The Solar Eclipse

By Greg and Helen Meadors

On January 14th, 1991, the Stockmarket made it's intra-day low one day prior to the Solar Eclipse, and then rallied over 500 point. In our previous article entitled Heavenly Influences and the 1990 Stockmarket Top", we stated, "Hopefully, the light will be seen before the next Solar Eclipses which OCCQtS on January 15, 1991. Interestingly, there are also several celestial harmonic indicators which occur the day before, and the day after this eclipse. This portends a major change in mass (investor) psychology."

For those who are still skeptical about using natural laws for market timing, consider the following forecast made in our December 16th, Market System Newsletter, as follows, NIf the intemational situation worsens, a drop, into the Solar Eclipse on the 15th, is likely....The market should trend in one direction, coins into the 8th/9th, or into the 15th.

The 8th/9th also has some longer temm harmonics that could generate a 1 or 2 day reaction in the market. However, the most important time-frame will be the day before, and the day after the January 15th Solar Eclipse (6:43 PM EST). Usually, a Solar Eclipse date is not a turning point date, however, in this case there are high energy harmonics occurring at the same time, therefore, fast moves with lots of action will occur."

The market did decline going into the Solar Eclipse, which was followed by a fast move, a 150 point rally, lasting two days, going into the 18th, exactly as forecast one month in advance! In our previous articles we pointed out the difference between traditional astrology and Celestial Harmonic Analysis; and how Gann's law of vibration is based upon planetary patterns and their correlations with sunspots, which in turn affect earth's electromagnetic environment, and eventually mass investor psychology

Understanding how manes psychobiological rhythms (mass investor psychology) are affected by Cosmic Rhythms, is the essence of Gann's law of vibration.

In Gannzs law of vibration interview he states, "Science teaches that an original impulse of any kind finally resolves itself into periodic or rhythmical motion, also just as the pendulum returns again in its swing, just as the moon returns in its orbit, just as the advancing year ever brings the roses of spring, so do the properties of the elements periodically recur as the weight of the atoms rises. From my extensive investigations, studies and applied tests, I find that not only do the various stocks vibrate, but that the driving forces controlling the stocks are also in a state of vibration. These vibratory forces can only be known by the movements they generate on the stocks and their values in the maket. Since all great swings of movements of the market are cyclic they act in accordance with periodic law. After years of patient study I have proven to my entire satisfaction as well as demonstrated to others that vibration explains every possible phase and condition of the market.

Gregory LeGrand Meadors is the author of the Genesis Market Timing Master Course, and publishes the Market Systems Newsletter (I year/$266). Helen Meadors is Editor and Public Relations Director. For daily Stockmarket updates call 1-900-234-m7 EXL 84 after 7PM FST; $2 per minute, Intraday updates at IPM EST are under 1 minute. Private Hotline also available (1 year/$S00, 6 months/$300- with newsletter X399). For our Market Timing Kit, recent newsletters 10 research articles and track reco;d, enclose $10. For more information write or call: Market Systems Newsletter, 2761 Mansfield Dr., Burbank CA 91504. (818) 843-4266.

Computers Wholesale

The original IBM PC computer was introduced in 1981 by IBM and became an instant success. The computer provided in one small box an extremely powerful expandable computer. Through the last few years IBM and other manufacturers have greatly improved the original design of the PC and its components parts. These manufacturers have become so efficient in making quality clone computer parts, that the computer business has become a commodity business. Large computer companies such as IBM and the other big names are finding it difficult to compete in this commodity market. By the time they design a new computer and get it out to the public, it's out of date. In addition, their standard markups of 40-50% put them out of the market.

For the average person it's much more efficient and economical to buy a PC Clone or upgrade your old computer with new state-of-the art parts. You can do this at a fraction of the cost of buying a name brand computer. Most people who originally bought a name brand computer are now upgrading their old computer with PC Clone parts. If you want to do that, you can order the parts from us or send us your computer box via UPS in a sturdy box which is well padded to protect the computer. We will replace the motherboard and other vital parts and maybe even replace the case and return it to you.

Name brand computes and PC Clones contain the same basic parts which are: (l) motherboards, (2) RAM memory - most computes use one to 8 MB, (3) case (4) floppy drives (5) hard disk drive, (6) controller for the hard disk drive and flopply drives, also contains serial and parallel pnnter ports, (7) keyboard, (8) morıitor with video card, (9) optional mouse and (lo) optional modem.

With proper instructions a computer can be put together in 30 minutes to 2 hours. We recorr nend the following books which are available from us. "Build Your Own 80386 Computer" and "Build Your Own 80486 Computers Tab\NfcGraw Hill is the publisher.

Traderbs World Magazine has made a purchase arrangement with one of the world's largest computer component supplies to supply parts to our subscnbels at pnces as low a dealer pnces. We also have fully built PC Clones for purchase by our subscribes Call or write us for quotes. The component parts and computers are some of the finest in the world. Check these pnces out with computer dealers or computer mailorder companies and you will see the difference. You can purchase these parts to upgrade your computer to todays standards at a fraction of the cost of buying elsewhere. If you are plamıing to put together your own computer, we can not be responsible for damage you do putting parts in your computer incorrectly. Call or write for custom computer configurations at (4l7) 882-9697. The parts and computers have 6 months guarantee. Shipping/handling is extra in brackets. ($$$) for U.S. only.

Financial Storm in the Markets

By James Flanagan

On all scores, we stand at the threshold of the most exciting opportunities we have seen in the markets since we began publishing the Investor's Edge Newsletter. Our market turning points based upon W.D. Gann's Master Time Factor, meets an important condition that greatly increases the probability for a successful forecast. This condition occurs when an important yearly time cycle marks the anniversary of an historic financial or fundamental event, that impacts many markets at the same time. This month, we celebrate the 60-year anniversary of the "banking holidaysN in 1931. Tnis event will place its stamp on how the markets trade over the next six months.

At times like this, the markets have a dynamic interrelationship with one anotheL Extraordinary profit opportunities can present themselves simultaneously in many markets, keying off this powerful anniversary event. In 1987, when we celebrated the anniversary stock market crashes in 1837, 1857, 1877, 1907, 1907 and 1937, the market decline set off a chain reaction in the other financial markets, particularly in the explosive move up in the bonds. This was the last time that our cycle work held the same promise that it does now.

Looking at this 60-year cycle, which Gann called the "Great Cycle", by 1931 the economy was spiraling downward toward the worst depression in U.S. history, Obviously, we have not seen an Nexact fitN of this market cycle based upon current price action. However, an objective comparison of the 1980s and 1990s versus the 1920s and 1930s, confirnLs the startling influence on prices this 60-year cycle has had. Our short sale recommedation in silver all of last year, and more recently our buy recommendation in stock market on January 2, 1991, were due to a correct interpretation of the influence of this cycle. The most valuable insight I can give on the potential profit opportunities ahead, is to affirm the dominant influence this cycle has had, and should continue to have.

First of all, the stock market made final highs on September 3, 1929. Sixty years later on October 17, 1989, all of the stock market averages experienced a mini melt-down in price from all-time highs, from which some of the most important averages have never recovered (NASDAQ Over-The-Counter, Wilshire 5000 and Dow Jones Transportation Averages).

As the bear market progressed in stocks from 1929 through the first half of 1931, the impact on the bonds was bullish. The price strength we have experienced in out bond market has coincided exactly with this strength 60-years ago (Figures 1 & 2). The move up in 1931, lead to the landmark high in bond prices June 2, 1931 (lows in yields), followed by the credit crisis that lead to panic selling especially between October 9 and October 14, 1931 (Figure 3). Mark these dates on your calendar! This was the equivalent of an historic "Black Friday" sell-off in bonds. In the midst of the greatest deflationary contraction in financial history, bond prices broke wide open to the downside. During this flight to liquidity, no government obligations, including the bonds were immune from the selling. Can bond prices move down during deflation? They did and have repeatedly over the course of history.

Look at the May 1920 low in government bonds versus the September 1981 low 61 1/2 years lateL The explosive 'move up from the 1920s lows occured in September 1921. This chart punctuates the panic decline starting in June 1931. This was a big time profitable move in a short period of time.

How about short-term rates? The highest yields recorded for short-term government paper during the fist half of this century, were in December 1920. Sixty years later in December 1980, we made our all-time high yields (over 17%) in 3-Month T-Bill Futures. Unbelievable? Youbet!

Moving into the 1931 time frame, perhaps the best gauge of short term rates was the broker loan rate charged for borrowing against securities. These rates had seen a steady decline in yields starting in May 1929, and bottomed the week of May 16, 1931 at a yield of 1.38. By January 1932, this rate had spiked up to 3.21%. Three to Six-Month Treasury Certificates bottomed two months later in July 1931 yielding .41% (price of 99.59) before quintupling to 2.48% (97.52) in January 1932 (Figure 4). Time for us to watch for a major

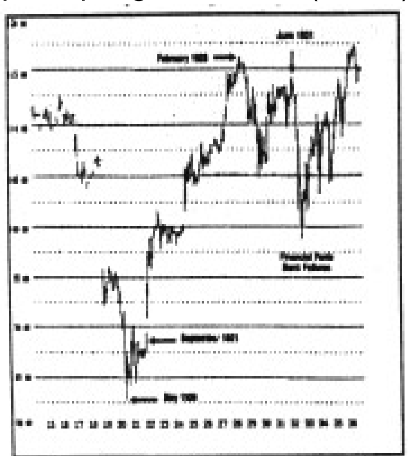
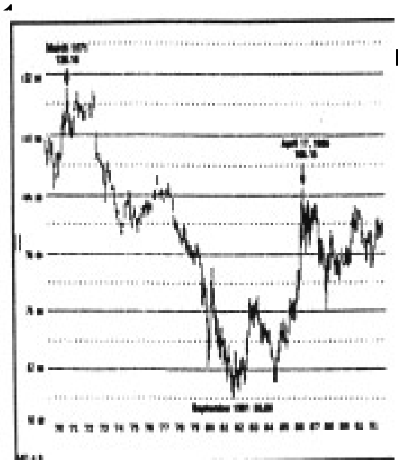


Figure 1 LONG-TERM GOVERNMENT BONDS



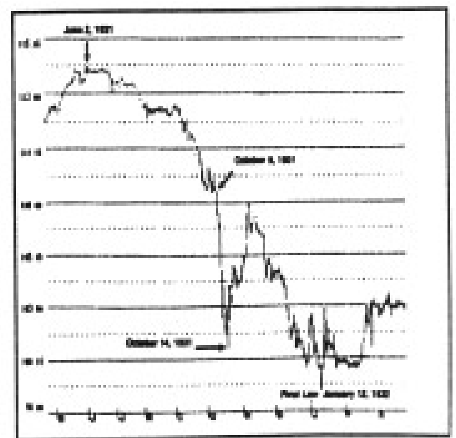


Figure 3 U.S. TREASURY'S 4 1/4S OF 1947 1931 60 YR

They say a picture is worth a thousand words, and the undeniable influence of the 60-year cycle in silver from the 1920 highs versus the 1980 highs is another mind boggler (Figures 5 & 6). The final blow-off top in N.Y. silver made on November 23, 1919 at $1.37 lt2, was within 1 1/2 months of the January 21, 1980 top at $50.35. London silver made final top on January 14, 1980. After 60 yeses, the top was made within 7 days of the exact anniversary date! The simplicity of following this 60-year cycle would be enough to make Nelson Bunker Hunt weep. There was no question about where he should have been in 1980. Out! !

Now look at the daily silver charts in 1931 and 1991 (Figures 7 & 8). The low silver made February 22, 1991 at $3.51, was within 6 days of the lows on February 16, 1931!

Another coincidence? Silver was the fist commodity to bottom during the runaway deflation from 1931 to 1932 (it later double bottomed in December 1932). All other commodities, with the exception of coffee, moved significantly lower through 1932, with most reaching final lows in December 1932. Table 1 shows five major commodities, and the price lows they had reached as of February 1931, when silver made its final low. After silver began to rally, pork bellies dropped another 67%, hogs another 36%, cotton another 54%, wheat another 42 %, and corn another 63 % .

We view with more than passing interest the public's perception that silver is no longer a precious metal, only an industrial metal. Sixty years ago to the date, this same erroneous belief debilitated the public's thinking. After February 1931, silver reasserted its historic place as a crisis hedge in the face of massive deflation. Yes, silver was a hedge against deflation. The inflationdeflation debate is academic to our recommendation to buy silveL We can have our cake and eat it too. Cash was king, and from February 16, 1991 to November 10, 1931, silver was better than cash. Nervous money moves towards hard assets in line with our Master Time

Factor projections. With the silver-gold ratio having tested the 1939-1941 all-time highs at 103 to 1 at the February 22 lows, we favor purchases of silver relative to gold although both should move higheL

Adjusted for inflation, silver also made its all-time lows on February 16, 1931 at .78 (Figure 9). This is another gauge of its extreme oversold condition relative to other assets. After the 1980 index high at 21.57, prices have now declined to their lowest levels since 1961. Think of it, buying at 30-year lows on the eve of a banking crisis.

(In December 1932, the nominal 1931 lows were broken, but only by 1/2 cents).

We interpret the lessons of history as offering an unbelievable buying opportunity in silveL After the final lows on February 16, 1931, a higher bottom was made on May 29, 1931, at 26 cents. We are not rigid about the exact cycle dates containing the lows, but we are exact about documenting them, and they should be close.

As discussed in our last letter, government bonds have moved onto the bear side of the 90, 45 and 5-year cycles. As of June 2, we will be on the bear side of the 60-year cycle also. Bonds should play their part in this drama. The advent of some type of banking crisis, coinciding with these dates is expected, although the response prices could be more subdued or more exaggerated. Time always takes precedence over price. If the move unfolds, we will be better able to gauge the extent of the price changes. The beauty of our cycle approach is that we don't have to put a fundamental face to the potential events that will precipitate these price moves. These long-term cycles are the catalysts that bring about price change, after which the fundamental events emerge.

It is no secret that our banks are in trouble, but timing the crisis is everything. We want to outline five potential home run strategies for profiting in Hisis environment. We list them below in their likely order of occurrence.

1. Short Government Bonds, Long September and December Put Options
2. Ted Spread: Long September T-Bills, Short September Eurodollars
3. Long Cash Silver, Futures and Call Options
4. Short September Eurodollar Futures, Long September and December Eurodollar Puts
5. Silver-golt Ratio: Long December Silver, Short December Gold
6. Short Stocks, S&P 500 Futures, Long Index Puts and Puts On Individual Issues.

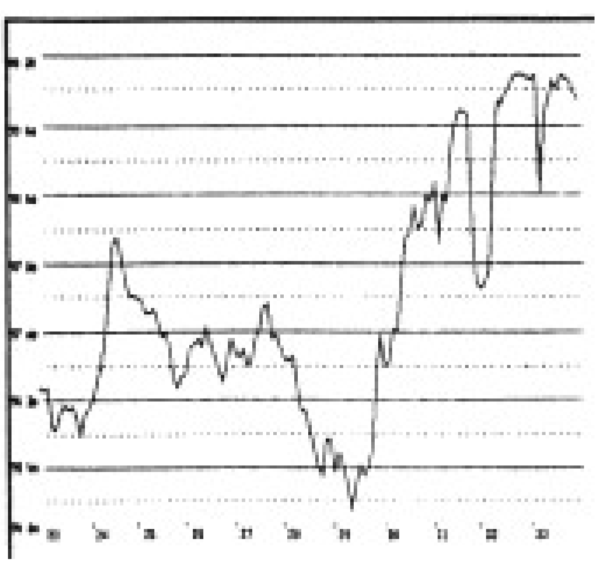


Figure 5 CASH SILVER MONTHLY 1914-1934

GOVERNMENT BONDS

As per our May 1 lever, we have profitably purchased September 92 and 94 put options above 96.16 basis the June futures. The exact 5-year, April 17, 1986 anniversary of the all-time highs, turning prices down on April 17, 1991 at 97.11, confines this as a potential major high. On futures positions, we are short multiple contract positions at 96.16 and 95.18. This market should offer pyramiding opportunities. Position trade stops belong at 97.13, and will be trailed as the market moves lower. We urge you to follow the hotline recordings religiously during this vital period of time. We are faced across the board, with what we feel is the greatest profit potential since our advisory service began Messages can be accessed by calling 1-900 234-7927, or by subscribing to our hotline service. We are making our subscriber only hotline service available to any newsletter subscriber for a 2-week trial subscription free of charge. Call our offices to sign up (213-828-4688 or 1-800-545-9331).

TED SPREAD

As you may well imagine, any fragility in the banking structure, will show up in the yield spread between the T-Bills and Eurodollars. This past week we entered this spread between 75 and 77 points in the September contracts, andcipahng a potential move to 150 points (S1875 profit per contact). Positions should be exited on any reading below 60 points. This market presents more limited pyramiding opportunities. If you are not in, enter orders to buy September T-Bills, sell September Eurodollars at the market. If you do not understand the mechanics of this hades or do not know what a Eurodollar is, call our offices and we will provide you with this informahon.

What makes this wade additionally intriguing is the synchronicity demonstrated between historic lows in this spread, and major highs in the stock market. As one would expect, an historically narrow spread reflects a high level of public confidence. This confidence has skyrocketed since the Iraqi war. A disruption in this false sense of security, should translate into a very profitable trade.

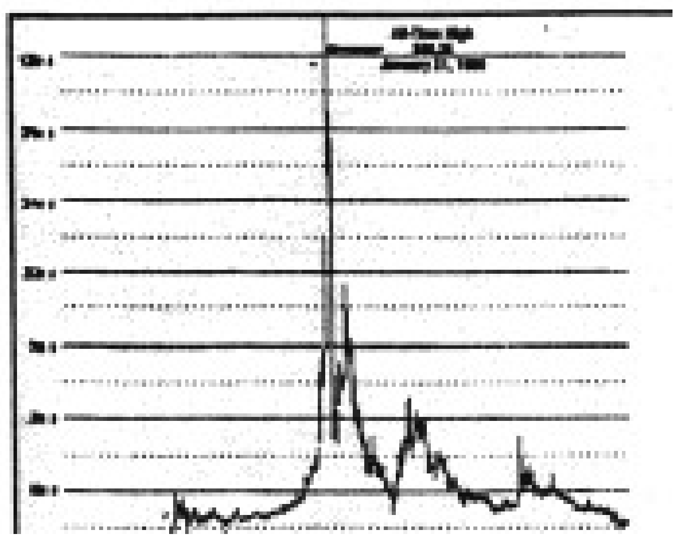
SILVER

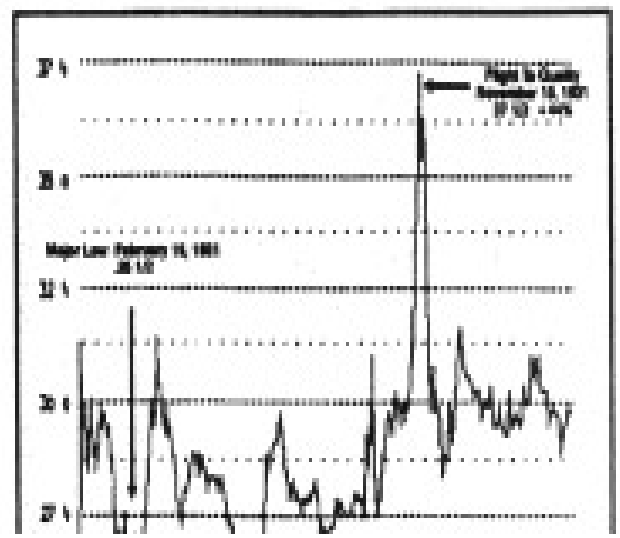
The trading public has its collective heads turned, and. can not conceive of a substantial move up in silver, in the face of "huge" warehouse stocks. A crisis of confidence would have little difficulty encouraging nervous investors to snap up the $1 billion in exchange warehouse stocks. Putting the supply of silver in perspective, two weeks ago the money supply as measured by M2, increased $12 billion dollars. One billion dollars in silver is a drop in the bucket.

A friend of mine who works as a futures broker at a major brokerage house, says that he can't get clients to buy silver for the life of him. The false breakout above the downtrend line in July silver this past week, has again disillusioned the bulls. One more raid on sell stops possibly below the uptrend line at $3.92, followed by a reversal above $4.00, would be a cinch indication for higher prices. Our hotline commentary is a must in this market. Call us if you don't have it, it's free for 2 weeks!

SILVER-GOLD RATIO

Simultaneous with the run up in silver, should be a move in the silver gold ratio from the 90 to 1 level, to 70 to 1. As stated before, we have likely seen generational highs in this ratio, and the smartest strategy is probably to buy and hold this spread for the long pull, rolling futures contracts year after year. This has presented us with a once in a lifetime opportunity.





Woody

By Larry Woods

In the year 3136 (56 square) Claude Hopper visited the Great Agriculture Hall of Fame and while there he noticed some numbers on the ceiling and he asked what those numbers were all about. The tour guide mentioned that back in those times food and feed were raised upon the land and there were times of famine and times of feasts. (Of course in these modern times all food is synthetic so there is always plenty). This meant the price of foods and feeds varied greatly over periods of time and that these numbers were used in predicting prices in the future markets when and where there were traders yelling and jumping about like deranged madmen buying and selling what was when called commodities.

These numbers on the ceiling were called Woody's Fantastic Fractions and Woody's advice was sought at taverns, coffee shops, and grain elevators which he freely gave and was worth every cent of it. He was like a voice in the wilderness yelling to hell with politicians, lawyers, market advisers, pimps and brokers. (The last two were very nearly one of the same).

Woody, the tour guide said, was fascinated with numbers (and figures) and preached that markets move either up or down in sevenths and retrace in eighths. He preached that marketing was more art than science and that was why the great agriculture universities seldom ever taught effective marketing. Their haven seemingly was fundamentals which entailed all sorts of complex formulas which only the privileged few were allowed to understand. His thoughts were that people made markets and as such were full of emotions of all sorts thereby making markets an art form.

Woody subscribed to a magazine called "Trader's World" and started to read the various articles. Some of these articles he understood and others he simply did not. He had difficulty correlating the angle of Venus to Mars to the rings around your anus to the price of soybeans in Jasper County, Iowa. This simply stretched his abstract thinking abilities beyond their limits. He continued to read these various articles and to find the assorted 'keys' that would fit into his realm of existence. He had his own set of numerical abstract figures which he freely shared with others. The guide said that they had this ancient device called a VCR and we will play it so you can observe Woody as he described his Fantastic Fractions. Be seated folks and I will play this crude device as it was recorded.

I've read some of W. D. Gann's books and like others have been amazed at what he could envision! However, I've also been amazed at what seems to be missing is his various writings. He talked about the importance of 8ths and 9, but somehow I haven't read about the most important number of the human condition that being the number seven. There are seven days in the week, seven year cycles of our existence and if you are a Bible scholar there are countless references to the number seven throughout the entire book or library. Why is it missing? As Tevia said in the play "Fiddler on the Roof" ... "I'll tell you. I don't know." When the question is asked about the market it is like asking "How is your wife?" The only reasonable answer can be "Compared to whose or what?" In one of my searches I discovered that the ancients did not use the decimal system, but used fractions extensively. So the challenge became to use sevens and fractions in such a way to compare prices. (I've never been able to use these in comparing wives however.)

I discovered that by splitting seven into sevenths, fourteenths, twenty-eights, and fifty-sixths (seven times eight) I was able to predict where support and resistance were hiding in the movement of the market and squiggles of the charts. In the case of an uptrend, multiply the bottom tic times 28/27, 56/53, 14/13. etc. using 56 as a numerator and reducing the denominator by one. This gives a greater number in each consecutive case. The numbers in a downtrending market are simply inverse of the uptrend ones. The greatest support or resistance is where the fractions are the smallest. (A 6/7 offers more support than a 51/56). One can use these numbers from two or more lows on a market incline or advance and where these numbers are close together there is much support or resistance. In many cases the numbers are very close to those achieved by a "Gann Wheel".

Let's use an example of June Live Hogs which made a low on August 23 of 47.70 which times 56/45 equals 59.36. On the Gann Wheel 47.70 plus 450 degrees gives 59.20. A subsequent low on December 4 of 48.60 which times 28/23 equals 59.17. $8.60 plus 420 degrees gives 59.30. On February 21 a low of 53.85 which times 56/51 equals 59.13. On the Gann Wheel 58.85 plus 216 degrees gives 59.40. Pretty close yeh? The top of LHM (June Live Hogs) as of this writing is 59.30. These numbers can be used as a filter in conjunction with the Gann Wheel. In the case (as of this writing) CN91 (July Corn) made a high of 2.68 times the various fractional numbers giving 2.58 (2.57 fixed cross) 2.54 (2.52) minus 90 degrees, 2.49 (cardinal cross), and 2.44 (2.68 minus 144 degrees). Pretty fantastic, right? I think I'll call these Fantastic Fractions, ... maybe Woody's Fantastic Fractions will also be etched on the ceiling of some great museum or library and by which future scholars will be mystified. The guide intoned, "And that's the way it was in 1991."

Mr. Woods is a farmer and an occasional trader. He can be reached at RR2 Box 141, Mitchellville, Iowa S0169. He is a partner in L & L Farm Spreadsheets, RRI Box 114 Collins, Iowa 500S4.

Astroharmonic Vibrations

By Larry Pesavento and Steve Shapiro, Ph.D

The purpose of this article is twofold: Fist we would like to introduce readers to the use of astroharmonic cycles, and the ease with which they can be used to accurately identify trend changes in the stock market.

Secondly, we would like to illustrate the relationships of these events to the stock market and demonstrate how accurately and precisely these relationships can often be determined.

Since publication of the book Astrocycles: The Trades Viewpoint, by Larry Pesavento, we have researched many astroharmonic cycles. The advent of computerized astroharmonic data such as the AstroAnalyst (Astrolabe: Orleans LA), provides ready access to a large amount of research material. It is now possible to complete research in minutes that previously too literally months or years.

It is important for the reader to understand and accept that these astroharmonic cycles are little more than normal periodic cycles that occur with naturally harmonic regularity.

A problem arises for some because the language of this analytical technique differs slightly from that typically used to describe familiar stock; market terms and price movements. In addition, it is necessary for the trader to familiarize himself with the actual geometry and energy associated with these Particular planetary events.

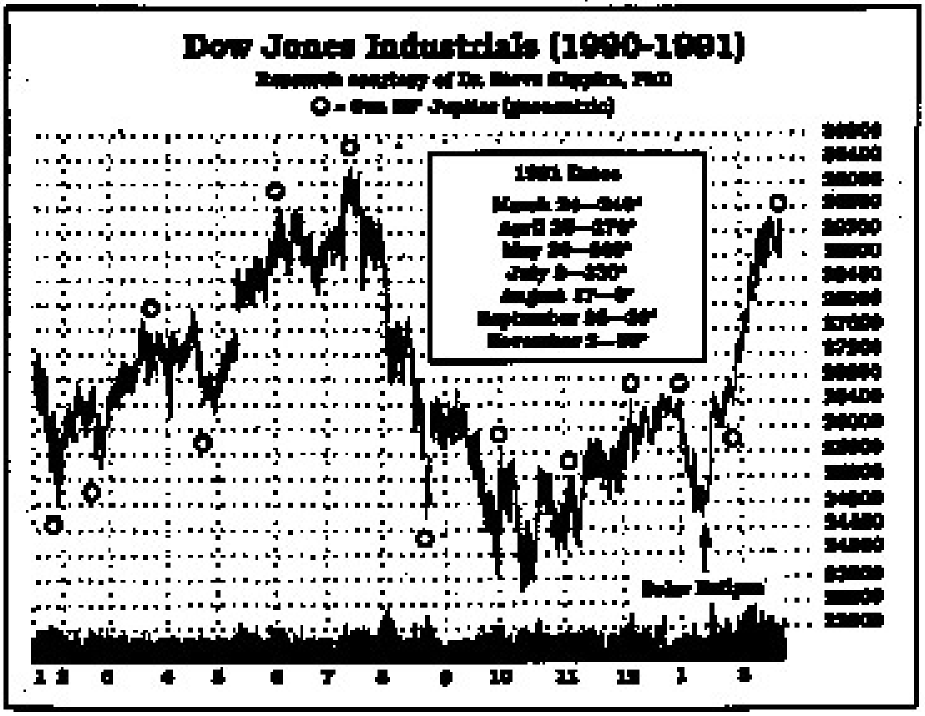
The existence of some kind of planetary energy influence on the earth and its population is more than just a matter of conjecture. A wide and historically significant body of documentation exists that clearly shows that at the time of the full moon there are significant increases in the incidence of emergency room trauma, poor surgical results, high crime rates, and other events with high emotional content. For the purpose of this discussion, the nature of these phenomena and why they occur is less important than the fact that they do occur.

Our purpose is to recognize that certain natural energy points exist and to develop a technique that identifies these energy points and uses them to identify trend changes in the stock market or any other market.

Our hypothesis is that if these "energy points" or "fields" exist, then it should be possible to choose any particular high or low in the stock market, determine the astroharmonic event that is occurring then, and test it over a period of years to figure out if trend changes occurred at or close enough to the date of the event to be meaningful to our analysis. The parameters we use to evaluate such a test are:

1. An expected accuracy rate of better than 80%.
2. The turning point must be plus or minus one day of the actual planetary event.
3. There should be a minimum of 100 samples for statistical reliability.

To illustrate the technique, we have chosen the Sun-Jupiter combination for two reasons: Commander David Williams in his excellent textbook, Financial Astrology, available in Trader's World Catalog has demonstrated that Sun-Jupiter does have a great influence on the trend of the stock market. To prove this thesis, it is only necessary to examine some of the major Sun-Jupiter aspects during the past decade. It will be seen that when this occurred, significant trend changes in stock market prices also occurred.



Most recently, the low of October 19, 1987 took place during a Sun-Jupiter op-position (180), and the July 16, 1990 high occurred at the time of a Sun-Jupiter conjunct (0).

The Sun-Jupiter cycle, or as astronomers refer to it, the synodic period, is nothing more than the time it takes Jupiter to complete a full orbit around the sun. This is 1.09 years. Beginning with July 16, 1990, when the sun was conjunct (0) Jupiter, adding 1.09 years produces the date August 17, 1991 as the next Sun-Jupiter conjunction (0).

The enclosed chart of the Dow Jones Industrial Average illustrates this analysis for the Sun-Jupiter cycle from April 1590 through April 1991.

Each of the circles identifies accurate trend change points within one day and illustrates Sun-Jupiter influence as the aspect moves 30 degrees at a time through its orbit. Stated more simply, a trader could expect a trend change to occur at 0 degrees, 30, 60, etc. all the way through the 360 of the zodiac.

It is important to remember that the 360 is not circular, it is elliptical. With the exception of the January 29, 1991 aspect, Sun opposition Jupiter (180), each of the turning points was quite exact. For educational purposes, we have included the remaining 30 degree as for Sun-Jupiter for 1991. It must be noted that the successful application of this technique in the past does not guarantee its continued or future success. The material presented in this article does not make any inferences to buy or sell recommendations.

ASTROHARMONIC VIBRATIONS

Feb 24	210
Mar 24	240
Apr 25	270
May 30	300
Jul 8	330
Aug 17	0
Sep 26	30
Nov 2	60

Mysticism in the Market

By Terry R. Davis

Anyone that is around the commodity or stock markets for very long starts reading about the "masters" of trading. If they (you) are like me they start to develop a reverential awe with regard to past master's supposed trading abilities. How is it possible for someone to be so consistently right or to make so much money? Could it be that some past master's trading abilities or supposed earnings could be larger than life? Could an entire trading record be based on one magazine article? We all are looking for the supposed "Holy Grail" ...the trading method that is never wrong and requires no work. I think traders look for esoteric things as Gann's or Bayer's writings or things like astrology or cycles to take them to this given point. Is there anything wrong with this quest for trading perfection? If it is tempered with knowledge and a true desire to learn it is a never ending search that will last a lifetime.

There is a story of an ancient well loved, gracious and benevolent king who wanted to leave the world a legacy on which to base further knowledge and also to preserve all the knowledge that had been accumulated up until his time. He brought together all the wise and learned men of the kingdom and told them to put all knowledge down on paper so it could be recorded for all posterity.... both rich and poor were to benefit. He said they had 5 years to accomplish this. Well, the five years went quickly and the learned group arrived and presented the king with twelve VOLUMES of accumulated knowledge. The king briefly looked at the volumes and quickly made a decree for the group to reassemble and condense the knowledge so that the common man could understand it too. In a year the prestigious group was back with a single large volume. The king again briefly looked at the book and again sent the group of scholars on their way to condense it one more time. Again the year quickly passed and the assigned group came back with a single page. This time the king read the entire page and said it was very good...but ...still much too long. Again they were told to condense all knowledge so that the great and the meek, all, could understand it. The next year quickly passed, as the previous ones before it had. By this time many of the learned men had quit but a few persevered. They presented a SINGLE PARAGRAPH to the king. Surely, this time, they thought, it would be alright. The king's eyes lit up when he read it. He said it was almost perfect. He asked them to try one more time. Condense it once more. The group left muttering but vowed to make one more condensation. This year went slowly by for the scholars. How could they condense all of the world's knowledge into a length of less than a paragraph. Night and day they worked to do this. It was finally decided that they had succeeded. They sent a message and arranged an audience with the king. They further let it be known that they had taken all knowledge from all of recorded history and had put it in A SINGLE SENTENCE! They met with the king at their appointed time and handed the sheet with the single sentence to the king. The king read it. As he did the astute group of scholars saw his eyes light up again. Had they been successful... they waited to hear from the king. The king was overjoyed with what they had accomplished. He said they had, indeed, succeeded. On the sheet of paper was one sentence that described all knowledge up to that point. It read "THERE AIN'T NO-FREE LUNCH."

Traders are hopelessly "hooked" on mysticism in the markets. If there is any doubt to this last statement I would suggest you look at the ads in this magazine that you are reading now. It may go by many different names. Gann angles, Elliott wave, Astrology and Natural law are buzz words and theories that come to mind. Does it exist within the confines of tradeable markets. The answer in my mind has to be a resounding YES!!!! When we hear the word mysticism it conjures up visions in our minds of fortune tellers or people gazing into a crystal ball. Webster's New World dictionary defines mysticism this way: belief in direct or Intuitive attainment of communion with God or of spiritual truths.

If we could understand the LAWS OF GOD wouldn't that make our trading easier? Read 2 Corinthians 5:18. Gann stated many times in his writings that the Bible would teach you all you needed to know about trading. He also said it should be read more than once. Perhaps it would do any country good if everyone read the Bible more than once. His square of 144 comes directly from the Bible. Many of Bayer's writings focus on Biblical truths. If we had "TH-E TRADER'S HANDBOOK of DIVINE NATURAL LAW" written by the Lord we would all be 100% traders. It is my belief that bits and pieces have been discovered by many of the past "giants" of trading. Many of today's successful traders use these laws both knowingly and unknowing in their day to day trading. Many repetitive cycles are related to the various orbits of the planets. Didn't the Lord create them too? My research has always been to understand the why of the markets and then apply it to my trading. Do Gann angles apply to natural law. Of course they do! Does Elliott wave fit in? Yes, it is also there. How are we to discern which, if any, is the trading method that will work for us? Do we need it all?

Let's use an analogy to understand mysticism or Natural Law. When we drive down the street we should marvel at this great invention called the automobile. I am typing this article on a Macintosh computer. Both of these inventions are modem day miracles. Our car can be as simple as a Ford Escort or as complicated and costly as a Mercedes 450 SEL. We don't need all the bells and whistles to take our kids to school everyday. We choose to have what makes us happy (or what we can afford). By the same token we don't need to know every Natural Law in the markets to make us successful. On any computer program for commodities there are so many indicators that it is hard to decide which one(s) to use. Do traders use them all. I have, perhaps, 35 indicators on my quote system. At the very maximum I use 3! Why? The rest are pure garbage!

Let's get back to natural law. I seem to have wandered off for a minute. I strongly believe that all natural law originated with our Creator. I further contend that everything was set in motion at the time of creation. Is Astrology natural law or some tomfoolery dreamed up to separate people from their hard earned money? Both! Astrology and cycles go hand in hand. Indeed, each one is a different way to describe almost the same thing. I have constantly ridiculed and good naturally made fun of people that use astrology in their trading for a long time. I don't intend to quit. Do I believe it is in sequence with other God inspired phenomena? Definitely! It is just one of the many Natural Laws that I do not use in trading. Let's go back to our automobile analogy one more time. Our most basic auto today has an air conditioner, a cigarette lighter, seat belts, radio, rear window defogger and on and on and on. Do we need any of these things to go to the comer market (if there is such a thing anymore)? The answer is an obvious no. By the same token we only need a very few natural laws to tell us whether to be long or short. Which laws? There's the problem! It takes a long time (more than one lifetime) to search through all things that seem to affect the markets. The search is endless!

America wants patience and wants it when? NOW! Commodity traders are basically the same. They (we) all know that the HG (Holy Grail) system exists and is just around the comer if we keep spending money for every new curve fitted $3,000 system to come out from this year's IN trading guru. Technicals get stranger and stranger by the day. The people selling systems do to. (If you don't believe that you should see me.) I am trying to make a point. The basic laws that govern the universe are unchangeable. Christ said, I'm the Alpha and the Omega, the same from the beginning to the end." Doesn't it seem to make more sense to rely on God inspired Natural Law in your trading than manage things like changing open interest? Your quest has begun when you take up the Natural Law banner. Good searching to you my friend.

Terry R Davis is a small business owner and trader. He has written two widely acclaimed courses on trading: Market Structure and Bubble Theory (The Power of Two).

Gann: Angles and the Square of Nine

By Bill McLaren

I believe it is prudent that I begin by prefacing this article with a few cautions. First, there is an abundance of misinformation related to the theory of Gann analysis that is available to the novice trader. Other schools of trading thought involving Fibonacci, Andrews, or Elliott may be related to some aspects of Gann, but beware of "pundits" that group some or all these schools under the umbrella of Gann theory. They are blatantly misguided. Second, you must have a basic understanding of price movement to be successful in trading. This knowledge is the foundation of analysis and all else is built upon it. Gann, Elliott, or even oscillators all present probabilities, but the only thing that is a certainty is that which is occurring on the price chart. The pattern in the movement of prices should justify the probability that your indicator is giving you the right signal. Third, quoting Mr. Gann, Whenever price and time are squared, you can look for a change in trend." The key word in his statement is "look." This means to look for some evidence that the trend has changed before positioning on that probability. I gave a seminar last year where the basic theme was stop trying to pick tops and bottoms and learn how to earn money trading." What I was attempting to explain in the seminar was how to identify what I call counter trend movements. Counter trend movements are identified as the first rally after the fall-off of prices from a significant high. When prices are trending upward, prices will tend to fall sharply off a significant high, either 1 to 3 days or 7 to 10 days depending on the momentum of the move. But after a high that completes a move, the fist counter trend will usually be within 1 to 3 days long. (Note IBM chart Figure #3) Conversely, the opposite is true when prices are trending downward. Once you've been able to locate these counter trend movements, I believe you will have acquired the knowledge to trade successfully.

The Use of Angles

Gann angles are employed for many reasons but probably the two most important being first, to define when price and time are back in balance with each other and second, to show the strength or weakness of a position. They are not to be used to randomly buy or sell support and resistance levels. Since the Gann method of charting is done on geometric charts where the two axis represent the same space movement, the angles therefore are a geometric relationship to price and time. The 1 x 1 (or 45°) angle line moves at the rate of one price increment to one time increment, so on a weekly stock chart this would represent one point per week. The slower 1 x 2 moves at 1/2 point per week and the faster 2 x 1 moves 2 points per week.

Referring to figure #I we see that a stock hits a high of $36 and moves down. Assuming that this is a weekly chart, when the 45° angle from the high moves down to zero, time would have moved 36 weeks and if a 45° angle were drawn up from zero at the time of the high, where those two angles meet would represent 50% of the high price ($18) in both price and time. This would obviously be very strong support on the geometric chart as price and time would be balanced or "squared" at a harmonic 50% of the high price.

Figure #2 shows that from the low, price moves above the 2 x 1 angle, then falls back to

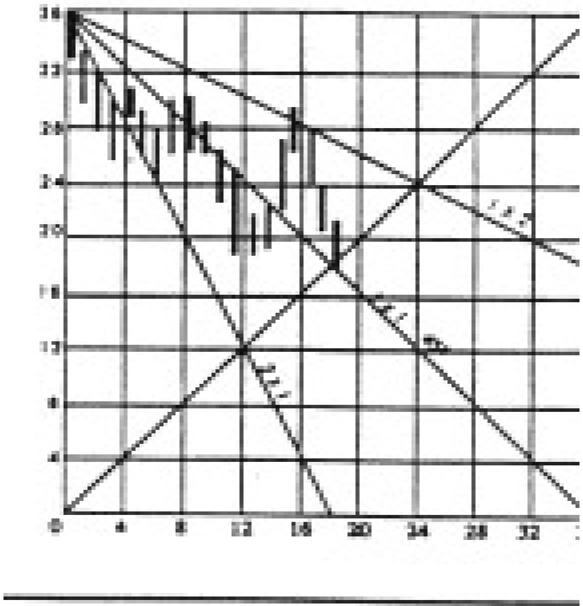


Figure 1

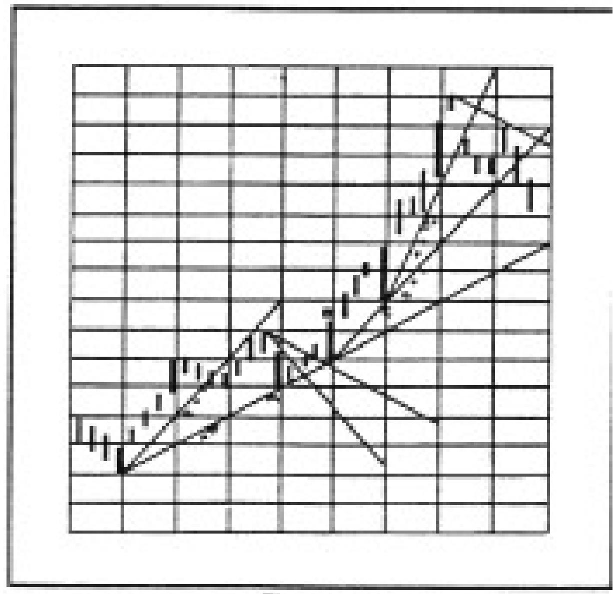


Figure 2

rest on the 45° angle (at point A) bringing price and time back into balance. At point "B" price moves above the 45° angle from the swing high placing the movement in a strong position from the tow (above the 45° angle) and strong position from the high (above the 45° angle from high), indicating a resumption of the uptrend. This is an example of a blow-off movement. Notice how at point "C" price finds the low at the next ascending angle, then again at point "D" on the next higher ascending angle. At point "A", price could have broken the 45° angle but at point NB" if price recovered that same 45° angle and also moved above the 45° angle from the high then the same conclusion would apply.

Figure #3 shows a daily chart of IBM. Notice how the high was precisely against the angle from the low "squaring price and time" and indicating a possible change in trend. There are many ways to qualify that probability is an important high and one of the ways is with the "square of nine" which we will look at a little later in this article.

Figure #4 shows a daily chart of the S&P contract. Notice how the last high is again squared with an angle from the low. This Squaring" occurs 36 days from the low and 72 points up from the low. Those well versed Figure #2 in Gann theory will recognize 36 x 72 as important harmonies of 144 and therefore qualifying that N squaring" as important.

Square of Nine

The square of nine, or spiral chart, is a very valuable tool for trading and forecasting. See Figure #5. It is used as a way to see the vibration of prices in degrees. It has been my experience that 90% of all stock's price swings will fit into these degrees of movement. Look at figure #5. Around the outside of the square of nine are the dates of the year. This circle encompasses a spiral of numbers, the first cycle of numbers ranging from 1 through 9. Notice on the 45 angle running from the center northeast to the date of May 6th are the squares of even numbers: 16, 36, 64, 100, 144, etc. Moving down to the southwest corner are squares of odd numbers: 25, 49, 81, 121, 169, etc. These are "natural" resistance levels but should be confirmed with other indicators. However, some stocks and the Dow Jones Industrial Average are uncanny for hitting significant highs and lows on exact squares of numbers.

There is one other aspect to using the square of nine. It is that the geometric angles can be overlaid on top of the spiral chart (Figure #6). Figure #3 shows an IBM chart where the low was at the 95-6 level. The first important high was at 116 followed by a counter trend move down to 105, then finally a blow-off into the high at 139. I have circled those prices on the square of nine and noted the degrees of movement on the IBM chart. You can also find these degrees of movement mathematically. For instance, to locate a 180 movement, take the square root of the number, add 1, and square the total. To find 360, add 2 to the square root and square that total. Now go back to figure #5 and look at the dark line that cuts across the chart. It starts on August 23rd and ends February 19th. The low on IBM occurred August 23rd (first of the double bottoms) and the high occurred February 19, or exactly 180 in time. Moving 360 in price and 180 in time while "squaring" the high price with the low on the trading day chart gave a probability that 139 on February 19th could be a significant high point

Ancient Geometry

By Bruce T. Gilmore

Geometricity is an apt word coined by market analysts to explain the natural mathematical phenomena that manifests itself within the affairs of men; to wit the speculative markets. Each markets price movement is a graphic footprint, representative of all the independent differing evaluations, the fears and hopes, the seasonal influences, the expectations for the future both rational and irrational, and the underlying cyclical forces generated by past market activity.

Each Market is a dynamic system. Markets vibrate in price and time from highs to lows and lows to highs in minor trends, intermediate trends & primary trends. Each trend of similar degree is the direct effect of an underlying cause. The dominant cause is the constant vibration of numerous cycles at work in any particular complex. These cycles range from short term to long term, each could be equated as a single wheel working within the confines of a larger wheel, ie., wheels within wheels.

Cycles are difficult to identify but their effect is not. Individual market cycles could be compared to the single instruments in an orchestra, the combined result of all the single instruments translates into a harmonic system and it is only the conductor who foresees the final outcome.

There is order within the apparent chaos and chaos with the apparent order. Any dynamic system will always act and react in such a way that it conserves energy wherever possible.

At intervals new shocks may be introduced to any system, but after a time the rhythm will return, as the dominant cycles vibrate and harmonize to conserve energy wherever they can. See Figure 1.

Individual cycles vibrate in harmony and act as the cause - the effect is evidenced in the unfolding trends. Identification of waves of similar degree at the conclusion of each trend, the effect can be measured, ie., mathematical relationships between starting value, points traveled, percentage change, time duration, average points traveled per day or week and the self same factors within all previous trends; all combine to form interlocking relationships that can be identified quickly, and in some cases anticipated well in advance.

THE ANCIENT PHILOSOPHERS

Knowing the cause is one thing, but to identify the effect correctly one has to have a knowledge of the divine canon; the ancient geometry and numerology practiced by the students of Pythagoras and Plato. At first glance this statement might appear esoteric to the layman, but with a thorough explanation and illustration you will easily grasp the significance of this thesis.

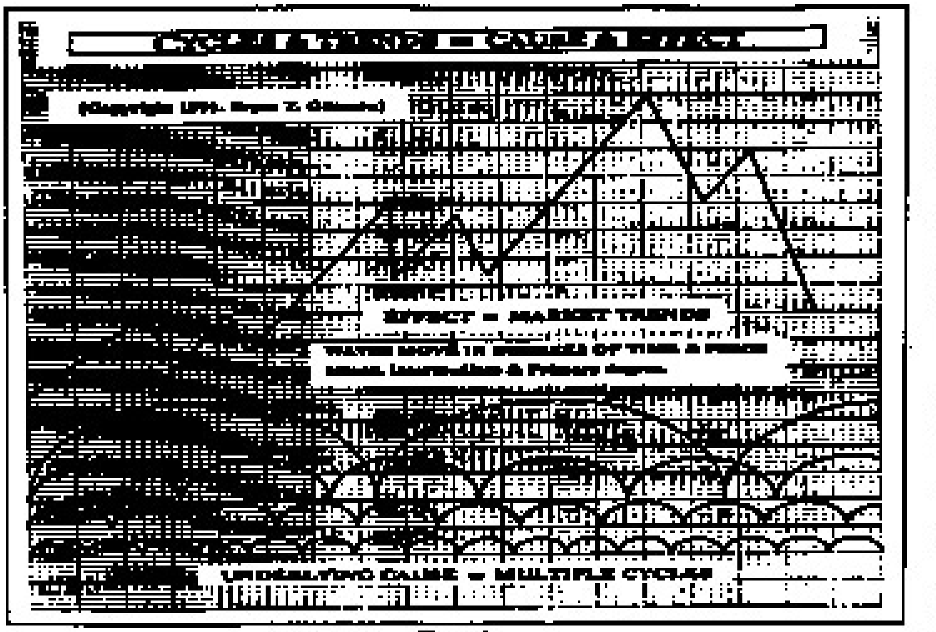


Figure 1

The revelation of this science to the ancient philosophers came from the cosmos. That is, the dimensions of the planets and their cycles can be used to demonstrate the origins of the ancient geometry and numerology that I find so useful in my market analysis work.

The earth and the moon when placed adjacent to each other, and their cardinal points joined together can be seen to represent the exact proportions found in the Great Pyramid Of Giza. The binding relationship between the roots of 1.00, 2.00, 3.00, 4.00, 5.00 and the irrational denominators 1.618 are shown to all maintain binding harmonic relationships. We can see this from the architecture of the great pyramid. See Figure 2.

The radius of the circle 5040 (1080+3960) as a factor of the Earth-s radius 3960 is equal to 5040:3960 or 1.2727:1.000. And 1.272 is the root of 1.618.

SQUARING THE CIRCLE

The great pyramid demonstrates the squaring of the circle using the dimensions of the earth and moon. This geometric exercise leads us to the use of all the ratios contained within the square, cube, golden rectangle, golden triangle and the circle, the sacred canon of proportions. From a single base each proportion can be demonstrated to exist in a strict geometric relationship. See Figure 3.

I don't intend to take this description to the extreme in this presentation as I have demonstrated these relationships in the "Geometry of Markets book. But here are the important ratios one needs to become familiar with when studying the geometric proportions relative to market analysis.

1.000, 1.272, 1.4142, 1.618, 1.732, 1.902, 2.000, 2.236, 2.618, 3.000, 3.142 and the reciprocals of these ratios 1.000, 0.786, 0.707, 0.618. 0.577. 0.526, 0.500, 0.447, 0.382, 0.333 and 0.318 These are only the start in our quest for knowledge but they are the prime ratios of importance.

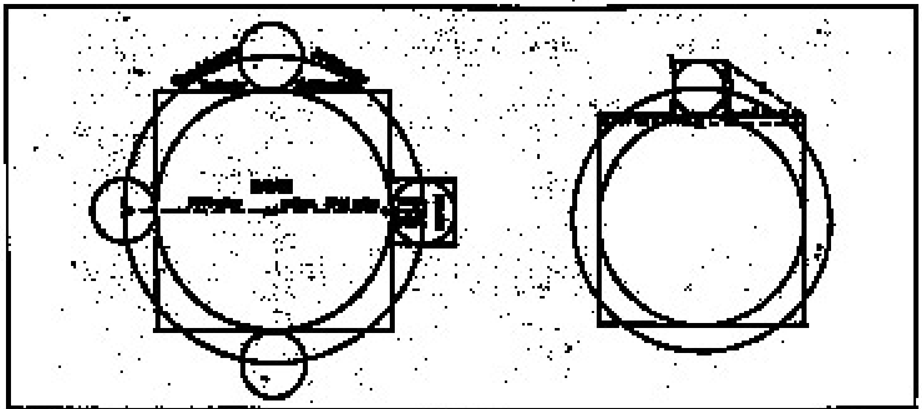
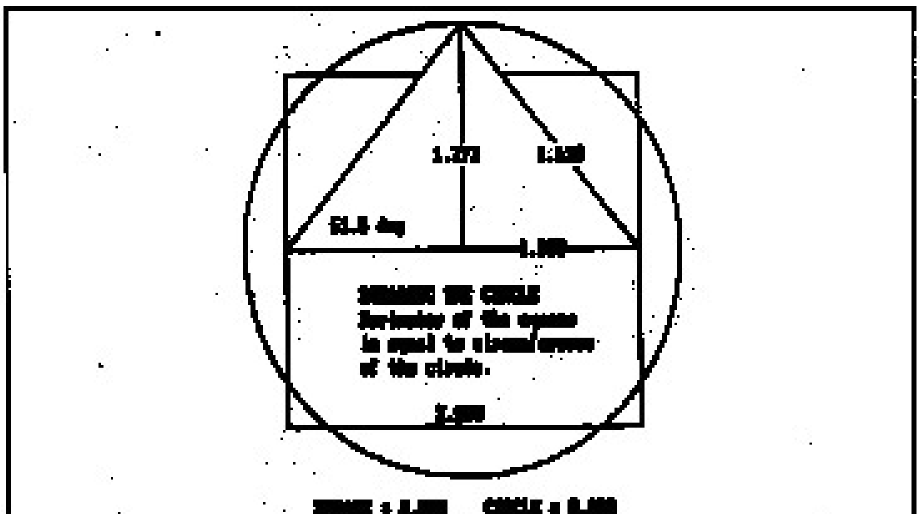


Figure 2



A hypotenuse calculation for a right angled triangle using the 6040 radius of the above circle and half the side of the above square, ie., the radius of the Earth 3960, would give the following result.

Figure 3

Figure 3

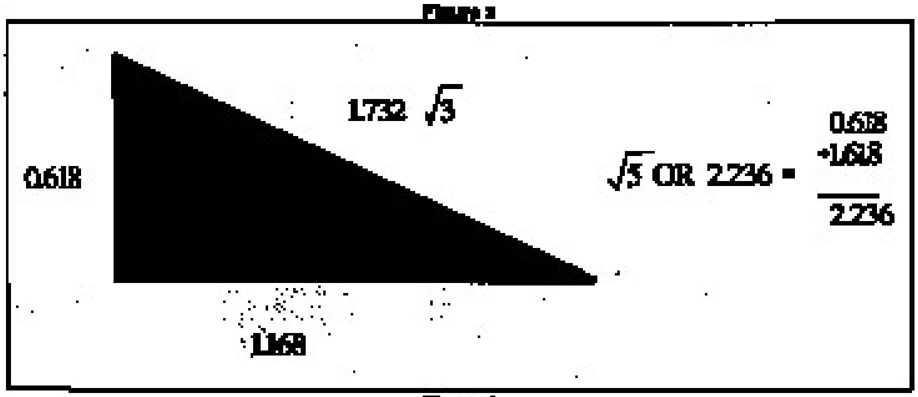


Figure 4

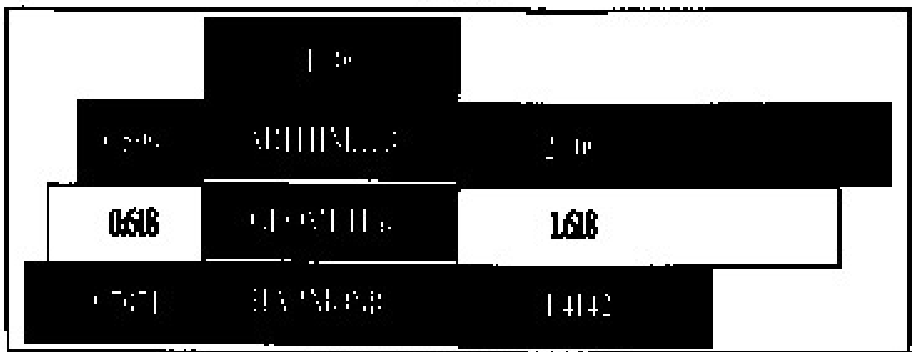


Figure 5 - THE TRINITY OF TRINITIES

ARITHMETIC - GEOMETRIC HARMONIC RELATIONSHIPS

You can demonstrate the relationship between PI and PHI by taking 4 times the reciprocal of PI, ie., 4 x 0.318 1.272 that is the square root of 1.618 PHI.

You can demonstrate how the diagonal ,of a cube, ie., root 3 or 1.732 can be the diagonal of a right angled triangle with sides of 1.618 and 1.618. See Figure 4.

PHI 1.618 and its reciprocal 0.618 added together give you the square root of 5,ie.,2.236. The three most important ratios below 1.000 are the division of unity 0.500, the golden cut 0.618 and the sacred cut 0.707. These ratios represent the reciprocal values of the sacred projections in the trinity of trinities, ie., the Arithmetic 1.000:2.000, Geometric 1.000:1.618 and Harmonic 1.000:1.4142 proportions of unity. See Figure 5.

THE TRUTH IS IN THE EXPERIENCE

For the purpose of this demonstration I will stop at this level and show you some divisions of price in time that unfolded in the Comex Gold futures between the low of 1985 the high of 1987 and the 1990 bear market low.

In the continuous December contract the expansions throughout the bull phase all related to the first impulse in strict geometric divisions. The low $301.50 squared to the high $502.30 at 66.6% increase in value. The high $502.30 (871214) was 1022 days and 1005 degrees (360 degrees per year) from the low. $502.30 by 2.000 - 1005. prices squared to time. See Figure 6.

1 ST MONTH FUTURES - COMEX GOLD

The 1985 low fell at $281.20 on the 25th February 19855. The 1987 high terminated at $502.30 on the 14th December, 1987.

From low to high the market increased in value 78.63%. This means that the low price $281.20 plus 0.7863 times $281.20 added up to $502.30. 0.786 is the reciprocal of 1.2272 (square root of 1.618) and 0.786 0.618. 1.272 is the ratio of the height in the Great Pyramid to half its base. ie., the height of the apothem (mid section as per squaring the circle diagram).

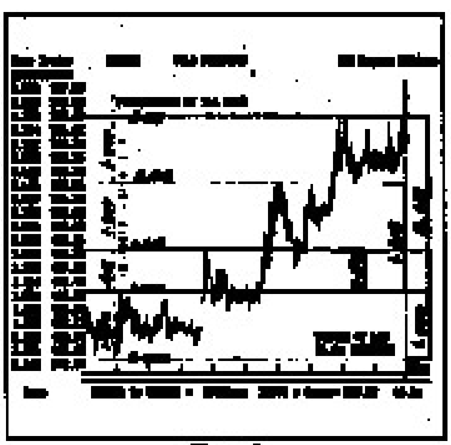
Trend reversals or corrections to the bear market began at precise retracement levels of the preceding bull market range. I have illustrated the 50%, 66.6% and the 70.7% levels.

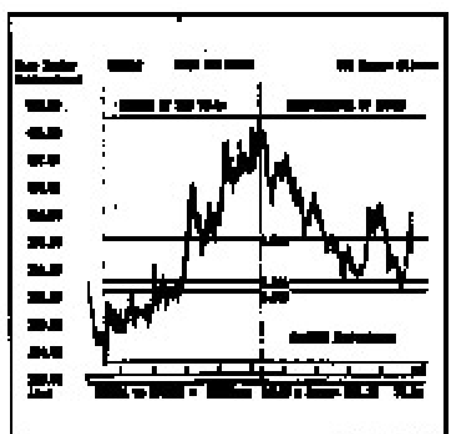
For the bear market range from the 1987 high $502.30 to the low of 14th June, 1990 at $346.00 we had a decline of $156.30, -31.12%, in value which took 2.5 years exactly which was 901 degrees. 10 times Gann's square of 90. The 14th June, 1990 was also 5041 days from the $100 low in 1976. 5040 is the combined distance of the radii of the moon and the earth. This number is often referred to as Plato's mystical number. 5040 is also 720 weeks. 720 is Gann's master number. See Figure 7.

The dynamics of the price range relationships were the most amazing. The 14th June 1990 low fell on the sacred cut of 0.707 (the reciprocal of root 2). Rise in the bull market $221.10, decline in the bear market $156.30. 156.30:221.10 as 0.707:1.000.

The 15th September, 1989 low fell on the 0.666 in arithmetic means of 1.000, ie., 1.000:2.000 as 0.333:0.666. The 26th September, 1988 low fell on the 0.500 retracement.

From the 26th September, 1989 low (0.500) the market made a 38.2% retracement to the total decline. Then from the 15th September, 1989 low (0.666) the market rallied $70 in 143 days and from the 14th June. 1990 low (0.707) the market rallied $70 in 70





days. ie., $1.00 per day average to a point where it squared $0.618 per week with the 1987 high. See Figure 8.

When you review the dynamic relationships formed between the waves in the decline and the dynamics of the relationships to the previous bull market you would have to ask yourself the question. "How could a RANDOM market be so precise?" The answer is "markets are not random".

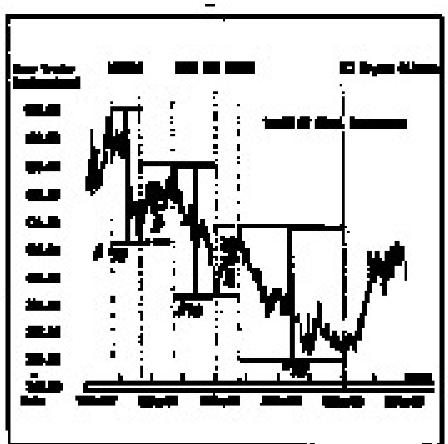


Figure 9

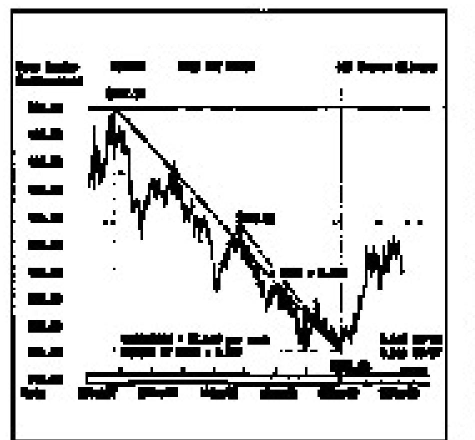


Figure 10

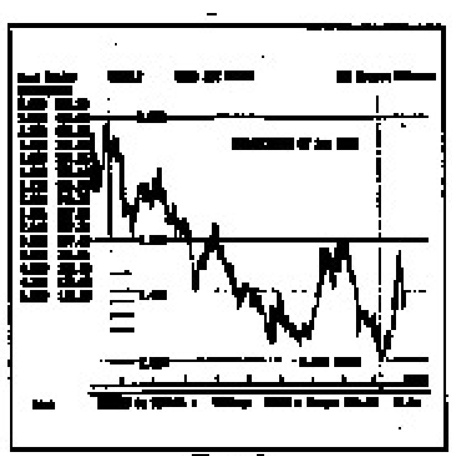


Figure 8

SEPTEMBER, 1989 LOW $355.10
PRIOR TO A BEAR MARKET RALLY

These examples are only a small part of the complete package but I think they are ample enough to illustrate my point. Nothing in nature occurs through chance, each system of market dynamics works out time and price in relationship to some previous experience. See Figures 9 & 10.

Our goal as market analysts is to endeavor to identify and quantify the components of past markets so that we can anticipate the future.

A thorough knowledge in the laws of ancient geometry and numerology will be the only reliable means. The combination of mathematics together with an understanding of cycles & market momentum will act as a filter when evaluating the relative importance of time, price & space signals within markets.

I am going to leave you with an example which will either inspire you to a greater effort in your quest for market understanding or convince you that you might as well forget the whole thing. See Figure 11. I only say this in jest, but if you are not prepared to forget the fantasy and only deal in hard core facts the door will never open for you.

Bryce Gilmore is author of the book Geometry of Markets and developer of the software program the Wave Trader Professional Time and Price Analysis Program. Gilmore s products are distributed exclusively by Gann / Elliott Educators, 6336 N Oracle, Suite 326-151, Tucson, AZ 8S704 (602) 797-3668

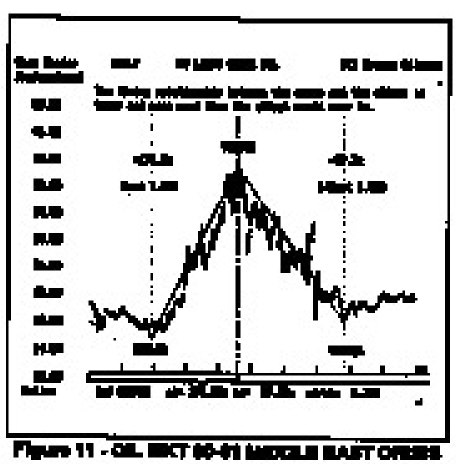


Figure 11 - OIL MKT 90-91 MIDDLE EAST CRISIS

I am going to leave you with an ex-

Neural Systems

By Lou Mendelsohn

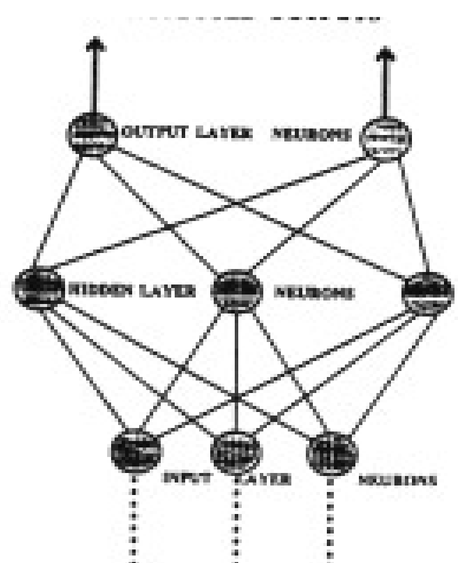
Artificial neural systems are information processing models which mimic how the human brain processes information. Unlike conventional, rule-based technical trading systems popular in the 1980s, neural systems do not need Redefined trading rules or "optimization" of technical indicators to generate trading signals. Instead, through an iterative "training" process, neural systems "learn" the underlying associations and causal relationships within technical, as well as fundamental, data affecting a specific stock's or commodity's price. Then, with a high degree of accuracy, neural systems can forecast future prices and trading signals for that market.

Artificial neural systems are also called neural networks, neural computers, adaptive systems, naturally intelligent systems, or neural nets. They are modeled after the structure and function of the brain. Because they can generalize from past experience, neural systems represent a significant advancement over rule-based trading systems, which require a knowledgeable expert to define "if-then" trading rules to represent market dynamics.

It is practically impossible to expect that one expert can devise trading rules which account for, and accurately reflect, volatile and rapidly changing market conditions. Inflexible, rule based systems simply are not dynamically adaptive, despite periodic reoptimizations of a system's indicators.

While today's trading systems, utilizing historical optimization procedures, risk becoming "over-optimized" or "curve-fitted" when too many technical indicators or rules are employed, neural systems gain in predictiveness as more data inputs are used during training. However, it's not as easy as it sounds.

Developing a profitable neural trading system is very much an art and not a science that can be followed cookbookstyle. There are many serious design issues that must be addressed when developing and training a neural trading system, if it is to be predictive, and most importantly, profitable.



Typically, neurons within a layer do not connect to each other. Neurons between layers communicate with one another by having specific mathematical weights (or connection strengths) assigned to their connections.

For example, you may want to develop a trading system to predict the next day's Treasury Bond prices. Designing the appropriate architecture for your neural system is quite exacting, with more than a dozen different neural designs available. One type of neural system that I have used extensively for financial forecasting applications is known as a "feedforward", "back propagation" system with "supervised learning".

Before training, the neural system has a "blank mind". Then you provide the system with an extensive amount of intermarket technical data related to TBonds, including various currencies, Eurodollars, the U.S. Dollar Index, the S&P 500, as well as fundamental data such as the Fed Funds rate. Neural systems carry the concept of "intermarket analysis" to its logical conclusion by being able to mathematically analyze and weigh the relative impact that each input market has on the predictiveness of the system.

These inputs must be preprocessed or "massaged using various statistical procedures, in order to meet the system's training requirements. Then they are paired with actual daily prices on Treasury bonds (the desired output). It is critical that the system's architecture, learning method, input data, outputs, and massaging techniques are judiciously selected in order for the system to train properly.

Learning is accomplished through a complex, mathematical, iterative process whereby the neural system is "trained" on the input data using statistical error analysis.

During training, whenever the system's projections are incorrect, the connection weights between neurons are modified to minimize such errors during subsequent iterations. Each input/output pair of data is called a fact. The system learns by having these error signals propagate backwards through the neuronal layers to prevent the same error from happening again each time a fact is George Lindsay's technique applied.

Dow Topped?

By Jerry Favors

George Lindsay examined in depth every Bull and Bear Market for the last 150 yeas, and categorized each Bull and Bear Market according to certain basic time spans. Lindsay found that the Bull Markets (or as Lindsay referred to them, Basic Advances) all tended to fit into certain time spans. Those time spans for these Basic Advances (Bull Markets) were labeled:

Subnormal...running between 414 and 684 calendar days

Short running between 704 and 739 calendar days

Long running between 770 and 822 calendar days

Extended running between 930 and 991 calendar days

Once a Basic Advance (or Bull Market) ends a Basic Decline (or Bear Market) must begin immediately. The only time this rule does not apply is when a "Sideways Move" (as Lindsay referred to them) occur. There have been occasions after the peak of a Basic Advance when the Dow, instead of beginning a Bear Market, moves down sharply, then moves back up near the old high or slightly higher. The Bear Market then begins in earnest from that second high. Chart #1 illustrates the 3 variations of these "Sideways Moves." Point A is always the prior Bull Market high. From that point the market first sells off very strongly, as you would typically expect at the beginning of a Bear Market. However once we reach the bottom at point B the market begins another rally which carries back up near or above prior Bull Market high, and peaks at point E. Notice the rally from point B to point E in each case unfolds in 3 waves (similar to a B wave in Elliott Wave terminology). Once the top at point E is reached the Bear Market begins in earnest. Keep in mind that the top at point A represents the peak of the Basic Advance, even though the actual highest price reached may not come until point E. In any case, the sideways movements are then followed by severe Bear Markets, and the next Basic Decline (Bear Market) is counted from the peak at point E. For instance, according to Lindsayss work a Basic Advance ended on May 14, 1965 at 944. The Dow should have begun a Basic Decline, or Bear Market, from that point.

The Dow did decline sharply from the May 14 top, as if the Bear Market had begun. The decline continued down to a low of 832 intraday on June 29, 1965. However the Dow then turned up and rallied to a new all-time high of 1001 on February 9, 1966, and the Bear Market began in earnest from there. In this case point A was the 944 high of May 14, 1965. Point B was the low of 832 on June 29, 1965. Point E was the February 9, 1966 all-time high of 1001. Now let us examine how the above discussion applies to our current position.

An Extended Basic Advance ended August 25, 1987. When an extended Basic Advance ends, the Basic Decline does not begin immediately, but at the top of the "right shoulder." Once any Bull Market ends, there is first a sharp decline, and then an attempt to regain the high (wave 2 or B in Elliott terms). That rally which tests the highs is the right shoulder After the

May 19,1988, two days early. This date also corresponded with the next Monthly Chart low after the 1987 crash. The Basic Decline ended there, and the Bull Market began in earnest from that point. Another Important rule to remember in regard to these Basic Advances and Declines is that in all market history there have never been 2 consecutive "Extended Advances" (Bull Markets lasting 930 to 991 calendar days). Since the 1984 to 1987 Bull Market leg was extended, the Bull Market leg from May 19, 1988 could not be extended, so it could not last as long as 930 days from May 19, 1988. This meant the Bull Market from May 19, 1988 had to be either Subnormal (414 to 684 days), Short (704 to 739 days) or Long (770 to 822 days). Once 739 days had elapsed from May 19, 1988 (or May 28, 1990) there was no question but that the Bull Market had to be Long", or 770 to 822 days. The high of 3025 intraday came on July 17, 1990. This was exactly 789 days from the Basic Low of May 19, 1988, and near the average duration of a Long Basic Advance. There is no question but that a Basic Advance ended on July 17, 1990, and a Basic Decline should have begun from there. We actually postponed the exact day of the Elliott Wave high, and stated on our hot-line that a major Bear Market should begin from that point. The Dow collapsed 681 points from July 17, 1990 to October 11, 1990, a period of 86 days. If you examine the table of Basic Declines you will find that there has never been a Basic Decline lasting for 86 days, so there was no way a Basic Decline could have bottomed on October 11, 1990, despite the severity of that collapse. What we did not count on however, was the "Sideways Movement" discussed earlier. These "Sideways Movements" almost always occur at the end of a Bull Market, or Basic Advance. If you examine the patterns for sideways movements on chart #1, you will see they always begin from what appears to be a Bull Market too. There is first a sharp decline, as we saw from July 17, 1990 to October 11, 1990. October 11, 1990 is point B on the chart. There is then a sharp rally to point C, which in this case is the December 1990 high. After point C there must then be a very sharp decline, which is deeper than a mere "technical reaction." That was the decline from December 21, 1990 to January 14, 1991. That January 14 1991 low becomes point D, and the rally to the final high at mint E begins from there. The Basic Decline, or Bear Market begins from point E. We are in a Sideways Movement right now and should be near the peak of mint E, as I will attempt to make clear later in this letter. Once that point E peak is in, the Bear Market will begin in earnest.

One might conclude that these Sideways Movements would make this theory of Basic Advances and Declines difficult to apply. However in the last 150 years there have only been 6 of these long Sideways Movements. Each occurred at the end of a Bull Market, and each was followed by severe Bear Markets. The Dow Jones began in 1897, and since then there have been 5 sideways movements as follows:

In fact if you examine each of the Basic Advances on chart #3, you will see that most of these Basic Advances ended exactly on the price highs, as you would expect them to These Sideways Movements are somewhat more difficult to time, since they have not been of uninformed duration. However Lindsay stated that the maximum duration of a Sideways Movement has been about 329 days. If we count 329 days from the mint A top of July 17, 1990, we arrive at Rune 11, 1991 as a probable maximum target area for the final high. The Bear Market would begin in earnest from that point.

This theory of Basic Advances and Declines is fascinating, and one of the most accurate methods of forecasting the stock market I have yet encountered.

(1) 1/19/1906 to 9/17/1906 (2) 12/27/1915 to 11/21/1916 (3) 9/03/1929 to 4/16/1930 (4) 4/06/1956 to 8/02/1956 (5) 5/14/1965 to 2/09/1966 to explain the theory in detail, but those of you who are interested will find it explained in Lindsay's "Counts from the Middle Section". A

(1) 1/19/1906 to 9/17/1906
(2) 12/27/1915 to 11/21/1916
(3) 9/03/1929 to 4/14/1930
(4) 4/06/1936 to 8/02/1936
(5) 5/14/1965 to 2/09/1966

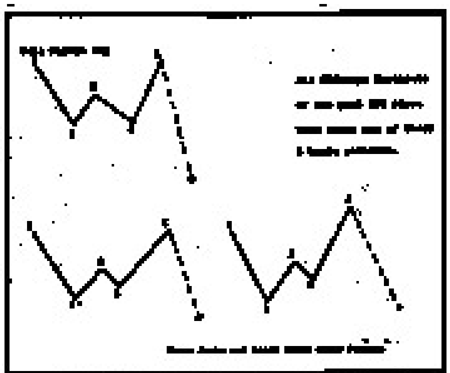


Chart #1 START OF A BEAR MARKET

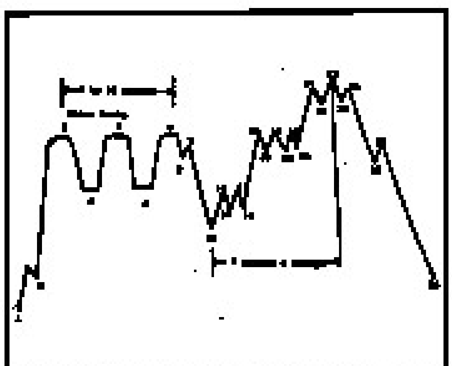


Chart #2 THREE PEAKS AND DOMED HOUSE

collection of Lindsay's best articles have been put together in a book by special permission ot Investor's Intellegence. The book is 98 pages and is available in the Trader's World Catalog for $19.95 in the back of this magazine.

GEORGE LINDSAY'S "BEST SHORT TERM INDICATOR"

Lindsay's favorite short term indicator was his own method of interpreting the daily advances and declines. Most investors are familiar with the daily Advance/Decline Line. To compute the Advance/Decline Line you start with some arbitrary number and if the advances for the day outnumber the declines, you add the net advances (Advances minus declines - net advances) to that prior number for your new Advance/Decline Line number. If declines outnumber advances you subtract the net declines for the day from your Advance/Decline Line for the most recent plot. What you have then is a cumulative Advance/Decline Line that moves up or down each day. The theory is that if the Dow moves to a new high or low unaccompanied by a new high or low in the Advance/Decline Line a top or bottom is indicated. Anyone using this technique for any length of time will find that it is not especially useful. For instance, the Daily Advance/Decline Line peaked on August 8, 1989, with the Dow at 2699. The Advance/Decline Line continued to make lower tops, while the Dow rose 300 points over the next 11 months. Divergences of 11 months and 300 points are not especially useful to traders or investors. Lindsay did not use this Daily Advance/Decline Line at all. What he did was each day record the net advances or net declines for the day. For instance, if there were 1000 advances for the day and 500 declines, the net advances would be +500. If there were 1000 declines and 500 advances, the net declines for the day would be -500. Each day Lindsay would the net advances or the net declines for the day, not the cumulative Advance/Decline line. Lindsay also stated not to use any moving averages of this daily data, since they merely obscured the fine, important points shown by the raw numbers themselves. In interpreting these numbers there are 2 basic patterns you should be aware of. Those patterns are illustrated in Chart

This chart shows the basic patterns for a Sell Signal or a Buy Signal from this indicator To get a true Sell Signal we need to see a downward zigzag of at least 3 points in this A-D Indicator. For instance, point A might be a net of +1000 advances; point B would be say +800 net advances, and point C +500 net advances. While the A-D Indicator is tracing out this downward zigzag of at least 3 points, the Dow is creating an upward zigzag of at least 3 points. So at point A when we have +1000 advances, the Dow closes at 2900. At point B. with +800 advances the Dow closes at 2950. Note the Dow closes higher at point B. but the net advances that day were less than the + 1000 figure at point A. Finally at point C, we only have +500 advances, but the Dow closes at 3000. Here we have our required pattern of a downward zigzag of at least 3 points, accompanied by 3 higher closes in the Dow. This is the Sell Signal. To be precise, for a true Sell Signal to be given the Dow must record both a new hourly and a new closing high for that move (not necessarily a new Bull Market high) on the same day as one of the 3 points, A, B. or C in the A-D Indicator For instance, at point A on the A-D Indicator the Dow must also reach a new hourly high and a new closing high on the same day. Below the Sell Signal pattern we show the Buy Signal . To get a Buy Signal we need only to see a low at post A in the A-D Indicator followed by a higher low at point B. For instance, suppose at point A we see -800 declines, with the Dow closing at 2900. A few days later the Dow closes at 2850, but at point B there are only -500 net declines. This is a Buy Signal. Note we only need two points for a Buy Signal, while we need 3 points for a Sell Signal. Now let's see how this theory applies in reality. On May 29, 1990 the Dow Jones closed at 2870. That day there were 673 net advances for the day. That day was point A on the chart. On June 4, 1990 the Dow closed at 2935. On that day to explain the theory in detail, but those of you who are interested will find it explained in Lindsay's "Counts from the Middle Section". A collection of Lindsay's best articles have been put together in a book by special permission ot Investor's Intellegence. The book is 98 pages and is available in the Trader's World Catalog for $19.95 in the back of this magazine.

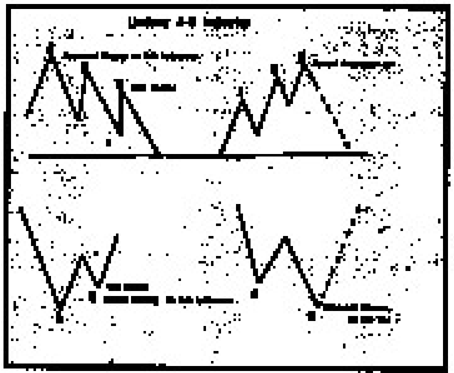


Chart 0 LINDSAY A-D INDICATOR

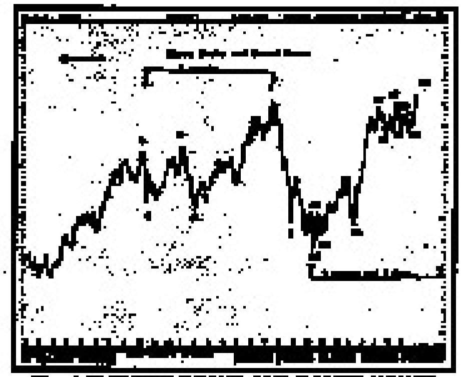


Chart 00 THREE PEAKS AND DOMED HOUSE

vance/Decline Line at all. What he did | closes higher at point B, but the net

GEORGE LINDSAY'S "BEST SHORT TERM INDICATOR"

Lindsay's favorite short term indicator was his own method of interpreting the daily advances and declines. Most investors are familiar with the daily Advance/Decline Line. To compute the Advance/Decline Line you start with some arbitrary number and if the advances for the day outnumber the declines, you add the net advances (Advances minus declines - net advances) to that prior number for your new Advance/Decline Line number. If declines outnumber advances you subtract the net declines for the day from your Advance/Decline Line for the most recent plot. What you have then is a cumulative Advance/Decline Line that moves up or down each day. The theory is that if the Dow moves to a new high or low unaccompanied by a new high or low in the Advance/Decline Line a top or bottom is indicated. Anyone using this technique for any length of time will find that it is not especially useful. For instance, the Daily Advance/Decline Line peaked on August 8, 1989, with the Dow at 2699. The Advance/Decline Line continued to make lower tops, while the Dow rose 300 points over the next 11 months. Divergences of 11 months and 300 points are not especially useful to traders or investors. Lindsay did not use this Daily Advance/Decline Line at all. What he did was each day record the net advances or net declines for the day. For instance, if there were 1000 advances for the day and 500 declines, the net advances would be +500. If there were 1000 declines and 500 advances, the net declines for the day would be -500. Each day Lindsay would the net advances or the net declines for the day, not the cumulative Advance/Decline line. Lindsay also stated not to use any moving averages of this daily data, since they merely obscured the fine, important points shown by the raw numbers themselves. In interpreting these numbers there are 2 basic patterns you should be aware of. Those patterns are illustrated in Chart

This chart shows the basic patterns for a Sell Signal or a Buy Signal from this indicator To get a true Sell Signal we need to see a downward zigzag of at least 3 points in this A-D indicator For instance, point A might be a net of +1000 advances; point B would be say +800 net advances, and point C +500 net advances. While the A-D Indicator is tracing out this downward zigzag of at least 3 points, the Dow is creating an upward zigzag of at least 3 points. So at point A when we have +1000 advances, the Dow closes at 2900. At point B. with +800 advances the Dow closes at 2950. Note the Dow closes higher at point B. but the net advances that day were less than the + 1000 figure at point A. Finally at point C, we only have +500 advances, but the Dow closes at 3000. Here we have our required pattern of a downward zigzag of at least 3 points, accompanied by 3 higher closes in the Dow. This is the Sell Signal. To be precise, for a true Sell Signal to be given the Dow must record both a new hourly and a new closing high for that move (not necessarily a new Bull Market high) on the same day as one of the 3 points, A, B. or C in the A-D Indicator For instance, at point A on the A-D Indicator the Dow must also reach a new hourly high and a new closing high on the same day. Below the Sell Signal pattern we show the Buy Signal pattern. To get a Buy Signal we need only to see a low at post A in the A-D Indicator followed by a higher low at point B. For instance, suppose at point A we see -800 declines, with the Dow closing at 2900. A few days later the Dow closes at 2850, but at point B there are only -500 net declines. This is a Buy Signal. Note we only need two points for a Buy Signal, while we need 3 points for a Sell Signal. Now let's see how this theory applies in reality. On May 29, 1990 the Dow Jones closed at 2870. That day there were 673 net advances for the day. That day was point A on the chart. On June 4, 1990 the Dow closed at 2935. On that day there were net advances for the day of +628. Notice the Dow closed 65 points higher but on that same day there were 45 fewer advances than on May 29. June 4, 1990 then becomes point B. Remember a true Sell Signal requires 3 points, so we still need to see one more new high on less than 628 net advances. On July 12, 1990 the Dow closed at 2969. On that same day there were 442 net advances for the day. Here we have the third lower top in the A-D Indicator, on the third higher top in the Dow. When the net advances turned down on July 13, we had our Sell Signal. The final high came 2 days later at 2999 on a closing basis. The Dow then collapsed 634 points, to a low of 2365 on October 11, 1990. Not a bad Sell Signal! Let's now examine each Sell Signal for the last few years. On August 24,19/9 Sync were 82 net advances for the days with the Dow closing at 2734. This was point A. The Dow closed at 2754 onOctober 3, 1989, however on that day there were only 487 net advances. Again notice the Dow closed higher on a lower peak in the net advances. However we still need a third lower peak for a valid Sell Signal. The Dow reached a new high of 2785 on October 6, 1989, however on this day there were only 133 net advances. There were your three lower peaks, and the Sell Signal was given the next trading day, on October 9, 1989. The Dow closed at 2809 on October 9, 1989, and forthose of you who don't remember, what followed was the Mini-crash of 1989." The Dow fell 32 points the next two days, then crashed 190 points in one day on October 13, 1989. Once again, the A-D Indicator gave a near perfect Sell Signal. The Sell Signal before that came earlier that same year. The Dow closed at 2439 on May 12, 1989, with 854 net advances that day. This became point A. The Dow rallied to a new reaction high of 2517 on June 2, 1989, with 703 net advances. Again notice the 703 net advances of June 2 was lower than the.854 net advances of May 12, even though the Dow Jones closed higher. Finally, the Dow closed at 2531 on June 23, 1989. That day there were only 637 net advances, so once again we have a Sell Signal. The Dow peaked that same day, then fell 91 points on a closing basis. Finally the only Sell Signal before that occurred in July 1988. The Dow closed at 2102 on June 8, 1988, with 1007 net advances. This again was point A. The Dow closed higher, at 2152 on June 22, 1988, with only 731 net advances. Still we need one more new reaction high or less than 731 net advances for a Sell Signal. This occurred on July 5, 1988, with the Dow closing at 2158. That day saw only 411 net advances, and marked our third lower peak, and a Sell Signal. The Dow peaked that same day then fell 169 points to a low of 1989 on August 23, 1988. As you can see, each of these recur often. For instance at the February 1966 high the time from the point 10 low to the Bull Market high was exactly 7 months and 12 days. The time from the point 10 low to the Bull Market high on January 5, 1953 was 8 months and 4 days. The time from the point 10 low in 1916 to the November 21, 1916 Bull Market high was 1 day shy of exactly 7 months. The point 10 low in 1990 occurred on October 11, 1990, so we would look for a point 23 Bull Market high in May or Tune of 1991. Ideally what we now need to see is a pullback lasting a day or so to point 22, and then a final rally to a new high, with that new high being point 23, the Bull Market high. The precise day of the top is better pinpointed with other tools, however the most important point to remember is Lindsay's rule, that in all market history there has never been a case when the entire gain in the Domed House was not totally retraced. The Domed House began a point 10 on October 11, 1990, at2344 intraday. This would call for a decline below that level at a minimum once the top was in. We suggest you examine the prior Three Peaks and Domed House patterns to prove to yourself that every case was followed by a major decline below the bottom of the prior point 10.

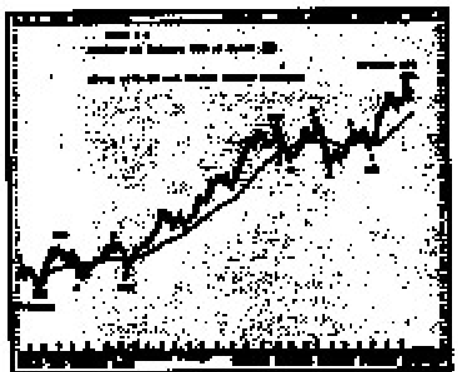


Chart #4 OUTLINE OF PRIMARY II OF CYCLE II

there were not advances for the day of

SUMMARY AND CONCLUSION

All of our work points to a final Bull Market high in early to mid-June at the latest. However there are other, many other, techniques calling for a major top right in this time frame. Lindsay says that nearly every Bull Market top has been timed by a Top-to-Top count. To apply this we take the closing low between two tops and add 107 calendar days. The result should be another important top. The time period can range from 102 to 113 days. We used a top-to-top count to time the April 18 highs last month. The next top-to-top count would be measured from the closing low of February 14, 1991. If we are measuring from a clear double top in the averages, we count the time from the closing low between those two highs. However if there is no clear double top (or a head and shoulders for nation) we count from the closing low of the last dip on the way up to the high. For instance, we stated earlier this year that the top-to-top counts indicated another possible top near mid-April. That key date here was the closing low of the last did up to the high in December 1991. The key date was December 24, 1990. If we add 107 days from that point we arrive at a target of near April 10, 1991. The time frame can range from as little as 102 to 113 days. April 17 was 114 days from the December 24, 1990 key day. The next key date is now February 14, 1991, again the last closing low before the high. If we add 107 days to February 14, we arrive at a target of June 1, 1991. Since June 1 is a Saturday our target date becomes June 3. Since the time can range from 107 to 133 days, a top is likely between June 3 and June 7, 1991. Another top-to-top count can be taken from the low of 2866 on February 26. If we add 107 days to that date we arrive at a June 13, 1991. Since the time can be as little as 102 days, we would look for a possible top near June 7. These two top-to-top counts point to a probable top in early to mid-June. Now for a top-to-top count to be valid, they must be verified by the low-to-low-to-high counts. This technique was also explained in our April 28 letter. To use this method we count the number of days from one low to another low. We then count that same number of days from the second low to arrive at a target date for a top. We also used this technique earlier this year to arrive at a target of April 19th days for a top, and the top came in on April 17 intraday, and April 18 on a print basis. Now if we count the number of days from the March 21 closing low to the April 29 low, we arrive at 39 days. If we add 39 days to April 29, we arrive at a target date for top near June 8, 1991. If we count from the April 29 low to the May 15 low we arrive at 16 days. If we add 16 days to the May 15 low we arrive at a target date near May 31, 1991 to early June. We would prefer to have more than 2 low-to-low-to high counts pointing to the early June time frame. We do show Trend Change Dates for early June due near the following dates: June 3 and June 7.

Our position remains that the Dow Jones is creating a major secular Bull Market top, with the final top most likely now in the first or second week of June. That top will be followed by the worst decline since the 1987 crash, with our downside target still near 1500 to 1600 in the Dow. If the patterns continue to operate as they have in the past, the Dow should lose nearly 50% of Its value from the intraday high seen in early to mid-June. A short term low will be due the first week of July 1991, with a more important bottom likely near October 4th day.

This article was reprinted from The Jerry Favors Analysis Newsletter by permission from Jerry Favors. It was not reprinted in its entirety due to space limitations in this magazine. Jerry Favors is the author and publisher of this excellent newsletter and can be reached at 7238 Durness Dr., Worthing, OH 43235. (614) 848-8177. Also see Trend Analysis Software advertised in this issue.