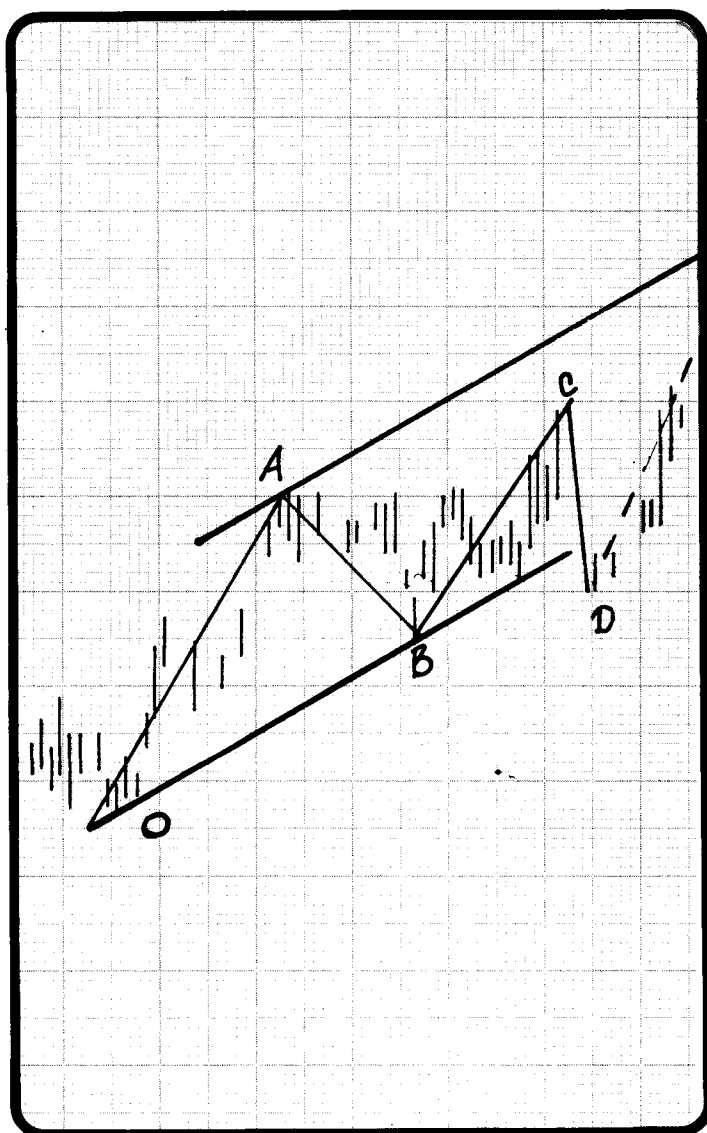


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Hendersonville, N.C.



Stock  
& Commodity  
Market Trend  
Trading by  
Advanced  
Technical Analysis

By John R. Hill

**STOCK & COMMODITY MARKET TREND TRADING  
BY ADVANCED TECHNICAL ANALYSIS**

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## ACKNOWLEDGMENT

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Chicago, Illinois 60604

## PIONEERS

Grateful appreciation is made to the many pioneers in the field of technical analysis. They are too numerous to mention. I do not lay claim to many original thoughts in this work. What I have done is to contribute some creativity and to reduce some theoretical aspects down to practical application.

## DEDICATION

This book is dedicated to my "four jewels" who have given so much joy, love and understanding to my life.

John R. Hill

## INTRODUCTION

This course is designed for the serious-minded student of the commodity and stock markets. Presented herein will be many technical tools that we may use in evaluating the condition of the market. These ideas will only remain ideas unless one spends many hours studying each one and proving to his own satisfaction that they work.

Timing is the essential ingredient for success in this field. One who can solve the problem of timing can reap enormous financial rewards. This course is intended to teach techniques for timing one's trades. This course is 100 percent technical. We do not teach fundamentals. We are convinced that proper chart interpretation will reveal all the fundamentals that one needs to know. A chart represents all the bulls and bears in a given market. When you read a fundamentalist's summary of a given situation, you are always influenced by how the author slants the article. A chart will contain not only his viewpoint (providing he has money in the market) but all the other financial interests in a given situation.

By studying and applying the technical approach, one can cover all the active commodity markets or many more stocks. This is not possible if one is a fundamentalist. There are simply too many variables, some of which will be in conflict.

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## About the Author

John Hill majored in Chemical Engineering at Ohio State University, graduating with a B. S. and Master's Degree in 1948 and 1950. His career in the chemical industry was primarily involved with economics and marketing. Profitable trading in commodities enabled him to resign from the chemical industry, move to the beautiful North Carolina mountains, and devote full time to the study of market action.

Interest in the stock market and commodities began in the late 1950's. Almost every known book or course written on the subject of technical analysis and the psychology of the market has been studied at great length by Mr. Hill. He is a firm believer that the composite opinion of a market is best known by studying market action.

Mr. Hill is president of Commodity Research Institute Ltd., a firm devoted to teaching, advising and managing money in the commodity markets. The Institute publishes a highly successful weekly letter devoted to the psychology of the markets.

Mr. Hill is a battle-scarred veteran who has taken and tested all the known systems in the past 20 years. He wrote the technical commodity market letter for Paine, Webber, Jackson & Curtis prior to establishing the Research Institute. The Research Institute is registered with Merrill Lynch Pierce Fenner & Smith and is on their list of advisors approved for trading in Merrill Lynch accounts. There are only nine such independent advisors approved by Merrill Lynch (as of mid-1978). Mr. Hill's engineering background and successful experience make him eminently qualified for chart analysis, interpretations and projection of future trends.

It is indeed a wise man who knows which facts are important and which are irrelevant. One can become knowledgeable in the fundamental approach and make money, however, we believe he will be limited to two-three commodities or only several market areas in securities.

All commodity or security markets behave in a similar fashion because what you are dealing with is human emotions--fear and greed. A commodity or stock is accumulated for a move up or conversely, distributed for a move down. All these accumulation and distribution areas have somewhat similar characteristics. A knowledgeable technician can sometimes detect the supply and demand forces in these areas before a commodity or stock makes its move. An attempt will be made to give one tools to evaluate the relative strength of these supply and demand forces.

This course assumes one has basic background knowledge of the commodity futures and the stock market. By that we mean one knows the various exchanges, types of commodities traded, contract options, etc.

Stock moves are just as severe as commodity moves. It is the margin requirement that makes the difference. Margin on commodities is 7-10 percent, whereas, stocks run 50% upward. Also, in commodities there comes a time when one must get out or else deal in the physical goods. Stocks, of course, can be held indefinitely.

The more one studies commodity or stock price movements, the more they seem to defy analysis. Many skilled mathematicians have attempted to reduce these price movements to an exact science. They are doomed to failure from the start, as human emotions are not an exact science. However, there are various characteristics and repetitive sequences in the interplay of the underlying economic forces which disclose principles and methods for orderly buying and selling in harmony with these basic influences. This course will attempt to develop an understanding and provide fertile seeds which, if properly nurtured, should yield success in the field of stock and commodity speculation.





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## CHAPTER 1

### GRAPHS & THEIR APPLICATION TO SPECULATION

In studying market action, nothing is more fundamental than graphs or a history of past market action. There is no life in the charts and it does not represent living psychology. Life comes into them when past market action is used to project future course of price movement. Graphs are like a road map. How can you travel from one point to a distant city without one? Graphs are more than just a history. They depict the actions, emotions and ideas of mass speculation.

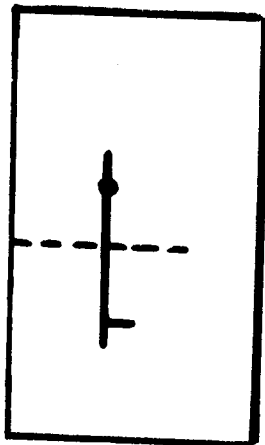
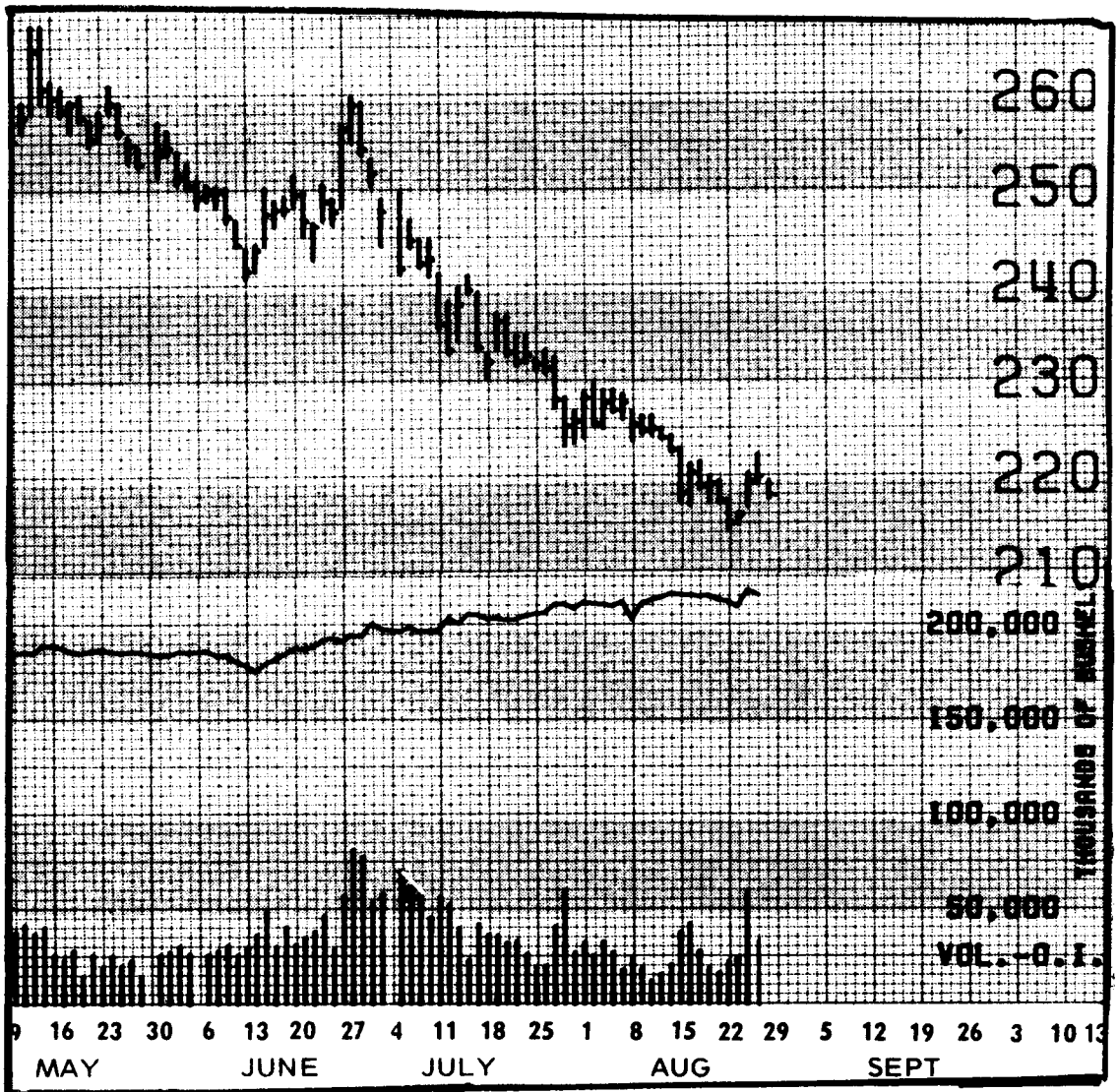
All nature is controlled by innate laws. One might also conclude that there is an inexorable law of price. It might be compared to the medical profession. Medicine built its study starting with the human body and studying the past needs of each function of the body. In other words, this is an action-reaction concept. Why can't the same scientific thinking be applied to price and market action? This is where a graph of past market action comes into play. We find many fluctuations in price movement with the logical conclusions that these actions and reactions were caused by the psychology of the mass mind. The student of market action will find that a certain sequence of events on a graph will normally lead to a logical response and

such action occurs with enough frequency that it is almost law. It is not absolute because man's mind cannot be reduced to an exact science. However, recognition of the probability of a market response places the student ahead of the vast majority of traders.

Speculation is anticipation. Market action discounts coming events before they happen. The function of price is to integrate supply-demand relationships.

Since the beginning of time, man has largely been controlled by the emotions fear and greed. When a student of market action allows these emotions to influence his market response, he loses many opportunities in the market. The student must at all times resist these two emotions. Confidence and courage are required to overcome fear and greed. Courage is inborn. Confidence is gained by study, study, and more study.

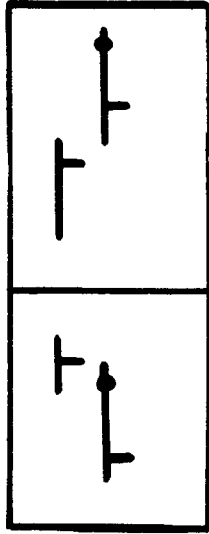
Daily Bar Graph - A daily bar graph gives opening, high, low, close, volume and open interest on commodities. In a stock there is a limited number of shares, whereas, in a commodity the shares or outstanding contracts are unlimited, as long as there is a buyer or seller. Open interest refers to the number of outstanding contracts in the commodity market. Following is a daily bar graph extending over a period of time.



This is one day's price action. The dot represents the opening and the bar is the close. The dashed line is the 50% point on the day's price action. This one day's action extending over a period of several hours tells you several things.

1. Opening was above the halfway point and the close.
2. The close was in the lower part of the range.

From these two factors you might conclude that the market should sell lower on the next day, as the available evidence indicates a heavy market.



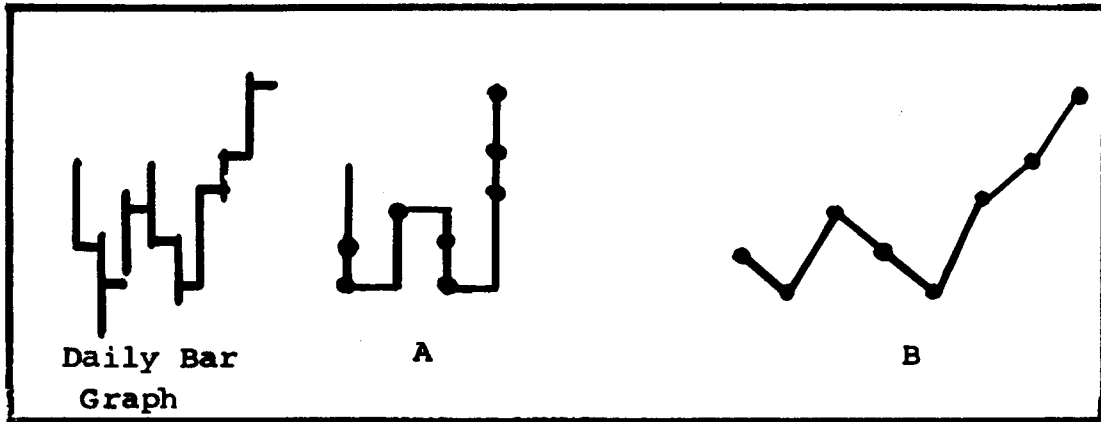
This action shows the same day, however, the previous day's action is now shown. In addition to the above, we know that the entire day's price action is above the previous day's action and also, it closed above the previous day's spread and close. The spread is wider on the second day. These factors would be considered bullish and might warrant a purchase instead of a sell, on a lower opening the next day.

In another example, suppose the action of the two days is as shown. This now indicates momentum building up for a downmove, and it is certainly a candidate for a short sell, depending on other conditions and where nearest support point is located.

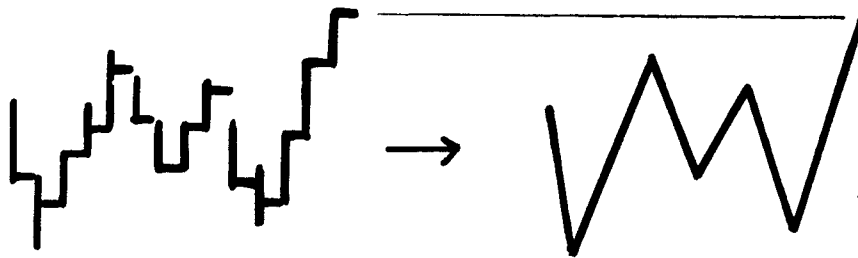
Obviously, this type of discussion could continue under various assumed conditions and with more days added. Similar type action in actual markets will be discussed later in detail. The main idea here is to introduce you to a concept.

Closing Price Graph - A closing price graph is very necessary in proper market analysis. Some market students feel this is the most revealing of all graphs. The closing price is the most important one of the day, as this represents the final sentiment after the total day's activities. At a later time, it is a support or resistance point. The more closings there are in a particular zone, the more important this level becomes as an area of support or resistance. There are two types as shown below. In "A" a vertical line is continuous until a reverse price movement. In "B" you plot each day's closing price on

alternate vertical lines. The points are then connected as shown. This is the preferred type as it introduces the concept of time, which is a most important consideration.

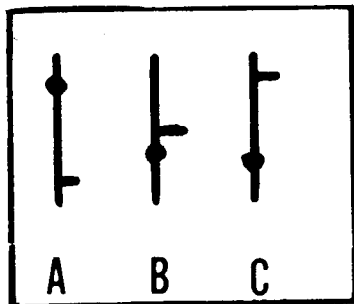


Angle Graph - Angle graphs are extremely useful in giving clarity to price action. This cuts out a lot of lines and marks on a chart. This graph will be used in our mathematical analysis of moves including angles, time, distance, and envelope studies. It is made by extending a line from a previous low of a move to the next high. It reverses when the low of a previous day is broken.



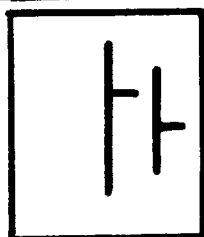


Daily Range Forecast

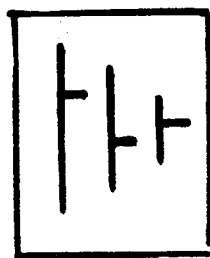


Shown are three days of market action. "A" indicates the market should sell lower the next day, as it closed in lower part of range and below the opening. "B" is a neutral day, as it closed in mid-range. "C" would indicate the market should sell higher the next day as it closed above mid-range.

Inside Day (ID)

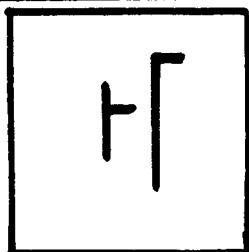


An inside day is one in which the entire day's price action is within the range of the previous day. The closing price is not as significant for forecasting purposes as any other day unless there are 2-3 previous closes in the same general area. The close might then point the direction of the next minor move. Usually, a movement which breaks the high or low of the inside day points the direction of the next minor swing.



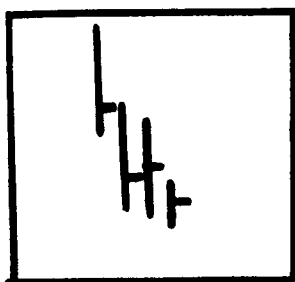
Sometimes there will be two inside days which represent a coil. A movement outside the range of the second day is usually more pronounced and points the direction of the next minor move, particularly if it closes outside that range.

Outside Day (OD)



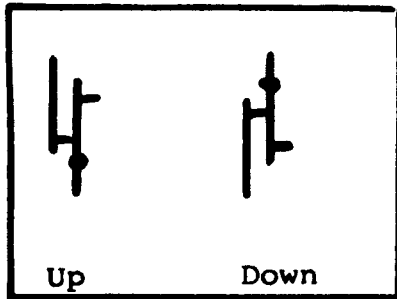
An outside day is one in which the price action extends over both sides of the preceding day's price action. If this action occurs after an extended move in either direction, it usually marks close to, if not the end of the current move.

NARROW RANGE DAY (NR)



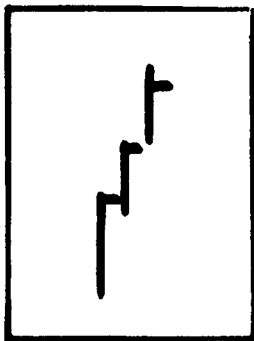
This is a day where the range for that day is relatively narrow, when compared to the price action that has been going on for the previous 1-2 weeks.

Reversal Day (RD)



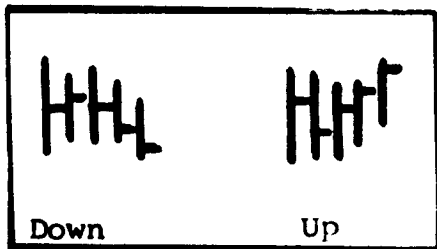
A reversal day is one where the price trades below (above) the previous day's range and then closes above (below) the previous day's close. It is more significant if the close is also above (below) the opening price. This type price action can mark the temporary or permanent end of the minor trend then in effect. One can go broke trading on this concept alone, as sometimes the effect is only temporary. When the price only reverses one previous close, the odds of an end to the move is about 60%. If the price reverses two previous closes, this percentage increases to about 80%. The action should also have a big increase in volume to be significant.

Runs



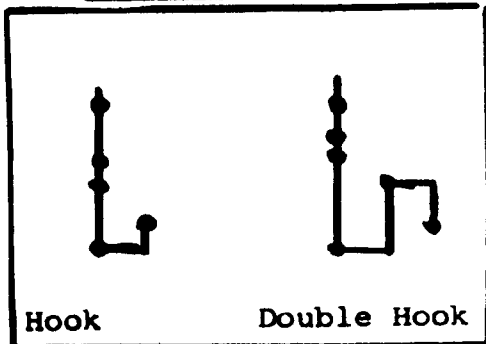
If a price closes in the same direction for three consecutive days, it is overdue for a reverse close. Also, if you have 5-6 closes in the same direction, this points the direction of the trend. Odds highly favor a reverse, but it will usually be for only one day before an attempt to resume the concerted primary trend.

Closings



When several closings occur together, forming a group, the closings often point the direction of the next move. The last 1-3 closings should be studied in relation to the previous closings.

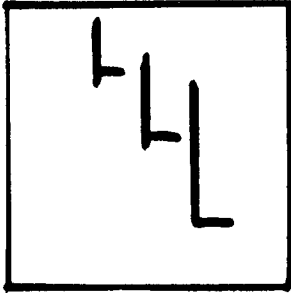
Hook Closing



A hook closing is one that reverses the previous several days' closings by a small amount, say, less than 1/2¢ in grains. The theory is that an attempt will be made to continue the movement in the primary direction after this one day against the trend.

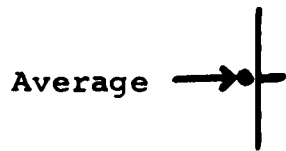
A double hook is a second hook after the first one, as illustrated. The theory is that the next movement will be against the primary trend.

Increasing Weakness



Shown are three days of market action with spreads widening. If volume is getting greater, this is a sign that the market is becoming progressively weaker. Supply is becoming more aggressive.

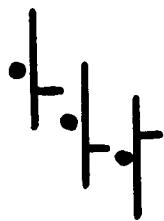
Daily Market Average for Use as Trend Indicator



Compute the average of daily high & low.



Compare this average with preceding day's average to determine when a minor accumulation/distribution pattern is changing.



For instance, in this case distribution should be essentially complete because:  
(1) the difference in the average is becoming smaller; (2) the high on the third day is above the average of the second day; (3) the close on third day is above average.

Three-Day Equilibrium Reverse - The last three days' action of a stock or commodity can often be used to point the direction of the next minor effort. A turn in the minor trend can take many forms, some of which are unpredictable. However, there are certain characteristics in three-day patterns which can occasionally be used advantageously for evaluating potential turning points in the minor trend.

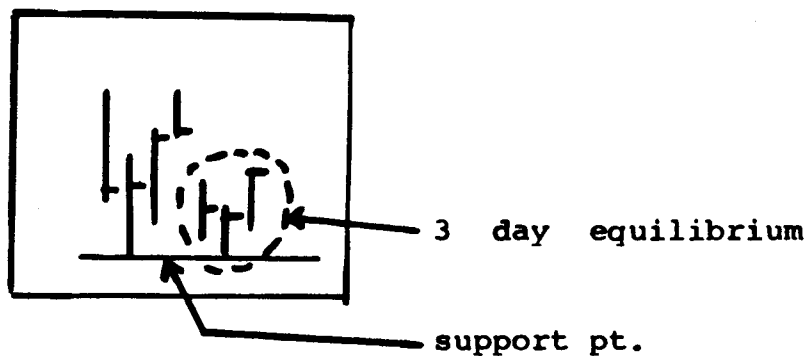
In any given three days' action there are nine potential support/resistance points, three highs, three lows, and three closes. One rule might be to buy on the close of the third day if the closing price is above the average of these nine points. However, although a set of rules can be put down, one must recognize they are not absolute. This is intended to be an additional tool and is not a trading system.

The requirements for an up drive are:

1. Three days' action with the first two days' closings in close proximity to each other.
2. First two days have a smaller spread than the third day.
3. Close on third day is above the 62% point of the daily range and is above the two previous closes.
4. Low on third day is above low of second day.
5. Added significance of a possible minor turn is present if market is at a support point or trendline.

An example of these rules follows.

Note the third day has a wider spread and a high close with the low above the second day low.



The strongest three-day equilibrium reverse is where the high and close on third day are above the high of two previous days. The reverse of the above is true for a downmove.

## CHAPTER 2

### PIVOT POINT ANALYSIS & TREND DEFINITION

Intraday Pivot Analysis - There are a number of pivot points to



consider. The nature of the market action around these pivot points can be useful in giving clues on the immediate direction of the market. The pivot points to consider are the previous day's high, low and close.

Openings - The opening of a market in relation to the previous day's action is the first clue on the direction of the market for that day, but it is by no means conclusive. It could be just satisfying all the bulls, say, in an up opening prior to a reverse movement. However, there are times when this indication can be extremely useful. The student must learn to integrate all the pertinent factors. With these reservations and no other factors at hand, indications are:

- (1) An up opening in relation to previous close indicates an up market.
- (2) A down opening in relation to previous close indicates a down market.



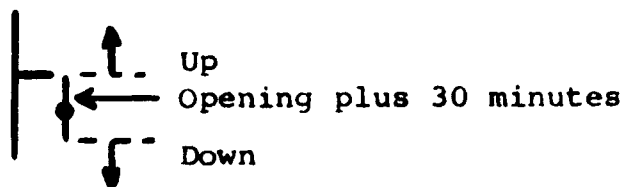
Up



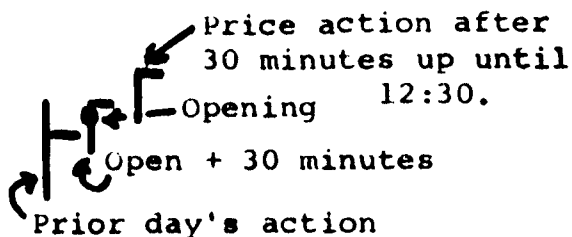
Down

Gap Openings - Gaps on the opening seldom are present at the end of the day. The floor trader utilizes this information and will frequently sell a higher opening to drive it back down to the previous close where he will take scalping profits and might even reverse positions at this point. This is why a gap that exists at the end of a trading day has added significance.

Opening Plus 30 Minutes - The markets will frequently establish a trading band in the first 30 minutes of market action. The direction out of this band will frequently establish the direction of the market for that day.

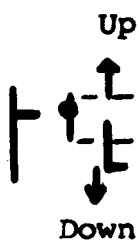


12:30 (EST) Rule - The price at 12:30 or later in relation to the previous day's close and opening frequently determines the direction market will take for the balance of the day and on into the next day. The proximity of support or resistance pivot points is also of considerable importance. For instance, consider the following cases.



The price in this example is above all the prior and today's pivot points. A high close should follow with higher action likely on the following day.





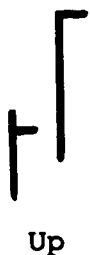
In this example a down close is likely. However, the low of the previous day still exists as a support point.



This action is somewhat indeterminate on direction and suggests a neutral close. Price is between opening and prior day's close. It has been observed that the price at 12:30 in relation to the opening carries more forecasting significance than does its position related to the prior day's close.



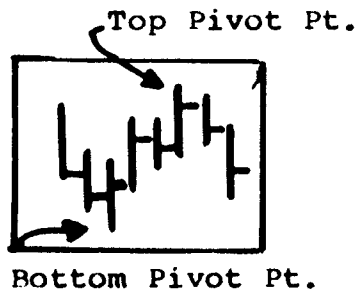
Close - The close in relation to previous close and opening is important in pointing direction of next day's action. The opening is more important than previous day's close. Penetration of previous day's high or low gives added significance. Also important is where the market closes in the range of the day. Above mid-range is positive. Below mid-range is negative.



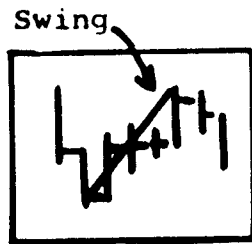
Range - If today's range is greater than the previous day's range, it gives added significance to the direction of the move.

These daily impulse patterns should be considered only as a rough index of trend direction. The whole pattern must be integrated prior to forming definite conclusions.

TREND DEFINITION

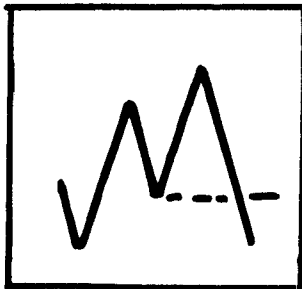


Pivot Point (PP) - A top pivot point is the highest point reached in a swing prior to penetration of the low of the top day. A bottom pivot point is the lowest point reached in a swing prior to penetration of the high of the low day.



Swing - The movement from one pivot point to the next.

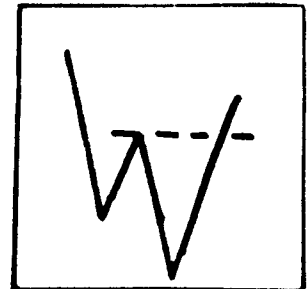
Trend Direction - Trend is up as long as new highs and higher lows are being made. It changes from up to down when the last low prior to the new high is broken.



Trend reversal from up to down



Corrective Action



Trend reversal from down to up

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## CHAPTER 3

### THE ELLIOTT WAVE THEORY

#### Introduction to Elliott

There are many different approaches to speculating in the commodity markets. Broadly speaking, they are broken down into technical and fundamental methods. Some technicians like to blend the two together as an optimum way to approach a market. The fundamental approach is well known and involves counting bushels, acres, consuming units, etc. The technical approach is defined as analyzing past market movements and projecting future action from the past history. Some of the great masters in this field have been Dow, Gann, Livermore, Wyckoff, and many others, including a man by the name of R. N. Elliott. He prepared a series of articles back in 1939 which he labeled the Elliott Wave Principle. This series of articles has baffled the investment community since they were written. Most casual students of the market read them and quickly discard them, as they are not the "golden grail". They are one of the highest forms of technical approaches to the market and the serious market student would do well to include them in his studies.

Who was Elliott? He was an engineer by training. In the mid-30's he developed an illness and moved to Colorado to recover. During this recuperative period he studied the stock market and

developed the wave concept. The story goes that he was a very successful speculator in the stock market after this time until his death in 1948.

The primary question in everyone's mind is "Can the Elliott Wave be used to advantage in predicting price trends in the commodity market?" The answer to that question is a guarded "yes". Some people will never make money in speculative markets no matter how many theories or amount of knowledge they possess and that is because of their psychological makeup--but that is a whole story in itself. Back to Elliott. This dissertation will present a few of the basic concepts and then present a commodity chart with these principles illustrated to show that they do work.

Elliott writing consisted of the following:

1. The Wave Principle monograph - (1938)
2. Nature's Law monograph - (1946)
3. Special interpretive letters - (1938-1947)

His studies were primarily directed at the averages in the stock market. These principles work equally well in individual stocks, commodities, and most all forms of human endeavors. A graph of your profits and losses in the market would conform to Elliott's theories.

Elliott is primarily a wave theory that allows for harmonic and non-harmonic movement. Many of the current popular cycles theories in vogue today use wave principles based on harmonics. One gets into trouble when a non-harmonic movement comes along.

I

RHYTHM IN NATURE

1. No truth meets more general acceptance than that the universe is ruled by law. Without law it is self-evident there would be chaos, and where chaos is, nothing is. Navigation, chemistry, aeronautics, architecture, radio transmission, surgery, music--the gamut, indeed, of art and science--all work, in dealing with things animate and things inanimate, under law because nature herself works in this way. Since the very character of law is order, or constancy, it follows that all that happens will repeat and can be predicted if we know the law.

2. Columbus, maintaining that the world was round, predicted that a westward course from Europe must eventually bring his ships to land and despite scoffers, even among his own crew, saw his prediction realized. Halley, calculating the orbit of the 1682 comet, predicted its return which was strikingly verified in 1759. Marconi, after his studies in electrical transmission, predicted that sound could be conveyed without wires, and today we can sit in our homes and listen to musical and other programs from across the ocean. These men, as have countless more in other fields, learned the law. After becoming thus posted, prediction was easy because it became mathematical.

3. Even though we may not understand the cause underlying a particular phenomenon, we can, by observation, predict that phenomenon's recurrence. The sun was expected to recurrently rise at a fixed time thousands of years before the cause operating to produce this result was known. Indians fix their month by each new moon, but even today cannot tell why regular intervals characterize this heavenly sign. Spring plantings are witnessed the world over because summer is expected as next in order; yet how many planters understand why they are afforded this constancy of the seasons? In each instance the rhythm of the particular phenomenon was mastered.

4. Man is no less a natural object than the sun, or the moon, and his actions, too, in their metrical occurrence, are subject to analysis. Human activities, while amazing in character, if approached from the rhythmical bias, contain a precise and natural answer to some of our most perplexing problems. Furthermore, because man is subject to rhythmical procedure, calculations having to do with his activities can be projected far into the future with a justification and certainty heretofore unattainable.

5. Very extensive research in connection with what may be termed human activities indicates that practically all developments which result from our social-economic processes follow a law that causes them to repeat themselves in similar and constantly recurring serials of waves or impulses of definite number and pattern. It is likewise indicated that in their intensity, these waves or impulses bear a consistent relation to one another and to the passage of time. In order to best illustrate and expound this phenomenon it is necessary to take, in the field of man's activities, some example which furnishes an abundance of reliable data and for such purpose there is nothing better than the stock exchange.

1. Particular attention has been given to the stock market for two reasons. In the first place, there is no other field in which prediction has been essayed with such great intensity and with so little result. Economists, statisticians, technicians, business leaders, and bankers, all have had a try at foretelling the future of prices over the New York Stock Exchange. Indeed, there has developed a definite profession with market forecasting as its objective. Yet 1929 came and went and the turn from the greatest bull market on record to the greatest bear market on record caught almost every investor off guard. Leading investment institutions, spending hundreds of thousands of dollars yearly on market research, were caught by surprise and suffered millions of dollars loss because of price shrinkage in stock holdings that were carried too long.

2. A second reason for choosing the stock market as an illustration of the wave impulse common to social-economic activity is the great reward attendant on successful stock market prediction. Even accidental success in some single market forecast has yielded riches little short of the fabulous. In the market advance from July 1932 to March, 1937, for illustration, an average of thirty leading and representative stocks advanced by 373%. During the course of this five-year movement, however, there were individual stocks whose per cent advance was much larger. Lastly, the broad advance cited above was not in a straight upward line, but rather by a series of upward and downward steps, or zig-zag movements of a number of months' duration. These lesser swings afforded even greater opportunity for profit.

3. Despite the attention given the stock market, success, both in the accuracy of prediction and the bounties attendant thereto, has necessarily been haphazard because those who have attempted to deal with the market's movements have failed to recognize the extent to which the market is a psychological phenomenon. They have not grasped the fact that there is regularity underlying the fluctuations of the

market, or, stated otherwise, that price movements in stocks are subject to rhythms, or an ordered sequence. Thus market predictions, as those who have had any experience in the subject well know, have lacked certainty or value of any but an accidental kind.

4. But the market has its law, just as is true of other things throughout the universe. Were there no law, there could be no center about which prices could revolve and, therefore, no market. Instead, there would be a daily series of disorganized, confused price fluctuations without reason or order anywhere apparent. A close study of the market, however, as will be subsequently disclosed, proves that this is not the case. Rhythm, or regular, measured, and harmonious movement, is to be discerned. This law behind the market can be discovered only when the market is viewed in its proper light, and then is analyzed from this approach. Simply put, the stock market is a creation of man and therefore reflects human idiosyncrasy. In the pages which follow, the law, or rhythm, to which man responds will be disclosed as registered by market movements, that fluctuate in accordance with a definite wave principle.

5. The Wave Principle is a phenomenon that has always functioned in every human activity. Waves of different degrees occur whether or not recording machinery is present. When the machinery described below is present, the patterns of waves are perfected and become visible to the experienced eye.

- A. Extensive commercial activity represented by corporations whose ownership is widely distributed.
- B. A general market-place where buyer and seller may contact quickly through representatives.
- C. Reliable record and publications of transactions.
- D. Adequate statistics available on all matters relating to corporations.
- E. Daily high and low range charted in such a manner as will disclose the waves of all degrees as they occur.

1. The daily range of stock transactions was inaugurated in 1928 and the hourly record in 1932. These are necessary in order to observe the minor and minute waves, especially in fast markets.

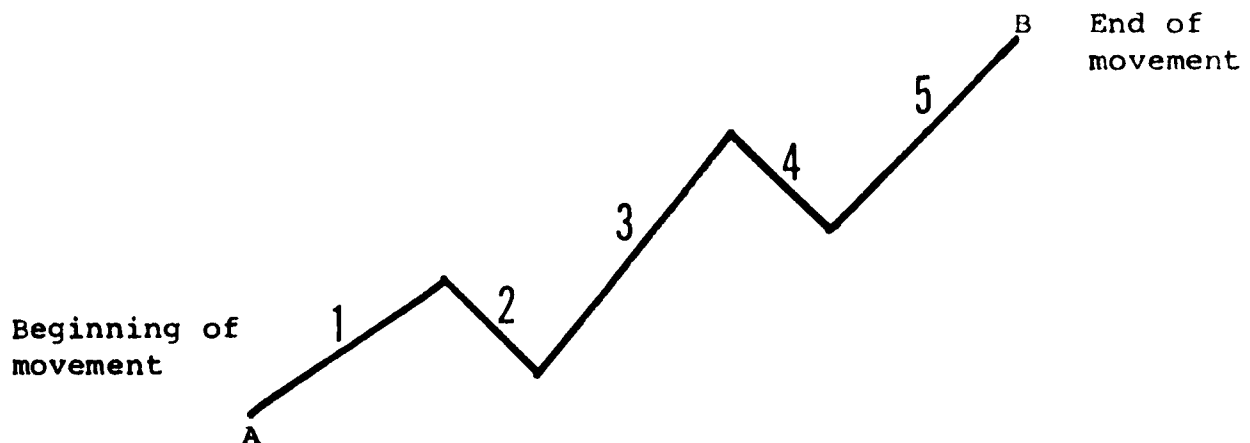
2. The Wave Principle does not require confirmation by two averages. Each average, group, stock or any human activity is interpreted by its own waves. Behavior of Waves has been fairly well explored but application is in its infancy.

## STOCK MARKET WAVES

1. Human emotions, as mentioned in the preceding discussion, are rhythmical. They move in waves of a definite number and direction. The phenomenon occurs in all human activities, whether it is business, politics, or the pursuit of pleasure. It is particularly evident in those free markets where public participation in price movements is extensive. Bond, stock and commodity price trends are therefore especially subject to examination and demonstration of the wave movement. This treatise has made use of price movements in stocks to illustrate the phenomenon, but all the principles laid down herein are equally applicable to the wave movement in every field where human endeavor is registered.

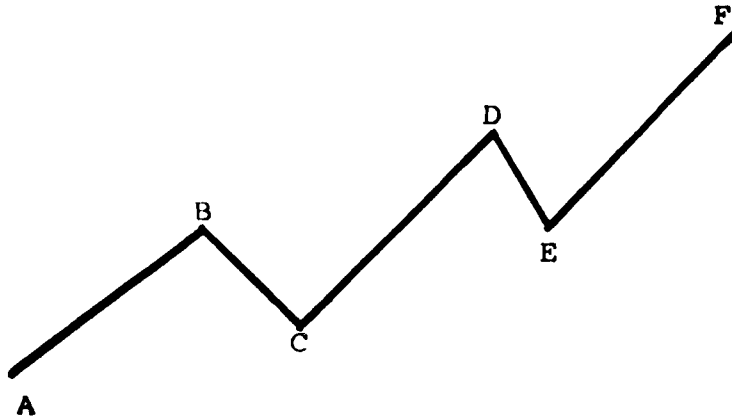
2. A completed movement consists of five waves. Why this should be five rather than some other number is one of the secrets of the universe. No attempt will be made to explain it, although, in passing, it might be observed that the figure five is prominent in other basic patterns of nature. Taking the human body, for example, there are five extensions from the torso--head, two legs, two arms; five extensions from head--two ears, two eyes, the nose; five extensions in the form of fingers, from each arm, and in the form of toes, from each leg; five physical senses--taste, smell, sight, touch, hearing; and so the story might be repeated elsewhere. In any event, five waves are basic to a completed social movement and can be accepted without necessity of reasoning the matter out.

3. Three of the five waves that form any completed movement will be in the direction of the movement, two of the waves will be in a contrary direction. The first, third and fifth waves represent the forward impulse; the second and fourth waves, the contrary, or corrective. Stated otherwise, the odd numbered waves are in the main direction; the even numbered waves, against the main direction. This is illustrated in the following diagram:





4. Five waves of one dimension or degree become the first wave of the next greater dimension or degree. As an example of this, the five waves in the preceding illustration progressed from point A to point B. In the following diagram, however, representing a next higher degree of movement than the one just illustrated, it will be seen that the movement from A to B is but one wave of the five-wave movement A to F. The movement A to F, in turn, becomes but the first wave of a movement of a still higher degree.

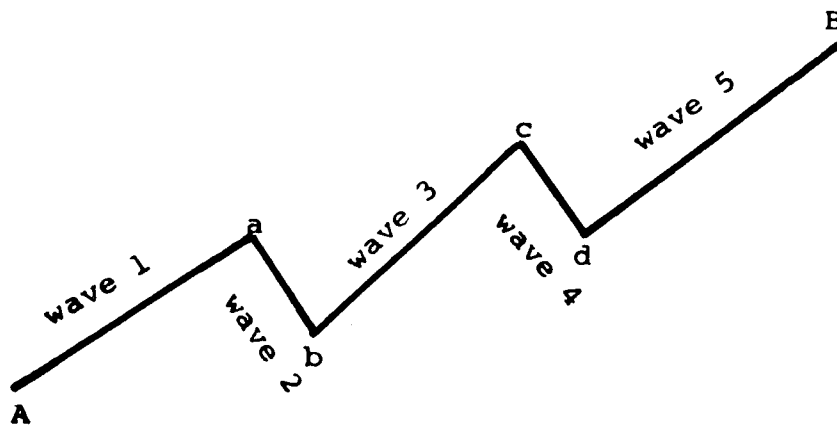


III

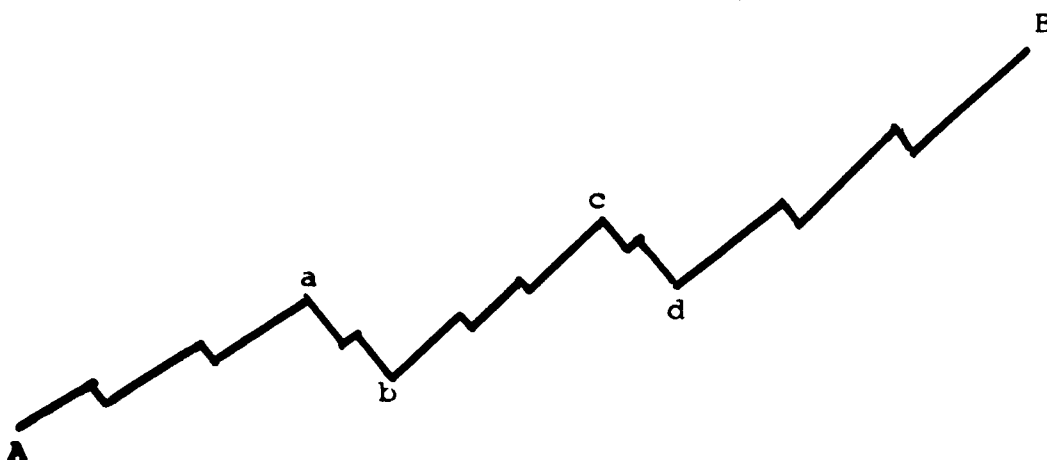
### IDENTIFYING THE WAVES

1. In the preceding discussion the wave movement in stock prices was rather generally treated, the main point established being that a movement consists of five waves, and that the five waves of one movement equal the first wave of a next higher movement. At this point a second basic fact with respect to the wave movement should be introduced. This concerns a difference between the odd numbered and the even numbered waves.

2. Waves one, three and five, it will be recalled, are impulses in the main direction, whereas waves two and four are reverse movements. Wave two serves to correct wave one, and wave four serves to correct wave three. The difference between waves in the main direction and waves against the main direction is that the former are divisible into five waves of lesser degree, whereas the latter are divisible into but three waves of the lesser degree. In the preceding discussion the movement A to B was shown as follows:



Were this movement also broken into waves of one lower degree, it would appear like this:

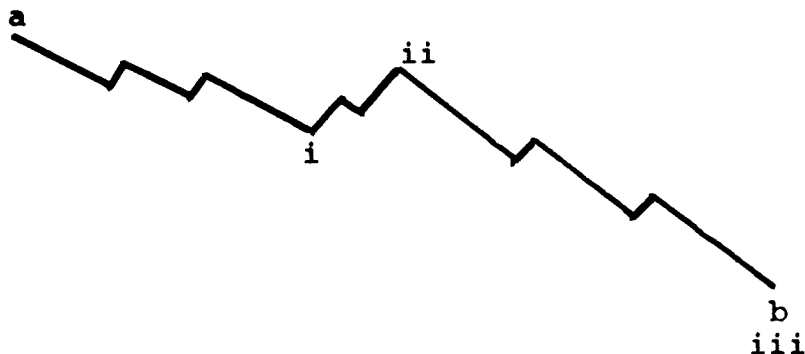


3. Note, in the above diagram, that the second wave (wave a to b) and the fourth wave (wave c to d) are each made up of three smaller waves, whereas waves one, three, and five each have five smaller waves. The rules to be derived from this illustration--and these rules are fundamental to the whole wave subject--are:

Waves in the direction of the main movement, or the odd numbered waves, are made up of five lesser waves. Corrective waves, or waves against the main movement (even numbered waves) are made up of three lesser waves.

1. To further illustrate the above rules, let us take the movement a to b in the foregoing chart. This was wave number two of the five-wave or complete movement from A to B, and was made up, as all corrective movements should be, of three waves. The three waves of the movement a to b, however, formed, when isolated, a distinct corrective movement, and, under the above rules, the odd numbered waves (or waves one and three), since they are in the direction of the entire corrective movement a to b, should each be made up of five lesser waves, whereas the even numbered wave (or wave two), which is against the direction of the movement a to b

and thus is a correction in such movement, should be made up of three waves. If we now present the movement a to b in terms of its lower waves, it will appear as follows:

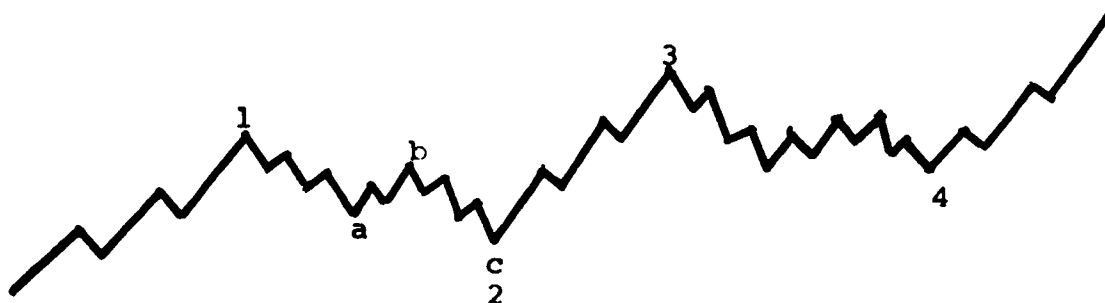


2. For purposes of convenience, let us designate the odd numbered waves of a movement as cardinal waves and the even numbered waves as corrective waves. Let us also remember that the cardinal waves will contain five waves of a lower degree, whereas the corrective waves will contain three waves of a lower degree. Other rules and points of interest with respect to waves follow.

3. The wave movement applies to stock averages, such as the Dow Jones, Standard Statistics, New York Times; to groups of stocks, such as the steels, the coppers, the textiles; and individual stocks. When individual stocks are studied, it will be found that some are advancing while others are declining or undergoing a corrective movement. The great majority of individual issues will, at any given time, be following the same pattern, however, with the result that the averages, or general market, will break down into the wave phenomenon. It follows that the greater the number of stocks in a market average, the more perfect will be the wave pattern.

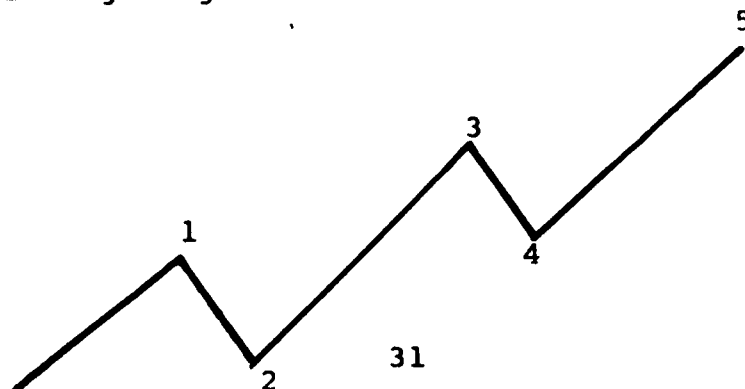
4. Waves are not of uniform length or duration. An entire movement, consisting of five waves, is always due to some one or more controlling influences, but the three upward waves (waves one, three, and five) which, with their two corrective waves (waves two and four), go to make up the entire movement, may accommodate themselves somewhat to current developments. The fundamental cause behind such movement is generally not recognized until after the effect has played out in the form of the complete movement, whereas, during the course of the movement, current news is available to every one and thus modifies, both as to extent and duration, each of the five waves going to make up the completed move.

The rhythm of the corrective phases is different from that of the waves moving in the direction of the main trend.



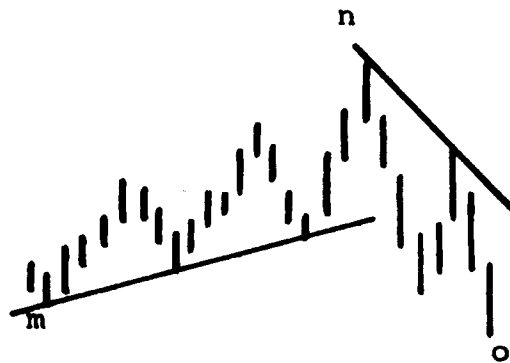
The completed movement is shown above. Waves 2 & 4 are each thus shown to consist of 3 component phases but as these 2 waves are also "completed movements", they are also characterized by 5-wave impulses; i.e. the "a" & "c" phases (the 1st & 3rd movements of the correction) are also each composed of 5 smaller waves, while "b" (the correction of the correction) is composed of 3 lesser waves. The complete measurement of the length of a wave is its continuous travel between 2 corrections of the same or lesser degree. The length of waves is measured by channeling. The failure of the fifth wave of any degree to penetrate the channel line, accompanied by indications of a sustained decline, is a warning of weakness. The extent of the weakness depends upon the degree of the wave. Sometimes such a weakness furnishes a new base for the re-commencement of the 5th wave. As the 1st hourly phase following the break in March 1938 developed in 5 minute-waves, it thus afforded a strong confirmation that the important trend had actually changed.

1. As a general rule, it may be assumed that wave three will reach a higher level than wave one, and that wave five will go higher than wave three. Likewise, wave four should not carry to as low a level as is attained by wave two. Wave two rarely cancels all of the ground gained by wave one, and wave four rarely cancels all of the ground gained by wave three. The completed five-wave movement, in other words, is normally diagonal in character, as illustrated in the following diagram:

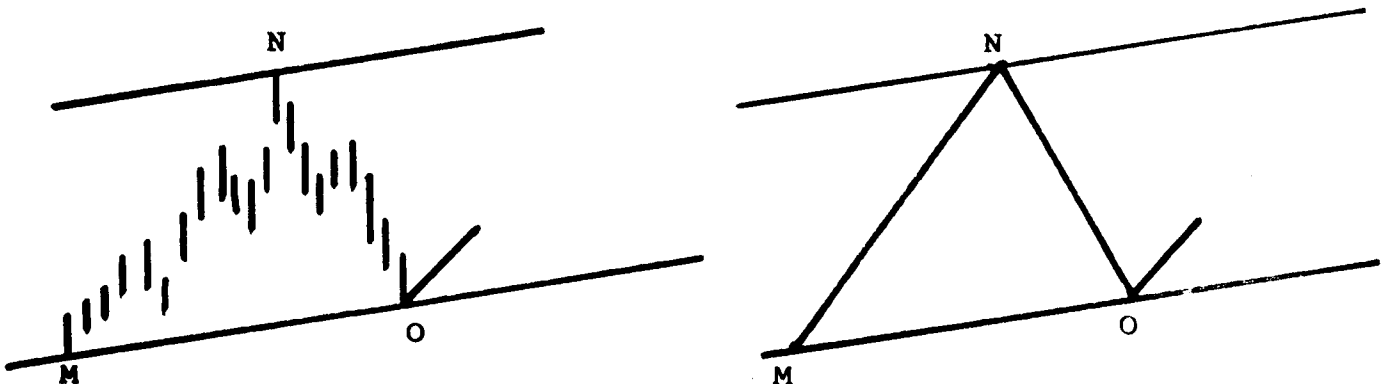


To properly observe a market movement, and hence to segregate the individual waves of such a movement, it is necessary that the movement, as it progresses, be channelled between parallel lines. Most stationers' shops carry in stock parallel rulers and the use of such a device greatly facilitates the channelling.

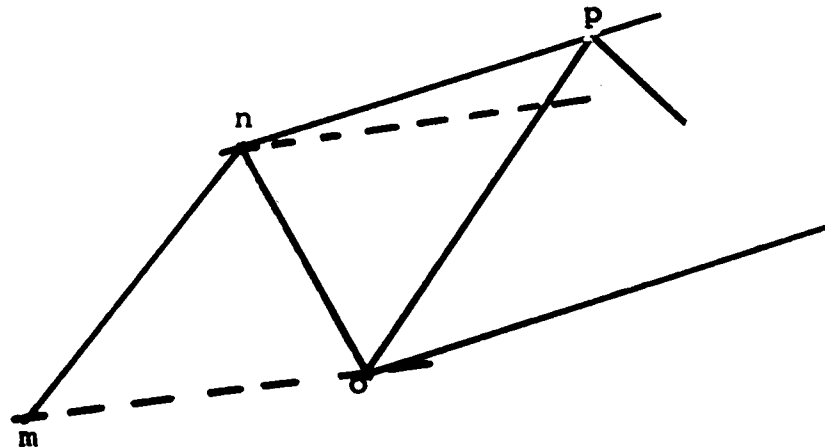
2. A channel cannot be started until waves numbers one and two have been completed. In the following chart waves one and two have ended, leaving three exposed contacts, or points which stand out alone. The first exposed contact is the starting point of wave number one; the second exposed contact is the termination point of wave number one as well as the starting point of wave number two; while the third exposed contact is the termination point of wave number two. These points, for purposes of illustration, have been designated m, n, and o.



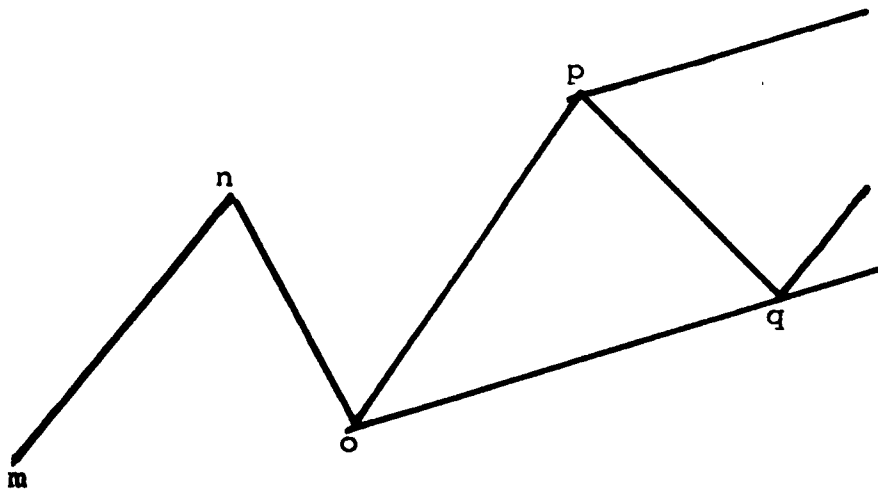
In preparing the channel, a base line should first be drawn between exposed contacts m and o. Across exposed contact n may then be drawn a line parallel to the base line, designated as the "upper channel line". This upper channel line should be extended some distance to the right of n. When this operation has been completed, the channel will appear as follows:



1. Wave number three should normally terminate at around the upper channel line. If wave number three exceeds the upper channel line, the upmovement has taken on temporary strength, whereas if wave number three terminates below the upper channel line, the upmovement has developed temporary weakness. In any event, when wave three has terminated, the old channel can be abandoned in favor of a new one. The new channel is established by drawing an upper channel line to connect points n and p, or termination points of waves one and three. A line, still designated as the base line, parallel to the new upper channel line is drawn across exposed contact o and extended to the right. It is about this line that wave four should terminate. The following diagram shows both the old, or discarded, and the new channels. Of course, if the third wave terminates at exactly the original upper channel line first drawn from point n, the discarded channel and the new channel will be one and the same.



2. When wave four has terminated, either on, above, or below the new base line, the final channel can be drawn. This channel is quite important since it helps to locate the end of the fifth, or last, wave. It is on the termination of a long movement that investors and speculators must chiefly concentrate if their operations are to prove successful. The final channel is located by drawing a connecting line between the extreme terminal or exposed contact of wave number two (o) and the terminal or exposed contact of wave number four (q). Parallel to this base line, and touching the terminal of wave number three (p) is drawn another or upper channel line. This is shown in the following diagram, the discarded first and second channels of the diagram above having been erased for clarity of illustrations. Wave five should normally terminate at around the upper channel line, although this subject, because of its importance, will be treated in detail in the succeeding discussion outlining wave characteristics.



1. When the fifth wave has terminated, there will be a downward movement or correction of greater proportions than those previously recorded during the progress of the channel discussed above. This wave becomes number two of the next higher degree of movement, just as the first five waves previously channelled are now renumbered as wave number one of the next higher order. Channeling on a higher scale can be started at the termination of wave number two under the same principles as laid down above.

## V

### WAVE CHARACTERISTICS

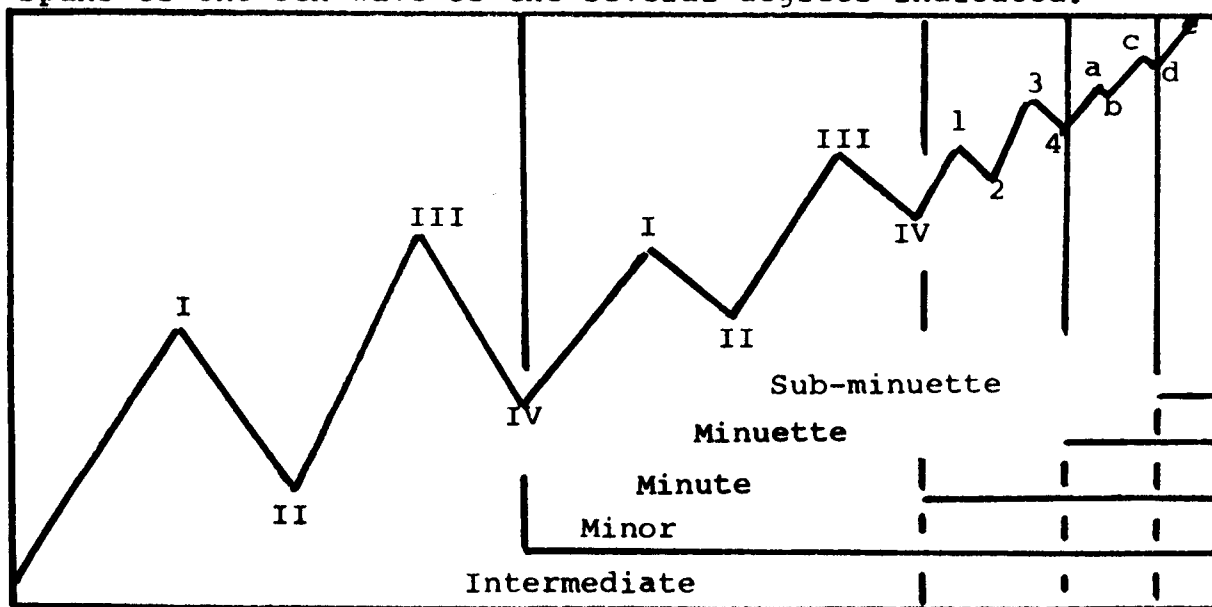
1. In the preceding discussions an attempt has been made to state, as simply as possible, the five-wave phenomenon. In the present discussion attention will be devoted more to detail, in order that the student of the wave movement can fully master the subject, and thus be prepared to develop his own studies of price and other movements of human origin and influence.

2. Investors and speculators in stocks are particularly concerned with the termination point of a fifth wave as this event marks the point at which an entire movement is to be corrected by a reverse movement of similar degree. Stock market movements of important dimensions, such as Intermediate swings running over a number of months, and Primary swings running over a number of years, will witness, at termination, a considerable price correction, and such terminal points call for disposition of stock holdings. It is likewise important that terminal corrections be identified, as these points represent price areas where long positions in stocks are to be established. In the following paragraphs the fifth wave, as well as the corrective wave, are dwelt upon rather fully. Other factors, bearing on terminal points, are also discussed.

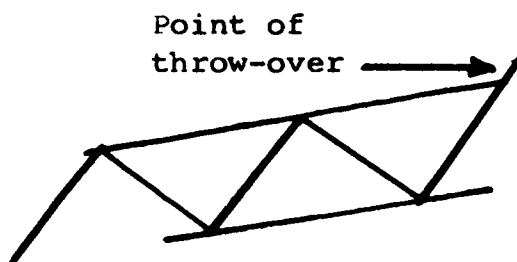
## The Fifth Wave

3. In fixing the end of a movement in stock prices, it should be borne in mind that before the movement has terminated there must be five waves of the next lesser degree of movement; that the fifth wave of such next lesser degree will also require five waves of a still next lesser degree, and so on. For illustration an Intermediate movement will end on the fifth sub-Minuette wave of the fifth Minuette wave of the fifth Minute wave of the fifth Minor wave of such Intermediate movement. In the following diagram the fifth Minor wave has been broken down into its five Minute waves, the fifth Minute wave has been broken down into its five Minuette waves, and the fifth Minuette wave has been broken down into its five sub-Minuette waves to illustrate the foregoing principle.

Spans of the 5th wave of the several degrees indicated. 5



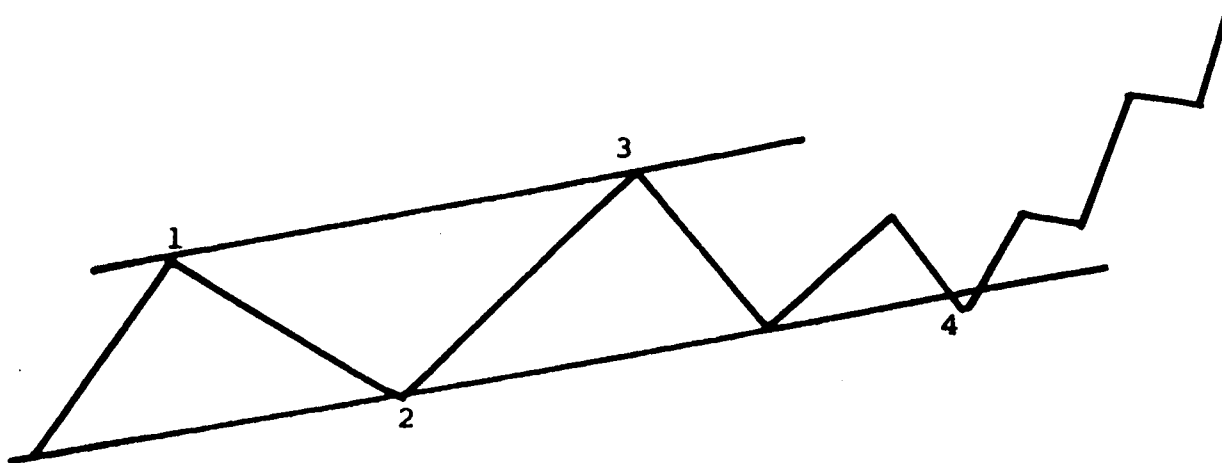
1. The fifth wave of a movement, particularly the larger such as the Intermediate, and above, generally penetrates or "throws over the upper parallel line formed by channelling the termination points of the second, third and fourth waves as described in the preceding discussion, and as illustrated below.





2. Volume tends to climb on a throw-over, and when this throw-over is by the fifth Intermediate wave of a Primary movement, volume should be very heavy. When the fifth wave of any degree fails to penetrate or throw over its upper channel line and decline occurs, this is a warning of weakness. The extent of the weakness indicated is according to the degree of the wave.

3. Sometimes, near a point of throw-over, a fifth wave will fail to immediately complete and the fourth wave flattens out before number five starts.

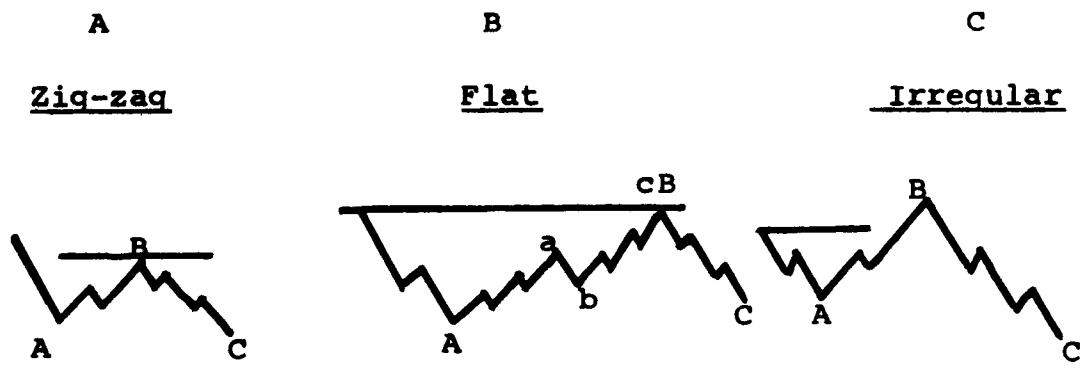
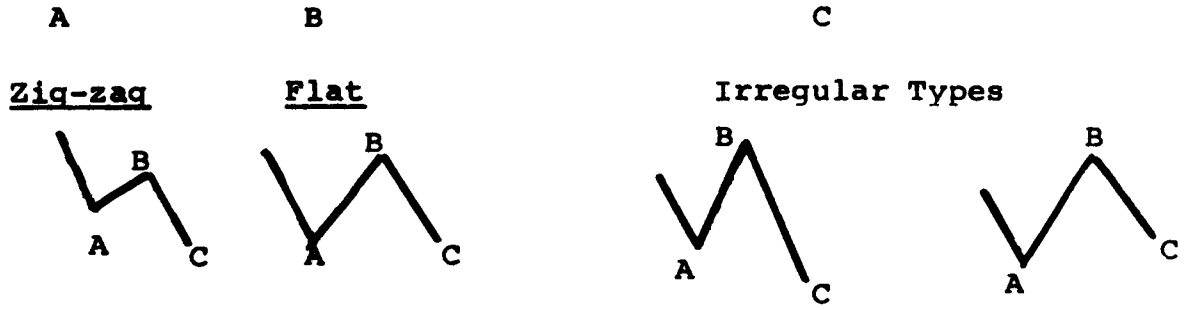


1. Fifth waves will sometimes deploy or spread out. This has been designated as one type of "stretching". In such an event the fifth wave rather than the terminating movement of which it was a part, is followed by four other waves of lower degree. That is, the fifth wave has simply sub-divided into five waves. Stretching is a characteristic of markets that are unusually strong (or weak, where the stretching occurs in a down movement).

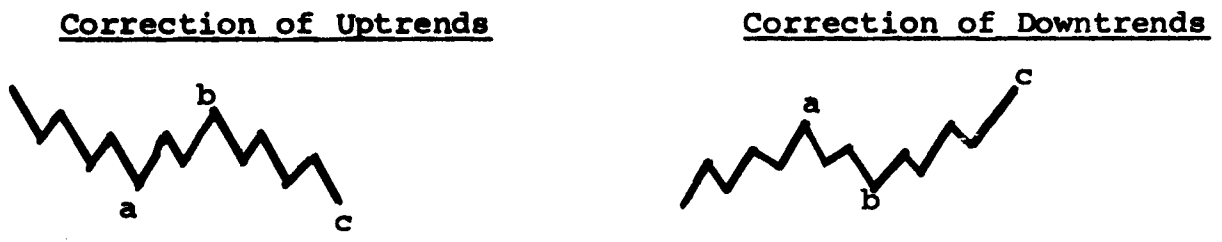
### Corrections

2. While the wave principle is very simple and exceedingly useful in forecasting, nevertheless there are refinements within the principle that may baffle the student, especially when wave movements are in process of formation. The best way to explain what is meant by refinements is to chart them as shown below. The examples are theoretically perfect specimens; the student will find the actual development of these patterns not so simple, in all cases.

3. Corrections always have 3 waves which fall into four general types but while in formation it is sometimes difficult to forecast the exact pattern and extent. Once completed the pattern indicates the strength of the ensuing move. The types shown below are those of very small corrections. The general outlines of patterns are the same in all degrees.



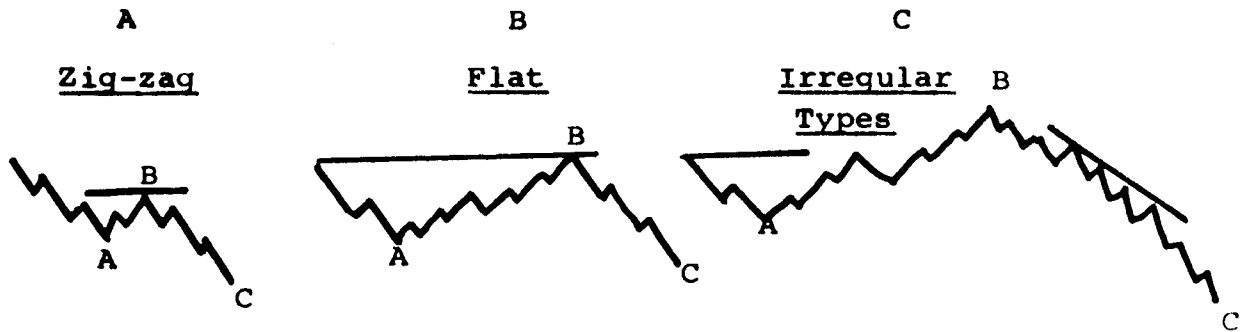
ZIG-ZAG



"DOUBLE 3"

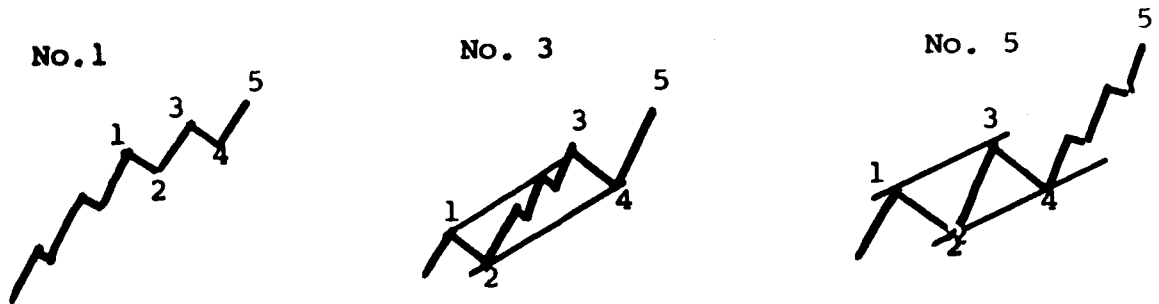


1. Still larger types of corrections, although of the same general patterns, are those seen in Intermediate and Primary degrees. If one series down is followed by only 3 waves upward, then the decline will be resumed and complete 3 series down.



Extensions

2. Extensions may appear in any one of the three impulses, waves Nos. 1, 3 or 5, but rarely in more than one. Usually they occur in No. 5. Examples are shown below as they appear in wave



Extensions of Extensions

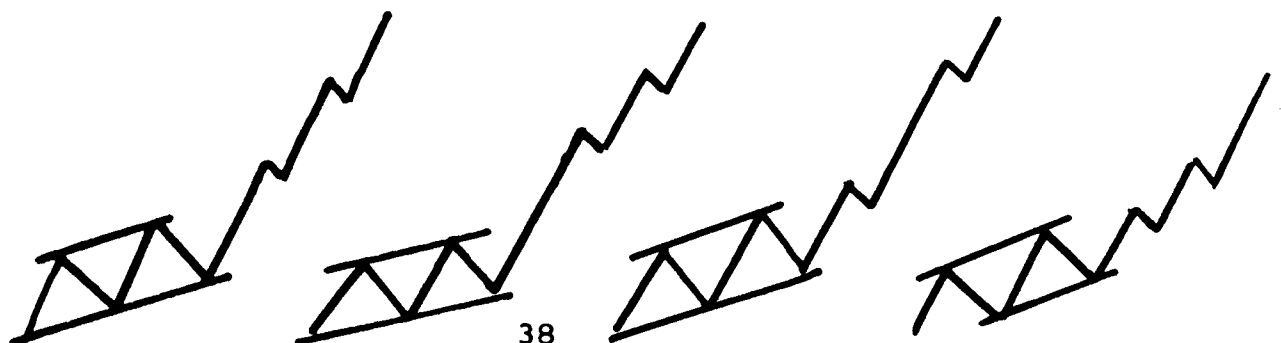
3. The same rules govern both Extensions and Extensions of Extensions. Below will be found three types of extensions of extensions and the standard type.

Standard

Extension of 1st wave

Extension of 3rd wave

Extension of 5th wave



Behavior of Market Following Extensions

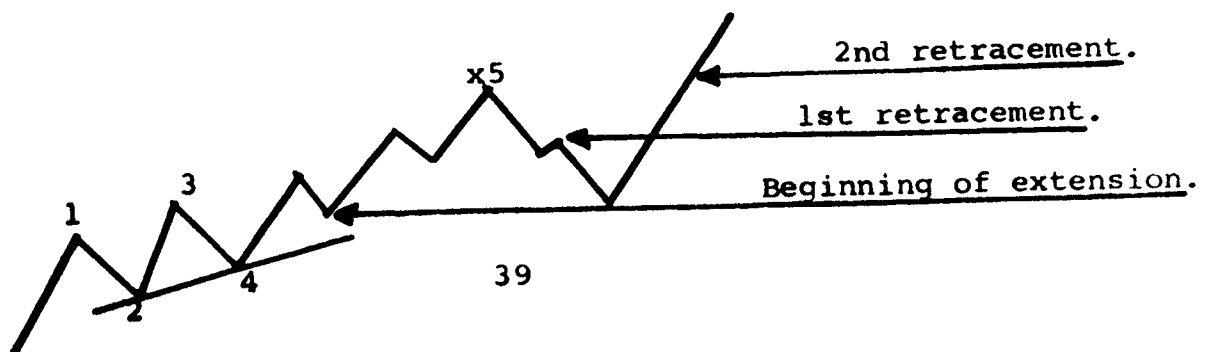
4. A thorough understanding of extensions is very important. Warnings of this phenomenon have been sought without success and for certain reasons it is probable none exist. However, losses can be avoided and profits obtained by learning the behavior of the market subsequent to their occurrence. The rules are:

- A. Extensions occur only in new territory of the current cycle, and
- B. Are retraced twice.
- C. The first retracement will occur immediately in 3 waves to approximately the beginning of the extension (wave 2 of the extension).
- D. The second retracement will occur in the usual progress of the market and travel beyond the extension.
- E. However, when an extension occurs, for example, at the end of a 5th primary (where a major reversal is due) the first and second retracements become waves "A" and "B" of an "irregular" correction. This complies with the double retracement rules. Wave "C" will be composed of 5 waves downward, fast and probably to the beginning of the 5th primary of the preceding bull market.
- F. Occasionally extensions occur in bear markets under the same rules, such as, for example, during Oct., 1937.
- G. An extension is never the end of a movement. This does not infer that higher or lower levels may not be seen even without an extension.
- H. Retracement means that the travel of a described movement between two specified points is covered again. For example, a correction and resumption of the trend is a double retracement.

1. If a trader is holding "longs" when a downward extension appears, he should not sell then because the market will immediately retrace the extension in 3 waves, before seeking lower levels.

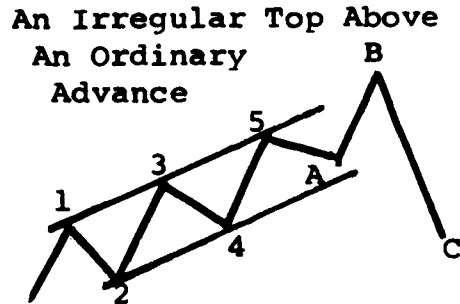
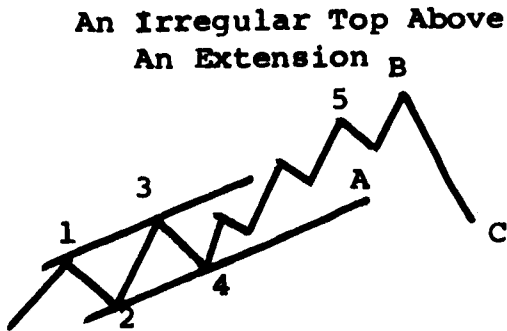
2. While the first retracement will occur immediately and in three waves, the second might not develop for a considerable time but it will eventually and in the current cycle.

3. Pattern of an extension and double retracement:



## Irregular Corrections

1. Examples of corrections have already been shown but not as a part of the waves of the previous movement being corrected. Such examples follow. The letters "A", "B" and "C" indicate waves 1, 2 and 3 of the corrective movement, irregular pattern. Note that the second wave "B" exceeds the orthodox top (5) of the previous movement.



## Strong Corrections

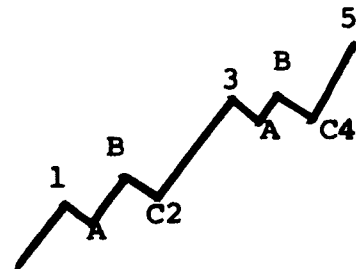
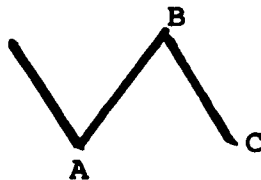
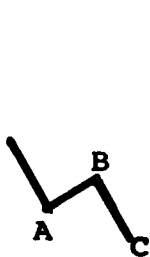
2. Corrections can prove useful as warnings of strong movements to come. The several patterns indicate

1. Ordinary strength of subsequent movement.
2. Strong subsequent movement.
3. Unusual strength of subsequent movement.

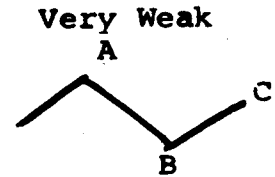
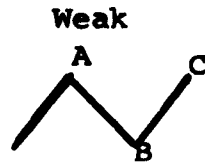
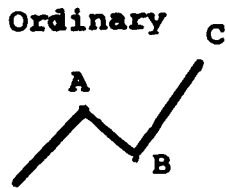
No.1  
Regular Zig-zag  
Pattern. Ordinary  
Strength Indicated.

No.2  
Strong Subsequent Move-  
ment. See No.4 Primary,  
July 1933 to July 1934.

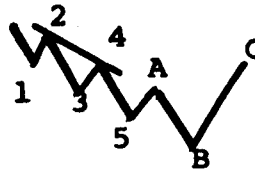
No.3  
Unusual Strength  
End of Correction  
at "2" is Higher  
Than End of "A"  
Wave of Correction.  
Second Correction is  
Weaker.



3. Corrections of bear trends, that is, corrections following downward movements, have the same characteristics as those of advancing movements, but in reverse. For example:

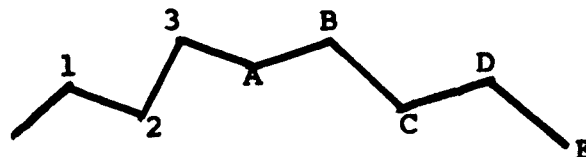


1. Irregular corrections in bear trends are also seen, but very rarely. Note that after a 5 wave down trend, an irregular correction.



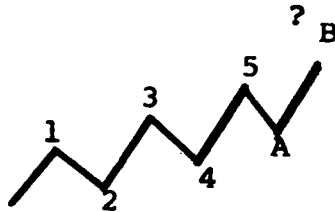
Failures

2. In the pattern below, the 5th wave failed to materialize and stock should be sold at "B". Note that there are 5 waves down from the top at "3", whereas a correction should be composed of 3 waves. The answer is that "B" is the real top from which only 3 waves downward were registered. That is, the decline stole 2 waves from the advance. Put in another way, the regular number upward is 5 plus the regular number down is 3, total 8. In this case there were 3 upward and 5 downward, same total 8. Such patterns are rare but are a serious warning and should be acted upon immediately.



### When The Student Is In Doubt

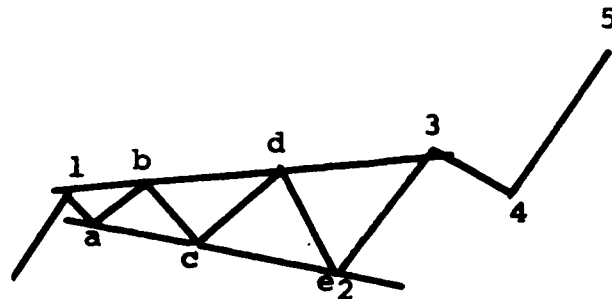
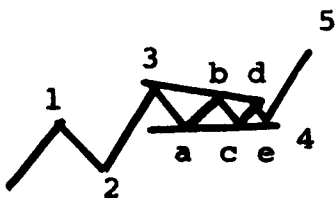
3. In the position shown below, the trader may not know which of the following patterns will develop, i.e., an extension, or an irregular correction. Volume may furnish the answer. Elsewhere it is stated that volume diminishes during the various waves of correction (zig-zags, flats, triangles), therefore if volume is extremely light in the last wave shown, then it is wave No. 2 (B) of an irregular correction. If relatively heavy volume, an extension is generating.



### Triangles

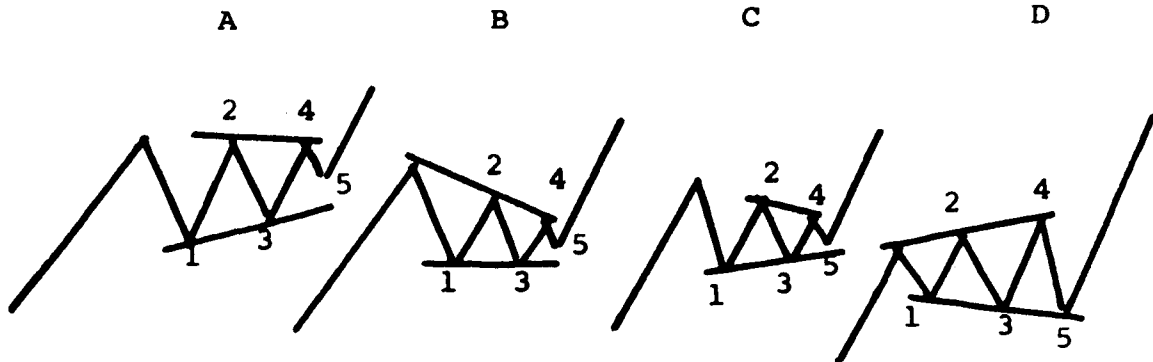
1. Wave movements occasionally taper off to a point or broaden out from a point in the form of a triangle. These triangular formations are important since they indicate the direction the market will take at the conclusion or approximate apex of the triangle.

2. Triangles are of two classes--horizontal and diagonal. Horizontal triangles represent hesitation on the part of prices. At the conclusion of a Horizontal triangle the market will resume the same trend--upward or downward--which it was pursuing previous to triangular hesitation. Horizontal triangles are simply hesitations and have the same significance as flats. If a flat or triangle occurs at No. 2 a zigzag will appear at No. 4. If a zigzag appears at No. 2 a flat or triangle will appear at No. 4.



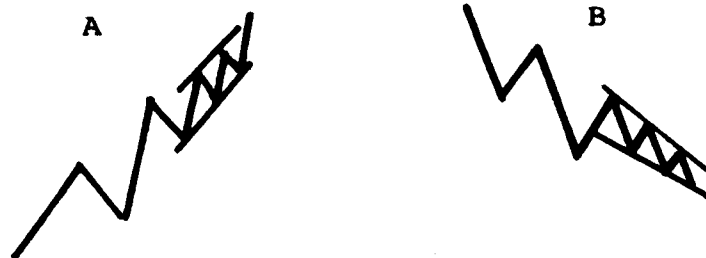
3. Examples of horizontal triangles follow. They are of four types:

- "A" - Ascending: Top flat, bottom ascending.
- "B" - Descending: Bottom flat, top descending.
- "C" - Symmetrical: Bottom ascending, top descending.
- "D" - Reverse Symmetrical: Widens from start to finish.



4. Examples of diagonal triangles follow. They are of two types:

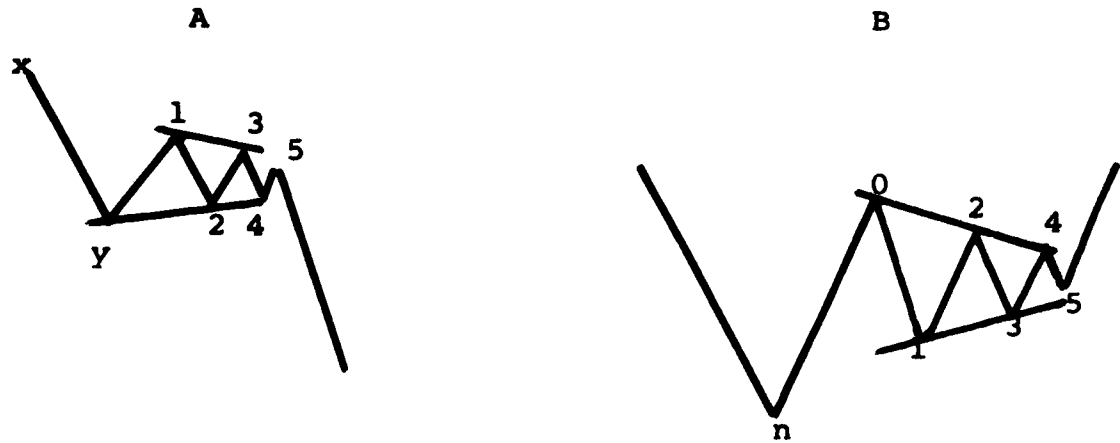
- A - Upward Diagonal.
- B - Downward Diagonal



1. Triangles, whether horizontal or diagonal, as will be noted from the above illustration, contain five waves. Where there are less than five waves, the triangle falls outside the wave phenomenon, as herein discussed, and should be ignored. Each wave of a triangle should be composed of not more than 3 waves.

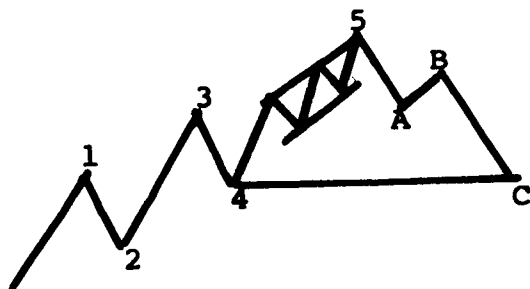
2. The most important thing to be noted with respect to a horizontal triangle is where it begins. This is because wave number two of the triangle must be definitely fixed, and to fix wave number two is important, because when the triangle has ended the market will move from the triangle in the same direction as wave two travelled. In illustration A below (a horizontal triangle) the direction of wave two is downward. At the conclusion of the fifth triangular wave, the market, which has been hesitating during the course of its downward travel X-Y, will resume the decline.





3. In illustration B (another horizontal triangle) the record of the five triangular waves is upward. The market bottomed at N and is hesitating after the upward movement N-O, prior to resuming the advance.

4. In the illustration below (an upward diagonal triangle) wave two of the five triangular waves is downward. The market will reverse its direction at the end of this diagonal (that is, when the fifth triangular wave has terminated) and will return to about the base of the triangle, as illustrated.



5. The fifth wave of all but reverse triangles frequently falls short of its channel or triangle line. Occasionally, however, as shown in the illustration above, a fifth wave will penetrate its triangle line.

1. If the last wave (the fifth Intermediate) of a Primary movement develops a triangle, be prepared for a rapid reversal.
2. All waves in a triangle must be part of a movement in one direction. Otherwise no triangle is present, only a coincidence.
3. A diagonal triangle occurs only as a fifth wave, that is, it should have four waves back of it of the same degree as it will be.
4. When the range (weekly or daily) in a triangle embraces the entire width of the triangle, the end has about arrived. Confirmation should be required in wave number five. A throw-over is not essential.
5. Usually triangles are quite small and all waves not developed in detail.

## VI

### SPEED, VOLUME AND CHARTING

1. High speed by the market in one direction almost invariably produces a corresponding high speed in the reversal.
2. In fast markets it is essential to observe the daily as well as the weekly ranges, otherwise characteristics of importance may be hidden, such as, for example, triangles and extensions.

#### Volume

3. Volume decreases gradually from the beginning to the end of horizontal triangles, flats and other types of corrections. Volume often helps to clarify the character of a movement. However, when markets are abnormally "thin", the usual volume signals are sometimes deceptive.
4. Characteristics of volume are very impressive when considered in conjunction with the five wave Cycle. For example, during an advance or a decline of some importance, volume will increase during number one wave, diminish during number two, increase during number three, decrease during number four, and increase during number five. Immediately following number five, volume should be fairly well maintained, with little, if any, further progress in price, indicating reversal.

5. Volume tends to increase in the third wave of the cycle and to maintain about the same activity in the 5th wave. As the bottom of the volume cycle is approached, erratic price changes in high priced stocks or inactive stocks with thin markets can distort the small waves in the trend of the averages to such an extent as to create temporary uncertainties. But these waves of volume are also useful in determining the extent and time for completion of price phases, and also in determining the time and direction and even the speed of the following movement. The best results therefore will follow from correlation of the volume and time cycles with the component phases of the broad price movement, as the price pattern and all degrees of volume are governed by precisely the same Wave Principle phenomenon.

At certain stages volume seems to play an important part in the price movement, and volume itself will expand or contract to help control and complete the price cycle. Study of the time cycle and volume cycles is sometimes distinctly helpful in clarifying the position of the price spiral.

### Charting

To maintain proper perspective, student should chart at least two and preferably more broad averages, using the weekly range, the daily range and the hourly record and showing the accompanying volume. The daily range, by affording close observation of the smaller changes, is essential in correct interpretation of the cyclical progression, and is quite necessary for determining the precise time of important reversals in trend. The hourly changes afford valuable and extensive material for practice.

## Application of Elliott's Principles

Elliott can be a very useful tool. When combined with other technical techniques, they can enhance the profit potential. It is somewhat like a rough roadmap. With Elliott, you don't feel like you are in the middle of a jungle.

An example of Elliott is shown in the following chart of May, 1975 Wheat.

Wave 1. Starting from a high of 558, wheat breaks the trendline and has 5-minor waves down to complete major Wave 1.

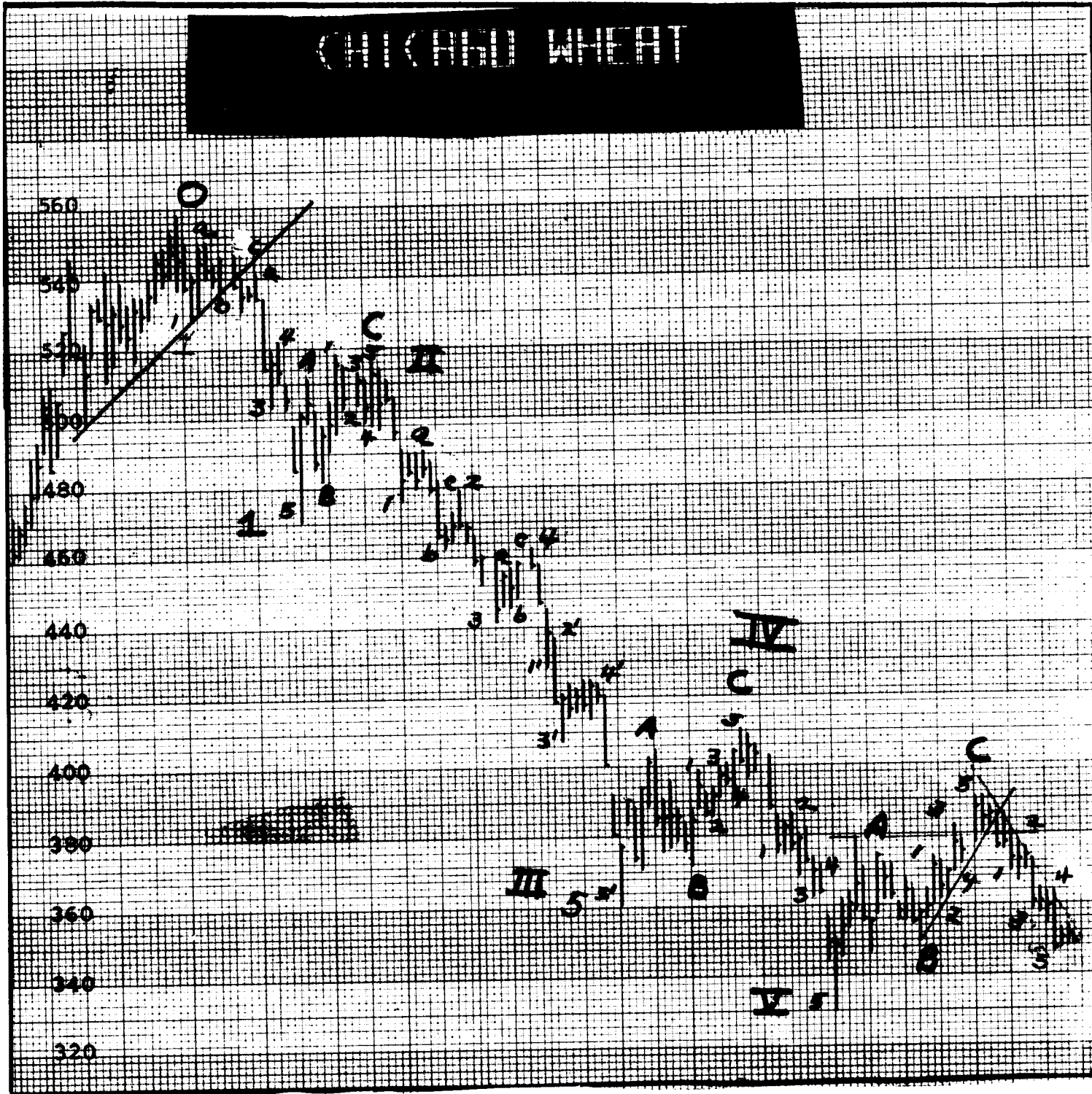
Wave 2. Market has an ABC correction to complete Wave 2. This was the flat type correction (3,3,5). The 3 waves are not discernible in A & B on the daily chart. The 5-waves in C are clearly shown.

Wave 3. It is a bit more complex than major Wave 1 or 5. You will note that it is the longest wave of the three. Elliott's theory states that it cannot be shorter than Waves 1 and 5. Note the minor ABC corrections in minor Waves 2 & 4. The fifth minor is made up of 5 sub-minor waves. One might argue sub-minor 3 should be the completion of major 3, and that could be the case. If you were short at that stage, certainly you should be alert for aggressive demand entering the market. It did show up at sub-minor 5, also minor 5, which was the completion of major Wave 3.

Wave 4. Upon completion of major Wave 3, a significant correction in time and magnitude should be anticipated. This correction is clearly shown as the 3,3,5 "flat" variety.

Wave 5. At C, one could expect another major drive down, and it started out with conviction and had 5-minors where a potential end to this market phase was possible. A 3,3,5 correction occurred where the market again was a potential short. However, one must be very cautious at this stage, as the market has completed a major 5-wave Elliott cycle and a major ABC rally to the entire move is possible.

This is just one approach to Elliott analysis. Is it the correct one? Your author does not know, but that is not the most important factor. The major point is whether or not these concepts can be used to enhance trading profits. We are convinced they can.



NOTE TREND LINE CONNECTING WAVES 2 + 4 + 1 + 3 Predicted The Top of wave 5, PARALLEL CHANNEL TO 1 + 3 Predicted END OF WAVE 5

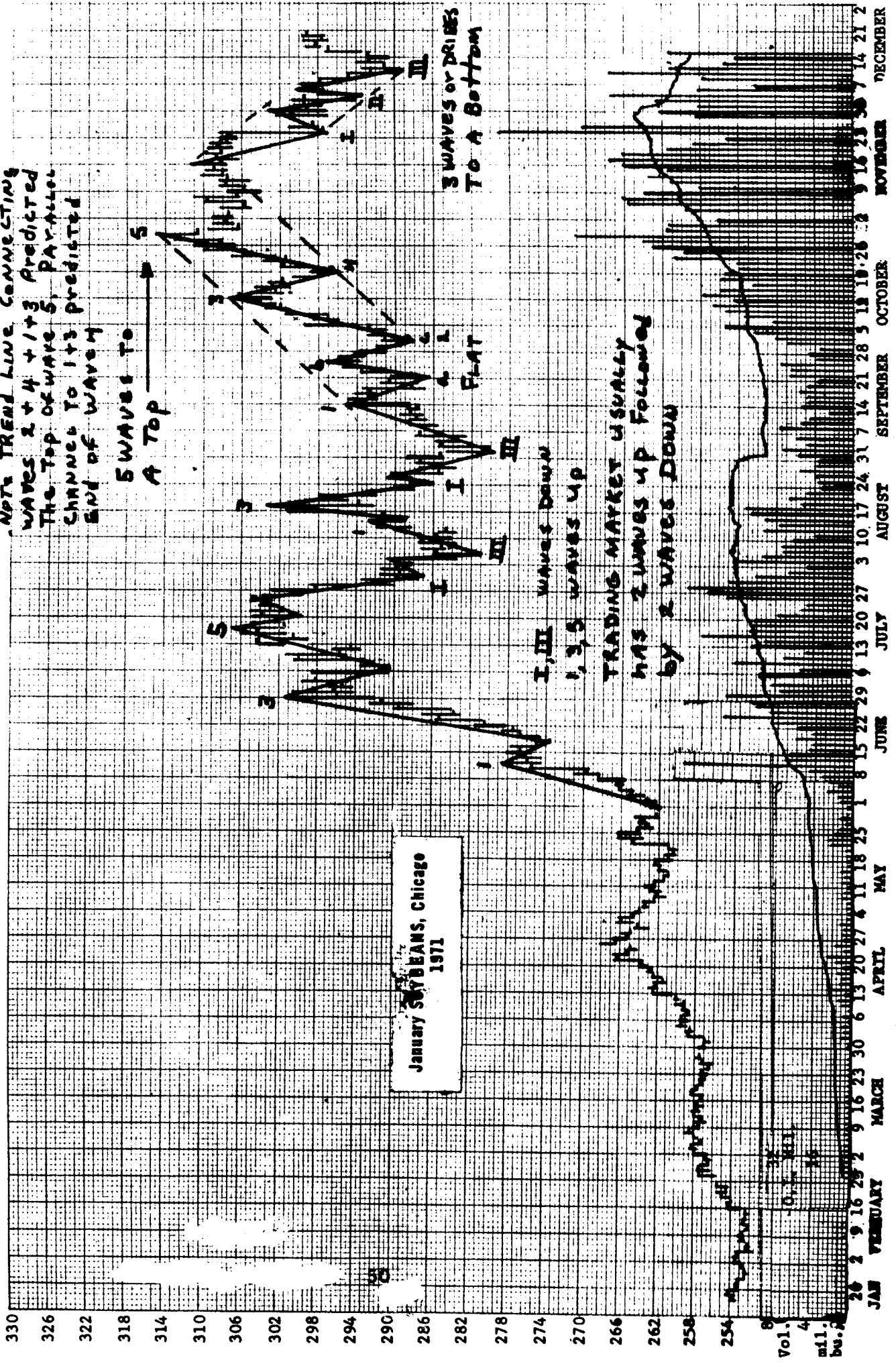
5 WAVES TO A TOP

January Soy Beans, Chicago 1971

3 WAVES or DRIVES TO A Bottom

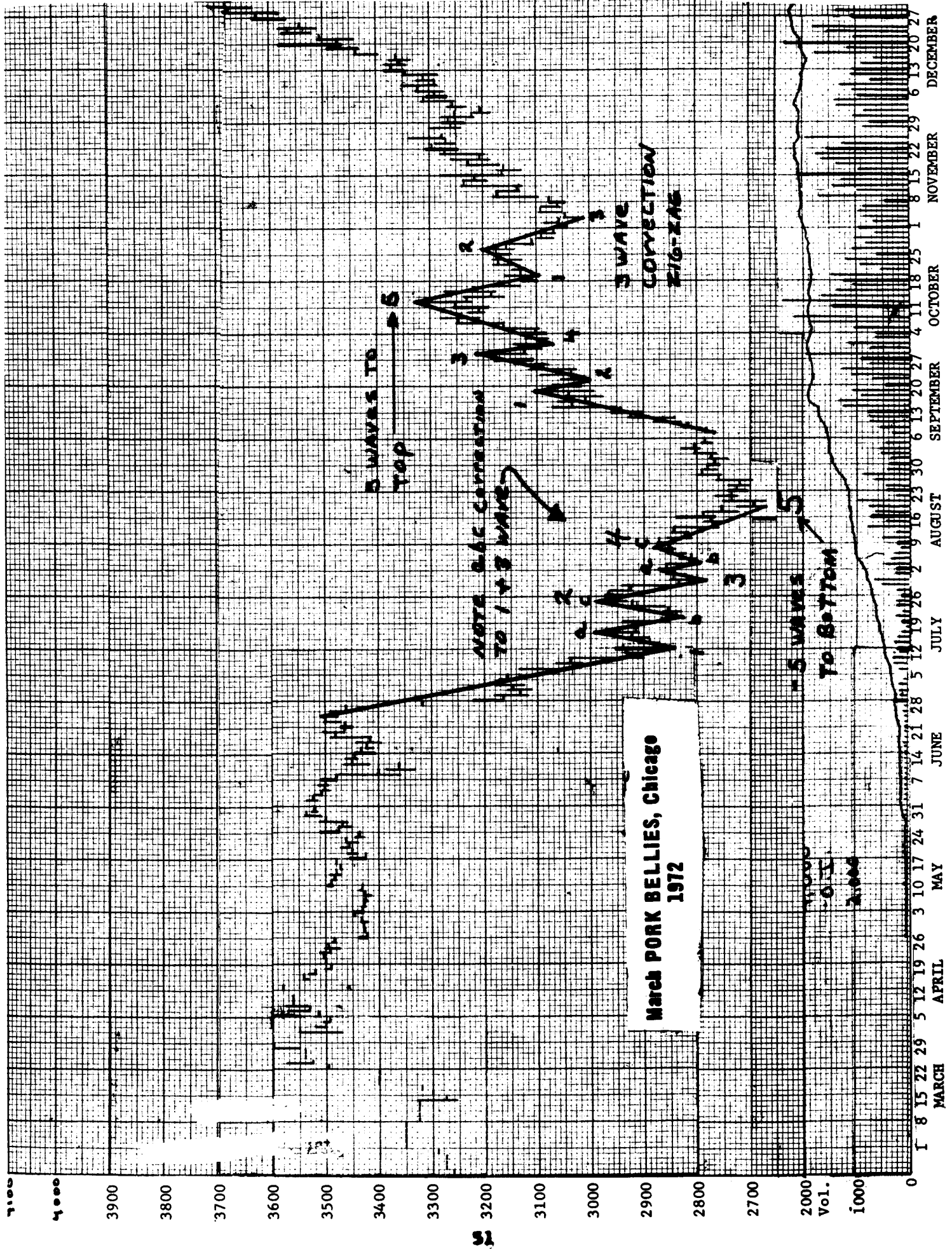
I, III waves down  
1, 3, 5 waves up

TRADING MARKET USUALLY HAS 2 WAVES UP Followed by 2 WAVES DOWN

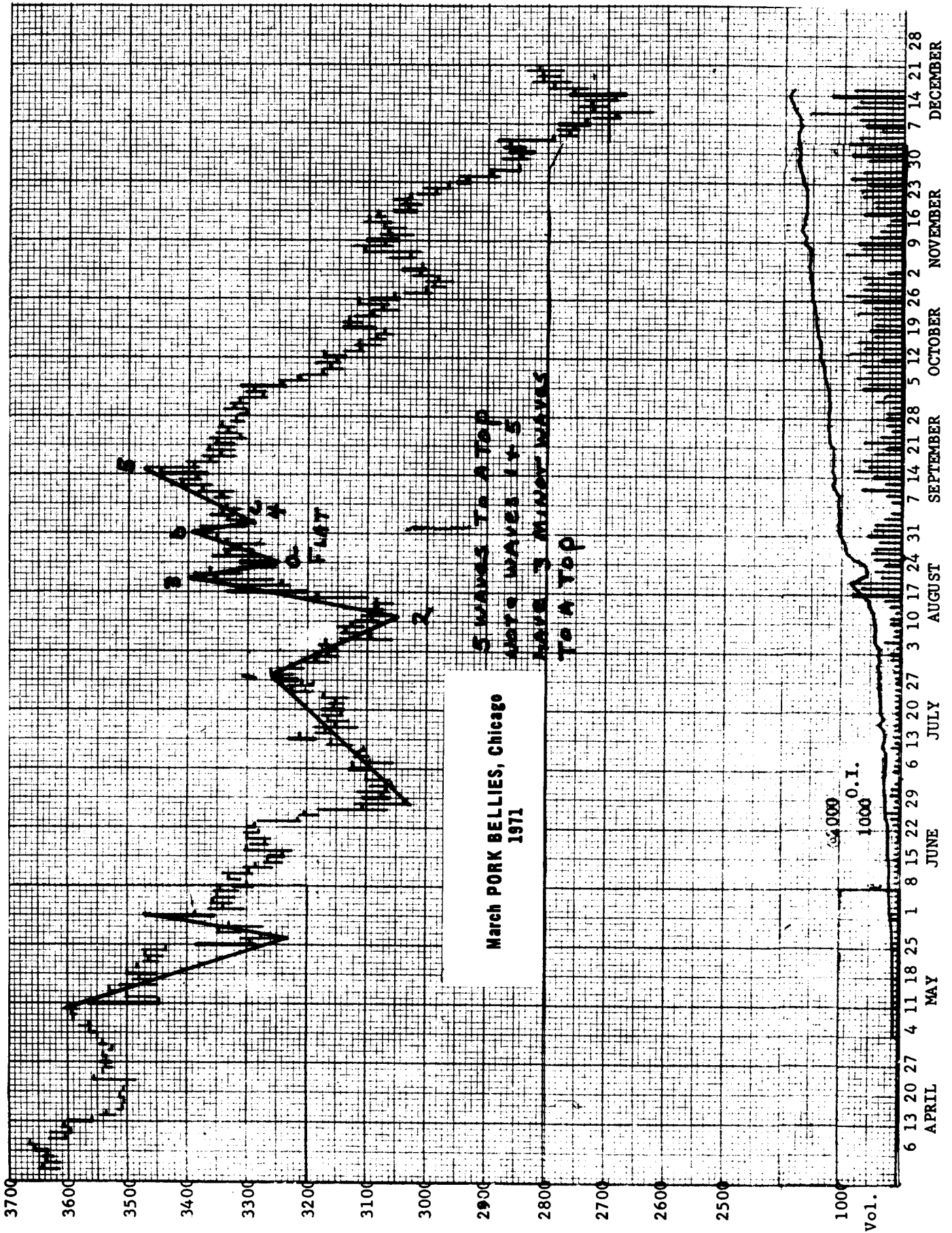


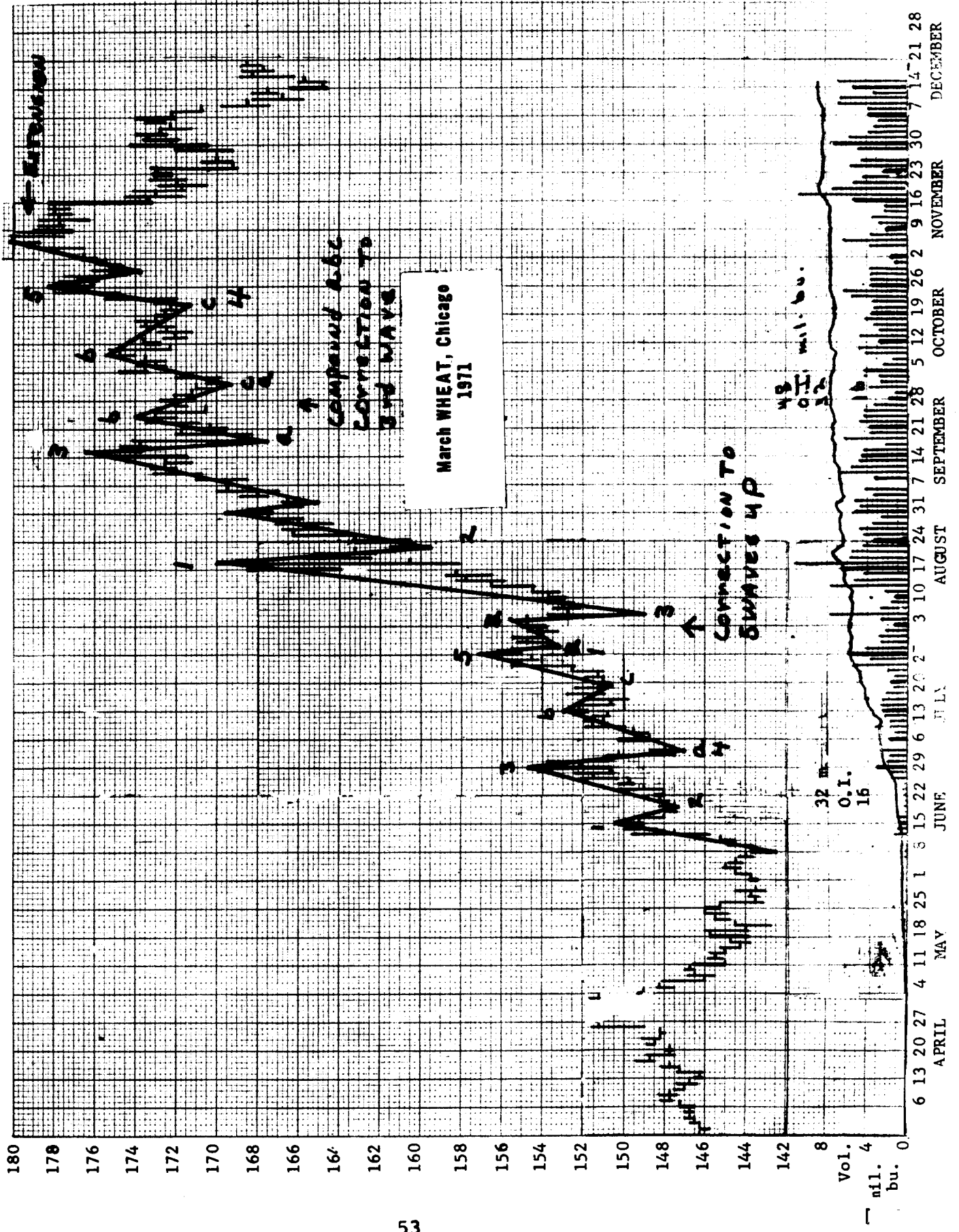
JAN FEBRUARY MARCH APRIL MAY JUNE JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER

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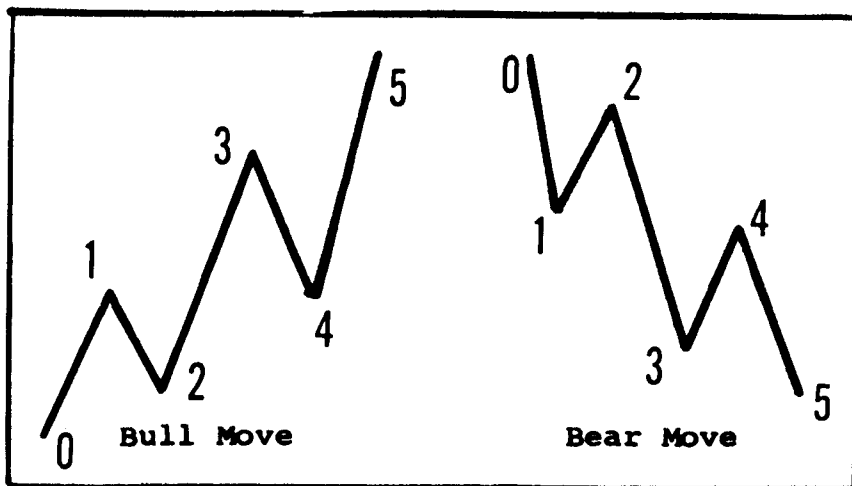




## Practical Applications of the Elliott Wave Theory

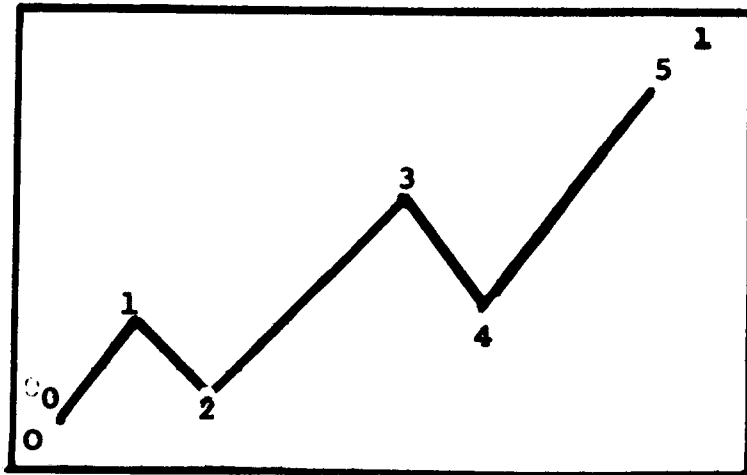
The concepts presented are extremely useful but have literally driven men "up the wall" as they try to fit chart patterns to exactness in conformity with the Elliott wave. Our concept of the Elliott wave follows.

Basic moves are in a 5-wave pattern. Wave 4 should normally be above Wave 1. Wave 3 should not be shorter than Waves 1 & 5.

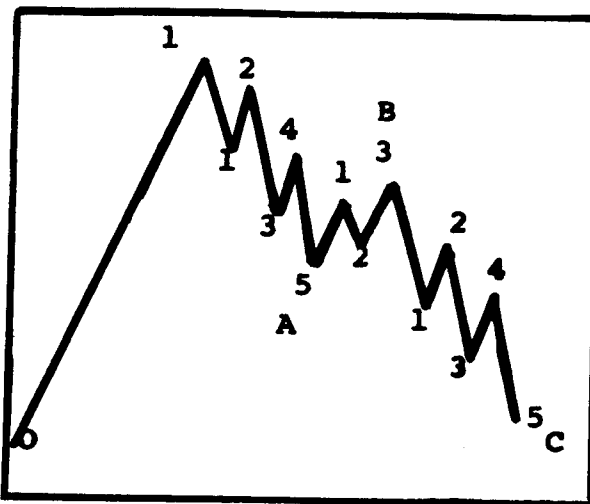


Our studies have shown that Wave 3 can be shorter. Also, the 5-wave movement will normally stop a move for a corrective phase. However, this does not always hold true. We occasionally note cycles that run for 7-9 waves prior to a correction. This is what Elliott called an extension.

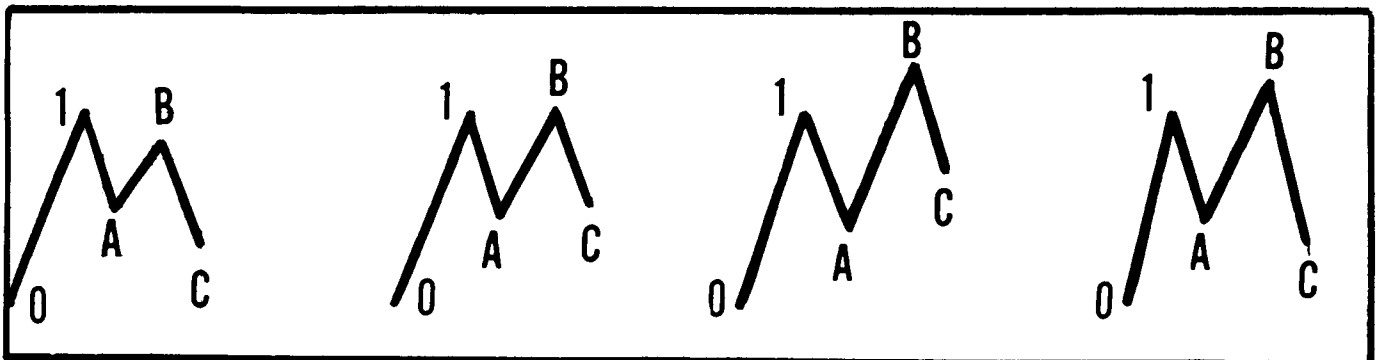
Individual waves can be subdivided into 5 minor waves, then further subdivided into minute waves. Our experience has failed to always detect the minor sub-waves. Magnitude and time are of more importance in determining the end of a movement.



Counter waves are composed of ABC-type corrections of the 5-3-5 variety. Attempting to locate the 5-3-5 on any statistical basis for reality is extremely difficult.



TYPES OF COUNTER WAVES OR CORRECTIVE PHASES



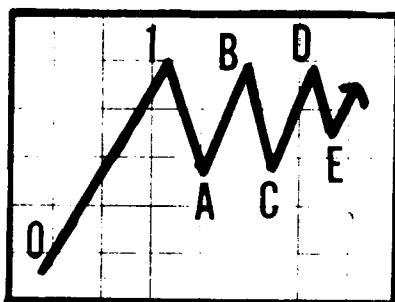
Zigzag

Flat

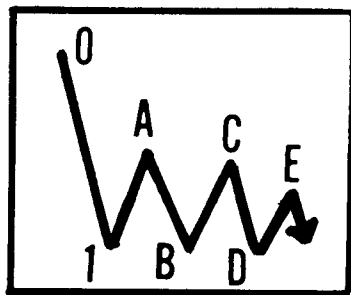
Irregular Types

A zigzag correction (5-3-5) is the weakest type correction and can lead to trend reversal. Irregular types are the strongest, particularly when C terminates above B.

Triangle corrections are composed of a 5-point pattern after an impulse move. The type and location of this pattern can often be revealing as to whether or not a trend reversal is in the picture.



This is a flat correction with all the action above the 50% point of the 0-1 impulse move, which is constructive. In all cases watch Wave E to aid in pointing direction. If Wave E terminates at the 50% point of the B-C move, look for an upside breakout.



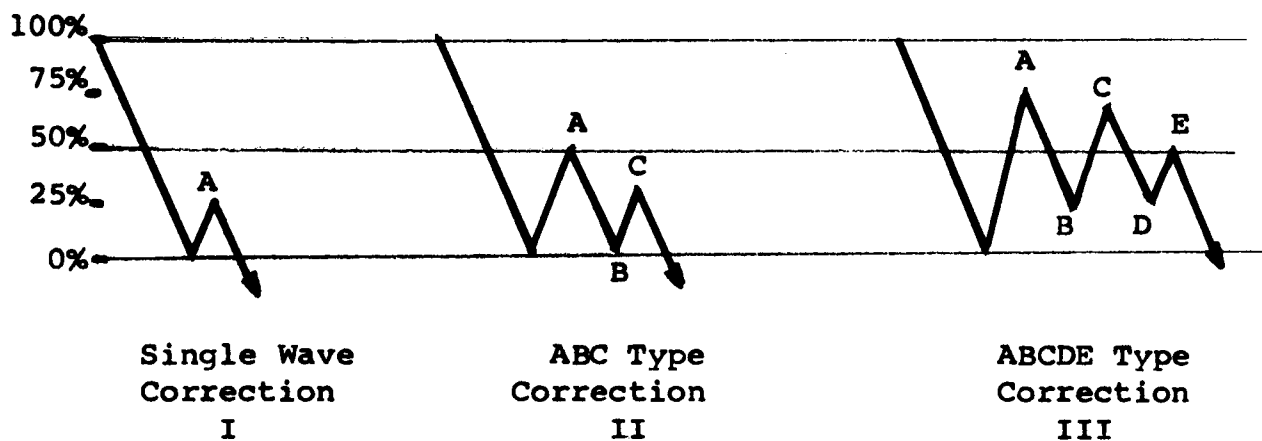
This is a bearish looking corrective pattern as most action is below the 50% point.

A first impulse wave against the prevailing trend is composed of both time and space. These factors in the first counter wave are of extreme importance in judging the nature of the entire corrective movement.

Use of A leg to forecast type of correction

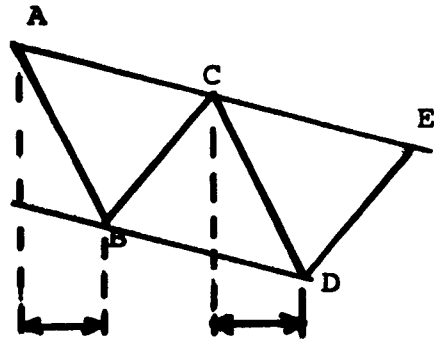
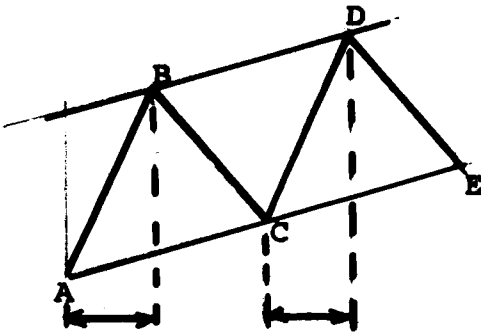
- A leg - 25-35% reaction - generally type 1 and sometimes 2.
- A leg - 35-50% reaction - generally type 2 but can go to 1.
- A leg - 50-75% reaction - generally type 3.
- A leg - greater than 75% reaction - can generally always count on type 3. Sometimes a reversal pattern is in the picture.

Corrective Types



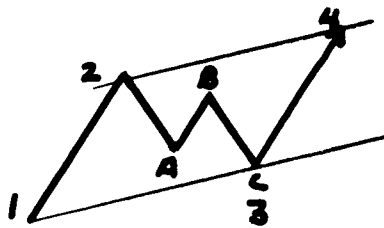
## CHAPTER 4

### SWINGS & PROPORTION OF SWINGS

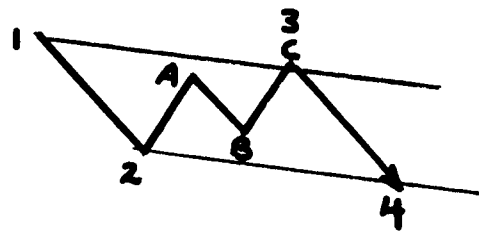


1. Parallel Moves - Theory is that parallel moves will repeat themselves. Move CD should equal AB. Also, the counter move DE should equal move BC. These theories hold for both time and space.

### 2. Compound Parallel Movement



Up



Down

Frequently, a chart pattern such as the above will be seen. The movement from 1-2 is a good-sized gain and requires some time to digest. Here a correction such as ABC takes place prior to

resumption of the upmove. In theory, the move from 3 to 4 will equal 1-2.

Cyclic Analysis - Cyclic proponents are convinced that the entire answer to trading is in cycle analysis. Theory is as follows.

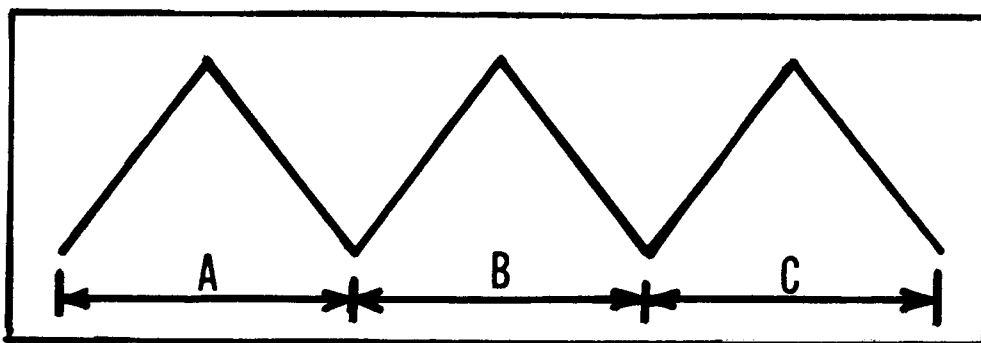
A. There is an infinite number of cycles in operation with a few dominant ones that are harmonic in nature.

B. Tops and bottoms occur when a predominant number of these cycles peak or bottom at about the same time.

This approach is another tool that can be useful at times. Blindly using this approach can lead to unpleasant results. The methods found useful are as follows:

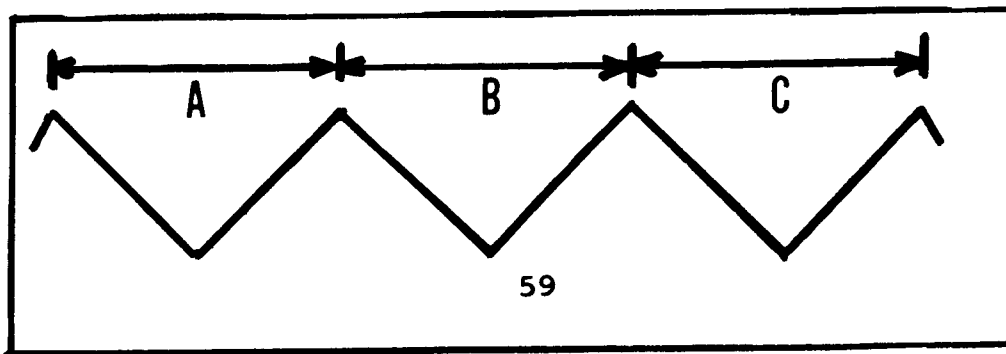
1. Bottom to bottom cycles. B distance should equal time A.

C should equal the average of A & B.



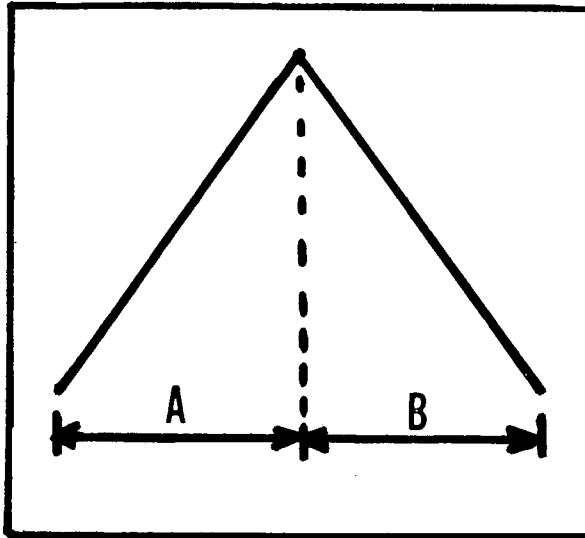
2. Top to top cycles. B distance should equal time A.

C should equal the average of A & B.





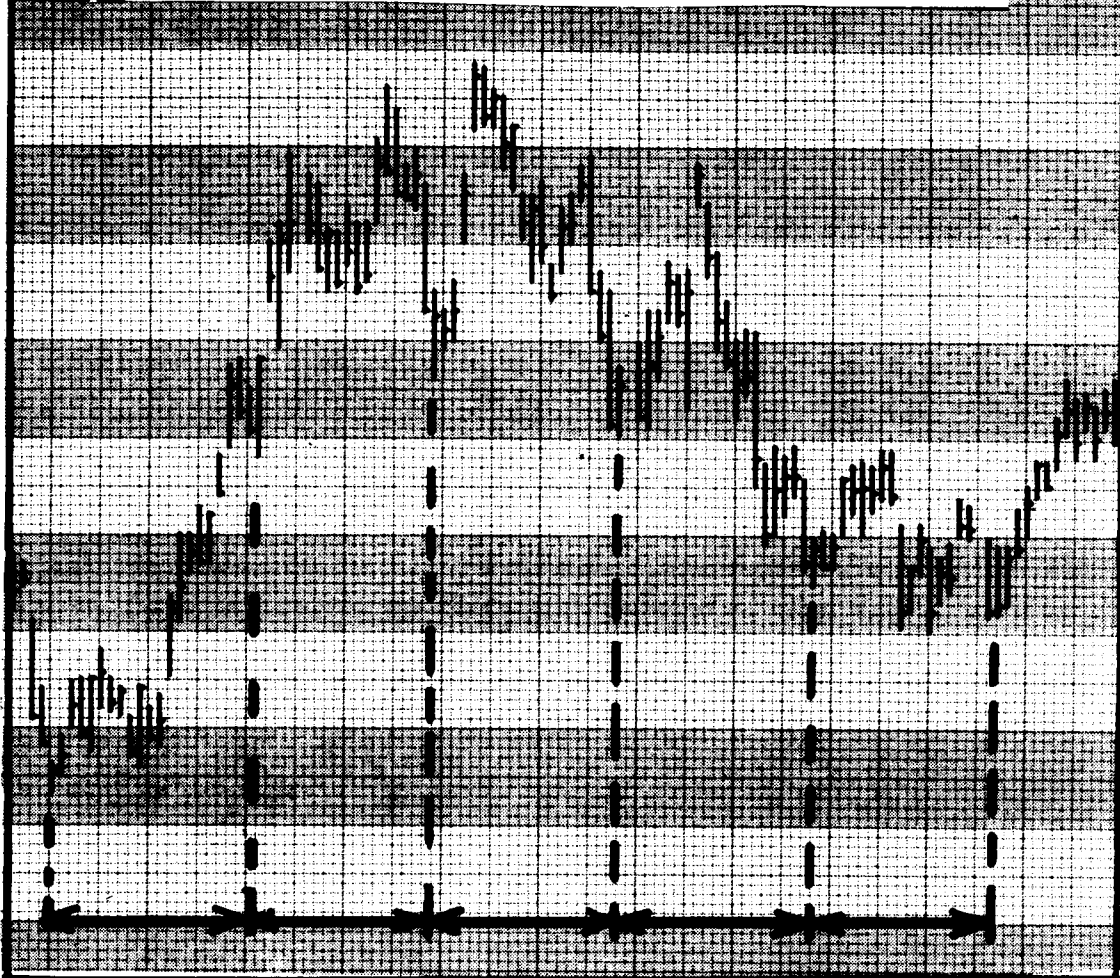
3. Time up (A) equals time down (B). This one can only be used as a very rough guide. The peak seldom occurs at the mid-point of a cycle.



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# PLYWOOD

NOVEMBER/  
Chicago Board of Trade



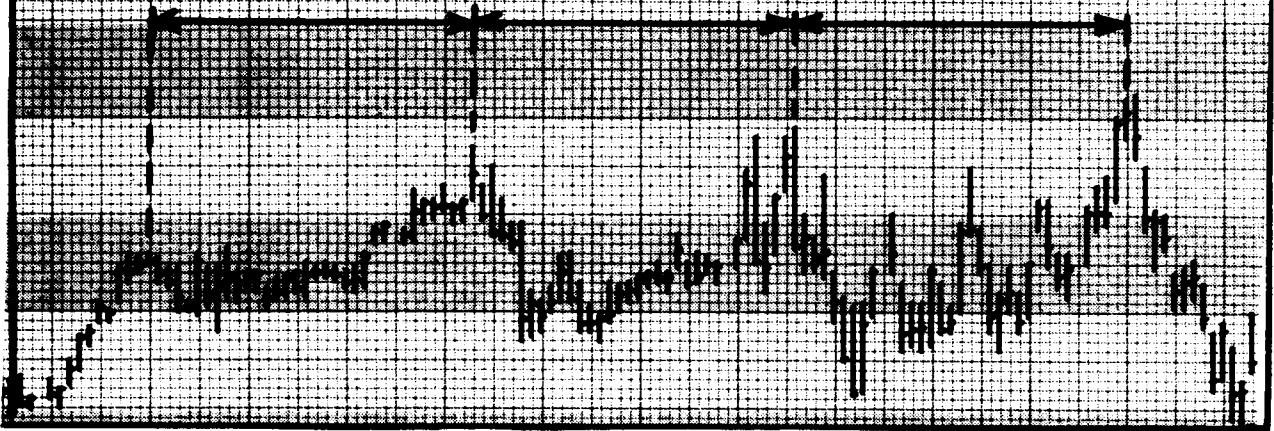
BOTTOM TO BOTTOM CYCLES

NOMINAL 18-21 DAY CYCLE IN PLYWOOD

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# SOYBEAN MEAL

DECEMBER  
Chicago Board of Trade

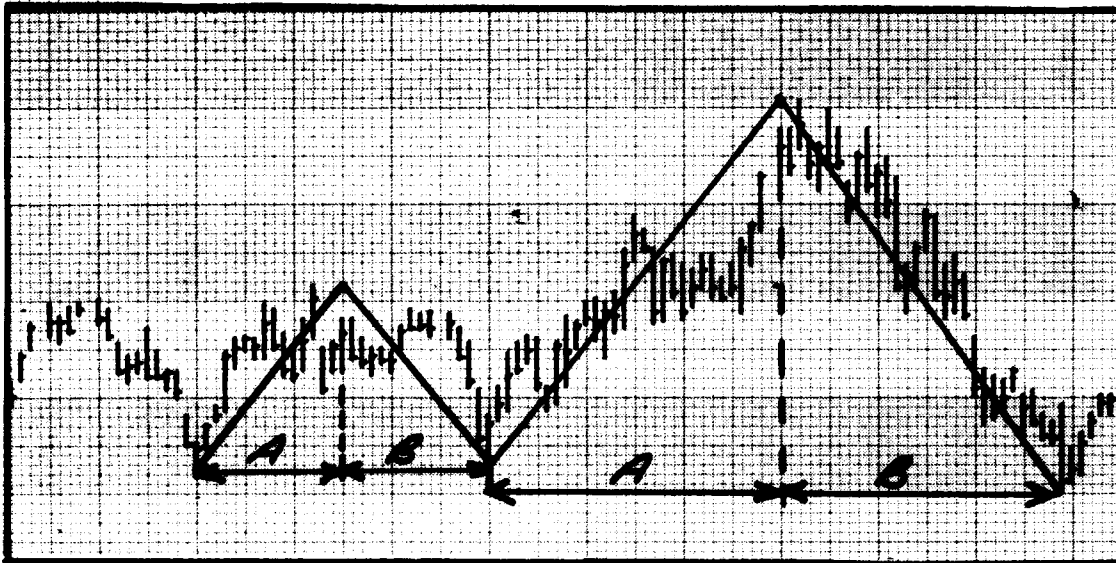


TOP TO TOP CYCLES  
NOMINAL 33 DAYS

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# LIVE CATTLE

DECEMBER  
Chicago Mercantile Exchange



TIME UP EQUALS TIME DOWN

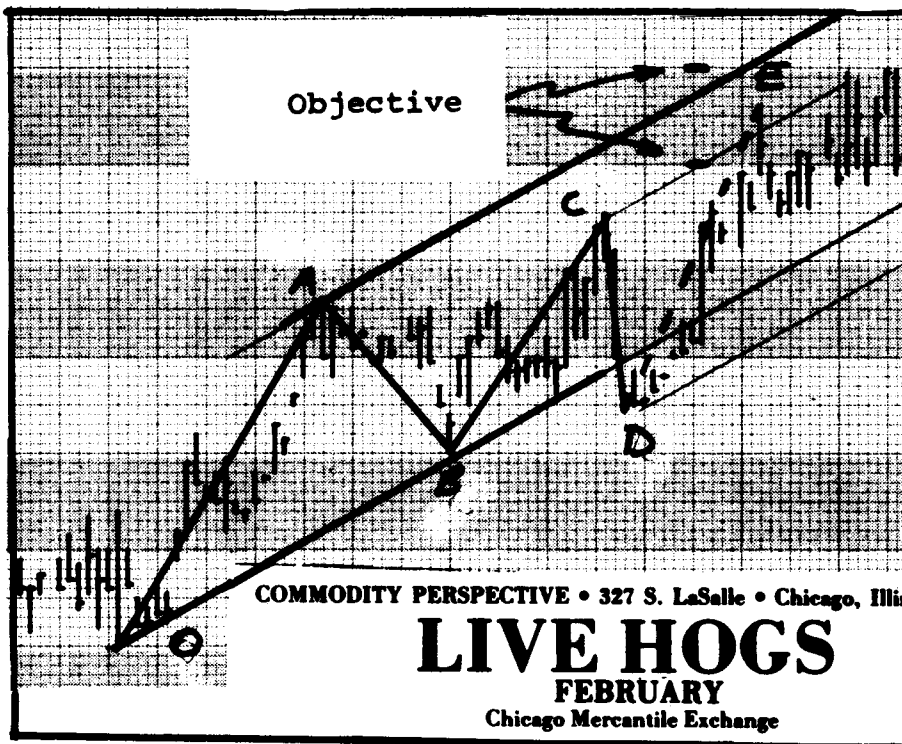
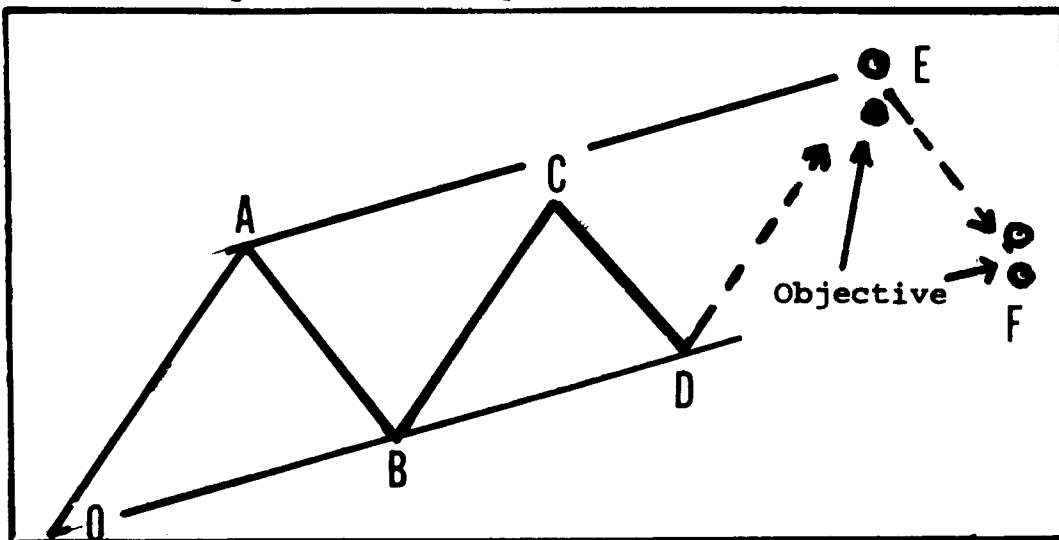
Amplitude Analysis

This is another way of repeating the parallel movement theory.

The one added factor is to average out several moves to project

the movement. For instance, DE should equal the average of OA & BC.

Wave EF should equal the average of AB & CD.



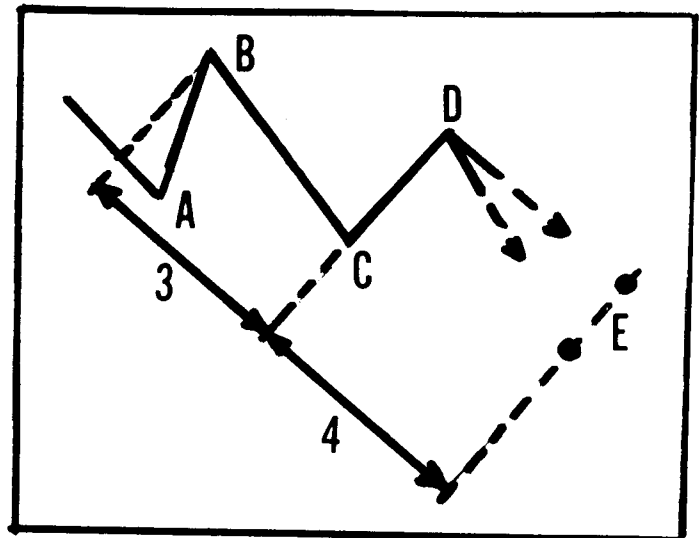
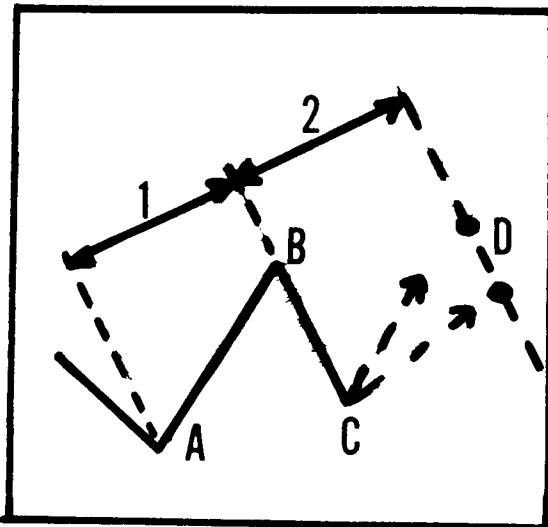
AMPLITUDE ANALYSIS

$$E \text{ OBJECTIVE} = \frac{OA + BC}{2} + D$$

Geometric Integration of Time & Space Movements

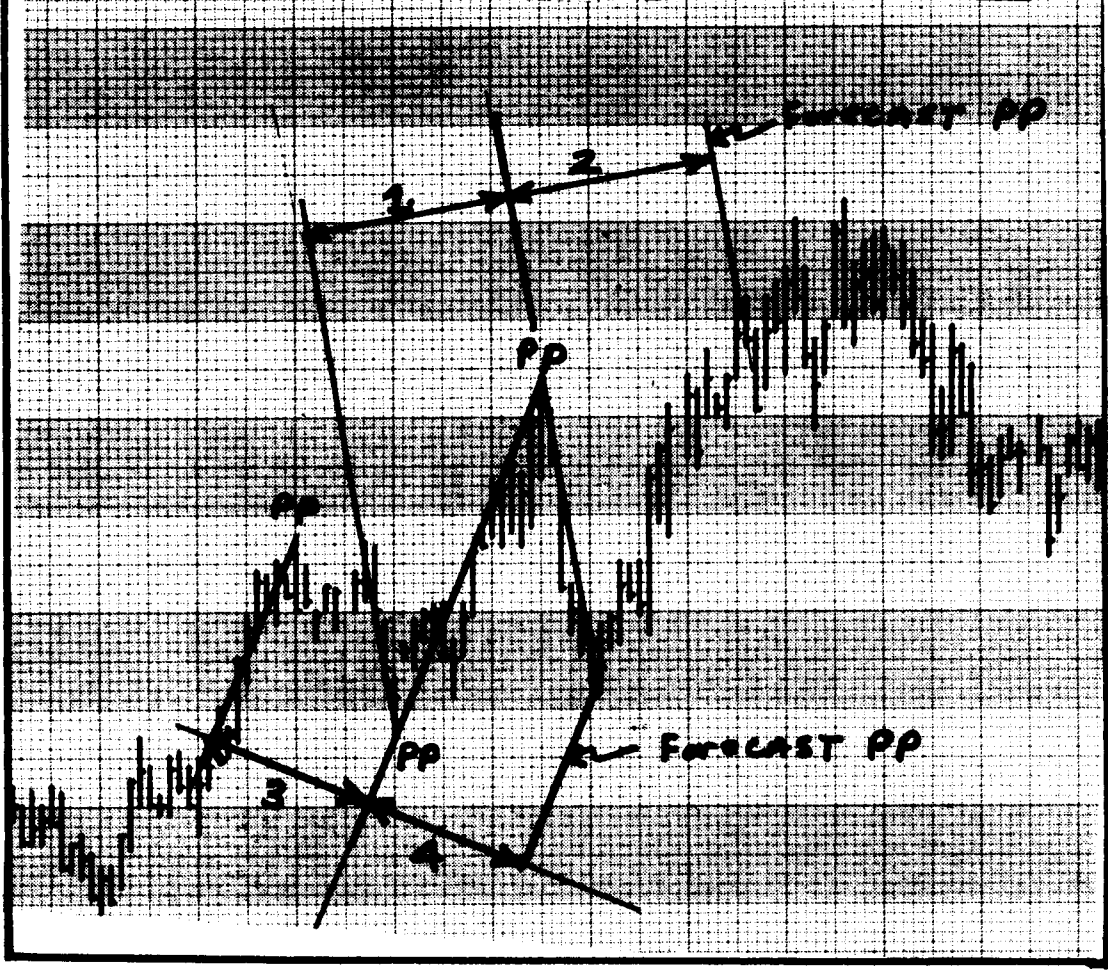
A geometric approach to integrating time and space is shown as follows:

1. A straight line is drawn from pivot point B to pivot Point C.
2. A parallel line is drawn through pivot point A.
3. Draw a perpendicular line to BC and measure off a distance 2 equal to 1.
4. A parallel line as distance 2 then becomes a resistance line and market should turn down as line is approached.
5. The support line is drawn in the same manner as illustrated.



# LIVE HOGS

DECEMBER  
Chicago Mercantile Exchange

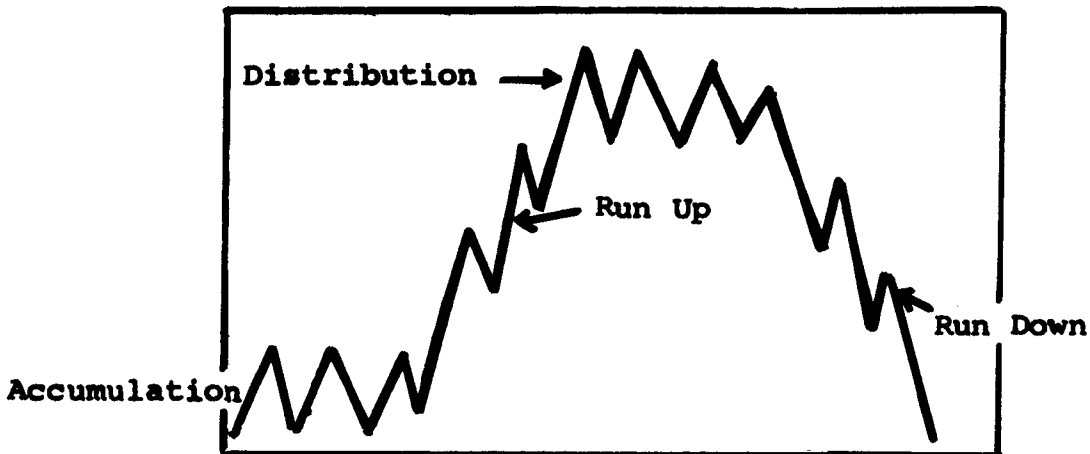


INTEGRATION OF TIME AND SPACE MOVEMENTS

## CHAPTER 5

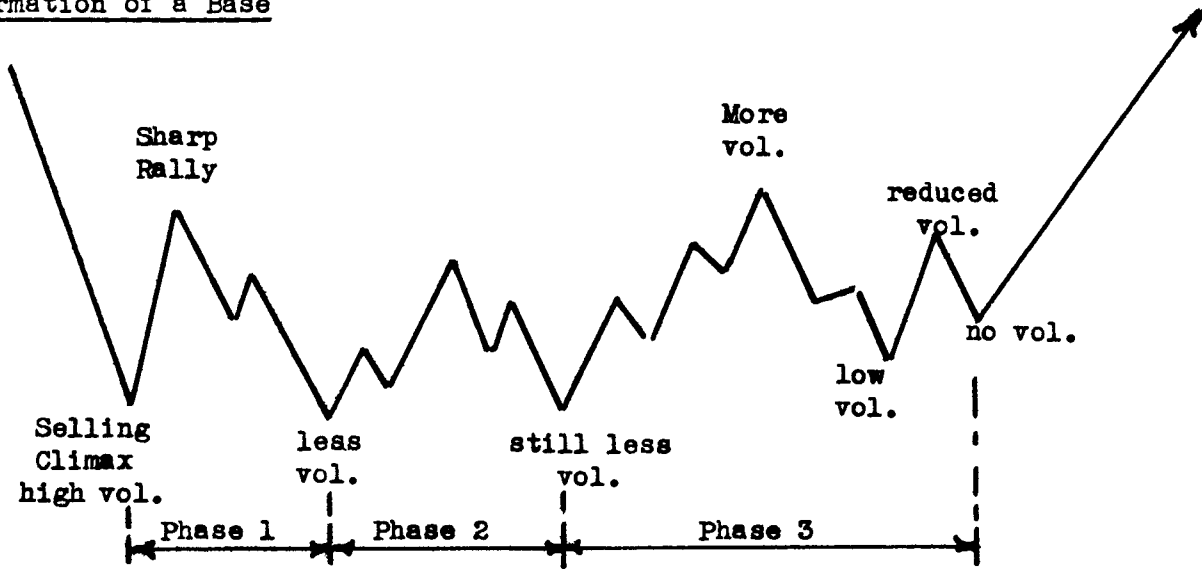
### MARKET STAGES

A market has several distinct stages: accumulation, distribution, and run up or run down between these stages. This can be shown graphically as follows:



About 85% of the time a market is in either an accumulation or distribution range. Needless to say, the most bullish news comes out when a market is in the distribution stage and the most bearish news appears when it is being accumulated. If one is to make money on these moves he must learn to ignore all the news and see what the chart pattern is telling. The big money will tip their hand if one knows what to look for. These next few lessons will be devoted to a study of market action.

Formation of a Base



Phase 1. This phase is characterized by extremely heavy volume followed by a sharp rally of several days' duration. Unless you have this sharp rally, the question is still open regarding whether or not the downturn is over. After this sharp rally the commodity will come back down to test the bottom area and may hold at a higher level or make a slightly lower bottom. This is commonly called a secondary test.

Phase 2. The market will now enter a stage where supply and demand are essentially equally balanced. If this is an accumulation range, the volume will begin to increase on the up days and be somewhat less on the down days. Toward the end of this phase, the tops and bottoms may be higher than previous rallies and reactions.



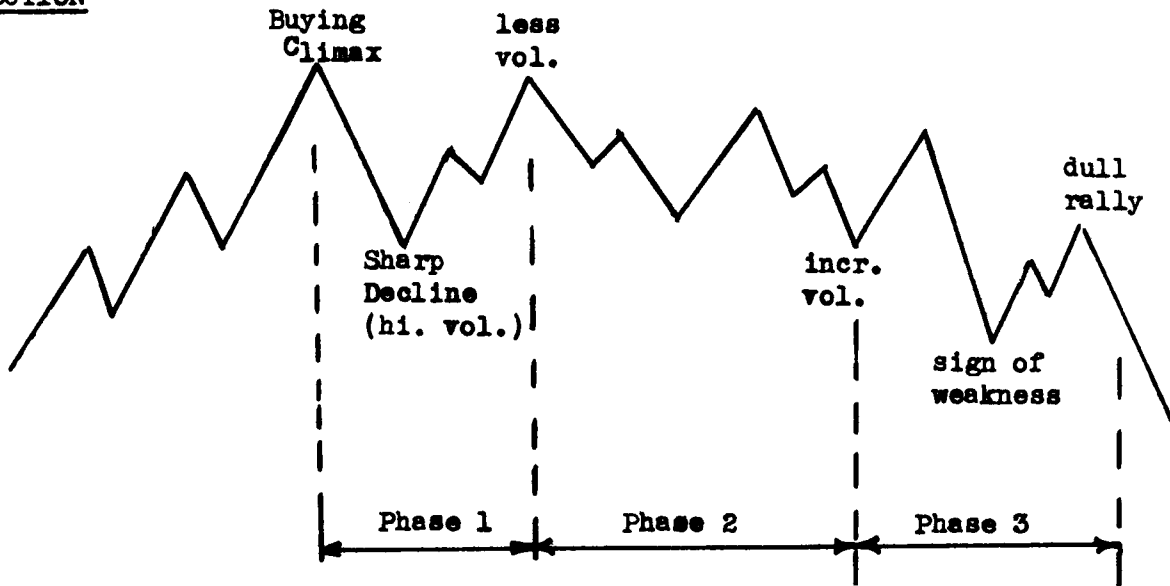
**Phase 3. This phase can take one of two forms:**

- A. A market will move out to what is referred to as a springboard. It will move up to a previous high on slightly less volume and then back off to perhaps a 50% correction of the last upmove. Volume will be very low. You then have an expansion of spread and volume on the upside. It moves out on the upside for a beginning of the move.
- B. A market may have a "terminal shakeout". This is characterized by breaking below the entire range with an increase in volume. This is followed by an equally rapid recovery of the entire loss. It may then back off slightly, go dead and then take off with expanded volume and thrust. The terminal shakeout traps the new shorts and can quickly result in significant loss. This can be guarded against by using closely placed stop orders and reversing positions when the terminal shakeout becomes apparent.

**Summary of Base Action**

- 1. Base is made after a selling climax.
- 2. Automatic recovery from base will be speedy-- 2-3 days with wide spread.
- 3. There will be rallies and recessions after this speedy recovery, generally numbering 3-4.
- 4. There will be rising of bottoms toward end of base.
- 5. Narrow range, small volume, and upward tendency is shown toward end of basing action.

DISTRIBUTION

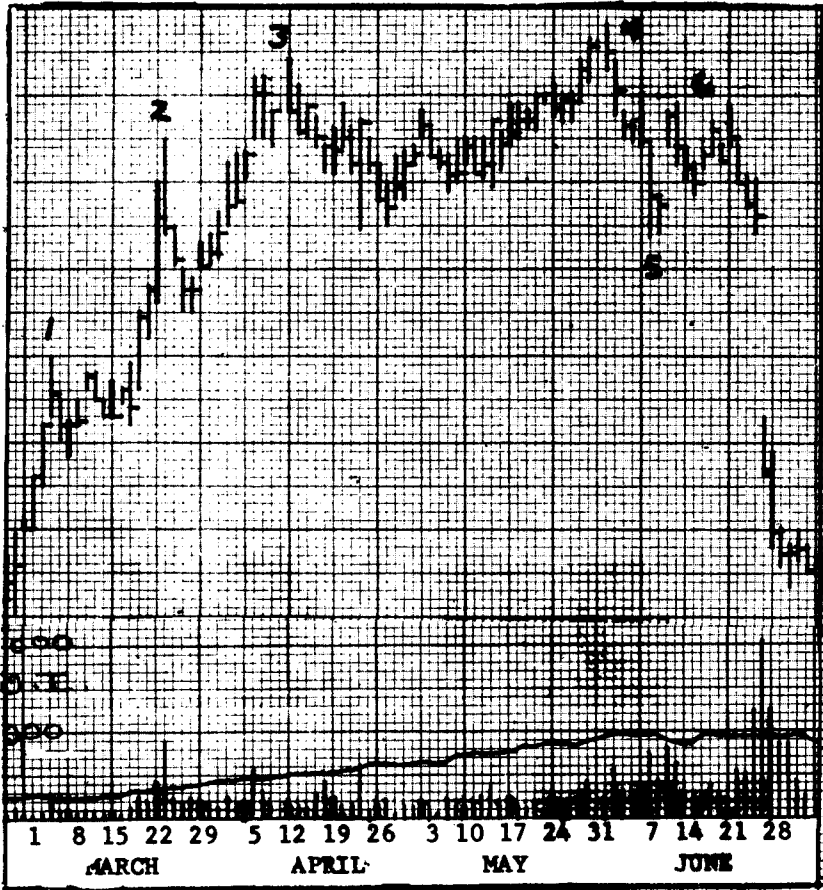


Phase 1. Three drives to a top place the market in an area for potential distribution. The first reaction will be the steepest one yet in the rise to the top and will have heavy volume.

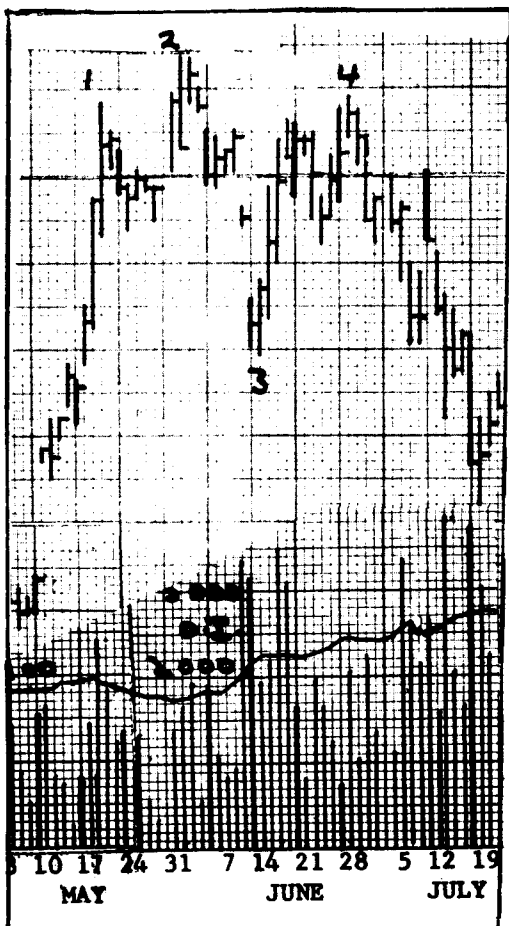
Phase 2. This phase will have supply and demand about equally balanced. Volume and thrust will begin to pick up on the downside. Lower tops will become evident.

Phase 3. Market will have a decided show of weakness and will generally be followed by a feeble rally. At this point it is on what is sometimes called a reverse springboard. It then begins a run down in earnest.

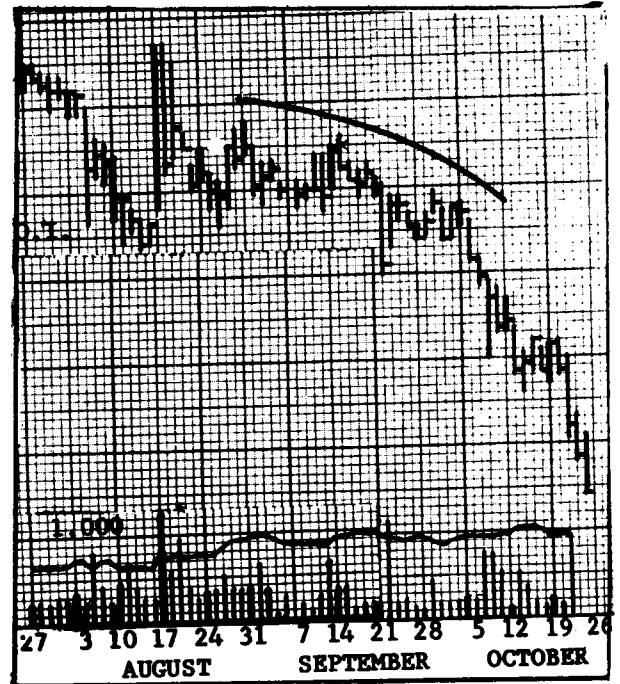
# DISTRIBUTION



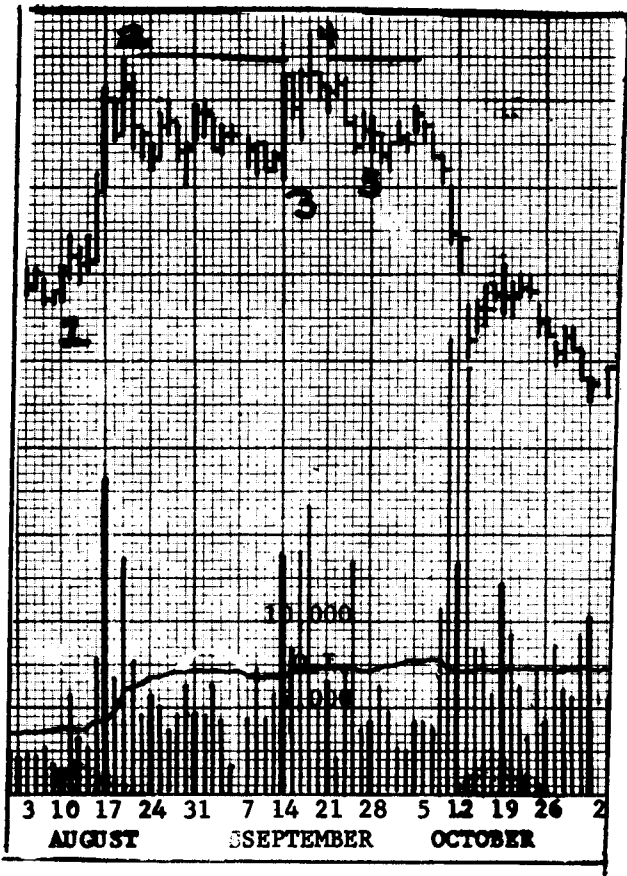
- 1,2,3 - 3 drives to a top
- 3-4 - Distribution zone
- 4 - Upthrust after distribution
- 4+5 - A very evident show of weakness. Note increase supply or volume.
- 6 - Last rally before mark-down



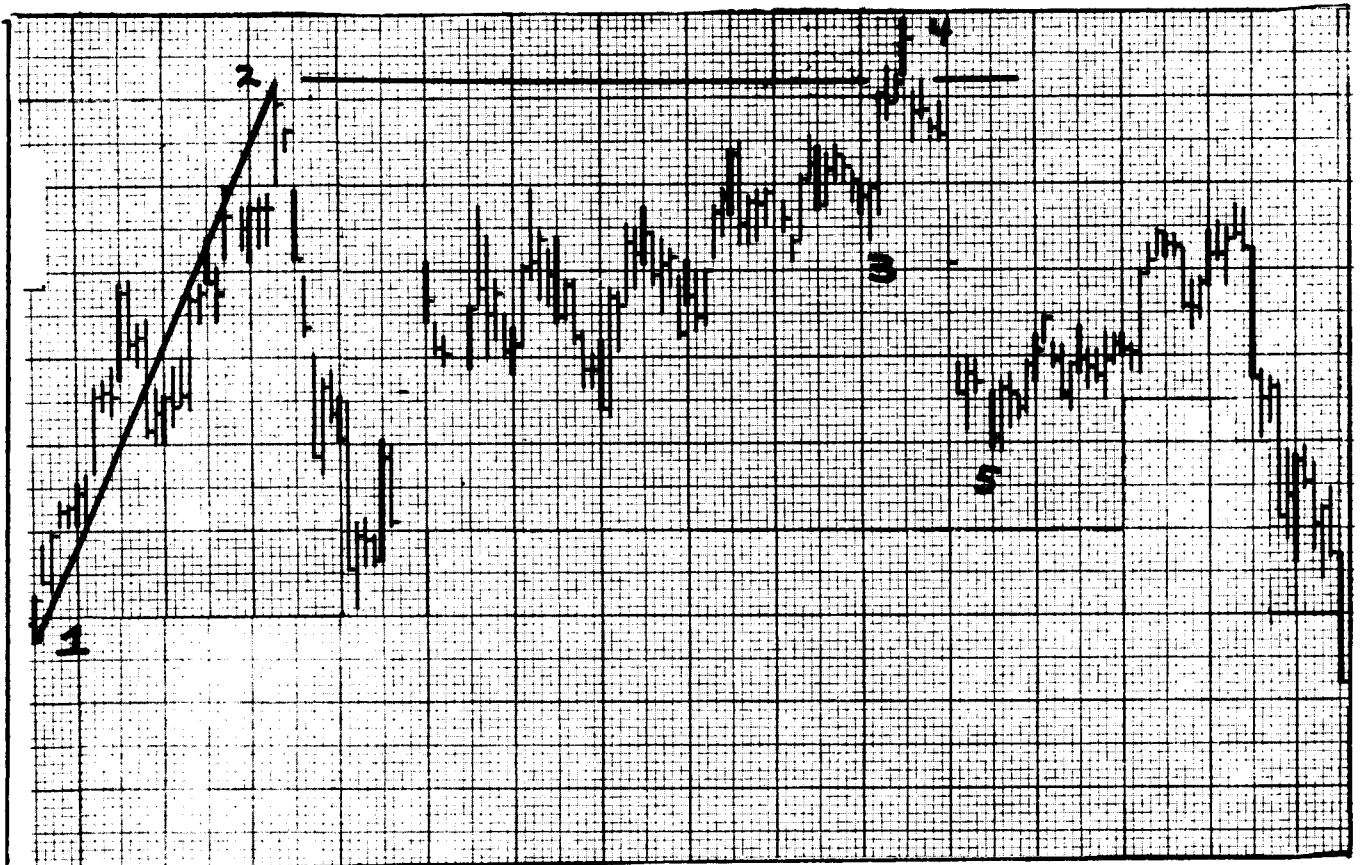
- 1,2 - 2 drives to a top
- 2-3 - Show of weakness
- 4 - Last rally before markdown



**UPTHRUST AFTER DISTRIBUTION**

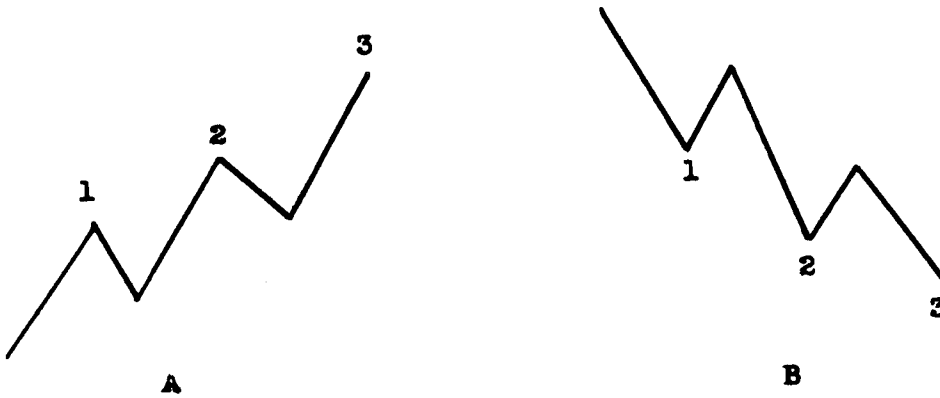


- 1-2 - Buying climax
- 2-3 - Distribution
- 4 - Upthrust (narrow spread and high volume--bearish)
- 5 - Price return into bed of distribution--bearish



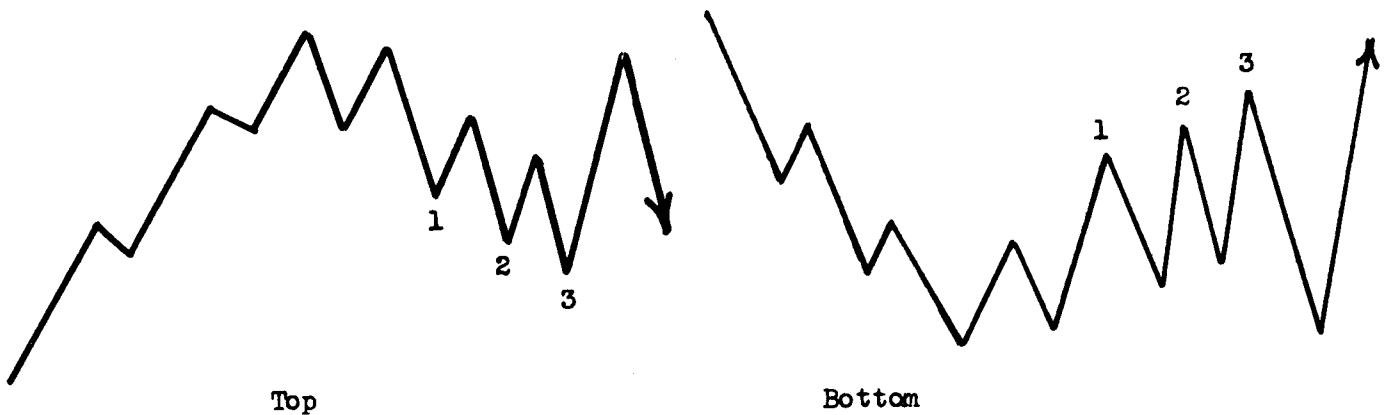
### THREE DRIVES TO A TOP OR BOTTOM

Markets will generally have three drives to a top or a bottom. They are usually characterized by a shortening of the thrust and heavier volume with each succeeding thrust.



After these three drives, a market will enter into sideways movement which, in case of A, may be distribution; conversely in B, accumulation may begin.

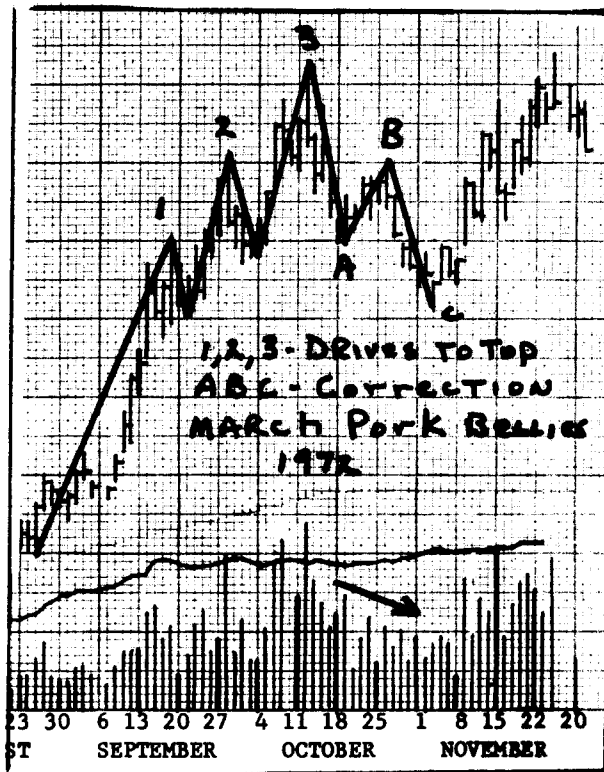
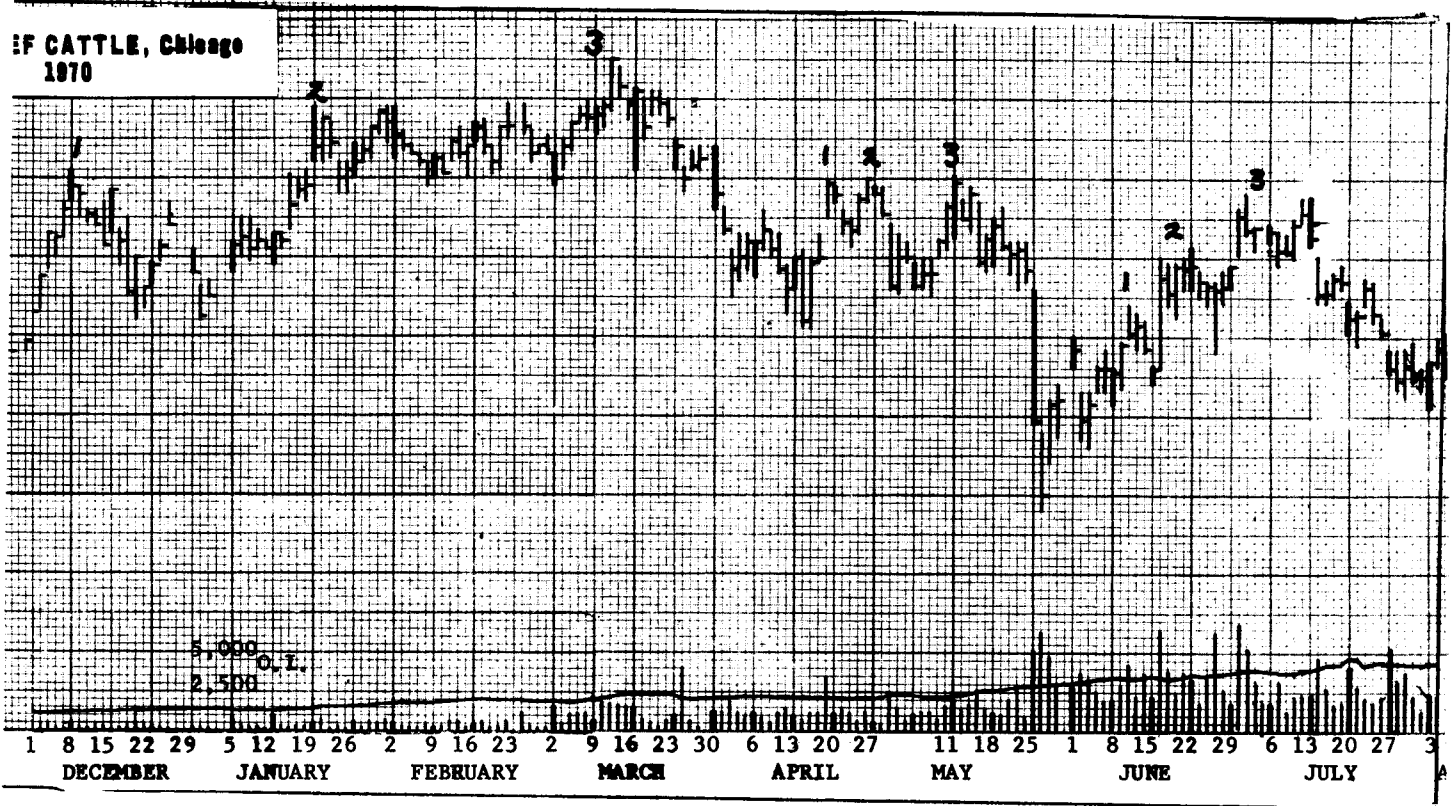
### THREE DRIVES AT TOP OR BOTTOM INDICATING REVERSAL



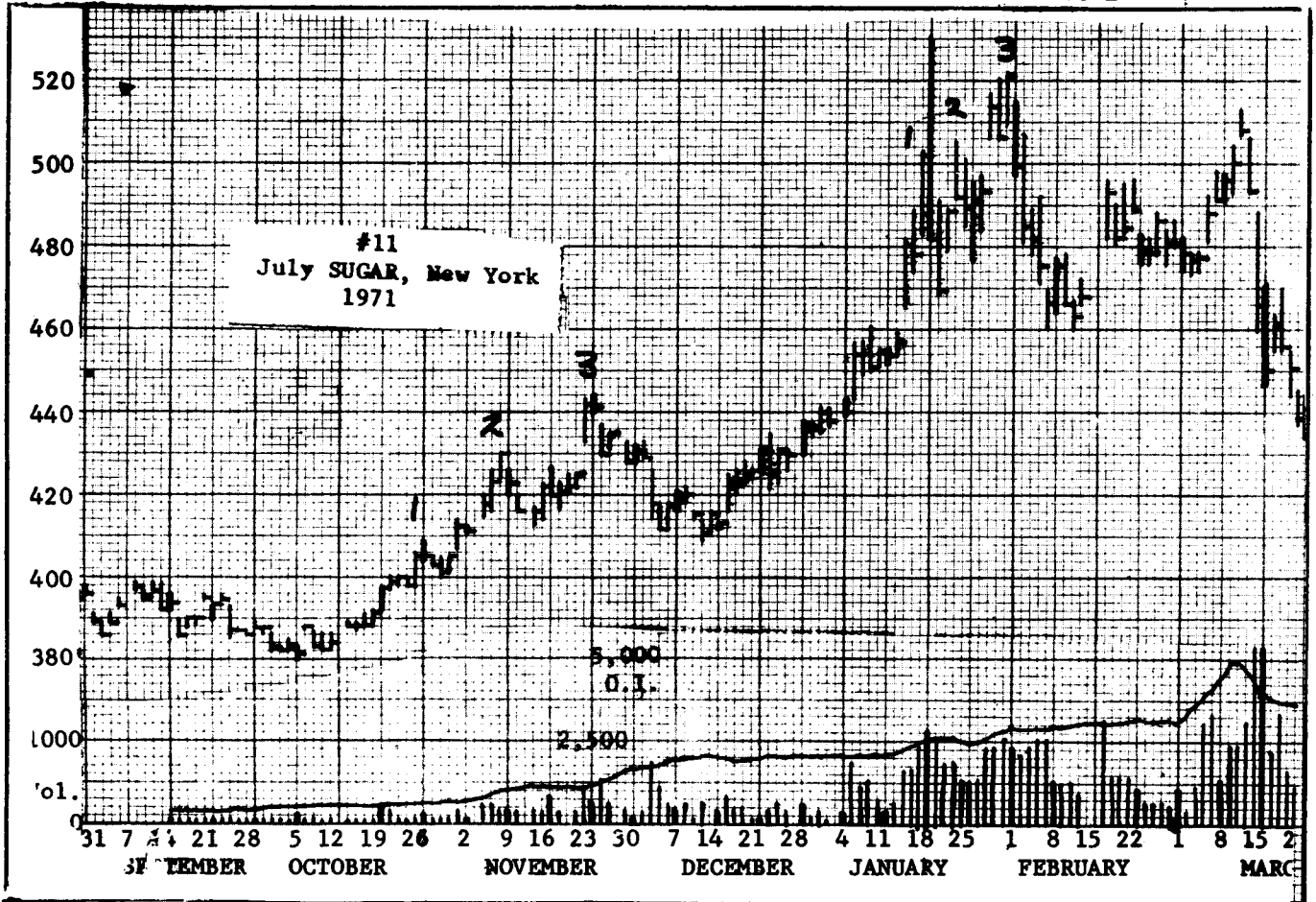
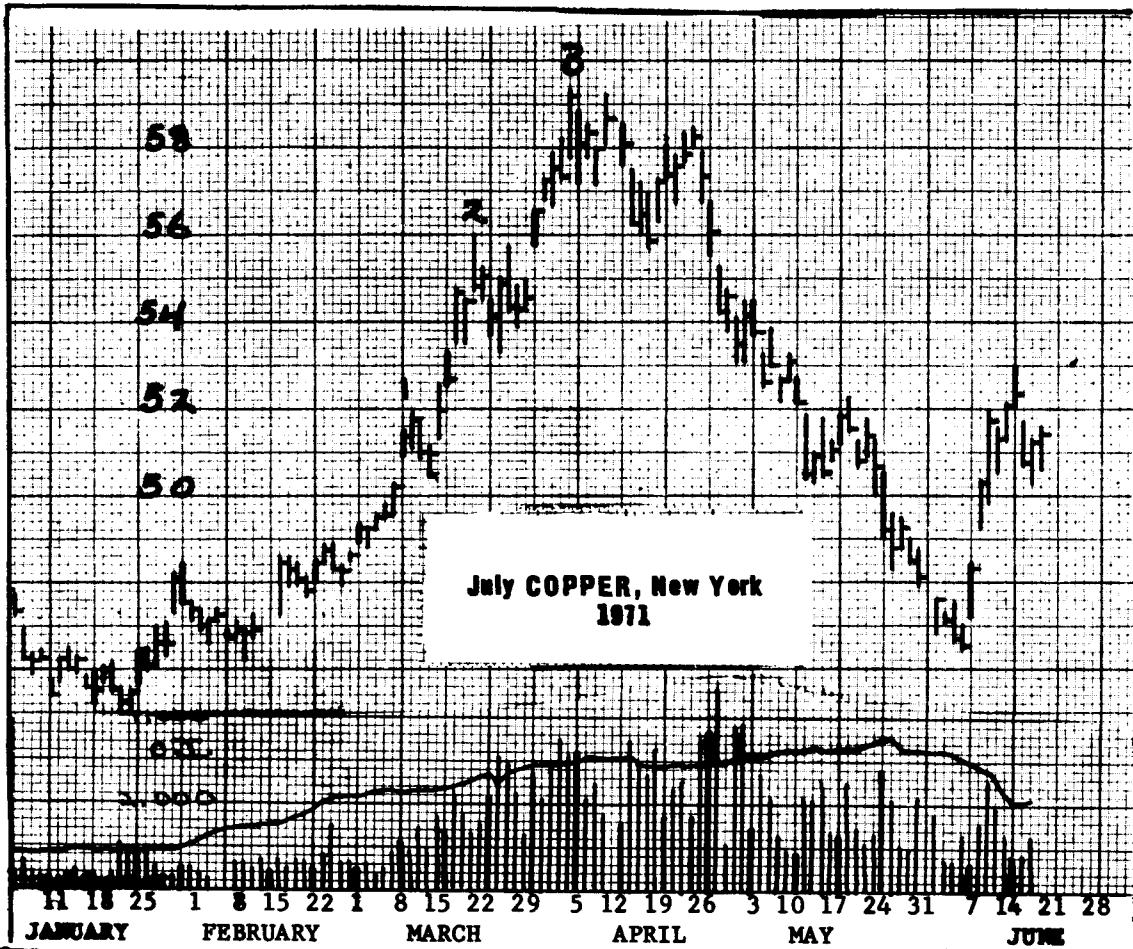
After a market has moved in a primary direction by a good amount, if it then has 3 drives in the reverse direction, a reverse movement may be anticipated.

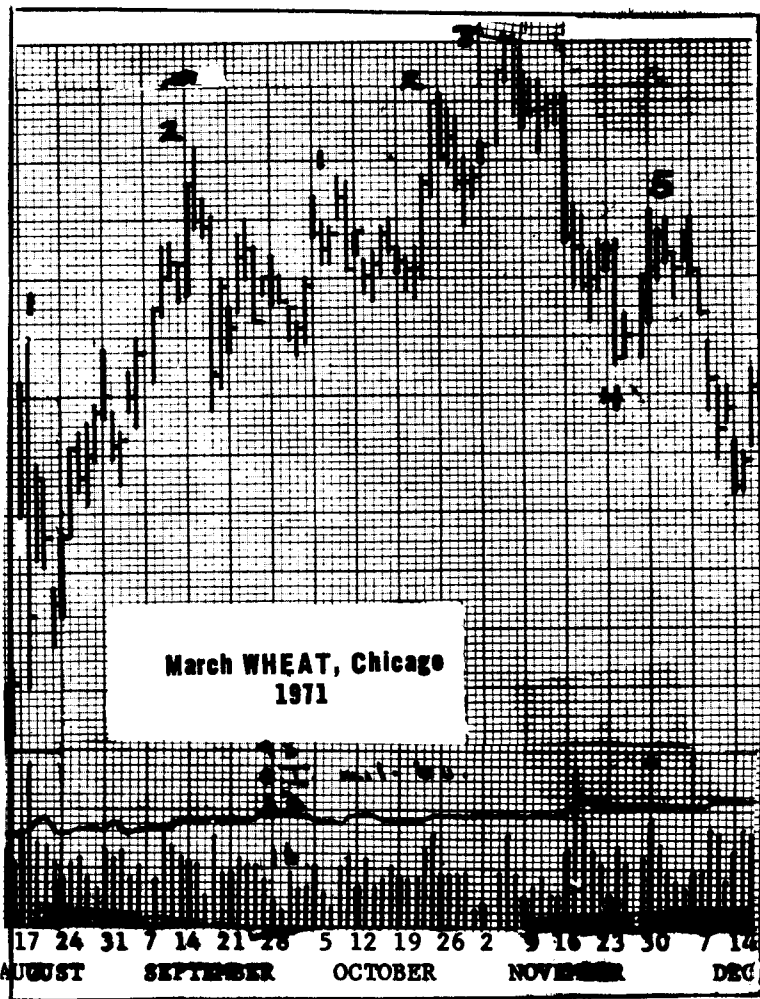
**THREE DRIVES TO A TOP**

**HF CATTLE, Chicago  
1970**



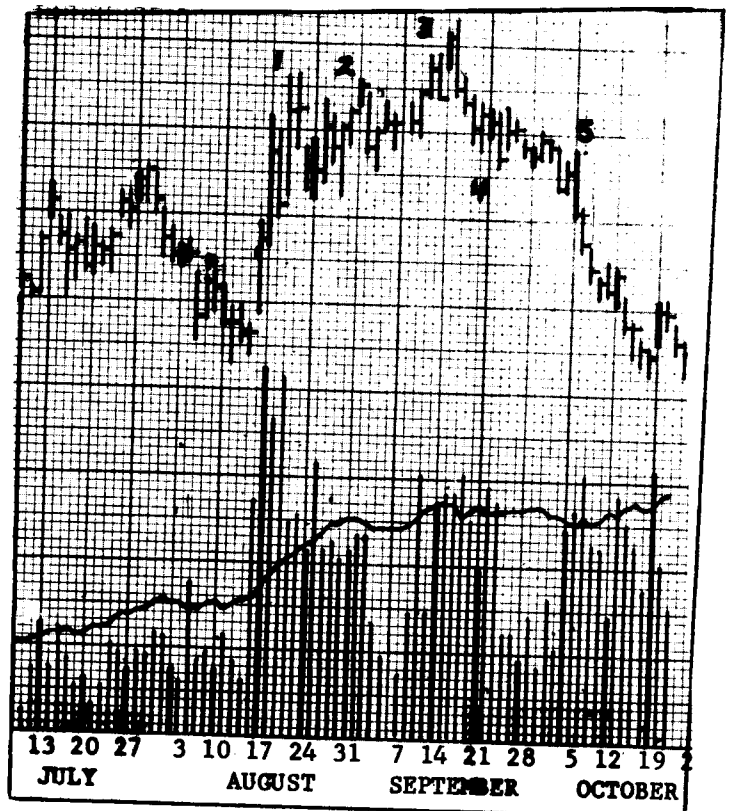
Three Drives to a Top





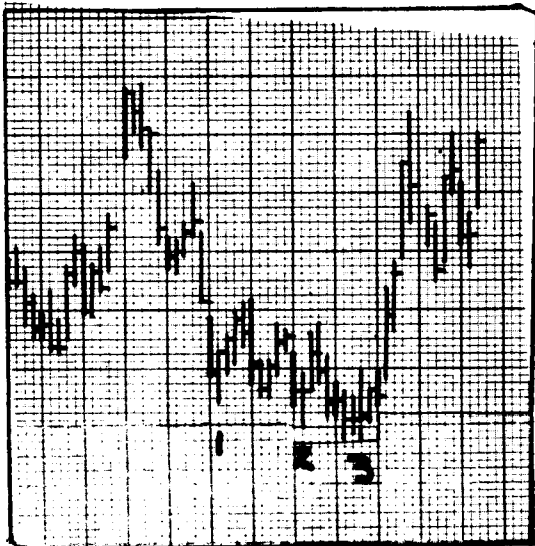
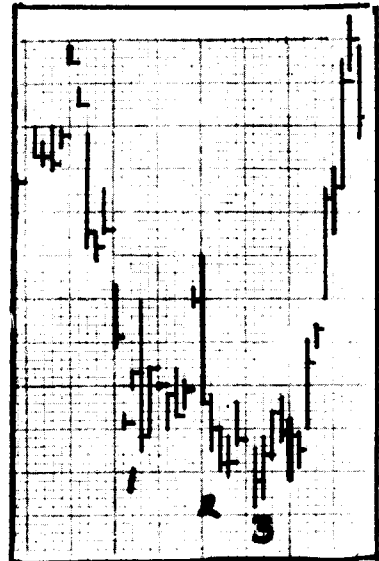
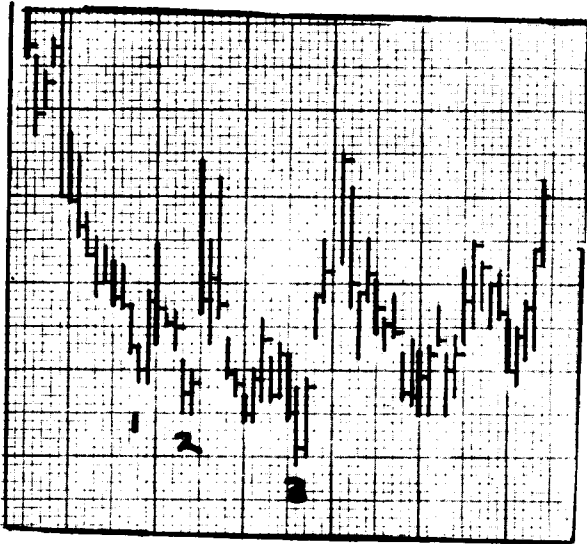
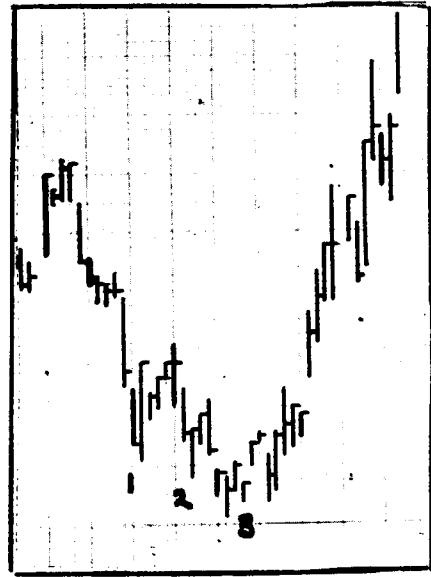
- 1,2,3 - 3 drives to a top
- 3-4 - Show of weakness
- 5 - Rally before downturn

- 1,2,3 - 3 drives to top
- 3 - Upthrust
- 4 - Return to bed
- 4-5 - No buying power





THREE DRIVES TO A BOTTOM



## WILL AN OLD HIGH STOP A MOVEMENT

How a stock or commodity approaches an old high can give some idea whether the old high will hold or the market will move on through to new highs. If the move is made slowly and deliberately, there is a good chance it will go on through. Note the volume, spread, and closings.

**Volume** - 1. Excessive volume is bearish, particularly if spread is narrow.

2. Low volume can also be bearish, as it implies lack of steam in the boiler.

3. Average volume is just right and implies quiet accumulation for a bull move.

**Spread** - A wide spread and low close indicates heavy supply in the area, which will probably overcome the buying power and turn the price down.

**Closings** - Low closings in the spread are bearish. High closes are bullish, particularly if there is a lifting of support points.

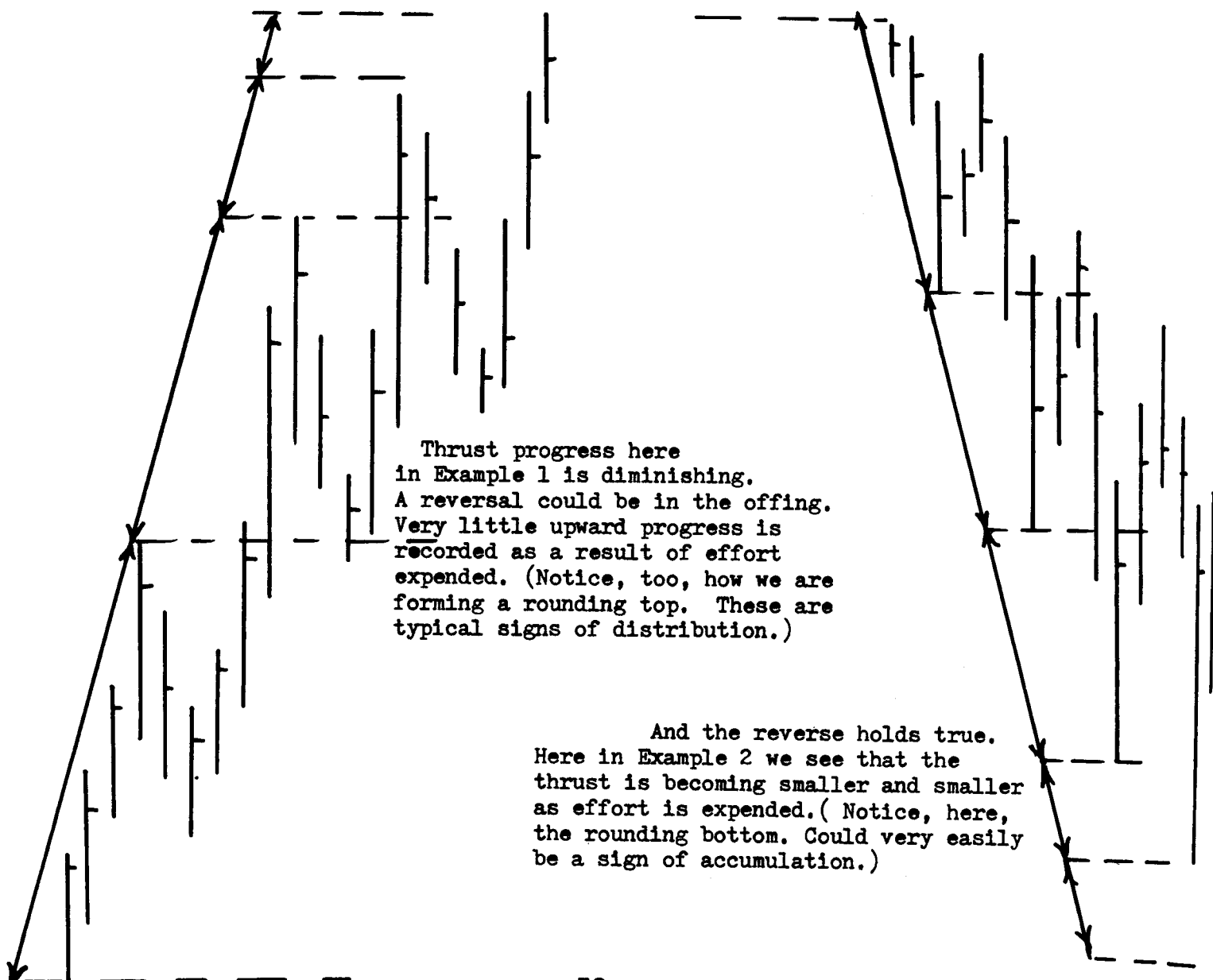
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## THRUST

Thrust is defined as the net result of effort. As the thrust decreases, we may infer that the stock/commodity is "running out of steam" and a reversal may be anticipated.

Example 1

Example 2



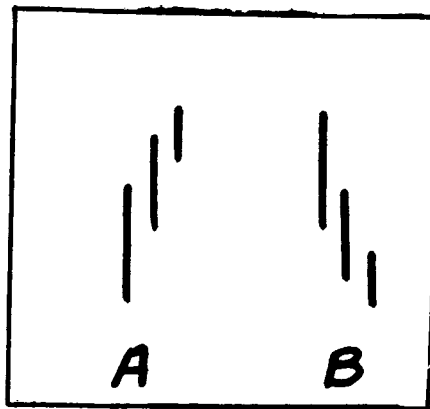
## VOLUME ANALYSIS



← High volume is constructive provided the price has carry through and price does not fall back into zone of congestion. If it does, this would be an upthrust after distribution and would be an indication of weakness.



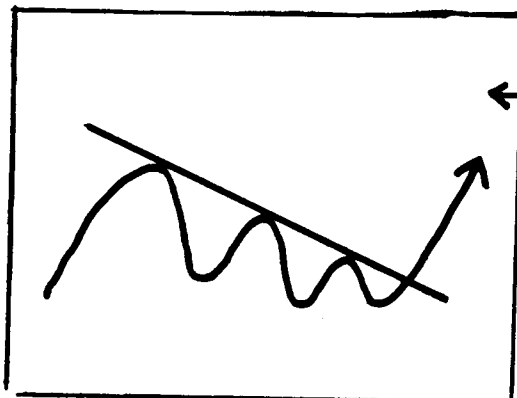
← High volume after a move has been underway generally means temporary end of the move. It does not mean the market is going down. It is supply which must be absorbed before move will continue. Volume should start with upmove for bullish implications.



← Shortening of thrust on heavy volume in an upmove means a shift from demand to supply. Reverse also true.

A - Sign of weakness is high volume and narrow spread on upside.

B - Sign of strength is high volume and narrow spread on downside.

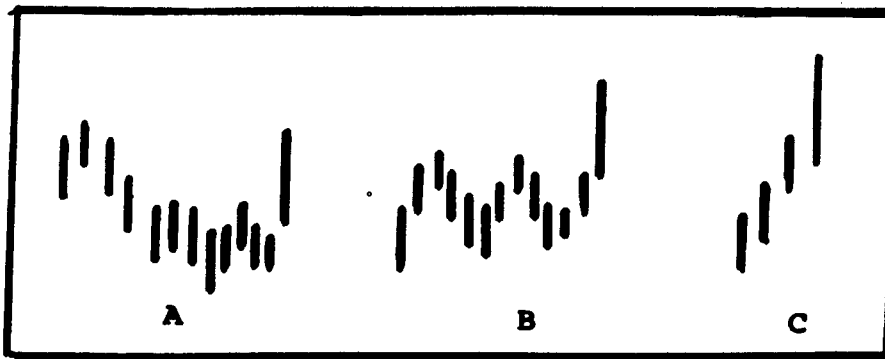


← Breaking of trendlines on high volume is significant, whereas, breaking on low volume does not mean much. When high volume cannot break trendline, it probably will not be broken.

THREE TIMES WHEN HEAVY VOLUME IS EXPECTED

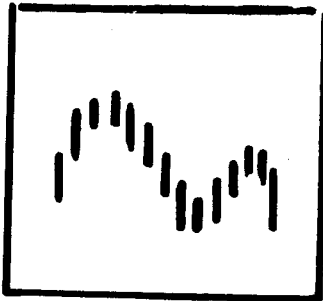
- A. On the day of breakout from a congestion or period of low activity, especially if the breakout is on the upside.
- B. When a market moves into new high or low ground.
- C. When the minor move is completed or nearly completed.

Heavy volume on any other day is likely to indicate that the move is at an end. These three points are illustrated as follows:

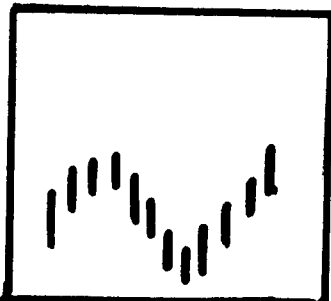


High volume

← High volume can be effective shakeout. Following price action can help reveal intent of operators.



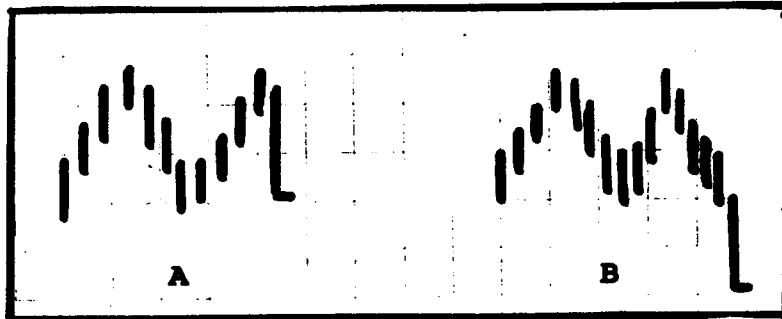
← Sign of Weakness - When price moves down after high volume on top and then rallies on light volume, it is bearish, particularly if the thrust is shortened.



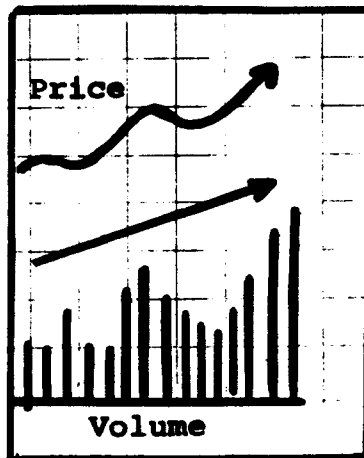
← Sign of Strength - When the price rallies on good volume, look at volume on previous low. If this showed no significant volume, it looks like demand.

**TWO PLACES WHERE HIGH VOLUME CAN POINT DIRECTION OF MOVE**

- A. Wide spread and heavy volume when moving through a zone of congestion.
- B. Wide spread and high volume when breaking out of zone of congestion.



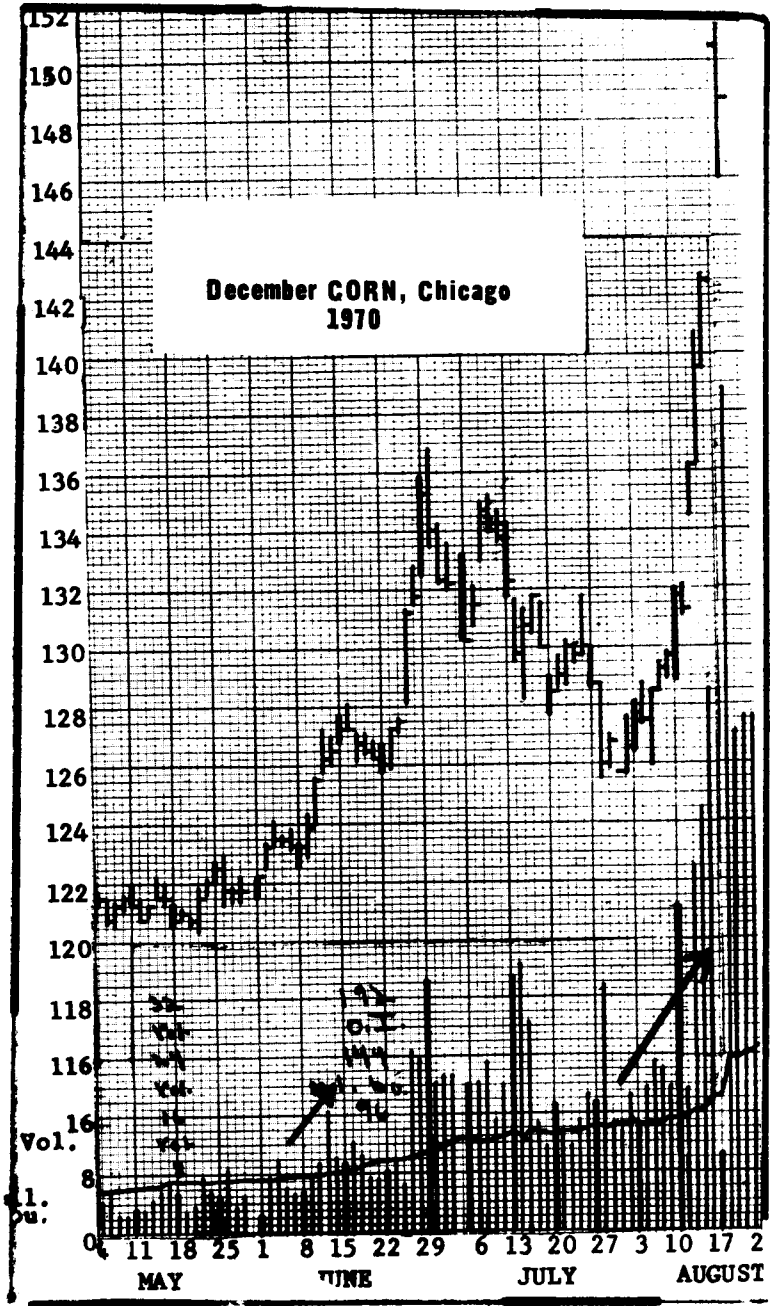
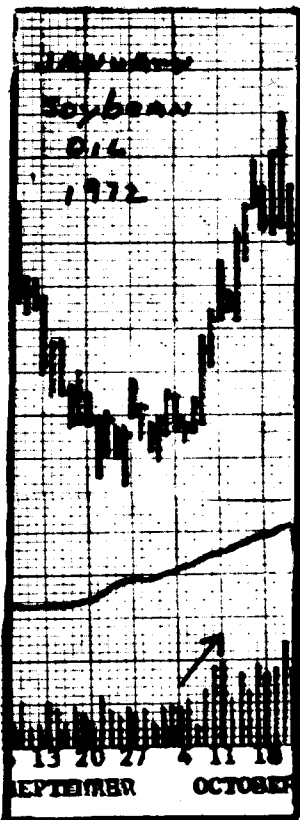
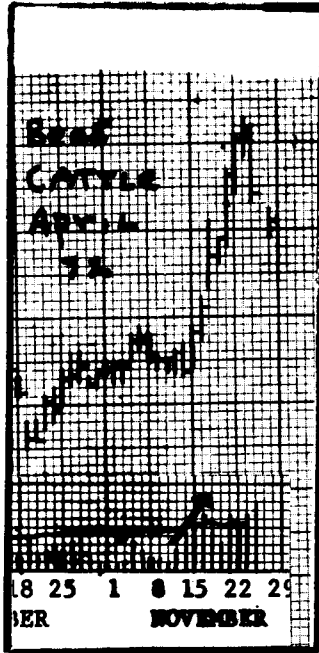
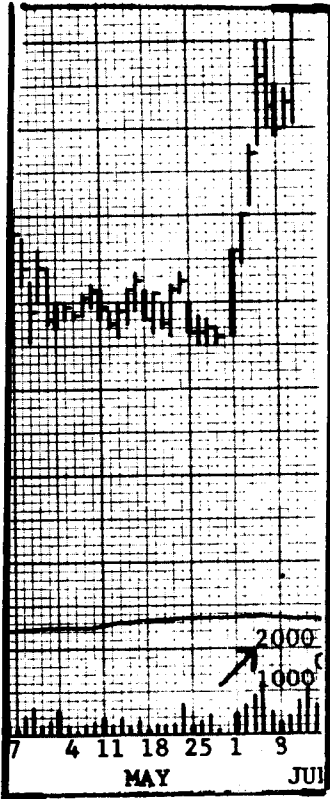
Volume should increase gradually as price moves up, to be constructive.



## GENERAL COMMENTS ON VOLUME

- Increase in volume with decline in price is characteristic of liquidating market.
- An abnormal increase in volume after a move has been in progress, usually indicates the end or approaching end of that movement, up or down.
- Market behavior on second reactions is usually indicative of next move.
- A top of rally, narrowing into dullness on small volume, is bearish.
- Sharp one-day-rally on low volume is usually short covering and therefore bearish.
- If volume on second decline (rise) is less than volume on previous decline (rise), confirms that selling (buying) pressure is losing its force.
- Once trend and position is established, must stay with position until there are indications of trend change.
- After high volume day, note action over next two days to determine if it was climax indication ( no further progress indicates that).
- Toward end of reaction, a higher low and close on decreased volume indicate end of reaction.

**VOLUME OUT OF TIGHT FORMATION**





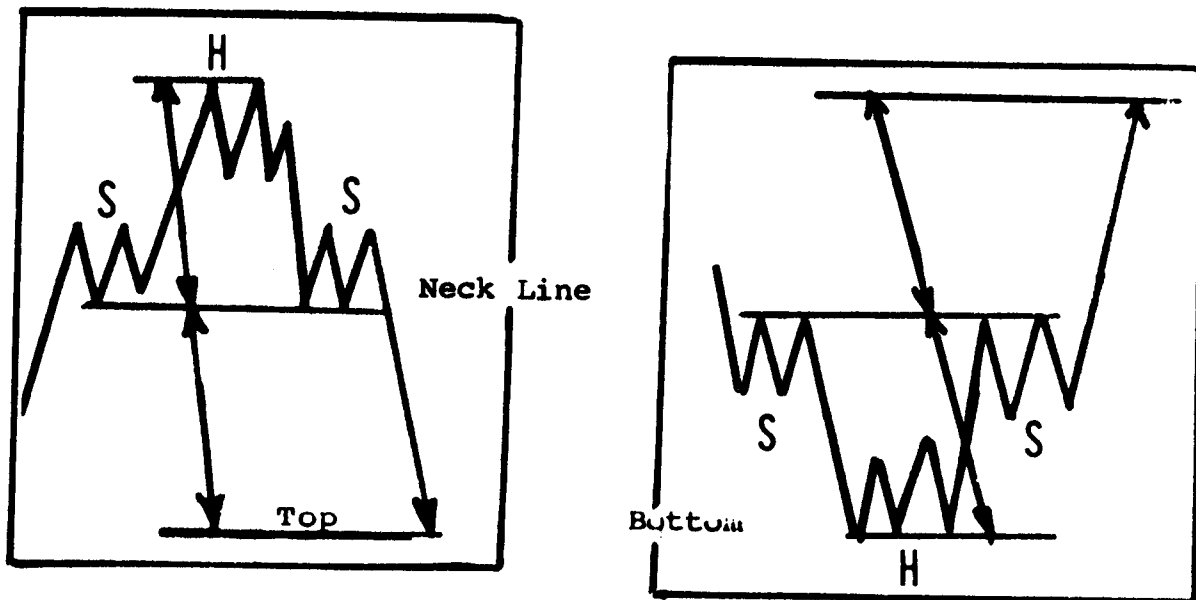
## CHAPTER 6

### CONVENTIONAL TECHNICAL ANALYSIS

#### INTRODUCTION

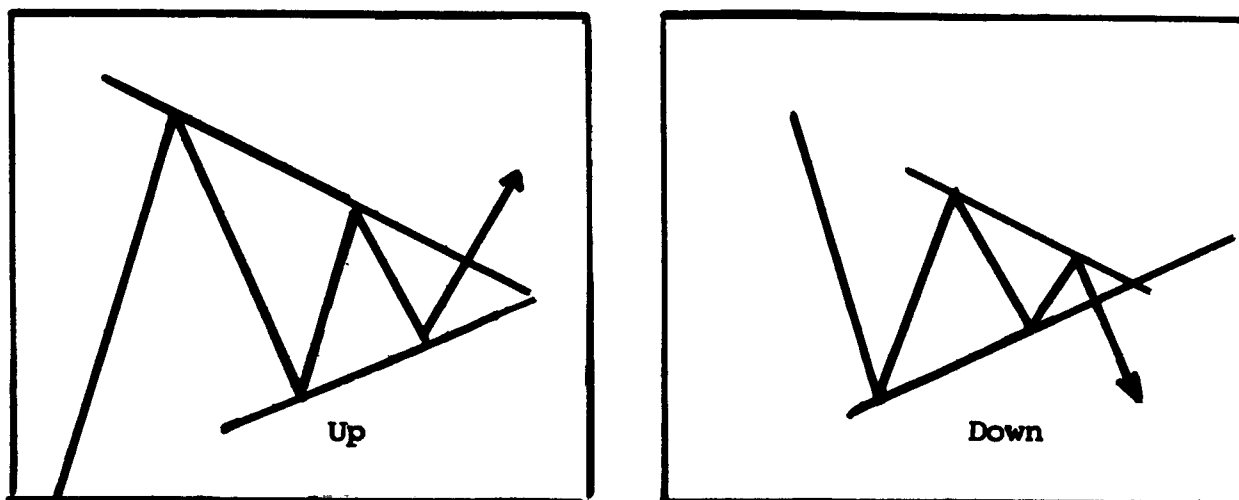
Conventional technical analysis covers such items on a vertical bar chart which are usually reduced to names such as trendline, triangles, heads & shoulders formations, gaps, lines, double tops & bottoms, etc. These formations are merely expressions of supply and demand or cause and effect.

#### Heads & Shoulders Formation



This formation is one of the most reliable of all indicators. It represents a gradual change from demand to supply in the top case and vice versa for a bottom. The objective is market will move as far below the neck line as it moved above the line. The reverse is true for a bottom formation.

## Triangles



Triangles are a converging of supply and demand lines. This is usually a consolidation formation and market continues its move in the same direction on which it entered the formation.

Triangles are notorious for giving false signals. Real moves are usually clean breakaways from the apex with carry-through for a second or third day. If move is strong enough to cause a gap, this is additional evidence that move is not false. Real moves are usually accompanied by increased volume.

When a downside break comes from the apex of a triangle, the subsequent rally will meet formidable supply as soon as the level of the apex has been reached, if liquidation is to continue. Thus, if the subsequent rally advances through the apex, above the last minor supply area in the triangle, it is usually sound evidence that a reversal of importance has occurred.

Careful study of volume during triangle formation will give direction. Note:

A. Volume on peaks and valleys.

B. Comparison of peaks, also valleys.

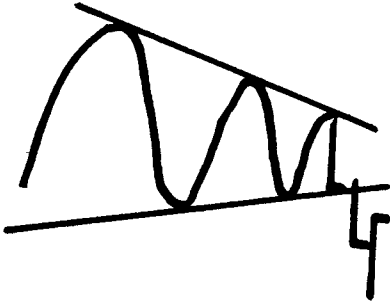
C. If last valley breaks previous support point on increased volume, it is a sign of increased weakness.

- Once position is taken, get rid of it if it breaks triangle in wrong direction, provided volume shows it. Sometimes it may be spring.

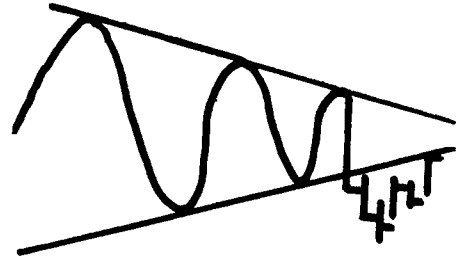
- If no one cares on breaking of triangle, it is a sign to buy if break on bottom (spring).

TRIANGLES

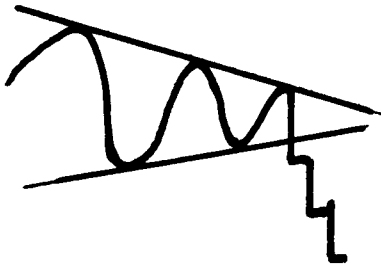
Triangles



This type of recovery is likely to signal that the decline is "false".



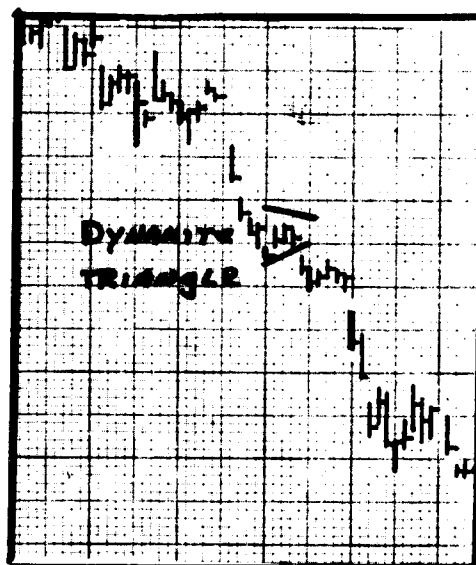
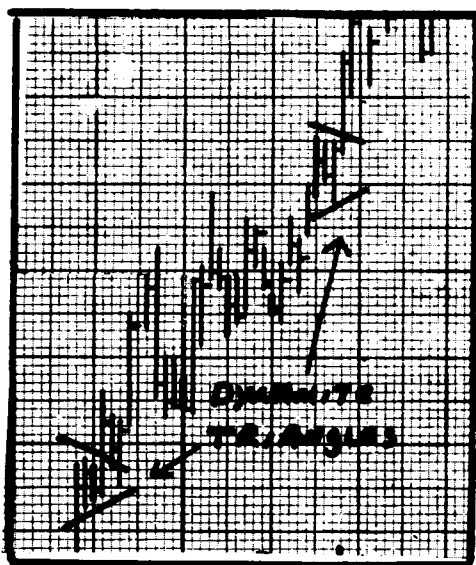
Rounding type of bottom likely to confirm rather than deny that the decline is false.



This type of decline not likely to be false.

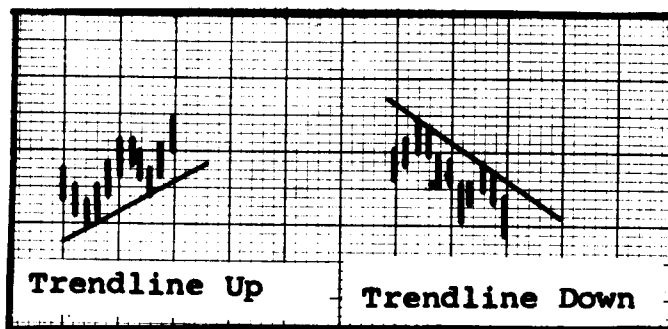
Dynamite Triangles

Dynamite triangles usually continue previous trend. They occur most frequently in a pronounced decline or advance. They are characterized by narrow range over a period of a few days.



## TRENDLINES & TREND CHANNELS

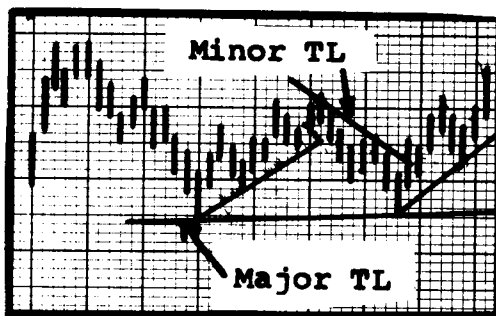
A trendline is a line connecting two or more points of support or resistance.



A trend channel is a parallel line to trendline across the opposite side of the formation.



Valid trendlines must connect pivot points of equal distinction illustrated as follows:



Several criteria should be considered when evaluating trendlines.

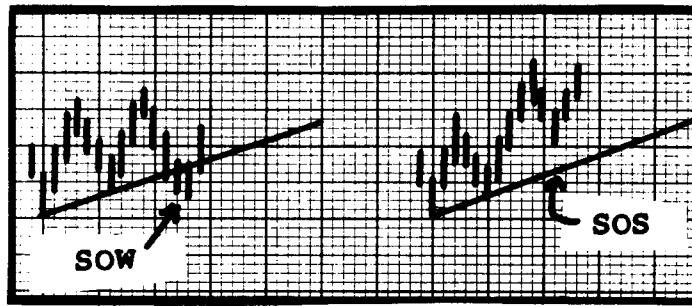
- a. No. of times tested. The more times that a line has been tested without penetration, the greater is its value.
- b. Time duration. Short term trendlines are more likely to be penetrated without significance than are lines that have been in effect for a considerable period of time.
- c. The slope of the trendline is significant. A very steep line may be broken without changing a bullish (bearish) situation.

A decisive penetration of a trendline to be significant should:

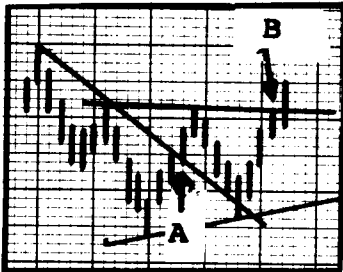
- a. Show a sharp movement of 1-3 days.
- b. Have an expansion of volume.
- c. Next rally on a downside penetration should terminate below penetration point. The reverse is true for an upside penetration.

Closing prices often are a better basis for constructing trendlines.

Signs of strength (SOS) and signs of weakness (SOW) are shown by market's approach to a trendline on trend channel.



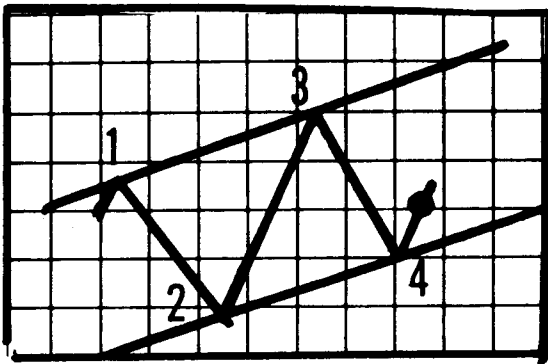
TRENDLINE ACTION STUDIES



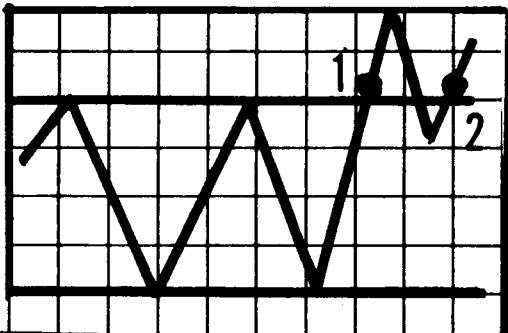
Shown are two points of penetration of trendlines. At Pt. A the trendline is down and one should avoid buying at this point. Frequently, the market will rise toward the level of the previous peak before resuming the downtrend. However, at Pt. B,

there is a penetration of a horizontal trendline. In addition, the support line is also rising. This might be considered a preliminary buy signal with a position taken on the next reaction if market supports on the rising TL.

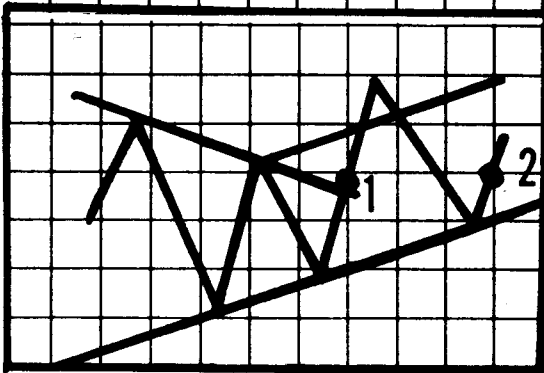
**BUYING SIGNALS BASED ON TRENDLINES**



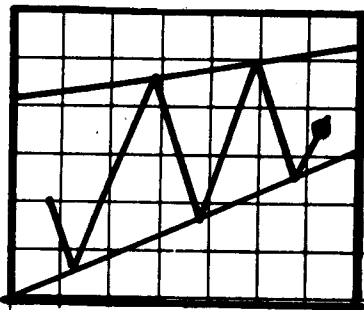
- ← - Points 1 & 3 form a rising TL.
- Market moved down to touch parallel trend channel.
- Buy point is when market rises 25% of the 2-3 distance.



- ← - This is a horizontal trend channel, thus, it is not clear on the direction out of the channel. Penetration usually points the way. However, on numerous occasions, this is a trap. It is often best to wait until Pt. 2 before making a commitment.

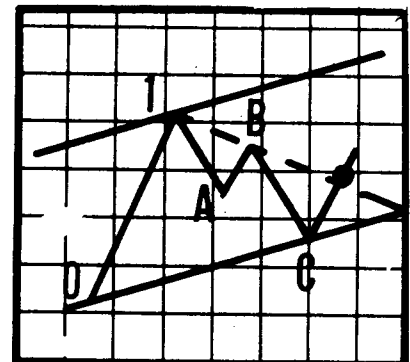


- ← - Pt. 1 is a preliminary buying signal as market has penetrated a triangular formation on the upside. Pt. 2 is confirmation of an upmove.

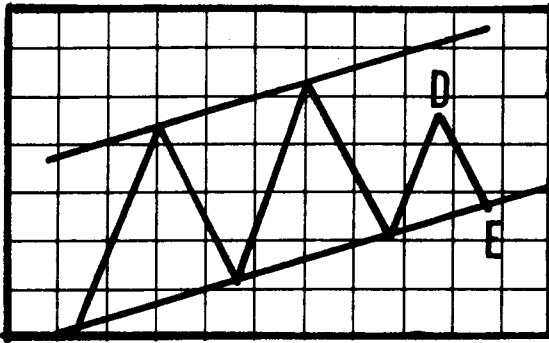


- ← - No. This is a wedge-type formation. Buy signal is doubtful and should be passed.

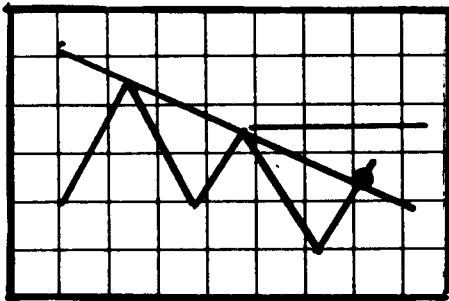
In an uptrend, a buy signal is generated when the 1B minor trendline is penetrated for a possible move back to the top of the channel. This fits well with the Elliott wave theory on buying after an ABC correction.







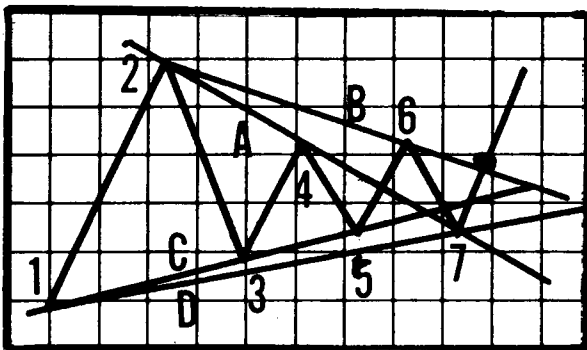
← - Failure to reach parallel trend channel at D is a warning sign. If E holds, move is intact. However, if E is penetrated, market has a change in character and is a candidate for a short sale on the next rally.



← - No. Do not buy breaking of a down-trend line unless there are other factors to go on such as a rising support line. Frequently, such moves will go to level of resistance and move into a horizontal formation. The market could go either way out of it.

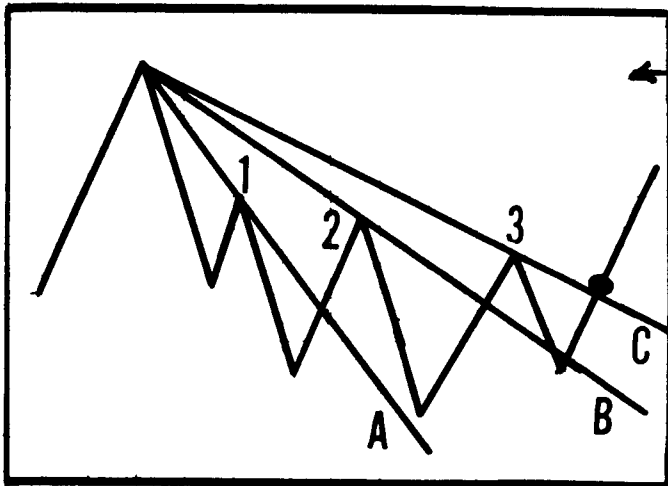
MULTIPLE TRENDLINES FROM COMMON PIVOT POINT

A. 2-Trendline break buy signal.



- A high and low pivot point is set up at Pts. 1 & 2. Trendlines A & B are drawn from 2. A buy signal is generated when the second trendline B is broken provided Pt. 6 is equal or above Pt. 4. If this condition is not satisfied, buy signal is questionable. TL A acts as a support point at Pt. 7. Conversely, 2 TL's are set up on Pt. 1, lines C & D. A sell signal is given when D is broken, provided Pt. 7 is at same level or lower than 5.

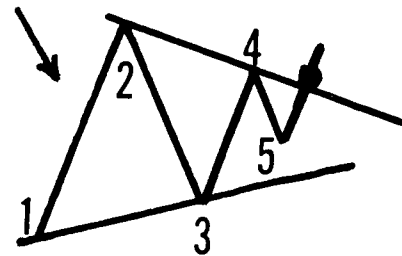
Basic theory is that a third attack on a resistance level will succeed in penetrating it.



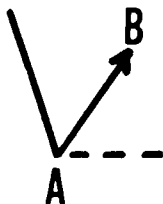
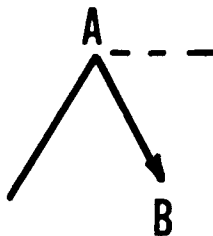
**B. 3-Trendline break buy signal.**

- Penetration of a third rising TL coming from a common pivot point is generally a buy signal. The levels of Pts. 1, 2, & 3 do not matter in this case.

- A buy signal is given on penetration of the 2, 4 line when Pt. 5 fails to reach the rising support line 1, 3. This is added strength.



**SUPPORT & RESISTANCE**



Any time a stock or commodity moves up (or down) to a pivot point and turns back, a resistance point (or support point) is established. These criteria will determine the strength of these points.

(1) Volume - Heavy volume means supply, thus, the greater the volume on a relative basis, the greater the resistance.

(2) Space movement - Point A becomes stronger as the distance from A to B is increased.

(3) Time factor - A resistance point (or support point) tends to lose its significance with the passage of time.

(4) A fourth criteria is also significant and that one is the number of times a point has been tested. Each time a point is tested, it loses some of its strength. A third test of a resistance/support point will generally succeed in penetration.

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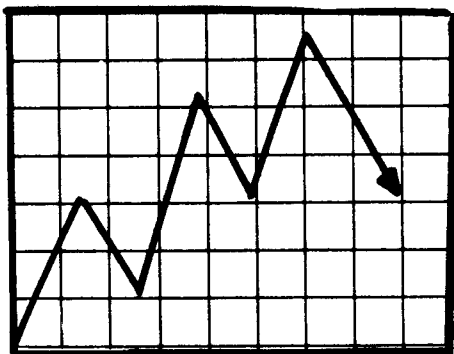
Time to Buy or Sell - Instead of buying on new highs or selling on new lows, the professional technician prefers to sell when a previous supply level is again reached, or buy when the previous low is later approached.

A wide trading range is more likely to be distribution and is less likely to break out on the top side.

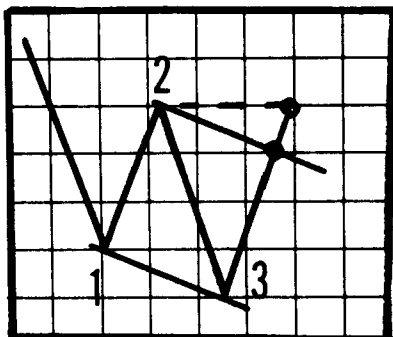
A breakthrough of a critical chart level accompanied by increased volume and open interest is usually valid. If volume and open interest do not expand on the breakthrough, the move should be viewed with suspicion.

Tops - Extremely heavy daily trading volume on a day when prices are up sharply following a broad advance usually in itself means the market is in a weak technical position. A sharp drop in open interest would confirm the top.

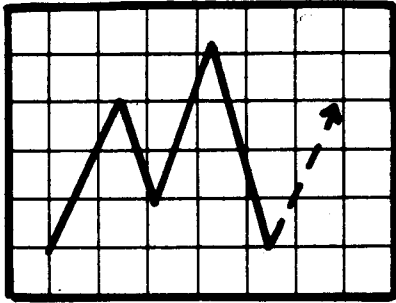
### Force Lines in Action



- Principle: In an upmove, when a reaction exceeds any prior reaction in time and space, the move is generally over. Market will generally shift into neutral, while a cause is built for the next effort.



- Principle: When distance 2-3 is less than 0-1, expect a rally equal to or exceeding 1-2. The potential sell zone is between the parallel trend channel and resistance Pt. 2.

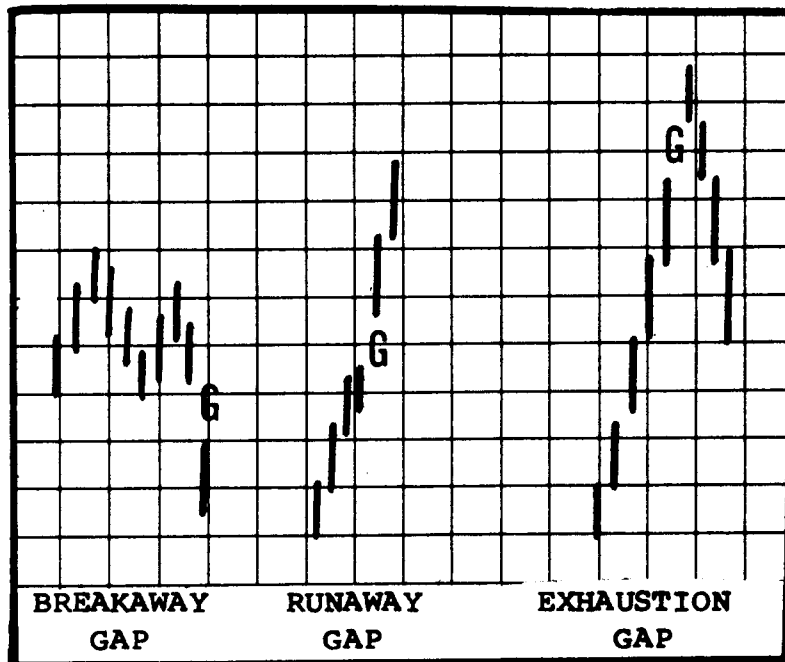


- New minor trend low following new high is subject to vigorous rally; perhaps at least 2/3's. New high showed evidence of continued buying power. New low is perhaps first show of weakness but with latent unexhausted buying power, commodity makes another effort. Failure of this effort might be place for a short.

- Rally after a sharp break generally will not hold. If it is good quality demand, it should prove itself by a laborous reaction and this is the time to buy--just prior or at end of reaction.

### GAPS

A gap in the price action is excellent indicator of intensification or reversal of the "willingness to buy or sell". They often indicate important potential resistance areas where the ensuing trend will meet supply or demand. The different types of gaps are illustrated as follows:



### BREAKAWAY GAPS

If high volume developed at far side of gap, then the chances are remote that any nearterm throwback will close the gap. If volume occurred at the takeoff level from which prices jumped the gap, but relatively light volume as prices moved away from the far side of the gap, then there is a fair chance that the next minor reaction will carry back to the edge of the pattern (or close the gap).

### EXHAUSTION GAPS

Exhaustion gaps are quickly covered, say 2-5 days. Clues on exhaustion are:

- A. Wide gap
- B. High volume
- C. Covered in 2-5 days
- D. Next rally/reaction fails to make new high/low

### AREA GAPS

Area gaps are the type that occur within a trading area or price congestion pattern. The activity in these patterns (triangles & rectangles) tend to be concentrated pretty much at or near the top and bottom edges (supply & demand lines) while the area in between is a sort of "no-man's land". It is easy to see why gaps develop frequently within such areas.

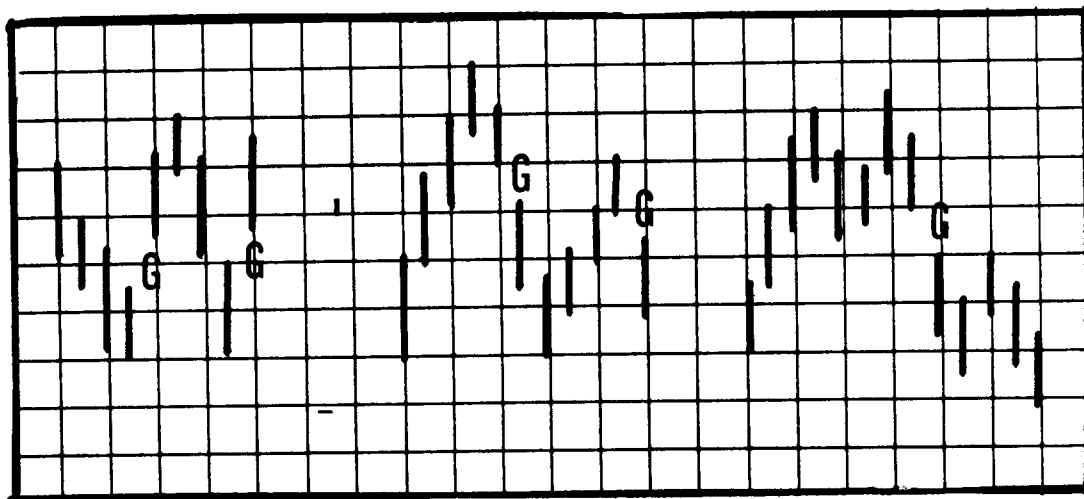
If a corrective phase has proceeded for some time and evidence of a reversal to a new major phase has been gathering, and an apparent breakaway gap occurs, the experienced trader will take a position immediately (within the first or second hour) for the new major phase.

Waiting for a reaction/rally frequently proves costly in that positions can only be taken at much higher/lower levels.

If one apparent breakaway gap develops and proves to be premature, it is generally followed by another gap somewhere near the same level.

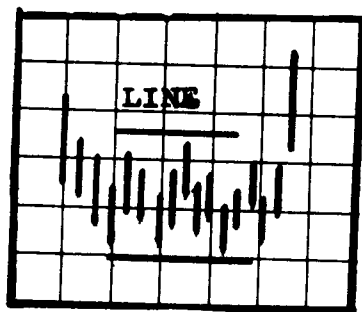
The appearance of a breakaway gap is strong evidence that an important reversal has occurred.

If a breakaway gap is covered in several days by a rally/decline, which halts short of previous minor bottom/top, another gap in same area may be expected.



## LINES

- A line is a pattern in the trend of prices where fluctuations are confined within a narrow range. When prices break out of the line, the direction of the breakout signals the ensuing trend. (Could be spring or upthrust--wide spread and volume should accompany the breakout, otherwise, it may be false.)
- Defined: "A sufficient number of days for a fair volume of trading."
- Until a line is broken, the nature of the activity in its formation (distribution or accumulation) is unknown.
- The longer a line and the narrower its range, the greater becomes its forecasting weight.
- The breaking of a line in conceded primary direction carries much more authority than a penetration opposite to the prevailing trend.



## CHAPTER 7

### OPEN INTEREST

#### General

1. The trading volume during the course of a year in actively traded commodities is sometimes as much as 10 to 20 times the size of the crop. This readily provides a continuous and liquid market.
2. The open interest is the number of purchase or sale commitments which traders have entered into and which remain outstanding. It is the number of unliquidated contracts and not the joint total of sales and purchases. It represents both the number of long positions still in the market and the number of shorts.
3. Open interest only increases when new purchases are offset by new sales. If a new purchase is offset by the sale of a previously purchased contract, then there would be no change in the open interest. Decreases in open interest occur when previous purchases are sold and are offset by the buying in of previously sold contracts.
4. By watching changes in the open interest in conjunction with price changes, a clue can be obtained as to whether or not the market has been strengthened or weakened by recent trading.
5. It is best not to try to interpret day-to-day changes in open interest unless the changes for a particular day are exceptional. The price change on the exact day or days of significant changes in open interest may not be as important as subsequent price action immediately following the shifting of positions. It is best to watch changes for periods of time ranging from a few days to a month and especially while important price chart formations are taking shape.
6. It is important to know just who the buyers and sellers are. If the buyers are largely speculators and the sellers are largely hedgers and Board of Trade members, then a big bull movement coupled with a large open interest produces an almost certain large bear movement before the end of the crop year. After all, the open interest in a particular contract must decline back down to zero by the end of contract time. If it were built up by a large bull movement, its liquidation will force a large bear movement much to the consternation of the convinced bulls. The bear potential is there, even if an actual shortage develops, because, in order for the bulls to take their profits, they must sell.



From a practical standpoint, it is almost impossible for an actual shortage to occur. The reason is that, when a real shortage seems imminent, prices will rise high enough to price the commodity out of the market. The more convincing the bull argument is, the more profitable the bear side becomes, because there is a larger number of people to take profits and/or become disillusioned. They are always incredulous at the decline in prices in the face of obvious shortages.

7. It is important to watch the individual open interest of the nearest contract as it approaches first notice day, if this open interest is especially high, since all these contracts must soon be liquidated.

8. When the open interest gets too high in any commodity, it becomes vulnerable to drastic price reversal, such as happens when something occurs to fundamentally change prevailing public opinion. Many traders do not realize that futures contracts are not made between a bull and bear speculator, but are made between the public and the Board of Trade. If you are long, the Board of Trade member is short. Normally the public, the professionals, the hedgers, the farmers, the exporters, and other trade interests more or less balance one another. However, any imbalance is absorbed by the members of the Board of Trade at a price concession, of course.

### Seasonal Patterns

1. The open interest in a commodity tends to increase and decrease in a more or less fixed seasonal pattern. These patterns do not vary much over the years, so that changes can be anticipated fairly closely.

2. The seasonal changes are very substantial for open interest, and any observed changes in open interest must be compared with the expected seasonal change. Volume changes also follow seasonal patterns, although they are not as wide and as significant as the open interest changes.

3. The seasonal changes in the open interest result from the changes in hedging requirements. Thus, the seasonal change in the open interest follows the same general pattern as seasonal changes in the visible supply of a commodity; i.e., as seasonal changes in the amount of a commodity that is in commercial storage. The volume of hedges in a market increases as a commodity is put into storage in excess of current requirements and the volume of hedges decreases as the commodity is taken out of storage to meet requirements. These changes in the open interest which are purely seasonal in nature are relatively unimportant in the sense that they can help

one to detect technical market strength or weakness. The changes in the open interest that are most important in helping one to make deductions are those that are net changes after allowing for the seasonal trend.

4. The figures showing the seasonal trends are drawn on a percentage scale so that they may be better utilized for comparison purposes. Total open interest in a particular commodity can vary appreciably from one season to the next, but the percentage changes during the season keep close to expected patterns.

5. When comparing changes in open interest to the seasonal trend always compare the percentage changes. For example, if the open interest decreases less than the seasonal percentage, the interpretation would be that, in effect, open interest increased.

### Rising Prices

1. When the open interest is increasing, it means that new positions are being established. When the increase in open interest is greater than seasonal and is accompanied by higher prices, it means that the buyers are more aggressive. They are still willing to keep paying higher prices and hence, continued strength is still to be expected.

2. When prices are still advancing but the open interest begins to go down, it means that new buying has stopped and that the buying being done is only short covering. The declining open interest also means that the traders who are long are liquidating and taking profits. They too, lack confidence in the market's ability to keep advancing. Therefore, prices advancing but open interest declining, is a signal that the price trend may be getting ready to reverse.

3. After an uptrend has been underway for some time, if the open interest tends to expand rather rapidly, it is indicative of increased public participation. The larger the open interest, the more vulnerable the price structure becomes. The public is generally associated with the long side of the market. Should a rumor or adverse piece of news materialize, the public might decide to liquidate. A cumulative effect results, and prices begin to tumble.

4. After a broad price advance accompanied by a larger than normal increase in the open interest and by abnormally heavy trading volume at the top of the advance, the market usually is in a weak technical position.

## Declining Prices

1. Sometimes open interest builds up in a bear market. If this occurs at harvest time, it is due to hedging pressure, if at other times, it is due to speculative shorts. In any event, a bullish potential is built up. The large open interest must be liquidated before the end of the contract by the bears covering their shorts, thus producing a good-sized bull movement.

2. If declining prices are being accompanied by an increase in the open interest, it means that the new sellers are being more aggressive than new buyers. New traders are willing to keep selling, even though prices have already declined. Somewhere along the line, however, those who have long positions will realize they are wrong and begin liquidating their old positions, thus tending to reduce the open interest. Thus, the interpretation is that the market is technically weak.

3. When the open interest actually begins to decline when prices are declining, it is a signal that:

- A. New sellers are no longer willing to enter the market at these lower prices.
- B. The selling which is taking place is primarily long liquidation, either voluntary or due to margin calls. Once the bulk of it is completed, there will be little new selling power in the market to meet new buying, and prices will recover.
- C. The decline in open interest also means that those who had previously established short positions are now taking profits. They also believe the market will not go down much farther. In other words, a price downturn accompanied by declining open interest is an indication that the downward price movement may be coming to an end. This indicates a stronger market.

## Tops and Bottoms

1. Extremely heavy daily trading volume on a day when prices are up sharply following a broad advance usually in itself means that the market is in a weak technical position--that is, it is in the process of making a bull market top. A sharp drop in open interest would confirm the top.

2. Extremely heavy daily trading volume on a day when prices are down sharply, following a broad decline, usually means that the market is in a strong technical position--that it is in the process of making a major bear market low. A sharp drop in open interest would confirm the bottom.

3. When extreme highs or lows are made, see if the highest open interest occurs several days or several weeks before the extreme high prices are reached. When this occurs, it indicates that wise buyers, who bought when prices were low, sell out when prices are high and everybody is optimistic and buying more. And yet, the market advances to higher levels and the volume of daily sales increases, while the open interest decreases. This is an indication that the final top is near.

4. When the market has had a prolonged decline, and before the final low is reached, the open interest starts increasing--this is an indication that good buying is taking place.

5. The open interest curve is often a lagging indicator turning down after the top in prices has been made, but sometimes it leads. If prices go up while open interest goes down, then the rise in prices is not due to new buying by bulls, but rather to short covering by frightened bears. This sort of action sometimes indicates the top of prices.

6. If, after a large bull market plus a large increase in open interest, open interest then goes into a definite declining trend; one can conclude that the liquidating phase is underway and short positions are relatively safe.

7. If the open interest turns into a downtrend after a large rise, the bulls are overbought.

#### General Rules for Interpretation

1. Extremely high volume with only a minor change in the open interest indicates a change in ownership occurred. From other chart indications we should be able to determine whether this change was from weak to strong hands or from strong to weak hands.

2. Price moves out of trading zones or periods of consolidation will be exceptionally great if the open interest increased sharply during the consolidation.

3. A breakthrough of a critical chart level accompanied by increased volume and open interest is usually valid. If volume and open interest do not expand on the breakthrough, the move should be viewed with suspicion.

4. Following a sharp decline, a rally accompanied by a decrease in open interest indicates short covering. This short covering rally generally won't go too far.

5. When prices and open interest both move in the same direction, it is indicative of coming or continuing price improvement. When the open interest and prices are moving in opposite directions, it is a symptom of possible price weakness ahead. This is summarized as follows:

Open Interest up	{	Price Up	New Buying	Technically strong
		Price Down	Hedging or Short Selling	Technically weak
Open Interest Down	{	Price Up	Short Covering	Technically weak
		Price Down	Long Liquidation	Technically strong

6. From an observation of the change in open interest, price action, and general price level, we can detect various market actions. The first arrow refers to the open interest and the second to the price action.

- A. Long Accumulation (↑↑) (open interest-price)  
Open interest and prices going up. The bulls are buying. This action shows most strength when prices are moving up from a low price level.
- B. Long Liquidation (↓↓)  
If there has been a decline, then the longs, believing they are in the wrong, are liquidating. When the open interest stops decreasing, then the selling pressure is off and we can get a rally. If the price decline is after an upmove, then the longs are selling (presumably taking profits if they were right).
- C. Profit Taking (↓↑)  
There has been a price advance and the longs are liquidating at a profit. This is generally a sign of weakness.

- D. Short Covering (↓↑)  
 If this occurs during a price advance, then we have an indication that the shorts are being forced out of a bad situation. If this occurs on a rally in a declining market, then we have an indication that the shorts are covering with a profit. This is but temporary strength.
- E. Hedging (↑↓)  
 This generally occurs around harvest time when short selling is done by the actual owners of the commodity.
- F. Short Selling (↑↓)  
 The short selling depresses the price and increases the open interest. When the open interest stops increasing, then we have an indication that new sellers are not willing to pursue prices down further.
- G. Trading Range (↑-)  
 The bears are shorting, and the bulls are buying.
- H. Trading Range (↓-)  
 The bulls are selling and the bears are covering.
- I. Change of Ownership (-↑)  
 The bulls are buying and forcing the shorts to cover.
- J. Change of Ownership (-↓)  
 The bears are shorting and forcing the longs to liquidate.

## CHAPTER 8

### MINOR REVERSAL PATTERNS

Following are a number of reversals based on only several days of action. They can be very useful when used in combination with the overall chart pattern and when used with other technical tools. The point should be emphasized that these factors or formations used by themselves can result in trouble and lead to whipsaw action. The intent is to introduce a concept or way of thinking.

Several things can happen once a minor reversal formation is set up.

A. The reversal formation is a true and valid indication of a trend change or the beginning of a congestion phase. If this occurs, market will have carry-through or holding action on the day or days following such action.

B. An equally effective and opposite formation will form almost immediately. One should go with the latest one.

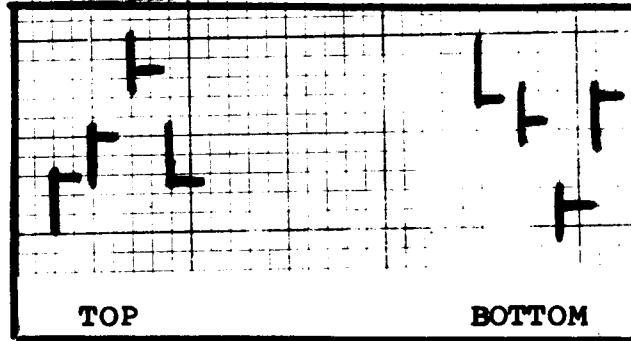
C. After the signal, a complete failure may occur within 1-2 days. The trade should be abandoned immediately and perhaps an opposite position taken.

We have experienced and recommend the following:

A. If these formations are against the prevailing trend, they should be viewed as indicating the beginning of a congestion phase. More evidence is needed for a true major trend reversal.

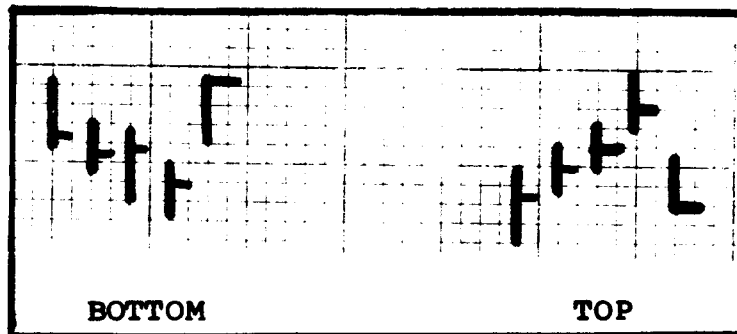
B. They are excellent tools for use in marking the end of a corrective phase.

1. ISLAND REVERSAL - High, low and close on the day preceding and following high day are entirely below the range of the high day. Last day's action should reverse at least two closes. The close should be below the opening and mid-range.



This is one of the strongest types that is seldom false. Island can be one day or many days. It represents a drastic change in sentiment and leaves one side trapped. This losing side will generally cover either on this day or on next reaction. The reverse characteristics are required for the bottom formation.

2. REVERSAL GAP - Low on the last day is entirely above the preceding day's action. The close should reverse at least two closes and close above the opening and mid-range.

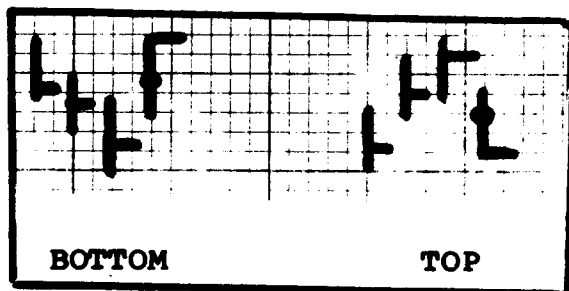


Reversal gaps can be one of the strongest indicators of a reversal in trend. They are seldom false. Sudden strong change in sentiment is shown. Best indicator is when preceding action has shown narrowing of spread and drying up of volume.

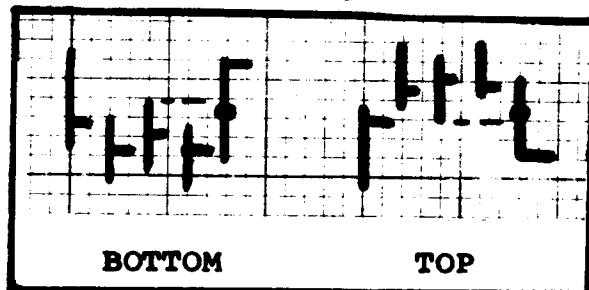


3. PATTERN GAP - Low is above the close of the previous day.

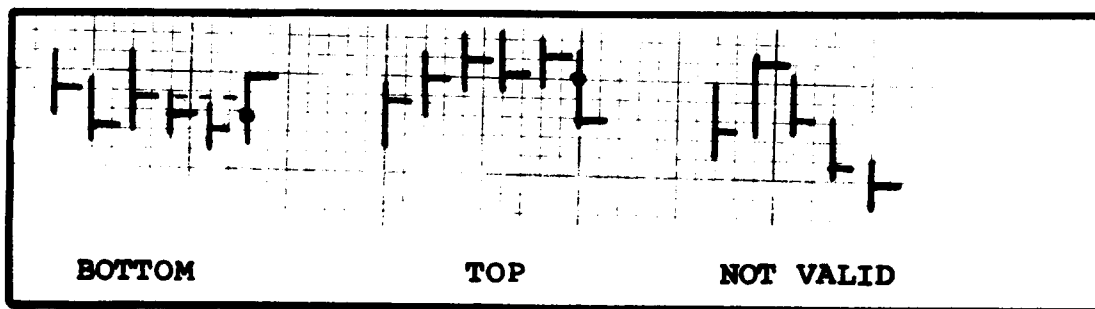
Close is above opening, mid-range and previous day's high. Close should reverse at least two closes.



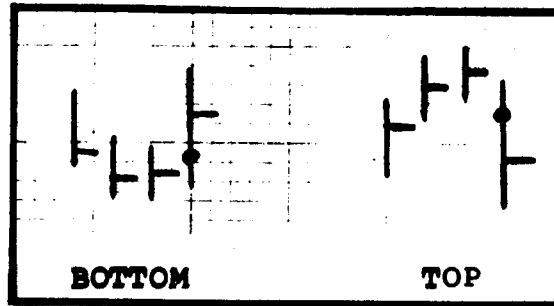
4. THREE DAY HIGH REVERSAL - Three days of relatively narrow ranges are followed by a day with a wide spread which closes above the high of the previous three days. Close should be above the opening and mid-range.



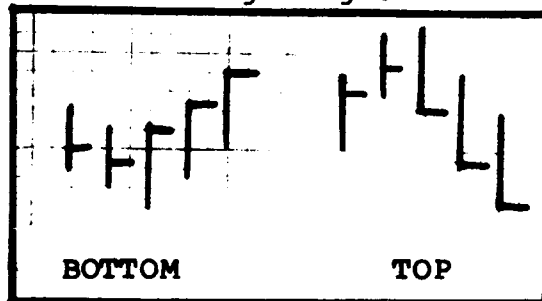
5. FOUR DAY CLOSE REVERSAL - A close on the fifth day is above the four previous closes. The close should be above opening or mid-range. The four closes should be in close proximity to one another.



6. THREE DAY CLOSE REVERSAL - Close is above the previous three closes. High is above the high of previous three days. Low is above the low of the last three days. Close should be above the opening and mid-range. Spread should be larger than the average of last three days.

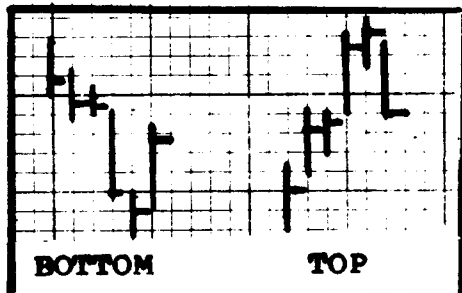


7. TOP OR BOTTOM TAILS - Market closes higher for three days in the top part of the trading range.



On Top - It indicates supply coming in. First time it does this is not too significant. However, it indicates important supply if this happens a second or more times. It is a greater sign of weakness if each successive tail is at a lower level and volume picks up. Same holds true for a bottom, only in reverse.

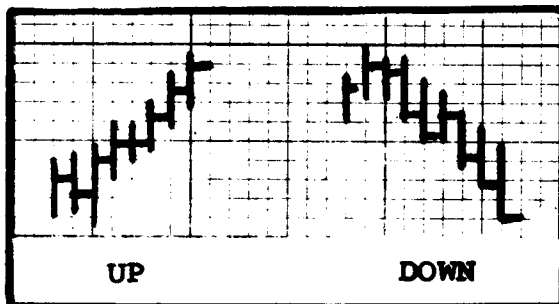
8. NARROW RANGE AFTER ADVANCE OR DECLINE - A sharply accelerated movement followed by a narrow range day is required. An opposite movement then takes place with a widening spread. Close should be below mid-range, opening and the low of the top narrow range day. At least two closes should be reversed.



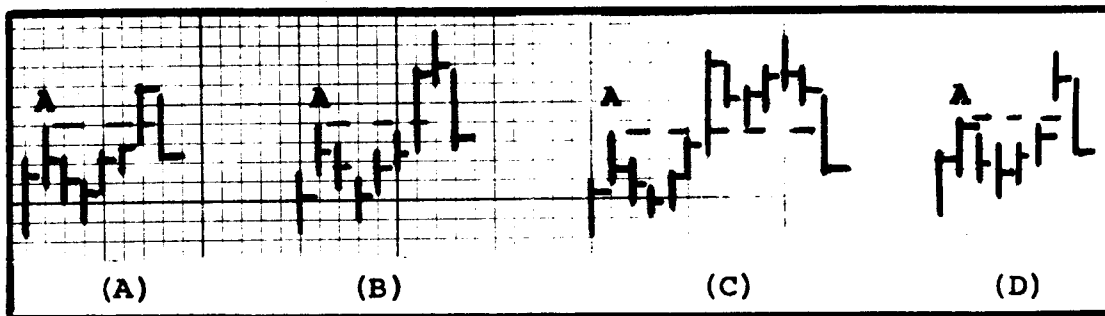
Top - If a market is moving up and then has a sharply accelerated movement followed by a narrow range day, it indicates buying power is temporarily exhausted. There is a vacuum as nervous shorts have all covered. Temporary end of move is almost assured if you have action as shown after narrow range day. This is a case of supply overcoming demand.

Bottom - Same as top, only in reverse.

9. NEW FIVE-DAY HIGHS & CLOSES - Market makes new highs for five successive days. Ignore inside days. Closes should accompany the new highs. This indicates a shifting of momentum to the upside. Market is generally a purchase on first reaction.



## UPTHRUST REVERSAL PATTERNS



"A" in all cases is a pivot point.

Requirements - Market must have a prior pivot point. A movement takes the price above the pivot point. A widespread reversal ensues as follows:

1. Two previous closes are reversed.
2. Close is below pivot point.
3. Close is below opening and mid-range.
4. Spread should be greater than the previous day's action.

Shown are four examples of upthrust action which indicate a superior quality of supply with a good bet that entire recent action has been one of distribution and a down move is about to take place. It is best when heavy volume is present on the breakout, which would indicate abundant supply.

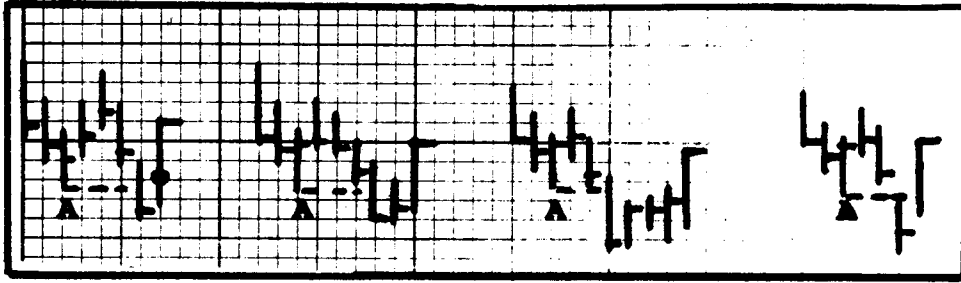
A. In this example one day's action breaks above a previous rally top, volume shows an increase, and the close is above previous rally top. However, on the following day, the market may make a slightly new high and then proceed to sell off the balance of the day. It closes near the bottom below the previous day's low.

B. It takes two days for the supply forces to overcome demand in this example. On the first day you have breakout action above a previous rally top. The second day is generally characterized by heavy volume and a narrow range or spread. On the third day, supply forces win the battle. The stock or commodity sells off all day. The daily range is increased. The close is on or near the low and below the close of the day that it broke out of the formation.

C. In this example, the commodity exceeds a previous rally top by a good margin (and all the technicians around the country talk about the big breakout). However, there is no follow-through on the next day. This is followed by a number of inside days (inside the range of breakout day) and you may have an attempt to go through the top. When this fails, the demand forces give up and you have a day of heavy supply, which sells back down below the rally top, closes at or near the bottom and below the low of the breakout day.

D. In this case the previous rally top is exceeded by a gap. The day's action shows a narrow range and heavy volume indicating abundant supply. Demand forces give up the following day. The daily range increases. Close is at or near the low, below the rally top and below the close on the day just preceding the breakout.

## SPRING REVERSAL PATTERNS

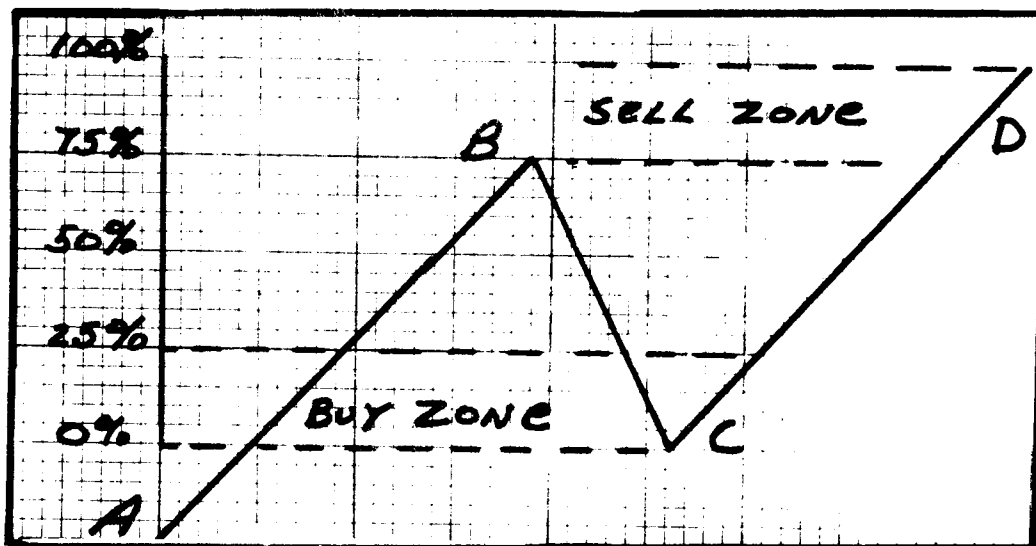


Requirements - Market must have a prior pivot point. A movement takes place below the pivot point. A widespread reversal ensues as follows:

1. Two previous closes are reversed.
2. Close is above pivot point.
3. Close is above opening and mid-range.
4. Spread is greater than the previous day's action.

When a market goes below previous minor low and then springs up to a new high on widening spreads and increases in volume, it indicates good quality demand and should be bought on first reaction. The entire recent market action has been one of accumulation.

## TRADING &amp; SCALPING TECHNIQUES

A. Parallel Movement Method

**Basic Theory:** Movement CD should equal AB. Most profitable trades are ones where position is taken in the first 25% of the move.

1. Buy when price moves 25% above pivot point C and immediately place a stop below C.
2. Move the price up to point of entry when price has completed 50% of its projected movement.
3. When price moves above B, keep a trailing stop equal to 25% of the projected movement.
4. Take profits at D or let your stop take you out.

Always trade with the trend and don't attempt to catch the small counter moves. Several entry attempts must be made in a complex correction. Also, a commodity will often fluctuate 25% of a projected movement during a day and not change directions.

B. Minor Trend Techniques

Numerous systems are around based on the concept of buying new highs or selling new lows. A trend is followed until it reverses. Some high priced schemes have techniques for bringing the stop up closer to point of entry. This entire concept of buying new highs is the worst possible point of entry and frequently leads to whiplash when market is in a corrective phase. It does get one on board the big swings.

### C. Scalping the Markets

B. Buy/sell at trend channel points and take profits at 50% and 75% of next move toward swing objective.

a. If market is in uptrend:

(1) Take profits on any shorts at 50% reaction point.

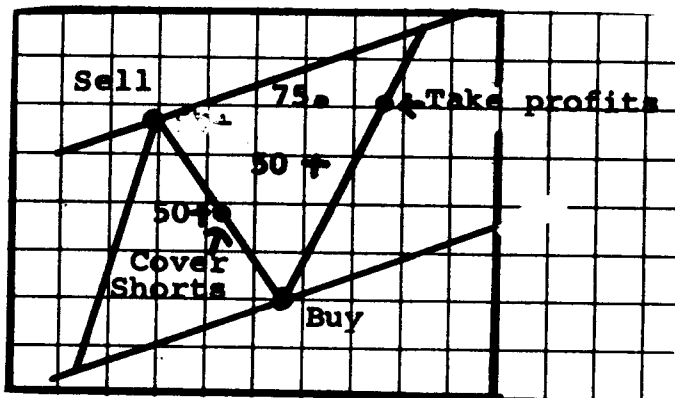
(2) Take profits on any long at 75% rally point.

b. If market is in downtrend:

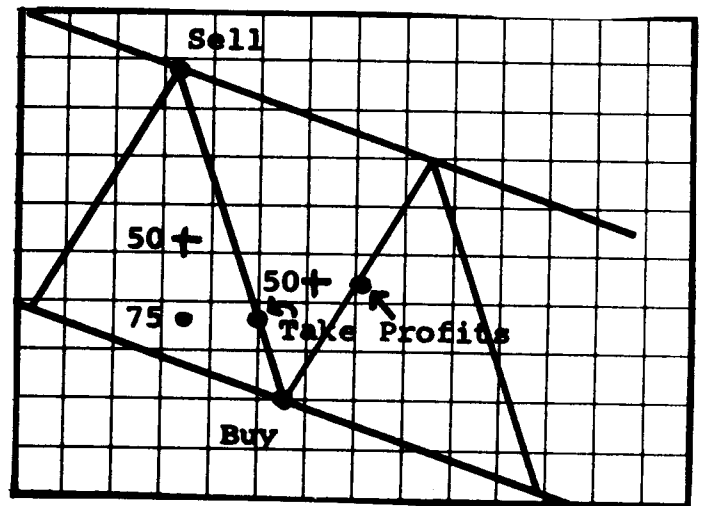
(1) Take profits on any long at 50% rally point.

(2) Take profits on any short at 75% reaction point.

#### Uptrend



#### Downtrend



Stops: Initially place stop at one channel width away from point of entry.

a. Move stop to point of entry once market moves 50% of the way to objective.

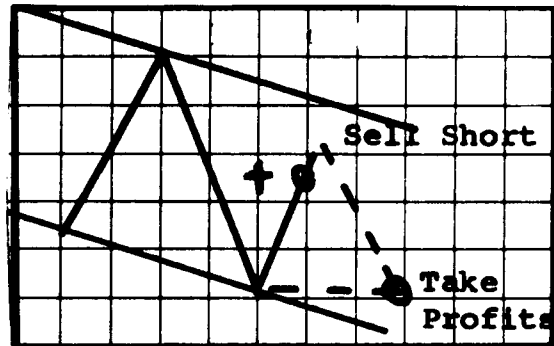
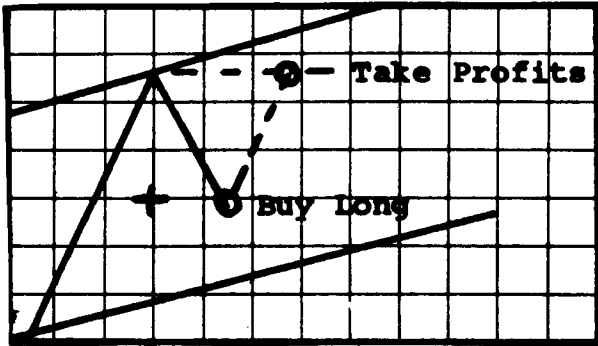
b. Move stop to closest pivot point once it starts moving in your favor and a pivot point is established.



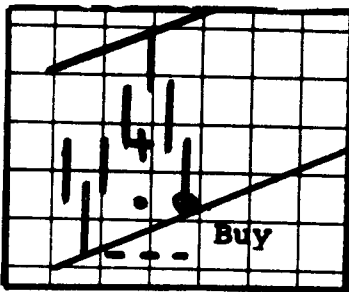
**2. Buy/Sell 50% Reaction/Rally Points**

On the second day's action against trend:

- Only buy 50% points in uptrend
- Only sell 50% points in downtrend.
- Take profits at previous pivot points.



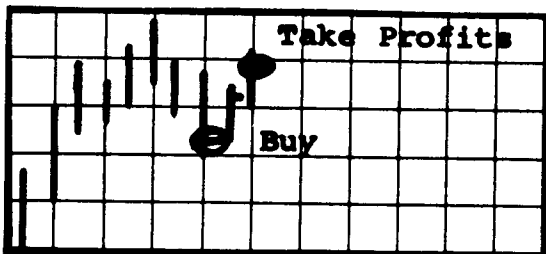
Stop should be initially placed one channel width away from point of entry. Move stop up when a pivot point is established and then to point of entry when market moves 50% toward objective.



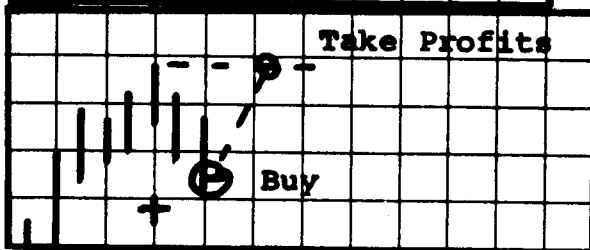
If first day's action goes to 50% correction point:

In uptrend, enter buy order at 75% pt.

In downtrend, enter sell order at 75% rally point.

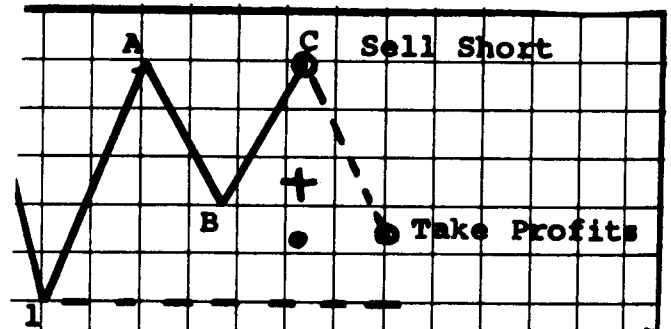


Variations - In uptrend, buy on close of second down day for at least a one day bounce and/or move back to recent pivot point.

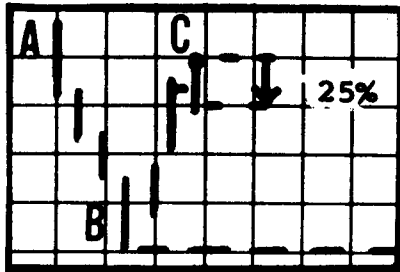


If profits have not been taken after two days' subsequent action and market has closed up/down two days in your favor, either take profits or move stop to within one tick of close.

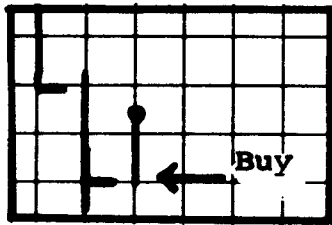
In an ABC rally, short at the A level and take profits at 75% point of 1C move.



### 3. Miscellaneous Techniques



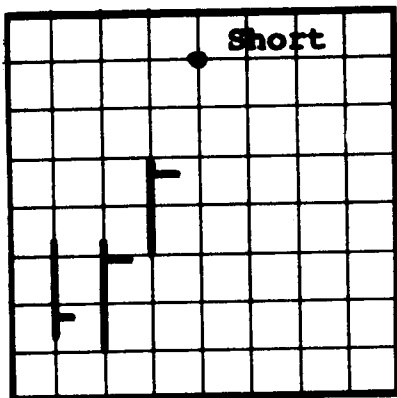
← Stop sell on 25% AB reaction provided it is below the opening and the previous day's close. Cover at B or at swing objective.



← Two down days temporarily exhaust bear forces. The up opening on third day is a sign that more rally may be coming.

Buy at close of second down day and take profits on first up day.

#### When Market Is in Congestion



Conditions: Two days of higher close at least 1/2 daily range above the first day's close.

Enter order to short at:

- a. One daily range above second day's close.
- b. One tick below third day's close if "a" is not executed.

Cover short on first down day at:

- a. One full range at top day down from close or,
- b. On close.
- c. If market has had an ABC type movement up, wait for second down day to take profits.

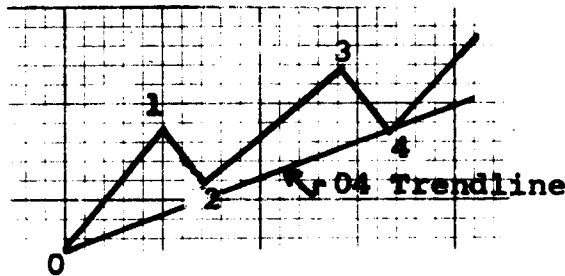
Stop protection should be placed 1.5 daily ranges above top on day of entry.

## D. TECHNICAL TREND TRADING TECHNIQUE

This is our own system, which combines the best features of numerous techniques and is designed to put you on board the big moves and minimize difficulties during congestion phases. Basic rules follow:

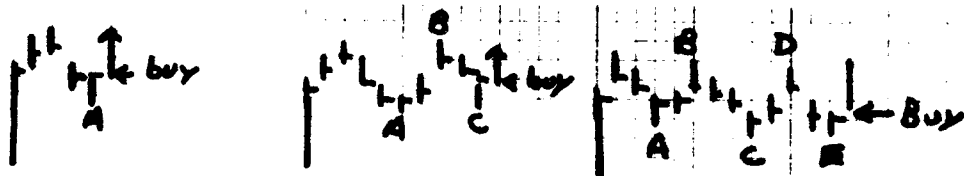
### Up Trend Rules -

1. Buy double and triple bottoms in accordance with reversal formations Nos. 1-9. Also, buy a second or third higher bottom on same basis when trend is still down.
2. Buy on the basis of "Spring" reversal patterns.
3. Stops:
  - A. Carry stops one tick below the last pivot point low, except as follows.
  - B. After a five wave movement, carry stops one tick below the 0-4 trendline.
  - C. Liquidate on upthrust reversal patterns.
  - D. Stop on Minor Reversal Patterns 1,2,3 after shorting upthrust reversal pattern.



The basic concept is that major corrective moves generally take place after the fifth wave. Carrying a tight stop along the trend line will protect those profits.

4. Pyramid trades are taken by buying one tick above the high of the low day in an A reaction, a flat or irregular ABC correction, and an ABCDE reaction.



Do not pyramid more than once during a reaction or consolidation phase. Do not pyramid after an upthrust formation. On a zigzag type correction, pyramid only when the following conditions are met:

- A. High of low day on C leg is broken.
- B. Trendline connecting top pivot point and B pivot point is broken.
- C. Close on first day above trendline is above opening and mid-range.

One area of judgement here involves an ABCDE correction. If most of the action is below the 50% point, a trend reversal may be in the picture, thus, a pyramid trade should probably be passed.

5. Liquidate and short when a bear signal is flashed in accordance with downtrend trading rules.

#### Down Trend Rules -

1. Sell double or triple tops in accordance with reversal formation Nos. 1-9. Also, sell a second or third higher bottom on same basis when trend is still up.
2. Sell on the basis of upthrust reversal patterns.
3. Stops -
  - A. Carry stops one tick above the last pivot point high, except as follows:
  - B. After a five-wave movement, carry stops one tick above the 0-4 trendline.
  - C. Liquidate on spring reversal patterns.
  - D. Stop on Minor Reversal Patterns 1,2,3 after shorting upthrust reversal pattern.
4. Pyramid trades are taken by selling one tick below the low of the high day in an A reaction, a flat or irregular ABC correction and an ABCDE reaction.

Do not pyramid more than once during a reaction. On a zigzag type correction, pyramid only when the following conditions are met:

- A. Low of high day on C leg is broken.
- B. Trendline of bottom pivot point and B pivot point is broken.
- C. Close on first day above trendline is above opening and mid-range.

Again, one must use judgement if most of the ABCDE corrective phase is above the 50% point.

Do not make a pyramid trade after a "spring" type trade.

5. Liquidate and go long when a buy signal is given by uptrend trading rules.

#### TESTING OF TRADING SYSTEM

The true test of any trading system is how it performs in choppy markets. Following is a test of October, 1977 Soybean Meal which was a very tough market. The system worked extremely well, yielding profits of around \$17,000 on a one-contract basis.

TRADING OCTOBER, 1977 SOYBEAN MEAL  
TECHNICAL TREND TRADING TECHNIQUE

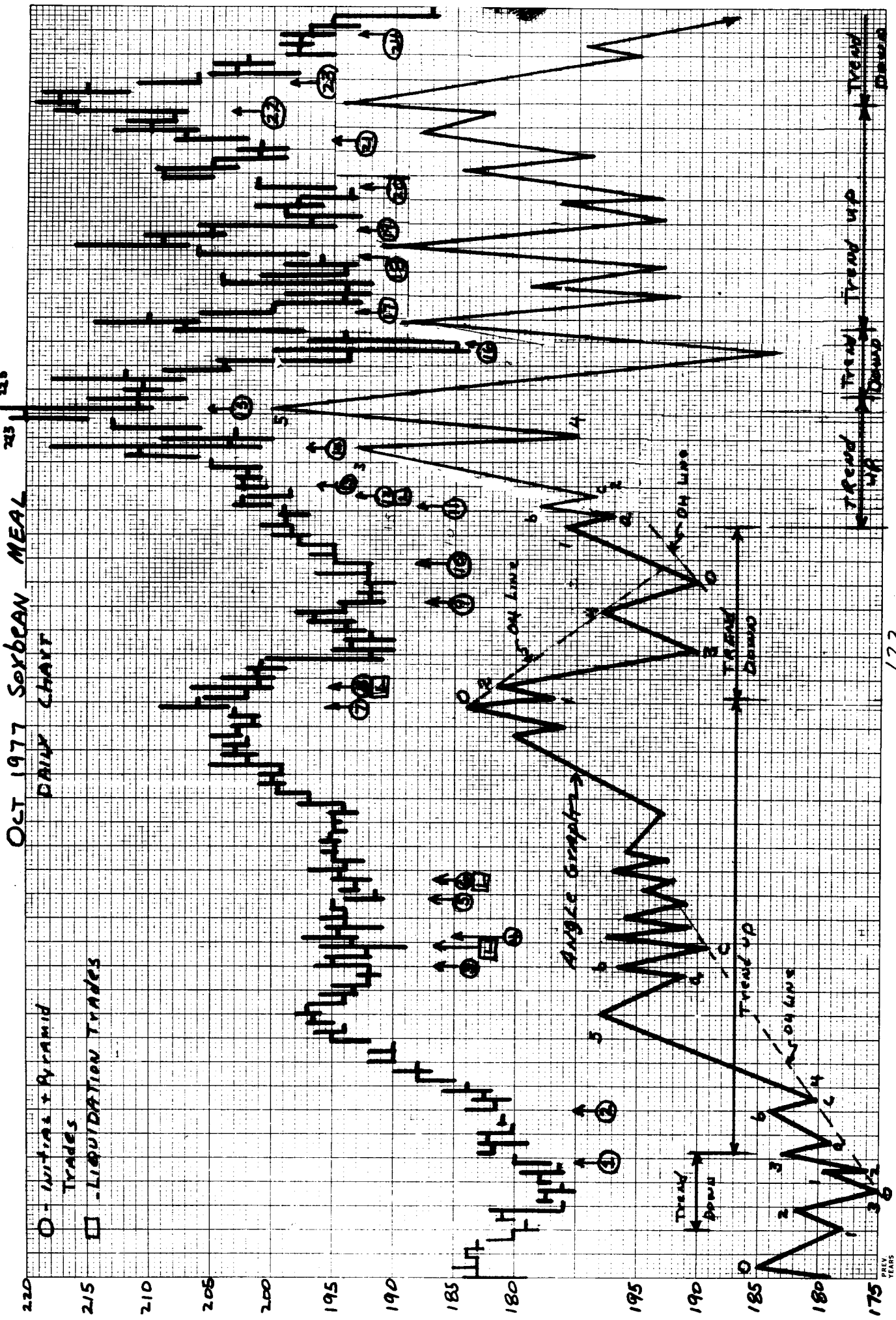
Definitions

UT - Uptrend rules  
 DT - Downtrend rules  
 MRP - Minor reversal patterns  
 URP - Upthrust reversal patterns  
 SRP - Spring reversal patterns  
 P - Pyramid trades  
 I - Initial trade

Trade No.	Trade Type	Price		Profit	Reason for Trade	Reason for
		Bou.	Sold	Loss		Liquidation
1	I	180.0	190.9	10.9	UT-1,MRP-3,5,6	UT-3
2	P	182.0	190.9	8.9	UT-4	UT-3
3	P	193.1	190.9	(2.2)	UT-4	UT-3
4	I	196.1	191.5	(5.5)	UT-4	DT-1,MRP-5
5	I	194.6	191.5	(3.1)	DT-1,MRP-5	UT-3B
6	I	194.6	202.0	7.4	UT-4	DT-2
7	P	203.6	202.0	(1.6)	UT-4	DT-2
8	I	193.5	202.0	8.5	DT-2	DT-3B
9	P	193.5	194	.5	DT-4	DT-3B
10	I	195.0	198.5	3.5	UT-1,MRP-5	UT-3C
11	P	200	198.5	(1.5)	UT-4	UT-3C
12	I	202.5	198.5	(4.0)	DT-5	UT-1,URP-3
13	I	202.5	203.5	1.0	UT-1,MRP-3	UT-3C
14	I	213.0	203.5	(9.5)	DT-2	DT-3D
15	I	194.0	211.0	17.0	DT-2	UT-3
16	I	194.0	200	6.0	UT-3	DT-3,8
17	I	206	200	(6.0)	DT-1,MRP-2	UT-1,MRP-3,4,5
18	I	206	205	1.0	UT-1,MRP 3,4,5	UT-3C
19	I	201.2	205.0	3.8	DT-2	UT-1,MRP-5
20	I	201.2	215.2	14.1	UT-1,MRP-5	UT-3
21	P	203.1	215.2	12.1	UT-4	DT-2
22	P	210.1	215.2	5.1	UT-4	DT-2
23	I	163.0	215.2	52.2	DT-2	UT-1,MRP-1
24	P	163.0	196.9	33.9	DT-4	UT-1,MRP-1
*25	P	163.0	186.5	23.5	DT-4	UT-1,MRP-1
*26	P	163.0	167.0	4.0	DT-4	UT-1,MRP-1
Total				180.0		

\*Trades not shown on chart.

Net Profit = \$18,000 - \$1,014 Commissions = \$16,986  
 % Profitable trades = 18/26 = 69%



## CHAPTER 10

### PERSONAL PSYCHOLOGY

This last chapter will be primarily concerned with effectively utilizing what you have learned in the preceding chapters. The first and foremost thing to remember is that the name of the game is money--or at least the acquisition thereof. This is not only the name but the object of the game. If you have any other purpose in mind, then the game is not for you.

As in all good games there are two teams. There is the "we" team; naturally enough, that's our team. The "they" team can be a large syndicate (although this is seldom true now as in the past) or, more frequently, can be a group of unrelated professional traders acting in concert.

The object of the game is the acquisition of the available money which is used to fuel the game. The gambits, feints and intricate plays used are endless and would cause Knute Rockne to turn green with envy.

Technique number one is the lie--or, to be charitable, the loose truth. Breathes there a man, woman or child in the continental United States who is not familiar with a TV picture of sad Farmer Brown holding a black ear of corn in his calloused hands? True, there was the corn blight of '71 which saw corn rise from \$1.40 per bushel to \$1.67 per bushel for a 27¢ rise.



It looked for awhile as though we would need ration cards to get corn but--surprise! The production was a full third over anything seen before in history and corn went down like the Titanic to the tune of 47¢ per bushel.

This is a principle as old as the hills. Brunswick and AMF, Inc. in the late 50's and early 60's rose from obscurity to the \$60-\$70 area and then fell back to 6 for Brunswick and to 14 for AMF. For a period, it appeared as though there would be a bowling alley for every third family in the world, including new nations.

Computers, too. Levin-Townsend at 1-1/2 in 1965. Now the tom-toms are heard and it's 1968. LTX is at 68-1/2. There's a good story going in computer technology, but two years later in '70 LTX's fortunes are at a low ebb. Also, the stock later dropped to \$3.00 per share--something to do with accounting procedures and dull pencils.

The point is that in all three cases there was a good story--lie? going. No corn. Everybody's bowling. Computer technology is the wave of the future. Maybe so. But the true facts were on the chart. The lesson to be learned here is to ignore all news, tips, garbage, etc., which are constantly being put out by the "they" team in an effort to deceive us. The only thing that counts is the tape. That is fact. That is the only truth.

A second basic truth in this activity is what I will call our risk threshold. Broadly defined this means the amount of proof required before the individual investor will move--that is,

act on the basis of his convictions. I know several very capable market technicians who couldn't reach a decision even if a gun were pointed at them. One, in particular, will cite a number of astute observations relative to a given situation and then when pressed for a hard buy-sell decision will cop out by saying, "I don't know. Let's watch the pattern unfold." By the time the unfolding has taken place, the opportunity is lost.

What this means in practical terms is that by the time our high risk threshold market operator has gathered enough proof to make a decision to buy or sell, the move is probably over. The lesson here is that when you see that something should be done--do it! Don't wait! Don't even look back!

A third concept is what I choose to call money management and risk control. Remember that risk is absolutely the only thing we can control. I have found it useful to limit any trade risk to 5-10% of total capital. That is, if I have \$10,000 in a commodity account, I will limit the maximum adversity to 10-20¢ in grains. A stock account would, of course, limit the risk to 2-1/2 - 5 points in a \$50 stock or the equivalent thereof. Risk is the only thing you can control. Control it!

A person may have all of the finest technical tools available at his disposal and yet be unable to make money at this business because of his personal psychological makeup. If one is to be successful in this business he must learn who he is--how he makes decisions. Personal financial decisions are highly emotional.

Take the case of a man shopping for a car. One person will decide on the spur of the moment to buy--another person will spend months studying designs, different makes, etc., before deciding; and then he generally has to be pushed into making a decision. The same is true of commodity traders. You have the person who shoots from the hip--buys on the first whim. Then 15 minutes later, he changes his mind. The other extreme is the person who studies a given situation and waits until everything falls into place, including the move. He will enter the market after it has made its move, and it's too late. One author calls this "risk aversion".

Failure to transform into action the results of good speculative thinking is as fatal to success as a habit of hastily making decisions on purely emotional impulse.

Iron will power is at the bottom of all successful trading. Few men in any walk of life have this highly developed. Always the speculator must be on guard to maintain mastery over himself. Development of will power should be the undeviating aim of every speculator.

Another question one should ask himself is, "Why am I trading commodities?" Playing commodities is certainly different from gambling, and serves a very vital function in our economy. However, the players are not necessarily different. Of course, if one has not put forth time and study in any chosen field, be it commodities, selling, etc. he has less chance than throwing dice. There the odds are fairly predictable. What I am suggesting is that one

should read books on gambling and the instinct of gamblers, to be sure he is not addicted to trying to "make the fast buck". Compulsive gamblers want to lose to punish themselves, so some psychologists say.

Believe me, you must find out where you fit in and what your psychological makeup is, if you want to be successful in this business. When you know your internal strengths and weaknesses, you can build on them.

To sum up the psychological aspects of trading, know who you are and why you are trading commodities. This combined with the technical knowledge presented herein should put you on the road to success.

Good Trading!

Some of Best Material on the  
Technical Approach to the Markets

1. Gains in Grains by W. Dunnigan
2. Graphs & Their Application to Speculation by G. W. Cole
3. How to Make Money in Commodities by W. D. Gann
4. The Profit Magic of Stock Transaction Timing by J. M. Hurst
5. How to Make Money in Commodities by C. W. Keltner
6. Charting Commodity Market Price Behavior by L. D. Belveal
7. Stock Market Correspondence Courses by Tubbs
8. R. D. Wyckoff Course in Stock Market Technique
9. Tape Reading & Market Tactics by H. B. Neill
10. Livermore Secret of Tape Reading
11. Studies in Tape Reading by R. D. Wyckoff
12. Extraordinary Popular Delusions & the Madness of Crowds  
by C. Mackay
13. Technical Analysis of Stock Trends by Edwards & Magee
14. The Warren Method of Technical Analysis by T. Warren
15. The Congestion Phase System by E. Nofré
16. What Makes You a Winner or a Loser in the Stock & Commodity  
Markets by J. J. Hayden
17. Speculation, Its Sound Principles & Rules for Its Practice  
by T. T. Hoyne
18. The Elliott Wave Principle by A. H. Bolton
19. Nature's Law by R. N. Elliott
20. Philosophy on Trading Commodities by R. W. Longstreet
21. One Way Formula for Trading in Stocks & Commodities by  
W. Dunnigan
22. Wall Street, Its Mysteries Revealed, Its Secrets Exposed,  
together with a Complete Course of Instruction in  
Speculation & Investment by W. C. Moore