The Importance of Volume Surges

By Alan Friedman

My last article (see Trader's World, Spring 94 #17,) I cussed the importance of "outside days" as potential signals to forecast 10% moves in stocks. Recently I have discovered a particular trading pattern that is extremely accurate in forecasting quick 2 point moves in stocks. Instead of using "outside days," this particular pattern uses what I call "Volume Surges."

It has been well documented by a number of technicians (Mark Leivobit, Stan Weinstein, Joe Granville) that volume is a very important technical tool to track. For example, Granville's On-Balance Volume basically looks for an up-trend in price (or vice versa for down trends.) Weinstein's stage analysis will put you in stocks breaking out of bases - but only if the volume increases on the breakout. Leivobit's Volume Reversals detect accumulation or distribution stocks by tracking the high, low, volume and close of each trading day and comparing this data with the same data from the previous trading day.

Many times when you flip through a chart book, you will find that volume does seem to swell just as a stock breaks out to make a sustained move over a few months. But I like to find stocks that make a big increase in volume and play them for a short-term 2 point move. I will show you examples later in this article.

What I am going to say now may go against conventional wisdom, but I believe that it is better to trade with a short-term time frame in mind rather than be a long term "investor." The reasons why are simple - it is easier to forecast short term moves. Anything can happen over a longer period of time. In fact, the way I see it, the longer you hold a trade, the more time you have that things can work against you. However, if you trade for the short term using a mechanical system you can benefit from quick sudden moves and you will be more flexible which will allow you to deal with quick changes in investor psychology. For example, just before the March massacre, I got stopped out on three long positions with small losses and proceeded to take quick 2 point profits on eleven short positions and a long position in Newmont Mining. Had I been a long term investor, I might not have had the chance to pick up these quick profits.

Now let's look at some examples of how "Volume Surges" can lead to quick 2 point moves:

GAP STORES (GPS)

DATE	H	L	VOL	C	COMMENT
2/16/94	41	40 1/2	361,100	41	
2/17/94	43 1/4	41 1/4	753,700	43 1/4	VOL. SURGES!
2/18/94	45 1/8	42 7/8	1,095,700	43 1/4	MORE VOL!
2/22/94	45 1/8	43 3/4	522,600	44 1/4	INSIDE DAY
2/23/94	46 1/4	44 5/8	783,400	45 3/8	TARGET HIT!

In this example, we see that on 2/17, there was a heavy rise in volume as short-term traders “in the know” wanted to buy GPS. Volume increased the next day as well and these traders were right as GPS eventually hit a quick 2 point profit target. I also want to add that this trade took place against the backdrop of a weak general market. When you see a volume surge like this that suggests a trade against the short-term market trend, it usually is indicative of something in the way of news that will be coming out soon-like downgrading of the stock. Let’s look at another example:

FORD MOTOR (F)

DATE	H	L	VOL	C	COMMENT
1/26/94	65 1/4	64 1/4	1,152,600	64 7/8	
1/27/94	66 3/4	64 7/8	2,742,900	66 3/4	VOL. SURGES!
1/28/94	67 3/8	64 7/8	1,600,900	65 1/4	
1/31/94	67 1/8	66 1/8	1,149,700	67	
2/1/94	68 1/4	66 1/2	1,607,800	66 3/4	
2/2/94	67 7/8	66 5/8	1,366,400	67 3/4	
2/3/94	69 5/8	67 5/8	3,197,600	67 3/4	TARGET HIT!

Note the extreme surge in volume on 1/27 which sets up the nice rise in over the next few trading days. Ford also gave us a signal on the downside:

FORD MOTOR (F)

DATE	H	L	VOL	C	COMMENT
3/23/94	64 1/8	61 7/8	1,727,000	63 3/8	
3/24/94	62 1/4	60	3,747,300	61 3/8	VOL. SURGES!
3/25/94	61 1/2	60 1/4	1,886,600	60 1/4	INSIDE DAY
3/28/94	50 3/4	59 5/8	2,090,400	60 1/8	
3/29/94	60 3/4	59 1/8	1,657,700	59 1/4	
3/30/94	59 7/8	58 1/4	2,363,900	58 1/4	
3/31/94	59	57	2,554,800	58 3/4	TARGET HIT!

Again, it is easy to see that the large increase in volume came just before the move lower. For those trading stocks, this method requires the use of a deep-discount broker and a margin account. Stop points are used and have usually limited losses to 1/2-2 points. Most of the moves take place within 1-20 trading days. Option traders can use at or out of the money calls and puts. One trick is to wait to enter your option position until you have a good chance of a 100% gain.

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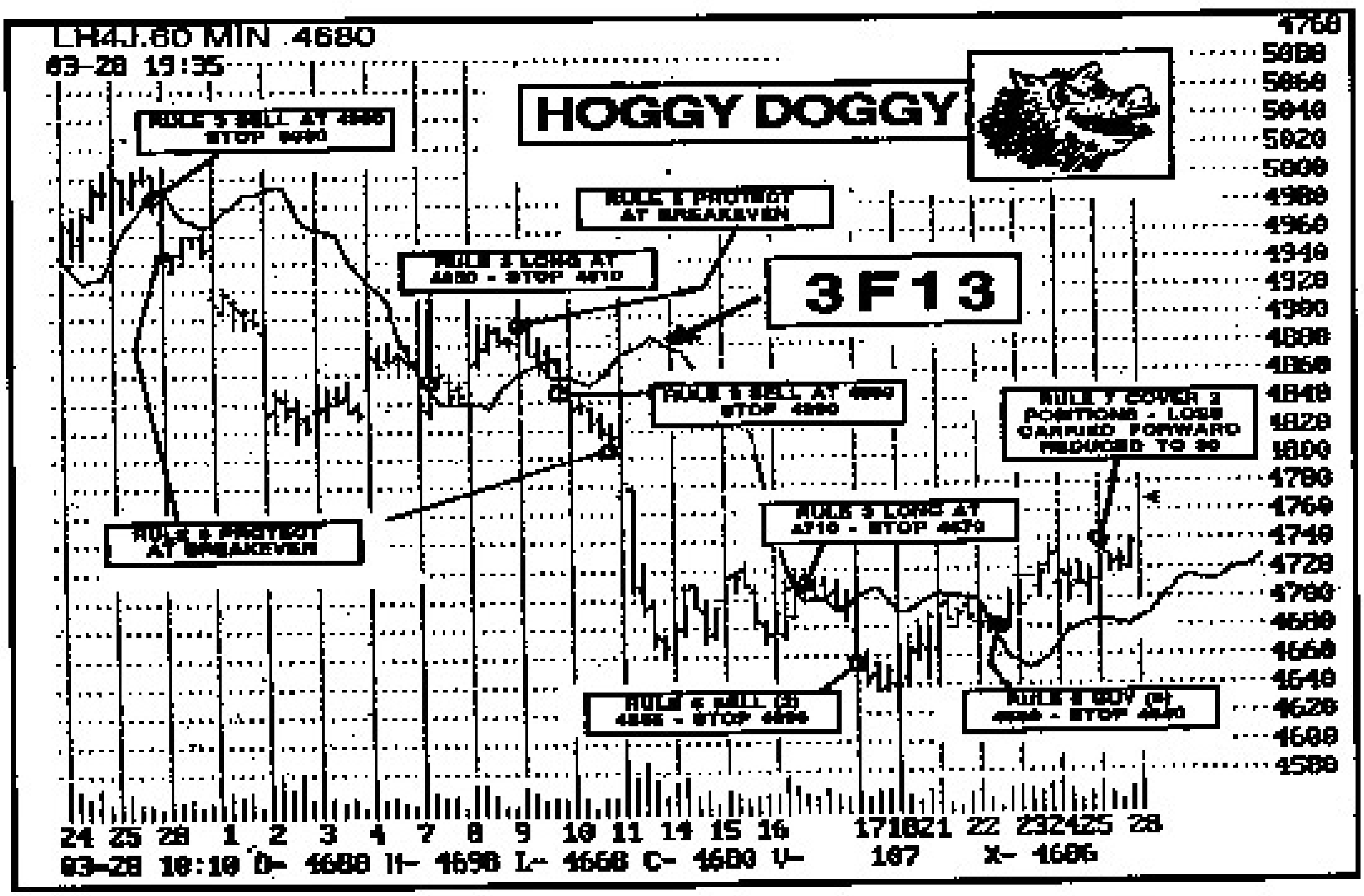
Hoggy Doggy

By Terry R. Davis

I have searched for a true investment method (versus speculation) for the commodity markets for 13 years. The only other published "true" investment method that I have seen in that time is scale trading. Scale trading is extremely accurate but is very capital intensive. It leaves most accounts in the dust. Most traders (or investors) either don't have or will not commit the amount of money necessary to make necessary to make scale trading a viable alternative. What's left. Funny you should ask?

I want to reiterate; what I am showing you is investment in nature. A yearly return in the neighborhood of 25-30% is what we are shooting for. If your return is greater than this so much the better.

Besides finding something to use as an investment trading method I wanted something that could be traded in small ($2000) self-directed IRA account. I am happy to say from my REAL-TIME trading that I have found both. My monthly return so far is 12%. I have Been correct 6 out of 8 trades. This accuracy is much higher than what I expected. Historical accuracy (over 10 years studied) SHOULD only be about 40%. Accuracy is not critical in this method . . . profits are! I stumbled on to this method while completing my SMOOTHIE trading course. The course is broken into two sections: one on SPECULATING and the second on INVESTING. The investment method I have called the SIMPLETON.



As its name implies it is very easy to use. The derivation I am showing you is called the HOGGy-DoGGy because all you trade with it is hogs (or cattle.) These two commodities have low volatility. Low volatility translates to low risk but not necessarily to low potential for profits. Risk on all trades is roughly 40 points per contract. Please, always use a stop. This method trades exclusively from 60 minute bar charts. You can trade it yourself with real-time or delayed quotes. It makes little difference. You can even (God help you) let your broker trade it for you. Yes, it is so easy even a broker can understand it (that is easy.) You may have to explain it to him a few times though.

RULE 1) For every $2000 you are allocating to this method trade one MIDAM hog or cattle (not both.) This is very conservative trading.

RULE 2) Construct a 3 period exponential moving average (ema = ((ema *2) +close)/3) of the close (60 minute bars) and shift into the future 13 time frames. This is commonly called a phase shifted moving average or a displaced moving average. This particular DMA is referred to a 3F13 (a 3 period moving average shifted Forward 13 time frames.) It is a normal component of most charting packages. Make sure the formula is the same.

RULE 3) When the close of any 60 minute bar is above the 1)MA (displaced moving average) buy I contract at the market - if the close is below the DMA sell one contract at the market.

RULE 4) Risk 40 points from the theoretical fill. This means if the close of any bar is 5560 and you are buying your stop is 5520, no matter what your actual fill was - sometimes this will cause you to risk slightly more than 40 points but that risk will always be in the ball park.

RULE S) Anytime your open profit is 40 points from the theoretical fill, immediately come to break even (excluding commissions) on your stop.

RULE 6) Anytime you have a loss the next trade is for 2 contracts. You keep adding contracts (1 at a time) until you get back to even. You then start with one again.

RULE 7) At anytime you can cover your carried forward loss with roughly half your open position do it. Hold your remaining contract(s). Your next trade will be back at the starting amount (1) providing you do not have a loss on remaining held contract(s).

RULE 8) Exit your position on a reversal or stop out at break even.

RULE 9) If you are stopped out of a long you cannot take another long until price has retouched the DMA - converse for short.

RULE 10) After your account get larger start trading both a hog and a cattle - use exactly the same rules.

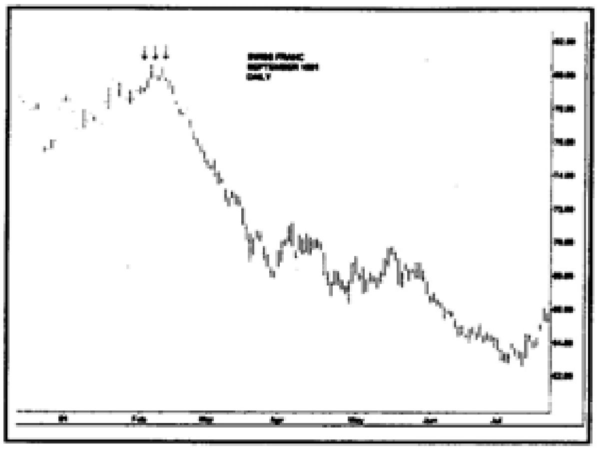
RULE I I) RETIRE!

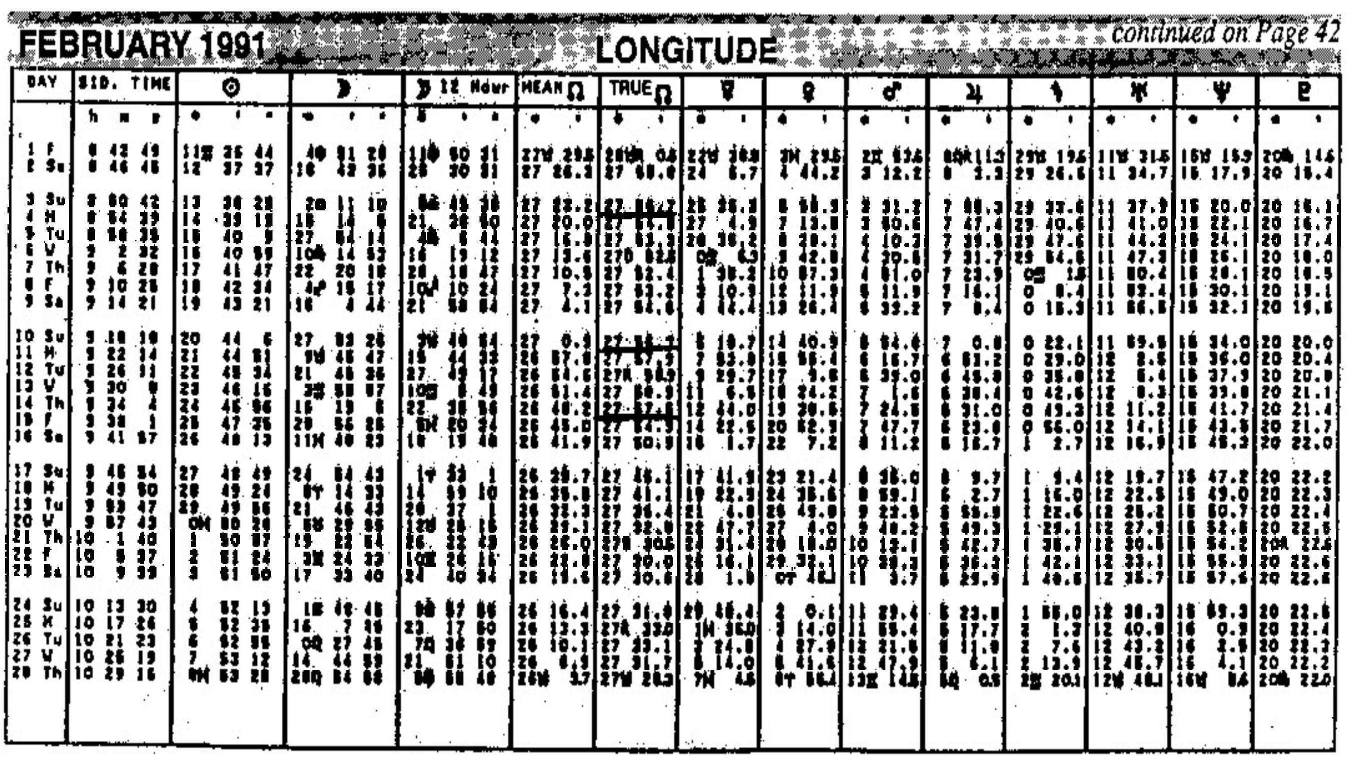
Terry R. Davis is a prolific writer and researcher. He is also a small business owner and full time trader. The Smoothie course is currently available. Any questions about this article or trading in general are welcomed. Call him at (217) 347-5101 or (800) 225-7642. His Holy Grail daily fax service is ahead 678% since June 1993.

The Return of the Natal Node

By Ruth Miller, Ph.D., and Ian Williams

What was so special about the moon's node that our ancient ancestors classed it as a "planet?" Did they know something which we should investigate? It was this intrigue that set us both off on the path of research and writing. Our findings were conclusive. Having researched 20 years of soybeans and spot checked various other markets the moon's





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node was a prominent factor in many of the market turns. New barriers were being broken down through our own research. Would the ancients be trembling in their graves? No, not quite, but they may be getting a little bit hot under the collar at our findings.

Having just recently published our book titled “Practical Astro—A Guide to Profitable Trading” which incorporates the use of the node in identifying many of the short and intermediate turns in the market, we would like to share our findings on use of the node on a longer term basis. Before we present our research we would both like to make one point absolutely but are traders who use astrology to aid us in our decision making. Even we find certain facets of astrology/ astronomy difficult to explain, and unfortunately the moon’s node fits into this category. To use our information however, does not require any technical expertise in this area, so we will only give a brief description of what is happening in the heavens for a node to occur.

If you are not aware, the moon’s orbit around the earth is inclined at an angle of 5 degrees to the plane of the ecliptic (the earth’s path.) When the moon crosses this point of intersection, that point is classified as the moon’s node. As the moon passes the ecliptic going north we call this the ascending node or the true node, and when the moon passes the ecliptic going south, we call this the descending node. These nodes are always opposite each other in the zodiac.

Twice a month the moon will cross the ecliptic, and this occurrence can be found in the geocentric ephemeris in the lunar section under the heading maximum/zero latitude (A.C.S. Publication.) As a result of the S degree incline to the ecliptic and various other deviations in the moon’s path, we have certain peculiar phenomena occurring. One is that the position of the nodes will move backwards in the zodiac when viewed from earth (geocentric view.) These nodes will move backwards 3 minutes per day, and will take approximately 18.6 years to make one complete revolution around the zodiac. This movement is call the “regression of the nodes.”

With these basic concepts in mind, how does one use this approximate 18.6 year cycle, and where is its starting point? Would it be fair to say the logical place for a starting point would be the first day the commodity traded on the exchange? This information can be obtained from the research department of the exchange on which the commodity is traded. At this point we would like to caution you that because various exchanges do trade the same commodity the first day of trading may vary, and therefore, different results might be obtained.

Having found the starting date, one must look in the geocentric ephemeris for the true node column. This column is situated in the longitude section of the ephemeris, and looking at the date the commodity first traded you will find the sign and degree of the node for that particular day.

For example, Currencies first trading on the CME on May 16, 1972. The position of the true node on that day was 27 degrees 56 minutes Capricorn.

Our research has shown that when the true node returns to its natal node degree a change in trend often occurs that can be of significance.

To calculate the approximate date of the next natal node return, add 18.6 years to the date that the commodity first traded or to its last natal node return.

Using the Currencies as our example gave us an approximate date of 11/6/90 as the time period for the natal node return. With this information, go to the ephemeris and look for the day when you find 27 degrees 56 minutes Capricorn. You may be surprised to find that 27-56 Capricorn did not occur until February 3rd., 1991. This was due to the variation in the nodes speed that is a normal occurrence.

Who would have thought that after 18 3/4 years a major turn would occur in the Currency markets? Were we surprised at this occurrence? No, not at all. During the February 3- 14,1991 time period, a “triple whammy” occurred.

After 18 3/4 years the true node had returned to its natal node degree, and during this time period, had passed over this critical natal node degree three times—twice while retrograde and once while direct. The effect was devastating to say the least as can be seen in the Swiss Franc daily chart.

Does the return of the natal node have an effect on other markets? You be the judge and jury.

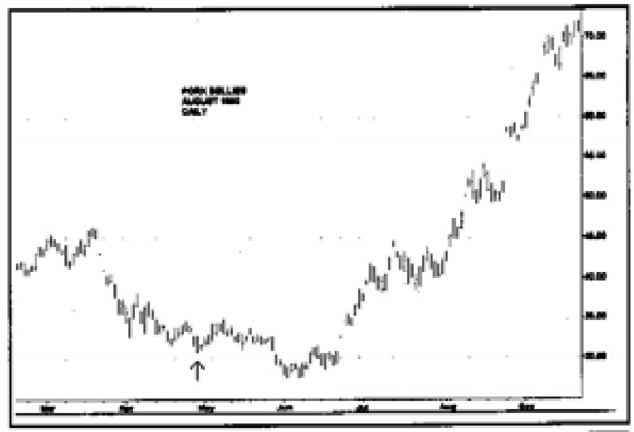
Were you trading silver in 1987, if so did you catch any of the move from $5.50 to $9.50? The natal node return for silver was February 28, 1987 when the true node degree reached 11 degrees 48 minutes Aries.

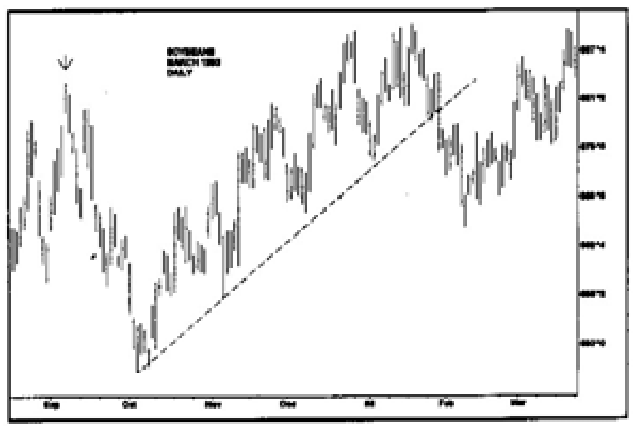
This was another case of the “triple whammy” effect as the node made transits over this degree. Silver had been trading in a relatively narrow range from December through February. A few days following the last transit an explosive upmove began. This move should not have been a surprise to anyone in the “know.”

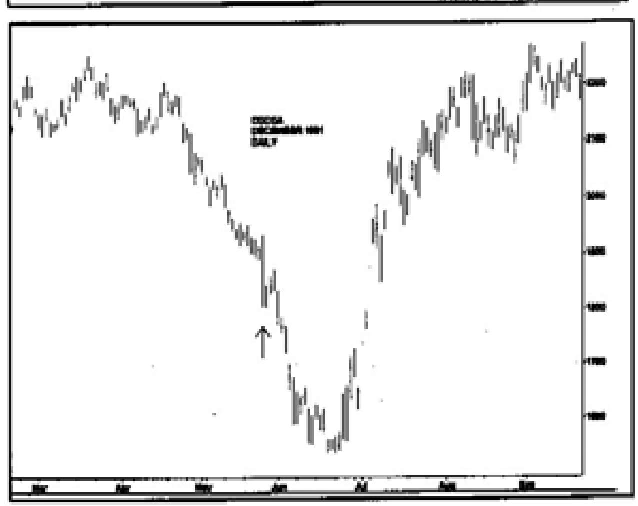
Coffee shows a significant low in 1975 and a three month bottom formed during that period. The natal node return of 3/12/75 was the fifth natal node return for coffee as it had been trading since 31711882. In retrospect, bottom picking here was never a problem. A move from 49 cents a pound to $3.30 was a once in a lifetime opportunity. The last natal node return for coffee was 10/4/93. May coffee traded at a low of 76.95 on that day and on 4/21/94 traded at a high of 83.70. Is this a signal for a repeat performance of 1975? Who knows.

The daily soybean chart showed a change in trend on the exact day of the natal node return of 8-08-92. This was not a major trend change, but an intermediate trend change of 35 cents ($ 1750 move).

You could have had your chocolate cake and eaten it also if you had known to expect a reversal in cocoa on June 12, 1981 when the natal node returned to 2-32 Leo. The exact low was a week later. Sometimes it does take another aspect to act as the trigger for a move to begin. Needless to







say, any trader should have enjoyed being on board for this roller-coaster ride.

The December Comex Gold chart pinpoints the natal node return for 8/5/ 1993. The top was made on August 2nd when other aspects of our work came into play. This change in trend would be classed as a major trend change as gold dropped from $415 to $345 in approximately 6 weeks.

Does every natal node return produce the same significant results as the charts illustrate? No, not quite. In a few commodities the turns came a month or two later. Traders should therefore use their own entry techniques and money management rules for capitalizing on any major moves that may occur.

The 1980 pork belly market was one such example. Bellies had fallen from 57.50 in November of 1979 to 31.00 on 4/27/1980, the date of the nodal return. The market drifted lower in a 4 cent range for the next month, and without warning exploded to the upside, trading to the 72 cent area in a short period of time. The charts included should have shown you how powerful the natal node return was in influencing significant market turns.

The use of various nodal aspects for short and intermediate turns will give any trader an added advantage; these you will find detailed in our course book Practical Astro. Other “goodies” are also included for those who are not astrologically minded.

MAY THE NODE BE WITH YOU IN YOUR TRADING.

Ruth Miller and Ian Williams are independent traders and researchers. They can be contacted by mail at Box 446, Martinsville, IL 62442 or by phone at 217-382-4176

Secret Rules of W.D. Gann

By Mike Riley

These are the 24 step-by-step rules to aid in under standing W.D. Gann...

1. Amount of capital to use: Divide your capital into (10) equal parts and never risk more than 1/1 0th of it on any trade, (try 5%.) In today's market, you should work with at least $10,000, preferable $25,000, in risk capital. It is best to have in capital, at least (2) times your margin, preferably (3) times for normal trading. If you try to work with less capital or don't have enough risk capital, you should not trade commodities.

2. When in doubt, stay out: Never enter a trade until you are sure of your objectives. Know where you will enter, where you will exit with a profit and where you will place your stop loss order using your trading rules.

3. Use stop loss orders: Always protect a trade with stop loss orders to limit your losses. Enter stop loss orders as soon as you have entered a trade. Stop loss orders should be placed where trend turns against your position, not just an arbitrary dollar stop. Keep a small loss from becoming a large one.

4. Never cancel a stop loss order. Once it has been placed at the time of the trade, leave it. This is the kind of discipline needed to make money.

5. Avoid buying or selling late: Enter at a specific price area that will give you at least (2 to 1) risk-reward ratio and know the profit objective to exit.

6. Always calculate (risk-reward): Always use at least a (2 to 1) risk reward ratio or better, risking no more than 10% of your risk capital, (try 5%); risk $500 Or $1,000, or do not make the trade.

7. Never over-trade: This is violating your capital rules. Never trade too many contracts where your risk is more than 10% of equity on any one position.

8. Never buy or sell just to get a scalping profit. Trade with the main trend or the long pull. The more you enter I the more risk you take.

9. Don't buck the trend Never buy or sell if you are not sure of the trend as indicated by your charts and rules. If you can't determine the trend to be either up or down, stay out of the market.

10. Be just as willing to sell short as you are to buy long: Your objective is to stay with the trend and to make money. If the trend shows done, sell on rallies to buy back at a lower price.

11. Trade only active markets: Keep out of slow ones, they will whipsaw you.

12. Distribute risk equally: Follow only (3) to (5) markets, trade in two or three different commodities. Trade a mixture of metals, grains, meats, and foods. Large traders can use any of the markets.

13. Use market orders to exit a trade: Trade at the market when you liquidate a position. Limit orders to enter a trade, market orders to exit.

14. Never let a profit turn into a loss have a profit of $500 or more, move your stop up to break even so there will be no loss.

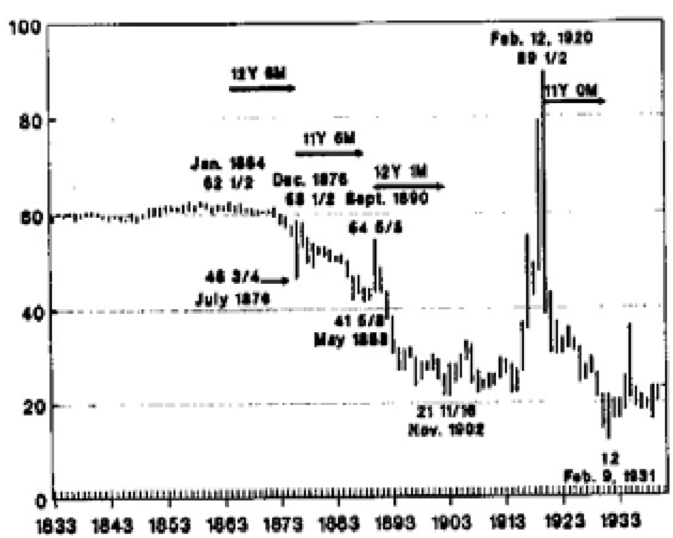
15. Reduce trading after the first loss- never increase! Reduce to a 5% risk.

16. Never average a loss: This is one of the worst mistakes a trader can make. For example, gold both at $400 per oz. falls to $350. Don ‘t buy more at $350 to average your price to $375. It could fall to $350 again, leaving you with a 50 to more of a loss.

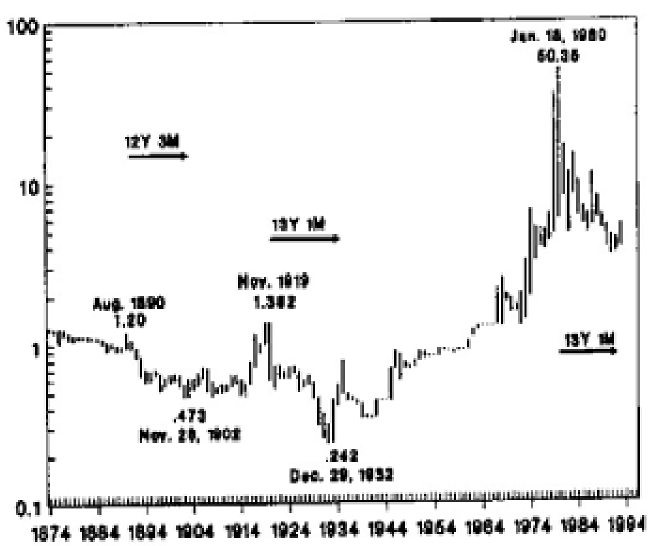
17. Double losses can take your position out of the market . Short term traders liquidate at double tops, double bottoms, and triple tops, triple bottoms, unless the market is moving extremely fast, hold at triple tops and bottoms.

18. Never get out of the market just because you have lost patience: Nor should you get into the market because you are anxious from waiting. For example, if you are holding gold long for (2 to 3) weeks and it goes nowhere, as long as the trend is up, and you are not stopped out, stay in.

LONDON SILVER MONTHLY 1833-1941



N.Y. SILVER YEARLY 1874-1992



19. Be careful about pyramiding at the wrong time: Wait until the commodity is very active and has crossed resistance levels before buying more and until it has broken out of the zone of support before you sell more. Adding to your positions can be very profitable at the right time.

20. Avoid increasing your trading after a long period of profitable trades: You should keep a disciplined, planned trading program based on 5% to 10% risk.

21. Never change your position in the market without a good reason: When you make a trade, make it with a good reason according to some definite rule. Then do not get out unless there is a definite indication of a change in trend.

22. Make your analysis accurate. This will avoid any guess work later on.

23. Don't guess when the market has topped: For long term traders (one month or more,) let the market prove it is at its top. The same holds true for bottoms. By following definite rules, you can do this with accuracy. Analysis of the wave pattern tells you if the market is at a top or bottom. Double tops and double bottoms tell you if a top or a bottom is at hand.

24. Don't follow another man's advice unless you know his trading system works. When you decide to make a trade, be sure that you are not violating any of the 24 rules. These are vital to your success It is important to have enough money to trade these markets for many years to come. Proper use of risk capital will keep you in there. When you close a trade with a loss, go over these rules and see which ones you have violated. Then, do not make the same mistake again. Experience and investigation will convince you of the value of these rules. Observations and study will lead you to a correct and practical theory for successful trading in the futures market.

Time Periods

By James Flanagan

Trading In Commodities," I immediately identified with his practical philosophy that the big money is made on the big moves. My desire to anticipate and capitalize on these moves has lead to extensive research into Gann's work on "Time Periods." I believe this is one of his most valuable methods. If I were to sum up the basis of Gann's trading philosophy in one phrase it would be "the future is a repetition of the past." He researched prices hundreds of years in the past to determine where a market stood relative to history.

He said every market movement is a function of the moves that have preceded it. The truth of this is revealed in his study of "Time Periods." WHAT ARE "TIME PERIODS" What Gann means when he refers to Time Periods is the amount of time spent during specific cycles and the different sections which make up those cycles. 1. The time from major top to major top 2. The time from major bottom to major bottom 3. The time from major bottom to major top 4. The time from major top to major bottom 5. The time spent in accumulation and distribution zones

MOVES UP OFF MAJOR LOWS IN THE SILVER

Dates of Bull Market	Price	% Move Up	Duration
1. Dec. 29, 1932 - Apr. 26, 1935	.81	+234%	2 yrs. 3 mos. 28 days
2. Nov. 3, 1971 - Feb. 26, 1974	6.43	+400%	2 yrs. 3 mos. 23 days
3. Dec. 2, 1908 - Oct. 10, 1912	.6412	+35%	3 yrs. 10 mos. 8 days
4. Nov. 28, 1902 - Nov. 17, 1906	.7175	+54%	3 yrs. 11 mos. 19 days
5. Jan. 26, 1976 - Jan. 18, 1980	50.36	+1225%	3 yrs. 11 mos. 23 days
6. Sept. 1, 1915 - Nov. 25, 1919	1.375	+197%	4 yrs. 2 mos. 24 days
7. Nov. 1941 - July 1946	.90	+156%	4 yrs. 8 mos.

Table 1

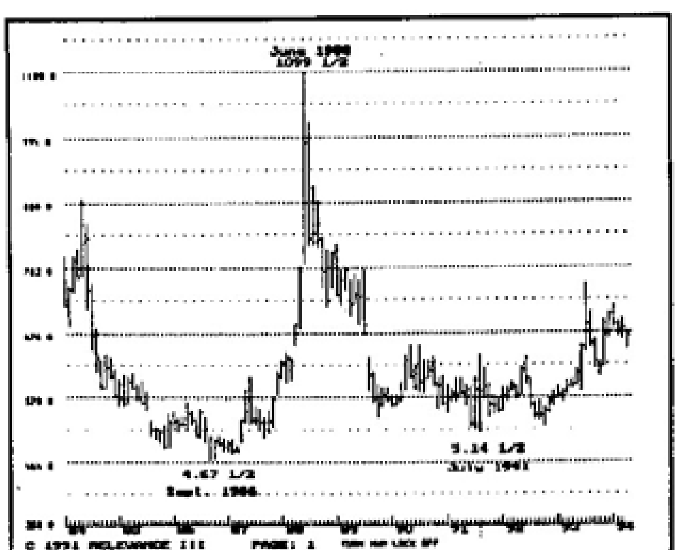


Figure 3 SOYBEANS MONTHLY 1984-1994

SOYBEANS 1915 - 1994

MAJOR BEAR MARKET DECLINES WITH BULL MOVES THAT FOLLOWED

DATES OF MOVES DOWN

MAJOR LEGS DOWN/BEAR MARKETS	MO TIME/DN	%MOVE DN	TIME UP	%MOVE UP
1. Feb. [illegible] - Oct. [illegible]	33M	[illegible]	21M	[illegible]
2. Feb. [illegible] - Nov. [illegible]	45M	[illegible]	8M	[illegible]
3. Jan. 1948 - Feb. 1949	13M	[illegible]	17M	[illegible]
4. Jul. 1964 - Sep. 1965	14M	[illegible]	8M	[illegible]
5. Jun. 1973 - Oct. 1973	4M	[illegible]	4M	+31%
6. Sep. 1983 - Sep. 1986	36M	-51%	21M	[illegible]
BULL MARKET CORRECTIONS				
1. Jul. 1954 - Oct. 1955	15M	[illegible]	19M	[illegible]
2. Apr. 1961 - Aug. 1962	16M	[illegible]	15M	[illegible]
3. June 1979 - Apr. 1980	10M	[illegible]	8M	[illegible]
MAJOR DECLINES FOLLOWED BY CONSOLIDATION				
1. Apr. 1937 - Oct. 1938	18M	[illegible]	7M	[illegible]
2. May 1939 - Jul. [illegible]	2M	-33%	5M	[illegible]
3. Jul. [illegible] - Oct. [illegible]	3M	-34%	4M	[illegible]
4. Jul. [illegible] - Aug. [illegible]	13M	[illegible]	11M	[illegible]
5. Apr. 1977 - Sep. 1977	5M	[illegible]	21M	+70%
6. Dec. [illegible] - Oct. [illegible]	22M	[illegible]	11M	[illegible]
FINAL BEAR LEG				
1. Jul. [illegible] - Dec. [illegible]	41M	[illegible]	7M	[illegible]
2. Dec. [illegible] - Aug. [illegible]	8M	[illegible]	13M	[illegible]
3. May [illegible] - Sep. [illegible]	16M	[illegible]	19M	[illegible]
4. Aug. [illegible] - Oct. [illegible]	26M	-41%	44M	[illegible]
5. Aug. 1975 - Dec. 1975	4M	-32%	16M	[illegible]
6. Jun. [illegible] - Aug. 1991	38M	[illegible]	[illegible]	[illegible]

TABLE 3

Simply stated, market moves tend to last as long as they have during previous campaigns. For example, if bull market tops tend to occur four years apart, you would look four years out from any major top and expect another major top. If an accumulation zone has typically lasted one and a half years, probabilities are that future accumulation zones will also complete at the end of one and a half years. Within the major Time Periods there are smaller moves or sections which also have characteristics which can be depended upon to repeat from one bull or bear market to the next. Examples of these would be measured corrections in a bull or bear market, impulse waves in favor of the trend, and of primary importance, the “runaway” portion of a cycle, when as Gann said “a great deal of money can be made in a very short period of time.” The greatest amount of profits come from determine which time from the past a market is most closely following.

Historically every market has sister markets which are almost identical with ones found in the past. You can make a great deal of money if you can identify what market you are duplicating from the past and then buy or sell in anticipation of it. Since the time periods during bull and bear markets and the sections within them duplicate decade after decade, Gann referred to this as “balancing of time.” “By watching the balancing of time and price, it will help you to determine when prices are reaching extreme highs or extreme lows.”

With a knowledge of these previous time periods you can tell how long a move will last.

CALCULATIONS:

NOVEMBER SOYBEANS 1993	LOW	HIGH
I. 757 1/2 - 555 1/2 = 202 cents 555 1/2	757 1/2	
II. 553 TO 757 = 204 cents $(14)^2 = 196$	45°	45°
III. 553 + 196 $(14)^2 = 749$	45°	
IV. 555 1/2 + 204 = 759 1/2 (Failure High)	555 1/2	757 1/2
V. 555 1/2 + 196 $(14)^2 = 751$ 1/2	Actual	Calculated
VI. 576 $(24)^2$ + 196 $(14)^2$ = 772 (Failure High)		757 1/2
VII. 576 $(24)^2$ - 24 = 552 (Failure Low)	555 1/2	
VIII. 232 + 23 = 552	555 1/2	
IX. 180 + 576 = 756	757 1/2	

DEFINITIONS:		
	Natural Resistance Point	N.R.P.
	Golden Ratio (Cardinal #)	G.R.
	Golden Cross	G.R.
	Fixed Cross	G.R.

P.S. One of my formulas projected 756-3/4 as of 7/9, hit on 7/19 757-1/2!

Swing Trade Stress Point	EIGHTS 1/8 LOW	EIGHTS 1/8 HIGH	DIFF	CHART POINTS N.R.P.	CHART POINTS G.R.	TWELFTHS 1/12 LOW	TWELFTHS 1/12 HIGH	DIFF	SQUARES
CALCULATIONS	553	757	204	553*				204	
									529 (23)
November 1993	-1/8	527 1/2			565	-1/12	536		
Soybean Contract/Actual	1/8	578 1/2		571		1/12	570		
757 High	2/8	604		577		2/12	587		576 (24)
555 1/2 Low	1/3	621		583	589	3/12	604		
	3/8	629 1/2		596		4/12	621		
	4/8	655		601*		5/12	638		
	5/8	680 1/2		607	613	6/12	655		
	2/3	689		619		7/12	672		625 (25)
	6/8	706		631 1/2	636	8/12	689		
	7/8	731 1/2		644 1/2		9/12	706		
	8/8	757		651*		10/12	723		
	9/8	782 1/2		657 1/2	664	11/12	740		
				670 1/2		12/12	757		
				677*		13/12	774		676 (26)
				684 1/2		14/12	791		
				697	690				
				703*					
				709 1/2	716				
				722 1/2					729 (27)
				736					
				750	743				
				757*					
				764					
					771				
									784 (28)
					1279				
SOYBEANS				1288					
ALL TIME HIGH		1290							
									1296 (36)
BEAN PRICES									
ROUNDED OFF TO									
1/2 CENT									

“You should always figure the time from any top or high level to the next top or high point. Also figure the time from any low level to the next low level. Then figure the time from a low level to a high level and the time from the last high level down to the low level. By doing this, you will know when Time Periods balance or come out about the same as a previous move. This is balancing of time. By knowing these dates and prices, it will help you to determine the duration of the next move.” “By studying the Tables (the examples he gave) and records given of past cycles and the time from tops to bottoms and from main bottom to main bottom and the time from main top to main top, you will be able to make up a forecast one year or more in advance. This is the reason why you must have a chart a long ways back in order to see just what position a commodity is in and at what stage it is between extreme high and extreme low.” “When you see the clouds gather you know that it is a sign of rain, and you seek shelter, because experience has taught you that certain formations of clouds invariably indicate rain or storm. When you see the same signs in the stock market that have always meant distribution in the past, you should take it as your warning, stand from under, and protect yourself against the decline.” In his courses and books, he has tables for the major time periods going back as far as 100 years in stocks and commodities. In referring to the stock market “during the period from 1892 to 1938 the time periods between the tops were as follows There were 2 at 53 months apart; 7 at 42 to 49 months apart; 4 at 35 to 40 months apart; 2 at 20 to 21 months apart; and I at 11 months, 19 days. From the above, you can see that most campaigns make tops between 3 and 4 years or between 35 and 49 months. Only 2 cases running an extreme of 53 months and 2 running out in 20 to 21 months and 1 in a little less than a year.” You can conclude that during normal times the probabilities favor a final top after the stock market has been moving higher for 35 to 40 months. But it is also important to know the extremes to which a market has gone in the past.

During abnormal or exceptional moves the longest Time Periods will help as much as eleven to fourteen weeks. We see that the average moves lasted from two to five weeks and a few from six to eight weeks. This will be a guide for you in future campaigns and enable you to figure about how many weeks a move will run in opposition to the main trend before the market again resumes the main trend.”

The value of counting the Time Periods from tops to bottoms is great. You must determine final highs and final lows. As Gann said, “Unless you know the greatest as well as the least movement, you cannot do accurate forecasting.” In another table Gann also shows the reactions opposite the trend during bull and bear markets. Listen to his conclusions. “By going over these tables you will find that only six times in over forty-two years did a move. In opposition to a trend last demonstrated this past year in silver. In Figure 1 & 2 you can see the major Time Periods from high to low in silver since 1833. From January 1864 to November 1902, the London market moved down in three sections which lasted 12 years 6 months, 111 years 5 months and 12 years 1 month. In the N.Y. Silver market from 1890 to present, we have experienced declines of 12 years 3 months, 13 years

1 month and the recent decline from January 1980 to February 1993 which consumed 13 years 1 month. As you can see our current decline duplicated the exact Time Period consumed between November 1919 and December 1932 which was the only other major decline since 1902. By virtue of our market duplicating the Time Periods of the four major bear market declines in history, probabilities were high that after a 13 year, I month decline we were very close to an historic extreme in February 1993. Ours was a very mature long-term bear market. On this occasion the obvious Time Periods helped us to “buy low.” Turning our attention to the greatest advances in history in silver, we also have important Time Periods which have repeated decade after decade. In reviewing every major bull market since the turn of the century, we see that their lengths have covered one of two approximate Time Periods. Table I lists these major bull markets by length.

The first two bull markets from 1932-1935, and 1971-1974 completed within 5 calendar days of one another. Both experienced blow-off moves into their final tops. The next four bull markets lasted between 3 years, 10 months and 8 days and 4 years, 2 months and 24 days. In other words, the length of four of the seven bull markets this century varied by no more than 4 months and 16 days. The Time Periods during these previous bull markets, tells us to look for future bull markets in silver to culminate in approximately 2 years, 3 months, or approximately 4 years. Our bull market which started in February 1993 should do likewise. Other Gann forecasting tools will help in determining which advance is most likely.

SOYBEANS Looking at the Time Period from major highs to major lows after the June 1988 drought highs of $10.99 1/2, soybeans experienced a protracted bear market that carried its price to $5.14 1/2 on July 10,1991 (Figure 3). In Table 2, I have summarized the historic record of every bear market in soybeans since 1915. Based on the duration of these 24 major bear markets from high to low and the percentage move down, we ranked as the 4th longest bear market in history as of the July 1991 low (37 months) and tied for 5th in overall percentage decline (53% off the highs). Since the longest bear market in history was 45 months from February 1925 to November 1928, end as of February 1992 we were 45 months from the highs, we had good reason to believe that the July 1991 lows would not be broken unless history was rewritten. Since this seldom happens, it was time to look for potential purchases.

Knowing the Time Periods from the past helps us anticipate major as well as the intermediate moves. Every market has certain characteristics and idiosyncrasies which are unique to that market, and can be learned only by a study of history and a study of Time Periods. Gann said “the farther back you have a record of a stock or commodity and the more you study it, the more you will understand its actions and know when it is making tops and bottoms. You should become thoroughly acquainted with the stocks and commodities you trade, and by studying them, you will learn their individual moves which are peculiar to themselves.” With the help of Time Periods, the trader can then make deductions based upon probabilities and not based upon hope, fear or guesswork. By observing the past trends, you discover the current position of a market. These previous market moves give important clues on what our market is going to do. As Gann said, “By studying past history and knowing that the future is but a repetition of the past, you can determine the cause according to the time and conditions.”

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Using Gann's Square of Nine Chart Squared Soybeans

By Jim Watkins

Greeks, Egyptians and Mynas all used observations relating to the angles and orbital patterns of stars and planets for over 4000 years. Here we shall discuss how to square the soybean market using Gann's Square of Nine Chart (with angles.) For example, the 1993 November soybean contract first created a low of $5.55 1/2 and a subsequent high of $7.57 1/2. Now starting with the northwest 45 ° line on the Square of Nine Chart, you should find two related numbers 757 and then down and around (720 °) to 553 another 45 ° N.W. line number. Taking the difference between these numbers, 757 and 553 is 204 cents. First take the square root of 204 approximately equal to 14.282857. But not adding 204 to the actual low instead use the whole number (14') +555 1/2 = 751 1/2, thereby missing the contract's high of 757 1/2 by only 6 cents; and if we used the 45° line number of 553 and added 204 cents, we would target a price of 757 missing the actual high by 1/2 cent. The 45° lines on the Square of Nine Chart were, are and will be very important to Gann and Gann followers.

Also that the actual low of 576 was struck on June 16, 1993, and using 576 one cent less than the 450 (577) northeast corner line on your Square of Nine Chart, would anyone believe that the low price of 576 is an exact square (24)2 = 576. Now we should also remember how important Gann felt that squares and 45's were: 45 °, 45 days, weeks and months and note his book title "45 Years On Wall Street." Also he said that an enormously important number was the 24th harmonic of numbers. Now what number could be more important than squared 24! (Note midpoint 1/12 on graphic.)

How about 576 (242) -24 equaling 552 and 1 cent below the 553 N.W.45° line and 3 1/2 cents lower than the actual low of 555 1/2. Further theory says that marks have difficulty going

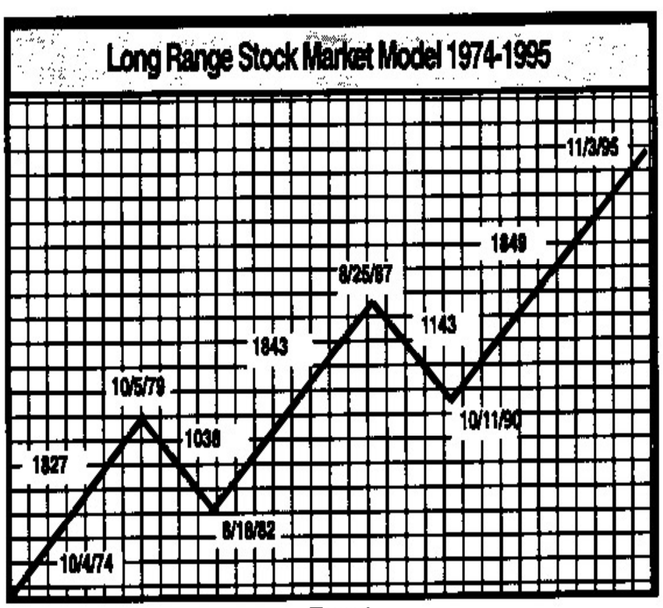


Figure 1

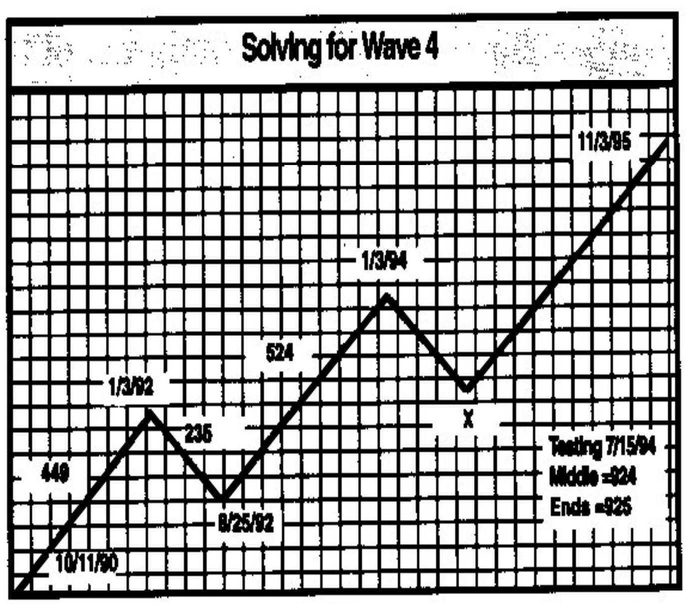


Figure 2

through 450 angle lines and the same goes for squares. So November soybeans bottomed in front of the 45° number 553 (actual low 555 1/2) and made a flash low at squared 24 (576) and promptly took off almost straight up to tick one-half cent above 757, another 45 ° line number. Then another squared number enters calculations. When we add this (14)2 = 196 to the 450 line number of 553 /196=749, only 8 l/2 cents under the actual high of 757 1/2. We can show that if we use 45° lines and squared numbers, we can find tops and bottoms for any market. The method to be used is to assume that any number in order above or below each number struck should also be struck.

Failing to touch each in-line number can be called "A Failure Point." If we add 180 (7.5 x 24) to 576 we find 756, and this number falls 1 l/2 cents below the actual 757 l/2 contract high—not an insignificant occurrence in my opinion. Than you very much Mr. Gann.

Jim Watkins is an active trader in stock, option, bond andfutures markets. Since 1988, he has drawn on his over 27 years of experience to provide daily market predictions to private and corporate investors. Jim can be reached at (901) 767-0355

Finding the End of Wave 4

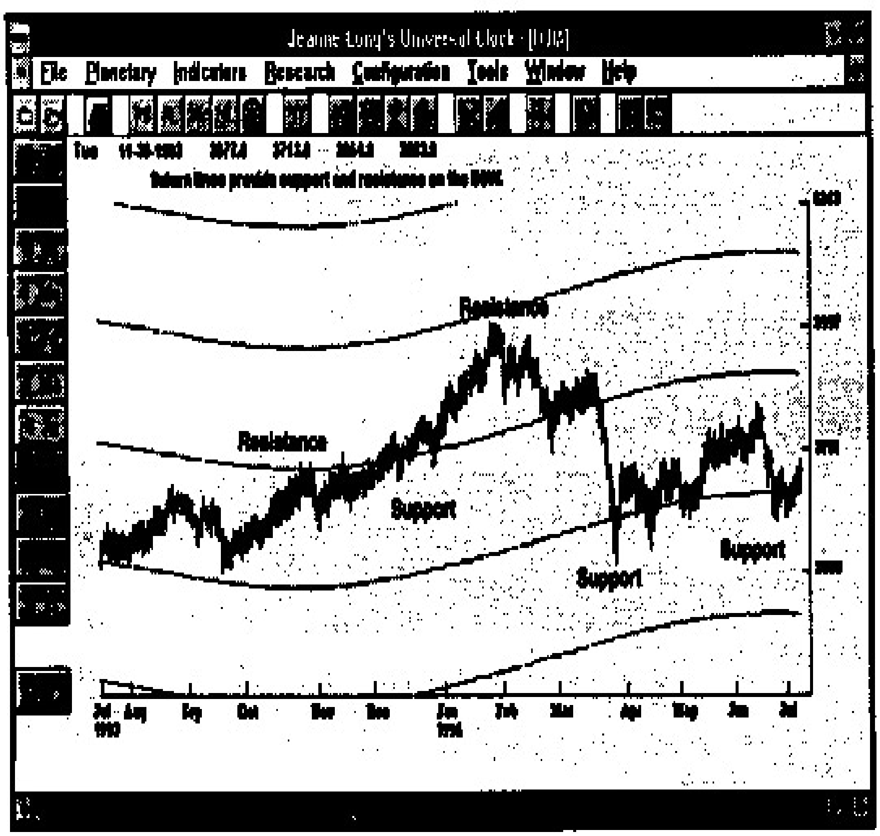
By Alan Richter, Ph.D.

I am dealing with a model where we just topped out in the stock market in wave three of five waves that began on October 11, 1990. How can we predict the end of this correction? We have two unknowns, the end of wave 4 and the end of wave 5.

By using a larger cycle that began October 4, 1974 we can make a prediction about the final end of the whole bull market giving us a possible solution to the end of wave 5. Then, we have one unknown and can solve the problem.

The model for the period starting October 4, 1974 is shown in Figure 1. The time distances of the waves obey the Fibonacci relationships as

shown:
Down time in day 2,181
(Waves 2+4)
Net time spent going up 3,338



(Waves 1-2+3-4+5)
Up time in days 5,519
(Waves 1+3+5)

This is in reasonable agreement with 21-34-55. Regarding the actual dates used for the bottoms and tops, there is general agreement regarding most of them. I used the October 5, 1979 date for a stock market high because the later dates (11/20/80, 4127181, 6/15/81) did not give good mathematical results. Also, the 1979 date makes sense because it predates much of the oil and gold inflation.

The November 3, 1995 date is 7700 days from the October 4, 1974 low, it is 3 days before the Jupiter square Saturn aspect in the heliocentric, and it makes a symmetry point about the Uranus conjunct Neptune heliocentric aspect of April 21, 1993 where the conjunction is approximately equidistant between the low of October 11, 1990 and a potential top of November 3, 1995. (I used August 8, 1982 Sunday because it met astronomical relationships best.)

Now, although the November 3, 1995 date is still a hypothesis, what happens if we plug it into the formula for the present situation?

Figure 2 shows the model for the current bull market that began October 11, 1990. Here I made use of important dates in the S&P 500 Futures On Balance Volume Chart that I prepare daily. January 3, 1992 was an important top and August 25, 1992 was an important low.

We test the Heliocentric Midpoint Aspect for July 20, 1994, Jupiter = Saturn/ Uranus. This model obeys the relationship, Middle S ec ti on (waves 2+3+4) equals the Ends (wave 1+5.) By making use of the Geocentric Ephemeris for fine tuning. I prefer the close of Friday, July 1 5, 1994 for the end of wave 4. The normal are; Down: Up: Total or Down:

Net: Up. This formula, Middle = Ends, is an example of minuscule amount of time spent going down.

Alan Richter is an independent trader. He can be reached by mail at N. 1618 Lincoln Street, Apt. 8, Spokane, WA 99205.

Now a new kind of timing software Universal Clock Software

By Jeanne Long

The Universal Clock Software is based on all of the important - concepts from Jeanne Long's best selling book "The Universal Clock." This Windows program gives quick and easy access to W. D. Gann's market reversal dates and astronomical aspects as related to prices of all commodities and stocks worldwide. The complicated planetary calculations used by W. D. Gann are now incorporated into an easy to use windows program with practical trading applications.

For the first time an astronomical program for the markets, developed by traders for traders is available at a reasonable price.

It is important to note that no prior knowledge of astronomical planetary information is necessary to put the Universal Clock Software to good use. There is no strange jargon, all menus and planetary data are in plain English. The software puts planetary timing, price predictions, planetary support and resistance, plus much more, right at your fingertips, in an understandable manner.

The program includes all of the planetary trading tools illustrated in the Universal Clock Book plus many more. These tools are briefly described below.

Price Repetition Dates: Prices often come back to a previous price range under certain planetary relationships. The software can mark price bars that meet certain criteria, such as Sun Pluto affects for Crude Oil.

Mercury aspects or Soybeans, Sun/Jupiter or the DJIA and S&P etc. Past repetition dates can be viewed on the graph as well as future dates given along with the anticipated price range.

All of the aspect models mentioned above are already built in and you need only to choose from a menu . It is easy to build more models and add them to the list for retrieval later.

Planetary Channel Lines: These planetary support and resistance lines are easy to generate on all commodities and stocks. They can also be projected out into the future to give the trader the advanced knowledge of important support and resistance zones to come. Although the planetary channels from the Universal Clock are demonstrated (see Figure I) you can, if you choose, customize the channels to range from 7.5 to 360 to fit each market you trade. The planetary lines are clicked on/off via icons. Each icon has a planetary symbol, along with the planet's name in English and which function key to press to activate the lines.

Planets crossing the Clock's sensitive points: On dates of crossing, certain markets tend to reverse. A table of past and f future dates can be printed out or the software will mark the bars on the price chart f or the various planets. Past dates are excellent for research projects, white future dates alert the trader to possible changes of trend.

The Universal Clock Wheel: For those who want to explore the whys and wherefores of planets and price, and just how planets translate into commodities and stock prices, this section is for you. However, it is not necessary to understand or use this section to benefit from the software, since the planetary/price information generated from this section is also displayed on the regular bar charts in a simple and useful way.

Other features in the Clock/Wheel section include a 5-day grid/table of planetary positions which can be displayed on the Clock. One can add planets daily and watch them go around the Clock One click on the price table will give color coded arcs at low to high of price as planets translate to price if a planet is also crossing a sensitive point, meaning a price reversal may be imminent, then it will be highlighted in a different color.

Other Features: Click on a bar and you will have a window of planetary relationships and the equivalent prices pop up for that day. You can mark offer have the program calculate the high and low swings for any market, then ask what percent of the time was a certain aspect or planetary event present at or near those changes in trend dates. The answer appears as a graph/table.

Or if you don't have a particular event in mind, you can choose a list of planets and harmonics and have the Universal Clock Software do a super search for all aspect occurrences at the highs and lows and print a table of the percentage hits for each aspect. (See Figure 2.)

Say you are interested in the stock market and the effect of eclipses. Build a swing file of the DJIA for 60 years. (by the way, you can load any amount of data, 100 years of DJIA data if you like.) What percentage of the time was the eclipse at a primary high?

Major high? Intermediate high? What about lows? The program will show you the average pattern before and after the eclipse +/- X days. The program will also allow you to scan through each eclipse individually to see it's pattern at market highs and lows. One can do the same with any planetary event or model.

The software comes with various change-in-trend date files which we will call swing files (dates labeled primary, major, intermediate or minor pivots) for several markets. Use these swings to test and build planetary models. You can ask questions about these high/low swings such as: how often was a planet(s) on the sensitive points of the Universal Clock? Or on a chart, show me the swing highs and lows marked and the dates of say eclipses, or ask what was the frequency of specific planetary relationships occurring at these highs/ lows? You can even print out an ephemeris (where the planets are located) as a monthly table or as a daily wheel.

Since the software is developed by traders for traders it allows the integration of standard technical indicators and tools with unique planetary modules. You can easily combine planetary energy models with your favorite technical indicators to help. For example: eliminate false overbought/oversold signals from RSI and Stochastics.

Technical indicators: Moving averages bars or a line of "closes" only. Update of Data: Formats include CSI, Techtools, Metastock TC200 and ASCII, daily end-of-day data. The Universal Clock Software has all of the above and more. It has context sensitive help throughout the program, is user friendly and trader friendly. In addition the software uses the tab/ folder concept to eliminate the need to search through layers of menus to find what you are looking for. (See Figure 3.) Since it is a true windows program it supports all windows printers - big, little, color, fast, slow . . .

Obviously this software is an important research tool, but it is mainly designed with use during trading in mind, It is not a complex astrological program for astrologers but a much needed easy-access planetary program for traders. It will happily accommodate in-depth analysis of all astronomical phenomena with the technical tools provided with this super program.

For more information about the Universal Clock Software, contact Jeanne Lone at PA.S. Inc., 757 SE 1 7th Street, #272, Ft. Lauderdale, FL 33316.

How to Trade a Small Account

By John Brown

Since you are reading this magazine, you have prob ably received many of the "not quite, but almost the Holy Grail" brochures. Perhaps you have taken the plunge on a few systems or seminars. If so, have you managed to recoup the expenses you have incurred for this information?

I have spoken with hundreds of traders from around the country. I have found that the majority conclude that most of what they read or study from books, seminars, or courses does not work for them in real time trading. Countless explanations for this outcome could be proposed. In this article, I will focus on a very basic issue. Since so many traders I work with are really under capitalized, I would like to address the problems facing any trader who is attempting to overcome the odds against trading futures with an account sized in the $5,000 - $25,000 range.

If we accept the prevailing view that a consistently applied, concrete trade plan is crucial for success in trading, then we can proceed to a consideration of two fundamentally different approaches to structuring a trading plan. Let us consider one approach I will term the "buy high/ sell low," or "breakout" approach, and a second approach, the "sell high/buy low," or" support/resistance" approach.

All things being equal, there are many good reasons to favor the breakout approach. If you buy new highs or sell new lows you are guaranteed to catch a trend, if indeed one is occurring. You are allowing the market to through.

Of course the degree of success in a breakout strategy will depend on the design of the system and its money management. If your thoroughly tested system or method applies consistent, repetitive, testable entry and exit criteria, and is not over-optimized, it may continue to perform well in the future—if market conditions continue to conform to variables you have isolated as the components of your system.

The breakout approach presents some sticky issues when money management is considered. Obviously, stop placement must be appropriate to allow some general "slop" or random "noise" in price action for most breakout strategies. This necessitates the use of wider stops than for support/resistance entries. Yet some breakout systems have produced spectacular profits. They make money for the trader who can stick with the system through the inevitable drawdowns and whipsaw periods. One more caveat—they make money if the account size is more than adequate to cover drawdowns.

A closer examination of the breakout approach reveals a serious flaw for the small account trader. An intelligent trader will always consider the risk of ruin for his or her trading method. The "worst case scenario" in back testing can easily be exceeded when real time trading commences. I am amazed when I hear from traders with $5,000.00 to $10.000.00 accounts, trading systems with $500.00 - $600.00 stops. They fail to consider the obvious math. A $5,000.00 account suffering seven or eight $500.00 losses, plus commissions, and the trader is out of business ! Can the trader assume eight straight losses would never happen? Why not? Certainly it can happen—and probably will—sooner rather than later.

One simple money management survival rule might be to limit our stop on any single trade to a maximum of 2% of account acuity. That means $200.00 on a $10,000.00 account. This would allow for the system to sustain 10 losses in a row, four times within a short period and still remain afloat to capture the profits which might follow if the market finally breaks out of the whipsaw mode. The odds for survival will thereby increase dramatically as the account will be less vulnerable to extended periods of unfavorable market behavior.

Of course, the obvious objection arises. With such close stops, how does one avoid constantly getting stopped out? Part of the answer is—you are right, close stops may not be applicable to many breakout methods, which must give the market more room to follow through from an initial thrust. Close stops might take the trader out of many of the biggest winners. This brings us to a consideration of our second alternative for a trading plan, the "sell high/buy low," or "support/resistance" approach. For many small account traders, this might just be the way to go.

The idea of buying low and selling high has an obvious appeal which quickly becomes complicated. Most traders have experienced the discomfort of entering a position when the market was "oversold" or "overbought," only to find that an abundance of sellers or buyers were available to take the market far beyond old support or resistance. This experience tends to discourage the continued bold futility of bottom picking or top picking.

I do not mean to propose that the only hope for the under capitalized trader is to master the dubious art of forecasting tops and bottoms. I have yet to see the merit of trying to use my opinion to turn the trend of a market, even if I can back it up with the opinions of Gann, Elliott, and a few astrologers! (Though I have found it useful to ask; "What is the trend on the longer time frame?") Rather I would suggest that the small trader must undoubtedly work harder to be among the fittest who survive. A smaller margin of error requires more precision in every phase of the trading approach. By means of pattern recognition (price action patterns, chart patterns, indicator patterns, etc.,) it is possible to develop a trade plan with a fine enough degree of precision to be tested objectively and traded objectively. What I am really addressing here is the need for more precise entry and exit criteria, with attention to favorable location of entries.

There are many ways to structure a trading system with an emphasis on favorable entries. What is necessary is to isolate the variables to make the system work in real time. Consider these examples. Trend criteria for the time frame of primary focus, vis a vis the trend for longer and shorter time frames. Criteria for retracement levels of support or resistance for favorable entry and low risk stop placement on the time frame of primary focus. Measurement of diminishing momentum on the shorter time frame, for timing of entry in the direction of the longer time frame trend. Classical reversal or continuation chart patterns on a shorter time frame for entry with the longer time frame trend. All of the above in the context of price action criteria for clear cut, objective, testable entries and exits.

It is not necessary to make a system or method terribly complicated in order to factor in these variables. In fact complication may be counterproductive for backtesting, execution, and reliability. However, I feel many systems or methods around currently are far too simplistic, with inappropriate stop loss strategies and drawdowns too large for the small account trader. With the availability of so many technical charting programs and historical data, it is quite possible to design, back test, and execute a reasonably sophisticated trade plan with entries and exits fairly close to the market.

My perspective on trade system design emphasizes money management not merely as a component or adjunct of a trade plan. Rather, it must be integral to the method or system—the foundation of its feasibility for my temperament and account size. I prefer to know a lot of details about how a method behaves in practice. How many trades per week or month? How many winning weeks? Average profit per trade, per day, per week, etc.? Duration of flat periods, and of drawdowns? Average open equity per trade, per win, per loss? How many wins above $300.00, or $400.00, or $500.00, etc.? Largest number of consecutive losses? How many streaks of 4 losses in a row? How many of 5 or 6, etc. ? The more details I can grasp from a trade by trade analysis, the better prepared I am to be able to trade the system in real time.

The reader should now recognize that this solution I am advocating is one of a very careful design of your trading plan. I am proposing a little extra work, research, preparation, etc.—time spent on identifying objective entry and exit criteria and organizing a trade plan for lower risk trading—can be very rewarding. I see no reason why a trading plan based on the “buy low, sell high approach” need be in any way inherently less effective than “breakout” strategies —if it can be objectively tested.

Of course, once a trade plan has been formulated, tested, and is deemed worthy, the real trick is to make it work in real time. For many this is the Waterloo. But all of the forgoing has been to suggest that preparation and organization are more than half the battle. This is what I endeavor to share with traders who attend my seminars on trading. The “precision” approach can provide the crucial factor to tip the scales in favor of the small account trader—smaller losses and disaster avoidance. This approach will allow the trader to stay afloat for the occasional windfall trades, and to have the courage to pull the trigger according to the plan, to partake in the opportunities available in the market.

Hopefully, there have been some ideas in this article applicable for those of you who are attempting to conquer the markets with a small account. Perhaps anything is possible for those who work hard, with a lot of perseverance. Perhaps you will discover the magnificent alchemy of consistency which can transform your small account into a large one.

John Brown is a full time trader and system designer for “All Time Trading Systems.” He also teaches weekend seminars on trading and trading system design. He can be reached at (515) 472-4606, 3-5 P.M. central time.

The Line Sine Wave of the Market

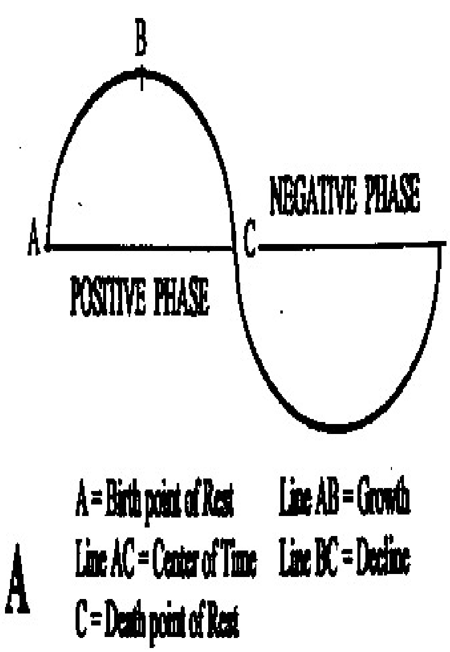
By Dave W. Franklin

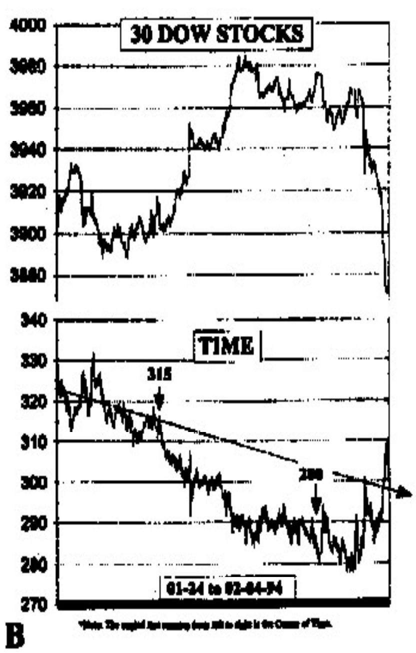
In Natural Law, the following se quence of four words describe the Life Cycle of every individual Thing in the Universe: Birth, Growth, Decline, Death. Chart A. illustrates this concept. In the Stock Market, TIme travels a mathematical path identical to those four words. This path forms the TIme Sine Wave of the Stock Market.

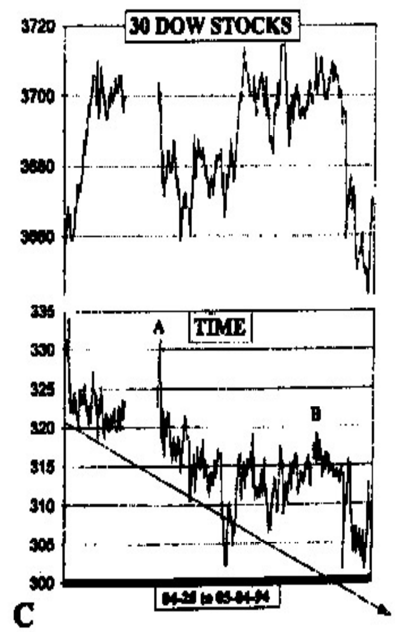
The TIme Sine Wave describes the maximum arc in degrees (plus or minus) that Natural law permits TIme to deviate from it's center or straight line. The maximum arc for the Stock Market is (+)(-) 221/2 degrees. Thus when Market TIme spirals from a -22.5 to a +22.5, it has completed a 45 degree rotation. Most important to this readership is that knowledge of the time Sine Wave provides precise calculations for squaring and for timing Highs and Lows within the Cycle.

Let's examine two actual Time periods that illustrate the Stock Market's Sine Wave. Chart B. Covers the first two weeks of the 1994 February Market Cycle. Chart C. Illustrates the second and third week of the May 1994 Market Cycle. Chart B. Shows the February Cycle tracing a negative (-) Sine Wave while Chart C. Shows

May making a positive Sine Wave. Note that when the February Market reached it's maximum deflection of -22 degrees, the market reversed. Note also from the February chart the fact that it left the Center of rume at the rlme value of 315. The market reversed precisely when Elme had achieved the value of 280, or one full Eune square down from 315. In the past six months, I have documented the fact that the Stock Market reverses on movements of one full square on the Elme Sine Wave.







May and February happen to be identical components of the Whole Market Elme Circle. By adding their respective rume waves (-22 + (+)22 = 0) we see that from February to May (a Ilme value of 90 days or 90 degrees) the Stock Market achieved a perfect me balance point of ZERO.

Many years ago I came to the conclusion that to succeed. One must mathematically know when the market will change trend. If one does not know precisely when..., one will lose. And losing hard earned money is one of Life's hardest, most bitter pills to swallow. Bottom line, you have to know when...

Before vou can know when.... vou must first mathematically know the True Trend. The True Trend always obeys the Elme Law of the Market. Whether the Cycle is an Up Market or Down Market, the Eune Law rules the trend. Stated simply, The rume Law says: 2II ME RUNS DOWN, NOT UP". Chart D. Illustrates the UP market the week of 117-94, and Chart E. Illustrates a Down Market. Note well that in opposite markets, Eune ran down.

Now take a closer look at points A and B on Chart C.. Notice that when Elrne increased by moving away from the center line, the market quickly reversed to return back to the Center of Eune. I call this phenomenon the "Backflow of Eune". rume "Back flows" and full square moves on the Eune Sine Wave are proving to be ideal set ups for profitable trades. Conclusion: knowledge of the position of Tlme from it's center line with respect to the market is the most important factor for knowing the True Trend.

Those who have followed my research are aware that there are Three Eune Cycles which govern the Stock Market. The larger rume Cycle contains 18 stocks, the smaller one 5 stocks, and the middle one holds 7. Thus, my research has independently confirmed what W.D.Gann wrote on page 78 of THE TUNNEL THRU THE AIR, wherein he stated,

Therefore, in cycles there must be a lesser, a greater and intermediate cycle, or cycles within cycles."

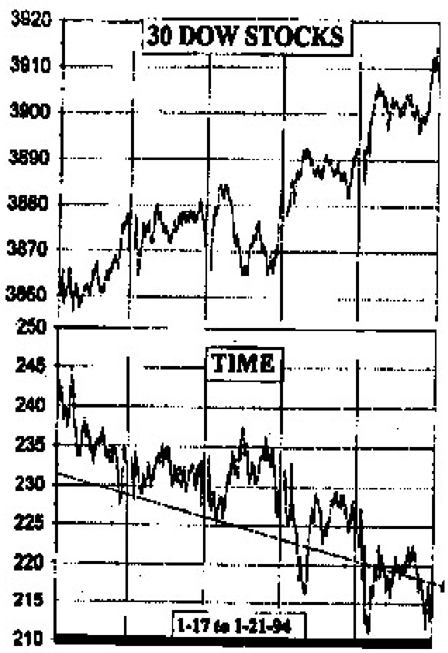
Assembled together, these Three Elme Cycles form the Market into a perfect 360 degree circle, with each individual Time Cycle contributing to the whole in direct pro portion to it's size. The Whole Market rlme Cycle is the auintessence of "wheel within wheel" construction. Properly maintained, the Market Circle (cycle) produces a PERMANENT MASTER TIME GRID for the Elme Sine Wave whereby Cycle Tops and Bottoms repeat on identical values of squares of Time.

Twenty-four years of my life have been devoted to intensive research into monetary history, banking, and Natural Law. The last six years have been dedicated to achieving an independent, mathematically rational understanding of movements in the Stock Market. With respect to the Stock Market, the research has produced the following conclusions:

l) The stock Market moves in three dimensions: Elme, Price and Distance.
2) Mathematical experience proves the most important factor to be TIME.
3) TIME calculations tell the True Trend, not Distance or Price.
4) The Market reverses on full Tlme squares of the Elme Sine Wave.

Personally, the discovery of this Tlme Sine Wave marks the zenith of more than two decades of arduous research. For me, Elme indeed, has been proven to be the most important factor for proving all things.

David Franklin is a private citizen who specializes in research for understanding the unique and seemingly impossible.


30 DOW STOCKS
3920
3910
3900
3890
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3870
3860
TIME
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240
235
230
225
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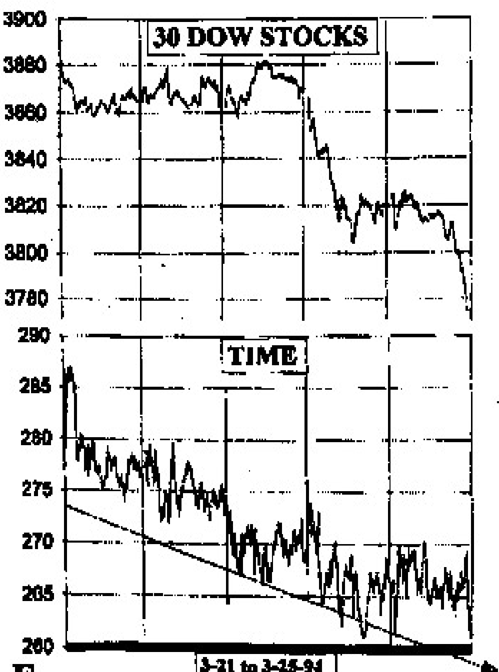
215
210
1-17 to 1-21-94

D


30 DOW STOCKS
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3-21 to 3-25-94

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The Seven Habits of Effective Futures Traders (Part Two)

By Bruce Babcock

Stephen Covey's The Seven Habits of Highly Effective People has been on the national best-seller list for years - first as a hardback and then as a paperback. In the last issue I examined how the same concept might be applied to commodity trading. The first three habits in my list were: I) Understand the true realities of the markets; 2) Be responsible for your own trading destiny and understand your own motivations; 3) Trade only with proven methods. Here ale the remaining four key habits.

FOUR. Aade in correct proportion to your capital. Have realistic expectations. Don't overtrade your account One of the most pemicious roadblocks to success is a manifestation of greed. Commodity trading is attractive precisely because it is possible to make big money in a short period of time. Paradoxically, the more you try to fulfill that expectation, the less likely you are to achieve anything.

The pervasive hype that permeates the industry leads people to believe that they can achieve spectacular returns if only they try hard enough. However, risk is always commensurate with reward. The bigger the return you pursue, the bigger the risk you must take.

It is better to shoot for smaller returns to begin with until you get the hang of staying with your system through the tough periods that everyone encounters. An experienced money management executive has stated that professional money managers should be satisfied with consistent annual returns of 20 percent. If talented professionals should be satisfied with that, what should you be satisfied with? Personally, I believe it is realistic for a good mechanical system diversified in good markets to expect annual returns in the 30-50 percent range.

FIVE. Manage risk Manage the risk of ruin when you create your trading plan or system. Manage the risk of trading when you select a market to trade. Manage the risk of unusual events. Manage the risk of each individual trade.

The risk of ruin is a statistical concept that expresses the probability that a bad run of luck will wipe you out. On average, if you flip a coin 1,024 times, you will have ten heads in a row at least once. Thus, if you are risking ten percent of you account on each trade, chances ale you will be completely wiped out before long. If your trading method is 55 percent accurate (and who is?,) you still have a 12 percent chance of being wiped out before doubling your capital if you risk 10 percent of capital per trade.

In order to reduce the harm caused by unavoidable strings of losses, you must keep the amount you risk on each trade to about one or two percent of capital. This makes trading with small accounts difficult. Another element of risk is the market you trade. Some markets ale more volatile and more risky than others. Some markets are comparatively tame. Some markets have lower liquidity and pooler fills which increases risk. Pay attention to the risk of surprise events such as crop reports, freezes, floods, currency interventions and wars. Most of the time there is some manifestation of the potential. Don't overtrade in markets where these kinds of events axe possible.

The most important element of risk control is simply to keep the risk small on each trade. Always use stops. Always have your stop in the market. Never give in to fear or hope when it comes to keeping losses small . Preventing large individual losses is one of the easiest things a trader can do to maximize his or ha chance of long-term success.

SIX. Stay - oriented. Don't adjust your approach based solely on short term performance. Our entire society emphasizes instant gratification. We are consuming our long-term capital.

Most traders have such an ego investment in their trading that they cannot handle losses. Several losses in a row are devastating. This causes them to evaluate trading methods and systems based on very short-term performance. The trader who chucks his or her system after four losses in a row is doomed to spend his or her trading career changing from one system to another.

Don't start trading a system based on only a few trades, and don't lose confidence in one after only a few losses. Evaluate your performance based on many trades and multi year results.

SEVEN. Keep trading in correct perspective and as part of a balanced life. Trading is emotionally intensive no matter whether you ale doing well or going in the tank. It is easy to let the emotions of the moment lead you into strategic and tactical blunders.

Don't become too elated during successful periods. One of the biggest mistakes traders make is to increase their trading after an especially successful period. This is the worst thing you can do because good periods are invariably followed by awful periods. Knowing how to increase trading in a growing account is perhaps the most difficult problem for successful traders. Be cautious in adding to your trading. The best times to add are after losses or equity drawdowns.

Don't become too depressed during drawdowns. Trading is a lot like golf. When a golfer is playing well, he assumes he has found some secret in his swing and will never play poorly again. When he is hitting it sideways, he despairs he will never come out of his slump.

Since correct trading is boring, don't depend on trading as your primary stimulation in life. Unfortunately, the exciting aspects of trading, such as easy analysis and trade selection, are counterproductive. Good trading is repetitive and pretty dull. Thus, if you depend on trading for your major excitement, pursuit of fun will probably cause you to lose. If you can afford it, fine. If not, seek your entertainment elsewhere. The common theme of the seven habits is self-control. As I've often said, if you can master yourself, you can master the markets.

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