The Law Behind the Markets

By Lee J. Franklin

Twenty-two years ago I began an investigation into the nature and history of money. The purpose was to satisfy a natural interest that wanted to understand everything about the idea of money. It was a spontaneous, intensive, self directed search for the Truth that lasted fifteen years.

The end of this quest naturally transformed itself into the beginning of another: seeking an understanding of the movements of the markets. At this time, it may be of interest to the reader to know that I began this second quest in the same fashion as the first: with focused intensity, self-direction and spontaneity.

Prior to starting this second quest, I had never picked up or read any book, newspaper or magazine that dealt in any way, with the markets. The reason for this was two-fold: 1) The interest did not exist, and 2) I feel it of crucial importance to begin all new investigations free of the prejudicial influence of the ideas of others. This method serves to maintain an attitude of intellectual honesty, natural wonderment and curiosity. In short, personal experience has taught me that being a “Trail Blazer” is far more exciting than tromping the beaten path. This same idea is wonderfully expressed by the late poet Robert Frost in his poem about the two paths in the woods. One path was wide, well worn and clear almost as far as you could see. The other was heavily overgrown, barely discernible. At the end of the poem, Mr. Frost reveals what his decision was at that time. He informs the reader that he took the path less traveled. And that, he said, made all the difference.

Upon entering the library of the business school at the local university, my mind was naturally drawn to the steel drawers holding microfilms of the New York Times and the Wall Street Journal.

Whizzing through a few rolls on the motorized viewer, my eye was caught by the financial sections which reported the daily, weekly, and yearly highs and lows for all the securities.

I began to make a record of and study the movements of the prices of securities as far back as they were available, focusing eventually upon those comprising the Dow 30 stocks. Putting the records together to form a more complete picture, I noticed a pattern, a certain “periodicity” to each one’s movement. Dwelling at night upon a mathematical model to explain the cause of those movements, my mind produced many models to test against the market’s moves.

There were times when the calculations were very right, and equally, times when they were very wrong

Some spectacular calls made, like the 125 point “drop” in April of 1988. And calling the closing number of the Dow within 4 points on expiration day in October of that year. However, large profits made on the correct calls were slowly piddled away with trades made on bad calls. It all came to a wash. Does all this sound somewhat familiar?

THREE VALUABLE LESSONS

From these experiences, three very valuable lessons were learned.

1. If one does not KNOW.., with knowledge derived from numerical facts, whether the market is at a “Top” or “Bottom”, one will lose..., period!
2. Work hard to perfect that which works, and set aside that which does not.
3. Never give up!

A few years ago, a friend returned from a visit to the South and handed me a thin, small book. Eighteen years of intense, sincere searching, seeking, knocking and asking, were about to be answered.

The little book was a short biography about a gentleman named Walter Russell. It was titled, “THE MAN WHO TAPPED THE SECRETS OF THE UNIVERSE”. The book described in brief, Mr. Russell’s youthful experiences leading to the time when he became “Illuminated” by a very bright white “Light” that put him into a trance-like state of mind. Afterwards, he was to spend months and years putting into words, the ideas he received from this “Illumination”. As I finished reading it, my mind became flooded by only one thought: “This man has KNOWLEDGE and can teach me how to obtain it.!”

I wrote to the address on the inside cover of the book asking for additional information. An Order Form was returned to me listing all the available writings of Dr. Russell. One title stood out: “A NEW CONCEPT OF THE UNIVERSE”. Within a week, UPS delivered it into my hands.

No quantity or quality of words can explain what happened next. As if by an unseen guiding hand, Dr. Russell’s book fell open to a diagram of his ‘Wave” and “Periodic Chart of the Elements”. I counted the component parts of Dr. Russell’s “Wave”..and nearly fainted from a rush of adrenaline ! NINE ! ! there were NINE parts to the “Wave”! Dr. Russell’s “Wave” of the Universe had the same component periodicity of NINE that I discovered in my securities records.

The intellectual “rush” that swept over me that day might be likened to the feelings of Mel Fisher when he finally found the sunken treasure of the Spanish Galleons near Key West Florida ! The LAW REVEALED.

I subscribed to Dr. Russell’s “Home Study Course in Universal Law, Natural Science Living Philosophy”, available through Trader’s World Magazine in the catalog section of this issue.* Contained within those precious volumes of KNOWLEDGE is The Great Law of Vibration. Dr. Russell refers to this law as a Universal Principle of all motion:

He states it as follows:

“...ALL MOTION STARTS FROM A POINT OF REST. SEEKS A POINT OF REST. AND RETURNS TO THE EQUILIBRIUM OF REST FROM WHICH IT SPRANG.”

My next and final step was to make the beginning point of Market Cycles, and securities within those Cycles, conform mathematically to this Law. The results have been astounding! In the last eighteen months, eleven major “Tops” and “Bottoms” were “Timed” within minutes of their occurrence! The Market achieves these major points “...of rest..” Between four to twelve times a year. They can be traded on a 100% probability basis, provided you have KNOWLEDGE of the following:

A. When to start and end each Cycle.
B. Which Securities belong in which Cycle.
C. How to maintain a “Balance” sheet on securities and assign starting values in conformance with the Natural Universal Law of Motion.

How Half a Point a Day Can Help You Rule the World

By John Piper

How many points do you think you could take out of the S&P futures every day of the week? When we ask people this question they tend to say one, two, or perhaps even more. Well, it's nice to dream but why not settle for just half a point a day from the S&P? Does that seem unreasonable?

The point is that if you can just make half a point every day, on average, you will be a millionaire at the end of fourteen months. Here's how. Let's assume there are 20 trading days in a month. You make half a point each day clear of the spread and commissions, the commission should be no more than $35. Each month you bring in $5,000. That is about half the amount you need to trade a single futures contract. At the end of the first two months you have doubled your money. You started with $10,000, you trade a single contract, you end up with $20,000. So you have doubled your stake and for the third month you trade two contracts. You go for just half a point a day, on average.

Every two months you double your money. At the end of six months you have $80,000 and at the end of a year you have $640,000. You are trading over 64 contracts a day so you are not doing too bad.

Why stop there? At the end of year 2 you would be worth $ 4 million and be one of the biggest traders in the U.S. market. What can stop you? Here is a list:

1. Consistency-this is your biggest stumbling block.

2. Losses - which are going to set you back.

3. Complacency - having attained wealth you will lose your hunger and the risks will no longer seem worthwhile.

4. Market limitations - you would become too big for the markets. Just getting in and out would cause you problems.

5. Personal limitations - at some point the numbers would begin to get frightening.

However, if you aim for just half a point a day you can use very tight stops so this should be practical from a Money Management point of view. The same goes for Risk Control - and you will need a lot of discipline.

Now let's get real. The idea of doubling your money every two months is a nice fairy tale - and it almost makes sense but we have skipped over the flaws. There is a lot of real sense in this fairy tale, so let's adapt it for the real world.

First, let's consider Money Management (MM) and how this is going to affect the majority of readers. The idea of looking for very small, short-term profits (i.e. half a point) does work and you need to apply correspondingly close stops. In all trading you must look for bigger profits than the losses you are prepared to accept. We like to see a ratio of around 3:1 - so if you're looking for a half point profit you need to use a 20 cent stop. That is a little dangerous for most of us, after all it can easily be equivalent to a single price change. For this sort of trading you have got to watch the market extremely closely. When we ourselves trade the futures we normally use a stop of about 50 cents but that is also a pretty short-term approach. In our view, at least when trading the S&P you need to be looking at a 2 point stop -that's if you are not very short-term inclined. Now 2 points at $500 a point (on the S&P futures) is a loss of around $1,000.

In MM terms that is not too bad, but much more would make no sense of starting capital of only $10,000 because it means you are risking 15-20% per trade-and if you do that you won't last long. Remember MM is all about staying in the game. The level of your preferred stop point dictates your risk per trade and thereby the amount of your starting capital.

Once you know how much capital you need to start with, the rest is simple arithmetic. If you need $20,000, because you prefer wider stops, then you have got to make another $20,000 before you double your money - that's 40 points out of the S&P futures. At the rate of half a point a day that is going to take you 4 months. The sums are not so exciting but if you double your stake every four months then at the end of the first year your $20,000 has become $160,000 and $1,280,000 at the end of the second. So it is still not too bad.

So what about losses? Clearly they are going to set you back - but as long as your MM is effective, only in the way of time. As long as your trading methodology is effective and you do make progress then this process will work for you.

We mentioned earlier that risk per trade is the variable. If you reduce this you reduce the original stake needed and the number of points needed before you can increase your trading position. So if you can use a 20 cents stop then starting capital of only $5000 is almost feasible. However you would be more prudent to use at least $10,000 and not to increase until you have made a further $10,000 (i.e. another 20 points).

It might be useful to put forward a few Do's and Don'ts. So here goes:

1. Don't bump up your initial trading position in relation to your cash. There is no point - if this works you will soon be trading more than enough contracts.
2. Don't rush increasing position size. You have to be prudent - that is the key to handling all risk. It is when risk is allowed to run out of hand that it become dangerous.
3. Don't feel you have to trade futures to achieve this sort of result. Options will do just as well and indeed would allow a lower capitalized start. But if you are trading options, it is the amount you make on the option, not on the number of points moved by the market which is important. Also options do not lend themselves so readily to very tight stop policies.
4. Do act on your stops - but we needn't say that need we?

A couple of other points. First, you can increase rather than be doubling each time. So you could increase each time you again make your original stake (and decrease when you lose that sum). Clearly the more contracts you are trading the more often this will occur.

Second, the market does provide a number of opportunities for taking small quick profits. In particular support or resistance points on the futures usually produce at least a .5 or 1 point reaction, especially if the market is oversold or overbought at that point.

One risk which must also be considered is the risk of being caught on the wrong side of a “fast” market action. If the market moves 20-30 points the wrong way and you are using a $5,000 margin per futures contract you are going to lose all your margin plus another $5,000-10,000. If trading 10 contracts or more this could be a very serious problem. It’s bad enough on 1 or 2 contracts. This is the big worry with the sort of aggressive approach outlined above. Before adopting such an approach you must carefully weigh this risk.

In life there is one great truth (among others). This is that a man with a plan has a march on the no-plan man. So why not think about how this process could be applied to your trading. Perhaps you should become a man (or woman) with a plan?

This article was written by John Piper~ editor of The Technical Trader For further details contact 77T at 619, Catalina Boulevard, San Diego, CA 92106, TEL. (619) 226-4990. For our hot line service phone 1-900-288-1288 ($2 per minute).

Mental Harmonics

By Robert Krausz

Recently I had the pleasure of teaching some 30 very bright, part time traders at Commodity Management Inc. of Chicago. These traders were certainly a cut above the average. They were above the norm in the two areas that count knowledge of technical analysis and a commitment to trading. The group consisted of men and women ages 18-60, covering the social and economic spectrum. On average they had been trading for three years plus, so definitely, they were not your typical "Beginners 101."

The seminar was an intensive two day workshop on Symmetrics, a new method of technical analysis that uses "Time Squaring Price" concepts, the basis of my personal trading. The students grasped the validity and value of these new ideas quickly. As an added incentive, each student was to receive a personalized "Relaxation Tape" to assist with his or her personal trading problems. To achieve this, each student had to complete a questionnaire I had prepared. The 24 questions were simple and to the point.

The purpose was to get the students to identify what they thought were their problems in trading, eg. "What do you think are your weaknesses in trading the markets? Please place in order of importance."

The first eight questions were:
1) Execution (pulling the trigger?)
2) Analysis?
3) Lack of knowledge?
4) Lack of confidence?
5) No trading plan?
6) Personal problems?
7) Fear of loss
8) Not devoting enough time?

The rest of the questions were designed as a back-up to this central section.
1. Lack of confidence.
2. No trading plan.
3. Execution (pulling the trigger.)
4. Fear of loss.

Before we analyze the results, two points must be clearly understood.

A. The trader's replies were their own perceptions, what they believed prevented them from being competent floor traders. Please do not presume that these were in fact their real trading problems. The difference is subtle, but we are only concerned with the "belief system" of this group regarding their trading. Working at a subconscious level, "belief" is of primary importance, reality is secondary. It is the “belief system” (or mind set) that has to be corrected, if confident, successful trading is ever to begin.

B. Given the fact that most people are reluctant to admit their shortcomings, it was beyond the call of duty for this group to be so honest in their replies. Usually I find the more successful a trader is, the more readily he admits to his shortcomings and the more willingly he makes adjustments to improve (which is of course, the sort of thing that potential winning traders must do.)

The fact emerged that 90% (yes 90%) of the groups’ top four weaknesses were identical. Only the order of importance was different. In other words, here was a group of well-versed market traders, covering the socio-economic spectrum, different ages, etc., and 90% of them had the same perception of what blocked them from becoming successful traders.

Over the course of the last two years nearly 1,000 audio tape “Subliminals for Traders” have been purchased worldwide. All of the feedback showed that the trading problems of the Chicago group were in tune with traders everywhere, the exception being the 5 to 10% who are truly competent traders (the Market Wizards, if you like.) Their psychological problems were of a different variety, if any. It is this 5 to 10% who have learned and found their own way.

Let us examine in detail the top four weaknesses selected by the group in order of their importance.

1. Lack of confidence.
2. No trading plan.
3. Execution (pulling the trigger.)
4. Fear of loss.

What jumps off the page?
What is the root of the other three?
What causes “Lack of Confidence?”
What causes poor “Execution?”
What causes “Fear of Loss?”

Right. NO TRADING PLAN

Could this be one of the main characteristics that separates winning traders from losing traders? The answer has to be YES. Unequivocally. Imagine that relaxed, competent trading is a solid door, but this door needs more than one key to unlock it. A valid trading plan is but one of the keys.

So, what are the TASKS OF A TRADER before successful trading can begin?
1. Obtain a competent analytical methodology.
2. Extract a reasonable “Trading Plan” from the methodology.
3. Formulate rules for this “Plan” that incorporate Money Management techniques.
4. Back-test the “Plan” (in the time frame you intend to trade) over a sufficient period.
5. Discipline yourself. (The best plan in the world cannot work until you pick up the phone!) Without this you have nothing.

Self Management covers that vast uncharted area called "the Psychology of Trading. "Many years ago when I started trading in London, I was truly amazed by the variety of books and courses that were available on all the technical aspects of trading.

But the moment I needed information on mental discipline concerning trading, the pickings were very slim indeed, virtually nil.

That was the start of a 10-year plus journey into the workings of the mind which began with a call to Charles Drummond of Canada, a famous author and inventor of Point and Line charting, who told me about the "freeze" - Traders who were unable to take action. When the market changed direction, they could not.

What prevented the trader from facing reality?

The trader knew the trend had changed. He was fully aware that his analysis was no longer valid. Yet he did nothing.

It took me years of trading and investigating into the workings of the human mind before some answers were forthcoming. It was the very act of trading that exposed me to all of the psychological problems that arise been in other fields of endeavor, I can safely say "there is no other human activity that is like trading the markets."

Was it necessary for me to actually trade whilst investigating the psychological discipline required for successful trading? Yes. I sincerely believe so.

How can you teach boxing without having been in the ring? How do you describe pain without actually experiencing it?

The first reality (and one of the keys to the door) was that analysis and trading were not the same thing. One could not just take a method of analysis (no matter how great) and turn it into a trading system or trading method.

Analysis and trading are two different disciplines. Yes, good trading depends to some degree on accurate analysis, but there are some skillful traders around who are mediocre analysts. Their sound trading methodology compensates for the shortfall in their analysis.

It is the attempt to turn analytical methods directly into trading methods that often causes such horrible results for new and amateur traders. As soon as this becomes clear, with it comes the realization that it takes genuine commitment to become a competent trader. (To become a great trader is another story.)

It is usually at this point that the majority of the players just walk away and realize that trading is not their calling, be it stocks, options or commodities. The ones that survive and stay, the 5 to 10%, have taken the time to work their way through the "Tasks" mentioned earlier.

The majority of the time is taken to formulate and back-test a trading plan. It is the "back-testing" that gives the subconscious mind the conviction of reliability that enables the conscious mind to take action without hesitation. I know traders who have taken two full years to check and back-test their trading plans. They also happen to love what they are doing and love the market (not necessarily the other players, just the market).

The closer a trading plan comes to being 100% mechanical, the easier it becomes to develop the mental discipline to follow it and execute it without the fear of loss. The problem the Chicago group rated #1, "Lack of Confidence," disappears in direct proportion to the validity of a back-tested trading plan.

If a plan is found to work 60% of the time, then the trader will know that 40% of his trades will be losers or scratch trades. Part of the plan will be knowing how to handle the 40%, either through good money management or by qualifying the ability to "cut your losses and let the winners run."

A mental equilibrium develops when the trader reaches a certain level of trading competency.

The first four tasks have been satisfied. The last key to successful trading, in my opinion, is to achieve HARMONY between the conscious and subconscious mind. This balance has to be achieved to some large degree. The greater the balance, or alignment if you prefer, the greater are your chances for success.

One cannot be a winner until the subconscious mind is fully in tune with what the conscious mind has set out to achieve. (Please read this again!)

In other words, the goal orientation and creative visualization techniques I use with my students via Deep Relaxation techniques are of no real value until we get the subconscious to accept the fact that we have a good trading plan. The greater the acceptance, the greater the harmony, and the greater the winnings!

Deep Relaxation is a state of mind, not a state of sleep. I create a state of mind where the critical faculty of the conscious mind is bypassed and direct connection to your subconscious mind is established.

All memories, from the moment of your yesterday, are housed in your subconscious mind. All of your habits, good and bad, are in the same place. It is the generator of your emotions, good and bad. Your past experiences at all levels are recorded here.

This is where it is etched every time you have a losing trade. The more losses you have, the deeper the impression, the greater your critical faculty, the conscious mind, starts doing its job. Just like a guardian at the gate it says, “Hold it. No more!” It starts protecting you from further losses.

That is why when you are about to enter a trade, the adrenaline starts to flow, the skin tingles and even the sweat glands get active. Fear has arrived. Your conscious mind manifests physical conditions that induce a state of fear. In some traders, this goes so far that they are literally unable to move or act at the crucial moment (or even pick up the telephone.)

The longer this process goes on, the more difficult it is to correct it. Even after the trader has found his own route to a competent trading plan, the fear of loss and lack of confidence can be so deeply embedded in the subconscious mind that appropriate trading action still proves elusive.

Every trade can be a mental agony that leads to poor execution, late entry, not taking losses fast enough, and getting out of profitable positions too quickly and without reason.

So what to do?

Over many years the use of back-tested, valid trading plans, may cause the now invalid fears to disappear. However, a shorter route may be to replace these old invalid fears at the very place they were established   in the subconscious mind.

If you have really put in the effort to validate your trading plan, then (and only then) are your old fears no longer applicable. We must communicate this new fact to the subconscious mind.

We literally have to erase the previous pictures of impending financial disaster and paint new pictures in beautiful colors, showing a happy, confident and successful trader, using a valid trading plan.

Through Deep Relaxation techniques we bypass the critical faculty of the conscious mind and establish selective thought processes. It is the critical faculty of your conscious mind that passes judgment. This is where judgement is made: Whether your soup is hot or cold; whether you can take this trade with confidence.

Once we can enter the subconscious mind, we have bypassed this critical judgmental faculty. We can now work in a non-critical, non-judgmental environment. Because the subconscious mind cannot distinguish long and short, hot or cold, it will accept the input as factual. The critical faculty is indeed suspended and bypassed. Routine judgment is stopped and selective thoughts and pictures can be installed without questions. The more often this can be done, the better is the chance of success. Repetition can be crucial.

Now we can inform the subconscious mind that the old fears are no longer valid. We replace those beliefs with the fact that we now have a valid back-tested trading program that is profitable. These thoughts can be “etched into the copper plate” of the subconscious mind. With sufficient practice and repetition the subconscious becomes convinced that this is the new reality.

If you truly back-tested and worked with your trading plan, your conscious mind is already aware of its validity. It is your subconscious mind that stopped you from taking correct action in the market.

So, having informed your subconscious that you are now the owner of a valid trading plan that is to your benefit, you may now have both your conscious and subconscious believing the same facts. They are coming to a point of harmony, and balance is achieved.

You now only have to convince your subconscious mind that you deserve your winnings. But that’s another story.

You can only have the trading edge when you have: Clearly defined objectives. Superior information. The ability to act on both!

I wish you joy and happy trading, Robert Krausz.

Robert Krausz is an independent full time trader and Member of the British Council of Hypnotist Examiners. He is the producer and publisher of “Subliminals for Traders” which sold worldwide. Internationally known lecturer on the “Psychology of Trading” and has travelled extensively in the Far East. His latest work “Mental Harmonics” tapes use Deep Relaxation techniques to help traders improve their confidence level. Currently lives in Florida using customized software, which incorporates Symmetrics (c), a “time squares Price” trading concept. Robert is Co-Founder of Global Research Forum, a non-profit organization for sharing information amongst traders. He will be speaking at the Computrac Seminar in New Orleans in November. 757 SE 17th St.., #2 72, Ft. Lauderdale, FL 33316.

Pythagoras and the Powers of 1--3--5

By Joe Rondinone

Pythagoras was born the son of a gem- engraver in Italy in 582 B.C. He died at 82. He started his arcane school at Cratona with these purposes; to study physical exercises, mathematics, music and religio-scientific laws. Do you know that he laid out the musical scale of vibrations per second? All musical instruments are tuned to this A, the 440 vibrations pitch.

Do you know that 1/3/5 notes when played on the piano harmonize? You will find 1/3/5/8 notes (8 is an octave - m music it is written as 8va). The 8th note is C again, a start of a new 1/3/5, only an octave higher. This will make 1/3/5/8/10/12/15 notes all harmonize. This is called a major chord. Any two or more of these notes in this 7 note combination will be in harmony with each other....

This harmony also appears in the structure of commodities: The big problem is the method of counting. Below I have outlined a chart on May Bellies, 1992. As I mentioned before, the major chord in music is 1/3/5. Basically, the 1st note is #1, you do not count from the C note to the D note for a one count as the Elliott Wave count. The 1st note is #1, the 3rd note is #3. This is a major error in the day count that has many counters confused. When you count the days for what they are, (day 1 is #1 not 0 day) you will be surprised how well you can make 3rd and 5ths and 8ths of this in price days...

In reference to the charts in this article, if a number on the chart has a circle around it, it is denoted by a c after the number, for example SC. If the number has a square around it in this article it is denoted by an S after the number, for example 3S.

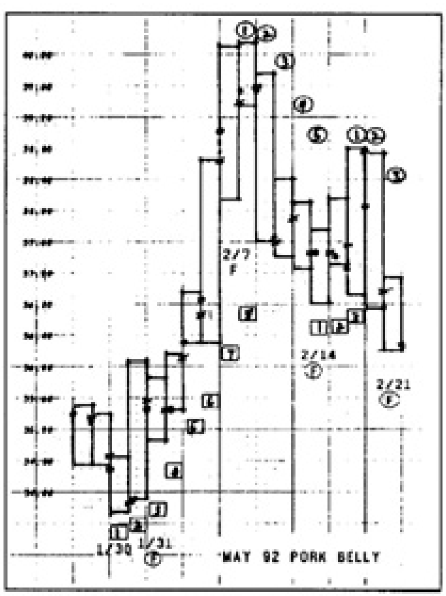


FIG 1- MAY 1992 PORK BELLY

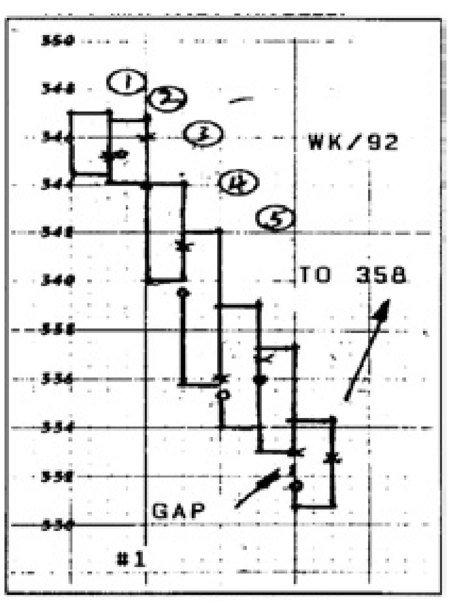


CHART 1 - MAY 1992 WHEAT

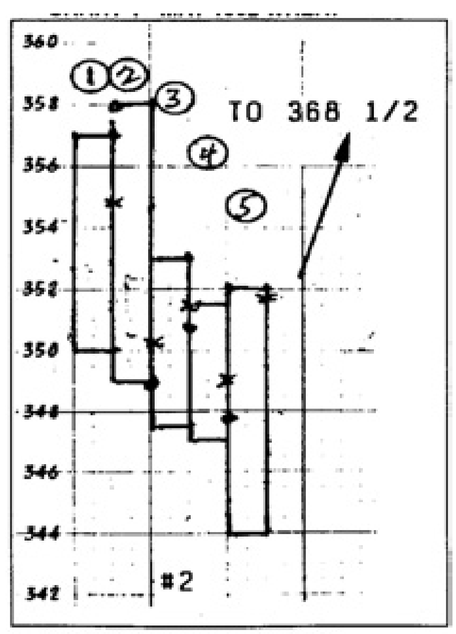


CHART 2 - MAY 1992 WHEAT

The next problem is the double count. It is important in Symmetrics that we use the double count because the high day can be the 8th day up, but it also becomes a day #1 down. You will notice in the chart below, the up days starting with #1 are in square boxes as 1S, and the 85 day up becomes a 1C day down also. The down day counts are all in a circle 1C.

In the May Pork Belly Chart (Fig #1), you will notice 34.11 was the low day 15, the 2S day was high at 36.05 and the 35 day was a 100 point correction or a 50% of the move from 15 to 35. In Symmetrics one rule is that if 35 day holds the 1S days bottom, the prices will go higher. A 62% correction is a strong support and a 50% correction is stronger, this means higher prices are coming. The price advanced to 40.15 high on day 8S when the low of day 8S is broken, we start a down count, the day 8S now becomes a 1 C circle down day. In Symmetrics the up days are numbered on the bottom of the price day and coming down the day numbers are placed on the top, or above the days move. The price fell to 36.80, 36.92 was a 62% of the 34.17 low to the 40.15 high. Here we have two buy principles; this was a 62% correction and a 5 day time. When this SC down low is in place, it now becomes a 15 day for a rally as soon as 1S days high is bettered. You have a 15 3S 55 day rally to 38.80. This is a 62% rally from 40.15 high 85 day to the SC day low. Prices for the day settled at 38.75 because of a split close. Next day the price broke the low of the 3S day and you have a 1C day move down. At this writing 2/21/92, we are 2 days down. Watch day 3C and day SC for support and reversal.

Now let's go to the May 1992 Wheat Charts. In my 38 RULE BOOK I have many charts that illustrate my rule of #38; called, "the rule can make you rich". Copies are still available and I include one copy with every trading method I sell. Rule #38 states; in a strong bull market, you should buy on all 3 and 5 day reactions because the prices will rally until a blow-off top is made. In this article we have four charts on the 1992 May wheat which should bring out the power of the 5 day reactions to the bull market and these should have been buying opportunities to buy long and also if long to add to your long positions.

Chart #1 shows a 5 day down to 333. Day 6 opened at 3311/2, made low at 330 3/4 and rallied to 358.

Chart #2 shows the high close at 354 3/4, this is day 1C because it was the high close day.

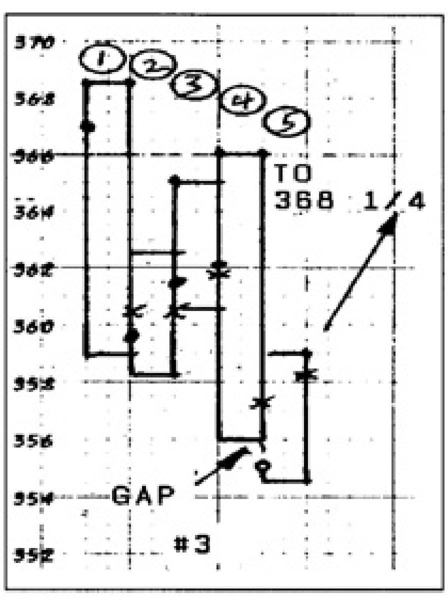


CHART 3 - MAY 1992 WHEAT

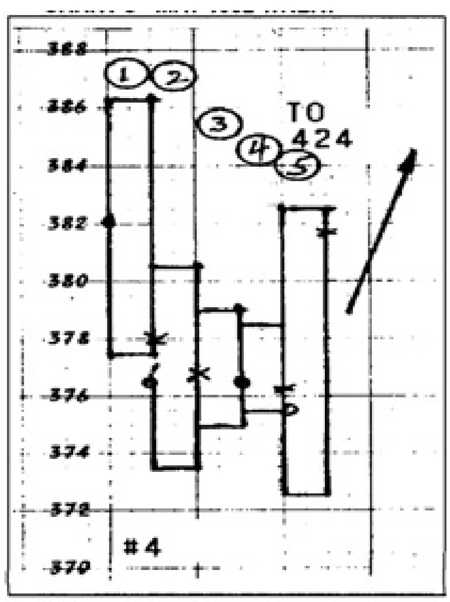


CHART 4 - MAY 1992 WHEAT

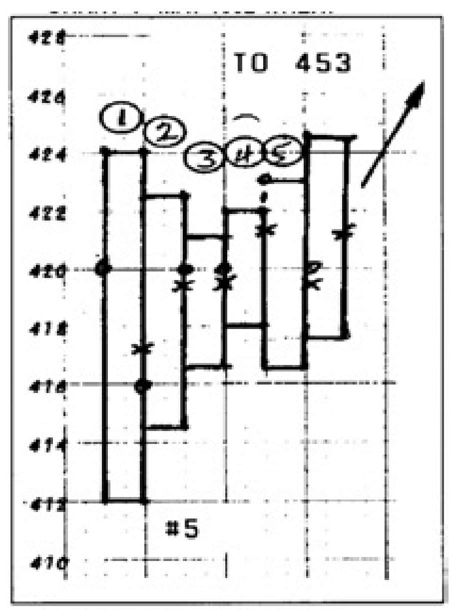


CHART 5 - MAY 1992 WHEAT

Day #2 opened with a higher gap, but fell to break day 1, making it day 2C. Day SC made a low at 344 and rallied to 369 high.

Chart #3 shows 369 high as a #1 1C day and although day 3C and 4C rallied, day 4C ended making a new low. Day SC opened gap down and raffled to 386 1/4. Closing the gap on day SC was rule #33 in my rule book to buy. Here you have two buy rules again, one buy on closing of the gap on the 5th day, and buy on the 5th day reaction, with a close stop of course...

Chart #4 shows the 386 1/4 high, sold down to 373 1/2 on the second day. Days 3C and 4C were inside days and day SC made a new low at 372 1/2 and rallied to 382 1/2, that day. The rally went to the 424 high on 1/24 Friday, low was 412. The chart will show that a five day reaction was in effect, but all the days were inside days. All 5 days within the 412-424 range of Friday 1/24. This must surely be termed a strong market with this holding power. On the 6th day a new high was made and a fast rally started that climaxed at 453. When this price was made a fast limit down followed. This limit day down broke the uptrend, at least to this point. These are some dynamic examples of how the natural laws of the 3-5 can be of benefit to the short term trader: A tool to add to your tool box...?

In music there are 8 different notes. In the study of harmony (musical harmony, composing, arranging) we call the 1st note, the tonic or #1. The 3rd note is a 3rd and the 5th note is a 5th with the 8 note is an octave (8va). I mention this count method because it differs from the Elliott Wave count concept. I don't believe Mr.. Elliott studies music or the Pythagorean theory,.

Now to a step further with music as compared to commodities. In music there are 8 notes to a musical scale. You start with C and the 8th note up the keyboard is a C again, only this is an octave higher. I want to bring out a minor point here, but it is very important. All band instruments are tuned to the A note which is a 440 per second vibration. As I stated earlier, the 8th note higher is A again and you may be happy to know this A vibrates at 880 times per second, and the next 8va higher is double or 1760 vibrations per second... The lower 8va below the 440 A will vibrate at 1/2 the 440 or 220 times per second.

In music, songs are written in different keys. A song with two sharps ##, it will be in the key of D, and the song will end on the D note. Is it possible that we should look at the starting price of a contract to designate the projected ending price? This could be for further study some day.

To get back to the note count, we have 8 notes, but there are 7 different notes: A-BC-D-E-F-G. After G comes A again, the eighth note. If you play a scale, you do not stop on the seventh note. The scale is not complete until you play the eighth note. Can this be compared to the market making a high and following a sell-off, goes up one more shot to make a new high and play that eighth note? Now the eighth note becomes a #1 again for the next octave (8va) higher scale, etc. With these 8 notes (white keys) there are 5 more notes, which are the black keys on the piano. We now have 8 white keys and 5 black keys. This is a total of 13, all Fibonacci numbers. Did Pythagoras come up with the number series 500 B.C., before Fibonacci? No matter from what note you start on the piano, there are 8 white and 5 black keys to any octave.

In music sharps and flats denote the key of that song. The key is governed by the number of sharps or flats. It is a firm law of harmony. You will not have a song with 3 sharps which will be in the key of A end up in any other note or chord but A. Can it be price structure? Think on that!

Joe Rondinone taught music for 30 years. He taught at the Julius Hartt School of Music

Cycles Made Easy

By Dr. Hans Hannula, PhD, RSA, CTA

Cycles have fascinated traders for decades. This magazine frequently carries articles describing vanous cycles, especially astrocycles. But if cycles are so clear and obvious, why don’t cycle followers own everything? Maybe cycle aren’t as simple as they seem. Let’s take a look at cycles, and some new technology for trading them.

Figure 1, part A, shows an ideal cycle, such as might be found in a stock or commodity. It moves up and down between highs and lows. This cycle may be riding on top of an underlying trend, as shown. Now suppose we could extract the cycle without the trend, as in part B. If we then could measure how high the tops or bottoms were, we would know when this cycle was about to turn up (a buy) or turn down (a sell). If we marked high and low levels, we could call them buy and sell lines, as shown in part C. We could then use two very simple rules to guide our trading.

1. When the cycle goes above the sell line, and then comes back down through it, sell.
2. When the cycle goes below the sell line, and then come back up through it, buy.

If we could really do this in real markets, trading would be easy, fun, and very profitable. Wouldn’t that be nice? Past Technology

Probably the most widely used cycle technique is the moving average. Many traders rely on regular or exponential moving averages for trading signals. Hurst, in his landmark book, The Profit Magic of Stock Transaction Timing, clearly explains that moving averages are really low pass filters, which can be used to extract cycles from stocks or commodities. He also points out the BIG problem with moving average techniques - the answer they give is valid one-half span ago. For example, when a 200-day moving average computed today turns down, it is reallysaying that the 200-day cycle turned down 100 days ago. That’s great to know, but not very useful for trading.

This delay property is characteristic of all “digital filter” cycle extraction techniques.

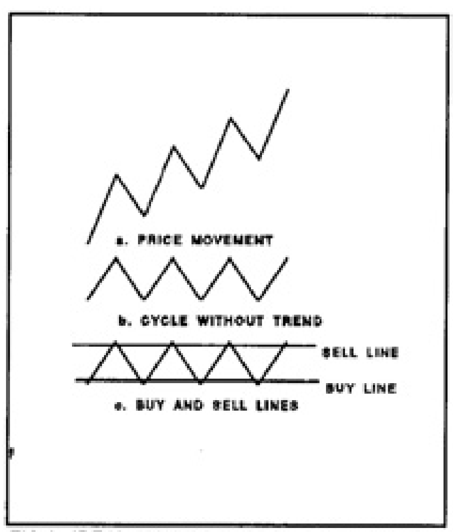


FIG 1 - IDEAL CYCLE BASED TRADING SYSTEM

For years I have experimented with algorithms which might overcome this problem. Finally, I have found one.

A New Technology

This new algorithm extracts cycles without delay. It can tell you today that the 200 day cycle turned down - TODAY While the algorithm is proprietary, I am making it available to other traders through a software package called the Trading System Toolkit. Now let's see how close the Zero-Delay (ZD) filter comes to our idealized cycle model.

It comes pretty close. It has stood the test of real time use in real markets. It has worked on all markets tried, because they all follow cycles. Figure 2 shows a real example using wheat. A cycle of approximately 29 days is extracted using a ZD filter. Note that this cycle does not behave perfectly. The highs and lows are not always the same level. Also, note that the time between turns is not always 29 days, or even the same. Real market cycles behave this way. They do so because they are the result of many cycles combining.

Now look at the buy and sell lines. They are not level and straight as in the ideal case.

The ones shown here are computed using another of my methods. This one computes the statistical distribution of prices over the last 89 days, and then marks a sell line at 1.45 standard deviations and a buy line at -1.45 standard deviations. In this way, the lines account for the volatility of prices. if price action gets slow and sluggish, the lines pinch down. if prices begin to move actively, the lines move apart. In essence, the lines "tune into" the underlying price volatility.

Finally, look at the indicated buys and sells. Most of them meet the rules of our ideal system. Price does move up above the sell line, and then back down. It also moves below the buy line, and then back up, giving signals that are near the ideal. A few times, the cycles don't quite reach the bands, and one might have to make an in-formed guess that the cycle has turned. One can usually trade these situations with a close stop, and do just fine.

The real problem in these non-ideal cases, is that the multiple cycles forming the one we are tracking are somewhat "out of sync" on their timing. Or it could be that the parameters of the systemneed to be tweeked. Maybe setting the buy and sell bands at +1.4 and -1.4 standard deviations would work better. Or perhaps using just the last 69 days of prices for the statistics would work better. Obviously, it may be both necessary and desirable to adjust the trading systemvalues (called parameters) as time moves along.

Real time use of these ZD based systems has shown two very important things about them.

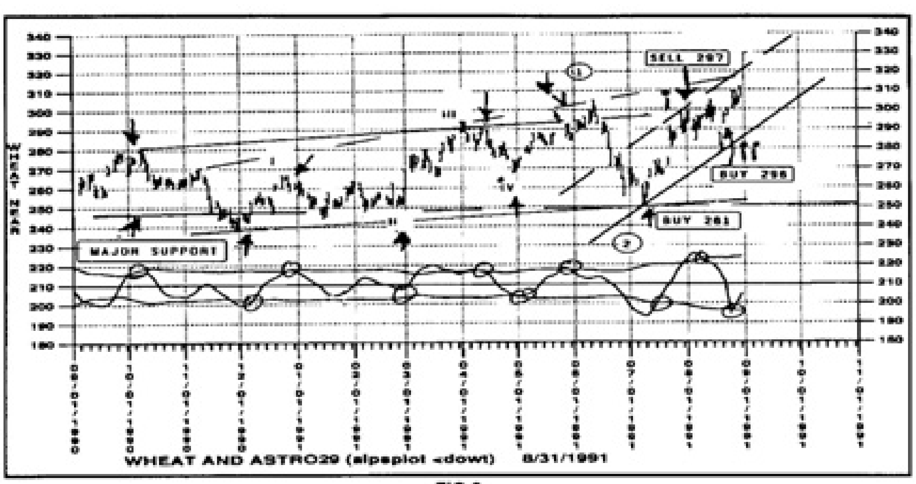


FIG 2

First, it is very easy to come up with a set of parameters that works well over one to two years time. But it has never been possible to come up with a set of parameters which works without adjustment for all time. For example, a 29 day ZD filter is working well with wheat in 1991. When tested on 1972 wheat, it also worked, but a 23 day filter worked much better.

There is an absolutely fundamental reason for this. Market cycles are caused by combinations of planetary cycles. The planets form over 7200 major cycles, each with its own period, so in any given year, these cycles change, and their combination changes. This causes price cycles to "slide in and slide out". They become stronger, and weaker. A particular price cycle will appear to change its length. It may even, due to chaos (another topic for another time), double its length, or cut its length in half instantly. This is called "frequency jumping".

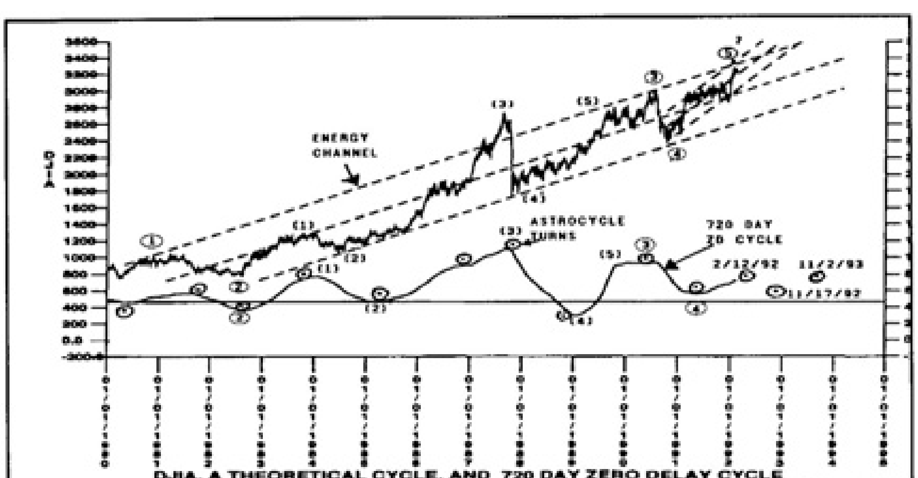
The genius of the ZD filter is that it will follow these shifts. It was designed to follow real planetary cycles, yet it uses nothing except price for its input. For example, in the wheat system, the cycle shifted from 36 days between turns to only 22, but the 29 day ZD filter followed this shift nicely. And finally, it does so without delay. No other filter has these capabilities.

Counting Elliott Waves

These wave counts are changed so frequently that I call them Chameleon Counts. Using the ZD filter greatly increases one's ability to count Elliot waves. By applying a filter of a certain length, one seets the degree of the waves to be counted, reducing confusion. While one may still find one or two or three possible wave counts, the probabilities of a valid count which can be profitably traded are much greater. Figure 3 shows an interesting use of a 720 day ZD filter to extract the major waves (cycles) in the Dow. One can easily see that the bull move began in 1980, not 1982. Further work shows this cycle turning on a Mars-Node Astrocycle. So the ZD filter greatly aids putting all analysis styles together.

The Trading System Toolkit

The Market AstroPhysics Trading System Toolkit (MAPTSTK) is a collection of tools which allow traders to easily create, run, modify, and maintain cycle based trading systems. These systems depend on the ZD filter. The program runs on MSDOS, and provides the ability to describe a trading system, save and reload this description, display the trading system on the screen, and generate a MS-DOS batch file which will run the trading system on a printer. A wide variety of printers is supported, as is a VGA or super VGA display. A demonstration video is available.



DJIA, A THEORETICAL CYCLE, AND 720 DAY ZERO DELAY CYCLE

FIG 3

Proportional Time and Price Projections

By Robert Miner

Throughout W. D. Gann's original material, he frequently describes the "squaring" of time and price. This is usually understood to mean when price and time are equal (squared) change in trend will occur. The equality of price and time is usually described as a market that reaches a point where it has had a change of an equal number of units of price and time.

An example would be a point in time where soybeans had made a 60 cent move in 60 trading days. The diagonal of a square rises at the rate of 1 x 1 if each side of a square is equal to one. On a chart that is scaled 1 cent per trading day, a 60 cent move in 60 trading days would fall precisely at a 1 x 1 angle from the beginning of the move. This is where the term "squaring" price and time came from.

Any analyst or trader who has done a comprehensive study of past market swings in a variety of markets has found that few changes in trend are made at the "squaring" of price and time or when the units of price movement are equal to the units of time elapsed. Does this invalidate Gann's concept of the squaring of price in time, or, is there more to this concept than the literal interpretation?

Gann's concept of the squaring of price and time implies that time and price are of equal importance and important change in trend will not unfold unless there is an important time and price relationship that coincide. In my past articles in Trader's World, I have described the methods to project the highest probability of the future time of change by Time Cycle Ratio analysis. All traders are aware of basic price retracement analysis. Each analysis method of time and price is directed by the fact that changes in trend in the market occur at some important proportion of time and price of past cycles.

By expanding on Gann's concept of the equilibrated nature of time and price and proportional

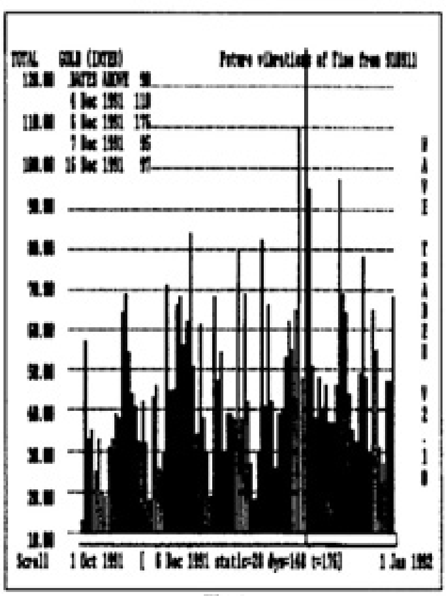


Fig 1

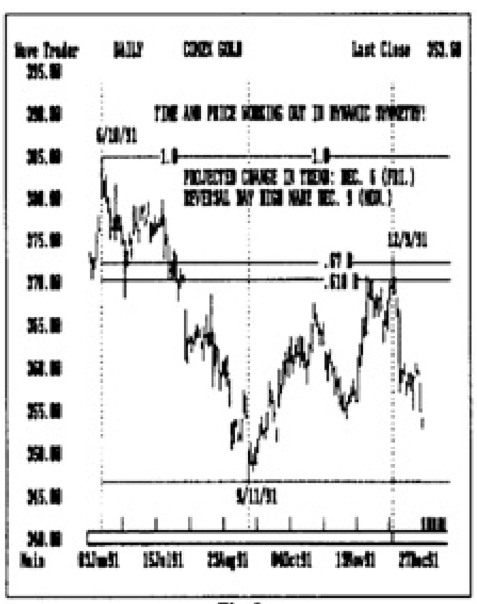


Fig 2

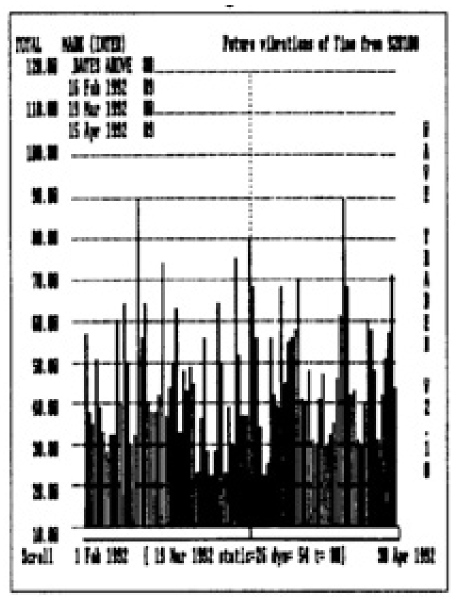


Fig 3

cycle analysis, we will find that important changes in trend only unfold when price and time are in proportion to one or more past cycles of similar degree. These proportions may not be the same ratio as with the squaring of time and price which implies the ratio will be one to one. At any point in time when price and time are in proportion to one or more past cycles, there is a high probability of change in trend. This occurs less frequently than one may think. When it does, be prepared to take action.

Since a picture is worth a thousand words, let's take a look at recent changes in trend for several markets. They will illustrate just a few of the important time/price relationships that coincided at important market junctures. For each of the illustrations shown, there were many other time and price relationships at each of the changes of trend illustrated.

Traders must keep in mind that all time and price projections are determined well in advance. The trader does not know in advance if the projected price objectives will be hit within the projected time objectives. If a trader will exercise the appropriate patience and discipline to only enter a trade on the set-ups of the coincidence of time and price, their success should be ensured.

The histograms shown are from just one of the time report routines in the WAVE TRADER analysis program (see the review in the prior issue of Trader's World) which calculates the coincidences of the Time Cycle Ratios of prior swings into the future. This methodology was described in my June 1989 issue of Trader's World, Projecting the Precise Time of Important Tops and Bottoms. The highest scoring future dates will have the greatest probability of change in trend. While this time projection routine is not infallible, I know of no other cycle or time projection methodology or analysis program that even comes close to the Wave Trader's Time Alert projections.

Figure 1: Gold, Wave Trader Intermediate Degree Time Alert

Dec. 6, 1991, a Fri., is projected as having the greatest probability of intermediate change in trend for the three month period of Oct. through Dec. 1991. A trader would want to be very alert to the price and pattern position of the market going into Dec. 6. The projected dates are important for plus or minus two trading days from the actual date projected.

Figure 2: Dec. 91 Gold

On Dec. 9, one trading day after the Dec. 6 projected date, gold made a wide range reversal day at the 67% retracement level. The time relationships of the prior swing was 1:1;

Fig 4

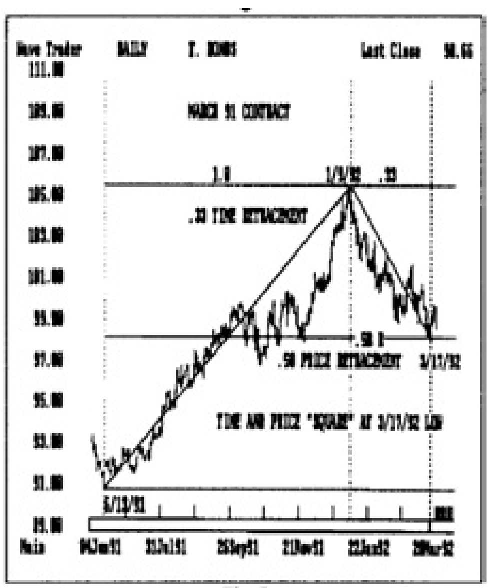


Fig 5

Fig 6

price relationship, 67% retracement. Note that price did not close above the 62% retracement level. Time and price are in proportion to the prior bear cycle of the June 6 high to the Sept. 11 low. There were many other time relationships going into this period that resulted in such a high relative Wave Trader Time Alert score on Dec. 6. Elliott Wave traders will note that the reversal day high of Dec. 9 was made in the fifth wave of the C wave of the counter trend that began Sept. 11.

Figure 3: Deutsch Mark, Wave

Trader Intermediate Degree Time Alert There were three dates that had the highest probability of intermediate change in trend in the four month period following the Jan. 8, 1992 top in the mark. These dates were Feb. 16, March 19 and April 15. They all seemed to be relatively significant from a time perspective. However, change in trend will only occur if price is also at an important proportional relationship of one or more past cycles.

Figure 4: Deutsch Mark, Daily Continuous

On March 20, just one day following the March 19 projected date, the mark makes a wide range signal day with an intra day low at a 62% retracement of price. One of the important time relationships on March20 was a 38% retracement of time of the prior cycle. Important change in trend will occur at the juncture of proportional time and price. The mark began a significant rally at this coincidence of proportional time and price.

Figure 4: T-Bonds, March 91 Contract

On March 17, T-Bonds made a wide range, outside reversal day at a 50% price retracement and a 33% time retracement to the prior cycle. How important was this coincidence of proportional time and price? From the March 17 low, bonds began a rally that was greater than any since the Jan. 9 high.

Figure 5: T-Bonds, 1st Month Futures Continuous Contract

If a change in trend occurs near the expiration of a contract, there often appears a distortion on a continuous contract. Many data services and traders use various types of adjusted or perpetual contracts that they believe will smooth the data for the distortions at roll over. These are bogus continuous contracts that do not reflect the precise time and price points needed to accurately calculate time and price relationships.

Figure 5 is a continuous 1st month futures contract that rolls over on the last trading day with no adjustment in price for the discount that the new bond contract is trading at. From this continuous bond chart, it appears that the low in March 1992 was made on the 24th. Even with this “distorted” chart of bonds, we find that the March 24 low on the continuous chart was made on a wide range reversal day at a 62% retracement of price and a 38% retracement of time! Whether a trader went long on March 17 or March 24, significant profits would accrue. Traders should always analyze the single month and continuous contract proportional time and price relationships if it appears the change in trend may unfold near a contract expiration period.

These have been just a few of the proportional time and price relationships that fell at recent intermediate term changes in trend in three markets. Just about every change of trend of any degree will fall on one or more obvious proportions of time and price. This analysis method is as relevant on 15 minute charts as it is on daily, weekly or monthly charts.

All future time and price objectives may be calculated in advance. A market will not make a change in trend at ever price proportion or every time proportion. But, when the market reaches a price objective within a time objective, a tradable set-up has unfolded and the trader should take advantage of the low risk and low capital exposure set-up. These time / price set-ups may be further filtered by pattern and momentum studies.

Every trader may deal with the reality of market activity by being prepared well in

The Jiggle Line

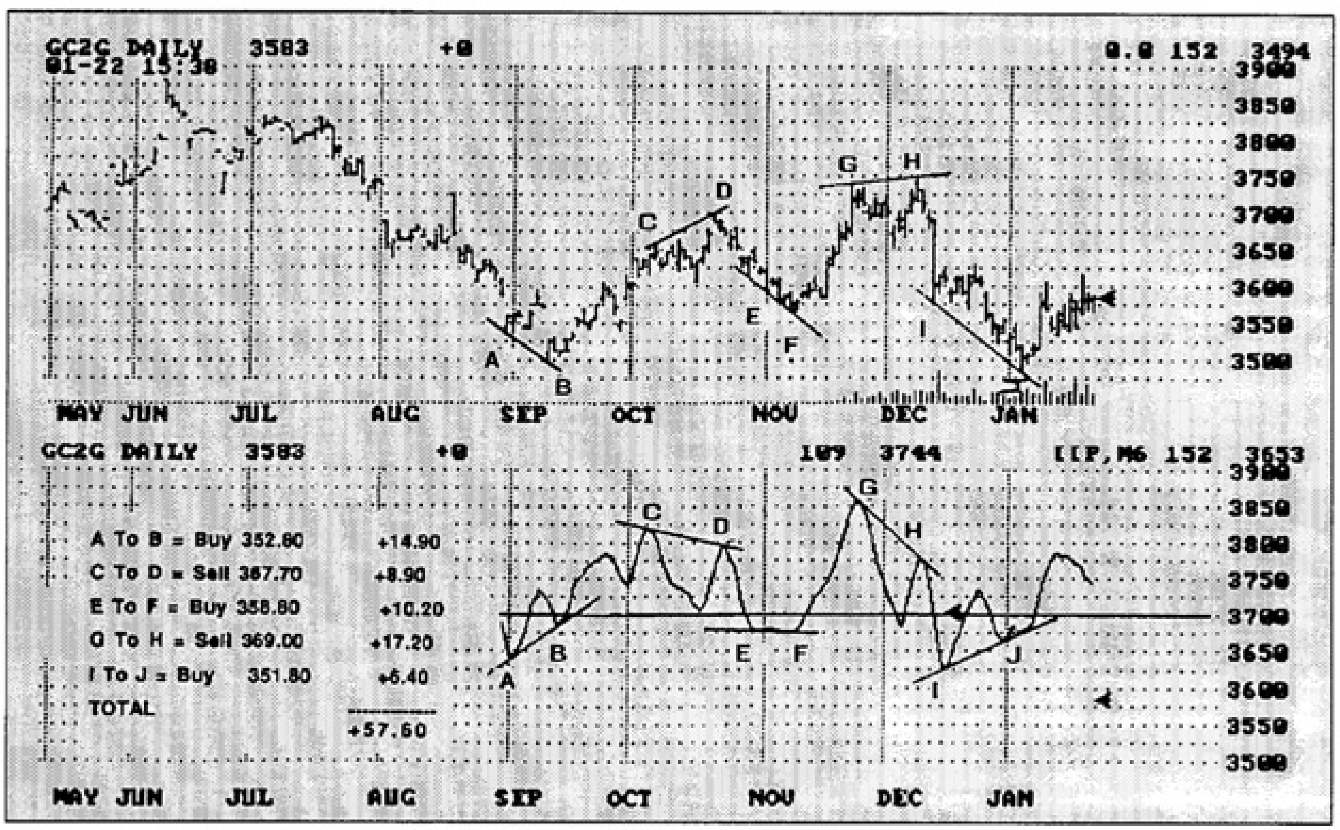
By The Cosmic Cowboy

I have been intrigued by the commodity markets for many years. I have actively spent the last few years searching for the "whys" of market movement. I found the jiggle line concept on one such search. The concept is from George Bayer's excellent book, GEORGE WOLLSTIEN: EXPERT STOCK AND GRAIN TRADER.

(Anyone searching for esoteric market concepts would do well to read all of Bayer's books.) After reading the book for the third or fourth time I finally decided to examine the jiggle line, as presented, more carefully. It was a simple matter to program the formula into Lotus 1-2-3 and hand chart it at the bottom of my daily wheat and soybean charts. Its movements puzzled me. Sometimes it would turn down in the middle of a move and price would continue rising and vice versa on a down move. For some reason, though, I steadfastly kept plotting it on my charts for months. I guess it was a case of TANSTAAFL. (There ain't no such thing as a free lunch.)

In the back of my mind I felt like Bayer had discovered something important but at the rate I was able to plot it I would never be able to learn anything. I simple needed to see more "jiggles" than I was able to see on my hand drawn dailies. To aid in my trading and research I added live Bonneville quotes and Ensign graphics to my arsenal. I had the Ensign program modified to have the jiggle line appear on any chart.

Now I could look at any time (frame) chart from 1 minute to monthly with the jiggle line overlaying both price and time. I found that the jiggle line was actually a type of momentum



indicator. Other indicators of the same type that I had studied caused me many whip-saws and great pain (to my trading account). The real break-through came when I finally noticed how the true signal was being sent. It was by the use of divergence. Prices would make a lower low while the jiggle line would make a higher low. From there it was an easy matter to make a simple system to buy or sell the open of the next day after such a signal was given.

The gold chart presented with this article shows 5 profitable trades (out of 5 possible) up to the current day this article is being written (Jan 21, 1992) with a total profit of $5760 over a time period of 4 months. The stop-loss order never needed to be more than $400 from your entry point on the day of the signal.

In a cursory study of 21 years of beans I found that the divergent signal averaged between 6 to 7 trades per year and made an average of $15,000 per year on a one contract basis. (If a simple money management tool is employed your returns are substantially higher.) At least 3 out of 4 trades were profitable if a common sense trailing stop was used. Other commodities have yielded like results. To be effective using this, or any other technique, you need to follow a minimum of 4-6 unrelated markets.

Fred Ruscher is a fidl-time trader and can be reached at 9210 N 54th Dr., Glendale, AZ, Phone 602-931 -0498

Major Reversals Coming in the Financial and Commodity Markets

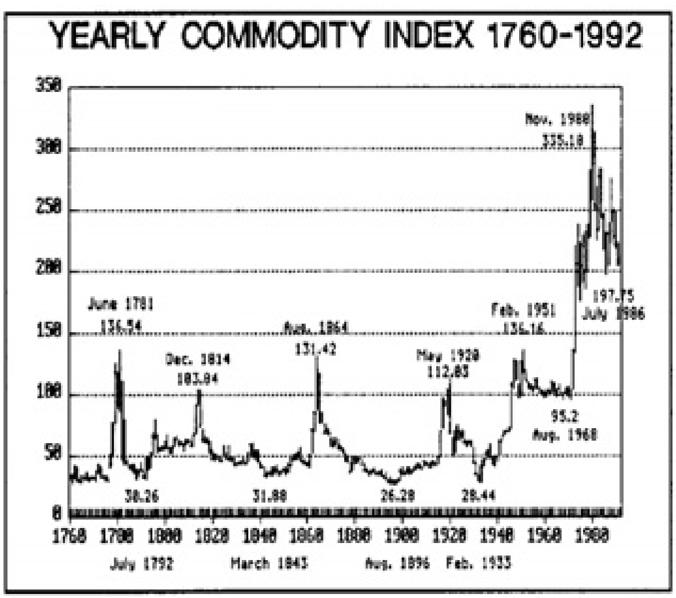
By James Flanagan

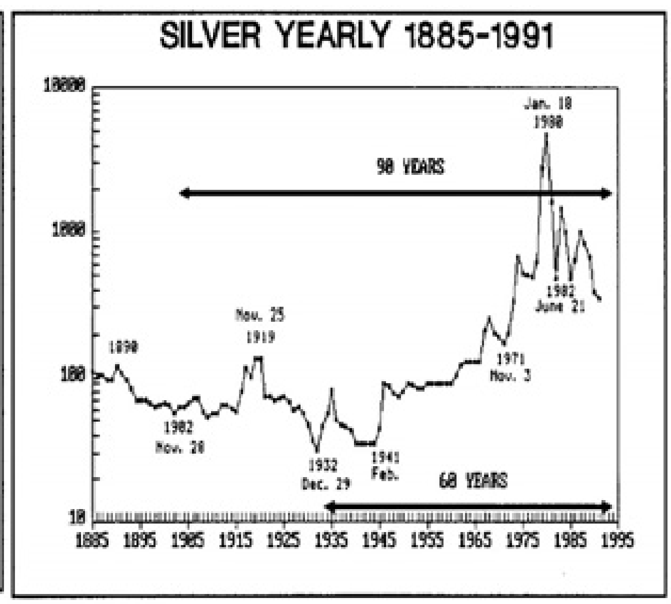
In the last issue of Trader's World Magazine, we revealed the pattern in the A Stock Market we believe is unfolding according to WD. Gann's N.Y Stock Exchange Permanent Chart. Gann's Yearly Time Cycles have determined years in advance that this Stock Market will culminate in a "blow-off" move from now until October 1992 with a wicked bear market unfolding after January 1993. I believe the likelihood for the simultaneous culmination of major deflationary lows in commodity prices also based on Gann s Yearly Time Cycles, makes for a potentially unprecedented shift in the financial tide. The enormity of this move away from financial assets (Stocks and Bonds) in favor of tangible assets (Gold, Silver, Grains etc.) makes for a possible once in a lifetime opportunity. If our prqjections are correct, the Stock Market top could on the order of importance of the 1929 top and the deflationary lows in overall commodity prices could be the most important since the last trough in the Kondratieff Wave in 1933.

During his career, the legendary WD.Gann made sñnilar astonishing and sensational predictions by virtue of his cycle theory. With the benefit of these cycles he forecasted almost to the exact dates the landmark high in the Stock Market in 1929 and the depressionary low in 1932. I do not presume to have the credentials that Mr~

Gann did. But I am a good disciple and plagiarizer. I am convinced that our forecasts for final top in Stocks, and final bottom in deflation duplicate what would have been WD. Gann's conclusions were he still alive.

By way of review Gann determined that repetitions occur in all the speculative markets based upon market movements in the past. This is not to be confused with traditional cycle theory where you look for highs or lows to occur based upon a periodic rhythm in the markets. Rather it is based upon a knowledge of how the markets traded during critical time periods counted backwards from the present. To work up a current forecast, we look backwards in





time to determine what price did 360, 270, 200, 180, 150, 120, 100, 90, 84, 60, 50, 45, 30, 20, 15 and 10 years previous in the expectation that our market will duplicate these prior years or “cycles”. If our current market’s price movement is paralleling these years, we make our future forecasts based upon the assumption that the parallel will continue. A high probability forecast occurs when a significant number of these cycles are in alignment and showing a consensus of market direction.

In working up our forecast for commodity prices, we will use the Warren and Pearson’s Index of 30-Basic Commodities from 1760-1955, and the CRB Index from

1955 to date. We continue our indebtedness to Richard Mogey at the Foundation for the Study of Cycles for his tremendous resources in our research (2600 Michelson, Suite 1570, Irvine CA 92715, 714-261-7261).

Based upon this review of history, we find that virtually all of our most important Yearly Time Cycles were pointing lower until 1991. In the March 8, 1991 issue of our newsletter titled ‘Tidal Thm Upward In Inflation?”, we documented that the 20, 50, and 90-year cycles were in the process of making major lows. These lows were followe~l by the major inflationary markets starting in 1971, 1941 and 1901. Each of these yearly cycles is already pointing up in long-term secular bull markets. Our purpose in this article is to document the other most important Yearly Tune Cycles which all bottom by early 1993, and confirm a major deflationary low.

Notice in the yearly chart that the troughs of two of the four greatest deflationary lows in U.S. financial history were within one month of being exactly 90 yeats apart in March 1843 and February 1933. In WD. Gann’s own ~iting he designated the 90-year cycle in commodities as the “Great Cycle”. In his Commodity Trading Course he reviews the profound impact this cycle has had on wheat prices. For example: 1932 was 90 years from 1842. Study the wheat prices around this time. 1850 and 1851 - add 90 years and we get 194041. Note low prices of wheat around that time.

June 1855 high for Wheat $1.70. 90 years from this period gives 1945. Wheat reached high in June 1945, selling at $1.70, some options at $1.68 and $1.69. 1850-51, extreme lows for wheat. Add 45 years and we get 1895, when extreme low was reached. From 1895, we again add 45 years and get 1940.” Is it a coincidence that the anniversary of the major deflationary low in August 1896 supported prices perfectly 90 years later in July 1986 intheCRBIndexandthis remains our 15-year low to date? No way. July 10, 1986 also marked the lowest price wheat has traded in the last 20 years - 90 years after the 1895-1896 lows.

The completion of the next major time factors from the 1843 and 1933 lows, is the 150 and 60-year anniversary lows. The bottoming of these two cycles suggests a major low between February and March 1993.

After the February 1933 low, prices rebounded 66% in 19 months in a violent rally from extreme oversold conditions. A significant high was not reached until 1937 after prices had advanced 106% in 3 1/2 years. The completion of this 60-year cycle which Gann likewise called one of the “Great Cycles” compels us to watch for another historic low in March 1993. ‘This is the greatest and most important cycle of all, which repeats every 60 years or at the end of the third 20-year cycle.”

Notice the precision demonstrated by the price of Silver based upon this cycle (Figure 2). On November 25, 1919 the blow-off inflationary top during World War I advanced prices from .47 to $1.37 an ounce. Almost exactly sixty years later price made final highs on January 18, 1980 at $50.35 during the Hunt Brothers corner. What would it have been worth for Nelson Bunker Hunt to have known that this 60-cycle was completing and issuing a major sell signal? How about five billion dollars! What if I also told you that the highest price Silver traded in

England between 1833 and 1920 was in July 1859, 120 years before our 1980 high. Another coincidence? Not according to Gann.

After 12 years of lower prices following the 1919 top, the price of Silver made a double bottom in 1931 and 1932. The first came on February 21, 1931 at .25 (our current low is $3.50 an ounce on February 16, 1991). The second bottom was December 28, 1932 at .24 1/2. We are twelve years removed from our 1980 highs. We will celebrate the 60-year anniversary low in December 1992 a time to look for major low in Silver. This low in 1932 was followed by a 230% advance in price to .81 in April 1935. In addition, November 28, 1992 will mark the completion of the other "Great Cycle", the 90-year anniversary of the 1902 lows. If you are looking for the final low in Silver prices, you should have it by December 1992.

The 150-year cycle low in 1843, is a multiple of what Gann referred to as the 50-year 'jubilee" cycle taken from the Bible. "A period of "Jubilee" years of extreme high or low prices lasting from 5 to 7 years occurs at the end of the 50-year cycle." After the absolute low in March 1843 commodity prices did remain relatively stable before exploding higher during the Civil War. However, the grains were stand out performers. After final low in March 1843 the price of wheat advanced 200% from a low at 30 cents a bushel to a high at 90 cents in December1945.

Fifty years and eight months prior to the March 1843 low, the first of our four historic deflationary lows was established in July 1792. This cycle is particularly intriguing because of the almost exact 200 - year anniversary highs from June 1781 to November 1980. The 11 year, 1 month bear market from June 1781 to July 1792 was followed by an explosive 162% rally which carried commodity prices from a low at 30.26 to 79.16 by May 1796. We are 11 years, 4 months removed from our November 1980 highs. If we continue to parallel this 200-year cycle, July 1992 would also mark the beginning of an explosive move up in price.

Finally, it is important that we mention the 10-year anniversary low as of October 1992. In Gann's words, "the important cycle for forecasting is the cycle of around 10 years. Fluctuations of about the same nature occur which produce extreme high or low every 10 years." The 1982 low in the CRB Index supported a violent 11 month, 26% rally from 225.80 to 283.30 before resuming the bear trend into final lows in 1986. While of lesser importance, this cycle adds support to an already impressive army of historic cycle lows.

I believe that the bottom of this deflation coincident with our projected highs in the Stock Market no later than January 1993, is a mind boggling possibility. It is a "reasonable" deduction that this time period will usher in a generational shift away from financial assets (Bonds and Stocks) in favor of tangible assets. If so, there are important historic precedents on where our assets belong during this period of maximum opportunity. This shift demands an answer to the most important question which is how will we protect our investment capital? Of secondary importance is how we can multiply our speculative trading ca~l during these once in a lifetime markets.

James Flanagan is Editor of "The Investor's Edge Newsletter". National Institute of Investment Research. For a free trial subscription call 1-800-545-9331 or 1-310-828-4688.

Pick Your Stocks with Astrology

By Carol S. Mull

Hundreds of trading systems, soft ware packages, and books have been written and designed to forecast the fluctuations of the future and commodity markets, but very little has been produced in the astro-field to help investors and traders of individual stocks. The exceptions to this dearth of tools and information are a few books, mostly outdated, and a handful of newsletters. Mull Publications is planning to fill this gap with a series of products, books, and courses of study. The first of these products to be made

available is a collection of the astrological charts of approximately 2500 corporations, mutual funds, country funds, futures, commodities, stock exchanges, and currencies. The major portion of this collection is composed of individual corporate charts, i.e., virtually every stock that is commonly traded. It is available from Trader's World.

Matrix has put this chart collection on compact disk format, which will allow you to sort, compare, and manipulate huge numbers of charts. The Compact Data System lets you do this, and gives you a way to compare large sets of data, using a variety of unusual techniques. At your disposal are aspects and angular separations, sign and house placement, interface nodes, bum rate, harmonics, graphs, distance values, horizon orientation, and more. And, with a little astrological knowledge, you will be able to forecast such things as whether the stock is likely to go up or go down (both short-term and long-term), when a takeover or merger is eminent, if a growth stock is likely to become an mdustry leader, or when the CEO is likely to depart.

The incorporation chart disk sells for $200, like other disks in the Corporate Data Library. To run these, you need the Compact Data System, which costs $100 and comes with The Circle Book of Charts (over 1000 charts of historical personalities) as a bonus. So, total cost is only $300.

The collection is arranged into categories as follows: Basic Materials aluminum, other nonferrous, chemicals, forest products, diversified mining, paper products, precious metals, steel, Energy coal, oil and gas, oil field equipment and supplies, pipelines, Industrial air freight/couriers, building materials, containers and packaging, diversified industrial, electrical components and equipment, factory equipment, heavy construction, heavy machinery, marine transportation, pollution control and waste management, railroads, industrial and commercial services, transportation equipment, trucking, Consumer advertising, airlines, automobile manufacturers, automobile parts and equipment, beverages, casinos, cosmetics/personal care, food, food retailers, health care providers, home construction, home furnishings, household products, lodging, media, medical supplies, pharmaceuticals, recreation products, restaurants, retailers, consumer services, textiles and apparel, Technology aerospace and defense, communications, computers, diversified technology, industrial technology, medical and biotechnology, office equipment, semiconductor and related, software and processing, Financial banks, country funds, diversified financial services, insurance, mutual funds, real estate management, savings and loan, securities brokers, Utilities telephone systems, electric, gas, water,Conglomerates, Commodities and Futures currencies, cotton, energy, farm products (food), indexes, lumber, meat, metals, municipal bonds, treasury bills-bonds-notes, Exchanges

United States, foreign National U.S. Charts U.S., U.S. Currency, U.S. Treasury, etc. Money yen, franc, mark, pound, guilder, etc. (date made legal tender)

Within these categories, stock charts are filed by Ticker Symbol and exchange. For example, General Motors is GM:NY; International Business Machines is IBM:NY; Amgen, Inc. is AMGN:OTC. The birthdays of corporations are considered to be the date of their most recent incorporation, as that is when they become legal entities. It is important that it be the most recent incorporation, because companies grow and change over the years. As they do, they usually find that their old legal structure is no longer adequate. They are then likely to file new papers-of-incorporation, which action ends the legal existence of the former corporation, and may completely change the nature of the company. New products will be offered and new business policies will be adopted. Sometimes this is good for the company, and sometimes it is a disaster. It is always a change. The (Walt) Disney Company is a good example.

Disney Company used to be a Virgo. Virgo attention to detail was evident in the profusion of drawings made of animated creatures. Uncle Walt presided over a land that was squeaky clean and Tinkerbell scattered a white powder (Was it household detergent?) to bring enchantment to The Magic Kingdom. There was chatter everywhere; the very leaves of the trees were engaged in conversation. Nobody could possibly have been lonesome in Disneyland. There was no flowing blood, no deaths, no disharmony in the Magic Kingdom.

Then Disney Company was reincorporated and became an Aquarian. Almost overnight, they began to make a different type of movie. Epcot Center was built, and it was very Aquarian in nature. There was worldwide expansion, with theme parks in other countries.

Other examples of big changes are the tobacco companies. When Neptune, which rules tobacco, was conjunct Saturn, planet of restriction, laws were passed, which required the "This product is harmful label on cigarette packages. Public buildings, airlines, and restaurants would no longer allow smoking within them. In desperation, many tobacco companies became food companies, but still sold tobacco products in foreign countries. All these happenings were reflected in the charts of the tobacco companies.

Disney company and the tobacco companies were examples of major changes. Actually, both large and small changes occur in companies everyday. Companies merge, expand, file bankruptcy, experience business downturns, lay off workers, fire the boss, open branches, add new products, discontinue products and services. All these happenings affect the prices of their stocks. You will not be able to tell exactly what is going on from the company's natal astrological chart, but you should be able to tell if it will be positive or negative for the company's stock price and when it will happen.

Because there are so many mergers and reincorporations of businesses, Mull Publications and Matrix Software plan to keep updating this collection. That is, they plan to completely check, update, add new companies, and eliminate cornpanies that no longer exist to one-fourth of the collection each quarter, so that the entire body of material is checked once a year. You will be able to update by periodically purchasing an updated data disk ($30.), without replacing your Compact Data System.

Incorporation data such as this batch is not easily assembled. The dates and states of incorporation are usually published in the Moody and the Standard and Poor Directories, but that is not the most accurate source. If you ask your broker, he is likely to give you the date that the company went public, which is not what you need. This data was carefully assembled by writing to the corporate secretaries, founders or legal departments of the companies involved, or by checking with Secretary of State offices. Its accuracy cannot be guaranteed, but every effort has been made to provide the best information possible.

I have been working with incorporation data for about fifteen years. One of the things that has been of interest to me is that the type of industries that are the most prominent change a lot over the years, but the months in which most Standard and Poor's "500" companies are incorporated changes very little. What I mean is that fifteen years ago, manufacturing companies still dominated the "S&P 500." Major companies were those that have been termed " Smokestack America." Today, it is all high-technology computers and biotechnology. These changes correlate with the changes in our society.

Contrary to this, major national companies tend to be incorporated with about the same frequency at different times of the year. That is, each time the Standard and Poor's "500" list is published, there are likely to be twice as many companies with Cancer sun as there are with either Aries or Libra sun. The most used dates are close to July 4th, our nation's birthday. It may be that Cancer sun companies prosper in the United States because they do connect to the national chart, and that this would not necessarily be so in other countries. It is also true that major players on the U.S. stock market tend to have conjunctions of the planets in their charts with planets in the chart of the New York Stock Exchange. In fact, I have come to regard these connections to the U.S. chart and the N.Y.S.E. chart as indicators of whether or not an emerging company is likely to become a giant.

Over the long-term, a Blue Chip company is most likely to have a Cancer sun. Capricorn sun is second in frequency. During the years that the outer planets were transiting through Sagittarius, Sagittarian companies were third in frequency, but that changed when Saturn, Uranus, and Neptune moved into Capricorn. I expect Aquarian companies will be more dominant, when the heavier planets have moved into Aquarius.

Small emerging cornpanies,that break onto the scene with a lot of advertizing tend to have fire or air sign (Aries, Leo, Sagittarius, Gemini, Libra, Aquarius) suns, and they leave the scene just as quickly. The companies that grow and endure are more likely to have sun in an earth or water sign (Taurus, Virgo, Capricorn, Pisces, Cancer, Scorpio). An emerging company with Jupiter conjunct or trine the sun, and no other severe aspects, is sure to expand and prosper. A company with sun conjunct Pluto is likely to be a leader within its industry.

Astrology is a very good timing device, and for this reason, I have found corporate astrological charts to be extremely valuable, when trading options. Here is my approach:

Options are normally offered on about three hundred stocks. Of these, only about thirty are large enough cornpanies to have enough shares outstanding to make it possible for the option to move fast and significantly. A company with fewer shares outstanding may have great aspects and transits, but I would trade its stock rather than its option, because options must move fast and decisively to be profitable to the trader. I know the charts of these thirty or so companies very well, and I constantly monitor each of them for Jupiter and Saturn transits to their sun, Venus, Mercury, Mars, or nodes. The positions of their progressed suns and transits to their outer planets are likely to produce longer term policy changes, which are of interest to the investor, but are not fuel for the quick movements that bring profits to the option traders.

When option trading, depending on the market in general, purchase your option about ten days before the target aspect is exact, and sell as soon as the aspect is exact. Do not tarry. When the aspect is over, it is over. Keep your eye on the underlying stock rather than the option. If the market goes against you, sell immediately. This is not the place for hope and wishful thinking.

The financing for profitable takeovers has now evaporated, but they, too, can be predicted via the astrological charts of corporations. I benefited from three major ones, and can offer these guidelines:

Takeovers correlate with a transit Pluto aspect to the sun or to the progressed sun. Pluto aspects to other planets will bring rumors, but if the sun is not involved, it will not actually happen. During the takeover process, Pluto will go forward, retrograde, and go forward again, producing rumors and counter rumors over a period of several months to a couple of years.

Another indicator that a company may be a takeover target is an eclipse that is conjunct its sun. This is a sign that the company may be going out of existence and this signpost often precedes a takeover. However, the company may be going out of existence for other reasons.

The timing of a takeover is tricky. A Mercury aspect must be present to bring the negotiations to the attention of the public, and a Mars aspect is needed to trigger the actual event.

Not all takeovers and mergers are profitable to the investor. You can gauge the probability of a takeover or a merger being profitable to the investor by the presence of associated Jupiter and Venus aspects and the absence of Saturn aspects to the Pluto/sun aspect.

Now, in the 90s, takeovers are rare. Today, the same aspects that previously heralded takeovers are more likely to announce vast expansion, much reorganization, and a move into the international market. Even so, such aspects can indicate an opportunity for profit to the option trader.

Fifty commodity and futures charts are included with this collection. These are set for the time, date, and place of the first trade of that particular commodity or future on The Chicago Board of Trade, The Chicago Mercantile Exchange, or The New York Markets. The George Bayer wheat and corn charts are also included.

The United States Exchanges section includes the two commonly used inception charts of the New York Stock Exchange, the George Bayer chart for the inception of the New York Stock Exchange, the 1869 reorganization chart of the New York Stock Exchange, and inception charts for the Chicago Board of Trade, New York's COMEX, and Chicago's OEX. There are fifteen foreign stock exchanges in this collection.

An interesting thing about stock exchanges around the world is that so many of them have planets conjunct or in aspect to twenty-six degrees Taurus, which is the position of the fixed star Algol. By tradition, Algol has the nature of the business planets, Saturn and Jupiter. To be specific, the New York, Amsterdam, London, and Tokyo Exchanges have sun conjunct Algol, and in two more years the Frankfurt Exchange will have progressed sun tine that degree. The Johannesburg, Melbourne, Paris, Toronto, Zurich, Budapest, Helsinki, Lisbon, and Madrid Exchanges either have a planet in this position or they have planetary aspects to the position. Only the Singapore and Istanbul Exchanges appear to be unconnected.

In late 1993 and again in 1994, Pluto in Scorpio will be opposing the twenty-six degree Taurus Algol position. Transit Pluto opposite natal sun is the aspect that forced the break-up of the old Bell Telephone Company, due to government action. Pluto transits have a slow and inevitable quality. Surely, this aspect will bring sweeping changes to stock exchanges around the world.

This chart collection will provide you with an enormously useful tool for trading stocks, and can open the door to much more research into the ways that the planets affect the fortunes of corporations. It is available on compact disk from Trader's World.

Carol Mull is an active trader, writer, and lecturer. She is the editor/publisher of "The Astro-Jnvestor" newsletter and the author of two books and of numerous magazine articles. She is co-sponsor of the World Conferences of Astro-Economics. She can be reached at P.O. Box 11133 Indianapolis, Indiana, 46201-0133 Phone 317-357-6855.

How To Use Buy Stops and Sell Stops

By Mike Riley

It is important to have BUY & SELL STOPS for both sides of the markets. This is because you need to know where the turn of trend is on either position. We give BUY & SELL STOPS for both sides of the markets in all of our services.

Your buy stop (BS) or sell stop (SS) should be placed where the trend will change. A (BS) turns the trend up; and a (SS) turns the trend down. Short Term (ST), means within two weeks. INTERMEDIATE TERM (INTE), means after two weeks up to one month. Long term traders should use (INTE) stops. A market can have two or three tests of a price area before breaking up or down. The trend may not change with only one test, it may take two or three tests to change the trend. If a market needs more than one test, then you should place buy stops (BS) above the highest test one or two after the first test. You should place buy stops (BS), above the highest test one or two after the first test. Place sell stops (SS), below the lowest test after the first test.

If you want to scalp the market; then buy or sell the tested area. The safest test is the second test because it is a double top or double bottom (but can be a minor (short-term) or major (intermediated term)) top or bottom and the market will bounce off of the tested area, especially the double tops and bottoms.

Buy and sell intermediate term (INTE) double tops and bottoms, they are the safest and most rewarding place to make a trade. They will reverse the market 80% to 90% of the time.

If you want to catch the break-out up in a bull, then place the (BS) above the tested area after the second and especially the third test, and above the highest test, and look for the objective where it is should go up to. The market will break-out up on the fourth and fifth test.

If you want to catch the break-down in a bear, then place the (SS) below the tested area after the second test especially in the third test, and below the lowest test, and look for the objective where it should go down to. The market will break-down on the fourth and fifth test.

Mike Riley is Editor of the Gann Cycle Report and Weekly Fax Newsletter update. He can be reached at Rt. 2, box 71-72, Dennison, TX 75020 and called at 903-463-2110