

Distribution

Mike Scott

Distribution Matters

- In early O'Neil publications he has said that 3 to 5 days of distribution in a major index correctly spotted over 4 or 5 weeks is often enough to cause the market to correct
- Over time the market has demonstrated increased ability to suffer higher levels of distribution without entering a correction
 - Full Distribution Count is defined as:
 - Prior to 1991: 4
 - 1991-2004: 5
 - 2005-Present: 6

Simple Distribution

- Distribution in the market is an indication that institutions are selling shares
 - The simplest definition of distribution is closing lower on volume higher than the day before
 - The IBD Market School definition is:
Closing down 0.2% or more on volume equal to or higher than the day before

Stalling, What is It?

- The Distribution definition required an index to close at a lower price
- Some positive-close days can also show subtle signs that institutions are selling shares
- Stalling can be roughly described as
Heavy volume without making significant progress up

Stalling, a Visual Activity

- Identifying stalling has been a visual activity of expert chart readers
- The following three slides are heuristic definitions of stalling patterns identified by WJ O'Neil
- As you will see, some computerized help is desirable to be able to identify stalling patterns using these rules

Simple Stalling

- Price up 0 to 0.4%
- Volume \geq 95% of prior day volume
- Price up one of two prior days \geq 0.2%
- Price High
 - Greater than or equal to high of two prior days or
 - Greater than or equal to high of prior day and within 3% of 25 day high
- Close in lower half of days price range

Stalling-2

- Closing Range between 50% and 65%
 - Price High
 - Greater than or equal to high of last 7 days, or
 - Greater than or equal to 4% above low of last 7 days
 - Volume greater than or equal to average volume and
 - Spread (High – Low) $\leq 0.60\%$, or
 - Price % Change $\leq 25\%$ of highest price % change over prior two days

Stalling-3

- Closing Range between 65% and 80% and
 - Price High
 - Greater than or equal to high of last 7 days, or
 - Greater than or equal to 4% above low of last 7 days
 - Volume
 - Greater than or equal to average volume, and
 - Greater than prior day
 - Spread ($H - L$) $< 0.6\%$, and
 - Price % change $\leq 0.2\%$

Counting Distribution Days

- Market Exposure Model counts distribution days within a trailing 25-day window. This count is required to properly know when buy and sell rules fire
 - Only distribution days after the FTD are counted
 - If the market proceeds to exceed the close of a distribution day by 6% on an intraday basis that particular day is dropped from the count
 - The first stall day is counted, thereafter a stall day is counted only when the number of real distribution days exceeds the number of stall days in the count