



Las Vegas



MGM Grand



Nov. 1999



Stewart will share several simple tape based approaches to finding a confluence of price, time and pattern that offers low risk entries and solid stop placements. These techniques are applicable across a broad spectrum of time frames and markets. Understanding the tape is critical not only to the discretionary trader but to those building trading systems. Simplifying the decision making process removes many of the psychological impediments involved in placing an order and frees valuable time for trading. This workshop will concentrate on day- and swing- trading methods used in the financial and metal markets but examples from the equities and shares will also be presented.

First, Stewart will discuss the use of Wyckoff methodology and will give specific trading advice on its use. In the second portion he will teach how to recognize and properly use reversal behaviors and market thrust to confirm turns. Additionally, he will show how he combines basic oscillators with support/resistance risk points to identify low risk trading opportunities. Fourteen years of real world trading have convinced Stewart that simpler, is simply better.

Stewart Taylor began his trading career seventeen years ago, trading basic patterns and breakout strategies. These simple strategies evolved into complex day trading strategies utilizing Elliott wave and intraday cycles. Stewart's trading style has come full circle. He is now a leading proponent of the "simple is simply better" approach.

Stewart developed his analytic abilities as an institutional broker serving the fixed income community with Brittenum & Associates, Refco, Vining Sparks Securities, Shearson Lehman, American Express and Prudential Securities.

In 1992, Stewart formed Taylor Consulting Inc. of which he is sole owner/officer and began publishing his market letter, *The Taylor Fixed-Income Outlook*. The newsletter has been published for profit since October 1992, and subscribers include many primary dealers, international trading desks, hedge funds, money managers, bank holding companies and mortgage bankers. His observations are extensively quoted in the financial press, and he makes frequent media appearances.

SIMPLE IS SIMPLY BETTER...

Using the Tape to Find
Low Risk Entries and
Stop Placements

COVERING: FUTURES,
INDICES AND
DAY TRADING

TAYLOR



STEWART D TAYLOR
Taylor Consulting Inc
21 Portland Rd
Little Rock, AR 72212
501-219-9774 O

Systemizing Discretionary Trading Habits

What does the tape represent?
Why is it important?
The advantages of systemizing.

Key Concepts:

Triggering In (How to enter the market).
Thrust (Proving behaviors).

Triggering Mechanisms:

Three methods to enter trades.
Trigger Lines.
Reversals.
Springs and Upthrusts.

The Setups:

Spring and Upthrust.
Back up to the creek & Rally to the ice.
Wyckoff Tests.
Head and Shoulder Trading Opportunities.

Examples (The real world.)

Reading the Tape

What is the tape?

- The study of price action and volume.
- Reflects the constant battle between supply and demand.
- A graphic picture of who is in control.

Why is the ability to read the tape important?

- Understanding how price moves is central to developing both discretionary and systematic trading methodologies.
- Human responses to stimuli remain consistent over time.
- The tape is truth.
- The essence of trading.
- No optimization needed.
- Allows the trader to identify the exact moment when one group loses control. A graphic representation of the point of danger and the point of maximum stress.
- If you learn to recognize specific behaviors and react to them, you won't need oscillators, wave counts, cycles or a market opinion.

Why Not Oscillators?

- Virtually all oscillators are derivatives of either price or volume.

The Best Use of Oscillators

- A means of quickly inspecting many charts for aging trends or low volatility.
- A visual alert to potential reversal or breakout behaviors.
- Overbought or oversold oscillators in conjunction with a support or resistance confluence can set up quality trading opportunities

Multiple Oscillators

- Create confusion and uncertainty.
- One or two oscillators, applied over several time frames should be adequate.

Systemization of Discretionary Behaviors

Why Systemize?

- Even the most aggressive trader should develop standardized methods for initiating trades.
- Allow the market to make the tough decisions.
- Build a buffer zone between you and your emotions.
- *A plan = courage to act.*
- Reduce the stress levels associated with discretionary trading.

How to systemize?

- Identify patterns and behaviors that repeat.
- Formulate *tactics* to systematically exploit the behaviors.

Systemization of Discretionary Behaviors

“Irrationally held truths may be more
harmful than reasoned errors.”

Thomas Huxley

- When is the last time you made money doing what the books told you to do?
- Any novice can see a head and shoulders top set up, but without a tactical approach, odds of trading the pattern successfully decline drastically.
- Very few books or courses effectively bridge the chasm between analyzing and trading.
- Many competent analysts fail to develop a tactical approach and never become proficient traders.
- A trader's job is to eliminate as much uncertainty and emotion as possible.
- View patterns as trading setups and develop a standardized methods to trade the setup.
- It only takes a few patterns and a consistent tactical methodology to make a nice living.

Key Concepts

Thrust and Triggering In

“Skepticism is the highest of duties,
blind faith the one unpardonable sin.”
Thomas Huxley

- How do you know that support will hold?
- You must require proof before acting.
- Require proving/confirming behaviors.

Thrust

- A strong directional move that proves the markets ability to rally/decline.

Triggering In

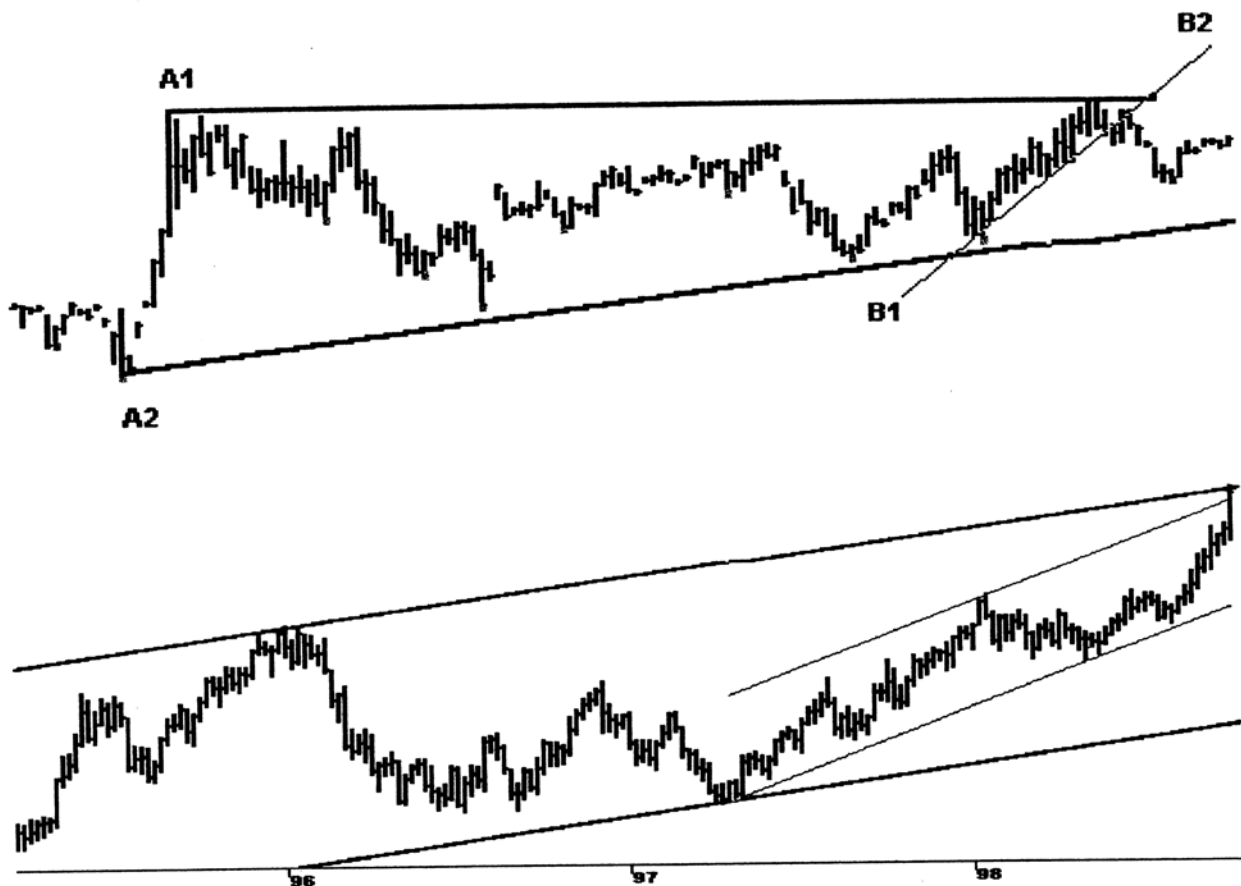
- Using thrust above a predetermined level to trigger into a trade.
- Triggering in is accomplished by leaving entry stops at predetermined levels.

Why use a trigger?

If a behavior is anticipated and an entry trigger is put in place as the behavior develops, odds of being in the market at the proper juncture become quite good.

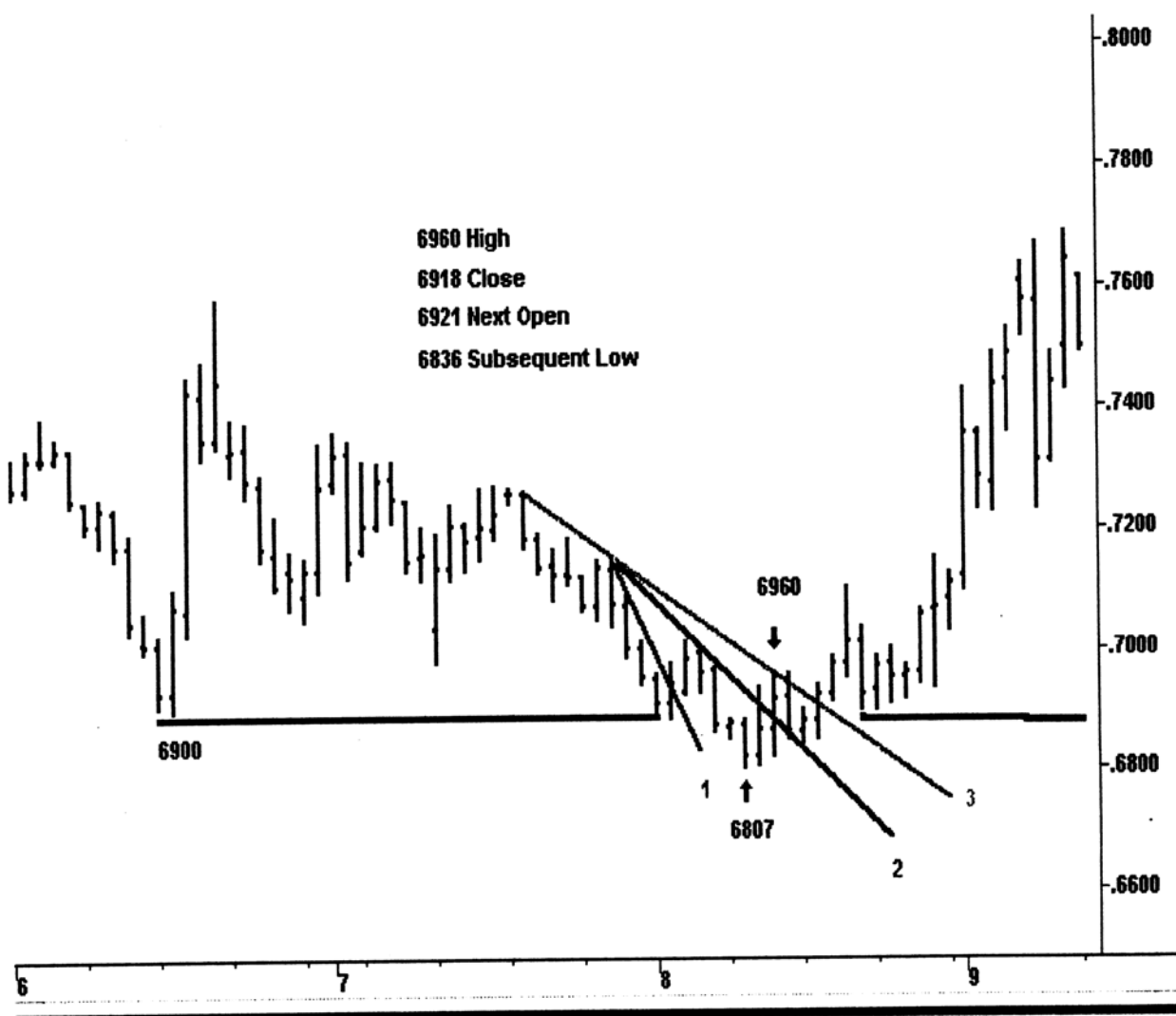
Trend and Trigger Lines

- Trend lines represent the composite man's willingness to follow the market higher or lower.
- Moves beyond the stride of the advance/decline line represent important changes in the market's behavior.
- The break of a shallow uptrend line doesn't usually represent a good trading opportunity. It does, however, speak volumes in terms of the change in a market's behavior.
- The break of a steeply sloping trendline can make an excellent entry trigger.



Three Potential Triggers

- (1) The very steep T-L. Steep T-Ls comprised of only 3-5 bars tend to produce multiple whipsaws, but the distance to the stop is usually small.
- (2) The more moderate T-L. This T-L is going to need a reasonable thrust from the support to trigger. This was my preferred entry in this trade.
- (3) The shallow T-L. This is a conservative entry. Stop should be under the bar immediately preceding the breakout. This T-L will provide a backup entry if the other triggers are stopped out, or you missed entry on one of the more aggressive triggers.



Reversal Bar Patterns

- Reversal patterns are classic chart structures that often define important market turns. In proper context, reversal bars and structures are among the most reliable of all tape features.
- Before entering a trade, I require that the market “*prove it to me.*” In many cases, these reversal bars and structures offer the needed proof.
- Most extremes occur against a backdrop of fear and panic. These extremes usually represent a final convulsive wash out of stops.
- These patterns represent an unmistakable change in a market’s supply/demand dynamic. “Something important just occurred!”
- Reversal bar extremes mark the point beyond which the market should not trade. *Initial stops placed just beyond the extreme of the reversal bar should be secure.*
- Reversal bars that occur outside a strong support or resistance confluence are not reliable.
- The earlier in the day the reversal pattern occurs, the more powerful the signal.

Reversal Bar Patterns

Most reversal structures are characterized by:

- A wider than normal price range.
- The open and close are often near the extremes of the bar/bars.
- The bar/bars display significantly higher than normal volume.
- Reversal are often in response to news. In other words, a bearish reversal bar is often produced by bullish news.

Learn to anticipate and then recognize reversal activity.

Single Bar Reversal Patterns

- A single bar spikes above resistance or below support and then reverses (often producing a spring or an upthrust feature).

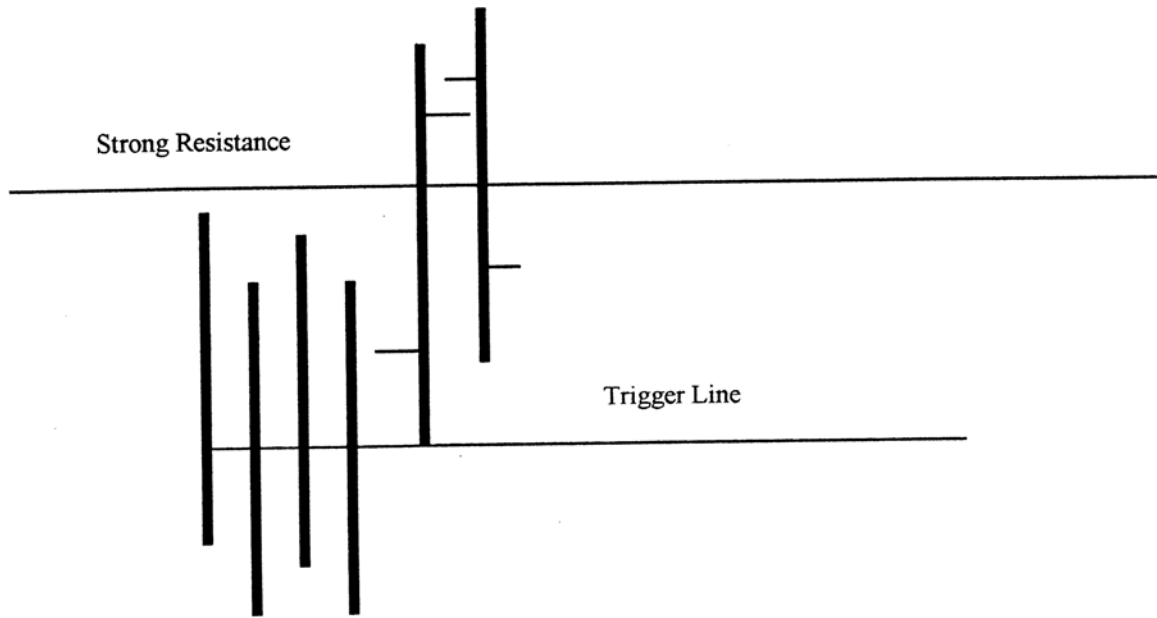
Multiple Bar Reversal Patterns

- Reversal Hook: Bar one opens near a low extreme and closes near the high extreme. Bar two opens near the bar one close, may or may not make a new high, and then closes near the low extreme of the two bar range.

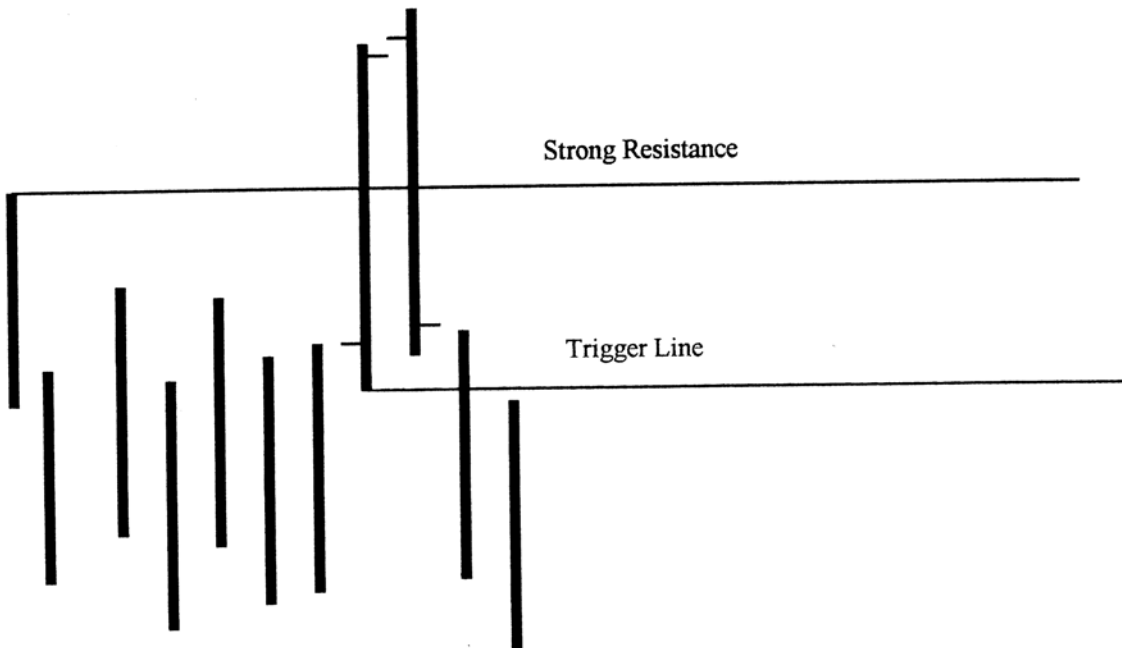
Spring or Upthrust

- These behaviors often occur as the market is testing a strong support or resistance. A reversal bar whose high *upthrusts* the resistance before closing back below the resistance represents a powerful reversal signal.

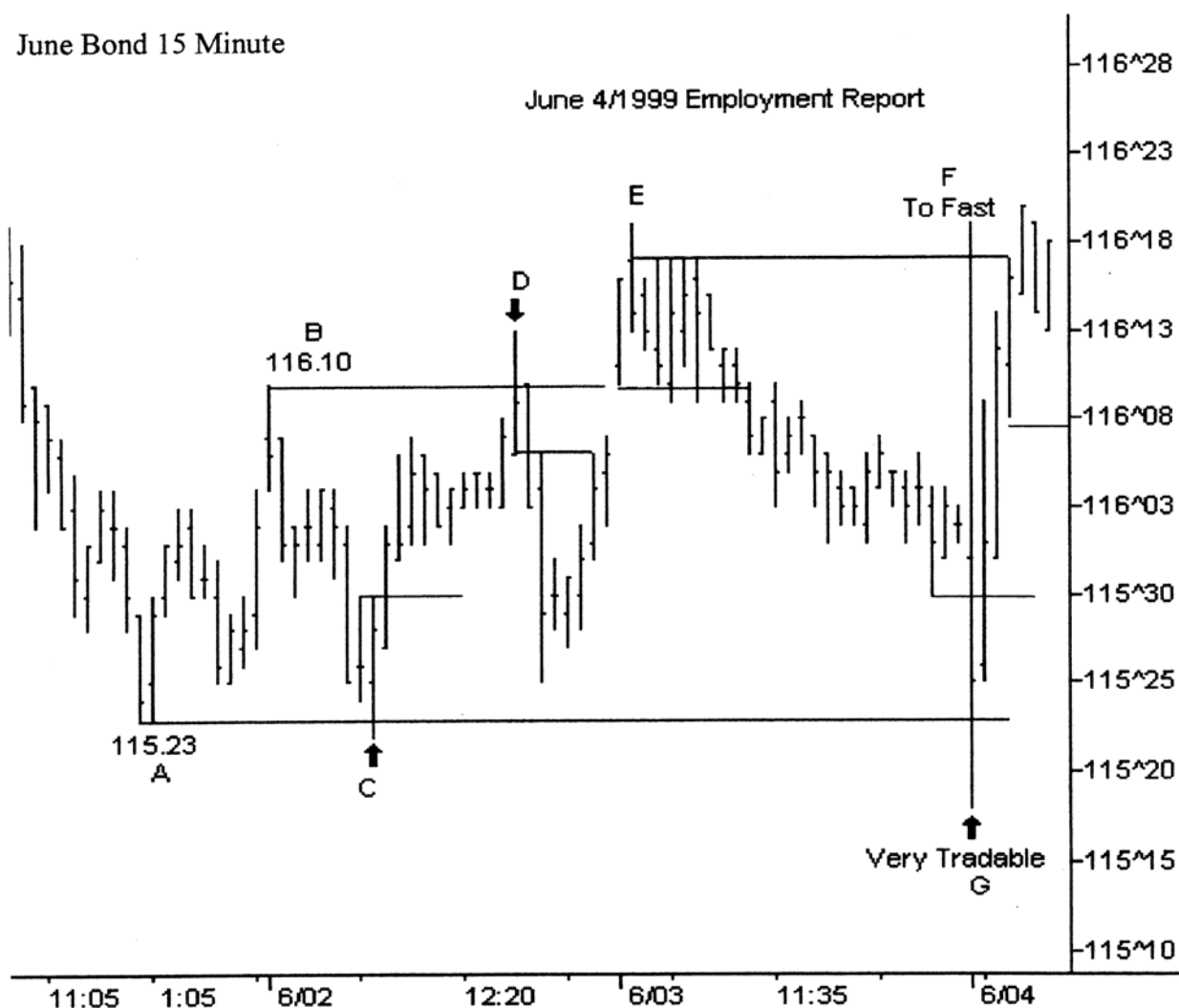
Basic Hook Reversal



Two Bar Reversal Hook



June Bond 15 Minute



A & B: 115.23 and 116.10 form reversals and define a narrow trading range. The 115.23 low occurs in an area of strong daily/weekly/monthly support.

C: Price spikes below 115.23 and a reversal bar forms. Longs are triggered in just above high of the bar preceding the spike.

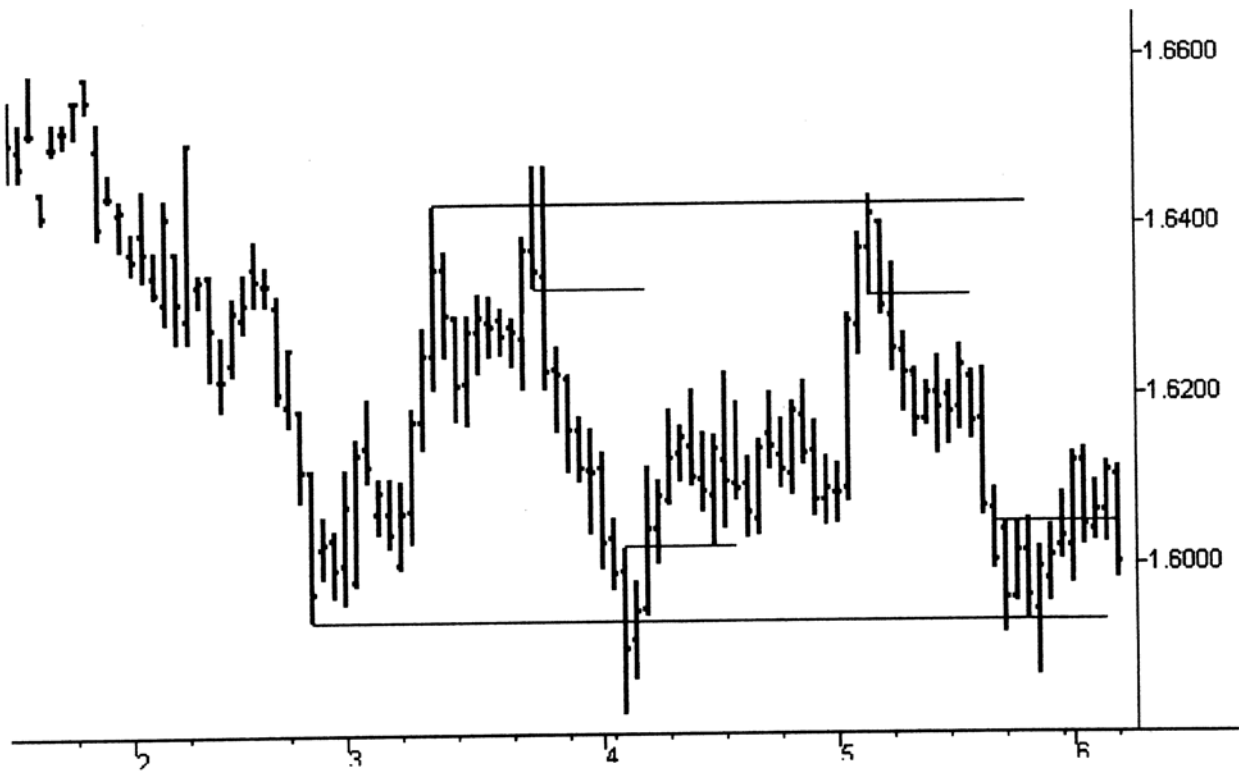
D: The trend ends with a spike above 116.10. Shorts are triggered in on on break of the low of the bar containing the spike.

E: Market Gaps above the point D high. Trigger at low of the bar preceeding the spike. The distance to the initial stop makes this the worst setup on the chart.

F: Employment day. The initial spike (at point F) happened to quickly to take advantage of.

G: The market spikes below the strong support along the 115.23 zone. There were two ways to trigger in A) 3-4/32 above the low of the prior day (@115.23). B) Just above the low of the prior days closing bar. (@116.02).

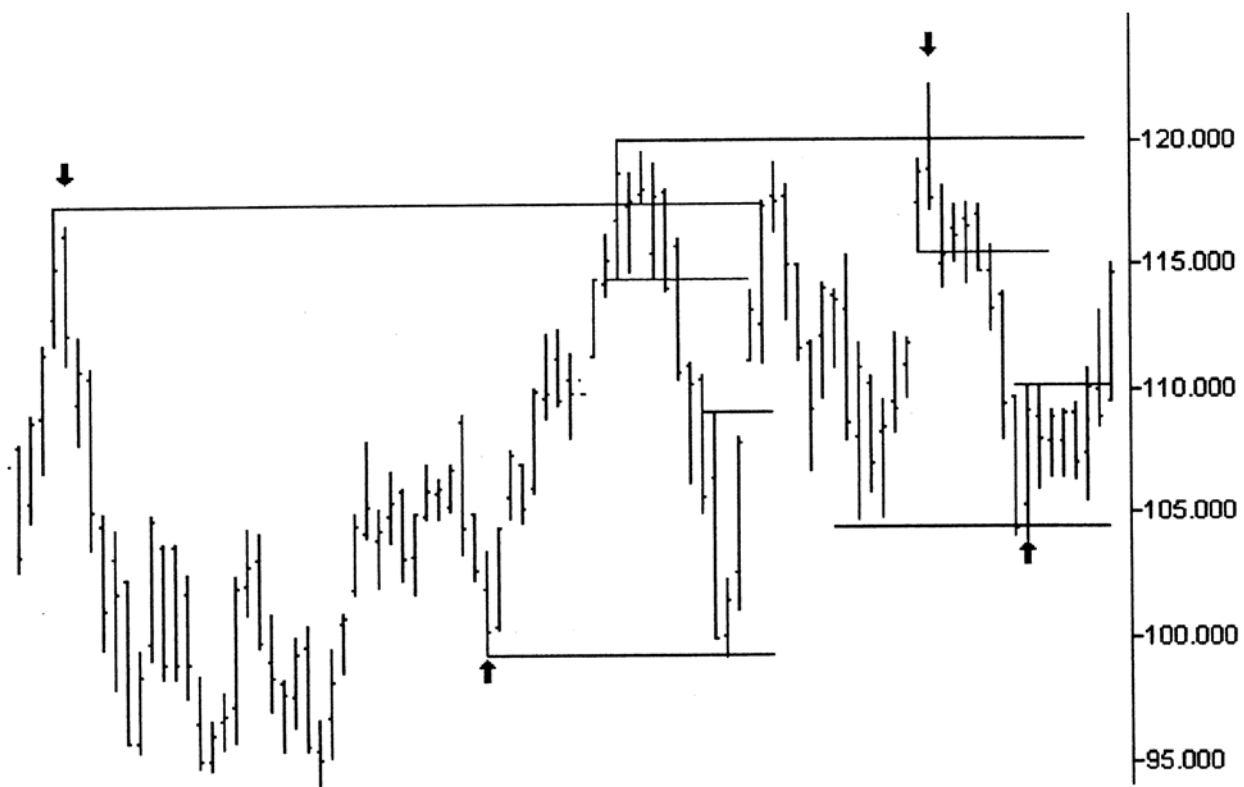
British Pound Daily



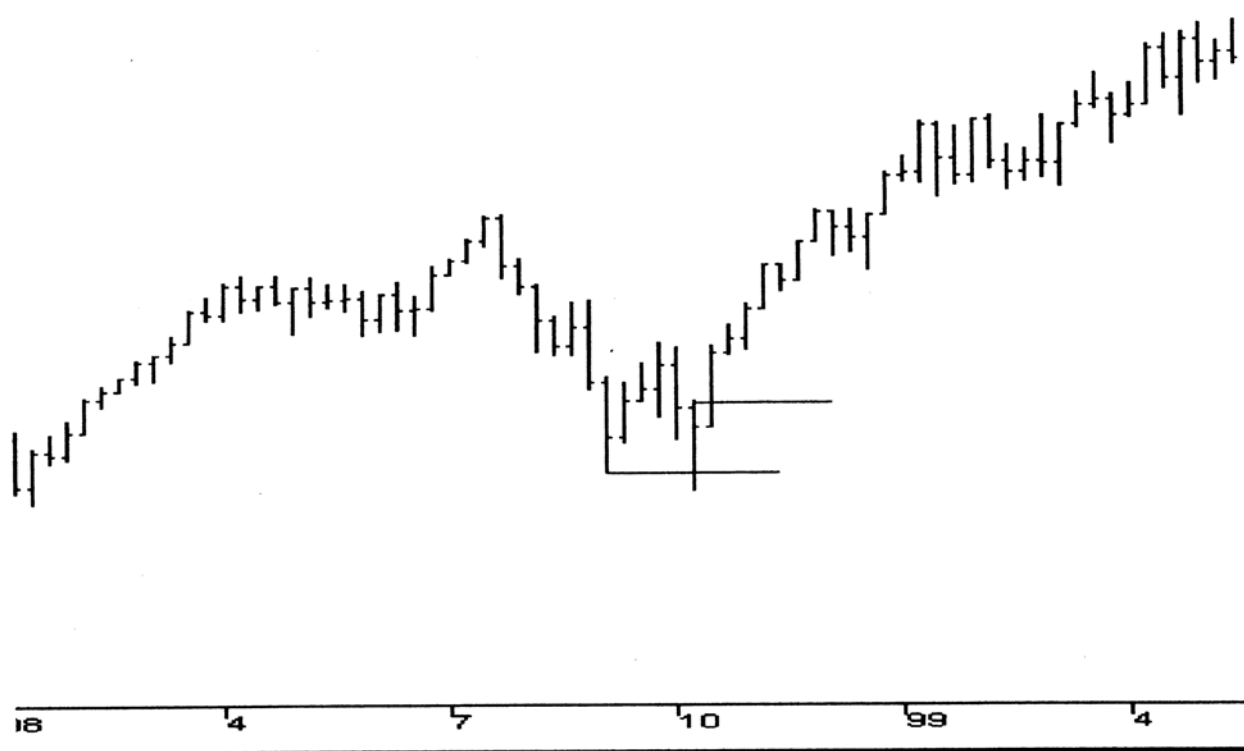
Nasdaq Composite Daily



Cisco Systems Daily



S&P 500 Weekly

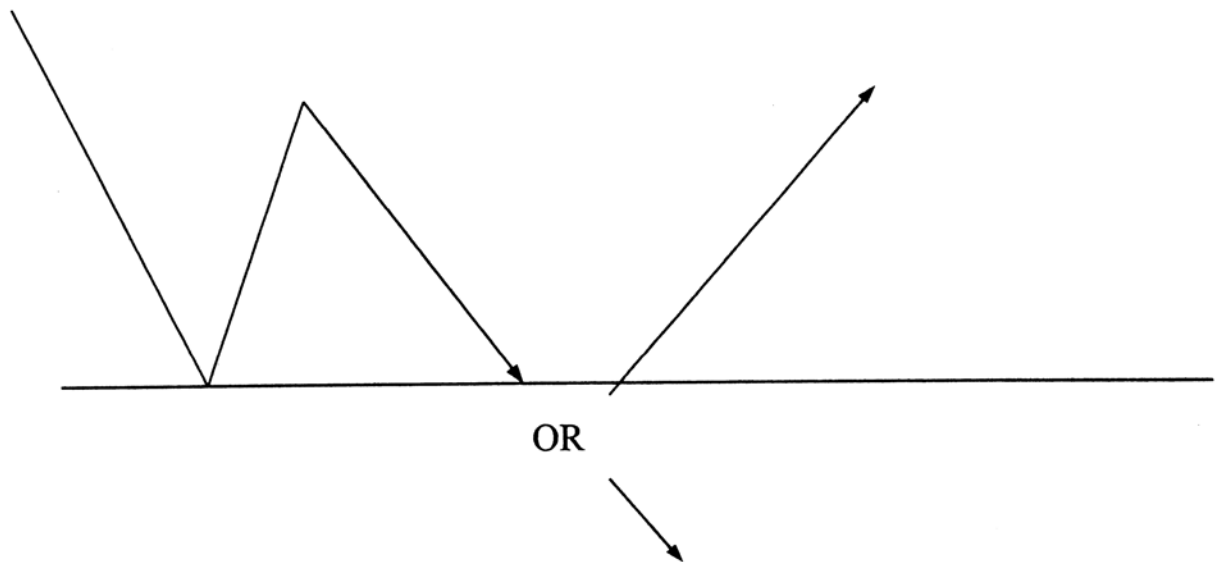


The Set Ups

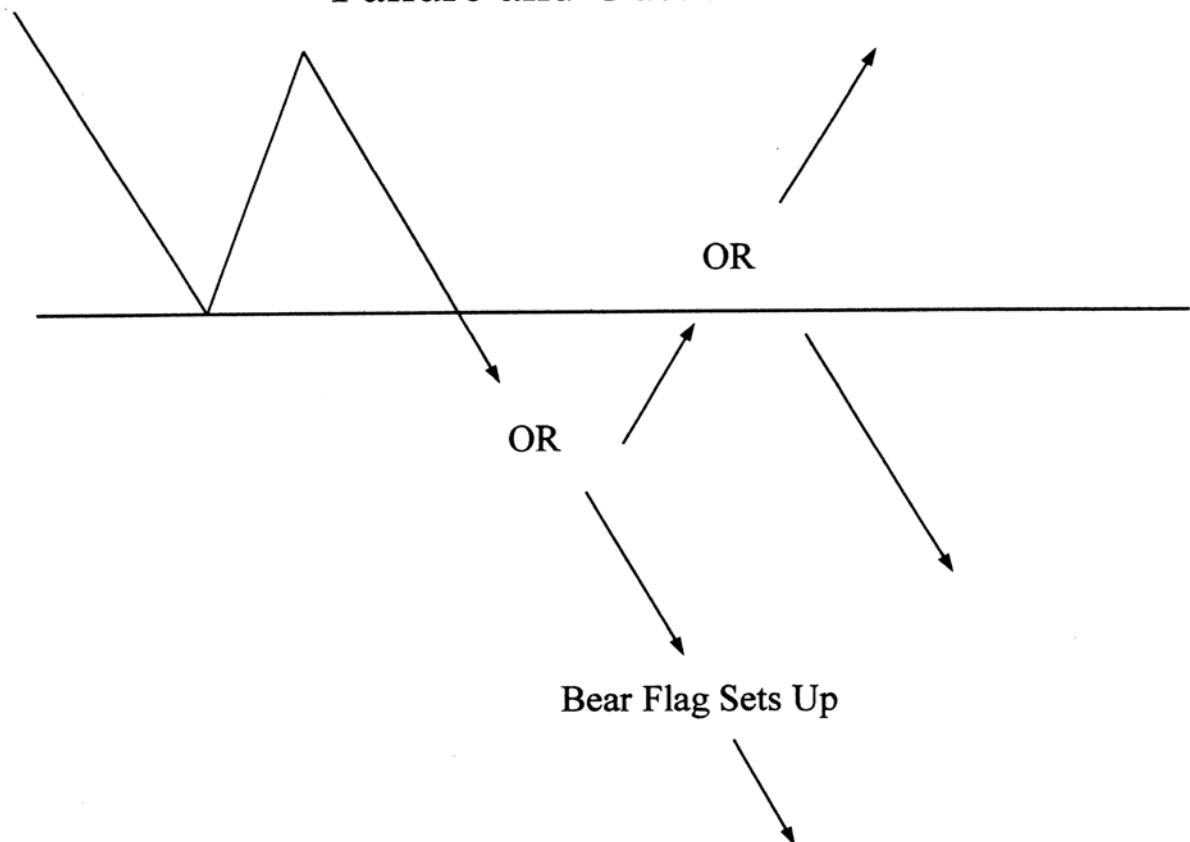
- As a prior support/resistance is tested, there are a limited number of common behaviors.
- Anticipate each of the basic behaviors and have a plan to exploit them if they occur.
- If the market doesn't set up properly, pass on the trade.
- If the available triggers leave the stop too far away, pass on the trade.
- Oscillators can provide insight into which behavior is most likely to occur.
- Preplanning is vital.

Anticipate behaviors and wait for triggering events.

Test and Potential Outcomes

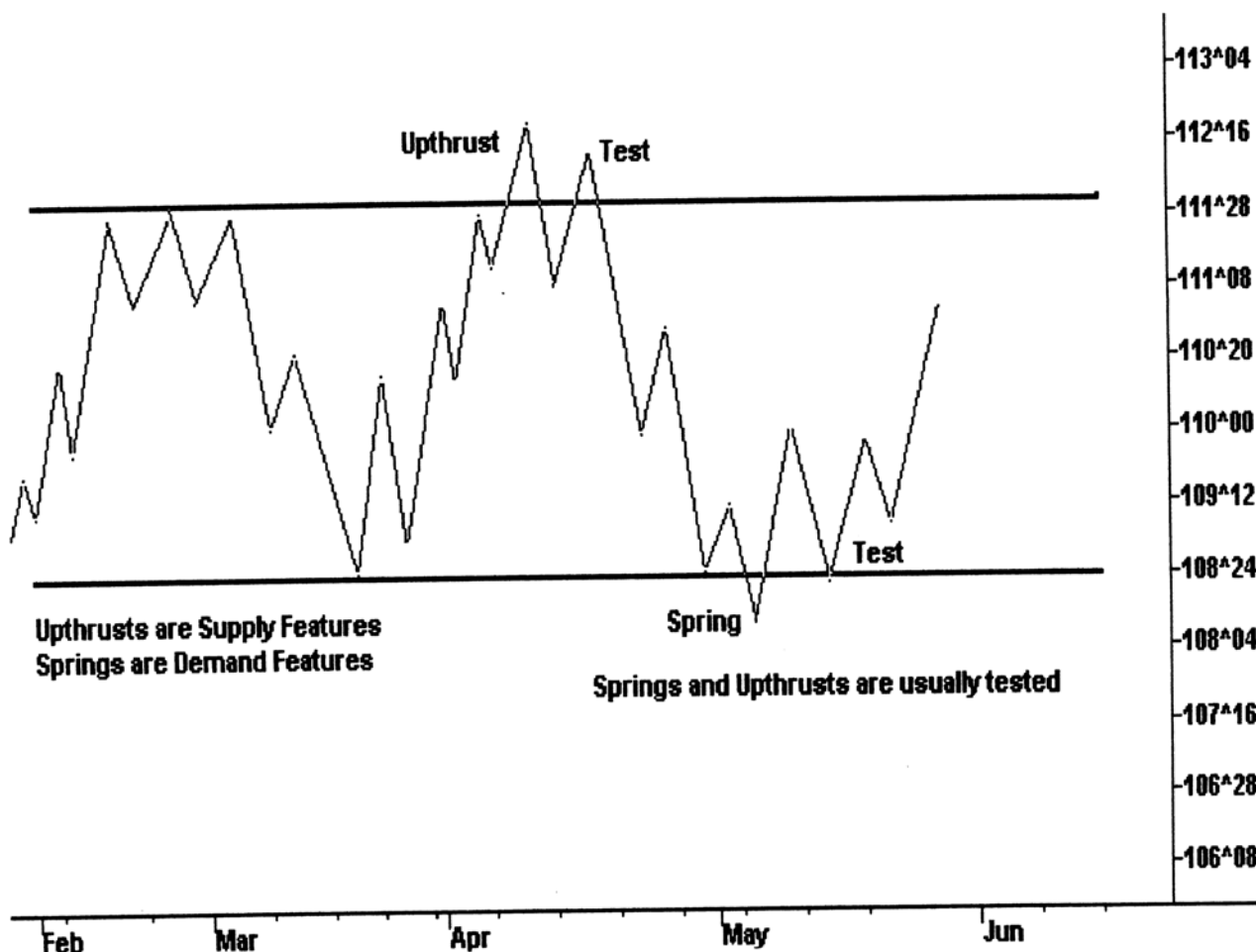


Failure and Outcomes



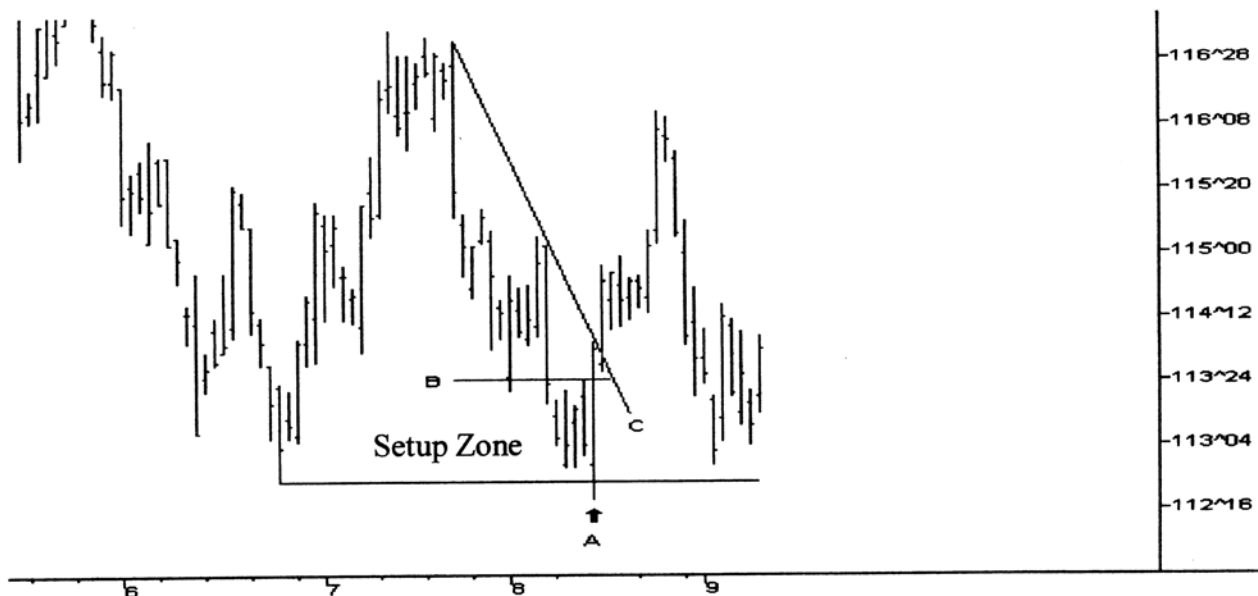
Springs & Upthrusts

- Springs and upthrusts occur as price moves above or below the fringe of a trading range and quickly reverses.
- The structure marks a distinct change in the supply demand balance.
- Springs and upthrusts should: A) Reverse at a reasonable level. B) Reverse quickly.
- The structure: A) Is often tested on lower volume. B) Often marks an important turn. The action shakes positions from weak hands to strong.



Into the Setup Zone

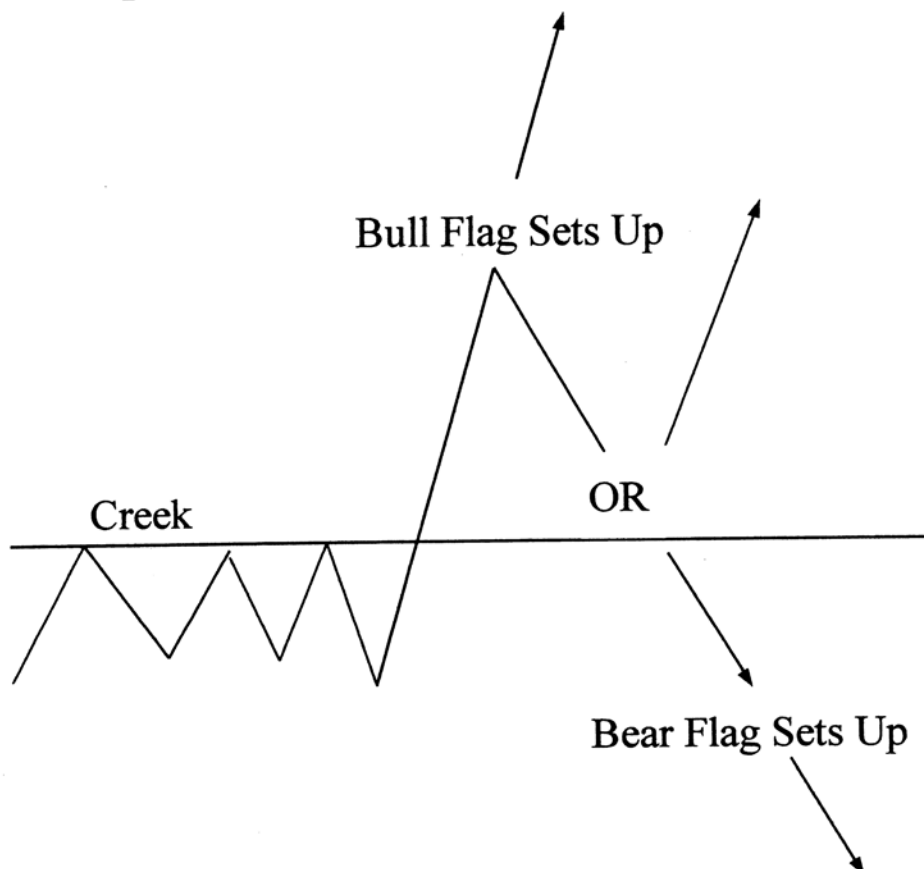
- The oscillator (not shown) is oversold as the market moves into the zone of support. The oversold condition suggests that the potential for spring behavior is strong.
- Each day that the market rests in the setup zone, an entry trigger is identified. If the market pushes into spring position an entry stop will be placed just above the trigger.
- Two triggers are identified: The downtrend from the recent high (@ C) and a prior bars high. If the market tests without first springing the support, the downtrend will provide a conservative entry.
- At point A, the market opens and then moves below support. As soon as the market breaks below the support, a buy stop is placed just above the entry trigger (the high of the prior day @ B).
- If the trigger is activated, the initial protective stop is placed 2/32 below the low of the spring.



Jump of the Creek/Fall Below the Ice

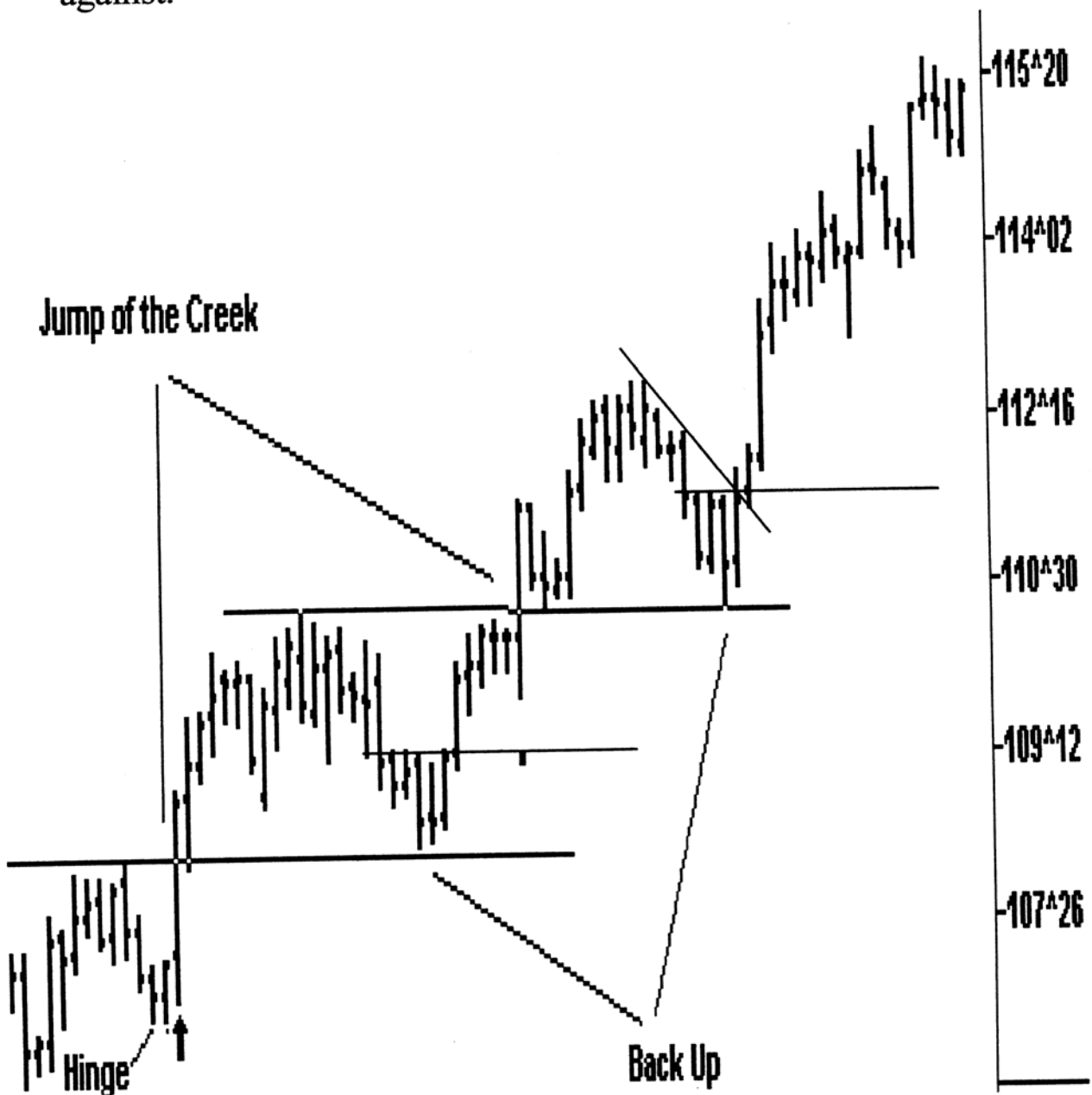
- Richard Wyckoff called the decline to test the upside breakout of a trading range the “Back Up to the Creek” and the rally to test the breakout of a trading range to the downside the “Rally to the Ice.”
- The test offers a trading opportunity with a very solid risk reward.
- After a period of preparation, the market jumps above the top of the trading range (the creek). The sign of strength either forms a bull flag or falters. The market then declines (falling volume and narrower price spread is best) to test the breakout zone.
- How do you know when the test of the creek or ice is complete and that the market isn’t going to fall back into the prior trading zone?

Jump of the Creek



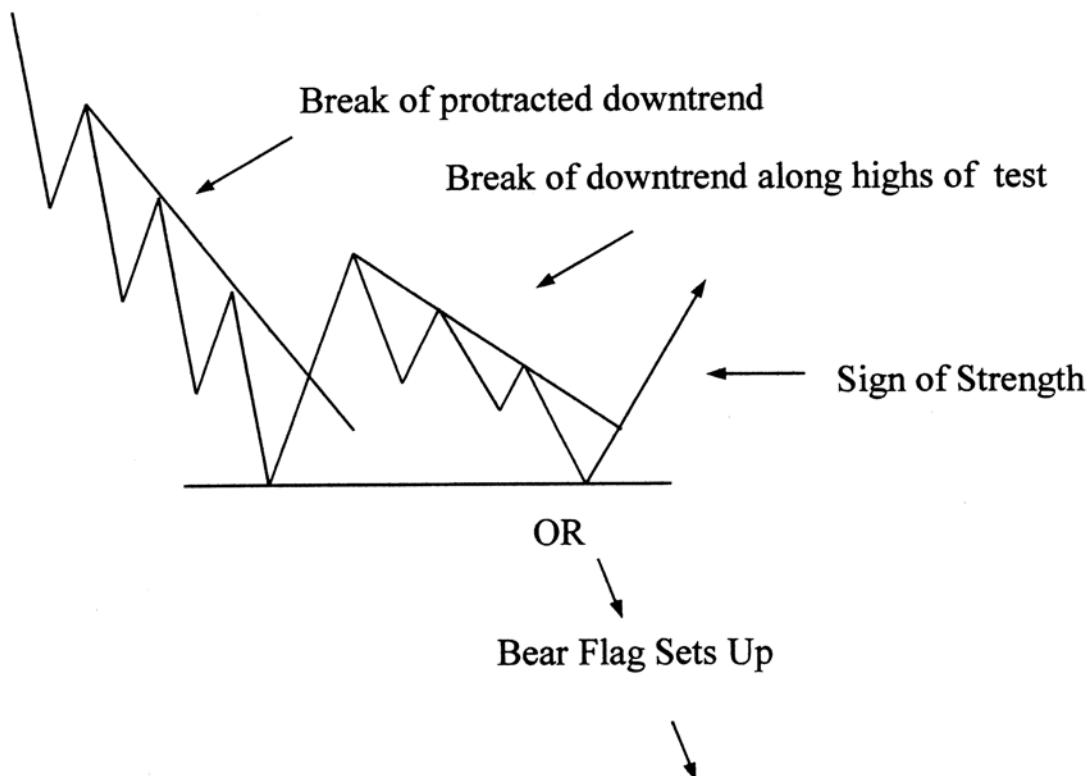
The Market Sets Up (Twice)

- The market jumps the creek and then spends two to three weeks backing up to test the creek (on narrower price spread, lower volume and at a shallower angle). As the market nears the creek, appropriate entry triggers are placed. A trend line across the top of the testing structure or a prior days high can be used to trigger against.



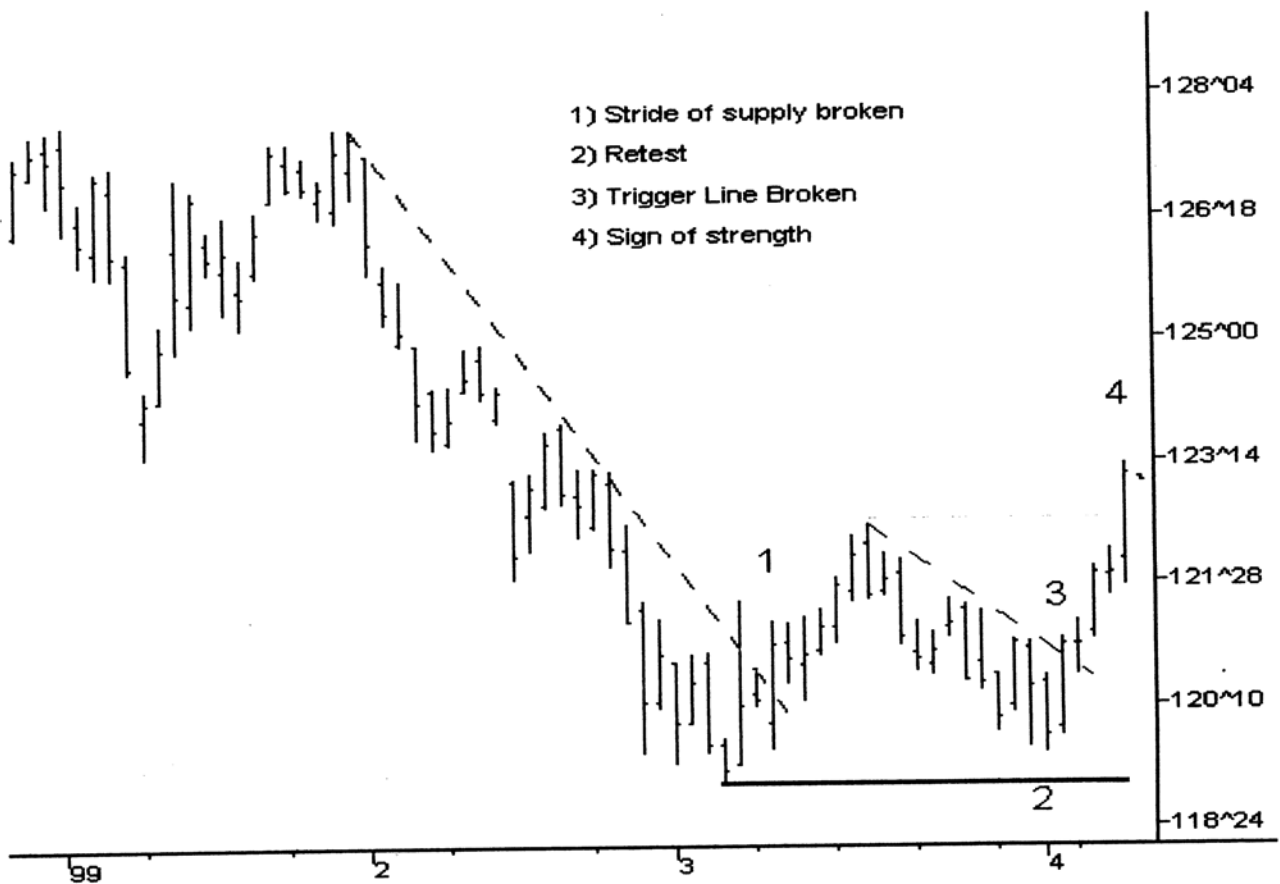
Wyckoff Test and Sign of Strength

- Price breaks above a protracted downtrend and mounts a sharp rally.
- The market backs into the pivot zone.
- Demand materializes along the setup zone.
- Price jumps above the downtrend along the test highs.
- The decline to test the low should occur on lower volume, narrower price spread and should have a shallower angle of attack than the original decline.



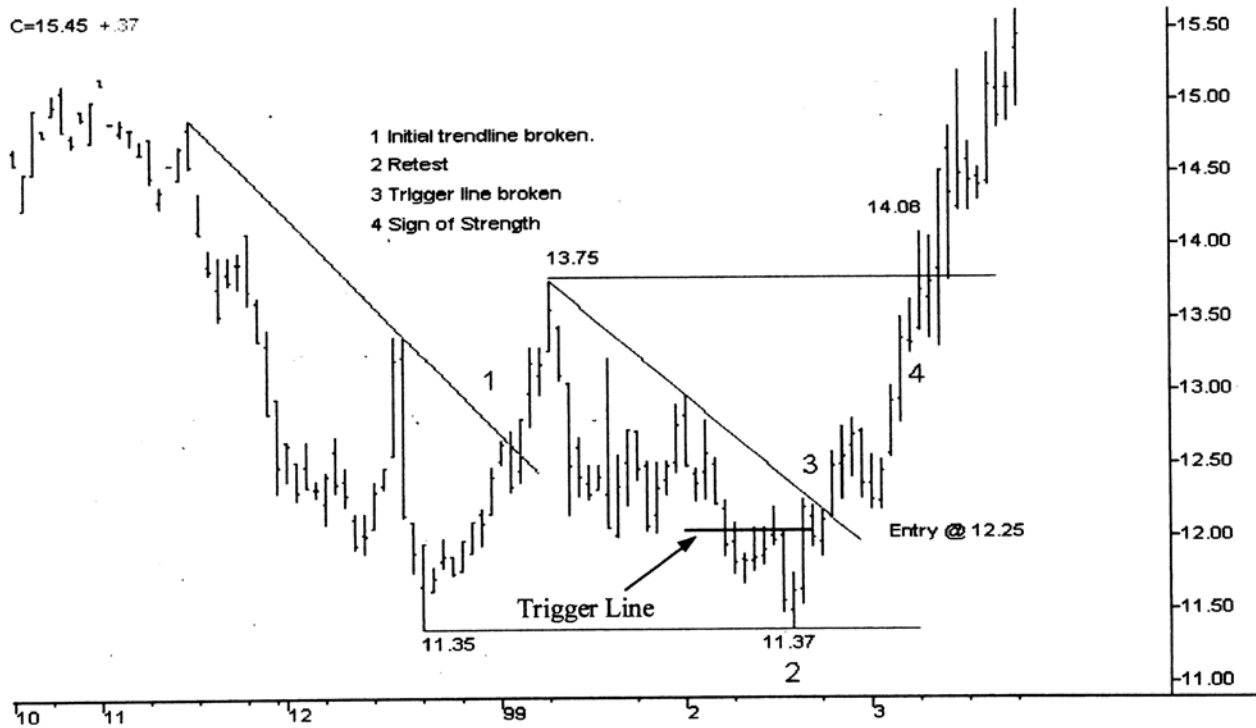
The Set Up Zone

- The market breaks above the daily downtrend (@ 1). Price momentum is now neutral.
- The market mounts a two week rally and begins to set back.
- Over the next three weeks the market declines toward the support zone. The decline is characterized by low volume, narrow daily ranges and a shallow angle of descent. As the market moves into the zone of support (@ 2) potential triggers are identified.
- A break of the trigger line along the highs of the macro test (@ 3) activates the trigger.

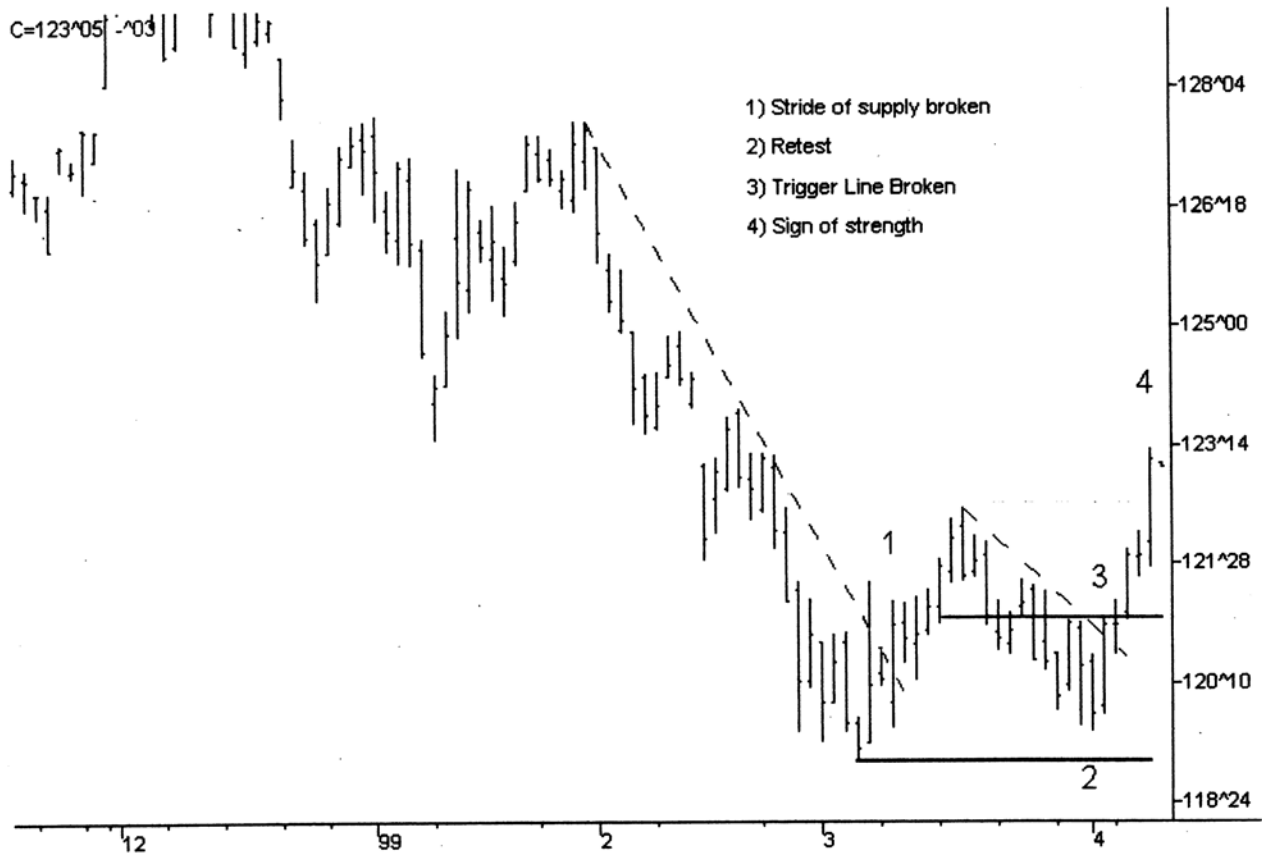


Wyckoff Bottoms

C=15.45 +.37

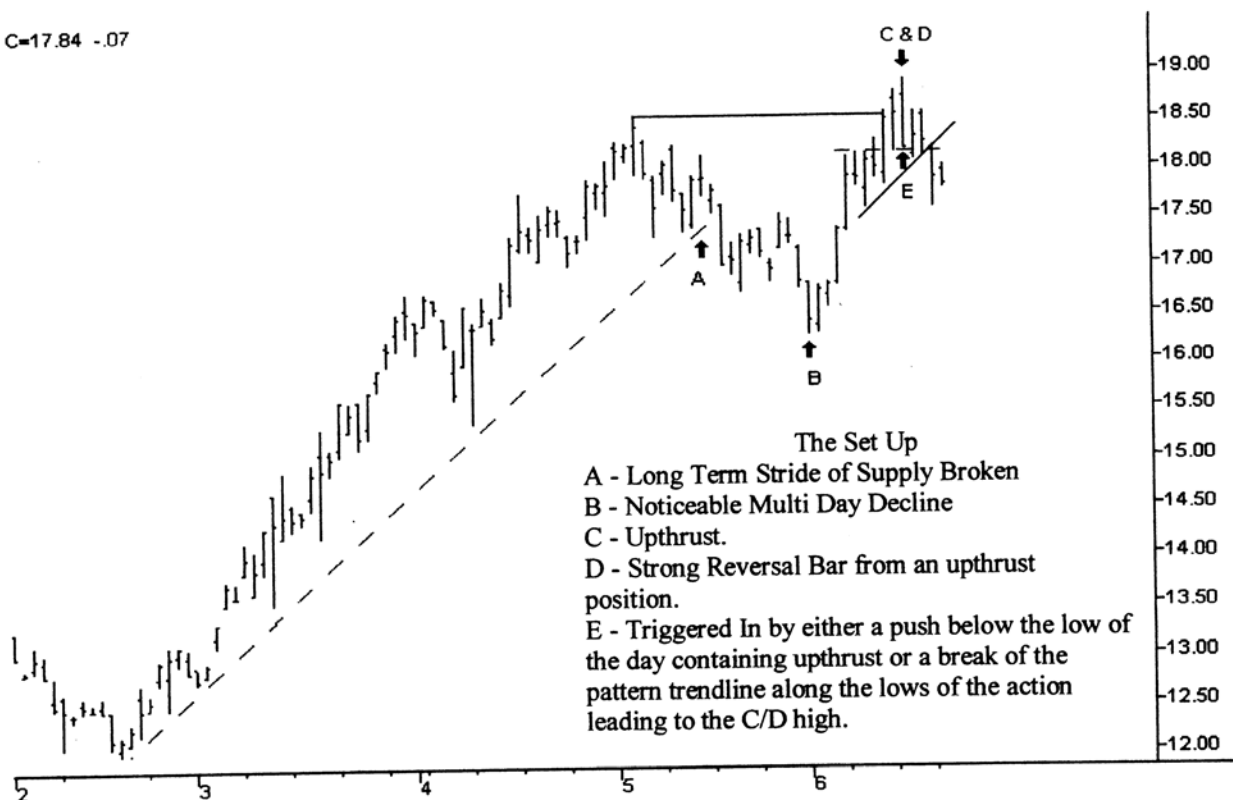


C=123^05 1^03

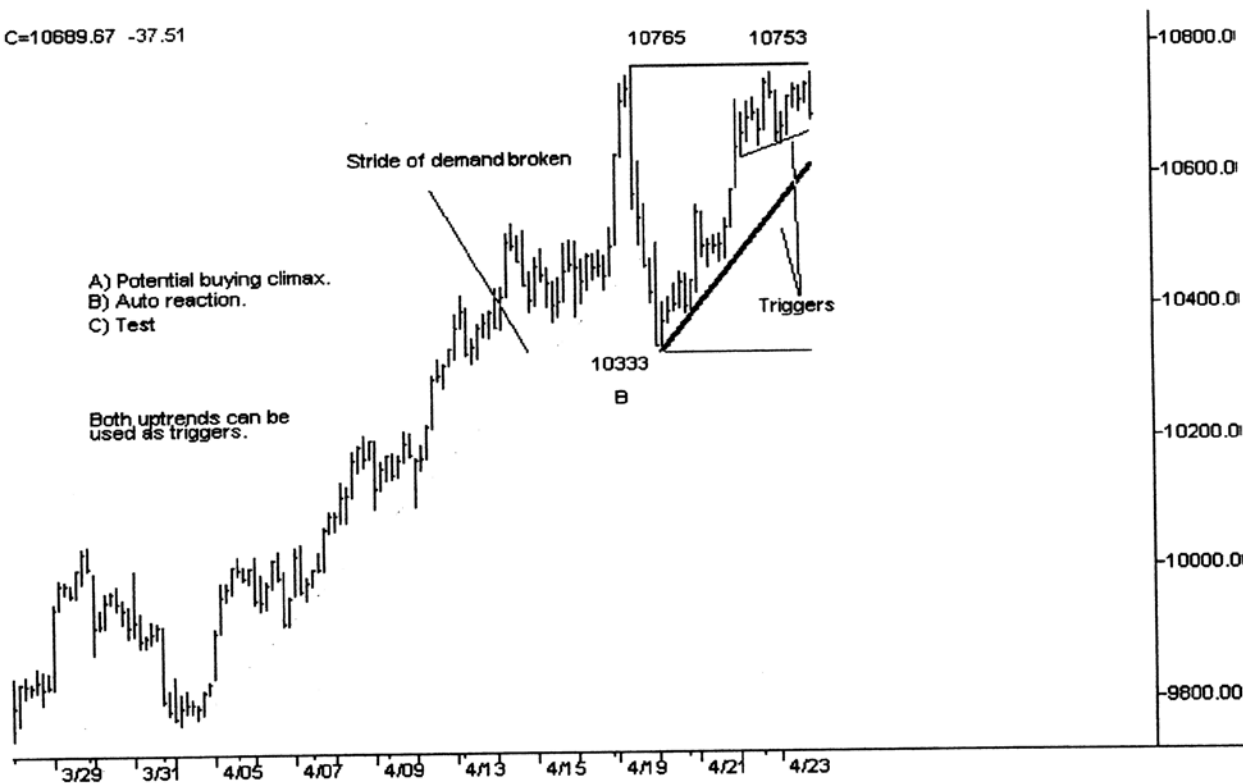


Wyckoff Bottoms & Tops

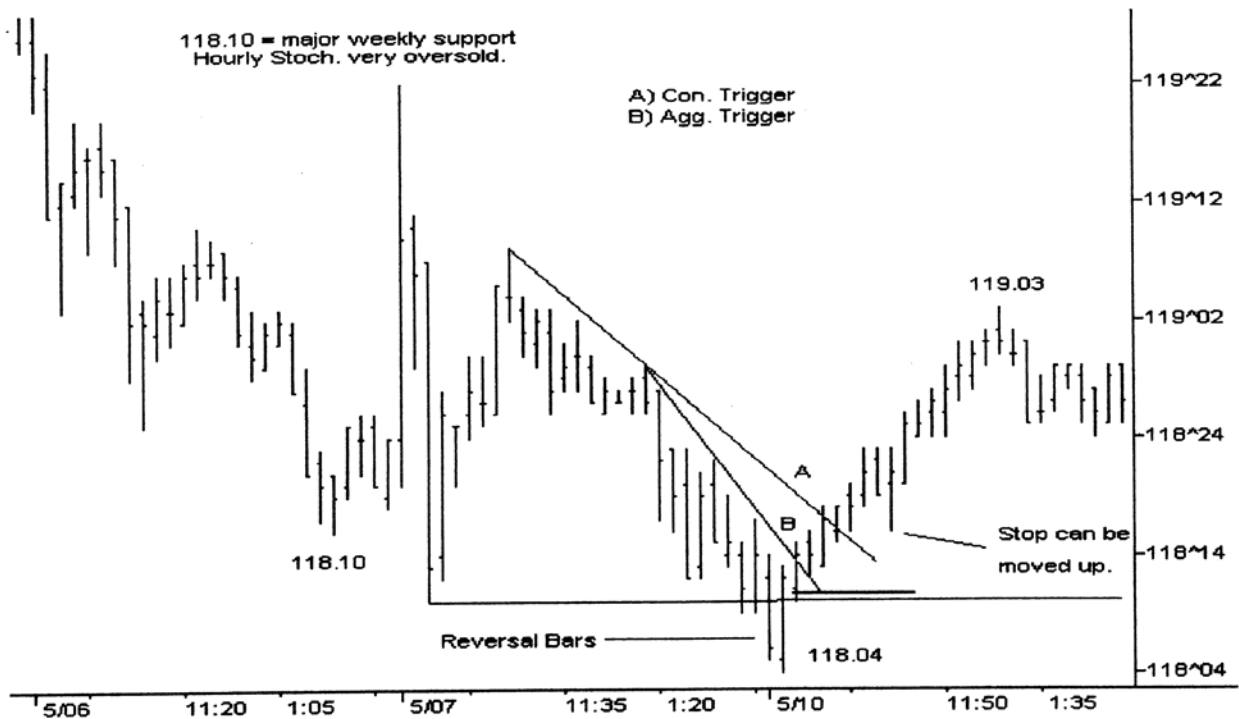
C=17.84 -.07



C=10689.67 -37.51

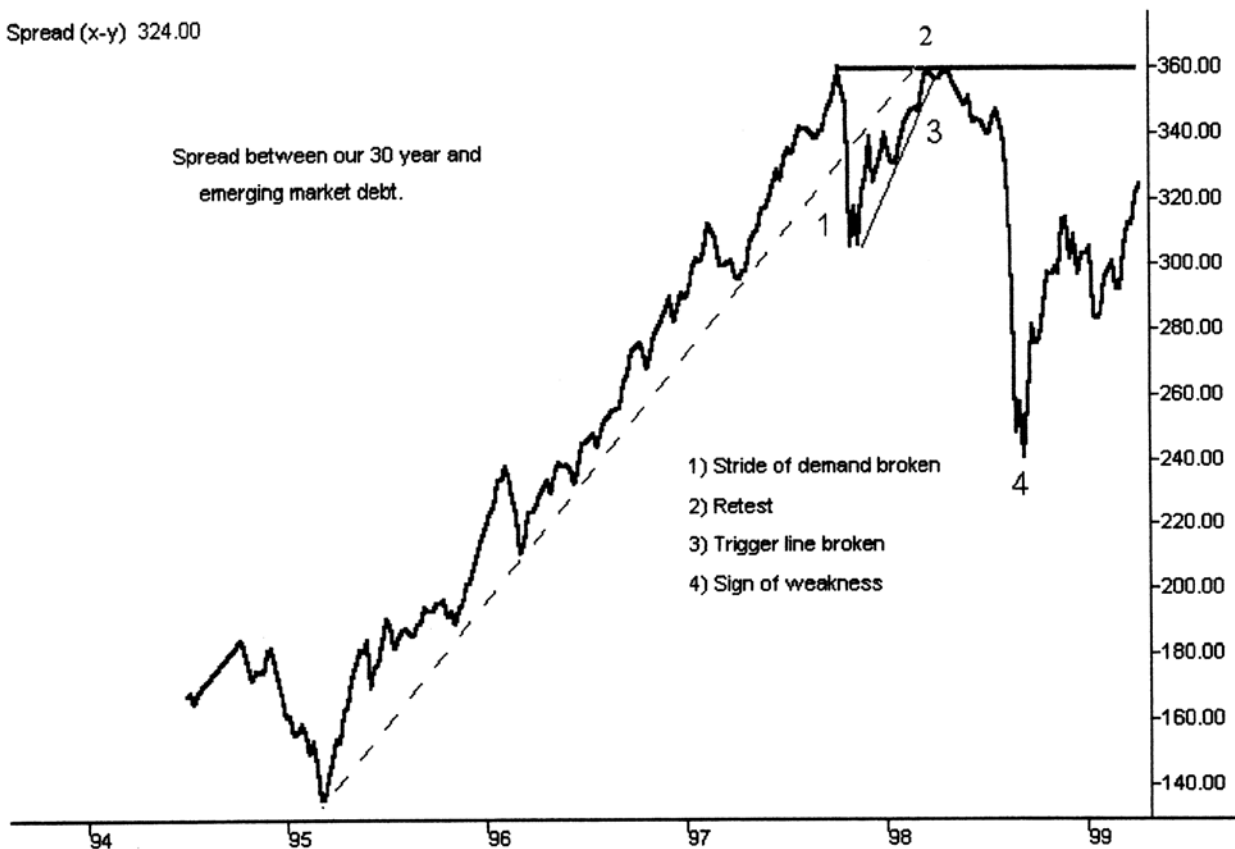


Wyckoff Bottoms & Tops



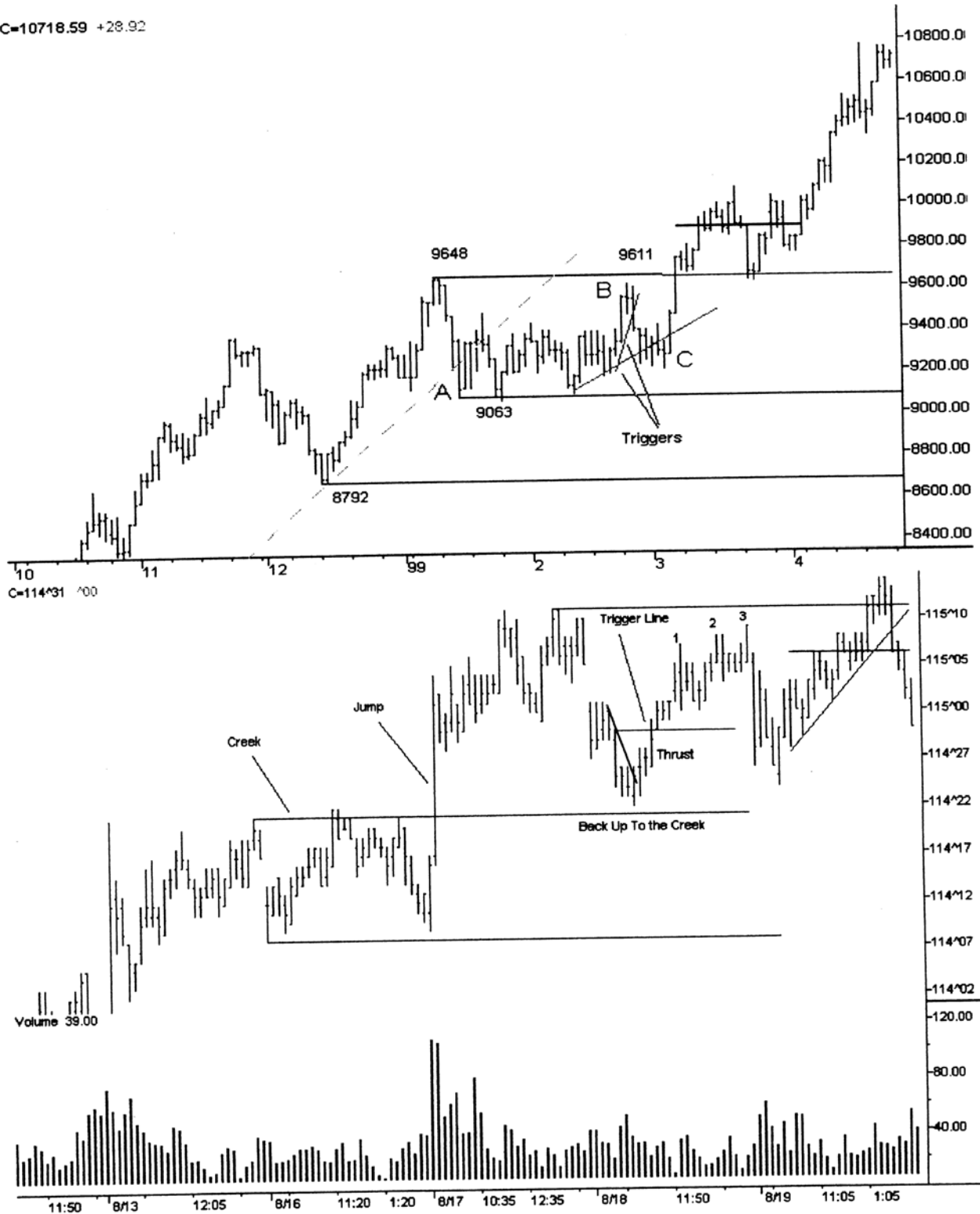
Spread (x-y) 324.00

Spread between our 30 year and
emerging market debt.

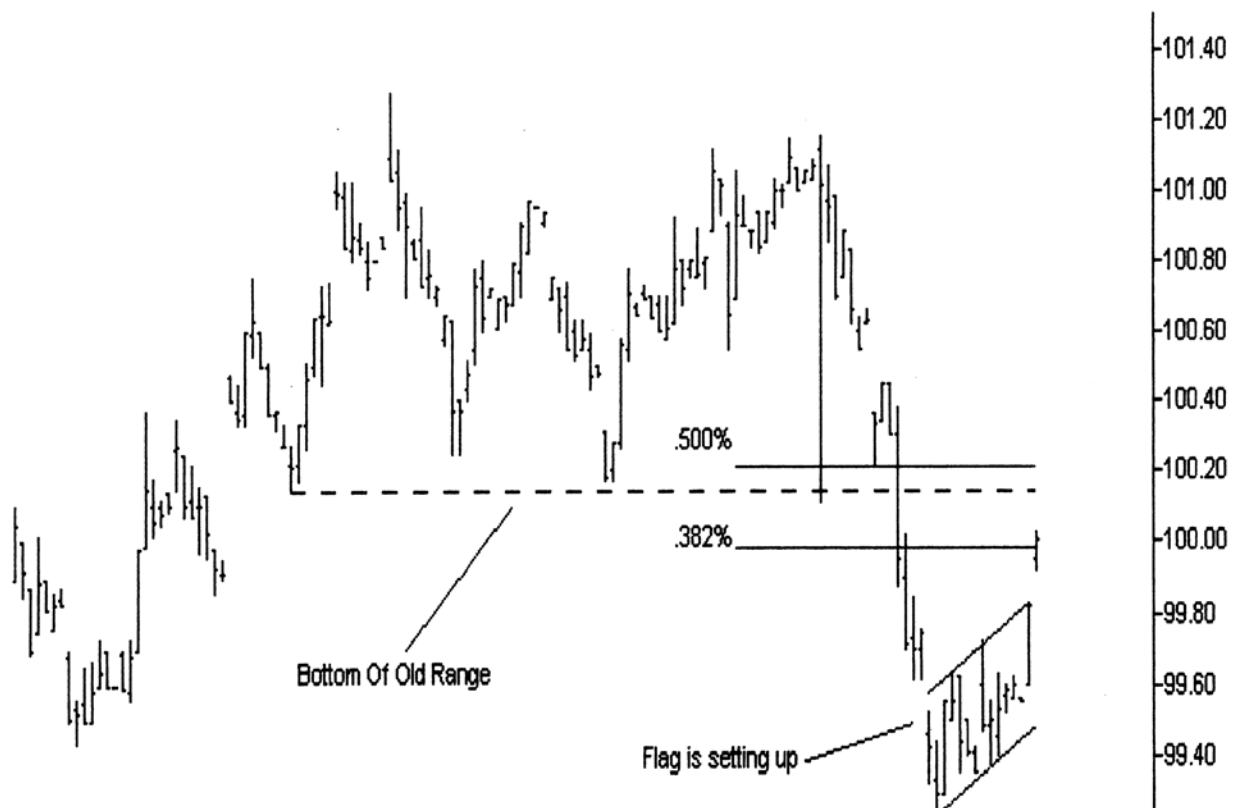


Back Up to the Creek

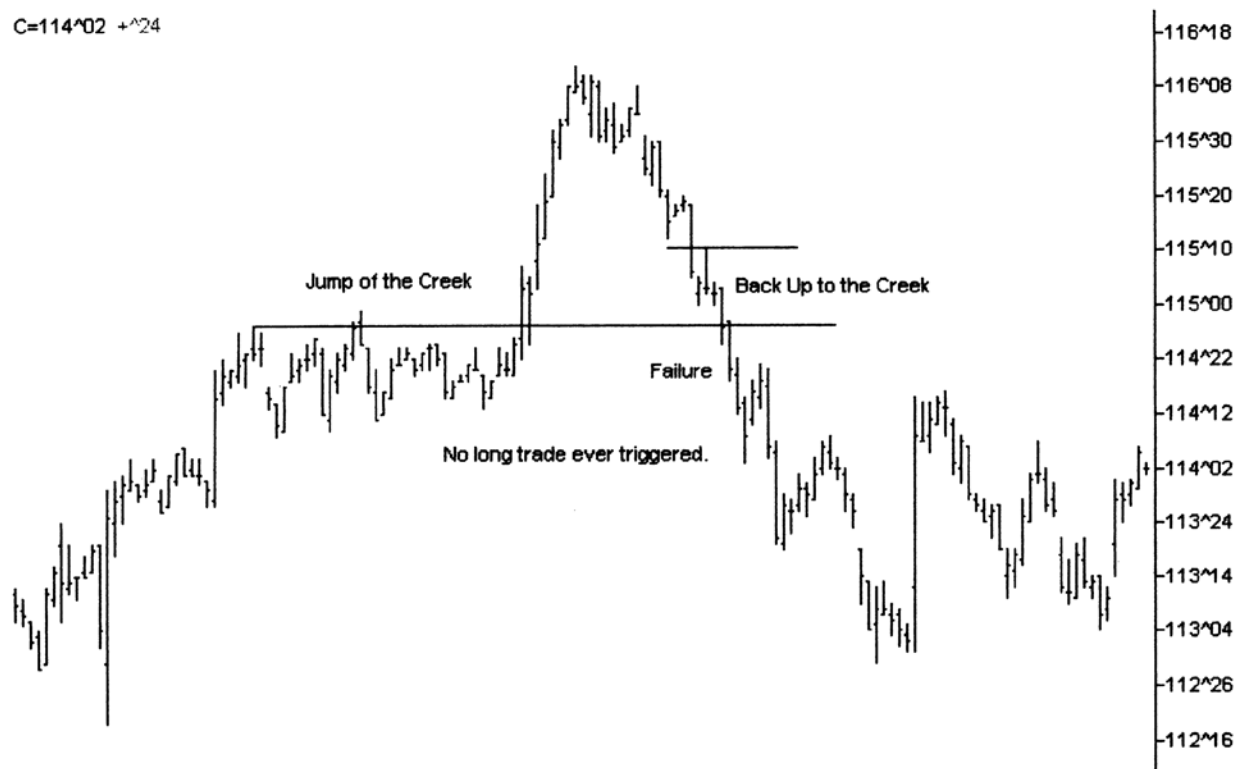
C=10718.59 +28.92



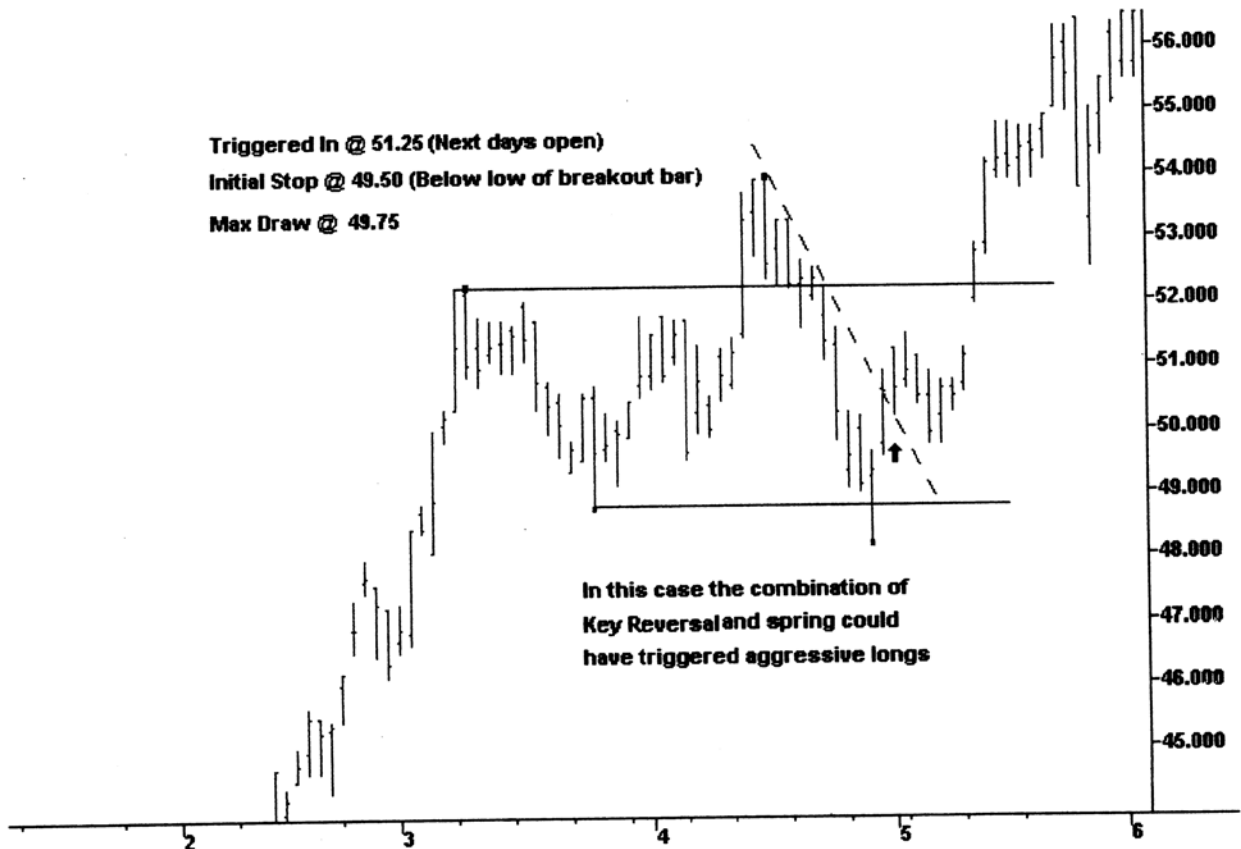
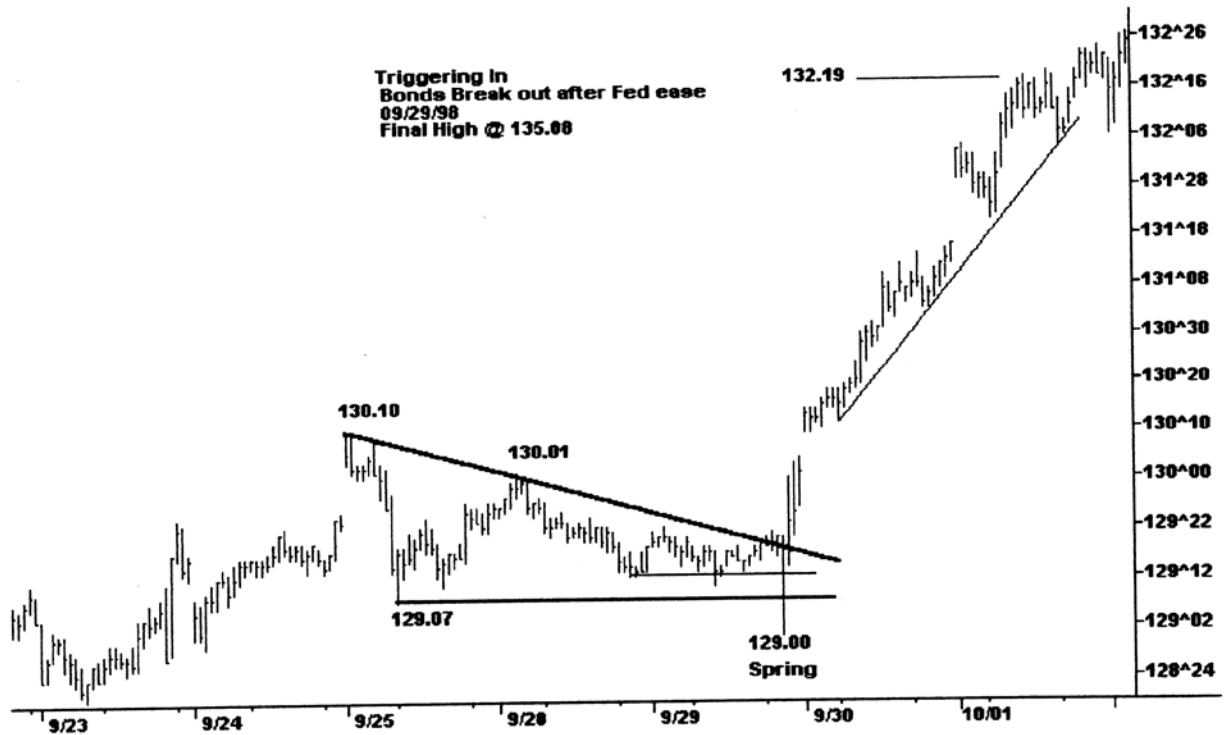
Rally to the Ice/ Back up to the Creek



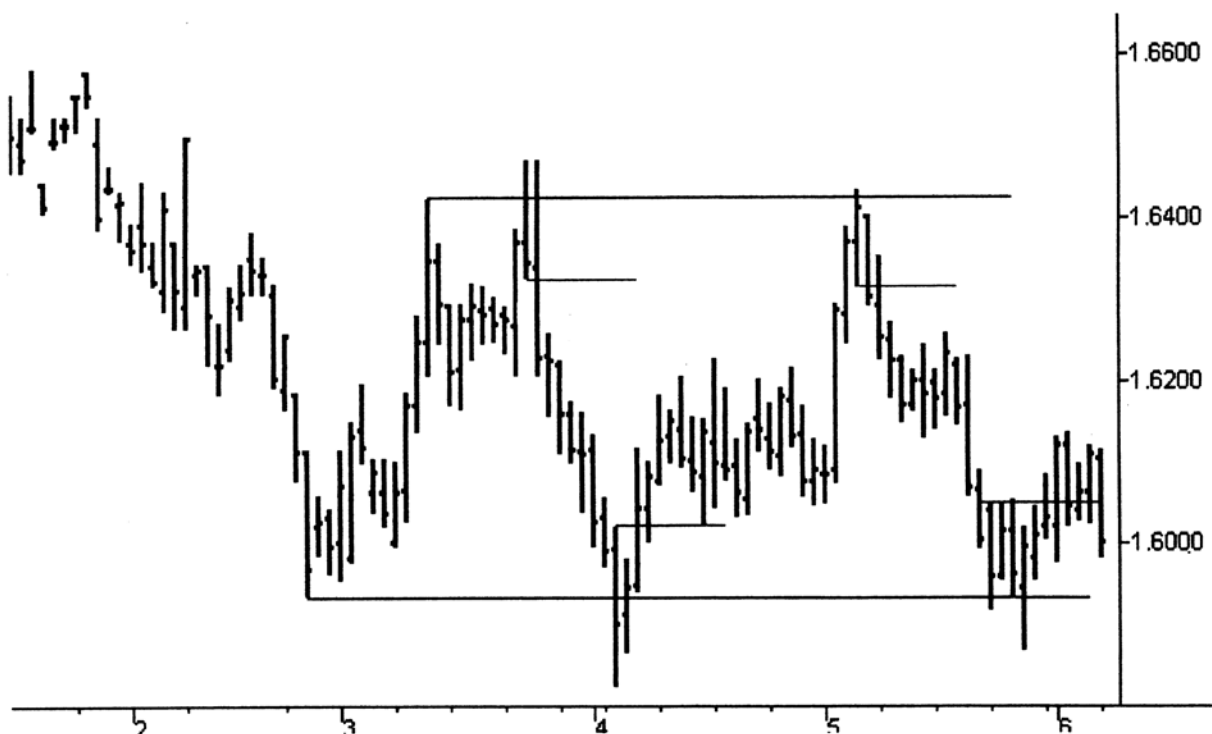
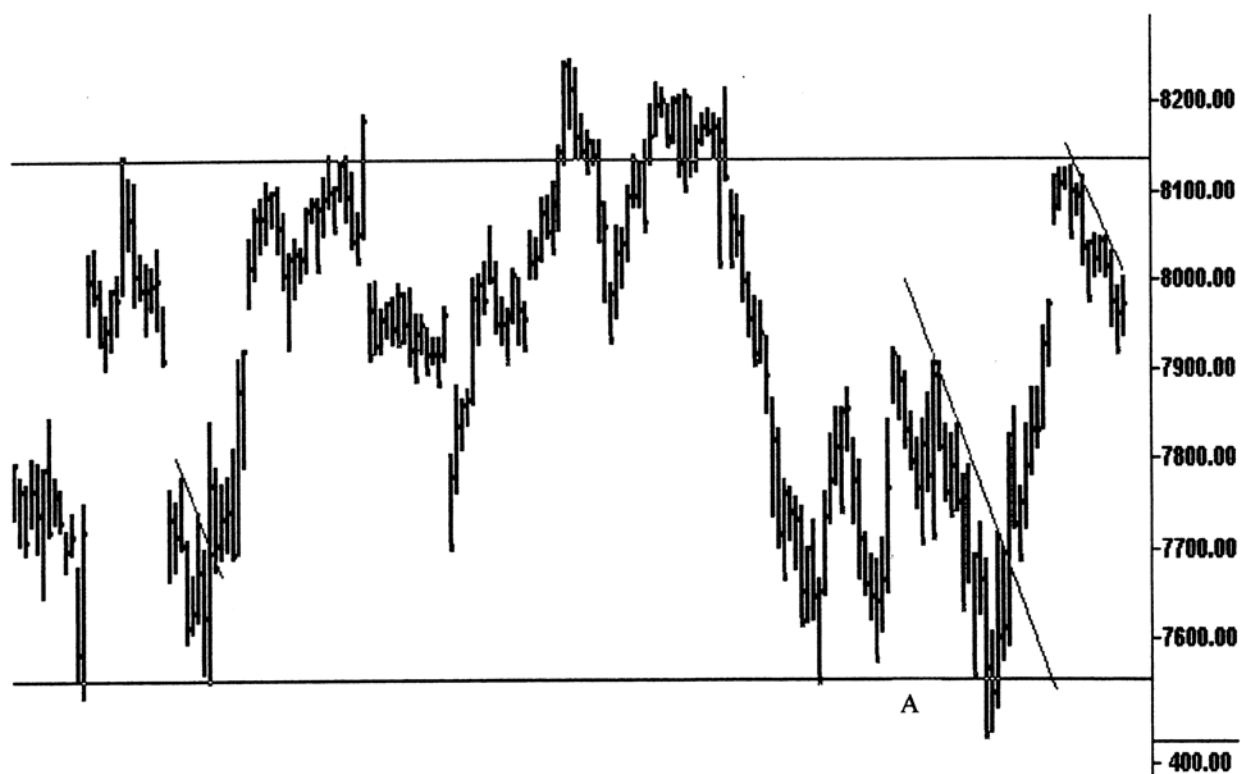
C=114^02 +^24



Springs and Upthrusts



Springs and Upthrusts



The Taylor Fixed-Income Outlook

The Taylor Fixed-Income Outlook provides daily, intermediate, and long-term trades and recommendations with a special emphasis on bond futures and the 30-year Treasury. Subscribers include many tier-one institutional accounts, primary dealer trading desks, hedge funds, mutual funds, and proprietary traders. The Taylor Fixed Income Outlook is entering its eighth year of publication.

Pattern Trapper

The pattern trapper provides day and swing trade recommendations covering 24 of the most liquid commodities markets. Daily recommendations include the three best pattern setups for the day and an in depth look at the bond market. Each edition includes a recap of the prior day's bond trading. The recap highlights the prior days setups and outcomes. The Pattern Trapper is produced and edited by Bob Hunt and marketed by Taylor Consulting.

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CONTACT INFORMATION

Voice: 501-219-9774

Fax: 501-228-0963

E-Mail: staylor@cei.net

Web Site: www.cei.net/~staylor/

Taylor Consulting Inc, 21 Portland Road,
Little Rock AR, 72212