

Kevin Haggerty's Trading With The Generals III Live Web Seminar

Copyright © 2003 Raven Capital Management Ltd.



IMPORTANT NOTICE!

KEVIN HAGGERTY'S "TRADING WITH THE GENERALS 2003" CD-ROM COURSE:

- The following pages are the course materials that were used in Kevin Haggerty's "Trading With The Generals 2003" LIVE Web Seminar. Since you are viewing an archive of a seminar which has already taken place, some of the content contained on the CD-ROMs may have a slightly different look and feel as compared to the LIVE broadcast.
- You should view the enclosed CD-ROMs and follow along in the workbook. You are encouraged to take notes in the workbook.
- The file sizes on the CD-ROMs are quite large so they will take 20 to 60 seconds to open within the QuickTime program. Please be patient when opening the files.
- If you experience problems running the file from the CD-ROM, you may want to copy the CD-ROMs onto your computer's hard drive and then run the files from the hard drive. This will increase the quality of the broadcast for those that are using slow computers.
- This course is for experienced traders. Even highly experienced traders may need to review the material several times in order to successfully grasp the concepts.

If you need technical assistance, please contact our support line at
1-888-484-8220.

TradingMarkets.com

Trading With The Generals

Table Of Contents

I.	Trading With The Generals	Page	3
II.	Order Flow	Page	10
III.	Trading Tree	Page	13
IV.	Chart Configurations	Page	19
V.	Selection Of Daily Chart Setups	Page	35
	1. Buying/Selling Pressure	Page	45
	2. 820 Trend Method	Page	64
	3. Generals Pullback Pattern	Page	79
	4. 523 Trend Method	Page	87
	5. Roofers	Page	94
VI.	Market Dynamics	Page	104
	1. Intraday Dynamics Table	Page	108a

Trading With The Generals

Table Of Contents

VII.	Volatility Bands	Page 116
VIII.	Trading Tools And How To Use Them	130
1.	Fibonacci Retracements And Extensions	135
2.	Volatility Bands With Patterns	Page 185
3.	Standard Deviation Channels	Page 186
4.	Pivots	Page 198
IX.	1,2,3 Patterns	Page 199
1.	1,2,3 Closes	Page 273

Trading With The Generals

Table Of Contents

X.	First Hour Strategies	Page 287
1.	Opening Reversals (OR's)	Page 290
2.	Trap Doors	Page 305
3.	Gap Pullbacks	Page 367
4.	Flip Tops	Page 379
XI.	Slim Jims	Page 400
XII.	First Consolidation Breakouts To New Intraday Highs	Page 457
XIII.	RSTs	Page 472
XIV.	Chart Review	Page 535
XV.	Risk Management	Page 551

Trading With The Generals III

Trading On The Same Side As
Big Mutual Funds And Money
Managers

I. Trading With The Generals

The Big Mutual Funds and Money Managers Dominate the Markets

- They have access to the best fundamental and technical information that Wall Street Brokerage firms can provide. They also have excellent in-house research staffs and visit many of the companies themselves.
- Traders can gain an edge by focusing on the stocks and sectors that the Generals are overweighed in because these are the primary stocks that the Generals depend on to outperform the S&P 500, and they will push these core stocks to the limit. New money is added to good stories.

- Ninety five percent of these stocks will be in the S&P 500 and NDX 100. They have excellent liquidity, tight spreads, and good average daily ranges (volatility).
- By focusing your trading efforts on these key institutional stocks, you are the beneficiary of both Buy Side research and Sell side research. Also, you will receive the benefits of capital commitment by NYSE specialists, OTC market makers, Option market makers, and UPSTAIRS sell side traders.
- There are few, if any, fundamental secrets that the Generals are not aware of, so there tends to be a herd mentality, which creates the momentum that leads to some of the parabolic rises we have seen in the bull market.

- The largest commission payers get the best research and trading calls from the Wall Street brokerage firms.
- To beat the S&P 500, the Generals must be in the right sectors, right stocks, and accomplish this at the right time. As traders, you must identify the movement by utilizing Price, Volume, Relative Performance, Relative Strength, and Divergences.
- The best-trading stocks are usually growth stocks in the advancing/declining momentum phase.
- Most growth fund portfolio managers are bottoms up stock pickers, which means they closely examine the business prospects of each company and build their portfolios stock by stock.

- They adhere to the fact that stock prices tend to follow earnings over time, and to the extent that earnings forecasts are revised upward or downward, stock prices will often head in the same direction.
- Most managers don't try to predict near-term stock performance. Instead, they spend their time looking for companies that can grow earnings faster than the overall market and are trading at attractive valuations. There are many factors that can make stocks rise or fall over the short-term, but in the long run, earnings determine a stock's value.
- Fund managers looking for the best chances of appreciation will choose those stocks that are fairly priced or undervalued.

- New money will be added to existing positions as long as the existing fundamentals remain solid and valuations not extreme, in addition to the relative and absolute performance to the S&P 500. It is this buying that creates the trend and momentum that traders can recognize and profit from.
- Fund managers are also very cognizant of the stock's technical position and will attempt to buy good stocks on pullbacks and sell weak stocks on strength.
- Parabolic moves occur because of the herd mentality that creates overvalued stocks with a high degree of risk because these stocks might be the difference in outperforming the S&P 500. If the competition is showing outperformance by owning some of these bubble stocks, then they are forced into the same game. These parabolic stocks provide excellent trading opportunities.

- The Generals are very conscious of the technical aspects of the market and their stocks because the market impact that their size creates. They are always in motion, buying, adding to, reducing or selling positions.
- Traders can't expect to compete with the Generals regarding the fundamentals, so why not just use them as your research department to identify the strong stocks that are overweighted and in the momentum phase.
- Your stock-selection process should begin with high RS and EPS (reverse for shorts) and combine it with a pragmatic technical analysis trading plan.

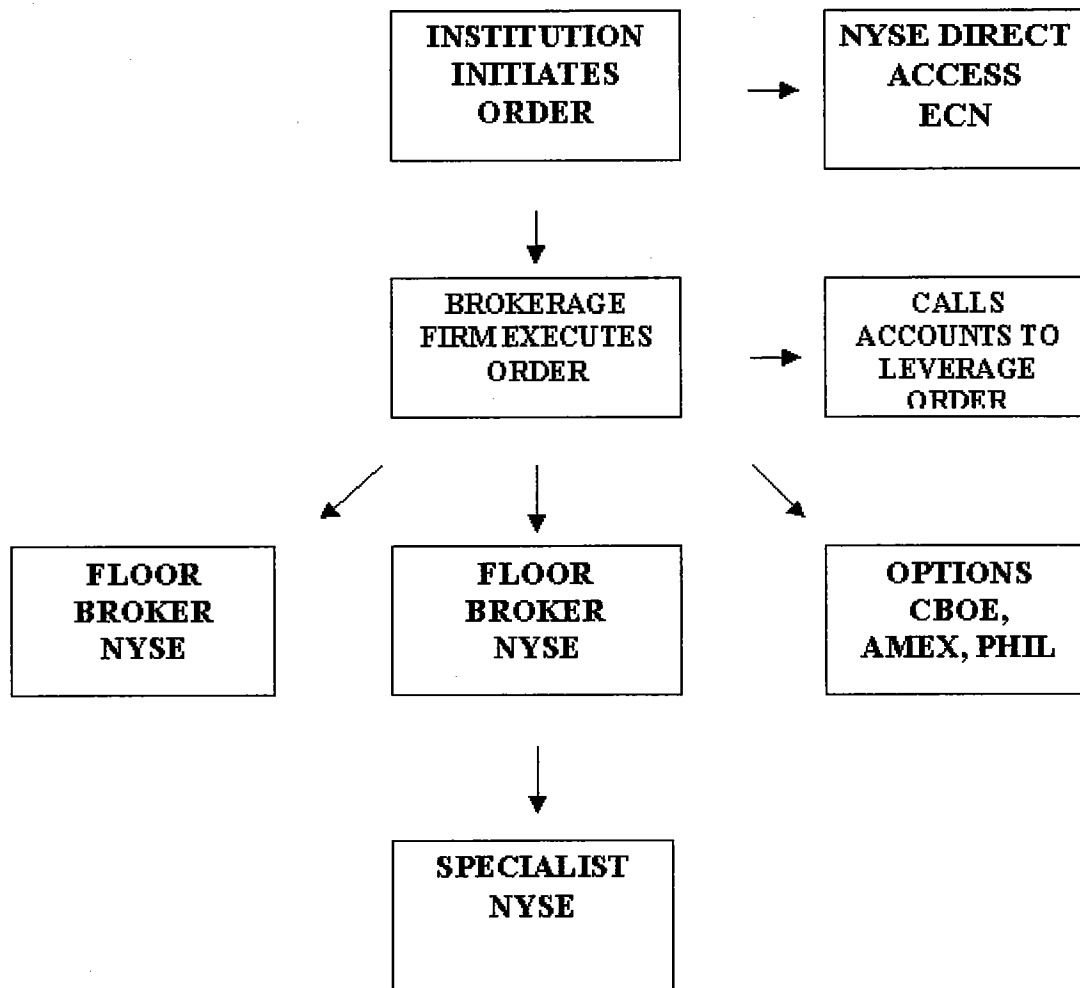
- At the end of the day, the technicals take precedence over the fundamentals for traders. You are better off buying the right stocks at the right time, or the wrong stocks at the right time, but never the right stock at the wrong time.
- Price determines value for traders, and that means it must be moving in a profitable direction.

II. Order Flow

Order Flow

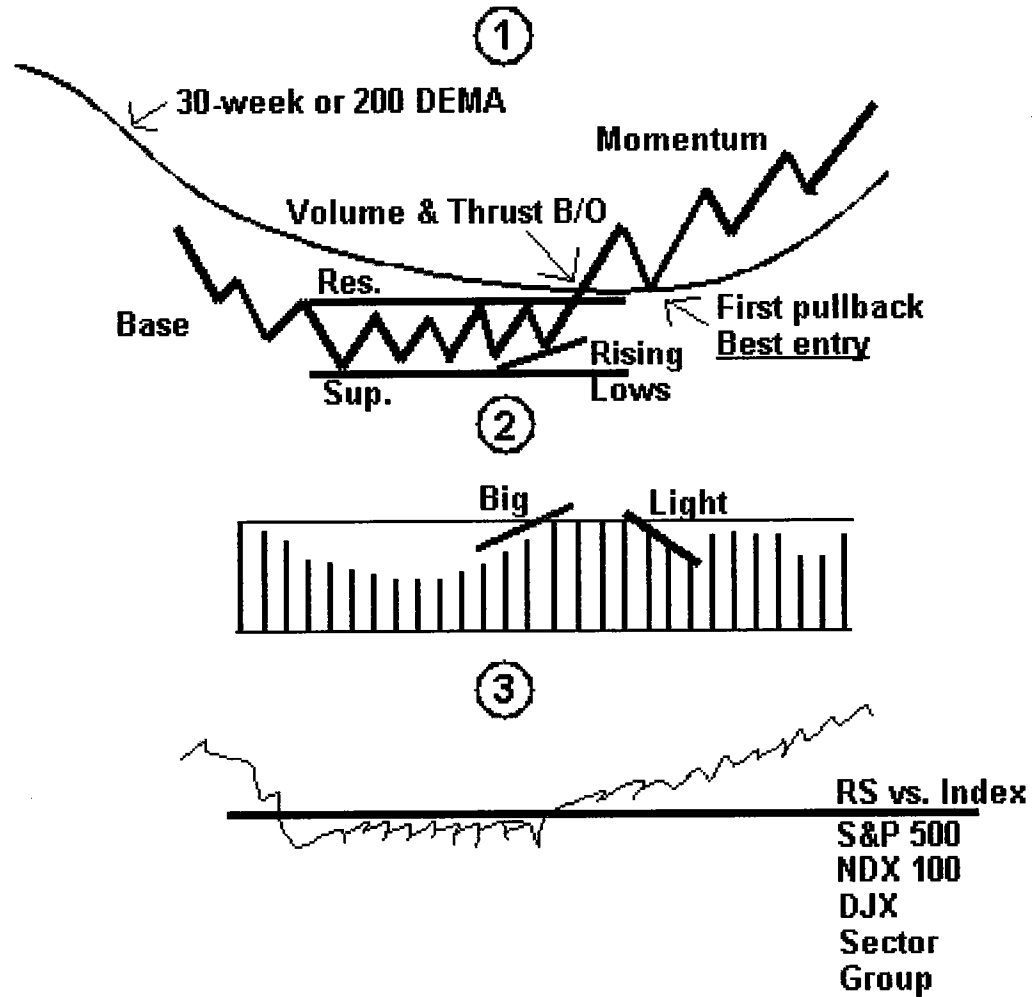
- There is significant interaction of information between institutions (mutual funds, money managers), Wall Street brokerage firms, floor brokers, specialists, OTC market makers, and option market makers that keeps market dynamics in a constant flux. It is the dynamics that bring life to patterns that upstairs traders use to guide their decision, so you will gain an edge if you have a working understanding of how this information flow affects the execution process and ultimately, your success as a trader.

Order Flow



III. Trading Tree

Trading Tree



Hat Trick

1. B/O with thrust from the base of the trading tree.
 - a) This is a high-probability entry for a position trader or investor.
2. Volume explosion on the B/O from base confirms Generals.
3. Relative strength is superior to the benchmark.

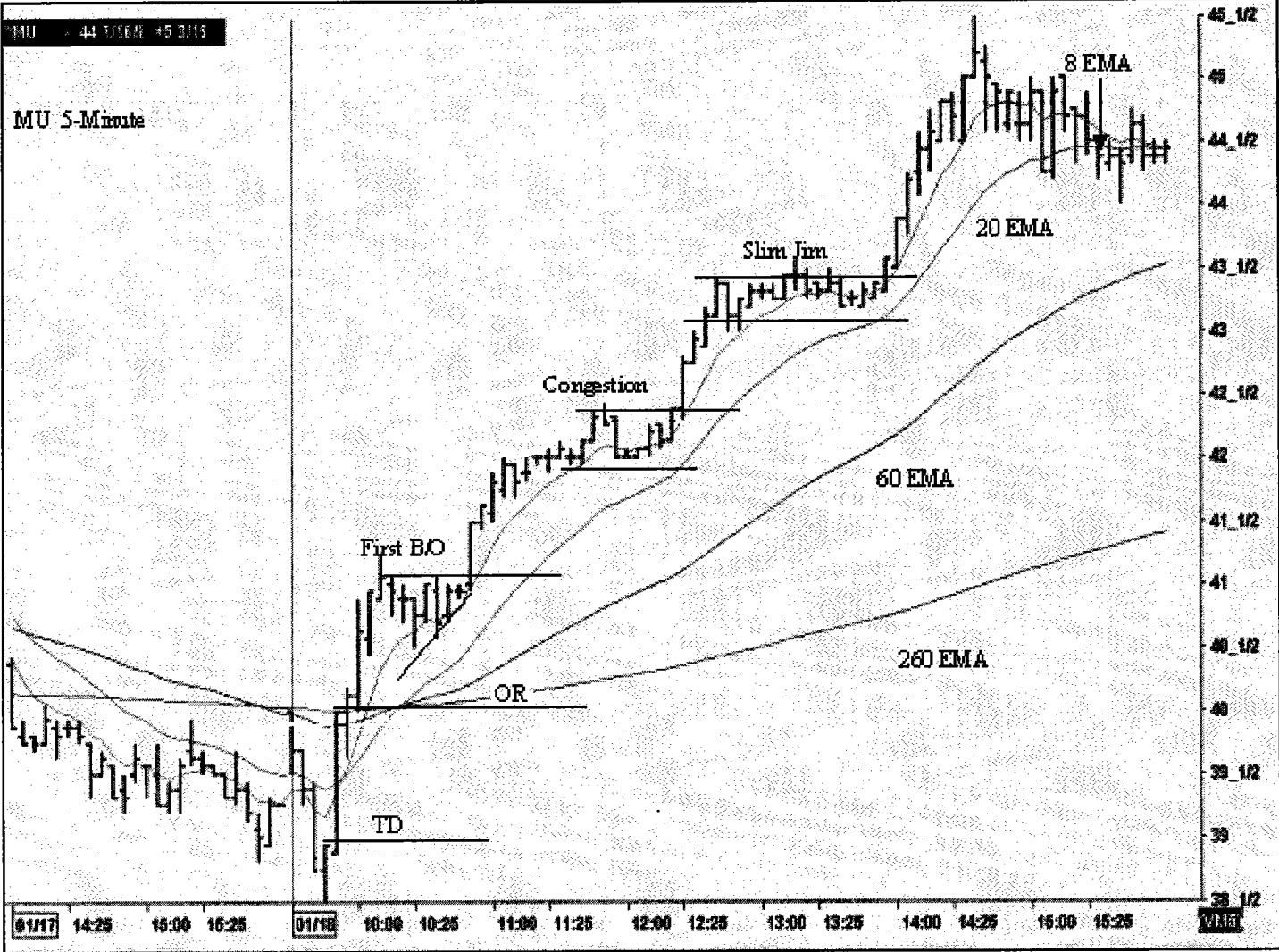
Key Points

- After the B/O and probably a first pullback, the underlying enters the momentum phase, which is ideal for short-term traders.
- During the momentum/advancing phase, the trader should look for defined entry patterns, such as pullbacks, triangles, flags or consolidations, all of which should be at or above rising moving averages.
- Trailing stops under swing point lows or below a rising logical trendline are used during this phase.

Key Points

- If you had the “Hat Trick” and are holding a big winner, then think about taking your money off the table. This is done by replacing your stock with calls at the next higher strike price with a minimum of three months to expiration. Only buy calls equivalent to the amount of shares you held.

Trading Tree



IV. Chart Configurations

Chart Configurations

- How you set up your charts is a matter of personal preference. There is no one absolute configuration that you must adhere to.
- It is important that you are consistent with what you use and make sure that it conforms with your trading style, whether it is conservative or aggressive.
- I prefer to look at a stock in all time frames when preparing a trading plan.
- The best intraday trades are usually those that set up on the daily chart.
- My chart configurations are based on how many technically oriented institutions look at their longer-term charts.

Chart Formats

- Monthly:
- One-month and 12-month EMAs
 - 14-period RSI or slow stochastic
 - Volume

Key Point: This is my first look at the overall trend. It is a good chart to frame the larger Fibonacci retracements and extensions, in addition to pullbacks in an uptrend and retracements in a downtrend.

Chart Formats - Monthly

S&P 500 (SPX) -- Monthly chart

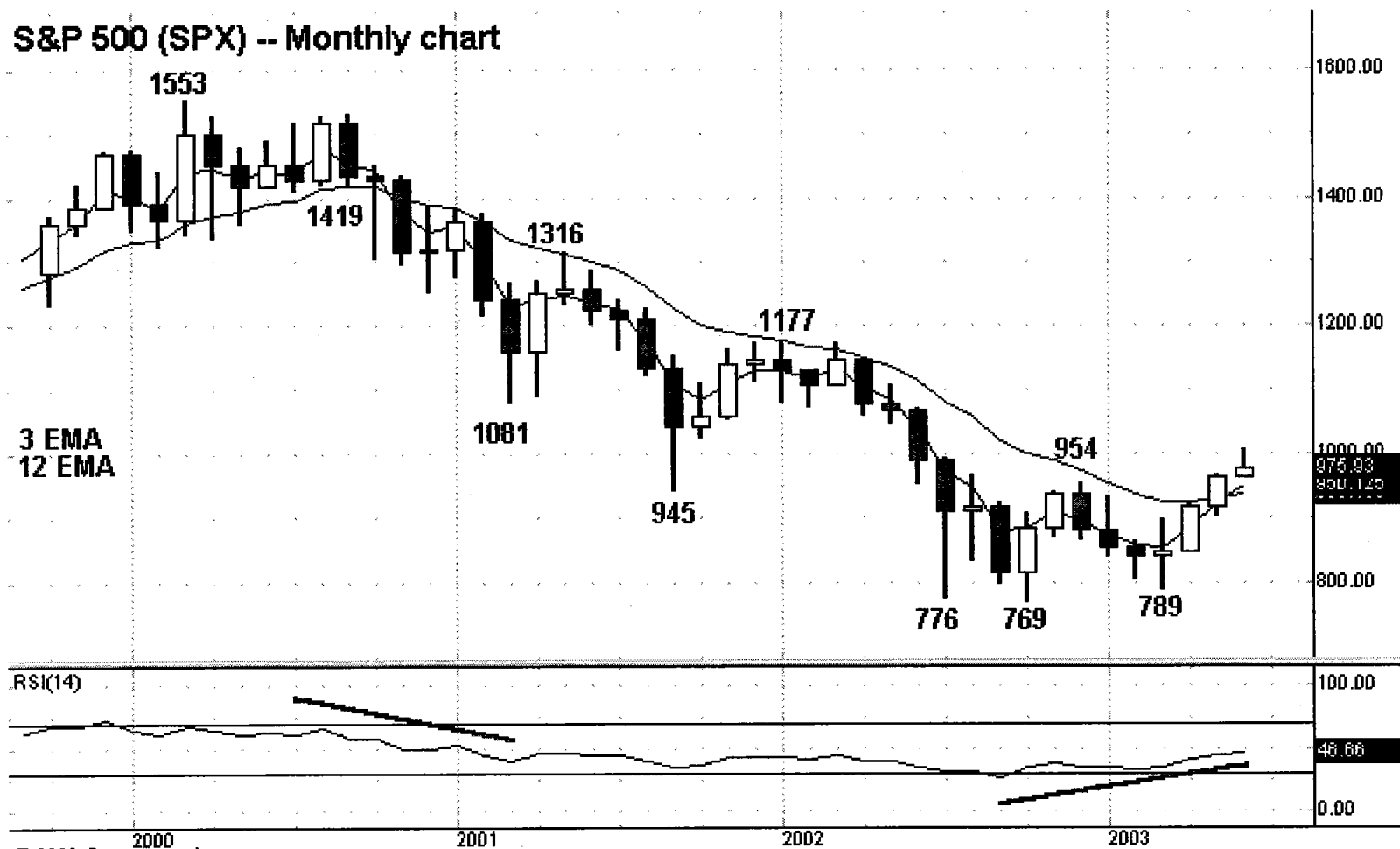


Chart Formats

Weekly: 10-, 30 and 40-week EMAs
14-period RSI or stochastics
Volume

Key Point: This is a very common longer-term chart format used by the institutions. I prefer EMAs for an early read on trend changes.

I also look at the percentage of NYSE issues above both the 10- and 30-week moving averages for early warning (Investor's Intelligence), in conjunction with the 10-week EMA.

Chart Formats - Weekly

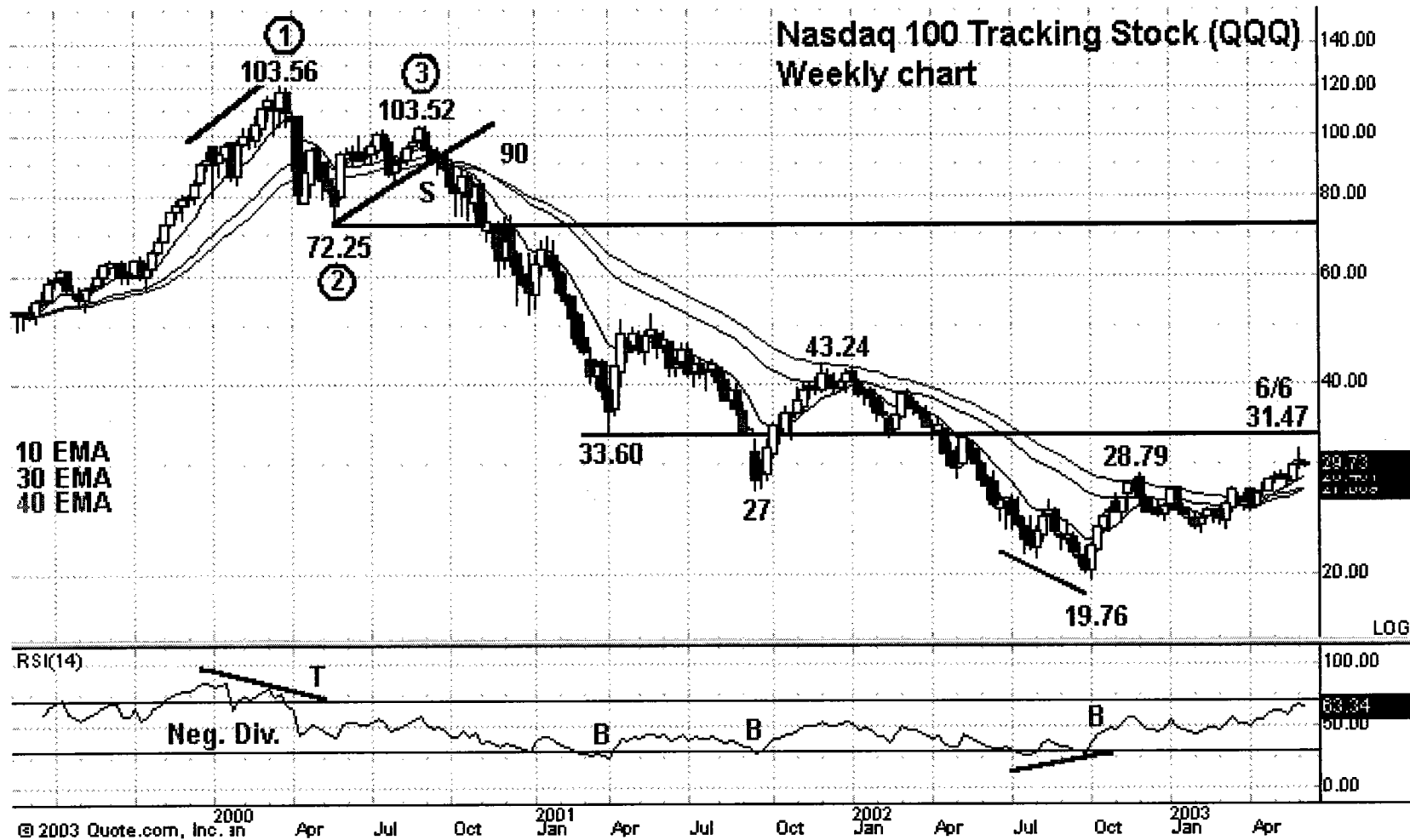


Chart Formats

Daily: 8, 20, 50, 200 EMAs
14-period RSI or stochastic
Volume

Key Point: If you are looking for position trades, it almost always starts with the daily chart and confirmation from the Weekly/Monthly charts.

The best intraday trades are usually those that set up on the daily chart in defined patterns, such as pullbacks, consolidations, triangles, flags, etc., and have demonstrated buying/selling pressure.

Chart Formats - Daily

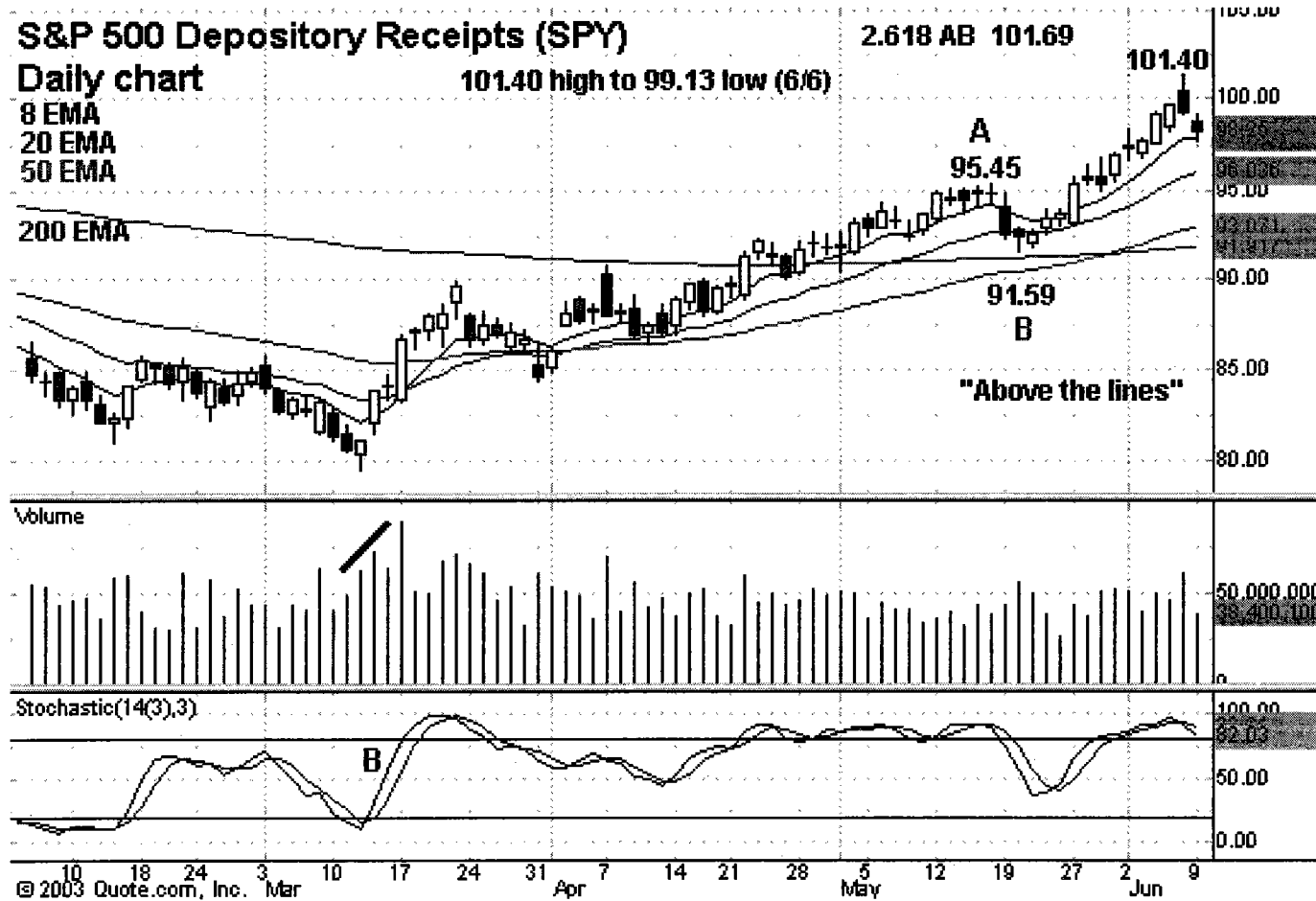


Chart Formats

Intraday: I prefer the 5-minute chart as my minimum time period because it is aggressive, yet avoids the noise of the lower time periods, which can lead to overtrading.

5-minute chart I:

8-period SMA of high
8-period SMA of low
5-period EMA of last
20-period EMA of last
8, 3, 3 slow stochastic
Volume

Chart Formats – 5-Minute

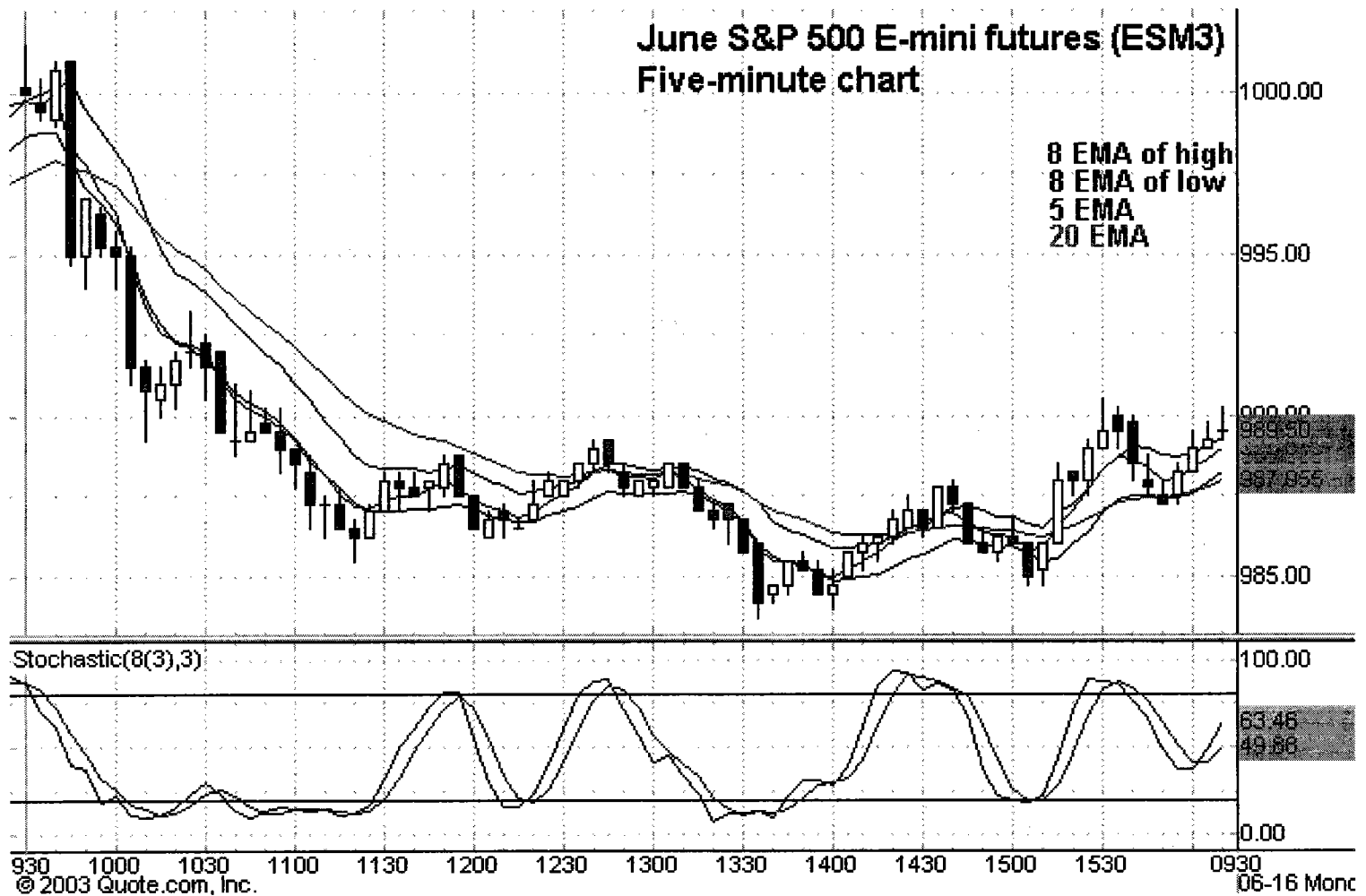


Chart Formats

5-minute chart II:

8, 20, 60, 240 (260) EMAs

Volume

8, 3, 3 slow stochastic

Key Point: The 60 EMA on a 5-minute chart is the same as a 20 EMA on a 15-minute chart, and a 240 EMA is the same as a 20 EMA on a 60-minute chart.

Chart Formats – 5-minute

June S&P 500 E-mini futures (ESM3)
Five-minute chart

8 EMA
20 EMA
60 EMA
240 EMA

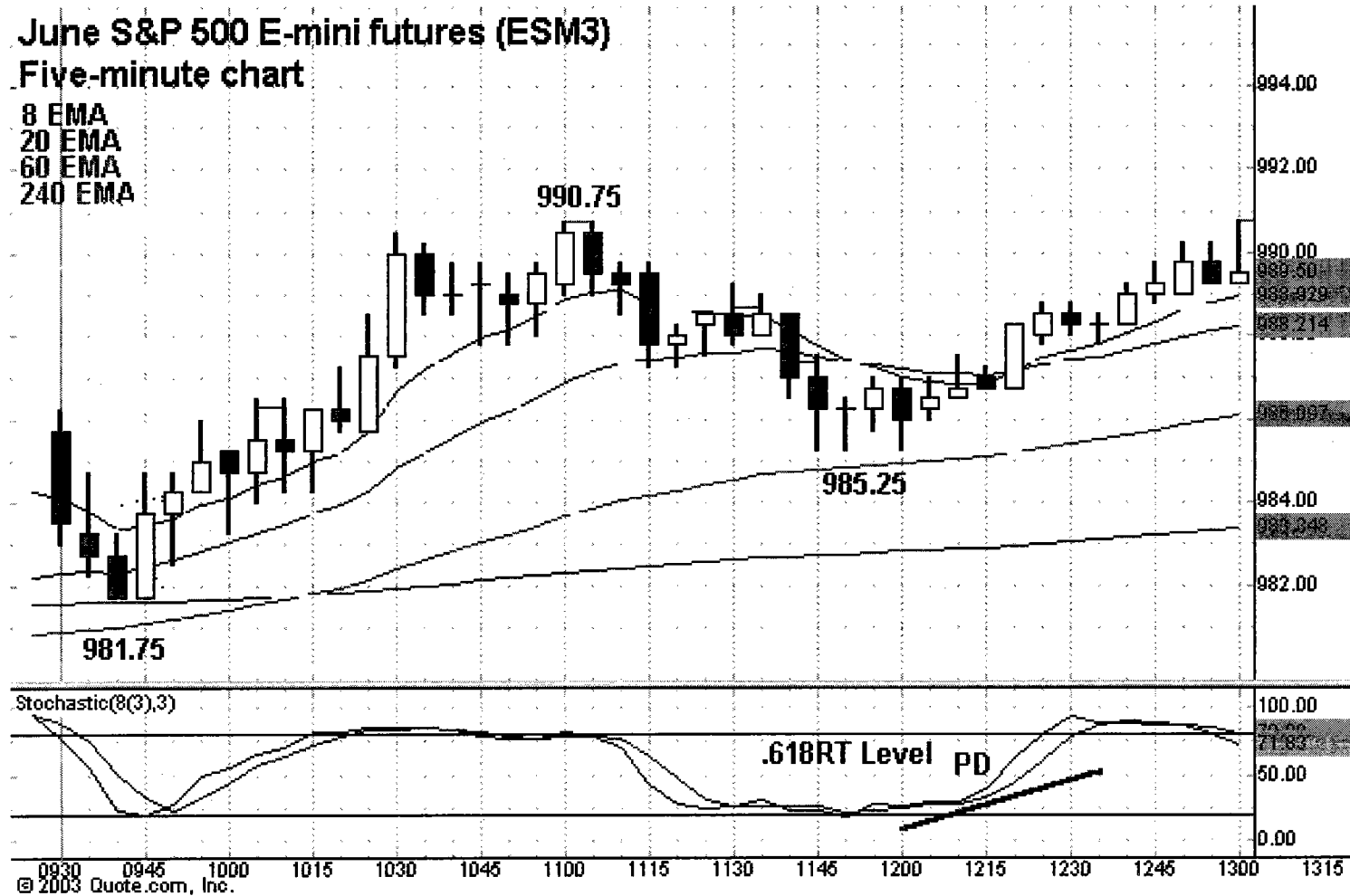


Chart Formats

5-minute chart III

This is my favorite 5-minute intraday chart, as it combines both charts I and II.

8-period SMA of high
8-period SMA of low
5-period EMA of last
20, 60 and 240 (260) EMAs of last
8, 3, 3 slow stochastic
Volume

Chart Formats – 5-minute

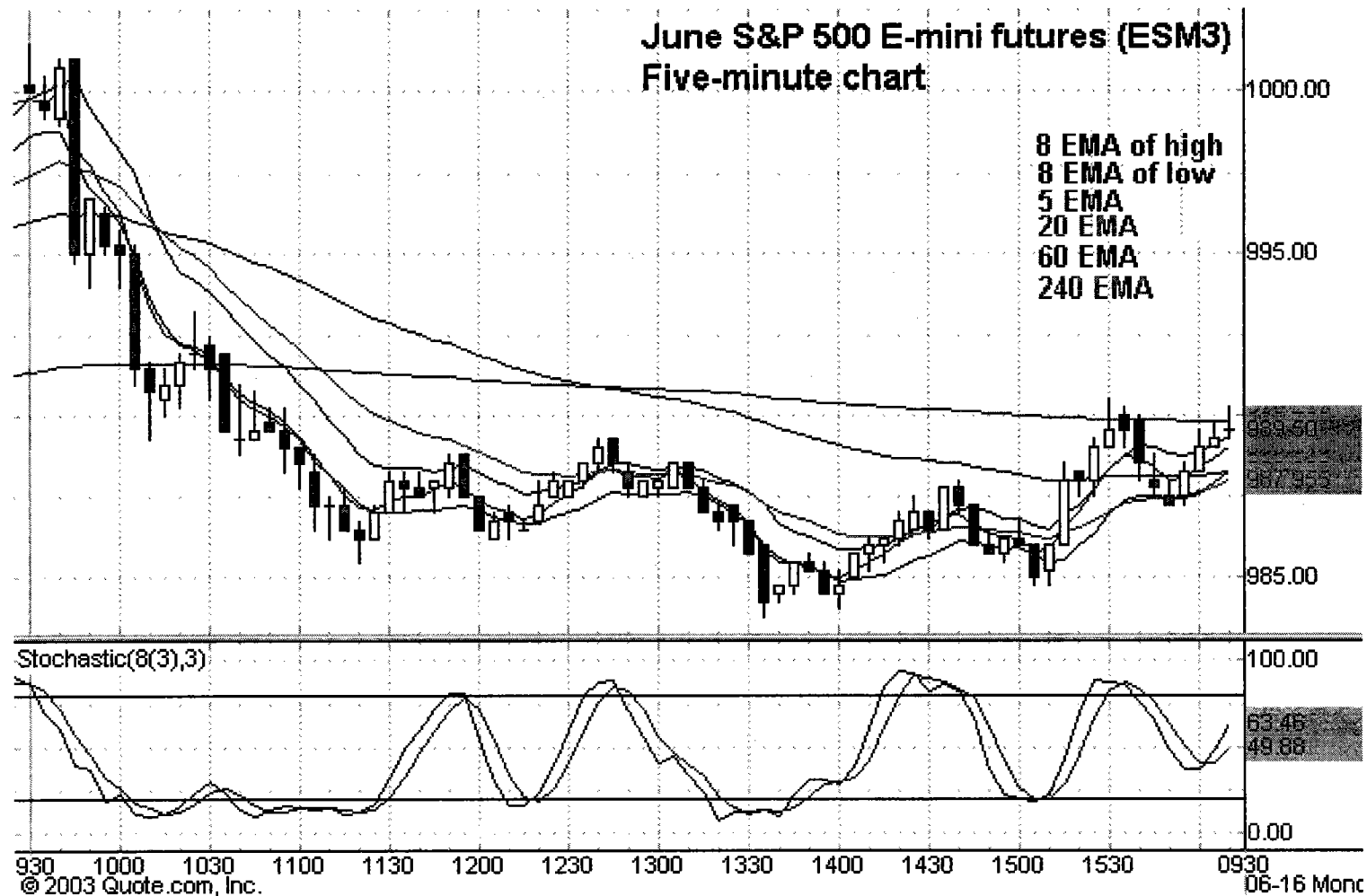


Chart Formats

1-Minute Chart

3-period EMA of last

8-period EMA of last

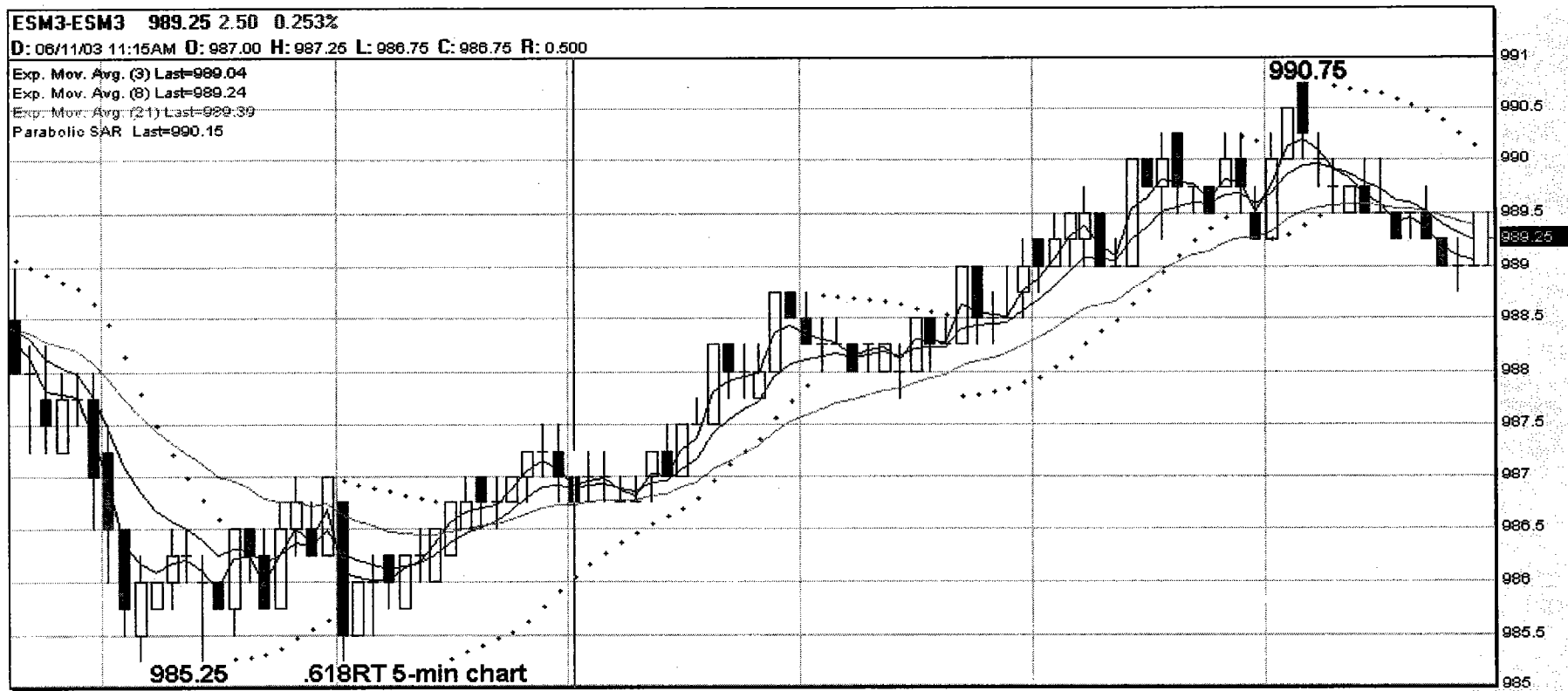
21-period EMA of last

MACD (8,17,9)

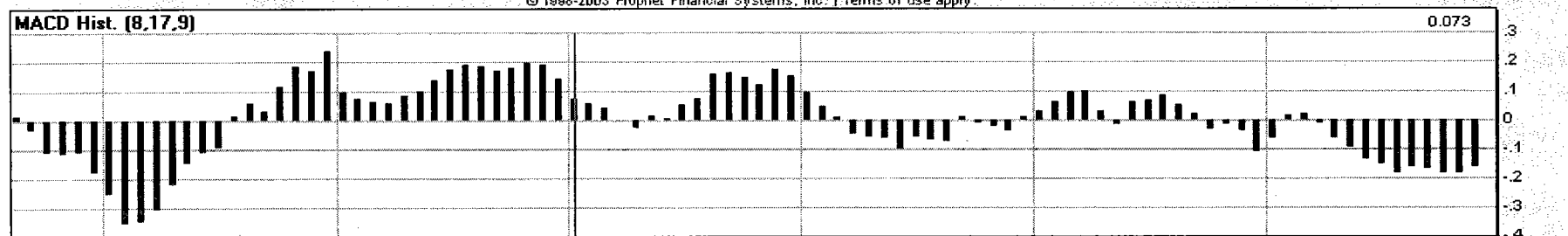
Parabolic SAR

Volume

Chart Formats – 1-minute



© 1998-2003 Prophet Financial Systems, Inc. | Terms of use apply.



Wd 10:45 11:00 11:15 11:30 11:45 12:00

V. Selection of Daily Stock Setups

Selection of Daily Stock Setups

- Big-cap stocks overweighted by the Generals.
- Higher-priced, liquid, big-cap stocks are best because it is easier to control risk, they are involved in programs, professionals commit capital to them, and they pattern much more so than lighter-volume stocks.
- Volatile stocks with ample average daily range, good volume and especially those with some travel range.
- Momentum phase of Trading Tree.
- S&P 500 and NDX 100 screens on the site to identify which stocks are exhibiting unusual or constant buying/selling pressure.

Selection of Daily Stock Setups

- Was it an up, down or neutral market day, and what was the extent of the volume participation across all sectors?
- Which sectors and groups stood out?
- Individual stock's volume relative to the 30-day average daily volume.
- Did the stock close above/below the midpoint of its range, or in the top (25%) or bottom (25%) of the range?

Nasdaq 100 Screen

Nasdaq 100 Index Screen (Sorted by % Of 30-Day Volume)

The Nasdaq 100 Index screen enables you to select stocks that exhibited buying or selling pressure the previous day. It identifies stocks that have had a range and price expansion, increased volume, a closing price in the top or bottom of the range, and where it closed in relation to its 20-, 50- and 200-day EMAs. The screen also gives you the percentage change of the closing price for one, five and 20 days in addition to the 52-week change. This screen will give you the necessary data to help you identify good pattern setups. Sort by CR1, Pct Change and % 30-DayAvgVol by Clicking on the Column Header. **To learn more about how this screen is used, click here.**

The column definitions can be found here.

As of the close of 06/10/03

Symbol	Close	Pct Chg	Pct Chg	Vol	Pct 30D Vol	Avg 30D Vol	CR1	CR2	Range	10D Pct Chg	50D Pct Chg	200D Pct Chg	52W Pct Chg	EMA 20	EMA 50	EMA 200		
ERICY	11.34	1.01	9.78	12109	240	5036	65	36	0.55	0.36	11.61	17.76	-48.92	22.80	0.00	10.05	8.72	7.59
LAMR	34.92	-0.77	-2.16	2692	236	1139	16	13	1.82	1.10	-1.83	-1.69	-15.77	41.63	25.48	35.19	34.11	32.95
HGSI	14.49	-0.81	-5.29	5252	162	3242	28	19	1.74	1.25	-0.62	8.13	3.28	18.87	6.31	14.38	12.01	10.30
CDWC	41.58	2.27	5.77	2710	155	1746	72	27	2.14	1.68	0.75	-4.44	-15.62	56.58	36.30	40.61	41.79	44.78
SYMC	47.83	-0.72	-1.48	6409	146	4383	82	33	1.58	2.14	5.70	3.71	49.84	51.53	27.21	45.79	43.67	41.32
SEBL	11.71	1.07	10.06	17814	139	12775	98	7	0.82	0.65	21.98	26.46	-36.08	18.99	5.33	9.59	8.99	8.26
RFMD	5.31	-0.19	-3.45	9955	129	7740	36	94	0.39	0.34	-2.93	1.34	-49.09	13.50	4.55	5.41	5.34	6.90
BGEN	44.00	-0.28	-0.63	5292	123	4311	77	5	1.10	2.31	0.53	13.70	6.23	50.52	28.43	42.07	38.59	37.21
SUNW	5.22	0.08	1.56	77435	122	63720	86	17	0.22	0.24	21.11	23.99	-19.31	6.70	2.34	4.41	3.84	3.44
SNPS	61.08	-2.52	-3.96	2446	117	2092	16	91	3.48	1.71	-1.32	17.03	20.31	64.13	31.81	57.73	51.56	44.57
MSFT	24.67	0.92	3.87	78461	116	67635	91	39	0.90	0.54	-0.84	-5.88	-6.59	47.12	20.71	24.68	25.11	25.51
PSFT	17.85	-0.05	-0.28	15046	114	13198	36	46	0.50	0.59	18.68	9.58	-14.72	22.50	11.75	15.88	15.69	16.99
DLTR	31.34	1.12	3.71	2139	110	1946	100	35	1.09	1.06	8.18	15.52	-6.10	40.02	17.40	27.47	25.10	24.15
CEPH	45.30	-0.09	-0.20	2638	109	2430	50	34	0.90	1.75	-1.37	14.48	-8.30	59.20	35.82	44.23	41.85	46.48
SPOT	19.09	0.33	1.76	532	109	490	54	23	0.61	0.79	0.58	4.03	-22.52	25.24	12.60	18.41	17.22	16.67
PDCO	42.66	-0.59	-1.37	654	108	603	21	14	1.34	1.10	-1.01	7.31	-18.60	55.09	35.41	42.45	41.23	44.92
ICOS	40.80	1.53	3.90	3000	104	2891	49	22	2.75	2.89	29.40	55.73	109.34	44.50	13.35	31.54	26.30	24.45
BRCD	6.95	0.09	1.31	18035	104	17414	38	10	0.32	0.46	-4.27	3.89	-65.34	21.93	3.59	6.14	5.80	6.33
AMZN	34.07	0.39	1.16	9612	103	9298	80	43	1.55	1.35	-3.29	7.48	96.94	36.68	12.26	33.78	29.91	22.90
FISV	34.98	0.54	1.57	2110	103	2051	85	23	0.99	1.23	5.39	15.87	-15.59	41.78	22.50	32.38	31.70	31.84
NVLS	37.34	-0.26	-0.69	10647	102	10399	88	49	1.13	1.76	4.95	27.66	-5.47	40.98	19.40	32.28	29.81	28.83
MCHP	22.32	0.01	0.04	4332	102	4264	81	59	0.78	1.27	-1.37	9.09	-23.87	31.89	15.02	21.26	20.64	22.75
EVAAY	41.80	-0.80	-1.88	781	102	767	42	19	1.20	1.68	4.32	-0.71	18.75	48.20	27.63	40.93	41.34	39.01
VRTS	28.97	1.36	4.93	9829	100	9825	97	55	1.53	1.39	4.21	15.88	40.02	30.71	10.30	26.33	23.01	18.46
AMAT	15.83	0.01	0.06	31199	99	31497	94	50	0.69	0.76	0.00	0.70	-22.63	21.73	10.26	15.05	14.60	13.82

- Actual daily range vs. the 10-day average range.
 - Expansion of range on increased volume with the closing price in the bottom or top of the range indicates potential continuation thrust.
 - Narrow range and increased volume indicate a possible reversal of the immediate trend.

- Did other stocks in the same group exhibit the same kind of buying/selling pressure?
- Where did the stock close vs. the 20, 50 and 200 DEMAs?
- What was the percentage move for the day, and what has it done for the 5- and 20-day periods listed on the screens?
- You are now ready to scroll your charts looking for the highest probability patterns.

- Daily charts for pattern recognition, then weekly charts to confirm trend.
- After the selection of stock, check the intraday charts for possible early entry patterns, which is the lowest common denominator way to enter the trade.
- Check for earnings dates, up/downgrades, and review any pertinent news on the stock or sector.
- The pattern doesn't make the trade, but the market dynamics do make the pattern.

Key Point: Top Down Approach

- Market
- Sector
- Group
- Stock

Key Point: Check Screens

After checking the S&P 500/NDX 100 screens, you must always check the 3-Day Wake Up Call and Change In Direction screens. By definition, both these screens identify buying/selling pressure of significance.

Buying/Selling Pressure

- Narrowing range on increased volume often precedes turning points.
- Wide-range bars and a close in the top 25% of the range or bottom 25% indicate pressure, especially when there is a significant volume increase relative to the recent trading period.
- Increased volume is positive/negative when price breaks out of a trading range or consolidation, provided it carries through and doesn't trade back into the range by much, but is strongest if not at all.
- Declining volume on pullback from recent highs is positive.

Buying/Selling Pressure

- Declining volume on pullbacks from recent lows is negative.
- When price declines on light volume from recent highs that were made on a good volume increase, and then rallies back to that high on weak volume, it is negative. It might also be setting up a 1,2,3 lower top (or 1,2,3 HT).
- If price breaks a declining trendline to the upside on good volume, but retraces to that low on light volume, it is also a sign of possible trend change. It is the beginning of the 1,2,3 patterns (reverse for sells).

Buying/Selling Pressure

- If price rallies on significant volume from a low, make sure you compare it to the previous significant low. The Generals can't hide when they make a decision to buy or sell stock in size (reverse for sells).
- After significant decline and price rallies on reduced volume, it could be the shorts running to cover.
- Consolidation follows thrust and the breakouts from these consolidations are often excellent trading opportunities.

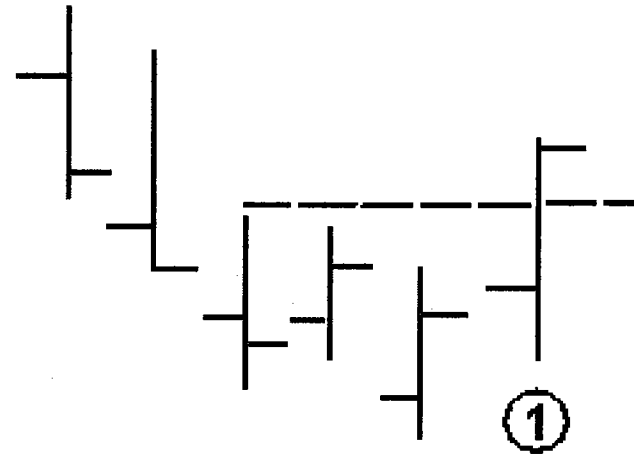
Buying/Selling Pressure

- The odds are much more in your favor buying or selling retracements at previous demand or supply levels.
- Generals can't hide when they enter the game, so you should always be looking for change in direction on volume and reversals of previous highs/closes, especially when the previous days were on narrowing or tight range.

Buying Pressure

1. Reverses three highs and five closes.
2. Closes in the top 25% of its range and above the open.
3. Has a higher low.
4. Volume increase on the change-in-direction bar (1) and increases in range (volume not shown).

A.



3-Day Wake Up Call Screen

3 Day Wake Up Call

This screen identifies stocks in the S&P 500 and the NDX 100 that have closed above the previous two days' highs, have the largest daily range for three days and the most daily volume in three days. The list is sorted by the Percentage of the 30-Day Average Volume. **To learn more about how this screen is used, [click here.](#)**

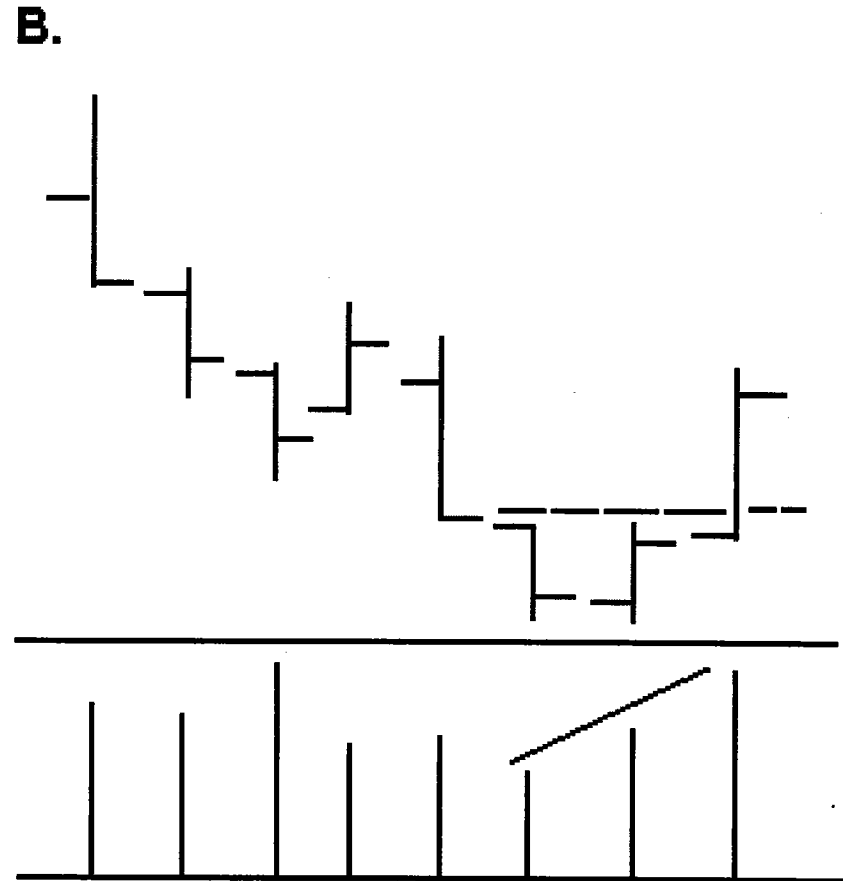
As of the close of 06/10/03

Symbol	Charts	Exchange	Stock Name	Sub Sector	Price	CHG	Vol (00)	50 DAY (00)	%20DAY	EPS	P/B	R/S	R/S	ADX	DMI-50	DMA
PCQ		NYSE	PG&E CORPORATION	DIVERSIFIED UTILITIES	\$ 18.00	\$ 0.71	43814	14900	% 292	6	61	72	66	57	U	>
SVU		NYSE	SUPERVALU INC.	FOOD WHOLESALE	\$ 20.96	\$ 0.49	18106	8140	% 222	75	64	69	80	60	U	>
JNY		NYSE	JONES APPAREL GROUP, INC.	TEXTILE - APPAREL CLOTHING	\$ 29.40	\$ 1.70	33248	13122	% 253	74	14	8	24	18	U	>
GTW		NYSE	GATEWAY INC.	PERSONAL COMPUTERS	\$ 3.71	\$ 0.34	45601	18486	% 246	0	76	61	65	35	U	>
UST		NYSE	UST INC.	TOBACCO PRODUCTS, OTHER	\$ 37.16	\$ 0.70	10215	8215	% 124	46	50	54	67	56	U	>
SUN		NYSE	SUNOCO, INC.	OIL & GAS REFINING & MARKETING	\$ 37.66	\$ 0.60	12298	9692	% 126	89	29	40	10	10	U	>
SPG		NYSE	SIMON PROPERTY GROUP, INC.	REIT - RETAIL	\$ 39.46	\$ 0.83	7612	7658	% 99	74	48	41	33	16	U	>

3-Day Wake Up Call

This is one of the best patterns to spot the Generals and is a screen on my commentary page.

This pattern is when a stock has closed above the previous two days' highs, has the largest daily range for the last three days, and the most daily volume in the same three days. It is more significant when the volume is a significant increase above its 30-day average volume.



Change-In-Direction Screen

Change in Direction Screen

This screen identifies stocks in the S&P 500 and the NDX 100 that have made at least a five-day low and yesterday had a higher high, higher low and closed above the high of the low day. The list is sorted by the Percentage of the 30-Day Average Volume. To learn more about how this screen is used, [click here](#).

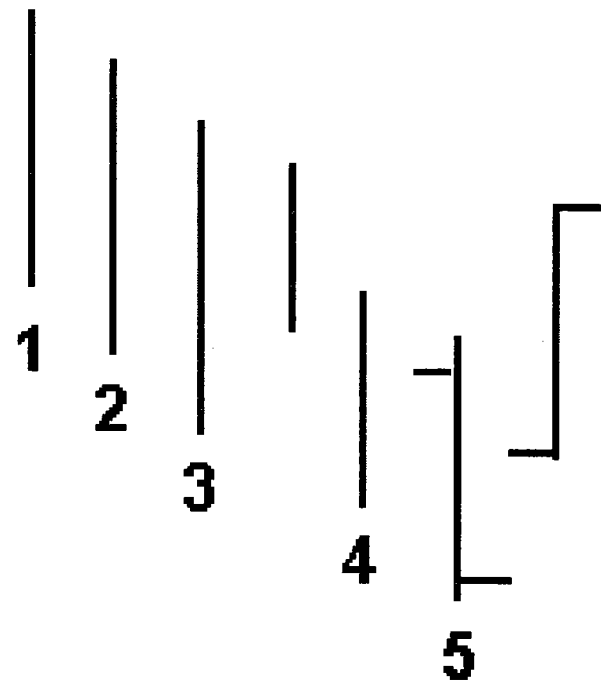
As of the close of 06/10/03

Symbol	Chart	Exchange	Stock Name	Sub Sector	Price	CHG	Vol (00)	30-DAY AVG	% of AVG	52WK HIGH	52WK LOW	52WK OPEN	52WK CLOSE	ADJ	DIV	52WK GWA
JNY		NYSE	JONES APPAREL GROUP, INC.	TEXTILE - APPAREL CLOTHING	\$ 29.40	\$ 1.70	33248	13122	% 253	74	14	8	24	18	U	>
EIX		NYSE	EDISON INTERNATIONAL	ELECTRIC UTILITIES	\$ 16.25	\$ 0.20	32675	14500	% 223	25	40	71	50	33	U	>
CDWC		NASDAQ	CDW COMPUTER CENTERS, INC.	COMPUTERS WHOLESALE	\$ 41.58	\$ 2.27	27095	16800	% 181	48	17	7	22	16	U	<
SUN		NYSE	SUNOCO, INC.	OIL & GAS REFINING & MARKETING	\$ 37.55	\$ 0.80	12298	9692	% 128	89	29	40	10	10	U	>
MSFT		NASDAQ	MICROSOFT CORPORATION	APPLICATION SOFTWARE	\$ 24.87	\$ 0.92	784610	645957	% 121	41	23	8	14	15	U	<
VRTS		NASDAQ	VERITAS SOFTWARE CORPORATION	APPLICATION SOFTWARE	\$ 28.97	\$ 1.36	98371	97155	% 101	32	87	83	83	54	U	>
APA		NYSE	APACHE CORPORATION	INDEPENDENT OIL & GAS	\$ 66.05	\$ 0.80	17442	16104	% 108	92	48	54	21	21	U	>
STJ		NYSE	ST. JUDE MEDICAL, INC.	MEDICAL APPLIANCES & EQUIPMENT	\$ 58.45	\$ 1.70	13146	14792	% 88	61	74	78	54	39	U	>
NE		NYSE	NOBLE CORPORATION	OIL & GAS DRILLING AND EXPLORATION	\$ 35.52	\$ 0.42	15535	16737	% 92	25	16	29	10	28	U	>
PTEN		NASDAQ	PATTERSON-UTI ENERGY, INCORPORATED	OIL & GAS DRILLING AND EXPLORATION	\$ 35.45	\$ 0.24	13062	11948	% 109	73	52	40	22	19	U	>
PHM		NYSE	PULTE HOMES	RESIDENTIAL CONSTRUCTION	\$ 66.38	\$ 1.83	7290	7405	% 98	59	74	72	69	48	U	>
MXIM		NASDAQ	MAXIM INTEGRATED PRODUCTS INC	SEMICONDUCTOR - BROAD LINE	\$ 36.63	\$ 0.70	74618	85017	% 87	57	23	9	15	11	U	<
DOW		NYSE	THE DOW CHEMICAL COMPANY	CHEMICALS - MAJOR DIVERSIFIED	\$ 31.83	\$ 0.18	27682	34710	% 79	83	45	26	41	11	D	>
BJS		NYSE	BJ SERVICES COMPANY	OIL & GAS EQUIPMENT & SERVICES	\$ 39.72	\$ 0.54	17379	21241	% 81	54	55	42	33	32	U	>
NBR		AMEX	NABORS INDUSTRIES LTD.	OIL & GAS DRILLING AND EXPLORATION	\$ 43.60	\$ 0.30	14859	17060	% 87	48	42	41	19	24	U	>
ANDW		NASDAQ	ANDREW CORPORATION	COMMUNICATION EQUIPMENT	\$ 9.82	\$ 0.43	9818	12878	% 75	6	30	55	62	46	U	>
BUD		NYSE	ANHEUSER-BUSCH COMPANIES, INC.	BEVERAGES - BREWERS	\$ 53.00	\$ 0.49	17619	24459	% 72	49	37	35	29	35	U	>
EXC		NYSE	EXELON CORPORATION	DIVERSIFIED UTILITIES	\$ 58.84	\$ 0.93	11450	14986	% 76	42	53	53	42	52	U	>
TAP-B		NYSE	TRAVELERS PROPERTY CASUALTY	PROPERTY & CASUALTY INSURANCE	\$ 16.34	\$ 0.37	14596	21404	% 68	0	*	26	18	14	U	>

Change In Direction

This is another screen on my commentary page that looks for stocks that have made at least a five-day low and yesterday made a higher high, higher low and closed above the high of the low day. The bigger the volume increase, the stronger the change in direction.

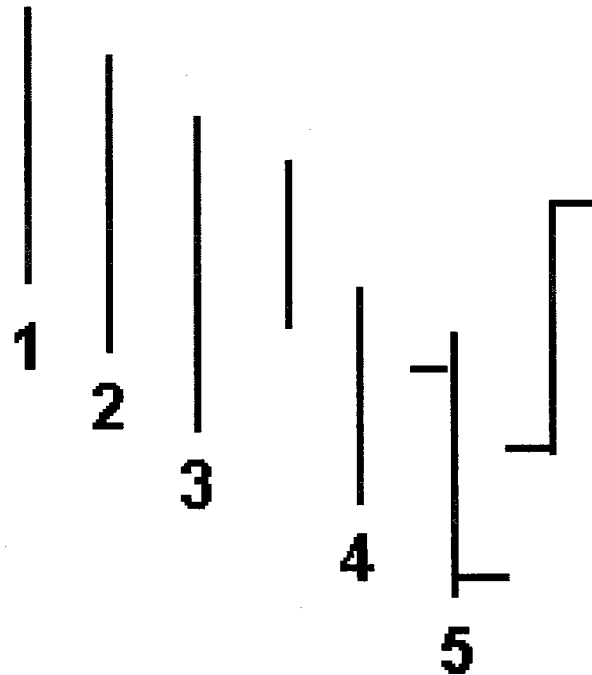
C.



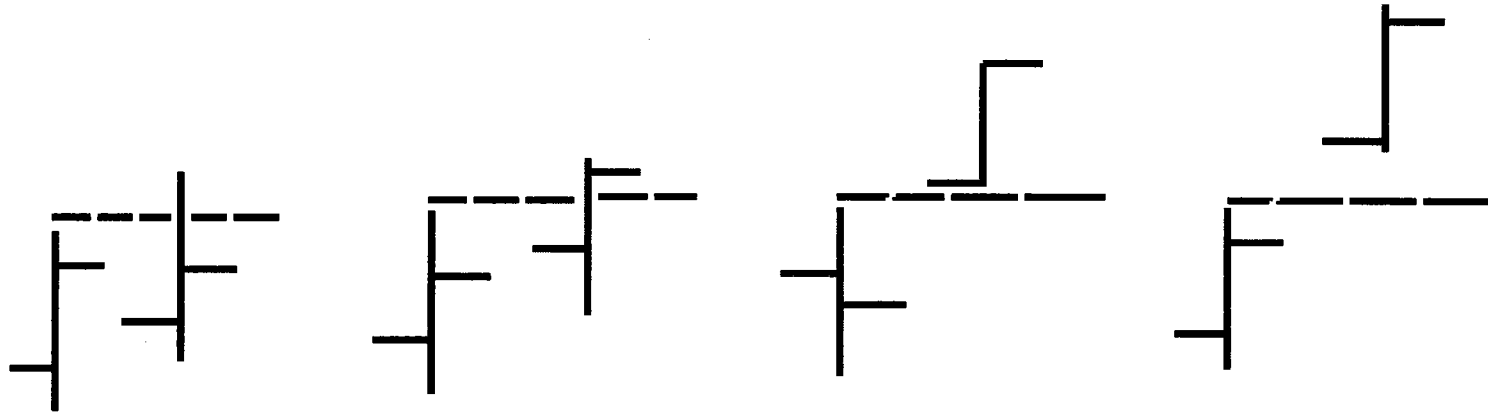
Change In Direction

C.

- Five-day low
- Change of direction bar with higher low and high
- Closes in the top 25% of the range, above the open and previous day's high
- The open and low are above the previous day's close
- You want to see a volume increase on the reversal bar.



Change in Direction Levels of Pressure



I could give you 100 pages of examples, but that isn't the answer because I am just trying to get you to look at charts and think about relative relationships and realize that there are different degrees of pressure, and it is just simple logic in recognizing it.

(Reverse for sells.)

Inflection Point Preparation To Trade

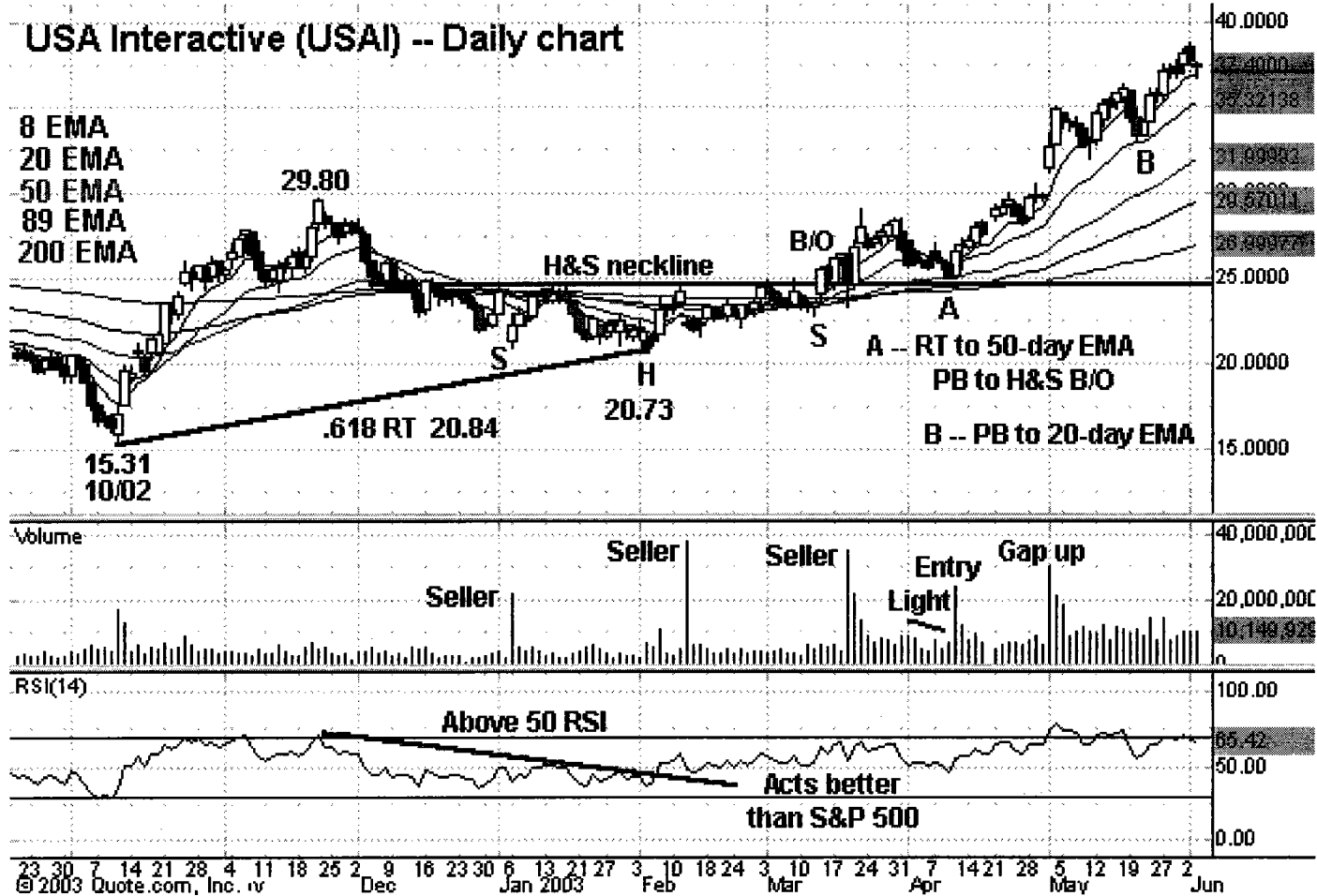
- Previous day's high/low/close
- Closing range previous day (intraday chart)
- Support, resistance levels in play
- Moving averages
- Fibonacci retracements/extensions on both the daily and intraday charts
- Volatility Bands
- Standard Deviations
- Weekly/Monthly high/low/close
- Monthly pivots
- Confluence awareness

Key Point: What is your entry plan, and what is your stop risk?

Key Point: Whether or not you are position trading or daytrading, your selection process begins with the higher time frame charts.

Inflection Point Preparation To Trade Real World Examples

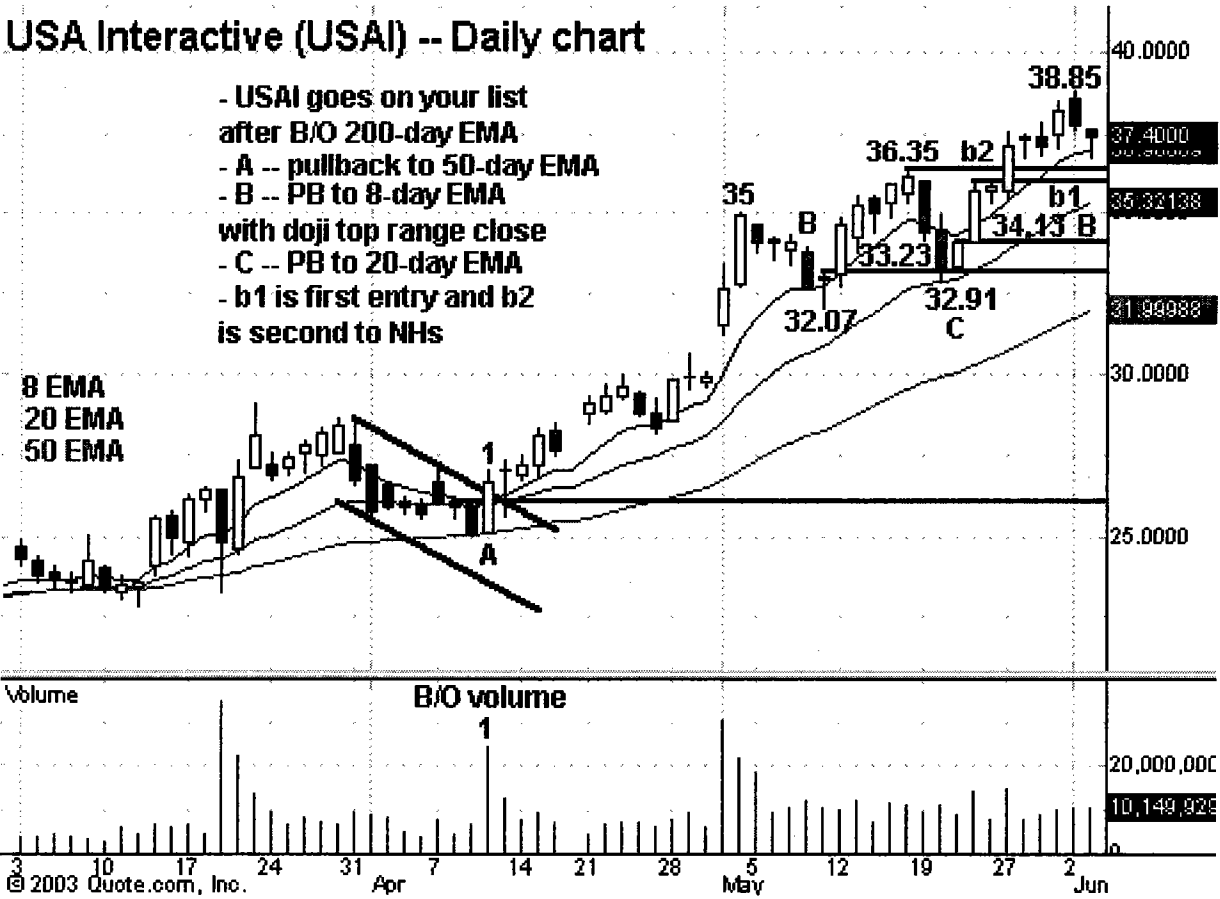
Inflection Point Preparation To Trade



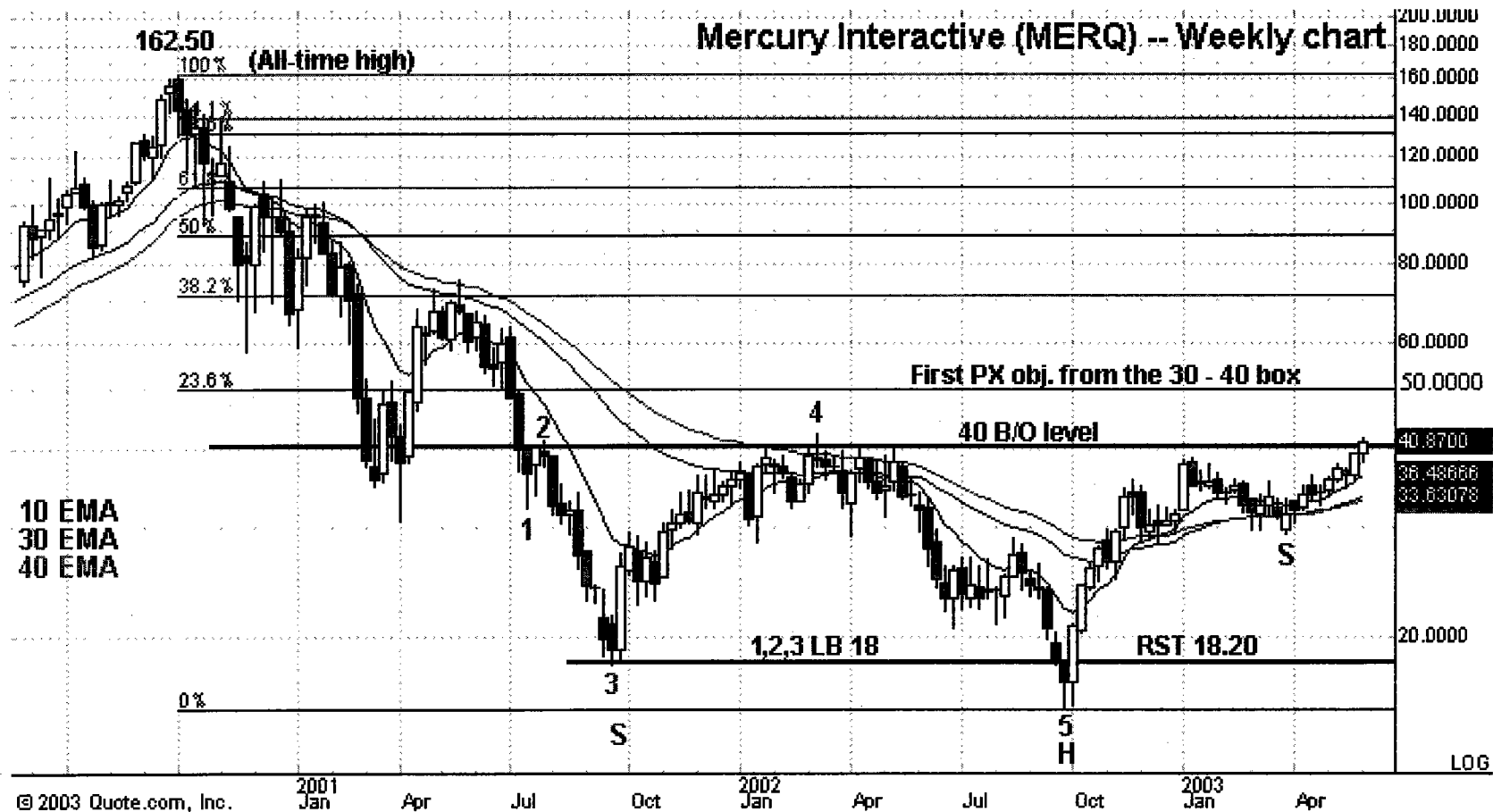
Inflection Point Preparation To Trade

USA Interactive (USAI) -- Daily chart

- USAI goes on your list after B/O 200-day EMA
- A -- pullback to 50-day EMA with doji top range close
- B -- PB to 8-day EMA
- C -- PB to 20-day EMA
- b1 is first entry and b2 is second to NHS

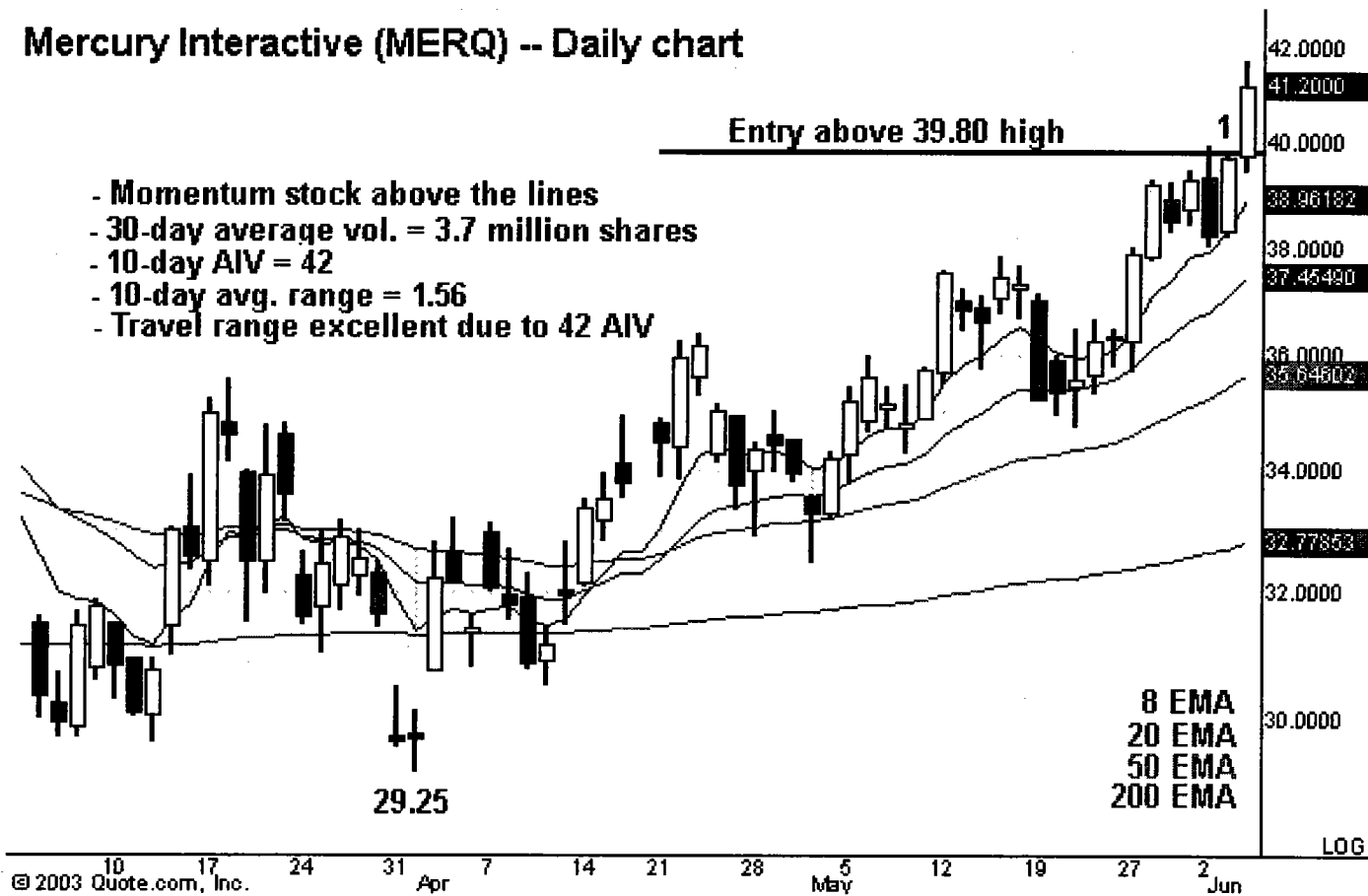


Inflection Point Preparation To Trade

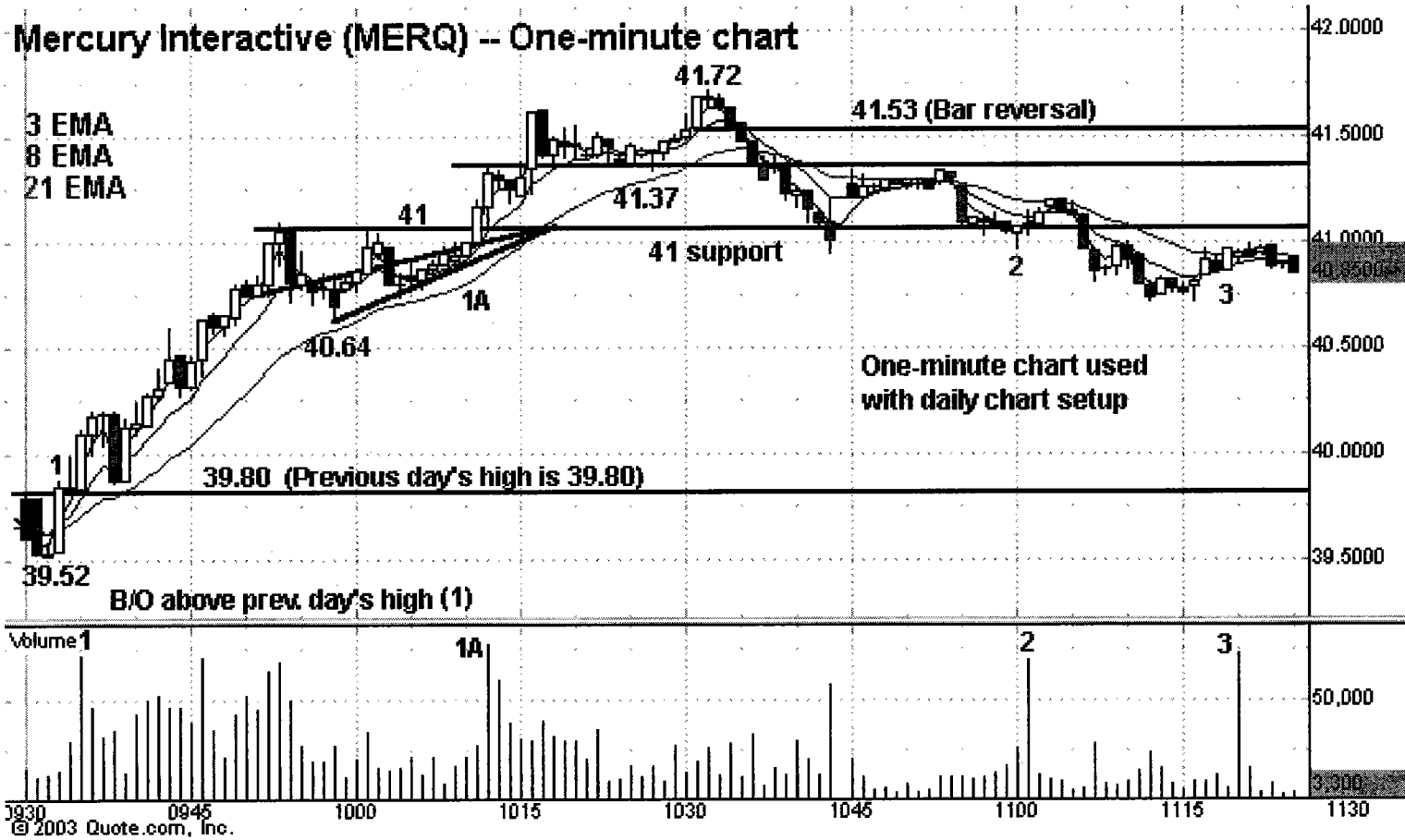


Inflection Point Preparation To Trade

Mercury Interactive (MERQ) -- Daily chart

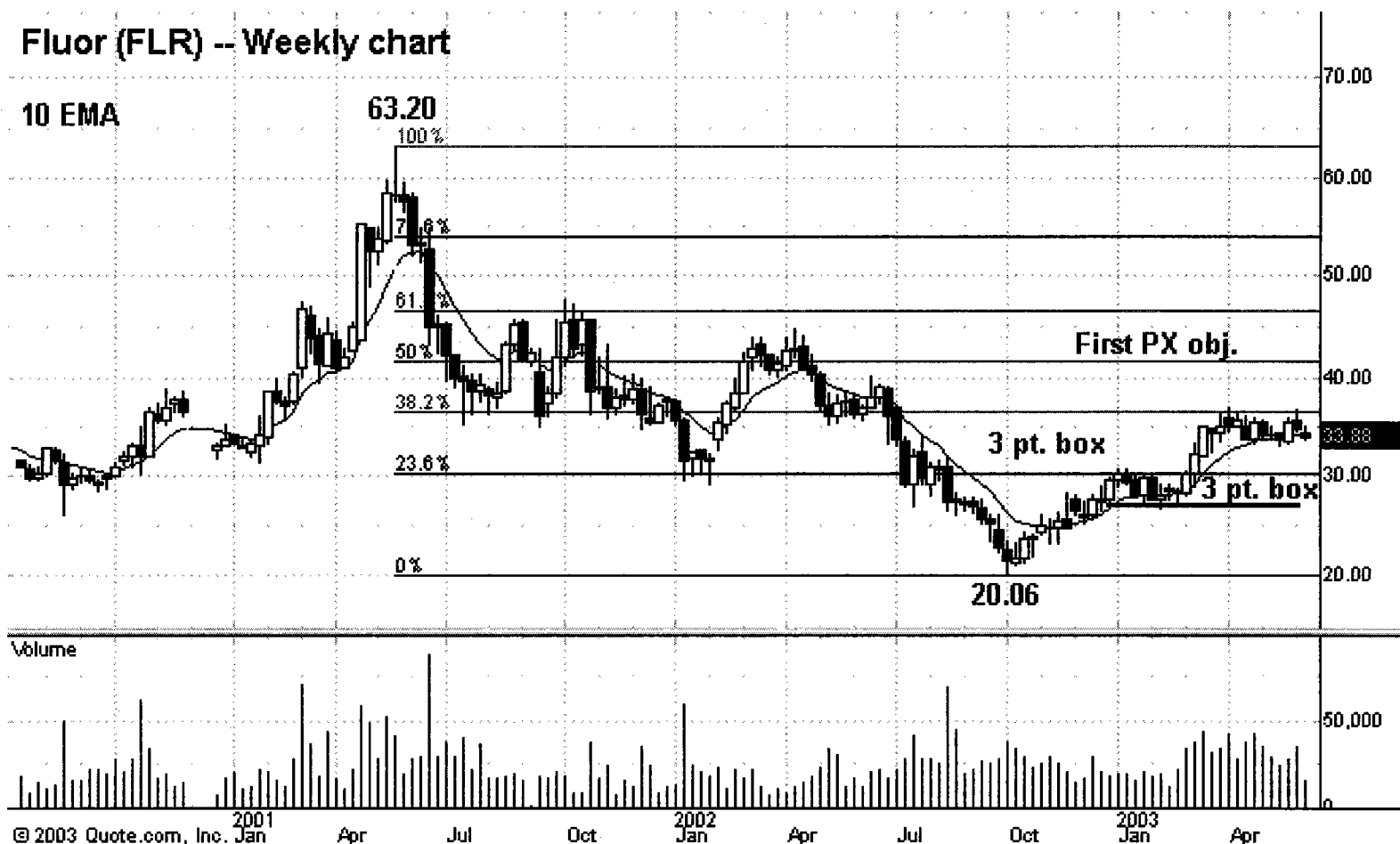


Inflection Point Preparation To Trade



Inflection Point Preparation To Trade

Fluor (FLR) -- Weekly chart



“820” Trend Identification Method

Once you have completed your screen identification of buying/selling pressure from a top down approach and have selected those stocks that have a defined entry pattern on the daily chart, you must then narrow the list to the stocks with trend confirmation. This process will produce very high-probability trades over a period of time.

There are many ways you can accomplish this, and the key is to be consistent with your approach.

I use a method that selects stocks that are good position setups because, over time, they inevitably make for the highest probability intraday trades.

“820” Trend Identification Method

- Use weekly, daily, 60-minute, 15-minute and 5-minute charts.
- Each chart should have an 8- and 20-period EMA. The 8-period is our short-term indicator, and the 20-period is our longer-term moving average.
- For a slow stochastic, I prefer an 8, 3, 3 for the intraday charts and a 14-period for the weekly and daily charts.
- The strongest trend will have the 8 EMA trading above the 20 EMA with price above both rising EMAs (sells reversed).

“820” Trend Identification Method

- To determine the strongest trends, the first chart to look at is the weekly chart.
- After you measure the weekly trend, you then evaluate the daily trend.
- For intraday and short-term trading, if the daily chart is positive in all ways, it can take precedence over the weekly chart, but for intermediate trades, the 8 EMA must be above a rising 20 EMA on the weekly chart. Price can be below the 8 EMA as long as it's above or right at the 20 EMA.
- If the longer-term trend is positive, then your next focus turns to the intraday charts, 60-, 15- and 5-minute.

“820” Trend Identification Method

- Intraday charts will enable us to determine immediate entry and exit levels at the lowest common denominator, which most often is before the previous day's high or low.
- The longer-term trend on the intraday chart is determined by the 60-minute chart. We want price to be above the 8 EMA, which should be above the rising 20 EMA for the strongest trend. If price < 8 but > 20 , it's okay for retracement trades.
- The intermediate trend is the 15-minute chart, and we would like to see the same progression as the 60-minute chart.

“820” Trend Identification Method

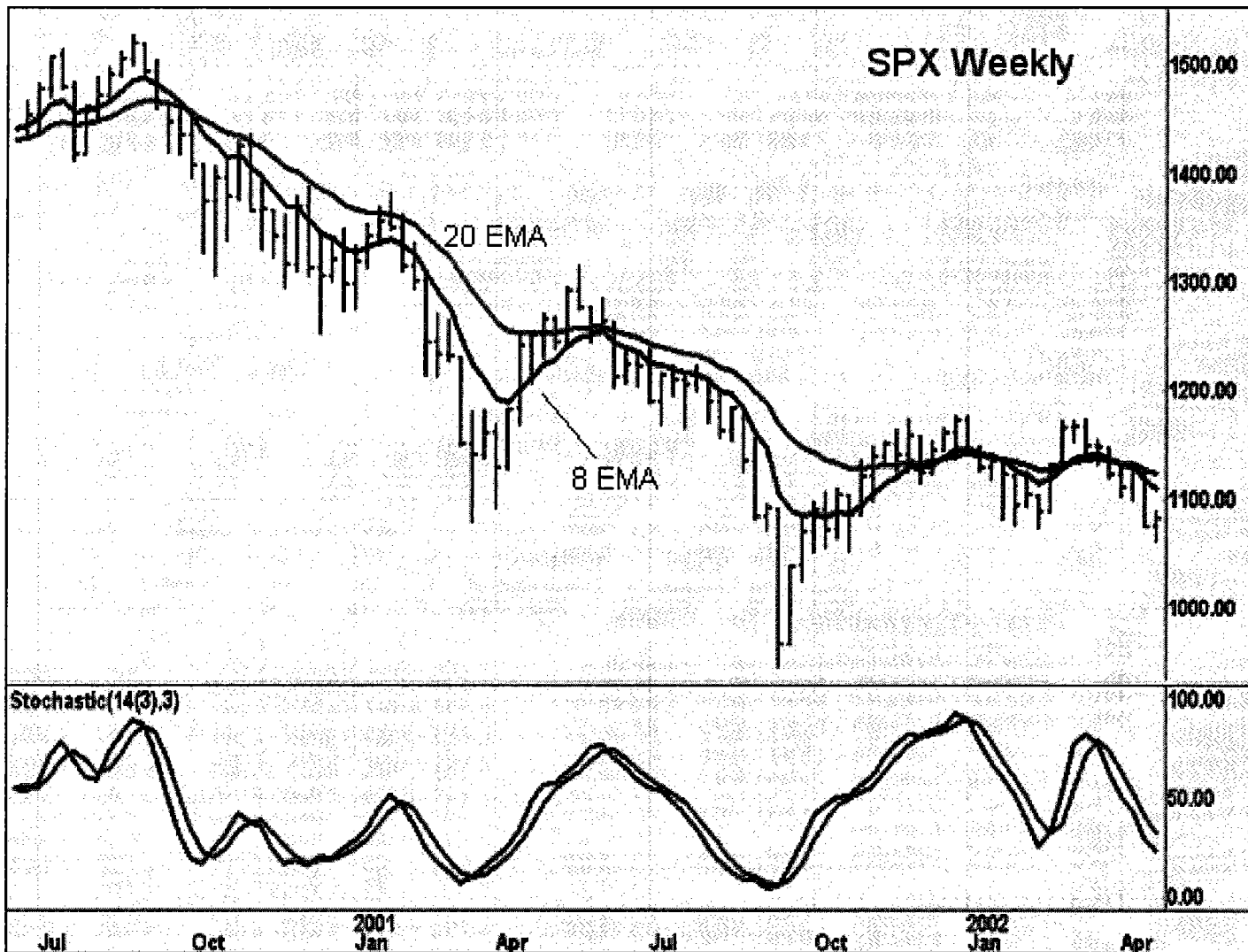
- The shortest trend is, of course, the 5-minute chart. The strongest short-term trend will have the 8 EMA above the 20 EMA, but price can be below the 8 EMA, but at or above the 20 EMA and still be considered a strong short-term trend. This is for early warning signs and can be used for profit-taking on all or part of your trade.
- Programs and news flashes can quickly turn the short-term trend negative and that's when we look to pullback setups on the 15-minute and/or 60-minute charts, which can be high-probability trades.

“820” Trend Identification Method

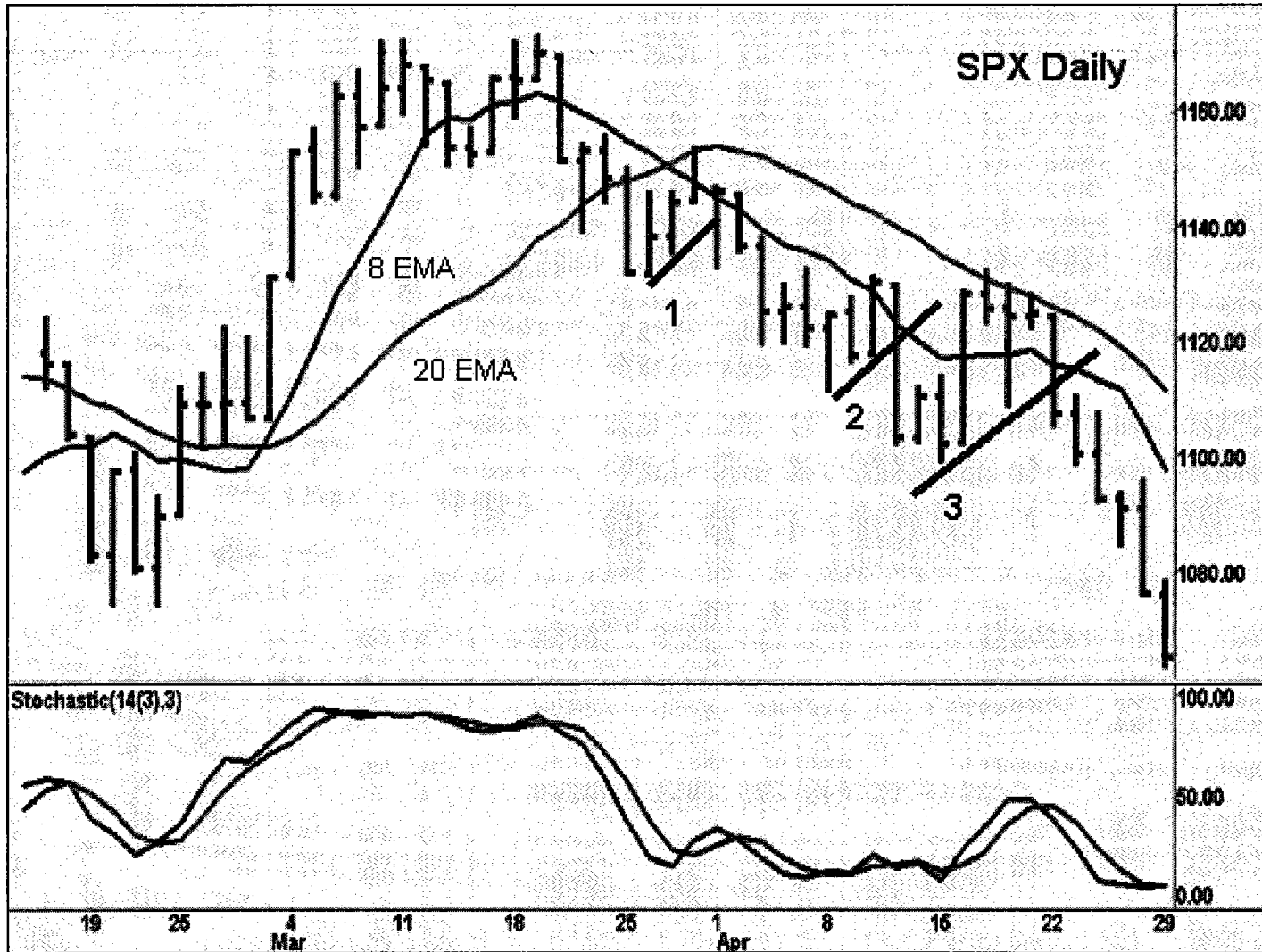
- The method is a structured way to identify and monitor trends on all levels and time frames and it acts as a primary filter when you are selecting daily stock setups.
- You will judge your trade selection and monitor your trades by the process of elimination with the 5-minute chart giving you the early warning signal to a slowing of or change in trend.
- The strongest trend-continuation signals will be when all time periods are in sync.
- The best intraday pullback or reversal trades will be when price has pulled back to the 20 EMA on the 60-minute chart and the 8 EMA is above the 20 EMA.
- This method can be used as an aggressive approach to longer-term market timing or sector trading.

“820” Trend Identification Real World Examples

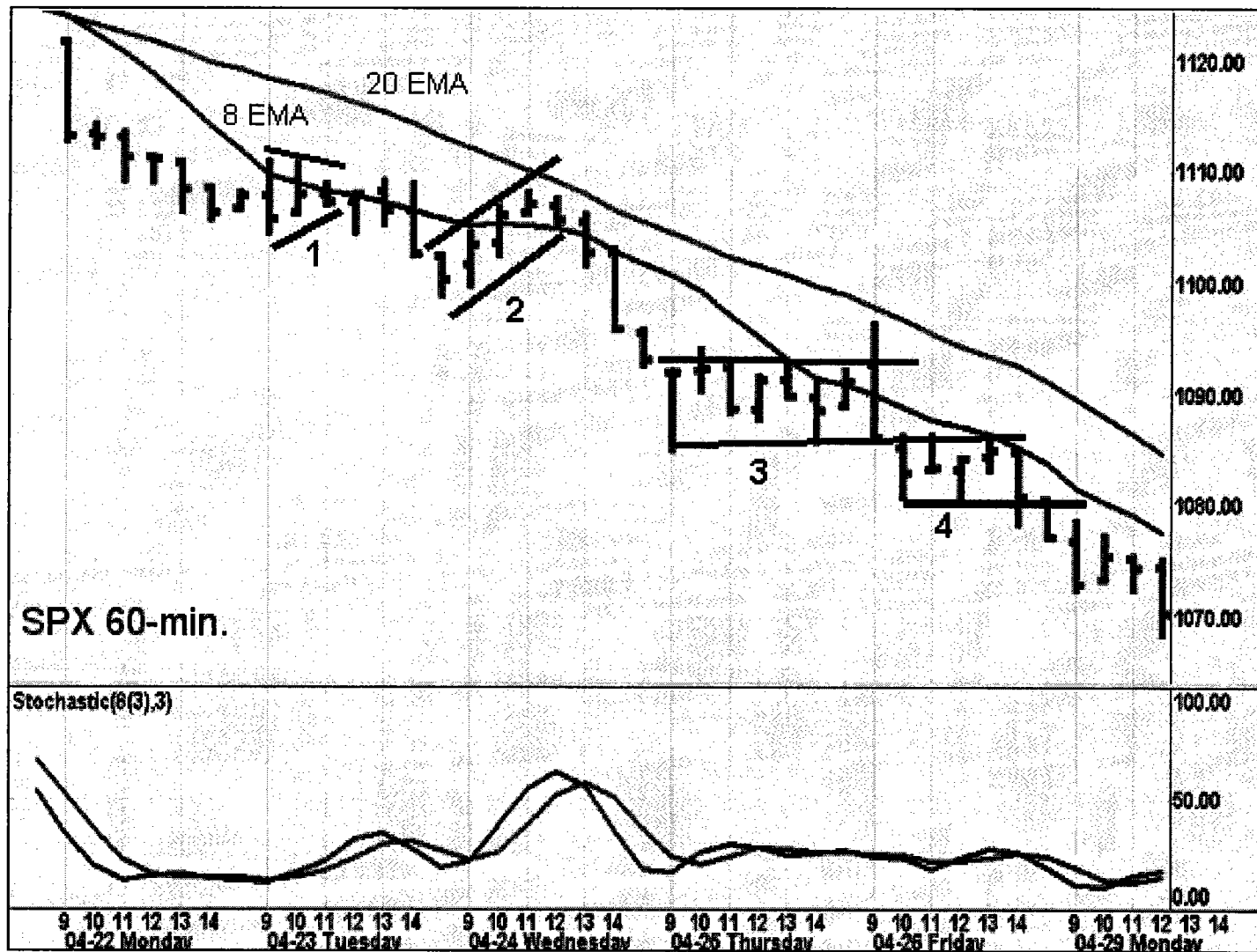
“820” Trend Identification Method



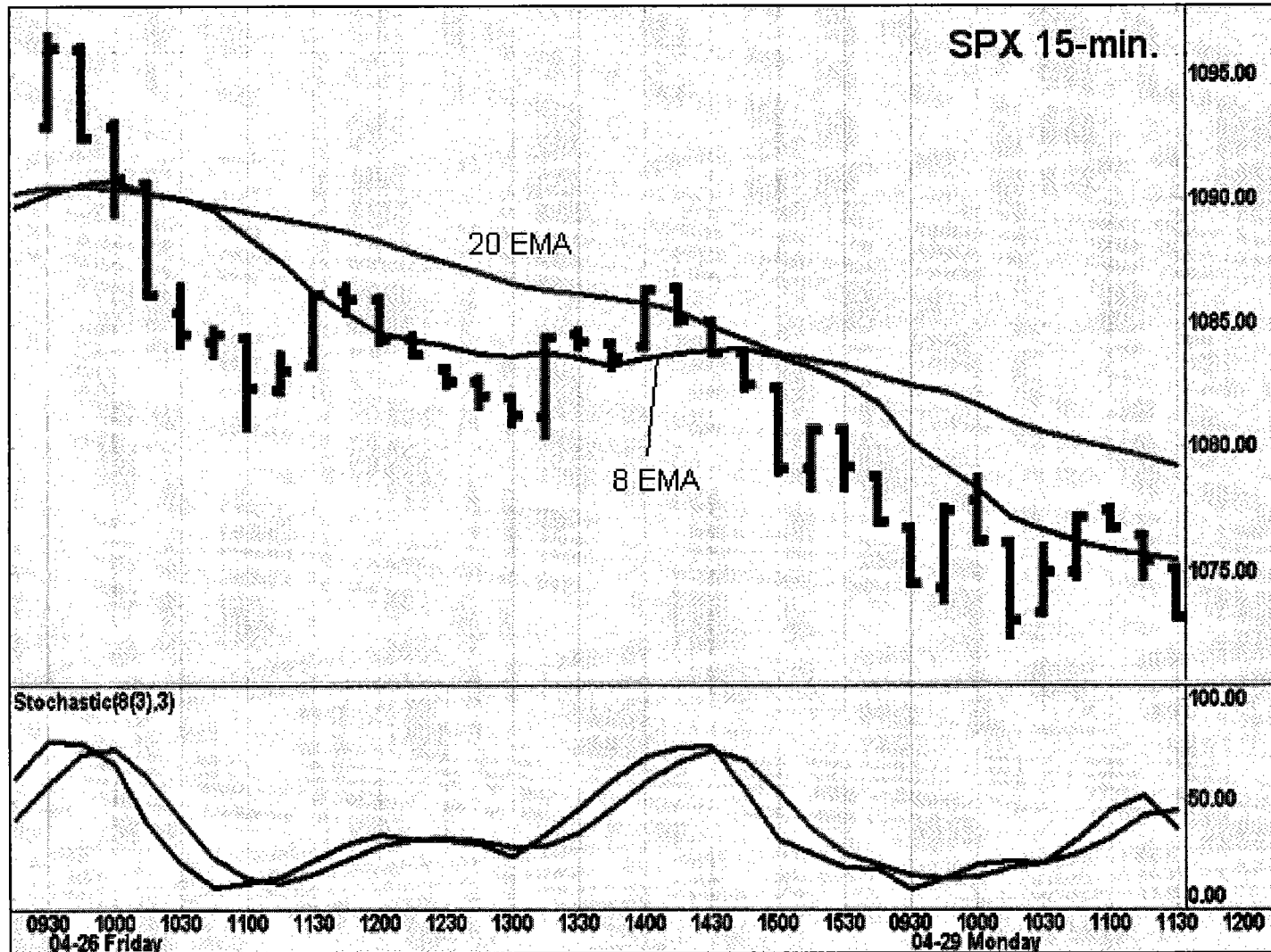
“820” Trend Identification Method



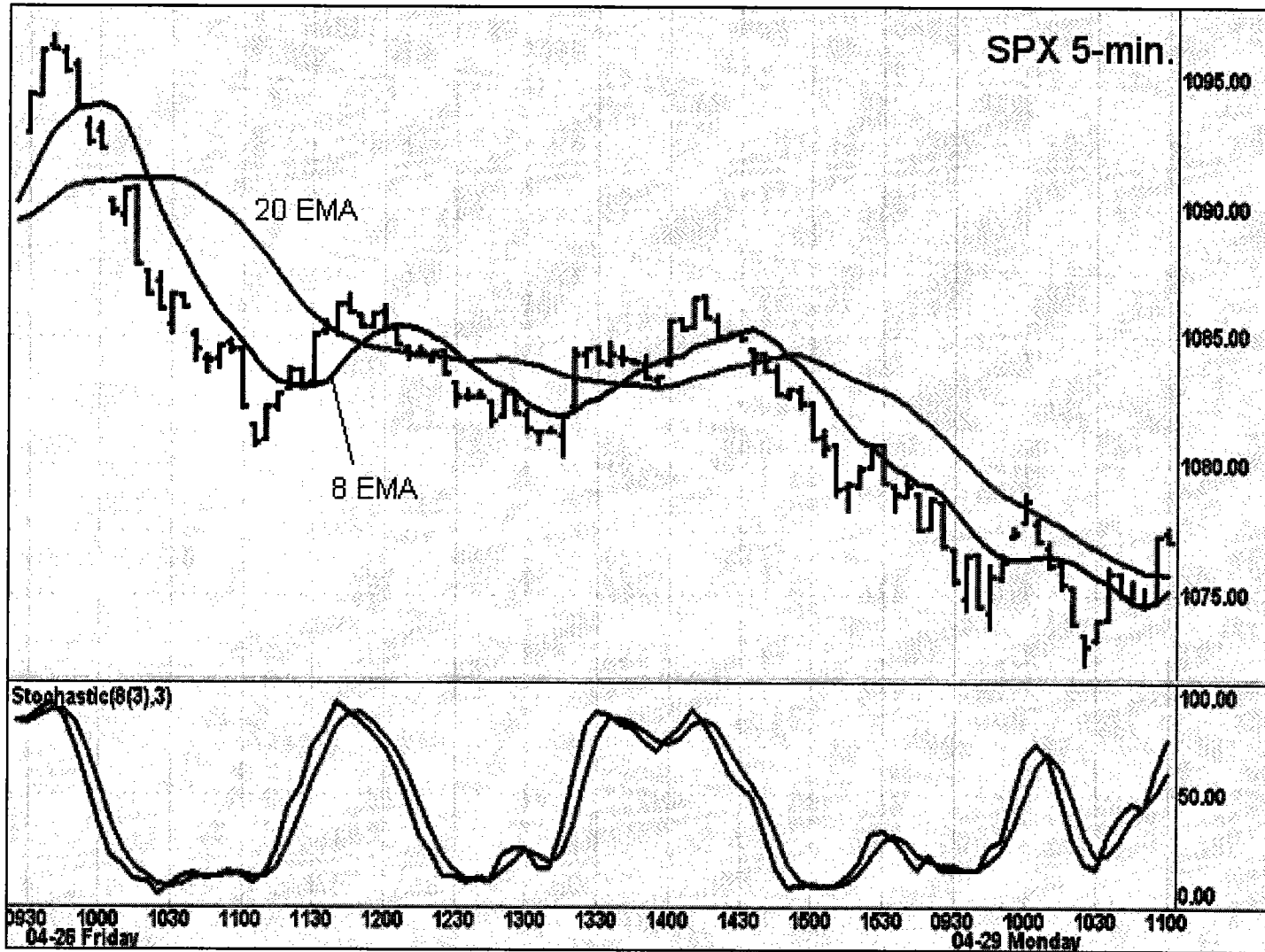
“820” Trend Identification Method



“820” Trend Identification Method

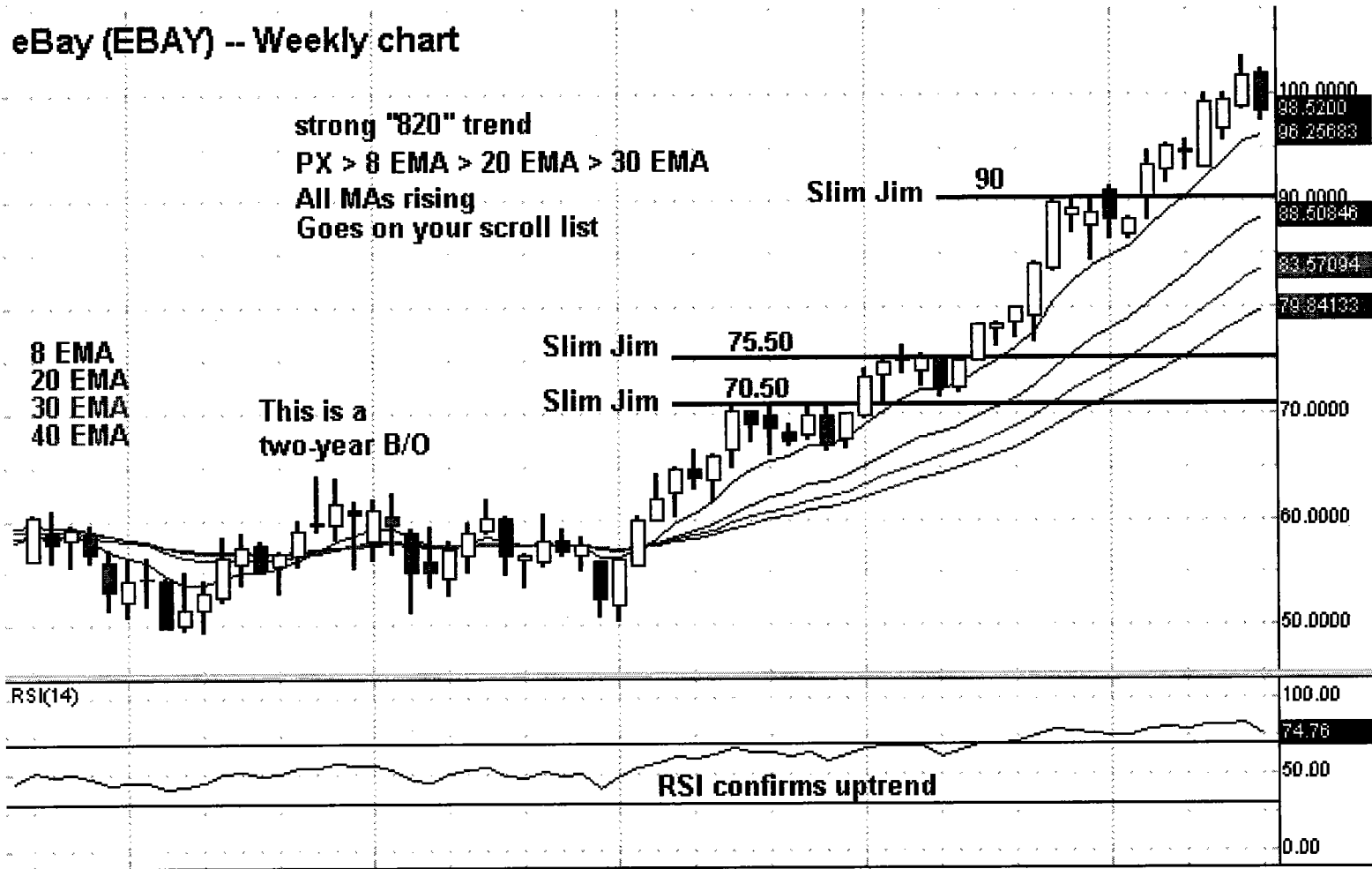


“820” Trend Identification Method



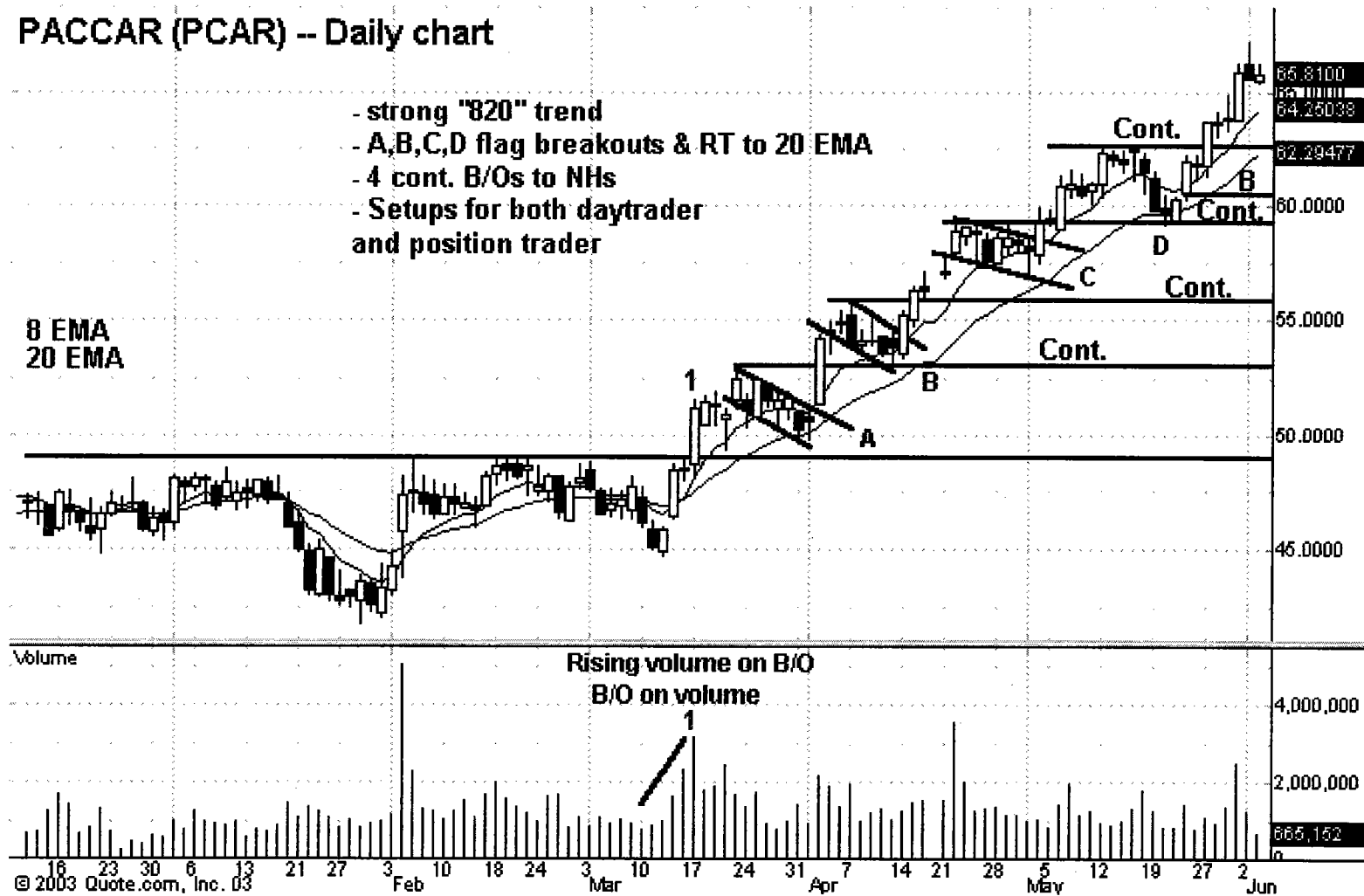
"820" Trend Identification Method

eBay (EBAY) -- Weekly chart

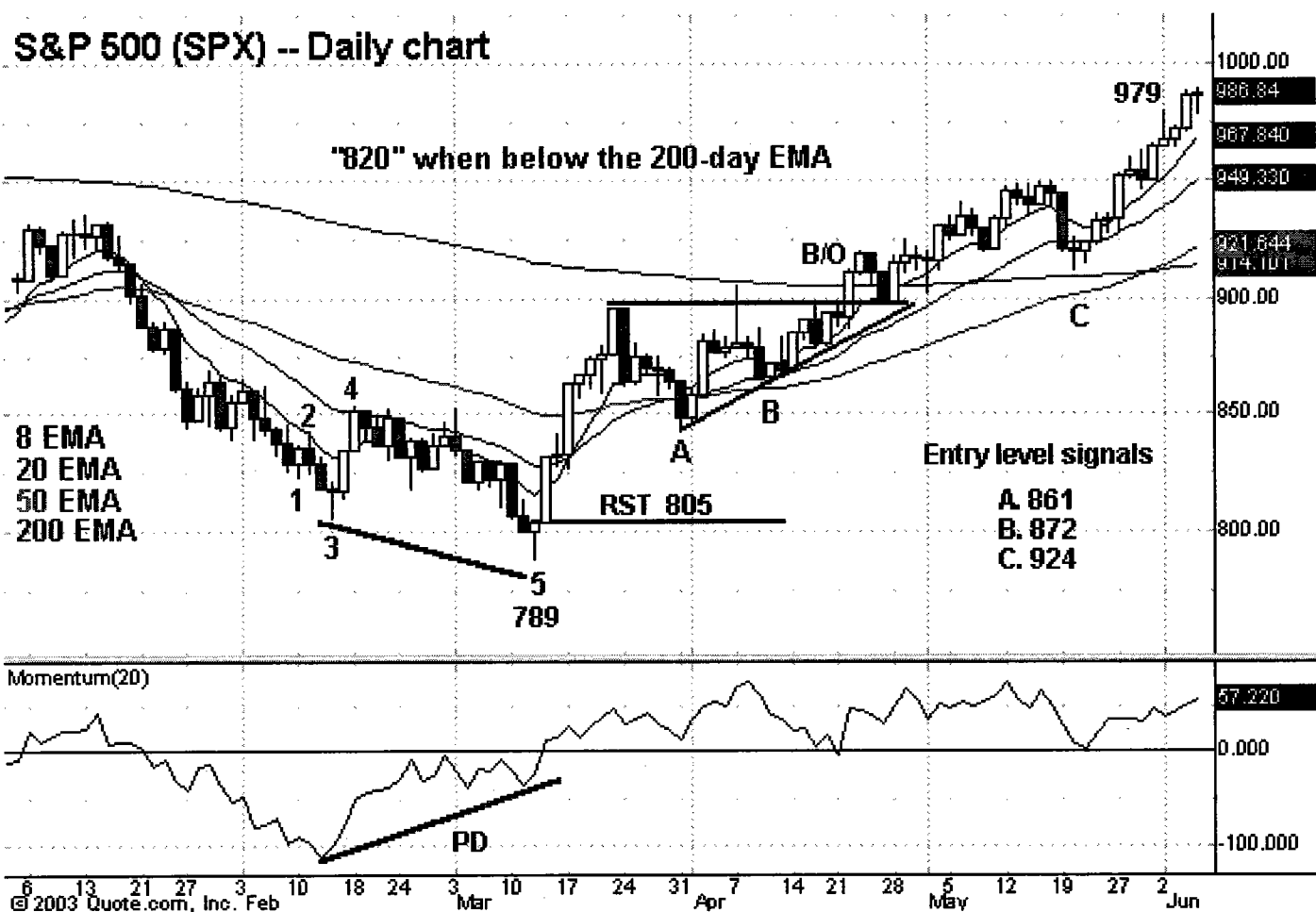


“820” Trend Identification Method

PACCAR (PCAR) -- Daily chart



"820" Trend Identification Method



The Generals' Pullback

- When a stock/index pulls back to a rising 200 DEMA after making a recent high, it very often provides a very high-probability position trade.
- The stock might also trade below a rising 200 DEMA and then re-cross the 200 DEMA to the upside on volume, which is a move you don't want to miss.
- This kind of pullback is usually in conjunction with a Fibonacci retracement level and/or support (reverse for sells) in addition to RSTs.
- From experience with the Generals, I know that those that didn't buy enough will enter the stock at this key inflection point and many Generals will add to a position with new monies if the story is still good.

The Generals' Pullback

- To identify these trades, you can use the 5-week, 15-week and 40-week EMAs.
- In order to clarify reversal patterns on the daily chart, it is best to use the 25, 75 and 200 DEMAs.
- I prefer to use a 20 or a 14,3,3 slow stochastic on an 80/20 basis.
- To qualify as a trade, the 25 DEMA must be above the 200 DEMA and the 75 DEMA must be above the 200 DEMA.
- The Sweet Buy Zone is between the 75 and 200 DEMAs.

The Generals' Pullback

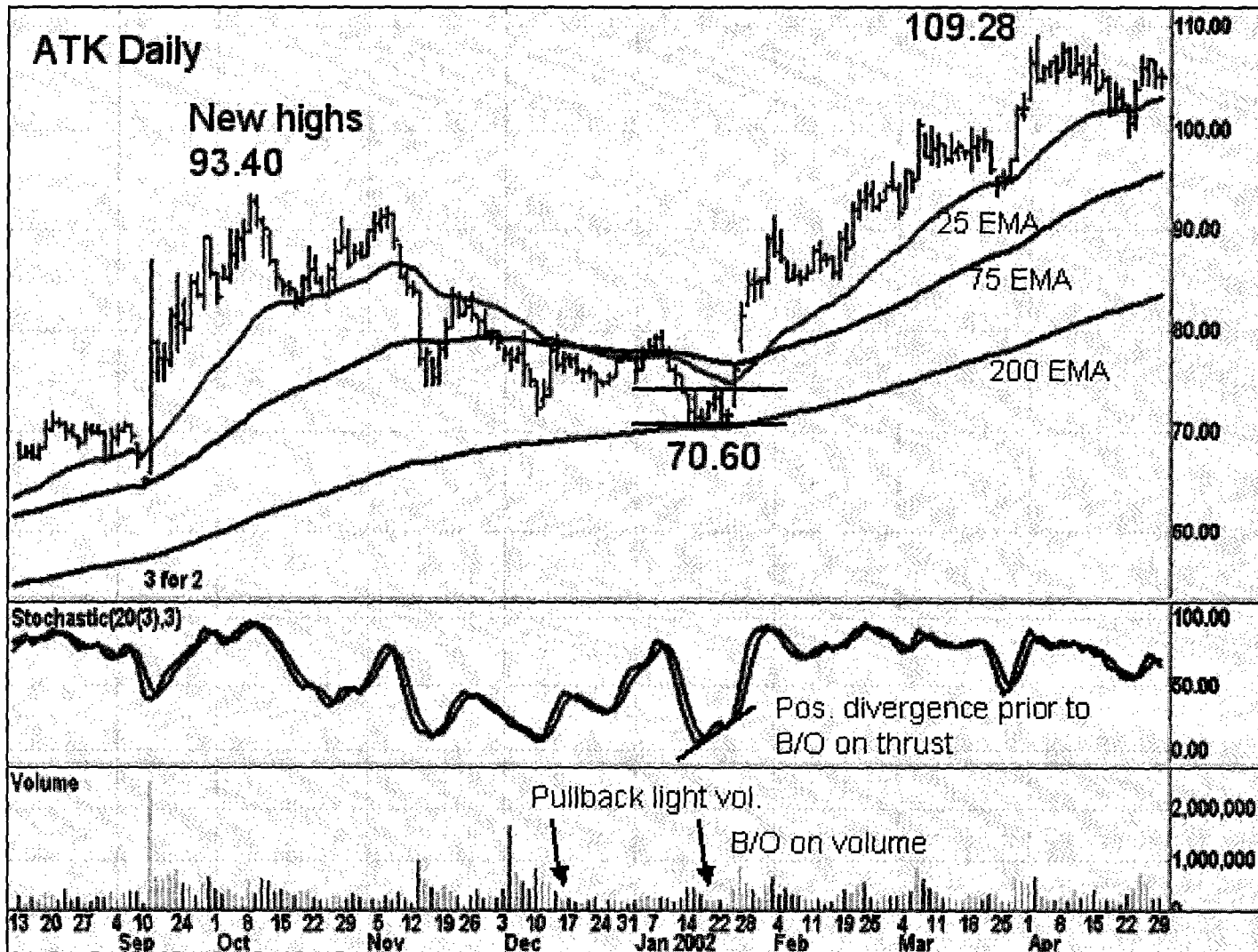
- If you don't get a reversal pattern entry in the zone because it trades below the rising 200 DEMA, you should then locate the nearest Fibonacci retracement and/or extension level.
- If you still haven't taken an entry, you can get long if it re-crosses the 200 DEMA to the upside on a volume increase.
- Remember, the recent high must be a new high in the recent trend, not a 1,2,3 lower high.

The Generals' Pullback

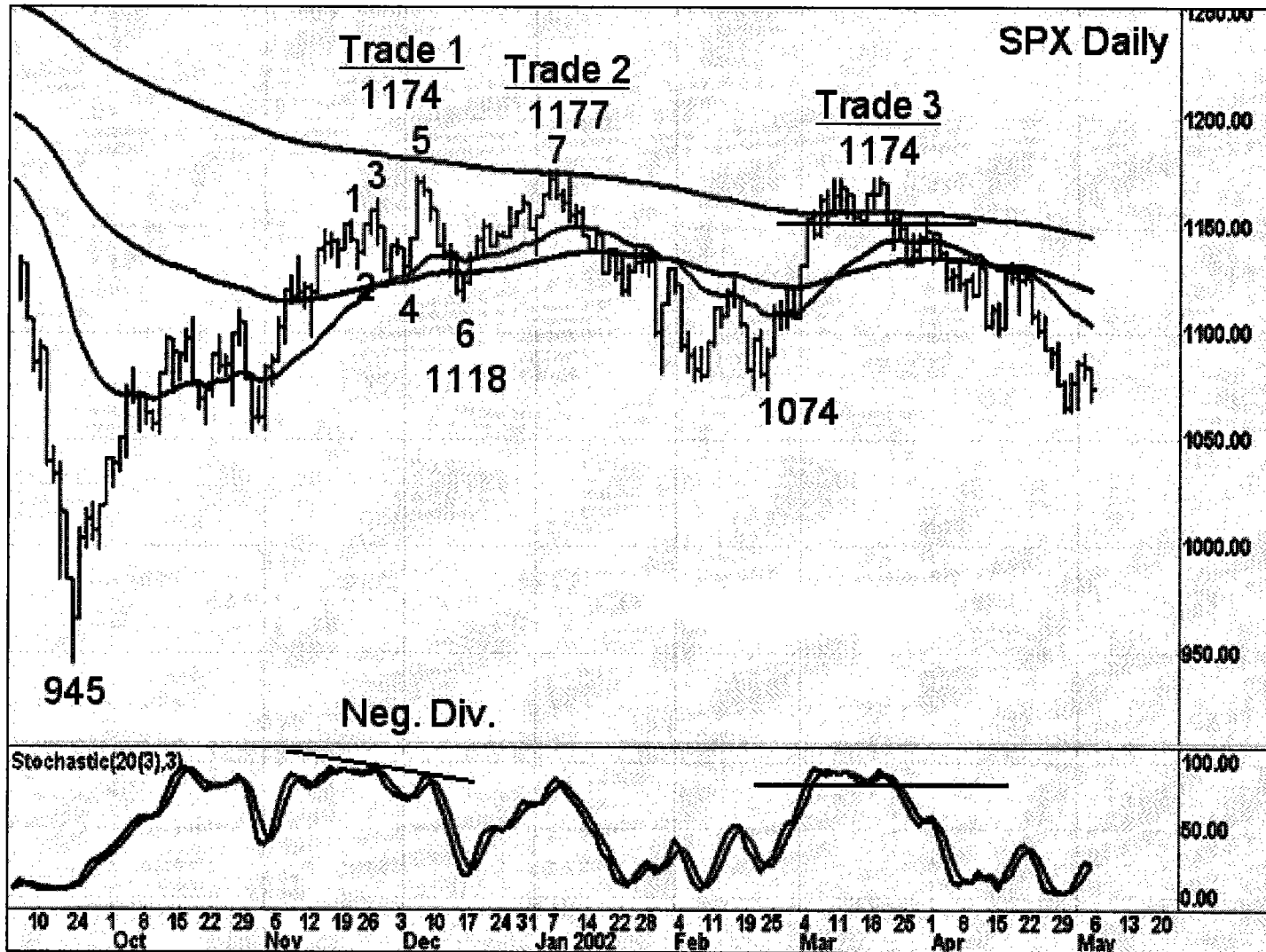
- The pullback to the Buy Zone should be because of general market conditions/sector pullbacks, not on company-specific news, etc.
- Trade provides a high reward-to-risk trade because your entry is near your stop, which is usually just below the 200 DEMA.
- This trade is as good on the sell side as it is on the buy side.

Generals' Pullback Real World Examples

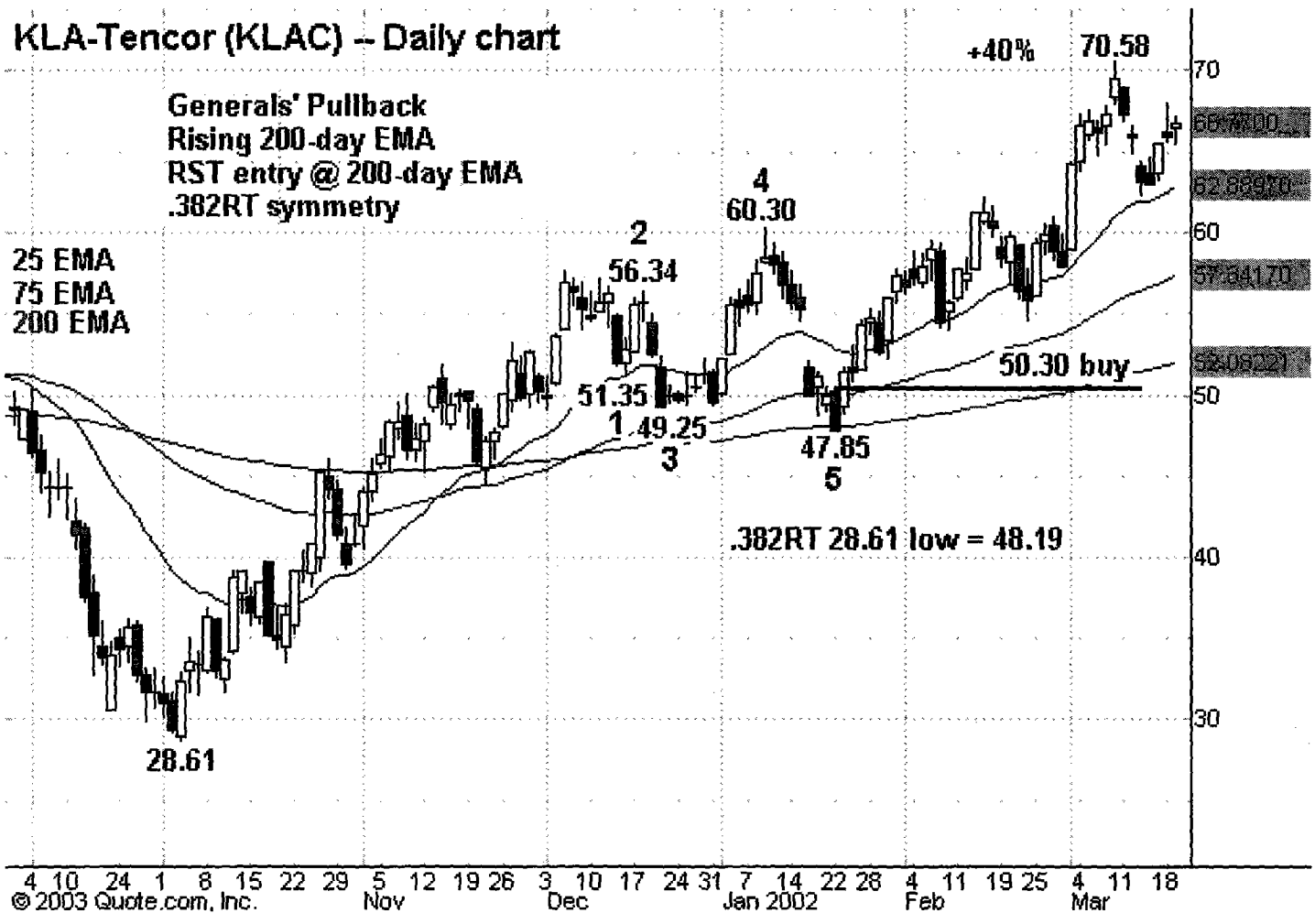
The Generals' Pullback



The Generals' Pullback



The Generals' Pullback



“523” Trend Method

Buys (Reverse for sells)

- This method is used with the 120-minute chart and utilizes 5-, 20- and 34-period EMAs.
- I use this for my longer-term intraday trend identification.
- The patterns are clearly defined and because of the longer time frame have a higher probability.
- The ideal trend is the 5 EMA > 20 EMA which is > the 34 EMA.
- Retracements to a rising 20 and 34 EMA are excellent setups, in addition to consolidations right at or above the 34 EMA which has turned under or flattened out.

“523” Trend Method

- For an indicator, my favorite is the Chande 20-period momentum oscillator and if you don't have that one, then just use a standard 20-period momentum oscillator found on most quote systems. If you are comfortable with stochastics or RSI (Wilder), they will also get the job done. I prefer Chande because it is an early indicator, and I get more divergences, which help confirm the trade.
- If you take any breakouts to new highs, be sure to check the daily chart so you are not entering at resistance or any other key inflection points that you are aware of.

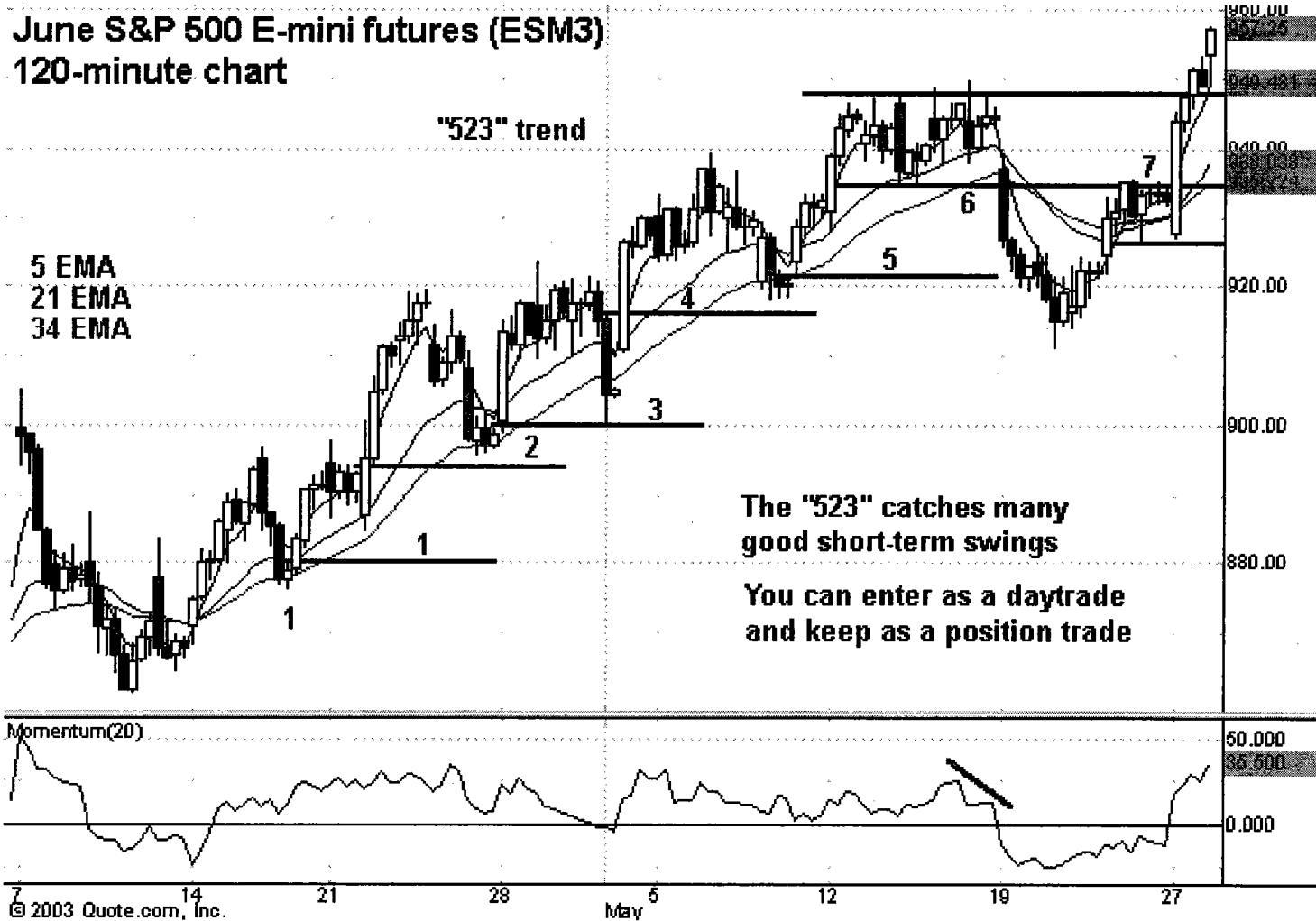
“523” Trend Method

- Initial stops are money stops and best when below both the 20 and 34 EMAs. Entries using the “523” are often early entry to a daily chart setup that has an entry point above the high of that day. If your early entry is profitable and takes out the previous day’s high, you can decide to keep it as a position trade.
- An early warning sign when managing the trade is when the 8 EMA starts to roll over.
- Most traders would do extremely well trading the 120-minute time frame, especially those that combine daytrading and position trading.
- It is also a good method to use if you actively trade the major index proxies in your IRA or if you trade in any of the funds, like Rydex where you easily switch in and out.

“523” Trend Method Real World Examples

"523" Trend Method

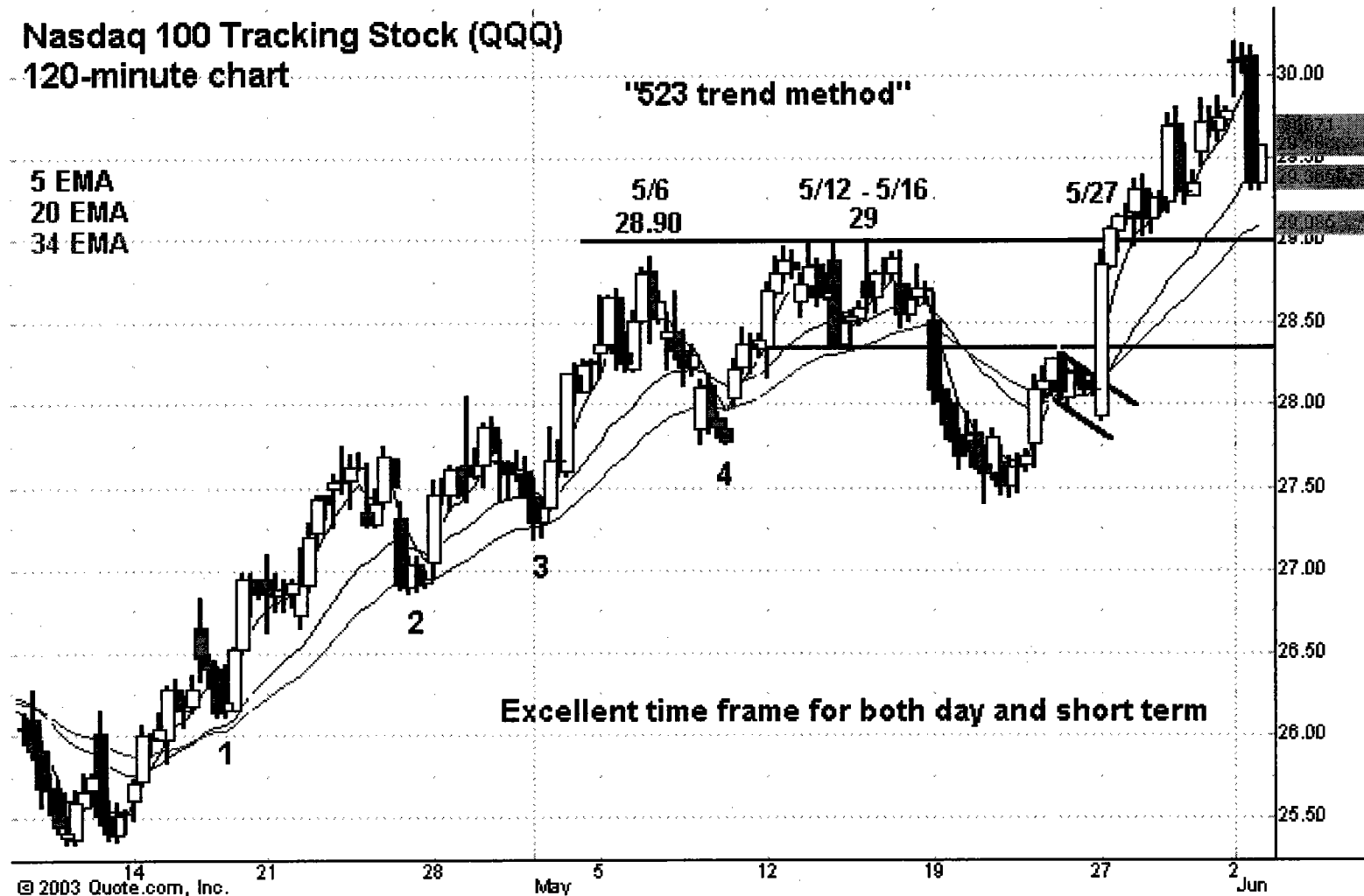
June S&P 500 E-mini futures (ESM3)
120-minute chart



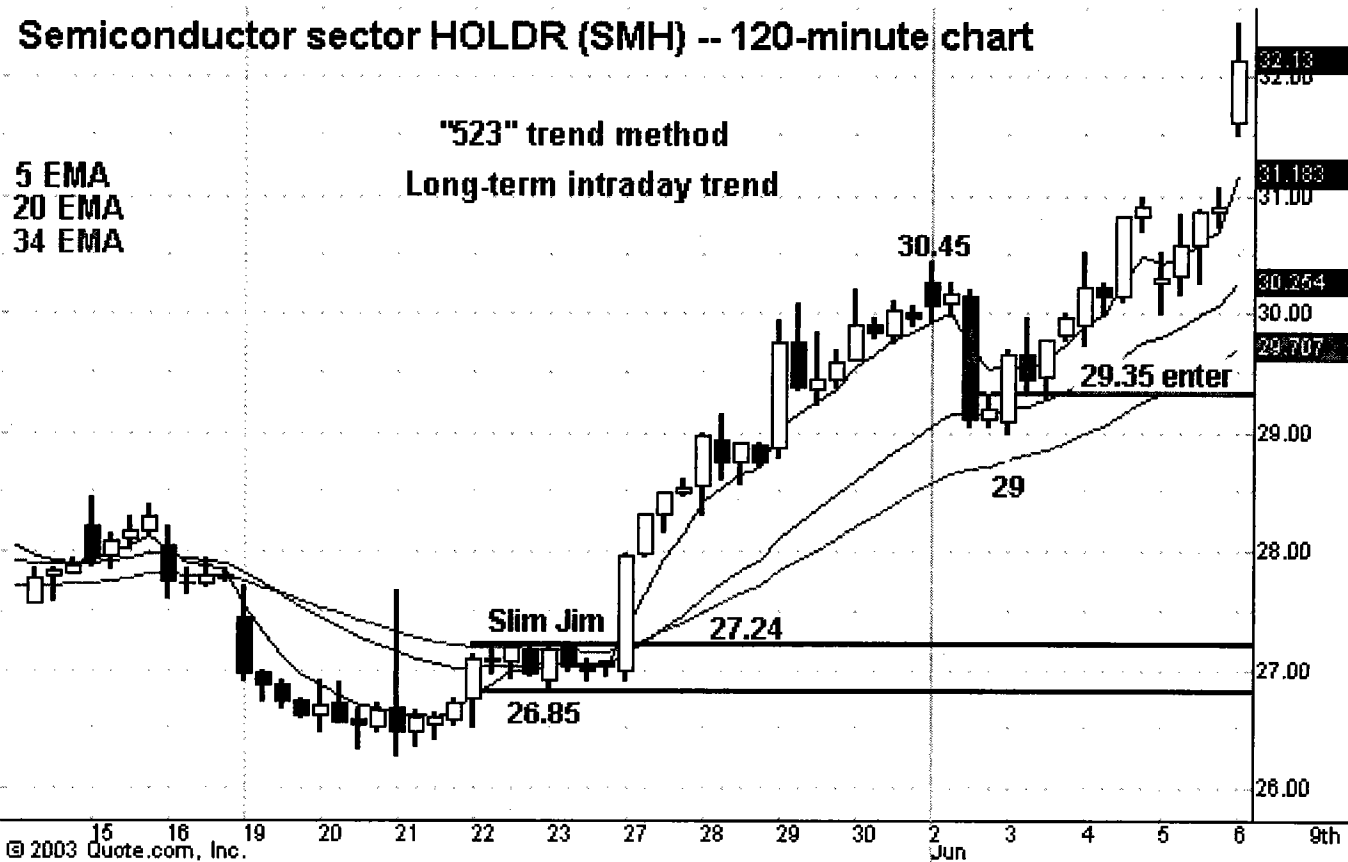
"523" Trend Method

Nasdaq 100 Tracking Stock (QQQ)
120-minute chart

5 EMA
20 EMA
34 EMA



523" Trend Method

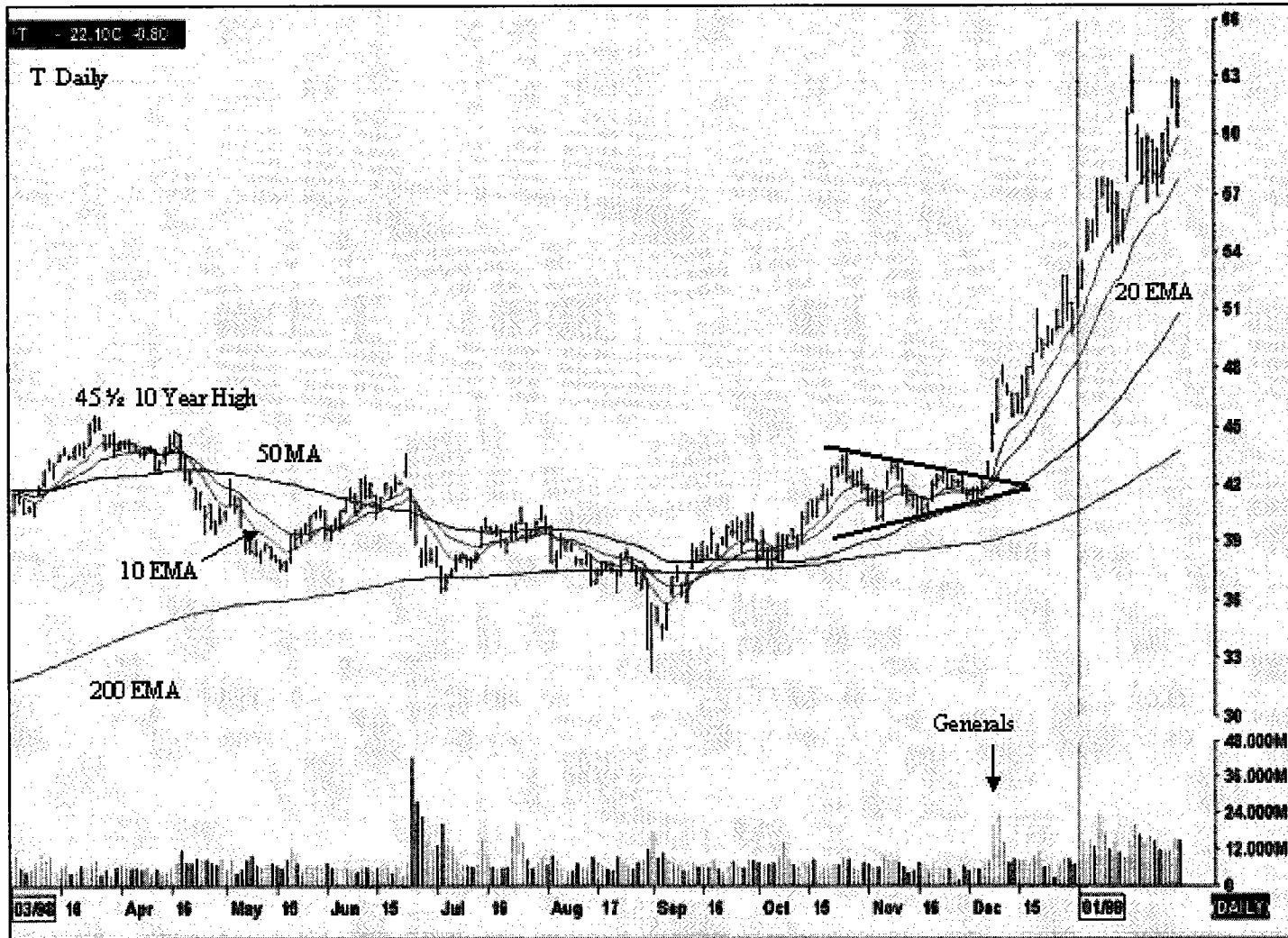


Roofers

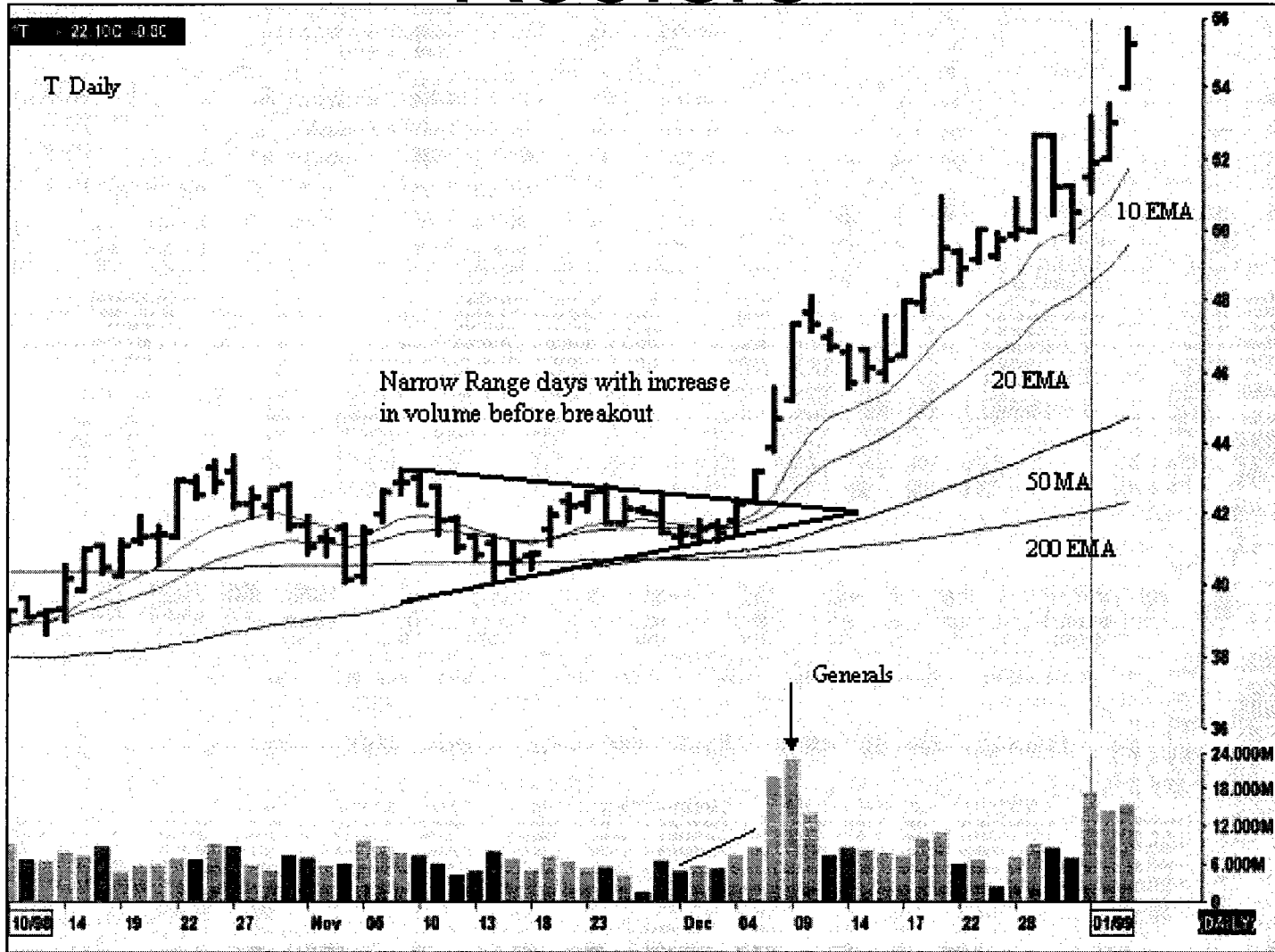
- Roofers are breakouts of continuation patterns, such as Triangles, Flags, Pullbacks to Moving Averages, Flat Bases, Cup and Handles and Consolidations that are no more than 10% from their 52-week highs.
- They are much more explosive when the pattern is just below three-year, five-year or all-time highs.
- Roofers are stocks that have strong RS and are among the top holdings of major institutions.

- The Generals love to run these stocks, especially around report card time, such as end-of-the-month, quarter, and year-end.
- They will add new monies to these stocks if the market dynamics are right or if they think they can squeeze shorts.
- Good performance means more money into the funds, which means more fees and a bigger bonus for portfolio managers.

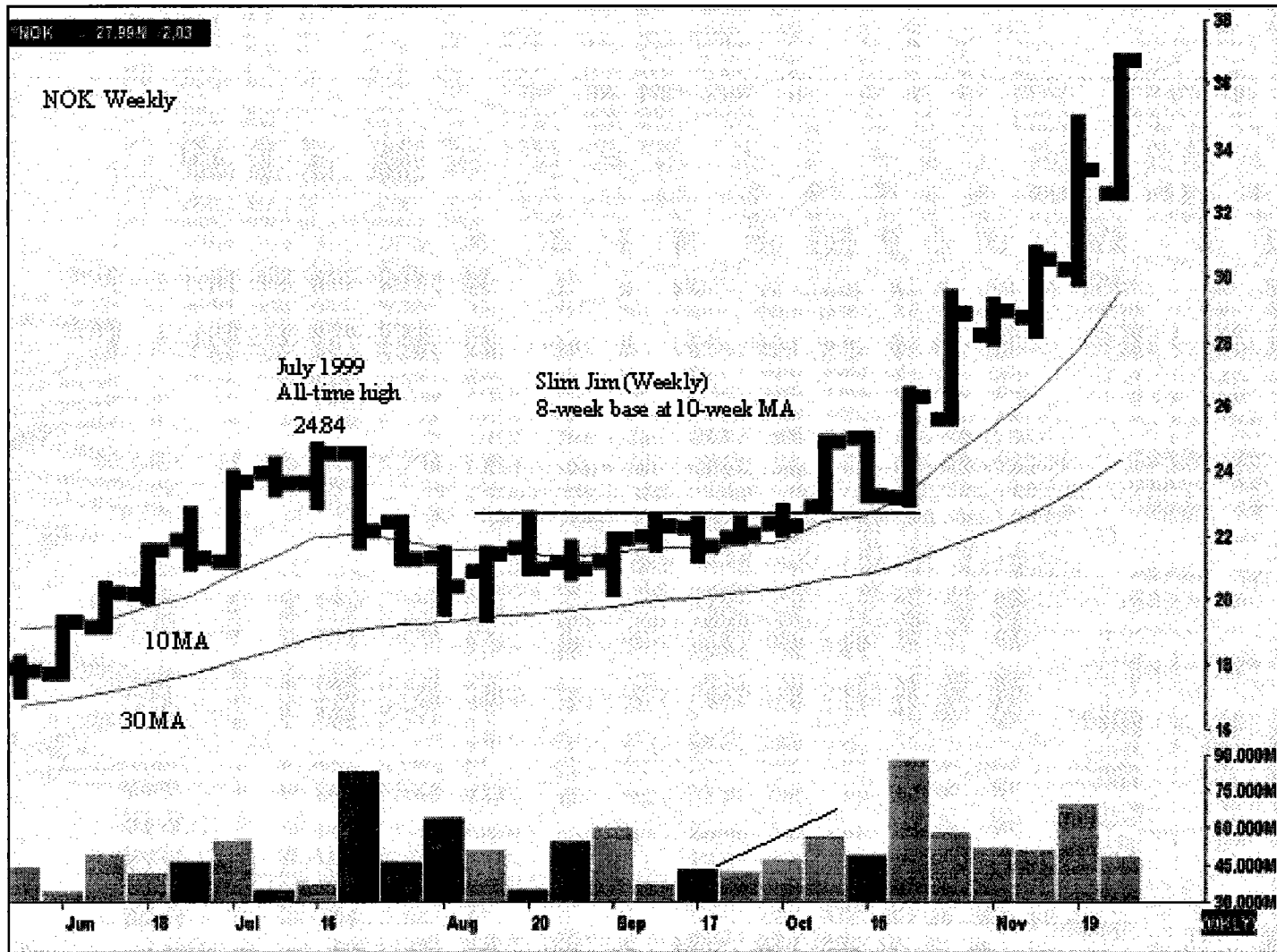
Roofers



Roofers



Roofers

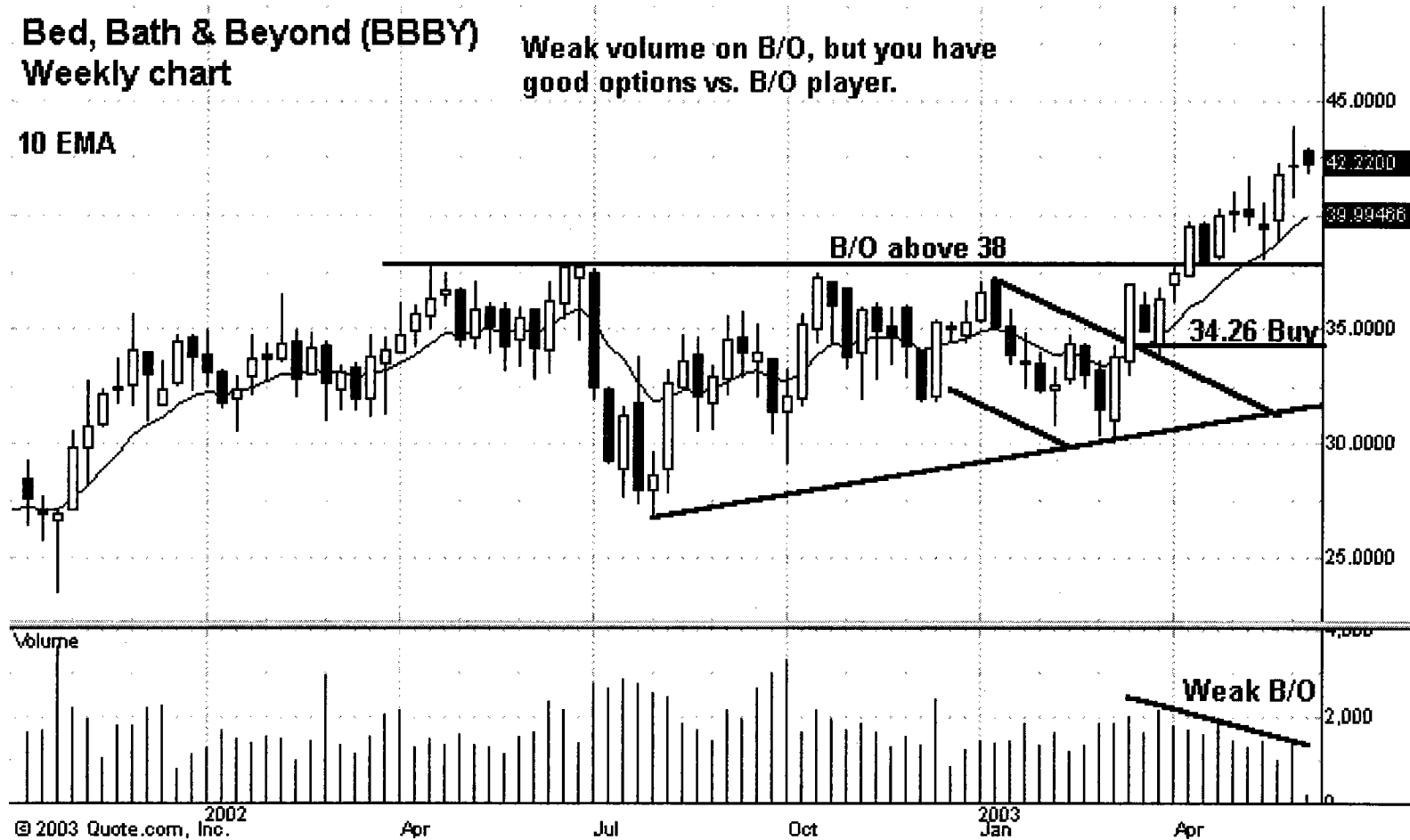


Roofers

Bed, Bath & Beyond (BBBY)
Weekly chart

**Weak volume on B/O, but you have
good options vs. B/O player.**

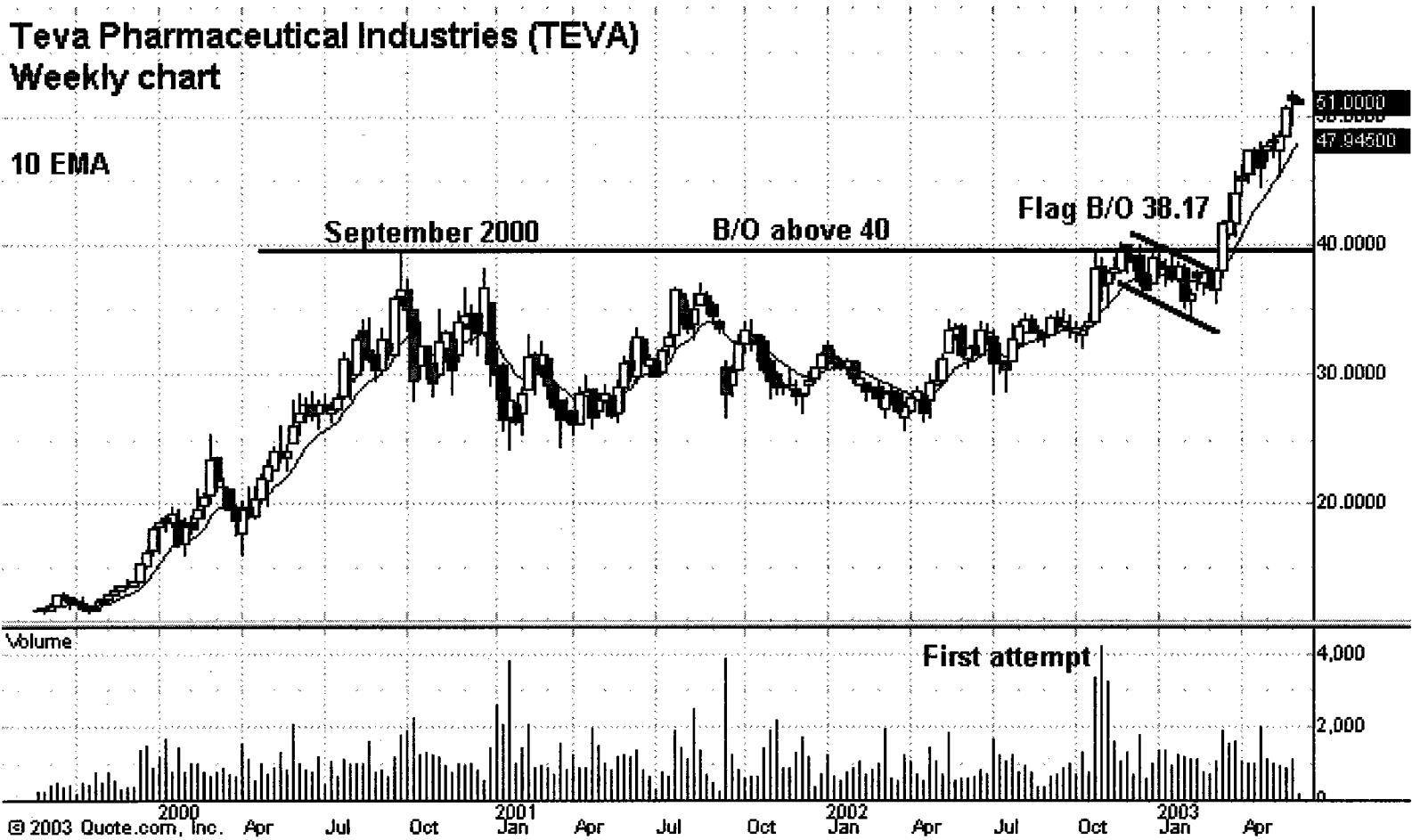
10 EMA



Roofers

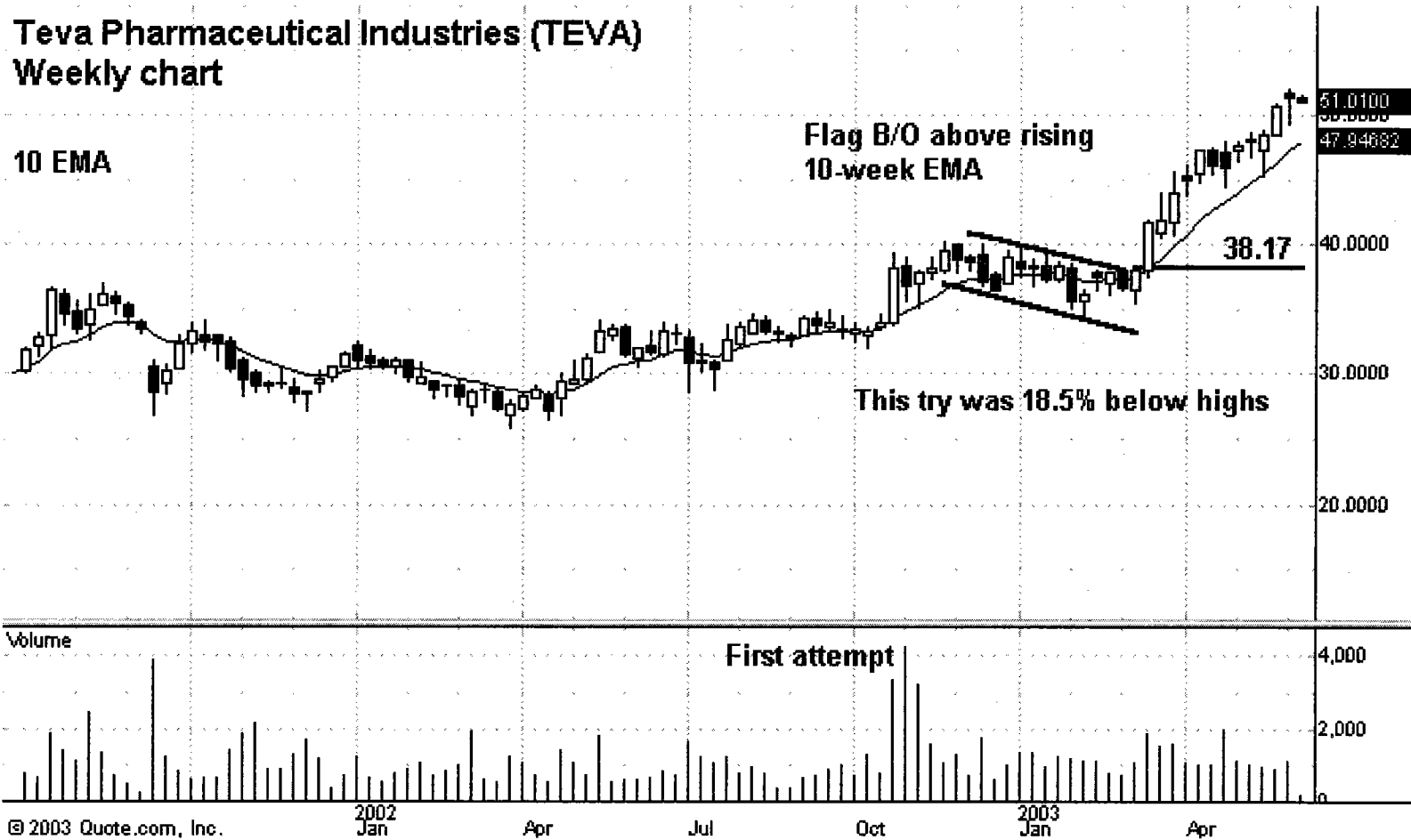
Teva Pharmaceutical Industries (TEVA)
Weekly chart

10 EMA



Roofers

Teva Pharmaceutical Industries (TEVA)
Weekly chart



VI. Market Dynamics

Market Dynamics

- Understanding, recognizing and acting on the dynamics is the primary edge in trading, regardless of your method.
- Dynamics bring life to the pattern, not the pattern itself.

Primary Dynamic Factors

NYSE TICKS: The net difference between advances and declines at any one moment, which changes dynamically during the trading day.

Improving NYSE TICKS will give you an early read on any reversal, and a pattern is usually most effective when preceded by a divergence in TICKS.

Primary Dynamic Factors

- TICKi: This is similar to NYSE TICKS, except that it is for the Dow 30 stocks. Minus 20 and plus 20 are very often program alerts, and the Index will usually reflex back from the oversold/overbought program condition.
- Up Volume/Down Volume: This ratio must be watched closely all day. Is it getting better or worse relative to index movement?
- TRIN: Combination of volume and breadth. Below 1.0 is improving and above 1.0 is getting worse.
- Advances-Declines: If the move is widespread, it will be reflected in this dynamic.

Primary Dynamic Factors

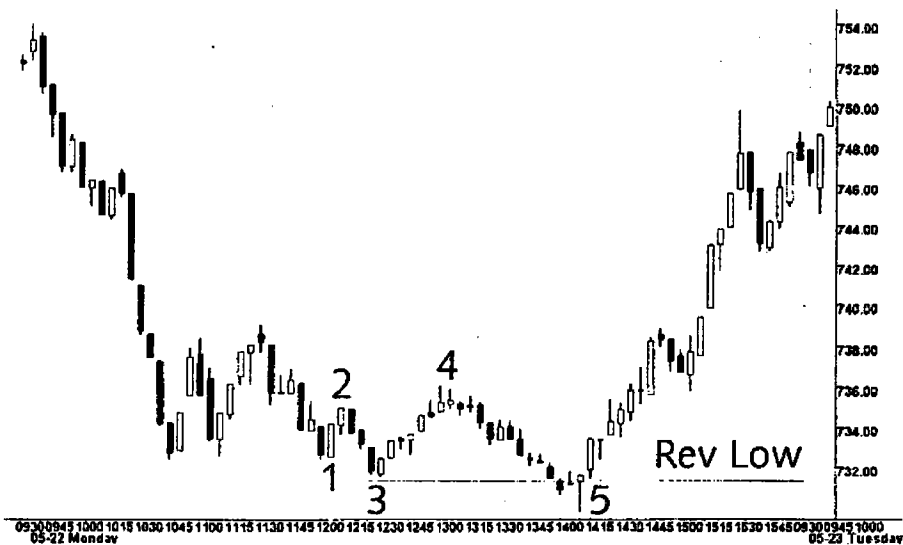
- Volume: Will most often precede price. On individual stock setups, you want volume increasing with price and trading in the middle or on the ask (sells reversed).
- When the major indices are moving and volume is expanding, your probability is certainly higher going with that trend.
- Bid Direction/Ask Direction: When looking for entry, you want to see double greens/reds in the direction you plan to enter.
- VWAP (Volume-Weighted Average Price): Early move above VWAP indicates the strongest stocks and most often follows NYSE TICKS (sells reversed).

Primary Dynamic Factors

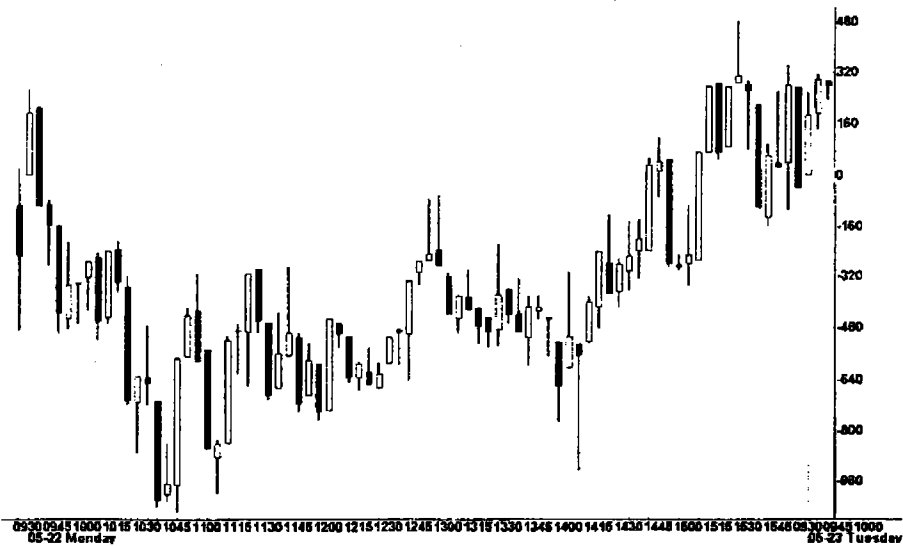
- Sectors: Keep the sector proxies on your screen at all times and focus your trades in the direction of the sector.
- Spread: Focus on the spread between the S&P futures and SPX cash index. The futures will often precede cash movement, so be alert for expanding premiums for longs (sells reversed).
- Be aware of the initial spreads where programs hit. Learn the difference between a flash program move and an overall trend move.

05/22/00

OEX



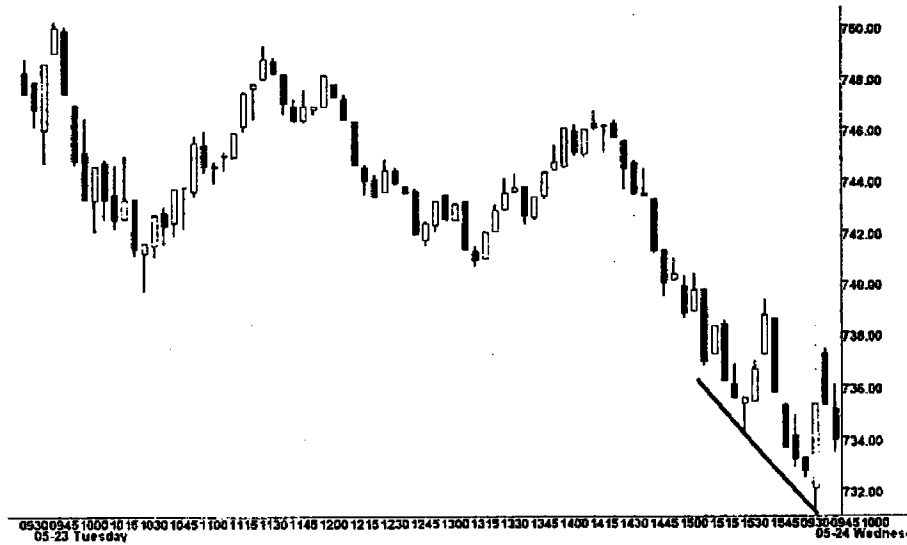
NYSE TICKS



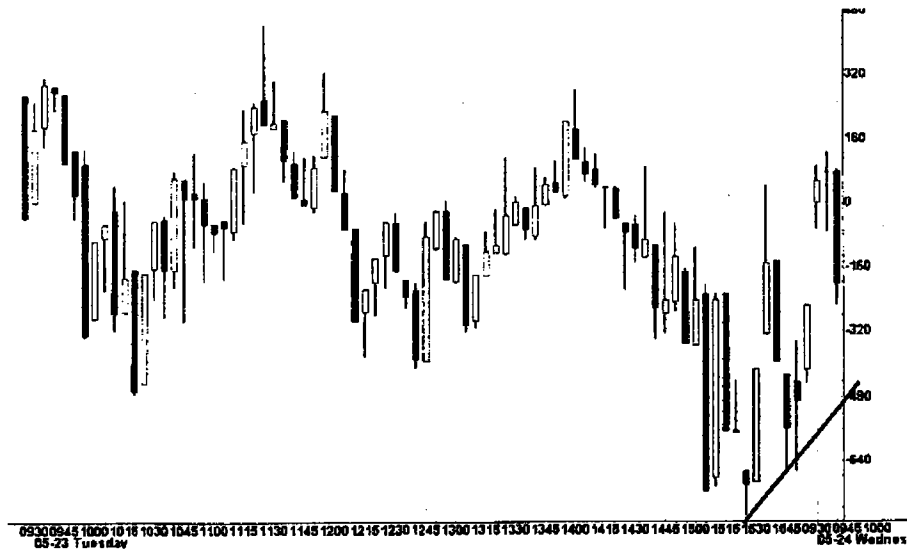
Created with Qcharts

05/23/00

OEX

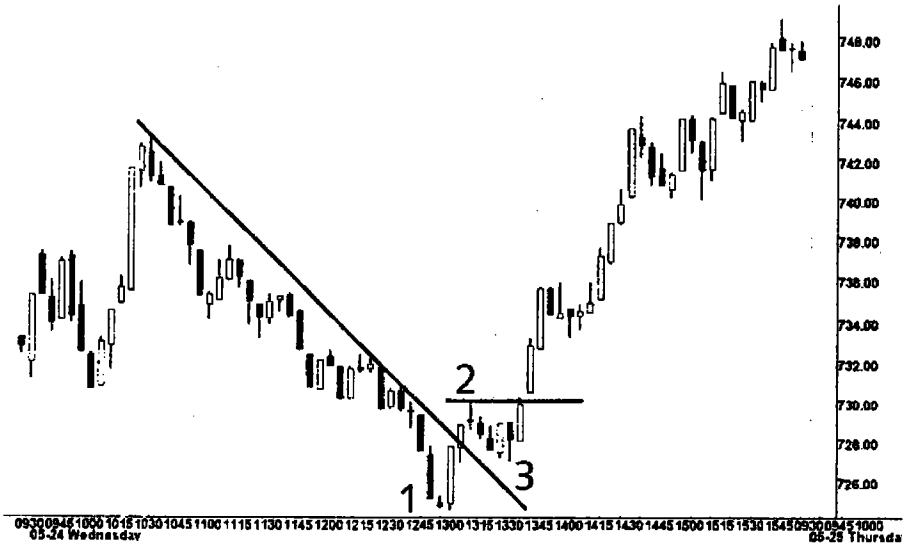


NYSE TICKS

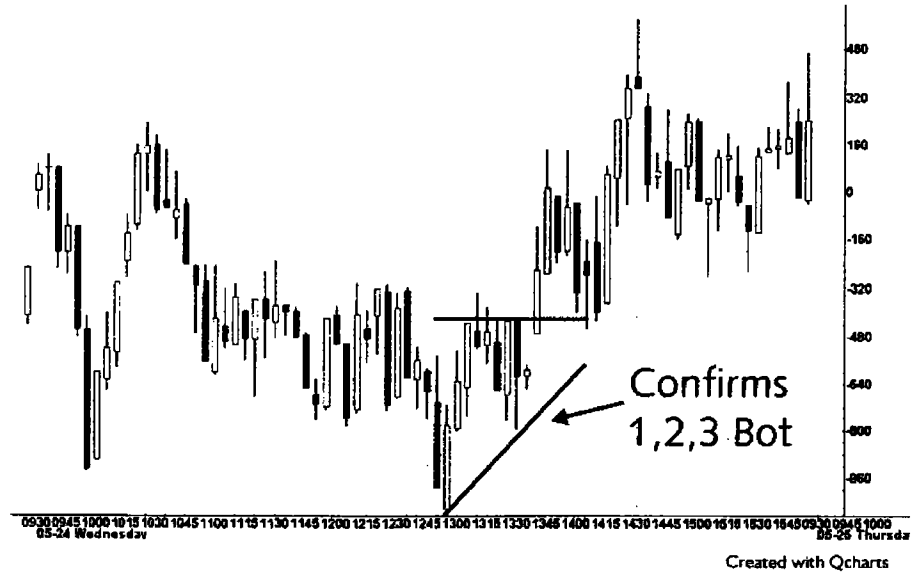


05/24/00

OEX



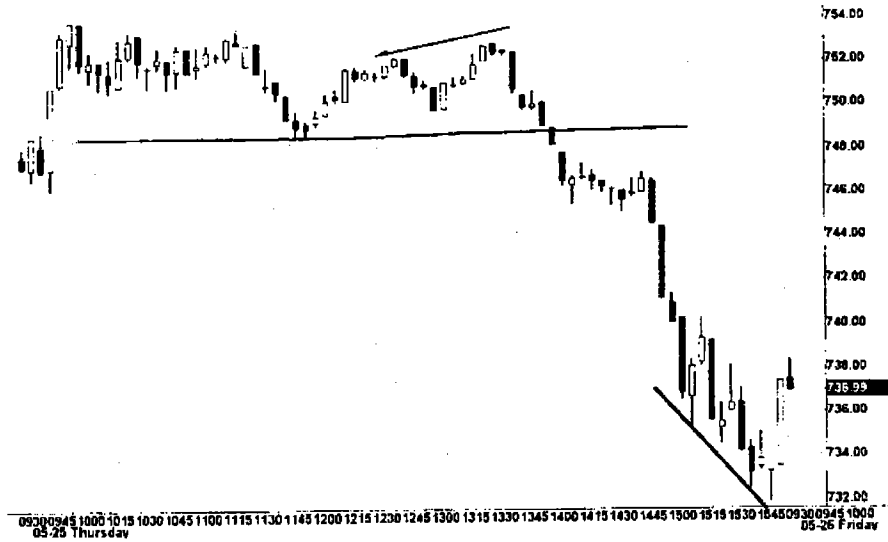
NYSE TICKS



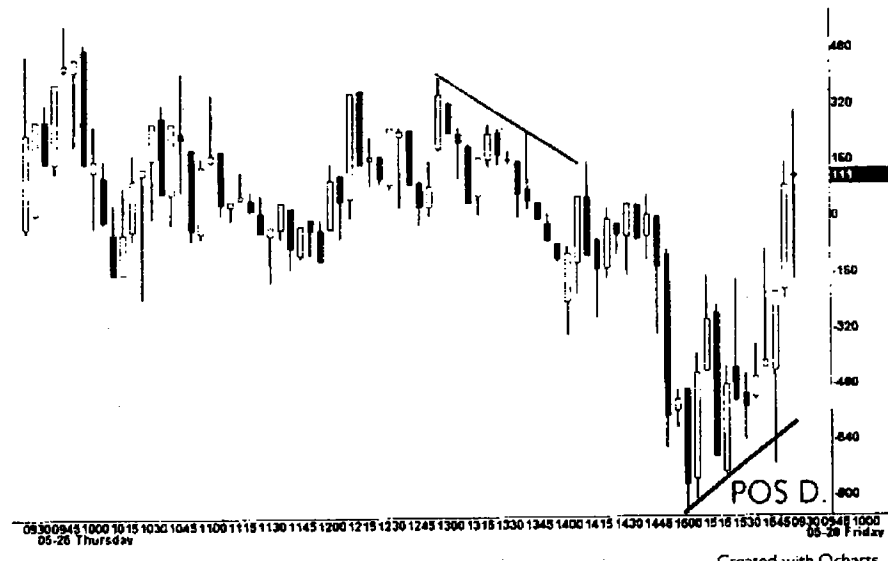
Created with Qcharts

05/25/00

OEX

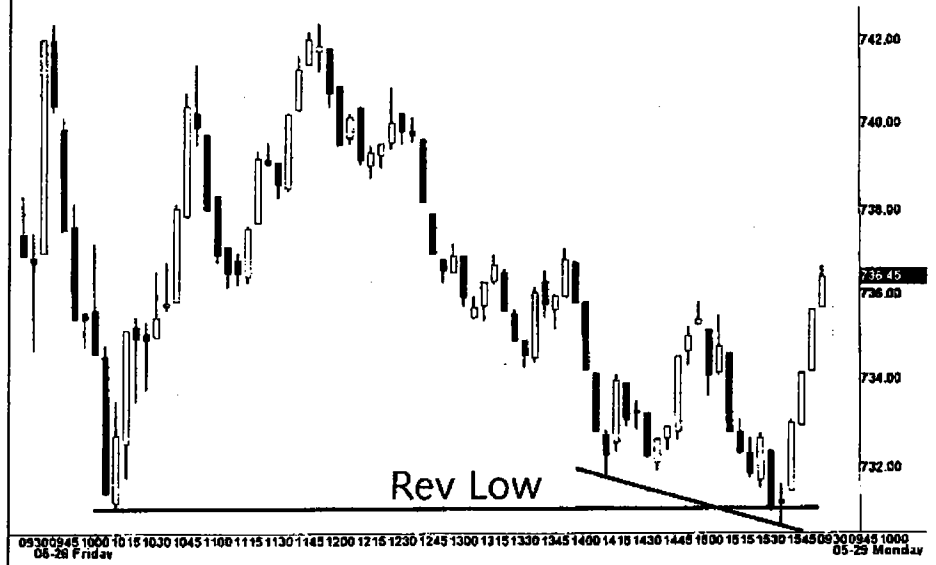


NYSE TICKS

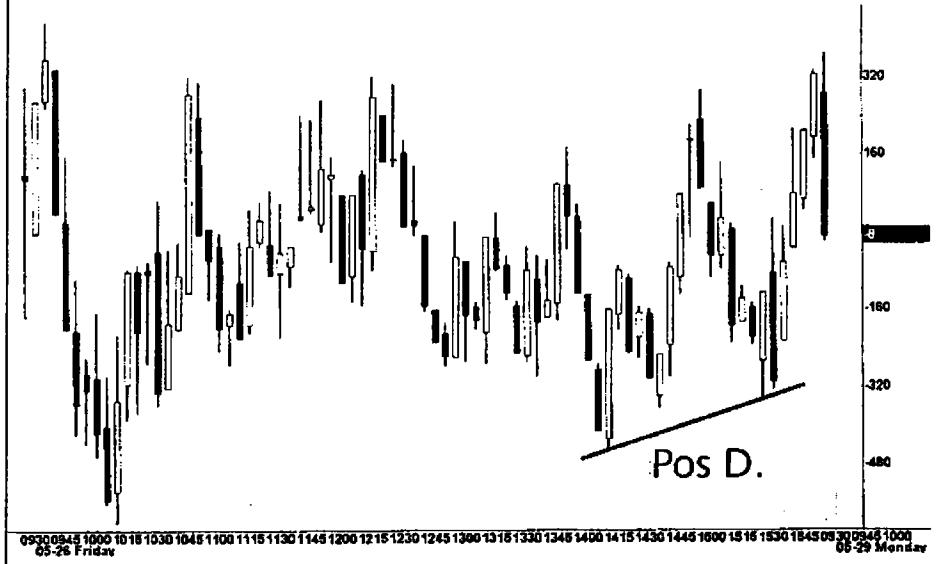


05/26/00

OEX

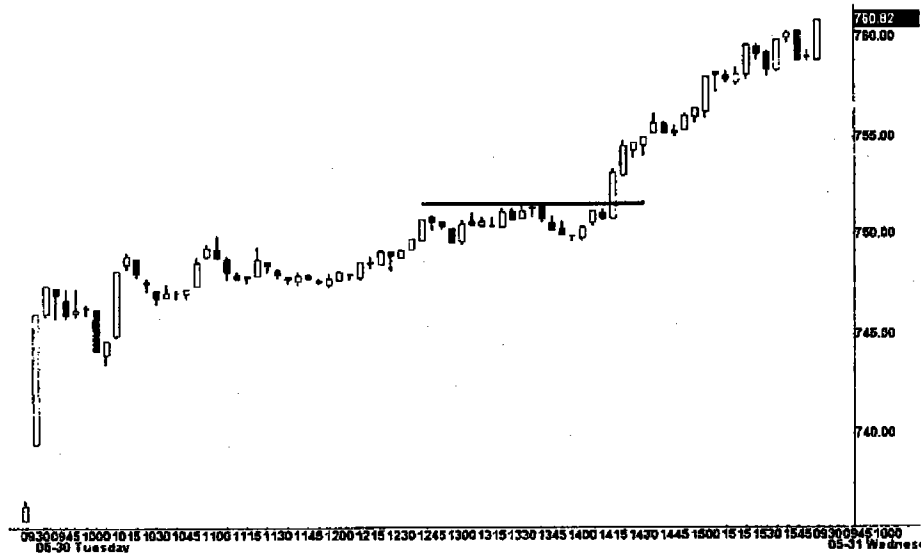


NYSE TICKS

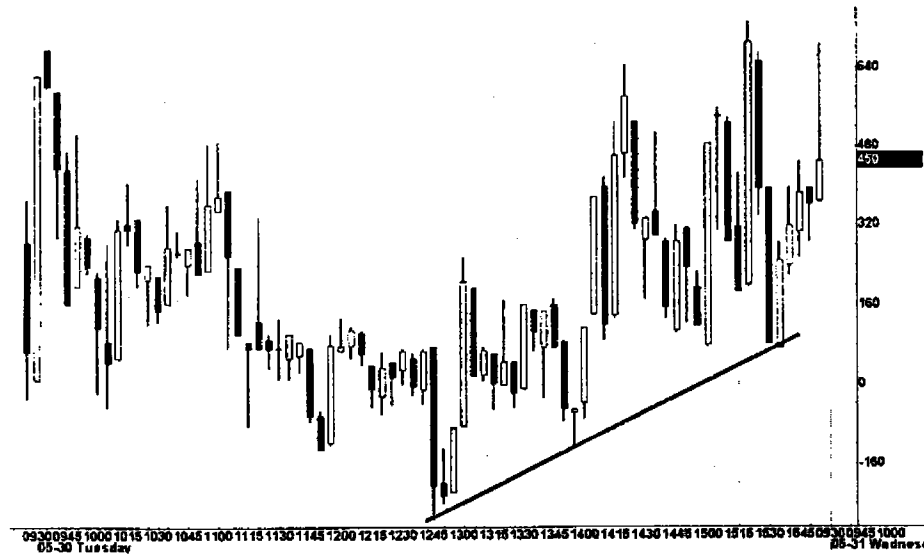


05/30/00

OEX

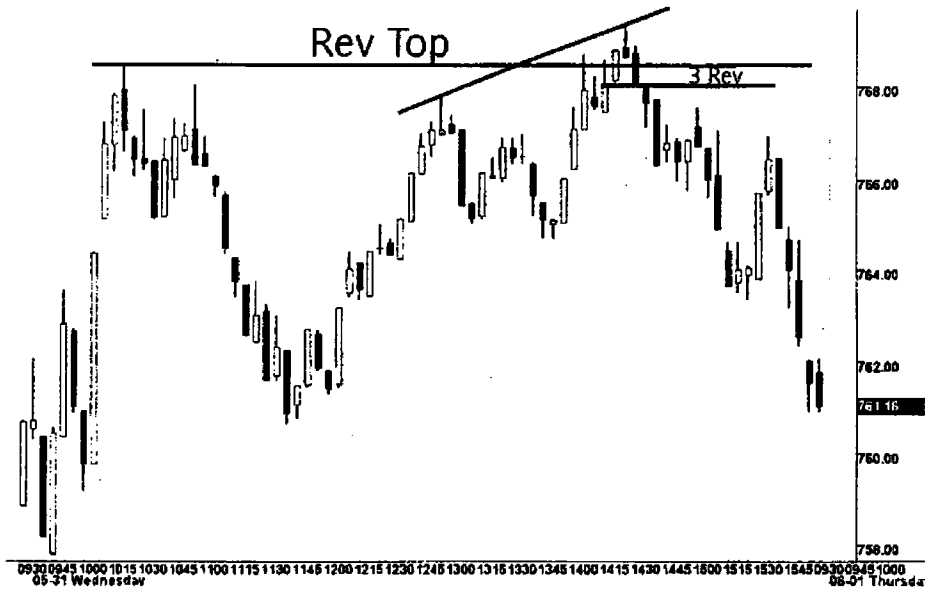


NYSE TICKS

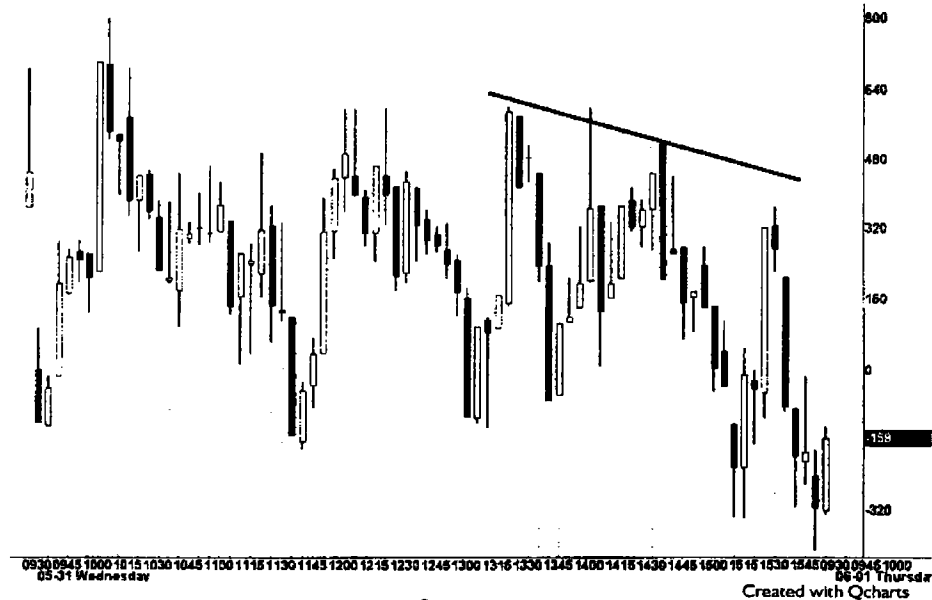


05/31/00

OEX



NYSE TICKS



VII. Volatility Bands

Volatility Bands

- Volatility Band Trading is an extremely powerful strategy that enables you to capitalize on the overreactions to news and world events.
- When volatility gets extended, it will revert to the mean. Probability is on your side taking trades at volatility band levels when you get a setup.
- Market Makers and Specialists (professionals) must provide liquidity to emotional selling/buying that gets too one-sided, mostly during the opening period, so they will always skew price in their favor, which creates the air pockets that you can capitalize on.

Volatility Bands

- The proper utilization and recognition of V. Bands will put you on the same side of the trade as the professionals (a major edge).
- A simple example of volatility is when the underlying has an annual (365 days) volatility of 20 percent and is trading at 100. This is a 1.0 standard deviation and means that the underlying can be expected to trade in a range of +/- 20 from 100, or 80 to 120, with a 68 percent probability.
- If it traded out to the 2.0 standard deviation, then the underlying can be expected to trade +/- 40 from 100, or 60 to 140, and be contained within that range with a 95 percent probability.

Volatility Bands

- Implied volatility (IV) is used to calculate the volatility bands because it reflects the perception of how the underlying will react in the immediate future, as opposed to what it has done in the past.
- It is my experience that IV better represents the short-term Bands, and for a longer-term outlook, you can also use Historical Volatility.
- The Volatility Band Service on the site gives us the one-day bands, which enables us to capitalize on the immediate overreaction to events.

Volatility Bands

- Volatility Bands used in conjunction with other major reversal patterns, such as RSTs, Fibonacci retracements/extensions, 1,2,3s and Trap Doors create a powerful edge with significant high probability.
- I have included Exhibit B, which explains the calculation of the Volatility Bands and a worksheet to complete.
- Exhibit C is also an example of the volatility band service.

Exhibit A

Calculation of Volatility Bands

Data Needed

1. Closing price of stock (primary market)
2. Implied Volatility (IV) of the at the money (ATM) Call and Put
3. Average Implied Volatility (AIV)

$$\frac{\text{Formula: ATM Call IV} + \text{ATM Put IV}}{2} = \text{Average Implied Volatility (AIV)}$$

4. Constant: You need a constant that reduces the annual Implied Volatility number to a one-day Implied Volatility number (can be reduced to any amount of days you are trading in)

Formula: The constant for one day IV is the square root of 1 divided by 365, which is 0.0523421.

Actual Calculation of Volatility Bands

Actual Calculation of Bands

This example is the **actual opening of the QQQs on 9/21/01**, after a big pre-opening red across all sectors.

<u>Data:</u>	Previous Closing Price	29.02
	ATM Call IV	66.86
	ATM Put IV	69.76
	Average	68.31

$$\text{AIV} = \frac{66.86 + 69.76}{2} = 68.31$$

$$\text{Constant For One Day:} = 0.0523421$$

Calculation of Volatility Bands

To calculate the bands, you use the four different standard deviation numbers shown in the Table below. This Table tells you that there is a 95% probability that the price action will be contained within the 2.0 Standard Deviation (STDV). The probability decreases at the lower Standard Deviations.

The **KEY POINT** is that Volatility will revert to the mean, and that's why there is such a high reward-to-risk when you trade Trap Doors and/or Fade the Open.

STDV

1.00
1.28
1.50
2.00

PROBABILITY

68%
80%
88%
95%

Formula for Volatility Bands

Formula For Bands

*** STDV x AIV x Closing Price x Constant = Volatility Band**

Note: You then **subtract** the bands from the closing price for your **downside** levels, and **add** them to the closing price for the **upside** levels.

QQQs 9/21 For this example, I will calculate the -1.5 and -2.0 bands, because the Qs opened **down** that day. I will also give you the other bands so you can do the calculations yourself, for practice.

$$1.5 \times .6831 \times 29.02 \times 0.0523421 = 1.56 \text{ Points}$$

$$29.02 - 1.56 = 27.46 \text{ (-1.5 Volatility Band)}$$

$$2.0 \times .6831 \times 29.02 \times 0.0523421 = 2.08 \text{ Points}$$

$$29.02 - 2.08 = 26.94 \text{ (-2.0 Volatility Band)}$$

Exhibit B.

Sample from the Volatility Band Service

QQQ Bands For 9/21/01

<u>-2.0</u>	<u>-1.5</u>	<u>-1.28</u>	<u>-1.0</u>	<u>PX</u>	<u>+1.0</u>	<u>+1.28</u>	<u>+1.5</u>	<u>+2.0</u>
26.94	27.46	27.68	27.98	29.02	30.06	30.35	30.58	31.10

1. On 9/21, the Qs opened at 27.60 (-4.9%)
2. The low was 27.20 and the initial rally traded up to 28.96 (+6.2%)

Volatility Bands

Real-World Examples

WORK SHEET: VOLATILITY BANDS

Problem: Calculate Volatility Bands for the NDX and SPX

Formula: $\text{STDV} \times \text{AIV} \times \text{Closing Price} \times 0.0523421 = \text{BAND}$ **DATA:**

SPX		NDX
CLOSING	1370	2895
CALL IV	23.06	63.70
PUT IV	23.65	63.65
AIV		

COMPLETE:

	STDV	Price	Percent
SPX	2.00		
	1.50		
	1.28		
	1.00		
	Close		
	1.00		
	1.28		
	1.50		
	2.00		
NDX	2.00		
	1.50		
	1.28		
	1.00		
	Close		
	1.00		
	1.28		
	1.50		
	2.00		

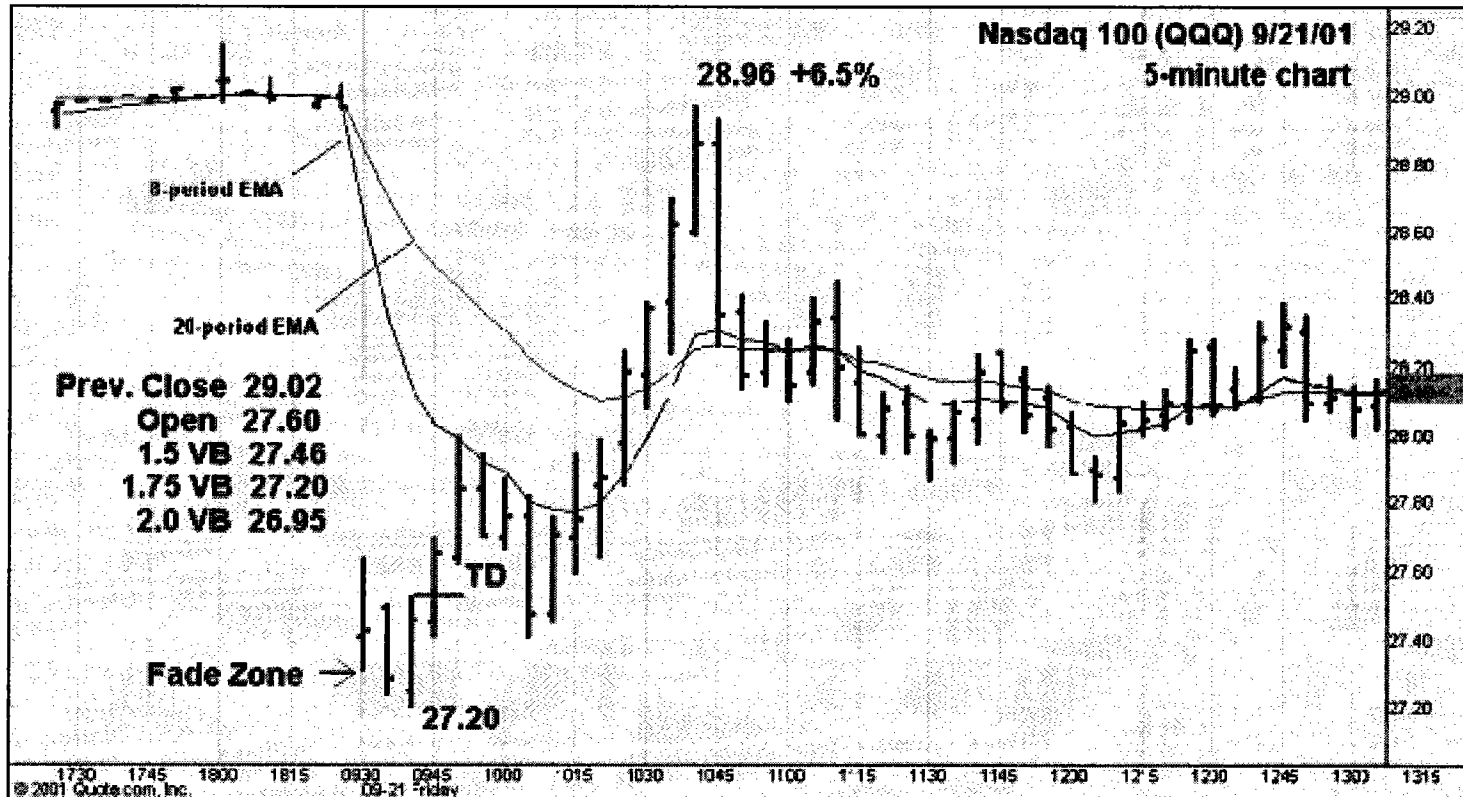
SOLUTION:

	STDV	Price	Points	Percent
SPX	2.00	1403	33.50	2.4
	1.50	1395	25.12	1.8
	1.28	1391	21.44	1.6
	1.00	1387	16.75	1.2
	Close	1370		
	1.00	1353	16.75	1.2
	1.28	1349	21.44	1.6
	1.50	1345	25.12	1.8
	2.00	1337	33.5	2.4
NDX	2.00	3088	192.97	6.7
	1.50	3040	144.73	5.0
	1.28	3018	123.50	4.3
	1.00	2991	96.49	3.3
	Close	2895		
	1.00	2799	96.49	3.3
	1.28	2771	123.50	4.3
	1.50	2750	144.73	5.0
	2.00	2702	192.97	6.7

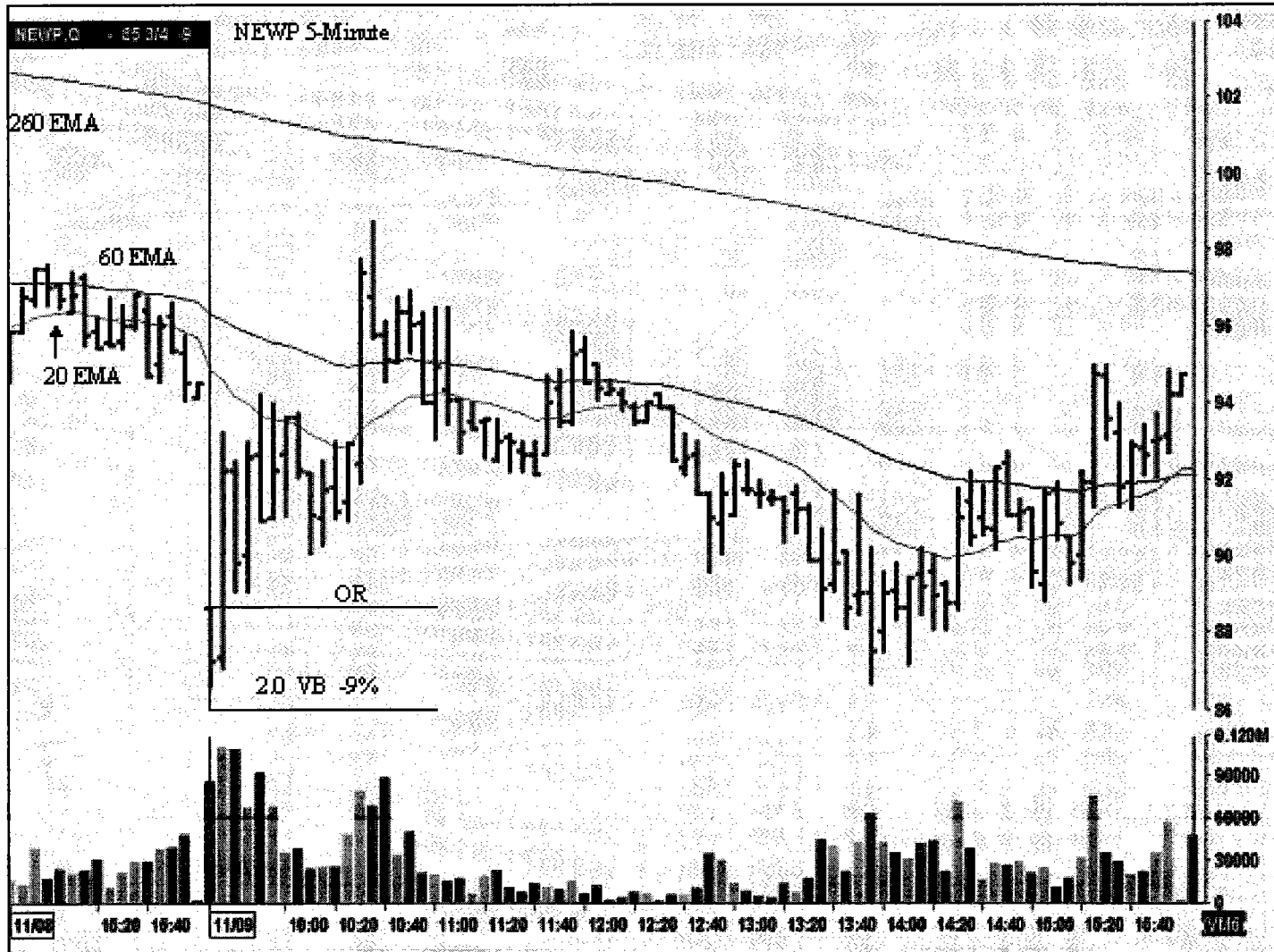
BEST FORMAT:

	-	-	-	-		+	+	+	+
	2.00	1.50	1.28	1.00	PX	1.00	1.28	1.5	2.00
SPX					1370				
NDX					2895				

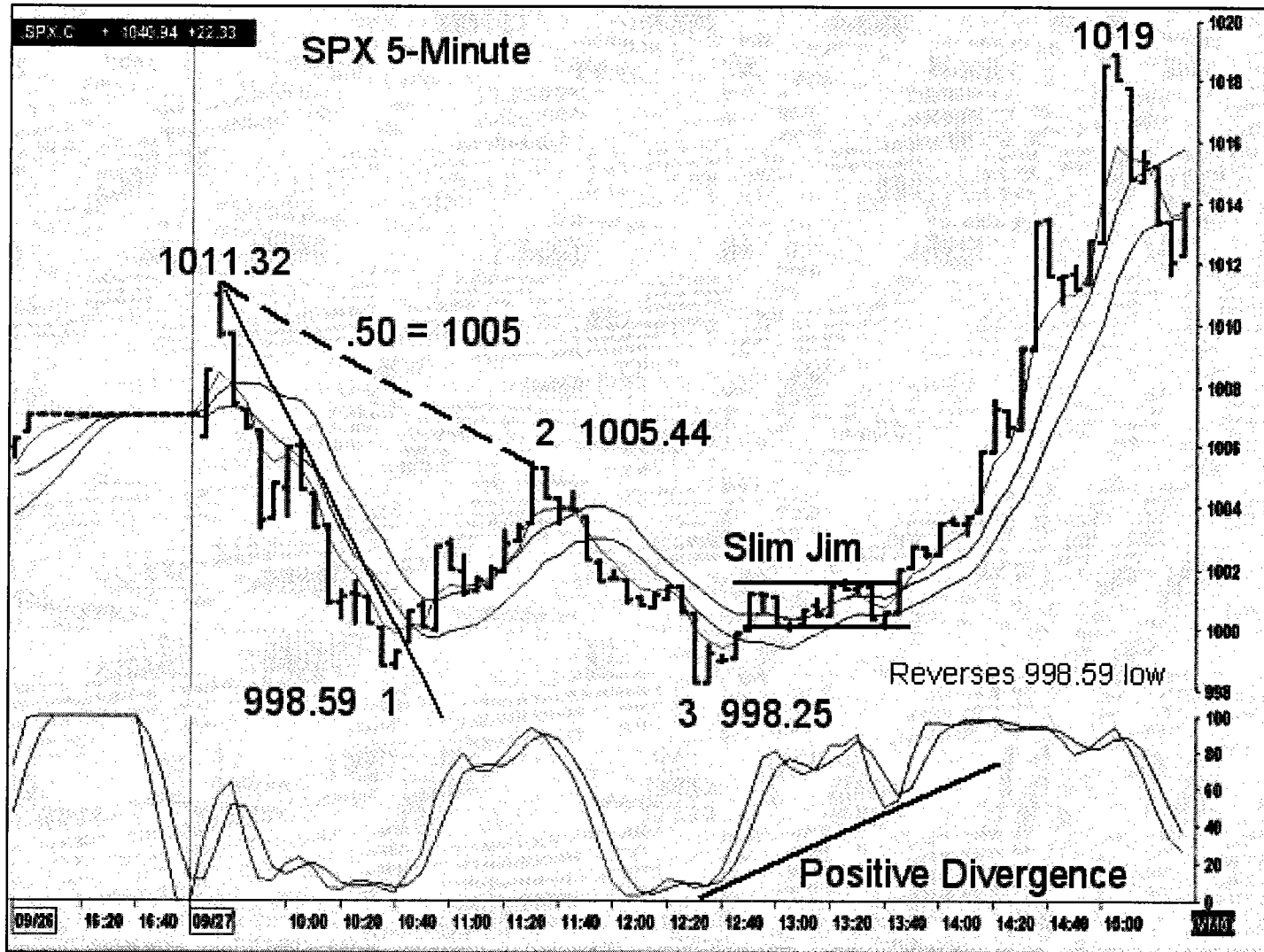
Volatility Bands



Volatility Bands



Volatility Bands



VIII. Trading Tools and How to Use Them

Fib Tools Section

All of the strategies I use are based on my knowledge of how the Generals execute in the equity markets and how the professionals (market makers, specialists) interact with this institutional order flow, in addition to the emotional retail order flow you often see during the opening period.

I select patterns that are simple, clearly defined, easily identified and occur frequently.

Fib Tools

My experience makes me a believer in the adage that there is a natural order in the markets that has more geometric symmetry than most traders realize or want to believe. This is a fact, not subjective because almost all market turning points adhere to a certain numerical sequence that you can prove to yourself by looking at historical charts. This sequence applies to both price and time. The primary tool used for this trade analysis is Fibonacci relationships. They include Fibonacci retracements and extensions, as well as time measurement, pivot dates by ratio and numerical sequence.

Fib Tools

There have been many books written, past and present, about Fibonacci relationships, and I have utilized this tool for 30 years, so I am going to show you how I use the tool, not another book on the subject.

To calculate the numbers is easy, but you must be able to determine if the price action at a Fibonacci zone warrants taking the trade. There are other tools that can be combined with basic Fibonacci that will give you a powerful methodology to trade all markets in any time frame, and you will find it a much less stressful way to trade.

Fib Tools

I will give you the basic way to calculate the levels by hand, but you will find that many vendors, like AdvancedGet, Qcharts, Prophet, ATFinancial, etc., have the tool as part of their features package.

Fibonacci Retracements

The .618 and 1.618 numbers are what they call the “Golden Numbers” and numbers multiplied by themselves that equal .618 and 1.618, like .786 and 1.272 (square roots of .618 and 1.618) will frequent much of your trading. Suffice to say, the Golden Numbers are dominant in everything from the Egyptian pyramids to nearly everything else in the universe. You can read about Fibonacci for days by going to Google.com and searching for Fibonacci.

Fibonacci Retracements

Let's get started putting it all together so that you will be ready to trade this way on Monday.

I use the following Fibonacci retracement ratios:

- .236
- .382
- .50
- .618
- .786

These are the primary ratios found on most vendors' software, but one other minor ratio that comes into play less frequently is .707 (square root of .50).

A. Retracement in uptrend

This is a retracement to previous low.

Calculation:

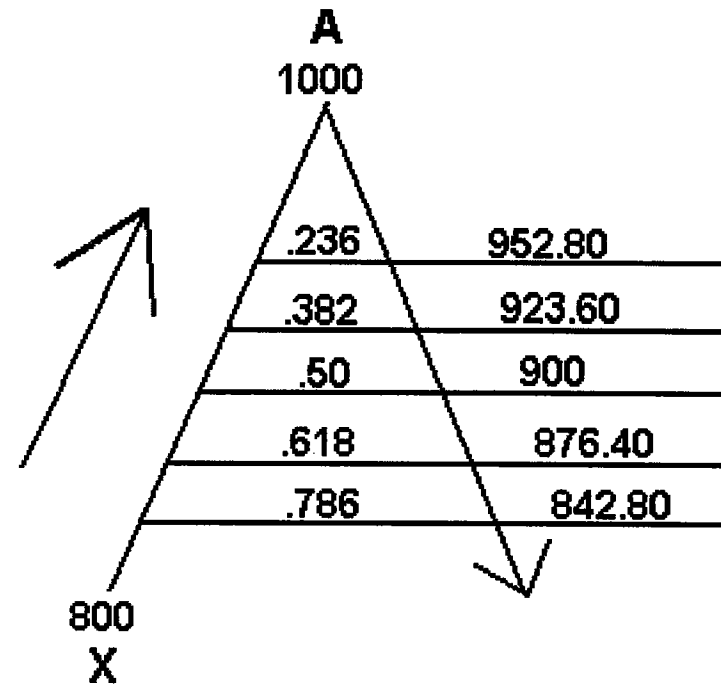
High minus low x ratio, then subtract from the high

$$.236: 1000 - 800 = 200 \times .236 = 47.20$$

$$1000 - 47.20 = 952.80$$

$$.382: 1000 - 800 = 200 \times .382 = 76.40$$

$$1000 - 76.40 = 923.60$$



B. Retracement in downtrend

In this situation, the stock retraces to a previous high after a sell-off.

Calculation:

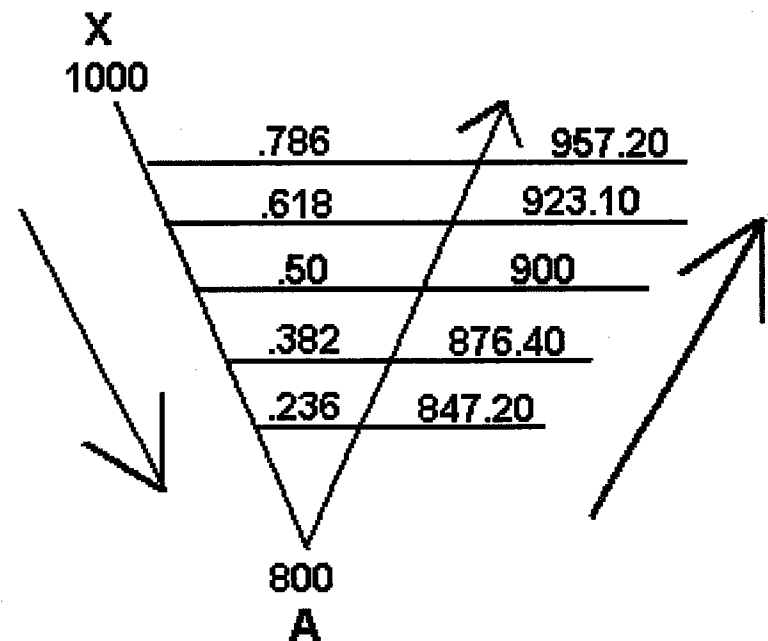
High minus low x ratio, then add to the low.

$$.618: 1000 - 800 = 200 \times .618 = 123.60$$

$$800 + 123.60 = 923.60$$

$$.786: 1000 - 800 = 200 \times .786 = 157.20$$

$$800 + 157.20 = 957.20$$



Fibonacci Extensions

- 1.272
- 1.618
- 2.00
- 2.24
- 2.618
- 3.14
- 4.236

These extensions occur after a stock makes new lows or new highs.

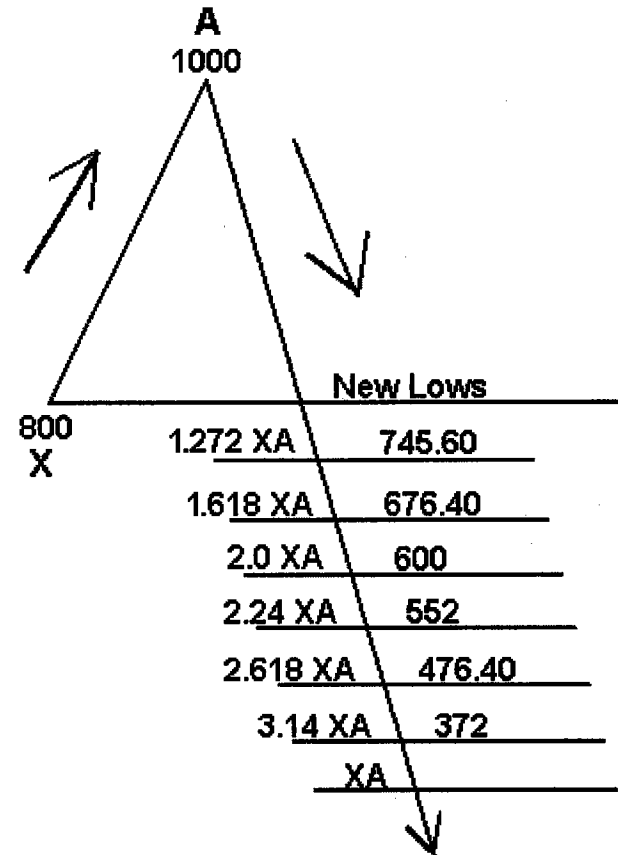
A. Fibonacci extension down

Calculation:

High minus low x ratio, then subtract from the high.

$$1.272: 1000 - 800 = 200 \times 1.272 = 254.40$$

$$1000 - 254.40 = 745.60$$



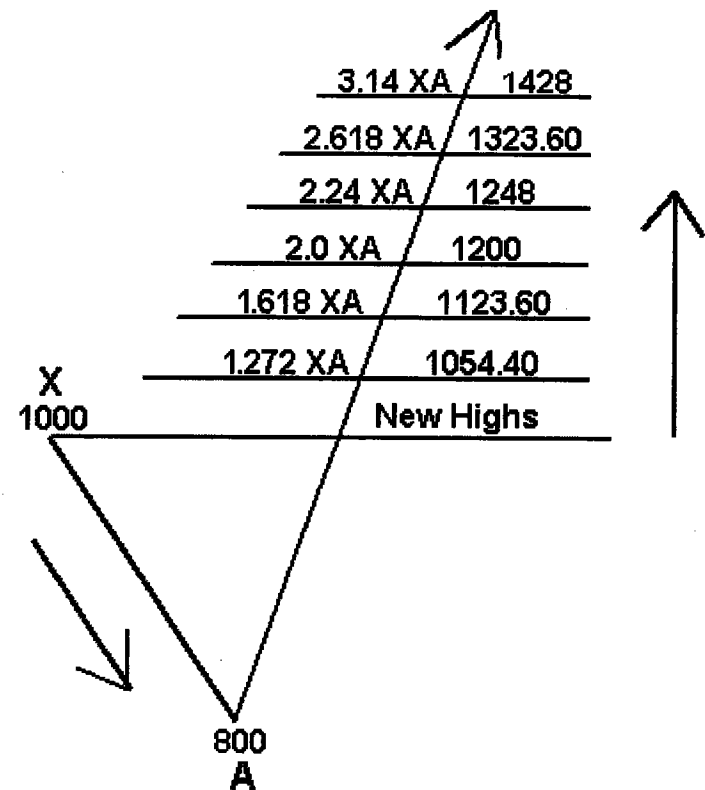
B. Fibonacci extension up

Calculation:

High minus low x ratio, then add to the low.

$$1.618: 1000 - 800 = 200 \times 1.618 = 523.60$$

$$800 + 523.60 = 1123.60$$



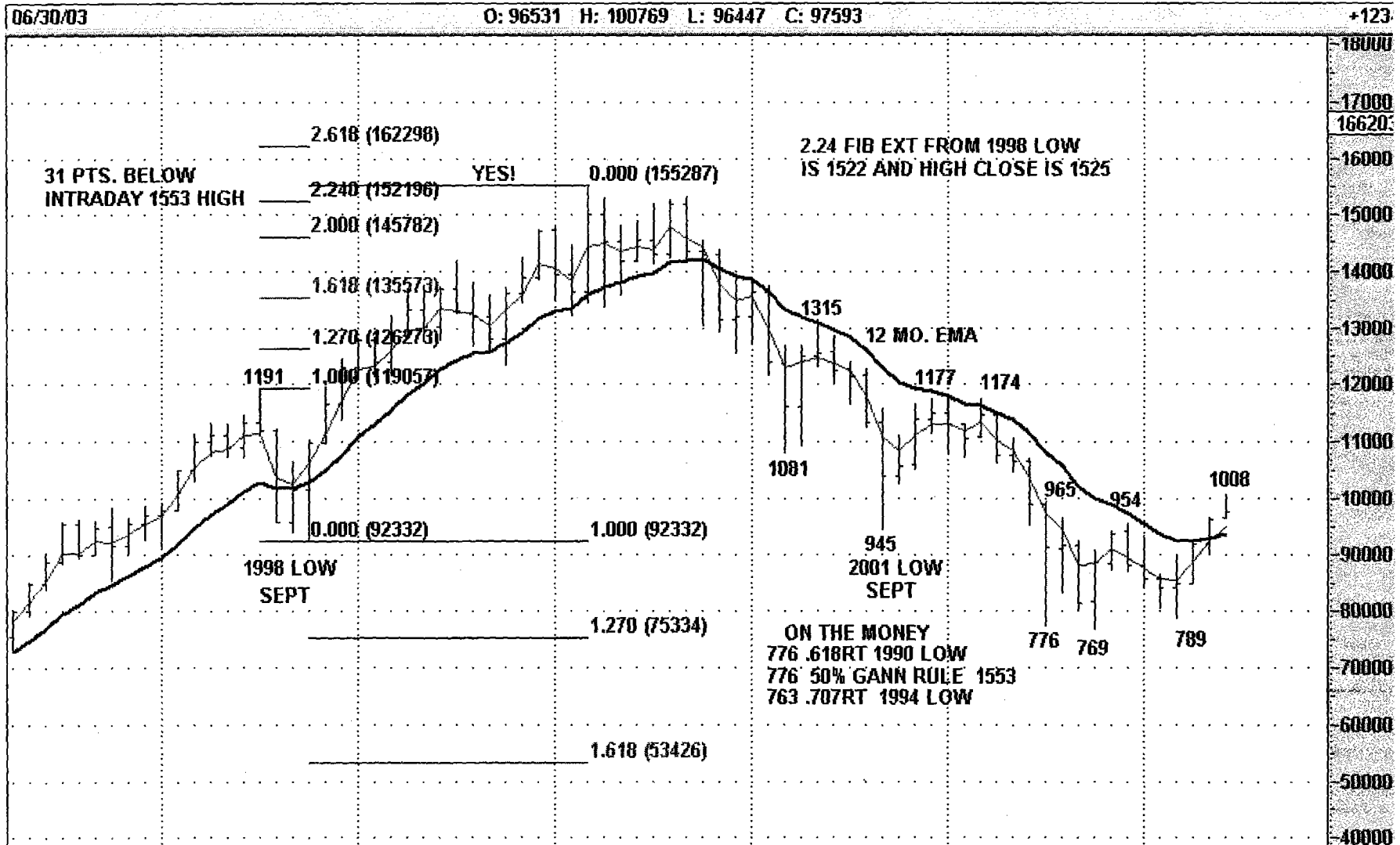
There are some vendors that use a Fibonacci extension sequence such as the following: 1.236, 1.382, 1.50, 1.618, 1.786, 2.00.

I find that after many years of trading, the sequence that I use provides the highest probability trades over time.

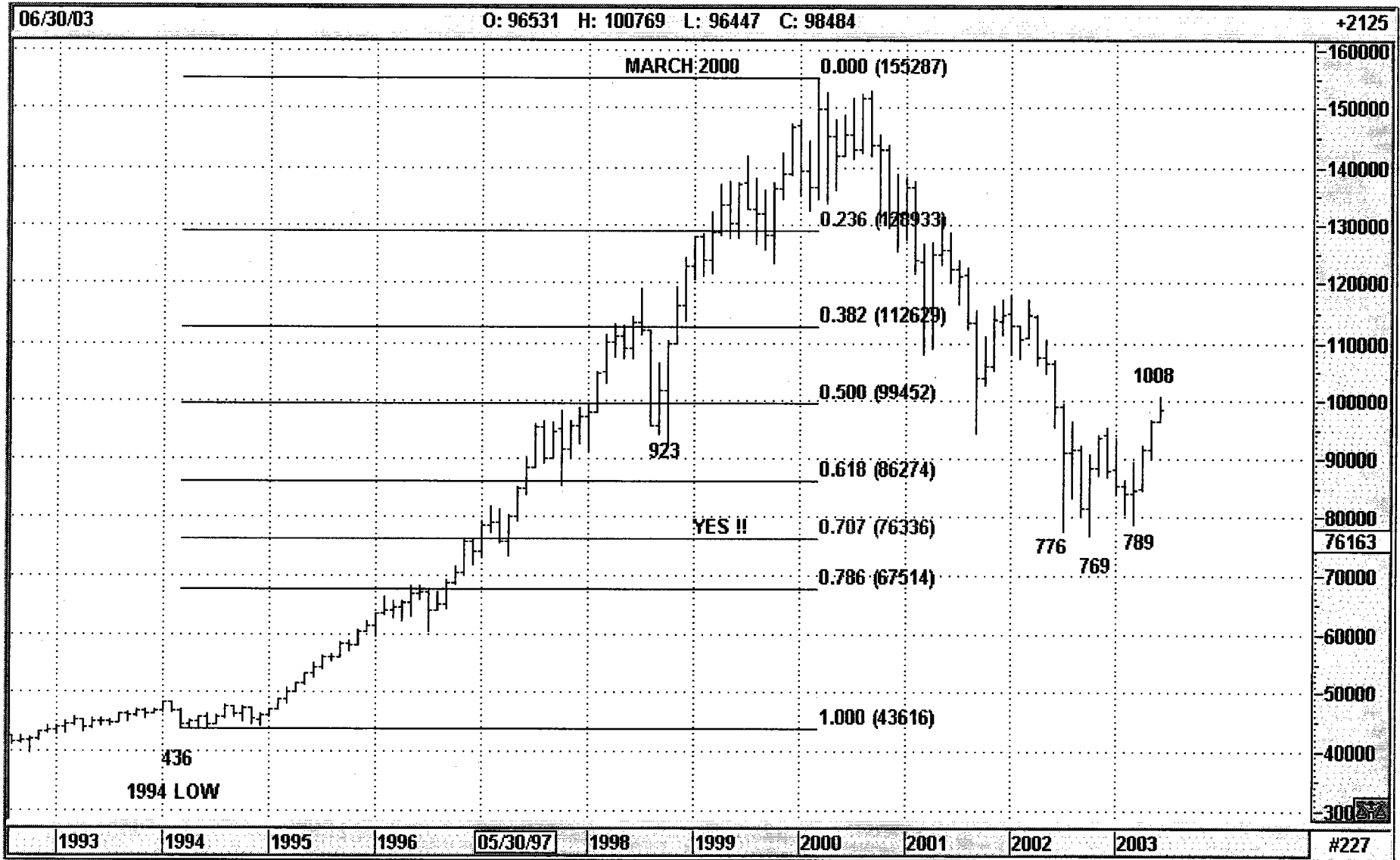
Fib Tools

Real World Examples

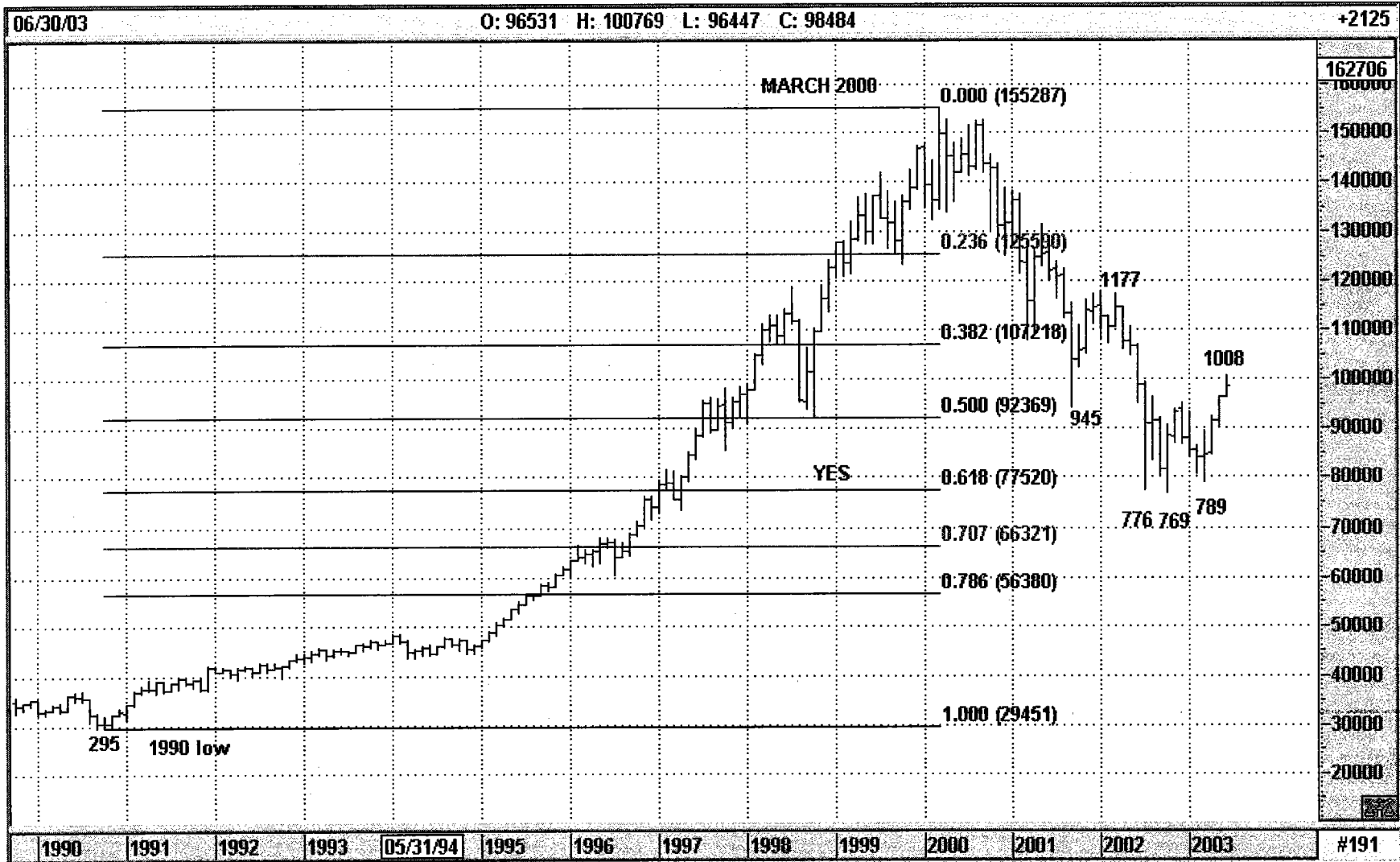
Fib Tools



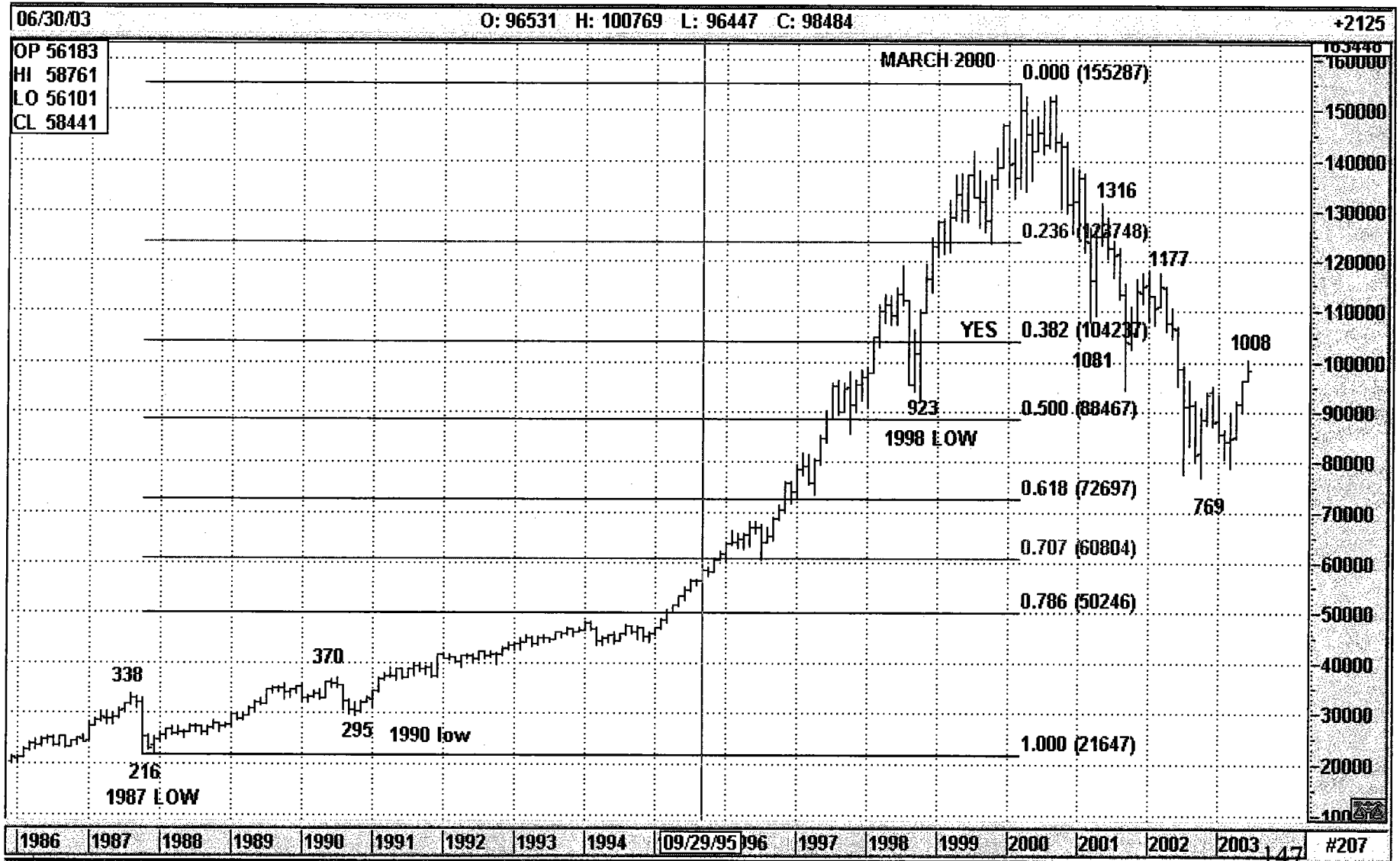
Fib Tools



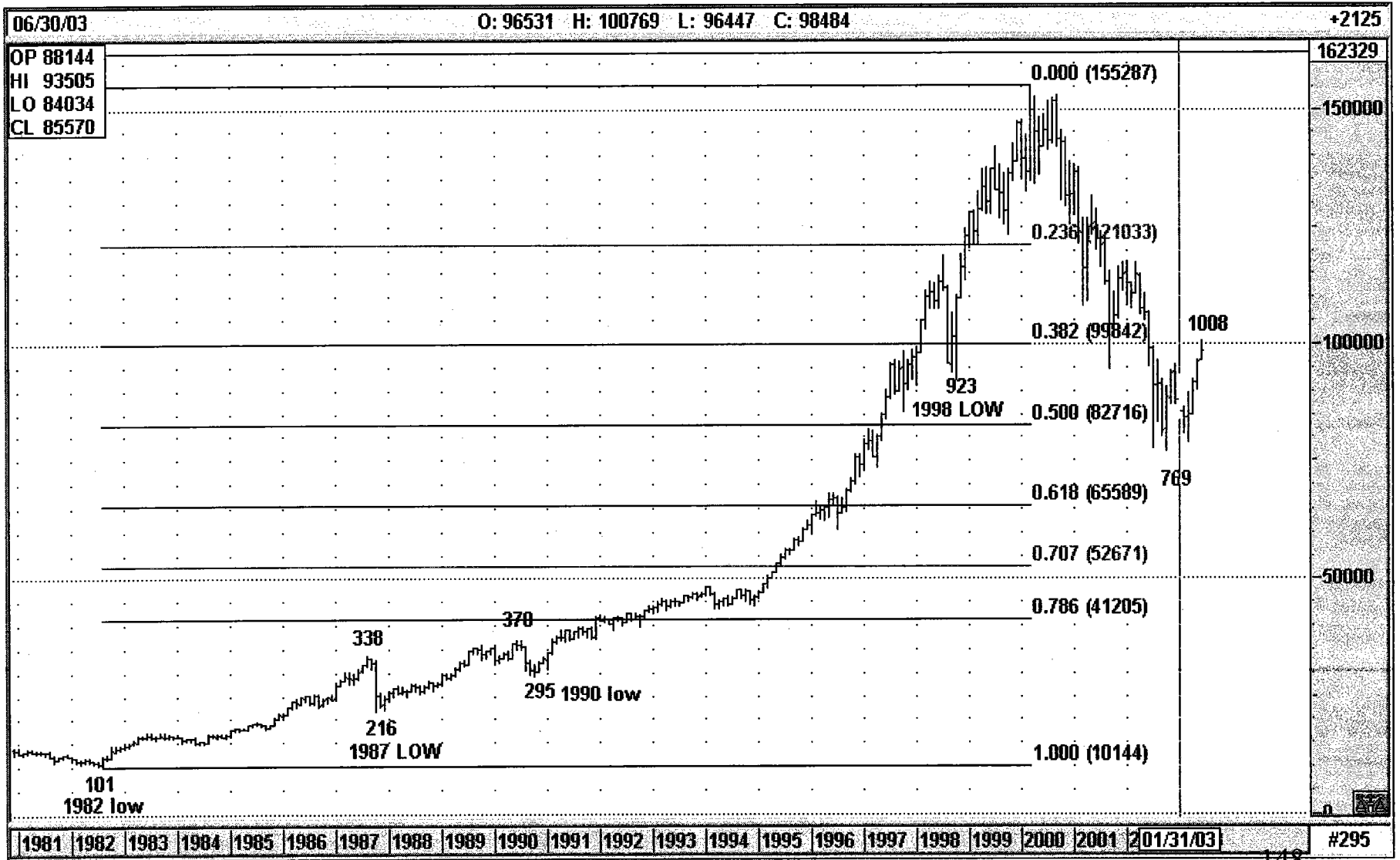
Fib Tools



Fib Tools



Fib Tools



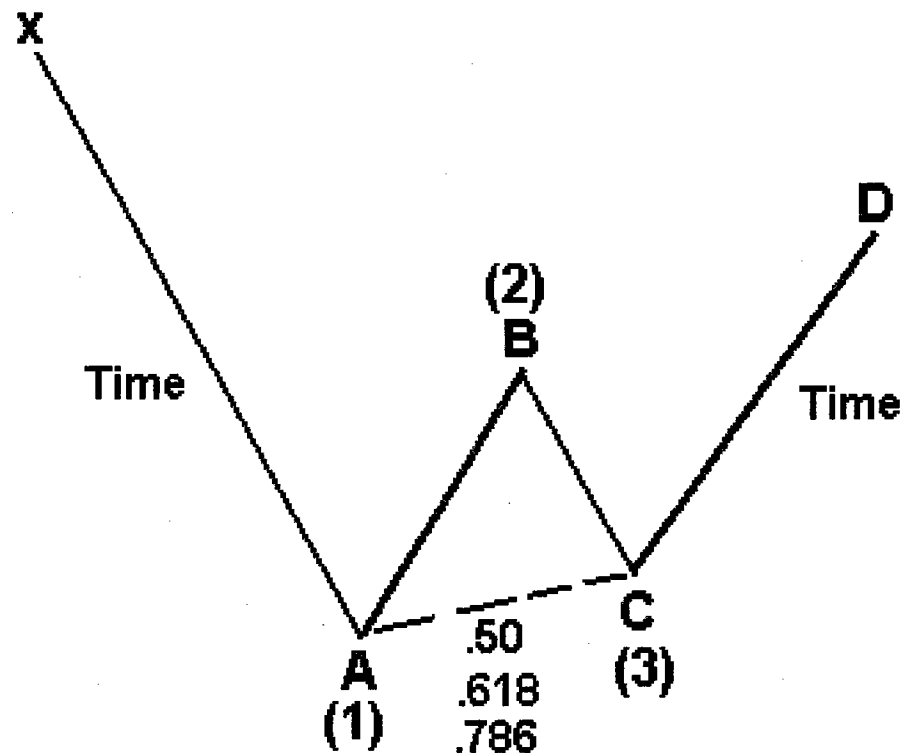
Parallel Lines Guidelines

The reason why 1,2,3 higher bottoms and lower tops are so effective is because they are the most frequent reversal patterns you will find at significant market turning points, and there is a precise measurement which is the Fibonacci retracement that gets you in the trade at a low common denominator, resulting in high probability trades. Your success is enhanced when you combine this strategy with other tools, such as volatility bands and standard deviation methods in various time frames.

Parallel Lines Guidelines

Parallel lines play an important part in Fibonacci measurements, both in price and time.

This is a chart of parallel line movement after a significant decline (significant is relative to your time frame). It starts as a 1,2,3 higher bottom pattern.



- BC should be at least a .50RT of leg AB, unless trend is extremely strong, and it can be a .38RT of AB leg.
- The 1,2,3 higher bottom entry is only made if you get a reversal bar entry indicative of a change in direction.
- Once the CD leg trades above swing point B, prepare for potential price objectives based on the parallel line method and also a retracement percentage to a previous significant high.

Parallel Lines Guidelines

This chart is a different pattern of parallel line movement, but the measurement principle is no different.

Retracement: XA to XZ

AB to XA

AD to XA

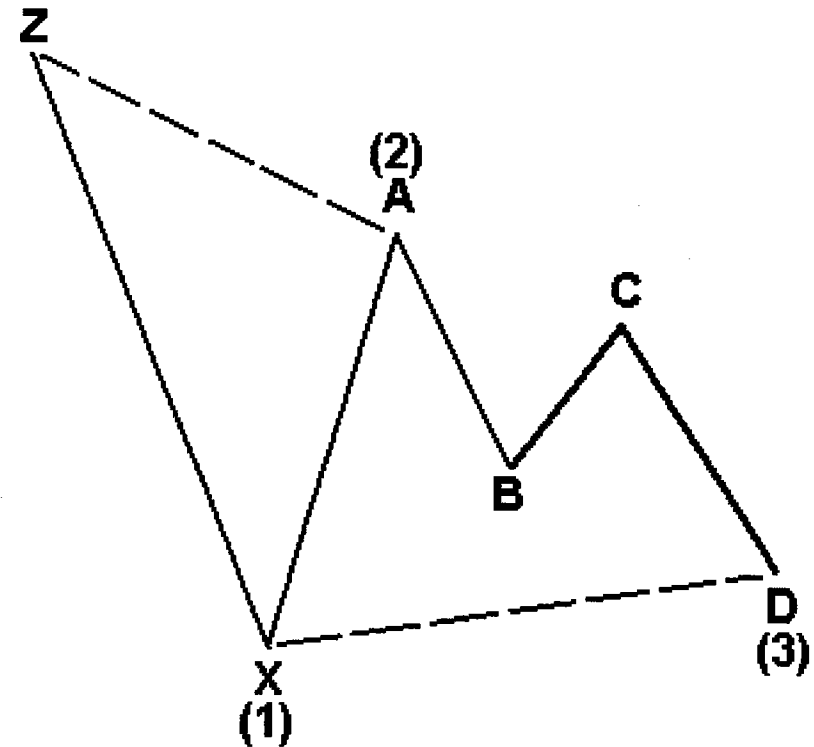
BC to AB

AB=CD ?

Extensions: CD to BC

CD to AB

Time measurement



Basic Premise

The CD leg should equal leg AB and if it surpasses it, then a reversal will occur at one of the Fibonacci retracements of AB or BC, such as 1.272, 1.618, 2.0, 2.24, 2.618, or 3.14. Above 2.0 are extreme moves and occur much less than do 1.272 and 1.618.

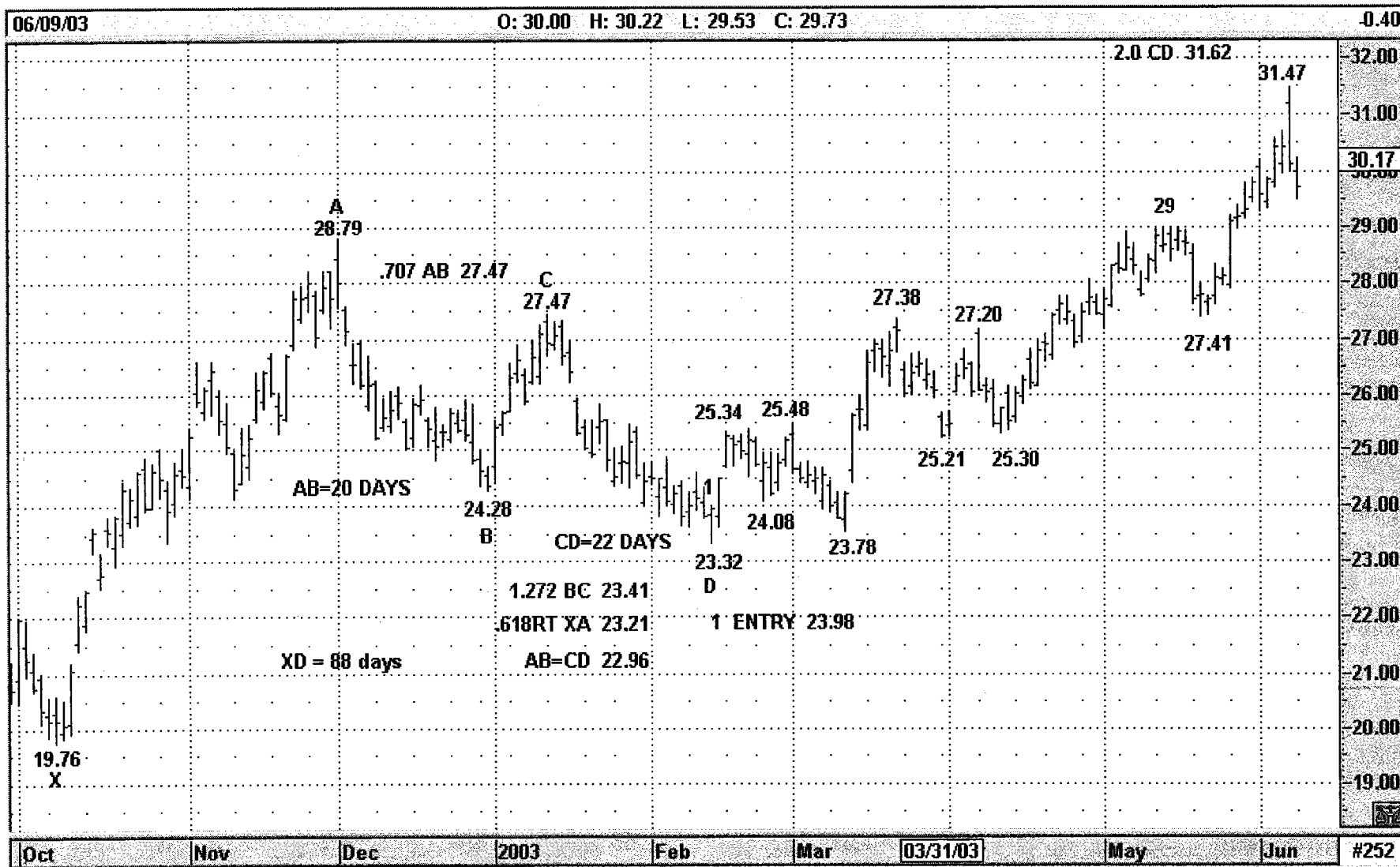
There is strong symmetry when time is in sync with the price measurement. I find that a Fibonacci retracement that has parallel line movement is much more frequent and has a higher probability of success.

The following charts highlight the parallel line methodology with good symmetry.

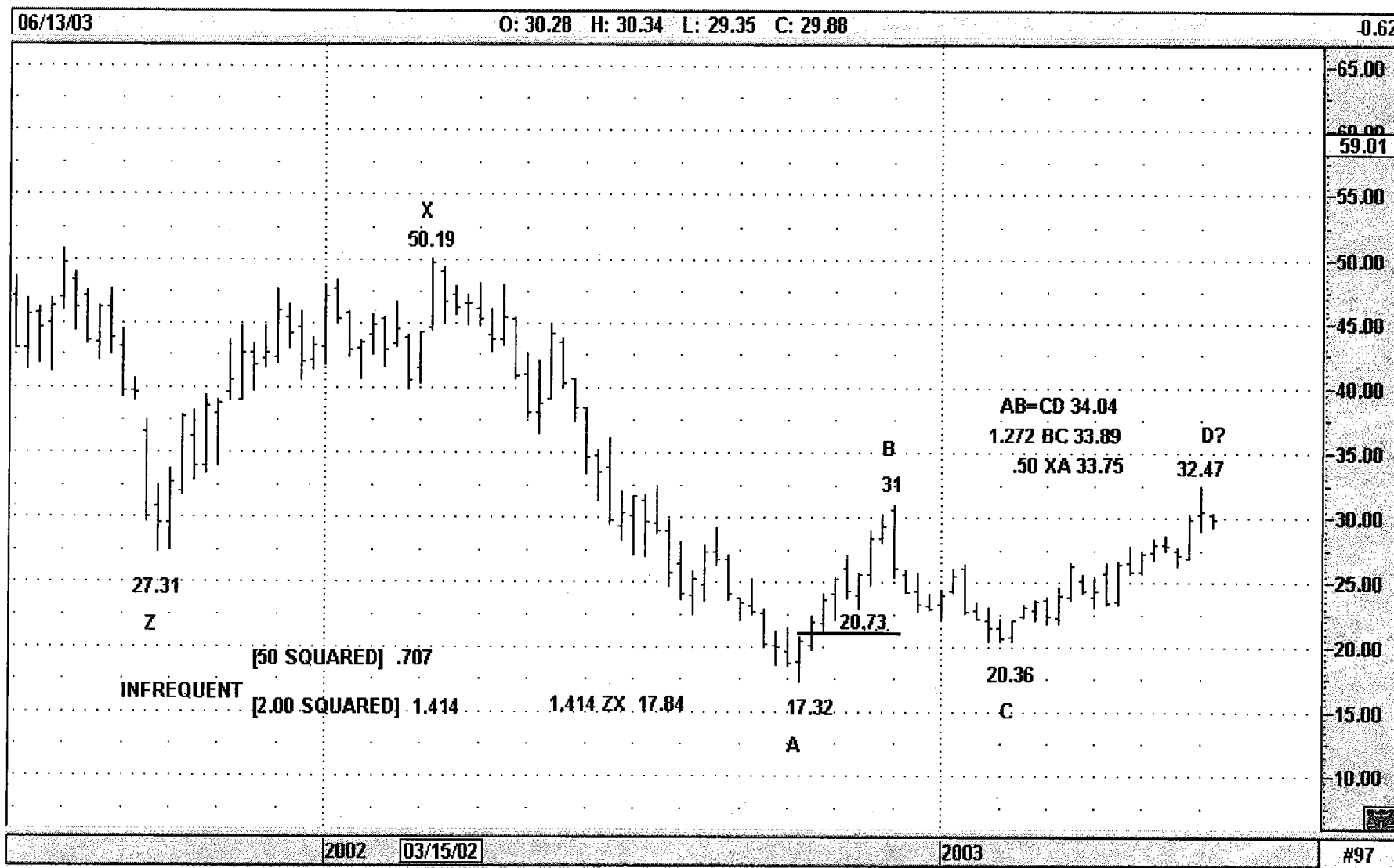
Parallel Lines

Real World Examples

Parallel Lines



Parallel Lines



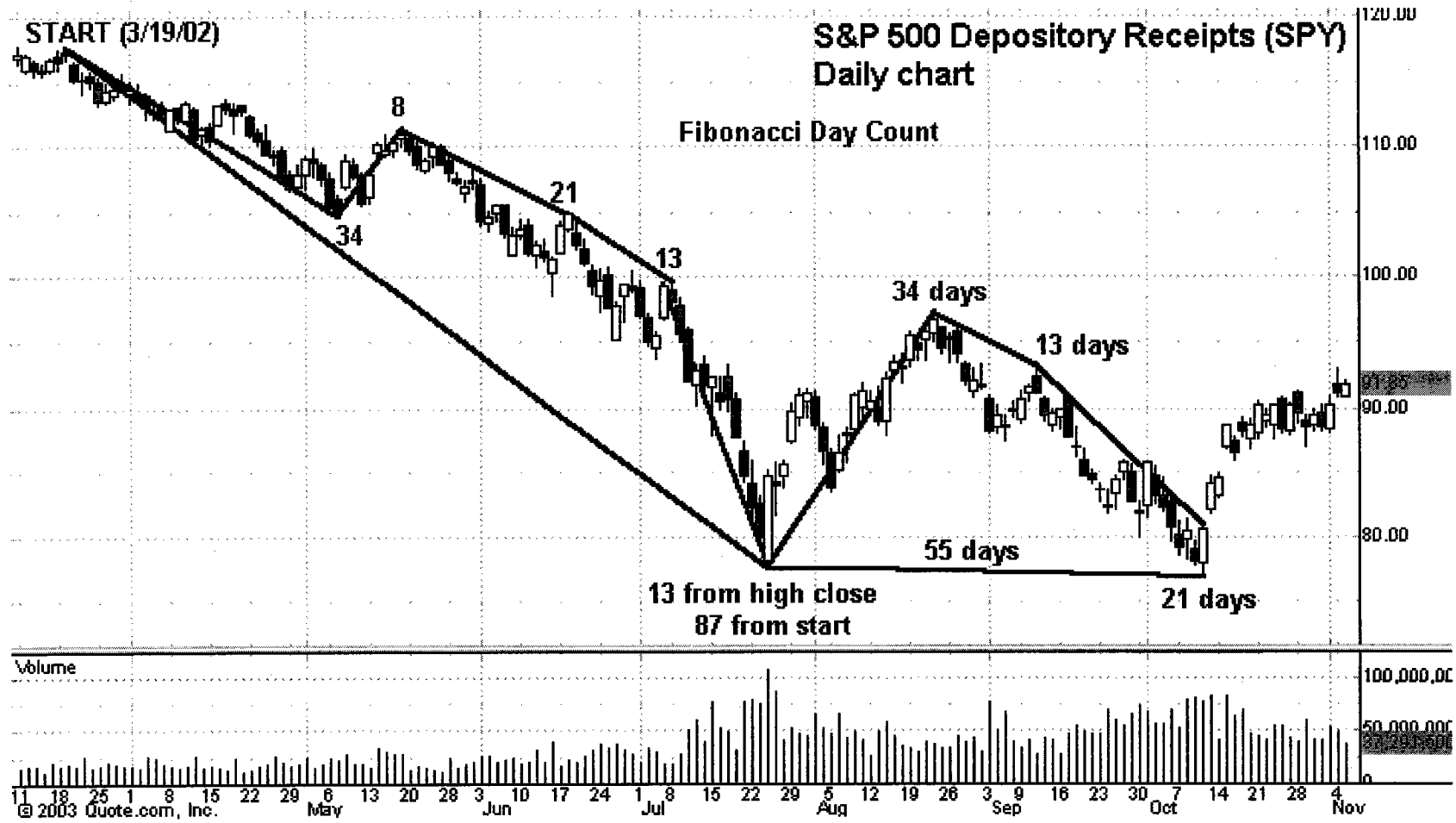
Fibonacci Time Count

- An easy way to determine a Fibonacci time sequence is to simply count the days, hours, ticks or minutes to see if they are in sequence with previous highs and lows.
- The daily charts will be where you find the best trades at potential turning points, and you can certainly use lower time frames, but there is much more noise when you go below hourly.

Fibonacci Time Count

- When using a daily chart, count backward from the current day and put your count on each of the obvious highs and lows. The numbers you will want to see are: 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, etc.
These are trading days and there are some that use calendar days. I look at both as I get trading days using Advanced GET and calendar days from some other sites, which are listed at the completion of this section.
- If your count is getting more than a few of the Fib numbers, there is a chance you are at a turning point for the current reaction or trend.
- Sometimes your count will be off by a few days on the highs and lows, but when you can anticipate when the count will be in sync over the next few days and get a good handle on the price action.

Fibonacci Time Count



Key Points:

If it were as easy as buying/selling at specific numbers and ratios, then every investor and trader would be successful. However, that isn't the case, so I will outline the key points that I know from experience will get you to the level of taking very high probability trades with excellent risk/reward and will be a much less stressful method of trading.

1. The trade setups should have good symmetry, and the more confluence of time and price, the better.
2. The highest probability setups will have the required symmetry, but they will also be more explosive when found at key inflection points, such as standard deviation levels, volatility bands, moving averages, support/resistance, monthly/weekly pivots and divergence with various indicators, such as stochastics, RSI (Wilder), momentum, etc.

Key Points:

3. The price action trading into the potential Fibonacci reversal zone is the most important factor that determines whether price will reverse the current trend, or else move to the next zone.
4. If price approaches the reversal zone with thrust, which means gaps, wide-range bars with closes in the top/bottom of the range and accompanied by an increase in volume, it is likely that price will trade to the next zone. If it is a volume blowoff with, for example, an island reversal pattern followed by a reversal bar, then it might be a good entry. That doesn't occur so often when short-term or daytrading and is most frequent at the extreme Fibonacci extension ratios. Another exception might be when there is an emotional reaction to news that quickly reverses.

Key Points:

5. Fibonacci levels work in both directions, i.e., if price reverses down after a retracement to the .50 RT level, it might find support down at the .382 level, then resume the advance and move up to the .618 or .786 zones.
6. Fibonacci measurements are from significant highs and lows in all time frames. The most significant are based on the longer time frames and biggest price legs, which by definition yield the largest move.
7. The longer time frame pattern takes precedence over the shorter one, but a setup that, for example, is a .382 retracement on the weekly chart and a .618RT on the daily chart, often yields excellent results.

Key Points:

8. Major indices, most big cap liquid stocks and HOLDERS will have the best symmetry. When selecting stocks to trade, make sure you check past charts from various time periods to see exactly how symmetrical it has been trading.
9. Prices will sometimes reverse just prior to a level, so remember that it's a zone, not a number, and you are looking for a reversal bar pattern before entry. (See Trap Door section.)
10. If the market has a strong move right from the opening and is in the net plus zone, which is above the opening and previous close, I will often fade a retracement level on the contra move if it is at least a .50RT to the day's low. This is often a larger gap pullback trade, but without a significant gap opening, but was an extended trend up during the first 30 minutes or more. It has all the makings of a straight trend up day, as the dynamics, such as TRIN and positive gains in all of the major sectors, are in sync. (Reverse for sells.)

Key Points:

11. Look at today's price relative to previous days' when looking for symmetry, i.e., a Trap Door setup may be a $.618RT$ to the previous day's significant low and also a $.38RT$ to the low five days ago when the rally started. The one-day trend is down, but it is just a retracement in a larger uptrend.
12. If you prepare in advance and know your levels and anticipated levels, you will react without emotion and can concentrate on the price action approaching the level. This is especially true when daytrading.
13. THINK RELATIVE PRICE AND TIME RELATIONSHIPS.

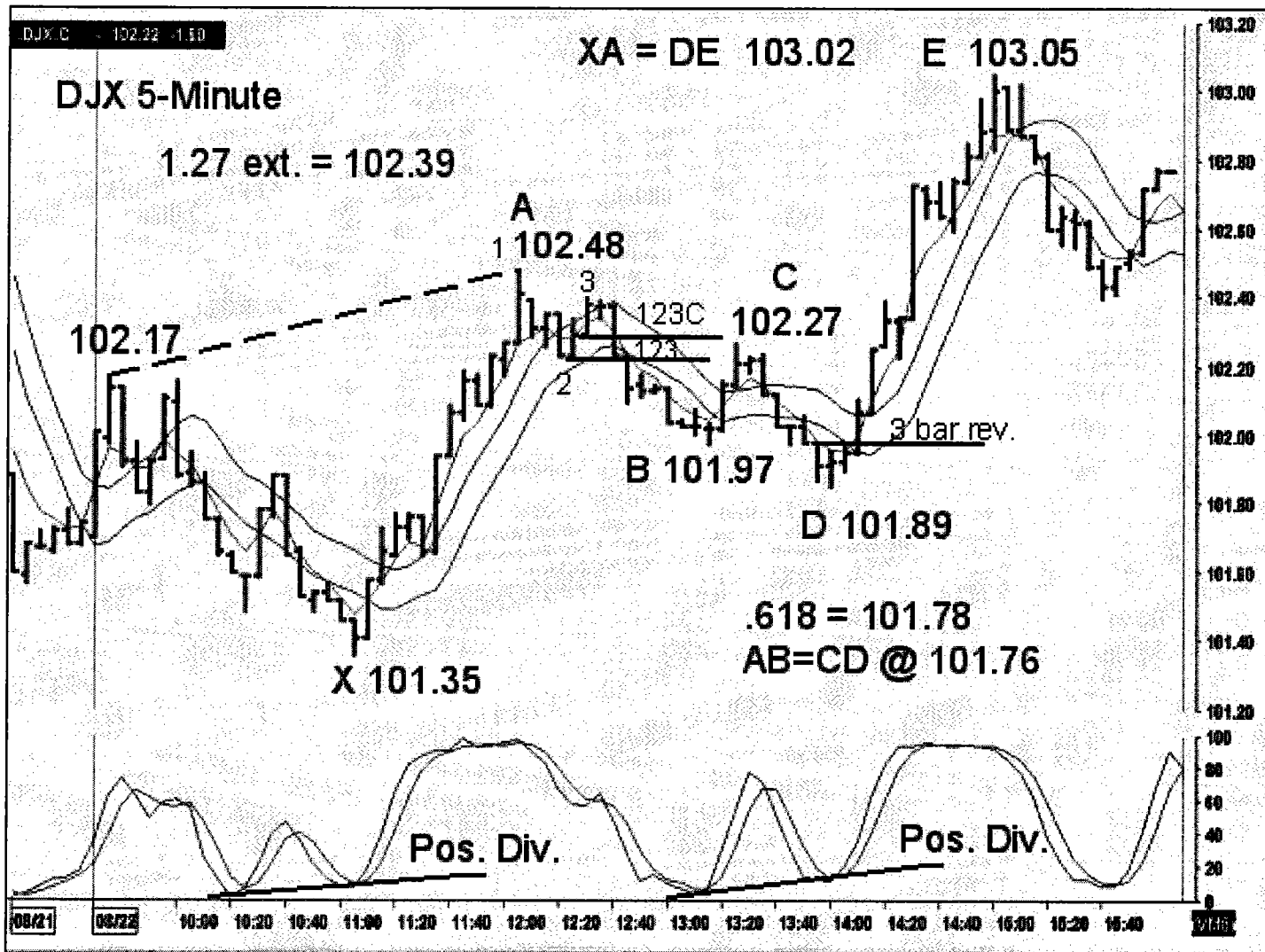
Next we will look at some intraday charts of the major indices, which demonstrate how symmetrical they really are, in spite of all the outside news and geopolitical events that influence the markets on a daily basis.

IF YOU BELIEVE IT, YOU WILL TRADE IT.

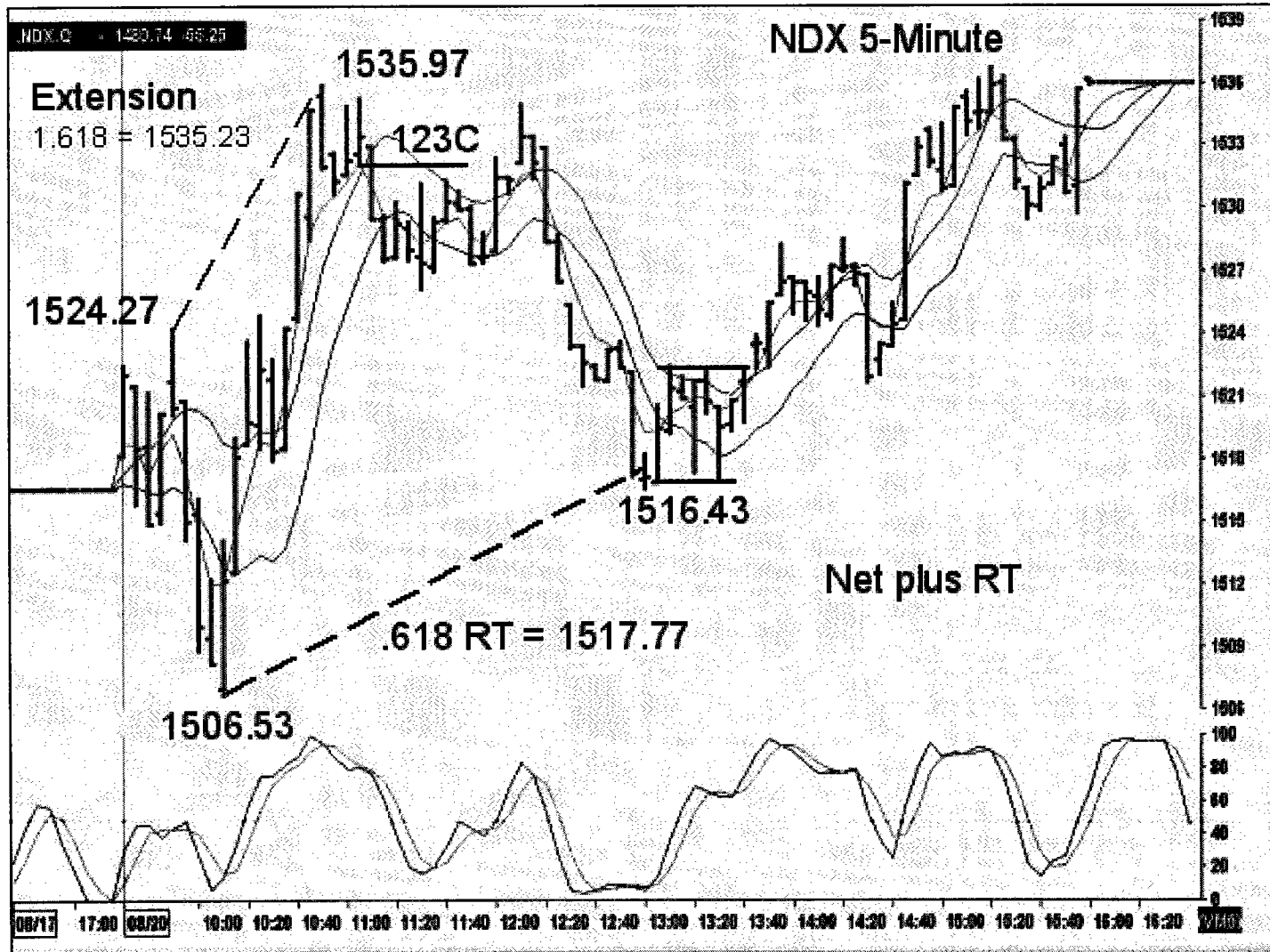
Sequence Trading

Real World Examples

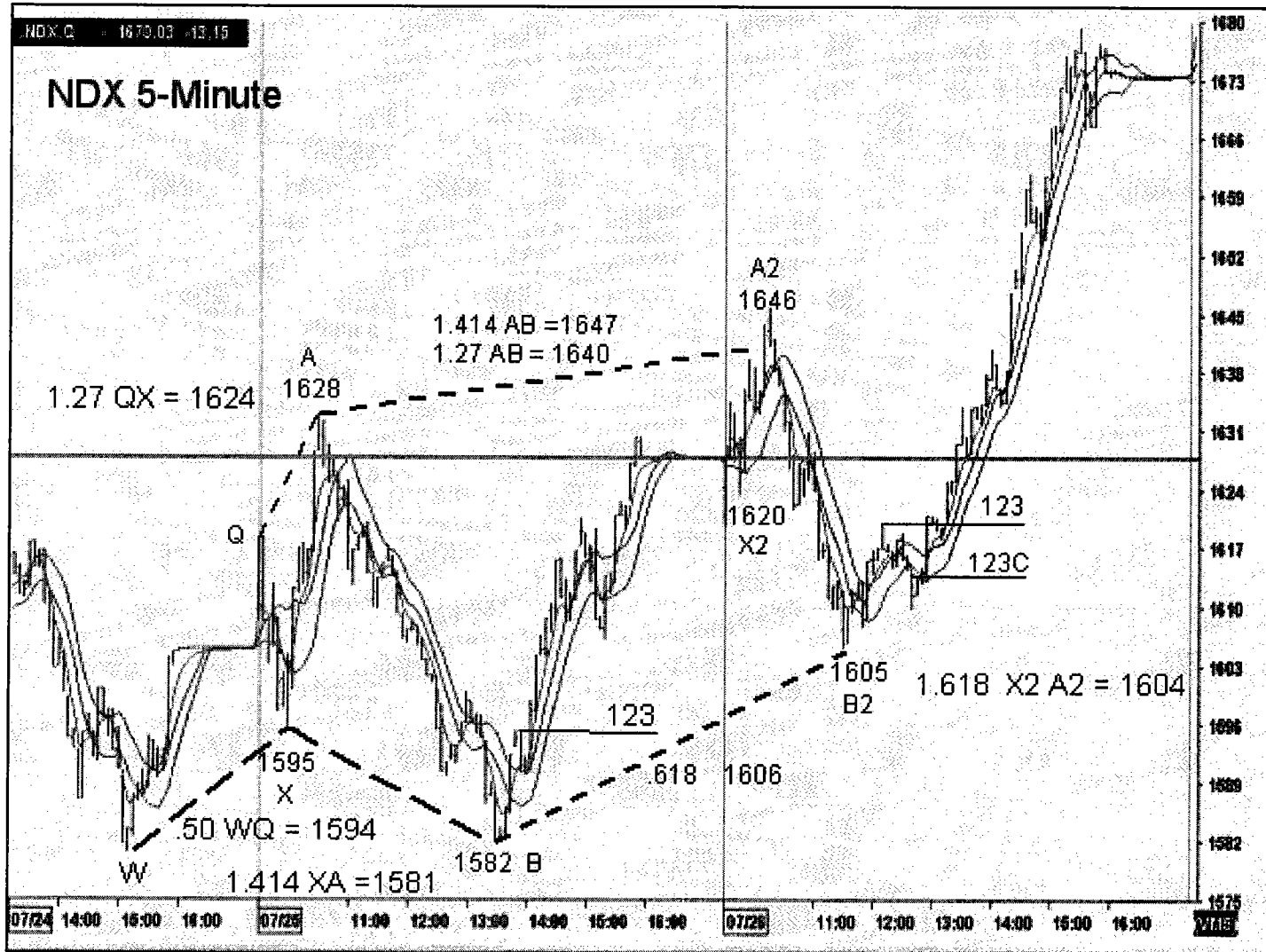
Sequence Trading



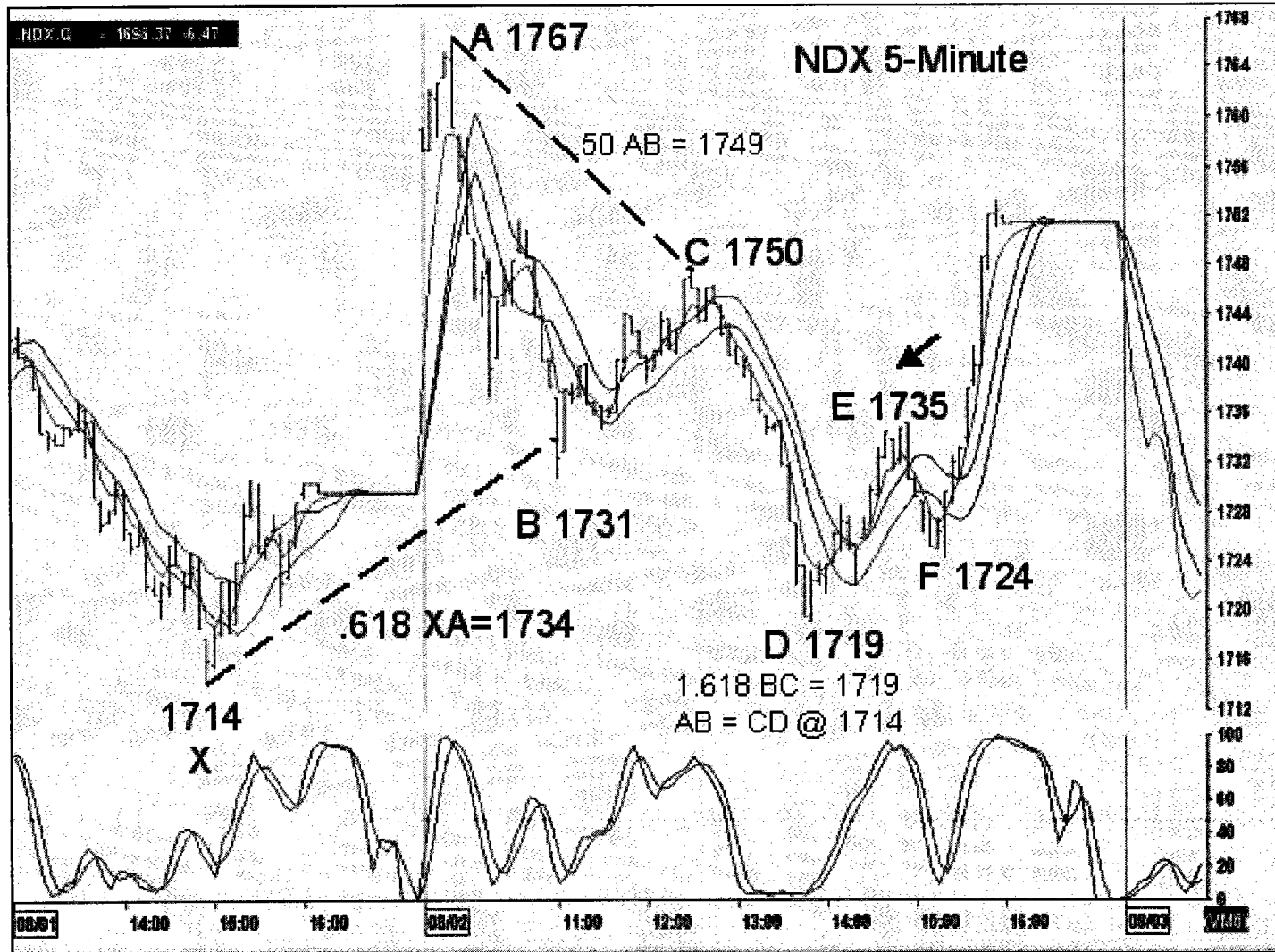
Sequence Trading



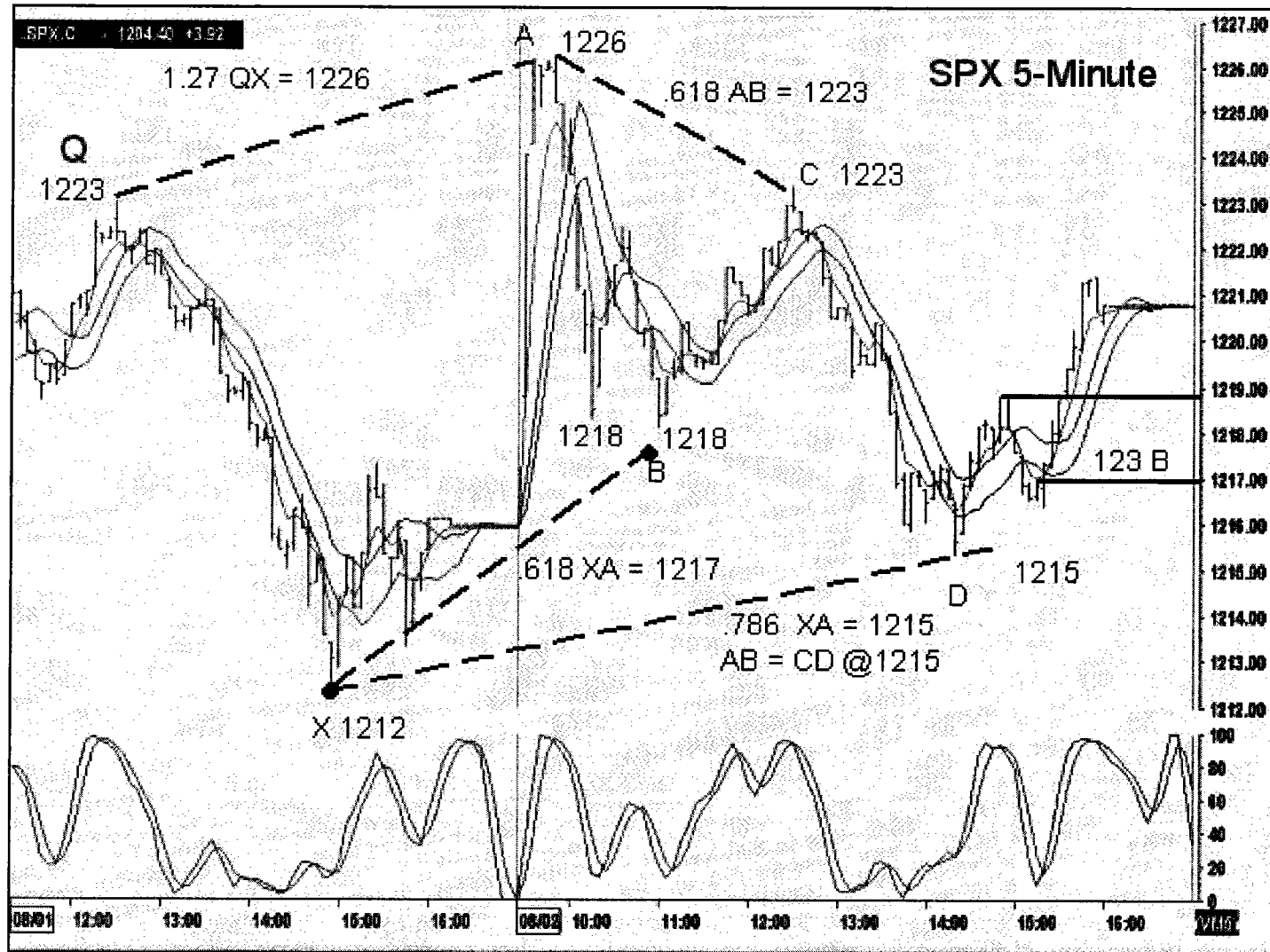
Sequence Trading



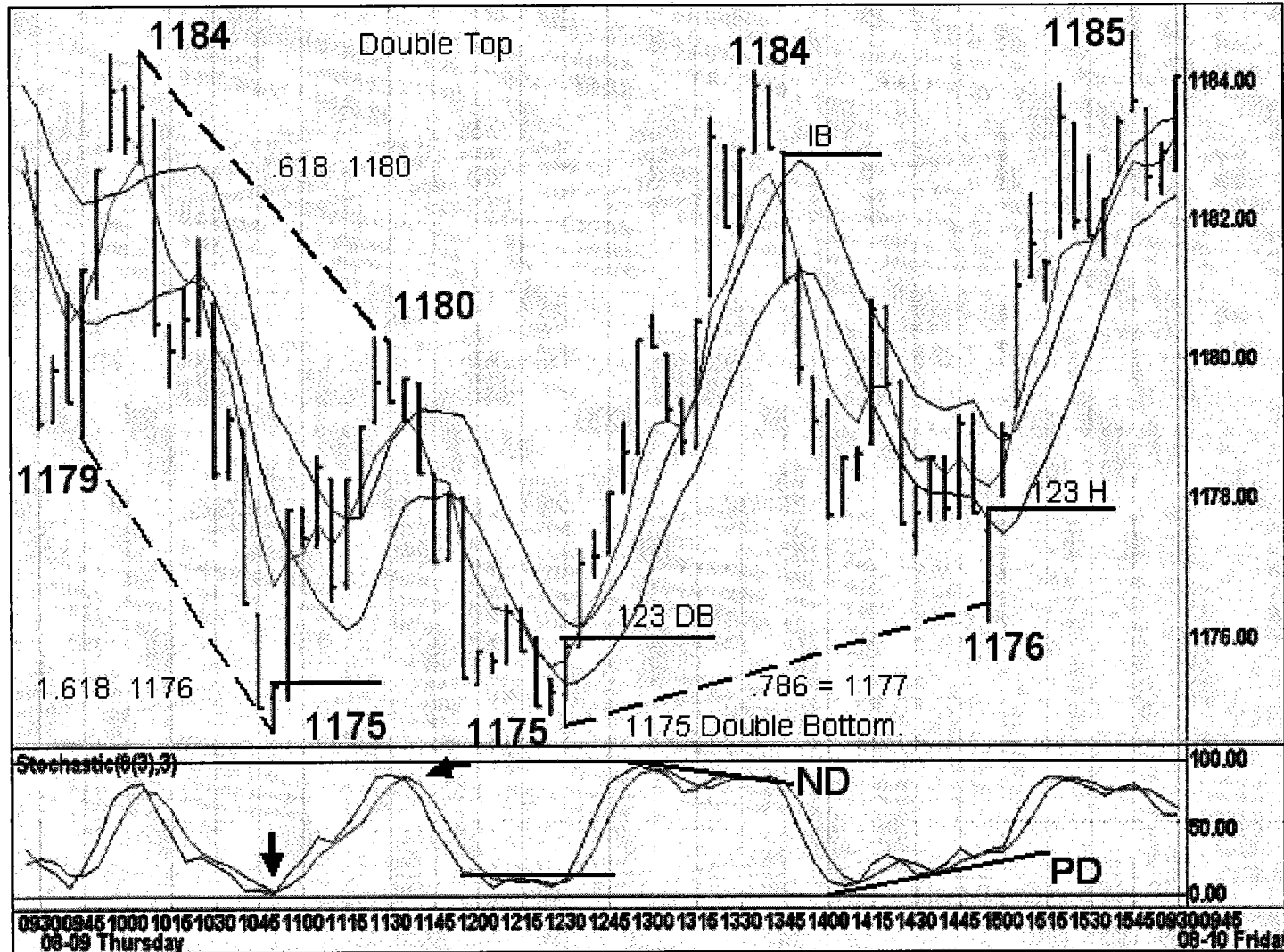
Sequence Trading



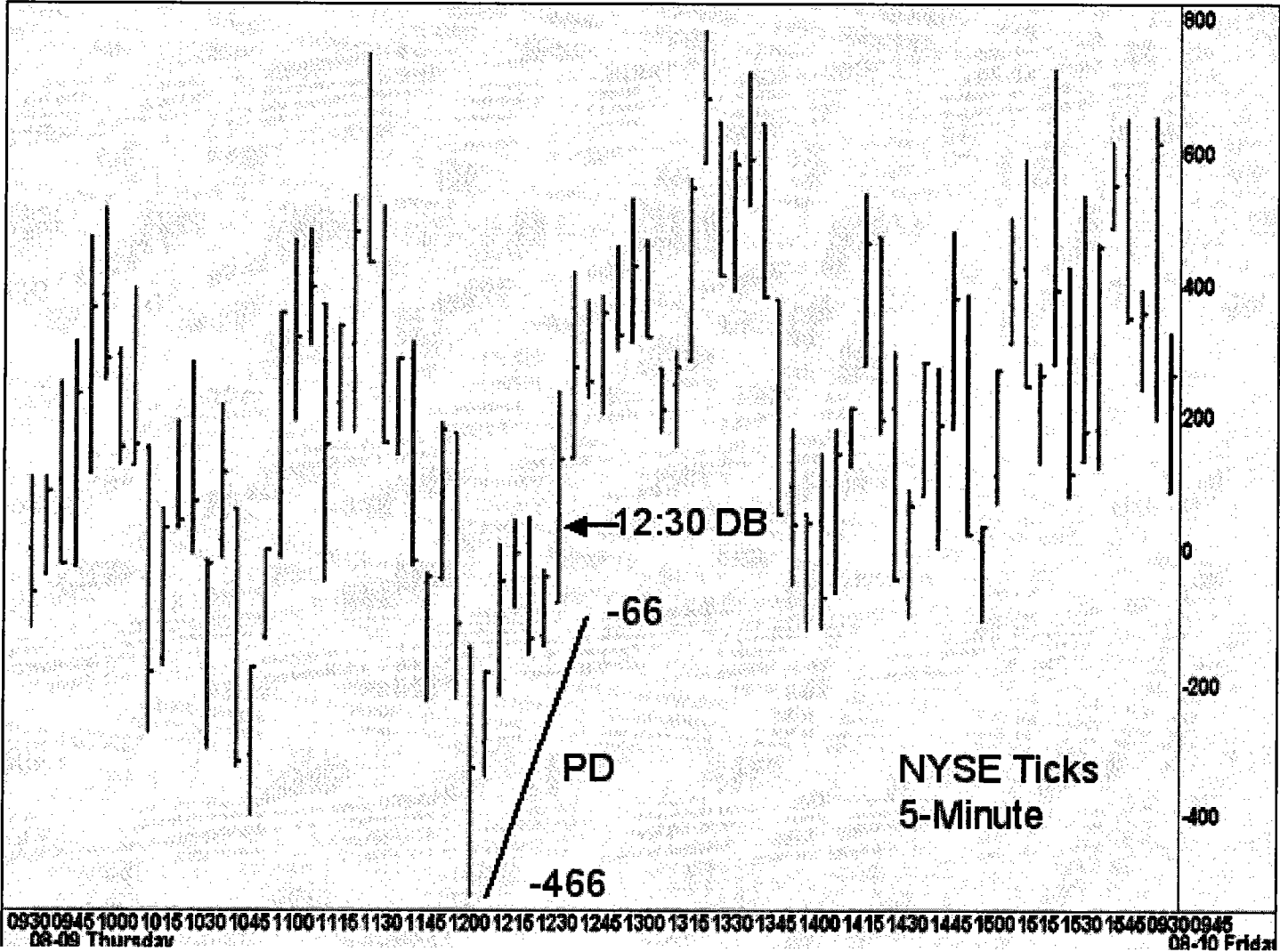
Sequence Trading



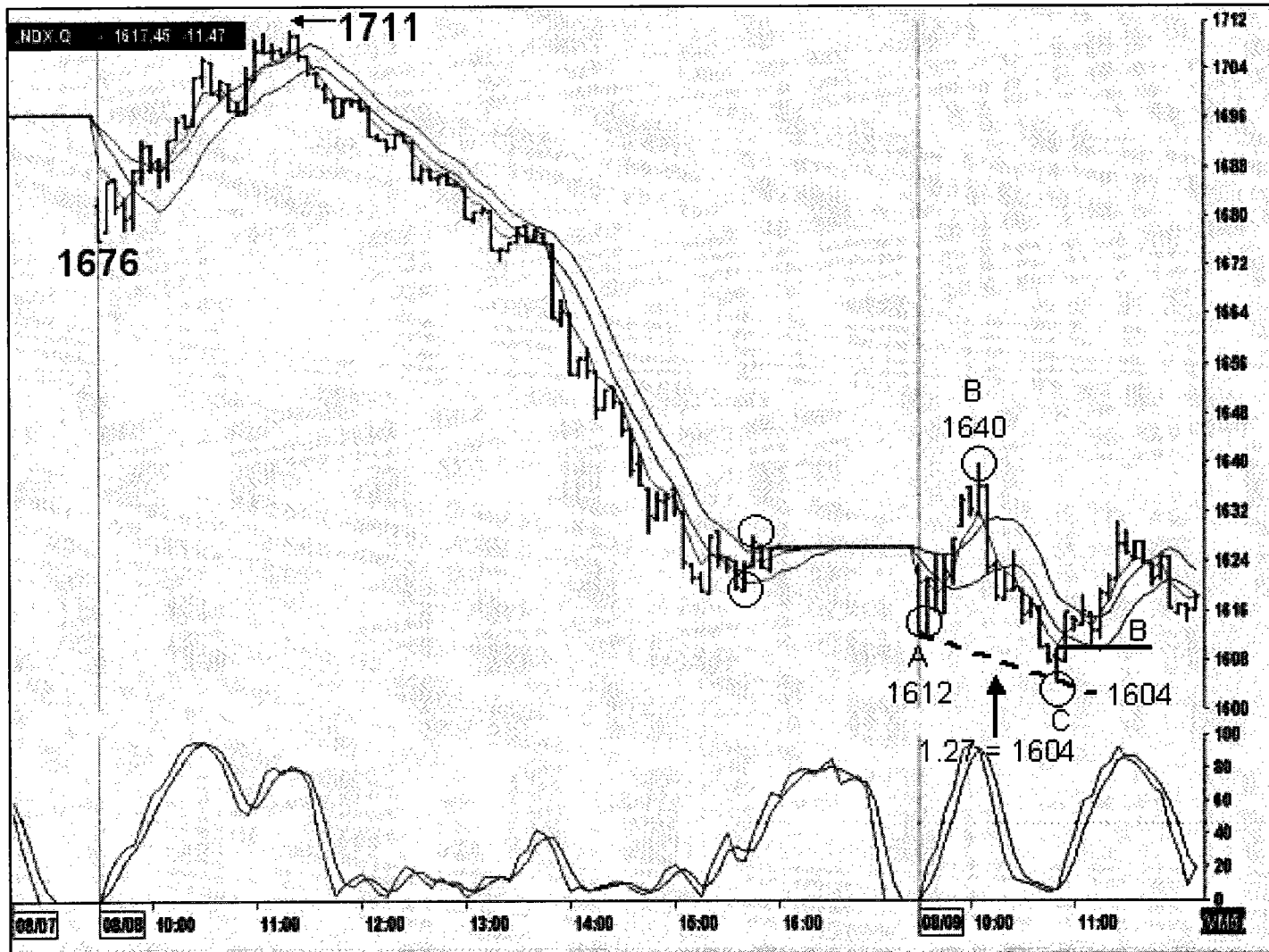
Sequence Trading



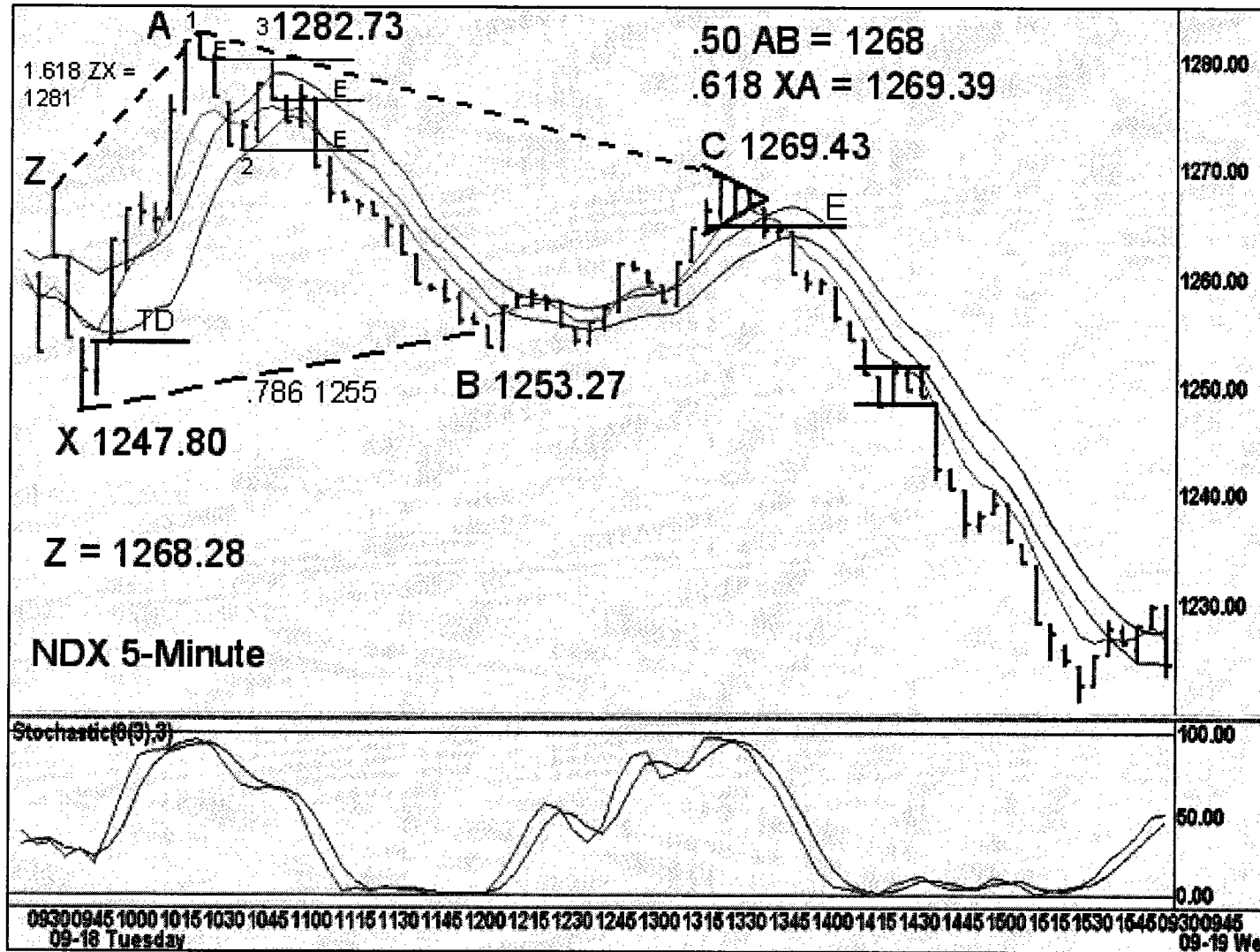
Sequence Trading



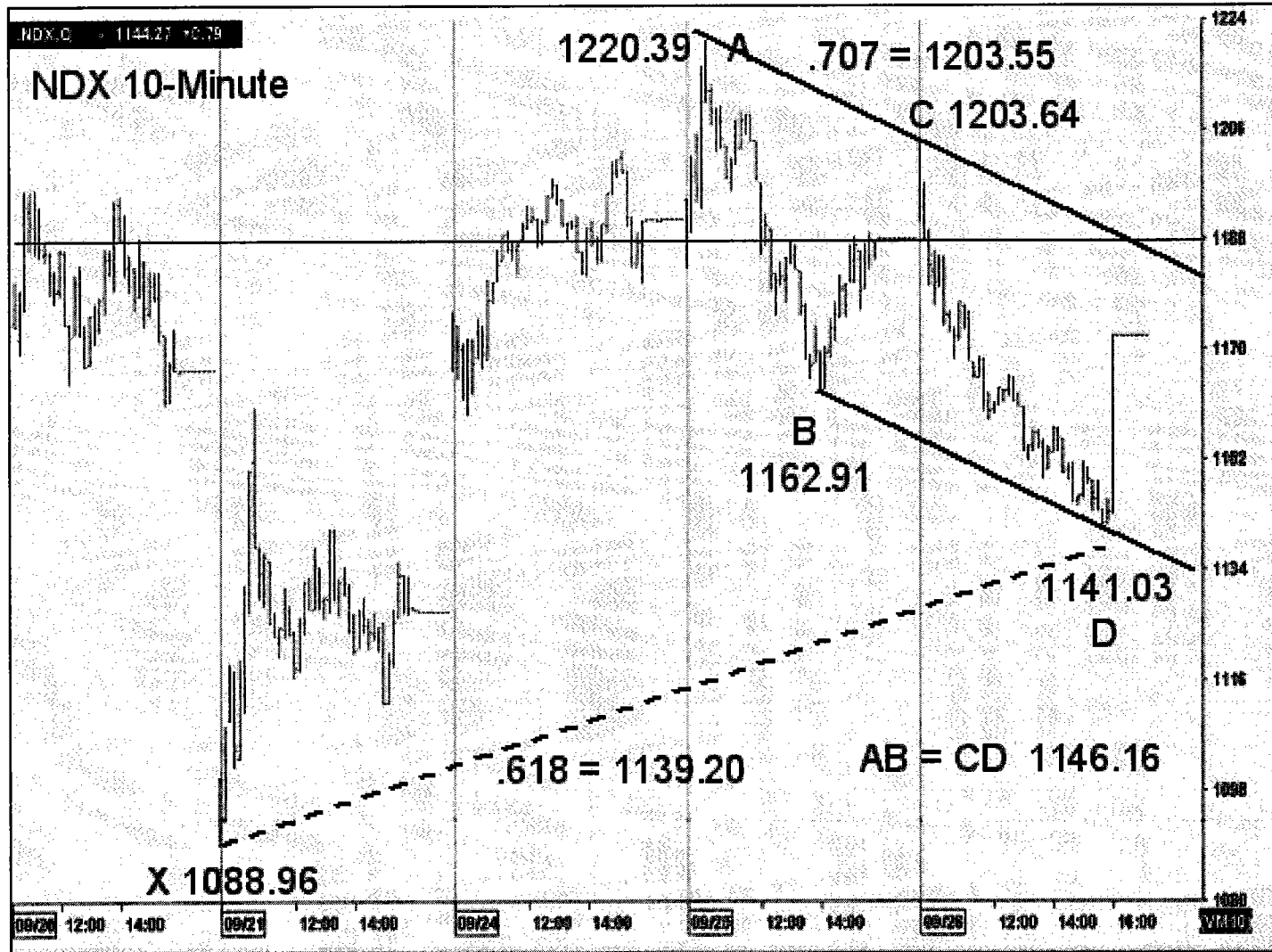
Sequence Trading



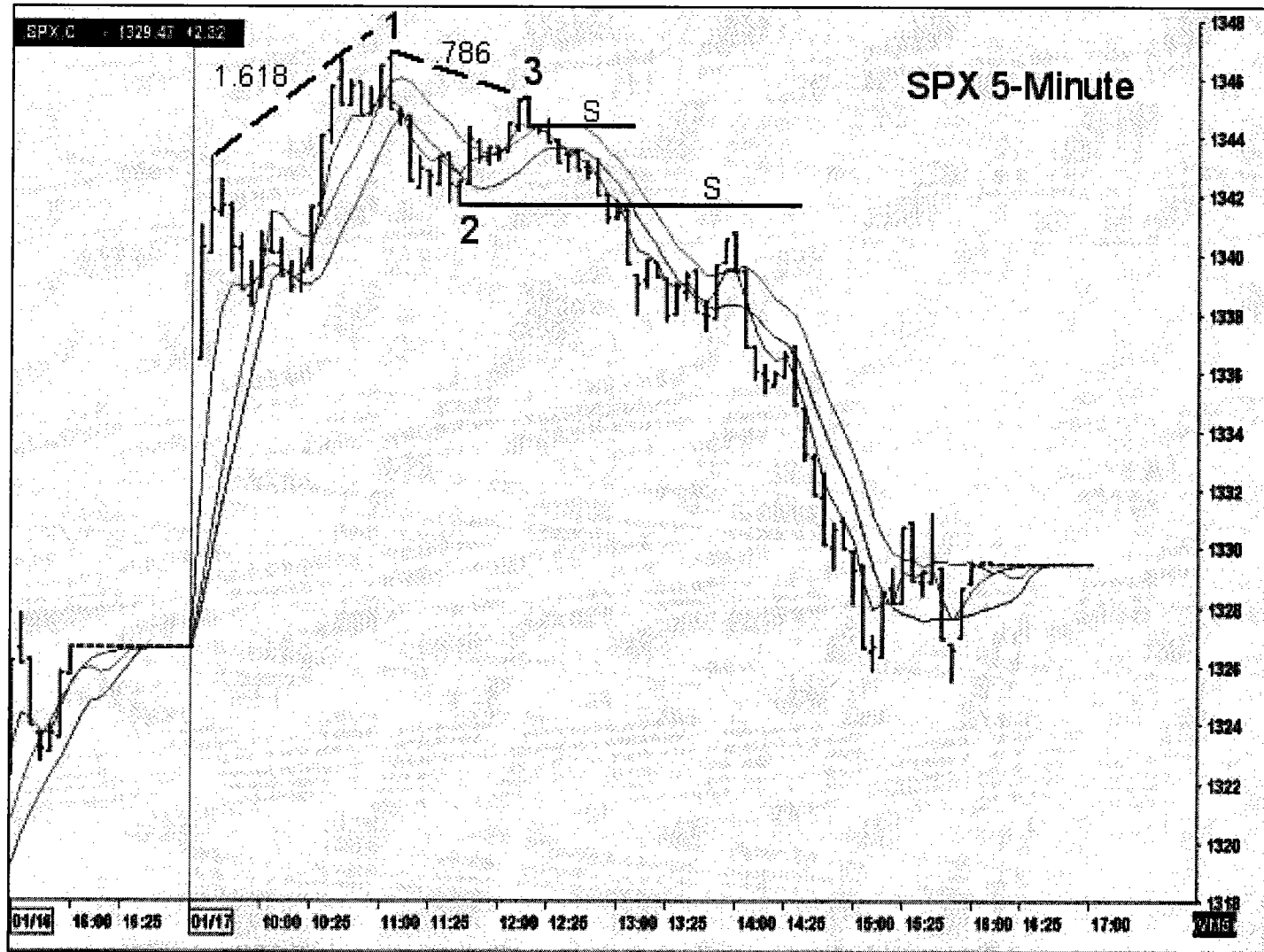
Sequence Trading



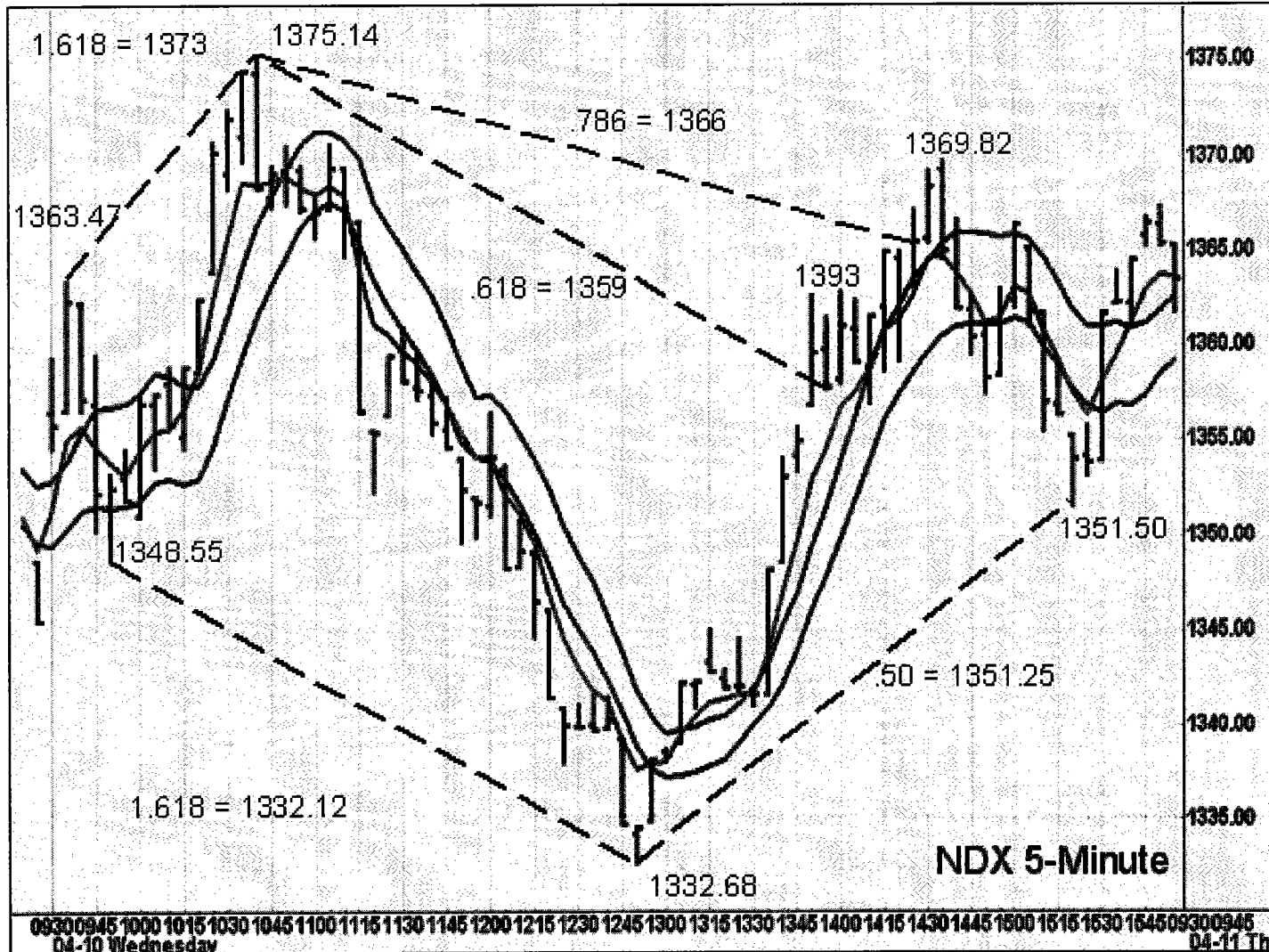
Sequence Trading



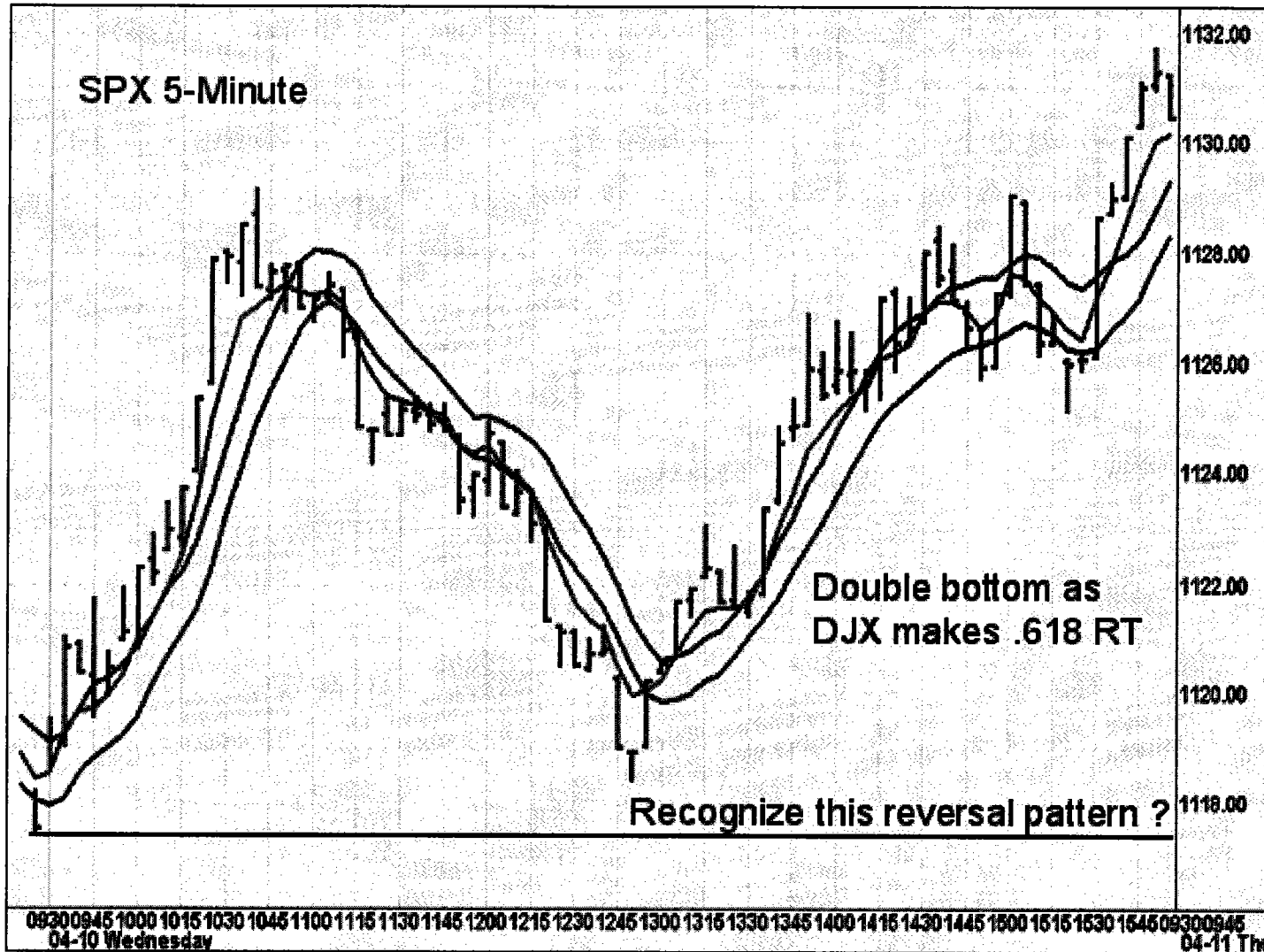
Sequence Trading



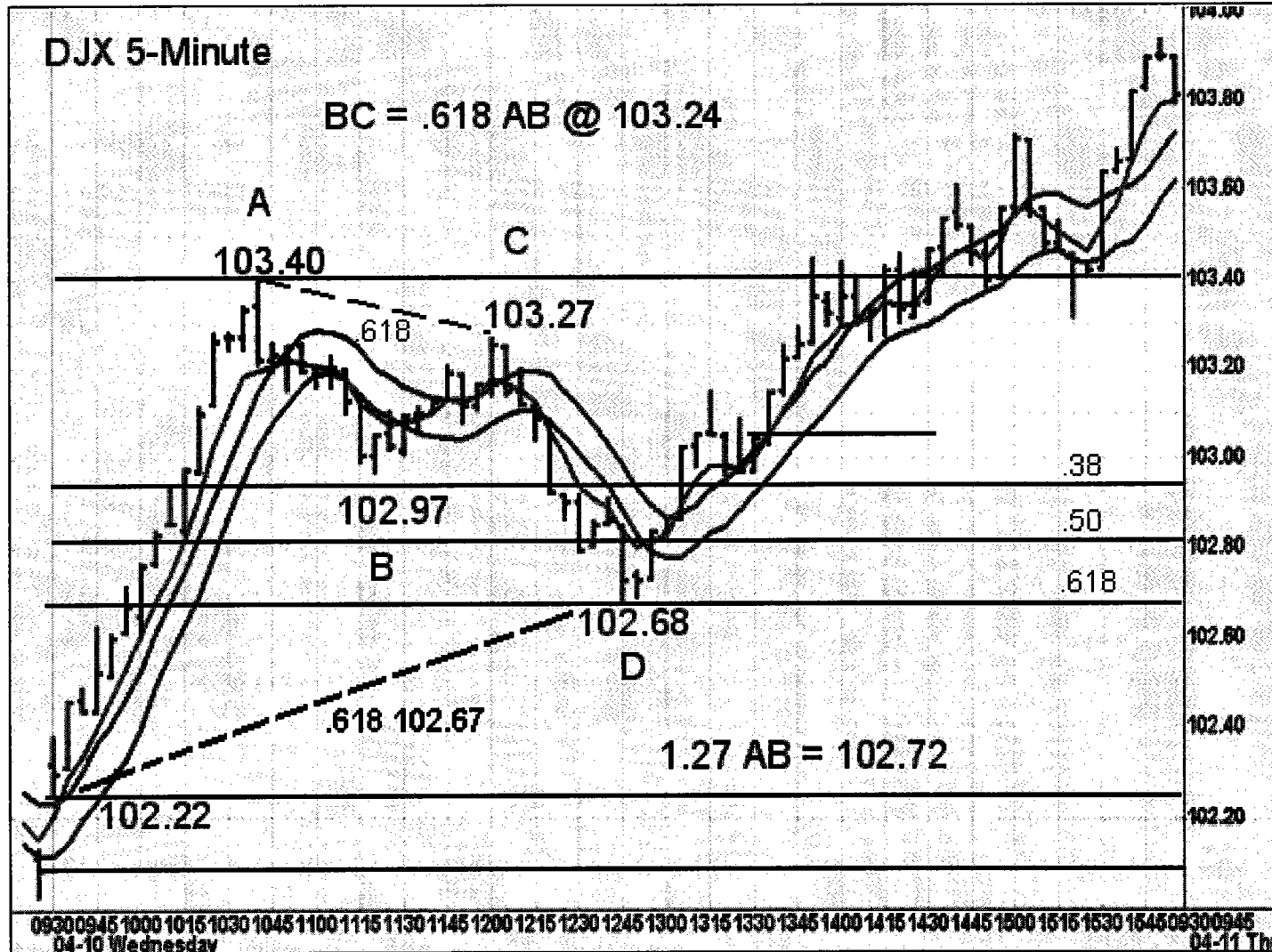
Sequence Trading



Sequence Trading



Sequence Trading



Natural Squares

Natural square numbers seem to play a major role in the price and time movements in the markets, so I use them in conjunction with the other tools you are learning at this seminar.

Example: $3 \times 3 = 9$, $4 \times 4 = 16$, $5 \times 5 = 25$, etc.

I look at the natural square numbers in relation to Fibonacci symmetry, moving averages, support/resistance, and volatility/STDV band levels.

You will see how these numbers reflect many key levels and turning points by looking at past charts.

They can be used to anticipate future turning points in time using weeks, days, hours or minutes.

Natural Squares

Natural Squares

$1 \times 1 = 1$	$14 \times 14 = 196$	$27 \times 27 = 729$	$40 \times 40 = 1600$	$53 \times 53 = 2809$	$66 \times 66 = 4356$
$2 \times 2 = 4$	$15 \times 15 = 225$	$28 \times 28 = 784$	$41 \times 41 = 1681$	$54 \times 54 = 2916$	$67 \times 67 = 4489$
$3 \times 3 = 9$	$16 \times 16 = 256$	$29 \times 29 = 841$	$42 \times 42 = 1764$	$55 \times 55 = 3025$	$68 \times 68 = 4624$
$4 \times 4 = 16$	$17 \times 17 = 289$	$30 \times 30 = 900$	$43 \times 43 = 1849$	$56 \times 56 = 3136$	$69 \times 69 = 4761$
$5 \times 5 = 25$	$18 \times 18 = 324$	$31 \times 31 = 961$	$44 \times 44 = 1936$	$57 \times 57 = 3249$	$70 \times 70 = 4900$
$6 \times 6 = 36$	$19 \times 19 = 361$	$32 \times 32 = 1024$	$45 \times 45 = 2025$	$58 \times 58 = 3364$	$71 \times 71 = 5041$
$7 \times 7 = 49$	$20 \times 20 = 400$	$33 \times 33 = 1089$	$46 \times 46 = 2116$	$59 \times 59 = 3481$	$72 \times 72 = 5184$
$8 \times 8 = 64$	$21 \times 21 = 441$	$34 \times 34 = 1156$	$47 \times 47 = 2209$	$60 \times 60 = 3600$	$73 \times 73 = 5329$
$9 \times 9 = 81$	$22 \times 22 = 484$	$35 \times 35 = 1225$	$48 \times 48 = 2304$	$61 \times 61 = 3721$	$74 \times 74 = 5476$
$10 \times 10 = 100$	$23 \times 23 = 529$	$36 \times 36 = 1296$	$49 \times 49 = 2401$	$62 \times 62 = 3844$	$75 \times 75 = 5625$
$11 \times 11 = 121$	$24 \times 24 = 576$	$37 \times 37 = 1369$	$50 \times 50 = 2500$	$63 \times 63 = 3969$	$76 \times 76 = 5776$
$12 \times 12 = 144$	$25 \times 25 = 625$	$38 \times 38 = 1444$	$51 \times 51 = 2601$	$64 \times 64 = 4096$	$77 \times 77 = 5929$
$13 \times 13 = 169$	$26 \times 26 = 676$	$39 \times 39 = 1521$	$52 \times 52 = 2704$	$65 \times 65 = 4225$	$78 \times 78 = 6084$

Probability

Regardless of how and what you trade, you must have an edge to be very successful. Volatility will revert to the mean and prices will in turn react from extended levels. This can be quantified statistically over any period of time, and you must know where you are in the zone so that you can trade accordingly. It is never a comfortable feeling to do this, and that is why we utilize the other tools, such as Fibonacci relationships, which determine price and time. However, volatility Bands and Standard Deviation determine how extended and what the probability is that price will be contained within the various bands and that gives you trades with mathematical expectation.

Probability Table

Probability Table

<u>STDV</u>	<u>PROBABILITY</u>
1.00	68%
1.28	80%
1.50	88%
2.00	95%

The Tools I Use for Identifying Extended Zones

1. Volatility Bands – These are calculated using the implied volatility of the ATM put and call (AIV). IV reflects the perception of how the underlying will react in the immediate future/day, as opposed to the past (historical volatility). This information is presented in the section on volatility bands. We will see this in action on many of the charts.

The Tools I Use for Identifying Extended Zones

2. **Standard Deviation** – I like to also use a standard deviation channel with the 1.0, 2.0 and 3.0 STDV bands. This is a standard feature on many vendors. These are bands distanced by any number of standard deviations above and below a linear regression trendline. The same statistical analysis applies, except that the bands change as prices change the median price line, whereas volatility bands utilize implied volatility and change according to that.

For the inquisitive, regression analysis is measuring the relationship between two or more sets of data. Linear regressions use the least squares method to plot the median line. This is what they call the best fit straight line that comes closest to the next data point.

That is a linear explanation from a vendor, but in the real world, it doesn't matter because you will just be using the feature, and you can believe from experience that it identifies the extended zones. (Math made easy.)

STDV

I have included the following STDV charts that give you an idea of how the STDV bands look in different time periods, and that's important in determining your strategy for different time periods, i.e., when the SPX was trading at 776 and then 769, price was extended to the 3.0 STDV band and was also in confluence with other Fibonacci relationships and entry patterns, including the 1,2,3 lower bottom and RST.

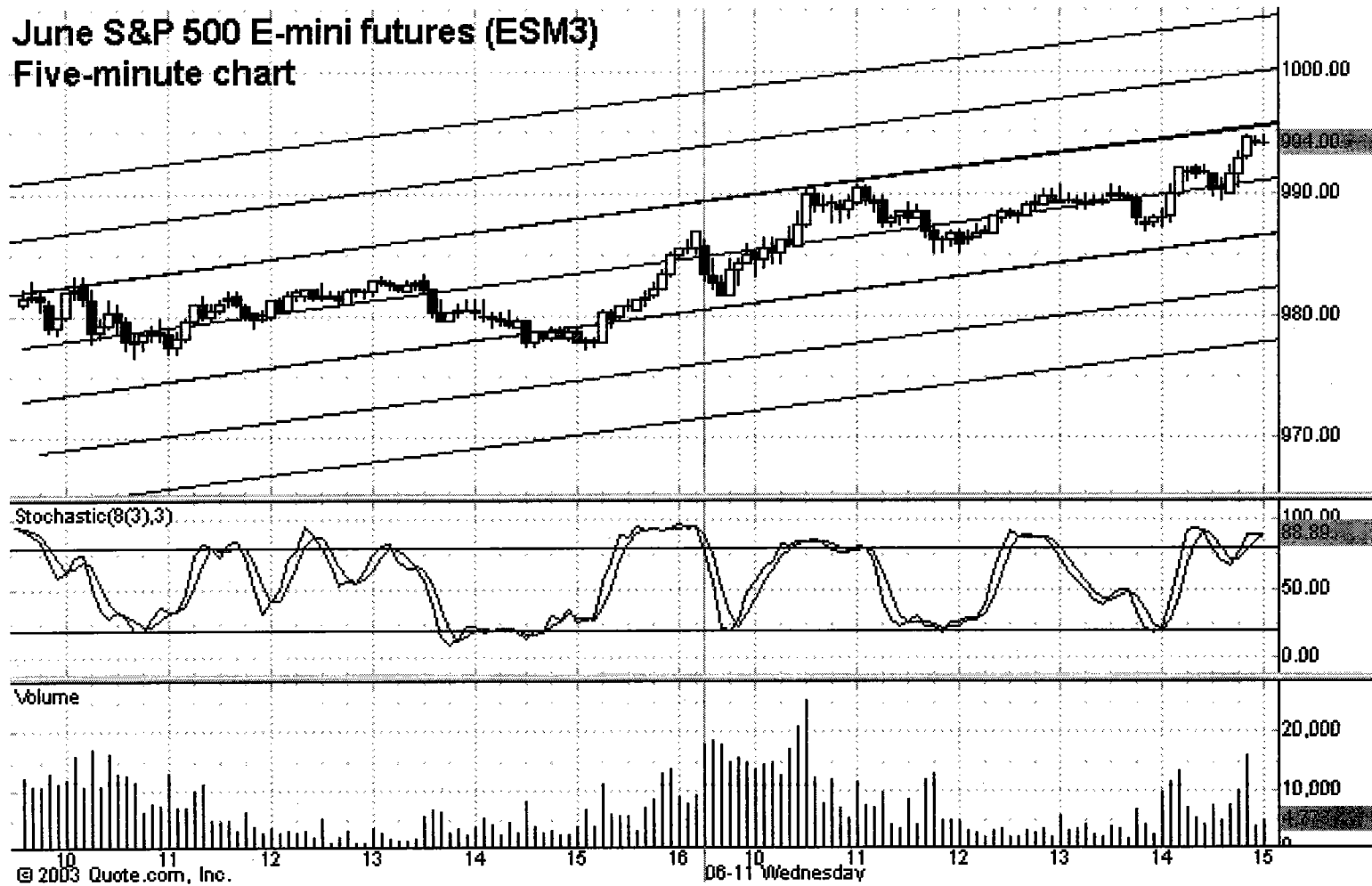
The following charts are examples of the STDV channels with 1.0, 2.0 and 3.0 bands. If your vendor doesn't have the feature, you can use the regression channel with the 1.0 and 2.0 STDV bands, which is the last chart in this sequence.

STDV

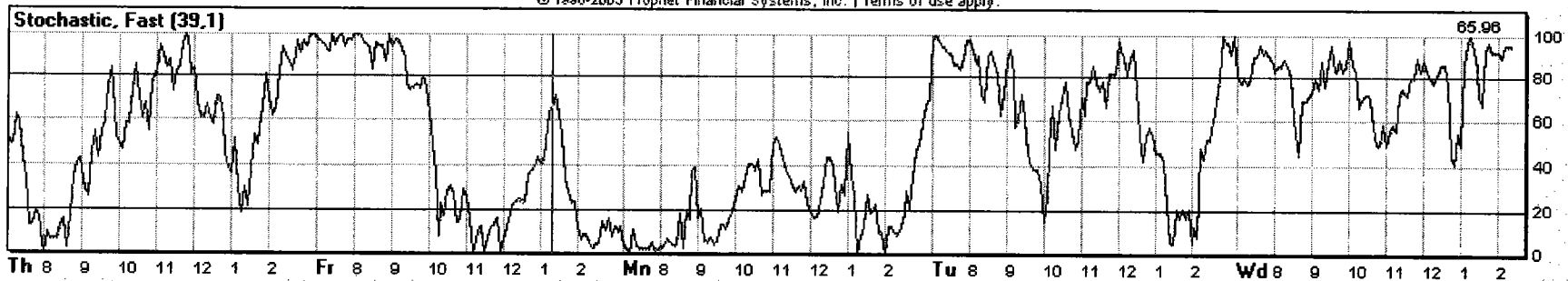
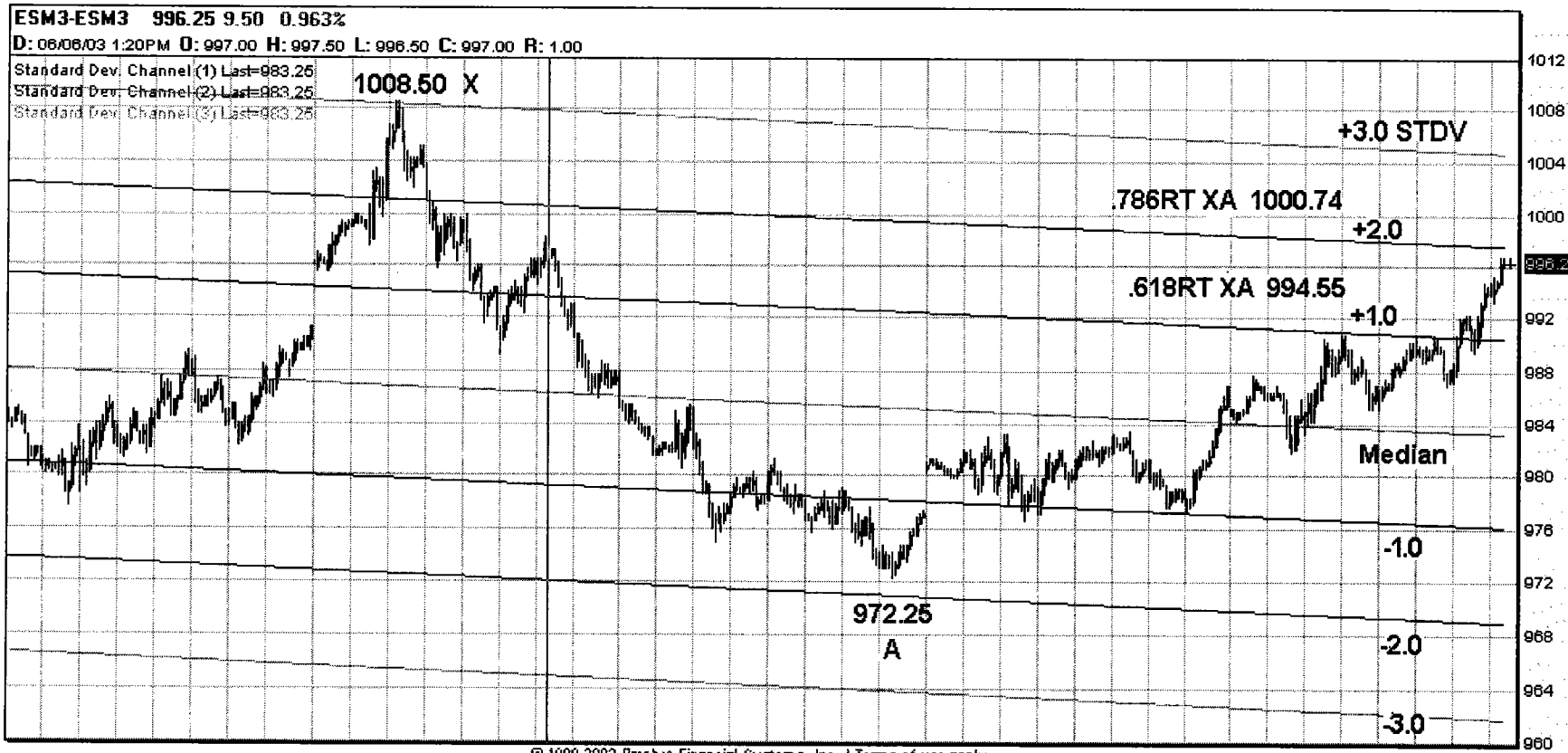
Real-World Examples

STDV

June S&P 500 E-mini futures (ESM3)
Five-minute chart

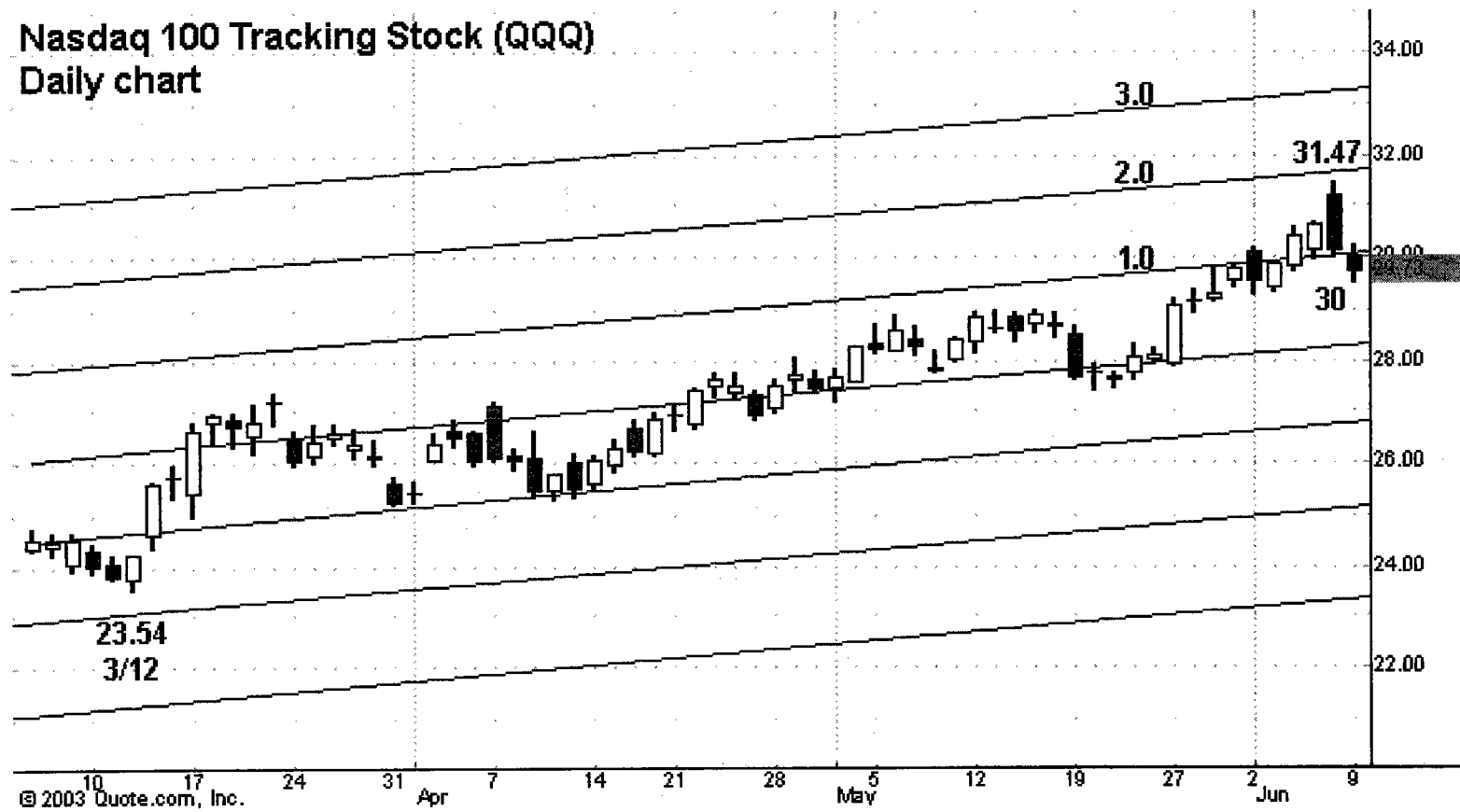


STDV

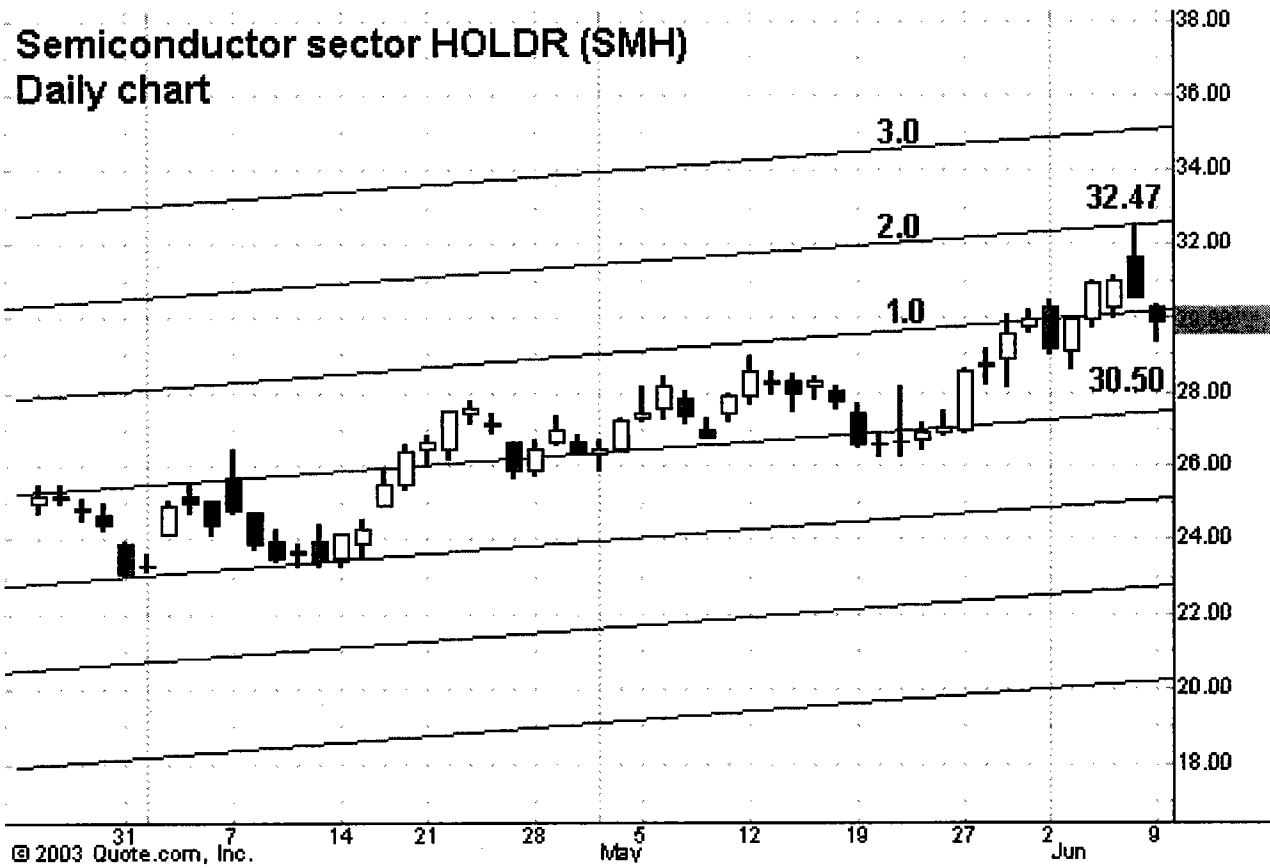


STDV

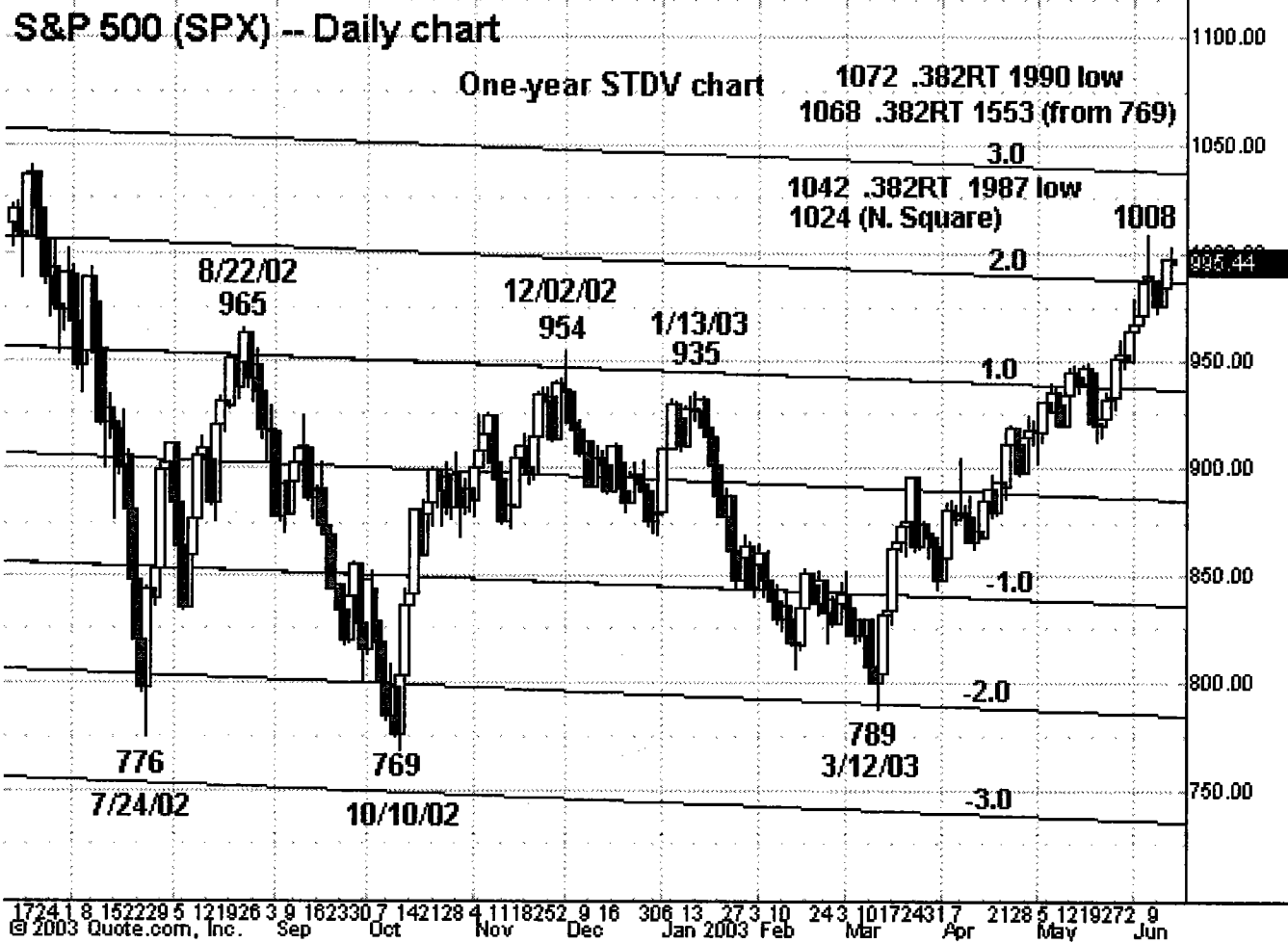
Nasdaq 100 Tracking Stock (QQQ)
Daily chart



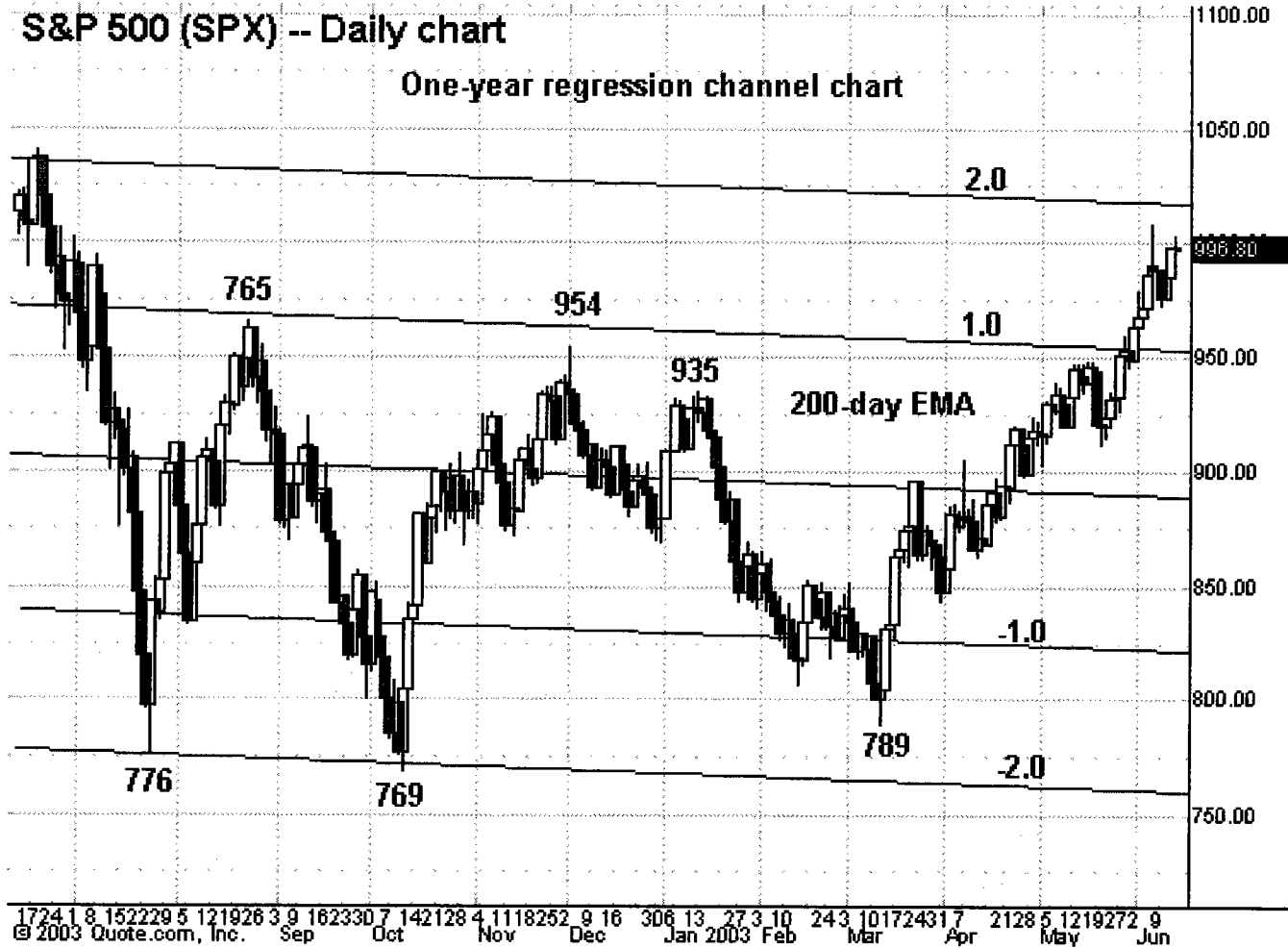
STDV



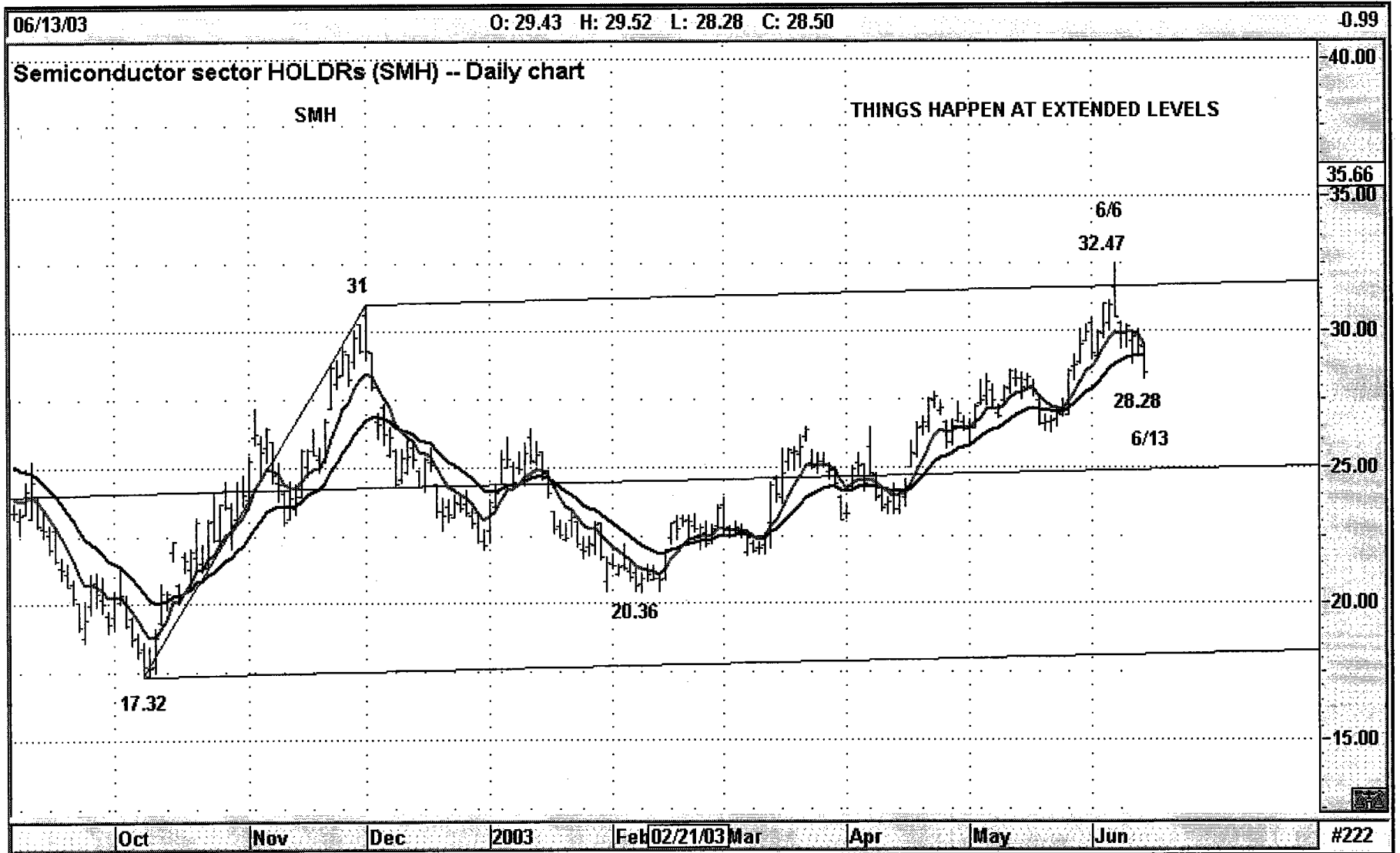
STDV



STDV



STDV



We are building a house, and you now have the primary components, which are price, time and volatility, which when combined, are a powerful combination. You will also incorporate other tools, like moving averages and monthly/weekly pivots. (I don't use daily pivots, just my volatility bands because it doesn't include any games played on closing prices, which is a key point of the calculation, but on monthly/weekly pivots, it's not a factor. However, I do use them as a confirming indicator to our power tools.)

Pivot Calculations

$$R3 \quad H + 2(P - L)$$

$$R2 \quad P + 2(P - L)$$

$$R1 \quad P + (P - L)$$

$$\text{Pivot} \quad H + L + C/3$$

$$S1 \quad P - (H - P)$$

$$S2 \quad P - 2(H - P)$$

$$S3 \quad L - 2(H - P)$$

Note: the calculations you are trading against for monthly/weekly pivots are the previous month and week, not the current one. I find these numbers come into play.

Websites that I find very useful for Fibonacci and Pivots are as follows:

- I. www.parttimetrader.com

FIBCALL 3 is software that you can purchase for a one-time charge of \$45 and needs no special data feed. You input price and the software does the rest. I use it frequently and have it on my toolbar all day. It gives you the Fibonacci Retracements, Extensions, Pivot Dates by Ratio and Pivot Dates by Sequence, which give you price and time by calendar days. It also has some other very useful features for traders.

EXAMPLES

1. PRICE: RETRACEMENTS, EXTENSIONS

FibCalc

DownTrend

	Retrace	.236	.382	.500	.618	.786	1.236	1.382	1.500	1.618	1.786	2.000
Symbol	BOUNCE	954.02	1068.49	1161.00	1253.51	1385.22	1738.02	1852.49	1945.00	2037.51	2169.22	2337.00
SPX	.236	769.00	883.46	975.98	1068.49	1200.20	1553.00	1667.46	1759.98	1852.49	1984.20	2151.98
HIGH	.382	654.54	769.00	861.51	954.02	1085.74	1438.54	1553.00	1645.51	1738.02	1869.74	2037.51
1553	.500	562.02	676.49	769.00	861.51	993.22	1346.02	1460.49	1553.00	1645.51	1777.22	1945.00
LOW	.618	469.51	583.98	676.49	769.00	900.71	1253.51	1367.98	1460.49	1553.00	1684.71	1852.49
769	.786	337.80	452.26	544.78	637.29	769.00	1121.80	1236.26	1328.78	1421.29	1553.00	1720.78
	1.000	170.02	284.49	377.00	469.51	601.22	954.02	1068.49	1161.00	1253.51	1385.22	1553.00
	1.236	-15.00	99.46	191.98	284.49	416.20	769.00	883.46	975.98	1068.49	1200.20	1367.98
	1.382	-129.46	-15.00	77.51	170.02	301.74	654.54	769.00	861.51	954.02	1085.74	1253.51
	1.500	-221.98	-107.51	-15.00	77.51	209.22	562.02	676.49	769.00	861.51	993.22	1161.00
	1.618	-314.49	-200.02	-107.51	-15.00	116.71	469.51	583.98	676.49	769.00	900.71	1068.49
	1.786	-446.20	-331.74	-239.22	-146.71	-15.00	337.80	452.26	544.78	637.29	769.00	936.78
	2.000	-613.98	-499.51	-407.00	-314.49	-182.78	170.02	284.49	377.00	469.51	601.22	769.00

2. TIME: PIVOT DATES BY RATIO
PIVOT DATES BY SEQUENCE



Pivot Dates by Ratio

Pivot Dates by Sequence

mbol
%

/4/10/2002 v

3/12/2003 v

/4/10/2002 v

/2/ 2/2002 v

3/12/2003 v

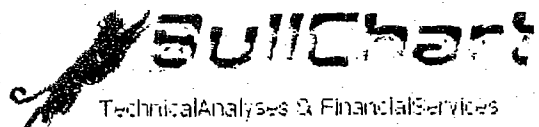
.236	4/17/2003	2.236	2/17/2004
.382	5/10/2003	2.382	3/10/2004
.500	5/27/2003	2.500	3/28/2004
.618	6/14/2003	2.618	4/15/2004
.786	7/10/2003	2.786	5/11/2004
1.000	8/12/2003	3.000	6/13/2004
1.236	9/17/2003	3.236	7/19/2004
1.382	10/9/2003	3.382	8/10/2004
1.500	10/27/2003	3.500	8/28/2004
1.618	11/14/2003	3.618	9/15/2004
1.786	12/10/2003	3.786	10/11/2004
2.000	1/12/2004	4.000	11/13/2004

13 DAYS	21 DAYS	34 DAYS	55 DAYS
10/23/2002	10/31/2002	11/13/2002	12/4/2002
89 DAYS	144 DAYS	233 DAYS	377 DAYS
1/7/2003	3/3/2003	5/31/2003	10/22/2003
13 DAYS	21 DAYS	34 DAYS	55 DAYS
12/15/2002	12/23/2002	1/5/2003	1/26/2003
89 DAYS	144 DAYS	233 DAYS	377 DAYS
3/1/2003	4/25/2003	7/23/2003	12/14/2003
13 DAYS	21 DAYS	34 DAYS	55 DAYS
3/25/2003	4/2/2003	4/15/2003	5/6/2003
89 DAYS	144 DAYS	233 DAYS	377 DAYS
6/9/2003	8/3/2003	10/31/2003	3/23/2004

II. www.bullchart.de

This is a German website that has no English except what you need for Fibonacci Retracements, Extensions, in addition to Pivots calculated out to the third high resistance and third low support.

Examples



- [Startseite](#) | [Forum](#) | [Techn.Analyse](#) | [Rechner](#) | [Kurse](#) | [News](#) | [Zertifikate](#) | [ChartService](#) | [TaiPan](#)
 Quicklinks: [Indizes](#) | [Dax](#) | [US-Werte](#) | [SMDax](#) | [EuroStoxx](#) | [Nemax](#) | [Nebenwerte](#)

- [Hauptmenü](#) | [Finanz-Rechner](#)
 [Startseite](#) | [Pivot-Rechner für Indizes](#) | [Fibonacci-Rechner für Retracements](#) | [Prozent-Rechner](#)
 [Marktsegmente](#) | [Pivot-Rechner](#) | [Fibonacci-Rechner für Extensions](#) | [Fragen,Wünsche,Vorschläge ?](#)
 [Gesamtliste](#)
 [Nachrichten](#)
 [Techn. Analyse](#)
 [TaiPan Einführung](#)
 [Kurse](#)
 [Zertifikate](#)
 [Zertifikats-Suche](#)
 [Pivot-Rechner](#)
 [Fibonacci-Rechner](#)
 [Linkliste](#)
 [ChartService](#)
 [Finanzforum](#)
 [Feedback](#)

Tai-Pan
Börsensoftware
BullChart arbeitet mit
TaiPan-Software.

Fibonacci-Retracements

High: 1553
Low: 769
Differenz: 784

	Retracement	Uptrend	Downtrend
	200,00%	2337.00	-15.00
	178,60%	2169.22	152.78
	161,80%	2037.51	284.49
	150,00%	1945.00	377.00
	138,20%	1852.49	469.51
	123,60%	1738.02	583.98
	100,00%	1553.00	769.00
	78,60%	1385.22	936.78
	61,80%	1253.51	1068.49
	50,00%	1161.00	1161.00
	38,20%	1068.49	1253.51
	23,60%	954.02	1367.98

Info
High/Hoch:
Low/Tief: Berechnen

Hinweis!
Die Tabelle wurde so gestaltet, daß sie kopiert u. woanders strukturiert eingefügt/angezeigt werden kann. Über einen Hinweis auf www.bullchart.de würden wir uns freuen....

- FinanzRechner
- [Pivot-Rechner](#)
das Instrument der
FutureTrader
- [Pivot-Rechner](#)
für Indices neu!

Hauptmenü

- Startseite
- Marktsegmente
- Gesamtliste
- Nachrichten
- Techn. Analyse
- TaiPan Einführung
- Kurse
- Zertifikate
- Zertifikats-Suche
- Pivot-Rechner
- Fibonacci-Rechner
- Linkliste
- ChartService
- Finanzforum
- Feedback

Tai-Pan
Börsensoftware
BullChart arbeitet mit
TaiPan-Software.

FinanzRechner

- Pivot-Rechner**
das Instrument der
FutureTrader
- Pivot-Rechner**
für Indices neu!

Finanz-Rechner

- Pivot-Rechner für Indizes**
- Pivot-Rechner**

- Fibonacci-Rechner für Retracements**
- Fibonacci-Rechner für Extensions**

- Prozent-Rechner**
- Fragen,Wünsche,Vorschläge ?**

Fibonacci-Extensions

High: 935.05
Low: 768.63
Differenz: 166.42

Extension	UpTrend	DownTrend
200,00%	1267.89	435.79
178,60%	1232.28	471.40
161,80%	1204.32	499.36
150,00%	1184.68	519.00
138,20%	1165.04	538.64
123,60%	1140.75	562.93
100,00%	1101.47	602.21
78,60%	1065.86	637.82
61,80%	1037.90	665.78
50,00%	1018.26	685.42
38,20%	998.62	705.06
23,60%	974.33	729.35

Info

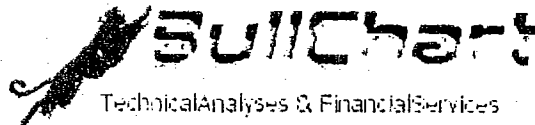
High/Hoch:

Low/Tief:

[Berechnen](#)

Hinweis!

Die Tabelle wurde so gestaltet, daß sie kopiert u. woanders **strukturiert** eingefügt/angezeigt werden kann. Über einen Hinweis auf www.bullchart.de würden wir uns freuen....



Sparda-Bank West eG

Die Privatkundenbank *freundlich & fair*

- Startseite
- Forum
- Techn.Analyse
- Rechner
- Kurse
- News
- Zertifikate
- ChartService
- TaiPan

Quicklinks: [Indizes](#) [Dax](#) [US-Werte](#) [SMDax](#) [EuroStoxx](#) [Nemax](#) [Nebenwerte](#)

[Hauptmenü](#) [Finanz-Rechner](#)

- [Startseite](#)
- [Pivot-Rechner für Indizes](#)
- [Fibonacci-Rechner für Retracements](#)
- [Prozent-Rechner](#)
- [Marktsegmente](#)
- [Pivot-Rechner](#)
- [Fibonacci-Rechner für Extensions](#)
- [Fragen,Wünsche,Vorschläge ?](#)
- [Gesamtliste](#)
- [Nachrichten](#)
- [Techn. Analyse](#)
- [TaiPan Einführung](#)
- [Kurse](#)
- [Zertifikate](#)
- [Zertifikats-Suche](#)
- [Pivot-Rechner](#)
- [Fibonacci-Rechner](#)
- [Linkliste](#)
- [ChartService](#)
- [Finanzforum](#)
- [Feedback](#)

Tai-Pan
Börsensoftware
BullChart arbeitet mit
TaiPan-Software.

Pivot-Points
spx
High: 965.38
Low: 902.83
Close: 963.59

3.Widerstand: **1047.59**
2.Widerstand: **1006.48**
1.Widerstand: **985.04**
Pivot-Punkt : **943.93**
1.Unterstützung: **922.49**
2.Unterstützung: **881.38**
3.Unterstützung: **859.94**

<http://www.bullchart.de>

Info

High/Hoch:

Low/Tief:

Close/Letzter:

[Berechnen](#)

Hinweis!

Die Tabelle wurde so gestaltet, daß sie kopiert u. woanders **strukturiert** eingefügt/angezeigt werden kann. Über einen Hinweis auf www.bullchart.de würden wir uns freuen....

FinanzRechner

[Pivot-Rechner](#)
das Instrument der
FutureTrader

[Pivot-Rechner](#)
für Indices neu!

Info:

3.Widerstand = High Breakout Point

2.Widerstand = High (R2)

1.Widerstand = Sell (R1)

1. Unterstützung = Buy (S1)

2.Unterstützung = Low (S2)

3.Unterstützung = Low Breakout Point

III. www.village2000.com

- HIT:
- Enter Village
 - Crystal Ball Forum
 - Daytrading Tools
 - Fibo Calculator (price and time)
 - Enter two dates for Time Calculation or high and low for Price Calculation

Note: This site also uses calendar days for its count and measures time from the starting date, giving you information by ratio date.

Examples

Retrace from End

Start	End	Diff	.382	.447	.5	.526	.577	.618	.707	.786	.887	1.0	1.272	1.41	1.618	2.0	2.24
10/10	3/12	153	1/13	1/3	12/26	12/22	12/14	12/8	11/24	11/12	10/28	10/10	8/30	8/9	7/8	5/10	4/4

Advance from Start

Start	End	Diff	.382	.447	.5	.526	.577	.618	.707	.786	.887	1.0	1.272	1.41	1.618	2.0	2.24
10/10	3/12	153	12/8	12/18	12/26	12/30	1/6	1/13	1/26	2/7	2/23	3/12	4/23	5/14	6/15	8/12	9/18

1. TIME: Pivot Dates by Ratio

SYMBOL: **HIGH:** **LOW:**

Calc Reset

For fibo date calculation, enter the Starting Date and the Ending Date in the second blank, and then click on the "Calc" button.

From: January 1 To: January 1

Calc Reset

[Return to CB Forum Menu](#)

Fibo-Calculator

Retrace Levels from High

Symbol	High	Low	Diff	.382	.447	.5	.526	.577	.618	.707	.786	.887	1.0	1.272	1.41	1.618
SPX	1553	769	784	1253.512	1202.552	1161	1140.616	1100.632	1068.488	998.712	936.776	857.592	769	555.752	447.56	284.488

Rally Levels from Low

Symbol	High	Low	Diff	.382	.447	.5	.526	.577	.618	.707	.786	.887	1.0	1.272	1.41
SPX	1553	769	784	1068.488	1119.448	1161	1181.384	1221.368	1253.512	1323.288	1385.224	1464.408	1553	1766.248	1874.44

SYMBOL: HIGH: LOW:

Calc Reset

For fibo date calculation, enter the Starting Date and the Ending Date in the second blank, and then click on the "Calc" button.

From: January 1 To: January 1

Calc Reset

Return to CB Forum Menu

Note: Extensions go out to 2.24 but not shown due to size.

IX. 1,2,3 Patterns

1,2,3s

- The most common and defined reversal patterns at significant bottoms and tops are what are called 1,2,3 higher, lower and double bottoms. For tops, it is 1,2,3 lower, higher and double tops. They have also been referred to as “W” bottoms and “M” tops, in addition to right and left shoulder bottoms and tops. I call them 1,2,3s because it clearly indicates the way I define and utilize swing points in the trading patterns.

- What I especially like about 1,2,3s is that it not only works for daytrading, it works in all time frames and all markets.
- What makes the way I trade 1,2,3s so powerful with such a high risk/reward ratio is that I combine all of the various “tools” that can be quantified, and the result is a high-probability trading opportunity with a positive mathematical expectation.

Before describing the six different 1,2,3 patterns that you will trade, I want to explain with graphic examples what exactly swing points are and also the trendline terminology used with the strategy.

Swing Point Lows And Highs

Swing Point Low -- To put it simply, a swing point low is a low bar on a chart that is framed by higher lows on each side. See examples of this in the diagram below.

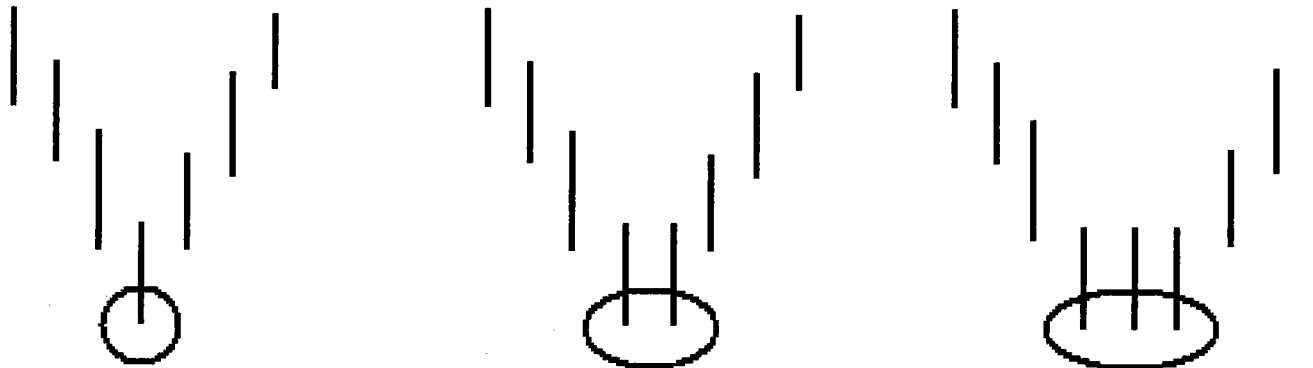


Figure 1

Swing Point Lows And Highs

Swing Point High -- A swing point high is the mirror image of the swing point low. It is a high bar surrounded by two lower highs. See examples of this in the diagram below.

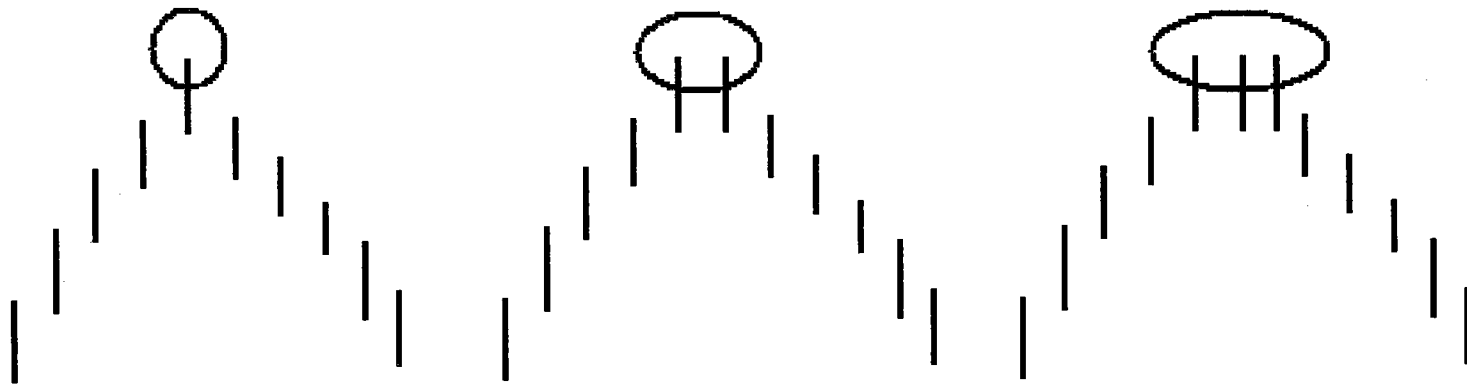


Figure 2

Keep in mind that the low can be made by one bar, or sometimes two or three. What is important to remember is that a low bar or bars has a higher low on each side of it (them), and a high bar or bars has a lower high on each side. You must be able to recognize swing points to be able to identify the 1,2,3 pattern.

Trendline Guidelines

The beginning of all six 1,2,3 patterns starts with a break of the near-term trendline. When drawing the trendline, observe the following guidelines:

Trendline Guidelines

1. Connect the previous two swing points if available. (See Figure 3.)

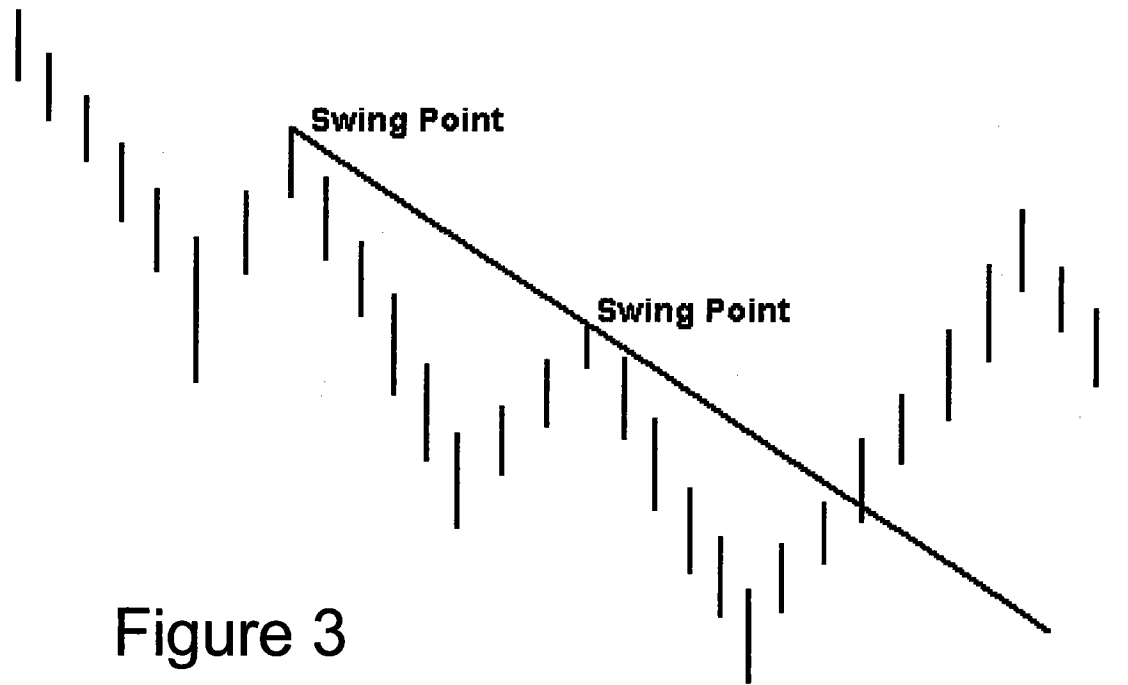


Figure 3

Trendline Guidelines

2. If there are less than two swing points because of a rapid decline, then you just draw a logical trendline (see Figure 4) over the declining highs. This happens most often on intraday patterns.

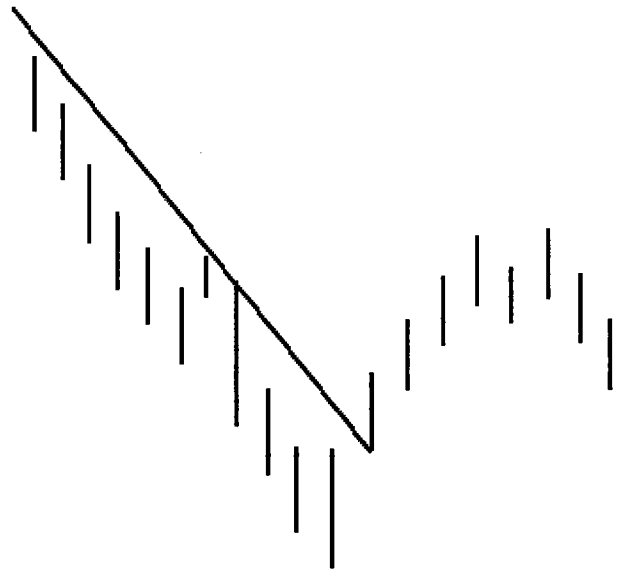


Figure 4

Trendline Guidelines

3. The move is strongest when the leg breaking the trendline is accompanied by an increase in volume and reverses the last leg down or at least the previous three to four highs. This is a guideline, not an absolute rule, as there might not be a big initial volume increase as the patterns develop at an extended level.

Trendline Guidelines

4. I like to see a seven- to eight-bar advance when breaking the trendline. You can take a trade if the move is less than that, but it should be at least five bars, unless there are wide range thrust bars when breaking the trendline.
 - a) On monthly and weekly charts, you adjust the requirement down to one or two closes above/below the trendline.

Pattern #1 -- 1,2,3 Higher Bottom

The first pattern I will show you is the 1,2,3 Higher pattern. The majority of all reversals in a trend following a decline will have this pattern -- in all time frames, whether intraday, daily, weekly or monthly.

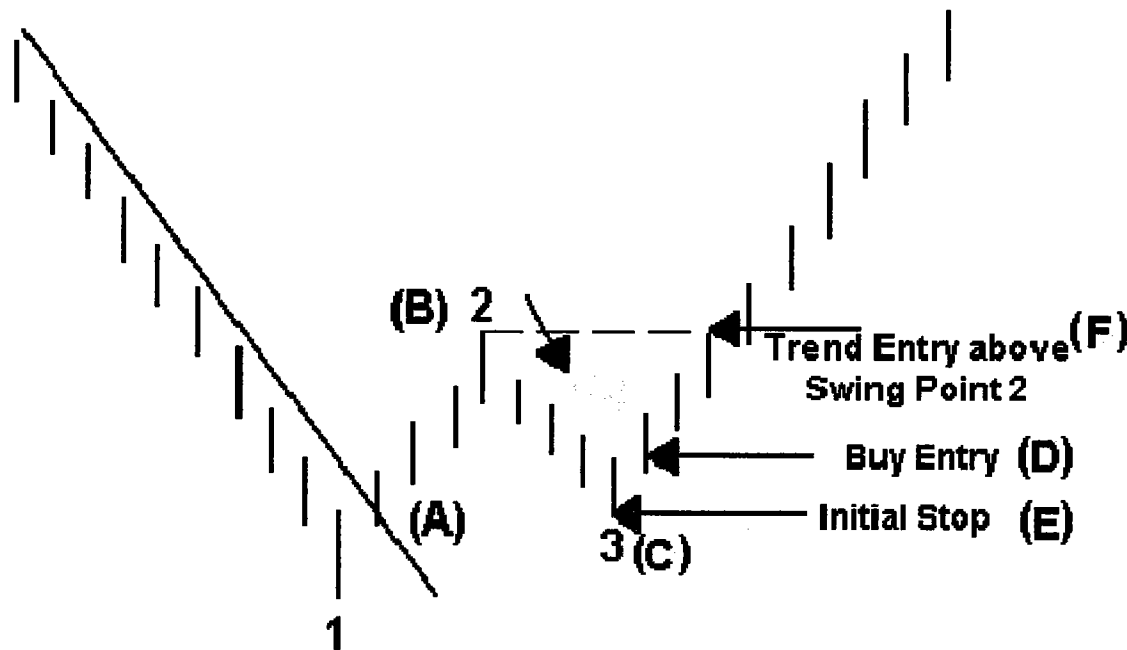


Figure 5: Refer to this chart as I walk you through the dynamics of the pattern.

Pattern #1 -- 1,2,3 Higher Bottom

The dynamics of the pattern are as follows:

1. As with all six of the 1,2,3 patterns, it begins with a breaking of the nearest trendline (A).
2. The first leg advances until Swing Point 2 is formed (B).
3. After declining below the low of the swing point 2 bar, it retraces four bars and then price closes above the mid-point and in the top of the range, which becomes the signal bar setting up swing point 3 (C). Your entry is taken above the signal bar high (D).

Pattern #1 -- 1,2,3 Higher Bottom

4. The test and retracement to the swing point 1 low must be at least .38% of the distance from the swing point 2 high. After an initial strong decline to form the 1 point, the retracement to the swing point 1 low will most often be a .50 to .618 Fibonacci retracement. Anything more than that will become a double or lower bottom pattern.

KEY POINT: The retracement from the swing point 2 high should be a minimum of three bars on the daily or intraday charts. The decline to swing point 3 on higher volume would be positive.

Pattern #1 -- 1,2,3 Higher Bottom

5. The initial stop on intraday trades can be placed below the swing point 3 low (E), unless it's a narrow-range bar, in which case you would use a money stop, or even below the swing point 1 low if the potential risk didn't exceed your normal guideline. When taking a 1,2,3 entry from a daily or weekly chart pattern and your stop percentage is, say, in the 5% to 7% range (prefer no more than 5%), then you will sometimes place a stop below the 1 point low.

Pattern #1 -- 1,2,3 Higher Bottom

Key Point: Because a 1,2,3 HB can reverse and trade lower to a .786 RT to a double bottom or even a 1,2,3 lower bottom, I prefer the stop below the 3 point low (or money stop) for the simple reason that I can always take a second entry at the double bottom, and even a third entry if it becomes a 1,2,3 lower bottom. I will often get three entries at a risk of no more than if I had placed my initial stop below the swing point low. It's easier to control your risk that way, and increase your odds of success by getting three potential entries to just one. That is my philosophy for all time frames.

Pattern #1 -- 1,2,3 Higher Bottom

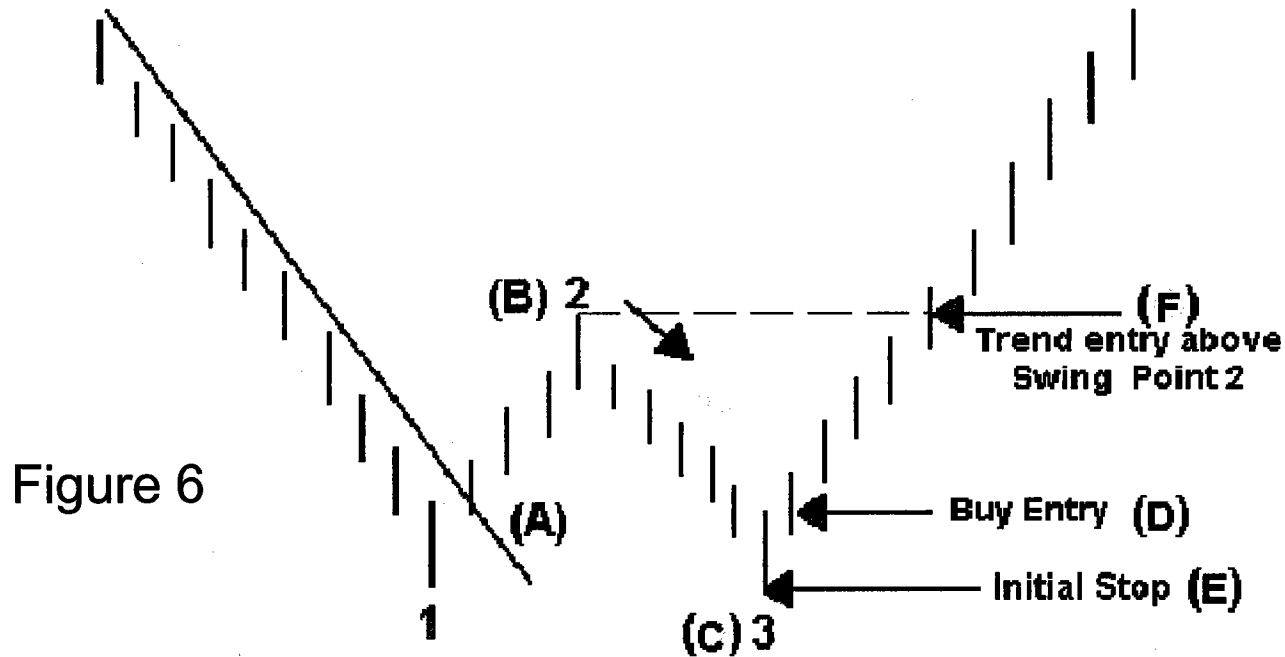
6. The trend entry by definition is above the swing point 2 high (F) and this is where the majority of trend traders will take their initial trade. That will never be my first entry, but can sometimes be a second entry for a smaller amount of shares if the market dynamics are confirming the entry. Sometimes, especially on intraday trades, it will often be where you take 50% of your profit and move your stop to breakeven.

Pattern #1 -- 1,2,3 Higher Bottom

Key Point: Regardless of how you manage a trade, the market determines when you exit a trade and that might be prior to your stop getting hit if there is news or you see the market dynamics suddenly reverse.

Pattern #2 -- 1,2,3 Double Bottom

The second pattern we will look at is the 1,2,3 Double Bottom. On this pattern you will follow the same rules as in the 1,2,3 Higher, however, the last leg continues down until it is roughly equal to the level of Swing Point 1, or the .786 RT to swing point 1.



Refer to this chart as I walk you through the dynamics of the pattern.

Pattern #2 -- 1,2,3 Double Bottom

Let's review the rules of the pattern again:

1. The pattern begins with a breaking of the nearest trendline (A).
2. The first leg advances until swing point 2 (B) is formed.
3. At Swing Point 2 (B), price reverses and pulls back to the .786 retracement, or about the same level of swing point 1, and swing point 3 is formed.

Pattern #2 -- 1,2,3 Double Bottom

4. Entry is above the signal bar high (D), which closed above the mid-point and in the top of the range (not necessarily if signal bar or narrow-range bar).
5. The retracement to swing point 3 (C) is best if it is on declining volume before you get the reversal bar entry (D).
6. The best initial stop is placed below the swing point 3 low (E) or else a money stop.
7. Trend entry is above the swing point 2 high (F) and might be your second entry for fewer shares.

Pattern #2 -- 1,2,3 Double Bottom

KEY POINT: When the futures or stocks are close to taking out the Swing Point 1 low, there is often incentive for futures traders, market makers and specialists to take out that low, "shake the tree" so to speak, and suck traders into putting on short positions. After this, they will then reverse price back to the upside.

This takes us to the next pattern, which is the 1,2,3 lower pattern (Shake and Bake).

Pattern #3 -- 1,2,3 Lower Bottom (Shake and Bake)

The 1,2,3 Lower Bottom pattern is what I like to call the "Shake and Bake." This is my favorite 1,2,3 pattern because popular opinion is almost always against buying futures or stocks at this point. You are buying at the point where the crowd does not want to, and you often get explosive moves. The significant difference in this pattern is that Swing Point 3 forms below Swing Point 1, exhibiting the look of another leg down, but quickly reverses the swing point 1 low, which catches the shorts, especially on an intraday basis.

Pattern #3 -- 1,2,3 Lower Bottom (Shake and Bake)

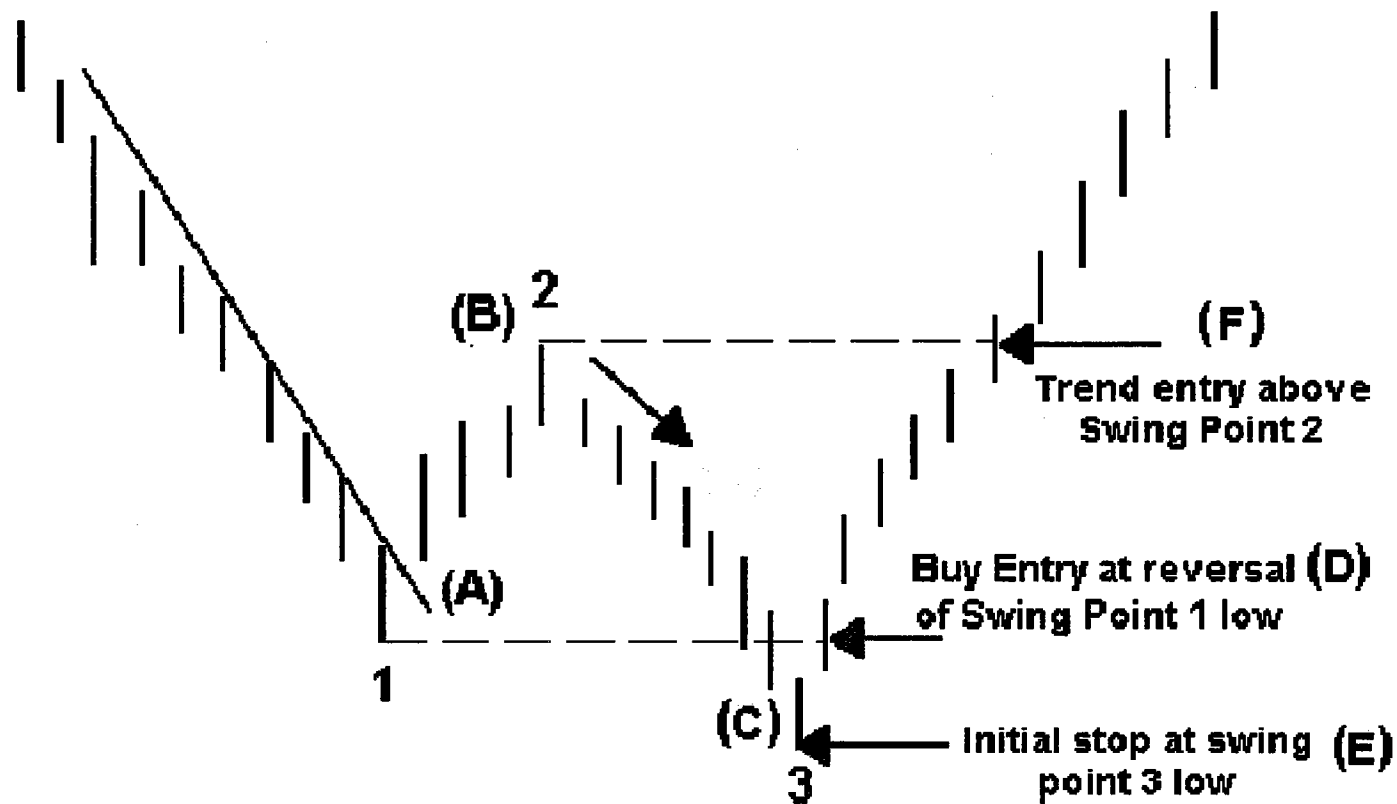


Figure 7: Refer to this chart as I walk you through the dynamics of the pattern.

Pattern #3 -- 1,2,3 Lower Bottom (Shake and Bake)

The rules of the pattern are slightly different than the first two 1,2,3 buy patterns.

1. The pattern begins with a breaking of the nearest trendline (A).
2. The first leg advances until swing point 2 (B) is formed.
3. At Swing Point 2 (B), price reverses (C) and retraces to test the Swing Point 1 bottom.
4. The test fails and price trades below the Swing Point 1 low (D), at which point, you are looking for swing point 3 (C) to set up.

Pattern #3 -- 1,2,3 Lower Bottom (Shake and Bake)

5. Look for entry (D) if price reverses above the swing point 1 low, provided it hasn't traded too far below the swing point 1 low before reversing.

Key Point: The professionals like to take out intraday and previous day lows because they can catch the stops, suck in some shorts, then reverse price to the upside after they get long. It's very easy for them to do this in nervous markets when the Generals are not a force on the buy side that day. Program traders will sometimes do this by initiating sell orders in futures, which forces the market down and they can buy the SPX cash index stocks at lower prices to complete the trade of selling futures and buying stocks at certain spread, which they did better than because they created some emotional selling.

Pattern #3 -- 1,2,3 Lower Bottom (Shake and Bake)

6. Initial stop is placed below the swing point 3 low, or if that's too far, then we use a money stop, or else a stop below the swing point.
7. Trend entry is above Swing Point 2 (F) high, but is not usually a good risk/reward because of the range that price has traveled from the swing point 3 low to swing point 2.