

Swing Trading Using Candlestick charting with Pivot Point Analysis

Written by John L. Person

Introduction:

This booklet was written with the intention of enlightening your knowledge and awareness of different techniques of technical analysis. As a professional trader and public speaker I strive to help educate my community of investors and clients. As an example of my commitment to that goal I want to provide this manual to you. I believe that continued education can help increase knowledge and through improved knowledge comes confidence.

This booklet is not designed to cover every detail of the material discussed but to help you to explore a new avenue or refresh your memory of material you may have learned previously.

About the Author:

John Person is a 22-year veteran of the Futures and Options Trading industry. Since his start on the floor of the Chicago Mercantile Exchange, he has worked his way throughout the industry as a Broker, Trader, Branch Manager for one of Chicago's largest discount / full service firms under the tutelage of a former Chairman of the Chicago Board of Trade. Early in his career, John worked as an apprentice for George C. Lane – Credited with the creation of the oscillating system known as Stochastics. In addition, John studied Candlestick Charting techniques by Dan Gramza, the man who helped Steve Nison from his first book. John has applied his knowledge throughout the years by appearing as a regular contributor on several financial television programs and as a keynote speaker at some of the countries top Investment Expositions. In addition, John is the editor of "The Bottom-Line Newsletter", a weekly commodity publication that incorporates fundamental developments as well as technical analysis including his own proprietary trading system-using support and resistance levels on a daily, weekly and monthly basis. This helps his clients identify potential buy or sell signals on a short, intermediate or a long-term basis.

CHAPTER 1

Pivot Point Analysis is a famous technique that is used as a price forecasting method for day traders and professional traders as well. It is very popular among professionals.

You should have a better understanding of this method after reading and studying this booklet and the benefits to you may help improve your timing of entry and exit points of the market.

There are numerous advisory services, brokerage firms and independent traders that use one form of it or another. Support /Resistance, price range forecasting pin pointing tops and bottoms and target trading are some of the terms that are used to refer to it as well. For most traders on the floor of the exchanges it is considered common knowledge or old school of teaching.

Most novice individual investors and even brokers are not familiar with this formula. I believe that most inexperienced investors have a hard time with incorporating this technique in their trading "tool box" due to the time it takes to calculate the numbers. But make no mistake the professionals' look at it and so should you.

First here is the mathematical formula where P= Pivot point; C= Close: H= High: and L= Low.

The Pivot point number is the high, low, close added up and then divided by three. $P=(H+L+C)/3$ = pivot point
Now for the first resistance level take the pivot point number times two and then subtract the low. $(Px2)-L$ =
Resistance 1

For the second resistance, take the pivot point number add the high and then subtract the low. $P+H-L$ = Resistance
2

For the first support take the pivot point number times two and then subtract the high. $(Px2)-H = \text{Support 1}$

For the second support, take the pivot point number subtract the high and then add the low. $P-H+L = \text{Support 2}$

All right, now that we have that established you can see it is a detailed formula. So let's try to simplify it. Consider the Pivot Point as the average of the previous sessions trading range combined with the closing price. The numbers of support and resistance that are calculated indicate the potential ranges for the next time frame based on the past weight of the markets strength or weakness derived from the calculations of the high, low and distance from the close of those points. Pivot Point analysis is also used for identifying breakout points from the support and resistance numbers.

The previous sessions trading range could be based and calculated for an hour, a day, a week or a month. Most trading software includes these numbers on a daily basis so that you do not have the tedious chore of doing it the old fashion way, by hand using a calculator. The really old fashion way doesn't use a calculator. Don't make your job harder try the easy way.

I wrote a computer program so that I can calculate the numbers on a daily, weekly and monthly time period relatively quick and for most markets. These calculations are available to clients by Fax, email or by viewing on line. Clients and visitors have access to this research by going to my website www.nationalfutures.com.

I personally do the daily numbers at the end of the day in order to help me identify the next day's potential range or support and resistance. It gives me a head start on my research so I am prepared for the next day's work. It helps me to plan my trades. Similarly the weekly numbers are done at the end of every week and the same goes for the monthly numbers.

Since most technical analysis is derived from mathematical calculations the common denominators that are used are the high, low, close and the open. This is what is used for plotting a bar chart. More notarized techniques like Moving averages, Relative Strength Index, Stochastics, and Fibonacci numbers are all calculated using mathematics based on those points of interest. It is also what is published in the Newspapers. It is there for a reason.

The concept is this, as technical analysts we are trying to use past price behavior to help us indicate future price direction. I am not trying to predict the future I just want an Idea of where prices can go in a given time period based on where they have been. After all isn't that similar to the concept of drawing trend lines?

CHAPTER 2

We have all heard the slogan about how to be successful in investing in Real Estate, which is LOCATION, LOCATION, and LOCATION. (Check that out another symbolic reference that involves the Fibonacci number three).

In this business it is important to remember what I call the rule of MULTIPLE VERIFICATION. I more than likely picked this belief by reading a book back in 1981 Or 1982 by Arthur Sklarew. He wrote in his book titled Techniques of a Professional Commodity Chart Analyst, about The Rule of Multiple Techniques (page 3)

He states... Technicians know very well that the price chart analysis is not an exact science. No single chart technique yet discovered is infallible. Despite this lack of perfection, price chart analysis can very often give reliable forecasts of trend direction... ...Confirmation is therefore an essential component of every valid chart signal.

In addition to comparing price charts of different contract months and time scales, it has been my experience that the accuracy of any technical price forecast can be improved greatly by the application of a principle that I call the "Rule of Multiple Techniques."

The Rule of Multiple Techniques requires that the chart technician not rely solely on one single technical signal or indicator, but look for conformation from other technical indicators. The more technical indicators that confirm each other, the better the chance of an accurate forecast.

The logic behind this rule is that if individual time proven techniques tend to be right most of the time, a combination of several such techniques that confirm each other will tend to be right even more frequently.

I do not believe Mr. Sklarew talked about the Pivot Point analysis as a means of technical analysis nor was he aware at the time he wrote that book, of the art of candlestick charting. I believe that had he, it would have more than likely have been in his book.

Verify, verify and verify. What it means to me is this, before deciding to invest or make a trade, if I understand the underlying fundamentals, I would want to look at a chart to confirm the trend and then I would look at varying technical indicators to help confirm my beliefs.

By incorporating different techniques like pivot point analysis, the figures help me speed up my analytical process. With these numbers I can take my charts and draw lines with the support and resistance numbers on them to see if they help clear the “visual” picture. This is one technique that traders should try.

The next example demonstrates how using pivot point analysis can work on most markets and for different time frames. I want to illustrate a price point using the Monthly Pivot Point support number for sugar. As the chart below in figure 2.1 shows, the target support number was 6.09. Let’s do the math and we will see.

The previous months range (September) for the March 2002 Sugar futures was (High) 7.80 (Low) 6.40 (Close) 6.63. Now work the formula and you should show 6.09 as the 1st support number for the month of October.



(figure 2.1)

Let’s examine what happened, the exact low was made eight business days into the month of October and it was 6.11! Two ticks from the projected Pivot Point support number of 6.09. In fact, in this illustration there were two days that the low was made at 6.11, which formed a double bottom.

In addition, there was another traditional chart reading technique that may have given you a clue that a bottom was near and that was the three-gap method. The Break Away Gap, the Mid Point Gap and the Exhaustion Gap.

This chart above, in my opinion, demonstrates a text book example of the multiple verification rule. There were three different techniques that alerted one to a buying opportunity. One of the earlier indicators was the Monthly Pivot Point method, which would have alerted you nearly a week and a half in advance of a potential low. The other two techniques, the gap method and the double bottom chart formation helped confirm that target low.

Keep in mind this is not a typical situation as analyzing markets is generally not this easy. Identifying chart patterns is an art and not an exact science. The important key point to remember here is when you do have confirmation of a support target from using the Pivot Point Calculation with traditional chart reading techniques it will enable one to map out a trading plan using proper risk factors. With a trading plan all mapped out that may help increase your confidence and skills as a trader.

CHAPTER 3

Japanese Candlesticks is the next style of Charting. This has been receiving more and more notoriety in the last decade here in the United States since a gentleman by the name of Steve Nisson published one of his first books on the subject back in 1991.

Candlestick Charting originates back to Japan from centuries ago. It is a method of looking at data differently than has been developed in western cultures. The advantage of using candlestick charting in place of Bar charts is that you have the ability to use same techniques and analysis that bar charts offer plus the diversity and unique signals that candlesticks generate. This can empower you to gain an edge on your competition, the other guy.

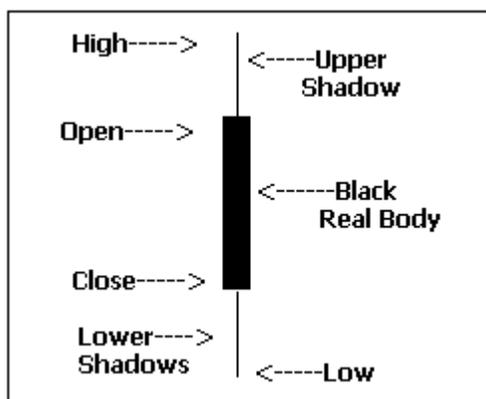
In addition, since this is a more sophisticated style and certainly a more specialized format of charting, it has gained in popularity in the US. It is currently followed by more and more analysts and because of this you should at least look at it objectively and try to educate yourself to its concept.

It gives the chart or the candlestick almost a three dimensional effect. The mystique surrounding this method is believed to be that chartist can see chart patterns more clearly and distinctly. Each "bar" is called a candle.

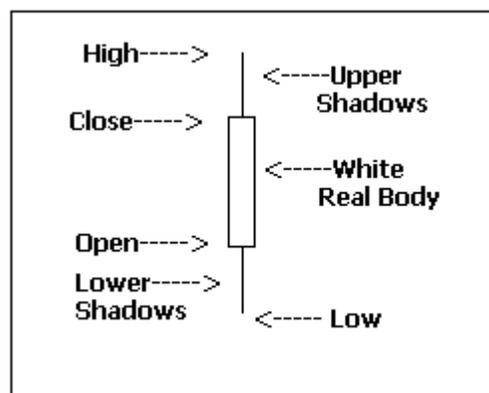
Each candle pictured has a different characteristic that represents the difference or distance between the high, low, open and close. Candlestick charting techniques can be used from data for whatever time period you are looking at, hourly, daily, weekly or monthly. It lends itself to pattern recognition and trend line support, resistance and channel lines.

I want to explain the basics and then I want to show you specific patterns so you can see for yourself how to utilize them. I will also show a few examples of the more popular named "candle" formations.

In addition, I will also include the patterns that have a higher frequency of occurring and explain briefly what they symbolize and how you can trade the markets from recognizing them when they do occur. This is a basic overview for those who do not understand and should be a great stepping stone for advancing to the next level when you are ready.



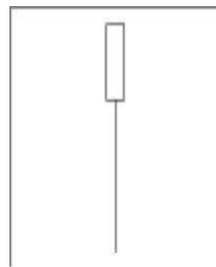
(Fig. 3.1)



(Fig. 3.2)

Let me start off with explaining how to read a "candle". In figure 3.1, the dark candle or dark filled in section refers to a market that closes below the opening range. The white or hollow candle in figure 3.2, refers to a market that closes above the opening range.

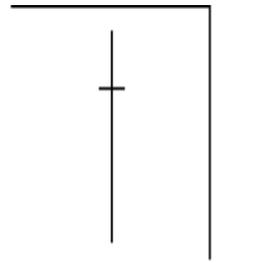
This is another important point, candlestick charting does not tell you if the close is higher or lower than the previous time period, rather only indicating for each “candle” or bar whether the close is higher or lower than the open. Most beginners may confuse this when using or looking at candlesticks for the first time especially when looking at the white or hollow candles versus the dark ones.



(Fig. 3.3)



(Fig. 3.4)



(Fig. 3.5)



(Fig. 3.6)

There are many different candles with different meanings. Candlestick analysis does not have to do with only just the symbol of one single candle but rather several that forms a pattern. These formations have names as does the individual candles.

The Hammer (Fig. 3.3) indicates a reversal or a bottom is near in a downtrend and when they appear at the top of an up trend the name transforms to a Hanging man and it indicates that a top is near. You need to know that there are three main characteristics that they need in order to qualify.

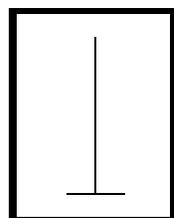
1. The real body is at the upper end of the trading range and that the color (white or black) is not important.
2. The lower part or the “shadow” should be at least twice the length of the real body.
3. It should have little or no upper shadow like a shaved head candle.

The Star (Fig. 3.4) is called such when it is at the top of an up trend. It usually can signal a reversal. Here again the color does not matter but the body should be at the lower end of the trading range with a long shadow.

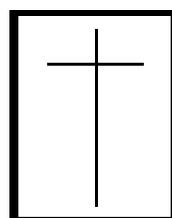
The significance here is that it shows the market opened near the low of the day then had an explosive rally that failed and then closed back down near the low of the day. Usually there is little or no lower shadow like a shaven bottom.

When it is at the bottom of a downtrend this is called an inverted Hammer. The color (white or black) is not important. This is not a tremendously reliable candle as a bottom indicator on it's own. Usually a white candle opening above the inverted hammer's body the next trading session can verify the potential for a buy signal.

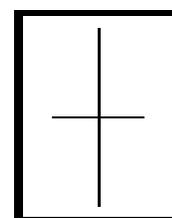
The Doji (Fig.3.5) has nearly the same opening as the closing price. They indicate a change of direction. They are more powerful as an indicator for a market top (especially after a long white or hollow candlestick meaning the market closed above the open). They signify indecision and uncertainty. They can work to indicate bottoms but there are more signals needed to confirm a bottom using Doji. There are several types, The Gravestone (Fig. 3.5a), the Dragonfly (Fig. 3.5b), and the Rickshaw (Fig. 3.5c).



(Fig. 3.5a)

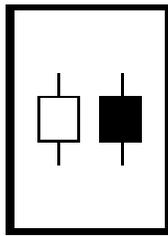


(Fig. 3.5b)

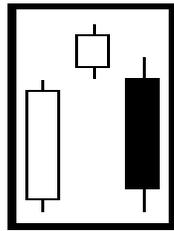


(Fig. 3.5c)

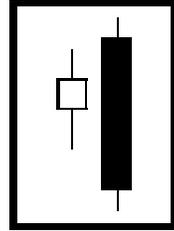
Spinning Tops (Fig. 3.6) and (Fig. 3.7) have small real bodies with usually small upper and lower shadows. These formations indicate a “tug of war” occurring between buyers and sellers.



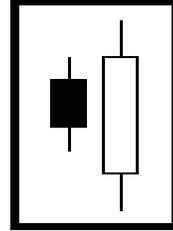
(Fig. 3.7)



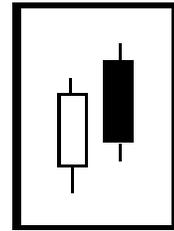
(Fig. 3.8)



(Fig. 3.9)



(Fig. 3.10)



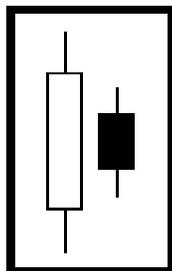
(Fig. 3.11)

An Evening Star (Fig. 3.8) signals a major top. This is a three “candle” formation. The first one is normally a tall white or hollow real body the second one is a small real body (it can be white or black) this gaps higher and can form star formation (a Doji can also be in the middle and that is considered even more bearish). Anyway the third is a black candlestick and the important concept here is to know that it should close well into the first candle's real body. There is an important correlation with the number three in the art of studying candlestick charting. For starters the number three is a Fibonacci number

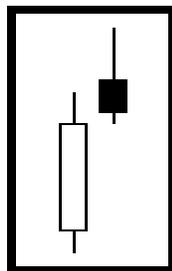
The Bearish Engulfing pattern (Fig.3.9) have a distinct pattern. As you can see the engulfing bearish line is signaled where a black candle's real body completely covers the previous white candle's real body. It is important to note that the opening is higher than the first candle's real body and the close is below the first candle's middle portion of the body. The engulfing bearish pattern occurs during an up trend. It signifies that the momentum may be shifting from the bulls to the bears.

The Bullish Engulfing pattern (Fig. 3.10) is indicated when a white candle's real body completely covers the previous black candle's real body. It is also relevant to note that the opening is lower than the first candle's real body and the close is above the first candle's middle portion of the body. The engulfing bullish pattern is bullish during a downtrend. It signifies that the momentum may be shifting from the bears to the bulls.

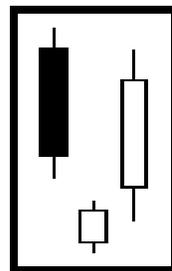
The Dark Cloud Cover in (Fig. 3.11) is another bearish reversal signal. Usually it appears after an up trend. The first white candle is followed by a black candle the important features here are that the dark candle should open higher than the white candle's HIGH and close well below the mid point of the white candle's real body.



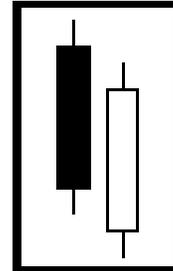
(Fig. 3.12)



(Fig. 3.13)



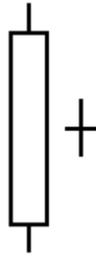
(Fig. 3.14)



(Fig. 3.15)

The Harami (Fig. 3.12) is a small real body, which is within the body of the prior body's candle. This is known as a reversal pattern or a warning of a trend change especially at tops of markets. It is not important that the colors be opposite but I notice that the more reliable signals are generated when the colors are opposite. If the second candle instead of representing a form like a spinning top was a Doji then this would be considered a Harami Cross. Those are rare and are more powerful sell signals at market tops. In figure (3.12a), this formation represents a long white candle signifying the market closed above the open with little or no shadows at both ends of the candle and it was followed in the next time period by a Doji within the middle of the real body. This tells me, especially after a long advance, buyers are changing their minds and the market is changing hands from bulls to bears or sellers are entering the market.

If this formation occurred on high volume or at an important Pivot Point was targeted near the high, a short position would be warranted. At least further examination of a potential opportunity should be explored. A Bullish Harami as an example is shown in figure (3.12b) would occur in a down trending market and the exact opposite would be true. Remember that for the bullish Harami the first candle is usually a long Dark candle signifying the market closed below the open with little or no real shadows at both ends and then the next trading session a Doji formed.



(Fig 3.12a)

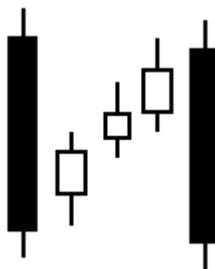


(Fig. 3.12b)

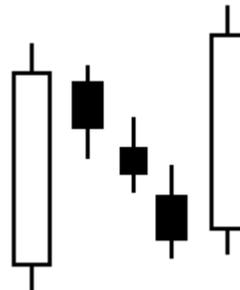
The shooting Star (Fig. 3.13) the text book definition for this two candle pattern is that it gaps higher from the prior candles real body which in an up trending market is usually a white or hollow candle. However the “star” or second candle ‘s color is not important. This signals that the longs have failed to maintain the momentum.

The Morning Star (Fig. 3.14) is a major bottom reversal pattern that is a three candle formation. The first candle has a long black real body; the second candle has a small real body that gaps lower than the first candles body. If the second candle is a Doji then the formation leads to a stronger signal. The third candle’s body sometimes gaps higher than the second one but does not happen often. It is important that it is a white candle and closes well above the midpoint of the first candles real body.

The Piercing Pattern (Fig. 3.15) can be considered the opposite of the Dark Cloud cover. The piercing pattern is a bottom reversing two-candle pattern. It requires the first candle to be a long dark candle and the second candle must gap open lower than the first candle. The other important characteristic is that it closes well above the midpoint of the long dark first candle.



(Figure 3.16)



(Figure 3.17)

The Bearish Falling Three Methods figure 3.16: This is a bearish continuation pattern often associated with a bear flag formation on bar charting techniques. The characteristics start with a long dark or black candle. Some software vendors use the color red instead. Next it is followed by three white or again some charting services use the color green for white or candles that close higher than the open.

The three little candles usually remain within the range of the first black candle that includes both the real body and shadow. Some argue that it works with just two candles in the middle but the actual “textbook” classification is three white candles. The last portion of this formation is the next long dark candle closes below the first black candles close. This is a continuation pattern that indicates prices will continue lower.

The Bullish Rising Three Methods figure 3.17: This is a Bullish continuation pattern with the same characteristics as in the Bearish Falling Three methods, but just the opposite. During the beginning stages of an advancing price trend an unusual long white candle is preceded by three smaller dark or black candles.

The three methods pattern and again it can even be just two but the textbook version is three smaller candles need to stay within the range of the first long white candle. The last white candle shows a powerful advancing white candle that should open above the previous sessions close and it should close above the first long white candles close as well. This is like a western Bull Flag formation that indicates higher prices to come.

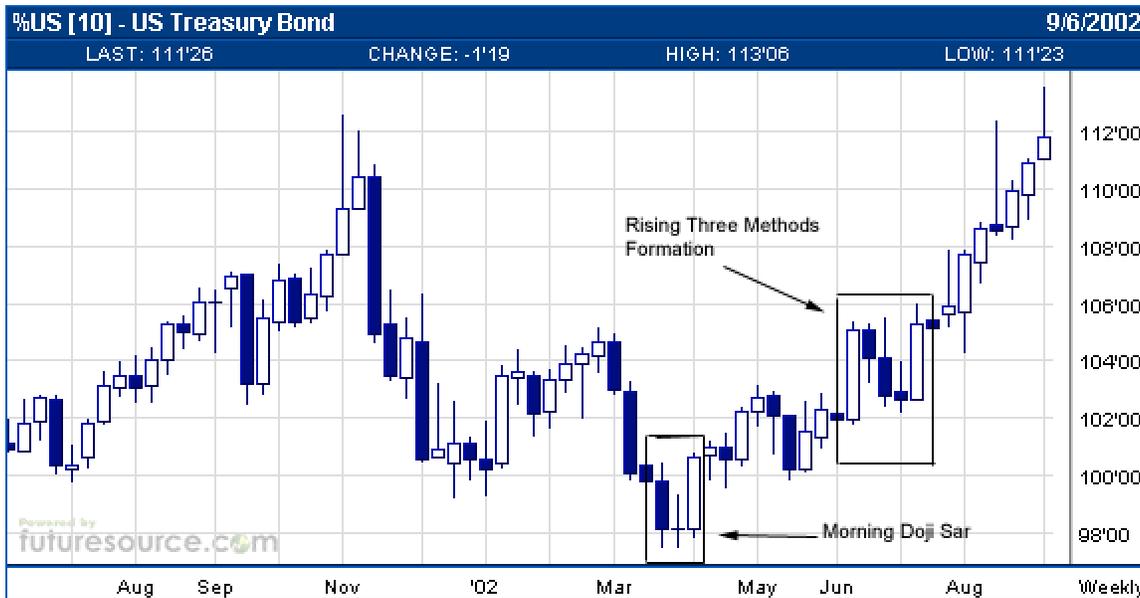
Examine figure 3.18 this is a chart of the 30-year US Bonds



(Figure 3.18)

Here is an excellent opportunity to examine the Evening star Formation, which occurred about the first of November, a variation of a Dark Cloud pattern or more correctly a Bearish Engulfing pattern formed about a week later confirming a top in the market. The downtrend stopped by the formation of a wide ranged Hammer candle, which set the bottom for the market.

Below in figure 3.19 is a candlestick chart on a weekly bond futures contract. The Morning Doji star bottom that formed in March was a clear buy signal that last nearly five months. The Rising Three methods also indicated that the trend or price advance would continue. One point I would like to make is that when dealing with different time frames be aware that if it takes, for example, three time frames for a pattern to develop it usually takes at least three or more time frames for the results or in this case the price advance to develop. The Morning Doji Star is a powerful bottom signal formation. When they occur, have confidence to ride the move and watch for other a continuation pattern like the Rising Three Methods to form in order to help keep you on the right side of the market.



CHAPTER 4

Now let me introduce you to the combination of Candlestick charting and Pivot Point Analysis to help illustrate the powerful signals that can develop. Look at the chart below in figure 4.1.



(Fig. 4.1)

I identified that the market had formed a shooting star followed by a potential Doji after about a seven-week run. This indicated that the market was due for a correction. That formation indicated a tug of war between the bulls and the bears and that a top had formed based on those combined candles.

I had a "second opinion", which was combining the use of pivot point analysis on a Monthly time frame. I was able to determine the "potential" price range or support and resistance point for the next month. Take a look, the High for March Silver for the month of December was 463.5 the low was 412.5 and the close was 458. The calculations were 477.37 (round out to 477.5) for the first resistance (R1) and 426.37 for first support (R2). The exact high was exactly 477.5!

Look at the “after” picture, as illustrated by the chart in figure (4.2). It shows a powerful selling wave took command of the price in silver. Not only did the Pivot Point calculation numbers alert me to the potential high almost two weeks in advance but also the candlestick pattern confirmed it!



(Fig. 4.2)

The Chart below in figure (4.3) is a weekly Dollar Index Futures contract with a three time period exponential moving average overlapped on the candlestick chart. I want to illustrate that the candlestick chart patterns work not only on Day charts but for other time periods as well.

Look at the Shooting Star formation that exposed the turning point for the market on the first week in July. The next candlestick was a hanging man that certainly warned that the trend was changing. The results were a complete market reversal that resulted in a 950-point decline within two and a half months.

Now lets look at the Bearish Harami that formed at the end of January. The characteristics were that the market had a long advance, nearly four months, a long white candle formed (meaning the market closed above the open and there were little or no shadows).

The next candle was a Doji where the market had a wide range but the market closed at or real close to the close. Another observation is the market was forming a major Double top from the prior high.

A plan of attack would be to sell sort a position and place the **initial** stop as a stop close only order above the January high.

The reason I would have used that as my risk target was if the market retest that high I would not want to be stopped out and then to have to watch the market price fail off of the high. I would want to be out only if we saw a new all time high close above that level as that would signal the market's acceptance of a new high price and would probably advance to newer highs.

Here are the benefits of combining Pivot Point analysis to your candlestick chart pattern recognition skills. The data from the week of the long white candle, prior to the 'Doji' that formed on the week of February of 2002, had a high of 120.30 a low of 118.02 and a close of 120.18.

By figuring the calculations the Weekly target number for the first resistance or R1 was **120.98**. Combining that target number with the Bearish Harami Cross gave a powerful one two punch of confidence to sell short! As you can see in figure 4.3 the exact high of that time next week was **120.88**! Yes, the R1 target number was .10 ticks higher than the actual highg but given a margin of error I would say it was close enough to determine a trading plan. This is why I define combining Candlestick Charting with different time frames of Pivot Point Analysis a powerful tool.



(Figure 4.3)

Now take a look at the Dollar Index in Figure 4.4. Since about mid-April when the three Exponential Moving Averages (4, 9, and 18 periods) made a “DEAD” cross-over (when the short term MA’s cross over longer term MA’s a sell signal is indicated) the market price continued lower.



(Figure 4.4)

DAY trading or Swing Trading

Now I want to introduce you to another valuable lesson using this method of price forecasting. By taking the daily, weekly or monthly numbers you can target a price level and wait for confirmation from a recognized chart pattern. This can help you in taking advantage of the price swings from the market reacting off of those numbers. By having the calculations based on the different time frames, one can use them for day trading or swing trading.

Below in figure 4.5 is the Dow 10 dollar per point futures contract. Here you will see an hourly candlestick chart pattern. I normally use the 60-minute and or a 15-minute time period for my studies. In this example we see once again a good example of why this is not exact science. The S1 Support target for the trading session of 1/25/02 was 9751. The actual low was 9735. That is 16 ticks of slippage, which equates to 160 dollars on the 10-dollar per tick contract. By watching the hourly closing time period to see if a Bullish candlestick pattern appears at an important level of support or a Bearish candlestick pattern at an area of resistance, I am able to determine a trading plan with a higher degree of confidence.

In the example below, using the data from 1/24/02 (high 9855, low 9760 and close 9794) we calculated the S1 SUPPORT for the next day (1/25/02) at 9751. The second hour of trading on 1/25/02, a Bullish Engulfing pattern formed and generated a strong buy signal. The opening of the third 60-minute period gave an opportunity to go long near 9790 using a stop below the low of 9735. In fact, a stop could have been placed below 9750 so the risk would be down to 400 dollars (10 times 40 equals 400). Within one hour the market advances up to the 8960 and gives an opportunity to move stops up or get out of a long position near the R1 resistance number of 9846. Three hours later the price advances up to a high of 9895 generating an opportunity to liquidate the long position near the Daily resistance R2 of 9898.



(Figure 4.5)

The reaction of the market when it trades near these pivot numbers can be a significant bounce when near a support number or the market can simply stall before blowing through the support number and then continuing the trend lower. In my experience there is usually a “reaction” from the numbers. The longer time period (weekly or monthly) the calculation is from, the bigger the reaction can be. Really the only thing you as a trader needs is to get in the market, capture a significant price move, get out and profit from it!

The chart below in figure 4.6 is a 60-minute chart starting on Tuesday July 16th and ending on July 30th 2002. I am going to demonstrate how the Pivot Point Analysis, based on the weekly numbers, in one of the biggest down months in S&P history targeted the support level and called for the low within 9 points!

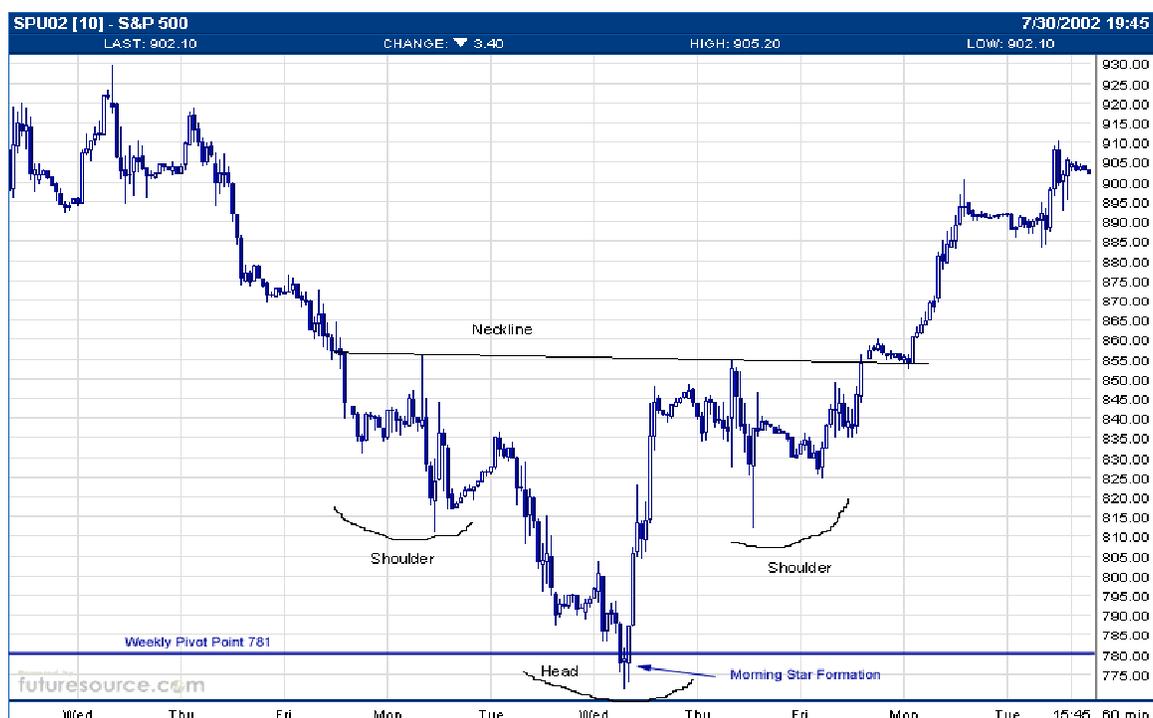
The week ending 7/19/02 had a high of 929.5 the low was 840 and the market closed at 844. The fundamental backdrop was so pessimistic with all the corporate accounting scandals, doubt that the economy could sustain growth, Middle East tensions were flaring and earnings were coming in weaker than expected. There were not many indicators that were calling for a low or a turn around in the equity markets.



(figure 4.6)

There were however, a few positive indicators and one method called Pivot Point Analysis targeted which had **781.67** for the S2 target low number for the week ending 7/26/02! The hourly candlestick chart in figure 5.11 not only showed a version of a morning star formation, but the actual low that morning on 7/24/02 was **771.30**. The market stayed at that level for less than two hours!

So why is this important? If you only had access to the daily or monthly numbers then you missed out on what turned out to be an important and powerful turn around in Stock Index Futures History! Now as you look at this chart it may reveal what I call a "trade signal rich environment". I highlighted the inverted head and shoulder formation that developed below in figure 4.7. If you apply Chart pattern recognition skills and use the Head and shoulders price measuring theory, when you measure the distance from the inside of the head to the neckline and extend that up you would get the price objective from that formation to about 915. Coincidentally the actual high for that move was 915.9! This is shown on the next page.



(Figure 4.7)

The next example in figure 4.8 is also from the S&P 500 futures contract. It is a continuation from the previous chart from figure 4.7. I want to point out that this was from one of the most volatile time periods for the stock market. To have a reliable tool to help discover a target price or forecast a high for the range in a given time period was invaluable!

Taking the numbers from the prior week ending on 7/26/02, the high was 856 the low was 771.30 and the close was 853.70.

We now have the projected price range for next weekly trading session which would be the week ending 8/02/02. The first target resistance number was calculated at 882.7 and the second target resistance was 911.70. Look at the chart in figure 4.8 a Bearish Harami cross was formed thus generating a critical signal that the markets price advance was coming to an end.

The chart from figure 4.7 shows a Head and Shoulders pattern applying the theory of price measuring techniques the objective for this pattern was around 915. If you observe the chart in figure 4.8 notice the high for Wed. was at 915.9!



(Figure 4.8)

SUMMARY

To conclude, this booklet was designed to help introduce you to the powerful method of these technical analysis techniques. Portions of this booklet were from my trading course Target Trading Techniques; some of the charts were direct trade examples from the research that is provided in the Weekly Newsletter *The Bottom Line Financial and Futures Report*. This valuable Newsletter covers 16 of the top futures markets.

The research site www.nationalfutures.com is an advisory service designed to alert and help teach investor's important trading signals and potential price turnarounds as well as trend continuation signals.

Retrieving the data and then applying the Pivot Point formulas is a tedious chore. That is one reason I believe most novice speculators in the futures markets do not use these numbers consistently.

As a research service, www.nationalfutures.com provides these calculations to subscribers on an excel spreadsheet the night before all Daily trading sessions on 24 of the most active Futures markets. The Daily, Weekly and Monthly price calculations as well as a special proprietary market direction signal indicator for those time frames are included. This helps traders keep focused on the current condition of the markets whether it is Bullish or Bearish.

The technique using PIVOT POINT analysis as accurate as the demonstrations are in this booklet as with any technical trading tool, is not the holy grail of indicators. It is however, as in these examples showed, a good tool to have in every trader's arsenal of trading weapons. Most traders, who are not familiar with using it, do become excited and amazed at its consistency in predicting support and resistance in different time frames for most markets. I strongly recommend that all readers expand their knowledge and continue to learn new techniques as well as old ones in order to stay on top of their technical analysis skills.

Technical analysis is considered to be an art and not an exact science. As technicians, we look at indicators or we rely on price pattern recognition techniques to give us clues to help interpret or anticipate the price direction or price movement of a market.

Candle stick charting helps traders clearly visualize chart pattern signals and pivot point analysis alerts me to the potential high and lows of a given time period of a particular market. When I include other forms of technical analysis such as Stochastics, Moving Averages, MACD studies, Volume and Open Interest it helps me to make a logical, informed trading decision, which I can set my entry and exit points as well as define risk parameters. If the trade fails, after all as one great trader said to me "Its ok to loss your shirt just don't loss your pants because that's where you wallet is". As a trader, if you are out of money you have no more capital to work with. The elements to becoming a successful trader are identifying profitable trades, but more importantly when you are wrong when to get out are key elements to becoming a successful trader.

If you would like further information on the trading methods discussed in this manual, order instructions for the Target Trading Techniques Course or subscription rates for the advisory service please feel free to contact John Person by email at jpersion@nationalfutures.com.

Disclosure

The risk of loss in trading futures and options can be substantial. Futures and options trading may not be suitable for everyone. Therefore, you should carefully consider the risks in light of your financial condition in deciding whether to trade. You may sustain a total loss of the initial margin funds and additional funds that you deposit with your brokers to establish or maintain a position in the commodity futures market.

Placing Contingent Orders such as "Stop Loss" or "Stop Limit" orders will not necessary limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders.