Stewart Taylor will share with you his simple approach to finding a confluence of price, time and pattern that offers low-risk entries and solid stop placements. He will show workshop attendees how he extracts the most meaningful portions from many of the leading technical disciplines used today. These techniques are applicable across a broad spectrum of time frames and markets, but this workshop will concentrate on day- and swing-trading methods used in the financial and metal markets.

Stewart will show you how to identify Wyckoff price/volume patterns and behaviors, and how to combine these patterns with simple Elliott patterns, Fibonacci objectives and retracements, and volume and open interest analysis to arrive at a solid and tradable market opinion. Additionally he will show how he combines basic oscillator patterns with daily/weekly range projections and support/resistance risk points to identify low-risk trading opportunities, placing special emphasis on Wyckoff analysis of accumulation and distribution. He will share many of his basic day-trading rules and observations.

Simplifying the decision process removes many of the psychological impediments involved in placing an order and frees valuable time for trading. Fourteen years of real-world trading and advising have convinced Stewart that simpler...is simply better.

* * *

Stewart Taylor began his trading career fourteen years ago by trading basic patterns and breakout strategies. These simple strategies evolved into complex day-trading strategies utilizing Elliott wave and intraday cycles. Finally, over the last four years, his trading style has come full circle, and he has become 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. Stewart formed Taylor Consulting Inc., in August, 1992, to publish market information. His market letter, *The Taylor Fixed-Income Outlook*, has been published for profit since October 1992. His subscribers include many primary dealers, international trading desks, hedge funds, money managers, bank holding companies and mortgage bankers.

Stewart, sole owner/officer of Taylor Consulting, Inc., is a Commodities Trading Advisor. His professional licenses include Series 7, 63, 3, 5 and 65 securities and options licenses. Stewart has given presentations to the Mortgage Bankers Association of America on subjects ranging from inter-market technical analysis to practical applications of options as a pipeline hedging vehicle. The financial press extensively quotes his observations and he makes frequent media appearances.

TAG XIX

LAS VEGAS 1997

Simpler Is Simply Better

Getting Down and Dirty in the Real World

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Wyckoff Analysis

The art of Price and Volume

- Wyckoff is the study of price, volume, and the relationships between individual waves of buying and selling. These relationships reflect the balance between supply and demand.
- By comparing the intensity of the buying and selling pressure, it is often possible to ascertain the technical strength or weakness of the trend and the likelihood of the trend continuing or reversing itself.
- Buying and selling waves last as long as they have a following. Once the following is exhausted, the market enters a trading range or changes trend.
- These relationships often allow the analyst to ascertain the behaviors and motivations of large operators (hedge funds, banks, etc.). These operators are considered "smart money".
- Price change = Result. Volume = Intensity of the participants.
- Wyckoff uses three types of charts. Vertical (to ascertain supply and demand), wave, and point and figure. For this discussion, we will focus on vertical charts with volume.
- This type of analysis is a thought process. It is a way of looking at the market that requires judgement (as opposed to a mechanical system).

The Laws

SUPPLY AND DEMAND

- If demand is greater than the available supply, the market will move higher. That is the only way to satisfy the need or want of the composite man. When demand is satisfied, price will stabilize. If the available supply is greater than the composite need, the market will move lower until price has marked down sufficiently to stimulate demand.

EFFORT VS. RESULT

- Price spread should always be proportional to effort expended (volume). If the composite man puts forth a big effort, he should receive a big reward.

CAUSE AND EFFECT

- The extent of a market move is directly proportional to the amount of cause.

- *CAUSE OR POTENTIAL:* The amount of strong-handed accumulation or distribution inside a range. In the case of a bull market, the greater the zone of accumulation, the less supply will be available to satisfy the need of weak hands who enter after the new trend establishes itself. Point and figure charts are used to project move targets based on the width of the range.

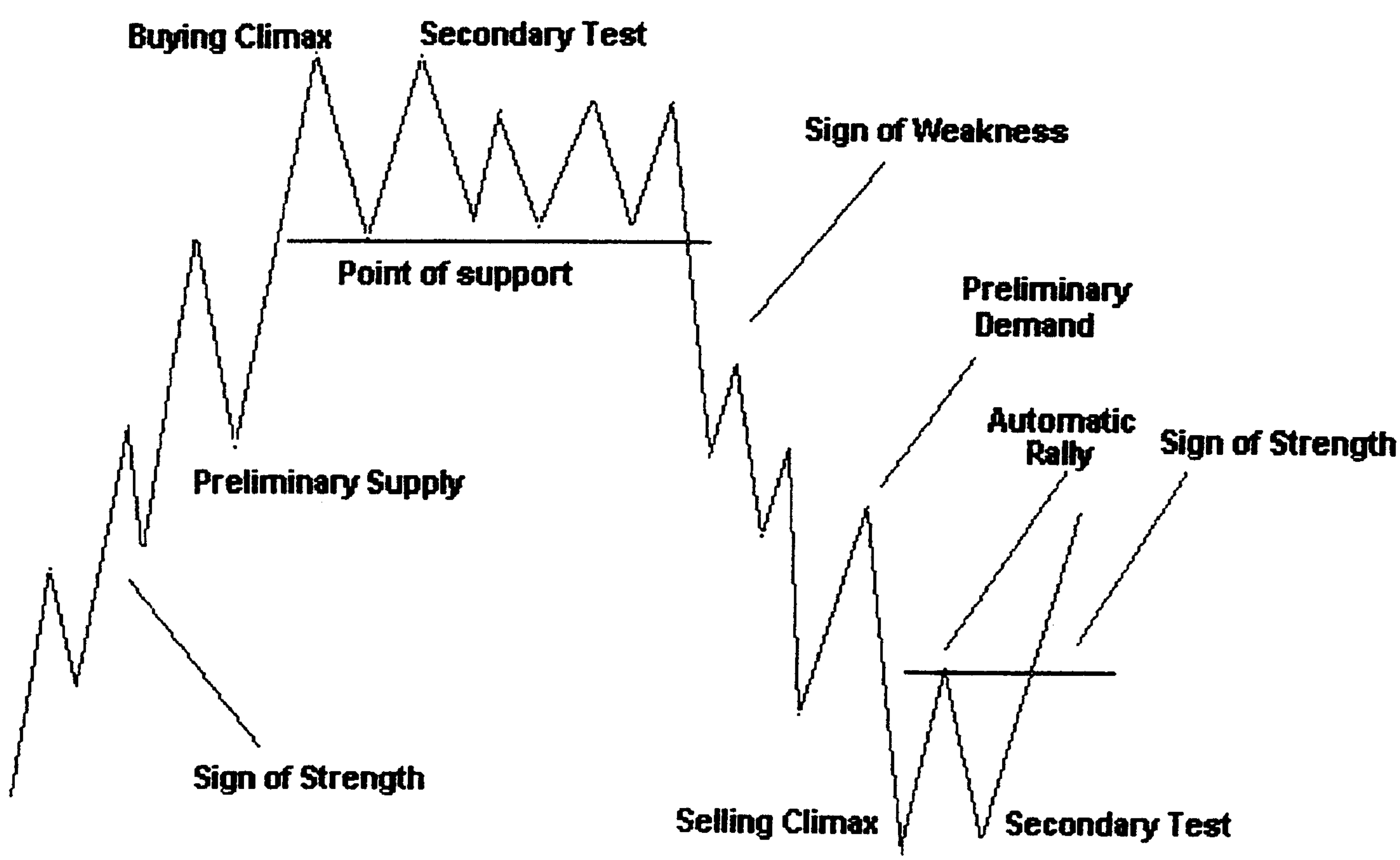
- *EFFECT:* The result of the cause that is built. Without preparation building cause, it is very difficult for a significant move to develop.

THOUGHTS ON THE LAWS

- Tops and bottoms aren't usually made until the last short needing to cover is forced to cover or the last fund manager who is behind his duration target is forced to buy. Generally speaking, tops and bottoms are not made by accounts flipping their positions and moving from long to short or short to long.

WYCKOFF SEQUENCE

- Market tops and bottoms are usually formed in sequence. A classic Wyckoff bottom exhibits the following elements:
- 1) Preliminary Demand. 2) Selling climax. 3) Automatic Reaction. 4) Secondary Test. 5) Sign of Strength.
- The general consequence of this sequence is a change in trend or strong counter-trend reaction. The counter trend reaction often takes the form of a trading range.
- This sequence repeats itself endlessly as large operators (strong hands) complete their buying and selling campaigns and small traders take poorly informed market positions. The sequence can be found in both short term (one minute charts) and long term (monthly and yearly) charts.



PRELIMINARY SUPPLY\DEMAND

- After a protracted downtrend, the market will often display a rally that is notably stronger than any preceding rally. This rally often occurs as the market approaches a preexisting price objective. The rally rarely manages to threaten the downtrend.

SELLING\BUYING CLIMAX

- The days leading to a selling climax are generally high volume days with expanding or wide ranges. The heaviest volume occurs either on or just before the highs. Generally speaking, a climax only occurs after a prolonged move and is often preceded by the market entering a parabolic advance/decline.

- In the case of a bear market climax, accounts that have resisted the idea of a bear market (weak hands) finally throw in the towel (panic) and sell while weak handed, poorly informed traders finally initiate speculative shorts. A selling/buying climax may be complex (bonds usually are) and may prove temporary.

AUTOMATIC RALLY

- The selling climax exhausts the available supply and results in a reflex rally. This rally eventually attracts sellers who resisted selling as the market was falling to its climax and elicits profit taking from buyers who had the foresight to buy near the climax lows. The rally is typified by lower volume, generally fails to take out any important overhead resistance, and tends to lasts several days.

SECONDARY TEST

- The secondary test confirms the selling climax. The market declines back into the area of the selling climax. A classic secondary test will result in the market finding slightly higher support. The volume and the price spread should be noticeably lower than the volume during the selling climax.

TYPICAL RESULTS OF A SECONDARY TEST

- 1) Support is nailed down and confirmed. 2) The market will enter a fairly wide, lateral trading band in preparation for a corrective rally or a resumption of the decline. This range will have to be evaluated for clues of distribution or accumulation. 3) A sign of strength will often develop that takes the market above the high of the automatic reaction.

SIGN OF STRENGTH

- After the secondary test the market will enter a range of accumulation, and eventually, if the trend is changing, exhibit a show of strength. This show is characterized by wide daily price spreads, stronger volume, and a move above the top of the automatic rally. A sign of strength after accumulation is the final step in the trend change and almost always represents a "go with" situation.

NOTES:

- Climax structures can be found in any degree or perspective, but the importance of the climax is directly proportional to the degree in which it appears. For instance, a selling climax on the hourly chart can lead to a three to four day rally, after which the daily perspective downtrend can reassert itself.

- No two sequences are the same. There are almost always variations on the theme.

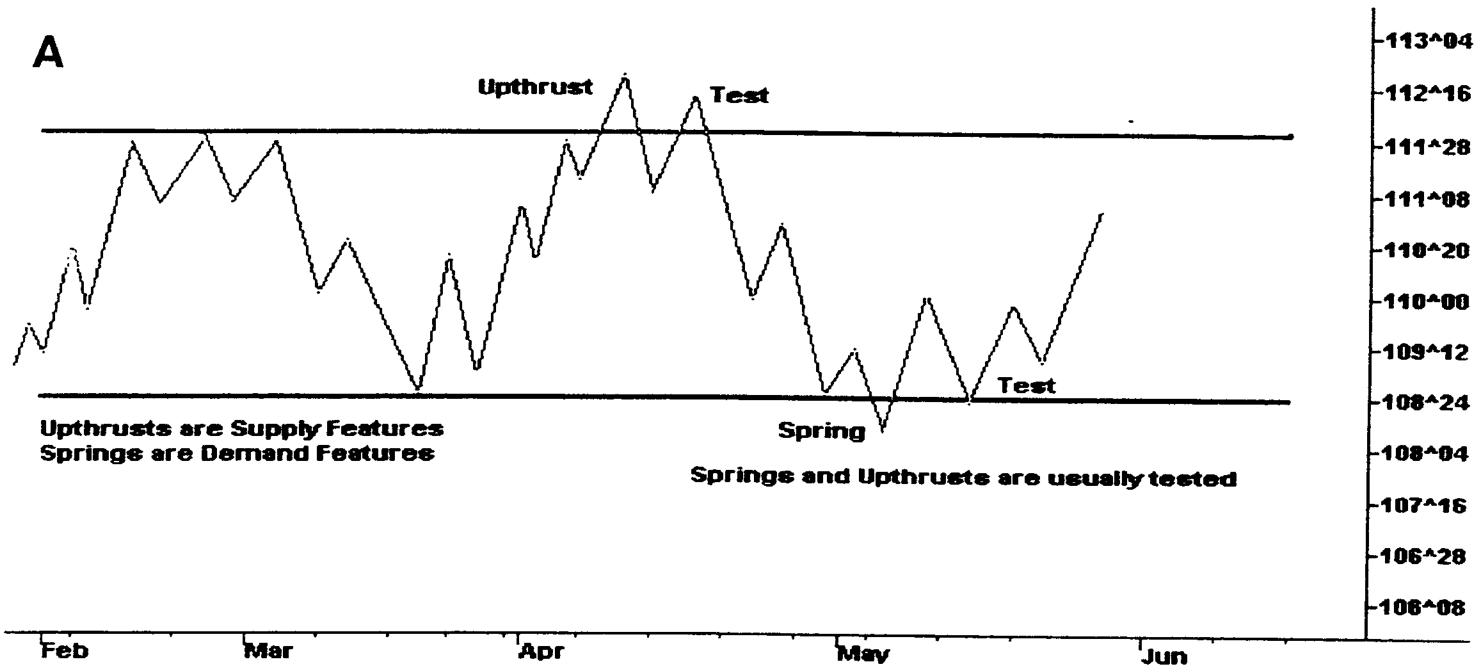
- Bonds often make complex buying and selling climaxes. Often, the market closes on or near the low of the climax structure and then reverses the next day.

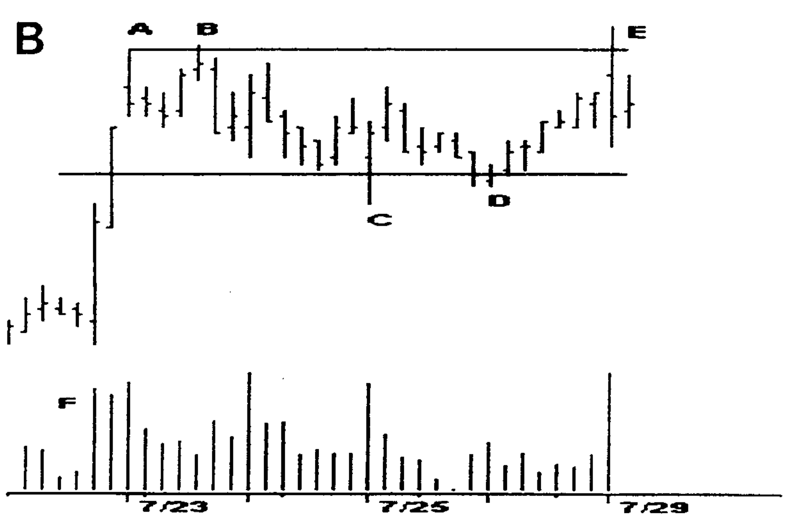
- Bonds tend to put in complex secondary tests. Often the selling/buying climax will be exceeded by a small amount (typically less than 1/2 point) before reversing (leaving in place an isolated spike).

SPRING & UPTHRUST

- Springs and upthrusts occur as price moves above or below a strong pivot, or beyond the fringe of a trading range, and suddenly reverses. The appearance of an upthrust strongly suggests that quality supply is present. Springs can be classified as demand features. Upthrusts can be classified as supply features. Springs and upthrusts are usually tested.

1) The structure should find support/resistance at a reasonable level.
2) The structure should quickly reverse itself.
3) The structure is usually tested on lower volume.
4) The structure often marks an important turn.
5) The action tends to shake positions from weak hands to strong hands.





Buying Climax, Spring and Upthrust

- Point A: Buying climax. Note the three consecutive high volume bars (F), the parabolic nature of the advance and the close well off the high of the bar.
- Point B: Test, note the lower volume.
- Point C: Spring.
- Point D: Test, note the lower volume.
- Point E: Upthrust.

Note: That the buying climax and the upthrust both appeared in the area around a prior bull pivot.

SUPPLY& DEMAND LINES

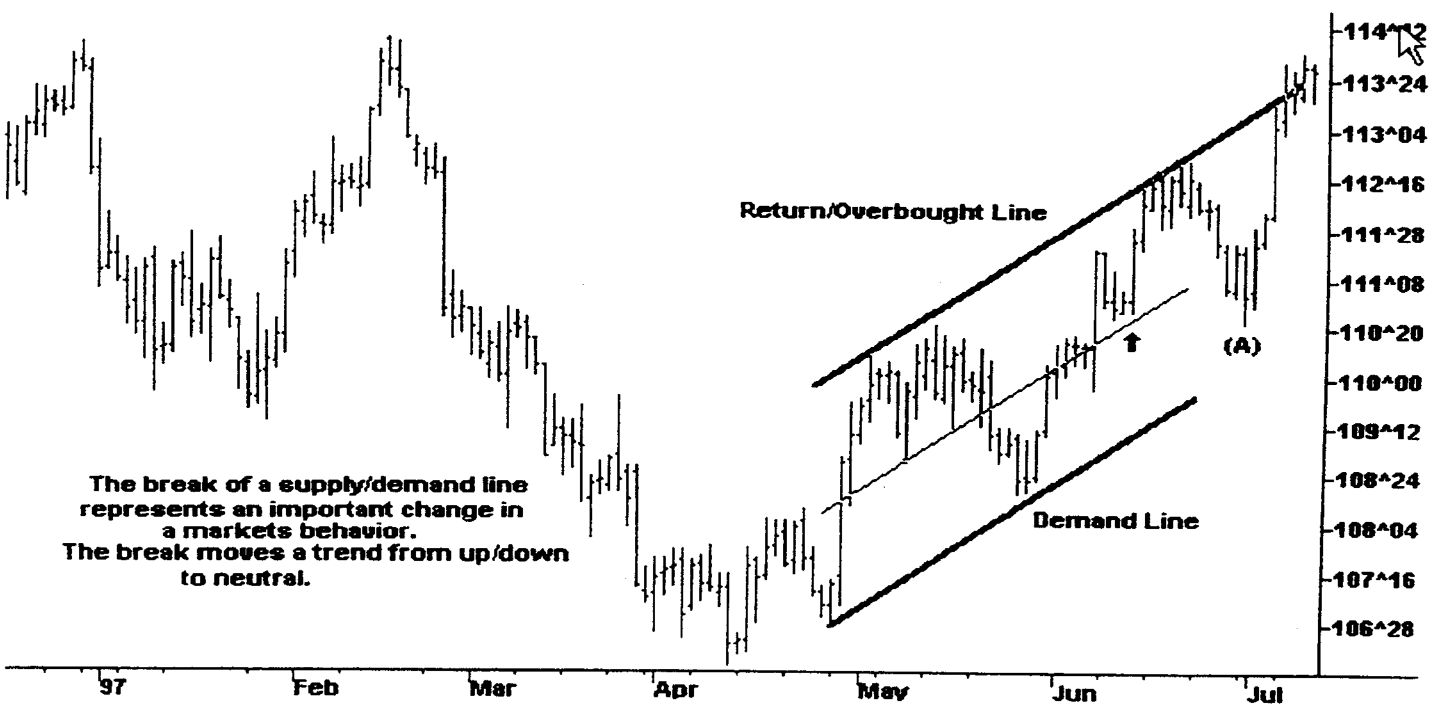
- Trend lines represent the composite man's willingness to follow the market. Moves beyond the stride of the advance/decline represent important changes in the market's behavior.

- Be consistent. Draw the uptrend between two intervening lows of the same magnitude. Draw the parallel off of the intervening high.

- Pushes to the channel top put the market in an overbought condition. Channel tops usually represent good areas to take profit.

- The relationship of the market to the fringes of the channel is an important clue to the market's underlying strength or weakness. Failure to push to the overbought line is considered a sign that the trend is weakening. A failure (point A on the chart) to decline to the demand line is considered a sign of relative strength.

- The break of a trend line doesn't usually represent a good trading opportunity. It does, however, speak volumes in terms of the change in a markets behavior.



CORRECTIONS

• The manner in which a market rids itself of an overbought or oversold condition offers significant insight into the strength of the underlying trend.

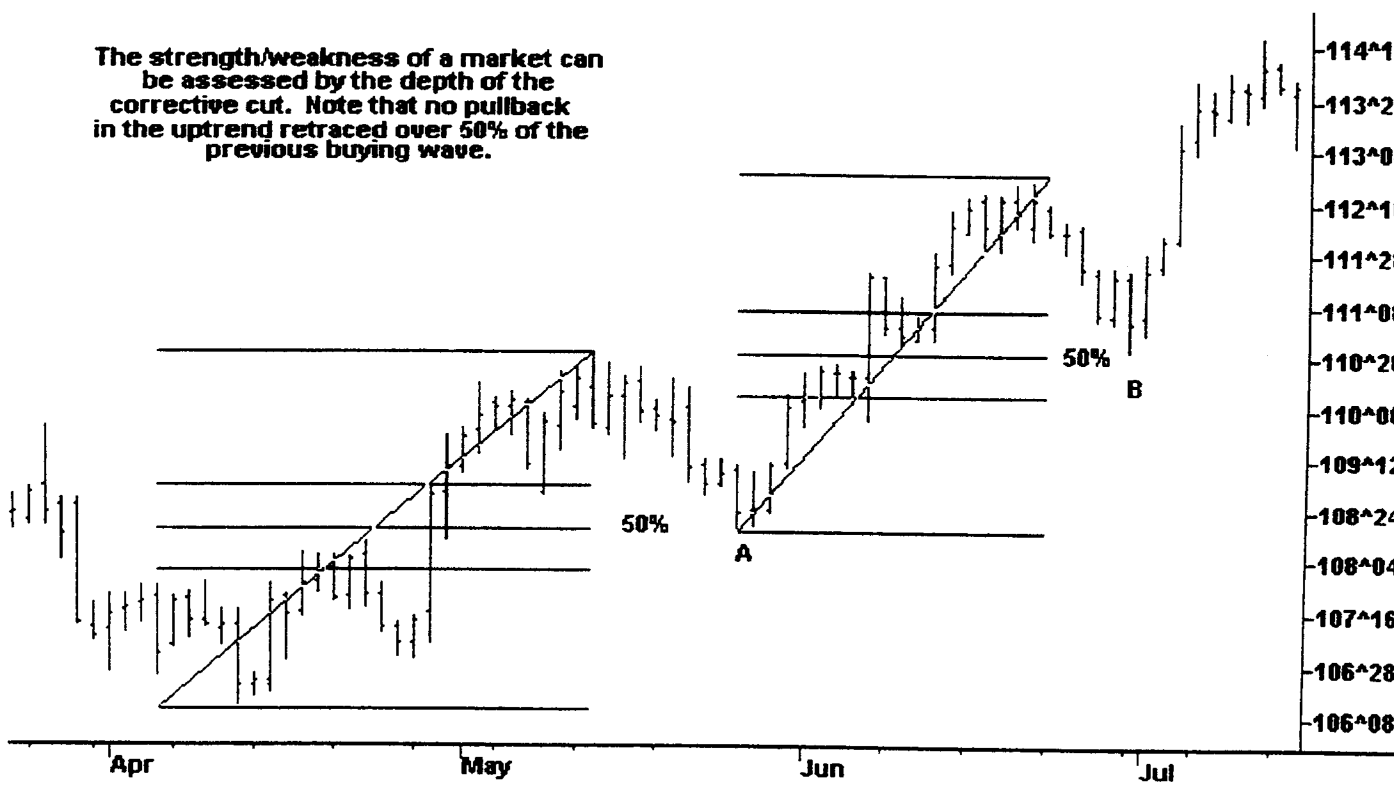
- A lateral correction after a strong rally suggests a strong underlying trend, while a deeper cut suggests that the trend is weakening.

- The deeper the cut (in relationship to the preceding rally), the weaker the trend.

- Typically corrections either move laterally (suggesting a very strong trend), hold at the .382% correction (a strong underlying trend), a 50% correction (still bullish), or the .618% correction (worrisome) before resuming the rally.

- Note that the corrections at points A & B both hold in the vicinity of the 50% retracement. Subsequent signs of strength represent go-with situations.

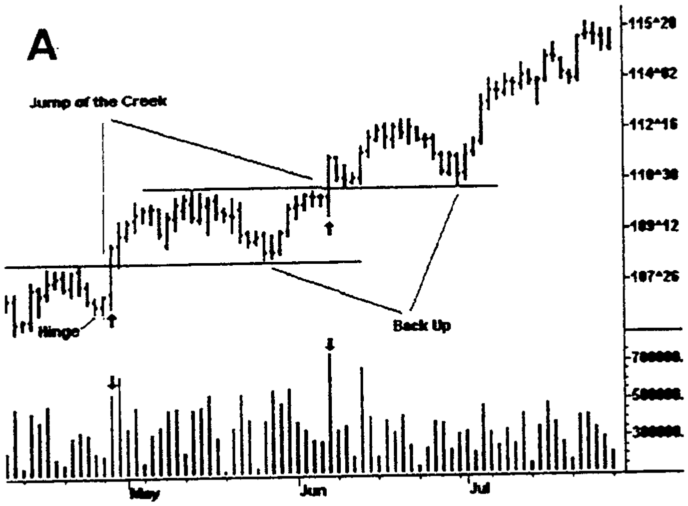
- Volume should pull back (in comparison to that on the rally), and price spread should become narrower (in comparison to that on the rally) as the market corrects.



Jump of the Creek / Fall below the Ice

- After a period of preparation, the market jumps above the top of the trading range (the creek).
- Note that volume and price spread expand, and that the "back up to the creek" provides a low risk buying opportunity.
- Volume and price spread on the test of the creek should be lower and narrower than on the initial rally after breaking out of the creek.

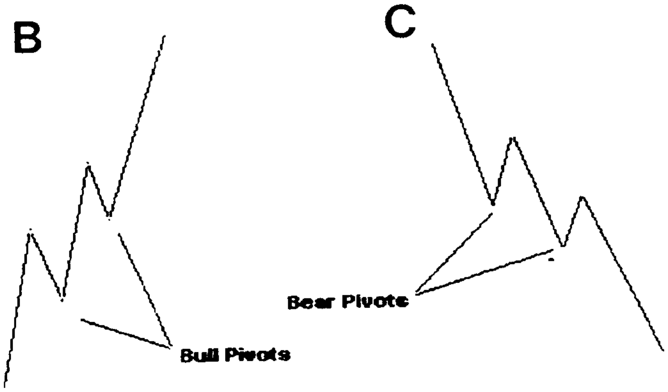
A



Pivots

- A pivot represents a chart point where supply overcame demand or demand overcame supply.
- The manner in which price approaches a prior pivot is important.
- Increasing volume suggests that the pivot will be taken out.
- Lighter volume suggests that the pivot will hold.
- Volume should decrease on the corrections and expand on the impulses.

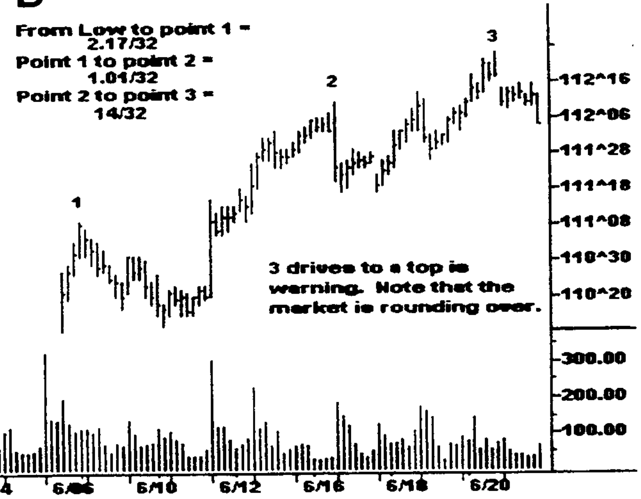
B C



Three Drives To a Top/ Poor Result of Effort

- Despite solid effort, each drive covers less ground than the preceding drive.
- Remember that volume expended = effort and that price spread = result.
- The poor result is a strong indication of supply.

D

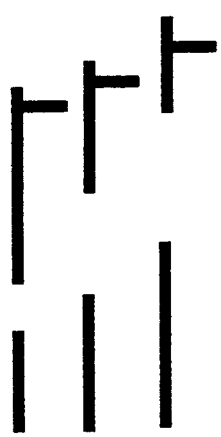


Poor Net Result of Effort

- Volume is expanding as the market moves higher.
- Net daily gain is small.
- Supply is overcoming demand.
- The market is vulnerable

E

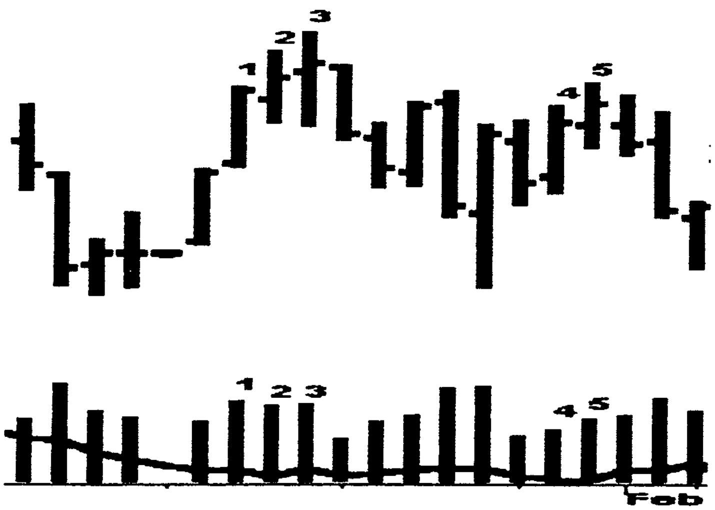
F



Retest & Poor Result of Effort

1) A high volume up day.
2 & 3) Volume stays high (2 day volume @ 800,000 contracts). Closing price only moves 12/32 higher over the two days of effort.
4&5) Market moves back toward the high but volume and price spread promptly pull back.

A



Correction

1) Volume promptly pulls back in comparison to the recent past.
2) Price spread narrows.
3) The correction finds support at approximately .382% of the prior rally.

B

Light Volume Retest

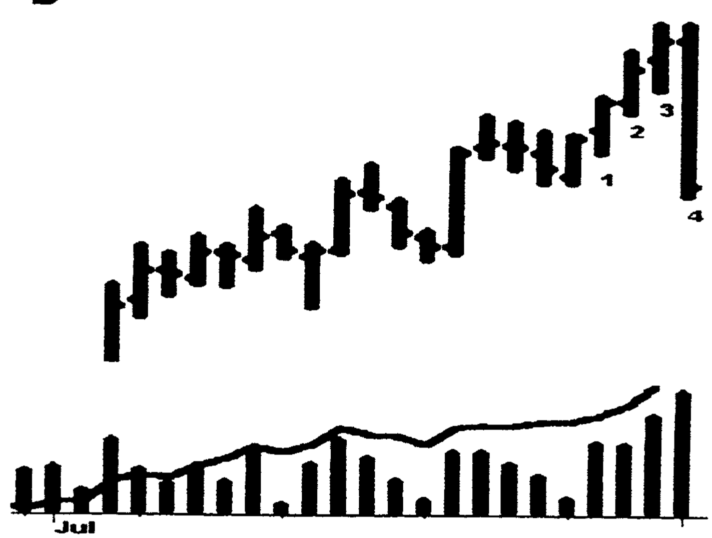
1) The market bottoms. Note that the volume to the left of the low is quite high.
2) A wide bar down day, but note the generally lower volume and that the day after the wide bar down that the selling pressure was minimal. The next rally (to point A is on generally lower volume.
3) The decline to point 3 is on much lighter volume, and generally narrower price spread, than the decline to point 1. Sellers are less enthusiastic.

C

Buying Climax and Poor Net result of Effort

1) Prolonged Uptrend.
2) Days 1, 2, & 3 evidence very strong volume (three day total of 1.5mm contracts). Open interest increases almost 50,000 contracts over three days.
3) Poor net result of effort
4) Sign of weakness.

D



VOLUME

- Price movement should always be proportional to volume expended.

Low Volume - Price Up = Bearish
Moderate Volume - Price Up = Bullish
High Volume - Price Up = Bullish
High Volume - Price Up Modestly = Bearish

Low Volume - Price Down = Bullish
Moderate Volume - Price Down = Bearish
High Volume - Price Down = Bearish
High Volume - Price Down Modestly = Bullish

- Fear, need, and greed create panic and urgency. Panic and urgency = volume.
- Extremely high volume usually marks a turning or a hesitation point.
- Extremely low volume often immediately precedes extremely high volume.
- A moderate to wide price spread created by moderate volume is usually bullish (implying no sellers).
- A wide advance created by strong volume is almost always bullish (implying strong demand).
- Retests and corrections should be accompanied by generally lower volume.
- Volume should increase on legitimate breaks from technical patterns.

FOR ADDITIONAL EXPLORATION

Equivolume charting. The width of the box represents volume. The wider the box the higher the volume. For instance, wide short boxes created by heavy volume (in an advance) strongly suggest that the market is running into supply.

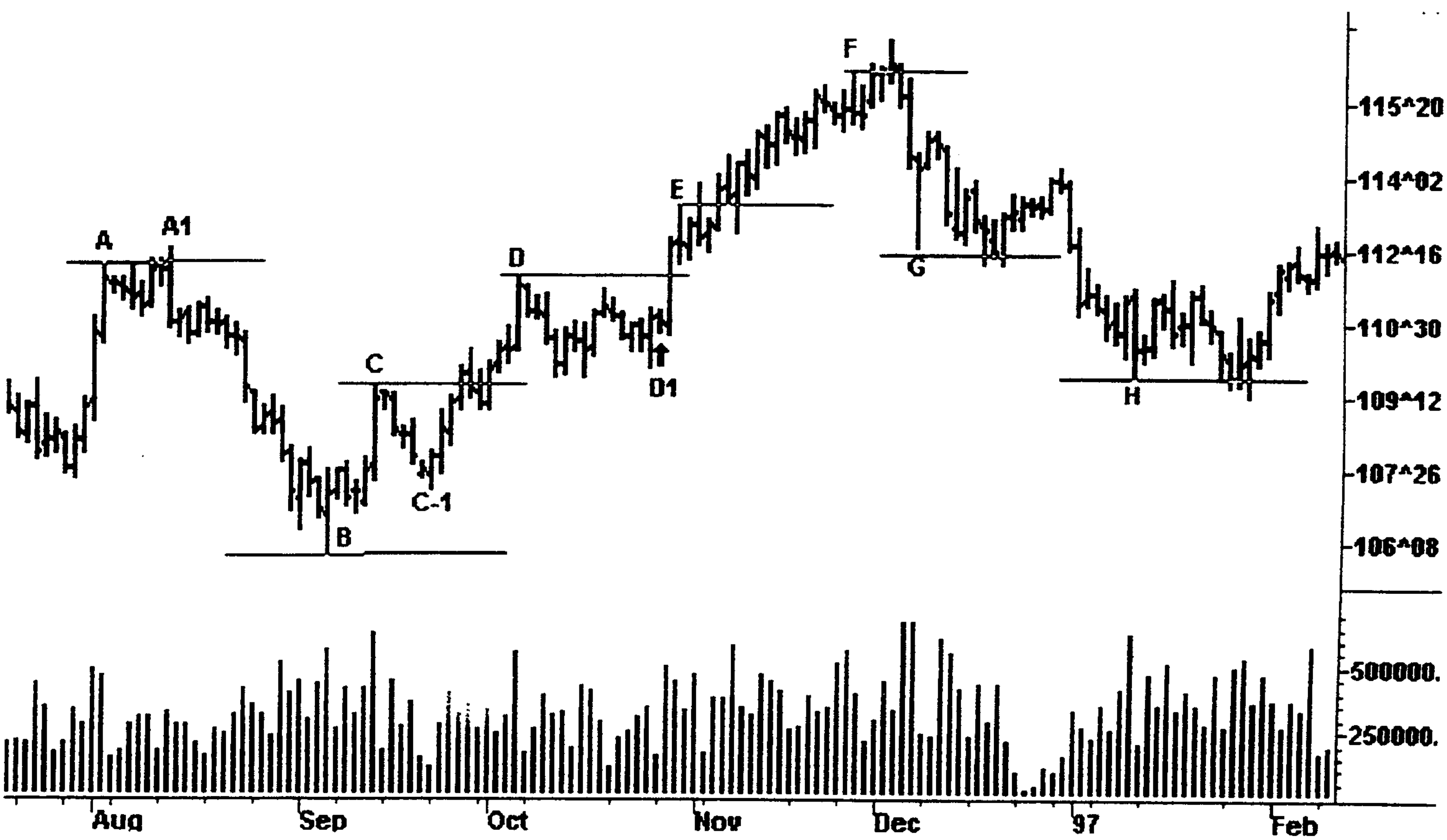
EXCESSIVE VOLUME

Excessive volume in relationship to the recent past often marks an area of important change or at least a temporary resting place.

- A: The market rallies to a buying climax. The bar at point A-1 is both an upthrust and a sign of weakness. Two day volume @ 968,000 contracts produces a high that holds for 60 days before the market can post a higher close.

- B: A selling climax that leaves in place an isolated spike. Two day volume @ 979,000 produces a low that, at the time of this study, hadn't been violated in over 230 days.

- C: A sign of strength that is accompanied by a big increase in volume as the market moves higher. This is the strongest volume in weeks and comes on a bullish day (note that volume promptly pulls back on the subsequent dip to point C-1). One day volume @ 640,000 contracts and two day volume @ 1.1mm contracts produce a high that required 9 days for the market to close above.



- D: This buying extreme occurs in the vicinity of the point (A) resistance pivot. The one day volume @ 541,000 is clearly excessive in comparison to that of the recent past. The market enters a range of accumulation and the overhang of old supply is absorbed. It is 18 sessions before the market posts a daily close above this level.

- E: The market makes a show of strength, but closes near the low of the second day. In light of the reversal, the one day volume @ 489,000 and the two day volume @ 927,000 would have to be viewed with alarm. The fact that the original volume is generated as the market breaks out of a pattern of consolidation or a zone of accumulation argues strongly for a continued bullish stance, but stops on longs should be moved up. It is four sessions before the market posts a close above the high.

- F: The buying climax comes a couple of days before the actual high. The volume surge and poor result of effort act as warning to move stops up. The market attempts to move higher over the next three or four sessions, but volume immediately pulls back and price spread narrows. The subsequent sign of weakness strongly suggests that the rally is over. One day volume at 500,000 and two day volume over 1mm contracts produce a high that the market closes above (by 5/32) two days later. At the time of this study the subsequent high has held for 160 days.

- G: The first day is clearly a sign of weakness, but the second day's close near the high of the daily spread would force a tempering of the bearish enthusiasm. It is important to note that the high volume is generated on the break below an uptrend. Since the information provided by the second day's trade is inconclusive it's best to stick with the original bearish opinion. One day volume of 665,000 contracts and two day volume of 1.3mm produce a low that holds for five days.

- H: This day produces the highest volume in 24 sessions and the daily close is well off of the low. The following day is a very narrow range, low volume day (suggesting that the selling pressure is off). One day volume of 620,000 contracts produces a low that the market closes below ten days later (by 1/32). This subsequent low manages to hold an additional 24 days.

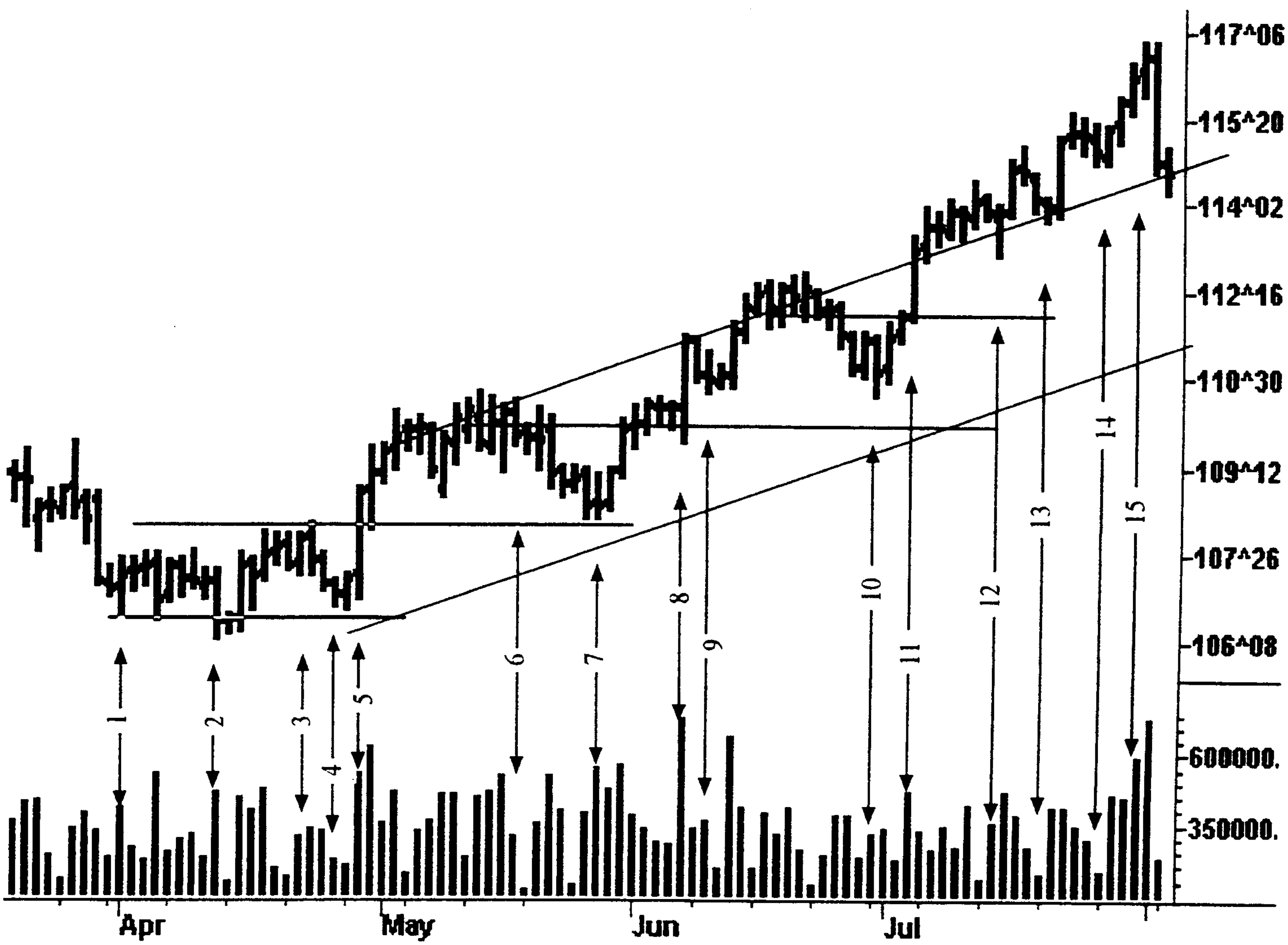
ANATOMY OF A RALLY

- (1): The previous downtrend ends (at a previous strong lateral support). There is no sign of a selling climax.

- (2): The market defines a lateral trading range. Note the spring (a demand feature) at point 2. The very narrow range, low volume bar on the day after point 2 represents a lack of selling pressure and strongly suggests that a recovery is likely. The next day the market rallies on good range and volume. The next day's set back is well supported.

- (3): The market pulls back on very low volumes and narrow price spreads.

- (4): Is a hinge. In this case it is obvious that there is no selling pressure. Low volume often indicates balance.



- (5): A sign of strength, but note that the next day is characterized by poor progress on higher volume. The next several days are characterized by higher volume with little upside progress. This poor net result suggests that supply is entering.

- (6): The market drifts lower on narrow price spread and generally lower volume.

- (7): The market backs up to the creek. Note that volume expands and that price spread is narrow. The poor result of effort strongly suggests demand.

- (8): A sign of strength.

- (9): The market begins a two day correction. Volume immediately pulls back. The market finds support on top of the old range and begins to move higher.

- (10): The market pulls back to the creek on low volume and price spread. There is a distinct lack of selling enthusiasm as the market moves lower.

- (11): A sign of strength.

- (12): A sign of demand from the top of the old trading range.

- (13): Volume and price spread again decline as the market backs and fills.

- (14): Another low volume, narrow price spread pull back.

- (15): A buying climax. The uptrend has been in force for awhile and the market has gone parabolic. Note that in the two days preceding the high, the net result of effort expended was very poor. The subsequent sign of weakness was typified by the largest one day decline in over a year and extraordinarily high volume. Note that the news at this point in time is uniformly bullish and that sentiment is over 70% bulls.

Notes: During the rally, no pull back retraced more than 50% of the preceding up wave, and no bull pivot was violated. The market became overbought early in the process and stayed that way for days and days.

MISCELLANEOUS DEFINITIONS

Accumulation: The accumulation of a position by strong handed well informed investors from weak handed poorly informed investors in anticipation of bullish news that is not yet publicly known or anticipated.

Distribution: The distribution of a position by strong handed well informed investors to weak handed poorly informed investors in anticipation of bearish news that is not yet publicly known or anticipated.

Markup (execution): After a period of accumulation the market will begin to trend higher. This trend toward an eventual buying climax is called markup.

Markdown (execution): After a period of accumulation the market will begin to trend lower. This trend toward an eventual selling climax is called markdown.

Some Thoughts

Few markets set up a perfect Wyckoff sequence.

There are many facets of Wyckoff (including point and figure, wave and swing charts) that are not covered here.

Additional Reading

Charting the Stock Market, The Wyckoff Method. Hutson, Weis, Schroeder. (Available from Technical Analysis of Stocks and Commodities).

Volume and Open Interest, Ken Shaleen, Probus Publishing.

Volume Cycles in the Stock Market, Richard Arms III, Dow Jones Irwin.

Stock Market Institute in Phoenix Arizona, offers a comprehensive correspondence course.

SIMPLE IS....
SIMPLY BETTER

OBSERVATIONS

- Simple and obvious is *always* better than complex and convoluted.

- Genetic algorithms, chaos, neural networks, and astrology have become extremely popular over the last decade. Unfortunately, few of us have the background, time, or patience to understand and use them effectively.

- The more complex the methodology, the more psychological impediments develop to hinder trading. Misinterpreting the data or being confused to the point of inaction becomes more likely.

- There is a tremendous difference in trading and analyzing. The emotions involved in trading can render even the most well thought out analysis impossible to follow.

- The more complex a system or method, the more time is required to do the analysis and implement the strategy.

To be successful you need:

1) A simple risk management plan.
2) A simple system of entry.
3) A simple system to exit.
4) A simple system of moving stops for protection.
5) The discipline to carry out your plan.

- A trading plan can be as simple as buying against good support when an oversold condition has developed, and selling against good resistance when an overbought condition has developed.

- *Almost any technical system will work as long as it applied in a disciplined and consistent manner.*

FINDING LOW RISK TRADES

- Focusing on one market will give you the opportunity to learn its rhythms and idiosyncrasies.

- Use daily range projections in combination with basic patterns, a momentum oscillator, overbought/oversold conditions, Wyckoff patterns, and Fibonacci zones to set up low risk swing and day trades.

- When several methods conspire to produce a confluence of support or resistance, particularly in combination with an overbought or oversold condition, place a trade against it.

- If the background analysis is a generally bullish one, daily buy zones should be closer to yesterday's close. Daily sell zones should be farther from yesterdays close.

MONEY MANAGEMENT

- Develop a good money management plan and then stick with it. A good plan increases contract size as account equity grows and decreases contract size during periods of drawdown.

- Don't over-leverage.

EQUITY

- The nature of short term trading is such that the majority of your trades will end up being either a small win or a small loss. A few trades will be stopped out at the maximum allowable loss, while the bulk of your gains will be made on made on a very few *lucky* trades.

RISK

- When deciding to trade, risk is the first, last and ultimate consideration.

- If a protected stop loss isn't available within a standard or predefined dollar risk of the entry level, the trade is a pass.

- In terms of bonds, hide stops 3-4/32 above/below important chart support/resistance.

For Instance:

For bond day trades, I typically use 10/32 stops. Assume a solid buy zone exists @ 112.26, but that first decent support doesn't show up until 112.12 (-14/32). The stop would have to be placed in the 112.08-10 area (-18/32). There are only three choices. 1) Reduce the size of the trade to compensate for the risk to the stop. 2) Lower the buy zone (and reduce the chances of getting filled). 3) Don't do the trade.

- This risk adverse approach means that trades won't happen every day.

- Be picky. If you can't get a fill on your terms at your levels... pass. Never chase an entry fill.

- Every intraday wiggle and swing isn't necessarily a trading opportunity and doesn't necessarily mean anything. Sometimes a wiggle is just a wiggle.

- Don't ever widen your stop, but do have a plan to move the stop to reduce risk and lock in gains.

TRADING

"Greet triumph and disaster and treat these two imposters just the same."

- Never leave yourself at the market's mercy. Avoid trading around events that have the potential to cause extreme volatility (I.E. The unemployment report in the bond market).

- When the market moves sharply in favor of a trade, it's time to take the profit. Always assume that "It ain't gonna get much better."

- Being stopped out at a loss, after a trade has become reasonably profitable, almost always represents a failure in judgement.

- Trade smaller positions with wider stops, rather than large positions with close stops.

- Having a market opinion is mostly counterproductive for day and swing traders.

- Analyzing and trading are very different things. How else do you explain the great trader who never has a decent market opinion and the great analyst who never seems to make a solid trade.

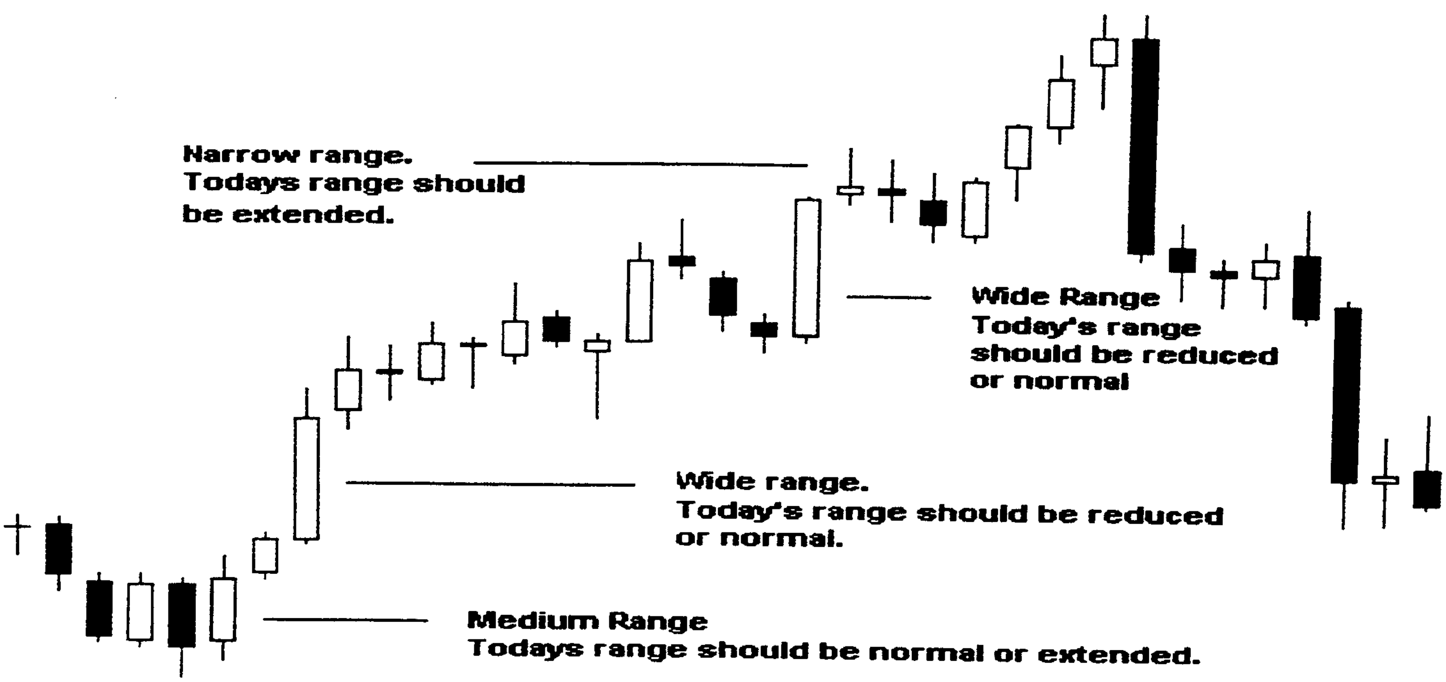
- Every tick isn't a trading opportunity. If you find yourself living and dying by the tick, it's time to re-examine your approach.

- Don't fall for the psycho-babble. Find some trades you like and ....."*Just do them*"

- Be a grown up about it. It's not a personal thing and the market isn't malevolent. Learn to consider every trade as: "*Just another damn trade*"

DAILY RANGE PROJECTIONS

- The daily range projections represent important daily perspective support and resistance. The range projections are derived from the previous days range.
- 1) Calculate today's range by subtracting yesterday's high from yesterday's low.
- 2) Derive a normal range by adding yesterday's range to yesterday's close and subtracting yesterday's range from yesterday's close.
- 3) Derive the reduced range by multiplying yesterday's range by .618. Add the reduced range to yesterday's high and subtract the reduced range from yesterday's low.
- 4) Derive the extended range by multiplying yesterday's range by 1.618. Add the extended range to yesterday's high and subtract the extended range from yesterday's low to project today's low.
- If yesterday's range was wide, use the normal range projection. If yesterdays range was narrow, use the extended range projection.



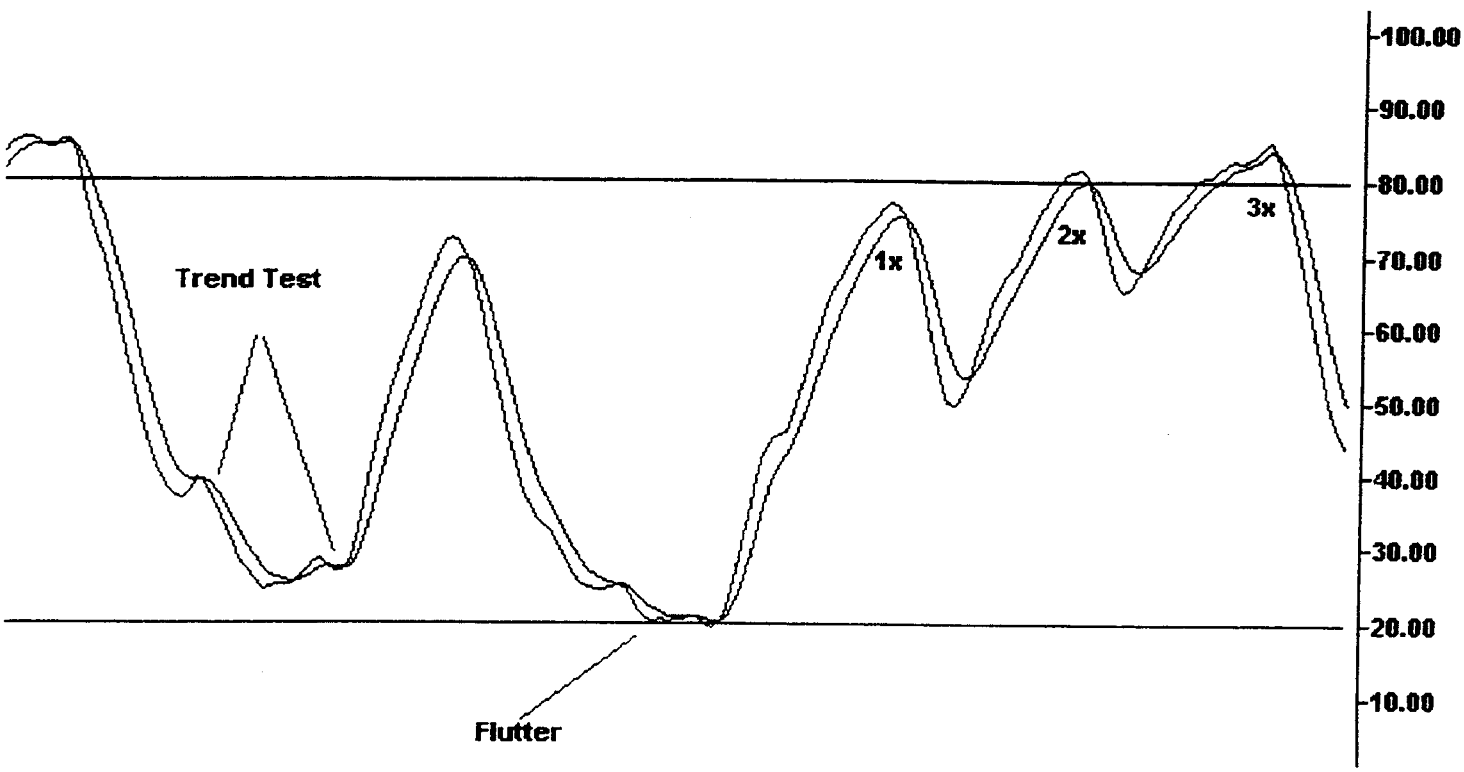
OSCILLATORS

- Don't be an oscillator junky. One or two oscillators, applied over several time frames, should be adequate.

- I use an exponentially slowed and smoothed 21 period stochastic. The slow moving oscillator avoids small whipsaws and does a good job of defining the trend, but is slow to pick up tops and bottoms. I use it on all time frames.

- Learn how your oscillator behaves, when the signals are most likely to be right, when the oscillator is likely to produce a whipsaw, and how the oscillator tends to trade in a specific market, and in each specific market environment.

- Overbought or oversold oscillators in conjunction with a support or resistance confluence can set up high quality trading opportunities.



FIBONACCI

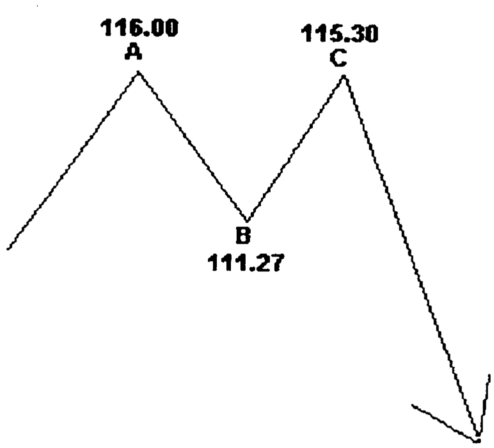
- Markets tend to reverse, or set swing highs and lows at Fibonacci retracements and objectives.

RETRACEMENTS

- The two significant Fibonacci retracement ratios are .382%, and .618%.
- The significant non-Fibonacci retracement level is .050%.

OBJECTIVES

- A High - Low - High sequence or a Low - High - Low sequence is required to calculate objectives.
- Significant objectives include 1.00 (equality), 1.38%, and 1.618%.



Step 1: Multiply Distance A-B By 1, 1.38 & 1.618
Step 2: Subtract this distance from point C.
Each of the resulting levels will act as support.

116.00 - 111.27 = 4 4/32
4.04 * 1 = 4.04
115.30 - 4.04 = 111.25

4.04 * 1.38 = 5.24
115.30 - 5.24 = 110.06

4.04 * 1.618 = 6.23
115.30 - 6.23 = 109.07

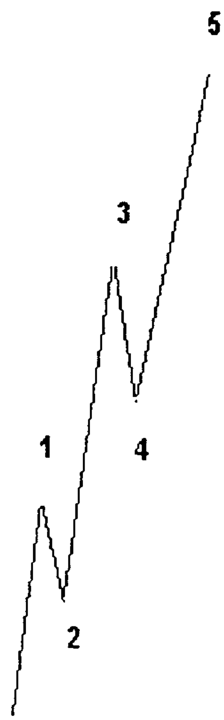
ELLIOTT WAVE

- The "boxes in boxes" and "exceptions to exceptions" that characterize many counts can result in a lack of confidence or indecision. Either state will lead to a loss or a missed entry opportunity.

- Look for obvious setups and counts. If you have to add an X wave or stretch your imagination to make a count work .... ignore it.

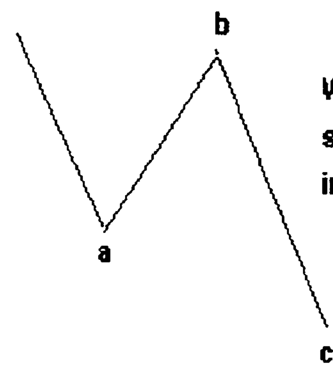
- Isolate a count, and then run the Fibonacci objectives and retracements.

Fives in the direction of the trend.



Waves 2 and 4 should subdivide into five waves·

Threes against the the trend



Waves a and c should subdivide into five waves.

Wave four should hold above the top of wave one.

Three and C should generally be the strongest of the waves.

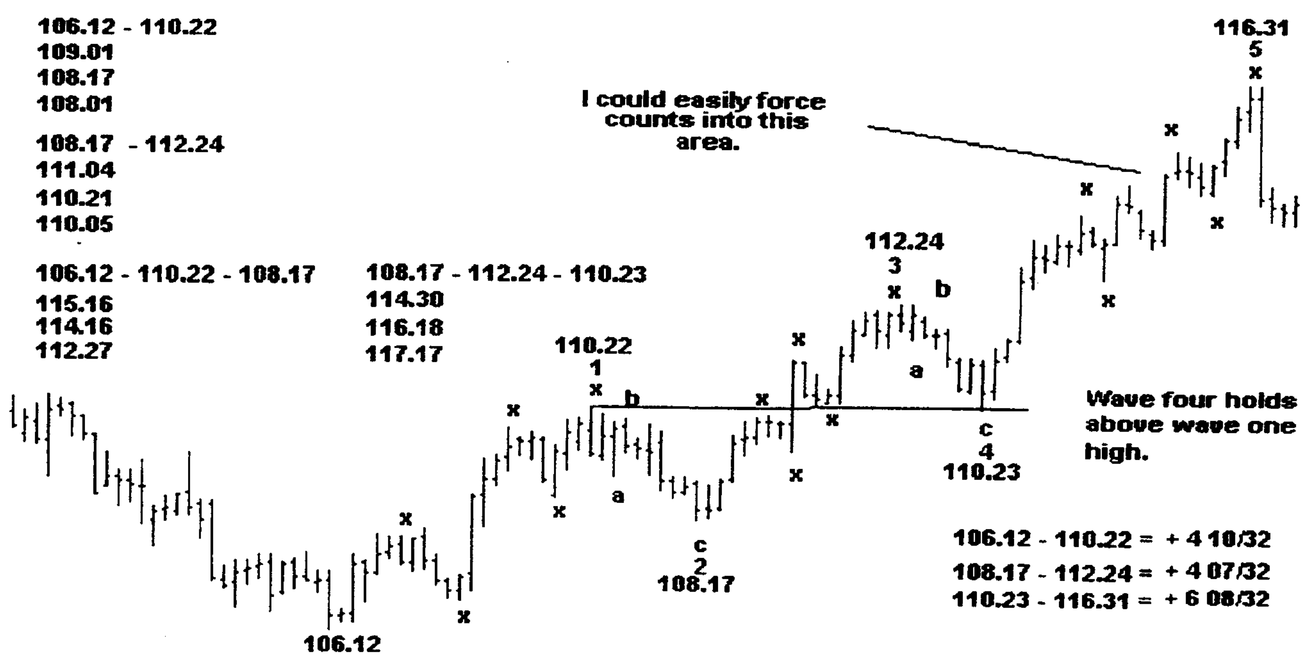
One and five are often about the same magnitude.

Waves One and Five should subdivide into fives. Waves two and four should subdivide into into threes or triangles.

Wave five failures and B wave retests that slightly exceed the prior high or low are common in the Bonds.

ELLIOTT SEQUENCE

- The April -August bond market offers a clear example of the basic Elliott sequence and several Fibonacci relationships.
- Point One: A five wave advance to the "wave one" high.
- Point Two: A simple "abc" correction. the retracement covers almost exactly .500% of the "wave one" advance.
- Point Three: A five wave advance to the "wave three" high. The advance covered almost exactly the distance that the "wave one" advance covered.
- Point Four: A simple "abc" correction. The correction covers almost exactly .500% of the "wave three" advance.
- Point Five: A five wave advance to a "wave five" high. The advance covers between 1.382 and 1.618 of the distance that the "wave three" advance covered.
- The count is obvious and the mathematical relationships are good.



PATTERNS

- Look for any technique or pattern that will typically produce technical buying and selling.

Lateral support and resistance.
Supply and demand Lines.
Pattern uptrends and downtrends.
Triangles.
Buying/Selling climaxs.
Low volume re-tests.
Back up to a creek.
Rally back to the ice.
Ringed highs and lows.
Gaps.

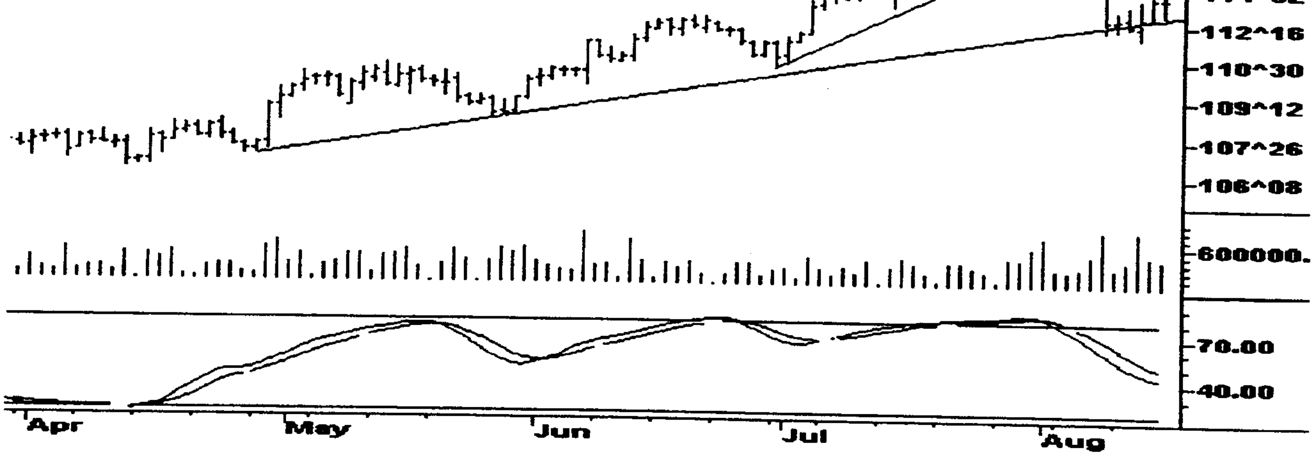
SUPPORT AND RESISTANCE CONFLUENCE

- If several different techniques project or produce support or resistance in a single area of the chart, there is a confluence.
- A resistance confluence should be sold.
- A support confluence should be bought.
- The more techniques that project support or resistance in a given zone, the stronger the support or resistance will be.

Overbought and oversold conditions at a support/resistance confluence increase the odds of the confluence holding.

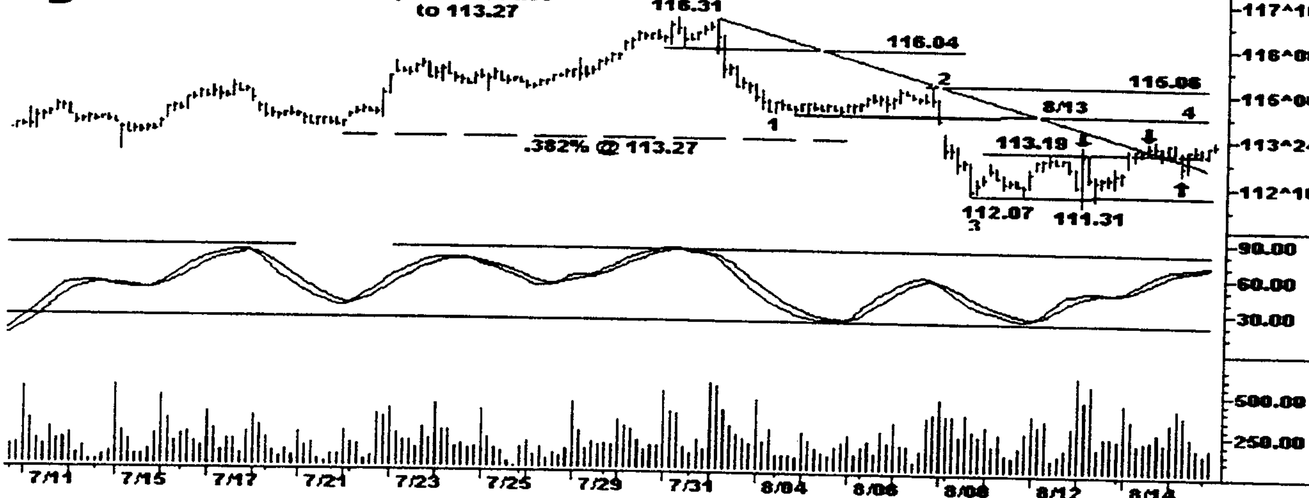
Daily

A



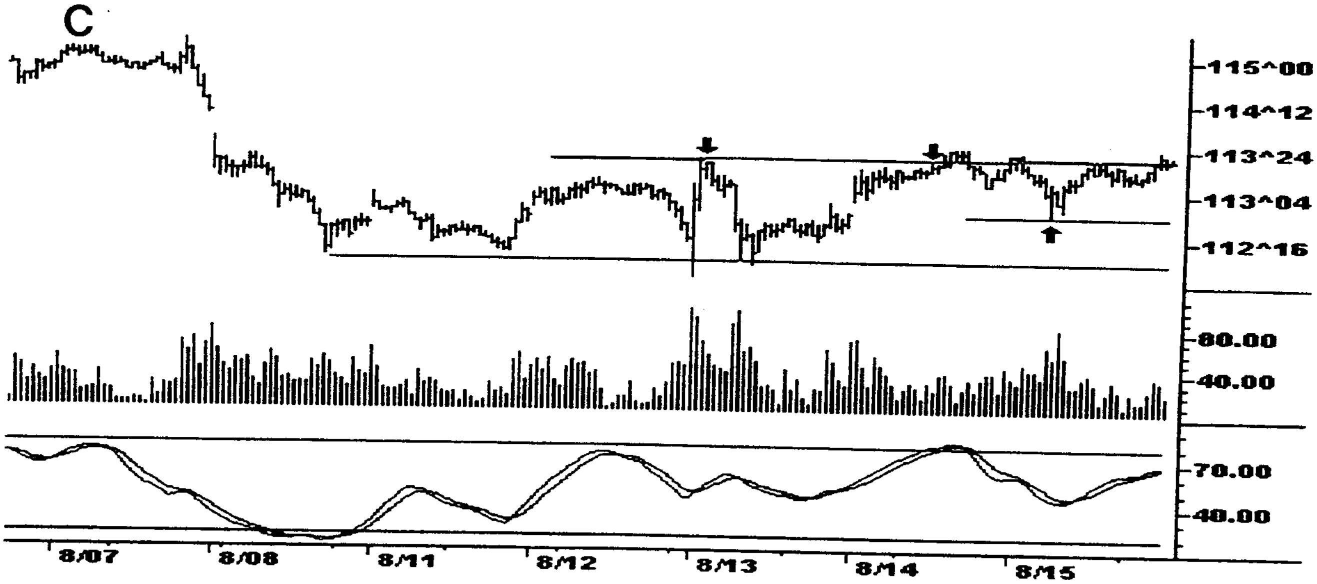
Hourly

B



15 Minute

C



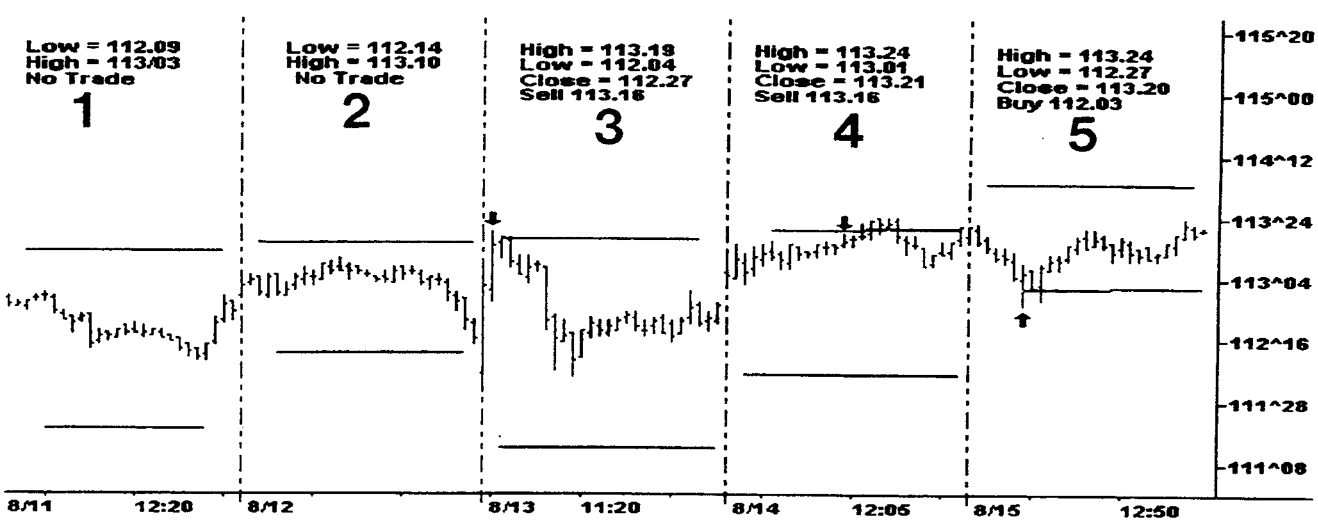
BACKGROUND

In the days leading up to August 11th , the market is in the process of breaking sharply from the late July high. As the market breaks, volume increases and the daily price spread widens. Additionally the market has broken below the pattern uptrend from the June and July low, and has displayed an obvious three wave move down. The daily trend is clearly to lower price.

Price and Volume: August 8th has evidenced a single day volume of almost 800,000 contracts (a record). This huge expansion in volume, and the subsequent support that materializes in the area around a major uptrend and in the vicinity of several technical levels, significantly increases the odds of the market entering a short term trading range, or posting a modest recovery. However, the background of weakness strongly suggests that rallies will be met with sellers.

Supports: The most significant of the near term technical supports is the stride of demand from the April lows. This uptrend intersects price in the area around 112.04. ADDITIONALLY: Fibonacci objectives of the 106.31 - 114.10-115.16 sequence are found at 112.17, and again at 111.17. Important retracements of the 105.30-116.31 rally include 112.24 and 111.15.

Resistance: Strong resistance is expected to materialize under the wave one low @ 114.10 and at the .382% retracement of the 116.31 - 112.08 decline (@114.02). Given the background of weakness, rallies into this zone should be sold.



August 11

Prior close @ 112.21, Prior Days Range: Very Wide
Normal H @ 113.25, Normal L @ 111.21,
Extended H @ 114.14, Extended L @ 111.00

The previous day's range was wide and volume was huge. Going into the day's trade, the hourly oscillator was on the verge of pushing into oversold, and the fifteen minute oscillator was deeply oversold. I would have liked to buy against the uptrend and the previous day's low, but the support was only 14/32 from the close. Given the background of extreme weakness and the increasing volatility (3 points in two days), I wanted plenty of room.

I was willing to be more aggressive on the sell side but, given the volatility, I didn't want to place the sell order too close to the prior close. The reduced range high projection came in at 113.12 and a small intraday rally had carried to 113.19 the prior day. I knew I wanted to hide my stop above 113.19.

To compensate for the volatility, I cut the buy side order in 1/2, dropped the buy zone almost a point below the prior close, and widened the stop.

Buy 1/2 position @ 111.20, Stop @ 111.06,
Sell @ 113.14, Stop @ 113.24.
Result: No Trade

August 12

Prior close @ 112.25, Prior Days Range: Normal
Normal H @ 113.06, Normal L @ 112.12,
Extended H @ 113.14, Extended L @ 112.04

The market spent most of the previous day moving toward the August 8th low. As the market moved toward the low, volume declined and price spread narrowed (suggesting a retest). The late afternoon sign of strength left the market at 112.25 (a slightly higher close). The huge volume and the successful retest of the prior low suggested that the market would attempt to do better over the next few hours, but because of the background of weakness, I was still willing to sell into strength. In light of the oversold hourly oscillator and the strong support, I moved my buy zone up to just above the prior low @ 112.07 and the extended range low @ 112.04.

Buy @ 112.10, Stop 111.31,
Sell 113.14, Stop @ 1113.24
Result: No Trade

August 13

Prior close @ 112.16, Previous Days Range: Normal
Normal H @ 112.30, Normal L @ 112.02,
Extended H @ 113.07, Extended L @ 111.25

The day had the potential to be extremely volatile due to the release of the Producer Price and Retail Sales reports. The previous day had been characterized by a slow trade higher, followed by a late afternoon break that left the market resting a short distance above strong support. I realized that if the market broke below the support confluence, it could be in real trouble. Accordingly, I placed my buy well below the market. Given the background of strength, I still wanted to sell strength, but again, in deference to the potential for volatility, I raised my sell zone by a couple of ticks.

Buy 111.12, Stop @ 111.02, Sell @ 113.16, Stop @ 113.26.
Result: Sold 113.16. Subsequent high @113.19 (Max. Neg. @ -3/32), Subsequent low @ 112.04 (+1 12/32). MOC @ 112.27 (+20/32).

August 14
Prior Close @ 112.27, Prior Days Range: Wide
Normal H @ 113.21, Normal L @ 112.01,
Extended H @ 114.05, Extended L @ 111.17

The previous day was characterized by volatility. After springing the bottom of the range and reversing (a short term buy signal), the market traded into the sell zone and promptly fell apart. Fortunately, the decline held well above the morning low and the market spent the rest of the day recovering into mid range. The reaction to the spring, and the subsequent retest, set the stage for additional strength the next day. Given the background of weakness, I was still willing to sell in the zone around the prior days high and the normal range projection. As for purchases, I wanted to be long just above the last several day's low and the normal range projection low.

August 14: Buy @ 112.03, Stop @ 111.24, Sell @ 113.16, Stop @ 113.26.
Result: Sold 113.16. Subsequent high @ 113.24 (Max. Neg. @ -8/32), Subsequent low @ 113.08 (+08/32), MOC @ 113.21 (-05/32).

August 15
Prior close @ 113.21 Previous Days Range: Normal
Normal H @ 114.05, Normal L @ 113.06,
Extended H @ 114.14, Extended L @ 112.28

The market spent the prior day moving moderately higher and, after a late afternoon break, recovered to within a few ticks of the day's high. Note that the volume and price spread fell significantly as the market pushed higher. The rally left the market on the verge of pushing into overbought (in terms of the hourly momentum oscillator). The overbought condition, against a background of weakness, could be expected to produce an early morning high. I wanted to sell strength into the confluence of normal range high and the strong resistance in the 104.05-10 zone. Given the spring and the buying that had shown up on dips, I expected that a break would probably be supported. I placed my buy order near the good support that had developed in the area around 113.00 (just above the extended low).

August 15: Buy @ 113.03, Stop @ 112.24, Sell @114.04, Stop @ 114.14.
Result: Bought 113.03. Subsequent low @ 113.24 (Max. Neg. @ 08/32), Subsequent high @ 113.24 (+21/32), MOC @ 113.20 (+17/32).

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