

Basics:

**Price above VWAP = uptrend**

**Price below VWAP = downtrend**

PVP = Peak Volume Price = Mode = Volume POC

Positive Skew = VWAP ABOVE PVP

Negative Skew = VWAP BELOW PVP

Symmetrical Skew = PVP  $\approx$  VWAP

+SD1 (DVAH)

-SD1 (DVAL)

When the market is skewed the highest probability setup is a trade at the VWAP.

The VWAP has the following characteristics:

1) Being the average for the entire distribution, Volume traded above the VWAP is identical to volume traded below the VWAP.

In terms of the distribution function as a probability function, it means that when price action is at the VWAP, there is equal probability for price to move up as there is for price to move down.

As corollaries then we have:

2) if the VWAP is above the PVP, then more volume has traded above the PVP than below it. The distribution function is thus skewed to the upside and the expectation is that at the PVP, price action should move up.

3) Conversely, if the VWAP is below the PVP, then more volume has traded below the PVP than above it; the distribution function is skewed to the downside and the expectation is that when price is at the PVP, price action should move down.

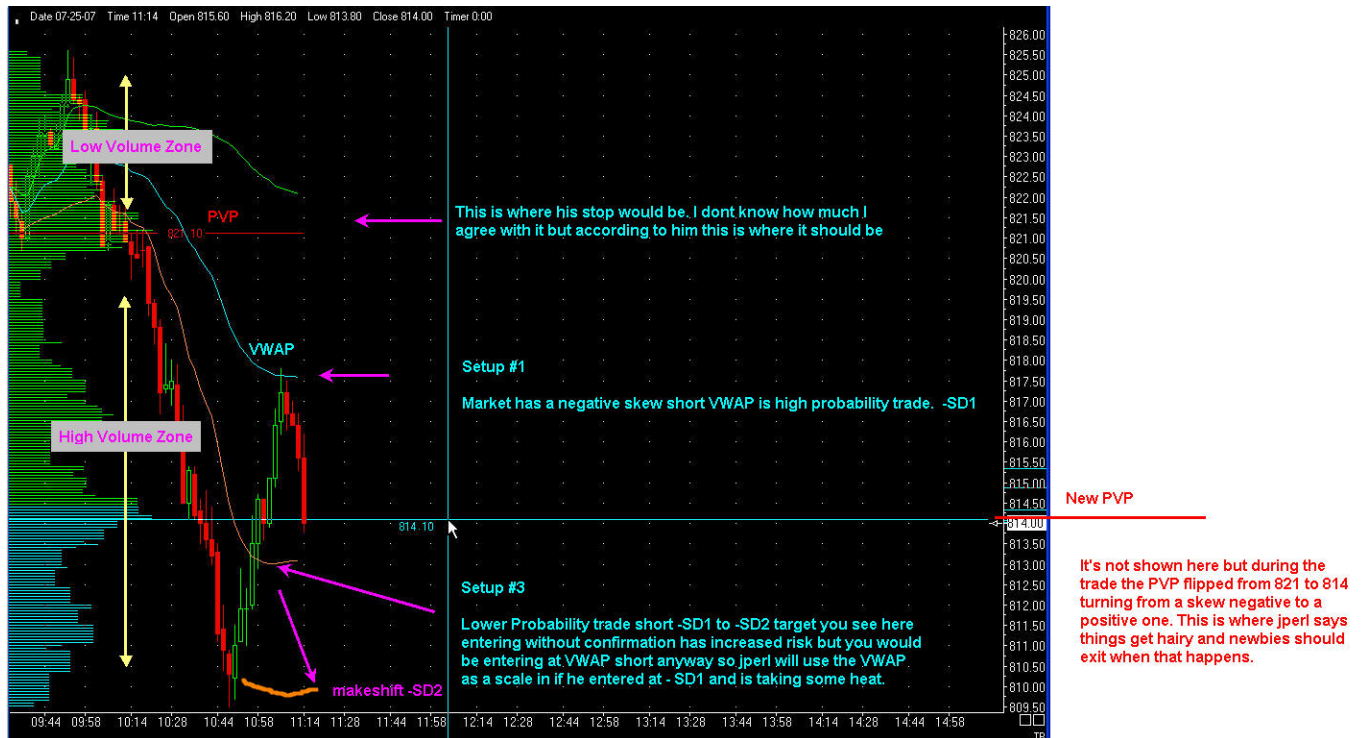
4) If the VWAP approximately equals the PVP, then the distribution function is symmetric. In this case when price touches the PVP, there is no expectation of price movement in either direction. Instead, expect to see small oscillations about the VWAP.

### **Setup #1 High Probability**

When the market has a Negative Skew (PVP above VWAP)

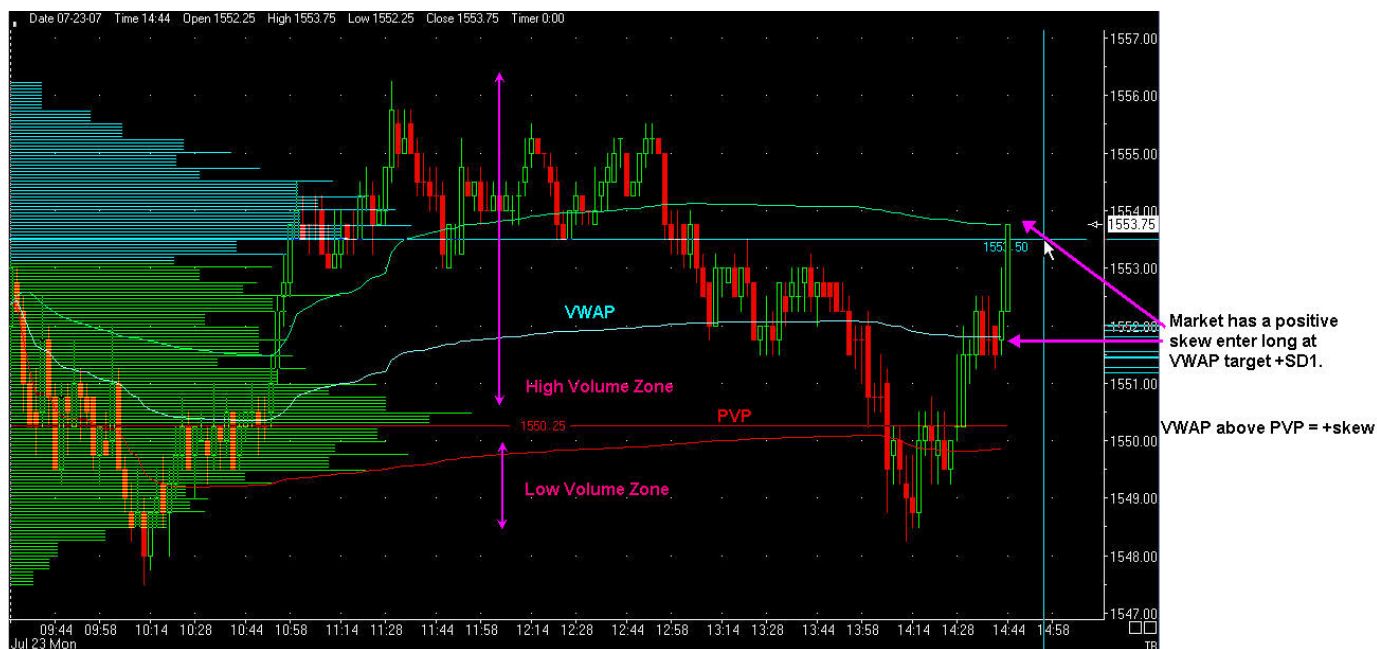
And price is above or below VWAP you would enter short when price approaches VWAP target is -SD1 (multiple cars hold runners)

Stops are rather wide here with Stop above PVP if short from -SD1 (Setup #3)



## Setup #2 High Probability

When the market has a Positive Skew (PVP below VWAP)  
And price is above or below VWAP you would enter long when price approaches VWAP target  
is +SD1 (of course if multiple cars hold runners...)



The graphic shows price coming from below if price was coming from above I believe he would take the long at +SD1 (Setup#4) and the normal VWAP trade (Setup #1)

### Setup #3 (see 1st graphic)

When the market has a Negative Skew (PVP above VWAP)  
And price is below VWAP and - SD1 you would enter short when price approaches -SD1 target -SD2. If the market moves against him he will use the opportunity as a scale in since he would be entering a short at the VWAP anyway.

### Setup#4

When the market has a Positive Skew (PVP below VWAP)  
And price is above VWAP and +SD1 you would enter long when price approaches +SD1 target is +SD2 If the market moves against him he will use the opportunity as a scale in since he would be entering a long at the VWAP anyway. no graphic but hopefully you get the picture...

### Setup #5

When the market has a Symmetrical skew PVP  $\sim$  VWAP

If price moves to the +SD1 or +SD2 above the VWAP pull the trigger SHORT.

If price moves to the -SD1 or -SD2 below the VWAP pull the trigger LONG.

These are counter trend trades because when price is above VWAP the market is an uptrend and vice versa...

### Setup #6 Breakout trade Price near the PVP

When the market has a Positive Skew (PVP below VWAP)  
And price is approaching -SD1 from above aggressive traders enter short on breakout of  
-SD1 target -SD2.

From the thread:

So what's this all about? Well it has to do with price action at and around the PVP. The PVP as you've learned in part I, is the dividing line between the low volume zone and the high volume zone. All of the trades we have discussed so far have been in the direction of the skew at the VWAP or its 1st SD in the high volume zone. When price action is around the PVP, it's decision time for the market. The market has to either move back into the high volume zone and continue trading there, or look for new territory in the low volume zone. Thus like the bike riders in the picture, you as a trader will be riding a fine line between the safety of the high volume zone, and the sudden fall into the abyss.

How does price action end up at the PVP anyway. There are only two ways: a) the PVP suddenly jumps to where the price action is or b) Price moves there. In either case, if you are in a trade, you are going to want to know what to do. If you are not in a trade, but want an exhilarating experience, here's your chance to do or die.

In case a) the skew suddenly flips its sign from positive to negative or vice versa. (Remember the skew is proportional to VWAP - PVP). While skew flips can occur anytime during the day, they usually occur early in the trading day when the volume distribution is beginning to form. Sometimes this is a sign of an imminent reversal. What should you do if you are in a trade and find yourself in this situation? Simple answer: GET OUT!, Dump the trade, win, lose or draw.

When price action is near the PVP, price is sandwiched between the VWAP and an SD or between 2 SD's. You might notice that price will tend to oscillate back and forth for a while between the VWAP and the SD, across the PVP line or oscillate between the 2 SD's. The market is thinking. Do I want to go back to the safety of the high volume zone where most of the trading has taken place or am I adventurous and want to discover new territory in the abyss of low volume. Don't trade in this region unless you are a scalper. Just wait. Wait for the market to decide what it wants to do, before you decide what you will do.

### Notes:

In the other threads he talks about using longer term VWAPs. He did not get much in depth about it as you can probably formulate your own ideas with the basics he outlined, but he uses VWAPs on daily weekly monthly charts....

Jperl only uses RTH data when trading this way.

Since I want to see both Globex and RTH I use both.

I have only been looking at this for the past week or so and it has been interesting to watch. If anything it has helped me put the trend into perspective.

One nuance is the amount of skew positive or negative there is to take a trade. How much of a skew is needed to take the setups? A negative skew to me may be a symmetrical skew to someone else...

Give it a read and hopefully we can discuss this more. I hope this little primer is useful. I know the threads are daunting so I took the time to break it all down.

### Update

**This is a Market Profile interpretation, that somehow markets if they are "out of balance" (that is skewed) will somehow move back into balance (market [skew](#) = 0).**

**There is no evidence to support this assertion. And as far as intraday trading is concerned it isn't necessary. A NEWBIE trader simply needs to trade in the direction of the [skew](#) and avoid trading when there is no [skew](#).**

**An Advanced trader can do many other things (Trade against the [skew](#), trade when the [skew](#) is 0) but NEWBIE is not ready for that yet.**

**thanks Jerry, I think we are saying the same thing but using different terminology. I interpret what you said to be that newbies expectation is for the market to tend to want to revert towards a symmetric distribution from a skewed distribution.**

Actually just the opposite Dogpile. If NEWBIE is trading long (skew > 0) for instance he wants the skew to increase further, not decrease. If he takes a trade at the VWAP, he doesn't want price action to just sit there which would decrease the skew. He wants price action to move away from the VWAP in the direction of larger skew.]

wouldn't a move in the direction he is trading tend to just re-set the skew at a different place. ie, the PVP changes... there is still going to be a skew, just a different skew. this is what happened in the video you just showed, no?

The skew would reset, only if the market stalled with a build up of volume to move the PVP. It takes a large volume to do this. NEWBIE, being the alert trader that he is would notice this immediately. So if he was in a short trade (negative skew) and the skew reset and turned positive, he would bail out of his short position as shown in the video. What he is hoping for of course is that price action will take the market to the first SD before the skew resets. In either case, he takes money off the table.

I pointed out in this thread that the [PVP](#) is a dividing point between a high volume 729v

trading zone and a low volume trading zone. Consider for example a distribution with a negative [skew](#). Several things can happen around the [PVP](#) as follows:

a)Price can break out into the low volume zone above the 1st [SD](#), in which case you want to go long or

b)Price can break back into the high volume zone below the [VWAP](#) in which case you want to go short or

c)Price action may simply oscillate between the 1st [SD](#) and the [VWAP](#), in which case you might consider a short after a bounce off the 1st [SD](#) or a long after a bounce off the [VWAP](#).

So at the [PVP](#) itself you have no idea of any expectation until one of the above 3 conditions occurs

Trading at the [PVP](#) thus becomes a slippery slope as I described in [Part VII](#).

Quote:	<a href="#">Soultrader</a>		
<i>Third, when the <a href="#">skew</a> is negative but price is trading above the <a href="#">WVAP</a>, do you not fade a retracement back to the <a href="#">VWAP</a> to SD1? Or would you wait to fade the SD1 above the <a href="#">VWAP</a> and a target back to the <a href="#">VWAP</a>?</i>			

Not quite sure what you meant in the first part of this question. With a negative [skew](#) ( $VWAP < PVP$ ) and price action above the [VWAP](#), wait for a breakout to occur above the 1st [SD](#) for a long trade. If that does not occur (if for example price bounces off the [SD](#)) then go short with the [VWAP](#) as the profit target. As I indicated above you might get oscillations in this region between [SD](#) and the [VWAP](#).

Once the breakout occurs say above the [SD](#), you would only consider long trades away from the [VWAP](#). example a retrace to the [SD](#), go long, or if price action is above the 2nd [SD](#), again go long on a retrace to the 2nd [SD](#). Such trades should be viable as long as the [skew](#) is negative. Eventually however the [skew](#) will become zero as the breakout continues. It's at that point you would take a countertrend trade TOWARD the [VWAP](#). This is described in the thread on counter trend trading [Part VIII](#)

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The sign of the [skew](#) tells you where most of the trading has taken place.

Positive [skew](#): Most of the trading has taken place above the [VWAP](#)

Negative [skew](#): Most of the trading has taken place below the [VWAP](#).

Your first order of business when looking at a volume distribution is to determine the sign of the [skew](#). Once you have done that, see where the price action is.

a) If price action is above the [VWAP](#) and [skew](#)  $> 0$ , look for long trades only.

b) If price action is below the [VWAP](#) and [skew](#)  $< 0$ , look for short trades only.

These are the best trades to look for and Newbies should only do these to begin with. When you take these kinds of trades, you will be trading in the high volume zone of the distribution.

It's when price action is BELOW the [VWAP](#) and [skew](#)  $> 0$  or price action is ABOVE the [VWAP](#) and [skew](#)  $< 0$

that things get interesting and exciting. Then your looking for breakouts into the low volume region with range extension. "Exciting" means "Living on the edge". If you like the rush of living on the edge, then look for trades in the low volume zone. These types of trades are described beginning in

[Part VII](#)



VWAP is Volume Weighted Average Price. So what does it represent? It represents the average price of all contracts traded since the beginning of [VWAP](#) computation. For traders who entered a position since then it represents the average entry price or, in another words, an average breakeven. You can call the sum of those traders a composite trader and you can distinguish composite buyer and composite seller. Now lets say price is below [VWAP](#). That means that the composite buyer is losing and composite seller winning. Now lets say the price gets to the [VWAP](#). Both buyer and seller are now at breakeven. Seller had paper profit before that, so it is likely that he is not going to cover at breakeven, because he had a chance to cover in profit and he didnt, so he believes even in more profit. And even if he doesnt believe in more profit, he wants at least that profit he could have had before.

Buyer sees it from different perspective. He was in a loss and now he has a chance to exit at breakeven. So in this case [VWAP](#) is a point where seller wants to buy the least and buyer wants to sell the most. Hence the price bounces back down.

Of course there is another scenario possible, and that is such a change of conditions or confidence that seller and buyer reassess their positions. Then [VWAP](#) is the last point where seller is not at loss so he will be eager to cover there, or if he is not confident he will place his stop there. On the other hand, if buyer is confident he will not exit at breakeven but will aim for some profits.

I am not quite sure how to interpret [SD](#)'s in a similar manner though. When taking [SD](#)'s in account you dont consider one composite trader anymore but different levels of "majority of traders", or better to say contracts.

**I wonder folks, if you (any of you) have an understanding of the practical context of [VWAP](#)?**

**I think I understand (now) the basis for the use of it in Jerry's system, however the way "the [VWAP](#)" affects trading could perhaps be important depending on what you are trying to do (your time frame, your market bias long or short, and your position sizing).**

**For those who may not know, [VWAP](#) is used as a bogey for institutions who generally speaking are trading size (blocks from 25k on up). These institutions execute both in the market (you see them on your DOM) and out of market (in the liquidity pools, and premarket in response to "indications of interest" communicated between principals). Depending on the bias long or short, the party executing the transaction is trying to get it done either above or below the average for that time frame. In most all cases the firm executing is a third party who has to report whether they had success hitting that bogey (target) or not. This is important to them, because often the transaction is only part of a larger piece of business that needs to be done over an extended time frame. If the executing firm has success hitting that target (or bettering it) they may often "win the order" to execute the rest of the position. If for example they are not successful in executing at the [VWAP](#), they probably won't see any more business from that order.**

**So, on a given day, what matters is whether institutions and size players are trying to get long or short (trying to execute at, above or below the [VWAP](#)). As with most things in life, it isn't black or white, so what matters is what the majority of players are doing, by chance or by design.**

**So what I am thinking is this....on a given day, if a majority of players are SELLING**



inventory, they are going to be trying to execute at or above the [VWAP](#), and your systematic approach should probably be "tuned" to that reality

If on the other hand, the majority of players are BUYING inventory, people trading this particular systematic approach are going to want to tweak it to the other side a bit.

Now, I do this myself, and it doesn't require that you trade using Jerry's exact approach. It simply means that you keep in mind that there is likely to be a tendency for size to transact on one side or the other of the [VWAP](#), and the reality is that programmed execution is going to be coming in on a timed basis, trying to execute size without moving the market (executing in pieces). If your market is an open outcry market, they are looking for evidence that players are coming back with more to business to do. Once they see that, well that's part of what causes markets to trend. If you have a way to determine this early in the session, you have a significant edge.

Hope this helps a little bit