Chapter #13

Common Sense Trading Rules

"A good way to identify new leadership in the stock market is to daily observe individual stocks when the market makes a new move either up or down and see if they are following the move of the averages"

Division of Capital is the most important trading rule. A professional trader never employs all of his trading capital on any one trade. A large fund manager may diversify his portfolio and have a great many stocks at one time, and thereby diversify his capital, but in the usual case the professional trader puts most of his eggs in one basket or very few baskets and watches them very closely.

However, in those few baskets he does not employ all of his capital. Most frequently great traders will tell you they only put 3%, 5%, 10% of their capital on any one trade, especially when using leverage such as options or futures, where you are only putting 10 to 30% down. In these cases the profit is most likely a double, triple or quadruple and even though it is only a small fractional part of your total capital, the rate of return is substantial and quickly builds up.

If one were to use a 10th division of his capital he could afford to lose 10 times in a row before he was out of business. Most professionals have a batting average of 60-80% right, and when they are wrong they stop themselves out for small losses. It is the **compounding of many small profits** that add up in professional trading. Therefore, the professional trader only uses a fractional part of his capital in his trade. It is not uncommon to find the largest proportion of capital unutilized, sitting in cash or in T-bills as a reserve.

Trade with the Main Trend is the second most important trading rule. A trend that has a daily, weekly, monthly, higher bottoms formation is the bull trend and the "***stair step***" lower highs and lower lows is the bear trend. Trading with the main trend is the objective. The old saying applies "***When in doubt, get out.***" If you do not know what the trend is do not trade.

In regard to the trend, stocks that hit new highs for the year are strong stocks by definition and you should never try to short new high stocks. In theory, a stock that hits a new high is the strongest stock there is and you **should buy breakouts to new highs**. If you are going to sell short you should not sell short new highs but you **should sell short new lows**. New lows for the year are made by stocks that are in trends that are very weak.

The average person's classic mistake is trying to short high price stocks and trying to catch the final high. In a long term bull trend, new highs are made every several days and each one of those cannot be the final high. Only one day can be the final high and that long term trend may last for years with many, many individual days of new highs. It is insane to try and short stocks that go to new highs. The trading strategy should be to buy on dips stocks that have recently gone to new highs and to sell short stocks on rallies that have recently hit new lows for the year.

This brings up the concept of **relative strength**. All stocks are not created equal, some stocks are stronger than others. The professional trader should seek out stocks that are stronger than other stocks. He should be long the stronger stocks and short the weakest stocks. **The steepness of the trendline angle tells you the strength of the individual stock.**

A stock's strength can be relative to its own recent past history, such as its 10 day, 30 day, 50 day moving average, or it can be relative compared with other individual issues. When compared to other issues, the relative strength stock is first compared to the market average. If the market average goes up a certain percent, the relative strength stock should go up during that time period a greater percentage.

A good way to identify new leadership in the stock market is to daily observe individual stocks when the market makes a new move either up or down, and see if they are following the move of the averages. For instance, if the Dow Jones has a break and drops a significant amount, lets say 5% over 3 weeks, and the individual stock you are watching goes sideways over that 3 weeks, you would want to make a list of such stocks to see that on the next Dow Jones advance if those individual stocks advance. If they do, having not first declined, it is a sign of great relative strength and a sign that they will far out perform the market averages and all other stocks on the ensuing move. Those are the stocks that should be bought.

Another technique to keep in mind, is at major impulse wave breakouts of market averages, such as the beginning of new Bull Markets, you should keep a list the first week or two of the greatest dollar gainers, stocks that to up $3, $4, $5 in a single day. These stocks should be bought, they should not be avoided because they seem expensive. They are only expensive because they are on everybody's buy list and are the relative strength stocks.

Every fundamental analyst in the country has his private list of what stocks to buy when the market moves and these are the ones the big money will power into. You can usually identify these popular stocks on the initial impulse wave only. After the first few weeks of the rally the rest of the market averages go up and down and rotate. You will usually find that the stocks that go up the greatest amount the first few days of the move are the ones that are on everybody's shopping list, and will continue to go up week after week, month after month for quite some time into the future.

There are a number of price patterns that are quite common in professional trading and useful to know. The most important is the daily and weekly patterns in Bull Markets and Bear Markets.

In Bull Markets - the beginning of the week, Monday, opens strong and follows into Tuesday.

Then a counter decline sets in, a correction, with a weak Tuesday afternoon, correcting into Wednesday and then by Thursday the market is in a strong up trend and on Friday, closes the week at the extreme high of the week. This strength follows through again for Monday. This is the classic **Bull Market pattern strong on Monday into Tuesday afternoon, pullback Wednesday, into Thursday; Friday Monday strength.**

In Bear Markets - expect just the opposite - **weakness on Monday into Tuesday, midweek counter cyclical rallies, failures on Thursday with a weak close on Friday followed by a weak Monday**.

These patterns are quite reliable and one should adjust their trading strategy on a weekly basis, to buy on the dip on Tuesday or Wednesday midweek and sell into the strength on Friday afternoon or Monday on a Bull Market pattern. On the Bear Market pattern you want to short the rallies on Tuesday, Wednesday and cover on the decline Friday afternoon and Monday.

Short Term Daily Pattern - each and every day is a reflection of the larger weekly pattern with **each hour during the day being likened to each day of the week**. Therefore, the first hour, which I usually use 11:00 AM rather than 10:00 AM, is 1 1/2 hours. The first hour into 11:00 AM is equivalent to a Monday.

In a bull trend you would expect a strong opening up until 11:00 AM or 12:00 PM, a midday pullback from noon to 1:30 PM to as late as 2:45 PM, strength in the afternoon with a strong close from 3:00 PM to 4:00 PM to follow through the next day. This is your typical strong day Bull Market pattern. Note the emphasis on the first hour strength and the last hour strength and in the weekly charts the Monday strength and the Friday strength. Strength early and late in bull trends, weakness in bear trends.

In the bear trend the daily pattern is just the opposite. Down hard into 11:00 AM, counter rally mid day and then after 2:30 PM weak finishes with weak openings next day. Individual stocks are traded the exact same way on these patterns. Stock that are often strong and break out do so around 2:00 PM in the afternoon with a strong finish and usually top after the opening the following morning. Then they have an intraday correction, where they pull back to just above where they came from yesterday and then close strong again.

It is often good to find stocks that are in long term up trends and look for the dips intraday. If you find a stock that has been down all morning, strengthens around 2:00 PM in the afternoon there is a good chance that it will close strong, reversing the trend and carry through that strength for the next several days. Likewise, in Bear Market patterns, shorting should be done on any strong movement but more than likely midday rallies from noon to 3:00 PM, expecting the failure to occur 3:00 PM to 4:00 PM and covering on the close or the opening plunge the following day.

Opening and Closing Patterns - are of key importance, even more so, than the daily patterns, especially in the financial futures. These are known as **opening bulges** and in the financial futures markets, the professionals who really know what they are doing, use a lot of leverage. They are **almost always right on the main trend** of the market.

However, because of the leverage they use and the risk avoidance of the professional trading mind, they do not like to carry positions overnight. This gives one a distinctive advantage in watching these opening and closing bulges. If the S&P Futures or the Bond Futures gap open quite strong everyday, even though they seem to be fading at mid day, the opening bulge usually shows you that the professionals are committed to the long side of the market and the daily trend and the weekly trend is probably up. Therefore, any pullback intra day should be bought and right on the close, which will be strong, there will be a sell off That sell off in the case of financial futures is not necessarily indicative of a reversal in trend but just the day traders liquidating.

Likewise, in bear trends the opening bulge is to the downside, where the professionals go short as soon as the market opens and very late in the afternoon cover shorts to put them out again the next day.

In terms of statistics, 70% to 80% of the time the **extreme high or low for the entire trading day** is usually made in the ***first 20 minutes*** of trading in the financial futures. Therefore, if they open up and go up dramatically in the first 20 minutes and then in the ensuing next hour are still up on the day, the chances are overwhelming that the **extreme high or low** was the opening **low**. That being the extreme you would want to buy pull backs during the day, expecting the market to close at the extreme high.

If the opening bulge is to the downside, you could have the extreme high of the day being the opening quote. If the opening quote is never regained after the first 20 minutes, then any rally in the day should be shorted with an expectation of an extreme weak close. If the financial futures gap down big and after the first 20 or 30 minutes come back and start to close the gap and **never approach** the opening low, then one can assume that the **extreme low** was made for the day and any **dip intraday** that does not take out that opening low, **should be bought** with the expectation of a firm close near the high of the trading range.

Financial Stocks - professionals watch the financial stocks, particularly the banks, and the go-go over-the-counter glamour stocks. Prior to every big Bull Market move there will be strength in the bank stocks and over-the-counter stocks. The bank stocks always show strength because there is a high correlation between confidence in the financial system and low interest rates and good banking conditions. In the over-the-counter market there is strength because over the counter stocks are always heavily shorted.

Because of the fact that the trading rules allow over-the-counter stocks to be shorted, **without regard to the up tick rule** that was established by the SEC on the New York Stock Exchange, that requires a short to only short a stock at a "zero plus tick," or only short a stock that did not go down on the previous tick, this has the effect of eliminating a lot of short sales on the New York Stock Exchange when the market is quite weak. Those who wish to short stock must wait for legitimate strength in order to get a short off.

In the over-the-counter market, no such rule exists (although changing this rule is in discussion at the time of this writing); anyone who likes to short stocks may simply sell at the bid side of the market, thereby guaranteeing getting a short off. Inexperienced traders who are greedy and impatient, will not wait to get their short off on the New York Stock Exchange, but will pick on over-the-counter stocks and indiscriminately hit the bids. Therefore, when the market is prepared to rally, the first group that feels the pressure are the most heavily shorted stocks. These will always be the over-the-counter stocks.

So when one sees a firming of the market, with both the over-the-counter stocks all nudging up and the bank stocks firm, it is almost always a certain sign that a major move is about to take place to the upside.

> **Divergences** - watch for cycles that exist in the market that appear simultaneously in similar groups. That is to say, in a bull trend, bonds and interest sensitive vehicles show strength and the market shows strength likewise. One should be cautious though, when one market diverges from the other, such as bonds down on the day, but stocks up or bonds up and stocks down. This may be the beginning of a change in trend, and unless one has real conviction he should limit his trading to smaller positions until the condition cleans itself up.

A trader will always be long in the market when the S&P stocks are up, the financial futures are up, the stock market is up and the bonds and the bond futures are up. When there is across the board strength there is a high probability that that is indeed the main trend.

Along with bonds, as relative strength vehicles, one might also watch the U.S. Dollar. There is usually a good correlation between the strength of the U.S. Dollar, the strength in our bonds, and the strength in our stocks. The stronger the dollar the more attractive it is to invest in U.S. equities, in U.S. denominated assets by foreigners.

Likewise, almost all financial panics start with weakness in the dollar, followed by weakness in bonds and then weakness in stocks. Divergences can also appear within various market averages. One would like to keep track of the Value Line, the S&P, Utilities, the Transports and the Industrials. If all those indexes are all going together the primary trend is well defined. The primary trend may be undergoing a change or be questionable when several of the various market averages start to diverge. Especially when making new highs, one must be on the lookout for one or more of the market averages, to not go to a new high in unison with the others. This will be your first warning that after a technical pull back and then another rally there may be many more diversions and that second rally may be the final top.

A primary consideration in looking at the divergences is breadth divergences with the market averages. During the course of the day the advance/decline line should have a healthy plurality of advancing stocks over declining stocks if the trend is up and the market averages are up.

In such a situation you would be long the market. You would take a cautious stance however, if the breadth was even or negative and the market averages were up due to strength in a few selected glamours. Such a circumstance of diverging breadth with the leadership confined to a few individual stocks is a real sign of danger.

One rule I follow, that is helpful in defining the trend, especially in regards to relative strength and divergences, is to watch opening bulges in the market averages, such as a market that opens up 12 to 18 Dow points or opens down sharply 12 to 18. **The character of the makeup of that point count in the Dow Jones averages is very important**. For instance, in a Bull Market trend where the market opens up strongly 15 or more, there should be at least 1/2 dozen to 1 dozen of the glamour stocks that are up 7/8 to 15/8 in the first half hour of trading.

One merely looks up the biggest advancing stocks. Ideally if you have a computerized system and you can scan the top 10, 20, 30, 50, or 100 stocks, so much the better but you should look for big price movements, price movements of 7/8 of $1 or more to legitimize the trend.

In **false trends** where the market opens up 15 and it consists of the top 10 or 20 stocks simultaneously, being up 3/8 to 5/8 of a dollar and **no one issue** being up as much as $1, it is almost a certain sign that this is a specialist markup opening that should be shorted and a reversal will shortly follow.

Markets that go up 20, 30, 40, 50 or more in a day almost always have several dozen stocks up at least $1 or more by 11:00 AM. Markets that go up for 1 hour and reverse and close weak almost always have **high average point counts,** but very few participating individual issues that are up more than $1.

This is also true in the opposite. On a big down day you should look for many stocks down 7/8 to 15/8. If they are all down, but only 3/8 or 5/8 of $1, this is a sign of tremendous strength and the market averages will shortly reverse as each of these individual stocks reverse their trends. Keep in mind that this principle is based on the fact that there are cyclical influences in the market. True cyclical influences show up in broad based statistics, such as breadth and price movement. If you see an opening bulge in the market and the breadth is strong and it follows through in every average, every vehicle such as bonds, stocks, futures, foreign markets, one can be assured that this is of a **cyclical** nature and that the primary trend has emerged.

News item bulges and random events due to basket programs often take place within diverging backgrounds. Foreign markets up or down, individual commodities up or down, breadth so-so and price structure modestly higher or lower. In these types of trading patterns there is no clear trend and there is no trade to be made until the trend emerges.

One should also consider the correlation between volume and price action. Ideally a rising stock should have rising volume or accumulation. This is a general principle, it does not apply late in the rally phase or late in the Bull Market. If it is late in a rally phase, after several days or weeks of advances, and then volume comes into a stock, it is almost certainly indicative of a top and distribution.

Likewise, in the last several years, whenever the Dow Jones Averages hit 200 million shares or more after a prolonged period of average trading volume of 130, 160 million shares, the high volume always marked the top day or the top was one day later. Also in a bull trend, a decline that results in lower and lower trading volume usually shows a heavy volume reversal day, and if one charts volume and price action and sees a consistent pattern of declining volume on a declining market and then a reversal pattern day with an up market on heavy volume, one can be certain that the trend has changed to the upside.

The biggest generalization I hear all the time, that I consider false, is that volume is bullish. It is only after a liquidating market has been declining for quite some time that big volume comes into the market on advances and is quite bullish. Most of the time however, unusually large **volume is always indicative of an approaching top**. Resistance is being met and many transactions are taking place because there are sellers and buyers equally matched. You can have many extended moves on very light volume either up or down without changing the trend, but when large volume transactions come in, in a rising market, it usually checks the rise and there will be a sign of a top.

Another time tested saying is that **distribution is done after the top is in**. This is why volume is usually Bearish. Let's say the market breaks big and starts to rally back in a few days. Many financial commentators see the large volume on the rally and say it is bullish. The truth is that the large pension funds and mutual funds that have multimillion share positions must wait for the bargain hunters to show up to sell into them. This is most clearly seen in individual issues that have broken down. The only way to know for sure is to watch the issue several days later after the large volume rally day to see if the stock is then lower in price. If it is it is almost certainly being distributed and should be shorted or avoided.

Chapter #14

Ten Trading Tips to Make You Rich

TRADING TIP NO. 1 - BASIC TRADING CYCLES

The most fundamentally basic trading cycles in the stock market are the 3 1/4 week and 6 1/2 week cycles. This is based on the fact that the natural year has 52 weeks and the primary divisions of 52 weeks are 1/8th and 1/16th (52 weeks divided by 8 = 6 1/2 weeks, 52 weeks divided by 16 = 3 1/4 weeks). (***See Figure 15***)

All longer term movements in the market are just these basic cycles strung together. You should start your count of the cycle from any major high or low on the stock that you are following. Take the high and low price and measure over 3 1/4 weeks and see if the market reverses. If the market continues strong into the 4th week be assured that it will continue in that direction until at least the 6 1/2 week cycle.

At 6 1/2 weeks, look again to see if you might have an extension of another 3 1/4 weeks, but by and large almost all trading stocks either go 3 1/4 weeks or 6 1/2 weeks from high to low. Consequently there is no such thing as a 2, 4 or 5 week cycle.

TRADING TIP NO. 2 - BUY AND SELL REVERSAL BAR SIGNALS

On any standard bar chart where you are charting price action, there is a range on the daily bar chart. These could be hourly charts, 15 minute charts, daily charts, weekly charts. It does not matter, for as long as it is a typical bar chart there is a range. A line is drawn from the low of the day to the high of the day which creates our bar.

A trend, such as a uptrend, is usually defined by each of our bars where each day the high of today's bar is higher than the preceding day's high, and the low on today's bar is higher than the preceding day's low. A series of bars like this is an uptrend.

The buy, sell signal occurs when we have a trend, such as an uptrend, and on the **highest day** we note the **low** of that **high bar**. The signal does not come until at least the next day. The next day after the top will be indicated by a new bar that **does not have a higher high** than the preceding day. It must also have a **lower low**. The sell signal occurs when that bar or the subsequent bar goes **lower than the low of the highest bar recorded** in the move so far.

For example, let's say the market has gone up six days in a row and on the 6th day you have a range bar. On the 7th day the market goes sideways, it does not exceed the high of that bar on the 6th day but it does not break the low of that bar either. On the next day the market goes down and breaks underneath the low of that 6th day high bar.

At that point you get your trading sell signal. That is the point you sell out your longs, go short the market and put a stop loss in at the highest reading on the high bar, but usually it is safe enough to use 50% of the range of the highest bar or in many cases you can probably get away with using the low of the high bar which is where the sell signal was generated. (***See Figure 16***)

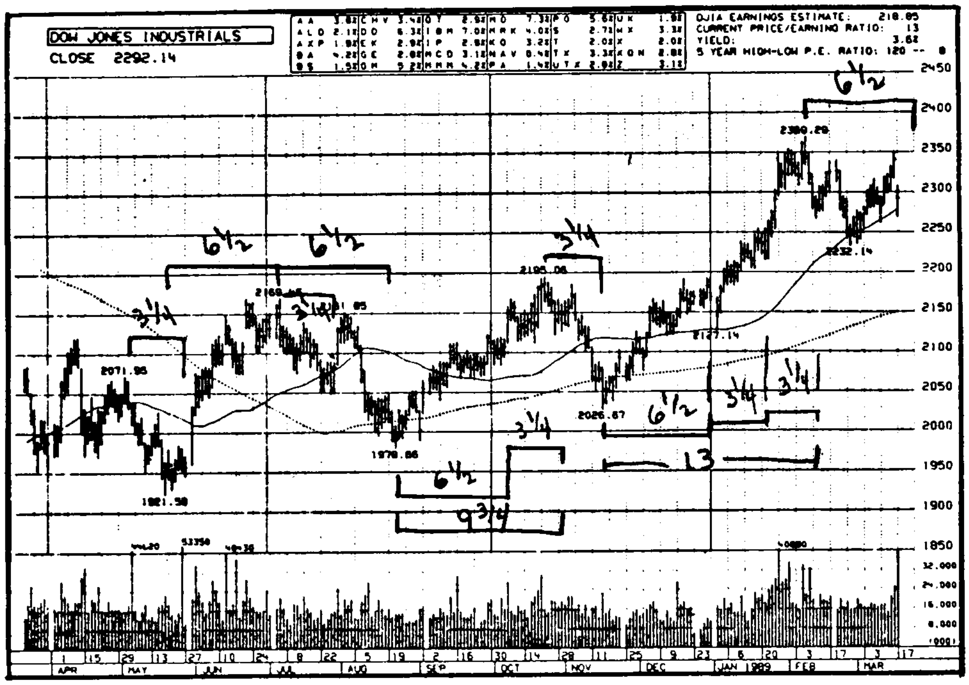
Often times after a sell signal is generated in this fashion, and the market declines for several days, it will rally up and fail exactly at the price which was the low of the highest bar, where the **sell signal was generated.**

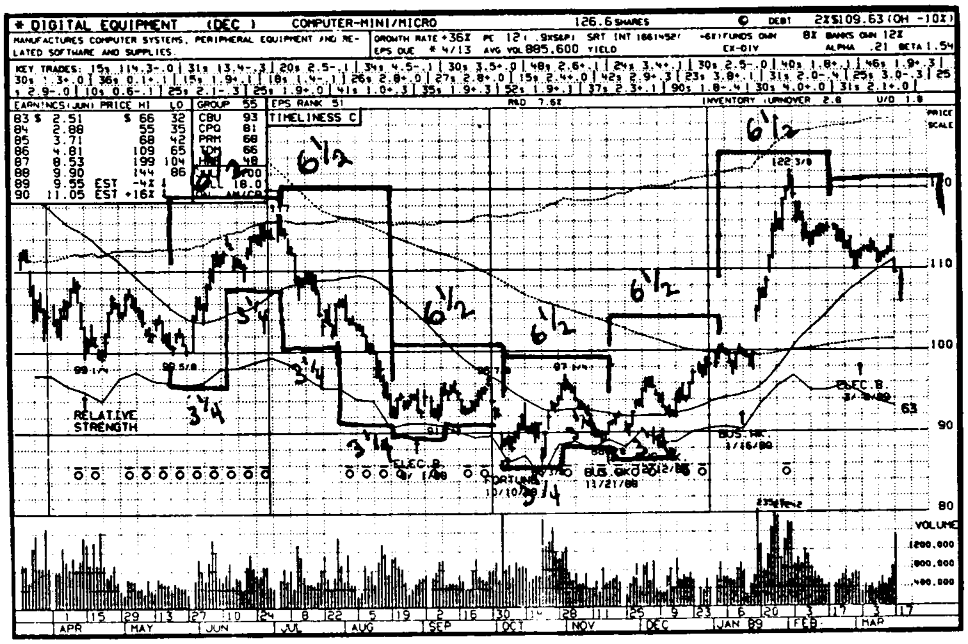
Buy signals are just the opposite. If the market has been declining and each day's bar on your chart gives you a lower low reading and a lower high between the vertical bars and you get to an extreme low, (a new low for the move one day and the next day you do not go to a new lower low) and the high for the next day is higher than the high was on the day when the final low was made, when you go **higher than the high on the lowest bar day, the buy signal is generated**.

This is when you go long the market using the extreme low as your stop out point if the market should reverse and go back down. Here too it is helpful to note that after a buy signal is generated there is usually a secondary test of that low in a few days to a week or two. On that subsequent decline, if it is successful, it will almost always stop dead in its tracks right at the **high price level of the lowest bar of the day of the move**.

These reversal bar signals are very important in the market. By themselves, they can reverse on you quite a bit and are not that helpful. However, if always watched they will at least keep you within the main trend for 5, 6, 7 days in a row before there is a chance of reversal. Likewise, if we use our trading tip No. 1, (3 1/4 weeks cycles), we can often find at the end of our 3 1/4 or 6 1/2 weeks cycle a high or low bar reversal signal. At that point it becomes much more valid and we can take the signal with confidence that the market will go 3 1/4 weeks in the opposite direction before we have to look for a sell signal.

The same principle of the reversal bar applies to any type of chart. That is hourly charts, 15 minute charts, daily charts, weekly, monthly, etc. Obviously it is important to look for long term reversals on daily, weekly and monthly charts. On a weekly chart for instance, when a bar is reversed after a great many weeks up, it usually indicates declines of several months, so weekly chart bar reversals are very important.





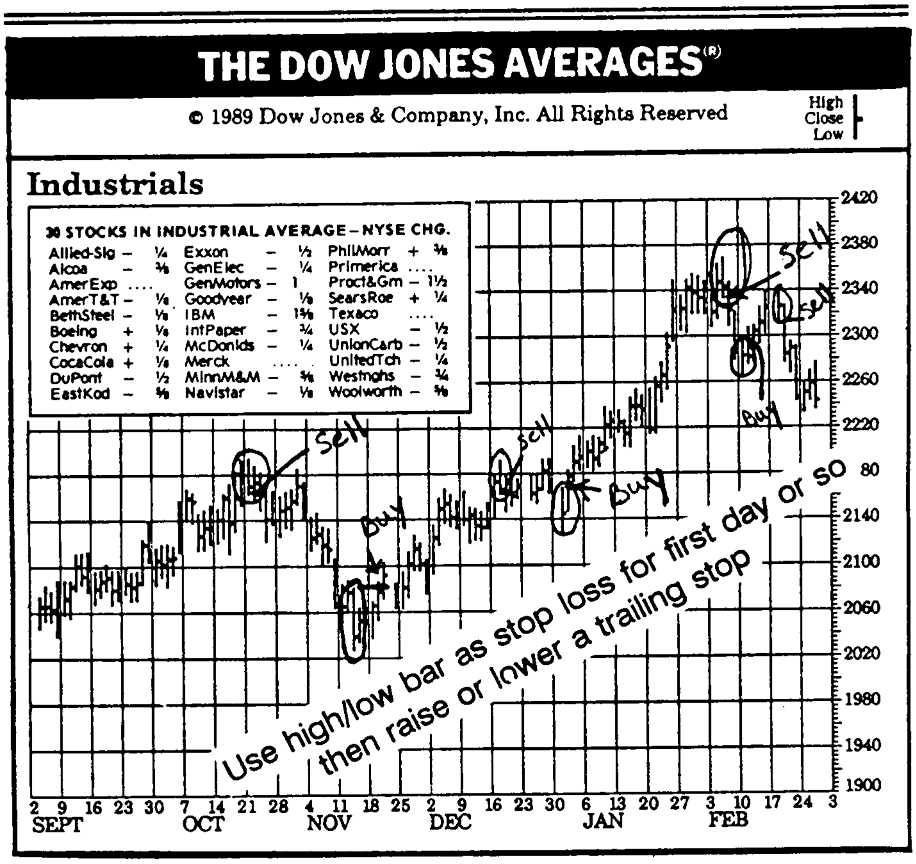
All stocks trade in cycles relating to the natural year of 52 weeks. The primary divisions are 1/8 and 1/16

($\frac{52}{8}$ = 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.

Figure 15

This same principle applies to any type of chart i.e. daily, weekly, hourly, etc.



The market generates a buy or sell signal when the daily range on the highest or lowest day is exceeded on the following day. For example:

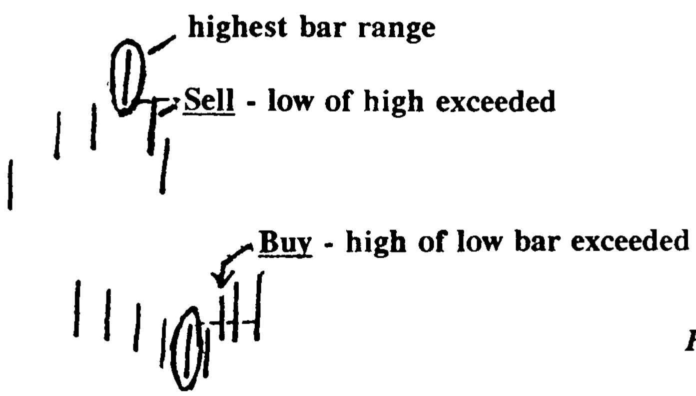
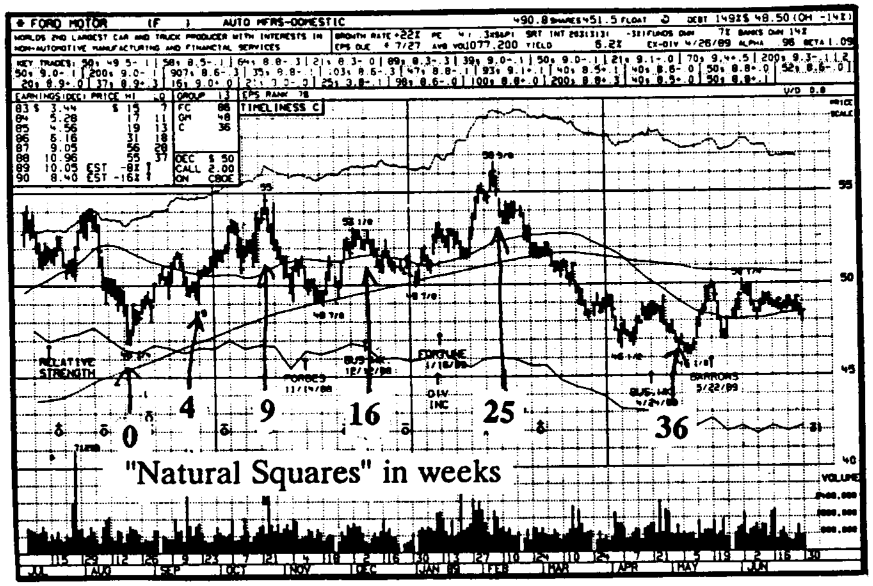
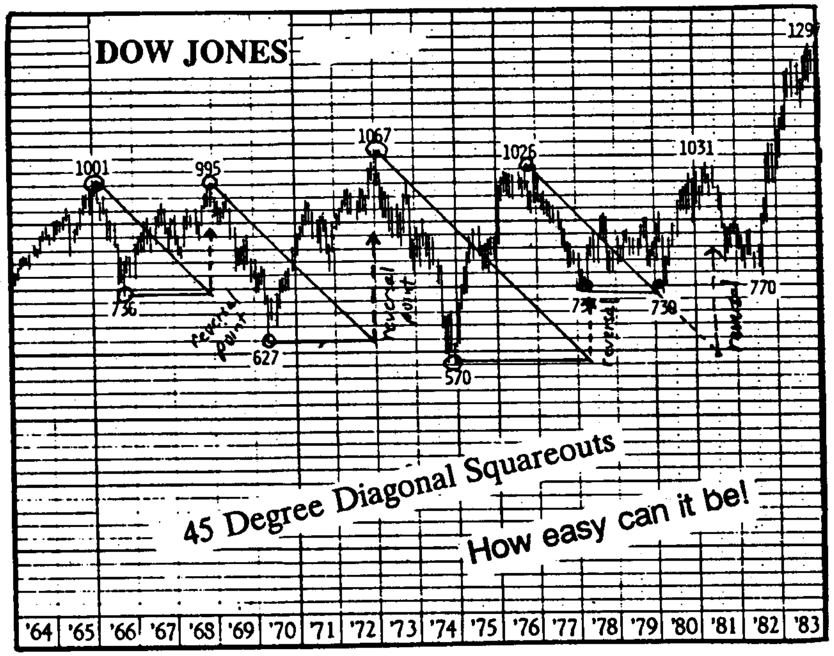


Figure 16

TRADING TIP NO. 3 - NATURAL SQUARES AND 45 DEGREE DIAGONAL SQUAREOUTS





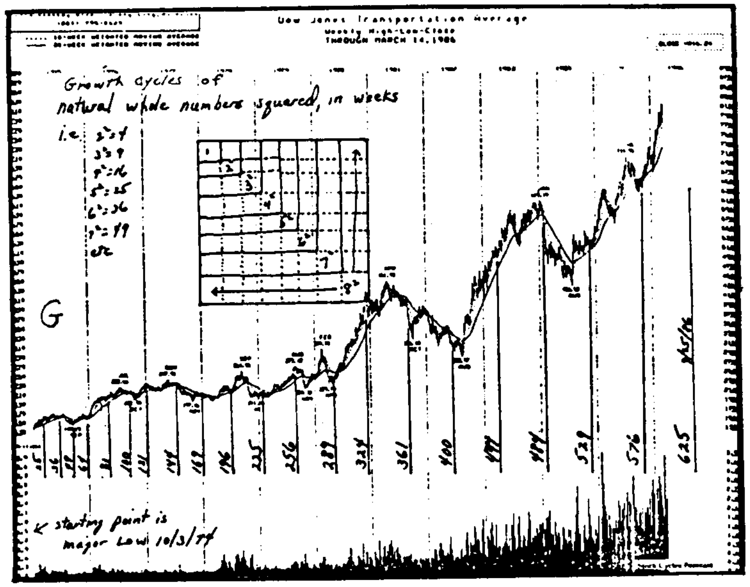


Figure 17

TRADING TIP NO. 3 - NATURAL SQUARES AND 45 DEGREE DIAGONAL SQUARE OUTS

As has been noted previously, numbers themselves spin out cycles that are harmonic lengths of the numbers. In addition to this, there are natural cycles of whole numbers squared. What I mean by this, is that the whole number 2 squared is equal to 4; 3 squared is equal to 9; 4 squared is equal to 16 and 5 squared is equal to 25. These are the natural squares, 4, 9, 16, 25, 36, 49, etc. These natural squares apply to days, weeks and months. (***See Figure 17***)

If you take a chart and start with a major high or low, making "tick" marks on your chart on every 4, 9, 16, 25, 36 days, weeks and months, you will be prepared to see most of the major highs and lows come out on those dates. As you get further into the squares these often last into the hundreds of numbers. For instance, the square of 25 is equal to 625 weeks or nearly twelve years. Cycles of this length still come out almost to the day and often it is important to look at the midpoint between these long term squares. Often this will fill in some data and give you some better turning points.

Beside these natural number squares we also want to keep track of our normal counting cycles using our 45 degree triangle. Draw a 45 degree angle off of any major high on a stock or market average until it intersects the next major low horizontally. This will give you a major turn in the market.

For example, on the Dow Jones Chart in 1966 when it hit 1000 for the first time, the 45 degree angle coming down intersected the low at 736 which was in late 1966. The 45 degree angle off that top did not intersect the low price until 1969. In 1969 the market hit 1000 for a second time and was the beginning of another major Bear Market, three years later. We therefore want to keep track of using a 45 degree angle off every major high until it intersects every major low after that high. The intersection of those angles off the top and the sideways horizontal price level always gives us a guaranteed turn.

Here again, on weekly, monthly and yearly charts, these square outs are very big and can lead to trend changes of weeks to months. They are very easy to keep track of and there is no excuse not to. The little turns on hourly and daily charts also produce trend changes but they are not as important.

TRADING TIP NO. 4 - NUMEROLOGICAL 360 DEGREE SUPPORT AND RESISTANCE NUMBERS

Support and resistance in the stock market are merely places where stocks stop their rise or descent and find strong resistance to the trend.

In terms of natural price levels, the divisions of the master circle of 360 degrees create natural support and resistance. These natural numbers come from the divisions of the circle by 3 and by 2. That is, 360 divided by 3 is equal to 120. We then divide that 1/3 of the circle by 2 to get the fractional part of the 3rd. So 120 divided by 2 is equal to 60. 60 divided by 2 is equal to 30. 30 divided by 2 is equal to 15. 15 divided by 2 is equal to 7.5. These are the thirds or 360 divided by 3.

Next we take 360 and divide by 2 which is equal to 180. 180 divided by 2 is equal to 90. 90 divided by 2 is equal to 45. 45 divided by 2 is equal to 22 1/2. 22 1/2 divided by 2 is equal to 11 1/4. 11 1/4 divided by 2 is equal to 5 5/8. (***See Figure 18***)

What we find when we complete this process is a series of numbers that are natural support and resistance in **both time and price**. We all have noticed in trading stocks that when a stock, for example, goes up to 90, it will top and reverse because 90 is a strong support and resistance number. After it gets above 90 and goes to 98 it may pull back and rest on 90. Likewise, the numbers 45, 30, 60 are all natural trading numbers. Less familiar are the 7 1/2, 15, 11 1/4, but these are also strong numbers. What really happens on smaller price stocks is that **these are additional incremental units**.

For instance, if the stock that you are trading has a low at $14, we know that if we add 7 1/2 on top of that we get $21.50, and that will be the **natural resistance of 7 1/2 units** on top of a $14 low. After that the natural resistance of 11 1/4 would give us the price of $25.25. Keeping in mind too, that the natural square of 25 would also provide resistance.

This is how we trade stocks off natural support and resistance. Take any major high or low and add or subtract to it this series of numerological numbers, and you will see that 80 to 90% of the time the stocks will stop right at those numbers and consolidate for several weeks before they advance again or decline. These numbers 7 1/2, 11 1/4, 15, 22 1/2, 30, etc. **also apply to time** in days, weeks and months from highs and lows.

In terms of the Dow Jones Averages, it is interesting to note that the whole part of 360 has often been important in market movements. The all time high in 1929 was 386, which was a bit above the 360, and twice 360 or 720 was an important low area throughout all the 70's and into 1980. Those lows in the stock market were consistently down around the 720 level. Add another 360 to 720 and you get 1080 which was the 1984 bear market low.

TRADING TIP NO. 4 - NUMEROLOGICAL 360 DEGREE SUPPORT AND RESISTANCE NUMBERS

All stocks and market averages trade off natural support and resistance numbers that are divisions of the master cycle or circle of 360 degrees. All division and numbers come from 3 and 2 harmonics:

$$\frac{360}{3} = \frac{120}{2} = \frac{60}{2} = \frac{30}{2} = 15 \qquad \frac{360}{2} = \frac{180}{2} = \frac{90}{2} = \frac{45}{2} = 22\ 1/2$$

DOW JONES

	360 = 386	1929 high
+360		
	720	1978, 1980, 1982 lows
+360		
	1080	1984 low
+		
+	1800	
+		
360	2160	
+		
180	2340	
+		
180	2700	
+		
45	2745	
	'87 top	

Natural Number Support & Resistance

3	Both	2
7.5		11.25
15		
	22.5	
30		33.75
37.5		
	45	
52.5		56.25
60		
	67.5	
75		78.75
82.5		
	90	
97.5		101.25
105		
	112.5	
120		123.75
127		
	135	
142.5		146.25
150		
	157.5	
165	2	168.75
172.5		
	180	
	360	

Figure 18

TRADING TIP NO. 5 - THE ZERO ANGLE

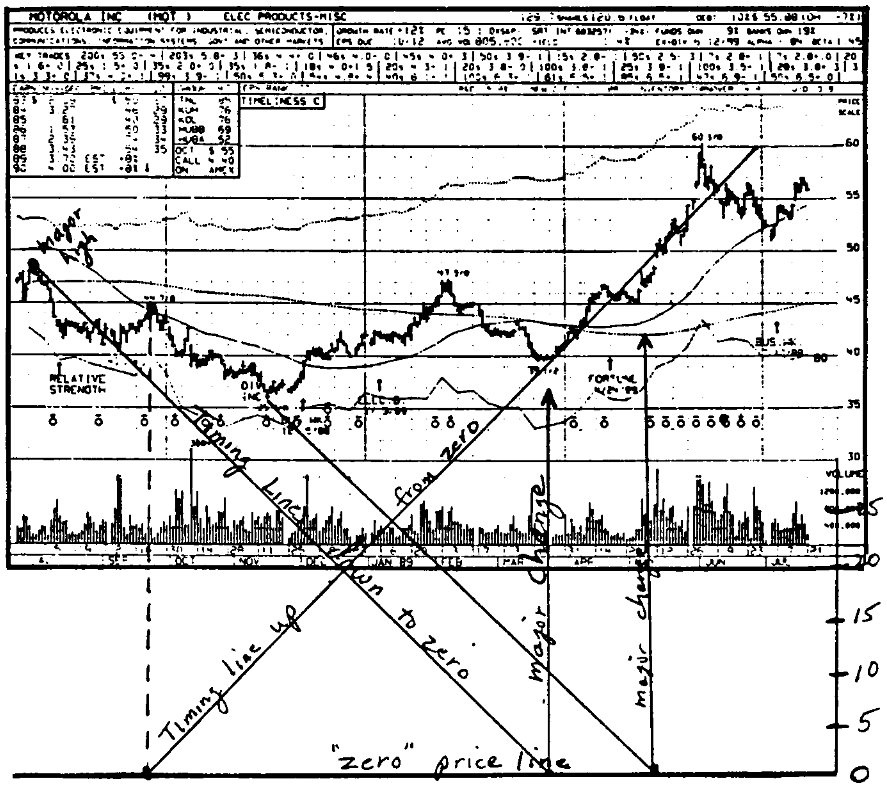


Figure 19

If we keep adding 360 all the way above, we find numbers like 2160, 2520, 2880, and 3240, as we get higher and higher. We can also break down 360 into 180. The top in 1987 was roughly 2745. So it is half of 90, which is 45, added to our price of 2700 even, which was 2520 plus 180. So natural support and resistance on the Dow Jones usually runs in the bigger multiples, 45, 90, 180 and 360 points up or down for major support.

Remember to always count days, weeks, and months in these special time units from any major high or low to see if a change in trend is warranted. Usually the simple 30, 60, 90, and 120 day count produces good turns for active trading and should always be kept track of.

TRADING TIP NO. 5 - THE ZERO ANGLE

Keeping track of time cycles through the use of angles is fairly easy. However, knowing where the major turns are can be difficult at times. One of the most important tools is the use of the zero angle. The zero angle is the angle we construct starting at the zero price scale underneath our major high or major low. On most chart services the scale does not extend all the way down to zero especially if it is a $50 or $60 stock. The relevant price range might only be $40 to $80 so it is not on your chart. (***See Figure 19***)

What you must do is very carefully with a compass and a ruler, measure down on the scale of your chart from the existing price grid, down so many inches below the chart to where the zero point would be. At that zero point you put a dot and a horizontal line for zero price. Under each major high and low we draw our natural angles of 45 degrees, also 30 degrees and 60 degrees up from zero.

What we will find as the stock goes up and down horizontally across the page, is that as it hits these powerful angles up from zero, these major support angles will cause it to bounce off these angles every time. The strength of the stock's movement is often indicated by how it bounces off these angles.

If it barely has a little blip for a day or two, and breaks under the angle, we know the trend is weakening even though it may still be in an uptrend. What usually happens is that the first time the stock goes sideways enough to hit the powerful 45 degree angle it will have another tremendous impulse wave starting at that exact point that will catapult the stock much higher.

This is one of the major points of using angles. It is one thing to use angles off of the prices themselves and intersect highs and lows for little square outs, but all major support and resistance and major cycle turns come when the zero angle up from underneath the major high and the major low on whatever chart you are following is hit by the current price. When that zero angle comes up and the individual stock price hits it, how it reacts tells us a lot about the strength of the market, and whether it is going up or down. It also gives us an ideal buy point if the market has been declining down to that angle, knowing that it will bounce off it, using that zero angle as our sell stop point if it subsequently breaks the angle and comes down through it.

TRADING TIP NO. 6 - MIRROR IMAGE FOLDBACK PATTERNS

In theory, time moves both forwards and backwards. The word cycle implies that time returns again to a starting point. This means time does indeed go both forwards and backwards. This is a difficult concept for human beings but philosophers have debated it for years and found that it is possibly true. Einstein's Theory of Relativity hypothesizes that time most certainly is a variable depending on the speed or relative motion of the observer.

So, it is not unusual to think that human beings, who have internal biological clock mechanisms, and also being on a planet that is constantly turning on its axis being subject to different velocities, really do not have a conception of time. However, inanimate stocks that are traded with human emotions and graphed on pieces of paper often reveal to us where these pivots in time occur and the fact that time does indeed go backwards.

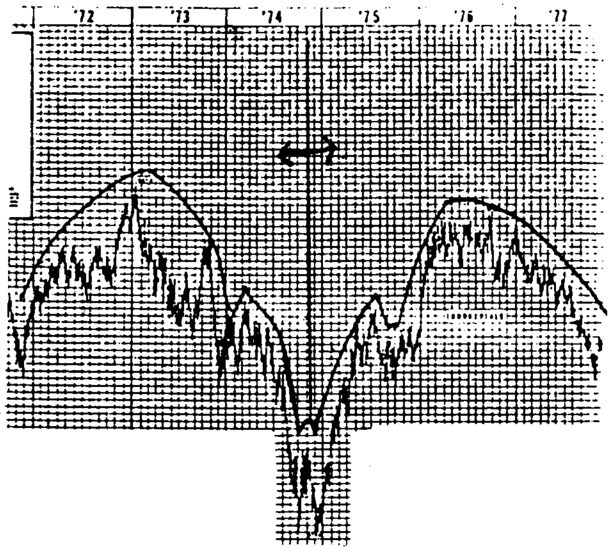
The implications are such that when a stock goes from a low to a high, time is in one direction. When you have a high and the market goes down it is basically following that same pattern backwards. Just as the stock rose to a high, it declines, going down the same way it came up. The theory of mirror image foldback forecasting states, "***At every major high and low the price patterns folds backwards in a similar fashion to the prior price pattern just before the high or low.***" Many times this time period is symmetrical, it is identical. So that ten weeks before a turn will show the same pattern ten weeks after the turn. However, in reality these time movements can speed up or slow down. Often we will find an advance of 9 or 10 weeks, but a decline of maybe only 7 weeks and yet the **pattern and shape** might be of the same magnitude. (***See Figure 20***)

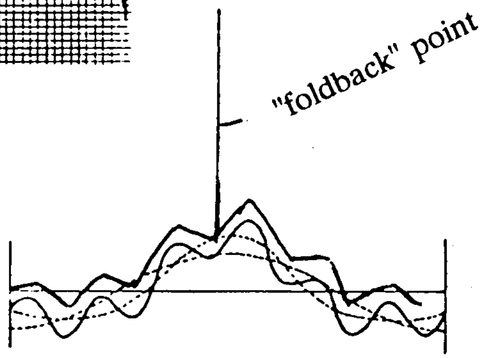
A use of this in forecasting is that we can draw a vertical up and down line through each of our major highs and lows. Measuring how far to the right of that vertical line we are, we then go to the left of that vertical line, that same distance, and see what happened in the market. If the market changes direction and goes for many weeks in a different direction, we can now forecast that our market too is going to change direction and go for that same number of weeks or roughly that amount in that new direction.

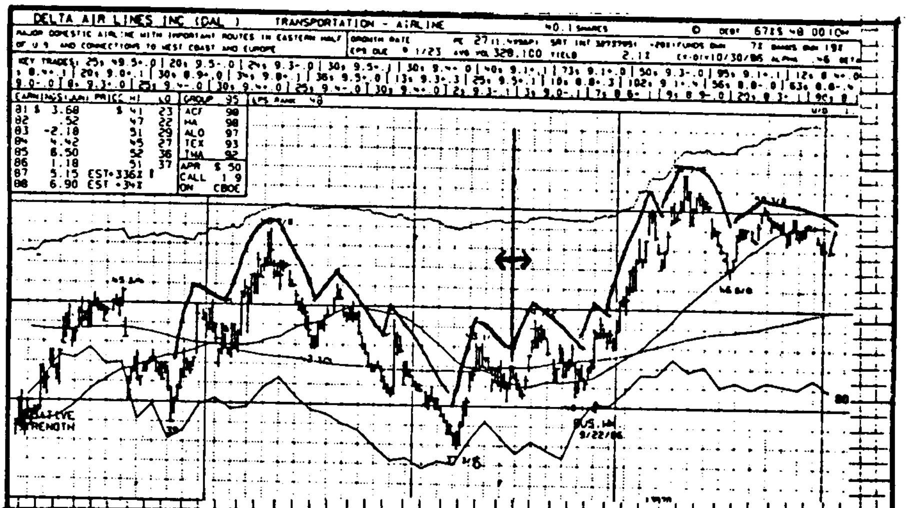
Many wonderful, long term forecasts in the market have been made by using mirror image reversal patterns. I use them all the time and they are by far the most accurate forecasting method that I know. **Do not underestimate their power**. The difficulty arises in that it is fairly subjective, in that the left side of the fold back and the right side will visibly look quite similar in shape, yet there are some individuals that do not possess the ability to visually recognize those shapes. If one leg was only 6 or 8 weeks and the other leg is 5 weeks, they do not see that they are both the same legs. So there are some drawbacks. However, if you are one of those lucky few who can see these foldback patterns and you keep track of them on a piece of paper, especially all the major highs and lows in the stock market, you will find that your long term forecasting of direction for 3, 6, 9 months or more will improve dramatically.

TRADING TIP NO. 6 - MIRROR IMAGE FOLD BACK PATTERNS

SYMMETRY AND PROPORTION







"MIRROR IMAGE" FOLDBACK PATTERNS

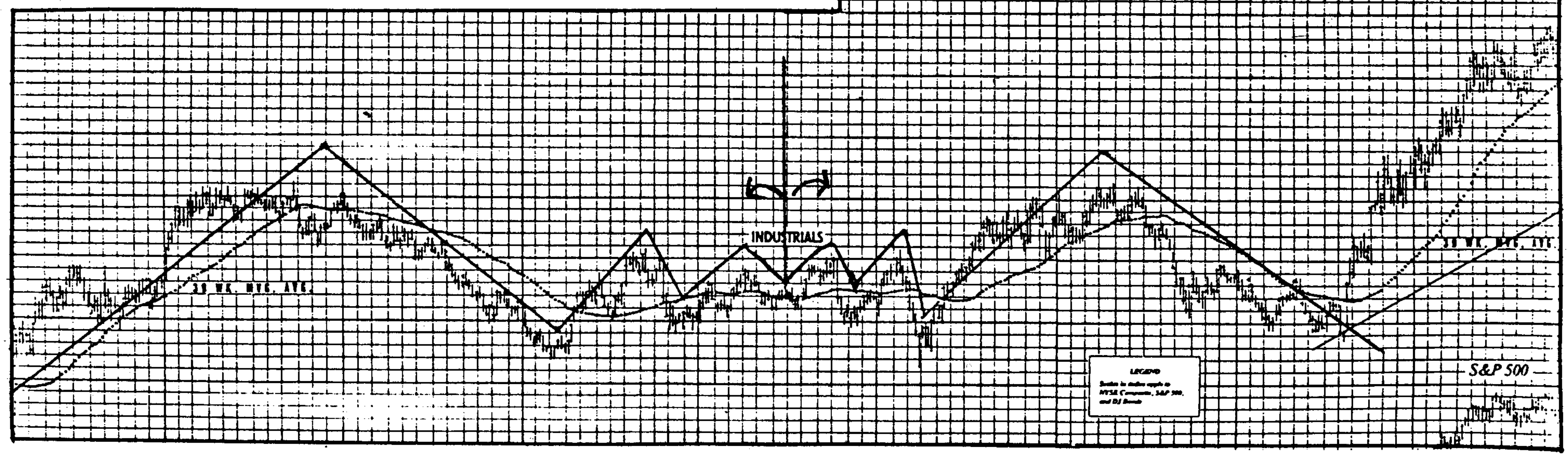


Figure 20

MIRROR IMAGE FOLDBACKS (continued)

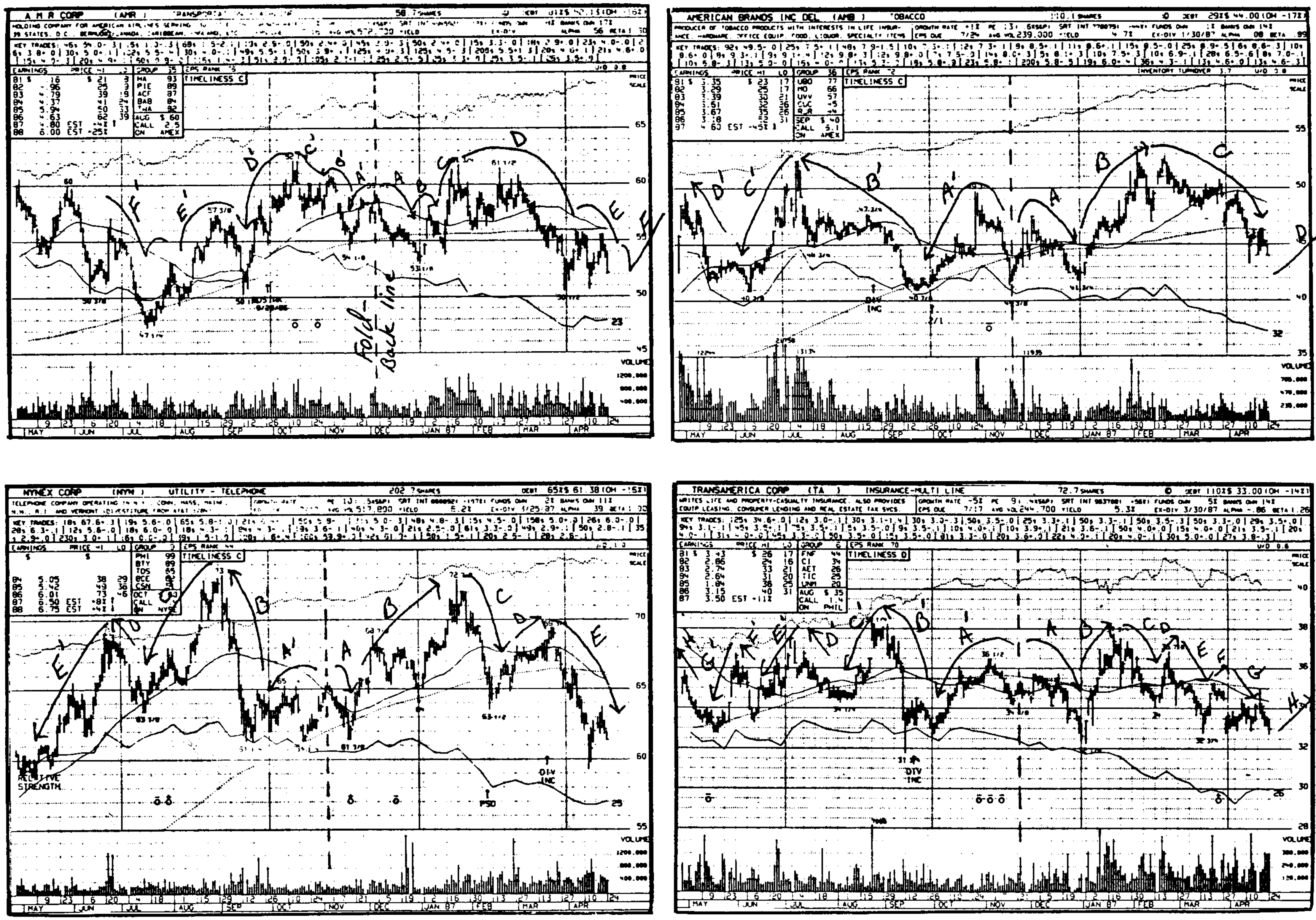


Figure 20A

TRADING TIP NO. 7 - MEASURED MOVES

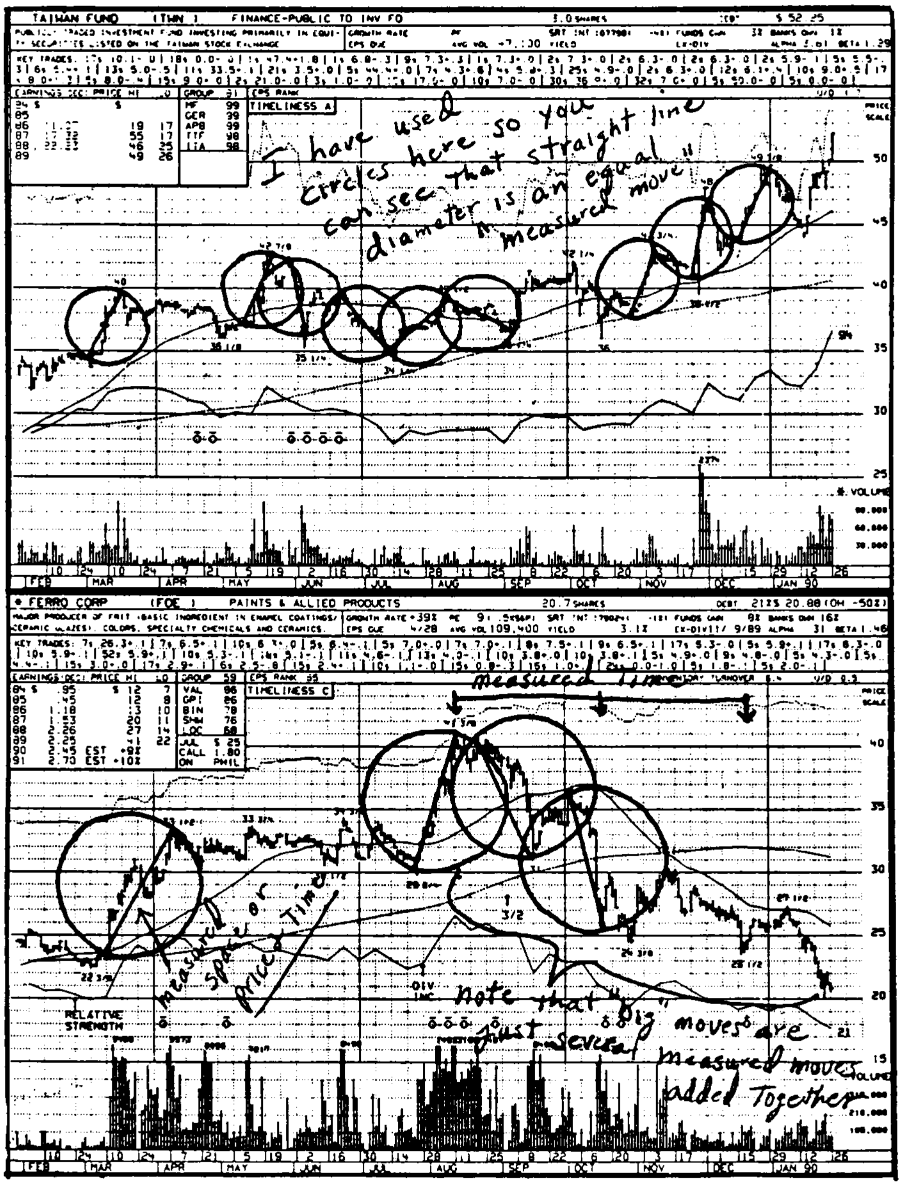


Figure 21

Human beings are very predictable, **emotional** creatures. They buy and sell emotionally and the length and strength of the emotions are **caused** by **cycles** of **time**. To project turns and price levels we need only study the history of similar emotional situations and make "*measurements*" of the time and price fluctuations. As we are dealing with **emotions, time and price are the same thing (!)** Since emotions change as prices reach expected levels **or** time passes **or** a combination of **time and price** movements occurs, by "*measuring*" in **any direction** these time and price vectors, we can predict when a change in trend will take place.

TRADING TIP NO. 7 - MEASURED MOVES

Human beings are very predictable, emotional creatures. That is why stock market prediction is easy at times. People buy and sell emotionally and the length and strength of the emotions are caused by cycles of time.

To project turns and price levels we need only study the history of similar emotional situations and make measurements of the time and price fluctuations. Since we are dealing with emotions, time and price graphed on a chart paper are the same thing. Emotions change as prices reach expected levels or the time period passes or a combination of time and price movement occurs. We find that measured moves, that is movements of a certain magnitude in any direction, calculate for us similar turns. (***See Figure 21***)

By measuring in any direction (in circular motion) these time and price patterns, we can predict when a change in trend will take place. Remember that in theory, participants in the stock market do not really change over relatively short periods of time. Let us say that over the 1 to 3 year period immediately past, there may be some subtle changes in the economies of the world, but by and large, the same number of individuals, the same number of institutions, the same glamour stocks all are participating in the same fashion.

If we want to see the strength of emotions of human beings, we can take a survey of the last several years and readily measure the movements in the Dow Jones Averages and see **what the average, and the extreme periods** of bullishness and bearishness were. For instance, rats in a cage subject to electric shock any time they get food will become neurotic, break down and die. But human beings, as a whole, trading stocks can only exhibit such emotional neurotic behavior for set limits of time before that emotion is exhausted.

In this century, most financial panics have lasted seven to nine weeks, with some as much as thirteen. However, as a general rule after seven weeks, financial panics burn themselves out. The theory of the measured move is just this. That if we examine our market data by measuring it with a compass from high to low we will get a vector distance. This vector distance accurately reflects the total emotionalism over time. Whereas you would think if the market went sideways nothing had happened, but there is actually emotionalism being exhibited in a sideways fashion.

Similarly, if the market collapses in a straight line there is extreme emotionalism over a short period of time. If the market declines at a 45 degree angle, there is a direct relationship of one to one of emotionalism per price and per time period. If we make these vector movements and measure from any low in a circle the average movement the market has exhibited over the last several months, we will have a very high probability forecast of where to expect changes in trend.

If the market rallies up to the circular boundary of the average vector measured move, and does not stop, the odds are overwhelming that it will go exactly two or more exact whole units of the measured move. If you measured accurately over the last several months you can usually **find the fundamental unit**, and in the **extremes it will be 2 or 3 fundamental units** and the market will almost always stop exactly at the end of one of these measured moves.

If you use any kind of chart, especially with hourly charts in trading options, and you have these measured moves, you will find that you can often reverse your trade within $1 of the Dow Jones exact stopping point and within an hour or so of when to expect the turn. This is a very valuable and yet easy trading rule to apply.

TRADING TIP NO. 8 - BASIC TREND DETERMINATION

In the final analysis, trading with the main trend is everything. It does not matter about cycles, it does not matter about projections, it does not matter about fundamentals, if you know the main trend direction of the market you will make money.

Hence, all the old reliable trading saws say, "***Trade with the main trend, don't trade too often, stay with the main trend, let your profits run but cut your losses***." This assumes you are with the main trend which persists for long periods of time, sometimes for many years. How do we tell what the main trend is? This is the hardest thing and yet in many cases the simplest in technical analysis.

The following is what my definition of the main trend is from a technical viewpoint. It is a very helpful tip and will clear up a lot of misunderstanding.

In a **Bullish trend**, an upward trending market, there is only one significant thing to look for and that is a pattern of higher bottoms. That is, after each several days of up movement, the market has a little correction down. That correction down must always end at a higher price level than the prior correction down, several days or several weeks earlier. As long as this pattern continues several days up, a couple days down, several days up, a couple days down, and each of the down days are in turn higher than they were on the previous down days, higher than the previous weeks, higher than the previous months corrections, the long term trend is up. (***See Figure 22***)

TRADING TIP NO. 8 - BASIC TREND DETERMINATION

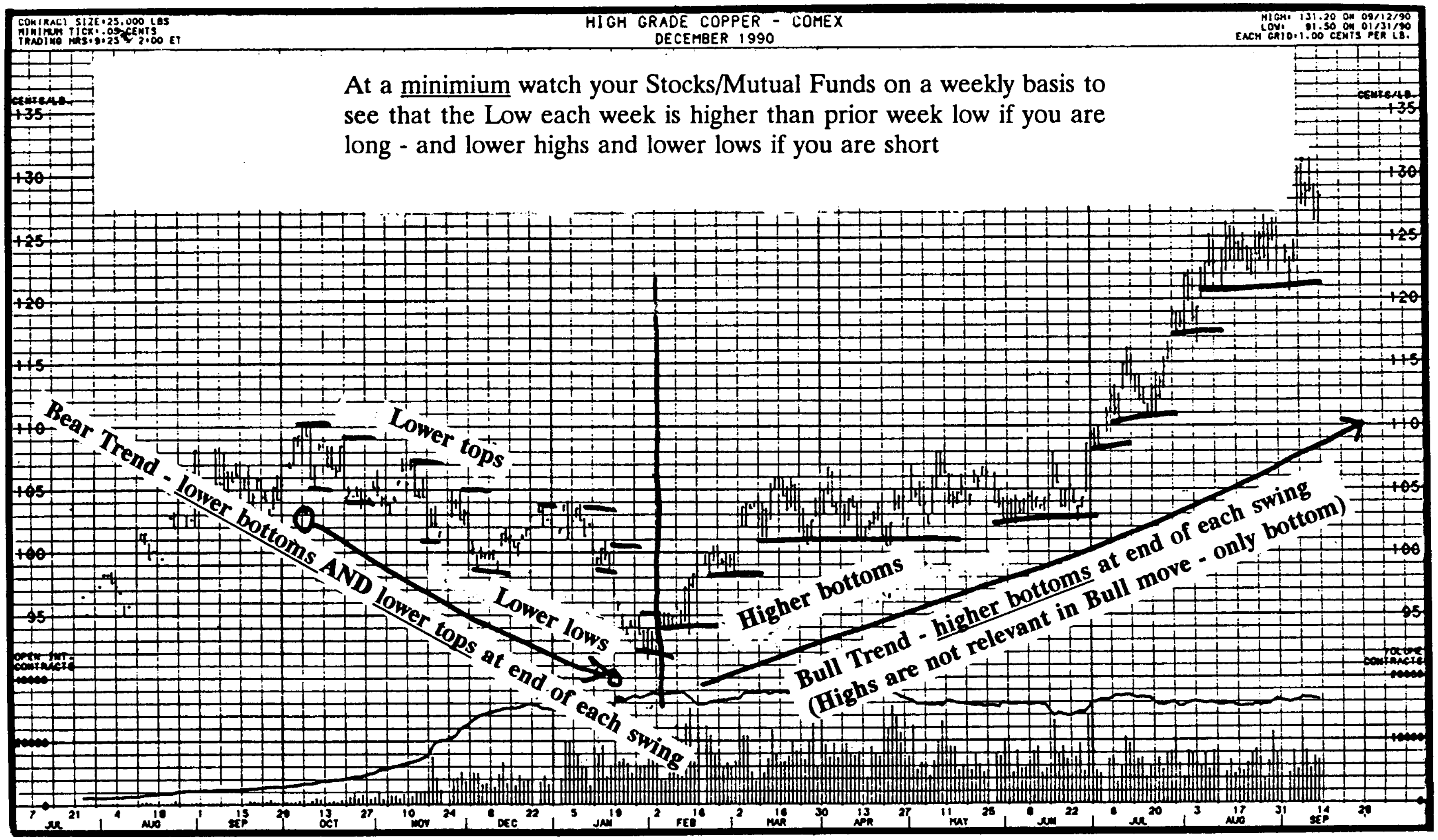


Figure 22

IMPULSE WAVE TIME AND PRICE PROJECTIONS

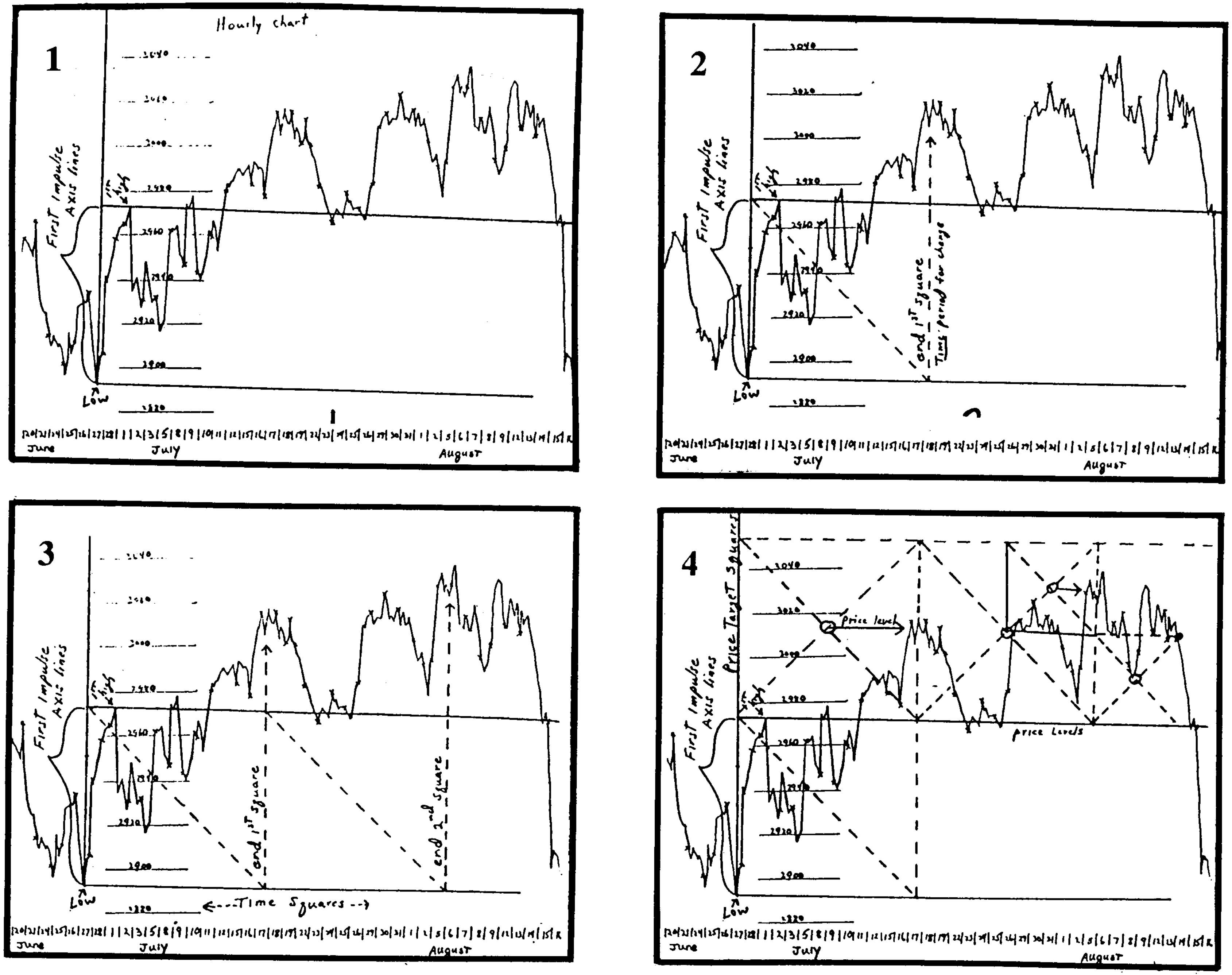


Figure 22A

For mutual fund investors I have often given the advice to leave the trading to a professional money manager, but to watch the price of your mutual fund on a week to week basis and note the low of each and every week. As long as the low of each week is higher than the preceding week you are in an uptrend. To be extra safe you may want to use the monthly low. As long as you never break a monthly low on a month to month basis it is all right to hold your position.

What frequently happens in Bull moves, is that the market is very volatile and we often find the stock market going up 20, 30, 40 points or more in a single day. At the end of the day with the market up 20 or 30 the Bears give in and many Bulls who forgot to get invested rush in and buy stocks indiscriminately with the averages up 20 or 30. The very next day the market plunges 10 or 15 and all these people have losses and they panic and sell. And yet the plunge of 10 or 15 points results in a much higher low than the previous day when the market was up 20 or 30.

If you were keeping track of the trend and lows each and every day, instead of selling out and panicking on that $15 plunge, you would have the confidence to buy into the dip as long as that dip resulted in a higher bottom than the previous day or the previous two or three days. There is a natural emotional inclination to look for a top in a Bull trend. This is why people are fooled when a 20 dollar up day suddenly plunges and only closes up a few dollars. As long as the day is still up it is better than yesterday and the dips should be bought.

This is a big advantage in trading options. To be able to buy call options when the market is down on the day, knowing that by definition of the main trend within a day or so it will reverse back up and go to a new high.

Obviously, if you are not trading with the main trend it is the quickest way to disaster and bankruptcy. That is why it is imperative to watch a pattern of higher bottoms and invest on those higher bottoms.

Now the **Bear trend** requires **two** distinct determinations. It needs a pattern **of lower bottoms AND lower tops** at the end of each little swing. If you were to draw a chart of it, you would see a pattern of beautiful lower lows, a little rally up that does not go as high as the preceding rally, then a failure that goes to lower lows than the preceding low, then another rally that rallies but does not get as high as the preceding high. You would see a series of "stair steps" where lines connecting to the tops of each of the rallies would ever be going lower and lower and lower and lines connecting the bottoms of each of the declines go lower, and lower and lower. Once you see that pattern, and **this is a pattern**, you can be assured that the main trend is down and you should be shorting the rallies and covering shorts on the dips. This is the main trend in a Bear Market.

TRADING TIP NO. 9 - IMPULSE WAVES

Impulse waves are the initial price thrust movements that start a primary long term move (*See Figure 12 & 22A*). These initial waves contain a wealth of information regarding the potential price objectives for the move and the potential time target to exhaustion. Although there are many methods of measuring such waves, simple proportional parts of the initial thrust is usually sufficient.

Remember to measure these proportional parts both in price and time. When a time objective and a price target come together big movements begin or end. Watch the numerology of the waves, such as the Fibonacci sequence 1, 3, 5, 8, 13, 21... or simple proportions, one times the initial thrust, 1 1/2 times it, 2 times it, 2 1/2 times it, 3 times it, etc.

The actual method consists of measuring on your graph paper from the initial final low up to the first wave top. On many short term charts this may only be 4, 5 days of trading to 2 to 3 weeks. On a longer term chart, such as weekly or monthly, it might be the end of a six week rally. You draw a vertical line straight up measuring the distance in price from the low to the very high.

Once you have made that vertical price measurement you then take proportionate parts of that price unit. Say that the first initial thrust is value 1, even though it may be 10 or 20 points on a stock or 100 points on the market averages. That is one unit. Now take proportionate increases of 1 1/4, 1 1/2 1 3/4, 2 or Fibonacci ratios, 1, 1.382, 1.618, 2.618, etc. These should be measured on a vertical scale, but most importantly, and most often overlooked, on the <u>time horizontal scale</u>. When you measure up the initial thrust of one, turn your measured move horizontally, sideways, that same amount and that will give you a natural impulse wave time period.

Do the same thing with your vertical proportionate parts, 1 1/4 1 1/2, 2, turn those sideways and what you will find is a series of overlapping growth squares. Now, at the end of each square the top will be a price composite and the sideways, horizontal vertical vector will be a time unit. This is where all subsequent highs and lows will occur on these proportional parts.

This is the finest method of making large amounts of money in a short period of time through options. Waiting until a major proportional measurement of a primary impulse wave runs its course and the next impulse wave is starting. These are where secondary impulse waves begin or the final top is reached and the market changes direction. At these points it is imperative that you watch the market closely and trade with the trend that emerges.

TRADING TIP NO. 10 - PLACING STOPS, ENTRY AND EXIT POINTS

Professional traders trade only to make money, not to work out psychological problems or for ego gratification. Therefore, they only trade when they have a clearly defined entry point and a very close exit point whose violation would indicate that they are wrong on the trend. These exit points are where they place sell stop orders. (*See Figure 23*)

Remember, to the professional, stocks are merely heads of lettuce that you buy at 99 cents and sell at $1.05 many times. You do not buy at 99 cents and expect $1.50. If you cannot buy at 99 cents you do not buy at all. On Wall Street, the delivery truck stops everyday with new produce.

In an uptrend you buy on dips and use as your stop point the **second prior swing low**. Remember the main trend determiner is the series of higher bottoms that gives rise to an uptrend. Obviously, when you break a prior bottom the trend might be changing but often times in the short run you can break one minor bottom. However, **80% of the time you will not break the second prior swing low bottom** unless it is a significant correction or the trend is starting to turn down.

Therefore, the safest stop is close to the current price level on a dip, but back at the second prior swing low. After you have your entry point and you have bought your stock or option, you place your stop at the second prior swing low. It is then okay to allow your profits to run, but as the profits and the market move up in your favor, you **raise your sell stop order** to the next higher correction low. So each time the market has a correction low and advances, you raise your stop up to the next higher stopout point. This way you can let the main trend run for weeks, months and even years, without being stopped out of a primary trend.

When shorting a downtrend, I usually use the same procedure. Remember a downtrend consists of two things: both lower tops and lower lows in a pattern. You short the rallies as they fail at a lower high level and you cover on the dips.

On longer term trends you short the rallies and place your stop loss two prior swing highs back. This gives you a good safe point in case you should have a tremendous short squeeze that goes past the most immediate prior swing high, but the vast majority of times it will fail before it gets past the second swing high.

A professional trader, even though he may have a very strong opinion about the direction of the overall market, if he cannot enter a trade near a low risk entry or exit point he will prefer to miss the trade entirely than gamble with his money. If he misses the trade and let's say, the market goes up $20 on the day and he wanted to be a buyer, if he were forced into the market at up $20, he might have to suffer through a full day or a day and a half correction down, almost the entire $20, before he could validate that the trend had indeed turned because it would have to break at least the low of that current day.

That is usually too much risk and too much heartburn for the professional trader to make such a trade. Since opportunities are innumerable onWall Street you want to have all the probabilities in your favor and only take those opportunities that give you clearly defined, low risk, very low loss of capital stop out points.

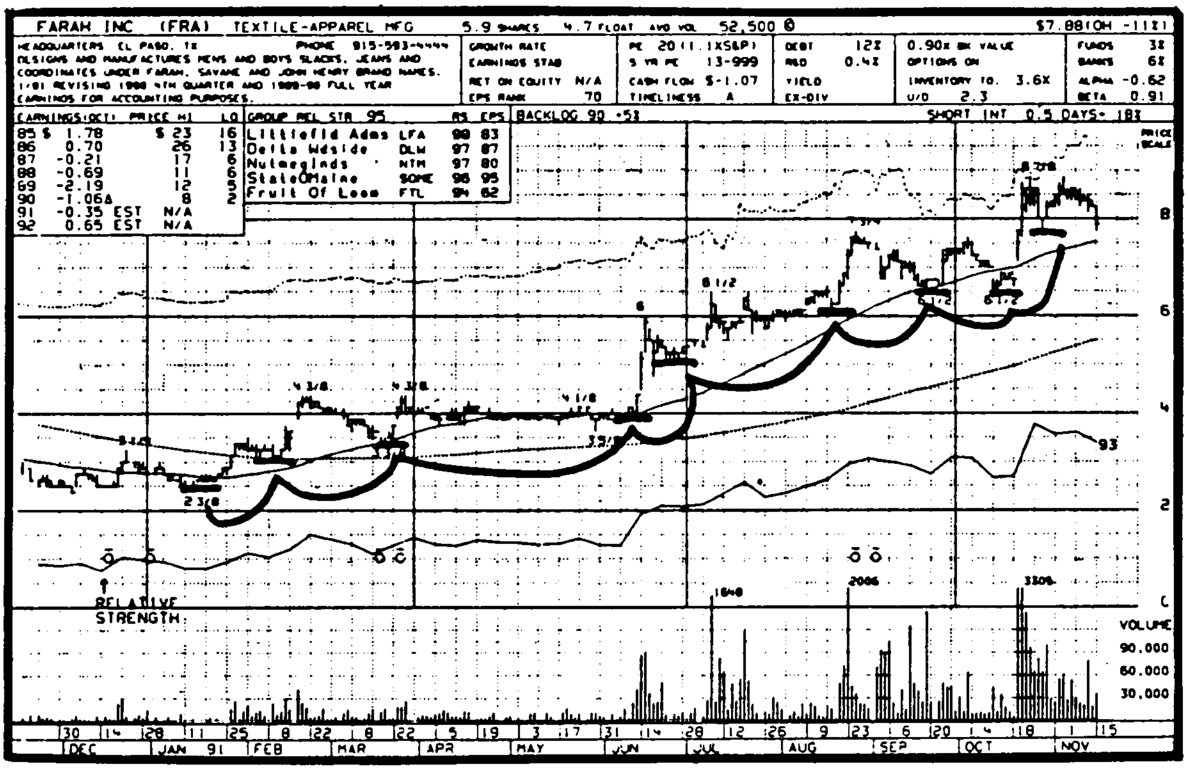
If you use the tips in this book, you will probably be right on the main trend 70% to 80% of the time and the losses that you sustain will be very small while gains will be quite sizable.

In many cases, people recommend using actual stop losses on the books of the specialist rather than what is known as mental stop losses. In my opinion, this is solely up to the trader. You must ask yourself if there has ever been a time where if you had not put a stop loss on the books, that you were mentally strong enough to eliminate the trade, when it went through your stop out point? If you cannot answer yes, to that, then you probably need to put stops on the books to mechanically force you out of the trade.

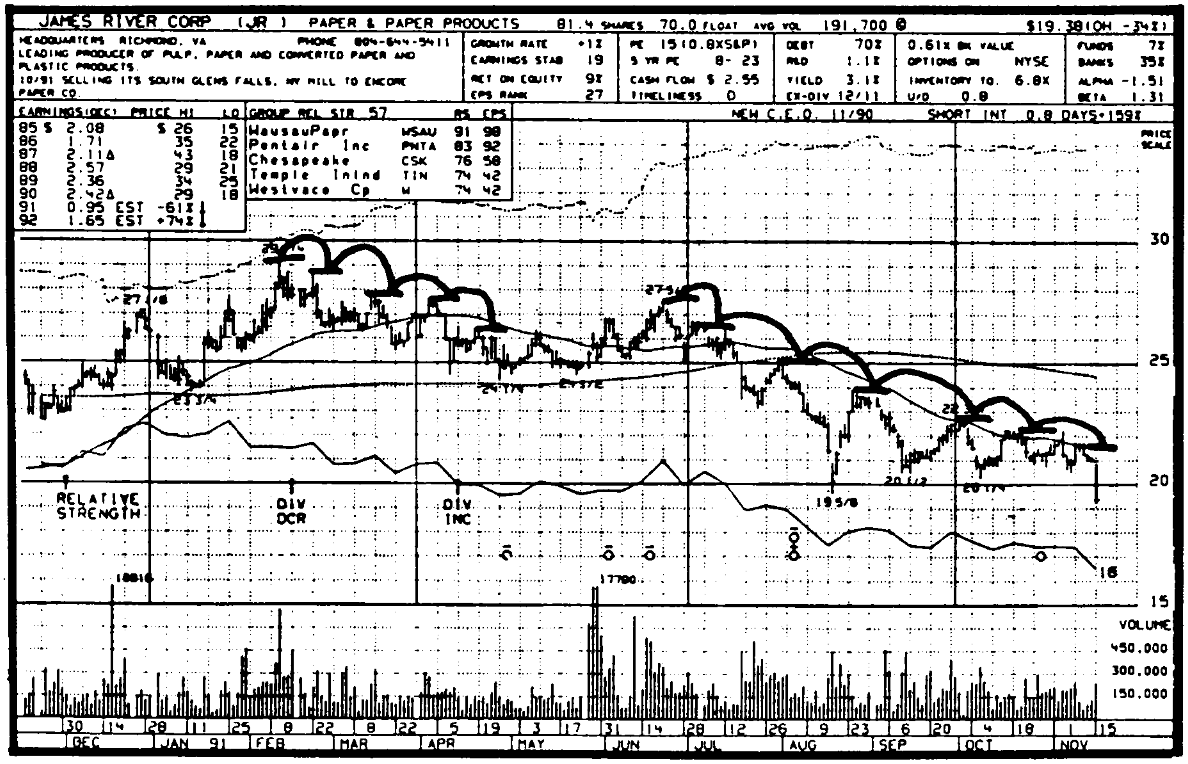
I can not emphasize enough that trading is an emotional experience and the smart rational people in the market use their rational minds to combat their emotional weakness. Do not waste your rational mind calculating earnings per share and rational reasons for the newspaper items. Use your rational mind to fight your emotionalism. The best way to do this is through stop losses, trendlines and rigid discipline about rules, especially rules about taking losses.

The only thing easier than making money in the stock market is losing money. So you should start on your very first trade, with not only knowing when to get in, what your objectives are, but before you make the trade to determine where you get out and at what loss point.

TRADING TIP NO. 10 - PLACING STOPS, ENTRY AND EXIT POINTS



SELL STOP POINTS



BUY STOP POINTS

Figure 23

Chapter #15

Comments about Fundamentals and Economics

"Fundamentals and economics per se, do not play that big of a role for the trader-scalper professional."

Many professional traders utilize fundamental analysis and economic statistics to decide their strategy. As you can tell the primary basis of this book is quite technical in approach and cyclical.

In dealing with cycles our philosophy is very fatalistic. The rise and fall of stock prices are much like the waves at the beach. There are immutable forces that cause the rise and fall of stock prices which consist of large waves of human emotion.

The seemingly random news items that hit the newspaper headlines or the television announcer's desk have really no effect on anything. The perception is that they are the cause of the movements.

However, a rigid analytical analysis of stock prices and volume and trendlines and cycles show that long before the news item is known, the stock or market average has anticipated it. This is not because of illegal inside information, but the natural total unconscious psyche of mankind investing in the market.

Believe it or not, even natural catastrophes, like earthquakes, volcanoes or presidential assassinations are forecasted in the stock prices shortly before the events take place, sometimes many days before. There is something in the collective unconsciousness of mankind that reflects these things and they can be picked up analytically through a study of price patterns.

As a result of this philosophical viewpoint and perception, I do not pay attention in large scale to the so called economic statistics that come out week after week. However, as a trading professional one must be constantly aware of **managing risk** and if there is a widely disseminated statistic due out, such as GNP, employment statistics or any other statistics of significance, one usually likes to reduce his exposure to unexpected events by reducing the amount of leverage through options or futures and the overall size of positions until the news breaks.

Economic statistics in particular, are not even as valid as they used to be. If used in your work you should apply the technical and cyclical tools in this book to analyze those very same statistics. On a weekly, or monthly basis, charts laid out based on the economic statistics will show cyclical characteristics that will have good forecasting reliability. However, day to day blips do not necessarily show a trend.

Remember, the long term trend showing rising bottoms and rising tops or lower bottoms and lower tops will apply to economic statistics just as they do to stock prices. Once these patterns are discerned their use has much more reliability as to the long term effect of the true economic experience.

Fundamentals and economics *per se* do not play that big of a role for the trader-scalper professional. Whether General Motors sells at $20 a share or $200 a share has only a general connection with its underlying fundamentals. Most good analysts can forecast earnings and increasing car sales, but the fluctuations in General Motor's stock has much more to do with emotionalism. What the fundamentalists like to think are fundamentals-- PE ratios, dividend yields, other normal valuation standards, are really quite subjective, emotional fluctuation extremes.

I find it hilarious that many fundamentalists justify their positions of being bullish or bearish by redoing their fundamental benchmarks at emotional extremes. The reality is that they are emotional and when the trend is up they want reasons to buy stocks and so they invent reasons, such as lower inflation with commensurate higher expansion of PE's or lower interest rates and lowered dividend expectation yields, to justify further investment in higher stock prices.

On Wall Street, up until 1985 and 1986, many firms did not even have full time technical analysts, and the few that did, did not pay too much attention to them. They were always considered a weird group of people who were near occultists. However, after the Dow Jones Averages breached 1400, 1500, 1600 on the Dow, the normal equations that the fundamentalists used for the last twenty years in regards to PE ratios, dividend yields, earnings per share multiples were all violated and the fundamentalists were either going to be left in the dust or they were going to have to revise their thinking. The fundamentalist's choice was clear--more commissions meant changing the rules!

Suddenly by 1986 and early 1987 everybody had technical analysts as advisors. There were not only innumerable technical analysts and cyclists around, but we saw the beginning of artificial intelligence trading mechanisms and computerized programs that had nothing to do with fundamentals or economics on a large scale.

Historically, the commodity markets were always prone to reality. They were highly leveraged markets where technical analysis was supreme. There were major players who made money on the fundamental size of the wheat crop, but price reality rules a highly leveraged market. If the price of wheat went down you either went bankrupt or you sold out. So technical analysis was much more important in trading commodities than in trading stocks. In recent years with the high volatility, the high beta movement and the higher priced market averages, technical analysis has become a dominant force in the stock market. So much so that on the popular TV programs the average man in the street now is quite familiar with the word oscillator, stochastic and moving averages. The future of technical analysis can only be brightening.

Epilogue

In a short book such as this my intention was to only scratch the surface of philosophical geometrical trading, in an attempt to change your distorted perspective of how to make money in the stock market. Your mind is your worst enemy, if you use it in the wrong fashion. Price is the reality filtered through the enormous perceptional handicap of human emotions, especially fear and greed. Success is solely dependent upon recognizing the facts and behaving in a non-emotional fashion. Reading the newspaper or listening to TV broadcasters or brokerage house spokespersons is a deception.

For thousands of years, knowledge has been passed down to us in the form of geometry and numerology. Sages of the ancient world probably knew more about reality and the patterns of life than any modern day scientist. If you would be truly informed about the great truths of existence you must work in the realm of symbolism. As much as the high I.Q. genius is above the ordinary man, the next level higher, that of the prophet and all higher realms of intelligence, operate not on the plane of language and verbiage, but symbolism. The stock market patterns of price and time created through the buying and selling of human emotions creates a symbolic story that is an open book for those who know the key. We have always had the clues, but they were never really taught us in school.

From time immemorial the ancients have coded the needed symbols for our future use. If you would know their teachings I refer you to books on architecture, philosophical or sacred geometry, numerology, astrology, freemasonry, the great pyramid, and of course the master hidden code book, the bible.

The lessons written here are not for everyone, and are therefore coded to remain hidden to the masses. Likewise, this book contains much information especially in the chart exhibits that if followed to logical conclusions would yield infinite rewards.

The beauty of mathematics is that we can start with a series of assumptions and build elaborate logical extensions that lead to rules, axioms, and principles that provide us with answers not readily apparent from the initial facts. The use of mathematics, especially geometry in our stock market chart patterns, gives us similar results. For the price of a book as reasonable as this I cannot specifically point out the real hidden truths behind these chart exhibits, but I encourage you to finish the work yourself by extending the concepts to all of their logical conclusions and PROVING them to yourself on your own charts. Nothing I have stated in this book cannot be proven with the geometry of circles, squares, and triangles on your own charts! If you apply the teachings in this book to your trading **you will become financially independent**. If you apply the concepts of perceptional distortion to your life you will become emotionally, and intellectually independent and free.

Appendix

Trader's Checklist

________1. What is the main trend?

Higher bottoms (up), or lower tops and lower bottoms (down)?

What time perspective are these trends? (Hourly, Daily, Weekly, Monthly?)

________2. How long has this trend been in effect? (Are cycles ready to turn?)

How many days, weeks, months, 3 1/4 weeks, 6 1/2 weeks from last low, (high)?

Should I go with the current trend or wait for an expected reversal trend?

________3. What vehicle should I use to exploit this trend?

Stocks - buy dips on stocks making new highs.

- sell rallies short on stocks hitting new lows.

Options - buy options only on ACTIVE LEADERS with volatility.

- Are options over/undervalued?

Futures - is the trend so sure that I can use real leverage and get out with a reasonable stop?

________4. Where do I put my stop loss?

Price level - last swing or trendline.

Time period stop - sell if no profit within reasonable time.

Are these stops mental or mechanical? (actually put on the specialists books).

Trader's Daily Worksheet

Date of last low (high)____________________

Price of last low (high)____________________

Today is____________________

Number of Trading Hours since last low (high)________________

Number of Trading Days since last low (high)________________

Number of Calendar days since last low (high)________________

Number of Weeks since last low (high)____________________

Number of Months since last low (high)__________________

Check these periods for known cycle lengths, numerology, or Fibonacci numbers (i.e. 30, 45, 60, 90, 120 etc., or 3, 5, 8, 13, 21, 34, 55 etc., or 9, 16, 25, 36, 49, 64..........)

Check for price square outs such as 100 days from a price of 100.

Price Angles today: Number of days since last swing, multiplied by 2, 4, 8, etc. and added to swing low or subtracted from swing high to get today's geometric equivalent of Gann's 1 x 1, 2 x 1, 4 x 1 angles. (example - 100 days from last low of 3000 Dow. 100 x 2 plus low = 3200 or 100 x 4 plus low = 3400 etc., or 3000 - 100 = 2900 or 3000 - 400 = 2600). Also, do this hourly, weekly, and monthly.

1 x 1__________________

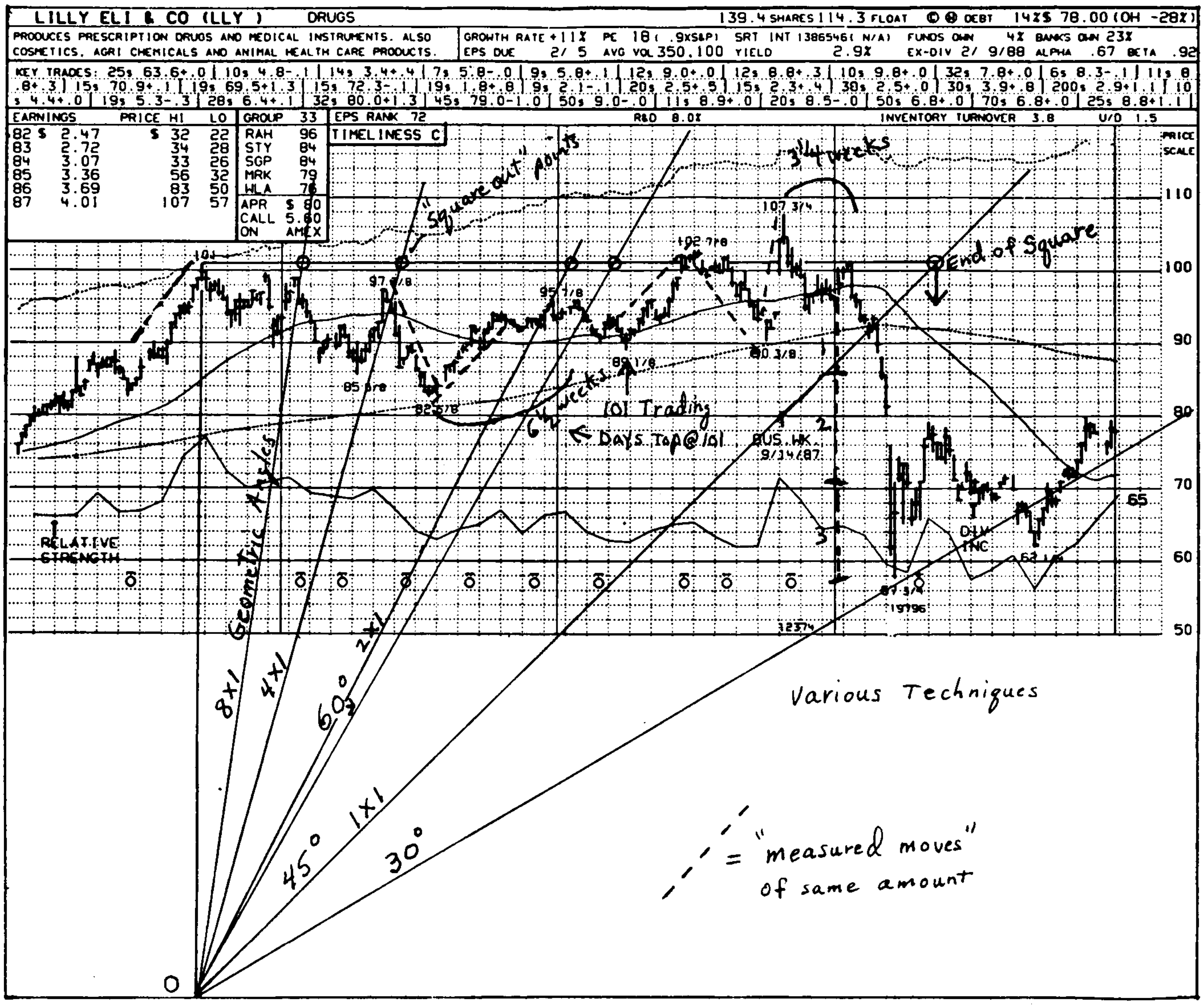
1 x 2__________________

1 x 4__________________

1 x 8__________________

Exhibits

On the following pages exhibits have been reproduced from Mr. Jenkins' Stock Cycles Forecast Newsletter.



Follow UP stock

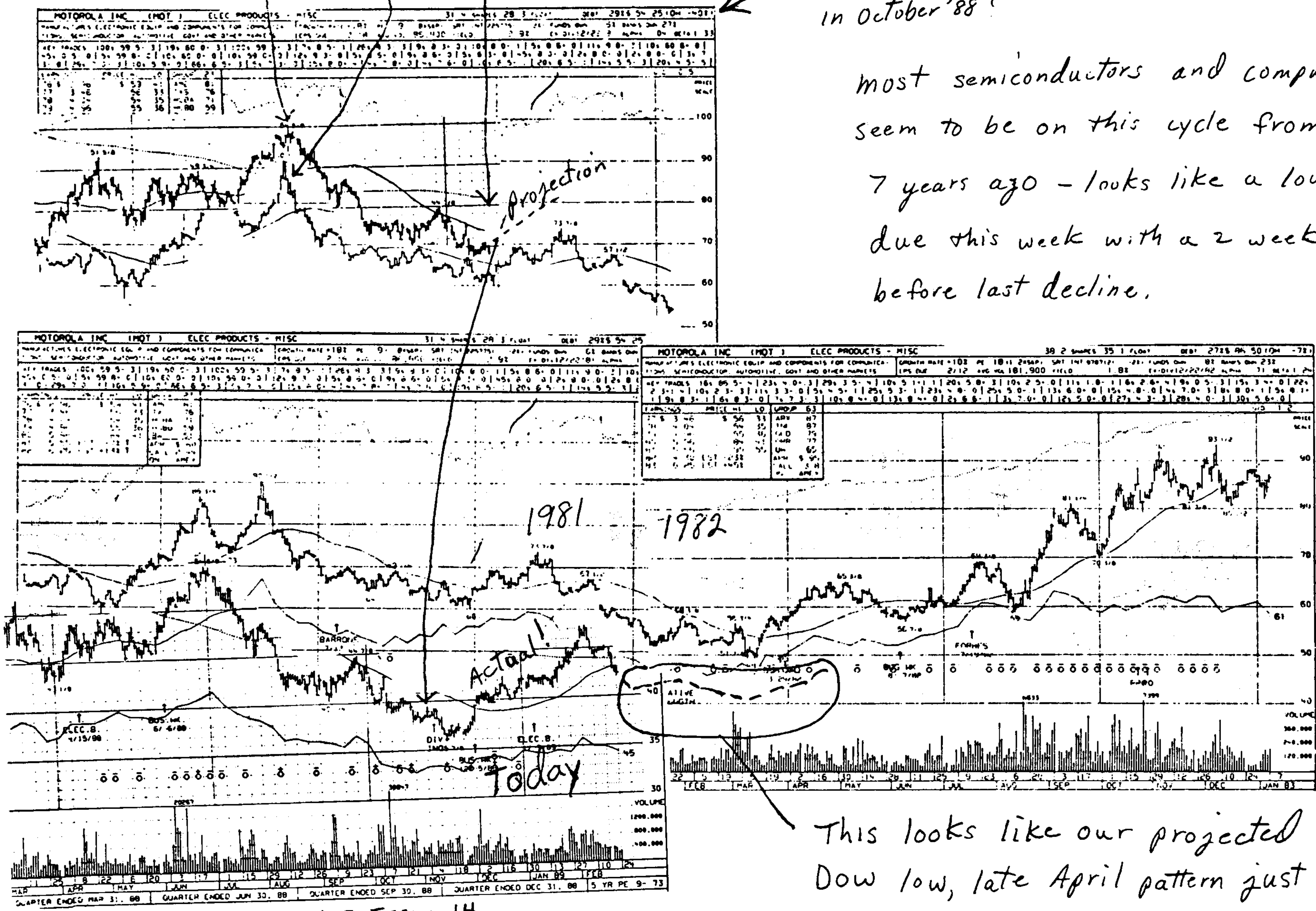
Remember this projection from issue #8 in October '88?

most semiconductors and computers seem to be on this cycle from 7 years ago - looks like a low due this week with a 2 week rally before last decline.

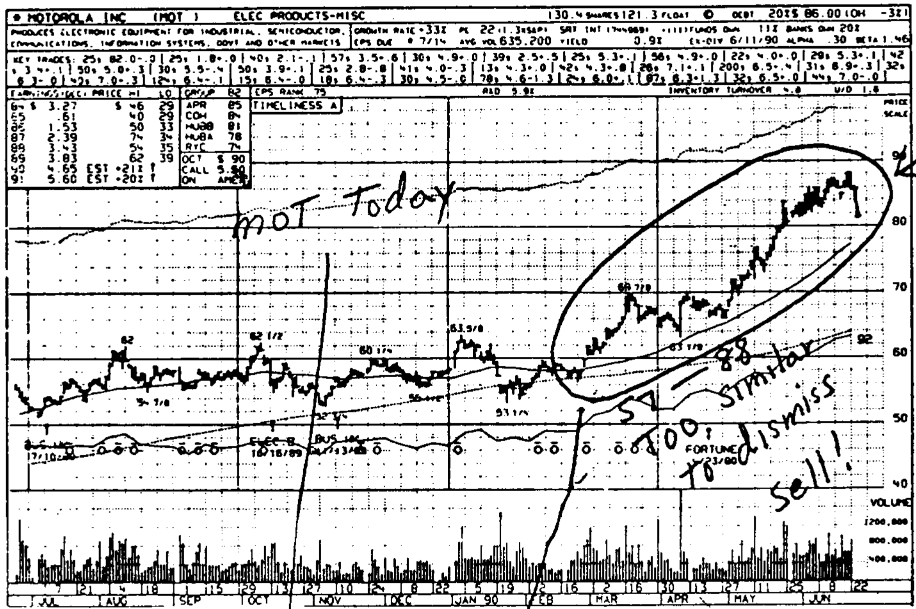
Today 1988

7yrs ago 1981

Looks like a rally coming!

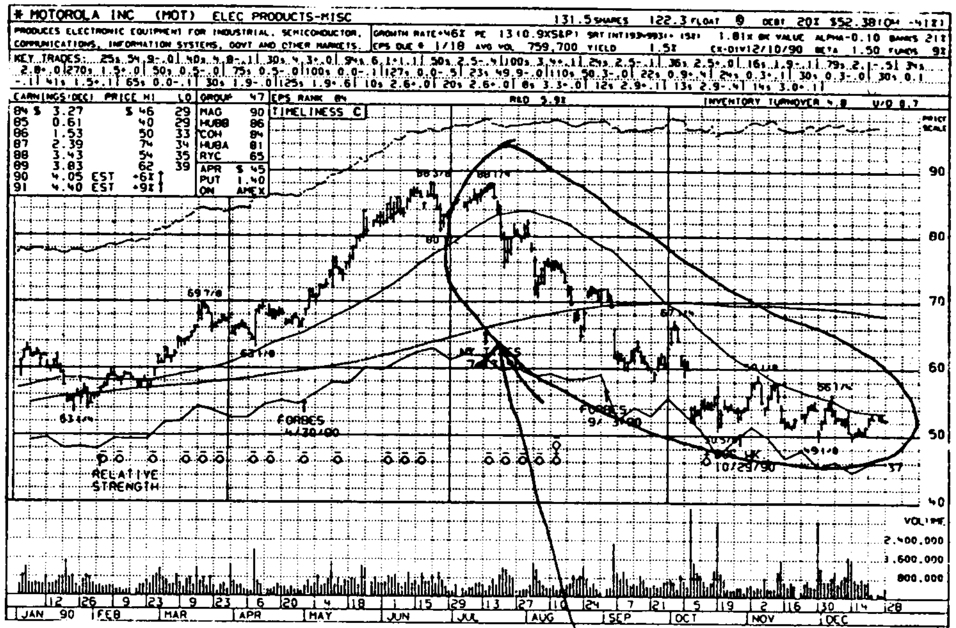


This looks like our projected Dow low, late April pattern just before big leg up to 2700 by August!

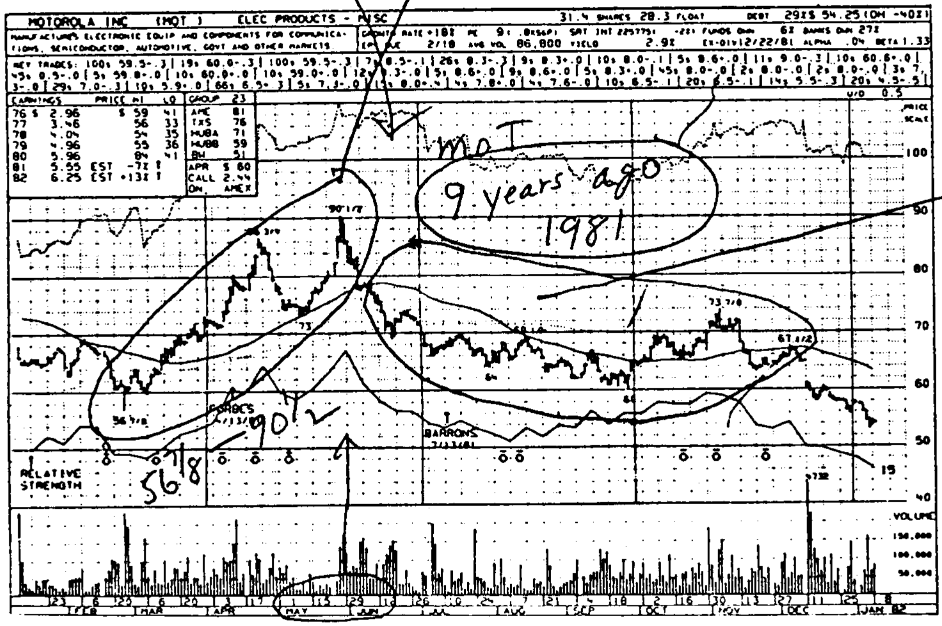


Cycle Top Projected

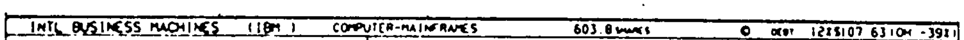
Vol 6 Issue 2
June 28, 1990

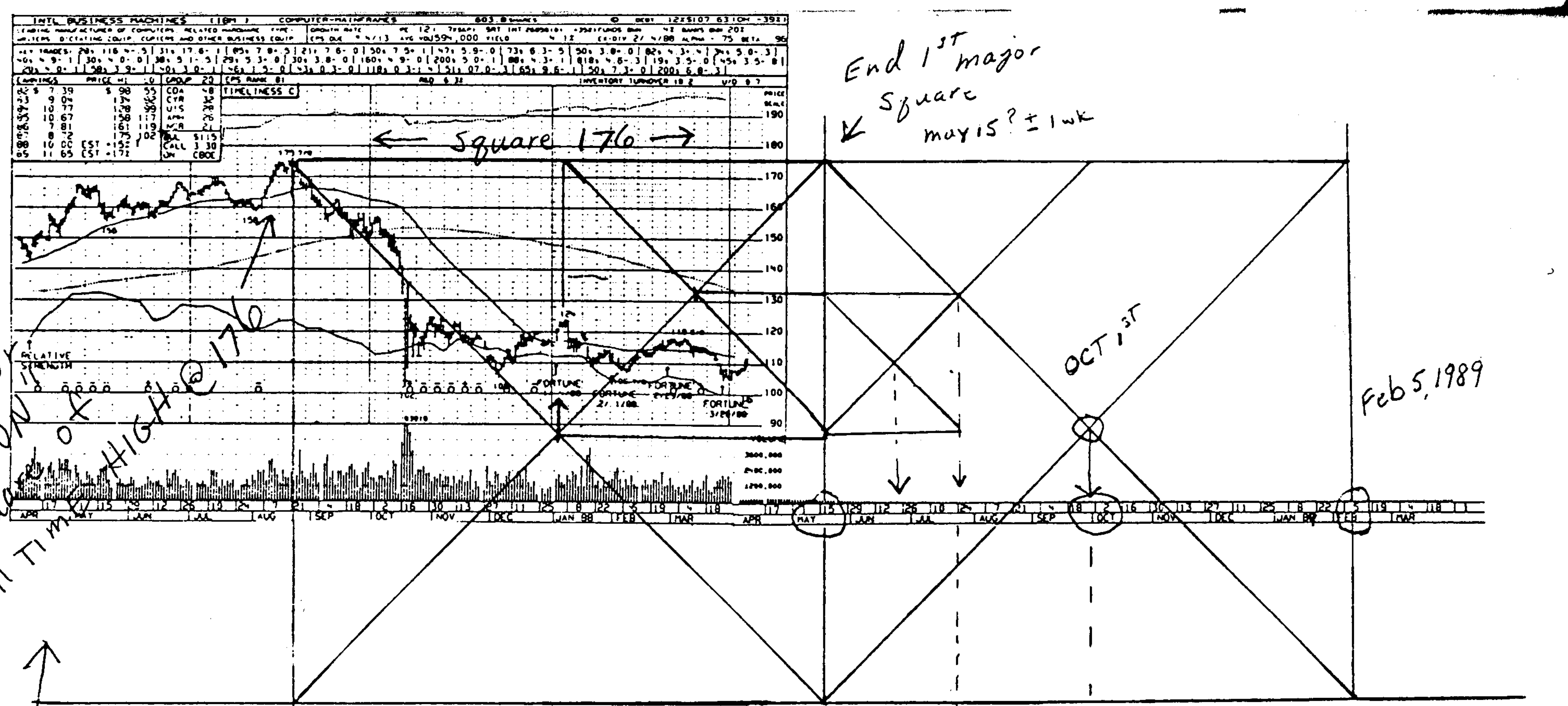


Actual
Outcome!

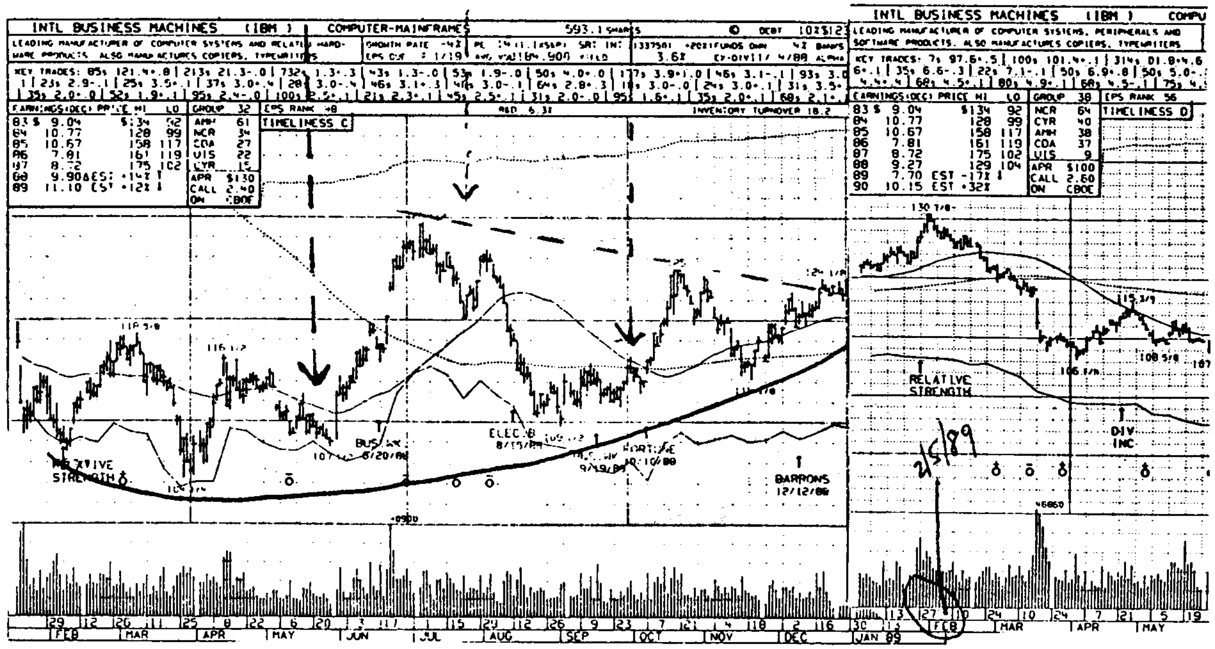


Projected
outcome





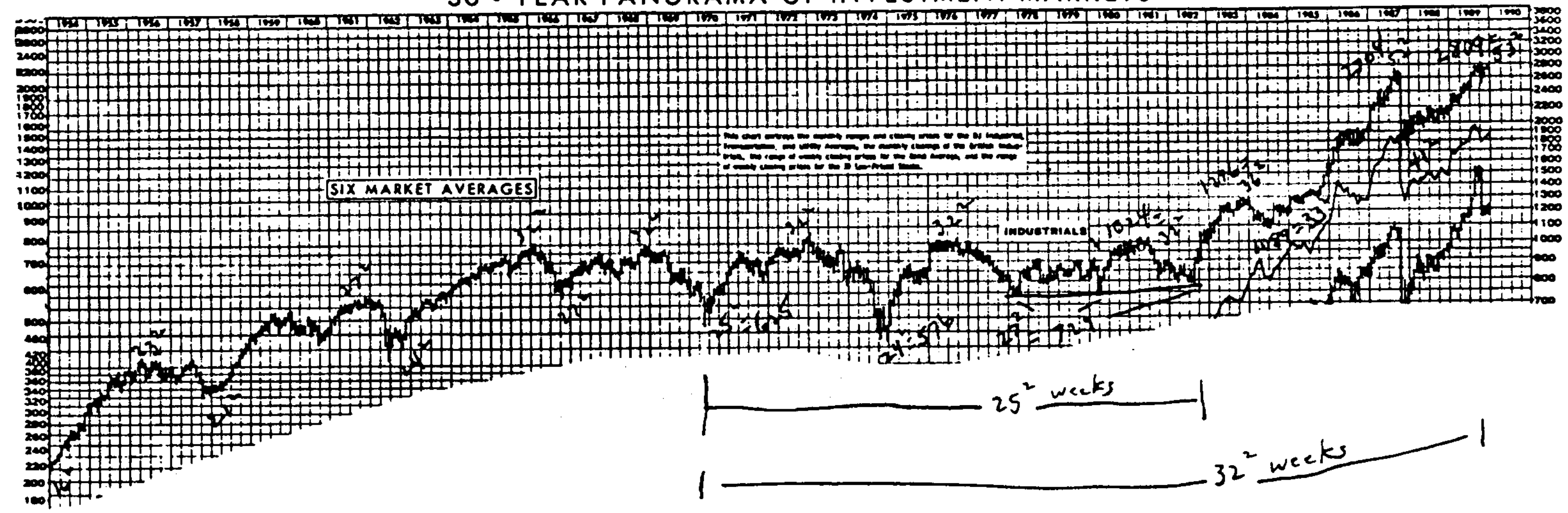
This is a reproduction of a handout for a speech I gave in April 1988. note the symmetry of the Low into the end of the first square near may 15th projecting a High at the end of the second square near Feb 5, 1989!



Trader's Tip:

Secret of the Natural Square

36 - YEAR PANORAMA OF INVESTMENT MARKETS

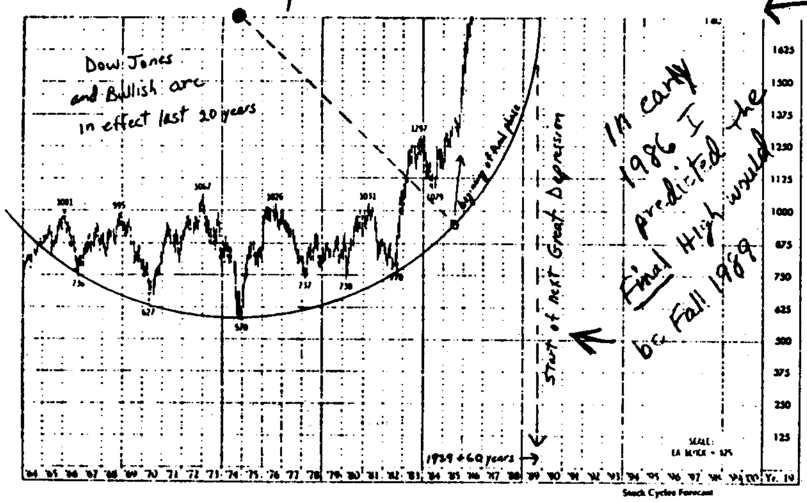


<u>All</u> final highs & Lows of all stocks & commodities begin and end with the Natural Squares of numbers. There is a very simple reason why this has to occur, but I am not disposed to reveal it to the public at this Time or my competition. In any event, $2809 = 53^2$ and is a potential Top, but the Bulls are looking for $55^2 = 3025$, $57^2 = 3249$ or $60^2 = 3600$! Also these squares apply to <u>Time</u> so that low in mid 1970 at 25^2 gives rise to Low in mid <u>1982</u> <u>25^2 weeks</u> later!

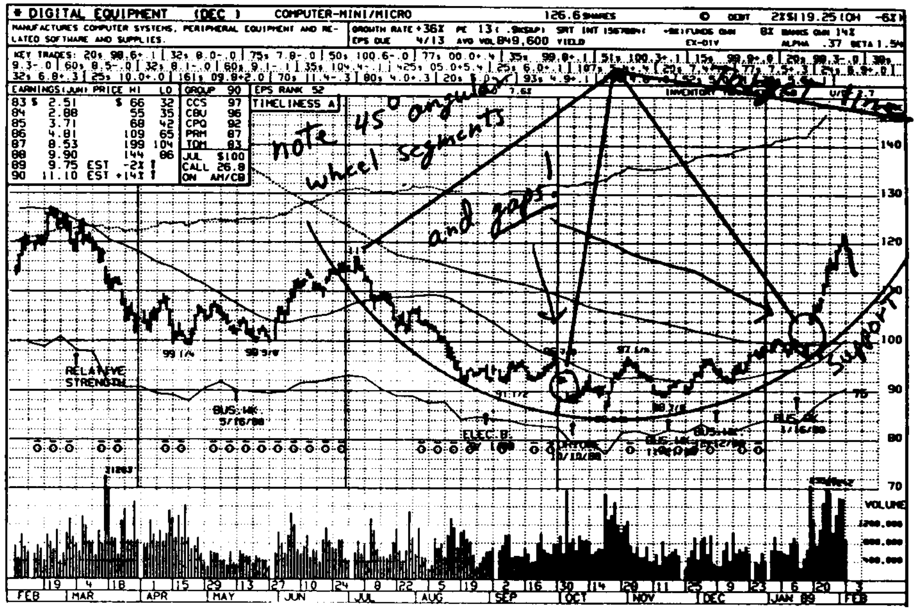
Also mid 1970 low is 32^2 weeks from <u>1-15-90</u> so about 1-15-90 we will either end the Bull market (1970 Low to 1990 high) <u>or</u> start major blast off to 55^2 or 57^2 — it should be easy to see which!

Vol 5 Issue 12
January 9, 1990

Geometry & the market



Target is gravity center @ 1750 minus low @ 570 or 1180 added to gravity center = 2930



↓ Typical Dow stock and why market could yet see 2700 – 2930

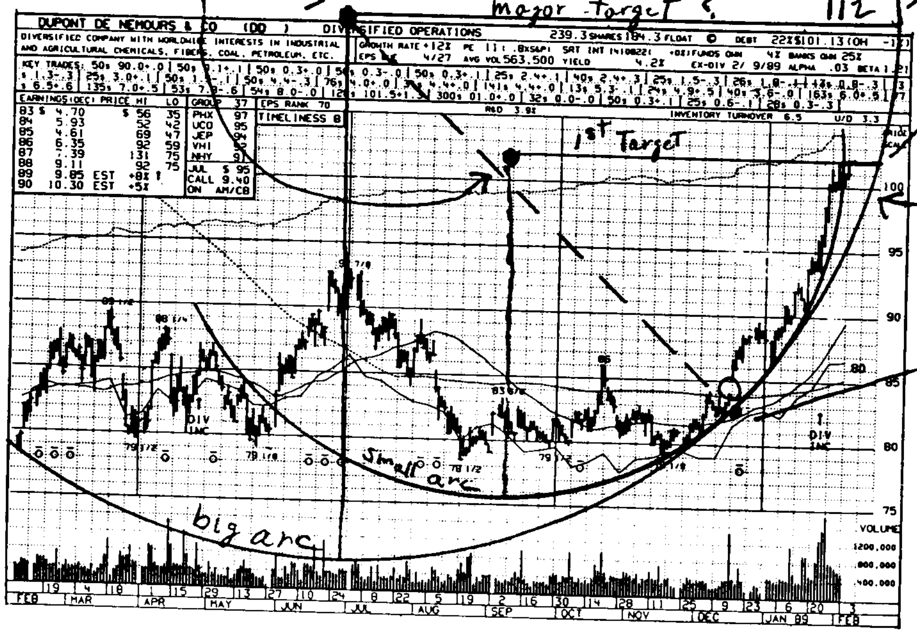
"Trade secret"

Two arcs

"Gravity center" of arc defines resistance & Target

major target ?

112



when arcs go "vertical" – move over.

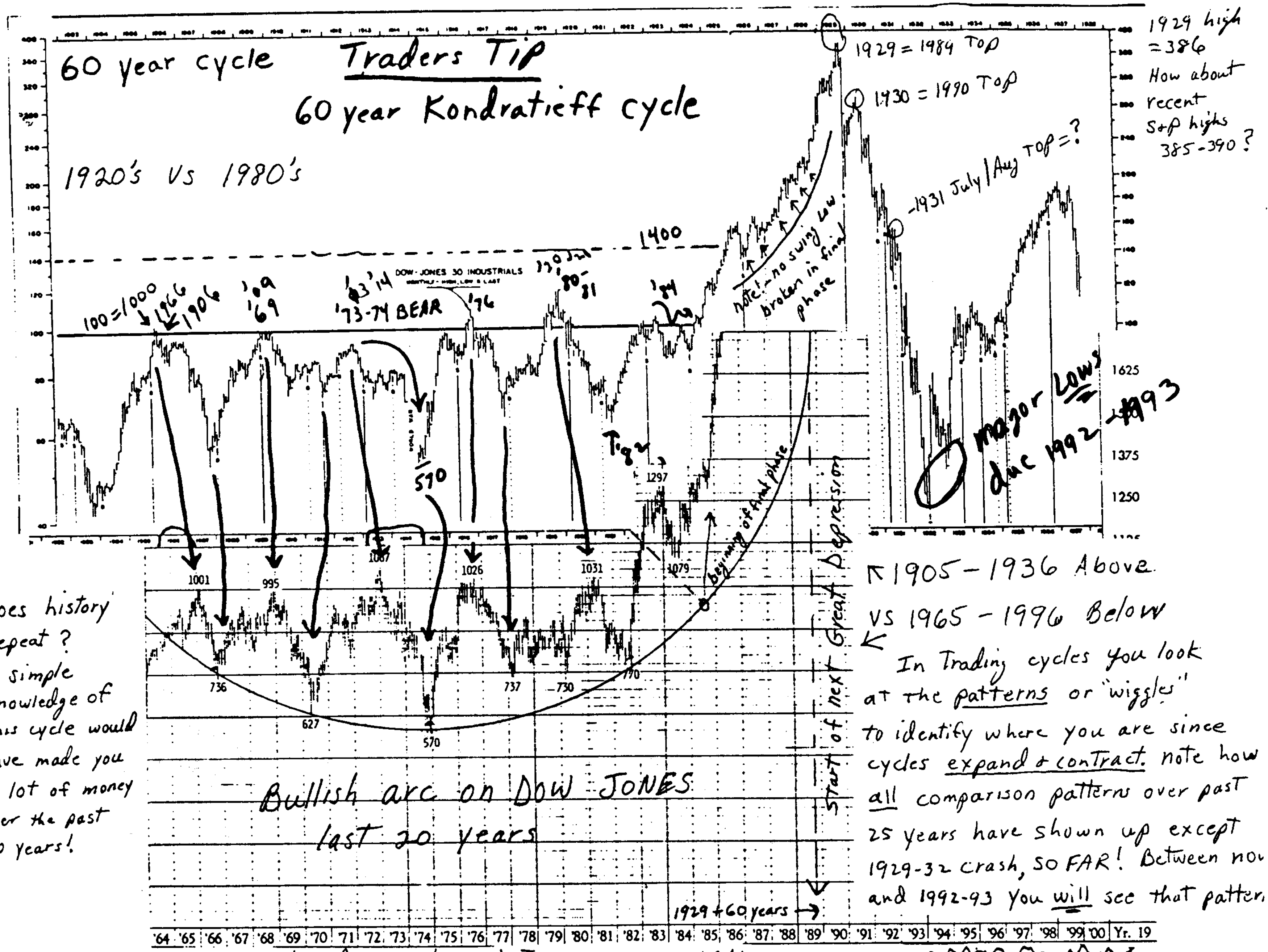
most Dow stocks have hit 1st Target @ 2350 – 2400 above here all will explode to 2700 otherwise 6 week correction needed

a break of this arc signifies move is over

45° from center defines "blastoff"

Vol 4 Issue 13
February 9, 1989

Circular arc patterns are usually rare except at the end of very big cycles. While in effect corrections are short and shallow and when over, the collapse is devastating!
In Terms of Time, decline will last 15 years i.e. from '74 $\xrightarrow{15}$ 89 $\xrightarrow{15}$ 2004 Low

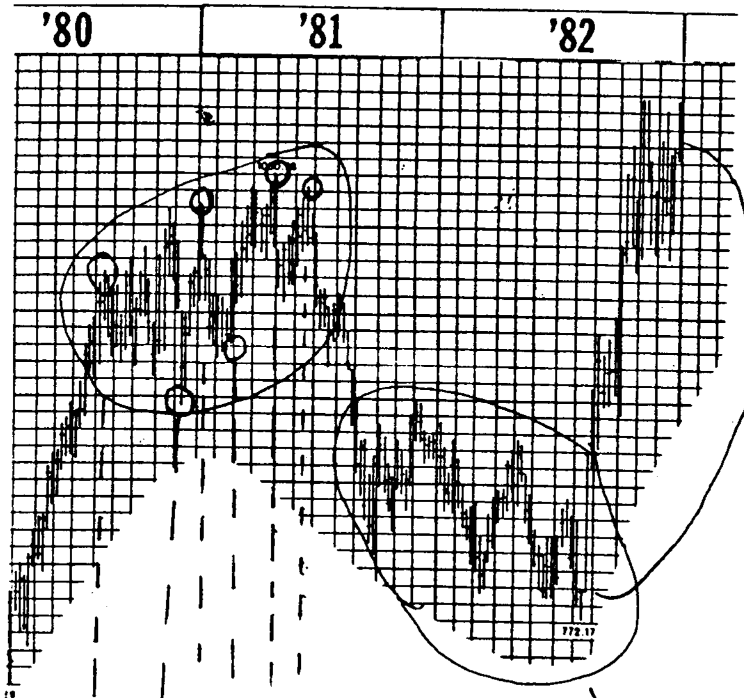


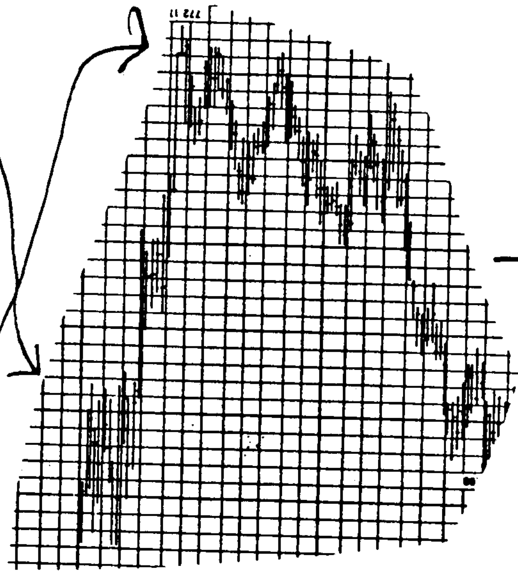
Does history repeat? a simple knowledge of this cycle would have made you a lot of money over the past 20 years!

In Trading cycles you look at the patterns or "wiggles" to identify where you are since cycles expand + contract. note how all comparison patterns over past 25 years have shown up except 1929-32 crash, SO FAR! Between now and 1992-93 you will see that pattern.

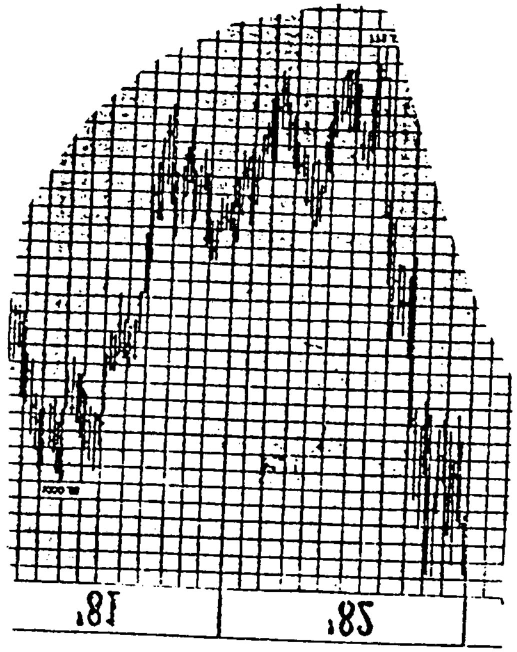
In 1929 the U.S. was the dominant market - in 1989 - JAPAN. Japan broke 50% in 1990 went sideways 6 months (like rally 6 mos into 1930) and is now breaking again. Look for JAPAN to Lose 70%-90% by 1992-93 and U.S. only 40-50%

Vol 7 Issue 3
August 20, 1991

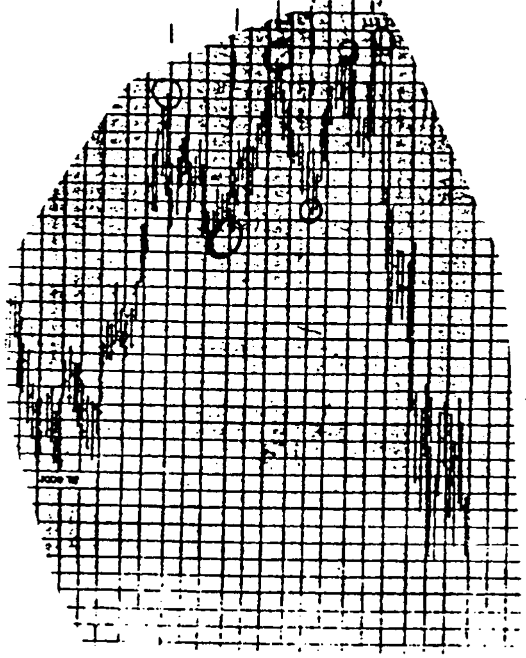




1st Transformation
Take bottom, "flip"
upsidedown



2nd Transformation
Take reverse negative
(this is a xerox
"thru the back side
of the copy")



Top
recreated
i.e. bottom is
reflection of Top

Proof that emotions of Greed at Top, and Fear
at bottom are reflections –

mirror image / ying-yang = The Top reflects
the bottom

1981 Top pattern creates 1982 bottom

Written and Published by:
Michael S. Jenkins
Registered with the S.E.C. as an Investment Advisor

STOCK CYCLES FORECAST

160 Broadway, East Bldg., 7th Floor, New York, N.Y. 10038, Telephone: (212) 285-0050 Volume 5, Issue 2

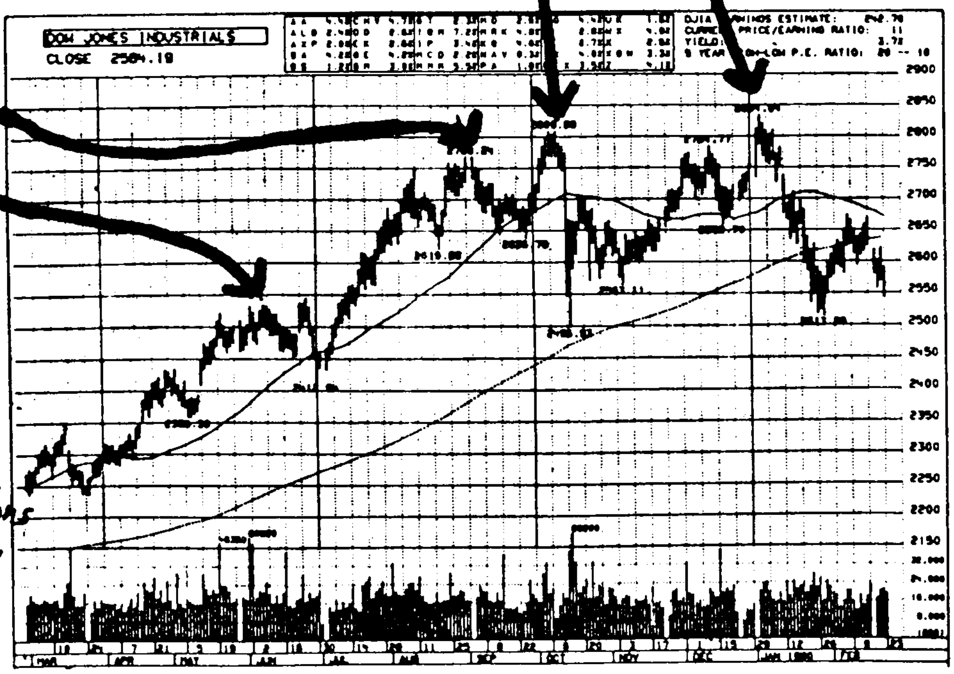
June 14, 1989

Dow 2503

As of today's date the market has still not exceeded my resistance number of 2520 mentioned in the last report. If we exceed it in the next few days we will probably go to 2580 for the top, otherwise the correction will start when we break 2480 and take us down to perhaps 2371, the gravity center and pivot of this years' move. The correction should take three weeks to complete. Should we start the correction from the higher level the low will be 2442. Please remember that if we are in a truly gigantic big up move to 2800 to 3200 we may not see a correction at all, so don't jump the gun unless we break at least 40 Dow points from any extreme high price reached.

From a cycles perspective I can now give you some valuable information as to the most probable outcome for the rest of the year. First, IF we get into the second week of July AND we get to or are above 2500, the odds overwhelmingly favor the FINAL TOP being made August 31, 1989 or September 5th, with a price of at least 2800. Second, a crash like 1987 will again take place in October and not bottom until the second week of November. Third, another important top and the last place to get out on before the massive liquidation begins will be January 1990. This top in January could be a double top all the way back to the highs.

other than Nostradamus, has any person ever made such a series of consecutive accurate predictions as these?



by:
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Written and Published
Michael S. Jenkins
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as an Investment Adv

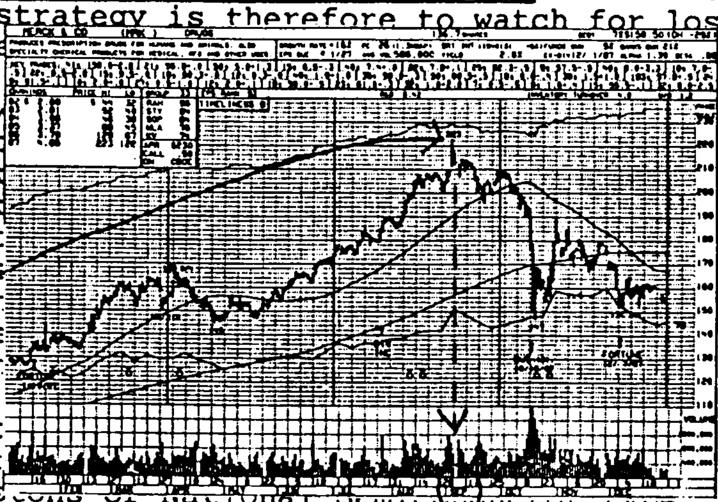
STOCK CYCLES FORECAST

160 Broadway, East Bldg., 7th Floor, New York, N.Y. 10038, Telephone: (212) 285-0050 Volume 3, Issu

August 12, 1987

Dow 2670

The massive blast off to new highs predicted in the last issue is now well underway and only a short time remains for safe trading. The momentum of the move should buy at least three weeks of time and perhaps more, but this is one top I want to be out of early rather than late. Watch for major moves near my millennium date of August 19th and especially the 24th. I sense almost complete bullish consensus that the market will trade up into year end and close at the highs, and many of my cycles are near maximum peaks over the next thirty days and then down hard. September is shaping up as a real potential disaster so avoid the rush and lighten up into Labor Day. It is important to remember that all of the charts are now in the near vertical parabolic phase that always leads to a blow-off after a substantial run. The strategy is therefore to watch for loss of momentum before the



more 100
point Dow ... ediate term
decline (v ... hree to six
months) sc ... your maximum
stop point ... I would sell
the market ... week and a
weekly clc ... ded the market
is at leas

In th ... peating the
1984 summe ... all
participar ... nto the market
top under ... and our
market loc ... remaining
bullish tr ... and into the
basy Pitts ... issues. By the
way, for those of you who are owed fortunes having shorted Merck during the run from 40 to 200 in the past two years, I calculate the final Bull Market high for this stock to be the first week of September 1987!

From a trading perspective, the best emerging groups to buy are insurance, banks, and brokers. Watch for a good shorting opportunity in the XMI stocks particularly MO, MMM, MRK, PG, DD, and GE at the end of the current run. Price targets for the current move are 2725, 2765, and 2850.

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STOCK CYCLES FORECAST

160 Broadway, East Bldg., 7th Floor, New York, N.Y. 10038, Telephone: (212) 285-0050 Volume 3, Issue

October 15, 1987

Dow 2355

2355
1850
505
expected drop into October 19th

A major crossroads is now at hand. If the market cannot stage a significant rally of at least 150 Dow points within the next two weeks, the Bull market will be over. Should the market continue to ~~plunge~~ and break 2290, watch for an immediate crash to 1850. If the Dow regains 2520 it will possibly go to 2610 ~~for~~ the final high into the second week of November. In any event, all cycles point down hard after mid-November and won't even remotely rally at all until early March 1988.

Although a major time cycle low is possibly near, I find it difficult to believe that the recent drop could have happened if the underlying technicals were really strong enough to support a rally to new highs later this year. It seems much more likely that the 50 year cycle mentioned in previous issues has hit and we will now enter a one year Bear Market prior to any further major advance. I think it will be easy to know the outcome anytime after October 20th, as the enclosed activity calendar seems extraordinarily bullish, but could also be a bearish cycle inversion with every day down if further lows are made after the 20th. In terms of cash available the market is very liquid; in terms of psychology, it is totally illiquid and quite dangerous. As of today the Transports and Industrials have both broken to new lows and thus rendered a "Dow Theory" Bear Market sell signal. This should give one concern, however, I am still skeptical because we have just reached the 200 day moving average which almost always gives rise to a good rally, and additionally the market was so high above this average during this tremendous move and the violation of prior lows in the averages may not be as significant as experienced in prior less parabolic Bull markets.

Since it is still theoretically possible for the market to yet go to new highs starting next week, the jury is out until we either break 2300 downside or 2500 topside. I would suggest selling out and only buying again if the market holds for three full days without making a new low, and we get a rally with breadth of at least 1100 stocks up on the day. Important cycle turns seem to be near October 19-20th, 22nd, 27th, and November 5th. Odds favor a good low October 19th and a major top by November 5 but certainly no later than the 20th.

SECRET OF FRACTIONAL HARMONIC TRENDLINES

(Gann's secret of why Time and Price are the same thing!)

This chart clearly demonstrates better than words the helplessness of the human condition and why people lose in the markets - **Reality** is completely different than **perceptions** - i.e. news items, brokerage recommendations, etc. have no bearing on stock price movement.

See how the top near $100 spins out support and resistance angles at 1/8 increments. The intersections of these angles (down and up) give rise to **all** reversals in the price pattern and cannot possibly be related to random news or recommendations.

Human beings are controlled by mathematical cyclic **emotional** behavior - not rational choices!