The Secrets of Internet Day-Trading

By Larry Jacobs

Are you interested in day trading stocks and futures on the internet as a business? If you are, then you need to know the secrets of how to do it right. This article will tell you what tools you need to get started and some techniques that work. The day trader now has the tools available to him on the internet that were once only available to professionals. You can start off part time or you can go into it full time. The capital you have to work with and the monthly income you need to live on has a lot to do with which way you go, full or part time.

The information in this article is gathered from reliable sources which Traders World Magazine has acquired from its association with traders. This article is written from the perspective of these people who make a living from trading. They love what they do and have studied the markets to be successful at trading.

The Tools You Need

The first thing you need to do is get setup with a reliable on-line broker. If you are trading both stocks and futures, you may need to use two different on-line brokers. Many on-line brokers don't handle both. There are many on-line brokers, so you need to find the one that is right for you. The two most important things to look for are low cost commissions and speedy fills. By speedy fills, I mean getting the order there and getting the fill back as fast as possible. This is so crucial, that even seconds count! This might mean the difference between a profit and a loss. Why is speed so important in getting your fill back? One reason is, you can't really put in a sell order until you know you have purchased the security or futures contract. Most electronic on-line ordering systems are for stocks, but there are now beginning to be more for futures trading. Look into ZapFutures 800-441-1616, Robbins Trading Company 800-453-444, PMB 800-6PMB INC. They all have state of the art electronic trading.

You should be trading by placing exact prices to get in and out of the market with stops for your capital protection. Market orders alone just won't do it. Avoid firms that will just allow market

Dual Trading Monitors

orders even if they charge a much lower price. That's because they make money with a market order on the difference in the spread. You can't afford to use market orders. Your key to success as a day trader is using a combination of limit orders and stop orders properly.

There is no way to really tell which on-line broker to use. It is necessary for you to use trial and error until you find the one that you can successfully work with. You should do research on the firms you wish to setup an account with and then open an account with at least two of the firms. Try trading with both firms and then choose the one you like most. Keep the second firm for a backup.

Panasonic Flat Screen Monitor

It's a good idea to have two accounts open in case one of the firms has technical trouble and goes down. The biggest danger in trading over the internet is a major on-line failure with the trading firm you are dealing with, your internet service provider, the entire internet backbone or even your own computer. One of these can fail at any time. It is inevitable that one of these will go down at least 1% of the time. You need to have some contingent plan if one of these goes down. Some backups you might have are a second computer, a backup internet service provider and a telephone connection to call the broker directly.

Customer service is also very important. Some firms have a lot of errors. You may find mistakes on your confirms regarding trade discrepancies on price fills. You might get unfair executions on orders. You need to be able to work with the on-line broker to solve these problems. If you can't work with them, then you need to switch online brokers.

It's extremely important that you keep good records of your trades. There are two reasons for doing this. One is to be able to compare your fills with the online broker's fills and the other reason is to know how you are doing with your trading plan. You need to record the date, time, quantity purchased or sold and the price. Keep a running total of the profits and losses year-to-date so you know how you are doing. It's easy to set this up using a spreadsheet, like Microsoft Excel. If you don't keep good records you may loose money due to errors from the accounting department of the on-line broker. Always reconcile every trade confirmation you get back from the broker.

The Home Trading Office

Your home trading office is one of the most important factors affecting your trading. You need a quiet room in which you can concentrate and do a good job at trading. W.D. Gann, one of the most successful traders of all time, had a trading office which was locked during trading hours. No one was allowed to come in to distract him from his trading. With the technology of today you can create a virtual trading office without much expense. This is what you need for an effective trading office:

Trading Computer

I prefer a trading computer with the latest high speed microprocessor. The Intel Celeron 466 MHz, Intel Pentium III 500 MHz or the AMD K3 400 Mhz which is coming late June. All of these chips are excellent. The computer should be assembled with the right other components to be perfect for your trading. You should avoid buying a computer out of the box at a local computer store, discount supercenter or even on the internet. You need to have a computer specifically designed for day-trading with the latest technology. You need a computer that is easily upgradeable. Having the latest in technology is imperative. You are competing with on-line traders who have the latest. Seconds count in your trading. The computer you get should be quiet and run cool. The computer will be on 24 hours a day everyday of the year.

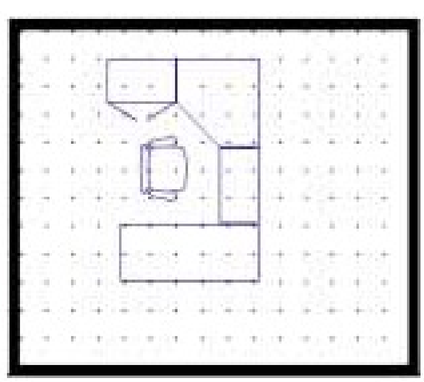
Now let's look at the right computer for trading. There are not that many components to a computer anymore. Today's modern computer carries only a few components: the case, motherboard, video card, hard disk drive, 3 1/2" floppy, CD Rom, modem, sound card and memory. This is what we recommend:

Case: We recommend a screwless ATX case with side-open panels and screwless installation capabilities to make PC upgrades a snap. With a screwless case you can upgrade your computer in a matter of minutes instead of hours and you can do it yourself. You don't need to take it into a repair shop. Most of the screwless cases, give you three drive bays for 5.25" devices. The cases allow the CD-ROM, FDD, and hard drive devices to be easily be upgraded in just a few minutes. The cases are CE and FCC class B compliant.

Motherboard: The motherboard is extremely important in a computer. We recommend a 100 MHz 440BX Motherboard that supports up to a 500 MHz Pentium III motherboard. If you are using a AMD processor then a 100 MHz Motherboard that can support the highest K3 processor. The motherboard should provide flexibility and expandability for both the processor and the memory upgrades with DIMMs.

Video Card: For a desktop computer, we recommend the ATI Windows 98 video card ($59.00) which gives you the ability to use up to 9 monitors all at the same time. You can also use the ATI-TV card ($99.00). For digital displays we recommend the ATI Expert LCD card that allows you to export to an LCD monitor. This card can also be used in a multiple monitor situation. It is compatible with the ATI-TV card. Each card must go into a different slot on your

Herman Miller Home Office



Office Planner

The Famous Herman Miller Aeron Chair

computer for multiple monitors and you must use Microsoft Windows 98.

If you need multiple monitors all under the fast AGP port then you should look at Appian Graphics is the leader in multiple monitor graphics solutions. It's Duet accelerator (AGP or PCI, $399 street), based on the S3 Virge/MX 3D controller, can spread a single screen image across two monitors, provide a wide view of an application on one screen while zooming in on the second, or show a different application in each monitor simultaneously. The drivers support all functions under Windows 95, 98, and NT 4.0, and Appian expects to support Windows NT 5.0 when it ships.

For users who need more performance, Appian has the Jeronimo Pro card. The Jeronimo Pro is offered in a 2-port and 4-port version (with two or four Permedia P2 64-bit accelerators from 3Dlabs, respectively) and comes in four versions based on the amount of memory you require and whether or not you want the optional video input capability: Pro 2-port with 4 MB per channel without video ($500); Pro 2-port with 8 MB per channel without video ($799); Pro 4-port with 4 MB per channel without video ($799); Pro 4-port with 8 MB per channel with video ($999). Each is bundled with the same HydraVision software as the Duet. An optional Appian TV Tuner ($199) is also available for financial traders to view broadcast channels with stereo sound on CNBC on one of their multiple monitors when using the Jeronimo Pro 4-port.

Memory: We recommend at least 64 MB and prefer 132 MB. Having a lot of memory frees up the hard disk drive and allows you to run multiple programs at once and speeds up your entire computer.

Modem: The computer should have an internal V.90 56K, or an ISDN modem. The brand name should be 3COM - US Robotics. Cable or DSL modems are even better, if you are in an area where they are supported. If you are using a portable computer and you are in an area that supports wireless communications via the AirCard from Sierra Wireless, then you should get the Sierra Wireless exclusive AirCard combo. It is the first type II PC Card package to offer circuit switched cellular and packet dtad functionality without bulky extensions and extra batteries. The Sierra Wireless AirCard links your notebook computer directly to the internet for trading. It is also a full function 33.6 Kpbs cellular/landline modem and Group III fax.

Hard Disk Drive: Speed is very important in this area. We are recommending a 5400 or a 7200 RPM internal Ultra ATA Drive. It should be at least 6 MB. You will find tick data will slowly fill up a small drive.

Monitors: What is the best monitor to get for day-trading? According to Appain Graphics, the part-timers start out with a single 17" screen and then will put in a multiple monitor card and go to 2 monitors. One excellent situation is to use two of the new 19" monitors that only take up the space of two normal 17" monitors. Professionals go with a Jeronimo Pro four port card with four 21" monitors or 19" monitors. They can also use the Appian TV tuner and watch CNBC in one of the screens.

The new flat panel monitors are also getting popular for those that can afford them. There are two types of flat panels, digital and analog. The digital monitors require a special digital card and they produce excellent sharp images. The analog monitors work with regular video cards and they are almost as sharp as the digital monitors. Flat panel monitors do not have the scanning and refresh problems of regular monitors. Many traders that use them say they don't tire their eyes as much as a regular monitor.

For this article we tested the new Panasonic Panaflat LC50S monitor. This is a 15" Color Liquid Crystal Display. It's base is less than 8" thick and width is 3.1" and only weighs 15.6 lbs. It supports resolution of 1,024 x 768 @ 75 Hz. It also has built in speakers. It was tested with charts produced with several technical analysis programs, TradeStation, Fibonacci Trader, MetaStock and ELWAVE. We tested it side by side with a NEC 17" monitor which has been my favorite monitors.

The difference between the two monitors was dramatic. The charts on the Panasonic were extremely clear without any distortion. It's screen has a 200:1 contrast which gave it super crisp charts. It's screen also offered a wider angle of vision, 140 degrees more than a normal flat screen. It also was much smaller and took up less desk space yet the screen on the 15" Panasonic is exactly the same size as the 17" NEC. The Panasonic also do not throw off any heat like the NEC did. If you can afford it, I would recommend a 2 - 4 monitor setup using the digital flat panels.

Internet Connection: If you want the best access to the internet for quotes, news and real time service consider cable modems or DSL modems for the fastest and affordable internet access. DSL modems provide simultaneous voice and high-speed data services over a single copper wire pair. Cable modems allow high-speed data access via a cable TV. The cost of these is around $40 - $60 per month compared to the normal cost of $20 for a unlimited regular 56K internet access account. In tests it has been found that cable modems do better during off peak hours while DSL modems do better during peak hours. So trading during the day, the cable modems would be superior. If you can't get access to a cable or DSL connection, then we recommend only using V.90 56K digital, or ISDN access to the internet. 28.8 internet access is the last choice and the slowest you can get. We are currently recommending Earthlink Sprint Total Internet Access with digital V.90 56K and ISDN access. Also they are getting ready to roll out their DSL access in many cities. The cost of their V.90 56K service is $19.95 for unlimited use. ISDN is $34.95 monthly for 100 channel hours and $.99 per hour in excess of 100 hours. You can order a setup CD from Traders World and Earthlink will eliminate the setup charge for the digital V.90 access. Call 800-288-4266 or e-mail us at earthlink@tradersworld.com

Real-Time Quote System Recommend: Signal, Bonniville, and others. See internet site for more information and demos.

Real-Time Trading Software: Recommend TradeStation, Equis Professional, Fibonacci Trader and ELWAVE others. Check our internet site for recommendations and to download demo programs.

Part-Time Notebook Day Traders If you feel that you don't have the necessary money to start full time day-trading at home and you can't afford to quit your job, you might opt for a portable laptop for trading. We recommend a 14.1" or 15" notebook for this trading. You can carry this computer back and forth from work and home. The notebook should only have the new XGA TFT screen which are extremely bright and clear, matching the quality of the Panasonic monitor. It should be capable of supporting up to 1024 x 768 resolution. The notebook should be upgradeable to the latest processor. Right now you can get the Intel 466 MHz Celeron, The 400 Pentium II or the K3 380 MHz microprocessor. We also recommend signed for trading with the right components. Our Traders World Internet site always has the latest. You can configure your notebook with the latest microprocessor, the right amount of memory and right desired screen size. Later, if you want to, you can upgrade your microprocessor to a higher speed when Intel or AMD lowers prices.

These notebooks allow you to connect to the internet at home or work via your telephone line with a modem. Using, for example eSignal, you can get up-to-minute daily news, real-time quotes, daily charts and real-time charts for the day anytime you log on. If you are a mobile professional you can get this information on the go through a wireless modem using an AirCard from Sierra Wireless. You need to be in one of the areas supported by ATT or Bell Atlantic and you can get this service for a low monthly flat fee. Keep in mind, however, that the speed of this wireless modem connection is only 19K. All the latest information and costs associated with trading via a notebook are available on our internet site.

Home Office for Trading: You need to set up a nice home office for trading. If it's used solely for your trading business, you can depreciate it's cost off on your income taxes. It should contain adequate desk storage space for all of your trading needs. Herman Miller is an excellent choice for the at home trader. They produce two home office styles, which are both excellent.

They also produce the famous Aeron chair. It's been called the most comfortable chair in the world. It's designed with high-tech materials using body-friendly engineering, in three sizes to fit every body. The springy Pellicle suspension material distributes weight and lets air circulate, keeping you cool. The Kinemat tilt mechanism floats you through your day of trading.

The Herman Miller Beirise Home Office Collection's versatile components fit your home office into any room of your house. There are a palette of finishes that lets you choose the look you want. You can mix and match Beirise components to build the office you need.

You can use our new book "How to Setup a Successful Home Trading Office" which has a room planner to design your office.

Effective Lighting: Through research we have found that lighting can affect your trading. You must have natural light. Other unnatural light drains your energy. We recommend the natural lighting by OTT. See our internet site.

At-Home Advantages

Trading at home has many psychological advantages over working for a company. The differences are great. First, you don't have to commute to work. This is especially nice if the weather is bad. You can get up at 8:30 instead of 5:30 and eat breakfast while you are reading the latest news on the markets or watching CNBC. You can save an hour or two per day on this alone. That adds up to a lot of money saved at the end of the year. You also don't have to put up with a boss or rude coworkers. More and more working at home is getting a degree of acceptance from the public.

You must be able to work alone with total isolation. You may not hear or talk to anyone for hours. If you are fed up with the corporate world this might be just what you're looking for. After you start making profits trading, the whole situation will give you a great deal of accomplishment.

Full Time or Part Time

Should you quit your job to become a day-trader? It depends on several factors. How big is your family? Can you afford the quit your job and the income it brings? Don't forget the insurance from your job for you and your family. How much money do you have to trade with? The money you trade with should be money you can only afford to loose. If you are under pressure using money designated for living, for you're kid's college or any other important thing, you won't be able to make successful trading decisions and you will loose.

If you are doing day-trading part time then you need at least $10,000 in risk capital. For full time you need at least $50,000 in risk capital. In stocks you will be using 50% margin and in futures you will be using only 5 - 10% margin. The safety factor is that you will be risking the money only during the day and not overnight, therefore will not have to pay any interest. You must also remember that you are responsible for the entire amount of what you trade. For example it you buy $20,000 worth of stock at 50% margin, you only put up $10,000. It the market falls over 50% you could lose more than your $10,000. In commodities, it is even more serious, because you are on even smaller margins.

Trading Strategies - Bid/Ask System Now let's look at successful strategies for making profits day trading. One method is to trade stocks with 1000 share blocks placing limit orders in a tight trading range on stocks with high volume. This method works best with NYSE stocks rather than NASDAQ stocks, because there is a much tighter spread. What you are trying to do is bid where the specialist is bidding and sell where he is selling making the spread. The spread may be as little as 1/16, 1/8 or 1/4 of a point, but on a 1000 share lot with only $10.00 commission, that ads up. The reason that you can go in a bid at the specialist price and get it, is that your order has priority over the specialist. You should get a feel of this method before you try it. It takes a lot of practice. You need a market that is sideways or at least moving in the direction of your trade. If you trade 10 times a day for 1/8 point, you have made a lot of money without too much risk.

Trading Strategies - Buy Good News

The internet trader has an edge over most other traders. When he hears the news on CNBC on a fast breaking news story he can click a buy button and fill his order within a few seconds. If the public wants to buy a stock after hearing a news story, they have to dial the broker on the phone and possibly wait on hold a few minutes to talk to him. He will then take your order for the stock, he will probably check your account to see if there's money in it to cover the trade, he will then put the trade in via his terminal, a wire operator or by calling the exchange. The at home day-trader can buy and sell the same stock five times while this client/broker transaction is going on. When the momentum of the news subsides the day trader can sell the stock and take his profit.

Trading Strategies - Read the Tape Using this technique you read the ticker tape on your computer watching the levels that stocks form. When a level is broken through you buy the stock and sell it when the momentum subsides. You can also short a stock based on the same principal. When an important level is broken you can short a stock and cover the short when the downward momentum subsides. Your mind is forming a visual level of a stocks resistance or support and you can effectively act on an break of one of these levels. The reason this works effectively is that with a click of a button you can buy a stock that breaks a resistance level in a few seconds.

Trading Strategies - Sector Strength You can trade on sector strength. If you find a leader in a group of stocks is taking off on some good news like earnings or a buy another stock in the group. When the strength subsides, exit the position. If the leading stock in the group starts to weaken, you can short one of the other stocks in the group.

Trading Strategies - Stochastics If you have an real-time charting package, you can use stochastics to trade intra-day. The most effective strategy is to select a stock or future's contract and put together 4 charts with different time frames. You should use bar or candlestick charts. For example on the S&P500 you could have a 1, 5, 60 minute and a daily chart. You want the daily and the 60 minute chart in an uptrend with higher bottoms. To buy the S&P wait for the stochastics to get down to the 10-20% level on the 60 minute chart. Then go to the 5 minute chart and wait for the stochastics to get to the bottom. Then you go to the 1 minute chart and wait for the stochastics to get to the bottom. You then wait for the 1 minute chart to to break a 1 minute bar high and then you buy it. Put a stop under the low and let it go up. When you have an acceptable profit you take it or move your stop up to protect profits.

Trading Strategies - Murrey Math Trading One effective method of trading is to use the Murrey Math Levels of Trading. The market you are trading is broken down into 8, 16, 32 or 64 levels based on time and price. See the Murrey Math article in this issue. When you reach a level of major price and time you can take a position with a close stop. If the market moves to a profit you can protect your profits with a stop. Take profits at the next important Murrey Math time and price intersection.

Trading Strategies - Trend Line Trading You can use a trend line drawn from prior tops or prior bottoms to initiate positions. You must have at least 3 touches of the trend line and the trend line must be at least a predetermined length before you can consider it valid. When the trend line is broken, you can take a position with a stop under the prior low. You can move the stop up to a break even position and let the market go.

Day-Trading is extremely difficult to master. You must find a method of trading that you feel comfortable with. You must accept your losses and don’t gloat with your wins. You must adapt to changes in the market and react swiftly to the swings in the market. Concentration is very necessary in this tough game. Money management is absolutely necessary to be successful. You need to back test your method of trading and be comfortable with what you are doing. Then trade conservatively until you are making money in the market. Stick to a consistent plan once you have established how you are going to trade. Risk a maximum of 10% on any one trade and no more. That will allow you to make at least 10 trades. If you can’t make money in 10 trades then you need to change what you are doing or get out of the market completely.

There are many day-trading strategies that can be employed to make money in the markets. We have only listed a few of them in this article. Which one you use or combination of the ones you use is based a large part on your own personal psychology. Go to our web site to learn about other day-trading techniques you can successfully use. Since you have read this article you have made a conscience effort to understand day-trading. Most day-traders know that in this profession you are continually learning. It takes hard work and persistence to stay in this line of business. I hope that this article has given you an idea of what it takes to get started in this new exciting field.

Five Ways to See a Market Reversal

By T.H. Murrey

Please look at these four charts (TYX - US 30 Yr. Interest Rates) covering Six months starting back at August, 1998 through the end of March 1999. These charts have been presented with the Murrey Math Trading Frame Software 1998 Version 1.7678.

This software uses the same logic and trading techniques prescribed by W. D. Gann, who memorized all his horizontal 1/8th through 8/8th lines before he went to the "pits" to trade "live" and make 10 of 11 trades (winners) per trading day.

W.D. Gann asked his "students" (of which I am one) but I came by Gann through Maynard Holt (who wrote the software Relevance III and also has had articles published in this magazine) who came to Gann through his studies through his "personal" studies with Andrews (famous for his "pitchforks" parallel momentum lines 1st discovered by Roger Babson: 1890's) to learn to recognize market reversals off (4) simple reversal signals: 1) "bounces" (up) or "bumps" (down) off horizontal support or resistance lines set off any given set of two extremes, 2) reverses off one of seven speed lines (angled up or down), 3) momentum angled lines (45 degrees) and 4), Time reversals: trading squares.

W.D. Gann also used volume signals (at highs and lows) as a "exhaustion" reversal signals off high volume: we shall discuss this aspect of his trading philosophy in another article.

There are over 80 different software companies and 187 "Gurus" out there trying to tell us where the best place to set in motion W.D. Gann's # 1. Rule: find the extreme high and low and divide this difference into 8/8ths.

We subscribe to the theory that W.D. Gann already knew what these extremes might have been (beforehand): for he merely walked into the "pits" with a small sheet with numbers on it (although he was the "master" chart "follower").

Everyone has always tried to figure out how hard it was to do what Gann learned to do (win almost all the time trade off 8th grade math) but he really went: one potato, two potato, three potato: trade.

No human could ever win 264 out of 288 trades with a complicated trading system!

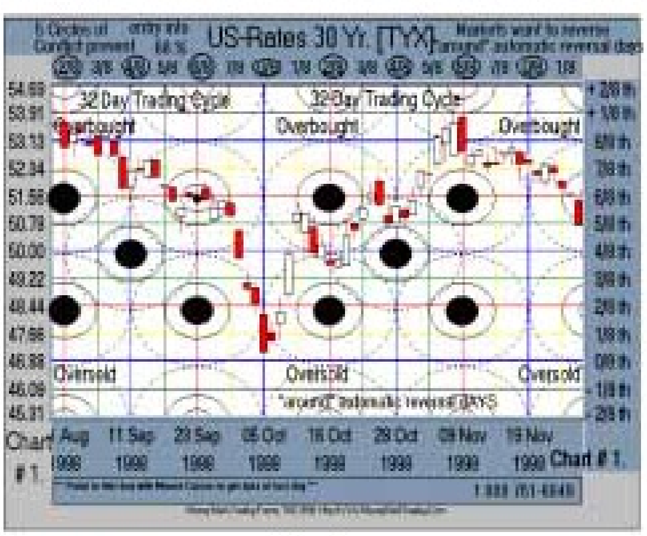


Chart #1

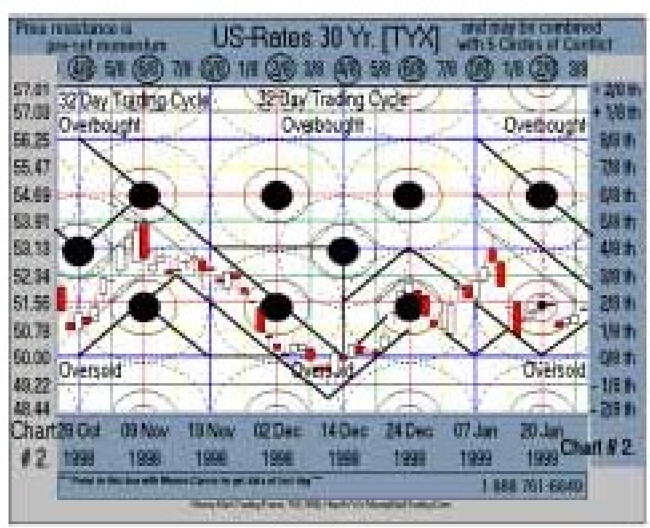


Chart #2

We used what W.D. Gann instructed us to do in his book on commodities (on pages 34 and 68 and then expressed it more fully on page 71, when he said to watch Wheat fall back in 1861 if it didn't hold up 5 cents above its highs) and asked us to just trade off the "natural numbers."

Our software automatically sets up the Trading Frame off the universal "natural numbers" passed on to W.D. Gann by P.D. Ouspensky, when he gave lectures in New York City, in 1921: so you are "freed up" to peruse other interests such as executing timely trades.

Please look over to chart # 4. and you will "see" that the US 30 Yr. Interest Rates reversed 12 times (almost exactly) off lines that were set back at the start of chart # 1. and brought forward (to the present trading frame) # 4.

We use the same simple method W.D. Gann used to set all markets: "natural numbers."(inside an Internal Octave).

P.D. Ouspensky instructed us to do this.

I am the only "Guru" to have "seen" what he was trying to make you "see."

Gann refused to show you the "obvious," but he did give us (3) "obvious" clues and one hidden "clue" when he told us only once that markets reverse of 1/8 or 2/8th.

That's why he told you twice and then led you to most frequent numbers markets reverse off (hoping you would "see" it for yourself). We did: me and my software.

I give Learning Academies in different cities and I have some students who cross the oceans to hear me speak and I show them how simple W.D. Gann traded.

W.D. Gann never used moving averages: i.e.., RSI, Stochastic, William's % R, which are tremendous indicators (that must always be a little late to "predict").

Looking back from chart # 1. through # 4. one may "see" that US Rates are moving higher, while everyone on T.V. says they are finally going lower (down to where) ?

Please go back to chart # 4. and look more closely at (# 8. and # 10) and you will "see" that these reversals occurred exactly between two 1/8th lines (inside the 8/8ths trading frame).

W.D. Gann said to also "watch for reversals" off minor 50.% lines inside 1/8ths (which this market did twice).

This fulfilled our verification that W.D. Gann had all these numbers memorized and set any market (trading in the same price range) off the same numbers.

So, our software automatically does the same "mental work" of deciding which set of highs and lows are best suited for any market (as soon as you click on the market desired

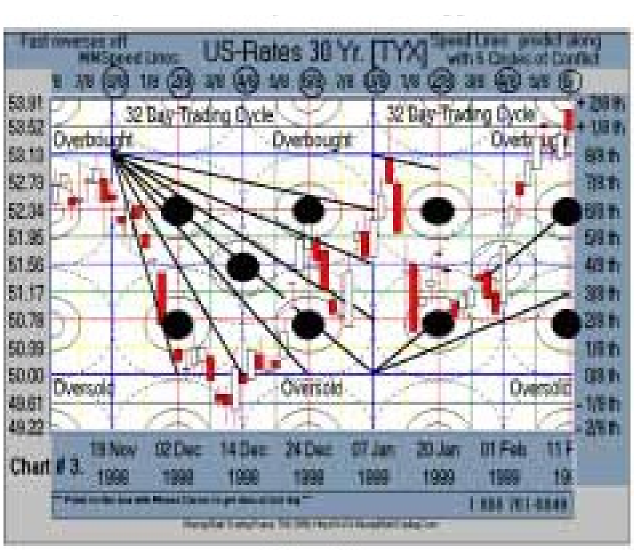


Chart #3

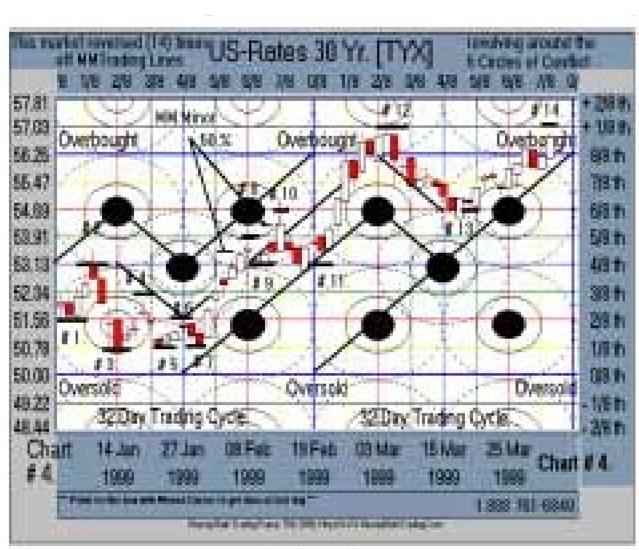


Chart #4

to “observe”).

We took W.D. Gann one step further and “saw” that markets will Automatically adjust their 8/8ths and 4/8ths lines when the trading action expands or contracts as time moves to the right and past extreme highs and (or) lows lose their “affect” on the current trading action.

Everyone has always been taught to keep old highs or lows in their sight (trading memory) when our trading strategy will throw out (time-wise) old highs that are not inside our present band-width, which is set off either its last (16), (32) or (64) trading days.

We have helped traders make more profits “quicker” by having the most mathematically accurate 1/8ths in which to react to rather than “guess.”

W.D. Gann asked us to (# 2) insert angled lines inside our trading frame starting at either the upper left or lower left hand side after we decided which was our “best-guess” high / low extremes.

We let the software find the trading frame automatically for you and insert the angled lines automatically with just one click, so you may keep focused on trading and profiting not “busywork.”

Please look at chart # 3. and you will “see” the down angled lines in one trading frame and the up-angled lines in the next trading frame (signaling reversal “buy” and “sell” reversals).

Some new “students” have trouble understanding this angle concept.

Just pretend it (the angled line) is a boat paddle swinging toward an object and upon touching it, the velocity of its touching it would reverse it much as a hockey-stick hitting an ice puck would send it faster in the opposite direction.

We refer to these lines as “speed lines” because the speed of reversals are “speedier” or more violent when touching these lines (up or down).

We have studied speed lines and have noticed that reversals off 78. degree, 67. degree, 45. degree and 33. degree angles are more violent than others.

W.D. Gann noticed that markets (he centered his trading on commodities mainly) would set a “trend” and move along this trend (moving in the same direction) for 4 to 7 weeks before reversing (as we have seen in wheat, corn and soybeans the past 3 months).

Please look at charts # 2. and # 4.

We set the up and down parallel lines (we call them momentum lines) or trend lines, since they continue in one direction for an extended period of time, off the upper or lower left hand corner of our trading frame (pre-set by the software for you).

The software automatically knows where to insert them and which Trading Frame in

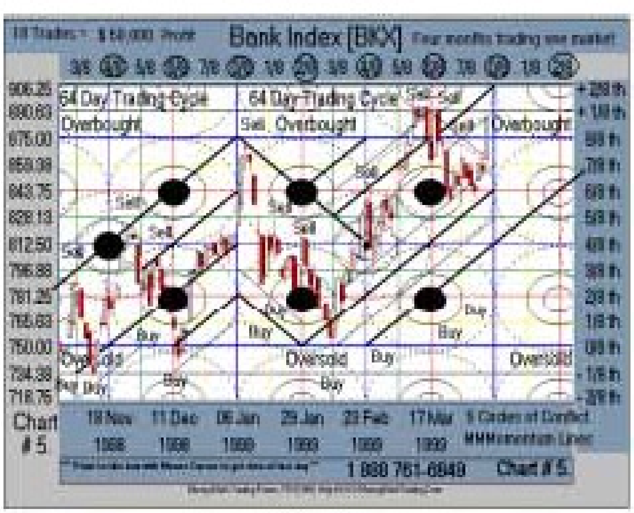


Chart #5

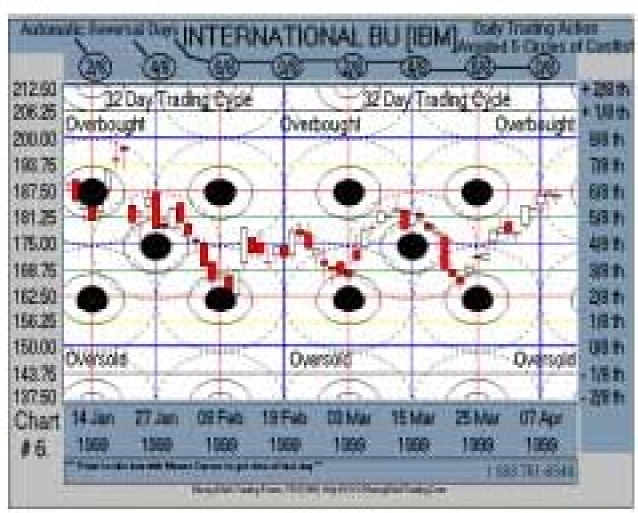


Chart #6

which to place them.

Please notice (count) how many times this market reversed off these pre-set lines (set off our pre-set trading frame) that we set off pre-set horizontal lines back 6 months.

We “teach” trading simple.

Please look at chart # 2. and you shall “see” several lines that are thinner than the others.

We have found that momentum lines should be drawn off the even numbers: 0/8th, 2/8th, 4/8th, 6/8th and finally 8/8th horizontal line and extended up and to the right set at 45 degree angles only.

Our parallel lines (Andrews Parallels) are set automatically by the software and we just sit back and watch to see if the price breaks our lines, instead of waiting for Low A1., then High B1., then Low A2., then on to draw parallel line High B1 to High B2, then onto our extension sets (above and below our original parallel lines. There are very few rules to trading parallel momentum lines so you may just take all the W.D. Gann horizontal lines (1/8th) rules and apply them to these angled lines that measure daily trading to the right (going forward).

We insert the thinner lines in our trading strategy (for they signal a weaker market): (if it doesn’t move up or down off the more bold (even) lines: this tells us to reverse positions faster.

We have done extensive work on “watching markets reverse” off 45 degree paralleled angled lines (inside our trading frame) and we find them to be as accurate as the W.D. Gann “theory” of taking the two extremes (high / low) and dividing them into an octave then “watching for reverses off them. (this is because markets actually slide to the right as they move up or down through time:(just imagine price bouncing off the walls of a shoe box as it rotates in a spiral to the right): right !

We have found that markets will move to the right in a channel (at a 45 degree angle most often) and then we shall expect reversals to come off 45 degree up angles set off Time Lines: 0/8th, 2/8th, 4/8th, 6/8th, or 8/8th and even into the next trading frame.

But we should not look for these channel reverses to repeat more than 3 or 4 times: they break down over time.

Charts # 2. and # 4. confirm these rules.

We are aware that markets will move to the right and spike up or down off 67. degree or 22.5 degree angled lines, but the 67. degree reverses (87.5% of all “traders” are always too late to enter) and the 22.5 degree angle markets are (too “boring” to participate in) so most traders leave them alone.

So we just want you be aware of them and react to them if they suit your trading philosophy.

Anyway, the speed angles take care of most of these (67. degree and 22.5 degree angle momentum) trading conditions.

We believe it to be better to trade off fewer rules and to trade off markets that present themselves as more predictable.

There are already enough rules to learn.

Time and Price are “weighed” and argued back and forth as being more critical as a measure of the next move, but we subscribe to the “theory” that “Price change” in the shortest period of time is more important than Time movement of price (look at today’s volatility).

The two numbers (ratios): 38.2% and 61.8% are used by every “Guru” as the standard Fibonacci Numbers or the Golden Mean Numbers run (up or down) minimum or maximum price movement or time movement by which we might expect the greater odds that any market shall reverse directions.

We propose that W.D. Gann actually meant 3/8th (37.5%) or 5/8th (62.5%) of any 8/8th extremes (memorized the night before) then traded (without a computer).

Please go along (all four) charts and count how many reversals occurred off the even Time Lines and how many occurred off the “odd” Time Lines.

From chart # 1. we “see” that this market fell -9/8ths in (6/8th Time) and then it reversed and went back up exactly +9/8ths in (6/8th Time) and we never took either of these two extremes and set them as our “start” or “end” of our trading frame but we simply note that it reversed both times off (even) Time MMLines!

Please count the different reversals inside these charts # 1. through # 4. How many ran up or down 3/8th or 5/8th ?

How many reverses occurred exactly off one of our (even) Time Lines (set one year earlier and simply brought forward) ?

We count (23) market reverses (if only for one day) off pre-set MM reversal days.

So we must take every reversal: no one knows when the “big one” comes.

There were (32) (even) reversal opportunities: this market “reacts” to rate changes set to a change in raw goods produced off: water, light, and the amount of heat in the ground between the winter and spring:(ask any farmer).

We simply let the software set its own trading frame (width set to Binary Math): 1,2,4,8,16,32,64, then 1,2,4,8,16,32,64) starting back at the 1st Frost each year (10-1) (Noah) and come forward each frame till the end of any trading year: then we start over: the earth does this !

Please look at chart # 2. and we shall “see” that this market reversed off Time Days (2/8th), (6/8th), (4/8th), and finally (2/8th) exactly on the day !

W.D. Gann often said to watch for any market to get up above or below its 8/8th or 0/8th and it would most likely not move above or below these lines more than 1/8th or 2/8th and then it would come back down into its trading frame (8/8th).

Please look at all four charts and you will “see” that the software automatically types in “Overbought” and “Oversold” on the Trading Frame for you, so you don’t have to guess when to expect reversals: off extremes.

Too many traders get caught up in trying to find the best 8/8ths trading frame and spend too much time chasing trades that reverse off “some off 1/8th line” (they can’t see).

We just keep it simple and use his generic” Natural Numbers” 1/8th trading lines set to Base 10.

This market reversed every time off its Overbought / Oversold “conditions.”

This market did it (two times) Up at 53.12%: then in chart # 4. on Feb. 12th it broke above the third time (but failed to hold) did it break the W.D. Gann “3rd Time Rule” to higher highs?

The “Habit” Rule is three tries to change.

Genesis: has 99 sets of three parables.

We subscribe to the “observation” that a market must close above its +2/8th line by one cent or close above its +1/8th line for 4 to 7 days in a row (not three to seven as W.D. said) to satisfy the “3rd Time rule.”

During W. D. Gann’s day, the return of one’s securities was longer, but now, the S.E.C. has changed the reporting period to (hold three days) then release or return your monies for more trades, so this “creates” the rhythm of the (4) day short term trading cycle we “see” all the time now in the US 30 Yr. Bond Market and the S&P 500 Cash Index Market.

But, W.D. Gann also spoke to markets “hitting up against old highs” as many as four or five times before they broke through to higher highs, (but he quit there): odds too high for more.

Too many “Guru’s” stop at his set of “three tries” rule and expect everything to reverse exactly off three tries (because Gann said it):(please read it all).

We “see” that his “5th Time” Rule was completed in chart # 4. on Feb. 21st when it “drove through” 5.391% and shot straight up to 5.625%.

Some traders are always confused when any market breaks out to higher highs or lower lows, but we let the software automatically tell us where to expect any market to stall-out : after it takes out its current 8/8th line or 0/8th MMTLines.

Example: please look at chart # 1. and you shall “see” that the 8/8th line = 5.313% and then on to chart # 2. and the last low was down at 50.00% with its high up at 5.625, so the trading frame automatically reset to the extremes: 0/8th at 50.00% and 8/8th up at 5.625%.

Then into chart # 3. this market slowed down in its higher and lower range, so the software automatically made the 1/8ths smaller but just as effective since it can not get out of its current 8/8ths until it does (then the software will automatically widen for you) and you will take wider spread profits off wider 1/8ths).

Every W. D. Gann student has been taught to do exactly this (expand and contract the widths of the range) off each new high / low extremes, but we have all been “confused” about where and when to do it. (this isn’t our job).

Please look at chart # 1., then chart # 2., the on to # 3., and finally to chart#4.

You “see” the same thing our software knew inherently: that all markets expand and contract and as Time moves to the right and as past trading action leaves our minds, we should dismiss it until our current trading action comes back (up or down to challenge it) to breakout higher or fall lower to lower lows.

This concept is Physics at its lowest level.

This is exactly what W.D. Gann tried to tell you (but not exactly): he wanted the edge (down in the “pits”). He quoted Faraday as saying everything is measurable down to the Nth degree.

Plus, without a computer he couldn’t teach students who were afraid of math and geometry: Pathagoras and Euclid.

I know you “saw” that the 8/8th trading line in chart # 1. shifted to the 4/8th trading line in chart # 2., then it shifted back to the 8/8th trading line in chart #3., then, finally it has moved back down to its 4/8th line again in chart # 4.

Too many “traders” won’t shift the width of their 1/8 bands to accommodate the market’s current rhythm, so they will get into trades that are ready to reverse.

Please look back at October 5th 1998, (chart #1.) where we told everyone to go short the Bond Market and “pocket triples” on our “put options” in only four trading days.

Please notice that this market reverses more often and more violently off its (even) (1/8th) Time Lines: 2,4,6,8,0.

We believe in W.D. Gann’s Trading Square, but we let the software pick the same starting point each year (1st Frost) and you can “see” how much more accurate you are doing this than setting your Time Frame (yourself) off which (?) high or low: who knows?

Funny, but everyone (all Gann students included) set rates this year off the 1st Frost (week) recognized by our software (because W.D. Gann’s High / Low Extremes Starting Point lined up with our computer’s “Starting Day:” set to (10:1).

Some traders say this isn’t right, but the software never picked last October 5th for any reason other than it said it was the best day to start based off the world temperature (that kills all commodities).

Anytime a student wants to predict the future (market extreme turns) I ask them how many falls did it take after 1929 for the stock market to finally bottom out !?

They think it just fell all the way down in just one day: and bottomed out.

It took many short-legged falls until late 1932: (they wouldn't let you buy gold: it happen again folks). We should trade off: 4, 8, 12 day swings and let the future do as it wishes.

No one but the rich had any money in the stock market in 1929 (anyway): so who cares anyway: most of us have "day jobs."

The rich were "greedy" so they chose to go bankrupt (for buying with no margin).

5. Trading rule: 5 circles of Conflict.

Please look at chart # 1. and we shall "see" that this market already knows where the 5 Circles of Conflict are located even before it trades into the square: (out into the next Trading Frame).

Our 5th way to "see" a market reverse is watching market reactions to its Circles.

These 5 Circles of Conflict are the dominant "factors" that make all of these other "market reversal helpers" more accurate and predictable.

No one has ever inserted the 5 circles of Conflict (Trade Marked by the Murrey Math Trading System) into their trading strategy because no one ever "saw" them.

I "discovered" them back in 1993, and they grow more powerful as one looks at trading frames as far out as 32 or 64 days.

We should share the validity of the circles (as they affect daily and (intra-day) trading action for reversal signals).

The Elliott Wave must set itself to these 5 Circles of Conflict.

Thus, students of Elliott Wave Theory (Grand Scale Move = 144) would make more predictable "calls" if they set our 5 Circles of Conflict out in front of their market's trading action, then relaxed and watched the daily trading action avoid the se circles 75.% of the time.

These 5 Circles of Conflict go all the way back to 12,500 b.c. Egypt Pyramids.

Physics is a math language to predict movement into the future off "measured performance" off observable reactions.

One of my closest friends was a Physics teacher at Vanderbilt University, but all his brains couldn't make him as much as a flight attendant with 20 years duty, so he went into "selling" and he is making more money showing people how to profit off looking at charts than he did trying to teach them to "think."

The 1st thing he said when he opened up my software was, "you are using the Standing Wave to predict future stochastic-shocks into the future."

He asked me how I learned it and I reported back that I just "saw" it.

W.D. Gann told you to look at a chart so you could "see" price reversals more clearly than you could "read" it: (he asked you to just "see" it).

The radio and the T.V. occupy too much of your "mental queries" if they do more than give you "scores."(you must "see" anything).

No human alive ever imagined the greatness of physics from listening to the radio how great Michael Jordon performed "physics."

All sports, trading markets and religion are based of pure math (numbers).

We may all agree that Pat Head from U. of Tennessee teaches her girls the 2-1-2 zone defense: easiest to learn.: watched me play college basketball: (she watched me play college basketball: 1960).

Physics is measured off math formulas (that scare grown ups): they tell you they are no good at math (long before you tell them that all our physics is hidden deep inside the software: so not to worry).

And finally to religion: some preachers think that numbers are sinful to religion.

Every religion is based off a trilogy and the number (13), which is good luck (wisdom): m.w.d = 12.5.13.

Please allow me some of your time to expound upon the 5 Circles of Conflict as how they parallel religion in their basic logic premise to numbers.

The 1st recorded logic: religious:numbers equation to the 5 Circles of Conflict were recorded as the 32 Paths of Gra. (1 a.d.)

The most read religion is the Old Testament's 5 Scrolls (circles) called the Torah.

The most used math equation to count is the Moslem use of Base of Ten: (Abacus 1202 a.d.).

There are 304,805 letters arranged in rows (64) with 4,772 letters per linear progression in the Torah.

Sir Isaac Newton, Physics teacher from Vanderbilt University: England Branch, spent 25 years trying to break the code of the Torah.:(he couldn't).

Every student of the Torah has tried to "see" a hidden story inside history !

Every student of "anything" wants to know the "why" behind "how it works" Why ?

Every alphabet created by humans has substituted numbers (frequency pitch) into letters which may be created by forcing air out you mouth (at different speeds), so if you work backwards, you may hear that words are letters and letters are sounds and sounds may be substituted for numbers (which are represented in physics).

The comprehension level of most "rookie" traders is filled with so many "habits" and "old traders' tales" that they cannot move forward to accept the simple fact that digital recorders actually turn sound into (numbers) and store them until we ask a machine to reproduce them by creating a frequency pitch off noise (not an instrument): music.

Anyone "over forty" will not comprehend what I just said (nor do they care to know anymore than how safe they can make their personal lives) from "change."

32 and 64 are the Binary Sets to all Knowledge !

The Bible Code written by Michael Drosnin (found in the Torah that Yitzhak Rabin would die by assassination, so Michael Drosnin told him personally when he would die and he was assassinated anyway soon after).

Cracking the Bible by Jeffrey Satinover. M.D. spread the word that the Torah was set to a frame of (64) rows of 4772 letters.

Aryeh Kaplan, Physicist (youngest to join U.S. Government who has written over 50 books) wrote Sefer Yetzirah: The Book of Creation. In this book he establishes he fact that the Hebrew Alphabet is arrived at from two different math formulas: A) Circle and B) the 32 Paths of Gra. (both are based off Binary Math and Fibonacci Sequence).

The 32 Paths of Gra were "discovered" in the 1st Century by a Rabbi who refused to "believe" in the Egyptian "Tree of Life." We subscribe to the 32 Paths of Gra not the Tree of Life.

Please look at our chart # 1. and chart # 2. and you will "see" two sets of (5) Circles of Conflict, which are actually only (8), so we add the center circle from the last circle and the center circle into the next square, then we have the 32 Paths of Gra.

There are: 1) 10 points, 2) 22 lines, 3) seven vertical lines, 4) 12 diagonal lines, which are only (22) lines.

In the 1st Century (Jewish) intellectuals assigned one of the 22 letters of the Hebrew

Alphabet, which may derived at through Binary Math or from equal parts of any circle, to the 32 Paths of Gra.

The #32 (in Hebrew) = Heart, Honor, and Glory.

Torah says earth is a Blue Emerald. Tzitzit of blue wool has 32 threads. Torah: Genesis: 32 paths outlined. Song of Moses: Deuteronomy: 32: "all of Israel may be found in these five books." 32 sound pitch change variations in "C." Zechariah: said the universe is equal to 1/3200th of part of the Torah. Primary Genatria has 32 principles of Exegesis used by Chazal it interpret the Torah. Pathagoras said the Universe's circumference was equal to multiplying the radius of hydrogen x 3.14 (out 16). 31 nerves going to brain + thoughts. 32 branches to Date Palm. The Seifirot has 10 parts. 10 Utterances on the 6th day. Six 1st perfect Number: then 28, 496. Book of Ezekiel etched onto 64 stones. Mayan Indians had two calendars: 20 x 13 = 260 and 365 minus (5) days called the civil calendar. They predict end 2010a.d. Our calendar 365 days = blood vessels. Bible Code speaks to: 2000, 2010, 2113. Nuclear war predicted in 2,000 a.d. Murrey Math predicts 2112a.d.

All of this is good information: but "the ear is not satiated from hearing or eyes from seeing, it is thought turned to wisdom," that transforms us to traders.

So, we set out trading Frame to: 4,8,16, 32 or 64 days Binary-Math:=1,2,4,8,16,32,64: 128, 256, 1024 (9th place).

3/8th and 5/th of 1024 = 640 and 384.

384 = the lunar calendar: Sun:Moon: Earth Eclipse. 640 square acres = 1 mile.

Female height = 64 inches. Female cube = 384. (N.A.S.A. verified 1970 and 1979).

On perfect sphere = 384 circles or (64) hexagons: around sphere: golf ball.

The golf ball is a sphere = flat plane = circle: 22 letters in Hebrew Alphabet divided into 360 (Noahian Calendar Days) (10:1) so 22 (letters) into 360 degrees = 16.363636. 16 x 24 hours equal 384 days = Lunar Calendar.

All that I have told you was already deciphered by the Essences who translated the Torah from Hebrew and Aramaic and stored the scrolls in the caves (for later generations for confirmation).

You may be offended that I set our Trading Frame inside the 5 Circles of Conflict, which are the Standing Wave in Physics.

The Ulam Spiral is a math spiral of numbers highlighting the Primary numbers out to 262,144 and then you stand back and "observe" it and you "see" the standing wave (5 Circles of Conflict) set to a square (with ten triangle pedals around the center circle).

The Bible Code was deciphered by Harold Gans (cryptologist) who headed the Manhattan Project for the U.S. Government to "create" the Hydrogen Bomb (U 238) implosion of the ratio of 1:16 hydrogen expansion from a compressed piece of Plutonium.

The Bible Code was finally deciphered as a result of the work of: 1) Alan Turing from London, England who "fathered" software and deciphered the Enigma German Secret War Code, (sorry Bill Gates) and John Von Neumann from Los Alamos, New Mexico, who "fathered" the computer (sorry Michael Dell) who is moving 3,120 workers to Nashville, Tennessee next month: we love it for home prices: up fast.

One last comment about the Torah: it was discovered by Nechunya (Jerusalem) in the 1st Century: a day equals 29.530588 days per Lunar Month: how did he know without a computer ?

It took almost 3,125 years for an American Satellite to prove it true. (what was already known).

But, all this "good news" will make you not one "tin" dime off what you learned about trading off 5 simple rules (set up by Master Trader).

So let's look at: BKX (Bank Index) chart (chart # 5) and we shall "see" all the profits you need (to feed your family and not work at your day job anymore).

18 trades over 4 months "profited" $50,000. staying with only one market !

Interest Rates moved every few days, so this market reverses against rate changes: how simple is it to trade ?

Markets that reverse off (odd) Time Lines fall or rise off rhythm. See it ! ?

But do you circles work on normal stocks?

Yes indeed: look at chart # 6. I.B.M. (no hits) !!!

We hope you shall have learned that "trading" is simple (if we keep the rules to (5) and we let someone else do all the work for us: why make life complicated ? (5 rules are covered by the software).

All these numbers were here before we got here and they will be here after we leave here: (for our children to learn all over again).

Some are "offended" at linking morals, religion, math and trading: but one man got mad twice when he found the "money changers" giving out "plug" nickels, and he also said that "yod" 1/10th (Base Ten) should be returned from your trading profits: so please go for it: trade off only (10) simple rules (for all markets) and cheerfully pay your "dues."

The Murrey Math book (two learning manuals) is available from Traders World Magazine for $78.00 Murrey Math Software (end-of-day version) which includes two sets of software and the Murrey Math book is $583.00 A Murrey Math 90 Trial on the software is $90.00. A CD of Murrey Math Lessons is priced at $150.00. Add shipping of $4.95 for any of the above in U.S. Foreign shipping is extra. To order call Traders World Magazine at 800-288-4266 or go to our secure order catalog on our site to order at www.tradersworld.com

Everything Comes Full Circle Cycles of Price & Time

By Daniel Ferrera

Of all the techniques used in technical analysis the use and knowledge of dominate cycles is one of the only methods that allows you to forecast and anticipate a point in time in the future where the market under study is likely to change trend. This is possible because price action unfolds in repetitive rhythms over time. W.D. Gann used this knowledge of cycles to make many accurate forecasts of both price action and time. He believed that "Time is the most important factor in determining market movements" because everything moves in cycles, as a result of the natural law of action and reaction. "By a study of the past, I have discovered what cycles repeat in the future." Because a cycle literally refers to a circle, Gann knew what the harmonic divisions of the 360 degree circle would be accurate forecasting tools. This is applicable to all time frames, i.e. hours, days, weeks, months, years, etc. Therefore the important natural cycles are 15, 30, 45, 60, 90, 120, 150, 180, 210, 240, 270, 300, 330, 360. (See figure 1 - 60 day cycle illustrated)

If we add a momentum chart (5 period MA - 34 Period MA) over this period we can make an interesting forecast using a cycle technique called a mirror image foldback. Where we assume time has found a balance point and is folding back over the same emotional energy that has just elaspsed (For a detailed explanation of this technique see the book Market Geometry by Michael Jenkins available at Traders World 800-288-4266). See figures 2 and 3 which detail this technique.

If your are interested in using cyclical analysis in your trading approach and have Microsoft Excel, I have written a file that will calculate future (Gann, Fibonacci, Bible, & Spiral Calendar) cyclical turning points based on past turning points as far back as 1900. If you would like a copy of this file, send me your name and mailing address along with $9.00 and I will send you the cycle file and instructions along with a Gann Price Square Calculator and instructions.

Daniel Ferrera can be reached at 18963 Stamford, Livonia, MI 48152

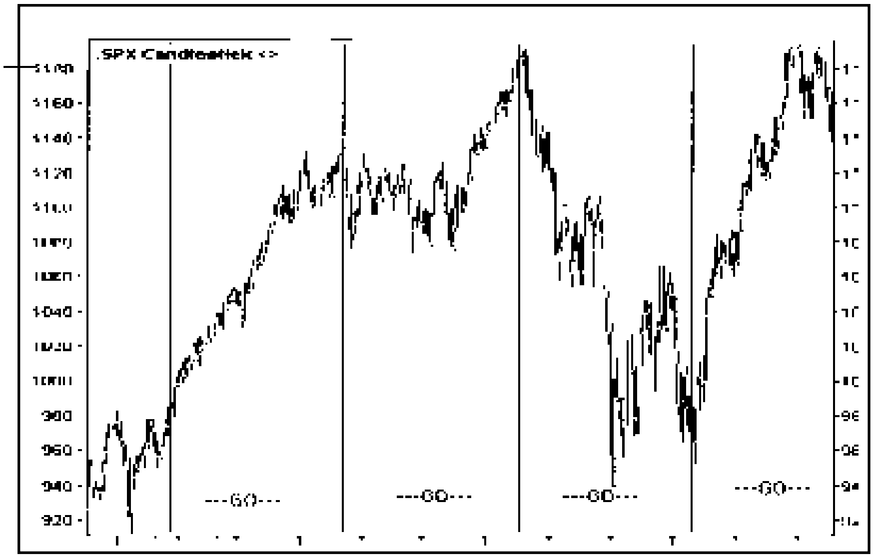


Figure 1

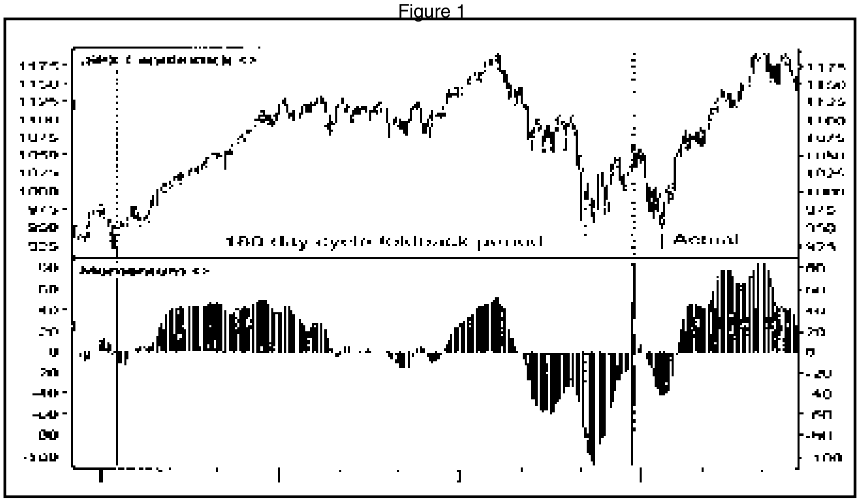


Figure 2

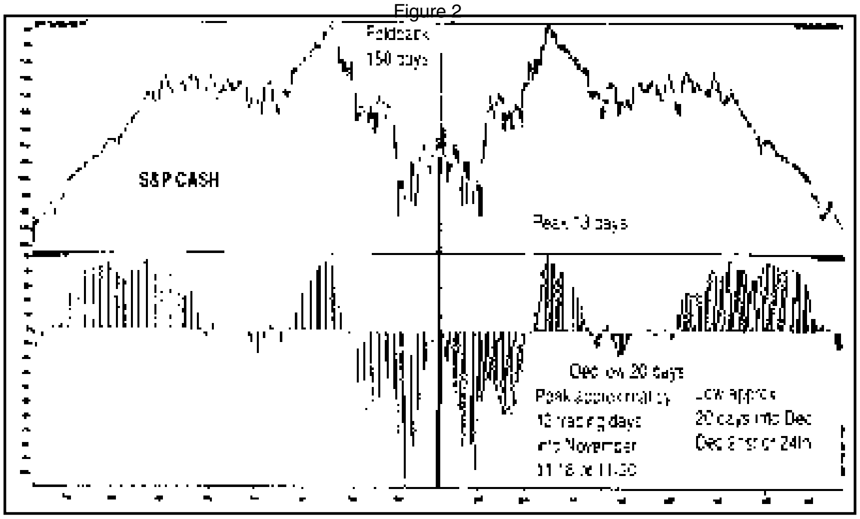


Figure 3

Gann Theory

By James A. Hyerczyk

Gann Theory can be described as the study of pattern, price and time relationships and how these relationships affect the market. Gann Theory looks at pattern, price and time as the key elements in forecasting the future movement of the market. While each element has its own unique characteristics, each also has a unique, overlapping quality. The study and focus of Gann Theory is to find the interlocking relationship between these three primary indicators of changes in trend and market direction. In other words, in certain instances a pattern is having a large influence on the market while at other times price and time are exerting their dominance on the market. It is the balance of these three elements - especially price and time - which create the best trading opportunities and often lead to more success in the market. Gann theory helps the trader to determine the best combinations of pattern, price and time to initiate successful trades. While trades can be triggered by each element individually, a trader who weights his signal too much toward one of these elements may experience a large number of losses while a trader who is patient enough to wait for a proper balancing of pattern, price and time may experience more success. Pattern, Price and Time Pattern study consists of the proper construction of Minor, Intermediate and Main Trend Indicator Swing Charts and Closing Price Reversal patterns. Price study consists of Gann Angle analysis and percentage retracements. Time study looks at swing timing, cycle timing and historical dates.

The combination of these three factors helps the trader decide when and where to buy or sell. In this article, I will describe techniques which help the trader determine how to discover the elements through proper chart construction and how each are related in trading activity.

Gann Theory and Its Application to Trading Gann theory is based on the principle that price and time must balance. Markets are constantly in a position of change and subject to movement sometimes with great volatility. Gann Theory states that there is order to this movement. By using the proper tools to analyze this movement, an accurate forecast for future direction can be made. Finding the balancing points is necessary to predict future prices and movement. Gann developed a number of methods to help determine these balance points. The first method uses patterns created by swing charts to find the balance points. The second method uses angles and the squaring of price and time to find the balance points. Finally, the third method uses time. While the perfect market remains balanced all the time, it also proves to be uninteresting because major moves occur when price is ahead of time or time is ahead of price. The proper use of the various Gann analysis tools will help you to determine when these major moves are most likely to occur. The 7 Steps for applying Gann Theory to trading

Now that the theory has been explained, how can it be applied to trading? The first step is to create the charts which properly demonstrate the concepts of pattern, price and time analysis. The second step is to create swing charts or trend indicator charts which provide the trader with a way to analyze the size and duration of the rallies and breaks.

The third step is to use the information derived from the swing chart to forecast future price and time targets. In addition to forecasting, this chart is also used to determine the trend of the market.

After the pattern has been analyzed in the form of the swing chart, the trader moves to step four which is the creation of Gann angle charts. Using the tops and bottoms discovered with the swing chart, the trader draws properly scaled geometric angles up from bottoms and down from tops. Since these angles move at uniform rates of speed, the trader uses the angles of support or resistance and attempts to forecast the future direction and price potential of the market. Percentage retracement levels are also created using the information derived from the swing charts.

Each paired top and bottom on the swing chart forms a range. Inside of each range are the percentage retracement levels. The strongest being the 50 percent price level.

Step five is to draw the percentage retracement level inside of each range. At this point, the trader can judge the strength or weakness of the market by relating the current market price with the percentage levels. For example, a strong market will be trading above the 50 percent price.

Finally, time studies are applied to the market in step six. Traders should use historical charts to search for anniversary dates and cycles that could indicate the dates of future tops and bottoms. The swing chart is used to forecast the future dates of tops and bottoms based on the duration of previous rallies and breaks. Gann angle charts are used to predict when the market will be squaring price and time.

Finally, the percentage retracement chart creates the major time divisions of the current range with 50 percent in time being the most important. Step seven is to combine the information obtained from the pattern, price and time charts into a trading strategy. This is the most important step because it demonstrates where the three charts are linked. For example, the swing chart tells the trader when the trend changes. If the trend changes to up, the trader uses the previous rallies to forecast how far and how long the rally can be expected to last.

The Gann angles drawn from the swing chart bottom show the trader uptrending support which is moving at a uniform rate of speed. In addition, the Gann angle chart shows the trader the time required to reach the swing chart objective based on the speed of the Gann angle. The 50 percent price level acts as support when the market is above it and as resistance when it is below it. The strongest point on the chart will occur at the intersection of the uptrending Gann angle and the 50 percent price. Finally, time indicators are used to prove to the trader the upside target is possible because anniversary dates and cycles can verify the existence of similar market movement in the past.

In Conclusion ... By combining pattern, price and time, the trader creates a trading strategy. This trading strategy is based on the principle of price and time balancing at certain points on the chart. The three methods of analysis draw this information out of the chart. Without the proper application of the three analysis tools, valuable information would be lost to the trader. This is the very essence of Gann theory, which states there is order to the market if the proper tools are used to read the charts.

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The Future of Financial Astrology

By Patrick Mikula

The history of financial astrology is quite fascinating. It is a known fact that some of the greatest market traders and forecasters used financial astrology but the method has never been able to gain wide support in the financial community. The reason for this lack of acceptance is that financial astrology has always been a very discretionary approach to trading and requires a large amount of time just to learn the basics. At the Vibration Research Institute we are working to automate financial astrology into what we have named Mechanical Astrology. This term refers to fully mechanical astrology trading systems.

In this article we are going to discuss two simple Mechanical Astrology trading systems. The first step when setting up an astrology trading system is to identify an astrological event which correlates to the financial markets. For the first system we will use the observation that the moon phase often correlates with swing tops and bottoms. We will use the four main positions of the moon phase, which are the first quarter moon, the full moon, the third quarter moon and the new moon. To generate our buy and sell logic, we will combine the lunar phase with the Stochastic which is the best known momentum indicator. If the observation that the moon phase correlates with swing tops and bottoms is true then we should be able to combine a bottom in the Stochastic and the moon phase for a buy signal and a top in the Stochastic and the moon phase for a sell signal. To further test the correlation of the moon phase to the markets, we will also use a moon phase to exit each trade. So the buy long logic for this system will read, buy if X moon phase occurs and the Stochastic is below 20. Then exit long when Y moon phase occurs. The sell short logic for this system will read, sell if X moon phase occurs and the Stochastic is above 80. Then exit short when Y moon phase occurs.

Our final question for this system is which moon phase do we use for X and Y? This question is best answered by the computer. For this type of system testing we use the AstroTrader program which is an add-on for TradeStation or SuperCharts. We write this system in Easy Language and then use the TradeStation system tester to run this system with all possible combinations to show us which moon phase correlates with a particular market. When this system is tested back to 1990 on soybean futures using a continuous contract, we find that using the New Moon for the entry and the Full moon for the exit had the highest correlation. This produces 44 trades with an overall 66 percent profitability with the long trades being 54 percent profitable and the short trades being 88 percent profitable. The system logic for soybeans would read, buy long if a new moon occurs and the Stochastic is below 20, then exit long on the next full moon. Sell short if a new moon occurs and the Stochastic is above 80, then exit short on the next full moon.

The second trading system we will discuss will not use any traditional technical indicators such as the Stochastic. Instead we will discuss a system based only on an astrological correlation to a financial market. We will try to find a correlation between a planet crossing into a new zodiac sign (which is called ingress) and the movement of the crude oil market. We will write the system to test the activity leading up to the ingress and following the ingress. There are two possible buy signals and two possible sell signals. The first possible long signal is, buy long X bars before Y ingress and exit on Y ingress date. The second possible long signal is, buy long on Y ingress date and exit X bars after Y ingress date. The first possible sell signal is, sell short X bars before Y ingress and exit on Y ingress date. The second possible sell signal is, sell short on Y ingress date and exit X bars after Y ingress date.

The final question concerns what planetary ingress do we use for the Y ingress date and how many bars do we use for X. These questions are answered by programming this buy and sell logic into TradeStation using the AstroTrader program and then using the system tester. Crude oil futures were tested using a continuous contract from 1990 to the present. The system tester tested all ingress for heliocentric planets. We found that there was a correlation between crude oil prices rising and the Mercury ingress into Cancer and Virgo. After 36 trades there was 67 percent winners if the system bought five days before the Cancer ingress and 65 percent winners if the system bought five days before the Virgo ingress. Correlations also occurred using the other planets but there were considerably fewer trades because of the longer orbit times so we have not included them. After running all the tests and finding which planet and which ingress correlates to the crude oil market we can finalize the buy and sell logic for this particular market. The buy logic will be, buy five bars before heliocentric Mercury ingress Cancer and Exit long on the actual ingress date. The second buy logic will be, buy five bars before heliocentric Mercury ingress Virgo and Exit long on the actual ingress date.

It is important to note that before using a Mechanical Astrology trading system you must study all the system statistics just as with a traditional mechanical system. This includes the maximum draw down, maximum and minimum wins and losses in a row, account size required and so on.

The two systems presented in this article are based on research done with fairly common astrological events. On a standard horoscope at any moment there are over 30,000 possible combinations. If we include heliocentric and Sidereal astrology the number of possible combinations goes over one-half million. This means that there are quite a few reoccurring astrological events which we can program into trading systems and back test to find correlations to the financial markets.

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Astrology Points the Way for Our Future Economic Outlook

By Alphee Lavoie

In the last few years most of America has been enjoying a very good economy. Astrologically it is easy to see the reasons for this rising economy. In the early 1900's, financial astrologer, Louise McWhirter, predicted changes in the U.S. economy by using the North Nodes of the Moon. According to her findings when the North node of the Moon enters the sign of Scorpio the economy goes from 'below normal' to 'normal'. When the node reaches the sign Leo the economy is above 'normal'. When it enters the sign Taurus the economy starts to go from 'normal' to 'below normal' until it reaches the sign Aquarius when it hits the bottom. From the time that the Node is in the sign Aquarius to Scorpio the economy goes from 'below normal' to 'normal' again.

The North Node is not a planet. It is a sensitive point in the sky. Its position is calculated when the Moon crosses the ecliptic going from South to North. The point moves backwards along the ecliptic through the twelve signs of the Zodiac. It takes the North Node of the Moon 6,793 days (about 18.6 years) to complete its cycle. This tells us that the U.S. economy has a cycle of a little over nine years of above average and below-average. The business world is very well aware of this 18 year business cycle as it is mentioned and referred to in many business/financial books even though the authors might not know that is actually an astrologically timed cycle.

Just look and see how well this cycle has worked in the past. On November 28, 1928 the North node entered the sign Taurus indicating that the economy was going from normal to below normal. It reached the sign of Aquarius in July of 1933 which is the time that we were exactly in the middle of the depression. Just before the second World War the Node entered the sign of Scorpio indicating that the U.S. economy movement was moving back to normal and, of course, reached the above normal phase in November of 1942. Since then the North node has twice cycled once back into the sign of Aquarius twice making the economy below. The first time that we saw its effect was in March of 1952 and the second time was October of 1970.

When President Clinton took on the Presidency of our country in January 1993 the North Node was at 21 degrees of Sagittarius. According to our graph (see below) it was a below normal economy during the first term. The economy was below normal to normal because by the time we went to the election poles for his second term the North Node was in the sign of Libra where the economy was moving from normal to above normal. I'm sure that this factor was a help to Clinton in winning his re-election.

According to McWhirter's theory the economy had reached above normal phase and peaked in September of 1998. The next cycle that shows indicates a downward movement towards a normal phase until it reaches the sign of Taurus in May of the year 2003. The next cycle moves into the sign of Aquarius making the economy at its worst in January 2008.

Since the North Node entered the sign of Scorpio in January of 1994 the Dow Jones has risen over 135 percent in just four and a half years. It has more than doubled since it began in the 1800's. Will the market continue to go up? According to McWhirter's cycle the market should not have peaked until this past September of 1998. But it is very possible for the market to maintain an upswing until the nodes enter the sign of Taurus which will be in May of the year 2003. However, I don't think that it will have the same gain that we had in the last four years. But it's possible that the market could continue on a slow rise for another couple of years. This year (1999), beginning in June and continuing through to the end of November the market will have to brace itself for some of its hardest aspects. I am sure that we will see a strong down swing during those months. There is still plenty of money to be made in the stock market now, at least until Saturn reaches the sign of Gemini which will be in the summer of year 2000.

In 2003 not only will the economy begin to change from normal to below normal but the United States will also have to contend with one of the hardest aspects in the natal chart. Transiting Saturn in the sky will be conjunct the United States birth Sun at 13 degrees of Cancer and in October of that year Saturn will station retrograde on the Sun of the United States chart. When Saturn falls on the Sun of a country's chart it always indicates a restricting, hampering pressure that brings up fears, changes and need to restructure the country in some manner. The Saturn/Sun aspect is always difficult time for the U.S. Under this aspect the U.S. has to deal with many crosses. In June 1945 Saturn was conjunct the Sun when we were right in the middle of the second world war. Astrologically speaking, the fear that Saturn evokes was probably a factor in making us drop the bomb on Hiroshima, which was followed by the Japanese surrender on August 15th of that year. The last time we saw the Saturn/Sun aspect afflict the United States's chart was between August 8, 1974 (the day we saw President Nixon resigned) through May of 1975.

Some of the exciting aspects in the next 10 years. The last time that Uranus was conjunct the United State's natal Moon in the 3rd house at 27 Aquarius 02 it brought in the first air mail delivery system. This aspect is due to occur again March 2002, August 2002 and January 2003. Could it possibly indicate that our mail system will begin to find its delivery entirely through the internet?

We seem to be moving into the millennium with a strong economy for a few more years and then the U.S. will have to reorganize and structure for the next few years.

Between the Node going into Taurus and Saturn sitting on the U.S. Sun the economic climate in the year 2003 will most likely be a difficult year for all of us. The next five years following may also show a poor economy with little chance for much recovery.

The planet Uranus will be squaring the Sun in the Stock Exchange in March and August of 2002 and January of 2003. That same aspect sent the Dow plunging in December of 1941, Spring of 1942 and June of 1962.

Alphee is a dynamic speaker and has lectured all over the world for local and national organizations.He has authored two best selling books, Horary Lectures and Lose This Book...and Find It Through Horary and has two more books on the way. He is the research director for the National Council of Geocosmic Research, NCGR. He is also the Education Liaison for the Astrological Federation of Astrologer's Network. His software company, AIR Software, is now one of the top three companies in the world. The outstanding programs he produces include: STAR TRAX, NOSTRADAMUS, FATHER TIME, ARP, The Astrological Research Package, AIRHEAD and FINANCIAL TRADER, all of which have won international acclaim. Alphee can be contacted at Air Software 1-800-659-1427 www.alphee.com

Trading on Scales

By John Chapman

Scaling is a simple, but very useful, technique employed by most professional traders and misused by some with serious consequences). Trading on a scale simply means staggering your purchases or sales instead of doing everything at a single level. Conceptually it is trivial, but hidden in the simplicity is a set of very useful tools. These don't tell you which way the market will go, but they can do a lot to optimize your existing forecasting tools and can help you cope with a number of human weaknesses.

There are two basic types of scales for putting on a position - adding to a position that is moving against you, which I call a fading scale, and adding to one that is going your way, which I refer to as a pyramiding scale. The rationale behind the former is that as the market becomes increasingly mis-priced, a progressively larger position is warranted. In the latter, as the market unfolds along the lines you predicted, the odds that your analysis was correct increases, thereby justifying a larger position.

Scales of both types can be front-end loaded, back-end loaded, or uniform. They can be evenly spaced or set at technically significant points.

But, why bother when you could theoretically pick a spot part way down the scale, buy the entire number of lots contained on the scale and have the same expected profit? The problem is that to come up with such a single point equivalent, you would need to figure out, not only whether the commodity was mispriced, but how far into mispriced territory the thing was likely to go. It is hard enough to decide what to do IF something happens, without also having to calculate the odds of the event happening.

Suppose that the speculative longs are being shaken out, and you decide that if the market falls to 1000 you would like to be long 2 lots. If it happens to go overboard and reach 998 you would like to be long 4 lots. You may have no idea how likely this shake-out is to carry beyond 1000 to 998, but you may have definite ideas about how mispriced the market would be IF it carried that far. You might place a scale to buy 2 lots at 1000 and 2 more at 998.

In some instances you may have very strong opinions about the likelihood of different sized moves, and could therefore substitute a single order. However, unless your trading system was keying on a specific event e.g. a breakout at a certain point or the market moving to a specific technically significant level, I would still choose to scale.

Besides enabling a trader to tailor his position to his assessment of the market, scaling can play a vital role in counteracting human foibles. I reluctantly admit to having put on plenty of positions without first having done enough homework; this is not recommended, but life is imperfect. However, there is nothing like having a loss on the first few lots of your scale to generate some belated but inspired research. And luckily, scaling often buys time to wake up and bail out before you are in too deeply. It also buys time for new information to come to light.

Scaling also helps the less focused among us in other ways. Since a scaler starts getting in sooner than a single point buyer, he is in the market a larger percentage of the time, which stimulates him to be more in tune with the market. Having one's neck on the chopping block does sharpen the wits.

The scaler also gets valuable feedback for coping with the dreaded "second thoughts syndrome". Bold market opinions sometimes undergo a magic transformation moments after people get into a position. The confident, greed-driven desire to get in is replaced by a wave of doubt. Discovering the water is too hot by first dipping one's toe in (scaling your way in) has certain readily understood advantages over the bodily plunge.

For some people fading scales are difficult emotionally. In order to fill your entire scale you have to be losing money on your early positions. People have a strong aversion to getting deeper into a situation where they are already losing money (usually a healthy instinct). It can seem positively perverse to be rooting for your positions to go against you.

Sometimes you want your entire scale filled; so in fact you are rooting against your early positions. Other times you want your later orders filled IF the market gets there, but by that time you would be taking a big enough hit on your earlier lots that you would prefer that it not get there. I refer to these two types of fading scales as "happy scales" and "consolation prize scales" respectively.

On a happy scale if the market goes up after your early purchases you make money, and if it goes down you get to put on some really promising positions, to make even more money. The example above where orders were placed at 1000 and 998 was a happy scale.

To illustrate a consolation prize scale, suppose that you bought 1 lot each at 1025,1020,1015,1010, and 1005, at each of which levels the odds of a good up move improved. At 1000 your assessment was that there would be a 75% chance of a 10pt up move vs a 25% chance of a 10pt down move. You decided that you could risk a 10 lot total position on such odds, so your scale included an order to buy 5 more at 1000.

That is a perfectly reasonable strategy. You would want that 10 lot total position IF it got there, but your situation would then be a 75% chance of getting out at 1010 and 25% of getting out at 990. You would already be down 75 pts on your first 5 lots (25+20+15+10+5). Your 10 lot position from the 1000 level has an expected gain of only (.75*10pts-.25*10pts)*10 lots=50pts, which is not enough to make up for the loss on your earlier purchases. You have completed a consolation prize scale.

There is another kind of fading scale, call it the "I've got to get my money back scale". These are after-the-fact, "inspirational" reinterpretations of the odds, which now justify a much bigger position. The more common term for it is "averaging down". Averaging down has probably wiped out more traders than war, famine, and pestilence combined.

People feel a desperate desire to get back what they have lost. They will play double or nothing or even more extreme versions of averaging down to do it. Since these "I've got to get my money back" scales bear some resemblance to legitimate scaling, traders who should know better often rationalize them as scaling.

In the example above, if the decision to buy at 1000 was an after-the-fact inspiration or if your scale was originally to buy only 1 lot at 1000, red flags should go up. Perhaps the acid test is to ask yourself if you truly believe that each additional purchase on the scale has better odds than the one before it. If it can't pass that test you are probably rationalizing the alluring and deadly impulse to average down.

Pyramiding scales, like fading ones, have their share of pitfalls, but these are mild in comparison to the evils of averaging down. The pitfalls in pyramiding come from two sources - faulty reasoning and the relief they can offer from unpleasant stress.

Somehow people don't think of paper profits the same way they do realized profits. There is a sense that they are playing with the market's money until the position is actually closed out. They argue that adding to a winning position means that they have a cushion of the "market's money" to protect themselves with thereby making this a safe way to trade.

Rationally, of course, you should always mark your positions to market; paper profits are your money, not the market's.

The consequences of not considering paper profits as really theirs are threefold. First, protected by the perceived cushion, people tend to take bigger positions than the situation justifies. Second, feeling safe because of their cushion, they hesitate to bail out promptly when trouble appears. And third, in the absence of a cushion they take positions that are smaller than the circumstances warrant.

Even traders who understand the proper use of pyramiding scales and are quite objective about marking to market, are not entirely immune to the emotional allure of the cushion. Regardless of how irrational it is, psychologically these cushions relieve stress. And depending on the degree to which stress interferes with your performance, pretending that the cushions are the market's money could be worth the cost.

Not all scaling is used for accumulating positions; scales can be used equally well for liquidations. Progressively selling out as objectives are reached is analogous to a fading scale; call it a fading liquidation. Reducing your position as the market moves against you, which I refer to as a contingency bailout, is like the mirror image of a pyramiding scale. You use it to reduce your position as you gradually lose confidence in your original assessment. It is essentially a progressive stop.

Like their accumulation cousins, liquidation scales come with their own set of crutches and perils. Scaling out as the market reaches various objectives can help those who are overeager to book a profit, to not dump their entire position too early. Conversely, a contingency bailout makes it easier for those who can't bring themselves to take a loss, to ease out in a somewhat disciplined manner.

The biggest pitfall is in using contingency bailouts as an excuse to stay in a position when you should be bailing out of everything in a hurry. The power of hope keeps people in losing positions too long, and contingency bailouts can either help people to handle this emotional weakness or can worsen it by providing cover for it.

All of the scaling techniques discussed in this article have three things in common.

1) They can be used to continuously optimize your position size vs probability of success.
2) They provide a means for counteracting various human weaknesses.
3) They can be abused and become a smokescreen for certain destructive impulses.

In my own trading I am constantly working a whole array of scales - all of the types discussed in this article - fadings, pyramids, contingency bailouts, and fading liquidations. I use them for both spreads and outright positions. Some of my scales may stay in place for weeks, resulting in my putting on and taking off positions multiple times; others will come and go or be modified several times in the same day. While I do take advantage of some of the crutches and have at one time or another been guilty of most of the sins, to me scaling is primarily a tool for constantly fine-tuning my positions.

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Gann Harmony: The Theories & Teachings of Dr. Jerome Baumring

By W. Bradstreet Stewart

There has recently been a resurgence of interest in the forecasting principles of W. D. Gann and correlatively the interpretation and explanation of Gann provided by the late Dr. Jerome Baumring of the Investment Centre. It is common for the new (and old) student of the Gann methodologies to be overwhelmed by a mass of disordered and conflicting material regarding the mystic figure and cryptic teachings of this great market master, W. D. Gann. The only proponent of the application The Law of Vibration to financial market forecasting since Gann himself was Dr. Jerome Baumring of the Investment Centre. There has been enough curiosity and confusion regarding Dr. Baumring to warrant a more detailed elaboration and clarification of the history and theories of this visionary analyst and philosopher.

Donald Mack, a highly respected market historian and scholar, founder of the Investment Centre Bookstore stated, "In our capacity as book suppliers to the world in our specialist area of stock and commodity books, we have met many who have been trying to fit together the pieces of the puzzle that is Gann. However, no one to our knowledge has come close to solving the mysteries inherent to the Gann methodology except for Dr. Baumring, whom we saw evolve from his initial introduction to Gann to a complete mastery some years later. So much so that we unequivocally state that he is the only person we know of that has solved every aspect that Gann wrote about."

Dr. Baumring was introduced to Gann while in traction recovering from a car accident which severely injured his spine (ultimately the cause of his untimely death). While in the hospital, someone gave him a copy of Perry Kaufmann's Commodity Trading Systems and Methods in which is presented a copy of Gann's May Soy Beans chart which caught his eye. Dr. Baumring noticed on this chart a tiny almost indistinguishable point and arc which had been drawn with a compass on the chart. This sparked a flame in his imagination leading him to commit the next three years, 16 hours a day, 7 days a week to the understanding of Gann's trading methodologies.

It was evident to Dr. Baumring that Gann was using techniques which were not outrightly presented in his courses, and that the key to deciphering his cryptic writings lay in an understanding of "how Gann used words". He realized that he would have to study everything that Gann himself had studied in his time in order to obtain a frame of reference coincident with that of the Master. Dr. Baumring approached Donald Mack and requested the use of his massive investment library, while accumulating an extensive personal library of old scientific, metaphysical and market works which Gann most likely would have had access to himself. Dr. Baumring read over 5,000 books in those years, a feat only accomplished with the help of a photographic memory and an ability to read 1,800 words a minute.

After three years of indefatigable research, even with his expertise in pharmacology and mathematics, his gift as a mechanic, and a background in Zen and martial arts, he had hit an unassailable wall. Faced with the prospect of failure, he awoke late one night to hear an inner voice direct him to his charts. As he sat down at his chart table, this voice walked him step by step through the final barriers to understanding.

After this breakthrough and its integration into a complete system which he called “Gann Harmony”, Dr. Baumring turned to the markets to prove the validity of the system. He began with a $25,000 account and in less than two years compounded his investment into over a million dollars. Having proven that the system was capable of producing the promised returns, he then verified that it was applicable to all markets, doing a full analysis of and trading 18 futures markets and a selection of stocks. In order to prove Gann’s theories on a larger scale, Dr. Baumring traded for a silver hedging company. This was the time when the gold and silver markets exploded to their all time highs. Dr. Baumring had forecast the top of the silver market to within a three minute window, and implemented a sophisticated strategy allowing him to transition from a position 200 contracts long to a position of 200 contracts short in a screaming exponential market. As the timing point for the top approached with the market moving as only commodities do at all time highs, a gentleman he was advising was hesitant to sell at the timing point and asked if he could wait another minute. His hesitation cost him $60,000.

In an interview in the Herald Examiner on February 4, 1986, Dr. Baumring stated, “From now to the end of the third quarter, the market will be sideways or down, perhaps some 200 points (on the Dow). Then we expect a rally like 1927 to 1929, to 3000 or more by 1988 or 1989. There will be 400 million-share days on the market.” At that time such high volume and volatility were unheard of, but a year and a half later when Black Monday scared the pants off of Wall Street, Dr. Baumring just smiled as he had been short five S & P options from the last high and had just made $120,000.

With his understanding of the markets now complete, Dr. Baumring began looking for another challenge. One of the unfortunate by-products of his new understanding was the lack of people capable of communicating on a stimulating level. Like Gann, Dr. Baumring also felt an obligation, what he often referred to as a “karmic debt”, to, as Gann said, pass on the enlightenment that had been heaped on himself in abundance. There seemed to be one resolution, to share his understanding of “Gann Harmony”. Teaching this system would certainly be a challenge, would balance his “karmic debt”, and at worst, would develop some stimulating interaction. We think it best to let Dr. Baumring describe for himself the results of his decision, so the following quotes have been extracted from his seven page announcement of a series of Courses he called THE INVESTMENT CENTRE STOCK & COMMODITY COURSES - A Distillation of the Insights and Wisdom of W. D. Gann. (the complete announcement can be viewed on the Internet at www.sacredscience.com)

“Beginning with this announcement of our coming very thorough Course of Instruction in W. D. Gann’s almost unknown methods of analysis of stocks and commodities, we feel very strongly we must resolve the misinformation and misconceptions of this great, great man’s exceptional methodology. To put a stop to so much that has been wrongly propagated (generally by mostly sincere people) as to what Mr. Gann’s approach involved (such as astrology, angles, his numbered squares, cardinal crosses, and on and on), we unequivocally state that to the best of our knowledge nobody to date has ever dealt with, or has been able to even accurately explain The Law of Vibration which Mr. Gann with great authority said was the key to explain all phases of market action. Without properly understanding the basic laws relating to Vibration, of what value could any or all of the propagated so-called Gann concepts possess?”

“This Course begins with a thorough examination of The Law of Vibration, and thereafter progresses to Number Set Theory (Numerology), followed by the Law of Proportion as demonstrated by Geometrical applications, and going onward into the areas vital to Gann analysis such as harmonics, the mathematics of music, angles... When the area of Angles is studied,... (we) will clear away for the first time the misuse of the technique that has been propagated as " Gann Angles". To accomplish this we will turn to Gann's own writings where he states in no uncertain terms that there is much more than just the Diagonal Angle, or as he says, 'There are three kinds of angles - the vertical, the horizontal and the diagonal angle, which we use for measuring time and price movements'. Of the three, the diagonal angle is the least important."

Dr. Baumring's approach to interpreting Gann was to follow Gann's clues and clear indications as to what were the necessary topics in need of understanding and application. Gann's well known Ticker Interview (this full interview can be viewed at www.sacredscience.com) states very clearly that the foundations of his system were mathematics, chemistry, physics, astronomy, harmonics, natural philosophy, "the universal law of causation and harmony", wireless telegraphy, etc., all summed up in the Law of Vibration. He was continually amazed to find that most Gann students and "experts" have very little knowledge in even one of these fields, let alone in all of them. How can one possible expect to understand Gann's methodologies when one does not even understand the most fundamental principles upon which Gann says his system is based? How can one possibly be expected to predict the future when one does not even understand the principles and laws which govern the present? There is no question that without a thorough understanding of these principles it is IMPOSSIBLE to understand Gann! Dr. Baumring's approach was to thoroughly educate his students in every field necessary to develop an understanding of the Universal System of cause and effect founded upon the Law of Vibration. He made this easier for his students by personally selecting from over 5,000 books the clearest and most easily accessible presentations of the exact concepts needed for an understanding of Gann's methods. These presentations were collected together into a series of Notebooks which Dr. Baumring presented to his students along with required reading lists necessary to elaborate the concepts into a complete understanding.

In his lectures, Dr. Baumring would tie these principles together with demonstrations in the markets leading the student to the integration of a complete Universal System, or Cosmology. He presented a number of perspectives and concepts which had never before been considered, though fundamental to Gann, such as the markets being, at minimum, a three-dimensional phenomena, exactly like a large molecule rotating in space, in and out of the Z plane, with DNA coding sequences governing the entire process. Without understanding that the market is 3-D, twisting like a plant governed by the phyllotactic laws of dual number series and harmonic composition and decomposition, all measurements taken on a 2-D chart become misleading. He translated the "mystic" terms of the esoteric tradition into modern counterparts: "astrology" becoming "numerical astrophysics, celestial mechanics, or optics", "numerology" becoming "number set theory", "mystic symbolism" becoming "symbolic logic", "sacred geometry" becoming "lattice and matrix theory or the projective geometry of light". He often mentioned that these different branches of knowledge were merely various manifestations of One Phenomenon in differing forms of Symbolic Logic.

Dr. Baumring taught using a methodology unlike those of our modern educational systems. He believed that in order for knowledge to reside as inherent knowing, an individual must recreate the process of discovery within himself. Jerry would regularly comment, "I am merely the Sherpa (guide, way-shower), you must walk the path yourself." This attitude is based upon the Christic principle he often quoted of "Give a man a fish and you feed him for a day; teach a man to fish and you feed him for life." He made clear that even if he were to explain the entire process outright, it would be of no avail, for without the catalyzing power of insight attained only through personal discovery, the student would be unable to digest and integrate the principles. Now this does not mean, as many students and Gann seekers fear, that it takes some form of Divine Grace or Mystical Revelation to perceive the true workings of the market. Rather the process of study and research develops an insight into the necessary principles of Cause and Effect, Natural Law and its manifestation in reality, which are absolute prerequisites for an integrated understanding and application.

Robert Miner wrote, "I have been lucky. Over a decade ago my most influential teacher of market analysis and trading, Dr. Jerome Baumring who has since passed away, taught me to not only look at the market from radical new perspectives, but to prove everything out myself."

On a personal note, no mention of Jerry Baumring is complete without a few comments about his delightfully eccentric character. Jerry was the type of person who naturally used words such as "happenstance", "prestidigitation" and "isness". He was a master mechanic, and I more than once arrived for a lesson to find him elbow and undershirt deep in grease with his car disassembled on the ground. I would read while he put it back together, and to this day I carry a book everywhere I go, just in case. He drove an old Cougar and an old Mustang, and when I asked why he didn't buy himself a decent car, he guffawed saying that the older cars were built with much greater quality than the newer ones, which contained unfixable computers and plastic parts, whereas he had built his cars with his own hands.

Jerry's primary form of R&R was book hunting all over the world. He would climb ladders and crawl on filthy floors digging into the deepest, darkest, spider-infested corners, and I'll be damned if he didn't always come up with some jewel everyone else had missed. He was a spontaneous not a methodical book collector. Jerry would stop at a garage sale and find some amazing first edition for a dollar while also buying the broken toaster for ten cents because the power cord was worth two dollars. As he toted his booty, toaster under one arm, book open in the other hand, upon mention that buying the toaster seemed silly, he would reply that it was a 2,000% return on his investment, and that didn't include the book.

From the last anecdote it is not difficult to understand the continual state of his house and office. I once pulled out a chair from his book-piled dining room table, looking for a seat, only to find the chair laden with too many books to inconspicuously move. He hid his best books in his dresser with the most rare beneath his underwear. In the corner next to his side of the bed was a 3 foot high and deep waterfall of books deposited there after his evening reading. His office was in a continual state of disheveled flux due to the massive amount of information continually being processed.

Dr. Baumring's work hours were 8:00 AM to 4:00 AM Monday through Sunday structured by a 100% spontaneous schedule. As a private student one could expect regular phone calls between 1-4 AM, and lessons scheduled for 8:00 AM would often begin past midnight, or would occur in a distant hotel room while on a book hunting expedition. Strangely enough, the best lessons and deepest insights often occurred on the most unlikely occasions. Private students generally went through about 100 books a year, always finding or being given better and better material when ready. There is no student of Dr. Baumring's who does not acknowledge the profound impact he has had upon their understanding of the Universe.

The current state of Dr. Baumring's teachings, students, library and the like warrants clarification. Upon Jerry's death, his widow, Dr. Wendy Baumring, was determined to assure that her late husband's work and materials would remain available both to his students and to all those seeking a fundamental understanding of the methodologies of W. D. Gann or of the Universal theories upon which his methods are based. The SACRED SCIENCE INSTITUTE (also known as the Glass Bead Game) was formed in cooperation with Mrs. Baumring for the purpose maintaining the accessibility of the teachings and research materials of Dr. Baumring. All of Dr. Baumring's Notebooks containing his selections of conceptual presentations necessary for understanding Gann, as well as his complete reading lists, Gann's recommended reading list, and the most complete collection of writings of the great Market Masters considered important by Dr. Baumring are currently and will remain permanently available. We have also organized a complete set of Lecture Notes of over 240 pages of Dr. Baumring's direct teachings from all Nine Seminars, soon to be followed by the availability of several hundred pages of Lecture Notes from the lessons of private students. These have been released to provide the serious student with the resources and direction necessary for an understanding of Gann.

Dr. Baumring's library is also remains completely intact, and will be preserved in conjunction with two further libraries with a total of over 7,000 volumes, one of the most complete cosmological libraries in the world. From these libraries the rarest and most important books in every field of metaphysics, science, cosmology and the markets have been selected for publication with around 200 titles available now and another 400 to be added in 1999.

Dr. Baumring was very strict about presenting Gann in his most original and complete format. In response to these desires, we have released a series of Unpublished Writings of W. D. Gann, containing his most important works, never before available to the public due to their rarity, and organized in the original manner as presented by Gann. They include Gann's unpublished course on the Master Time Factor which he sold for $2,500 in 1939, and a number further unpublished forecasting courses, providing a complete supplement to the material currently available through Lambert-Gann. We have compiled a scientific collection including a series of courses written months before Gann's death delineating his Mathematical Formula for Market Predictions and including, for the first time, the complete instructions for Gann's Mathematical Price Time & Trend Calculator, as well as three other calculators with instructions. Gann students will be surprised at the added clarity derived from having Gann's most important writings organized in their intended format.

Currently, there are a greater number of serious students of the theories of Gann as presented by Dr. Baumring than when he was alive and there will soon be an Internet forum created on-line to facilitate the communication and interaction of people engaging in serious research in various branches of Cosmological theory including Financial Market Forecasting. The SACRED SCIENCE INSTITUTE is committed to permanently providing the best and most complete research materials to the seeker of Universal understanding.

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Leading and Lagging Indicators: Achieving A Balance

By Joe DiNapoli

How would you like a trading methodology that gives you predefined entry levels, reasonably tight stops, and precalculated profit objectives as soon as you enter the move? We're not through. Add to that a very high percentage of winning trades. This is not only the promise but it can also be the reality of properly mixing high quality leading and lagging indicators in an overall trading methodology.

Almost every technical indicator is a lagging indicator. Moving averages, MACD, the RSI, Stochastics, you name it, we're talking lagging indicators. First there's a move in price, then sometime later in the game, the indicator signals buy or sell. That's why lagging indicators are called lagging indicators. They lag behind market action. They give signals after the fact. Leading indicators, on the other hand, tell us ahead of time where the market is likely to find support or where the market is likely to find resistance. Most traders who have attempted to use leading indicators have looked toward some form of overbought or oversold oscillator. Most oscillators, however, are in the camp of coincident or lagging indicators. They may tell us when a market is at a resistant point or when a market is at a support level, but typically they do not give us useful information ahead of time. Traders rightfully view the use of leading indicators as a dangerous enterprise because few traders understand how to place a true leading indicator in the proper context to achieve the desired results. The trick is to achieve the proper balance by mixing leading and lagging indicators across time frames. If we can accomplish this objective, we can come up with a trading approach which is far superior to using either of the two exclusively.

Let's look at the problem more closely. Traders, being rational human beings, prefer lagging indicators because they want the comfort level of seeing a market already in a move prior to their entry. Unfortunately, this kind of comfort comes at a price. Once the lagging indicator is firmly established in a given direction, everyone else sees the move and everyone else is getting in at about the same time. Those who provide the necessary liquidity to fill the orders of the lagging indicator traders need to make their profit, so now we're ready for a re-tracement. This re-tracement is typically to the area where the lagging indicator players put their stop. The net result is the lagging indicator trader may be right on market direction, but is all too often stopped out before the market goes the way he knew it would all along. So how do we overcome this situation? Buy precalculated dips in an overall uptrend. Sell precalculated rallies in an overall downtrend. We determine the location of such dips and rallies with high quality leading indicators.

In my trading career I have found only two leading indicators that have the reliability necessary to justify employing them. The first is the Oscillator. Here's how it works

First, determine the context for the trade using lagging indicators. Then establish the entry level using a high quality leading indicator. Continue to use the leading indicator to find a stop placement point. In the case of an uptrend, this would be below a substantial support level. In the case of a downtrend, the stop would be above a substantial resistance level. Notice I don't use money stops. If the stop is too large for money management criteria, simply don't take the trade. Since the stop placement point is known ahead of time, it's easy to make that calculation. Once the stop and entry are in place, it is now possible to calculate an expansion level (leading indicator) to take profits. The closing order is placed in the market immediately upon making this calculation. Do not wait for the market to get there and see what happens.

If you are using high quality leading indicators, the advantages of this type of trading are substantial. You can achieve an extremely high percentage of winning trades. In addition, your orders will be filled with a minimum of slippage, because you are buying a dip when the market is coming at you and you're selling a rally when the market is advancing. If you're trading size, this can be a huge advantage as compared with initiating a trade with buy stops or sell stops. If you're trading a two lot, this approach can be significantly beneficial on your execution as well, but more on that later. Is there a downside? Obviously! It takes some experience to learn just how to employ the techniques. Let's say the market approach you're using to determine the direction has indicated a strong upmove. You're buying a dip within that upmove but you placed your entry order too conservatively, on a support point that is not reached. The market takes off without you. If you do this repeatedly and you're right eight out of 10 times about the overall market direction, you're going to be filled only on the two times you're wrong! This can be frustrating to say the least and underlines the need for the accurate use and thorough knowledge of high quality leading indicators to make the methodology work. Another problem arises when you're taking profit objectives. You come to a clear point of resistance, you clear your trade, and the market keeps going. If you're not a disciplined trader, you may end up getting right back in "at the market", just as the market is about to have a serious correction. If you're managing money, you may have some explaining to do. This problem can be mitigated if you trade multiple contracts. You can always hold some. I have tried this approach over the years, and I've found that exiting all positions at predetermined logical profit objectives is always better for my bottom line.

Another method you can use to accommodate runaway bull moves is to reenter the market on pullbacks against support points on lower time frames. Let's say you may have exited a daily position on Tuesday and you reenter it on a half-hour chart on Thursday. What's interesting about this approach is that even if you reenter the market at a higher price, you may be at a safer level. That means that statistically you would be less vulnerable to adverse volatility that could hit your stops and force you to take a loss. This approach allows you to control risk without raising your stops to areas likely to be hit!

Typically, I look for my lagging indicator or coincident indicators on a higher time frame. Then I combine that indicator with my leading indicators on a lower time frame. For example, let's say a daily pattern that I use as a setup to go long has just occurred. I'll look at an hourly (or less) chart to calculate the precise entry and stop placement points. Depending upon the nature of the lagging indicator that provided the context for the trade, I determine the strength of the market. I will then use precalculated profit objectives on either the hourly or the daily chart as my exit point. The approach works equally well using a half-hour chart as a setup and dropping to a five minute chart for your leading indicator analysis. If you're a monthly-based mutual fund trader you can consult daily analysis to determine your entry, exit, and profit objectives.

The lagging and coincident indicators I use to establish market trend or direction are displaced moving averages, a combination of the MACD and Stochastic, as well as a series of 9 price patterns. The only leading indicators I use are, as I said, a price-predicting oscillator as well as a specialized, advanced form of Fibonacci analysis. The more accurate your lagging indicators are the better your results. The more accurate your leading indicators are the better your results.

Now let's examine different types of traders to see who would be best suited to this approach and who might not be well served by this type of trading methodology. Let's take a fund manager with over five million under management. Such an individual can afford to diversify over a wide variety of markets and hedge his trading over a variety of different systems. He has the equity to take the market drawdowns that a much smaller trader couldn't afford and he can hire help to be there when he wants a day off. Maybe he doesn't need this approach. On the other hand, let's take a trader with a $25,000 to $50,000 dollar account. This trader is often an individual who is attempting to make a living out of the market. He is often a one-man shop and needs income from which he can pay his bills. He may also need the support of his friends and family to continue this enterprise. It is very difficult for your wife to understand your explanation of a 30% win ratio and substantial losses for two months, even if the gain on the third month outweighs the losses. A high accuracy trading plan that shows consistent winnings avoids this issue and entices this type of an individual back to the computer. It fosters his ability to interact with the market in a very positive way.

Another consideration is the type of brokerage operation that may be available to him. The influential connections that a larger trader is able to cultivate may not be feasible for the smaller trader. We all know a one lot in the S&P is treated differently from a 10 or a 50 lot. It may be particularly attractive to a one or a two lot trader to have price orders in the market at predetermined levels prior to the market getting there. He avoids the necessity for handpicked filling brokers doing his "bidding." In between the 50,000 and five million dollar million account there's a lot of elbow room. Where you fit in can be dictated by many factors. For hedging purposes this approach can be a godsend. You eliminate all need for context since you know already that you have to own a couple of million dollars of, say, Swiss francs or Deutschemarks . What you do at that point is simple. Look at where you are in relation to your leading indicators. Act or wait as the numbers dictate.

Typically, mixing leading and lagging indicators is not suited to strict non-judgmental trading systems. It is perfectly suited, however, to traders who allow for some level of judgment in their trading operations. System traders have to be there day in and day out taking their signals so that when the big move comes, it will bail out their losses. This is very difficult on a one-man shop. However, an approach that yields a high percentage of winning trades and that is judgmental in nature can be picked up and traded at will, at almost any time of the year. This allows for a lot of down time for other activities. After all, isn't that why most of us got into trading in the first place?

Those using this information for trading purposes are responsible for their own actions. No guarantee is made that trading signals or methods of analysis will be profitable or will not result in losses. It should not be assumed that future performance will equal or exceed past results.

Joe DiNapoli and author of Trading with DiNapoli Levels. The book covers his compreshensive and modular trading approach. It's available through Traders World for $162 plus $4.95 shipping. Call 800-288-4266.

Timing is a Measurement
Tempo is a Rate of Speed

By Joe Rondinone

Everything in our universe has measurements. We wear shoes of different sizes, different size clothes, different size cars, we have two and four door cars, different horse power motors. Our house is at 44 SO SO street, the house has four bedrooms, three baths, two stories and a two car garage. We measure our height and weight, we count our money and so on... What can you think of that is not a measurement in size, value or price? Of course we all know this, right? We as traders are interested in prices, everything we trade is by price.

The Problem

The problem is we have an outdated method of charting prices. You can't be satisfied with a record keeping charting affair if there are better ways that can identify market movements that produce trend disclosures. Charting values of different sizes and charting them equally is the problem, I find it impossible to think this is logical and final. For example: Let's suppose a man or woman walks one mile in 5 minutes, then he walks two miles in 10 minutes and he walks three miles in 15 minutes. How would you chart this adventure? Here is one way...

One inch equals one mile. Two inches equals two miles. Three inches equals three miles. See figure 1.

__________ One Inch
_____________________ Two Inches
___________________________________ Three Inches

Figure 1

Good layout, but it is not in a charted form, so let's do this, give each mile a proportional square, aside the runs in a vertical manner. See Figure 2.

Give the one mile walk a one inch block along side the walk. Give the two mile walk a two inch block along the two mile walk and give the three mile walk a three inch block along the three mile walk. See Figure 3. This is a better charted form, we are now showing the measurement of

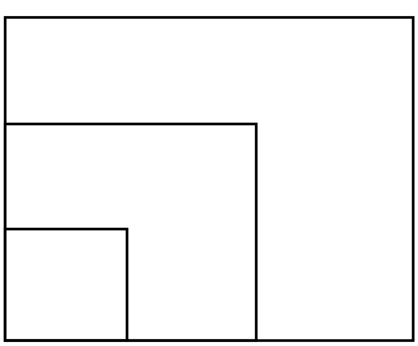


Figure 2

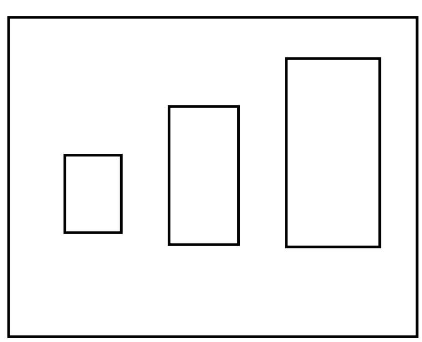


Figure 3

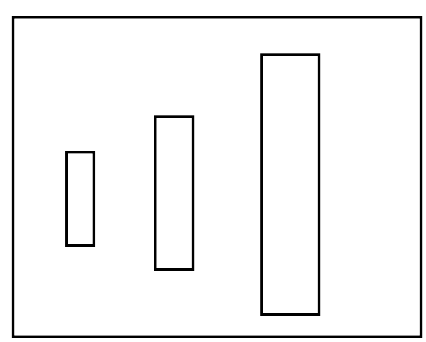


Figure 4

the walk with the value of time. Great... we are so close to a better charting method. Let us put the amplitude (the measured walk) and the time of the walk together such as this.

Does this seem more logical? This is a lot better block charted form, we are showing the measurement of the walk with the value of time, good. We are so close to a great charting method.

Now lets put the amplitude (the measurement walk) and the time of the walk together as follows: Let's post the walk (movement) as a vertical bar and for each 5 minutes let's give the vertical one block in width. Let's post the walk (movement) as a vertical bar and for each 5 minutes let's give the vertical one block in width, each 10 minutes will get two blocks in width, and the 15 minutes will get a width of 3 blocks of width. The width is attached to the vertical bar as shown in Figure 4.

The Square of Price with Time

As presented with the man and time experiment, it can be worked with the posting of traded prices. The posted price of any period can be posted in intervals of 15 minutes, 30 minutes, 60 minutes or daily periods. If you add width/space/time to the total price movement making a rectangle with each posted period, see below. See Figure 4.

In this demonstration, let's use one block in width for each 5 cent move, 5 cents move gets one block, 10 cent move will get two blocks, 15 cent move gets three blocks etc. Now you have a value of space/area/time added to it. If the value of time is in true proportion, in all the postings, of the charted prices, this is the first step in the process of squaring price with time. Because each movement is squared with time value, a true trend line could be drawn that has value in trend following. The logic being, why would you draw a trend line from unequal values? Note: This is based on my Angle Symmetrics Trading Method, but do not use the above width as shown, this is not the true Symmetrics Formula.

The second charting discovery that has become great in the square of price with time is a simple charting method I called Presto 5/4 Angle Trader. This is a simple theory to understand although it took many years to complete. Getting the correct angle to draw was the hardest to match to the correct area for posting the four prices for each period. Presto has four movements

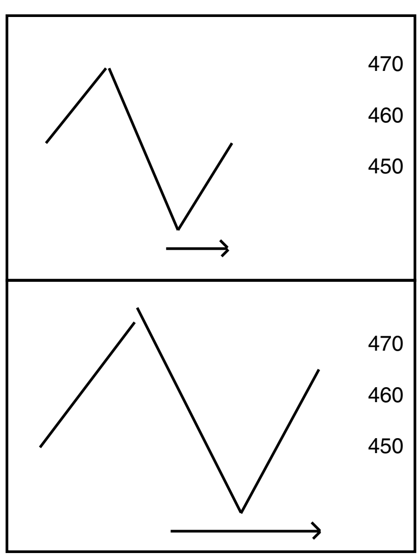


Figure 5

to any price move. You have the opening, the high, the low and the close. We all know that much, don't we? The big trick is to put these four movements of each period so that they will use up the correct space to correctly give validity to the squaring process. Let's say the price opens at 450, rallies to 460, drops down to 440 and closes at 450. What does that look like on regular bar chart? When I was a broker at Stotler in Dallas, a client called the broker next to me and asked what the beans did today. He answered, "they did nothing" meaning they closed at the same price as yesterday. They went from 450 to 460...10 cents down to 440...20 cents and closed at 450 again. Is that nothing?

A move of 40 cents is nothing? Now let's see my Presto charting of the same move below. Warning, the listed charted angles are not Presto angles, they are for movement demonstration only. See Figure 5.

Now you see how the width/time is of value. If the price rallied to 470, 10 cents higher than the 460 high, this would give your angle a 10 cents move upward and also a 10 cents downward. This is a disclosure of new methods that are being used by my students. I must tell you that the Symmetrics Trading Methods are not anything like the volume trading method. I will tell you the difference in a few words; If you have a limit day in beans, with only one contract traded, volume posting would be only a dot on the next line on your chart. With Angle Symmetrics, it would be a limit posting with the closing price posted six or more blocks wide, because the price movement of 30 cents calls for a width of many blocks wide.

The Law of the Triangle

In closing, I want to mention that much of my work has been according to the law of the Triangle. Nothing can exist without three points. This is why we have the high, the close and the width to all my charting. Remember in music, no chord, in any key, can exist without three separate notes.

Joe Rondinone is president of Commodity Projection Systems. He has personally studied under W.D. Gann in 1954, one year before he passed

How to Succeed in the Markets

By Neal Hughes

Truths about trading, published in the hope you will avoid learning this the hard way:

1. How to save a lot of money and increase your trading capital. (There is no Holy Grail) There is no magical mathematical system that will consistently make money in the markets. All mechanical trading systems experience periods of profit and periods of losses. I've seen reports of the best trading systems having winning trades on average only 48% of the time. Winning 60% of the time is considered spectacular for mechanical systems. Most people lose money on trading systems, this is because they quit during a string of losses. If you follow a blind system, you have to stick with it, even during bad times; this can require deep pockets. Most people cannot do that, so trying to buy a "successful system" is futile for most people. For discretionary traders, there are also no magical indicators, which generate good signals all the time. The trader must learn to know when an indicator should be followed, and when it should be ignored.

Advice: Some people are far better suited to mechanical systems trading than discretionary trading. It requires complete confidence in the system and suppression of emotions. The trader must execute every signal.

If you are not such a trader, don't waste your money on these systems/indicators, instead add the money you would have spent on such systems to your trading capital.

2. Discretionary trading can be very rewarding. But it is hard work, and can also be very stressful. Finding a style/methodology that suits your personality is difficult, and many people lose a lot of money in the process of finding one. Don't expect the first book/methodology you buy to be the magic one. Finding/developing a good system for your personality is possible, but not easy. Even when you reach a degree of comfort with your style, the learning process never ends. Trading is not a low-stress easy occupation.

Advice: the best discretionary traders tend to have firm rules and strict methodologies in place (almost mechanical in many respects). In order to trade with consistency, they design a system that actually reduces the amount of discretion in their trading, but they retain input in key areas of their plan.

3. Backtesting and paper trading are valuable tools (and abused concepts). A system/methodology that looks good in a back-test or in paper trading may not do well in real trading. Backtesting and paper trading are valuable tools. I paper-trade every new concept before committing capital to the idea. Backtesting and paper trading allows testing in a risk-free environment, can help you refine your techniques, encourage discipline, and saves you a lot of pain/losses during the testing/educational cycle. But backtesting/paper-trading is not trading. During a paper-trading exercise, your focus is on testing for success. During real trading, your focus is often on preventing loss. Emotions come into play during real trading; no amount of paper trading can cater to this reality. Backtesting in the futures arena usually involves "back-adjusted" continuous contracts.

These adjusted continuous contracts do not represent real prices, or a real trading environment accurately. All backtesting results should be treated appropriately. Also, most backtesting excercises dramatically underestimate trading costs and slippage.

Advice: Ask for a documented real trading performance history when reviewing mechanical trading systems. Then determine if the results are compatible with your objectives and personality. If real trading results are not available, you must determine if the system tester used an appropriate means of testing, as well as generous amounts for trading costs and slippage. Requesting documented results is not appropriate for discretionary methodologies because your own personality will affect the outcome.

4. How to dramatically reduce your trading costs. The real cost of trading is very high. Commission costs are the least you should be concerned about. Slippage will be dramatically higher than you think. Most trading systems/methodologies will have you buying into an existing trend, and selling (or attempting to) into a price-decline or panic. Slippage can be horrendous in these circumstances.

Most backtesting results dramatically underestimate slippage costs. There are other costs too, add commissions, slippage, computer equipment, quote service, software, communication costs, loss of interest on your trading capital, the cost of losing trades (lost capital), the cost of your learning process (those mistakes you made). Do you get the idea? Forget about commission costs, don't quibble about the cost of books or courses, get ready to spend some real money if you want to trade well.

Consider the emotional cost. How would you feel after losing 30 percent of your capital? Would you continue trading in that case? How would you feel after 4 losses in a row? How about 5 losses in a row, with your spouse consistently saying, "I told you so"? This serves to explain the concept of "emotional capital". The beginner trader needs to find a system/methodology that reduces both financial and emotional costs.

Advice: look for a system that helps you buy dips in an uptrend, sell rallies instead of selling into a downturn, provided of course that your personality can accommodate this style. If you can't handle a series of consecutive losses, tend towards discretionary trading (as opposed to mechanical) or consider earning a living in a different industry.

5. How to get rich starting with only $5,000. Almost all the successful traders I've met have suffered severe losses before they became successful. This means that you will most likely reach a point at which you have lost so much of your starting capital that you consider yourself a failure before you succeed. Your initial capital will probably be insufficient to carry you through this process. Start accumulating more trading capital now. Your first objective is to make your trading capital last through the learning process. Most people do not meet this test. You will therefore probably require more capital than you anticipate.

Advice: On the other hand, starting small is a great way to reduce your risk, learn to trade with smaller positions and build up some confidence, before you enter a more demanding environment. Most traders do start small, because it makes sense. But you will probably not become wealthy on only $5,000.

6. It can be done. I know several people who have become successful at trading. Read published interviews of these traders. Yes, it can be done! All of the traders I know do not consider it an easy stress-free source of instant riches. They treat it as a serious business because they are trading with real money. Some of the best traders burn out periodically, and need to take a break.

Advice: Successful traders tend to strive for balance. They do not trade all day every day, and then study charts after hours, then take a few trades in the aftermarket, and talk trading all their waking hours, etc. Most successful traders tend to have a balanced life-style with varied interests. Some have other businesses; many obtain revenue from training other traders, selling systems etc. Good traders need to counter the stress of trading in healthy ways. Trading is a psychological adventure, manage your mind and emotions. Take vacations regularly, and get physical exercise, in order to fight stress and burnout.

7. Following someone else's advice most often leads to failure. A newsletter subscription will not bring you easy riches. It is very difficult to trade on someone else' advice. You will not have the same degree of confidence in each trade as the advisor does, you do not have the same floor connections, your slippage will vary, and you may close the trade inappropriately due to fear.

Advice: Guru's are great for education. If the advisory service has good and practical educational content, it could be worth the subscription, but following someone else blindly usually fails.

8. Locals and specialists are not "out to get you". This section only applies only to the trading of liquid instruments. (Do not trade any other kind!) Locals and specialists do not "gun for your stop", unless it is within easy reach and in an area where many stops reside. There are many stops at different prices in the market at any time, if your stop is located inappropriately, your stop will likely get hit. This is not the fault of the locals, it is your responsibility to place your stops appropriately. Yes, locals will try to trade in an area of clustered stops, but only if the equilibrium of buyers and sellers permits it to happen. Locals have a privileged position, being able to profit from the spread between the bid and ask. Too many traders think this is an unfair condition. It can be unfair if the spread is manipulated. But bear in mind that the locals assist in creating an orderly market. They provide liquidity, they take the other side of your trade. Locals take risks every day that you would not be comfortable with. Don't begrudge them their ability to trade the spread. It is to your benefit, and you would not do it for the same benefit. Think of working hours each day in a very loud sweaty pit with these aggressive sharks. Better them than me! Recognize that we benefit from their activities.

Advice: Visit an exchange, spend some time there. Even find employment at an exchange, if possible. Try to befriend a local, you will learn a lot! Too many people trade with a very limited knowledge of market mechanics. Knowing how the "locals" exploit their edge is valuable, you can make money with that information (this is particularly valuable to the day trader).

9. Take responsibility. It is OK to be wrong, you will make losing trades. You cannot control the markets, in trading there is much beyond your control. You can only control yourself and your actions. Take responsibility for your own actions. Don't blame your broker, your software, your quote service, or the leader of any country. It is YOU who makes each trade. If you have a losing trade because you were bumped into it because of a bad price tick, tough! You made the trade. The more you take responsibility, the better trader you will be. Don't blame everyone else!

Hint: In reality you cannot be responsible for everything, and you can't attempt to control everything. Part of trading is to jump in and make a trade with what information you do have. Don't be so careful that you are paralyzed! You have to take some risks (within your loss tolerances).

10. Fear of capital loss it the greatest cause of failure. The emotion of fear causes traders to make mistakes. It is normal to have your emotions effect your trading without being aware of it! Fear will cause you to miss good trades, enter and exit trades too early or too late, and make silly unexplainable errors. Fear will cause a beginner to quit trading just after an important lesson has been learned. Many traders quit along the path of success because of fear. Trading under the influence of anger or euphoria is very dangerous too. As soon as you are overconfident, wham! The market teaches you a severe lesson. Remember,

never trade when you are angry.

Advice: On the path to success, there are some key concepts that can reduce fear. First, build confidence, paper trade, and then trade in small quantities. Second, shift your focus from money, focus instead on what you have learned from each trade (both profitable and unprofitable), and what you have yet to learn. Focus on the path to success, instead of money. Learning is a positive experience; success and money will follow naturally.

11. How to consistently make good trades. If you are hard on yourself unnecessarily, you will fail due to lack of confidence and fear. If you derive enjoyment from trading you will do better. Do not strive for the enjoyment of making money. Instead, strive for the enjoyment of trading professionally. Redefine (in your mind) what a good trade is. A good trade is one where you traded according to your plan/strategy/methodology, regardless of profitability or loss. Accept that losses are a cost of doing business, not personal failures.

Advice: Reward yourself for making a good trade, regardless of profit or loss. Talk to others about how your strategy ensures your success because it protects you during a losing streak, rather than complaining about a losing streak. Of course, this requires that you have a good strategy and confidence in it. When you have reached this level, you will know you are a professional trader.

Neal Hughes can be contacted at Coast Investment Software Inc., 1998 - http://www.fibtrader.com

eSignal

To be successful at day trading or even investing, it is necessary that you have all the timely information possible. One place you can find this crucial information is from the newly released eSignal service by Data Broadcasting. The following are some of it's new features which make it appealing to any traders or investor.

Full Text News - Just by clicking a symbol you have setup on your screen, you can pull up headlines for that particular issue for the past 24 hours. Then by clicking on the headlines you have access to the full text news. Other news services also available at an extra cost include: Comtex Wall Street Wire, Dow Jones Business News, Future World News, Internet Financial Network, PR NewsWire and Business Wire, CBS MarketWatch, and the Dow Jones News Service.

Option Montage Window - This new window is exceptional. Just right click on a symbol and select autolist. This will open up all currently trading option contracts for a symbol.

Multi-Day Interval Charts - Now you can access Intra-day Interval charts by right clicking on a symbol and selecting Intra-day History, then Interval Chart. This opens a chart window for the symbol you selected. Then, simple click on the Analytics toolbar to add any of 20 popular technical studies to your chart. Your chart can span up to 5 days if you are an on-line user or more days if your are a broadcast user.

Multi-Day Time and Sales Charts - Now you can track up to 5 days of time and sales data for any stock or index. To open a time and sales window, right click on a symbol, then select Intra-day History, then Time and Sales to open the window. Once the window is open, click the Properties toolbar, then select the General tab, then specify the number of days of time and sales data you wish to display.

News Research Menu - Access general research and DBC's symbol lookup through the new Research menu. Then, right click on a specific stock or mutual fund symbol for in-depth research from Baseline, MarketGuide, Standard & Poors Personal Wealth Premium service.

Layout Menu - The new Layout menu lets you open a variety of preset layouts (or your own custom layouts) for particular issue types (stocks, options, futures, etc.) and screen resolutions (1024 x 768 or 800 x 600). To open the sample layouts or any new layouts that you create, click on the Layouts menu, then select the desired layout from the list. Then select the appropriate screen resolution for your monitor. There are layouts specific to charting, futures, foreign exchange, portfolios, and more.

Embedded Browser Window - Just press the Toolbox toolbar in Signal or the Text Manager application to access DBC's Trader's Toolbox, an exclusive site for Signal subscribers that contains links to in-depth research, and news and commentary from CBS MarketWatch from a variety of well respected sources. Then, once you have your embedded browser window open, you can save it in your layouts so that it is automatically built into your trading screens. You can also type new URLs into the embedded browser window to browse other web sites from your Signal screen.

NASDAQ Level II windows - contain Level II data as well as a Level I quote for the symbol you specify. Level I and Level II quotes are updated in real-time. Level II data appears in the main part of the window. Each Level II quote includes the market marker ID (MMID) and time. Bid, size, ask, and ask size data is displayed depending on the current sort option selected for the window. The color bands or background colors behind the Level II data change to highlight the best bid and ask quotes. Yellow signifies the highest bid or lowest ask quote (Inside Market). Green signifies the next best quote (1st outer). Dark blue signifies the second best quote (2nd Outer). Light blue signifies the third best quote (3rd Outer). You can insert a scrolling ticker into any NASDAQ Level II Window by clicking on the T toolbar. Trades in this ticker window are color-coded green for up ticks, red for down ticks and white for unchanged.

Price/Volume charts - display the volume of an issue at each price it has traded while the chart is open. Data is displayed in a horizontal bar graph, with bars representing trade volume at a various price levels.

Time/Volume Charts - let you see the volume of an issue at the time intervals you choose. For example, you can see volume in 15 or 30 minute intervals. The information is displayed in a horizontal bar chart, with each bar representing the volume for the time interval

Edit Time and Sales - You can edit to eliminate spurious or anomalous data. When you edit Time & Sales data for a trade, your changes are reflected when you display a Tick chart for the symbol.

Trend Lines - You can now draw trend lines in graphic charts to make it easier to view the general trend of the data.

For more information call Data Broadcasting at 800-S-MARKET. www.dbc.com

The Fibonacci Trader

1835 US1 South 119, Suite 352
St. Augustine, FL 32086
Phone: 512-443-5751
Fax 904-819-0737
www.fibonaccitrader.com

Product: 32 bit Intra-day Investment analysis software

Equipment Requirement: IBM-PC Pentium II, CD ROM Drive, Windows 95/98/NT. Data connection.

Price: Real-Time Version $986.00 End-of-Day Version $786.00

The Fibonacci Trader was designed by Robert Krausz, featured in the best selling book New Market Wizards, and author of the A W.D. Gann Treasure Discovered, his is also editor of the Fibonacci Trader Journal. This program was designed to trade the markets multiple time frames. The program has many indicators and technical indicators not found in other software programs.

This is the just released 32 bit version of the Fibonacci Trader. This version is designed to be used more effectively on a Pentium II or III computer using Windows 95, 98 or NT. The speed of the program has been substantially increased over the old version. The Fibonacci Trader uses a hardware lock to ensure that only authorized users can run the program. It goes on the printer port on the back of your computer. The installation of the program is fairly easy. Put in the Fibonacci Trader CD in your CD Drive, click on start from the tool bar and click run and follow the instructions on the screen. Once the program is installed you use the main menu to

edit the exchanges to suit your time zone, as well as add any new exchanges. You then click Groups and select a group to create or edit. You then set the contracts which you are going to follow in the group. The contracts can be real-time, manual or end of the day. End of the day requires that you specify a data vendor for downloading of data. You have complete control over the contract specifications and adjustments such as stock splits, etc.

Plans - Most software programs limit you to only one time frame. With the Fibonacci Trader you have the ability to view the market's actions and all indicators in different time frames on the same screen. You set up plans each of which has 3 time periods. The first time period is the time period you are trading called "Own." The next higher time frame, which sets the trend and other key information is called "Next." The highest time frame is called "High" and usually is referred to for the long term trends. Typical Plans will be Daily/Weekly/Monthly or for intra-day, say for the T-bonds 10minute/50 minute /Daily. The advantage of the multiple time frames is that you can view the daily and the weekly trends all on the same chart. If you combine these charts with indicators it gives you a true in-depth view of the trend of the market from a multiple time frame view.

The Fibonacci Trader has most of the standard indicators used in many technical analysis programs as well as its own set of unique indicators which work especially nice with the multiple time frames. Most of these work with the Own, Next and High time periods. Some of these are the Arkay, Balance Point, Directional Volatility, Double Hi-Lo, Dynamic Balance Point, Fibonacci Zones, Gann Swing Chartist, HiLo Bands, Krausz Ratio Bands and the Triple Switch.

The Fibonacci Trader also included an indicator based system testing module. There are many features including the ability to combine indictors, set up entry and exit rules. You can back test, view tables of results in both summary and tabular form, plus the individual trades will be displayed on the charts and linked to an alarm.

Another unique feature of the Fibonacci Trader are the FT Tools. These are a set of Fibonacci tools which can automatically pull up and plot the Fibonacci range values.

Fibonacci Zones are another unique feature of the program. The program plots the resistance and support zones based on the Next or High time periods. Some traders use these zones for taking partial profits if a zone is hit or a breakout occurs a new trend many be underway.

The program also features unique Fibonacci Zone Channels Next and High Period. These are Fibonacci Zones that are plotted as a channel line instead of horizontal support and resistance levels. The tool can be used to forecast support and resistance levels.

This unique program should be considered for any trader that is interested in real-time trading using multiple time frames with emphasis on Fibonacci techniques. To complement the program, Mr. Krausz has written a new book, A W.D. Gann Treasure Discovered. (See back cover advertisement) The book teaches you how to backtest your data and develop a trading plan.

ELWAVE

P.O. Box 2944, 2601 CX Delft, The Netherlands
www.prognosis.nl

Product: 32 bit Elliott Wave analysis software

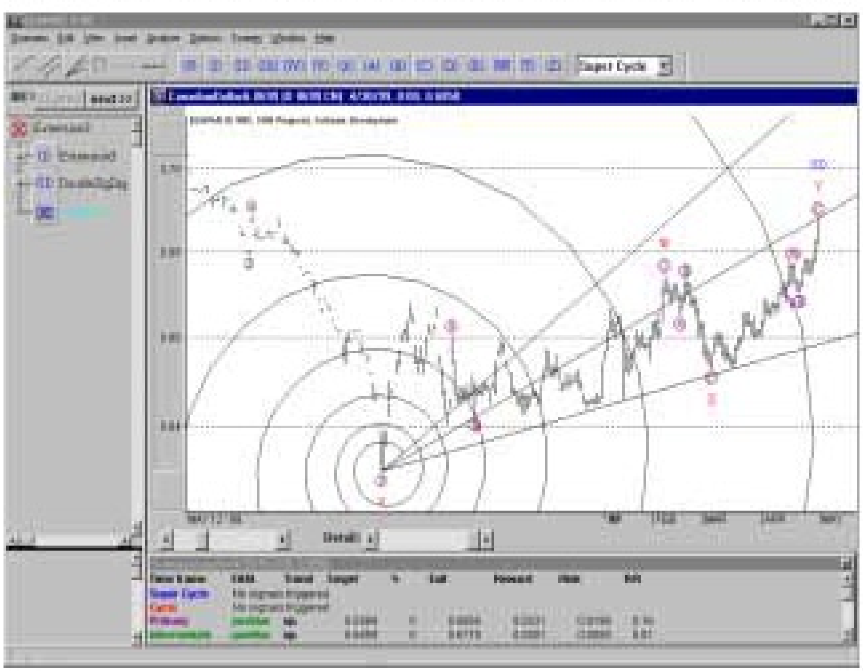
Equipment Requirement: IBM-PC Pentium II, CD ROM Drive, Windows 95/98/NT. Data connection.

Price: Full end of day version. $995, Full Real time version. $1295, Full 30-day trial version. $75

ELWAVE is a Windows based software program by Prognosis Software Development. It has been specially designed for investors to apply the Elliott Wave Principle profitably to the markets.

The Elliott Wave Theory is known for its accurate forecasts. The problem is that there are many rules and guidelines that must be followed accurately and consistently. This requires time and experience when dealing with the markets.

ELWAVE was designed to take the complexity out of using the Elliott Wave Theory. A true Elliott Wave model was programmed into this software. The program is capable of analyzing the fractal nature of the markets by searching and approving patterns in patterns in patterns and so on. The program searches for the best alternatives of Elliott Wave and will show a clear outlook presenting the most preferred alternative. In addition it will summarize results, so the user gets a



clear picture of the forecast and probabilities as derived from the Elliott Wave Principle. Although the analysis is done automatically, ELWAVE is not considered to be a black box. The program gives full insight in and information about the patterns of Elliott Wave by displaying all rules and guidelines, as well as the Fibonacci relationships.

The interface of ELWAVE has been designed as a true Object Oriented Interface. This way you can access every object, like indicators, targets, spirals etc. directly on the screen for most commands are built right into the object itself. For this reason ELWAVE is very user friendly and intuitive to use.

Perhaps the most relevant feature of this program is that it is not just a momentum model. It is dedicated to the Elliott Wave principle. The program clearly presents favored outlooks and alternatives. It ranks them according to probability, determined by both price and time, Fibonacci, guidelines, patterns and validity of internal wave structure. The Wave inspector gives complete information or a summary on every pattern. The program is very fast, it can analyze 100 years of Dow Data in under 2 minutes, 3 wave degrees deep using a Pentium 100 MHz computer. The program has no limits in analysis depth. The program labels the whole chart, not just the latter part, and does so very quickly, important because the total picture determines the score of a pattern.

Using Elliott Wave you can analyze any section of the chart without the need to reanalyze the whole chart again. This means that intra-day analysis can get updated within a very short time span, mostly between approximately. 30 section and under 2 minutes depending on computer speed. The program allows you to define your own wave count and have ELWAVE analyses it or check it.

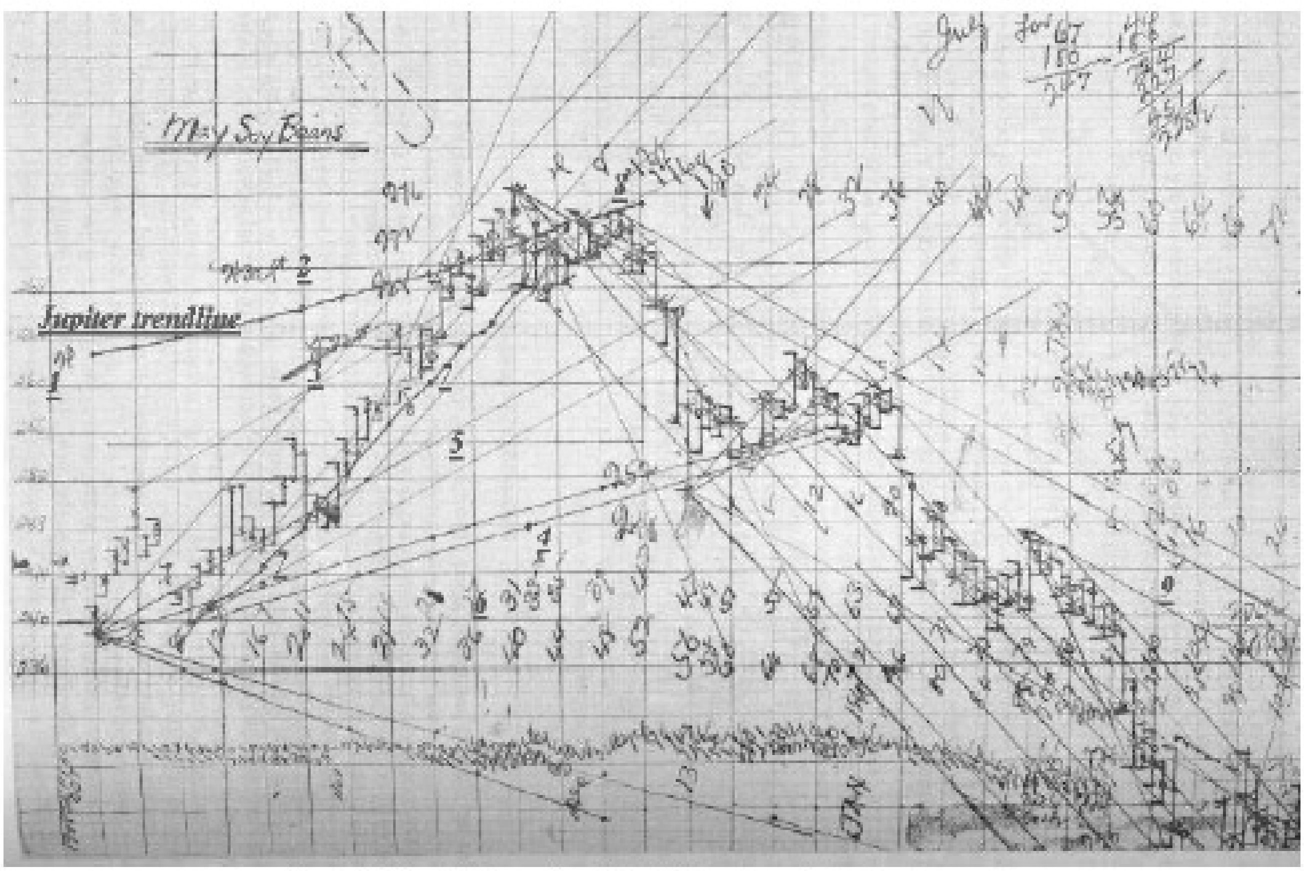
The program has 2 sets of rules, one implementing the classic rules containing strict Elliott interpretation and the Modern rules that include all the knowledge of Prognosis acquired in the last 10 years. There is a special proportional Fibonacci and swing filter which groups waves of the same degree together. It combines time and price lengths of waves and will recognize that a sharp wave 2 connects to a flat wave 4 that has very little retracement. The program will determine the relevant multiple time frames by itself, where every wave degree represents a time frame. The program shows all Fibonacci time as well as price relationships of patterns in the Wave inspector. The Fibonacci pane shows all Fibonacci ratios of the selected wave and its sub-waves at once. The program projects specific targets, displaying a target range and most likely targets. The program now gives target clusters and batch processing. The program can use logarithmic indicators for long term analysis. It's ideal for intra-day traders, it can read extremely large files, in MetaStock 60,000 data points, around 200 years of daily data. A real time link is available using a DDE link, provided your data vendor supports this the use of a DDE link. The program comes with an extensive 175 page manual covering how to operate the program, an introduction to the Elliott Wave Principal and a description of valid patterns and how to trade for profits.

ELWAVE is so good it was selected by Traders World to be used in conjunction with our new Elliott Wave Masters Course. The course cost is $90 (see page 48) and includes a Full working version of ELWAVE which can be used only with the data included on the CD. If you decide to buy the program at a later date you can take off the full $90 you paid for the course from the price of the ELWAVE trading program.

W.D Gann's May Soybean Chart: A Fascinating Insight

By Myles Wilson

I thought it would be interesting to take a look at Gann's actual price chart for May Soybeans 1948-1949 and see what techniques we could see him using on the chart. Top left is the astrological symbol for the planet Jupiter just at the beginning of a Jupiter trend line (1) He started this trend line on the 4th of October 1948 when Jupiter was at 22 degrees Sagittarius. 22 degrees Sagittarius is also 262 degrees of the 360 degree circle. Gann's first price marking was at 262 cents and then he started moving his trend line up by 1 cent every time Jupiter moved by 1 degree. I notice that he also noted the fractions of the degree as well. The next interesting chart marking (2) is a line drawn along at 270 cents marking the price/degree where Jupiter would change signs from Sagittarius to Capricorn. A planet changing signs of the zodiac is known as ingress and this chart shows several planets ingress but he only marked Jupiter's in this way. (3) Uranus and then Venus and Mars ingress within one day of each other. He put a little cross on the day of the Mar's crossing. (4) Each zodiac sign is 30 degrees of the circle. (360 degrees divided by 12 signs = 30 degrees) Gann marked 270 price for Jupiter's ingress and then marked 15 cents below this (5) as well 30 cents lower (6) all potential price targets. Another interesting trend line is created by the movement of the planet Mars (7) Mars moves



One of W.D. Gann's Soybean Charts with all of this angles and calcuations drawn on it.

faster than Jupiter and this is reflected in the steeper slope of the Mars trend line. The high on May beans was 276 cents. Notice that on the day when the Mars trend line would be at 276 (8) prices began breaking out of their range. There are a few light markings that are probably impossible to see in a reprint like this but one of them (9) is a little arrow pointing down when the moons nodes changed to 29 degrees of a new sign. This is like a planetary ingress because the moon's nodes run counter-clockwise. It is always fascinating to study this chart and there are other things buried in there as well that I will discuss at a future time. Another thing that I have found fruitful to study is the dates for which he forecast market turns and how they relate to planetary phenomena.

Myles Wilson Walker is a private trader and author of how to Identify high profit Elliott wave trades in real time (Windsor books). The book is excellent and can be purchased through Traders World Magazine. Price is $49.95 plus $4.95 shipping. Mr. Walker's Gann site can be found at homepages.ihug.co.nz/~ellsann or he can be contacted via Fax 0649 5750404.

Interview with Bill Cruz

Question: Bill, you and your brother Ralph created Omega Research which created the award winning TradeStation strategy back-testing program. Your company is the largest and most successful in the world in this area. This year your company will do $30 million in sales. How did you get started?

Answer: I got started, not to be in the software business, but to create a better market analysis tool for my own trading. You see, I wanted to be able to back-test my own trading strategies (trading systems) and no tool existed to allow me to do this, so I set out to create it for my own personal use. I later discovered that many other traders had the same desire of back-testing their own trading systems. That was the beginning of Omega Research over 16 years ago. Today we are a public company with over 200 employees dedicated to creating next generation trading tools focused on strategy back-testing and automation. We believe that to be successful, a trader needs to trade using a set of non-emotional, objective trading rules that he/she has back-tested, and then trade those rules religiously every day.

Question: How is the TradeStation 2000i different than TradeStation 4?

Answer: Even though TradeStation 2000i is offered as an upgrade to existing customers, it's really a whole new product. We redesigned TradeStation from the ground up taking into account everything we've learned in the last 16 years. It allows traders to describe their own trading strategies more easily than ever before thanks to advancements in Easy Language and our new System Builder. It performs the most accurate historical simulations ever possible thanks to it's "Look Inside a Bar Technology" and it offers the most complete historical performance reports ever offered including over 20 tabular and graphical reports. In addition, TradeStation 2000i offers traders the ability to view, back-test and automate trading strategies based on intra-bar information normally invisible to most traders using it's new Activity Bar technology. Activity Bars plot a new dimension to the left and right of a bar, any custom intra-bar activity desired by the trader. Best of all the criteria is defined using Easy Language, so practically anything is possible. For example, you could plot trading activity (volume) at each price point of a bar, or you could plot to the left of the bar in red the trading volume that traded at the bid at that price while plotting trading volume that traded at the ask to the right of the bar. This will show you who controlled the market at that price point; buyers or sellers. This is just an example of the hidden information that Activity Bars will display. But best of all you can create a trading system that uses rules based of Activity Bars to see if your trading ideas based off Activity Bars really work. In addition to offering next generation system testing, automation and market analysis capabilities, TradeStation 2000i is designed to fully embrace the benefits of the Internet. For a full listing of the over 200 new features in TradeStation 2000i your readers can visit www.omegaresearch.com/tradestation.

Question: Omega Research products have an Easy Language programming language.

Could you explain how this works and its advantages to the trader?

Answer: I was a classical violinist before I started trading, not a computer programmer. Therefore I wanted to create a language that would allow me to describe my own trading ideas to the computer without needing to learn programming. That's Easy Language, an English-like language based on trading terms that empowers traders to describe their own trading ideas easily to the computer, but yet is powerful enough to describe virtually any trading idea, regardless of how complicated. Today, 16 years later, it's the industry standard language of traders used by over 100,000 traders around the world. It's supported in TradeStation, RadarScreen, OptionStation and over 100 Omega Research Solution Providers.

Question: Your newest product is the Omega Research ProSuite. Could you explain what this program is?

Answer: Omega Research ProSuite is TradeStation, RadarScreen, and OptionStation in one integrated suite. At Omega Research we believe traders need to answer three basic questions in order to trade successfully 1) When to Buy and Sell. 2) What to Buy and Sell. 3) How to best Buy and Sell. TradeStation is designed to help traders answer the question "when to buy and sell". It allows traders to back-test their own trading strategies for timing when to buy and sell. RadarScreen is designed to help answer the question "what to buy and sell".

Question: Once you have a trading strategy that you've back-tested, there are so many trading instruments to trade, which should you trade?

Answer: RadarScreen is the ultimate in market scanning (real-time and end-of-day). It allows you to use the same Easy Language as TradeStation to find instruments meeting your conditions today. OptionStation is designed to answer the question "how to best buy and sell" by utilizing the leverage of options.

Question: I understand that you have built into Omega Research ProSuite Tracking Center protocols which enable brokerage firms to extract buy and sell orders from the program on a real-time basis. Could you explain how this works and it's implications to on-line trading?

Answer: We are working with our Omega Research Solution Providers to allow brokerages to automatically place orders whenever TradeStation triggers a buy/sell. The Tracking Center provides an open API, and brokerages are creating the software that monitors TradeStation buy/sell orders and places the orders. There are a number of brokerages who are currently working to release this new functionality.

Question: You have a solution provider program in which over 200 companies are enrolled. Could you explain how this works?

Answer: Omega Research ProSuite is more than an application, it is a trading platform. We have over 200 companies that have created add-on solutions that plug-in to the Omega Research ProSuite. These include market timing models written in EasyLanguage, cycle analysis, indicators, pattern recognition, neural networks, etc. which are designed specifically for use with Omega Research ProSuite. For a complete list vist www.omegaresearch.com/solutionproviders.

Question: One of the fastest growing areas of growth in trading are the internet online day-traders. How do you feel your program can help them.

Answer: Whether you are a day trader or long-term trader, we believe that you greatly increase your chances of being successful if you trade with an objective, back-tested trading strategy. Our products allow both types of traders to accomplish this goal by providing the means to develop such strategies.

Question: If you were a day-trader, what tools, oscillators, etc would you use to succeed?

Answer: The answer varies depending on whether you are a trend-follower, choppy market trader, or volatility trader. However, regardless of what type of trader, every trading system should include a market driven entry and exit criteria, a non market driven stop loss to preserve your capital during unexpected situations, and a money management strategy for pyramiding your profits. As it relates to using indicators or oscillators to create your entry and exit criteria, Omega Research ProSuite includes over 200 indicators and oscillators and a new technology called “Expert Commentary”” which allows a trader to click on any bar on the chart and have that indicator interpreted for them based on conventional interpretation. Its a great way to learn new indicators. Most importantly, by using Easy Language, a trader is able to easily modify any of our indicators or create their own and then back-test it to see if it works.

Question: With the advancements in computers and trading software, what changes do you see in the next 3 - 5 years in trading.

Answer: I believe to succeed traders need to gain the advantage of using the best trading tool of the time. At Omega Research our goal is to be the company offering that tool. Even though we are proud of our current products and the success our customers have achieved using them, we have a vision for a next generation tool that we have begun building. It’s a long-term project. I can’t say more at this time.

Gilbert Steele's Time & Dimension Chart

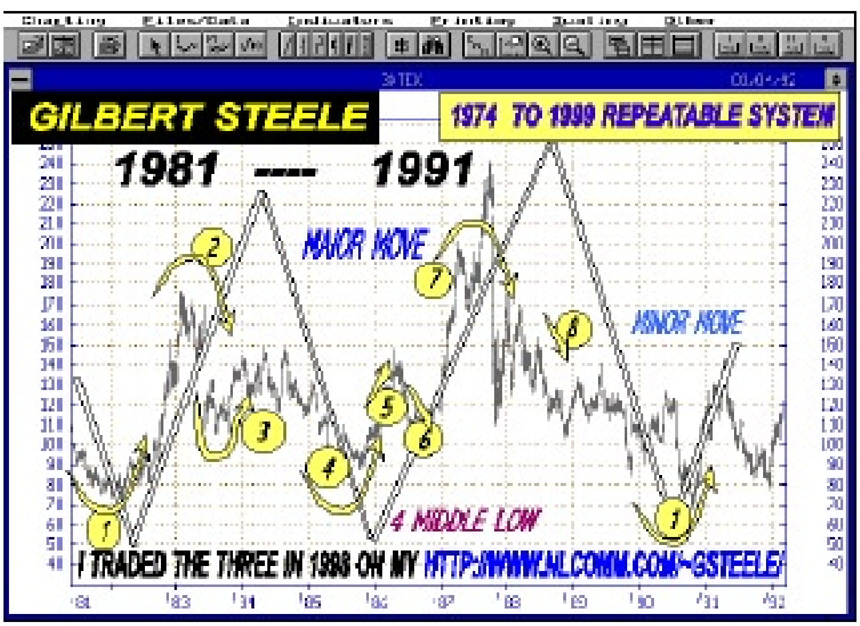
By Larry Jacobs

A couple of years ago Gilbert Steele contacted me and was interested in writing several articles for Traders World. He explained his story of how 33 three years ago he was standing in church and challenged God to be real to him in a very special way. He then had what is called an out of body experience. He found himself in a tunnel traveling through time and space. In this tunnel travel he had received a revelation regarding the math required to predict the stock market.

I was somewhat skeptical of his story. I had seen several stories about people having out-of-body experiences, but I didn't fully understand about how it could change a person or his knowledge. I have talked to Steele several times since that first contact and found him to have an extraordinary ability to forecast the markets. I witnessed him call the turns for Texas Instruments (TXN) many times. He also is on record for calling the 1987 stock market crash to the day and the dollar, before I knew him.

Steele has given us three large articles explaining his theory of how the markets work. They are published on our Traders World Interactive website at www.tradersworld.com.

The articles explain some of the ideas behind Steele's concepts of how the markets work. He believes that the main factor of the market is time and that our side of the universe is polarized by two; A male force and a female force. Time is subject to the laws of Fibonacci 1, 2, 3, 5, 8...etc. and DNA 1, 2, 4, 8...etc. Gilbert says that even the chromosomes of our bodies are based on the numbers of 1, 2, 4, and 8. These numbers gives us the math code of when a major move will occur. He explains that it's something like a Two Line Cross Over Moving



Average. One line of the moving average is the male force and the other line is the female force. The third is time or the trigger that causes the market to turn. Gilbert uses the software program WinWaves 32 which we will review in the next issue. You can see in his Time and Dimension Chart that he uses a different wave count than most Elliott Wave students. He goes through 8 counts and then starts over following an unusual wave structure. Study this chart carefully. It may illustrate the secrets behind the markets. Then go to his articles on our website. They are a must read for any serious student of the market.

Gilbert has also produced an excellent video tape which explains a lot of his theory. The tape can be ordered from Traders World for $49.95 plus $4.95 shipping. 30 Day Money-Back Guarantee. To order call 800-288-4266 or go to our website: www.tradersworld.com Gilbert is also interested in managing discretionary accounts.

A Reliable Contrary Indicator: The NYSE Bullish Percent Index

By Thomas J. Dorsey

The new Wall Street paradigm has changed considerably of late. It has changed from the old “buy low, sell high” paradigm to “buy high - and try to find a greater fool to buy still higher.” Investors have come to believe their god given right is a 30 percent annual return. My senior portfolio manager at Dorsey, Wright Money Management, Mike Moody, recently described the situation as follows:

“There is no generally accepted measure of risk in the investment industry. People with modern portfolio theory backgrounds will sometimes call beta or standard deviation “risk,” but both are really just measurements of fluctuation. Actually, investors are never bothered by rapid fluctuations - as long as it is upward! Unfortunately, we cannot always count on the market to be so accommodating. Perhaps a more appropriate description of risk for individuals would include “permanent loss of capital” as part of the definition.”

A man named Earnest Staby (one of the pioneers in the Point & Figure method of technical analysis) was thinking about measuring market risk back in the mid 1940s. He realized that traditional bar, Point & Figure, line graphs or the like were ineffective in determining market tops and market bottoms. He felt that at market tops, these charts look the absolute best and conversely at market bottoms these charts look the absolute worst. He realized that what was needed was some sort of soulless barometer that would become negative at market tops and positive at market bottoms. A contrary indicator that would afford the investor the ability to become less aggressive as the market reached high risk levels and more aggressive when the market reached low risk levels. It took until 1955 for this indicator to be developed. In 1955, A.W. Cohen introduced the New York Stock Exchange Bullish Percent Index.

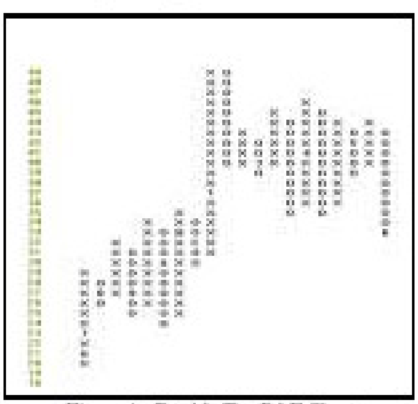


Figure 1 - Double Top P&F Chart

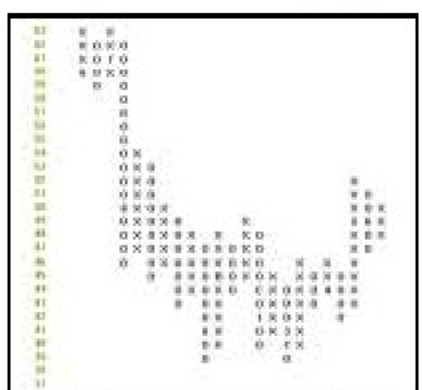


Figure 2 - Double Bottom P&F Chart

The Point & Figure Method

The NYSE Bullish Percent Index is simply a compilation of the percent of stocks on the NYSE that are on Point & Figure buy signals. The beauty of this analysis method is that clear buy/sell signals are generated on the individual stock charts. These signals can then be tabulated and evaluated versus the total number of stocks underlying the index. The Point & Figure method was created by Charles Dow (the first editor of the Wall Street Journal) as a simple, logical, organized way of recording the imbalances between supply and demand. In the end, it is the imbalance that causes all stock prices to move, and nothing else. If there are more buyers in a particular stock than sellers who want to sell, then the price will rise. Conversely, if there are more sellers in a particular stock than buyers, then the price will decline. If buying and selling are equal then the price will remain the same. There is nothing else.

These same forces cause prices to change in the supermarket or anywhere you turn on this globe. The charts are made up of X's (Stock rising in price) and O's (Stock declining in price). Buy signals are given when a column of X's exceed a previous column of X's, and sell signals are given when a column of O's exceed a previous column of O's. The following boxes illustrate the most simple double top and double bottom patterns. One would simply add up all the stocks that were on buy signals underlying the NYSE and then divide by the total to get a Bullish Percent. Let's say there are 2000 stocks underlying the NYSE and 1000 of those stocks are on buy signals, then the NYSE Bullish Percent would be at 50 percent.

The "Football" Indicator

The chart of the NYSE Bullish Percent runs vertically from zero to 100 percent. We look at this as our football indicator because when the index is in a column of X's, we have the football. When the index is in a column of O's, the market has the ball. The key is how the index shifts from one column to the other, either X to O, or O to X. It takes a six percent (each box on the chart equals two percent) net change to shift columns. For instance, a week's market activity produced 120 new buy signals and there were 160 new sell signals, and the index is currently in a column of O's. If we net out 160 sells and 120 buys, we have a net change of 40 new sells. Divide 40 by 2000 and you get two percent or one box change this week. Therefore, if the index was in a column of O's and each box represents two percent, the index would decline one box. In the case of a rising market, the opposite would take place. Once again, it takes a net six percent change to shift columns - or in the football vernacular - it takes six percent to either lose or gain the football depending on which way the shift takes place.

We play offense (buy stocks) when we have the ball, and we play defense (protect what we have) when the market has the ball. We look at the chart's scale as the football field. Where the index "is" on the chart (field position) is very important, too. We consider above 70 percent as a high risk level and below 30 percent a low risk level. Let's see why:

When there are more than 70 percent of the stocks underlying the NYSE on Point & Figure buy signals there are no disconcerted investors; just about everyone is making money and the newspapers are as bullish as can be. Earning estimates are coming in on the money like clockwork. It is also the point where everyone is in that wants to be in. If a broker called his client with a new recommendation for a stock purchase, the investor's response might be "I love the idea, what stock should I sell to get the money to buy it?" He's already in the market and has no funds to create new demand for this new idea. He is in a situation where he must create supply to have the liquidity to create demand. The net of selling to buy is a wash concerning supply & demand.

The other side of the chart presents opportunity and is found below 30 percent. When there is less than 30 percent of the stocks underlying the NYSE on a Point & Figure buy configuration, everyone is out of the market that wants to be out. The availability of supply to force the market lower is very low at this point. This presents opportunities for buying stocks, while the level above 70 percent presents opportunity to hedge or exercise more caution. One would not want to buy stocks with unbridled enthusiasm at a Bullish Percent reading of 76 percent. Conversely, the probability of loss is low at a Bullish Percent reading of 26 percent. What this index does is help investors to become defensive when the market is high and become more offensive when the market is low.

The “Six Degrees of Risk”

Earl Blumenthal added dimension to this index that A.W. Cohen did not have. Blumenthal added six levels of risk that further provides guidance for the investor when using the Bullish Percent concept. Let’s take a look at these risk levels.

Bull Alert - This risk level can only happen when the index is below 30 percent and reverses up (see above for how the index shifts from one column to the other). This is the most bullish risk level as it can only take place from below the 30 percent level. We call this a green traffic light.

Bull Confirmed - This risk level comes into play when the index is in a column of X’s (you have the ball) and rises to exceed a previous column of X’s. Field position is very important in this risk level as Bull Confirmed at 70 percent is much less positive than at 30 percent. We call this a green traffic light.

Bull Correction - This is simply a reversal into a column of O’s (you lose the ball) from a column of X’s, and this reversal must come from below the 70 percent level. It is generally short-lived and an opportunity to buy stocks on pullbacks. We call this a yellow traffic light.

Bear Alert - This risk level can only happen from above 70 percent. A reversal from above to below 70 percent (remember a reversal changes columns) will change the risk level to Bear Alert. You have lost the ball and defense is the order of the day. Defense can come in many fashions, like put hedging or setting stops, or simply buying less stocks. The decision belongs to the manager of the portfolio to determine what defense means to him. We call this a red traffic light.

Bear Correction - The exact opposite of Bull Correction. It is a reversal up from Bear Confirmed, signaling a breather from the recent decline in prices. It is generally short-lived and must come from above the 30 percent level. Traders can buy stocks for trading purposes or short sellers can plan to sell short negative stocks on bounces to resistance. We call this a flashing red traffic light.

Bear Confirmed - This is the exact opposite of the Bull Confirmed risk level, however, Bear Confirmed is a condition where a column of O’s exceeds a previous column of O’s. Like the Bull Confirmed risk level, field position is very important. Bear Confirmed at 30 percent is much different from Bear Confirmed at 70 percent. In conclusion ...

After using this index as the backbone of our business, I am totally convinced nothing comes close to providing the guidance this index does. It’s not a market predictor - simply a very good gauge of the prevailing risk. When the risk is high we choose to become less offensive. When the risk is low we choose to become more offensive. In many cases, the truth lies somewhere in between. A great adjunct to the NYSE Bullish Percent are the 40 Bullish Percent Indexes on sectors we follow. The NYSE Bullish Percent Index allows one to become a great caboose on the market train. We’ll leave the predicting to others.

Thomas J. Dorsey is a founder of the investment advisory and money management firm

Dorsey, Wright & Associates and an internationally recognized expert on risk management. He is also the author of Point & Figure Charting: The Essential Application for Forecasting and Tracking Market Prices, which can be purchased at a discount by calling:

800-272-2855 ext B845   Point & Figure Charting Item #2364 $59.95   Save 10% by asking for ext. B845 NOW $53.95 plus shipping

Time and Price Forecasting

By J. White

As a student of market geometry and of the techniques of Gann, I offered a response based on the objective rules I have developed to apply Gann to my trading. First letís consider Gannís proposition concerning the relationship of price and time. One of Gannís most famous quotes was ìWhen time and price coincide, change is imminent.î Gann also introduced the concept of ì vibrationî in the markets contending that each market had a characteristic rate of vibration. And he discussed the concept of balance indicating that markets often are out of balance but must return to balance before a change can occur. To put all this together consider a 45 degree line on a price-time chart as a condition of balance which represents a one to one relationship between price and time. It could be argued that the the relationship between price and time is arbitrary since it depends on the scaling of the chart and that is correct. For the the relationship to be valid the chart must be scaled so that one unit of time equals one unit of price. To determine the price unit to use we make use of the concept of vibration. Vibration is a word describing the cyclical rate of movement of anything. We use frequency to measure the rate of vibration. Frequency measures the number of cycles per unit of time. A cycle is just a movement from one position to the opposite extreme and return to the original position. In the markets we also measure a cycle from the occurrence of one extreme high or low to another occurrence of a high or low. The price distance between the high and low is the amplitude of the cycle. The time distance between the peaks or troughs is the period of the cycle. The rate of movement or vibration of a market cycle can be considered as the price change per unit of time between the high and low. Now we know that any particular market will move at different rates at different times. However if we were to measure a number of these rates and plot them as a distribution function we would most likely find a fairly normal distribution around an average. So to find the vibration rate of any market we must calculate the average rate of advance and decline for a number of occurrences and take the average. This then will represent a one to one relationship between price and time for that market. We can then use this information to scale our chart. To

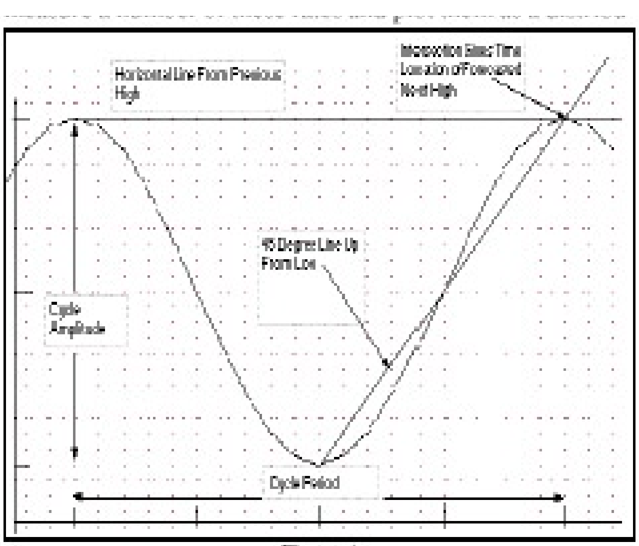


Figure 1

SUMMARY OF ACCURACY TEST
GANN FORECASTING TECHNIQUE

MARKET	MOVES	AVERAGE FORECAST ACCURACY	RANGE OF ACCURACY	AVERAGE BARS/MOVE	RANGE BARS/MOVE	AVERAGE POINTS/MOVE	RANGE POINTS/MOVE	FAILURES
ADPT-DAILY	7	2.43	-6 TO +1	5.7	2 TO 10	4.10	2.75 TO 7.5	0
AMGN DAILY	20	1.9	-3 TO +4	4.6	2 TO 10	2.83	0.375 TO 4.625	0
[illegible] DAILY	6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.125 TO 8.50	0
CRUS DAILY	9	3.44	-8 TO +14	9.7	2 TO 28	1.875	0.50 TO 3.125	0
DIGI DAILY	11	2.40	-3 TO +12	7.5	2 TO 14	3.24	0.625 TO 7.125	0
MU DAILY	12	3.50	-2 TO +28	8.75	3 TO 38	6.32	2 TO 24.375	0
PMTC DAILY	12	2.92	-4 TP +6	7	2 TO 14	5.86	2.375 TO 12.25	0
SPY	14	1.57	-1 TO +6	5.14	2 TO 8	3.61	0.875 TO 10	0

Figure 2

do this we set the dimensional measure of one unit of time equal to the dimensional measure of one unit of price. As an example, if one day on our chart is 1/4 inch and the vibration rate is $0.50 per day then we would scale the price axis so that 1/4 inch equals $0.50. With the data plotted to this scale a 45 degree line on the chart represents a one to one relationship between price and time or a locus of points were time and price are equal. Now how do we use these relationships in trading. There have been many techniques in the literature describing how to use 45 degree lines. The technique which I have developed to be most useful to me is described below. To understand the theory behind the technique consider the perfect cycle represented by a sine wave in the diagram. Note that when the amplitude of the sine wave is equal to 1/2 the period, there is a one to one relationship between the horizontal axis measuring time and the vertical axis measuring amplitude. Also note that a 45 degree line down from a high or up from a low, intersecting a horizontal line from the previous high or low exactly marks or ìforecasts ì the next turning point. This only works when there is a one to one relationship between amplitude and half-period. If we assume that the impulse of a previous high or low will be felt at some periodic time in the future, we can apply this to our correctly scaled price - time chart by simply drawing a 45 degree line from the last significant turning point and a horizontal line from the previous opposite turning point. The intersection of the two lines represents a point where price and time are equal and where a cyclical turning point can be expected to occur based on represents a point where price and time are equal and where a cyclical turning point can be expected to occur based on impulse of the most recent cycle. We can then use other techniques to confirm the condition and enter the trade. I personally use this technique to refine Natureís Pulse forecasts and tell me the direction of the trade. In summary: (1) I have described the logic behind the 45 degree line and price- time relationship. I have also given an objective way to determine the rate of vibration and scale a price-time chart. (2) I have described the cycle theory and objective rules for using the 45 degree line to forecast future turning points as influenced by previous cycles. There is much more to learn about market geometry but this simple primer demonstrates a highly accurate technique for forecasting turning points. I believe it answers the question concerning the existence of a mathematical relationship between price and time and it presents an objective way to use the information to generate a series of forecasts which can be evaluated against actual market turns. In Part 2 of this post I will describe the documentation of accuracy and reliability of the technique.

In last monthís Pulse Rate I wrote an article describing an objective technique for using the Gann concepts of Market vibration and time - price relationship expressed by a 45 degree line to forecast future cyclical turning points in any market. In this article I will describe the technique used to test the accuracy of the forecasting method and present the results of an exercise to document that accuracy. In testing the effectiveness of any forecasting technique the analyst is interested in three questions. Of primary concern is Did the market react in the direction of the forecast? How many failures occurred? Second, How accurate was the technique in forecasting the time for the reaction? Ideally the forecast time and the actual time would correspond. And third, How significant was the forecasted move in terms of price and time? In my test of this technique I attempted to answer each of these questions. To apply a test I first had to define the characteristics of the reversal being forecasted as well as the definition of a failure. I defined a reversal as characterized by a pivot bar having the highest high or lowest low of the move and two or more bars on each side of the pivot bar with (a) lower highs and lower lows for a high pivot or (b) higher highs and higher lows for a low pivot. Also within this 5 bar pattern is a 4 bar reversal of the closing price with at least two lower closes after the highest close (high pivot) or two higher closes after the lowest close (low pivot). The 45 degree forecasting line is always drawn from the extreme close of the move. A failure is defined as the occurrence of a more extreme close and a more extreme high or low within three bars of the pivot bar. This would result in a redefinition of the pivot bar and a trader being stopped out if he had entered his stop just outside the extreme of the first pivot bar. The Table below presents a summary of test cases of this technique. I have not hand picked these cases but have merely pulled them from the markets I trade using this technique. I have included cases of securities trading from $5.00 to $90.00 and from the NASDAQ, NYSE and American exchanges. I also included an intraday case using 65 minute bars. In the table the Average Forecast Accuracy column is the sum of the absolute values of the differences between the forecasted pivot and the actual pivot, using trading days, divided by the number of moves. The Range of Accuracy column gives the range of forecasting errors in trading days. A minus number indicates the actual pivot occurred before the forecasted pivot time. The Average Bars per move and Range of Bars per Move are in trading days between actual pivots. The Average Points per Move and Range Of Points per Move reflect the difference in close price between the extreme close price and the close of the next actual pivot bar. The final column indicates failures or in this case absence of failures. This may be the most astounding result of all. This indicates the risk of false moves is very low. Several other things should be noted from the data. First the average accuracy of all test cases was 2.5 bars while the average bars per move was about 7and the average points per move was over 3. This indicates the technique is effective in forecasting tradeable moves. Incidentally the large deviations in the Range of Accuracy column are due to strongly trending markets after the forecast date but in the direction of the forecast. There is a technique for re-setting the timing line in these cases which tells you when the move is over however I did not apply it for this test. If applied this would improve the accuracy of the forecast . I do not claim that 100 cases proves the validity of this technique however the results are based on objective definitions of the parameters being tested and allow for individual verifacation by others as in any good technical approach. I think you will agree the results are encouraging. If anyone would like to personally verify the results , I will gladly send them the detailed data. Just E-Mail your request to JWhite43@AOL.com

Electronic Day Trading SOES(tm) Trading

By Mark A. Seleznov

Day Trading can be easily described as the buying and selling of stocks during the trading day in your own account. Your goal as a Day Trader is to be profitable, and flat (carrying no positions at the end of the trading day.) Don't be misled into thinking that anyone can walk through our doors, sit down at a computer, click off some trades, and be profitable. Day Trading is a serious business. It is a profession and like other professions it requires training and experience. Your success in Day Trading relies on your willingness to dedicate yourself and your abilities to learn the techniques required to be successful. Why the interest in Electronic Day Trading? It is one of the last bastions of pure capitalism. It levels the playing field. It is a true equalizer.

The 1990's has brought an evolution in Electronic Trading and an expanded and more common use of Electronic Trading in a number of marketplaces. The terms Electronic Day Trading and SOES(trading have been used interchangeably by most people. For the purposes of this discussion, we will use them interchangeably as well.

The OTC market is a negotiated market without a central place or trading floor. It is composed of a network of thousands of brokers who make securities transactions for themselves and their customers. Professional buyers and sellers seek each other out electronically and trades are made in a matter of seconds.

The NASDAQ action market has been a leader in this area. Nasdaq market makers input their bids and offers electronically into their Nasdaq workstations. The average person only sees the best bid or offer (NBBO, National Best Bid and Offer), but Electronic Day Traders use Level 2 market maker screens to see all the bids and offers of each market maker in a particular stock.

A little history and definition of the term NASDAQ SOES(tm) will help you understand what SOES(tm) is and what SOES(tm) is not. The whole NASDAQ SOES(tm) system is projected to have a major overhaul shortly. It is advised that you check any rules that are discussed in this article with your own broker.

NASDAQ SOES(tm) was created in 1985 and made mandatory after the 1987 market collapse. At that time, many small investors were unable to sell stocks as prices fell because they couldn't reach dealers or market makers on overloaded phone lines. SOES(tm) provides small investors with quick access to the Nasdaq market. The purpose of the SOES(tm) system is to enable the average person to get an "honest, immediate, legitimate execution and to bid and offer shares in between the spread to achieve price improvement. Day Traders add liquity to the markets benefiting all investors.

The existence of the SOES(tm) (Small Order Execution System), SelectNet, ECN's like Island, Bloomberg, and Archapelico, and REDI has eliminated significant advantages enjoyed for years by the market making community.

SOES(tm) Day Trading provides a way for individuals to trade for their own accounts and decreases the significant advantages of market makers and larger institutional investors.

Day traders are in the unique position of having a very short-term relationship with the market. For many years, Day Trading was considered to be the most speculative of speculative trading activities. Today, the Day Trader is in a much more advantageous position.

The Electronic Day Trader is the gunslinger of equity trading. The trader can limit losses, with the ability to "SOES" out of a position instantly. Traders use real-time quotes and decision support software enabling them to see market makers adjusting their quotes as they happen. They can see real time executions permitting traders to view the last trade and volume that was executed. The visual capability that comes from state of the art software and technology that is available to the trader through tickers, quote screens, and charts, has come a long way over the past few years.

Objectives of the SOES Trader

Electronic SOES(tm) traders succeed by cutting losses and grinding out their profits. Successful traders know that trying to hit a home run is a sure way to get burned. The tools that are available combined with small commissions and trading costs, eliminate the need to take big risks. Learning to use the tools available with maximum efficiency, is one of the most important elements contributing to successful trading.

Electronic Day Trading Tools

- Reliable Real time quotes
- Advanced Decision Support Software
- High Speed Computer Workstations
- Reliable Network Connectivity to • Execute Trades

Trading capital

The minimum trading capital (equity) required to trade successfully, is in the range of $100,000. Potential traders should keep in mind that capital used to trade should be money that they can afford to lose. The loss of this capital should not alter the traders life in any meaningful way. Only a small number of traders, actually have the discipline and talent to be successful consistently.

Margin requirements and regulation T

Traders are customers of a broker/dealer that executes their order. Customers are subject to normal Regulation T and margin requirements. A margin account allows the trader to enhance the leverage in securities transactions using credit extended by the brokerage firm. Regulation T empowers the Federal Reserve Board to establish how much credit a brokerage firm can lend. In most cases, 50% of a position can be financed by the brokerage firm. In other words, $100,000 of equity capital can support $200,000 in positions.

Attitudes of a Successful Trader—the problem with opinions

A trader with an "opinion" on the stock, can hurt his short term trading results. However, trading without any prejudice frees you to trade from both the long side and short side of the market. The trader can watch the activity in a particular stock and take action based on what is happening. rather than his opinion. Trading is the art of second by second risk management.

As an example, suppose the market on a stock is 20 x 20 1/8 (1000 x 1000), Suddenly, large market makers, like Goldman Sachs and Morgan Stanley, enter a 20 1/8 bid. This could indicate to you the short term direction of the stock. It does not matter why they are buying but only how fast you can react and buy stock. The trader must react first and rationalize later.

Past experience is a negative

Ironically, an individual with past experience who believes they know a great deal about stocks and markets often make poor day traders. Trading is a game played from moment to moment. It makes no difference if the trader knows the earnings of a particular company before it is announced next week. What matters is the way other investors are reacting today. Buy if it's going up and sell if it's going down.

Stocks are "four letter words"

It is best to view stocks simply in three and four letter terms rather than individual companies. If a group is performing well, pick the best stock in the group and trade it from the long side. Do not buy the weakest stock in the group with the hopes that it will catch up. Chances are it will not. Buy strength, and sell weakness.

To make money trading, you do not need to forecast the future

You have to extract information from the market and find out whether bulls or bears are in control. You need to measure the strength of the dominant market group and decide how likely the current trend is to continue. You need to practice conservative money management aimed at long-term survival and profit accumulation. You must observe how your mind works and avoid slipping into greed or fear. A trader who does all of this will succeed more than any forecaster.

Winning attitudes of a
successful Trader

Every day is a new and different day for the trader. It does not matter that the tech stocks were strong yesterday. What does matter, is identifying the groups that are active today. Traders often make the mistake of focusing on one group too long. The action might be somewhere else on a given day.

Every day is a "new day"

If a trader has an overnight position, and hence an opinion, he is no longer free to trade the market momentum. If, on the other hand, the trader is "completely flat" coming into the new day, he is free to make unbiased assessments and trade the market. I really don't care what Asia or Europe is doing, but I can react to what they did when our markets open. I don't have to worry about the "daily number of the day", just act on the trend.

Effective trading can be learned

Many traders are quite capable of learning to be more effective. One of the prerequisites, however, is to learn from people who are organized in their thought process. Successful day trading is built upon a unique foundation combining art and science.

Reading the Tape

SOES(tm) trading is a modern form of trading via tape watching. The rules of the Nasdaq market dictate that all market makers in a stock must display their current quotes. Market makers are constantly updating and changing these quotes in response to supply and demand, news, and other factors that influence market movement. Herein lies the opportunity for the SOES(tm) trader. The Electronic Day Trader is constantly looking for the beginning or the end of a trend, and tries to buy or sell a stock short, while the stock is moving in price. Always remember: "The trend is your friend". Fighting the trend is a surefire path to disaster. To Day Trade profitably, you must take advantage of brief flurries in prices. Large intraday price moves can occur in response to news and other outside influences. At times, the rumor mill will drop or rally prices quickly. Program trading is still a profitable activity for large institutional type traders. Regardless of the source, consider all price rallies or declines which occur quickly within the days trading session to be an opportunity for you to either exit your current position at a profit, or to establish a new position using support and resistance methods.

The key is Discipline, Discipline, and more Discipline

Improving your chances for success:

- Buy up stocks. Sell down stocks.
- Know what price and where the stock started to move.
- Do not trade stocks you consistently lose money in.
- Review your trading activity often. (take good notes)
- Be aware of the underlying trend. (market sectors)
- Use your ticker effectively. (recognize market maker activity)
- Use ECN's and SelectNet: Don t give up spread twice.
- Be aware of the time of day.

Frequent reasons for bad trades

- Trading stocks not in motion
- Chasing stocks up or down too many levels
- Greed
- Bottom Fishing (terrible habit!)
- Taking shots
- Impatience
- Not reviewing bad trades and
- learning from them

Different trading styles

Arbitrage: Involves the simultaneous purchase of a security from one market maker, or exchange, and the sale of it through another, and profiting from the difference in prices from the two market makers or exchanges.

Example: DELL is being low offered by MSCO @ 89 1/8, and is simultaneously being high bid by AGIS @89 1/4 . By buying the stock from MSCO @ 89 1/8 and immediately selling it to AGIS @ 89 1/4 , you have arbitraged $125.00 profit.

The previous example used an O.T.C. stock, arbitrage can be exercised on exchanges. CPQ is being high bid on the N.Y.S.E. @ 57, and low offered by P.S.E. @ 56 3/4 . In this instance you can buy CPQ on the P.S.E. and instantly sell it on the N.Y.S.E. and lock in $250.00 profit from the price differences between the two exchanges.

Grinder: This style of trading is typically the most active of the different styles of trading. It is based on taking positions and immediately bidding or offering your position at a 1/16 or 1/8 above or below, locking in a small profit. Locking in small profits of a 1/16 or 1/8, 30 to 40 times per day can be very profitable, and satisfying.

Market Maker: Typically this person tries to emulate the market makers. With this style you will attempt to buy on the bid side of a stock, and sell on the offer side of a stock. This can be difficult to trade in this manner.

Position: A position trading style can be very lucrative. A position trader can often just be in one position at a time, but generally this position may be rather large. A position trader tends to be long or short one stock, but in a size greater than 1000 shares. A position trader will buy/sell 1000 shares of stock on the SOES system, wait five minutes or more, then buy/sell another 1000 shares, this is building a position. He may also choose to enter his position in one transaction. To achieve this he may buy/sell his intended position by way of an E.C.N. or Selectnet, where they are not restricted to the 1000 share maximum per transaction, and the are not subject to the five minute rule.

TERMINOLOGY

Bid/Bid Into: The bid is the price that a market maker buys stock at, and the general public sells stock at. As a trader you may try to buy stock on the bid, either to go long or to close a short position. Bid Into is used to buy a stock, or go long, creating an opening transaction by using either Selectnet or a E.C.N.

Cancel: To cancel a previous order, will be followed by a cancel message on your order entry screen.

Dealer Flip: To indicate when a market maker flips from the bid to the offer, or the offer to the bid, in a stock that he has been making a market in.

Down Off: When a market maker was the high bid and he is no longer willing to pay that price for the stock, the market maker then adjusts his bid down to a price at which he will resume buying. Typically this is a bearish sign.

Down to Ask: When a market maker lowers his current ask/offer to the current offering price, in hopes of selling as much stock as possible before the price drops to a uncomfortable level—a bearish sign.

***Drops Bid**:* A market maker who is currently the high bid in a stock suddenly adjusts his bid price downward because he is no longer willing to pay the bid price for that stock.

E.C.N.: Electronic Communications Network, consists of ARCA (Arcapelago), BTRD (Bloomberg), INCA (Instinet), ISLD (Island), and TNTO (Terra Nova). E.C.N.s work as order matching systems, and allow traders to advertise a price better than the current bid or offer.

Fill: Used when an order is executed.

5 Minute Rule: Explanation is that

if you buy 1000 shares of stock, on the S.O.E.S. system you may not buy more stock on the S.O.E.S. system for 5 minutes, after the time of your initial execution. The same applies to the sell side. However, if you buy 600 shares of a stock on the S.O.E.S. system you may buy up to 400 shares on the S.O.E.S., to round your position up to a 1000 share block. There are exceptions for E.C.N.s and selectnet. You can buy or sell on these systems as many shares, and as many times as you want.

He Drops: This term is used when a market maker "drops" his bid, from being the best bid, to a lower level after filling his obligation on S.O.E.S.

He Lifts: Used when a market maker "lifts" his current offer up and is no longer the lowest offer, after he has filled his obligation on S.O.E.S.

He Stays: Used when a market maker has filled his obligation on S.O.E.S. on the bid or the offer and he remains as the high bid, or the high offer, and continues buying or selling stock at the current levels.

High Bid: To indicate when a market maker is willing to buy stock at a higher price than other market makers at that particular moment. This is a bullish indicator.

Hit the Bid: Indicates when a trader has sold a stock on the current bid price.

Inside Market: This is the location between the highest bid and the lowest offer quoted at that time.

Lift Offer: Term used when a market maker moves up his offer price and is no longer willing to sell stock at his previous offer price. Typically a bullish sign.

Limit Order: A limit order is used to buy or sell a stock at a specified price, no more and no less. If a limit order is entered on S.O.E.S and there is no market maker at that specific price your order will be automatically canceled, and reported "No S.O.E.S. Market Maker Available." Limit orders are time sensitive, after the time expires, so does the order.

Low Offer: Is used when a market maker lowers his offering price and is now the lowest offer available, and is willing to sell his stock at a lower price than anyone else. Bearish signal on stock.

Market Order: An order to buy a certain stock at the current market price, whatever it may be when your order gets there

Offer Out: Price at which a market maker sells his stock at, and the general public buys at. When you "Offer Out," you are in essence taking the role of a market maker by offering to sell your stock on the offer, on an E.C.N. or Selectnet. This strategy is used to close a long position in most cases, or it can be used to create an open position, thus creating a short position.

Override: Another name is "On the O." Used when a trader is going to offer his stock at a price that is higher than the current offer, or bid at a price that is lower than the current bid price.

Refreshes: Essentially the same as "He Stays." Used when a market maker has filled someone at the bid or offer and the market maker remains, continuing to buy or sell stock at the quoted price.

Reflash: The term "Reflash" is used when a trader has a bid or an offer placed at a marketable price, and is not being executed. Understand that market makers see thousands of orders everyday and it is possible that your order passed right by him unnoticed. By "Reflashing" you will be re-entering your order instantaneously and bringing it right to his attention. It is the market makers decision whether or not to fill your order at that price.

Short: To sell a stock you do not currently own. To go short you "borrow" stock from the Broker / Dealer, then sell the stock, with the intent to buy the stock back at a lower price than you had initially sold it for, creating a credit in your account.

Spread: The spread is the difference between the bid price and the offer price.

Ticks: Down Ticks, Up Ticks, and Zero Plus Ticks, are all important types of ticks. An "Up Tick" occurs when a stock trades higher than the previous trade on the bid or offer. "Down Ticks" occur when a stock trades at a price lower than the current bid or offer—remember the stock has to trade. A Zero Plus Tick happens when a stock Up Ticks on a trade and the following trade is executed at the same price level. Note that N.A.S.D. rules state you may only "short" stock on an Up Tick or a Zero Plus Tick.

Timed Out: After you place an order, whether on the S.O.E.S. system or on a E.C.N., the order will only be "live" for a specified amount of time. When your order has "Timed Out" this means that it has run out of time and it will be automatically canceled by the proper exchange. Time constraints vary for each type of order.

Open / Close: Describes open and closing transactions. In more detail, "To Open" means your initial transaction to enter you in a position. "To Close" is used to describe a transaction that will exit you from a position. There are opening buys and opening sells, there are closing buys and closing sells. If you have an opening buy you must have a closing sell, and in turn, if you have a opening sell you must have a closing buy.

Too Late: Too Late applies to the S.O.E.S. system. It is used when a trader has placed an order to buy or sell a stock and then changes his mind, and wishes to cancel the order. After attempting to cancel the order the trader receives a message in his order entry screen that says "Too Late," this means that it is too late to cancel the order and he will be getting his execution soon.

Off the Offer: When a market maker who was the low offer lifts, or raises, his offer and he is no longer the low offer. The reason being that he is no longer willing to sell his stock at that price level. This is a bullish sign.

Up to Bid: This happens when a market maker moves his current bid to the highest bid. This is a bullish sign because the market maker will now pay a higher price to buy a stock than any other market maker at that time.

U R Out: That is what will appear on your screen after you have successfully canceled an order, and it means exactly what it reads. After receiving this message you are free to re-enter the order if you wish.

ViolationShort Sale: A trader will receive this message in his order entry system window.

It is given when a trader has attempted to short a stock on a down tick, which is against N.A.S.D. rules. The order is automatically and immediately canceled.

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True Time Tells Truth

By John Berends CTA

The study of Gann methods leads one down an interesting road, a path that seems neverending. The Gann student is exposed to a great deal of esoteric information. The esoteric side of the Gann material can be confusing and is often passed over or misunderstood. To make use of any of the higher principles one needs to bring such principles to our plane and ground them in our world.

Traders often speak of trends, seasonals, swings and pull backs. On most of their computer screens can be found indicators such as stochastics, RSI, and moving averages. It is easy to lose site of the connection between our plane, the trader's plane and Gann's plane, the esoteric plane. To most these two planes are totally unrelated, but to the true Gann student they are totally integrated.

The first step in grounding our cosmic principles begins with a proper understanding of the concept of time. To distinguish the proper concept from the second hand on a watch or a calendar on a wall we will call this new concept "True Time". The question at hand is reduced to, "What is time, really?" One popular answer might be, "365.2422 days = 1 year = 12 months = 52 weeks." No, these are just measurements or names for "True Time". What is a day? One day is the amount of time between successive sunrises. Yes, this is true but what causes the sun to rise? The movement of our planet earth spinning on its axis. The keywords of the last statement are planet and movement. These two words are the basis of any and all definitions of time. Another way to state this principle is to say, "Time is planetary movement."

There is nothing mystical about using planetary movement to mark time. This method has been done for thousands of years. Sure, the names have been changed, Instead, of one earth revolution around the sun, the term one year is used. Instead on one lunar revolution around the earth the term month is used. Yes there is a bit of fudging going on, but a quick study of history will prove these cycles are cosmically related. The sharp student will recognize the names Saturnday, Sunday and Moonday. Actually they are called Saturday, Sunday and Monday. A

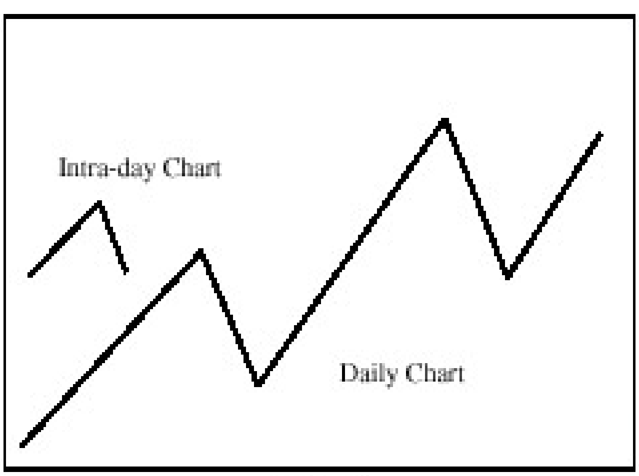

Figure 1

Figure 2

further study will give other planetary correspondences to the days of the week.

If indeed planetary movement is time (True Time) the definition of time cannot be limited to the movement of the sun, moon and earth. One must include all other heavenly bodies in the definition of true time. Examine some of these "True Time" factors:

1 Month = 4 weeks = 1/12 year = 1 lunar revolution 1 season = 13 weeks = 1/4 year = 3 lunar revolutions = 1 mercury revolution =1/8 Venus rev. 1 week = 7 days or earth revolutions = 1/4 lunar revolution = 1/52 year 32 weeks = 1 Venus revolution 98 weeks = 1 Mars revolution 11.86 years = 1 Jupiter revolution 29.5 years = 1 Saturn revolution 84.0 years = 1 Uranus revolution

These measurements are not exact, but neither were Gann's references to them. In fact, his were much more vague.

30 days, weeks or months 45 days weeks, or months 90 days, weeks or months 120 days, weeks or months 180 days, weeks or months 240 days, weeks or months

A close study will prove these numbers are close approximations of the "True Time" factors listed earlier. Students of Gann know that cycles are not limited to those above or even the divisions of the above but this should be enough to lead them along the right path.

The next step to grounding our "True Time" principle is to clearly defining the trading concepts used every day. One of the most important terms to consider for most traders is trend. American Heritage Dictionary defines trend as: " 1 A general tendency or course. 2 To have a certain direction. 3 To have a certain tendency." What is missing from the conventional definition of trend is the inclusion of time. To a trader trend really depends on what time frame is being examined. What time frame is on the chart? A trend on a five minute chart may not even show itself on a daily chart.

The "True" definition of trend is: "The general tendency or course of a cycle of larger degree." See diagram 1. This larger degree cycle appears as a straight up move because the trader's eyes are fixed on the shorter time frame and perceives a trend. The trader is unaware of the larger cycle because of his limited perception and is often unaware of its eventual end. Swings often occur that move in opposite direction of the trend. After a short while prices reverse and move in agreement with the trend like cycles within cycles or wheels within wheels. To define trend one only needs to cross-reference the larger time frame or cycle to determine its position.

It is important to remember our definition of time and its relation to trends and cycles. The

Figure 3

numbers discussed earlier are of great importance in understanding the working of cycles and trends. Also, remember the geometric divisions of the natural planetary cycles. Astrologers use terms like squares, conjunctions, trines and oppositions. These are nothing more than the divisions of the whole. For example, the Moon whole is roughly equal to 28 calendar days. The square is equal to 7 calendar days. The trader will recognize this as 5 trading days or 5 bars on the daily chart since there is no trading on Saturdays or Sundays.

One simple method traders use to identify cycles and trends is through the use of moving averages. Most often two or more moving averages are compared to define trend. If a faster moving average is above a slower moving average the trend is said to be up. If the faster moving average moves below the slower moving average the trend changes to down. Knowing that trends are really cycles of a larger degree, let's examine the moon example from above. (See Figure 2) Figure 2 shows a simple 5 bar moving average and a simple 20 bar moving average. How many traders have used the inputs 5 and 20 and not even realized they were trading with the moon? Ever tried a 21 bar stochastic or a 5 bar RSI? This is an attempt to measure the movement of price over the last lunar revolution or 1/4 lunar revolution. Try different "True Time" inputs to your own or to the popular indicators. There are better indicators but popular indicators are available to most everyone and prove the point.

Figure 3 shows an example of "True Time" trend and cycle combinations. First, the 20 bar and 60 bar moving average is consulted for trend indication. Remember 20 bars equal roughly the moon and 60 equal roughly mercury. When the moon movement is lower than mercury this cycle is down. This is easily seen in figure 3 as the faster moving average is lower than the slower moving average. A trader that trades only with the trend will only enter short positions during this period. In order to trigger a short position the 5 bar and the 21 bar stochastics are consulted. When the faster quarter moon or 5 bar stochastic crosses below the slower 21 bar moon stochastic a sell signals is produced. A trader following the trend could trade this signal many times while the trend remains negative. In this case 3 such signals are given. If more trades are sought the trader needs simply change the inputs or look at short time frames. Changing time frames and data is a matter of personal preference. All traders should seek the time frame in which they are most comfortable.

Traders with an open mind will apply the principles discussed and discover even better cycle combinations than those shown. The esoteric side of Gann will not be some distant ideas for only far out newsletter writers. The cycles when applied to simple everyday indicators become much clearer. A close friend noted that once cycles are seen in this way they cannot be denied. One who discovers this method of viewing "True Time" cycles will never look at an indicator or price chart the same again.

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