professional traders try to cause breakouts.

Finally, we will analyze trading volume in series of transactions of the trend channel and examine an example of breakout caused by professional traders.

What makes VSA successful is its analysis of volume and trend of price spread of a stock price manipulation process through four stages, namely accumulation, markup, distribution and markdown.

The stages are presented as follows:

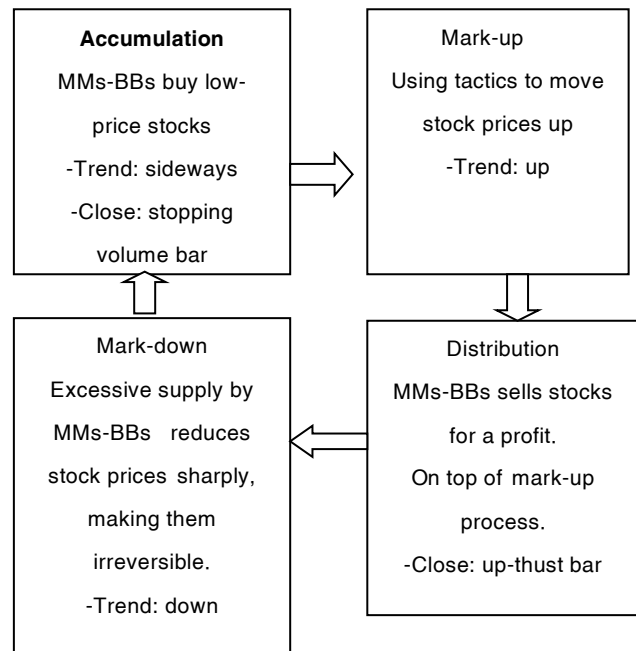


Figure 2: Stages of a stock price manipulating process

## 3. Application of VSA to the analysis of Hanson plc and KSH stocks

### a. Analysis of Hanson plc stocks

#### - Upthrust bars:



Figure 3: Upthrust bars in Hanson plc stocks

According to VSA, one of the most important candles in the doji family is the up thrust. These candles appear in all online charts, whatever the instrument you are trading, and in all timescales. Now the candle itself only gives us a certain amount of information. Forecasting market direction and



actually reading the markets should be based on analyses of price action and volume. However, one should look at some real charts and see how to use this knowledge to forecast future prices.

This is the stock chart for Hanson plc, and is taken over a five-month period, with each candle representing a day's price movement. The up thrust we are going to look at is that on March 15. It is an unusual up thrust (March 15) as the wick is very long, however it does demonstrate the principle rather well. As one can see prices have been rising steadily when suddenly a huge up thrust occurs (the bar is very long). Look at the volume underneath it is five or six times as much as the normal volume for the share. Something odd is happening. The professional money is selling heavily, trying to keep prices up whilst they try to dump shares on the unsuspecting. They are constantly overwhelmed by selling coming onto the market. The bears have won this battle and there could be a change. Note that this does not take effect immediately. We monitor candles for the next few days to see if weakness appears, which it does with another upthrust five days later, this time on lower volume. Prices start to move downwards, eventually falling sharply in Mid May.

## - Downthrust:



Figure 4: Downthrust bars in KSH stocks

Having looked at the upthrust, let us take a look at its sister the downthrust. Towards the end of

March, we have two downthrusts, one after another. Note the high volume of the first one (blue) which is huge, suggesting that the professional money has definitely entered the market and is buying into the market. The bulls have overcome the bears and stopped prices falling. This is followed by a second, still on high volume. We wait for confirmation, and within a few days prices start to rise. Note that at mid May there is an upthrust but on relatively low volume. Upthrusts and downthrusts can occur on low volume - it is a trap move by the professional money and could therefore be a false signal. One just have to try and interpret what is happening. However, high volume is generally a giveaway signal that this is a true signal.

## b. Analysis of KSH stocks:

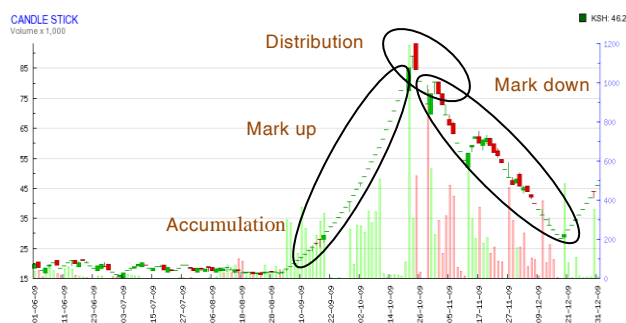
To analyze the manipulation of KSH stock prices, we are going to look at the price chart of KSH stock at 2009's end:

The chart reveals an unusual rise in the stock prices between early September and late October 2009 with price ceilings climbing from VND20,000 to over VND90,000, followed by a steep fall to VND29,500 on December 17. There are clear signs of manipulation of the price of this stock. We will analyze the manipulation by MMs-BBs of the stock price.

## - Accumulation:

Before September 2009, the price of KSH stocks was in the range of approximately VND20,000 (more at [www.cophieu68.com](http://www.cophieu68.com)) and underwent no considerable change. However, it was notable that the trading volume of KSH rose steeply in August 2009. It was found that a shake-out was created on August 18 when the close price stood at VND18,000, just hitting the floor. After the shakeout, there were five sessions where prices remained unchanged or fell and then rose, and trading volume climbed steeply. Statistics showed that the trading volume between August 10 and September 1 increased considerably to an average of 45.165 stocks per session as against the average volume of 1,616

stocks per session 17 days ago. This was the period when MMs-BBs accumulated low-price stocks to prepare for a manipulation of prices of this stock.



**Figure 5: Price chart of KSH stocks 2009**

Source: [www.cophieu68.com](http://www.cophieu68.com)

## - Mark-up:

The mark-up phase is recorded on Sep. 4, 2009 in an attempt by MMs-BBs to break the trend line with a soaring trading volume (6.8 times as high as the volume of the intermediately preceding session). It could be seen that in the period from Sep. 4 to 18, 2009, MMs-BBs absorbed a large quantity of this stock on the market (the trading volume averages 231,000 stocks per session, greatly reinforcing the stock uptrend. Particularly in this period, there was information from insiders that Đào Thị Kiều, a KSH CEO's wife, registered the purchase of 100,000 stocks in the expected time between September 16 and October 5. This made it very clear that MMs-BBs were accumulating KSH stocks.

The trading session on Sep. 18, 2009 was a reverse upthrust with a pretty large volume opening at the lowest of VND29,200 and closing at the highest of VND30,600. This reliably signals that MMs-BBs were moving from accumulation to a mark-up phase. Constant increases in price ceilings on September 21 confirmed a signal of rising prices and began

continuously rising price ceilings of KSH stocks. On the same day, the information that the company obtained a license to exploit the Nà Làng gold mine was a major upthrust which raised the price ceilings in the consequent sessions.

The information about Đào Thị Kiều's next order for more stocks and the license acquisition caused price ceilings of KSH stocks to rise in the next sessions, but with small volume when orders to buy from insiders were not executed. This showed that the market stock supply was exhausted and revealed the way MMs-BBs pushed prices up. In this phase, prices are always in the overbuying range, but the real buying volume is not large due to the exhausted supply of market stocks.

## - Distribution:

The distribution phase of MMs-BBs started on Oct. 21, 2009 with a very large trading volume of about 1,200,000 stocks. However, it was actually marked by a major upthrust in the session of October 23 when the price floor was down to VND88,500 compared with the opening price of VND97,500 and a large trading volume of 524,000 stocks was recorded. This was a decisive "punch" of MMs-BBs onto KSH stocks, signaling a future reverse direction in them. In this phase, stocks held by MMs-BBs were sold in large quantities and the trading volumes of each session remained high all the time, which indicated MMs-BBs' successful distribution. Investors who bought the stock at this time would suffer big losses because prices had peaked and the mark-down phase was coming.

## - Mark-down:

After the upthrust, stock prices underwent two consecutive falling sessions, which caused many investors to decide on bottom-catching buys and facilitated MMs-BBs' distribution. During their distribution phase, after every single session with a large trading volume (the supply power is

still strong), there was a decrease in the trading volume (no-demand bar), encouraging more bottom-catching buys. After that, prices continued to jump in the next two or three sessions (strong demand), but the demand of newcoming investors was quickly overwhelmed by the mass supply of BBs-MMs, pulling prices down again. At these moments, there appeared upthrust bars that were not as impressive as that of October 23 but could signal that the market was going down the next days. On November 2 and 17, and December 2, when upthrust bars appeared along with a large trading volume, it was apparent that there would be downtrends after these bars.

One can say that MMs-BBs did manipulate KSH stock prices through the processes of sophisticated distribution and markdown, which attracted many investors to the market with a hope of a profitable bottom-catching purchase and helped MMs-BBs succeed in their distribution. This manipulation is a typical case in which MMs-BBs collaborated with KSH's managers to supply useful news for the task.

In brief, the above-mentioned analyses help

investors study trading activities on the market and forecast the future. There are many types of candlesticks and analytic bars for acquiring the basics of this subject. A combination of candlestick-shape analysis and volume analysis can provide an insight into what is happening on the market. Plenty of these analyses may be useful but they are not always correct, so one has to accept that no method is perfect in business. A business will turn into a new direction when one begins investigating into market analyses to invest in stocks, options, currency, futures contracts, or any other commodities■

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