

Volume Confirmation

Volume Climax Confirmation

A Volume climax is based on the premise that increases in buying volume tend to push prices to peaks, while increases in selling volume tend to drive prices into valleys.

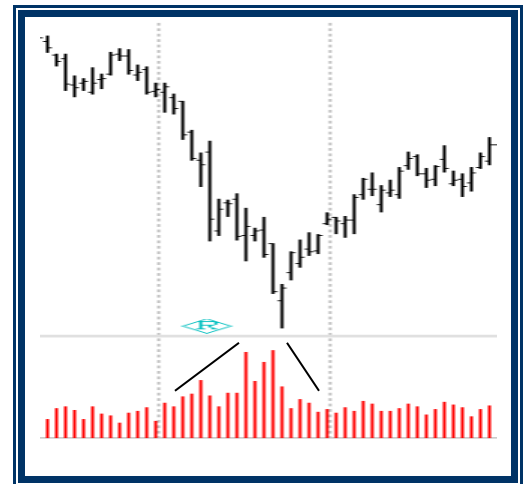
A technical trader likes to see a rising price supported by rising volume to confirm the overall market sentiment and commitment to the price increase.

Conversely, when a sharp price rise takes place on thin volume, it is common for the price increase to be unsustainable and potentially reverse. The same applies to a falling security's price. If a normally "liquid" stock's price is seen to fall dramatically on thin volume, the possibility of the drop not being sustained is significant.

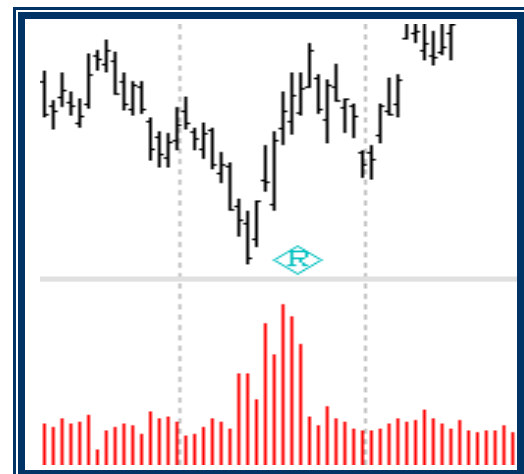
Fluctuations in price patterns can provide a warning as to when reversals may occur. Trend-line breaks, resistance and support levels, and a variety of other indicators can help us to determine possible changes in the direction of a security holding. However, one of the helpful tools that we can use to assist in confirming market reversal patterns is volume climax.

Some securities (especially the major ones) have more observable volume climaxes which may support significant price changes. This is due in part to the role of institutional traders in such products.

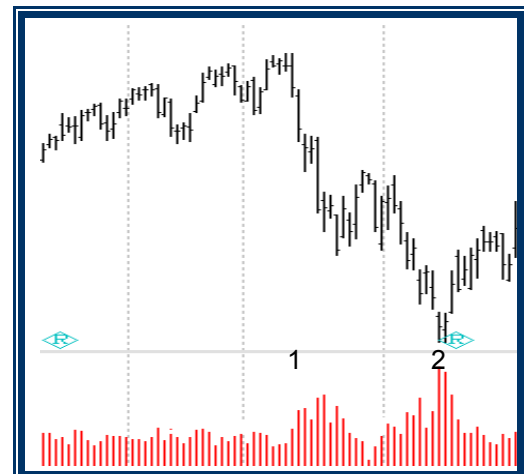
It is important to note that volume alone is a very unreliable indicator. If you review almost any stock or commodity chart, you will find that major price movements are not always supported by volume climaxes. However, when they are, it is often significant.



In this chart we see volume rising as the price falls, showing a significant commitment of traders to drive the price lower.



The chart above shows a volume climax as buyers start driving the price higher.



On this chart we see two volume climaxes.
1. Supports the sell-off.
2. supports to the price rally 6 weeks later.