Cashing in on Chaos

Dr. Hans Hannula, PhD,RSA, CTA

Chaos theory is the best tool available for understanding and trading markets. The author's research in this area has yielded a vast array of trading technology. This technology, at its deepest level, is very esoteric and complex - full of nasty things like partial differential wave equations, nonlinear systems theory, and the like. But - the average mortal can use chaos theory effectively, if it is just taught in its simplest form. I do that in my Chaos Newsletter, and in my Cash In On Chaos video course.

One of the key discoveries of my research is that every move, in every market, on any time scale, forms a Hannula Market Fractal. The Chaos Clamshell is a simplified form of that fractal pattern.

Figure 1 shows the Chaos Clamshell (CC). There are linear trends in markets. There are nonlinear trends, as shown in A and B. Join the two to trap price action, and you have a Chaos ClamShell. Wherever the linear and nonlinear trends meet, a chaotic (wild) move can begin. The figure shows the four basic types.

Figure 2 shows the current estimate of the CC for the three year old bull market in stocks. It is at or nearing completion. The circled part shows the fractal self-similarity of the CC.

Another key insight is that the CC always has 7 moves. The reason is rooted in the mathematics of how energy cycles add together.

The nice thing about using the CC is that it is easy to trade. You sell right under the end of an up CC, and buy right above the end of a down CC. My newsletter carries examples of CC's in action. They helped us buy gold at 323 just before it shot to 405, sell IBM at 98 just before it fell to 50, and sell the Nikkie at 37000 just before it fell to 21000.

My current work is doing engineering models of markets, as shown in Figure 3. I have managed to program a model of the solar system and model the energy fluctuations that change human behavior. I call that Market AstroPhysics. Using the energy fields as input, I have modelled the S&P as a nonlinear dynamic system, using chaos theory. I use a neural net to initially adjust the model to match past behavior. Once the dynamics of a particular market are modelled, the neural network can be disconnected, because the market mechanism captures the transformation of energy into prices permanently.

Figure 4 shows the output of the S&P model, called SPGO. It attempts to predict the direction of the 10-30 day swings in the S&P. It does so correctly about 85 percent of the time. Four CC's are shown as A, B, C, D. The seven moves are shown for B and D. Note that the SPGO simulator does a very decent job of predicting the seven fractal moves. The amplitude of the swings still needs refinement. A similar model adjusted differently gives the S&P intraday fluctuations, called DAYGO

You can apply chaos theory to your own trading. Look for the Chaos Clamshells. Study how they work. Watch the seven magic moves. Do your homework. Understanding chaos can be most profitable. Happy trading.

Bibliography

[1] Gleick, James, Chaos. Making A New Science, Viking, NY, NY, 1987.
[2] Hannula, Hans, "A Lunar Chaos Theory", Trader's World, Apr/May/Jun 1991.
[3] Hannula, Hans, "Cycles Made Easy", Trader's World, Apr/May/Jun 1992.
[4] Peters, Edgar E. Chaos. and Order in the Capital Markets, John Wiley & Sons, Inc.

Investing May be Hazardous to Your Wealth

By Ted Tesser, C.P.A.

Investing May Be Hazardous To Your Wealth! by Ted Tesser, C.P.A. ? In my last article called "Secrets To Success," I mentioned the advantages a Trader has over an Investor for tax purposes. Basically, a Trader is considered, by the IRS, to be running a business, and is given many of the tax advantages afforded such businesses. An Investor, on the other hand, is considered to be passively "investing" his money, instead of actively "trading" it. For this reason, he is subject to many limitations which affect his taxable bottom line. Some of the major differences are as follow:

I) Investment Versus Trading Expenses: An Investor must subtract 2% of his adjusted gross income from his investment expenses before he can deduct them. This includes computer expense (both hardware and software), data expense, advisory and hotline fees, etc. In addition, if the investor makes over $105,000, he is subject to an additional 3% exclusion from these deductions. A Trader, on the other hand, gets to write off his trading expenses dollar for dollar before paying any tax on his income.

2) Itemized Versus Standard Deductions: An Investor must itemize his deductions (rather than take a standard deduction) to deduct any amount of investment expense. If he has no other itemized deductions, he may not even have enough expenses to take advantage of this, and, may in fact, not be able to deduct any investment expenses at all. A Trader, on the other hand, may deduct his Trading expenses even if they are the only deductions he has. He is entitled to take a full standard deduction, which for married, joint files was $6,000 in 1992, and still deduct his trading expenses in addition to this.

3)Traders Get To Deduct Expenses "Above The Line": An investor must calculate adjusted gross income (AGI) before he deducts even the limited amount of investment expenses to which he is entitled. This is a disadvantage because the larger the AGI the more limited are his other deductions (such as medical and casualty loss). The Trader, however, gets to deduct his trading expenses from income before calculating AGI.

4)Investment Interest Expense Limitation: The Investor is subject to another limitation on the investment interest deduction. He may only deduct investment interest (margin interest) to the extent of his investment income (interest + dividends + capital gains). If an investor has a bad year, and nets a loss, he will deduct no investment interest at all. A Trader, on the other hand, gets to deduct his margin interest dollar for dollnr sre "huRiness interest" on the Schedule

5)Deductibility of Investment Seminars: One of the more obscure aspects of the Tax Reform Act of 1986 was the elimination of the deductibility of investment seminars, plus related expenses. Prior to this Act, an investor was able to deduct, as an investment expense, the tuition, travel, hotel, meals, and miscellaneous expenses for attending such investment seminars as the "Annual Traders World Conference" in Chicago last year. This has now been taken away from the investor, and currently, no deduction is allowed for such seminars. Traders, however, can take all such expenses if they are related to trading.

6)Section 179 Depreciation: Another significant provision of the 1986 Tax Act was the decrease in depreciation expense allowed for assets such as computers, faxes, photocopiers, etc. Let's say you bought a computer for $4,000. If the depreciable life was set at 5 years by the IRS, you could only take 1/5 of the cost (or $800) as an expense in any one year. Traders, and other businesses, however, were given the option (called Section 179), of writing the whole item off in the year of purchase (up to $10,000 of write offs, with certain other limitations). This meant, that if you were a Trader, you wouldn't be limited to the $800, but rather could deduct the entire $4,000 in the year of purchase. This will become even more important as the proposed tax changes in Congress raise this amount from $10,000 to $20,000 this year.

7)Home Office Expense: Although the IRS has cracked down on its indiscriminate use by taxpayers they have not forbidden the home office. They have clarified the conditions under which the deduction may be taken. In order to deduct a home office, you must meet three conditions 1) it is your only place of business, 2) the designated area is used exclusively for business, and 3) you must have a profit in the business you conduct. You must also now file a separate form to take this expense Form 8826. But, and get this, you must have a business which again means Trader not Investor. In fact, the existence of an office from which to Trade, even a home office, is one of the requirements for being deemed a Trader by the IRS (we will look at some of the other requirements in a future article)

In conclusion, filing your tax return as a Trader gives you many significant advantages over being classified as an investor. Trading is a tough field, and it is vital to use every possible advantage to get ahead. Claiming "Trader Status," is surley one of the most important strategies for turning in a profitable bottom line on an annual basis.

Ted Tesser, MS, is a Certified Public Accountant, licensed by the State of New York. His speciality is investment related taxation and he has recently completed a book entitled "The Serious Investors Tax Survuval Guide " ' published by Traders' Library. He is also a full time trader, trading systems developer, and has written a two part trading course entitled "Systems for Success: How to Create and Manage a Profitable Trading Business ". He can be reached at 212-683-2930, and has offered those readers who contact him a free consultation and booklet on establishing "Trader Status".

.

Trading and the Role of the Subconscious Mind

By Robert Krausz MH. BCHE

What are the tasks a trader takes? What are the tasks a must perform before successful trading can begin? All the talk about disciplined trading and mind management is of no consequence unless all the tasks are carried out correctly before you make your first trade.

1. Find a competent analytical and trading methodology.
2. Extract a reasonable “trading plan” from that method.
3. Formulate trading rules and money management techniques for this trading plan.
4. Backtrack “the plan” over a long enough time period.
5. Mind management, believe it or not, constitutes some 70% of you being a winner. The first four points alone will not give you the success you seek.

Confidence in your “plan” is paramount. It can be achieved only by relaxed trading. This comes about when your subconscious mind is convinced that a) you are a winner and b) you deserve your winnings. More about this later. Let us examine each of these tasks one by one:

Trading and analysis are two different disciplines. The longer I am involved with trading, the more I become convinced of this fact. You must recognize that analysis can only be the servant of trading and not the other way around. It is dangerous to your financial health to co-op analytical methods directly into your trading. The phrase “The map is not the territory>” is wholly applicable here. Until this is understood, happy trading is a little unlikely.

Therefore, this entire concept begs the question; What institutes a competent methodology? Please realize when I use the phrase “analytical methodology” I use it advisedly. Methodology does not mean a single indicator like RSI or Stochastics. It is a concept that can provide the trader with a reasonable road map, upon which he may plan his travel route. The route must take note of the fast highways as will as the stop signs. Speed traps built up areas and pit stops are all a part of the planned route. Analysis can be likened to the map of the entire city that you are planning to explore. When you have examined the total area, then you can decide your route and your destination.

Real time trading is the physical act of driving your car along your chosen route. Being aware of other drivers traveling in the opposite direction to you. A keen sense of the speed limit and knowledge of the route is needed if you are to complete your journey successfully and reach your destination safely. So what is the minimum that a trader can expect from a methodology before we can classify it as competent?

First, it is obvious that it must provide information about the market that is accurate enough to base a trading plan on.

Secondly, and this is important, if the basic concept is valid, then it should “work” in a similar fashion on all time periods. In other words, if a methodology appears to “work” only on the 60 minute bars, then I would be cautious about basing an entire trading plan purely on that methodology. Here are the minimum requirements:

A. Sufficient warning of a possible change in trend. This warning should enable you to take action in a timely manner. Once you become fully aware that "the trend is your only friend" this warning will become important. The CIT warning is a major flag in any methodology. I call it "superior information." The possible change of trend must show up in the time period you are trading. (Obvious? You would be surprised.) What use is CIT information on the Weekly bars if you are using the Daily? (The practical use of this information is part of the trading plan. That comes next. Remember, we are only discussing methodology at this point.)
B. Confirmation that a change in trend may have occurred. This should show within the framework of the analytical method. (It does not mean that the method of analysis can guarantee that the possible CIT must or will continue for even one more day. All you should expect is a signpost that the previous trend, or congestion has ended and a possible new trend could be starting.)
C. Keeps you in the emerging new trend. Until it really takes hold.
D. Makes you sit with the new trend.
As long as the market lets you. Any reasonable methodology (not black boxes) should have some simple way to keep you in for the majority of the move. Taking account of minor retracements, without whipping you to death. (I must confess, this starts to edge into the trading plan department.) Nevertheless, a decent form of technical analysis should be able to point you in the direction of the minor, intermediate and major trends. If it can't do that then forget it!
E. Defines areas of support and resistance. These areas of support and resistance must show on the time period you are trading. However, it should also show the points of support and resistance on a higher time period. (Due to my personal preference of using two time periods in my trading, for me this is imperative.) Of course, if a methodology "works" on all time periods, then the defined support/resistance areas of the higher time period can and should be used in the construction of your trading plans. Really, it does not matter how your method defines these zones of Support and Resistance, just so long as it defines it. You can use Time alone, Price alone or a combination of the two. (As I believe in the geometry of the markets, my personal preference is the last of these.) Whichever route you choose; Price, Time, or a combination, you will need an exact definition of you Support/Resistance points. How can you buy without a clearly defined support area? How can you sell without a clearly delineated resistance point?
F. Warning that congestion may be setting up. Your plan will show you this, but your analytical method should show a road sign, that you may be entering congestion. Of course, your plan should dictate the correct course of action. So these, dear trader, are the minimum points that you should expect from a valid methodology. If your method of analysis does not meet these simple requirements, perhaps you should think again! 90% of traders loose. So the 10% who are winners must be doing something different from the 90% - could be a competent trading methodology? Unto the trading plan.
Extract a reasonable trading plan Let us define the phrase "Trading Plan." It does not mean just buying and selling, like a yo-yo. A plan means a real plan. Yes, when to buy and sell. Also, we must establish exact stop loss points, stop and reverse points, pyramid points, profit points, scaling in, scaling out. Then we have sound money management. I know it's not a sexy subject but, without it consistent success will not and cannot happen.

The markets are a microcosm of life. If you don't think for yourself, someone else will do your thinking. If you do not have a plan of your own, you become a part of someone else's plan, helping him to realize his plan, at your cost. Without a plan you can't arrive at your destination, but he will arrive at his. Your trading plan should cover all possible situations the market provides. It must build a frame of Reference that is solid as a rock. No matter what the market throws at you, the plan should handle it.

Having worked with hundreds of traders world-wide on the psychology of trading, the number one problem in the majority of cases was the lack of a correctly backtracked trading plan. Without this you have nothing. What about "discretionary" trading? I guess I do not have sufficient funds to indulge in that. The jobs of the trading plan are:

A) Please realize that a plan is not just a frame of references. Your definitions have to be exact and not subjective. (ie: exact entry points, etc.) This way strict rules can be formulated. So exact qualifiers provide strict rules. These rules enable you to backtrack the plan correctly. They also cause you to follow the plan in a mechanical manner - after your backtrack. This double whammy of a) backtrack and b) mechanical rule following, should free the mind from fear of loss, enabling you to take the signals without concern. This leads the way to relaxed trading. We will explore this in great depth when examining mind management.

B) Warning of CIT, if certain qualifiers are met. This should alert the trader that we are possibly ending a previous trend run and we may be entering congestion or some type of reversal could be coming. A secondary signal should be built in to inform if the trend is not aborting but is continuing on its merry way.

C) Confirm that a CIT has taken place and possibly a new trend run may be starting. At this point the plan must not only inform you of this but should provide your actual entry point into the market. Furthermore, it must define at the same instant your stop loss or Stop and Reverse point.

D) Keep you in the new trend for as long as possible. Defining exact profit points (if applicable.)

E) Pyramid points are essential if you are to obtain maximum benefit from the trend run. The major difference between reasonable traders and really good traders is having a plan that recognizes a trend run early plus the trader's ability and confidence to add extra contracts when the plan qualifies that it is OK to do so.

F) Define exact points of support and resistance. Without this, buying or selling is a mere gamble.

G) Early warning that the trend may be ending, and it is time to say goodbye.

All of these points have to be defined at exact price points, there can be no fudging. If we are going to set up rules that can be backtracked we must be absolutely precise! The rest of the tasks will be covered in the next issue. In the mean time, I wish you confident trading. O

Robert Krausz is a full time independent trader, member of the British Hypnotist Examiners Council and a Master Hypnotist Robert trades in Florida using his own customized Symmetricst software. Call (305) 566-2636. (After trading hours only.)

Following the Footsteps of Gann

By Jeanne Long

BY studying past history and studying past history knowing that the future is but a repetition of the past, you can determine the cause according to the time and condition. Sometimes it is necessary to go a long way back to determine the cause. W.D. Gann. In the early part of this century the famous market trader W.D. Gann spent a number of years traveling in Europe and India in search of the Holy Grail.

His attention was focused on ancient geometry and ancient astronomy. A good portion of time was spent at the British Museum in London studying Egyptian artifacts and Sir Leonard Woolley's discoveries from the ancient city of Ur in Mesopotamia. Of special interest were the clay tablets with astronomical writings. From these tablets he gained some major insights into archeoastronomy and its relationship to price and time. Most of his discoveries regarding this material were never revealed to the general public. It is only through backtracking that the true story finally unfolds.

In order to understand how W.D. Gann made certain market predictions and how he developed his ideas, I followed in his footsteps. In 1991 I went to the British Museum to view the Egyptian displays and the artifacts from Ur, some dating from around 5000 years ago. Like W.D. Gann, of special interest to me were the clay tablets with the cuneiform writings describing the astronomical phenomena of the time. These tablets not only gave the planetary information but also predicted the events expected to occur at the specific time. Some tablets referred to the price of wheat in relationship to the planets Mercury and the Sun. It immediately became clear to me how W.D. Gann saw this as repetition of similar conditions, repetition of cycles, and even repetition of price.

My first step on the road to discovery was to check out the Mercury/Sun dates in relationship to price. However, at that time I was not trading wheat and therefore not familiar with its particular trading patterns. My favorite commodity is soybeans so I quickly put all the Mercury/Sun dates on my soybeans charts. To my surprise I found that the Mercury/Sun dates did indeed have a great deal in common with price.

For example, I noted the price of soybeans on a Mercury/Sun date and then noted price on the next Mercury/Sun date. With amazing regularity the price was the same. The relationship of Mercury/Sun to the price works just the same in the 1990's as it did 5000 years ago when those clay tablets were written! See Chart 1A.

All dates marked with an arrow on Chart IA are Mercury/Sun dates. The first thing that stands out about these dates, in fact hits you right in the eye, is that price on dates A and B are the same and price on dates C and D are also the same! In other words, the trading ranges of dates A and B overlap. The same is true of dates C and D.

The Mercury/Sun dates work in pairs, how these pairs form will be discussed later. The fact that they do work in pairs means that once you know the price range of date A, you then automatically know the price range of date B, which occurred six weeks later in this example. The same is true to dates C and D. Date D occurred approximately 8 weeks after date C, therefore at the close of trading on date C, you could then predict the price range for date D.

The bottom line is that once you have the price range of dates A and C, you also have the price range for dates BandD.

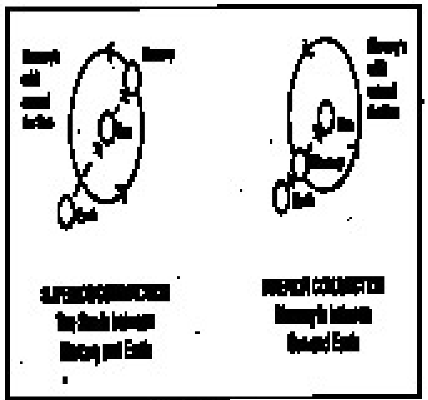


Illustration 1

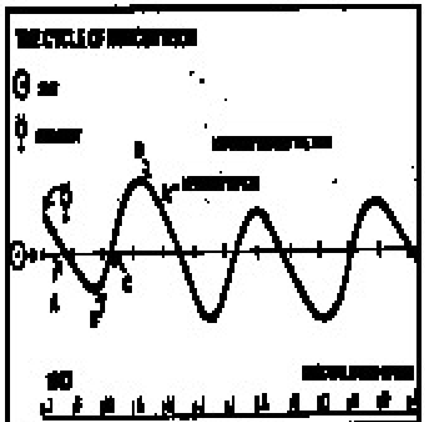


Illustration 2

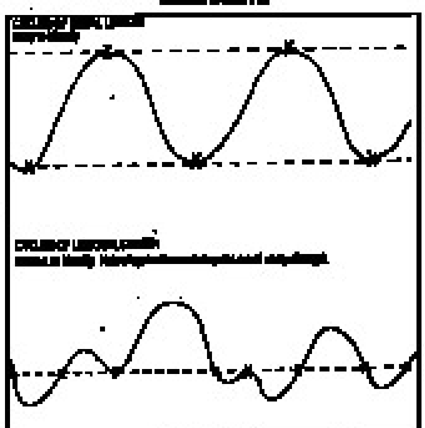


Illustration 3

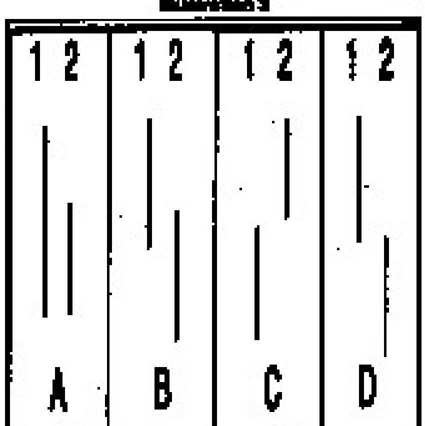


Illustration 4

Mercury/Saturn dates - Currencies
1993 August 9 and 24
September 8 and 28
December 5 and 29
1994 January 12
February 1 and 19
March 24

Mercury/Pluto dates - Japanese Yen
1993 August 4 and 22
September 7 and 28
December 4 and 24
1994 January 12 and 30
February 22
March 15

Sun/Pluto dates - Oil
1993 August 16
September 15
October 17
November 17
December 19
1994 January 17
February 16
March 18

Venus/Jupiter dates - Silver
1993 August 11
September 10
October 10
November 8
December 6
1994 January 3 and,20
Feburary 24
March 19

Sun/Jupiter dates - DJIA
1993 August 2
September 9
October 19
November 25
December 21
1994 Feburary 2
March 5

Mercury/Sun dates - Soybeans
1993 August 29
November 6
1994 January 8
February 20

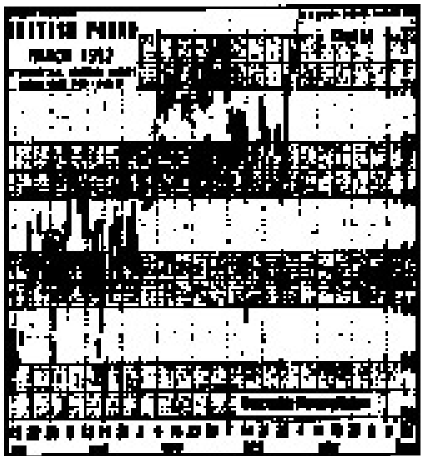


Chart 2A

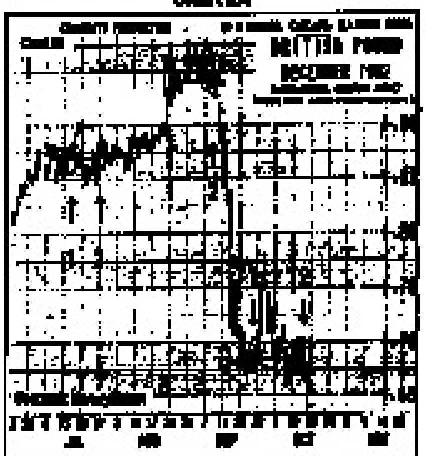


Chart 2B

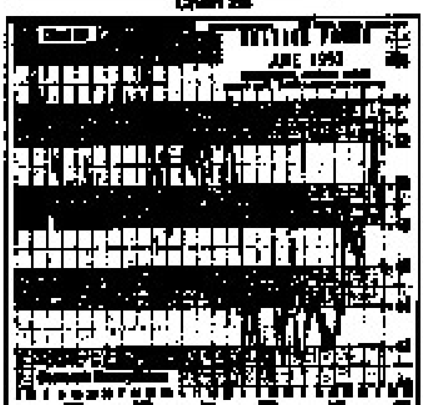


Chart 2C

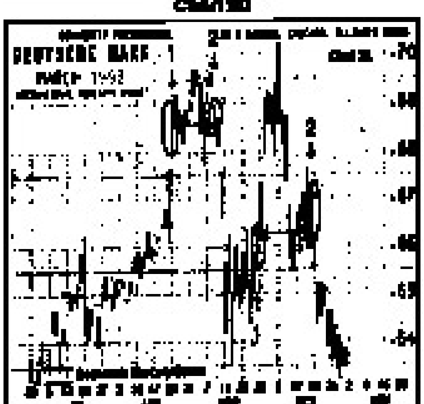


Chart 3A

Chart 1C

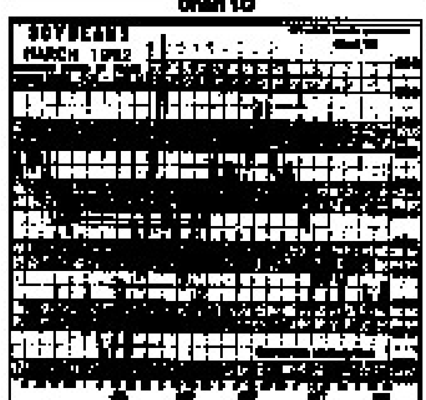


Chart 1D

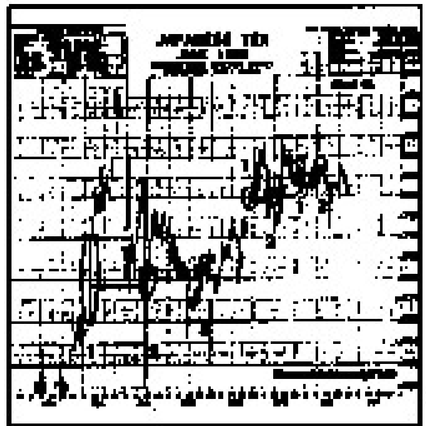


Chart 4A

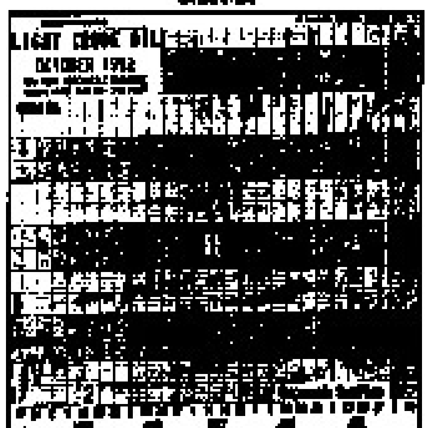


Chart 5A

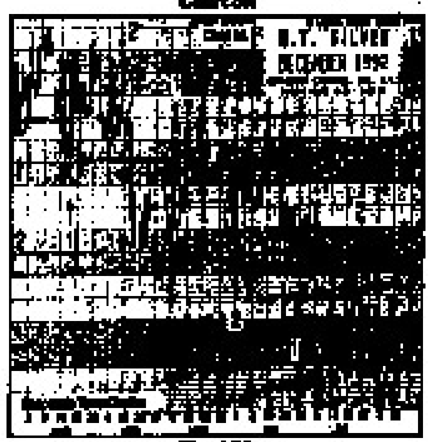


Chart 6A

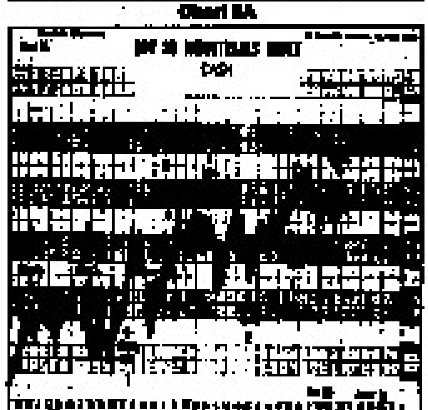


Chart 7A

Besides amazing your friends by forecasting price on certain dates, how can this information be used to assist trading? First, note how price had moved up over a period of two weeks prior to date B. Therefore, two weeks prior to date B, with the knowledge that price had to move up approximately 15 by date B, indicates that you would definitely be looking to buy. Any reasonable technical system can be used to initiate a buy signal in the 510 area. Profit could be taken on date B in the 520 to 525 area. Or if you are confidant with your technical exit signals, you can use them to exit the trade at the appropriate area.

Date D could have been traded in exactly the same manner. Your favorite technical tools would have initiated a buy approximately one week prior to date D. The knowledge that price will be trading in the 510 to 513 range on date D, enabled an order to be put in for profit to be taken in that predicted range on date D.

The above suggestions for trading are just that - suggestions. They are used to give examples of ways to take advantage of this material. I certainly do not recommend trading the predicted dates without a valid technical system to ensure proper entry and exit signals. However, when combined with your favorite technical tools, predicted dates can prove to be extremely valuable. As you proceed through the book you'll find the predictability of dates on certain other commodities truly valuable for trading options too.

How to determine Mercury/Sun dates.

MERCURY/SUN CYCLE

The relationship of Mercury/Sun on dates used for price repetition on the Soybeans. Illustration 1 shows a frozen moment in time. When viewed from Earth (Geocentrically) Mercury and the Sun appear to be together in the sky. This is known as a conjunction of Mercury and the Sun. The dates of the Mercury/Sun conjunctions are the dates used to predict price and time. Each arrow on Chart 1 A is the date of a Mercury/Sun conjunction.

There are two types of conjunctions, the Superior and the Inferior. One of each of these two types of conjunctions make up the pair used in the Soybean examples. The Superior conjunction sets up the first date, while the Inferior conjunction sets up the second date.

Illustration 2 shows the Mercury/Sun cycle for 1993 At point A, Mercury is in a conjunction with the Sun Jan. 23,1993). In the following days Mercury moves forward, ahead of the Sun to point B. Mercury is now at the farthest distance from the Sun that it will get in this part of the cycle. (It can at times be almost 28 away, as for example, at the beginning of April 1993). At point B, Mercury reversed direction and moves backwards towards the Sun. At this time, when viewing Mercury from Earth (Geocentrically), it appears to have a backwards motion which is called Retrograde* motion. Mercury makes a second conjunction with the Sun at point C (March 8, 1993), while still in Retrograde motion. Now Mercury falls behind the Sun to point D, where it appears from Earth to start moving forward again, called Direct motion. From point D, Mercury will move forward to the conjunction with the Sun and to repeat the whole cycle again.

For simplicities sake, on Illustration 3 (and on the example Charts 1A to 1 D), I have called the Direct (Superior) conjunction at A, #1. The Retrograde (Inferior) conjunction at C is #2. The price on the #2 conjunction date is compared to the price on the #1 conjunction date in all of the Soybean illustrations. The price range on the #1 conjunction date will predict the price range for the #2 conjunction date.

There are approximately 6 Mercury/Sun conjunctions per year, since we are comparing pairs this gives 3 pairs of conjunctions in all. This then only affords 3 opportunities per year to predict price when using the Mercury/Sun conjunction. However, many other planetary combinations can be used to predict additional prices. This information will be clearly illustrated in the following chapters.

*Retrograde: From time to time Mercury appears to be moving backwards, called Retrograde motion. Mercury never actually moves backwards in its orbit around the Sun. However, when Mercury is viewed from the Earth, Geocentrically it has a periodic apparent backward motion due to the fact that the Earth is also moving.

The easiest way to visualize this phenomena is to think in terms of two moving trains. When the faster train passes a slower train going in the same direction, the slower train, for a short period of time, has an apparent back

Sun Jan. 23,1993). In the following days Mercury moves forward, ahead of the Sun to point B. Mercury is now at the farthest distance from the Sun that it will get in this part of the cycle. (It can at times be almost 28 away, as for example, at the beginning of April 1993). At point B, Mercury reversed direction and moves backwards towards the Sun. At this time, when viewing Mercury from Earth (Geocentrically), it appears to have a backwards motion which is called Retrograde* motion. Mercury makes a second conjunction with the Sun at point C (March 8, 1993), while still in Retrograde motion. Now Mercury falls behind the Sun to point D, where it appears from Earth to start moving forward again, called Direct motion. From point D, Mercury will move forward to the conjunction with the Sun and to repeat the whole cycle again.

For simplicities sake, on Illustration 3 (and on the example Charts 1A to 1 D), I have called the Direct (Superior) conjunction at A, #1. The Retrograde (Inferior) conjunction at C is #2. The price on the #2 conjunction date is compared to the price on the #1 conjunction date in all of the Soybean illustrations. The price range on the #1 conjunction date will predict the price range for the #2 conjunction date.

There are approximately 6 Mercury/Sun conjunctions per year, since we are comparing pairs this gives 3 pairs of conjunctions in all. This then only affords 3 opportunities per year to predict price when using the Mercury/Sun conjunction. However, many other planetary combinations can be used to predict additional prices. This information will be clearly illustrated in the following chapters.

*Retrograde: From time to time Mercury appears to be moving backwards, called Retrograde motion. Mercury never actually moves backwards in its orbit around the Sun. However, when Mercury is viewed from the Earth, Geocentrically it has a periodic apparent backward motion due to the fact that the Earth is also moving.

The easiest way to visualize this phenomena is to think in terms of two moving trains. When the faster train passes a slower train going in the same direction, the slower train, for a short period of time, has an apparent back

The Correct Way to Optimize

By Bruce Babcock

In previous articles in this space IT previous articles in this space have made the case that the average person has the best chance to be a profitable trader if he or she adopts a 100-percent mechanical approach. This is the only surefire way to minimize the emotional influences that inevitably destroy nearly every trader. It is also the only way to know whether your method has been profitable historically.

Abandon the idea that you will ever find the “perfect” system. The perfect system this month may be lousy next month. It will definitely have many difficult periods in the future. Just as every trader and every methodology has losing periods, every system, no matter how brilliantly created, will encounter periods of market price action it cannot trade successfully. Thus, I am content with a good system. I define a good system as one that has a low enough drawdown and sufficient profitability in hypothetical historical testing to satisfy me as well as being robust enough to trade many markets profitably using the same parameters.

In creating a system, the designer must not fall into the trap of over curvefitting the system to back data. The more you bend your system around to improve performance on past data, the less likely it is your system will trade profitably in the future. This is very hard for inexperienced traders to accept. They expect that methods which worked well in the past will probably work well in the future. Past performance will only approximate (and I emphasize approximate) future performance to the extent the system is not over-curve-fitted.

The best way to guard effectively against over-curve-fitting is to make sure your system works in many markets using the same parameters. Successful system traders use the same system parameters for each market no matter how counter-intuitive this seems. If you doubt me, read the two “wizards” books by Jack Schwager. Jack himself manages money using systems that employ the same parameters for each market.

The more markets and the longer the historical time period your system can trade profitably, the more robust it is. I trade one of my systems in fifteen markets using the same parameters for each. It is historically profitable in even more markets over the last ten years.

So long as a system tests well over a large number of markets, there is no requirement that you trade it in all of them to diversify. You could have ten systems that all tested profitably in fifteen markets over the last six yeas and choose to trade each of them in only one market. That would allow you to trade ten diverse markets using a non-curvefitted system in each. It would be just as acceptable theoretically as trading one of those systems in the same ten markets.

That principle permits a kind optimization that will allow you trade one system using a different set of optimized parameters for each market. Those who want to optimize each market separately can do so without fear of over-optimizing.

Here is the correct process. Decide which markets you may want to trade. To be safest, you should trade only markets which test profitably using the same set of parameters (the system default parameters perhaps) for at least the last five years. Let’s say your system trades twenty markets profitably using the default parameters. That will be your universe for testing.

You may optimize the system on each market individually. Go ahead and knock yourself out trying to maximize the profit and minimize the drawdown in each market. You will probably come up with twenty different parameter sets. Now comes the hard part.

Take each one of your twenty optimized parameter sets and use it on the entire universe of twenty markets. See whether the optimized parameters hold up as well as the default parameters in trading all the other markets.

If an optimized parameter set trades all twenty markets profitably, you can be confident that you have not over-optimized to the point of curve-fitting. You may use that parameter set to trade the market you have created it for. If an optimized parameter set has a hard time trading other markets profitably, that is a warning signal you have over-optimized. You should start over with the commodity it was designed for and create another parameter set that does a better job on the rest of the markets.

Whether you require an optimized parameter set to trade all markets profitably that the default parameters do or just a certain percentage of them, is a question of judgment. You may want to use an optimized parameter set that trades profitably most, but not all, the markets in your universe. The more markets you require, however, the greater the chance that your system will work in the future and not just on past data.

While I have described this hyper-optimization process, I am not personally convinced that it is worth the effort. I know of no evidence that suggests such individually optimized parameter sets are likely to be more profitable in the future than an unoptimized single parameter set. If it makes you feel better to show larger hypothetical historical profits, however, it probably won't hurt.

When you are satisfied with the parameter sets for all the markets in your universe, you are ready to create the portfolio you will actually trade. I arrange the markets in order of profitability using the average trade as the benchmark. Then I experiment with different portfolios trying to create one with as much diversification as possible while maintaining a low maximum drawdown in relation to the average annual portfolio profit. The proper starting account size should be equal to or greater than twice the maximum historical portfolio drawdown plus the total portfolio initial margin.

My software allows the portfolio selection process to be expanded even further by testing and including multiple systems in the total trading plan.

Bruce Babcock is Editor and Publisher of Commodity Traders Consumer Report. He has written seven books on trading including The Dow Jones-Irwin Guide to Trading Systems. He has designed over 25 computerized software for traders, a number of which he trades himself

Time, Price and Distance

By Dave Franklin

Life on Earth exists in three great Tim on Earth exists in three difficulty, perhaps even dimensions: Height, length and breadth. Two distinct words express this concept perfectly: Mass and space. Our bodies have mass and therefore, volume. We move the volume or mass of our bodies through space, in time. We live in three dimensions, move in three dimensions, think in three dimensions, even dream in three dimensions. Do you know anyone who does any of these things in two dimensions?

Perhaps now you understand why you experience great difficulty, perhaps even mental pain, when viewing market charts in an effort to comprehend their meaning. Your mind exists, sees and thinks in three dimensions, and the charts are drawn in two dimensions. Never the twain shall they meet!

Where does a security exist? What shape does it form as it vibrates and moves in time? We ask these questions because we understand them to be crucial to a truthful, broad understanding of the market. The market we are concerned with is made up of things called securities. We are not speaking here of things like Options, Warrants, Futures, or Indices on Futures or Options. Though they are labeled securities, they do not represent cause which is fundamental to the Great Law of vibration. Instead these securities exhibit the effect of the vibration of the real security called the underlying security.

Securities of effect... have no power of their own to move or vibrate. Here is an example. Let's say that IBM is selling at $65.00. The IBM April 65 call and put is asking $5.00 each. IBM is the underlying security. It represents cause. The IBM April 65 call or put represents effect. Calls and puts are securities of effect. They are wrapped around the security of cause. They have no power of their own to move or vibrate. Securities of effect are wholly dependent upon the vibration of the cause in order for them to appear to move.

Therefore with the exception of time, it is impossible to discern any truth whatsoever about a market or security being at a top or bottom, if measurements made from starting points are based upon securities of effect. A very important natural law addresses this point. It is stated as follows:

No one can discover and disclose a truth based on a false premise." Merrill M.E. Jenkins Sr., M.R. If you are making calculations to determine market highs and lows, and are using securities of effect to make those calculations, you will never come to the truth. If any of the premises in the foundation of your market methodology are false, your conclusions will also be false.

Central to cause is the idea of the corporation, which the symbol of the stock stands for. The corporation is an artificial person created by state law, and endowed with certain privileges and rights.

But where does a corporation exist? The corporation can have a variety of properties under its name: buildings, real estate, employees, equipment, patents, copyrights, stocks, resources, products, logos, media commercials, trademarks, bank accounts, and so forth. But the sum of all the corporation's tangible and intangible parts are not the corporation. The sum of these parts are the expression of the idea of the corporation! The expression of an idea, is not the idea!

For example: An artist paints a picture of a flower. The picture of the flower becomes a

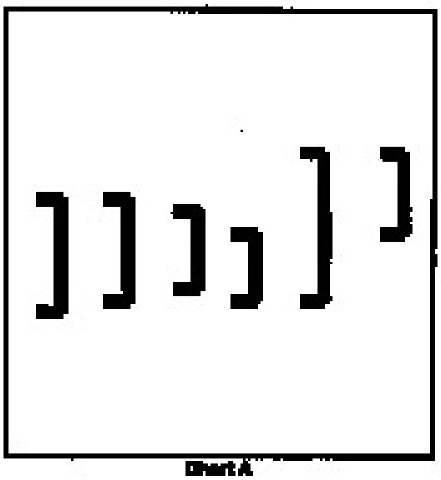


Chart A

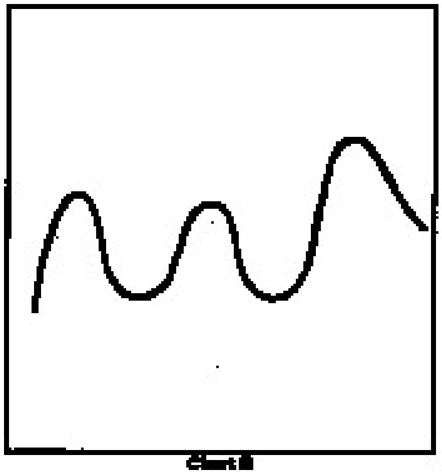


Chart B

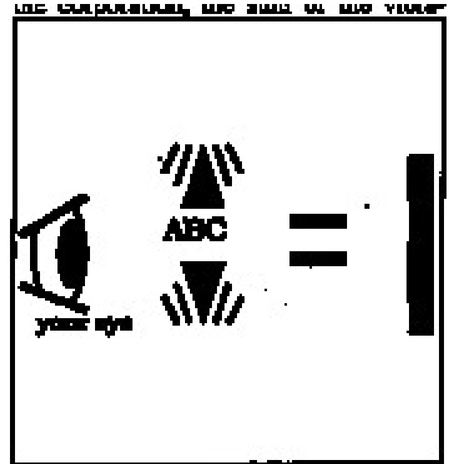


Chart C

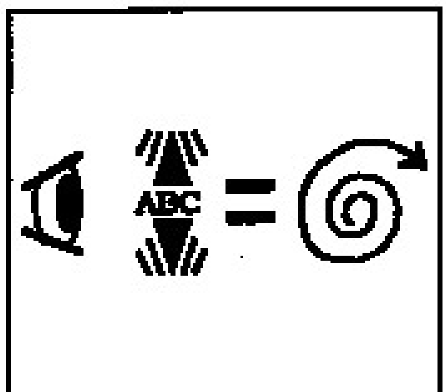


Chart D

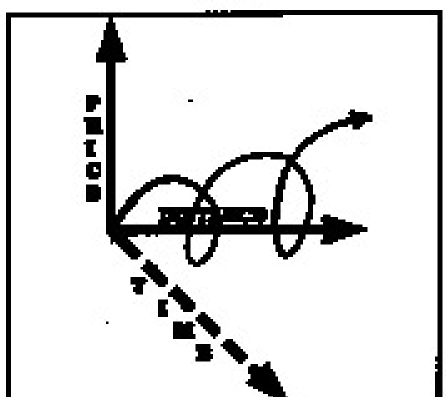


Chart D

representation or expression of the idea the Artists holds in his mind. But the picture of the flower.... is not the flower. The picture of the flower is the expression of the idea of the flower, and that idea exists only in the mind of the artist.

Remember the phrase, “Beauty is in the eye of the beholder?” What is beautiful to one person may be ugly to another. Thus, if someone say something is beautiful, where does the idea of that beauty exist? Answer: Only in the mind of the person who sees the beauty!

In the decision of Knox vs Lee. vs Lee. The U.S. Supreme Court said, “Value is an ideal thing,” that any thing has beauty or value or any other quality is an idea or ideal. And ideals can only exist in the mind! Therefore, we say the following: The idea of any thing only exists in the mind!

The full comprehension of this concept is of crucial importance to understanding the True nature of the cause of a security’s vibrations, and that of the Market as a whole. Why? Because, like the corporation, the sum of the vibrations of the Market’s individual parts equals the whole! The Wave of the Market that you view in your two dimensional charts is the product or sum of the vibrations of the individual stocks in three dimensions!

Each individual secretly has an idea that exists only in the minds of the public. The vibration or movement of a security’s price, in time, is an expression in part, of the idea of the value of the security. Therefore, the value or price, and the idea of a security exists only in the mind.

Accepting the statement that the idea of a security existing, have value, and vibration in price is only in our mind, the question is: What shape does it form as it vibrates and moves in time? If the security existed and moved in only two dimensions, a tracing of its vibration during the market day would form a single price bar. But that single line would not reveal the truth about the intraday vibration of the stock during the day.

For example, let’s say we track the price vibration of a fictional security called ABC for a single day in the market. It “opens” at $65 1/4, then rises to 68 7/8 by 10:04 AM.. Next, it falls back to 65 5/8 by 10:27 A.M., then rises again to 68 3/4 by 10:59 A.M.. It’s next move is down to 65 3/8 by 11:38 A.M., testing the low of the open. From there it slowly rises to break the day’s high by hitting 69 1/2 at 1:45 P.M. in the afternoon. For the remainder of the day, the stock slowly drifts downward by 1/8’s and 1/16’s to close at 67 3/8 dead in the middle (or the 50% point) of the entire day’s range.

Now we ask you, does price bar represent the price action of ABC during the day? Of course if we separate the “up” moves from the “downs”, it’s price action in two dimensions would look something like Chart A.

But this too, is not the truth of the stock’s movements! How so? Because..., We live in three dimensions, move in three dimensions, think in three dimensions,...” Therefore, with the idea of the stock existing in our mind, it also must move in three dimensions.

The price bar Chart A. only illustrates the stock price vibrating up and down. It does not show us the distance the stock moved during market hours, while the earth was rotating.

The stock appears to move in this direction... because the earth rotates in this direction from West to East. The curved line in chart B is a price bar that represents the truth of ABC stock’s price action for the day, in two dimensions. This chart illustrates the distance the stock traveled in one market day while vibrating. It does not tell us the time the stock has spent at each increment of price, during the stock’s current life cycle.

The market moves in three dimensions... Imagine that your eye views the price action of ABC stock from the left of Chart B., as the stock vibrates up and down in two dimensions, what does your eye see. See Chart C.

Your eye would see straight a price bar, like the A to the right of the equal (5) sign. This is because, when viewed in two dimensions, the “up” and “down” vibrations would only form a single line.

Now, imagine that your eye views the same vibrations of ABC stock as they exist in the real world, three dimensions. What would you see then? See Chart D. You would see a spiral!

This three-dimensional spiral is due to the fact that while the stock is vibrating around its center, the Earth is revolving on its axis, as well as moving around the Sun in a circular or elliptical path. As W.D. Gann wrote on page 76 of the Tunnel thru the Air. “Remember, everything in this universe is elliptical or circular in motion:”

In this Universe, there is no such Thing as movement in a straight line. The concept of a straight line is an ideal. Ideals only exist in the mind. All motion is curved. Though it may be imperceptible to the naked eye, even a beam of light from a flashlight is bent or curved by the omnipresence of the gravitational field it is passing through.

To reinforce this concept on a Universal level, we paraphrase the words of the famous physicist, Albert Einstein:

“If you had a telescope powerful enough to see to the farthest part of the universe, what would appear in the eyepiece would be..., the back of your head!

Therefore, any chart that depicts the movement of an individual security or group of securities with straight lines, does not illustrate the truth!

The truth is, that at the same time a cycle of securities are vibrating around their centers (foci), the path of their vibration is curved in Time and Distance, by the forward movement of the spinning Earth as it progresses on it’s orbit around the Sun.

Thus, if one were to record the invisible, three dimensional path made by the securities, they would literally bore a “hole” through Space, or per the title of W. D. Gann’s book, a Tunnel Thru the Air! The component coordinates of this three-dimensional spiral are: price time, and distance. See Chart D.

The spiral illustrated in this chart is the three dimensional path of a security as it vibrates around it’s center wheel moving forward in time and distance.

The third dimension of distance is clearly evident. Instead of a single security, visualize a group of securities in a cycle beginning at a center starting point, bounded by the three coordinates of time, price and distance. The mathematical sum of their vibrations describes an invisible curved path...” As these securities begin to move and vibrate in three dimensions, the mathematical sum of their vibrations describes an invisible curved path called a spiral.

The securities can continue to spiral outward form the center of time only as long as the sum of their vibrations continue to describe a spiral. This is due to the mathematical uniqueness of a spiral’s curved path with respect to the center starting point.

What is unique about a spiral is the fact that it’s path is curved progressively outward form the center thus, no section (arc) of the path is restricted by the constraints of a circle’s construction, such as the relationship of the radius to the diameter, and the diameter to the circumference via pi. But, when the curve of the spiral ceases to be progressive, forming instead, a uniform arc equal distinct form the center of time, the relationship of pi has been achieved.

The cycle and the market are now at rest from the beginning point of the great equilibrium. Further movement outward is restricted by the constants of a circle’s construction dictated by natural law. From this curve of rest the market must and does reverse!

“A Stock Market Timing Service “ -is available from the author. Serious inquiries may obtain information by sending $5.00 to: Dave Franklin, P*O. Box 530144, Livonia, MI 48153

Heliocentric and sidereal tools

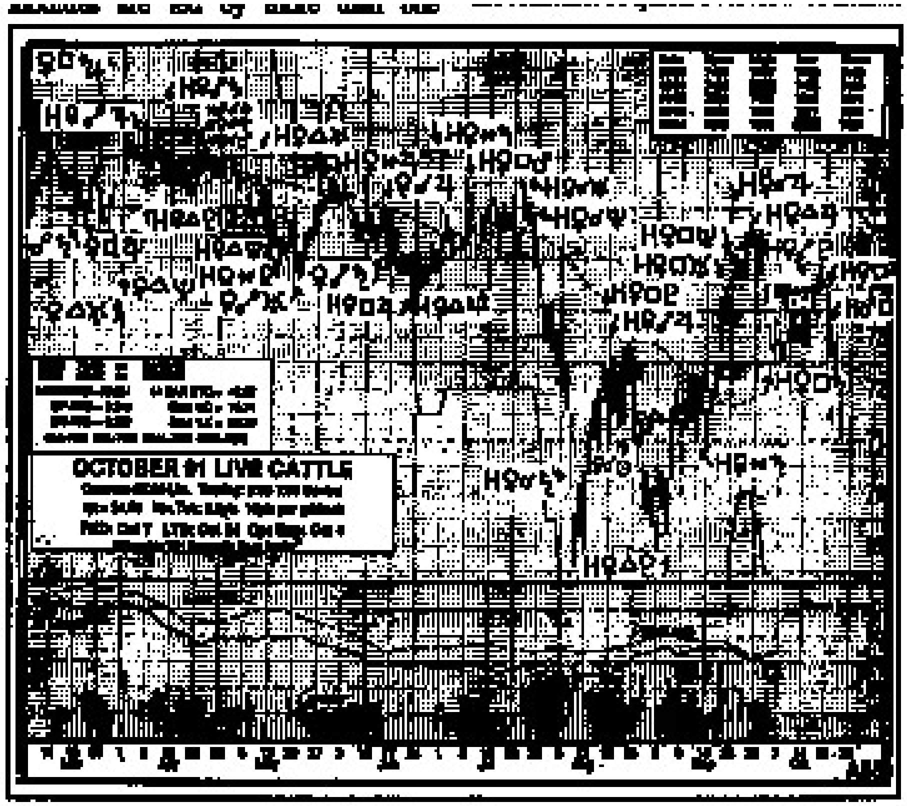
By Barry William Rosen

Live Cattle futures are one of the Hel Cattle futures are one of most difficult markets to trade. Bruce Babcock, who has done extensive testing of mechanical trading systems, has noted how few of them respond successfully to cattle data. What is the secret of this ancient market which has been a concern of trades since time immemorial? This article will attempt to suggest trading techniques combining heliocentric astrology, sidereal or Indian astrology, cyclical timing, and traditional technical analysis to improve your live cattle trading score.

The ancient Indian text, the Brihat Samhita, informs us that the sign of Taurus is the ruling sign of cattle. This should be no shock to Western astrologers and their love of Taurus the bull. The planet Venus, is the ruler of Taurus, and is the first key to understanding cattle prices. Since most commodities are led by more than one planet, what other planets should be used? If we run a sidereal natal chart from the first trade of cattle futures in 1964, we get Sagittarius rising, which is ruled by Jupiter. This is further born out by Indian astrological sources which note that the latter half of Sagittarius and the first half of Capricorn govern animals. The third planetary influence is also derived from ancient Indian sources, which associate one of the ancient Indian gods, Lord Shiva, with cattle. Shiva is also associated with the planet Saturn, which is also associated with the sign of Capricorn. Thus in looking at cattle futures astrologically, we must consider the planets Venus, Jupiter, and Saturn.

Heliocentric astrology and sidereal astrology can give additional insights into planetary strength, interaction, and ultimately trend changes and price movements. A quick overview of Indian sidereal astrology and how it can be used follows. Many Western financial astrologers use change of signs as an indicator for change of directions. The Indian system allows for a more microscopic examination of planetary transits by subdividing the zodiac into 27 fixed stars, each of which have four sections creating a total of 108 divisions. The first major difference between Indian and Western astrology lies in the calculation of the longitude of the planets. Ancient Indian astrologers observed that the equinoxes and solstices moved backward by one degree every 72 years, an astronomical phenomenon now known as precession. Over time this has resulted in a difference of slightly over 23 degrees between the tropical Zodiac, used by Western astrologers, and the sidereal Zodiac, used by Indian astrologers; in essence, the two systems differ in their choice of a zero point for Aries —the Western system uses the position of the spring equinox, while the Indian system uses a fixed star. Thus when the Sun is moving into Aries according to the Western system, it is still at 6 degrees Pisces in the Indian system. Practitioners of both Indian and Western astrology recognize that each system has its own validity, since both work. My personal preference for the value of the Indian system will become clearer below.

There are many ways to use Indian sidereal astrology to gain deeper insights into market behavior. Looking at the 1/9 subdivision of each sign of the zodiac is one way. From another perspective, a microscopic perspective, dividing each of the 12 signs into 9 sections of 3 degrees and 20 minutes creates the same result; these are called NAVAMSHAS. Each of these subdivisions corresponds to a sign of the Zodiac. For example, the first 320' of Leo is the Aries subdivision, followed by the Taurus subdivision followed by the Gemini section etc. In watching daily market strengths for over 24 months, I have observed that on days when a planet enters


OCTOBER #1 LIVE CATTLE

certain critical subdivisions, it will exert more strength or weakness depending on the financial context. So when Venus, the planet with the most impact on cattle prices, enters the Taurus, Libra, or Pisces subdivisions of a sign, one is more likely to see sharper rises in prices if the trend and context are ripe. Whereas, if Venus is debilitated in the Virgo section of a sign, we are more likely to see lower prices or sharp fall depending on the context. This is one way the Indian system can fine tune calls by providing more detailed daily information on planetary strengths. Heliocentric astrology is based planetary positions as viewed from the Sun. Heliocentric aspects occur at different times from geocentric ones. In conducting my research, I have found that Heliocentric aspects between Venus, Jupiter, and Saturn are more useful for finding important turning points than are geocentric ones. (Note: A heliocentric ephemeris and list of aspects is conveniently provided in this almanac.)

Finally, traditional linear cycles work rather well in the cattle market and can be used as additional tools to gain confirmation of a low or a high. On a daily level, from trading day low to trading day low, watch the 15, 20, and 27 trading day cycle. From high to high, watch the 34, 28, and 24 trading day cycle.

TECHNICAL TOOLS

When cattle trend, they tend to move in very definable channels. Simply, drawing a line from high to high, and from low to low will project future highs or lows. This is especially useful if you know where the cycle ends and time changes. Intraday, depending where they open, cattle will often tend to create a range within the channel. So, if one wants to buy the market, look to enter at the lower end of the channel above the previous day's low.

Stochastics, are also other useful technical tools for trading cattle. If the trend is up, and cattle are bottoming on the 60 minute stochastic, and you have 1-3 time signals of a change of trend, then you can feel comfortable taking a position here. SUMMARY: In addition to your technical arsenal of trendlines, Gann Squares, Elliott Wave counts, stochastics, RSI, etc., use the following planetary information for entering and exiting cattle trades at key support and resistance levels: In using the information below, keep the market's context and major trend in mind be examing monthly and weekly charts. The influences below will not be as strong in a bull market as it is in a bear market.

Create a CHART OF TIME CLUSTERS 3, 6, or 12 months. Note the following:

1) Use major heliocentric aspects (see heliocentric ephemeris) i.e., conjunction, square, trine and opposition between Venus, Jupiter, and Saturn and any planet (besides the moon) to pinpoint MINOR turns.
2) Use major heliocentric aspects (see heliocentric ephemeris) between Venus, Jupiter, and Saturn and any planet such as the conjunction, square (clockwise only), trine and opposition to pinpoint MAJOR turns.
   Note: Indian astrology does not consider sextile aspects except between Saturn and other planets to be important.
3) Do the same for GEOCENTRIC ASPECTS; however, give them secondary significance. Geocentric aspects between Jupiter, Venus and Saturn may be the only ones worth noting.
4) Count and note 15, 20, and 27 trading days from previous major lows. For longer periods time, consider multiples of these number. For example, Oct. 23, 1991 was 54 (27 times 2) trading days from the August 8th low. Use the continuation chart dates for major weekly lows and highs.
5) Count and note 34, 28, 24 trading days from previous major highs. For longer periods of

time, consider multiples of these number.

To find periods of strength in the market examine the following:

6) Use a sidereal Indian ephemeris or Indian software program to chart transits of Venus, Jupiter, and Saturn—especially on the microscopic level. Note places where Venus is strong on the microscopic level (i.e., Taurus, Libra, and Pisces navamsha, or 1/9TH DIVISION) or weak on the microscopic level (i.e., Virgo navamsha). (See references below.)

7) Note that markets often go up on days of the week that are related to their chief ruler. Statistically, note how often cattle go up or at least sideways on Friday (Venus's day) if the ruler of the day is unafflicted. II. Circle and underscore time clusters—places where cyclical dates and astrological dates coincide. III. Combine astrology with technicals. Consider: I) What is the major trend on the weekly chart? The daily chart? The 60 minute chart? Examine stochastics. Try to line up all three to trade in the direction of the trend or at least the daily and 60 minute charts should line up. 2) Look for channel line as discussed above if market is trending. Try to buy or sell at the top or bottom of the channel. 3) Since the cattle market's price structure responds especially well to Fibonacci retracements and projections, use rations of .382, .500 and .618 to help determine price. 4) Use what other technical tools such as Elliott Wave, Andrews Lines or Gann to give you additional information. PRACTICAL EXAMPLE:

FRIDAY, Oct. 18th: Heliocentric Venus square Jupiter Saturday, Oct.19th: Geocentric Venus trine Uranus Oct 2123: Venus in Virgo Navamsha (Sidereal Leo 16.40-20.00)[WEAK] Oct. 24th: Helio Venus trine Neptune. Oct. 24th-26th: Venus in Libra Navamsha (Sidereal Leo 20.00-23.20-STRONG)

Note how two important aspects occur into a weekend and are followed by three days when Venus is weak. Technically, on FRIDAY, the 60 minute chart was overbought on the stochastics and indicated RSI divergence on a triple top in the 76.90 region. Selling market on close and placing a stop above the old highs and looking to exit on Wednesday when the weak period ended. Result: Market made a high of 76.90 on Friday and fell to 75.60 into Wednesday. Exit Wednesday, Oct. 23rd (close) and go long as period of strength for Venus carries into at least Oct. 25th.

References

Indian Software: Jyotopos. P.O. Box 669, Fairfield, IA, 52556; 515-472-7250. Available for IBM and Apples.

The 1992 Sidereal Almanac/ Molly Seeligson. Box 425, Eureka Springs, Ark 72632 Ancient Hindu Astrolgy for the Modern Western Astrologer/ James Braha. Miami: Hermetician Press, 1986.

Barry Rosen is a CTA and editor of monthly and daily publications predicting 18 commodity markets with specific market timing. For more information on his services contact Fotucast Market 7iming at 800-247-3678 or write Fortucast Market Timing, R O. Box 2066, Fairfield, M 53556.

Precision Time and Prlce Analysis

By Robert Miner

Elliott's and Gann's work is the relationship of cycles or waves to each other. Both of these great contributors to technical analysis of markets found that cycles are interrelated by price and time. Another way to put this observation is that swings of similar degree are related at important market turning points. Elliott found that the most important series of price relationships is based on the Fibonacci or golden section ratio of .618 and what is known as the Fibonacci number counts.

If traders apply the concept of the interrelationship of swings or cycles of similar degree and the Fibonacci ratios and counts to both time and price projections, they will usually be prepared well in advance for the time and price zones where change of trend has the greatest probability of occurring. As the time and price calculations are simple mathematics, the price and time targets are prepared days and weeks in advance. Change in trend will usually only occur when a time and price projections coincide. In other words, when a market trends into a price target zone within a time target zone, there is usually a trend change.

The qualifying factor to alert the trader if a change of trend is likely at a coincidence in time and price is the pattern position of the market. The most consistently reliable method of determining the position of the market is to be aware of the Elliott Wave pattern position of the market. If the Elliott Wave pattern is in the terminal stages, such as the fifth of the fifth of an impulse wave, a trend change at a time and price coincidence is almost inevitable.

Figures one and two illustrate several of the time and price projections that traders would have prepared well in advance that projected both the time and price of the Aug. 2, 1993 top in gold. Figure One (gold daily nearest futures): The decline from the July 20, 1992 high to the March 10, 1993 low lasted exactly 233 calendar days (CDs), a Fibonacci number count. Two hundred thirty three times .618 equals 144. If we count forward from the March 10 low 144 calendar days the target is Aug. 2.

Alternate cycle projections measure the relationships of cycles that move in the same direction. The rally from the March 10 low to the May 28 high was 56 trading days (TDs), just one day past a Fibonacci count of 55. Fifty six times .618 equals 34.6. If we count thirty four trading days forward from the June 14 low (the beginning of the alternate cycle), we have a target of Aug. 2.

Two important time ratio relationships of .618 both point to Aug. 2 and both include Fibonacci number counts.

Figure Two (gold daily nearest futures): There was a strong cluster of price ratio projections that fell in the 404.6-410.2 price zone including the following:

1. Wave 5 of 5 equaled .62 of Wave 1-3 of 5 at 410.2.
2. Wave 5 equaled .786 of Wave 13 at 408.1.
3. Wave 5 equaled Wave 3 at 405.2.
4. Wave five of 5 equaled 1.62 of Wave 4 of 5 at 404.6.

This was a very strong cluster of price target all falling near each other.

All of these time and price projections were prepared days and weeks in advance so the

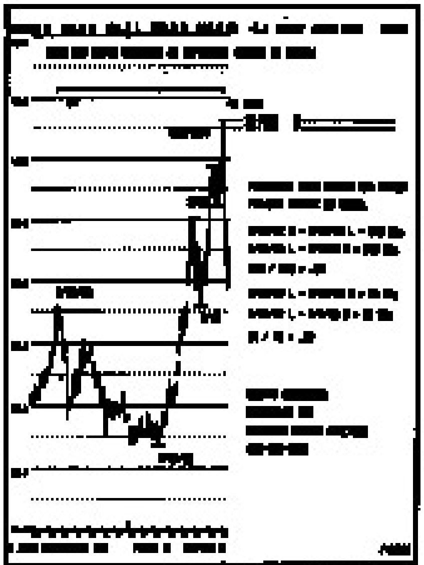


Figure 1

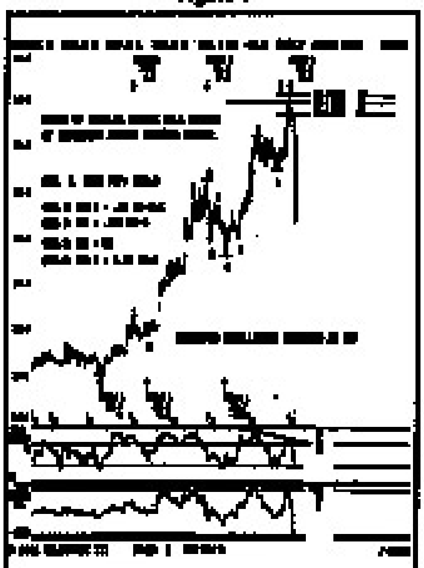


Figure 2

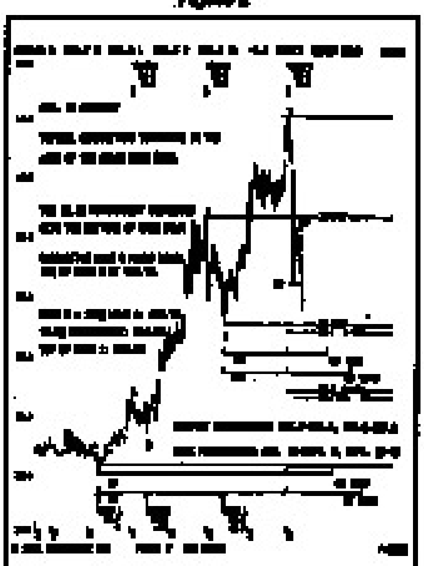


Figure 3

The Fibonacci Time Series Myth Explained

FIBONACCI TIME SERIES: *1 (Forward order only) *2

Daily: 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, 987, 1597, etc.

Weekly: 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, 987, 1597, etc.
(days) (7 14 21 35 56 91 147 238 385 623 1008 1631 2639 4270 6909 11179)

TABLE A - FIBONACCI TIME SERIES MYTH EXPLAINED

Solar eclipse example, July 22, 1990: *1

Daily: 1 D, 2 D, 3 D, 5 D, 8 D, 13 D, 21 D, 34 D, 55 D, 89 D, 144 D, 233 D
1* 2*

Weekly: 1 W, 2 W, 3 W, 5 W, 8 W, 13 W, 21 W, 34 W, 55 W, 89 W, 144 W,
1* 2*

Known cause
or event

TABLE B - ASTRO-CYCLICAL EVENT EXAMPLE

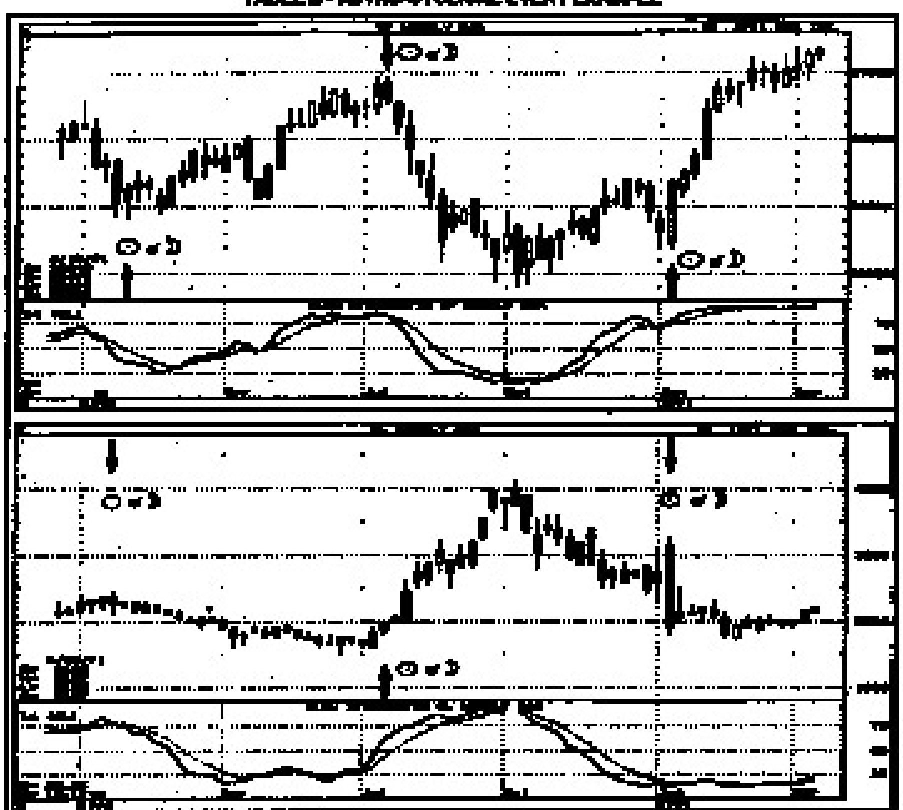


CHART A-trader was well aware of this potential price and time resistance zones long before the market reached this level. On July 30, one trading day prior to Aug. 2, gold made an intraday high at 407.50, precisely within the price resistance projection.

Figure 3

All of these time and price projections were prepared days and weeks in advance so the trader was well aware of this potential price and time resistance zones long before the market reached this level. On July 30, one trading day prior to Aug. 2, gold made an intraday high at 407.50, precisely within the price resistance projection. Elliott Wave pattern analysis indicated that gold was in the fifth of a fifth wave, a sure sign that the termination of the rally from the March 10 low was at hand.

An important confirming factor was the divergence of price and momentum oscillators on July 30.

While price was making new highs, the RSI and CCI oscillators were both making lower highs confirming the loss of trend momentum at the new price highs. While there was a strong time, price and pattern coincidence on July 30, gold closed that day near its highs. Traders must wait for a reversal signal before initiating trade entry. On Aug. 2, gold made a new intraday high at 409.0, still within the price target and directly on the time target, and closed the day below the prior days close for a daily reversal signal and the trigger to enter the trade on the close or the open of the following day.

If traders will have the discipline to prepare the time and price projections in advance and the patience to wait for the trading'set-up, they will find that low risk and low capital exposure trades will be found with regularity in most markets. There is no reason to consider entering a trade unless all of the important factors of time, price, pattern and divergent momentum are in proper alignment for trend change.

After-the-fact analysis is instructive to learn how to analyze and trade a market. But this new knowledge must be able to be put into practical application to make future trading decisions if it is to have any value. Figure three is a chart of the Dec. 93 gold contract. Let's see where the market stands as of Aug. 12 and how we might be prepared to trade the gold market. The rally into the Aug. 2 high appeared to be a five wave impulse pattern which suggests it is the first wave of a larger degree bull market. If this is true, the decline from the Aug. 2 high should be a correction to the March 10-Aug. 2 rally. We need to prepare the potential time and price zones where the gold market may terminate the correction.

The following dates are time ratios of the rally swing:

Aug. 31: .618 Time Cycle Ratio of the Wave 5 (6/14L-8/2H)

Sept. 5: .236 Time Cycle Ratio of the Wave 1-5 advance (3/IOL-8/2H)

Sept. 19: 100% Time Cycle Ratio of Wave 5

Sept. 26: .382 Time Cycle Ratio of Waves 1-5

These are just a few of the more important time factors. We would want to be alert during the two periods of Aug. 31-Sept. 5 and Sept. 19-Sept.

26 for potential changes in trend if gold is making new price lows.

The following are price projections from the Aug. 2 high:

364.8: Wave 4 low

363.1: 61.8% retracement of Waves 1-5362.7: Wave C would equal 62% of Wave A

349.3: 78.6% retracement 347.9: Top of Wave One

347.7: Wave C = 100% Wave A. These are just a few of the more important price relationships that may provide support for the gold market, if gold continues to decline. Traders would want to be alert to the position of time, pattern and momentum if Dec. gold declines into or near either of the 365-362 or 350 - 347 price zones. If gold were to close below 347, the lower end of the second price zone, more than likely a bull market is not in force and gold would continue to decline to new lows.

There is no excuse not to be prepared well in advance for the time and price of important trend change. Traders must have a consistently reliable analysis methodology and a well defined trading plan that includes trade entry and protective stop strategies. With patience and discipline, traders should be ensured success.

Discovering the underlying Natural Order in Markets. Quest for the Holy Grail

By Terry R. Davis

Much has been written about the Grail in recorded history. It is thought to be the cup that Jesus drank from at the last SUppeL Throughout history there have been epic poems, operas, plays, contemporary books and even one recent movie (get 'em Indy) about the search for this precious artifact. There is even some disagreement about what the Grail actually is. Is a cup...Christ's bloodline... or some other mystical "bauble?" Well, we are all on our own quest for it. To different people this quest takes them in different directions. To the car salesman the Grail is the closing line that culminates in every customer buying a car. To the tennis player it is playing a complete set without a single error. To traders it is the trading "system" that is highly accurate and generates more money that your wife or girlfriend can spend (that's a lot of money).

My quest for this mystical oddity started in the early 80's after I had been trading for a couple of years. Actually if you survive the first couple of years in the commodity markets maybe you have already found it. I looked down the same roads that traders before me had looked... and came up empty. I travelled to the Land of Gann, the Island of Wilder, Bayer's Bayou as well as many smaller principalities named after their illustrious counterparts. Ah(!).. so you recognize them: Andrews, Williams, Elliott's Landing, LeFevre's Crossing, Hurstis Hideaway, the Orb of Astrology and so on and so on. It seemed my travels would never end. I gave up many times and threw in the towel. Neural nets are the latest "fad" to catch the public's eye and it has the same foul stench I encountered in most of my travels.

My biggest challenge was in the Land of Gann. Yes, this surely had to be the right place. So many ideas. Some seemingly good. One thing became apparent right away. Everyone in this

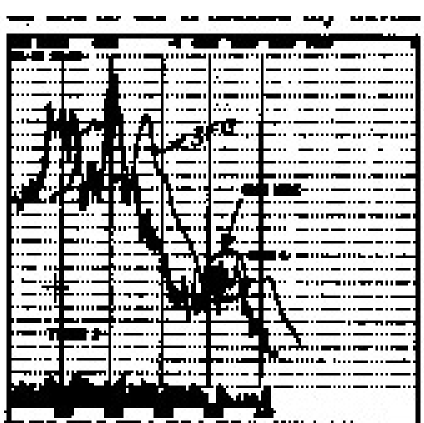


Figure 1.

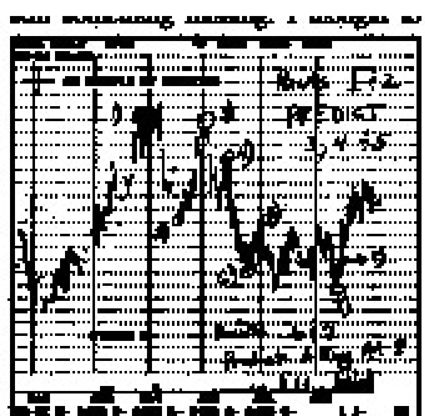


Figure 2.

land was making a living just from mentioning Gann's name. Silver tongued orators preaching "square time and price" seemed to abound on every comer. Strange, very strange! It seemed odd to me that none of these people were traders.. but good copy writers. Odd indeed! Odd indeed !!! The more I explored the less I found. I even employed a guide once in awhile. It was with great happiness when I was able to cross the Land of Gann off of my list and finally depart. There were no golden streets there and the smell of manure was always in the air.

Many of these travels yielded a tidbit here and a tidbit there. Hurst's Hideaway was without a doubt my most productive stop. The people of Hurst were more than happy to share with an outsider My knowledge grew by leaps and bounds. Cycles were everywhere. Surely this must be the Grail. I traded very successfully for over a year with the knowledge I had acquired there. I even wrote two books on extensions of the work Hurst had done on phase shifted moving averages. Boy, this was great! Finally a method that worked.... but.. there was still something missing. I thought to myself "I am missing the underlying structure that I feel must exist in the markets." If I could only tap into that then I would have it made. If I had known the quest was going to take another ten years I am sure I would have given up. The years passed slowly but the work continued.

In 1988, I made a trip to the Orb of Astrology to try to discern if there was anything there of interest. The people there were very different. They seemed to speak a different language every time I spoke to one of them. They would show me charts of why things happened and attribute it to the stars of all beyond me. Even with all that double talk I was able to see that there might be something there of interest. One of their books explained the concept of five waves unfolding before your eyes. Sure enough when I looked at past charts, there it was. After many attempts to use Elliott's teachings in my own trading I gave up. It was very good after the fact... but so was everything else. Unfortunately, I did not have a time machine to go into the past to place the orders. And further if I had a time machine I wouldn't be trading commodities. Still, I felt certain there was something significant to be learned on Elliott's Landing. It was just too subjective for me to trade with. Many other people felt the same way. By this time in my search I had made many other friends that were nearly as voracious for knowledge as I was. One friend, who shall remain nameless, decided to lean more Elliott knowledge from a man who said he could help him lean to trade using this approach. This "guru" said he had much knowledge and charged high prices to pass this knowledge on to other believers. My friend spent several days (and several thousand dollars) to learn this knowledge. The primary thing he learned: Elliott is too subjective to trade with. When asked to describe what wave we were in the master constantly repeated, "When in doubt you are in some type of Wave 4." That is akin to the man wno said he spoke every language but Greek.

When asked to speak Spanish his pat answer was. "That's Greek to me." Well, my friend was older, a little wiser and certainly he now had less money. It seemed there were silver tongued salesmen in every one the trading lands I had visited. In fact, it seemed that this was the main occupation in all of commodityland. Still, when I looked at past charts wave 4 was the hardest to understand. It was almost always a complex wave that put many people into the correct short term direction but the WRONG overall direction. Many years past before I was able to develop a moderately failsafe way to identify Wave 4 on daily charts. I will share this knowledge. If you will apply this one lesson to your position trading you will save yourself thousands of dollars! The first time price crosses over a 3 period moving average displaced 13 periods in the future you are in wave 4. If you want to "fade" the market this is the time to do it. See Figure 1. The market WILL resume its previous direction.

One of my next journeys was to Bayer's Bayou where I encountered a wacky German. His primary focus was astrology. He was a very strange man. Men in white jackets were always chasing him. He sometimes eluded them long enough to write, though. I did learn some very important knowledge that was non astrological in nature. What I was able to bring from Bayer's Bayou allowed me to piece together a more basic understanding of the harmony that MUST exist in the markets all of the time! if you do not think this harmony exists in nature please get up early tomorrow and watch a sunrise.

My constant travels over 13 years had definitely taken a toll on my life. I was always sure that just around the next bend the Grail was waiting. It was still several bends away but.... in 1990 1 was approaching fast. I had learned so much that I always had ten reasons to be long or short - at the same TIME. I wrote three books that detail trading systems I discovered along the way. They are (1) Market Structure, (2) Bubble Theory and (3) Price Equilibrium. The latter two primarily use a large part of the knowledge I gained on my many visits to commodityland. Holy Grail trading came from all the travelling I have done over the past 13 years.

It all came together one Saturday morning. During my many sojourns I collected many bits and pieces of information that I recognized as important but I didn't know how to apply or WHY they worked in the markets. That Saturday I was looking at a March 93 daily coffee chart and everything fell into place. I could apply all the correct knowledge that I had acquired to this particular chart. I reasoned if everything I had learned up to this point was correct on this chart maybe I could tie some of the other "bits and pieces" knowledge in here too. I could! If everything worked on things. I mean, what kind of idiot did they take me for. All the time I was there was always the odor of fire and brimstone in the background. I tell you straight that is a place I wouldn't want to live. If you must visit take a chalice with you.

Along my many travels I became a Christian. The more I understood the concept of God's creation the more I came to believe there was some underlying order or structure in not only the commodity markets but everything to do with everything. I was right! My Christianity and my visit to Hurst's Hideaway were like separate trips to the same place. I started to attribute most happenings in the markets to this underlying structure and set out trying to find it. Now I could write my quest or goal on a single piece of paper in one simple sentence.

I want to discover the underlying natural order in the markets.

Seems easy enough, doesn't it? I reasoned that if I had this I would be able to read the markets like a roadmap. I would be able to buy every low and get out at every top. What a life, huh? Well now I had a well defined goal. This goal had eluded every other market researcher since the dawn of time. How was I supposed to be successful when everyone else had failed? That seemed to be a question that I had no answer for. I further reasoned that surely some of the knowledge that had been assimilated and put out as public record might be of some value. I set out looking!

I picked up a travel brochure mentioning Elliott's Landing. The travel brochure made mention of a book entitled "Nature's Law." Very interesting! I must have that book. Well, it turned out all this whole country did was print books about Elliott's ideas. They even had a guru that was on TV telling why this and that happened. He made mention of many curious formations on charts. Double 3's, quadruple bypasses and many other things that were one chart then it had to work on every other commodity too. How in the world are coffee and beans related. By price! Markets are all intra-related by price. When you understand this very basic concept virtual total symmetry is present. When you have total symmetry then you only buy bottoms and sell tops. By the very nature of market symmetry this is only place you are able to take a trade. See Figure 2! After I had this "awakening" I watched the markets trade for several weeks and was in awe of what I had been led to discover. My son, who is 15, decided he wanted to learn to trade commodities. One night I took him in to the office and gave him his fist lesson. After about an hour he said that this looked easy - how come everybody isn't doing this? I replied that it had taken me 13 yeas before it could be made to look easy. Well, he wanted to trade but didn't have any money. I explained paper trading to him. So he decided he would try that. We started with a hypothetical $1000 which he, remember he is 15, turned into $3183 in 22 trading days. Five profits and one small loss. The Grail had been found ! I had found something that made all the previous Master's works pale in comparison. market symmetry! I opened a new account and increased it 22% in 15 days. I had to tell someone about my discoveries. I decided to share it with a select few people that had purchased my previous books. A seminar was held in June. The fist week following the seminar I had many calls and many questions. One student found a trade that I had missed. The trade went on to yield Four Thousand Dollas profit in six days in the British Pound with a risk of $400. Another student decided he would just follow the currencies. He has been right 12 out of 13 trades at the time of this writing. Another student from Mississippi is now looking for something to occupy his time other than sitting in front of the computer screen all day. He has found it takes very little time to trade and he wants to keep busy. Still another quit his full time job to trade for a living!

Terry R Davis is a Small Business Owner and trader. If you have any questions about this article or quote equipment he uses, please feel free to call him at 800-225-7642 . or 21 7-3475101.