15-degree separation. You would have to be a very hardened skeptic not to see that every major swing of significance was timed almost perfectly by this combination. For clarification, I left unmarked, moves correlating to other combinations coming out.

Chart 114

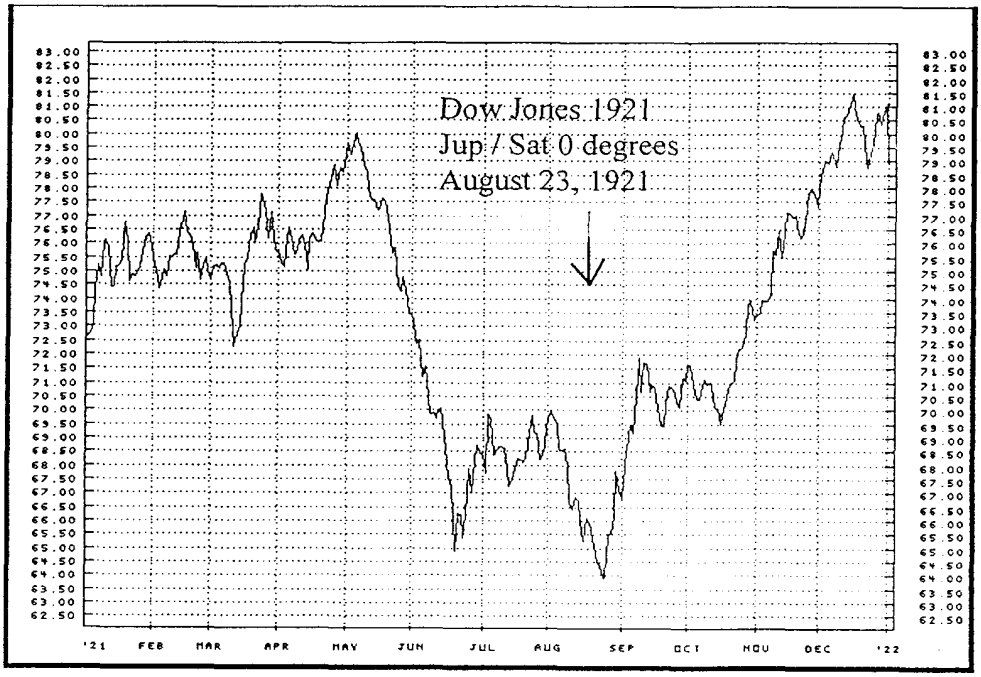


Chart 115

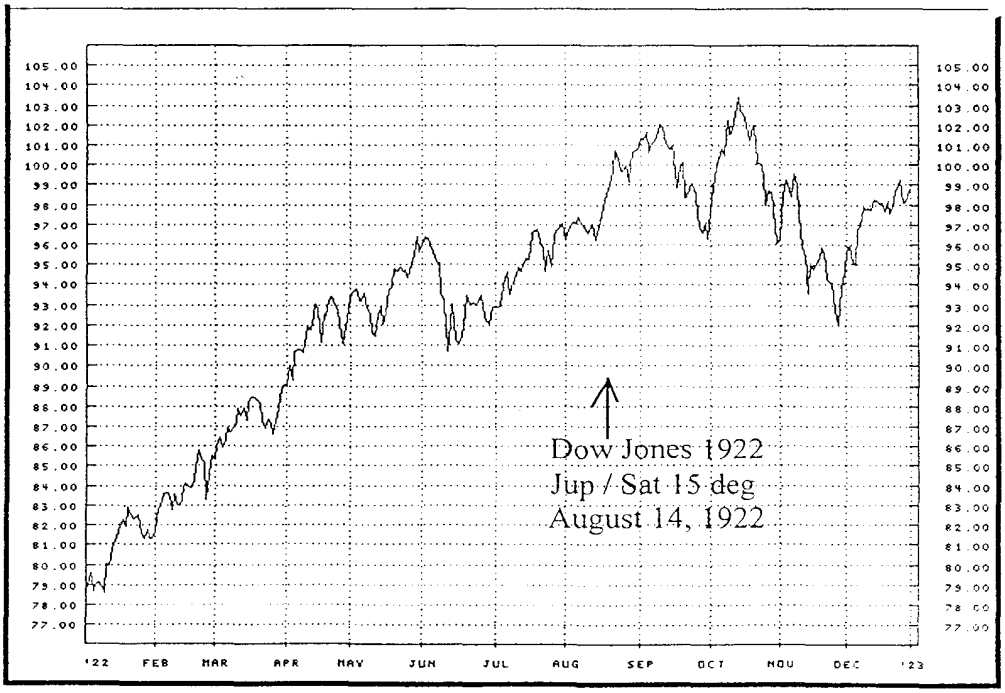


Chart 116

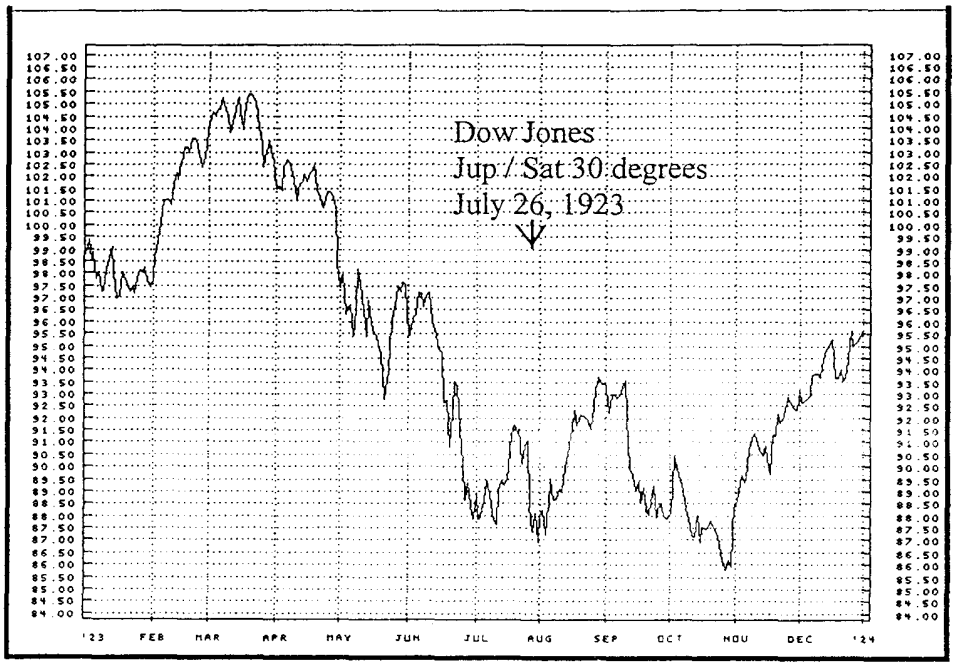


Chart 117

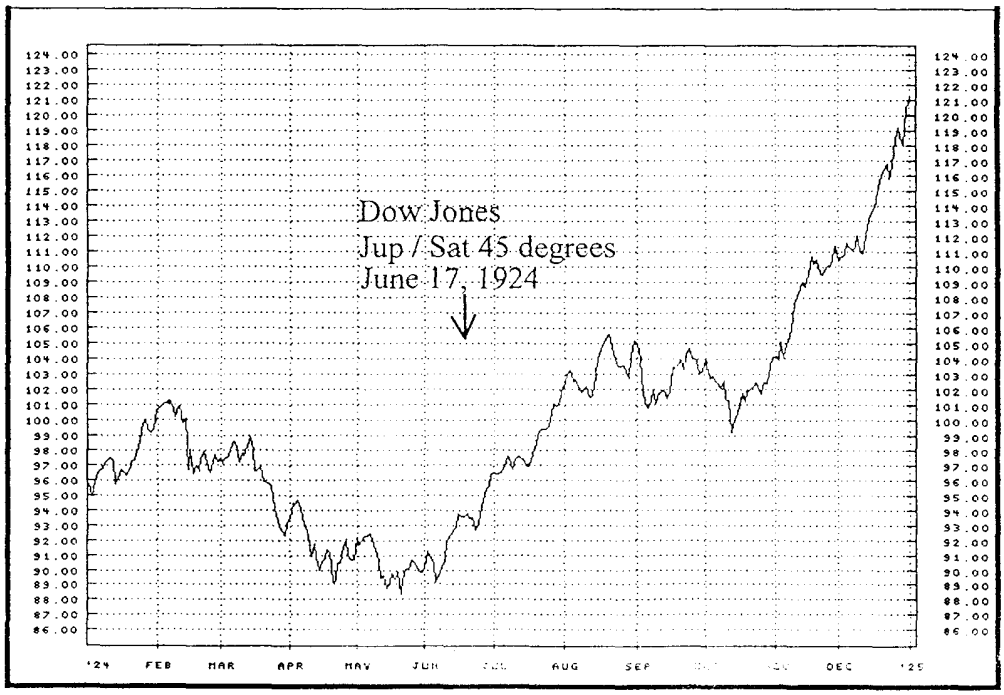


Chart 118

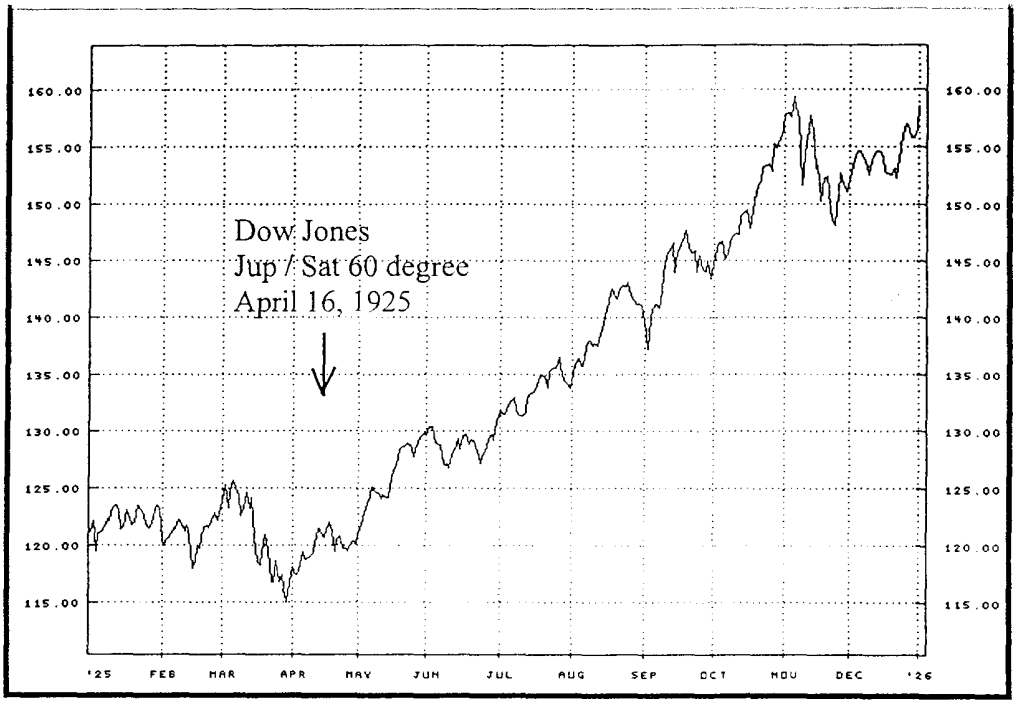


Chart 119

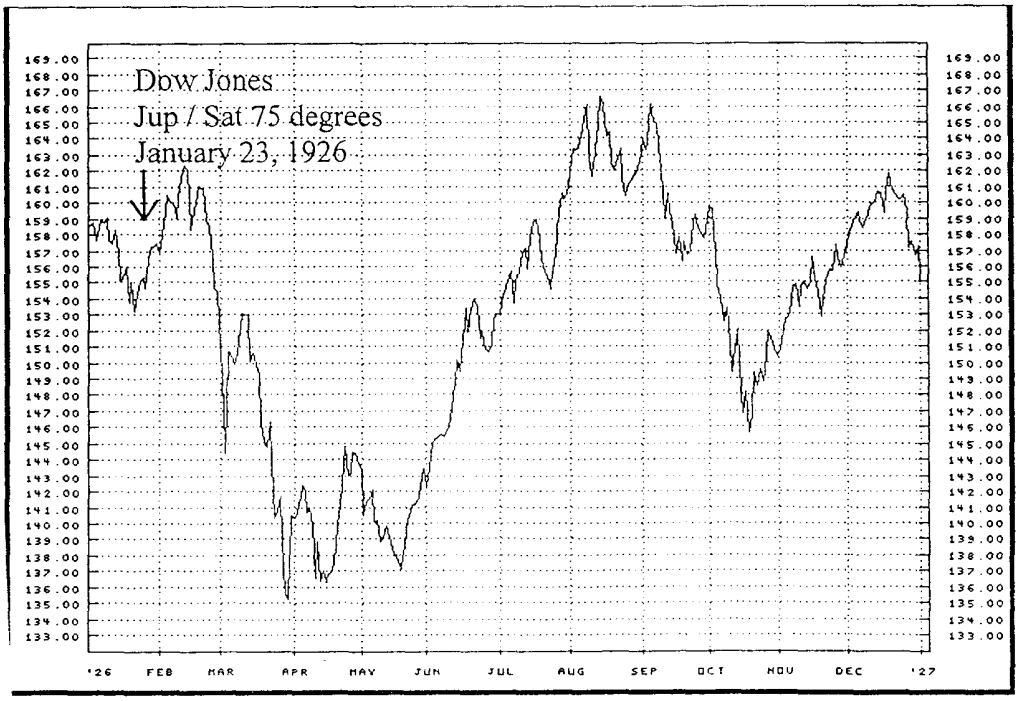


Chart 120

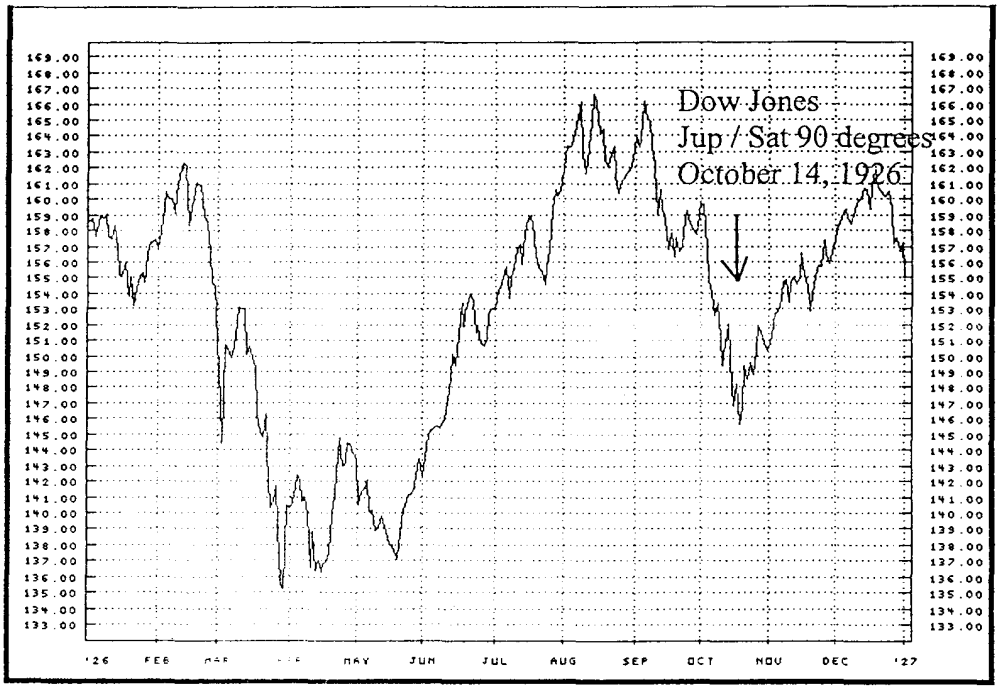


Chart 121

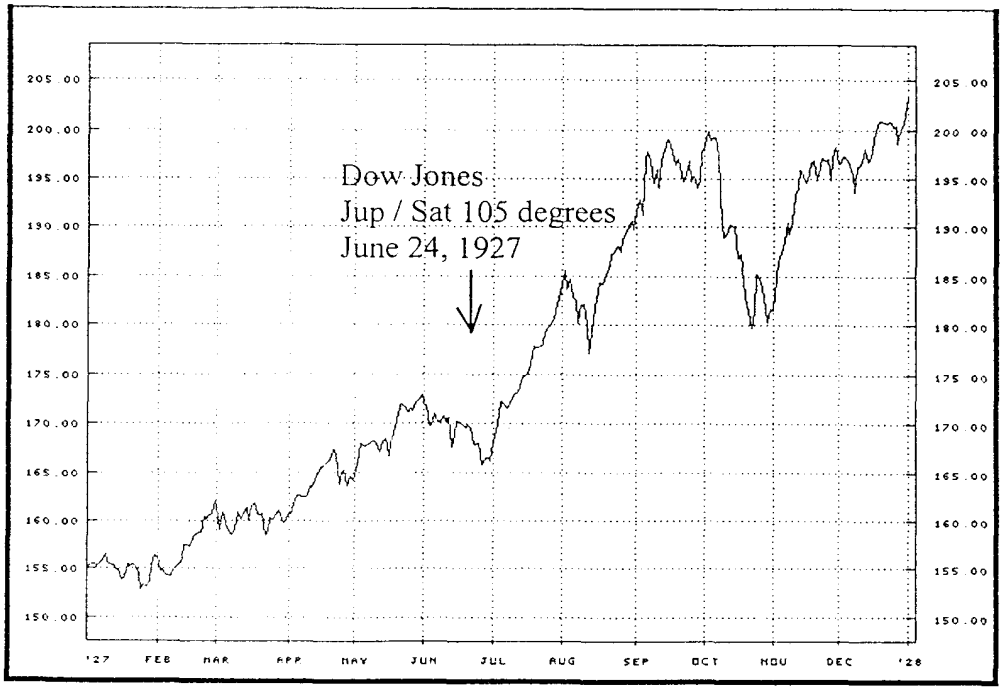


CHART 122

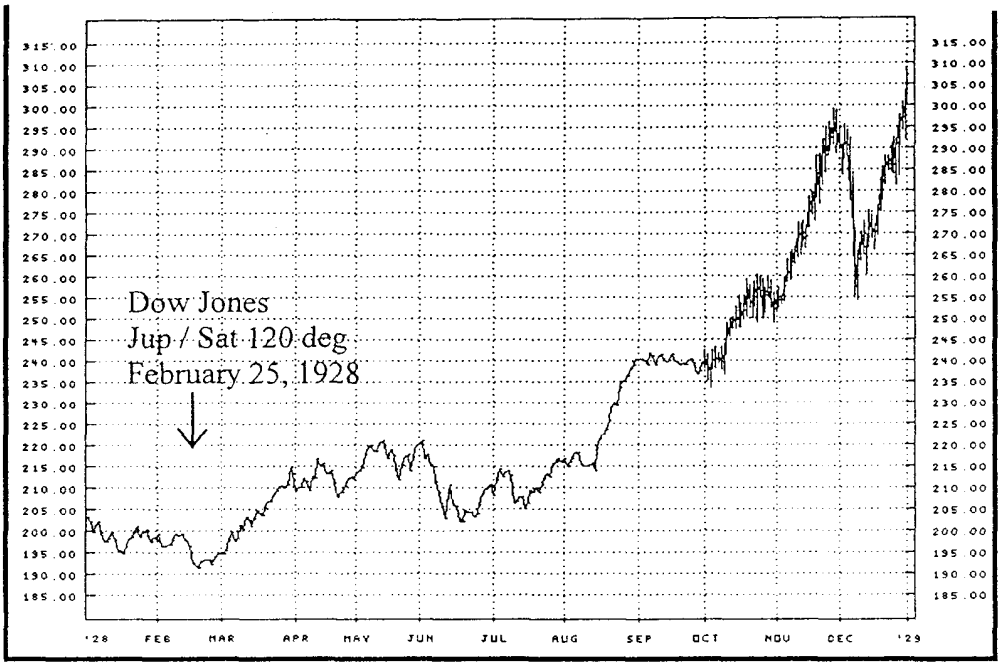


Chart 123

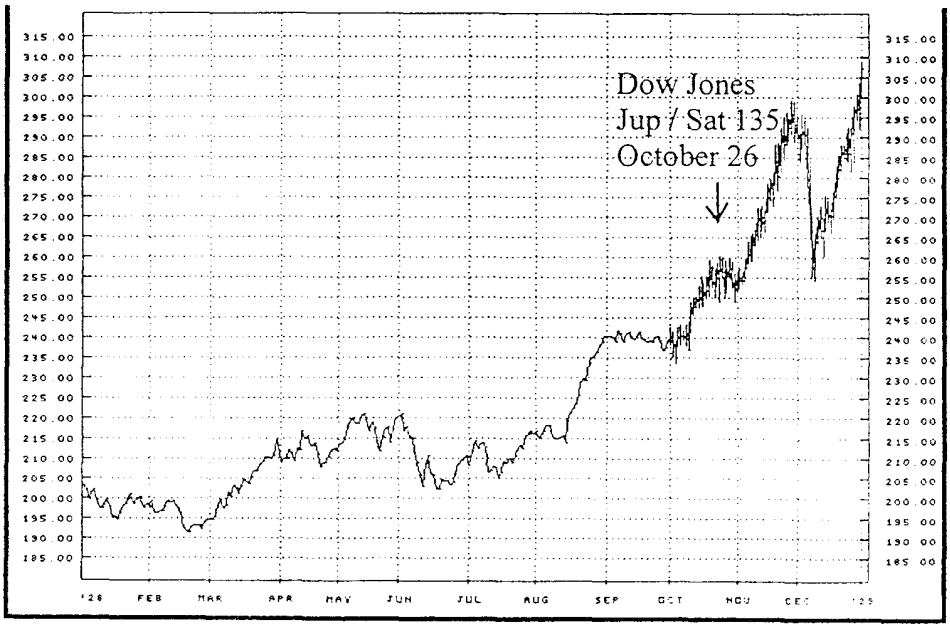


Chart 124

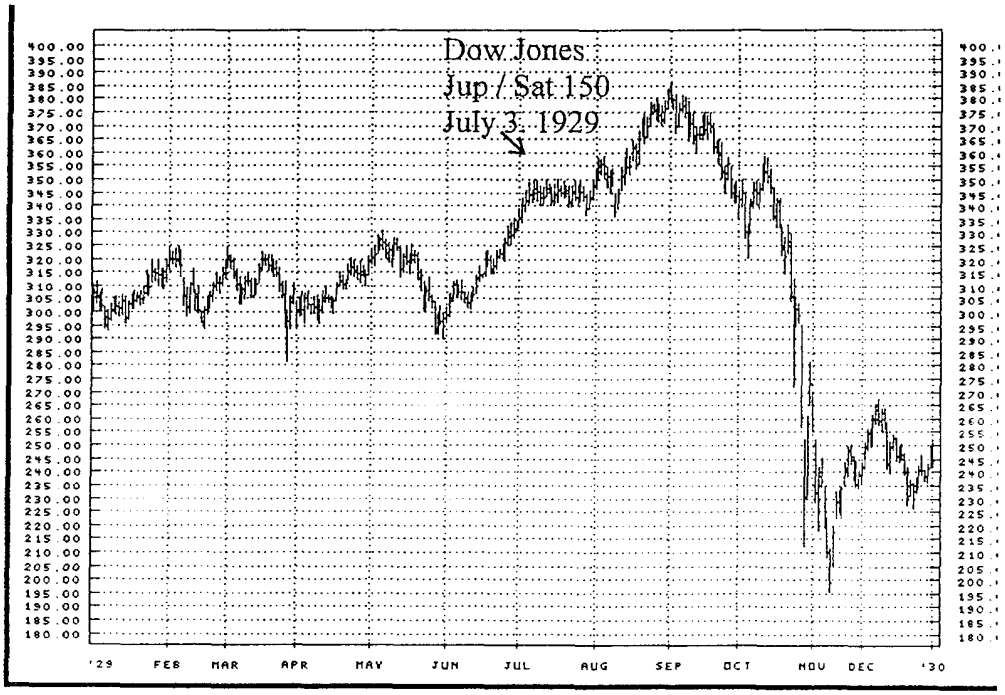


Chart 125

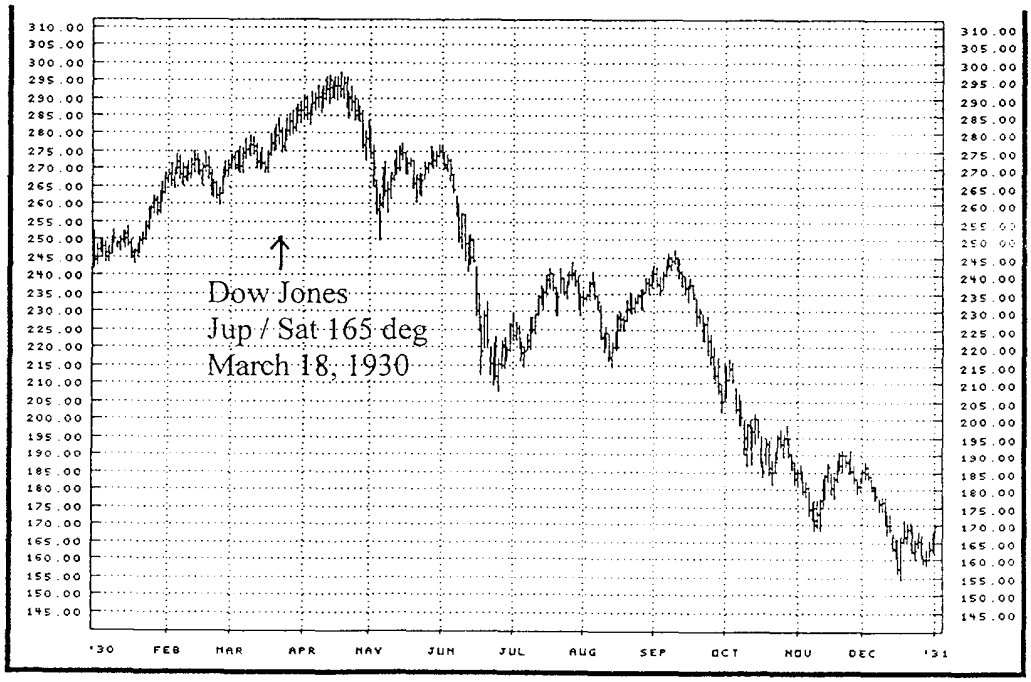


Chart 126

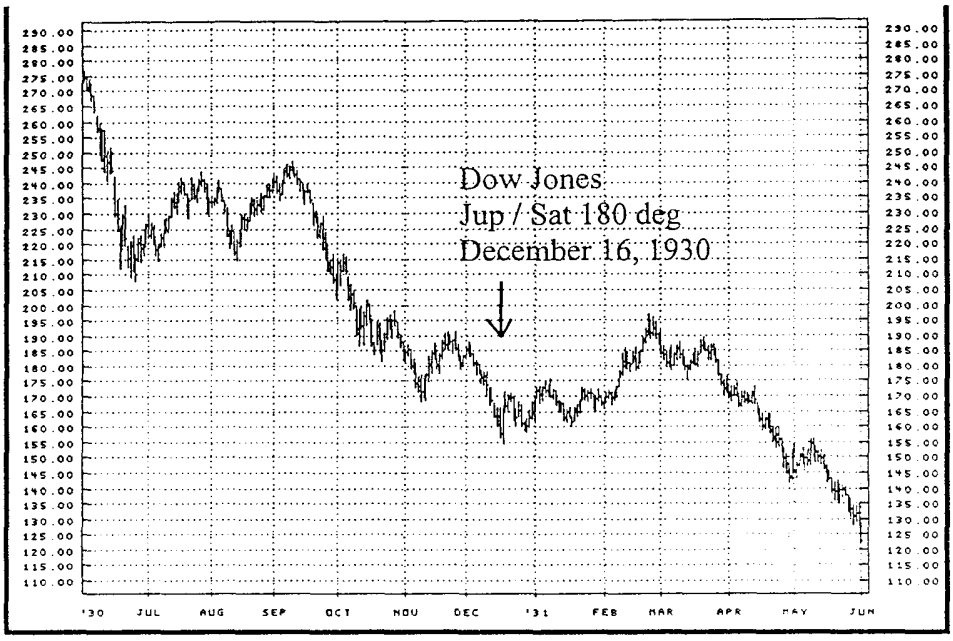


Chart 127

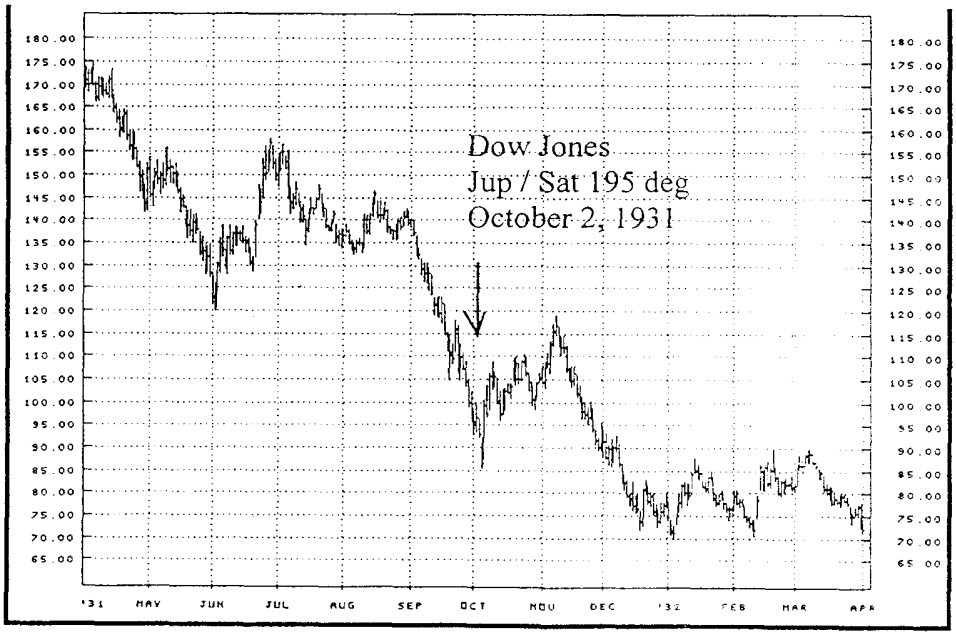
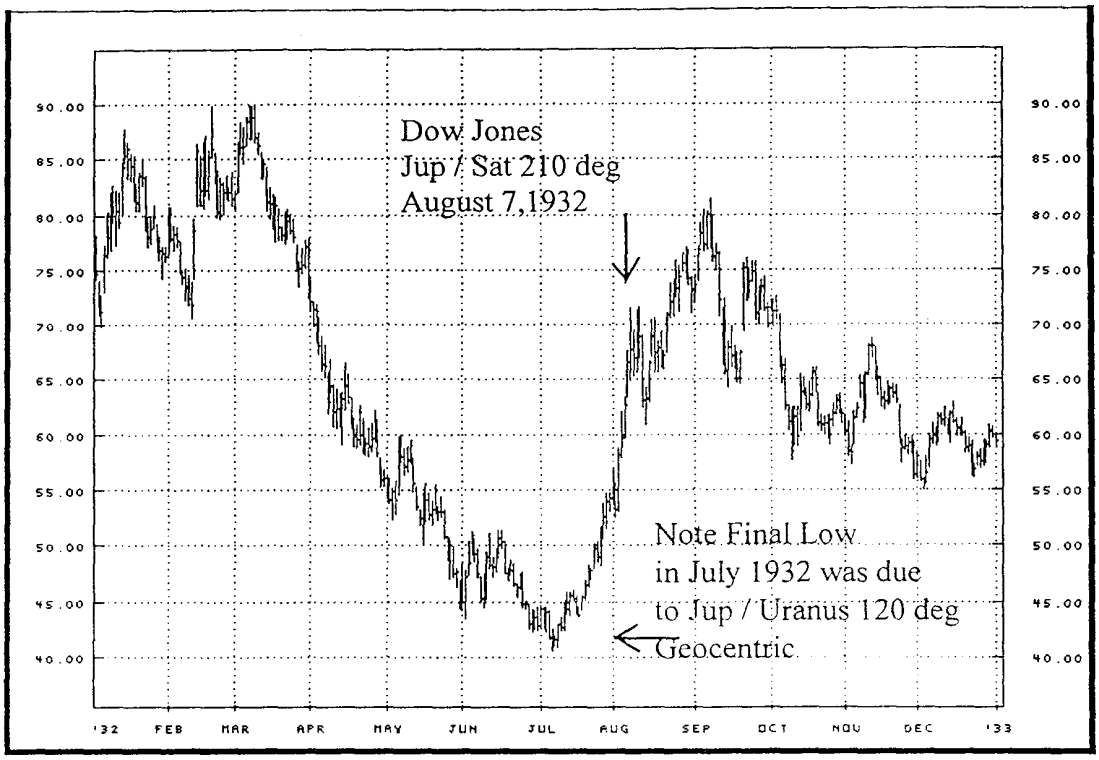


Chart 128



I've stopped here at 210 degrees of the Jupiter Saturn cycle only to save room for more examples of another technique, but these should be sufficient to see that they are all near important turns and are the causative agent. As you study these charts, remember that you're looking for big swing moves in the market, from each aspect to the next. In all the above, most of these were truly significant from a trading perspective and led to good forecasts for the next several months. In the cases where the aspect seemed to just miss by a few weeks, remember that there are many other planetary configurations involved, and my purpose here is only to highlight the Jupiter Saturn combinations and to emphasize that they are one of the primary cycles in the market.

We'll now turn to another Gann technique that ties in the Square of Nine and the wheel methods more directly. In astrological theory, when a cycle starts by a conjunction of two planets it's like throwing on a big electrical switch, and that specific conjunction point becomes a permanent "hot spot" until the next conjunction. For Jupiter Saturn it's 20 years, but to a lesser extent 60 years and also 240 years. Solar eclipses also form hot spots that are good until the next eclipse. The method involves looking for a "triggering planet" that crosses the hot spot sometime after the aspect event. The most famous instance that comes to mind was the start of World War I, with the assassination of the Archduke on the day that Mars (martial, war planet) hit the eclipse point set up a few months earlier. At the same kind of Mars conjunct, the eclipse point triggered off the October 1987 stock market crash. On a day to day basis you can record the points of the Solar and Lunar eclipses, and then watch daily for any planet to contact that point, especially hard aspects like conjunctions, squares and oppositions. These bring about very good market trades.

This technique is the basis of Gann's wheels and greatly facilitates the use of Jupiter and Saturn in the stock market. I'll illustrate this by using the geocentric conjunction of Jupiter and Saturn, which occurred on September 10, 1921 at 26.34 Virgo. Note that the helio conjunction was 27.2 Virgo. We now place this hot spot point on a Gann wheel and set our squares and trines to this 26.34 Virgo. The 15 degree aspects will now be 11.34 Libra, 26.34 Libra, 11.34 Scorpio, 26.34 Scorpio, 11.34 Sagittarius, 26.34 Sagittarius, 11.34 Capricorn, 26.34 Capricorn, 11.34 Aquarius, 26.34 Aquarius etc., all around the wheel. We now watch for daily transits of the big planets as they aspect these points. Mars, Uranus and Neptune make for nice moves, but for this study we'll limit our observations to just Saturn. When you're dealing with geocentric aspects the retrograde movements cause each planet to often make at least three contacts with each 15 degree angle and soon the charts get cluttered up. If you try this yourself and follow the path of Saturn

or Jupiter in the ephemeris you'll see why Gann made a wheel where he could record the aspects on the outer circle. Keeping track of all those forwards and backwards transits can be very confusing without circling those hot spots on circular graph paper. Now, we can use computer programs to quickly print out a listing of all transits to specific points and the dates they occur. Easier, though more time-consuming, the Gann wheel is still more graphical and makes it easier to see what's going on. With the first helio examples, I took you through the 1932 low and the aspect between Jupiter and Saturn was 210 degrees. When we use transits of the individual planets, their orbital periods may only make it possible to go through a few angles before the whole cycle is over. Saturn has a 30 year orbit, so that it won't complete a full circle to all the conjunction points before the next 20 year conjunction occurs. In this example the 1932 low (ten years out) is only 120 degrees of Saturn's orbit. The next several charts will show the Saturn transits.

Chart 129

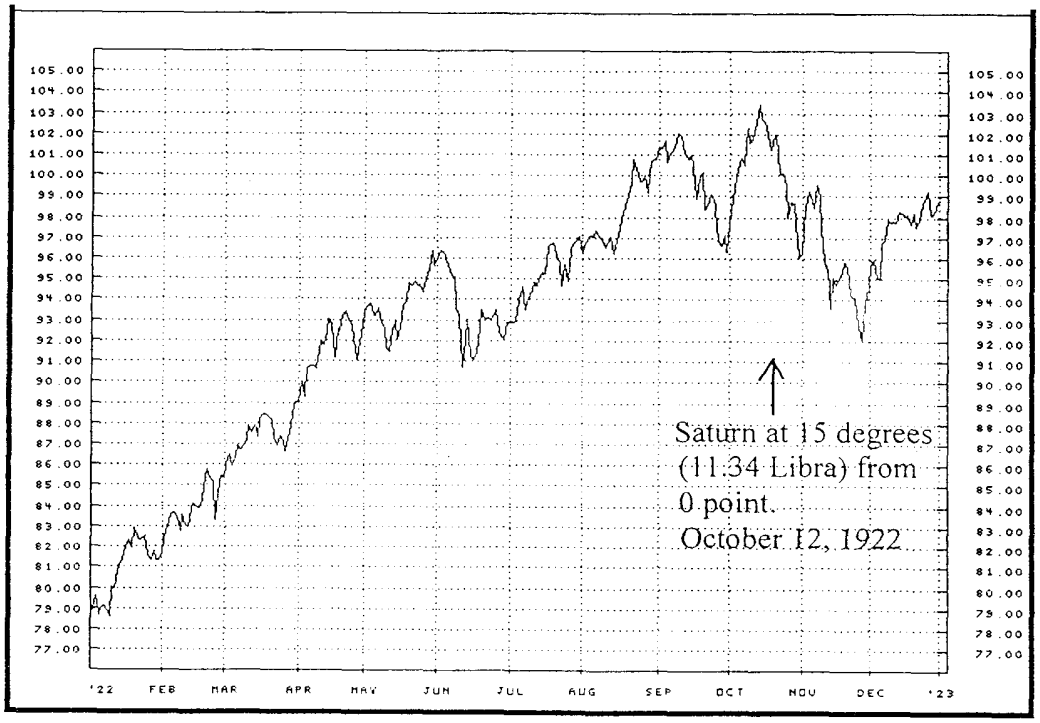


Chart 130

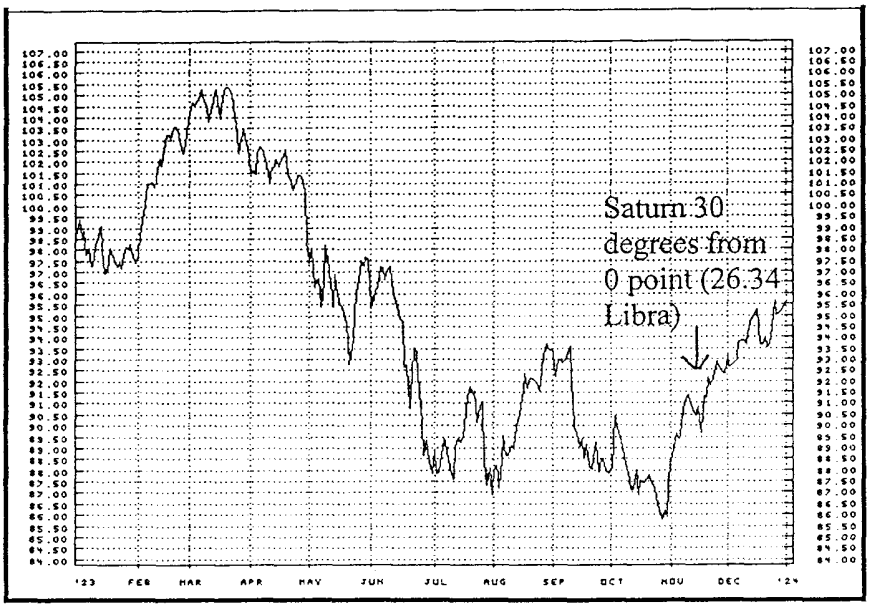


Chart 131

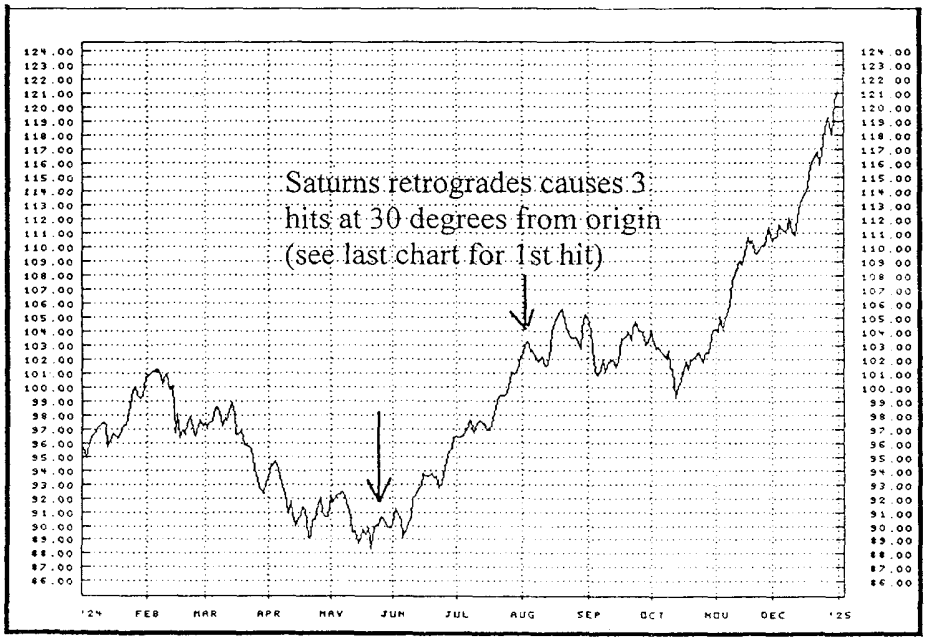


Chart 132

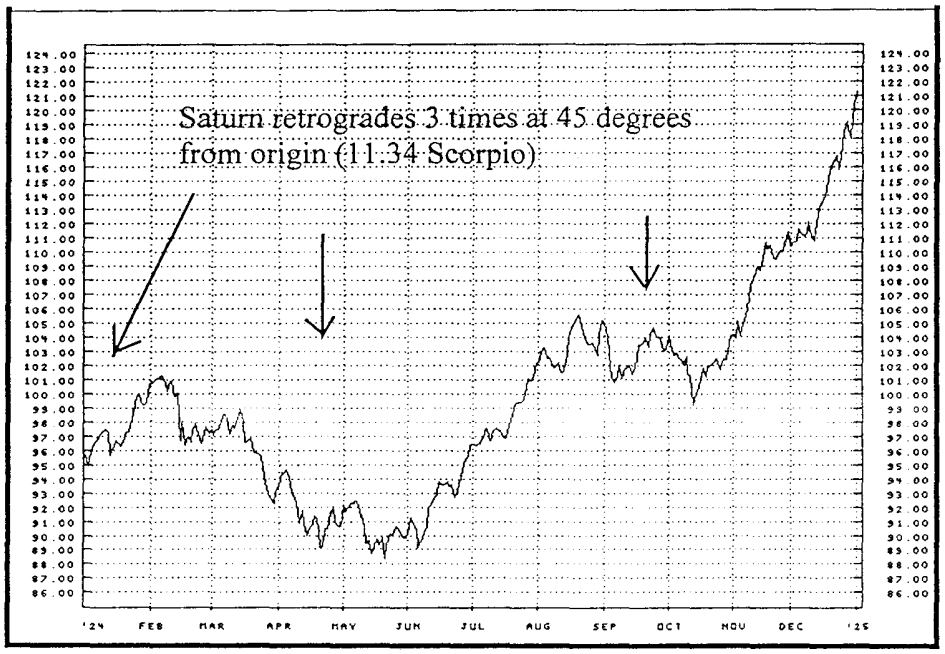


Chart 133

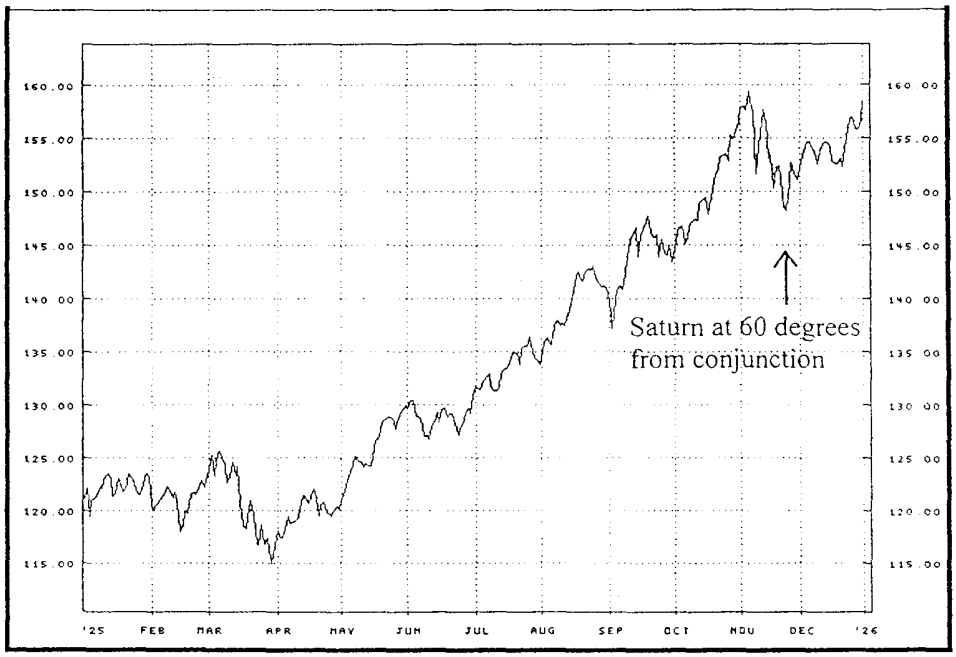


Chart 134

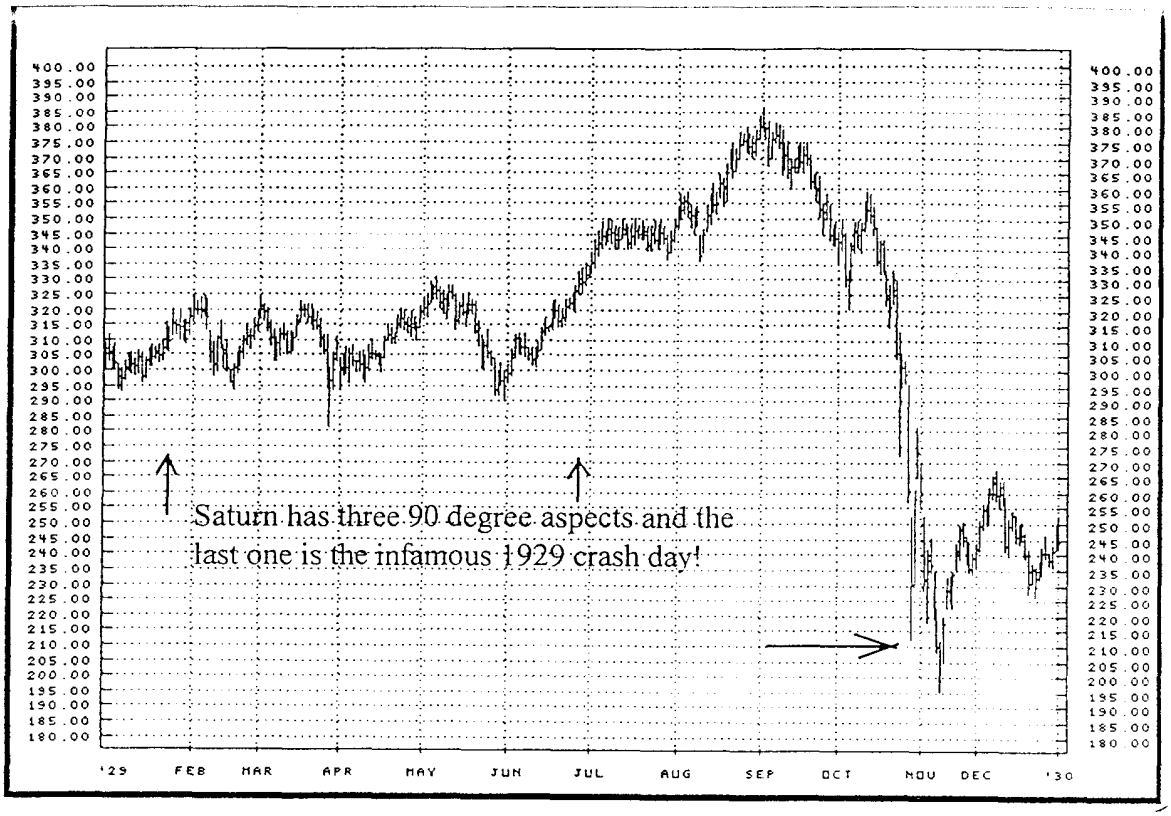
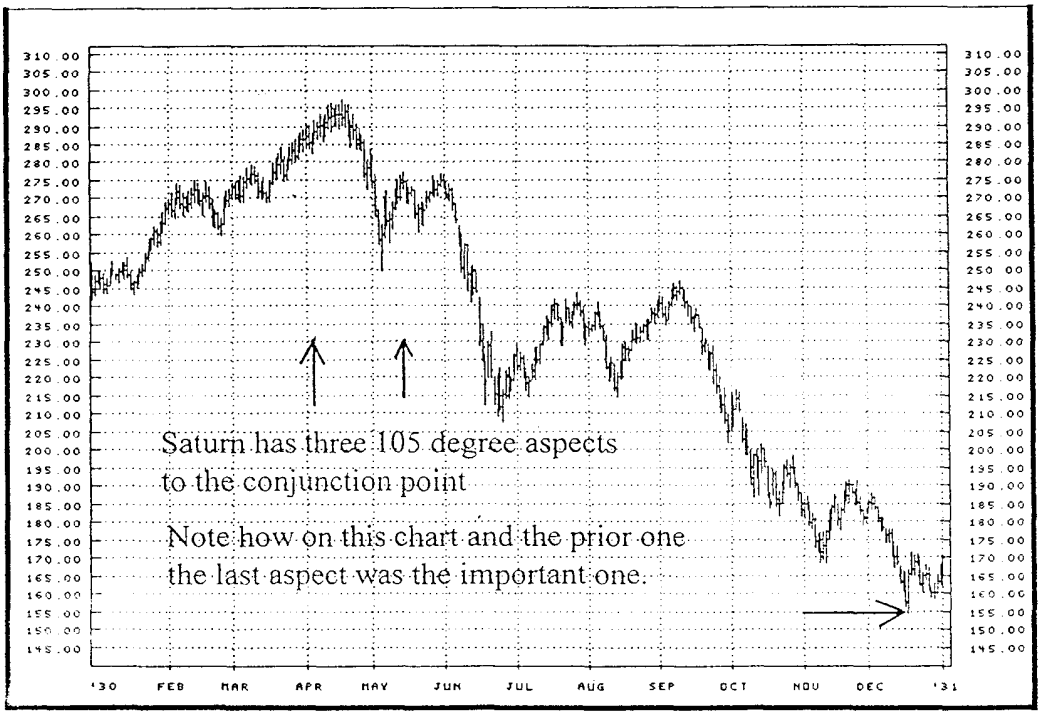


Chart 135



Suffice it to say that when the planets aspect the major conjunction and opposition points of the big planetary pairs (Jup/Sat, Jup/Ura, Sat/Ura, Jup/Nep, Sat/Nep, Ura/Nep, and Pluto) the market changes direction. Major bull and bear markets begin and end on multiple combinations of such aspects.

Separating what is important from what is not in using astrology and the planets with trading stocks can be very frustrating. That's why I've tried to emphasize the fundamental principles such as the Jupiter Saturn conjunction cycle. One very important and closely kept secret that Gann, Jensen, Bayer, and a number of others used, was the 9-degree separations of Jupiter and Saturn. Recall that the full 20-year cycle is 360 degrees, so that one individual year will average 18 degrees of movement, and half of that is 9 degrees, and that could be another reason why the square of 9 is so important. Although each 9-degree separation is important, the full year cycles of 18 degrees breaks down as follows into very reliable predictive aspects:

Bullish Angles of Jup/Sat:	Bearish Angles of Jup/Sat:
18	27
36	54
72	126
90	180
162	

These work both in geocentric and heliocentric systems and if you check them out on the prior charts you'll see some great trades. You might also want to experiment with the idea that the above chart gives rise to a technique of "one year up," "one half year down," "one half year up," "one year down" etc.

I might add here that in general, the favorable aspects are 30, 60, 120, and 150 degrees, the unfavorable being 45, 90, 180, and 0, and the Quintiles (1/5 of 360) are the "triggers" for big moves. The root quintiles are 72, 144, 216, 288. These divided by 8 gives the 9-degree root of the above table (72/8=9).

Much has been said of the Jupiter/Saturn combinations and the use of the "big" planets, but I would be remiss if I didn't mention one of the great modern astrological forecasters of the day who just recently passed away. LCdr. David Williams (*Financial Astrology*) relied quite heavily on the Mars/Jupiter combinations that had an average synodic period of 2.2353 years giving rise to alternating conjunctions and oppositions that created the well-known stock market cycle of four to four and a half years. I had the privilege of seeing Mr. Williams' forecasts for a number of years and the accuracy of these Mars/Jupiter aspects made a believer out of me. Mars is the great giver of energy to the markets and whenever it's around money making moves are at hand. All the standard aspects of 0, 30, 45, 60, 90, and 180 work well and time the market beautifully. I never overlook an upcoming Mars/Jupiter contact.

Before leaving Mars, I might also mention that the simple changing signs of Mars from one house of the zodiac to another, every month and a half, always energizes the market within one day, and those stocks or commodities that vibrate to that house rulership are the ones that really take off.

Additionally, Mars and Uranus are considered "bad guys," and when they get together there are always big market crashes. All the major collapses are Mars/Uranus cycles, the 180-degree opposition in particular. Mars should not be overlooked in your work for short-term trades of three to six weeks, even if it doesn't affect the very long-term picture, as do Jupiter, Saturn and the outer planets.

Chart 136

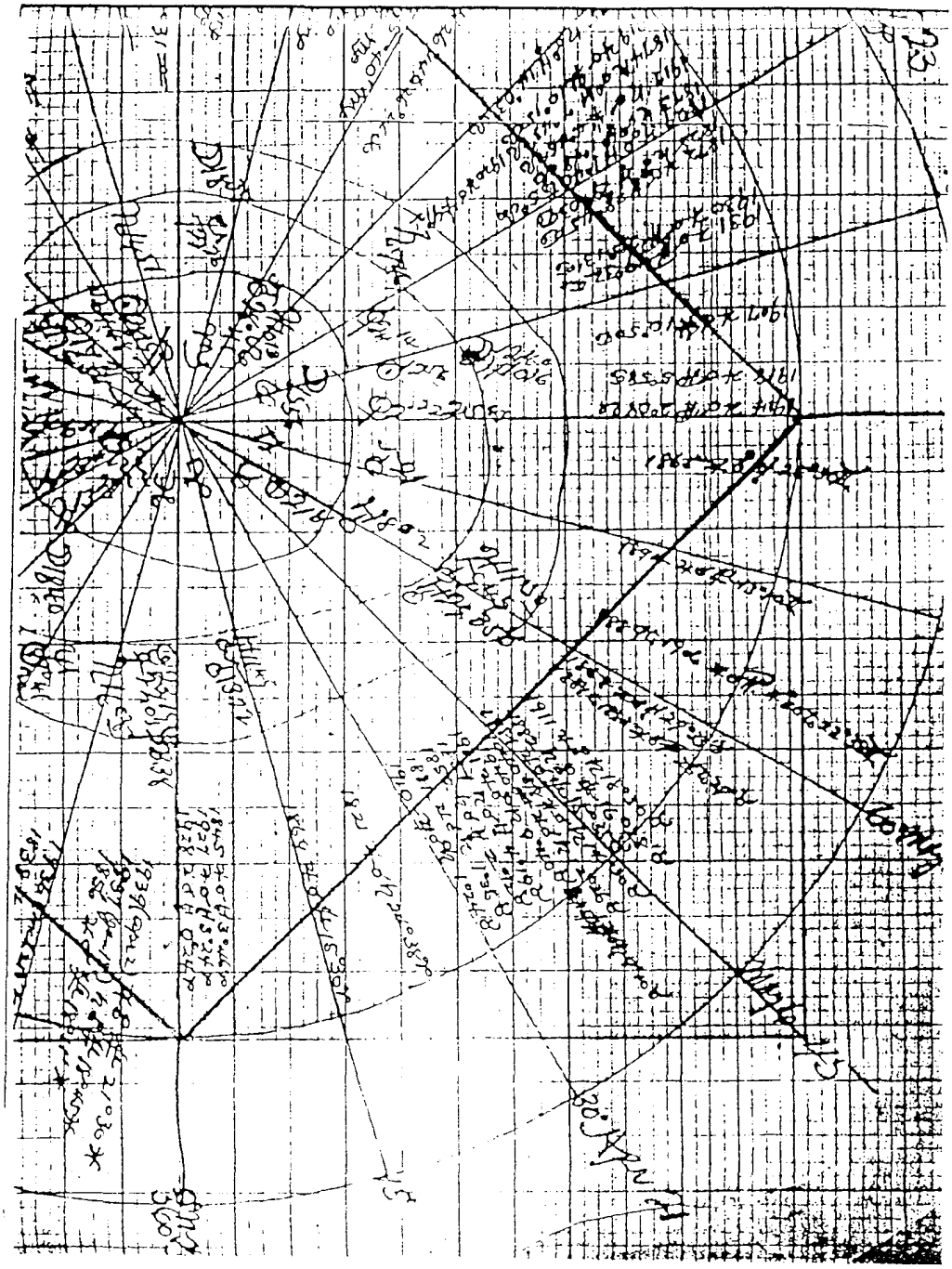


Chart #136 is a partial copy of one of Mr. Gann's personal charts showing the wheel with 15-degree spokes and all the conjunctions and oppositions of the large outer planets are clearly recorded going back 100 years.

TYPICAL EPHEMERIS PAGE SHOWING JUPITER'S PLACE ON JULY 17, 1998

Chart 137

JULY 1998 — **LONGITUDE**

Day	Sid.Time	☉	☽	12 hr ☽	True ☊	☿	♀	♂	♃	♄	♅	♆	♇
1 W	18 35 23	8♋58 56	0♎27 25	6♎24 24	2♈55.9	0♌ 0.6	7♊41.9	26♊21.1	27♓35.4	1♉52.7	11=59.8	1=22.5	5♐50.1
2 Th	18 39 19	9 56 9	12 20 14	18 15 34	2R56.1	1 36.8	8 53.3	27 1.9	27 38.6	1 57.0	11R57.9	1R21.0	5R48.8
3 F	18 43 16	10 53 21	24 11 2	0♏ 7 16	2 54.8	3 10.8	10 4.7	27 42.7	27 41.6	2 1.3	11 56.0	1 19.5	5 47.5
4 Sa	18 47 13	11 50 32	6♏ 4 49	12 4 15	2 51.7	4 42.5	11 16.2	28 23.4	27 44.4	2 5.5	11 54.0	1 18.0	5 46.3
5 Su	18 51 9	12 47 44	18 6 4	24 10 43	2 46.7	6 11.9	12 27.8	29 4.1	27 47.0	2 9.6	11 52.0	1 16.5	5 45.0
6 M	18 55 6	13 44 55	0♐18 35	6♐29 58	2 40.0	7 39.1	13 39.4	29 44.8	27 49.4	2 13.6	11 50.0	1 15.0	5 43.8
7 Tu	18 59 2	14 42 6	12 45 9	19 4 18	2 32.2	9 3.9	14 51.0	0♋25.4	27 51.8	2 17.5	11 48.0	1 13.4	5 42.7
8 W	19 2 59	15 39 17	25 27 31	1♑54 49	2 24.0	10 26.4	16 2.7	1 5.9	27 53.7	2 21.4	11 46.0	1 11.9	5 41.5
9 Th	19 6 55	16 36 28	8♑28 11	15 1 30	2 16.2	11 48.5	17 14.4	1 46.4	27 55.5	2 25.2	11 43.9	1 10.4	5 40.4
10 F	19 10 52	17 33 40	21 40 35	28 23 15	2 9.7	13 4.2	18 26.1	2 26.9	27 57.2	2 28.8	11 41.8	1 8.8	5 39.3
11 Sa	19 14 48	18 30 51	5= 9 14	11=58 16	2 5.0	14 19.4	19 37.9	3 7.3	27 58.7	2 32.4	11 39.7	1 7.2	5 38.2
12 Su	19 18 45	19 28 3	18 50 5	25 44 23	2D 2.3	15 32.1	20 49.8	3 47.7	28 0.0	2 35.9	11 37.5	1 5.7	5 37.1
13 M	19 22 42	20 25 14	2♓40 55	9♓39 23	2 1.6	16 42.2	22 1.7	4 28.0	28 1.1	2 39.3	11 35.4	1 4.1	5 36.1
14 Tu	19 26 38	21 22 27	16 39 35	23 41 16	2 2.3	17 49.6	23 13.6	5 8.3	28 2.0	2 42.7	11 33.2	1 2.5	5 35.1
15 W	19 30 35	22 19 40	0♈44 13	7♈48 15	2 3.6	18 54.2	24 25.6	5 48.5	28 2.7	2 45.9	11 31.0	1 0.8	5 34.1
16 Th	19 34 31	23 16 53	14 53 9	21 58 44	2R 4.7	19 56.1	25 37.6	6 28.7	28 3.2	2 49.0	11 28.8	0 59.3	5 33.1
17 F	19 38 28	24 14 7	29 4 45	6♉10 58	2 4.8	20 54.9	26 49.7	7 8.9	28 3.5	2 52.1	11 26.5	0 57.7	5 32.2
18 Sa	19 42 24	25 11 22	13♉17 7	20 22 53	2 3.5	21 50.8	28 1.8	7 49.0	28R 3.6	2 55.0	11 24.3	0 56.0	5 31.2
19 Su	19 46 21	26 8 38	27 27 55	4♊31 50	2 0.6	22 43.5	29 14.0	8 29.1	28 3.5	2 57.9	11 22.0	0 54.4	5 30.4
20 M	19 50 17	27 5 54	11♊34 14	18 34 41	1 56.4	23 32.9	0♋26.2	9 9.1	28 3.2	3 0.7	11 19.7	0 52.8	5 29.5
21 Tu	19 54 14	28 3 11	25 32 44	2♋27 59	1 51.4	24 18.9	1 38.5	9 49.1	28 2.7	3 3.3	11 17.4	0 51.2	5 28.7
22 W	19 58 11	29 0 29	8♋20 0	16 8 25	1 46.4	25 1.3	2 50.8	10 29.0	28 2.1	3 5.9	11 15.1	0 49.6	5 27.9
23 Th	20 2 7	29 57 47	22 52 54	29 33 12	1 42.1	25 40.0	4 3.1	11 8.9	28 1.2	3 8.4	11 12.8	0 47.9	5 27.1
24 F	20 6 4	0♌55 6	6♌ 9 7	12♌40 33	1 38.8	26 14.8	5 15.5	11 48.8	28 0.1	3 10.8	11 10.4	0 46.3	5 26.4
25 Sa	20 10 0	1 52 25	19 7 27	25 29 53	1D37.0	26 45.6	6 27.9	12 28.6	27 58.9	3 13.1	11 8.1	0 44.7	5 25.6
26 Su	20 13 57	2 49 46	1♍47 58	8♍ 1 55	1 36.6	27 12.2	7 40.4	13 8.4	27 57.4	3 15.3	11 5.7	0 43.1	5 25.0
27 M	20 17 53	3 47 6	14 12 1	20 18 37	1 37.3	27 34.4	8 52.9	13 48.1	27 55.7	3 17.3	11 3.3	0 41.4	5 24.3
28 Tu	20 21 50	4 44 27	26 22 7	2♎22 58	1 38.7	27 52.0	10 5.4	14 27.8	27 53.9	3 19.3	11 1.0	0 39.8	5 23.7
29 W	20 25 46	5 41 48	8♎21 41	14 18 48	1 40.4	28 4.9	11 18.0	15 7.4	27 51.8	3 21.2	10 58.6	0 38.2	5 23.1
30 Th	20 29 43	6 39 10	20 14 53	26 10 32	1 41.8	28 13.0	12 30.6	15 47.0	27 49.6	3 23.0	10 56.2	0 36.6	5 22.5
31 F	20 33 40	7 36 33	2♏ 6 19	8♏ 2 51	1R42.5	28R16.0	13 43.3	16 26.6	27 47.2	3 24.7	10 53.8	0 35.0	5 22.0

Chart 138

AUGUST 1998 — **LONGITUDE**

Day	Sid.Time	☉	☽	12 hr ☽	True ☊	☿	♀	♂	♃	♄	♅	♆	♇
1 Sa	20 37 36	8♌33 56	14♏ 0 45	20♏ 0 36	1♈42.3	28♌14.0	14♋56.0	17♋ 6.1	27♓44.5	3♉26.3	10=51.4	0=33.3	5♐21.5
2 Su	20 41 33	9 31 20	26 2 57	2♐ 8 22	1R41.2	28R 6.8	16 8.7	17 45.5	27R41.7	3 27.8	10R49.0	0R31.7	6R21.0
3 M	20 45 29	10 28 44	8♐17 20	14 30 18	1 39.2	27 54.4	17 21.5	18 25.0	27 38.7	3 29.1	10 46.6	0 30.1	5 20.5
4 Tu	20 49 26	11 26 9	20 47 40	27 9 45	1 36.7	27 36.8	18 34.3	19 4.3	27 35.6	3 30.4	10 44.2	0 28.6	5 20.1
5 W	20 53 22	12 23 35	3♑36 49	10♑ 9 0	1 34.0	27 14.1	19 47.2	19 43.7	27 32.2	3 31.6	10 41.8	0 27.0	5 19.7
6 Th	20 57 19	13 21 2	16 46 22	23 28 54	1 31.4	26 46.5	21 0.1	20 23.0	27 28.6	3 32.7	10 39.4	0 25.4	5 19.4
7 F	21 1 15	14 18 29	0=16 27	7= 8 48	1 29.3	26 14.2	22 13.0	21 2.2	27 24.9	3 33.6	10 37.1	0 23.8	5 19.1
8 Sa	21 5 12	15 15 58	14 5 37	21 6 29	1 28.0	25 37.6	23 26.0	21 41.4	27 21.0	3 34.5	10 34.7	0 22.3	5 18.8
9 Su	21 9 9	16 13 27	28 10 56	5♑18 25	1D27.5	24 57.2	24 39.0	22 20.6	27 16.8	3 35.3	10 32.3	0 20.7	5 18.5
10 M	21 13 5	17 10 57	12♑28 21	19 40 8	1 27.7	24 13.5	25 52.1	22 59.7	27 12.7	3 35.9	10 29.8	0 19.2	5 18.3
11 Tu	21 17 2	18 8 29	26 53 8	4♒ 6 46	1 28.3	23 27.2	27 5.2	23 38.8	27 8.2	3 36.5	10 27.5	0 17.6	5 18.1
12 W	21 20 58	19 6 2	11♒20 27	18 33 39	1 29.2	22 38.9	28 18.3	24 17.9	27 3.6	3 36.9	10 25.2	0 16.1	5 18.0
13 Th	21 24 55	20 3 37	25 45 51	2♓56 37	1 29.9	21 49.7	29 31.5	24 56.9	26 58.9	3 37.3	10 22.8	0 14.6	5 17.8
14 F	21 28 51	21 1 12	10♓ 5 34	17 12 21	1R30.4	21 0.3	0♌44.8	25 35.9	26 53.9	3 37.5	10 20.5	0 13.1	5 17.7
15 Sa	21 32 48	21 58 60	24 16 41	1♈18 20	1 30.4	20 11.8	1 58.1	26 14.8	26 48.8	3R37.6	10 18.1	0 11.6	5 17.7
16 Su	21 36 44	22 56 29	8♈17 7	15 12 52	1 30.0	19 25.0	3 11.4	26 53.7	26 43.6	3 37.7	10 15.8	0 10.1	5♐17.7
17 M	21 40 41	23 54 10	22 5 26	28 54 45	1 29.4	18 41.0	4 24.8	27 32.6	26 38.2	3 37.6	10 13.5	0 8.7	5 17.7
18 Tu	21 44 38	24 51 52	5♉40 42	12♉23 15	1 26.6	18 0.7	5 38.2	28 11.4	26 32.6	3 37.4	10 11.2	0 7.2	5 17.7
19 W	21 48 34	25 49 35	19 2 20	25 37 55	1 27.9	17 24.8	6 51.6	28 50.2	26 26.8	3 37.1	10 8.9	0 5.8	5 17.8
20 Th	21 52 31	26 47 21	2♊10 0	8♊38 34	1 27.5	16 54.3	8 5.1	29 28.9	26 21.0	3 36.7	10 6.7	0 4.4	5 17.9
21 F	21 56 27	27 45 7	15 3 38	21 25 16	1D27.2	16 29.8	9 18.7	0♌ 7.6	26 15.0	3 36.2	10 4.4	0 3.0	5 18.0
22 Sa	22 0 24	28 42 55	27 43 31	3♋58 28	1 27.2	16 11.9	10 32.2	0 46.3	26 8.9	3 35.6	10 2.2	0 1.6	5 18.2
23 Su	22 4 20	29 40 45	10♋10 17	16 19 6	1 27.4	16D 1.1	11 45.8	1 24.9	26 2.8	3 34.9	10 0.0	0 0.2	5 18.4
24 M	22 8 17	0♌38 36	22 25 7	28 26 35	1R27.5	15 57.7	12 59.5	2 3.5	25 56.2	3 34.1	9 57.6	29♓58.9	5 18.7
25 Tu	22 12 13	1 36 28	4♌29 47	10♌29 0	1 27.6	16 2.1	14 13.2	2 42.0	25 49.7	3 33.2	9 55.6	29 57.6	5 18.9
26 W	22 16 10	2 34 21	16 26 37	22 23 2	1 27.4	16 14.3	15 26.9	3 20.5	25 43.0	3 32.2	9 53.4	29 56.2	5 19.2
27 Th	22 20 6	3 32 16	28 18 39	4♍13 57	1 27.1	16 34.6	16 40.6	3 58.0	25 36.2	3 31.1	9 51.3	29 55.0	5 19.6
28 F	22 24 3	4 30 12	10♍ 9 25	16 5 35	1 26.7	17 2.8	17 54.4	4 37.4	25 29.3	3 29.8	9 49.2	29 53.7	5 19.9
29 Sa	22 28 0	5 28 10	22 2 59	28 2 10	1 26.3	17 39.0	19 8.2	5 15.8	25 22.3	3 28.5	9 47.1	29 52.4	5 20.4
30 Su	22 31 56	6 26 9	4♎ 3 43	10♎ 8 11	1D26.1	18 22.9	20 22.1	5 54.1	25 15.3	3 27.1	9 45.0	29 51.2	5 20.8
31 M	22 35 53	7 24 8	16 16 8	22 28 8	1 26.0	19 14.3	21 36.0	6 32.4	25 8.1	3 25.6	9 43.0	29 50.0	5 21.3

Astro Data — Dy Hr Mn	Planet Ingress — Dy Hr Mn	Last Aspect — Dy Hr Mn	☽ Ingress — Dy Hr Mn	Last Aspect — Dy Hr Mn	☽ Ingress — Dy Hr Mn	☽ Phases & Eclipses — Dy Hr Mn	Astro Data — 1 July 1998
☽OS 1 12:23	☌ ♋ 6 9: 0	3 7:34 ☌ △	♌ 3 11:45	2 4: 1 ☿ □	♐ 2 7:48	1 18:43 ☽ 9 ♎ 44	Julian Day # 35976
☽ON 15 10:24	☿ ♋ 19 15:17	5 19: 8 ♄ △	♐ 5 23:24	4 12:45 ♃ □	♑ 4 17:16	9 16: 1 ○ 17 ♑ 15	Delta T 59.2 sec
♄ R 18 1:46	☉ ♌ 23 0:56	8 4:33 ♄ □	♑ 8 8:27	6 18:56 ♃ *	= 6 23:31	16 15:13 ☾ 23 ♈ 53	SVP 5 ♓ 16'56"
☽OS 28 21:21		10 11:15 ♄ *	= 10 14:52	8 18:47 ☿ ☍	♓ 9 3: 4	23 13:44 ● 0 ♌ 31	Obliquity 23°26' 13"
☿ R 31 2:27	☿ ♌ 13 9:20	12 3:48 ☿ △	♓ 12 19:22	11 0:25 ♃ ☌	♈ 11 5:10	31 12: 5 ☽ 8 ♏ 5	Chiron ⚷ 12♏31.1R
	☌ ♌ 20 19:16	14 19:25 ♄ ☌	♈ 14 22:45	13 6:52 ☿ □	♉ 13 7: 4		☽ Mean Ω 4♈ 6.5
☽ON 11 17: 1	○ ♈ 23 7:59	16 19:51 ☿ *	♉ 17 1:33	15 4:18 ♃ *	♊ 15 9:46	8 2:10 ○ ♐ 15 = 21	
♄ R 15 19: 3	♀ ♓ 23 4:20	19 1: 0 ♃ *	♊ 19 4:18	17 7:56 ♃ □	♋ 17 13:55	♐ 2:26 A 0.144	1 August 1998
☿ D 16 6:10		21 4:19 ♃ □	♋ 21 7:43	19 18:46 ☌ ☌	♌ 19 20: 1	14 19:49 ☾ 21 ♉ 49	Julian Day # 36007
☿ D 23 22:37		23 9:13 ♃ △	♌ 23 12:48	22 2: 3 ○ ☌	♍ 22 4:21	22 2: 3 ● ♌ 28 ♌ 48	Delta T 59.2 sec
☽OS 25 5:19		25 14:56 ☿ ☌	♍ 25 20:34	24 14:56 ♆ △	♎ 24 15: 2	● 2:15 Annular	SVP 5 ♓ 16'53"
		28 3: 2 ♃ ♇	♎ 28 7:14	27 3:15 ♆ □	♏ 27 3:25	30 5: 7 ☽ 8 ♐ 38	Obliquity 23°26' 14"
		30 16:13 ☿ *	♏ 30 19:44	29 15:39 ♆ *	♐ 29 15:55		Chiron ⚷ 12♏45.7
							☽ Mean Ω 2♈30.0

There are many old Gann courses around that he sold throughout the 1930's until his death. Even in the Great Depression he was getting $5,000 for these courses, so he knew they were quite valuable. Because many people couldn't afford them, he sometimes made smaller courses that were cheaper, but left out the real "secrets." I have several original courses of his and they are all a little different, but basically say the same thing. Gann never openly talked about astrology, except to his course buyers, and he hid the meanings in the body of the text. He did, however, leave plenty of clues for serious students to find the real meaning, such as 60 months or degrees as the 5-year cycle, which referred to Saturn's average movement of one degree per month, or about 60 degrees in five years. The cycle wasn't to go 5 years to 5 years, but from an important longitude that Saturn was in five years ago to the one exactly 60 degrees further in the next five-year period (like the Jup/Sat conjunction point). What follows is a good example of Gann's use of astrology in which there can be no doubt as to his veiled code. I quote the following from his course of 1935:

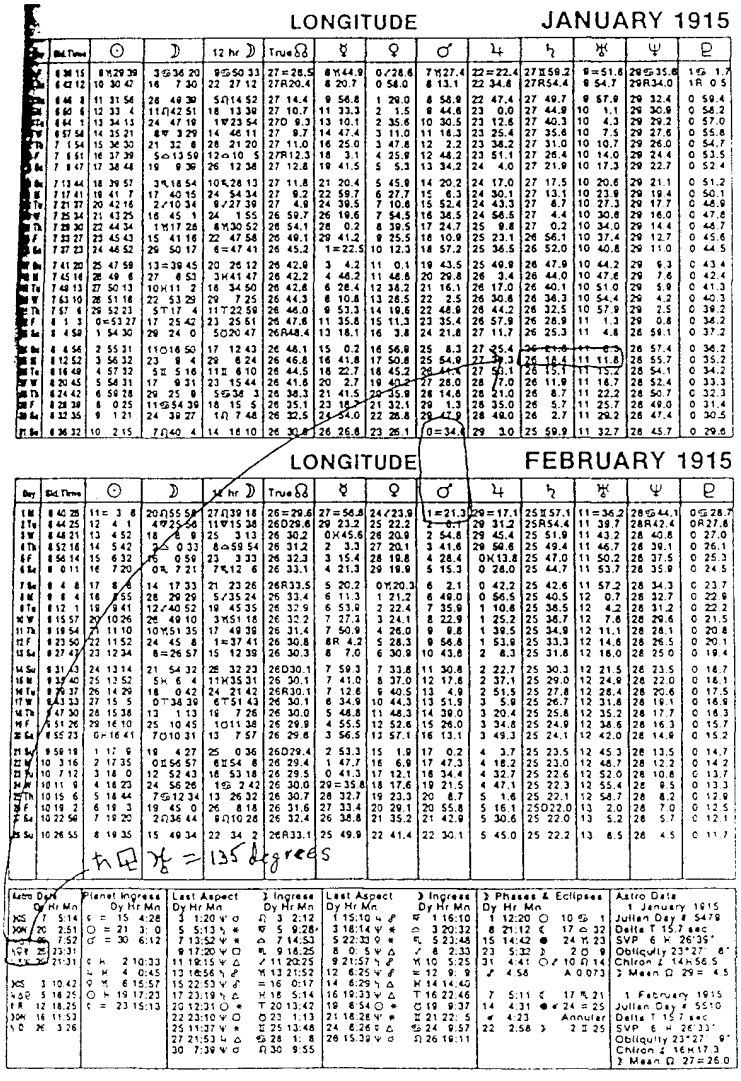
"Figuring $100, or par, as a basis for stock prices and *changing these prices to degrees* (my italics), 12 ½ equals 45 degrees, 25 equals 90 degrees, 37 ½ equals 135 degrees, 50 equals 180 degrees, 62 ½ equals 225 degrees, 75 equals 270 degrees, 82 ½ equals 315 degrees, and 100 equals 360 degrees. For example:

When a stock sells at 50 on the 180th day, week, or month, it is on the degree of its time angle.

On February 1, 1915, U.S. Steel made a low at 38, which is the closest to a price of 37 ½, which is 3/8 of 100 and equals 135-degree angle. Steel was 14 years or 168 months old on February 25, 1915, and hit the angle of 135 degrees, which showed that Steel was behind time, but that it was in a strong position, holding at 38 above the 135 degree angle or the price of 37 ½."

Now what does all this mean? First, it means he is translating a price to a degree, and each quarter of a dollar, or quarter of 100 dollars is 90 degrees of the zodiac. He then says U.S. Steel hit a low (found support) at 38, which was 135 degrees. This doesn't make a lot of sense unless you know about his planetary conversions of price to longitude, but you also have to know which planet to use. He says, "Steel was 14 years or 168 *months*." One *point per month* is Saturn's movement and it moved 168 degrees since Steel's first day of trading, but the stock was only at 135 or *behind time* as he says.

Chart 139



Saturn in mythology is Kronos, or father "time." If Steel was *behind* time why was it in a strong position at 135? Chart #139 is the ephemeris page for January and February 1915 and it clearly shows that *Saturn was exactly 135 degrees from Uranus on* January 26, 1915! Why did Gann mention the low was made on February 1, 1915? If you look you will see Mars (iron and steel, martial arts, etc.) changing sign to Aquarius on February 1st and, combined with Saturn (ruler of things in the ground and minerals) and Uranus, a big change in trend is due. As long as steel doesn't break that "hot spot" of 135 from the aspect of its ruler, it *is* in a strong position! What we really see here is Gann's attempt to steer the student in the right direction to find the planets, but if he doesn't, he can still trade by using an angle of one point per month on his charts, which is Saturn's average longitude and the stock should follow that angle, both up and down, as Saturn turns in the sky. Every several months Saturn will make contact with another planet and at that point a change in trend will occur, and if the stock breaks below the angle it will show a downtrend, and if it goes above it will be an uptrend. Gann was a long-term swing trader and always held positions for weeks to months at a time based on these long-term angles. Although there are many books on Gann angles, most of the authors confuse the numerology of 1x1, 1x2, 1x4 angles and one point per day, week, and month. Although you can use these angles for squareouts and trendlines, Gann basically used them for *timing lines* to keep track of planetary movements in degrees from highs and lows. One point per day is the Sun (some months Mars); one point per week is Jupiter on the average (or a quarter Moon), and one point per month, Saturn. Gann *always* advised using an *average* of the five outer planets after Mars, or the six with Mars to confirm major support and resistance. He added up all the longitudes and divided by 5 or 6 to get the average and then he plotted that average line on his papers.

Two more examples of Gann's planetary conversions should make the use and

purpose of the Square of Nine perfectly clear. Please refer to the "Gann Square of Nine Example #1 Chart #142" as we go through this example. The chart shows the stock of Sealed Air Corp. for 1998 and the stock hits a high near $70 in the first week of March and then declines continuously until the first week in October, when it hits a price of $30 and then goes up. It's every trader's dream to short a stock like this at $70 and hold till the low at $30. Is this possible or just a pipe dream? Using the Gann method and the Square of Nine properly it should be easy, once you know what planets control your stock. In the chart you see a small cutout of the Square of Nine with an astrological dial around the outer circle. This was the real key to Gann's method on converting planetary longitudes to numbers for stock trading. At the high we see that Mars was 0 degrees of Aries, or right on the Cardinal Cross of the square and the number that corresponds with that degree is $69. The stock shot up to barely $70 and then started down to meet its destiny price of $67-$68 on April 2, as Mars would conjunct Saturn at 22 degrees Aries and on the wheel that number is just above 67. That astrological aspect between Mars and Saturn is important for this stock, as a gap occurred on the chart that day and it headed down. It continued down until Mars again made a big aspect with Saturn, this time the trine on October 9th at 1 degree Virgo, and the wheel requires a number of 30 for that longitude. The price was hit and the aspect changed the trend from down to up. Note also that Mars went 150 degrees in 180 calendar days, both of which are angles on the Sun and tie in another change in trend possibility. Clearly the key is the planetary rulers (Saturn and Mars) and the Square of Nine longitude conversion. Without this wheel you normally would not think that 0 Aries would be a number like 69, or 0 Virgo 30, but there it is, and it works beautifully. This is not an isolated example. Gann successfully used this wheel daily for 50 years. The difficulty with stocks, however, is that there are many influences in the market besides simple supply and demand as in commodities, and finding the rulers for thousands of

stocks is much more difficult that just dealing in wheat, corn, or soybeans. That's why Gann preferred commodities. He also developed other wheels for conversions to handle the other patterns of stocks and grains. These wheels had inner circles of 4, 6, 12, 24, 30, and 36. One of these wheels was bound to work and once you found the right conversion for the planetary movement, it would work for years.

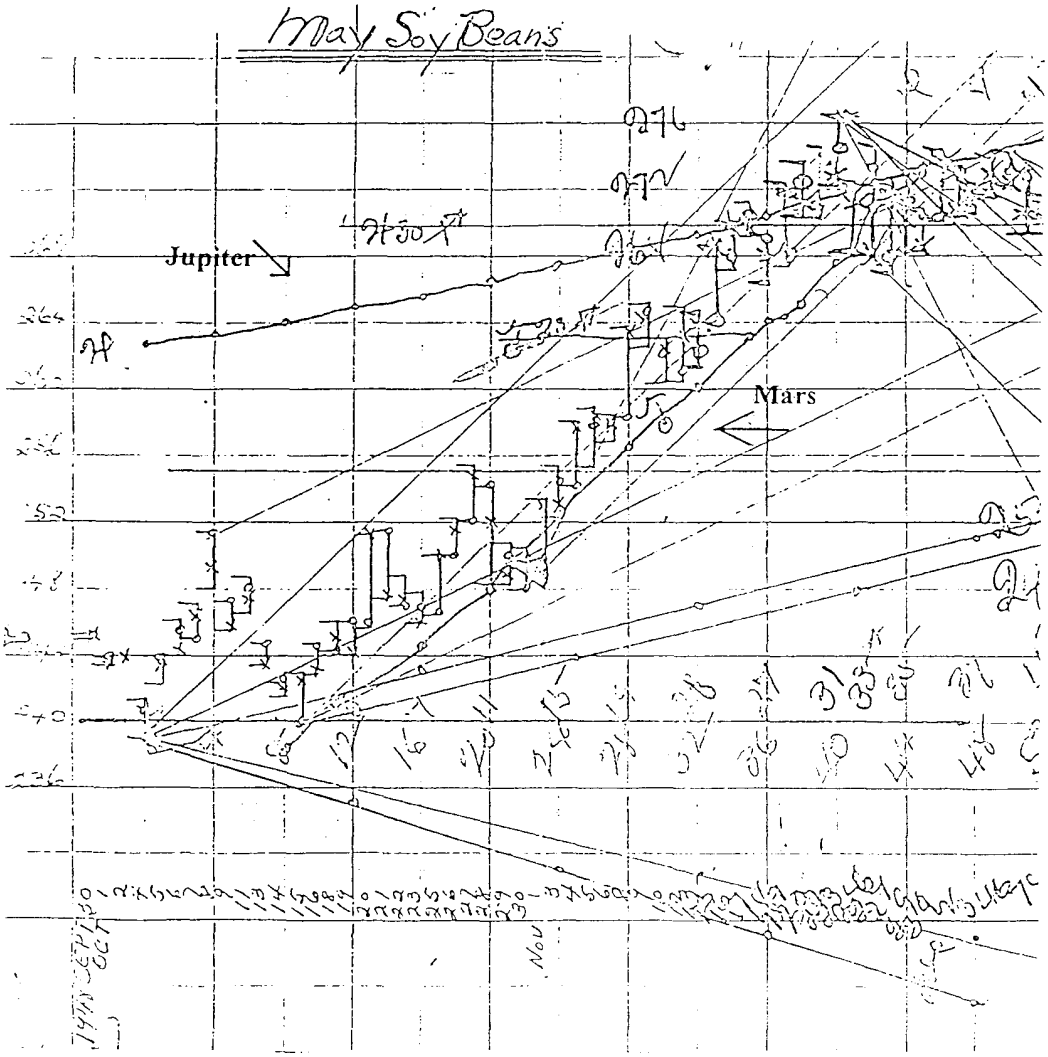
The next example is our old friend U.S. Steel, revisited in 1998 from the last example in 1915. Please refer to "Square of Nine Example #2 Chart #143." Here we see U.S. Steel making two tops in March and April 1998. The first top was $42, then a plunge to $38, then a final top at $43. The complication here is that there were multiple large planetary aspects to cloud the issue. On April 9, 1998 Saturn again made a 135-degree aspect, as the prior example in 1915 showed, and this time the stock again traded at $38, just like in 1915! A week later, however, Jupiter made a 45-degree contact with Neptune and the stock went up to meet it. On the chart I wrote 45 deg=$45 as a potential conversion factor, but if we look at the wheel we see a better conversion. Neptune is at 2 degrees Aquarius with Jupiter at almost 17 degrees Pisces. The wheel shows those two prices as being $44 and $41. The corner of the wheel, in-between the two is where the stock hit at $43. Was this a miss, or lost momentum? The chart actually shows a several day period of trading at $41, so it looks as though the wheel is right again. The low on October 4th was a Jupiter 45 degrees to Uranus, and Uranus was located at almost 9 degrees Aquarius, this translates into a price of $21 that was a hit (it's not shown on the wheel but you should verify it for yourself). On November 1st, Saturn squared Neptune (90 deg), and on the chart I wrote Gann's 1915 conversion of $25 for 90 degrees (1/4 of $100, ¼ of 360). The stock did leap up to $25 that day, but came down, and if you check the wheel you'll see that Neptune was at 29.5 Capricorn and the angle on the wheel for that degree is between $22 and $23!

Now many of you may still be shaking your heads with this "astro" stuff, but it is there for everyone to see and if you do the work you'll become a believer. In any case, I am just here to point out trading solutions for you to examine. Gann used this and much more

elaborate horoscopic forecasting for 50 years, and no one has ever come close to replicating his success.

Chart #140 is a rare chart of W.D. Gann's that conclusively shows his use of planetary longitudes for charting. Directly below the word "Soy" you will see the glyph for Jupiter and 30 and the symbol for Sagittarius. The bottom of the chart shows the date as November 1948 and the ephemeris shows Jupiter at 30 Sag or 0 Cap on November 16th. He then plots Jupiter's daily movement with a trendline.

Chart 140



Mars was also leaving Sagittarius in November 1948 and conjuncted Jupiter on December 1st. If you look closely you will see a plot of Mars going up just under the prices and as it intersects the Jupiter line, Beans top out and go down.

Chart 141

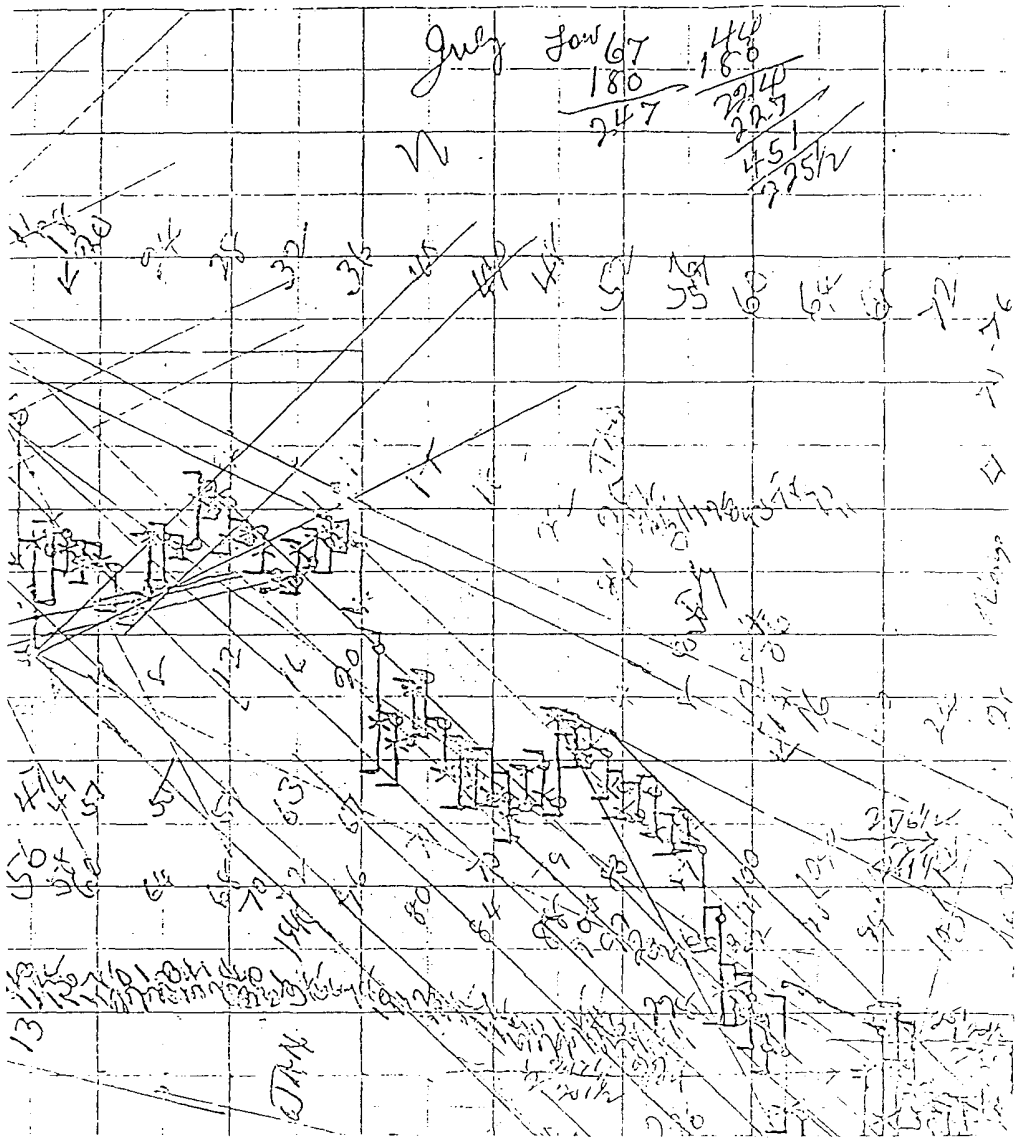
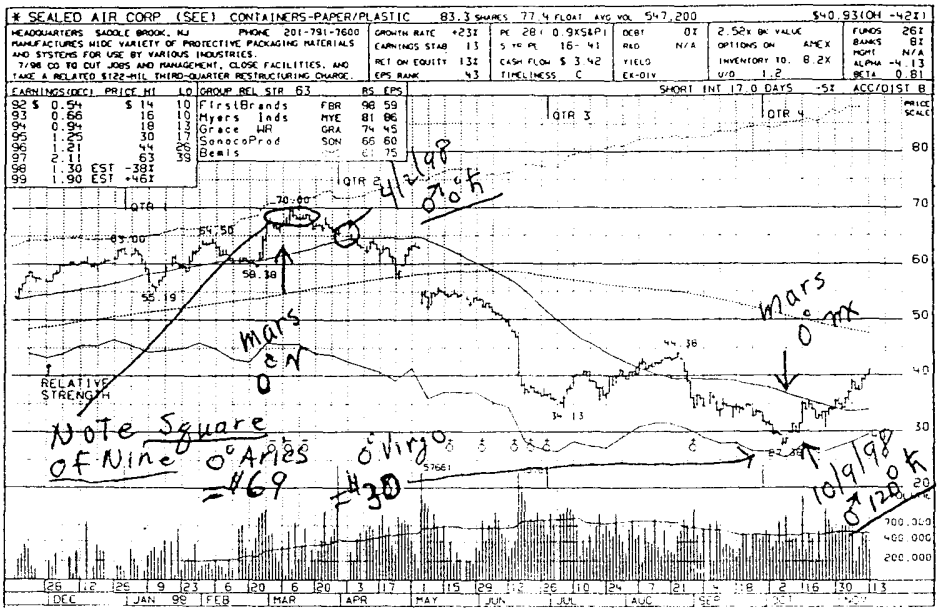
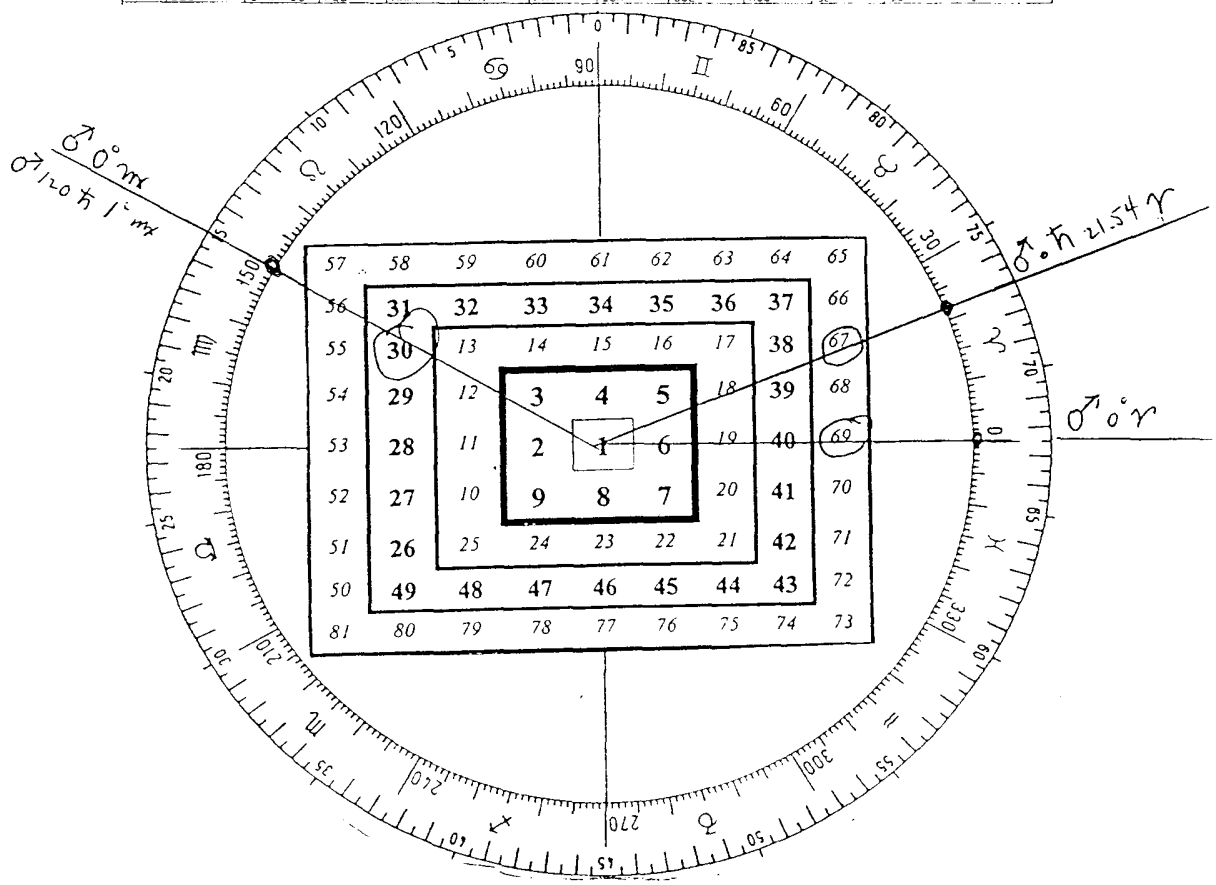


Chart #141 is the second half of Chart #140 and you can see how the conjunction of Jupiter and Mars topped the bean market. In the top corner are scribbles that show Gann was averaging longitudes he converted to degrees to get selling prices.

GANN SQUARE OF NINE EXAMPLE #1

Chart 142





GANN SQUARE OF NINE EXAMPLE #2

Chart 143

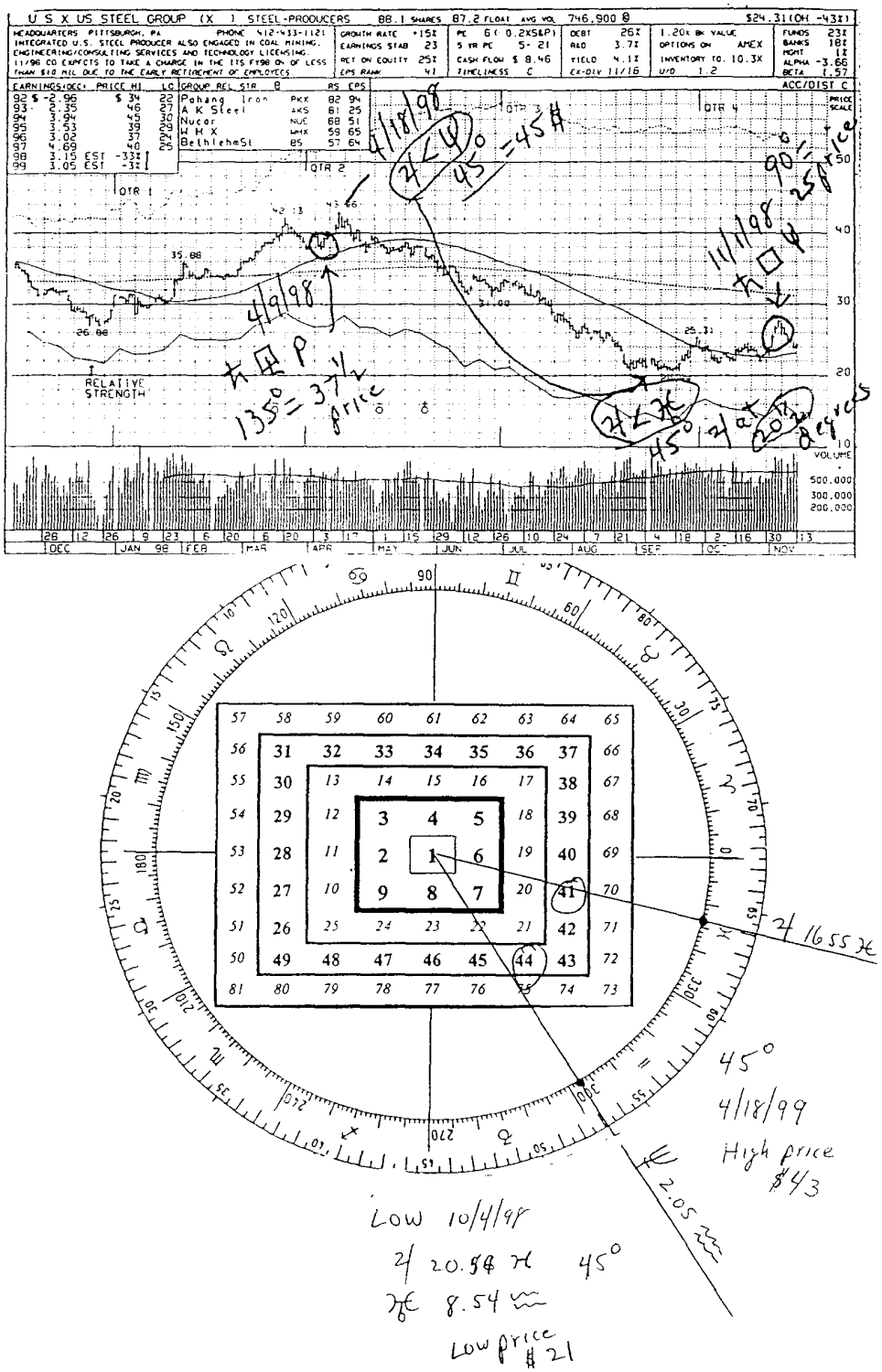
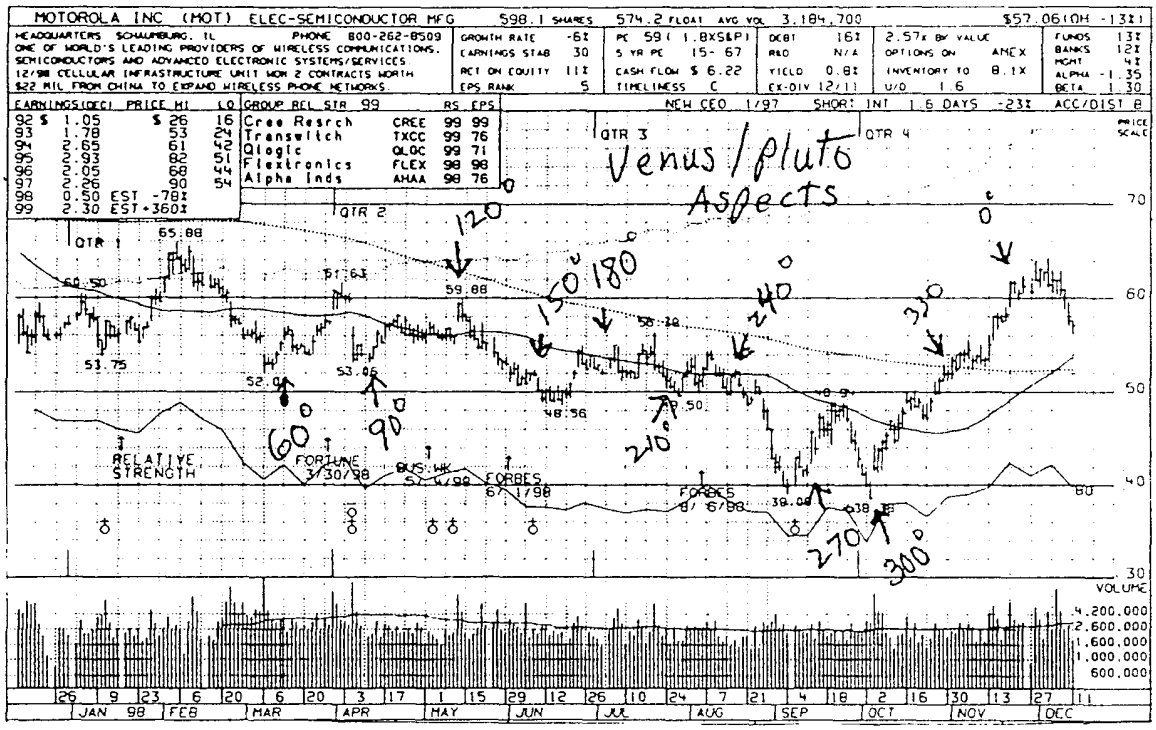


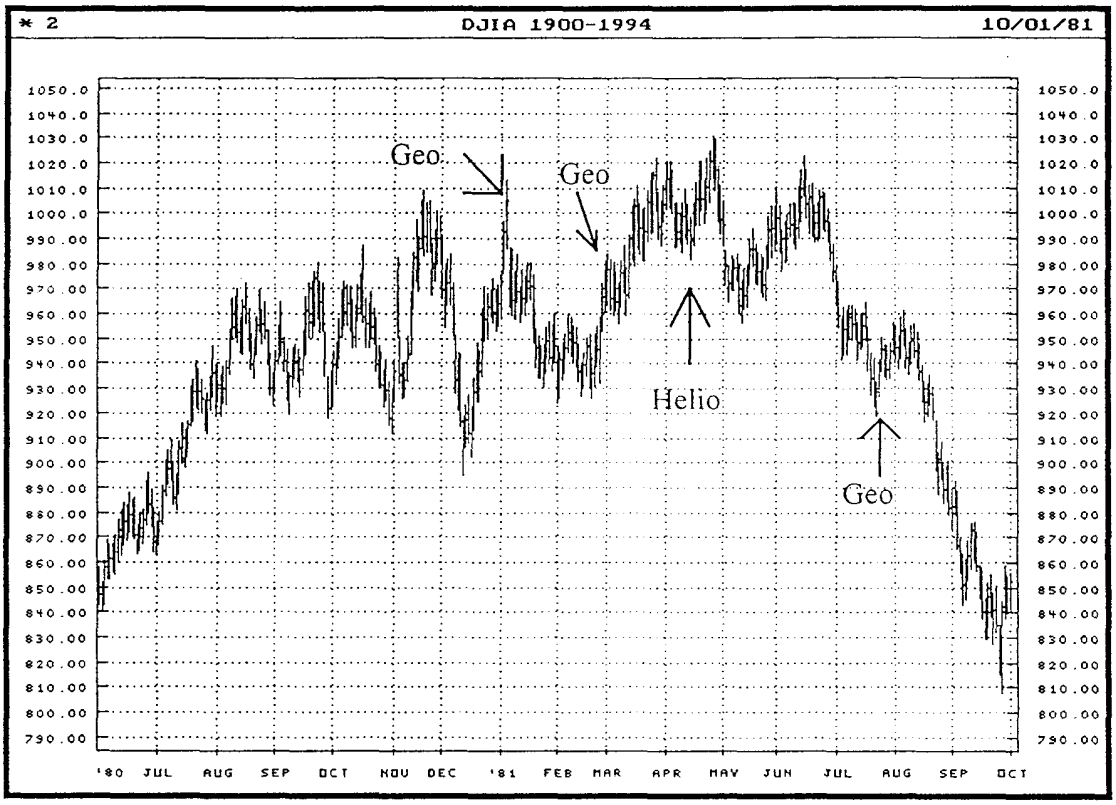
Chart #144 is the chart of Motorola for 1998 with the Venus/Pluto aspects listed. These are simple geocentric aspects, and you would also like to include helio aspects, and note strength of rulerships like Venus ruling in Taurus and Libra and exalted in Pisces. You can get these rulerships in any book if you are interested. To be complete, you would also translate the angles into price levels to find a target on the date of the aspect.

Chart 144



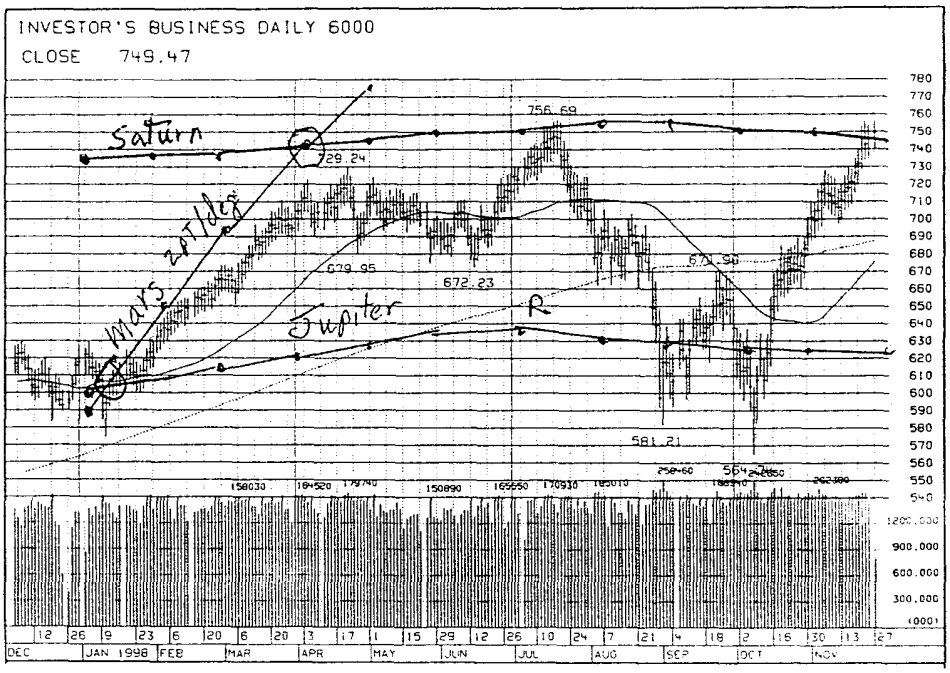
LAST SERIES OF JUPITER/SATURN CONJUNCTIONS IN 1981:
GEO: 12/31/80, 3/04/81, 7/24/81
HELIO: 4/16/81 (NOTE HOW HELIO TIMED THE TOP FOR FORECASTING PURPOSES.)

Chart 145



A very rough plot of Gann's planetary support and resistance lines is shown in Chart #146. I have only drawn in Saturn, Jupiter, and Mars, but you could use as many as you think are applicable to your stock or commodity. Though most computer programs have elaborate plots for this, only the "ruler" planets are relevant, and it takes a lot of work to examine 30 years of past highs and lows to see who was doing what at the time. The major problem that has not been adequately solved to this day is the price translation. Many computer programs just force fit the slope of the data and hope that is what's causing the movement. Only long-term study of individual issues will tell the true story.

Chart 146



Here I did an obvious direct translation of Saturn in Aries (0, 360, 720) and went point for point at the 720 level. For Jupiter I used the Square of Nine translation for 22 Aquarius @ = 600 and then went point for point with the planet's motion. Mars, the cause of most of the activity, needed a translation of 2 points per degree to fit the facts, which were Mars conjunct Jupiter in January to start the big advance, and Mars conjunct Saturn in early April to start the top. As long as the translation is true to those facts it will usually work. By the way, this is a *very typical* observation that the Mars conjunct Jupiter is bullish and *will go until* Mars hits Saturn. The meaning of the plot is that prices will trade back and forth between these planetary lines of support and resistance, and cyclic change comes about when planets make aspects to one another (lines intersect).

Chapter 11

TIME CYCLES

No forecasting method can be complete without a discussion of common time cycles in the stock market and how to find which ones are operative. Projections can be made with arcs, angles and price squareouts, but recurring time cycles are most reliable, and price patterns from the past repeat with remarkable similarity. In this section we'll discuss well-known cycles and how to apply them to both forecasting and trading. We'll sometimes discuss the astrological causes if not obvious and we'll want to develop very practical methods that won't require elaborate calculations or the use of computers.

Cycles can be of two or three types. There are fixed length natural cycles such as the year, and numerological cycles such as 100 years, and there are variable length cycles such as the ten year cycle that can be ten years plus or minus a few months depending on the retrograde positions of the planets making the aspects that time that particular cycle. Some cycles grow by ratios, such as the Fibonacci series that grows by 1.618 times the prior length, and many other cycles expand through various different proportions.

Gann continually referred to cycle analysis by saying that you must look in the past to see what cycles were working out or simply put, look back on anniversary dates of past planetary aspects to see what patterns looked similar and would repeat. I mentioned that I correctly forecasted the 1998 July top in the market with the Jupiter retrograde point of 9,358, but I also knew of the master cycle of 60 years and was looking at 1937 and 1938

to see a similar pattern. Nineteen hundred thirty-seven had the perfect fit and was a global commodity deflationary collapse, but 1938 also was similar. The clincher was that Saturn went retrograde on July 17, 1937, and I've seen different planets react similarly. They go retrograde, or turn direct on the same anniversary date, and a similar outcome in the market would be seen even though the planets would be different. At any rate, knowledge of cycles is important to know where to start looking.

We will start with the smallest cycles and work our way up, so that you can see their interplay. The very smallest practical cycle is 4 minutes, since the earth has a 24-hour rotation to go through 360 degrees, so that one degree of that circle is 4 minutes in time. I often use 4-minute charts when I trade commodities and S&P futures, since the trendlines come out nice and straight, and by counting the bars you get full degrees of earth movement. Four-minute charts are good for scalping, but not forecasting. The smallest practical chart or cycle for forecasting purposes is the hourly chart. Remember that this is another of those 15-degree rotations, but it's also 15 times our four-minute chart.

One important concept to understand is the idea that cycles vibrate to frequencies, and the harmonics of those frequencies create other cycles. If you pluck a string instrument you can see the vibration, but on a large string you can also see dead spots called nodes where there are no vibrations. These nodes are frequency intersection points where different frequencies add together and cancel themselves out to make a dead spot. In the musical scale you can divide a tone in half to double it to get octaves, but the other notes are ratios such as 5/4 or ¾. To be more precise, the musical scale of C, D, E, F, G, A, B, C is composed of ratios of the first tone or fundamental unit 1, as follows 1, 9/8, 5/4, 4/3, 3/2, 5/3, 15/8, and 2. These are the basic fractions that control music and also cycles. Harmonics of complete cycles usually break down into subsections along these fractions. The most important however is the twelfth. Remember the Bible mentions the 12 tribes,

12 disciples, and 12 astrological signs, so that we know that 1/12 is a very important number. It is 30 degrees of a circle (360/12=30) and one twenty-fourth, or half of that is also a fundamental unit. One twenty-fourth is 15 degrees, and so we often divide cycle lengths into twelfths and twenty-fourths. When analyzing any cycle for a stock always divide the price or length into these ratios to find which are the dominant ones.

The hour is one twenty-fourth of the day and one twenty-fourth of the year is 15 days. This gives rise to day cycles of 15, 30, 45, 60, etc., calendar days. Closely tied in with these numbers are the natural cycles of the moon. Full moons are approximately 29.5 days apart giving rise to 30-day cycles and the new moon is 15 days after the full moon. These are combined cycles of the sun and moon to achieve a full moon, and since the earth

Chart 147

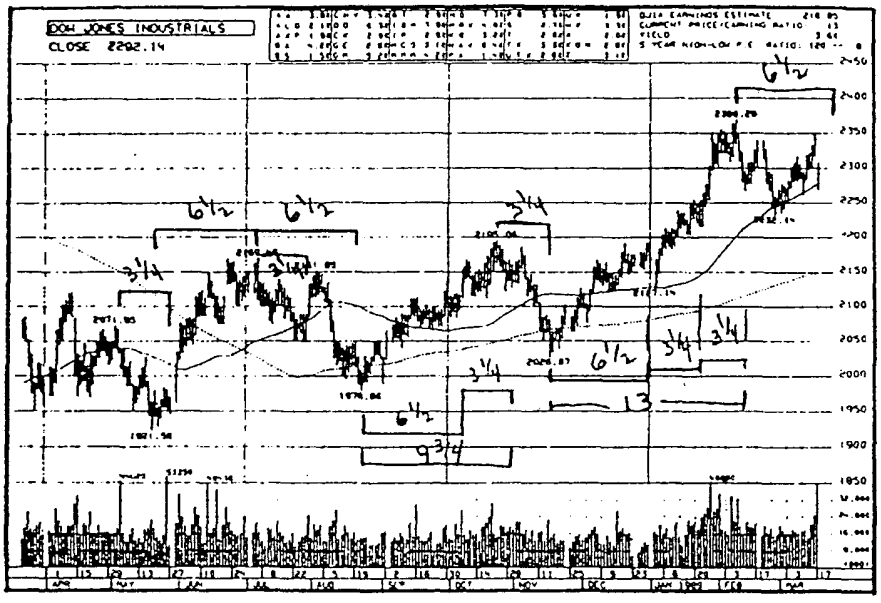
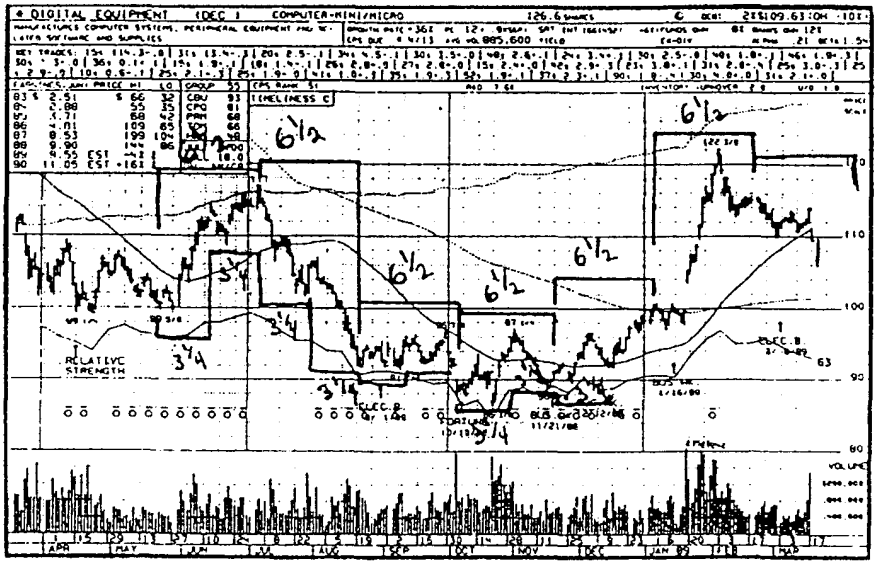


Chart 148



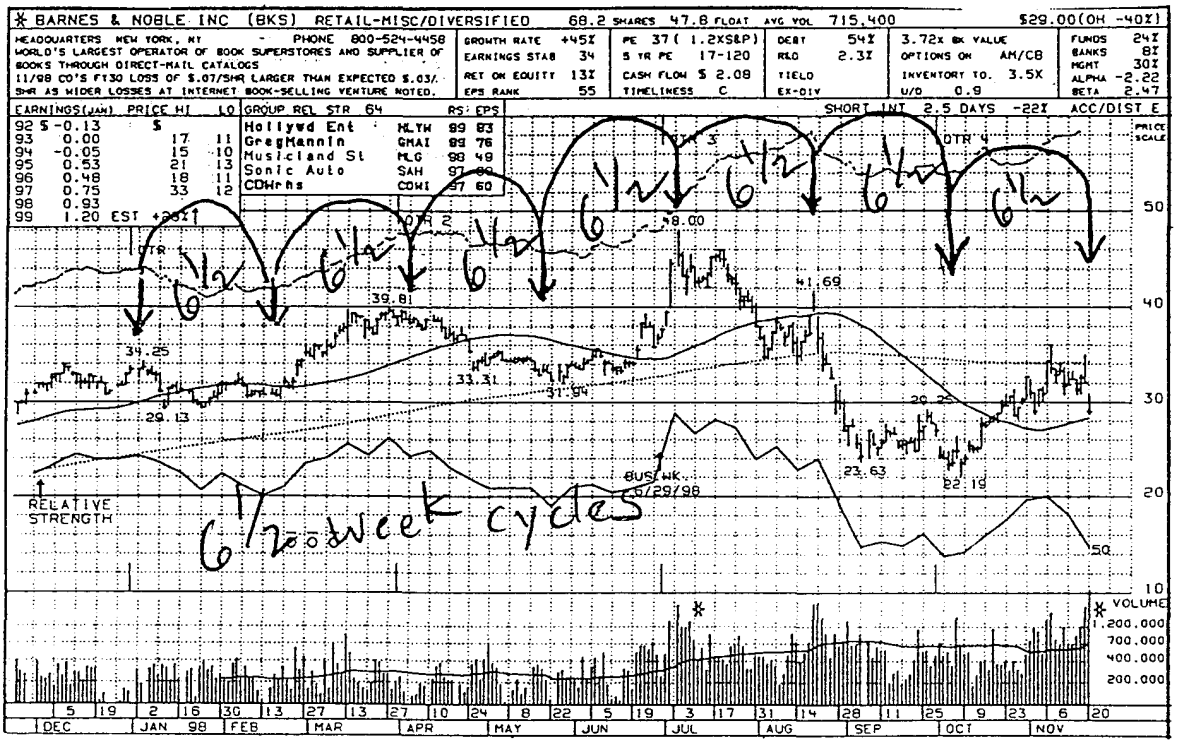
All stocks trade in cycles relating to the natural year of 52 weeks. The primary divisions are 1/8 and 1/16 ($\frac{52}{8}$ = 6 1/2 weeks, $\frac{52}{16}$ = 3 1/4 weeks).

Longer term movements are just these basic cycles strung together. Begin your count from any major high or low.

is moving, the actual orbit of the moon from a starting point like 0 degrees Aries back to 0 degrees Aries is less and is approximately 28 calendar days. This is why W.D. Gann said minor changes occurred every seven days, since that would be the cardinal ingress of the moon, or 90-degree rotations starting with Aries, Cancer, Libra, and Capricorn. We do have natural seven calendar day cycles caused by the Moon.

The next bigger cycle, and the one I use the most of all, comes from the natural division of the 52 weeks in a year by 8 to get 6.5 weeks, and by 16 to get 3.25 weeks. The vast majority of common stock movements are 3.25 week segments. The market averages usually go 6.5 weeks and when stocks or averages go longer it is just these subunits strung together. What follows are some 3.25 and 6.5 week examples. I might note that 3.25

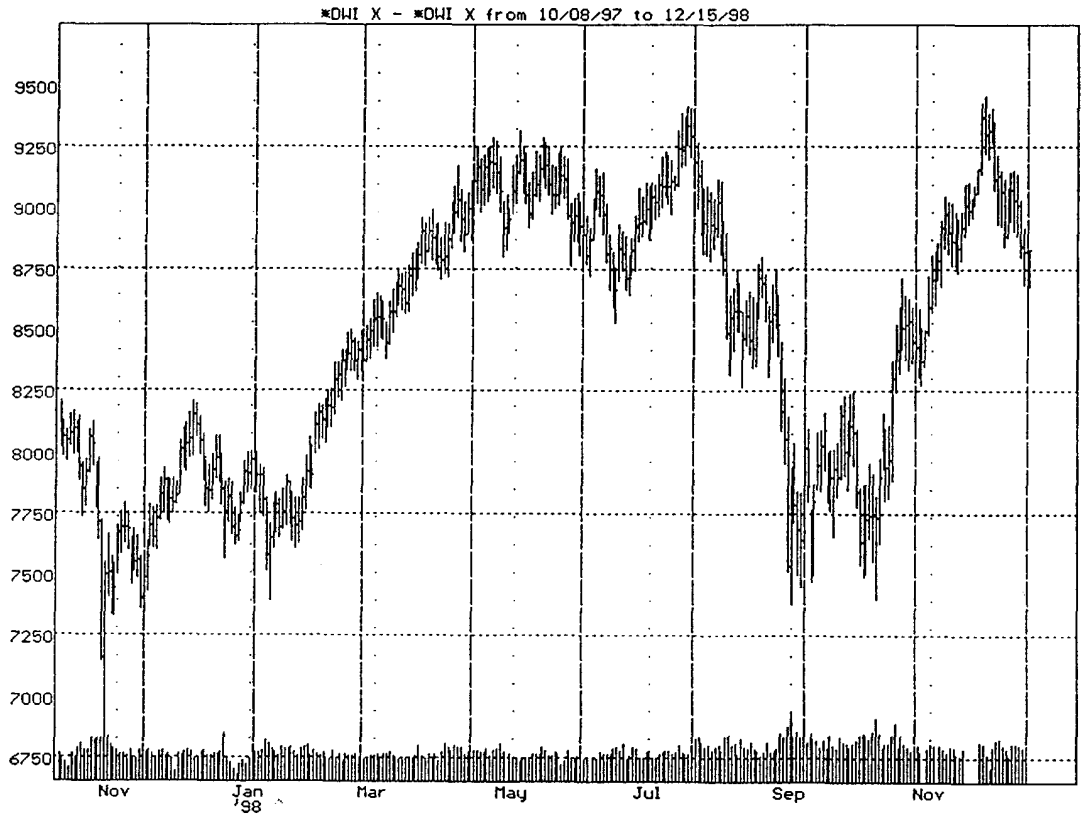
Chart 149



weeks and 6.5 weeks approximate 22.5 days and 45 days, which are 90-degree rotations of the planet Mercury (orbit 88-89 days). On a bar chart 17 and 34 trading day bars also approximate these lengths.

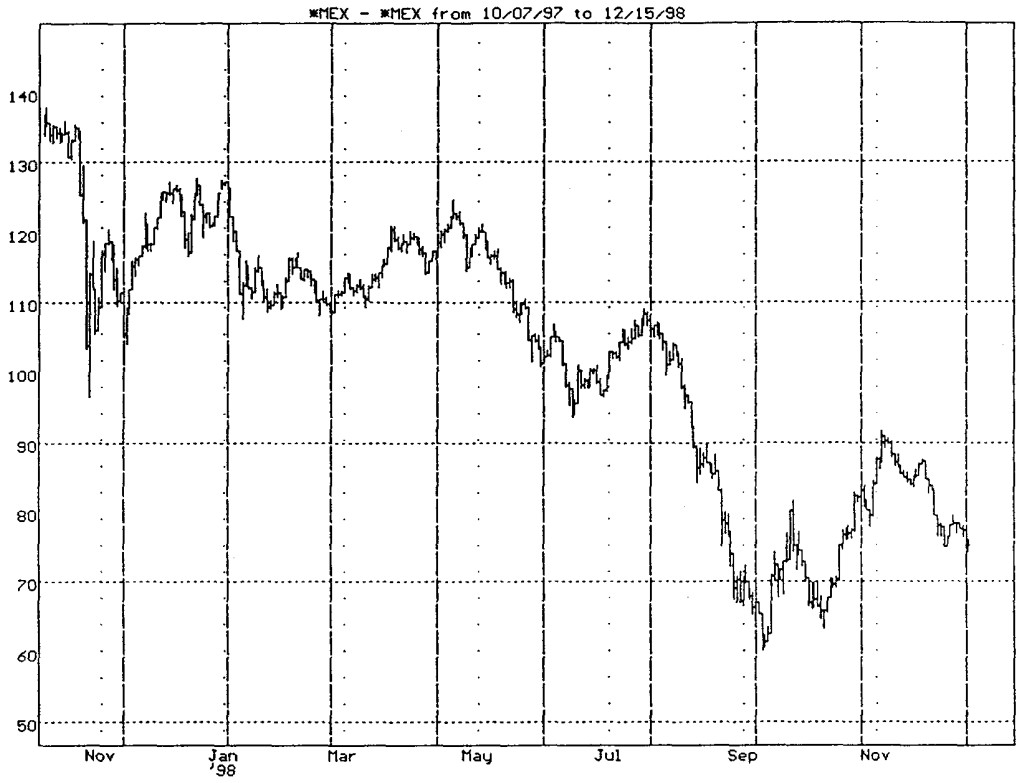
Chart #150 is the Dow Jones Averages with 34 bar (6.25 week) cycles.

Chart 150



The Mexican Stock Market Index with 34 bar cycles marked is shown in Chart #151.

Chart 151



The next largest cycle is 90 days, approximately one quarter of the year, and a multiple of 15, and a quarter of the 360-degree circle. Three months is the normal maximum counter trend movement a market will have without changing the main trend. No bull market declines for three full months. In the past two decades just about all declines were 6-7 weeks, sometimes 9 but rarely 12. Even the 1987 crash, which many mistakenly called a bear market, was only an 8-week correction (55 Fibonacci calendar days). One of the rarest exceptions to this three-month rule as defining the maximum counter trend movement was the rally into 1930 after the 1929 crash. Then the rally lasted 6 months before resuming the bear trend, though perhaps that was due to the excessive nature of the col-

lapse. Six months is a cycle, but it's usually just two 90-day segments tied together.

One year is a basic cycle. The next in importance are 3 years, 5 years, 7 years, 10 years, 15 years, 20 years, 30 years, 45 years, 50 years, 60 years, 90 years, 100 years, 120 years and 180 years.

In the various Gann courses much emphasis is placed on the cycles of 7, 10, 20, 30, 45, 60, and 90 years. Although Gann never said so directly, it has been proven that all the cycles in the Gann courses are astrological in nature. If you see any of Gann's original work papers you will see the astrological notations all over them, especially as to the origin points that are the conjunctions and oppositions of the large planets. In particular, great emphasis was always put on the mysterious "Master Time Factor" that was given to his personal students. The master cycle was nothing more than the great 60-year cycle that contained the three cycles of the 20-year Jupiter Saturn conjunctions. Although in the Gann course you are taught to forecast by comparing the ten-year cycles with the last digits of the years of each decade being compared, in reality you are lining up *20-year segments* of the Jupiter Saturn conjunctions so that the 0 to 180 degree angles will line up on the ten-year segments. In many of Gann's books or courses, he slipped in a starting date for a cycle without saying why, but if you look in an ephemeris you will see the Jupiter Saturn conjunction on that date. You don't need to be an astrologer to use this; you simply line up 20 years in a row on top of each other on a large sheet of paper and compare the monthly anniversary dates for your projected highs and lows. If you want to really master it, however, you'll need to look up the aspects in an ephemeris or on a computer program. Here's a summary of these important dates since 1800 so you can check the record:

Jupiter Saturn conjunctions:

July 1, 1802 2.17	Virgo
June 19, 1821	24.39 Aries
January 26, 1842	8.54 Capricorn
October 21, 1861	18.22 Virgo
April 18, 1881	1.36 Taurus
November 28, 1901	14.00 Capricorn
September 10, 1921	26.36 Virgo
August 8, 1940	14.27 Taurus
October 20, 1940	12.28 Taurus
February 15, 1941	9.07 Taurus
February 19. 1961	25.21 Capricorn
December 31, 1980	9.30 Libra
March 4, 1981	8.06 Libra
July 24, 1981	4.56 Libra
May 28, 2000	22.43 Taurus
December 21, 2020	0.20 Aquarius

Cycles have a general rule of alternation where highs and lows alternate on each anniversary. This is explained by the 20-year Jupiter Saturn cycle that gives rise to the ten-year cycle and makes it apparent why they alternate. It's the 0 to 180 degree angular separations for the first ten years, and then the fold back from 180 back to 0 over the next ten years to complete high to high or low to low at 20 years and alternates at ten. This is the general theory. The master 60-year cycle doesn't invert so much, but when it does the 120-year cycle is quite reliable.

Among Gann's personal papers was a special report done by a Professor Weston who first worked out the Fourier analysis numbers for the Jupiter Saturn 20-year cycle and found the 10-year pattern that repeated all the time. The key, as you recall, is that no angular separation between two planets can ever be more than 180 degrees before the separations start repeating again, so that a twenty year conjunction to conjunction cycle is really a ten year conjunction to opposition cycle. He further showed that the 360-degree full cycle over 20 years averaged 18 degrees per year (180 degrees/ten years), and these 18-degree segments were turning point separations. What is most surprising in the Jupiter Saturn cycles is that the "hard" aspects of 90 degrees or 180 degrees separation is almost *always a high,* as it was in July 1990 at the high day. Lows are found at 54 degrees and 126 degrees. Other highs are 18 degrees and 162 degrees. There is also a tendency to have 4-year influences, the first half being highs at 18 degrees, four years later 90 degrees, four years later 162 degrees, and then four year lows at 54 degrees, and 126 degrees. Note that these are not traditional angles with 15-degree separations, but are annual harmonics of a twenty-year cycle. The regular harmonics work too, but this pattern of specific angles is one of the real keys to forecasting. Note the method of dividing the 360-degree full cycle by the total number of years. For instance a Jupiter/Uranus cycle of 14 years between conjunctions would give rise to annual separations of 360/14=25.71 degrees approximately.

Many cycles are numerological and the number harmonics of the cycle lengths can be used for forecasting. For example, the 100-year cycle often works as well as the 60-year, or the 20-year, for forecasting, and its harmonics of 25 years, 50 years, and 75 years can accurately reflect the anniversary date pivots for the years in question. If you think the 100-year cycle is operative, look back 25 years, 33 years, 50 years, 66 years and 75 years to note the major high and low pivots during the year. If the cycle is operative then those

anniversary months will have major turns although they will frequently alternate as to being highs or lows.

The basic problem in cycle analysis is always fixing the starting point to begin our calculations. To do this we need a long series of data, such as 30 years, or 100 years, if available. We can then quickly observe the major highs and lows to spot for periodic rhythms. We want to check the price levels to see if they are generating the cycle length (50 days for a price of $50), or we want to determine if the all time high or low coincided with a well-known astrological aspect and could be part of a cycle consisting of two planetary pairs. In the Gann courses great emphasis is placed on dividing the price levels into eighths and finding proportions, but also on keeping track of monthly and weekly timing angles that will warn us when big cycles are due. For instance, Gann would say to watch for a change in the 90th month, though it could come as early as the 84th, since there are 12x7=84 months in seven years. He was pointing out two different cycles that could be operating, since the 90th month is 90 degrees average movement of the planet Saturn and would be the one-quarter harmonic of the full 30 years. The seven-year cycle is the well-known Uranus cycle, changing signs of extremes every seven years (Joseph's biblical dream of seven fat cows eaten up by seven lean and hungry cows). Gann liked to disguise his methods, but his techniques of using timing angles to keep track of time produced good results, regardless of what was thought to have caused it. If you maintain angles of one point per day, one point per week, and one point per month, and watch when harmonics of 100 or 360 are reached, you usually won't miss much. Remember, that from a heliocentric Sun centered perspective, the planetary cycles are very precise and a 19.86 year cycle of Jupiter and Saturn will come out again almost exactly 19.86 years later. Fifteen degree sections (1/24) of that cycle will also be fairly steady, and if the timing angles are starting from the origin, then your time counts will be correct. In the last section

I showed one of Gann's personal charts, with all the conjunctions and oppositions of the outer planets. He needed to keep track of all those conjunctions for the past century, since those were the origin points for the cycles. Ninety-nine percent of the time we think that a cycle must start at the lowest price or the highest price. Unfortunately this is not the case. Often, the actual start of the cycle can be a long flat, before or after the extreme spike, and your time counts can be off quite a bit. Gann always used the major planet's conjunctions to start the count and then technical analysis to confirm the expected turn when the cycles were due. By running timing angles up from "zero" under the date of the conjunction and using the angle that approximated the motion of the planet involved, he wouldn't forget when major aspects were due (Sun=1 degree (pt) per day, Jupiter=2 1/2 - 3 per month [30 degrees/yr.], and Saturn 1 degree per month).

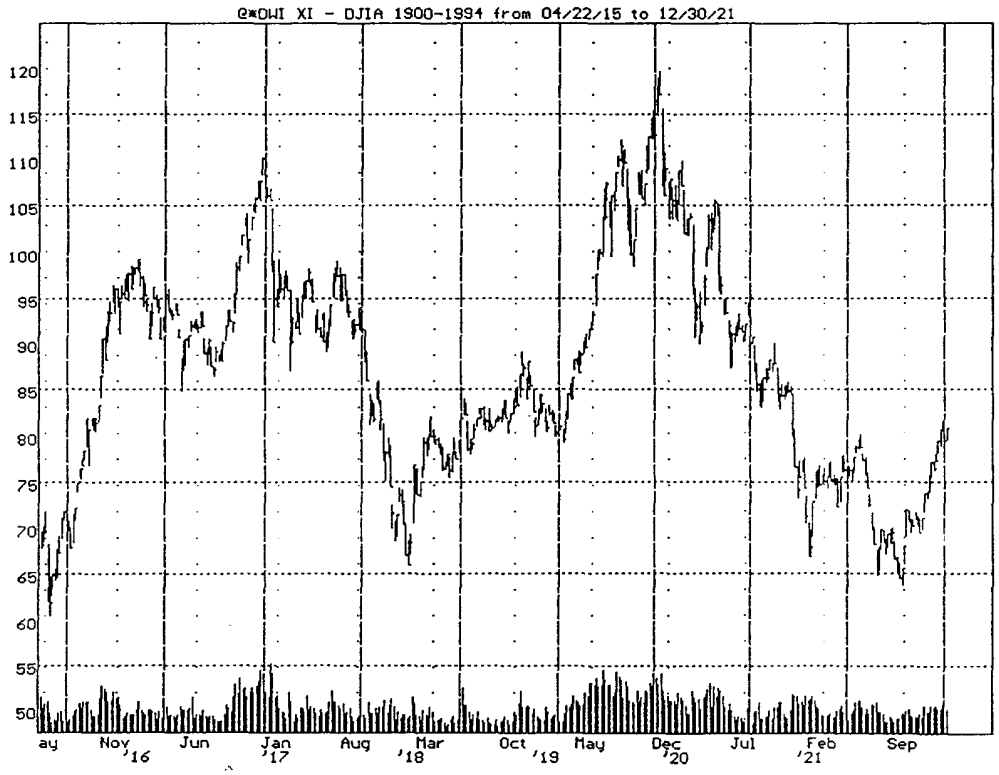
The first several cycles mentioned by Gann in his courses are the 30 year, 20 year, 15 year, 10 year, 7 year, 5 year and 3 year. The "Great Cycles" are the 90 year and the 60 year. The 90-year cycle is so powerful because it is 2x45. This clue signifies that it is an astrological cycle of the conjunction of Saturn and Uranus, which takes 45 years, but the first recurrence of the cycle back to the conjunction again is slightly over 90 years. The other "Great" or "Major" cycle is the Jupiter/Saturn third return to conjunction which is 60 years. The other cycles above are Saturn (30 years) and the harmonics of the 20-year Jupiter/Saturn cycle (5,10,15 years are 90 degree aspects). Seven, to seven and a half years are the Uranus cycle of 30 degrees (12x7=84) and the 90 degrees of Saturn (30/4=7.5).

Gann chose to hide the astrological nature of his cycles not only to prevent people from stealing and reproducing his courses but also because he wanted students to do the work themselves. In several courses he describes the 10-year cycle in terms of 120 months, hinting that it is 1/3 of the Saturn 30-year cycle, or 120 degrees movement of Saturn. He further says to divide 10 by 2 to get 5 years or 60 months. Again, he means 60 degrees of

Saturn's movement. This is only half the truth, of course, because we know that the 10-year cycle is the opposition of the 20-year Jupiter/Saturn combination. In forecasting the 10-year cycle he often said that the year ending in the last digit "9," 1929, 1939, 1949, 1959, etc., were the extremes, since 9 was the highest digit. He actually meant 180 degrees is the greatest angular separation possible, and the opposition of Jupiter and Saturn has occurred in the "9" digit years for about 100 years, although now it has shifted to the "0" last seen in 1990, at the July top, and it will be seen again in 2010. In the traditional Gann forecasting courses, you lined up the ten-year cycles, one on top of the other, by the last digit of the year and noted similarities. The closest patterns would be forecasted for the coming last digit year. This method works remarkably well and the vast majority of big time money managers know of it, and though they profess ignorance of technical analysis and cycles, few will go counter to the strong decennial year patterns. Note that to use this method you don't have to work with astrology, just 10-year periods. The reason is that these synodic heliocentric periods are very stable and straight numbers of days can be added to highs and lows to get very close approximations of the next cycle if you're counting from the right planetary aspect. The 20-year Jupiter/Saturn cycle is about 7,253 days and if you take 15-degree segments (1/24) you get very nice turns every 302 days or just about 10 months (about 43 weeks). Just look in any chart book and you will see very strong highs and lows about every 10 months. Better yet, go back to the last section and use the chart with the Jupiter/Saturn conjunctions from 1921 on, and just look at every 10 month period from those highs and lows. The only problem you could have here is trying to time a top that was caused by, for example, Mars and Uranus, and applying Jupiter/Saturn time counts. The best protection is to check out the cycles going back several repetitions, and ideally to look in an ephemeris to see if Jupiter and Saturn are making an aspect at the time that you want to apply the time count.

Here we have the Jup/Sat 90 deg square on that 3rd line in Jan 1917 and each next line is approximately 43 weeks. Note how well this 10-month cycle works if lined up correctly on an astrological aspect!

Chart 152



Most planetary cycles run a little longer than the length of the faster moving planet's orbits. If Jupiter has an orbit of 12 years, to come around and catch up with another planet that is also moving forward will take more time, but not too much more time than the very slow moving, outer planets. Jupiter/Uranus is about 14 years; Jupiter/Neptune is about 13 years and Jupiter/Pluto, about 12.5. Mars has an orbit of 687 days, or almost 2 years, and

its cycles run 1.8 to 2.3 years to catch up with the other planets. The great cycles of the outer planets are very long. Saturn with a 30-year orbit is 33 years to Pluto, 26 years to Neptune, and 45 years to Uranus. Uranus/Pluto is over 127 years, and Uranus/Neptune is 171. Neptune/Pluto is nearly 500 years.

The following table lists some of the basic cycles of a planetary origin and their synodic conjunction periods and 15 degree cycle times:

Mars/Pluto	1.895 **years**	28.8 **days** (per 15 degrees)
Mars/Neptune	1.903	28.9
Mars/Uranus	1.92	29.3
Mars/Saturn	2.01	30.6
Mars/Jupiter	2.24	34
Jupiter/Pluto	12.46	189.6
Jupiter/Neptune	12.78	194.5
Jupiter/Uranus	13.81	210
Jupiter/Saturn	19.86	302
Saturn/Pluto	33.44	509
Saturn/Neptune	35.87	546
Saturn/Uranus	45.36	690
Uranus/Pluto	127.3	1,937

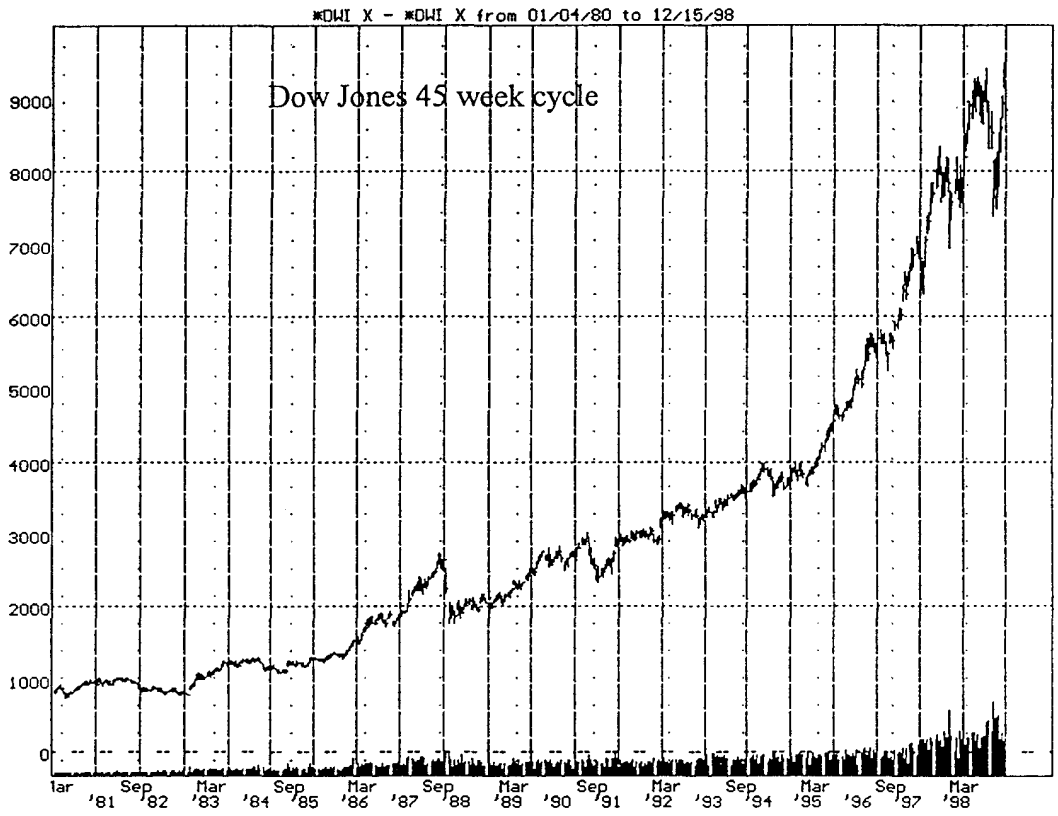
Venus is very powerful and is usually just a straight 225 days, and Mercury also has great influence and has an orbit of 89 (Fibonacci, Calendar Qtr) days.

Most traders just take these synodic periods and tick them off on the charts, but to be accurate you should start your counts from major planetary aspects of the series you are about to apply. This is less obvious than it seems. This is due to the fact that *every*

aspect, not just the traditional 30, 45, 60 etc., has meaning. For example, at a high where Jupiter and Saturn are apart by17 degrees and you might want to apply Jupiter/Saturn time counts, I can't tell you that's wrong. Jupiter and Saturn may well be causing that high and 17 degrees may have great numerological significance. Only if I were sure it was due to Mars, or something else, would I apply another factor. Indeed, one of the best methods for keeping track of cycles is to discover these "odd ball" angles at major tops and bottoms for all the outer planetary pairs, and then increment them by 15 degrees to watch for the next. In other words, assume Jupiter and Saturn did make a top at 17 degrees, and add 15 degrees to that separation to get 32 degrees, and then calculate when Jupiter and Saturn will be 32 degrees apart and that will be your next top. After that, advance to 32+15=47 degrees separation. This almost always works! You should also test for 22.5 degree additions as well as the 15. This is another reason why Gann used his Square of Nine method to circle the degrees on the wheel of each planet on the date of the top, and then the angles would remind him of up-coming aspects to that prior top. The wheel method also helps because of all the confusion geocentric positions cause. The always forward moving helio positions are easy enough to keep track of, but when you start having two or more important planets reversing directions and going back and forth a number of times over important aspects, it's easy to get lost. The wheel method at least has all the hot spots noted, and as you spin your angle overlay over the wheel each day, you won't overlook too much.

Besides these classical timing and forecasting cycles there are others to trade with and make note of. In my personal day trading I frequently use the harmonics of the 360-week cycle, specifically the 45-week cycle. There is a very strong propensity for the market to repeat identically or identically backwards every 45 weeks. To test it you would look back 45, 90, 135, 180 weeks and go with the most similar pattern. For a great many years I used 45 weeks as a primary tool every day. As I have noted, numerology is significant in the market, and as I showed you with resistance levels it also works with time.

Chart 153



For instance, 9 is the highest digit and all others are usually reduced to a single digit for use. Forty-five weeks is a 4+5=9. It's also 315 calendar days and that's 3+1+5=9. It's been my experience that all good cycles reduce down to 9 as a final digit.

Chart #153 shows The Dow Jones with 45-week lines. Note the '87 crash was 270 weeks from the August '82 low. Now count 6 more periods-you'll get the point.

Chart 154

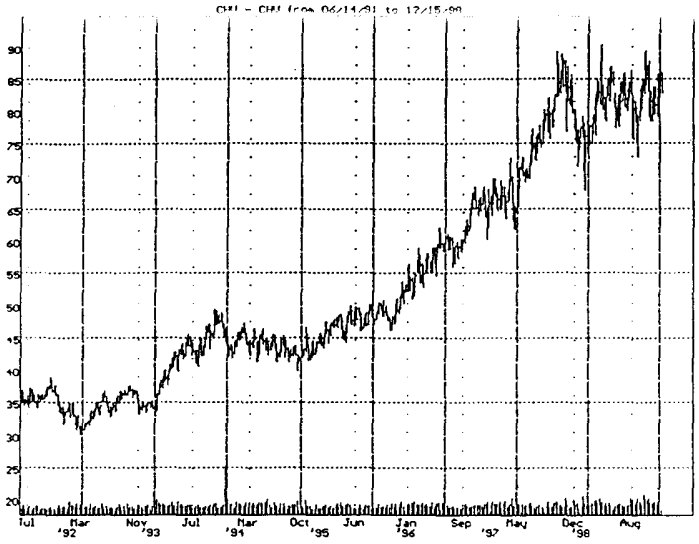


Chart #154 is Chevron showing good 45-week cycle turns. Note how the 6th line from the second low in Nov '92 gave rise to a "crash" in Dec '97 just like the prior Dow Jones chart.

Chart 155

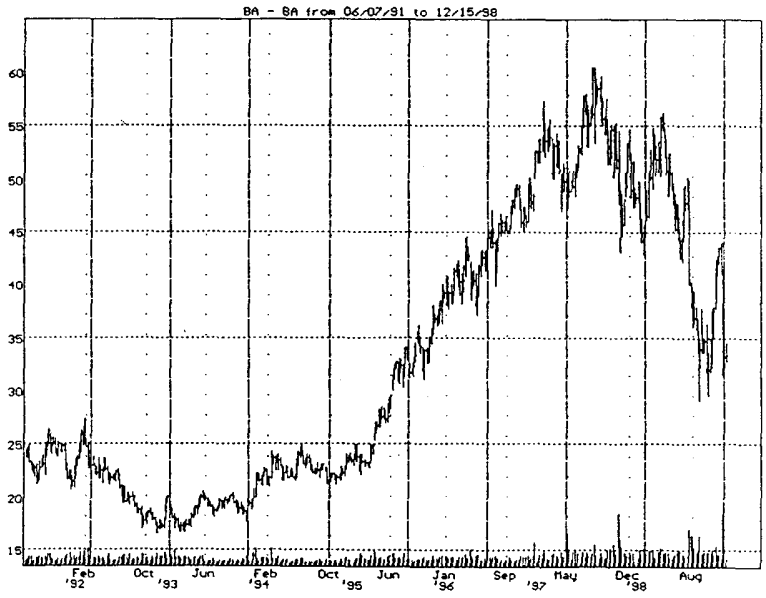
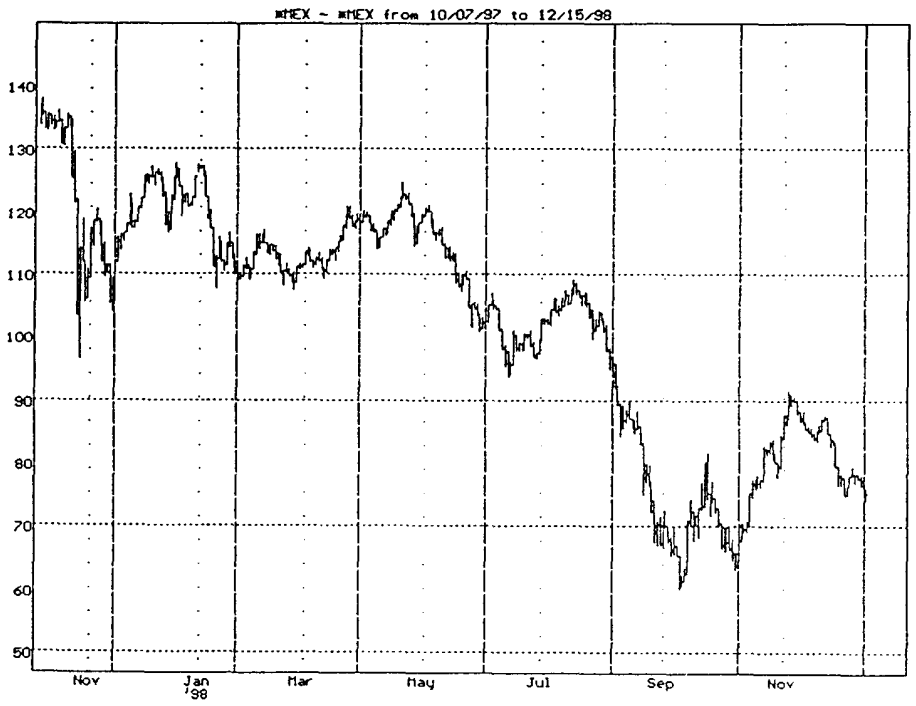


Chart #155 shows a chart for Boeing with nice 45-week harmonics.

The effects of numerology with a daily chart showing 45 *bar* separations is illustrated in Chart #156.

Chart 156



Two hundred and twenty-five days is another "9" I love to trade. It's 32 weeks and the difference between 45 weeks and 32 weeks is 90 days. Two hundred twenty-five is also a natural square (15x15), but most importantly it is the orbital period of the planet Venus, the money sign ruler. Venus also causes the Fibonacci ratio of perfect beauty and harmony (225/365.25=.618). My favorite technique is to watch 32 weeks *and* 45 weeks back, and *when they both go in the same direction* for the next few weeks into the future, go with that cycle as a projection of future prices. Perhaps 70% or more of all the money I have made in my life comes from using the 45 and 32-week cycles in combination! You might want to try it.

Lunar cycles are important, but the eclipses are most important. I also like to count from full moons or new moons in a numerological fashion like 15 full moons, 30, 45, or 60 moons. These work quite well, as do Fibonacci expansions of full moon time periods. The eclipse cycle is 19 years, although individual eclipses have to occur at least every six months, but come back to the same longitude at 19-year intervals. An adjunct to this is the lunar Jewish calendar. Almost all Jewish holidays are astrological in origin, and years where the holidays fall on the same dates usually give an accurate forecast to the stock market.

The moon's nodes are the positional points in the moon's orbit where it crosses the ecliptic, or sun's path. They're not like planets, but the location is always a primary hot spot. They move backwards around the Zodiac and complete the full cycle in 18.6 years. It has long been thought that the very significant 9.3-year cycle in stock prices noted by the academics is caused by this cycle as it makes its opposition points. Gann also used a series of three cycles of 18.6 years to come up with a master calculator of about 55.8 years that could be the cause of the long-term Kondratieff cycle in economics.

Eclipses occur at least every six months and sometimes there are four or five in a year. Gann's theory was that as the moon blocked the sun's rays to the earth, it acted as a big electromagnet and major changes occurred that affected all living things. The location in the zodiac of the eclipse point was a particularly useful hotspot for forecasting, and any planet that subsequently came along and hit that spot again produced a result. The 1987 and 1998 crash lows were produced when Mars hit the prior month's eclipse points. The following charts show two stocks with the September 1997 eclipse noted by the first vertical dotted line and then all subsequent vertical lines are 30-degree aspects of Mars to that eclipse point. You would have to be the world's biggest skeptic not to scratch your head looking at these charts when you see how each 30-degree contact with Mars brought about dramatic change precise to the day! Take a moment and study these charts and look in an ephemeris to see the transits. I have only used Mars here since that planet is known

for quick bouts of energy, but if you look over a year or two and watch the Saturn, Jupiter, or Uranus contacts with the eclipse point, you'll see the major swings in the market. If you use the Sun you'll get the familiar 30, 60, 90, 120 calendar day cycles that appear all the time.

MARS AT 30 DEG. ECLIPSE POINT

Chart 157

Mars at 30 deg. Eclipse Point

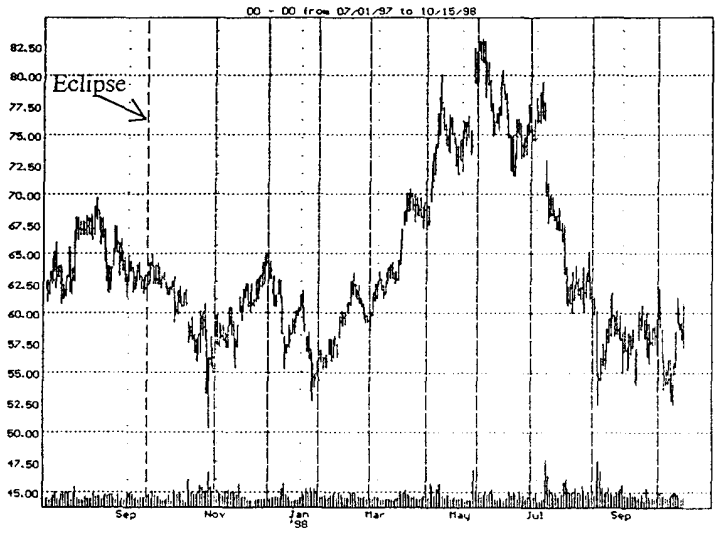
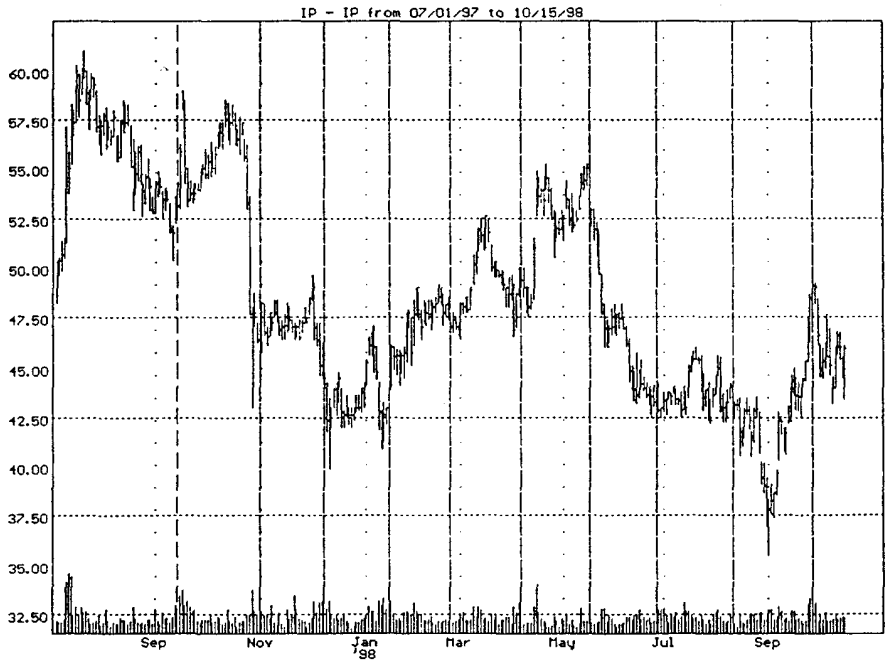


Chart 158



Venus has an orbital period of 225 days, but it returns to the exact same longitude at almost an exact 8-year cycle to the day. Other planets likewise have cycles that return them to the same degree on the same day of the year, and these are very interesting and well known especially in commodity circles. Mercury and Mars come back at 79-year intervals and Jupiter at 83. Saturn has a period of 59 years, where it comes back on the same date, but one and a half degrees farther along. This too could be a cause of the 60-year cycle's dominance. By the way, in terms of numerology, 9 times the cycle of Mars of 687 days is almost exactly 17 years. I have often noted in Gann's notes and scribbles on work papers that he occasionally used multiple cycles of orbits, particularly Mars. Seven times, 10 times, and especially 12 times the orbital periods were frequently used.

Besides obvious planetary cycles, there are growth cycles like the Fibonacci series, or expansions like the square root of two (1.414), three (1.73), and five (2.236). The Fibonacci is an additive series and consists of adding any two consecutive numbers together to get the third in the series, and then adding the second and third to get the fourth. Most are familiar with the usual start of 1, 1, 2, 3, 5, 8, 13, 21, 34, 55 etc., but it should be noted that it applies to *any* two numbers. As the numbers are added to get the next in sequence, the ratio of each number to the before and after number is .618 and 1.618. Since most natural growth patterns like tree limbs or sunflower seed rings follow this sequence, its use in the stock market is substantial. The greatest mind there ever was, Sir Isaac Newton, had the Fibonacci spiral carved into his headboard so he could think about it every night as he went to bed (He also was an avid astrologer!). Because this is an additive series you can use it everyday to make quick trades in the market whenever you have two or three highs or lows on your chart. For instance, if you have a low then a high and the time between is four weeks, and then you get another low three weeks later, you can add the time periods of four weeks and three weeks and know the next turn is seven weeks away. This usually works, as does a simple count of the distance and a ratio applied, such as 50 days from low to high and then you multiply 50 by .382, .618, and 1.618 to get time periods in the future that will be in perfect proportion. For years I did this with great success on hourly charts in day trading S&P futures, but I still prefer natural squareouts of price ranges and price square

roots because they give more powerful turns.

Natural square root cycles are still one of the best approaches to cycles and a geometric approach is the easiest to apply. Knowing that the diagonal of a square forms a right triangle, we have a simple exercise for the Pythagorean theorem, where side A squared plus side B squared is equal to side C squared (C is the diagonal). In a box of 1 unit on a side we have 1+1=C squared or the square root of two. If we make two boxes side by side, and draw a diagonal from the first to the second and swing it down we get the square root of 5. We can keep expanding these boxes as far as we like to see turns on our stock. An example will make this very clear.

Chart 159

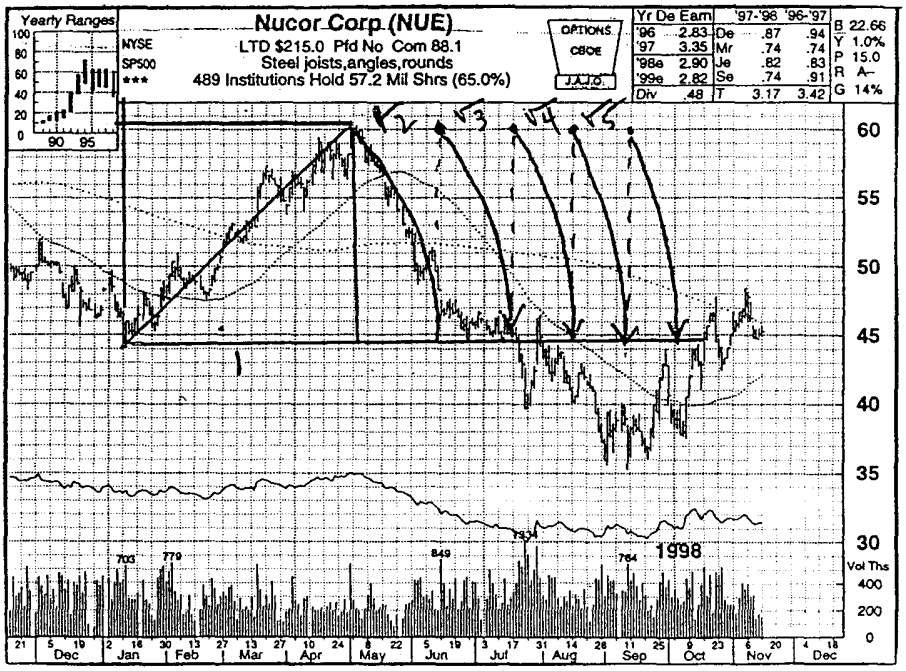


Chart #159 shows a square drawn about a low to high swing, and the diagonal is swung down so that the baseline is now the length of the square root of two. A line goes straight up from that point, expanding the original square by the square root of 2. The process is repeated for the square root of three, four and five and successive diagonals are swung down from each new expansion.

Chart 160

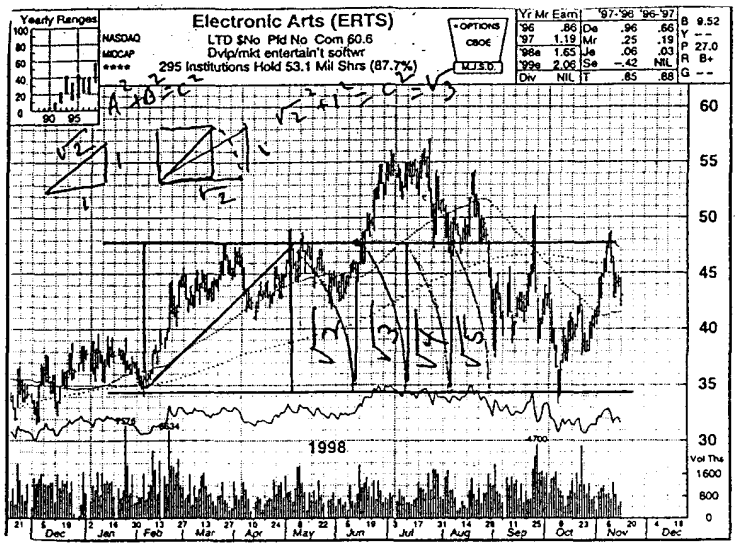
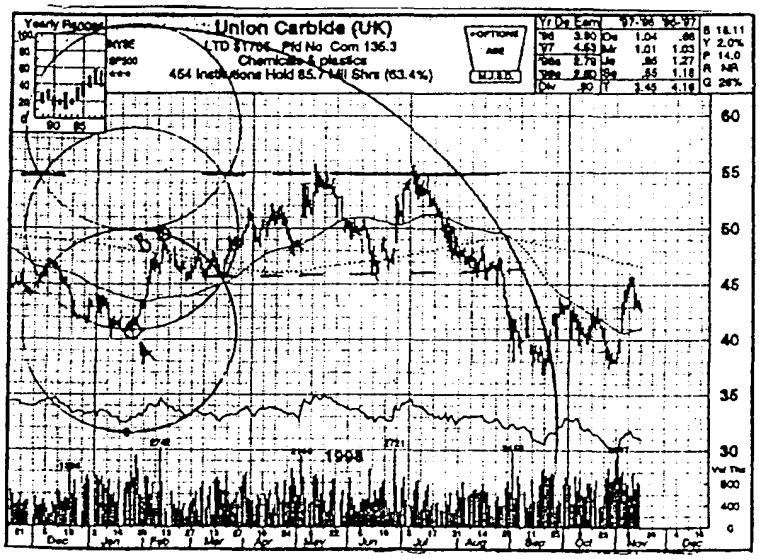


Chart 161



Another example of square root expansion is shown in Chart #160.

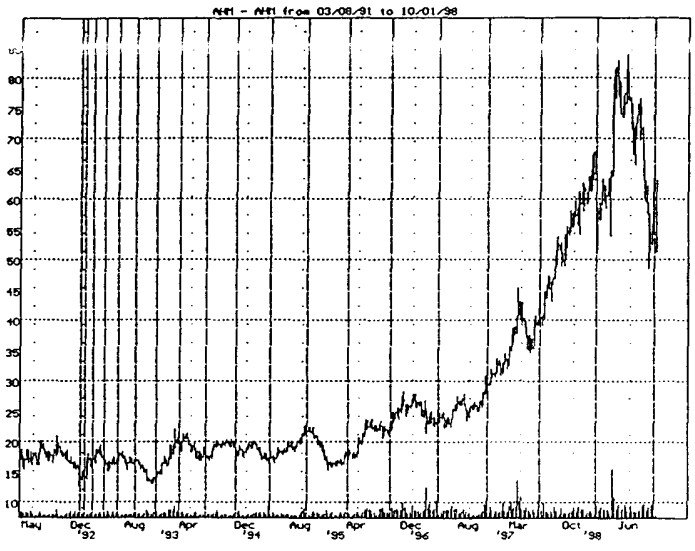
Chart #161 shows a circular arc from A to B and then expanded using the point directly above A but on B's circumference. That creates a second circle and then a third. Finally, an arc from the bottom below A to the top completes a 4xAB arc. With practice

you will see that most charts expand through these geometric figures and the most important ratios are the square roots of two, three, and five. I might add that the square root of five is most important and is the basic derivative of the Fibonacci ratio.

I don't want to waste too much time in this book on Fibonacci numbers, since there are literally hundreds of books written on trading the market by these numbers, but I will mention a fact that most charge thousands of dollars to tell. That is, that most expansions in the market terminate at a Fibonacci ratio of Phi cubed or 1.618x1.618x1.618=4.236 times the original impulse wave amount. If the first thrust goes $5 then the top is $21 from the low (5x4.236). This ratio is also applied to *time.*

The natural integers 1, 2, 3, 4, 5...*squared* (1, 4, 9, 16, 25...) provide some of the easiest and most dynamic cycles you'll find and if you wait for them big trades are almost always certain. From any major high or low you just maintain a daily, weekly, and monthly count of 3, 9, 16, 25, 36, 49... cycles and watch to see what happens. They will usually coincide with other measured moves, or 45-week harmonics, or planetary movements and then the trade will be certain. These cycles can go both forwards, and backwards. The easiest way to keep track is with a spreadsheet, or computer program, or a "tape ruler" made from the bottom of the chart you are maintaining. When you slide this tape back and forth over your chart the cycles will line up and you can mark cluster points on your chart for the time in the future when many cycles will come out in a short span of time. The next few charts show natural square cycles from low points both forwards and backwards. Note that most of these cycles actually get stronger as they go further away from the origin point! This also ties in with the Gann Square of Nine idea that odd squares starting new cycles cause bigger movements on the wheel as the price advances.

Chart 162



We see in Chart #162 vertical lines representing natural squared *weeks* from a low. The "hits" are pretty close, but also note that sometimes the mid-point between the squares is a turn.

Chart 163

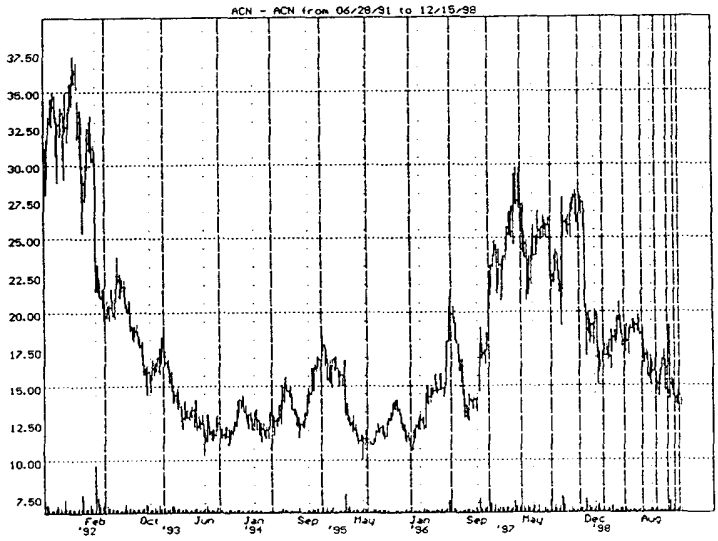
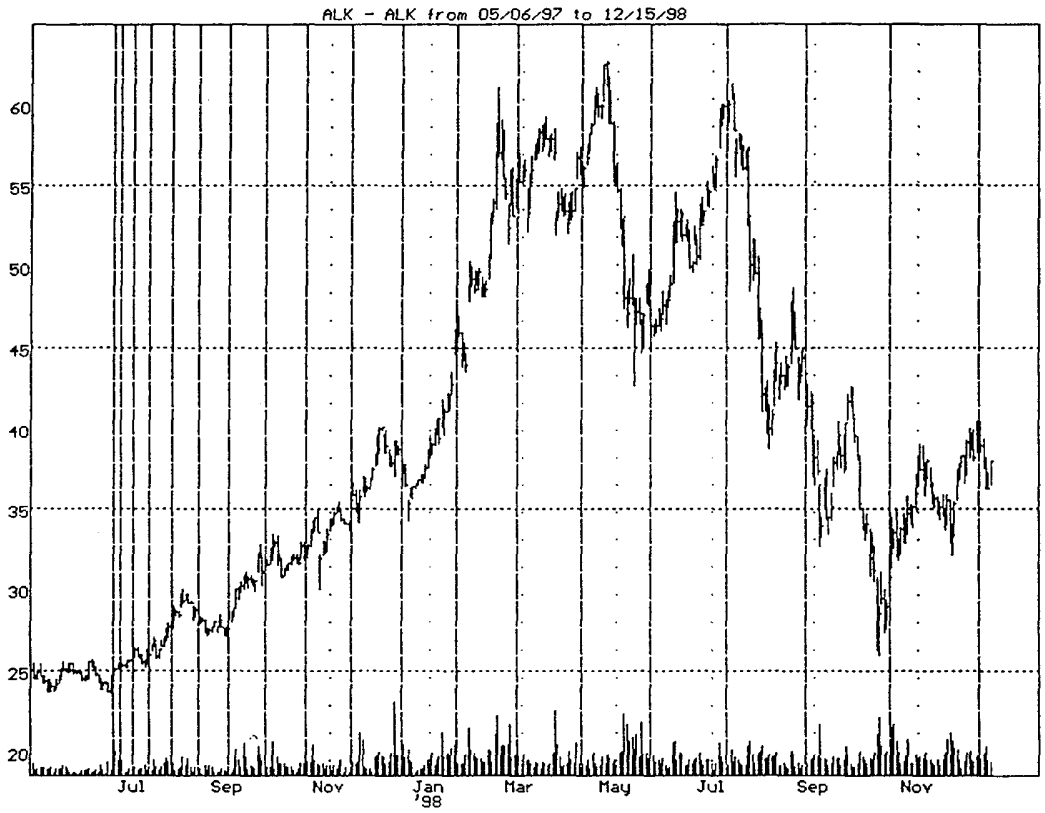


Chart #163 shows natural squared weeks going *backwards* from today's date. This implies a new cycle is just about to begin, and from the looks of the chart it could be a nice higher bottom and a new bull move.

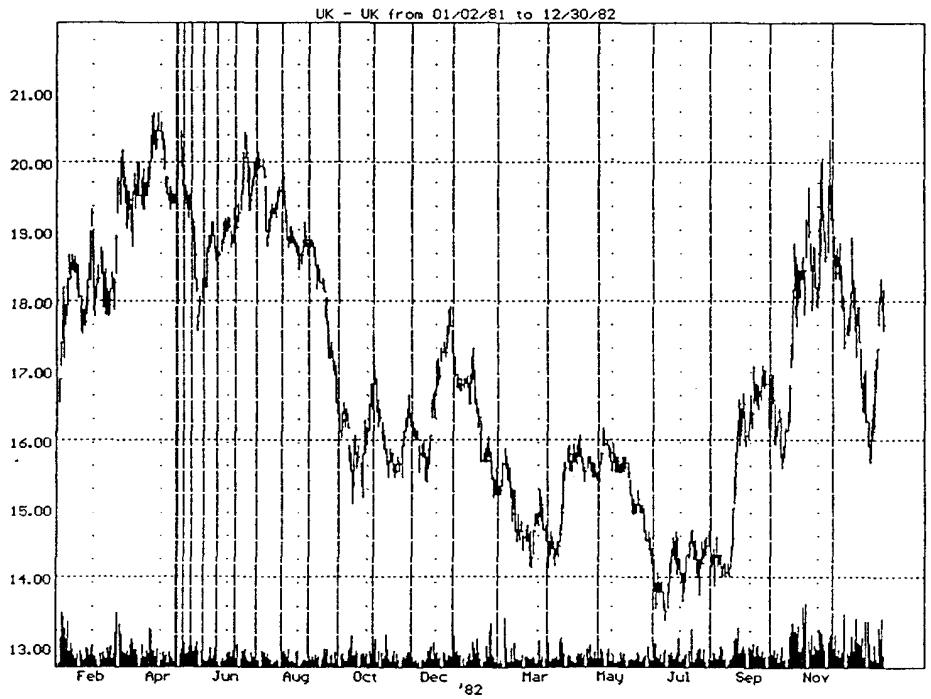
Chart #164 is the typical chart of natural *days* squared going forward from a major low. Note again how as you get farther away from the origin the cycles get stronger and give greater moves in both time and price.

Chart 164



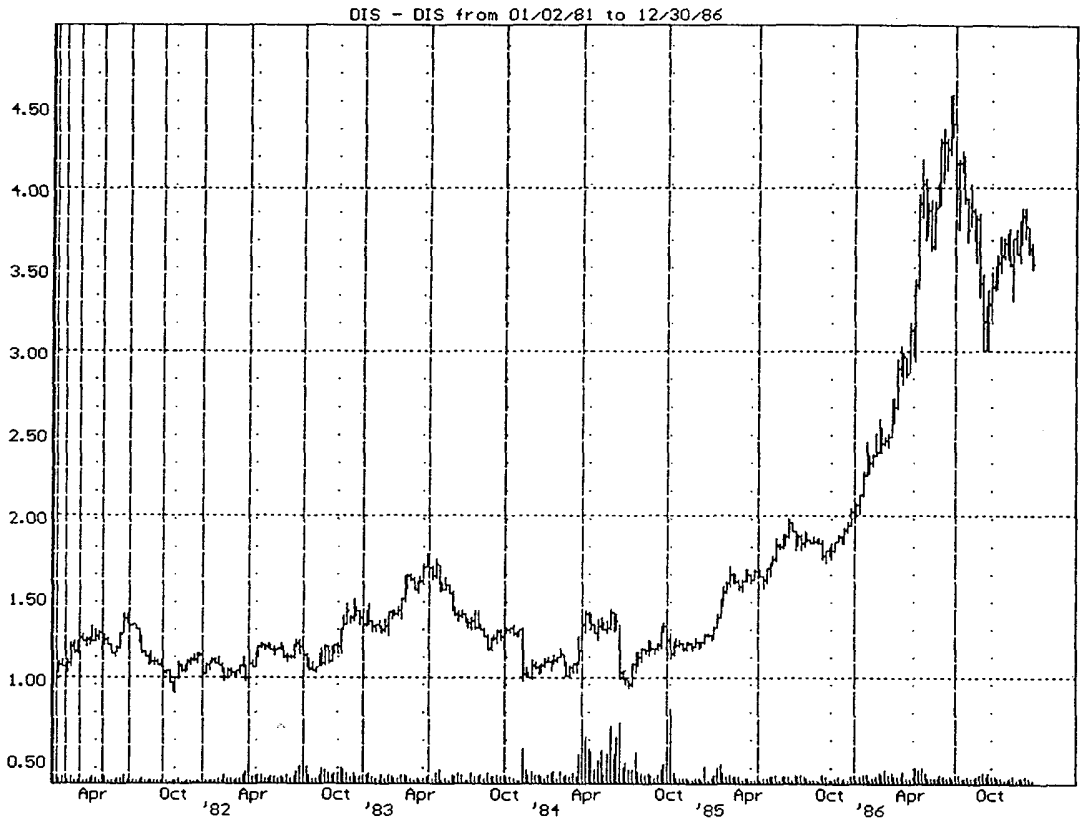
The prior charts show a simple method to keep track of cycles by just using natural squares, but many of us want more. We want to know why? The answer may never be proven but to Gann and to myself the answer lies with the planets. Orbital periods are squares and the formula for gravity is an inverse one demonstrating a square of the distance force. It's reasonable to assume the planetary movements are the cause, especially if you study the next several charts. On the next charts, instead of just starting the natural square cycle from the date of the high or low, it is started from a planetary aspect, in this case the Jupiter/Saturn conjunction of April 15, 1981. In some cases you'll note (like IBM) there was no discernible high or low on that date. I mentioned this problem with cycles previously in that the difficulty is always finding the origin and if it doesn't come from an extreme you might not locate it unless you use planetary aspects. As you'll see in the charts, however, almost all the future cycles come out very closely if you use the planetary starting date. Chart #165 is Union Carbide from April 15, 1981. I'd say those daily turns are pretty close for a simple natural square method!

Chart 165



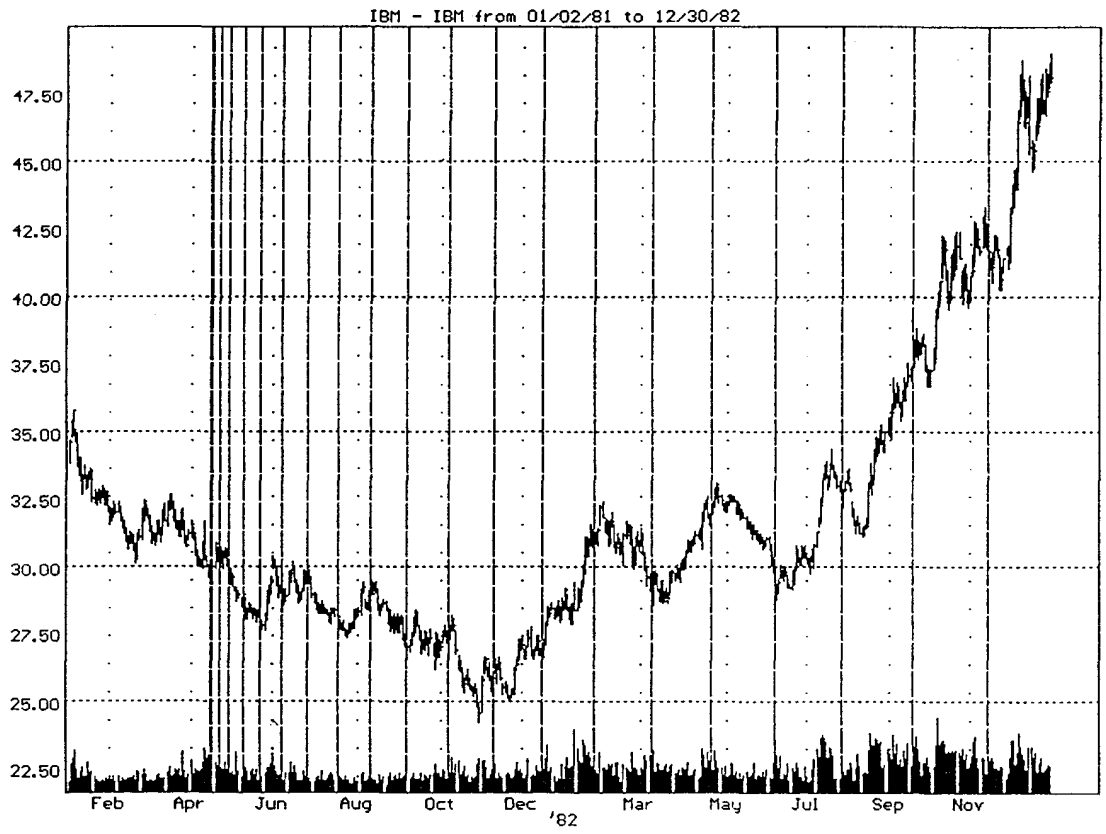
We see Disney in Chart #166 on a weekly basis with natural squared weeks from April 15, 1981 through the end of 1986. The turns were off by about a week at times, but there were very big moves just before or after the turning point dates.

Chart 166



IBM going into the October '81 low is shown in Chart #167. Note how April '81 was a nondescript point on the chart, but nevertheless does spin out adequate natural squares in day cycles from that origin.

Chart 167

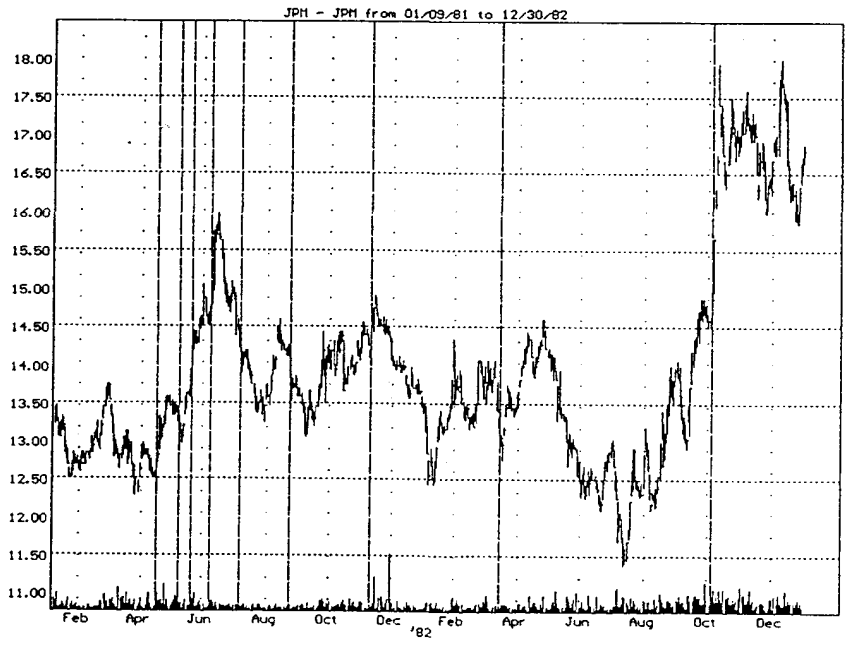


I've mentioned Fibonacci numbers and the golden ratio appears everywhere in nature, with various studies linking this ratio to planetary combinations apart from the obvious Venus orbital period. If you will recall the whole Gann idea was to translate planetary longitudes into prices on the date of the planetary aspects. If the planets are expand-

ing at Fibonacci ratios, and if they have translated a stock's price into orbital information, then we should see a Fibonacci price/time expansion in the chart. We take the price of low, which by definition was a translation of longitudes on that date of the aspect between two planets, and then we expand it by 1.618 and take that expanded number as a *time* period. If the price were 10, *after the first square of ten* we then expand it to 16.18 and *16.18 days later* is our next time cycle. We then expand that 16.18 days by 1.618 to get our next time cycle date (26 days). This is what I have done in the next charts and you can check by measuring with a ruler the distance between the vertical lines, which should be 1.618 ratios. The important thing to think about is that the *origin is a planetary aspect,* specifically the Jupiter/Saturn conjunction of April 1981 (*helio 4/15/81,* geo 3/04/81). The implication is that the planets are indeed the cause of these cycles. You be the judge, here are the charts:

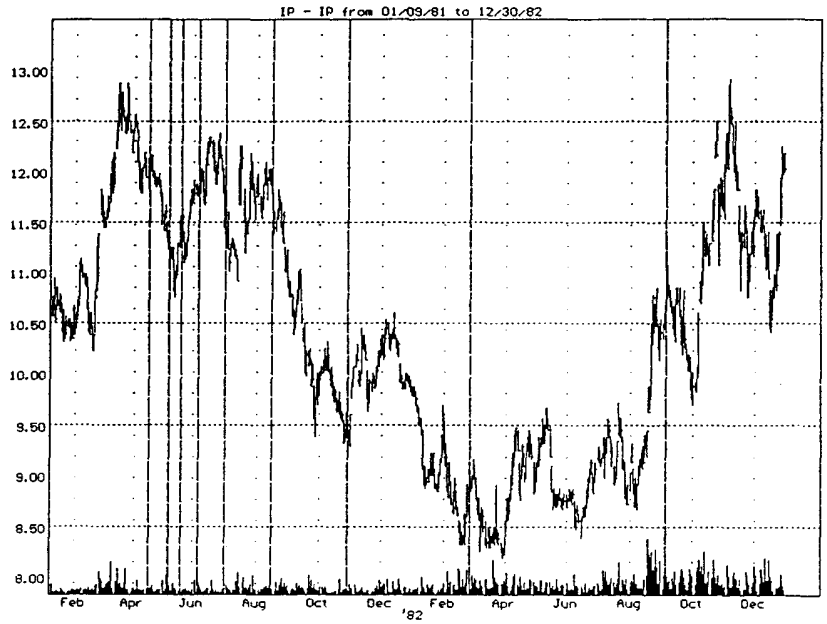
1.618 TIMES PRICE ON 4/15/81 EXPANDED IN TERMS OF DAYS.

Chart 168



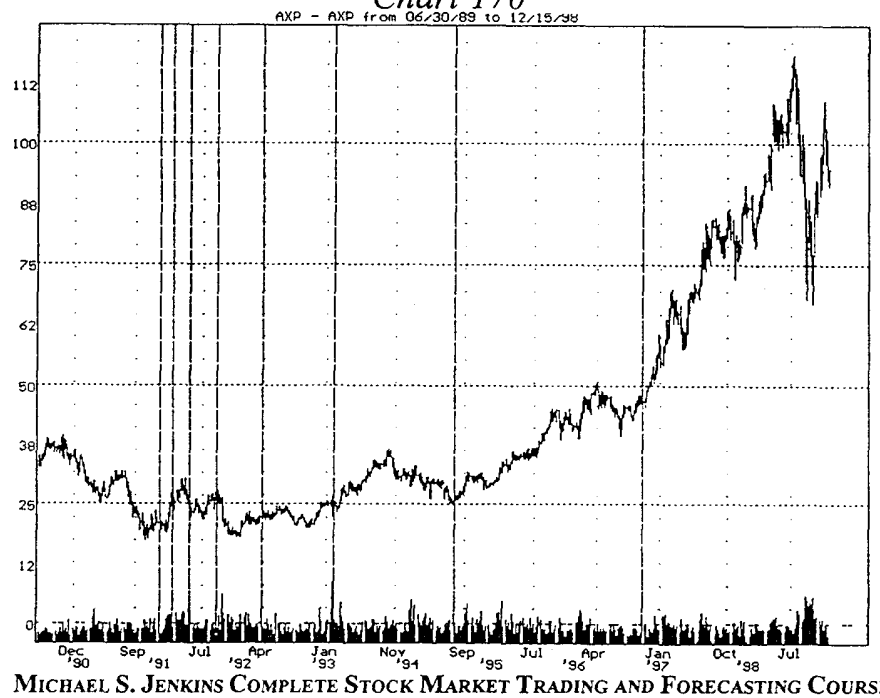
1.618 TIMES PRICE IN DAYS FROM 4/15/81.

Chart 169



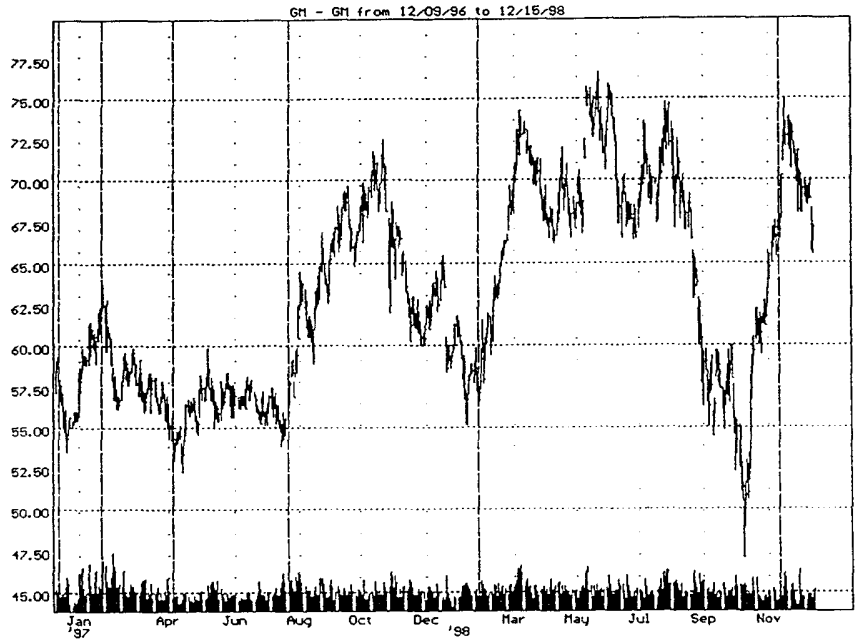
1.618 TIMES PRICE IN *WEEKS* FROM 9/15/90 JUP/URA 150 DEG

Chart 170



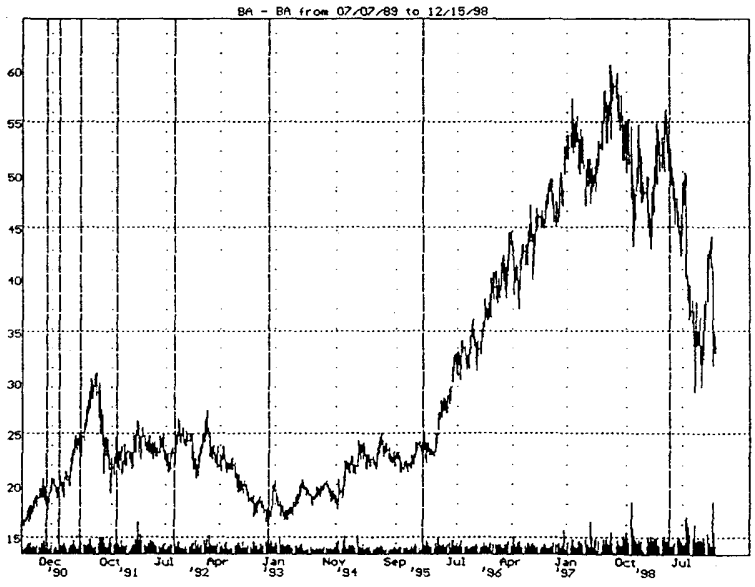
We see in Chart #171 General Motors' daily chart with 1.618 times low expansions coming from a cluster of four planetary pairs of Jupiter/Saturn/Uranus/Pluto all coming within two weeks in August/September 1996.

Chart 171



BA WEEKLY WITH 1.618 TIMES LOW IN OCTOBER 1990

Chart 172



Charts #173 and #174 are two examples of the 45 and 32-week cycles *going in the same direction,* and thereby providing an accurate forecast of the coming few weeks. Usually one or the other of these cycles will be the dominant one, but when they both go together they can be very reliable.

Chart 173

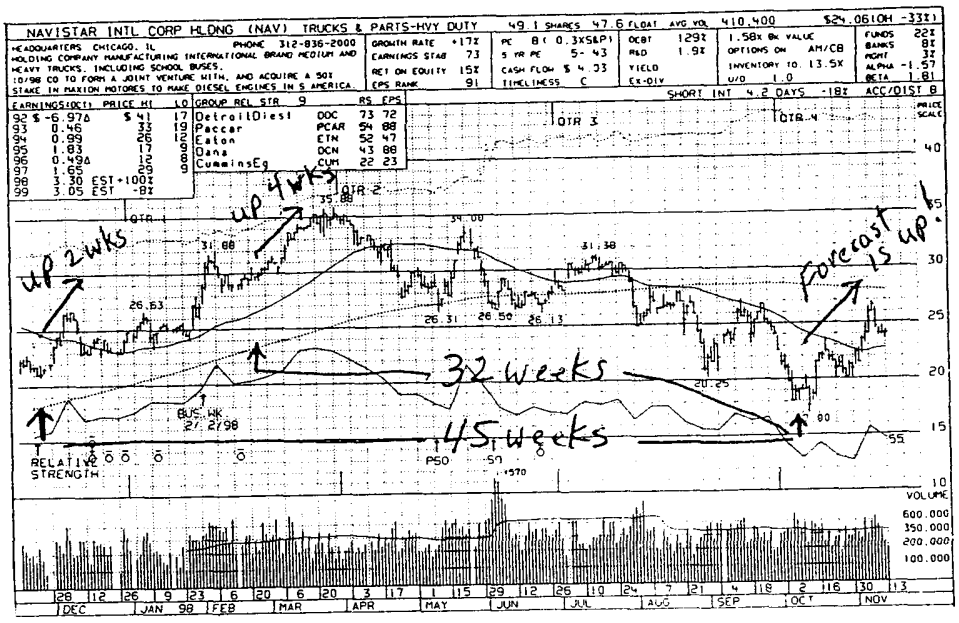


Chart 174

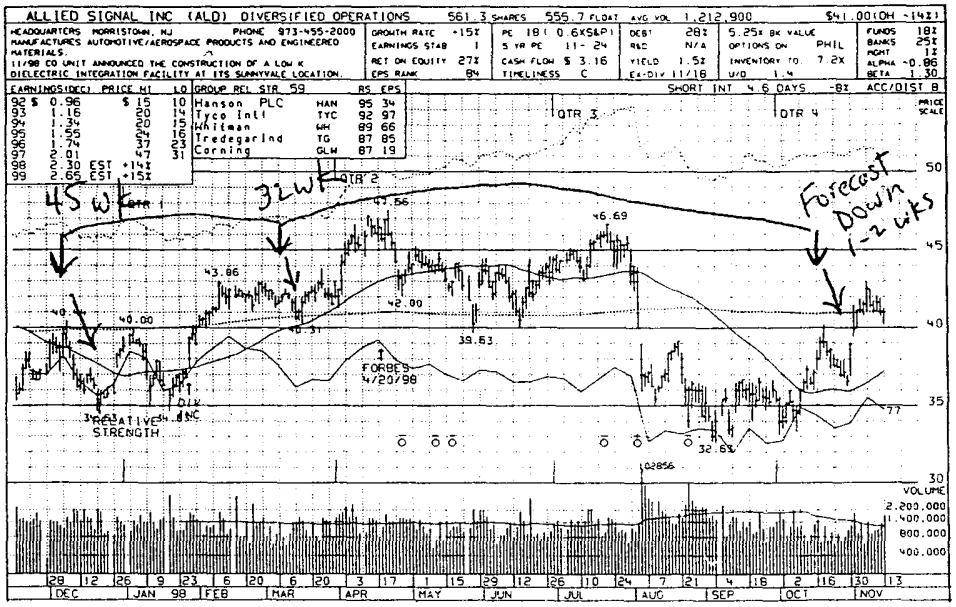


Chart 175

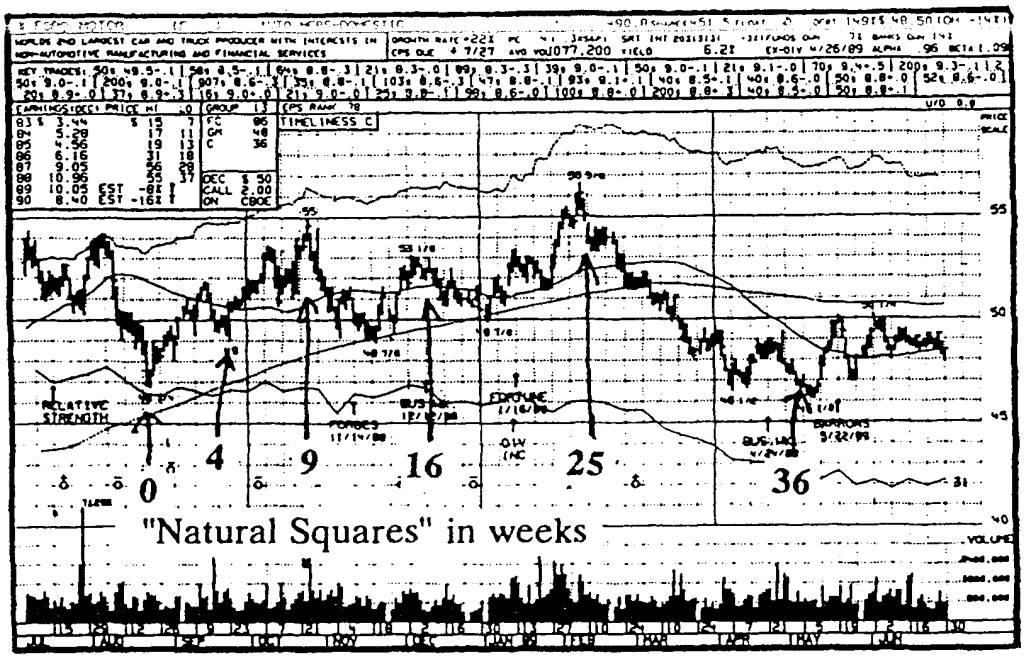
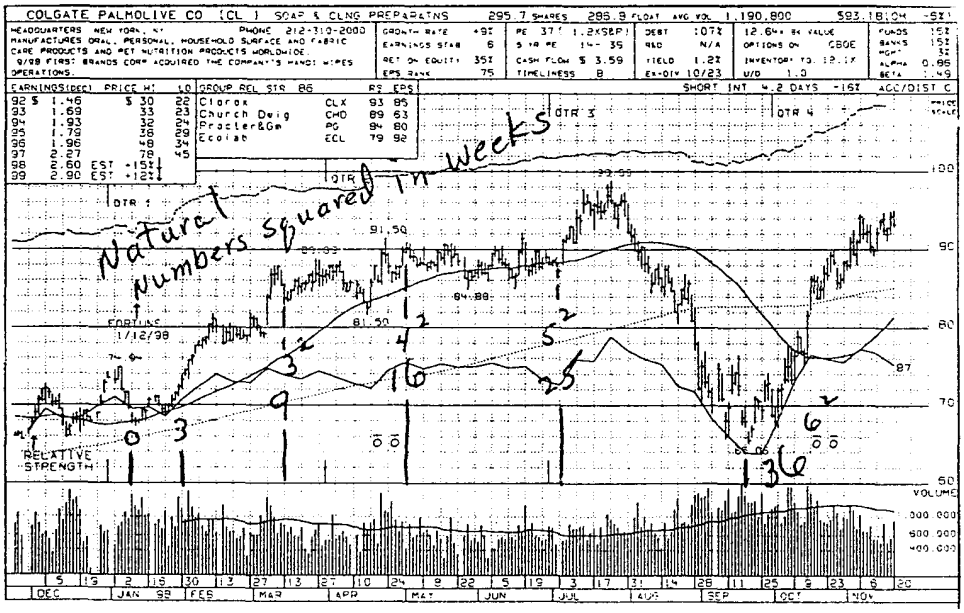
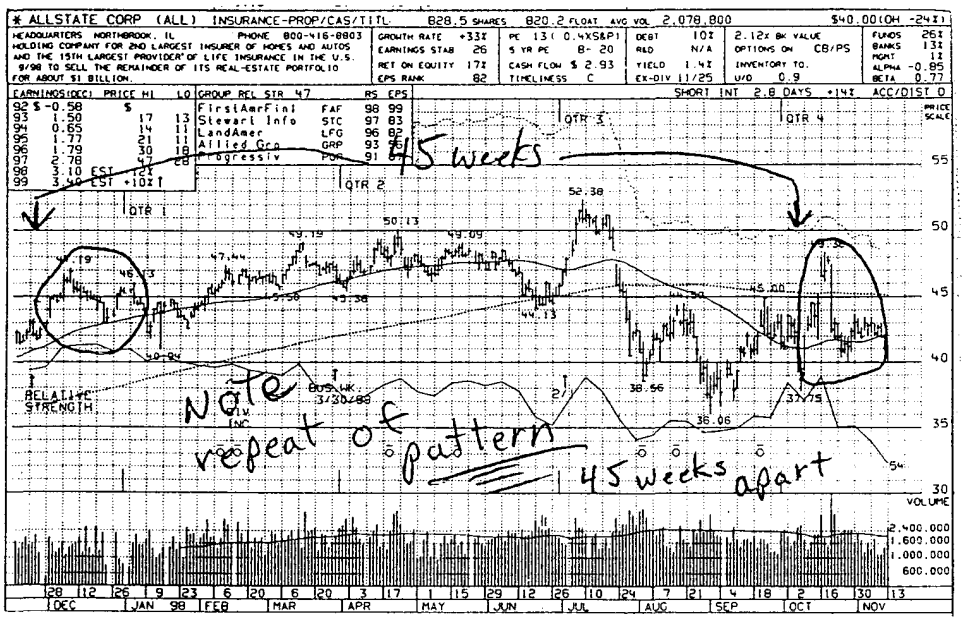


Chart 176



This chart is an example of the 45-week cycle and how the market often repeats identically, or identically backwards, at 45-week intervals. In this case the pattern repeated as you can see, and notice how each subtle nuance of the pattern was recreated 45 weeks later. Remember the pattern is a vector move so the first was a drift after the high and the second a plunge but the high to low sequence is intact and the shape is identifiable. That proves the cycle is still working. I use this cycle to focus in on stocks that had lifetime major moves 45 weeks ago, and then I watch for another repeat of this cycle so I can trade those big moves.

Chart 177



Chapter 12

MIRROR IMAGE FOLDBACKS

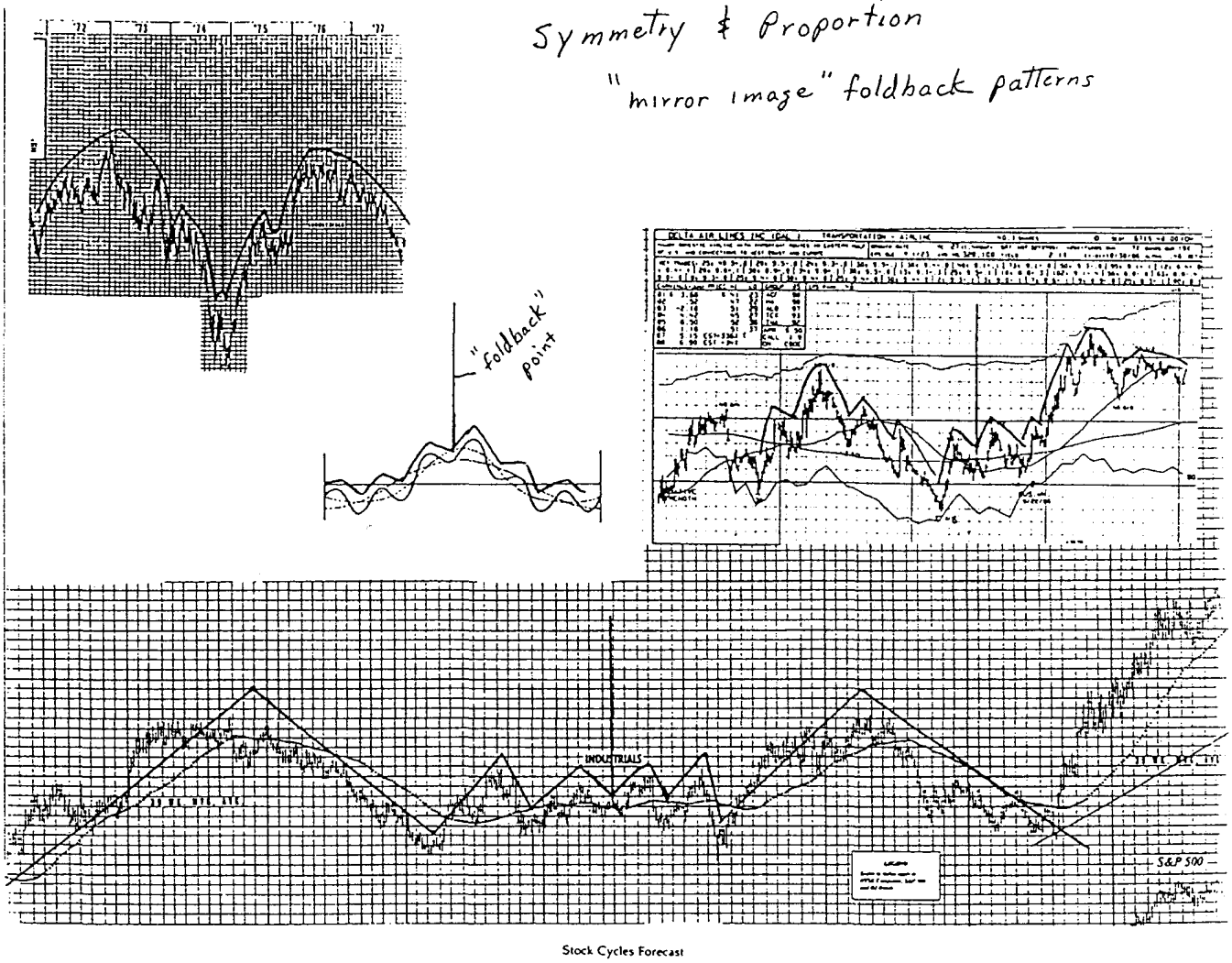
When I first started professionally working in the stock market I was a fundamentalist with degrees in finance, an M.B.A., had just passed the Uniform C.P.A. exam, and could read balance sheets like any of the best analysts. I looked at technical analysis and enjoyed charts, but like others I thought it was just trendlines and moving averages. I then started studying cycles, which changed my life. One realization came to me when I looked at some past charts. The 1973-74 bear market chart looked a lot like 1969-70 and as I looked at '73 and '74 I saw that '74 was an exact backwards replica of '73. Much later, after I started studying astrology in depth, I found out what was causing the pattern to reverse, and I saw clearly how long term forecasting could be accomplished with remarkable accuracy and consistency. This is not to say that it's easy, or that you can't get confused with all the cycles going forwards and backwards, but many patterns are clearly identifiable and can be used for years at a time without being off by more than a few weeks. After studying the problem for about ten years, and just calling them foldbacks, I moved to New York in 1984 and that year made the acquaintance of one of Wall Street's grand masters of technical analysis, the late George Lindsay. George had been producing a newsletter called "George Lindsay's Opinion" since 1951 and had experienced notable success in calling market tops and bottoms months ahead of time. His success largely went unnoticed until late in his life, when he made a great call on the TV program Wall

Street Week. I met him because I was trading proprietary capital for the firm he worked for and some of the partners knew I also did similar technical work. George, it appeared, had been developing a system of predicting highs and lows based on what he called "mirror image foldbacks." I asked him at the time if he was using astrology and he said that it sounded interesting, but didn't have the slightest knowledge of the subject, though he was willing to learn. George had been interested in numbers and in his youth, wanted to be an architect. When he stumbled on the foldback pattern in charts he meticulously set up work papers to track every foldback possible for the past hundred years or so. The idea basically is that all final highs and lows fold back about those points and as they go up, they go down in the same fashion and vice versa. If a low was December 1st and it led to a final rally that culminated in an all time high on January 1st, then he would start with January 1st and January 2nd, 3rd, 4th etc. would be graphed as if they had the prices of December 31st, 30, and 29th. The price patterns would just "foldback" about the spike high or low and these patterns could last years. Indeed, many basic advances in George's work went 12 or 15 or 18 years in a foldback before changing again. If this was all there was to it, it would have been easy, but every six weeks or so another high or low would fold back the other way. If you just concentrated on bull and bear market beginnings and endings this century, your work papers would have perhaps 50 different starting points that were folding backwards and forwards all at the same time. Keeping track was the problem. Though George kept very detailed, meticulous papers, this process is very cumbersome and confusing. Before we get into details, however, let's look at some examples of foldbacks, so that you know what I'm talking about.

Several examples, Charts #178, #179 and #180, show foldbacks on the market averages and an individual stock. As you can see there is a symmetry about a central inflection point and the price structure repeats backwards for long periods of time, which

makes the pattern an ideal one to forecast the future. If you can locate the proper foldback point then the pattern will work for months to years. Much experimentation is necessary, however, to find that point. Usually you start from a major high or low, but George Lindsay would find the *first weak day* after a top to start the count. Sometimes the spike high was just excessive momentum, or an aberration, but real selling after a technical top was

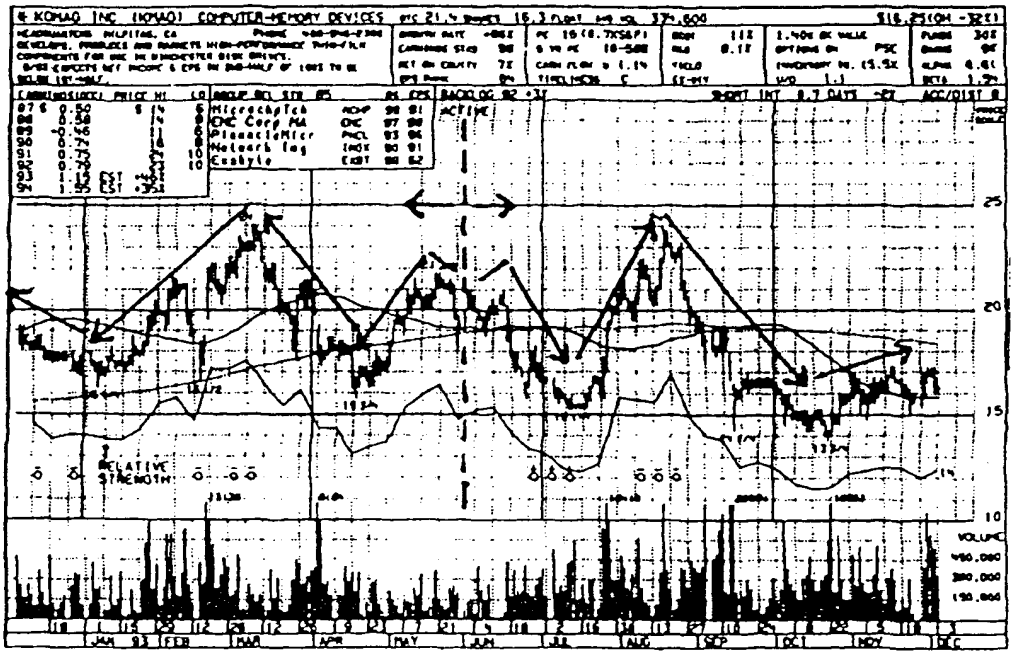
Chart 178



in, usually resulted in good counts. Of course, you know by now that I favor a planetary approach, so that I would first look for planetary conjunctions and oppositions to find that point. The theory is that if Gann's idea about translation of planetary longitudes into price was correct then when planets approached a conjunction, and then separated, or did the same with the 180 degree aspect, the numbers coming out of such patterns would be the same and the foldback should work. This is largely what happens, though there are always multiple aspects and retrogrades to deal with.

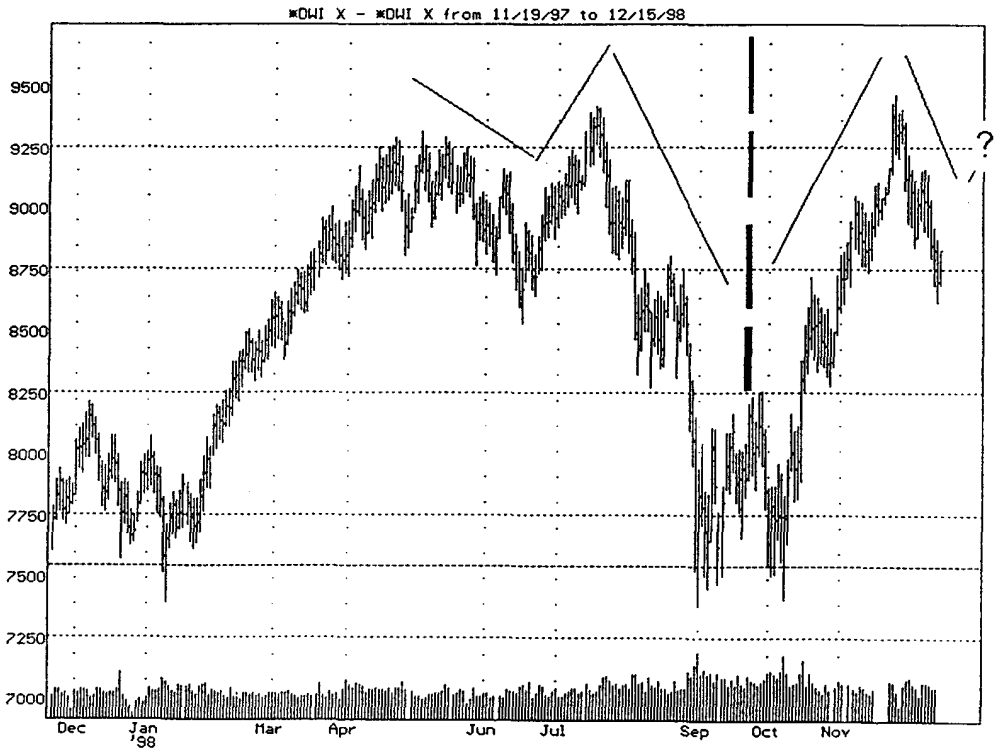
TYPICAL STOCK FOLDBACK IDENTIFIED WITH "MEASURED MOVE" VECTORS

Chart 179



DOW JONES FOLDBACK IN SEPTEMBER 1998

Chart 180

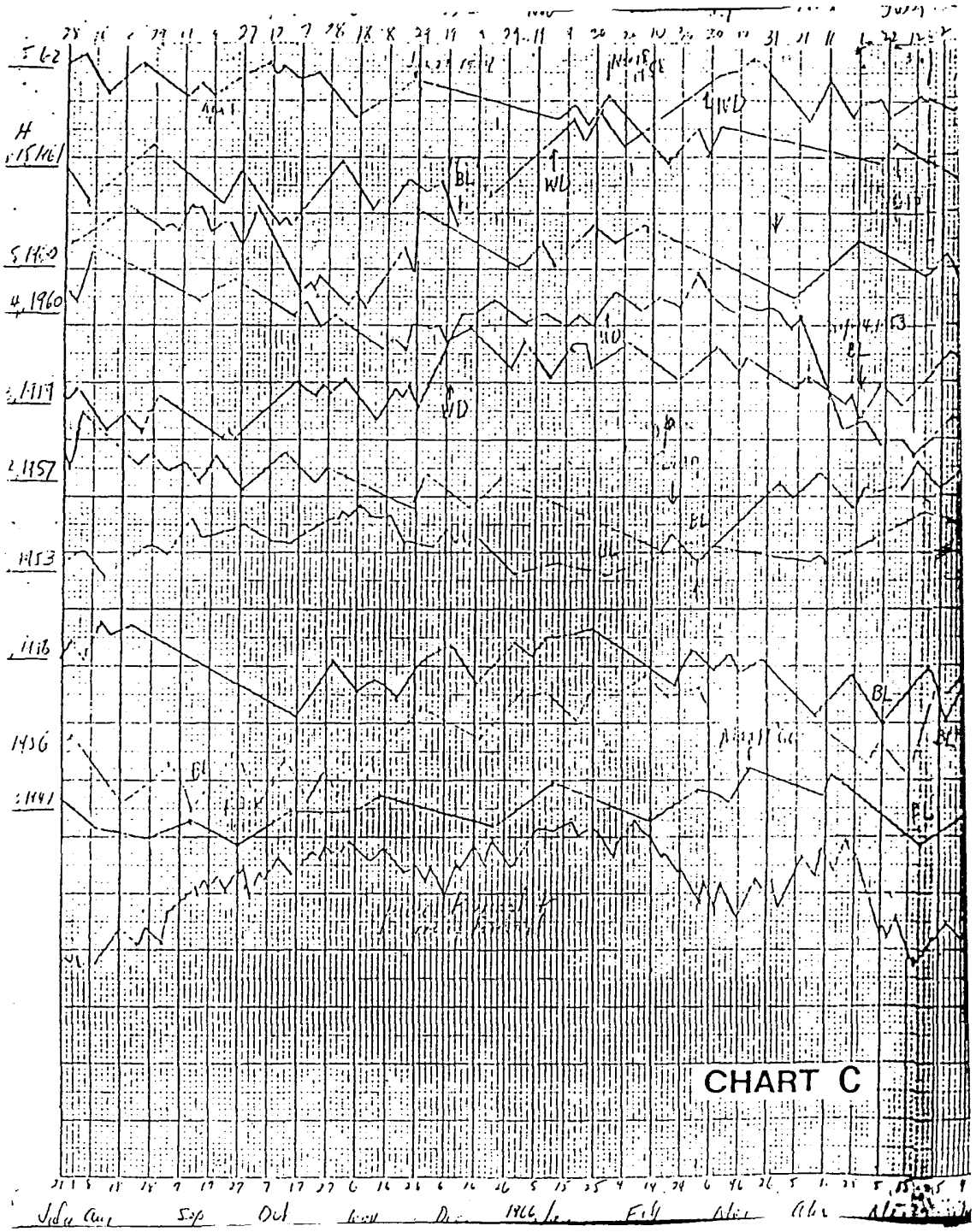


Let's examine some simplistic number foldbacks by just counting days, or bars, before and after a high or low, to see the basic technique. We'll deal with the planets later. The first decision must be whether to use calendar days or trading bars. I've used both and prefer calendar days to tie in with planetary action, but I have seen many patterns that can be considered nothing else but numerological in origin and they have repeated for years. In mathematics they have a phenomena known as palindromes, which are a series of numbers that repeat after several digits, and these patterns repeat often, or they change slightly and repeat again. This doesn't seem to be caused by planets, so I think we may be dealing with two distinct phenomena. In any event, we need to find some methods to identify and

forecast these patterns, so that we can trade stocks with them. George Lindsay's approach was to use spreadsheets and line up on January 1st each year the starting point, going backwards from every bull and bear market working in a foldback manner over the past several years. For instance, if two years ago the market topped on November 1st, on January 1st of this year, you would be two years and two months back further from that original high (September, four years back), and folding back as each day goes forward. You would plot that for the whole year and you would do it for all cycles. When you finished you would have all kinds of lines going up and down, month by month, and these would be the cycles for this year. Where three or four big clusters came together in the same direction and then reversed on a date, you would expect a turn in the market. Chart #181 is a chart that George used to explain his method, in a pamphlet entitled "The Proprietary Timing Methods of George Lindsay" that he sent to his subscribers in 1979. The copy is not very legible, but the point is simply to show how he lined up many years of stock prices in a backwards fashion to try and identify clusters of points where major turns would be found in the coming year. This is similar to W.D. Gann's method of lining up the 10-year cycles, one on top of the other, to look for common anniversary dates. George did more work, however, and found a long sequence that took the form of a wave pattern. Without getting too far afield, he noted that a major high almost always occurred about 15 years plus a few months after a major low, and a bottom 12 years and a few months after every top. These time periods seemed to suggest the use of astrology behind the method. Saturn reaches its opposition, or 180-degree angle, about every 15 years and Jupiter has a twelve-year cycle, but I also noted on George's papers highs and lows that were exclusively tied in with a Jupiter/Pluto cycle. At any rate, George hadn't studied astrology, but simply kept up the charts, and they worked well for him for over 40 years.

GEORGE LINDSAY'S FOLDBACK WORKPAPER

Chart 181

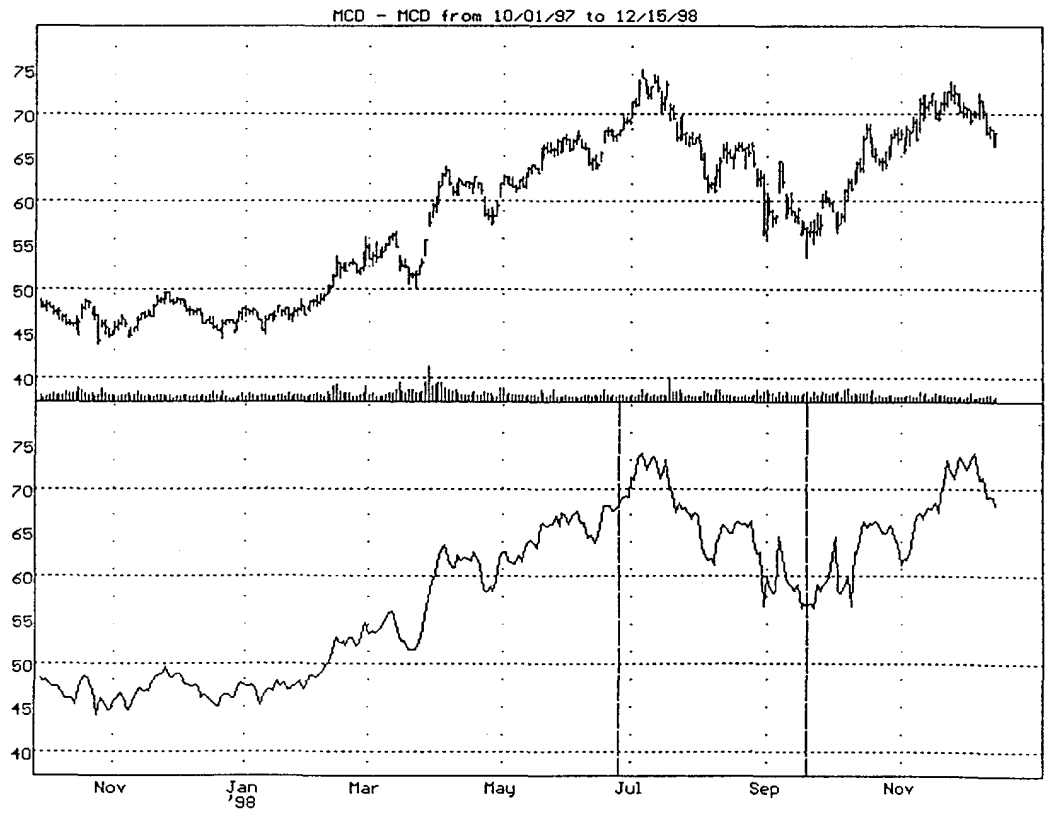


Mirror Image Foldbacks

These next several charts show a computer program I use to filter charts for patterns, and the computer simply takes highs and lows and folds the bars forward after the foldback point. To this extent it's related to bar counts and doesn't always give good results, but it's a good tool to warn of potential big trades coming up.

Chart #182 is a daily chart of McDonalds, and the upper half shows the actual chart, while the lower shows the foldback pattern. The foldback occurs at the point of the furthest line to the right, and as the chart moves to the right the prices are coming from the

Chart 182

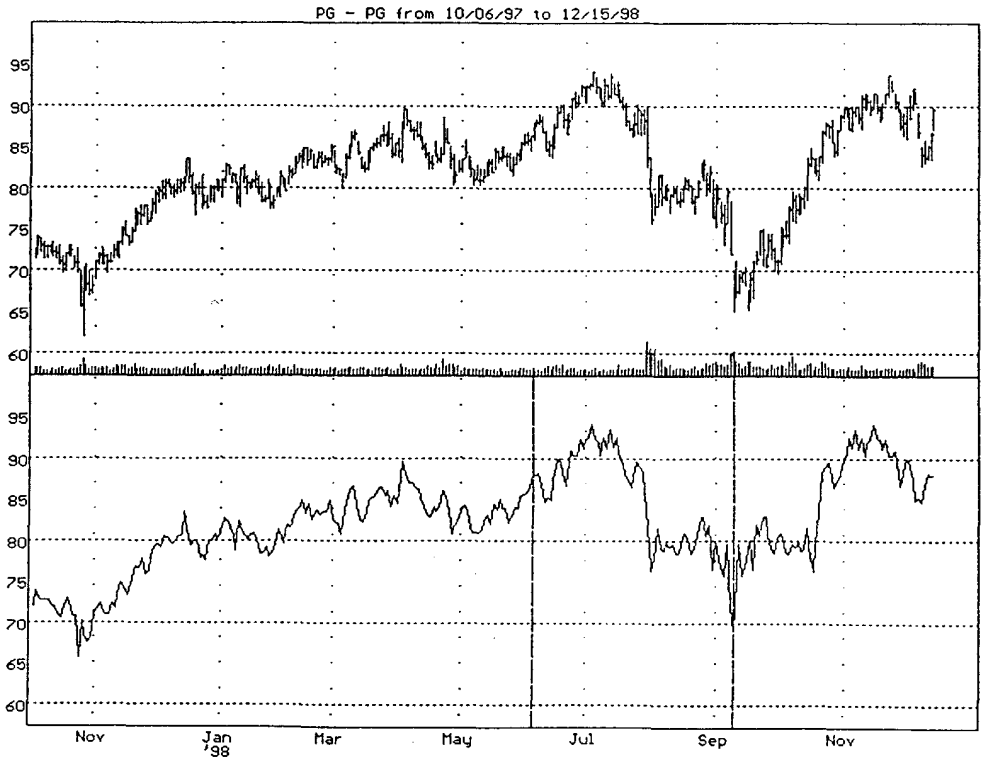


left. That first line on the left at the far right of the chart is the end quote where we should today be folding back to the left. In this case it shows the top just being made and a

possible long decline just ahead. One of the biggest problems in using cycles, and foldbacks in particular, is what we call cycle inversions. These are places where the predicted pattern comes out exactly backwards from what was expected. If the foldback shows straight down, the actual chart may go straight up. It's not a hopeless situation, however, since when it does happen, it usually goes the same vector distance forecast in the pattern, and the direction will stay in that direction until the next foldback point. It is the foldback points where you have to pay close attention, and if the pattern seems to be working coming out of them, it will usually work until the next point.

Another example of a daily foldback, in this case with Proctor and Gamble, is shown in Chart #183. Here the foldback has been working for almost three months, and

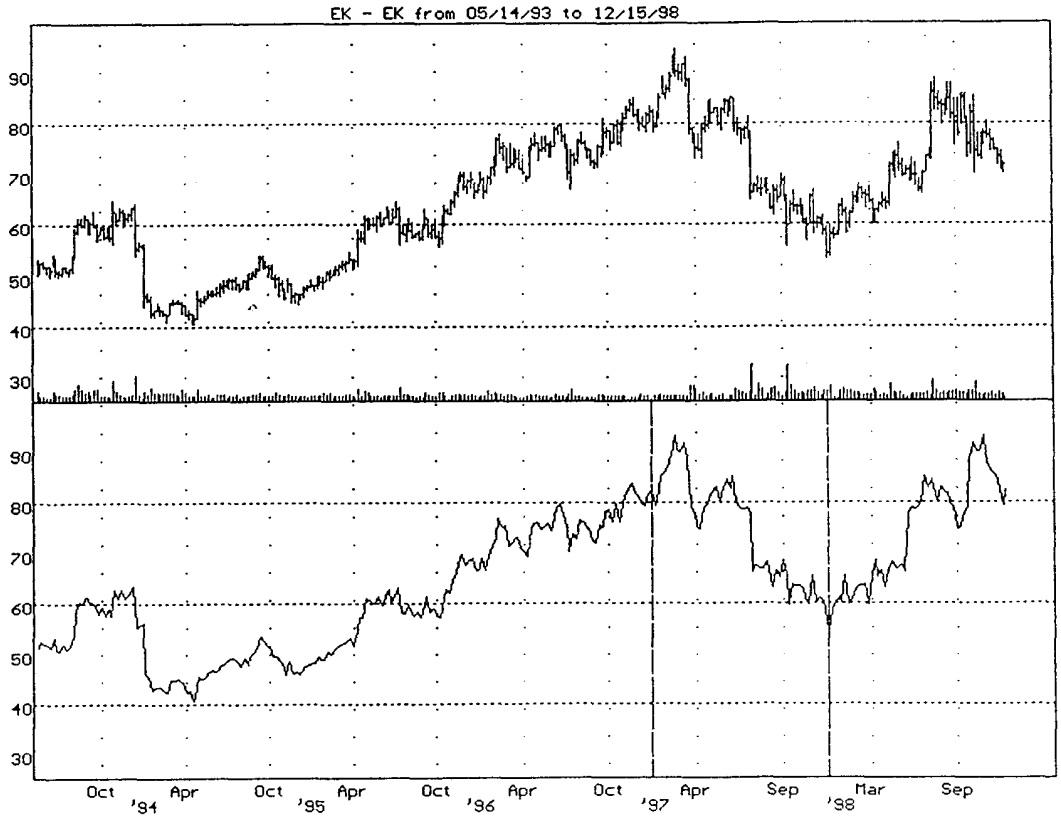
Chart 183



after the next turn we'll see if it's long term or just temporary. In any event, I'd be cautious before I went long this issue, even though the classical chart interpretation would predict a new all time high just ahead on the next advance. If that happens, I'd abandon the foldback, but I'd hesitate here knowing what I do.

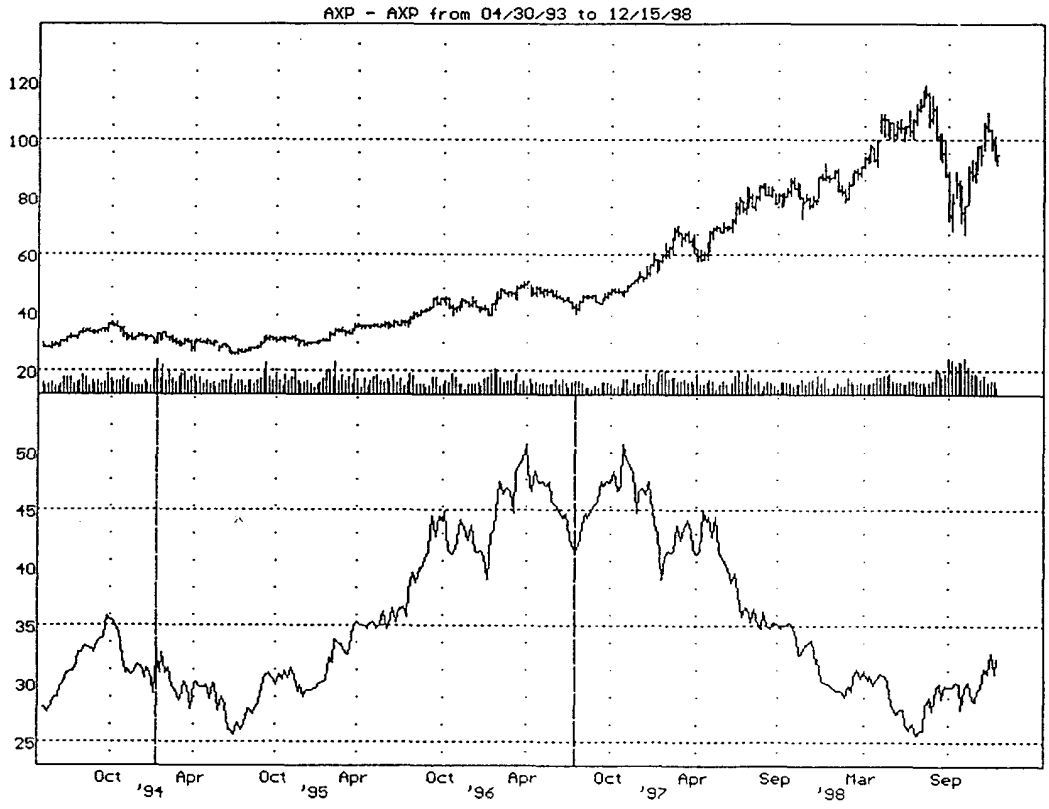
Chart #184 is a weekly chart foldback of Eastman Kodak that has obviously been working, and if you use weekly or monthly foldbacks, you will by definition discover longer time frame moves that are good for several months at a time. It's always best to concentrate on long-term charts when picking a stock to day trade. If the long-term trend is up you can buy every dip, and the few times you are off by a few days the trend will bail you out anyway.

Chart 184



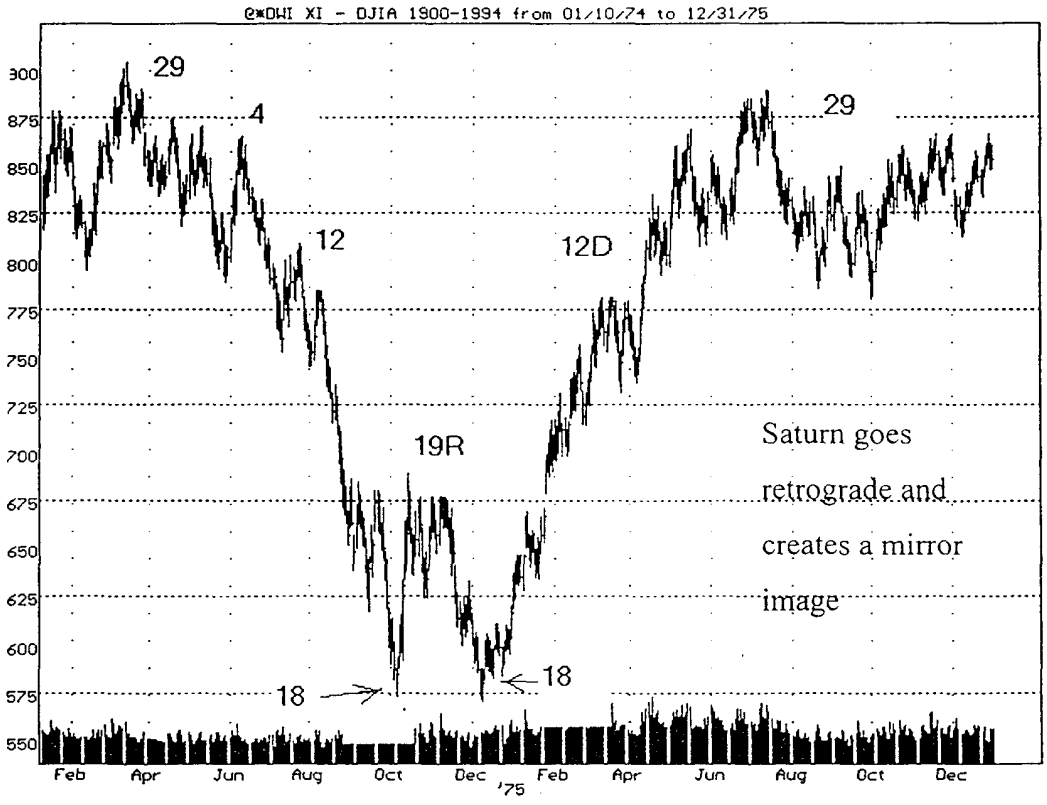
An example of a cycle inversion on a weekly chart of American Express is Chart #185. Note how the low folded back down but the stock went straight up. Also observe how at the time of the final low on the foldback the stock made its final high. This type of exact opposite pattern can still be valuable for trading once it consistently diverges for several months. You then go with it and don't expect a trend change until the next major pivot point.

Chart 185



Planetary foldbacks are easily anticipated, since all we have to do is look in the ephemeris to see a conjunction or opposition, or a major planet going retrograde, or direct. Once that happens, we continue to observe the chart's pattern. Sometimes the foldback will take the form of a critical degree as I saw in 1974 with a foldback of Saturn at the critical degree of 15 to 19 degrees Cancer. By the way, when Saturn moved 90 degrees from that big low in 1974, it was August 1982 at 15 to 19 Libra! Chart #186 shows the 1974-75 Saturn retrograde foldback with the degrees during each time period. If you look in an ephemeris for that time period, you'll plainly see Saturn advancing through the sign of Cancer (which plays a very prominent role in U.S. economic history), and if you look at October 31, 1974 you'll see Saturn change directions by turning retrograde, and start going back up the same number of degrees in January, February, and March 1975 that it went down in August, September and October 1974.

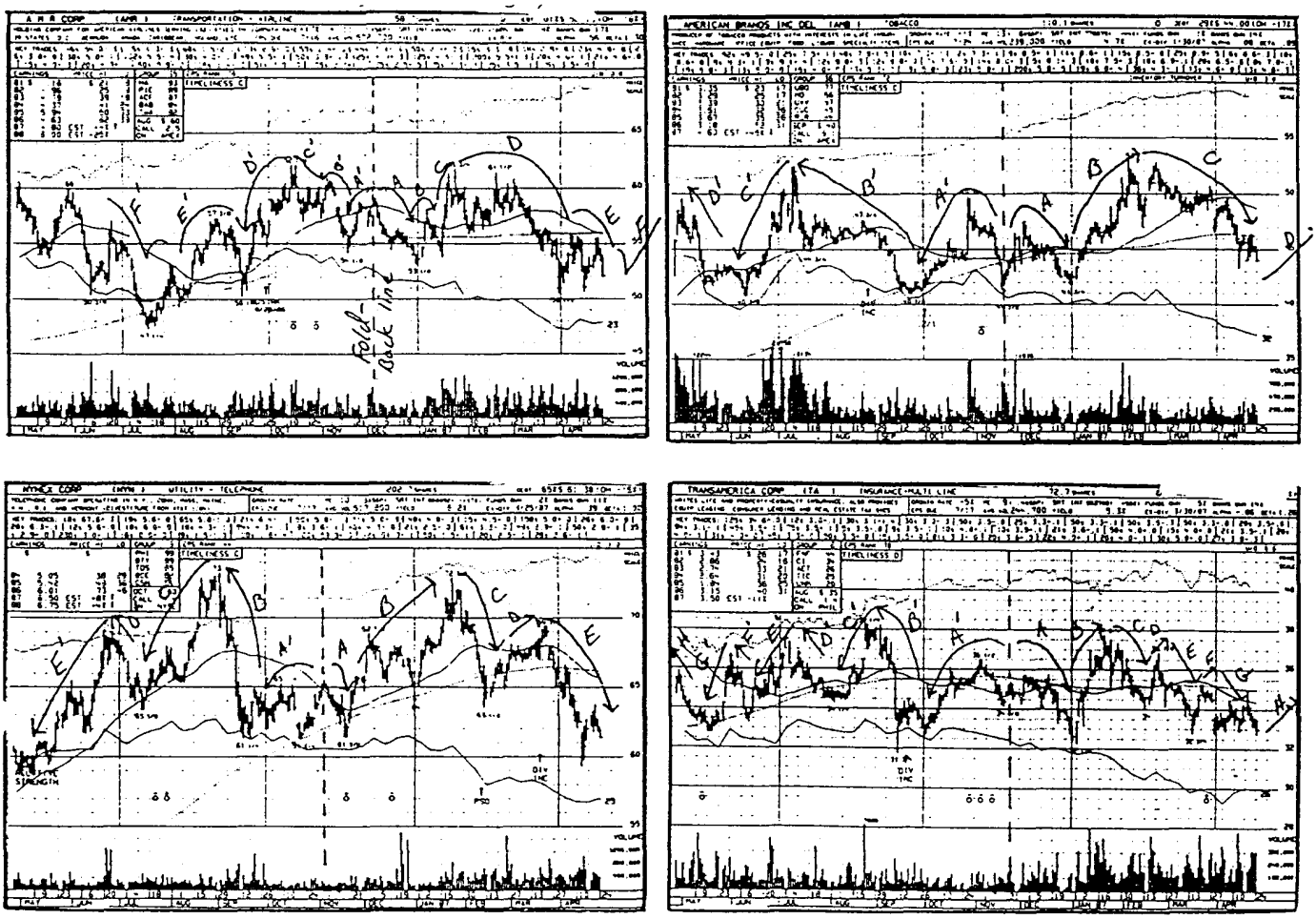
Chart 186



After noticing this important foldback point of 18-19 degrees for Saturn, I then checked for other dates when it had also been there: April 1968 assassination of Dr. Martin Luther King, March-May 1946 big top & collapse, 1914-15 W.W.I., October 1997 crash, etc. It certainly looks like a critical degree to keep in mind when watching Saturn through the signs.

Keeping track of the foldback points is a problem, and a few years ago I came up

Charts 187, 188, 189 & 190



with an interesting idea that held great promise for solving the difficulty for all kinds of time and price pattern confusions. I decided to make an "axis tree" about a major high or low, and reflect to this axis the prior highs and lows by using angles like 45, 30, or 60 degrees and then reflecting them back into the future. It turned out to be a very good idea and I hope you will experiment with it to find what I did. Charts #191 and #192 point you in the right direction. Remember we're looking for patterns on each side of the tree and the patterns should be approximately the same vector measurements.

Chart 191

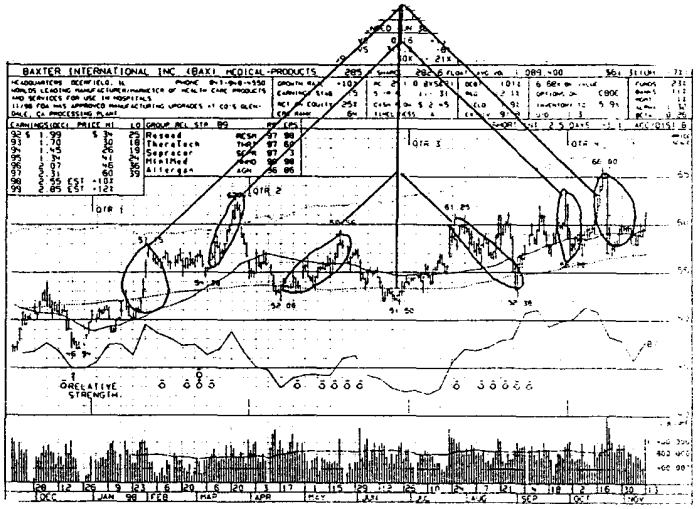
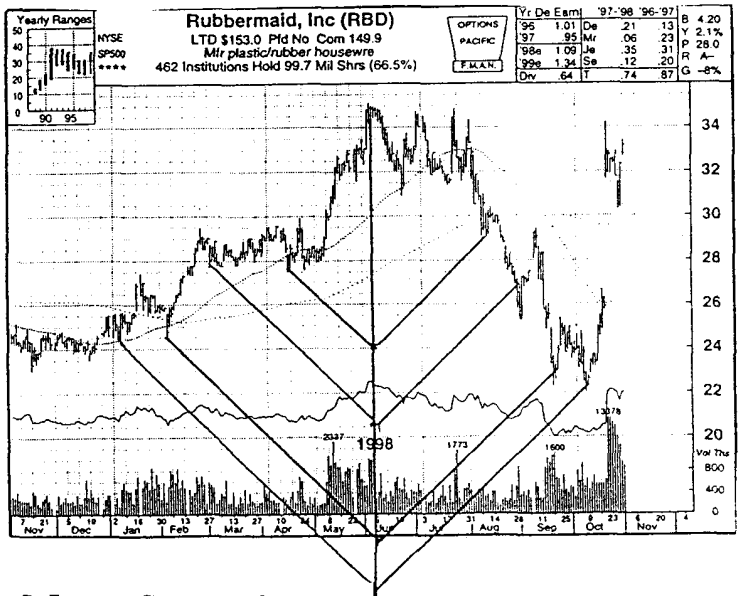


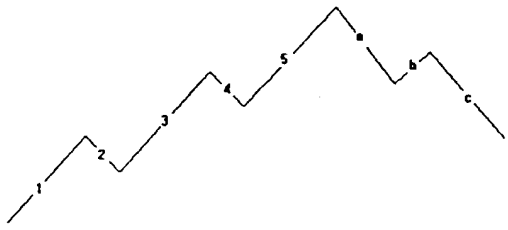
Chart 192



Chapter 13

WAVES

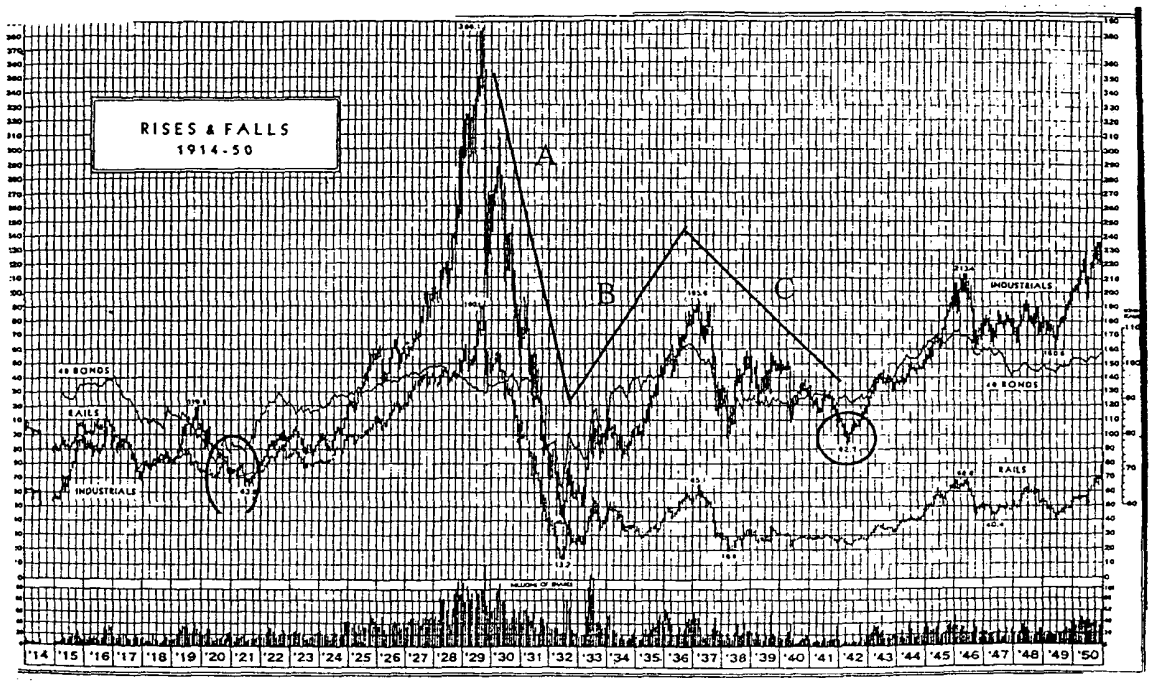
Many traders count waves when interpreting charts and this can be a valuable tool in technical analysis. The Elliott Wave enthusiasts go to great lengths to count every wave and exact every Fibonacci ratio, but I think that's overkill. I see waves all the time, but the structure can be different and the rules of interpretation must be flexible enough to account for these differences. What is true most of the time, is that five waves signify completion of a movement, though there can also be seven or nine waves. It is standard practice to label waves 1, 3, 5 as primary and 2, and 4 as the counter trend corrections. After the



series of five are done, a bigger corrective phase labeled A, B, C, is completed and then the whole five process starts over again. Waves divide and then subdivide into five smaller waves. Figure #12 is the typical representation of the full five-wave sequence followed by the ABC finish.

Usually waves 3 and 5 are the strongest and the ones traders love to buy long for the big movements. Wave 4 is often the larger than expected "crash," but the rule is it never breaks the low of wave 2. A parallel channel normally contains waves 1 to 5 and when it breaks you are in the A B C correction. One example comes to mind, what I think is the single biggest mistake technicians have made this half century where signals were falsely interpreted by Elliott Wave enthusiasts. This refers to the 1929 crash and the 1932 low. Almost everyone in the business thinks the low was made in 1932 when the Dow Jones went to 40 after having come from 386 in 1929. Certainly it never sold lower in price. But if you step back and take a longer term look and think about the theory of five waves and a full A B C, then you will see that the 1929 top was the end of wave 5, but the 1932 low was only wave A down, with wave B being the big advance up to 1938, and the final wave C going down into 1942 and the lowest point for the U.S. in WWII. Addition

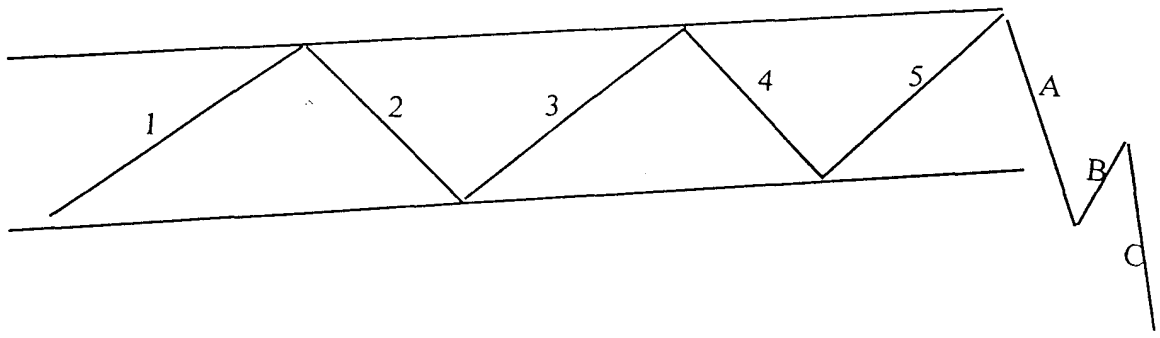
Chart 193



ally, if you look at a record of the volume on the N.Y.S.E. you will see that it went lower straight through the 1930's and hit all time lows in volume in 1942. Take a look at this chart and see if you can find the beautiful long-term wave count extending through 1942. It is there if you look, but 99% of the technicians ignore it. I don't, because I know how Gann worked and as described in the astrological section you will recall that the main market movements are caused by the Jupiter/Saturn conjunctions every 20 years, not 10 years, which are only half the cycle. Note the 1921 low at the Jupiter/Saturn conjunction and the next low due in 1941- 42. That's where you should count from if you're a wave counter. I don't always count, but I do follow first principles.

Parallel channels are useful in counting waves and when a chart pattern is choppy, but if you draw a channel, you can often "tick tack" back and forth in the channel and count the waves when you hit the upper and lower channels. A graphic representation of this can be seen in Figure #13.

Figure 13



Most people have problems with finding out the correct placement of the channel, but if you recall my method of drawing angles from the last high into a primary low starting point, and using an adjusted axis to start your angles, you shouldn't have too much difficulty.

Most waves will begin and end with "measured moves," so I really use that approach as a better system. I also find 2 wave sequences as often as 5's, and when they show up they often work very well. When five waves always point to the primary direction, the main trend is established. A. B, C moves are against the primary, so that when you finish you usually return to the long-term trend again. I watch stocks everyday that are in basing patterns, and wait for them to break out. Five swings are usually required, but I have also seen 7 and 9. Most inexperienced chart readers start buying a busted stock as soon as it rallies up from the low, but 90% of the time it's just going into a trading range with five swings before a big move is likely. Knowing this will keep you out of dead issues that could take months to build a base.

The Five Basic Bull And Bear Patterns

Although many technicians have studied charts over the years and have their own favorite patterns, I have come to the conclusion that these standard patterns are the most basic and repeat over and over. These top and bottom patterns are the inverse mirror images of each other with subtle variations that seem to cover a myriad of possibilities and if you memorize these you'll have a big head start.

Figure 14

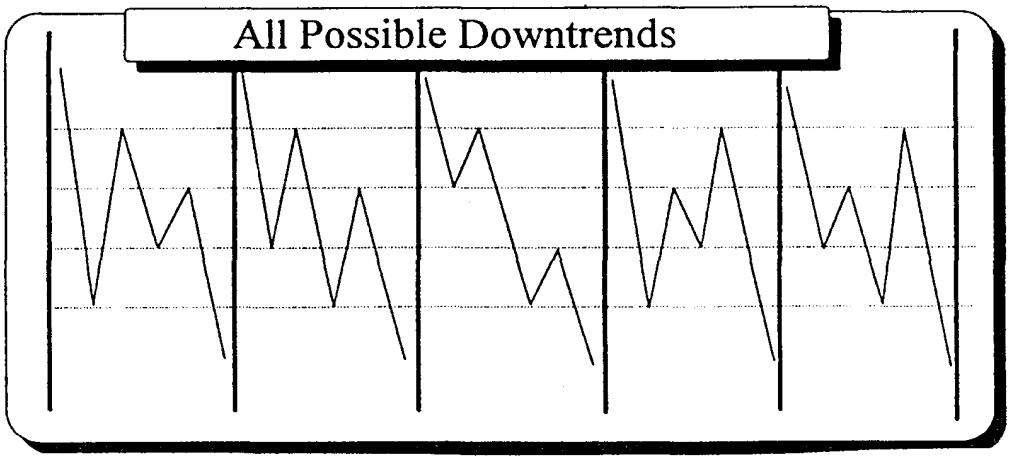
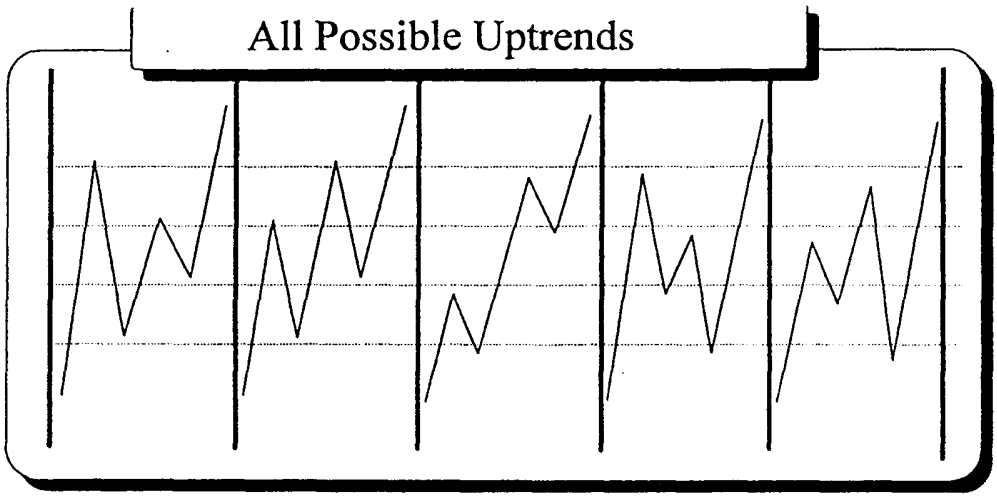


Figure 14 cont.



Note these lower patterns are just the inverse of the patterns above them. These are *complete patterns* and then you would expect a *new* trend to emerge. These may be seen on short-term charts as well as very long term ones but the basic completion wave structure is almost always the same.

The difficulty with waves is that they are very subjective in defining when they begin and end. A wave is a shape and the highs and lows that make up that shape are often hard to define in a quantifiable fashion. Part of the solution is to use filters. This way we have a rigorous test for whether an actual high or low has been made. For instance, if you are looking at the Dow Jones there are many everyday up and down fluctuations, but every several months you get a 5% or 7% significant fluctuation. If you use 5% as a filter from each high to low, you will eliminate most of the random noise in the pattern. In S&P futures trading a move of 300 or 600 basis could eliminate most of the noise, but you may want to refine your filter to a square root measure. That way you are only counting the most significant reversals. Of course we do this to forecast coming trends and not necessarily to trade. If you trade off wave counts you'll go broke. Too often I have seen 5, 7, 9 waves turn into 13, or the filter was too small and what appeared to be a wave was just a

minor blip. One advantage to filters however, is that they provide a very objective measure as to what is happening, and if we adapt such a filter it will keep us from investing emotionally on any swing that doesn't meet our criteria. This point was made very clear to me when I was actively trading S&P futures everyday. Each time they would hit what appeared to be a bottom and bounce 200 basis I would cover a short only to see them plunge to new record lows several more times. When I adopted a filter of 300 basis it eliminated 90% of the small moves and kept me in the trade, and if I was trading for big moves I would use a filter of 600 basis and that parameter would never be hit until the big move had arrived. Now the beauty of this is that once a big move occurs, like a 600 basis reversal move, you then are operating on the next larger scale. Since all waves usually have 5 movements you would now stay in the new trend until you see 5 big moves of at least 600 basis each. Each move of 600 basis might have several insignificant, smaller wiggles of 150 basis, but you are only counting the big ones and that will effectively keep you in the trade with a stop. Obviously your stop needs to be as big as your filter if you plan to be in the trade for the extent of all five waves, but on a big move of several hundred Dow Jones points, by the time your 600 basis S&P stop is hit you have made a significant amount of money. This theory of using filters to define waves and then counting until at least 5 are complete also sets up some good trading strategies. Since we know that waves alternate and often wave counts can go past 5 and hit 7 or 9, we may decide not to trade counter to the main trend until we see at least 5, 7 or 9 full complete filtered waves. At that point, we should have a signal reversal bar that leads to a good trade. Let's look at some examples:

Chart #194 of the Dow Jones uses a 3% filter on the high. It does filter out a lot of smaller moves and keeps you with the main trend for months at a time, but wave counting is difficult on this scale.

Chart 194

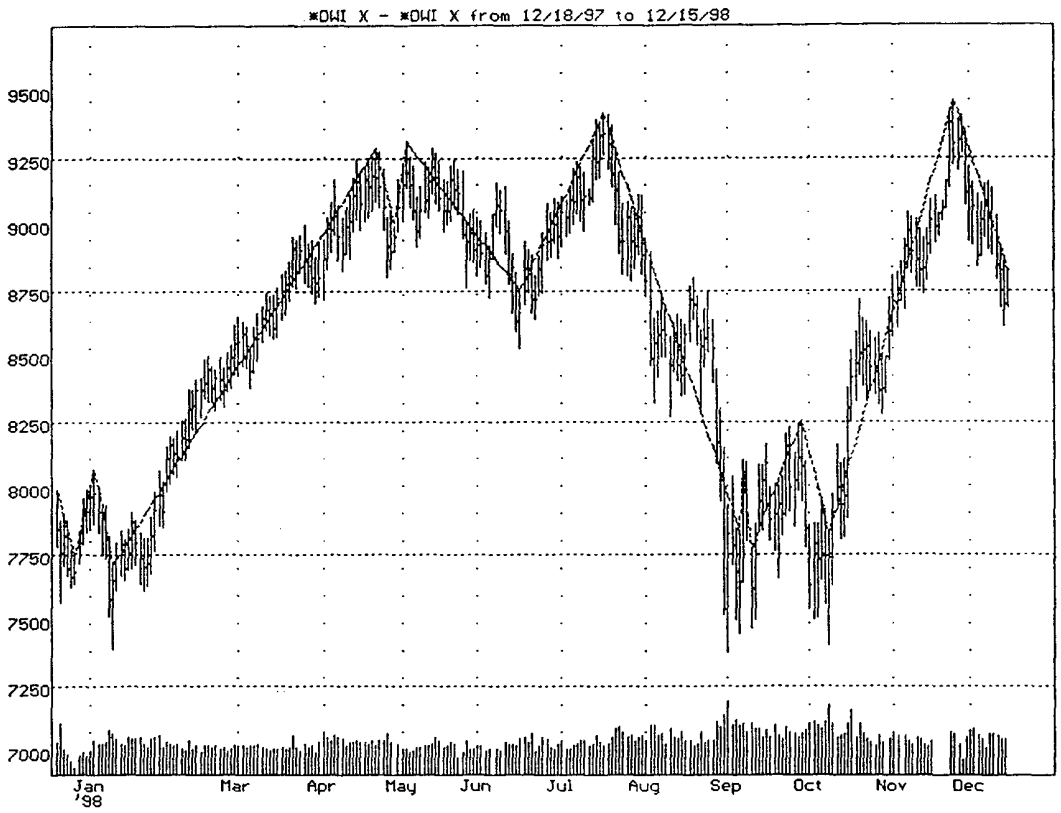
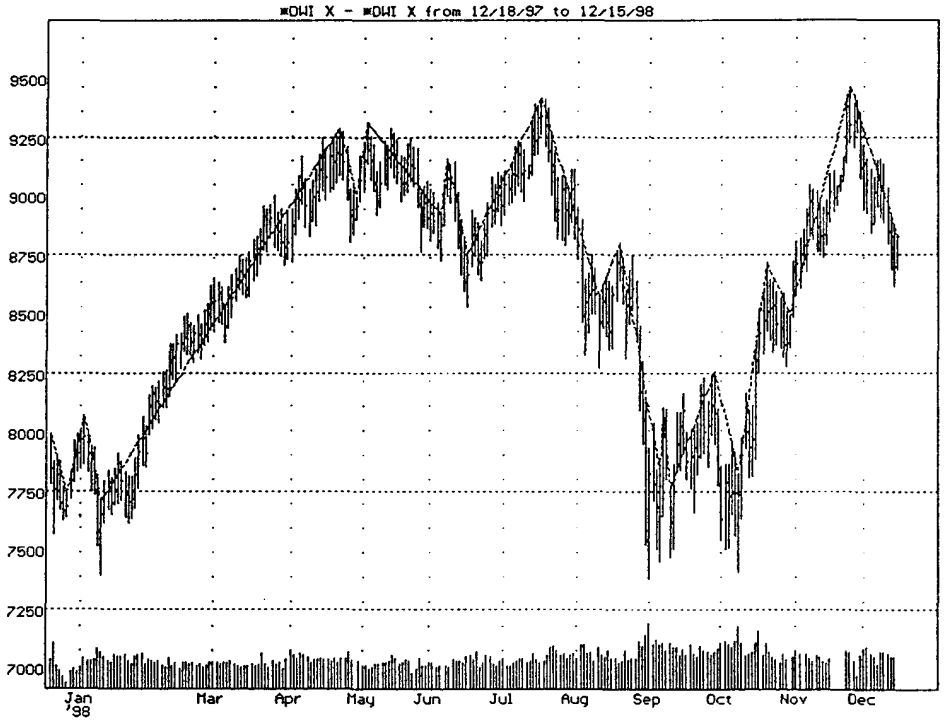


Chart #195 is the same chart with a 2% filter and a few more tradable moves were picked up, but there's still no real benefit to wave counting. I might remind you that filters like this are only good in retrospect in that once a 3% filter is being used, that doesn't mean the market will move 3%. You can go straight down 7, 10, or 20% and it's all in one

Chart 195



direction. Until you go back up at least 3% from that low you won't get a recorded filtered turn, so it's only after the fact that filters work. This is why they can be used for wave counting when you're looking for a set number of waves to complete a pattern, though just buying or selling off a percentage move does not necessarily mean anything. What it does help with is testing various markets and individual securities for their own particular set of percentage movements that make up the wave, and once that is found it will be good for months to years. Once you have that you can guess about wave counts and make trades once the minimum percent has been seen.

Chart #196 is a daily chart of GE with a 5% filter and it does show a 5 wave

decline into the low that completed the move. If you were counting waves you would take the trade as soon as the stock went up 5% after that last low, and you would still have plenty of advance left.

Chart 196

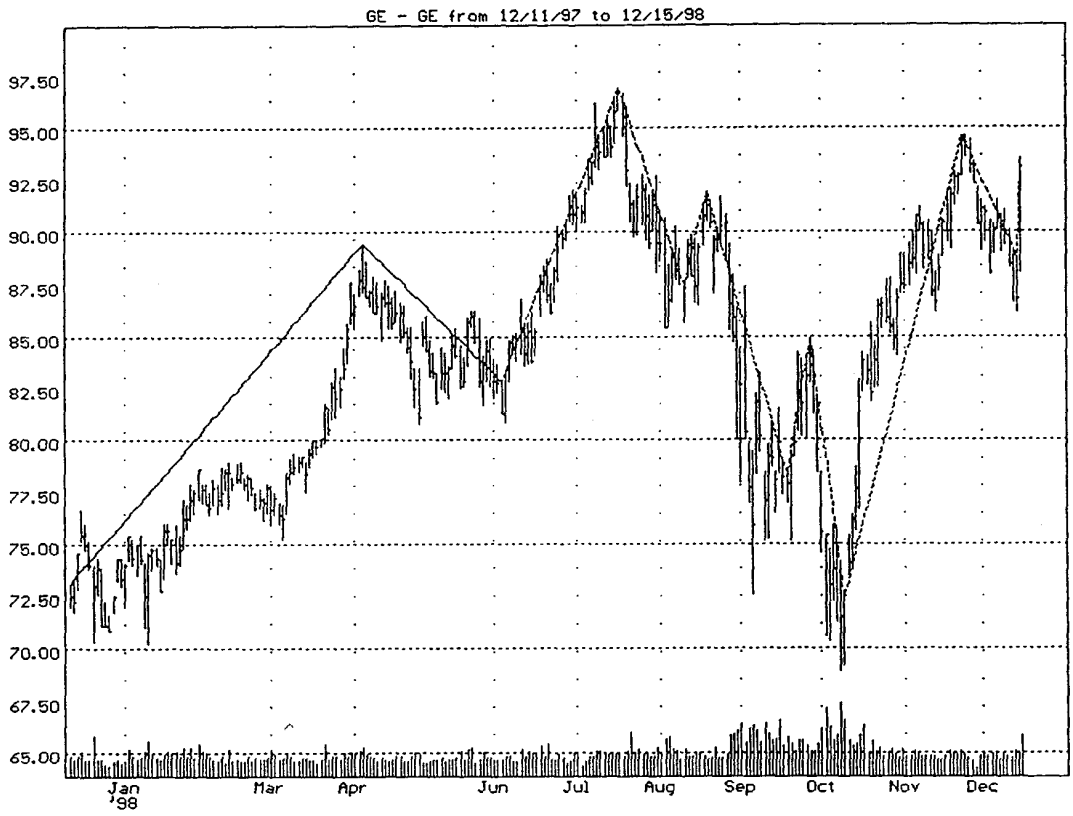
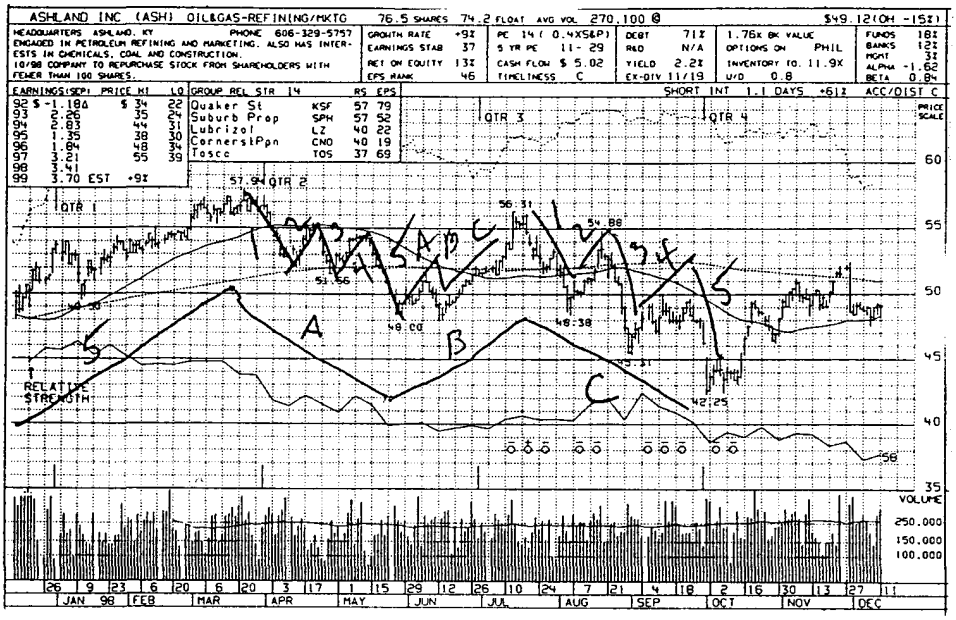


Chart #197 is shown to demonstrate how wave counting can be of use in terms of *strategy* in your trading. Whether or not my counts of these waves are valid is irrelevant; don't trade off of wave counts, but plan your attack as bullish or bearish, and depending on what wave you think you are in, your leverage and size of stops would be adjusted. This

chart appears to show a final high after a big 5 wave up and then a big A, B, C, down that is subdivided into 5 sections that show the long-term nature of the decline in progress. That being the case we want to short rallies instead of buying, and after the last C is finished we might trade long with a wide trailing stop for a long time as long as the chart made higher bottoms at that point. Certainly, if the chart now hit a new high for the year the correction would be over and much higher prices could be forecasted. Note that although the wave count makes sense, it's just another application of large measured moves

Chart 197



and circular arcs. Squareouts would have worked as well and been even more precise, which is why I stick to my methods and let the wave counters do their thing. Of course, if you have read everything so far you know that I believe the planets are causing the waves, and therefore if you count waves, it's like mixing apples with oranges. Different planetary

combinations come and go and individual planets go retrograde and direct, causing the waves. Unless you identify the planet that causes each wave you won't know how many waves there will ultimately be. That's the real reason that the Elliott Wave guys don't make money by counting waves. There are too many different planetary and long-term factors that pop in every 45 to 90 years to alter the wave count. Unless you consider them the wave count gets too confusing.

Chapter 14

DAY TRADING THEORY AND PRACTICE

Much of this course has concerned itself with forecasting price trends, and calculating support and resistance levels to know when to buy and sell. Trading, however, is much more than a plain analytical exercise. It's really a question of strategy, since for every buyer there's a seller, and someone has to win on the trade and someone has to lose. In this regard it's more like war. Of course, it's usually one very big and smart winner and a whole bunch of undercapitalized small losers on the wrong side of the trade. Knowledge of support and resistance levels and cycles can go a long way in helping you to get on the right side of the trade, but strategy is most important.

What I mean by strategy is how you enter and exit your trades with the understanding that it is you who are trying to take advantage of the loser on the other side of the trade. Selling into strength when everyone else is buying, or buying into support on a decline when everyone else is selling is part of it, but there is a very strong psychology involved in the day-to-day practice of trading. First, let's look at the Specialist and see how he thinks.

On the N.Y.S.E., only one man has a complete monopoly on all trades in each individual stock, and that is the Specialist assigned to each particular issue. Every share of IBM sold around the world comes before one man, and he sets the price in New York (except for dual listed world indexes). Each morning the Specialist must decide if he

wants to buy or sell for himself, and that's relatively easy, since he sees the entire buy and sell orders and no one else does. He also knows the age old saying that "like begets like," or if you want to attract buyers you raise the price and buyers will come in. If you need sellers you lower the price. People are emotional and are easily "sucked into" trades out of greed to make a fast buck. Because of this tendency there has arisen the practice of creating "an opening bulge," or an "extreme" of price for the day set in the first half hour of trading. If the Specialist has big sellers around and he wants to go short with them, he quickly opens *up* his stock, sometimes a full $1. That will attract buyers and shorts to cover, and he will then sell short to them just under the big seller's price offering. As the morning goes on he will gradually lower the price until much later in the day when everyone else is trapped long, and then he lets the price drop to complete the selling and he finally covers his short at the end of the day. The opposite happens when the Specialist sees buyers. He then tries to open the stock down to attract sellers, so that he and the big buyer can get cheap stock. If he opens it down 50 cents, or one dollar, he will try and hold it down for twenty minutes, or as long as he can to get as many sellers as he can and then he will take the stock up. This down opening sets the extreme low of the day in the first half hour. This practice of setting the extreme price level for the day in the opposite direction of the market's true trend, results in an exploitable principle for day traders to follow. Basically the rule states that the extreme high or low will be made in the first 20 to 40 minutes of the day, and you trade in the direction of the trend established after that time period. Sometimes you can't tell until 11 a.m., but usually any new high or low for the day made from that point on is the true direction. I might add that looking for a reversal day, for instance buying down $1 at 12 noon and expecting an up close is a real long shot. You can buy down at cheap prices for a rally tomorrow, but that is usually done just as well at the end of the day, without the risk that the mid-day price will go even lower. Day traders

like to be long stocks that are trading *above their opening prices,* and they like to be short stocks trading *below* their opening levels.

In commodity markets this opening bulge idea has always been the rule, since most leverage players can't hold overnight positions and they pile in and out at the opening and close each day. Additionally, in this age of basket programs and huge institutional orders, all the trading desks have inside information about the programs, and they quickly take big positions at the beginning of the day for themselves and only then start the big programs for the customers. It's usually wise to not go against the level set in the first half hour.

Our strategy is therefore pretty simple. We want to determine if the Specialist is a buyer or seller and then trade with him for the day. I might add that in the vast majority of cases a bull trend will have a quick down opening and then go up, whereas an up opening is often a top. This is always the case when you are looking for a reversal, such as after a big down day. If the market went down 20 Dow points the day before and then opens sharply higher, such as 20 to 50 points, it is almost always a guaranteed short for another plunge to yet new lows. The same applies to a big up day that opens down —that's bullish. You can't *reverse* an existing trend *on the opening.* You need a continuation and then a mid-day reversal. If the market was down big the night before and opens down further, it can then reverse. If it went up big the day before and opens up higher, it can then top. Reversals rarely come from openings that are opposite to the prior night's 3 to 4 p.m. direction.

Before we even consider this however, we must decide if we are bullish or bearish and are we predisposed to buy or sell short. In bull markets Mondays are usually strong and the rally lasts into late Tuesday, when a decline starts that goes down on Wednesday. Strength re-emerges on Thursday and the market almost always closes at the high of the week on Friday afternoon at the close. The pattern is early and late week strength, and a

mid-week counter movement. In bear markets it's the reverse. A hard down Monday into Tuesday, a Wednesday to early Thursday counter rally, and a collapse late Thursday and a Friday close at the low of the week to be followed down again on Monday. So too are the intra day daily patterns. Bullish days show a strong first two hours followed, by a mid-day shakedown, and then a last hour strong rally that closes at the high of the day. Usually there is strength until 11:30 a.m. or Noon, then a decline to 1:30 to as late as 2:20, then a big rally until 4 p.m. The bearish days have a big down opening until 11:30, and rally until 1 to 2 and then a collapse until 4. Our trading strategy must incorporate these rhythms. If it's a bull trend on the weekly chart and it's Monday, we'll buy the opening, get flat at midday looking to re-enter about 2 p.m., and carry into the close, or overnight, to sell on an up opening. If the trend is bearish, we'll short the first hour, look to cover at 11:30 to as late as 12:30, and then re-short from 1:30 to 2:30 on the counter rally back just before the 3 p.m. collapse.

Once we decide to buy or sell we must also have enough discipline to know that the market won't always give us what we want. We can't take just any trade because the market's bullish. If stocks open up big, no matter how bullish things are it's very risky to enter until we at least see a mid-day pullback. Professional traders know that stocks are just pieces of paper to trade with tens of thousands of issues to pick from, and so set all the odds in their favor. Remember, the difference between gambling and stock speculation is that in gambling, the house sets the odds against you, but in speculation you get to set the rules; when you will trade, how much you'll risk, how much leverage you will use, what is your stop and when you will take a profit. The odds of getting money in the bank are not just a simple case of picking a stock to buy or sell. We must determine the direction with odds of 70 to 80 percent. Then we must decide how much leverage and when to take a profit. Once we're in a successful trade and have made 50 cents to $1 the odds rapidly

change from being 80% right on the trend to less than 50/50, since the stock could go right back down and we would only break even. All these decisions have to be made before we enter the trade and we must have a clearly defined entry and exit strategy. If the Specialist gaps up our favorite bull stock we must wait for another day or for a pullback. Since 99% of traders want instant gratification and can't wait, they are usually easily shaken out on a mid-day plunge. You must make sure that at least half the time you have plenty of capital left to use for those mid-day opportunities, or you must wait until late in the day to see a very definitive trend to make a good trade rather than just buying because you're bullish.

The most common observation among all traders is that if you see the market is exploding upwards, and you guess from the momentum that it will indeed close up very strong, and you buy 1,000 shares of 6 or 8 big glamours, then the usual result is that two will go down, two will go up and two will be unchanged. Thus the day's net result will be the same as if you just bought one issue that you felt good about and held until the close. You see, forecasting the market has nothing to do with individual stock trends and you must trade individual stocks. If IBM went up $3 yesterday and today the Dow Jones is up 50 points it's probably because General Motors or Sears is up today. To blindly buy IBM because you see a strong market never works. You must follow the individual stocks for several days and properly time your purchase individually. An adjunct to this is that a big trade usually takes several days to "set up." Stocks just don't gap up $2 out of the blue. What happens is that for three days in a row the stock creeps up ¼ every day and then explodes. You want to be in it for those creeping days to be able to sell on the up explosion. Heavy volume and big price movement is well advertised and everyone around the world sees it. Do you really think that you have an edge in trading a situation like that? Who's the smart money and who's not, the buyer or the seller? Volume is almost always a sign of a top, even if for only a few days, unless it comes after a prolonged downward

drift. The best strategy for those explosive types of issues that get big brokerage house recommendations is usually to make a note in a "tickler file" and wait 3.25 weeks for a normal cycle to run its course. Usually the stock will be right back down near the original breakout point and the next cycle up will be ready to start.

Of course, different traders have different styles, and I have worked with hundreds of different types of traders in my nearly 30 years in the market. The really big guys who make millions usually swing trade a position for 3 to 6 days and 3 to 6 dollars before selling, while the small fry usually scalp 3/8 to 7/8 each day and get chopped up quite a bit. That doesn't mean they don't make money. In the modern electronic trading era I know many guys who routinely make $200,000 to $400,000 per month on capital of $1,000,000 (they put up $50,000 at 20 to 1 leverage) and they are scalpers. The trick is that they take big positions, like 5,000 to 15,000 shares, and scalp 3/8 to 5/8 and they do it on the heavy volume leaders. Sometimes they get three or four trades a day that way. I know several traders who also trade *100 to 300 times* per day! It's been my experience that although these guys can make good money when the market is hot at the end of a cycle, sooner or later they go broke. My advice is to stick to 1,000 to 3,000 share positions and go for day and a half trades of $2. A good trader should be able to make $200,000 to $500,000 per year that way on a modest capital of a few hundred thousand. The key is the drawdowns, and if you don't set the rules and trade when you have the odds, the risk will not be worth it.

Day trading strategies revolve around finding good quick trades that have high probabilities of success. Most traders therefore concentrate on 15-minute patterns of consolidations and then jump in when the first breakout occurs and only hold the trade for an hour or so for a quick scalp. Bigger trades come from three-day sideways patterns that usually result in three consecutive up or down days and $2 to $3 moves. Long-term flat

breakouts that have been consolidating for three to six weeks in a flat can yield $8 to $10 moves in 3 to 5 days coming out of the base. It all depends on your style and capital. Longer-term swings with $1 ½ stops are easier than 5 to 10 consecutive wins of 50 cents on 20-minute scalps. In this course you are being taught methods that are very reliable for determining the long term trend and timing the entry and exit points so big moves are possible. If you read other books or talk with 80% of the so-called day traders around, you will find that they are basically "front running" large orders by jumping in front of them and scalping 5/8 for the day. You don't need technical analysis for that - just speed and nerves and a desire to be barred from the industry if you get caught.

One of the basic questions that has to be asked on every trade is how and where you set your stops. Are these mental or put on the books? Do you use swing lows, or highs, or just a dollar amount, or percentage of capital? Here again, it depends on your style of trading. Twenty-minute scalps don't need stops, since you never take your eyes off the tape, and if the stock goes down 50 cents you usually just sell out. If you're in a three day swing trade you would need to use a level at least as low as the prior day's low, and perhaps the lowest low in the past three days, or even during the past week. In theory your stop-loss amount should be much smaller than your average gain expectation, so that if you go for $3 gains, a $1 to $1 ½ loss on losers is acceptable. There are times and markets, however, when as crazy as it seems, a strategy of big stops and small gains actually works much better. Many very strong markets have great volatility swings and shakedowns to catch stops, especially in trading S&P futures. If you are certain of the trend, like a market that's up 100 Dow points, and it is a real momentum move, then stops can be very large and you can scalp many short gains, and jump back in on all the quick plunges. In S&P trading I have often used 300 basis stops and 75 basis gains with a good ten winners before one loser, whereas if you used 150 point stops, you might get caught an equal number of

times that you took gains. In the final analysis, stops are used to protect your capital, and in dangerous markets, or initially buying into a down market that you think is in a major uptrend but just having a down day, you need a protective stop on the initial buy. After you're in, you'll know right away if the trade is holding support and will work, or if it's in free fall. Then you sell out or adjust the stop to a logical level. Specialists will hunt for stops, especially in the first half-hour when they are creating the bulge, and they'll do it at midday on the counter trend shakedown. If you're a day trader it's better to liquidate and re-enter than get caught for no reason. Longer-term swing traders will have stops well below the day's low, so that they usually won't get caught unless they need to. If you use stops, you should also use offers on the books to automatically sell out. Many, many times I have put a sell order on the books up 75 cents and was immediately taken, when stops were run, and within 5 minutes I was back in the very same trade at almost my original price level. In choppy markets you often have a long-term viewpoint, but can day trade for 75 cents three times before the stock actually goes up and holds a $1 gain. If you don't have offers placed on the books you'll never know. Strategy also requires that you size up the market and trade for what you can realistically expect. If the market is clearly a plus or minus 20-point affair, then holding out for a $1 to $3 gain is ridiculous. In those situations a 5/8 scalp has a much better chance for that day. Stops should be placed with this in mind. Stops can also be placed for positions that haven't been taken. On a big up opening, stopping yourself into a long or short, depending on your bias, and having bids below the market, just in case crazy bargains appear, often result in great trades. I also use buy stops above a quick opening level that works down, just to make sure that the opening bulge was not a top. If the stock goes higher, I'm automatically stopped in, and I can assume the bulge was an extreme low. If it never goes back up, but stays down that day, I'm out. Just remember that stocks are only pieces of paper to trade; so don't fall in love with them. If

they give you an unexpected quick buck, take it! One final cardinal rule for stops is that once you're in a winning trade, it's insane to let it turn into a losing one just because you have a stop. You should always liquidate at break-even once the trade has been profitable. You can let profits run as far as you want, but if it goes up and then comes back down, it's usually that you're wrong on the trade anyway, and letting the stop take you out at a loss is foolish. This is always followed in S&P trading where you make a great many trades per day, or in scalping stocks. Only if you are a long term swing trader going for $10 moves over two weeks, would you mechanically just wait to be stopped out, but you would adjust your price levels each day, as the stock moved up to lock in profits. In recent years group selection has been most important. The rise of mutual fund "select portfolios" concentrating on specific industry groups has given rise to a vast amount of hedging and option activity confined to specific industry groups has given rise to a vast amount of hedging and option activity confined to specific industry groups. One day airlines and telephones may be up, while oil drillers and retail stores are down. Traders attack each group across the board indiscriminately, so it's hard to find exceptions. In the past this was never the case and you could always find individual issues that followed their own cycle apart from the group. This practice points out a fact of trading life that all good traders know, and that is you must adapt your trading strategies to changing market conditions. While the principles of cycles and trend determination always hold true, the details of what groups, how big the swings, and the types of openings and closes, often change dramatically over the years. For instance, in the past, up until about 1985, it was routine for good traders to buy a strong close and sell the next day up opening. Many good day traders would buy a dozen big name glamours at five minutes to 4 p.m., then hold overnight, and sell on the opening. Back then, the Specialists would mark them all up and you could make 50 cents to as much as $2 on individual names over that 5-minute period. With the invention of basket

program arbitrage and "market on close" executions there is no longer any reliability to the follow-through concept. A market can close up 200 Dow points one day and just as easily open down 50 the next morning. The forces of buying and selling can now be eliminated through strategic option exercises after the close of the market each night. Most options now allow exercise for cash after the close; so many arbs buy calls in the morning, and then run a huge buy program all day that has a market on close execution, so that the market will close at the extreme of the day. Then they exercise out of their calls after the market closes, so that it won't affect prices until the next morning, when the poor market makers on the other side of the exercise are stuck with stock they must sell when the market opens down hard. My point is simply that you must constantly be aware of changing relationships in the market, and not try too hard to rationalize what is happening, but develop strategies that work and have technical validity. A recent example is the internet craze with many stocks that were previously valued at $10 now routinely going for $50 to $200, and often going up $50 in a single day. Traders know this is ridiculous so they go short, only to be forced out as they go higher. The problem here is a perpetual lack of certificates to borrow for short selling, and many months will have to pass before enough certificates are in the street, so that shorts can stay short and not be called out the next day. Once that happens, these stocks will collapse 90%, although it could take a year or more.

Valuation ideas also change over time. Some markets have P.E. ratios of 12-14, while super-heated ones can go to 30-40. The Japanese bubble in 1990 went to 70 to 120 time earnings on many favorite issues. Don't get too caught up in thinking "value" when there really is no such thing for intangible assets like stocks. Supply and demand will determine price and charts will tell you if the issue is going up or down. That's all you need to know to trade these pieces of paper called stocks, and make a good living. One final example will make the point. Many TV spokespersons are constantly calling for Dow

10,000 or some stock being a great long term buy at a huge P.E. ratio. What these people don't know and never will is that much of the buying in the market (perhaps 40% of the volume) is various types of arbitrage programs. Many pension funds no longer buy stocks at all, but buy "synthetic" stocks, created by buying and selling stock options and stock index futures. You can replicate the S&P 500 index by simply buying an S&P future contract at 5% margin and put the rest of the money in bonds. Similarly, instead of buying Treasury Bills at 5% interest you could buy a basket of stocks to get the dividends and sell the S&P futures short against that basket. The premium that the futures sell for above the cash basket is yours to keep and if done for the four quarterly expirations each year, you could get 6% on your money instead of 5%. Many institutions do this to the extent of hundreds of billions of dollars and it drives the market higher and higher along with the individual basket stocks in the index. When the arbs buy Coca-Cola every day because of these basket programs, they aren't buying Coke because they like the stock, or think it's a value. It's just in the index basket and they must buy it. Sooner or later all the "float" is taken, and the stock goes up dramatically to valuation levels extreme by any measure, but nevertheless at a level that will be supported as long as the basket players are in the market. Many institutions get lulled to sleep thinking that their favorite stock went up because it has value and once the basket players start to sell because interest rates have changed and premiums on the S&P have declined, then massive selling will result, and Coke will look like a bargain as it drops 70% in value and everyone loses their money holding on thinking it's cheap. My point is simply that you must always remain objective about valuation levels and try and find out what's running the market day to day and keep current. Over time great changes will affect valuation levels and patterns, but principles like trend zigzag stair step patterns will keep you honest if you're objective.

I might also mention the effects of options on the market, apart from baskets. In

this age of electronic trading it's very easy to buy all 500 names in the S&P index within 20 seconds at most, and if someone knocks an index name down and you need it up, you just shift some resources to another name and buy twice as much. Many glamours in the indexes like GE, MSFT, INTC, KO, or WMT are weighted 5 to 7% of the index, so it's very easy to replicate the S&P 500 index with only 20 to 30 stocks. When the arbs are shorting puts and buying calls to make money near an expiration, they will concentrate in the heavily weighted index names. You must know those weightings and you can get them every quarter off the internet, or from the various exchanges. If the market is up and the puts and calls are really moving, don't fight the trend in those heavily weighted names. Indeed, you should trade the big weights when there's a momentum move. Oftentimes MSFT will move $5 or more in a single day and it's mostly due to the index buyers manipulating the puts and calls in the index. They don't care if they make or lose on their stock position, because they make so much on the leveraged options. Only the next day when the program is over, will the stock prices be adjusted back to normal valuations.

For years I have known of many traders who like to outperform an index by just overweighting the top five names in the index. Sometimes they'll buy the five names and sell options against them; and if they weight them properly they will move in line with the bigger index, but only cost a fraction of the amount, and they can be traded out quickly if something goes wrong. Relative strength index investing is a widespread practice and you should be familiar with the top 5 to 10 names in each index that has any kind of volume. Big moves frequently come the Monday or Tuesday after each option expiration as the arbs unwind long and short stock trades that they used to "peg" the option strike prices the previous Friday. Sometimes they need to buy or sell many millions of shares to hold the options back, but they make so much money on the expiring premiums that they don't mind doing it. Here again, I'd advise against fighting the heavy weighted index names the

two days following option expiration.

Many traders use moving averages and stochastics, but I rarely find them useful. Knowing that a stock is trading above its three or five day average should be evident to any trader watching the tape. Besides, averages are past history and cycles change daily, sometimes dramatically so. I'd rather look for a stair step higher bottoms pattern to be long and a signal reversal bar to buy with a stop, than just buy against some moving average. If I did use an average, it would only be to filter out new choices to be followed over the next several days, and I'd use it for screening purposes rather than actually trading. In determining the trend I always look for *five* higher bottoms on an intra day chart such as five minutes, fifteen minutes, or hourly; that's fairly reliable of a trend that's tradable. After I find an uptrending pattern, I always check to see the position of the stock on the next higher time frames. If it looks good on the 15 minute chart, how is it on the hourly, daily, and finally weekly? Big moves usually come from long sideways movements that will change all time horizons very quickly, causing many traders to jump in.

Bar expansion is a concept that implies something new is happening. If the average range from high to low on a daily chart is $2 and one day the stock goes up and the range is $3 to $5, then there clearly is a lot more momentum present than has been seen before. The best trades are breakouts from two-week flats with big bar expansion. Remember the larger bars are types of *impulse waves* and point in the direction of the primary move. The larger bar implies that a new thrust is just starting and you should get aboard. I use a computer screen daily to hunt for range expansions from the day before, so I can see if some new leg up is starting.

Gaps occur when a stock opens up, perhaps $1 or more, from the night's close that shows explosive buying power. There have been many books written about gaps and when they would be filled, but most of that is now outdated. Gaps used to signify a cyclical

change in the stock's trend. Now they just signify a lot of "front running" of a large order that has just come in. Large institutions frequently have orders to buy 3 million or more shares at a time in popular issues, and once that initial order shows up on a trading desk, no matter now secret, at least 50 other traders find out within 30 minutes. The rule of thumb is that any institutional order will generate three times its volume, so that if the order is for 500,000 shares, then 1,500,000 shares volume will be seen before the order is complete and the stock will stop going up. In these cases when a stock gaps up, it won't come down until the order is filled, usually at the close that day, or as much as three days later. In such cases of very bullish markets with big orders around, you can safely buy a stock that opens up $1 or more and expect it to go another $1 higher before coming down.

Magnitudes of moves is also a science not known to many traders. Believe me, there is a big difference as to how a stock acts that is up 50 cents, from one up $1.50 or up $3.25. There are natural "breakpoints" that accelerate the move and once exceeded, the stock will go much higher. To blindly sell in order to book a profit when a stock is up $1.50 is missing the point. Usually from 50 cents to $1 or $1 1/8 up on the day, a stock can go flat or top, and come down. Above $1 3/8 it will usually go to $1 ¾, and if it exceeds $2, it will go at least to $2 5/8 or $3. Stocks getting above $3 5/8 can often go $5 to $7 the same day. My best trades are "fear of heights" trades that others won't take. These are issues that are up $1 ¾ or more after 3 p.m. each day. Usually these big movers will quickly add 50 cents to $1 in the last hour with 80% odds, while holding stocks all day long that are up only 3/8, hardly going much further the remainder of the day. Big momentum means huge size buyers, who think in terms of stocks going up $20 or more in a few weeks, and they don't mind paying up to be first in line on good news. If you see a trade that's too "scary" to take, it's usually a very good trade to take. Remember, we don't want to trade emotionally, so if you can easily identify the emotion, and it's illogical fear (like

being afraid of a stock up $3), then you should act quickly. By the way, always make it a practice to hold big winners right to the last minute each day. If you own a stock up $1 5/8 or more and it's after 3 p.m., don't dare sell it until one minute to 4 p.m., or use a market on close order. I can't tell you how many hundreds of times I've held on until 3:30 or 3:40 and "chickened out" by selling to grab a profit, only to see the really big move start at 3:50 p.m. that adds at least 5/8 to $1 or more in the last few minutes. If you study the tape you'll see what I mean, but it's a real lesson to learn if you are capable.

Another practice that's very difficult until you are very experienced is to trade both long and short at the same time. Stocks do go their separate ways and this can be done, but it is extremely confusing to the mind to be short one and long one and see the general market going in one direction. Sooner or later you'll fall into the trap of thinking that the long is a hedge for the short or vice versa and you usually lose on both, or start to get confused on just what the trend is. It's usually better to be only long or only short in the general market until you have several years of experience.

Having too much money is also difficult in terms of day trading. I don't mean the effect on stocks by buying in large size, but rather having more capital than your ideas can support. If you only see one or two stocks you like but the market has just "blasted off," don't just buy a dozen stocks to get fully invested. If you've done your home work, one or two issues can yield a full $1 or more on any given day and a 1,000 or 2,000 share position in one or two names can bring in $2,000 to $6,000 for the day; and that might only be on $50,000 in the market. Investing $300,000 just because you have it is not wise, unless you are sure you have very good ideas and all the trades will work.

Getting good ideas is a question of doing work daily, especially every morning well before the market opens. You must look at your charts every day, since many important moves only start in the last half hour the day before and are hidden by that last hour's

frenzy. You must be ready for the opening on those issues just breaking out, in the last fifteen minutes the night before. Many traders use relative strength measures to find buy candidates, and certainly stocks that have hit a new high for the year, fall in that category. You should make it a practice to keep up on the new high list and only buy stocks within $3 of all time highs in a bull move. They rarely go lower and frequently hit yet new highs every day or so. Similarly, it's not recommended to sell short stocks at new highs for the year, but to sell short stocks at new lows for the year. At least the trend is established at that point and reversals in trend are hard to come by. Remember, if you try to short an all time high because of how high it is, every day in a bull market can be a new all time high, but only one day in many years can be *the final high*. Trying to find that one needle in a haystack can cost you a lot of money.

One of the most famous sayings on Wall Street goes something to the effect that "I always sell too soon and leave something for the other guy," or "I buy late and sell early." That saying has probably cost more people more money than any other, and is probably the worst advice anyone could listen to.

We all know that that's supposed to mean don't get greedy and go for the final high tick, but in reality, if you sell early you're just guessing as to where that final high tick is, and the move may be going up for another year or more. The real truth is that distribution by the big players is always done only *after* the final high is clearly in. Only after those new highs are long gone for six weeks and $10 or more, on the first oversold rally back do the institutions sell out. That way they stay in the trade for years and double, triple, or more, their money and don't care if they then sell 10% off the final high. You should do the same on long term investment positions, but for day trading, keep the principle in mind and don't guess as to where the top may lie.

Trading in the modern electronic era can't be done apart from an understanding of

futures, options and basket programs. Investors don't just trade stocks simply because they think growth or value will give them a return. More and more computerized models are creating synthetic baskets of stocks out of options and futures, to get a rate of return on their money that's both guaranteed and better than Treasury Bills. Many pension funds no longer care where the return on their investment comes from as long as it beats the general market's rate of return. Even a simple strategy of putting 90% of your money in bonds for a guaranteed rate of return and the other 10% in S&P futures that give you the full portfolio amount of capital gain, has shifted vast sums out of the ordinary channels of investment. Synthetic baskets can create the effect of stock ownership without the capital cost. For example, a synthetic stock can be created by buying a call option and selling a put, or using a combination of futures and puts and calls on futures. Most Wall Street firms routinely raise capital by shorting stock and then selling covered puts and using the proceeds to buy calls. That way they get the use of the money and are completely protected from any fluctuation in the stock's price. Many banks in recent years have been selling derivative products that guarantee the investor his money back and also a return, such as 80% of the rise in the S&P Index. They do this by investing 10% or so of the investment in options or futures combined with puts, and putting the rest in zero coupon bonds at a fraction of face value that will mature at face value when they get their guaranteed portion back. Various other schemes are rampant these days and they all require massive buying and selling of index stocks and baskets and can affect the market to the tune of hundreds of points over a day or two. Investors who think that big rise comes from someone liking the recent GDP deflator adjuster, or some earnings release, are only fooling themselves. It all boils down to simple supply and demand, but when the programs are working you must learn how to determine that and not get in the way. The simplest observation I have is that when big programs are working, you will see the S&P futures going in the same direction

as the OEX puts and calls and the momentum will be large. For example, the S&P futures will be up 5 points and the call up 2 points and the puts down 2 points. Note that professionals rarely *buy* puts. They consider buying premium a sucker's game and they only sell premium. If they are bearish they sell naked calls. If they are bullish they sell naked puts. Only when they have inside information, like a big program working, will they sell puts and reinvest the premiums in calls they buy. When you see that, then the market is going up big.

The most common programs these days are "asset allocation" programs where a large pension fund is allocating its investment assets among various classes of stocks, like inflation hedges (metals, papers, oil, airlines – basic cyclicals), or among financial assets (bonds, banks, brokers, insurance, some drugs or foods, and technology). The various mixes are complex, but you can usually see right away what's going on if three or more S&P industrial groups are dramatically down and several more are just as dramatically up. Most allocaturs use standard deviations from the S&P average to decide what groups to buy and which to sell. They might buy those underperforming the index for six weeks, and sell those overperforming for six weeks, knowing that statistically there is a regression towards the mean. When the programs are working, you must go with them, or you will lose money. Often these programs have lists of 200 stocks to buy or sell, and the individual amounts can be 2 to 6 million shares of each issue. The day they show up, you can be sure several stocks will move $3-$5. These programs are so big these days that the fund itself no longer executes them, but puts them out for bids at the big brokerage firms. They may tell four firms what they have and want a net price for the complete basket in three days, or they may ask for a blind bid where the firm doesn't even know what the stocks are, but will be given statistics, such as how closely it tracks the S&P and how liquid the individual names are. If the firms give out the individual names prior to the

winning bid, then several firms will know the package is coming and immediately start front running the program. Only one firm will win the bid, but the others will know it's working and can guess how long it will be around. That's why we often see huge up days in certain stocks, and three days later they jump both up and down radically, as each firm tries to outguess the other that the program is finished and try to sell the stocks back down. The winning firm knows for sure, and frequently will buy and cancel then walk away like it's finished, only to come roaring back for stocks an hour or two later. Traders must learn to note such situations and try and identify as many individual issues in the program as possible, since they will provide many easy trades over the next week. In these environments, cycles and many other technical tools don't work very well until the arbs get finished. Because of all the front running and price gouging in the past few years on these programs, many pension funds have switched to an "average cost" scheme whereby they insist that at the end of the three or five day program, they get the average price on each of the stocks traded. In theory they thought they could outwit those greedy brokerage firms that gouged them on price, but just the opposite has happened. Now the brokers run the stocks up $2 higher than necessary only to smash them down the next day $2 lower than necessary. We now see a lot of reversal patterns every day, where they close at the extreme high one day and promptly reverse and close at the extreme low the next. It's massive manipulation and should be outlawed, but Wall Street is very powerful in Washington these days, so I imagine these basket programs will be here to stay until the next crash.

Many day traders may not think this is relevant to scalping $500 a day, but unless you learn to change with the markets and keep current, you will find, one by one, that the methods you rely on to make a living just won't work anymore. It's a fact of life that the markets have become institutionalized and with computer and electronic execution there will only be more, not less, of arbitrage with various basket programs.

To trade in such an environment the day trader watches every day for signs of group strength and unusual, alternating days of strength or weakness. Normal cycles don't reverse every day, so when you see it, you know it's a working program. Option activity on the individual stocks in the program will also give a clue, since if an average cost buy program is around, the arbs will be forced to short sell the stocks down to lower prices to fix the average for the week, but they hedge by buying huge amounts of calls on the stocks they must buy, just in case the market takes off on them and they get stuck. Anytime an individual stock does 1,000 calls or puts (100,000 shares) in a day, that's an unusual institutional transaction and the stock will usually trade up unless offset by an equal amount of puts, which may indicate the creation of a synthetic stock with little price movement.

One of the primary rules in day trading when looking at options, is that the stock will have a tendency to *rise to the premium level* indicated by the call or put options purchased. This is due to two factors. The primary one is that the option market makers will short the calls without buying the underlying stocks, and wait for a day or two for the premiums to decline, or other volume to come in so they can buy the short calls back. If the stock takes off however, they still don't lose money until it goes through the strike price and approaches the premium they sold. At that point they know they will be called away on the stock so they buy at the market to protect themselves. All the unhedged buying is done just then between the strike price and the premium level, so that by the time the stock gets to the premium level, the buying subsides. The second factor is the common "buy write, " that most insurance companies do all the time with their investment dollars. For example, suppose a stock is trading at $33 and the 30-day call option on the $35 strike price is trading at $1. Insurance companies are usually fully invested all the time and they collect dividends and get capital gains. They would like to buy the stock at $33 and sell a call for $1 and get dividends on the stock. What often happens however, is that some large

investor like a hedge fund, gets wind of a takeover rumor or an impending brokerage firm's recommendation and it wants to buy 1,000 calls (100,000 shares). The market makers don't like to short that kind of volume, so if they do, they raise the premiums substantially, for instance $2.50 from $1. When that happens, the insurance companies who like the stock will immediately come into the market and buy 100,000 shares of stock and sell 1,000 calls at $2.50. This is the same as selling the stock at $37.50 within the next 30 days, and having just bought it at $33 could pick up a dividend too. As long as the premium stays up other institutions will come into the market and do the same thing, and the stock will have a tendency to move to the $35 strike price and if through it, to the premium level of $2.50 or $37.50. For the day trader, such high premiums with accompanying volume, present very easy trades to buy along with the big insurance companies and trade the stock up $2 to $4. These types of trades are highly reliable, with gains of near 90% success. I would urge you to look at an option screen every time you're about to make a trade and first see what kind of activity is going on there. If there's no option activity, the stock may go up, but it's likely to be a slow creeper.

Other types of option activity greatly affect stock prices and the most common is option expirations, with the "triple witch" quarterly ones being the most important. Each quarter when the S&P futures expire, huge amounts of baskets invested in the S&P 500 stocks are either liquidated, or if short, bought back. Normal basket arbitrage consists of buying all 500 stocks, collecting the dividends, and selling the S&P future short against the basket. The premium on the future is kept, since on the next expiration it goes to zero as the futures expire into cash. The rate of return is the dividends and the premium captured, which if rolled over the four quarters each year, can amount to 1 to 2 percent above the Treasury bill rate. Short baskets occur especially when there are "crashes" in the market, and the normally positive premium on the S&P futures goes negative, or to a

discount to fair value, and sometimes an actual discount to the market, as the speculators are expecting much lower prices. In those cases the arbs love to sell short baskets of stocks (because it raises huge amounts of capital they can use), and they hedge those shorts by going long the S&P futures, to insulate the basket from any market gain or loss. As the futures premiums gradually return to normal levels in the days ahead the arbs can sell out and collect those premiums. What traders should be made aware of, is that huge amounts of money can get trapped in these baskets and won't be able to get out until a week or two from the next quarterly expiration. If you went short stocks during a market collapse you might not be able to buy back the stocks and get out until just before the expiration, since the premium levels have moved so far that you don't want to lift a leg on the hedge until the premiums get close to parity near expiration. It's these types of situations that cause market advances of 300 to 600 Dow points going into an expiration after a major collapse like October '87, with the advance starting just before the December expiration, or the September 1998 break, and the big rally into December of that year. The opposite happens if the market has been unusually bullish and everyone has bought long baskets and is fully invested. If around the time of a triple witch expiration the premiums on the next quarter's S&P future collapses, instead of rolling out for another three months with such a small premium, the arbs decide to liquidate the long stocks and wait for better levels. The liquidation of these baskets every day for the two weeks going into the expiration, can cause a lot of damage to the market and you can't fight it as a trader. If the baskets must be unwound the market will go down no matter what anybody thinks.

In recent years the market has just leveraged up each quarter as more and more money flows into the market and many derivative baskets are put on for various investment objectives. As long as premiums hold up (like people buying puts), then the baskets provide good returns and they are never sold. But there will come a day when the market

runs out of money and premiums will collapse and all the baskets will have to be unwound, and at that point another 1929 debacle will certainly be possible. By my way of thinking it's long overdue, but as long as you can finance things at 20 times (5% leverage) the game will continue. A day trader who doesn't understand this will get a real shock, or even a bankruptcy, when a big meltdown is underway due to premium collapse.

Chapter 15

SETUPS

Setups are trading patterns that have great potential to become a winning trade with a big price movement. After all, everybody wants the big move and we study technical analysis to determine the trend and find good stocks to buy or sell that meet our criteria. What we really want, however, is to be able to find big movers.

Over the years I have come to rely on several classic patterns and sequences that usually result in quick and substantial gains. This section will deal with several that I think are timeless and good in any market.

Each day before I start trading, I have prepared a list of patterns I like. I have reviewed the charts on those issues and have looked at 15 minutes, 60 minutes, daily and weekly versions of each chart. I especially like to find "fractals," or similar patterns on each time scale that look identical, and on each smaller chart that looks like it's about to breakout. I find these issues by following a selected list I have made up over the past few months of the most active and most volatile names, and I also do computer screens of some 4,000 stocks that I update every night. This may seem like a lot to many of you, but these days a daily data bank update service for 8,000 stocks, or even unlimited issues is only $50 a month. Software is abundant and often free with the service and only your criteria for the search needs to be thought out. I like to do my own programming so some of my stuff is pretty elaborate, but it's not too hard to replicate if you look around.

After I determine my bias as being either bullish or bearish based on weekly patterns, yesterday's action, or cycles, I then try to find the charts. Uptrends are ones I want to buy, and in a few select cases only, reversals in trend. Reversals are much more dangerous, but I especially look for whole groups to reverse and if that happens I will buy or sell them. I always start with *4 higher bottoms patterns* to determine an uptrend. Three might work but often fail, four is better, but with five it's almost impossible to still be in a downtrend and *I assume* I'm buying the fifth higher day if I'm watching the stock going up. I'm only looking for higher lows here. I also prefer to find "creeping" patterns with slow accumulation that has not exploded upwards for several points and attracted a lot of attention. If I find such a chart, I look to see where in the 3.25 week pattern the stock currently is. Preferably, it has just completed a 3.25-week or 17-bar downtrend, and has *signal reversal bar* and is now completing a fourth or fifth higher low. I also look to see if the downtrend completed an *average measured move* so that I can use a reasonable stop below that amount. In terms of volume I like to see declining volume the last few days going into the low with the lowest volume on the low day, and now increasing volume while the stock is starting back up. If all this is present, I will try and buy the stock 25 cents higher than yesterday's low, unless it's a clear momentum breakout on the opening. In that case, I'll often chase it, and I'll often buy half a position at the market and wait until mid-day to see if I can't get the other half a bit cheaper. In most cases I expect to get $1.25 to $3 on the move and will hold for two to three days if it performs well. I will take a big profit like $1.50 or more if I get it the first day, otherwise I'll wait.

Besides using four higher bottoms patterns, I go through all my charts (a one second glance at all 4,000 takes over an hour!), or I will just look at the 30 Dow Jones, the 75 Institutional Index names (XII), the 100 NASD actives, or a select tickler list of 200 issues. I must do this every day to get a feel for what happened the day before, and to look

for new rotations. I'm always on the lookout for the "3:45 hook" pattern where a stock breaks out to the upside in the last fifteen minutes of the prior day. Those patterns are always explosive. I also look at 30 key index charts for group rotation. While I'm doing this I have preset my computer to draw vertical lines on my charts at key cycle points, such as 45 and 32-week cycles and 3.25 weeks back, so that I can see if that was a high or low to the day and thereby know if today is a cycle turn. Sometimes I use 45 and 90-trading day cycles to look for big moves.

Some common "filters" I use are:

1-Range expansion. I like to see a big move the day before that is larger than anything seen in the past two weeks. The "width" of the bar is the key and it should be impulsive. If it is, a big move for three days usually follows.

2-Signal bar reversals. My computer looks at yesterday's bar to determine if the day before was the extreme high or low bar for the move. It then sees if yesterday's bar exceeded the low of the high bar, or high of the low bar, as the case may be for sell and buy signals.

3-Squareouts. My computer spits out stocks that are 35 bars from a price of $35 etc. I also look for stocks hitting 50 cents to $1 off the square root of their extreme high.

4-Stocks within $3 of an all time high. Most big winners only rest three to four days before making another new high and they rarely drop more than $3 if they're still in the "attack mode."

5-Trendline breakouts. I usually don't use simple trendlines unless they're found on a weekly chart and go back a long ways, at least 9 months to two years. When you come to a major cycle, such as a 10-month Jupiter Saturn harmonic, or any other long-term cycle and the trend line has been in effect that long in one continuous direction, then trendlines work wonders and big moves are possible. Daily trendlines are almost worth-

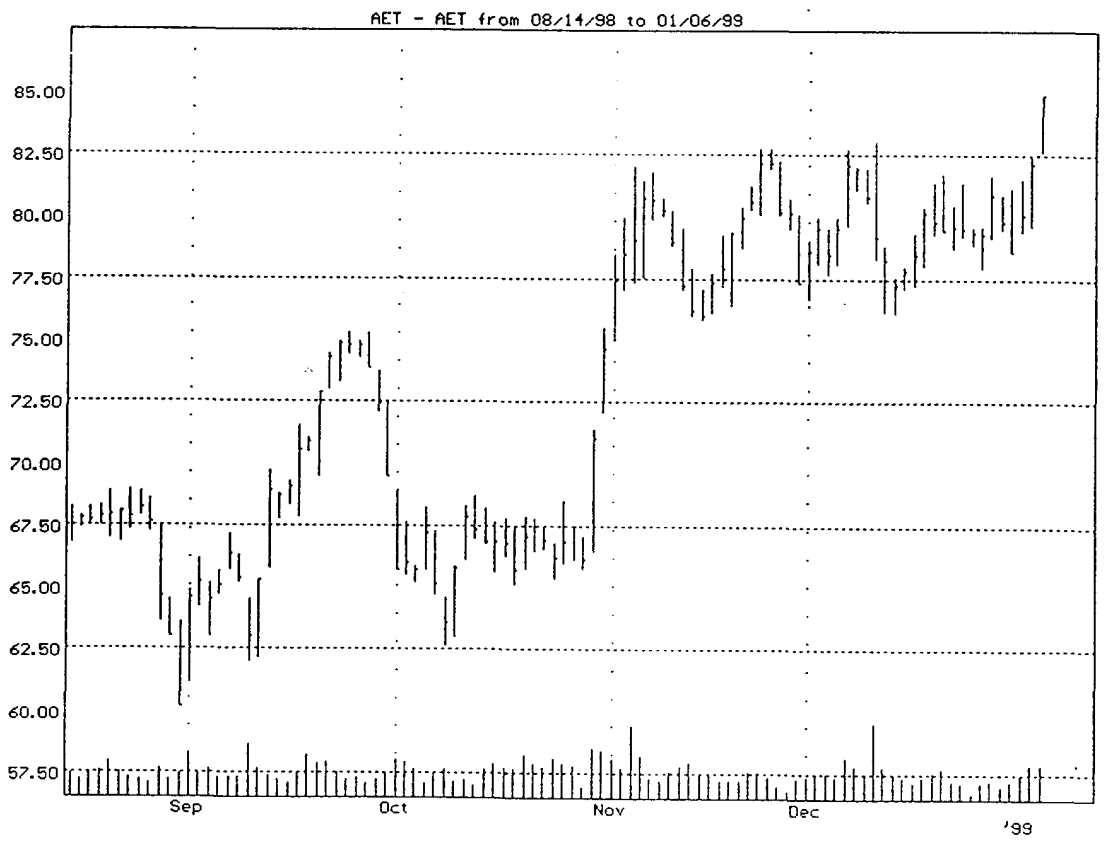
less unless they are at a very critical juncture and most inexperienced traders wouldn't recognize that anyway, so I don't recommend that you use them.

6-VARIOUS CYCLE COUNTS. I include here 45 and 90 bars, 45 and 32 weeks, 3¼ weeks, and especially 55 Fibonacci calendar days from a final high. If you remember the 1987 crash you'll recall the low occurred on the 55th day from the high, and this is a typical climax time cycle. I often find good lows 55 days from a big high.

Let's look at some charts now to see what we should be looking for.

Chart #198 is a chart of Aetna and it shows several interesting features. The first is the obvious new high breakout that turned up on a 4 higher bottoms scan. Also note the

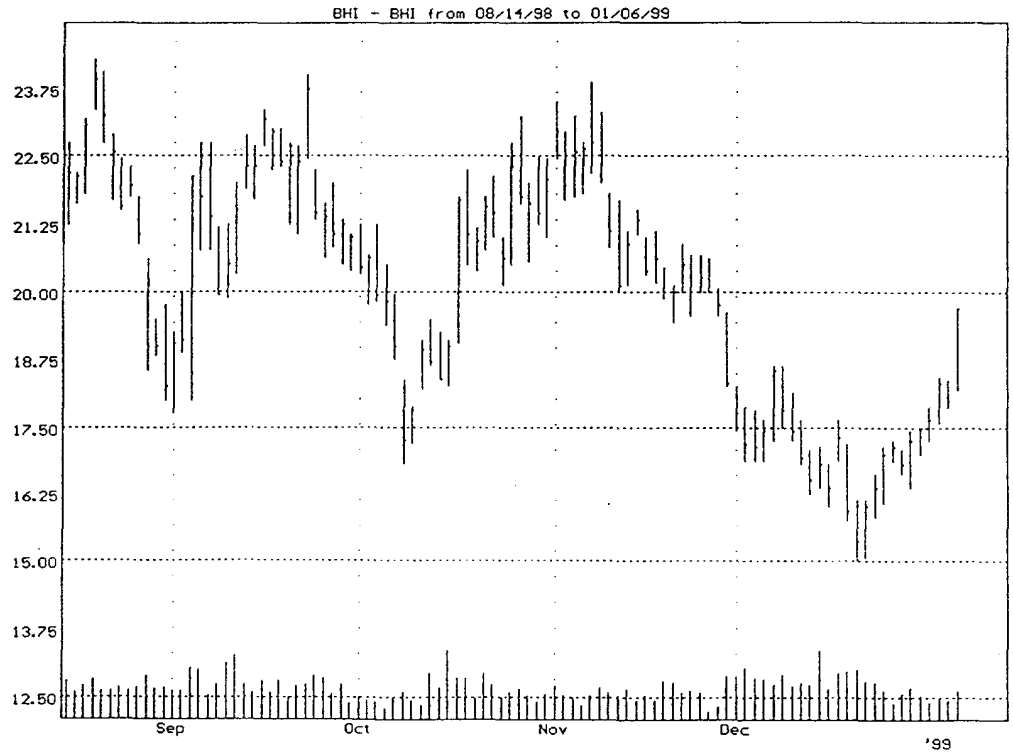
Chart 198



close at the extreme high possibly indicating range expansion for an impulsive wave. The stock is breaking out of a two-month sideways consolidation and that much trading on the side should provide enough buying to last at least three days and perhaps $5 to $10 dollars. It also follows the November dramatic impulse wave to the upside so the breakout is probably headed for record new highs. Each of the swing lows during the last two months ended at the same level, indicating good horizontal support and continued buying. What's wrong? Only two caveats are in order. First, it's the 16th bar up from the last low in a continual uptrend, so that a 3.25-week climax may be here. And second, from the last low 4 bars back it's an approximate measured move, so it must have enough momentum to go two or more measured moves up, or it will fail. In terms of normal chart reading, 100% of all traders would buy this, so if you're early you'll have the wind behind you and an obvious stop out would be falling back below that top of the base at $82.50.

In Chart #199 Baker Hughes shows a range bar expansion indicating a breakout

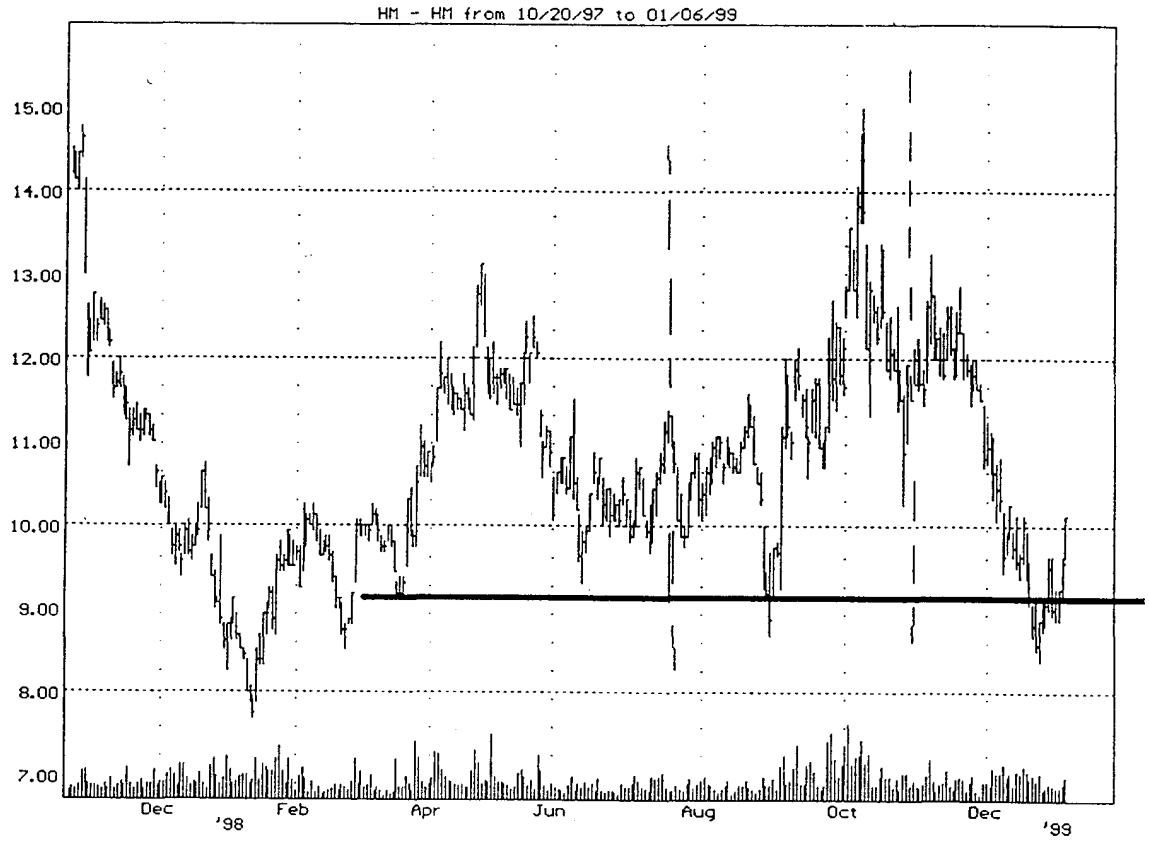
Chart 199



that most traders would be afraid to take. That's because of the long downtrend with new lows every few months, and the stock appears to be just under major resistance. There's a big difference this time, however, if you look at the current advance. It's clearly an uptrend with a series of higher bottoms that hasn't been seen since October. The classic buy signal is when you have former lows as you have here, in September near $18, and again in October slightly lower, and then a big low in December at $15. The current bar has re-gained all three levels, so that you basically have a triple bottom breakout to the upside. The odds are good that the current rally will at least test the big high near $22.50 before consolidating, so this would be a good trade with a stop at the low of the current bar.

Chart #200 of Homestake Mining shows multiple foldbacks that all suggest a big advance just ahead. The stock has just had a 5 to 6 day advance that was bigger than any

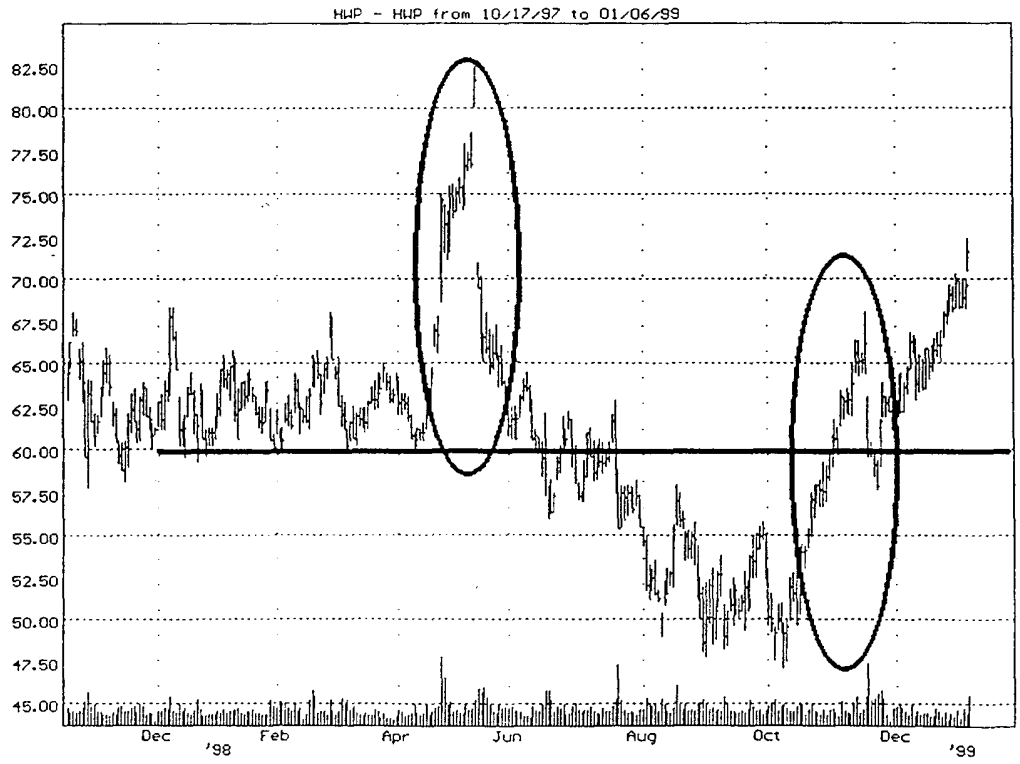
Chart 200



seen in the past two months, and the most basic rule in all chart reading is that when you see a move bigger than a prior move, a change is coming. The stock stopped at an area of multiple prior lows demonstrating long-term support and has regained the last breakdown point. All of this suggests a possible reversal in trend on a long-term basis and as long as each correction now holds a higher bottom, you would trade this one long every time it starts up. It is important to emphasize that once you identify a stock in a long-term trend, especially one just beginning, you can exploit that trend for months to come without taking losses, if you use a wide stop. The trend will always bail you out and corrections rarely go past 3 weeks, so that if you buy a dip correctly, you should be able to make money on every trade.

Chart #201 of Hewlett Packard is interesting since we can see an obvious pattern that is somehow repeating. The steep angular advance is identical to the prior one, but

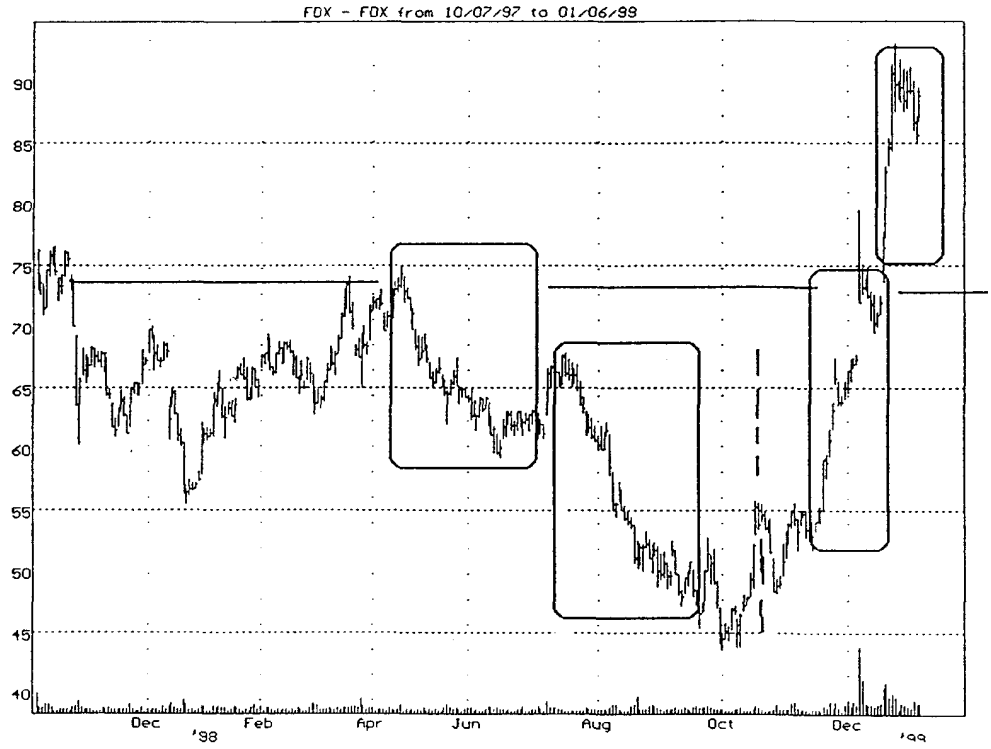
Chart 201



after the top we don't see a collapse like the last time. That "inversion" suggests that a new, and more bullish cycle is working, and since a second rally has now gone to yet a new high above the fractal pattern, we can assume that this stock will go significantly above that long base that was regained near $60-$63. That base held for more than a year, so the advance would normally be at least 50% to 100% above that range. Obviously, a consolidation phase is in order for about 3.25 weeks and it should pull back to $60-$63, but after that I'd look to be a buyer each day that it advanced.

Federal Express recently exploded upwards in the "Internet craze" and long term it may go higher. Chart #202, however, seems to indicate a correction ahead as the target movement about the foldback point seems to have been met. The two rectangles on either

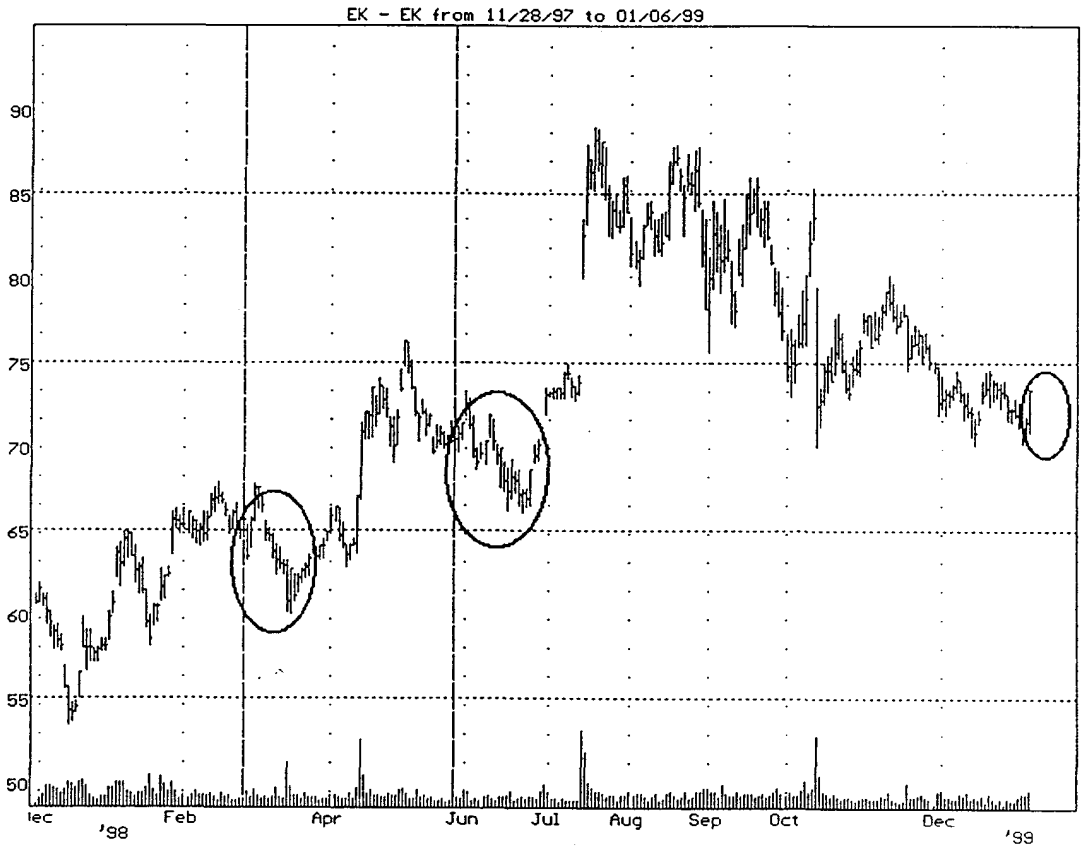
Chart 202



side of the dotted foldback line seem to be similar in proportion and vector distances, so that if the foldback continues to the left, it could take several months to digest this advance. A pullback to that horizontal support seems the minimum outcome and a day trade short might work.

Chart #203 is a very good example of a 45 and 32-week cycle setup. The vertical lines are 45 weeks back and 32. As you can see, they suggest a sharp two-day rally to be followed by one last drifting decline, and then a very explosive advance that could make a lot of money in a few days. The current chart pattern looks like it's getting ready to advance again having just declined almost 6 months back to the point of the last impulse

Chart 203

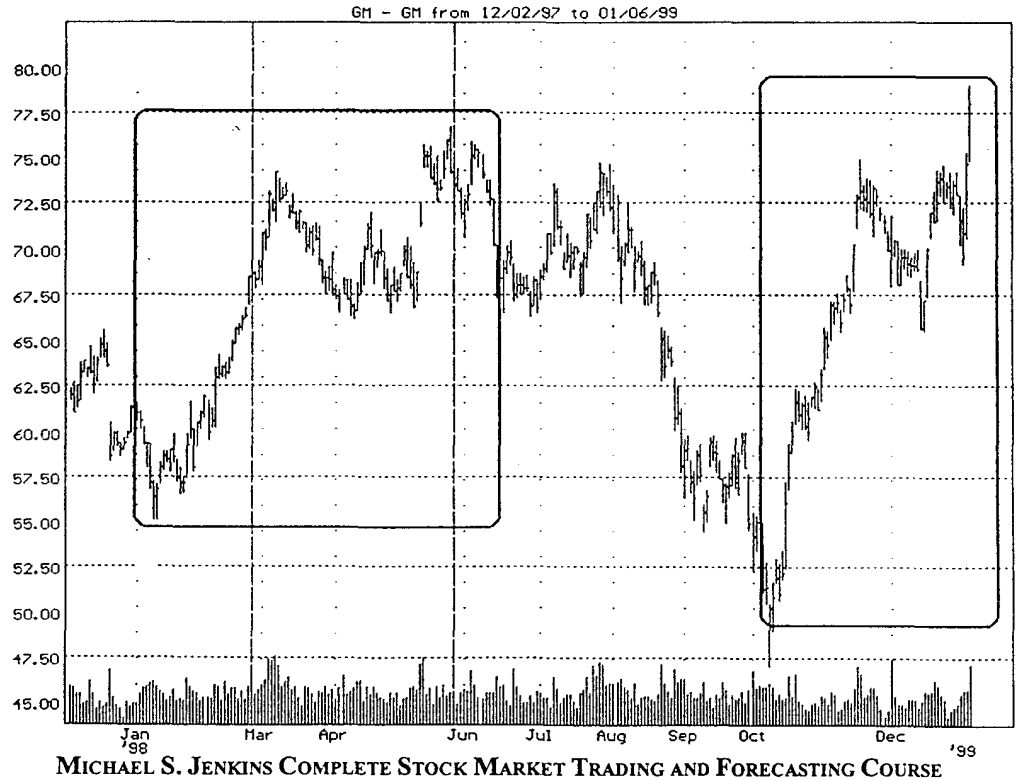


wave. The fact that both the 45 and 32-week cycles show identical patterns coming up is usually a sign that they will indeed hit. The only question is, what if they came early, and that last drifting decline was just seen and now the big move is here? To determine that, we could look at the last series of 3.24-week cycles and put on some Gann angles to get a squareout, for in reality, when you're day trading, you can buy and sell everyday and thus let strategy take care of it. This means to use a stop that logically fits the expected pattern. An explosive advance will go far and fast and not come down, but a two day advance will

tumble back to the origin and set up a short for that last decline expected. Tape reading could help clarify the issue in question, and I frequently have a list of several patterns that have big potential but could go either way and require fine-tuning by watching the tape each day until the turn is made. Frequently, a brokerage house recommendation hits exactly with the cycle turn and it's easy to go along since the cycles support it. I also watch the options page for large put or call activity around these patterns, for justification of their outcomes.

Chart #204 of GM also shows strong cyclic similarities, especially with the 32-week cycle. That cycle calls for a top, and the pattern over the past two months for GM seems to mirror the pattern from 32 weeks back for two months. The 45-week cycle tops in another 6 to 7 days, so that some topping pattern may be seen and then GM will probably decline. Both cycles show the next six weeks to be a choppy trading range and after GM's current explosive move from $50 to $80, that's just what you'd expect with a pullback to the old highs near $72.

Chart 204



Chapter 16

ADVANCED APPLICATIONS

In this section I will show some very interesting applications of the various theories I have developed in the previous pages. Not all of these may be relevant or in sequence, but I include them here for serious students who want to go the extra mile and refine their skills. Many of these charts are only meant to point you in the right direction without explaining every subtlety; I leave that for your further research.

Chart #205 is a very interesting "countdown" sequence that acts like natural numbers squared as in the Gann Square of Nine chart. In this case, however, it's a sequence of square root increments that are decremented and then re-squared. The origin is August 12, 1982, the birth of the bull market. The price that day on the Dow Jones was 770. The figures on the chart like -5, -4, -3, -2, -1, 0 are the square root of 770 decrements by those numbers and then re-squared. The resulting number is then *calendar days* from that low. Note how these almost hit every high and low exactly to the day and this is two years after the event! It's also interesting that the -1 and 0 points were the start of the biggest upsurge in stock prices in history.

Chart #206 has only been shown to four close friends over the years and hopefully you will understand why. There is a lot more to arc analysis than the simple drawing of circles on your charts. Each and every angle that subdivides an arc creates both support and resistance, and that specific point in intersection will tell you whether a high or low is

expected at that specific time. Note on this chart how one circle describes the entire 30 year history of stock prices, but especially note how each 30, 45, and 60 degree angle divides the circle, and at that point defines the next bull market leg up or down and its major support and resistance levels!

Chart #207 shows the S&P Index with the use of adjusted angles to project prices and the use of a circular arc to define resistance and a future low. Note how the initial 45-

Chart 205

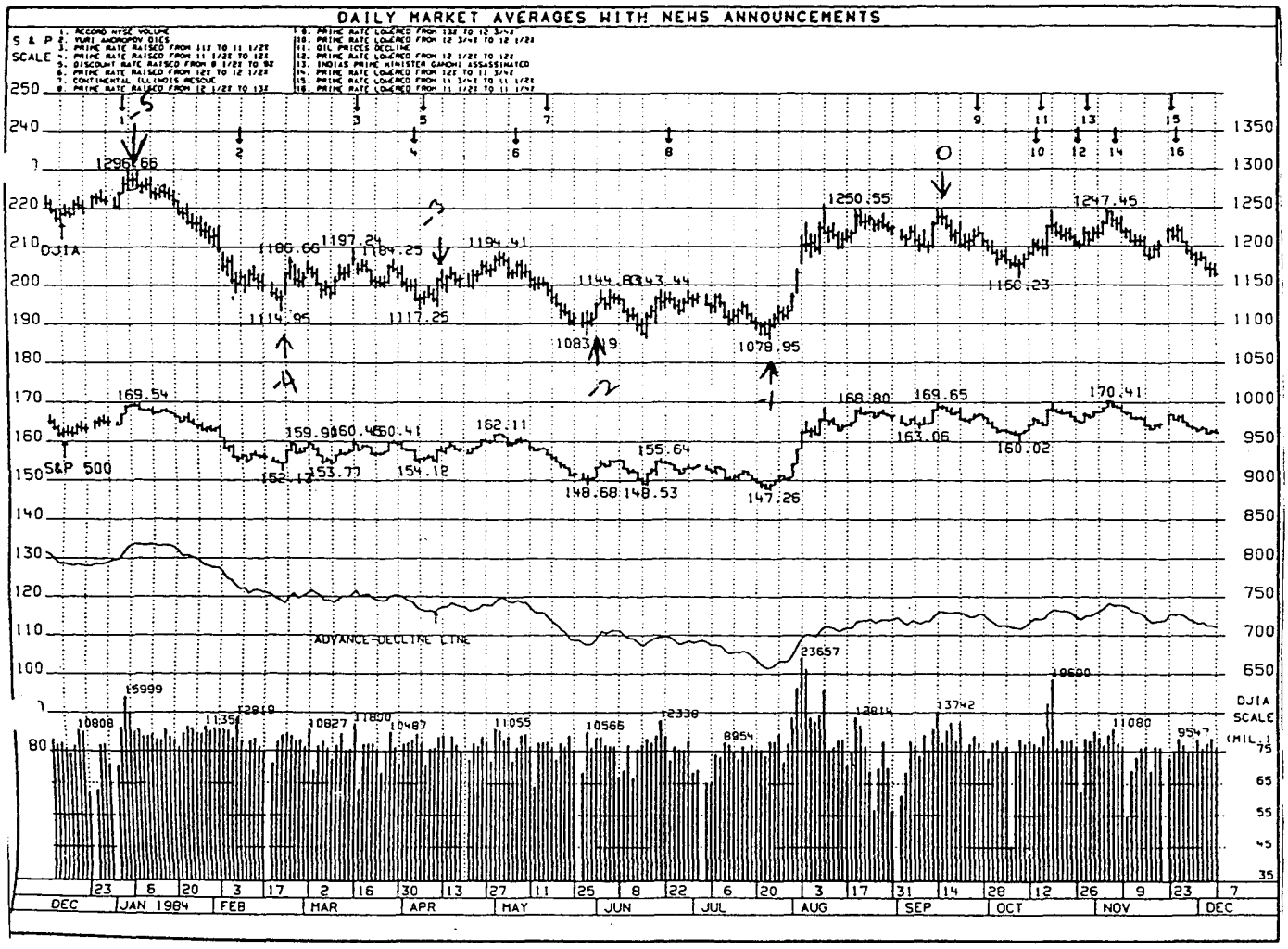
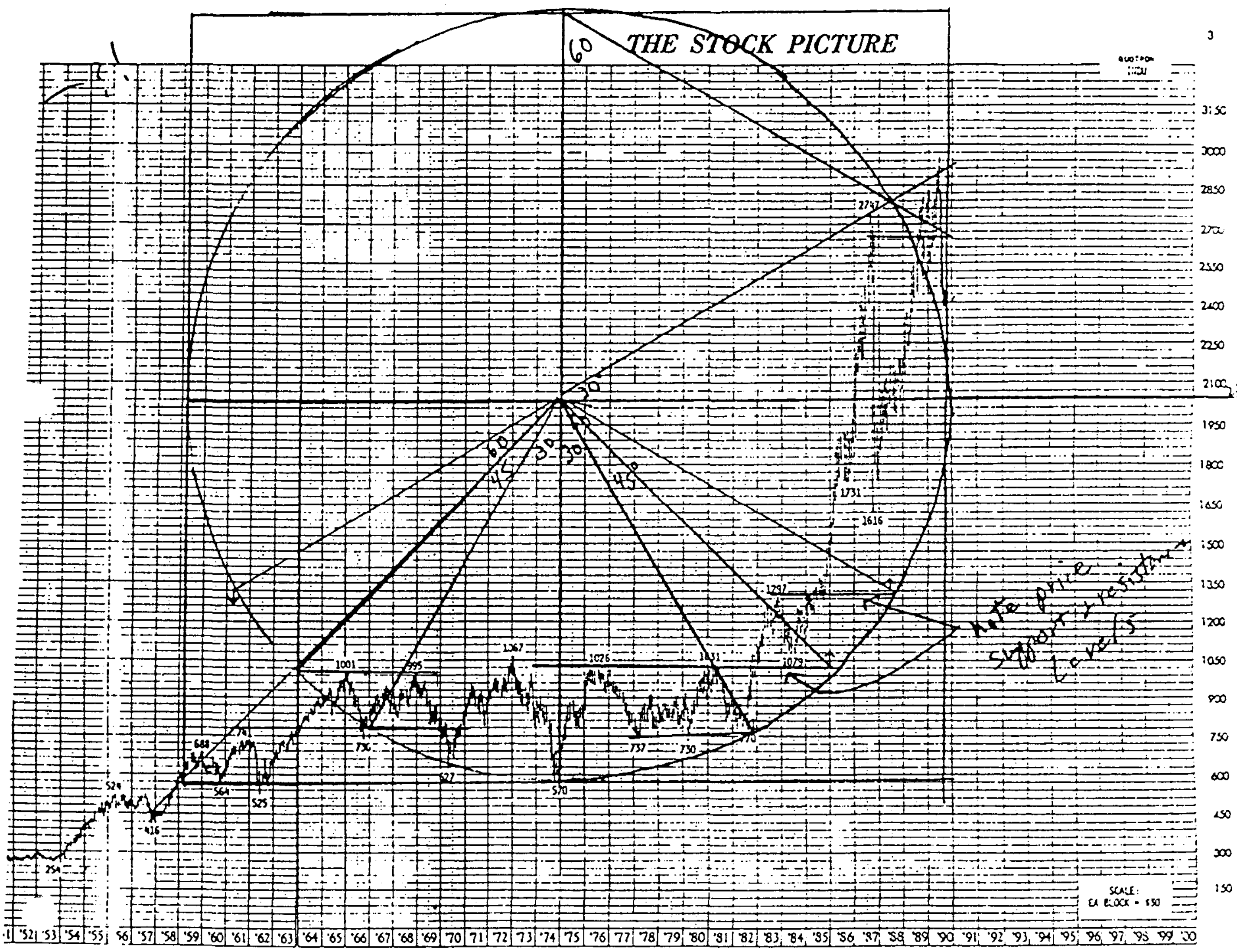


Chart 206


THE STOCK PICTURE
60
30
45
Note price support resistance levels

degree angle from the first top ultimately caught the October crash low, but that the second 90-degree angle from the low to top also pointed to that low, and the intersection of both powerful angles led to a significant squareout. The arc was then drawn to give us an upside target. The market subsequently broke through that arc, but died at the horizontal resistance from the top of that arc. I would now lay on a 90-degree angle coming up from the low and last top, and that would define the long-term primary bull move.

Chart 207

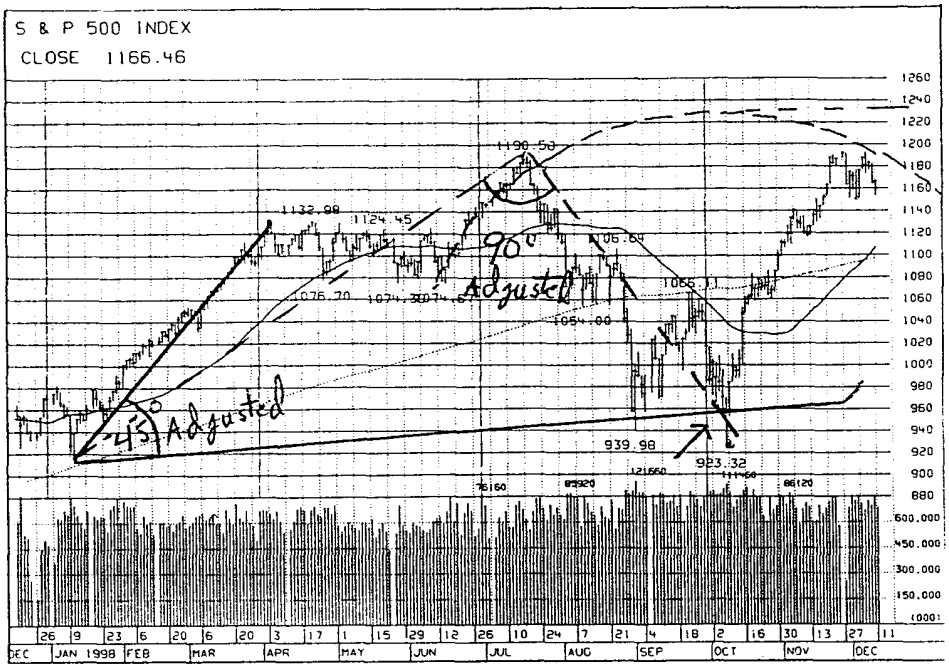
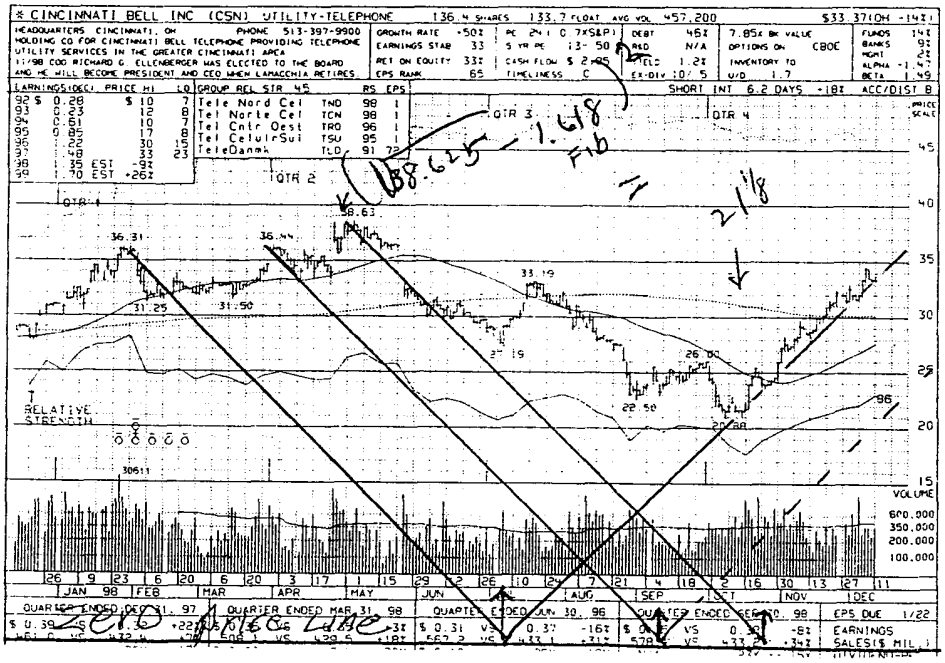


Chart #208 shows the zero-angle technique of using timing lines to squareout three highs. Note that at the bottom, each line causes a change in trend at the date of the squareout. I have continued the first angle back up, to show you the major support angle, which is always a great trade because nobody knows that trend line is there, and it almost always holds. On the third and final top at $38.625, I show the target of $21.125 by subtracting the important Fibonacci number 1.618 from the square root and re-squaring. I have done

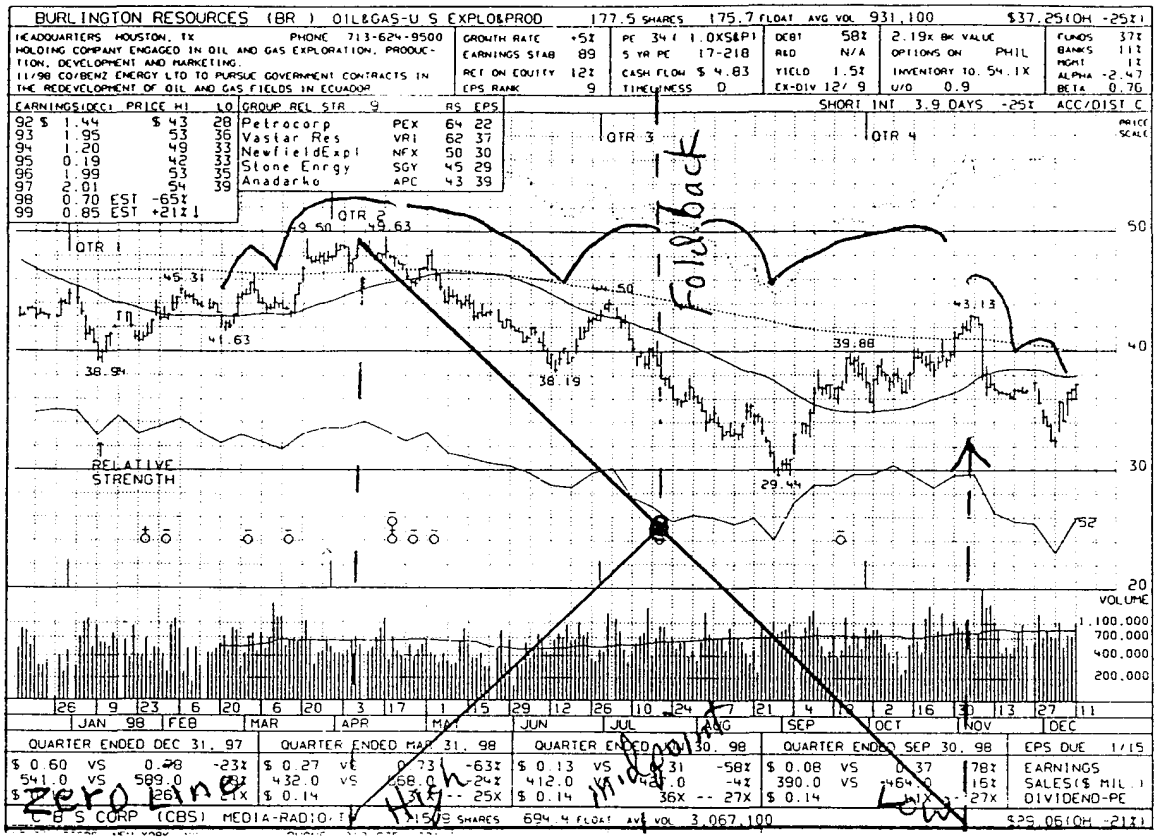
Chart 208



this to show you that at every important low there is both a price and time target, and that here we have the timing angle and the root system meeting at a major low. The dotted angle is future support on the next breakdown.

Chart #209 shows a proprietary method I use to discover mirror image foldbacks. If we assume a major top will complete a full square when the timing angle hits zero, then we know where the midpoint of that pattern will be long before the pattern completes. Under the top I draw a 45-degree angle up to intersect the one coming down, and that determines the midpoint. The foldback should take place about that midpoint if it is to foldback. Note especially on this chart how the patterns repeat, but note in particular the

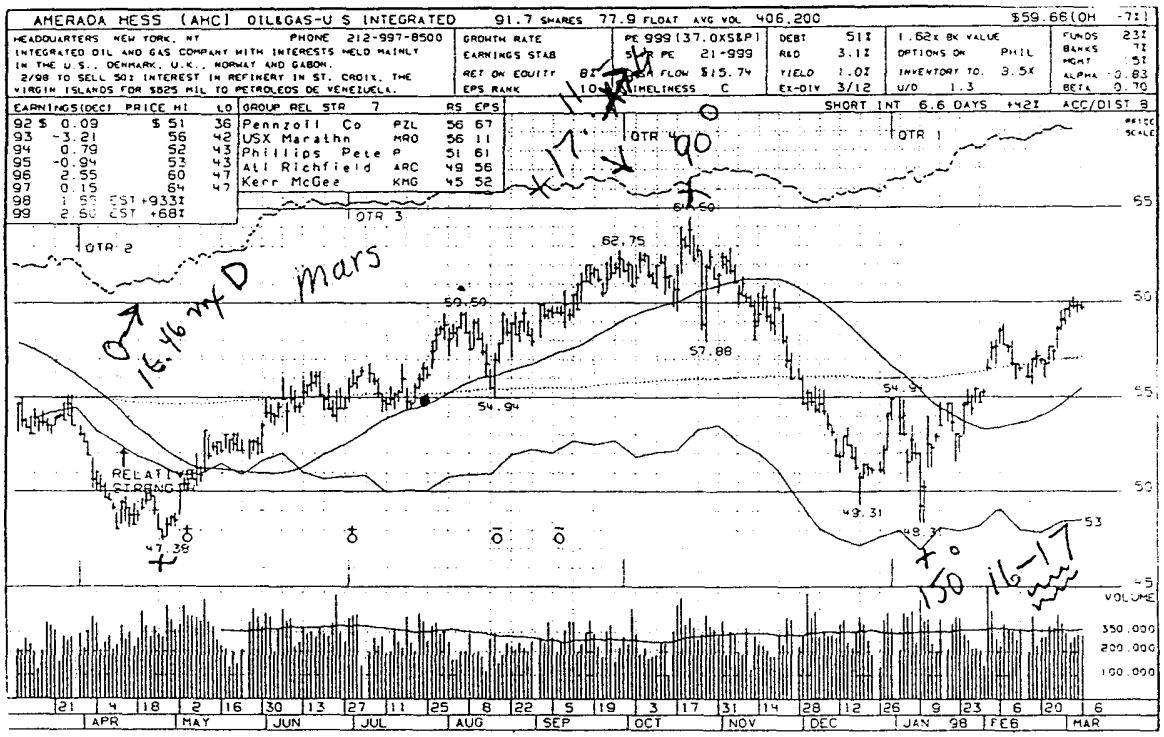
Chart 209



last top above the zero line low and how that shape is identical to the top that spawned the angle, only backwards.

Chart #210 is the best example of why I think you should at least think about incorporating astrology into your trading. This is the chart of Amerada Hess and during this time period it was obviously vibrating to a Martian influence. At the exact low day

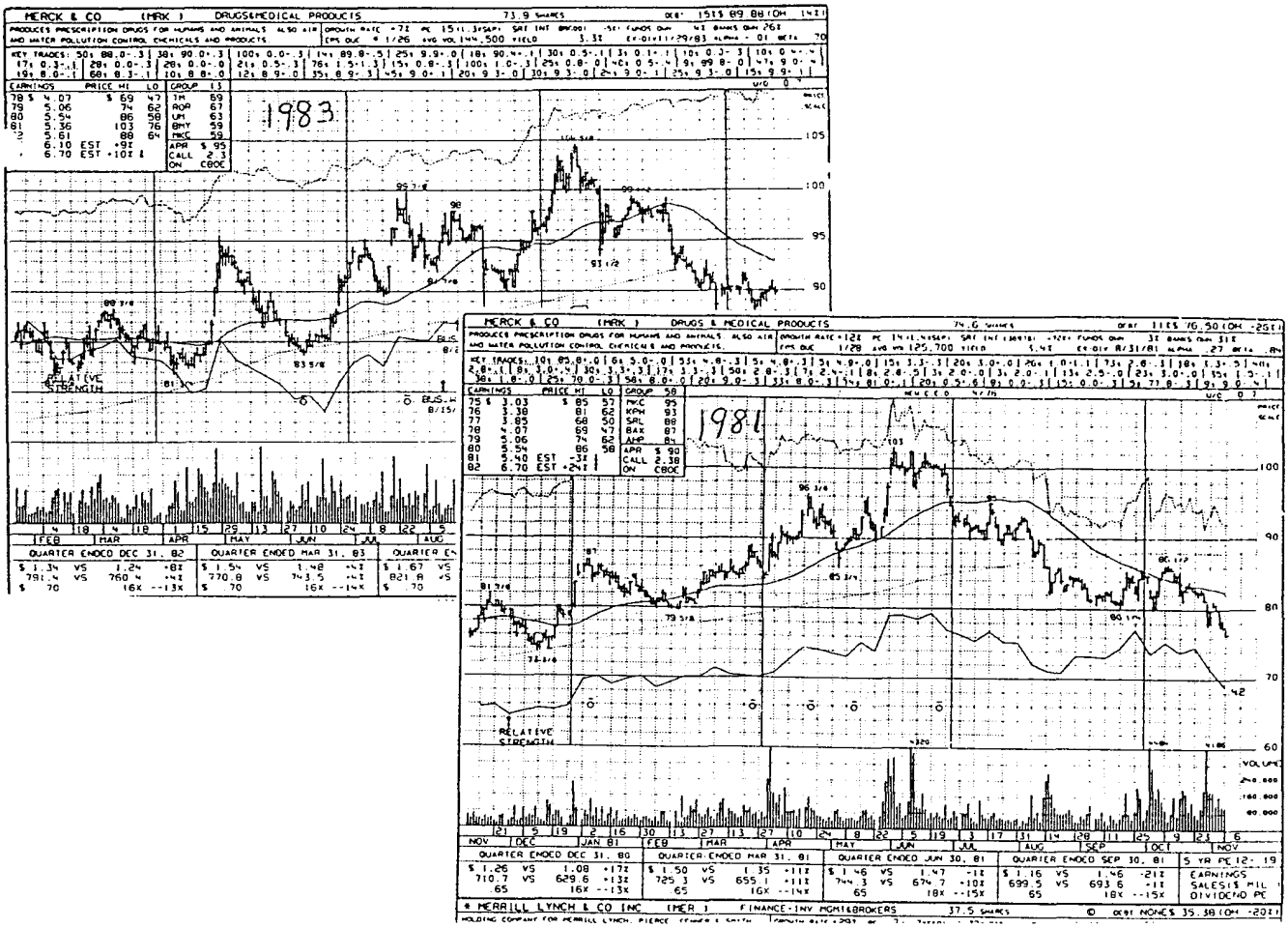
Chart 210



indicated by the "+" Mars was 16.46 Virgo and at its stationary direct point changing directions and coming out of retrograde. It then went forward exactly 90 degrees to 17 degrees Sagittarius on the extreme high day, and then it dropped to 150 degrees at 16-17 Aquarius at the exact low! You won't find a more perfect example of a stock following a planet.

Chart #211& 212 shows an interesting overlay of Merck at two-year intervals, or to be more precise, about 2.4 years if you line up the tops. The prices are almost identical, so it pays to review past years to see if they are repeating. It's hard to tell exactly what planet is causing this since there are multiple aspects at all the turns, but one obvious choice is Saturn which goes exactly 30 degrees in 2 ½ years. In June '81 (the top) Saturn was 3 degrees Libra and in October '83 (the top) it was 3 degrees Scorpio. Is it just coincidence

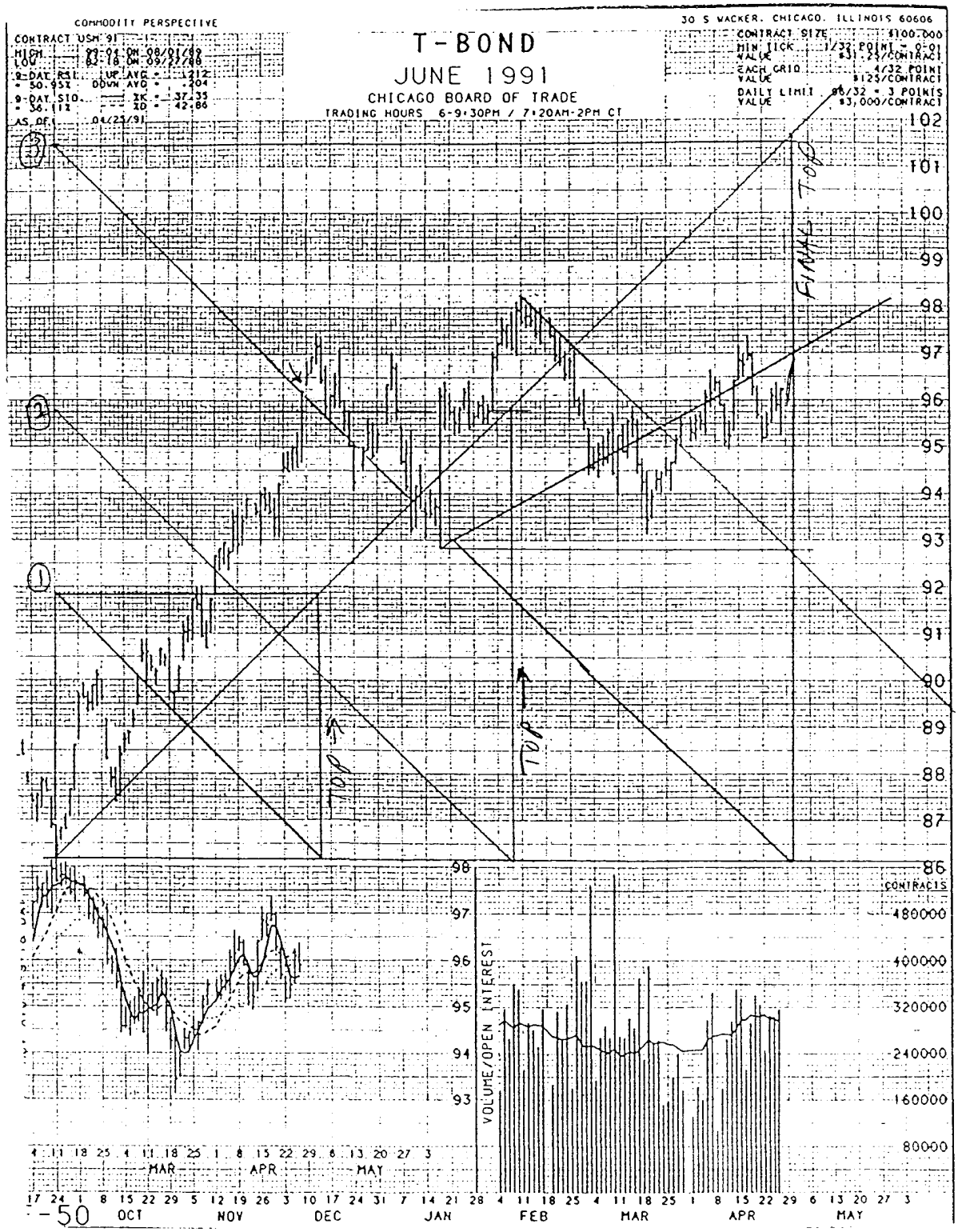
Chart 211 & 212



that the high was 103 with Saturn at 3? You'll also note that on the '81 chart, the first big low was December '80 the time of the Jupiter/Saturn conjunction, so that as Saturn went 30 degrees from this point it would also be significant.

Chart #213 is my prized discovery. I thought long and hard before putting it in this course because, though the work is worthwhile, few people want to take the time to do it, nor do they understand it. For those of you who do it, I hope you use it with discretion. I was looking for a universal way to calculate the "Final High" from only the initial impulse wave early in a move. Normal Fibonacci expansions or wave counts don't work and leave much to subjective estimates. This, I think, solves the problem. First, you won't understand the figure until you purchase a small plastic 30, 60, 90 degree triangle instead of the standard 45, 90 degree one. This is because the figure is disguised as to where the origin is and how we get the calculations. If you recall prior sections you already know that to adjust time and price to equality I usually swing an arc up from the first impulse wave to get the correct top for a box, as I do not use the top of the impulse wave itself. In this chart the final low at left gives an initial top on the 10th bar up counting the low bar as 1. I put a 30-degree triangle on that point and draw a line up and *backwards* to over the low bar (this is not shown in the chart). This is point (1) labeled on the chart. This is how we start. Once we have this important point all the others can be derived. We now use a standard 45-degree angle to draw down to intersect the low of the low and we now have our first square. That low intersection shows the first "top" and if you look up you will see it caught perfectly! We again take our 30-degree angle and place it at this low of the first square and again draw it backwards until it intersects the first low origin. This is labeled point (2). We again draw a square around this point to get our 2nd top, shown as the angle goes down to intersect the bottom. The final step is to take our 30-degree triangle again, but instead of measuring up from the low, we measure up from the top right hand corner of box one to get point (3). You must do this yourself to fully get the feel of how it is done. On some very powerful moves the third angle can come from the bottom, but I'll leave that exercise to you. Here on this chart we have three exact hits of highs, and the final one did indeed end the bull move for this future for quite a while. Why does it work? Well it

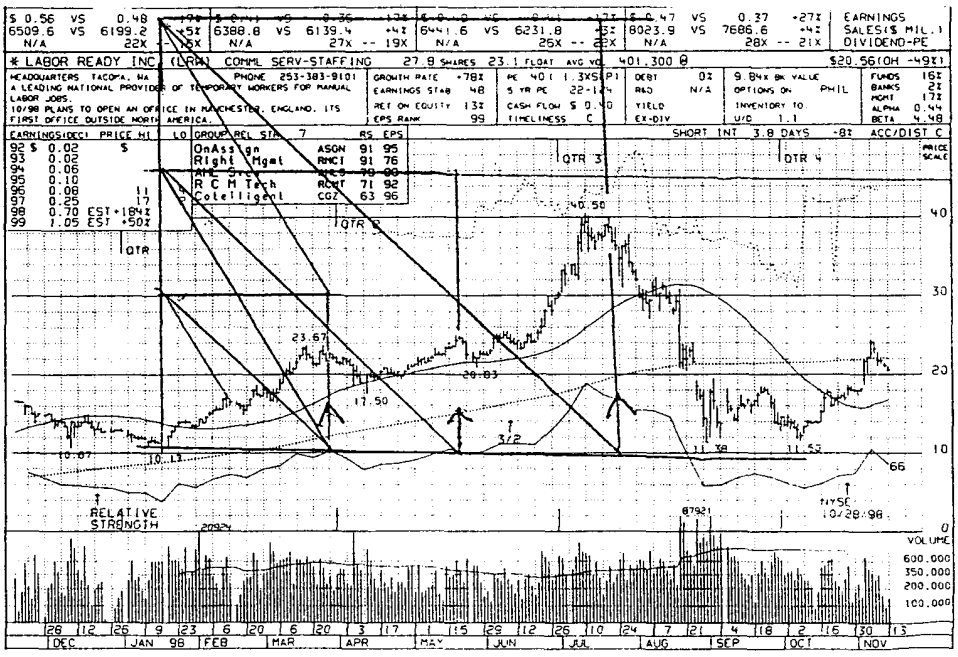
has something to do with how I told you that the square roots of two, three, and five recreate all numbers. Much is said about the root of 2, and the Fibonacci sequence comes



from the root of 5, but little is made of the square root of 3, which is 1.73 and whose inverse is .577. Most final high expansions come from this 1.73 factor in its many forms. The way it worked here is that the Tan of 30 degrees is .577, so that our 30-degree angles spin out these harmonics. In recent years, I have come to possess some of the great Edson Gould's work papers and sure enough, in faint scratchings on his charts, there are scribbles of 1.73 and .57. I think he too, found a use for this ratio. More could be said, as to horizontal support and resistance with these boxes and arcs swung up and down from them, but I'll leave that to you. I'd study the chart and try to apply it to other charts you trade.

As an afterthought, I made a quick drawing of this technique for a stock as seen in Chart #214. It's a little sloppy but you'll get the point if you study the first chart. By the

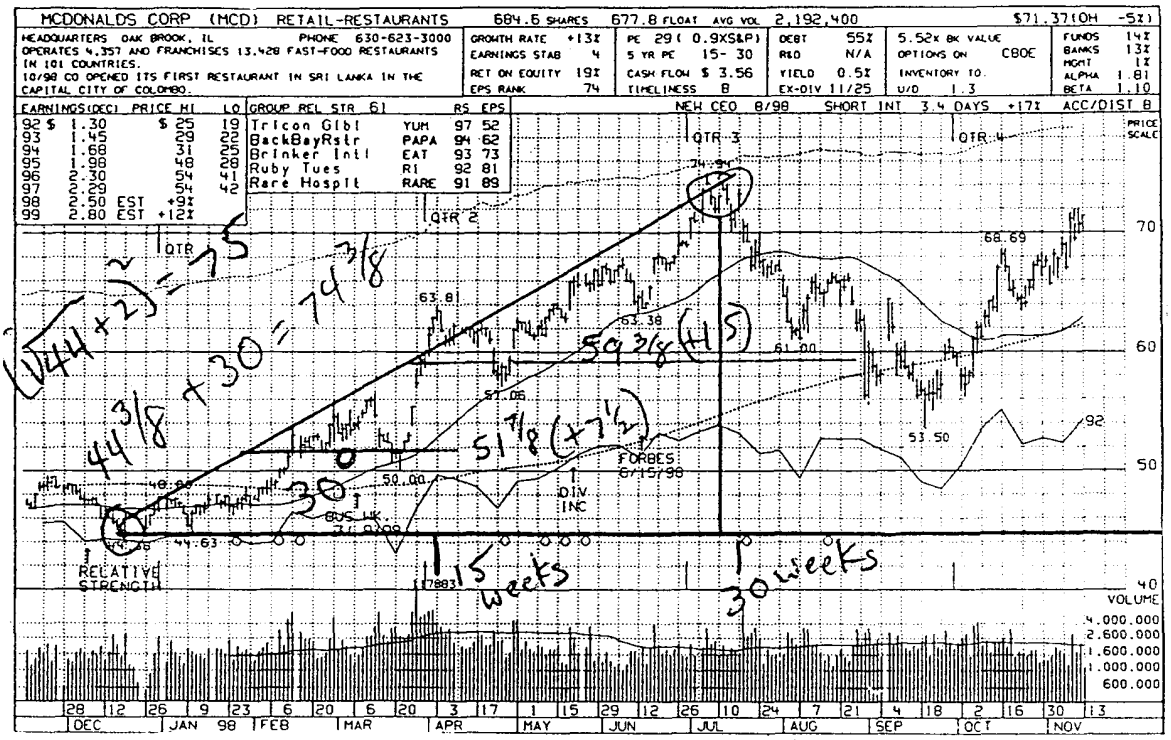
Chart 214



way, is that third top Final or what?!!! Please give me a footnote when you steal this one for your own courses and lectures.

Chart #215 may look basic and *it is.* The problem is that most people don't grasp simple ideas until they practice for a while. In the Support and Resistance section, I mentioned how the degrees of a circle of 360 are divided by 2 and by 3 to get harmonics, and how Pythagoras stated that the "lift" of an angle pointed out specific points in time and

Chart 215



space. In stocks *measure the angle of ascent* to find the ultimate price target. The 45-degree angles (11.25, 22.5, 90 or 7.5 deg, 15 deg, 45 deg) have price harmonics of the

circle divided by 2, whereas the 30-degree angles (30, 60, 120, 18.75 deg., 33.75 deg.) have price harmonics of the circle divided by 3. In this chart of McDonalds we see an ascent of 30 degrees as the angle, therefore price targets will be the low (44.375) plus 7.5, 15, 30. These are in terms of both *time and price.* The ultimate target is the root plus 2 (one circle of the Gann Square of Nine), or about $75. Furthermore, it should be $44.375 (low) plus $30 (30 deg harmonics) or $74.375. We should also see time harmonics of 15 and 30 and both main tops were at 15 weeks and 30 weeks. More could be said but I don't want to complicate what is a very simple chart.

Charts #216 and #217 are two examples of using a mirror axis to reflect support and resistance. Besides using a foldback to reflect time cycles, support and resistance naturally arise, since as you know by now, time and price are the same thing and their

MIRROR AXIS TREE SHOWING SUPPORT AND RESISTANCE GENERATED FROM PRIOR HIGHS.

Chart 216

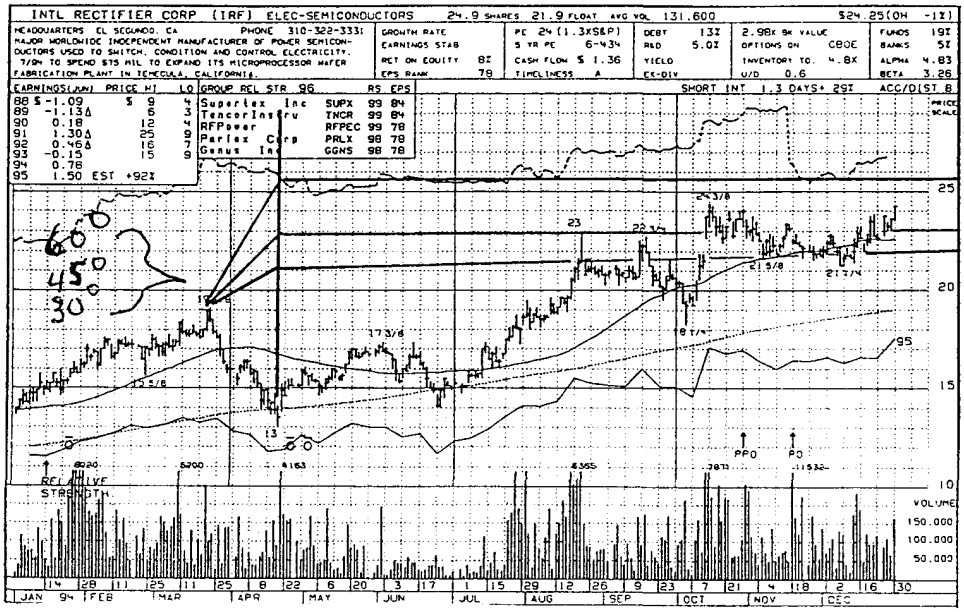
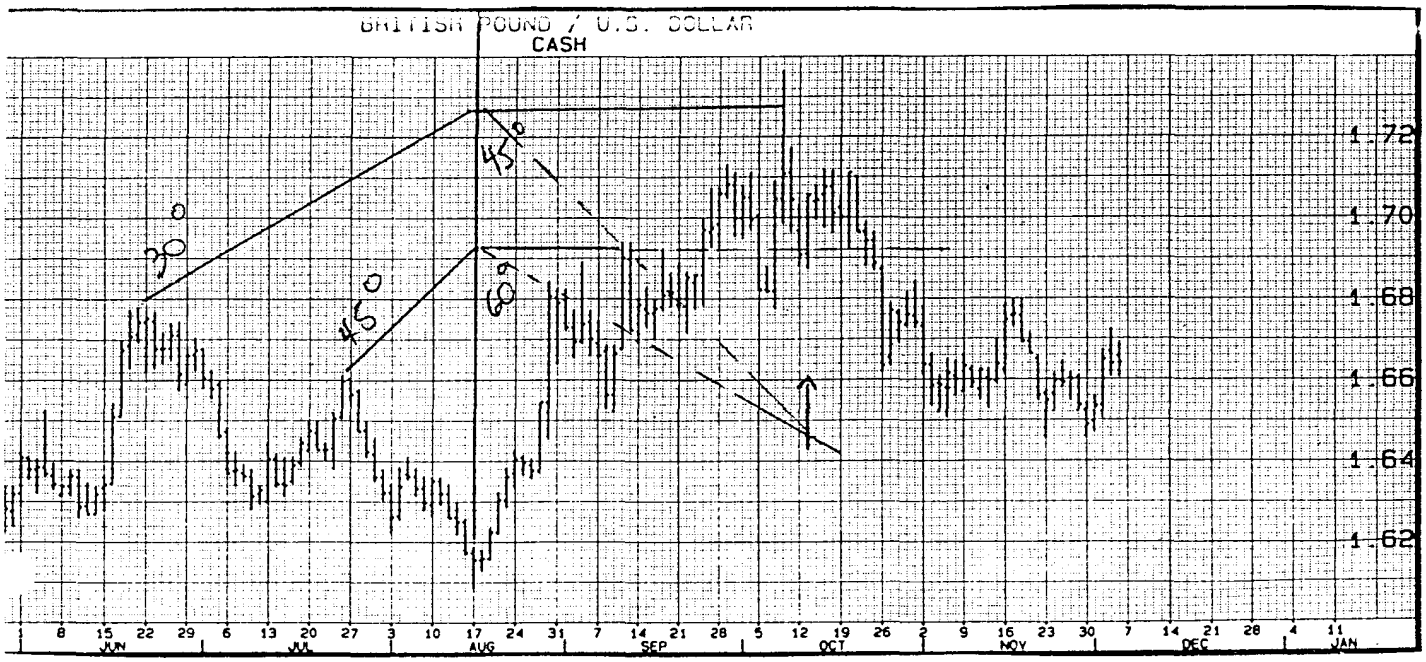


Chart 217



vector components can be mixed and matched to form a number of patterns that are harmonical. What is not shown, but is a very interesting exercise, is to use such a tree on a long-term chart, such as 10 years, and particularly with commodities or currencies. In those cases the long term foldbacks into the low give rise to all the bull market corrections and support and resistance numbers coming out of that low.

Clamshell Patterns- Projection Angles

One technique for forecasting targets that is very reliable is through the use of "clamshells," or our square root of three segments. These semi-circles are constructed from a final swing just before a major move. If the swing is down it gives a bearish target,

Two Bullish

Chart 218

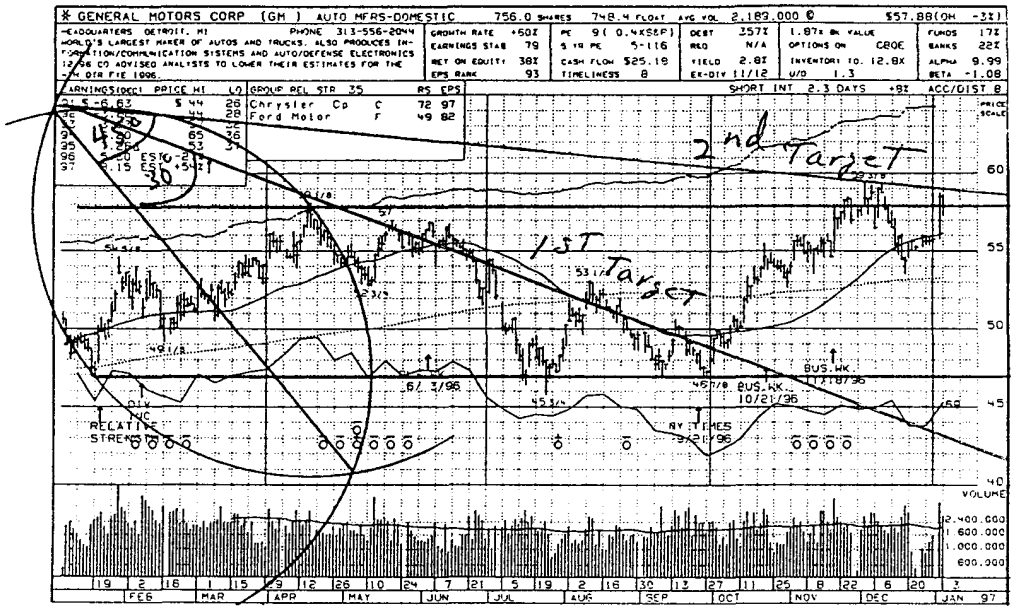
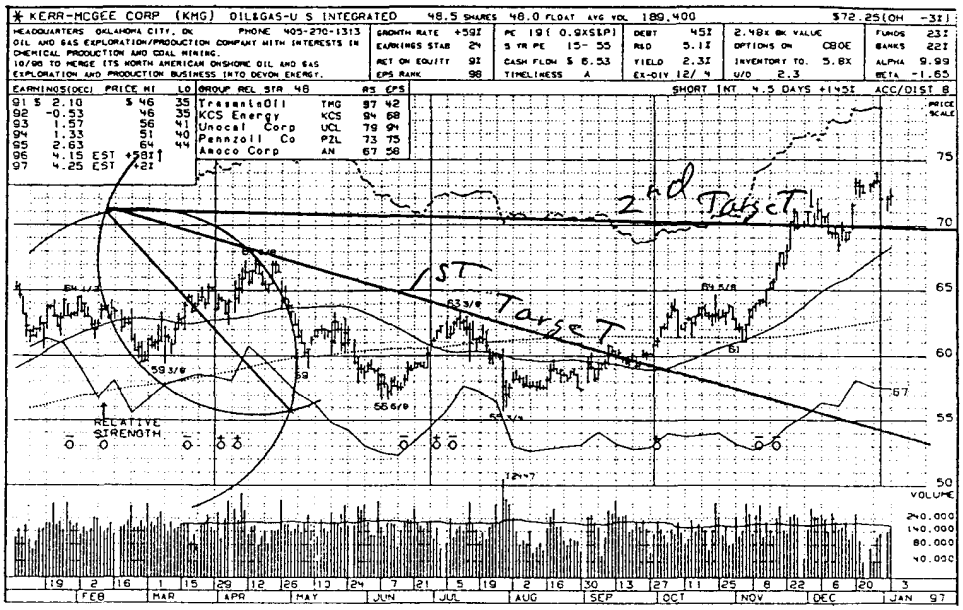


Chart 219



if up, a bullish one. From the last swing you make a semi-circle around the high to low, or low to high, and draw an axis line. From the upper point of the axis line you draw 30-degree and 45-degree angles. The 30-degree is the first target and the major breakout line for a big move. The 45-degree line is the next target, often the final one, but if it goes past then it will usually be a whole new leg.

ONE BULLISH, TWO BEARISH CLAMS

Chart 220

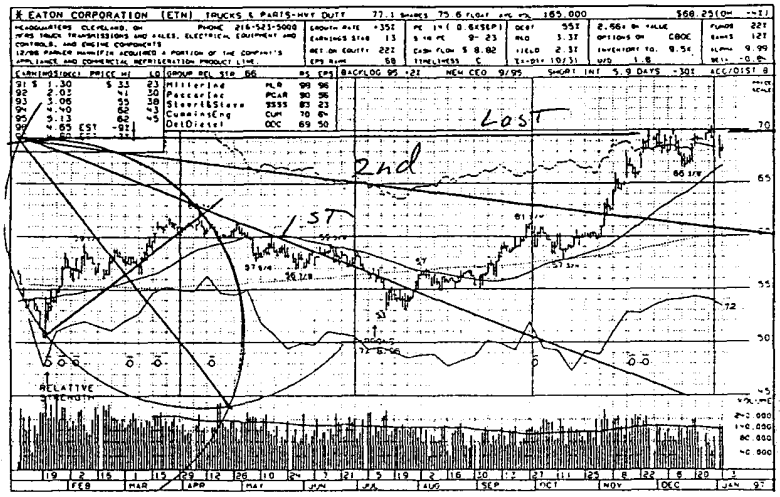


Chart 221

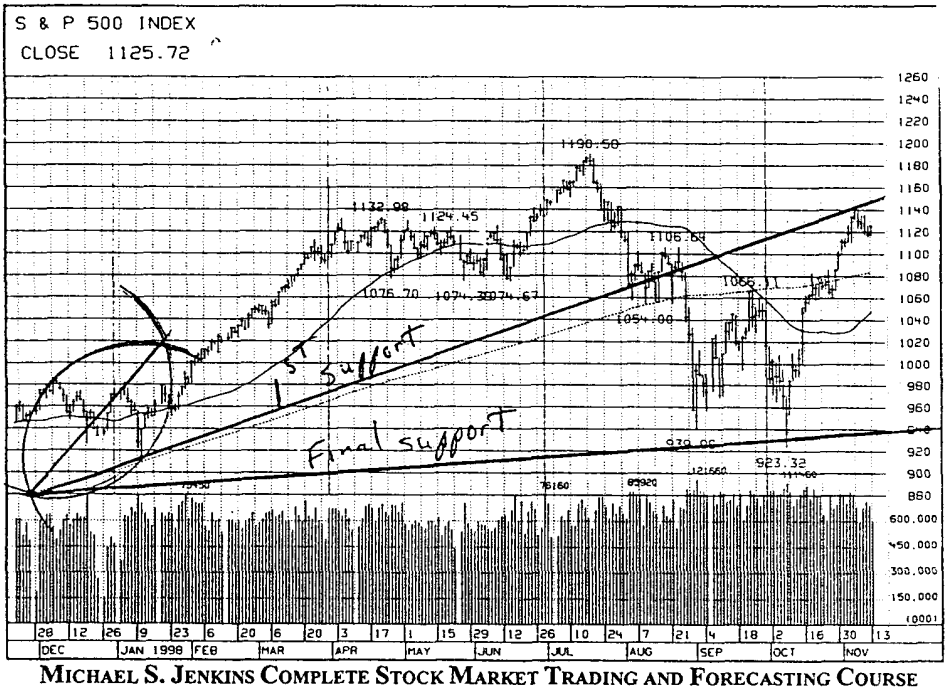
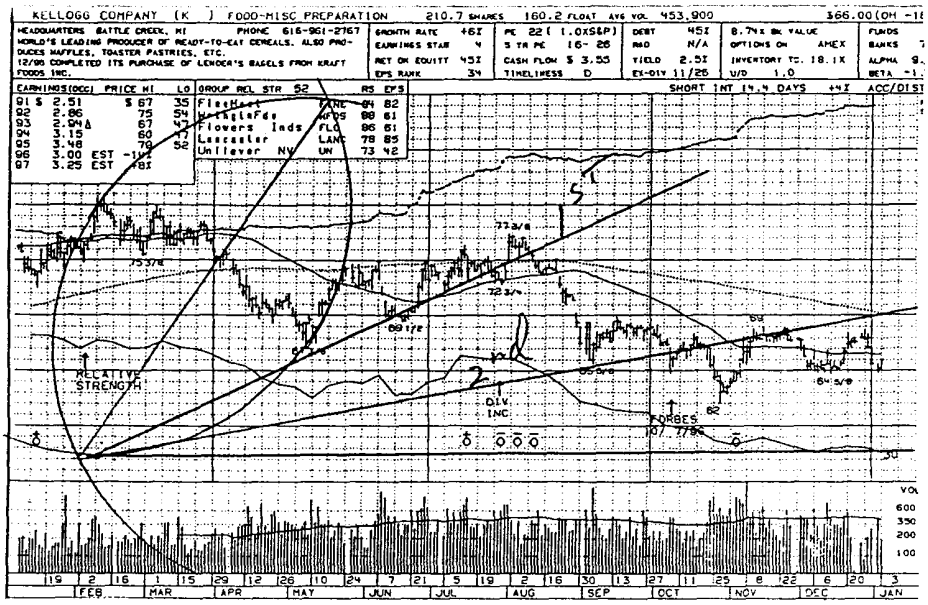


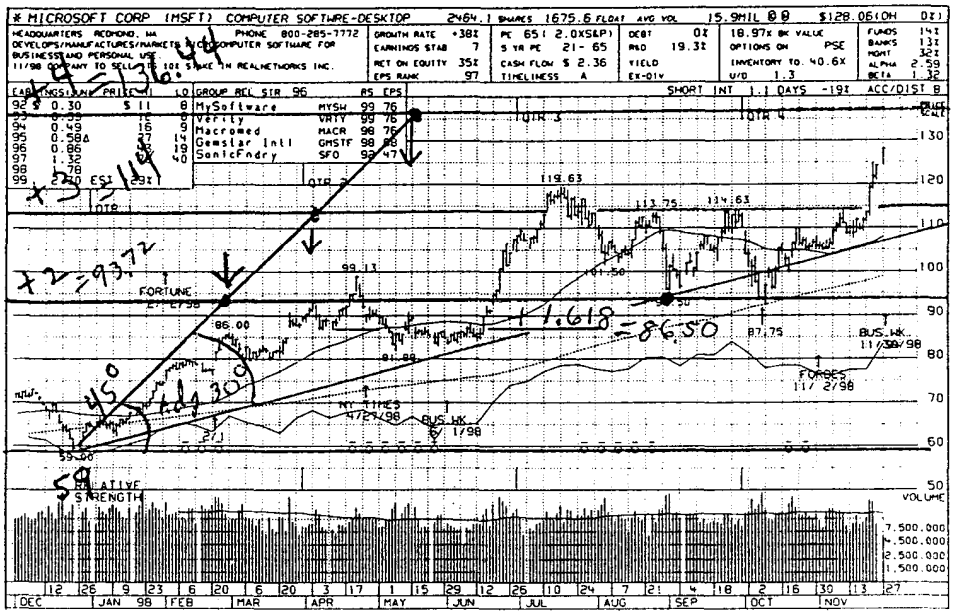
Chart 222



Microsoft, Chart #223, with a huge run, shows perfectly my square root method. From a low of $59, the first 2 added to the square root and re-squared (Gann wheel full circle) gives $93.72, which was the first big top. The pullback from that top went to the root plus the Fibonacci 1.618 ($86.50). The next level up at +3 went to $114, which was a top for five months and above that +4, $136, and +5, $161. All were perfect hits. In addition the chart shows a 45-degree angle going up and intersecting these lines to create major highs and lows. I then put on an "adjusted" 30-degree angle (coming off the 45 axis), and as you can see, that was the major long-term trend line.

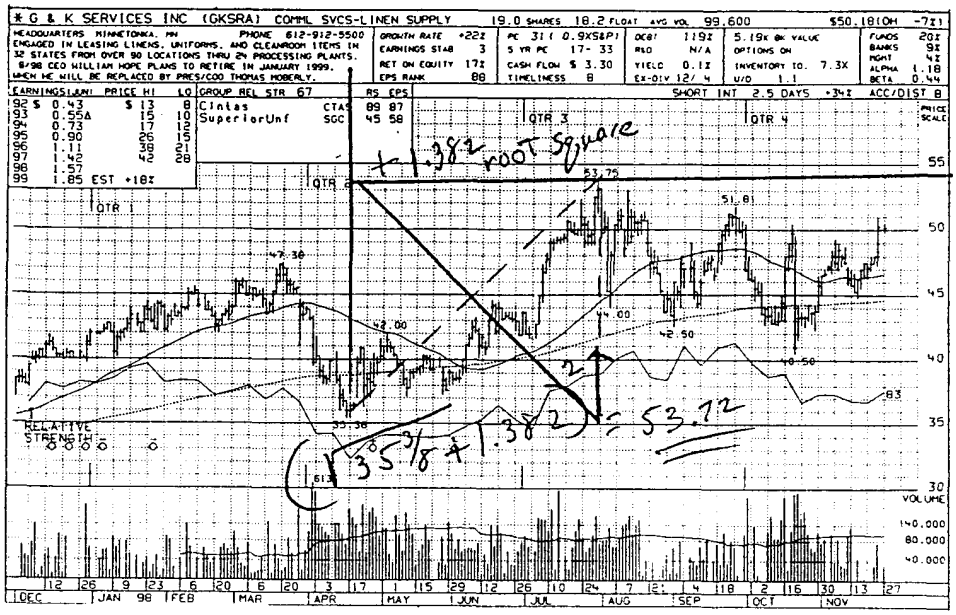
SQUARE ROOT INCREMENTS

Chart 223



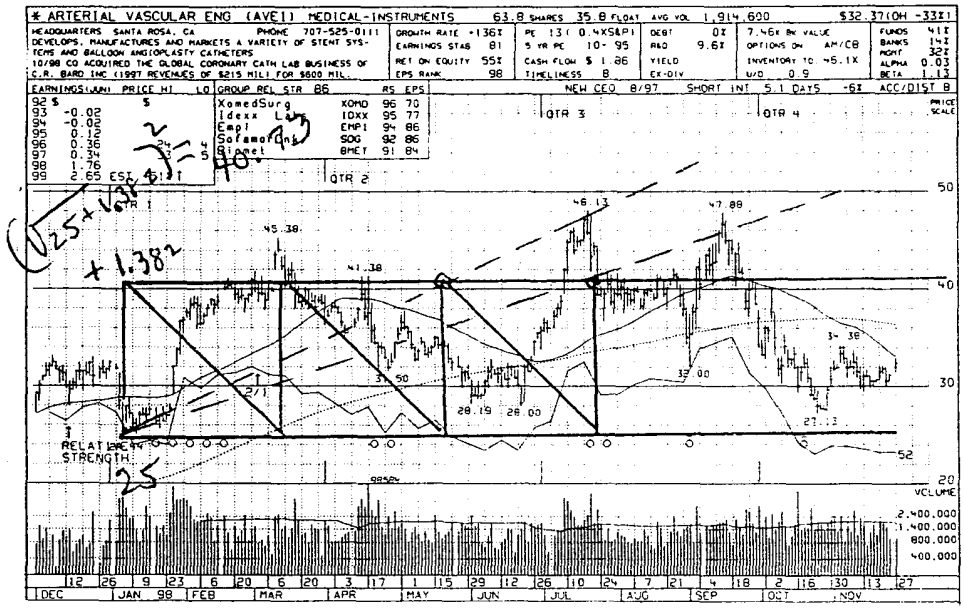
In Chart #224 we see the typical Gann square method, but this time we see my proprietary root increment box that defines the individual vibration for each stock. I have used the Fibonacci 1.382 sequence here, but the major roots of 1 and 2 work just as well.

Chart 224



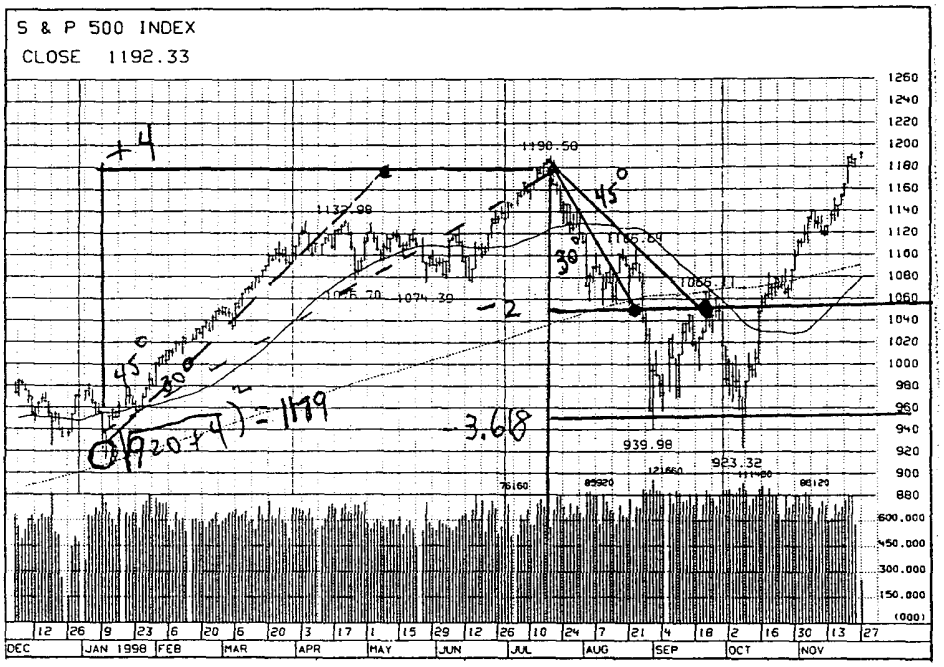
Note that once the "roof" has been determined by the root increment, the timing angles will intersect the top at the exact high, proving it is indeed, the top. Chart #225 shows multiple boxes, but note in particular the angles through the corners of the boxes hitting future tops exactly, and leaving no doubt that this indeed is the cause of the stock's fluctuations!

Chart 225



In Chart #226, the final chart, I have applied the root method to the S&P 500 Index and as you can see, it works perfectly here also. From a low of 920 a +4 yields 1,180, which was within 1% of the final high. If you look at the 30-degree angle coming up from the low, you will see it hit the top on the exact day of the high, telling you that time and

Chart 226



price had squared out and that it was all over. On the way down, the –2 and Fibonacci –3.618 levels defined the move, and the 30 and 45-degree angles off the top, timed the turns.

If you take the time to study the lessons in this course you will see that there are NO ACCIDENTS. Every high and low can be predicted months ahead of time with the

proper charts and application of angles, roots, and planets. Reading the newspaper or watching TV for your investment ideas is a joke.

REVIEW

This course is evolutionary in nature. I started you off with basic trend definitions and reversal signals, and the theory of time and price as the same thing. We then looked at angles, arcs, numbers, and astrology. The following points can be summarized:

1-Stocks move between the square root increment levels of their highs and lows. This is probably planetary in origin since it ties in with planetary longitudes converted by the Gann Square of Nine to numbers and these numbers are squares. At all highs and lows obvious planets are making aspects that translate into the price levels seen. Although the highs and lows can be predicted solely through the use of arcs, angles and roots, nevertheless, the planets are always there each and every time a high or low is made.

a) Major resistance is found at the square root of the price incremented by .50, 1, 1.50, 2, and the Fibonacci ratios of .382, .618, 1.618, 3.618, and 4.236.

b) Angles that intersect square root increment levels predict changes in trend precisely. The best angles are 30 degrees, 45 degrees, and the Gann geometric family of 1x1, 1x2, 1x4, etc.

2- Stocks usually foldback around major highs and lows and create "mirror image" patterns that can be analyzed using "foldback trees" and identifying measured move vectors on each side of the foldback.

3- Long-term charts can be analyzed through the use of timing angles, particularly

ones of one point per week, and one point per month. When these timing angles intersect harmonic parts of the price, or accumulate to harmonics of the circle of 360 (30, 45, 90 etc.), then big changes are due.

4- The Gann Square of Nine is a means of keeping track of natural integers squared in time and price and converts planetary longitudes in circular degree measure to prices. The Square of Nine is applicable to both price and time targets and both will be present at major turns of significance.

5- Forward moving cycles like 5 years, 10, 20, 15, 30, 60 years, and 45, 90, 180 days or bars, and 32 and 45 weeks, *are all used to predict* the size of moves and are to be used for setting strategy as to what stocks to buy and sell, and how far they will go. The big stock market cycles are caused by the planetary cycles of Jupiter/Saturn, Jupiter/ Uranus, Saturn/Uranus, and Mars/Jupiter most of the time. All the others are important, but these account for the large multi-year movements.

6- Measured moves show up in all individual issues and *are the very first thing* you should look for when analyzing a chart. Before every trade it should be determined how far into a typical measured move the stock currently is and what is its potential. You should also look for the last 3 ¼ week cycle turning point.

7- Angles of 30 degrees give rise to resistance and target numbers of 120/2 or 60, 30, 15, 7.5, and 3.75 units. These are added to lows, or subtracted from highs that trend along this angle. Angles of 45 degrees give rise to price harmonics of 360/2 or 180, 90, 45, 22.5, 11.25, and 5.625.

8- Reversal bar buy and sell signals are used to enter and exit trades at the end of measured moves, cycles, arcs, and time count terminations.

That completes the basic course. Simple enough, but it can be quite confusing if you're not used to using arcs, roots, and planets. I've tried to lay out the course in the sequence

that you should master it, and I could have used much more complex charts, but if you study the last three to five charts it should all come together. There is nothing that can't be done with a chart, and while you're reaching for the sky I also urge you to look to the heavens for the answers.

Michael S. Jenkins

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