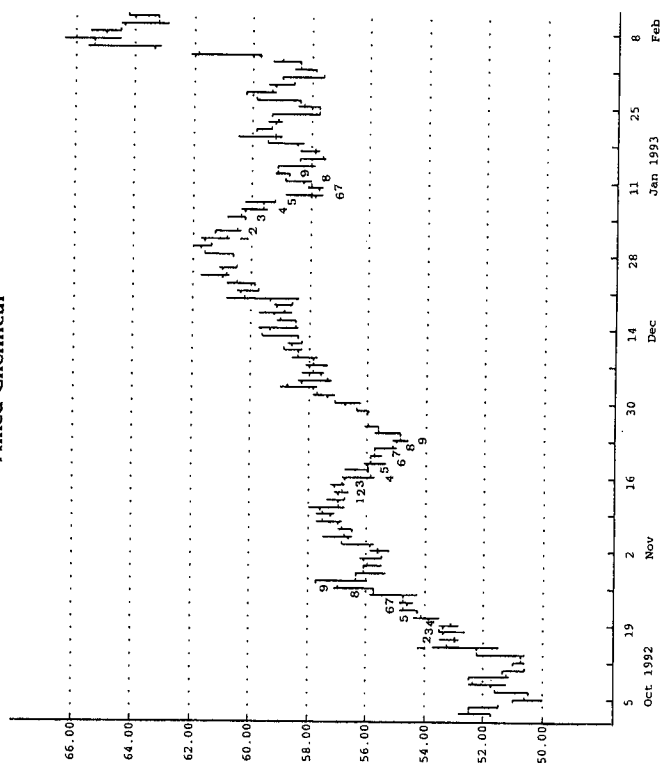


Allied Chemical



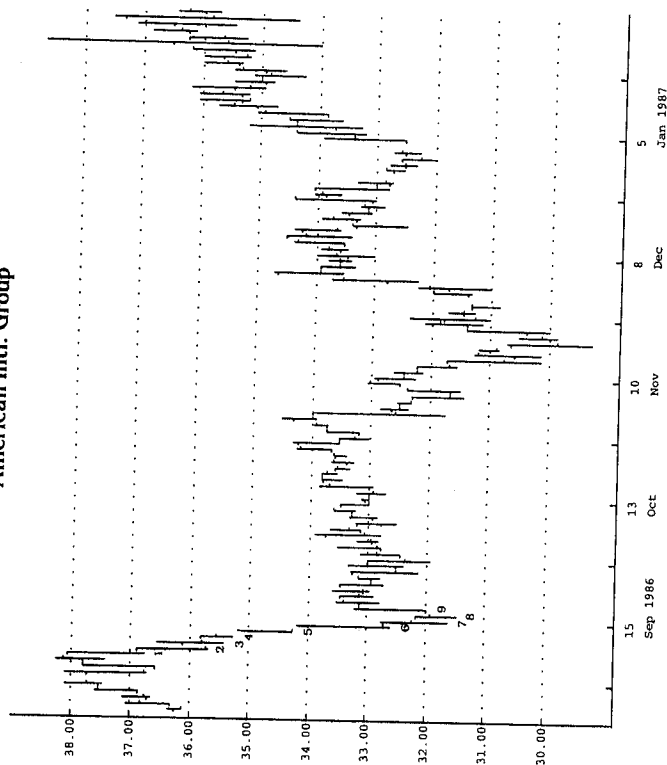
Source: Logical Information Machines, Inc. (LIM), Chicago, IL.

Figure 7.11 In both instances (Figure 7.10 as well), you can see a series of setups. In both cases, note short-term top (bottom) generally seen after nine setup—price “hiccup” or “stutter” if you will.

completion of the entire current series of closes because the peak or trough can exceed the trough or the peak—depending on whether the current setup is up or down—of the inactive setup before the setup is completed. In fact, it may not be formed at all. This particular technique has enabled me to define the trend of various markets on numerous occasions, and it is a valuable derivative benefit of a Sequential™ setup.

A vital element is required to validate the Sequential setup. Its absence underscores the fact that the market is in a runaway phase. For example, if price is declining in a waterfall manner, it is important that a retardation of the decline occur to prevent premature

American Intl. Group

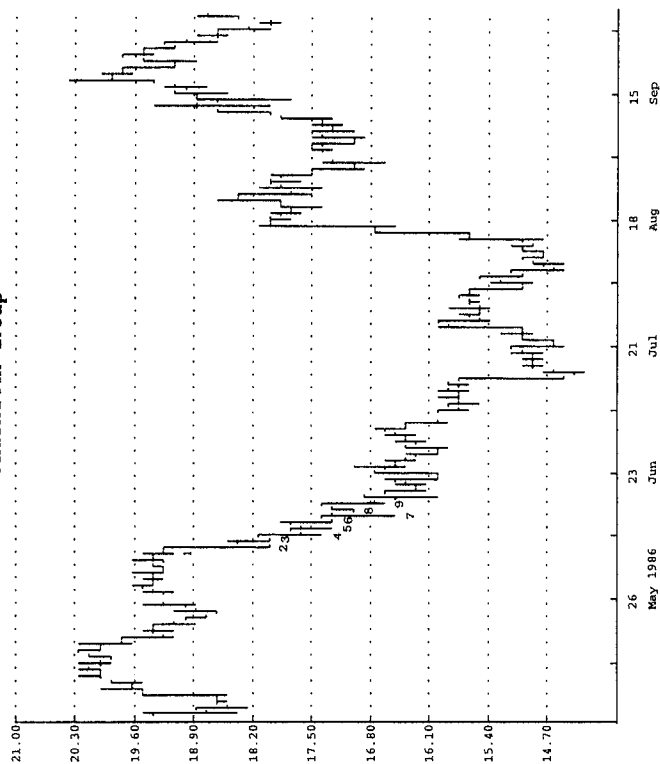


Source: Logical Information Machines, Inc. (LIM), Chicago, IL.

Figure 7.12 Price intersection did not occur on day 8, but it did on day 9 once the price high that day exceeded the low three day's earlier—day 6 in this example.

entry. Conversely, to avoid the problem of early entry in an upside blow-off, an indication that the price brakes have been applied is a necessity. Once the setup has been properly qualified, the next phase of Sequential—the countdown—begins. The setup qualification process, called “intersection,” is very easy to understand. Simply stated, intersection requires that the price range of either the eighth or the ninth day of the setup overlap the price activity of any setup day three or more days earlier. In other words, intersection for a buy setup takes place once the high of either day 8 or day 9 of the setup is greater than or equal to the low three, four, five, six, or seven days earlier (see Figures 7.12 and 7.13). On the other hand, intersection

Alaska Air Group

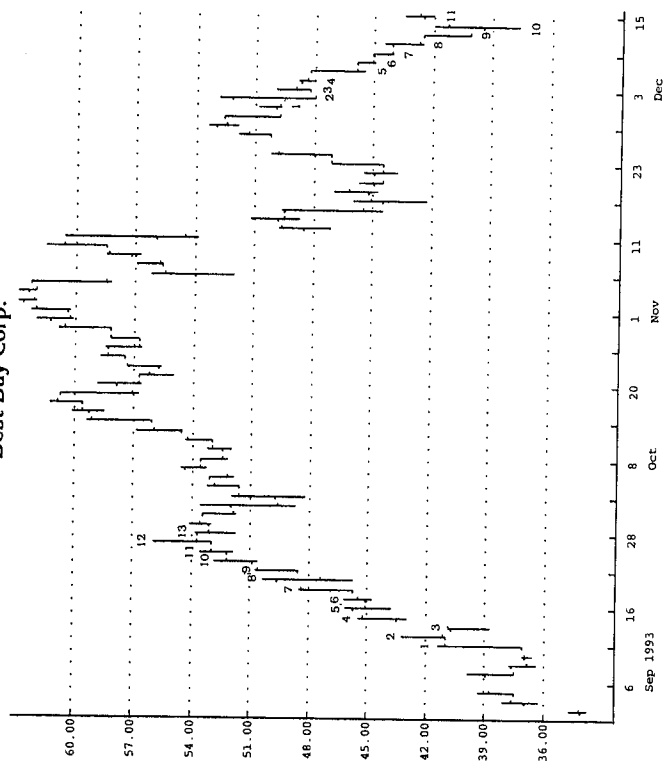


Source: Logtical Information Machines, Inc. (LIM), Chicago, IL.

Figure 7.13 Both setups (Figure 7.12 as well) fail to record intersection on day 8 of the setup but they do so on day 9.

for a sell setup occurs once the low of either day 8 or day 9 of the setup is less than or equal to the high three, four, five, six, or seven days earlier (see Figures 7.14 and 7.15). Intersection can also take place in one other instance: if intersection does not occur on day 8 or on day 9 of the setup, then it may occur on any subsequent day, regardless of whether that

Best Buy Corp.

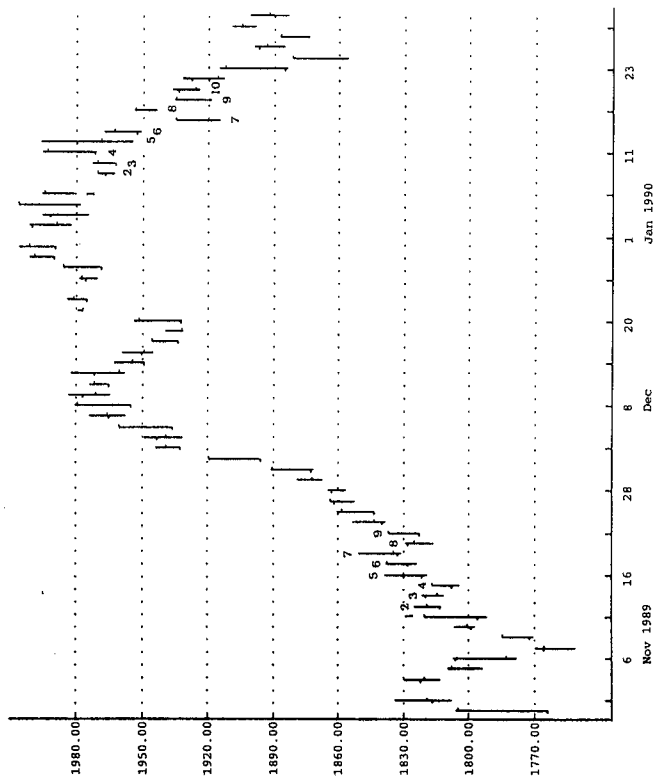


Source: Logtical Information Machines, Inc. (LIM), Chicago, IL.

Figure 7.14 In both regards—sell setup and buy setup—intersection did not occur on day 8 or day 9 of the setup, but rather on day 13 and day 11, respectively.

day is a continuation of the setup or not. All that is required is that the price intersect the price low three or more days earlier in the case of a buy setup or intersect the price high three or more days earlier in the case of a sell setup. However, in both instances, the countdown phase is postponed until intersection is satisfied (see Figures 7.16 and 7.17).

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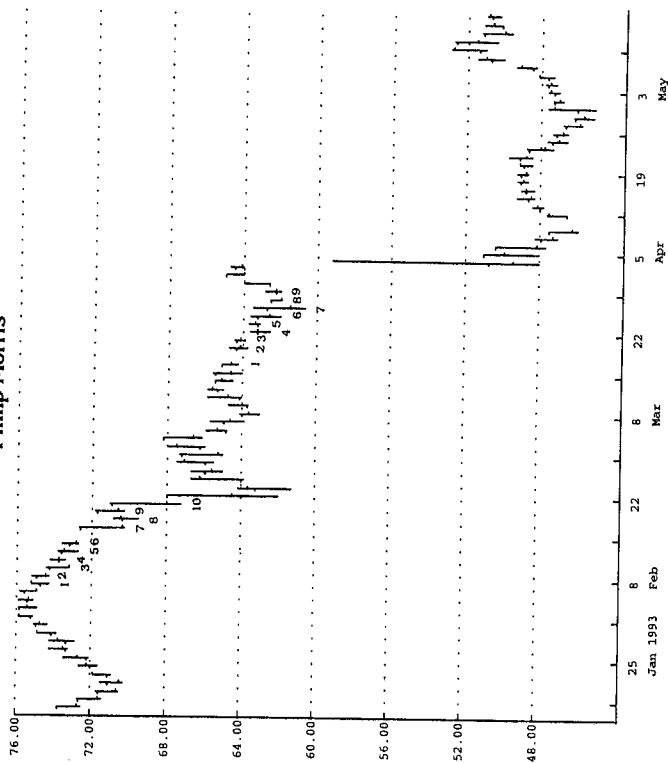


Source: Logical Information Machines, Inc. (LIM), Chicago, IL.

Figure 7.15 Whereas intersection did occur on the sell setup on both day 8 and day 9, for the buy setup it was delayed until day 10.

There are two instances in which the setup can be canceled. They are very simple and straightforward. The most common is a phenomenon called "recycling," which is described in the section on countdown below. The other is related to the closing prices recorded at any time between the completion of the setup and the generation of a signal. More precisely, should a subsequent closing price exceed either the highest intraday high—in the case of a buy setup—or the lowest intraday low—in the case of a sell setup—the setup phase is canceled and it must be reinitialized (see Figures 7.18 and 7.19).

Philip Morris



Source: Logical Information Machines, Inc. (LIM), Chicago, IL.

Figure 7.16 The intersection for the first buy setup was postponed until day 10 and countdown does not begin until intersection and the setup are both complete.

Countdown

Once setup has been satisfied, the countdown process begins. Countdown describes the relationship of the close to either the high or the low price two trading days earlier, depending on whether a sell or a buy setup is active (see Figures 7.20 and 7.21). With respect to a pending buy signal, the close must be less than the low two days earlier; with respect to a pending sell signal, the close must be greater than the high two trading days earlier. Once a total of 13 closes less than the low two trading days earlier in the case of a buy, or once a total of 13 closes greater than the high