"Personality of Markets Theory"
OmniTrader's Technical Analysis Method

By Ed Downs

The Personality of Markets Theory in a nutshell says that individual securities exhibit individual personalities. If you can pinpoint a security's personality, and apply the right trading system for that personality, you can predict its next move...and make money.

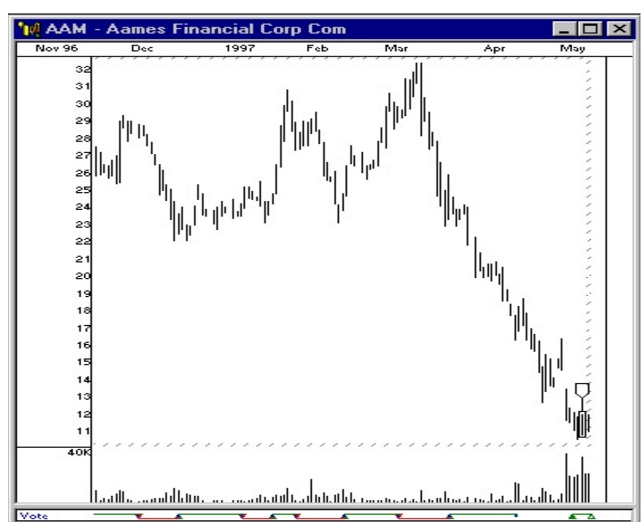
The easiest way to see how the Personality of Markets theory works is by looking at the futures market. Futures personalities are much more consistent because they are often based on supply and demand. If you look at a chart for live hogs, you will see that there is a lot of volatility, with wild swings between high and low points. That's the nature of the hog market -- its personality. At the other extreme is the currency market. Here, you see long, steady trends. There aren't a lot of surprises in this market. Its personality is stable, even boring.

The two most common types of market personalities are trending personalities, as seen in the currency market, and trading range personalities, as seen in the live hog market. Gapping personalities are also found in volatile stocks.

So, what causes these different personalities to develop? Price moves occur because of what people do. And, human nature says that people tend to be rather predictable. Furthermore, the same people make up a large portion of the market. So, the traders who liked a stock last week and are selling it this week, will probably like it again next week. Again, human nature says that once you've traded a security and either made a good move, or missed a move, you will look for another opportunity to try again. Also, different types of people are attracted to different types of securities.

Technical analysis is the art of measuring these repeating patterns of human behavior in order to predict future behavior and the resulting price action. By looking at the past behavior of the market, traders have observed certain patterns and created trading systems based on those patterns. You can use these systems to predict what will happen next in the market or in a particular security.

The problem is that there have been hundreds of trading systems developed; all of



which work well as long as the market is exhibiting the personality for which the system was designed.

So, what's a trader to do? Ten years ago, when I founded Nirvana Systems, Inc. that was the question that challenged me. I answered it with OmniTrader. (Nirvana Systems released the first version of OmniTrader in 1994 and this spring, we released Version 3.0. OmniTrader, the only completely automated technical analysis software program, isolates the personalities of individual securities, then generates buy and sell signals based on that information.

Over 100 proven trading systems are built-in to OmniTrader. OmniTrader isolates personality by testing every system against the securities you select, over a backtest period (typically one year). Let's say five of those systems proved profitable over the test period. The likelihood of one of those systems producing a profitable signal tomorrow is very high. That doesn't mean that you'll only use those five systems from now on, however. The key to OmniTrader is that you're looking at a relatively short trading period. Because OmniTrader works so fast, you can easily retest the security or securities on a daily or weekly basis for new buy and sell signals.

The next step for the profitable trader is to look at the security's chart to see if the personality of the backtest period is similar to what is being exhibited today. This is very easy to recognize. If a security has been in a trading range personality for months, the buy or sell signal is based on that personality. If the security has recently taken off on an upward trend, it is now exhibiting a different personality. The stock is obviously violating its backtest period and you should not trust the signal.

It's important to note that OmniTrader is not a new "trading system." It's best to think of it as a completely automated "opportunity generator." You don't need to tweak it or tune it. Just select the securities you want to test, let OmniTrader run, then look at the resulting signals on the Focus List. Verify the personalities of the most promising securities by looking at the charts. The whole process takes just minutes a day. And, it works. Our users typically report that over 70% of their trades are accurate using OmniTrader.

Nirvana Systems is continuing this concept with new developments we will be announcing this year.

Attachments: two screen shots of OmniTrader charts. One shows a security exhibiting a trending personality. The other shows a security exhibiting a gapping personality. Both stocks are similar in time frame, price, and volume. The primary difference is their unique personalities.

Ed Downs is founder and CEO, Nirvana Systems, Inc.

Forecasting
The Power of Ranges

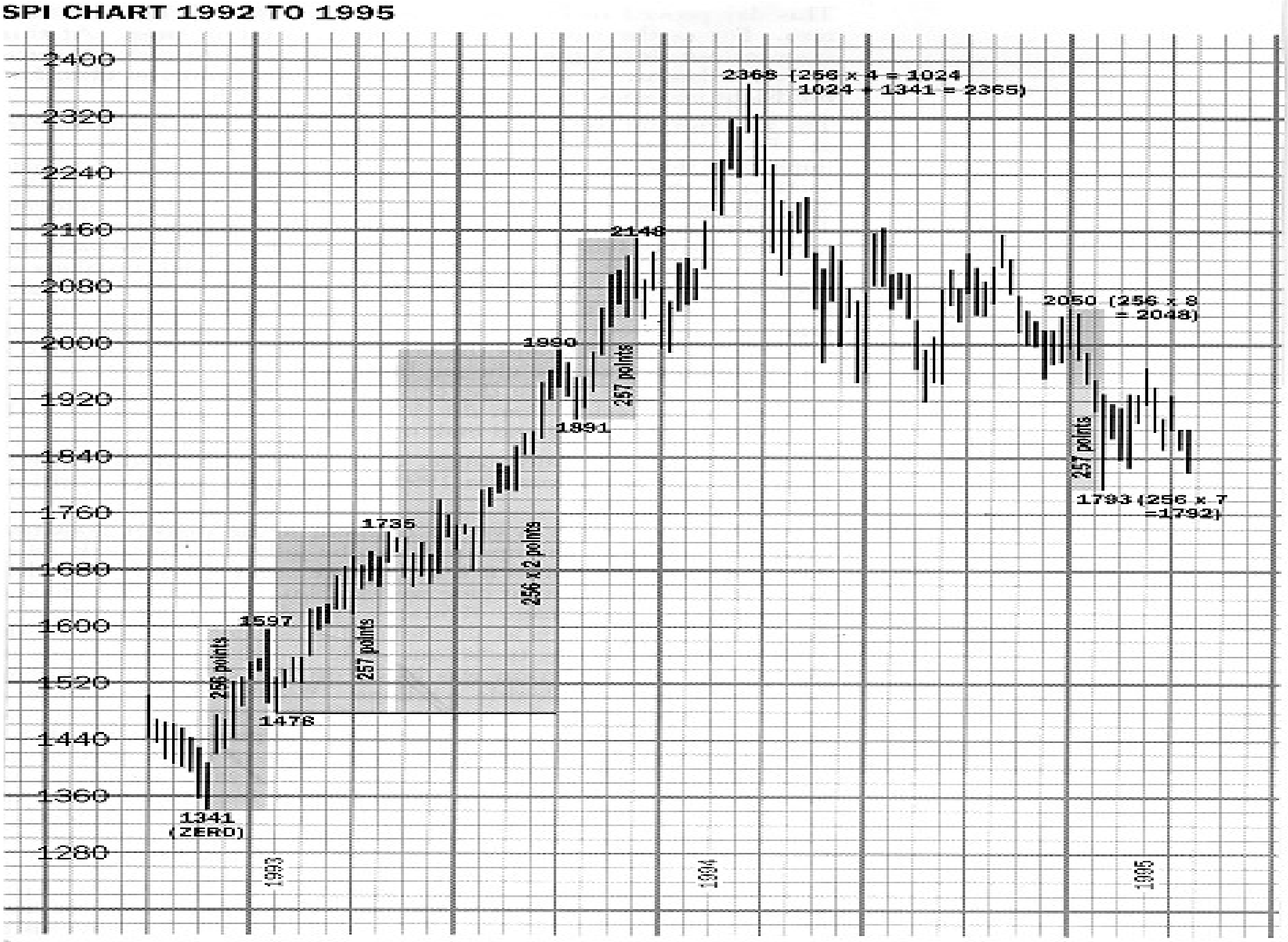
By David E. Bowden

I see myself more as a technical trader than a technical analyst. It has been light years since I submitted an article to this magazine. At that time (February 1989) I acknowledged the contribution that W.D. Gann's Commodities Course had made to my career as a trader. I still believe that trading is where the benefits of analysis lie. In the previous article I made one clear and basic forecast. It was not until after that forecast came in that I had this ground swell of interest in how I applied Gann's message.

In most ways, little has changed. I still use a combination of Gann's various techniques, mixed in with a couple of my own theories, to make my trading decisions. I accept that this is different to what is generally written. Most analysts who write about trading principles treat their theories a little like religion. They each claim to have a monopoly on the pure truth. Of the traders amongst us, I think few would argue that the check book indicator is the best way to judge the value of what is available by way of trading packages.

I think a further qualification should be made for those who are just starting out on a trading career. In trading there is no such thing as one glove that fits all hands. Any form of analysis is

SPI CHART 1992 TO 1995



still “analysis”. In the trading business, as in any form of business, the objective is to develop a process, or system, that shows a profit. I suggest that you look at a trading plan as a series of business decisions hopefully proven over a number of years. That is the proof, but the question you must ask yourself is “Can I handle it?”

My way is to use the strategies laid down by W.D. Gann in his books and courses. They have been very kind to me. By that I mean I have made a fair profit. This has occurred over a twelve year period so who can argue with that? When I started out my primary goal was to make a good living out of trading. In those days I quantified that in the $200,000 per annum area. If I were starting out today I would set my sights higher. Why do I look at it this way? Because the money is there to be earned and I believe that’s how you keep score in the game. Let someone else earn the Nobel Peace Prize, I’m happy to put my profits in the bank. For that reason I basically trade for myself. I conduct seminars because I enjoy them. Traders pay me to speak about something I love. It’s a good life.

I may be a little different to some involved in Gann analysis because I believe money management is of more importance to a traders overall success than say, squaring time and price, though they all have some relevance. As I said earlier, I use a combination of Gann’s techniques combined with some of my own to reach my trading decisions. I am self taught and I follow simple methods. I don’t want to knock anything that you are currently using in your trading, as long as it is profitable. The check book indicator is still the best indicator.

When I’m trading I find I must have time alone to assemble my thoughts. My style of trading is basically trend-following, but when my time frames come up, I measure the optimism/pessimism of the crowd and basically do the opposite of what the mob does. At that point I’m a contrarian. What I’m saying is that during a run in any stock or commodity, the mob is not always wrong. But history shows they are always wrong at any major turning points.

Top and Bottom Pickers Go Broke

The run-of-the-mill top and bottom picker usually ekes out a miserable existence. He or she is usually taking positions against the trend throughout any major bull or bear campaign and so is flailed into submission by the market. The most important shortcoming of this style of trading is that when a decent change of trend emerges, the trader has dispersed all of his or her firepower. The psychological and financial resources are spent. I witnessed this in the 1987 bull run.

How Does One Succeed?

You start with a plan that is committed to paper. Your plan must be tested and revised until it is in the briefest possible form. It must be simple. You must have faith in it. It must be a mix of formula and strategies. Most importantly, you must put it to work.

There is no “one” way to make money in the market any more than there is “one” way to lose it. I will tell you about my way. From the beginning, long before I ever took a position in the market, I was impressed by W.D. Gann as a person and as a trader. So many of the thoughts that I pass on here are his thoughts. His thoughts and my thoughts are by now hopelessly entwined. I must say that in most cases he had the thoughts first. There is no doubt he, like R.N. Elliott, is a legend. I often have cause to smile at the odd trader who knocks him. Gann died in 1955 and yet forty years after his death you mention the name Gann amongst traders anywhere in the world, and everyone knows that you are talking about W.D. Gann, the legend. I wonder if, forty years after the passing of some of these genii, whether their names will even be known in their hometown, much less as a legend! It is so easy to be critical. I have traveled all over the world and I've never seen a monument erected to a critic.

Gann was known to call exact turning points in the market long before they happened. He first used the phrase "Black Friday" in 1928 when describing the panic that would envelop the American stock market. He also said that the market would peak on 3 September 1929, which it did. That's what makes him a legend. Now, if you are that good you need read no further. Just go off and trade tops and bottoms with gay abandon. For you others, here's a plan... and I believe you must have a plan.

For me there are two main elements in technical analysis, "time" and "price". "Time" is more important than "price". When you have mastered those two elements, you can begin on the third exercise which is squaring time and price, a hybrid that Gann developed. Squaring time and price is usually done by drawing geometric lines on a chart. These so-called "Gann angles" do the work for you.

In studying time and price the chart only gives you a picture of what has happened. You must do the work then transpose the work onto your working chart. I feel you should draw the chart and transpose your work manually when you begin. There seems to be some coordination between the pen and the eye that does not occur when a computer is used. At least that has been my experience and I have witnessed this with hundreds, if not thousands, of traders. All of my Super Traders began by hand-drawing charts. It's part of the gaining of wisdom. They can measure the results in dollars. As I said earlier, that's how you score the game. The proof of the pudding is in the eating thereof. I have had a few servings both good and bad. This qualifies me to go on. Heaven help one who follows the advice of another who has not had his or her fair share of puddings!

I often think that the only way to respect money is to have it and lose it, then acquire it again. It certainly is one way to introduce an element of discipline into your trading, or anything else for that matter.

As price is the first element to be mastered, we will exercise a small amount of discipline and confine our lesson to this subject. You can trade very successfully using either price or time, but I think you should be the master of both. They become your servants. Then, and only then, you can start on squaring time and price, moving averages, stochastics and so on.

I will use the Australian Share Price Index (S.P.I.) contract to illustrate the value of knowing something about the element of price. As you have probably gathered, I have a deep respect for the psychology a trader must apply when practicing his or her craft. I have been involved with some of the most respected psychologists associated with trading, and I rate expertise in technical analysis and trading as highly, and every bit as necessary, as a sound psychological base. I know some say the psychological background is the most important aspect. I feel that is because they have never mastered the art or science of analysis to the degree that the analysis actually gives you the psychological advantage - or, to put it another way, the guts to take the trade. I mean, that's why I advocate putting the work in on a trade - so that you'll have the guts to take a position and hold it and not go off half cocked at every minor reaction.

I know many luminaries in this business who say it is just not possible to call market turns in advance. They say it just can't be done. I feel it would be more correct of them to simply say that they can't do it. I believe you develop this skill by following past masters. I have been game, time and time again, to put my name on the line by forecasting markets - sometimes years in advance. I've been right - and sure, I've been wrong... but I've been right a lot more times than I've been wrong. When I'm wrong, my stops get me out and sometimes reverse my position - automatically. The success or otherwise of my plan is measured by my trading account. Remember, that's the way we score the game.

The Study of Price

My last article contained a forecast that was based on a time sequence. This time we will confine our lesson to price. Following is a simple breakdown of how the market throws up a range, or a price, which can be used to complete a forecast. I have tried to show you how to recognize this phenomena early in the piece. You can learn these lessons by desperation or inspiration. Sometimes to get the inspiration we need repetition. In this lesson I am trying to show you the process of repetition. While it is said that desperation is the mother of invention, undoubtedly in technical analysis repetition is the mother of skill. This is just an introduction. At a later stage you can add from your own grab bag of tricks, as you become more familiar with this form of analysis.

We start our study of price by calculating a major range. The range is, of course, the difference (or "space") between a top and a bottom. The definition of major may vary with the time frame that the individual trader accepts as a unit of time. This is determined by the length of time we use to construct a bar on our chart. By this I mean you may use a quarter hour, daily chart, weekly or monthly chart as your main decision-making vehicle. You must make up your mind if you live in a quarter hour, daily (or whatever), world. That's what you are living in. In any case you use a major top or bottom as a zero. That's where your world starts.

For this exercise we will use the daily chart, (for I believe that's where you should begin) and so as to have a fair sample of time we will use the low of 16 November 1992 as our zero. This gives us about three and a half years of market action. Remember, we are only using price in this lesson so we will note that the price on that day was 1341. [I have included a weekly chart due to space limitations. All calculations were made using a daily chart.]

The low of the year, 16 November 1992, was a very forecastable day for a major change of trend. 1341 was recognized as a buying point by many traders who are well known to me.

We are studying price action and reaction, so we will let the market tell its own story.

The first run out went until 5 January 1993 and the high came in at 1597, giving us a range of 256 (1597 - 1341 = 256). We will call this range 360 degrees, or if you prefer 100%. We call it this to emphasize that the number 256 is a complete cycle - and the market has thrown it up. You could say we are working on a square of 256. In time you will recognize such numbers as they keep getting placed in front of you. As I say, hindsight soon becomes foresight. I could write about the significance of numbers, and from where they evolve, but it would need a book, or a series of books, to paint the entire picture. It does not make a lot of difference to the check book indicator whether or not the chicken came before the egg.

So we recognize a major range, once again with hindsight, but when the low of the year for 1993 comes in we are in a position to rate the next run!

From this low, which is yet to happen, if the market does less than 256 points on the upside it can be judged to be weak. If it does the exact 256 points it is in balance - and if it goes over this figure it is strong. In that case we would not expect a significant retracement, or change of major trend, until we witness a decrease in range. It is as simple as that, so don't complicate it. This is all pure Gann. He was the original source. Tubb's Law of Proportion was based on the same principle but came in a more tradable package. William Dunnigan and Charles Lindsay came later. Gann balanced both time and price, as illustrated by his lesson of that name on page 36 of the W.D. Gann Commodities Course. You may wish to break this range into quarters, which I call seasons. They give me my price pressure points. If you wish to go further into this subject you would be well advised to read Tubb's Stock Market Correspondence

Lessons, Lesson Nine, on his Law of Proportion.

In any event, the low for 1993 came in on 11 January at 1478. We would expect the next top to be 1478 + 256 = 1734. In real life the first top came in at 1735 on 15 April. This gave us a range of 257 points, just one point out. The market had a minor retracement then proceeded to the price of 1990 on 2 September. 1478 + (256 x 2) 514 = 1990, exactly. The S.P.I. then had a short, sharp retracement, the biggest for the year to date, to 1891 on 15 September. We would complete a trading plan and trade the market from as close as our analysis allows us to get to the 1891 low.

Our target is, of course, 1891 + 256 = 2147. The cycle high for the year 1993 was 2148, just one point out. It came in on 2 November. This was again a very forecastable date by Gann technique. I had newspaper articles published throughout 1993 calling for a top in the first week of November. More importantly, a number of traders made what would be regarded as sizable profits trading, exactly as outlined in 1993. A number called 2148 exactly. What's more, they traded their forecasts.

As is common knowledge, the top for the 1992-94 bull run came in on 4 February 1994 at 2368. Once again, our first range out called the market - and is still calling the market for 1995-96. (1341 + (256 x 4) = 2365) - just three points from the 2368 top.

I have covered approximately three years of market movements, illustrated how 256 gave the trader a series of major pressure points. The market put in a major low of 1793 (256 x 7 = 1792) on Wednesday 23 November 1994. The swing top previous to this had occurred on Monday 24 October 1994. The top on that day was 2050 (256 x 8 = 2048) so you had both the square of 256 and Time by Degrees (30 calendar days) working. Also, the final run down into this major low was 2050 - 1793 = 257 points!

To round off this sequence, I suppose I should mention that the high for 1995 occurred on Monday 7 August, which was 257 days from the low of 1994. This was the day that time and price squared. It was also in our "Time by Degrees" window from a change in trend.

I do not believe that any of the techniques mentioned in this article are above the understanding of the average trader. All of the equipment required is a hand held calculator, that calculates both time and price and a hand drawn chart. You should back test your calculations and then follow up with a period of "paper trading" to eventually give you the strength to trade your own market.

As further proof that it is possible to complete a forecast that works, I would like to go back to my previous article in February 1989. In it I called for a top of the market for Monday 2 October 1989. In Australian publications I called for a top on Tuesday 3 October, with the time difference between our two countries, they are basically the same day. As time will tell the high of the year came in on Wednesday 4 October. This was followed by the 1989 crash on Black Friday 13 October when the DOW fell 213 points. The price on 4 October was 1855.0 which was exactly the price I forecast to many of my clients. In those days our market traded to a decimal point. It should also be noted that this was the highest that our market had traded since 1987 and that the 1989 top was not taken out until 1993. I am only writing this to prove that it is possible to get it right with basic equipment. I called the 1987 top, to the day, by exactly the same methods. All of this is backed up by my trading statements. The check book indicator is still the best indicator.

I will try to explain, in a quick way, some of the time factors that came into play for the 1989 call. The article was based on using the Gann Emblem for time forecasts. The 2 October date was 15 years or 180 months from the 1974 low of our market which occurred Monday 30 September 1974. This was a major low. It was 1260 days or 180 weeks from a major high which occurred on Monday 21 April 1986. It is also interesting to note that the price on 21 April 1986 was 1254.5 so price was basically square 1260 days later. After the article was printed the low of the year occurred on Friday 7 April, which was 180 days before the actual high. That April date was very tradeable. It was another one of my forecasts.

I have had numerous other calls published. Most related to the local market that I trade, but some refer specifically to the DOW.

Most of what has been written so far is basically an explanation of previous market action. I often say a well trained monkey on a stick can explain something after the event, but that's what many lessons are based on. My article in 1989 was a little different in as much that I made a call based on my theories. You can be the judge. I still get the same question over and over, "What is the market going to do?". I had published in 1996 that the markets would take off in the second quarter of 1997. The specific days were included in the lessons contained in my seminars. That has come and gone. The next major pressure time would be from Monday 28 December 1998 until Monday 4 January 1999.

Always remember, the actual top and bottom of each year are only two days. It's the other 250 days that you should worry about. Top and bottom pickers usually go broke. It's the strength of your trading plan that determines your success or lack of it.

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Timing is Everything

By Eric Hadik

Cycles would have to be considered the primary factor in Gann's analysis. As he explained (paraphrased), a trend will not terminate until sufficient time has elapsed for its completion.

In other words--you can have all the resistance and support imaginable, but it means nothing if a trend has not encompassed enough time and reached a mature enough state to reverse (thus, the principle of squaring price and time).

When considering cycles, a trader should consider the natural world before narrowing his scope to the markets as a whole or to any market in particular. As Gann frequently demonstrated, weather (flooding/droughts) is very cyclical... because life is cyclical. Gann also utilized cycles to forecast political events (in particular--wars) and other extraneous events--which would impact the markets.

One topic which is neglected in today's investment world is that of earth cycles. Though sounding esoteric, the study of earth cycles (particularly earthquakes and volcanoes) is often a very mathematical and quantifiable discipline... and follows Gann's principles.

Since these cycles originate from a combination of astronomical and geo-physical origins, it should be of particular interest to T.W. readers that many are very predictable. More importantly is what can be learned from studying earth cycles and subsequently applied to market analysis.

Before delving into this subject, it should be emphasized: It is NEVER recommended that investors attempt to trade solely off cycles like these. As my subscribers are well aware--these topics are for additional consideration. A disciplined, objective trading strategy should always come first and be enacted in conjunction with this type of analysis. With that made clear...

Most investors tend to be narrow minded and resistant to insightful or innovative ways of thinking. When I broach the subject of earth cycles, I am often greeted with blank stares... or worse. Even those traders who are open-minded are sometimes ignorant of certain factors which could have a effect on the markets in which they are involved.

For instance--many traders had told me emphatically that the only way earth cycles might have any application is if they trigger 'super-volcanoes'. These large volcanoes spew enough particulate high enough into the stratosphere to have a significant impact on weather cycles in the ensuing months or years. This is true... but it is not an exclusive case...

In late 1994, there were individuals who thought I was crazy projecting a significant earthquake--in either Japan or California--for mid-January 1995. (In fact--I was not predicting... merely identifying the increasing probability of its occurrence.) That was until a catastrophic quake hit Kobe, Japan on January 16, 1995.

Of course, these same pundits were quick to point out that an earthquake has no bearing on the markets--unless it were to devastate an area like New York or Tokyo. They argue that earthquakes have no bearing on financial markets beyond the scope of their immediate region.

In many cases, this is true--and was commonly accepted as irrefutable fact. That was until the estimated costs of the Kobe earthquake grew to exceed 50 billion US Dollars. At that point, the Japanese Yen entered a parabolic move upwards--rallying over 26.00 points--or over $32,500 per contract in futures terms--in the ensuing 13 weeks.

Simultaneously, the Nikkei Stock Index plummeted over 5,000 points--or more than 25%--in the subsequent 21 weeks. An objective observer would have to conclude that this was more than random coincidence. So, why would the Yen skyrocket and the Nikkei plummet?

Because the Japanese had to convert investments to cash and repatriate large sums of capital to pay for the damages. This meant liquidating foreign holdings (i.e. US stocks, bonds and Dollars) and buying Yen. The interesting thing is that the Yen was already in an uptrend--and the Nikkei had already begun a decline BEFORE this fundamental event hit.

This event confirmed the technical outlook and triggered the parabolic 50-75% of the respective moves. As in most cases, markets usually anticipate external (fundamental) events.

I am certain that the question still arises--'Why focus on earth cycles and why so emphatically now?' The answer is many-fold:

#1)--First is the reinforcement to Gann's geometric theory of time... which is applicable to all market analysis and to cycles of almost any nature. Once this concept is understood and internalized, cycles can be better utilized in market analysis and applied to trading.

#2)--Second is a discussion on the topic of synergy. Again--this is a principle which should govern every trader's decision-making, since trading is ultimately a 'numbers game'. It is another lesson to learn from these earth cycles. The more factors corroborating a specific trade (or projected earthquake/volcano)--the higher probability for success it has.

#3)--Third is potentially a more important topic--and the ramifications it will have on civilization over the next decade(s). It is the topic of solar retrograde... and its third occurrence which began in April 1990. This has already had a dramatic effect on world-wide crop production and its influence is expected to continue into the next decade.

Already, US grain stocks are so depleted that another difficult growing year will send prices skyrocketing, triggering price inflation--which will quickly filter down to precious metals and then to bonds and thereafter to stocks (if the markets are not already anticipating these events by then).

#4)--Fourth is a return to the topic of cycles, albeit from a longer-term perspective. Multi-decade and multi-century cycles pinpoint the next several years as having an increasing risk of major volcanic eruptions (particularly in Italy and NW North America) and dramatic earthquakes (throughout the entire world--but particularly in Japan, the US, the Middle East and Europe).

Multi-millennial cycles--evidenced by the sudden return of several comets (which affect the stability and energy of planets millions of miles out of their direct path)--are also now in force.

#5)--Fifth--and finally--is a discussion on the topic of climate and climate cycles... and the effects that the previous two points (#3 & #4) could/will have on climate throughout the earth in the coming years.

Most readers who are even remotely familiar with Gann have some understanding of his concept of time. Since a solar year is 365 days (and could have been--at one time in the past--360 days) and is governed by circular and elliptical planets, rotations and orbits--it only makes sense that time is geometric. Measurements which hold increased significance in a circle (90, 180, 360 degrees) will also hold increased significance in time (90, 180 or 360 days, weeks, month, years).

The circular--or cyclical--nature of time is also apparent in Gann's concept of anniversary dates (hence the dual-expression that an event has come ‘full-circle’ or ‘full-cycle’). Significant events often occur on the anniversary of other noteworthy events.

Significant historical turning points can be used to project future reversals by applying this idea to cycles (adding multiples of 30 periods--whether days, weeks, months or years)... but should always be filtered with synergy. In other words, unless several cycles--emanating from several prior turning points--converge at a specific date in the future, it is not a high probability forecasting tool.

The idea of geometric time (where periods of days, weeks, months or years are divided the same as a circle--in 15 or 30 degree increments) is not isolated to market cycles. In fact, Gann applied to the market what was already present in nature (just as R.N. Elliott did with the Elliott Wave Theory). As demonstrated from the following tables extracted from the 1/02/97 INSIIDE Track, geometric time is ubiquitous in earth cycles as well.

When preceding earth events (earthquakes of significant magnitude or serious volcanic eruptions) follow a consistent pattern occurring in 30/60/90/180 day intervals--they often act as a precursor for the future. The 1995 Kobe Japan quake was a perfect example of this...

January/July (U.S./Japan) Earth Cycle

July 12, 1992...The third in a series of Yucca Valley, CA earthquakes with a 7.0+ magnitude.

July 15-16, 1992...Second eruption of Mt. Pinatubo

January 15, 1993...5.7 magnitude quake in Gilroy, CA

January 16, 1993...7.5 magnitude quake in N. Japan

July 12, 1993...7.8 magnitude quake in N. Japan.

January 17, 1994...6.6 mag. quake in Northridge, CA

[July 18--24, 1994... Shoemaker-Levy 9 comet collision with Jupiter (long term effects unknown...but enormous energy released... see 6/03/96 INSIIDE Track).]

July 31, 1994...6.4 magnitude quake in N. Japan

January 16-17, 1995...6.8 earthquake in Kobe, Japan

July 3, 1995...5.6 magnitude quake struck Tokyo

This first table demonstrates a unique cycle of earthquakes/volcanoes which continue to occur in mid-January and mid-July of each ensuing year (180 degrees apart). Almost all have been located in either Japan or the Western US region, but the tectonic plates affected cover a much wider region--so pinpoint geographic accuracy is certainly not an attribute of these earth cycles.

A quake expected for Japan could strike anywhere from far-east Russia, China or the Philippines. On the other side of the Pacific, earth changes could strike anywhere from Alaska to Mexico... BUT... the most common occurrence in this cycle has been in Japan and the US.

Of added interest is a point I stressed in several previous letters: This entire sequence was preceded by man-made, earth-shaking events. To quote:

“Prior to this sequence of earthquakes was another significant event which released a great deal of energy... in a much longer, drawn-out process. The bombing of Iraq began on January 16, 1991 and lasted 39 days and nights (1 shy of the Biblical 40 days and 40 nights).

Since I believe that unnecessary pressure has been placed on the earth’s plates and crust by the detonation of massive explosives, it is of particular interest that... the detonation of the first nuclear bomb [occurred] on July 16, 1945...” (Beware The Ides Of July!!!--6/12/95)

So, both the mid-January and mid-July periods have had man-made energy-releasing events in the past...slightly more than a Gann 45 years apart (though Saddam’s troop movements began precisely on the 45th anniversary). Whether this has an effect or not--and whether this annual ungrounded period spurs men to take such extreme actions--is for you to decide.

In addition, one of the greatest releases of energy in our universe occurred less than three years ago... also during the mid-July period. This event took place exactly 49 years (7 x 7--or completion multiplied by completion) from the 7/16/45 atomic bomb test.

Though scientists still do not know what to conclude from this massive disturbance in our solar system, the July 18-24, 1994 collision between Shoemaker-Levy 9 comet and the planet Jupiter released energy beyond our comprehension.

The following table (originally from the 7/19/94 Dallas Morning News) places in perspective the destructive force of just one single fragment from this comet entering Jupiter's atmosphere...

Comet Explosion Comparison

Atomic Bomb over Hiroshima--15 kilotons (15,000 tons of TNT) // Peak Exp losive Power of US nuclear arsenal-- 20,000 megatons (1 megaton = 1 million tons) //Peak of USSR arsenal--60,000 megatons // Shoemaker-Levy 9 fragment G, 2 miles wide, exploded in the upper atmosphere of Jupiter--6,000,000 megatons (6,000,000,000,000 tons of TNT)

In other words, the explosive force of this comet fragment blast was 400,000,000 times the explosive power of the atomic bomb at Hiroshima...How's that for perspective?! And, that was only one fragment. Imagine what the cumulative effect of this 6 day event (another Biblical parallel) must have been.

Though this may not seem directly related to the current discussion, consider the massive energy and magnetic field which travel with--and surrounding--comets which enter our vicinity. This abundance of energy could alter the stability of the earth's crust. To further demonstrate the potential correlation, a couple recent observations should be reviewed--

"Another series of quakes should not be missed...June 9--21 1996 saw 5 quakes of 7.0 magnitude or greater (3 were 7.5+) strike the 'Arc of Fire', while 2 eruptions took place on Mt. Ruapehu (New Zealand) and a 6.0 quake struck Armenia....Following these cycles, the most interesting time on earth or in the heavens could well be the coinciding of Comet Hale-Bopp making its closest pass to earth at the same time of a Lunar and Solar eclipse... all surrounding the Ides of March. (If ever there were a time when 'kings could fall', it would be this one...) This time is also 270 degrees from the June '96--7.0+ quakes." (01/02/97 INSIIDE Track)

Comet Hale-Bopp is scheduled to make its closest pass in mid-March, 1997 and could be an additional trigger (synergy) for plate slippage on earth. This time period is between a Lunar and Solar eclipse--two items with which Gann aficionados and 'Tunnel Thru The Air' readers are very familiar. Many significant market moves have occurred or begun around eclipses. So, do not be surprised to see energy released from the hyper-inflated stock market 'bull-oon'.

In keeping with the idea of geometric time--and the lessons which can be learned from it--another recent quote is applicable...

"As Jan. 16/17th drew closer, October (90 days/degrees prior) saw 6.0+ quakes in the Arabian Sea, Philippines, Canada, Lebanon, Egypt, the Mediterranean (consistent with my expectations for an Italian volcano in the next 1-3 years), Solomon Islands (2), Indonesia (2), Fiji Islands, Russia AND--at precisely the 90 day prior point--Japan was rocked by 2 major quakes on Oct. 18 (6.8... following more than 5,000 quakes in 4 days) and on Oct. 19 (7.0)."

(01/02/97 INSIIDE Track)

This is an almost unprecedented amount of earth activity in such a tight time frame--all focusing attention on future dates in multiples of 90, 180 and 360 degrees/days... with

January 16-19th and July 16-19th being the tightest convergence of cycles, though April 16-19th will also be significant.

It is of particular interest--and a reinforcement to the accuracy of these earth cycles--that these two recent major Japanese quakes (10/18-19/96) occurred precisely 7 years (a Biblical period of completion) from the October 1989 San Francisco (Loma Prietta) earthquake. This is another reason for focusing attention on April 16-19th--which is now 180 degrees forward--as well as the mid-January and mid-July cycles.

Since October 1995, another cycle has developed--linked to lunar cycles (though not isolated to Japan or the West Coast). Each of these quakes/volcanoes occurred within days of the full moon. Since the cycle of full moons is very close to a 30-day cycle, it is also closely related to the idea of geometric time...

1995--96 Full Moon/Earth Cycle
10/06/95--7.0 quake in Indonesia
10/06/95--Volcano on Mt. Ruapehu in N.Z.
10/09/95--7.6 quake in Colima, Mexico
01/01/96--7.7 quake in Indonesia (w/tidal wave)
01/01/96--7.2 quake in Russia & volcano
02/02/96--6.5 quake in Yunnan, China
02/07/96--7.1 quake on Kuril Islands
03/03/96--6.8 quake in Nicaragua
03/05/96--6.3 quake in Taiwan
05/02/96--5.2 quake in Seattle, Washington
05/02/96--6.0+ quake in Okinawa, Japan
05/02/96--6.6 quake on Solomon Islands
(05/01--05/02--4 quakes from 6.0--6.6 on S.I.)
05/03/96--5.9 quake in China
05/07/96--6.5, 7.0 quakes in Kuril Islands
05/07/96--6.0 quake in N. Mullucca Sea
05/30/96--6.0 quake on S. Sandwich Islands
06/01/96--6.8 quake--French Guinea
(05/30--6/01/96--3 quakes ranging from 5.3--6.8)
06/02/96--6.2 quake on N. Mid-Atlantic Ridge
08/01/96--6.0 quake in Indonesia
08/05/96--6.7 quake in the Tonga Islands
08/06/96--6.5 quake in the Fiji Islands
10/01/96--6.3 quake in Arabian Sea
10/02/96--6.4 quake in Philippines
10/02/96--Volcano in Iceland (under Europe's largest glacier... flooding feared)
10/04/96--Volcano in Papua New Guinea
12/22/96--6.0 quake in E. Sea of Japan
12/26/96--6.0 quake in Indonesia
(01/02/97 INSIIDE Track)

I have been following/researching earth activity for the last 10 years and have never seen the consistency or intensity that this cycle is manifesting. Applying laws of momentum and physics, it should continue 'unless acted on by an equal or greater force' (whatever that might be).

Since both the Japan/US earth cycle and the Full Moon cycle converge in the middle half of January--I will be looking for significant earthquakes in these two regions (generally speaking) between January 9--26th. July will be the next--and even more significant time frame--due to the additional factors listed previously... with mid-April representing a secondary cycle in the making.

What heightens my attention to Japan even more, however, is market-related. (The markets should always take precedence if trading/investing is the ultimate objective.). The Nikkei is in a similar position to January 1995. (The fact that the Yen has not yet confirmed a low could push the ideal date for an event in Japan to mid-April, however.)

In November 1996, I warned readers that the Nikkei had confirmed a top and that it was close to confirming a 3rd wave (Elliott Wave terminology) lower. This wave is typically the most dynamic--reinforcing the forecast for a dramatic slide in the ensuing months.

As this report is being completed (January 9/10th), the Nikkei has confirmed these expectations falling over 17% from its late 1996 highs and over 10% in just the current week. Since this is only part of the anticipated move, it will take an external event (fundamental) to confirm the technicals and trigger the parabolic phase of this evolving bear market.

I have speculated that the Nikkei would again lead the world's stock markets lower and recent action is adding credibility to this analysis. If an earthquake struck a critical area (Tokyo?), it could trigger a great deal of repatriation of investments and begin a sharp correction in our markets. This would fit with my projections for a significant S+P/DJIA reversal in the immediate future. With or without an earthquake or volcano in mid-to-late-January, this market analysis remains intact!

An imminent low in the Japanese Yen is also a possibility. In 1995, there was little warning prior to the Yen entering a parabolic rally. 1997 may be similar. If 81.10--83.20 holds (Yen futures) in the next couple weeks, a sharp rebound should follow. This, too, would take a fundamental event if the Yen is to reach as high as expected.

What I am trying to convey is that a great deal of technical analysis already pinpoints mid-to-late-January 1997 as a critical period in all the markets. This analysis is completely independent of any subjective or esoteric cycles like the ones I am discussing. Cycles in Gold, Silver, Bonds, Stock Indexes, the Dollar and Crude Oil all align in this time frame.

However, when forged with uncanny earth cycles like these, an intriguing conclusion might be reached. One or more significant earth events could occur in the middle half of January (1/09--26/97)... and/or in mid-April, 1997.

I would not speculate at events of this nature without synergy (increasing confidence). I am not a sensationalist. This should also be true with trading. The high-percentage trades--not high visibility ones--should receive a trader's attention and energy. Too many traders are consumed with picking the exact top or bottom of a market (ego-boosting)--instead of waiting for confirmation and taking the mid 60-70% of a move (profit-boosting), when risk is easier defined and more manageable.

Regarding synergy... just because a couple cycles identify a potential turning point--or 1 or 2 indicators give a sell signal--it is not justification for action. As stated before, trading is a 'numbers game'. A trade (or a forecast of any type) is not always going to be right... no matter how good it looks or feels. You must always 'stack the odds' in your favor.

Trading can only be judged by the bottom line. In this way, it is unlike any other business in the world. Most businesses can be judged by what good they do or service they provide AS WELL AS their profitability. Trading can ONLY be judged by results... by profits or the lack thereof.

With this in mind, traders should only be interested in taking high-percentage, low-risk trades. One of the ways to accomplish this is by utilizing synergy in all your decisions. Reverting back to the earth cycles, January 1997 is a plethora of cycles--as will be July 1997 (and mid-April). In addition to the tables noted earlier, some additional comments will demonstrate this:

"Other precursor quakes point to January 1997 as a very tenuous time. One example is a cycle in Taiwan & Honshu, Japan. In March (3/05, 3/16) 1996, major quakes struck these two areas (6.3, 6.6, respectively). 5 months later (8/10 & 8/10) quakes again struck these regions (6.1, 6.0). (August 9-10 was a seismically active day with two other 6.0 quakes and two volcanic eruptions in Indonesia and the Philippines.)

As I have demonstrated before, a third occurrence often follows in a pattern like this. The next cycle aligns Jan. 9/ 10, 1997 (precisely at the new moon). Considering the January 16/17th cycle in Japanese and West Coast US quakes, and a 14 month cycle of full moon quakes...January 9-26th could be dangerous..." (01/02/97 INSIIDE Track)

This additional cycle sequence focuses on Japan and Taiwan (or China) as a high-risk area in January. Even though my prognostication could be wrong (if no significant quakes or volcanoes strike the 'Rim of Fire' between January 9-26th), I am willing to reveal it and put my credibility on the line because of synergy. I am also more willing to take trades in the market--and place capital at risk--when several (preferably 5 or more) indicators confirm... and reasonable risk can be defined.

The third, fourth and fifth topics I cited earlier are more applicable to agricultural traders... though they should impact the entire market in the months/years to come. These converge in the discussion of solar retrograde.

A majority of traders are unaware of this phenomenon, though I suspect that proportionately more T.W. readers are apprised of it. Solar retrograde involves the sun's rotation within our galaxy--and the shifting center of mass within our solar system (thus exerting stronger gravitational force on certain planets--like the earth). Rather than enter a lengthy discussion on its origin and explanation, I will simply focus on its cyclic nature... and the ramifications.

Solar retrograde is only known to have occurred three times... the third of which began in 1990. It is an approximately 180 year cycle (consistent with Gann's geometric principles) which also occurred in the 1630's and the 1810's. Both previous events were characterized by MAJOR earth changes and DRAMATIC climate swings (ultimately affecting the primary markets of their day). Its impact was felt for decades to come.

The 1630's ushered in the 'Little Ice Age'--which lasted several decades. This particular occurrence of solar retrograde had more affect on climate than tectonic plate movement. In areas where wheat was the staple crop, it could not be grown for decades to follow.

If you think there is no market application to this--consider one of the most infamous speculative bubbles in history--the Holland Tulip Bulb mania. It occurred between the years 1634--1637--precisely when this period of great change and increased instability (both in and surrounding the earth) was unfolding.

Not surprisingly--and again consistent with Gann geometry--the US stock market entered the parabolic stage of its current mania in 1994... exactly 360 years after the commencement of the tulip bulb fiasco. What goes around--comes around... or as Solomon observed--'there is nothing new under the sun'. I suspect that 360 years (one circle--or cycle--of time) later, the US bubble will also burst in 1997 (though my stock market cycles do not show a final low until 1998).

In the 1810's, on the other hand, solar retrograde impacted both climate and plate tectonics significantly...

1811-12 witnessed hundreds of earthquakes along the New Madrid fault in the midwestern United States. The two greatest of these quakes were each over 8.0 and caused massive damage--wiping out entire towns, temporarily changing the course of the Mississippi River, heaving up paved roads on the Atlantic seaboard and ringing church bells in New England--over 1000 miles away.

1815 saw the eruption of Mt. Tambora in Indonesia--which ushered in the infamous 'year without a summer' in 1816 (due to the immense amount of sun-ray-blocking particulate spewed into the stratosphere).

During 1816, temperatures were dramatically below normal and the northeast US and large portions of Europe experienced freezing temperatures EVERY month of the year. You can imagine the effect this would have on crops--when the growing season is measured in days instead of weeks or months.

It is interesting that 90 years after the beginning of the 'Little Ice Age' and the Tulip Bulb debacle (1634-37), a major earthquake struck. In 1727, one of the twelve most deadly earthquakes in history occurred in Iran--killing 77,000 people and causing enormous damage.

It is also interesting that 90 years after the 1811--1816 period, the US experienced what remains as its most notorious earthquake--the San Francisco quake of 1906. Another--more intense quake struck Italy two years later in 1908--killing over 100,000 and causing a devastating tsunami (tidal wave).

The period of 1996--1998 is an additional 90, 180, 270 and 360 years from these earth-shaking/earth-changing eras. (1998 is also 75 years from an 8.3 quake which struck Japan in 1923--killing 143,000 and spurring the great 'Tokyo fire'.) If you do not think that this will result in earth upheaval, nothing will. This is only one of many reinforcements to the conjecture that multi-decade and multi-century cycles align in the next few years.

This hypothesis is not unprecedented since the two second-most devastating earthquakes in Italy also struck 90 years apart--in 1693 and 1783... each killing over 50,000. This--combined with cycles stemming from major volcanic eruptions in the same country--make Italy a high-risk area in 1997-2001.

Other cycles--like two devastating quakes in Lisbon, Portugal--also converge (similar to the aforementioned Taiwan/Japan series of quakes where three successive events are evenly displaced). These Lisbon quakes occurred 243 years apart--in 1512 and 1755. An additional 243 years forward identifies 1998 as a critical year. (243 is the 6th multiple of my previously revealed 'Lost Cycle' of 40.5.)

The beginning of a new upswing in the 22 year sunspot cycle (which troughed in 1995-96) corroborates these cycles. This period is often one of climate and earth instability.

Raymond Wheeler's (and others') climate studies concur with the expected impact of solar retrograde and portend continued cold/wet climate for the next couple years... in an era when all we hear about is the much touted 'global warming'.

Large portions of the US broke historic snowfall records last winter. The mid-west US experienced 9 months with freezing temperatures between September 1995 (record early freezes in Chicago and numerous other major cities) and May 1996 (record late-freezes in many regions).

Also--in the current winter of 1996-97, the NW United States has been paralyzed by its worst snowstorms in recent history--while the upper mid-west has experienced a similar fate. In the beginning of the season--and earlier than any similar events--the Cleveland area was pounded with massive amounts of lake-effect snow... while many regions consistently set record maximum-minimums (lowest high temperature for a specific date).

In addition--record flooding hit the mid-west immediately after solar retrograde began (in the early-1990's) and moved to the west coast, thereafter. Once again--the entire west coast--for the second year out of the last three--is being inundated with precipitation in 1996-97. Look for this to continue throughout January and potentially into March/April 1997.

Flooding has also spread throughout the globe in recent years. The impact on countries like North Korea and China is already being seen and could spur dangerous repercussions in the years to follow. In addition--record flooding has often preceded major earthquakes. (Whether this is a result of the immense additional weight applying pressure on a given area... and then releasing that same pressure... has not been proven.) California and the Pacific northwest should be on alert for the next 6-12 months!

Europe, however, is the sight of some of the most noteworthy events. Preceding the deadly cold snap now taking place (another confirmation of climate cycles and solar retrograde), a fateful event took place at the same time as the aforementioned Japanese earthquakes... in October 1996. (These events are also pointing to October 1997 as the 4th key period to scrutinize.)

A large volcano--located beneath a glacier in Iceland--began to erupt. Initially, massive flooding was predicted for much of Northern Europe.

Though this has not yet occurred, Europe is not out of the woods. With an increase in earth activity, this volcano is bound to erupt more than once and the ramifications could do more to impact grain prices than US weather cycles. (Rotterdam is only one high-risk area.)

All of these factors force the same conclusion--the earth is changing and will continue to change for the next 5-10 years... or more. It is always in the latter stages of cycles like this that the most extreme action occurs. This is another lesson to be learned from earth cycles and applied to trading... that a parabolic move often culminates a cycle. This principle is probably the most important factor that an option trader can integrate into his/her trading strategy.

If this is true, it means the worst is yet to come. (I am not an alarmist... only an aware-ist. I believe the next 12-18 months will offer unprecedented opportunity to informed and alert investors.)

Though this may seem like more of a discussion on earth cycles, it is applicable to many aspects of trading. In addition to the factors already explained, a time of earth upheaval is also a time of emotional instability.

Subtle changes in the earth's core and its atmosphere--which gravitate to its surface--affect our physical and emotional 'grounding'... and thus--our decision making (i.e. investments). It is, historically, at times like this when caution is thrown to the wind and irrational behavior takes hold.

So... It is no surprise that our stock market is completing a manic rally and that investor sentiment is so euphoric--at a time when major earth changes are already taking place (and likely to increase in intensity). The gravitational change cannot help but alter traders' emotions and will likely result in the creation of millions of investing 'manic-depressives' in the next 1-3 years.

My cycle work for 1997-98 has already identified specific periods when investor emotions should reach their extremes and significant reversals should occur in many markets.

I address this subject to provide a stark contrast to the hundreds of articles on micro-trading--which focus on the minute to minute changes in a given market... or a specific derivative of that market... or an option on the derivative of the underlying market (you get the point).

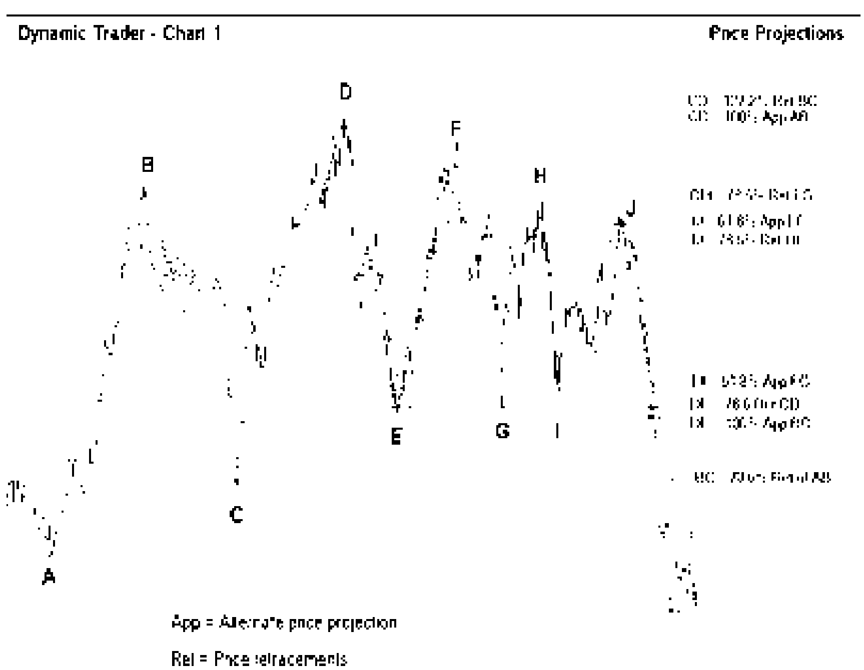
In other words, we have come to the point where we can not only no longer see the forest

Combining Price Projections, Time Projections and Time Counts for High Probability Trades

By Jerry Pegden

This article has two purposes. The first is to review the basics of combining price projections, time projections and time counts for high probability trades. We will call this methodology Dynamic Trading which is explained in full in Robert Miner's soon-to-be-released book, Dynamic Trading. The second is to answer a frequently asked question about Dynamic Trading: can I use this methodology with stocks? with intra-day data? with mutual funds?...

There are four charts with this article. Each chart is the same market and time span. The market is not identified since for our analysis it doesn't matter if it is beans, bonds or snow shovels. The highs and lows are labeled A through J on each chart. The highs and lows, which are called pivots, have been connected with straight lines to form swings. Referring to any of the four charts, the first two swings are AB and BC. Chart 4 only shows the swings without any of the bars. As price projections, time projections, time counts and the Dynamic Time Projection histogram are discussed, we will refer to these swings and pivots.



Price Projections

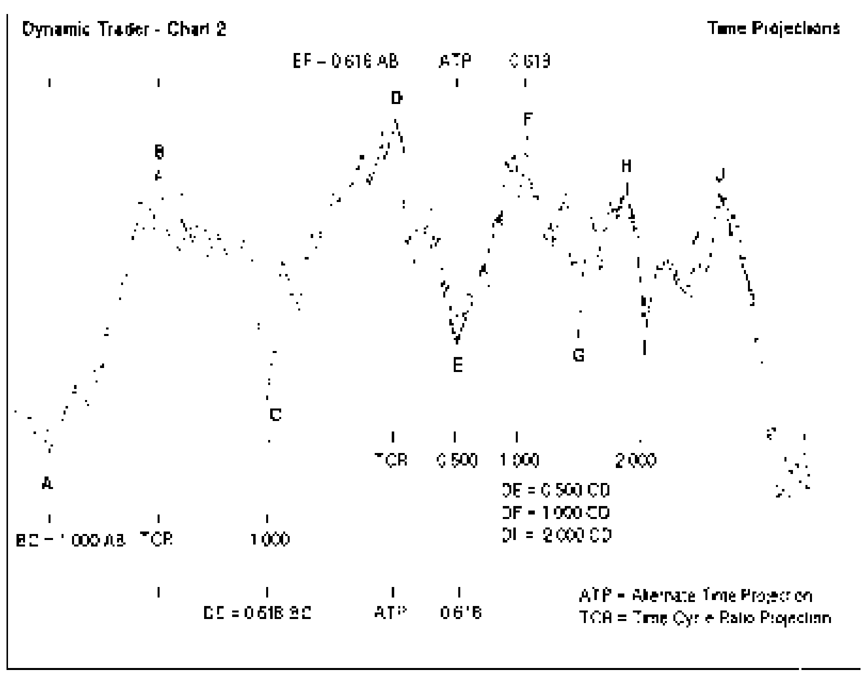
The primary purpose of price projections is to find price support and resistance. Price projections are always made in advance of the current market activity using previous pivot highs and lows. Two types of price projections are shown in Chart 1: price retracements which most traders are familiar with and alternate price projections which may be new to many. These are abbreviated on the charts as Ret and App.

The price retracement ratios used are 50%, 61.8%, 78.6% (square root of 61.8%), 127.2% (square root of 161.8%) and 161.8%. A retracement example from Chart 1: Swing BC retraced 78.6% of the price of swing AB. This is shown by the horizontal line at pivot C. The alternate price projection ratios used are 61.8%, 100% and 161.8%. An alternate price projection example from Chart 1: The price range of swing CD was just a couple ticks short of 100% of the price range of swing AB. In other words, the price range from C to D was almost the same as the price range from A to B. This is shown by the horizontal line labeled “CD=100% App AB” just above pivot D. The range of swing CD was a 100% Alternate Price Projection of the range of AB at the horizontal line above pivot D. This is an alternate price projection because we compared a swing with the alternate swing of the same direction.

Sometimes markets have favorite time and price ratios and time counts. A 78.6% price retracement would seem to be a price ratio to make note of when trading this market. Four of the pivots were made at the 78.6% price retracement.

A clustering of price projections usually results in stronger support and resistance. Pivots D, E and J each had two price projections. As the market approaches price projections, we go on alert for a reversal signal.

Time Projections



The primary purpose of time projections is to find time support and resistance. Time projections are calculated in the same manner as price projections, except the time range between pivots is used instead of the price range between the pivots.

Two types of time projections are shown in Chart 2: time retracements which are referred to as time cycle ratio projections and alternate time projections. These two time factors are abbreviated TCR and ATP.

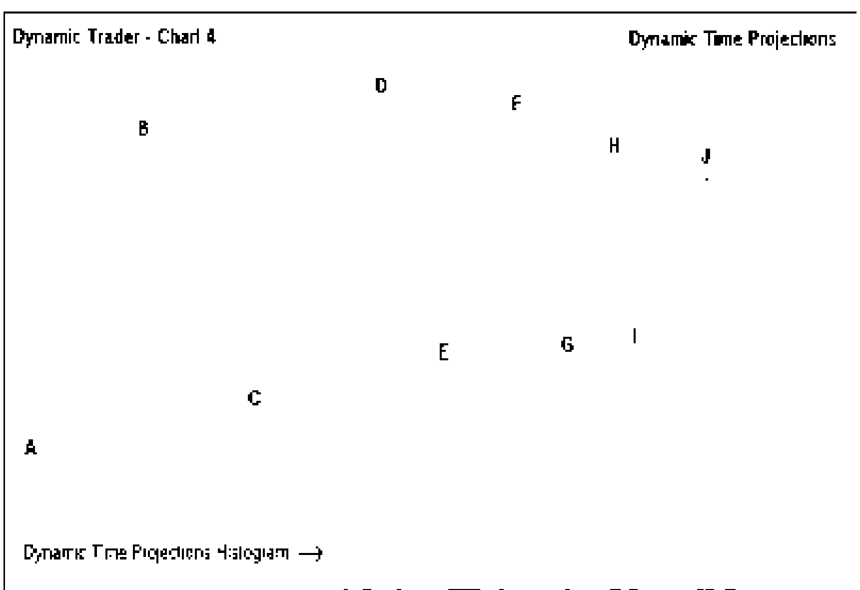
The time cycle ratios shown in Chart 2 are 50%, 61.8%, 100% and 200%. A TCR example from Chart 2: The 50%, 100% and 200% time cycle ratio projections of the time of swing CD lined up nicely with pivots E, F and I. This is shown by the horizontal line starting just under pivot C in Chart 2.

Alternate time projection ratios used included 61.8%, 100% and 161.8%. An ATP example from Chart 2: The 61.8% ATP of swing BC projected from the swing D high nailed the E pivot low. In other words, 61.8% of the time of swing BC added to the date at pivot D projected forward right on the pivot E low. This is shown by the horizontal line labeled “DE = .618 BC.”

We look for time clusters for the same reason we look for price clusters. Clusters offer stronger support and resistance. We had a time cluster at pivot E with a 50% TCR and a 61.8% ATP.

Time Counts

Time counts are also made from each pivot and often fall on or very near subsequent pivots. The most important time counts are from the Fibonacci number series and what W. D. Gann called the Square of 90 which is divisions and multiples of the number 90. Chart 3



The Dynamic Time Projection histogram allows us to combine time projections and time counts into a single signal. In deriving the histogram, a more comprehensive set of ratios and counts were used than those shown on Charts 2 and 3. The histogram bars alert the trader to future periods of time for likely changes in market direction. If the market is coming into price support/resistance (Chart 1) in one of these time periods, then we may have an ideal setup.

shows just a few of the counts from this period. The swing C low pivot was made dead on the 89 bar count and the G low on the 233 count from pivot low A. The swing I low was 144 bars from the swing C low and the J high was 180 bars from the C low. The F swing high was 55 bars from the preceding high, D.

Dynamic Time Projection

Histogram Chart 4 shows just the swing file with the Dynamic Time Projection histogram at the bottom of the chart. The Dynamic Time Projection routine in the Dynamic Trader software allows us to combine all the various time cycle ratio projections and time counts into a single signal. The vertical histogram bars represent the many time cycle ratios and time counts projected forward from the prior pivots. Higher bars represent overlapping time projections. The histogram includes many time projections that were not illustrated on the charts 2 and 3.

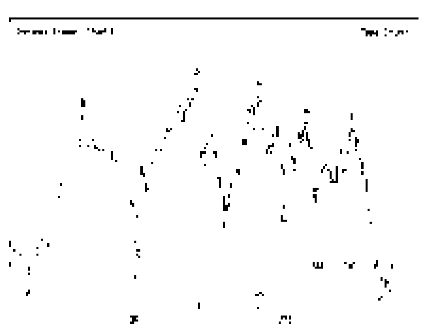
As you can see, almost every pivot was made at a cluster of time projections. These projections were made well in advance of the pivot.

By combining the price projections and time projections, traders and investors are prepared well in advance for relatively narrow time and price zones with a high probability of trend change.

Dynamic Trading

Dynamic Trading combines the three most important market factors, time, price and pattern, into a cohesive, logical and consistent analysis methodology and trading strategies that are adaptive to the current market conditions. This article has just described the basics of time and price analysis. Is Dynamic Trading applicable to all types of markets? Absolutely. From intraday to mutual funds. Are you interested in what market these charts were made from? They are 80-minute bars of T-bonds. Do you see how intraday analysis and trading strategies may help you to position with lower risk?

Jerry Pegden is in charge of software development with the Dynamic Traders Group, Inc., 6336 N. Oracle, Suite 326-346, Tucson, Az. 85704.



Andrews Channels and Parallel Lines An Important Key To Market Geometry

By Robert Miner

Andrews Channels and Parallel Lines are an excellent, geometric charting technique for indicating in advance areas of support and resistance, whether a market is strong or weak and change in trend targets. They are valuable because their construction is derived from the form of the current market activity. They are not fixed relationships, but are market driven. A market is a growing, evolving process that continually redefines the nature of the future growth.

Figure 1

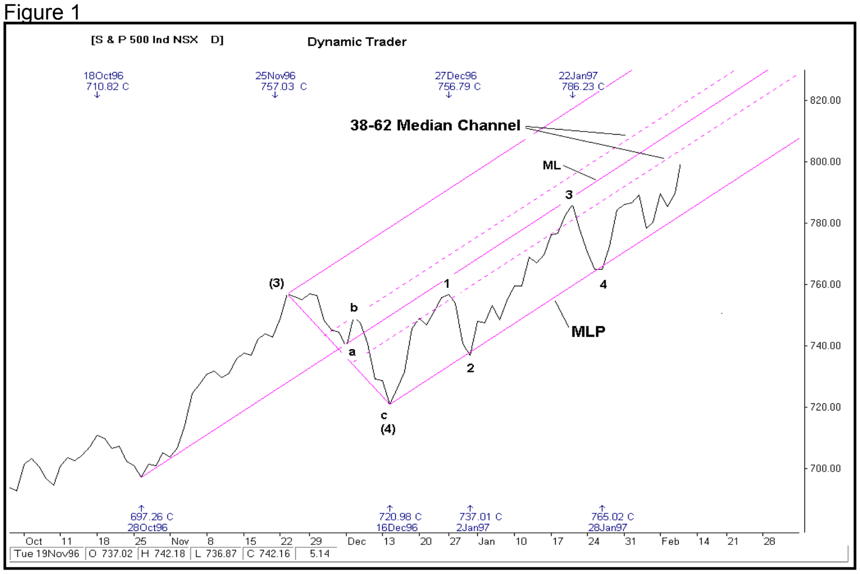


Figure 2

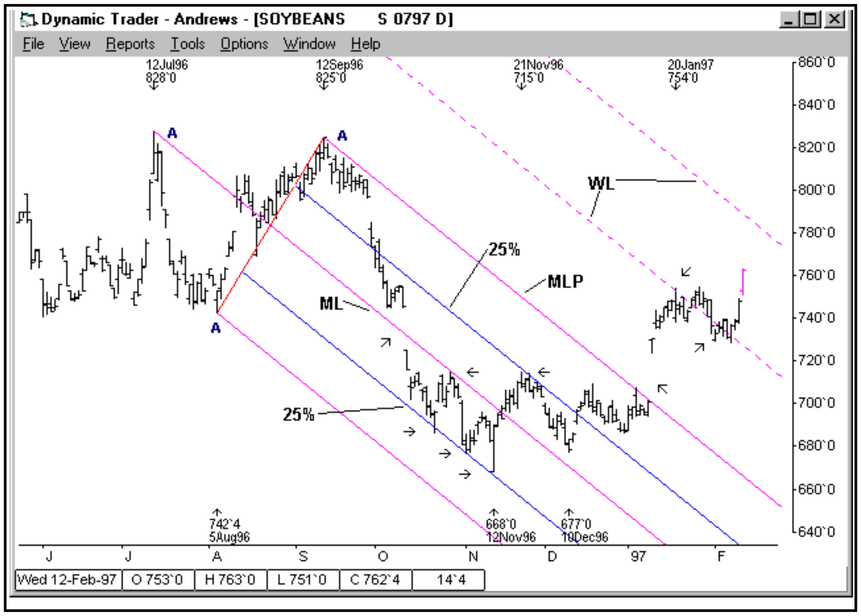


Figure 3

Figure 4

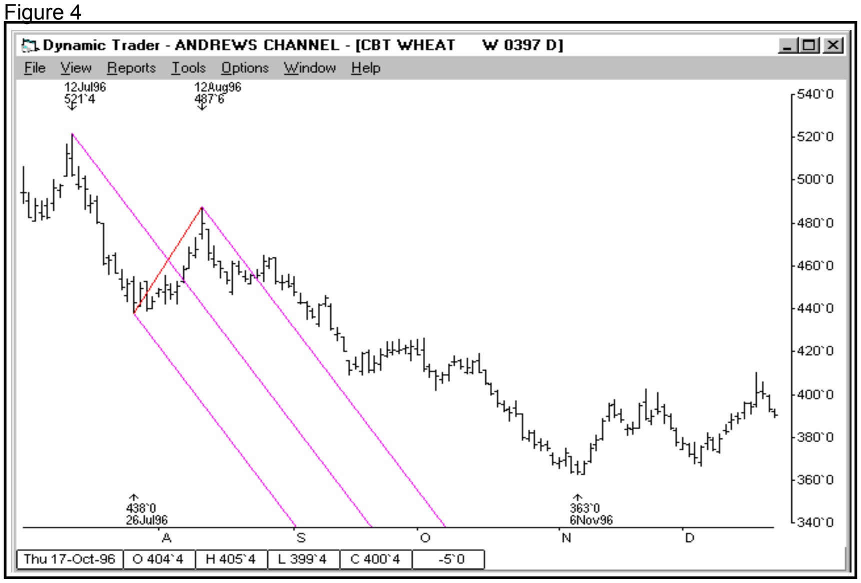


Figure 5

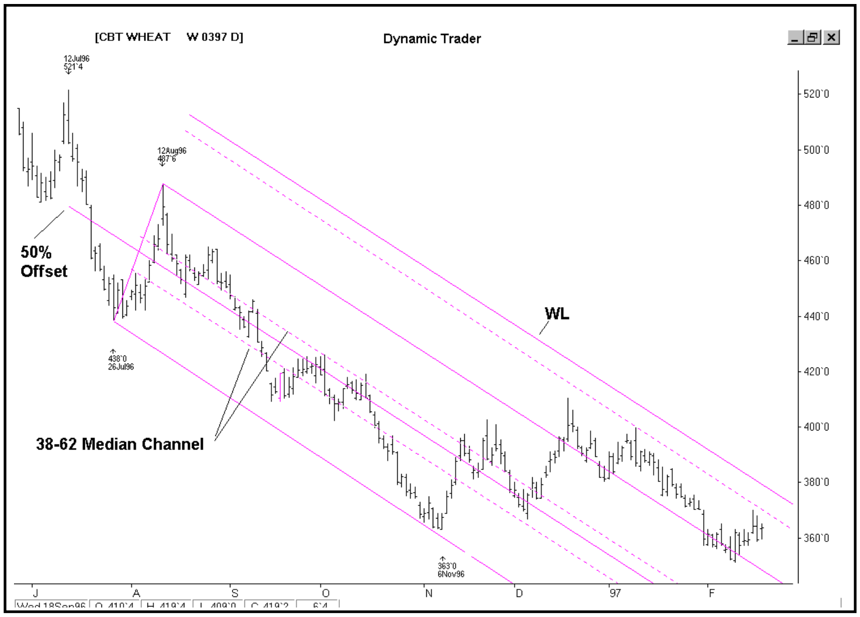


Figure 6

Figure 7

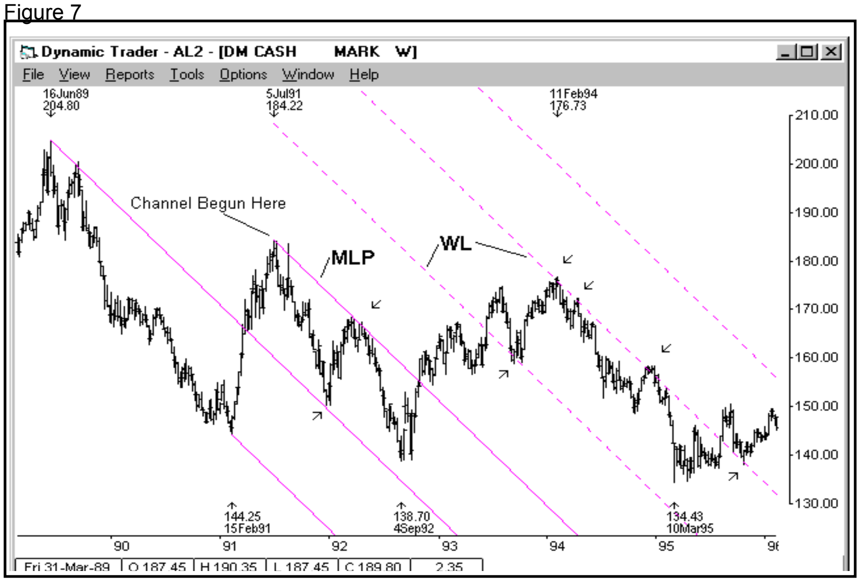


Figure 8

How To Construct An Andrews Channel

Figure 1 shows the basic Andrews channel on the Deutsche mark weekly chart. The initial Andrews channel is constructed from three pivots. The three pivots are labeled X on the chart. A line is drawn that bisects the vector line of the second two pivots and two parallel lines are drawn from the second two pivots. These three parallel lines form the Andrews Channel with a line that bisects the channel in two.

The line that bisects the channel is called the Median Line (ML). The outside channel lines are called the Median Line Parallels (MLP).

The three pivots on the mark weekly chart are defined by the initial low (July 1991) followed by the initial high (Sept. 1992) and the first reaction low (Feb. 1994). The Median Line extends from the July 1991 low and bisects the vector line from the Sept. 1992 high to Feb. 1994 low. Two parallel lines to the median line are drawn from the second two pivots.

Over a year after the channel was initially constructed, the mark made a major high in April 1995 at the Median Line. The mark then made an intermediate term low when it reached the lower Median Line Parallel in early 1996. The break below the channel signals the major trend in the mark is bearish. A new channel should now be drawn using the Sept. 1992 high, Feb. 1994 low and April 1995 high.

Figure 2 is the recent close-only, daily chart of the cash S&P. The initial Andrews channel was constructed from the Oct. 28L, Nov. 25H and Dec. 16L. Weeks later, the waves 2 and 4 lows were each made on the MLP. The dashed lines on either side of the ML are parallel lines that divide the channel into 38.2% and 61.8% divisions. The 38-62 Median Channel usually provides an important zone for resistance or support for most markets. Only the Dynamic Trader software program includes the 38-63 Median Channel, an important geometric division of the Andrews channel.

The wave 5:(5) top in the S&P should be made either within the 38-62 Median Channel or at the upper MLP. The odds favor the 38-62 Median Channel as the final resistance zone for the top since it has already acted as resistance to the waves 1 and 3 highs. Andrews channel lines often help to confirm wave counts.

Figure 3 is a daily chart of July 1997 soybeans. This chart shows two additional parallel lines. The initial channel is divided into 25% segments providing a channel with one quarter divisions. Note that each of the lows in Oct. and Nov. 1996 were made right on the lower 25% division. The Nov. high was made dead-on the upper 25% division.

Warning Lines (WL) are constructed parallel to the initial channel and an equal distance from the MLP ashalf the channel width. When a market has made a confirmed breakout from theoriginal channel, it is an important signal that the major trend has probably reversed. Note that the breakout up from the channel was made on a big gap day. Warning Lines provide areas of support and resistance. The first Warning Line projected the initial resistance in Jan. following the breakout. The second WL will probably provide the next zone of resistance as soybeans advance.

Figure 4 is a silver weekly chart from the April 1994 high. The initial channel is constructed from the April 1994 high, March 1995 low and May 1995 high. These pivots are each labeled A. The lines labeled B are the 25% divisions. This chart also shows a new line, the Sliding Parallel (SP). Silver declined below the ML in July 1995 and quickly reversed up. A parallel line to the initial ML is drawn from the July low. This is a Sliding Parallel line. Another SP line is drawn outside of the upper, initial MLP line an equal distance to the difference of the ML and first SP. The upper SP line is the same distance from the MLP as the lower SP is to the ML. Where was the next major high made? At the upper Sliding Parallel line in Feb. 1996!

In July 1996, silver declined below the upper 25% line by a few cents and quickly reversed up. A SP line is drawn from the July 1996 low. The Dec. 1996 low was made dead-on the SP line drawn weeks earlier! If silver continues to rally, the narrow channel formed by the upper MLP and SP may be an important area of resistance. More importantly, if this channel is exceeded, it will signal the major trend for silver has changed to bullish.

Figure 5 is the daily July 1997 wheat contract. The basic Andrews Channel is formed from the July 12 high, July 26 low and Aug. 12 high. Wheat almost immediately broke out of this channel as it continued the bear trend. Maynard Holt taught in his Trading Techniques book which is no longer available to consider off-setting the initial channel by 50% of the range of the first two pivots. The Dynamic Trader program allows the trader to do just that. Figure 6 shows the new channel with the 50% off-set.

Figure 6 shows the same chart as figure five but with the Andrews channel off-set 50%. The 38-62 Median low was the most significant low since the April 1996 top. The Nov. low was made just a tick or two above the MLP support line of the 50% off-set channel!

Figure 7 is a weekly chart of the cash DM. The basic Andrews channel was constructed from the Sept. 1992 low, Feb. 1994 high and March 1995 low pivots. The channel was begun once the March 1995 low was established. See how the lower MLP has defined the support for the past two years! This was not an after-the-fact trendline drawn by connecting established lows. It was defined in advance by the prior three pivots, by the unique action and reaction of the market itself.

Figure 8 is also a weekly cash DM chart beginning from the June 1989 high. The channel was initially drawn when the July 1991 high was established. The upper MLP and WLs were important support and resistance for more than four years! Do you think Andrews Channels and Parallel Lines could be an important technical analysis tool for you?

As you can see from these examples, the Andrews Channel and properly drawn parallel lines can be a very reliable method to prepare well in advance for support, resistance and trend change in every market. It is extremely important that the lines are drawn properly and that the Sliding Parallel, Warning Lines and static and dynamic channel divisions are drawn correctly and at the proper distance from the initial channel lines.

These lines may be initially constructed with a parallel ruler on chart paper. The Dynamic Trader software is the only technical analysis program currently available that includes a full complement of Andrews Channel projections including all relevant parallel lines and the unique 38-62 Median Channel.

Robert Miner was recently named “Guru of the Year” by the 1997 Supertraders Almanac. His company, Dynamic Traders Group distributes his Dynamic Trader Software and Trading course, the monthly Dynamic Trader Analysis Report and Dynamic Trader Weekly Fax Report. Miner’s new book, Dynamic Trading, will soon be released. Dynamic Traders Group, 6336 N. Oracle, Suite 326-346, Tucson, Az. 85704. (V) 520-797-3668, (F) 520-797-2045, (Web) www.dynamictraders.com.

Vibrations is the Golden “Key” that Pythagras used to Unlock the Mysticism of Numbers

By Joe Rondinone

Pythagras was born the son of a gem-engraver in Italy. He died at 82. He started his arcane school at Cratona with these purposes: To study physical exercises, mathematics, music and religio-scientific laws. He laid out the mathematical relation of the original Greek musical scale. Pythagras proclaimed that nothing exists but through vibrations. He also stated that mathematics are ground in, and strickly built on numerical vibrations. This word “vibrations” is the golden “key” that Pythagras used to unlock the mysticism of numbers.

Numbers:What are they?

There are only 9 numbers. This is the medium that expresses the total value of everything. All values are represented by numbers, price and vibrations in music. Let’s look at the musical scale for background. Music tone in measured in sound vibrations. As you progress up the keyboard on a piano, the pitch gets higher, the vibrations get more rapid. As you go down the keyboard the vibrations get slower, thus making lower sounds. Numbers are very important in music. The piano is tuned to a 440 pitch. This means the “A” key vibrates 440 times per second. A piano has 8 white keys to an octave (8va) and 5 black keys right? Now if “A” note vibrates at 440 times per second, the next 8va (octave) higher will vibrate twice as fast, or 880 vibrations per second; and the next octive higher will also double 880 or 1760 vibrations per second, etc. When these vibrations are correct, the piano is in tune. You will notice that all symphony ochestra musicans tune up. They are tuning up to the piano which is at 440 pitch. Many violins tune to the A minor chord of A-F-D with the A on the top.

Vibrations of the Scales

There are only 8 notes to the scale. More important; There are only 8 notes to all music! When you play the C scale you will play: C D E F G A B C and for a two octave scale you will paly it twice as; C D E F G A B C D E F G A B C. This is called a C scale, major scale. There are two different minor scales, whole tone scales and and chromatic scales. Major and minor scales come in all 12 keys. Why do I bring this all out? I am trying to show how much there is in music markings as compared to how little we have in price markeings. Keep reading. The best is still to come.

Below we have a musical staff

You will notice the G clef, it starts on the 2nd line, or it circles the 2nd line. That line is the G line. Then we have the timing, it is 3/4, Waltz Tempo, we have one sharp, it is on the 5th line so it is a F#. We have 5 lines and 4 spaces as marked. In music, you can have no sharps or flats, that music is in the key of C. If you have one sharp, the music will be in the key of G. You can have as many as 12 sharps or 12 flats in music, but you will see mostly 6 or less. Now, the rules of music dictate that one sharp is always F#, the second sharp is always C# and it is placed in the 3rd space. Flats also follow order. One flat is always B flat, second is E flat. The key of G has one sharp...always.

Music has Timing, Note Values

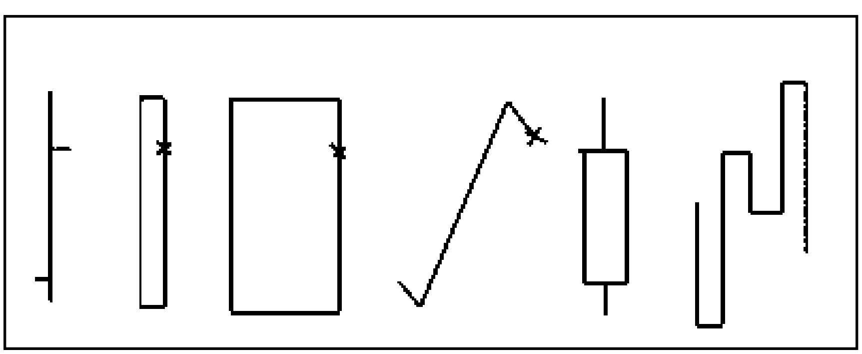
A measure is defined by the timing in the signature. There are to be 3 beats in a measure if we have a 3/4 time. Now we had notes that have different value: We have whole notes ==o A Easter egg and it gets 4 beats " " half note d and Easter egg with a stem, it gets 2 beats " " " " " a quater note d with a stem but filled in, gets one beat " " " an 1/8 note ===d Easter egg with a stem and also a flag. These get 1/2 beat each. We also have dotted whole notes, dotted half notes, dotted quarter notes and even dotted eight notes. The dot gives the note an added 1/2 the value of the notes value before it.

What does this have to do with trading?

You ask and just wait, the best is still to come. In music I have pointed out only a few of the increments that a musician must know before he plays one note. When we make a trade what do we know? What is the most important ingredient that could work towards success? The golden word is timing! Time is the important lost ingredient in price plotting. In music, if a note is 4 beats, you must give it four beats, not 2 beats or one beat. In plotting prices we space the price of each day equally...one space apart, not matter if the day' range is 10, 20, 5 or 30 cents. They are all plotted. Then we try to match a trend line to the unequal values. If you want to prove a point, try drawing a trend line after the first low or high is in place. See how that works...We all like drawing trend lines after the chart is completed. But what is the point, it only tells what you should have done.

Why am I telling you all this?

Because there is a better way to chart prices! A way that will give valid buy and sell signals by the squaring of each time period of 15 minutes to daily or weekly periods...How??? Look: Here we have exmples of some popular charting methods. (See diagram of six chartng methods below in Figure A.) Figure 1 is a static vertical bar, one space wide with the opening and close hanging on the stem. Figure 2 is a closed bar, also equally spaced on the chart with the opeing and close posted. Figure 3 is a vertical line denoting the price movement, but here is



the bomb...it is to be posted with width/space/area. Time is in exact proportion sideways to it's price movement upwards: thus forming a rectangle with the price opening on the left vertical line and the closing price on the right vertical line. This is the the second dimension...the width of the rectangle is governed only by the amplitude of the movement. This will give different size rectangles, dicated only by the price movement as outlined by the 8 Angle Symmetrics Trading Principles. Figure 4

Out-of-Range Settlement Prices

By Bob Pelletier

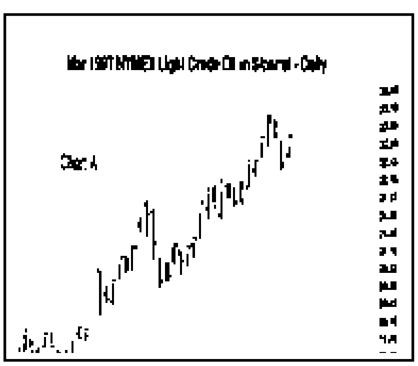
The process of building a trading system involves not only proposing a credible method for measuring market movement, but also accurately interpreting historical market information. Your successful simulated trading technique may not operate as expected in the markets if your data resources do not accurately express the market's behavior.

A basic flaw of many analysis systems which has been perpetuated by most data vendors is the assumption that the settlement price of a commodity is equivalent to the market's final closing price. In reality, the settlement price may represent a price outside the high-low range. You cannot buy or sell at the settlement price because the settlement price is determined after the market has closed.

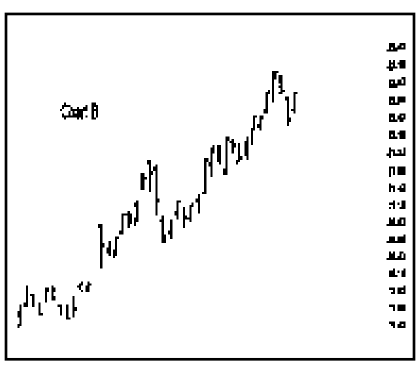
Unlike security closing prices, the settlement price in the futures arena is the price exchanges use to compute daily gains and losses for open positions. Each day, following the final bell, an exchange settlement committee meets to establish the settlement price. They focus on the time and price of the last trade, the last bid and ask, and pricing information on more active nearby delivery months. Very often, the last consummated price is used for the settlement. However, if trading is not continuous and the last trade for a given contract is not time-wise correlated with nearer delivery months, more discretion is introduced. The resulting judgment can be a settlement that lies outside the high-low range. It can be a value where no trading occurred. This can lead to confusion among traders and analysts as to how the true high, low and settlement should be represented.

CSI, in our QuickTrieve update service, and all of the eight competitive data vendors we surveyed handle the dilemma this way: If the settlement price is above the high, the high is adjusted upwards to match the settlement. If the settlement is below the low, the low is adjusted downwards to match the settlement. The result is an open-high-low-settlement data set that may include a range of prices where no trading occurred. This is a convention we adopted in the 1970s to accommodate analysis program vendors of the day who believed compromising actual market conditions would simplify basic efforts to write analysis software. Then, as now, most charting programs required that the close be within the trading range. This convention was accepted as the industry norm.

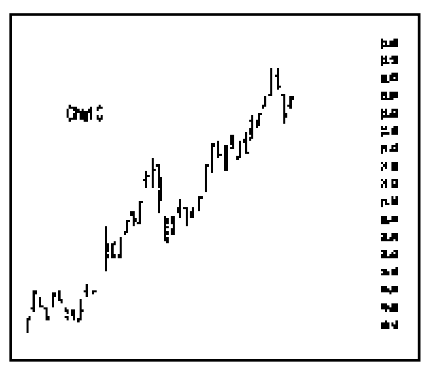
Even sophisticated analysts could easily overlook the fact that the high, low and settlement



CSI's raw, unadjusted data - The true high-low range and the settlement price are shown. Note that voids may exist between the high-low bars and settlement prices.



The current norm (possibly adjusted highs or lows) - Note that the voids in chart A were filled by extending the high-low bar to accommodate the outlier settlement prices whenever the settlement was positioned outside the high-low range.



Adjusted settlements - The settlement may be adjusted to match the closest point in the high-low range where trading could have actually occurred.

information downloaded from your favorite data vendor may not fully reveal the market's past statistical experience. Traders should be aware that in the commodity markets, the given high and low may reflect adjustments made to accommodate decades-old charting techniques.

We took a look at New York Mercantile energy markets to see how often the settlement price occurred outside the high-low trading range. Our analysis showed that at NYMEX, about half the time contracts at least three calendar months from their delivery month were affected. The price distance from the high or low of the day can easily become quite significant. These more distant delivery months can represent about 10% or more of the total contract volume recorded. This suggests that at least 5% of the time a trader following these markets will be examining adjusted statistics. Out-of-range settlements are more common at NYMEX and mercantile markets than at most other markets, but any commodity involved in the settlement mechanism can be affected.

If your system requires entering or exiting the market at the closing price and you used the settlement price as a proxy, then your results may be flawed. Similarly, if your system buys or sells at some projected price within the high-low range, you may be focusing upon a price that lies outside the actual trading range where no fill can be attained. Simulated profit calculations could include transactions where no trading could have occurred, such as at the settlement. A failure to understand these points could cast doubt on your efforts to explore market behavior in search of workable trading procedure.

Fortunately, in CSI's basic data archives, we have saved the true high, low and settlement price released by the exchange for every contract in our data base. With the launching of our new Unfair Advantage software, we can now release futures market data in any one of three basic forms to accommodate the purist who demands the ultimate in accuracy for this market analysis, synthesis and simulation. An interesting observation on competitive data services (and where CSI deviates from the norm) is that every one of the eight competing data firms who accepted our call reported they could not recover the raw data. They are unable to reveal the true high-low trading range because neither they nor their suppliers had saved the original information.

Below are charts showing three ways data might be presented when the settlement lies outside the trading range. With the click of a mouse, users of Unfair Advantage can express data in 'Chart A,' 'Chart B,' or 'Chart C' form, depending upon the conditions and objectives of their research.

To state it another way, Chart A represents the official exchange situation which actually occurred. Chart B is a compromise that may render invalid either the high or the low. Chart C produces an accurate high and low, but suggests a modified closing price that cannot be used for accounting or realistic value assessments on a given commodity at the end of the day.

Charts A, B and C represent a NYMEX crude oil contract that is about three months to expiration. Taking positions this distant from expiration would be a fairly typical scenario for the risk-adverse speculator. It would give such a trader sufficient time for his short term trading algorithm to develop into a profitable posture before facing eventual contract termination.

Chart A's improved method of reporting high, low and settlement prices represents a real breakthrough in accurately interpreting historical market information. This type of charting eliminates the common flaw of assuming that the settlement price of a commodity is equivalent to the market's final closing price. It also avoids the common practice of corrupting the high-low range to accommodate an out-of range settlement. Your successful simulated trading technique, operating on data resources which more accurately express the market's behavior will likely perform better in actual trading.

Setting the "Square in Time"

By T.H. Murrey

Everyone wants a Square Deal ! or Someone Wants to Square Off ! or Everything Comes Back to Square One ! So All Markets Run Through a "Square in Time."

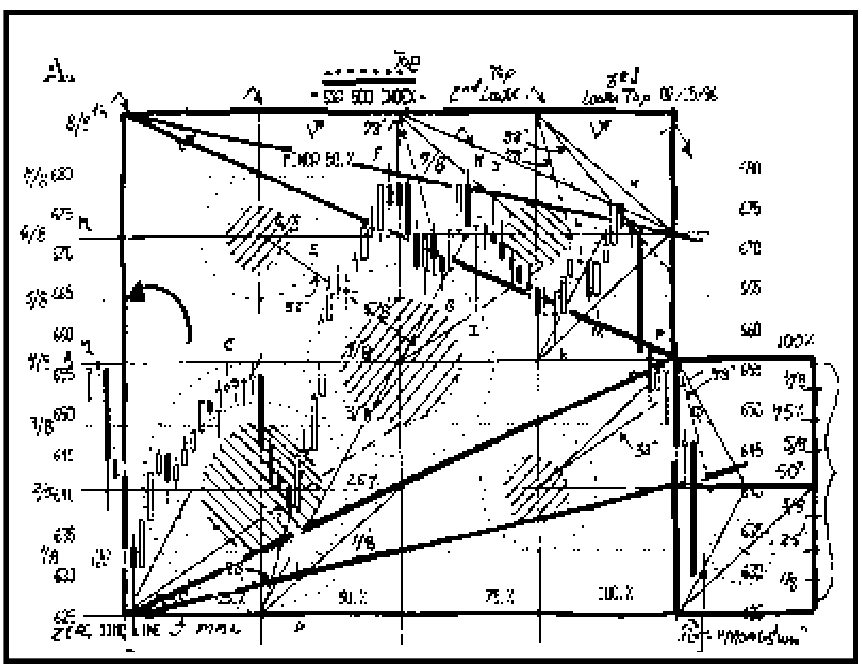
The recorded annuals of many primitive civilizations mentions wanting to set the outer boundaries of their Universe inside a Square (that is actually a cube), that is moving in a spiraling wave pattern to the right (counter clockwise) through space in Time.

Religious transcripts mention (4 Corners) or (4 Angels) to set boundaries around their known territories (as they perceive them).

It is hard for the average American "high school drop-out" to accept the fact that the Earth is spinning and rotating simultaneously around the Sun, while the Moon is also revolving around the Earth as they (all 3) move counter clock wise through space to the right (50.% of all seniors don't graduate their senior year in the 4 largest U.S. cities).

So, it would be equally as absurd, to expect the average "anybody" to perceive that the Universe is a Cube composed of any amount of different kinds of "Mass" that aligns itself in Triangles (Hexagon) inside a Cube, which are enshrouded by a Circle (sphere) of Universal Magnetism (or gravity).

90.% of all "experts" in any field are over 40 years old and they refuse to use the



computer as a 3-Dimensional focal point to track their “money-making” decisions (they would rather read words).

“One Picture is Worth A Thousand Words” is true for Playboy. But even they revert back to “mundane” interviews about politics and fill their pages with semantics rather than simply “overkill” or “overthrill” your senses with outrageous physical examples of the pure and simple “golden mean” proportions and visual “antics” of “heavenly ecstasy” to sell a Fibonacci ratio of “visual acuity.” (“Golden Mean” of human body is the (.618) difference from the base of one’s heel to one’s navel as a direct proportion of the whole distance from one’s heel to one’s head).

And one must sell “provocative advertising” to even sell words these days. Even the financial T.V. shows fill up our “brains” with hours of words, when they should simply flash a chart moving through a “Square in Time” as the “daily price action moves to the right” and dispense with all the curt aphorisms about P. E. Ratios and Projected Earnings Expectations (for the next 12 months). (Coca Cola is presently selling at 44 times earnings: great) ! ?

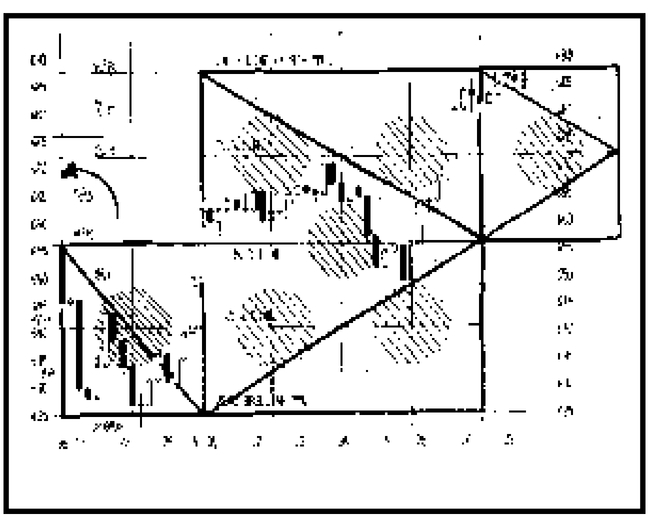
It has been my experience that it is far better to present the “daily price action” as it should be (and that is in a Japanese Candlesticks format) which contains the four parts of each trading day: 1) open, 2) close, 3) high, and 4) low, rather than convert what one “sees” to what one must translate through one’s vocabulary and ability to reason through one’s inherent ability or formal training. (You don’t have to explain Playboy in words).

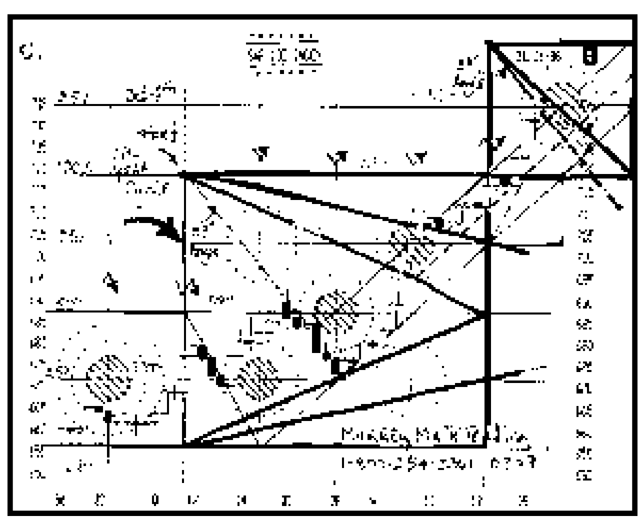
A computer is still used 90.% of the time to do only two functions and those are to: 1) record messages, or 2) hold current prices on a screen, when clients call and query current conditions of your particular market’s daily price action activity.

The “in-house” software provided by a majority of all firms never considers how to set up areas of conflict before they occur or predict future market reversal price points to protect profits.

So, rather than make that “quantum leap” from words to a 3-D movie screen, (and present each day’s trading action as a body with 6 sides) let’s try and present our “Square in Time” in a plan-view (up 8/8ths {Harmony} and to the right {Time} 8/8ths).

Any movie made today is enhanced by the use of computers that create a “truer” visual acuity field of acceptance of what one “sees” (not how one “reads” about what they watch happening). Since most movies are an escape from reality, we don’t want to present something that is skewed too far away from what the majority of all “traders” presently perceive markets doing through sentences, so we shall present a simple Square (frame). Please look at chart





(A) S&P 500 INDEX (Daily Chart) starting April 10th, 1996 through (One Quarter) “Square in Time” July 12, 1996 (64 trading).

Time is pre set to 64 days: where 1/8th = 8 trading days to the right (into each new square). The horizontal price lines were set “Harmonically” off the same math that set the columns at the Parthenon (432 B.C. on the Acropolis, in Athens, Greece to honor one of their Gods Athena).

The present replica of the Parthenon is located on the back side of Centennial Park, which was sold to the city to use as a public park to celebrate Tennessee’s 100th Anniversary, which just happens to be located at the northern most terminal of the Natchez Trace, which was a dirt road built to allow early pioneers to travel south from Nashville, Tennessee down through Mississippi toward the Gulf Shores of America in the late 1700’s to trade commodities.

This “Harmonic” Greek structure is constructed off Pythagorean lines, distances, heights, angles, and degrees of (Phi) ∆ .618 “Golden Mean.”

A simple example of proof that this structure proves that the Earth is / was round before 432 B.C. is realized by taking a measurement of the longside distance in length of the top step supporting the 16 columns; then multiplying this distance times the number of seconds, minutes, hours, degrees to equal 360∞ degrees and you shall miss the circumference of the Earth by 50 miles. (Why didn’t the educated people tell us the Earth was round instead of keeping everyone uneducated to what they could really “see”) ? Have you ever been to the ocean ? Is it flat ?

If you walk down the street along the 16 column side of the Parthenon you shall “see” 16 equally spaced columns holding up this mathematically perfect dimensioned building built of (Phi) ∆

But what your eye “sees” is just as much at fault as what you hear; for you see what you want to see and you hear what you are told is important to know (when you read fundamental reports).

These columns are spaced apart at precise odd intervals of my Internal Octaves off a Perfect Square on the Base of Ten as explained in my trading system <u>Murrey Math Trading System.</u>

Please refer back to my last article in Trader’s World (Issue 23. Fall 1996) where I went into great detail proving that P.D. Ospensky (a Russian Philosopher) mentioned the existence of the fact that anything is composed of 12 like parts and may be subdivided into an internal octave of smaller parts. (It is amazing to me why he didn’t just pick up a book written on the math reasoning it took to construct this Pagan Goddess Temple and he would have seen that Pythagorean Geometry proclaimed the Internal Octave to us long before 432 B.C. (and that is that all Harmonious Lines in Nature want to be set at 3/8ths or 5/8ths or 1/8ths of any given distance on one of 7 different External or Internal Octaves; depending upon your perspective).

If you move close enough to the columns to stand between them you will think the same thing at 1.5625 feet from them that you observed back at 12.50 feet or 100 feet or even out on West End Ave. (1,000) feet off away from the building and it is that all of the columns are equally spaced so that the eye will “see” this Harmony and not recognize the fact that they are unevenly spaced equally apart. These columns are set at an off set of 1.5625 feet off center of a distance of 14.06 feet or 15.62 feet.

How many rich stock brokers drive into work each day from West End Avenue from their homes in Belle Meade, and look over and see all of these columns equally spaced in Pure Math Harmony ?

There is only one way to arrive at this number (1.5625 feet) and that is through The Murrey Math Trading System" 1995. Internal Octaves divided off the Base of 10 Perfect Square of 100.

100 divided by 8 (or multiply by Fibonacci number 1.125%) =12.5

Then divide 12.50 by 8 and get 1.5625. There you have it; an Internal Octave of the 1st Perfect Square on the Base of 10 (100).

You must expand your logic to the next Perfect Square out (using Socrates' 4 Square Principle (actually it is the Sun moving across the Equator in its elliptical Time Cycle above and below the Equator some 30∞ degrees north or south latitude) to cube all of Nature off the base of 10 {Metric System) which would be 1 Square = 1 (100), 2 Square = 4 (1,000), 3 Square = 16 (10,000), 4 Square = 64 (100,000), and so on out to the right.

Chart (A) S&P 500 INDEX is currently trading between 625 and 1,000. So, we are trading inside the 2 Square (zero to 1,000). Each Harmonic Internal Octave is 1,000 x 1.125% or 125. So, we would expect anything to trade inside its closest Internal Octave inside its Perfect Square (which in this case is 1,000).

No person, except W.D. Gann, would tell you to take the high / low difference between zero and 1,000 and trade it as 1/8th of any trading range years before it has ever happened, but all "traders" using The Murrey Math Trading System" 1995 know that all markets already know these numbers years in advance and they shall be affected by these numbers as a proportion to their Perfect Square of mathematical Harmony inside its current Perfect Square. (Let's see if the S&P 500 INDEX reverses off an Internal Octave that is set just as the Columns in the Parthenon were set off Internal Octaves off the base of 10 (432.B.C.) in Athens, Greece) that the Human Eye can't detect (without reading it).

The next smaller Internal Octave inside 125 = 15.625. and the next smaller Internal Octave inside 15.625 = 1.953125 (1/8th Harmonically). (Just as P.D. Ospensky said we should learn).

W.D. Gann proclaimed that all markets want to run +3/8ths or + 5/8ths inside their two extremes (high and low) traded over time.

The Murrey Math Trading System" 1995 proves that all markets already know these numbers years in advance and they shall be affected by these numbers as a proportion to their Perfect Square of mathematical Harmony inside its current Perfect Square. (Greatest example is the Nikkei Dow).

It has already traded into each higher External Octave into 4 Square = 100,000. We multiply 100,000 x 1.125% = 12,500. But since it is currently trading back down below 25,000 we must reset our speed of trading action off the Square of 10,000 x 1.125% = 1250 to predict Harmonic Reversals into the future.

Americans don't get excited when the Japanese stock market reverses up and down 1250 points in one week, yet we are trading at almost 7,000 points on the Dow and they are still putting in trading curbs down at moves as small as 50 points. It should really be set at 15.625 x 5 = 78.125 (5/8ths) of 125.

Now let's set the horizontal lines (8/8ths) off the Internal Octaves established off the 2 Square (1,000) since the S&P 500 INDEX is trading in April,'96 (4 candles before the frame set in April '96) just below 656.25. (this market reversed on a "doji" star 3 days before the end of the January to April 13 week quarter). The previous trading day it formed a "Hangman" sell signal.

Please notice out to the side of 656.25 I have placed (4/8ths), which W.D. Gann said was the most critical (0/8ths to 8/8ths) to move through up or down). This market was set to an Internal Octave with no concern of its last high or low and it reversed right on its Internal Octave 50.% line by simply dividing 1,000 x 8 = 125; then dividing 125 x 8 = 15.625; and then multiplying 125 x 5 = 625 (5/8ths); so now we set our zero baseline off this major (5/8ths) line inside the Perfect Square 1,000.

We can't trade moves of 125 points so we must find the next smaller Internal Octave and it = 15.625, so we start adding 15.625 to 625 (0/8ths). Common sense says that the S&P 500 INDEX doesn't want to move up or down (short term) more than 62.5 points, since 1 point = 10 on the Dow 30 Average.

Then we wouldn't expect the Dow to move up or down more than 625 points before it would reverse and come back to its mean average of wanting to move along to the right through Time on 22.5∞ degrees (normal growth appreciation rate over a year).

Under the The Murrey Math Trading System" 1995, we know that any Harmonic 1/8th, 2/8th, 4/8th or 8/8th shall be divided into smaller 1/8ths and you shall see the same market reactions on a short term basis that you would see longer term off major 1/8ths.

(1/8th) 15.625 x 4 = 62.50. We set the major (5/8th) line 625 as our (0/8ths) line and extended our 15.625 (1/8th of 125) x 4 = 62.5 and arrived at 687.50. We shall call this (8/8ths).

Since we set (4/8ths) as (8/8ths), we must divide each 15.625 into half so as to arrive at our (1/8ths) = 7.8125 between 625 and 687.50 now becomes (8/8ths).

Close inspection proves that all I did was take 50.% of a major Internal Octave inside a Perfect Square (1,000) and sit back and "read" my Japanese Candlesticks and watch for support or resistance reversals off every 7.8125 (1/8ths) within this Pure Math Frame. (Simple Huh) ? (you may "see" it fast) !

Please observe reversal (A) 4 days prior to the end of the square when it reversed right on the (4/8ths) 50.% line and fell back down and reversed back up to end the trading days off the bottom near the 25.% line at (B).

Down at (B) it reversed and moved up for exactly 16 trading days (25.% of 64 day frame) and fell back down at (C) and closed one time right on the 25.% (2/8ths) line at (D).

It reversed and moved up fast +3/8ths to the (5/8ths) line at (E) and formed an "Evening Star" and then the next day it formed "2 opposing dogs" which was a sell signal that was not confirmed the next day because the "buyers" wanted to get in higher up around 665. After the market had already moved up +5/8ths in only (3/8ths of its Time Frame).

Common sense says that all markets want to move up on a 22.5∞ degree angle as it passes through its square, so our market should fall back down to 656.25 at the end of its square, so that price and Time shall = out the accelerated speed of "news" about the market

This market made a strong "breakout" to the upside and finally stalled out up at (F) on the (7/8ths) line, which is a "weak line" subject to fast reversals off the length of the last move up. (This move up totaled +7/8ths, so it was Time for it (price wise) to reverse and fall back down for support along its 22.5∞ degree angle at the end of its square.

This market went laterally sideways for 4 trading days (4 to 7 rule) in a row (F) and fell back down and settled on the 75.% Radiation Circle of Conflict out from the "Habit Circle" at (G) and held for 4 days in a row, then moved back up to test the old highs at (F). At (H) it could hold only 1 trading day and it "tanked" hard and fast taking out the open, waist, and hips of trading activity from the previous day's trading activity.

Please look at (I). This day was a real sell signal: the market wanted to fall but the "buy at the top" buyers say a great deal way up here, so when the market was on its lowest point of the day back down at 664 they came in and drove it back up to the day's opening price at 672.50.

This market had a few buyers at higher levels two days later then it fell lower for 7 trading days in a row to finally settle just below the (5/8ths) line right on the "Breakout Day" on the 75.% Time Line in our 64 day trading cycle at (K).

This market reversed back up at (K) with a "doji" "rickshaw man" "sell signal" and it moved back up and stalled out a 3rd time at (N) just above the (6/8ths) line on an observed W.D. Gann rule Third Lower HighRule. In just 10 trading days this market fell back down to the same price as it had been some 64 trading days earlier, when the trading action had entered its "Square in Time."

Please note that this square has 5 circles of conflict drawn inside our square. This market knows where these conflict circles are as far out as 1 year in advance (as witnessed by the round daily trading action when it entered the frame of 64 trading days).

Let's move now to chart (B) S&P 500 Index and you "see" that we have started a new Time Frame off the last trading day of chart (A) and we "see" that this market started "reacting" to this new square and its 5 circles of conflict as it traded through its triangle set off its (5/8ths) base of a Perfect Square (1,000), which = 625.

This market moved up (short term) (8/8ths), which is an intermediate term (Murrey Math Line) (4/8ths) set to Pure Math.

It formed a W.D. Gann rule Double Bottom off 625 (0/8ths) and moved up + (6/8ths) off pure math and reversed and fell - (3/8ths) back down to a Pure Math (3/8ths) line right on the diagonal line of its equal angle triangle (for support) and it moved up + (5/8ths) to the Pure Math (4/8ths) (8/8ths) lines.

It is important to note here that this chart (B) should end on October 7, 1996. (It is curious that the Earth moves back as it moves forward through Time (precession), so we must set our 1996 - 1997 (fall to fall) trading frame off an earlier starting date since the Earth's apihelian reversed earlier this year, so we move our frame back to an earlier date (inside the previous Time frame and set it off October 4th.

Under any W.D. Gann high / low price extremes (8/ths) or square of "9", one should simply keep repeating your Time frame where ever it moves into the future. (We start our frames over each fall).

ºMurrey Math Traders set all markets off the same starting date Time frame (vertically) along Pure Math (horizontal) (8/8ths).

This Time frame (chart A) was extended off a chart frame (64 trading days) that started back in January, 1996, which was started off a chart that was started the previous (1st Frost week) in October 1995.

This chart was connected onto each previous chart as our price action moved to the right from one (64 day trading frame) to the next (64 day trading frame), until we see its current trading action as it moved through its 3rd quarter off our "trading year" based off the 1st Frost Day of 1995, into its 4th quarter chart starting in July and finishing in October of each year.

It is important to note that this market has already started trading into its 3rd day into its (4th) quarter of 1996. This 4th quarter chart shall finish out its year on October 7, 1996.

Please look at chart (C) S&P 100 Index. I called everyone and informed them that the Earth was tilting back for winter a few days earlier, so we needed to move our "Square in Time" back to October 4th, 1996, so we would be trading along the next year's precession off its moon / sun / earth "magnetism."

This chart (C) S&P 100 Index (Daily chart) starting October 4th, 1996. Please note that this market's Time frame moved backwards and it still knew to want to trade around its 5 circles of conflict and its center circle and notice that it bounced off the same angled line of support in a new equal angle triangle (set into the future off a new Time frame off moving backwards).

My simple trading system doesn't have to start with W.D. Gann's (#1) Rule: take the extreme high and low price action reversals and divide them by (8) and watch for reversals off these two extremes in 1/8th increments.

I set up a Square for our markets to run through by setting up vertical "Time Line" days into the future (starting at the 1st Frost (in October each fall) and run them consecutively (until the next October Frost), when we start all over again.

Side Note: this trading system requires that you "re-set" the 1st Frost day each year, so that our Time Frame doesn't move forward and run ahead of the start of next year's 1st Frost. (It is my premise that all humans are short-term "savers" and they don't think ahead any further than 9 months out into the future, so the markets and the spendable income of most humans won't last any longer than their ability to plant, grow, harvest, sell and spend whatever their efforts bring them as a reward for their hard works.

Coincidentally, this 1st Frost Day parallels the moving action of Orion (constellation) as it passes by the Pyramids at Giza, Egypt.

Down here in Tennessee we just watch and "see" when the hummingbirds leave Tennessee. (They can't take the cold air).

This might be the only "Perfect Trading System" ever observed through nothing more than "cornball visual recognition of the obvious" price movement being (supported / resisted) off the "Internal Octaves" inside a Perfect Square set off the Base of 10.

It takes only 5 minutes to set any market to this trading "Square in Time." Once you learn to set one market, you may move on to the next market without having to "study" its trading action for 6 months. It is true that all markets are driven by supply and demand for any product against off the "bounty" nature provides.

T.H. Murrey is the author of Murrey Math Trading which can be ordered through Traders World Catalog.

Why Johnny Can't Trade

By Dr. Hans Hannula, PhD, CTA, RSA

Why is it that bright, well educated men and women armed with the latest in computer technology, technical analysis techniques, trading software, and superb real time data feeds and piles of mechanical trading systems, can't make money? In the futures markets, between 80% and 90% of new traders do not last six months. This is a horrible failure rate. Compounded over three years it means that only a few percent of traders ever make it.

So are the markets rigged? Are the traders just being sucked in, ripped off, and thrown away? Is there some grand conspiracy to deprive these people of their money? Are the developers of trading systems, trading software, educational material, etc. all dishonest "rip-off" artists? What is going on here?

After over 30 years of watching markets and five years of day trading the S&P, I, too, have felt the joy, gloom curve experienced by traders. I have seen my equity curve go up and then come down, go up and come back down. Each time it came down, I studied harder. I have continued to learn many new and undiscovered things about markets.

I have learned that markets are energy systems. I have also learned that I, too, am an energy system. Anyone who trades a market should understand the market as an energy system and themselves as an energy system.

I think there are several reasons why Johnny can't trade.

Reason number one is that commodity trading is inherently difficult. This is especially true of real time commodity trading. The knowledge and skill required to trade something like the S&P 500 well are equivalent to the knowledge and skill and decision making ability required of a combat pilot or a brain surgeon. Many, pieces of input data must be collected, analyzed, condensed, and weighed to make a trading decision. Then that trading decision must be executed swiftly, precisely, and correctly. This is a task that is not easily accomplished by anyone, let alone by newcomers. This level of performance is rarely achieved. Yet it can be achieved.

The second reason Johnny can't trade is that the industry misleads him. Johnny's mailbox is constantly filled with advertisements that tell him that while he was working at his ordinary job, everyone else was getting rich. If he had only bought the Dow when it was at 1000, he would have multiplied his fortune by sixfold today. Or if he had bought gold at 35 and sold it at 800, he, too, would be rich. These ads always tell Johnny how easy it is to make the money. Some of these ads are even true. What they don't tell Johnny is how to keep the money.

The third reason Johnny can't trade is that he needs education. This is compounded by the fact that trading is not a discipline taught in colleges and universities. There is a great deal to know about markets and trading. A serious trader must be willing to invest in course after course and spend the time to master the material before they will begin to understand why markets behave the way they do.

Unfortunately, a trader is like the early barnstorming pilot, who had to not only fly the airplane, but fix it when it broke without tools and without a clear knowledge of aerodynamics.

There is a great deal of good educational material in the industry. There is also a lot of material that is not based upon thorough research or a particularly successful track record. Much of this material is based upon too few samples of data, with conclusions drawn too quickly. Many traders do recognize their need for education. They tend to persist and keep studying and keep working. But this leads to the fourth problem.

Johnny can't trade because Johnny does not understand himself. Like markets, Johnny is an energy system. Johnny will have days when he makes decisions well. He sees the patterns well. He trades well. He makes money. Johnny is happy.

Johnny will have days when he couldn't trade his way out of a wet paper bag. He will rationalize the information. He will place the wrong orders. He will react to the market instead of anticipating it. He will make error after error. Yet somehow, when Johnny gets in this mode, does he quit? No! Like a magnet stuck to a refrigerator, Johnny will sit at his screen and place order after order trying to make up what he lost. Johnny is not in control.

Some people will tell Johnny that he is "too emotional." Johnny grew up being programmed to believe that men did not have emotions. He learned that it was wrong to have emotions. What Johnny doesn't understand is what emotions are.

Emotions are electric currents. It is a scientific fact that the earth's ionosphere is charged by the solar wind coming from the sun to a voltage of approximately +300,000 volts [6]. The earth Johnny stands on is at 0 volts. This means that between the earth and the top of Johnny's head is a voltage of approximately 240 volts. This is the earth's electric field. This voltage causes an electric current to flow through Johnny. That current is over 2000 times as strong as the currents in Johnny's neurons [1]. Changes in the electric field can cause 10%-20% changes in the voltage in very short periods of time [6].

Johnny is trying to operating a 10 billion neuron neural network in that electric field. His brain is completely electrochemical. His brain is completed unshielded from this external field. Within Johnny's brain are the neurons. Each neuron collects a number of inputs, adds them together, and if the value is over a certain level, generates an output signal. These signals are all small voltages. The output signals become our decisions.

Imagine that the decision to enter a trade about to be made. Inside the neuron the voltages added together are almost at the decision threshold. Suddenly, an external voltage adds just enough energy to the neuron to make the decision, even though the input data was not sufficient to make the decision.

Johnny just made an "emotional" decision. On days when the external currents flowing through Johnny are extremely strong, he may make many emotional decisions. On days when the currents are weak, his decisions may be sound and "rational."

One result of my research has been the XGO formula. This formula computes the energy being absorbed by a market or by Johnny on a given day. A most interesting thing happened in my own trading. I noticed that my equity curve rose and fell along with the swings in my XGO energy chart. There was a level of energy above which I traded well and below which I traded as if I were totally stupid. Knowing that I was using some of the best software in the world, some of the best analysis methods in the world, and some of the best money management in the world, I found this startling.

I realized a hard, cold fact. I was being driven by external energies as well as by my own. At first it was hard for me to believe that something external was running my equity curve and not me. The more carefully I analyzed the data, the more obvious it became. My equity curve did go up and down with my natural energy curve.

When I looked at the level above which I traded well, I found that my energy curve was only in the "okay to trade" area about 40% of the time. Now this was hard to accept. The data was telling me that I was not free to trade any day I wanted to. Says who? This is America. It is a free country. I fought in combat for freedom. Why can't I be free to trade?

I felt frustrated. Then I recalled a book I had read several years earlier on biocircuits [7]. Biocircuits are an external arrangement of wires that allow a person to draw energy directly from the universe. Biocircuits were researched and used for over 35 years by Leon Eeman and others. They were found to promote relaxation, improve health, and even heal specific ailments. I had also been to Mark Douglas' trading psychology course and had learned many good things from Mark [3]. For years I had used positive affirmation tapes to improve my performance in other areas.

As I researched these areas, I came across the work of Mr. Owen Lehto [5]. Mr. Lehto had developed a technique for measuring energy in foods and for analyzing nutritional needs from saliva samples. I discovered that I could use his measurement technique to measure my own personal energy. So I decided to conduct an experiment.

I wanted to see if I could improve the number of days that I could trade well by boosting my energy using biocircuits. I first computed my energy function using my XGO software. I decided to use Mr. Lehto's energy measurements to verify the result of the experiment. I made a special affirmation tape and constructed my own biocircuit. For six weeks, the first thing I did every morning was to lay in the biocircuit while listening to the affirmation tape. Before I did the exercise, I measured my energy. After the exercise, I again measured my energy. Figure 1 shows the results.

My energy level before the exercise did follow my theoretically calculated XGO energy curve. This validated both the XGO curve and the energy measurement technique. The XGO curve is shown by line A on the chart. My energy before laying in the biocircuit is shown at B. My energy level after laying in the biocircuit is shown at C. On the average, I boosted my energy by a factor by 2.6. What I had found was a way to boost my own energy level above the level of poor decision making. My experiment was a success. I had a way to avoid "emotional" decisions!

After doing much research in energy fields, and particularly after reading about the effects of magnets on organisms, especially the work by Davis and Rawls [2], I developed a concentration headband. This specially designed headband incorporates a correctly oriented flexible magnet. When I wear it, my own electrical fields in my head are strengthened and my head is somewhat shielded from the influences of the external field. I now never trade without wearing my headband.

I also learned that not only was I being subjected to variations in the earth's electric field, but that I was also subjecting myself to a potentially harmful radiation from my computer screen. Mind control by beaming signals at people is not new. The Soviet Union for years bombarded the American Embassy in Moscow with a microwave signal. This carefully designed signal had devastating affects upon the embassy personnel. When President Nixon visited the Soviet Union, members of his staff housed at the embassy became severely depressed. Many of them broke down and sobbed powerfully, yet they could not explain why.

The science of generating these signals is relatively well documented in public documents. Of course, much more information exists in classified government files. What is known is that a high frequency microwave signal modulated by a low frequency signal in the range of the human brain waves can induce psychological changes in the human brain [1]. These changes can cause depression and severe impairment of decision making ability. The Soviets went so far as to build the most powerful radio transmitter on the planet and use it to beam a radio signal called the “woodpecker.” The signal was a rapidly sweeping radio signal modulated with low frequency in the range of human brain waves. Speculation is that this was used to interfere with the mental activity of the free world.

Your computer monitor generates a “rapidly sweeping radio signal modulated by low frequency.” In other words, Johnny may be trading badly because he is being mesmerized by his computer screen. The screen is a stun gun and Johnny’s been stunned. This mesmerizing effect has also been noticed by the well-known trading psychologist Van Tharpe.

Fortunately, we have found a simple and effective solution for this. This screen radiation may be effectively trapped with four small energy traps placed on the corners of a computer screen. These traps are simply tuned circuits which trap the signal and dissipate it as heat. Using Mr. Lehto’s energy measurement technique I have found that these traps could change a screen from a negative 130 energy points to a positive 100 energy points. Applying these energy traps to all the electronic devices in my trading office changed the office reading from -2000 to +800.

We have also found that it is extremely important to monitor your own vitamin and mineral levels. After having a saliva test, I found that I was low in key minerals, in particular magnesium. Working with other traders and other people, we have found that many people are extremely low in magnesium. Many people are also excessively high in calcium. This creates a chemical imbalance which definitely effects the behavior of a person’s neural network. Magnesium supplies conducting ions in neurotransmitters, which are critical in the brain chemistry. These are important for conducting signals from one neuron to the next. Calcium, on the other hand, acts as an insulator to prevent conduction of electricity. Excessive calcium is often due to low magnesium, although there are other causes. It is extremely important for Johnny to have his trace minerals in balance.

So maybe Johnny can’t trade because he doesn’t understand the care and feeding of the neural network between his ears. Every trader who sits down to trade has the world’s most fantastic super computer between his ears. Those 10 billion neurons are capable of extremely powerful pattern recognition, decision making, and trade execution.

But Johnny needs to give that brain a chance. To help traders we offer a Trader’s Energy Kit which consists of an Energy Charging Kit, a Concentration Headband, and 8 energy traps. With this, Johnny should be able to trade better.

What, may you ask, has been the effect on my own trading? The first change I have noticed is consistency. I make far fewer losing trades, and I have almost eliminated the “stupid” trades. The second effect I have found is that I can take the market or leave it. I do not feel magnetically attracted to it anymore. I feel absolutely zero emotion on a day I don’t trade. If the market screamed a thousand points on that day, I simply don’t care. When I do trade, I have found that my focus is far sharper. I no longer believe that the short I just put on is the beginning of the Crash of the Millennium. I take my profits more quickly. In my last set of 20 trades in the S&P I raised my account 50%. My goal is 100% consistent execution of my rules.

I firmly believe that to trade well Johnny must be persistent, study hard, and learn to manage himself. The things we have discovered about Johnny as an energy system have been extremely helpful. Hopefully it will shorten our time to total trading success. I recently asked a very successful trader how long it took him to learn to trade successfully. His answer? It took him 20 years. So maybe in five years in day trading the S&P, I have learned enough to understand why Johnny can’t trade, and I have learned what it takes for Johnny to trade well. So if your ambition is trading, perhaps you can benefit from what we have learned.

Now I picked on Johnny and did not mention Jane. I am well aware that there are many female traders. I am also well aware that females have an extra layer in their brain. This is a physical, biological fact. It is a higher order layer that supervises the lower layers. Men simply don't have this layer. So maybe Jane can trade better than Johnny. She accepts emotions. She has this extra computing layer to better handle them.

Whether you are a Jane or Johnny, you must cope with the external electromagnetic field and it's effects on you. You must cope with the man made electrical fields around you. If you do this, study markets thoroughly, equip yourself with good tools and techniques, and are a bit lucky, you can succeed as a trader.

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The Trader's Energy Package is one component of a growing set of trading tools from MicroMedia. One can learn more by contacting the author or checking out his WEB site at http://www.cashinonchaos.com/hans. For your own energy package send $120 and head size in inches to MicroMedia, Box 33071, Northglenn, CO 80241, voice: 303 452 5566 , fax 303 457 9871.

The C Wave Method of Trading Elliott Wave

By Myles Wilson Walker

The basic premise of Elliott Wave Theory is that all actively trading markets can be predicted because price moves (as represented on a price graph) are a picture of massed human emotions. What happens from a low to a top is always pretty much the same be it stocks, soybeans or currencies and the speed of the market is a measure of emotional pitch.

Traders of a bull/bear move are in already, either waiting to get in kicking themselves they didn't act sooner or are shorting because the move has gone too far. Others have closed out early and want to get back in but are hesitant to give back any profit. Success is fraught with worry about closing out paper profits and euphoria when the market closes higher.

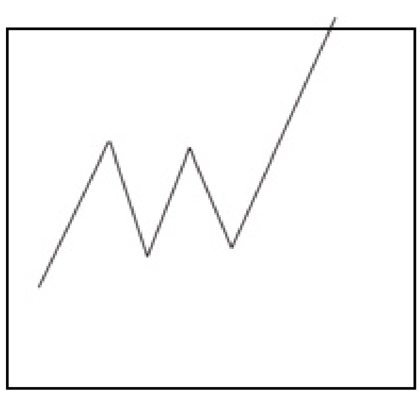
Objectively the markets are just about 100% pure emotion. No wonder price waves up and down exist! This why its so hard for most people to make money. The are always dong the wrong thing by responding reactively to these emotional/price waves. Elliott wave looks for these waves and uses them to anticipate change.

Until my book no one had been able to successfully turn the theory of Elliott Wave into a practically step by step method for real time trading.

There are 11 end patterns and when you match the pattern with the market you are in you can catch the change. By end pattern, I don't mean just a top or a bottom. You don't need any other indicators the C wave patterns and entry rules are complete within themselves, as any good method should be.

The Copper 10 minute intraday chart (see figure 2) gives you an idea of the opportunities that exist when clear patters develop. There is a logic behind the labels for each wave which is explained in detail in my book.

The C wave patterns are found on daily and intraday charts and are ideal for short term swing trading. Each market has an optimum time frame for intraday trading because if the time of each price bar is too small you get too much noise and if set too big your



risk at entry is large.

When I suggested doing a book about my Elliott Wave innovations, my publishers insisted that it be written so that anyone could learn without any previous knowledge of wave theory. This I have done by simplifying the logic routines into practical steps and introducing several breakthrough concepts in wave counting as well as the C wave patterns themselves.

I would be doing my work an injustice by trying to teach you the C wave/Elliott Wave counting method in such a short article. My main point is that you don't have to be a genius or spend months learning for this to work for you. If you did nothing more than learn the simple concept of the ABC correction and scanned 5 to 10 markets daily or intraday for the clearest low risk C wave patterns your trading would be successful.

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Until my book no one had been able to successfully turn the theory of Elliott wave into a practical step by step method for real time trading.

There are 11 end patterns and when you match the pattern with the market you are in you can catch the change. By end pattern, I don't just mean a top or a bottom but all the price moves in between, these are opportunities to get on again with the major trend. An A B C is the typical correction (see figure 1).

In average market, conditions these are the best time periods to set your charts for trading C waves intraday

S&P500	5 minues
Tbonds	60 minutes
EuroDollar	60 minutes
Currencies	60 minutes
Beans	15 minutes
Wheat	30 minutes
Live Cattle	15 minutes
Hogs	15 mintues

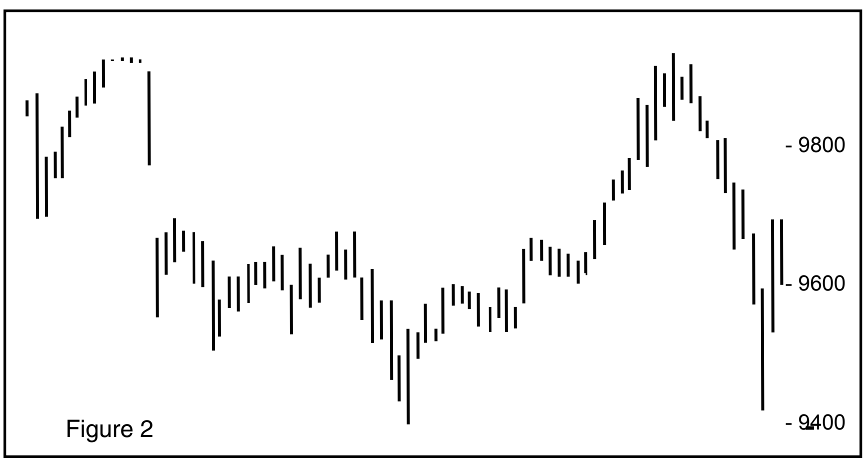

Figure 2

Bellies 15 minutes
Sugar 30 minutes

These time periods can be adjusted for very quiet or active markets. The main criteria is seeing the patterns clearly, taking fast profits and getting into trades with the smallest risk.

The C wave method in its entirety is a trend following system using only daily charts. If used like this there must naturally be a bigger commitment in learning time than just the A B C pattern approach discussed earlier. I believe that interest develops naturally over time as you gain confidence. The C wave method being a multi level approach offers something for everyone on matter what their current skill level. My book“How to Identify High-Profit Elliott Waves in Real Time” is available from Traders World for $69.95 subscriber pay $49.95 plus shipping.

How To Trade With The Trend

By Bruce Babcock

There are four cardinal principles which should be part of every trading strategy. They are: 1) Trade with the trend, 2) Cut losses short, 3) Let profits run, and 4) Manage risk. You should make sure your strategy includes each of these requirements for success. In this issue I will begin a series of articles on these principles.

Trade with the trend relates to the decision of how to initiate trades. It means you should always trade in the direction of recent price movement.

Mathematical analysis of commodity price data has shown that these price changes are primarily random with a small trend component. This scientific fact is extremely important to those desiring to pursue commodity trading in a rational, scientific manner. It means that any attempt to trade short-term patterns and methods not based on trend are doomed to failure.

A good example of such a doomed method is Japanese Candlestick patterns. This theoretical conclusion is consistent with my previous research. Many years ago, just as Candlesticks came into vogue, I attempted to create a profitable trading system incorporating Candlesticks. I tried many patterns and many types of systems, all without success. I have never seen anyone else demonstrate the effectiveness of Candlesticks using objective rules either.

Successful traders use a method that gives them a statistical edge. This edge must come from the tendency of commodity prices to trend. In the long term you can make money only by trading in synch with these trends. Thus, when prices are trending up, you should only buy. When prices are trending down, you should only sell.

While this important principle is well-known, traders violate it surprisingly often. They are looking for bargains so they prefer to try to buy at the very bottom or sell at the very top before new trends become established. Winning traders have learned to wait until a trend is confirmed before taking a position consistent with that trend.

Here's what consummate market expert Jake Bernstein said in my book, The Four Cardinal Principles of Trading (Irwin 1996): "Of all the common market principles, I put 'Trade With The Trend' at the very top. It's a lesson I've had to learn and relearn practically every year. All traders have the tools to find trends. That's what makes it especially frustrating when we go contrary to the trend or when we try to pick tops and bottoms."

The alternative to trend following is predicting. This is a trap that nearly all traders fall into. They look at the commodity trading problem and conclude that the way to be successful is to learn how to predict where markets will go in the future. There is no shortage of people willing to sell you their latest prediction mechanism. We all want to believe that predicting is possible because it's so darn much fun to make a prediction and be right.

Here's Jake Bernstein again with a little dose of reality: "It took me over nine years to realize that, although it may be a romantic and ego-satisfying goal, forecasting is not necessarily synonymous with profit. To anticipate trends is a difficult and often haphazard task, and it tends to lead to losses more often than profits."

Trading with the trend is hard to do because a logical give-up exit point will be farther away, potentially causing a larger loss if you are wrong. This is a good example of why so few traders are successful. They can't bring themselves to trade in a psychologically difficult way.

You can define the concept of trend only in relation to a particular time frame. When you determine the trend, it must be, for example, the two-week trend or the six-month trend or the hourly trend. So an important part of a trading plan is deciding what time frame to use for making these decisions. While it is perhaps easier psychologically to keep the time frame short, the best results come from longer-term trading. The longer you hold a trade, the greater your profit can be.

Here's what Russell Sands said in an interview with Commodity Traders Consumer Report. Russell was an original member of Richard Dennis' Turtles group and has built a successful career as a money manager and advisor generally using the Turtle methodology.

"The best approach is to be a long-term trend follower. Trend following is statistically valid in the sense that everybody has tested it for years and years, and it works.

"I acknowledge that the market trends maybe 20 percent of the time and chops back and forth in consolidation 80 percent of the time. The trick is how to define where the trend starts and where it stops. If when a market does trend, you get in at the right time, ride that trend and then get out at the right time, you'll make enough money to more than offset the losses you take during non-trending periods.

"Another part of the basic philosophy is that we don't know when the market's going to trend and when it's not. In fact, we don't know what the market's going to do at all. We can't predict anything it does. We don't believe in predictions. Instead, we react to the market."

For the greatest chance of success, your time frame to measure trends should be at least four weeks. Thus, you should only enter trades in the direction of the price trend for the last four weeks or more. A good example of a trend-following entry rule would be to buy whenever today's closing price is higher than the closing price of 25 market days ago, and sell whenever today's closing price is lower than the closing price of 25 market days ago.

When you trade in the direction of this long a trend, you are truly following the markets rather than predicting them. Most unsuccessful traders spend their entire careers looking for better ways to predict the markets. If you can develop the discipline to measure trends using intermediate to long-term time frames and always trade in the direction of the trend, you will make a giant step in the direction of profitable trading.

Bruce Babcock is the founder and Editor Emeritus of Commodity Traders Consumer Report. He has written eight books on trading including The Dow Jones-Irwin Guide to Trading Systems and Profitable Commodity Futures Trading From A to Z. He has designed over 25 computerized software systems for traders, a number of which he trades himself. His latest book is The Four Cardinal Principles of Trading, available from Reality Based Trading Company (800-999-2827 or www.rb-trading.com).