New Logo! Find out more

Understanding “Wyckoff’s Market Rating System”

By Jim Wyckoff (www.jimwyckoff.com)

My market updates displays the exclusive “Wyckoff's Market Rating System” for each market. I distill risk, probability, technical indicators, fundamental analysis and many other factors in determining these ratings. **This simple system can be your quick key to how strongly the markets are trending, (if they are).**

How it Works

Wyckoff’s Market Rating System is based on a scale of 1 to 10, with 1 being the most bearish market rating and 10 being the most bullish market rating. The number 5 would be a neutral rating. And it is not uncommon to see fractions used – like 1.5, 3.5, etc. – if conditions warrant.

It’s important to note that just because a market is rated as very bullish (8 or above), it does not mean I want to establish a fresh long position in that market. A high rating likely means a market has been trending higher for a sustained period of time, or has already seen a quick, powerful move that could mean a "correction" is near. An 8 or higher bull market is likely a more mature one – with the risks being higher for steeper setbacks and a more volatile topping process.

Similarly, a market rated as very bearish (2 or below) does not indicate you should rush out to establish a fresh short position and sell a market. It means a market has likely been in a longer-term downtrend, or has seen a quick and powerful down-move, and is at or near its contract low. It is a more mature bear market that has a higher risk of a corrective bounce higher, or even change in trend to sideways to higher.

Markets rated 4 to 6 are in the middle, and these are the markets I watch most closely, on a shorter-term basis, for trading opportunities. They are usually characterized by more of a "sideways" and choppier trading range on the daily chart, or have just backed well off from a recent up-trend high or have moved well up from a recent downtrend low.

Importantly, markets that have been in sideways trading ranges for a while – i.e., non-trending and then move to either a rating of 5.5 to 6.5 on an upside price move, or to 4.5 to 3.5 on a downside move – are the most critical to monitor on a daily chart basis. It’s at these ratings levels that most trading “set ups” occur, based on my trading philosophy and experience. It's at these ratings which are just above or just below neutral (5) that most "breakouts" from trading ranges occur. But remember, the market has to have been trading generally (but not always) sideways beforehand, for the best trading opportunities to present themselves.

For example, let’s say soybeans, on a daily chart basis, had been rated between 4.5 and 5.5 for several weeks. Then one day prices pop above a congestion area on the daily bar chart and are then rated a 6. That’s likely when a good trading “set up” on the long side can occur. Or, let's say the Euro currency has been trading between 4.5 and 5.5 for several weeks, and then prices dip enough to drop below a recent trading range and trigger a 4 rating. That would likely be a good trading opportunity on the short side. Keep in mind that markets rated at 5.5 or 4.5 can also trigger trading opportunities, if chart and fundamental conditions warrant.

Being a conservative trader, I like to trade markets that are just beginning to establish a solid trend. The risk for high volatility (and bigger losses) is lower when a trend is in its early stages, as opposed to when a trend is mature and higher volatility is more likely. Wyckoff's Market Rating System helps me determine the stages of a market trend.

Here’s an important reminder. My Wyckoff's Market Rating System is not and should not be used as a “stand-alone” trading system. But it can be a valuable trading tool in your “Trading Toolbox.”

Jim Wyckoff