Why People Lose

By Terry R. Davis

Every time you pick up a magazine or book list there is something new being expounded or presented! Let's try and take an objective look at the subject. Is trading easy? Of course! Trading is easy; it is the making money from it that is hard. Before we go on we need to decide if there are any good trading systems available. Are there really any methodologies out there (besides mine) that are capable of being successful and producing real hand-held profits. If there aren't any profitable systems available then all of the psychological exercises in the world won't make you be a success. In other words if the horse is already dead, he won't be able to give you a ride to the mailbox at the end of the lane. There are many advertisers in all of the various trade magazines that all are claiming huge potential profits and virtually no losses. It is important to realize that their is NO WAY TO TRADE WITHOUT LOSSES. If you believe that there is you are only deceiving yourself. There are several systems and sellers that have been around for a long time. There sheer staying power probably indicates that they are doing something right. Commodex comes to mind. It has been available on a daily basis since I started trading in 1980. This article is not meant to be a recommendation for any one system or seller but longevity in the markets does seem to point to successful underlying principles.

Every system, like people, has its pros and cons. It is extremely important that you pick a methodology that fits your trading style. As a system developer and seller myself I have come up with numerous trading systems that I could not follow no mater how good the historical results were. They just didn't fit my particular trading style. I doubt if you are much different. Many people cannot hold a currency position overnight because of the gaps that sometimes form on the open. This is neither good nor bad. It just reflects their internal basis for surprises first thing in the morning. Very few traders know that it is a simple matter to place stops in the EFP (exchange for physicals) market and cut your risk of gap openings.

I will state categorically that there are successful trading systems available to the public at large. It is beyond the scope of this article to cover which ones I favor. Why, then, do people that buy these systems fail? If the system will perform then it must be the persons own failures (psychology) hampering his/her success. Do the mental aspects of trading preclude a systems good points? The answer to that is: WITHOUT A DOUBT! I believe that the mental aspects of trading greatly overshadow any trading methodology...no matter how successful. Psychology is very close to 100% of what it takes to be successful in the markets. Psychology is very close to 100% in any field or endeavor we undertake. I am not trying to tell you that you can become a .400 hitter just because you want to be. Anything that you have innate ability in or just the wish to be successful in will have mental training at its very core. Not 90%..but 100%. If it is that important maybe we should examine it further. In the last few years athletics has embraced the idea that mental calisthenics are every bit as important as physical endurance. In trading all you have are mental calisthenics and consistently following the same rules over..and over..and over. The common thread among most trading methodologies is following and understandable set of rules time after time through good and bad times. Is it possible to have 100% winners? If you are that naive please call me about a castle I have for sale near Buckingham Palace. We are all bombarded by articles, mail-outs and general advertising promising the impossible.

Any system that produces 55% winners will make a fortune over time. Providing of course that you take all of the signals. For any system to deliver on claims that it makes all signals must be followed.. both the good and the bad. I have been known to skip some of my own signals and just pick and choose the ones I "know" will be good. This is a true exercise in futility. The one thing I have discovered is that all of the trades I skip will be winners. I have been trying to figure out a way to "fade myself." Every trader will come to a time when he can do no wrong. Conversely every trader will come to a time when he can do no right. One of the best traders I know once had twenty-one losers in a row. How would you handle this? Could you take the next signal? Look at the below graph. See Figure 1.

Two extremes...correct? Both of these extreme emotions are VERY HARMFUL to your trading life. One is recognized as an extreme positive and the other as an extreme negative. After living through both over the years I can readily say that ELATION is by far the worst feeling to recover from. It makes you take bigger risks that you should, take trades than are marginal at best and a variety of other stupid results. Strive for mediocrity of emotions. Not extreme positive or extreme negative.

How do you develop faith in a system? Do you paper trade? Real time trade immediately or a cross between the two. As organized religion has recognized for along time: PERFECT FAITH IN ANYTHING IS HARD TO COME BY. Can perfect faith be achieved in this lifetime? Who knows? We don't need perfect faith to be successful. What we do need to bring to the marketplace is belief in positives instead of negatives. We need this, not only in trading, but in life. Isn't trading part of life? We have all known people who suck the very life out of you because of their negativism. How we view things in any of the aspects of you life determines if our life will be happy or sad. One person's positive is another person's negative. Two shoe salesmen were sent to the African Sahara to sell shoes to the barefooted natives. Salesman Negative wired back to his company: Unable to sell any shoes - natives all are barefoot. Salesman Positive wired back to his company: Send me all remaining stock in warehouse. Selling shoes like crazy- natives all are barefoot. Life is truly a matter of perspective on how each individual views it. One further story: Two traders were out for a walk on the beach when one of them spied what looked like Aladdin's lamp partly covered with sand. He quickly rushed over and picked it up. He was filled with anticipation as he rubbed it and stood back. Sure enough out popped the genie. The genie said the traders could have any one wish that he desired but with that one wish also came severe consequences. The trader pondered for a minute what the genie said and decided to chance it. He told the genie that from this day forth he never wanted to make another bad trade. The genie said that was an easy task and granted the trader his wish instantly with a mere snap of his fingers. The genie then proceeded to describe the severe consequences that would befall the trader. The genie said his wife would leave him, his children would hate him and the only people that would be able to stand him would be his trading buddies. To which the trader responded "yeah, so, what are the extreme consequences you were telling me about?" As you can see from this analogy success is relative to what you want it to be. What would make you consider yourself a success a as a trader? This is a question only you can answer for yourself. Until you have an answer to this question you should not start on the journey. Since I am a seller of systems I get to talk to aspiring traders every day. Every one want to trade full-time. They want to do something they really love - trading. If that is true lifetime goal what are you willing to sacrifice to get there? Are you ready to quit you job tomorrow? Are you willing to do the research and develop your own system. How does your wife feel about this? And by the way..how long can your kids live on Rice Krispie sandwiches before they start to complain? Maybe a better goal would be to keep your present job and start learning about trading as a part-timer with your longer term goal (if you decide you actually do like trading) to be a full-time trader. Is that a better way to put it? I think this is a better general goal. At least it is attainable. My feelings from talking to literally hundreds of traders is that they are looking for a system that is 99-100% accurate, makes them $10,000 per week and requires absolutely no labor (mental or physical) on their part. That system flatly doesn't exist! QUIT LOOKING FOR IT! Let's put these negatives aside and get back to our original premise: psychology.

Homework, and more homework. There are many good books available to traders. Two books that I recommend are Mark Douglas' THE DISCIPLINED TRADER and CONFESSIONS OF A STOCK OPERATOR by Edwin Lefevre (both available from Trader's World). I have probably read "Confessions" 13-20 times. It is good. One other book that I like is AS YOU BELIEVE by Barbara Dewey (415-669-1664). This very short list is by no means conclusive. It is only meant to give you a leg up on the competition. Please notice we have not picked on any on a specific malady yet. Stopping smoking or overeating will help you with many seemingly unrelated trading problems you have. When we correct one of our internal flaws it definitely helps in other areas of our life. You already know this! By changing your outlook on one thing it helps to change your outlook on many thins. The term 'BASIC PSYCHOLOGY IN LIFE' covers a scope much wider than commodity or stock trading.

Let's work on one individual problem It is more of a multipart problem. Most people that are in the markets for very long are totally and positively addicted very quickly. There is no drug as effective. With this addiction comes the desire to learn more and more. We buy books, tapes and various literature to help us become better and better traders. Before very long we have 16 reasons to be long.. Which isn't so bad except that we also have 16 reason to be short. This is a sorry situation but one that every dedicated researcher runs into before very long. We know so much that we don't know anything! Let me give you a personal war story. My intermediate term system (the Smoothie) is very straightforward. It is easy to understand and delivers objective signals. It has done very well as I apply it. (My fax service using this method is ahead over 1000% since 1993.) I decided to convert it to a computer program and hopefully take some of my subjectivity out of it. After all, haven't we all heard that a strictly mechanical system will do much better that a subjective system? One I got my "beta" copy working I was checking it along with signals I got by looking a at charts to make sure the two jived. After about a week of this I noticed one very serious "flaw" developing. The computer program was producing profits at a rate of 200-300% greater that I was. Some flaw, huh? How can this stupid machine do better than its creator? When I would have a $2500 open profit the program would have $10,000. Bummer! This continued happening on such a consistently reliable basis hat even I started to take notice. After verifying that the program was taking the trades correctly I started taking the trades verbatim from the computer. My equity curve followed a consistent upward slope. LOSSES? Hell, yes there were losses but the program had instructed the computer never to risk more than $500 per contract. My greatest joy was watching the signal be generated to buy coffee on the Friday before the big freeze and see price lock up limit for many days. NONSUBJECTIVE mechanical signals definitely play a part in eliminating psychological hang-ups.

The second point I think we should touch on is the use of stops. Anything that I can do to keep myself from screwing up (psychologically speaking) I want to do. I can't' identify the point in my early trading career that I decided to always use stops. If you have a stop in the market at all times that it is a very simple matter to eliminate the psychological blunder of not getting out of losing trade soon enough. This is an extremely simple option to follow but many people seem to ignore it's marked or its extreme simplicity. Very early after I started trading I ran into a very successful business man who only traded hogs. Hogs with no stops that is. How much could anyone lose trading hogs, anyway? (Stanley Kroll in one of his early books say "Pick a number, a very big number!") I proceeded to see this man run a $30,000 account into a deficit, lose his very successful business and his wife and family by trading hogs without the benefit of stops.

There are many simple things that you can do to conquer human weakness. Mechanical systems and stops are two very easy choices that anyone make. It seems that my ride down the trail of commodity success has come to many crossroads. Psychology is a at least 85% of trading success. A good mechanical system is the other 15%. You must define what level of success you are trying to achieve and then adjust your road map, time frame and sights to that goal. There should be absolutely no compulsion to trade. The markets continue to be open Monday through Friday every week without fail. You can only be successful if you will spend the time to learn the markets...and much more importantly yourself. Good Trading.

Terry Davis is a successful trader, systems developer and programmer. He teaches one-on-one training for a variety of time frames. His Smoothie computer program is available now. Call him anytime at (217)347-5101.

The Astrology of Timing the Markets

By Nicholas Symington

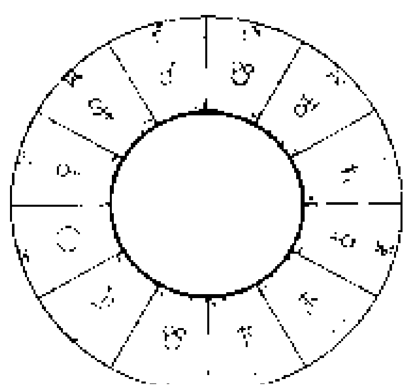
The vast majority of indicators avail able to traders remain price oriented. Although many techniques exist to predict important price levels, Gann and others have taught, it is the combination of price and time that produce the most reliable turning points in the markets. A natural timing tool for traders utilizes astrology. Its fundamental premise maintains that the starting moment of any event, be it the birth of a child, the start of a business, or the initiation of a trade, reveals the basic structure of the event; its points of strength and weakness, as well as other inherent tendencies. By computing a chart of the planetary positions in the heavens for the exact time and place that an event has occurred, a skilled astrologer, using this birth or inception chart, can analyze the character of that moment and forecast probable future outcomes.

What makes astrology so alluring to some traders and technicians is the number of variables that can be adopted to determine the correspondence between astronomical happenings and market action. Eclipses, the Venus Uranus cycle, declinations and latitudes, or an endless array of other phenomena and combinations can be studied. One can become overwhelmed by the number of possibilities and theBy Larry Jacobs

The new version of the popular Signal program has just been released and it is bringing high praise from subscribers.

The features of the program are tremendous. For one thing you can update your spreadsheets in real-time! That's because it supports DDE (Dynamic Data Exchange). This means that data is passed real-time to our active Excel for Windows spreadsheet. You can let your Excel for spreadsheet run in the background while you simultaneously run Signal.

The next advancement in this Windows program is that you can access news headlines with a click of a mouse. You can pull up news, a variety of reports, and reports via subscription. You can see the news update real-time on your screen as it happens.



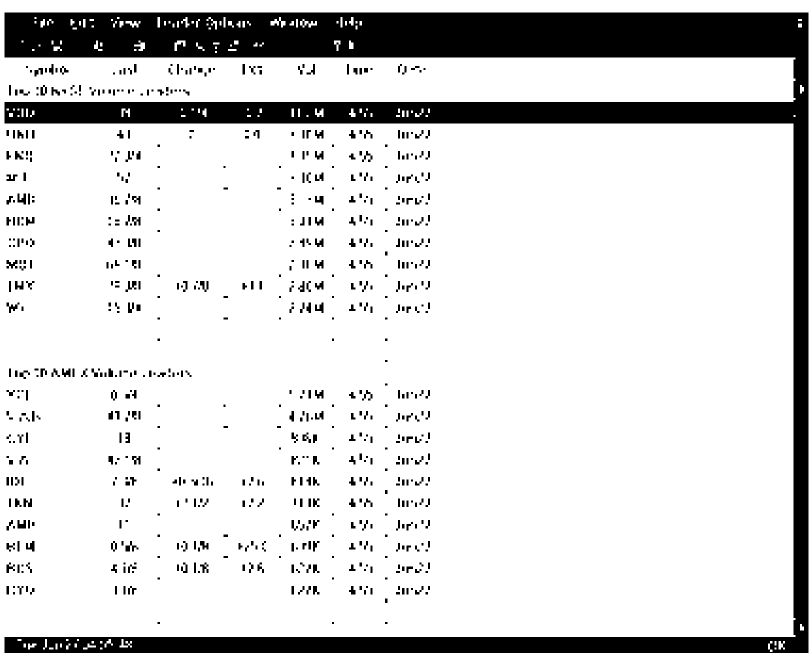
With this program you can also watch your bottom line improve tic by tic. You can track as many portfolios as you need by creating Portfolio for Windows with Signal.

The new program also allows you to mix real-time and delayed data in the same window. That means that in addition to the exchanges you need to monitor real-time you can get less expensive delayed quotes on the exchanges less important to you in the same window!

Of course, you get the legendary ease of use of the windows environment with Signal for windows. You can design as many custom screen layouts as your trading requires.

So don't delay. Call Trader's World for more information on how to set up your real-time or delayed-time Signal for Windows. We offer a discount of the setup of your account. complexity of astrological information. Most astrological data used by traders are general, or global, and not specific to a particular place or market. For example, an eclipse occurs on a certain date at a certain time, having a general effect on everyone. How that eclipse affects an individual would be determined by where the eclipse is located in a person's birth chart, which represents the intersection of a specific time and a particular place at the moment of birth. How that eclipse might affect a particular market can be best determined by reference to some starting point which uniquely defines that market.

One possible starting point would be the date, time, and place that a future market first trades or, in the case of the stock market, the inception date of the New York Stock Exchange. Analyzing the relationship of an eclipse to these inception charts affords a more accurate insight to the singular effect an eclipse may have on each market. Questions may arise over whether these inception charts may accurately represent the trading of a particular future or whether several inception charts may exist for the same market; thus, creating the problem of choosing the most reliable chart or investing all of them. The real power of astrology as a timing tool lies elsewhere. The precision that it can demonstrate reflects the precision that exists in the markets. When constructing a chart for the birth of an individual, there forever



exists an indeterminacy of the exact moment of birth, making forecasts of future trends, at times, imprecise. However, in the markets, a high or low, whether it be for the hour or for the past ten years, occurs at a precise time, at a specific place. By using significant highs and lows as starting points and computing charts for those times, astrology can give accurate timing points for the future.

Obviously, important highs and lows can be viewed as the joining of time and price to generate a change in trend. From an astrological perspective, it corresponds to the intersection of time and space to produce a meaningful event; in this case a critical price. Because of the exactness in time that an important price manifests, a highly accurate chart for its manifestation can be computed, that reveals not only the character of the moment where time and price converge, but future dates that affect or vibrate to this original chart.

While the inception chart of an event is static according to the time and place of its occurrence, there exists in astrology several dynamic methods that indicate how such chart is activated in various ways in the future. These methods, called transits, progressions, and directions involve moving the planets at various rates of speed and then comparing their changing positions of the inception chart. Transits simply mean the daily position of the planets relative to this chart. Directions, especially certain types of progressions, require more complex calculations, which any good astrological computer program can perform. Of all the celestial bodies, the Moon has the most potency as a timing device, no matter what method may be used. Only the Moon needs to be used, and only its contacts planets and points in the inception chart are important.

In practice, two techniques work well in forecasting future timing points. The first involves computing a chart for the exact time a place that a market has formed the last important high low. By employing several of the real context. While general of global astronomical phenomena may correspond to price events in the markets, such phenomena would have times of being in phase with market action and out of phase at other times, because what is being observed in nonspecific to a market. Using the exact moment that price attains a turning point gives an extremely precise starting point, which then allows astrology to be effective and specific to exact market. Briefly, this serves to introduce the basis of astrology, as an effective timing tool. At a later time, its application to particular markets will be demonstrated.

Gann Masters

By Larry Jacobs

W.D. Gann was perhaps the finest trader of all time. With over 40 years of research and trading, he fully understood the markets and why they move the way they do. In his lifetime, Gann wrote many books and courses about the markets. He said "Speculation or investment is the best business in the world if you make a business of it. But in order to make a success of it you must study and be prepared and not guess, follow inside information, or depend on hope and fear. If you do, you will fail. Your success depends on knowing the right kind of rules and following them." He said that lawyers, doctors, engineers and professional men who make a success spend anywhere from two to five years time studying and preparing to practice their profession before making any money. Yet men enter into speculation in Wall Street without any preparation. They have made no study of it whatsoever. They try to deal in something they know nothing about. Is it any wonder then they lose?"

Gann Masters is in a unique position to give you the rules of successful Gann Trading. You must be willing to study and learn the lessons in the course that will be given to you. It will take you long hours of study and practice, but you cannot get something for nothing. It will cost you time and money, but it will be worth it in the end.

In Gann Masters, you are presented to each lesson in its logical order. Gradually and simply, and important factor, the clarification of a mystery, vital knowledge, or a bit of material will merge into another. You will not be driven into a maze of charts and numbers which you can't understand and which will fatigue you. The lessons are organized by degrees and grades, each following in proper order. The lessons are as follows:

W.D. Gann a Legend
Study and Be Prepared
Capital Required
Right King of Charts
Know the Trend
Mathematics
Elliott Wave Theory
The Time Factor
Support and Resistance
Table Charts
Forecasting Time
Forecasting Price
Excel Spread Sheet
Swing Charts
Gaps
Tops and Bottoms
Volume and Open Interest
Gann Channels

Types of Orders
Making it Work
Test Application
Certification

The course also contains the Microsoft Excel spreadsheet template which includes all of the master tables, circles, tritables, projection charts, the square of 9 and 4 illustrations. To run this spreadsheet you will need at least a 386 computer with 4 MB of RAM and 20 MB of hard disk space.

The Excel spreadsheet is fantastic. Many of the time and price projection techniques that Gann used can be done with this program in a fraction of the time it took him. If he were alive today, he would have this program.

When you are through with the course and feel that you understand the Gann trading ideas and techniques, you will take the Gann Masters test. The test includes true & false questions and multiply choice questions. You will also be required to write a 500 word term paper on one of the Gann subjects.

If you pass the test you will receive the powerful Gann Mind Tape which trains your subliminal mind to learn the Gann trading rules. This is an excellent tape which continually refreshes your mind and keeps successful Gann trading rules on the tip of your mind.

You will also be admitted in the Gann Masters User Group. This is a group of traders who have successful passed the test and are working with other Gann traders to become very successful. In the Gann Users Group:

1) You will have the ability to contact other students in the group that are studying Gann just like you are. This will be on the Trader's World Internet. All of you Gann Students have similar trading interests. You can make friends with the members in the group and help each other learn better.

2) You will have access to the research papers written by the other Gann Master members on Trader's World Internet.

3) You can ask questions which we will relay to expert Gann traders that we know. The answers to those questions will be available on the Trader's World Internet.

4) You will have access to the Master Time Factor Years when they are completed on Trader's World Internet.

5) You will have access to the latest Gann Master Templates for Microsoft Excel program on the Trader's World Internet.

Once you are in the Gann Masters Users Group, you will have to work to stay there. We will expect you to help other Gann students achieve that status that you have. As a group you will get to be better traders working together as time goes on until you are all master traders.

Before any trader can enter into the Gann Users Group, they must sign an agreement saying that they must keep secret any of the advanced Gann trading techniques they have learned there. Any violation of this agreement will cause them to be expelled from the group.

It's time for you to join Gann Masters and start trading the way a master trader does. This is your opportunity. Don't pass it up. The time is now! The price is just $90. Call 1-800-288-4266, 417-882-9697 or Fax 417-886-5180 to join. You can also return the Trader's World post card in this issue to get started.

Solves on of Gann's Trades

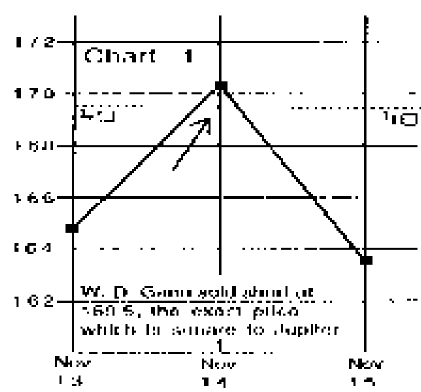
By By Patrick Mikula

Virtually everyone who teaches how W. D. Gann traded and forecasted the markets ignores the actual trades, trade recommendations and forecasts which William Gann, himself, made. The reason for this, quite simply, is that the methods being taught cannot solve the mystery of how W. D. Gann made his trades and forecasts. However, I do not ignore W. D. Gann's trades and forecasts but rather, I hold them up as absolute proof that I teach the methods which W. D. Gann actually used. In this article I am going to reveal the solution to one of W. D. Gann's actual trades in the soybean market.

There are numerous times in which W. D. Gann stated that he took some action in the markets. One such time, Gann wrote, "November 14 high 170-3/8. Note from the extreme low of the option, 139-3/4, to the extreme high 202, the 50% or halfway point was 170-7/8, making Soy Beans again a short sale around 170. The writer sold Soy Beans short at 169-1/2." Gann said that this halfway point was the reason soybeans were in position to be sold short. Now let me show you how W. D. Gann actually made this trade. Look at Chart 1. It is a line chart showing the soybean prices for three days: November 13, 14 and 15, 1941. This chart shows the top on November 14 where Gann sold short. I have placed the longitude which is square (meaning 90 degrees away) to the planet Jupiter on Chart 1. Notice that the Jupiter square line crosses right under the high price W. D. Gann listed in the quotation. Could this be a coincidence?

The longitude of Jupiter at midnight on the day Gann sold short was 19 degrees Gemini 30 minutes. This listing is in zodiac sign degrees to Jupiter's longitude of 79-1/2 degrees, we arrive at 169-1/2 which is the exact price at which W. D. Gann tells us he sold short the soybeans market. So in the quotation, W. D. Gann says that he sold short at a price which is exactly square to Jupiter's longitude. This is no coincidence. Chart 1 represents the legitimate astrological solution to one of W. D. Gann's soybean trades. The arrow on Chart 1 points to 169-1/2 on November 14 where Gann says he sold short. The quotation from W. D. Gann discussed in this article is representative of his writing style. W. D. Gann wrote in a deliberately misleading manner in order to convince the reader that he used nonastrological methods. It is my opinion that W. D. Gann used relatively few of the non-astrological methods which he sold during his life time. I do not believe W. D. Gann made trades, trade recommendations or forecasts without checking with his astrological methods such as the one I described in this article.

Patrick Mikula is author of the book Gann's Scientific Methods Unveiled. The book is available from Trader's World Catalog in this magazine.



Anatomy of a Takeover Winner

By Alan Friedman

Those familiar with THE SEVEN PERCENT SOLUTION know that my proprietary short term trading method finds stocks about to move 5% within 15 trading days. And sometimes we can find the footprints of insiders in takeover situations. We had purchased W.R. Grace (GRA) on 4/27 at prices ranging from 52 3/4-54 1/8 (adjusted for the dividend we will receive) and we had purchased the May 50 calls at 4 3/8. On 5/5, after news hit the tape of a buyout offer for Grace's medical unit, we sold the stock on the gap open at 58 and we sold the calls at 7 3/4. Using margin and a deep-discount broker, the annualized returns on 500 shares came out to between 400%-650%. The calls were sold for a profit of 77%. Not all of our trades work out as well, but I want to take you on a day-by-day replay on how THE SEVEN PERCENT SOLUTION played this trade.

APRIL 19, 1995

During trading hours a beep from my Quotrek alerted me to unusual activity in W.R. Grace stock. The stock had formed an "Outside Day" meaning that the stock had made a higher high and a lower low when compared to the range of the previous day. This action often precedes quick and volatile moves in stocks. But we still had no idea in which direction the move would occur. At this point, we stay on the sidelines for further signals.

APRIL 20-21, 1995

The action in Grace today tells me that the expected move will be on the upside. But we still do not enter yet as I wait for the action during the next few days to give me a potential entry price, exit price, and stop price. The next day, the action in GRA tells me that my potential target in the stock is 56 5/8.

APRIL 24-25, 1995

Grace trades sideways, forming two "Inside Days". This action is neutral and has no predictive nature.

APRIL 26, 1995

W.R. Grace pulls back, albeit on light volume. This action give me my entry price of 53 1/8.

APRIL 27, 1995

GRA gaps open at 54 1/2. Those who used buy stops at 53 1/8 paid 54 1/2 while those who waited were able to buy the stock at 53 1/8 toward the end of the day. Still, we're long with a target to 56 5/8. We also bought the May 50 calls at 4 3/8 on the open. The stock closes at 53 5/8 (remember that price) on nearly three times the volume of the prior day. This action of a higher high, higher low, and higher volume is positive for GRA.

APRIL 28, 1995

Another "Inside Day" for GRA with another close at 53 5/8. More interesting is the volume which has soared to slightly more than 1 million shares. This is very unusual because volume on most inside days is lower than normal. High volume on "Inside Days" is often indicative of very smart (and quiet) accumulation.

MAY 1, 1995

We are yelling "Mayday" after today's action. Grace drops sharply to a low of 51 after appointee Albert Costello as the new CEO. (I jokingly tell my subscribers that perhaps the Street reacted poorly because they thought the new CEO was LOU Costello). Still, GRA rebounds to close at 52 1/4 and 51 seemed to hold twice in the afternoon. The troubling part of the day's action for me was the surge in volume to more than 1.7 million shares.

MAY 2-3, 1995

Two more inside "Inside Days". Still, very bullish developments occurred. GRA never went below 51 3/4 during the two days which confirmed a short-term bottom in place at 51. Also, on May 3, over 4 million shares traded which made GRA number 2 on the NYSE Most Active list. That trading is very suspicious as it came on an "Inside Day". Grace closes at 52 5/8 on May 3rd.

MAY 4, 1995

Despite a volatile and roller-coaster day for the broad market, which closed down despite being up sharply in the morning, GRA acts like a rock with an open 53 and a close at 53 5/8 (there's that number again!). Interesting points today included the relative strength in the stock, and the fact that today's range was exactly one point which I consider to be manipulation. After the close I check the news on Grace and I'm shocked to see that $3.5 billion bid is made for the company's medical unit. I tell subscribers to expect the stock to at least hit our target 56 5/8 on the open tomorrow.

MAY 5, 1995

After a slightly open, GRA opens at 58 and closes at 58 3/8, up to 4 3/4 for the day. We sell and take our profits after only seven trading days.

FINAL ANALYSIS

My proprietary method, which catches stocks for 5% moves within 15 trading days, was sensitive enough to get us involved in a takeover situation without us knowing the news. Of course, this is one of the best arguments for using Technical Analysis. We were able to follow those in the know without us even knowing what was to take place. Also, this trade was a major victory for mechanical methods. Without having set rules in place, how many of you would have been shaken out on the drop to 51 and then missed the entire move up? We had our game plan and we stuck to it and this included stops. In fact, our stop was 50 1/2 and although we came seriously close to getting stopped out, we never did. Having a game plan and the discipline to use it keeps your emotions in check. Finally, I want to point out that in many cases when a stock gets hit hard and then rebounds intraday, you have to ask yourself who was hurt. In most cases it is the small investor who was "shaken". When you see that action occur, 9 times out of 10, you'll be better off holding the stock and not giving in to your emotions.

Joe DiNapoli on Trading

Joe DiNapoli has been trading since 1964 when he first went to college. He went to college as an electrical engineer. His father also was a trader. He traded all his life. He did not teach Joe specifically what to do, or which techniques to use, but he did show Joe, by example, that a lot of money could be made. He also taught Joe certain basic market axioms that have served Joe throughout his trading career. When Joe got out of college and went to work for a defense contractor, he had a lot of free time and spent at least 50% of that time trading. He had about 30 - 35 other engineers at the firm following his trades. They traded very actively and made some very serious money trading speculative, over the counter stocks.

When Joe got out of the defense contracting area. He started trading on his own and traded everything from cash markets, tangibles, stocks, and even options on stocks before there were any listed exchanges. Eventually in 1980 Joe focused in on the commodity markets. Since that time he has since put the majority of his effort into the trading of this area. I recently had an in depth conversation with Joe on Trading. Here's what he had to say.

The problem is, that with the advent of the bond and S&P futures contracts, everything is trading like a commodity. The volatility is there, because the tail is waging the dog. Since equities and bonds are trading like commodities, you may as well trade the futures market and take advantage of the inherit benefits, like low transaction costs and high leverage. You can also sell short with less difficulty. My favorite contracts are the S&P and Bonds, but over the last 3 or 4 years I have returned to trading some of the agricultural commodities. The lesson I had to learn was that when I went to a restaurant or when I purchased a new car, no one cared where the money came from. The money spent just a well, whether I made it in the grains or in the S&P. That was a revelation to me, because I always felt that the profits were somehow better when earned from the S&P pit. I go where I can most easily make the money. That may still be the Bond and S&P pit, but I am open to the other tremendous markets available. Soybean meal was one that I focused on earlier this year and it turned out very well. I now have a broader base.

There are many traders who can make a lot of money and then they lose a lot of money. I go for consistency. My goal is to be profitable every week, every month, and certainly every year. I have a very good record of consistent gains over time. Using my techniques, the percentage of winning trades is usually quite high. That's due in part to consistently taking logical profit objectives, once I have positioned myself properly in the market.

I used to have three data services coming in to my trading room. For years I used CQG. When they pulled the plug on the TQ20/20, I went over to using Aspen Graphics. Right now I only have one data service, Data Broadcasting Corp., and I use Aspen Graphics as my intraday graphics package. I also use two other computers. One runs my FIBNODES program. That's always up and running while I'm trading. I use the third computer simply for data collection. I then use this date in my end-of-day graphics TRADING PACKAGE, to make certain evaluations not available in Aspen.

The Aspen Graphics software is very good and since I pay for it just like everyone else, I feel free to comment on it's high and low points. First of all, it's a tremendous piece of software, in its ability to do manipulate charts easily and quickly. It also displays certain studies I use. It has quick response time and is truly a professional level intraday software package. They do have a significant disadvantage in that they do not create market aligned bars. Instead they create time alined bars. What that means is, if you're trading in the eastern time zone for example, and the bond market starts at 8:20 with the first half hour from 8:20 to 8:50, the software aligns it from 8:00 to 8:30. This means that the first bar only has 10 minutes worth of data in it. The next half hour goes from 8:30 to 9:30. So, certain time frame intraday charts are created incorrectly and therefore, all the indicators developed from them are incorrect. Hourly S&Ps, half hour, and hourly bonds don't have the "correct" high, low, last. This disadvantage, though not minor, is the only significant problem that I would sight for Aspen Graphics.

I'm looking into Larry Ehrhart's, WINdo TRADr™, to solve some of Aspen's shortcoming's, but I haven't had time to make a full evaluation yet. It looks pretty promising though.

When I started trading commodities in the early 1980s, I found out very quickly, that it was a much more rigorous game than what I had been involved with in the past, even though I had traded a wide variety of instruments including options and small OTC stocks. The commodity markets require a higher level of sophistication and knowledge. I spent literally years and years investigating Displaced Moving Averages and various indicators and systems. I spent hour upon hour watching how they worked, not just in back trading but forward in time. I put actual positions on and when I found something that I through was useful. I traded, it not in size, but I traded just the same, to see if it was useful, out forward in time. If it's not useful forward in time, what's the point?

I came to a lot of conclusions from this research. I ended up using Displaced Moving Averages as one of my trend indicators. My research pointed to a 3-day simple Moving Average of the close, displaced forward 3 days, a 7-day simple Moving Average of the close, displaced 5 days forward and a 25-day Moving Average of the close, also displaced forward by 5 days. Those 3 moving averages gave me a feel for the short, intermediate, and long term trend of the market. I still use those moving averages today, over 10 years after the research was completed.

The 3 x 3 is particularly useful in very fast markets, because it will tend to contain trend. It's important to realize that I did not come to these conclusions easily. I investigated mathematical moving averages, all sorts of weighted moving averages and back then, I was using an old Epson CPM machine. It took a long time to crunch numbers. Eventually, I found there was no advantage in going to more complicated moving averages.

The 3 x 3 did something else for me. It allowed me to recognize certain, very effective, signals and patterns. Double repenetrations and single reprenetrations, failures of double repenetrations, give me what I refer to as directional indicators. They tell me which way the market was apt to go and they are typically powerful. My whole approach as it developed through time, was to find the trend or direction of the market. Now that may seem like the same thing, trend and direction, but I separate them. Trend is developed from trend indicators and direction from a variety of direction indicators. Directional indicators are usually patterns. At any rate, once I determined the trend or direction of the market, let's say it's up, then I use a leading indicator to position myself within that trend direction.

The primary leading indicator I use is Fibonacci. The other is a study I developed in the early eighties, from a detrended oscillator, called the Oscillator Predictor. Anyway, once I have positioned myself in a move then I use a leading indicator to exit that move at a logical profit objective. This technique allows me to buy dips in an uptrend or sell rallies in a down trend. If applied properly, it gives me a high percentage of winning trades. You are repeatedly taking profits. Typically, I don't go for the big move. I look for the businessman's profit. That keeps me at the computer. It keeps me wanting to trade the next day. If I was ending up with 50, 30 or 50% winning trades, even if my winners overcame my losers, in terms of total profit, psychologically it wouldn't suit me. If I take a logical profit objective and the thing keeps going it, doesn't bother me. I know my techniques can get me back in, if I choose to reenter, it may be at a higher level, but it will also be a safer level.

I also use another trend indicator, the combination of the MACD and stochastics. I do not use Stochastics or MACD for overbought and oversold readings, that spells trouble. I only use a detrending oscillator to determine overbought or oversold conditions. Years ago, I just used Stochastic and then Jake Bernstein and I gave a seminar. It was back in 1988. He was using a particular type of MACD what he called a DEMA, Dual Exponential Moving Average. I learned how to use this indicator to determine trend from him. Then I did something that I think was very interesting with the Stochastic. I deliberately adjusted the numbers to make it weak and I left the MACD, using Jake's numbers, very strong. The result was that, as an uptrend weakened, the Stochastic would give me a sell signal much sooner that would the MACD. That showed me where the weak longs, or let's say the public was giving up on a particular trend. The MACD being designed as a much stronger indicator would hold the trend until it should break. This combination allowed me to position myself, by use of the Fibonnaci work I developed, within the trend, while the MACD was still holding. Let me give you an example. Both the MACD and the Stochastic are showing the market is going up. The MACD remains in an up mode Stochastics goes into a sell mode. It's weaker. I have run a Fibonacci series according to the way I do Fibonacci. It's sitting there, on the computer screen, as a list of numbers, precalculated by my FIBNODES program. At the point the Stochastics is giving me a sell signal, I'm looking to go long on a significant FIBNODE. Think about it, the only thing that's going to give me a retracement is bad news or a technical signal giving a sell. So, I use the weak stochastics sell signal to allow me to position myself long. I'm really buying the market when the weak longs are selling. Very often what happens is that the Stochastics immediately goes back into the positive mode. I am now in a profit, the MACD is never broken and I look to the part of my FIBNODES program for the price are to take my logical profit objective. This concept maybe difficult to digest, since you are buying at sell signals. It's certainly difficult to teach in a large lecture, but I can usually get the concept across in a private seminar setting. It's an extremely good way to trade. If you want to position yourself within a trend and you don't simply just want to buy. You need some weakness. The way this Stochastics is designed, it provides a window on that weakness. It shows me where the weakness is coming in.

If you simply use a lagging indicator, even the good ones, like the Displaced Moving Averages, or the MACD, or the Stochastics, as most people do, you often get stopped out before the market goes your way. The advantage of doing what I am doing is to create a higher probability of a winning trade. You determine the trend or direction of the market, you wait for weakness, you position yourself. You've done your Fibonacci work, so you also know where to place your stop, where to get in, and you also know where to get out.

You can apply what I am doing all the way from a 1 minute chart to a monthly chart. You don't change the methodology. The only thing you change is the chart you're looking at. Obviously if your trading a monthly chart the stop is going to be thousands of points away on the S&P, while you're trading a 5 minute chart it might be 6 or 7 ticks. That obviously changes because the ranges are so large or different. The actually methodology does not change!

Some of my students want to trade the 3 minute charts. I advise them against it. You need very, good floor access, such terrific arb capabilities that it's almost impossible unless you're trading with such large numbers of contracts to get the kind of service. Most people should make a 5 minute chart the absolute minimum. Most people should use a much higher time frame chart. Beginners attempting to trade 3 & 5 minute charts is suicidal!

The problem you run into in the very long term, dealing with weekly and monthly charts, is how to develop continuation data in a proper manner. For Fibonacci work you need to develop this data one way, and for normal indicator work, like MACD, and Stochastics, you need to develop data in another way. With Fibonacci work you should run your continuation chart to the end of the contract and start the next contract wherever it is. Don't close the gap or making any adjustment. You don't go to where the open interest is the highest or anything like that. You would not use the new contract until the day after the old one expires. For lagging indicator work, you can use a variety of methods. You can close the gap between two different contracts by adding or subtracting a "fudge factor", or you can switch over from one to the other contract, when open interest trails off. But you can't make those kind of adjustments if you're going to do Fibonacci work properly.

Some of the things that I have looked at over the years that I don’t use are standard moving averages, trendlines, classical pattern recognition, except to look for failures of classical patterns. In other words, I don’t look at head and shoulder patterns for example, in the typical way. I look at them when they fail. I let them give a buy signal, get the public in, and when they fail, I take advantage of it! These failures fall into the category of directional signals. If you know what to look for and which time frames to select, they can be incredibly powerful! I typically do not look at time work. I am a price axis guy. That doesn’t mean that I haven’t done literally years of research on time using Fibonacci, Cycle work, astronomy, and astrology. I’ve looked at a lot of this stuff. Some of it has merit. What I am saying is that I have not discovered accurate enough means of timing entries to make it worth my while. Instead, I let my trend or directional indicators tell me when to get in the commodity. Then, I use all my work on the price axis. I also do not use Elliott Wave, except perhaps at what is called the point of recognition, where by definition, everyone can look back and say what they should have done. I find Elliott Wave work my too subjective and complicated for me. I don’t use indicator divergence. For example, price making a higher high and indicators not making a higher high. I know it’s popular with new comers but indicator divergence will lead you down a path which is typically the one you don’t want to be on. I divergence. What I mean by that ins say the S&P cash makes a higher high and the futures do not. I think that is significant I also watch the Dow Jones. I actually run Fibonacci series for those three indexes, though I’m just trading the S&P, in all time frames I’m observing. What that means is, if I’m watching a 5 minute chart, I must also have a Fibonacci series for all time frames, above the lowest time frame I'm trading. I look at 5 minute, half hour, hourly, daily, weekly, and monthly. Now, obviously if you’re trading a 5 minute chart, the weekly and monthly Fibonacci series are almost never going to change. A daily Fibonacci series will change fairy infrequently. However, the 5 minute, the half hour, and the hourly change fairly often. Sometimes the half hour will encompass the hourly Fibonacci Nodes. So you may not need to carry both. When the indicators come together at FIBNODES, consistent with the trend, I act. Typical charting software, even my own graphics package, can’t keep up with all this activity in a practical way. That’s why I developed the FIBNODES program.

How to deal with the stress of trading is very important. There are two parts of me as an independent trader. There is the manager and the trader. They perform two separate functions. The manager has to observe and control the trader. The trader can’t trade without the manager’s approval. It’s very critical for the manager to be able to determine when the trader is not fit to trade, because the trading approach I use involves some judgment, particularly regarding size. The most important tool I have is not my computer, my FIBNODES program or anything else, it’s me. Unless I’m “right” I shouldn’t be trading. So, the manager constantly watches the trader, to see if he is fit to trade. Fortunately, I have a fairly weak body so it’s easy to tell. I act irritable. Or dark circles may appear under my eyes. I start to care whether I take a profit or loss. I know

I am trading well when I am fairly unemotional about the whole thing. Whether I take a profit on loss on a given trade is not terribly significant to me, because I know over time things will work to my ultimate profit. If I find myself swearing over a trade or getting emotional, my manager says “hey, something is wrong.” If I have a long series of winning trades I Will tend to increase my sizes sometimes more dramatically than I should. My manager is watching me all the time. The manager within me makes the decisions about whether or not the trader is fit to trade.

What I have found over the years, is that if I am extremely actively, involved in intraday trading, I’m good for 3 - 4 weeks. Then I need at least one week off. Sometimes I can last for a period of 5 or even 6 weeks, sometimes I can only go 2 weeks. But it’s absolutely critical and necessary for me to take trading breaks. It’s very, expensive if I don’t .

The definition of a professional is the one that makes the least mistakes. Not the one that never or seldom makes mistakes. Mistakes are defined by actions that do not follow my system. A mistake is not determined by a profit or loss. For example, if I enter an order improperly, or I don’t put a stop where it belongs, it’s a mistake. The manager, at anytime after spotting a mistake, has the ability to force the trader to close all positions and stay out of the market for 3 full days. There is nothing a trader hates more than not to be able to trade the move that he’s been following for a week or two. So, my trader is very careful not to make mistakes. I have taught many people to take trading breaks and work with a part of them as a manager and almost none of my students do this. I think it’s absolutely critical.

When am I stressed, how do I deal with it’ll Every morning I do 10 to 15 minutes of Yoga. This is without fail. In a year there is probably not 3 days that I don’t do Yoga. Also, the trading breaks help a lot. I male sure that I have specific down times during each day when I am absolutely not reachable. Typically between 6:30 and 8:30 PM. Since I do business in Europe and Asia, I might get calls at any hour. I reserve quite time for myself. I also get off in a motor home. I spend time walking on the beach and simply relaxing.

Another more subtle aspect of stress develops if a trader is trading a time frame that he does not belong in. If a 5 minute trader is trading a daily chart he will have a lot of stress. If a daily trader is trading a half hour chart, he’s going to have a huge amount of stress. As you gain experience in the game you begin to learn the time frames that you feel more comfortable in. You should listen to yourself in that respect. I trade all time frames, but I don’t recommend this to anyone who has not been trading the markets for at least 5 years. I have monthly positions, weekly positions, I have 5 minute positions. I have different accounts for different time frames. Part of my ability to pull this off is, I have direct floor access with very, excellent service for my trades in the 5 minute world. I deliberately use other accounts with order desks when I am trading daily based or above.

All in all, trading has provided me with an incredible life style. I can live where I choose, keep my business activities to a desirable, conservative level, and meet incredibly talented people worldwide. I’d recommend this life style to anyone who treats speculation like a profession and a trade, all in one. Expect that success will take years of development, study, and hard work. If you’re willing to pay the “admission fee” and you have the basic talents needed, the rewards can be truly dramatic.

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Interview with Michael Jenkins Part II

What goes into developing a cyclical forecast and how do you put together the harmonics of time and price and angles and to come up with a forecast of an estimated time and the price for the completion of that forecast for both stocks and commodities and the market averages?

The easiest way to start is to think about a purely cyclical stock. We can probably imagine something like a steel stock that goes from $10 to $20 and back to $10. This may happen for 10 or 15 years. So it would be quite easy in examining the data over many years to see the low was $10 and the high was $20 and every time it got to $20. We're at the high of the cycle. But then something new develops in the company. They have a new product or demand increases from overseas and suddenly the stock goes to a high of $25. If it's a purely cyclical stock the ensuing low will still drop 50% like it used to from $20 to $10 but this time it would go from $25 to $12 1/2 and we would still see the rhythmic high and low at recurring intervals.

So in our basic analysis what we have to do is go back preferably with a very long term chart with 30 years or so of data. Even if we only have 3, 5 or 10 years of data it is helpful to look at all our highs and lows and do some time counts between the highs - number of days weeks and months and try and find a correlation that is in mathematical proportion that will give us some indication that the cycles are increasing 25/20 or 25%. This one cycle high would be 1.25 multiple of a previous high. That 1.25 is a proportionate increase and we want to find highs in the stock market as a whole that are exact proportionate multiples of previous highs and lows. The easy ones are common multiples 1.25, 1.50 times, 2, times 3 times and we can also get into more exotic ratios like Fibonacci ratios (1.618 times, or 2.618 times a former high or low) and then there are other natural geometric numbers that come up in all of life and the stock market. Numbers like the square root of 2 or the square root of 3 or the square root of 5 which of course what the whole Fibonacci sequence is based on. So what we will find when we do the analysis is one of these multiples coming out and not just one time but every single high in the history of the stock will be one of these multiples on the same date and it will forecast an approximate price level.

So let me give you an example. As of today (end of April 1995) it looks like we may be coming up to a top and I say may because you never know in this game but we might be expecting a top as we are 600 to 700 points off the low without a significant correction. We have some anniversary dates coming up. The market looks like it's due for a technical correction. We want to start to look at the data from previous highs and lows to see if there is some reason to believe that we could get something here. The first thing we want to do is examine our typical Gann cycles. Go back 10 years ago in 85 it was very bullish. We can look back 20 years ago, 30 years ago. I mentioned in a previous article two the key cycles I always look are 100 years and 120 years. That would be 1895 and 1875. Both of those years have a top here in late spring to early summer then they go down for two years straight. They are indicating a very significant top. But one of the more likely ones we're seeing probably is a 30 year cycle from 1965. In the fall of '64, the November election was a landslide election just like this past year was and the market had a little plunge down into December just like we had this past year and then it went vertical and it did not have it's first top until the 2nd week of May 1965 and then it had a very significant correction of about 10 to 15 percent. It did recover after that and went on to an all time high and the final top was February of 1966, that's when the Dow hit 1000. But that would indicate on a 30 year cycle that there would be a top here somewhere near this anniversary at the end of April to the middle of May. So we would want to be looking for price and time harmonics that might give us a price for that. Now we know too that 30 years is exactly 360 months. So that's a Gann number. From that date to May 1st would be 10944 calendar days or 1563 weeks. If we put a multiple of 2.75 on the number of weeks we come up with a target of 4300 as a possible price target. If we use 2.875 we get 4494 or 3 gives us 4689. So that gets us to this particular price area. Another top we might want to look at would be the most recent one of a year ago January of 1994. Now that top was January 31st and if we take it up to May 1st of 1995 it comes out to 455 calendar days or 65 calendar weeks. And we will note that 65 squared is 4225 and 66 squared is 4356. So the price level based on the squaring of time would fall somewhere between 65 and 66. If we use 65 1/2 it comes out to the 4300 level.

Another interesting technique and I'll explain this more as we go on because this goes to the very heart of the Gann Octagon chart and the Square of 9 which is basically an elaborate way of picking square roots of numbers and incrementing square roots of numbers. That's really an ancient calculator the logarithmic key. The technique is to take the 1994 top of 3980 and take the square root of that which is basically 63.08 and then we want to increment that square root by a proportionate number that will approximate the price level that we expect to be the top in the near future. For instance if we took that square root of 63.08 and incremented it by a Fibonacci ratio of 2.618 and added that to it we would be 65.618 and you square that you'll get a target of 4317 very close to tonight's close. So here we have a case where you have both in time 65 1/2 weeks ago was a major high 65 1/2 weeks ago squared gives you a target of 4300 and if we take the price on that date and take the square root of it and increment it by a Fibonacci ratio we also get a price target of 4317. Of course if we get through this price zone, we would use 3.618 as the increment and get 4449 as our next target. Now this demonstrates one important principal with 2 elements and that is from every high and low in the past we need a time cycle and a price projection cycle that would give us the same number. In this case it was 65 weeks squared giving us a price level based on a time period and then we took the price back at that time period 3980 took the square root and incremented that which also gave us a comparable price target.

Another way of looking at it would be to take the 1929 high as everyone recalls was approximately 386 on September 3, 1929. From May 1, 1995 it's exactly 65.65 years ago. And 6565 squared is 43.09, so if the market was to top out here at 4309 or somewhere in that area it would be a perfect squaring of the time from the 1929 high of the price of 386. Now does that 386 price also generate a target somewhere 4300? If we take 386 and take the square root of that and we increment it we will find if we add 46 to it which is just a little over 45 Gann number will get 4309 adding 47 as the increment would give us 4442. Almost identical to what the squaring of the years gives us. So there in 1929 example you have a number of years in terms of time giving the 4300 target and the price level giving you the 4300 target. Then we can take something a little closer to home which is the 1989 top which produced the 200 point down day in 1989. The top then I recall was 2810 on the Dow Jones. If we took the square root of that and incremented it by the Fibonacci number 13 and re square, it will get 4357. If we count the number of days that top was 2026 calendar days ago or exactly 45 squared another Gann number squared. We have a Gann number squared 45 days ago with a top incremented by a 13 Fibonacci number gives us a 4350 target. We talked about 30 years ago being 360 months; well if we go back half that cycle of 15 years ago, 180 months was a major low on April 21, 1980. That was 5488 days ago or 180 months and if we do a ratio analysis we're looking for a target zone somewhere around the 4300 to the 4320 area as a possibility. 5488 days divided by 4320 gives us 1.27 and most Gann students would know right off the bat that ratio is the square root of phi 1.618. So there is a Fibonacci relationship ratio of the 4320 price which could be hit in the next week divided by the number of days from the 1980 low 180 months ago and we would also have a relationship there if the master cycle was 30 years in length and this would be equivalent to 1965 then we would expect that 15 years ago in 1980 which is 180 months ago we would get the exact opposite type of a pattern and we do see in 1980 on April 21st we have a major low in the stock market. So what I getting at it looks like were beginning to see a pattern here. We might be getting a top in the market the end of April to the first couple weeks of May should be up around 4300 - 4320. It might goes as high as 4350, or overshoot to 4440.

Another example is the 1990 top which was a big one when the Dow Jones hit the 3007 on July 16. That's a ratio of 1.44 and Gann said 12 x 12. 1.44 times that high would give you 4330 and that too is exactly 250 weeks ago. Anyway the analysis goes on that way where we want to get a time and a price projection during this time period. Now this is only a forecast. In big runaway moves we've got to keep in mind that as a rule of thumb the market will not top until we have a significant technical reversal. And often times in a runaway move you can add 200 - 300 points in just a matter of weeks. So we would have to adjust these targets if they got through this 4350 area. The next clusters of prices are 4535 and 4650. It doesn't take too much difficulty to adjust some of the incremental numbers with a few of these things and we could get higher targets the next range of numbers that would be in harmony with these major highs and lows would be up around 4500 - 4600 on the Dow. So we're basically saying that if there is a top during this time period May 15, 1995 so then we will probably have a top around 4350 otherwise it could go another 150 - 200 points more and that would probably buy us another 2 or 3 months of time before we would expect that top to really come in.

The other thing to keep in mind in cycle work especially in the Gann method is too look for natural phenomenal that might be causing cycles. For instance in 1965 there was an eclipse that coincided with the top on May 14th of that year and on this year roughly April 28th there was also a solar eclipse. So we have a natural phenomena where there is an eclipse in both time periods which caused a top in the first one. I might also add that on the 1990 top of July 16, there was also a solar eclipse. So we have a high in 1965, a high in 1990 which were on exact days of solar eclipses and the numbers and ratios are coming out for the end of April which is also a solar eclipse. That might be a give away as to which time cycle in the past to start working on to see if there are a number of days, weeks or months in harmonic price levels because it may be related to natural phenomena.

Some other ways of doing this tie in with Gann's ideas of geometric angles. Gann used angles of 1 x 1 which is a 45 degree angle, a 1 x 2 a 1 x 4 a 1 x 8 a 1 x 16, etc. When you start an angle at the origin of a low, what you'll actually be doing is keeping a sort of moving average where you go over so many days of time and up so many units of price and only when the price and the time in the future hits that angle on that angle and only on that point you'll be in exact proportion to both a price and a time unit from where the origin was. A lot of traders use the Gann angles, but I think they miss one of the most important points, at least the theoretical point of the angle. Although you can trade off the Gann angles in that when they break a 2 x 1 angle they will go down to the next angle, the 1 x 1 angle. Most traders know that when the trendline breaks the market usually goes down. These angles are not really used for that purpose. They are really timing angles because they are relating a unit of time to a unit of price and as a cycle is manifesting on stocks, you loose momentum and the stock starts to deteriorate and goes down. It will start to break these angles and when it hits the angle that is the point where the proportion is exact where so many points per days, weeks or months from the origin are exactly proportionate at that one moment and that is the indication that the cycle is turning when you break through that trendline. The market doesn't immediately collapse when you break a trendline, sometimes it can go much higher just loosing momentum. The trendlines are to warn us that there are proportionate time cycles that are coming out.

Besides using the standard Gann 1 x 1, 2 x 1, 4 x 1 angles we want to look at the other natural proportionate the numbers that we find in mathematics and in nature. Now anybody who has seen the Gann Octagon Chart or the Square of 9 will note that it's not just a lot of numbers going around but usually there is an overlay with a square, a circle, and a triangle over the top of this and this relates to numbers of time periods to natural proportionate ratios found in nature. For instance the square gives rise to the ratio of the diagonal of the square which we refer to as the square root of 2. The diagonal of the square is the square root of 2 and the ratio is 1.414 so that's a natural ratio of expansion. If something goes past a full square you can usually expect it to go a proportion of the square root of 2, which is 1.414 times the basic unit will give us a strong harmonic. If we then take 2 squares and add them on top of each other and draw a diagonal from the left corner of the first square up to the right corner of the second square we end up with a proportion which is the square root of 5. Now those who are not mathematically inclined I might point out the simple Pythagorean theorem where the diagonal of the right triangle is equal to the two sides squared and then you take the square root of that. So if you have two little boxes added up on top of each other and the side of each box let's say is one unit, the vertical sides measure 2 units and you square that you'll get 4 and the horizontal unit on the bottom will be 1 and so the diagonal from the high to the low will be the square root of 5. If you stacked up a number of boxes, 3 on top of that or 4 on it, it's the same thing. 3 boxes equals the square root of 10. 3 squared plus 1 squared is the square root of 10.

This is a technique where I initially draw a little Gann square around a high or low on a stock, commodity, or market average, and if it exceeds that trading range you stack another little box up on top of that or even a third box on top of that and then draw these diagonals and rotate the diagonals down horizontally. You will get the proportionate time cycles where they are horizontal. Now the square root of 5 is also important to note which is mathematically 2.236. This is the origin of the Fibonacci ratio. The Fibonacci numbers and the relationship of those come from the square root of 5. The only other one missing one is the square root of 3. It has been said that the square root of 2, the square root of 3, and the square root of 5 are the basic key relationships in the universe which all the numbers are built on. I have found that to be basically true. If we work with the square root 2, 3 and 5 we will get all the number combinations we will ever need. The square root of 3 is a little hard to visualize except if you imagine a circle and you move it over 50 percent for a second circle like 2 little pretzels rings that are linked together like the Olympic rings. Where they link in the middle the distance between the vertical part of those linking rings is the square root of 3. That ratio is 1.732 and it is also the same as the tangent of 60 degrees. Now these relationships the square root of 2, 3 and 5 are normal expansion numbers. We would use these as with the number of days, weeks, or months from previous highs and lows in history and we would either multiply them times these expansion ratios or we would divide those number of days by these expansion ratios. We will often find that the price targets we're looking for will then come out to a certain number on a certain date. At final lows and highs, we often find 10 or even 20 occurrences where highs and lows of previous history will all come out within the various ratios, targets. That's basically our major forecasting technique. I would add one more advanced concept here. That is the idea of the circle. When were using a circle in trying to find out what the unit lenghts are that are proportionate what we really want to do is take the tangent of the various angles of a circle. For instance the tangent of 45 is 1 unit. That's why the 45 degree angle is so important. It is a direct 1 to 1 relationship. If we have a 30 degree angle in the circle the tangent of 30 degrees is .577 and the tangent of 60 degrees is 1.73. These ratios .577, 1 and 1.73 are proportionate lengths of a circle that will give us all of our major working numbers when we draw a circle around commodities high or low. I will have to back up to explain that a little. This is all gone over in the two books that I have written. The Chart Reading book in particular describes the whole theory of circular arcs and if we want to relate a time and price to a uniform measure, the best way of relating it is by taking a low to a high and drawing a circle around that low to a high. By drawing a circle around that relationship what we have done is we have unified price and time. You are over so many days weeks or months and the price has gone up so many units. When we draw a circle around that, both the time and price will be related at every single point along that circle. When we draw a circle around that and identify the center of the circle we then can get some working numbers that relate to the cycles that generated that low and that high. We would take the radius, for example, from the center of the circle to the end, which might be 1 unit and then we would be able to divide that up by the tangent of 30 degrees, the tangent of 60 degrees or any other angle we may want to use. Those proportionate parts of that radius can then be extended out horizontally from highs and lows from which that circle was drawn, and it will give us precisely the cyclical targets for that particular stock or commodity. This is a very important and specialized technique of dividing a circle.

I want to go back now briefly to the Gann Octagon Chart or the square of 9, to touch on why this is important. We basically started off doing the square roots of numbers and incrementing things. The Octagon Chart, as you know, is a method of calculating the squares of odd and even numbers and in that chart there are numbers that go around in a circle and from the left hand corner going down diagonally we see the following numbers in sequence 9, 25, 49, 81, 121, 169 etc. all the way through. These are the squares of the odd numbers of 3, 7, 9. 3 squared is 9, 7 squared is 49, 9 squared is 81, etc. So the odd numbers squared go down. On the upper right hand corner and extending up we have the even squares; 4 squared is 16, 6 squared is 36, 8 squared is 64, 10 squared is 100, 12 squared is 144. The even squares go up. Most people take a number on the Cardinal Cross section and when it hits that number they find massive resistance or support. Especially in the S&P pit every day the S&P will bounce off all these numbers that line up on the vertical support and resistance axis. What these numbers really represent are increments of square roots. For instance any number that appears vertically or horizontally in the Gann octagon chart, if you take the square root of that number and increment it by two, and re square it you will go all around the circle and you will get the next number in sequence. So for instance directly down on the Octagon chart is the number 46 . If we took the square root of that we have 6.78 and if we add 2 to it we have 8.78 and if we re square that we get 77 which is exactly the next number down from 46 on the Octagon chart. That represents going all away around the wheel 360 of degrees. So if you were at $46 in price and went all away around you would end up at 77. It also means if you wanted to go half way around the circle all you would have to do is take the square root of the number and add 1 to it and re square it and you would get the number directly above it. So in the case of 46 we could take the square root of that add 1 to it and then re square that and you'll get 61. Which is directly above the chart above the number 46. Likewise if we wanted to go out 90 degrees we could add instead of 1 to the square root, we could add 50 cents to the square root. We would get the numbers every 90 degree rotation. If we wanted to go to a 45 degree rotation we could take 25 cents and add it to the square root. So what I getting to is this. All the numbers vibrate off these natural squares. If your trading stocks or your trading S&P's rather than use the Gann Octagon chart which is based on the natural numbers 0 through 9 and they go up in whole numbers. The particular stock or commodity that you're trading will have a major high or low at it's own unique number which may not be on the chart. You may have a final high or low let's say at number 172 which is right in the middle of nothing on the chart and yet that 172 being a final high or low is a very key number. So in order to find out the maximum support and resistance on that number, you will then do the process of taking the square root and increment it by 25 cents, by 50 cents by 1 all away round to 2 to get all the major harmonics of price and time for that particular commodity. Indeed for S&P traders if you want to know a million dollar secret all the fluctuations every day in the S&P pit are basically 1/16 to 1/32 fluctuations of the current price level. So at the 500 level on the S&P which the square root of that is 22.36. We can increment that by 1/32, which is .03125 and resquare and we will get approximately a 140 point basis movement. That would go from 500 to 501.40. If we use 1/64 you will get approximately 70 point basis movement. You will often note in the S&P that they will go 70 cents or so with the tape and pull back. If they go more than 70 cents then they will go 140 cents and if they go more than that they will double again. All you are seeing there are 1/64 increments of the square root of the number and it's bouncing around the Gann Octagon chart. That's where we get time and price. What we really want to do in forecasting after we get those time and price numbers is we want to use the same technique in getting the time. Then we can use those same numbers in our charts to get a time element from a previous high or low. We would want to increment the square root of a major low or a major high and would also want to find out the distance in time between that low or high where we are currently situated, and that would also be a number that would be related harmonically in this square root chart.

Another point about of the whole Gann Octagon chart is that Gann was primarily an astrologer and Gann believed that it was the planets that were causing the movements of stocks and commodities. He found a number of simple techniques to use the planetary movements to forecast stocks and one of the simple techniques was that he would take the longitudes of the planets where they were situated in the sky and convert them to numbers and using these proportionate increments he would find a number that equated to the approximate selling price of the stock. For instance if IBM or any other stock was near $90 that might mean that there was a planet or an eclipse or some astronomic event that was located at 90 degrees of the Zodiac, or 0 Cancer, sine 30 degrees for Aries, 30 degrees for Taurus, 30 for Gemini and 0 Cancer would be the 90th degree. So if there would be a planet situated at 90 degrees what Gann would basically know is, that as that planet moved forward 1 or 2 or 3 degrees, the price of the stock would go up 1, 2 or 3 dollars. He would track the movement of the heavenly bodies through the Zodiac in a numerological fashion and what Gann often did than just to relate to one particular planet he would often average 4 or 5 of the bigger moving slow planets and take an average of their longitude and relate that to where the stock market averages were now and maybe look at them every 3 months or 6 months. That way he could draw a trendline that would extend for 3 to 6 or 9 months or more and give a longer term projection of the numbers the stock market would have to sell at if indeed those planets were moving through space at those longitudes. This, of course, relates itself to the Gann Octagon chart as a square root calculator in that ultimately the planets and their orbits describe logarithmic functions and that the formula for gravity that holds the planets in the solar system together is an inverse proportion and that the gravitational force between two bodies is inversely proportionate to the distance they are apart and the size of the bodies. So if there was an effect on the stock market for human beings emotionally buying and selling due to planets it would show up in square root patterns of prices of stock. That is indeed what Gann thought was happening and that's why he developed the

The Remarkable W.D. Gann

By John L. Gann, Jr.

If you had been a businessman traveling across Texas in 1891, you might have bought a newspaper and a couple of cigars from a tall, lanky 13-year-old selling them on your train. And as you talked with your fellow travelers about investments, you might have noticed the youth eavesdropping intently on your conversation.

If you had asked him, the boy might have told you his name was Willy and, yes, he was interested in commodities. His dad was a farmer in Angelina County, and just about everyone he knew was as well. They were all concerned about the prices their cotton would bring. And had you inquired whether young Willy also wanted to till the East Texas soil when he got older, he might have said no, he didn't think so: he wanted to be a businessman.

"Well, good luck, young Willy," you might have said. "Maybe you'll have your own business some day, maybe you'll even be famous. Who knows? No one can predict the future."

The young eavesdropper going up and down the aisles of that train was William Delbert Gann. Was it really true, he might have wondered, that no one can predict the future?

W.D Gann was born on a farm some seven miles outside of Lufkin, Texas, on June 6, 1878.

He was the firstborn of 11 children two girls and eight boys of Sam Houston Gann and Susan R. Gann. The Ganns lived in a too small house with no indoor plumbing and with not much of anything else. They were poor, and young Willy walked the seven miles into Lufkin for three years to go to school.

But the work he could do on the farm was more important to the family, so W.D. never graduated from grammar school or attended high school. As the eldest boy, he had a special responsibility, and those years working on the farm may have been the beginning of his lifelong dedication to hard work. His religious upbringing as a Baptist may also have had something to do with it, for his faith stayed with him throughout his life as well.

A few years later W.D. worked in a brokerage in Texarkana and attended business school at night. He married Rena May Smith, and two daughters, Macie and Nora, were born in the first few years of the new twentieth century. W.D. made the fateful move to New York

City in 1903 at the age of 25.

Working most likely at a major Wall Street brokerage, W.D. made other changes in his life as well. He divorced his Texas bride and in 1908 at the age of 30 married a 19-year-old colleen named Sarah Hannify. W.D. and Sadie had two children--Velma, born in 1909 and W.D.'s only son, John, who arrived six years later. In addition, Macie and Nora came to live with their father and were raised in New York by their Irish stepmother.

During the First World War the family moved from Manhattan to Brooklyn first to Bay Ridge, then to Flatbush. W.D. reportedly predicted the November 9, 1918, abdication of the Kaiser and the end of the war. But it was after the armistice that the fortunes of the Ganns of Brooklyn took their most dramatic turn. The W.D. that traders know today emerged in the Roaring Twenties.

In 1919 at the age of 41, W.D. Gann quit his job and went out on his own. He spent the rest of his life building his own business.

He began publishing a daily market letter, the Supply and Demand Letter. The letter covered both stocks and commodities and provided its readers with annual forecasts. Forecasting was an activity with which W.D. had become fascinated.

The young business prospered, and three years later W.D. Gann became a homeowner, buying a small house on Fenimore Street in his adopted home of Brooklyn. The market letter led to more ambitious publishing. In 1924 W.D.'s first book, Truth of the Stock Tape, was published.

A pioneering work on chart reading, it is still regarded by some as the best book ever written on the subject. An individualist and ambitious hard worker, W.D. self-published Truth through his new Financial Guardian Publishing Company. He personally wrote his own ads to market it and negotiated with bookstores to carry it.

Truth as praised by The Wall Street Journal and sold well for years. Some consider it the best of his many books. For a first effort it was a significant accomplishment.

His market forecasts during the twenties were reportedly 85 percent accurate. But W.D. didn't confine his prognostications to prices. It was widely reported he predicted the elections of Wilson and Harding and, indeed, of every president since 1904.

At age 49, W.D. Gann wrote what is perhaps his most unusual book, the 1927 Tunnel Through the Air. It is a prophetic work of fiction, not a genre every Wall Street analyst dabbles in. But W.D. Gann was one of a kind. The book is perhaps best known for having predicted that attack on the United States by Japan and an air war between the two powers. Through Tunnel may have had little to offer investors, it was well-publicized and enhanced its author's growing reputation.

The market in the Twenties seemed to be defying the law of gravity, but W.D. Gann didn't think it could last forever. In his forecast for 1929, he predicted the market would hit new highs until early April, then experience a sharp break, then resume with new highs until September 3. Then it would top and afterward would come the biggest crash in its history. We all know what happened.

W.D. prospered during the Depression, which he predicted would end in 1932. He acquired seats on various commodities exchanges, traded for his own account, wrote Wall Street Stock Selector in 1930 and New Stock Trend Detector in 1936.

He continued making remarkably accurate forecasts as well as some less successful ones like the electoral defeat of FDR. He developed a new interest in investing in Florida real estate. He became a small-scale home-builder in Miami as well as the owner of a block of stores on the Tamiami Trail.

He also became airborne. He bought a plane in 1932 so he could fly over crop areas making observations to use in his forecasts. He hired Elinor Smith, a noted 21-year-old aviator, to fly him around. The novelty of his high-flying research--W.D. was the first to study markets in this way--helped keep him in the spotlight.

W.D.'s son John also went into the securities business in 1936 at the age of 21. A year later he went to work for his dad until in 1941 his Uncle Sam announced he had plans for the young man in Europe.

Back in Brooklyn, Sadie had health problems for some time and died at age 53 in 1942. Then after 20 years on Fenimore Street, an aging W.D. Gann moved to Miami for reasons both of health and personal preference. His How to make Profits in Commodities came out the same year.

He kept his business in New York, relying on his long-time personal secretary. In Miami he continued studying the market, trading, real estate investing, and instructing students. The next year at the age of 65, when most are thinking retirement, W.D. decided he'd get married and did, to a much younger woman.

Son John worked on W.D.'s business in New York briefly after the war, then left to pursue his own interests in the Industry. The two differed in their approach to the market. John L. Gann pursued a successful lifetime career with Wall Street's major brokerage housed until his passing in 1984.

The post-war years saw W.D. start taking it easier. He published 45 Years in Wall Street in 1949. He sold his business to Joseph Lederer, a fellow student of the market. Around the same time he also separately sold the rights to all his books to Edward Lambert. He continued, however, to study, teach, and trade. He was made an honorary member of the International Mark Twain Society in 1950.

In 1954 he suffered a heart attack. A year later advanced stomach cancer was discovered. The doctors operated, but W.D. failed to recover. He died in June, 1955, at the age of 77.

He was buried with his second wife in Green-Wood Cemetery in Brooklyn at a location that looks toward Wall Street. It was a fitting location since he had studied the Street all his adult life.

In 1995, 40 years after his passing, William D. Gann is still talked about, written about, and studied avidly. His books are back in print and are sold by Trader's World and Lambert-Gann Publishing Company. It's an extraordinary testimonial to his work and one that even W.D. couldn't have predicted. Or could he? What lessons might there be in this remarkable man's life?

First is an affirmation of the American Dream. William Delbert Gann of Lufkin, Texas, started with nothing. He and his family had no money, no education, and no prospects. But less than 40 years after overhearing businessmen talk on railroad cars in Texas, W.D. Gann was known around the world.

Second, hard work pays. W.D. rose early, worked late, and approached his business with great energy. Virtually all his education was self-administered. This teacher, writer, and prescient forecaster had a third-grade formal education. But he never stopped reading.

Third, unconventional thinking may have its merits. W.D. was intellectually curious to an extraordinary degree. He was unafraid of unorthodox ideas, whether in finance or in other areas of life. He wasn't always right--none of us are--but he dared to pursue a better idea.

Fourth, there may be something to that clean living business after all. A conservative Baptist, W.D. didn't smoke, drink, play cards, or dance. He was serious in demeanor and a conservative dresser, although he lightened up somewhat in his later years. He respected the value of a dollar and was prudent in his personal spending. Not every internationally acclaimed seer would continue to live in a modest house in Brooklyn.

InterMarket Time

By Will Hobbs

We all recognize intermarket relationships exist, though we may not know exactly how they relate or if they are really tradable. A significant increase in interest in the technical approach to this area probably occurred with John Murphy's ground breaking book Interenarket Technical Analysis. However, can a trader use any of this and yet keep exposure minimal? We know Stock Indices and T-Bonds experience short term turns together at times, Gold and Silver commonly have turns on the same day or within a few days of each other, etc. So, time may be an area to relate. Looking at any Chart tells us each market is working out its own patterns and operating at differing price levels. However, changes of trend or the acceleration in trend do occur almost simultaneously at times in some markets. Some we see happening regularly. In the following section we will show how you may want to set up financials and a few of the relationships to watch. Then we will do the same for Agriculturals. There are several software programs available for projecting time. Though you can get good results just using a pocket calculator, time and comprehensiveness are sacrificed. The following dates are not projections for this year but a past year chosen only for illustration purposes showing some of the financials:

S&P 500: Aug. 5

T-Bonds: Aug. (3-4); 12; (22-24,26). Sept.(1-2,6)

Gold: Aug. (1-2); [11-12) (18)], Sept. (2,6) Silver: Aug.[1-2];(8); 16; 31; Sept.[2,6]16

Copper: Aug(12); (17); (26,29) Sept.15- 16

Crude: Aug. [3-4]; (15); [19,22] Swiss F: Aug. (15); (19,22-23)

D Mark: Aug. (12, 15-16); (22); 26; 30.

BPound: Aug. (2---4); 10-11; [19,22];(24). JY: Aug. [5,8]; 15; (29); 31.

Any timing system should be developed enough that relative importance and critical aspects are readily accessed and shown. Such a system might be designated by the subsequent symbols: Sequence of importance: [ ]>( )>_. If ( ) or _ within [ ] or [ ], ( ), respectively, added importance. Bold also add importance (They are particularly high score days, or cycles or swings operating.). Bold are usually more reliable within [ ], ( ), or _.

Many Traders trade one of a group and very few follow all markets that show interrelationships, at least not in a detailed way. However, it is worthwhile to at least look at how others are acting. With time, we first check for days or clusters that are common among all markets followed, Financial and Agricultural. Then we see what different markets or families of markets have the same time projections. Next, we check within each family we anticipate trading that month to see how the time projections shape up. From a practical level if we have not run all these times ahead, then if we see pattern nearing completion and our price projections possibly matching the patterns anticipated end, we check times at least within the family or very closely related to the market we intend to trade. This is a probable confirmation for our time projections and an indication of a projection becoming a reality for the market of prime interest. If we trade TBonds, then we want to know the dates out ahead for the S&P 500. If we think a short is coming up in the Swiss Franc, we want to know the potential turning times for the Deutsche Mark especially, and also for the British Pound. If you have the time, do the Japanese Yen and the Dollar Index even if you do not trade them. We trade the Yen, though rarely the Dollar Index, which of course is not a Currency anyway, besides it does not have good tradable form in our opinion. But we often run its time projections. Actually, when anticipating trading a Currency we find that we can regularly narrow the projections to one day, or be no more than one trading day off a turn by considering the other related currencies. If we trade Gold or Silver, we do the time for the other one. Platinum could be added in here. Copper can be added in too, and if you trade it, then include doing Gold and Siver time.

In addition to the specifics of time we watch the form and action of market groups, but if you have dates, the objectivity, and therefore your confidence can be enhanced. Is there a time relationship in the way we are discussing between T-Bonds and Crude? If so, does one make a high, the other a low, or do they just sometimes beyond coincidental expectation have the same turns? What about the British Pound and, or the Japanese Yen and Crude. Both countries economies are fundamentally affected by Oil prices, but is their technical activity, as time in this case? Some of our questions are being answered or confirmed, and as we study this phenomena, further questions arise. By setting off dates we can more easily see possible relationships. For the markets you particularly watch, you may want to set up Financial and Agricultural sets to see if you think it beneficial to run time for any but those you may currently project. Next, we have a set for the Agriculturals from the same prior year. If you trade one or more of them you may want to consider projecting time for one you have not, that is in its family. Soyoil could be added in here also. We would not necessarily include Soymeal as it is spread traded like the US Dollar. Agricultural Projections:

Soybeans: July (22) Aug. [3-4-5]
Corn: July (22,25) Aug.[3-5] (15)
Wheat: July[5]; [15,18];20-22;(29, Aug. 1)
L Cattle: July (5); (18)28-29 Aug.(12,15)
Hogs: July 7-8, 11; (18-19) Aug. [4-6]
Pork: July(25-26) Aug. [5,8] [12,15]
Sugar: July 7; (15,18) 16
Coffee: July- No standout time Aug. (1 4), Esp(2)(11-12); 17
Cocoa: July (15,18); (26); (29)
Cotton: July (14); (22,25)

For the sets above we would want to be aware of the August 2-4; 12,15; and 19,22 periods for the Financials? High occurrence days for the Agriculturals fall on the Financial early and mid August dates.The Agriculturals would be updated and compared with the Financial late August and September periods no later than just past mid August. When projecting a number of markets, splitting up the sets still easily allows comparative time analysis. Doing each set 6 weeks ahead provides perspective, and only a few will need updating within this period. Comparative time analysis may be even more critical for Agriculturals than Financials because of their lower volume and open interest and seasonality. When we do Soybeans, although it is very reliable, we always look at Corn, then note Wheat times secondarily. Corn and Beans have time projections more in common than either with Wheat, perhaps because they are more similar in planting and harvesting time. If we are trading Pork, Hog time is run, likewise with the Softs, Sugar, Coffee, and Cocoa. If we were going to be out of town several days in late July till July 30, then we know well ahead of time to be prepared if we follow the S&P 500 or T-Bonds; the Precious Metals; Crude, the British Pound or Japanese Yen; the Grains; or the Pork Complex. With so many important projections in this many markets with potential time relationships extant, we can be assured of several market moves. □

Will Hobbs is founder of the Investment-Trader, and is a Trader, System Developer, Author, and Developer of the Time Dynamsim™ Software.

Time Analysis Qualifies Market Position

By Robert Miner

There are two important time analysis and projection techniques. The first time projection technique is Directional Time Projections. Directional time projections relate to the direction of the potential trend change. Will the time period projected be a high or a low? Projections from a prior low are only relevant to a potential high. Projections from a prior high are only relevant as a potential low. In other words, the Directional Time Projection is only valid as a potential trend change in one direction.

Directional time projections incorporate a unique set of swing relationships and ratios that are specific for projecting a trend change against the prior swing point. There may be two or three outstanding periods of 1-3 days over a two or three month period with a potential for trend change. Non-directional time projections will help to qualify the direction time projections. Price, pattern and volatility projections will complete the analysis picture and indicate the degree of trend change.

Non-directional time projections do not indicate whether the time period projected will relate to a high or a low. Non-directional time projections simply indicate a potential trend change. Non-directional time projections validate the potential significance of directional time projections.

Non-directional time projections are a complex web of geometric time relationships that are projected without regard for direction. When there is a large cluster of projections within a narrow range of time, there is a high probability of trend change.

The most reliable time projections are those which include projected dates from both directional and non-directional time projections. When these dates coincide, there is an exceptionally high degree of probability that a market will make a trend change of the same degree as the past swing point (high or low) from where the directional time projections were made.

Volatility Bands (Standard Deviation Bands): Standard deviation bands create a channel that encloses price activity. The typical standard deviation bands are also called Bollinger Bands. Usually, they are constructed two standard deviations above and below a 20 period moving average. A two standard deviations channel will enclose 95% of the data of the period chosen. The width of the channel fluctuates relative to the volatility of the market.

I will not go into a detailed description of standard deviation volatility bands, as they have been thoroughly described in the trading literature. There most useful function is to reliably indicate support and resistance in relatively low volatility, trading range markets such as the broad base-building soybean market in late 1994 through early 1995.

Volatility band by themselves are only useful within the context of time and price analysis. Some of the general guidelines of volatility bands are:

1. Price activity will spend little time outside of the band channel. 2. Price is usually near the extreme of the channel at trend changes. 3. Price will usually trend to the opposite trend channel following a change in trend. 4. If a market is in an impulsive trend, reactions against the trend will usually not exceed the mid-channel line and will test the extreme channel two to three

times prior to reacting to the opposite extreme.

May Beans into the Feb. 1 Low: See Figure 1. For the three month period following the Nov. 28 high, directional time projections indicated two periods in late Jan. and Feb. with a high degree probability of making a low. These periods were Jan. 27-31 and Feb. 9-10. Both periods were of about equal strength. However, the qualifier was the non-directional time projections. The non-directional time projections pointed to Feb. 1-3 as a trend change period. This period came closest to the Jan. 27-31 period. Beans made there low on Feb. 1. That low was projected to be of the same degree as the Nov. 28 high. In other words, a rally of larger degree than any since the Nov. 28 should unfold from a trend change in late Jan. To early Feb.

Note how beans tagged the volatility support channel precisely within the projected time period. Beans then rallied straight up to the upper channel. Because the time analysis indicated that the rally was of intermediate degree, reactions against the upper channel should only reach near the mid-channel line until the trend had terminated. This is exactly what unfolded.
Miner Article - Includes one illustration

Trader' s analysis methods must indicate to them what to expect from a market position. Knowing the potential degree of trend change provides specific information how to use various methods of technical analysis as the market unfolds. Volatility channel analysis by itself is not very useful. Should a trader expect the market to reach the opposite channel or only the mid-channel line once a channel extreme is reached? Time analysis is one important indicator of degree of trend change and will allow the trader to apply the proper rules to other technical analysis methods.

Robert Miner publishes the monthly Dynamic Trader Analysis Report and weekly Dynamic Trader Fax Report. Each report includes a comprehensive education section to teach traders analysis methods and trading strategies. Robert Miner is the first place winner of the 1993 Robbins Trading Company World Championship of Futures Trading. For further information: Dynamic Traders Group, Inc.. (V) 520-797-3668, (F) 797-2045.

Finding and Forecasting Cycles

By Stan Ehrlich

We are all aware of many cycles around us, but may not try to use them. Some are very short, like your heart beat, and some are very long like the Kondratieff Wave or long economic waves (50-54 years). In investing, technicians are producing trades by analyzing price movements and trends, while the fundamental analyst is analyzing supply and demand factors. Which ever type of research you use, I think you will agree that timing is of the utmost importance.

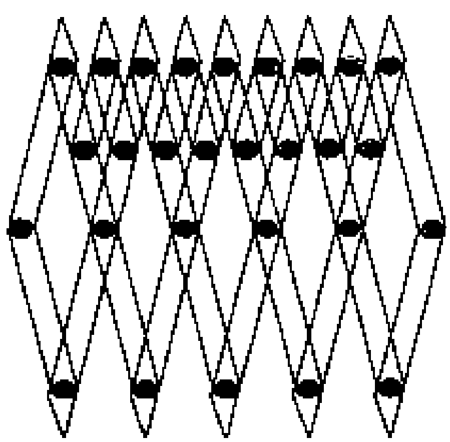
Technical analysis is of great help to those critical time periods when you expect a possible top or bottom to occur, because of a time cycle. The fundamentals usually shift during (which may be difficult to detect) or after trend changes. So the use of cycles can help the analyst anticipate when a market turn may develop. The monitoring of technical studies at those time periods help warn the trader that a turn is likely, or is in the process of happening.

Cyclic turning points during bull markets can be of three different degrees.

Long Term (6 months or more): These cycles are more likely to produce a major bottom formation over a moderate time span of several weeks or a few months. These will most likely be head and shoulder, sideways consolidation trading ranges, or possibly double bottoms. Watch for historic support and resistance areas. Other formations may occur, but remember to look for major long term patterns.

Intermediate (about 60-180 days). These cyclic lows can be signaled by small head and shoulder patterns, double bottoms and the like. There may also be one, two or several day reversals, or key reversals possibly following exhaustion gaps and/or touching important trend lines. Large percentage retracements in long term bull markets are also important to watch for.

Short Term (60 days or less): Shorter cyclic turns will probably be one or two day reversals, also correlating with gaps, trend lines, short term oscillators, over bought and oversold



indicators, and similar short term oriented technical signals. Certainly smaller percentage retracements should be watched for, and the backing and filling of gaps is quite common. In general, look for standard charting reversal patterns and signals relative in size to the cycle you are using.

During bear markets, long term, intermediate and short term cyclic high turns will occur in much the same manner as cyclic lows. It is probable that sharper tops, characteristic of bull market in its later stages, may occur. Remember that cyclic highs are slightly less reliable to use than the lows. This is not to imply that tops are useless as cyclic indicators.

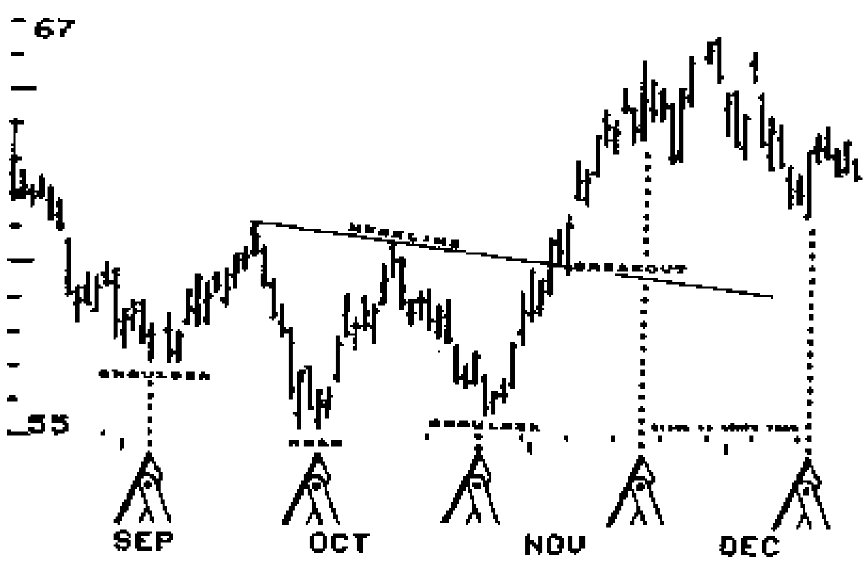
It should be noted that a cycle low or high may cause a break out of a formation and begin a trend, possibly after sideways price action, or the occurrence of a pennant or channel formation.

When studying cycles in earnest, it is important to start with the proper perspective. Begin with long term monthly continuation charts and proceed to analyze the market cycles for a long term point of view first, working into very short term cycles last. This will provide perspective relative to the major bear market movements. It may be necessary to acquire monthly continuation charts to accomplish this task.

Then, working with weekly continuation charts, daily charts, and possible tick to tick charts, you should be able to analyze price action more accurately. It should be noted that the shorter term of the cycle, the more difficult it is to recognize turning points. Cycles of several weeks, and more, have the greatest usefulness because they usually generate sizable moves. It is a common practice to quote cycle lengths from low to low (i.e. from trough to trough). Also, after finding a cycle in one market it is advisable to check other markets that are closely associated to see if the same cycle is present in that market. For example, a cycle in Live Cattle may also be useful in Feeder Cattle. It may be that the cycle you have found in one market is a cycle in a particular index, and therefore may be usable in several markets.

Although some cycles are common to many markets, some are unique to particular ones. Combining cycles of different lengths can result in some dramatic effects.

Particularly fast and substantial price moves are sometime the result of two or more cycle highs or lows occurring in a very short time frame or simultaneously. The reverse occurs when opposite cyclic forces combine to neutralize each other, sometimes creating the familiar trendline sideways price action which may make it harder to see the cyclic results which



otherwise would be more pronounced.

The Ehrlich Cycle Finder has become a very popular tool for finding cycles on both chart paper and even computer screens. It is an expanding and contracting chart tool with 9 points on one side and 5 points on the other side. To use the device, place the ECF's far left or right hand point on a prominent market bottom. Depending on whether most of the price action is to the left or right of your market low, slowly begin to expand the ECF in the appropriate direction while holding the endpoint steady on the decided low. While very slowly expanding the tool, you should begin to find lows occuring in a series of approximately equal time spans. Be sure to watch very carefully how well lows match up with the ECF points. Some judgement as to how much tolerance or variation of timing you are willing to accept must be made. Up to five or ten percent of the cycle time span is generally acceptable. You should not except to find many cycles with exactly equal time periods, although it happens.

The greater number of cyclic lows found in a series will increase the accuracy of the next cyclic low projected. This might require a longer time span than is available on the charts that you are using.

As a guideline, use at least five or more repetitions for the most reliability. Again, the more repetitions you find, the more likely you have found a good cycle and the more accurate your timing predictions should become.

When you have measured the timing cycle accurately, simply shift the ECF one or more cycles (point to the tool to the right and you have calculated the next expected cycle turning point or points into the future. Make a reference market on your chart on that day or week to remind you of the likely turn in price action at that time. Continue the expansion process because the low you have picked as a starting point may be a cyclic low involving more than one cycle!

After you have found a series of cyclic lows that you feel is usable, look for the cycle highs approximately in the midpoints between the cyclic lows. This is one way you may find cycle highs. Cyclic highs are somewhat less reliable to use than cyclic lows. This is probably due to the emotionalism which often accompanies tops. Reversing the previous process can be used to find cycle highs first, then cycle lows.

Stan Ehrlich is president of Ehrlich Commodity Futures and Ehrlich Cycle Finder Company, he can be reached at 1-800-800-4321.

The Gann Pivot System

By Bruce Babcock

In my last article I discussed the natural progression of learning for a new trader. He or she quickly determines that in order to be successful, one must master market predicting. After reading some books in the conventional literature, he attempts to find repetitive market patterns and cycle using price bars or mathematical indicators. He may fall prey to various expensive system promotions.

In spite of the abundance of such prediction methods in books, systems and software, in the long run, probably 95 percent of traders lose. Nevertheless, almost no traders question the proposition that exploitable, repetitive price patterns and cycles exist.

People are naturally susceptible to wishful thinking. They believe what they want to believe in spite of obvious evidence to the contrary. Short-term luck causes many such faithful traders to reinforce their invalid beliefs.

Unsuccessful traders have a distorted view of the markets, themselves and what they are really doing when they trade. It is very difficult for them to shed these misconceptions so they are domed to long-term failure.

It turns out that it is possible to examine historical market price action with mathematical and statistical tools and determine whether such repetitive patterns and cycles exist. Chaos Theory is the mathematics of analyzing systems such as market price action.

For those willing to plod through some fairly technical, jargon-loaded language, I recommend Edgar Peters' two books on Chaos Theory and the market, Chaos and Order in the Capital Markets (1992) and Fractal Market Analysis (1994). Both are published by John Wiley & Sons and are available in the Trader's World Catalog in this magazine.

Chaos analysis tells us that market prices are highly random with a trend component. The amount of the trend component varies from patterns and repetitive short-term cycles with predictive value do not exist. The patterns of prices and indicators traders use as much chance to predict short-term market prices using technical analysis as you do to predict future numbers on a roulette wheel.

In writing his second book Edgar Peters examined four years of tick data in the S&P. He concluded that while short-term data is not totally random, the deterministic element is so small as to be barely measurable. He concluded that "it is highly unlikely that a high-frequency [short-term] traders can actually profit in the long term." He also found that there are no cycles in intraday data.

As I read the literature, this is not opinion. It is scientific fact. Traders who ignore it do so at their financial peril. Does this mean the markets are a random walk and that eventually all traders will lose because of the costs of trading? No.

Traders can exploit the longer-term trend component of commodity market price action to obtain a statistical edge. This is precisely what trend-following systems do. It explains why good trend-following systems traded in diversified market portfolios tend to make money year after year while day-traders invariably lose in the long term.

To be a successful speculator, you must put yourself in the same position as the house in casino gambling. On every bet the house has a statistical edge. While the house may lose in the short term, the more gamblers bet, the more the house will eventually win. If you trade with an approach that has a statistical edge and if you follow your approach rigorously (a big if), like the casino, you cannot lose in the long term.

My calculation of the trading success quotient is that one-third depends on the system, one-third on the portfolio of markets traded and one-third on the trader's discipline to follow the system precisely. We can never know for sure whether our system has a statistical edge. The best we can do is create it without over-curvefitting and test it historically. If the system has been over-curvefitted, any historical testing will be preordained and worthless.

A simple way to guard against over-curvefitting is to use exactly the same rules for all market s and test your system on as many markets as possible. If it is profitable in a wide variety of markets in a long historical test that generates a large number of trades, it is probably not over-curvefitted.

To maximize your edge while minimizing your risk, it is crucial to select an optimal portfolio for your system and account size. Since a market's price trend component is what gives you a statistical edge in the first place, you can increase your edge by concentrating your trading in markets with the highest historical trend component. I have written a book called Trendiness in the Futures Markets which is a systematic examination of the tendency of 29 popular markets to trend in all time frames between 5 and 85 days.

While we can measure the various markets' tendency to trend in history, we cannot know for sure which markets will trend the most in the next six months to a year. Thus, to reduce short-term risk, we must diversify as well as concentrate. My research has shown that optimum portfolios for trend-following systems have between 10 and 20 markets. I personally trade 19 different markets with various trend-following systems.

Another aspect of managing risk is keeping drawdown in relation to account size under control. Because drawdown and profitability are closely related, to reduce drawdown, you must accept smaller profits. It is impossible to evaluate the optimum portfolio for your system unless you compute the joint historical drawdown when trading the entire portfolio. I suggest a starting account size representing twice the maximum historical portfolio drawdown plus the total margin for the portfolio.

Contrast this rigorous, scientific approach to the way most traders operate. They have no idea whether their methodology has a statistical edge. They assume that if it is in a book or came from a famous guru or cost a lot of money, it must be good. They trade with highly subjective methods that can never be tested. They are too lazy to create some hard and fast rules and perform proper historical testing. If this is you, don't be surprised if your trading produces loses. For you, trading may be fun, but you will pay for your entertainment.

Bruce Babcock is Editor and Publisher of Commodity Traders Consumer Report.