Back to the Basics

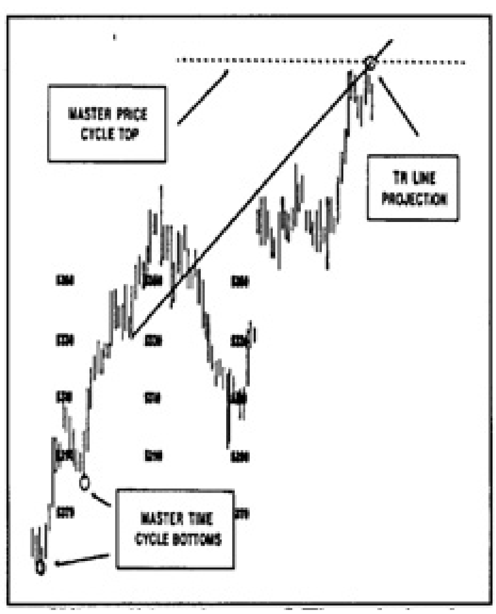
By Terry R. Davis

The key to understanding anything is by going back to the basics! By going back to the basics, I mean to understand the underlying forces that allow you to do anything. If we want to put in water lines we first have to understand how to sweat two pieces of copper pipe together. If we want to learn to drive, it would be a good idea to know where the ignition switch is. Look at our kids learning in school everyday! Learning the three R's is where most of us started our fundamental learning processes. We have built and continue to build on them all through our lives.

The concept of learning before doing has always been sound. But what does all of this have to do with the commodity markets? The great masters of trading perceived things at a different level than the average trader. If there is any doubt in your mind about this last statement I would suggest that you are reading a magazine that is dedicated to this one principal alone. The level we speak of is not a higher plane but a fundamental plane, an extremely fundamental plane. Fundamental in that the nature of their composite discoveries was not based on complicated formulas or black box computer programs but the true underlying causes the why of market action. Gann was obviously the chief spokesman for this fundamental type of trading. In fact, I have yet to see anything that he wrote that didn't fit into this fundamental mold. If the basics are so important, why do we get carried away with all of the other esoteric theories that are out there? Is it possible that in our mile-a-second world we have overlooked some extremely basic principals? The answer is a resounding yes!

If we look at any commodity chart we only have two axis. They are time and price. Let's look at time first and see what we have. Gann stated many times, "Nothing is more important than time!" Our most obvious place to start is cycles.

Libraries have been filled with books about cycles. Two statements presented in all cycle books as fundamental truths are: cycles start with the long-term and divide into smaller and smaller cycles and expect cycles to be 10-15 percent longer or shorter than the average length. These last two statements presented so frequently as fundamental truths are just not so!



When did cycles start? They obviously started at the moment of creation. Well, didn't they? How many long-term cycles were in effect after the Lord had created the world twenty-minutes ago? Not many! I am being mildly facetious to try to hammer home a point. We are trying to stick to the most basic nature of the market. Doesn't it stand to reason that we should have the most basic understanding of it for our foundation? If there weren't any long-term cycles in effect at this time, that must mean that the short-term cycles acting as a composite, make up the long-term. Does it make a difference? Yes, it does! Do we build a house from the roof down, or the foundation up? This is an exact analogy because it points to true fundamental cause and effect. If we could look at the markets with our Celestial Universal Law Book in hand it wouldn't be hard for us to determine the why's of market action. I have yet to see this book for sale.

Let's now approach number two. Cycles can be 10-15 percent off and still be valid. Where do cycles exist, just in the markets? Can we think of any in our daily lives? How about our daily 24-hour cycle. Let's see now, if we deduct 10 percent from 24 hours we get 21.6 hours. Can you imagine what the 6:00 news could do with the first 21.6 hour day. This may strike you as foolish but I am trying to establish the basic criteria for you to look at the markets in a whole new way. If cycles are not exact then how are the astronomers able to predict when the moon will be eclipsed, to the minute, 15 years from now? How are weathermen able to tell you when the sun will rise on July 23, 2006? Cycles are exact! Universal law is not haphazard. Many times in the Bible Jesus Christ said, "I am the same yesterday, today and tomorrow." Don't you think everything, including the markets, must obey universal law?

Let's next turn our attention to price? What do we know about it? It goes up and it goes down, but very little of the time is it stationary. How about cycles in price? Think about Gann's Square of 144. It is 144 trading days wide and $1.44 tall (soybeans). Could it be that there is also a price cycle co-existing with our time cycle. You bet there is! Let's go one step further and present a basic truth. Our price cycle starts at the same time as the underlying time cycle!

Before we go any further we need to take a step backward and clarify a couple of things. I mentioned in the proceeding paragraph soybeans. Are we just talking about soybeans? No! Are we talking about orange juice? Yes! What about the S&P? Yes! How about Swiss Franc? Yes! Why are all of these commodities related? Indeed, why are all commodities related? Because there are only two variables: price and time. Before all of you cycle buffs out there have a coronary let me throw you another curve! All cycles, with the exception of the precious metals are the same length. I can already here some of you crying, "Heretic, Heretic!" There are any number of you that can point to a daily chart and show me a different daily cycle for soybeans than for the S&P. I can do that same thing! What is the point?

We are searching for a basic understanding of what makes the markets as a whole function. When we look at a daily bar on a chart we see what happened over a day's length. What is our most basic time frame of trade. When markets are open don't they trade every minute? When you look at a daily bar for soybeans aren't you really looking at 225 minutes of trading? When you look at a daily bar for the S&P aren't you really looking at 405 minutes of trading? Are you starting to see how we are chipping away at the basics? Do I mean that you should be charting every minute's action? No. The time unit that I have found to be the most accurate on all commodities is the 30-minute time bar (if you pay no attention to this article and do nothing else but start applying what you are already using to this 30-minute time frame your trading profits and accuracy will go up substantially, this is a fact). Intra-day charts tell what is happening now. Isn't that when you trade, when you place an order. Of course it is. Cycles' lengths are all the same, except the precious metals, when you apply our 30-minute time yardstick to them.

We now have a way to relate all commodity markets to a common time frame. Remember that we are trying to build our foundation one piece at a time. This master time cycle is the cornerstone of our foundation, for it lets us relate each part (commodity) of the market as an individual part of the whole. This is very simplistic in nature if you will look at it as such.

We now need to turn our attention back to price. If there is a time cycle that will relate almost all markets, then maybe there also is a price cycle that does the same. Good news there is. There is a price cycle that relates every commodity, including the precious metals. On 30-minute bars all commodity moves are related to the number 44 (by coincidence [?] the lowest price cash soybeans ever sold was 44). Remember, we are talking about our basic 30-minute structure not daily. We are trying to start at the very beginning of knowledge and proceed forward one step at a time.

Let's take an example to make it clearer. Soybeans' price cycle on 30-minute charts is 44. Within the time cycle soybeans will move within this 44 range unless acted upon by other fundamental law. Another fundamental law? It is the law of projection. A noted scientist said, "There is nothing in the universe but mathematical points of force." This statement can be compared to one of Newton's laws: for every action there is an equal and opposite reaction. And finally Davis' Law: present market action predicts future market action. I hope you are starting to see that we are approaching the market as a living entity.

What are these mathematical points of force? They are a derivative of Gann lines. They allow us not only to project moves in the direction of the trend but retracements as well. Before you say, "I have seen this before!" Let me interject you haven't. Gann discovered lines drawn at prescribed angles would project a support level for prices. It seems like everyone that draws any type of trend lines, no matter what the time frame, call them Gann lines (in fact, if all of the information attributed to W.D. Gann is his, then he must have lived to be to be 200 years old). I much prefer to call these shorter term intra-day lines TR lines. The TR stand for Time Ratio. They are a direct derivative of the ratio between our master time cycle and our master price cycle. When we start applying our TR (Gann) lines to the shorter-term intra-day charts they take on much more importance and also play a crucial role in projecting exact price levels and trend change areas (in fact, the shorter the time frame the more exact these projections become. The only problem we have in going to a shorter term than 30-minutes is the sheer volume of work required to handle our charting).

Please see the chart on the preceding page which relates a little bit of what we have learned so far. It is in 30-minute bars.

I would hope you are starting to see the possibilities of this very basic nature of trading. Let's summarize our three basics: 1. Master time cycle. 2. Master price cycle. 3. TR projection lines.

These proceeding laws and the rules that govern them are all you need to be successful in the market. I fully realize that this flies in the face of complicated algorithms, computer programs and, yes, even astrology. Learn the basic underlying rules and structure of any task and your result is assured. Are the markets any different?

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Philosophy of Trading

By Les Clemens

Most people begin trading because they have heard about someone making a million dollars in a year's time and believe it is the easy road to riches. Beginning traders seem to fall into three sets of circumstances.

First: they get lucky on their first trades and make a lot of money. This leads them to believe the game is easy, so they start over trading. Within a year or two they take a big hit and their trading career is finished.

Second: they start trading with a small amount of capital and have moderate success in the beginning with winning and losing trades about evenly balanced. After a time they become impatient and increase their trading size. An unexpected event in the market occurs and all their capital is wiped out on one trade. They have no more money to put in and are forced to quit. This type person will eventually raise more money, start trading again, but probably will never succeed because they did not learn from their previous mistakes.

Third: they begin trading with limited capital and the losses are greater than the winnings. Over the next year or two the performance is up and down, but the losses increase and more capital has to be added to the account. Gradually the losing trades become substantial, the commissions add up and the question arises whether to continue trading. The decision is made to continue for another year to see if the situation can be turned around. More capital is injected and, fortunately, this trader has more capital to add. Finally, the trader becomes more experienced and trading success improves. Also, as time passes, the trader reads many books on technical analysis and attends trading seminars. The combination of the two adds to the trader's knowledge enabling him to become a consistent winner. The determination and persistence of this trader has made the difference. As W. D. Gann stated: "The difference between success and failure in trading commodities is the difference between one man knowing and following fixed rules and the other man guessing."

Most Difficult Task

To become a successful commodity or stock trader may be the most difficult task undertaken in your lifetime. Since the beginning of trading, speculators everywhere have been in search of the Holy Grail (the so-called perfect trading system). The trading system with no losses is non-existent. If everyone were winners, there would be no one to finance the game. The ratio of 90 percent losers and 10 percent winners, or 95 percent losers and 5 percent winners (depending on whose figures are used), has always been true in the past and will remain the same in the future. As you can see from the ratios, a small minority of large traders become wealthy from losses incurred by a large majority of smaller traders. This ratio of losers to winners is approximately the same ratio of wealthy people to the middle-class and poor. Did anyone ever say "life is fair?"

Hundreds of trading systems have been developed over the years in an attempt to take the most money out of the market. Many of these systems are really old techniques being revived. Of all these trading systems, only a small percentage are consistent winners. You must find the best trading system available and develop the discipline to follow its rules if you are to become a successful trader.

The Future is but a Repetition of the Past

Some people say that charts are of no value in determining the future; that they simply represent past history. That is correct. They are records of the past, but the future is nothing but a repetition of the past. Every businessman looks at his past business records to determine how to buy goods for the future. He judges by comparison with past records. We look up the record of a man and if his past has been good, we judge that his future will also be good.

Charts are simply a picture, showing market activity more clearly than words can convey. The same thing can be said in words, but is grasped more quickly when seen in chart form. A man's good or bad physical qualities can be recognized more quickly from his photograph than from a written description of him. To quote the old adage, "A picture is worth a thousand words."

Tops and bottoms in all markets are formed by patterns which repeat over and over again at different times. Once you learn to recognize these patterns (signals) you will know when to reverse your position. As the Bible says, "The thing that hath been, it is that which shall be; and that which is done, is that which shall be done; and there is no new thing under the Sun." This shows that history is but a repetition of the past and that charts are the only guide we have of what commodities or stocks have done in the past and by which we may determine what they will do in the future.

The Trend Is Your Friend

The trend of a market registers the dominating force currents from traders all over the world. It is the buying and selling of all trades and contains the condensed opinion of the majority. The trend monitors the greed, hopes and fears of traders everywhere who are trying to "strike it rich." The trend is a very reliable guide and barometer of supply and demand, it is really the great scale in which the weight of all buying and selling is weighed and the balance of supply and demand shown by the loss or gain in prices.

When supply exceeds demand, prices decline to a level where supply and demand are about equal. At this stage the daily price ranges become narrow and it may take weeks or months to determine which way the next move will be. When demand exceeds supply again, prices will advance.

The Trend always tells the truth, but the trick is, can you interpret it correctly? I always tell people, "The way to beat the market is to become an expert chart reader." This really means you must have the ability to recognize when the trend of the market has changed and then, of course, have the discipline to take a position with the trend. Time and price are the two main factors that make up a market trend. They are constantly trying to seek equilibrium or balance. The market always shows the stronger force - buying or selling, and that is what causes the trend. The trend is up as long as buying is stronger than selling and the trend is down as long as selling is stronger than buying.

Another favorite saying of mine is, "The time to look for a trend change is not as important as knowing when the trend has changed." Once the trend has changed and you take a position with the trend, you must have strong will power and a mind that cannot be influenced by news, false rumors, others' opinions or hearsay. You must stay with the trend until the chart definitely shows you the trend has reversed. A good mechanical trading system will tell you when the trend has changed. This is what W. D. Gann meant when he said, "Let the market tell its own story."

In the trend of the market there are many minor changes and quick reversals that I call noise or jiggles. The market consists of three trends - the main trend, the intermediate trend and the minor trend. The intermediate trend is the one I like to follow, as it produces good profits and allows you to stay in the trade for a fair amount of time.

In short, if you have a mechanical trading system that follows the trend and reverses when the trend changes, you will make a lot of money over time. As Gann said, “If it’s time to liquidate your long position, it’s also time to go short.” Now, do you see why I say, “The trend is your friend?”

Use a trading system that is mechanical and rather simple to understand. The more mechanical the trading system, the easier it is for a trader to control his human emotions - hope, greed and fear. As W. D. Gann said, “The market does not beat you, it is your own human weakness that causes you to defeat yourself.” Follow the rules of your trading system with extremely strict discipline. Never try to lead the market, form an opinion of which way the market is going or ask others’ opinions. Never try to pick tops or bottoms, as most traders who attempt to do so lose. You can become wealthy by taking profits of 1/2 to 3/4 from each trading range. Wait until the market shows a definite change in trend and then follow it. If you trade with the trend at all times and always use stop-loss orders, you will become a very successful trader. I am closing with my favorite words of wisdom form W. D.. Gann which I recite at the beginning of each trading day, “Prepare yourself for the unexpected to happen, which it usually does.”

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Gann's Time, Price and Pattern Factors

By Robert Miner

Gann was a wholistic trader. Just as a wholistic doctor considers all aspects of his patient's health mind, body and spirit. Gann considered all aspects or dimensions of the market in his analysis and trading. The three dimensions of the market are time, price and pattern. Trading activity is not likely to be successful unless the position of the market relative to each dimension is considered at all times. Any trading plan that is to be consistently successful must consider all three dimensions of the market before a trade is initiated.

Time Factor: Gann considered time to be the most important factor in the marketplace. If we are able to time our trades properly, we will take all the profit that is available from market activity. Market timing is the least understood and often not considered in a traders plan.

Price Factor: Price analysis is usually the easiest dimension of market activity to prepare for. Once a trader understands proportion and ratio of price activity, it is not difficult to determine well in advance the price levels that have the highest probability of reversal. However, price should only be considered relative to the time and pattern factors. The weakness of most trading systems is that they only consider price in their analysis. The result is almost a guarantee of a losing trading plan if price is the only consideration in making trading decisions. This is why virtually all trading systems and trading plans based on price alone are a sure road to failure in the business of speculation.

Pattern Factor: The trader must be familiar with past price pattern activity relative to any market he wishes to trade. All markets undergo repetitive price patterns over time. A study of past price pattern activity will reveal those price patterns that repeat over time and indicate the most probable subsequent price activity to anticipate when they are recognized.

Only when the trader recognizes that each dimension of market activity must be considered in a trading plan is success ensured. Gann recognized the importance of considering all aspects of the market at all times when he stated, "Use all the rules, all the time." There is no one rule or dimension of the market that will determine a trading plan and a cause for taking action. The importance of each factor is only relative to the position of the market relative to the other factors.

Important Time Factors for September 1989 - Gold Market	
Sept. 4 =	90 weeks from the 12/14/87 bullmarket high (Important time count)
Sept. 4 =	49 weeks from the 9/26 intermediate term low (important time count)
Sept. 5 =	62% time cycle ratio of the bull market from 2/85 - 12/87 (important ratio of past time cycle).
Sept. 7 =	Seven-year anniversary of the 9/7/82 major high (important time count and anniversary date of past important price extreme).
Sept. 10 =	62% of the price range in weeks of the 8/25/76 low - 1/21/80 high (price square in time).
Sept. 17 =	1.236 of the price high (June contract) of the 12/14/87 bull market high in calendar days from 12/14/87 (important ratio of price squared in time).

Table 1

Let's see how we would integrate each factor into a trading strategy that would indicate when to position ourselves in low risk and low capital exposure trades.

Let's take a look at the time, price and pattern position of the gold market going into September. We are going to examine how we would view the position of the gold market relative to all three dimensions of the market prior to an important change in trend. If any trading methodology or trading technique is valid, it must be able to indicate at any time in any market what decision is to be made. I will describe some the time, price and pattern factors that were evident at this point in time.

Time

There are three important time factor methods Gann described. I have described these in past articles in this magazine. 1) Time Cycle Ratios -every time cycle is related to a past and future time cycle in an important proportion found throughout all natural activity. 2) Time Counts - there are particular counts of time from prior important highs and lows that project when change is likely. 3) Price Square Time - the value of important price highs, lows and ranges relates to future time cycles. This relationship of price to time is a unique concept of Gann. (Please see Table 1).

These are all important time factors relative to major price cycles and extremes that indicated an important change in trend was probable in September 1989. There were many other intermediate and shorter term time factors that coincided with these dates. Time factors alone do not indicate whether a change in trend is likely to be a high or low or how important that change might be if it should unfold. That is why the time factor must be considered relative to the price and pattern factors (please refer to table 1).

Price

Price should always be viewed from all perspectives, not from just a single contract month's prices or the spot prices. Let's look at the price relationships of the gold market from the December 1987 high from two perspectives, the December and June contract month prices and the spot or nearest futures prices. Across the top are the dates of important intermediate term swing highs and lows beginning with the bull market high of December 14, 1987. They are labeled with wave counts for reference. The numbers in parenthesis are the price swing from the prior high or low (please refer to table 2).

The initial decline into the February 1988, low was a $92 swing, just $3.00 beyond a Fibonacci 1989, verses the June contract prices. Prices of many markets often make short, intermediate and long term highs and lows at the termination of price swings at or very near numbers in the Fibonacci series. The initial major advance from the February 24, 1985 bear market low was a price swing of $92 low verses the June contract made a bottom at a 39.3

Price Relationship of Gold

Begin		W1	W2	W3	W4	W5
	Dec. 14,87	Feb. 29, 88	June 3,88	Sept. 26, 88	Dec. 12,88	June 9,88
Sept.	502.5 (+221)	424 (-78.5)	469.5 (+45.5)	392 (-77.5)	433.3 (+41.5)	356.5 (-77)
Dec.	502.5 (+201)	441.5 (-61)	485 (+43.5)	395.5 (-89.5)	433.5 (+38)	367.5 (-66)
June	521 (+234)	429 (-92)	469.5 (+40.5)	412 (-57.5)	448.5 (-36.5)	356.5 (-92)

W1-5 = 146 (spot), 135 (Dec.), 164.5 (June)

Table 2

percent retracement of the February 1985 - December 1987 advance, just less that $3.00 from a 38.2 percent retracement.

The W3 range was 89.5 verses the December contract. W3 verses the spot contract was $77.50, just one dollar short of the W1 swing verses spot. As you can see, if a trader or investor were only to view the price activity of a single month's contract prices, this important and typical relationship of W1 and W3 would not have been evident. Verses all three price perspectives, W4 and W2 were closely related. This is another typical relationship of corrections to a trend.

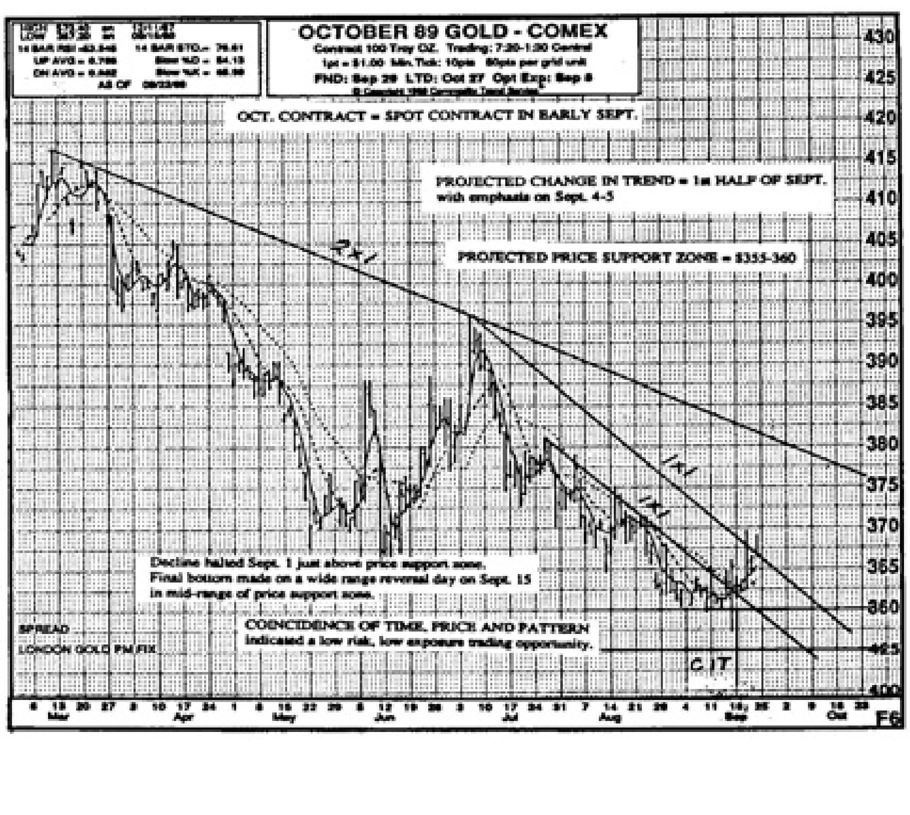
W5 was 92 verses the June contract prices, exactly equal to W1. W5 was $77 verses the spot prices, within $1.50 of W1 and W3. W5 bottomed at a $146 range from the December 14, 1987 high verses spot prices. One of the most important Fibonacci numbers is 144. The W5 low was made at a 67 percent retracement of the February 1985 -December 1987 advance verses the spot and December prices.

It is critical to view the markets from several price perspectives to get an accurate picture of the price position of the market. Many so called Gann trading and analysis experts ignore spot prices. Gann did not, and neither should you. As you can see, the spot price relationships were critical in understanding the price activity from an intermediate and long term perspective.

The various price factors indicated that the $355-$360 price level would have a high probability of resulting in significant support. There were many other price factors relative to prior shorter term price cycles that also indicated support at this price zone.

Pattern

The weekly spot chart for gold is illustrated on the following page. From an Elliott Wave perspective, gold may have made a textbook five wave pattern into the June 1989 low. The wave/price relationships certainly exhibit the symmetry typical of such a pattern. Gann described this typical price pattern long before Elliott's work. Gann described it by stating that, "Most



trends terminate after three sections in the direction of the main trend." If the June/September double bottom verses spot prices is to result in an important low from where a rally will ensue that will at least correct the entire decline from the December 1987 high and will be greater than any other rally since the December 1987 top, the June/September double bottom must not be exceeded verses the spot prices.

The intermediate term time, price and pattern factors had all indicated in advance that an important low was likely to form in the first half of September near the $355-$360 price zone. It must be emphasized that all this information relative to each dimension of the market was available in advance of a change of trend.

When time, price and pattern coincide to indicate a high probability of a change in trend, we are able to enter a position in the market with low risk and low capital exposure. Let's look at a trading strategy that would take advantage of our time, price and pattern analysis.

Trading Strategy

Assumptions: 1) Time Factor - the cluster of longer term time factors indicates that the first half of Septermber is likely to result in an important change in trend. The most important time period is likely to be September 4-5. 2) Price Factor - the price zone of $355-$360 is likely to result in significant support. 3) Pattern Factor -price pattern activity indicated the completion of a longer term price pattern in the $355-$360 price zone. If price were to reach the important price support zone in the time period indicated, a low risk opportunity to enter a position would be presented.

Gann stated throughout his work to only enter a position on, "indications of change in trend. In other words, go with the flow of the market activity. No matter what the market analysis indicates, have the patience to wait for the market's activity itself to indicate change before taking action.

Price made a low June 9 at 356.5 verses the spot contract right in the important support price zone. The price and pattern factors indicated an important low was probable. However, the time factor was not yet evident. On September 4, price tested that low verses spot prices. The time factor now indicated an important longer term low was likely at this price and time. The market was now making a double bottom at an important price support zone, completing pattern that typically results in an important change in trend at a time period that

indicated change was likely. A trade should only be entered when the market activity itself suggests a reversal in trend.

My strategy was to enter a long position on any day beginning September 5 (September 4 was a holiday) that price made a reversal day. In other words, a day when a new intraday low is made with a close above the prior day's close. Each day a new close only order is entered if a new intraday low is made. Reversal days do not unfold at every top and bottom, But when they do at the coincidence of time, price and pattern indications of change, it is a sure sign of at least a minor change in trend.

On September 15 price makes a new low and closes above the close and high of the prior day on a wide range reversal day. A long position is entered at the close at $369. Stop is at $362.50 or one dollar below the prior low of September. Normally I would place the stop one dollar below the low of the reversal day. In this case the reversal day was such a dramatic, wide range day that it was not necessary to place the stop that far away from the close of the reversal day. If price was to continue to advance, it should not exceed the nearby minor support prior to the reversal day low.

Three days later, price makes another wide range advance and exceeds the reversal day high and close. The low of September 15 is confirmed for at least a minor advancing swing. Once an initial swing high is made and exceeded, confirming the continuation of the advancing trend, the stop will be advanced.

We can never know how far or how long a trend may continue. The objective is to enter a position at the coincidence of time, price and pattern in order to position ourselves for an extended trend swing. If the reversal and subsequent swing results in a minor move, I have at least reaped a small profit that keeps me in the game for the next opportunity to position for an extended swing.

At this point in time (October 30), the price activity has not confirmed the September 15 low as a longer term low. With the stop advanced with the rally above the initial swing high of September 27, at least a modest profit of $1000 per contract is ensured. Only a weekly close above the July high (390 spot) will indicate the continuation of the advancing trend.

There are no certainties in the market place. The best a trader can do is to develop a trading plan that takes advantage of the time, price and pattern factors and trading strategies. 'Trading success is ensured to the trader who follows proven trading techniques and strategies and exercises the discipline to only enter trades when all dimensions of the market indicate reversal of trend or trend continuation.

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The End of the Fifth Wave

By Dan Akin Dimock

Perhaps, but although it might increase the number of winning trades, the average profitability of each could suffer. Also, much more is involved than just looking for five waves. To illustrate, let me give you a "pop quiz," asking you to solve one of the problems I present to my students. If according to the corresponding pattern involved, one could know which Elliott movements would end in three waves and which would end in five, could outstanding results be achieved? Is such knowledge all that is really necessary in order to earn a profit? Let's talk about it.

Elliotticians recognize that wave sequences of the same degree numerically alternate in the sense that threes follow fives and fives follow threes, and that the one exception to this alternation occurs only within counter-trend movements, where threes as well as fives can follow threes. But the final wave of any corrective pattern (other than triangular) will always subdivide into five waves rather than three.

Obviously, we can't know for certain whether a movement is going to actually develop into three or five waves until the fact occurs. We can only anticipate the event through the implied forecast of the previous pattern. But because five is the maximum number of subdivided waves of the same degree that may occur within any wave, it makes our trading a lot safer by waiting to enter a position at the end of that number. And because most corrections end with five subdivided waves rather than three, which works to our advantage, we are able to enter our trading positions with far less risk in order to capture most of the profitable primary movement that follows.

But suppose a trade is entered upon the completion of a five wave movement which is assumed to be wave (please refer to figure 1), with the expectation of profiting from an immediate change in trend to the opposite direction, which does occur. To monitor this new movement we use the knowledge that all odd numbered (main trend) waves always subdivide into five smaller waves, as would be the case if wave 1 of the larger five wave primary trend followed our entry. But instead, the wave we have entered subdivides into only three lesser waves. It is then followed by an abrupt reversal which quickly eliminates all profits. One way to address this

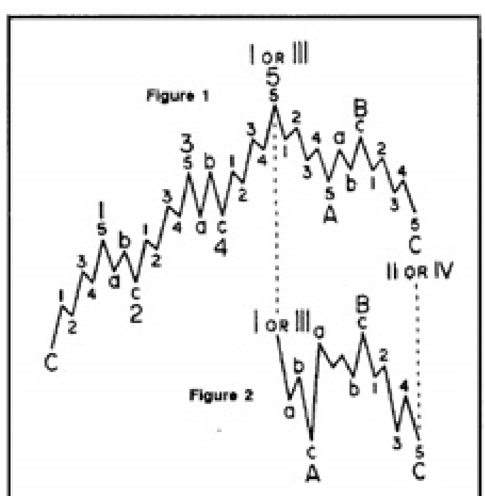


Figure 1 and 2

would be to never hold a profitable position beyond the conclusion of three waves of the same degree as the five waves that preceded them.

Conversely, suppose a market is expected to end on three waves (which it does, temporarily). But at this point the three waves are incorrectly interpreted to be the three waves of a corrective A-B-C (5-3-5) zigzag pattern. Because of this mistake the trader assumes the corrective phase is over and therefore takes a position in the opposite direction. But after a pull-back, the market then resumes its trend to complete a five wave movement (5-3-5/3-5) against the newly established position. One way to deal with this, other than by using stops is to rely on the Principle's "guarantee" (as I interpret it, but some would disagree) that no movement will fail to develop in less than three waves. By this, the trader can wait for the market to retrace, in three waves, back toward the point of entry where a less damaging (or a break even) point of exit may be taken. What do these examples teach us? To never enter a position at the end of three waves? Or to never hold a position beyond the conclusion of three waves?

Consider: The market has just completed five waves. Are we immediately headed into a correction, or has one just ended? Look again at figure 1, but no fair peaking at the answer. Does the big picture that immediately comes to mind speak so loudly that it's difficult to hear what is being asked? Did your first thought tell you one thing, because that's what it appeared to be; your applied understanding yet another, because you looked deeper? Did Elliott write it, or, are you (like me) so accustomed to seeing, and therefore visualizing the five impulse waves of the familiar lightning bolt that is used to properly illustrate his writings, that it tends to override his written explanation of the Principle?

Now for the answer to the five wave question. Did you answer yes, no or maybe? Either answer could be correct, depending on the five wave pattern involved. They don't all indicate the same outcome, therefore more information is required. Of the six possible patterns, five may be seen in figure 1, and one in figure 2 (incidentally, it was a trick question, let's refer back to it now). The question requires another question. Which wave containing five waves has the market just completed? By knowing which five wave movement is currently ending, we can know what the next wave will likely be (implying where the market is headed, relative to where it is) and thus how, or even whether, to trade it.

Interlocking Patterns

And so we see that more information is needed than just the number of waves in order to make intelligent trading decisions. For instance, wave formations have special identifiable characteristics which exist only in certain patterns. The skill to recognize these must be developed. In knowing which of these formations are indigenous to which patterns for their correct interpretation, the serious Elliott Wave student can substantially reduce the number of surprise occurrences that plague the unprepared trader. Identifying characteristics uniquely individual to each wave, and noted how various waves would only interlock with certain others just as with separate

Through association, he or she can know how to reasonably forecast in the earlier stages what each completed pattern will likely be (whether three or five waves), before the "guaranteed" third wave (and occasionally the first) of that pattern has ended. The experienced Elliott analyst can then more frequently anticipate, and take defensive measures against many unwelcome events. This is where the pay off can come in the form of much higher profits from winning trades and less draw-down in the fewer losing ones.

In reality, we know that these various patterns (which develop from the price activity reflected on bar charts) do not develop independently of, but rather because of and in harmony with the other market conditions. That’s what makes the Elliott Wave Principle the valuable gauge that it is; collectively reading and inputting these combined conditions into one visible overall pattern out of the many possibilities that could develop. And by progressively narrowing its options in reaction to the trading in mass, will settle on a single identifiable pattern which alludes to the precise beginnings of the next market reversal.

As Frost and Prechter observed, “If you keep an hourly chart, the fifth of the fifth of the fifth (wave) in a primary trend brings you within hours of a change of direction in the market. It is a thrilling experience to pinpoint a turn, but never get hooked on the Principle so deeply that you refuse to recognize other technical tools.”~2~ And R.N. Elliott made this comment about his findings, “Investment markets themselves progressively foretell their own future.” He went on to explain, “Waves indicate the next movement of the market by their patterns whose beginnings and endings are susceptible to definite and conclusive analysis. (3)

Please read Elliott’s statement again, and note particularly the words definite and conclusive. Unhedged words from an accountant who spent the better part of his life in a profession requiring the utmost in accuracy to describe that the markets are saying, first hand, what they are going to do next. What Elliott had uncovered was the language, a visual language of patterns, which the markets use to communicate how many waves a current movement, and the next, will sustain, and in which direction. But that language must be correctly interpreted in order to provide value to you and me.

So Elliott isolated and labeled each wave, making correct interpretations possible. He observed special pieces to a puzzle. He found these interrelated waves would then develop into repeating and therefore recognizable patterns that would connect to and imply what form the next pattern would commonly assume and in what configuration it would normally end, with no gaps occurring throughout the entire process.

To the best of my knowledge, this unbroken chain of interrelated patterns has not failed to appear on any day in any market during the approximate 55 year span that first of all Elliott, then his personally trained and licensed students, and then those that were to follow after, began applying his discovery to the markets (incidental, for those Fibonacci readers, The Wave Principle was written 34 years into this century, parts of which we are now discussing 55 years later, 89 years into the century).

Endnotes:

(1) Another type of C wave, which always subdivides into three waves, occurs only in triangles.
(2) Frost and Prechter, Elliott Wave Principle, Gainesville, GA; New Classics Library, Inc., 1978, p. 72.
(3) Ralph Nelson Elliott, Natures Law, chapter XIX, 1948.
(4) If you are new to Elliott, this book is the place to start. If something less involved than a book is preferred, you could begin with Numerical Structure, by Dan A. Dimock. This book has a simple, step-by-step format on the elementary level. Available from the author.
(5) Two particularly fine and educative newsletters are The Elliott Wave Theorist, edited by Robert Prechter, Jr., and The Elliott Wave Commodity Forecast, edited by Dan Ascani. Both are available through New Classics Library, Inc., (404) 536-0309.

Dan A. Dimock is a registered trading advisor. Professional services include: personalized Elliott Wave instruction,FR.E.D. (sin) managed accounts and fee consultation. The Dallas Institute of In vestment Finance, P0. Box 742422, Dallas, TX 75374 -2422; or call (214)248-7822.

Symbols, Numerics and the Law of Vibration

By Gregory LeGrand Meadors with Helen Meadors and Neal Chabot, Ph.D.

Gann never fully revealed (his methods for market VT forecasting. Therefore, if we wish to reconstruct his methods, we must go back and study his sources of knowledge - the places from which Gann himself discovered his secrets. Gann's published writings provide clues to his sources of knowledge. In his January 15, 1921 Journal of Commerce interview he states that his calculations are based on, The science of letters, numbers and astrology.'

Another reference is found in his book Tunnel Thru the Air (which many have overlooked) where Gann states (chapter seven), "I am a believer in the Bible. It is the most wonderful book ever written, a book of science, philosophy and religion. I claim that all scientific laws are laid

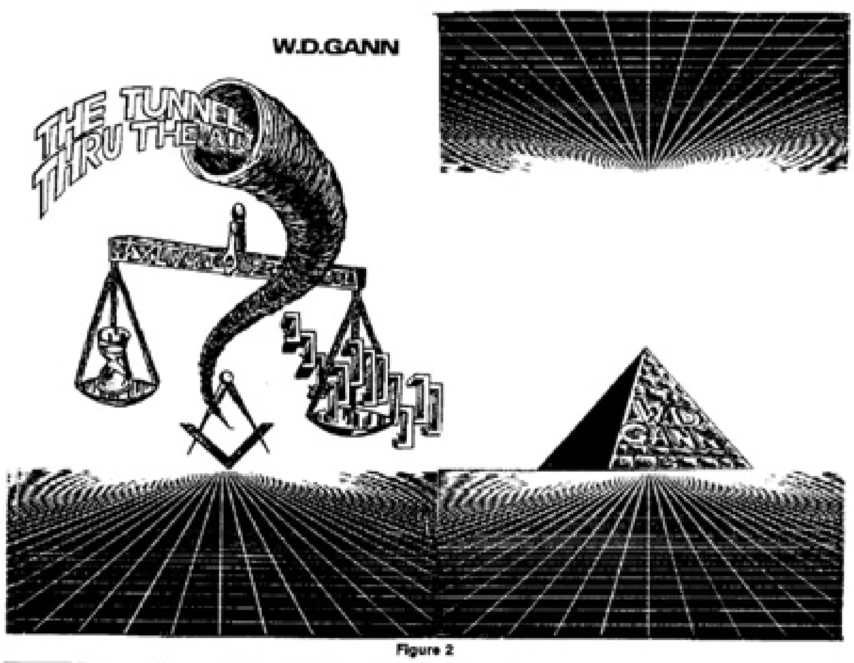


Figure 2

The front and back cover designs from Gann's book, *Tunnel Thru the Air* reveals a purposeful use of Masonic symbolism and numerical values. Gann's use of Gematria and numerics is particularly evident by his choice of the shortened version of the word through. THE (2+8+5=15=6) TUNNEL (2+3+5+5+5+3=23=5) THRU (2+8+9+3=22=4) THE (2+8+5=15=6) AIR (1+9+9=19=1). When the values for these words are added together the total equals **22**, a "master number". The master numbers (**11, 22, 33**) are not always reduced. The numerical value of the word THRU also equals **22** which leaves the remaining words having the value of 18 (666). The numerical total of all the letters equals 94 which reduces to 13 (9+4). The numbers 13, **22** and 666 are the numbers of Solomon (SLMN=1345=13=4; OOO=666) which again total **22** (6+6+6+1+3). (see 2 Chronicles 9:13). The subtitle of this book is *Looking Back From 1940*. The total numerical value is 83 which reduces to the master number **11**. The total number of letters & numerals in each title equals 19 for a total of 38 which again is a master number (3+8=**11**). When you add the 1940 date value (1+9+4+0=14) to the total value of the consonants in the second title you obtain 52 (Gann's square of 52) and when added to the vowels you obtain the well known Gann number of 45, which is engraved on the balance beam. The geometric pattern above and below the pyramid is symbolic of the concept "as above, so below". The 12 price bars can represent the 12 major constellations. Published by Lambert Gann Publishing, Pomoroy, Washington.

Figure 1

down in the Bible if a person knows where to find them.”

At first glance Tunnel Through the Air appears to be a “fictional” love story unrelated to the financial markets. On a deeper level, however, this book expose Gann’s most important sources of knowledge in this book, both through its content and in the symbolism of the book cover design.

The back cover of this book displays the Great Pyramid, which is also pictured in the Great Seal of the United States (Figure 1). The pyramid shape is also found in the arrangement of the 13 stars on the U. S. Treasury Seal. Students of the Great Pyramid have found in its structure many forms of knowledge (known since antiquity), including geometry, mathematical ratios, astronomical correlations and even dates at which future events would occur!

As we wrote in a previous article, Beyond Gann.~ Number Vibrations (G&EW June ‘89), the symbolism contained within the Great Seal of the United States and within the U.S. Treasury Seal provides keys that open doors to market timing knowledge. Since the Treasury Seal is on all U.S. currency, wouldn’t it be fortuitous if the key to understanding the financial markets (U.S. Treasury) has been in our wallets all along? With knowledge and understanding it is possible to achieve amazing accuracy in forecasting the markets.

We have previously discussed Gann’s use of cosmic influences. In this article we shall also discuss some of Gann’s other methods. We will demonstrate Gann’s use of the science of letters and numbers as applied to his writings, the Bible and the markets.

We must go back in history to a time when letters and numbers were much more interrelated than they are now. Many would be surprised to learn that the ancient Hebrews and Greeks had no numerals as such. They performed arithmetical calculations with the letters of their respective alphabets. In Hebrew and in Greek, letters also served the function of representing numbers. Therefore, every word, had a numerical value based upon the sum of the letter values.

In ancient manuscripts including the Old and New Testaments, not only are the numbers of chapters, verses and pages indicated by combinations of letters, but there are many examples of special spellings and unusual phrasing that also have simultaneous symbolic meanings. Biblical

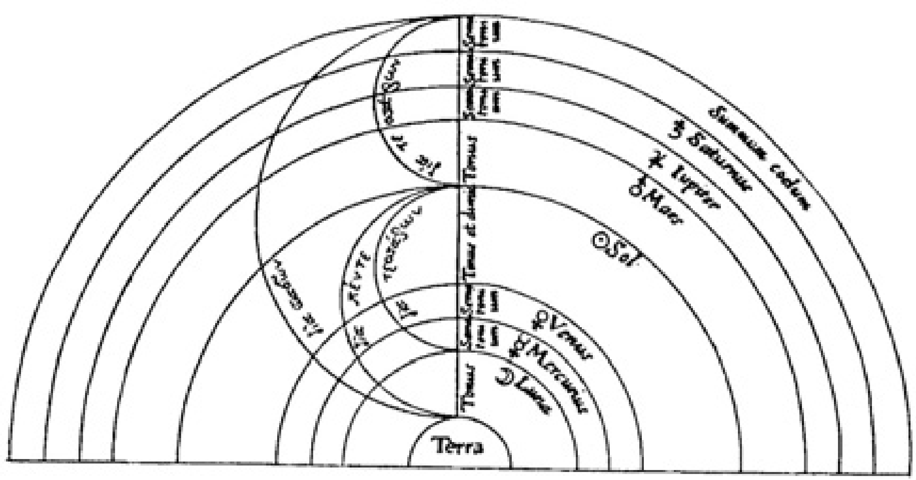


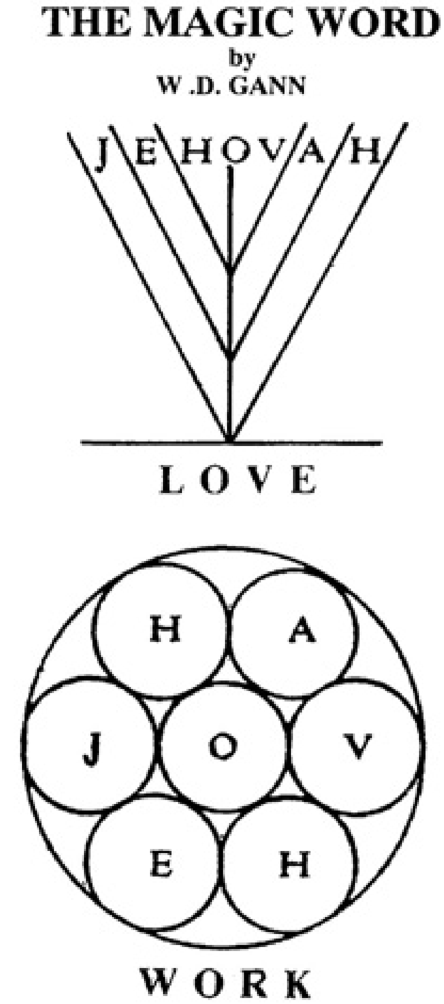
Figure 3

The intervals and harmonics of the spheres.

In the Pythagorean concept of the "music of the spheres," the interval between the earth and the sphere of the fixed stars was considered to be a diapason--the most perfect harmonic interval. The above arrangement is most generally accepted for the musical intervals of the planets between the earth and the sphere of the fixed stars. From the book *The Secret Teachings of all Ages* by Manly P. Hall (footnote 6).

interpretation based on the numerical values of letters and words is called Gematria, which is probably derived from the Greek geometry, whence comes the English noun, geometry. It is a fact that in the composition of the Old and New Testaments, and other ancient writings, this number-letter code method was utilized in order to preserve a record of arcane knowledge, while at the same time concealing the real significance of the writings from those who were not initiates. Gann's use of arcane knowledge is evident in his writings, and some of the symbolism he made use of is also preserved in the Great Seal of the United States and in the U.S. Treasury Seal.

We have deciphered the symbolic correspondences within the Great Seal of the United States and the U.S. Treasury Seal, providing us with valuable keys to forecasting the markets. The pyramid symbol on the dollar bill was placed there by some of our Founding Fathers, many of whom, like Gann, were Masons. The front cover design of Tunnel Through the Air (Figure 2) also contains Masonic symbols which signify natural laws. For



The Electromagnetic Spectrum

Frequency Hz		Wavelength m
10^{25}		
	cosmic rays	10^{-16}
10^{23}		
		10^{-14}
10^{21}		
	gamma rays	10^{-12}
10^{19}		
	X-rays	10^{-10}
10^{17}		
	ultra-violet	10^{-8}
10^{15}		
	visible light blue red	10^{-6}
10^{13}	infrared	
		10^{-4}
10^{11}		
	microwaves	10^{-2}
10^{9}		
	radar U.H.F. V.H.F. F.M. radio television	1
10^{7}	shortwave radio	
	A.M. radio	10^{2}
10^{5}	medium wave radio	
		10^{4}
10^{3}	long wave radio	
		10^{6}
10		

Figure 4

Just as we emotionally react to electromagnetic vibrations of the visible spectrum (sight), we also respond to other cosmic electromagnetic vibrations which cause psychobiological changes, thereby affecting mass investor psychology.

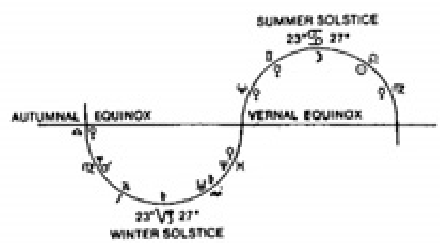


Figure 5

The seasonal Sun/Earth cycle is usually displayed as a wave pattern starting with the Spring Equinox (Aries) which is traditionally used as the beginning of the Zodiac. However, by following the Scriptural reference to the *midpoint of times* thereby using Libra as the starting point, a hidden correspondence can be revealed in the wave pattern. The constellation Libra (said to be governed by Venus which represents love and money) is symbolically represented by the *Scales*, which appear in the cover design of *Tunnel Thru The Air*, Gann's letterhead logo, and also within the U.S. Treasury Seal. Obtaining knowledge of the cosmic influences for market timing requires viewing the heavens from a historical perspective. To see a symbolic message revealed in the Sun/Earth wave pattern turn the page on its side.

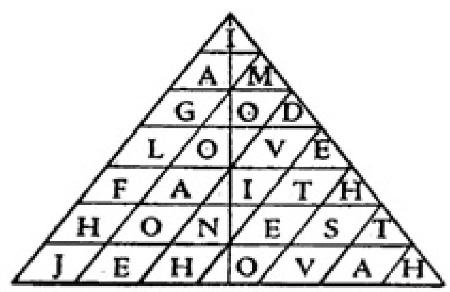


Figure 6

Gann's book *The Magic Word* contains three symbols. The top symbol contains six 60-degree angles (6 x 60 =360 circle/cycle) and when combined with the vertical line provides the seven points, which is symbolic of the Jewish Menorah. The candlestick can represent the seven known planets of Biblical times. The seven circles contain the Seal of Solomon (Figure 5). The Seal of Solomon also appears in the astronomically designed Stonehenge (Figure 8), and symbolically in the planetary pattern that occurred during the Harmonic Convergence August 25, 1987 top (Figure 9). Each degree angles made by each of the seven lines from the base of the Pyramid to a side equals 1/7th of a circle.

example, interwoven in the balance beam are the Roman numerals XLV representing the 45 degree angle -- the major angle drawn on price charts for major support and resistance. This number also represents a complete cycle, as the numbers one through nine added together equal 45.

The scale is balanced between price and time, which is symbolic of Gann's technique of squaring price with time. The Masonic pictures of the compass and the carpenter's square also represent the 90 degree angles of a square and the 60 degree angles of an equilateral triangle (the geometric structure used in the Seal of Solomon).

The number of segments of the triangle (three) added to the number of segments of the square (four) equal the number seven. Gann considered the number seven and its multiples to be critical vibration points in price and time. The number seven also has numerous correlations with Scripture and with natural laws.

One Biblical correlation to the number seven (and its accompanying vibrations) is revealed in the story of Jericho where the children of Israel followed seven priests blowing seven trumpets for seven days in their march around the city of Jericho, and on the last day circled the city seven times (Figure 5) before its walls fell (Joshua 6). Gann considered the number 49 (7x7) to be the "death zone." Note that the Dow Jones 1987 first quarter record breaking rally stopped when the Dow reached 49x49 (2401) on March 26, 1987. This was immediately followed by a sharp 120 point two-day drop which offered knowledgeable traders over 100 percent profit in OEX put options.

In another Biblical correlation, Noah was commanded to take into the ark all clean beasts by sevens (Genesis 7:2). The often heard story of pairs of animals going into the Ark and commonly

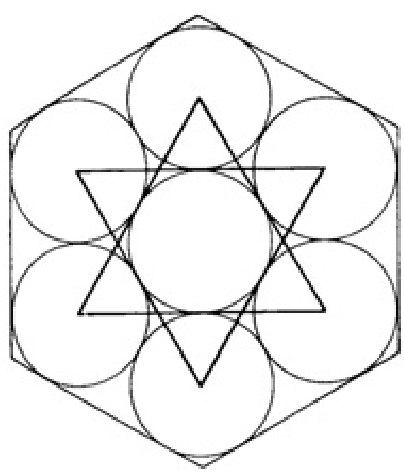


Figure 7

The article *Beyond Gann: Vibration Inversion Points* (February 1989 issue of G&EW) reveals the numerous correlations between major market turns and certain geometric planetary patterns that correspond to the structure of the Seal of Solomon.

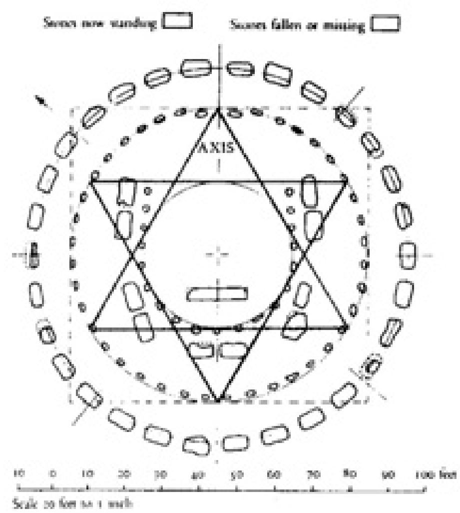


Figure 8

The ground plan of Stonehenge overlaid by the Seal of Solomon. Design from the book *The Dimensions of Paradise: The Proportions and Symbolic Numbers of Ancient Cosmology* by John Michell. (see footnote 6) pictured in Biblical stories refers only to the unclean beasts.

A notable feature in the Hebrew Tabernacle was the Menorah, a golden candlestick with seven branches. Gold represents the Sun and the seven branches may also represent the seven known planets in Biblical times. In Revelation we also have the seven angels which stand before God, also for the seven Churches; and the seven Spirits which are before his throne which God sent forth into all the earth. The number seven also appears in Revelation exactly 52 times -- the number of weeks in a year and the basis for Gann's square of 52. The people of biblical times used a lunar calendar which was based upon the seven day lunar phase. Interestingly, when we add the numbers from one to seven we arrive at the sum of

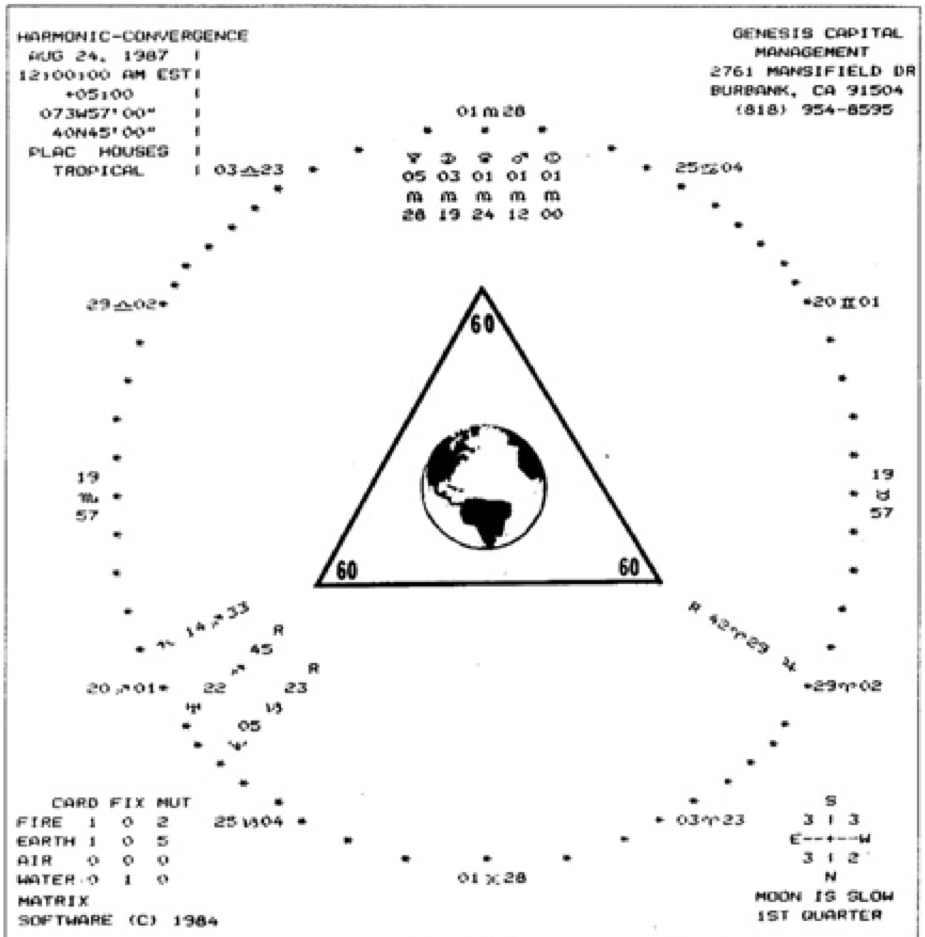


Figure 9

As viewed from the earth (geocentric), on the date of August 25, 1987 (stockmarket top) the inner planets were all in conjunction. This multiple conjunction occurred exactly **18** (**666**) months and **180** degrees from the *future* February 1989 eclipse. However, when the planetary pattern is viewed from a different perspective the cosmic pattern reveals the geometry of the Seal of Solomon with a **666** vibration. King Solomon received **666** talents of gold (Chronicles 9:13) each year (Sun cycle). Gold is said to represent the Sun which in turn is represented by the constellation Leo symbolized by the Lion (or the beast). Could the number of the beast of Revelation (**666**) be a symbolic representation of the Lion referred to as a beast in Revelation 4:7? The Amplified Version of this well known Scripture clearly states that **666** must be ***deciphered*** for its true meaning: "Here is (room for) discernment - a call for the wisdom (of interpretation); let any one who has intelligence (penetration and insight enough) calculate the number of the beast, for it is a human number - the number of a certain man; his number is **666**. (Revelation 13:18 Amp).

Interestingly, the numerical value of the *52 letters* of the NEW YORK STOCK EXCHANGE INCORPORATED, WALL ST, NEW YORK, NEW YORK equals **666**. Was it just coincidence that the 1987 high was **66.6** times the crash lows of this century (July 8, 1932). When the Sun enters into the constellation *Virgo* (the woman clothed with the Sun; Rev. 12:1) at the Autumn Equinox, it rises at 6 A.M. Six hours later it reaches its zenith, and in another six hours it sets (**666**). The word Solomon means Sun in three languages and thus an expression of *light*, as well as of knowledge, and understanding.

28- the number of days of a lunar cycle.

More importantly, our sense of existence correlates with our visual perception which can differentiate seven colors, and these are but a small segment of the electromagnetic spectrum. The human body also contains numerous sevens in its construction which is neurologically structured like a receiving antenna for electromagnetic waves and vibrations of many kinds. Just as we emotionally react to the visible electromagnetic spectrum (light vibrations), we also respond to other electromagnetic vibrations (invisible light) of cosmic origin (Figure 4). It is from this electromagnetic scale (ladder) that the planetary Laws of Vibration were developed by ancient philosophers. A ladder of correspondences in which various planets were correlated with the notes of a musical scale was the basis for the divine harmony known as "the music of the spheres (Figure 3)."

This leads us to the most important and (up to now) least understood of Mr. Gann's methods -- his planetary Laws of Vibration, in which he correlated cosmic vibration with stock and commodity prices. In our previous article entitled Harmonics and the 1987 Stockmarket Crash (Nov., G&EW) we demonstrated several unique and advanced scientific techniques using celestial harmonics with biblical astrology for market timing which has proven to be far superior to traditional astrology. Cosmic vibrations are influenced by planetary patterns. These patterns have a present and historical correlation to price patterns in the markets. This demonstrates that human emotions of optimism and pessimism in the market are often a reflection of these cosmic vibrations.

In the 19 70's a study of historical price movements in the stock market was undertaken with the support of influential persons in universities, government agencies, and major corporations. The findings were published in the book, Man and Cosmos, which revealed that stockmarket price movements had a high degree of correlation with cosmic cycles and planetary positions. Man's psychobiological rhythms of pessimism and optimism were shown to be a reflection of cosmic rhythms.

The importance of obtaining knowledge of cosmic patterns and of the elements is revealed in the following Scripture: "For he gave me sound knowledge of existing things, that I might know

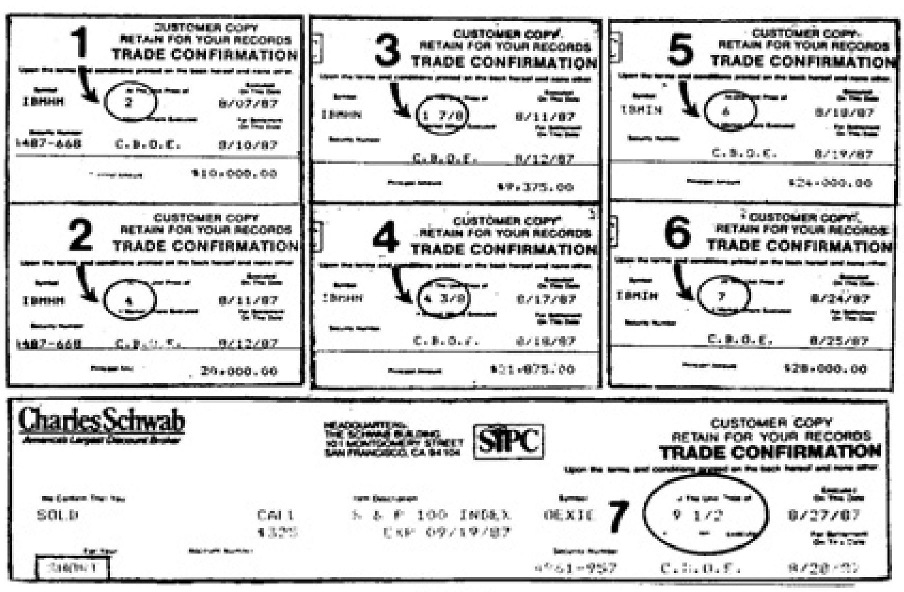
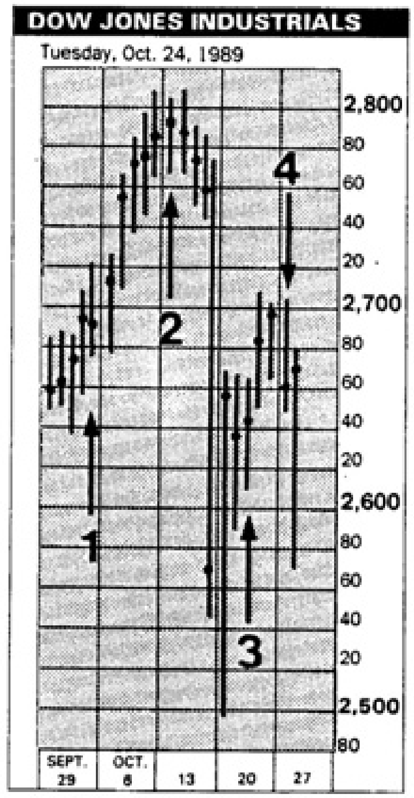


Figure 11

Actual trade confirmations demonstrate the leverage of stock options. IBM stock options generated over 250% profit when IBM stock increased 10% from 160 per share to 176 during the August 1987 Harmonic Convergence!

the organization of the universe and the forces of its elements, the beginning and the end and the midpoint of times, the changes in the sun's course and the variations of the season, cycles of years, positions of the stars . . Such things as are hidden I learned and such as are plain; for Wisdom, the artificer of all, taught me (Wisdom 7:17-22 N.A.B.)."

With the knowledge of the historical correlations between cosmic rhythms and psychobiological rhythms (mass investor psychology), we were able to forecast the exact August 25, 1987 all time high six months in advance based upon the future Harmonic (planetary) Convergence (see Newsweek article August 17, 1987 on the Harmonics Convergence). Interestingly, this cosmic event correlates with the following Scripture: "And a great sign (wonder warning of future events of ominous significance) appeared in heaven, a woman clothed with the sun, with the moon under her feet (Revelation 12:1 Amp)." The top of the stock market occurred at the time of the



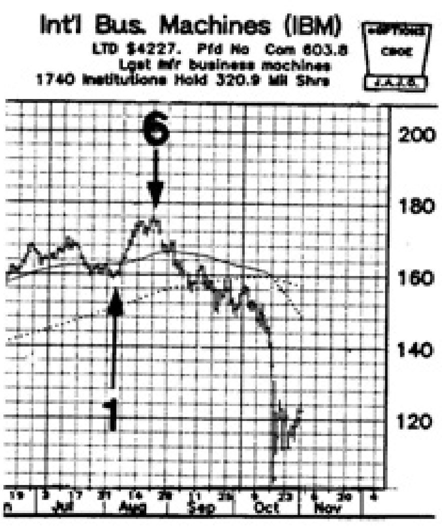


Figure 12

In the September 29, 1989 *Market Systems Newsletter* we stated, "As of today it appears that the direction of this *(fast)* move will be to the upside (until October 9th). For those who like to trade short-term, the following dates have the energy for some **interesting counter-trend** moves. Look for what we believe will be minor downward or counter-trend moves on the 9th, 12th, 19th, 23rd, 27th and 31st. The **9th** and the **27th** are the most important. However, October **23rd** is 34 tradings days from the September 5th high and the 24th is a one-year anniversary date."

The above graph from the October 29, 1989 newsletter shows that the October **9th** trend change date was the exact closing high of the Dow. Note that the September forecast for the *fast up-move* ended when the S&P 500 index reached exactly 360 (6 x 60; circle, cycle) which was exactly 144 (Fibonacci) points from the October 1987 Crash lows. The Dow reached exactly 53 squared. This was the start of the downturn leading into the *(Friday the 13th)* 190 point one day "mini-crash".

Virgo new moon (woman clothed with the sun and moon) as the Sun, Moon, Mercury, Venus and Mars had left the constellation Leo (element of fire) and entered the constellation Virgo (element of earth). It was a very rare multiple geocentric conjunction of the inner planets (Figure 9) which formed multiple 120 degree aspects (angles) to the outer planets. Thus the fiery overheated stock market reversed direction and came down to earth.

The cosmic patterns that occurred during the grand Harmonic (planetary) Convergence foretold the stock market 1987 top. Remember Gann's statement in Tunnel Thru the Air "In making my calculations on the stock market, or any future event, I get the past history and find out what cycle we are in and then predict the curve for the future, which is a repetition of past market movements. The great law of vibration is based on like producing like (as in repetition of wave patterns). Wireless telegraphy, the phonograph and the radio are based on this law. The limit of future predictions based on exact mathematical law is only restricted by lack of knowledge of correct data on past history to work from." This quote ends on page 77 in Chapter seven symbolizing the Masonic 777 sequence which is repeated in the letter total in the phrase "United States of America" Again, Gann's source for perfect market timing was knowledge of the natural laws and of the Heavenly music which sings with the knowledge of coming events. (Job 38:6-7)

1) The book The Great Pyramid Decoded by E. Raymond Capt. explains how the Great Pyramid reveals Biblical prophecy and time cycles.
2) From the book The Great Seal of the United States by Paul Foster Case.
3) Trade confirmations in the October 1989 Gann & Elliot Wave show that we enjoyed a 130 percent profit from the OEX "put" options.
4) The article Harmonics and the 1987 Stockmarket Crash reveals how Biblical references, celestial harmonics and the April 1987 eclipse of the Star Arcturus (the bear watcher) (Job 38:32-33) portended the October Crash! See advertisement or send $5.00 for reprint.
5) Historical astronomy claims mythology fathered the delineations of the heavenly bodies, but it is evident that the classic fables and myths, surrounding the constellations, are mere corruptions and imitations of an older and original composition. From the book Glory of the Stars (a Biblical study of the Zodiac) by E. Raymond Capt.
6) The Genesis Stockmarket Home Study Course includes over two dozen books, some of which are referred to in our "Beyond Gann" series of articles.
7) The numerical value of the 21(777) letters in the phrase UNITED STATES OF AMERICA totals 84 (7x12) which is the cycle in years of the planet Uranus. The consonants have a total value of 39 (3x13) and the vowels total 45.

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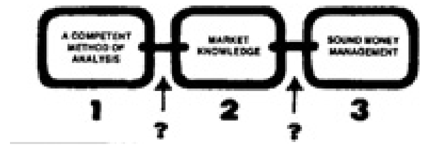
The Chain of Command

By Robert Krausz



You are looking at the Golden Chain that is owned by every successful trader on Planet Earth-there are no exceptions. If we examine the chain link by link, we find that each link is of equal importance and all three depend on each other. If one is dropped or is weaker than the others, the entire chain collapses. When the three links in the chain are checked out and the trader feels convinced that he has all under his command and still loses money, that is when the true importance of the small interconnecting links is realized. The question marks in the above illustration become gigantic and overbearing. When the trader finally realizes that discipline is not enough to hold the chain together and that P.S.M. (Psychological Self Mastery) is required to transform a chain of burden into a chain of command, only then can confident trading begin. First let us examine the links in the chain.

LINK #1--A COMPETENT METHOD OF ANALYSIS

A competent method of analysis, otherwise known as a good trading method. Without this you are dead in the water. The question has to be asked, “What can be classified as a competent method?” The word that counts is competent. Many books have been written on this subject, mostly of no use at all to the full-time trader or investor. I will list what I, as a professional trader, consider to be the essential features of a competent methodology:

A) The methodology should show you clearly when the contract you are tracking has gone into a trendrun.
B) Advance warning setting up when the trendrun is possibly aborting.
C) Sufficient warning that congestion may be ending and a trendrun may commence, with an indication of the direction of that trendrun.
D) It should keep you in that trendrun for the maximum time possible (naturally keeping this within the frame of reference of the methodology).
E) The technique should help to define support and resistance areas to enable the trader to buy support and sell resistance, and not to rely on breakout trading which tends to follow the herd instinct.
F) All of the above points should be applicable to any time period that suits your TPT (Traders Psychological Temperament). What is the point of using a trading technique that only works on the daily barchart, when your TPT is clearly suited to the hourly time period? Not only will you lose money, you will finish up in the losers corner together with 90 percent of all commodity traders.

Please realize that we are discussing here the minimum requirements. the features of placing stops correctly has not even been mentioned. The speed with which you can become aware of being incorrect is also an important part of a good technique. The whole essence of a workable methodology is to provide the trader with a frame of reference that enables him to act under virtually any market condition, and that action should be more often correct than not.

LINK#2--MARKET KNOWLEDGE

Having market knowledge may sound corny or even childish, but how many of you really know how the markets actually work? Have you ever been on the trading floor in Chicago or New York or London? If not, why not? Even G.P.'s visit their local hospital sometimes.

Do you know the other players in the game their strengths, their weaknesses? What is their role in the markets? Which of them are market movers?

Do you know who are the market makers in the commodities you trade? Have you ever shaken the hand of the floor trader who actually places your orders?

Do you know why sometimes your order can not be filled, even though it traded through your price point? What are the most important segments of the trading day? How can all of the various government figures effect your contract? Are you aware of the difference between cash and futures of your preferred commodity? Do you know your brokers birthday?

LINK #3--SOUND MONEY MANAGEMENT

Sound money management is a big subject; some people consider this to be a part of competent technical trading technique. Some small portions, such as stops, could possibly be, but your trading ability will increase if you master this as a separate subject.

This is bottom line stuff, and if you want to stay in the game for years to come, this subject has to be mastered. Unfortunately, this has been a much neglected matter in books, seminars and magazines. Why, I do not know.

The basic concept (what ever your approach) has to be to place only a portion of your trading capital at risk each time you commit yourself to a trade. What percentage of your capital are you prepared to place? For how long? How much are you ready to lose each time you enter the market? Thirty percent at risk, or even 80 percent? Does it depend on how strong each trade is? It must be obvious that these questions have to be answered before any funds are committed to the market.

There you have the three links that make up the chain of command. Do you have all three under control and the discipline to carry it out and still you are losing in the markets, or just breaking even? Perhaps a tiny profit for the large risks you are taking? So what is wrong? Are we talking about the old greed and fear syndrome? No, it goes much deeper than that. The name of the game is confidence. Not the surface, shallow confidences of the showman, but the deep, solid confidence that comes only from knowledge of our own behavior during the stress of trading.

Instead of examining our trades, we should check how we reacted to a small loss. Were we too euphoric over a good profit? Was our judgment correct when we found ourselves on the wrong side of the market? This kind of self analysis may eventually lead to P.S.M. This road is very long, but there is a shorter and more sure route. What we are saying here is that confidence in our knowledge of links one, two and three is the foundation, but the glue that holds all three together is confidence.

The question marks in the illustration are most appropriate, as virtually every trader at some point in his trading life reaches the question mark stage. Is P.S.M. possible to a degree where confidence is automatic, without taking ten years to reach it? The answer is yes. The human brain does not care whether you are a large or small trader, the lack of confidence is registered day after day in the same area of your brain. The more it registers as such, the more stressful your trading becomes, and the more stress, the greater the imprint on the brain. To achieve P.S.M. this imprint has to be erased, and until it is erased, stress-free confident trading on regular basis is very hard to achieve.

To understand this process, we need at least a general idea as to how the mind works (of course, the writer is aware that it is more complicated than the description here, but for this purpose, a simple explanation must suffice). Actually, the brain is a large muscle, there are two spheres: the left brain and the right brain. Each side has its own function. The left side handles mostly logic, numbers, linearity and analysis. The right brain on the other hand does a totally different kind of job imagination, music, color, conceptualization and rhythm. The left brain is also responsible for keeping us safe and in control. If you doubt this, have a couple of vodkas and see what it does to your Left brain.

If we are to erase the unwanted imprints from our brain (and this absolutely has to be done if we are to change our low level of confidence), then it is necessary to access the part of the brain that can do this job for us quickly and efficiently.

Furthermore, it is not enough to erase the imprints we do not need, but they have to be over ridden with positive images that will bring about P.S.M.

Our brain emits from the second we are born (some may say even before), a brain wave energy that can be, and is, measured. During our normal every day activity, our brain emits 14-21 cycles per second. This is universally called the beta level. The next level below this is called alpha, and here the brain waves drop down to 7-14 cycles per second. We have a still lower level called theta, but we are not concerned with this here. The reality is that, although during the alpha level our cycles drop to the 7-14 range, the actual energy rises. This can be put to use.

What we have to realize is that while we are at beta level, our conscious mind is in full control of our activities. In fact, it is your conscious mind that stands as a guardian over all your actions, keeping you safe and filtering out the messages from your subconscious mind.

It is your right brain that tends to act in concert with the subconscious mind and it is your subconscious that we have to tap into to do the job in hand. Our primary purpose is to lower our brain waves to alpha level where the conscious mind is put to sleep so to speak, and is no longer acting as a guardian at the gate, and we can now gain access to the subconscious mind. Why do we want to do that? This is the seat of your memory, all of your actions and outside stimuli are recorded here since the day you were born. All of your good and bad habits emulate from here. If we want to change any of our behavior patterns, this is the place to start. We are extremely fortunate that the subconscious cannot differentiate between reality and imagination.

Therefore we can take advantage of this and tell our subconscious that we are already happy, confident traders and it will accept it as reality. Not only will it accept it but it will help with all its might to create that reality. Such is the nature of our subconscious mind. This is the reason why creative visualization! hypnosis/subliminal tapes work.

Now it is up to us to create the situation where we can lower our brain waves to alpha level to access our subconscious in a relaxed state. Once this level of relaxation is reached the habit altering work can begin. I have worked with a number of traders and within four to six sessions of self hypnosis with creative visualization and goal setting the confidence level rises dramatically.

From that point onwards the road becomes smoother, and the trader realizes what confident trading really means!

Robert Krausz is a full-time independent trader. He is the producer or the “Subliminal Tapes” for traders, master hypnotist and member of the British Hypnotist Examiners council. He lives in Florida.

Angle Plotting

By Jack Weiss

W.D.Gann said, 'Time is the most important factor in the forecasting of market movements. Joseph Rondinone, a student of Gann's in 1954 (just a year before he died), agreed in theory with the master, but Joe could never find a reliable way to incorporate time with commodity market price movements. Gann stressed anniversary dates. Joe found them to work sometimes and not work others.

After nearly thirty-five years of trial and error, Joe discovered a reliable trading method that would fuse price relationships with time (or more accurately, space). Joe calls it The Presto Five/Four Angle Trading Method. As far as is currently known, it is a unique system of plotting and trading.

The basic principle behind angle plotting is this: more emphasis must he placed on wide (or big) trading range days than on small ones. All technical traders have only four values to denote each day's trading action: the open, high, low and close. Conventional chartists plot each day on a single vertical bar line. The open is usually shown with a slight hash mark on the left of the bar, the closing price with a hash mark on the right side of the bar. It matters little if the day is a big, active day or a small congestive one.

Trend lines are drawn to suit the chartist and he then decides on his trading strategy. The most frequently used trend line is the standard forty-five degree line from a significant low or down from a prominent peak. It is Joe's contention that what appears as a forty-five degree angle on a conventional bar chart is really not representative of what has happened in the market. In other words, a twenty-five cent move in beans should carry more significance than a five cent move. And it is not uncommon for such trading activity to happen side by side.

Joe knew there had to be a better way to flush out Gann's price and time theory. Joe realized that it was just a matter of simple logic that four values (open, high, low and close) could not give a true picture of one day's trading activity.

So after years of experimentation, Joe developed the angle plotting method. This method gives weight to the open and the close of each day in relationship to either the high or low of that particular day, using a preset angle.

Figures 1 and 2 represent the same thirteen days of trading in the September 1989 Yen contract. Figure 1 is the conventional method used by Gann. The open is indicated by a small

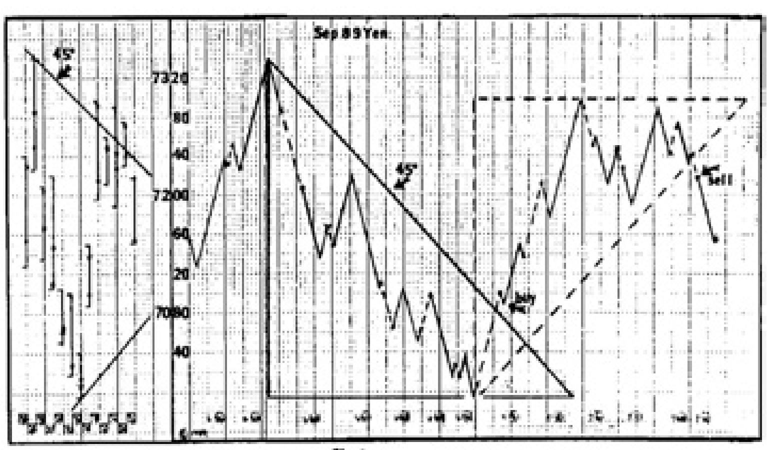


Fig 1 Fig 2

dot and the close by an “x” on a vertical bar which is capped on either end by a left-pointed high mark. This denotes the entire day’s trading range.

Figure 2 shows the same data, but in the angle plotting method. A solid line triangle encloses the trading activity from the second day forward. As the price descends it eventually fills the space toward the apex (where the forty-five degree angle and horizontal line meet). The price must either go lower, thus expanding the size of the triangle, or else trade above the forty-five degree line. As seen, the price jumps the forty-five line, immediately signaling a buy

The upthrust in the market is shown enclosed within dash-lined triangle (Joe does this to simplify chart reading). The price moves into a consolidation phase and then breaks down once again and gives a sell signal.

Both Figures 1 and 2 show forty-five degree lines. In the conventional chart picture, the long side trade would be missed entirely. In all probability, the trader would have decided to go long upon the upside penetration of the downsloping forty-five line. This would have resulted in a losing trade as the market immediately went into a consolidation period of four trading days, then went lower.

Figure 2 gives an entirely different chart picture. It shows that until there is a violation of the angle plotted forty-five degree line the trader should stay with a profitable position. The trading confidence this one principle gives the trader is invaluable for maximizing opportunities.

There are seven trading principles used in the Presto Five/Four Trading Method. Each principle has evolved from several decades of research. It is evident that Joseph A. Rondinone has taken W. D. Gann’s work to another level when it comes to fusing price and time. Joe believes his work will revolutionize technical analysis and conventional charting methods. After seeing Figure 2, you may agree.

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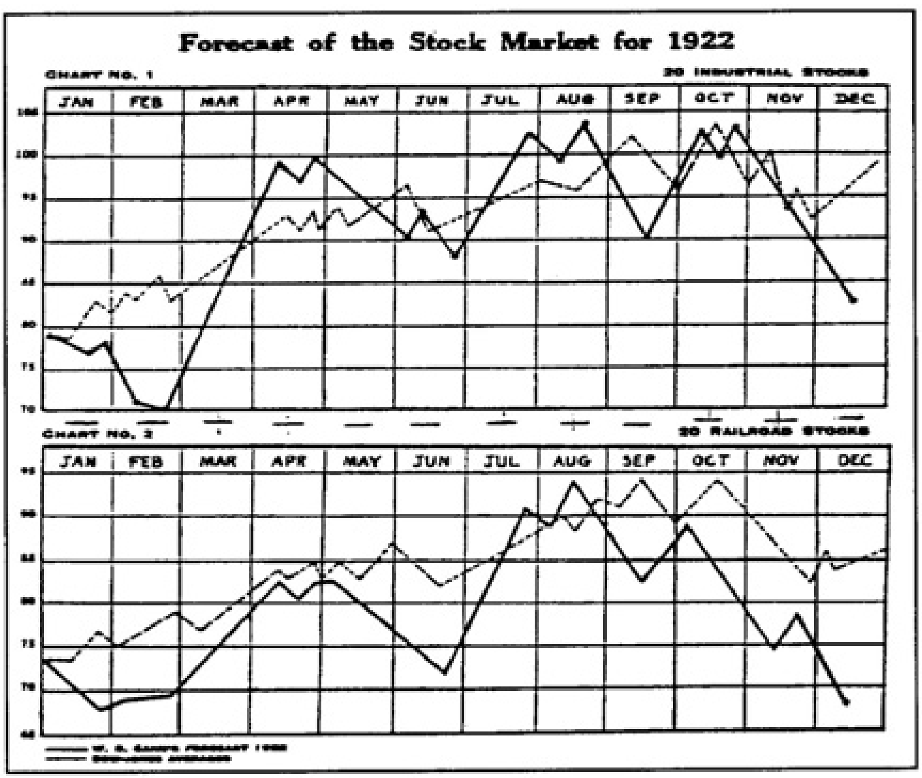
Gann's Annual Forecasts - Part Five

By Chuck Carpino

In all the articles I have done on Mr. Gann's forecasts, the one theme that I have been most impressed with is his accurate predictions on the general trend for the year. His 1922 predictions continued his streak of correctly anticipating the overall trend. Figure 1 shows his industrial and railroad curves for the year with actual price comparisons.

He knew that the year would be a bull market, especially the first six to eight months. Originally, he felt that the end of the year would be bearish and that some severe declines would take place. He revised that portion of his forecast in two supplements issued in September and November. In the former, he correctly changed his low from September 15 to the 30. In the latter, he notified his subscribers that stocks had bottomed in late November and would not decline any further in early December like his original forecast had predicted.

In the 1922 forecast, Gann predicted three highs for the year. One high would occur in April, with the other two in August and October. The three highs forecasted for 1922 is an example of his preoccupation with numbers, especially the number three. Whether the market was making three peaks, three sharp up days in a row or three lower lows in a trend, Gann felt that the



This year indicates a Bull market in stocks, especially the first six to eights months. The latter part of the year is more bearish and some severe declines will take place. The year 1922 promises greater properity for this country, improved business conditions, and a much better outlook than was experienced in the latter part of 1920 and in 1921. We will have some unfavorable periods at times and our Government will be confronted with some serious problems. There is danger of war as treachery is shown on the part of some foreign power who is supposed to be our friend. But the major influences favor success and general prosperity.

Figure 1

number three had a special meaning. He anticipated a change in trend after the third time the same event occurred. This pattern of threes will occur so often that it deserves to be the subject of discussion in a future article of Technically Speaking.

The astounding aspect of Gann's 1922 forecast was the prediction of the possible yearly high for October first to the 15 or 18 to the 24. The actual peak came in at 103.43 on October 14.

As for his monthly trends each month, you can judge for yourself whether he was correct. It seems his railroad curve was more accurate than his industrial forecast. In this year, some of the cycles just did not work out. Specifically, the late February lows, the late April tops and the mid-December lows failed to materialize. I have always said that his method was not perfect and that at times the cycles will simply not work. However, in the long run, his method is the most consistent and accurate of any available today. I say this because I know it is possible to draw a monthly curve with the correct highs and lows that will closely match stock prices most of the time.

To support this statement I have not only included a comparison of my July, August and early September forecast (written July 10 for this magazine's October - November issue), but also my September (figure 2) and late October -November (figure 3) forecast as projected in my monthly newsletter, The Timefactor. From these charts, you can see how it is possible to project future price trends and the highs and lows. During this July through mid-November time

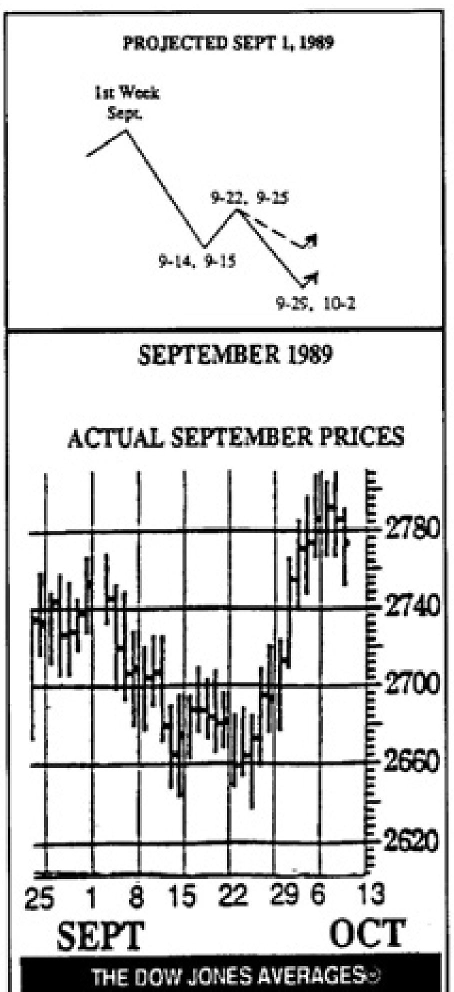


Figure 2

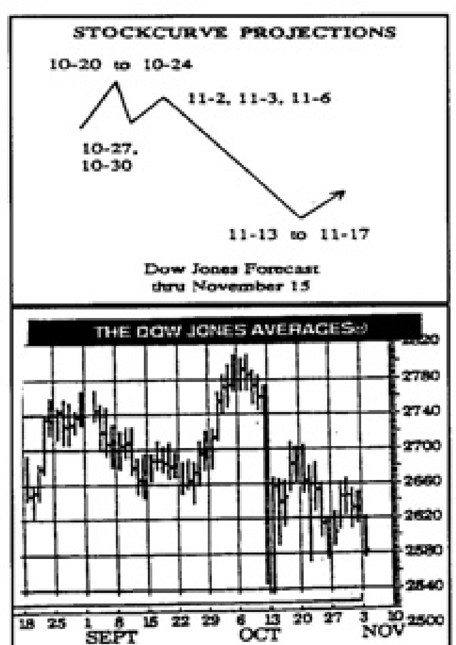


Figure 3

span, the only error I made was the drop into October 13 - 16. I simply made a mistake in my analysis and missed that low (it was definitely there). It would have been impossible though, for me to indicate the magnitude of that drop.

In regard to the composition of Gann's forecasts, you might be interested in knowing that the price movements to double tops or lower tops is more interpretive than objective. Let me give you an example of this in Gann's 1922 forecast of the railroad averages. He shows in his curve that the October peak will be a lower top than the August high. Actually, the October peak was a double top. He hedged this lower top prediction for October by stating in the narrative section of the forecast that, "It is possible if the rails are leading and are very strong that the October top may be nearly as high as the August top."

Now you know why my forecasts will usually only be done 30 days in advance. One gets a better feel for the internals of the market and the general mood of the market and one can more easily determine if prices will make only a small rally into projected tops or a larger rally to new highs in our top projections.

As you can see, Gann hedged his projection because he did not have a black box or a crystal ball to give him all the answers. He did however, have a scientific method that worked better than what anyone else has been able to formulate. Unfortunately for the general public, he never revealed how he did it in any of his commercial bonds or courses.

I suggest that for those with inquiring minds to read his 1909 interview with Wycoff. In this article, he hints at his technique in conceptual terms. When you grasp the concept, you can then begin your research that will eventually lead you to confidently make the kinds of specific forecasts shown in this article.

Balance of November

According to my cycle work, the Dow should make lows the week of November 13 - 17. The first day it closes up that week will identify the low. Stocks should rally until the 20 -22 and then make another low around November 29 or 30. Bonds are consolidating sideways to slightly up which is very bullish, because in the week of November 13 the cycles in bonds will begin to push bond prices higher.

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