The Idiot & The Moon

Randall Ashbourne

presents

His Simple Rules
for using the

Compleat & Utter Lunatic Idiot's Guide To Trading Stocks

Information is not Knowledge – and Knowledge is not Wisdom

Einstein/Kappa

Introduction

The last thing I learned was the first thing I knew.

Somewhere between then and now, I'd forgotten – drowned in a daily deluge of data and information, cunningly disguised as knowledge.

But, it was not. It was a long way from being knowledge and farther still from being wisdom.

So, this book is an attempt to begin at the beginning – at least so far as stock trading is concerned. And we begin with just two thoughts:

- **ALWAYS protect your capital**
- **I am NOT as smart as I think I am**

It's not a big book, but I hope it distils many years of information accumulation into a taut collection of useful knowledge that you, in turn, may be able to convert to trading wisdom.

Its primary purpose is to outline the rules of a simple trading system – a system so simple and so easy to follow that I call it: *The Idiot*.

It will take only a few minutes of backtesting on your part to see that it does work; it will protect your capital; it will deliver enormous profits without agonising, analysis, or angst; it will limit your losses; and it will prove itself to be a lot smarter than you think you are.

But wait … there's more. As they say in the tackier TV commercials.

I will introduce the details of a Lunar Cycle trading system that will also help you to make profits and to avoid costly mistakes. And I will show you advanced and original techniques using unique planetary software to determine the probable start and finish prices of intermediate and long-term moves in some of the world's most widely-traded stock indices.

And I will show you how to make the most use of some simple technical indicators, unlike books which tell you what they are, but not how to tweak them and interpret their signals and secrets.

The book is written for those who, like me, forgot the first thing they knew – but, also, for everyone just starting out learning how to trade stock markets.

The simple truth is that most traders lose money. If you remember the first two thoughts and learn to follow *The Idiot*, or even only *The Moods of the Moon*, you will not be one of them.

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Chapter 1: *The Idiot – Full Details*

Simple instructions on how to create a chart template which provides certain and reliable profits, without knowing anything else. It works – and more than that, once you know the method, you can prove it works before you have to risk a single dollar!

Chapter 2: *The Moods of the Moon*

The phases of the Moon were one of the first celestial tools actively employed in everyday Life on earth. Even ancient people knew when to plant for a bumper crop and when to reap. *The Moods of the Moon* shows how to employ that knowledge in stock market trading – exactly when to sow (buy) and when to reap (take profits). It is massively profitable! And all you need to know are the dates of the Moon phases.

Chapter 3: *Old Gods and Price Points*

This chapter is the result of many years of working with Jeanne Long's brilliant discovery that planets can tell you Price targets. You'll learn that different indices and stocks react to different planets; that it's possible to create charts that give you highly-reliable Price targets, not only for medium-term weekly moves, but for multi-year Bull and Bear markets. You don't need to know anything about astrology because *Old Gods and Price Points* details exactly how to create the necessary charts.

The Technical Section

The remaining chapters deal with a limited number of Technical Analysis tools. There are many books out there that tell you what a MACD is, but not how to tweak it for optimal use or how to read the signal so you know when a market is likely to continue rising, from one that's about to fall in a huge hole!

This section will introduce you to *The Canaries*, the TA tool that is most likely to give you an early warning to get ready to go Long – or to get out of Dodge fast!

It will show you exactly how markets tend to rise and fall *in the same angles* as in the past, so that you can go back to a previous rally to create a trendline which is very likely to be an incredibly useful guide during any current open trade. And it will also show you how markets have a tendency to rise in three distinct angles of trend so that you know when a blow-off is about to fade and fall over.

And it will also show you how to create Bi-BBs – Bollinger Band charts that will keep you in a winning run much longer than standard BB charts.

As I said earlier, it's not a long book. But it is a book which distils many years of personal experience from a deluge of too much information into what I hope you find is really useful knowledge.

The getting of wisdom, however, is entirely up to you!

Chapter 1

The Idiot – Full Details

And so to begin. I see no point in dilly-dallying and teasing you on through several chapters of promises before we get to the meat. We'll deal with this like adults. First the essential information, and later you can flesh out some other techniques and learn the basics of how to do things for yourself, instead of paying others inflated prices to state the obvious.

***The Idiot* system is designed primarily to help not just those who might be new to trading, but also those who have allowed themselves, at some time, to become completely befuddled by an overload of information, much of it contradictory and some of it just downright wrong and misleading.**

It is designed to help overcome that most damning of trader afflictions – analysis paralysis.

The system itself is exceptionally simple and clear, but it does have rules. There aren't many. They relate mainly to using three different timeframes *BEFORE* making a decision to place a trade.

To use *The Idiot* properly you will need three charts, all of which use:

- ***1 Closing price Weighted Moving Average set for 5***
- ***1 Opening price Exponential Moving Average set for 5***
- ***1 MACD set at 20, 6, 9; OR***
- ***1 CCI indicator using two different time lengths – 6 and 14***

These settings must match the timeframe of the charts. Most software will do this automatically. However, some software has "daily" set as the default mechanism. This MUST be changed to "weekly" for weekly charts and "monthly" for monthly charts … ie: the MAs, CCIs and/or MACD must be daily on daily charts, weekly on weekly charts and monthly on monthly charts – or you will get false signals.

Set the timeframes of the price bar data at these levels:

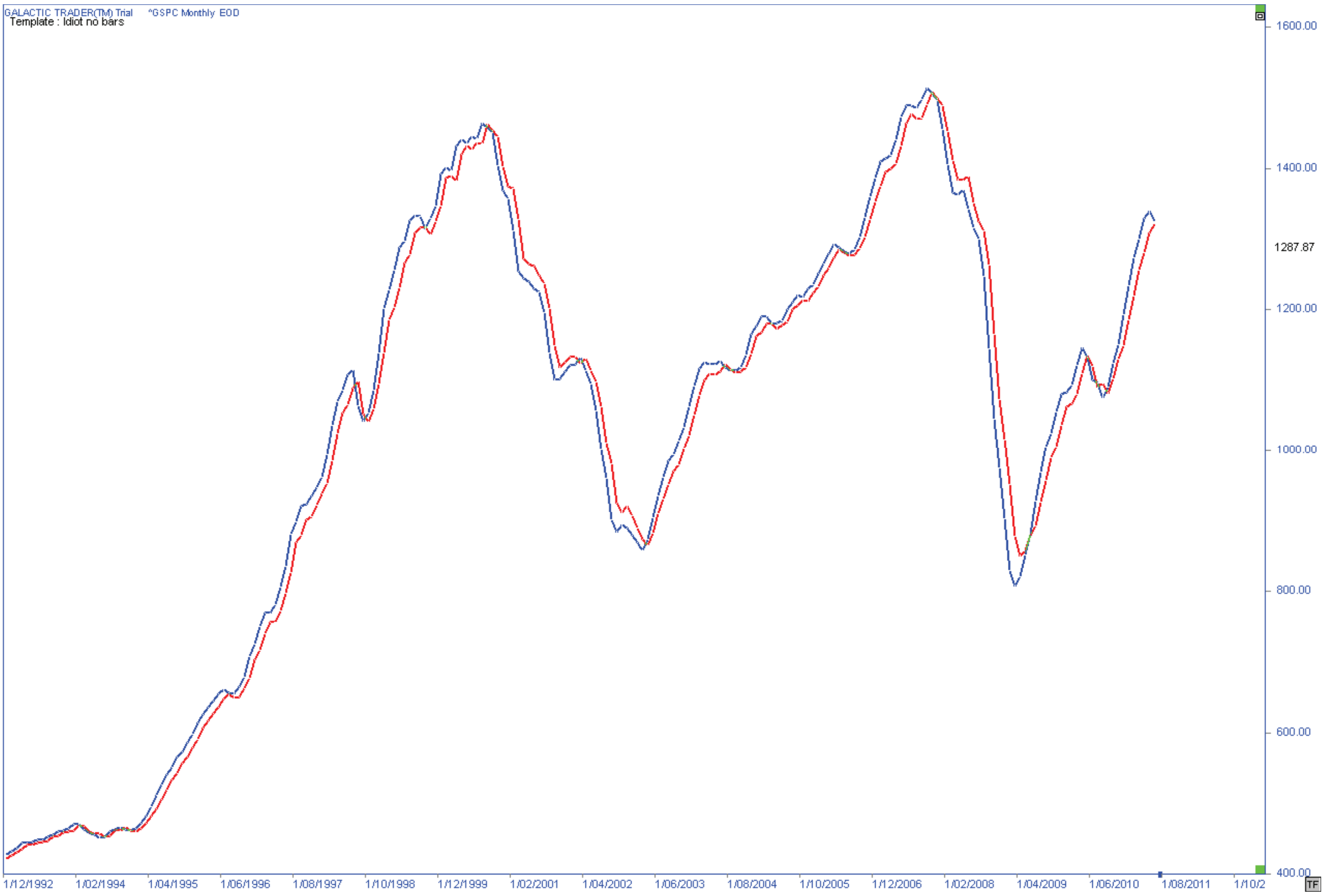
- ***Daily – 6 months of price data***
- ***Weekly – 2 years of price data***
- ***Monthly – 6 years of price data***

Once you have these templates set up and saved, you will be able to run any stock, or watchlist, through all three of them in a matter of minutes.

For the purposes of this exercise we will be using Wall Street's SP500 index, probably the most traded and closely watched stock index in the world.

To the rules: -

ALWAYS start your analysis with the Monthly chart, with a minimum of 6 years of price data. This will give you an instant and clear visual picture of whether the stock is bottoming, topping or somewhere in the middle of a cycle.



On this chart I have deliberately turned OFF the price bars. In the Galactic Trader 4 software I am using, it can be done by choosing white as the colour for the price bars.

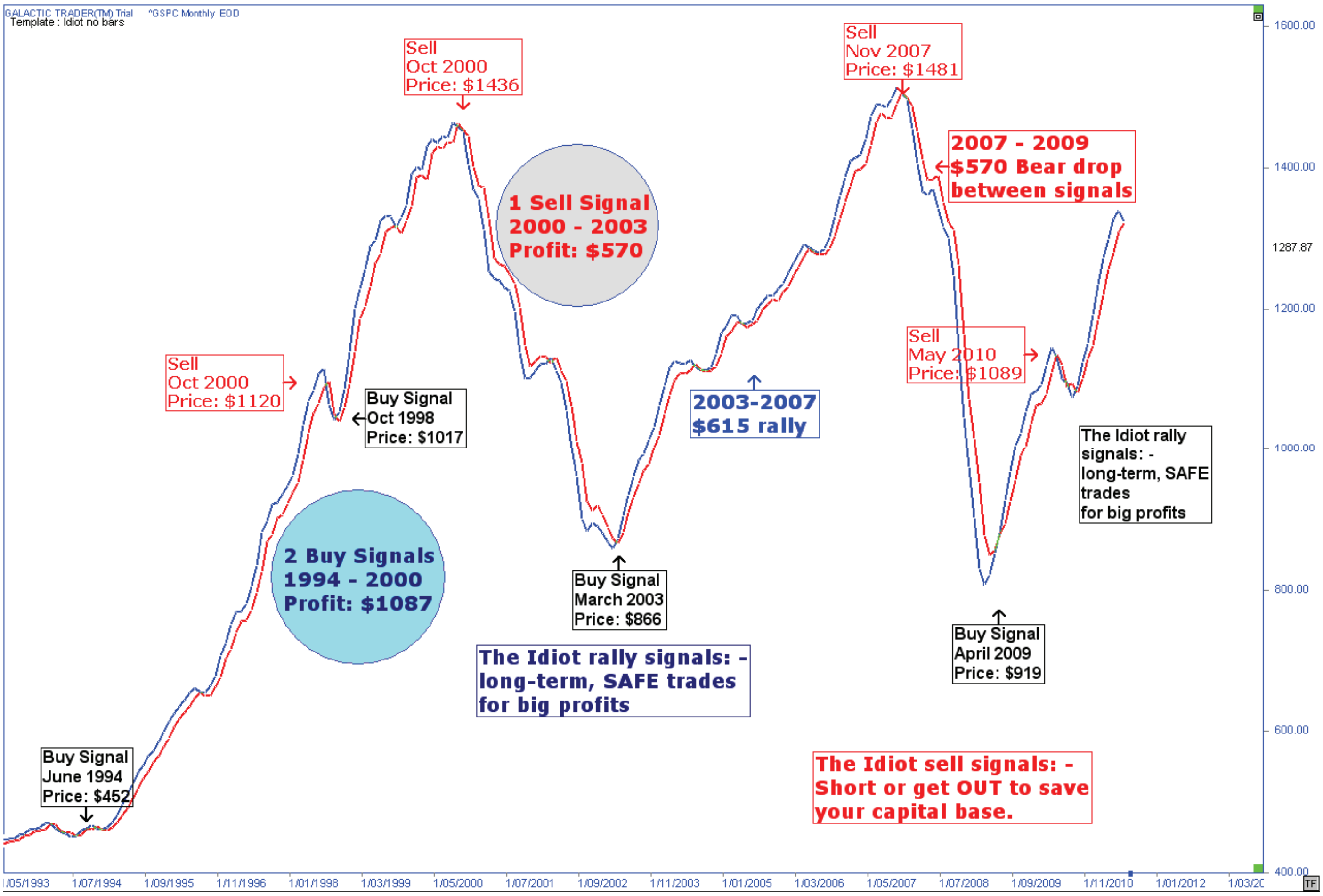
It is a mechanism that's easy to use and gives a clear picture of how *The Idiot* works by removing any bias that creeps into our thinking by concentrating on the price bars.

At its most simple, a positive crossover is a Buy signal, a negative crossover is a signal to exit Long or enter Short.

When you look at multi-year monthly charts in this way, it's easy to differentiate between rally and correction periods – or "Price" and "Time" phases, which is something we'll take a closer look at towards the end of the book.

At this stage, we are dealing with the most basic chart of all – with no price bars and neither of the recommended oscillators. We'll come to those shortly. If you're confused about where a stock is, or where it's going, *always* use this chart template first.

NOW we'll look at the same chart of the SP500, but add just a few important details!



This is 5 major trades in 17 years and every one of them has been an angst-free winner. Not a single false rally signal. If you are an investor, rather than a trader, *The Idiot* is a vital tool for milking maximum profits during the running of the Bull markets – and keeping your cash absolutely safe from a dreadful mauling by Bear markets.

I told you right at the beginning. It's simple. But it ain't stoopid! Stupid is listening to "experts" who tell you this sort of return isn't possible without expensive software, expensive advice, and many hours each week agonising and analysing. They'll sniff derisively and dismiss you as "a trend-following moron" who relies on "lagging indicators".

Forget them. There are a great many people out there who are more interested in stroking their Egos than stoking their bank accounts.

Trading stock markets successfully is NOT difficult. We make it difficult because there's a nasty, little childhood gremlin still lurking in our brains which has us wired to think "Life isn't meant to be easy!"

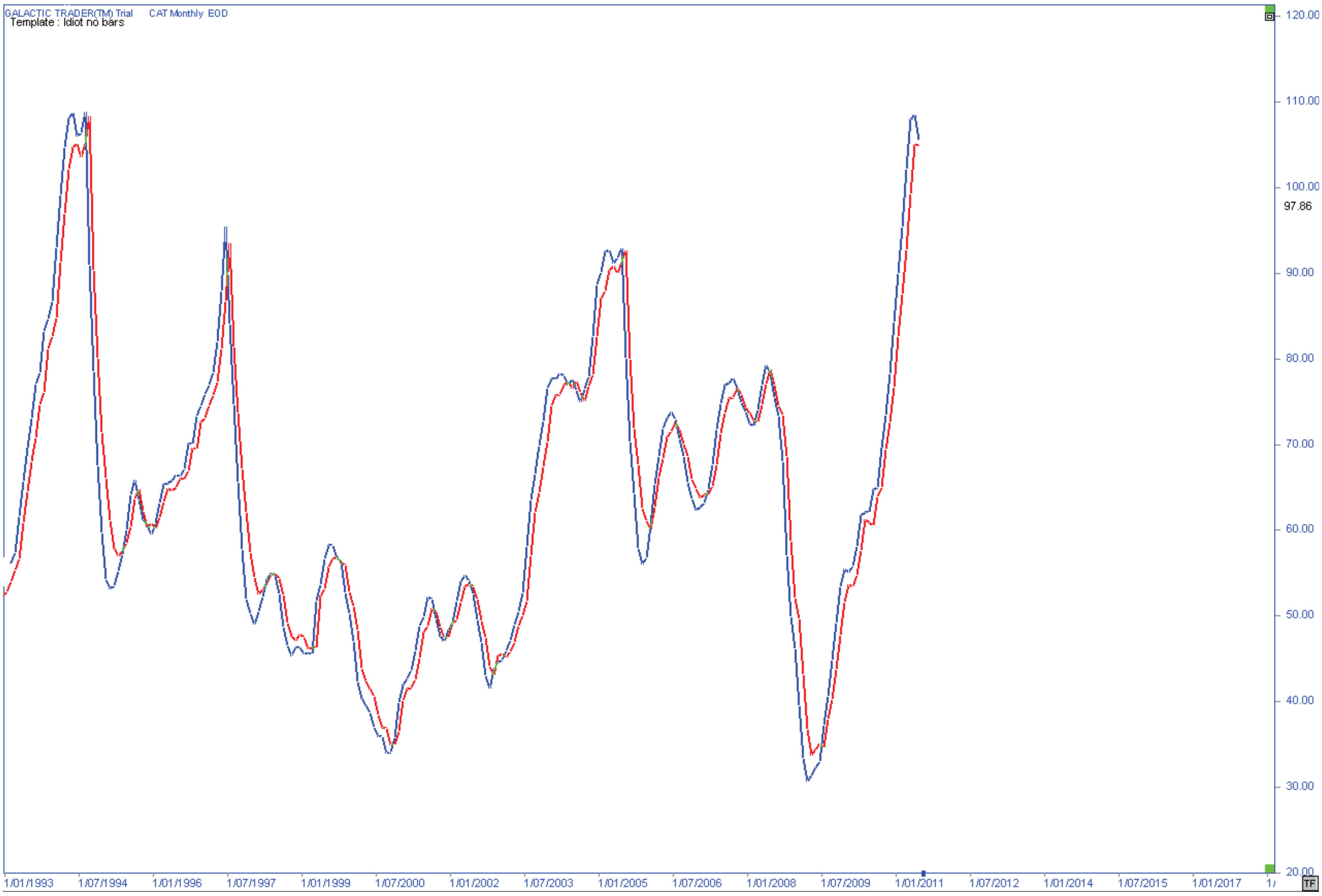
Having said that, I should confess it has taken me many years of actively trading markets for up to 12 hours a day before settling on this very taut and particular set of tweaked signals.

ONCE we have *The Idiot's* basic template created and saved, it can be used as the *first* check for any index, commodity, or individual stock.

It will tell us at a quick glance whether the stock market overall, or a particular commodity like gold, is currently within a Bullish phase or a Bearish one.

However, it is usually the case that individual companies can be performing as either leaders, or laggers. Sometimes they will lag because their business is in a sector of the economy which is doing badly – and sometimes they will lag simply because they're badly managed.

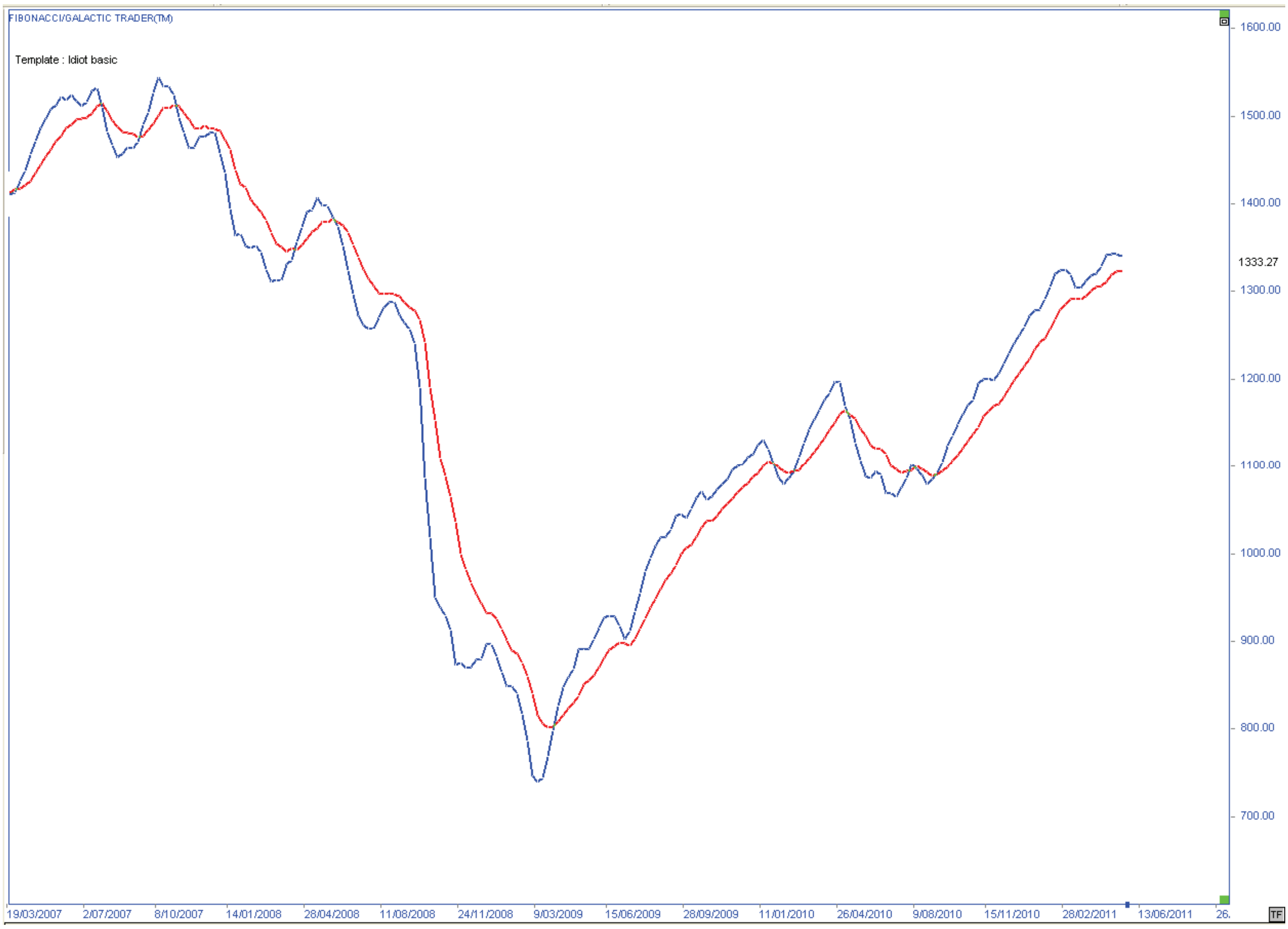
Nevertheless, the first rule of *The Idiot* is … pull up a monthly chart and turn OFF the price bars so we know exactly, right from the start, whether the forest we're looking at is healthy – or whether there's a wildfire raging and destroying everything in its path.



This is a 15-year chart of the Dow Jones Industrials component, Caterpillar – the heavy machinery manufacturer. Instantly we can see it has been a strong leader and has reached a higher price peak than it did during the two earlier Bull runs – and, also, a higher price peak in relative terms than the broad Wall Street index, the SP500.

But we can also see that trading individual stocks is more difficult than trading an index because there are times we'll get "whipsawed". Don't despair yet! Most of us don't have 15-year timeframes in mind for our trades; we're interested in making money much faster. By the end of the first two chapters of this book you'll know not only *what* to trade, but *when*!

LOOKING at a weekly chart using *The Idiot* template starts to bring us closer to that goal – and we will go back to the SP500.



Rather than the multi-year chart we used to make our first determination about whether the overall conditions were Bullish or Bearish, we are narrowing the focus to the past few years, in this case the collapse from 2007 into 2009 – and the recovery rally which followed.

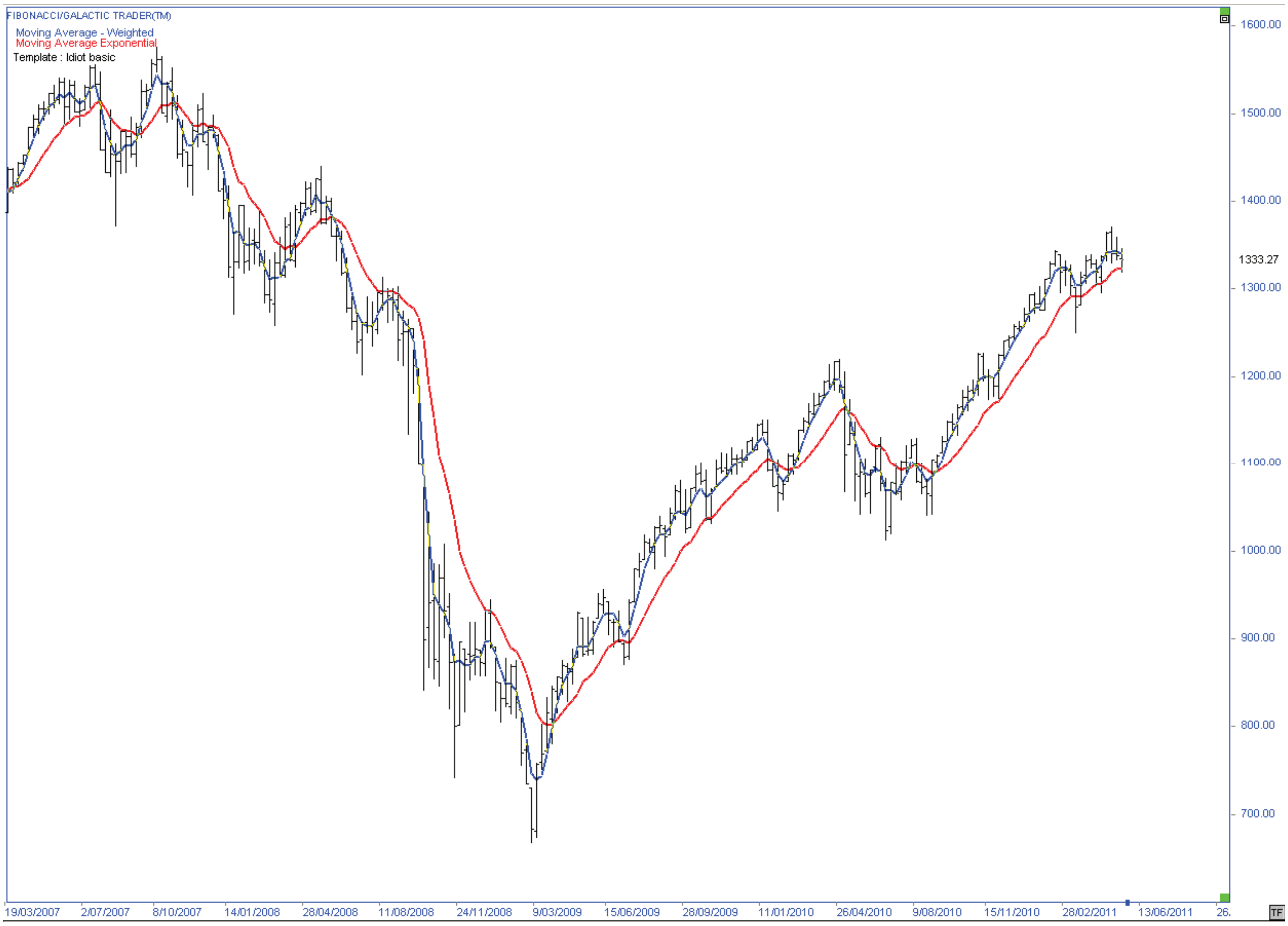
The monthly chart gave us only 2 signals during this period – get out of the market fast and a signal to get back in. The benefit of the weekly chart is that it gives earlier signals and allows both investors and traders to capture a larger proportion of rally profits and to protect themselves against declines likely to be more than just a hiccup.

In a little while, we'll learn to incorporate one or two technical oscillators, specially-tweaked, so that we know whether it's a good risk to trust and act on these earlier signals. However, everything that follows is mere icing on the cake. Here we are at Page 8 and you already know enough to make money – consistently, reliably, safely.

The whole raison d'être of *The Idiot* is to show how simple and easy it can be. It's actually turning off that nasty, nagging childhood hangover that's the problem!

Using a weekly chart does give some "false" signals. But very few! And those it does give are a very minor irritation compared with the profits to be generated by consistent use of the system.

HAVING learned the basic method of looking at monthly and weekly charts with the price bars invisible, we'll now turn them on.



Instantly, we pick up additional information. However, I have to caution you that already we are starting to stray into territory where the additional information will begin to assert an almost irresistible pull on your mind – subtle stroking of the Ego to convince you that it can't really be all that difficult to beat an *Idiot*.

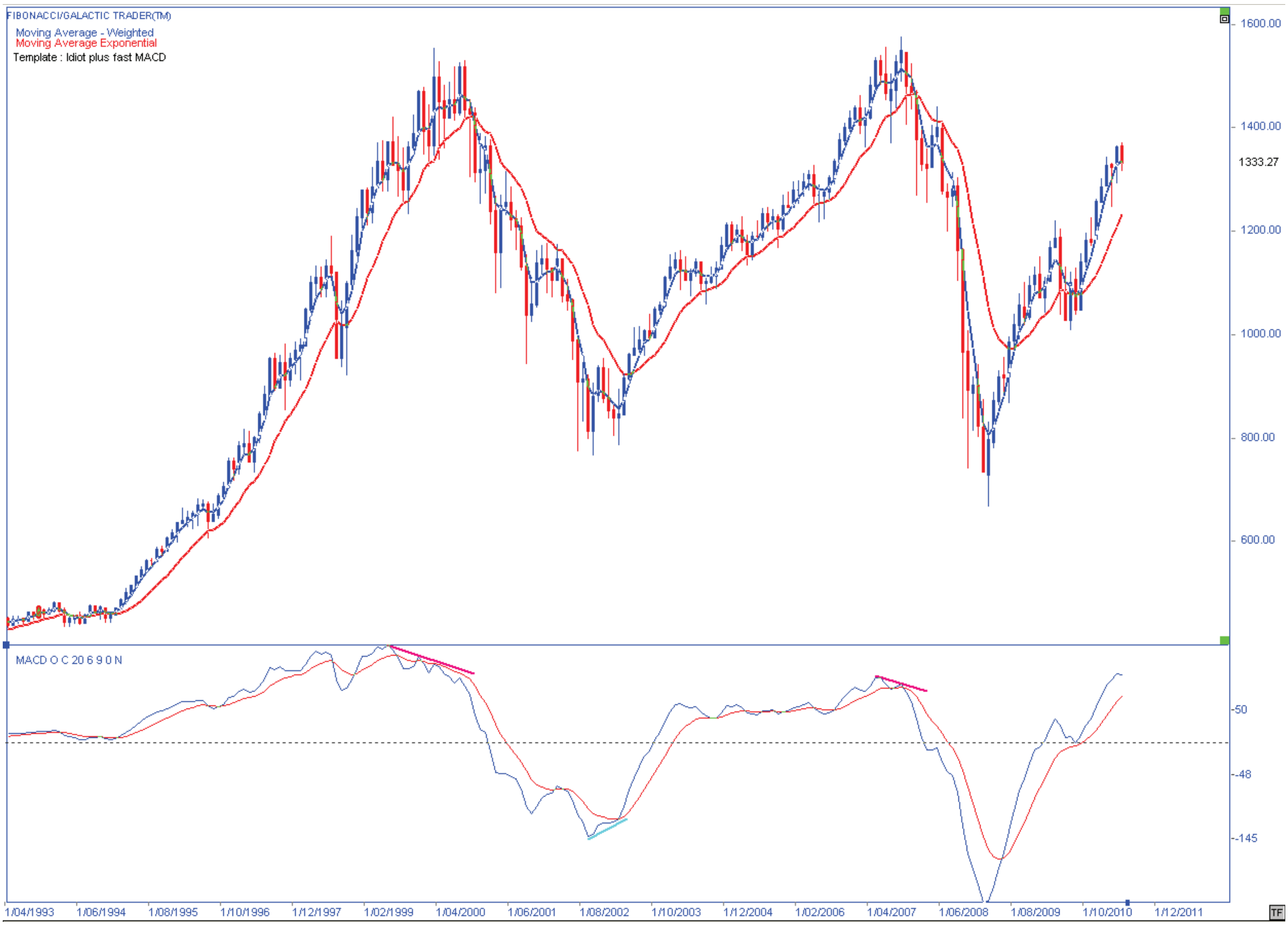
Repeat the second "thought" from the Introduction – I am NOT as smart as I think I am! I'll warn you now – you can spend a decade of constant losses, hardship, struggle and despair finding out the hard way; or you can do the smart thing from the outset.

However, the point about turning the price bars back on is to pick up on a nuance that can give us an early warning. We can see that during uptrends, the weekly price bars tend to bottom on the 5WMA and that the reverse happens in downtrends when the bars tend to hit a peak at that line.

It's a method of keeping a closer check on how things are going in the forest. The danger will come when you try to beat *The Idiot* to the punch by *assuming* that it is going to cross. Often, you'll be just plain wrong.

Which is why I've compiled this book in the way I have – to show that you can totally ignore price bars and that the system itself will give very few false signals.

BEFORE we begin using the system for short-term trades using daily bars, I'll introduce the fast MACD – a tweaked oscillator designed to sniff the first tendrils of smoke from a potential wildfire.

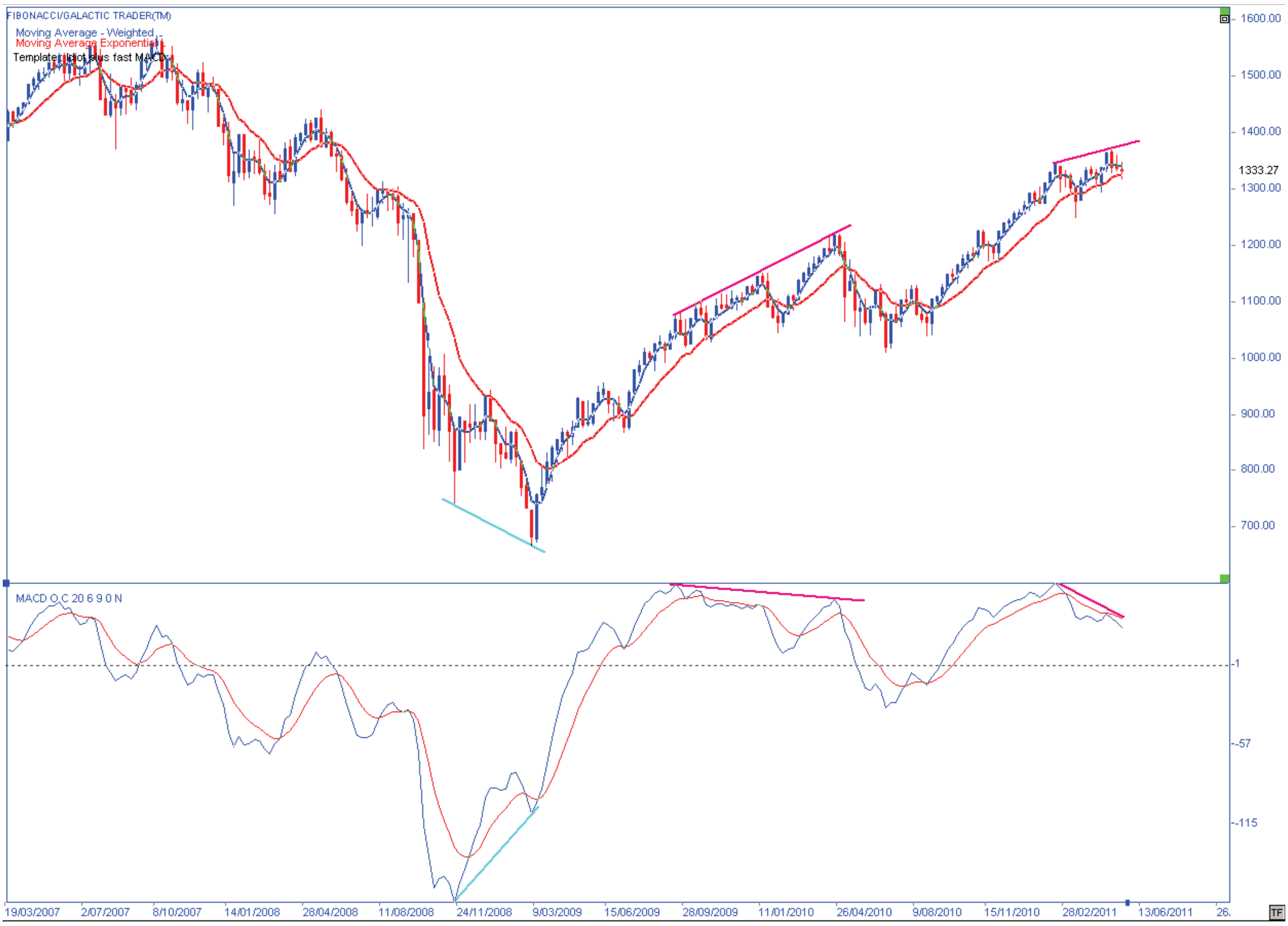


I will explain more about the MACD in The Technical Section, but for now I want to introduce you to the concept of divergence. It's when an oscillator disagrees with the price - and there are examples of both positive and negative divergence.

On the left of the chart, we can see the 1999-2000 peak in the SP500. But while Price was making higher peaks, the fast MACD was making lower peaks … a warning sign that while the Bull looked strong on the surface, its heart was failing fast. We can see the MACD signalled another case of negative divergence while the market was peaking again in 2007, though in that case the warning period was much shorter.

And we have a clear case of positive divergence when the markets were forming a bottom in 2002 … the faster, blue signal line on the MACD was turning north, with higher troughs, while Price bumped along the bottom of the Bear move.

WHEN we turn our attention to the same template on a weekly chart of the index, the divergence signals become even more pronounced and obvious.



Here we can see the bottom of the 2007-2009 crash very clearly in a classic case of positive divergence. While Price makes a *deeper* trough, the MACD makes a distinctly *higher* trough.

At this time we can see there is still no Buy crossover on *The Idiot* signals and that the price bars are peaking at either the blue line or at the red.

However, it is that dramatic positive divergence higher trough in the MACD which gives an early warning signal that can be *trusted*. Compare the very clear Buy signs right near the bottom of the Bear with the false signals given early in the downturn, when the positive MACD and *Idiot* crossovers were *not accompanied by positive divergence in the MACD*.

We need also to pay attention to the two sets of negative divergence signals given by the fast MACD in this weekly chart. As Price climbed steadily higher into the midway point of the recovery rally from 2009, the MACD was diverging negatively, warning the market was facing a classic case of "too far, too fast".

As I prepare these charts in mid-2011, we can see a potentially more dangerous wildfire warning!

ANOTHER oscillator which can be used instead of the fast MACD is a combination of CCIs (Commodity Channel Index) set for different lengths. I call these *The Canaries* because they serve the same function as canaries in a coal mine – when they fall off their perch and croak, the air is turning toxic!

The Canaries are my favourite technical indicator because they perform superbly as early-warning signals when prices are getting ready to turn – up or down.

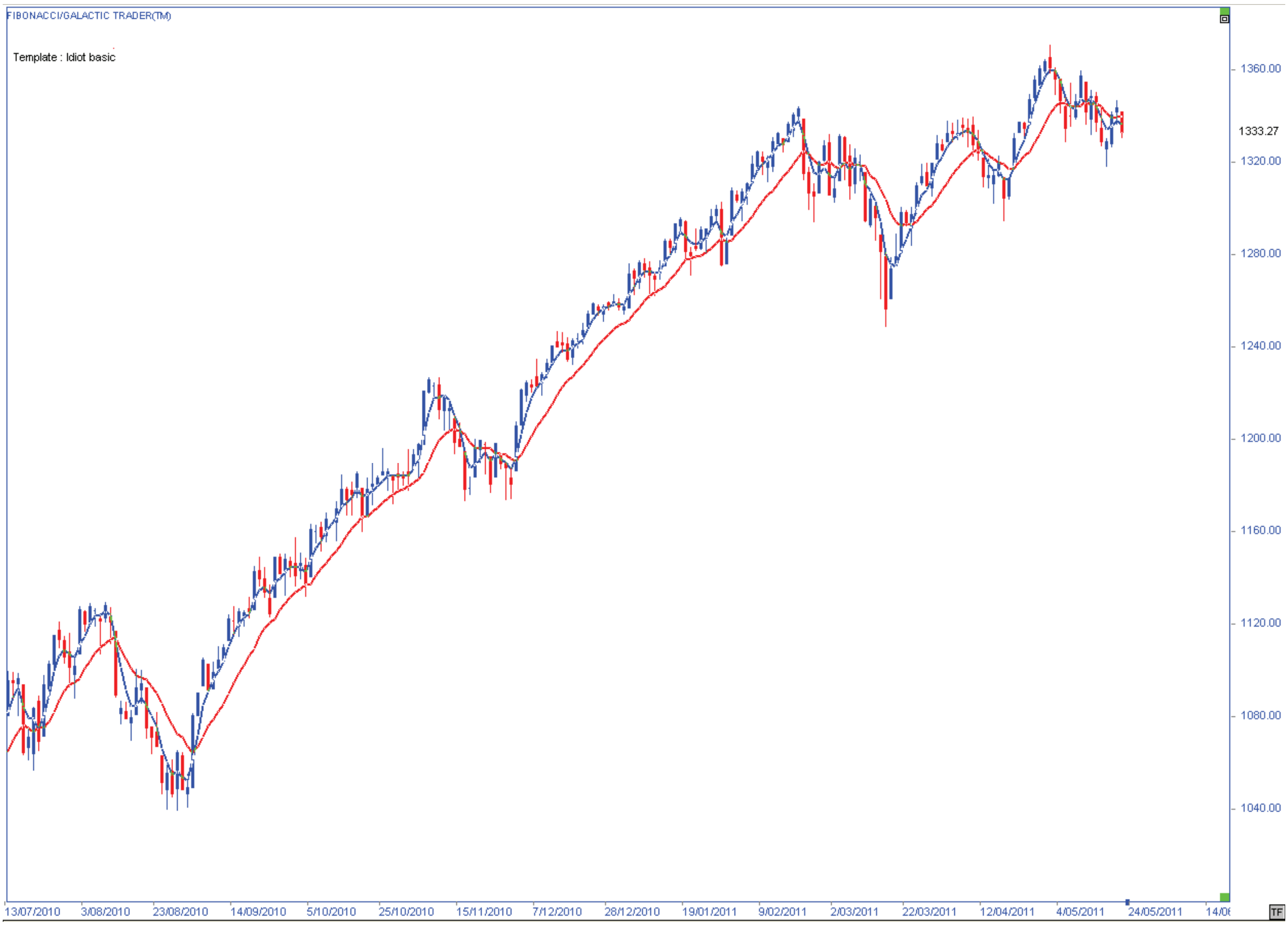
This is the same weekly SP500 chart used on the previous page, but with the MACD replaced by The Canaries. Obviously, they give much bumpier signals than the MACD. However, they are very much worth the little extra effort to learn; something which will become very apparent as we employ them in future charts.

Again, we see the clear signs of *positive* divergence at the bottom of the 2007-2009 Bear fall.

We get multiple early warnings of *negative* divergence during the final months of the midway rally. And in the current period, late May of 2011, we are again getting shrill shrieks. The last completed trough on the blue canary plunged *very* deep and very fast.

It is a strong signal that the rally underway has some serious problems just below the surface and great care is needed with Long positions when we see these signals. We will go carefully through *how* to read the secrets and signals of our tweaked oscillators later in the book.

FINALLY, we will turn out attention to daily charts. Remember, so far we have used monthly charts to give us a clear picture of the multi-year landscape and whether the vehicle we're trading is in a long-term Bullish or Bearish phase overall. And we've also taken a close look at the weekly chart to become familiar with the intermediate-term outlook – and, especially, whether there are any warning signs of either a positive or negative nature.



Now we get a look at how *The Idiot* performs at a daily chart level. Immediately, it's obvious this system gives some fantastic profits, with built-in safety levels to protect those profits. Please take the time to study the chart carefully.

Again we see that when Price is moving up it keeps in constant contact with the blue *Idiot* and very rarely breaches the downside of the red *Idiot*. We also see it gets you out of the market really fast so you can protect most of your profits and all of your capital.

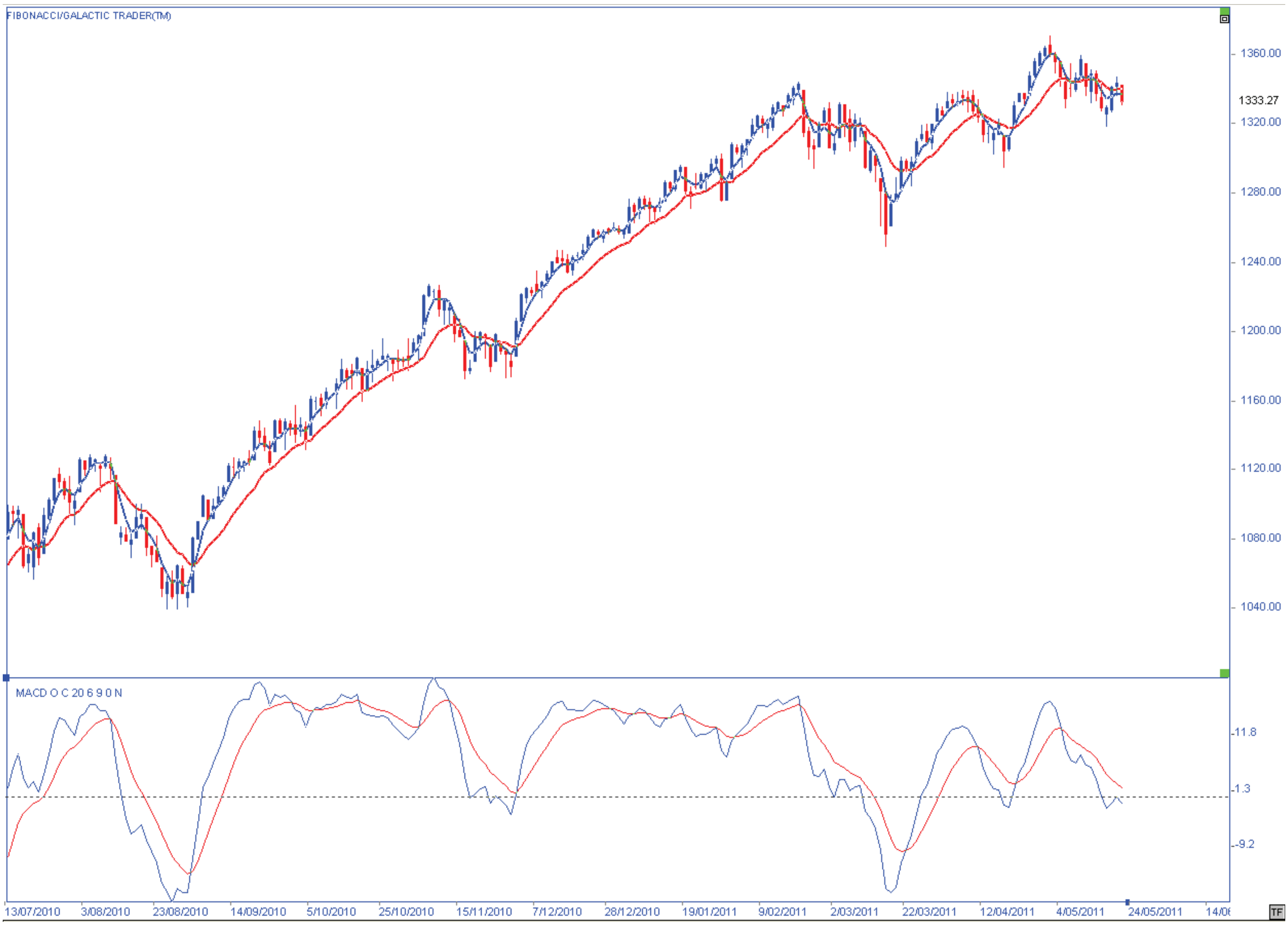
I'll remind you here of the very first "thought" contained in the Introduction – ALWAYS protect your capital.

Always assume you are NOT as smart as you think you are – and that *The Idiot*, who watches nothing, hears nothing, reads nothing EXCEPT THE PRICE MOVEMENTS ON THE CHART will, over decades, years, months and weeks, prove to be an extremely astute trader.

You do not need to pre-empt *The Idiot*; a lot of experience and experiment has gone into creating this system so that it maximises profit and minimises losses – Long or Short.

AT FIRST GLANCE, it will seem this system is not giving very good Short signals. But! We already know from our examination of the monthly and weekly charts that the index is in both a long-term and an intermediate-term Bullish phase during this timeframe.

Short signals during Bull phases will always generate only small and fast profits. When the trend is Bullish, the best profits and the longest runs are on the Long side. It's only when markets go into a Bear phase that you either need to park your capital safely on the sidelines, or trade the Short side of the market.



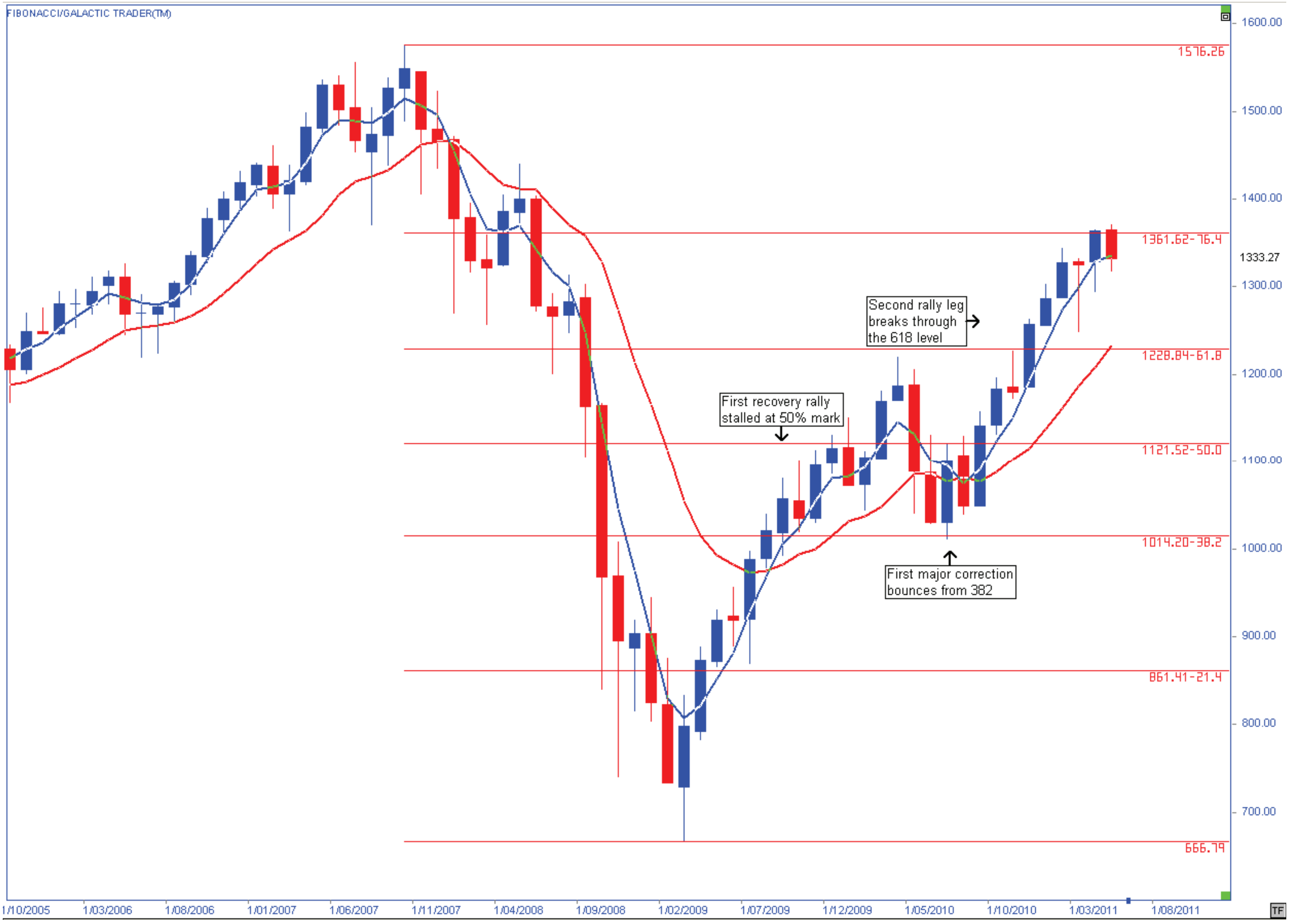
Just such an opportunity seems to be not very far distant. We know from our examination of the earlier, longer-range charts that the early warning sirens are starting to sound. And we can also see it here on the daily chart.

Three times in a few months, *The Idiot* has given Sell signals – unusual when compared with the rally leg leading up to the current position. We can see that the fast MACD is having trouble reaching as high as its earlier peaks and that it is now breaking regularly below the dotted Zero line.

Further, we can see the very last blue MACD trough on the chart has already gone as low as the previous trough (both just below the Zero line), even though the current Price is not quite as low. The combination of factors warns us we need to be very careful in these conditions.

ANOTHER technical tool that can be used in combination with *The Idiot* is a Fibonacci technique. Again, we will deal carefully with how to use Fibonacci tools in The Technical Section, so if the technique is new to you don't be concerned with the smaller details right now.

There have been "academic" studies recently which purport to have closely examined Fibonacci and have deemed it "worthless". Ignore them! With only a few minutes of guided use in the real world, you'll discover it's a vital part of safe trading.

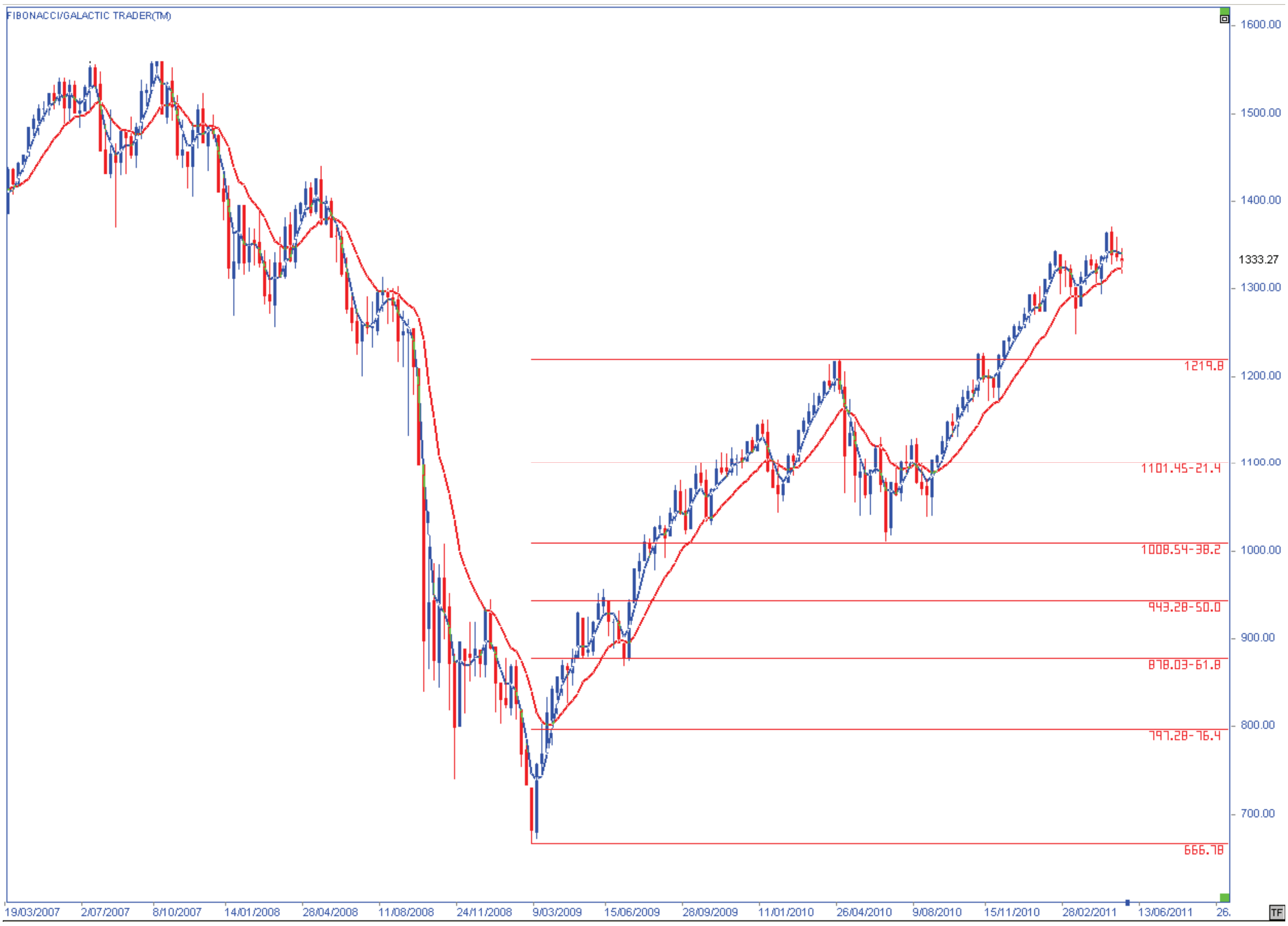


Fibonacci mathematical relationships exist everywhere in nature, in music, and in the best architecture. We return here to a monthly chart of the SP500, showing the 2007-2009 Bear and the recovery rally.

A 50% recovery is a strong run – and that's what happened with this index. It stalled at the 50% mark, made a false break which fell short of hitting the 618 and dropped back to a mere touch of the 382 and then bounced strongly from it.

It then stalled very briefly at the 618, before breaking through and is currently stalling at the 764 level. Now, "academics" might think this is "worthless" knowledge. Which, perhaps, explains why they're teaching people to trade markets, rather than actually doing it.

FIBONACCI "reactions" occur frequently at many different levels, regardless of whether we are using multi-year monthly charts, or 15-minute intraday charts.



On the previous page, we used a Fibonacci retrace of the 2007-2009 Bear market to show us target levels for the recovery rally.

On this chart, we are using Fibonacci retrace levels to get an idea of where corrections during the Bullish recovery rally are likely to stop … in other words, we're looking for "bounce" levels so we can take new *Idiot* Buy signals with increased confidence.

Our earlier chart gives us *rally* target levels to reach for when we're in Long profit mode … and this chart gives us *correction* target levels to watch for so that we can get ready to either exit our Short trades, or to renew our Long trades.

After the first complete recovery leg, the index corrected down to a 382 retracement and began to gather strength for the next rally phase. The levels 382 and 618 will show up repeatedly, regardless of the timeframe of the chart you're using.

I want to stress again that the fast MACD, The Canaries and Fibonacci are tools to help use *The Idiot* properly. But, they are NOT the <u>primary</u> system. It is entirely possible, perhaps even preferable, to use the most basic *Idiot* alone – just a couple of red and blue lines with no Price bars! Remember … the aim is to make money from trading, not feed our Ego!

<u>SUMMARY ON REAL-TIME USE OF THE SYSTEM</u>

1. Begin by using a monthly chart so that you know if an equity is bottoming, topping or somewhere within the middle of a cycle. Pay close attention to not only the Price bars, but whether the oscillators are showing a divergence pattern.

Knowing where you are in the forest is the first step. Pay close attention to bottoming and topping patterns … that is: Are the price bars riding along on top of the blue line, or are they starting to breach the lower, red line with increasing frequency? If the market has been correcting downwards during a long-term or intermediate-term Bullish phase, watch for when the Price bars start breaking above the Idiot signal lines.

2. Use the weekly chart to confirm your location inside the forest. You want to be sure that both monthly and weekly charts are pointing towards a strong run in the same direction.

3. Use the daily chart to help determine your best possible level of Entry or Exit. This is important. There is great danger in going Long if the Monthly and Weekly charts are indicating a potential turn down! Similarly, there is danger of exiting a potentially profitable trade too early; being scared by a brief correction within an ongoing rally.

4. Check the oscillators for signs of confirmation or divergence. Pay attention to how they are performing in comparison with what the Price is doing.

In brief, don't bet the farm on going Long if the monthly and weekly charts are urging caution. On the other hand, don't get scared out of a winning trade by a temporary blip in the daily bars. If the monthly and weekly signals are strong and Long … hold your nerve. By all means, have an emergency exit plan to protect your capital. But don't let the never-ending noise keep you in a semi-permanent state of fear.

5. More importantly than anything else *… pay more attention to your charts than to other people's opinions*. Opinions are the most debased currency on the planet. Everyone has at least one on every subject – which means the currency of opinions is roughly 6.4 billion multiplied by Infinity.

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***The Idiot* system is not for everyone. It is a simple system which, if used in conjunction with the rules, will help to keep you from losing money when you make a mistake. And we all do that. Hopefully, it will help prevent you from making too many really bad mistakes and keep your capital intact for being able to take the strong and clearcut signals with confidence.**

Most of all, it will help you to shut out the noise of the madding crowd – and the constant demand for adulation and Ego gratification from those who talk much, but say little.

And so, I promised you I wouldn't dilly-dally and tease you along. You can stop reading right now; never pick up a newspaper or turn on CNBC; never pay another expensive subscription to a technical analysis service to tell you what *The Idiot* makes obvious.

Everything that follows is a bonus – but ONLY if you do NOT ignore the basic, simple rules of *The Idiot*.

Chapter 2

The Moods of the Moon

Trading the mood swings of the monthly Lunar cycle will produce *three-to-six times the profit* of a simple, buy-and-hold strategy. I know that's a dramatic call, but I intend to prove it.

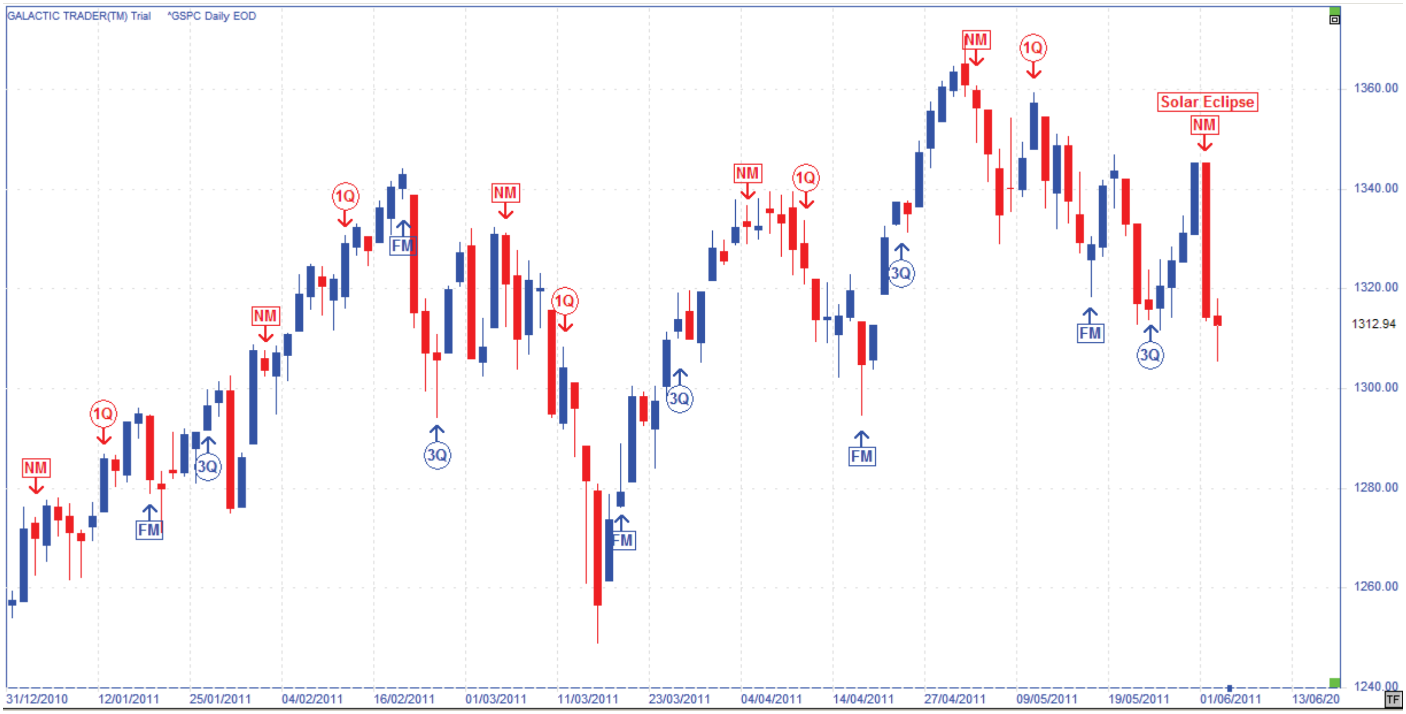
University studies have been conducted on astrologers' assertions that Lunar phases affect public mood and, thereby, also cause an impact on stock prices.

The details and conclusions of the university studies are easily obtainable online by doing a Google search.

Basically, stock prices tend to be higher around the time of the New Moon each month and reach a temporary low point around the time of the Full Moon. Now that's statistically speaking. And there are Lies, Damned Lies – and *Statistics!*

Many of the Lunar trading articles found easily on the internet tend to suggest the potential gains are relatively minor, or that the phenomenon inverts so often that it can't be used as a reliable trading technique.

Even if we go to the trouble of mapping the *Loonytoons* on a price chart, a simple eyeball of the chart tends to make us think it works some of the time, but can be downright dangerous to our cash at other times – as with this 2011 chart of the SP500.



What "eyeballing" does is give you an *impression*. It doesn't give you the facts.

Over the past year I decided to test the assertions for myself and log the results in a spreadsheet to test just how profitable it is to trade the mood swings of the Moon. The results were simply mind-blowing.

Not simply because they showed truly massive stock market profits during certain periods, but also because they showed when it was absolutely UNSAFE to risk your money.

What I discovered was that, statistically, the old assertions not only hold up, but when traded consistently over time, produce big profits for small amounts of time exposed to market conditions.

By introducing a simple mechanical filter … *The Idiot* … before making a decision to trade, the spreadsheets showed not only *which* Moon phases could be traded safely, and *when*, but which trades should *NOT* be placed under any circumstances.

But the proof of the pudding is in the eating, so let's see what the facts are when we trade *The Moods of The Moon* during the first 6 months of 2011 on the SP500.

The Moods of the Moon

Phase	NM-FM	NM-1Q	1Q-FM	FM-NM	FM-3Q	3Q-NM	3Q-1Q
Totals	46.61	-16.14	62.75	90.96	29.8	61.6	63.27
Percentage	3.38%	-1.30%	4.68%	7.15%	2.45%	4.64%	4.74%
Average	9.32	-3.23	12.55	18.19	5.96	12.23	15.82

SP500 index change for January to June 2011 New Moons

		Moon Moods Profits	
Start	$1270.20	Longs	$90.96
Close	$1314.55	Shorts	$46.61
Change	$44.35	Total	$137.57

Buying a single share of the index at the closing price of our starting date on the January 4 New Moon and holding until the close of the June 1 Solar Eclipse New Moon, produced a profit of $44.35 – 3.49% (bottom left corner of the table).

However, going Long for one share from each Full Moon close to the next New Moon close, produced more than twice the profit - $90.96. So, we were in the market for *half the time* and *twice the profit* (the FM-NM green phase label).

Staying OUT of the market during all New Moon-Full Moon phases would have protected us from losing some of our buy-and-hold gains … but delivered much better profits for our *Loonytoons* strategy by being *profitable Short trades*. We were in the market ALL the time, but continually reversing positions – to get *three times the profit* of buy-and-hold.

Remember that in the above table, the color of the phase is the direction of the trade – a green phase label is a Long position, a red phase label is a Short position, or a signal to NOT stay Long during the phase.

The darker green coloring shows the *very* profitable trades, the light green shows profitable trades. The rose coloring shows that only ONE "assumed" Short phase would have resulted in a trading loss. But, remember … this is overall, taking into account the full 6 month period.

However, we know the overall assertion is holding up – that, as a general rule, *The Moods of The Moon* can help boost our trading profits, while helping us to protect our capital base against even short-term declines.

There is, though, one further step we can take to do even better!

And that is to take advantage of the Quarter Moon dates. So, our trading strategy now becomes to open 1 position at either the New Moon or Full Moon, but to add an extra position at the First Quarter or Third Quarter date.

And the table below shows a significant boost to our potential profits.

Assume:						
	NM-FM	NM-1Q	1Q-FM	FM-NM	FM-3Q	3Q-NM
1 Short	46.61					
1 extra Short			62.75			
Total			$109.36			
1 Long				90.96		
1 extra Long						61.6
Total						$152.56
Grand Total of Assuming Moon Moods Trading System:						$261.92

Instead of relying totally on the 14 day Short from NM-FM, we add one extra Short at the 1Q Moon – boosting the overall profit from Short trades from $46.61 to $109.36. And we adopt the same strategy when we reverse to Long trades at the Full Moon – 1 Long at Full Moon and one extra Long at 3Q Moon, boosting our Long profits to $152.56.

Taking advantage of the extra Long or Short position at the closing price on the day of the First Quarter or Third Quarter Moon dramatically increases the profits.

While the buy-and-hold strategy produced a profit of 3.5%, we could have made marginally more money by Shorting the index for a couple of weeks at each New Moon; twice as much money being exposed to the market for only half of each month from Full Moon to New – and *almost six times as much money* by playing the odds that the "statistics" will hold true when traded automatically, but consistently, over time.

Buy-and-Hold versus Moon Moods Trading			
SP500 January - June, 2011			
		Amount	Percentage
Cash Index Gain	(From $1270.20)	$44.35	3.49%
FM-NM Longs (14-day periods)		$90.96	7.10%
NM-FM Shorts (14-day periods)		$46.61	3.66%
Total gains from 2-way trading		$137.57	10.83%
Add double trade at 1Q and 3Q		$261.92	20.62%
Cash value at Close on June New Moon			
Buy-and-Hold			$1,314.55
The Moods of the Moon			$1,532.12

There aren't many things we can do with our money able to produce a return of more than 20% in a 6 month period, knowing nothing more than how to look up the Moon phase date and time changes on the internet.

But, I do confess it takes some courage to overcome the "eyeball" impressions we received from glancing at that first chart of the Moon phases marked onto a price chart.

That is why *The Moods of The Moon* trading strategy employs *The Idiot* as a filter for measuring whether long term and intermediate conditions of the market are Bullish or Bearish. Obviously, the results will vary dramatically if we trade against the prevailing trend.

We need to always remember another old adage – "the trend is your friend" – and to place our trades in the direction *most likely* to produce profits.

Even when we're careful, some trades will result in losses. The discipline we need to learn is that employing the strategy consistently will produce the desired result over time.

But, let's not rely on eyeball impressions and examine instead the breakdown of our Lunar phase trades on the SP500 for the first half of this year.

	NM-FM	NM-1Q	1Q-FM	FM-NM	FM-3Q	3Q-NM	3Q-1Q
	-11.72	-15.76	4.04	22.11	14.71	7.40	32.52
	-38.98	-25.12	-13.86	-21.86	-36.91	15.05	-1.82
	41.94	16.87	25.07	53.66	34.59	19.07	10.66
	27.73	8.41	19.32	51.48	30.11	21.37	21.91
	27.64	-0.54	28.18	-14.43	-12.70	-1.73	
			Trade Breakdown				
	2 losses	3 losses	1 loss	2 losses	2 losses	1 loss	1 loss
Losses	$51.70	$40.88	$13.86	$36.29	$49.61	$1.73	$1.82
Profits	$97.31	$25.28	$75.61	$127.25	$79.41	$62.89	$65.09
Rank	***	Bad!!	****	****	***	*****	*****

Inserting the results of each individual assumed trade into a spreadsheet allows the creation of a table which can point up any phases where the odds tend *not* to favor a particular trade – and we can see that Shorting immediately at the New Moon is not such a good idea in the generally positive period after the annual Santa Claus rally and into the "Sell in May" period.

However, what it does do is to allow us to "manage" the trades, tailored to the overall conditions. We know from the big picture view, employing *The Idiot* on monthly and weekly charts, that the overall conditions were still Bullish in this timeframe – and we will learn even more about how to judge those conditions in The Technical Section, later in the book.

So, sensibly, we would not have expected Short trades in this timeframe to produce big profits; it's the green Long trades we'd have expected to be more profitable. And they were. There were fast, very brief declines in the 7 days between 1Q-FM, but longer rally periods – many of them lasting beyond FM-NM and continuing on to the 1Q mark.

The Moods of the Moon also produced significant profits for Australia's ASX 200 index over the same period – in the face of a loss on the cash index itself.

The Moods of the Moon

Phase	NM-FM	NM-1Q	1Q-FM	FM-NM	FM-3Q	3Q-NM	3Q-1Q
Totals	206.21	97.51	108.7	177.71	50.24	127.47	-81.04
Percentage	4.23%	2.01%	2.22%	3.99%	1.09%	2.89%	-2.07%
Average	41.24	19.5	21.74	35.54	10.05	25.49	-20.26

ASX 200 index change from January to June New Moon:

			Moon Moods Profits	
Start	$4,742.50		Longs	$177.71
Close	$4,714		Shorts	$206.21
Change	-$28.50		Total	$383.92

A buy-and-hold strategy on the ASX 200 for the first half of 2011 produced a loss, not a profit.

In contrast, being Long the index only for two weeks each month from Full Moon to New Moon produced a profit of nearly 4%. Playing both sides of the market – Long and Short – was considerably more profitable and produced a profit of $383.92.

Playing by the strategy of *The Moods of The Moon* … Short at New Moon, extra Short at 1Q, reverse to 1 Long at Full Moon, add extra Long at 3Q …

Well, it was MUCH more profitable than sitting there praying the ASX 200 would follow the SP500 upwards!

Assume:	NM-FM	NM-1Q	1Q-FM	FM-NM	FM-3Q	3Q-NM
1 Short	206.21					
1 extra Short			108.7			
Total			$314.91			
1 Long				177.71		
1 extra Long						127.5
Total						$305.21
Grand Total of Assuming Moon Moods Trading System:						$620.12

Instead of losing $28.50, the strategy made us $620.12 – a gain of more than 13% in 6 months.

I said at the beginning that trading the mood swings of the Moon would produce *three-to-six times the profit* of a buy-and-hold strategy – and that I would prove it. The "system" works, much more profitably than much of the available literature would have us believe.

Of course, there are certain conditions under which placing the assumed trades can result in massive losses. They come when we assume we know more than a mere *Idiot* – and try to trade against our friend, the prevailing trend.

In the first part of *The Moods of The Moon*, we have learned some of the secrets of making profitable short term trades – and now we will go on to discover when we absolutely must NOT trade those apparent short term trends or we will lose massive chunks of our capital!

It's not too difficult; because we already know the basic mechanism. We must ALWAYS take notice of what *The Idiot* is telling us in relation to the long and intermediate-term trends – and the safest, most profitable trades follow *The Idiot*.

So, let's see how it works – not over a brief 6 months, but over a decade. That is, after all, the whole point of this book ... how to make money safely, consistently and reliably over time so we can create for ourselves a more independent and financially stable Life.

The table below shows how trading the Moon phases performed on the ASX 200 since the creation of the index in 2000 to the beginning of June 2011 – a period which contained a long-range sideways shuffle, two Bull periods and a vicious Bear.

ASX 200: *The Moods of the Moon* over the past decade

LUNAR TRADING CHART	*Red trades are Shorts*			*Green trades are Longs*			
Phase	*NM:FM*	*NM-1Q*	*1Q-FM*	*FM-NM*	*FM-3Q*	*3Q-NM*	*3Q-1Q*
Totals	1469.32	-347.35	1816.67	3027.89	2354.82	673.07	873.55
Percentage	12.54%	-13.09%	25.36%	67.55%	52.21%	15.43%	10.74%
Average Move	10.65	-2.52	13.16	21.94	17.06	4.88	6.38
Overall ranking	Good	Bad	Good+	Good+++	Good++	Okay	Okay
Bullish market conditions	Bad	Bad	Bad	Great!	Good++	Good+	Good+++
Bearish market conditions	Great!	Good	Great	Bad	Okay	Bad+++	Very bad!
April 2000 - March 2003	*NM-FM*	*NM-1Q*	*1Q-FM*	*FM-NM*	*FM-3Q*	*3Q-NM*	*3Q-1Q*
Total	18.98	169.18	-150.20	-254.12	-14.14	-239.98	-363.98
Precentage	0.15%	6.17%	-6.33%	-6.55%	-0.10%	-6.64%	-12.99%
Average	0.51	4.57	-4.06	-6.87	-0.38	-6.49	-9.84
March 2003 - November 2007	*NM-FM*	*NM-1Q*	*1Q-FM*	*FM-NM*	*FM-3Q*	*3Q-NM*	*3Q-1Q*
Total	-1821.67	-1317.04	-504.63	2067.90	997.92	1069.98	2258.67
Percentage	-43.31%	-27.66%	-15.61%	44.58%	23.34%	21.20%	44.02%
Average	-32.53	-23.52	-9.01	36.93	17.82	19.11	40.33
November 2007 - March 2009	*NM-FM*	*NM-1Q*	*1Q-FM*	*FM-NM*	*FM-3Q*	*3Q-NM*	*3Q-1Q*
Total	2892.60	880.7	2011.90	-551.80	554.70	-1106.50	-2082.70
Precentage	50.93%	10.94%	39.99%	-14.07%	7.65%	-21.09%	-43.98%
Average	170.15	51.81	118.35	-32.46	32.63	-65.09	-122.51
March 2009 - June 2011	*NM-FM*	*NM-1Q*	*1Q-FM*	*FM-NM*	*FM-3Q*	*3Q-NM*	*3Q-1Q*
Total	173.20	-177.7	350.90	1588.20	766.10	822.10	1142.60
Percentage	0.54%	-4.55%	5.09%	39.61%	20.24%	19.07%	25.76%
Average	7.53	-7.73	15.26	69.05	33.31	35.74	49.68

First up, it shows that trading the "system" – Long at the Full Moon, Short at the New Moon – resulted in quite significant profits ... that it worked profitably over a decade as a "standalone" system, even without taking into account Bull or Bear trends.

As with the 6 month charts we looked at earlier, it confirms it is NOT a safe and reliable trade to Short the market immediately at the New Moon because, overall, the 7 day NM-1Q Short trades resulted in losses.

Now remember that the top part of this table contains the decade-long results and are based on taking every trade automatically – Long at the closing price on the day of the Full Moon and reverse positions at the closing price on the day of the New Moon.

And a decade of data proves the old knowledge is true – there is a time to sow and a time to reap, according to *The Moods of The Moon*. But, more importantly, we are now starting to recognise a Bad Moon Rising!

Let's start narrowing our focus.

ASX 200: *The Moods of the Moon* over the past decade

LUNAR TRADING CHART	*Red trades are Shorts*			*Green trades are Longs*			
Phase	*NM:FM*	*NM-1Q*	*1Q-FM*	*FM-NM*	*FM-3Q*	*3Q-NM*	*3Q-1Q*
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Average Move	10.65	-2.52	13.16	21.94	17.06	4.88	6.38
Overall ranking	Good	Bad	Good+	Good+++	Good++	Okay	Okay
Bullish market conditions	Bad	Bad	Bad	Great!	Good++	Good+	Good+++
Bearish market conditions	Great!	Good	Great	Bad	Okay	Bad+++	Very bad!

And we immediately see that while the system works overall, it is *A Very Bad Idea* to automatically take the Short positions in Bullish market conditions, but *A Really Great Idea* to take the Long trades.

We can see that, over the decade, being Long in the market only for the 14 days between each Full Moon to the next New Moon produced an overall profit of 67.55% - or $3027.89.

Now that's not at all a bad result when we compare the performance of how the cash index fared!

Our starting point is a first day closing price of $3155 when the XJO was introduced in April 2000 and our ending point is the June 1, 2011, close at $4714 – an overall gain of $1559, or 49.4%.

Apr 5, 2000	3155
Mar 3, 2003	2816
-10.40%	-$339
Low: 2963, Mar 11, 2003	
Mar 3, 2003	2816
Nov 30, 2007	6533
132%	$3,717
High: 6851, Nov, 2007	
Nov 30, 2007	6533
Mar 31, 2009	3582
-45.17%	-$2,951
Low: 3120, Mar 10, 2009	
Mar 31, 2009	3582
Jun 1, 2011	4714
31.60%	$1,132
High: 5025, Apr 15, 2010	

Half the time exposed, FM-NM, produced twice the profit. And just by trading nothing but the Moon dates.

Of course, if you were a really good trader and had a very good alternative system in place which kept you Long in Bullish conditions and out of the market, or Short, during Bear periods, you could have outperformed the $1559 buy-and-hold strategy.

But you would have had to be a *really* good trader, getting out near all-time Highs and getting back in very near all-time Lows.

And there's the problem. There aren't many traders who are really that good. Even very experienced and very seasoned Wall Street traders will admit there are times they have been badly wrong. I mean ... isn't that why they no longer have opening windows on the high floors of their offices?

And getting it badly wrong is what we're learning how to AVOID!

ASX 200: *The Moods of the Moon* over the past decade

April 2000 - March 2003	NM-FM	NM-1Q	1Q-FM	FM-NM	FM-3Q	3Q-NM	3Q-1Q
Total	18.98	169.18	-150.20	-254.12	-14.14	-239.98	-363.98
Precentage	0.15%	6.17%	-6.33%	-6.55%	-0.10%	-6.64%	-12.99%
Average	0.51	4.57	-4.06	-6.87	-0.38	-6.49	-9.84
March 2003 - November 2007	**NM-FM**	**NM-1Q**	**1Q-FM**	**FM-NM**	**FM-3Q**	**3Q-NM**	**3Q-1Q**
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Percentage	-43.31%	-27.66%	-15.61%	44.58%	23.34%	21.20%	44.02%
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November 2007 - March 2009	**NM-FM**	**NM-1Q**	**1Q-FM**	**FM-NM**	**FM-3Q**	**3Q-NM**	**3Q-1Q**
Total	2892.60	880.7	2011.90	-551.80	554.70	-1106.50	-2082.70
Precentage	50.93%	10.94%	39.99%	-14.07%	7.65%	-21.09%	-43.98%
Average	170.15	51.81	118.35	-32.46	32.63	-65.09	-122.51
March 2009 - June 2011	**NM-FM**	**NM-1Q**	**1Q-FM**	**FM-NM**	**FM-3Q**	**3Q-NM**	**3Q-1Q**
Total	173.20	-177.7	350.90	1588.20	766.10	822.10	1142.60
Percentage	0.54%	-4.55%	5.09%	39.61%	20.24%	19.07%	25.76%
Average	7.53	-7.73	15.26	69.05	33.31	35.74	49.68

And to do that we need to analyze quite carefully how different Bull or Bear conditions dictate which Moon phase trades are safe – and when we should absolutely NOT risk our money at all!

We know in retrospect that the period from 2000 into 2002 and 2003 was a Bear market for most major world indices. For the ASX 200 it was more of a torpid sideways shuffle.

Nevertheless, the table shows that not one single Long phase worked at all during that period. In fact, it was difficult to make money in either direction relying on *The Moods of The Moon*.

However, when the markets entered the 2003-2007 Bullish long term phase, we can see the expected Bullish periods were very Bullish – and that it was *A Very Bad Idea* to actively Short the market at all.

The recovery rally which began in March 2009 also showed the green phase Long trades stacked on the profits at a fast rate. If you go back to the cash index table on the previous page, you can see the gain in the index from March 31, 2009 to June 1, 2011 was $1132 – whereas the 14 day FM-NM trades produced $1588.

The most profitable trades during the November 2007 – March 2009 Bear were, obviously, the Short trades. The only profitable Long trades tended to be very short term trades for the 7 days from FM-3Q.

AT A GLANCE	
Sideways Shuffle	NO Long trades worked
Safest trade:	*7 day Short NM-1Q*
Bull market	ALL Long trades worked
Unsafest trade:	*Dangerous to Short ANY!*
Bear market	ONLY FM-3Q Long worked
Safest trade:	*7 day Short 1Q-FM*
Recovery Rally	ALL Long trades worked
Safest trade:	*14 day Long FM-NM*

This chapter is worth studying in detail – and returning to occasionally for a "refresher" course.

It's a lot to take in the first time round, but learning to time your trades with *The Moods of The Moon*, IF they are in the direction suggested by *The Idiot* and are not trading against the prevailing trend, can boost your profits much faster than you might have thought possible.

During confirmed uptrends, by far the biggest percentage of the gains come during the two-week period each month between the Full Moon and the New Moon.

It is *relatively* safe to Short the market during a confirmed uptrend *only* during the 7 days between the First Quarter and Full Moon.

In a confirmed Bearish market, there is NO safe overall phase to put your capital at risk on Long positions.

A Brief Recap

So, now we've gone through the details of two stock trading "systems", both of which work consistently as stand-alone systems, but which are probably best used in conjunction with each other to further improve our odds of making profits – and, most importantly, of protecting our capital.

And all you have to do is follow the rules:

- ***DO go Long when the 5WMA crosses above the 5EMA, especially in an overall uptrend and between the Full Moon and the New Moon.***
- ***Do NOT go Long when the 5WMA crosses below the 5EMA, especially in a downtrend and between the New Moon and the Full Moon.***

In a moment, we can turn our attention to learning how to use some techniques of technical analysis. But, once again, I caution about confusing Information with Knowledge.

Seriously, seriously ask yourself whether you really want, or need, to know any more. The whole point of what is outlined on the previous pages is: - You can be extraordinarily successful at trading stocks IF YOU KEEP IT SIMPLE.

Before we turn our attention to using the tools in *The Technical Section*, however, I want to introduce you to some really spooky stuff!

Now, if there are 6.4 billion opinions Out There, I guess we could count on about 6 billion of them wanting to laugh off *The Moods of The Moon*. So what! Their opinions aren't based on even one minute of actual study or research.

But, if *you* found the Moon interesting, what comes next is really going to take you on an Odyssey … from a time long, long ago … to a place, far, far away!

Chapter 3

Old Gods & Price Points

Ancient Greek mythology is much deeper and more complex than many readers take in at the surface level.

The story of the Gods of Olympus is, above all else, a Creation tale. In the beginning all was turmoil and toxicity. There was Uranus, the sky god, and there was Gaea, the earth mother.

Uranus lay down with Gaea and in a relationship considered incestuous, produced 12 offspring known as the Titans. Unsatisfied with his creations, Uranus kept the Titans locked in Gaea's womb, which caused great pain for the earth mother.

According to Hesiod in his book, Theogony, the youngest was Cronus (Saturn) and he was the most wily, the most ambitious, the most terrible of her children. Yet, it was to Saturn that Gaea turned for help.

He used a sickle to castrate his father and seize power. Replacing one weirdo dictator with another did not, at first, lead to any improvement in the condition of the world.

Saturn produced his own series of offspring with his Titan sister, Rhea, but fearing one of them would turn against him as he had against Uranus, he swallowed them whole. The only exception was Zeus (Jupiter), whom Gaea protected by giving Saturn a stone wrapped in a baby's swaddling.

When Jupiter matured, he concocted a potion with Gaea's help, forcing Saturn to vomit up the rest of the children – who then divided into two groups to wage war for control of the world.

When Saturn castrated Uranus, he threw his genitals into the oceans – which immediately gave birth to Venus, the goddess of fertility and beauty, who was raised up out of the depths by Neptune and given to the land.

They're a creation tale because they contain knowledge the Greeks ought not to have known … that the early Earth actually was all turmoil, seismic shifts, volcano eruptions and toxicity. Saturn (Cronus) created Time and boundaries; the arrival of Venus brought beauty and fertility to the land; Jupiter's rise to power brought benevolence, knowledge and expansion.

So, when the ancient Greek scholars turned their Jupiter-inspired minds to astrology, it was to the Gods they turned for the rich symbolism – a symbolism Western astrologers still rely on to this day.

It is easy to dismiss astrology as superstitious nonsense – if you've never spent a second of your life actually studying it. It can't possibly work, of course … just like *The Moods of the Moon* have absolutely no impact on stock market rallies and corrections!

It's amazing how many 21st Century traders use Gann techniques without realising it is almost wholly based on astrological calculations.

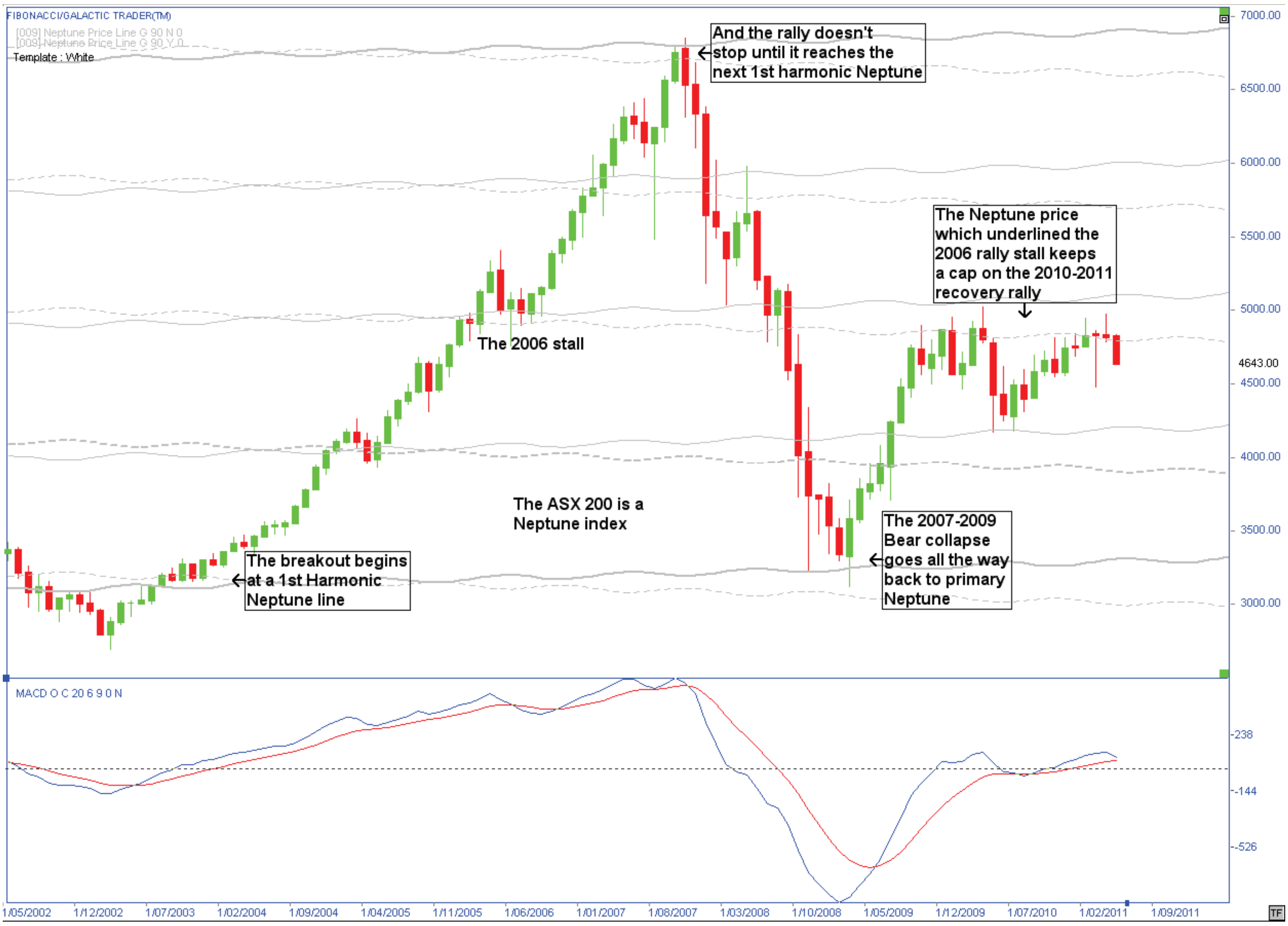
What you're about to discover is going to challenge some cherished preconceptions.

SEVERAL decades ago, Jeanne Long, an astrologer and trader, made a startling discovery: The position of the planets in our solar system could be used to calculate PRECISE price levels that had a dramatic effect on stock markets.

Working with computer programmers, she turned her brilliant research into the *Galactic Trader* software which brings the old Gods of Olympus right down to the everyday trading floor of the New York Stock Exchange – any stock exchange – and which anybody with an open mind and a Jupiter-inspired quest for knowledge can now access readily.

After a decade of using her software on a daily basis, I made some discoveries of my own – that different indices and stocks react consistently to different planets and that one can create charts, using those planets, to know EXACTLY what will stop a rally dead in its tracks, or even arrest a panic crash.

And here's the first item of proof ... the ASX 200 loves Neptune.



As we can see, both the long-term rallies and declines in the ASX 200 have a tendency to reach for, and stall at, price lines associated with the zodiacal position of Neptune in the sky.

Is it mere coincidence that the recovery rally from the 2009 Bear low in the index has spent almost 2 years bumping its head against the same Neptune price levels which provided Support for prices during the 2006 rally consolidation? Or is there something else at play?

WE'LL turn our attention to Wall Street and the SP500 index.

While Neptune has a major impact on the long term moves within the Australian index, it's the North Node which plays a key role in marking out the territory the SP500 travels in.

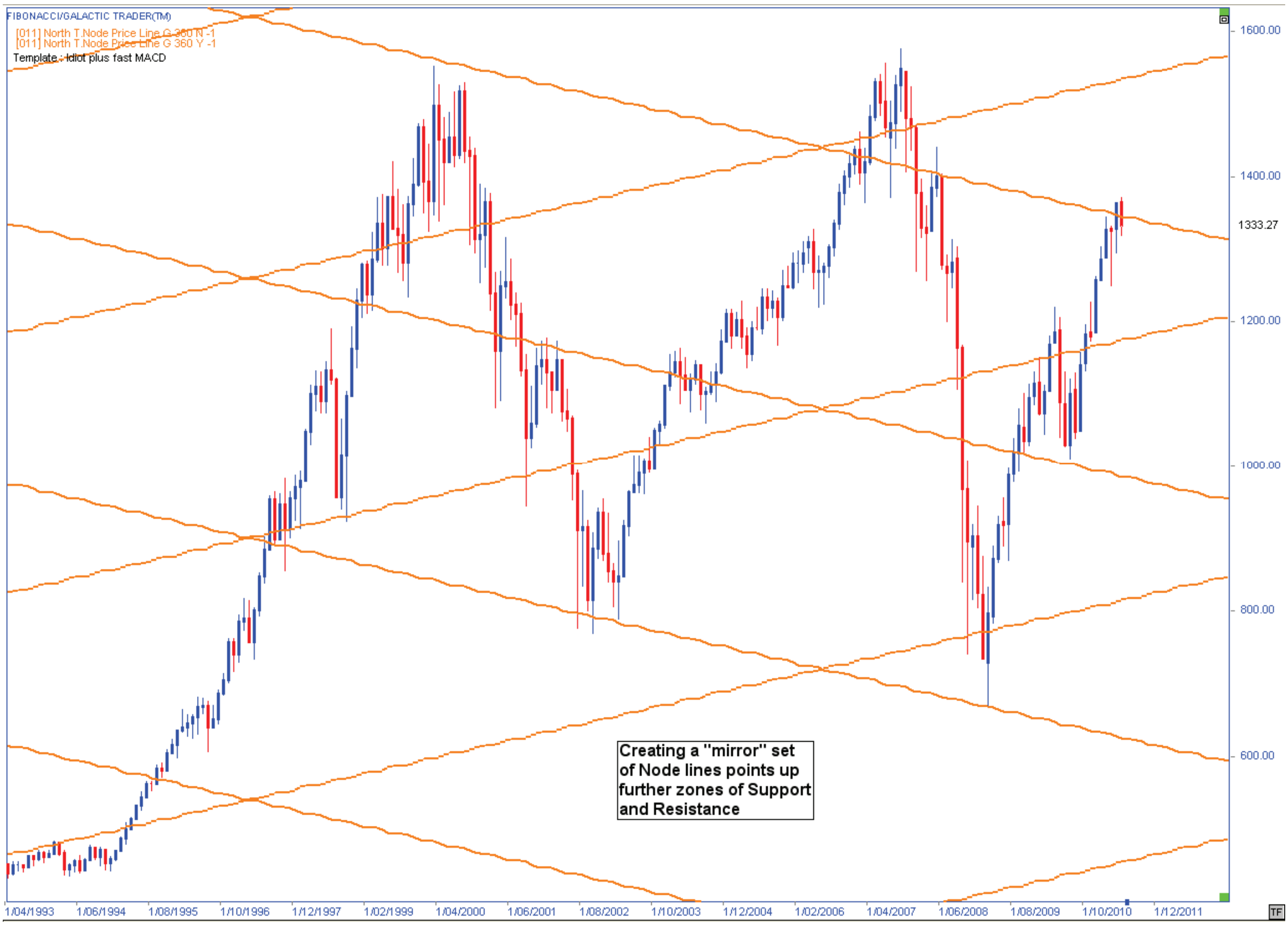
On this chart, we are using only one set of lines, placed at their maximum distance. It is the first stage of our quest to find out what moves the SP500 through both Time and Price.

We'll walk through this process of discovery slowly.

The next stage is to use the software to create "mirror" lines.

While the North Node changes position slowly, faster planets, like Mars, move much more quickly and, as we will discover in a little while, its standard lines and "mirrors" create channels through which the index sticks almost like tram tracks as it's making its moves between the long range planets.

KNOWING that the Node seems to be important to the big range moves of the SP500, our first step is to try to prove the effect by creating mirror lines to add to the first chart.



Immediately, we can see the additional lines provide extra information – the rising set of orange lines has provided price Support – and Resistance – at important retracement and consolidation levels.

This is a similar technique we began with in the first chapter dealing with *The Idiot* system.

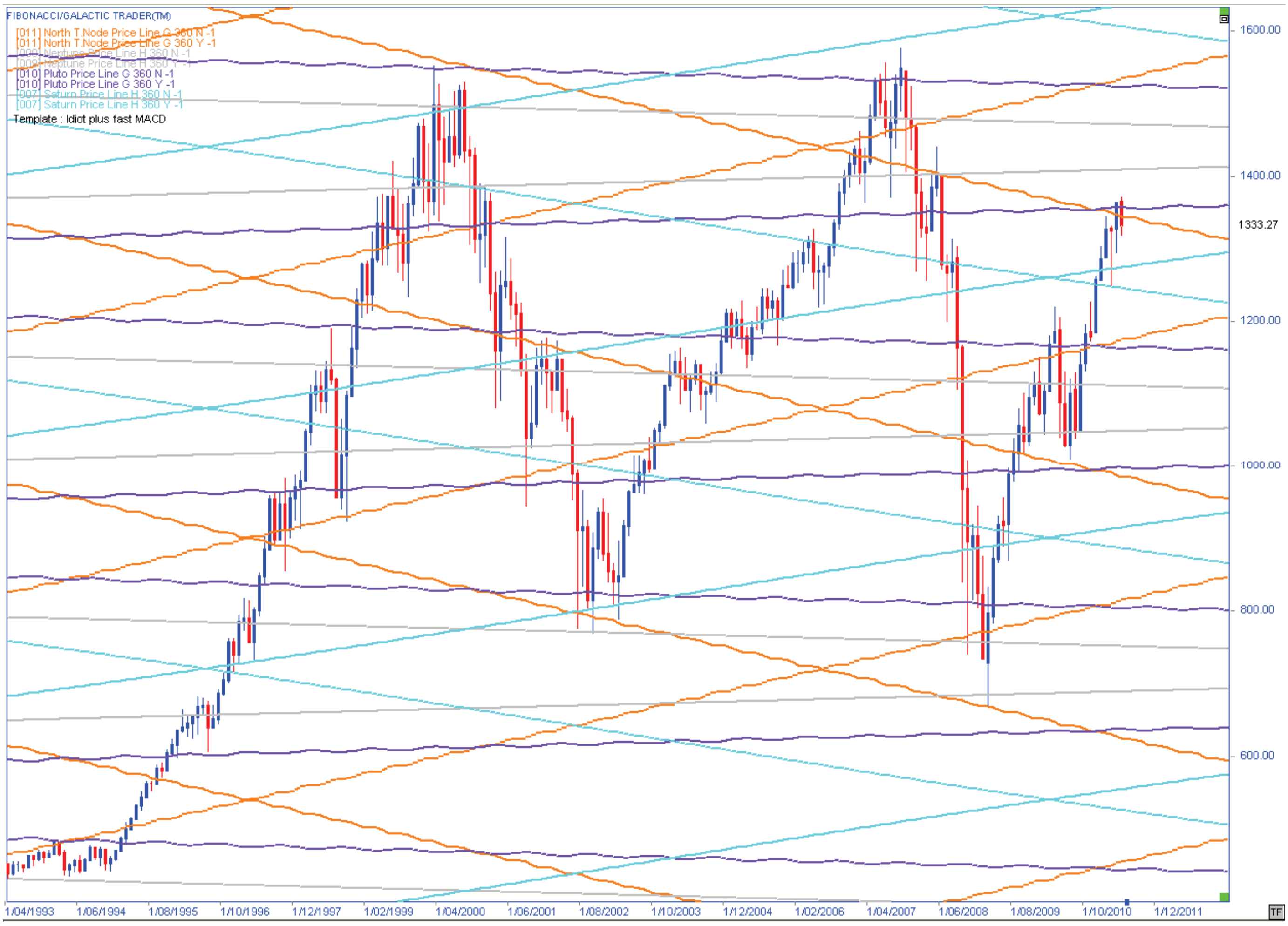
We need always to start our investigations with multi-year charts using monthly price bars so we can see the big picture.

Using the Galactic Trader 4 software, we can insert different planetary price lines one-by-one until we hit on the perfect combination for whatever index, stock, or commodity we're interested in trading.

When we take the time to understand where an index is within its long term outlook, we can be far more confident about our actual trades in much smaller timeframes.

Now that we know the basic method of finding a starting point for each index, I'll sidestep the testing of each individual planetary price line.

ALMOST a decade of using the software, experimenting with different lines and backtesting them decades into the price history, prompted me to settle for this template when trading the SP500.



After careful study, I found that the majority of all significant price moves in the SP500 were reliably and regularly affected by the Node, Neptune, Pluto and Saturn.

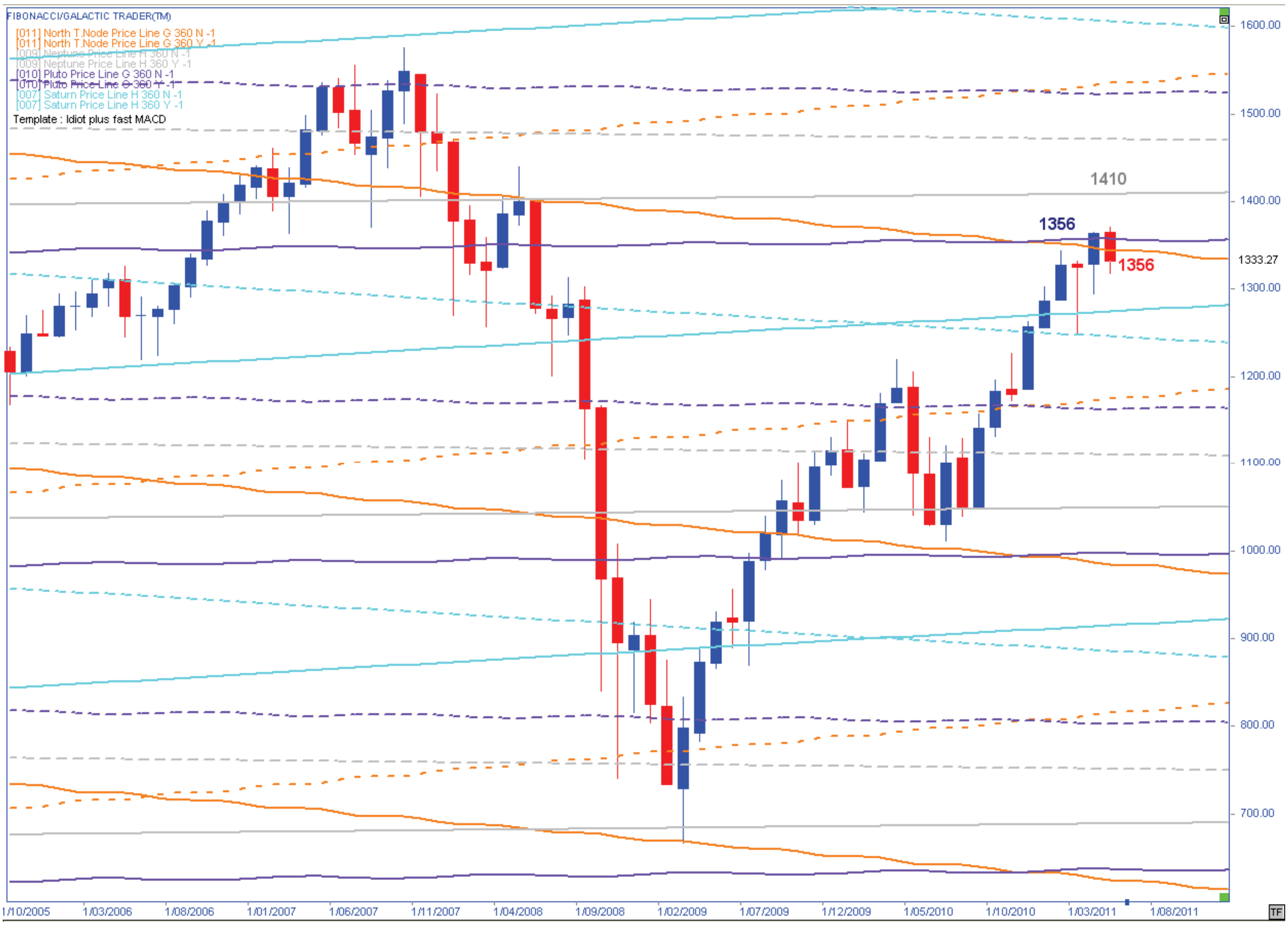
Saturn is not a big surprise. In astrology, Saturn is given rulership of restrictions and boundaries – and the price lines generated by his current zodiacal position act as a "boundary" or "restriction" across many individual stocks and indices.

At the end of this book, I will give detailed instructions on how to recreate these charts. The Galactic Trader 4 software can be downloaded from the internet for a 30-day trial and I will walk you through how to recreate all the charts used in *The Idiot & The Moon* so that you don't spend the first few days of the trial period just learning how to use the software itself.

Nor will you need a special data supply. GT4 can download free index, commodity and stock data from Yahoo. All you need to know is the code.

But, we're still only part of the way through our Jupiterian voyage in the quest for strange treasure and adventure!

HAVING gone to the trouble of discovering what really makes the SP500 tick, we want to get some practical use out of it. In short, we want to make money!



Knowing the precise position of the planetary price lines, we can simply put a crosshair cursor on the chart to determine exactly what price targets the index is reaching for – and where any backsliding corrections are highly likely to find Support.

This removes an incredible amount of agonising and guesswork from our analysis. As others fret and fumble over each squiggle on a chart, burying themselves in a flood of useless trivia, a carefully-researched planetary chart can give virtually "sure thing" price targets.

In this recovery rally from the 2009 Low, we can see precisely why price is having trouble breaking higher. And we also know from other techniques we've learned, like following *The Idiot*, and learning how to read divergence signals from a fast MACD, that this index is in imminent danger of actually breaking down.

Study the chart carefully. After many years of trading – and many years of making mistakes – I have become a firm believer in the KISS principle … Keep It Simple, Stupid!

When you have a chart like this, where the monthly price bars hit planetary lines with almost monotonous regularity, there is no need to waste time listening to the drivel that passes for expert commentary on certain business networks.

BUT there is much more to discover yet! We know, in the broadest terms, the SP500 makes these huge moves in territory marked out by the Node.

The question is: How does it get there?

And the answer to that question is MARS! In the old Greek mythology, Ares/Mars is the god of war. In astrological symbolism, the planet Mars and the sign Aries are associated with raw energy and drive.

So, as Saturn so often "restricts" stock market moves, it is Mars that provides the drive.

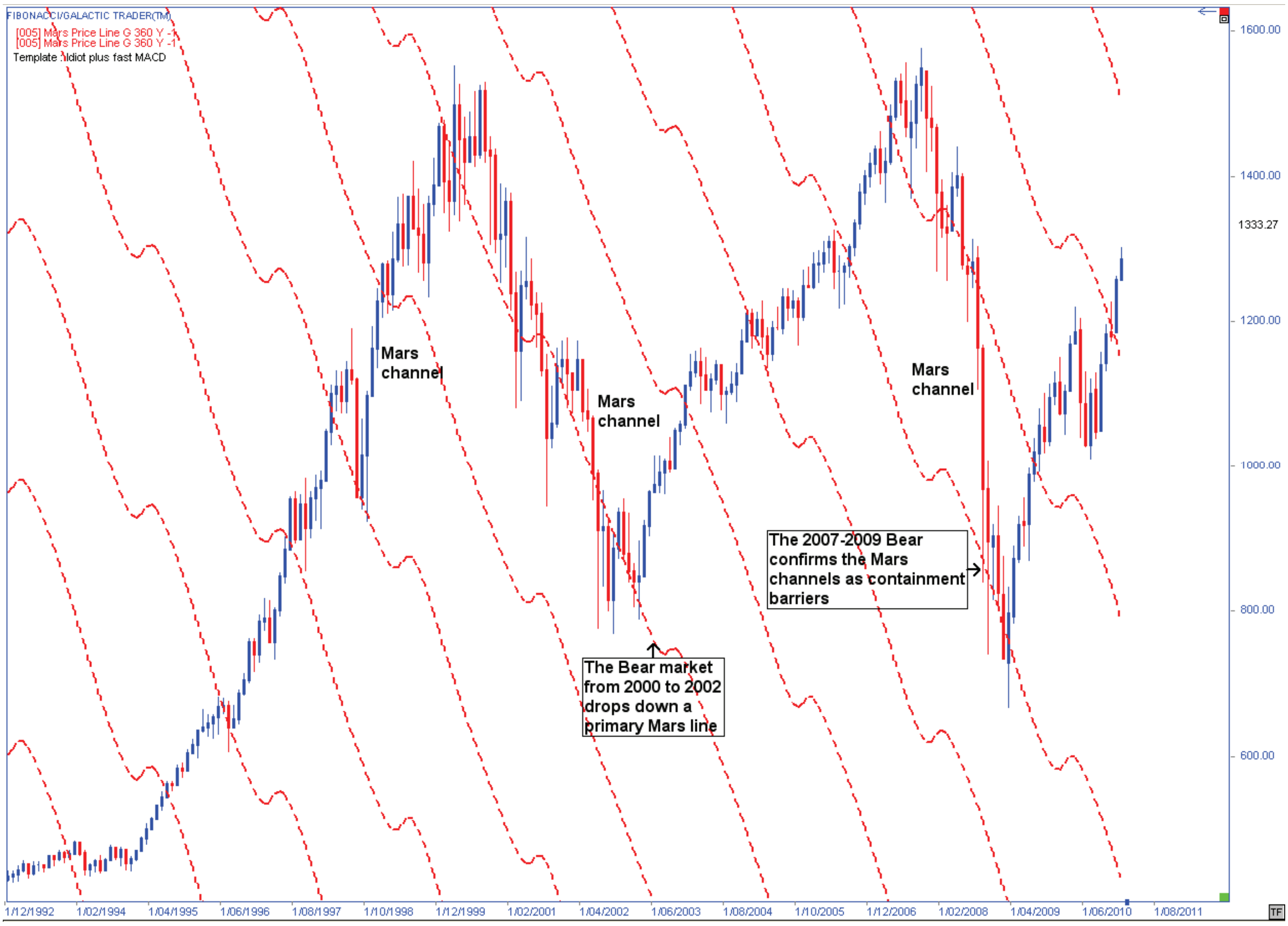
Firstly, we see that raw and aggressive energy unfolding in the huge rally from 1994 to 2000 … so strong, so forceful that most of the rally stuck to the upper side of the relevant Martian channel as if it couldn't bear to tear itself away.

Until it did! But, we'll explore that in a moment.

We continue to see the Mars channels at work in the 2002-2007 Bull run and in the strong recovery rally from the 2009 low.

So, now we know exactly how the SP500 gets from one Node zone to another – *it hitches a ride on a Martian spaceship!*

OF COURSE, what goes up must come down and, just as we did with the Node lines, we go back to the GT4 software to create "mirror" lines to test how the Mars channels perform when this index goes into freefall.



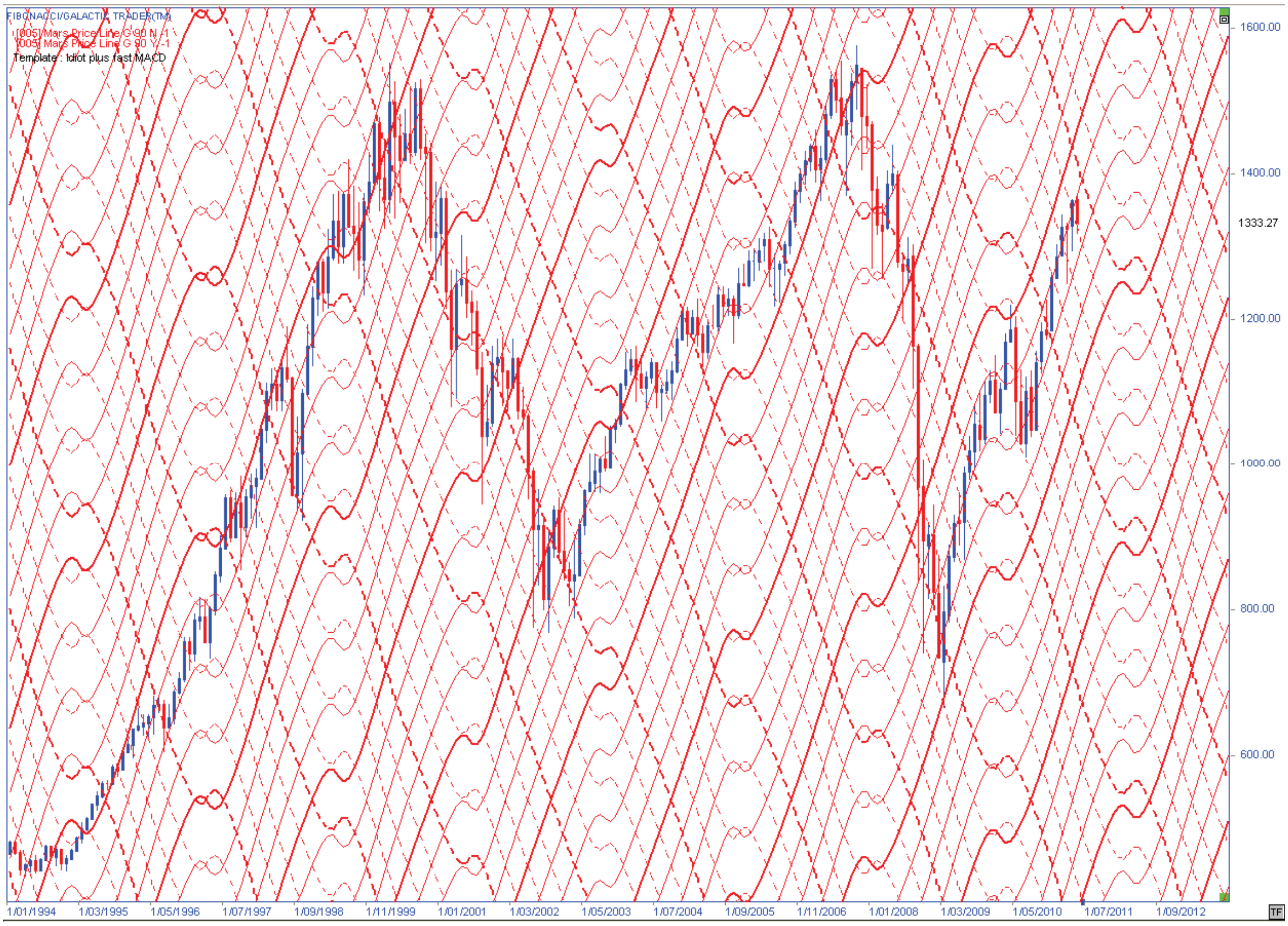
I did warn you that this chapter of the book was going to seriously challenge some cherished preconceptions about astrology being a load of superstitious nonsense.

The savage 2000-2002 Bear market rode down a primary Mars line all the way.

The even more brutal 2007-2009 Bear crash broke down from one Mars channel into an even lower one.

It's easy to see why, in astrology, Mars is associated with high-octane energy – raw, fast and very aggressive.

SO FAR, we have discovered the important long-range planets which impact on the SP500 and the method the index uses to travel between them.



Do NOT be concerned with paying very much attention at all to this chart.

It is just the first step in making Mars make us money!

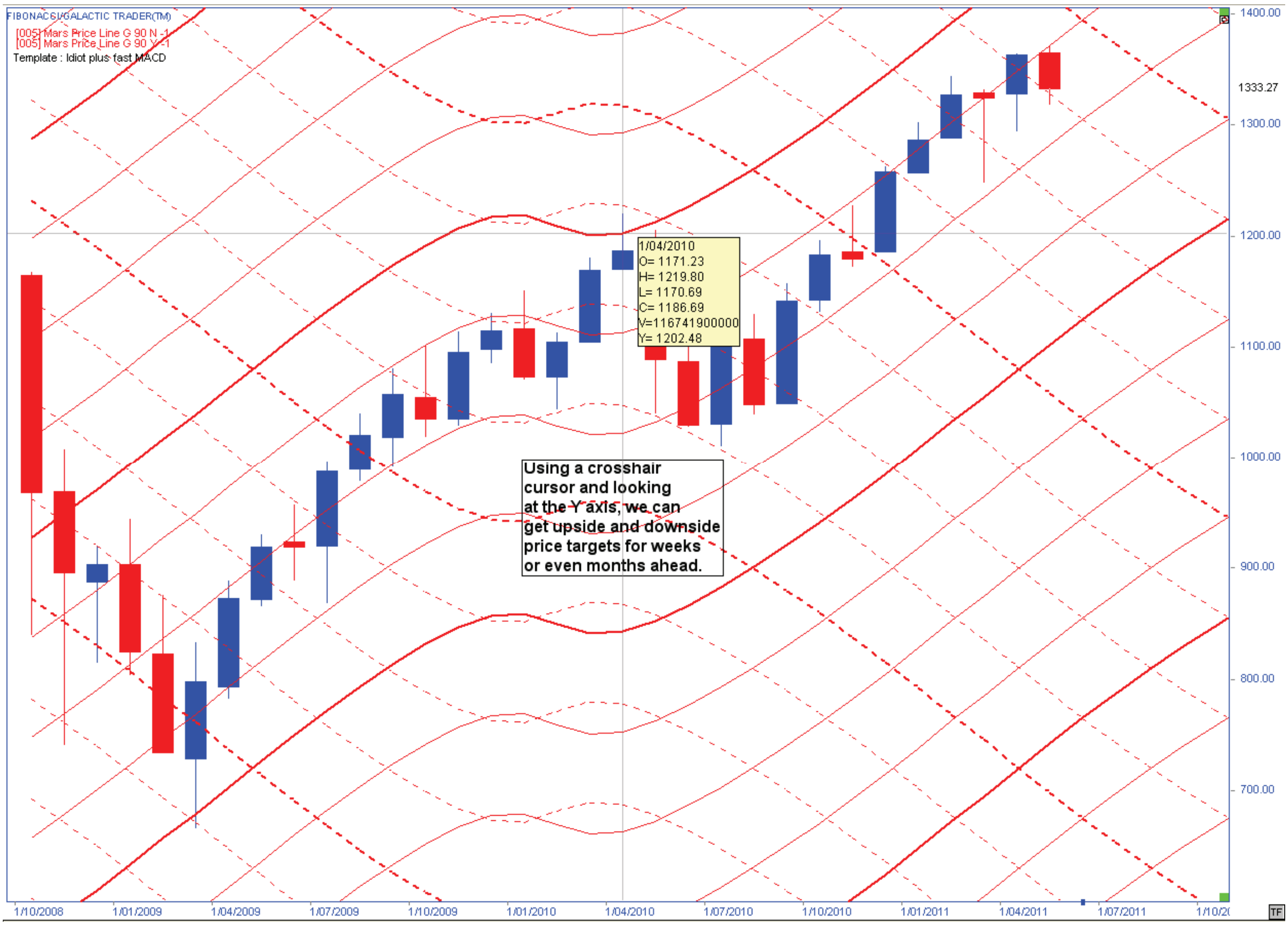
The two earlier charts showed only the broad Mars channels. We had the lines set at a primary or 1st harmonic level – 360 degrees of the zodiac.

One Gann technique is based on what he called "the squaring of Price and Time". In astrology, a square is what it is in geometry – 90 degrees.

And the chart above sets the Mars lines at 90 degrees. Remember, we are still on a quest to test and prove that what we're doing with these planetary lines actually works with real money, in real time, in a real market, in the real world.

Now that we've changed the parameters …

LET's see if they have anything valuable to tell us about the SP500's price position in the here and now.



Having created the chart, we can zoom in on the period of the recovery rally from the 2009 low.

We can now follow the index's moves more closely and through much tighter Mars channels – and we can see that throughout the rally the monthly price range of the index has been largely contained within these narrow channels.

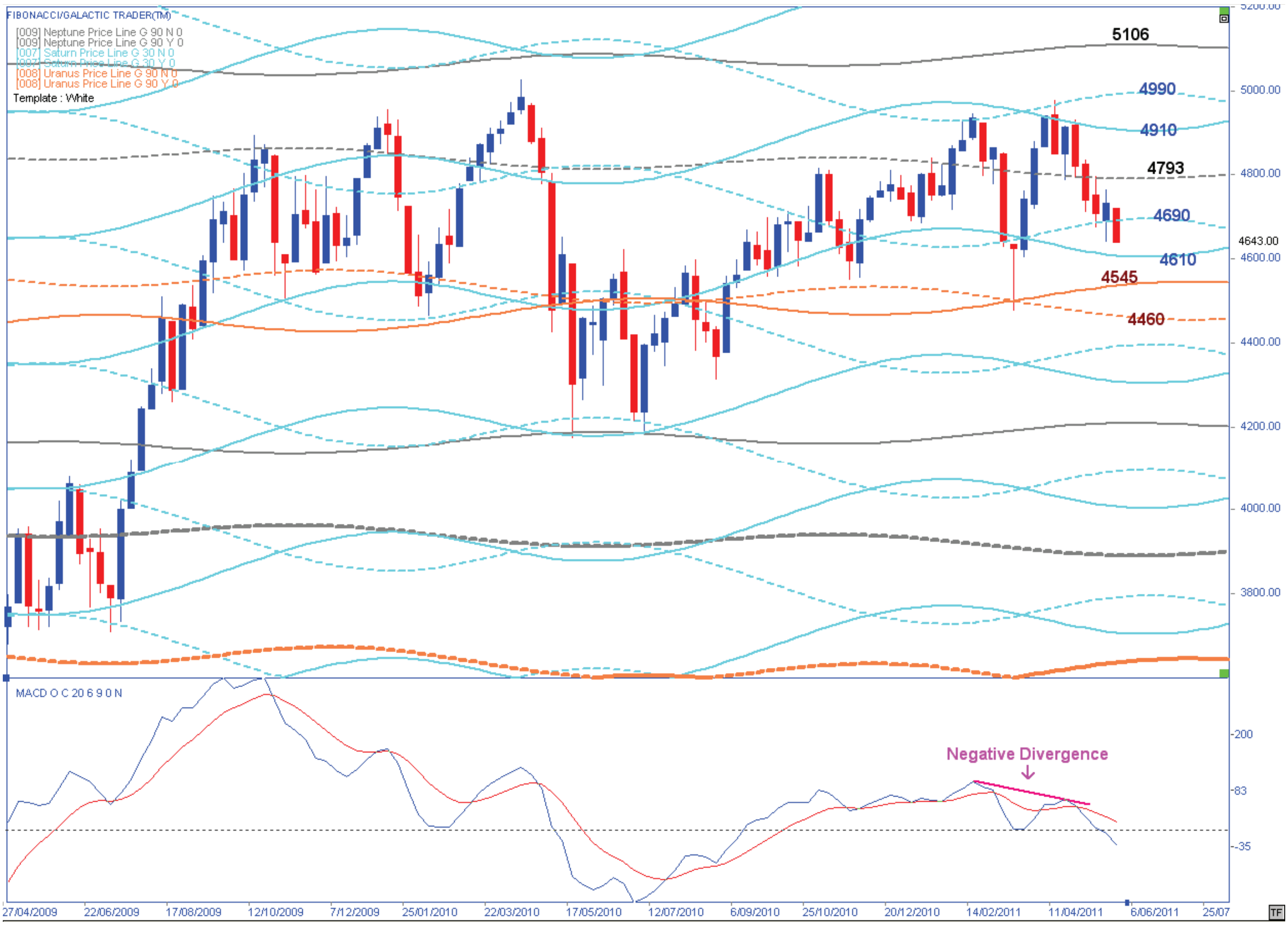
So, to recap what we know. The index uses the drive of Mars as a vehicle. This allows us to use the crosshair cursor and the price given at the crosshair (the Y axis in the pale box above) to know, in advance, the potential range for the current month – or for further rally in the months ahead.

We can see that only just ahead, the index will bump against a downtrending Mars mirror primary line (the heavy, dotted line) … that it also facing resistance from long-range Node and Pluto planetary lines … that we are getting strong negative divergence signals on the Chapter 1 charts, using *Idiot* monthly and weekly charts.

In fact, we know an awful lot about what is likely to happen to stock markets in the very near future.

THIS is the main benefit of combining some very simple technical skills with the more esoteric path of the *Old Gods & Price Points*.

We will return now to the ASX 200.



I introduced this chapter by showing how the ASX 200 tends to travel between long-range Neptune lines … and we continued the journey by walking slowly through how to create valid charts for SP500 long range and intermediate range moves.

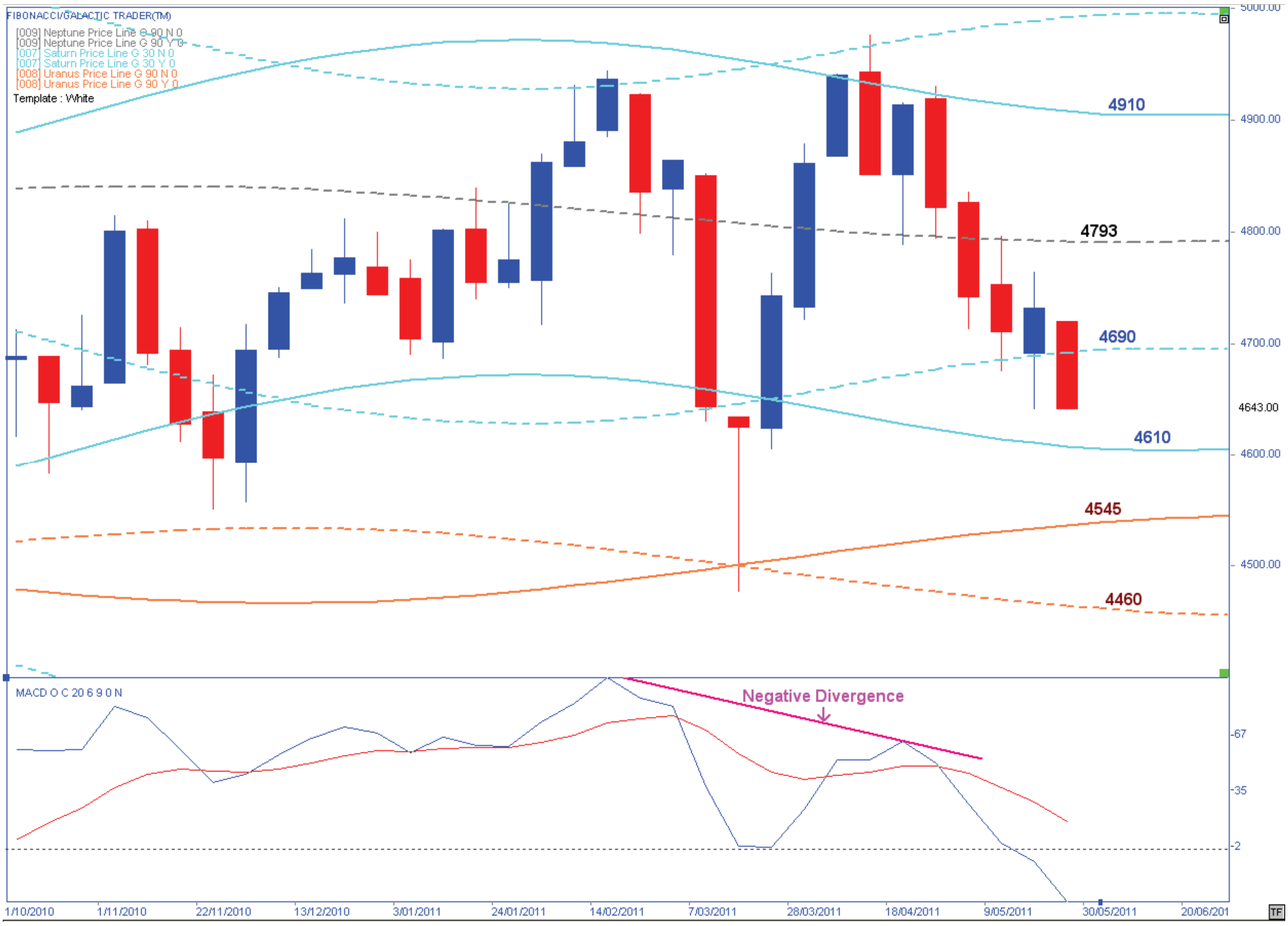
Now we'll examine how using carefully researched and created planetary charts can help us set price targets for weekly moves.

If you remember the Neptune chart, you'll recall how the 200 was having trouble breaking higher from the line which underscored the 2006 consolidation phase before the index continued its blow-off rally into the 2007 top.

By narrowing our focus into the more recent recovery rally timeframe and switching from monthly to weekly bars, we can pick up a better idea of how strong that Resistance level has shown itself to be for the past 20 months.

We can also see the warning signs in the fast MACD, which proved itself so useful with its negative divergence signals as the 200 battled Neptune during 2010.

ZOOMING in even closer, we can begin to make real use of these weekly planetary price charts.



It is a simple matter to put a price on these planet lines – prices levels which ARE hit over and over and over again.

Sure, occasionally a daily move will cause a little spike above or below a particular line, but look at how many times the price backs off from the overshoot and closes inside the planetary barriers – especially the god of restriction, Saturn.

What is important here is that we know PRECISE target levels we can aim for with a very high level of safety, certainty and consistency. We can time our trades and know exactly when to enter and when to exit – and the exact price zone for both!

Nor do we have to be constrained to using a particular index – so long as we've spent time very carefully testing and backtesting which planets have a consistent and reliable impact on which stock or index.

WHILE our research has caused us to settle on a combination of Neptune, Uranus and Saturn for the Aussie index, we know that the rules change for the SP500.

With the broad Wall Street index, I have found that the best combination for creating a weekly planetary price chart employs Neptune and the Node, along with Saturn.

The crosshair cursor in the GT4 software quickly gives the price level of the relevant planetary lines – which can be marked on the chart and regularly updated as I do with the ASX 200 chart.

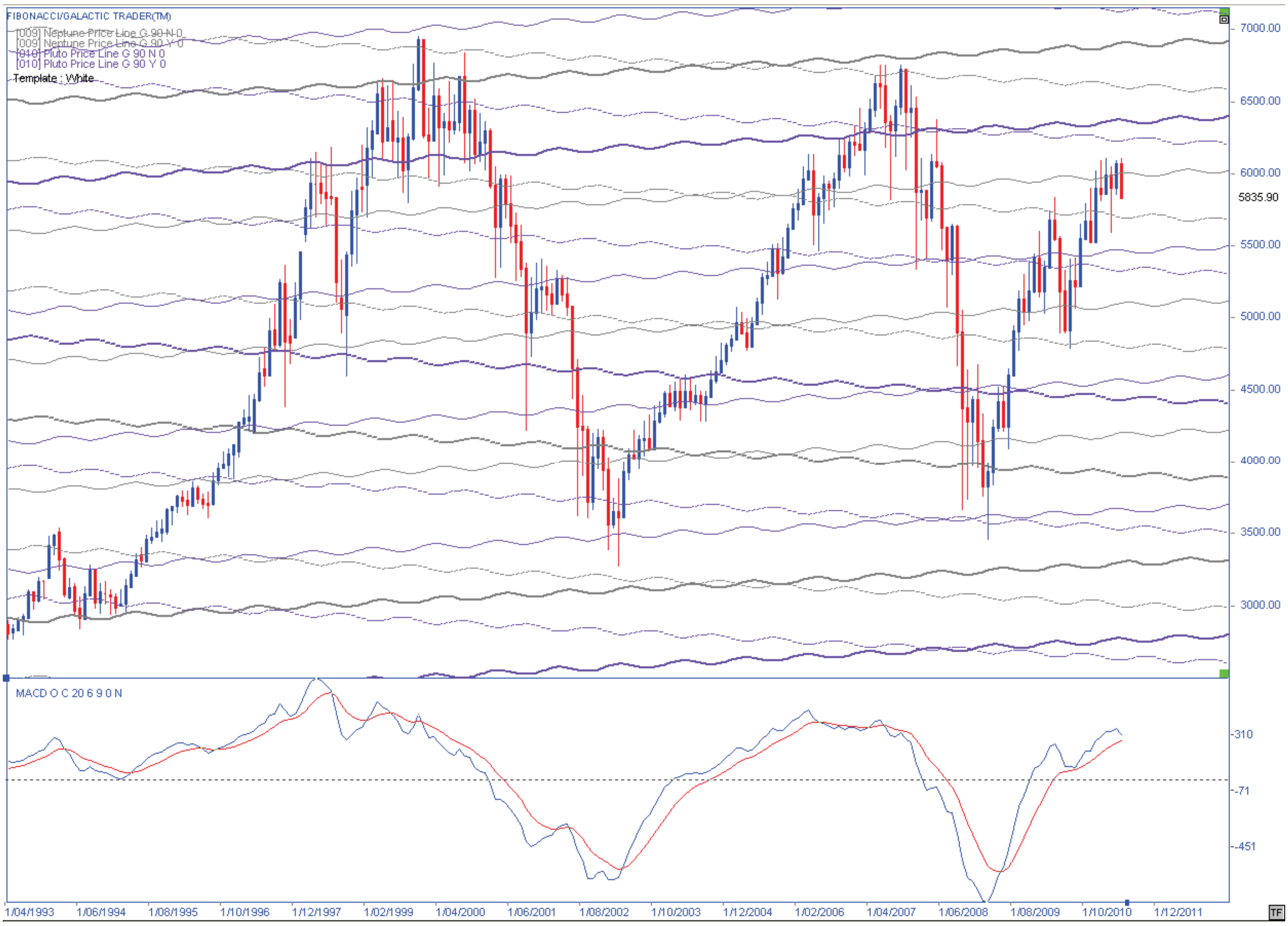
Depending on what signals the monthly, weekly and daily *Idiots* are giving, along with the current state of The Canaries, or the fast MACD, Long or Short trades can be placed with a high level of safety – not only the entry point, but also the exit levels for loss stops or profit targets.

The loss stops are very, very important! "Thought" number one … ALWAYS protect your capital.

Sometimes, in the short-term, markets do their best to confound us, or a surprise news event can cause a sudden reaction in the opposite direction to what we might have been expecting.

Knowing what planetary level should define the entry point – and which should not be broken by anything other than a quick, one-day spike, also allows us to keep our loss stops tight.

DETERMINING which planets "rule" a particular index or stock does require some work.



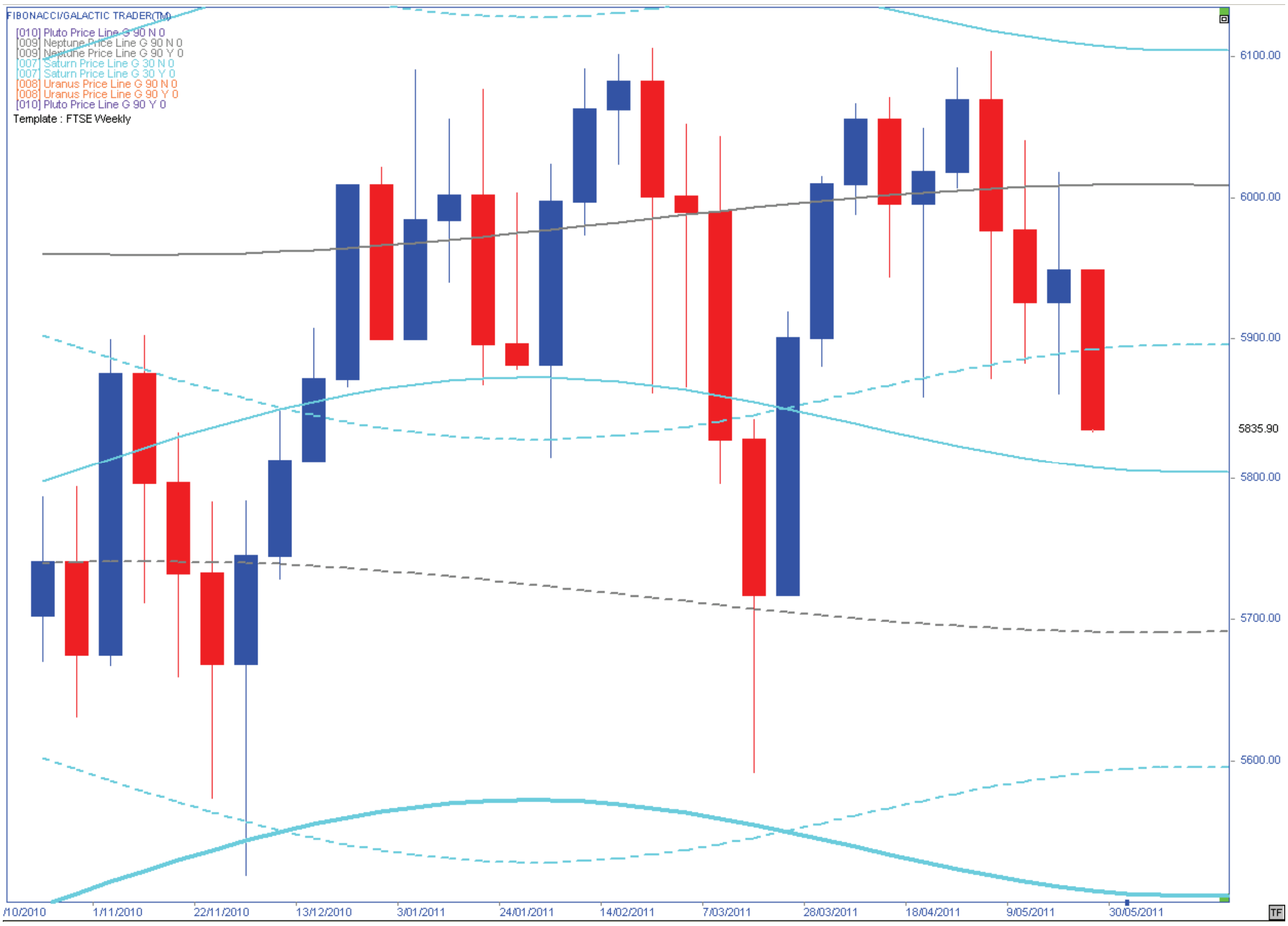
But the rewards for doing the work are potentially very large. Here is a long range planetary chart for London's FTSE index.

The FTSE and the ASX 200 run to similar overall price levels, even though the currencies are widely different in value. The prices are determined by the position of the planets – not by the currency symbol in front of the number.

So, it's no surprise Neptune also plays a significant role in long term moves of the FTSE. But, Pluto is also a major player with this index.

AT A WEEKLY level, however, the action is mostly contained by Neptune and Saturn, just as it is with the Aussie index.

At other times with the FTSE, Pluto lines will appear and assert their influence, just as Uranus lines have an impact on the ASX 200.



Again we see how consistently the weekly price ranges find either Support or Resistance at these planetary price levels.

But, more importantly, they do actually tell us what the *range* is likely to be – ahead of time!

If we know, in advance, that next week the FTSE will probably travel between 6000 and 5900, then it *ought* to be relatively easy to place some incredibly profitable trades.

Which is why I now have to let loose my nagging, but eminently practical, Virgo Moon, Miss Prissy to remonstrate with you one last time …

A TRAVELOGUE OF THE JOURNEY

We have learned much in the past three chapters. I'd like to think that it is knowledge, not simply information.

This is a book which tries to condense many years of experience, of study, of information accumulation into a taut body of useful knowledge explained simply. It is not just my research that has been made available here, but that of others, like Jeanne Long.

The Idiot & The Moon **was written specifically to help all those people, now and in the future, who need somewhere to start when they are taking the first steps on a journey that can easily lead them to financial independence. It is my fervent hope and wish that it makes its way through Asia and India and into Africa and parts of South America, where it might help lift people out of poverty and into a future with broad and adventurous horizons. In short, it is my pact with Jupiter to overthrow Saturn's grim grip on the still-developing world.**

And, as I said at the beginning, it was also written for those who, like me, forgot the first thing they knew – that it's not nearly as difficult as the "experts", the "academics" and the overpaid and overvalued "analysts" would have us believe.

Nor is it anywhere near as difficult as our inner childhood demon would have us believe!

And to be honest and blunt, it was also a book that was written for me. It is easy to get lost in the daily deluge. Everyone, everywhere wants to talk – incessantly. It is oh-so-easy to be distracted from what we actually *know,* by the opinions which flood the airwaves, the chatrooms; the barrage of noise which causes that dire and totally unnecessary disease, *analysis paralysis*.

- **We have learned that an incredibly simple mechanical system called *The Idiot* is routinely smarter than we are.**
- **We have learned that being in the market for only a few days each month, following *The Moods of the Moon*, can not only generate enormous profits, but keep our profits and our capital intact during *probable* consolidation or downturn periods.**
- **We have learned that *Old Gods*, long forgotten and ignored even in Greece itself, still wield a mysterious power over the everyday events of the 21st Century (even if that "power" is, some time long in the future, proven to be nothing more than an echo of the mathematical forces set in place at the time of the big bang).**

What we have yet to prove we have learned is … how to shut out the noise of the madding crowd, how not to drown in the deluge of drivel, how to stifle the childhood gremlin who nags constantly that it cannot be this easy.

When we can do that … and do it day-after-day … then we will know we're well down the path towards the getting of Wisdom.

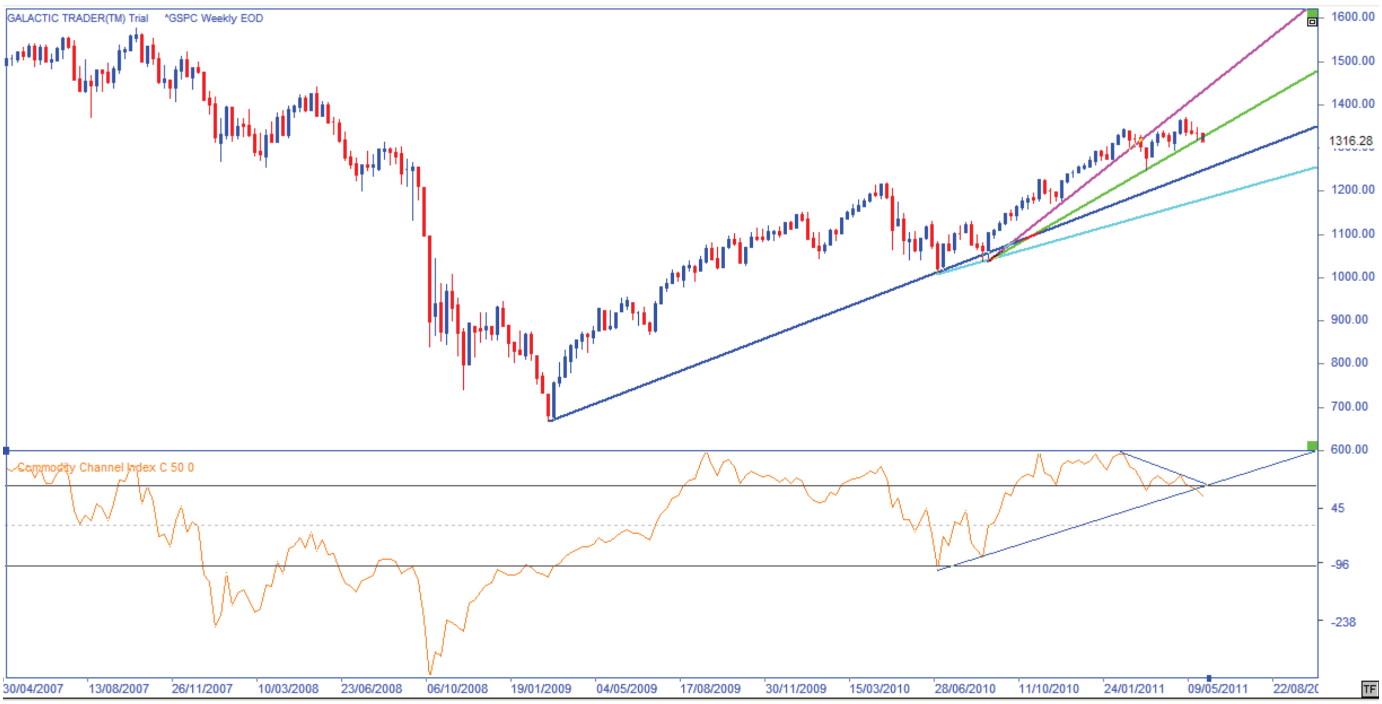
The Technical Section

Scores of books have been written about Technical Analysis and many of them are weighty, worthy and richly detailed. They're a TA toolbox a Ferrari Formula One mechanic could get lost in. When what we actually need is something to fix a fuse to keep the lights on!

The remaining section deals with a limited number of Technical Analysis tools. Following the KISS principle, it will introduce you to some simple tweaks, tricks and techniques that most of those books do not tell you.

This section will introduce you to The Canaries, the TA tool that is most likely to give you an early warning to get ready to go Long – or to get out of Dodge fast!

It will show you exactly how markets tend to rise and fall *in the same angles* as in the past, so that you can go back to a previous rally to create a trendline which is very likely to be an incredibly useful guide during any current open trade. And it will also show you how markets have a tendency to rise in three distinct angles of trend so that you know when a blow-off is about to fade and fall over.



This chart of the weekly SP500 concentrates on the recovery rally from the 2009 low and uses nothing more than a few straight lines and a single oscillator – one of the sweetest of The Canaries.

It is an example of how incredibly simple a trading chart can be, while telling you everything you really *need* to know about the stability and stamina of the current trend in play. But, let's begin at the beginning and walk slowly through the process …

Trendlines

Drawing a straight line is one of the simplest and most effective tools in the box.

If you have your own software, you won't need these instructions for using a trial of Galactic Trader 4. Click the trendline tool I've marked and use the cursor to draw a line linking ONLY the bottom of the 2009 Bear low and the correction low midway through the rally. The software should automatically extend the line.

If it doesn't, right click on the line and make sure "extended" is ticked in the menu that opens.

For this exercise, we are using the monthly chart of the SP500, with our focus on the recovery rally.

What you will learn in the following pages are tricks and techniques that can be applied to ANY chart – from monthly to weekly, daily and even intraday charts.

This one simple line is going to tell us a very great deal about how stock prices operate.

Our next step is to right click on the line we've created and select the "parallel" option to give us an exact copy of the dominant trendline.

Two parallels will create a "channel".

Using the cursor, we drag the two parallels we've created to the bottom of the two earlier lows on the price chart – and suddenly we have a channel, an angle of trend we can see is valid because it capped the price moves during the early half of the recovery, while the middle line has acted as a barrier during the second half of the rally.

This now gives us a LOT of information we can use. We know the second stage of the recovery has been a little weaker than the first half because it has not been able to regain the upper channel.

However, since it made the midway correction, it has regained *the same angle* of trend.

We can see, in advance, where the overhead Resistance will be in the months ahead – and therefore can use the crosshair cursor to discover what the Price barrier will be for any short-term trades.

And we can also use the crosshair to find out the Price of very important Support when the index goes into its next major correction.

We can also recreate the channel on weekly or daily charts.

Here, I have recreated the same dark blue channel on a daily chart – but have also taken another two parallels and used the right click menu to change the colour.

As we can see by zooming in, the *angle* of the trend continues to be important. This gives us channels within channels we can use to help define areas of Support and Resistance during short-term trading moves.

And, more importantly still, we have just used our ability to draw a single straight line to convert a bit of data and some information into some very useful trading *knowledge*.

The same index, or the same stock, will repeat the same angles over and over again!

Once you have enough data and information on the chart to be able to draw your first valid line, it is incredibly simple to work out exactly what path Price is likely to take in the days, weeks, even months ahead.

You will be able to forecast, with considerable accuracy, where Price will run into trouble as it rallies – and, also, some very likely bounce points as Price corrects from those rallies.

And you will also know when the overall trend is starting to weaken – *and* when the trend is finished and in dire danger of slipping into a strong downtrend. We also now know exactly how to create a channel for that downtrend when it comes!

Knowing that a stock or an index seems to have an attraction to a particular angle of trend also helps us *to go back into the past to find angles with a high chance of being repeated in the future.*

To see how this works in real life with a real market, I have returned to using a long term monthly chart of the SP500 and we'll concentrate on the period from the rise into the 2000 peak.

The 2000-2002 Bear allowed us to draw a Bear crash angle – and then apply it to the starting point of the 2007-2009 crash, with the spike low of August, 2007, lending us an additional anchor point to help create a channel.

The first part of the 2007-2009 Bear crash followed the red angle established during the previous Bear – but the break of the line highlighted the disastrous nature of that Bear plunge.

The 2003-2007 rally allowed us to create a potential recovery angle the index was likely to follow when the Bear crawled back into its cave. The validity of the rising blue angle was reinforced when a parallel was established during the blow-off phase of the rally into 2007.

All we had to do was go back into history, draw a straight line, start copying it and applying it to other significant price bars.

What it created, when the previous rising blue angle was applied to the final three spikes of the 2009 Bear was *a forecast of what Price would do for, so far, two years into the future!*

We went back in Time to find the future; we did it by learning how to draw one straight line; we did it without expensive advice from "experts"; we did it without costly subscriptions to some market guru; without agonising, angst and stress; without needing to spend days or weeks bogged down in the too-much-detail of much longer and much weightier TA books.

Keeping it Simple, ain't Stupid. It's smart!

Now, you'll have noticed that the blue uptrend angle we copied from the 2003-2007 rally has a slightly different angle than the earlier channel we created, using only the data from the first part of the post-2009 recovery rally.

So, let's combine the two to discover what else we might be able to learn.

Here, I've kept the blue channel angle from the 2003-2007 Bull run and converted our earlier channel to a green one (and unclicked the "solid" bar in the candlestick dropdown menu so we can see the channel lines a little more clearly).

At this time, Price is still running along the top of what we'll call the 2007 Bull channel, but only the midway channel of the post-2009 recovery rally.

This, too, is important information for our forecasts into the future. We know from past performance that the blue channel is a fast-rising angle that is a "blow-off" ... it simply cannot be sustained because it's too far, too fast.

And we can see that the current green channel rises at an even faster angle!

We know how this ends! Badly!! It's not a matter of "if", but of "when".

And knowing what we know ... because *The Idiot* will most certainly tell us *when* to get the hell out of Dodge fast! ...there can be NO excuse for having our money wiped out by a vicious Bear!

ALWAYS protect your capital!

We'll finish this section on Trendlines by returning to the chart we began with.

I indicated earlier that stocks and indices tend to show three distinct angles of trend. This chart is a little busier than the earlier one because I have copied some parallels of the relevant angles and inserted them.

Since we're using a weekly chart, the angles will not be as steep as they would appear if you go through this exercise on a daily chart … and you should do exactly that to become familiar with the technique.

We'll call the pink angle a fast trend, the green angle an intermediate trend, and the dark blue angle the long term trend. When the pink line fails, we look to the intermediate trend to provide Support and when the green line fails, we look to the long-term trend.

Using these on daily charts is simply a matter of getting your mind around "levels". What is important to know is when a blow-off rally is failing so you can get out and look to the potential for re-entering at either the intermediate or long-term lines.

And now that we've learned to draw a straight line and convert mere data into knowledge, it is important to know they can also be applied to technical oscillators like The Canaries and MACD.

This means we can simply "eyeball" a chart and get an instantaneous, *clear* reading of the current health of the market. We no longer need CNBC … or the Wall Street Journal … or the chat rooms filled with discussion, dissection and blah-blah babble.

Independence from others and highly reliable forecasts for the future – and all it took was the ability to draw a single straight line.

The Canaries and MACD

Most of the technical indicators developed over the years are very good at telling us what has already happened. In short, they're "lagging indicators" which possess the infinite wisdom of hindsight!

There are, however, a few which are very good at telling us what *is going to happen* – and that's priceless information to have. It is better to use very few technical oscillators, but to learn how to *tweak* them for optimal use and to become *very* familiar with using them across a number of timeframes to interpret their signals and secrets.

With oscillators, it is not true that familiarity breeds contempt; it boosts confidence – especially when the signals are used in conjunction with one of the three different "systems" we learned in the first part of the book.

Trading successfully – and remember that most traders are not successful, or suffer early burnout – requires the mental discipline not only to set rules and follow them, but to learn how to combine signals from different timeframes.

This is really not that hard. It distils down to the simple fact you can't expect to make big gains by Shorting a market in a strong Bull phase and you can't expect huge profits from going Long during a Bear phase.

So, what we need to learn is to read the variation from the signals, using the *same* oscillators over *different* timeframes – which is why I've continually stressed the need to start with the monthly charts before moving to weekly and daily charts.

Perhaps the worst mistake most traders make is to devote too much time and attention to daily charts and, even then, a lot of them have too few bars onscreen to be able to make a wise and informed decision.

Remember: the daily charts are used primarily to try to find the safest short term point to enter a trade, or to look for a likely exit point to maximise profits when an uptrend or downtrend is nearing its end on the intermediate or long term timeframes.

And that's where The Canaries and/or the fast MACD come into their own – *when they are used in conjunction with* the most basic crossover signal from *The Idiot*, with the *Moods of the Moon*, or a proven Price target defined by one of the *Old Gods*.

They are not nearly as certain and reliable if they are used as a stand-alone signal. And that's because they can give "false" signals if they're used on their own. It can take two, sometimes three, divergence signals before Price follows the direction hinted at by the oscillator.

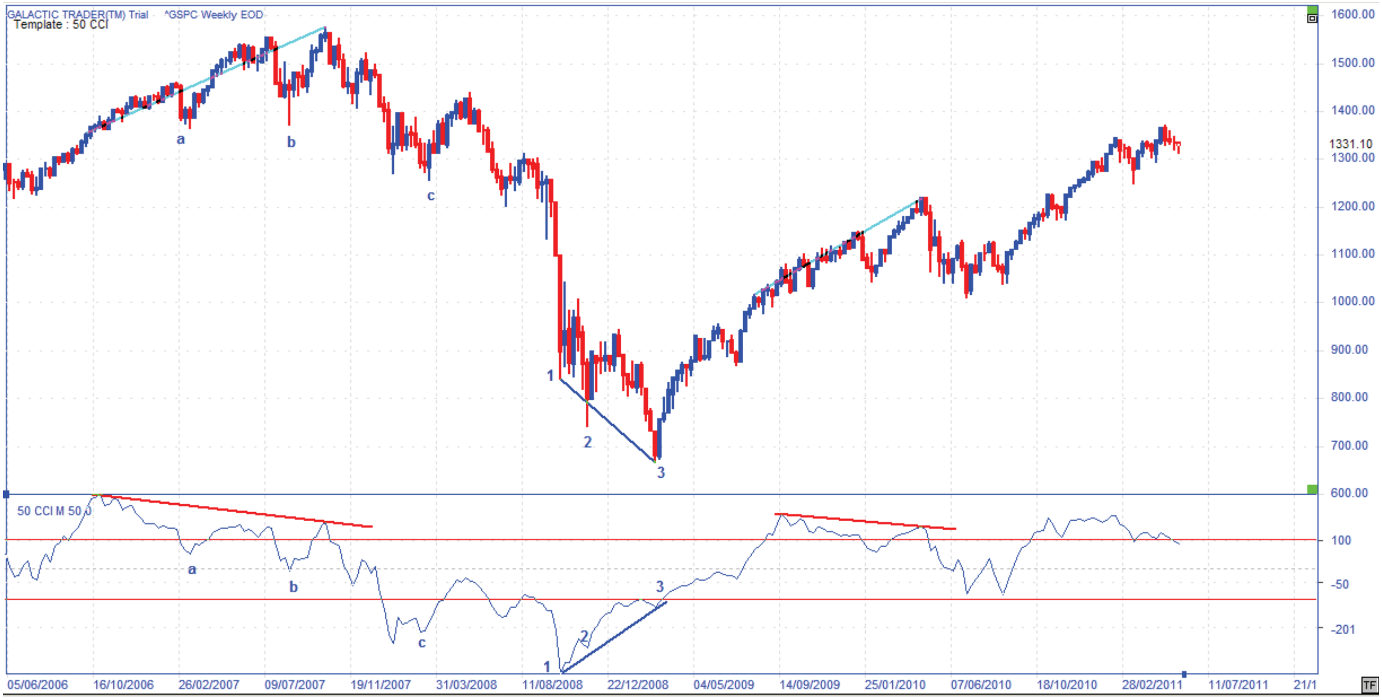
And we also need to learn the difference between a real divergence signal and one that strongly suggests a continuation of the current trend in play.

We'll begin by learning how to set up charts which use The Canaries.

The Commodity Channel Index is an oscillator which first came to public attention in 1980 and it was originally designed to define the peaks and troughs in commodities. Before long, traders began using it on stocks and indices, as well as commodities.

And those who mastered it soon began to realise it offered something few other oscillators could – the power of prediction. It is a leading indicator, not a lagging one. It can be used to define not only oversold and overbought conditions, positive and negative divergence, but also to show the start of a new trend, the continuation of an existing one – and warn of extreme conditions.

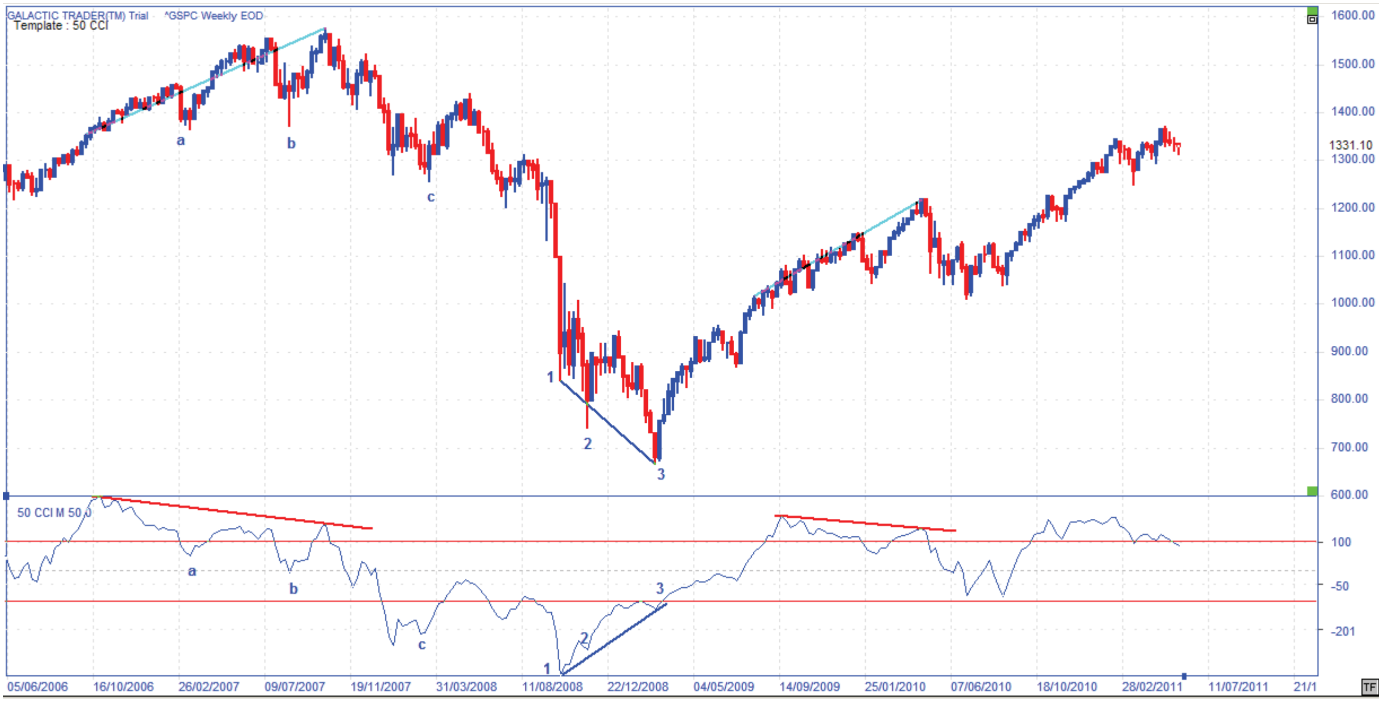
And you get all of this from a single line. Now, in fact, I tend to use three different CCI lines in the same indicator panel to interpret the probable direction of Price according to the interplay between the lines. They're so good at their job that I've dubbed them *The Canaries* because they fulfil the same role as the proverbial canaries in a coal mine … when they fall off their perch, it's a clear warning that conditions are rapidly turning toxic.



This is a weekly chart of the SP500 showing all the action from the period leading into the 2007 Bull peak – and using a 50 CCI. Firstly, it gave clear signs of negative divergence developing all the way from late 2006 into the eventual market top late in 2007.

Price continued rising and making *higher* peaks, while the 50 CCI showed *lower* peaks. The *rising* price is shown by a light blue line, the *falling* CCI peaks are shown with a red trendline. Also, note the corresponding temporary troughs I've marked "a" and "b". The CCI is making deeper troughs, while the "b" Price trough is not as deep.

Please note: This is negative divergence between The Canary and the Price. For negative divergence to occur, Price *must* rise while the oscillator falls. If Price flatlines, goes into a sideways consolidation, it is more likely to be a continuation signal, *not* a divergence signal. It is vitally important to learn the difference! Divergence warns that a trend is ending and you need to get out; continuation tells you to be cautious, but to hold steady because higher prices are not only possible, but probable.



In the case so far, it was not only the lower peaks in The Canary that warned of trouble building, but also the deeper troughs.

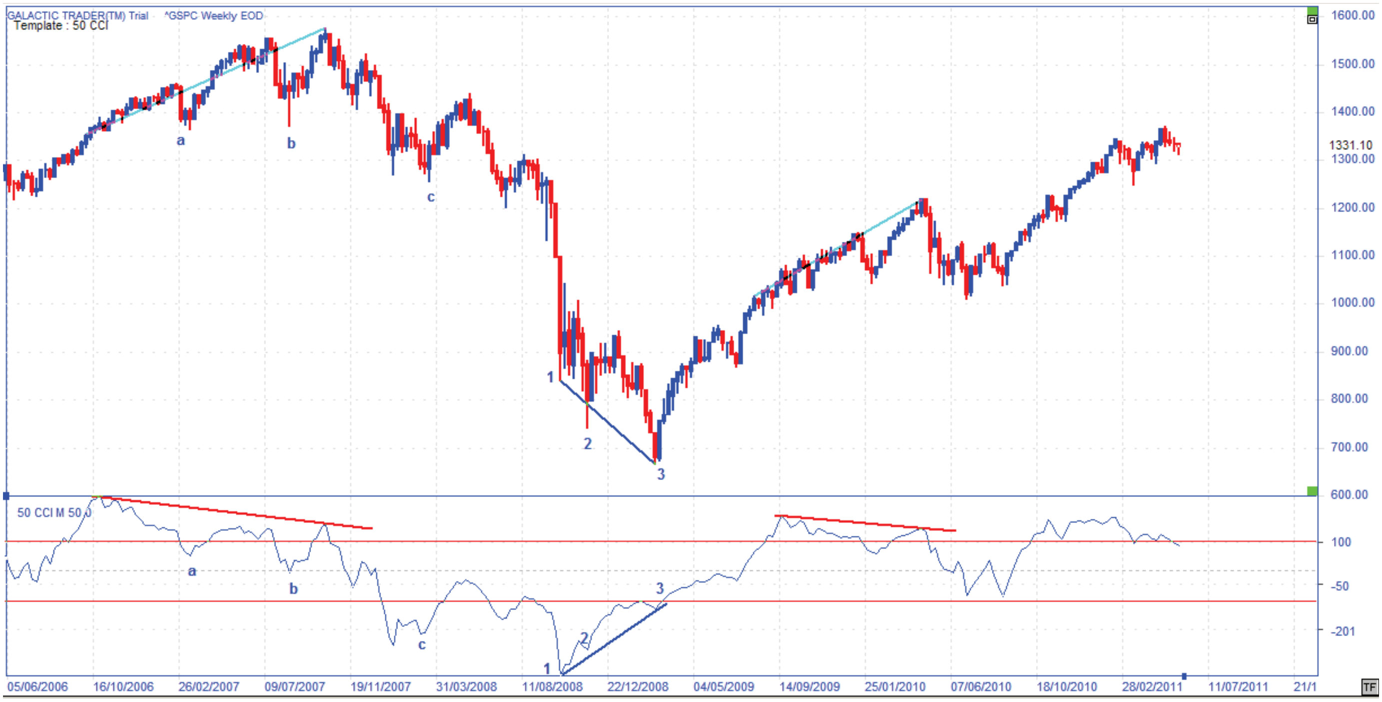
Still in the left one-third of the chart, we can see a Price and CCI trough I've marked with a "c". In the case of CCI, you can see a very mild level of positive divergence when that Price low occurred. And it successfully predicted a MILD recovery in the Price. But it was good for only a relatively short term Long trade – or a period of review for traders who were Shorting the index.

The key point to learn here is that it was only ONE incidence of positive divergence – and we are getting the idea from our study on the earlier page, that *divergence takes time to develop.*

I have marked the bottoming process that took place from late 2008 into March, 2009 with the numerals 1, 2 and 3. Here, The Canary makes *higher* troughs, while Price makes markedly *lower* troughs. Remember the rule: for divergence to occur, as opposed to continuation, Price must move in the *opposite* direction to the oscillator.

We see another example of negative divergence building as Price rises into the midway mark of the recovery rally which followed the 2009 low, proving just how valuable it is to spend time learning the signals to forecast what will happen in the future, rather than reacting after the event.

But, we're not finished with this chart yet.



The CCI was developed using a Zero line and two outside markers set at the +100 and -100 levels to help define overbought or oversold levels.

We have to bear in mind that markets can remain overbought or oversold for quite long periods. With the 50 CCI, it tends to be that you can initiate a trade and stay in it for a considerable time once it has broken the Zero line.

In a Bullish phase, the Zero line tends not to be broken decisively until the Bull has been slaughtered and the Bear is in full control of the battleground.

If you look at the "b" on the left of the chart once again, you can see The Canary bounced from contact. This is known as Zero Line Rejection, ZLR, and frequently signals a strong move. There is another version of it not long after the marked "3", where a turn down from the Zero line marked a multi-week Price decline during the recovery rally.

We can also see by studying the chart that once the Zero line was decisively broken to the downside late in 2007 that the CCI did not recover above the Zero line until the Bear phase was completely finished and the developing, new Bullish phase had weathered its first multi week reversal test.

So what we have learned is this:

It is very, very dangerous to go Long on the SP500 (and almost anything else) while the 50 CCI is below Zero. There may be some opportunities for short-term Long trades, if there is a clear example of positive divergence, as there was at "c".

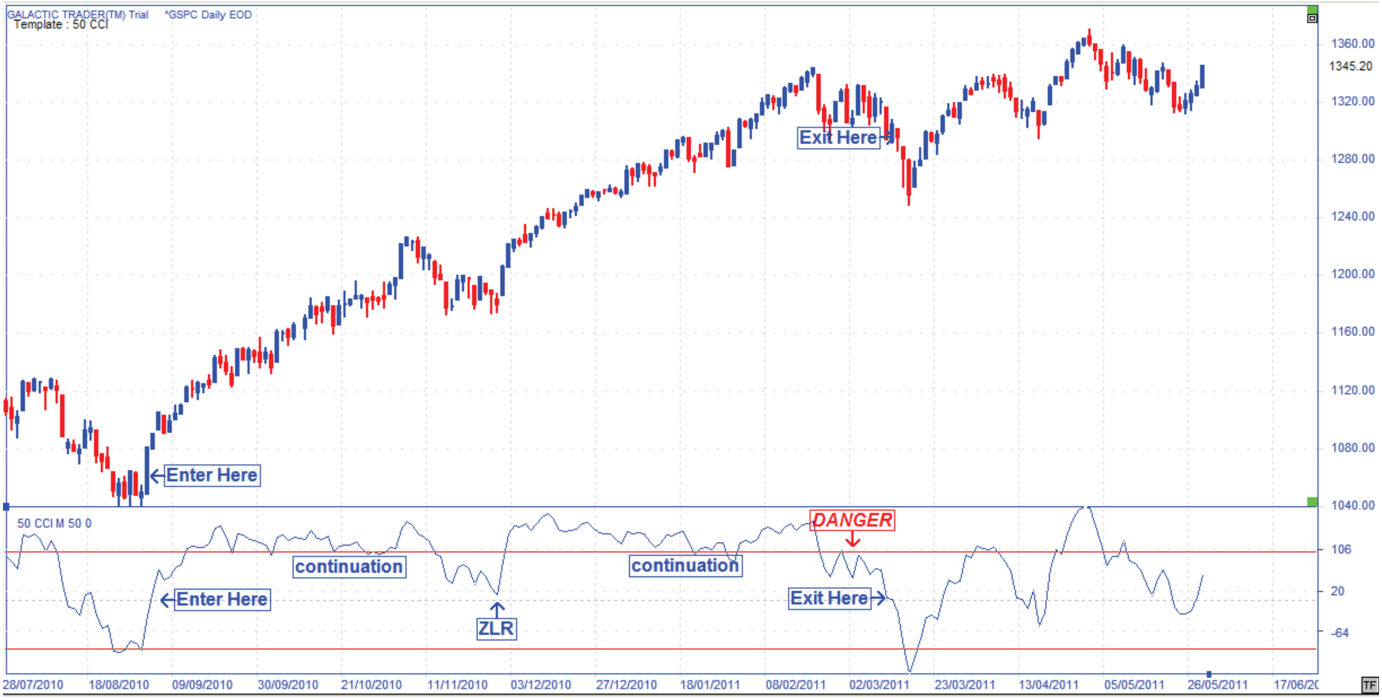
Divergence, whether positive or negative, builds slowly over time and one should not be too pessimistic to bail out of a winning run too soon, nor too aggressively optimistic about catching a falling knife.

Staying in tune with The Canary's song is obviously a key part of learning how to reconcile the basically contradictory nature of those two old Wall Street adages: *Let your profits run* and *Cut your losses short*.

Now, at least, we're beginning to get a much clearer idea of just how long we can *safely* let our profits run … and very stark knowledge of when we absolutely MUST cut our losses short.

As with all oscillators, they can be used across any timeframe of chart. Now, we'll turn our attention to the daily … remembering that we have taken the trouble to establish whether the market, overall, is in a long-term Bullish phase and using the weekly chart to better judge what the intermediate trend is currently doing within that long-term Bullish phase.

We use the daily only to provide better Entry and Exit signals so we can try to maximise our profits, according to the direction of the intermediate trend and the long-term phase.



So we can begin to apply what we learned from our study of how this particular *Canary* behaves. We do NOT enter Long while the oscillator is below the Zero line, but do know that when it breaks above the Zero line then we are probably entering a move that is likely to be sustained.

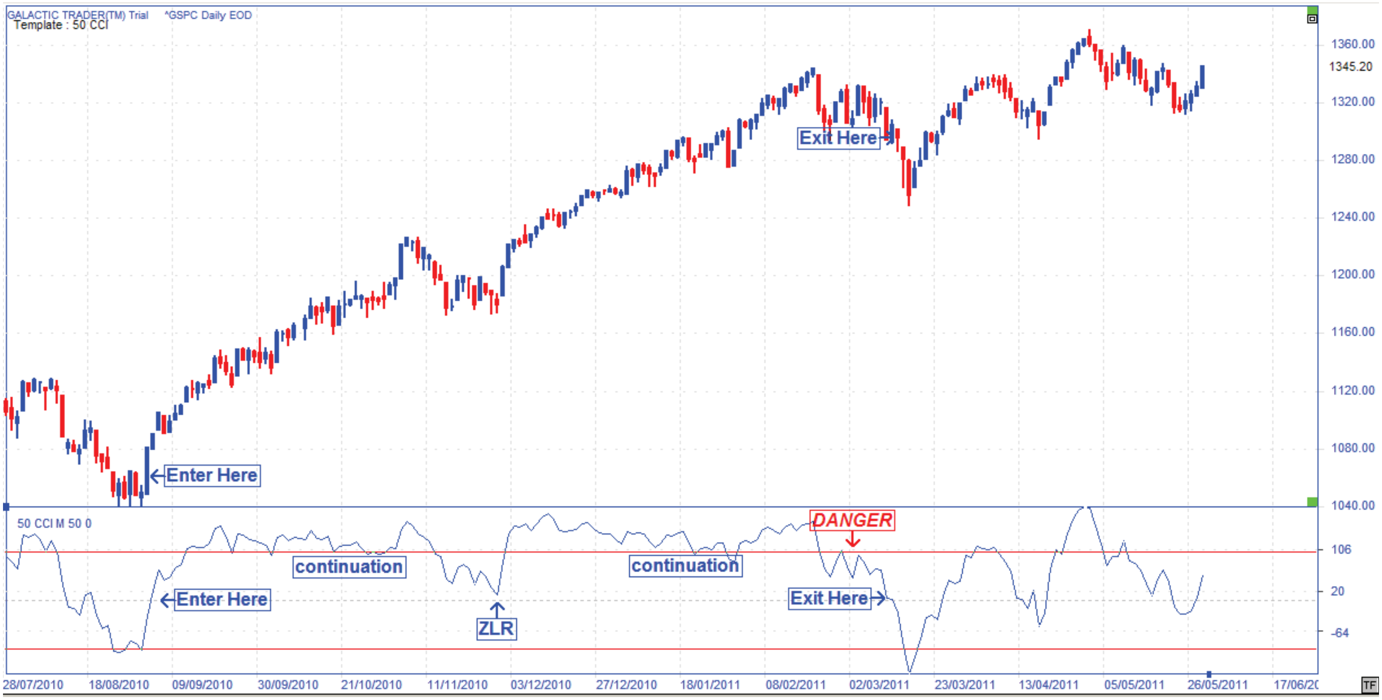
Here, I have marked on both the CCI and the Price chart where we Enter and when we Exit. We go Long when the oscillator crosses above Zero and do not Exit until it crosses below Zero.

The CCI bouncing along the top of the +100 red line shows an overbought condition that is a continuation pattern. We do get a multi-day retracement in the middle of the two zones which are marked with a "continuation" box … but not only is the Zero line not broken to the downside, we get a sharp bounce upwards from it; a Zero Line Rejection. In this case, a positive one.

The warning signs do not develop until the CCI cannot recover the red +100 line and starts peaking as it hits it from the underside.

Having received a signal from The Canary that conditions are starting to turn toxic, we have used the downside cross of the Zero line to at least Exit the Long trade. We do not enter a Short trade because???

Because the long and intermediate-term charts still show us in a Bullish condition! We are starting to receive warning signs, but the bigger birds haven't fallen off their perch and croaked yet!



However, our daily chart is beginning to reflect the more dangerous conditions intimated by the intermediate-term chart, which is starting to show clear signs of negative divergence.

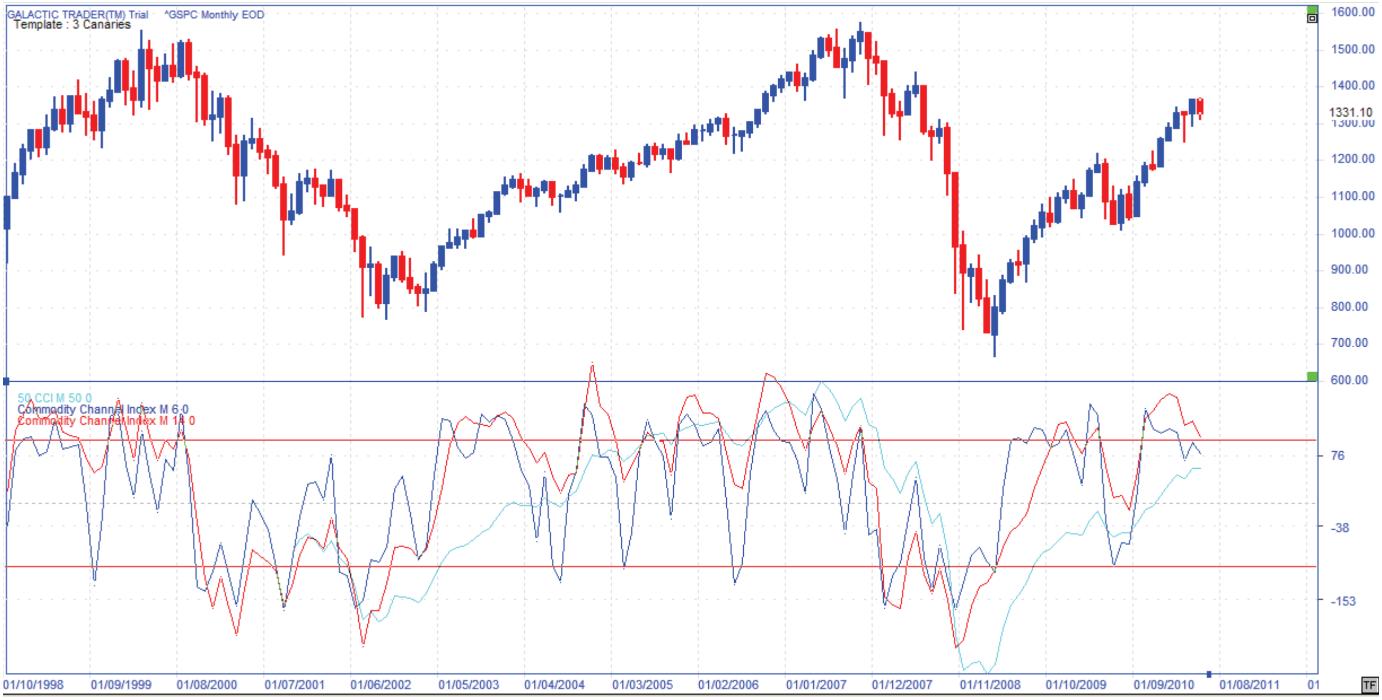
We are no longer getting continuation signals … we are getting *volatile* signals. These are always signs of trouble ahead. Always. There are some high-adrenaline traders who thrive under these conditions.

And it may be that you'll become one of them and love it. But that is not the purpose of *The Idiot & The Moon*, whose sole aim is to provide simple and safe systems and techniques for those who are new to the game – and to those who, like me, have suffered too many burn-outs and too many blow-offs.

My hope is you'll come to enjoy it; you'll even have some fun doing it. But, if you start to get hyper-excited during fast-run rallies and morbidly depressed when you make losses, then Stop … Start Again … and try to reset the internal adrenalin gauge to a nice, easy mark somewhere between Boring and Fun.

You'll know when you have it right. You'll be able to get up in the morning with a smile … and that's also exactly how you'll have gone to bed the previous night!

We'll now introduce all 3 *Canaries* and take a look at the extra information which comes from their harmonies.



They are set up with the CCI set at 6, 14 and 50. On this chart, I have altered the 50 from the dark blue line we used on the earlier charts to a lighter cyan. The dark blue is the fastest 6 CCI and the red line is the 14.

This is a long-term monthly chart of the SP500. In the earlier weekly chart, we saw the negative divergence signal which developed in the 50 CCI as the index went into its 2007 peak. Here on the monthly, the 50 gives only one instance of negative divergence before the index peaked out and went from Bull to Bear mode.

However, the two other Canaries did start getting shrill early. We can see the red line made three lower peaks in a classic signal of negative divergence. We can see that both the blue and red Canaries dropped dramatically to the underside of the cyan one – and they *stay* below it until the Bear is finally starting to loosen its grip.

In the early period of the new Bullish phase which started with the March, 2009 Low, we can see positive divergence in the faster birds (as we did with the 50 CCI on the weekly chart) and, more, all three lines are positively stacked as they should be in a strongly Bullish phase … blue on top of red, on top of cyan.

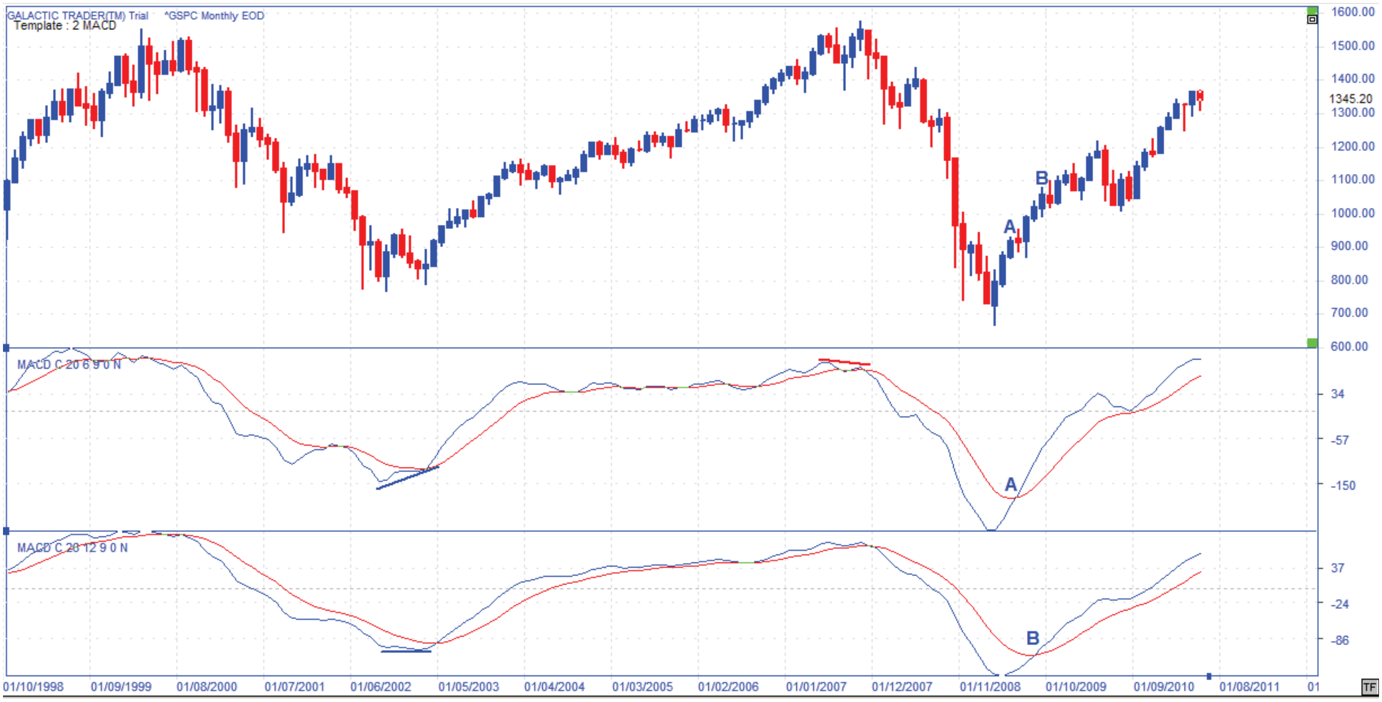
And yes, at the current time, they are again flashing warning signs to reinforce the negative signals from the weekly chart and the high volatility readings we are receiving from the 50 CCI applied to a daily chart.

It shouldn't take too long to become thoroughly familiar with *The Canaries*. If you're already an experienced trader, you may have other oscillators you prefer. These are my favourites because they tell me everything I need to know … they give early warnings of what is going to happen … and I have become so familiar with the sweetness of their song I can recognise an off note the moment it is sounded. There is no need to go scrambling through a dozen other oscillators looking for confirmation. Familiarity breeds confidence.

The fast MACD

A very worthy alternative to *The Canaries* is a Moving Average Convergence Divergence oscillator, the MACD.

Most traders use the MACD in its standard settings. However, it is possible to tweak those settings to give faster signals.



This monthly chart of the SP500 uses the fast MACD in the top frame and the standard version in the lower frame.

One might assume that a faster reading might also carry more risk. After all, Speed Kills, right? Not necessarily. The fast MACD is also a safer MACD because it has a tendency to show divergence signals more clearly than the standard oscillator.

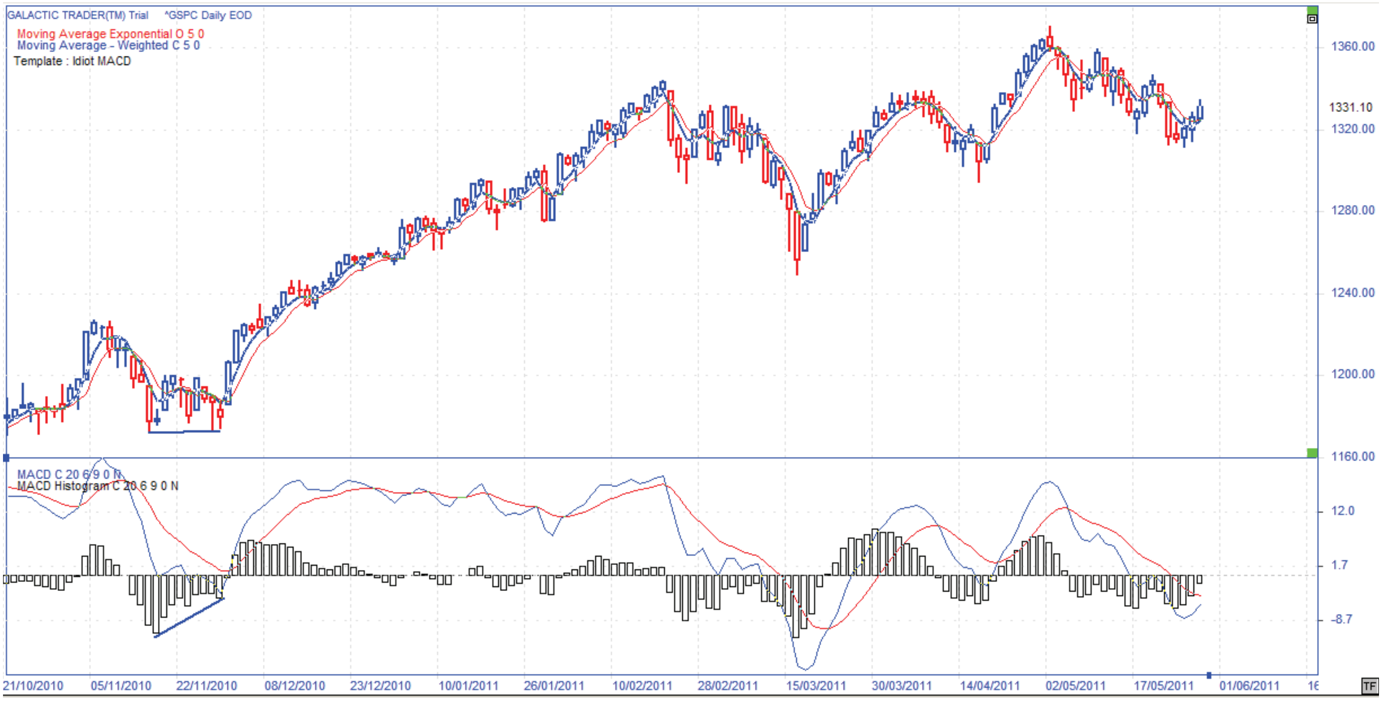
If you look at the bottoming process over 2002, you can see the fast MACD gave a clear and clean signal of positive divergence. With the 2007 topping process, it also gave a cleaner, earlier signal of negative divergence.

There is also much less lag with the fast MACD. In the recovery run which started at the March, 2009 Low, the fast MACD gave a Buy crossover signal in the third month of the recovery – four months ahead of the standard MACD.

The fast version does give potentially a higher number of false signals – but any confusion is fairly easily overcome if we remember what we've been learning from Chapter 1 onwards … we consult charts across monthly, weekly and daily timeframes BEFORE making the trade decision.

The whole point of the exercise is to make money. Safely. Consistently. Reliably.

Since the monthly chart above shows the SP500 in a long term Bullish phase, which so far is being confirmed by both The Canaries and the fast MACD, we can turn to a daily chart to find the best possible Price points to enter, or re-enter, the prevailing trend.



Here, we employ another trick to help find the best entry points – including a MACD histogram, tweaked to the same fast settings, to help confirm the Buy and Sell signals generated by *The Idiot* system displayed on the Price chart.

The MACD histogram can often give clearer divergence signals than the MACD itself. Check the small correction in the bottom left of the chart and we can easily see that while Price flatlined, the histogram gave early warning that the underlying conditions were actually getting more optimistic.

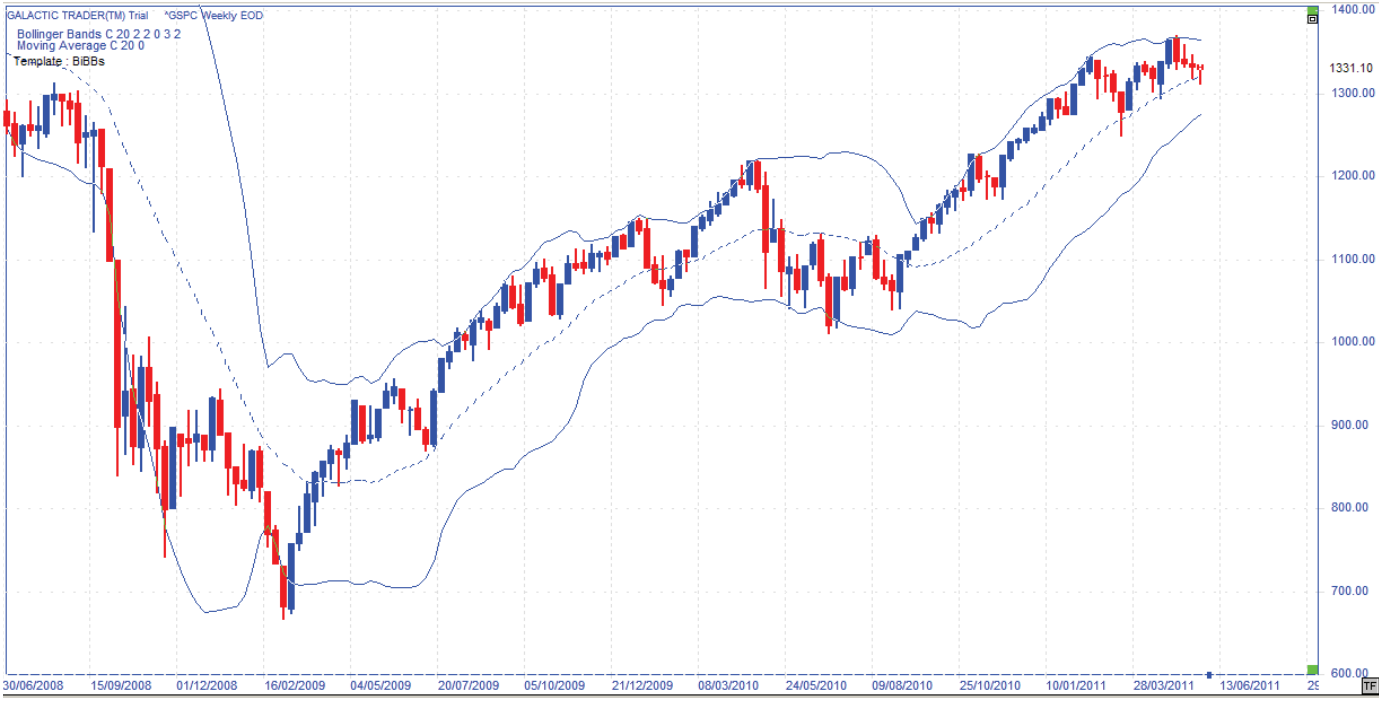
It takes time and experience to learn to read worthwhile signals from the mere "noise" generated during either an ongoing rally or intermediate decline, which is why I am continually stressing the need to keep several different layers of analysis current ... and why the *primary* decision is the function of either *The Idiot* or *The Moods of the Moon*, NOT the state of the oscillator.

And it is why I've been probably rather tedious about emphasising time and again that success – safely, consistently and reliably – is all about deliberately shutting out the noise and the deluge of data, about turning mere information into useful knowledge, and in using that knowledge to acquire some wisdom in your trading decisions by keeping those decisions down to only those which meet the rules.

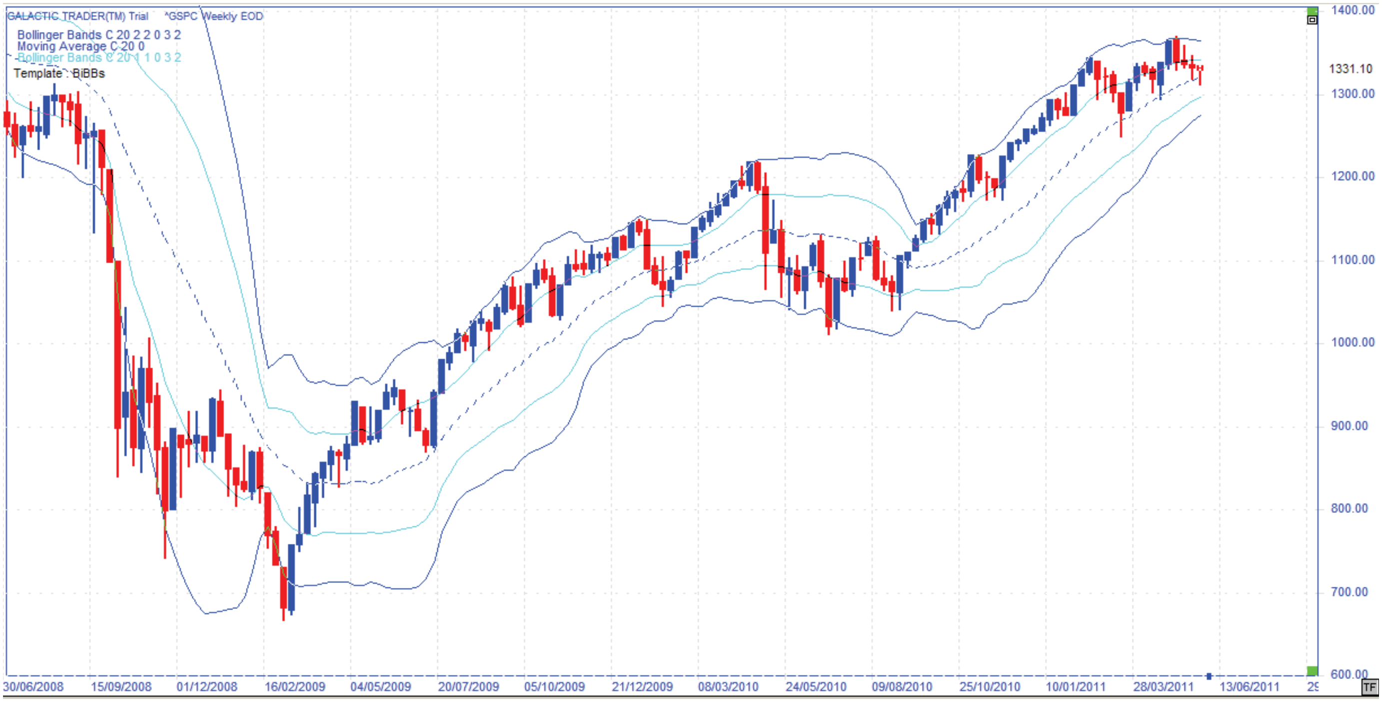
As you're probably beginning to understand, just keeping in your head the different layers of timeframe analysis, using only a couple of specially tweaked oscillators, is difficult enough. The more complex we make it, the harder it becomes to make the right decisions at the right time – and that's when most traders start losing.

Bi-BBs

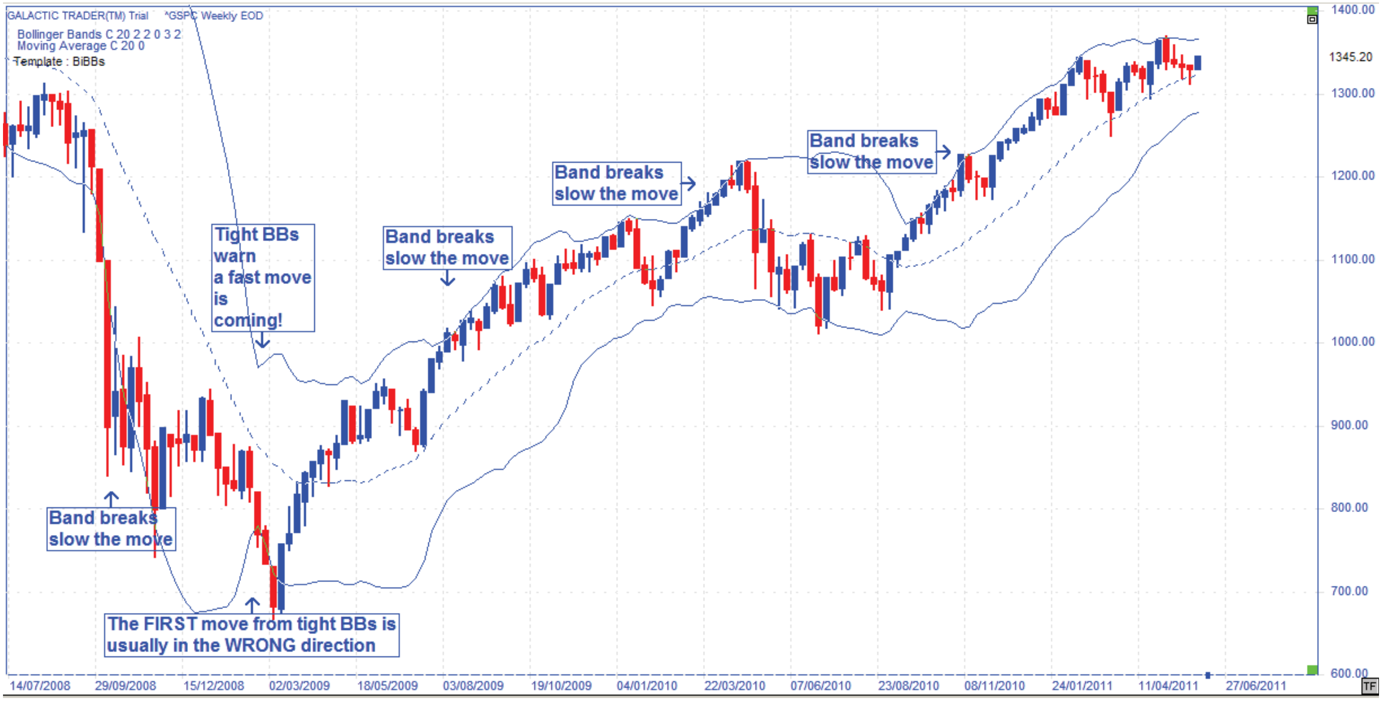
At the risk of increasing the information deluge, there is one more very useful trick even experienced traders would probably like to know. Bollinger Bands are one of the most common technical tools used because they help to define the near term upside and downside of the trend currently in play.



But, BBs become a lot more useful when they're turned into Bi-BBs!



Let's return to the standard chart before we learn how much more useful the Bi-BB chart is in helping to keep us in a winning trade for longer.



The standard settings for Bollinger Bands are based around a simple, 20-day moving average, with the upper and lower bands calculated at two standard deviations from that line. Some people use 21 or 22 for their settings.

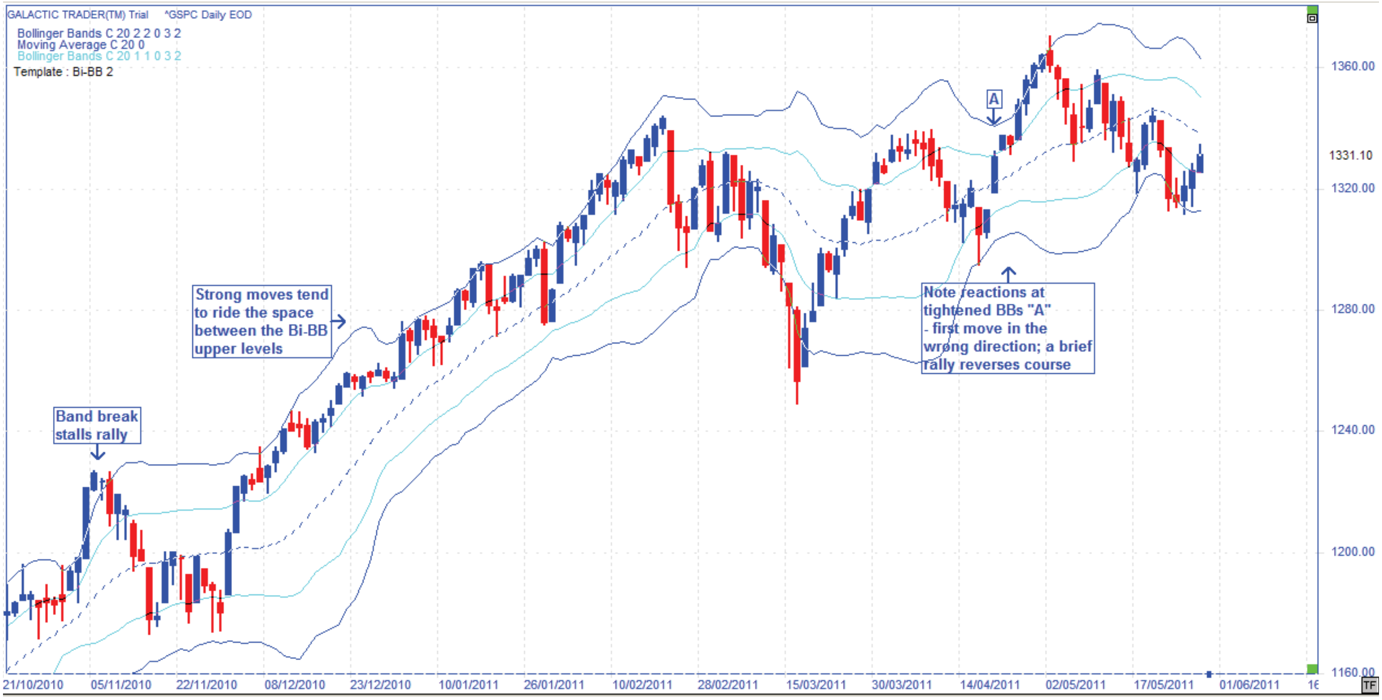
The basic rules are:

- **In a strong uptrend, Price will tend to "hug" the upper level and will often find Support at the centre line.**
- **A Price breakthrough of the band, whether upper or lower, will usually cause a short-term consolidation, or at least temporarily slow the rate of climb or decline.**
- **The bands expand dramatically when a strong move is starting.**
- **Severe contraction of the bands warns of a fast move approaching.**
- **The *first* move following fast-contracting BBs is, usually, in the wrong direction.**

Several of these are marked on the above chart. The two most useful things to remember are that a break of the band tends to slow the current action and that when an approaching fast move is forecast by suddenly tightening bands you need to be very nimble because the first move is usually in the wrong direction. Not always. But very, very often.

It's a "head fake" … Price plunges as if the sky is falling, only to suddenly turn and go on a rocket rally; or the reverse occurs … and a short, sharp rally suddenly falls over and the market drops like a stone.

Using Bi-BBs allows us to see more of the internal conditions of the market.



We can now see exactly why Price sometimes seem to stop and turn around within the middle of one of the standard BB set-ups … it's not turning in mid-air, as it might appear, but is actually rising or falling within a secondary layer.

Starting at the left of the chart, we can see the second of the "rules" listed on the previous page in action. Breaking the band stalls the current direction and will normally lead to a sideways consolidation or a brief correction which will find support again at the middle of the band, or at one of the two secondary layers.

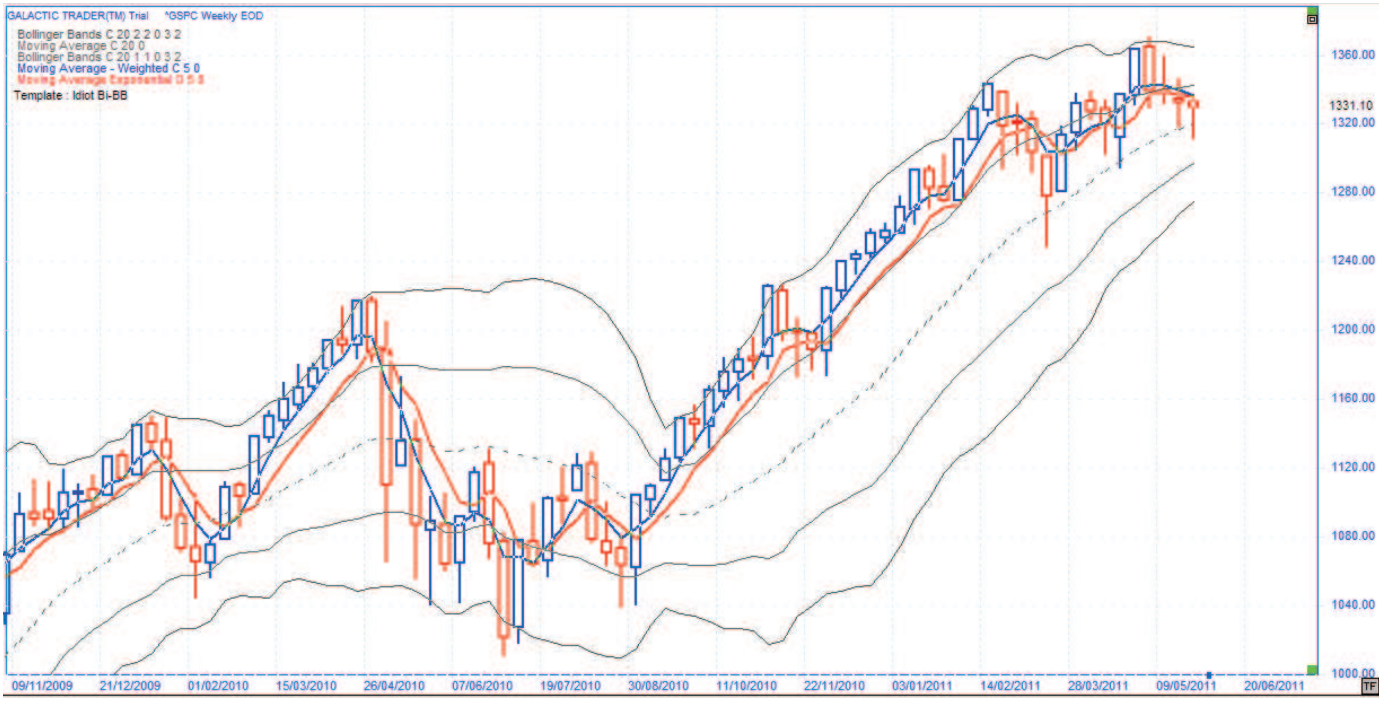
Moving into the rally, we see confirmation of the first rule on the previous page … in a strong uptrend, Price will tend to hug the upper band – and we now see that it also has a definite tendency to ride the layer provided by our Bi-BB.

And we also have an example of how tightening BBs are a forecast of a sudden, strong move – and how the initial thrust can just as suddenly reverse direction.

The proper use of Bollinger Bands is an art in itself. Some technical analysts specialise in using varied time lengths of the same mechanism from which they draw a great wealth of information.

However, the tweaks and tricks I've displayed here are, though simple, more than the average trader needs - not only to stay on the right side of the trend, but to give fair warning of a potential reversal, and the initial Price targets for upside and downside moves within the layers of the Bi-BBs.

And it's a system easily employed with either *The Idiot*, or *The Moods of the Moon*.



Here, for example, is an *Idiot: Bi-BB* chart – the weekly chart of the SP500. I've altered the set-up of the candlesticks and the Bi-BBs in an effort to make the chart clearer.

When we come to the section at the end of the book where we'll walk through the process of recreating these charts in the free trial version of Galactic Trader 4 (or with your own favourite software), I'll show you how to run these charts on a black background, which is not only much less strain on the eyes when using charts onscreen, but also allows a wider range of colours to be used to delineate the various lines.

In any case, you can see from this chart that combining *The Idiot* with the Bi-BB makes for some very safe, very reliable and very profitable trades which can keep you in a winning run for many weeks at a time – without any need for over-analysing. Enough to keep you going to bed and getting up with a smile, rather than being dragged through a constant emotional wringer.

We know that when the uptrend is strong, Price tends to ride the faster Idiot line … and it will also ride the high layer of the Bi-BBs. Study the chart closely and s-l-o-w-l-y! Apply each "rule" we've learned … how breaks of the upper BB tend to bring on a stall or correction … how, during Bullish long term phases, you do not aggressively Short the market or expect to stay Short for extended periods … but that if you are playing Long, you Exit temporarily to protect both your capital and profits and watch for support layers, or trendlines, to hold so you can begin to position for re-entry. This system may cost you some profit gains, but it will always protect you against big losses.

The truth is: trading the stock markets successfully is not rocket science. You don't even have to have a particularly high IQ. In fact, a high IQ can be a decided *disadvantage* because the Ego will be quick to snap: *"It can't possibly be this easy, this simple! I refuse to believe that My Hi-IQ Brain can't outperform a mechanical Idiot!"* You really need to shut the Ego down and take solace for the rising numbers in your bank account.

Fibonacci

Almost everything in nature vibrates to a mathematical rhythm – from the orbits of the planets to the veins on a leaf and the structure of a seashell. Who knows why – and who really cares?

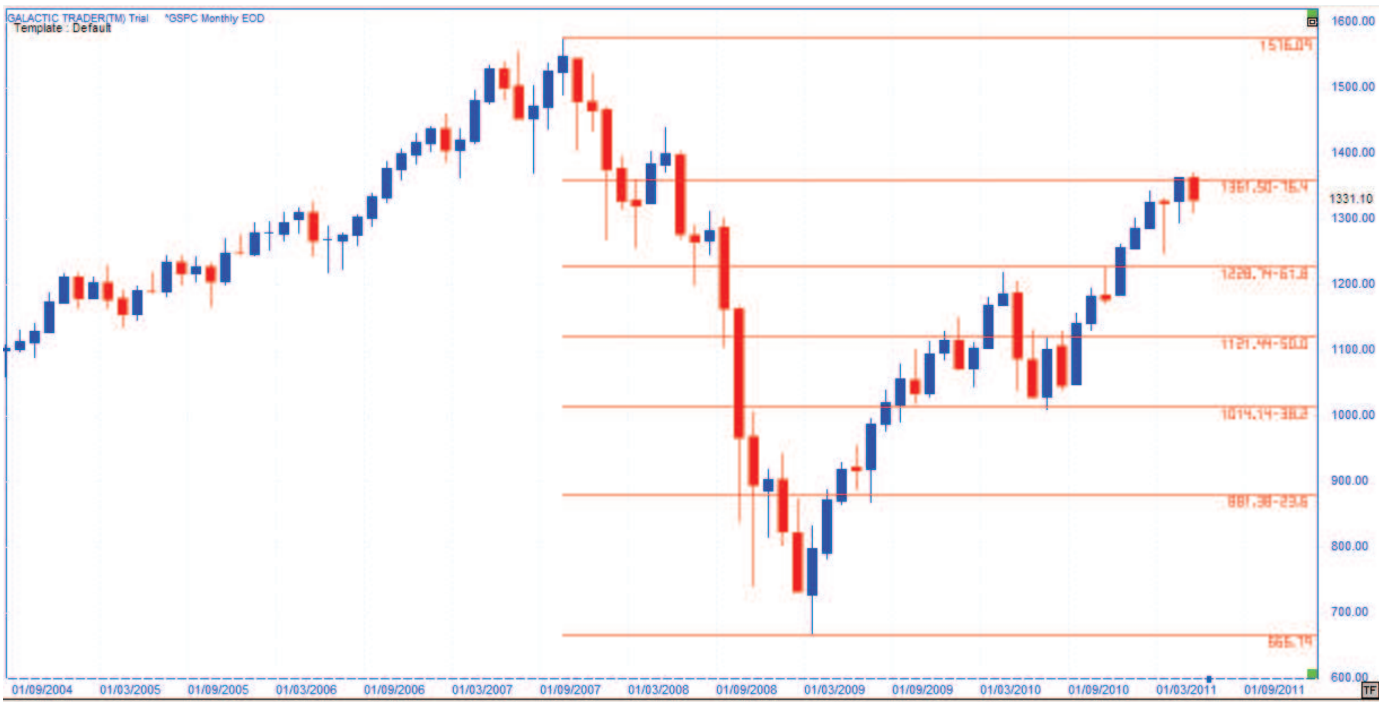
Perhaps a repeating "code" was unleashed in the first milliseconds of the Big Bang and its vibrations still echo all around us.

We owe our knowledge of it to Leonardo Pisano Bigollo, whom we will now lovingly refer to as: that dead Italian guy.

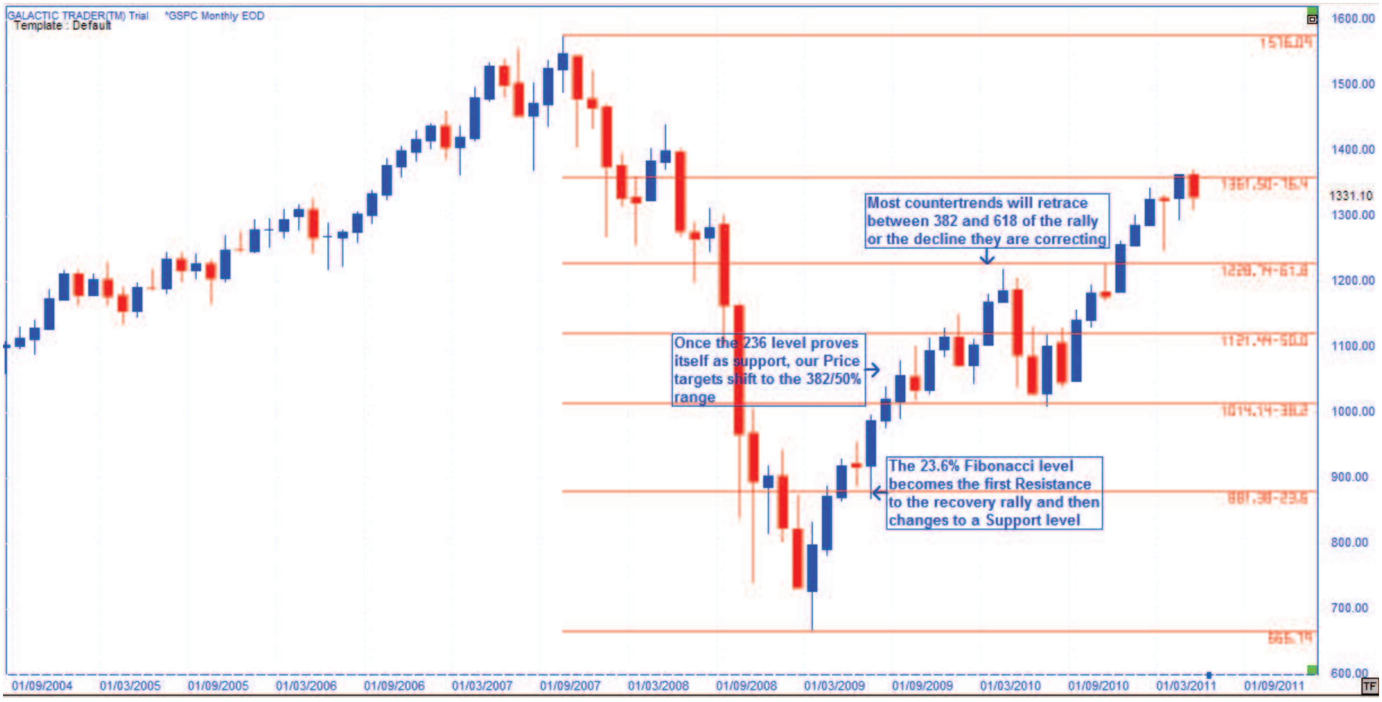
The son of a well-off merchant, Leo travelled widely in north Africa and the Arab world where he learned an awful lot about maths from Arab scholars (who, in turn, owed what they knew to the Greeks who'd settled in those areas after Alexander shuffled off and his empire was divided among his generals … and the Greek scholars had, in turn, picked up a lot of the data on the Indian subcontinent while Alex was having his armies run over by elephants).

In 1202, when he was 32-years-old, Leo published all his discovered knowledge in Liber Abaci … The Book of the Abacus, the ancient world's original computer. Anyway, as well as a few other names, he became known as Leonardo Fibonacci and published the most beautiful set of numbers ever discovered.

If you want to know more, go check Wikipedia. Thankfully, other maths geeks have turned the numbers into a couple of mouse clicks we can actually use to make money! And this is how we use them.



In this example of the SP500 monthly, we draw the Fibonacci sequence from the top of the Bull to the bottom of the Bear … and it gives us Price targets the recovery rally will stretch towards – and stall at – long into the future.



Now, if this is new to you … if this is the first time you've seen the resurrection of the dead Italian guy in action … I understand your excitement! Despite my admonition that you should strive to reach a nice balance between being bored and having a bit of fun … I have to confess a *frisson* of wonder dances through my grey cells whenever I call up a new Fibonacci chart and watch the cold, numerical displays of stock prices sway in time and tune to an ancient and mysterious rhythm that found its way through the carnage of war elephants, into Greek temples in Egypt, out into the intellectual oasis of the Arab world while Europe was in its deep, medieval sleep – to end up as a button in a software program.

And what a fantastic little button it is!

As we know, markets go up – and correct downwards; markets go down – and correct upwards.

They have a tendency to stop, stall and bounce from Leo's beautiful set of numbers. And it doesn't matter whether we're looking at a multi-year Bull-turned-Bear-turned-Bull market, or the shorter-term action of a *Full Moon-New Moon* rally.

The Fibonacci series sets a preordained list of Price targets rallies will strive to reach, and as each level gets broken, it morphs from being Resistance to becoming Support.

In the monthly chart of the SP500 above, we can see exactly how the index has moved to the Fibonacci tune time and again – and, at the time of writing, has reached another of the expected target levels.

So, what we have done so far is to use the 2007-2009 Bear market to identify probable Price targets for each stage of the recovery rally which followed. At this stage, we will pretend we don't know whether it is merely a large scale correction within a massive Bear which has not yet finished – or the start of a genuine, new Bull market. It doesn't matter at this stage because we have other Fibonacci tools we can use if it turns out to be the latter.

Firstly, though, let's just quickly recap the probable levels for retracements.

A very shallow retracement would be 23.6%. Around one-third of the previous rise, or a 382 Fibonacci level, is quite normal and leaves an uptrend in a very strong position to resume rising.

A 50% correction is okay. A 618 decline starts getting a bit iffy, unless it occurs immediately after the first leg.

Price moves tend to occur in what are called Elliott Waves. Now that's a very complicated technique and one you should absolutely not get involved in until you are a very experienced trader. It's okay to know the basic pattern … that rallies tend to occur in 5 waves – 1 up is the first leg, 2 is the first correction, 3 should be the strongest and longest part of the rally, 4 is the second major correction and 5 is the final leg of that part of the rally.

It is okay for Wave 2 to retrace 61.8%. It is NOT okay for any other retracement wave! Ideally, you would expect to see a Wave 4 stick to no deeper than the 382 level decline.

I'm actually very hesitant to mention Elliott Waves at all. I have consistently seen some of the world's most expert EW technicians make astonishingly WRONG calls on what is happening with the markets.

The trading systems and technical tools outlined in this book are designed specifically to keep you away from complicated techniques like EW, because if you get them wrong they can be quickly and disastrously wrong.

Anyway, let's get back on topic. So, we're using the dead Italian guy to tell us Price targets for the Bull phase which replaced the Bear.

The next step is to see if Leo can tell us anything about retracements during the rally phase.

We are using the SP500 weekly chart once more and have drawn two different Fibonacci retracement diagrams.

NB: In a minute, we'll be dealing with Fibonacci Extensions. Instead of constantly writing Fibonacci retracement or extension, I'll use Fib Rx and Fib Xt, okay?

So, the first multi week rally off the Bear bottom has a 4 bar decline which breaks a little below 23.6%, but stays above a 38.2% Rx. Shallow. The uptrend is strong.

(And you will understand the importance of a turn after a 4 bar decline when you read the next chapter, dealing with Price & Time.)

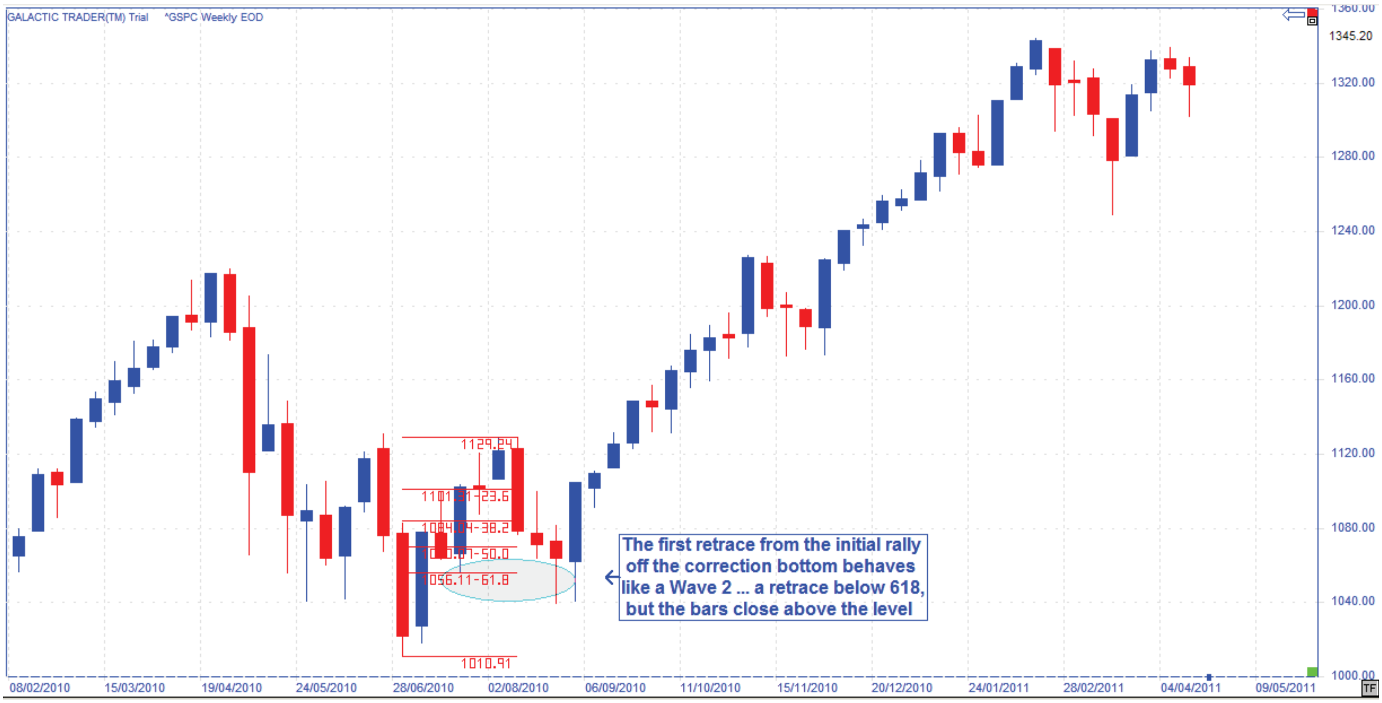
The blue Fibolin strings show the first really major correction of the intermediate-term Bull phase marginally breaks below the 38.2% level, but quickly recovers the overstepped ground.

As I said on the previous page … the 382 level is "normal". Once again, the uptrend is left in a strong position to resume.

You can see how these Fibonacci levels become almost the perfect place to get ready to re-enter Long, or exit Short, positions when the long-term and intermediate phases are Bullish.

The next chart will deal with the second stage of the rally, the period from mid 2010.

We will zoom in and pick up the price action from the bottom of the first major retracement of the intermediate phase.

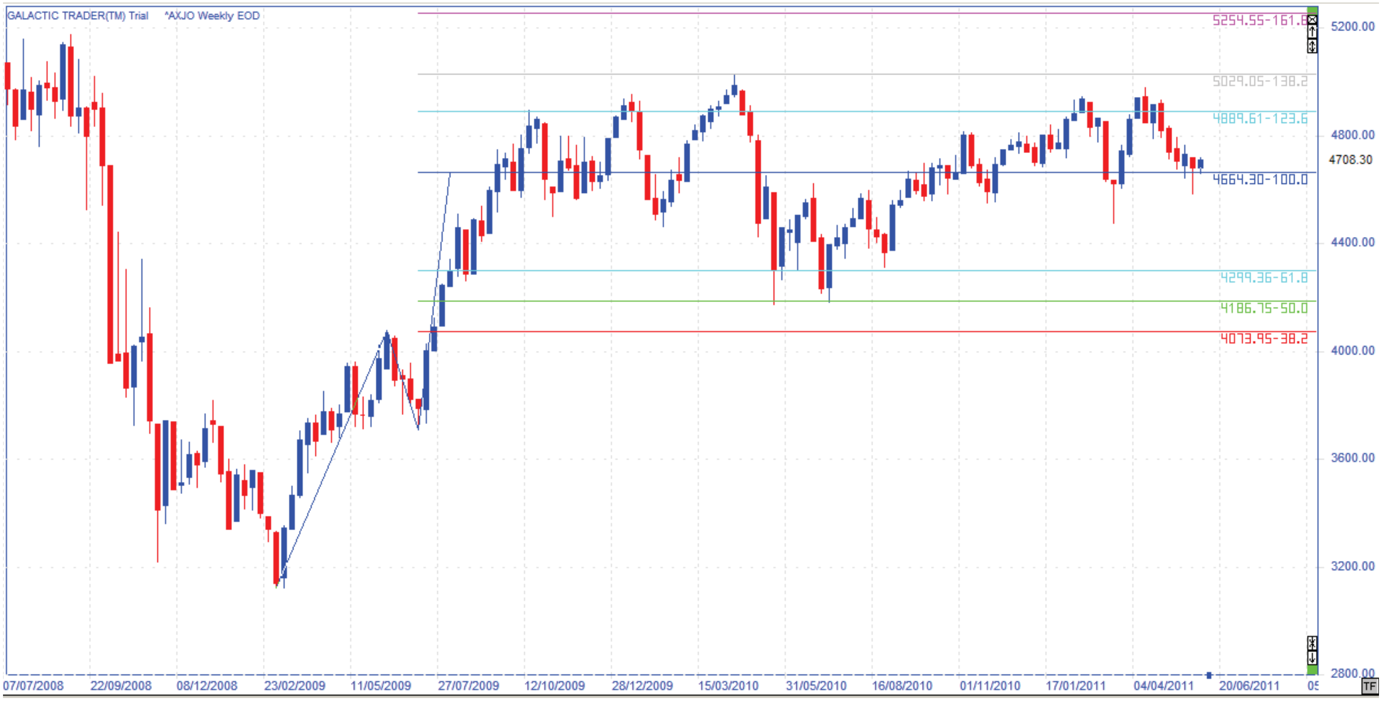


While the very first rally off the Bear bottom did not retrace more than a very shallow level, the first retracement here broke below the 618 level before recovering.

I indicated earlier that a 618 Rx is very iffy – unless it comes in a Wave 2 position. What we're starting from this major midway correction is a new 5 wave rally and we've just seen Waves 1 and 2 with this 618 level retrace.

And now for the really neat stuff. That dead Italian guy tells us *ahead of time* just how far Waves 3, 4 and 5 are likely to go! Mama mia! Bellisimo!! C'mon, how can you not love the guy!

When we apply these Fibonacci extensions to a weekly chart of the ASX 200, we can be under no illusion that the world of mathematics is in any way dull and uninteresting.



A book has been published recently where a very learned academic claims to have made an in-depth study of applying Fibonacci to the stock market – and has concluded that it is "worthless".

So, what does it look like to you … worthless? Or priceless?!

Using Fibonacci tools in our trading and combining the technique with a system like *The Idiot*, makes for some incredibly safe and profitable trading opportunities.

Fibonacci gives us levels proven time and again to hold the probable price zone of a correction … and the extension lines give us viable and valuable targets for taking profits when a new rally is beginning to fade; falling off a fast angle, or with The Canaries starting to drop off their perch.

As you learn how to use it and apply it to your charts, you'll be tempted to *over*-use it. Remember the KISS principle! Always check the Big Picture charts first and use the daily charts only to find the best Entry and Exit levels.

If you find yourself making too many mistakes then you need to … Stop! … Step Back! … go sit under a tree with a drink and re-read the first few pages of *The Idiot* … it's simple, it's easy, it works, it can make you money … *if you can resist the temptation to flood your brain with the banal and with useless trivia.*

And now, there is only one more set of tricks, tips and techniques I have left to tell you.

Price & Time

Our final lesson in The Technical Section is to become familiar with the two stages which affect market action.

Price is the rally stage.

Time is the consolidation, or countertrend, phase.

Now, this may seem obvious, but the fact is that burnout comes largely from trying to trade Time periods and becoming so frustrated and distrustful of the market's (lack of clear) action, that when a new Price phase starts we become afraid to trade and miss out on most of the gains.

***The Idiot*, *The Moods of the Moon* and the proper application of The Canaries are all designed to help put an end to the frustration and the analysis paralysis so common to traders.**

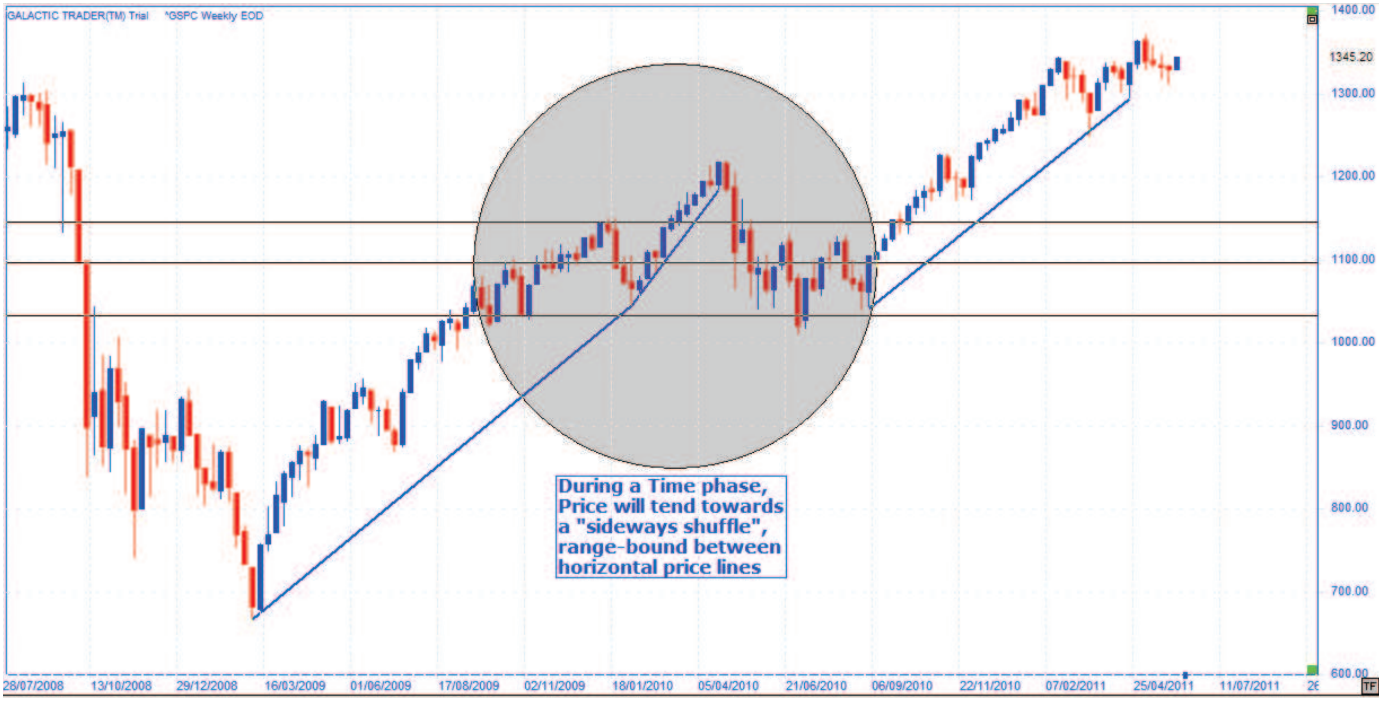
And now I'm about to give you the final secrets that will help you put it all together.

- **Trends run in cyclical lengths.**
- **Countertrends run in specific bar counts.**

I will explain the detail of these in a moment – and, once again, I caution you will need to get your head around different "levels" of trend and countertrend. But, we will begin as we always should: by understanding the Big Picture.

The monthly SP500 chart showing the post-2009 recovery rally – highlighting the frustration one might have suffered by trying to trade the 10 month long Time phase midway between the two major Price phases.

It is vitally important to be aware of these two stages from a long term perspective, so that we can mentally shift the "level" of our focus when deciding whether or not to trade and, much more importantly, to shift our potential profit targets during these Time phases.



Here we see the Time phase as it looks on the SP500 weekly chart. The first thing to notice is that Price tends to stall within horizontal bands and to range between those bands.

Having made a strong Price run, a Time phase becomes necessary for the market to consolidate ... to "rest" from the rapid exertion of energy.

The horizontal bands can be applied to particular Price highs and lows to discover the range and *probable* areas of Support and Resistance as Time unwinds. Or it may be that the horizontal bands can be found by applying Fibonacci techniques. Or they will be *Old Gods*.

The important thing to do is shift the level and focus of our thinking; if we are going to trade during these periods, we need to be nimble and grab quick profits.

They are periods which can be traded profitably, but we must reduce our expectations.

And they are very, very easy to recognise because: a Time phase ALWAYS follows a Price phase and it will ALWAYS bear some reasonable relationship to the extent of the Price move.

A *lot* of Price in a *small* amount of Time will require a lengthy period of Time to consolidate the move.

A *long* period of Time for a *small* amount of Price will always result in a strong Price phase breakout.

And that's why we need to have some idea of how long the Time period will run so that we have the confidence to jump aboard the next Price phase!

So, I will tell you the secrets.

A *trend* will run in cyclical timeframes

A correction or *countertrend* will run to a specific count.

- **First degree countertrends run from 1 to 4 bars**
- **Second degree countertrends run from 7 to 12 bars**
- **Cyclical trends run for a minimum of 22 bars and tend to break into divisions of 30 calendar days … 30, 45, 60, 90, 180 etc.**

Please note STRONGLY. I have listed the length in "bars". This means we always need to be aware of "level" … on a daily chart, 1 to 4 bars means 1 to 4 trading days.

It means:

- **A first degree countertrend on a monthly chart of 3 bars will be**
- **A second degree countertrend on a weekly chart of 12 bars, which will be**
- **A cyclical degree countertrend on a daily chart of around 60 bars**

An alternative count on this would be a 14 bar rally, a 3 bar 1st degree countertrend, and a further rally of around 9 bars and counting. The reality is though that Price spent almost a year consolidating the first rally before breaking out. Big Price move = long Time phase.

Obviously, the monthly Price & Time patterns are of more use to long term traders (investors), while the weekly charts offer opportunities for "swing" traders, making use of horizontal Support and Resistance – or Fibonacci levels.

Those weekly chart Time phases are also very useful for trading *The Moods of the Moon*.

But, let's turn our attention now to a daily chart, in this case the ASX 200, to apply the secrets of trends and countertrends on a short term trading basis.

I haven't carefully selected a timeframe which suits my purpose. This is, in fact, the current Price action on the ASX 200 on the day I'm writing – and it shows that it works extremely well … in real time.

We had a very fast rally which topped on April 11 and the index went into correction. It closed on the low on the 4th day of correction, leaving the possibility of a 1st degree countertrend. The 5th day rose, but could not reach the high of the 4th day … so it was unwise to initiate any new Long without waiting for the index to prove itself.

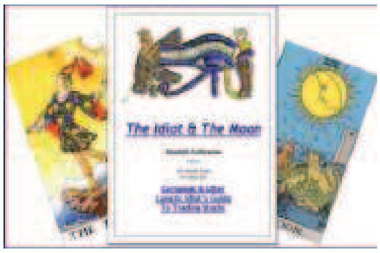
It then declined into a 6th day – too long for 1st degree, too short for 2nd degree. Now, we know 2nd degree countertrends run 7 to 12 days. When the index fell again *past the 12th day*, we knew instantly … we were into something "cyclical" which had to run a minimum of 22 days and would probably resonate with a 30 cycle.

At this stage, there appears to be a more significant turn on the 29th day. As it happens that was the exact day of the Third Quarter Moon on the ASX – and the Third Quarter-New Moon phase is one of the strong rally phases of the LoonyToons system. Nimble traders can use *The Moods of The Moon* for short term trades, but we need to stay nimble – because we know that *The Idiot* has given Sell signals on the monthly and weekly charts at this time … and that we should not be Long in the market past the New Moon when overall conditions are turning Bearish.

And now, there is only one thing left to say …

Visit Me!
at

www.theidiotandthemoon.com



Now you know, if not all of my techniques, tips and secrets, then certainly the very best of them.

In a moment I will begin showing you exactly how to recreate all of the charts, using a free trial of the Galactic Trader 4 software. It may be that you don't feel ready to delve into the strange and spooky world of the *Old Gods* and planetary price targets.

That's okay. On my website, I will give you an alternative which is free to use and which is not only simple, but which contains data for many indices and stocks worldwide. Both the data and the software can be used FREE. It is extremely useful and will suit the purpose ideally if you are a new trader, without a lot of money to spend, who needs a helping hand to guide you through the early days.

As I said: I've been you. I wish I knew the now me when I was the new you. Because it has taken me a decade to learn what I do NOT need to know … to learn that getting bogged down in the deluge of data, noise and opinion is merely too much *information*, not useful and workable *knowledge* … and not, by a very long shot, any form of *wisdom*.

I have earnestly tried to outline for you in *The Idiot & The Moon* ALL of the tools you will ever really need to make money reliably, consistently, safely. I urge you to take the time to understand it all before you begin trading with real money. Even then, start small; take it slowly for the first few weeks so you can build confidence and trust in what you are doing.

Please come and visit me at www.theidiotandthemoon.com because I will post occasionally under the Articles button more examples of using the various systems in real time; and you'll also be able to email me through the Contact button. Whenever it's necessary, I'll produce relevant updates you can keep in a computer file with the original PDF.

Finally, my sincere thanks to:

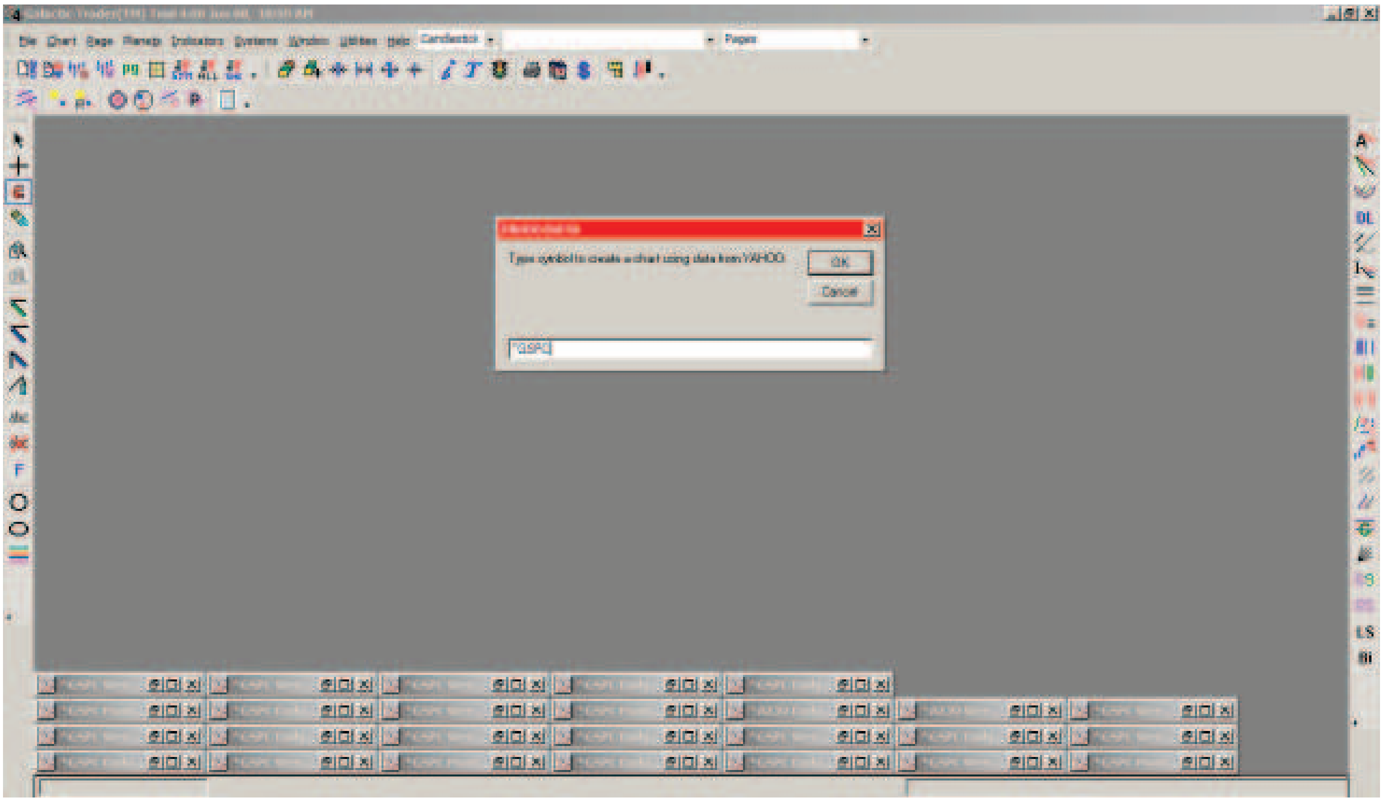
- ***Rudy Dumas and Barry McHale*, for their constant help and valuable contributions**
- ***Kaye Shinker and Marlene Pfeifle*, at astrologicalinvesting.com**
- **And *Linda Long*, at galacticinvestor.com, for her software help over the years**

Warm regards and happy trading – Randall Ashbourne, June, 2011

Creating The Charts

When you open your trial version of Galactic Trader 4, the software will open as a blank. Now, mine already has several charts minimised at the bottom of the screen. Ignore that for now.

The first thing you do is to hit the F2 button on the top line of your keyboard and type in the Yahoo code to download free chart data, in this case ^GSPC is the Yahoo code for the SP500.



Click the OK button on the dialogue box and a Daily chart will open.

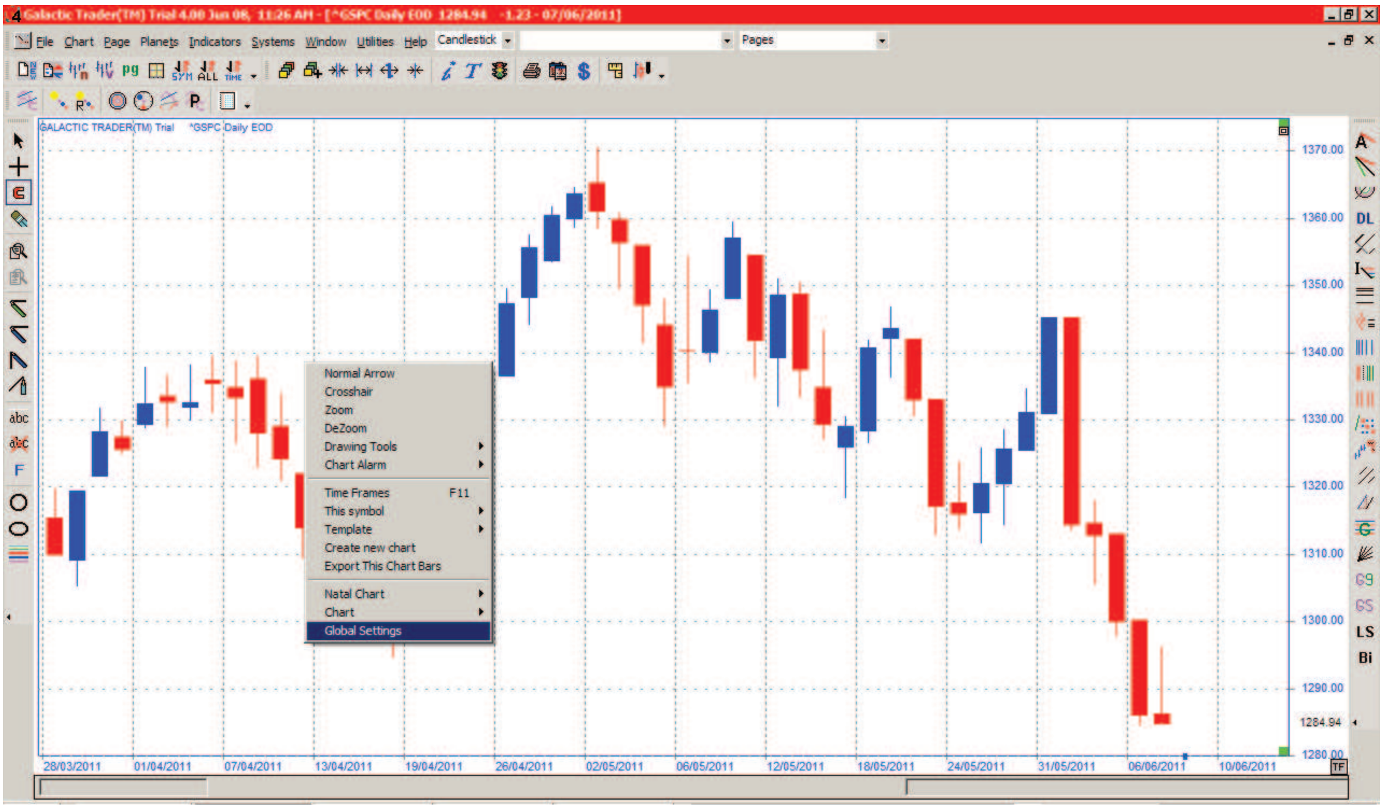
But, just before you do that … I want you to ignore my ignore order and look at all those icons of charts stacked along the bottom.

Why? Because later, when I start yelling Warning! Warning! Warning! you'll understand the vital importance of why that looks like a stacked container terminal.

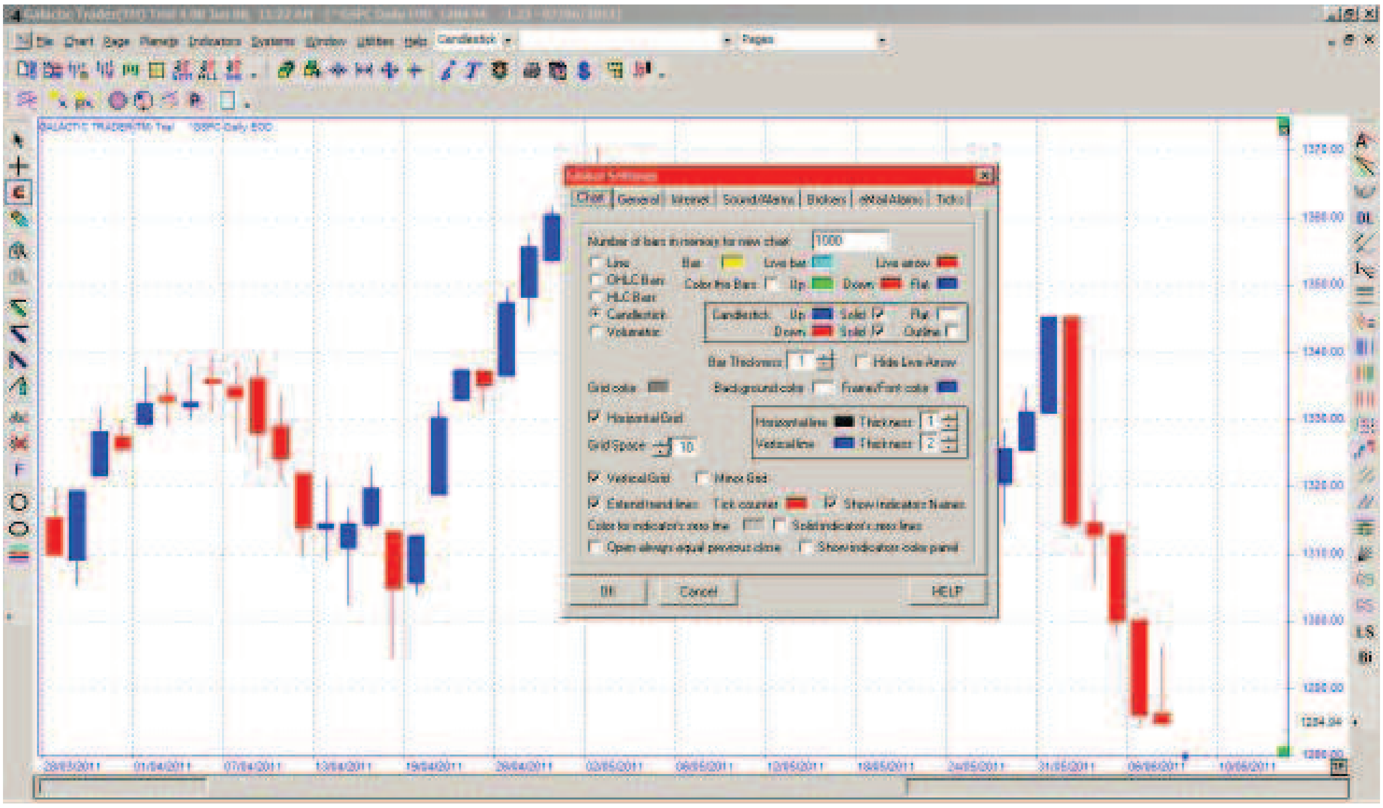
But, right at this moment … go back to ignoring it.

It may not look exactly like this when it first opens, but our first task is to set up the software so that every new chart will open in exactly the way we would like to see it.

So, right click the mouse within the price chart and scroll down to "Global Settings".



This will open a dialogue box that sets up the way charts will open when we press the F2 button for any stock or index in the future.



We can click candlestick and set the preferred colours, as well as whether the bars are solid or outlined.

When you become more experienced, you can set up the default chart style any way you like.

You will notice roughly in the middle of the dialogue box an option for background colour, with the box showing white. You might prefer black charts. Onscreen, they don't cause eye strain and they make other colours stand out more so indicators and other lines become easier to see at an "eyeball" glance.

Just below the dropdown menu buttons for Window and Utilities are two buttons which allow you to increase or decrease the number of price bars on the screen. Please try these now because they're buttons you'll want to use often.

Our next step is to set up the most basic form of The Idiot, so we click the Indicators dropdown menu.

Scroll down the bottom panel until you find the Moving Averages. Double click on Weighted and also double click on Exponential.

Double clicking will move any selected indicator into the top panel of the dialogue box, where we can again double click on each one to alter its settings.

You will see that the Weighted average already opens as a 5-period line set for the closing price. That's exactly what we want and the only change needed is to alter the colour to whatever we want.

For the purposes of these white background demonstration charts, I'm using dark blue.

We do need to make some changes when we double click the Exponential moving average.

The first thing we want to do is alter the default format from a closing price to an "Open" price … and then to change the colour of the EMA to red.

The standard thickness setting for the lines to be generated is 1. That may be all you need for black background charts, but if it's not …

You can click the Style tab and change the Thickness to 2.

Later, when it comes to constructing planetary "mirror" lines, you might want to set dotted lines for the mirrors.

You access that function in exactly the same way. In the box under Dash, set 6 and also the same for the box under Space. Those setting should work well in most instances, but you can play with them to get the ideal spaced lines for your purposes.

When you've finished editing the personalised settings for the two moving averages, click the Exit button on the final screen and the lines should appear on your price chart.

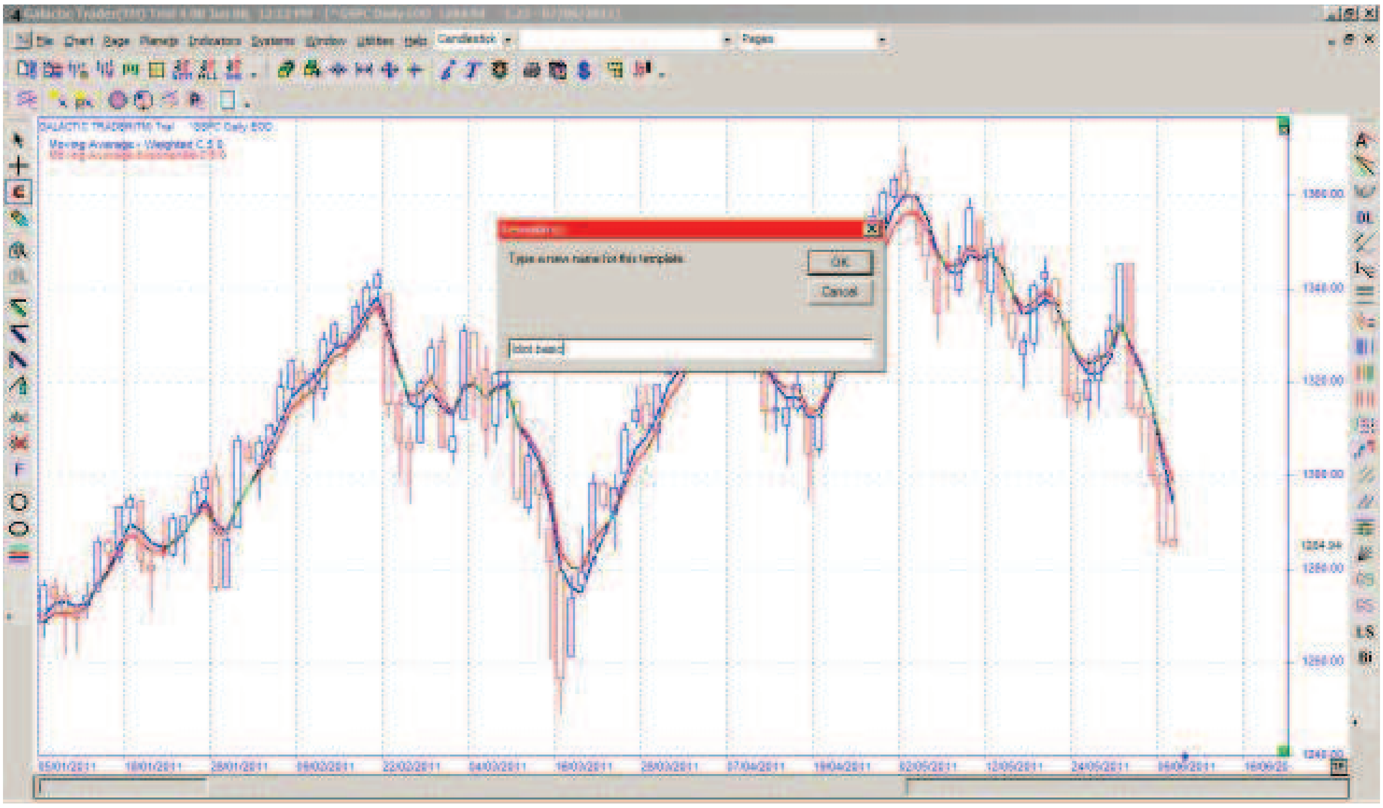
Now in this case, I've actually unclicked the "solid" command on the candlesticks. With these white background charts, things still aren't as clear as I like to see them on a computer screen.

You can take a few minutes to play with the chart to set up all the colours and line thicknesses until you're happy you have a format you can simply eyeball.

If you need to edit the Indicator settings, you can go back to the Indicator dropdown menu – or simply click on the indicator you want to change in the top left of the price screen.

When you've got it all looking the way you want, right click within the price chart and a menu will open.

You want "Template", which opens other options and you highlight Save as New.



A dialogue box will open which allows you to name and save the template.

We will call this one Idiot basic. In future, we can apply this template to any stock, commodity, or index we can access through the F2 button and the Yahoo codes.

It's very simple!

If we open a weekly chart, or a monthly, the software will automatically adjust *The Idiot* moving averages to the appropriate timeframe.

If we go through the same mechanism to create an *Idiot MACD* and *Idiot CCI* template, the same thing will happen – the software will adjust the mechanisms so that they give a true reading according to the timeframe of the price chart.

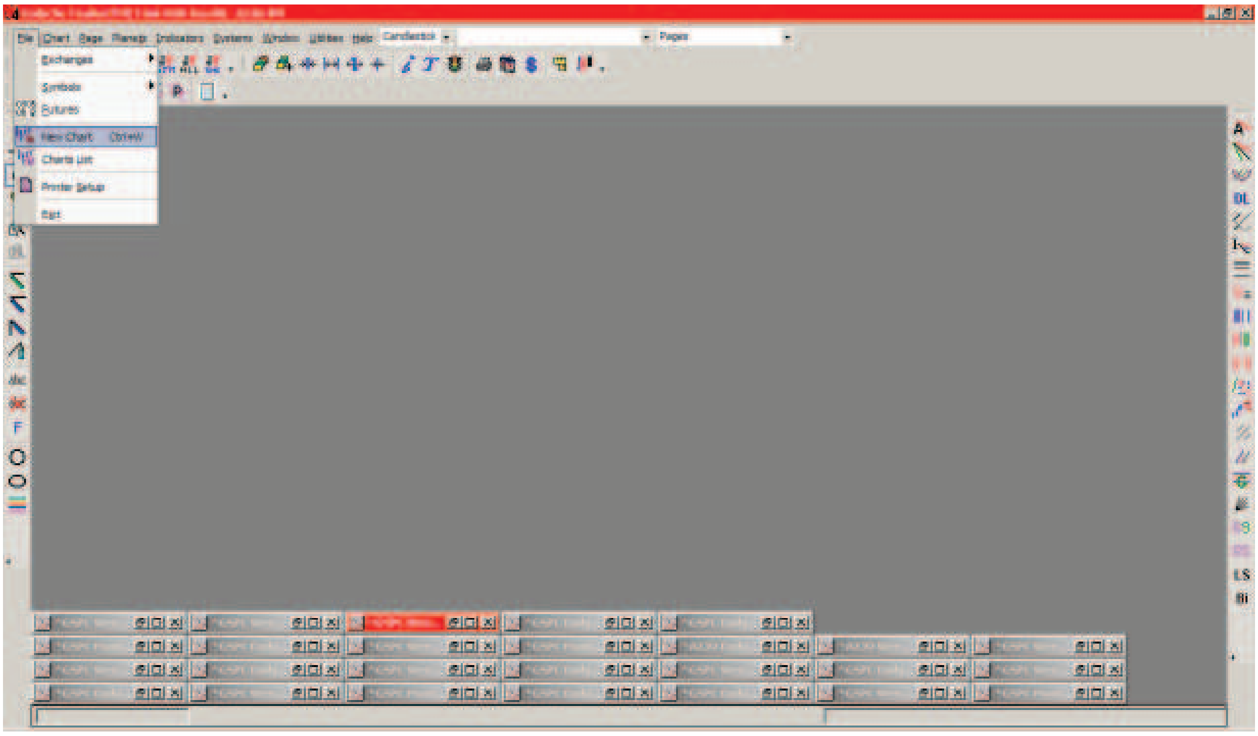
All of our saved templates are very easy to access and apply to any new default chart.

Simply press the F8 button and a box will open showing all of our saved templates.

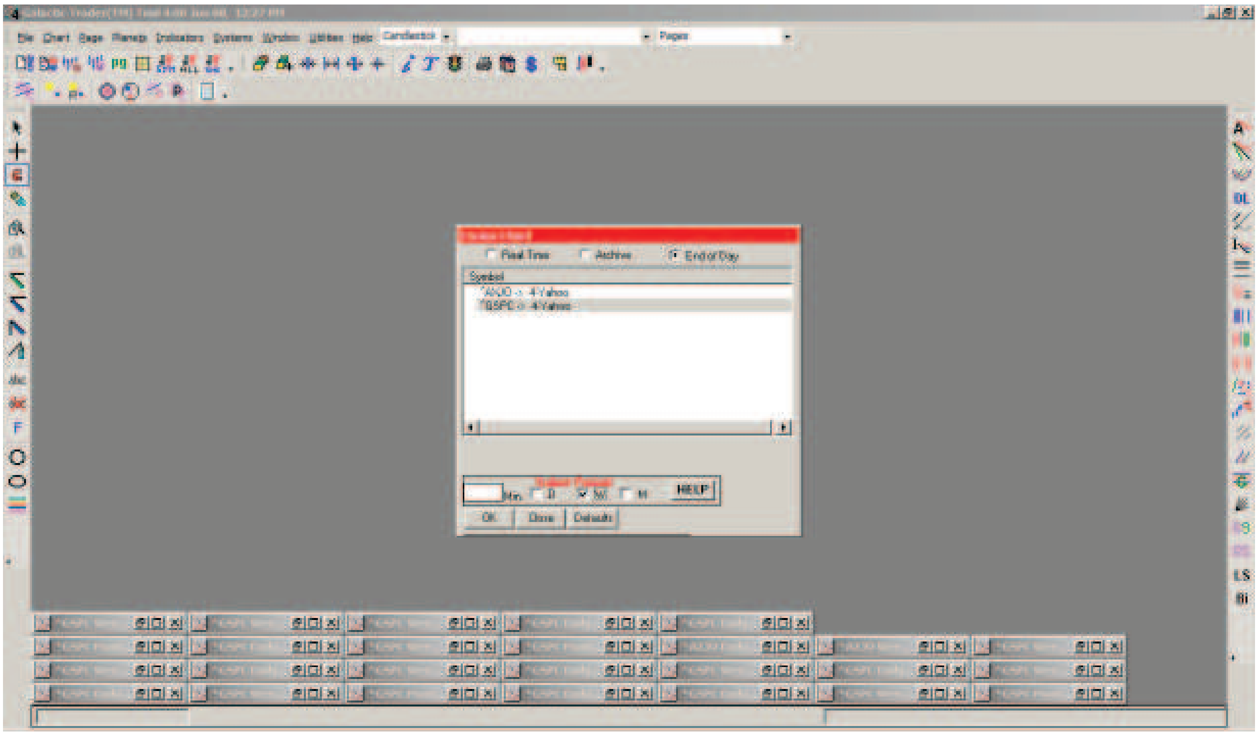
You just scroll down to the one you want, double click on it and close the box.

You will find it easier naming the templates in some sort of order as you go – Idiot basic, Idiot MACD, Idiot CCI, Idiot B-BB – will keep them all together so you don't have to go searching.

Now, we'll learn how to open weekly and monthly charts.



The fastest way of doing this is by learning the keyboard shortcut of hitting Control and W simultaneously. However, it can also be accessed under the File dropdown menu.



Click on End of Day, on the stock code you want, and the D, W, or M buttons, click OK and close.

All of your Yahoo stocks will end up in this box and it's really easy to get up the daily, weekly or monthly charts with a few clicks, so you can then start applying the saved templates.

Once we have the charts we want, we do not have to continually reload them. Clicking a saved template will change all the indicators on the open chart.

One shortcut you can use when creating *Idiot* charts with different oscillators is to always open the Idiot basic template first … add the indicators you want … and then right click in the chart and use the Template – Save as New option.

This will leave your original saved template intact and give you a new one with both the original settings and the added oscillators.

To set up the various Canaries, we go to the Indicator dropdown menu, just as we did to find the moving averages, and double click on Commodity Channel Index to move it into the upper frame where we can double click on it again to edit the settings.

Do NOT edit the settings in the lower frame!

We can change the calculation formula from Median to open or close. Initially, just leave it at Median.

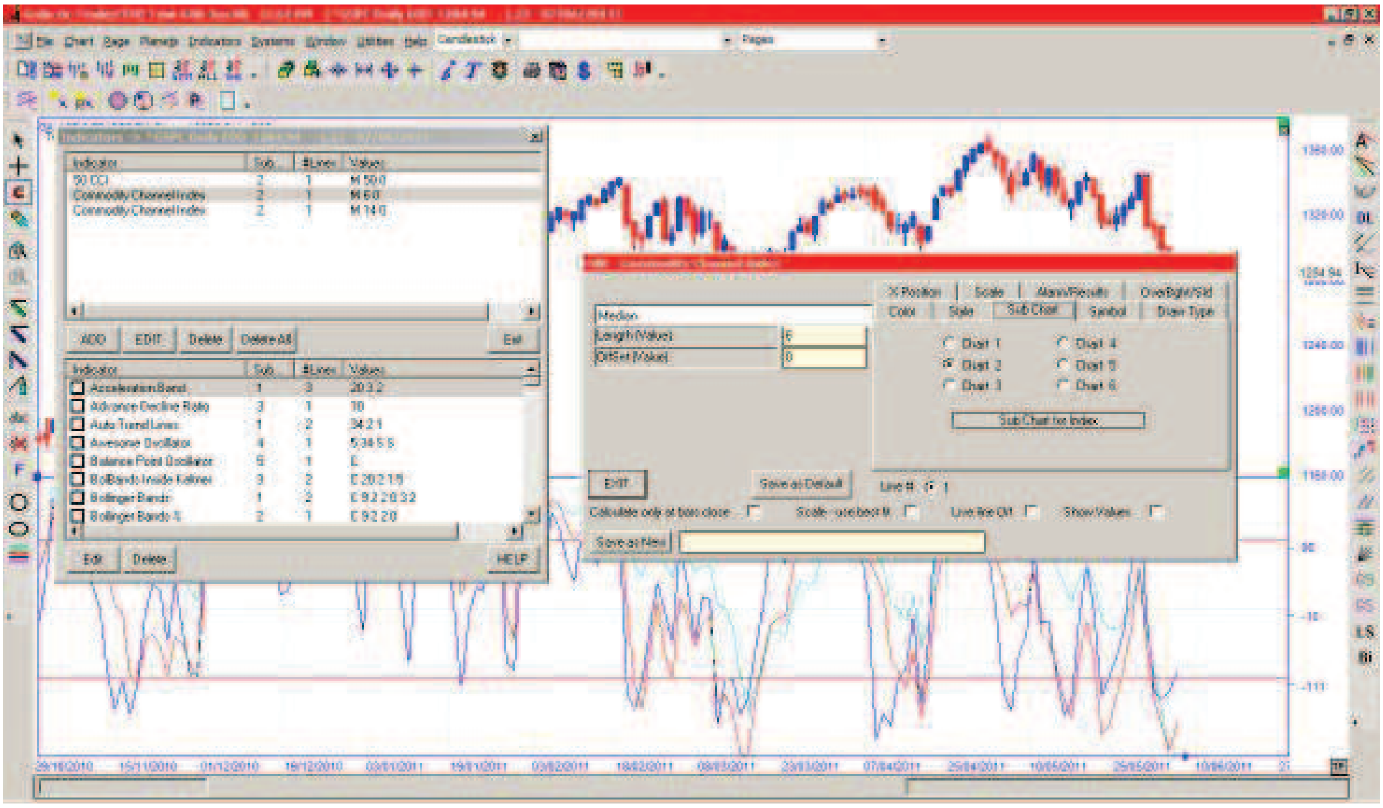
Change the length to 6, 14, 20 or 50. Change the colour of the lines to suit yourself … but always try to use the same colour for the same length so you do not have to make mental adjustments between different charts.

Set the overbought/oversold tag at 100 and -100 and set the colour.

And when you've got the resulting chart set up exactly the way you want … right click to get Template and Save as New … and call the template *Idiot 50CCI*.

Or whatever system you've decided on.

The next trick to learn is how to set up the indicator panel in relation to the Price chart.

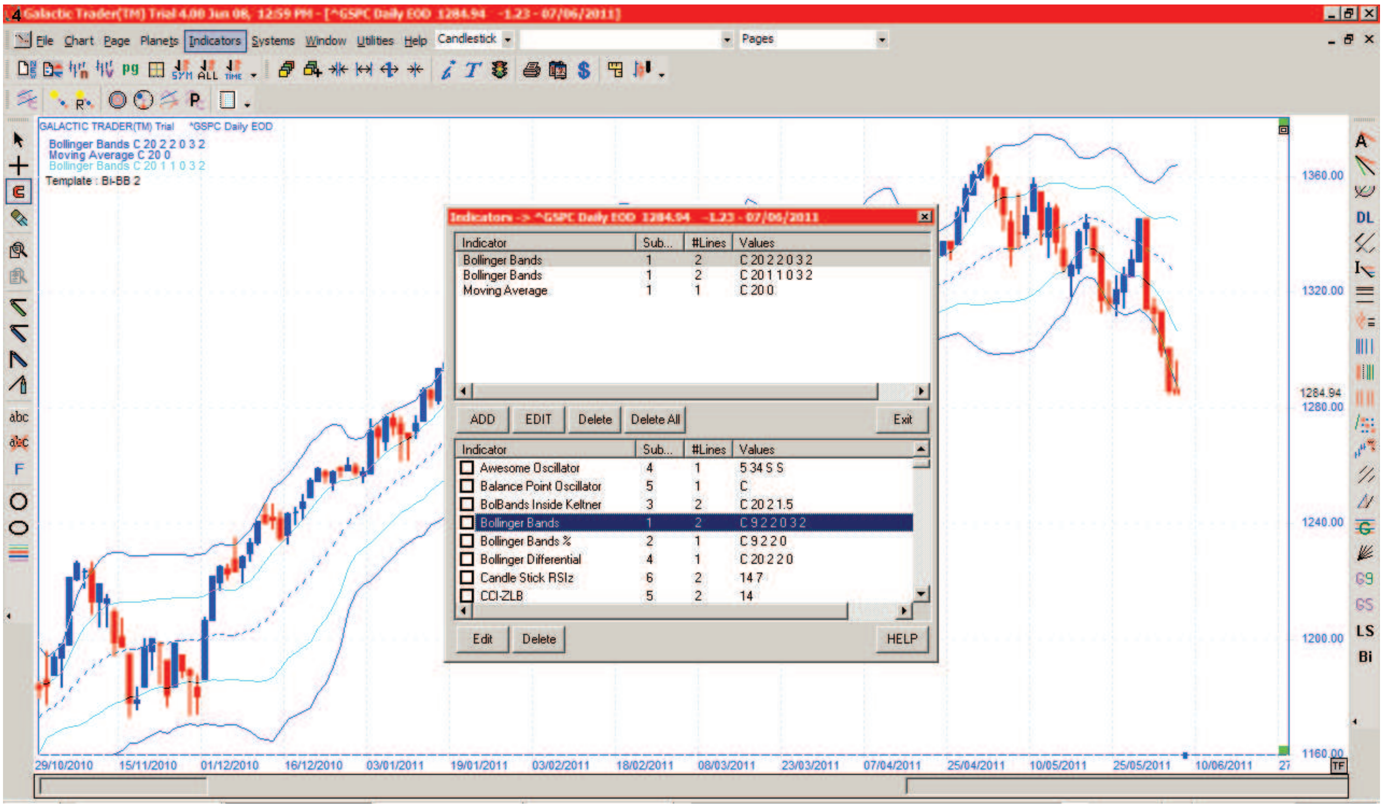


Let's say we want Three Canaries. We want them in the same panel so that we can get a better understanding of their interplay with each other, rather than having each one in a separate frame.

So, GT4 has a mechanism that makes this easy. Double click on any indicator you want to edit and go to the Sub Chart tag.

The price chart will always be Chart 1. If you want all Three Canaries in the same panel, make sure each one of them is clicked as Chart 2.

Do NOT click the Save as Default button! That will affect everything you create later!



To set up the Bi-BB template, we need to double click Bollinger Bands twice! We also need to double click a simple Moving Average into the top frame.

We double click on each one of them in the top panel to do our editing. We will want to change the Moving Average to a 20, and set the preferred colour. If you're using a black background chart, a light grey is good for BBs. Also, go into the Style tag and make the line dashed. We learned to do this earlier … put 6 into both the Dash and Space boxes.

On the first BB, we want the timeline set at 20 and the deviations up and down set at 2.

On the second set of BBs, we want the timeline at 20, but set the deviations at 1 … and also alter the colour.

The default mechanism in GT4 will have *very* colourful BB lines – different for the top and bottom lines.

That's one time you CAN hit the Save as Default button once you've got them properly set up!

This is the default version – cyan at the top line and red for the bottom line. Change them to the same colour. Under the colour bar you'll see two clickable circles. 1 is for the top line and 2 is for the bottom.

You'll also notice from the price chart, the GT4 software does not produce a middle BB … that's why we had to insert a 20 Moving Average and dash its lines.

It's a little bit of mucking around to get the Bi-BBs set up properly, but once you have and save it as a template, it'll be easy to access for all future charts by hitting the F8 key.

Now … pardon me while I yell ….

WARNING! WARNING! WARNING!

So far, we've been creating charts, adding various indicators, and saving them as templates – and a saved template can be applied to any new price chart for any stock in any timeframe.

The same function will work when we start using planetary lines.

BUT THE TEMPLATES DO NOT WORK FOR DRAWN ITEMS LIKE TRENDLINES, PRICE CHANNELS, OR FIBONACCI TECHNIQUES.

I'm yelling now so you won't be screaming later, okay? You must NEVER hit the X button in the right-hand corner to close a window containing any of those items BECAUSE YOU WILL LOSE ALL YOUR WORK!!!!!

For those charts you have to hit the minimise button <u>only</u> and keep them stacked along the bottom of the screen. You can shut down GT4 itself and the next time you open the program, it will automatically load all those stacked containers.

One neat trick the software does have is a "magnet" button which helps place trendlines very precisely.

We learned about trendlines in The Technical Section – and, also, about using horizontal lines to define a zone of Support and Resistance pricing.

In the chart above, I've identified the magnet button, which can be clicked on or off. It's very handy for getting trendlines exactly right since it will highlight the exact price bar you want to start and stop at.

If you check the chart above, you can see the red price bar immediately above the ending point of the blue trendline has a white space in it.

If you release the left mouse button at this point, the line will automatically snap to the exact low point of the highlighted price bar.

It's a very useful tool for getting your trendlines exactly right – and that's important if you're then going to take parallels to create a channel, or to take an angle from historical action to try to find what's likely to happen during any current price phase.

Once you have your first trendline in place, you can right click on the line and make any adjustments you wish.

The dropdown menu allows you to extend the line into the future if it is ticked. Simply scroll down to it and left click the mouse if you want the line to end at the last price bar the magnet highlighted.

This dropdown menu is also where we create parallels of the first line to apply to even earlier lows to create a channel – and line colour and thickness can also be changed under "Edit".

The Fibonacci retracement tool is a series of lines and will probably be on the right edge of the software frame when it's first opened.

The Fibonacci extension tool is immediately above it.

Clicking on either of these buttons will produce a menu to "use" in the default format; set your own parameters; or to erase all Fibonacci Rx and Xt patterns you may have drawn previously.

For example, a rally might go further in a final upwards leg from the end of a small correction at the end of a Wave 3 and you may need to alter the Fibonacci Rx to take account of the new highs.

If you learn more about the exact Fib Rx and Xt levels, you can use the parameters line to insert more lines than are available under the default settings.

For starters, though, you only need to access the parameters function to click a box which says "Extend to end", so that the relevant lines will stay tuned as new price bars are added to the chart with each day, or week.

The Yahoo price data will update automatically each day, so long as you have an open net connection when you open GT4.

By all means, "play" with both the Fibonacci Rx and Xt buttons and practise applying them to your charts.

It's a good idea to increase the number of bars onscreen and use, say, a multi-year weekly chart to see how things worked during historical rallies and declines.

Getting that practice will help you to pick exactly the right price bars to draw the lines to during any current price action.

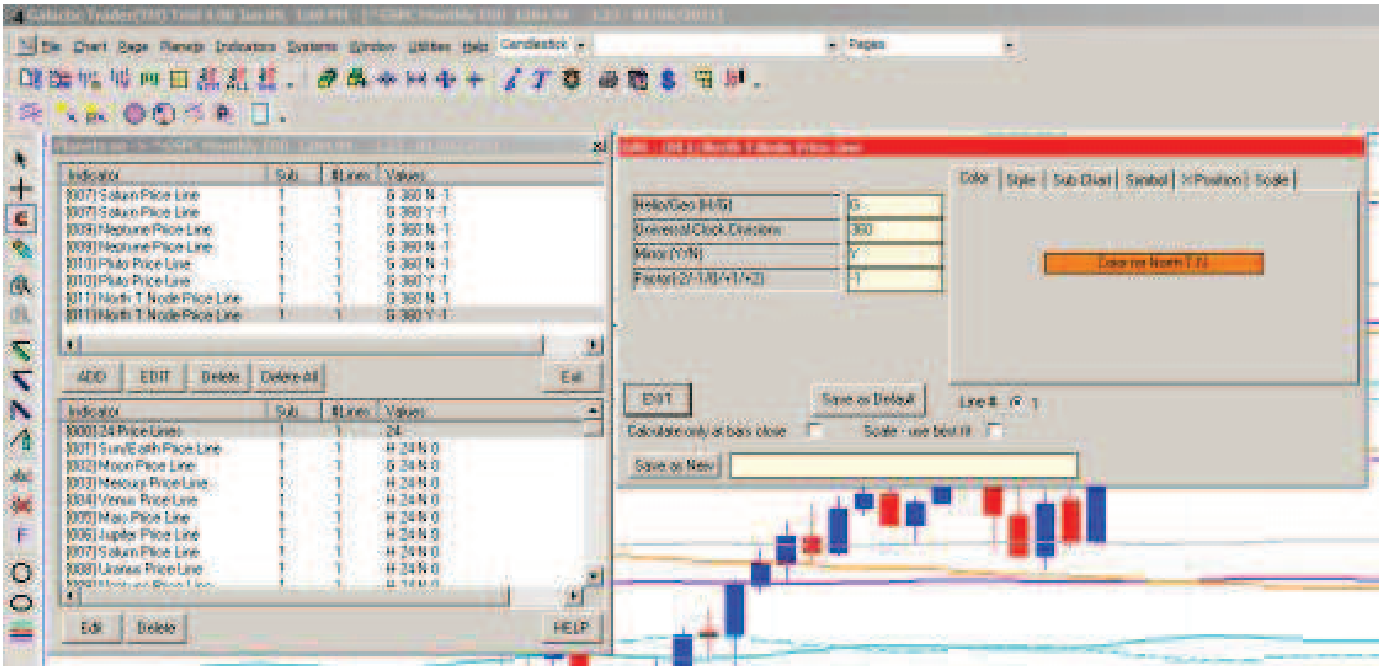
Creating Planet Price Charts

We will begin by setting up the long range chart for the SP500. We need to do this using a monthly chart because its primary purpose is to identify the index's big moves which unfold over long timeframes.

Use the Control + W key … access the EOD chart for the ^GSPC … click the M for monthly … the OK button … and close the dialogue box.

Using the dropdown menu, we scroll to Planetary Lines. The menu can also be accessed using the 3rd button down from the top on the left side of the window.

This will open a double-panelled box like the one we used to add and edit indicators.



And we follow the same procedure. We double click TWICE on Saturn, Neptune, Pluto and the North Node lines in the lower panel. Make sure we have two lines for each planet in the upper panel.

Again, we edit each one in the upper panel by double clicking on it to open an edit box as seen above on the right.

First of all, we double click the top white frame to get G; we change the default 24 to 360. On the first edit menu for each planet, leave the N and go down to factor and type in -1.

On the second set of edits for each planet, we change the N to a Y to get mirror lines. I would suggest using the colour box to alter the default colours for Pluto and the North Node … and, also, on each one of the Y edit boxes, go into the Style tag and dash the lines by placing 6 and 6 in the dash and space frames.

Check your upper panel has the same configuration as the one above … and when you're satisfied, click the Exit button.

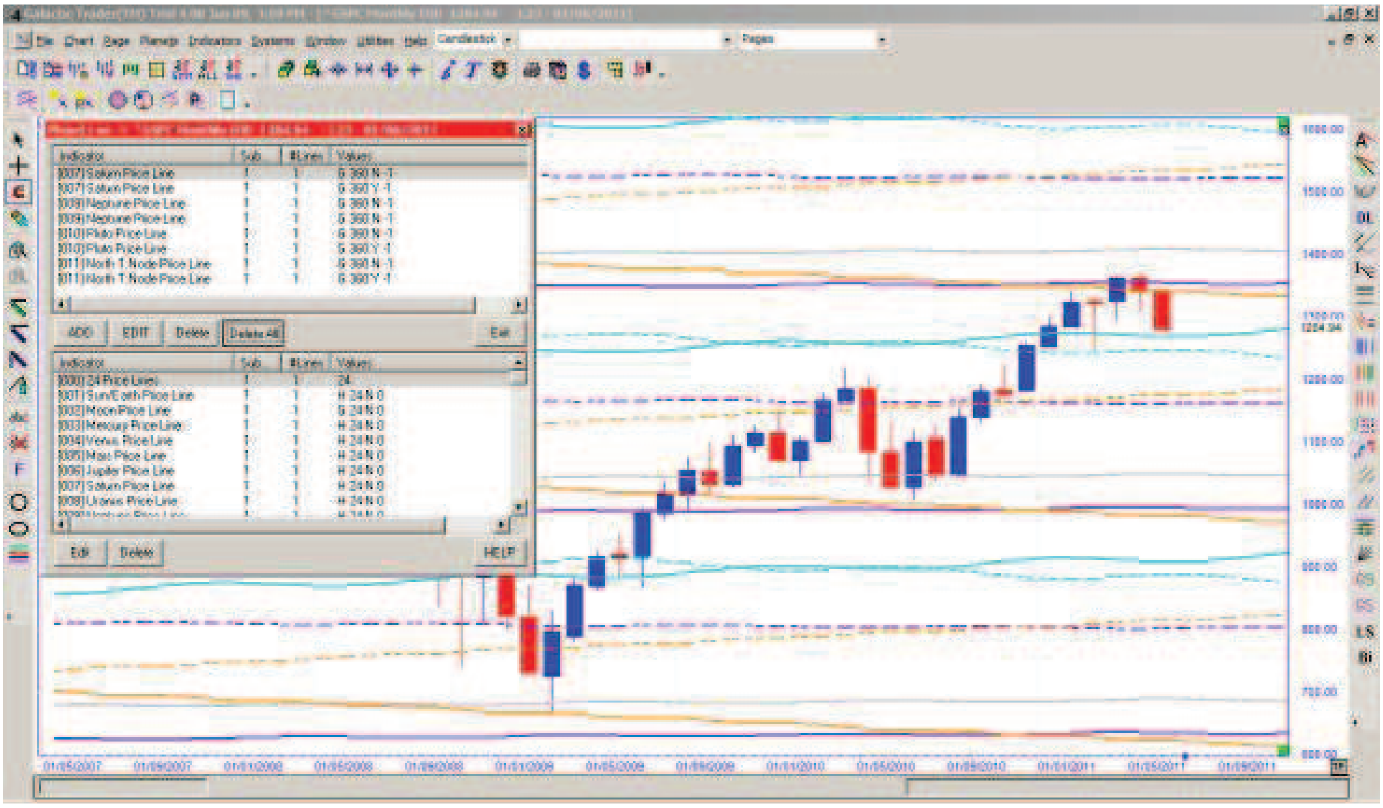
We now have a chart on which we can use the crosshair cursor to find high-probability barriers and bounce points for the SP500's long range moves far into the future – and since it's so valuable, we need to right click on the chart and save it as a new template.

Call it something simple – SP500 long range, for example. Check the F8 dropdown menu to make sure it is listed there. Once it is, this is one of those charts you can exit and don't have to keep minimised at the bottom of the screen.

All you need to do in future is open any price chart of the SP500 and apply this template from the F8 menu.

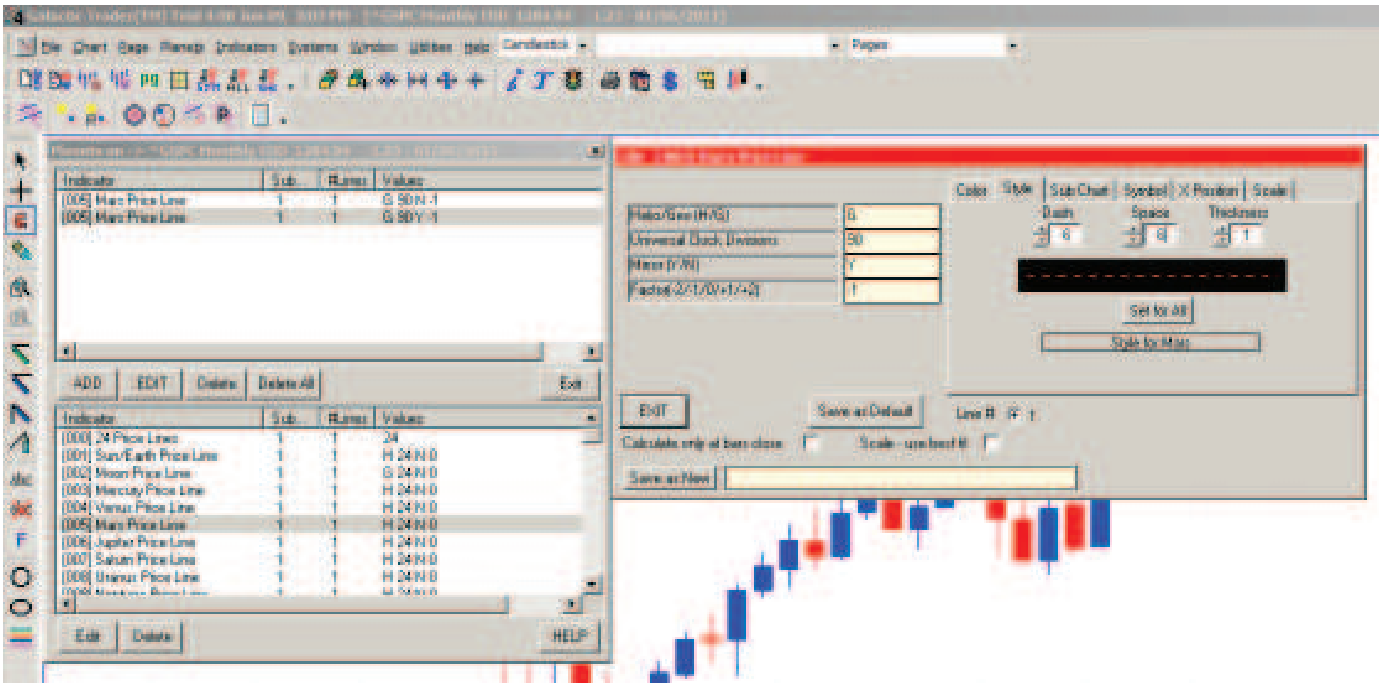
Once we have the long-range planetary price chart saved, we move on to create what I call the Mars Bars chart.

The fast way of doing this, if you're sure the SP500 long range is listed in the templates menu, is ...



Go back to the Planets menu and highlight planetary lines and hit the Delete All button.

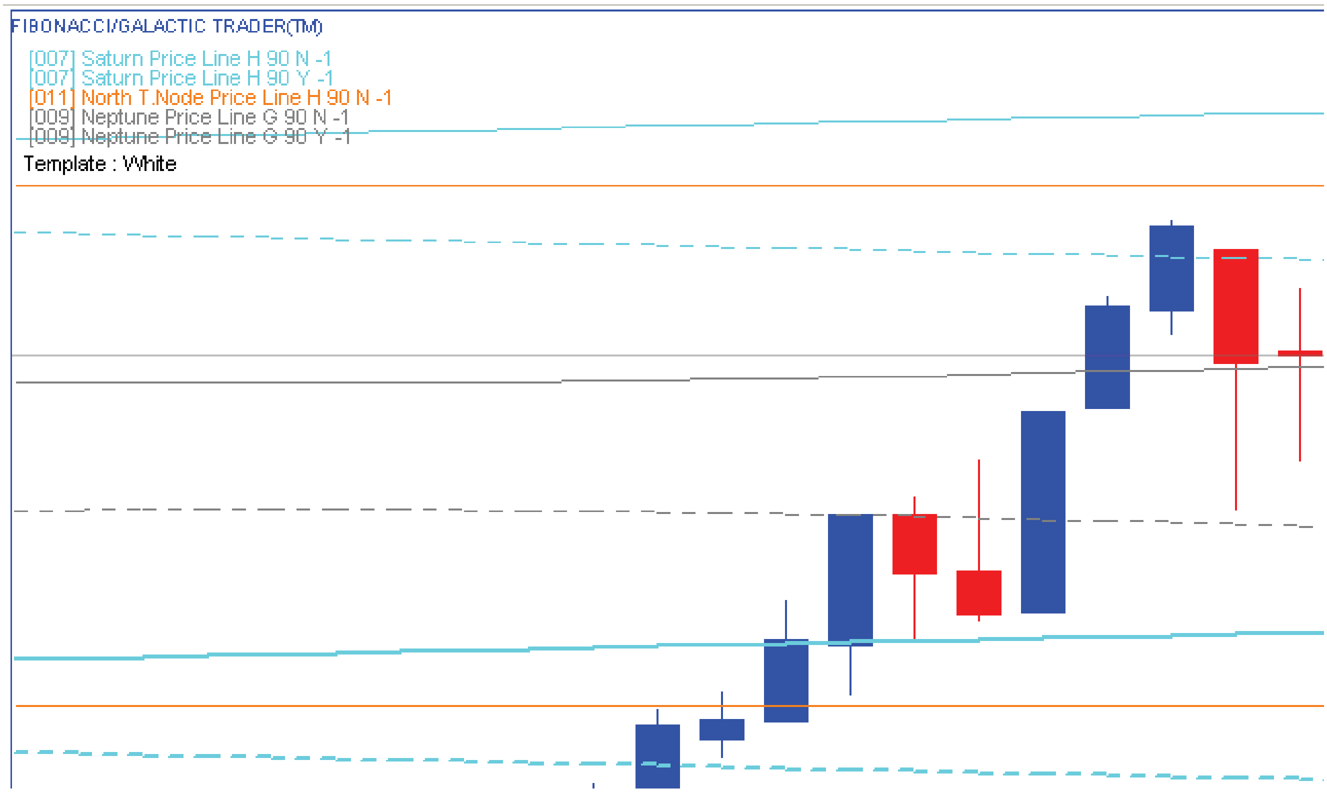
We then double click in the lower panel to transfer two sets of Mars lines into the upper panel for editing, remembering to dash the mirror lines.



Once the chart is set up as you want it, save it as a new template – SP500 Mars Bars.

We follow the same basic process for setting up each new planetary price template.

For *SP500 Weekly Planets*, we would need to set Node, Saturn and Neptune price lines at 90 degrees.



In this case, I have the Saturn lines set for H – Heliocentric, rather than G – Geocentric. Once you have all the basic *Old Gods* templates saved, you can play around editing the lines as much as you like, knowing that you'll always be able to reload the original from the F8 menu.

When you are setting the lines for the ASX, the FTSE and many other indices, you will need to leave the Factor box in the editing panel set at 0.

The long-range planet for the ASX is Neptune at 360; the weekly planet price charts use Neptune, Uranus and Saturn, all set at 90, with a 0 factor … and don't forget the mirrors.

For other indices and individual stocks, you will need to experiment planet-by-planet. In the early days, always start with the planet lines set at G and 360. If you find one that seems to have a strong effect on long range monthly charts, try it at 90 to see if that confirms the impact on medium term price moves

GT4 has the defaults set at Helio and 24 for most planetary lines – and offers many, many other options for both planetary trading and in terms of technical tools.

However, the whole raison d'être for *The Idiot & The Gods* is to help you find a WINNING formula that works CONSISTENTLY to make considerable profits WITHOUT spending enormous amounts of time in the ever-elusive search for some perfection.

As I've tried to stress time and again … it's the search for all-knowing perfection that leads most traders astray and causes them to lose money and suffer burnout. - RA