TAG XVIII
New Orleans
1996

Determining Trends in Foreign Exchange Markets

In his workshop, J. Adam Hewison will share with you the technical tools he uses every day to determine trends in the foreign exchange markets. He will also discuss the outlook for the U.S. dollar and major cross-rates and show you a very simple technique to determine the major trend in the currency markets. He will explain negative and positive forces in the marketplace and how the big moves are often set up years in advance. As a former floor trader, Adam will discuss the difference between trading on the floor of an exchange and trading from an office thousands of miles away.

Tim Slater's Note: I first met Adam fourteen years ago and was impressed with his knowledge and expertise. I know that foreign exchange traders in both cash and futures markets will benefit from this workshop.

Adam Hewison is the founder and president of INO Global Markets, a financial markets Internet site focusing on futures, options, and derivatives. A foreign exchange trader, Commodity Trading Advisor, and author, Hewison has developed INO.com into one of the most innovative and informative Internet sites for investors and traders.

Hewison, who launched INO in March 1995, was the first in the industry to develop the concept of hosting industry organizations on a single "umbrella" web site. As a result, more than fifty organizations are currently resident on INO. The INO site was also the first to make CTA disclosure documents available electronically, and to create an electronic library, the Traders' Library, franchised to other Internet sites at no charge.

Hewison, who was born and educated in England, began trading foreign exchange in 1972 when the Chicago Mercantile Exchange created its International Monetary Market (IMM) division and started the first futures markets in currencies. Subsequently, he became a member of the IMM. He also became a charter member of the New York Futures Exchange (NYFE) and the London International Financial Futures Exchange (LIFFE), and held seats on the Index and Options Market (IOM) in Chicago. Afterwards, he was based in Geneva, Switzerland, where he managed the currency and risk exposure of a large multi-national corporation. After returning to the U.S., he formed The Rich Financial Group, Inc., a commodity trading advisory firm. In 1995, he started INO Global Markets.

Hewison is the author of two highly acclaimed guides to the foreign exchange markets, International Monetary Report *and* Right on the Money, the Definitive Guide to Forecasting Foreign Exchange Rates.■

Adam Hewison

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"When you 'K.I.S.S.', your trading method opens up a whole new world of opportunity."

10 NEVER FAILING RULES
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1. ALWAYS PLACE A STOP LOSS ORDER AT THE TIME YOU MAKE A TRADE AND DO NOT CANCEL IT

2. NEVER OVER-TRADE

3. NEVER BUCK THE TREND FOR MORE THAN A DAY

4. WHEN IN DOUBT, GET OUT...AND STAY OUT

5. DON'T CLOSE A TRADE WITHOUT GOOD REASON

6. NEVER AVERAGE A LOSS

7. DO NOT BECOME IMPATIENT WITH THE MARKET

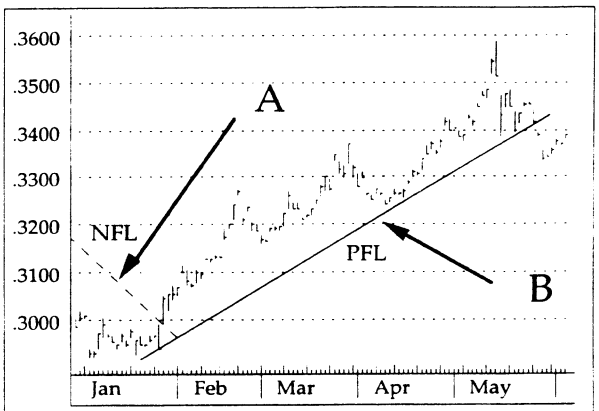
8. NEVER CANCEL A STOP

9. NEVER BUY JUST BECAUSE THE PRICE IS LOW
   NEVER SELL JUST BECAUSE THE PRICE IS HIGH

10. ALWAYS HAVE A GOOD REASON FOR EVERY TRADE

POSITIVE AND NEGATIVE FORCE LINES

A Positive Force Line (PFL) means that rates are trending in a positive way and is put into place when a uptrend is underway. In order for a Positive Force Line (PFL) to be valid, it must be joined by at least three points. The longer the Positive Force Line (PFL) is in place the larger the ensuing move will likely be in the opposite direction once the Positive Force Line (PFL) is broken. A Negative Force Line (NFL) acts in just the opposite fashion to a Positive Force Line (PFL).



POSITIVE/NEGATIVE FORCE LINES
1974 SWISS FRANC SPOT

Figure 1

Arrow (A) indicates that a Negative Force Line NFL has been broken to the upside. Arrow (B) shows a Positive Force Line in place.

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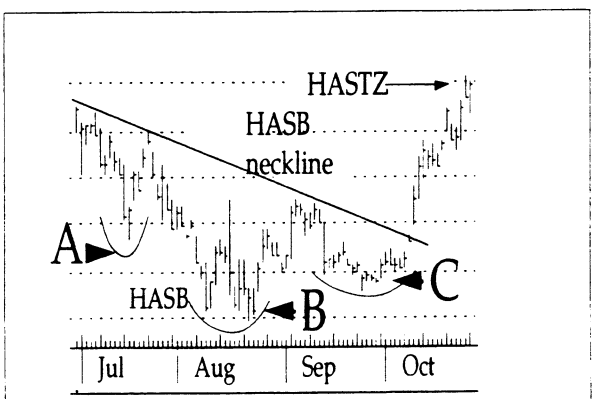
OLD HUNGARIAN PROVERB

HEAD AND SHOULDERS FORMATIONS

One of the oldest and most reliable of all chart formations is the Head and Shoulders Formation. This formation takes place usually after a trend has been established and in place for some time. Both the Head and Shoulders Top (HAST) and the Head and Shoulders Base (HASB) have a high degree of accuracy and usually portend to a major change in direction for either a currency or a cross rate. A Head and Shoulders Formation should only be considered completed when the neckline is broken. Once the neckline is broken, it is possible that prices can set and retest the neckline.



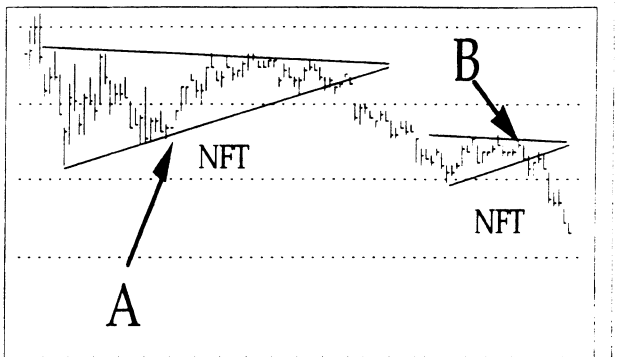
HEAD AND SHOULDERS FORMATION
1988 SWISS FRANC SPOT

Figure 2

The left shoulder (A) gave the market a small rally, which was quickly followed by a break in prices. This break (B) created the head of the HASB. The right shoulder (C) completed the formation.

POSITIVE AND NEGATIVE FORCE TRIANGLES

Triangles can vary in both shape and size and are easily recognized in their various forms in foreign exchange charts. Positive and Negative force triangles are extremely important, as they often act as a indicator of either new or renewed market action. Triangles can indicate both continuation patterns as well as reversal patterns. One of the strongest indicators about both Positive and Negative Force Triangles is that they usually portend to significant moves. The measurement used is to take the vertical side of the triangle and measure the distance.



NEGATIVE FORCE TRIANGLES
1977 CANADIAN DOLLAR SPOT

Figure 3

This will then give you a minimum objective from the breakout point.
Both (A) and (B) are Negative Force contiuation type triangles.

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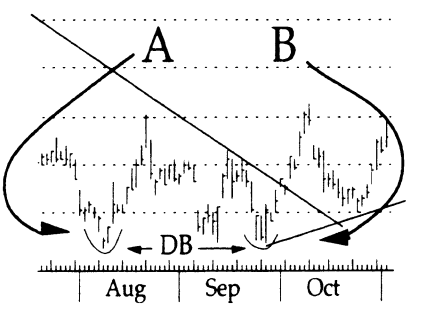
DOUBLE TOPS AND BOTTOMS

Double Tops (DT) and Bottoms (DB), when they occur, are among the most important chart formations of all, usually indicating a substantial move in the opposite direction. At times it may appear as though a double top or bottom is forming only to see it fail and become part of another overall chart pattern. One way to avoid this is to wait until either a Positive or Negative Force Pivot Points is taken out; this acts as a confirmation (see Positive or Negative Force Pivot Points).



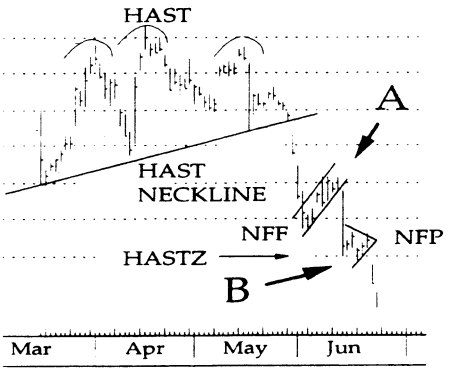
DOUBLE BOTTOM
1981 BRITISH POUND SPOT

Figure 4

Point (A) creates the is the first drive down of this double bottom (or potential Triple Bottom). The market confirms the formation by moving over a NFL.

POSITIVE AND NEGATIVE FORCE FLAGS AND PENNANTS

Positive and Negative Force Flags and Pennants are among the most reliable of indicators. Often Positive and Negative Force Flags and Pennants form when a currency moves into new high or low ground. The more tightly constructed a Flag or Pennant is the more dynamic and reliable the move. It is safe to say that both a flag and pennant formation are among the most reliable of all indicators especially after a fast move in one direction. Measuring objectives can be particularly rewarding using either a flag or pennant formation.



NEGATIVE FORCE FLAG & PENNANT
1988 BRITISH POUND SPOT
Figure 5

A tight Negative Force Flag (A) is quickly followed by a Negative Force Pennant (B). Also shown a HAST, with its HASTZ having been achieved.

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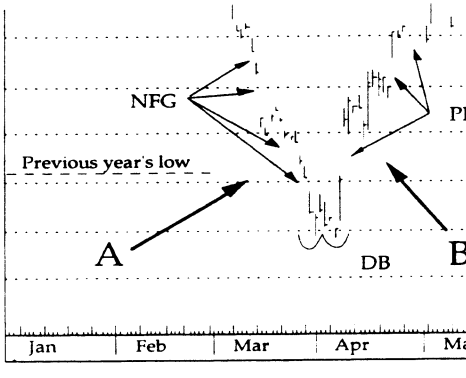
POSITIVE AND NEGATIVE FORCE GAPS

A Positive or Negative Force Gap represents a blank space on the chart at which no trading took place. Gaps are generally very significant, and should not be ignored. In the currency markets gaps occur usually in sets of three. Occasionally you will get an extra gap thrown in. Positive or Negative Force Gaps should be watched carefully, as they measure the pulse of the market and give you advanced warning of potential trend changes.

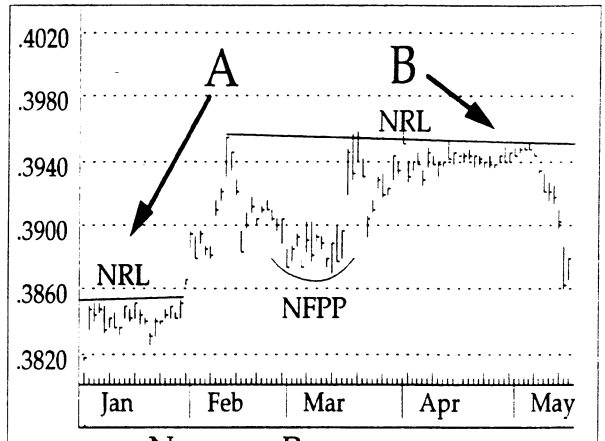


POSITIVE & NEGATIVE FORCE GAPS
1980 FRENCH FRANC SPOT
Figure 6

A dynamic series of Negative Force Gaps (A) was followed by a equally powerful series of (B) Positive Force Gaps.

POSITIVE SUPPORT LINES AND NEGATIVE RESISTANCE LINES

Both Positive Support and Negative Resistance Lines are important, as they show exactly where the support or resistance is for a particular currency. Unlike Positive Force Lines, which are drawn on an angle and must be connected by three points to be valid; Positive Support and Negative Resistance Lines are drawn horizontally. These lines need a minimum of two points to justify being called Positive Support. The more points and the greater the length of time involved, the greater the significance of that area.



NEGATIVE RESISTANCE LINE
1976 DEUTSCHE MARK SPOT
Figure 7

A Negative Resistance Line (A) is broken on the upside. See how quickly the market moves after it breaks over a NRL. Another NRL (B) forms using three points.

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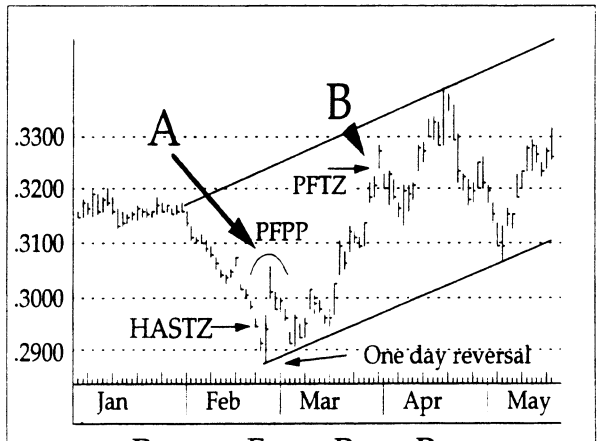
POSITIVE AND NEGATIVE FORCE PIVOT POINTS

Positive and Negative Force Pivot Points have a history of successfully picking both tops and bottoms. Pivot Points, whether they be positive or negative should never be ignored; they give very few false signals and have proven themselves over time. The breaking of a pivot point signals very clearly that the market has failed and should now move in the direction that the V is pointing (see Chart). Measurement of pivot points are as follows. Locate the pivot point, move over to the right and measure from the pivot point to the highest/lowest point of the failed rally/or break. Then take that measurement and add or subtract it from the pivot point.

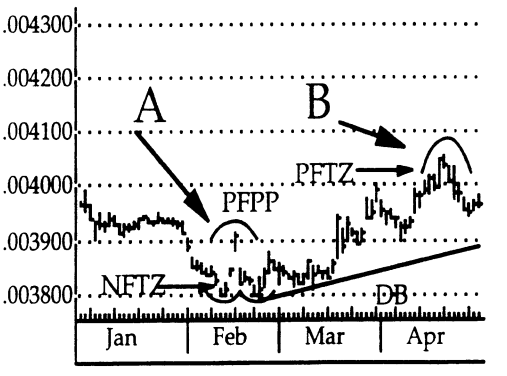


POSITIVE FORCE PIVOT POINT
1985 DEUTSCHE MARK SPOT
Figure 8

Arrow (A) marks a Positive Force Pivot Point. Arrow (B) indicates the Positive Force Target Zone PFTZ. To achieve the PFTZ simply add the setback to the PFPP.

POSITIVE AND NEGATIVE FORCE TARGET ZONES

Positive and Negative Force Target Zones are activated when they move out of a corresponding technical positive or negative formation. When the market flashes a negative or positive target zone (NFTZ) PFTZ), take a conservative viewpoint and be willing to take profits several points or pips before a target is reached. Always look to take a profit before a big number. Let's say we have a Negative Force Target Zone (NFTZ) of 1.5000 (.6666) on Sterling; look to take profits at 1.5030 (.6653) level. Never wait for the extra ticks. Target zones should always be shaded a little on the side of conservatism.



POSITIVE FORCE TARGET ZONE
1985 JAPANESE YEN SPOT

Figure 9

(A) indicates a NFTZ been achieved. A Positive Force Pivot Point (PFPP) indicates a Positive Force Taget Zone PFTZ see (B).

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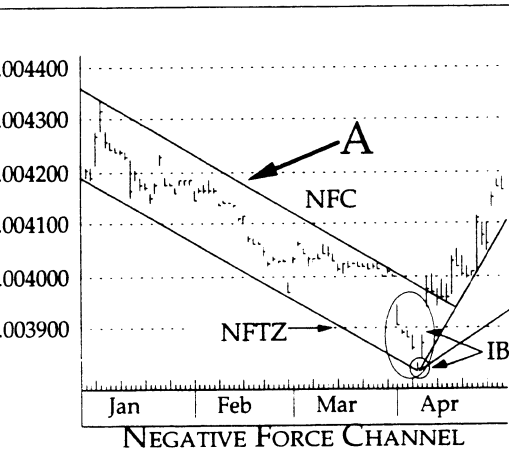
POSITIVE AND NEGATIVE FORCE CHANNEL

The formation of either a Positive or Negative Force Channel does not happen very often in the currency markets but when it does, it is a thing of beauty. A channel formation, whether it be positive or negative, is simply two parallel lines drawn at an angle that contain all market activity.



NEGATIVE FORCE CHANNEL
1980 JAPANESE YEN SPOT

Figure 10

Here we see a perfect Negative Force Channel (A). Upon reaching a NFTZ, the market makes an Island bottom IB and reverses course, breaking over the NFC.

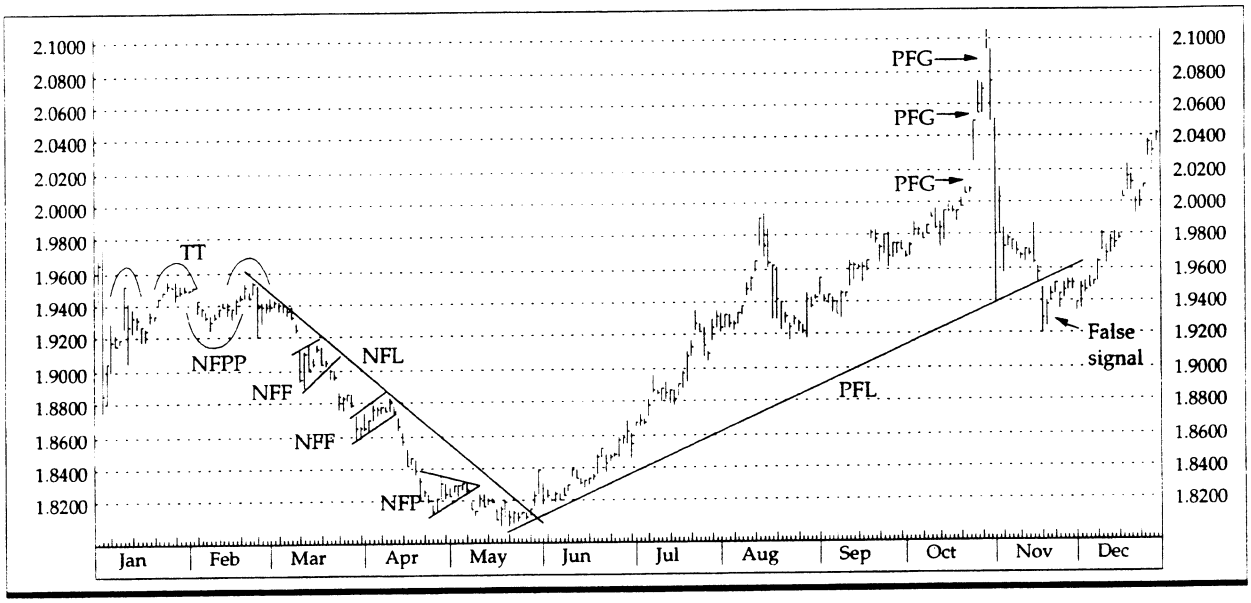


Figure 11

1978 DAILY BRITISH POUND SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

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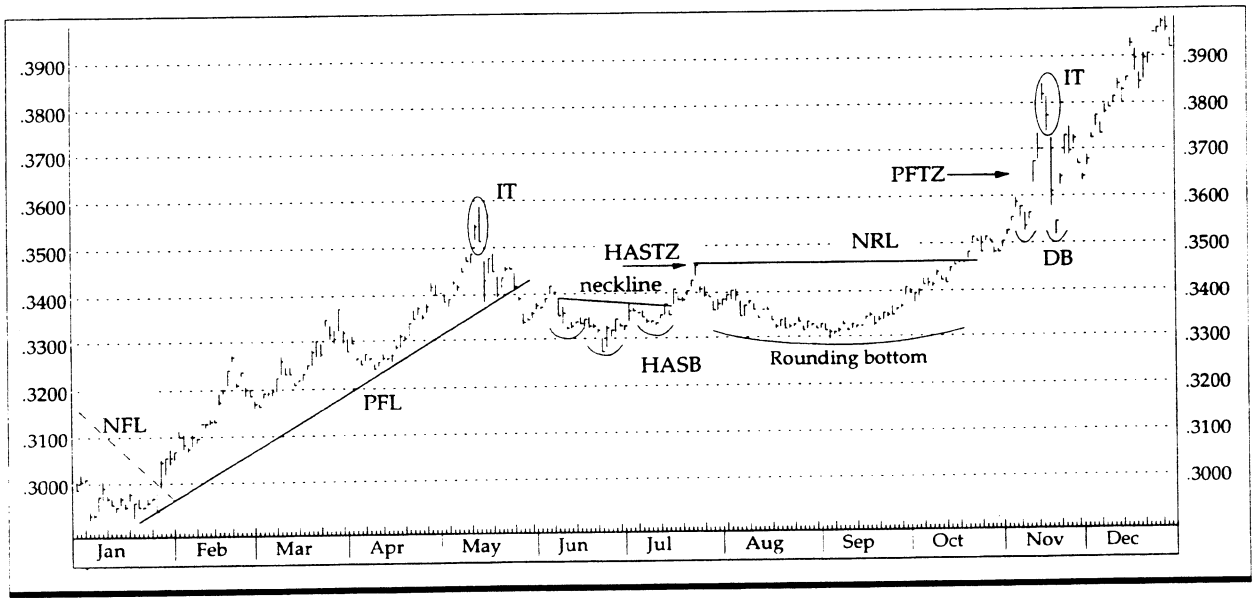

Figure 12

1974 DAILY SWISS FRANC SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

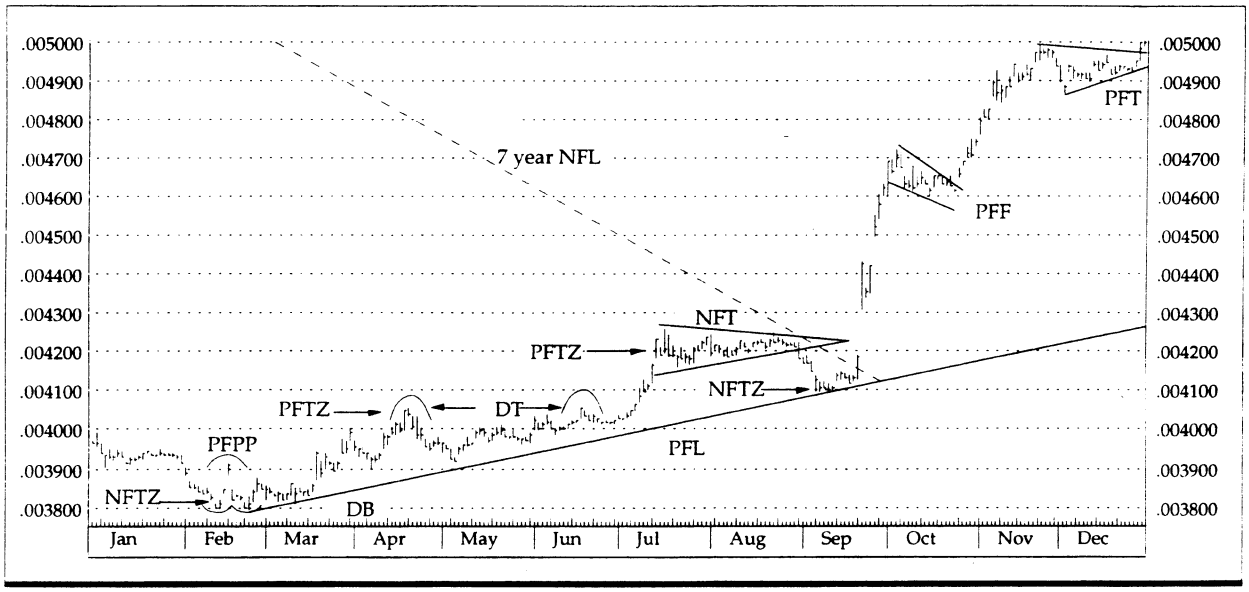

Figure 19

1985 DAILY JAPANESE YEN SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

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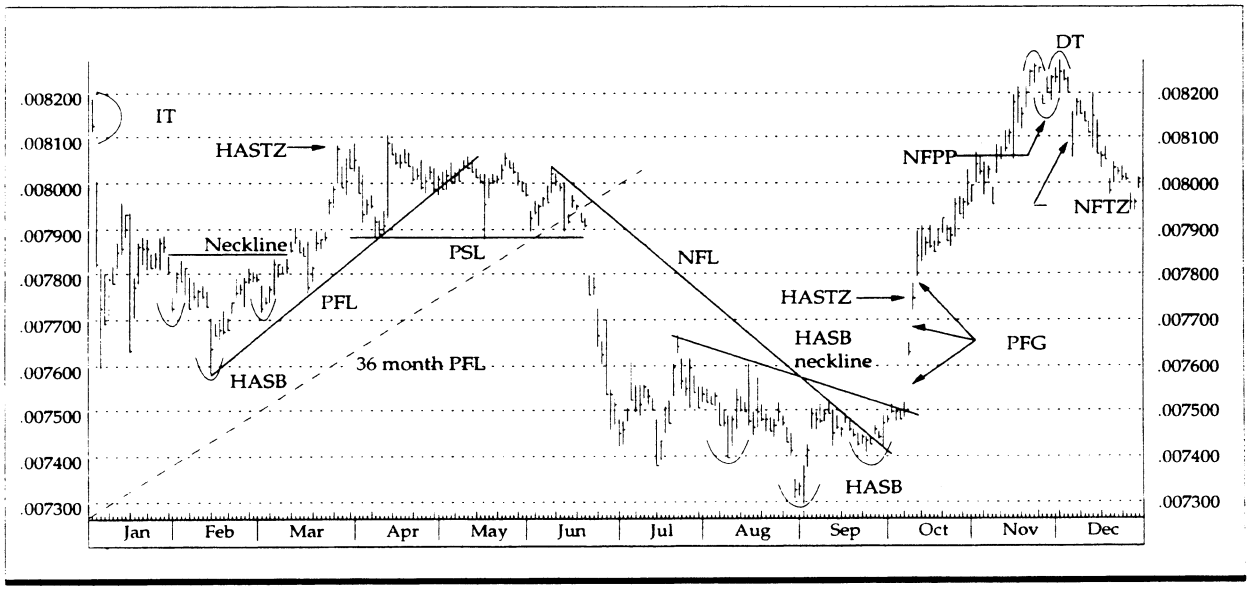

Figure 20

1988 DAILY JAPANESE YEN SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

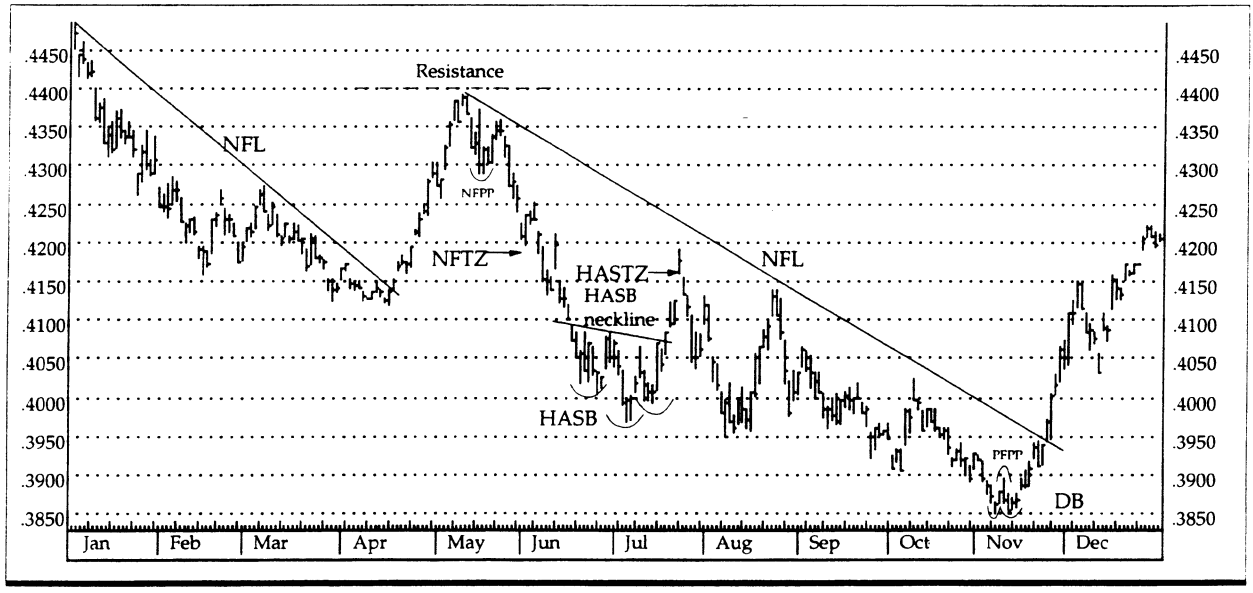

Figure 17

1982 DAILY DEUTSCHE MARK SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

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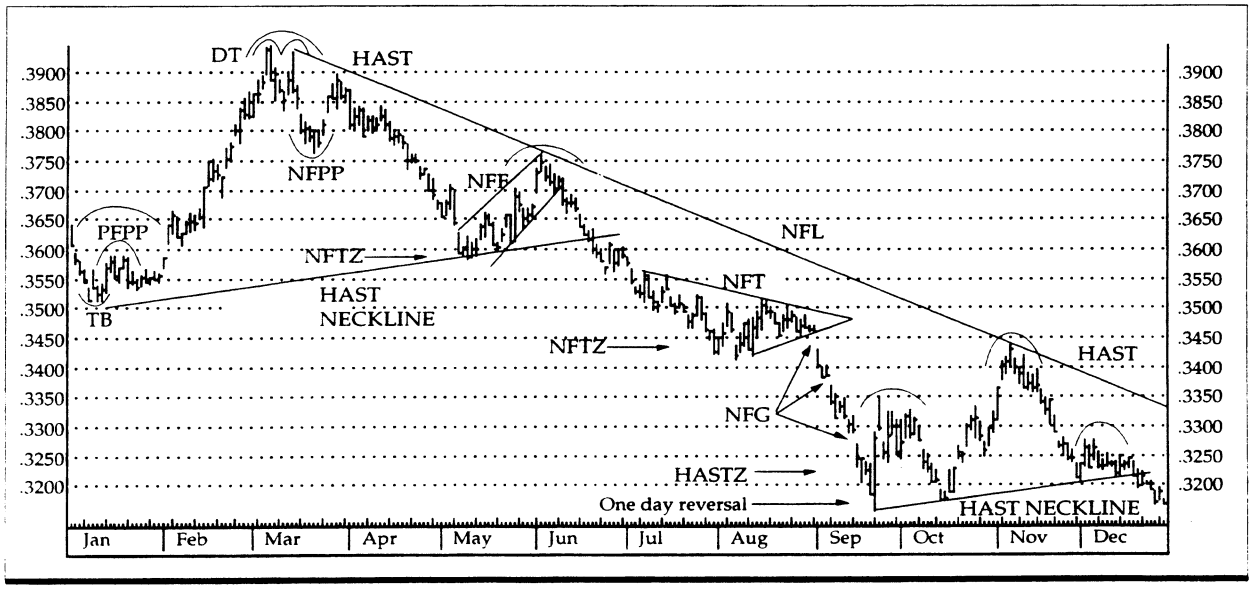

Figure 18

1984 DAILY DEUTSCHE MARK SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

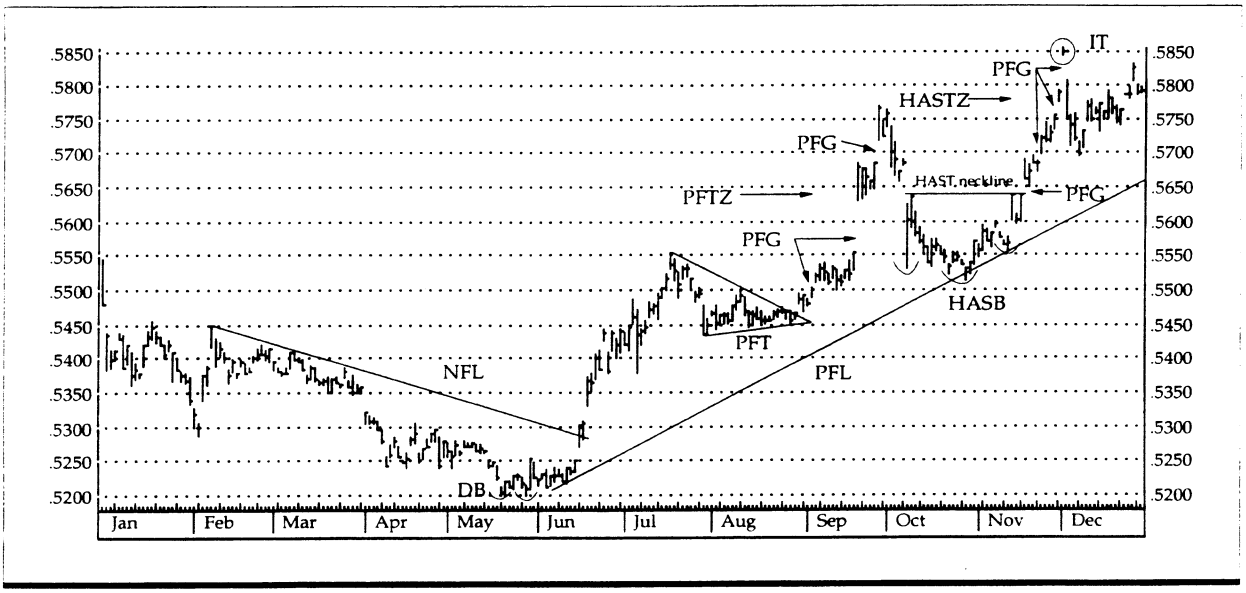

Figure 15

1979 DAILY DEUTSCHE MARK SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

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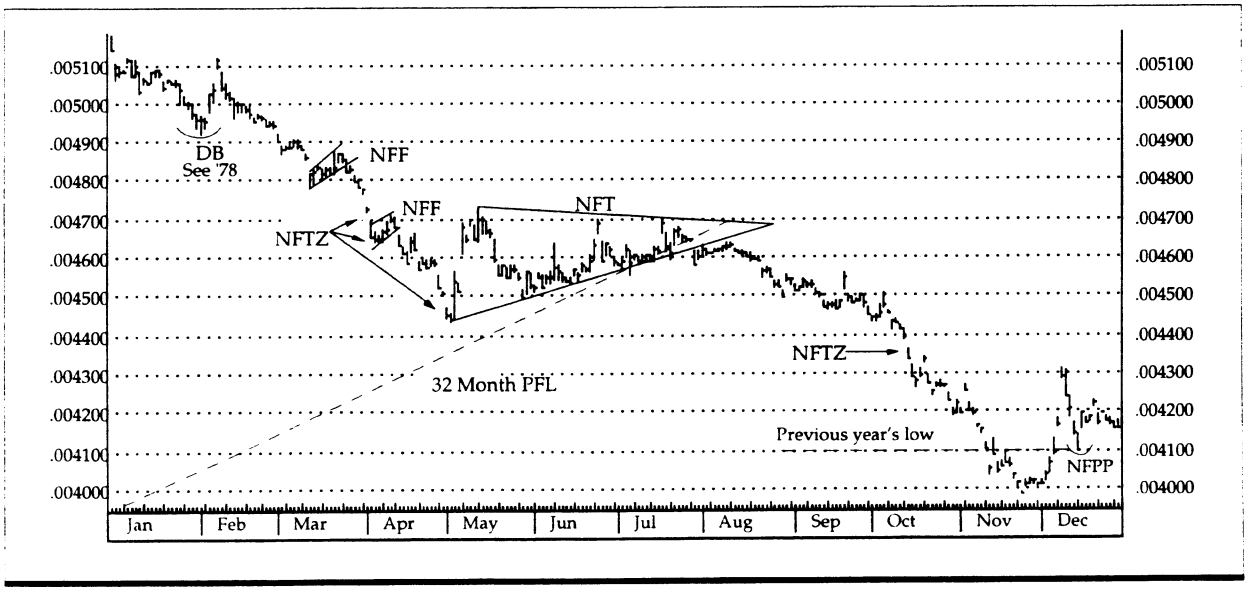

Figure 16

1979 DAILY JAPANESE YEN SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

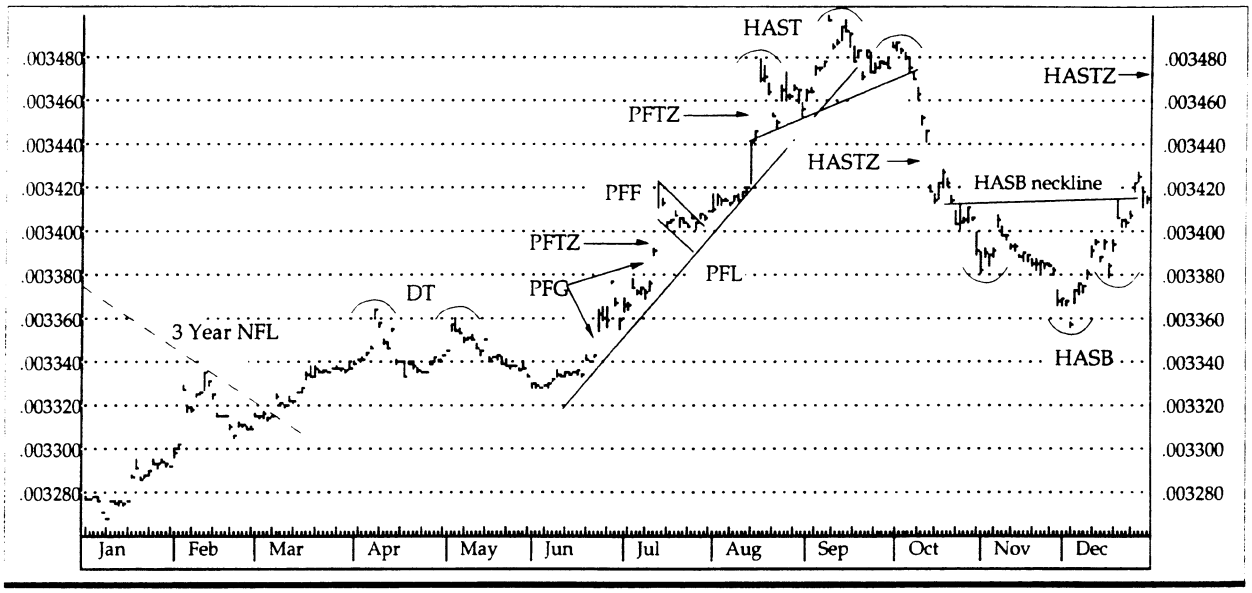

Figure 13

1976 DAILY JAPANESE YEN SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

" THE PAST IS THE TEACHER OF THE FUTURE"

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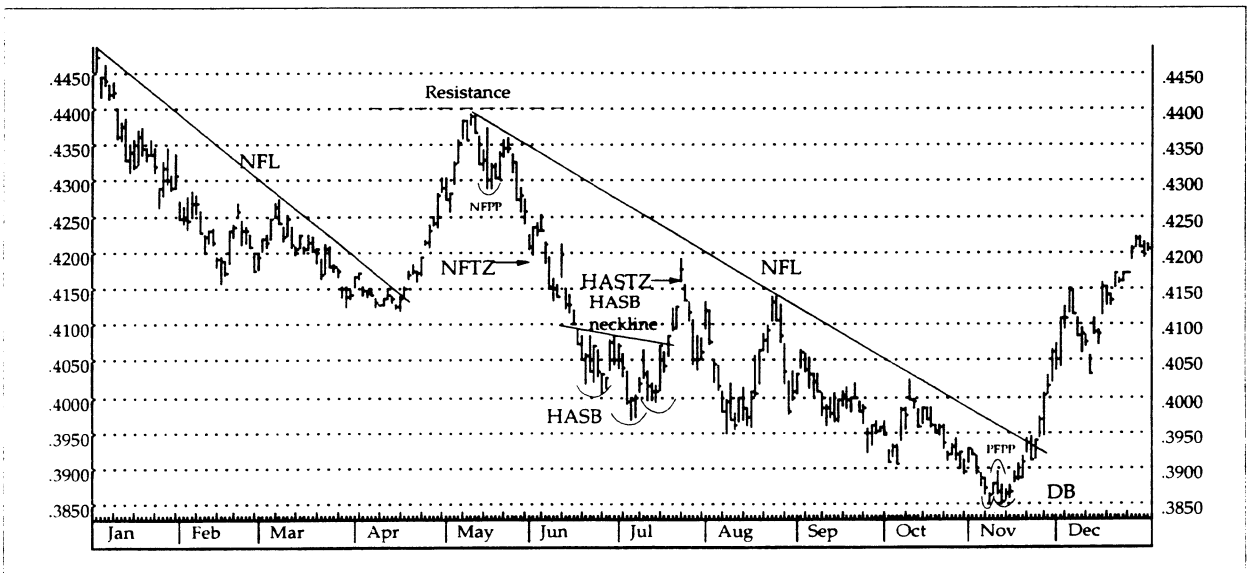

Figure 14

1978 DAILY DEUTSCHE MARK SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

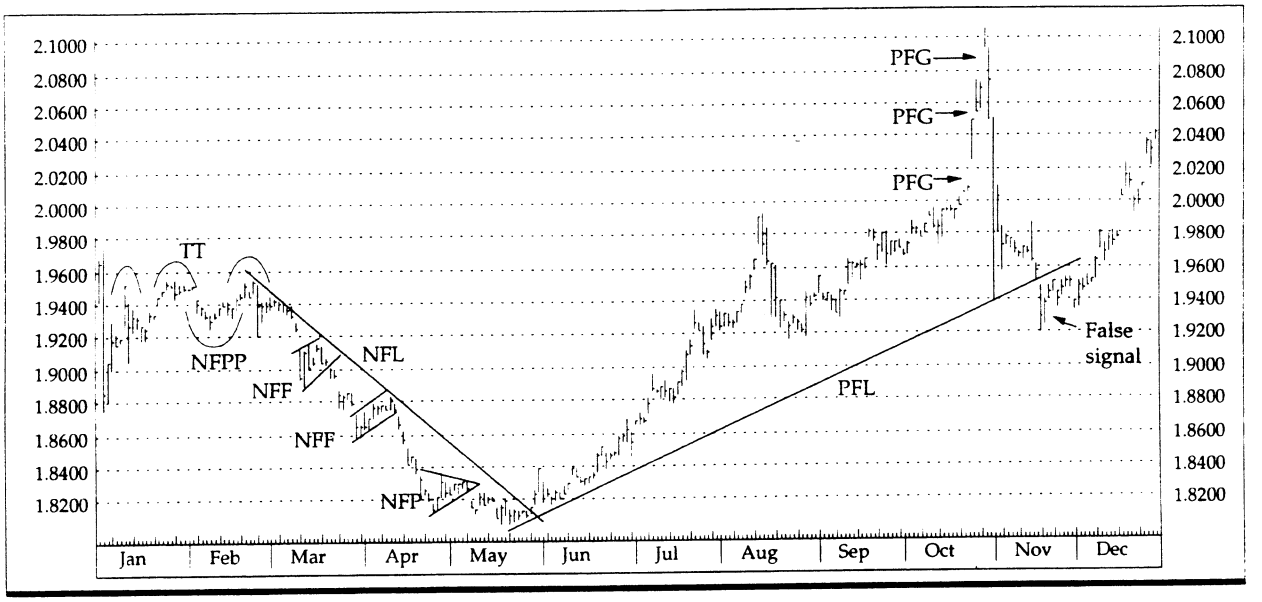

Figure 11

1978 DAILY BRITISH POUND SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

" THE PAST IS THE TEACHER OF THE FUTURE"

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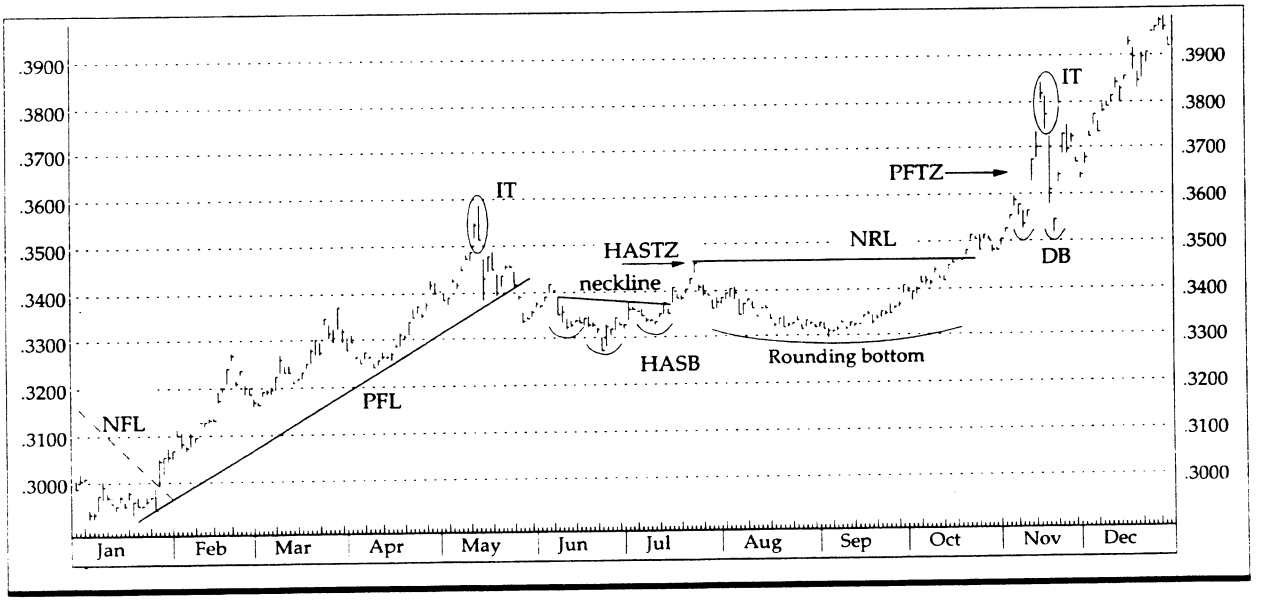


Figure 12

1974 DAILY SWISS FRANC SPOT

HISTORICAL CHART SHOWING IMPORTANT TECHNICAL FORMATIONS

The Will Rogers Theory Of Point & Figure Trading

by J. Adam Hewison

When I first started trading, moving averages were pretty much the epitome of high-tech computer analysis. Since then, we have seen the birth of computerized studies for Gann, Fibonacci, stochastics, oscillators, overbought and oversold indicators and many, many others. While all these studies have contributed to the advancement of technical analysis, the surfeit of studies to examine have served more to confuse the individual than to clarify market direction. A case in point: I recently had a conversation with a colleague who spoke of an investor who uses more than *100* indicators, including Gann and Elliott, to track the market. This particular investor is so busy tracking his 100 indicators, he has yet to make a trade. Too much information can freeze an investor into indecision.

The W.R. theory, or, back to basics

Because indecision can be fatal to a trader or an investor, let me share with you a concept I call the W.R. theory. Like the Elliott wave concept, it was developed in the late 1920s and 1930s. In contrast to the Elliott wave theory, which has hundreds of rules, the W.R. theory has only two. Rule 1: If it don't go up, don't buy it. Rule 2: If it don't go down, don't sell it. Will Rogers, who is credited with the first memorable quote referring to the stock market, was a well-known U.S. humorist in the 1930s and 1940s. Known as much for his common sense as his wit, Rogers's comments on the stock market are closer to the core of the market than most analysts would care to admit. While his observations originally referred to the stock market, they can just as easily be applied to the bond, commodity and currency markets as well.

Three keys to the market

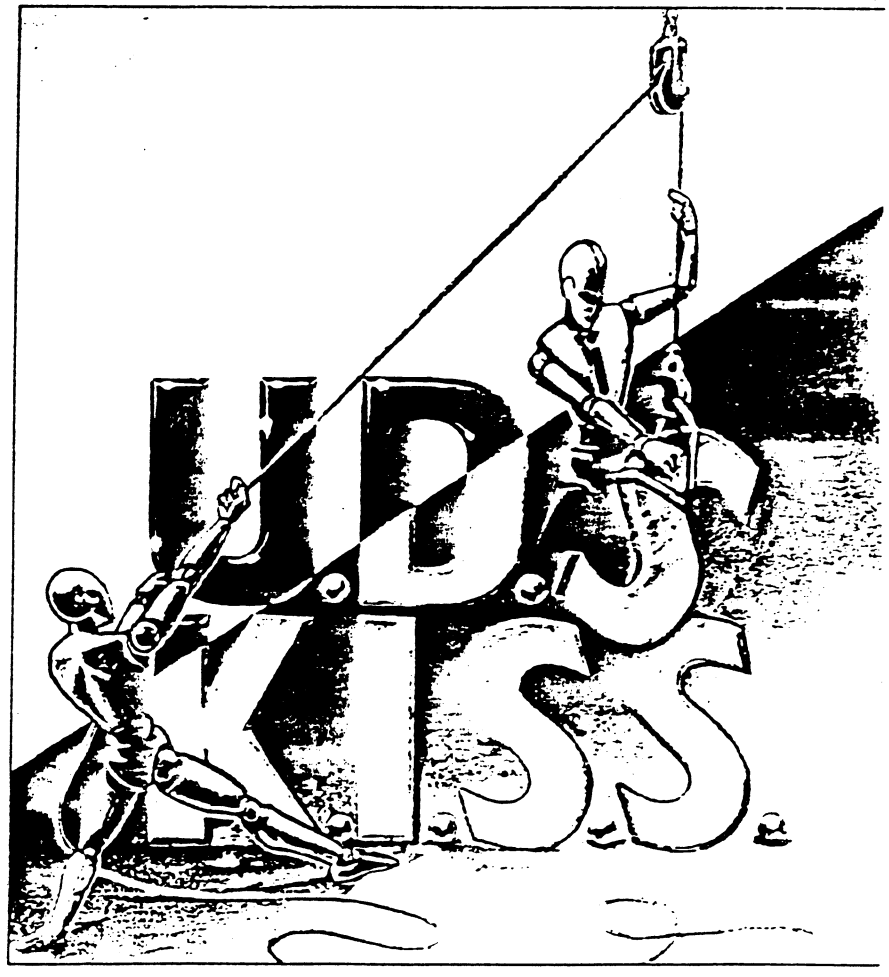
Despite all the information we receive and all the technical studies available, it's wise to remember that a market really *can* only do three things:

- Go up.
- Go down.
- Go sideways.

These three scenarios are true not just in the foreign exchange market, which is my specialty, but also in the bond and equity markets, both domestically and globally.

When is up, when is down?

One way to determine trend is with point and figure charting, which Charles Dow is largely credited with developing more than 100 years ago. The earliest work on this method was first published at the turn of the century and was devoted primarily to the movement in stock prices. In 1933, Victor de Villiers



published the first definitive work on point and figure charting. It is interesting to note 58 years later what de Villiers said:

The Method takes for granted:

1. That the price of a stock at any given time is its correct valuation up to the instant of purchase and sales (a) by the consensus of opinion of all buyers and sellers in the world and (b) by the verdict of all the forces governing the laws of supply and demand.
2. That the last price of a stock reflects or crystallizes everything known about or bearing on it from its first sale on the Exchange (or prior), up to that time.
3. That those who know more about it than the observer cannot conceal their future intentions regarding it. Their plans will be revealed in time by the stock's subsequent action.

The Will Rogers theory has only two rules. Rule 1: If it don't go up, don't buy it. Rule 2: If it don't go down, don't sell it.

A ONE-TWO PUNCH

Sometimes, the simplest, most direct approach is best. The method I would like to share with the reader is my one-two-negative/one-two-positive approach, which is totally automatic (Figure 1). First, take the box above a previous high (X column) and place the number 1. Then step up one box and over to the right and place the number 2. Then go up one more box and over to the right again, where you place the letter P. The P indicates that should the market reach this level on a closing basis, the trend would have reversed from negative to positive for the market you are following.

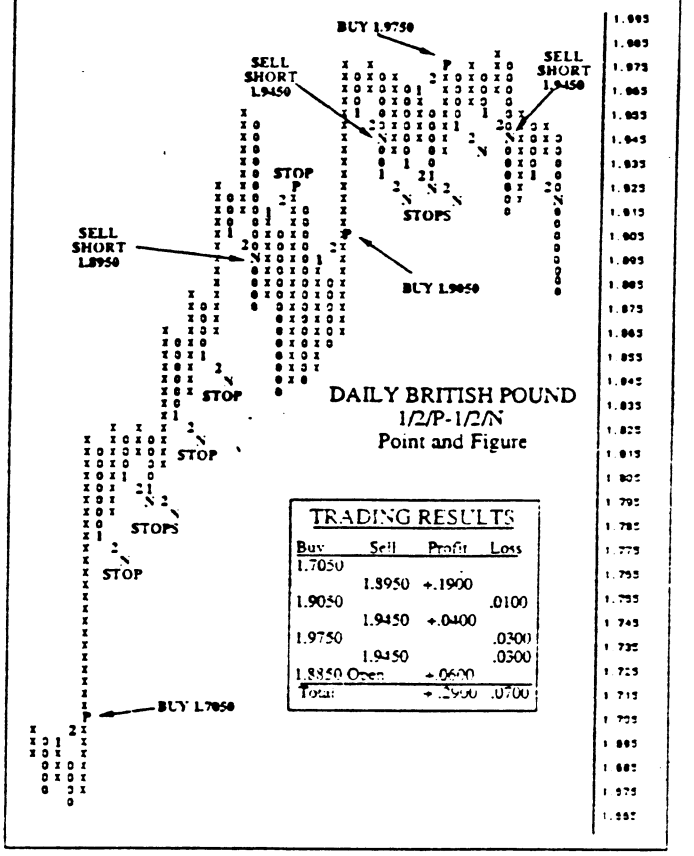
Conversely, to provide an indicator for a move from a positive trend to a negative one, take the previous low (O column) and place the number 1 below it. Move down one box and over one to the right and place the number 2 in that box. The N goes in the next box down and to the right. Should the market reach this level on a closing basis, the trend would be viewed as changing from positive to negative. Don't be put off by the method's simplicity. It is one strategy that has worked for many, many years in the marketplace and bears the stamp of thousands of traders who have used point and figure charting to determine the trend. Remember, they don't pay you more for making it any more complicated than it needs to be.

SEALED WITH A K.I.S.S.

One of my favorite acronyms, and one I keep in my office, is K.I.S.S.: *K*eep *I*t *S*imple, *S*tupid. Another acronym you may want to remember or display prominently is U.D.S., which stands for *U*p, *D*own, *S*ideways. The results of using the W.R. theory and the simplicity of the one-two-positive/one-two-negative approach may surprise you. Remember: keep it simple, and the rest will take care of itself.

FIGURE 1

ONE-TWO NEGATIVE/ONE-TWO POSITIVE APPROACH



The point and figure chart of the British pound has a 50-point minimum increment box size with a 150-point reversal. A simple trend-following approach is as follows: First, take the box above a previous high during a rally (x column) and place a 1. Step over one column to the right and up one box. Place a 2 in this column. Step over one more column and up one box and place a P. If the market closes in the box with a P, a bull market signal is flashed. Conversely, a negative indicator is determined by identifying a recent low (the O column), place a 1, move to the right one column and down one box and place a 2. Then move over one more column, down one box and place an N. If the market closes at or below the box with the N, a sell signal is indicated.

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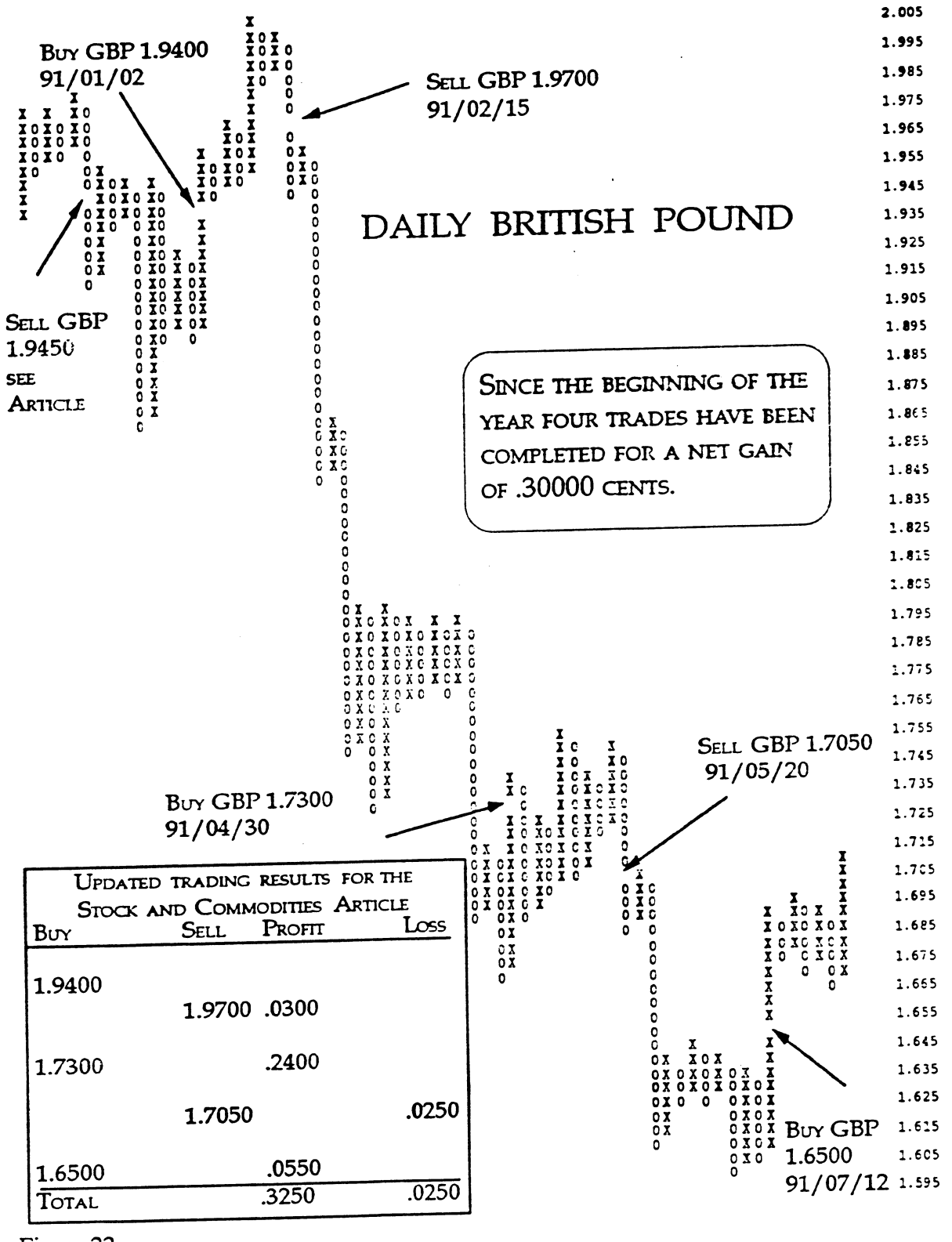
Hewison, Adam [1990]. *Right on the Money: The Definitive Guide to Forecasting Foreign Exchange Prices*, The Rich Financial Group, Inc.

Continued on page 48



UPDATED TRADING RESULTS FOR THE STOCK AND COMMODITIES ARTICLE

BUY	SELL	PROFIT	LOSS
1.9400			
	1.9700	.0300	
1.7300		.2400	
	1.7050		.0250
1.6500		.0550	
TOTAL		.3250	.0250

Figure 22

THE ONE -TWO POSITIVE / ONE -TWO NEGATIVE APPROACH
HOW TO QUICKLY MONITOR FOREIGN EXCHANGE TRENDS

CROSS-RATE TRADING THE TREND OF THE 90'S

The foreign exchange market has grown and become much more sophisticated during the past two decades, and more active. In the early 'seventies, you could wait a half hour or more between trades on the floor of the International Monetary Market (IMM). Today, as the foreign exchange markets enter the 'ninties trading is virtually non-stop. The daily world wide dollar trading volume in both the futures and the interbank markets is huge, with some estimates as high as four hundred billion dollars per day. With volume this heavy, it is safe to say that foreign exchange is the biggest market in the world. As trading activity has increased, so too has the sophistication level of both dealers and traders. In the 'seventies and the 'eighties, dealers and traders for the most part were content just to trade the U.S. Dollar against the other major currencies. Now, as we enter the nineties, more and more dealers and traders are looking at the opportunities in the cross-rate markets. While the American Dollar is still the most traded currency in the world, the cross-rate markets are growing quickly and taking on a life of their own. This growing trend will accelerate in the nineties, as dealers and traders become more familiar with the cross rates; and avail themselves to opportunities in those markets.

CHARTING CROSS RATES

I first got interested in the cross rates while I was a member of the IMM in the late seventies. I remember creating my own charts by hand as the Personal Computer as we know it today had not yet been invented. The method I use to chart the crosses is a technique that has been around for a long time. Point and figure charting is the simplest and at the same time, the most graphic form of maintaining a record of any market that has price fluctuations. The logic behind this method is simplicity itself. A market cannot move higher without breaking above a previous rally high box. Likewise, a market cannot move lower without breaking below a previous break low box. The primary purpose of point and figure charts is to record price movements; unlike line or bar charts, point and figure charts do not record time. This makes keeping point and figure charts an easy and non-time-consuming task, since you do not have to make entries every day. In fact with the weekly and monthly charts, you only enter data at the end of the time period involved. The examples shown use what is called a three box reversal, which records three unit price changes. The size of the unit or box can be as small or as large as you want it to be. The smaller the unit, the more sensitive the price action will be; the larger the unit, the more it will capture the overall trend. Point and figure charting has been around for a great number of years. It's simple, it works, and it bears the stamp of approval of several generations of successful traders, in both the futures and stock markets.

WHY YOU NEED TO CHART THE SPOT

The three examples shown are all of the Deutsche Mark, (DM) Japanese Yen (JY) cross. This cross was very popular in 1989 because it had a large, well-defined, positive trend for the D Mark against the Japanese Yen. Chart number one is a daily point and figure close-only chart of the DM/JY. Chart number two is a weekly close-only point and figure chart of the DM/JY. Chart number three is a monthly high-low close chart of the DM/JY All three are constructed using the closing spot rates in late New York trading. It is very important when constructing a chart on cross rates to use the cash, or what is known as the spot, rate rather than the futures prices. When a futures contract begins trading, it already has the interest rate differentials built into it. Only as a futures contract reaches expiration does it comes in line with the cash/spot rate. When the next contract month takes over, its interest rate differential is built in and the whole cycle starts again. This interest rate differential in the futures market can and will distort your continuation charts. So use the spot rate in your approach to cross rate charting.

THE ONE -TWO POSITIVE / ONE -TWO NEGATIVE APPROACH
HOW TO QUICKLY MONITOR FOREIGN EXCHANGE TRENDS

THE ONE-TWO-POSITIVE ONE-TWO-NEGATIVE APPROACH

One very simply but effective method to determine the trend in a cross rate is what I call the One-Two-Positive, One-Two-Negative approach. Take the box above a previous high (X column) and place the number 1; then step up one box and over to the right and place the number 2. The next box goes up one more and over to the right where you place the letter P. The letter P indicates that should the market reach this level on a closing basis, the trend would have reversed from negative to positive for the cross rate involved. Conversely, to move from a positive trend to a negative trend simply take the previous low (0 column) and place the number 1 below it. Move down one box and over to the right, and place the number 2 in that box. The next box goes down one and over to the right, where you place the letter N. The letter N indicates that, should the cross reach this level on a closing basis (daily, weekly, or monthly), the trend would be viewed as changing from positive to negative for the cross.

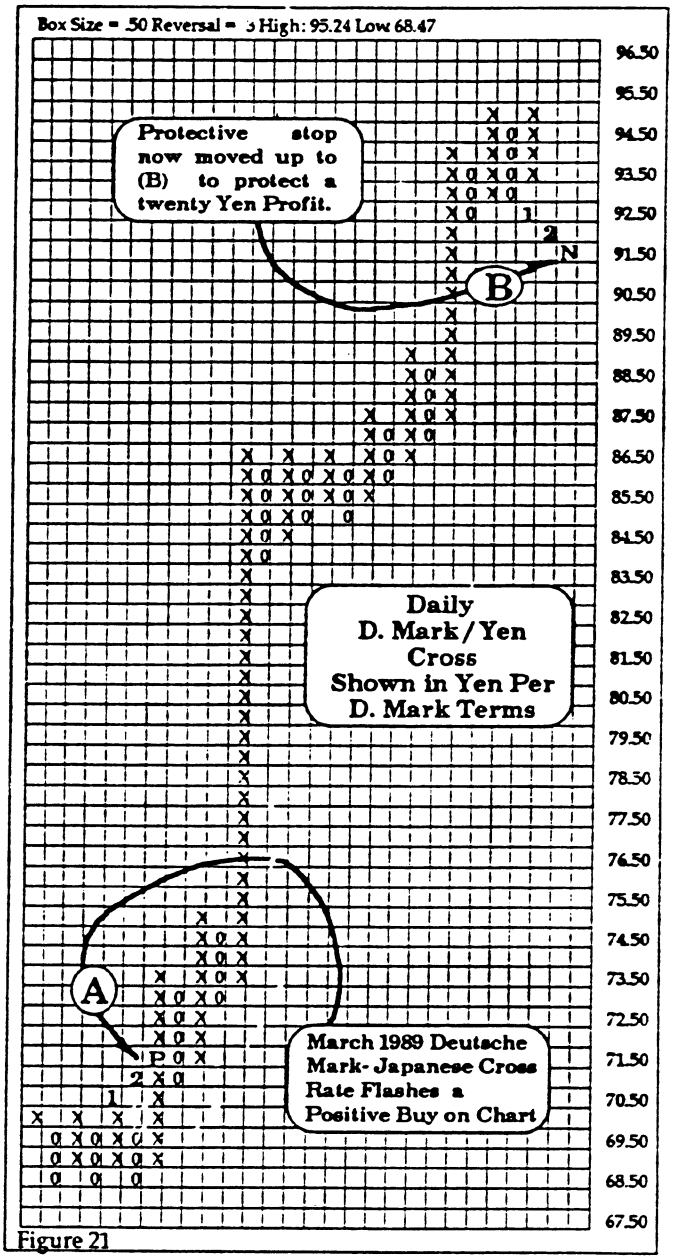


Figure 21

WHY THREE TIME FRAMES?

In order to trade the cross rates successfully you need to use the weekly and monthly point and figure charts, as well as the daily charts. These three time frames allow you to see both the big picture and the long-term trend as well as the near-term outlook for a cross. In using the long-term charts you can see critical areas of support and resistance that do not show up on a daily point and figure chart. As you can see on the daily P/F chart, a positive box at 70.200 (the number of Yen it takes to buy a Deutsche Mark) was activated in March of 1989. This positive trend stayed in place for most of the year, Resulting in a open gain of around 20.00 Yen. When the Deutsche Mark/Japanese Yen cross is viewed on the weekly point and figure chart, the picture changes completely. It becomes very clear that while the daily chart is positive, it is in fact right up against resistance and moving against the major trend. On closer inspection of the weekly chart it becomes clear that the Deutsche Mark has been in a negative market trend against the Japanese Yen for the past ten years!

THE ONE -TWO POSITIVE / ONE -TWO NEGATIVE APPROACH HOW TO QUICKLY MONITOR FOREIGN EXCHANGE TRENDS

HOW TO RELATE CROSS RATES TO FUTURES TRADING

There are several trading advantages for the futures trader in following the cross rates in the interbank market. (1) The cross rate gives a truer picture of the the trends between two currencies vs a simple subtraction spread that most futures traders use. (2) The cross rate indicates where the major historical support and resistance levels are in the interbank market that do not show up in a futures spread. (3) The cross rates are followed by every major investment institution along with every central bank in the world. (4) The cross rates show which currency is the weakest or strongest in a group. This is very useful when either you want to buy or sell a particular currency against the U.S. Dollar. (5) The cross rates can help explain some otherwise perplexing moves in the market. Witness October 9 1989, when British Pound moved below the psychological cross rate level of 3.0000 against the West German Mark. At the end of the day the Pound (BP) was down 305 IMM points against the U.S.Dollar while the D Mark (DM) actually closed fractionally higher against the Dollar. Unless you were aware of the importance of the DM/BP cross during this time frame.

It would have been all but impossible to have predicted this event by just comparing the British Pound and the West German Mark against the U.S.Dollar. While trading cross rates in the interbank market is no problem; trading a true cross rate at the International Monetary Market (IMM) presents more of a challenge. As contract sizes are standardized at the IMM the value of a contract changes every day. It is left up to the individual trader to adjust his or her positions accordingly to represent a true cross rate. For example to trade the DM/SF cross at present levels you would have to buy or sell seven contracts of D Marks, while at the same time doing the opposite transaction with only six contracts of Swiss Francs. This gives you a DM/SF cross of approximately five hundred thousand dollars. At the present

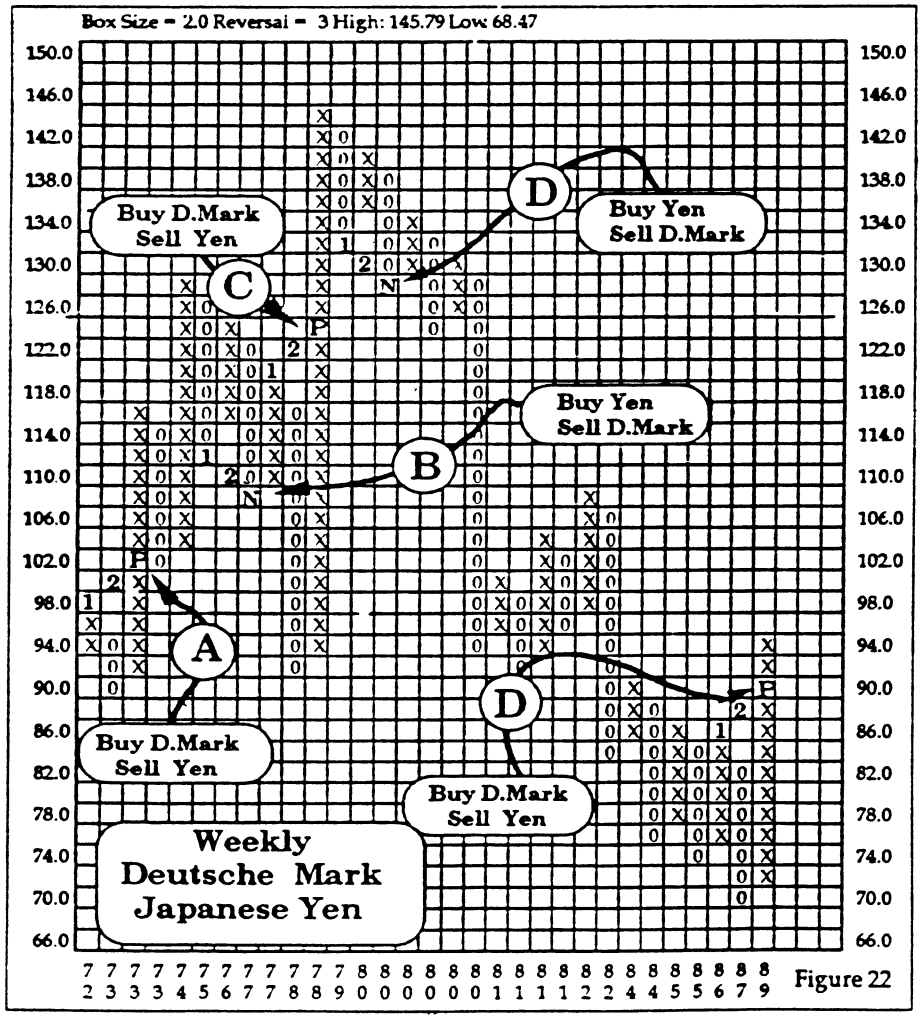


Figure 22

THE ONE -TWO POSITIVE / ONE -TWO NEGATIVE APPROACH
HOW TO QUICKLY MONITOR FOREIGN EXCHANGE TRENDS

time this is the only way to create a cross rate at the IMM. Perhaps sometime in the future this exchange which has been so innovative in foreign exchange futures in the past will develop a contract in the 1990's that represents a true cross rate.

HOW TO USE ALL THREE CHARTS

While it takes a great deal of patience and discipline to trade long-term, dealers and traders can benefit from using the weekly and monthly charts as major trend indicators while at the same time using the daily charts for their entry and exit points. This would work as follows: Let's say that you are keeping point and figure charts on the DM/JY cross and in early March of 1989 you saw the 1/2/P signal indicating a buy on the daily charts. On reviewing the weekly and monthly charts you could see that a major negative trend was in place and had been for some time for the DM against Yen. What to do? There are two courses of action: (1) you could ignore the signal (this is the most conservative stance), or (2) you could trade it. A variation on the second course of action would be to take the trade but only buy half of your normal trading unit.

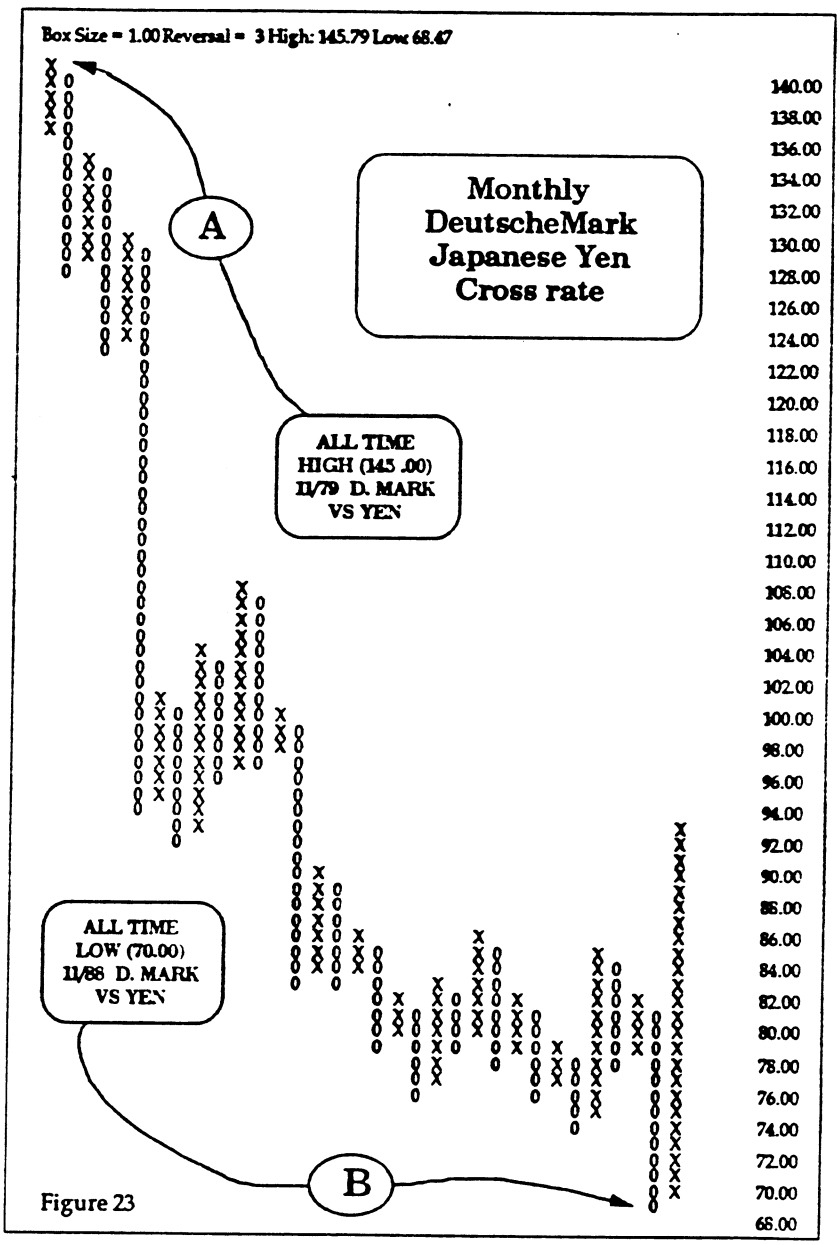


Figure 23

When there is a conflict between the major trend (weekly, monthly) and the minor daily trend, only go with half your trading unit. When the daily and weekly/monthly charts are all in sync, it's giving you three green lights, and it's time to trade your full unit. By only trading when all three chart lights are green, your probability of a successful trade and your percentage of winning trades will increase dramatically.

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES

"IT'S DEJA-VU ALL OVER AGAIN"

YOGI BERRA

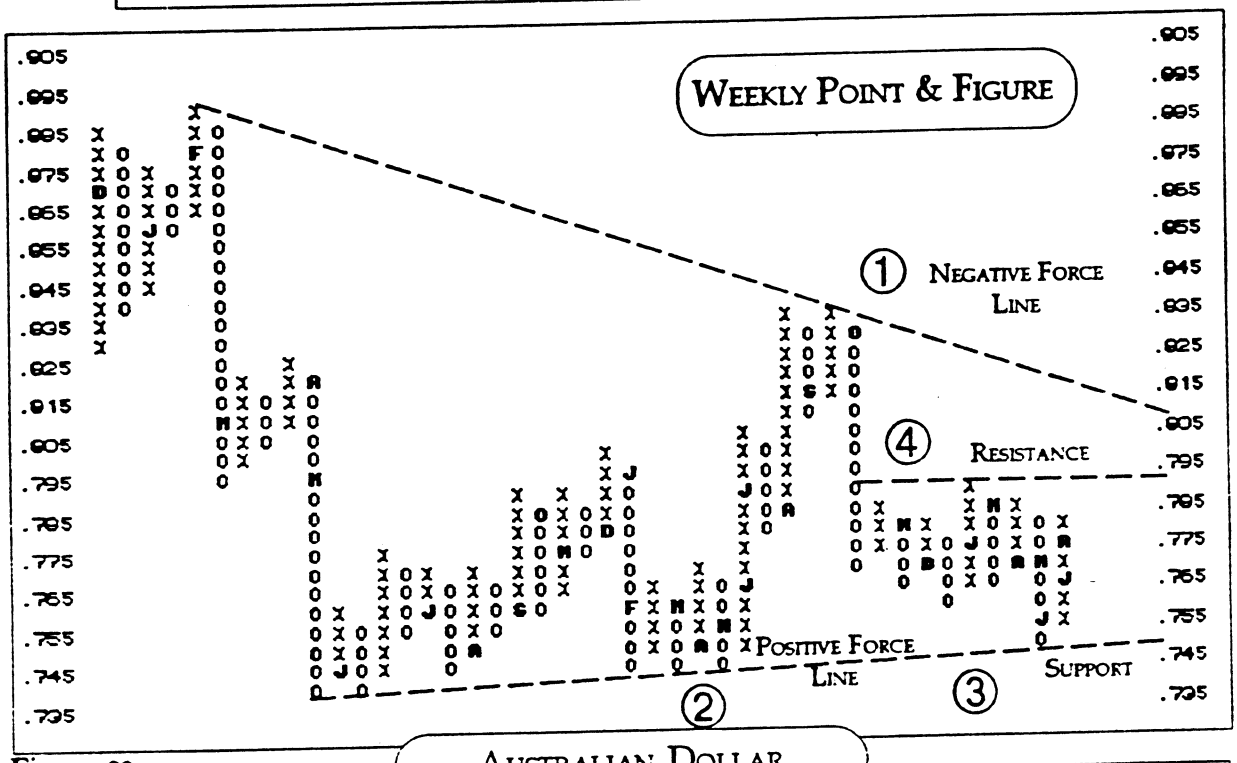


Figure 23

AUSTRALIAN DOLLAR

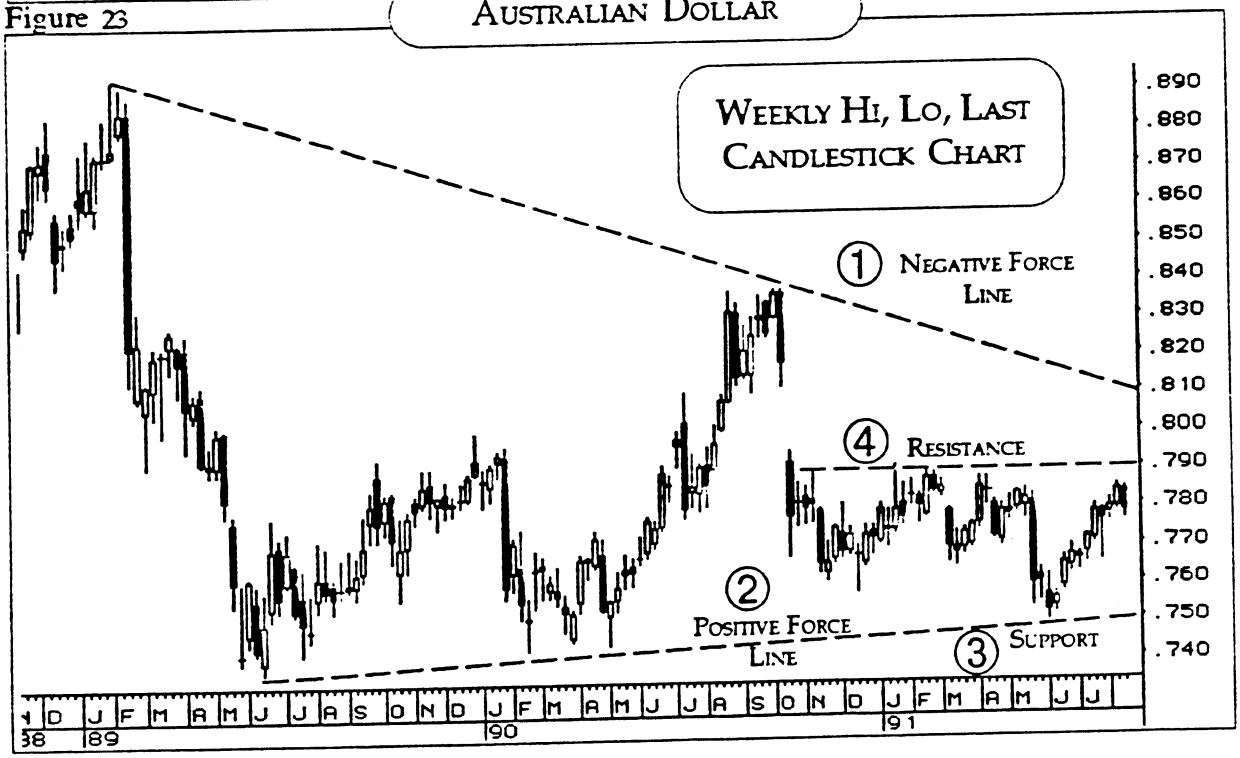


Figure 24

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES

"IT'S DEJA-VU ALL OVER AGAIN"

YOGI BERRA

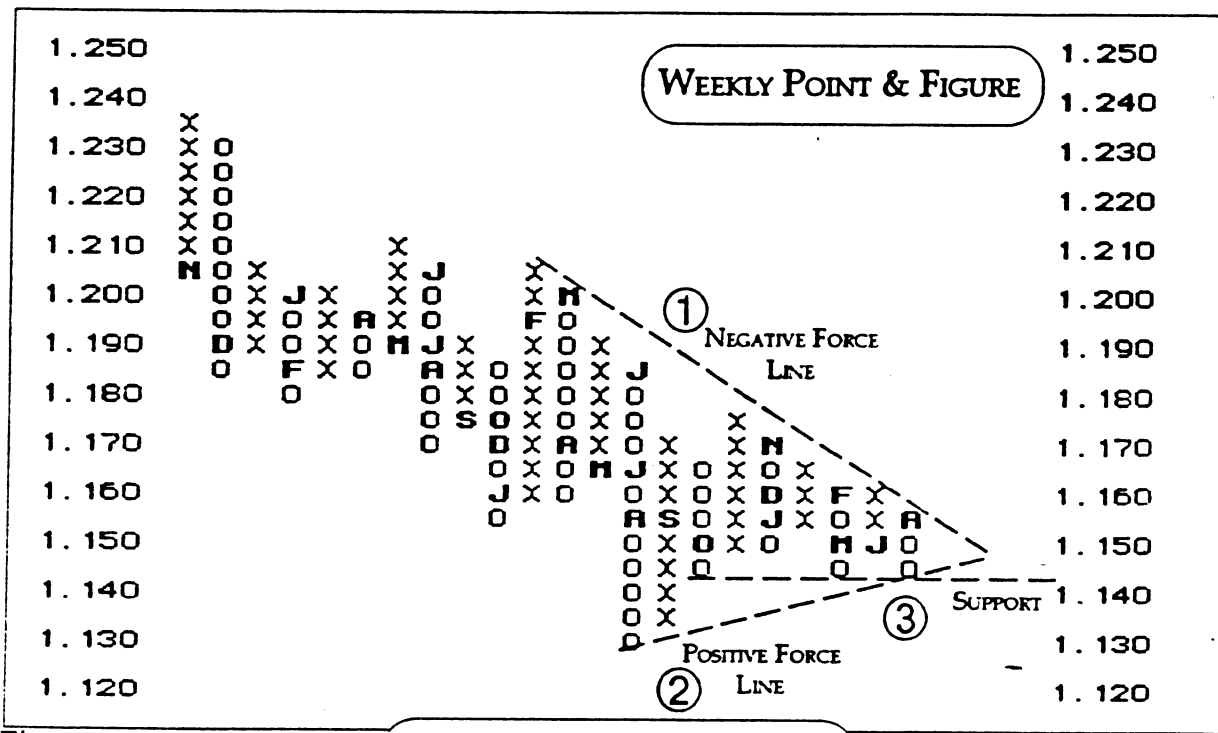


Figure 25

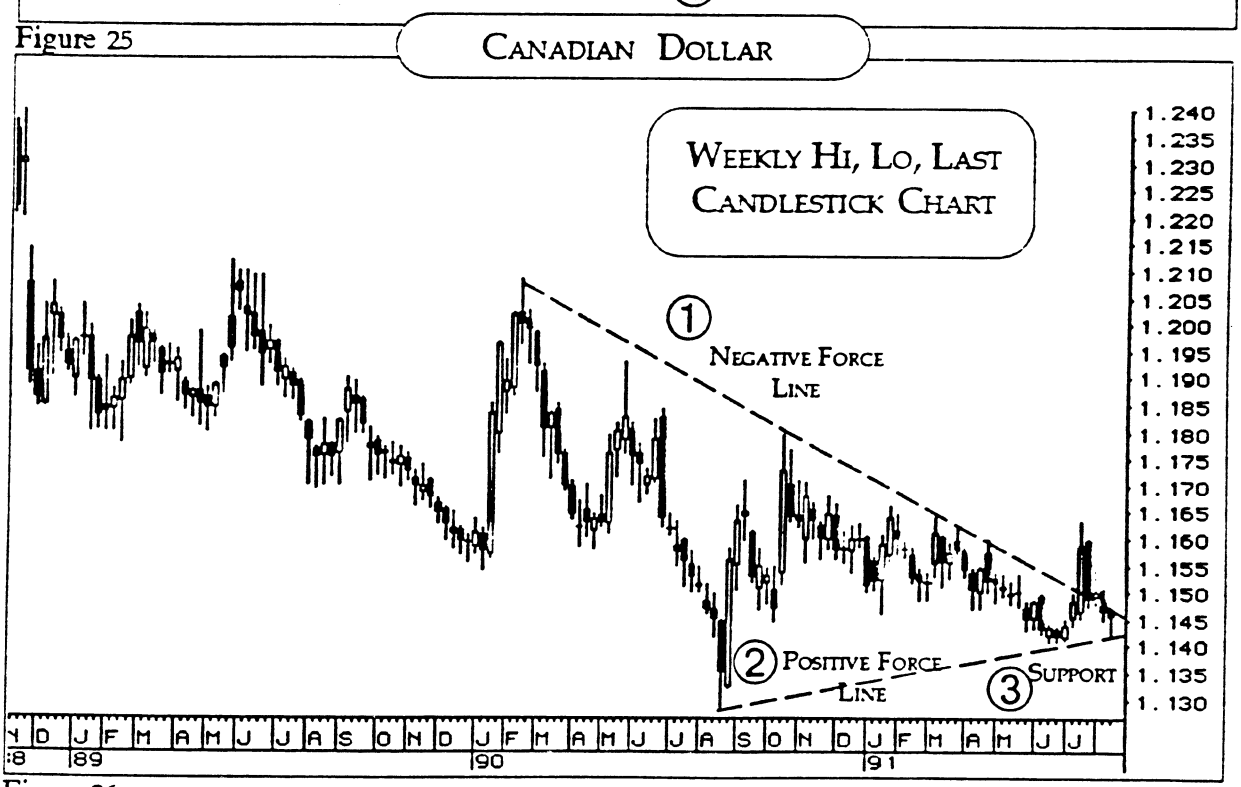


Figure 26

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES
"IT'S DEJA-VU ALL OVER AGAIN"
YOGI BERRA

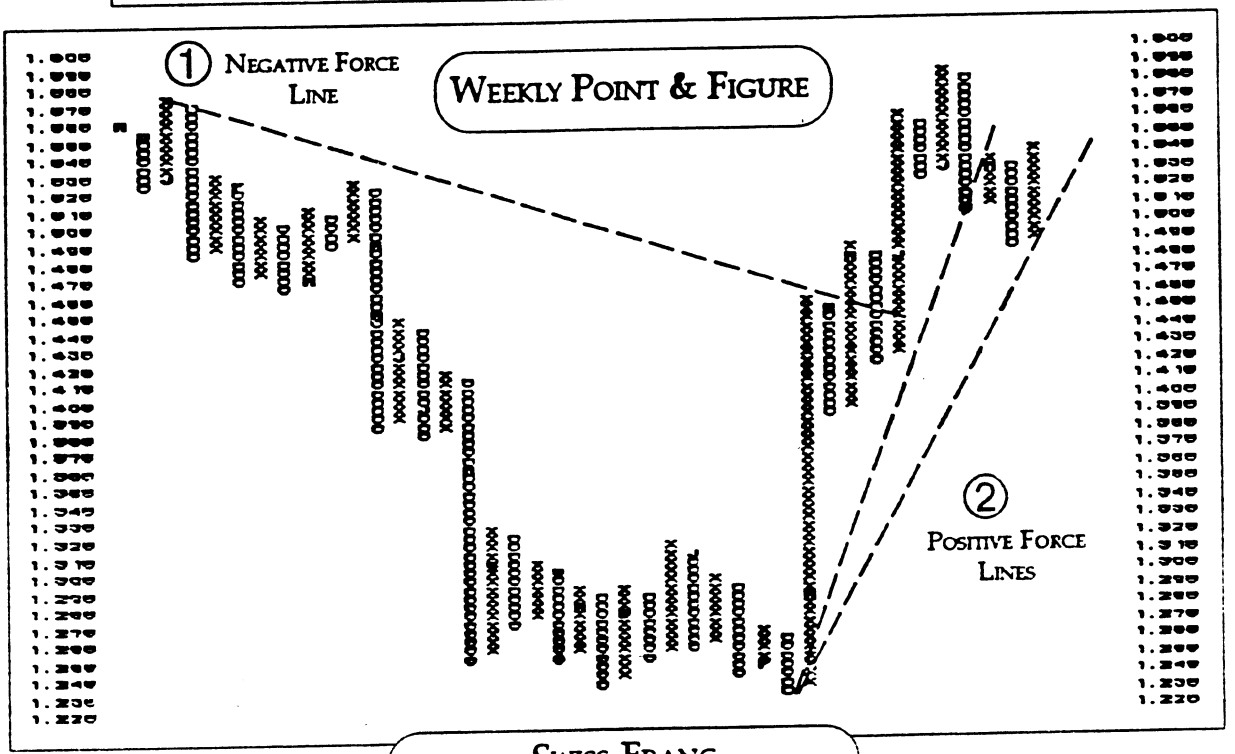


Figure 27

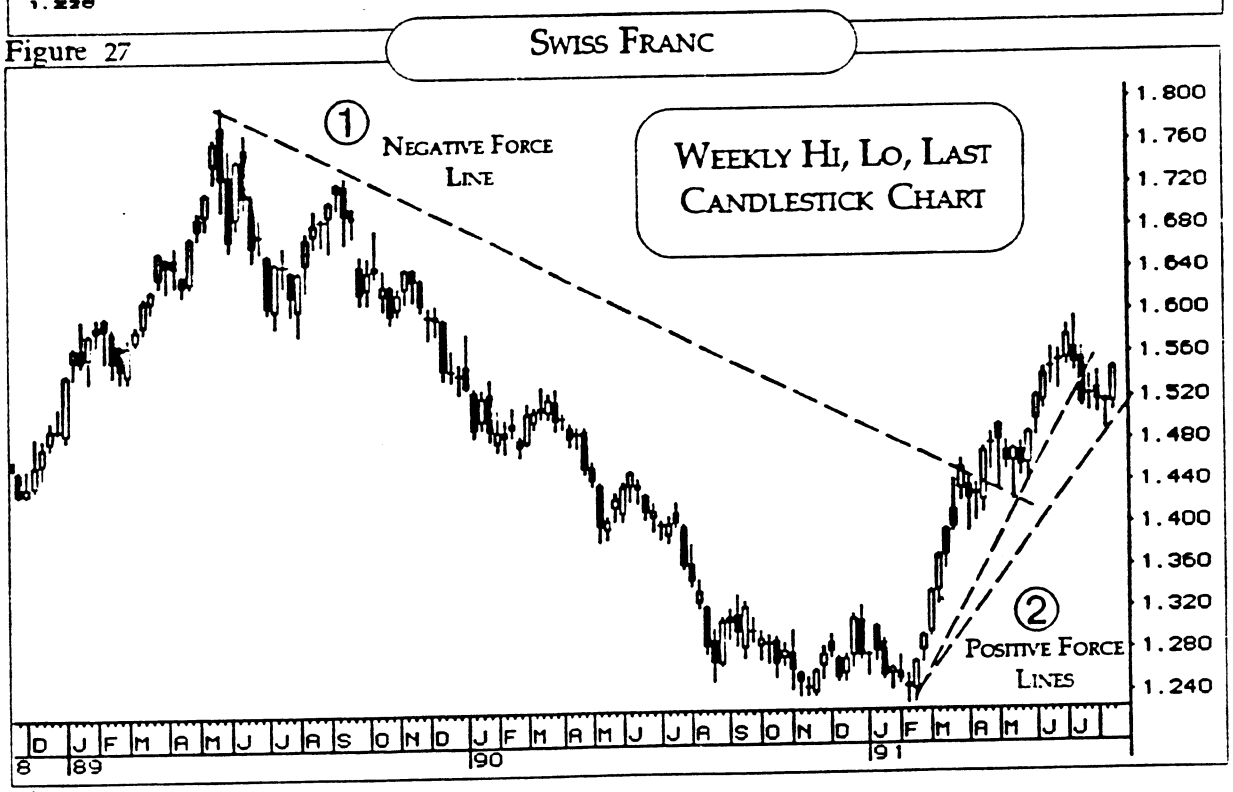


Figure 28

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES
"IT'S DEJA-VU ALL OVER AGAIN"
YOGI BERRA

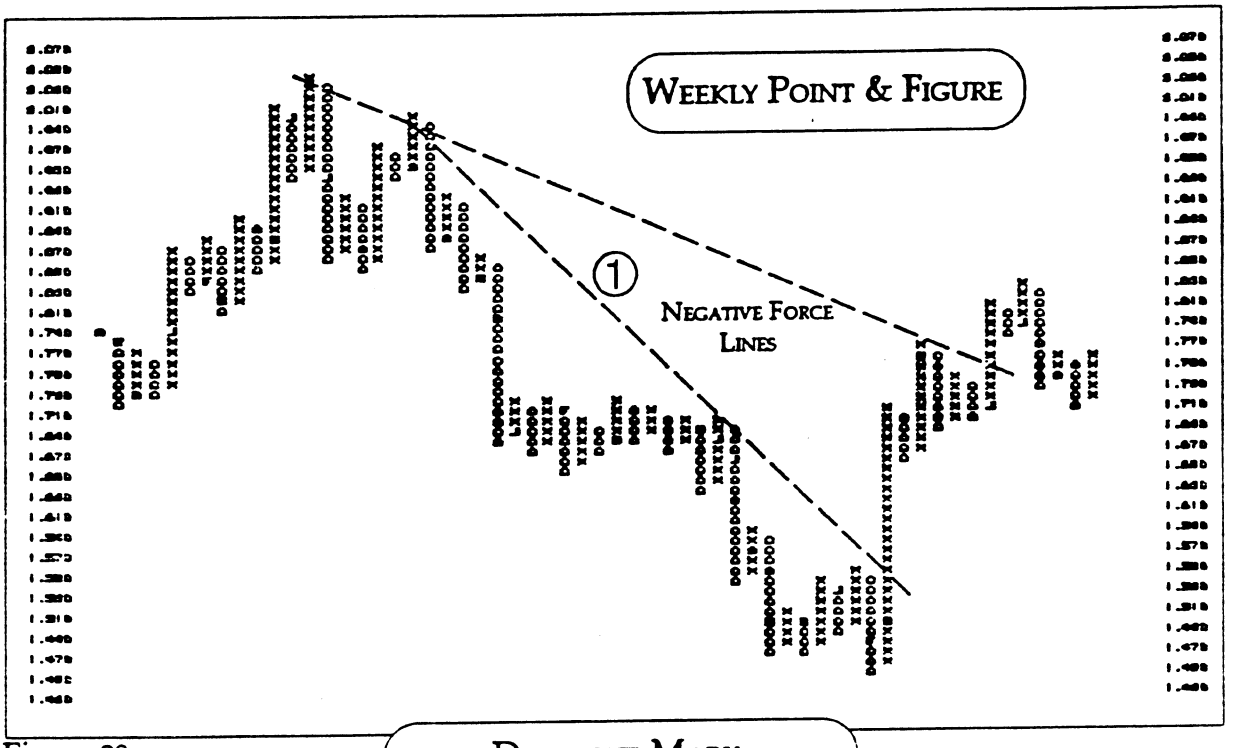


Figure 29

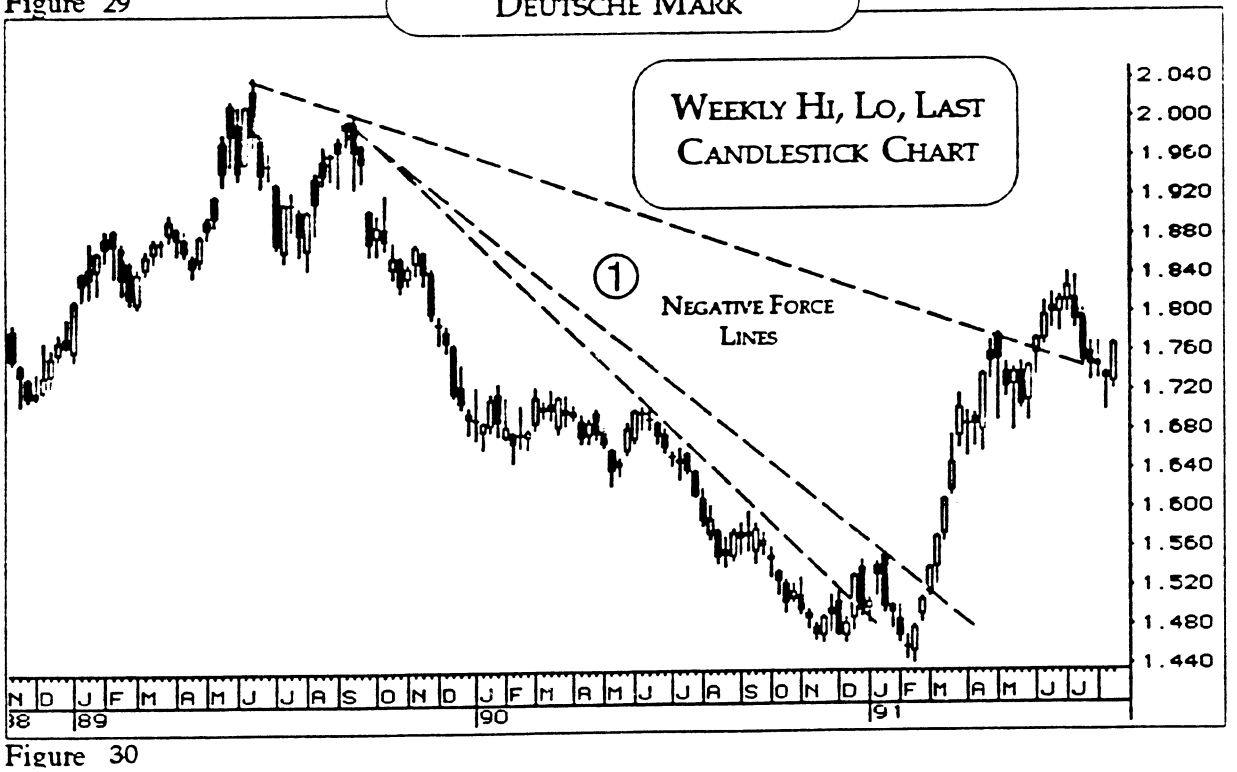


Figure 30

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES
"IT'S DEJA-VU ALL OVER AGAIN"
YOGI BERRA

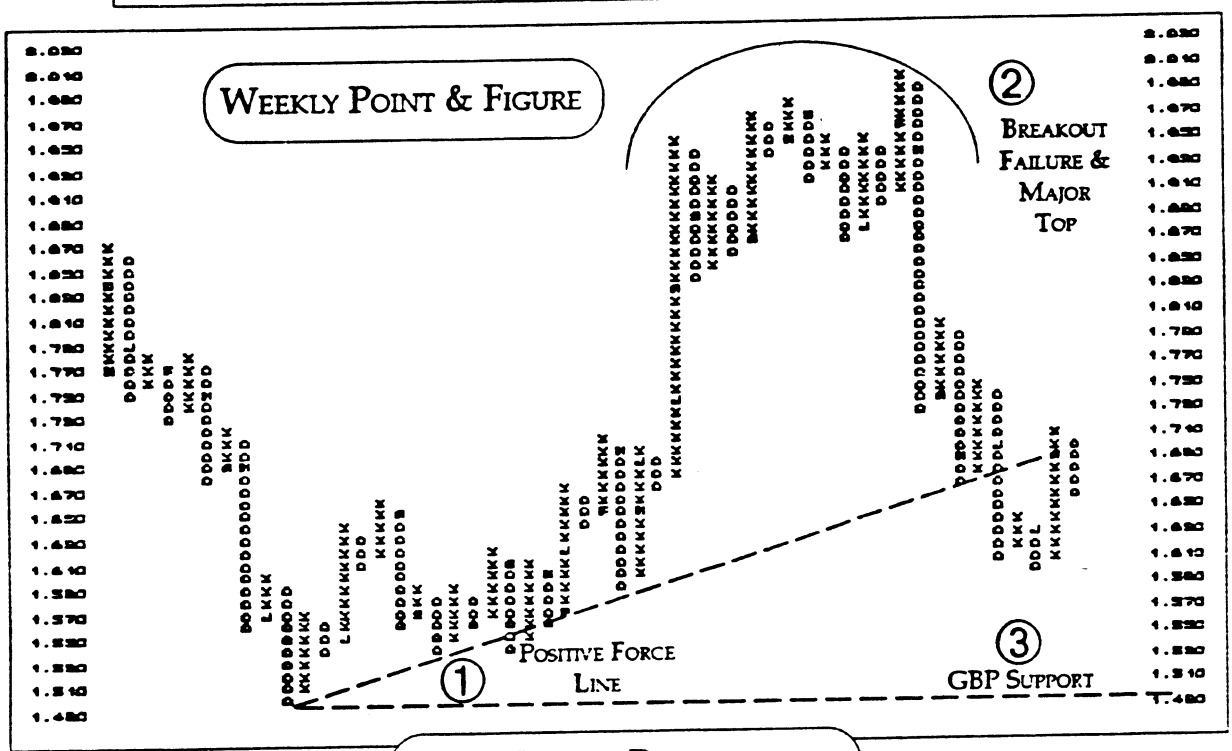


Figure 31

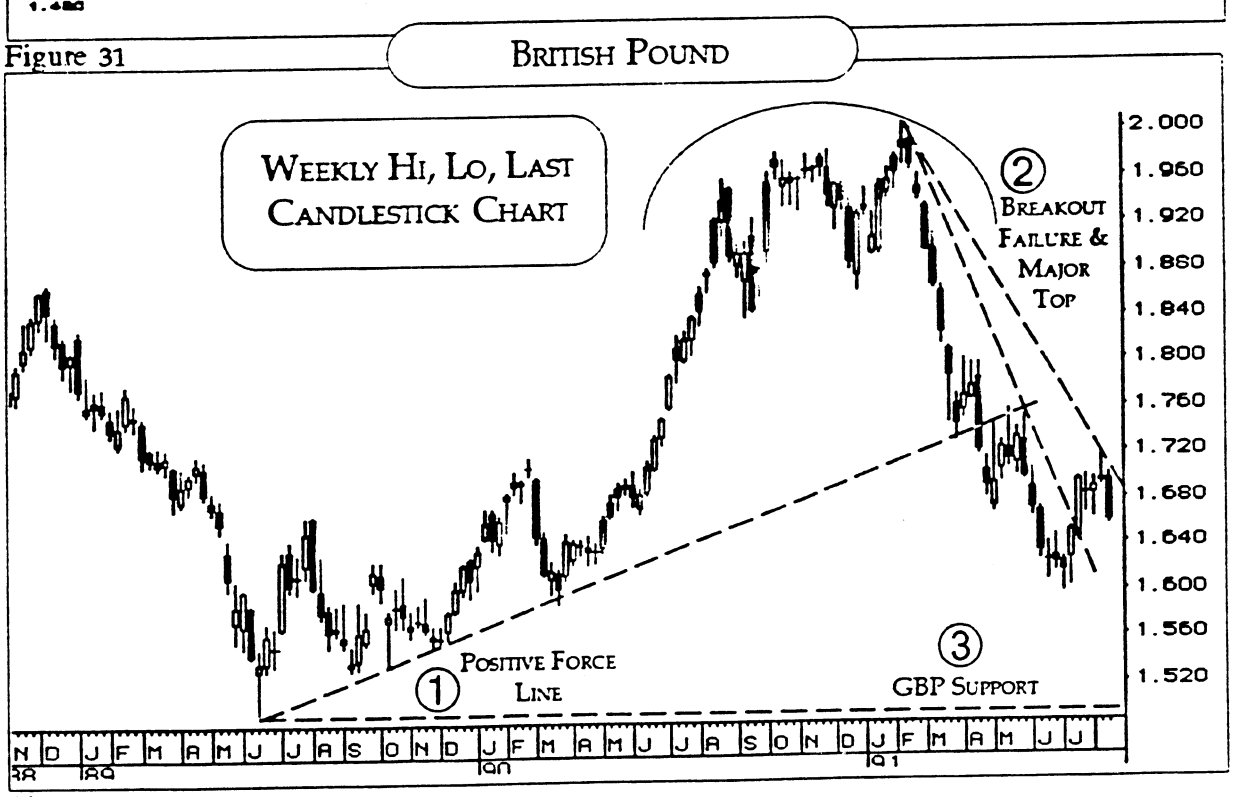


Figure 32

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES
"IT'S DEJA-VU ALL OVER AGAIN"
YOGI BERRA

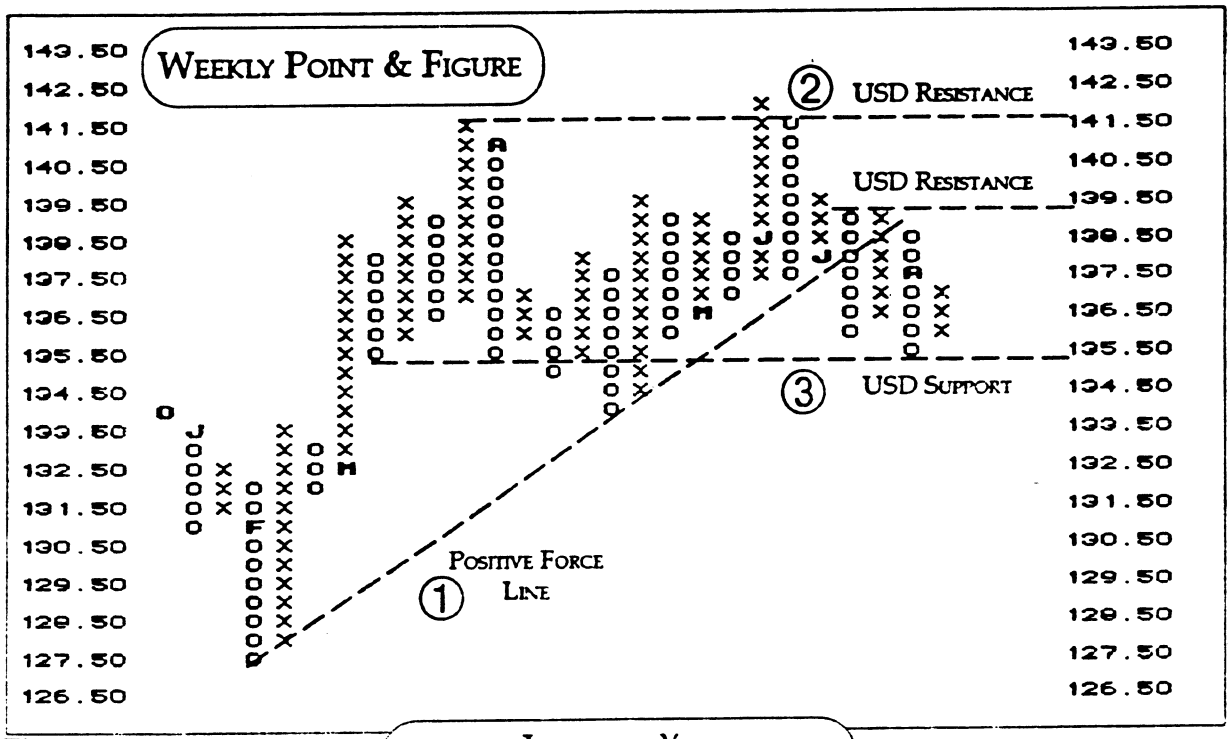


Figure 33

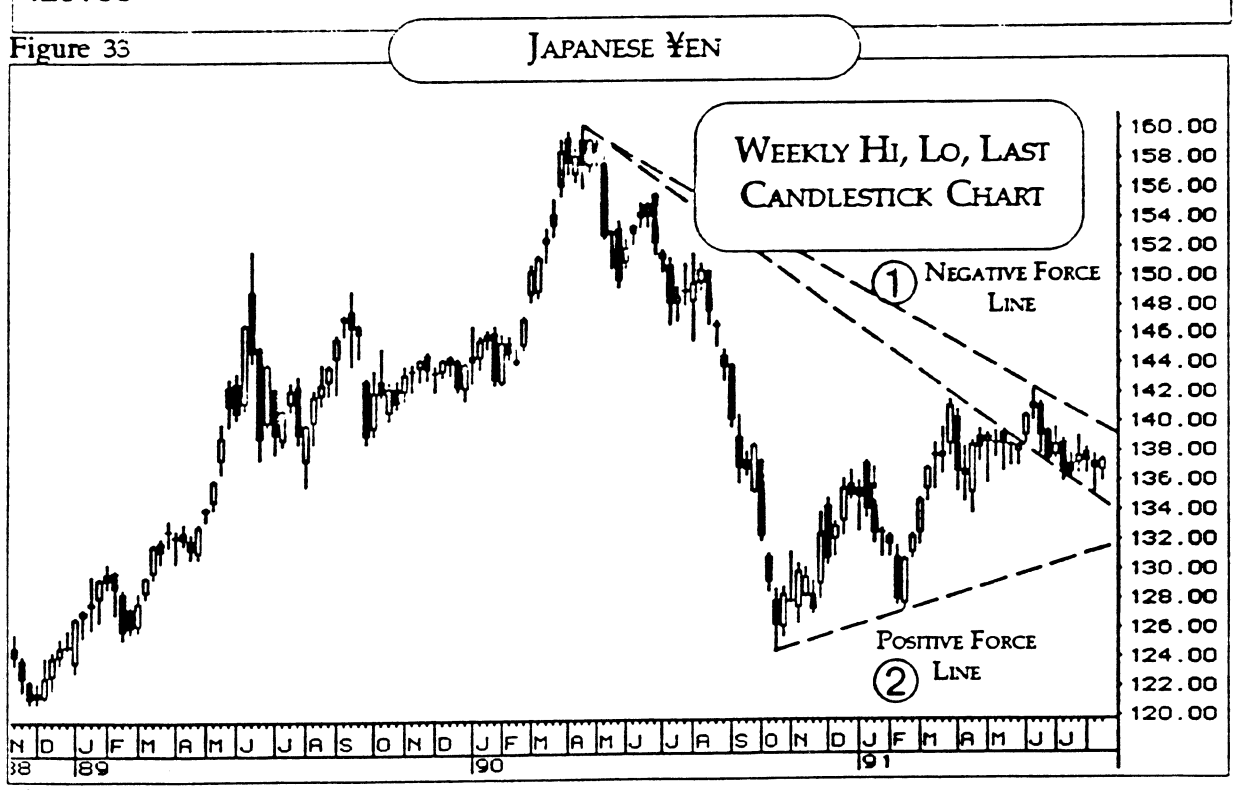


Figure 34

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES
"IT'S DEJA-VU ALL OVER AGAIN"
YOGI BERRA

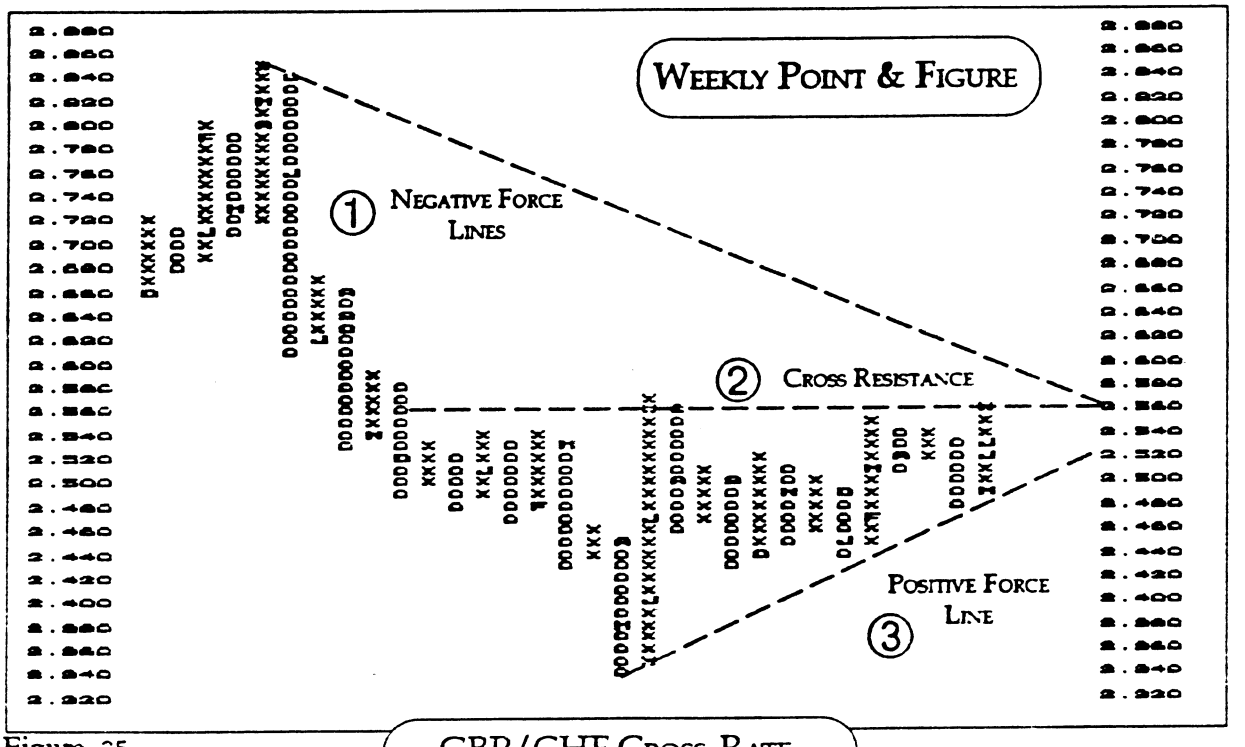


Figure 35

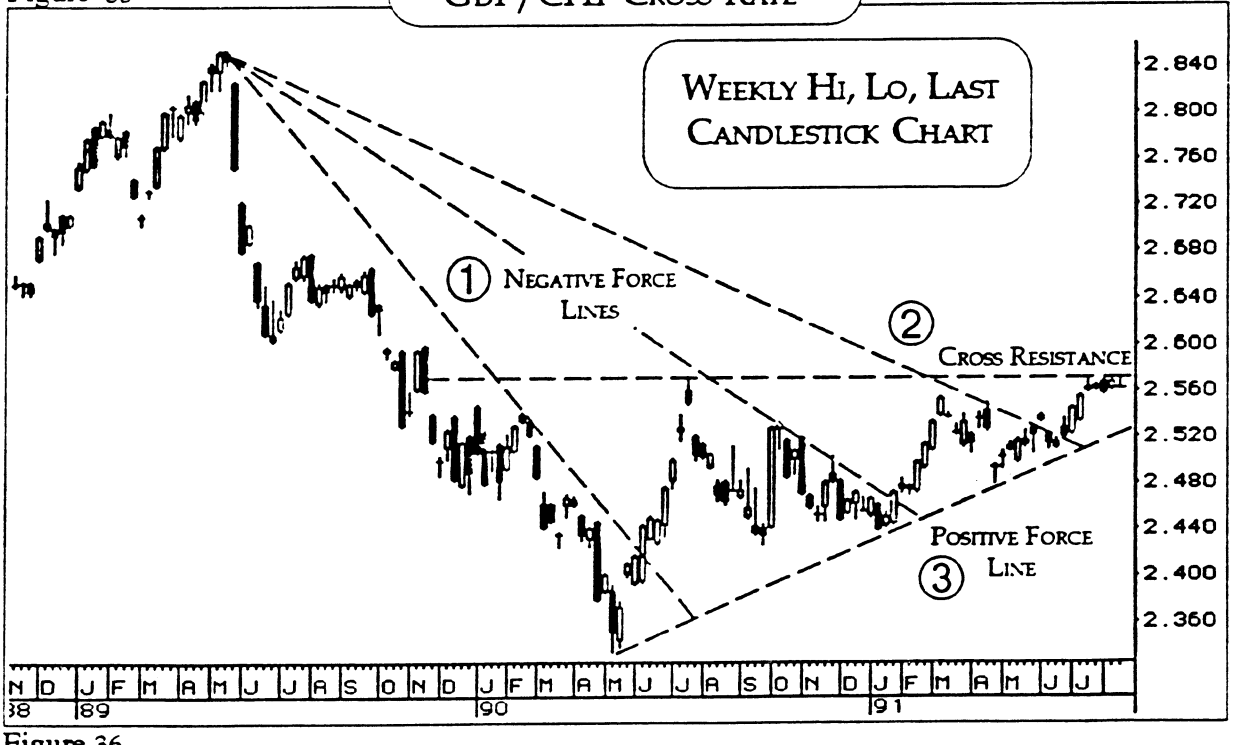


Figure 36

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES
"IT'S DEJA-VU ALL OVER AGAIN"
YOGI BERRA

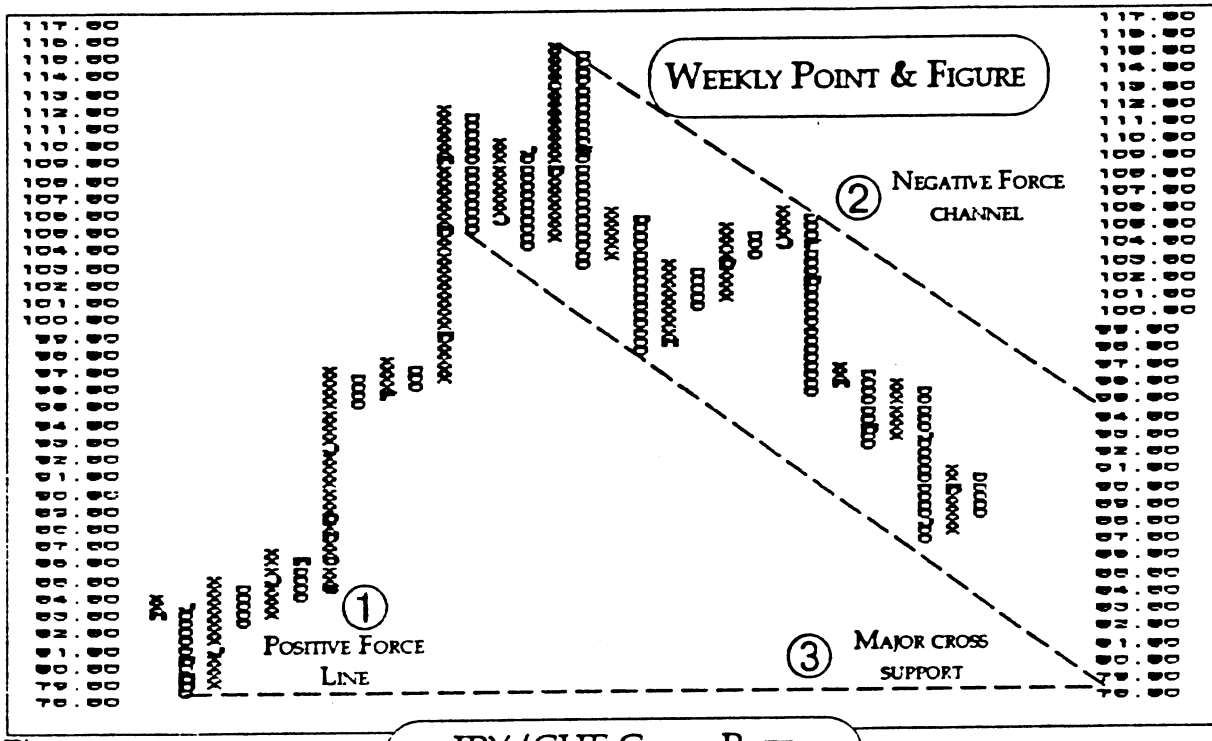


Figure 37

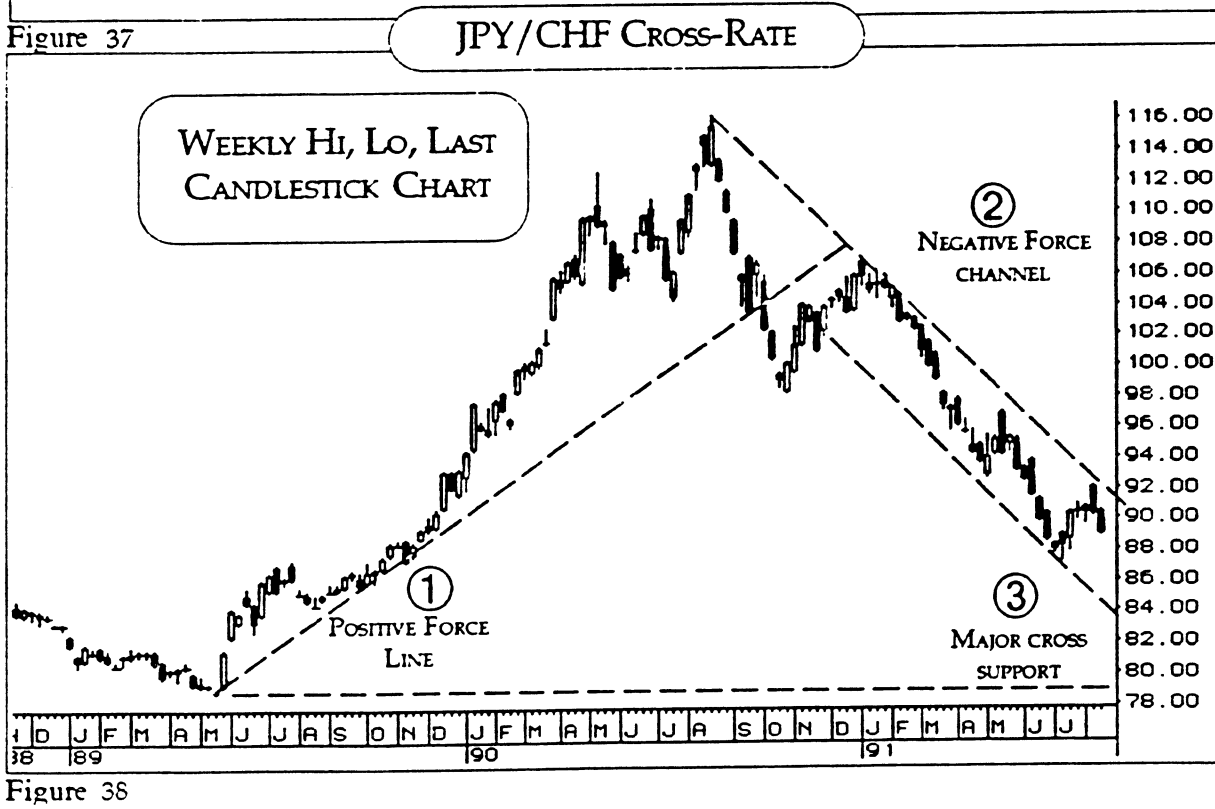


Figure 38

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES

"IT'S DEJA-VU ALL OVER AGAIN"

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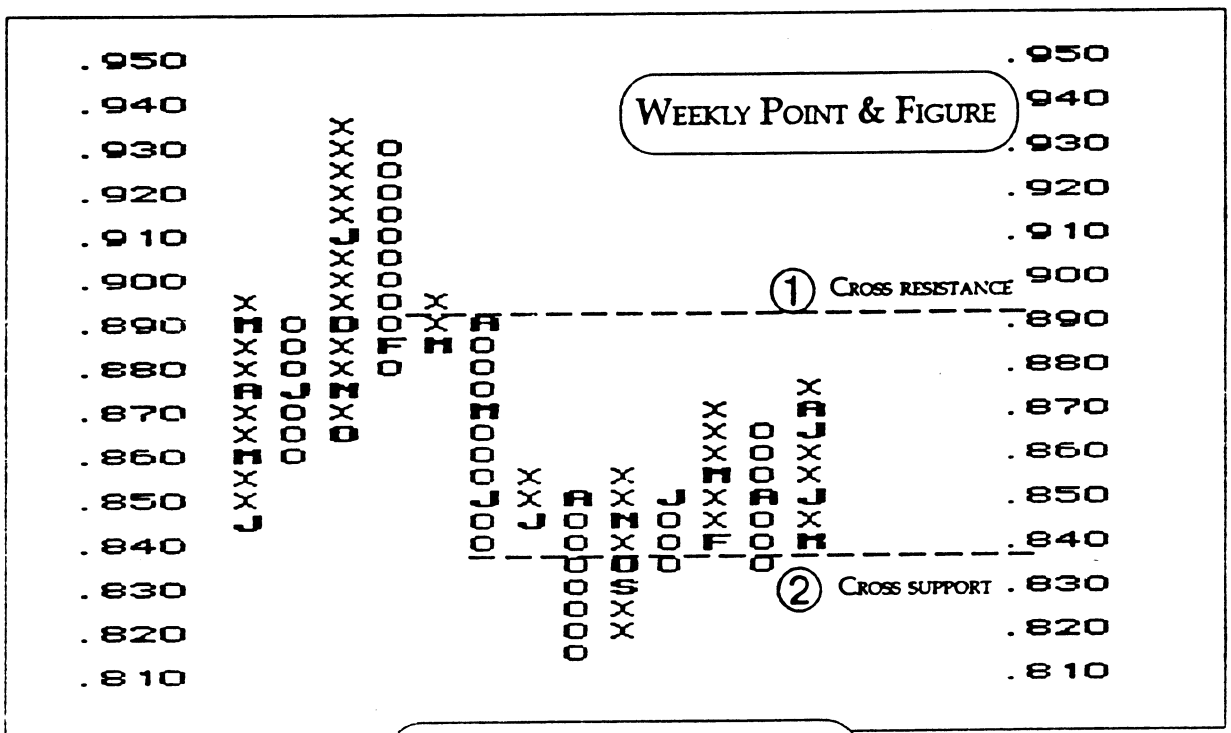

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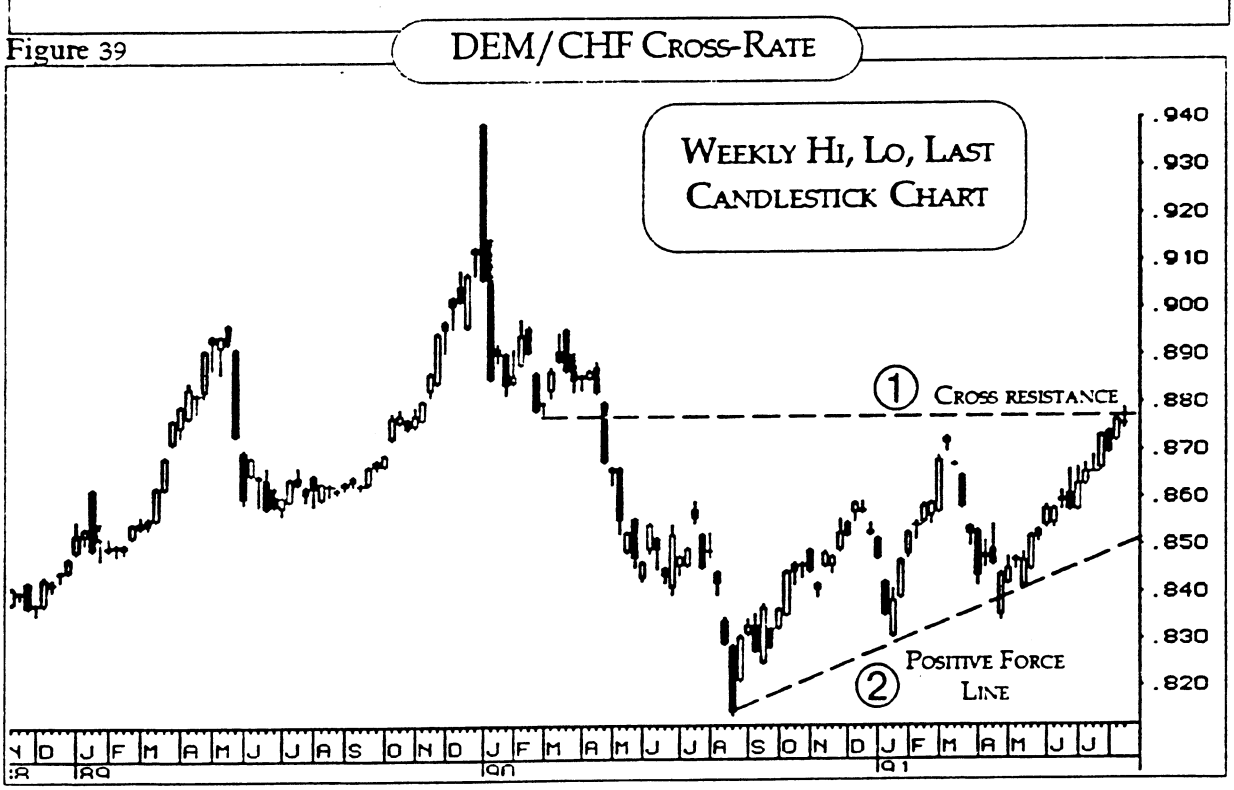


Figure 40

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES
"IT'S DEJA-VU ALL OVER AGAIN"
YOGI BERRA

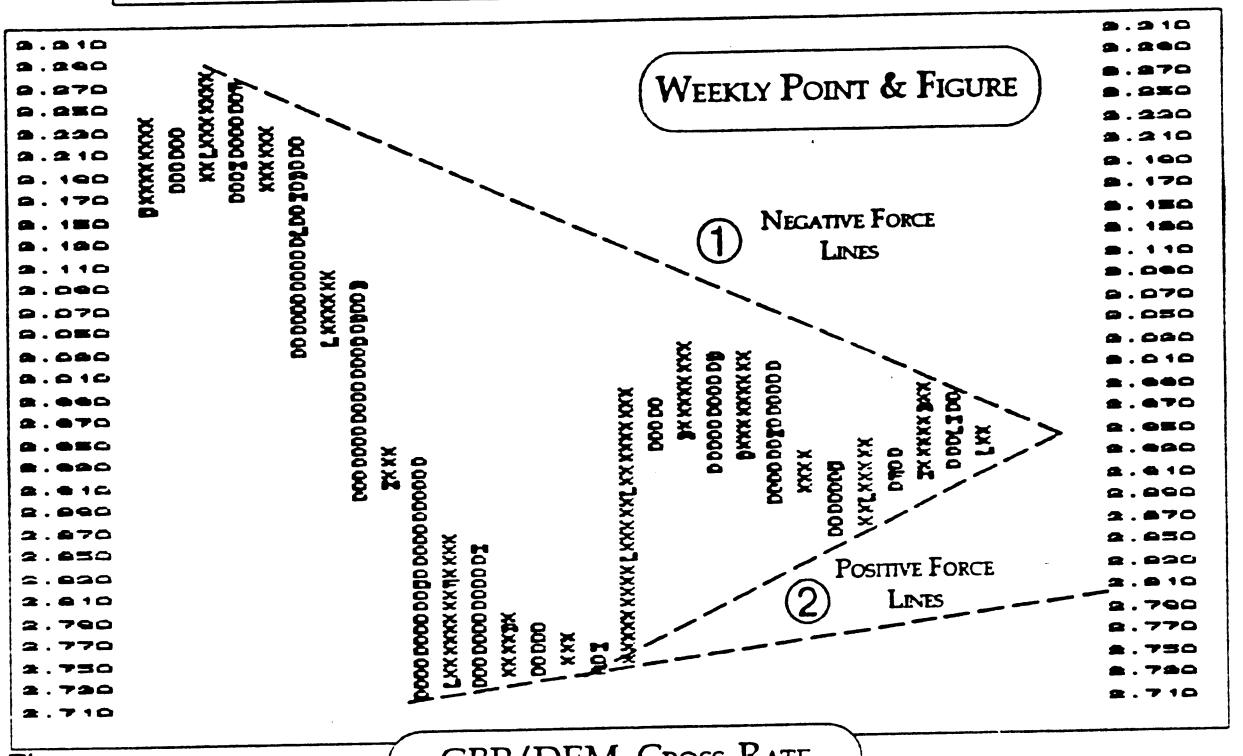


Figure 41

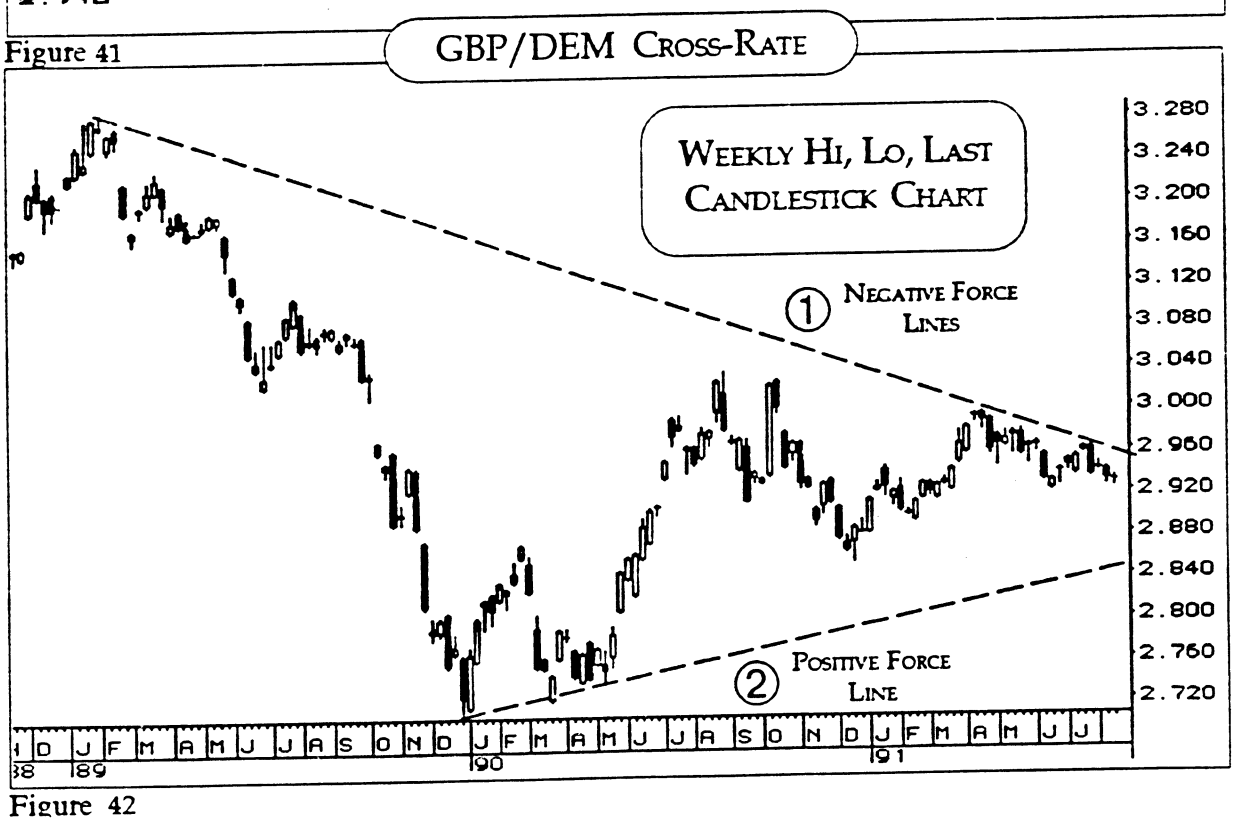


Figure 42

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES
"IT'S DEJA-VU ALL OVER AGAIN"
YOGI BERRA

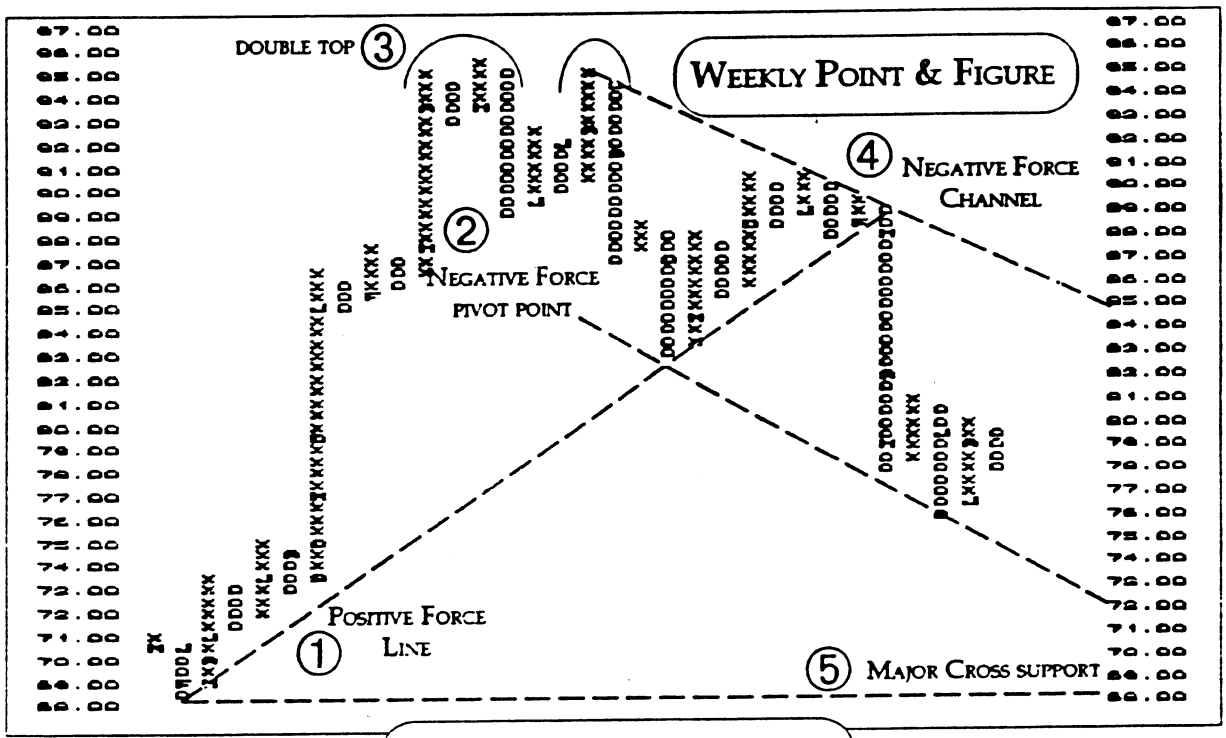


Figure 43

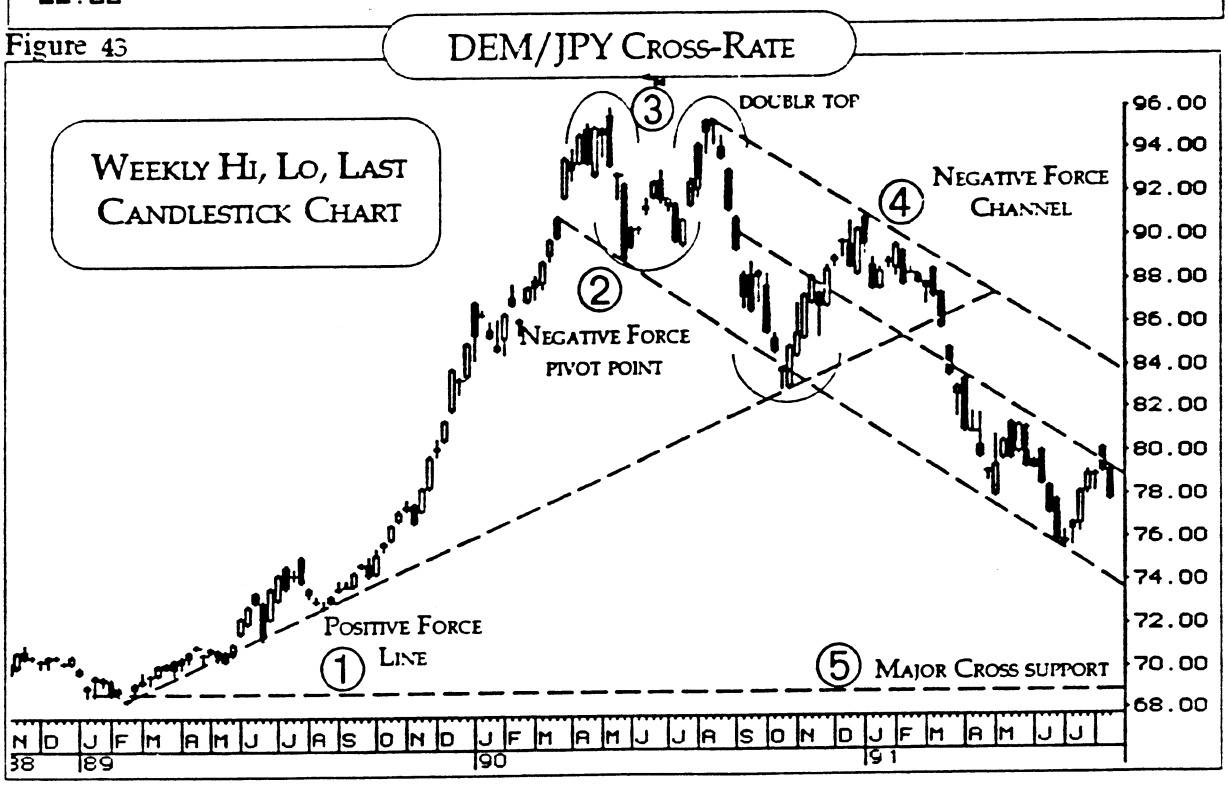


Figure 44

THE FOREIGN EXCHANGE MARKETS OF THE NINETIES

"IT'S DEJA-VU ALL OVER AGAIN"

YOGI BERRA

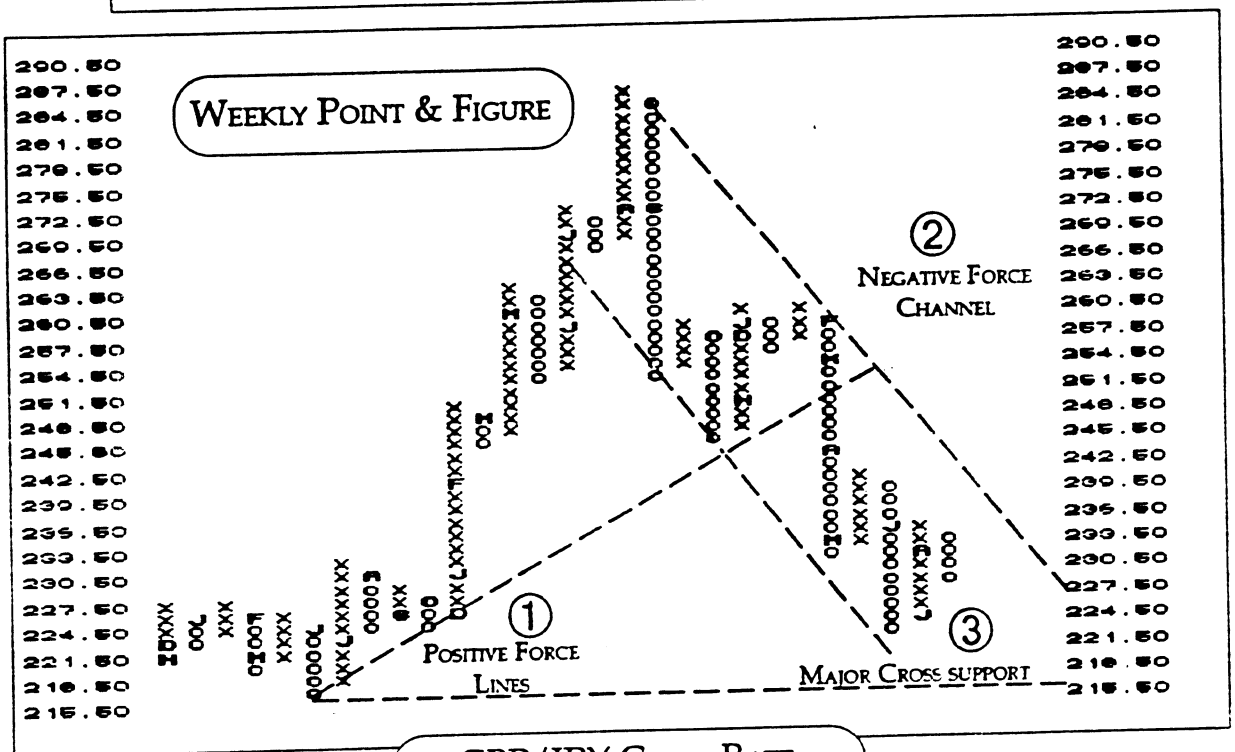


Figure 45

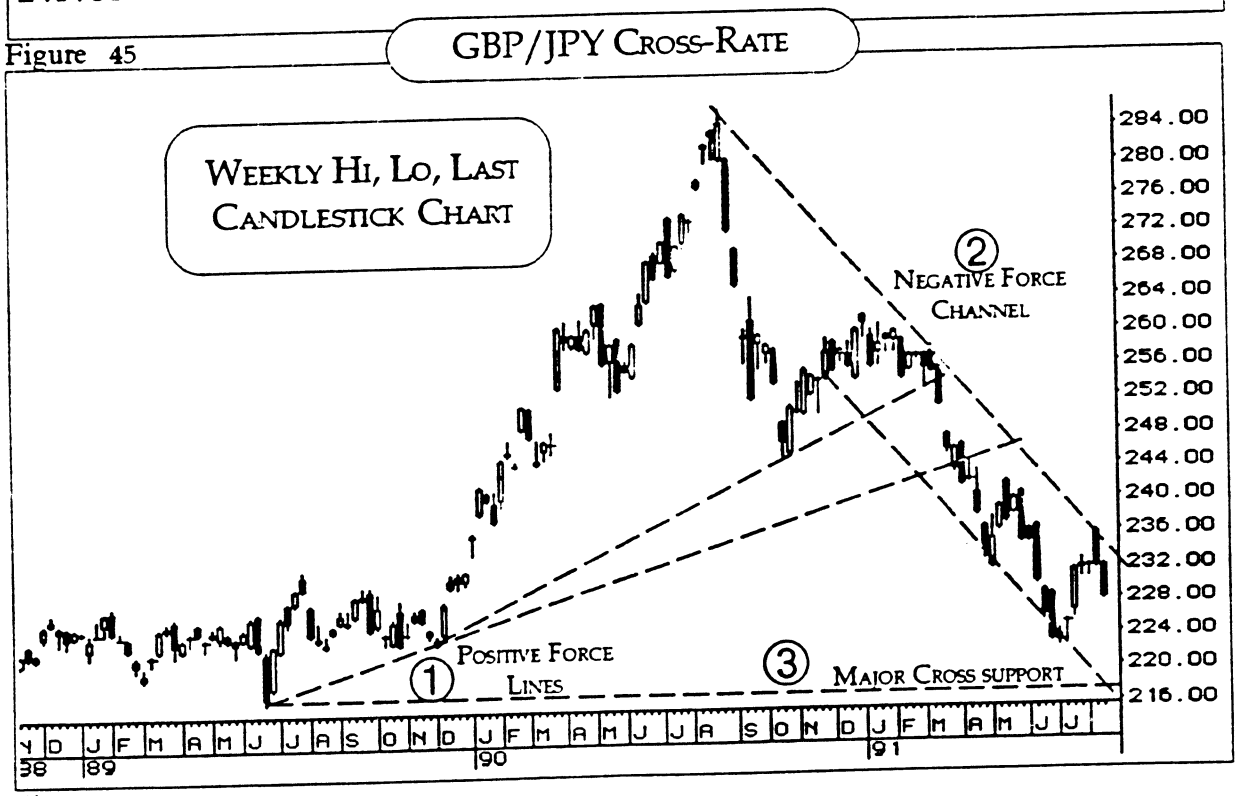
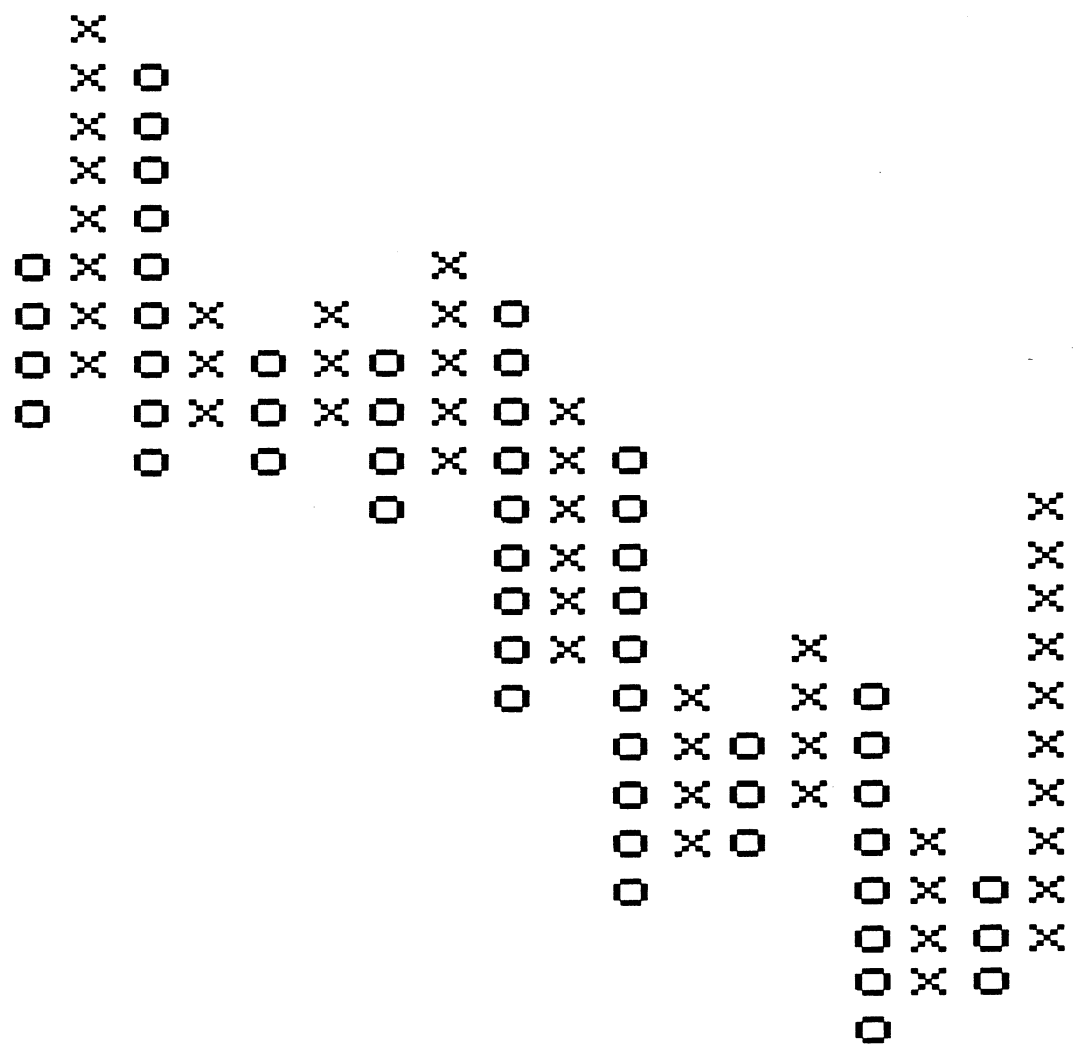
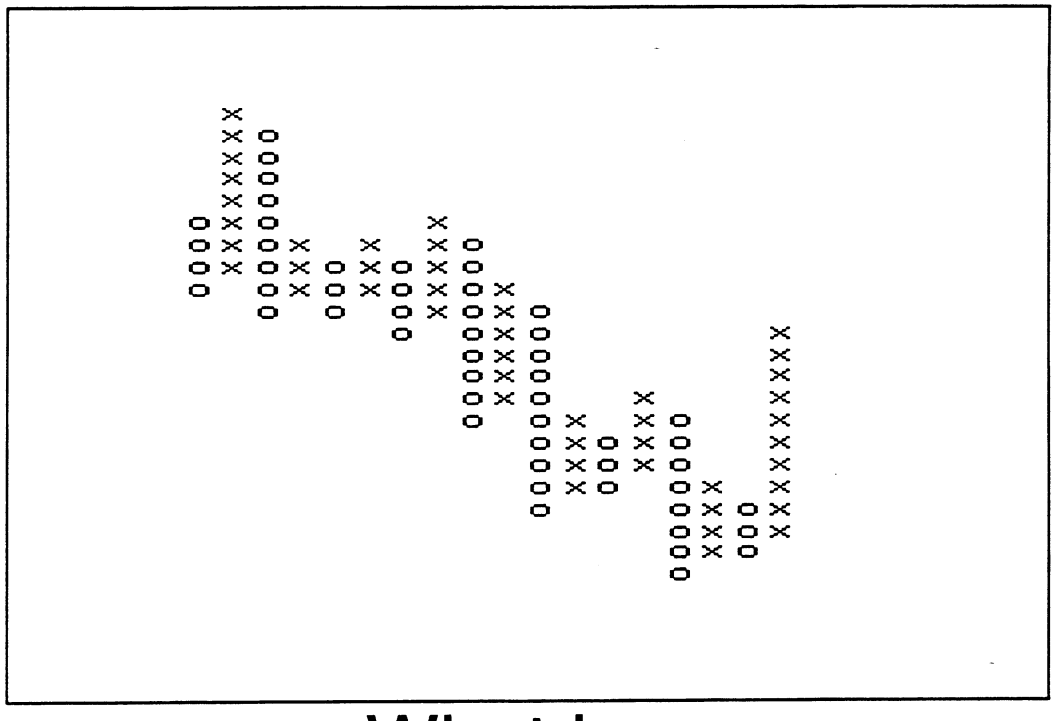


Figure 46

How to make Point & Figure Charts Work for You

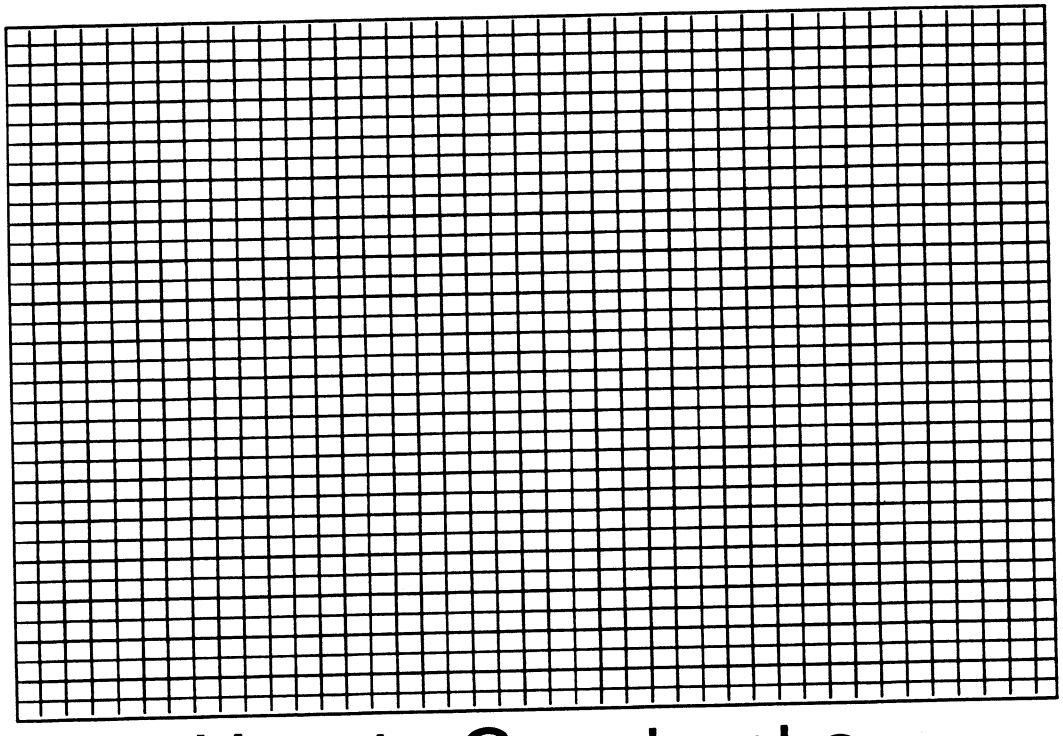
How to Construct and Use Point & Figure Charts





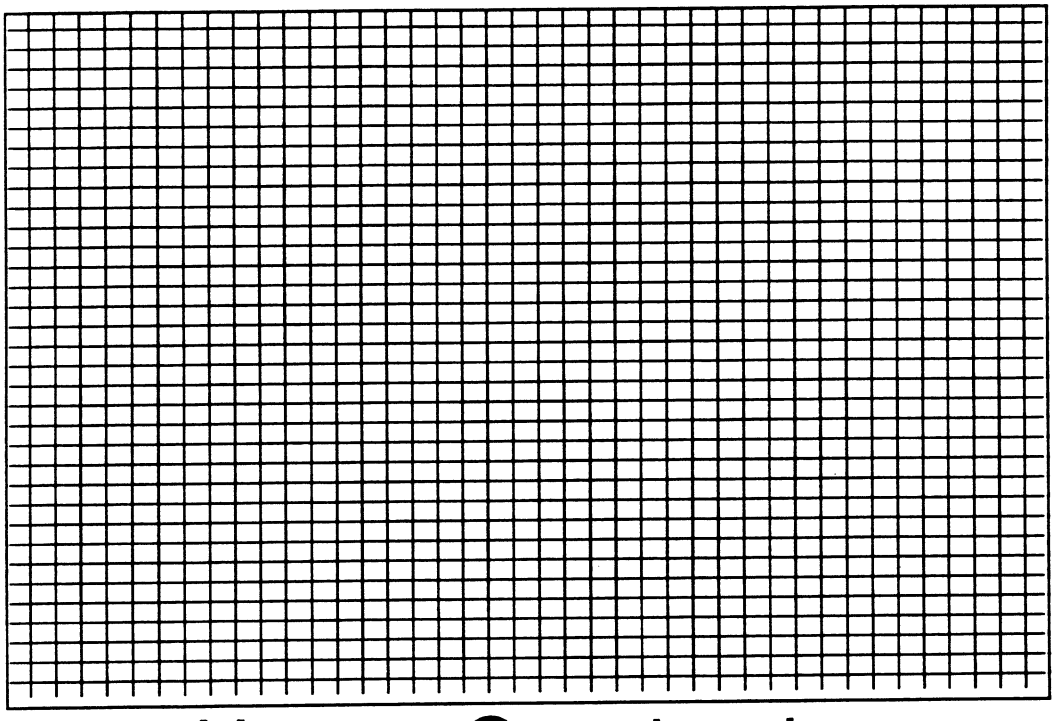
What is a Point and Figure Chart

Point and Figure charts have been around since the turn of the century and were first used to track stock prices. They provide an ideal way in which to keep track of markets showing the precise history in a very concise, readable form. Most charts were first kept by hand and are now updated by the computer.



How to Construct a Point and Figure Chart

The construction of a Point and Figure chart is very simple and can be used to track either daily, weekly or monthly charts. Point and figure charts are simple to make and easy to keep up-to-date. All that is needed is the correct data and proper charting paper. Making the chart is slow business at the start but speed develops quickly and naturally with just a little practice.



How to Construct a Point and Figure Chart

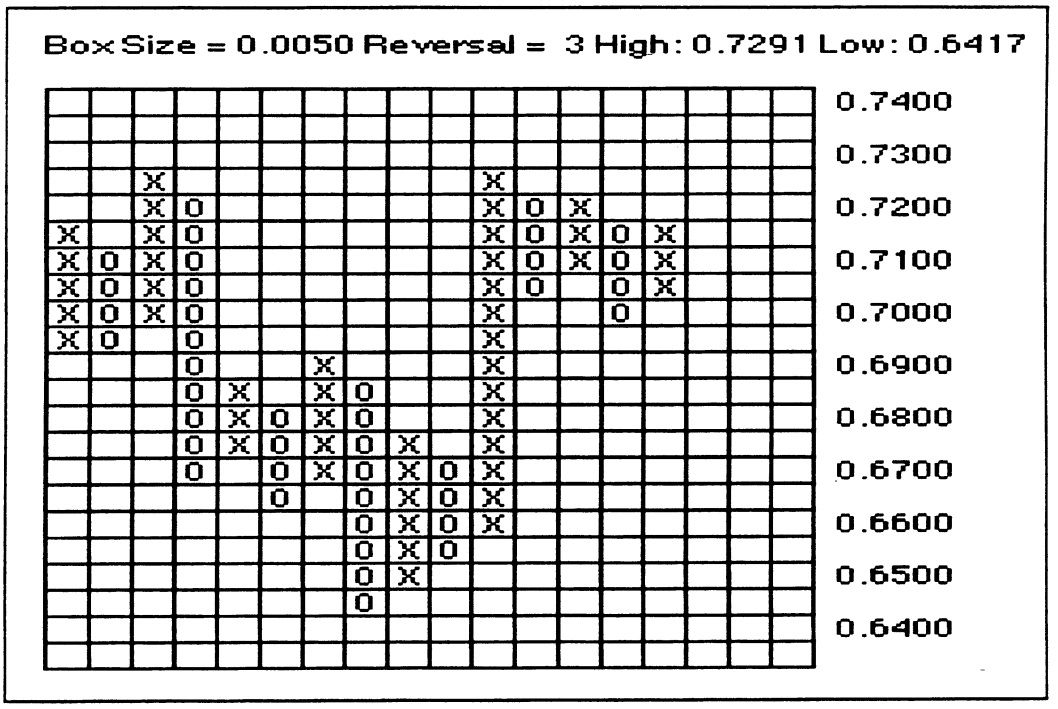
The most popular Point and Figure charting method is the "Three-Box Reversal". This is the one that we use. There is also a "Five-Box Reversal" method, however, for purposes of this illustration, we will use a "Three-Box Reversal". First, we determine a value of a box (in this case it will be 50) which means we need a 150-point move in either direction to enter either X's or O's on the chart. A market must break into a new high box to put in a new X and conversely it must reverse by four boxes to put in three O's.

How to make Point & Figure Charts Work for You

Data Series for Construction of a Point and Figure Chart

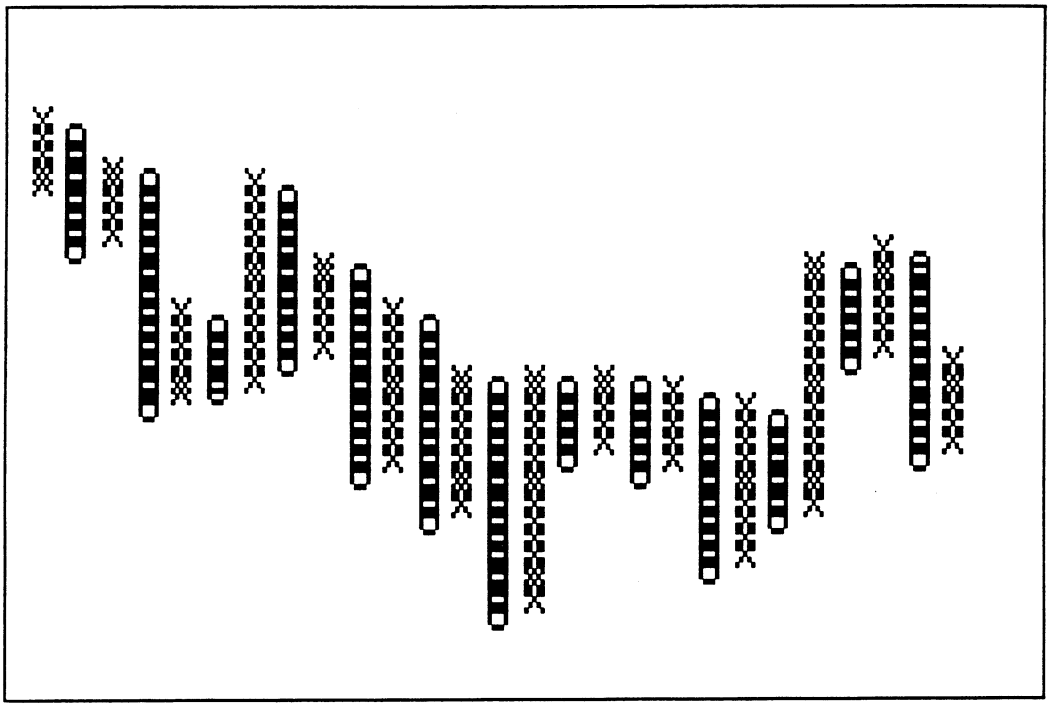
Date	Open	High	Low	Last
940302	7040	7071	7035	7071
940303	7077	7077	7050	7065
940304	7124	7150	7123	7145
940307	7180	7195	7167	7167
940308	7180	7180	7158	7159
940309	7125	7152	7125	7144
940310	7100	7114	7065	7069
940311	7100	7145	7093	7140
940314	7175	7194	7174	7194
940315	7190	7211	7171	7179
940316	7149	7149	7120	7144
940317	7132	7132	7115	7123
940318	7119	7120	7115	7120
940321	7120	7124	7074	7074
940322	7085	7115	7081	7105
940323	7087	7119	7087	7116
940324	7116	7116	7040	7040
940325	7101	7110	7093	7100
940328	7112	7118	7097	7097
940329	7045	7056	7022	7029
940330	7017	7017	6988	7009
940331	7018	7037	7005	7037
940401	7037	7060	7037	7060
940404	7060	7062	7019	7019
940405	7015	7060	7005	7047
940406	7035	7075	7033	7066
940407	7090	7180	7090	7166

Date	Open	High	Low	Last
940120	7045	7045	7022	7022
940121	7015	7030	7007	7030
940124	7038	7038	7022	7029
940125	7095	7095	7075	7075
940126	7101	7103	7071	7071
940127	7114	7114	7055	7069
940128	7083	7090	7056	7090
940131	7090	7093	7075	7084
940201	7145	7164	7100	7152
940202	7133	7155	7132	7146
940203	7142	7152	7135	7144
940204	7147	7147	7105	7144
940207	7145	7152	7143	7149
940208	7170	7188	7162	7168
940209	7155	7185	7155	7180
940210	7210	7210	7175	7177
940211	7160	7170	7150	7170
940214	7107	7115	7075	7075
940215	7080	7098	7068	7098
940216	7105	7140	7100	7140
940217	7130	7181	7130	7169
940218	7170	7170	7120	7150
940222	7197	7231	7190	7229
940223	7229	7253	7229	7240
940224	7273	7291	7227	7238
940225	7200	7205	7185	7185
940228	7131	7136	7110	7136
940301	7120	7146	7087	7087



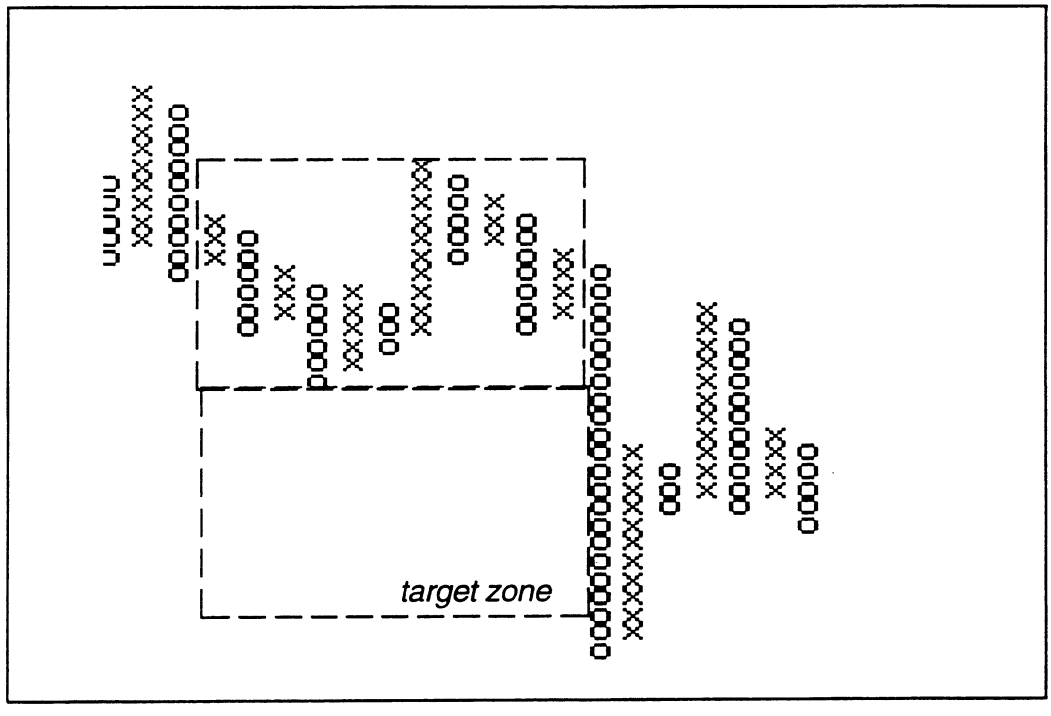
How to Construct a Point and Figure Chart

Once you start a course of action, it is very easy to follow many markets on a day-to-day basis. Because the "Three-Box Reversal" eliminates the minor and insignificant price changes, it makes them easy to read and instantly gives you a clue to the direction of the major trend. For illustration purposes, we have created a set of numbers for you to construct your own Point and Figure chart. When you finish, your chart should look like this.



Congestion Area Analysis

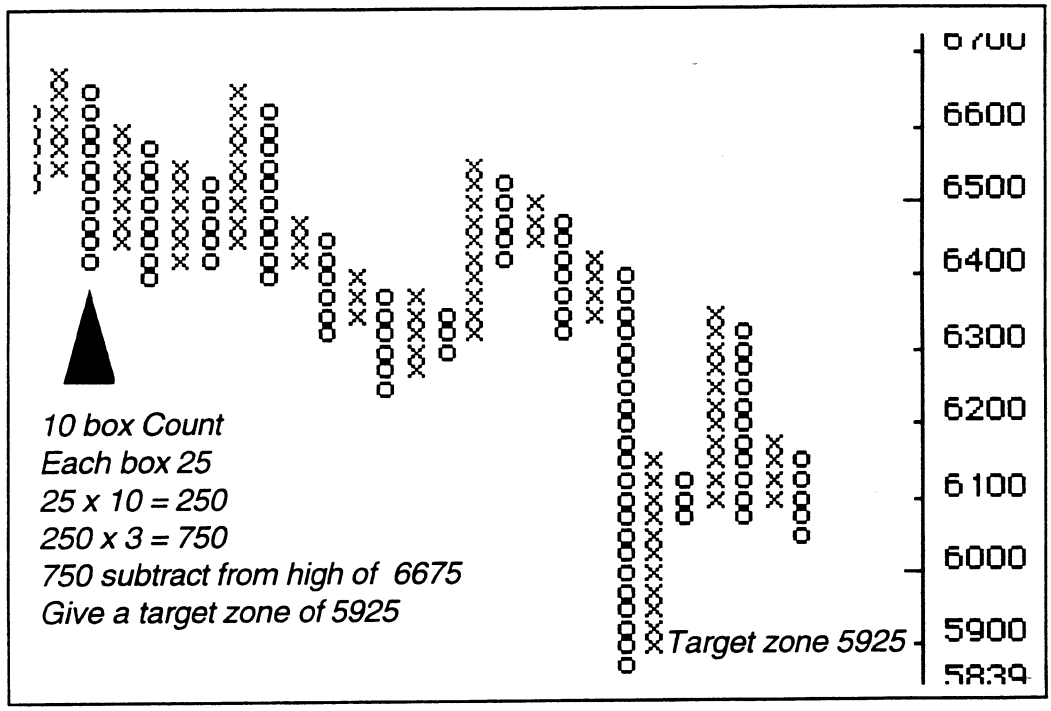
The term "Congestion Area" means sideways price activity within a trading range, either as an interruption of a price trend or sideways price action at the top or bottom of a trend. Congestion areas usually occur after a substantial advance or a substantial decline and represents the market's adjustment to the new price level. Sooner or later, either buying power or selling pressure will dominate causing the market to create either an uptrend or a downtrend.



How Far is the Move Likely to Carry

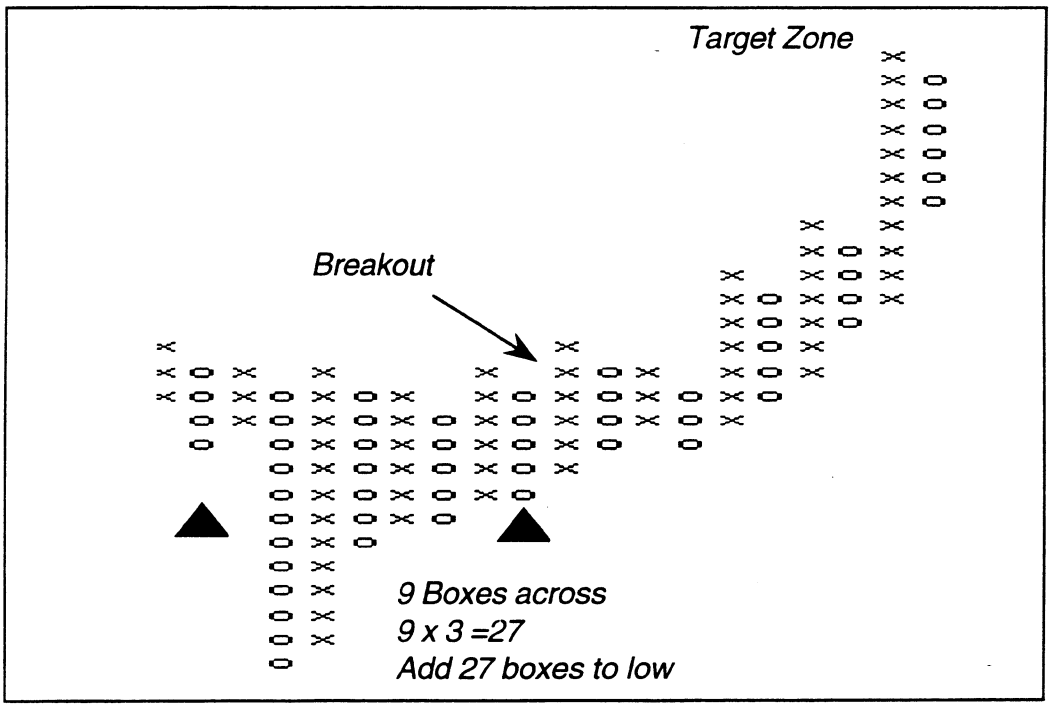
One of the most valuable features in Point and Figure charting is the ability to estimate how far a price move is likely to carry. This is accomplished by consideration of the "count".

THE COUNT - There are two "counts" in Point and Figure charting, the first being the "Vertical Count" and the second being the "Horizontal Count". Both methods work well.



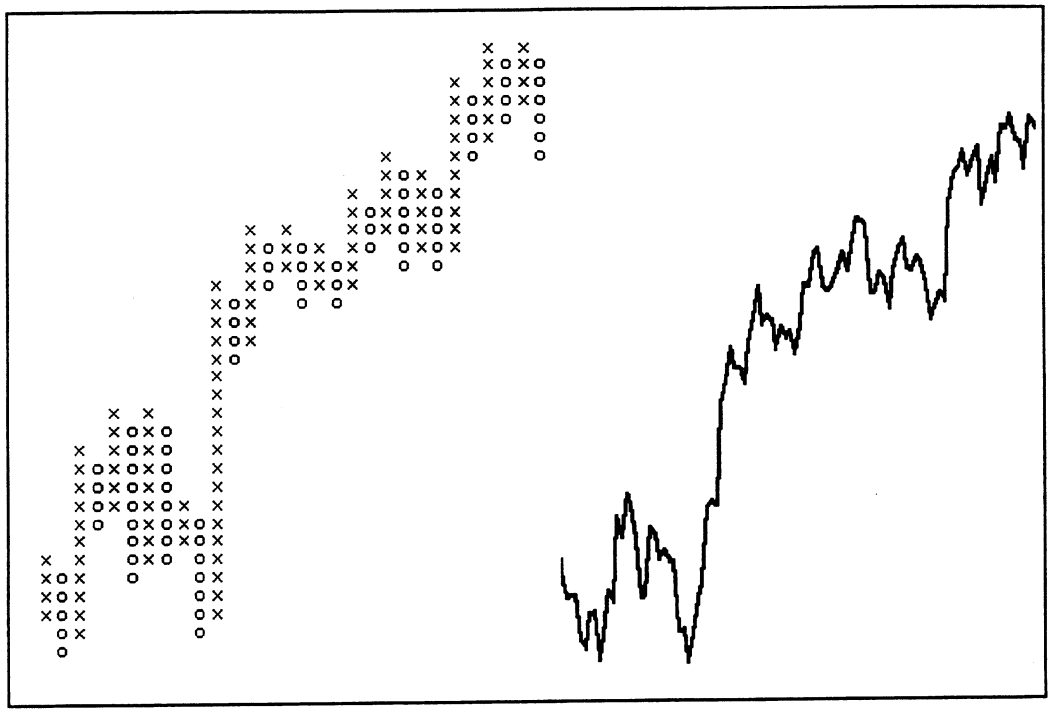
The Vertical Count

The formula for a "Vertical Upside Count" is to count the number of X's to the right of the low point, multiply that result by the box size and multiply again by three. Add result to low for price objective. For a "Vertical Downside Count", count the number of O's to the right of a high point, multiply results by box size, and multiply again by three. Subtract from the high point to calculate price objective.



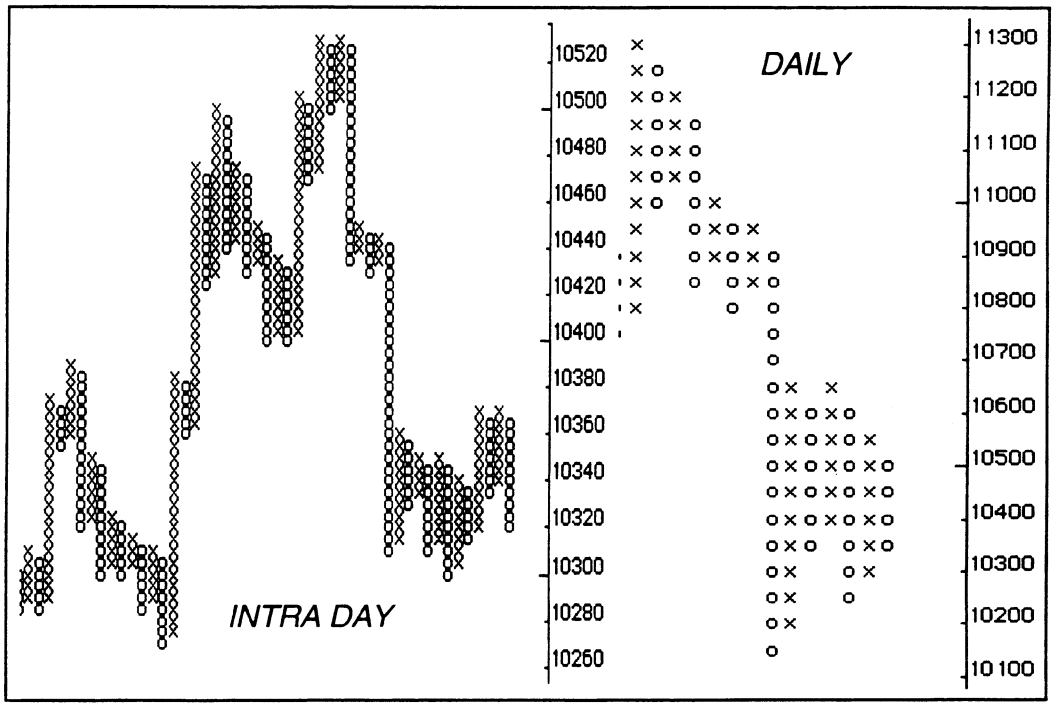
The Horizontal Count

The "Upside Horizontal Count" is the one that we prefer to use and this refers to when a market breaks out of a base, you count the width of the base ; multiply the width by three which gives you a number which you then add to the lowest point of the base. The same holds true for the "Downside Horizontal Count" count the width of the top; multiply the width by three which gives you a number which you then subtract from the highest point of the top.



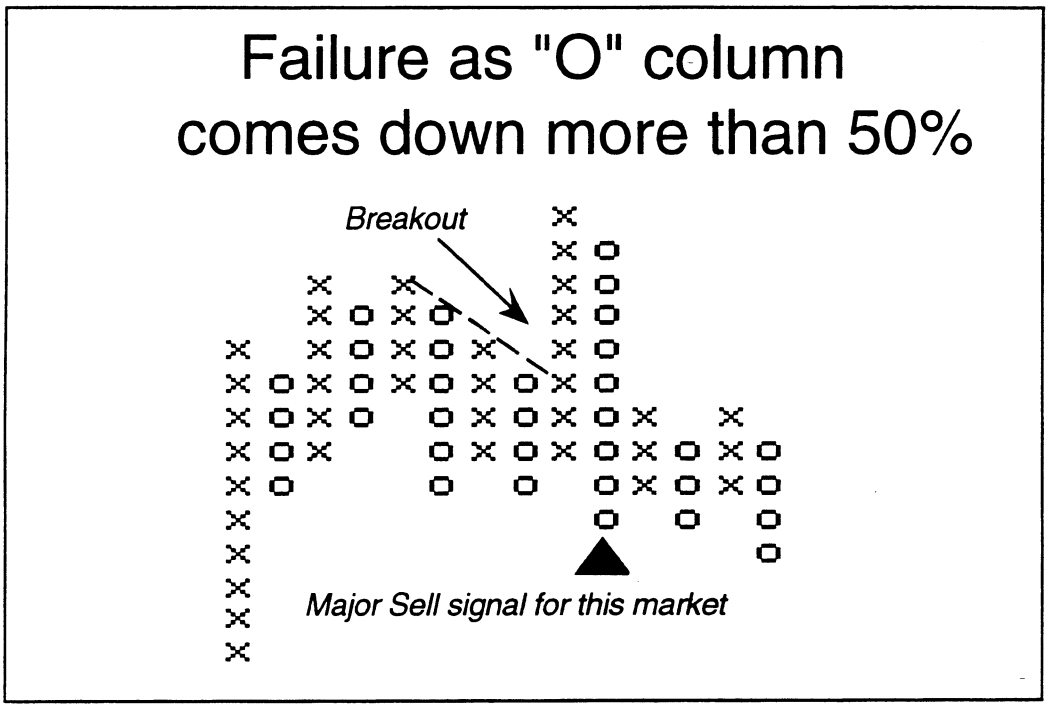
Pattern Identification

Price change activity, as portrayed on Point and Figure charts, creates graphic patterns which have a large degree of similarity to other charting techniques. The reason for this is that similar causes create similar effects. It is not surprising, therefore, that the price action of two futures markets in a similar technical position (i.e., with the supply/demand ratio the same) should create chart patterns similar to each other.



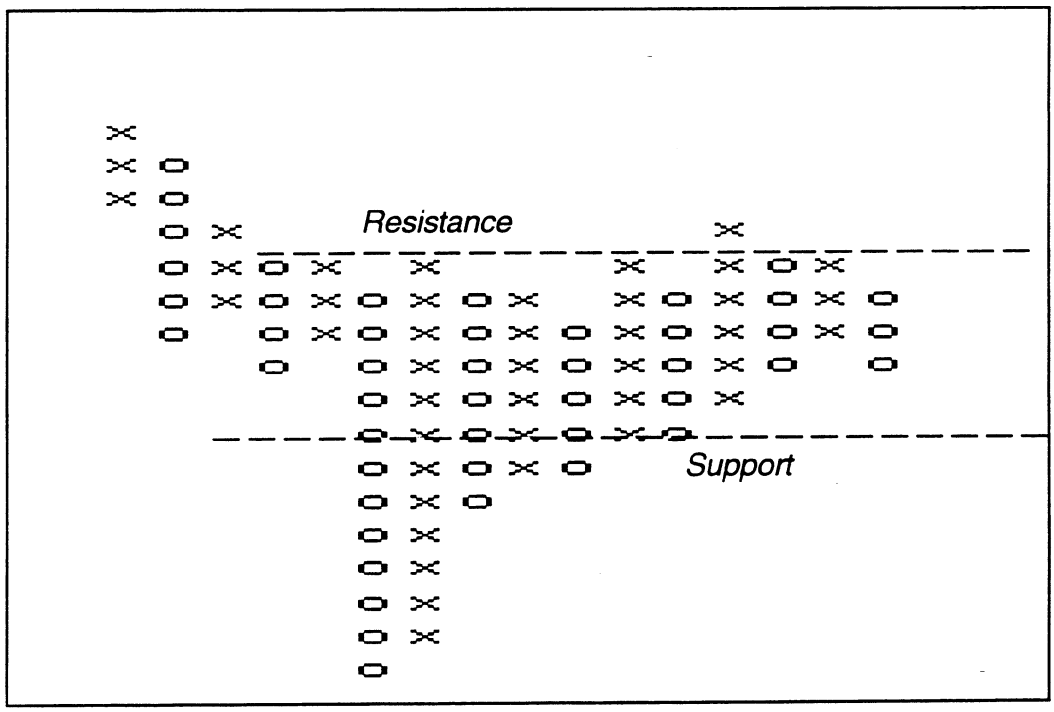
Trend Considerations

An examination of the charts of markets will show that small countertrends occur within larger trends. Frequently minor trends occur within longer range or intermediate trends which in turn are within major trends. The main trends of markets can be studied by the "Continuation Charts" which show essential, continuous price/change activity which is desirable for easy observation of long-term trends.



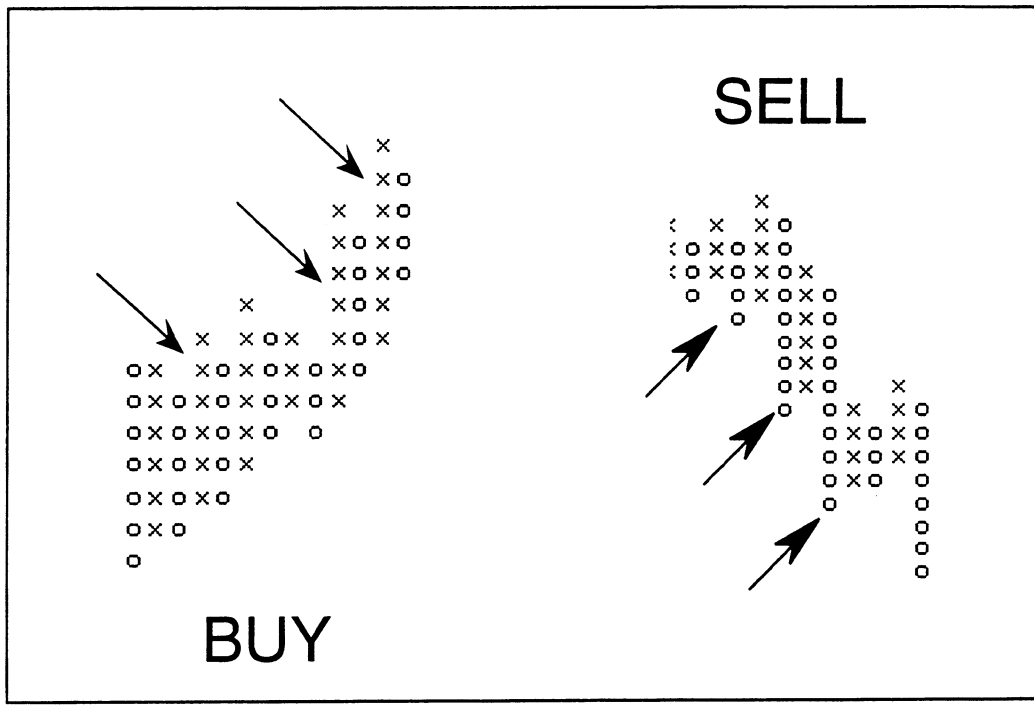
High Pole at the Negative Resistance Line

One of our favorite setups is what we call a "High Pole". This is when a market breaks over a Negative Resistance Line and gives the impression that it wants to go higher, only to reverse sharply and pull back below the Negative Resistance Line. When this happens, the market in question is usually an excellent short sale. This type of formation is an early indicator and easily surpasses either moving averages or other technical indicators for giving early signals.



Support and Resistance

A "support" area is a price level which should invite sufficient buying to halt a decline. A "resistance" area is a price level at which sufficient selling should check an advance. Each successive congestion area in an uptrend becomes a support level for minor declines as the uptrend progresses. The opposite holds true for a negative trend. Support and resistance levels should be watched carefully for changes in both buying and selling pressure and market psychology.



Buy and Sell Signals

The premise of Point and Figure charts is that supply and demand, and nothing else, determines the price of a market. And this supply and demand can be readily seen in a Point and Figure chart. When demand exceeds supply, the price rises and, when supply exceeds demand, the price falls. A column of X's show that demand was exceeding supply, while a column of O's would show that supply exceeds demand.

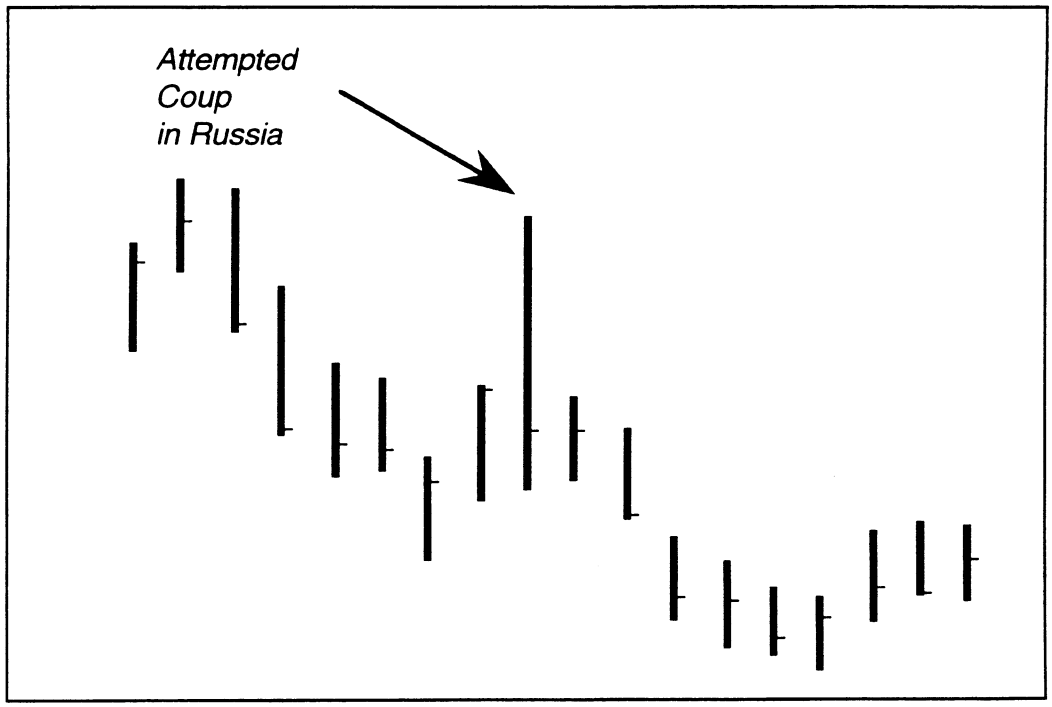


Chart Limitations

Looking at charts and trading from charts you are dealing with probabilities. This is geared to normal price action and then concerns itself with deviation from the normal, it is understandable that Point and Figure charts on occasion are extremely easy to read. It should not be taken for granted that all markets are equally easy to read at all times. Outside events can and do distort markets and these cannot be predicted from any charts.

Weekly: For Long-Term Trend

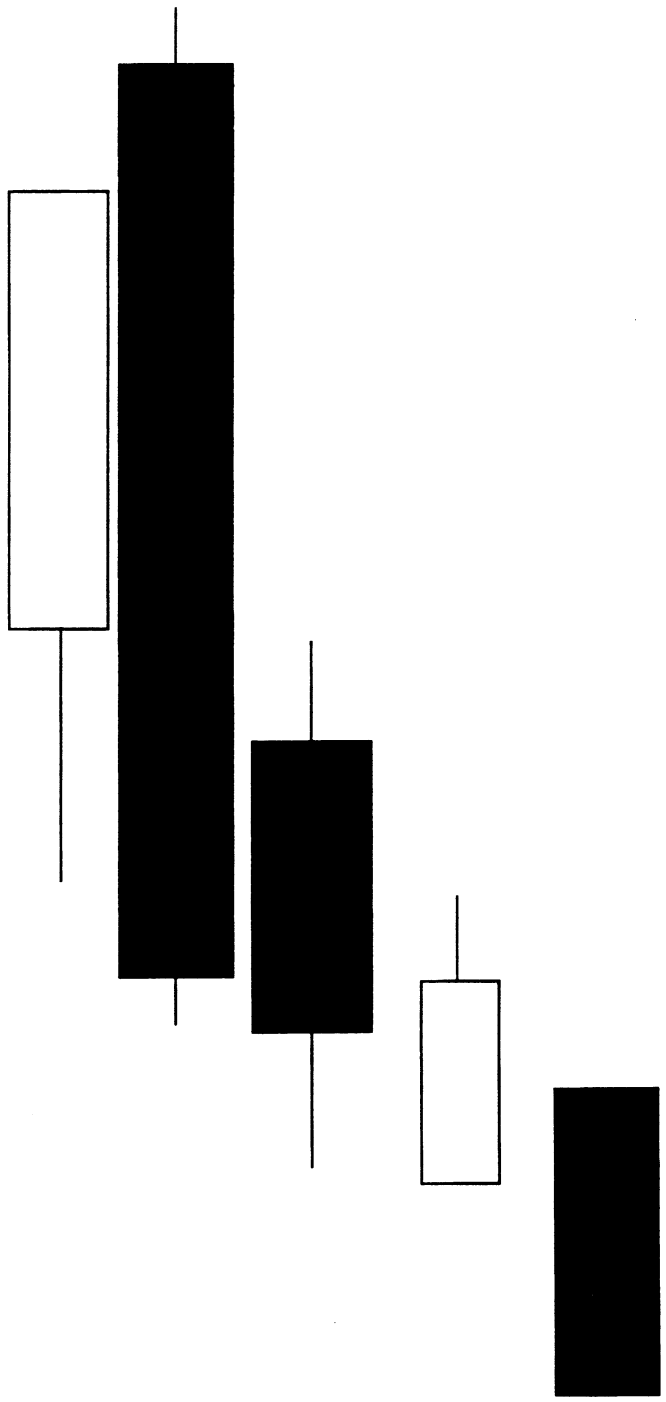
Daily: For Intermediate Trend

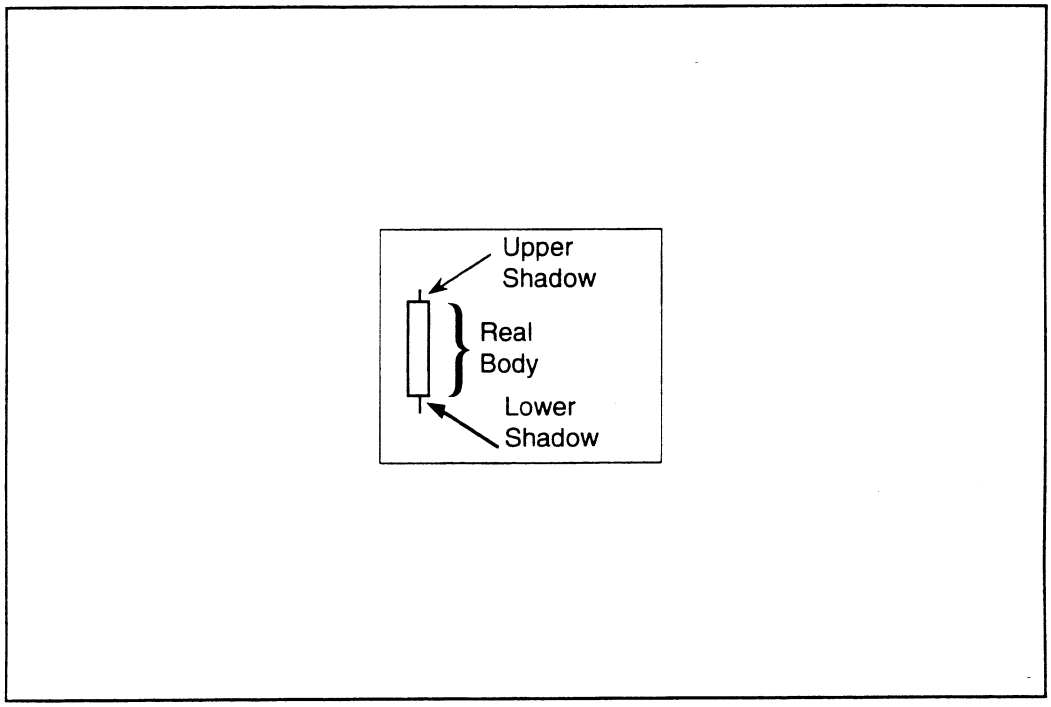
Intra-Day: For Timing Trades

What Charts to Use

One of the key charts to use in Point and Figure charting is the "Continuation" chart. "Continuation" charts are usually condensed so that many years can be displayed within reasonable bounds of charting space. The cash markets lend themselves very well to this kind of charting as they provide a continuous data screen that does not take into account carrying charges or interest rate differentials. Daily charts and intraday charts can be most useful for entry and exit points.

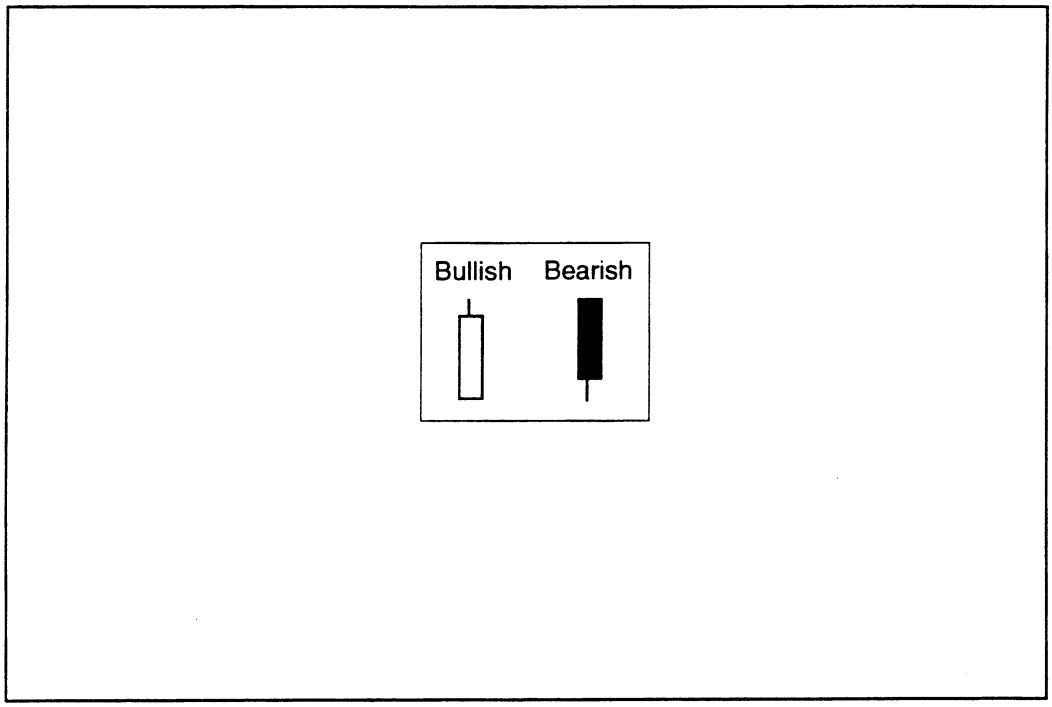
The 17 Most Important Candlestick Formations





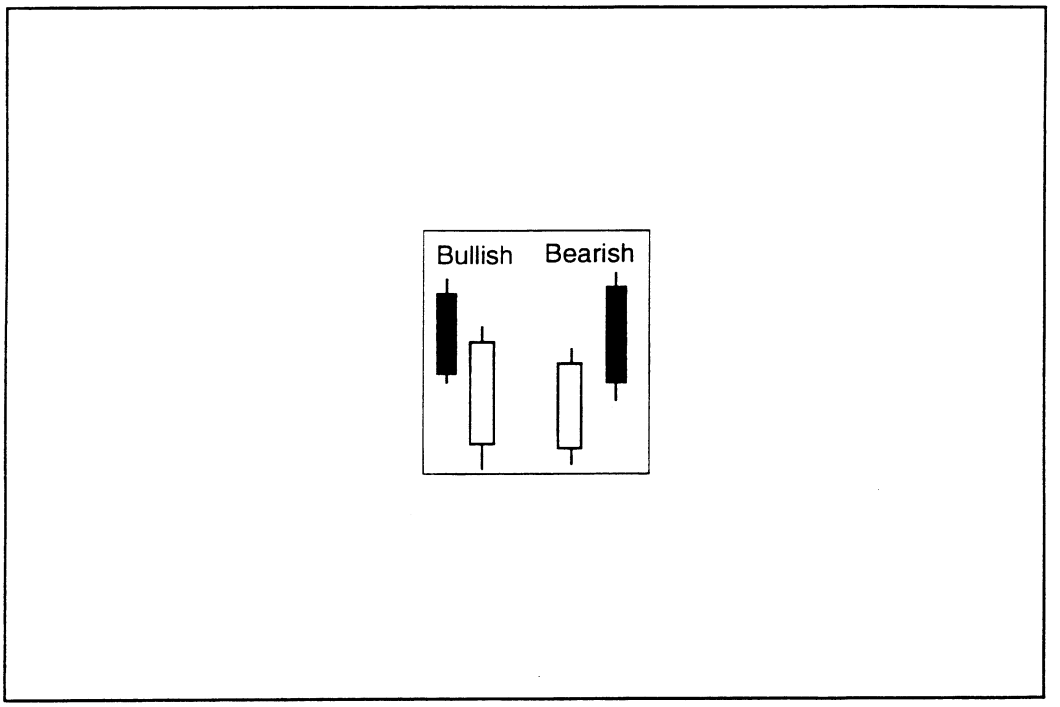
Candlestick Line

Candlestick lines and charts--traditional Japanese charts whose individual lines look like candles, hence their name. The candlestick line is comprised of a real body and shadows. *See* "Real body" and "shadow."



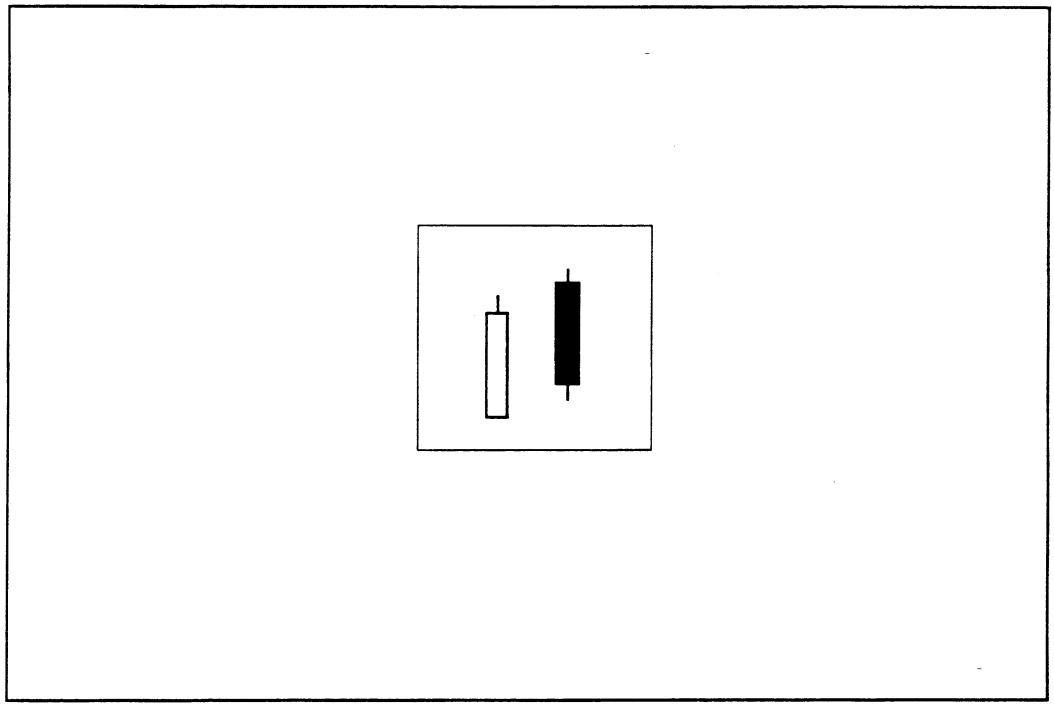
Belt Hold Lines

Belt-hold line--there are bullish and bearish belt holds. A bullish belt hold is a tall white candlestick that opens on its low. It is also called a *white opening shaven bottom*. At a low price area, this is a bullish signal. A bearish belt hold is a long black candlestick which opens on its high. Also referred to as a *black opening shaven head*. At a high price level, it is considered bearish.



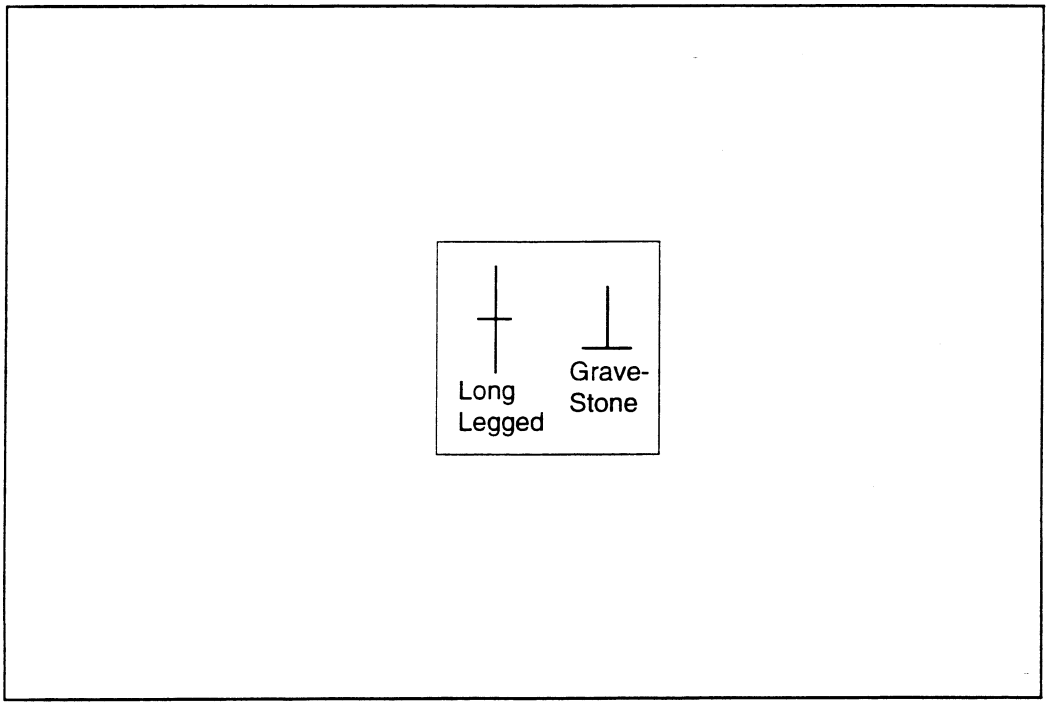
Counterattack Lines

Counterattack lines--following a black (white) candlestick in a downtrend (uptrend), the market gaps sharply lower (higher) on the opening and then closes unchanged from the prior session's close. A pattern which reflects a stalemate between the bulls and bears.



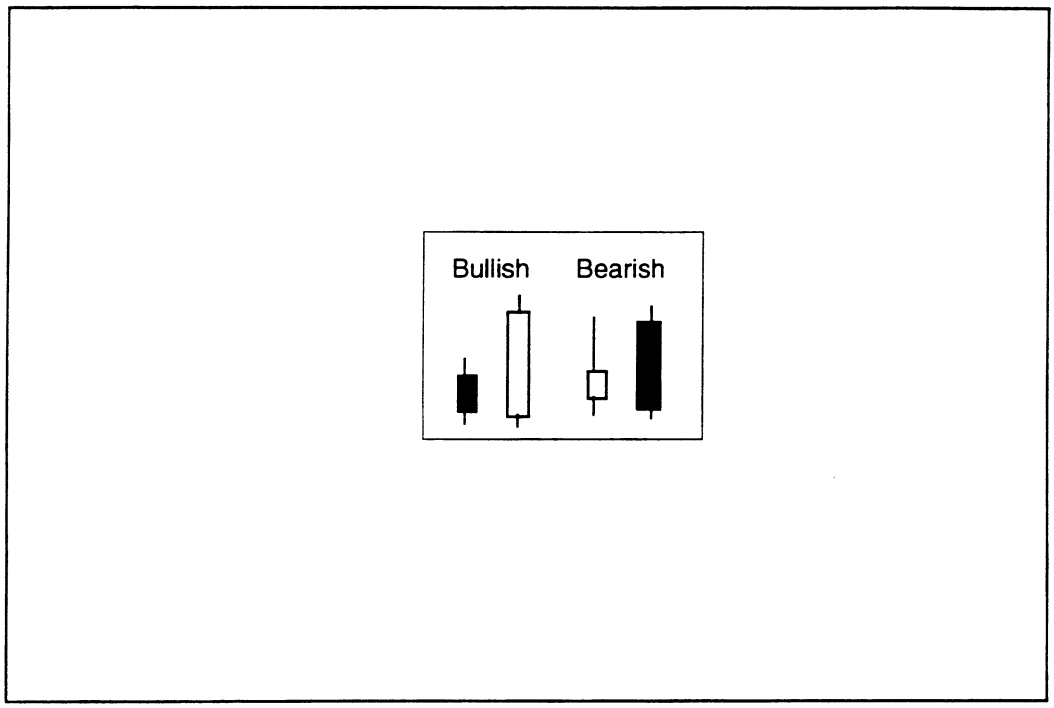
Dark-Cloud Cover

Dark-cloud cover--a bearish reversal signal. In an uptrend a long white candlestick is followed by a black candlestick that opens above the prior white candlestick's high. It then closes well into the white candlestick's real body.



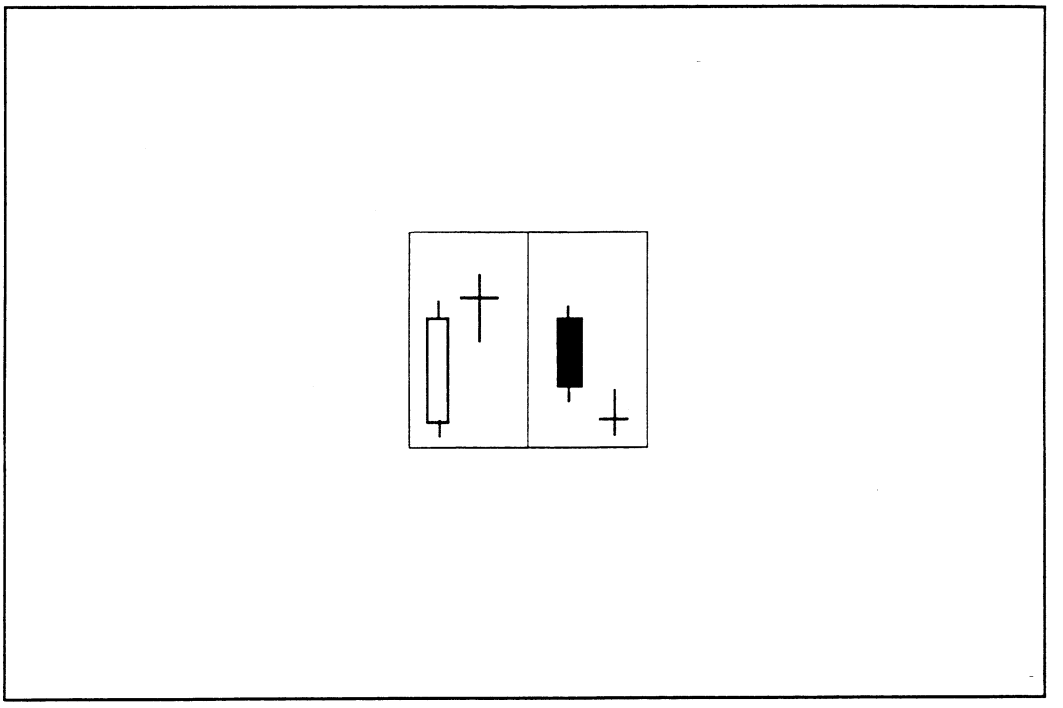
Doji

Doji --a session in which the open and close are the same (or almost the same). There are different varieties of doji lines (such as a gravestone or long-legged doji) depending on where the opening and closing are in relation to the entire range. Doji lines are among the most important individual candlestick lines. They are also components of important candlestick patterns.



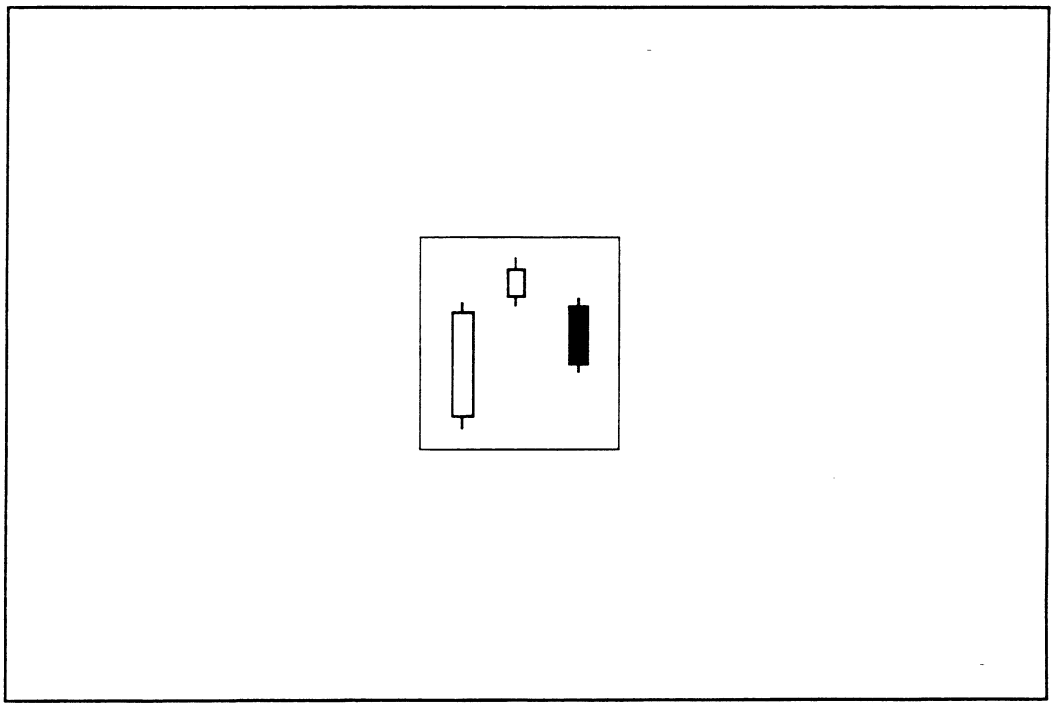
Engulfing Patterns

Engulfing patterns--there is a bullish and bearish engulfing pattern. A bullish engulfing pattern is comprised of a large whie real body which engulfs a small black real body in a downtrend. The bullish engulfing pattern is an important bottom reversal. A bearish engulfing pattern (a major top reversal pattern), occurs when selling pressure overwhelms buying pressure as reflecctedby a long black real body engulfing a small white real body in an uptrend.



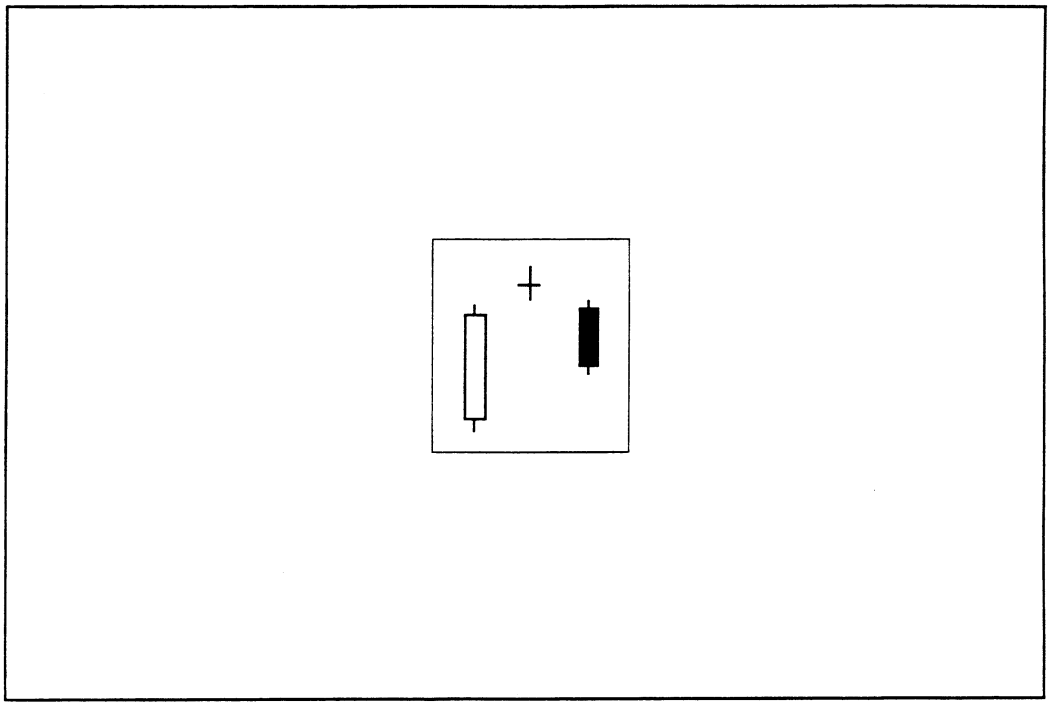
Doji Star

Doji star--a doji line which gaps from a long white or black candlestick. An important reversal pattern with confirmation during the next session.



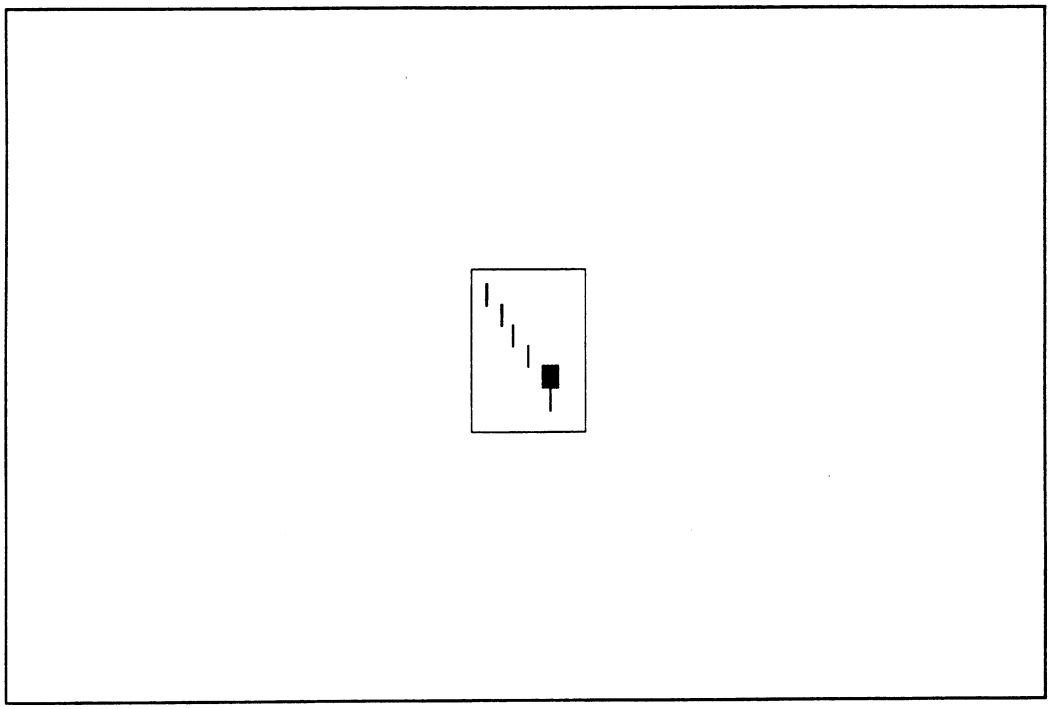
Evening Star

Evening star--a major top reversal pattern formed by three candlesticks. The first is a tall white real body, the second is a small real body (white or black) which gaps higher to form a star, the third is a black candlestick which closes well into the first session's white real body.



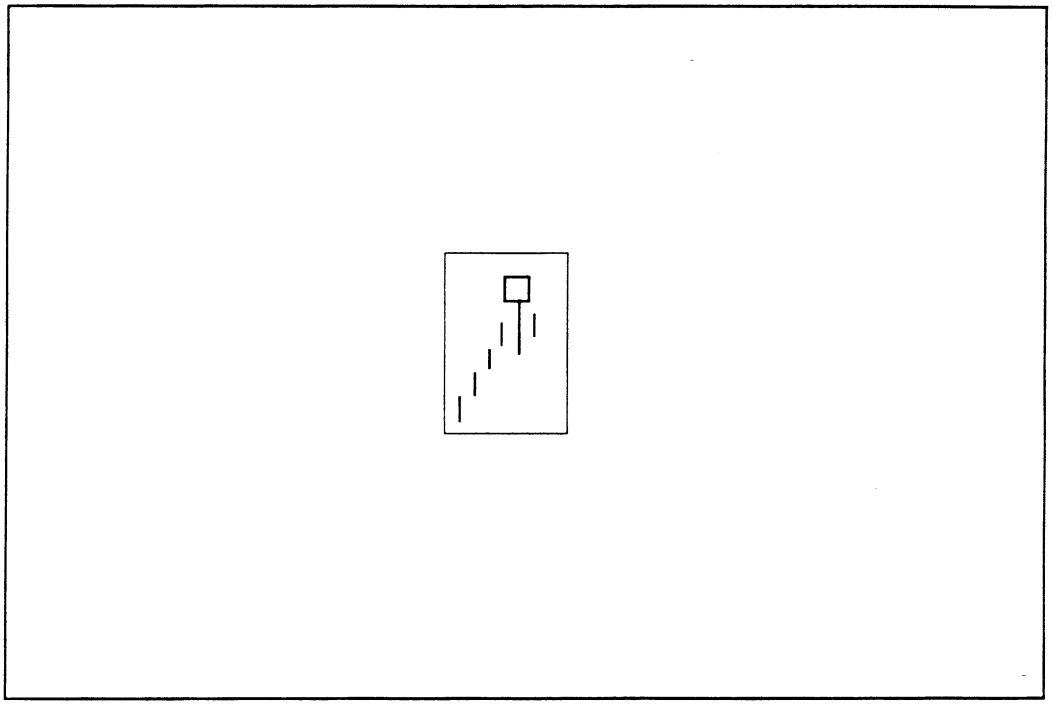
Evening Doji Star

Evening doji star--the same as an evening star except the middle candlestick (i.e., the star portion) is a doji instead of a small real body. Because there is a doji in this patter, it is considered more bearish than the regular evening star.



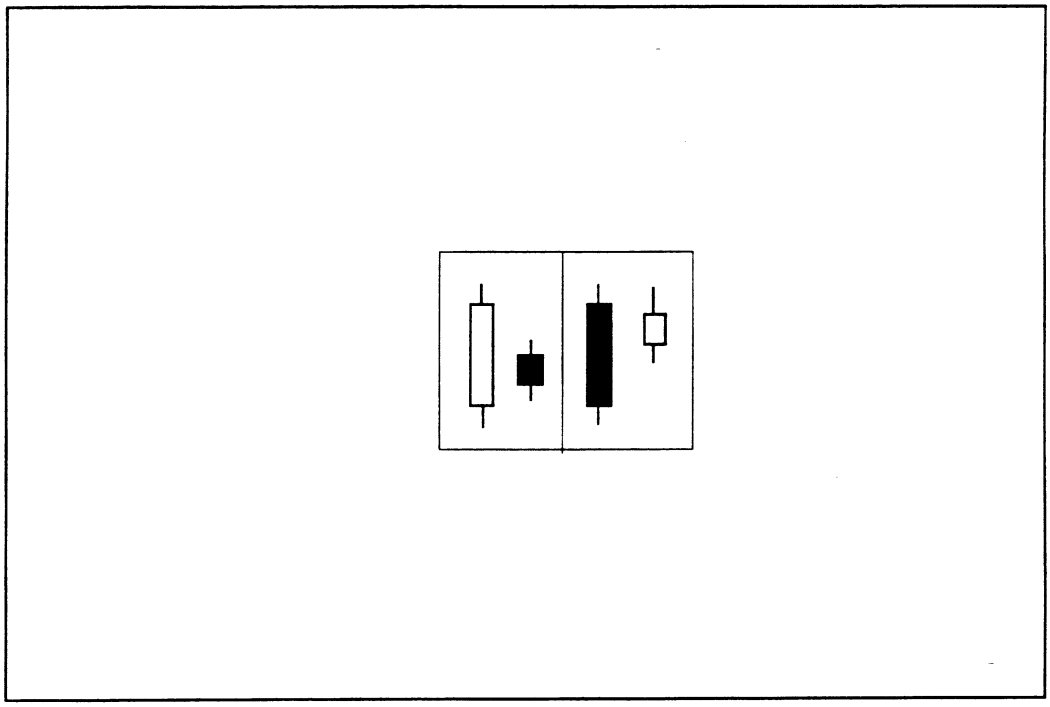
Hammer

Hammer--an important bottoming candlestick line. The hammer and the hanging man are both the same line, that is a small real body (white or black) at the top of the session's range and a very long lower shadow with little or no upper shadow. When this line appears during a downtrend it becomes a bullish hammer. For a classic hammer, the lower shadow should be at least twice the height of the real body.



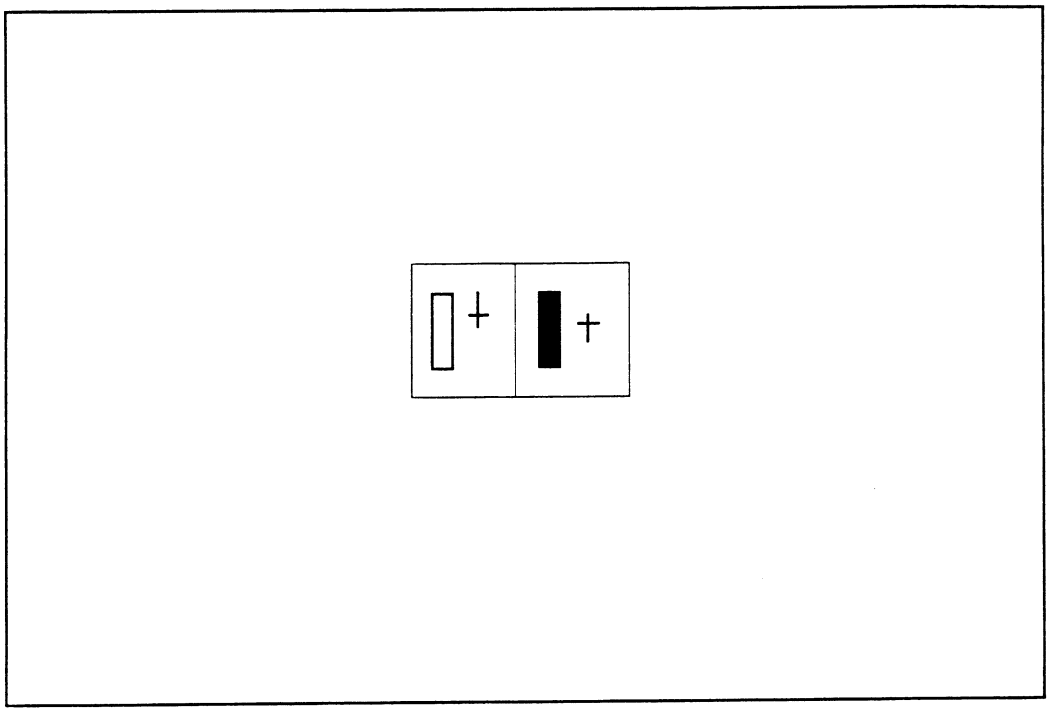
Hanging Man

Hanging man--an important top reversal. The hanging man and the hammer are both the same type of candlestick line (i.e., a small real body (white or black), with little or no upper shadow, at the top of the session's range and a very long lower shadow). But when this line appears during an uptrend, it becomes a bearish hanging man. It signals the market has become vulnerable, but there should be bearish confirmation the next session (i.e., a black candlestick session with a lower close or a weaker opening) to signal a top. In principle, the hanging man's lower shadow should be two or three times the height of the real body.



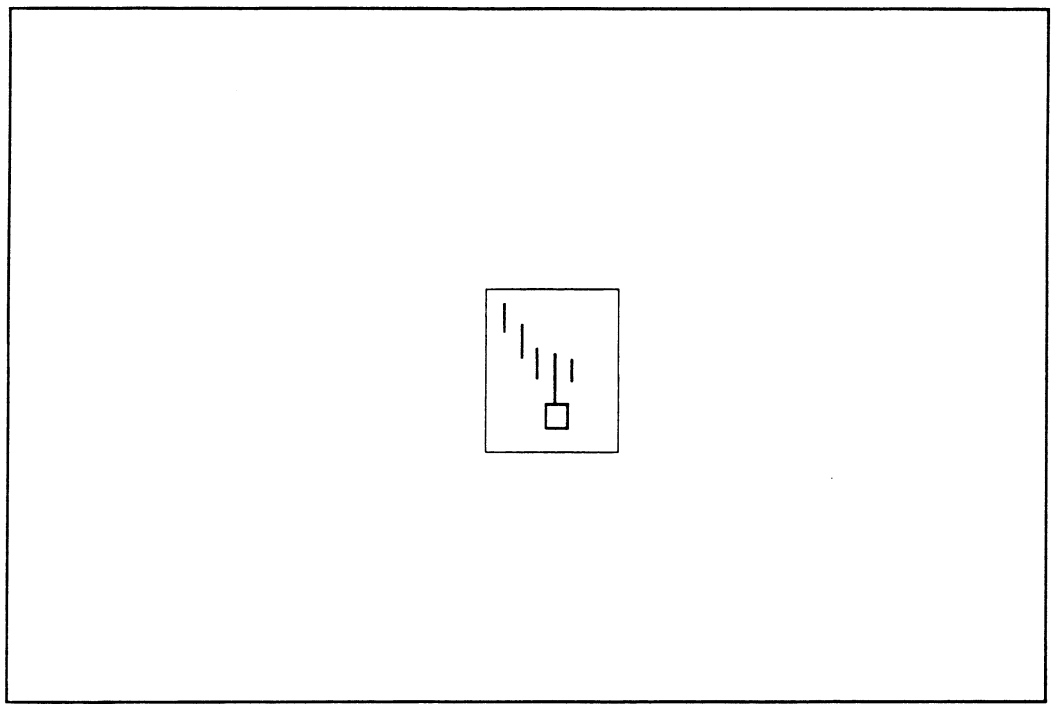
Harami

Harami--a two candlestick pattern in which a small real body holds within the prior session's unusually large real body. The harami implies the immediately preceding trend is concluded and that the bulls and bears are now in a state of truce. The color of the second real body can be white or black. Most often the second real body is the opposite color of the first real body.



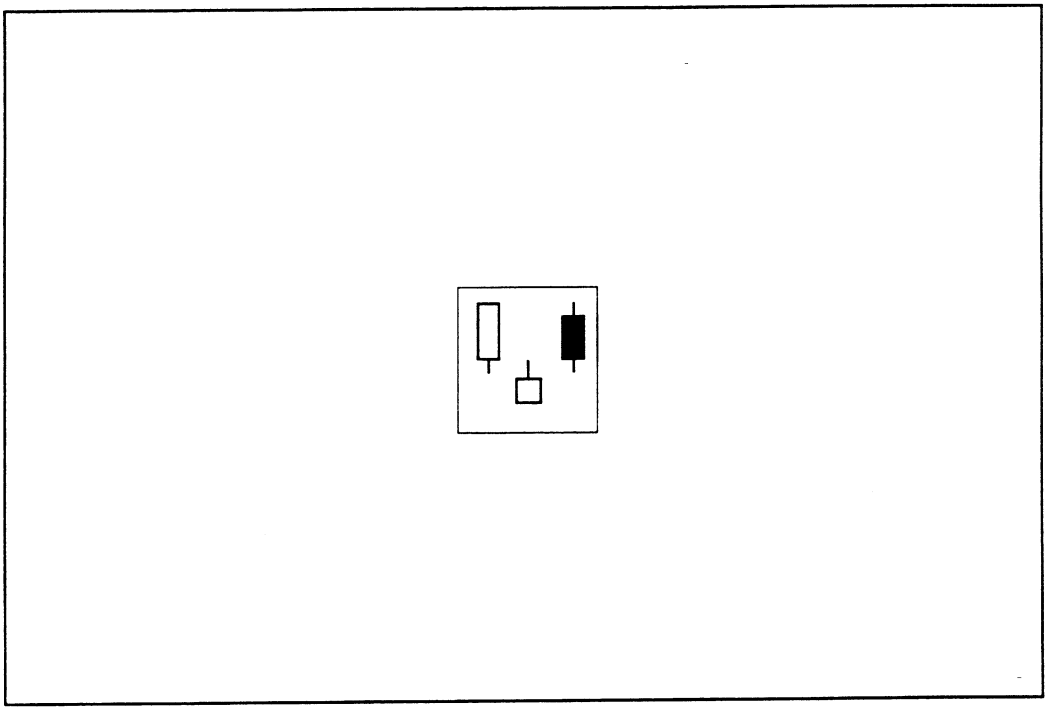
Harami Cross

Harami cross--a harami with a doji on the second session instead of a small real body. An important top (bottom) reversal signal especially after a tall white (black) candlestick line. It is also called a *petrifying pattern*.



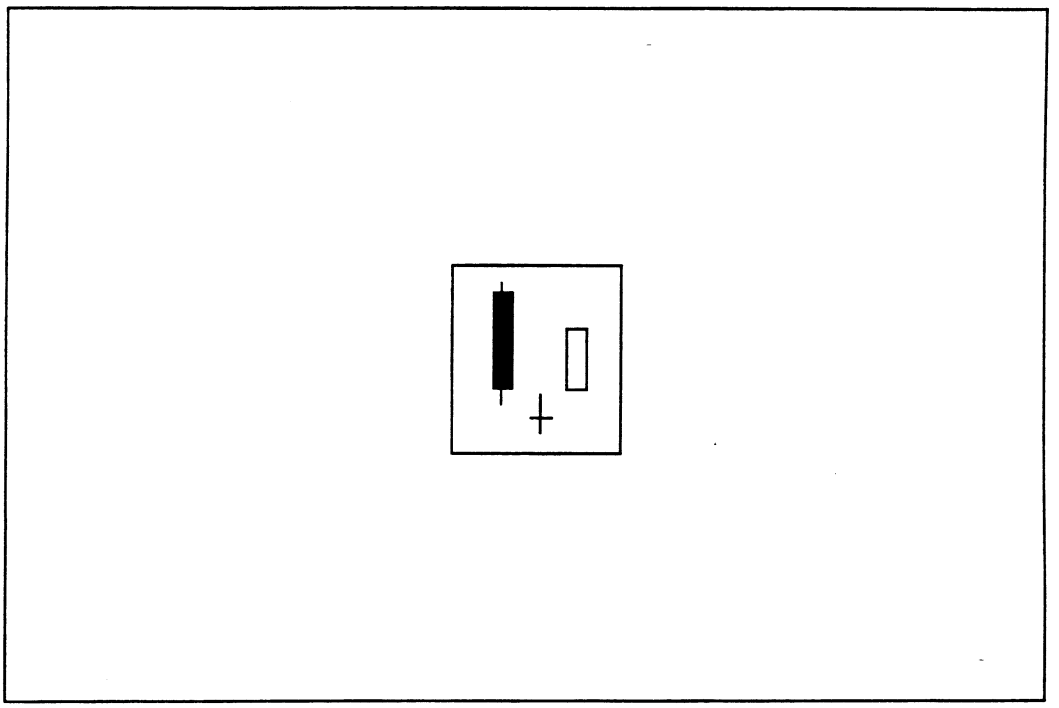
Inverted Hammer

Inverted hammer---following a downtrend, this is a candlestick line that has a long upper shadow and a small real body at the lower end of the session. There should be no, or very little, lower shadow. It has the same shape as the bearish shooting star, but when this line occurs in a downtrend, it is a bullish bottom reversal signal with confirmation the next session (i.e., a white candlestick with a higher close or a higher opening).



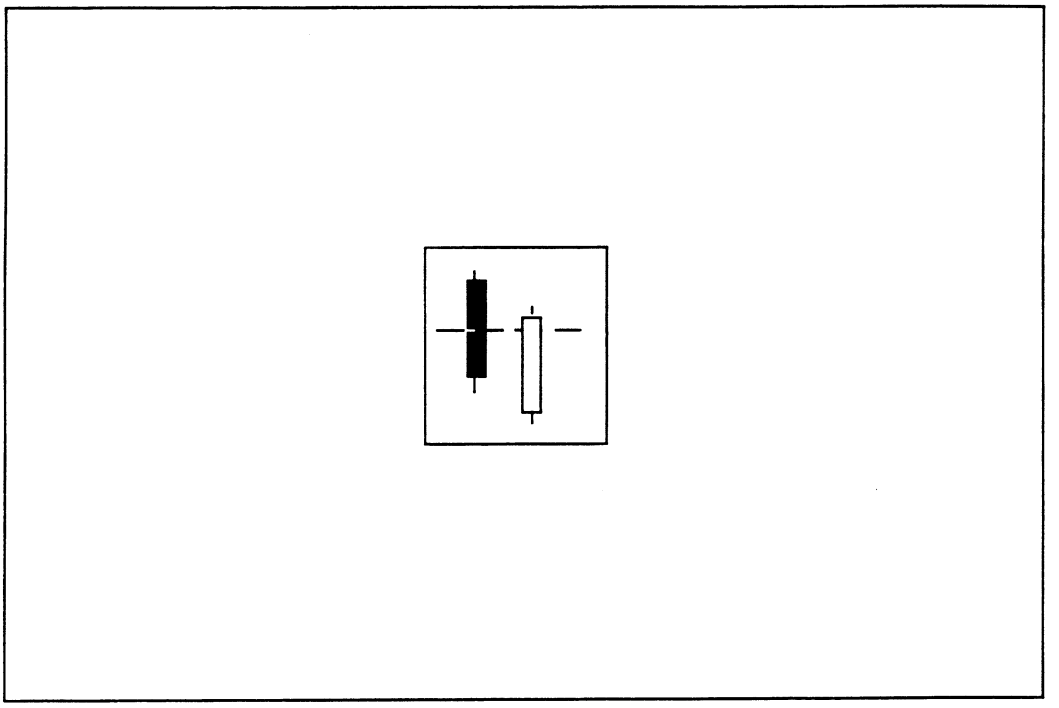
Morning Star

Morning star--a major bottom reversal pattern formed by three candlesticks. The first is a long black real body, the second is a small real body (white or black) which gaps lower to form a star, the third is a white candlestick that closes well into the first session's black real body.



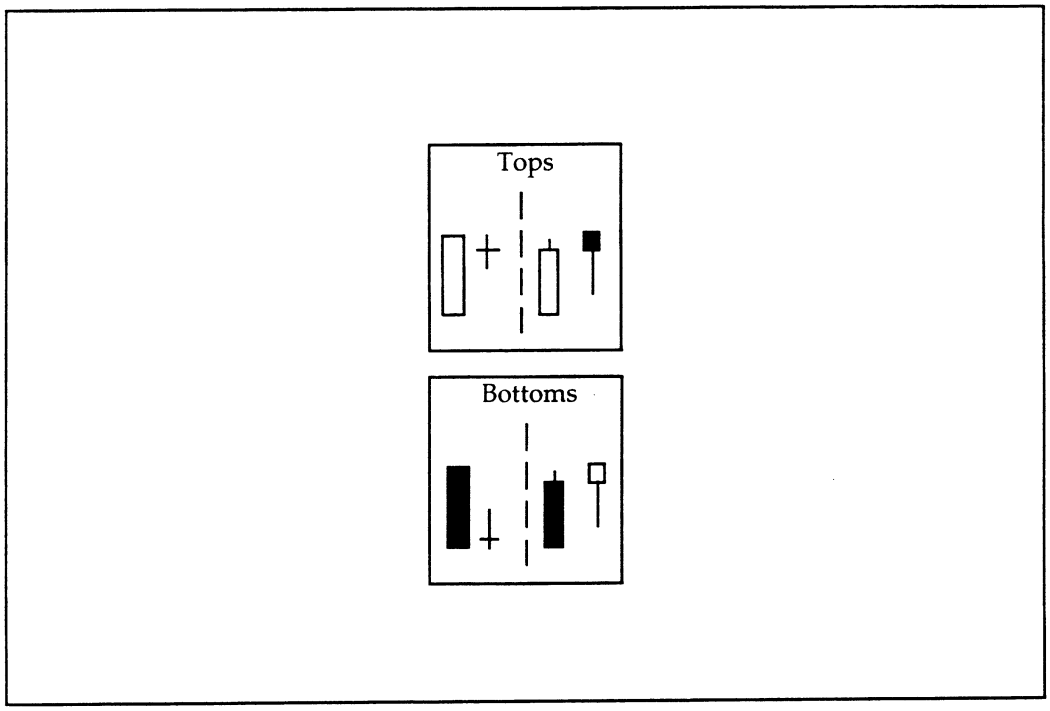
Morning Doji Star

Morning doji star--the same as a morning star except the middle candlestick is a doji instead of a small real body. Because there is a doji in this pattern it is considered more bullish than the regular morning star.



Piercing Pattern

Piercing pattern--a bottom reversal signal. In a downtrend, a long black candlestick is followed by a gap lower during the next session. This session finishes as a strong white candlestick which closes more than halfway into the prior black candlestick's real body. Compare to the on-neck line, the in-neck line, and the thrusting line.



Tweezers

Tweezers top and bottom--when the same highs or lows are tested the next session or within a few sessions. They are minor reversal signals that take on extra importance if the two candlesticks that comprise the tweezers pattern also form another candlestick indicator. For example, if both sessions of a harami cross have the same high it could be an important top reversal since there would be a tweezers top and a bearish harami cross made by the same two candlestick lines.