Steve Moore

Steve Moore, publisher of the *Moore Research Center Report,* developed an affinity for trading and researching established price patterns while hedging in the highly seasonal lumber industry during the early 1970's. Fascinated by a newly emerging technology, he was among the first to successfully design computer programs to analyze and isolate historically repetitive cash and futures price movement.

Steve quickly recognized that this computerized research enabled him to anticipate future price trends and trade accordingly. Continuing his extensive research and private trading, he found that his unique approach discovered trading strategies in any futures market with available historical data.

In 1985 he was finally persuaded by a major Chicago futures trading firm to open a branch office and computer research facility providing market analysis to both floor traders and branch offices. In 1990 Steve reverted to trading and concentrating on research, which would become the current report and was the subject of several articles in *The Wall St. Journal, Investor's Business Daily, Barron's,* and *The Soybean Digest,* among others.

Steve also publishes special reports; does custom research; provides consulting services to futures exchanges, commercial firms, and other vendors; and develops software.

Topic: Steve's underlying philosophy is that, as with any investment, you must "research your trade". Relying on the analytical muscle of the computer, one can discover recurrent tendencies for each market to trend, top, and bottom every year. From these "windows of opportunity" one can optimize historically reliable strategies with precise entry/exit dates from which to anticipate future price movement.

Various technical indicators may be used to complement and refine such strategies. One little-known but exceptionally useful technique is Howe's Limit Rule, applicable in especially volatile markets where there is so much opportunity - and risk.

The study of price behavior lends itself to various avenues of research. Can correlation studies project future price movement? What similarities exist in the price behavior of different markets, for instance, futures versus equities? Steve's workshop is intended to help the intelligent trader make good decisions.

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Linda Bradford Raschke

Linda Bradford Raschke is an active independent trader and member of the Market Technicians Association. She began looking for specific chart patterns at an early age leafing through hundreds of stock charts for her father. While attending Occidental College, she was selected for a program where 10 students managed a trust set up by an anonymous donor.

Upon graduation she took a job as a financial analyst after being turned down by every stock brokerage firm in San Francisco. As fate would have it, her office was two blocks from the Pacific Coast Stock Exchange, which opened an hour earlier than her office. Linda's fascination with markets led her to spend that hour hanging out on the floor until an exchange local, impressed with her quick ability to grasp market concepts, provided her a trading stake.

Beginning in 1981, Linda spent six years as a floor trader, first at the Pacific Coast Stock Exchange and then at the Philadelphia Stock Exchange trading equity options. Along the way, she began trading S&P futures when they were first listed.

In 1987 she left the trading floor to trade all futures, and has been a profitable trader since. She continues her 15-year study of technical analysis and price behavior, developing her own trading methodologies, tools, and systems based on her floor trading experience.

Linda was recently featured in Jack Schwager's *The New Market Wizards*. She has been in great demand as guest lecturer, teaching her methodologies to other traders who have gone on to use them profitably.

Topic: Linda believes strongly in market tendency patterns and the predictability of price direction, though not magnitude. Prices tend to form a distinct three-day swing trading pattern, one which consistently repeats itself in tradable fashion.

Linda will discuss why this swing pattern sets up, how to recognize it, the tendencies underlying the theories, and the philosophy behind trading it. She will then teach a sound method for trading this cyclic phenomenon, one which builds confidence to trade any market on any day.

Finally, Linda will illustrate how, based on these patterns, you can develop mechanical systems that are applicable to various length market periods. This presentation will give you a new perspective on price behavior and chart patterns.

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"RESEARCH YOUR TRADE"

I. Historical (Seasonal) Trading

A. Definition, Design & Methodology

B. Historical Price Patterns

1. Computation
2. Examples

C. Historical Trading Strategies

1. Discovery & Selection
2. Monthly Trade Sheet
3. Strategy Sheets
4. Seasonal Trade Review
5. Mechanical vs. Filtered Trading
6. Howe's Limit Rule

II. Historical Correlation Studies

A. Price Patterns

1. Contract
2. Spread

B. Special Situations

III. Research Derivatives

A. Monthly ***MRC Report***

B. ***Trader's Desk Reference***

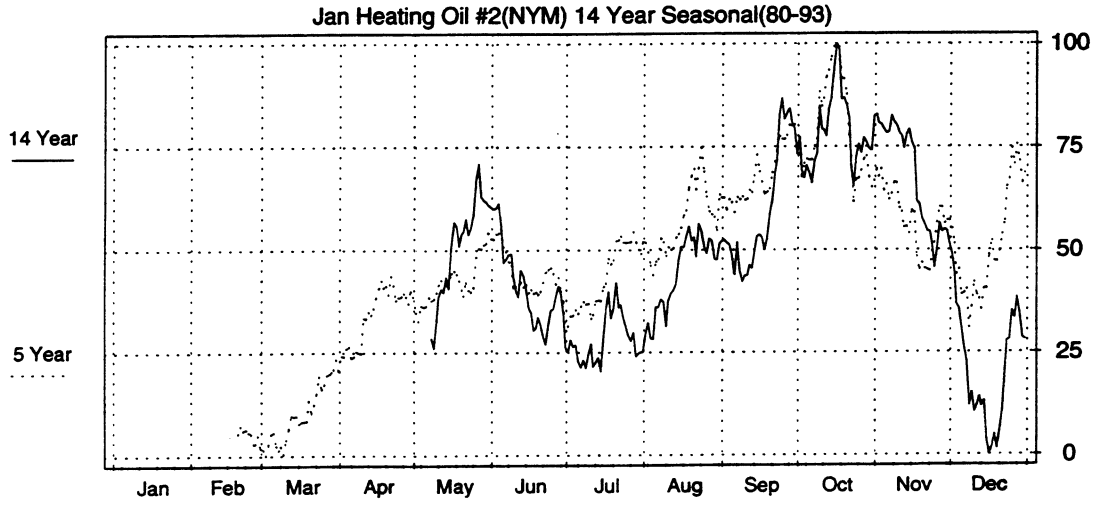
C. ***Seasonal Patterns Charts***

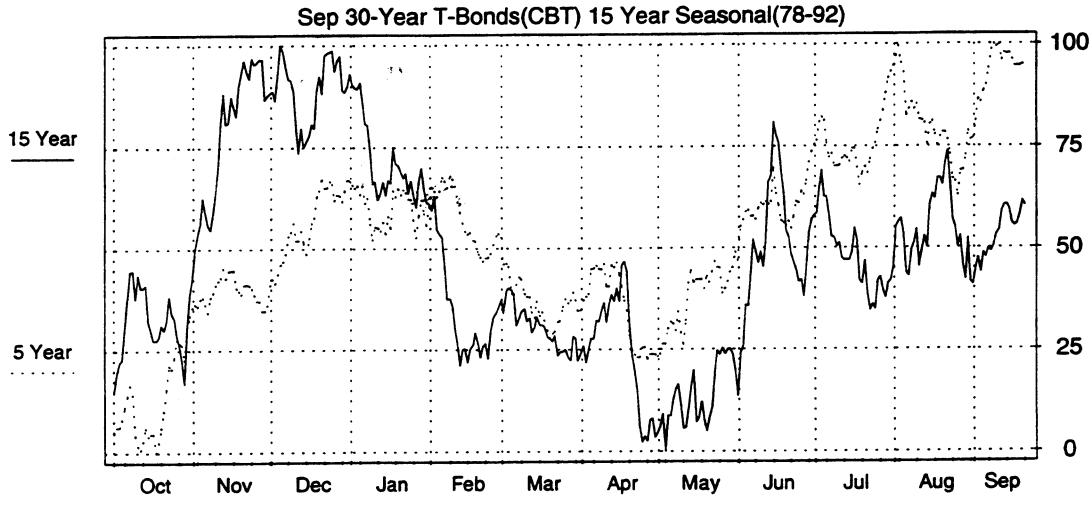
D. Special Reports

Historical (Seasonal) Trading

Historical trading, more commonly referred to as ***seasonal*** trading, need not be limited to markets directly influenced by climate. Rather, ***if*** one can accept both the very logical premise that every market is subordinate and thus reacts to pertinent fundamental forces that recur annually and also the empirical evidence of existing patterns in such reactions, ***then*** one can more expansively, but simply, define seasonality as a tendency to consistently repeat price movement during a similar period of each calendar year. As such, it becomes a valid principle subject to analysis in every market. The historical approach seeks to anticipate future price movement with greater accuracy by analyzing established market patterns of seasonal tops, bottoms, and trends.

Obviously, weather and climate directly influence heating oil prices. However, does weather—or government—consistently affect price activity in the Treasury bond market on January 1 and April 15?

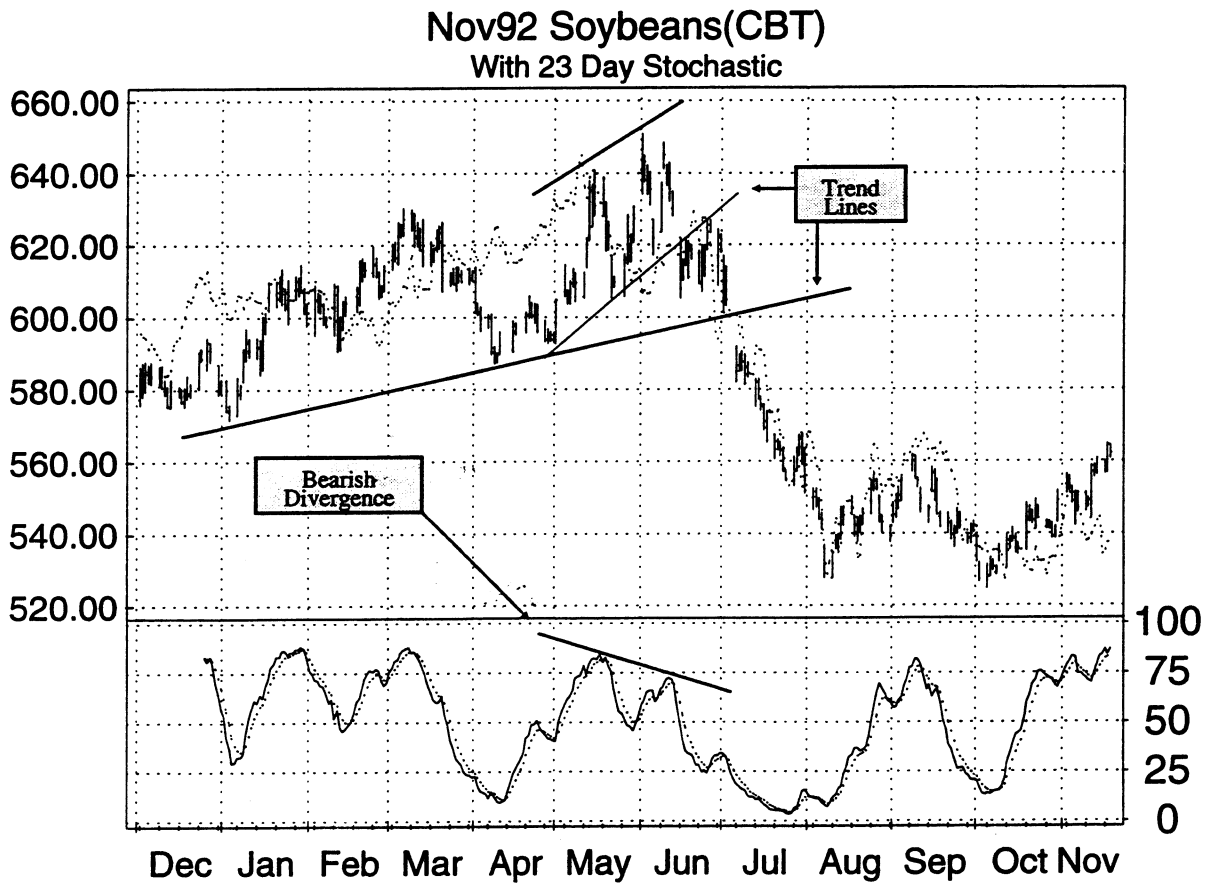




Those who do not learn from history are condemned to repeat it. Trades with the greatest risk perceived by herd psychology often hold the greatest potential. Prices move most dramatically when anticipating—and adjust equally as dramatically upon realizing—fundamental change. This phenomenon is intrinsic to the historical approach; for it is designed to ***anticipate*** and capture recurrent trends, entering as they emerge and exiting before doomed by the adverse psychology of realization.

Seasonal trading is hardly new. Merchants and traders have long used the technique to take advantage of price trends typical for (and caused by fundamental market conditions specific to) certain times of the year. Seasonal patterns result from consistency in market response and reflect a natural rhythm existing in all markets. A trend conforming to its pattern is observable and, thus, detectable with technical indicators. Seasonal trading, therefore, seeks to converge historical, fundamental, and technical knowledge.

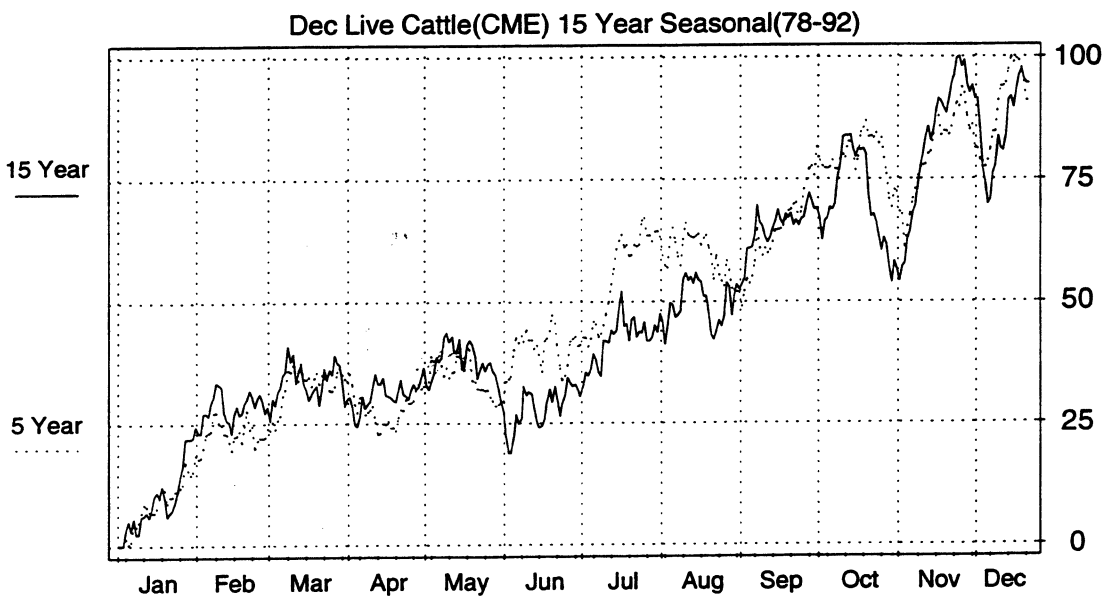
The 1992 November Soybean market offers a simple example. A trader anticipating a typical May/June peak (dotted-line seasonal pattern) could more confidently recognize and trade the breakdown in momentum (the bearish stochastic divergence) and trend that implied the fundamental probability of good weather and big crops.

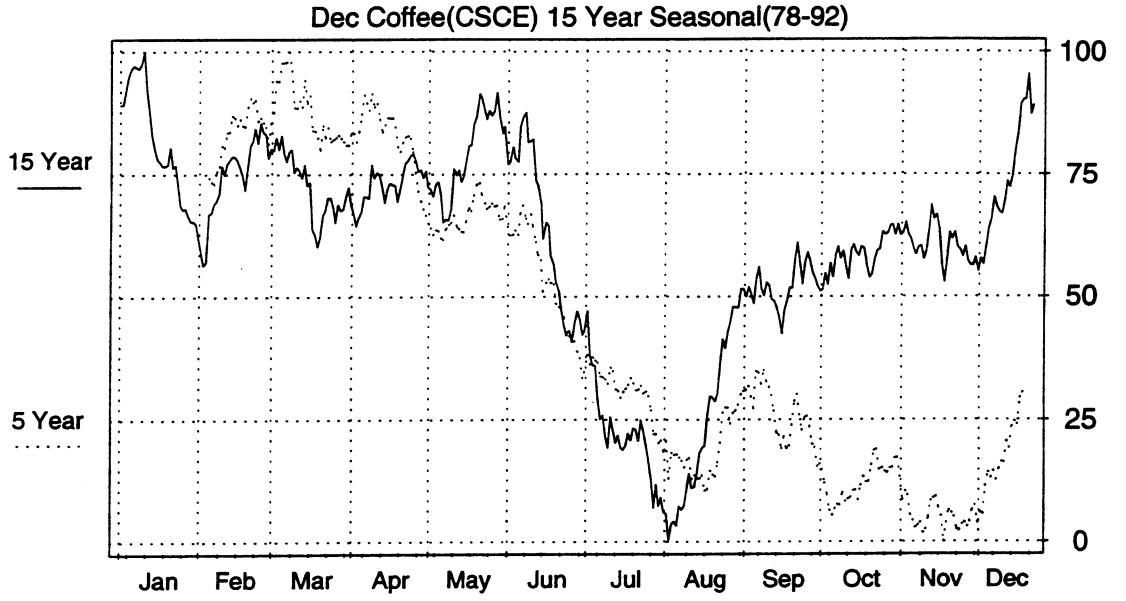


Daily Seasonal Pattern Charts

Every market—art, real estate, diamonds, cash corn, T-Bond futures—responds to the rhythmic recurrence of its own underlying fundamentals. For example, weather, fiscal years, holidays, Treasury refundings, or even futures contract specifications (delivery, expiration) will affect a market every year—to a greater or lesser degree and in a more or less timely manner. A historical price pattern will then emerge that reflects that market's repeated periodic response.

MRC computes each contract's ***daily seasonal pattern***, derived from and a composite of daily futures price activity during designated years. The position of each day's price relative to the yearly range, rather than price alone, is used to uniquely calculate a definitive perspective on each calendar day's relative historical tendency. (A seasonal pattern can be constructed for a futures contract, a spread, a cash or basis market, a stock—any market with sufficient historical data.) This pattern for the year is plotted against a numerical index to the right to reflect the market's previous tendency to make its seasonal high (100) and seasonal low (0). Merely marginal deviation in the pattern of the most recent 5 years (dotted line) from that of the last 15 years (solid line) implies stability in that market's seasonality.




Dec Coffee(CSCE) 15 Year Seasonal(78-92)
15 Year
5 Year
100
75
50
25
0
Jan
Feb
Mar
Apr
May
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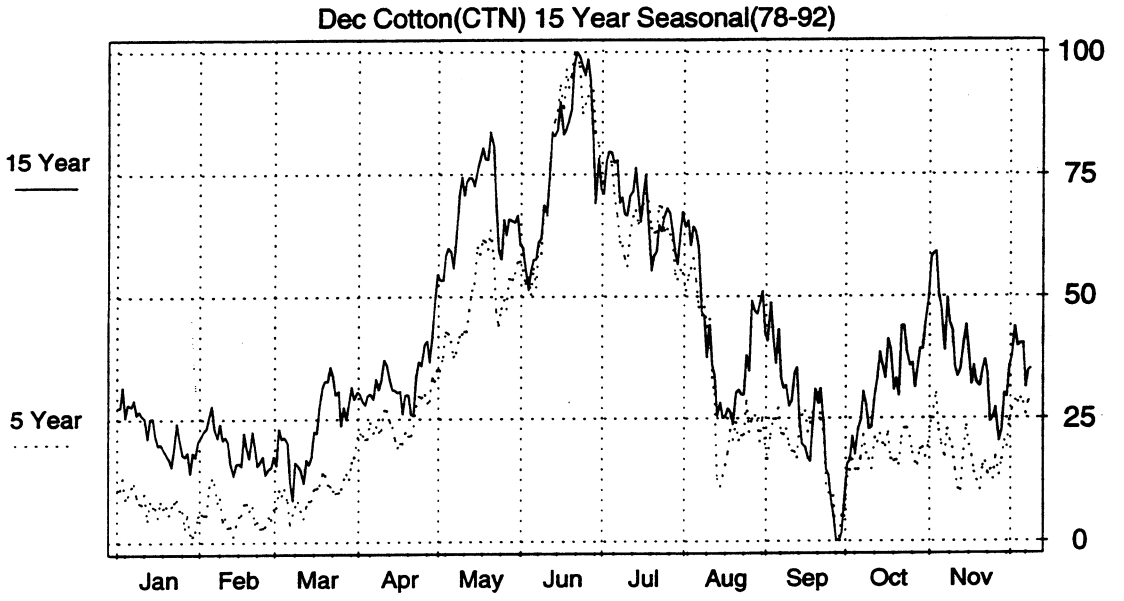
Jul
Aug
Sep
Oct
Nov
Dec


Dec Cotton(CTN) 15 Year Seasonal(78-92)
15 Year
5 Year
100
75
50
25
0
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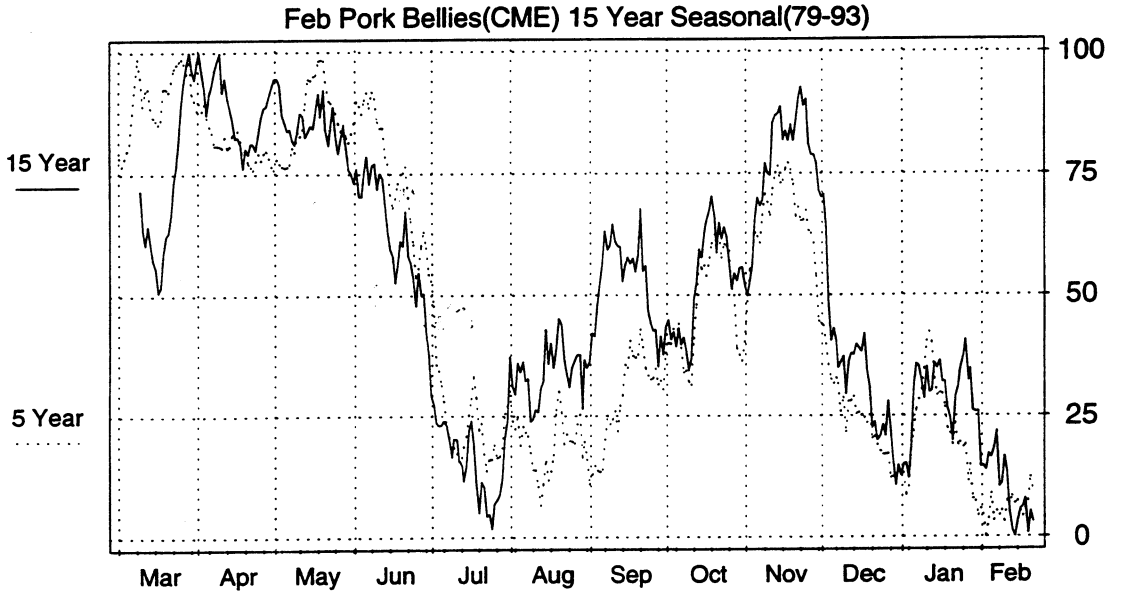
Oct
Nov


Feb Pork Bellies(CME) 15 Year Seasonal(79-93)
15 Year
5 Year
100
75
50
25
0
Mar
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Jun
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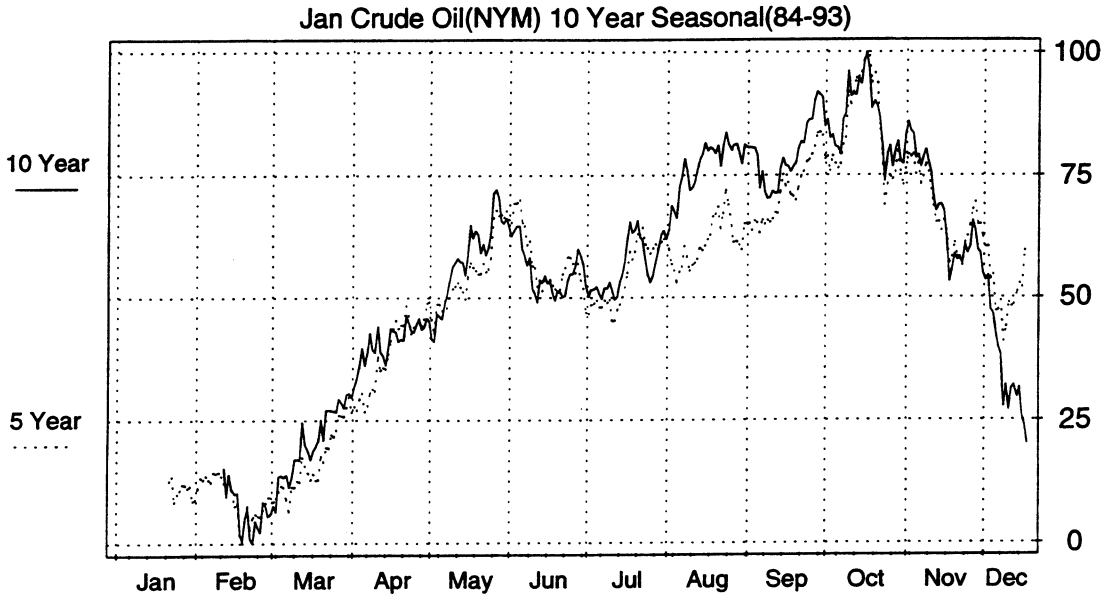
Oct
Nov
Dec
Jan
Feb


Jan Crude Oil(NYM) 10 Year Seasonal(84-93)
10 Year
5 Year
100
75
50
25
0
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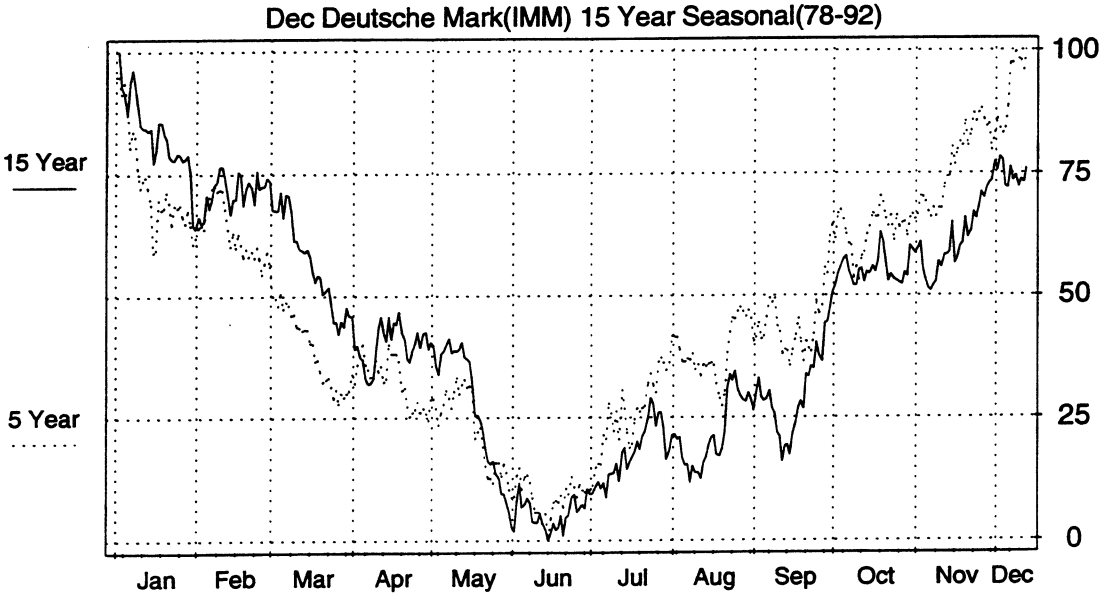
Nov
Dec


Dec Deutsche Mark(IMM) 15 Year Seasonal(78-92)
15 Year
5 Year
100
75
50
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0
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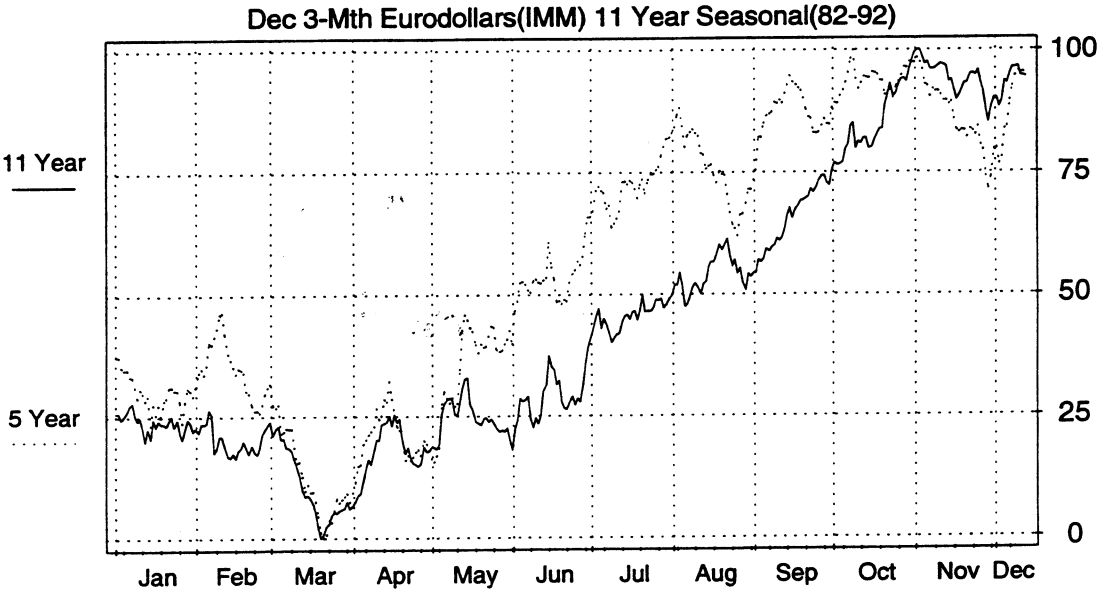
Nov
Dec


Dec 3-Mth Eurodollars(IMM) 11 Year Seasonal(82-92)
11 Year
5 Year
100
75
50
25
0
Jan
Feb
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May
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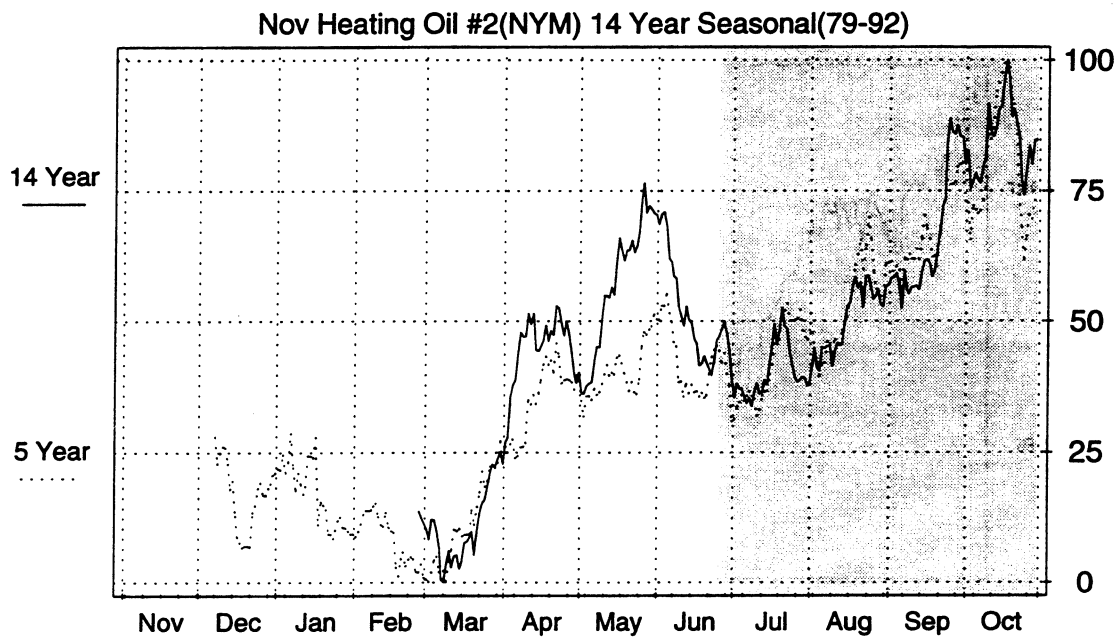
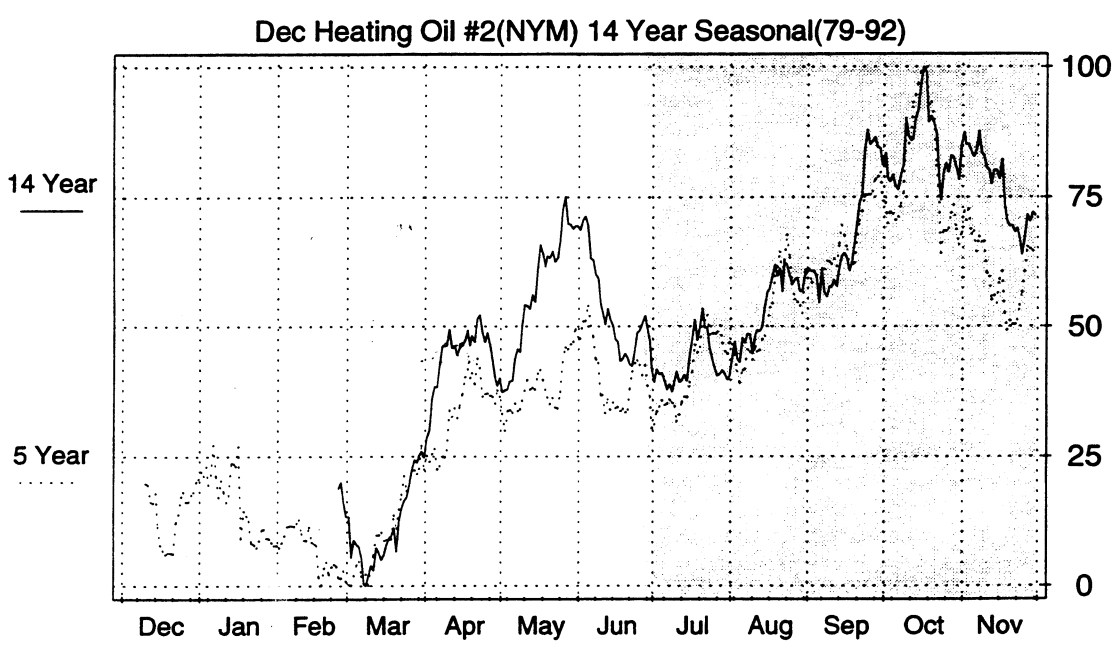
Jul
Aug
Sep
Oct
Nov
Dec

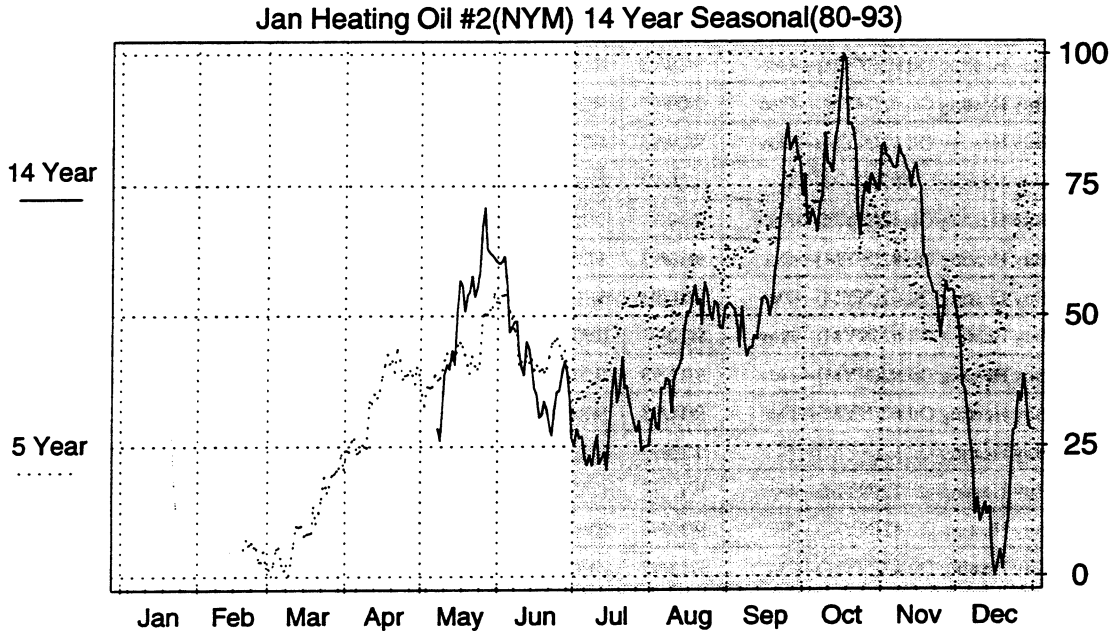
Discovering & Selecting Trading Strategies

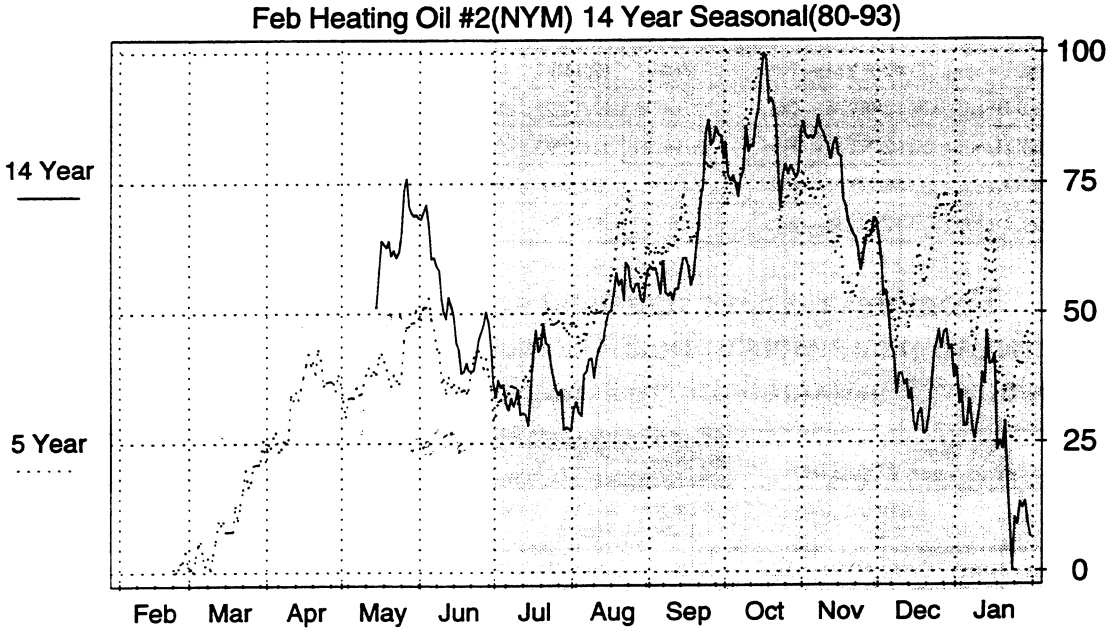
These price patterns not only visually display a seasonal rhythm but also suggest specific "windows of opportunity", time periods during which especially reliable trading opportunities may exist within significant historical trends. The following illustrates a process for discovering and selecting potential historical trading strategies from daily price data in heating oil futures.

Charts following show the seasonal patterns typical of price movement for several Heating Oil futures contracts. Shaded portions highlight the windows to be examined.






Jan Heating Oil #2(NYM) 14 Year Seasonal(80-93)
14 Year
5 Year
100
75
50
25
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec


Feb Heating Oil #2(NYM) 14 Year Seasonal(80-93)
14 Year
5 Year
100
75
50
25
0
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan

Computers process 14 years of raw price data within these time windows to simulate every possible strategy combination whose entry lies between specific dates, in this case, July 1 through January 1. One can eventually compile a table listing the computer-optimized strategies by contract, with specific entry/exit dates but meeting minimum requirements for historical reliability (80%) and average profit.

Moore Research Center, Inc.	*Heating Oil Sorted Strategies*								
	Futures Trade	Entry Date	Exit Date	Win Pct	Win Yrs	Loss Yrs	Total Yrs	Average Profit	Ave Pft Per Day	Ave Pct Dly Mgn
1	Buy Heating Oil #2(NYM)—Nov	7/28/93	10/16/93	86	12	2	14	2783	34.36	2.29
2	Buy Heating Oil #2(NYM)—Dec	8/29/93	9/24/93	86	12	2	14	1339	49.58	3.31
3	Buy Heating Oil #2(NYM)—Oct	9/09/93	9/24/93	85	11	2	13	1202	75.12	5.01
4	Buy Heating Oil #2(NYM)—Dec	9/09/93	9/24/93	86	12	2	14	1153	72.06	4.80
5	Buy Heating Oil #2(NYM)—Nov	9/09/93	9/27/93	86	12	2	14	1214	63.92	4.26
6	Buy Heating Oil #2(NYM)—Dec	9/10/93	9/24/93	93	13	1	14	1187	79.14	5.28
7	Buy Heating Oil #2(NYM)—Nov	9/10/93	9/27/93	93	13	1	14	1245	69.18	4.61
8	Buy Heating Oil #2(NYM)—Oct	9/10/93	9/27/93	92	12	1	13	1166	64.78	4.32
9	Buy Heating Oil #2(NYM)—Dec	9/10/93	9/28/93	93	13	1	14	1188	62.53	4.17
10	Buy Heating Oil #2(NYM)—Nov	9/10/93	10/09/93	86	12	2	14	1219	40.62	2.71
11	Buy Heating Oil #2(NYM)—Nov	9/11/93	9/24/93	93	13	1	14	1139	81.39	5.43
12	Buy Heating Oil #2(NYM)—Oct	9/11/93	9/24/93	92	12	1	13	1307	93.39	6.23
13	Buy Heating Oil #2(NYM)—Dec	9/13/93	9/27/93	86	12	2	14	1272	84.80	5.65
14	Buy Heating Oil #2(NYM)—Dec	9/13/93	10/09/93	86	12	2	14	1230	45.56	3.04
15	Buy Heating Oil #2(NYM)—Nov	9/13/93	10/15/93	86	12	2	14	1423	43.11	2.87
16	Buy Heating Oil #2(NYM)—Dec	9/13/93	10/17/93	86	12	2	14	1587	45.33	3.02
17	Buy Heating Oil #2(NYM)—Nov	9/17/93	9/24/93	93	13	1	14	1000	125.03	8.34
18	Buy Heating Oil #2(NYM)—Dec	9/17/93	9/24/93	93	13	1	14	1045	130.65	8.71
19	Sell Heating Oil #2(NYM)—Jan	11/14/93	12/11/93	86	12	2	14	1538	54.94	3.66
20	Sell Heating Oil #2(NYM)—Feb	11/14/93	12/11/93	86	12	2	14	1477	52.74	3.52
21	Sell Heating Oil #2(NYM)—Jan	11/14/93	12/17/93	86	12	2	14	1628	47.87	3.19
22	Sell Heating Oil #2(NYM)—Feb	11/14/93	12/17/93	86	12	2	14	1625	47.79	3.19
23	Sell Heating Oil #2(NYM)—Feb	1/12/94	1/24/94	86	12	2	14	1384	106.50	7.10
24	Sell Heating Oil #2(NYM)—Feb	1/16/94	1/24/94	86	12	2	14	1261	140.10	9.34

From this massive statistical analysis one may set even more restrictive parameters to finally select those which have most productively captured previous seasonal trends.

Moore Research Center, Inc.	*Heating Oil Trimmed Strategies*								
	Futures Trade	Entry Date	Exit Date	Win Pct	Win Yrs	Loss Yrs	Total Yrs	Average Profit	Ave Pft Per Day	Ave Pct Dly Mgn
1	Buy Heating Oil #2(NYM)—Nov	7/28/93	10/16/93	86	12	2	14	2783	34.36	2.29
2	Buy Heating Oil #2(NYM)—Dec	9/17/93	9/24/93	93	13	1	14	1045	130.65	8.71
3	Sell Heating Oil #2(NYM)—Jan	11/14/93	12/11/93	86	12	2	14	1538	54.94	3.66
4	Sell Heating Oil #2(NYM)—Feb	1/16/94	1/24/94	86	12	2	14	1261	140.10	9.34

Monthly Trade Sheet

From across the spectrum of established major futures markets, then, a compendium of similarly selected strategies may be compiled chronologically into a monthly trade sheet. Only summary information for each strategy need be listed in this format.

This trade sheet serves as a concise reference to established patterns of price movement during the month. Before current market conditions are considered, no one strategy constitutes more than quantified historical fact. However, the trade sheet does offer a balanced (between long and short), diversified (among various markets), and historically reliable (at least 80%) series of ***potential trading ideas*** and ***market perspectives***.

Moore Research Center, Inc.		September Trades								
	Futures Trade	Entry Date	Exit Date	Win Pct	Win Yrs	Loss Yrs	Total Yrs	Average Profit	Ave Pft Per Day	Ave Pct Dly Mgn
1	Buy Gold(CMX)—Dec	9/01/93	9/23/93	87	13	2	15	1363	59.28	4.46
2	Sell S&P 500(CME)—Dec	9/03/93	9/12/93	82	9	2	11	1966	196.59	1.64
3	Buy Sugar #11(CSCE)—Mar	9/04/93	11/02/93	87	13	2	15	1192	19.86	2.65
4	Buy Unleaded Reg.(NYM)—Dec	9/11/93	10/16/93	100	8	0	8	1797	49.92	3.33
5	Buy Japanese Yen(IMM)—Dec	9/11/93	10/11/93	87	13	2	15	1938	62.53	3.70
6	Sell Soybean Oil(CBT)—Jan	9/13/93	10/07/93	87	13	2	15	524	20.98	3.88
7	Sell Soybeans(CBT)—Jan	9/13/93	10/07/93	93	14	1	15	967	38.67	3.58
8	Buy Swiss Franc(IMM)—Dec	9/14/93	10/11/93	80	12	3	15	1245	44.46	2.20
9	Buy 10-Year T-Notes(CBT)—Dec	9/16/93	11/01/93	91	10	1	11	2267	48.24	3.57
10	Buy Heating Oil #2(NYM)—Dec	9/17/93	9/24/93	93	13	1	14	1045	130.65	8.71
11	Buy Crude Oil(NYM)—Jan	9/19/93	9/29/93	80	8	2	10	786	71.45	4.76
12	Sell Cocoa(CSCE)—Dec	9/22/93	10/15/93	93	14	1	15	1110	46.25	5.14
13	Buy Cotton(CTN)—Mar	9/26/93	11/02/93	80	12	3	15	821	21.61	2.16
14	Buy 3-Mth Eurodollars(IMM)—Dec	9/29/93	11/01/93	91	10	1	11	1423	41.84	6.20
15	Sell Feeder Cattle(CME)—Jan	9/29/93	11/01/93	93	14	1	15	772	22.70	3.24

MRC Strategy Sheet

Once presented with a trading strategy, one can proceed to further evaluate its history and the potential for it to set-up under current conditions. A supporting strategy sheet can be constructed for detailed reference.

For each year analyzed, that strategy's specific entry/exit dates, prices, profit/loss, peak equity, and worst drawdown (all MRC calculations are derived from settlement prices on dates indicated) can be tabulated to inspire closer inspection. Total results are then summarized.

By superimposing the current market's daily price action onto the historical price pattern, one may more easily compare the two and then visualize the strategy within the overall seasonal pattern. Plotting the most recent 5-year against the 15-year (when available) pattern helps one see whether it is dynamic (and evolving) or constant. A monthly (weekly) continuation chart that is contract-specific to the strategy offers a more accurate perspective of relative historical value while illustrating longer-term trends.

Moore Research Center, Inc.

Heating Oil #2(NYM)—January

Sell on approximately 11/14 - Exit on approximately 12/11

CONT YEAR	SELL DATE	SELL PRICE	EXIT DATE	EXIT PRICE	PROFIT	PROFIT AMOUNT	PEAK EQUITY DATE	PEAK EQUITY AMOUNT	WORST DRAWDN DATE	WORST DRAWDN AMOUNT
1993	11/16/92	59.99	12/11/92	54.72	5.27	2213.40	12/04/92	2423.40		
1992	11/14/91	66.32	12/11/91	55.78	10.54	4426.80	12/09/91	4989.60	11/15/91	-819.00
1991	11/14/90	86.28	12/11/90	77.68	8.60	3612.00	12/11/90	3612.00	11/29/90	-2578.80
1990	11/14/89	57.55	12/11/89	66.95	-9.40	-3948.00	11/15/89	159.60	12/11/89	-3948.00
1989	11/14/88	44.34	12/09/88	49.50	-5.16	-2167.20	11/18/88	970.20	12/09/88	-2167.20
1988	11/16/87	55.08	12/11/87	54.93	0.15	63.00	12/08/87	424.20	12/03/87	-667.80
1987	11/14/86	46.30	12/11/86	45.15	1.15	483.00	11/24/86	1457.40		
1986	11/14/85	88.13	12/11/85	78.70	9.43	3960.60	12/10/85	5468.40	11/22/85	-726.60
1985	11/14/84	79.78	12/11/84	76.41	3.37	1415.40	12/11/84	1415.40		
1984	11/14/83	81.53	12/09/83	78.65	2.88	1209.60	11/30/83	1717.80		
1983	11/15/82	94.30	12/10/82	88.23	6.07	2549.40	12/06/82	5014.80		
1982	11/16/81	102.16	12/11/81	98.33	3.83	1608.60	12/10/81	1705.20	11/20/81	-147.00
1981	11/14/80	94.00	12/11/80	89.95	4.05	1701.00	12/11/80	1701.00	11/18/80	-1789.20
1980	11/14/79	101.25	12/11/79	90.75	10.50	4410.00	12/11/79	4410.00		

Percentage Correct	86			Protective Stop	(2000)
Average Profit on Winning Trades	5.49	2304.40		Winners	12
Average Loss on Trades	-7.28	-3057.60		Losers	2
Average Net Profit Per Trade	3.66	1538.40		Total trades	14

MRC Seasonal Trade Review

The *Seasonal Trade Review* functions as a real-time daily trading status report, a reference to open and immediately upcoming seasonal strategies. Specific trade dates (adjusting for weekends), current prices, and relevant win/loss and average profit statistics are all available at a glance as are the entry price, the trade's open equity, and the peak equity attained and the worst drawdown suffered for open positions. Total open equity may be listed at the bottom.

	FUTURE	MTH	BUY/ SELL	ENTRY DATE	EXIT DATE	STATUS	ENTRY PRICE	CURRENT PRICE	TRADE EQUITY	PEAK EQUITY	LARGEST DRAWDOWN	WIN PCT	WIN	LOSE	TOT	AVE PROFIT
1	Lumber(CME)	Sep	Sell	06/14	08/13	Short	302.80	283.30	3120.00	8960.00	-352.00	80	12	3	15	1530.67
2	Sugar #11(CSCE)	Oct	Sell	06/28	08/20	Short	10.41	9.84	638.40	1433.60	-380.80	93	14	1	15	890.03
3	Feeder Cattle(CME)	Sep	Buy	06/30	08/13	Long	86.92	87.70	387.50	625.00	-1137.50	93	14	1	15	1460.33
4	Sugar #11(CSCE)	Oct	Sell	07/05	08/27	Short	10.75	9.84	1019.20	1814.40	0.00	86	13	2	15	786.99
5	3-Mth Eurodollars(IMM)	Sep	Buy	07/12	08/20	Long	96.63	96.67	100.00	125.00	-225.00	81	9	2	11	1377.27
6	Feeder Cattle(CME)	Aug	Buy	07/21	08/18	Long	85.85	89.15	1650.00	1750.00	0.00	93	14	1	15	1559.67
7	Cocoa(CSCE)	Sep	Sell	07/23	08/20	Short	961	905	560.00	570.00	-50.00	80	12	3	15	1022.67
8	Unleaded Reg.(NYM)	Oct	Buy	07/26	08/24	Long	51.52	51.84	134.40	432.60	-273.00	87	7	1	8	2854.95
9	Soybean Meal(CBT)	Oct	Buy	07/28	09/13	Long	221.70	212.70	-900.00	340.00	-990.00	80	12	3	15	846.67
10	Cotton(CTN)	Oct	Sell	07/30	08/20	Short	59.62	56.63	1495.00	1835.00	0.00	80	12	3	15	799.00
11	Feeder Cattle(CME)	Aug	Buy	08/02	08/17	Long	87.62	89.15	762.50	862.50	-100.00	93	14	1	15	1161.00
12	Sugar #11(CSCE)	Oct	Sell	08/05	08/24	Short	10.01	9.84	190.40	425.60	-33.60	86	13	2	15	701.12
13	British Pound(IMM)	Sep	Buy	08/09	08/27	Long	148.74	146.10	-1650.00	0.00	-1650.00	80	12	3	15	1835.83
14	Soybeans(CBT)	Mar	Buy	08/09	09/03	Long	677.75	680.50	137.50	137.50	0.00	86	13	2	15	966.67
15	Heating Oil #2(NYM)	Jan	Buy	08/09	08/23	Long	54.74	54.49	-105.00	0.00	-105.00	92	13	1	14	1141.80
16	Coffee(CSCE)	Dec	Buy	08/12	08/27			77.80				86	13	2	15	2389.00
17	US Dollar Idx(FINEX)	Sep	Sell	08/17	08/27			95.86				100	7	0	7	1824.29
18	Cocoa(CSCE)	Dec	Buy	08/19	09/21			951				80	12	3	15	1057.33
19	Soybean Meal(CBT)	Jan	Buy	08/20	09/10			211.50				80	12	3	15	624.00
20	Live Cattle(CME)	Dec	Buy	08/20	10/08			75.47				93	14	1	15	785.07
21	Value-Line(KCBT)	Sep	Buy	08/23	08/31			425.60				90	10	1	11	1309.09
22	Pork Bellies(CME)	Mar	Buy	08/23	09/20			46.52				80	12	3	15	1079.47
23	3-Mth Eurodollars(IMM)	Dec	Buy	08/25	11/01			96.28				100	11	0	11	2006.82
24	Unleaded Reg.(NYM)	Dec	Buy	08/30	10/20			50.54				100	8	0	8	1881.60
25	Cotton(CTN)	Dec	Sell	08/30	09/28			57.60				86	13	2	15	1102.67
26	Gold(CMX)	Dec	Buy	09/01	09/23			384.40				86	13	2	15	1363.33
27	S&P 500(CME)	Dec	Sell	09/03	09/10			451.60				81	9	2	11	1965.91
28	Sugar #11(CSCE)	Mar	Buy	09/06	11/02			9.96				86	13	2	15	1191.68
29	Unleaded Reg.(NYM)	Dec	Buy	09/13	10/15			50.54				100	8	0	8	1797.07
30	Japanese Yen(IMM)	Dec	Buy	09/13	10/11			95.52				86	13	2	15	1938.33
31	Soybean Oil(CBT)	Jan	Sell	09/13	10/07			24.15				86	13	2	15	524.40
	OPEN EQUITY								7539.90							

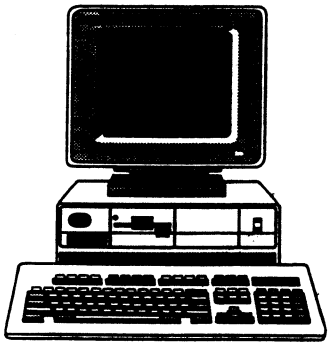
Note: These trade strategies have worked with historical consistency. No representation is being made that they will work this year or in the future. Please check current market fundamentals and technical conditions before considering these trades. This information is not a recommendation to buy or sell at this time, but merely a historical presentation of trade strategies. Past results are not necessarily indicative of future results. No representation is being made that an account will or is likely to achieve profits or incur losses similar to those shown.

Mechanical vs. Filtered Trading

The ideas and strategies contained in a monthly trade sheet lend themselves to a variety of applications, both informative and tradable. Seasonal concepts and historical price patterns can be integrated with almost any other trading system, style, or perspective to confirm, support, or contradict technical or fundamental assumptions. Two basic approaches tend to surface—one systematic, the other interpretive.

A systematic, methodical treatment of the series of strategies requires little time, study, expertise, or experience—just simple execution. Each trade may be entered at the close of the indicated date of entry, protected with a stop, and exited on the appropriate close.

Although the seasonal approach is more properly termed a research methodology than a trading technique, the concept of mechanically trading seasonal strategies presupposes unbiased findings. Thus, one may expect that the portfolio's balance, diversity, and historical reliability offer consistent benefits in reducing net risk exposure and permitting participation in a broad range of market trends.

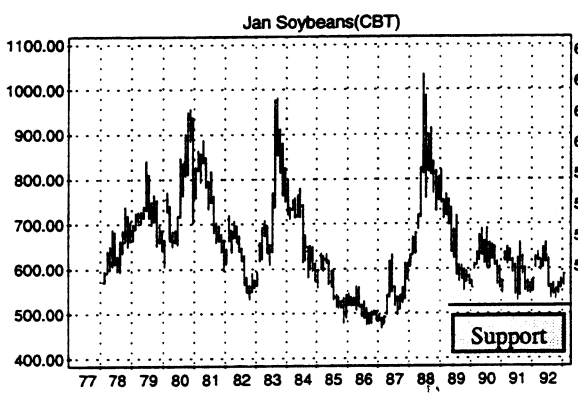


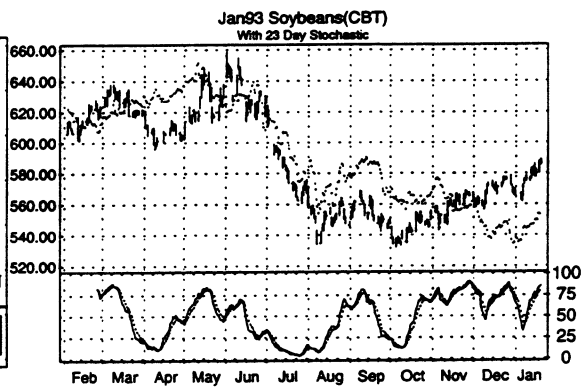
versus

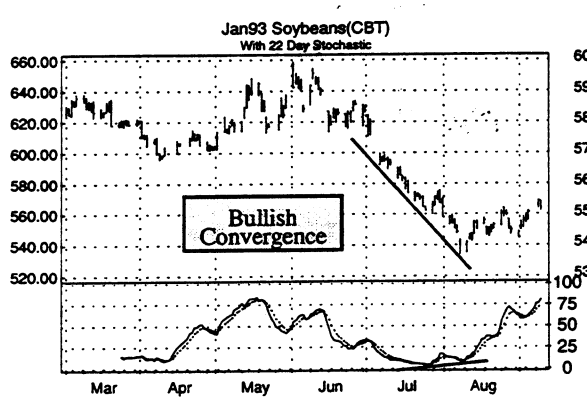
An interpretive approach tends to attract those with greater experience, time, and expertise. It affords much more flexibility to accommodate for variations in entry/exit timing, the existence of unusual macroeconomic forces, and the ebb and flow in influence of the underlying fundamentals.

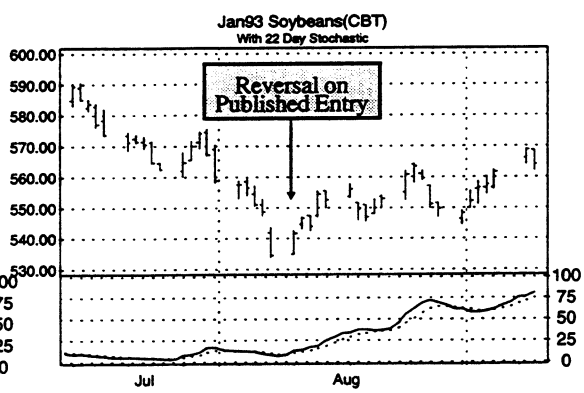
Interpretive techniques can compensate for these inherent limitations to seasonal trading, refining and often enhancing trading performance. Common sense can often help select those strategies with potential greater than that for others. Attention paid to overall fundamental conditions, and even details such as report dates and first deliveries, can provide perspective on trends and/or potential changes in trend. Technical indicators can signal precise entry/exit timing and confirm/deny a trend or trend change. Trailing stops can lock in profits. Complementing seasonal analysis with a fundamental and/or technical perspective—***or vice-versa***—can produce a formidable trading program.

Charts below suggest how, in spite of a huge crop, a trader might 1) analyze the monthly chart for historical value, 2) note how well the market followed its seasonal pattern, 3) and find stochastic bullish convergence to 4) more confidently step forward and buy the inside-day reversal on the published historical strategy's entry date.







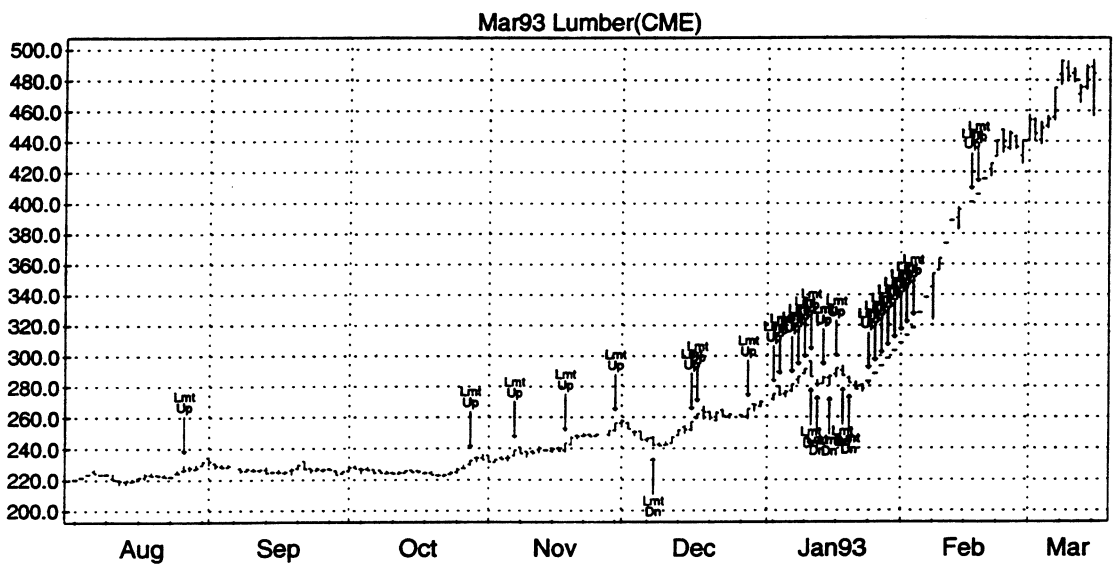


Howe's Limit Rule

Price advances or declines do not usually end with limit moves.

Robert Howe, market technician and analyst, offered this observation in 1977. In-depth research has convinced **MRC** of this phenomenon's validity and of its value as an ancillary trading tool in futures with limits on permissible daily price ranges. Especially in dynamic markets wherein so much emotion and opportunity lie, understanding and applying its principles can profitably supplement any trading technique.

Howe's Limit Rule simply suggests that ***a price at the limit of a tradable daily range, once reached, becomes an objective which the market will again test and ultimately exceed***, at least briefly and usually sooner rather than later.



Why? A primary function of any market is to explore and find true value. A market artificially halted in its search for that value is unsatisfied, leaving critical questions (such as how far and how urgently would the market continue) unanswered prior to subsequent trading activity.

In a majority of markets, a traded limit was exceeded the next day 50-70% of the time. For almost all markets, **MRC** studies suggest the historical probability of exceeding a limit price within 3 calendar days to be greater than 80% and within 7 greater than 90%. These historical odds offer obvious day-trade and short-term opportunities. However, it can also imply a trend: 1) An unexpected limit move during a quiet market suggests changing dynamics; 2) positions taken opposite the direction of a limit move can be disastrous; 3) market failure subsequent to exceeding a limit portends a change in trend; 4) an untested limit price can prove to be a beacon during stormy corrections.

Last 200 Days Limit Statistics
Soybeans(CBT)(59-93)

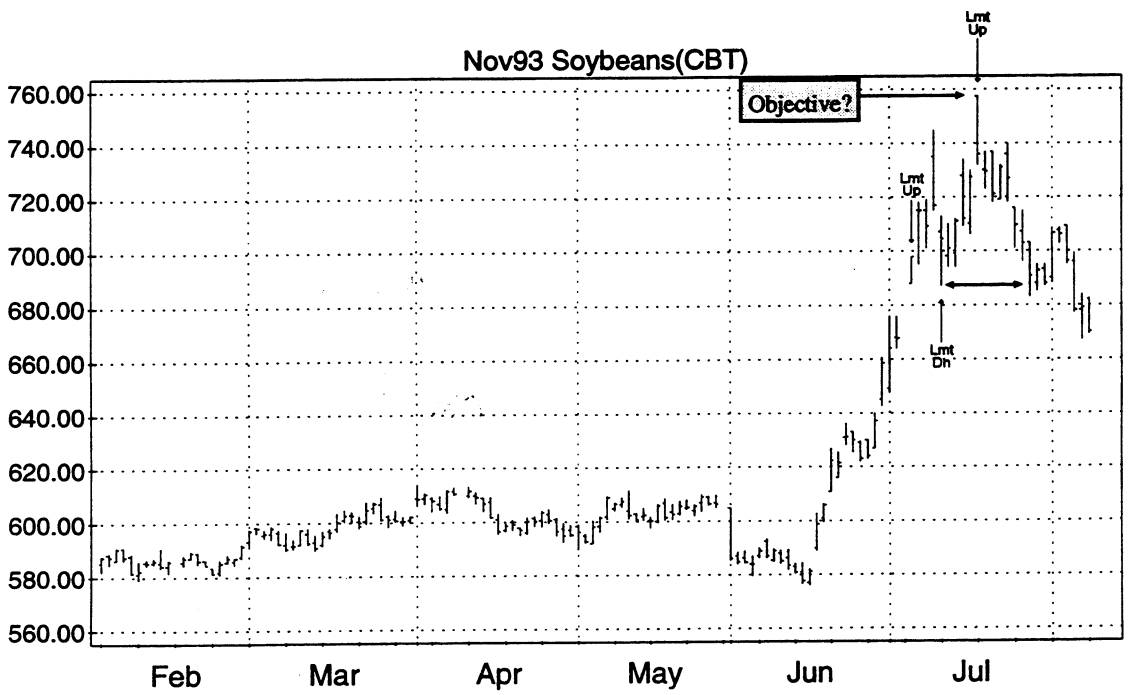
	Limit Up	Tot Pct Exceeded	Limit Dn	Tot Pct Exceeded
Total Limits	343		368	
Exceeded Day 1	209(60.9%)	60.9%	259(70.4%)	70.4%
Exceeded Day 2	15(4.4%)	65.3%	10(2.7%)	73.1%
Exceeded Day 3	41(12.0%)	77.3%	21(5.7%)	78.8%
Exceeded Days 4-7	19(5.5%)	82.8%	32(8.7%)	87.5%
Exceeded Days 8-20	16(4.7%)	87.5%	19(5.2%)	92.7%
Exceeded Days 21-50	7(2.0%)	89.5%	19(5.2%)	97.8%
Exceeded Days 51-100	4(1.2%)	90.7%	1(0.3%)	98.1%
Exceeded > Day 100	27(7.9%)	98.5%	6(1.6%)	99.7%
Exceeded by Later Contracts	40(11.8%)		14(3.8%)	

Limits Not Exceeded

Date	Up	Down
Jul 88—06/23/88	1099.50	
Jul 88—06/27/88	1059.50	
Aug 93—07/19/93	754.50	
Sep 93—07/19/93	756.50	
Nov 93—07/19/93	757.50	

Limits by Month

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
27	11	21	69	56	105	184	111	44	37	21	25



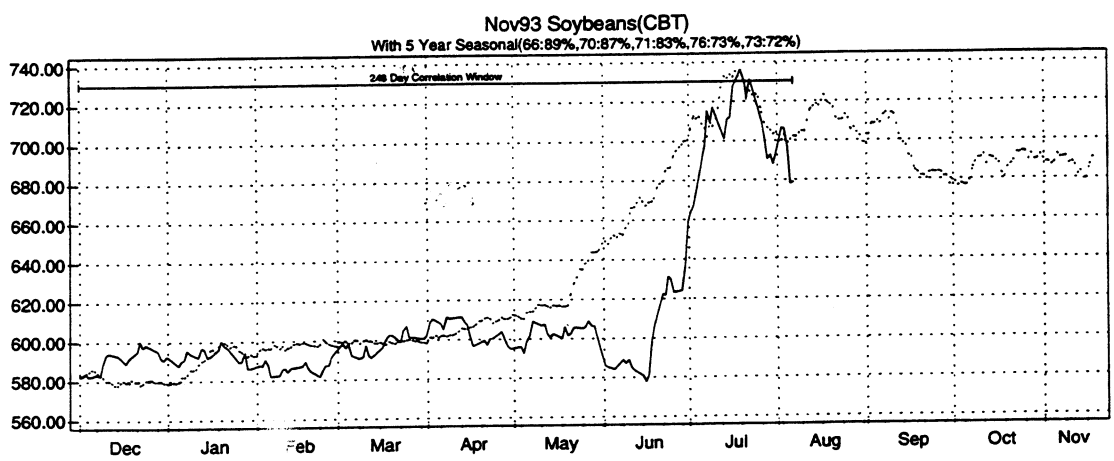
Historical Correlation Studies

When a market's price activity follows its typical seasonal path, it is said to conform closely to, or ***correlate*** well with, its seasonal price pattern. Major tops, bottoms, and trends resemble those depicted in the historical composite and occur relatively on "schedule", with minor peaks and valleys in between both timely and proportional.

The logical assumption to be made in this case is that normal fundamental conditions are again in place, thereby causing the market to react similarly to typical patterns of supply and demand. Ideally, a trader can simply overlay a chart of the current market onto that of the seasonal pattern, adjust for magnitude, and plot trading strategy according to a straightforward visual perspective.

Few markets follow a 15-year composite that closely. However, regression analyses can determine in which past years the price activity most closely resembled that of the current market—and how closely. Thus, ***pattern correlation***, a process of comparing price patterns in specific past contracts to the current, is a refinement to seasonal analysis. Presumably, the closer the correlation—the better the predictive quality.

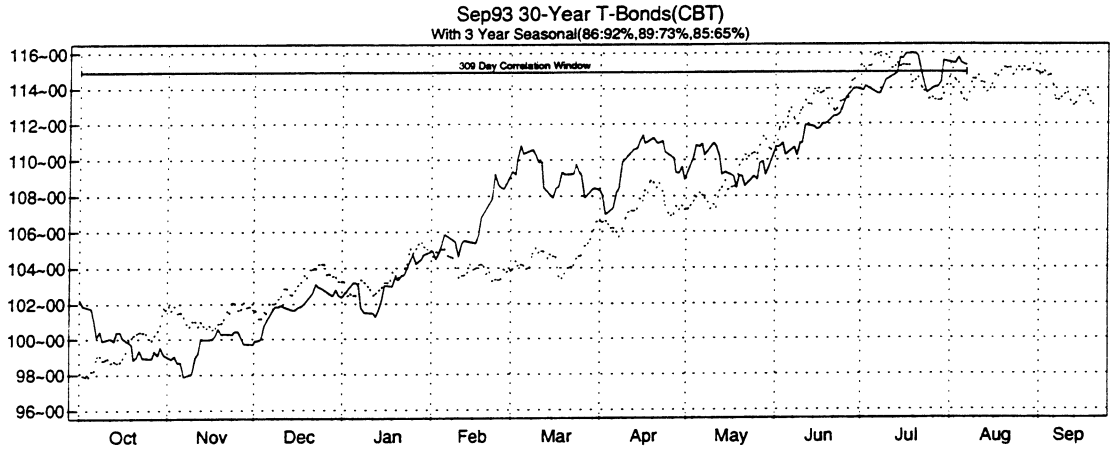
The following table specifies which past years correlate how well with the current market. Highly seasonal markets will tend to correlate very closely to several years. Further, a composite ***high correlation pattern*** may be constructed from those years. In the following charts, past contracts with at least a 60% correlation are listed in the title with their respective rates. The graphs themselves consist of the current market (solid-line plot) overlaid onto the composite (dotted-line pattern) of those past years. The ***x***-day correlation window identifies the time segment compared.



Moore Research Center, Inc.

Historical Correlations–August 7, 1993

Future	Period			Best Correlations Greater Than 60%				
	Mth	Days	Years	1	2	3	4	5
30-Year T-Bonds(CBT)	Sep93	310	78-92	'86 92%	'89 73%	'85 65%		
	Dec93	218	78-92	'86 79%	'89 71%			
3-Mth Eurodollars(IMM)	Dec93	214	82-92	'86 86%				
Live Cattle(CME)	Aug93	326	65-92	'73 90%	'72 89%	'69 88%	'78 88%	'87 86%
	Oct93	270	65-92	'90 90%	'87 87%	'78 84%	'72 84%	'69 84%
	Dec93	215	65-92	'87 87%	'72 83%	'90 82%	'88 79%	'78 73%
Feeder Cattle(CME)	Aug93	306	74-92	'78 91%	'87 90%	'91 89%	'90 87%	'75 81%
	Sep93	270	74-92	'78 89%	'87 89%	'90 88%	'91 85%	'75 79%
Live Hogs(CME)	Aug93	335	70-92	'78 89%	'91 81%	'90 79%	'72 77%	'77 72%
	Oct93	273	69-92	'78 66%	'82 61%			
Pork Bellies(CME)	Feb94	151	66-93	'75 80%	'81 75%	'67 67%		
Soybeans(CBT)	Sep93	309	63-92	'70 88%	'71 87%	'66 86%	'76 69%	'73 68%
	Nov93	249	63-92	'66 89%	'70 87%	'71 83%	'76 73%	'73 72%
	Jan94	187	64-93	'67 91%	'71 88%	'72 81%	'74 70%	'77 70%
Soybean Meal(CBT)	Oct93	268	63-92	'70 84%	'66 82%	'71 76%	'68 75%	'63 74%
	Dec93	216	63-92	'70 86%	'66 85%	'71 77%	'63 70%	'73 68%
Soybean Oil(CBT)	Oct93	273	63-92	'71 82%	'74 81%	'66 80%	'88 78%	'73 74%
	Dec93	215	63-92	'66 87%	'71 85%	'76 84%	'74 78%	'73 75%
Wheat(CBT)	Sep93	307	63-92	'64 78%	'81 77%	'65 74%	'80 73%	'75 71%
	Dec93	218	63-92	'75 82%	'81 80%	'64 77%	'82 74%	'65 74%
Wheat(KCBT)	Sep93	287	76-92	'82 75%	'81 75%	'80 73%	'86 70%	'77 69%
	Dec93	206	76-92	'82 72%	'80 70%	'77 69%	'81 65%	
Lumber(CME)	Sep93	299	73-92	'73 79%	'74 79%	'92 70%	'75 60%	
	Nov93	237	73-92	'73 77%	'74 68%			
Deutsche Mark(IMM)	Sep93	283	75-92	'82 67%				
Japanese Yen(IMM)	Sep93	243	77-92	'86 94%	'78 81%	'77 75%	'87 70%	
Sugar #11(CSCE)	Oct93	310	64-92	'69 79%	'67 78%	'86 77%	'70 66%	'80 65%
	Mar94	159	64-93	'68 69%	'64 64%			
Cocoa(CSCE)	Sep93	310	63-92	'70 90%	'71 87%	'92 84%	'64 84%	'88 83%
	Dec93	218	63-92	'68 79%	'92 76%	'70 72%	'86 71%	'88 68%
Orange Juice(CTN)	Nov93	238	67-92	'71 77%	'67 71%	'75 67%	'77 66%	
	Jan94	185	68-93	'87 93%	'78 89%	'72 85%	'76 84%	'68 77%
Gold(CMX)	Dec93	218	75-92	'79 89%	'87 76%			
Silver(CMX)	Sep93	310	64-92	'67 85%	'87 78%	'79 78%	'73 76%	'72 72%
Platinum(NYM)	Oct93	274	68-92	'72 80%	'76 74%	'68 69%	'86 62%	'87 61%
S&P 500(CME)	Sep93	286	82-92	'86 87%	'91 83%	'87 80%	'83 73%	'85 67%
Heating Oil #2(NYM)	Oct93	254	80-92	'84 66%				
	Nov93	224	79-92	'80 87%				
Crude Oil(NYM)	Jan94	195	84-93	'86 61%				
Unleaded Reg.(NYM)	Oct93	214	85-92	'86 70%				
	Nov93	192	85-92	'86 69%				


Sep93 30-Year T-Bonds(CBT)
With 3 Year Seasonal(86:92%,89:73%,85:65%)
309 Day Correlation Window
116-00
114-00
112-00
110-00
108-00
106-00
104-00
102-00
100-00
98-00
96-00
Oct
Nov
Dec
Jan
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Mar
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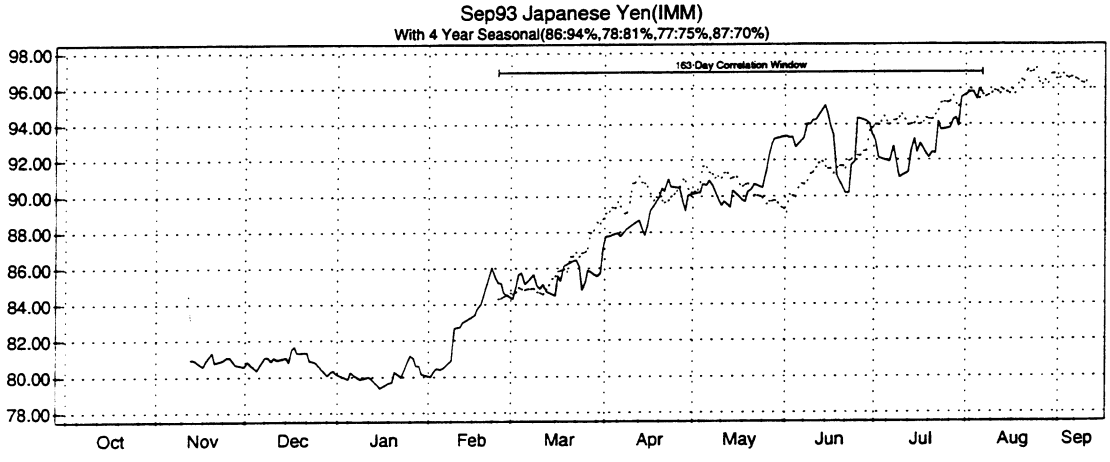
May
Jun
Jul
Aug
Sep


Sep93 Japanese Yen(IMM)
With 4 Year Seasonal(86:94%,78:81%,77:75%,87:70%)
163 Day Correlation Window
98.00
96.00
94.00
92.00
90.00
88.00
86.00
84.00
82.00
80.00
78.00
Oct
Nov
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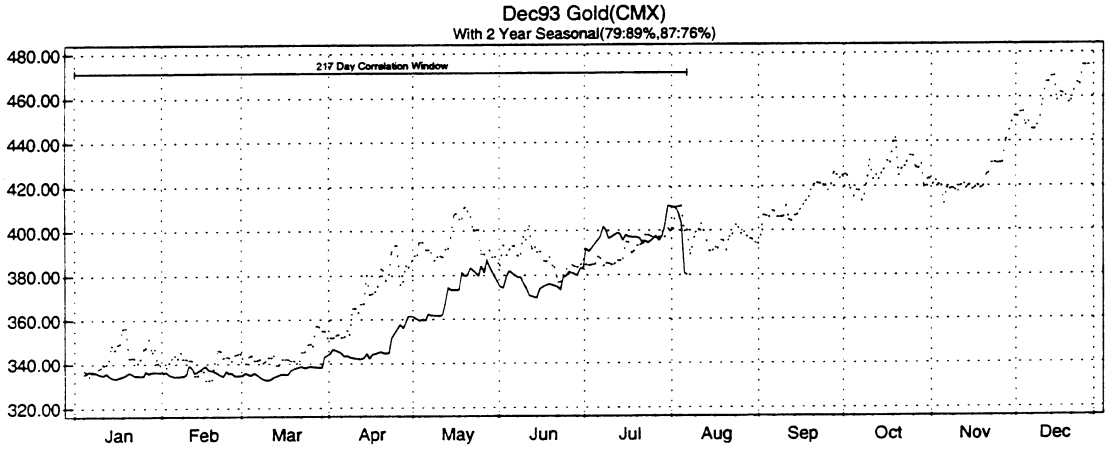
Sep


Dec93 Gold(CMX)
With 2 Year Seasonal(79:89%,87:76%)
217 Day Correlation Window
480.00
460.00
440.00
420.00
400.00
380.00
360.00
340.00
320.00
Jan
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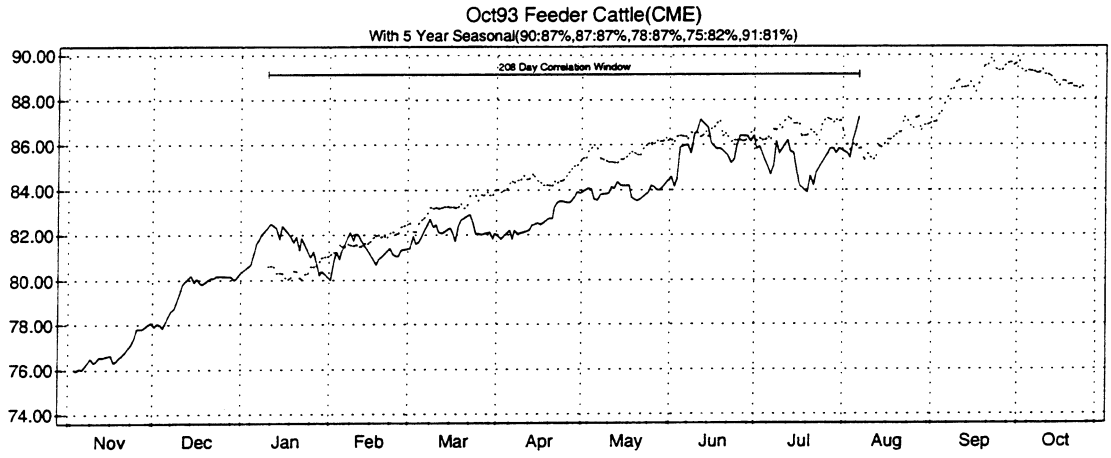
Nov
Dec


Oct93 Feeder Cattle(CME)
With 5 Year Seasonal(90:87%,87:87%,78:87%,75:82%,91:81%)
208 Day Correlation Window
90.00
88.00
86.00
84.00
82.00
80.00
78.00
76.00
74.00
Nov
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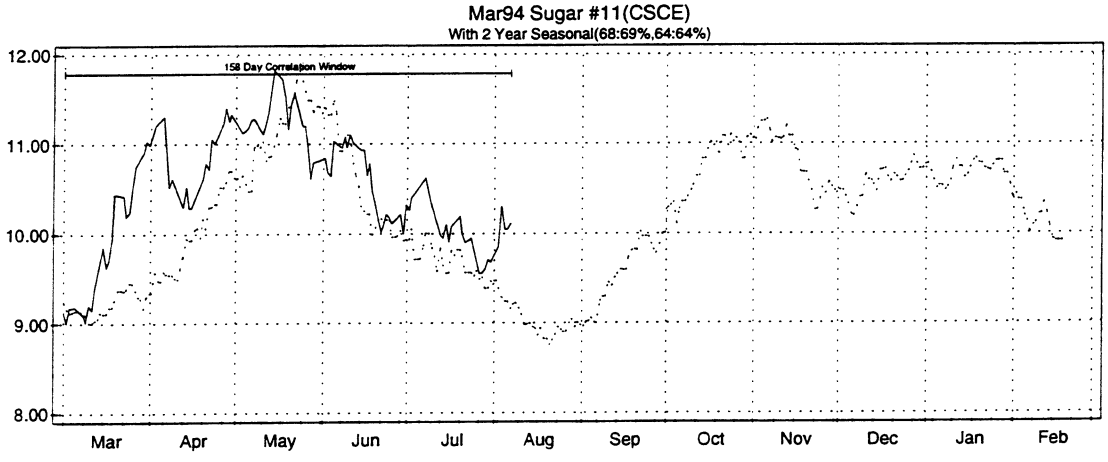
Sep
Oct


Mar94 Sugar #11(CSCE)
With 2 Year Seasonal(68:69%,64:64%)
158 Day Correlation Window
12.00
11.00
10.00
9.00
8.00
Mar
Apr
May
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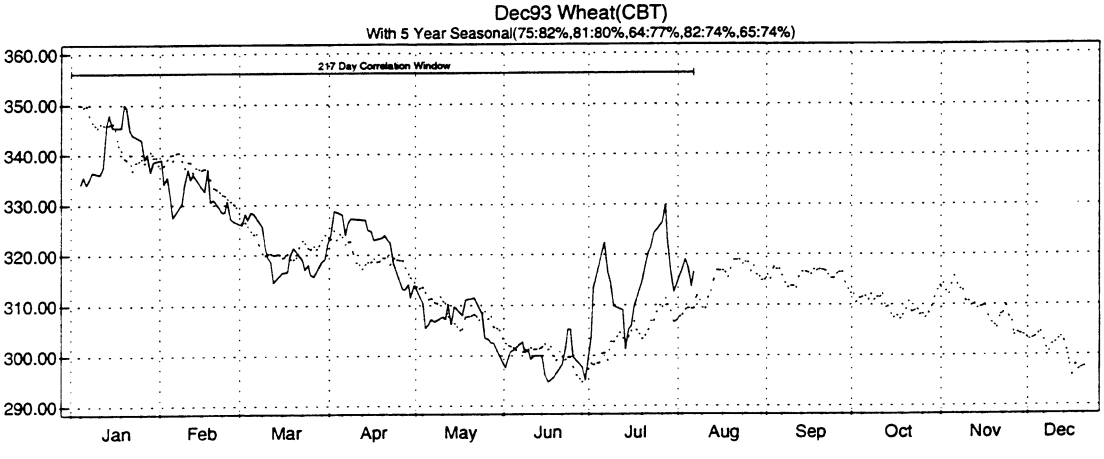
Feb


Dec93 Wheat(CBT)
With 5 Year Seasonal(75:82%,81:80%,64:77%,82:74%,65:74%)
217 Day Correlation Window
360.00
350.00
340.00
330.00
320.00
310.00
300.00
290.00
Jan
Feb
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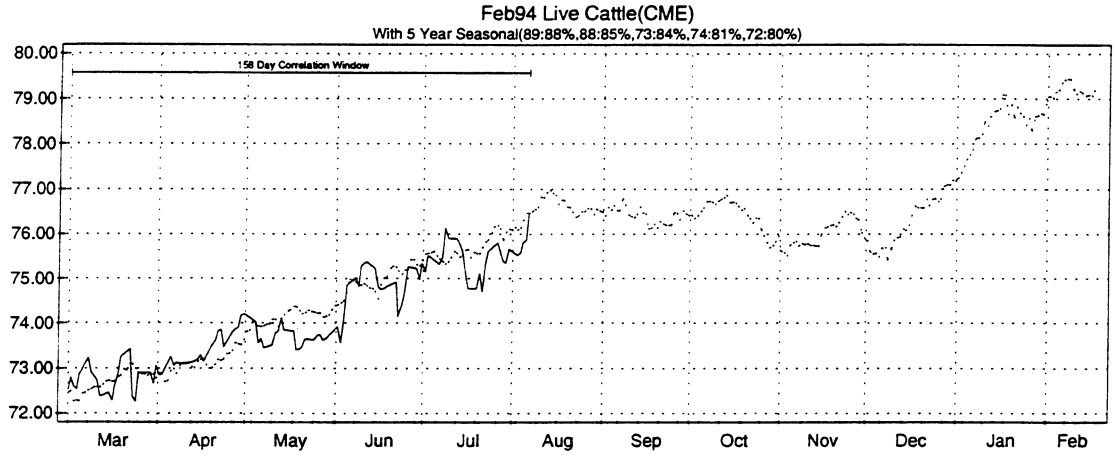
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec


Feb94 Live Cattle(CME)
With 5 Year Seasonal(89:88%,88:85%,73:84%,74:81%,72:80%)
158 Day Correlation Window
80.00
79.00
78.00
77.00
76.00
75.00
74.00
73.00
72.00
Mar
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May
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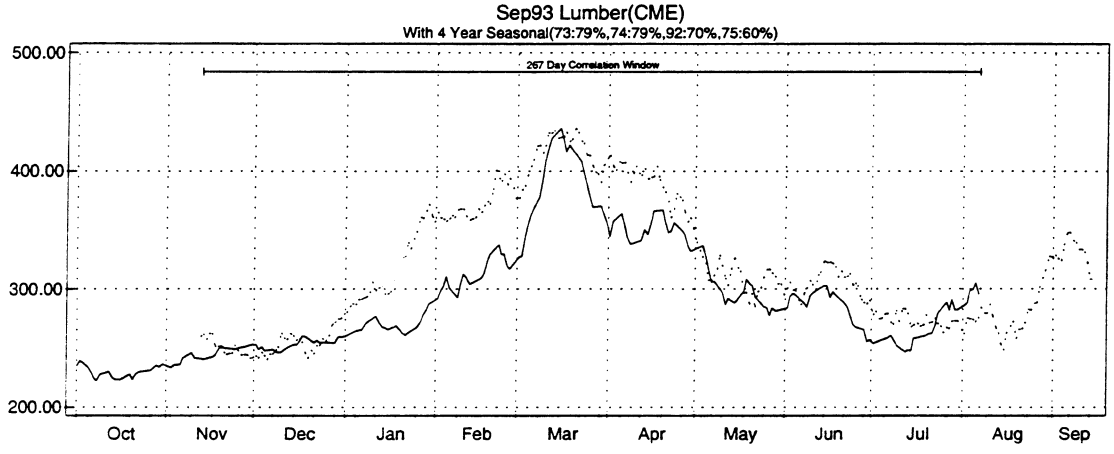
Sep93 Lumber(CME)
With 4 Year Seasonal(73:79%,74:79%,92:70%,75:60%)
267 Day Correlation Window
500.00
400.00
300.00
200.00
Oct
Nov
Dec
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Apr
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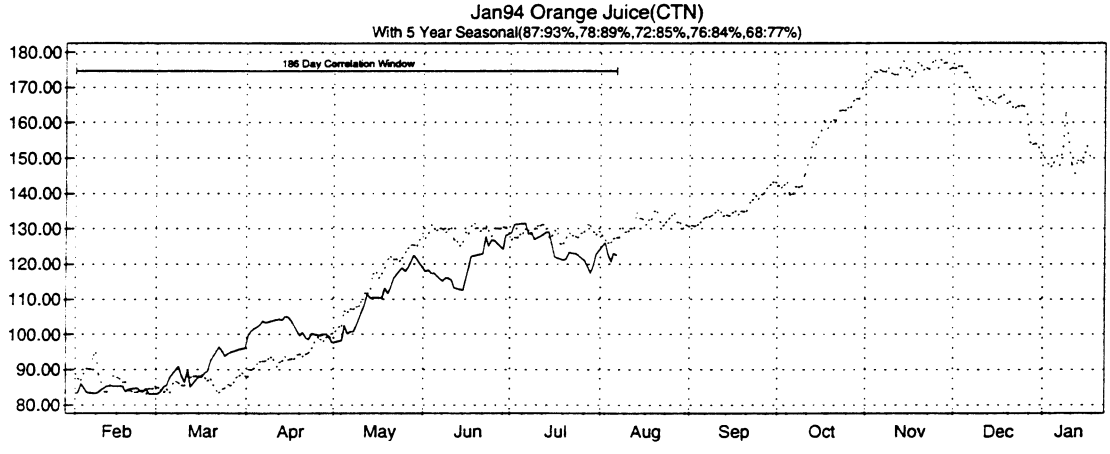
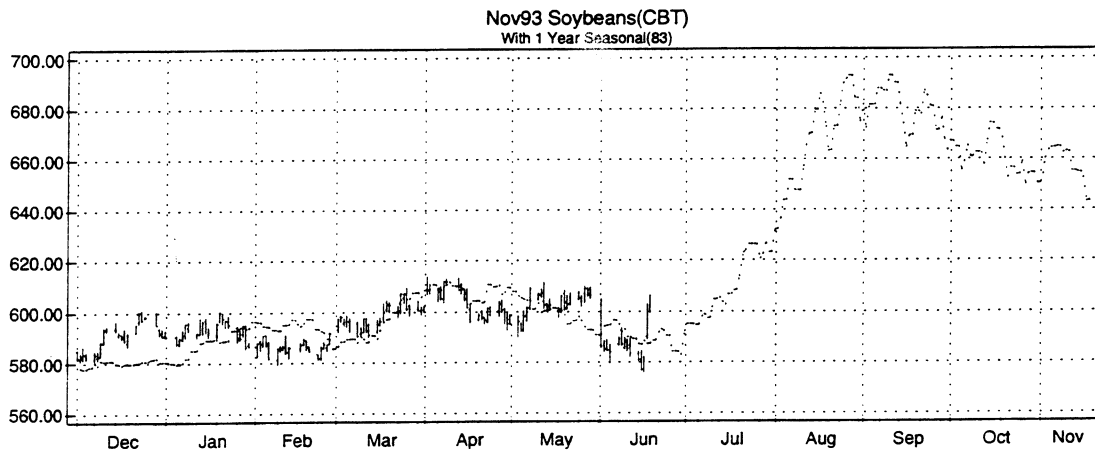
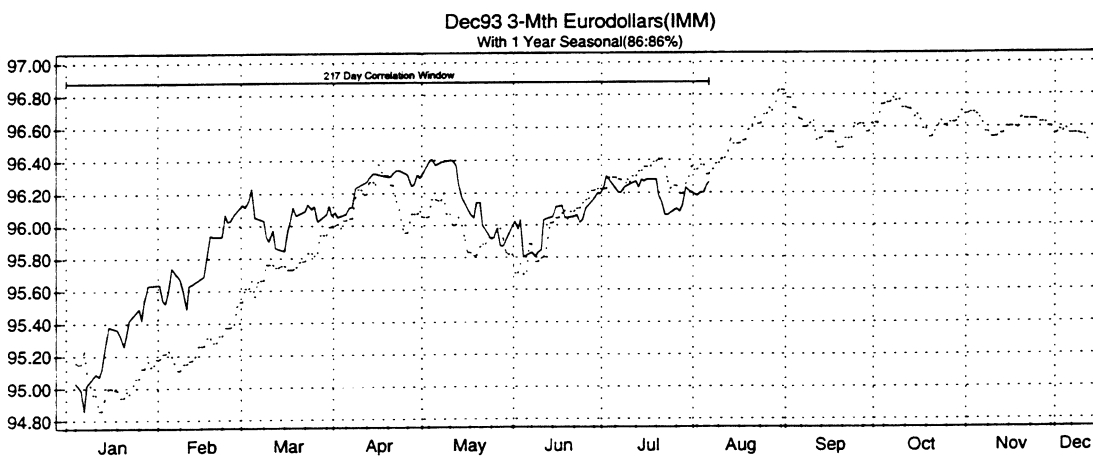
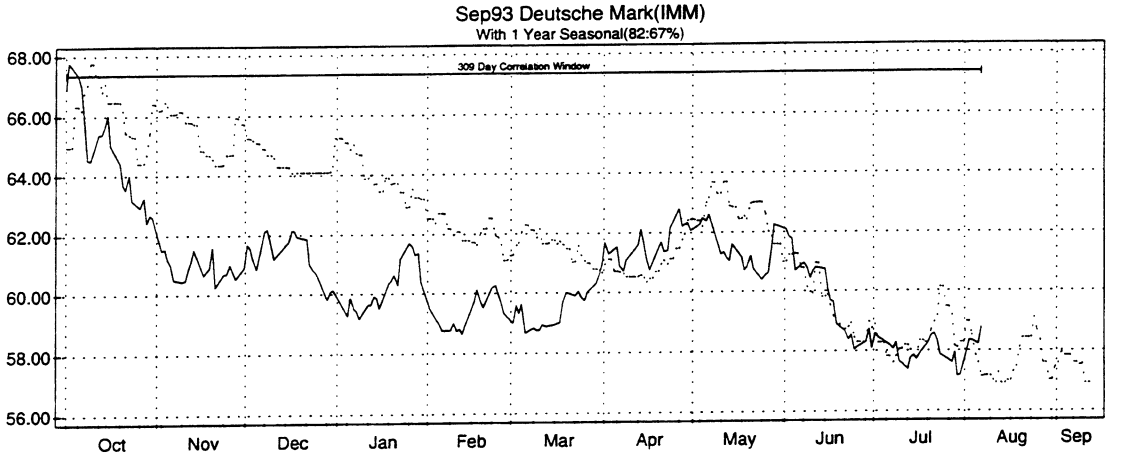
Jun
Jul
Aug
Sep

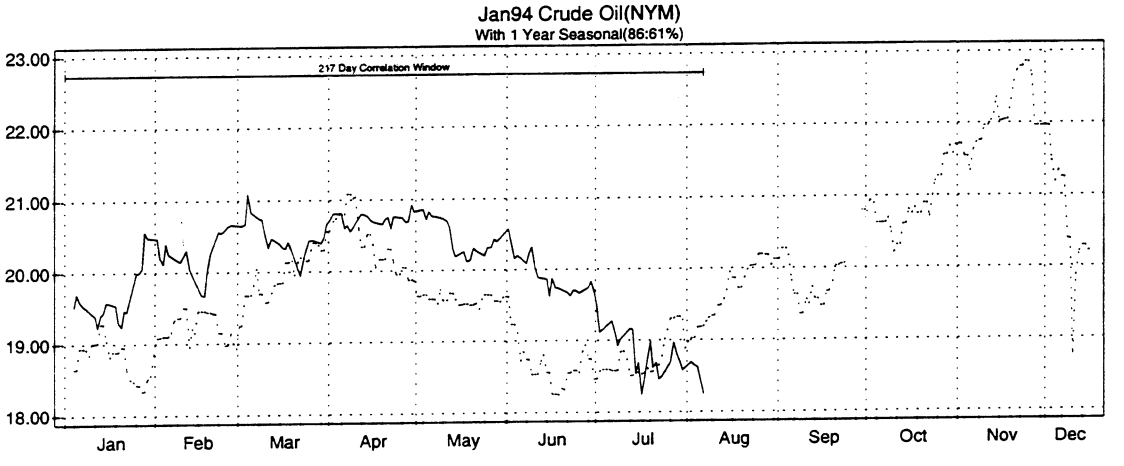

Jan94 Orange Juice(CTN)
With 5 Year Seasonal(87:93%,78:89%,72:85%,76:84%,68:77%)
186 Day Correlation Window
180.00
170.00
160.00
150.00
140.00
130.00
120.00
110.00
100.00
90.00
80.00
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan

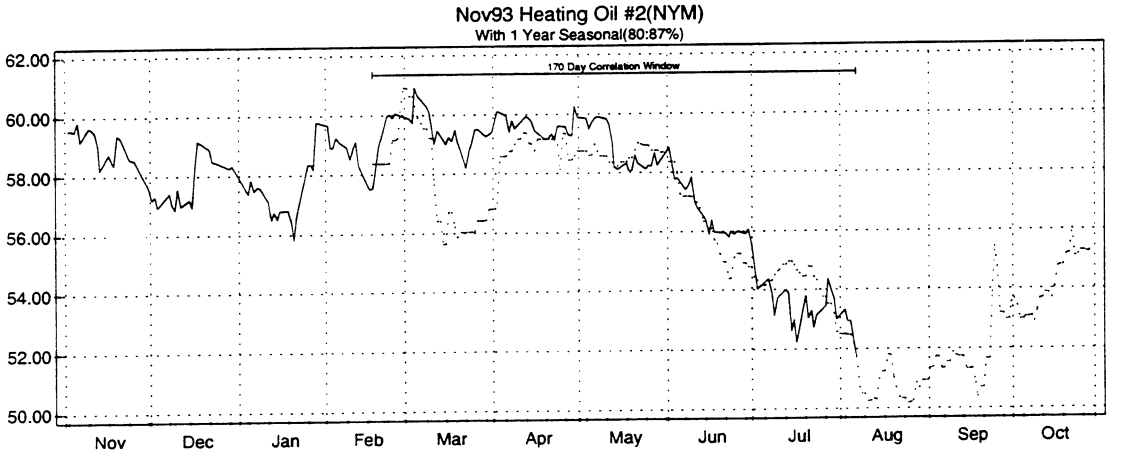
Some markets, of course, follow their seasonal pattern very poorly—even contrarily—indicating that fundamental conditions are very unusual. Correlation studies can detect potentially dynamic movement by looking for one or two similar years—often ***counterseasonals***. Notice how Bill Gary, in his ***Price Perceptions*** newsletter of June 18, detected the explosive nature of prices for November 1993 Soybeans—the correlation with the 1983 contract!



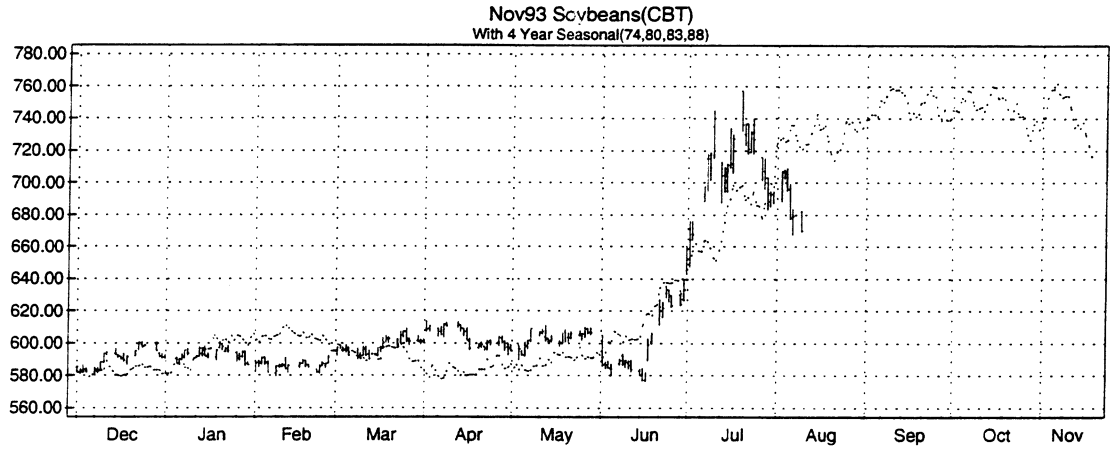


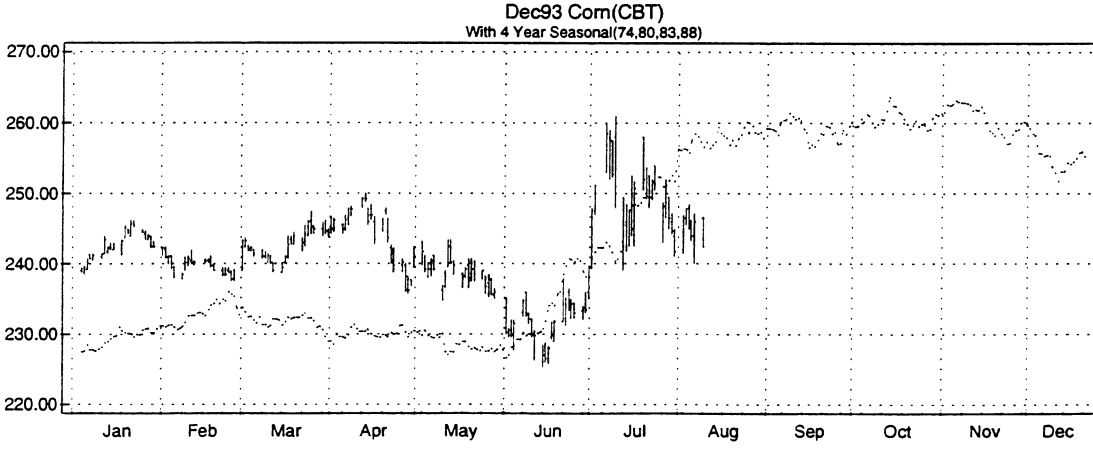

Sep93 Deutsche Mark(IMM)
With 1 Year Seasonal(82:67%)
309 Day Correlation Window
68.00
66.00
64.00
62.00
60.00
58.00
56.00
Oct
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep


Jan94 Crude Oil(NYM)
With 1 Year Seasonal(86:61%)
217 Day Correlation Window
23.00
22.00
21.00
20.00
19.00
18.00
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec


Nov93 Heating Oil #2(NYM)
With 1 Year Seasonal(80:87%)
170 Day Correlation Window
62.00
60.00
58.00
56.00
54.00
52.00
50.00
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct

In addition, certain situations that may correlate can be compared by first choosing years with similar fundamental conditions, like presidential elections or extraordinary basis levels. For instance, what does a composite of "crop-damage" years look like?

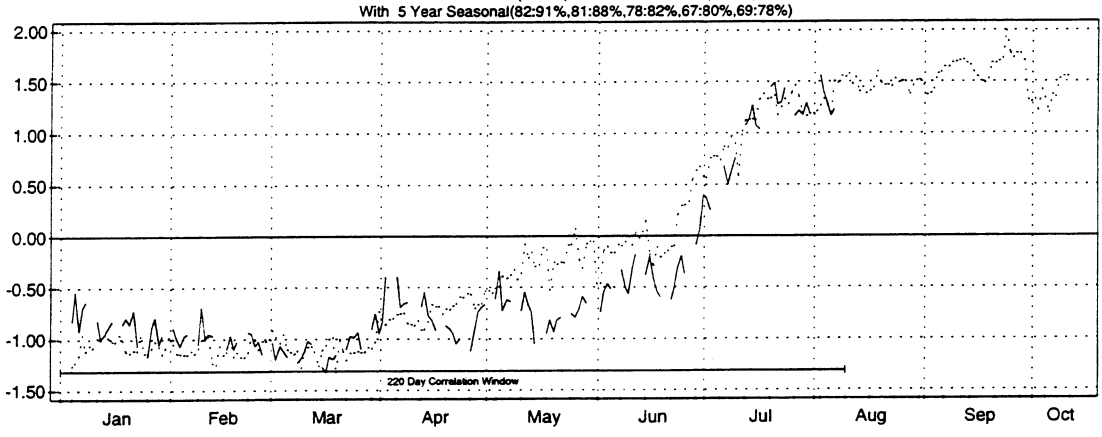




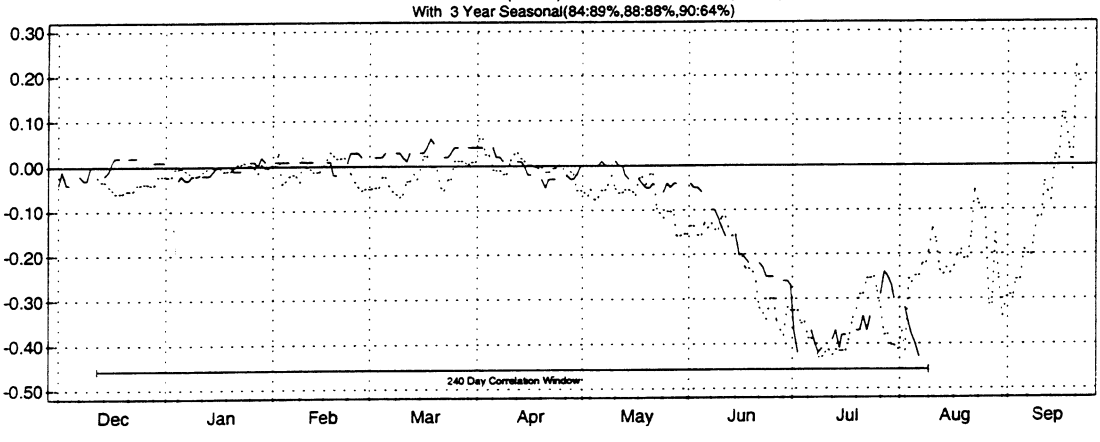
The concept is similar for spreads:

Moore Research Center, Inc.	Historical Spread Correlations–August 9, 1993											
	Period		Best Correlations Greater Than 60%									
Spread	Days	Years	1		2		3		4		5	
FCQ^3-LCZ^3	251	74-92	78	86%	91	83%	87	78%	90	73%	77	69%
FCQ^3-LCQ^3	263	74-92	91	87%	87	85%	90	85%	78	85%	89	74%
CTZ^3-CTV^3	218	63-92	82	90%	81	87%	78	82%	67	78%	69	77%
CLX^3-CLH^4	177	83-92	88	90%								
SUH^4-SUV^3	248	64-92	86	86%	77	65%	76	65%	87	63%		
JYU^3-BPU^3	227	77-92	81	92%	86	84%	91	77%	78	75%		
FCU^3-LCZ^3	231	74-92	78	81%	90	74%	87	73%	77	72%	92	67%
CTH^4-CTV^3	215	63-92	81	91%	78	89%	82	87%	69	82%	67	79%
URV^3-CLV^3	212	85-92	87	67%								
SUH^4-SUV^3	248	64-92	86	86%	77	65%	76	65%	87	63%		
CLX^3-CLG^4	189	83-92	88	89%	90	63%						
WZ^3-CZ^3	159	63-92	70	79%	69	78%	81	74%	90	64%	68	63%
WU^3-CU^3	248	63-92	69	89%	64	88%	81	87%	90	84%	82	81%
WZ^3-CZ^3	159	63-92	70	79%	69	78%	81	74%	90	64%	68	63%
SU^3-CU^3	249	63-92	71	94%	70	90%	66	86%	76	82%	73	66%
SU^3-10CU^3	249	63-92	71	91%	76	88%	68	87%	86	86%	66	79%
SX^3-CZ^3	187	63-92	70	94%	71	94%	66	90%	76	78%	63	76%
SX^3-10CZ^3	187	63-92	71	92%	86	89%	70	88%	68	88%	76	85%
CU^3-CZ^3	240	63-92	63	69%								
CU^3-CH^4	213	63-92	64	68%	69	65%	66	61%				
SX^3-SH^4	164	63-92	88	77%	80	76%	71	66%	91	66%		
SX^3-SK^4	118	63-92	80	78%	76	66%	88	64%	63	62%		
SX^3-SN^4	119	63-92	85	81%	80	67%						
BOV^3-SMV^3	217	63-92	68	84%	72	73%	63	72%	67	66%		
BOZ^3-SMZ^3	159	63-92	68	75%	67	69%	63	67%	72	63%		
LCV^3-LCZ^3	215	65-92	85	72%								
LCV^3-LCG^4	184	65-92	85	78%	78	74%	87	65%	76	63%	88	63%
LCV^3-LCJ^4	139	67-92	85	76%	78	74%	79	71%	83	66%		
LCZ^3-LCG^4	154	65-92	83	89%	78	74%	79	74%	72	73%	85	73%
LCZ^3-LCJ^4	136	67-92	83	85%	79	78%	80	77%	78	72%	75	62%
LHQ^3-LHV^3	273	70-92	78	76%								
PBQ^3-PBG^4	153	65-92	79	94%	68	91%	78	77%	69	73%	76	68%
PBQ^3-PBH^4	148	64-92	79	94%	68	91%	78	79%	76	76%	69	71%
PBG^4-PBH^4	97	66-93	80	63%								
LHV^3-PBG^4	159	69-92	86	67%	74	66%						
LHZ^3-PBG^4	155	69-92	86	61%	74	61%						
LHG^4-PBG^4	97	70-93	87	88%	76	85%	74	82%	75	78%	81	78%
LCG^4-LHG^4	97	70-93	84	61%								
LCV^3-FCU^3	236	74-92	87	87%	78	85%	91	80%	77	70%	90	67%
LCV^3-FCX^3	206	74-92	87	88%	78	83%	91	75%	77	66%	90	62%

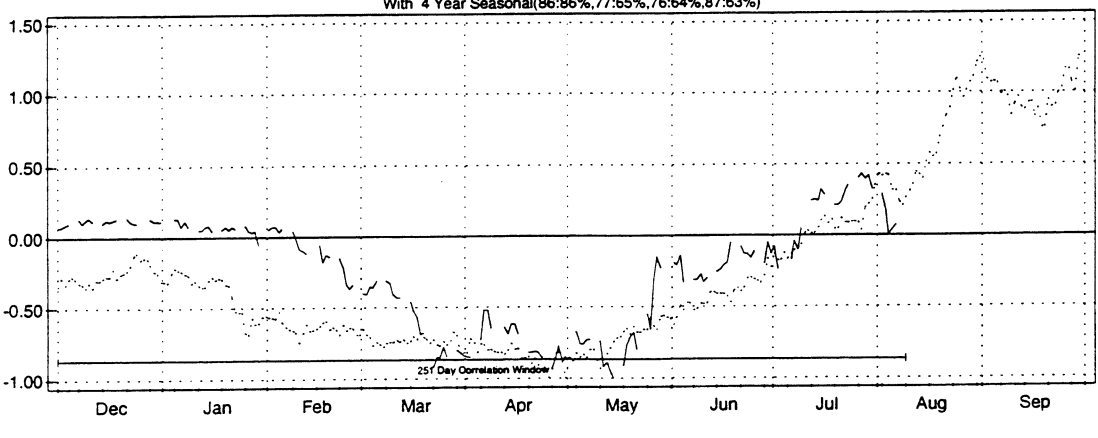
Dec93 Cotton(CTN) - Oct93 Cotton(CTN)
With 5 Year Seasonal(82:91%,81:88%,78:82%,67:80%,69:78%)



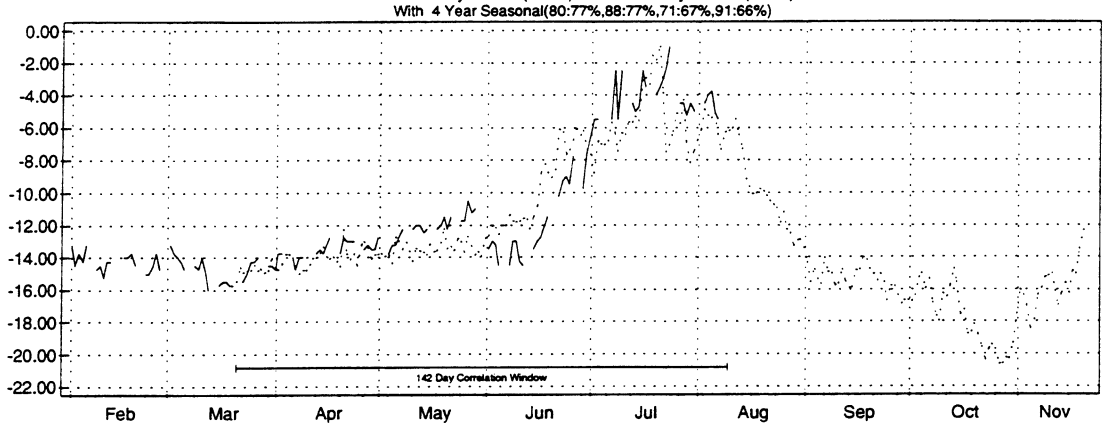
Oct93 Crude Oil(NYM) - Dec93 Crude Oil(NYM)
With 3 Year Seasonal(84:89%,88:88%,90:64%)



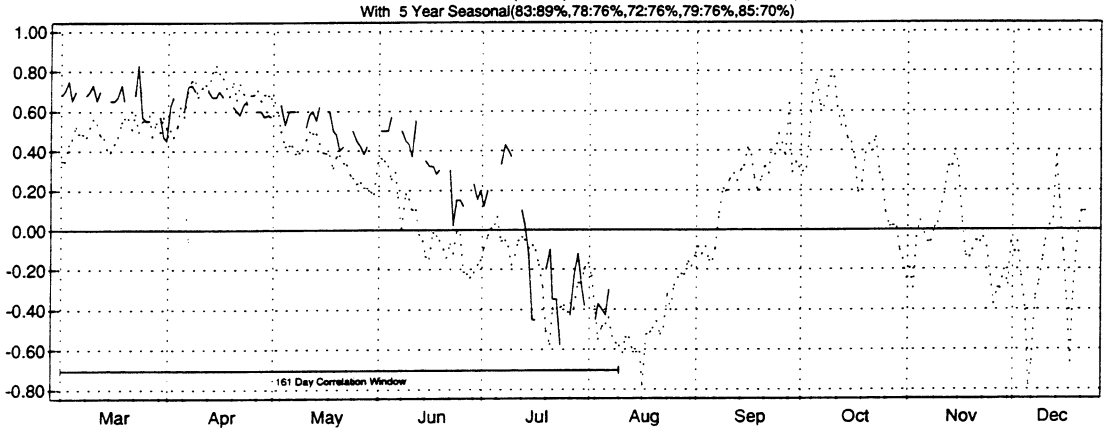
Mar94 Sugar #11(CSCE) - Oct93 Sugar #11(CSCE)
With 4 Year Seasonal(86:86%,77:65%,76:64%,87:63%)



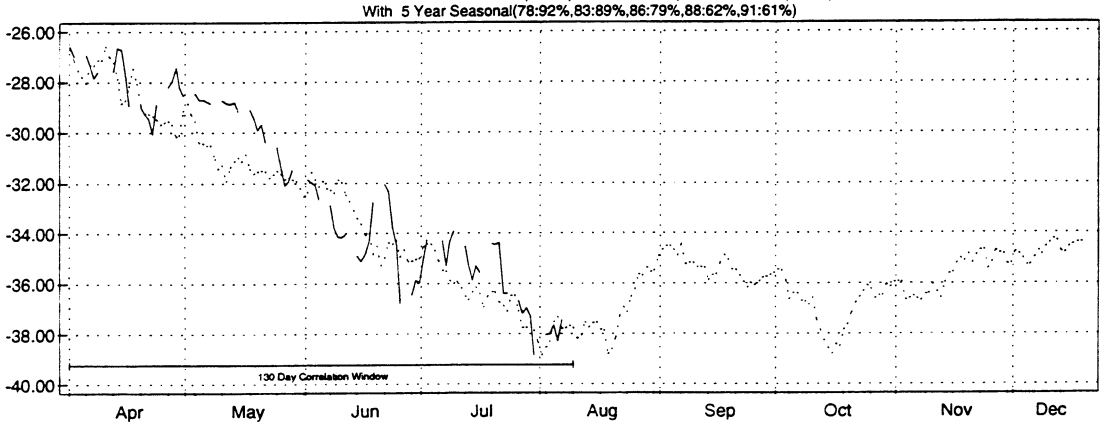
Nov93 Soybeans(CBT) - Mar94 Soybeans(CBT)
With 4 Year Seasonal(80:77%,88:77%,71:67%,91:66%)

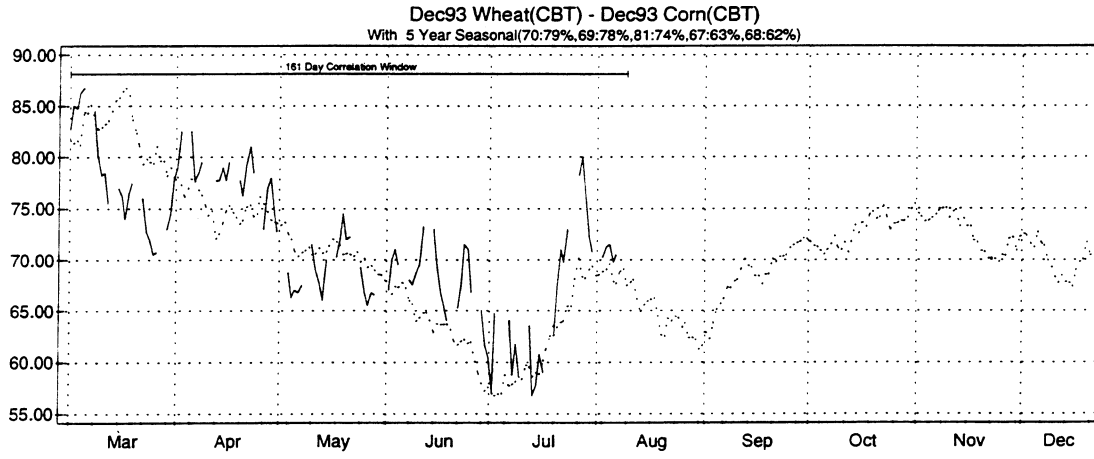


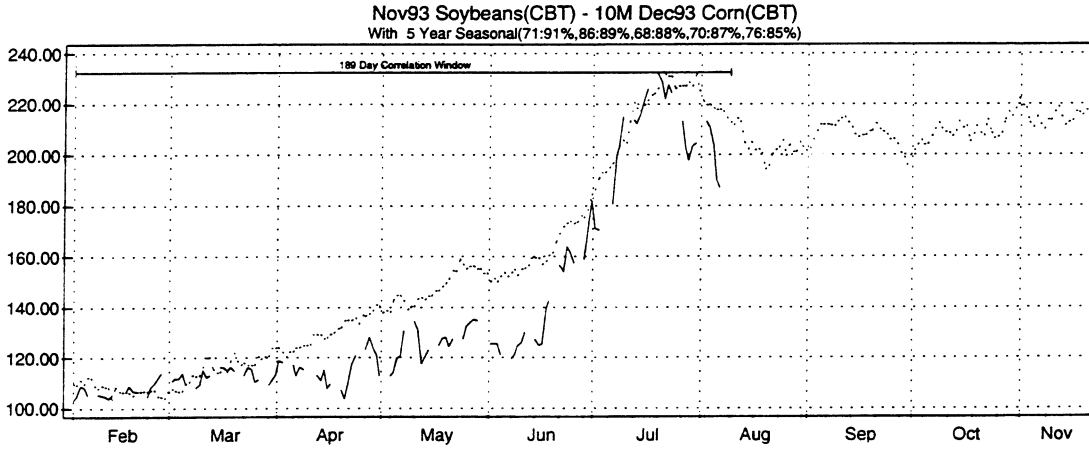
Dec93 Live Cattle(CME) - Feb94 Live Cattle(CME)
With 5 Year Seasonal(83:89%,78:76%,72:76%,79:76%,85:70%)

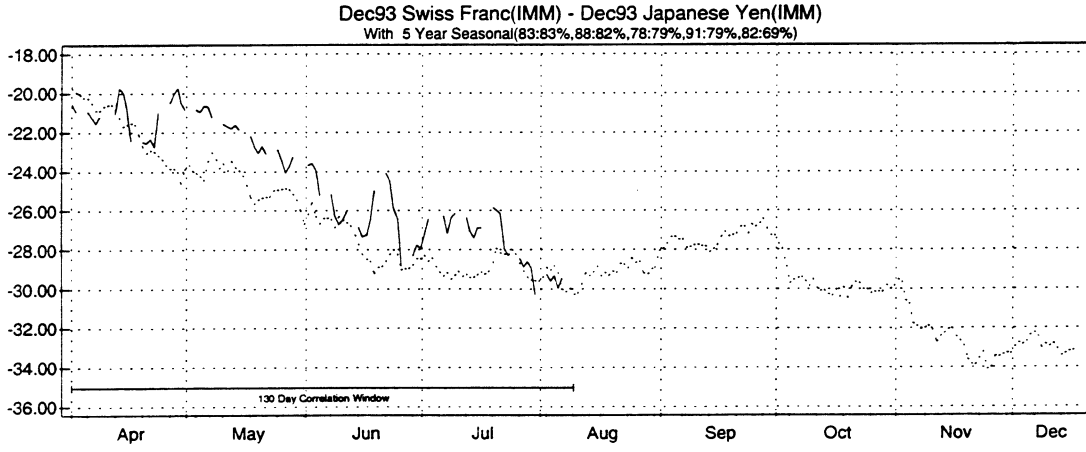


Dec93 Deutsche Mark(IMM) - Dec93 Japanese Yen(IMM)
With 5 Year Seasonal(78:92%,83:89%,86:79%,88:62%,91:61%)




Dec93 Wheat(CBT) - Dec93 Corn(CBT)
With 5 Year Seasonal(70:79%,69:78%,81:74%,67:63%,68:62%)
161 Day Correlation Window
90.00
85.00
80.00
75.00
70.00
65.00
60.00
55.00
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec


Nov93 Soybeans(CBT) - 10M Dec93 Corn(CBT)
With 5 Year Seasonal(71:91%,86:89%,68:88%,70:87%,76:85%)
189 Day Correlation Window
240.00
220.00
200.00
180.00
160.00
140.00
120.00
100.00
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov


Dec93 Swiss Franc(IMM) - Dec93 Japanese Yen(IMM)
With 5 Year Seasonal(83:83%,88:82%,78:79%,91:79%,82:69%)
-18.00
-20.00
-22.00
-24.00
-26.00
-28.00
-30.00
-32.00
-34.00
-36.00
130 Day Correlation Window
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

MRC Research Derivatives

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80+ pages, every issue offers 15-year (when available) historical analyses, detail, and support for 10-15 seasonal trades, 10-15 seasonal spreads, and now 5 stock trading strategies—***all computer-optimized and 80-100% historically reliable***. Regular features include technical and correlation studies; trade commentary; and a futures highlight. Feature articles by industry profesionals examine market fundamental and/or technical conditions, various trading techniques, and other topical subjects. For experienced traders: comprehensive (covering nearly 40 major futures) and complementary to any trading style! For the newer trader: instructive and easy-to-use!

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84 pages of seasonal patterns in 40 major futures markets. Including every contract (and the underlying cash market when available), each chart illustrates the composite pattern of both 15-year (when available) and 5-year ***daily*** price activity.

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Currently available: ***Heating Oil***, ***Lumber***, ***Live Hogs/Pork Bellies***, and ***Live Cattle/Feeder Cattle***. In-depth reports containing weekly/monthly charts, seasonal patterns, historical trading strategies, inter- and intra-market historical spread strategies, historical basis charts (except heating oil), and historical daily charts.

Building A Roadmap In Your Mind
—High Probability Swing-Trading Rules—

The model we are going to develop here is based on classic swing-trading rules. This aggressive style of trading follows the market's movements as opposed to trying to predict a set outcome; it is based on the market's Highest Probable Response to its own previous action. Thus, our model will help us to always ***anticipate*** the correct "play".

Though we will build our model for understanding the market's behavior around a time frame of 2-3 days, the principles employed can be utilized in any time frame...from tick charts to weeklies. By following the rules for each "correct" play, the odds will be in your favor and solid, sound trading habits will be established. Successful trading depends on acting independently and learning to think one step ahead!

The Foundation For Our Roadmap — Taylor's Classic Three-Day Cycle

George Douglas Taylor, a grain trader in the fifties, noted that prices tended to reverse every 2 1/2 days. He established a trading rhythm by calling each day a **BUY**, **SELL**, or **SELL SHORT** day. Each day had definite rules as to how it should be traded, though each day could be traded from either the long or short side despite its name. Because these rules are really grounded in momentum principles and do test out solidly, we can extract the main concepts:

1. The *"true trend"* in prices reverses every 2-3 days (the true trend measures from the swing low to the swing high in a daily time frame);

2. We look for the reversal point around a *"test"* of the previous day's extreme. The previous day's high/low will always be the most important swing points to watch;

3. The best reversals occur in the morning, not in the afternoon;

4. Afternoon strength or weakness tends to have follow-through the next day. Thus, it is best not to look for reversals in the afternoon but to anticipate them the following morning;

5. If a trade goes in your favor, carry it home overnight;

6. The close should forecast the next opening (i.e., a strong close should indicate a higher opening or continuation rally; if the market instead gaps down contrary to what is expected, look to exit on the first rally);

7. It is OK to reenter a long trade on the middle day of the cycle (the "Sell" day) *if* it made a successful morning test of the low first;

8. Buy the first pullback after a new high. Failure to take out a new high then warrants a short sale;

9. Sell the first rally after a new low, but use a tight stop. "V" bottoms are more common than spike tops;

10. Orders should be placed *at the market.*

In a flat trading market, trades are executed on tests of previous highs/lows. In an uptrend, expect tests of the lows to be higher tests and for the highs to be penetrated. When buying a lower low in a downtrend, exit more quickly—there is no confirmed support. (Conversely, when selling a higher high in an uptrend, buy the first retracement.) Just as we enter on tests of lows/highs, we look to exit on tests in the other direction. We look to exit in the **direction** of our swing **before** it reverses. The less greedy one is, the more successful will be the trades he/she makes.

If the market does not do what is expected of it, or if you lose your road-map, **EXIT!** This is most important! Risk should be defined by the last swing point. Always define your risk **before** entering a market, and **never** average a losing position. It is better to exit, looking to reenter at a better price.

Never listen to anyone else's opinion. Only **you** know when your trade isn't working.

Model Filters

Now we have established a crude conceptual model of buying and selling the market every three days. We can greatly improve upon this model by adding two filters which will keep us out of the market during periods when swing trading is not appropriate. Each filter may be visually displayed and/or actually quantified for use in a strict system.

ADX <20 and falling. The first rule is to stay out of narrow, flat markets. The swings are not wide enough to trade; slippage and mistakes will eat up potential profits, wasting time and energy. One can only take what markets offer—a move can never be forced. Anticipation should never become hope. So, whenever the 14-period ADX is below 20 and *falling*, try to stay away from the market. Expect little or no follow through and take quick profits on any trades made. (An alternate but similar filter is a moving average of the daily range. If a reading falls below a certain threshold, stay out of the market.)

ADX >30 and rising. The flip side of the coin? Do not fade a strongly trending market. Don't execute trades against the trend when the ADX is greater than 30 and *rising*; these are low probability trades. If intent on focusing on a reversal, at least wait for a triple divergence or three *bumps* in an oscillator to appear.

Critical Point and Positive Feedback

Critical point describes a market condition which tends to precede trend days or range expansion. Mathematically, it is represented by the absolute mean deviation of different rates of change (or representive momentum oscillators) approaching zero. The market has reached a very neutral state and all the *noise* has been cancelled out. Thus, it is positioned dynamically, for when the market moves out of this point, it pulls all the short- and intermediate-term cycles up or down together, creating a condition called ***positive feedback***. Now, instead of a stable oscillating system, positive gain at each stage reinforces the move, often leading to a runaway market.

Sophisticated models can be built measuring the degree of *noise*, or lack thereof, in a market's fluctuations. However, these points often visually appear as long triangle consolidations on chart formations, or a clustering of oscillator readings around a mid-value point.

One simple filter with similar characteristics is the *narrowest range of the last seven days (**NR7**)*. This serves as an alert to switch to a "breakout mode" instead of the 1-2-3 rhythmn, as often the market can run 4-5 days in one direction after breaking out.

Thus, visualize a working model which helps anticipate the market's next move. Look for the market to "test" the previous day's high every 2-3 days and the previous day's low every 2-3 days. The difference between what the market is actually doing and what the market *should* be doing suggests the market's true strength/weakness.

At certain times, cycles within the market lose their swings, at which point our model tells us it is impossible to anticipate direction. Switching into a breakout mode can then catch the first expansion in volatility. After 3-4 days have elapsed, it is generally safe again to start looking for tests of highs and lows.

Anti Minor

This is a short-term oscillator pattern which illustrates the importance of anticipating the market's next move. The resulting very high-probability trade tends to be sharp and fast.

This trade is designated an ***Anti Minor*** because, in setting up, the fast oscillator corrects against and runs counter to the slow oscillator, the slope of which defines the direction of the minor trend one is looking to enter. This pattern appears most obviously as the second pulse in an ABC or XYZ wave.

After the first price pulse has established a slope in the slow oscillator, a 3- or 4-day price pattern will often create a small flag, triangle, or ledge. During this period, the fast oscillator will correct back into the slow oscillator for 3-5 days.

Once both price and oscillator pattern are set up, the trade is triggered by a stop placed beyond the previous day's high/low or the trendline drawn across the highs/lows of day one and three. Aggressive traders can enter by looking for a test of the previous day's high (if selling) or low (if buying). It pays to anticipate this setup because the resulting short-term positive feedback (both oscillators moving in the same direction) tends to create a strong trend day. On about the fourth day from entry, look for "excess" and exit.

Because this second pulse in the minor wave often precedes a reversal, the average holding time is short. However, sharp climatic bursts can occur before the reversal, making these very worthwhile trades to take.

There is no optimal oscillator or parameter to use, but any of the following perform well:

Fast:

- Difference between 3- and 10-period simple moving averages;
- Modified %K, 7- to 9-period; or
- MACD oscillator—20,8,8.

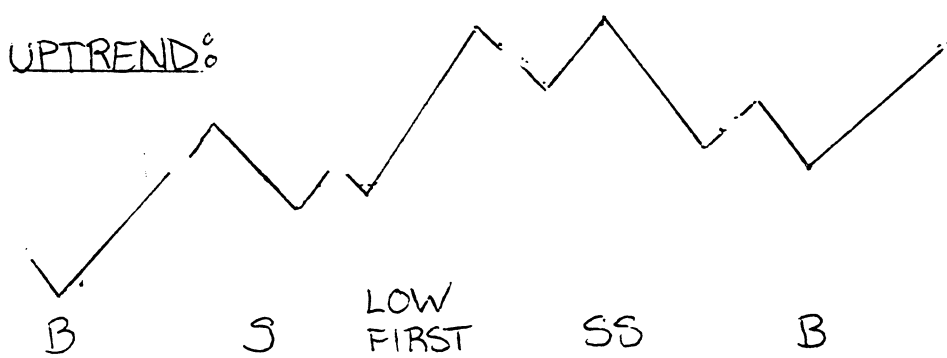
Slow:

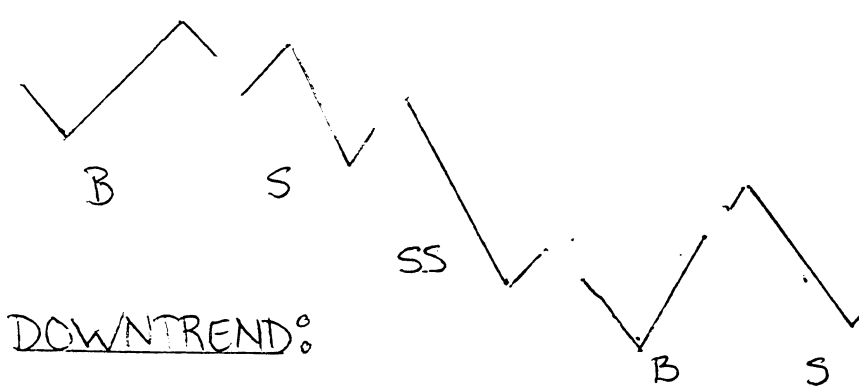
- 10- to 16-period moving average of any of the *fast* lines. This line indicates the "Stability of Trend".

Trading Survival Rules

- Read these rules *every* day, both before the markets open and at lunch.
- Try to keep a current P&L; it's easier to take losses.
- **TRADE**—you're a trader, not an investor; but
- Never trade for trading's sake; it's better to do nothing.
- Never trade without a healthy attitude.
- Watch order flow (liquidity) before trading.
- When there's nothing to do—*do nothing*.
- **CONCENTRATE.**
- Trade what you *see*, not what you think.
- The *trend* is your friend.
- If you're having a good day, read these rules again!
- Always keep track of all open positions.
- Don't sweat it, trade it.
- If you're not sure, don't do it.
- Never trade against the big boys; if anything, trade in front of them.
- Never use hindsight; instead, look ahead to the next trade.
- Never say "never" and never say "forever".
- The *tape* tells the story.
- *Relax* when nothing is going on.
- Never listen to opinions; deal only with facts.
- Never fantasize; focus on the next trade.
- *Buy rumors, sell news*.
- Keep expectations low; the profits will grow.
- Don't carry mistakes home overnight.
- **BE PATIENT**; profits for the whole day (week/month/year) can come from one good trade.
- Never, never average down.
- Recap all trades at the end of the day.

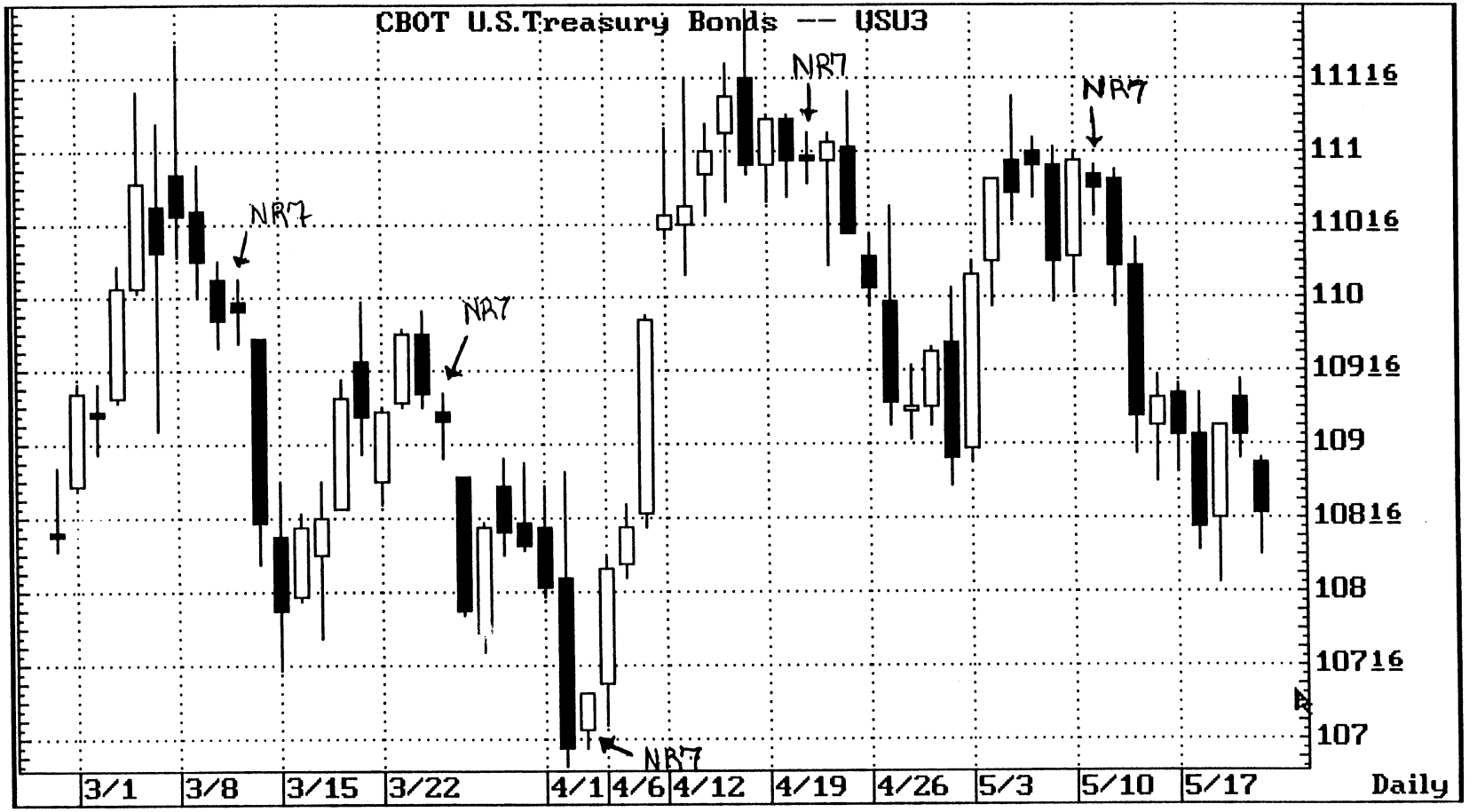
"CLASSIC SWING"



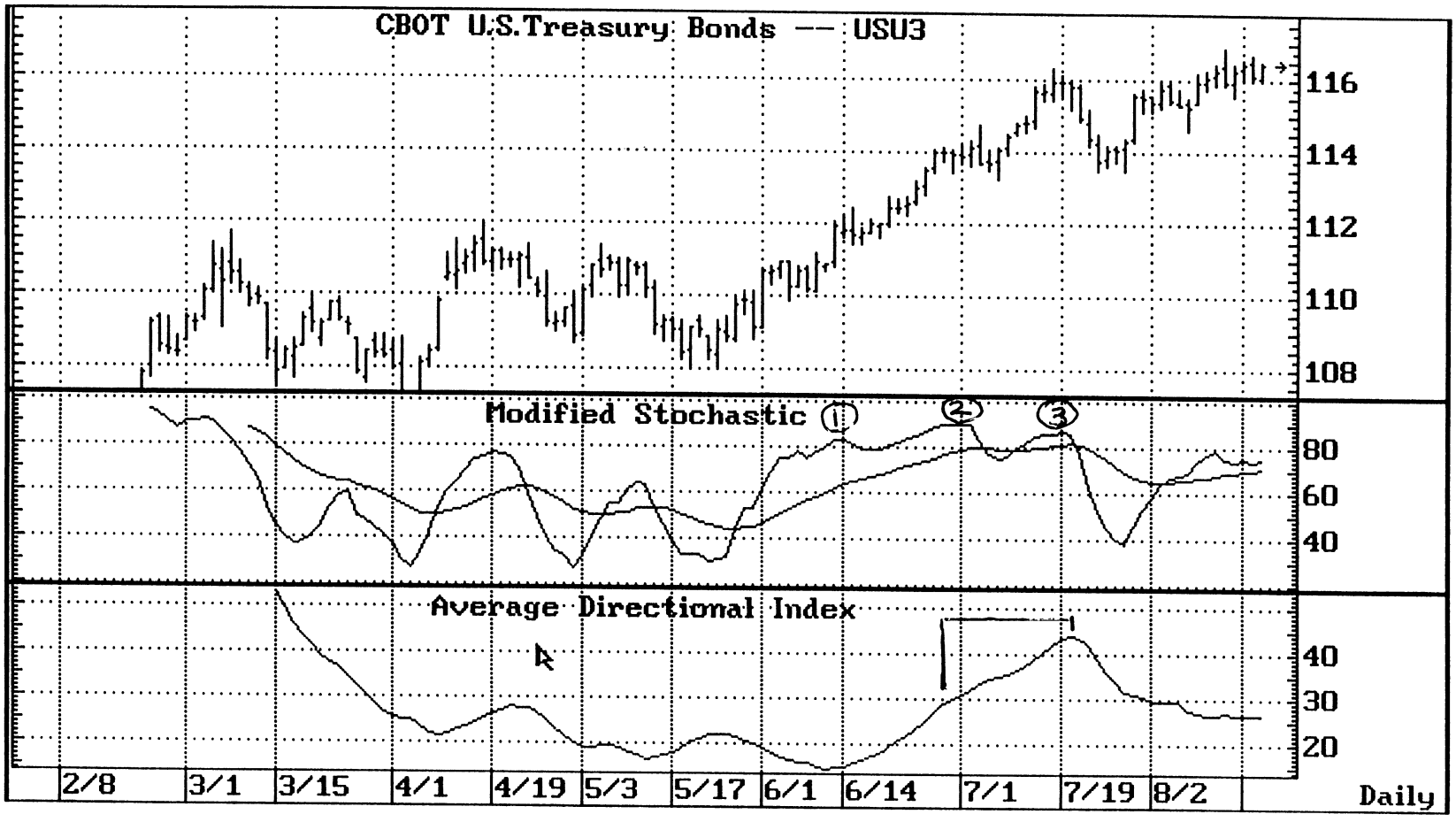



CME S&P 500 Stock Index - Future -- SPU3
465.00
460.00
455.00
450.00
445.00
440.00
435.00
430.00
4/5
4/12
4/19
4/26
5/3
5/10
5/17
5/24
6/1
6/7
6/14
6/21
7/1
7/7
Daily

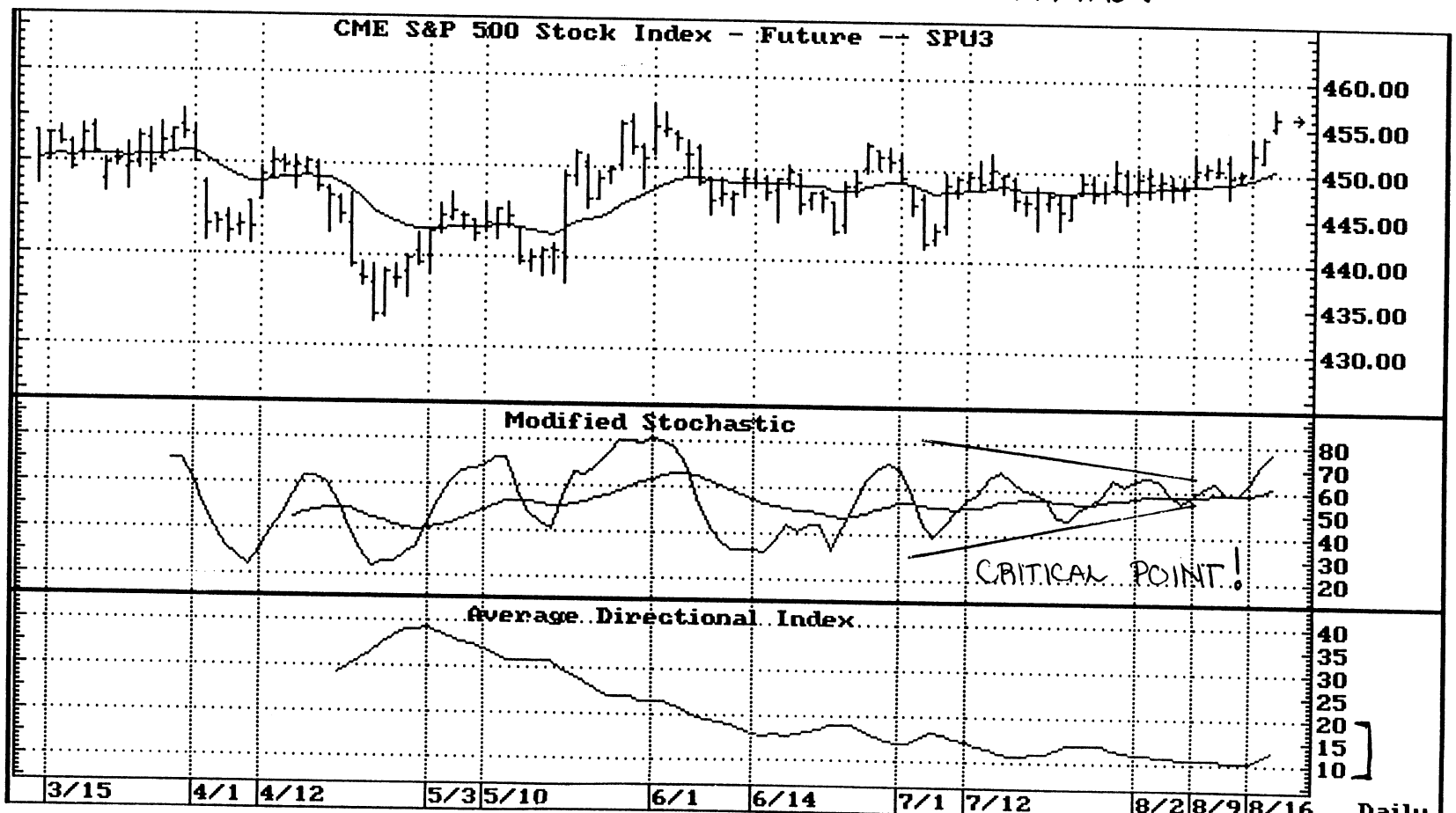
NR7 = Narrowest Range of Last Seven Days



DON'T FIGHT A TREND WHEN THE ADX IS >30 AND RISING!

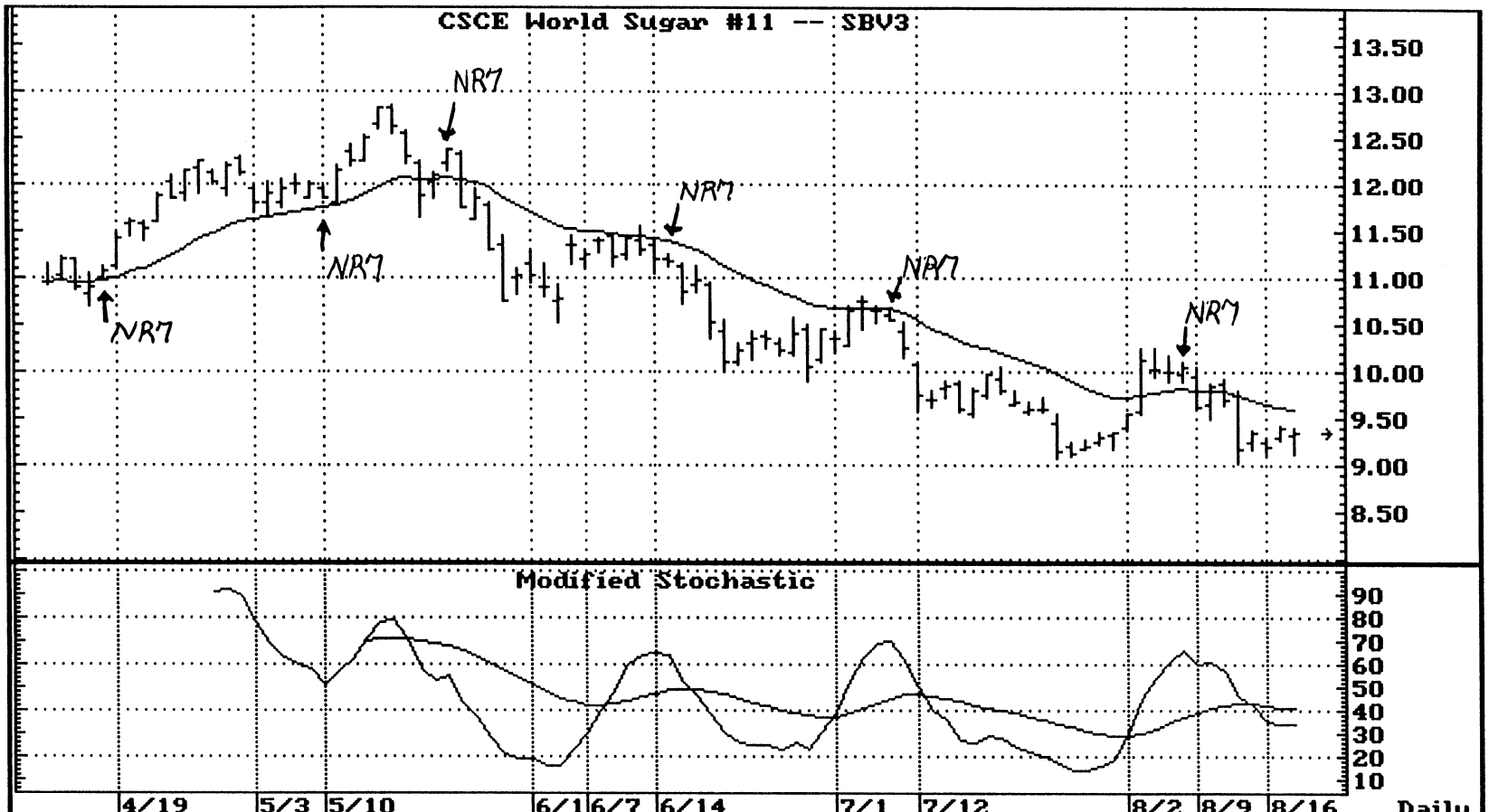


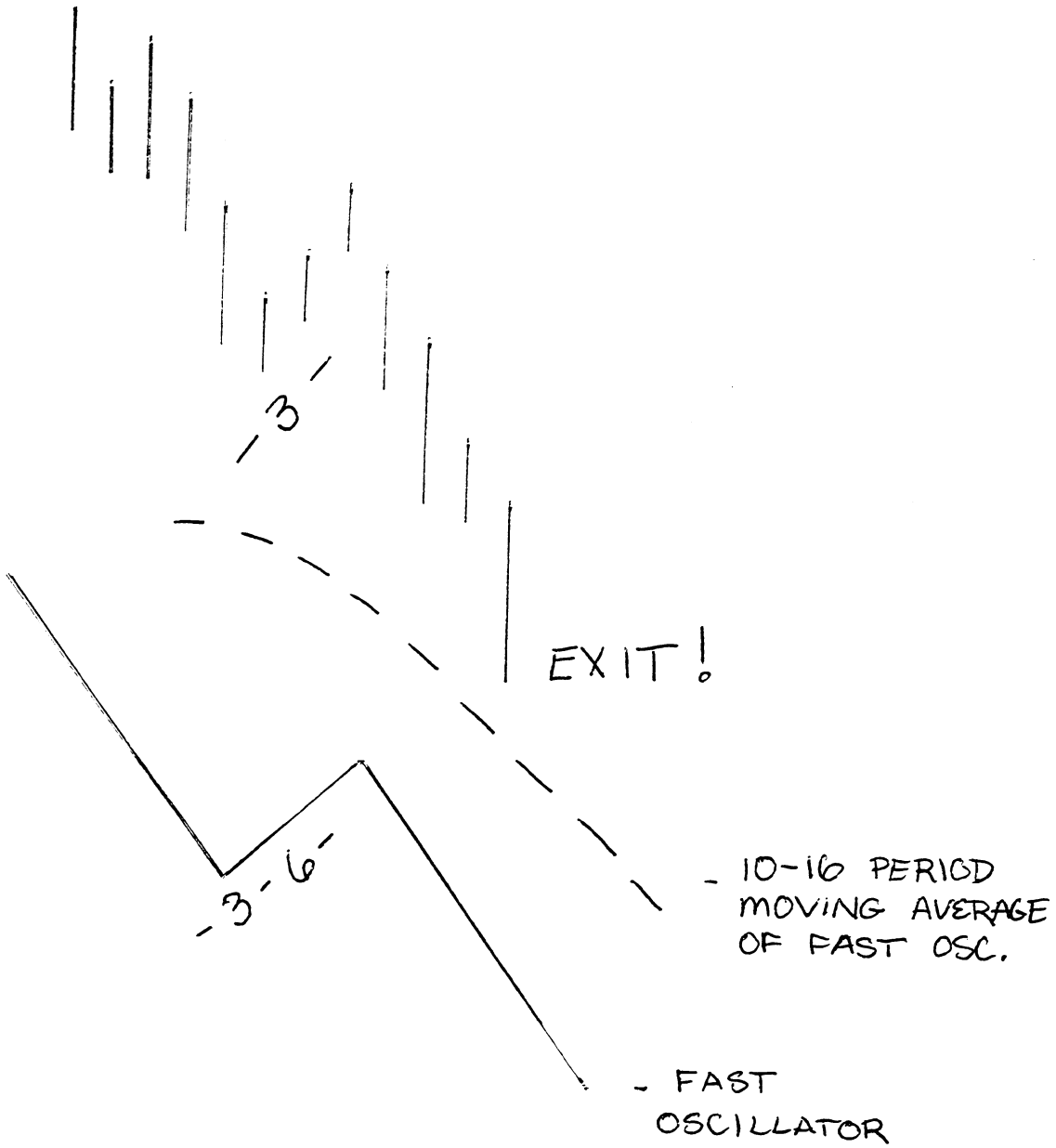
DON'T TRADE MARKETS WHERE THE ADX IS BELOW 18 AND FALLING!



RANGE CONTRACTION & EXPANSION

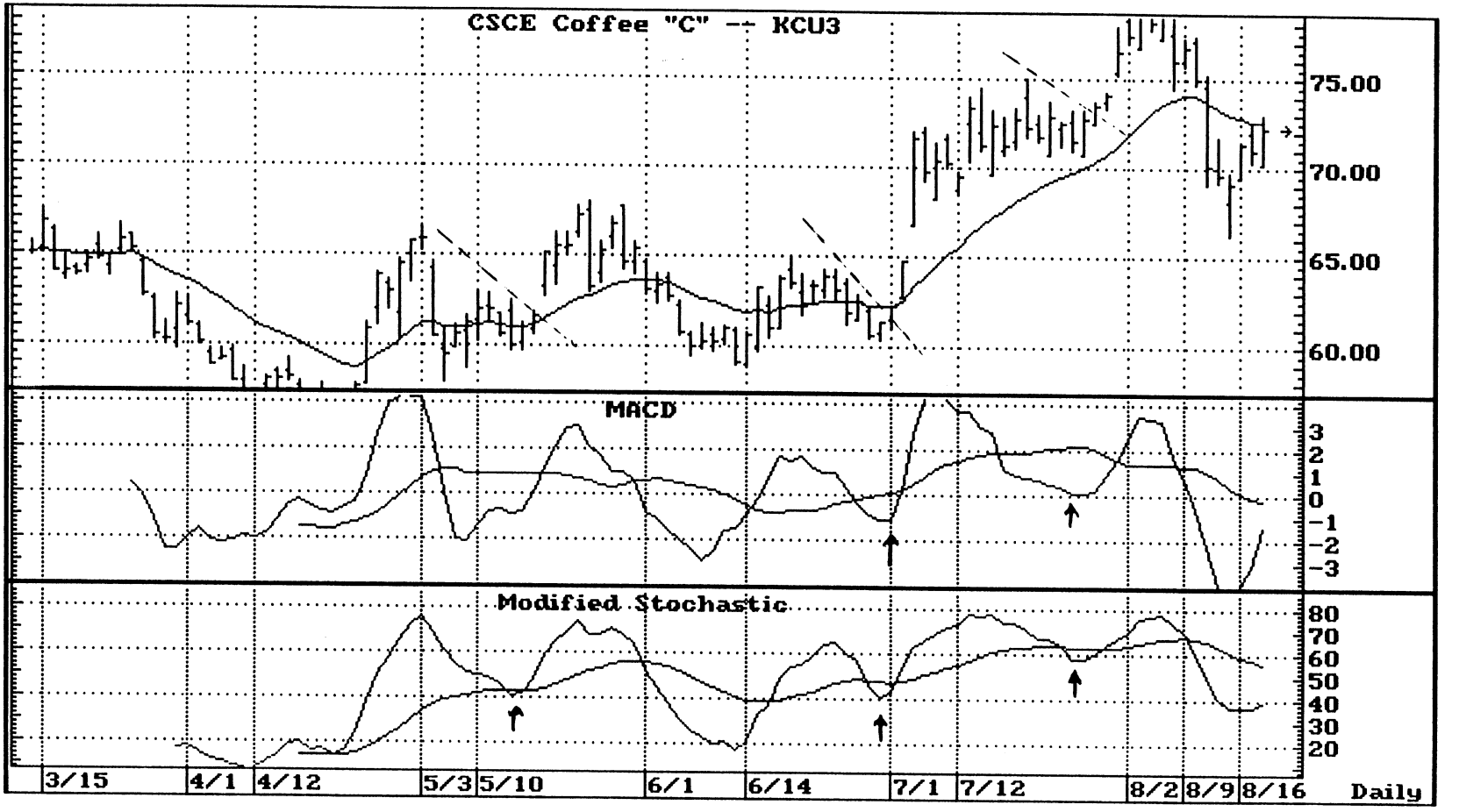
20 PER. EXPODENTIAL M.A.



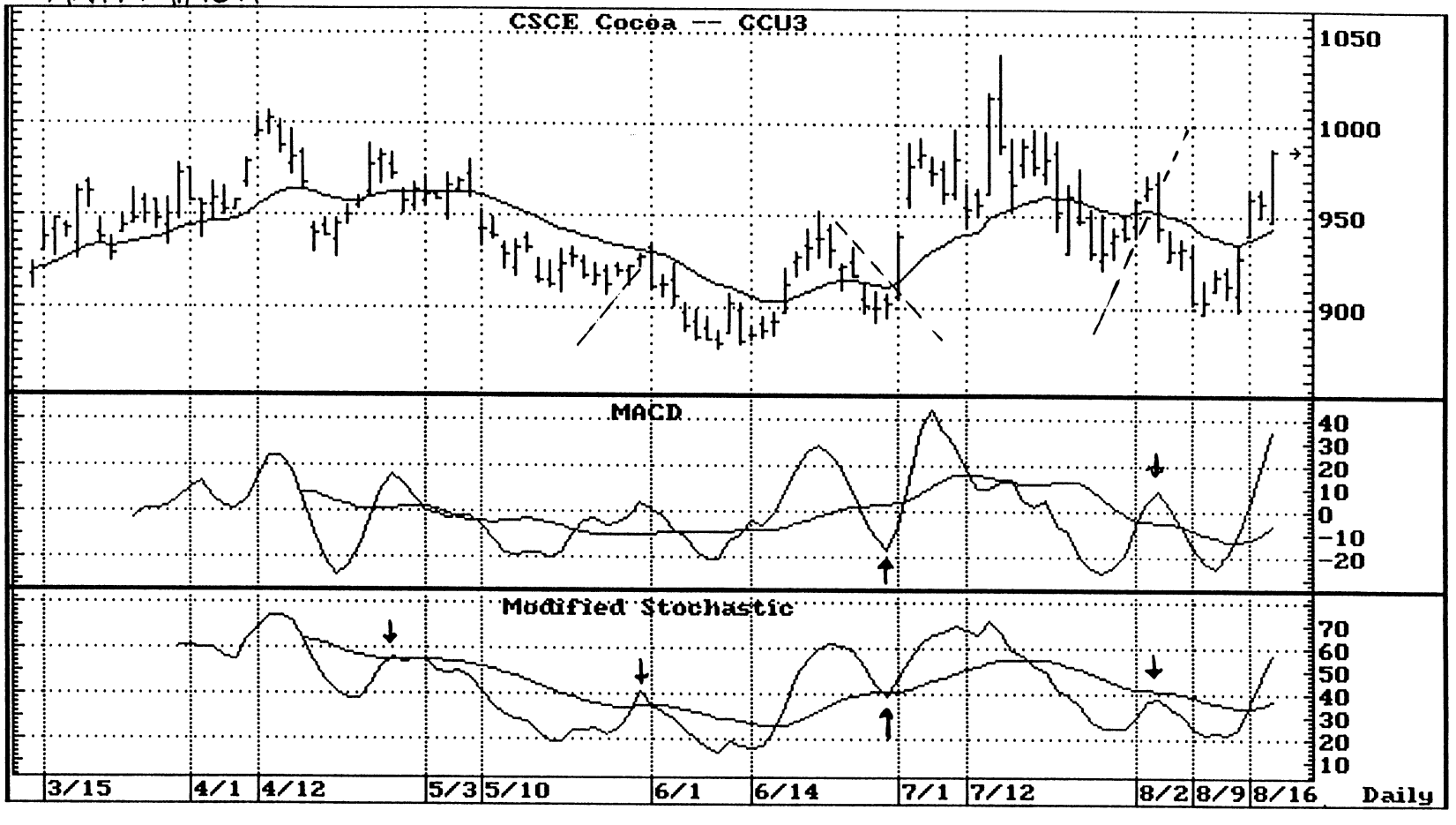


"SELL ANTI MINOR"

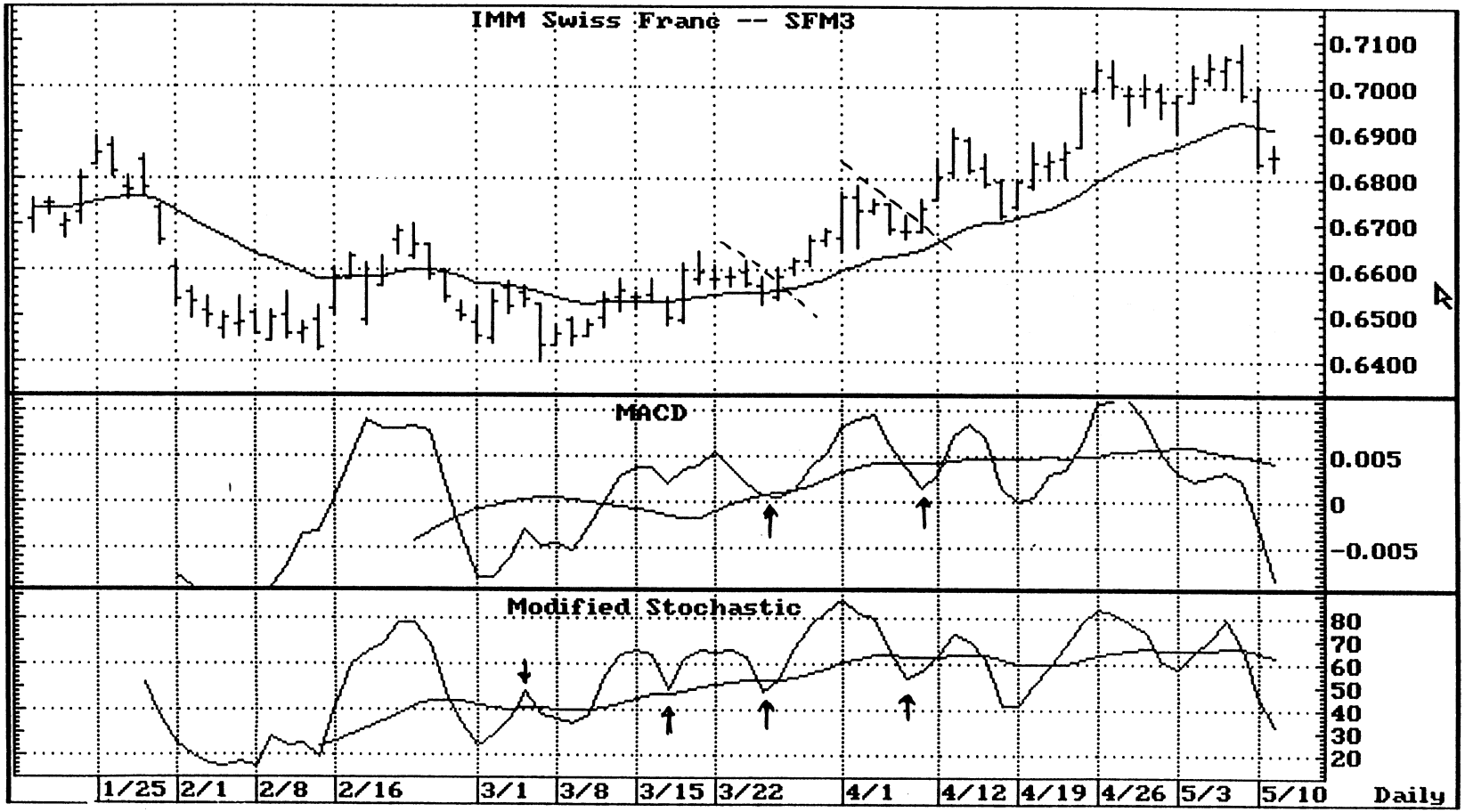
"ANTI MINOR"


CSCE Coffee "C" -- KCU3
75.00
70.00
65.00
60.00
MACD
3
2
1
0
-1
-2
-3
Modified Stochastic
80
70
60
50
40
30
20
3/15
4/1
4/12
5/3
5/10
6/1
6/14
7/1
7/12
8/2
8/9
8/16
Daily

"ANTI MINOR"


CSCE Cocoa -- CCU3
1050
1000
950
900
MACD
40
30
20
10
0
-10
-20
Modified Stochastic
70
60
50
40
30
20
10
3/15
4/1
4/12
5/3
5/10
6/1
6/14
7/1
7/12
8/2
8/9
8/16
Daily

"ANTI MINOR"


IMM Swiss Franc -- SFM3
0.7100
0.7000
0.6900
0.6800
0.6700
0.6600
0.6500
0.6400
MACD
0.005
0
-0.005
Modified Stochastic
80
70
60
50
40
30
20
1/25
2/1
2/8
2/16
3/1
3/8
3/15
3/22
4/1
4/12
4/19
4/26
5/3
5/10
Daily